Diagnosis of Indirect Taxes and the Taxation of International Trade in the Dominican Republic

Glenn P. Jenkins
Queen's University, Kingston, Canada.
Eastern Mediterranean University, North Cyprus.

Chun-Yan Kuo
Queen's University, Kingston, Canada.

and Andrey Klevchuk
Cambridge Resources International.

Development Discussion Paper Number: 2007-1

Abstract

In preparing this paper, the indirect tax systems in the Dominican Republic are examined both in terms of tax policy and also their revenue importance. These taxes include the taxation of import, value added (ITBIS), selected excise taxes, exit and entry taxes (tourism taxes), and the taxation of casinos and games of chance. The focus are both on the short-term revenue requirements of the government as well as on the tax reform measures that are needed in order to meet the longer term revenue requirements of the public sector. These reforms are taking place in an environment where tariff and institutional barriers to international trade are being reduced.

Report prepared for: Inter American Development Bank on behalf of the Government of the Dominican Republic, February 2007.

JEL code(s): H20, H24

Key words: taxation, income tax, excise taxes, value added tax, taxation of international trade, trade liberalization, economic integration.

Diagnosis of Indirect Taxes and the Taxation of International Trade in the Dominican Republic

By

Glenn P. Jenkins *
Chun-Yan Kuo
and
Andrey Klevchuk

Prepared for the Government of the Dominican Republic

February 2007

Acknowledgements

During its preparation of this report, we have benefited greatly from discussions and assistance from a number of public and private sector individuals. These include, among others:

Sn. Conrado Abud	Director de Casino, Secretaria de Estado de Finanzas
Sn. Marvin Cardoza Espinoza	Enc. Departamento Estudios Economicos y Tributarios, Direccion General de Impuestos Internos
Sn. Magin J. Diaz Domingo	Economic Advisor, Secretariado Tecnico de la Presidencia
Sna. Bianca Fernandez	Economist, Secretariado Tecnico de la Presidencia
Ing. Heriberto Minaya	Subdirector General de Tecnologia, Direccion General de Aduanas, Secretaria de Estado de Finanzas
Sna. Germania Montas Yapur	Subdirectora General, Direccion General de Impuestos Internos
Arq. Luis J. Polanco	Energado de Sistemas y Procedimientos, Direccion General de Aduanas, Secretaria de Estado de Finanzas
M. Sc. Bethania Rodriguez Alvarez	Consultora en Comercio Exterior y Politica Fiscal, Secretaria de Estado de Finanzas
M. Sc. Fernando Ruiz	Economist, Secretariado Tecnico de la Presidencia
Lic. Martin Zapata Sanchez	Director Departamento de Estudios Economicos, Secretaria de Estado de Finanzas

We are greatly appreciative the support provided to us by the Banco Interamericano de Desarrollo, and by the Representative Office of the IADB in Santo Domingo; extensive cooperation and feedback from the Secretariado Tecnico de la Presidencia; Secretaria de Estado de Finanzas; and the Direccion General de Impuestos Internos. The authors are grateful for discussions and assistance from Sn. Magin J. Diaz Domingo, Sn. Marvin Cardoza Espinoza and Lic. Martin Zapata Sanchez. We thank the team-members and heads of both Depto. Estudios Economicos y Tributarios (DGII) and Depto. de Estudios Economicos (Secretaria de Estado de Finanzas) for endless supply of data sets and for continuous feedback on the study. The participants of workshop on *Tax Analysis and Revenue Forecasting* (October 24, 2006 and November 7, 2006) shared with us valuable ideas and comments on the revenue forecasting models. We are deeply indebted to Sna. Bianca Fernandez for her time and outstanding effort in making our work in the Dominican Republic very productive.

The opinions and recommendations set forth in this report are those of the authors and do not compel neither the Contractor, nor other government entities involved in the report, nor the IADB, which in turn are properly entitled to make any remarks or oppositions they deem appropriate. All errors and omissions remaining are responsibility of the authors.

* **Glenn P. Jenkins**, Professor of Economics, Queen’s University, Kingston, Ontario, Canada.
Chun-Yan Kuo, Senior Fellow, John Deutsch Institute, Queen's University, Kingston, Ontario, Canada.
Andrey Klevchuk, Economist, Cambridge Resources International, Cambridge, MA, USA.

Abbreviations

CAFTA	Central American Free Trade Agreement
CARICOM	Caribbean Commonwealth
CIAT	Centro Interamericano de Administraciones Tributarias (Inter-American Center of Tax Administrations)
CIF	Cost, insurance and freight
DGII	Direccion General de Impuestos Internos (Internal Revenue Service)
EU	European Union
FOB	Free on board
GDP	Gross domestic product
IMF	International Monetary Fund
IT	Information technology
ITBIS	Impuesto sobre la transferencia de bienes industrializados y servicios (value added tax)
GLP	Liquefied gas
US	United States (of America)
VAT	Value added tax
WTO	World Trade Organization

Diagnosis of Indirect Taxes and the Taxation of International Trade in the Dominican Republic

SUMMARY

In preparing this report, we have examined the following tax systems in the Dominican Republic: taxation of imports, ITBIS, excise taxes, exit and entry taxes (tourism taxes), and taxation of casinos and games of chance. Our focus was both on the short-term revenue requirements of the government as well as on the tax reform measures that are needed in order to meet the longer term revenue requirements of the public sector in an environment where tariff and institutional barriers to international trade are being reduced. The issues covered and the conclusions are as follows:

Impact of Trade Liberalization

In 2007, the first year of US free trade, the estimated loss of tariff, excise and ITBIS revenue is RD$ 2,261 million in 2005 prices (0.26 percent of GDP) if the collections under resolutions are included, and the loss is RD$ 1,532 million (0.17 percent of GDP) if the collections under resolutions are excluded. In 2008, when the EU agreement is expected to become effective, an additional significant loss of revenue is likely to occur: if the resolutions are included, will cost about RD$ 773 million or 0.09 percent of GDP in 2008. Table 1 summarizes the revenue impact. In addition to the expected loss of tariff, excise, and ITBIS revenue, the foreign exchange commission of 13 percent of CIF value of all imports has been already discontinued.

Table 1: Summary of Revenue Impact due to US and EU Trade

	USA		EU		Total	
	Million RD$	**%GDP**	**Million RD$**	**%GDP**	**Million RD$**	**%GDP**
2006	**Gross loss of forex commission**				**19,998**	**2.26%**
2007	2,261	**0.26%**	30	**0.00%**	2,292	**0.26%**
2008	871	**0.10%**	773	**0.09%**	1,644	**0.19%**
2009	875	**0.10%**	276	**0.03%**	1,152	**0.13%**
2010	875	**0.10%**	295	**0.03%**	1,171	**0.13%**
2011	874	**0.10%**	295	**0.03%**	1,169	**0.13%**
2012	194	**0.02%**	295	**0.03%**	489	**0.06%**
2013	226	**0.03%**	100	**0.01%**	326	**0.04%**
2014	226	**0.03%**	126	**0.01%**	352	**0.04%**
2015	226	**0.03%**	126	**0.01%**	352	**0.04%**
2016	226	**0.03%**	126	**0.01%**	352	**0.04%**
2017	40	**0.00%**	126	**0.01%**	166	**0.02%**

Source: Table 3-4.

We propose to remove a number of Customs resolutions. The additional import duties could amount to RD$ 978 million, excise taxes of RD$ 267 million, and ITBIS collection of RD$ 1,924 million, or a total of RD$ 3,169 million (0.36 percent of GDP).

Proposed ITBIS Measures

The base-broadening measures are estimated to bring a revenue gain of RD$ 9,391 million, which is equivalent of 1.061 percent of GDP in 2005.

The proposed introduction of a threshold for small business with annual sales below RD$ 1 million will cost the system an amount of RD$ 223 million or 0.025 percent of GDP.

Because of the difficulties of designing a neutral taxation system for application to the insurance sector, we propose to subject the premiums paid for all insurance services an excise tax of 10 percent. The ITBIS would not be charged by the insurers, and is not claimed on their business inputs. There is an upfront loss of ITBIS revenue of RD$ 1,935 million, which will be offset by the excise tax collection of RD$ 1,458 million (10 percent of gross sales) and savings of credits on inputs of RD$ 376 million. The net impact is a loss of RD$ 100 million, or 0.011 percent of GDP in 2005.

For air-tickets, we proposed to tax by an excise of 10 percent of the gross sales and to exempt them from ITBIS. There will result in a loss of ITBIS inflow of RD$ 949 million, and a gain of at least RD$ 593 million in the excise revenues. In addition, the ITBIS currently claimed on inputs (RD$ 83 million) by the sellers of airline tickets would not be credible anymore. There is an un-estimated gain in terms of savings of ITBIS credits from current business passengers who will not be able to claim a credit on their air-tickets. In addition, at the present time there is a substantial degree of tax evasion taking place by having pleasure trips now being purchased by the businesses of individuals and the tax paid on the tickets used as a credit against the value added tax due of the business. We believe the net gain will be a substantial positive number from this measure.

Because the broadening of the base of ITBIS will also include commodities imported from other countries, there will be an additional gain of ITBIS at the Customs. The incremental revenue from the base broadening would amount to RD$ 558 million, or 0.063 percent of GDP in 2005.

Proposed Changes to Selective Taxes on Consumption (Excise Taxes)

The proposed measure on alcohol and tobacco include: a uniform ad valorem rate of 50 percent on all alcohol beverages, whether domestically produced or imported; a uniform ad valorem rate of 70 percent on all tobacco and cigarettes, whether domestically produced or imported; and the ITBIS liability for domestically produced alcohol and tobacco should include the manufacturer's price and the amount of excise. The net result is a gain on domestically produced alcohol and tobacco and minor losses on the imports, totaling about RD$ 3,303 million. This is equivalent to 0.37 percent of GDP.

We recommend adjusting the ad valorem excise rates in order to simplify the administration of all excisable goods that are different from alcohol, tobacco, and vehicles. For all these goods that are subject to excise tax (except yachts and firearms), we propose a uniform ad valorem rate of 20 percent, based on the CIF and import duty. The proposed rates for yachts and firearms are zero and 80 percent, respectively. The total net loss for non-resolution excisable goods is RD$ 289.5 million, or 0.033 percent of GDP.

Virtually, no excise tax is collected on vehicles under the new 2006 rules. The proposal is to keep the current import duty of 20 percent of CIF, but to abolish the ineffective excise tax on vehicles. We recommend retaining the current registration fee and to increase the rate from 17 to 20 percent of CIF immediately. The ITBIS should be administered on top of the CIF value and import duty. The additional revenue is RD$ 478 million or 0.054 percent of GDP in 2005.

We recommend a number of measures to increase the buoyancy of the system and to simplify the administration and compliance of the excise tax on fuel and GLP. The existing mix of unit and ad valorem taxation should be replaced by a single ad valorem tax. The 3 percent of CIF import duty that is not collected should be repealed to reflect the true situation. All types of gasoline are proposed to be subject to a uniform ad valorem tax of 80 percent, applied on the CIF value of fuel. Regular diesel is proposed to be subject to a uniform ad valorem tax of 50 percent. All brands of premium diesel are proposed to be subject to an excise rate of 75 percent. The ad valorem rates for fuels used in generation are set in such a way that the amount of taxes collected is almost unchanged. The net gain from the proposed changes in taxation of gasoline is about RD$ 51 million in 2006 prices. The net gain from the proposed changes in taxation of diesel is about RD$ 3,366 million in 2006 prices, or 0.32 percent of GDP in 2006.

It is proposed to discontinue the current subsidy on liquefied gas because it creates a significant economic distortion by inducing the users to switch from fuel to GLP. A flat 15 percent excise tax is proposed on GLP, which will be slightly more than the current payment of the 13 percent ad valorem tax. For unsubsidized GLP, there will be a minor gain of revenues. For subsidized GLP, there will be significant savings of expenditures. The estimated net gain for the subsidized GLP is RD$ 2,665 million in 2006 prices, or 0.254 percent of GDP in 2006. For the purpose of analysis, we include only a half of the savings as a gain in the revenue collection: RD$ 1,333 million in 2006 prices, or 0.127 percent of GDP in 2006.

The financial transaction tax has been very effective in generation of revenue, but it is indeed a distortional measure. To assist the authorities in smooth transition during the first phase of trade liberalization, we believe it is better to keep the financial transaction tax, but reduce it over time and then abolish it by 2009, as planned. If the tax is abolished in 2006, a loss of revenue equal approximately to RD$ 3,468 million, or 0.331 percent of GDP in 2006, would be incurred.

Entry and Exit Taxes

At present time, we recommend to keep the current arrangements, but not to raise the rates of entry and exit tax. Both taxes are indeed very effective tools to collect much needed revenue for the Government at very little cost of administering the taxes. Nevertheless, the entry and exit taxes are not the right tools to improve the collection in the country. Other taxes such as ITBIS and excises should be used.

We propose to re-introduce the excise tax on hotel accommodation at a rate of 5 percent. There is a strong economic foundation for this measure. Such a 5-percent excise tax would generate RD$ 2,199 million. This is worth 0.248 percent of GDP in 2005.

Taxation of Casinos and Games of Chance

Given the ineffectiveness of the National Lottery to regulate and collect revenue from the private lotteries, it would appear to be desirable if an excise tax of 15 percent were imposed on the gross revenues of all lotteries. This revenue should be part of the direct revenue of the DGII and not part of the funds to be distributed by the National Lottery.

As there is almost perfect substitution elasticity between running a private lottery or a sports-betting establishment for the owners of such places, the 15 percent excise tax on gross income of sports betting establishments should be imposed. The tax should be payable to the DGII on a monthly basis. Over time, the regulation of this sub-sector should also be transferred from the Ministry of Sports to the tax authorities.

The first recommendation concerning the policy towards casinos would be to automatically index all the time, annual and monthly fees to the change in the consumer price index. Second, the monthly fees should be raised substantially, even if some of the casinos now in existence go out of business. Finally, the casinos should be part of the ITBIS framework. We suggest that the 16 percent rate should be applied on the income of the casino, after deducting the winnings of the gamblers. At the same time, the casinos should be able to claim ITBIS credits on its business inputs.

Option of Increasing the Rate of ITBIS

The net impact of revenue-raising measures before raising the rate of ITBIS is RD$ 19,495 million, or 2.18 percent of GDP in 2005. The net loss of the foreign exchange commission alone is RD$ 11,006 million, or 1.244 percent of GDP. Together, the import duty losses and forex commission loss add up to 2.083 percent of GDP. Therefore, the proposed measures generate a surplus of about 0.01 percent of GDP, even before resorting to increasing the rate of ITBIS.

The package of proposed reform measures together with a 2-point increase in the rate of ITBIS from 16 to 18 percent would be worth about 3.25 percent of GDP. Over time, the loss of tariff revenue will gradually consume this surplus. When the combined loss of import duty and foreign exchange commission of 2.083 percent of GDP is accounted, the balance is a surplus of 1.166 percent of GDP.

Issues of Tax and Customs Administration

Implementation of a Semi-Autonomous Revenue Authority. It is our suggestion that the Dominican Republic should combine the Customs and Tax Administrations and form a single semi-autonomous revenue authority. Given the need for a rapid improvement in the quality of service in these areas, it is likely that such a reform would only be possible if it were undertaken by such an institution. The plan to have two separate semi-independent agencies will result in institutions that are too weak to meet the challenges the country faces to adjust to the free trade with the US and EU, as well as manage the transformation of the ITBIS and excise tax systems. A common set of taxpayer and tax administration administrative information needs to be used for both customs as well as internal taxes. This will not happen in the Dominican Republic as long as the Customs and the Internal tax administration function as two separate organizations.

ITBIS Exemptions. At present, a major problem is created because producers and sellers of exempt goods can claim an ITBIS credit for the inputs used to produce such goods. Under a better tax system they should not claim credit for ITBIS paid on inputs of such exempt goods. This loophole in conjunction with the long list of exemptions, as well as inability of the tax administration to verify the actual content of sales declared exempt, motivates businesses to declare more goods and services as exempt. It is practically impossible to check whether all sales were in fact exempt. The only practical solution to this worsening situation is to expand the tax base to cover most, if not all, goods and services produced and traded in the country.

Exemption from Import Duties of Imported Inputs Used for Export Production. There is a need to have in place a system for refunding the duties paid on imported inputs through a system of tax exemption or duty drawbacks that will refund theses duties on a timely basis. The system should not discriminate against export-oriented firms located away from free zones. There is a need to have such a system in place that will allow all export-oriented firms to cease to be unduly burdened with such import duties.

Table 2: Summary of Tax Proposals and Revenue Implications

Major Tax Systems	Revenue Raising Measures	Impact on Annual Revenue in 2005 Prices (RD$ million)	Impact on Annual Revenue (share of GDP)
Customs Resolutions	▪ Remove resolutions: 1, 2, 5, 6, 10, 23, 24, 25, 26, 37, 38, 40, 42, 43, 44, 49, 51, 52, 53, 55, 56, 58, 59, 60, 70, 71, 72, 73, 74, 75, 76, 81, 82, 86, 90, 92, 97, 98, 100, and 102	▪ Gain of RD$ 3,169 million	▪ Gain of 0.358% of GDP
ITBIS	▪ Expand tax base ▪ Keep the exempt list to basic grocery, petroleum products, essential medical drugs, electricity, deposit-taking and other financial services, and some social services ▪ Provide immediate refunds of excess input tax credits especially for export-oriented firms ▪ Stop credits for ITBIS on inputs for exempt goods ▪ Strengthen Customs and the tax administration	▪ Gain of RD$ 9,391 million	▪ Gain of 1.061% of GDP
	▪ Threshold for small business with annual sales below RD$ 2 million	▪ Loss of RD$ 223 million	▪ Loss of 0.025% of GDP
	▪ Replace the taxation of insurance services that are subject to ITBIS with a 10% excise ▪ Tax all insurance services, including life & health insurance	▪ Loss of RD$ 100 million	▪ Loss of 0.011% of GDP
	▪ Replace ITBIS on air-tickets with a 10% excise	▪ Loss of RD$ 273 million	▪ Loss of 0.031% of GDP
	▪ Gain on imported goods because of ITBIS base broadening	▪ Gain of RD$ 558 million	▪ Gain of 0.063% of GDP
Excise Taxes	▪ Discontinue unit-rates system on alcohol and tobacco ▪ Change to a single uniform ad-valorem rates for alcohol (50%) and tobacco (70%) on top of manufacturer price plus mark-up factors ▪ Adjust excise tax rates as the same as the above proposed rates for imported goods ▪ Include excise into the base of ITBIS for alcohol and tobacco	▪ Gain of RD$ 3,303 million [5]	▪ Gain of 0.373% of GDP
	▪ Reduce ad-valorem rates on all excisable goods that are different from alcohol, tobacco, and vehicles ▪ For all these goods (except yachts and firearms) a uniform ad-valorem rate of 20% ▪ For yachts and firearms rates of 0% and 80%, respectively	▪ Loss of RD$ 289 million	▪ Loss of 0.033% of GDP
	▪ For all imported vehicles, increase registration fee from 17% to 20% ▪ Abolish the progressive excise schedule, set excise rate to zero	▪ Gain of RD$ 478 million	▪ Gain of 0.054% of GDP
	▪ Fuel: change to uniform ad-valorem rates ▪ Simplify pricing ▪ Increase the effective rate of taxation on diesel ▪ Keep the prices of other fuels unchanged	▪ Gain of RD$ 3,417 million *	▪ Gain of 0.326% of GDP
	▪ Reduce subsidy on GLP **	▪ Gain of RD$ 1,333 million *	▪ Gain of 0.127% of GDP
	▪ Phase out financial transaction tax by 2009, as planned	▪ Loss of RD$ 3,468 million *	▪ Loss of 0.331% of GDP
Entry and Exit Taxes	▪ Keep entry and exit taxes, do not increase	▪ Unchanged	▪ Unchanged
	▪ Levy a 5% excise tax on hotel accommodation	▪ Gain of RD$ 2,199 million	▪ Gain of 0.248% of GDP
Casinos and Games of Chance	▪ Keep the system of casino taxation ▪ Private lotteries and sports betting: impose an excise tax of 15% on gross revenue, payable to DGII	▪ Positive Effect	▪ Positive Effect
Subtotal Revenue Raising Measures before Increasing ITBIS Rate		▪ **Gain of RD$ 19,495 million**	▪ **Gain of 2.180% of GDP**

Notes: * Prices of year 2006.
** Only 50% of savings are included.

Diagnosis of Indirect Taxes and Taxes on International Trade in the Dominican Republic

1. INTRODUCTION

The second half of the 1990s was very favorable for the Dominican Republic, which was growing at an average rate of about 7 percent per year in real terms. The stable macroeconomic policies aimed at tourism, foreign direct investment, and free trade zones converted the country into a relatively modern economy. As a result, the stock of public debt by 2001 declined to a level of about 23.8 percent of GDP. The fiscal situation appeared to be improving, however, in 2003 the failure of Baniter bank and two other private banks caused large Central Bank deficits. By the end of 2003, the result was a large devaluation, an inflation rate of 40 percent, and an increase in the stock of public debt to 48 percent of GDP by the end of 2003. The real GDP growth rate in 2003 was a negative 2.5 percent.

The new government, which took the office after the elections in 2004, had inherited a shrinking economy, stockpile of public debt, a high rate of inflation, high real interest rates, and a rate of unemployment of 19.7 percent. The turnaround was unexpected and quick. A number of fiscal and administrative reforms have been implemented since 2004. Domestic investors and international community have restored the confidence in the Dominican Republic. The real GDP growth rate was 2.0 percent in 2004, 9.3 percent in 2005, and is expected to be about 10 percent in 2006. The rate of inflation declined from 28.7 percent in 2004 to 7.4 percent during 2005. The expectation is that the 2006 rate of inflation will be around the 5 percent target. The burden of unemployment reduced as economic activity revived, specifically in services and commerce.

While the outstanding stock of consolidated public debt has been reduced from 55.7 percent of GDP in 2003 to 54.1 percent in 2004 and to 43.1 percent in 2005, it still remains very high by regional and international standards. It is expected that the consolidated debt will be about 44.4 percent of GDP in 2006. The government has been actively looking for means of reducing this burden through fiscal tools. At the same time, the Dominican Republic has signed the free trade agreement with CAFTA and is in the process of negotiating a similar deal with the EU. These agreements will effectively phase out the reliance of the budget on import duties. It is clear that the structural adjustments successfully carried out to date will have to continue on both the expenditure and revenue sides of the government budget. The need for such additional internal revenues should be assessed in the light of distributive impacts on the society.

This report will describe the current structure of indirect taxes and taxes on imports, analyze its strengths and weaknesses, and make a number of proposals for its improvement. In carrying out this study, each part of the tax system under consideration has been empirically modeled in order to develop revenue estimates of the proposed tax changes.

2. OVERVIEW OF EXISTING TAX SYSTEM

The tax system of the Dominican Republic gradually evolved over the past decade. Table 2-1 presents the summary of the major categories of public sector tax revenues and non-tax revenues at current prices from 1996 to 2005. Table 2-2 shows the revenues as a share of GDP in the corresponding period. We find that the Government of the Dominican Republic has raised the level of its tax and non-tax revenues from about 14.2 percent of GDP in 1996 to 17.8 percent in 2005. The level of tax revenues alone has increased from 13.5 to 16.8 percent of GDP over the same period. Even during the crisis of 2003, the tax revenues amounted to 14.8 percent of GDP.

At present, the main sources of tax revenues are the income tax, the tax on the transfer of industrialized goods and services (ITBIS), taxes on international trade including the foreign exchange commission, and excise taxes on goods and services including petroleum products.[1] These taxes account for 91 percent of the total tax and non-tax revenues collected in 2005, compared to 90 percent in 2003 and 92 percent in 2000.

In recent years, the Dominican Republic has implemented a number of tax policy measures. The continuing trend has been to shift away from the reliance on import duties, which alone accounted for 26 percent of the total tax and non-tax revenues in 2000, to consumption-based taxes, mainly excise and ITBIS. This transformation was dictated by a number of factors, including the accession to the CAFTA and EU free trade unions, modernization of the tax system, and desire to increase the buoyancy of the system. The amount of revenue from excises and ITBIS gradually increased from 17 and 19 percent of the total tax and non-tax revenues in 2000 to 23 and 26 percent in 2005, respectively. The share of import duties in 2005 was only 9 percent of the total tax and non-tax revenues, excluding the foreign exchange commission that collected an additional 13 percent.

Over the period from 1995-2005 the rates of import duty were lowered and an attempt was made to implement the GATT/WTO rules for commodity valuation. The combination of these two policies has substantially lowered import duty revenues. At the same time, the foreign exchange commission, which is in fact equivalent to a flat-rate tariff, has been generating more revenues than the import duties. The net revenue balance of decreasing import duties and increasing foreign exchange collection has been positive. During 2003, all imported goods were made subject to an additional 2 percent rate of import duty. In late October 2003, the Government had to resort to further temporary measures in order to stabilize the foreign exchange market and macroeconomic environment. These measures include an increase in the commission charged on foreign exchange transactions from 4.75 percent to 10 percent, and the airport departure tax was increased from US$10 to US$20.

[1] The rate of foreign exchange commission on imported goods was 13 percent of CIF value in 2005. The rate of commission was set at 5 percent in 1999, slightly reduced to 4.75 percent in 2001, consequently increased to 10 percent in 2003, and to 13 percent in 2004. As a part of DR-CAFTA agreement, the commission was abolished in June 2006.

Table 2-1: Tax and Non-Tax Revenues by Main Categories
(RD$ million, nominal)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
I. Tax and non-tax revenue	**26,002**	**34,181**	**38,390**	**43,376**	**51,203**	**59,642**	**66,295**	**79,645**	**126,243**	**157,585**
1. Tax revenue	**24,756**	**32,655**	**37,161**	**41,969**	**48,729**	**58,058**	**63,867**	**74,248**	**117,298**	**148,450**
Taxes on income	4,870	6,617	7,487	9,215	10,767	15,318	16,033	20,385	24,374	29,570
Income	4,481	5,935	6,587	8,060	9,634	14,173	14,789	14,978	18,340	28,895
Casinos and lottery	43	40	49	53	58	56	51	57	77	73
Others	346	643	851	1,102	1,075	1,089	1,193	5,350	5,956	603
Taxes on property	214	322	400	583	674	750	892	1,246	1,941	3,574
Taxes on goods and services	11,867	15,651	18,118	17,929	18,946	27,965	31,485	34,498	53,468	77,143
ITBIS (VAT)	4,688	6,329	7,223	8,639	9,990	14,255	16,676	19,179	30,603	41,426
Domestic	2,494	3,332	3,742	4,559	5,388	8,514	9,778	12,280	18,668	25,450
External	2,195	2,997	3,481	4,080	4,602	5,741	6,898	6,899	11,935	15,976
Excises	7,179	9,321	10,894	9,290	8,956	13,710	14,808	15,320	22,865	35,717
Excises on goods	6,080	8,250	9,592	8,046	7,645	13,190	14,347	15,302	21,610	29,700
Tobacco	359	358	382	404	469	996	1,069	1,183	1,615	2,408
Alcohol	1,489	1,772	1,947	2,144	2,449	2,884	3,218	3,645	3,552	8,748
Beverages	2	2	6	2	2	2	2	2	1	3
Petroleum products	3,372	5,229	6,260	4,162	2,772	7,511	8,101	8,278	11,082	14,617
Differential	2,896	4,715	5,701	3,648	2,256	7,511	8,101	8,278	11,082	14,617
Other charges	476	514	559	514	517	0	0	0	0	0
Others goods	859	890	997	1,334	1,953	1,796	1,956	2,194	5,359	3,924
Excises on services	1,098	1,071	1,302	1,244	1,310	520	461	18	1,255	6,018
Taxes on international trade	7,255	9,377	10,776	13,787	17,818	13,415	14,773	17,573	37,226	37,800
On imports	6,917	8,978	10,335	13,239	17,199	12,788	14,054	15,313	31,734	34,416
Import duties	6,798	8,794	10,140	12,221	13,456	9,336	10,845	10,720	12,460	14,314
Forex commission	0	0	0	702	3,412	3,234	2,989	3,364	15,721	19,998
Other taxes on imports	119	183	195	317	331	218	220	1,229	3,553	104
On exports	4	2	2	2	3	2	2	208	1,706	14
Other taxes on trade	334	398	439	545	616	625	717	2,051	3,787	3,371
Other taxes	387	388	25	31	35	34	41	129	194	326
Social security contribution	162	299	356	425	490	577	643	417	95	38
2. Non-tax revenue	**1,246**	**1,526**	**1,229**	**1,407**	**2,474**	**1,584**	**2,428**	**5,398**	**8,945**	**9,135**
II. Capital revenue	**487**	**585**	**176**	**109**	**68**	**214**	**783**	**39**	**2**	**0**
III. Grants	**123**	**418**	**383**	**424**	**436**	**416**	**516**	**926**	**1,332**	**1,135**
Total revenue and grants	**26,611**	**35,184**	**38,949**	**43,908**	**51,708**	**60,272**	**67,594**	**80,611**	**127,577**	**158,720**
GDP	**183,361**	**214,864**	**241,977**	**278,630**	**324,562**	**366,232**	**402,432**	**503,300**	**777,188**	**884,939**

Source: Central Bank of the Dominican Republic, October 2006. [http://www.bancentral.gov.do]

In 2001, a temporary minimum withholding tax was levied on all corporations equivalent to 1.5 percent of gross revenues. This tax was credited against the corporation income tax liability. In 2004, when the duration of this temporary measure expired, the withholding tax stopped to function as a minimum tax, and the companies were allowed to receive a tax credit if the amount withheld was more than the corporate tax liability at the end of period. The new tax bill passed in 2005 included some adjustments that reduced revenue collection: elimination of property tax for enterprises, reduction in withholding of interest payments abroad, full deduction from income tax of reparation costs, and elimination of certain consular charges and fees, gradual reduction of the financial transaction tax, and so on. At the same time, the revenue generating measures included new rules concerning the withholding for state providers and professionals, advance payment of 1.5 percent of gross sales, temporary increase of the income tax rate from 25 to 30 percent, increase in the excise taxes, expansion of the ITBIS base, and others.

Table 2-2: Tax and Non-Tax Revenues by Main Categories (share of GDP)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
I. Tax and non-tax revenue	**14.2**	**15.9**	**15.9**	**15.6**	**15.8**	**16.3**	**16.5**	**15.8**	**16.2**	**17.8**
1. Tax revenue	**13.5**	**15.2**	**15.4**	**15.1**	**15.0**	**15.9**	**15.9**	**14.8**	**15.1**	**16.8**
Taxes on income	2.7	3.1	3.1	3.3	3.3	4.2	4.0	4.1	3.1	3.3
Income	2.4	2.8	2.7	2.9	3.0	3.9	3.7	3.0	2.4	3.3
Casinos and lottery	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.2	0.3	0.4	0.4	0.3	0.3	0.3	1.1	0.8	0.1
Taxes on property	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.4
Taxes on goods and services	6.5	7.3	7.5	6.4	5.8	7.6	7.8	6.9	6.9	8.7
ITBIS (VAT)	2.6	2.9	3.0	3.1	3.1	3.9	4.1	3.8	3.9	4.7
Domestic	1.4	1.6	1.5	1.6	1.7	2.3	2.4	2.4	2.4	2.9
External	1.2	1.4	1.4	1.5	1.4	1.6	1.7	1.4	1.5	1.8
Excises	3.9	4.3	4.5	3.3	2.8	3.7	3.7	3.0	2.9	4.0
Excises on goods	3.3	3.8	4.0	2.9	2.4	3.6	3.6	3.0	2.8	3.4
Tobacco	0.2	0.2	0.2	0.1	0.1	0.3	0.3	0.2	0.2	0.3
Alcohol	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.5	1.0
Beverages	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Petroleum products	1.8	2.4	2.6	1.5	0.9	2.1	2.0	1.6	1.4	1.7
Differential	1.6	2.2	2.4	1.3	0.7	2.1	2.0	1.6	1.4	1.7
Other charges	0.3	0.2	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Others goods	0.5	0.4	0.4	0.5	0.6	0.5	0.5	0.4	0.7	0.4
Excises on services	0.6	0.5	0.5	0.4	0.4	0.1	0.1	0.0	0.2	0.7
Taxes on international trade	4.0	4.4	4.5	4.9	5.5	3.7	3.7	3.5	4.8	4.3
On imports	3.8	4.2	4.3	4.8	5.3	3.5	3.5	3.0	4.1	3.9
Import duties	3.7	4.1	4.2	4.4	4.1	2.5	2.7	2.1	1.6	1.6
Forex commission	0.0	0.0	0.0	0.3	1.1	0.9	0.7	0.7	2.0	2.3
Other taxes on imports	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.5	0.0
On exports	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0
Other taxes on trade	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.4	0.5	0.4
Other taxes	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social security contribution	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.1	0.0	0.0
2. Non-tax revenue	**0.7**	**0.7**	**0.5**	**0.5**	**0.8**	**0.4**	**0.6**	**1.1**	**1.2**	**1.0**
II. Capital revenue	**0.3**	**0.3**	**0.1**	**0.0**	**0.0**	**0.1**	**0.2**	**0.0**	**0.0**	**0.0**
III. Grants	**0.1**	**0.2**	**0.2**	**0.2**	**0.1**	**0.1**	**0.1**	**0.2**	**0.2**	**0.1**
Total revenue and grants	**14.5**	**16.4**	**16.1**	**15.8**	**15.9**	**16.5**	**16.8**	**16.0**	**16.4**	**17.9**

Source: Calculated from Table 2-1.

Prior to 2003, the individual income tax brackets were adjusted and the top rate was lowered from 30 percent to 25 percent. In 2004, the treatment of individual property was also changed to increase the revenue collection. Table 2-2 confirms that the 1.5 percent minimum withholding tax was very effective in raising the income tax revenue from 3.0 percent of GDP in 2000 to 3.9 percent in 2001, and 3.7 percent in 2002. However, some of additional income tax revenue was, in fact, caused by the income tax amnesty rather than the 1.5 percent minimum tax. The crisis of 2003 affected the profits of companies in 2003 and 2004, when the revenue collection from income taxes reduced. By 2005, even after the minimum provision of the 1.5 percent withholding tax was repealed, the collection stood at 3.3 percent of GDP.

The ITBIS, a tax similar to a consumption type value added tax, was raised from a flat rate of 8 percent to 12 percent in 2001 and to 16 percent in 2004. Certain services such as advertisement and publishing remained taxed at a reduced ITBIS rate of 6 percent until 2004. During the 2004 reform, the reduced rate for advertisement and publishing activities was raised to 16 percent. In 2005 reform, few ITBIS-exempted commodities were brought into the base of ITBIS. The list of remaining exempted goods and services is still very long as compared to other countries. The total collection from ITBIS has been steadily increasing, as Table 2-2 shows. The amount of ITBIS collected on imports has been growing from 1.4 percent of GDP in 2000 to 1.8 percent in 2005. At the same time, the collection of ITBIS on domestically produced goods and services was raised remarkably from 1.7 percent of GDP in 2000 to 2.9 percent in 2005.

The excise collection has been steadily increasing over time. The amount of excises was 2.4 percent of GDP in 2000, but gradually increased to 3.4 percent of GDP in 2005. The three main revenue generators are the petroleum products, alcohol beverages, and tobacco. Since 2000, the Government has introduced a series of additional increases in the excise rates on these three groups of commodities. Apart from these three groups of commodities, there is rather a long list of items subject to excise tax, including vehicles, yachts, household electronics, rugs, jewelry, and many other products. In January 2004, the ad valorem taxes on alcohol and tobacco were replaced by specific unit taxes, based on the absolute alcohol volume in the beverage.[2] In addition, there was an increase in the excise rates for electrical and mechanical appliances and equipment.

The Government has been keen to increase the efficiency and transparency of the fiscal agencies. The most important reform that has been approved by the Government is to transform the Direccion General De Impuestos Internos (DGII) and the Customs into semi-autonomous bodies, which will have operational independence. The law governing this transformation comes in effect in January 2007.

[2] Ley 3-04, National Congress, January 2004.

3. TAXATION OF INTERNATIONAL TRADE

Following the recent trends of trade liberalization worldwide, the rates of import duty have fallen over time in the Dominican Republic too, especially in 2001.[3] Because it currently collects about 9 percent of its total revenues from tariffs on imports, other parts of the tax system needs to be changed and strengthened to fill the revenue gap created by lowering and eventually eliminating the tariffs.

In terms of import duty provisions in the Dominican Republic, there are mainly three classifications of imports. First, there are those imports destined for the free trade zones. These enter duty free because the zones are considered for purposes of customs and taxation to be located outside of the country. Such imports are not taxed when they enter the zones and no goods are taxed when exported from the zones unless they are being sold within the domestic economy. The second category is imports originating from other Caribbean countries, Central America or covered by other bilateral trade agreements. In this category, imports are largely exempt from the duty. These represent a small amount of the Dominican Republic's international trade. The free trade agreement with the USA as a part of the CAFTA framework has been signed, and is expected to become effective in 2007. A free trade agreement with the EU is currently being negotiated and might be ready by 2008-09. The third category is imports from other than the first two categories. These items attract import duties.

For calendar year 2005, the CIF value of imports into the Dominican Republic was RD$ 344,598 million. The data on the total amount of imports and import duties collected by the Customs are organized into 28 regimes. They are summarized in Table 3-1. It should be noted that in 2003 there were only 15 regimes, but since then the number of regimes has apparently increased. Regime 1 is the most important one as it accounts for about two-thirds of the total imports in the country. The next important category is free zones (Regimes 10 and 11), which account for 27.4 percent of the total volume of imports. It should be noted that import duties and other tax revenues reported by the Customs were not the actual revenue collection since some tax revenues were recorded but are officially exempted or suspended. The information has not been subsequently adjusted in the Customs statistics. For example, the total amount of import duties was recorded at RD$ 23,469 million while the actual collections were RD$ 14,314 million.[4] In addition, there is a difference between the ITBIS collection of RD$ 38,970 million reported by the Customs and the external ITBIS revenue of RD$ 15,976 million in Table 2-1. The actual collections are close to the revenues collect on imports classified under Regime 1 alone. The database reporting collection of taxes for regimes other than Regime 1 may represent only what should be collected, instead of what is actually collected. In that sense, the total collection from Regime 1 resembles the tax collection in Table 2-1.

Table 3-1: Volume of Imports and Tax Collections by Regime, 2005 (RD$ million)

[3] The CAFTA agreement requires having a zero-rate import duty on more than half of the total 6,772 imported commodities plus additional reduction on 1,287 import lines.

[4] See Table 2-1. A large part of the difference is caused by the import exemption given for goods entering the free zones.

	Regime	CIF	Import Duty*	Excise*	ITBIS*
1	Consumption	235,793.1	13,943.1	2,500.8	20,683.5
2	Temporary Import (repackaging)	16,989.7	1,471.0	192.0	2,704.7
3	Temporary Import (do nothing)	703.9	50.7	236.2	117.3
4	Temporary Leasing	6.0	0.7	0.0	1.1
5	Temporary Imports, Export for Fixing, and then Imports	0.6	0.0	0.0	0.1
6	Temporary in Warehouse	3,089.2	504.1	472.0	427.9
7	Import and then Re-export	315.5	26.9	10.9	50.7
8	Temporary Admission	5.4	0.2	0.0	0.9
9	Duty Drawback	26.1	0.8	0.0	4.3
10	Free Zones – Commercial*	377.5	66.8	273.9	77.1
11	Free Zones – Manufacturing*	84,114.0	6,926.4	264.3	14,406.6
12	International Transit	2,892.5	446.0	7.3	456.7
13	Items subject to Temporary Surcharges at 10% Tariff	13.5	1.9	0.0	2.5
14	Re-importation	79.8	3.6	1.3	12.6
15	Deposito Particular (temporary storage before goods are moved into Regime 1)	23.6	5.2	0.0	1.2
16	Exportacion A Consumo	0.9	0.1	0.0	0.1
17	Re-embarqment	38.1	5.3	1.9	6.2
18	Free Zones – Manufacturing (to be exported)	1.1	0.0	0.0	0.2
19	Re-exports	13.5	0.7	0.0	1.6
20	International Transit (to be exported)	24.7	4.4	0.4	3.6
23	Exported goods returned back to producer	0.4	0.0	0.0	0.0
26	Merchandise not claimed within 6 months	17.2	2.5	0.0	2.5
28	Merchandise left and to be auctioned	71.5	8.6	0.5	9.1
	Total	**344,598.0**	**23,469.0**	**3,961.5**	**38,970.2**

Source: Customs Department of the Ministry of Finance, Dominican Republic, 2006.
Note: * The firms located in the free zones would purchase imported goods free of import duty. The import tariff figures shown here were recorded in the Customs statistics but not necessarily collected.

In addition, there have been 114 resolutions that provide various exemptions of import duty that are made at the discretion of the government. Their effects and their effect will be discussed in Section 3.4 and Section 3.6.[5] One of them, however, is the free trade or bilateral agreements with Caribbean or other countries (Resolution 18) that will not attract any import duty in the future. For the purpose of this analysis, this is classified in the second category mentioned above. As a result, the total imports from the three categories are shown in Table 3-2 expressed as shares of the total imports in 2005. The first panel shows the distribution of imports under the actual system in 2005, which does not include free trade with USA and EU. The second panel shows the relative weights of import flows under the assumption that the Dominican Republic enters into the free trade with the USA and EU. Imports into the zones and free trade agreements are explicitly exempted, while the rest of the import volume is theoretically taxable. However, in practice, the tax base is substantially smaller because of the zero-tariff-rated imports and various exemption provisions. What Table 3-2 shows is that the

5 In 2003, there were only 20 resolutions.

share of the trade under the free trade agreements will increase from 1.2 to 30.8 percent, at the expense of imports that are currently subject to import duty.

Table 3-2: Actual and Free Trade Composition of Imports, 2005 (RD$ million)

Type of Imports	Current System		FTA with USA and EU	
Imports into Free Zones	84,492	24.5%	84,492	24.5%
Imports from Countries with Free Trade Agreements	3,964	1.2%	105,974	30.8%
The Rest of Imports	256,143	74.3%	154,133	44.7%
Total	**344,598**	**100%**	**344,598**	**100%**

Source: Customs Department of the Ministry of Finance, Dominican Republic, 2006.

The total collection of import duties in 2005 was about RD$ 14,314 million (see Table 2-1), of which only about RD$ 92 million was collected from the Caribbean countries and other countries with free trade or bilateral agreements. In the future, imports from these countries would most likely remain free from import duties. The amount of import duties collected on imports from the USA and EU was RD$ 4,334 million and RD$ 1,487 million, respectively.[6] We will focus our analysis here on imports other than those coming into the free zones or originating from countries that have free trade or bilateral trade agreements with the Dominican Republic.

Table 3-3 presents the summary of the actual import volume and taxes collected under Regime 1, by origin, as reported by the Customs in 2005. For the purpose of analysis, all imports are classified into four groups: these coming from the US, EU, CAFTA countries (except USA), and all other countries that do not have a free trade treaty with the Dominican Republic. Tax treatment of imports is different if a commodity is subject to an excise tax, and if it is imported under one of the resolutions that provide a reduction of tax liability. Imports that are not subject to excise tax and are not covered by a resolution are named “regular”. Table 3-3 shows these import flows separately, by origin. The countries that do not have a free trade agreement supply most of imports into the country, about 54.4 percent of the CIF volume. The USA alone accounted for 34.1 percent of the trade. Another 9.2 percent is traced back to the EU countries, and only 2.3 percent of imports originated in CAFTA area (other than the US). Remarkably, 46.8 percent of the total import volume in Regime 1 enjoyed some sort of tax reduction under different resolutions. In terms of total revenue collection (duty, excises and ITBIS), the following distribution was found: 46.3 percent of the total collections were on imports from non-treaty countries; 38.2 percent on imports from the US; 13.1 percent from the EU member states; and 2.5 percent from the other CAFTA countries. In addition, other charges and fees are collected at the Customs but not presented here. While there is a room for improvement of the

[6] The way the tax collection is reported in the customs database is confusing because some of import duty, ITBIS and excise tax collections are recorded but not supposed to be paid by importers (see note for Table 3-1). A long list of resolutions granting exemptions for importers also make it difficult to figure out what was actually paid by importers. The figures reported here exclude the duties reported under resolutions. If resolutions are included, the total duty paid on US and EU imports would be RD$ 5,611 million and RD$ 1,875 million, respectively.

overall administrative efficiency of the Customs and compliance by the importers if these charges and fees are streamlined and simplified, this should be a topic of a dedicated study.

Table 3-3: Trade Volume and Taxes Collected on Regime 1 Imports, 2005 (RD$ million)

Origin and Classification	CIF	Duty	Excise	ITBIS
Non-Treaty				
Regular, Non-Excisable	50,566	4,615		6,663
Alcohol & Tobacco	626	125	596	121
Vehicles	8,505	921	128	1,528
Other Excisable	1,116	221	438	284
Resolution Non-Excisable	67,131	449	0	966
Resolution Alcohol & Tobacco	24	4	75	5
Resolution Vehicles	195	8	1	12
Resolution Other Excisable	141	16	42	23
USA				
Regular, Non-Excisable	40,534	2,738		4,255
Alcohol & Tobacco	202	44	145	42
Vehicles	7,312	1,381	87	1,404
Other Excisable	938	172	335	231
Resolution Non-Excisable	28,630	939	0	1,535
Resolution Alcohol & Tobacco	6	1	3	1
Resolution Vehicles	2,403	300	14	343
Resolution Other Excisable	298	37	67	48
EU				
Regular, Non-Excisable	11,802	1,157		1,687
Alcohol & Tobacco	312	62	192	60
Vehicles	2,361	247	116	436
Other Excisable	110	21	63	31
Resolution Non-Excisable	6,821	367	0	338
Resolution Alcohol & Tobacco	13	2	7	2
Resolution Vehicles	251	16	9	27
Resolution Other Excisable	18	2	3	2
CAFTA				
Regular, Non-Excisable	1,102	81		108
Alcohol & Tobacco	52	10	167	10
Vehicles	2	0	0	0
Other Excisable	2	0	1	1
Resolution Non-Excisable	4,312	7	0	519
Resolution Alcohol & Tobacco	3	0	11	0
Resolution Vehicles	3	0	0	0
Resolution Other Excisable	2	0	1	0
Total	**235,793**	**13,943**	**2,501**	**20,683**

Source: Customs Department of the Ministry of Finance, Dominican Republic, 2006.

Import duties have been one of the most important sources of tax revenues in the Dominican Republic, accounting for about 9.0 percent of total revenues in 2005. The revenues, however, have been reduced deliberately due to trade liberalization with a number of countries in the region. In addition to the import duties, a very substantial amount of revenue was also collected from the commission charged on foreign exchange transactions used to purchase imports. In fact, the foreign exchange commission was operating as a uniform tariff on all imported goods. In 2005, the revenue amounted to RD$ 19,998 million.[7] The commission was abolished in

[7] The rate of commission charged on foreign exchange was 13 percent of CIF value in 2005.

2006 for all imported goods. To compensate for the loss of the foreign exchange commission on fuel and vehicles, additional excise taxes were immediately imposed.

3.1 Import Tariff Structure

Over the past years, the number of tariff rates has been reduced in the Dominican Republic. At present, there are eight duty rates imposed on all imported goods. These rates are 0, 3, 8, 14, 15, 20, 25, and 40 percent. The types of commodities subject to import duty rates are summarized as follows:

- *0% rate:* Medicine, books for school, corn, and inputs used for agricultural production such as fertilizers, farming machinery and equipment, computer equipment;
- *3% rate:* Broad materials used for industrial production;
- *8% rate:* Intermediate inputs used for industrial production;
- *14% rate:* Semi-processed products, fish, milk substitutes, butter, dried vegetables;
- *15% rate:* De cana, arroz con cascara (harmonization codes: 1701.11.00 and 1006.10.00);
- *20% rate:* Consumption goods such as textile products, phone and photo equipment, vehicles, garlic, onion, rice, powdered milk, sugar;
- *25% rate:* Agricultural products such as poultry bean;
- *40% rate:* Meat products such as sausage, ham, meat.

It should be noted that import duties are applied to the CIF values of imports. Excise taxes, with the exception of the excise taxes on automobiles, alcohol, and tobacco, are levied on the CIF value plus the regular import duty.[8] The excise tax on automobiles is applied directly on the CIF value, excluding any tariffs. In 2004, the ad valorem excise rates on alcohol and tobacco were replaced by unit rates, and the amount of the excise tax is based on the alcohol content of alcoholic beverages and packaging of tobacco imports, not their CIF value. ITBIS is applied on the CIF value, plus import duty plus excise tax.

In addition to import tariffs, there are quotas imposed on certain imported goods. These goods include garlic, rice, sugar, poultry, onions, beans, powdered milk, and corn. When the volume of these specific goods brought into the country by a particular importer is greater than the respective quota, the import duty rates become extremely high. For example, if a shipment of garlic is more than 4,200 metric tons, the rate of import duty increases from 20 percent to 101 percent. See Appendix A.

3.2 Commission on Foreign Exchange

A commission was introduced in the 1990s on all foreign exchange purchases at a rate of 1.75 percent. The rate was subsequently increased to 5 percent in October 1999, and then reduced to 4.75 percent in October 2001. As Tables 2-1 and 2-2 confirm, the amount of revenue was very substantial. In August 2002, a resolution eliminated the commission on foreign exchange transactions and designated the Customs as the agency in charge of collections. This implies that, thereafter, only imported goods are subject to the foreign exchange commission. The rate

[8] Petroleum products (Chapter 27 of international commodity harmonized code) are subject to 3 percent import duty, but it has not been collected. See Section 5.4.

of this tax was 4.75 percent until October 2003. Since then, the rate was increased to 10 percent and to 13 percent in 2004. As a part of DR-CAFTA agreement, the commission was abolished in June 2006. Clearly, this charge was simply a temporary revenue generating measure.

The total CIF volume of imports under Regime 1 was RD$ 235,793 million in 2005. If all imports, including these under resolutions, were subject to the foreign exchange commission of 13 percent, the commission collection would have been RD$ 30,653 million. However, the net collection as reported in Table 2-1 was only RD$ 19,998 million. If we assume that non-resolution imports are properly processed at the Customs, the resulting difference must come from the imports covered by various resolutions.

3.3 Export Charges

The government collects a small amount of export duties of about RD$ 14 million per year. In October 2003, the government also imposed a 5 percent tax on exported goods including those from free zones. This measure was due to devaluation of the peso and the desire to counterbalance the revenue loss from an export tax on the windfall from exports of goods and tourism activities. The export duties were eventually discontinued by the end of 2004.

3.4 Customs Resolutions

In contrast to raising revenue, there have been 114 resolutions that provide import duty exemptions to various institutions. Some of these resolutions were of temporary nature and have since expired. In October 2006, there were 76 resolutions in force. Appendix B lists these resolutions. The resolutions can be grouped into categories based on either the purchaser of imported goods or the purpose of concessions. Some of the reasons for the relief may not appear very straightforward. The following are exempt: government departments; non-government charitable organizations; cooperatives for government employees; embassy purchases; promotions for tourism; diplomats; promotion for textile manufacturing; promotion for agriculture; educational bodies; household items for returned Dominican Republicans after living abroad for 2 years; imported equipment and supplies by medical laboratories; Free Trade Area of the Americas; and many more.

The total CIF volume of imports under resolutions was RD$ 110,251 million in 2005, which accounts for 46.8 percent of Regime 1 imports. If the resolutions related to free trade agreements and hydrocarbon imports are excluded, the total CIF volume is still RD$ 42,259 million or 17.9 percent of Regime 1 imports. While some of the resolutions provide only a limited relief from import duty, and excise taxes and ITBIS are presumably paid, the magnitude of exemptions is very high. In 2003, there were only 20 resolutions but the number has increased mainly because of the numerous amendments of the law over the past three years. We were told that the existing information technology system at the customs is not flexible enough to update the commodity tax rates reflecting the new changes in the law, and the amendments have to be defined as resolutions. The existing framework of trade regimes and resolutions is very complex for the customs officers to administer and confusing to the public to comply with. The customs is planning to install a new IT system in 2007, which will be modern and sophisticated enough to manage commodity taxation in an administrative environment were tax policies change.

3.5 Impact of Trade Liberalization

For a number of years the Dominican Republic has been enjoying free trade with the members of the Caribbean Commonwealth (CARICOM) and countries of the Caribbean Free Trade Agreement (CAFTA). The agreement with the USA has recently been reached and it is widely expected to enter into force in 2007. As a part of the agreement, the foreign exchange commission on all imports into the Dominican Republic was abolished in mid-2006. The agreement with the US covers 6,832 different goods, according to the international harmonized commodity classification. Some 903 commodities under the agreement already carry zero duty, and an additional 4,326 will be zero-rated immediately. About 380 lines are expected to reduce the rate of the tariff to zero over a period of 5 years; 692 lines are reduced over a 10-year period; and 107 lines are stretched over 15 years. The rest of the imported goods are subject to special schedules, which range from five to twenty years, depending on the type of commodity.

The free trade agreement with the European Union is currently under negotiation and it will take some time to finalize the deal. Following the pattern of the US agreement, it is reasonable to expect that the import duty rate on about 4,000 lines of the commodity table will be reduced to zero immediately, and the rest of the imported goods will see their duty rates to gradually decline from their current level to zero over a period from 5 to 20 years. For the purposes of analysis, it is assumed that the US trade agreement becomes effective in 2007, and the EU deal comes into force in 2008. Appendix C presents the detailed results of the micro-simulation.

Table 3-4 shows the summary of simulation results presented in Appendix C for the expected free trade agreements with the US and EU. Because the new round of trade liberalization concerns only the US and EU imports, the impact on trade flows from CAFTA, CARICOM and all other countries is not taken into account. Since ITBIS and ad valorem excise taxes include the import duty in their base, the tariff reduction will lower not only the import duty collection but also the excise and ITBIS revenue. In 2007, the first year of US free trade, the estimated loss of tariff, excise and ITBIS revenue is RD$ 2,261 million in 2005 prices (0.26 percent of GDP) if the collections under resolutions are included, and the loss is RD$ 1,532 million (0.17 percent of GDP) if the collections under resolutions are excluded.[9] In 2008, when the EU agreement is expected to become effective, an additional significant loss of revenue is likely to occur.[10] The EU agreement alone, if the resolutions are included, will cost about RD$ 773 million or 0.09 percent of GDP in 2008. Because the US agreement will enter into its second year, the combined incremental loss in 2008 will be RD$ 1,644 million or 0.19 percent

---

[9] The results of simulation presented here include all resolutions. In fact, the free trade agreements do not affect imports under Resolution 19 (hydrocarbons) on which a 3 percent import duty is imposed but not collected. Appendix D explains the relative importance of resolutions.

[10] Note that while no tariff reduction is expected for EU imports in 2007, there is an impact of fixed nominal excise unit rates on alcohol and tobacco imports, which imply a loss of RD$ 26 million in excise collection and related RD$ 4 million reduction of ITBIS revenue, all expressed in 2005 prices.

of GDP. In the four consequent years, the incremental annual loss of revenue from both US and EU imports is about 0.13 percent of GDP until 2011.

Table 3-4: Summary of Revenue Loss due to US and EU Trade Liberalization, 2005 Prices (RD$ million)

	USA					EU					Total w/ Resolutions		Total w/o Resolutions	
	Duty	Excise	ITBIS	Total	%GDP	Duty	Excise	ITBIS	Total	%GDP	Million RD$	%GDP	Million RD$	%GDP
	Gross loss of forex commission										**19,998**	**2.26%**		
	Additional 13% of CIF on vehicles *										2,363			
	Additional 13% of CIF on fuels **										6,629			
2006	**Net loss of forex commission**										11,006	**1.24%**		
2007	1,884	68	309	2,261	**0.26%**	0	26	4	30	**0.00%**	2,292	**0.26%**	1,675	**0.19%**
2008	735	17	119	871	**0.10%**	640	26	106	773	**0.09%**	1,644	**0.19%**	1,261	**0.14%**
2009	753	3	120	875	**0.10%**	237	1	38	276	**0.03%**	1,152	**0.13%**	895	**0.10%**
2010	753	3	120	875	**0.10%**	254	1	41	295	**0.03%**	1,171	**0.13%**	910	**0.10%**
2011	752	3	120	874	**0.10%**	254	1	41	295	**0.03%**	1,169	**0.13%**	908	**0.10%**
2012	166	2	26	194	**0.02%**	254	1	41	295	**0.03%**	489	**0.06%**	374	**0.04%**
2013	194	2	30	226	**0.03%**	86	1	14	100	**0.01%**	326	**0.04%**	221	**0.02%**
2014	194	2	30	226	**0.03%**	108	1	17	126	**0.01%**	352	**0.04%**	240	**0.03%**
2015	194	2	30	226	**0.03%**	108	1	17	126	**0.01%**	352	**0.04%**	240	**0.03%**
2016	194	2	30	226	**0.03%**	108	1	17	126	**0.01%**	352	**0.04%**	240	**0.03%**
2017	36	0	4	40	**0.00%**	108	1	17	126	**0.01%**	166	**0.02%**	124	**0.01%**

Source: See Appendix C.

Notes: * The CIF volume of all vehicle imports, excluding resolutions, was RD$ 18,180 million in 2005. In reality, some of imports under resolutions had to pay the foreign exchange commission.

** The CIF volume of all hydrocarbon imports (Resolution 19) was RD$ 67,987 million, but approximately 25 percent of these imports were used for electricity generation and paid no foreign exchange commission.

For the US imports, commodities that have a duty reduction period of 5 years will have been zero-rated by 2012, and there will be no further tariff reduction on this group. At the same time, for a number of items, the DR-CAFTA agreement specifies an accelerated annual tariff reduction after the first 5 years. This explains why there is a significant reduction of the size of the annual import duty loss in 2012, as compared to the size of duty revenue loss 2011 and 2013. A similar pattern is found in the projected import duty loss for the EU but in year 2013, since the DR-EU agreement is assumed to begin in 2008. The size of the loss of the tariff revenue on EU imports is less in 2013 than in 2012 and 2014.

Over the period of 2013-17, the annual reduction in revenue is estimated at about 0.04 percent of GDP. After 2017, the annual loss further reduces to 0.02 percent of GDP per annum. For the purpose of presentation, Appendix C and Table 3-4 show only first eleven years of tariff reduction until 2017.[11] The simulation, developed as a part of this study, has the ability to

[11] Not all goods covered by the free trade agreements will be zero-rated by 2017. There will be few commodities for which the tariff is phased out over a period of 20 years, which is assumed to start in 2007 for the US, and in

project the tariff reduction even beyond 2017 but there is little value added from including these figures into the analysis at this point of time.

As the resulting final domestic price of US and EU imports gradually becomes lower as compared to imports originating from other countries, there is likely to be a substitution effect inducing the importers to buy more goods from the countries with free trade agreements. The strength of this effect will be clearly different from commodity to commodity because different goods are subject to different tariff protection, and the agreed import duty reduction from year to year is set at different rates, ranging from 1.3 to 5.0 percent a year. At this point, there is not sufficient information to estimate the degree of such effects.

In addition to the expected loss of tariff, excise, and ITBIS revenue, the foreign exchange commission of 13 percent of CIF value of all imports has been already discontinued. In 2005, it amassed a total of RD$ 19,998 million or 2.26 percent of GDP. The compensatory measures have involved the 17 percent of CIF value registration fee imposed on imported vehicles, and 13 percent CIF ad valorem tax on imports of fuel and liquefied natural gas. If these measures are included, the net loss of the foreign exchange commission was 1.24 percent of GDP in 2005 prices. When proposing any changes in the tax system to offset the expected impact of trade liberalization, the relevant figures are the gross loss of foreign exchange commission (2.26 percent of GDP) plus the cumulative reduction of tariff, excise and ITBIS revenue on both resolution and non-resolution imports from the USA and EU for the first five yeas of the DR-CAFTA agreement (0.84 percent of GDP).

We are aware that there have been several attempts to estimate the possible revenue impact due to trade liberalization. All these reported a significantly higher estimate of revenue losses.[12] To address this discrepancy, Appendix D outlines alternative methods of revenue loss estimation.

3.6 Proposed Measures

Tariff on Hydrocarbon Imports

The Dominican Republic does not have an internal source of hydrocarbon products, and has to rely heavily on the imports from other countries. According to the international harmonized commodity code, these products are all grouped into Chapter 27, which carries a duty rate of 3 percent of the CIF value. In practice, the tariff is not collected and only excise taxes are charged on hydrocarbon imports. It is proposed to change the current legislation and to nullify the 3 percent import duty on all hydrocarbon imports into the country. This should be done in

---

2008 for the EU. Note that free trade agreements rarely cover 100% of the commodity list, unless the countries are members of an integrated economic zone, i.e. member states of the EU.

12 An IMF report quotes an estimate of 0.3 percent of GDP for the first year of DR-CAFTA agreement (based on an implicit assumption that the agreement is effective in the second half of 2006), and 0.5 percent of GDP in 2007. See "Staff Report for the Third and Fourth Reviews under the Stand-By Arrangement, Review of Financing Assurances, and Requests for Waivers of Nonobservance of Performance Criteria and Rephasing of Purchases under the Arrangement", IMF, April 24, 2006.

conjunction with the proposed adjustment of the excise taxes on hydrocarbons. See Section 5.6 for details.

Customs Resolutions

As mentioned earlier, there are currently 76 resolutions in place to provide full or partial import duty and other tax exemptions in the Dominican Republic. These resolutions accounted for approximately 42.4 percent of the total value of imports other than those going to the free zones.[13] The volume of trade other than free trade agreements (Resolution 18, 21, 22 and 68) and hydrocarbon imports (Resolution 19) at CIF value was RD$ 38,300 million or 16.2 percent of Regime 1 imports.[14] If all resolutions were removed, the government would have collected additional import duties of RD$ 3,888 million, excise taxes of RD$ 463 million, and ITBIS of RD$ 14,461 million in 2005. Details for each resolution and the type of taxes can be found in Appendix E.[15]

The removal of all resolutions, however, is impossible. For example, Resolution 18 regarding imports under the free trade agreements with Caribbean and other countries would not likely be altered. The imports for the use by the government of a foreign country or by diplomats may be considered reasonable for duty exemption because of either the reciprocal agreements between countries or because it is a common international practice. In the case of Resolution 13 for returned Dominicans, the vehicles, furniture, and other goods they bring home should not be subject to import duty as is the common practice internationally. Business samples and items used for medical laboratories will likely continue to be duty exempted. Petroleum products imported for use in the hydrocarbons sector will continue to be exempt under the import duty, but subject to excise tax. For other categories such as government departments and cooperatives for public servants, however, they should be treated in the same manner as other purchasers of imported goods in order to prevent over consumption or abuse of the system. The concerns of NGO, education, promotion for agriculture, textile manufacturing, hotel-tourism, etc. can be better addressed elsewhere through expenditure programs in order to minimize tax distortions.

If the resolutions were abolished for government departments (Resolution 1), institutions for NGOs (Resolution 2), education (Resolution 10), government employees (Resolution 6), promotion for hotel tourism (Resolution 5), and others marked for removal in Appendix C, the additional import duties would amount to RD$ 978 million, excise taxes of RD$ 267 million,

---

[13] According to Table 3-1, the total volume of imports was RD$ 344,598 million, and if Regimes 10, 11 and 18 are deducted, the total becomes RD$ 260,105 million. The gross value of all resolutions was RD$ 110,251 million, or 42.4 percent of the total, excluding Regimes 10, 11 and 18.

[14] This is the ratio of the CIF volume of all resolutions minus the value of trade under Resolution 18, 21, 22, 68 and 19 to RD$ 235,793.1 million, the total imports in the nation under Regime 1.

[15] The potential revenue panel, presented in Appendix E, shows how much taxes would have been collected under the current laws if no exemption was granted in 2005. The actual panel shows what was collected in 2005. The difference between the potential and actual collections is the additional gain that can be tapped if a resolution is abolished in 2005. Note that the potential collection from removing resolutions now, at the end of 2006, would be slightly different from what is presented here because a number of changes have been made to the tax system between 2005 and 2006.

and ITBIS collection of RD$ 1,924 million, or a total of RD$ 3,169 million (0.36 percent of GDP).[16] This is more than the combined amount of tariff, excise, and ITBIS loss of revenue in 2007 due to the trade liberalization.

If some of the resolutions are discontinued, the initial result will be a significant gain of tariff, excise, and ITBIS revenue. Over time, the collection from these will slightly reduce, to the degree the resolution imports are sourced from the countries with the free trade agreements. The simulation model developed for the customs data allows us to generate such a scenario and to project an estimated loss of revenue due to trade liberalization. In appendix C the impact of tariff reduction on the 2005 resolution framework is presented.

In addition to the proposed measures, the government revenues can also be increased if the Customs and tax administrations were to improve their efficiency. However, the revenue implications of such improvements are difficult to estimate. The current IT system at the Customs is expected to be modernized in 2007, which should allow the officials to reduce the number of resolutions and regimes, because some of them were created artificially due to the technical inflexibility of the current computer software. Another measure that has been mentioned is to have a greater use of reference valuation of imports. At present, the importer is asked to produce a valid invoice where the price of the shipment is stated. The estimates, done by the Departamento de Estudios Economicos, indicate that the average undervaluation of vehicles is about 20-40 percent of the international price.[17] Referencing the prices declared by the importer is one way to potentially improve the level of compliance. Having such a system is desirable, but such a step will likely require a completely new IT and reporting system to be implemented since an administrative reengineering of the Customs system will take some time to complete.

Exemption from Import Duties of Imported Inputs Used for Export Production

The free trade zones in the Dominican Republic have enabled exporters to bypass the historically inefficient and ineffective Customs administration. Since the zones were first initiated, a system has been in place whereby the zone operators pay Customs officials to supervise the inflow and outflow of goods for the companies operating in their zones. It has generally worked well. However, it is a more costly system to run than others that have been developed elsewhere.

Most countries that have used export-processing zones to initiate a drive toward export promotion have quickly moved to other systems for the exemption of exporting firms from the burden of import duties on inputs. These systems are usually information or accounting based because it can also offer flexibility and lower costs of production for firms that can be set up anywhere in the country. For a new exporter usually a bond is required to ensure that the inputs do not end up being used to produce goods that are sold in the domestic market. However, after an honest track record is established the need for a customs bond is usually dropped. For

[16] The following resolutions are suggested to discontinue: 1, 2, 5, 6, 10, 23, 24, 25, 26, 37, 38, 40, 42, 43, 44, 49, 51, 52, 53, 55, 56, 58, 59, 60, 70, 71, 72, 73, 74, 75, 76, 81, 82, 86, 90, 92, 97, 98, 100, and 102.

[17] Lic. Martin Zapata Sanchez, Departamento de Estudios Economicos, Secretaria de Estado de Finanzas.

example, in Taiwan, the export processing zones were very important for its initial drive towards export promotion, but in no year did export shipments from the free trade zones exceed 9 percent of total exports from Taiwan. From the very beginning, Taiwan realized that customs and tax administration reform was a cheaper way of promoting exports than having all their exporters working out of free trade zones.[18]

There is a need to have in place a system for refunding the duties paid on imported inputs through a system of duty drawbacks that will refund theses duties on a timely basis. However, a duty drawback system will never be effective for servicing high volume exporters. Such a system is only useful for the case of a domestic producer who from time to time produces some items for export. Duty drawback systems are usually incubators for corruption, but there is a need to have such a system in place that will give relief to start up exporters from the financial burden of import duties paid on inputs. .

In the Dominican Republic, there has been a long tradition for businesses of having to deal with an inefficient Customs Administration that has been viewed by many as being almost impossible to reform. The policy makers need to take a hard look at the situation and determine if the country can afford such an inefficient system. Countries from Bolivia to South Africa have decided that in order to develop they need to get rid of these inefficient administrative systems. To break away from these historical practices it has been often necessary to set up an autonomous revenue authority that has a clear mandate to introduce modern business practices into the administration of the tax and customs systems. The policy makers in the Dominican Republic need to examine such an alternative system of fiscal administration. We recommend that they implement such a system as soon as possible.

[18] Jenkins, Glenn P., Chun-Yan Kuo and Keh-Nan Sun, *Taxation and Economic Development in Taiwan*, Cambridge: John F. Kennedy School of Government, Harvard University, 2003.

4. GENERAL SALES TAX (ITBIS)

4.1 Tax Base

The tax on the transfer of industrialized goods and services (ITBIS) in the Dominican Republic is a consumption type VAT. It was introduced in 1983, one of the first VATs introduced in the Caribbean region. Imports are taxed at the port of entry while exports are zero-rated. It uses the invoice credit method for administration. In 2000, the tax rate was raised from 8 percent to 12 percent. Since 2001, all publishing and advertising activities were allowed to use a reduced rate of 6 percent. By 2004, when the consequences of the 2003 crisis were dire, and the public finances needed an additional inflow of internal funds, the government raised the ITBIS rate to 16 percent and abolished the reduced rate of 6 percent. The publishing and advertising activities have been charged with the full 16 percent rate of ITBIS. No ITBIS exemptions were removed in 2004.

An examination of the tax code and the consequent changes of the law indicates a wide rage of goods and services are specifically exempted from the tax.[19] Although the exemptions were tightened initially in 2000 and as recently as in 2005, the list of exemptions still remains very wide. They include:

- live animals such as horse, goats, chickens, ducks, geese, turkeys;
- fresh, frozen, and processed meat;
- fresh fish;
- milk and dairy, butter, fresh cheese (not ripened) including cottage cheese;
- flowers and plants;
- eggs and honey;
- bread, flour, cereals;
- rice, potatoes, oil and other condiments in general and other industrialized good of first necessary;
- fresh, frozen, dried, and canned, fruits, nuts and vegetables;
- fresh, frozen or dehydrated meat, fish, sea weed;
- bottled water, and water in its natural state;
- coffee, cocoa, and chocolate;
- corn and wheat;
- edible unrefined oils;
- butter, sausage, sausage meats and noodles;
- sugar;
- baby feed;
- wide range of agricultural inputs, agricultural and agro-processing equipment;
- petroleum and its derivatives;
- medicine for human and animal use;

[19] Horwath, Sotero Peralta & Asociados Members of Horwath International and Russin, Vecchi & Heredia Bonetti L.L.P., *Tax Code of the Dominican Republic*, Title III on the Tax on the Transfer of Industrialized Goods and Services, October 1997.

- manure, seeds and animal feed;
- fungicides, herbicides, insecticide;
- writing notepads, pens and pencils,
- works of art by national artists;
- books, newspapers, and paper for newspaper.

The following services and activities are also exempted from ITBIS:
- educational services, including cultural activities, theater, ballet, opera, dancing, orchestras, and folklore groups;
- financial services, excluding insurance;
- pension and social security payments;
- transport services, passenger transportation, and cargo transport;
- electricity supply;
- water supply;
- rental services;
- personal care services (e.g. hairdressing, beauty salons, etc.);
- health care.

In addition to exempt goods and services procured locally, the following imported goods are also exempt:
- imports by public sector institutions;
- final imports of goods for personal use that are exempted from import duties, subject to special regulations for passenger baggage, disabled persons, immigrants, returning residents, and personnel from the foreign service of the country;
- final imports made with exemptions in matters of import duties for institutions of the public sector, international organizations of which the Dominican Republic forms a part;
- final imports of samples and parcels exempted from import duties;
- imports of machinery and spare parts for the same raw materials, supplies and equipment and their spare parts made by industrial free zone enterprises; and
- equipment, machines, and materials imported by agricultural, industrial, mineral exploitation or public service enterprises that are totally or partially exempt from import duties by means of contracts approved by the National Congress.

A few goods, which were taxed previously, were granted exemption from ITBIS in 2005: evaporated milk; yogurt; fishmeal; and specific types of animal feed.

Overall, the ITBIS reform of 2005 managed to reduce the number of exemptions, and the following goods, which were previously exempted, are now subject to ITBIS:
- refrigerated fish, fresh or frozen seafood, and crab meat;
- parmesan cheese;
- grapes;
- sorghum, certain types of cereals;
- sardines canned and frozen;

- prepared baby feed;
- tomato souse;
- vinegar;
- salt;
- fertilizers;
- wide range of educational materials, some books and supplies;
- wide range of inputs and equipment for printing and publishing;
- toothpaste;
- match;
- detergents;
- computers and accessories.

Prior to 2004, there was a threshold for small businesses for filing the ITBIS tax. For those who carried out commercial activities with gross sales less than RD$ 2 million a year, they were outside of the system and were not required to register or to collect ITBIS from their customers. Under the reform of 2004, this rule was changed and all business establishments are currently required to charge and collect ITBIS if the goods and services supplied are not exempted by the law. Currently, there are about 88,000 business establishments, individually owned and incorporated, filing for ITBIS. Only a quarter of the all registrants are actually paying the tax. About 70 percent of all ITBIS collection comes from the largest 700 companies, consisting of the biggest national businesses, utilities, and branches of international firms. The second group is large regional companies, which includes 2,213 firms in 2006, and contributes about 20 percent of the total ITBIS revenue. Finally, there are about 20,000 small business establishments that account for about 2 percent of the overall ITBIS collections in the country.

4.2 ITBIS Input Credits

Table 4-1 shows the ITBIS collections from domestic sources over the period 2004-06. The amount of declared gross sales consists of sales of goods and services subject to ITBIS and exempted sales. Remarkably, the share of exempted sales is more than 50 percent of the total sales in any given period. Note that the net ITBIS paid in the last column is slightly different from the ITBIS reported in Table 2-1. If the definition of "exempt" good was properly administered, the ITBIS paid on inputs used to produce ITBIS-exempt output should not be allowed as an input tax credit, and the resulting amount of ITBIS actually paid in cash must be higher.

It should be also noted that the ITBIS-exempted goods and services in the Dominican Republic are, in fact, what is called "zero-rated" elsewhere. In most countries, producers of "exempted" goods do not charge VAT on output and do not claim VAT paid on business inputs. If a good is "zero-rated" then no VAT is charged on output but the producer can claim the VAT paid on inputs. Exports and basic agriculture commodities are typically zero-rated. In the Dominican Republic, exports are explicitly "zero-rated". According to the ITBIS tax code of the Dominican Republic, the input tax credits earned when purchasing inputs to supply goods and services that are "exempt" are refunded to the taxpayers in the same way as are the taxes paid on inputs to"zero-rated goods and services.[20] In practice, all domestic producers located outside the free zones can claim ITBIS paid on business inputs and receive a credit against their income tax liability. The term of "ITBIS-exempted good" is interpreted in a way that the producer/seller does not charge ITBIS on output but receives a tax credit on ITBIS paid on inputs. As of 2006, no actual cash refunds are practiced by the DGII and companies claiming the ITBIS input credits have a reduction on their ITBIS liability on output. In addition, ITBIS credit can be used against the corporate income tax liability.

Table 4-1: ITBIS Collections, 2004-06 (RD$ million)

	Gross Sales	Taxable Sales	Exempted Sales	Share of Exempt Sales	ITBIS Liability	ITBIS Claimed on Domestic Inputs	ITBIS Claimed on Imported Inputs	ITBIS Paid
2004	349,661	164,088	185,572	53.1%	26,254	6,985	4,975	n/a **
2005	827,447	364,788	462,659	55.9%	58,366	18,957	14,513	25,215
2006*	812,637	378,721	433,916	53.4%	60,595	19,976	16,016	21,700

Source: DGII, October 2006.
Notes: * Data for 2006 is from January to September 2006.
** The exact amount paid in 2004 is not available, however, Table 2-1 suggests that the total amount of ITBIS collection from domestic sources was RD$ 18,668 million.

When input tax credits are greater than the tax on gross sales, the excess amount shall be used as a credit against the ITBIS or corporate income tax due in the following monthly periods. For exporters, the tax code has a provision to allow them to request a refund for the ITBIS paid on business inputs within six months. However, this system does not seem to be functional in practice. Companies based in the free zones, which pay no corporate income tax, may have ITBIS paid on inputs sourced domestically that they can not claim as tax credit against the ITBIS or corporate income tax liability. This forces some ITBIS paid on inputs to be embedded into the price of their exports.[21] In a situation where the country has no control over its international cost of capital used to finance the corporate investments in the zones, and the prices of the exported goods and services are fixed internationally, any additional ITBIS taxes on domestically purchased inputs can not reduce the net of tax return of these firms. It will force the wage rates being paid to labor they employ to be decreased. The reduction in the total wage bill paid to labor in the zones will be approximately equal to the additional ITBIS paid by exporters on domestic inputs. As there is a competitive labor market, the wages will tend to be lower than otherwise across the economy. While labor in its role as a consumer of services will benefit somewhat from the lower prices of services due to the reduction in wages, it will only be a partial offset to the shrinking wage rates. Hence, the burden of any commodity taxes levied on the inputs of these exporters will likely be borne more than 100 percent by labor.

[20] Article 350 "Title III on the Tax on the Transfer of Industrialized Goods and Services" in Horwath, Sotero Peralta & Asociados Members of Horwath International and Russin, Vecchi & Heredia Bonetti L.L.P., Tax Code of the Dominican Republic, October 1997.

[21] Domestic companies can use the ITBIS input credits against ITBIS liability on output or against the corporate income tax liability.

The expectation is that when the DGII becomes semi-autonomous in 2007, the system will be changed so that the DGII will pay refunds of input tax credits in cash instead of credits. The new system is GATT/WTO compliant in terms of identical treatment of exports and domestically taxable sales for their input tax refunds. Because all companies, whether located in zones or not, will be able to receive cash refunds on ITBIS paid on inputs in a timing fashion, the exporters will be able to uphold the international competitiveness of their operations.

4.3 Overall ITBIS Collection Efficiency

Table 4-2 shows a summary of VAT and/or sales tax rates in selected countries. With the increase of the rate of ITBIS from 12 to 16 percent, the Dominican Republic positioned itself into the group of countries with medium-to-high level of VAT rates. At the same time, there is a very wide list of exemptions that limits revenue collection. Chile, which has one of the most comprehensive coverage of goods and services subject to the VAT in Latin America, raises 8.29 percent of GDP from VAT.[22] If Chile's 19 percent tax rate were adjusted to 16 percent, the revenue would still have been 6.98 percent of GDP, which is about 49 percent more than the 4.7 percent of GDP that collected by the Dominican Republic in 2005.[23] This seems to imply that a significant amount of additional revenue could be raised by the Dominican Republic if the tax base were broadened and the tax administration is strengthened, even before resorting to raising the rate of ITBIS.

We have examined the trend of the aggregate tax collections from importers and domestic registrants over the past four years as presented in Table 4-3. The first panel shows the actual tax revenues as a share of GDP. Since the ITBIS rate was raised in 2001 and 2004, the tax collected per percentage point of the ITBIS rate and the results are shown separately for domestic and imported goods in the second panel.

[22] Data reported for 2005: http://www.ine.cl/

[23] This is an understatement of the amount of revenue that Chile would collect with a 16 percent VAT because of the increased evasion and avoidance behavior stimulated by the high 19 percent rate of tax, it now levies.

Table 4-2: Value Added Tax (Sales Tax) Rates in Selected Countries, 2006

Country	General (%)	On specific goods (%)	On certain services (%)
Argentina	21	10.5 (sale and import of live cattle, natural flowers, fruits, works of art, journals, reviews, etc.)	27 (gas, electricity, water regulated by meter, telecommunications); 10.5 (interest and commissions on bank loans; works on real estate; services, works and lease related to agricultural and livestock products; transportation of passenger by taxis; some medical services; advertising)
Barbados	15	0 (basic foodstuffs, export of goods, and agricultural equipment)	7.5 (lodging) 0 (services related to exports; international freight services and supply of international cruises; printed matter).
Brazil	17 or 18	7 (basic needs); 7 to 25 (cigarettes, alcoholic beverages, luxury goods)	25 (Electricity)
Canada	6	Zero-rated (0%) – e.g. basic groceries; agricultural products; prescription drugs; exported goods Exempt – e.g. used residential housing; goods provided by charities	Zero rated (0%) – e.g. transportation services where the origin or destination is outside Canada; most exported services Exempt – e.g. most services provided by charities, legal aid services; most health, medical, and dental services performed by licensed physicians or dentists for medical reasons
Chile	19	50 (precious stones and metals, furs, fine tapestries, self-propelled mobile homes, etc.); 27 (liquors, piscos and distilled liquors, including wines or flavored liquors similar to vermouth); 15 (wines, beer); 13 (alcoholic drinks, mineral waters, etc)	
Ecuador	12	0 (Basic family products, books magazines, medications, inputs for agricultural production, exports)	0 (transportation, except air transportation of passengers, health, education, religious, electricity, drinking water, sewage system, those exported).
France	19.6	5.5 (basic needs); 2.1 (newspapers, medicines, etc)	5.5 (water supply, lodging, transportation of persons)
Honduras	12	15 (import or sale of beer and alcoholic drinks, cigarettes and tobacco products); 0 (exports)	0 (exports)
Italy	20	4 (basic needs); 10 (specific products)	
Panama	5	10 (import and/or sale of alcoholic drinks and cigarettes); 15 (import, sale of tobacco byproducts)	5
Paraguay	10	5% (assignment contracts for the use of assets and transfer of real estate). Up to 5% (sales of: pharmaceutical products, rice, noodles, mate herb, eatable oils, milk, eggs, raw meet, flour and salt).	5% (interests, commissions and surcharge on loans and financing).
Portugal	21	5 (imports and sales of goods at a reduced rate); 12 (imports and sales of goods at intermediate rate)	5 (certain services at a reduced rate); 12 certain services at intermediate rate)
South Africa	14	0 (food products, goods exported, petrol, diesel and illuminating paraffin, certain gold coins issued by Reserve Bank)	0 (international transport and related services, state subsidies and donations to welfare organizations, services supplied outside the country)
Spain	16	7 (food products, water, medicines, housing, radio and television, artists, among others); 4 (food products, books, magazines and newspapers; school supplies, pharmaceutical specialties; prosthesis and vehicles for the handicapped, among others.	7 (transportation of travelers, catering and restaurants, artists, among others).
Venezuela	14	0 (exports of goods) 8 (import and sale of certain foods for human consumption)	0 (exports of services) 8 (national air passengers transportation)

Source: Inter-American Center of Tax Administrations. [http://www.ciat.org/]

Table 4-3: ITBIS Collection Efficiency, 1999-2005

No.	Headings	1 1999	2 2000	3 2001	4 2002	5 2003	6 2004	7 2005
1	ITBIS as Share of GDP	3.10%	3.08%	3.89%	4.14%	3.81%	3.94%	4.68%
2	Domestic	1.64%	1.66%	2.32%	2.43%	2.44%	2.40%	2.88%
3	External	1.46%	1.42%	1.57%	1.71%	1.37%	1.54%	1.81%
4	ITBIS Rate (Statutory) (%)	8	8	12	12	12	12	16
5	Average ITBIS Collection (per point of ITBIS rate) [24]	0.39%	0.38%	0.32%	0.35%	0.32%	0.33%	0.29%
6	Domestic	0.20%	0.21%	0.19%	0.20%	0.20%	0.20%	0.18%
7	External	0.18%	0.18%	0.13%	0.14%	0.11%	0.13%	0.11%
8	Average Projected Collection as shares of GDP [25]			4.63%	4.63%	4.63%	4.63%	5.26% [26]
9	Domestic			2.47%	2.47%	2.47%	2.47%	3.20%
10	External			2.16%	2.16%	2.16%	2.16%	2.06%
11	Actual Marginal ITBIS Rate Effectiveness Index [27]			**0.52**	**0.68**	**0.47**	**0.55**	**0.56** [28]
12	Domestic			**0.82**	**0.95**	**0.96**	**0.91**	**0.60**
13	External			**0.18**	**0.38**	**-0.10**	**0.13**	**0.50**

Source: Calculated from Table 2-2.

The third panel presents the projected tax revenues if no behavior response would have been taken place as a result of rate change from 8 to 12 percent in 2001, and from 12 to 16 percent in 2004. We now calculate the marginal impact of the ITBIS rate increase on revenue collection using the average collection level per percentage point of the ITBIS rate for 1999 and 2000 as the norm for 2001-04. If the additional 4 percentage points of the ITBIS had been collected at the same average rate as the initial 8 percent ITBIS in years 1999 and 2000 the index would have value of 1.00.

[24] Estimated from the actual ITBIS collection data, shown in Table 2-2:
Row 5 = Row 1 ÷ Row 4
Row 6 = Row 2 ÷ Row 4
Row 7 = Row 3 ÷ Row 4

[25] For years 2001, 2002, 2003, and 2004, the values in Rows 8, 9 and 10 are estimated under the assumption that the level of administrative effectiveness would be the same as the average of 1999 and 2000:
Row 8 = [(Row 5 Col 1 + Row 5 Col 2)/2] * 12
Row 9 = [(Row 6 Col 1 + Row 6 Col 2)/2] * 12
Row10 = [(Row 7 Col 1 + Row 7 Col 2)/2] * 12

[26] For year 2005, the values in Rows 8, 9 and 10 are estimated under the assumption that the level of administrative effectiveness would be the same as the average of 2001-04:
Row 8 = [(Row 5 Col 3 + Row 5 Col 4 + Row 5 Col 5 + Row 5 Col 6)/4] * 16
Row 9 = [(Row 6 Col 3 + Row 6 Col 4 + Row 6 Col 5 + Row 6 Col 6)/4] * 16
Row10 = [(Row 7 Col 3 + Row 7 Col 4 + Row 7 Col 5 + Row 7 Col 6)/4] * 16

[27] For year 2001, the marginal effectiveness index is estimated as follows. The same formula is then used for years 2002, 2003, and 2004 (Col3 must be replaced with Col4, Col5, and Col6, respectively):
Row11 Col3 = 1 – (Row8 Col3 – Row1 Col3) ÷ {[(Row5 Col1 + Row5 Col2)/2] * (12 – 8)}
Row12 Col3 = 1 – (Row9 Col3 – Row2 Col3) ÷ {[(Row6 Col1 + Row6 Col2)/2] * (12 – 8)}
Row13 Col3 = 1 – (Row10 Col3) – Row3 Col3) ÷ {[(Row7 Col1 + Row7 Col2)/2] * (12 – 8)}

[28] For year 2005, the marginal effectiveness index is estimated under the assumption that the level of administrative effectiveness would be the same as the average of 2001-04:
Row11 Col7 = 1 – (Row8 Col7 – Row1 Col7) ÷ {[(Row 5 Col 3 + Row 5 Col 4 + Row 5 Col 5 + Row 5 Col 6)/4] * (16 – 12)}
Row12 Col7 = 1 – (Row9 Col7 – Row2 Col7) ÷ {[(Row 6 Col 3 + Row 6 Col 4 + Row 6 Col 5 + Row 6 Col 6)/4] * (16 – 12)}
Row13 Col7 = 1 – (Row10 Col7) – Row3 Col7) ÷ {[(Row 7 Col 3 + Row 7 Col 4 + Row 7 Col 5 + Row 7 Col 6)/4] * (16 – 12)}

The results show that the initial shock of the rate change resulted in a decline in the marginal revenue collections from domestic registrants in 2001 (row 12 column 3) but soon recovered to its average level of 1999 and 2000. It should be added that there was a slight expansion of the tax base in 2000. In 2004, the ITBIS rate was raised from 12 to 16 percent, as well as the reduced rate of 6 percent for advertising and publishing was replaced with the full 16 percent rate. No ITBIS exemptions were eliminated in 2004. Panel 7 estimates the effectiveness if ITBIS collection as compared to the average administration efficiency during 2001-04, which is taken as index of 1.00. The overall effectiveness of the additional 4 ITBIS points in 2005 was only 56 percent of the average administrative efficiency during the 2001-04 period. For the ITBIS collected domestically, the effectiveness level was 60 percent of the pre-2005 level. The Customs administration efficiency was at a rate of 50 percent of the pre-2005 level. The estimated amount of revenue loss in 2005 was RD$ 2.28 billion.[29]

For imported goods, however, the effect was much more serious. Customs collected, at the margin, only 18 percent, and 38 percent of the additional tax that theoretically should have been collected in 2001 and 2002, respectively. The reduction in tax revenues due to a failure of the Customs service to administer the collection of the ITBIS in 2002 as compared to it was accomplished in 1999 and 2000 amounted to RD$ 1.80 billion.[30]

The estimated amount of loss in 2003 and 2004 was RD$ 3.98 billion and RD$ 4.87 billion, respectively. In fact, this particular loss is only a part of the annual revenue cost that has resulted from the deterioration in recent years of the operational effectiveness of the Customs administration. The index of marginal ITBIS effectiveness at the Customs, as compared to the level of 1999-2000, was actually negative implying that ITBIS revenue was lost not only on the additional 4 points of ITBIS, but also on the underlying 8 percent ITBIS that was administered prior to 2001. What all this suggests is that there is capacity in the existing tax base for additional revenue collection.

4.4 Sample of 555 Largest Companies

Some features of the ITBIS can be discovered from an examination of a sample of 555 largest tax registrants in 2005. The results provide us with a picture of the distribution of the tax base of the ITBIS. Table 4-4 shows the value of sales, both exempted and taxable, ITBIS liability, ITBIS claimed as paid on business inputs, ITBIS withheld on services, ITBIS credits, and net ITBIS tax collection. The 555 firms covered by the sample paid RD$ 12,928 million, or 51.3 percent of the total domestic ITBIS collection in 2005.

---

[29] Estimated by multiplying the amount of ITBIS collected by the Customs in 2005, RD$ 15,976 million, by the ratio of 2.06% to 1.81% less one.

[30] This amount was estimated by multiplying the amount of ITBIS collected by the Customs in 2002, RD$ 6,898 million, by the ratio of 2.16% to 1.71% less one. The RD$ 6,898 million was the actual collections of ITBIS at the Customs in 2002 while 1.71% and 2.16% were the ratio of the actual collections of the ITBIS to GDP, and the ratio that would have been collected as if the customs administration administering the ITBIS as well as they were already doing in 1999 and 2000. See Tables 2-1 and 2-2.

Table 4-4: Actual ITBIS Collection and Exempt Sales by Sector, 2005 (RD$ million)

Sector	No.	Gross Sales	Exempted Sales	Taxable Sales	Share of Exempt Sales	ITBIS Liability *	ITBIS Paid on Local Inputs	ITBIS Paid on Services	ITBIS Paid on Imported Inputs	ITBIS Credit †	ITBIS Paid w/ Penalties †	ITBIS Withheld on Services ‡	ITBIS Liability on withheld Services ‡	ITBIS Credit (Services) †	ITBIS Paid w/ Penalties (Services) †	Total ITBIS Credit §	Total ITBIS Paid §	Effective ITBIS Rate **
Agriculture	2	1,524	1,442	82	94.6%	13	9	0	0	0	0	13	2	0	0	0	0	0.02%
Air-Transport	19	6,276	345	5,931	5.5%	949	61	22	1	1	678	41	6	0	5	1	683	10.88%
Alcohol and Wine Products	16	7,884	1,547	6,337	19.6%	1,014	212	119	219	3	383	142	22	0	20	4	404	5.12%
Automotive	16	22,773	794	21,979	3.5%	3,468	65	36	2,169	23	1,089	62	10	0	9	23	1,098	4.82%
Banks and Financial Services	54	17,555	15,216	2,339	86.7%	374	67	41	0	2	192	720	109	0	76	2	268	1.53%
Beer and Malt Products	3	15,343	804	14,539	5.2%	2,325	499	371	149	0	1,282	292	48	0	49	0	1,331	8.68%
Casinos	46	0	0	0	100.0%	0	0	0	0	0	45	13	2	0	2	0	48	n/a
Ceramics and Glass	6	2,543	398	2,144	15.7%	339	53	5	50	0	223	39	6	0	6	0	229	8.99%
Chemicals and Plastics	22	12,985	6,503	6,482	50.1%	1,037	160	29	430	5	368	93	15	0	14	5	382	2.95%
Communication	8	51,706	19,594	32,112	37.9%	5,136	1,570	188	538	33	2,028	737	118	0	103	33	2,132	4.12%
Construction Materials	15	16,276	2,649	13,627	16.3%	2,180	670	22	1,112	149	387	84	13	0	10	149	397	2.44%
Construction Services	8	6,874	5,115	1,759	74.4%	281	64	2	60	0	143	198	32	0	31	0	174	2.54%
Cosmetics	7	2,944	552	2,391	18.8%	382	40	9	117	0	196	29	4	0	4	0	200	6.79%
Detergents Products	5	7,064	3,148	3,917	44.6%	627	137	54	205	6	219	42	7	0	6	6	225	3.18%
Electricity Generation & Distr.	15	43,437	41,890	1,548	96.4%	10	163	97	34	913	1	337	54	0	53	913	54	0.12%
Food Processing	29	42,409	31,610	10,799	74.5%	1,728	766	135	647	371	598	372	58	0	45	371	643	1.52%
Insurance	29	14,585	2,493	12,092	17.1%	1,935	206	168	2	3	704	980	156	0	93	3	796	5.46%
Manufacturing	9	3,736	900	2,836	24.1%	454	74	35	94	0	225	55	9	0	7	0	232	6.21%
Medicine and Pharmaceuticals	22	8,129	6,452	1,677	79.4%	268	68	20	93	1	80	69	11	0	10	1	90	1.11%
Metal Products	9	7,066	1,766	5,300	25.0%	848	36	17	427	6	226	37	6	0	4	6	231	3.27%
Office Equipment	3	492	201	291	40.8%	47	2	3	12	0	25	17	3	0	2	0	27	5.46%
Oil Products	10	124,839	123,455	1,383	98.9%	221	70	3	71	16	90	138	20	0	18	16	108	0.09%
Public Offices, Gov. Agencies	9	0	0	0	100.0%	0	0	0	0	0	0	37	6	0	6	0	6	n/a
Publishing	12	3,668	746	2,921	20.3%	351	128	4	15	24	195	54	6	0	7	24	202	5.51%
Services	4	528	180	348	34.1%	56	5	6	2	0	40	26	4	0	4	0	44	8.30%
Soft Drinks	3	6,094	598	5,496	9.8%	879	301	1	363	73	288	88	14	0	14	73	302	4.95%
Textile	8	775	6	769	0.8%	123	9	6	50	0	52	6	1	0	1	0	53	6.81%
Tobacco Products	4	3,303	167	3,136	5.1%	502	44	60	69	18	330	73	11	0	12	18	341	10.34%
Tourism and Restaurants	83	25,068	5,543	19,524	22.1%	3,105	1,167	168	63	9	1,187	341	55	0	44	9	1,230	4.91%
Trade	57	57,760	23,847	33,913	41.3%	5,418	2,446	165	1,620	27	716	148	22	0	20	27	737	1.28%
Transport	19	6,162	4,151	2,011	67.4%	322	94	21	1	6	185	145	23	0	21	6	206	3.34%
Wood Products	3	1,702	59	1,643	3.4%	263	7	11	184	0	57	7	1	0	1	0	58	3.40%
Total, 555 firms	**555**	**521,500**	**302,172**	**219,327**	**57.9%**	**34,654**	**9,195**	**1,817**	**8,795**	**1,693**	**12,231**	**5,433**	**855**	**0**	**698**	**1,693**	**12,928**	**2.48%**
Total, country		**827,447**	**462,659**	**364,788**		**58,366**	**18,957**		**14,513**								**25,215**	
Ratio: Sample/Country		**63.0%**	**65.3%**	**60.1%**		**59.4%**	**48.5%**		**60.6%**								**51.3%**	

Source: DGII, October 2006.

Notes: * The law in 2005 had a provision for taxing sales for public sector at a reduced rate of 10 percent. By 2006, the provision was removed and currently all taxable sales are subject to the full rate of ITBIS.
† Credit is generated if the difference between the ITBIS liability and ITBIS paid on inputs and accumulated credit from previous periods is negative. The cumulative credits from previous periods are not shown here. ITBIS paid with penalties is the positive difference between ITBIS liability and ITBIS paid on inputs and accumulated credits from previous periods; and penalties (if any) are added.
‡ The current legislation rightfully requires the companies to withheld ITBIS on purchases of services from individuals other companies.
§ Sum of credits/ITBIS paid on the sales of goods and on ITBIS withheld on services.
** Ratio of the total ITBIS paid to the gross sales.

As expected, the exempt sales for agriculture and food processing sectors are high, as most of agricultural products are exempt. Petroleum products and electricity sectors are also exempt. As a result, the share of exempt sales in these sectors was as high as 70 percent or even more. Banking, pharmaceutical, and casinos are not taxed by ITBIS. Other sectors such as manufacturing, chemicals and plastics, metal products, construction and services have very high shares of exempt sales. As there is a wide range of tax exemptions for many types of goods and services, many taxpayers will have a high percentage of mixed (taxable and exempt) sales. This adds administrative complications because the taxpayer should only claim an input tax credit against taxable goods sold. The tendency for the taxpayer is likely to try to utilize some of the excess input tax credits illegally. The ultimate result is that fewer tax revenues are collected than would otherwise be the case.

The second observation from the data is the rising trend in the share of exempt sales by sector. The weighted average of exempt sales reported by sector has increased from 44.7 percent in 2000 to 52.2 percent by the first half of 2003.[31] Now, Table 4-4 suggests that in 2005 the weighted average of exempt sales was 57.9 percent. Even if the petroleum firms were removed from the sample, the weighted average of exempt sales has increased from 30.8 percent in 2000 to 39.4 percent in the first half of 2003, and to 45.1 percent in 2005.

The magnitude of exemptions and potential revenue that could be collection from these firms is very significant. As we see in Table 4-4, the total value of exempt sales in the sample is RD$ 302,172 million. Suppose we exclude the exempt sales of firms that belong to the following sectors: agriculture, air-transport, banks, and financial services, casinos, electricity generation & distribution, insurance, medicine and pharmaceuticals, office equipment, oil products, public offices and government agencies. Then, the remaining value of declared exempt sales stands at RD$ 110,878 million, and its ITBIS potential at a rate of 16 percent is therefore equal to RD$ 17,741 million. If we assume an overall compliancy rate for all sectors of 0.7 then the revenue potential that could be tapped is about RD$ 12,418 million, worth 1.40 percent of GDP in 2005. Moreover, if the ITBIS paid on business inputs associated with the exempt sales in the other sectors were denied for input tax credits, the revenue potential would be even larger.

[31] Guiliani, H.C., Jenkins, G.P. and Kuo, C.Y., “Fiscal Adjustment for Sustainable Growth in the Dominican Republic”, paper prepared for the Government of the Dominican Republic, March 24, 2004. In the analysis of 2000-03 period, a sample of 680 largest companies was used.

Note that this resulting gain is only for the sample of the largest 555 companies, whose exempt sales represent 65.3 percent of all ITBIS taxpayers in the country. These companies are all operating outside of the free trade zones. If the distribution of exempt sales among potentially taxable sectors and the previously excluded sectors in the whole country is the same as that in the sample, 36.7 percent of the total exempt sales in the country would be in sectors that should be taxed (RD$ 110,878 million divided by RD$ 302,172 million). Then, the value of potentially taxable but currently exempt sales in the whole country must be RD$ 169,767 million (36.7 percent of RD$ 462,659 million, as shown in Table 4-4). At a rate of 16 percent, the additional ITBIS liability would be RD$ 27,163 million, which at a compliance rate of 0.7 gives us an estimate of RD$ 19,014 million. This represents a potential gain in the net ITBIS collection for the whole country if all current exemptions in alcohol & wine products, automotive, beer & malt products, ceramics & glass, chemicals & plastics, communication, construction materials, construction services, cosmetics, detergents products, food processing, manufacturing, metal products, office equipment, publishing, services, soft drinks, textile, tobacco products, tourism & restaurants, trade, transport, and wood products are all effectively removed.[32] This potential would amount to 2.15 percent of GDP in 2005.

Alternatively, one can look at the ITBIS potential through a macro-approach. Chile, which levies one of the most comprehensive VAT in the world, collected 8.29 percent of GDP at its 19-percent rate of VAT in 2005. If Chile's 19 percent tax rate were adjusted to 16 percent, the revenue would still have been 6.98 percent of GDP, which is about 2.3 percent more than the 4.68 percent of GDP that collected by the Dominican Republic in 2005. Using either of the two approaches leaves us with an impression that there is a significant potential for additional revenue collection in the exempt sales declared by the companies. This potential must have been worth about 2 percent of GDP in 2005.

4.5 Proposed ITBIS Measures

List of Exemptions

For revenue, economic efficiency, and administrative reasons, the Dominican Republic should limit its list of the exempt goods and services. However, bringing gasoline and other oil products into the ITBIS system may be difficult. The government can collect even more revenue by exempting these items from the ITBIS and keeping them subject to excise taxes. We assume that the ITBIS exempt list only includes:[33]

- live animals;
- basic groceries including fresh meat, fresh fish, milk, potatoes, rice, corn, bread, grains, wheat, corn, flours, beans, fruits (except grapes and apples), nuts, vegetables;

---

[32] But the current exempt sales of agriculture, air-transport, banks and financial services, casinos, electricity generation & distribution, insurance, medicine and pharmaceuticals, office equipment, oil products, public offices and government agencies are not reduced.

[33] There should not be any exemption allowed for imports made by government departments or other public institutions. This would remove the bias in favor of imported items and also help to avoid any abuse of the system. See Hector Guiliani Cury, Glenn P. Jenkins and Chun-Yan Kuo, "Fiscal Adjustment for Sustainable Growth in the Dominican Republic", paper prepared for the Government of the Dominican Republic, (March 2004).

- plants for sowing;[34]
- gasoline, liquefied and natural gas and diesel oil;
- a list of essential drugs prescribed by medical doctors;
- electricity;[35]
- deposit-taking and other financial services for technical reason that virtually no country in the world has taxed this sector;[36] and
- some social services for non-commercial purpose such as education, and health services because of the difficulty in measuring the price of output. The exceptions are services provided by private schools and private clinics for the purpose of profit making.

As a result, the following products and services should all become taxable:

- cereals (except rice, corn, bread, grains, wheat);
- apples;
- honey;
- eggs;
- processed meat, processed fish, butter, sausage, salamis, sausage meats;
- all kinds of noodles;
- all kind of cheese;
- bottled water;
- cooking oil;
- baby feed;
- coffee, tea, sugar, cocoa, chocolate;
- ketchup;
- vinegar;
- fungicides, herbicides, insecticides, all fertilizers;
- all books other than textbooks;
- non-prescribed medicine for human and animal use;[37]
- writing notepads, pens and pencils;
- works of art by national artists;
- water supply;
- rental services;
- personal care services (e.g. hairdressing, beauty salons, etc.);
- private healthcare services;
- imports by public sector institutions;
- final imports made with exemptions in matters of import duties for institutions of the public sector;

---

[34] Including harmonization codes 06.01 and 06.02.

[35] This sector is being subsidized.

[36] Taxing insurance services, especially life insurance, is theoretically problematic under a value added tax. In all simulations under the ITBIS, we keep it taxable but will calculate the incremental revenue implications if an excise tax, rather than the ITBIS, on insurance premiums were imposed.

[37] In other countries, a list of essential medicine items and drugs is typically developed.

- equipment, machines and materials imported by agricultural, industrial, mineral exploitation or public service enterprises that are totally or partially exempt from import duties by means of contracts approved by the National Congress.

Procurement of goods and services by the Government and its agencies should be budgeted to include ITBIS on all purchases. This is a common practice by most countries, and it helps the fiscal discipline a lot.

Moreover, some customs resolutions provide for an exemption of imported goods under certain circumstances. In fact, whether a good is tax exempt or not under the ITBIS should not be tied to its exemption from import duty. We assume this reform will eliminate this form of exemption provision.

Input Tax Credits

At present, exempt sales are administered in the same way as zero-rated under the ITBIS in the Dominican Republic. However, input tax credits will be allowed only to the extent such inputs were acquired for use in a taxable (including zero-rated) activity. In other words, ITBIS paid on inputs will be denied for credit or refund when they are used in the production of exempt sales of goods and services. This is the practice followed by all VAT jurisdictions.

Article 350 of "Title III on the Tax on the Transfer of Industrialized Goods and Services" in the Tax Code of the Dominican Republic should be amended so that the exempted goods and services are not eligible for ITBIS input refund. We recommend that the only instance when goods or services are zero-rated be for export purposes. Hotel services and accommodation should not be classified as exporters for the purposes of ITBIS taxation.[38]

Threshold for Small Businesses

Table 4-5 presents a summary of all ITBIS registrants with an annual turnover of less than RD 2 million in 2005.[39] This threshold was previously in place, before the ITBIS regulation was amended in 2004 and 2005. There were 15,128 registrants that fell below the RD$ 2 million threshold, which is equivalent to about 17.2 percent of all ITBIS filers. Some 2,660 of these had zero sales. In terms of contribution to the overall ITBIS collection, the net ITBIS paid by all 15,128 registrants was only RD$ 446 million, or 1.77 percent of the total ITBIS collection from the domestic companies in 2005. It is doubtful that the RD$ 446 million of additional tax revenues from this group of taxpayers is enough to justify the incremental economic resource costs of processing and auditing by the DGII towards these 15,128 small business registrants.

As compared to the largest 555 companies, the smallest business establishments tend to have a lower proportion of exempt sales. This is explained by the fact that it is easier for small

[38] For discussion of proposed ITBIS and excise treatment of hotel services and accommodation, see Section 5.6.

[39] The data on all tax-registrants were acquired from the month of June 2005 and then extrapolated to an abbual equivalent.

businesses to avoid issuing receipts for cash sales and some sales are never declared. However, the sales that are declared tend to the ones that are taxable.

Table 4-5: Actual ITBIS Collection and Exempt Sales from Establishments with Annual Turnover below RD$ 2 million, 2005 (RD$ million per month)

Annual Turnover 2005 (RD$/year)	No.	Monthly Gross Sales	Monthly Exempted Sales	Monthly Taxable Sales	Share of Exempt Sales	Monthly ITBIS Liability	ITBIS Paid on Local Inputs	ITBIS Paid on Services	ITBIS Paid on Imported Inputs	Monthly ITBIS Paid w/ Penalties	Effective ITBIS Rate
0	2,660	0	0	0	0.0%	0	0	0	0	0	0.0%
0-100,000	1,424	6	0	6	4.0%	1	1	0	2	1	14.0%
100,000-200,000	1,298	16	2	15	9.9%	2	1	0	0	2	9.7%
200,000-300,000	1,185	25	4	21	14.5%	3	2	0	0	2	7.0%
300,000-400,000	1,199	34	5	29	15.4%	5	2	0	0	2	6.8%
400,000-500,000	878	33	4	29	13.2%	5	3	0	0	2	6.2%
500,000-600,000	746	34	4	30	13.1%	5	3	0	0	2	5.8%
600,000-700,000	630	34	5	29	14.1%	5	3	0	0	2	5.8%
700,000-800,000	679	42	7	35	16.3%	6	3	0	0	2	5.2%
800,000-900,000	547	39	5	33	14.0%	5	3	0	0	2	4.8%
900,000-1,000,000	526	42	7	35	17.8%	6	3	0	0	2	4.9%
1,000,000-1,100,000	485	42	6	36	15.0%	6	3	0	0	2	4.8%
1,100,000-1,200,000	412	39	7	32	18.6%	5	3	0	0	2	4.9%
1,200,000-1,300,000	434	45	8	37	16.9%	6	3	0	1	2	4.8%
1,300,000-1,400,000	367	41	8	33	18.8%	5	5	0	0	2	4.7%
1,400,000-1,500,000	312	38	8	30	20.1%	5	3	0	0	2	4.6%
1,500,000-1,600,000	305	39	9	31	23.2%	5	3	0	0	2	4.3%
1,600,000-1,700,000	280	38	8	31	20.7%	5	3	0	0	2	4.4%
1,700,000-1,800,000	262	38	6	32	16.7%	5	3	0	0	2	4.6%
1,800,000-1,900,000	244	38	7	30	19.0%	5	3	0	1	2	4.7%
1,900,000-2,000,000	255	41	7	34	18.0%	5	3	0	0	2	4.6%
Total (Monthly)	**15,128**	**706**	**119**	**586**	**16.8%**	**94**	**55**	**3**	**7**	**37**	**5.3%**
Total (Annual)		**8,469**	**1,424**	**7,033**		**1,125**	**660**	**37**	**86**	**446**	
Total, country	**88,000**	**827,447**	**462,659**	**364,788**		**58,366**	**18,957**		**14,513**	**25,215**	
Ratio: Sample/Country	**17.2%**	**1.02%**	**0.31%**	**1.93%**		**1.93%**	**3.68%**		**0.59%**	**1.77%**	

Source: DGII, October 2006.

We recommend setting up a threshold for small business so that below a certain level of gross sales, the company will be outside of the system and does not have to face additional compliance burden of the ITBIS to the DGII. This is a standard feature in most countries to recognize that small businesses may have limited administrative resources at their disposal. It would also avoid excessive claims on business inputs used by small businesses. There are thousands of small businesses and proper auditing of the expense invoices, especially for those selling a combination of taxable and exempt goods, submitted by them is not practically possible even for a mature tax administration in a developed country. For example, in Canada the threshold for the Goods and Services Tax was set at Canadian $ 30,000 of annual gross sales when the tax was introduced in 1991. In 2007, when the DGII starts issuing cash refunds to pay for excess ITBIS on inputs, the current system can be easily exploited.

We suggest introducing a threshold that effectively excludes very small businesses. The ITBIS system in the Dominican Republic a few years ago used to have the threshold of RD$ 2 million of gross annual sales, or approximately US$62,500. This figure might seem to be a bit on the high side for a developing country and, perhaps, a threshold of RD$ 1 million would be appropriate, which is equivalent to about US$ 31,250.[40] Table 4-6 shows the cumulative summary statistics for all tax registrants with an annual turnover less than RD$ 1 million. The number of establishments that has turnover of less than this threshold was 11,772, or 13.4 percent of all tax filers in the country in 2005. Their combined annual sales represent only RD$ 3,661 million, or 0.44 percent of all sales declared to the DGII in 2005. The net ITBIS collected from such businesses was about RD$ 223 million, or 0.88 percent of the total ITBIS collection. With such a small amount of taxes collected from over 11 thousand taxpayers, it is very clear that it is not cost effective to try to include these establishments in the tax net. The threshold for the turnover of RD$ 1 million or RD$2 million should be regularly adjusted for the rate of inflation in the country, preferably on the annual basis.

Table 4-6: Actual ITBIS Collection and Exempt Sales from Establishments with Annual Turnover below RD$ 1 million, 2005 (RD$ million per month)

	No.	Monthly Gross Sales	Monthly Exempted Sales	Monthly Taxable Sales	Share of Exempt Sales	Monthly ITBIS Liability	ITBIS Paid on Local Inputs	ITBIS Paid on Services	ITBIS Paid on Imported Inputs	Monthly ITBIS Paid w/ Penalties	Effective ITBIS Rate
Total (Monthly)	11,772	305	44	261	**14.4%**	42	24	1	4	19	**6.1%**
Total (Annual)		**3,661**	**529**	**3,131**		**501**	**283**	**18**	**43**	**223**	
Total, country	**88,000**	**827,447**	**462,659**	**364,788**		**58,366**	**18,957**		**14,513**	**25,215**	
Ratio: Sample/Country	**13.4%**	**0.44%**	**0.11%**	**0.86%**		**0.86%**	**1.59%**		**0.30%**	**0.88%**	

Source: Table 4-5.

With a threshold of RD$ 1 million, there will be a loss of ITBIS revenue of a maximum of 1 percent of the current collections, which is about RD$ 223 million or 0.025 percent of GDP in 2005. At the same time, businesses under the small traders' threshold should not be able to claim any ITBIS credits on inputs. Under the new rule, businesses with gross annual sales below RD$ 1 million should have an option of using either to opt out the system or to comply with the general ITBIS rules, which require compliance with the ITBIS – collecting the tax on output and keeping a verifiable account of expenses that can be used to prove the amount of ITBIS paid on business inputs. In many countries, a large number of small business owners prefer to be outside of the system, thereby minimizing the interaction with the tax administration and reducing the compliance costs for the taxpayers. For the DGII, this measure will significantly reduce its administrative burden for small businesses and, instead, it will

[40] Assuming the prevailing in November 2006 exchange rate of approximately 32 RD$/US$.

allow diverting the scarce resources to improving the collection from medium and large businesses.

While the economics more than justifies using a threshold to significantly reduce the administration and compliance costs imposed by the ITBIS system, one can see how uninformed political perceptions may lead to another conclusion. It may appear that close 13 to 17 percent of all taxpayers are avoiding the payment of taxes, if such a threshold is provided. Usually the assumption is that these potential taxpayers are responsible for a significant amount of revenue. However, this is not the case in the Dominican Republic. To deal with this political problem, often the small taxpayers are given the option of making a token payment, perhaps once a year that will give them a tax exempt certificate for the year. We are not recommending the introduction of such a small business tax but appreciate the political forces that call for such a scheme.

Insurance Sector

Under the reform of 2000, the excise taxes on international air transportation services, insurance premiums, and hotel accommodation were discontinued. Since 2000, the international air transportation services and insurance premiums, with the exception of life & health insurance, became subject to ITBIS at the full 16 percent rate.

The correct taxation of insurance under either the income tax or the value added tax system is one of the most difficult design problems in the field of taxation. Because it is so difficult to design a tax system that provides neutral treatment to this sector as compared to other competing parts of the financial sector, tax policies in practice have tended to focus on finding compromises that in themselves do not create unacceptable distortions.

The business activities of companies that sell life insurance can be divided into two broad classes; term life insurance and endowment or whole life insurance policies. If an insurance company only sold term insurance policies then the annual taxable income of the company can be calculated in a fairly straight forward manner. The annual premiums are set in order to cover the expected payouts of death benefits plus the operating costs and depreciation expenses for the period. Hence, the income tax can be applied to the net profits. There is little or no need for the corporation to set aside reserves to cover future risks because term life insurance is largely an annual contract with revenues and costs covering just one period.

It is much more difficult to arrive at an estimate of the taxable income of a year for a company selling endowment life insurance or whole life insurance policies. In this case part of the premium is used to cover the expenses the company for selling and administering the insurance policy, another part will cover the expected cost of the death benefit attributed to that particular year for the individual insured and yet another part is to build an investment fund that is expected to grow over time. As the policy is held for a longer period of time, the agent's selling costs are reduced and with the increasing cumulative value of the investment over time, the amount of pure risk insurance that one is purchasing will decline. The amount at risk is essentially the difference between the value of the cumulated investment and the value of the promised death benefit.

Under the income tax laws the life insurance company is able to set aside a reserve for the amount of cumulative investment anticipated in the design of the life insurance policy and no tax is paid on the interest cumulating within each of the life insurance policies over time. If one were to design a theoretically pure tax system, this amount of investment income should be attributed to the taxable income of the policyholder, but it is not. This is in contrast to other financial investments whose returns in most countries are taxable to the investor on either an annual or at least a periodic basis. This subsidy or tax expenditure in favor of life insurance policies that contain an investment component, hence enabling the companies to employ a larger sales force than otherwise, and to squeeze out investments in other financial institutions. The result is the creation of a large amount of economic inefficiency. Furthermore, given that more than half of endowment or whole life insurance policies sold in any country are cancelled shortly after the sales agent has received his commission from the initial premiums, the social cost of these losses to the public of such life insurance policies due to heavy sales pressure of the sales force should also be taken into consideration.

The easiest but partial solution to the problem of under taxation of investment type life insurance policies by the income tax is to put an excise tax on the premiums. This tax would be set as to be approximately equal to the present value of the taxes that are not collected on the income accruing to the incremental investment element in the life insurance contract that is created by that year's payment to the policy. This is not a very difficult calculation to make. From the literature on pensions we know following Peter Diamond(1995) that if annual income tax were levied on the return to the investments that would reduce the real rate of return by 1 percent each year, this would reduce the amount of pension payout by 10 percent. This would also be equivalent to a 10 percent rate of excise tax on the component of the annual premium that is added to the investment fund. Hence, an excise tax on the whole premium of the life insurance policy would be approximately equivalent to a value added tax of slightly more than 10 percent on the value added of the companies (more than 10 percent because no input tax credit would be allowed) and an income tax on the investment income of the policy holders of the life insurance policies of 1 percentage point of the real rate of return. Another positive feature of such a tax is that it does not tax the inflationary return to the investment that is built into the nominal interest rates. This problem that is a serious feature of most income tax systems that attempt to tax the income from financial investments.

A theoretical solution to ITBIS taxation of the life insurance companies will be to calculate the value added tax base for an insurance company by the addition method and levy the ITBIS on this base. This measure should exclude the portion of premiums that is saved to fund the future payouts. A complex and costly system of accounting would be needed to provide a verifiable record of what is the value added of the life insurance business, in a company selling many types of insurance. A practical solution is to impose an excise tax on the life & health insurance and exempt it from ITBIS. At the same time, the insurance companies should not be allowed to claim a credit or cash refund of ITBIS paid on inputs.

Another set of taxation issues arise with the application of the ITBIS across most types of insurance policies of the fire and casualty types. The basic problem is that for each insurance premium paid, part of the premium is used to cover the administration costs of the insurance companies (value added plus purchased inputs) but the largest part of the premium will go to cover the losses that other people suffer due to fires, accidents etc. This does not represent value added, but is simply a transfer that people agree to pay each other in the event of a contingent claim hence should not be subject to the VAT. Hence, subjecting the full premium to the full rate of VAT will over tax the value added of the firms producing these services, when the sales are made to final consumers. When it is businesses that purchase these insurance policies and are taxed by the full rate of the ITBIS, then we will have the correct result if we take all country as a whole, as long as the insurance companies get an ITBIS credit when they pays out the claims to their claimants. In this case only the value added of the insurance sector will be taxed, taking the country as whole, if the individual businesses who purchase the insurance can claim the tax as an input tax credit. However, for insurance purchases by businesses that are exempt, or purchases of insurance by final consumers, or if the insurance companies do not get an ITBIS credit when they pay out the claim, then full taxation by the ITBIS will result in a substantial over taxation of the value added of the insurance industry.

The current legislation taxes such fire and casualty insurance services at a full ITBIS rate of 16 percent on the premiums. Since most insurance companies offer both life & health and property & casualty insurance, in order to avoid complexity of record keeping, it would be advisable to have a uniform way of taxing all insurance services. A practical solution to this problem is to levy a uniform excise tax of 10 percent, or perhaps even slightly less, on the amount of the premiums paid. At the same time, no ITBIS credits can be claimed on the business inputs of the insurance companies. This is simple in terms of tax administration and compliance by the insurance companies, and it will provide a fairer, but not perfect, systems of taxation policy of this sector.

<u>Transportation, Telecommunications and Other Services</u>

In the case of airline tickets, the main problem of taxing them under the ITBIS is the control of the tax credits that are generated. It is almost impossible to separate business trips from trips taken for pleasure. The Dominican Republic is an island country and businesses are likely to use business funds to finance their personal trips (and often their families). Under the ITBIS, the taxable companies will get a credit on such air-ticket expenses. Hence, to reduce the leakage of revenue and remove this incentive for evasion, we propose to impose a 10 percent excise tax on the sale of airline tickets, while exempting them from the ITBIS.

The passenger, cargo, courier, and other transport services are currently exempt from ITBIS, while in most other countries these services are taxed. We propose to impose ITBIS on all such services in the country. The authorities may exempt the public sector passenger transportation from the ITBIS, but all other cargo and transport services provided by public and private companies should charge ITBIS as any other business does. The transport companies must be able to claim the ITBIS credits on the business inputs.

Telephone bills now are taxed by two taxes: 10 percent is an excise tax payable to the DGII and 2 percent payable to the telecommunication regulatory body. For phone bills, ITBIS is already applied but other telecommunication services seem to use a loophole in the system in order to avoid charging ITBIS on their services. The real cost of provision of telephone services has fallen significantly in recent years. In particular, the cellular telephone usage has become widespread. These innovations have resulted in very significant benefits to consumers. At the same time, an examination of Table 4-4 reveals that 39 percent of the total sales of telecommunication companies are declared as ITBIS-exempt. It is difficult to imagine that the telephone calls made by tax exempt firms operating in the FTZs would account for this large a proportion of the entire number of telephone calls made in all the country. Therefore, we urge the authorities to make sure that ITBIS is administered on all the telephone services, internet and other telecommunication services outside of the FTZs. The telecommunication companies already claim credits on the ITBIS paid on inputs and they should be able to continue receiving such refunds/credits.

There are a number of other services that are currently exempt from the ITBIS and these include rental services; personal care services (e.g. hairdressing, beauty salons, etc.); private healthcare services; construction; and others. All these should be included in the base of ITBIS, if they have taxable turnover above the threshold, as there is no reason to have them exempted while all other consumer goods and services are taxed.

Revenue Impact

The expansion of the ITBIS base is an inevitable path for the Dominican Republic if any significant tax revenue gain is to be generated in an economically efficient manner. Some of the existing exemptions will remain in the system. In addition, the compliance of the taxpayers is definitely less than perfect. The following set of assumptions was used in the simulation.

As we noticed in Table 4-1 that the tax reform of 2005 had a positive impact on the ITBIS collections, because the exempt sales as a share of total sales was reduced as the tax base was expanded. In 2005, the share of exempt sales of all ITBIS registrants in the country was 55.9 percent of the total sales. For the first nine months of 2006, this share was somewhat lower, 53.4 percent of the total sales, which was the result of the elimination of some of the ITBIS exemptions. For the purpose of analysis, we assume that the share of exempt sales for each individual firm is reduced by 5 percent in order to reflect the change in the tax base from 2005 to 2006. Under the proposed tax base expansion, some sectors will retain the same amount of exempted sales as at present. These sectors are agriculture, banks and financial services, casinos, public offices, government agencies, electricity generation & distribution, and oil products. We assume that insurance becomes ITBIS-exempt, and an excise tax of 10 percent on gross sales is imposed instead. We also assume that air-tickets are excluded from ITBIS and a 10 percent excise tax is levied. The following sectors, in theory, should have a limited amount of exempt sales: alcohol and wine products, automotive, beer and malt products, ceramics and glass, communication, construction materials, construction services, detergents products, metal products, office equipment, soft drinks, textile, tobacco products, tourism and restaurants, and wood products. In fact, automotive, beer and malt products, textile, tobacco products, and wood products already have a low level of exemption, and we assume that exemptions will not increase. We assume that the exempt content of the following industries will be 10 percent of the gross sales: ceramics and glass, construction materials, chemicals and plastics, detergents products, cosmetics, manufacturing, metal products, office equipment, publishing, tourism and restaurants, and soft drinks. The following sectors will retain about 20 percent exemption in the gross sales: alcohol and wine products, communication, construction services, services, and trade. Food processing, medicine and pharmaceuticals, and transportation sectors will retain an exemption level of 40 percent, 60 percent, and 40 percent, respectively.

We have used as our data base a sample of the largest 555 companies to simulate the revenue implications of the proposed measures. The results of simulation are shown in Table 4-7 by sector. The resulting net revenue gain is RD$ 6,948 million just for the sample of 555 firms. When extrapolated to the whole ITBIS taxpayer community the net revenue gain is projected to be equivalent of RD$ 13,552 million[41] This is worth 1.53 percent of GDP. In addition, the amount of credits that can be used against the corporate income tax liability will be reduced.

This simulated amount of additional gain in revenue is based on the implicit assumption that the small business also keep contributing to the ITBIS collections. As we said earlier, these small establishments account for about 1 percent of the net ITBIS paid. Then we should reduce the estimated revenue gain of RD$ 13,552 million by 1 percent, which gives us RD$ 13,416 million. In addition, we should also apply a compliance factor since not all businesses will be happy to pay a 16-percent tax on currently exempt sales. If we assume a compliance factor of 0.7, then the resulting revenue gain is equal to RD$ 9,391 million, which is equivalent of 1.06 percent of GDP in 2005.

In our previous study on ITBIS base expansion, when 2002 data were used, we found that the elimination of the exemptions in these sectors that should be subject to ITBIS would increase the collections by 0.57 percent of GDP in 2002.[42]

[41] The net ITBIS collection from all taxpayers, reported in Table 4-1, was RD$ 25,215 million in 2005. The net ITBIS collection from 555 largest firms, reported in Table 4-4, RD$ 12,928 million, or 51.3 percent of the country total. The addition gain of RD$ 6,948 million is a 53.7 percent change for the sample. When this change is applied on the total country collection (53.7% * RD$ 25,215 million), the resulting gain is RD$ 13,552 million.

[42] Guiliani, H.C., Jenkins, G.P. and Kuo, C.Y., "Fiscal Adjustment for Sustainable Growth in the Dominican Republic", paper prepared for the Government of the Dominican Republic, March 24, 2004. A careful examination of the situation in 2002 and 2005 reveals the following facts. First, if the rate of ITBIS in 2002 were raised from 12 to 16 percent, the resulting revenue gain would be 1.13 percent of GDP in 2002. Secondly, there used to be a threshold for small businesses. Third, the share of exempt sales, despite all recent reforms, has been increasing. The weighted average of exempt sales reported by sector has increased from 44.7 percent in 2000 to 52.2 percent by the first half of 2003. As Table 4-4 suggests the weighted average of exempt sales was 57.9 percent in 2005. Our simulation model reflects the fact that due to the base-expansion measures undertaken at the end of 2005, the current situation in 2006 is such that the share of exempt sales is 5 percent less than these in the previous year.

Table 4-7: Potential Revenues from Proposed ITBIS Measures, 2005 (RD$ million)

Sector	Share of Exempt Sales	Proposed Share of Exempt Sales	Additional ITBIS Paid
Agriculture	94.6%	95%	0
Air-Transport	5.5%	6%	0
Alcohol and Wine Products	19.6%	20%	0
Automotive	3.5%	4%	0
Banks and Financial Services	86.7%	100%	0
Beer and Malt Products	5.2%	5%	0
Casinos	100.0%	100%	0
Ceramics and Glass	15.7%	10%	9
Chemicals and Plastics	50.1%	10%	733
Communication	37.9%	20%	1,067
Construction Materials	16.3%	10%	144
Construction Services	74.4%	20%	551
Cosmetics	18.8%	10%	32
Detergents Products	44.6%	10%	335
Electricity Generation & Distr.	96.4%	100%	0
Food Processing	74.5%	40%	1,448
Insurance	17.1%	100%	0
Manufacturing	24.1%	10%	57
Medicine and Pharmaceuticals	79.4%	60%	187
Metal Products	25.0%	10%	116
Office Equipment	40.8%	10%	20
Oil Products	98.9%	100%	0
Public Offices, Gov. Agencies	100.0%	100%	0
Publishing	20.3%	10%	42
Services	34.1%	20%	8
Soft Drinks	9.8%	10%	0
Textile	0.8%	0%	0
Tobacco Products	5.1%	5%	0
Tourism and Restaurants	22.1%	10%	314
Trade	41.3%	20%	1,649
Transport	67.4%	40%	237
Wood Products	3.4%	4%	0
Total, 555 firms			**6,948**
% Change, 555 firms			**53.7%**
Change, country			**13,552**

Source: Own estimates. DGII, October 2006.

By all accounts, there is a strong indication that a significant revenue potential is hidden behind the exempt sales. The discussion in Section 4.4 reveals that the maximum potential might be as high as 2 percent of GDP. In our simulation model discussed in this section, we find a lower figure. The practical question is what would be the actual extent of the proposed measures to reduce the number of ITBIS exemptions by changing in the legislation alone. Furthermore, the question remains of how the reformed tax authority will be able to administer the expanded base and effectively deny the input tax credits associated with exempt sales.

For the insurance sector, the sample of the 555 largest firms in the country suggests that there were 29 large insurance companies in 2005. Their combined total sales were RD$ 14,585 million. The declared exempt sales were worth RD$ 2,493 million, and taxable sales amounted to RD$ 12,092 million. At present, life & health insurance is ITBIS-exempt and all other insurance services are subject to the tax. The gross ITBIS liability on taxable sales was RD$ 1,935 million, and credits claimed on business inputs were worth RD$ 376 million, and there were tax credits from previous periods of about RD$ 855 million. As a result, only a net amount of RD$ 704 million was actually paid by the insurance companies. If we assume that all insurance services become subject to an excise tax of 10 percent and ITBIS is not charged by the insurers, and is not claimed on their business inputs, the following picture emerges. There is an upfront loss of ITBIS revenue of RD$ 1,935 million, which will be offset by the excise tax collection of RD$ 1,458 million (10 percent of gross sales) and savings of credits on inputs of RD$ 376 million. The net impact is a loss of RD$ 100 million, or 0.011 percent of GDP in 2005.

For the air-tickets, we have data that there were 19 airline companies, most of them international, operating in the Dominican Republic in 2005. Their combined total sales were RD$ 6,276 million. The declared exempt sales were worth RD$ 345 million, and taxable sales amounted to RD$ 5,931 million. A quick crosscheck with the DGII reveals that the taxable sales were the purchases of air-tickets by passengers, and it generated a gross amount of ITBIS inflow of RD$ 949 million. The amount of ITBIS claimed on business inputs was RD$ 83 million, and there were tax credits from previous periods of about RD$ 188 million. As a result, only a net amount of RD$ 678 million was actually paid by the airlines. In regard to passengers, we do not possess data of how much ITBIS paid by passengers ended up as a credit against companies' ITBIS liability.

For the purpose of analysis, we can assume a loss of ITBIS inflow of RD$ 949 million if air-tickets become ITBIS-exempt, and a gain of RD$ 593 million in excise tax, and an un-estimated gain in terms of savings of ITBIS credits from passengers who cannot claim a credit on their air-tickets anymore. In addition, the ITBIS currently claimed on inputs (RD$ 83 million) is not credible anymore. The net impact of those three items is a net loss of RD$ 273 million, or 0.031 percent of GDP in 2005. However, this greatly understates the potential net increase in revenues. Many of the tickets bought under the current system are taken as an input tax credit by businesses. These include tickets purchased for actual business activities as well as for pleasure trips by the family members and owners of the business. When this is taken into consideration the net revenue impact is likely to be a significant positive number.

Because the broadening of the base of ITBIS will also include commodities imported from other countries, there will be an additional gain of ITBIS revenues collected by Customs. If we only include a gain from non-resolution non-excisable goods, the incremental revenue from the base broadening would amount to RD$ 558 million, or 0.063 percent of GDP in 2005.[43] In 2005, there were about six thousand different commodities on the import list of the Dominican

[43] All excisable goods are already subject to ITBIS. The magnitude of potential gain in ITBIS from imports under resolutions is questionable, as we do not know precisely how much is actually collect now.

Republic, and 184 commodity lines were exempt from ITBIS, according to the current 2006 ITBIS regulations. If the exemptions are reduced as proposed, there will be only 62 commodities exempt. The estimated revenue gain from the ITBIS base broadening measures stems from the items that would become subject to ITBIS under the proposed system.

4.5 ITBIS Progressivity[44]

It is the traditional view that the value added tax is a regressive tax. It was thought that because the poorer households spend a greater proportion of their income on consumption and consequently they must bear a proportionally greater tax burden as compared to higher income households. To improve the economic efficiency as well as to raise additional revenue for the programs, the government needs to broaden the base of the ITBIS. However, the question is how regressive would be such a broad-based tax. We empirically examine whether the current tax system is regressive and whether broadening the tax base would make it even more regressive.

Current ITBIS System

As was mentioned in Section 4.1, the ITBIS was amended several times over the past six years and it has become tighter albeit a wide range of goods and services remain exempted. The 1998 Household Expenditure and Income Survey, conducted by the Central Bank, contains quite a representative range of goods and services purchased by households in 1998.[45] It was a stratified nationwide sample extracted from 10 districts and included 4,774 households, extracted from the total population of 1,919,064 households. In the survey, households were asked for their annual expenditures on goods and services by commodity as well as by establishment beginning in October 1997 for the period of one year. The commodity breakdown was very detailed consisting of as many as 2,042 items. Based on the nature of goods and services consumed, the amount spent on some items were captured daily in the survey questionnaire while others were recorded on a monthly, quarterly, or even annual basis. The establishment where households purchased their goods or services was also detailed including public institutions, supermarket, companies such as telephone companies, insurance companies, insurance, airlines, and banking, stores that issue invoices, stores that do not issue invoices, neighborhood stores, street, street markets, and so on. With this information, one can determine fairly accurately if the ITBIS levied on goods or services purchased were actually paid if purchased in a particular type of establishment.

We implicitly assume that the patterns of the household expenditures in the Dominican Republic are not altered since 1998. We further assume that the proportion of trade and transportation margins in the retail price by commodity is also not changed. Employing these assumptions, the model is simulated to assess the effective tax rates of the ITBIS by quintile

[44] The framework of analysis and the simulation model are based on study by: Glenn P. Jenkins and Chun-Yan Kuo, "Is the VAT Regressive in the Dominican Republic?", paper prepared for the Government of the Dominican Republic, July 2004.

[45] "National Household Survey of Expenditures and Incomes: October 1997 to September 1998", Department of National Accounts and Economic Statistics, Dominican Republic, July 1999.

and by area. For the purpose of this presentation, the 2,000 expenditure items covered by the survey are grouped into the following 10 commodity categories. The final results of the tax incidence are presented in Table 4-8. The overall effective tax rate in 2006, under the statutory rate of 16 percent, is estimated at 4.79 percent for the nation as a whole. The reported effective rate for year 1998, with the statutory rate of 8 percent, was 2.52 percent.[46] Looking closely at the issue of regressivity, after the reduction of exemptions, the current system is still progressive as compared to the 2004 tax system. This is because more services are now taxed and they are consumed more by richer households.

Table 4-8: Effective Tax Rate by Commodity Group and Expenditure Quintile, 2006

Expenditure Items	1	2	3	4	5	Average
Food	1.49%	1.38%	1.47%	1.77%	2.48%	1.87%
Clothing	9.04%	10.37%	10.24%	10.31%	10.35%	10.28%
Housing, Utilities	0.68%	0.53%	0.88%	0.55%	0.31%	0.46%
Furniture, Textile Items, House Equip., Maintenance	9.48%	10.19%	10.71%	11.28%	11.45%	11.20%
Health	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Transportation	0.43%	0.77%	1.73%	2.08%	5.46%	4.04%
Entertainment	8.35%	9.84%	10.66%	11.16%	10.74%	10.72%
Education	0.87%	0.60%	0.50%	0.29%	0.11%	0.20%
Hotels, Bars and Restaurants	13.77%	13.78%	13.78%	13.78%	13.78%	13.78%
Diverse Goods and Services	8.46%	8.34%	8.25%	9.66%	9.95%	9.60%
Total	**2.81%**	**3.35%**	**3.97%**	**4.71%**	**5.49%**	**4.79%**

Source: Own estimates.

<u>Proposed ITBIS System</u>

Considering the above base broadening package at the statutory tax rate of 16 percent, the model is simulated to assess the effective tax rates of the ITBIS by consumption item, by quintile and by area. The final results of the tax incidence are presented in Table 4-9. The overall effective tax rate for the country as a whole would be 7.50 percent, which is almost three percentage points or about 57 percent higher than that under the current tax system (4.79 percent). Regarding the issue of progressivity, the package taken as a whole is incrementally progressive over all quintiles of expenditure. The overall degree of progressivity of the ITBIS is reduced somewhat. Nevertheless, with this reform package the tax system is still very much progressive for the nation as a whole. The tax incidence would rise slightly from the first to the second quintile of households, but it would accelerate when moving from the next quintile to the highest quintiles of households.

Chart 4-1 shows the relative progressivity of the current and proposed tax system. The progressivity of the ITBIS in the Dominican Republic appears undisputable. The degree of progressivity may differ among areas, but the nature of progressivity of the tax system is very

[46] Glenn P. Jenkins and Chun-Yan Kuo, "Is the VAT Regressive in the Dominican Republic?", paper prepared for the Government of the Dominican Republic, July 2004.

clear. If annual household income instead of household expenditure were used as the base for measurement, the degree of progressivity would be even stronger.

Table 4-9: Effective Tax Rate by Commodity Group and Expenditure Quintile, Proposed System

Expenditure Items	1	2	3	4	5	Average
Food	3.99%	3.85%	4.03%	4.25%	5.13%	4.42%
Clothing	9.04%	10.37%	10.24%	10.31%	10.35%	10.28%
Housing, Utilities	2.15%	1.71%	1.96%	1.90%	1.96%	1.94%
Furniture, Textile Items, House Equip., Maintenance	9.48%	10.19%	10.71%	11.28%	11.45%	11.20%
Health	8.40%	8.43%	8.40%	8.81%	10.23%	9.61%
Transportation	10.42%	9.55%	8.75%	7.18%	6.40%	7.11%
Entertainment	8.55%	10.02%	10.81%	11.43%	11.39%	11.19%
Education	10.39%	10.79%	10.95%	11.44%	12.59%	12.17%
Hotels, Bars and Restaurants	13.77%	13.78%	13.78%	13.78%	13.78%	13.78%
Diverse Goods and Services	11.71%	11.43%	11.45%	11.73%	11.60%	11.61%
Total	**6.13%**	**6.31%**	**6.79%**	**7.35%**	**8.10%**	**7.50%**

Source: Own estimates.

4.6 Potential ITBIS Collection by Expenditure Item

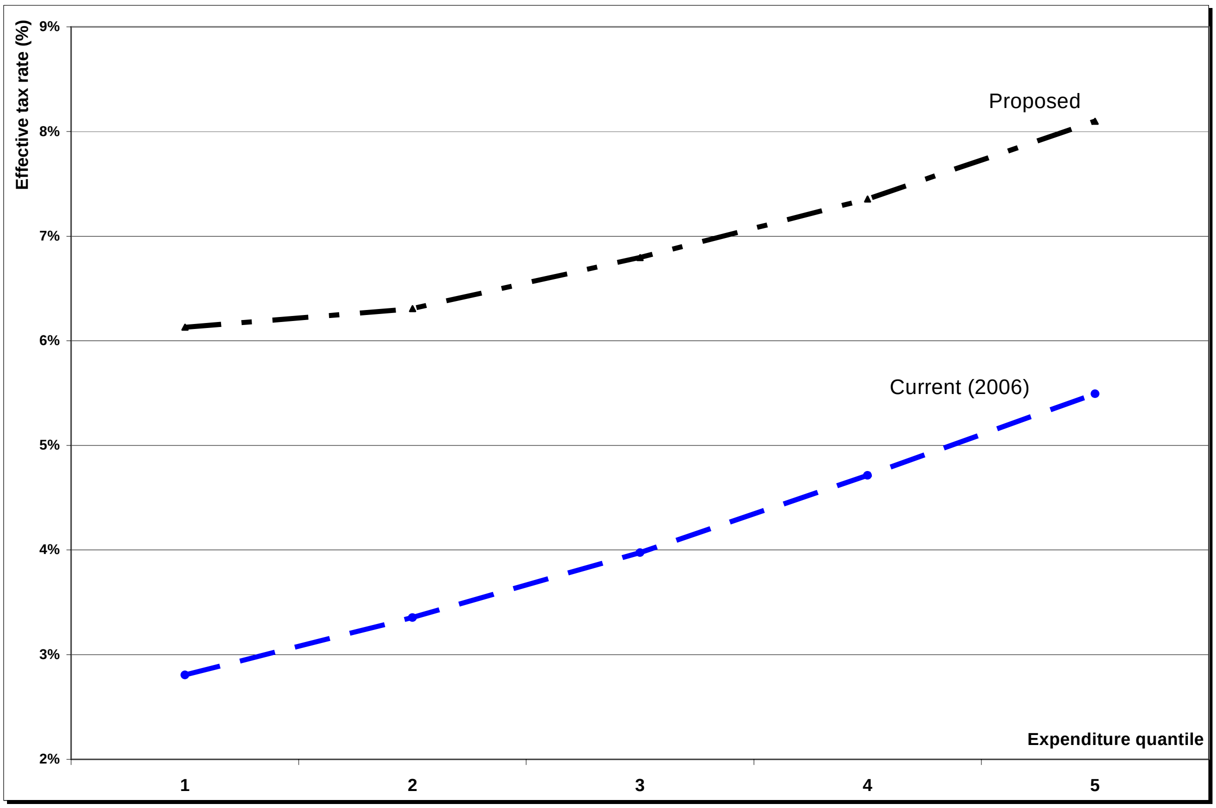
To achieve its social and economic objectives, the government can provide tax exemptions, deductions, credits, deferral, or subsidies. This tax relief represents an alternative form of government assistance similar to those of direct government expenditures and thus is referred to as tax expenditures. In the case of the ITBIS, an exemption of basic groceries may be a concern regarding the regressivity of the consumption tax. The estimates of the cost of such tax expenditures can be very helpful to policy makers in allowing them to compare the cost of using the tax system to achieve a policy objective, rather than employing a direct expenditure program, or to do nothing.[47]

One approach to estimating how much tax could be potentially collected if these ITBIS exemptions are abolished is to look at the private consumption in the country. The Central Bank reported that in 2005 the value of total consumption stood at RD$ 741,745 million, which is further divided into private consumption of RD$ 655,203 million and government consumption of RD$ 86,541 million. If we assume that the allocation of consumer spending across various goods and services is realistically represented by an expenditure survey, then the latest available survey could be put to use. The model that is used to estimate the progressivity of the ITBIS system, discussed in Section 4.6, generates effective ITBIS rates by an individual expenditure item. The weight of each individual expenditure item in the Expenditure Survey is applied on the total private consumption in the country in order to estimate the final consumer expenditure on that particular good or service. The expenditures reported in the survey and under the private consumption in the National Accounts are gross of sales taxes. Hence, the

[47] Also, see: Glenn P. Jenkins and Chun-Yan Kuo, "Tax Expenditures in the Dominican Republic", paper prepared for the Government of the Dominican Republic, July 2004.

effective rates can be used to estimate the amount of potential tax revenue under the current and proposed system. Annex F presents the list of expenditure items that have the largest tax potential, as compared to the current situation where these items are not taxed. Only the tax gains that have a potential of more than RD$ 10 million are shown by commodity, expressed in 2005 prices.

Chart 4-1: ITBIS Tax Progressivity under Current and Proposed System



Source: Own estimates.

For example, there have been a number of proposals from various groups to impose ITBIS on coffee, chocolate, and cooking oil. Using our model one can find the sugar items reported in the Expenditure Survey (codes 010103001, 010103002, 010103003, and 010103005) and sum the estimates of potential revenue, totaling RD$ 438 million. Different types of cooking oil have a combined ITBIS potential of RD$ 756 million. Coffee expenditures are worth RD$ 280 million in additional ITBIS revenue for the DGII. Note that many of these in Appendix F actually belong to the shortlist of goods and services that we propose to keep exempted from ITBIS (fuel, electricity, live animals, staple foods, etc.). Nevertheless, many consumer items could be taxed that have potential for revenue generation.

It should be noted that the framework presented in this section under-estimates the amount of potential ITBIS revenue. First, the Expenditure Survey does not cover all goods and services consumed by the households. Secondly, the government consumption is not included in this model due to lack of data on detailed government consumption. Third, the reported household expenditures may also include some items that are purchased for business purposes by households that operate family business. At the same time, the framework presents all expenditure items as being final consumer goods and services, while some of these are used as inputs in small businesses operated by households. To the degree such expenditure items are channeled to acquire business inputs; the framework actually over-estimates the amount of potential tax gain.

5. EXCISE TAXES

The selective taxes on consumption in the Dominican Republic are, in fact, the same as what are called excise taxes elsewhere in the world. They are levied on certain goods produced domestically as well as imported. These goods include alcoholic beverages, cigarettes and other tobacco products, petroleum, vehicles and their parts, jewelry, cosmetics, rugs, microwave ovens, air conditioners, and many other products. The domestically produced goods subject to excise taxes include only alcoholic beverages and tobacco products. While the Customs collects excises on a list of some 130 commodities, the domestic excises are mainly collected on alcohol and tobacco products. The amount of tax collected domestically on the rest of the excise list has been relatively small due to the insignificant volume of domestic production of such goods.

5.1 Alcohol and Tobacco

During the 1990s, the tax rates were different for domestically produced goods than for similar imported goods because of the trade protection policy towards domestic producers, and also because the tax bases for imported and domestic goods were quite different. The former was levied at the retail level while the latter was based on their duty-paid values. Because of the difficulty in enforcing the tax collections at the retail level, the tax base was moved to the manufacturing or wholesales level equivalent, at least in theory. Since the mid-90s, the tax rates were set at the same level whether produced locally or imported. Appendix G shows the evolution of excise rates for alcohol and tobacco products, and Appendix H for other excisable goods, except vehicles.

In the 90s, the excise rates for alcohol and tobacco produced in the Dominican Republic were lower than for imported alcohol and tobacco. The excise taxes were of an ad valorem type. In 2000, to facilitate the administration of excises, the taxes on domestic excisable goods, mainly alcohol and tobacco, were levied on the manufacturers rather than on retailers. This was consistent with the WTO rules for equal treatment between domestic and imported goods. As a result, the government adjusted the manufacturers' tax base prices of excisable goods by various mark-up percentages using an official Central Bank price survey in order to equalize the duty-paid value of imported and similar domestically produced goods. The mark-up percentages of alcoholic beverages and tobacco products and their tax rates are listed in Appendix G. The tax base for imported alcohol and tobacco was the CIF value plus the import duty, and all excise rates were of an ad valorem type. In addition, the rates of excise tax had significantly increased as compared to the 1992 level.

In January 2004, a number of objectives were pursued. The excise rates of most of electronic devices and kitchen appliances imported into the country were raised to a uniform level of 32.5 percent of the CIF and import duty. At the same time, the excise rates on alcohol beverages and tobacco were transformed from ad valorem into unit rates. Given the fact that the excise rates on alcohol and tobacco in the Dominican Republic was still relatively low as compared to other countries in the region, it was a well-justified step. For alcohol products the unit was based on the absolute content of alcohol in the volume, which implies that low-alcoholic beverages (i.e. beer) pay significantly less tax per unit as compared to beverages with higher alcohol content (i.e. rum). For tobacco, two units were selected: 10-cigarette and 20-cigarette pack, and the unit tax is levied in such way that the amount of excise on the 10-cigarette pack is exactly half of the excise on the 20-cigarette pack. Appendix G shows the expected unit tax rates for a period 2004-08. For the first time in history, the unit tax was administered equally on both imported and domestically produced alcoholic beverages and tobacco. The projected rates of tax in Appendix G also imply that the unit tax will be reducing over time until a complete convergence of excise rates in alcohol is reached by 2008.

Table 5-1 shows the actual imports of alcohol and tobacco into the country during 2005. The combined volume of imported alcohol beverages at CIF price was RS$ 1,139.8 million, and tobacco products were worth only RD$ 52.1 million. The combined amount of import duties (RD$ 240.7 million) and ITBIS (RD$ 233.0 million) is substantially less than the amount of excises (RD$ 1,100.1 million). The estimated effective rates of excise tax range from 30.4 percent on liquors to 409.0 and 679.0 percent on rum and undenatured ethyl alcohol, respectively. The skyrocket rates on rum and undenatured ethyl alcohol are the result of the fixed unit rates under the current system. The effective rates on tobacco products are also diverse: these under harmonized code of 2402.90.00 are taxed at 31.6 percent, and these under 2402.20.00 are subject to 183.7 percent of excise tax. The overall effective tax rate on all imported alcohol beverages is 71.9 percent and 183.1 percent on all tobacco imports.

Table 5-2 presents the summary of domestically produced alcohol beverages and tobacco in 2005. There are only five major producers of these products in the country. In alcoholic beverage sector, there are two beer manufacturers and a company that markets rum. In tobacco sector, there are only two big companies. For alcohol beverages, the amount of excise depends on the alcohol content; and for tobacco products – on the type of packaging. As the effective excise rates based on the manufacturer's price suggest, beer (48.4 percent) is heavily under-taxed comparing to rum (74.4 percent). This is a substantial gap in commodity taxation. The overall effective tax rate on all domestically produced alcohol beverages is 52.6 percent and 87.0 percent on all tobacco. Note that the excise tax under the present regulation is not included in the base of ITBIS. As a matter of fact, the manufacturer's price, which is the now the tax base for ITBIS, is not representative of the final retail price that the consumers pay for alcohol and tobacco.

If a comparison of taxation between imported and domestically produced goods is attempted, one should keep in mind that the final consumer prices are higher than those implied in Tables 5-1 and 5-2. For imported goods, the consumer price will include the CIF, tariff, excise, ITBIS, domestic transport, distribution, and retail margins. For domestic goods, the final consumer price is based on the manufacturer's price plus the domestic transport, distribution and retail margins. The relative magnitude in sales of domestic versus imported alcohol and tobacco goods is important for designing a tax policy towards these products. It is clear that, even valued at CIF and manufacturer's prices, the volume of domestic sales (RD$ 12,602 million for beer plus RD$ 2,420 million for rum) is 13.2 times greater than the volume of imported alcohol (RD$ 1,140 million). The domestic sales of tobacco (RD$ 2,982 million) are 57.3 times bigger than the CIF volume of imports (RD$ 52 million). Hence, any policy changes towards alcohol and tobacco must primarily focus on the domestic market.

Table 5-1: Actual Volume of Imports and Tax Collection on Non-Resolution Alcohol and Tobacco Goods, 2005 (RD$ million)

H. Code	Description	Unit Rate (RD$/unit)*	CIF	Duty	Excise	ITBIS	Effective Excise Rate**
22.03	Beer made from malt	302.99	119.6	27.8	67.2	26.8	45.6%
22.04	Wine	221.42	274.9	55.2	134.8	53.0	40.8%
22.05	Vermouth and Other Wine	221.42	3.3	0.7	1.9	0.6	49.0%
22.06	Other fermented beverages	302.99	15.6	3.2	5.2	3.1	27.8%
22.07	Undenatured ethyl alcohol of >80%.	160.85	11.5	1.6	88.7	2.1	679.0%
22.08	Ethyl alcohol and other spirits	160.85	0.0	0.0	0.0	0.0	n/a
2208.20.00	Cognac, brandy, grappa	344.66	7.8	1.4	5.2	1.5	55.9%
2208.30.00	Whiskies	302.99	538.5	106.8	388.9	103.4	60.3%
2208.40.00	Rum and Tafia	160.85	42.1	8.4	206.5	8.1	409.0%
2208.50.00	Gin and Geneva	194.94	3.8	0.8	2.4	0.7	52.1%
2208.60.00	Vodka	324.71	49.2	9.8	47.1	9.4	79.7%
2208.70.00	Liquors	314.78	65.7	13.1	24.0	12.6	30.4%
2208.90.00	Other alcohol	320.18	8.0	1.4	13.8	1.6	147.6%
	Sub-Total		**1,139.8**	**230.3**	**985.6**	**222.9**	**71.9%**
2402.20.00	Cigars, cigarettes, tobacco	8.13	51.9	10.4	114.3	10.0	183.7%
2402.90.00	Cigars, cigarettes, tobacco: other	8.13	0.2	0.0	0.1	0.1	31.6%
	Sub-Total		**52.1**	**10.4**	**114.4**	**10.0**	**183.1%**

Source: Customs Department of the Ministry of Finance, Dominican Republic, 2006.
Notes: * Actual unit rates are adjusted every two months.
** Estimated as the ratio of excise collection over the sum of CIF plus import duty.

5.2 Other Excisable Goods

The second major impact of the tax amendments adopted in January 2004, was the increase in the excise rates for electrical and mechanical appliances and equipment. Under the 2000 law, most of these goods were subject to excise rate of 15-25 percent, but because of the expected free trade agreement, the excise rates were adjusted upward to a uniform level of 32.5 percent. Appendix H shows the evolution of the excise taxes on all other excisable goods, except vehicles, alcohol and tobacco products. Table 5-3 shows the actual collection of taxes on non-resolution excisable goods, except vehicles, alcohol, and tobacco in 2005.[48] The import duty collection was RD$ 414 million, excises fetched RD$ 836 million, and ITBIS commanded a total RD$ 547 million. This table does not show the amount of 13 percent of CIF foreign exchange commission which was also collected on all excisable goods. The commission on these excisable goods must be worth RD$ 282 million, which is 13 percent of the CIF volume of RD$ 2,166 million.

Table 5-2: Volume of Domestic Sales and Tax Collection on Alcohol and Tobacco, 2005 (RD$ million)

Alcohol (%)	Liters	Abs. Alc. (Liters) *	Sales † (RD$ million)	Unit Rate ‡ (RD$/unit)	Excise (RD$ million)	ITBIS (RD$ million)	Total (RD$ million)	Effective Excise Rate (%) §
BEER			**12,602.1**		**6,099.1**	**2,016.3**	**8,115.4**	**48.4%**
4.3%	6,019,825	258,852		302.99	78.4			
4.5%	10,696,525	481,344		302.99	145.8			
5.0%	387,633,131	19,381,657		302.99	5,872.4			
5.5%	143,087	7,870		302.99	2.4			
RUM			**2,420.0**		**1,799.6**	**387.2**	**2,186.8**	**74.4%**
36.0%	6,849,469	2,465,809		160.85	396.6			
37.5%	23,022,816	8,633,556		160.85	1,388.7			
40.0%	8,201	3,280		160.85	0.5			
75.5%	113,368	85,593		160.85	13.8			

Package Type	# Packs	Sales † (RD$ million)	Unit Rate ‡ (RD$/unit)	Excise (RD$ million)	ITBIS (RD$ million)	Total (RD$ million)	Effective Excise Rate (%) §
TOBACCO		**2,981.8**		**2,594.6**	**477.1**	**3,071.7**	**87.0%**
10 pack	99,061,660		8.13	805.4			
20 pack	110,109,106		16.25	1,789.3			

Source: DGII, Dominican Republic, 2006.

Notes: * Liters of absolute alcohol are estimated as the liters of beverage sold times its alcohol content.

† Under the current excise system, sales are not reported on the excise form. The amount of sales was taken from the ITBIS form and adjusted for exempted sales (which are not subject to excise).

‡ Actual unit rates are adjusted every two months.

§ Estimated as the ratio of excise collection over the sales.

[48] Table 5-3 shows only non-resolution excisable goods. The excisable goods imported under resolutions are displayed in Appendix I, and both the actual and potential tax collections for base year of 2005 are presented. If all resolutions had been abandoned in 2005, the additional revenue on excisable goods (except vehicles, alcohol and tobacco products) would have been RD$ 161 million.

Table 5-3: Actual Revenue Collection on Excisable Non-Resolution Imports (Except Vehicles, Alcohol and Tobacco), 2005 (RD$ million)

H. Code	Description	Excise Tax Rate 2005	CIF	Duty	Excise	ITBIS	Total
1604.30.00	Caviar and caviar substitutes	65.0%	0.2	0.0	0.2	0.1	**0.3**
24.03	Cigars, cheroots and cigarillos, containing tobacco	130.0%	0.1	0.0	0.1	0.0	**0.1**
33.03	Perfumes and toilet waters	39.0%	77.3	15.5	36.2	20.6	**72.3**
3922.10.11	Baths, shower-baths, wash-basins, inclusive of Jacuzzi type	52.0%	23.0	4.6	14.3	6.7	**25.7**
57.01-57.03	Carpets and other textile floor coverings, knotted, whether or not made up: of other textile materials	58.5%	26.2	5.3	12.3	7.0	**24.6**
71.13-71.17	Articles of jewelery and parts thereof	39.0%	44.4	8.9	20.8	11.9	**41.5**
73.24	Sanitary ware and parts thereof, of iron or steel: plated with precious metal	52.0%	1.2	0.2	0.8	0.4	**1.4**
74.18, 76.15	Table, kitchen or other household articles and parts thereof, of copper	52.0%	1.0	0.2	0.6	0.3	**1.1**
84.15	Air conditioning machines, comprising a motor-driven fan and elements for changing the temperature and humidity	39.0%	615.0	111.4	283.3	161.5	**556.3**
8479.60.00	Machines and mechanical appliances having individual functions, not specified or included elsewhere in this chapter: evaporative air coolers	39.0%	9.8	2.0	4.6	2.6	**9.2**
85.09	Electro-mechanical domestic appliances, with self-contained electric motor: vacuum cleaners, including dry and wet vacuum cleaners	26.0%	19.4	3.9	6.1	4.7	**14.6**
84.16	Electric instantaneous or storage water heaters and immersion heaters; Microwave ovens; Coffee or tea makers; Toasters…	52.0%	103.6	20.7	28.2	24.4	**73.4**
8517.19.10	Telephone sets	32.5%	0.1	0.0	0.0	0.0	**0.1**
85.19	Coin- or disc-operated record-players	19.5%	36.2	7.2	8.7	8.3	**24.2**
85.20	Magnetic tape recorders and other sound recording apparatus, whether or not incorporating a sound reproducing device: digital audio type	19.5%	2.2	0.4	0.5	0.5	**1.5**
85.21	Video recording or reproducing apparatus, whether or not incorporating a video tuner: magnetic tape-type	32.5%	86.2	17.2	33.7	21.9	**72.9**
8525.40.00	Still image video cameras and other video camera recorders; digital cameras	32.5%	35.4	7.1	13.8	9.0	**29.9**
85.27	Reception apparatus for radio-telephony, radio-telegraphy or radio-broadcasting	32.5%	165.3	33.1	64.7	42.1	**139.8**
85.28	Reception apparatus for television, whether or not incorporating radio-broadcast receivers or sound recording or reproducing apparatus	19.5%	705.9	141.2	166.0	162.0	**469.2**
85.29	Parabolic aerial reflector dishes of a diameter not exceeding 120 cm	19.5%	77.2	8.0	17.0	16.4	**41.4**
8903.91.10	Yachts and other vessels for pleasure or sports; rowing boats and canoes, sailboats, with or without auxiliary motors	58.5%	5.7	1.1	4.0	1.7	**6.9**
91.01, 91.11 and 91.13	Watches and parts	39.0%	5.0	1.0	2.4	1.3	**4.7**
93.02	Revolvers and pistols	78.0%	125.7	25.1	117.6	42.9	**185.6**
94.03	Furniture and Parts Thereof	40.0%	0.0	0.0	0.0	0.0	**0.0**
96.15	Combs, Hair-slides and the Like; Hairpins, Curling Pins, Curling Grips, Hair-curlers and the Like	30.0%	0.1	0.0	0.0	0.0	**0.1**
Total			**2,166**	**414**	**836**	**547**	**1,797**

Source: Customs Department of the Ministry of Finance, Dominican Republic, 2006.

5.3 Imported Vehicles

Special attention must be paid to the excise tax on vehicles. The system is based on the declared CIF value of vehicles by importers. Importers have to produce a valid invoice stating the purchase value of a vehicle, and the costs of freight and insurance. The practice has been to exempt low-value vehicles and to apply a progressive excise tax rate structure linked to the value of the vehicle. Table 5-4 shows the evolution of the excise tax schedule that was in effect since 2001. From 2001 to 2005, the schedule was grouped into six brackets from zero to US$ 32,000.[49] The right panel of Table 5-4 shows that the new 2006 schedule submerged all six brackets of the old schedule into the very first group from zero to US$ 50,000, which effectively pays no excise tax.[50] We observe that the statutory ad valorem tax rates increase as the prices of vehicles rise. The base of the excise tax is the CIF value of vehicles plus the amount of import duty, which is 20 percent of CIF for most of vehicles, with the exception of specialized vehicles for emergency services, ambulance, fire trucks, etc. which enjoy a reduced tariff rate of 8 percent. The excise tax on vehicles seems to be a very progressive tax, but the effective average rate of taxation under this scheme was found to be only 1.58 percent, based on 2002 data.[51] In addition to the import duty, excise tax, and ITBIS paid on vehicles, until mid-2006 there was a foreign exchange commission, paid by all importers of vehicles.

Table 5-4: Excise Tax Schedule for Imported Vehicles, 2001-06

2001-05		2006	
CIF (US$)	**Rate**	**CIF (US$)**	**Rate**
0 to 10,000	0%	0 to 50,000	0%
10,001 to 12,000	15%	50,001 to 60,000	15%
12,001 to 14,000	30%	60,001 to 70,000	30%
14,001 to 20,000	45%	70,001 to 80,000	45%
20,001 to 32,000	60%	80,001+	60%
32,001+	80%		

Source: DGII, October 2006. [http://www.dgii.gov.do/]

From 2004 to 2006, a one-time registration fee for imported vehicles was computed according to another progressive schedule. The schedule was based on the FOB value of a vehicle, expressed in US dollars:

Value FOB (US$)	Registration Fee (RD$)
0 - 10,000	300
10,001 - 15,000	400
15,001 - 20,000	500
20,001 - 25,000	600

---

49 Ley 147-00, National Congress, December 27, 2000.

50 Norma General No. 01-05 "Que Modifica la Escala de los Valores CIF (US$) para la Applicacion del Impuesto Selectivo a los Vehicules Automoviles", Direccion General de Aduanas, Secretaria de Estado de Finanzas, October 17, 2005.

51 Guiliani, H.C., Jenkins, G.P. and Kuo, C.Y., "Fiscal Adjustment for Sustainable Growth in the Dominican Republic", paper prepared for the Government of the Dominican Republic, March 24, 2004. For the estimates of effective excise rates on vehicles in 2005 and 2006, see Table 5-9 and Table 5-10 in Section 5.6.

25,001 - 35,000	700
35,001 - 40,000	800
40,001 - 50,000	900
50,001 +	1,000

Since June 2006, the foreign exchange commission of 13 percent of CIF was abolished as a part of anticipated free trade union with CAFTA. The underlying import duty rates remained unchanged for vehicles. To offset this impact, the DGII introduced a one-time registration fee for newly imported vehicles of 17 percent of CIF, which replaced both the foreign exchange commission and the progressive registration fee based on the FOB value.

There is also a tax on the transfer and sale of vehicles in the Dominican Republic. The tax is administered as a mixed ad valorem tax of 2 percent of the value of a vehicle plus a RD$ 300 fee. The recurrent annual tax levied on the possession of a vehicle is currently RD$ 1,200 for vehicles manufactured prior to 2001, and in an amount of RD$ 2,200 for models of 2001 and newer.

5.4 Fuel and GLP

Another category of imported goods that is subject to excise tax is petroleum products and derivatives. The two main products generating most of the excise revenues are gasoline and diesel. The fuel prices in the Dominican Republic are regulated by the Government. Over the past decade, the continuous trend has been to increase the rate of excise tax imposed on fuel, and all tax reforms have included a provision that raised the tax on gasoline and diesel. In 2000 the unit tax rates on regular and premium gasoline were RD$ 15 and 18 per gallon, while the actual rates in September 2006 were about RD$ 35 and 41 per gallon, respectively. Likewise, there has been an increase in the unit tax rates on regular and premium diesel fuel from RD$ 5 and 6 per gallon in 2000 to about RD$ 12 and 14 per gallon in 2006, respectively. These increases in the rates were caused by regular inflation adjustments, rather than by amendments of the law on fuel taxation, which was virtually unchanged since 2000.

Table 5-5 shows the sales of different types of fuel and liquefied gas (GLP) over the period from 2003 to 2006. It is known that due to the high international prices of oil in 2006, the overall demand for fuel has relatively declined as compared to year 2005. If the data in Table 5-5 for 2005 and 2006 are compared on semi-annual basis, the overall rate of contraction in the quantity demanded for all types of fuel and GLP between 2005 and 2006 was 6.85 percent.

At present, a mix of unit tax and ad valorem tax is levied on fuel. The government body regulating the pricing of fuel is the Ministry of Industry and Commerce. The pump price of fuel is based on the CIF value plus unit taxes, plus ad valorem tax of 13 percent of CIF, plus distribution and retail profit margins, plus transport cost. Table 5-6 shows the volume of sales, cost structure, and taxation of different fuels. The current Customs regulation stipulates that the gasoline, diesel, oils, and oil derivatives (Chapter 27 of international harmonized code) be subject to import duty rate of 3 percent of CIF. However, the practice has been that this import duty on these items is not collected.

Table 5-5: Domestic Sales of Fuel and Liquefied Gas (million gallons)

<table>
<tr><th>Type of Fuel</th><th>2003</th><th>2004</th><th>2005</th><th>2006*</th></tr>
<tr><td>Gasolina s/plomo Premium</td><td>52.94</td><td>55.07</td><td>60.75</td><td>36.99</td></tr>
<tr><td>Gasolina s/plomo Premium Diplomático</td><td>0.00</td><td>0.00</td><td>0.00</td><td>0.08</td></tr>
<tr><td>Gasolina s/plomo Reg.</td><td>303.14</td><td>272.23</td><td>243.17</td><td>130.42</td></tr>
<tr><td>Gasoil Regular</td><td>297.54</td><td>324.14</td><td>319.69</td><td>161.91</td></tr>
<tr><td>Gasoil Premium</td><td>21.77</td><td>25.81</td><td>27.33</td><td>16.84</td></tr>
<tr><td>Gasoil Premium Diplomático</td><td>0.00</td><td>0.00</td><td>0.00</td><td>0.06</td></tr>
<tr><td>Gasoil Reg./ Generación/No Interconet.</td><td rowspan="2">108.49</td><td>1.08</td><td>1.24</td><td>5.39</td></tr>
<tr><td>Gasoil Reg./ Generación/Interconet.</td><td>46.16</td><td>42.08</td><td>13.67</td></tr>
<tr><td>Fuel Oil A/C</td><td>19.70</td><td>22.51</td><td>22.19</td><td>15.27</td></tr>
<tr><td>Fuel Oil / Generación/ No Interconet.</td><td rowspan="2">221.55</td><td>0.00</td><td>0.00</td><td>10.03</td></tr>
<tr><td>Fuel Oil / Generación/ Interconet.</td><td>153.20</td><td>139.21</td><td>56.42</td></tr>
<tr><td>Avtur</td><td>127.02</td><td>137.90</td><td>137.69</td><td>68.13</td></tr>
<tr><td>Kerosene</td><td>4.35</td><td>5.27</td><td>4.68</td><td>2.30</td></tr>
<tr><td>Butano Industrial</td><td>0.02</td><td>0.00</td><td>0.00</td><td>0.29</td></tr>
<tr><td>GLP (Doméstico e Industrial)</td><td>249.03</td><td>283.46</td><td>314.81</td><td>93.85</td></tr>
<tr><td>Avgas</td><td>0.40</td><td>0.42</td><td>0.46</td><td>0.00</td></tr>
</table>

Source: Volume of sales reported by Refinería Dominicana de Petróleo, Coastal Petroleum; Mundogas Américas Dominicana, Texaco Chevron y Esso Standard oil S.A.; and Falconbridge Dominicana, CxA. Cumulative data for January-December of 2003, 2004, and 2005.

Note: The period from January to June 2006 is covered.

The pricing of different gasoline and diesel fuels in the Dominican Republic has been such that the diesel fuels are under-taxed relative to other types of fuel.[52] In October 2006, the price of premium and regular gasoline at the pump was RD$ 126.91 and 115.10 per gallon, respectively. Regular diesel was priced at RD$ 96.60 per gallon, and kerosene fetched RD$ 96.31 per gallon. Other types of diesel and oil fuel used for industrial and commercial purposes were priced at significantly lower rates, within a range from 37.61 RD$/gallon for "fuel oil EGP-T (connected)" to 99.60 RD$/gallon for diesel "Gasoil Premium 0.3% A.".

It should be mentioned that the fuels for electricity generation activities are exempt from excise tax. Also all fuels are ITBIS-exempt. The current law stipulates that if an enterprise uses fuel for electricity generation and all energy is consumed by the enterprise, the establishment is not eligible for the subsidized fuel. At the same time, if the enterprise generates and supplies other enterprises/sectors, i.e. connected to the grid, then it is eligible for purchasing the fuel at a subsidized price. Thus, diesel fuels used in generation of electricity that is supplied to the grid are sold cheaper, as Table 5-6 shows.

[52] "Dominican Republic: Comments on July 1 Tax Reform Proposal", Internal Report, International Monetary Fund, Washington, D.C., September 27, 2006.

Table 5-6: Pricing and Taxation of Fuel and Liquefied Gas

Type of Fuel	Gallons (million) *	CIF Price (RD$/gallon) †	Unit tax, Law 112-00 (RD$/gallon) ‡	Unit tax, Law 557-05 (RD$/gallon) §	Ad-valorem tax, Law 557-05 (13%) ψ	Subsidy (RD$/gallon)	Distribution margin (RD$/gallon)	Retailer margin (RD$/gallon)	Transport commission (RD$/gallon)	Official (retail) price (RD$/gallon)	Retail Sales (RD$ million) **	Tax Collection (RD$ million)	Effective Rate (%) ††
Gasolina Premium	56.58	57.20	41.76	0	7.44	0	4.25	13.26	3.00	126.91	**7,181**	**2,784**	**38.8%**
Gasolina Regular	226.50	54.35	35.33	0	7.07	0	3.25	12.10	3.00	115.10	**26,070**	**9,603**	**36.8%**
Gasoil (Diesel) Regular	297.78	60.48	11.77	1.09	7.86	0	3.15	9.25	3.00	96.60	**28,766**	**6,171**	**21.5%**
Gasoil (Diesel) Premium ‡‡	25.46										**2,264**	**620**	**27.4%**
0.3% A.		60.48	14.84	1.67	7.86	0	3.00	8.75	3.00	99.60			
EGP-C		60.32	14.84	1.67	7.84	0	1.25	0	3.00	88.92			
EGP-T		60.32	14.84	1.67	7.84	0	1.25	0	0	85.92			
Gasoil (Diesel) Regular §§ (Generation/ No Interconet)	1.16										**81.37**	**10**	**12.7%**
EGP-C		60.31	0	1.09	7.84	0	0.99	0	3.00	73.23			
EGP-T		60.31	0	1.09	7.84	0	0.99	0	0	70.23			
Gasoil (Diesel) Regular ψ ψ (Generation/Interconet)	39.20										**2,403**	**0**	**0.0%**
EGP-C		60.31	0	0	0	0	0.99	0	3.00	64.30			
EGP-T		60.31	0	0	0	0	0.99	0	0	61.30			
Fuel Oil *** (Generation/ No Interconet)	0.00										**0**	**0**	**0.0%**
EGP-C		37.01	0	0	4.81	0	0.60	0	3.00	45.42			
EGP-T		37.01	0	0	4.81	0	0.60	0	0	42.42			
Fuel Oil ††† (Generation/Interconet)	129.67										**4,877**	**0**	**0.0%**
EGP-C		37.01	0	0	0	0	0.60	0	3.00	40.61			
EGP-T		37.01	0	0	0	0	0.60	0	0	37.61			
Fuel Oil A/C	20.67	37.18	11.77	0	4.83	0	0.79	0	3.00	57.57	**1,190**	**343**	**28.8%**
Avtur	128.25	63.11	4.11	0	8.20	0	4.04	0	3.00	82.46	**10,576**	**1,579**	**14.9%**
Kerosene	4.36	62.20	11.77	0	8.09	0	3.00	8.25	3.00	96.31	**420**	**87**	**20.6%**
GLP (Doméstico e Industrial)	293.23												
Subsidized ‡‡‡	146.62	41.36	0	0	5.38	-17.35	5.2	5.65	3	43.24	**6,339**	**-1,755**	**-27.7%**
Not subsidized	146.62	45.36	0	0	5.90	0	5.2	5.65	3	65.11	**9,546**	**865**	**9.1%**
Avgas §§§	0.43	45.36	0	0	5.90	0	5.2	5.65	3	65.11	**28**	**3**	**9.1%**
Total	**1,223.30**										**99,740**	**20,308**	**20.4%**

Source: State Department of Industry and Commerce. [http://www.seic.gov.do/combust/aviso.htm]

Notes:
- * Volume of sales are based on the level of 2005 but adjusted downward by a rate of 6.85 percent due to the overall reduction in the quantity demanded in 2006.
- † All prices and tax rates are stated as of October 2006.
- ‡ The law governing this excise tax was passed in 2000. However, the value of unit taxes is revised every three months to adjust for changes in the international prices and domestic inflation.

§ In December 2005, an additional increase in the excise tax on fuel was approved by the Government due to the raising international prices of oil and petroleum products. The unit tax (law 112-00) was approved to reach the level of RD$ 50.59 per gallon for premium gasoline, RD$ 18.17 per gallon for premium diesel, and RD$ 13.95 per gallon for regular diesel. The application of this approved tax increase was not immediate, and has not been implemented to date. There were a few tax rate increases on selected diesel fuels, which are relatively cheaper as compared to gasoline.

ψ In the anticipation of the elimination of the 13 percent foreign exchange commission on imports in 2006, the decision was taken to replace the commission with an equivalent ad valorem tax of 13 percent of CIF.

** The value of retail sales are estimated as the volume times the official price.

†† Effective rate is estimated as the total tax collected divided by the value of retail sales.

‡‡ The data on volume of sales did not have the detailed break-down by sub-type of fuel, and the price of Gasoil (Diesel) Premium EGP-C is used for the purpose of analysis.

§§ The price of Gasoil (Diesel) Regular (Generación/ No Interconet) EGP-T is used.

ψ ψ The price of Gasoil (Diesel) Regular (Generación/Interconet) EGP-T is used.

*** The price of Fuel Oil (Generación/ No Interconet) EGP-T is used.

††† The price of Fuel Oil (Generación/Interconet) EGP-T is used.

‡‡‡ The data does not report the volume of subsidized and unsubsidized liquefied gas separately. An assumption is made that the proportion is 50-50 percent. In reality, the share of subsidized sales could be even greater.

§§§ The price of unsubsidized liquefied gas is used.

The consumption of liquefied gas (GLP), which is also imported, is subsidized for households, public transport, and motor vehicle users. According to the law, businesses and industry users are not eligible for subsidized gas, but there is no efficient procedure for stopping business from using subsidized gas, i.e. for refueling their GLP-powered vehicles. The subsidy amounts to RD$ 17.35 per gallon. Table 5-6 shows the structure of pricing of subsidized and unsubsidized gas in the Dominican Republic.

The estimated effective rate of taxation for different types of fuel ranges from negative 27.7 percent (subsidy) for liquefied gas to 38.8 percent for the premium gasoline. Regular and premium diesel is effectively taxed at 21.5 and 27.4 percent, respectively. We were told that most of diesel consumption is in agriculture and industry but no specific data were available to compare these users with the consumption of diesel by vehicles and electricity generation by households. By any measure, there is an apparent sizeable gap in the effective rate of taxation between gasoline and diesel.

5.5 Services Subject to Excise Tax

In addition to physical goods, excise taxes are also levied on telecommunication services at 12 percent, which is split into two parts: 10 percent immediately payable to the DGII and the remaining 2 percent payable to the telecommunications regulatory body. Prior to 2001, the excise tax was collected from long distance communication services at 10 percent, international air transportation services at 20 percent, all insurance premiums at 10 percent, and hotels at 5 percent.

Under the reform of 2000, the excise taxes on international air transportation services, insurance premiums, and hotel accommodation were discontinued. Since 2000, the international air transportation services and insurance premiums, except life & health insurance, became subject to ITBIS at the full 16 percent rate, which also implies that the enterprises offering these services can now claim the ITBIS paid on business inputs.

There is an excise tax on all financial transactions in the country, which was imposed in 2004 at a rate of 0.15 percent of the value of transaction. The tax has been very effective in generation of revenue, but is viewed as a distortional measure. According to the 2005 reform, the rate of the financial transaction tax will be reduced to 0.10 percent in 2007, then to 0.05 percent in 2009, and finally discontinued by 2009.

5.6 Proposed Changes to Excise Tax System

Alcohol and Tobacco

The existing unit-rate system appears to involve a substantial effort to administer the excise tax. For alcoholic beverages, it is based on the alcohol content and totally ignores the market value of the goods. There is a great incentive for alcohol producers to reduce the alcohol content in order to pay a lower tax. In fact, after the excise tax was changed from ad-valorem to unit-base, beer producers started to market "light" beers. The situation is more difficult for rum producers, which can hardly lower the alcohol content of the beverage, and are forced to pay a significantly higher rate of excise tax. The same happens to imports: the importers tend to purchase more light alcoholic beverages and to reduce the shipments of strong liquors.

In short, the unit-rate system appears to be distortive, as it does not reflect the market value of alcoholic beverages; it favors "light" alcohol beverages; and changes the production and consumption patterns in the country. There is always the argument that people who drink stronger beverages should pay proportionally more in terms of taxes. Following this argument leads to the practical question why not to tax "light" cigarettes less than normal tobacco products. The fact of life is that when we consume either light or strong alcohol/tobacco, it is still harmful to our health, it is addictive, and should be taxed in the same way. Why give younger people a price incentive to buy lighter versions of a harmful substances? In terms of taxation, there should not be any difference between different versions of the same "undesirable" consumption goods.

If the argument of tax intervention to regulate the consumption of undesirable goods is taken seriously in the Dominican Republic, then the magnitude of the excise taxes on alcohol and tobacco must be greatly boosted to reflect the true social externality created by consumption of these "bad" goods. The negative social externality imposed on the families, local community, and healthcare is often a multiple of the excise tax revenues collected on alcoholic beverages and tobacco. Research shows that in order to offset that externality in the developed countries, where taxation of alcohol and tobacco is already high compared to the Dominican Republic standards, the effective excise rates must be raised by, at least, 2-3 times.[53] In the Dominican Republic context, such an increase would mean 3 or 4 fold increase in the current rates of excises.

[53] Cnossen, Sijbren (2007) *Alcohol Taxation and Regulation in the European Union,* CESifo, Working Paper No. 1821, (www.CESifo-group.de)

In addition, there is always a risk of under-collecting the tax because of unexpected inflation. Since the unit rates are fixed by law, and it would take some time to go through the legislative process to adjust the rates for inflation, any significant inflation would result in a situation where the tax authorities lose and manufacturers gain. This is neither a fair nor a proper policy for a developing country as Dominican Republic where, as recent experience shows, the rate of inflation could raise unexpectedly in a very short time.

Hence, we recommend to discontinue the current unit-rate system based on alcoholic content and to apply an ad valorem taxation scheme on alcohol and tobacco. The existing unit-rate schedule already projects a convergence in the taxation of different alcoholic beverages, which is a step in the right direction. However, this step is long over-due. The new ad valorem rates should be uniform to simplify the administration of the tax and reduce the compliance costs on behalf of the manufacturers and importers, and to protect tax revenue for the treasury.

It is important to continue withholding the tax at the manufacturer's, rather than retail, because fewer taxpayers comply with the tax and it is also easy for DGII to administer the tax. At the same time, it discounts the incentive for the manufacturers to set up their own distribution and marketing networks, which may allow for transfer pricing. When the excise tax is withheld at the manufacturer, there must be a mark-up mechanism that equates the taxable base of the excise to the retail level price. For example, Appendix G shows that prior to 2004 the mark-up factors were set at 30 percent for alcoholic beverages and at 20 percent for tobacco. It is recommended to conduct a survey in order to revise the mark-up factors so that the amount of the tax imposed on domestically produced and imported goods will be on an equal basis and in conformity with WTO rules.

The administration of ITBIS on alcohol and tobacco goods now is not compliant with the international practice and treatment of imported goods at the Customs. We suggest that the excise tax on alcohol and tobacco goods should be included in the base of ITBIS. The right way of estimating the tax base of ITBIS liability is to start with the manufacturer's price and then add the amount of excise taxes.

For illustrative purpose, the proposed uniform ad valorem rate is set at 50 percent for both imported and domestically produced alcoholic beverages. For domestically produced beverages, the tax base must be the manufacturer's price plus the mark-up, and for imported beverages, the base must be the CIF value and import duty. For tobacco products, both imported and domestically produced, the proposed ad valorem rate is 70 percent. For domestically produced tobacco products, the tax base must be the manufacturer's price plus the mark-up, and for imported beverages, the base must be the CIF value and import duty. For the purpose of analysis, 30 percent mark-up factor is assumed for alcoholic beverages and 20 percent for tobacco products. Table 5-7 shows the simulation results for the existing and proposed excise tax system for alcohol and tobacco. Note that the first panel of this table, modeling the collection in 2005, is different slightly from what was presented in Table 5-1 because actual unit rates are regularly changed over time, and when annual data is presented, the amount of excise tax collected is a sum of excise payments done at different times, at different unit rates. In the proposed system, we need to use only a single unit rate, and this will enable us to compare the current (2005 base) system with the proposed one.

The proposed uniform rates reduce the discretional element of the current system. The effective excise rates for all imported goods become the same. Likewise, the domestically produced goods become treated equally in terms of tax. Because beer is currently under-taxed, it generates the largest surplus of RD$ 3,428 million for the excise tax and ITBIS combined under the proposed system. The second big addition is the incremental gain on domestically processed tobacco products, worth of RD$ 311 million. For most imported alcohol and tobacco goods, there is a marginal loss of revenue. Bear in mind that the volume of alcohol domestic sales is 13.2 times greater than the volume of imports, and the domestic sales of tobacco is 57.3 times bigger than the CIF volume of imports. If any additional revenue must come out of the reform on alcohol and tobacco, it can only originate from the domestic side of the equation, not from imports. In addition, the ITBIS appears to dominate the gains.

The net result of the gains on domestically produced alcohol and tobacco and minor losses on the imports is RD$ 3,303 million, of which the ITBIS accounts for 57.6 percent. This is equivalent to 0.37 percent of GDP. This measure alone is sufficient to finance the revenue loss resulting in the first year of the free trade with the USA.

Table 5-7: Proposed Excise System on Alcohol and Tobacco Goods, 2005 (RD$ million)

		CURRENT (MODEL)						PROPOSED							
							IMPORTS								
H. Code	**Description**	**Unit Rate (RD$/unit)**	**Duty**	**Excise**	**ITBIS**	**Total**	**Effective Excise Rate**		**Rate (%)**	**Duty**	**Excise**	**ITBIS**	**Total**	**Effective Excise Rate**	**Net Gain**
22.03	Beer made from malt	302.99	24	65	33	**122**	45.1%		50%	24	72	34	**130**	50.0%	8
22.04	Wine	221.42	55	132	74	**261**	40.1%		50%	55	165	79	**299**	50.0%	38
22.05	Vermouth and Other Wine	221.42	1	2	1	**4**	48.2%		50%	1	2	1	**4**	50.0%	0
22.06	Other fermented beverages	302.99	3	5	4	**12**	27.4%		50%	3	9	4	**17**	50.0%	5
22.07	Undenatured ethyl alcohol of >80%.	160.85	2	91	17	**109**	695.0%		50%	2	7	3	**11**	50.0%	-98
22.08	Ethyl alcohol and other spirits	160.85	0	0	0	**0**	n/a		50%	0	0	0	**0**	n/a	0
2208.20.00	Cognac, brandy, grappa	344.66	2	5	2	**9**	53.5%		50%	2	5	2	**8**	50.0%	0
2208.30.00	Whiskies	302.99	108	378	164	**650**	58.5%		50%	108	323	155	**586**	50.0%	-64
2208.40.00	Rum and Tafia	160.85	8	203	41	**252**	402.0%		50%	8	25	12	**46**	50.0%	-206
2208.50.00	Gin and Geneva	194.94	1	2	1	**4**	51.2%		50%	1	2	1	**4**	50.0%	0
2208.60.00	Vodka	324.71	10	46	17	**72**	77.5%		50%	10	30	14	**54**	50.0%	-19
2208.70.00	Liquors	314.78	13	23	16	**53**	29.5%		50%	13	39	19	**71**	50.0%	19
2208.90.00	Other alcohol	320.18	1	14	4	**19**	147.6%		50%	1	5	2	**8**	50.0%	-11
	Sub-Total		**227**	**966**	**373**	**1,566**	**70.7%**			**227**	**683**	**328**	**1,238**	**50.0%**	**-328**
2402.20.00	Cigars, cigarettes, tobacco	8.13	10	137	32	**179**	219.4%		70%	10	44	17	**71**	70.0%	-108
2402.90.00	Cigars, cigarettes, tobacco: other	8.13	0	0	0	**0**	30.7%		70%	0	0	0	**0**	70.0%	0
	Sub-Total		**10**	**137**	**32**	**179**	**218.7%**			**10**	**44**	**17**	**71**	**70.0%**	**-108**
							DOMESTIC								
H. Code	**Description**	**Unit Rate (RD$/unit)**		**Excise**	**ITBIS**	**Total**	**Effective Excise Rate**	**Mark-Up (%)**	**Rate (%)**		**Excise**	**ITBIS**	**Total**	**Effective Excise Rate**	**Net Gain**
22.03	Beer made from malt	302.99		6,099	2,016	**8,115**	48.4%	30%	50%		8,191	3,327	**11,518**	65.0%	3,403
2208.40.00	Rum and Tafia	160.85		1,800	387	**2,187**	74.4%	30%	50%		1,573	639	**2,212**	65.0%	25
	Sub-Total			**7,899**	**2,404**	**10,302**					**9,764**	**3,966**	**13,730**		**3,428**
2402.20.00	Cigars, cigarettes, tobacco	8.13		2,595	477	**3,072**	87.0%	20%	70%		2,505	878	**3,383**	84.0%	311
	Sub-Total			**2,595**	**477**	**3,072**	**87.0%**				**2,505**	**878**	**3,383**	**84.0%**	**311**
	Grand-Total		**237**	**11,596**	**3,286**	**15,119**				**237**	**12,996**	**5,189**	**18,422**		**3,303**

Source: Own Estimates. DGII and Customs Department of the Ministry of Finance, Dominican Republic, 2006.

Other Excisable Goods

We recommend adjusting the ad valorem excise rates in order to simplify the administration of the tax and to increase the overall collection. Table 5-8 shows the proposed excise rates and simulation results of revenue impact, as compared to the current 2006 system, expressed in constant 2005 prices. The proposed rate for firearms is to 80 percent. For cigarillos, the same 70 percent rate is suggested as for all other tobacco products (see previous section). For all other excisable goods, a flat uniform rate of 20 percent (based on CIF plus the tariff) is proposed. While carpet, Jacuzzi, sanitary-ware and kitchenware goods are currently subject to excise rates in excess of 50 percent, all other goods are taxed at lower rates. However, keep in mind that all goods used to pay an additional 13 percent of CIF until June 2006. The proposed 20 percent excise rate does not compensate for the loss of the foreign exchange commission. The net gains and losses in Table 5-8 are relevant to the 2006 price of these commodities (without the foreign exchange commission).

The Dominican Republic is endowed with a fantastic combination of being a tropical heaven and having a strong private sector initiative. Yachts have long been considered as luxury goods accessible only to the super-rich, and have been heavily taxed in the Dominican Republic. As Table 5-8 confirms, only RD$ 4 million in excise taxes were collected from yachts in 2005. The Dominican Republic should consider dropping the excise tax to zero. If the excise rate is set to zero, the private sector may find it viable to import yachts and spare parts. There is no reason why the Dominican Republic can not become an attractive yachting location for the domestic and international owners of vessels. The most lucrative part of the industry is actually mooring and maintenance servicing of yachts, which typically costs tens of thousands dollars for a single yacht. Often the maintenance is done by the same firms that sell the yachts. The maintenance activities are labor intensive and can, in principle, be an additional employment opportunity for the local labor.

Table 5-8: Estimated Collection Loss on Excisable Non-Resolution Imports under Proposed Excise Rates, 2006 (RD$ million, constant 2005 prices)

H. Code	Description	Rate 2006	Duty	Excise	ITBIS	Total	Proposed Rate	Duty	Excise	ITBIS	Total	Net Loss
1604.30.00	Caviar and caviar substitutes	65.0%	0.0	0.2	0.1	**0.3**	20%	0.0	0.0	0.0	**0.1**	**-0.13**
24.03	Cigars, cheroots and cigarillos, containing tobacco	130.0%	0.0	0.1	0.0	**0.1**	70%	0.0	0.0	0.0	**0.1**	**-0.04**
33.03	Perfumes and toilet waters	39.0%	15.5	36.2	20.6	**72.3**	20%	15.5	18.6	17.8	**51.8**	**-20.44**
3922.10.11	Baths, shower-baths, wash-basins, inclusive of Jacuzzi type	52.0%	4.6	14.3	6.7	**25.7**	20%	4.6	5.5	5.3	**15.4**	**-10.24**
57.01-57.03	Carpets and other textile floor coverings, knotted….	58.5%	5.2	12.4	7.0	**24.6**	20%	5.2	6.3	6.0	**17.6**	**-7.04**
71.13-71.17	Articles of jewelery and parts thereof	39.0%	8.9	20.8	11.8	**41.5**	20%	8.9	10.7	10.2	**29.8**	**-11.74**
73.24	Sanitary ware and parts thereof….	52.0%	0.2	0.8	0.4	**1.4**	20%	0.2	0.3	0.3	**0.8**	**-0.54**
74.18, 76.15	Table, kitchen or other household articles and parts thereof	52.0%	0.2	0.6	0.3	**1.1**	20%	0.2	0.2	0.2	**0.7**	**-0.44**
84.15	Air conditioning machines, comprising a motor-driven fan….	39.0%	111.4	283.3	161.6	**556.3**	20%	111.4	145.3	139.5	**396.2**	**-160.11**
8479.60.00	Machines and mechanical appliances having individual functions…	39.0%	2.0	4.6	2.6	**9.2**	20%	2.0	2.3	2.3	**6.6**	**-2.59**
85.09	Electro-mechanical domestic appliances…	32.5%	3.9	7.6	4.9	**16.4**	20%	3.9	4.7	4.5	**13.0**	**-3.38**
84.16	Electric instantaneous or storage water heaters; Microwave ovens; Coffee or tea makers; Toasters…	32.5%	20.7	40.4	26.4	**87.5**	20%	20.7	24.9	23.9	**69.5**	**-18.03**
8517.19.10	Telephone sets	32.5%	0.0	0.0	0.0	**0.1**	20%	0.0	0.0	0.0	**0.0**	**-0.01**
85.19	Coin- or disc-operated record-players	32.5%	7.2	14.1	9.2	**30.5**	20%	7.2	8.7	8.3	**24.2**	**-6.29**
85.20	Magnetic tape recorders and other sound recording apparatus…	32.5%	0.4	0.9	0.6	**1.9**	20%	0.4	0.5	0.5	**1.5**	**-0.39**
85.21	Video recording or reproducing apparatus…	32.5%	17.2	33.6	21.9	**72.8**	20%	17.2	20.7	19.9	**57.8**	**-15.00**
8525.40.00	Still image video cameras and other video camera recorders; digital cameras	32.5%	7.1	13.8	9.0	**29.9**	20%	7.1	8.5	8.2	**23.8**	**-6.17**
85.27	Reception apparatus for radio-telephony, radio-telegraphy or radio-broadcasting	32.5%	33.1	64.5	42.1	**139.6**	20%	33.1	39.7	38.1	**110.8**	**-28.77**
85.28	Reception apparatus for television….	19.5%	141.2	166.1	162.1	**469.3**	20%	141.2	169.4	162.6	**473.2**	**3.88**
85.29	Parabolic aerial reflector dishes…	19.5%	8.0	16.6	16.3	**40.9**	20%	8.0	17.1	16.4	**41.4**	**0.49**
8903.91.10	Yachts and other vessels for pleasure or sports…	58.5%	1.1	4.0	1.7	**6.9**	0%	1.1	0.0	1.1	**2.2**	**-4.66**
91.01, 91.11 and 91.13	Watches and parts	39.0%	1.0	2.4	1.3	**4.7**	20%	1.0	1.2	1.2	**3.4**	**-1.33**
93.02	Revolvers and pistols	78.0%	25.1	117.7	43.0	**185.8**	80%	25.1	120.7	43.4	**189.3**	**3.50**
94.03	Furniture and Parts Thereof	40.0%	0.0	0.0	0.0	**0.0**	20%	0.0	0.0	0.0	**0.0**	**0.00**
96.15	Combs, Hair-slides and the Like; Hairpins, Curling Pins…	30.0%	0.0	0.0	0.0	**0.0**	20%	0.0	0.0	0.0	**0.0**	**-0.01**
Total			**414**	**855**	**550**	**1,819**		**414**	**605**	**510**	**1,529**	**-289.5**

Source: Own estimates. Customs Department of the Ministry of Finance, Dominican Republic, 2006.

With the proposed structure of excise rates, the imports generate a total revenue of RD$ 1,529 million, consisting of RD$ 414 million of import duties, RD$ 605 million of excise taxes, and RD$ 510 million of the ITBIS for all non-resolution excisable goods of Regime 1 (except vehicles, alcohol and tobacco). The net gain or loss of the revenue under the new system is displayed in the last column of Table 5-8, by commodity. The total net loss for non-resolution excisable goods is RD$ 289.5 million in 2005 prices.[54]

Just a few countries with modern tax system keep excise on such a wide range of household goods. As the Dominican Republic successfully enters into the free trade agreements with the US and EU, these excise should be phased out. From the current list of excisable goods, the ones that should be retained are alcohol, tobacco, fuel, and vehicles. Theses goods are used to collect revenue by tax authorities in other countries. A few goods that create negative social externality, like firearms, should also be subject to excise tax.

Imported Vehicles

The excise tax on vehicles may be perceived as a progressive tax because the marginal statutory tax rates increase as the prices of vehicle go up (see Table 5-4). However, the effective tax rates, as a percentage of import duty-paid collected by tax bracket was surprisingly low for 2002 with an average effective rate of 1.58 percent. Table 5-9 shows the import data for vehicles in 2005. The effective rate of excise tax for all non-resolution vehicle imports is 1.59 percent, virtually unchanged from 2002.[55] This implies that a substantial tax leakage is occurring in the case of vehicles. In addition to the import duty, excise tax, and ITBIS, there is also a 17 percent of CIF tax that replaced both the foreign exchange commission and the old progressive registration fee. The 17 percent tax is the only effective excise tax on vehicles now, and generates a significant amount of revenue. If applied straight on the CIF value of all vehicle imports, except those under resolutions, it must have collected RD$ 3,091 million in 2005, which accounted for 0.35 percent of GDP.

It is also important to observe that the effective rates of vehicle taxation imported under resolution provisions, as shown in Appendix J. It is clear that there is significant tax relief on vehicles because of the existing resolutions. The actual collection of excise tax under resolutions in 2005 was only RD$ 25 million, and the effective excise rate is 0.78 percent, or half of the effective rate on non-resolution vehicles.

[54] Excisable goods under resolutions are excluded. In reality, only a fraction of the resolution imports actually pays the full rates of tax.

[55] Resolutions not included. Appendix J shows the summary for vehicles imported under resolutions.

Table 5-9: Actual Volume of Non-Resolution Imports and Average Effective Excise Tax Rates for Vehicles, 2005 (RD$ million)

From	To	Marginal Excise Rate	# Vehicles	Share	CIF	Share CIF	Duty	Excise	ITBIS	Effective Excise Rate *
0	10,000	0%	36,395	64%	6,236	34%	1,121	1	1,177	0.01%
10,001	12,000	15%	4,243	7%	1,423	8%	189	0	258	0.00%
12,001	14,000	30%	2,025	4%	789	4%	118	0	145	0.01%
14,001	20,000	45%	5,158	9%	2,626	14%	325	1	472	0.04%
20,001	32,000	60%	4,941	9%	3,805	21%	417	93	690	2.19%
32,001		80%	4,067	7%	3,301	18%	379	236	626	6.42%
Total			**56,829**	**100%**	**18,180**	**100%**	**2,549**	**331**	**3,369**	**1.59%**

Source: Customs Department of the Ministry of Finance, Dominican Republic, 2006.
Note: * The effective excise rate is equal to the amount of excise paid divided by the CIF value plus the import duty.

The same dataset could be used to simulate the collection according to the new 2006 excise schedule. Table 5-10 illustrates that because the first zero-rate bracket is set too high, the resulting amount of the excise tax is decimated to only RD$ 58 million. The resulting tax burden on each bracket of vehicles is indeed progressive, but the simulated combined effective rate of excise tax under the 2006 regulation is mere 0.27 percent. The ad valorem tax of 17 percent of CIF should have captured about RD$ 3,091 million in 2006 if the tax were introduced in the beginning of the year. This ad valorem tax and ITBIS are the only effective taxes on vehicles. Virtually, no excise tax is collected on vehicles under the new 2006 rules. In a situation when the government in order to raise much needed revenue places a high excise tax on electronics, TV-sets, carpets, and watches, such a policy of exempting vehicle imports is odd.

Table 5-10: Simulated Volume of Non-Resolution Imports and Average Effective Excise Tax Rates for Vehicles, 2006 (RD$ million)

From	To	Marginal Excise Rate	# Vehicles	Share	CIF	Share CIF	Duty *	Excise	ITBIS *	Effective Excise Rate
0	50,000	0%	56,611	99.62%	17,681	97%	3,536	0	3,395	0.00%
50,001	60,000	15%	123	0.22%	217	1%	43	3	42	1.15%
60,001	70,000	30%	49	0.09%	104	1%	21	5	21	4.12%
70,001	80,000	45%	11	0.02%	26	0%	5	2	5	6.94%
80,001		60%	35	0.06%	153	1%	31	48	37	26.16%
			56,829	**100%**	**18,180**	**100%**	**3,636**	**58**	**3,500**	**0.27%**

Source: Own Estimates. Customs Department of the Ministry of Finance, Dominican Republic, 2006.
Note: * The estimated, not actual, amount that should have been collected according to the 2006 regulations.

At present, the road congestion and air-pollution in the big cities of the Dominican Republic have already reached the peak levels. If the influx of new vehicles is not curbed, there will be even more traffic jams and smog in the cities. In the UK, where vehicle taxation is already at the limit, a congestion tax in the downtown London has been charged to road users to reduce the congestion during the peak hours. In the Dominican Republic, where vehicles are under-taxed, this is an open opportunity for the government to raise the money and to regulate the addition of new vehicle units on the roads.

The system of excise taxes on automobiles is in a dire need of significant reform. A set of lower import prices are being used as the tax base when an automobile imported by a car dealer as compared to importation by a private individual is a source of manipulation. Individuals simply can arrange with a dealer to import the vehicle. Furthermore, the progressive rate of excise taxes provides a huge incentive for importers to make deals with the Customs officials to lower the price in order to avoid the progressive excise tax burden. We also find that many luxury vehicles are finding their way into the country via some type of exempt provision.

In the immediate future, the most suitable solution seems to be a replacement of the current structure of excise rates on vehicles with a relatively low single rate of excise tax on the CIF price plus import tariff on all vehicles. The CIF prices for various vehicles should be properly monitored at Customs. The proposal is to keep the current import duty of 20 percent of CIF, but to abolish the ineffective excise tax on vehicles. The current excise tax creates an illusion of redistribution equity, but in reality, it breeds more corruption and collects no money to the Government. We recommend retaining the current registration fee and to increase the rate from 17 to 20 percent of CIF immediately. The ITBIS should be administered on top of the CIF value and import duty, i.e. the registration fee of 20 percent is not included in the base of ITBIS. Under the proposed system, the tax burden on imported vehicles would be 59 percent of CIF for the final user and 40 percent for a business establishment.[56] As the import duty rate is gradually decreased due to free trade agreements, the registration fee may be increased from 20 to 25 percent.

When amended, the incremental revenue collection is represented by the difference of the proposed system of flat registration fee of 20 percent of the CIF plus duty, and the current 2006 excise tax system (Table 5-10) plus the 17 percent of CIF registration fee.[57] Assuming the import duty is unchanged under the proposed excise system, the additional revenue is RD$ 478 million or 0.054 percent of GDP in 2005.[58]. If the registration fee is raised from 17 to 25 percent, the additional revenue would be RD$ 1,387 million or 0.157 percent of GDP.

<u>Fuel and LPG</u>

The current system of fuel taxation appears to be fragmented, based on pieces of different legislation, which were founded at different times. There is a heavy subsidization of bottled gas, and no proper mechanism is in place to ensure that the subsidy is benefiting the intended target group of users. As a result, many people choose to switch their vehicles and machinery

[56] For a final user, import duty is 20 percent of CIF, and registration fee of 20 percent of CIF, and ITBIS of 16 percent on CIF plus import duty: 59% = 20% + 20% + (1+20%)*16%. For businesses, the amount of ITBIS paid at the Customs can be claimed as a tax credit on input.

[57] Because very little is collected on vehicles under resolutions, the results are only for non-resolution vehicle imports.

[58] The expected impact of trade liberalization with the US and EU is discussed in Section 3.5.

from fuel-based to GLP-operation, because it is subsidized. The import duty regulation, requiring the 3 percent import duty on hydrocarbons, has not been enforced. The system is distorted, expensive to administer for the Government, and is likely to have a high compliance cost for the taxpayers. There are regular resets of the unit excise rates, which are not costless for neither the tax administration nor the refineries, gas stations and the end consumers. At the same time, the unit-rate system is still exposed to the risk of unexpected inflation in the short run, in the event of which the treasury will lose revenues. This is neither a fair nor a proper policy for a developing country as Dominican Republic.

We recommend a number of measures to increase the buoyancy of the system and to simplify the administration and compliance of the excise tax on fuel and GLP. The existing mix of unit and ad valorem taxation should be replaced by a single ad valorem tax. The 3 percent of CIF import duty that is not collected should be repealed to reflect the true situation. The rates of the excise tax can be different for the various types of fuels, since some of them are used in the electricity generation. Table 5-11 shows the proposed schedule of the excise rates, by type of fuel. All types of gasoline are proposed to be subject to a uniform ad valorem tax of 80 percent, applied on the CIF value of fuel.[59] Regular diesel is proposed to be subject to a uniform ad valorem tax of 50 percent. All brands of premium diesel are proposed to be subject to an excise rate of 75 percent.[60] Table 5-11 shows the resulting changes to the taxation, pricing, and tax burden on different types of fuel.

The resulting price of premium gasoline decreases by 3.4 RD$/gallon, while the price of regular gasoline rises by 1.1 RD$/gallon. This will allow the effective rates of taxation to converge. Under the existing system, premium gasoline is taxed at 38.8 percent and regular gasoline at 36.8 percent.[61] The proposed scenario will have an effective rate of 37.1 percent for premium gasoline and 37.4 percent for regular gasoline. This seems unfair in terms of the effective rates, but in absolute terms, a person who purchases premium gasoline will still pay a higher price, 123.47 RD$/gallon, as compared to a person who uses regular gasoline, priced at 116.18 RD$/gallon. The last column of Table 5-11 shows the resulting losses and gains of tax revenue by type of fuel. The net gain from the proposed changes in taxation of gasoline is about RD$ 51 million in 2006 prices.

Concerning the taxation of diesel fuel, it is proposed to tax all premium brands at the same ad valorem rate of 75 percent, which is slightly less than the proposed rate for gasoline. Regular diesel would be subject to an excise rate of 50 percent. The resulting price of premium diesel increases by 20.9 RD$/gallon, while the price of regular diesel rises by 9.5 RD$/gallon. This will allow the effective rates of taxation on diesel and gasoline to come closer to convergence in pricing. Under the existing system, premium diesel is effectively taxed at 27.4 percent and regular diesel at only 21.5 percent. [62] The proposed scenario will have an effective rate of 41.2 percent for premium diesel and 28.5 percent for regular diesel. In terms of prices, the resulting prices of both premium and regular diesel are still below the price of regular gasoline. The

[59] In 2006, in addition to regular and premium gasoline, “premium diplomatico” type was sold.
[60] In 2006, in addition to regular and premium diesel, “premium diplomatico” type was sold.
[61] See the last column of Table 5-6.
[62] Assuming that the nominal GDP in 2006 is RD$ 1,048,218 million.

price of regular diesel would amount to 106.12 RD$/gallon and to 109.81 RD$/gallon for premium diesel. The net gain from the proposed changes in taxation of diesel is about RD$ 3,366 million in 2006 prices, or 0.32 percent of GDP in 2006.[63] This gain alone is sufficient to meet the revenue gap from the first year of the US trade agreement.

Table 5-11: Proposed Taxation of Fuel and Liquefied Gas

Type of Fuel	Gallons (million)	Excise Rate (%)	Excise (RD$/gallon)	Margins and Transport Commission (RD$/gallon) *	Price (RD$/gallon)	Sales (million RD$)	Excise Collection (million RD$)	Effective Rate (%)	Net Gain (million RD$)**
Gasolina Premium	56.58	80%	45.76	20.51	123.47	6,986	2,589	**37.1%**	**-194**
Gasolina Regular	226.50	80%	43.48	18.35	116.18	26,315	9,848	**37.4%**	**246**
Gasoil (Diesel) Regular	297.78	50%	30.24	15.40	106.12	31,600	9,005	**28.5%**	**2,834**
Gasoil (Diesel) Premium 0.3% A. EGP-C EGP-T	25.46	75%	45.24	4.25	109.81	2,796	1,152	**41.2%**	**532**
Gasoil (Diesel) Regular (Generation/ No Interconet) EGP-C EGP-T	1.16	15%	9.05	0.99	70.35	82	10	**12.9%**	**0**
Gasoil (Diesel) Regular (Generation/Interconet) EGP-C EGP-T	39.20	0%	0.00	0.99	61.30	2,403	0	**0.0%**	**0**
Fuel Oil (Generation/ No Interconet) EGP-C EGP-T	0.00	30%	11.10	0.60	48.71	0	0	**n/a**	**0**
Fuel Oil (Generation/Interconet) EGP-C EGP-T	129.67	0%	0.00	0.60	37.61	4,877	0	**0.0%**	**0**
Fuel Oil A/C	20.67	45%	16.73	3.79	57.70	1,193	346	**29.0%**	**3**
Avtur	128.25	20%	12.62	7.04	82.77	10,616	1,619	**15.2%**	**39**
Kerosene	4.36	35%	21.77	14.25	98.22	428	95	**22.2%**	**8**
GLP (Doméstico e Industrial)	293.23								
Subsidized	146.62	15%	6.20	13.85	61.41	9,004	910	**10.1%**	**2,665**
Not subsidized	146.62	15%	6.80	13.85	66.01	9,679	998	**10.3%**	**133**
Avgas	0.43	15%	6.80	13.85	66.01	29	3	**10.3%**	**0**
Total	**1,223.30**					**106,007**	**26,574**	**25.1%**	**6,266**

Source: Table 5-6 and own estimates.

Note: * The same allowance for distribution margin, retail margin and transport commission is made. The summation of these three is shown.

** The difference between the amount of total tax collection under the proposed scheme and the current collection in Table 5-6. This is the net change from abolishing the current unit rates and loss of 13 percent of CIF ad-valorem tax.

63 Ibid.

We understand that it might be politically difficult to increase the taxation of diesel as it concerns a number of sensitive users. There is a practical solution for road vehicles that run on diesel. In many countries, the annual road tax is charged at a higher rate for diesel engines on passenger cars than for gasoline engines. For example, in North Cyprus, there is a difference in the market prices of gasoline and diesel, which is approximately US$ 21.43 cents/liter. At the same time, the difference in the annual road tax is about US$ 250. Let's assume that an average fuel consumption is about 10 liters per 100 km. What it means that any diesel-powered passenger vehicle to benefit from the lower diesel prices, it must be driven for, at least, 11,167 km per year.[64] The difference in the annual road tax can be easily programmed to reflect any other threshold that might be appropriate in the Dominican Republic.

A number of countries tax conventional diesel fuels significantly higher than gasoline on environmental grounds. In fact, conventional diesel burnt in older engines releases in the atmosphere multiples of emissions from the gasoline fuel. At the same time, such countries typically promote the use of alternative sources of energy for vehicles, such as bio-diesels and hybrid electro-fuel engines. The current level of air pollution in the big cities of the Dominican Republic, taken alone, justifies the proposed increase in the taxation of diesel.

For other types of fuel, mainly used in industrial and generation purposes, the proposed scheme follows the pricing pattern of the existing system. The proposed rates aim to be revenue-neutral, and result in approximately the same amount of total revenue. Some marginal gains in the last column of Table 5-11 are evident.

It is proposed to discontinue the current subsidy on bottled gas because it creates a significant economic distortion by inducing the users to switch from fuel to GLP. Table 5-5 shows that the two most demanded types of fuel are regular gasoline and regular diesel. From 2003 to 2005, the sales of regular gasoline fell from 303.14 million gallons a year to 243.17 million gallons. The sales of regular diesel were 324.14 million gallons a year in 2004 and 319.69 million gallons in 2005. At the same time, the consumption of GLP, both subsidized and unsubsidized, increased significantly from 249.03 million gallons in 2003, to 283.46 million gallons in 2004, and to 314.81 million gallons in 2005. There is no proper mechanism to administer the target subsidization of the intended users such as public transport and utilities. The subsidy of GLP must be discontinued, and the subsidy to selected public-sector users should be channeled through expenditure support, rather than GLP pricing. In fact, many countries subsidize a few essential utilities, and the common practice is to make direct cash transfers to the utilities, and to avoid distorting the general pricing of the hydrocarbon products.

A flat 15 percent excise tax is proposed on GLP, which will be approximately equal to the recently abolished foreign exchange commission of the 13 percent ad valorem tax. Table 5-11 shows that for unsubsidized GLP, there will be a minor gain of revenues. For subsidized GLP, there will be significant savings of expenditures, which is a net gain from abolishing the subsidy, loss of 13 percent of CIF ad valorem tax. The estimated net gain for the subsidized

---

[64] This is derived as: 250 US$/year / 0.2143 US$/liter / 10 liter * 100 km = 11,167 km/year.

GLP is RD$ 2,665 million in 2006 prices, or 0.254 percent of GDP in 2006. Ultimately, most of these expenditure savings could be channeled to the legitimate users of subsidized GLP. The subsidy should be done through government expenditure framework rather than through the fuel pricing policy.

The estimated revenue impact from the proposed measures does not include the behavior response of fuel users. There are likely to be two significant shifts in the demand for hydrocarbon products. First, as the pricing of diesel fuel is lined up with gasoline, there will be less incentive for people to purchase machinery and vehicles that operate on diesel, because the prices of diesel engines are typically higher than the prices of gasoline engines. As a result, there will be less demand for diesel and more demand for gasoline and other types of fuel. Secondly, if the proposed reduction of subsidy on GLP takes place, a number of users who currently avoid using gasoline and diesel because they have access to subsidized GLP, will have to return to gasoline and diesel brands. The demand for GLP will decline while the quantity demanded of gasoline and diesel will increase. Given the data constraints on the possible behavior response, no quantitative estimates are done.

Insurance, Air-Tickets and Financial Transaction Tax

For insurance sector, we propose that premium becomes exempt from ITBIS and is taxed by an excise tax of 10 percent on premium sales by all insurers, including life & health insurance. The net impact would be a loss of RD$ 100 million, or 0.011 percent of GDP in 2005. See Section 4.5 for discussion.

For the air-tickets, we recommend that these are exempt from ITBIS and taxed by an excise tax of 10 percent on the gross sales, and the net impact is a loss of RD$ 273 million, or 0.031 percent of GDP in 2005. See Section 4.5 for discussion.

The financial transaction tax has been very effective in generation of revenue, but it is indeed a distortional measure. The administrative simplicity in withholding the tax, high compliancy, and significant revenue potential make it a valuable source of cash for the treasury. At present, the rate of tax is 0.15 of percent of the nominal value of a transaction. According to the current regulations, it is expected that the rate of the financial transaction tax will be reduced to 0.10 percent in 2007, then to 0.05 percent in 2009, and finally discontinued by 2009. In 2005, the tax netted a total of RD$ 3,133 million, or 0.35 percent of GDP. For the period of January-August 2006, the collection was RD$ 2,197 million, or 0.21 percent of GDP.[65] If the trend continues, by the end of 2006, a total of 0.33 percent of GDP will be collected. To assist the authorities in smooth transition during the first phase of trade liberalization, we believe it is better to keep the financial transaction tax, but reduce it over time and then abolish it by 2009, as planned.

[65] Assuming that the nominal GDP in 2006 is RD$ 1,048,218 million.

6. ENTRY AND EXIT TAXES (TOURISM TAXES)

6.1 Entry Tax

Located in hospitable tropical zone and endowed with paradise-like beaches, the Dominican Republic has been a tourist attraction for several decades. It did not take long for the Government to realize that the tourist flow can be levied an entry tax. The first entry tax was introduced in 1966 at a rate of US$ 5 per person. In 1974, the amount was raised to US$ 10 per person. At present, the entry tax is maintained at the same rate of US$ 10 per person. Tourists either pay this tax as a part of the holiday package at the time of purchasing the tour in the home country or pay at the port of entry to the Dominican Republic. The duration of stay under the tourist trip differs for nationals of different countries. If the purpose of the trip is different from tourism, foreigners have to obtain a visa to enter the Dominican Republic. The nationals of the following countries are exempt from the tourist entry tax due to bilateral visa and immigration agreements: Argentina, Belize, Brazil, Chile, China, Costa Rica, South Korea, Colombia, Ecuador, El Salvador, Guatemala, Honduras, Italia, Israel, Japan, Mexico, Mauritius, Nicaragua, Panama, Peru, Liechtenstein, Santa Sede, Swiss, and Uruguay. Table 6-1 presents the actual revenue collection from the entry tax in 2005-06, and the estimated number of paying tourists. If the US dollar revenues are valued at an exchange rate of 35 RD$/US$, then the value of revenues in peso would be worth RD$ 681 million or 0.077 percent of GDP in 2005.

Table 6-1: Collection of Entry Tax, 2005-06

	2005		**2006**	
Month	**US$ million**	**Entrants**	**US$ million**	**Entrants**
January	1.50	285,608	2.93	302,103
February	1.33	280,039	2.73	312,147
March	1.96	312,970	3.17	334,400
April	1.48	249,675	2.03	310,660
May	1.20	194,374	2.18	222,832
June	1.67	239,781	2.66	266,998
July	2.29	321,769	3.23	328,933
August	2.10	250,997	2.53	264,552
September	0.97	150,237		
October	1.14	171,926		
November	1.52	217,953		
December	2.30	282,025		
Total	**19.47**	**2,957,354**	**21.46**	**2,342,625**

Source: DGII, October 2006.

During a period from 1992 to 2004, hotel accommodation in the Dominican Republic was levied an excise tax of 5 percent. The tax was abolished in 2000, as it was perceived as a burden reducing the international competitiveness of the sector. It should be noted that hotels as other business establishments are subject to the corporate income tax.

6.2 Exit Tax

In addition to the entry tax, there is an exit tax, which was imposed in 1990, and all foreigners and citizens are subject to this tax. The rate of tax was US$ 10 per person, and it has been typically included in the price of air-ticket or ticket for sea-vessel. In 1994, the rate was increased to US$ 20 per person but after a year, it was again lowered to US$ 10 per person. Only in 2003, the exit tax was restored to the level of US$ 20 per person, where it has remained until October 2006. Table 6-3 displays the collection of the tax and estimated number of exiting people in 2005-06. If the US dollar revenues are valued at an exchange rate of 35 RD$/US$, then the value of revenues in peso would be worth RD$ 2,495 million or 0.282 percent of GDP in 2005.

Table 6-2: Collection of Exit Tax, 2005-06

	2005		2006	
Month	**US$ million**	**Exits**	**US$ million**	**Exits**
January	6.86	342,864	7.11	355,463
February	6.77	338,492	7.13	356,600
March	6.72	335,938	7.36	368,012
April	7.10	355,090	7.45	372,679
May	5.59	279,313	6.48	324,237
June	5.09	254,585	5.34	266,829
July	5.75	287,500	6.15	307,486
August	7.48	373,828	7.54	376,806
September	6.29	314,372	6.28	313,930
October	4.09	204,349		
November	4.47	223,639		
December	5.10	254,808		
Total	**71.3**	**3,564,779**	**60.8**	**3,042,043**

Source: DGII, October 2006.

6.3 Policy Recommendations

Both the entry and exit taxes are clearly revenue-generating tools that target foreign visitors and middle and upper class of Dominican residents. Such entry and exit taxes are common in many developing countries and are typically dictated by the same reasons as these in the Dominican Republic: additional revenue collection, easy administration of the taxes, high compliance, and income equity. The poor tend to have none or little international travel, and such taxes do not affect this group of society. The exit tax is slightly less distortional because it applies on all travelers, without exemption, while nationals of some countries are exempted from entry tax under various bilateral agreements. In theory, the entry tax tends to reduce the international competitiveness of the country as a tourist destination, but it is only one of the many factors that affect the behavior and choice of tourist destination.

However, if the authorities need cash urgently, there is always a temptation to increase the rates of the entry and/or exit tax. The US dollar is itself subject to the inflation in the United

States, and the current 10-dollar rate of the entry tax was set a long time ago, which may motivate the Government to raise it. If the entry tax is increased from 10 to 15 US$ per visitor, the additional collection will be US$ 9.73 million or RD$ 341 million using the exchange rate of 35 RD$/US$, in 2005 prices. This marginal gain is equivalent to 0.038 percent of GDP in 2005.

At present time, we would not recommend to raise the entry or exit tax. Both taxes are indeed very effective tools to collect much needed revenue for the Government at very little cost of administering the taxes. Nevertheless, the amount of revenue generated from entry/exit taxes is very little as compared to the needs of the Government. Simply, the entry and exit taxes are not the right tools to improve the collection in the country. Other taxes such as ITBIS and excises should be used. Hence, we recommend keeping the existing system of entry and exit taxes.

We propose to re-introduce the excise tax on hotel accommodation at a rate of 5 percent. There is a strong economic rational for this measure. Given the natural endowments of the Dominican Republic, the beaches and seashore are in fixed supply. The quantity of this factor of production can not change if the demand for it increases. However, the price of such property has risen very rapidly over time as the demand has increased for beach locations to develop tourist facilities. The only group in society that benefits from this upward spiral of the prices of beach front properties is the current owners of these properties. The rest of the society does not benefit from this property appreciation, but they must bear the social costs of increased tourism. These often include the increased costs of road construction and their maintenance, additional strain on an inadequate electricity system, the increased costs of security to deal with crime and to protect the tourists, and the reduced access to the public use of the best beaches in the country. Looking at the rise of the land prices in the Dominican Republic, one could see that the land owners are capturing a large part of the surplus being created by the tourism sector, and incurring little or none of its social costs.

A specific excise tax, levied at a modest rate of 5 percent hotel accommodation, will at least function as a mechanism to transfer some the surplus that would have become reflected in higher land prices and give it back to the society to finance public expenditures. The annual revenues from tourism activities were stated US$ 3,519.7 million, or RD$ 123,190 million in 2005.[66] However, this figure includes not only the accommodation but also meals, beverages and entertainment receipts. In addition, this figure must include ITBIS tax and excise taxes on alcohol and tobacco sold in these establishments. For the purpose of exercise, let us assume that 78 percent of sales are subject to ITBIS.[67] The estimated net revenues before ITBIS are, therefore, equal to RD$ 109,936 million.[68] Suppose that the accommodation accounts for 40 percent of the total revenues, then the total room bill before tax is equal to RD$ 43,974 million,

[66] Assuming an exchange rate of 35 RD$/US$. Sources: Central Bank of the Dominican Republic, October 2006. [http://www.bancentral.gov.do] and [http://www.dominicana.com.do].

[67] Table 4-4 showed that this sector has an average 22.1 percent of exempt sales.

[68] The portion of sales that subject to ITBIS is RD$ 96,088 million = 78% * RD$ 123,190 million. The portion of ITBIS exempt sales is the difference: RD$ 27,102 million = RD$ 123,190 million - RD$ 96,088 million. The net of ITBIS sales are equal to RD$ 82,834 million = RD$ 96,088 million / (1 + 16%). The estimated net revenues before ITBIS are: RD$ 109,936 million = RD$ 27,102 million + RD$ 82,834 million.

and a 5-percent excise tax would fetch RD$ 2,199 million. This is worth 0.248 percent of GDP in 2005.

7. TAXATION OF CASINOS AND GAMES OF CHANCE

7.1 Current Regulation

Prior to 1996, casinos had a presumptive income tax levied on them in which the amount of tax was based on the gross amount spent by gamblers in the casino. However, it was almost impossible to administer it. Although this tax provision also covered sport betting, this sector also paid no income tax. Beginning in 1997, the casino would pay taxes based on the number of tables and the number of machines they have in the casino. As the number of machines and tables is an indicator of the profitability of the casino, the provision for taxing the income of the casino was dropped. In year 2000, the government tried to impose ITBIS on gambling. The tax base for the ITIBIS was set at 30 to 40% of the taxes collected based on the numbers of tables and machines in the casino. This was presumed that the 30 to 40% figure represented the value added in their activities (as a proportion of the gross spending). Nevertheless, the ITBIS never worked in this sector.

At present, when a hotel owner wants to open a casino, he should first apply for a license. Once granted, he has to pay RD$ 10.0 million to the Department of Casinos at the Ministry of Finance. In order to start the operation, the owner has to pay another RD$ 1.0 million in registration fees to the Department of Casinos. There is also a "publication" fee of RD$ 50,000. The casinos have to be regularly inspected and in order to initiate inspections, the owner has to pay RD$ 50,000. The same fee is set for any expansion of the number of tables in a casino. After the operation license was granted, the operator has to make monthly payments to the tax administration (DGII) based on the number of tables and the number of machines. The amount of tax paid on each table is based on the locations of operation. In February 2006, the tax rates were increased significantly. The rates are not linked to the price index, and the law does not provide for a mechanism of automatic inflation adjustment. Table 7-1 shows the monthly tax schedule per table.

Table 7-1: Taxation of Casino Operation, 2006 (RD$/month per table)

Region	1–15 Tables	16–35 Tables	36 and More
Santo Domingo and Santiago	20,000	23,000	26,000
East Region, Puerto Plata, Río San Juan, and North Region	13,000	16,000	18,000
South Region, San Pedro, Boca Chica, rest of country	10,000	12,000	14,000

Source: DGII, October 2006.

In the case of machines, the license to open an establishment costs RD$ 500,000 and to start the operation, the owner has to pay another RD$ 1.0 million in registration fees to the Department of Casinos. To modify the license, RD$ 50,000 is charged. Prior to 2006, the taxation of machines was based on the type:

RD$ 1,000 per machine for the 5 cents (US currency) machine;

RD$ 2,000 per machine for the 10 cents (US currency) machine;
RD$ 4,000 per machine for the 25 cents (US currency) machine;

RD$ 6,000 per machine for the 50 cents (US currency) machine; and
RD$ 10,000 per machine for the 1 dollar (US currency) machine.

In 2006 the law was simplified and currently the owners of machines simply have to pay RD$ 4,000 per machine if located in Santo Domingo District, and RD$ 3,500 per machine if located in Santiago, La Altagracia or La Romana. There are fees for various transactions with machines. If a machine is imported, re-exported or moved a fee of RD$ 10,000 has to be paid. Furthermore, if machine is changed (e.g., the 5 cents machine converted to 10 cents machine), RD$ 5,000 must be paid to the Ministry of Finance per machine that is altered.

Until 2004, there were three further types of payments based on the sum of the above monthly payments. The first is ITBIS that was about 30-40 percent of the above monthly payments. The second was a withholding tax on winnings that was set at 15 percent of the winning amounts in excess of RD$ 50,000. The third was a temporary measure, a kind of export tax, which is also based on 10 percent of the above monthly payment. In sum, the additional total monthly payments could well be 50 percent of the amount based on the numbers of tables and machines in each casino. However, in 2004 these measures were simplified so that at the present time all the above three taxes have been amalgamated into a single additional tax equal to 30 percent of the monthly taxes that are paid on the machines and tables in operation at a casino.

In the year 2003, DGII collected the total of RD$ 163.86 million from 37 casinos in the country.[69] That amount was based on RD$ 56.11 million from tables, RD$ 56.99 million from machines, RD$ 33.93 million through ITBIS, and RD$ 16.83 million in withholding taxes. In 2005, there were 46 casinos and this number reduced to 42 casinos in 2006. The collections from all casinos were RD$ 72.78 million and RD$ 72.71 million, respectively, as shown in Table 7-2. The collections from machines amounted to RD$ 102.38 million and RD$ 158.19 million, respectively.

In addition to casinos, there are four other main gambling activities in the Dominican Republic. The biggest one is sport betting. Although there were proposals before 2001 to levy the income tax, the ITBIS and the withholding tax on winnings on this activity none of them were implemented. Beginning in 2001, all taxes have been rolled in one annual tax; the amount of tax is based on the establishment where this activity takes place. According to the initial legislation, those establishments located in the National Capital and two other big cities, the amount of tax (or payment) was RD$ 20,833 per month (RD$ 250,000 per annum). For the rest of the country, the payment was set at RD$ 12,500 per month (RD$ 150,000 per annum). The regulatory body in charge of sports betting activities has been the Ministry of Sports and Recreation. All registration payments and monthly collection have been collected by that Ministry and, apparently, the DGII has no information about the number of such establishments in the country and the amount of taxes and fees collected from these. Needless to say, the DGII does not receive any payments from the operations of sports betting establishments.

---

[69] Jenkins, G.P. and Kuo, C.Y., "The Taxation and Regulation of Casino's and Games of Chance in the Dominican Republic", paper prepared for the Government of the Dominican Republic, August 5, 2004.

Table 7-2: Collection of Taxes from Casinos and Machines, 2005-06 (RD$ million)

	2005		2006	
Month	**Casinos**	**Machines**	**Casinos**	**Machines**
January	5.95	5.56	6.35	11.83
February	5.93	6.13	6.63	12.16
March	6.05	6.30	6.59	11.42
April	6.06	6.35	6.79	11.64
May	5.84	5.55	10.07	13.24
June	5.86	5.37	9.21	14.97
July	5.62	8.20	8.66	16.94
August	6.08	11.91	9.26	20.70
September	6.39	11.28	9.15	22.88
October	6.19	11.56		22.40
November	6.39	11.70		
December	6.42	12.42		
Total	**72.78**	**102.32**	**72.71**	**158.19**

Source: DGII, October 2006.

The current legislation, effective in 2005 and 2006, has reduced the tax rates.[70] To open a sports-betting establishment, the owner has to register at one-time cost of RD$ 220,000. In addition, a certificate fee of RD$ 1,000 has to be paid once. The monthly fee is now set at RD$ 12,500 (RD$ 150,000 per annum) if located in Santo Domingo, Santiago, La Vega, San Francisco and Puerto Plata; and RD$ 8,333.33 (RD$ 100,000 per annum) if located elsewhere. If a registered owner decides to re-locate to another place, there is a one-time charge of RD$ 5,000. In the few recent years, sports betting has become very widespread; there is an establishment virtually on every street in the cities.

The second group is the lotteries. There is one general administration under the authority of the National Lottery, which is a state corporation, which has the monopoly for the state lottery as well as supervises numerous private lotteries spread across the country. The private lotteries make payments based on their profits at 24 percent, equivalent to license fees, to the National Lottery. For winners of the lottery, they are supposed to pay 15 percent of their winning to the tax administration. The National Lottery is supposed to contribute its surplus to a variety of social programs, including hospitals, disabled people. Now the National Lottery does not receive any contributions from the private lotteries.

The third one is gambling on horseracing. There is one hippodrome in the Dominican Republic, and over the past few years it has been paying into Treasury about RD$ 10 million a year. The last category is bingo, which is not taxed.

[70] "Guía del Contribuyente de Bancas Deportivas 2005", Ley No. 140-02 del 29 de Julio del 2002 "Reglamento de aplicación", No. 71-03 del 31 de Enero del 2003, Secretaría de Estado de Deportes Educacion Fisica y Recreacion (SEDEFIR), Santo Domingo, Dominican Republic.

7.2 Proposed Measures on Taxation of Games of Chance

Excise Tax on Lotteries

The lotteries in the Dominican Republic are largely not under the control of the Ministry of Finance. The National Lottery is supposed to control the private lotteries, but in fact, it collects little or no money from them. At the same time the National Lottery's distribution of its surplus does not appear to be done according to any conventional public policy criterion. Apart from their entertainment value, lotteries are a form of taxation. The revenues received in excess of the prize money and administration costs are usually appropriated by the State. The following contributions to the state budget have been received from the National Lottery in the recent years:

Year	2000	2001	2002	2003	2004	2005
Contribution to Budget (RD$ million)	10	66	5	20	55	n/a

In the Dominican Republic this sector is fragmented and largely operating for private gain rather than for the public good. It is clear that a set of small fragmented lotteries is not a desirable organization for the sector in terms of either revenue collection or operational efficiency. Small lotteries and games of chance tend to collect their revenues mainly from the poor; they grow relatively slowly over time. Larger lotteries with bigger prizes consistently attract proportionally more revenues. Furthermore, those who participate when the prize money is large tend to be from the higher income groups.

In the Dominican Republic, the small private lotteries are essentially legalizing what would otherwise be illegal numbers games and such games of chance. While it would be economically efficient and socially desirable to amalgamate these small lotteries into a larger single lottery, it will not be easy to bring that about in the current environment of the Dominican Republic. Given the low capability of the government to enforce any complex laws concerning the taxation of lotteries, it is unlikely that they would be able to prevent the illegal betting that would develop if the small lotteries were eliminated.

Given the ineffectiveness of the National Lottery to regulate and collect revenue from the private lotteries, it would appear to be desirable if an excise tax of approximately 15 percent were imposed on the gross revenues of all lotteries. This revenue should be part of the direct revenue of the Ministry of Finance and not part of the funds to be distributed by the National Lottery. Over time when the level of regulation of lotteries can be improved, an effort should be make to consolidate all the lotteries in the country into a few large state-owned ones. In this way, the government would benefit by obtaining a larger volume of revenue and at the same time, the economic resource cost of running the lottery system could potentially be reduced. No data is available to make a quantitative estimation of the potential revenue collection from the proposed excise tax.

Excise Tax on Sports Betting

The reduction in the fees payable to the Ministry of Sports does not seem justified, as the number of betting establishments has soared in the past two years. We proposed to keep the present level of fees payable to the Ministry of Sports. At the same time, we suggest introducing a tax that would regulate the industry in an efficient and fair manner. As there is almost perfect substitution elasticity between running a private lottery or a sports-betting establishment for the owners of such places, the 15 percent excise tax on gross income of sports betting establishments should be imposed. The tax should be payable to the DGII on a monthly basis. Over time, the regulation of this sub-sector should also be transferred from the Ministry of Sports to the tax authorities. The fact is that these betting activities have very little to do with sports as such, and are simply profit-making establishments that should be treated exactly the same way as other business activities in the country. No data were available to estimate a possible revenue potential of such an excise tax.

Taxation Policy towards Casinos

There is a serious economic problem that arises with casinos because there is seldom any competition between casinos within a country in setting the ratios of the value of the winnings to the amount of money gambled using the various types of machines and games found in casinos. A casino can earn a competitive rate of return with a volume of gambling that is far below the volume that would cause the casino to be operating at its minimum average cost. If the number of casinos is not limited in some way, the economic rents that should be accruing to the existing casinos will attract additional investment in the sector. Excess capacity will result across all the casinos. Furthermore, it is observed that large casinos tend to attract customers, particularly to tourist destinations. A few large casinos will attract more international tourist-gamblers than if the same gambling capacity, as measured by the same number of machines and tables, are spread over a large number of small casinos.[71]

The tax authorities have in the recent past tried to tax the casinos on the bases of the total amount of gambling carried out, and also based on the amount of winnings. Both of these efforts ended in failure. It is our recommendation that the present basic form of taxation of casinos in the Dominican Republic be continued, but reformed in its application and administration.

The first recommendation would be to automatically index all the time, annual and monthly fees to the change in the consumer price index. When the rate of inflation is uncertain, it is very bad policy to have the taxes levied on the machines and tables to be specified in fixed amounts of pesos. They should automatically be adjusted for cumulated inflation in the previous three-month period. Second, the monthly fees should be raised substantially, even if some of the casinos now in existence go out of business. In that way the ones remaining will have more clients, will be able to operate more efficiently, and will be able to afford to pay the

[71] There are two kinds of taxes that would assist in bring about a realignment of the marginal revenue with the marginal costs of casino gambling. The first would be a percentage tax on the amounts gambled. This would reduce the amount of money earned in excess of marginal costs and hence would reduce the incentive for additional casinos to enter the sector. The second form of taxation is a tax levied on each machine and each table operated by a casino per month. This form of tax increases the capital cost of additional capacity, but imposes no wedge between marginal cost and the marginal revenue of increasing the intensity of gambling using a given number of casinos. It is this system of taxation that the Dominican Republic now imposes on casinos.

higher monthly fees. Finally, the casinos should be part of the ITBIS framework. We suggest that the 16 percent rate should be applied on the income of the casino, after deducting the winnings of the gamblers. At the same time, the casinos should be able to claim ITBIS credits on its business inputs. Concerning food and beverages sold at casinos, these must be taxed as sales at any other restaurant. If the casino gives out food and beverages to its patrons for free, then the casino becomes the final consumer of these goods and no ITBIS credit should be claimed. For all practical administrative purposes, in order to reduce the tax-avoidance and increase the compliancy, the food and beverages distributed for free should be treated as being sold, and ITBIS should be paid to the DGII. Then, all input credits of casinos can be honored without discrimination.

The present set of restrictions on the movement of slot machines, the conversion of one denomination of slot machine to another, and ability to take slot machines and tables temporarily out of use seems to be unduly restrictive. These rules should be examined carefully to see if they could be brought more in line with the needs of the casinos to be able to operate in a way that they can address the needs of their customers with some flexibility at a particular point in time. No detailed data is available to estimate the net revenue collection from the improvement measures.

8. ISSUES OF TAX AND CUSTOMS ADMINISTRATION

8.1 Implementation of a Semi-Autonomous Revenue Authority

Over the period from 2002 to 2006, a number of improvements have been made in the administration of both taxes and customs. However, the present situation is far from what is needed. The law that will govern the transformation of the DGII and Customs has been approved by the Congress and it is expected that the law will be effective in 2007. This is a definite sign of progress. More than 20 developing and developed countries have set up semi-autonomous revenue authorities to bring about the administrative reforms needed for the modern administration of taxation and customs. In many cases, it has been a very effective avenue to bring about needed organizational and operational changes as well as for building political credibility with taxpayers and investors.

It is our suggestion that the Dominican Republic should combine the Customs and Tax Administrations and form a single semi-autonomous revenue authority. Given the need for a rapid improvement in the quality of service in these areas, it is likely that such a reform would only be possible if it were undertaken by such an institution. Having two separate semi-independent agencies still falls short of the challenges that face the country during the accession to the free trade with the US and EU, as well as the transformation of the ITBIS and excise systems.

It is true that many functions performed by the Customs have nothing to do with the state revenues, managed by the DGII, and the Customs policing functions would be best suited to be a unit within a combined revenue authority. At a time when the Dominican Republic is about to enter the era of free trade, and its tariff revenues are diminishing by year, it is very important to have an integrated information system. For all practical reasons, the IT system must be the same at the Customs and DGII.

To be competitive in the contemporary world an efficient public administration is a necessary condition. We see many areas of improvement in the way the DGII and Customs work now as compared to three years ago. However, there are a number of current weaknesses in the tax administration that are hindering the government from implementing tax policies that will be badly needed in the near future. The following recommendations made in our earlier report are still relevant as ever before:[72]

1. Need for a modern legal code for the administration of taxes.
2. Need to develop credibility with the taxpayers and create a corruption free, service-oriented, and efficient tax and customs administration.
3. Need to issue refunds quickly to exporters operating outside of the free trade zones for excess ITBIS input tax credits.
4. Need to develop and implement a system for duty exemption for imported goods to be used by exporters operating outside the free zones.

[72] Guiliani, H.C., Jenkins, G.P. and Kuo, C.Y., "Fiscal Adjustment for Sustainable Growth in the Dominican Republic", paper prepared for the Government of the Dominican Republic, March 24, 2004.

5. Need to strengthen the audit capabilities of both the tax administration and customs.
6. Need to upgrade the information systems used by the Customs Department and to improve the capability of the Customs department in the valuation of imported goods.

8.2 ITBIS Exemptions

We believe there is a substantial potential in the existing system to raise more revenue, before resorting to increasing the rate of ITBIS. At present, the big issue is that producers and sellers of exempt goods claim ITBIS credit on inputs for such goods, while they should not claim credit for ITBIS paid on inputs of exempt goods. This loophole in conjunction with the long list of exemptions, as well as inability of the tax administration to verify the actual content of sales declared exempt, motivates businesses to declare more goods and services as exempt. It is practically impossible to check whether all sales were in fact exempt.

The only practical solution to this worsening situation is to expand the tax base to cover most, if not all, goods and services produced and traded in the country.[73] This will reduce the room for tax-avoidance and the compliance will increase. While many argue about the impact of such measure on the poor, we empirically find that the ITBIS base expansion has been progressive in Bolivia, North Cyprus, and in the Dominican Republic in the past. There is no reason to keep the current ITBIS exemptions and keep issuing credits on inputs used in production of these exempt goods. The ITBIS system, as never before, is in an urgent need for change.

We believe that an ITBIS framework with a single rate is better than an ITBIS system with multiple rates. Once several rates become involved, the record keeping and reporting becomes more complicated, and compliance costs of taxpayers increase. At the same time, the administrative costs of the DGII are also bound to rise. The research by Agha and Haughton emphasizes that the overall level of tax evasion of VAT falls when the number of VAT rates is reduced.[74]

8.3 Refunds of Excess ITBIS Input Taxes

There has been a longstanding operational policy not to refund taxes to taxpayers even when the taxpayer is legally entitled to such refunds. This has been one of the primary reasons why manufacturing exporters have concentrated their operations in the free trade zone areas. Companies oriented on the domestic market do not receive cash refunds but can use the excess ITBIS paid on inputs as a credit against future ITBIS liability or the corporate income tax. Exporters, who over time migrated into the free zones, pay no income tax and have no means of redeeming the excess credits if they purchase inputs domestically.

We were glad to learn that the new semi-independent tax authority will change the policy toward the payment of refunds fundamentally. We were told that the DGII would collect the

[73] With an exemption of few, discussed in Section 4.5.
[74] Agha, Ali & Haughton, Jonathan, 1996. "**Designing VAT Systems: Some Efficiency Considerations**," The Review of Economics and Statistics, MIT Press, vol. 78(2), pages 303-08, May.

ITBIS and issue cash refunds immediately for both domestic and exporting companies. At this point, we want to stress the way in which the revenues and the refunds of the ITBIS should be accounted for in the government budget. Often, the collections of the tax are counted as revenues to the budget while the refunds are treated as expenditures. This is fundamentally incorrect. The refunds should be deducted from the revenues received by the tax department and the net amount turned over to the Treasury. The refund system under the ITBIS is an integral part of the tax system, not an expenditure item that is subject to all the controls and constraints of regular government expenditures.

8.4 Exemption from Import Duties of Imported Inputs Used for Export Production

The free trade zones in the Dominican Republic have enabled exporters to bypass the historically inefficient and ineffective Customs administration. There is a need to have in place a system for refunding the duties paid on imported inputs through a system of tax exemption or duty drawbacks that will refund theses duties on a timely basis. However, a duty drawback system will never be effective for servicing high volume exporters. Such a system is only useful for the case of a domestic producer who from time to time produces some items for export. Duty drawback systems are usually incubators for corruption, thus tax exemption or account-offset system must be developed so that customs duties are not paid even outside of free trade zones when the goods are imported. The system will then not discriminate against export-oriented firms located away from free zones. There is a need to have such a system in place that will allow all export-oriented firms to cease to be unduly burdened with such import duties.

To break away from these historical practices it often has been necessary to set up an autonomous revenue authority that has a clear mandate to introduce modern business practices into the administration of the tax and customs systems. The policy makers in the Dominican Republic need to examine such an alternative system where the tax administration and customs are hosted under the same roof. We recommend that they implement such a system as soon as possible.

9. SUMMARY OF FINDINGS

The approaching date of trade liberalization with the Americas has increased the need for a major overhaul of the existing tax system and policies in the Dominican Republic. The desired properties of a reformed system are revenue sufficiency, buoyancy, fairness, administrative simplicity and an orientation for the promotion of sustainable economic growth. We have examined many aspects of the tax policy as well as the tax administration of the indirect taxes and taxes on international trade in order to develop a comprehensive set of reform proposals. The final result of this reform should be an economy open to international trade with a balanced tax system that would rely more heavily than today on the value added tax and selective excise taxes. In addition, the continuous policy towards the modernization of the tax and customs administration should stay the course. A determined prudent effort is needed to attain the level of efficiency that the Dominican Republic needs in order to have an internationally competitive economy.

9.1 Impact of Trade Liberalization

The agreement with the USA has recently been reached and it is widely expected to enter into force in 2007. The free trade agreement with the European Union is currently under negotiation and, while it will take some time to finalize the deal, we assume it is effective in 2008. Since ITBIS and ad valorem excise taxes include the import duty in their base, the tariff reduction will lower not only the import duty collection but also the excise and ITBIS revenue.

In 2007, the first year of US free trade, the estimated loss of tariff, excise and ITBIS revenue is RD$ 2,261 million in 2005 prices (0.26 percent of GDP) if the collections under resolutions are included, and the loss is RD$ 1,532 million (0.17 percent of GDP) if the collections under resolutions are excluded. In 2008, when the EU agreement is expected to become effective, an additional significant loss of revenue is likely to occur: if the resolutions are included, will cost about RD$ 773 million or 0.09 percent of GDP in 2008. Because the US agreement will enter into its second year, the combined incremental loss in 2008 will be RD$ 1,644 million or 0.19 percent of GDP.

In the four subsequent years, the incremental annual loss of revenue from both US and EU imports is about 0.13 percent of GDP until 2011. Table 9-1 summarizes the revenue impact. In addition to the expected loss of tariff, excise, and ITBIS revenue, the foreign exchange commission of 13 percent of CIF value of all imports has been already discontinued. In 2005, it amassed a total of RD$ 19,998 million or 2.26 percent of GDP.

It is proposed to change the current legislation and to nullify the 3 percent import duty on all hydrocarbon imports into the country. This should be done in conjunction with the proposed adjustment of the excise taxes on hydrocarbons.

We propose to remove a number of Customs resolutions, namely these marked for removal in Appendix C. The additional import duties could amount to RD$ 978 million, excise taxes of

RD$ 267 million, and ITBIS collection of RD$ 1,924 million, or a total of RD$ 3,169 million (0.36 percent of GDP).

Table 9-1: Summary of Revenue Impact due to US and EU Trade

	USA		EU		Total	
	Million RD$	**%GDP**	**Million RD$**	**%GDP**	**Million RD$**	**%GDP**
2006	**Gross loss of forex commission**				**19,998**	**2.26%**
2007	2,261	**0.26%**	30	**0.00%**	2,292	**0.26%**
2008	871	**0.10%**	773	**0.09%**	1,644	**0.19%**
2009	875	**0.10%**	276	**0.03%**	1,152	**0.13%**
2010	875	**0.10%**	295	**0.03%**	1,171	**0.13%**
2011	874	**0.10%**	295	**0.03%**	1,169	**0.13%**
2012	194	**0.02%**	295	**0.03%**	489	**0.06%**
2013	226	**0.03%**	100	**0.01%**	326	**0.04%**
2014	226	**0.03%**	126	**0.01%**	352	**0.04%**
2015	226	**0.03%**	126	**0.01%**	352	**0.04%**
2016	226	**0.03%**	126	**0.01%**	352	**0.04%**
2017	40	**0.00%**	126	**0.01%**	166	**0.02%**

Source: Table 3-4.

There is a need to have in place a system for refunding the duties paid on imported inputs through a system of tax exemption or duty drawbacks that will refund theses duties on a timely basis. It is important to design and setup such a system that would allow the producers import a high volume of inputs and receive a refund in an efficient and timely manner.

9.2 Proposed ITBIS Measures

The liberalization of trade with the US and EU, and gradual reduction of import duty tariff rates in line with the WTO demands presents a major challenge for revenue collection. The package of proposed measures could be summarized as presented in Table 9-2.

The base-broadening measures are estimated to bring a revenue gain of RD$ 9,391 million, which is equivalent of 1.061 percent of GDP in 2005. The amount of ITBIS collection in terms of GDP share with a rate of 16 percent is currently 4.68 percent of GDP with the existing tax base, and this share is estimated to expand to 5.74 percent of GDP with a broadened base. The difference between the two figures is 1.06 percent of GDP estimated in Section 4.5. The effectiveness of both ITBIS systems, measured in terms of percentage of GDP per ITBIS rate point, is obtained by dividing the ITBIS collection by the statutory rate of 16 percent. Thus, an ITBIS system with the existing tax base collects 0.293 percent of GDP per ITBIS rate point, while a broadened base would result in a collection of 0.359 percent of GDP per ITBIS rate point. Even this estimated efficiency is low compared to other developing countries with similar GDP per capita.

The proposed introduction of a threshold for small business with annual sales below RD$ 1 million will cost the system an amount of RD$ 223 million or 0.025 percent of GDP.

Table 9-2: Summary of Tax Proposals and Revenue Implications

Major Tax Systems	Revenue Raising Measures	Impact on Annual Revenue in 2005 Prices (RD$ million)	Impact on Annual Revenue (share of GDP)
Customs Resolutions	▪ Remove resolutions: 1, 2, 5, 6, 10, 23, 24, 25, 26, 37, 38, 40, 42, 43, 44, 49, 51, 52, 53, 55, 56, 58, 59, 60, 70, 71, 72, 73, 74, 75, 76, 81, 82, 86, 90, 92, 97, 98, 100, and 102	▪ Gain of RD$ 3,169 million [1]	▪ Gain of 0.358% of GDP
ITBIS	▪ Expand tax base ▪ Keep the exempt list to basic grocery, petroleum products, essential medical drugs, electricity, deposit-taking and other financial services, and some social services ▪ Provide immediate refunds of excess input tax credits especially for export-oriented firms ▪ Stop credits for ITBIS on inputs for exempt goods ▪ Strengthen Customs and the tax administration	▪ Gain of RD$ 9,391 million [2]	▪ Gain of 1.061% of GDP
	▪ Threshold for small business with annual sales below RD$ 2 million	▪ Loss of RD$ 223 million [3]	▪ Loss of 0.025% of GDP
	▪ Replace the taxation of insurance services that are subject to ITBIS with a 10% excise ▪ Tax all insurance services, including life & health insurance	▪ Loss of RD$ 100 million [4]	▪ Loss of 0.011% of GDP
	▪ Replace ITBIS on air-tickets with a 10% excise	▪ Loss of RD$ 273 million [4]	▪ Loss of 0.031% of GDP
	▪ Gain on imported goods because of ITBIS base broadening	▪ Gain of RD$ 558 million [4]	▪ Gain of 0.063% of GDP
Excise Taxes	▪ Discontinue unit-rates system on alcohol and tobacco ▪ Change to a single uniform ad-valorem rates for alcohol (50%) and tobacco (70%) on top of manufacturer price plus mark-up factors ▪ Adjust excise tax rates as the same as the above proposed rates for imported goods ▪ Include excise into the base of ITBIS for alcohol and tobacco	▪ Gain of RD$ 3,303 million [5]	▪ Gain of 0.373% of GDP
	▪ Reduce ad-valorem rates on all excisable goods that are different from alcohol, tobacco, and vehicles ▪ For all these goods (except yachts and firearms) a uniform ad-valorem rate of 20% ▪ For yachts and firearms rates of 0% and 80%, respectively	▪ Loss of RD$ 289 million [6]	▪ Loss of 0.033% of GDP
	▪ For all imported vehicles, increase registration fee from 17% to 20% ▪ Abolish the progressive excise schedule, set excise rate to zero	▪ Gain of RD$ 478 million [7]	▪ Gain of 0.054% of GDP
	▪ Fuel: change to uniform ad-valorem rates ▪ Simplify pricing ▪ Increase the effective rate of taxation on diesel ▪ Keep the prices of other fuels unchanged	▪ Gain of RD$ 3,417 million * [8]	▪ Gain of 0.326% of GDP
	▪ Reduce subsidy on GLP **	▪ Gain of RD$ 1,333 million * [8]	▪ Gain of 0.127% of GDP
	▪ Phase out financial transaction tax by 2009, as planned	▪ Loss of RD$ 3,468 million * [8]	▪ Loss of 0.331% of GDP
Entry and Exit Taxes	▪ Keep entry and exit taxes, do not increase	▪ Unchanged [9]	▪ Unchanged
	▪ Levy a 5% excise tax on hotel accommodation	▪ Gain of RD$ 2,199 million [9]	▪ Gain of 0.248% of GDP
Casinos and Games of Chance	▪ Keep the system of casino taxation ▪ Private lotteries and sports betting: impose an excise tax of 15% on gross revenue, payable to DGII	▪ Positive Effect [10]	▪ Positive Effect
Subtotal Revenue Raising Measures before Increasing ITBIS Rate		▪ **Gain of RD$ 19,495 million**	▪ **Gain of 2.180% of GDP**

Notes: * Prices of year 2006.
** Only 50% of savings are included.

Sources:

1 Section 3.6 and Appendix E.
2 Table 4-7 in Section 4.5.
3 Table 4-6 in Section 4.5.
4 Section 4.5.
5 Table 5-7 in Section 5.6.
6 Table 5-8 in Section 5.6.
7 Section 5.6.
8 Table 5-11 in Section 5.6.
9 Section 6.3.
10 Section 7.2.

We assume that all insurance services become subject to an excise tax of 10 percent and ITBIS is not charged by the insurers, and is not claimed on their business inputs. There is an upfront loss of ITBIS revenue of RD$ 1,935 million, which will be offset by the excise tax collection of RD$ 1,458 million (10 percent of gross sales) and savings of credits on inputs of RD$ 376 million. The net impact is a loss of RD$ 100 million, or 0.011 percent of GDP in 2005.

For air-tickets, which we proposed to tax by an excise of 10 percent of the gross sales and to exempt them from ITBIS, there is a loss of ITBIS inflow of RD$ 949 million, and a gain of RD$ 593 million in the excise revenues, and an un-estimated gain in terms of savings of ITBIS credits from passengers who cannot claim a credit on their air-tickets anymore. In addition, the ITBIS currently claimed on inputs (RD$ 83 million) is not credible anymore. The net impact is a loss of RD$ 273 million, or 0.031 percent of GDP in 2005.

Because the broadening of the base of ITBIS will also include commodities imported from other countries, there will be an additional gain of ITBIS at the Customs. The incremental revenue from the base broadening would amount to RD$ 558 million, or 0.063 percent of GDP in 2005.

9.3 Proposed Changes to Selective Taxes on Consumption (Excise Taxes)

The proposed measure on alcohol and tobacco include: a uniform ad valorem rate of 50 percent on all alcohol beverages, whether domestically produced or imported; a uniform ad valorem rate of 70 percent on all tobacco and cigarettes, whether domestically produced or imported; and the ITBIS liability for domestically produced alcohol and tobacco should include the manufacturer's price and the amount of excise. The net result is a gain on domestically produced alcohol and tobacco and minor losses on the imports, totaling about RD$ 3,303 million. This is equivalent to 0.37 percent of GDP.

We recommend adjusting the ad valorem excise rates in order to simplify the administration of all excisable goods that are different from alcohol, tobacco, and vehicles. For all these goods that are subject to excise tax (except yachts and firearms), we propose a uniform ad valorem rate of 20 percent, based on the CIF and import duty. The proposed rates for yachts and firearms are zero and 80 percent, respectively. The total net loss for non-resolution excisable goods is RD$ 289.5 million, or 0.033 percent of GDP.

Virtually, no excise tax is collected on vehicles under the new 2006 rules. The proposal is to keep the current import duty of 20 percent of CIF, but to abolish the ineffective excise tax on vehicles. We recommend retaining the current registration fee and to increase the rate from 17 to 20 percent of CIF immediately. The ITBIS should be administered on top of the CIF value and import duty. The additional revenue is RD$ 478 million or 0.054 percent of GDP in 2005.

We recommend a number of measures to increase the buoyancy of the system and to simplify the administration and compliance of the excise tax on fuel and GLP. The existing mix of unit and ad valorem taxation should be replaced by a single ad valorem tax. The 3 percent of CIF import duty that is not collected should be repealed to reflect the true situation. All types of gasoline are proposed to be subject to a uniform ad valorem tax of 80 percent, applied on the CIF value of fuel. Regular diesel is proposed to be subject to a uniform ad valorem tax of 50 percent. All brands of premium diesel are proposed to be subject to an excise rate of 75 percent. The ad valorem rates for fuels used in generation are set in such a way that the amount of taxes collected is almost unchanged. The net gain from the proposed changes in taxation of gasoline is about RD$ 51 million in 2006 prices. The net gain from the proposed changes in taxation of diesel is about RD$ 3,366 million in 2006 prices, or 0.32 percent of GDP in 2006.

It is proposed to discontinue the current subsidy on liquefied gas because it creates a significant economic distortion by inducing the users to switch from fuel to GLP. A flat 15 percent excise tax is proposed on GLP, which will be slightly more than the current payment of the 13 percent ad valorem tax. For unsubsidized GLP, there will be a minor gain of revenues. For subsidized GLP, there will be significant savings of expenditures, which is a net gain from abolishing the subsidy, loss of 13 percent of CIF ad valorem tax. The estimated net gain for the subsidized GLP is RD$ 2,665 million in 2006 prices, or 0.254 percent of GDP in 2006. For the purpose of analysis, we include only a half of the savings as a gain in the revenue collection: RD$ 1,333 million in 2006 prices, or 0.127 percent of GDP in 2006.

The financial transaction tax has been very effective in generation of revenue, but it is indeed a distortional measure. To assist the authorities in smooth transition during the first phase of trade liberalization, we believe it is better to keep the financial transaction tax, but reduce it over time and then abolish it by 2009, as planned. If the tax is abolished in 2006, a loss of revenue equal approximately to RD$ 3,468 million, or 0.331 percent of GDP in 2006, would be incurred.

9.4 Entry and Exit Taxes

At present time, we recommend to keep the current arrangements, but not to raise the rates of entry and exit tax. Both taxes are indeed very effective tools to collect much needed revenue for the Government at very little cost of administering the taxes. Nevertheless, the entry and exit taxes are not the right tools to improve the collection in the country. Other taxes such as ITBIS and excises should be used.

We propose to re-introduce the excise tax on hotel accommodation at a rate of 5 percent. There is a strong economic foundation for this measure. Such a 5-percent excise tax would generate RD$ 2,199 million. This is worth 0.248 percent of GDP in 2005.

9.5 Taxation of Casinos and Games of Chance

Given the ineffectiveness of the National Lottery to regulate and collect revenue from the private lotteries, it would appear to be desirable if an excise tax of 15 percent were imposed on the gross revenues of all lotteries. This revenue should be part of the direct revenue of the DGII and not part of the funds to be distributed by the National Lottery.

As there is almost perfect substitution elasticity between running a private lottery or a sports-betting establishment for the owners of such places, the 15 percent excise tax on gross income of sports betting establishments should be imposed. The tax should be payable to the DGII on a monthly basis. Over time, the regulation of this sub-sector should also be transferred from the Ministry of Sports to the tax authorities.

The first recommendation concerning the policy towards casinos would be to automatically index all the time, annual and monthly fees to the change in the consumer price index. Second, the monthly fees should be raised substantially, even if some of the casinos now in existence go out of business. Finally, the casinos should be part of the ITBIS framework. We suggest that the 16 percent rate should be applied on the income of the casino, after deducting the winnings of the gamblers. At the same time, the casinos should be able to claim ITBIS credits on its business inputs. For all practical administrative purposes, in order to reduce the tax-avoidance and increase the compliancy, the food and beverages distributed for free should be treated as being sold, and ITBIS should be paid to the DGII. Then, all input credits of casinos can be honored without discrimination.

9.6 Option of Increasing the Rate of ITBIS

Table 9-2 shows us that the net impact of revenue-raising measures before raising the rate of ITBIS is RD$ 19,495 million, or 2.18 percent of GDP in 2005. Table 3-4 suggests that the gross loss of the foreign exchange commission alone is approximately RD$ 19,998 million, or 2.26 percent of GDP. After accounting for the compensatory ad valorem taxes on fuel and vehicles, the net loss of the foreign exchange commission alone is RD$ 11,006 million, or 1.244 percent of GDP.

In addition, the first year of the free trade with the US, year 2007, will cost an additional 0.26 percent of GDP. To make the things worse, the next year, 2008, is the starting point of trade liberalization with the EU, which will cost yet additional 0.19 percent of GDP. In short, the cumulative need for additional revenue over the period 2007-11 is 0.84 percent of GDP plus 1.244 percent of GDP in terms of the net loss of foreign exchange commission. Together, the import duty losses and forex commission loss add up to 2.083 percent of GDP.

As fiscal times get tighter, there is always a tendency to use the statutory tools in order to raise much needed revenue for the treasury. Expanding the base of ITBIS is difficult because somebody who does not pay it now, will have to pay the tax. The easiest option is to raise the rate of ITBIS. Over the past three years, the authorities have increased the rate of ITBIS once in 2004 and expanded the tax base, although insignificantly in 2005.

Considering all that we have seen and said, we feel that the problem that is apparent in the current system is the limited ability of the tax administration and Customs to administer the ITBIS, as it should be. Businesses are able to exploit the weak legislative framework and escape scrutiny by the DGII to claim an increasing proportion of their sales as exempt. In our opinion, the scenario under which the current long list of exemption remains embedded in legislation but the DGII starts going after businesses with exempt sales seriously, is not the best option. This will require a substantial administrative and auditing effort by the DGII, it will likely create some tension between the tax authorities and the business community, and at the same time it is not clear weather this will bring significantly higher revenues.

The only practical way to raise the revenue in a fair and cost-efficient manner for the tax administration and for the taxpayers too is to broaden the ITBIS base and to ensure that a timely cash-based ITBIS refund system is in place. We understand that this is a difficult step for the Government of the Dominican Republic, as it requires a number of painful steps in explaining the rationale behind the tax reform to the taxpayer community. The Dominican Republic is not alone, as many developed and developing countries made this transition from a narrow-tax-base system to a broad-base general sales tax framework.

The option that has been voiced a number of times is to increase the rate of ITBIS from 16 to 18 percent. This step would bring the Dominican Republic into the club of countries with high rates of the general sales tax. We should say that if the current ITBIS system is not expanded and an efficient refund mechanism is not launched, then a higher rate of ITBIS would further distort the system. Businesses that have no escape of claiming exempt sales would be heavily penalized as compared to businesses that have been exploiting the exemptions. This would not add any efficiency to the system, and in few years, it will be in the same need of fundamental reform, as ever before. In other words, ***we stress that raising the ITBIS rate without profound broadening of the tax base and without launching a proper refund mechanism is not a desirable policy option.***

What is needed is to pursue the strategy of ITBIS base-broadening and efficient refund system first. When such steps are taken, then the option of increasing the rate of ITBIS could be considered at last resort. We have simulated a scenario under which the statutory rate of ITBIS is raised to 18 percent along with all the proposed changes to the taxation of imports (Section 3.5), ITBIS (Section 4.5), and excise taxes (Section 5.6). The additional revenue gains reported here are not incremental to the revenue gains already reported in the relevant sections.[75]

[75] The revenue gains/losses reported in all the other sections of this report stem from a change from the current situation to the proposed system. The implicit assumption is that the rate of ITBIS remains 16 percent. Now we can relax this assumption, so that the revenue gains reported in this section represent the change from the current situation to the proposed system with ITBIS rate of 18 percent.

The projected loss of tax revenue due to trade liberalization will change if the ITBIS rate is increased. In addition, the potential collection from removal of resolutions will increase in that case. However, these two post-effects are not relevant in our analysis, and we should not account for these impacts here.

For imported goods, a higher rate of ITBIS means higher payments by importers and additional collection by the Customs. There will be an additional gain of ITBIS at the Customs but offset somewhat by additional input tax credits if imported by ITBIS registrants. If we only include a gain from non-resolution non-excisable goods, the incremental revenue from the base broadening and raising the rate of ITBIS by two points would amount to RD$ 2,796 million, or 0.316 percent of GDP in 2005. Excisable non-resolution goods will be covered by the relevant adjustments in the excise system. There will be additional collection of ITBIS on imports under resolutions if the rate is raised to 18 percent, but we deliberately exclude this impact as we are not sure the degree to which it will be actually collected.

If a threshold for small businesses with a gross turnover of below RD$ 1 million a year is imposed, a loss of revenue will result. However, because that loss is relevant for the current 16 percent rate, it will not recur again if the rate of ITBIS is raised to 18 percent. Hence, due to the new 18 percent ITBIS, we should count no additional deviation from the loss, estimated in Section 4.5.

If the rate of ITBIS is raised to 18 percent, the sample of 555 largest companies with the current level of exemptions will generate an additional RD$ 4,113 million. When extrapolated to the whole country, and adjusted for a loss of small-businesses under the threshold and a compliance factor of 0.7, this change is equal to RD$ 5,053 million, or 0.571 percent of GDP in 2005. A combination of the removal of exemptions and a raise of the rate to 18 percent, for the whole country, will result in a gain of RD$ 17,018 million, or 1.92 percent of GDP in 2005.

The estimated losses stemming from replacing the current 16-percent ITBIS tax with a proposed 10-percent excise on insurance and air-tickets will remain unchanged.

For alcohol and tobacco goods, if the current system is reformed accordingly to the proposals in Section 5.6 and the rate of ITBIS is raised to 18 percent, there will be a net gain of RD$ 3,952 million, or 0.45 percent of GDP in 2005. This covers both imported and domestically produced alcohol and tobacco goods.

On other excisable goods (except alcohol, tobacco, and vehicles), we estimated a net loss due to lowering of the excise rates. We should not change the amount of that loss because of the new ITBIS rate.

For vehicles, if the proposed flat-rate scheme is implemented and the ITBIS is raised, the resulting impact will be a gain of RD$ 914 million, or 0.103 percent of GDP in 2005.

For fuel and GLP, which are exempted from ITBIS, no change in revenue collection should be attributed to any adjustment in the rate of ITBIS.

The resulting changes in the tax collection could be summarized in Table 9-3. As discussed in this section, some of the estimated revenue gains and losses would remain unchanged under the new ITBIS rate of 18 percent. Nevertheless, all the changes due to the additional two points of the ITBIS would amount to 1.07 percent of GDP. That implies that the total amount of revenue raising measures under ITBIS of 18 percent is RD$ 28,956 million, or 3.249 percent of GDP.

Table 9-3: Summary of Tax Proposals and Revenue Implications under 18% ITBIS

	Measures	RD$ million	%GDP	Change as %GDP *
Customs	Remove resolutions **	3,169	0.358%	0.000%
ITBIS	Broaden ITBIS base	15,530	1.755%	0.694%
	Threshold for small business **	-223	-0.025%	0.000%
	Insurance **	-100	-0.011%	0.000%
	Air-Tickets **	-273	-0.031%	0.000%
	Broadening of ITBIS base on Imports	2,796	0.316%	0.253%
Excise Taxes	Alcohol and tobacco	3,952	0.447%	0.074%
	Other Excisable Goods **	-289	-0.033%	0.000%
	Vehicles	914	0.103%	0.049%
	Fuel **, ***	3,417	0.326%	0.000%
	GLP **, ***	1,333	0.127%	0.000%
	Financial Transaction Tax **, ***	-3,468	-0.331%	0.000%
	5% Excise Tax on Hotel Accommodation **	2,199	0.248%	0.000%
	Total	**28,956**	**3.249%**	**1.070%**

Notes: * The difference between Table 9-2 (revenue proposals under 16% ITBIS) and proposals under 18% ITBIS).
** Unchanged, as compared to Table 9-2.
*** Prices of year 2006.

Earlier, we said that the combined import duty losses and foreign exchange commission loss add up to 2.083 percent of GDP over the period 2007-11. The package of reform measures together with a 2-point increase in the rate of ITBIS is worth about 3.25 percent of GDP. There is a surplus of 1.166 percent of GDP.[76] Over time, the loss of tariff revenue will gradually consume this surplus. When the surplus will not be enough to meet the revenue gap, and new revenue measure will have to be prepared.

[76] This accounting framework does not include the behavior response of the public to the higher ITBIS rate. As Section 4.3 shows, the previous two events of rate increase were accompanied by a significant reduction in the marginal collection on the additional points of the ITBIS rate. The estimated surplus might be well absorbed by lower than expected collection of ITBIS revenues due to reduced compliance of the public to the new 18-percent rate.

REFERENCES

Agha, Ali & Haughton, Jonathan, 1996. "Designing VAT Systems: Some Efficiency Considerations," *The Review of Economics and Statistics,* MIT Press, vol. 78(2), pages 303-08, May.

Cnossen, Sijbren (2007) *Alcohol Taxation and Regulation in the European Union,* CESifo, Working Paper No. 1821, (www.CESifo-group.de)

Horwath, Sotero Peralta & Asociados Members of Horwath International and Russin, Vecchi & Heredia Bonetti L.L.P., *Tax Code of the Dominican Republic*, October 1997.

Jenkins, Glenn P., Chun-Yan Kuo and Keh-Nan Sun, *Taxation and Economic Development in Taiwan*, Cambridge: John F. Kennedy School of Government, Harvard University, 2003.

Melhado, Oscar, "Fiscal Sustainability and Resource Mobilization in the Dominican Republic", International Monetary Fund Working Paper, January 2003.

The Economic Commission for Latin America and the Caribbean (ECLAC) Subregional Headquarters for the Caribbean, "The Fiscal Implications and Macroeconomic Effects of Trade Liberalization – The Dominican Republic", a confidential report, January 2003.

APPENDIX A

Import Quota and Import Duty Rates, 2003-04

Commodity	Year	Import Quota (MT)	Import Duty Rates (%)	
			Normal Rate	Rate if Imports go over Quota
Garlic	2003	4,200	20	101
	2004	4,350	20	99
Rice	2003	16,988	20	104
	2004	17,399	20	99
Sugar	2003	29,000	20	86
	2004	30,000	20	85
Poultry	2003	10,500	25	111
	2004	11,500	25	99
Onion	2003	3,500	20	97
	2004	3,625	20	97
Beans	2003	16,800	25	91
	2004	17,400	25	89
Powdered Milk	2003	32,000	20	65
	2004	32,000	20	56
Corn	2003	1,013,400	0	46
	2004	1,052,200	0	40

APPENDIX B

List of Customs Resolutions, October 2006

No.	Description	Legal Base	Meaning
1	Exoneracion organismos e inst. Servicio publico	Literal (a) art. 13 ley 146 y numeral (3) ley 147	Exonerations for public organizations and institutions
2	Instituciones religiosas y servicio	Ley 2/04 literal (c) 1ra. Resolucion j. Monetaria	Religious institutions and services
3	Donaciones a instituciones oficiales o por gob ext	Literal (c) art. 13 ley 146 y numeral (7) ley 147	Donations destined to official institutions or by external governments
4	Misiones displomaticas de gobiernos extranjero	Literal (b) art. 13 ley 146 y numeral (3) ley 147	Diplomatic missions from foreign governments
5	Turismo y hoteles	Ninguna	Tourism and hotels
6	Cooperativas y fundaciones	LEY 124-64	Cooperative societies and foundations
10	Exoneracion de educacion sector publico (f49)	Ley 66-97	Exoneration for Public Sector Education
11	Entrega provisional pediente exoneracion	Ley 3489	Provisional delivery pending for exoneration
13	Efectos personales que vengan a residir al pais	Literal (d) art. 13 ley 146 y numeral (2) ley 147	Personal effects that will remain in the country
14	Muestras reducidas de productos farmaceuticos	Literal (g) art. 13 ley 146 y numeral (4) ley 147	Reduced samples of pharmaceutical products
16	Mudanzas otras mercancias	Ley 170	Moving of other merchandise
18	Acuerdo de libre comercio		Free Trade Agreement
19	Ley de hidrocarburo		Hydrocarbons Law
20	Mercancia no empacada formulario 22		Unpacked merchandise Form 22
21	Acuerdo libre comercio centro america (ca)	Ninguna	Free trade agreement (CA)
22	Acuerdo libre comercio caricom (co)	Ninguna	CARICOM Free trade agreement
23	Impuesto unico vehiculo militares (COR, MAY y CAP)	Decision presidencial ver oficio dado	Military vehicles only tax
24	Catalogos y muestrarios	Literal (i) art. 13 ley 146 y numeral (7) ley 147	Catalogues and samples
27	Mudanzas vehiculos - 1 aðo	Literal d art 13 ley 146-00 decreto 346-04	Vehicle moving 1 year
28	Mudanzas vehiculos - 2 aðos	Literal d art 13 ley 146-00 decreto 346-04	Vehicle moving 2 year
29	Mudanzas vehiculos - 3 aðos	Literal d art 13 ley 146-00 decreto 346-04	Vehicle moving 3 year
30	Mudanzas vehiculos - 4 aðos	Literal d art 13 ley 146-00 decreto 346-04	Vehicle moving 4 year
31	Mudanzas vehiculos - 5 aðos	Literal d art 13 ley 146-00 decreto 346-04	Vehicle moving 5 year
33	Marcapasos y aparatos para audicion	Literal (m) art. 13 ley 146 y numeral (7) ley 147	Pacemaker and hearing items
34	Exoneracion parcial inst. Maquinarias y equipos	Decision presidencial ver oficio dado	Partial exoneration for machines and equipments
36	Partes y piezas de barcos y aviones en proceso c/d	Literal (j) art. 13 ley 146 y numeral (7) ley 147	Parts and pieces for boats and planes in process
37	Mat. Prima, mat. Empaque, insumos y maquinarias fa	Literal (k) art. 13 ley 146 y parrafo (2) ley 147	Inputs, Packing material, Merchandise
38	Partes componentes y respuestos de computadora per	Literal (i) art. 13 ley 146 y parrafo (iv) ley 147	Pieces and replacements for computers
39	Tratamiento esp de vehiculo (monto cif)	Desicion presidencial ver oficio dado	Special treatment for vehicles (CIF amount)
40	Entrega definitiva gubernamental	Ley 3489	Definitive delivery for the government
42	Tratamiento esp de vehiculo (%cif)	Decision presidencial ver oficio dado	Special treatment for vehicles (%CIF)
43	Impuesto unico vehiculo militares (generales)	Decision presidencial ver oficio dado	Military vehicles only tax (generals)
44	Exoneracion parcial de vehiculo (%cif)	Decision presidencial ver oficio dado	Partial exoneration for vehicles (%CIF)
46	Certificados de participacion de dgii		Participation certificates from DGII
48	Excension de insulina		Insulin exemption
49	Entrega definitiva sector privado		Definitive delivery to private sector
51	Exoneracion de educacion sector privado (f49)	Ley 124-64	Private sector education exemption
52	Insumos para fertilizantes y alimentos p/ animales	Parrafo (2) ley 147	Inputs for fertilizers and animal food
55	Exoneracion de vehiculo ex diplomaticos altos	Ley 314 y sus mod. Del 6 de julio del 1964	Exoneration to vehicles from ex high diplomatic
56	Exoneracion de vehiculo ex diplomaticos medios	Ley 314 y sus mod. Del 6 de julio del 1964	Exoneration to vehicles from ex medium diplomatic
58	Tratamiento especial otras mercancias (% cif)	Decision presidencial ver oficio dado	Special treatment other merchandises (%CIF)
59	Exoneraciones instituciones religiosas	Dec.1078-03, res. Junta 20/08/02 y oficio 042/01	Exonerations to religious institutions
60	Libros y revistas a consignacion	Oficio sdo-042 del director de fecha 22/01/2001	Books and magazines on consignation
61	Eliminacion multas declaracion tardia (art. 52)	Comision tecnica deliberativa	Elimination late declaration ticket
62	Eliminacion recargo 2%	Comision tecnica deliberativa	Elimination 2% tax
63	Equipos, medicamentos y mat. Gast. Para dialisis	Resolusion no. 44-2003 del congreso	Equipments, medicines and supplies for dialysis

List of Customs Resolutions, October 2006 (cont'd)

No.	Description	Legal Base	Meaning
64	Equipos, medic. Y m. Gast. Para dialisis sec. Priv	Resolucion no. 44_2003 delcongreso	Equipments, medicines and supplies for private sector dialysis
66	Exencion a los discapacitados	Ley 42-00 sobre exencion a los discapasitados	Exemption to the disabled
67	Reliquidacion sin comision	Fiscalizacion para use exclusivo	Liquidation without commission
68	Acuerdo libre comercio con panama(pa)	Ninguna	Panama Free trade agreement
69	Insentivo al comercio interno	Decision presidencial ver oficio dado	Incentive for internal commerce
70	Zona especial de desarrollo fronterizo (ley 28-01)	Ley 28-01	Frontier development special zone
71	Exoneraciones para congresistas	Ley 21,50,55,57, d/f 9/3/87, 9/11/66	Exemption to congressmen
72	Exoneraciones desarrollo fronterizo (ley 28-01)	Ley 28-01	Exemption for frontier development
73	Exoneraciones para jueces carrera judicial	Ley 327/98 art 5, pag. 19	Exemption for judges
74	Entrega provisional de iglesia pendiente exone	Ley 3489	Provisional delivery to churches pending for exoneration
75	Credito a cerveceria generado por indal sa	Oficio 012478 de 23 julio	Credit to Cerveceria generated by INDAL SA
76	Exoneracion sin placa pago proporcional	Para uso exclusivo de revision	Exoneration proportional payment
77	Mercancia a reimportacion sin cambio ley146	Ley 146 art 13 litera e.	Re-imported merchandise without changes
79	Expedientes para pago de placa (subasta)	Uso exclusivo subasta	Files to "Placa" payments (auction)
80	Exoneracion discapacitados	Aplicacion ley 42-00	Exemption to the disabled
81	Exoneracion organizaciones no gubernamentales(ong)	Oficio 3529 d/f 14/04/2004	Exemption to non-government organizations
82	Entrega provicional para inst. Religiosa	Ley 204	Provisional delivery to religious institutions
83	Abando expreso	Art94- ley3489	Abandonment
84	Exoneracion embajadores	Ley 314 y sus mod. Del 6 de julio del 1964	Exemption to embassies
85	Mercancia incautada	Ley 3489 art 196	Seized merchandise
86	Tratamiento para maquinaria y equipos	Ley 3489	Treatment for machines and equipments
87	Factura antes de implementar validacion	Administrativa de sistema	Invoice before validation
89	Exoneracion de 20 hasta 25 años de res. En el ext.	Literal d art 13 ley 146-00 decreto 346-04	Exoneration from 20 to 25 years of residence abroad
90	Electrodomestico desmontado ley 28-01	Ley 28-01 de incentivo a provincias fronterizas	Domestic appliances exempted by law 28-01
91	Exoneracion de 15 hasta 20 años de res. En el ext	Literal d art 13 ley 146-00 decreto 346-04	Exoneration from 15 to 20 years of residence abroad
92	Exoneracion consorcios energeticos	Ley 14-90 res.no. 3/92 articulo 5 letra c 1-4-92	Exoneration to energy consortium
93	Exon. 4 a 5 años y 15 a 2o años de res. Ext.	Literal d art 13 ley 146-00 decreto 346-04	Exoneration from 4 to 5 years and 15 to 20 of residence abroad
94	Exon. 4 a 5 años mas 25 años o mas de res. Ext.	Literal d art 13 ley 146-00 decreto 346-04	Exoneration from 4 to 5 years plus 25 years or more of residence abroad
95	Exon. 4 a 5 años mas 10 a 15 años de res. Ext.	Literal d art 13 ley 146-00 decreto 346-04	Exoneration from 4 to 5 years plus 10 to 15 years or more of residence abroad
96	Exoneracion embajadas	Ley 97	Embassy exonerations
97	Tratamiento para camiones	Ley 34-89 acuerdo acofave	Treatment for trucks
99	Incentivos ley medio ambiente	Ley 64-00 sobre medio ambiente y rec. Nat. Art.65	Environment Incentive Law
100	Tratamiento para equipos nauticos	Ley 3489 of. 014461 d.f 25/06/2005	Treatment for navy equipment
102	Tasa cero bombillas/tubos/lamparas 1 a 85 watts	Ley no. 376-05 promulgada en fecha 30 sept. 2005	Zero rate low consumption lamps
103	Tratamiento acofave para la hommer	Ley 3489, acuerdo con latino auto acofave	Treatment ACOFAVE for the Hommer
104	Muestras reducidas de prod.farmaceuticos para z.f	Literal (d) art. 13 ley 146 y numeral (2) ley 147	Reduced samples of pharmaceutical products for free zones
105	Producto de zona franca 100% materia prima nac.	Cap. Vii de la ley 8-90 parrafo b.	Free zone input 100% national
106	Eliminacion placas ex.on. Ex-diplomaticos	Ley no. 170, 173, 221, 361 y 346	"Placa" ex diplomatic
107	Perfiles de aluminio moldurados	Ley 3489	Aluminum pieces
108	Sustancia controlada medio ambiente	Parrafo 6 art. 2-a protocolo de montreal	Controlled substance for the environment
109	Literal k art. 13 y art.343 prod.farmaceuticos	Lit (k) art. 13 ley 146/00 y parrafo ii art.343	Pharmaceutical products
110	Eliminacion 0.04 % tasa servicio aduanero	Direccion general de aduana	0.4% Custom service abolished
111	Exencion de bienes industrializados itbis	Ley monetaria y financiera no. 183-02 d/f 21/11/02	Exempted goods from ITBIS
112	Exoneracion instituciones gubernamentales	Ley no, 170, 227, ley 147 y 146-00 art. 1 ley 4027	Exemption for the government
113	Exon.jueces carrera judicial primera instancia	Ley 327/98 art 5, pag. 19 d.f 13/07/2006	Exemption judges
114	Exon.jueces carrera judicial pres corte apelacion	Ley 327/98 art 5, pag. 19 d.f 13/07/2006	Exemption judges appeal court

APPENDIX C

Estimated Revenue Impact of US and EU Free Trade Agreements (RD$ million, 2005 prices)

	2007 *				2008 †				2009				2010				2011				2012 ψ ψ			
	Duty	**Excise**	**ITBIS**	**Total**	**Duty**	**Excise**	**ITBIS**	**Total**	**Duty**	**Excise**	**ITBIS**	**Total**	**Duty**	**Excise**	**ITBIS**	**Total**	**Duty**	**Excise**	**ITBIS**	**Total**	**Duty**	**Excise**	**ITBIS**	**Total**
USA (RD$ million)																								
Regular, Non-Excisable ‡	1,133	0	179	**1,311**	154	0	24	**178**	167	0	26	**193**	167	0	26	**193**	166	0	26	**192**	90	0	14	**104**
Alcohol & Tobacco §	2	17	3	**23**	2	14	3	**18**	2	0	0	**2**	2	0	0	**2**	2	0	0	**2**	2	0	0	**2**
Vehicles ψ	1	0	0	**2**	364	0	58	**422**	364	0	58	**422**	364	0	58	**422**	364	0	58	**422**	1	0	0	**1**
Other Excisable	132	37	27	**196**	5	2	1	**9**	5	2	1	**9**	5	2	1	**9**	5	2	1	**9**	4	1	1	**6**
Resolution Non-Excisable **	573	0	91	**663**	88	0	14	**102**	93	0	15	**108**	93	0	15	**108**	93	0	15	**108**	68	0	11	**79**
Resolution Alc-Tob **	0	0	0	**1**	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**
Resolution Vehicles **	0	0	0	**0**	120	0	19	**139**	120	0	19	**139**	120	0	19	**139**	120	0	19	**139**	0	0	0	**0**
Resolution Other Excisable **	44	12	9	**65**	2	1	0	**3**	2	1	0	**3**	2	1	0	**3**	2	1	0	**3**	1	0	0	**2**
EU (RD$ million)																								
Regular, Non-Excisable ††	0	0	0	**0**	449	0	72	**521**	65	0	10	**75**	76	0	12	**88**	76	0	12	**88**	76	0	12	**88**
Alcohol & Tobacco ‡‡	0	26	4	**30**	7	21	4	**32**	12	0	2	**14**	12	0	2	**14**	12	0	2	**14**	12	0	2	**14**
Vehicles §§	0	0	0	**0**	0	0	0	**0**	118	0	19	**137**	118	0	19	**137**	118	0	19	**137**	118	0	19	**137**
Other Excisable	0	0	0	**0**	11	4	2	**18**	1	1	0	**2**	1	1	0	**2**	1	1	0	**2**	1	1	0	**2**
Resolution Non-Excisable **	0	0	0	**0**	171	0	27	**198**	28	0	4	**32**	33	0	5	**38**	33	0	5	**38**	33	0	5	**38**
Resolution Alc-Tob **	0	1	0	**1**	0	1	0	**1**	1	0	0	**1**	1	0	0	**1**	1	0	0	**1**	1	0	0	**1**
Resolution Vehicles **	0	0	0	**0**	0	0	0	**0**	13	0	2	**15**	13	0	2	**15**	13	0	2	**15**	13	0	2	**15**
Resolution Other Excisable **	0	0	0	**0**	2	1	0	**4**	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**
USA (Share of 2005 GDP)																								
Regular And All Excisable	0.14%	0.01%	0.02%	**0.17%**	0.06%	0.00%	0.01%	**0.07%**	0.06%	0.00%	0.01%	**0.07%**	0.06%	0.00%	0.01%	**0.07%**	0.06%	0.00%	0.01%	**0.07%**	0.01%	0.00%	0.00%	**0.01%**
All Resolutions **	0.07%	0.00%	0.01%	**0.08%**	0.02%	0.00%	0.00%	**0.03%**	0.02%	0.00%	0.00%	**0.03%**	0.02%	0.00%	0.00%	**0.03%**	0.02%	0.00%	0.00%	**0.03%**	0.01%	0.00%	0.00%	**0.01%**
Total	0.21%	0.01%	0.03%	**0.26%**	0.08%	0.00%	0.01%	**0.10%**	0.09%	0.00%	0.01%	**0.10%**	0.09%	0.00%	0.01%	**0.10%**	0.08%	0.00%	0.01%	**0.10%**	0.02%	0.00%	0.00%	**0.02%**
Cumulative				**0.26%**				**0.35%**				**0.45%**				**0.55%**				**0.65%**				**0.67%**
EU (Share of 2005 GDP)																								
Regular And All Excisable	0.00%	0.00%	0.00%	**0.00%**	0.05%	0.00%	0.01%	**0.06%**	0.02%	0.00%	0.00%	**0.03%**	0.02%	0.00%	0.00%	**0.03%**	0.02%	0.00%	0.00%	**0.03%**	0.02%	0.00%	0.00%	**0.03%**
All Resolutions **	0.00%	0.00%	0.00%	**0.00%**	0.02%	0.00%	0.00%	**0.02%**	0.00%	0.00%	0.00%	**0.01%**	0.01%	0.00%	0.00%	**0.01%**	0.01%	0.00%	0.00%	**0.01%**	0.01%	0.00%	0.00%	**0.01%**
Total	0.00%	0.00%	0.00%	**0.00%**	0.07%	0.00%	0.01%	**0.09%**	0.03%	0.00%	0.00%	**0.03%**	0.03%	0.00%	0.00%	**0.03%**	0.03%	0.00%	0.00%	**0.03%**	0.03%	0.00%	0.00%	**0.03%**
Cumulative				**0.00%**				**0.09%**				**0.12%**				**0.16%**				**0.19%**				**0.22%**

Estimated Revenue Impact of US and EU Free Trade Agreements (RD$ million, 2005 prices) (cont'd)

	2013 ψ ψ				2014				2015				2016				2017 ***			
	Duty	Excise	ITBIS	Total	Duty	Excise	ITBIS	Total	Duty	Excise	ITBIS	Total	Duty	Excise	ITBIS	Total	Duty	Excise	ITBIS	Total
USA (RD$ million)																				
Regular, Non-Excisable ‡	112	0	17	**128**	112	0	17	**128**	112	0	17	**128**	112	0	17	**128**	29	0	3	**32**
Alcohol & Tobacco §	2	0	0	**2**	2	0	0	**2**	2	0	0	**2**	2	0	0	**2**	1	0	0	**1**
Vehicles ψ	1	0	0	**1**	1	0	0	**1**	1	0	0	**1**	1	0	0	**1**	0	0	0	**0**
Other Excisable	4	1	1	**6**	4	1	1	**6**	4	1	1	**6**	4	1	1	**6**	0	0	0	**0**
Resolution Non-Excisable **	75	0	12	**86**	75	0	12	**86**	75	0	12	**86**	75	0	12	**86**	5	0	1	**6**
Resolution Alc-Tob **	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**
Resolution Vehicles **	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**
Resolution Other Excisable **	1	0	0	**2**	1	0	0	**2**	1	0	0	**2**	1	0	0	**2**	0	0	0	**0**
EU (RD$ million)																				
Regular, Non-Excisable ††	54	0	9	**63**	70	0	11	**81**	70	0	11	**81**	70	0	11	**81**	70	0	11	**81**
Alcohol & Tobacco ‡‡	1	0	0	**1**	1	0	0	**1**	1	0	0	**1**	1	0	0	**1**	1	0	0	**1**
Vehicles §§	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**
Other Excisable	1	1	0	**2**	1	1	0	**2**	1	1	0	**2**	1	1	0	**2**	1	1	0	**2**
Resolution Non-Excisable **	29	0	5	**34**	36	0	6	**42**	36	0	6	**42**	36	0	6	**42**	36	0	6	**42**
Resolution Alc-Tob **	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**
Resolution Vehicles **	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**
Resolution Other Excisable **	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**
USA (Share of 2005 GDP)																				
Regular And All Excisable	0.01%	0.00%	0.00%	**0.02%**	0.01%	0.00%	0.00%	**0.02%**	0.01%	0.00%	0.00%	**0.02%**	0.01%	0.00%	0.00%	**0.02%**	0.00%	0.00%	0.00%	**0.00%**
All Resolutions **	0.01%	0.00%	0.00%	**0.01%**	0.01%	0.00%	0.00%	**0.01%**	0.01%	0.00%	0.00%	**0.01%**	0.01%	0.00%	0.00%	**0.01%**	0.00%	0.00%	0.00%	**0.00%**
Total	0.02%	0.00%	0.00%	**0.03%**	0.02%	0.00%	0.00%	**0.03%**	0.02%	0.00%	0.00%	**0.03%**	0.02%	0.00%	0.00%	**0.03%**	0.00%	0.00%	0.00%	**0.00%**
Cumulative				**0.70%**				**0.72%**				**0.75%**				**0.77%**				**0.78%**
EU (Share of 2005 GDP)																				
Regular And All Excisable	0.01%	0.00%	0.00%	**0.01%**	0.01%	0.00%	0.00%	**0.01%**	0.01%	0.00%	0.00%	**0.01%**	0.01%	0.00%	0.00%	**0.01%**	0.01%	0.00%	0.00%	**0.01%**
All Resolutions **	0.00%	0.00%	0.00%	**0.00%**	0.00%	0.00%	0.00%	**0.00%**	0.00%	0.00%	0.00%	**0.00%**	0.00%	0.00%	0.00%	**0.00%**	0.00%	0.00%	0.00%	**0.00%**
Total	0.01%	0.00%	0.00%	**0.01%**	0.01%	0.00%	0.00%	**0.01%**	0.01%	0.00%	0.00%	**0.01%**	0.01%	0.00%	0.00%	**0.01%**	0.01%	0.00%	0.00%	**0.01%**
Cumulative				**0.23%**				**0.25%**				**0.26%**				**0.28%**				**0.29%**

Source: Own estimates. Customs Department of the Ministry of Finance, Dominican Republic, 2006.

Notes:

- * The estimated loss is based on the model of revenue collection under the current system, and expected free-trade tariff reduction schedules.
- † The additional revenue loss due to liberalization, i.e. the difference between the projected 2007 collection and 2008 collection. Not cumulative.
- ‡ The import duty rates on a large number of goods originated from the US are reduced to zero immediately.
- § Under the agreement, duties on most of alcohol and tobacco goods are also lowered. There is also a reduction in the real value (expressed in constant 2005 prices) of excise revenues on alcohol and tobacco, due to the fixed unit rates currently in place.
- ψ Under the agreement, duties on most of vehicle types are also phased out, but starting from the second year, 2008.
- ** The degree of revenue loss on resolutions is not zero, but in practice must be less than indicated because not all taxes are collected at full rates.
- †† Assumed that the EU agreement is effective starting from 2008.
- ‡‡ .There is a reduction in the real value (expressed in constant 2005 prices) of excise revenues on alcohol and tobacco, due to the fixed unit rates currently in place.
- §§ It is assumed that EU-made vehicles will be covered by the free trade agreement, similar to the US deal, where there is a one-year lag in the reduction of the 20-percent duty on vehicles.
- ψ ψ For the US imports, commodities that have a duty reduction period of 5 years will have been zero-rated by 2012, and there will be no further tariff reduction on this group. At the same time, for a number of items, the DR-CAFTA agreement specifies an accelerated annual tariff reduction after the first 5 years. This explains why there is a significant reduction of the size of the annual import duty loss in 2012, as compared to the size of duty revenue loss 2011 and 2013. A similar pattern is found in the projected import duty loss for the EU but in year 2013, since the DR-EU agreement is assumed to begin in 2008. The size of the loss of the tariff revenue on EU imports is less in 2013 than in 2012 and 2014.
- *** Not all goods covered by the free trade agreements will be zero-rated by 2017. There will be few commodities for which the tariff is phased out over a period of 20 years, which is assumed to start in 2007 for the US, and in 2008 for the EU.

APPENDIX D

Alternative Methods of Estimation of Revenue Impact due to US and EU Free Trade Agreements

There have been several attempts to estimate the revenue impact from the first year of the US free trade agreement when a wave of duty zero-rating is supposed to take place. A range of estimates have been quoted, starting from 0.4 to 0.54 percent of GDP for the first year of the liberalization with the US. In this section, we illustrate an alternative shortcut method that confirms our findings in Section 3.5.

First, let us do estimation in the absence of actual detailed trade data by commodity. What is reported by the Customs and the Central Bank is the share of imports from each country. For the US, the share was 34.1 percent of the total imports of Regime 1 valued at CIF price. The total import duty collection, as shown in Table 2-1, was RD$ 14,314 million in 2005. One may presume that imports from the US contributed RD$ 4,876 million. If no detailed trade data by commodity is available, an attractive assumption can be made that the 6,832 goods covered by the agreement with the US contribute the same amount of duty revenue per each commodity line. Table D-1 shows the distribution of the commodities covered by the agreement among the different baskets and the share of each basket. Then, the total duty collection of RD$ 4,876 million is spread over the baskets, according to the computed basket shares. The duty loss in the last column represents the loss of duty revenue in the first year. For the goods in the zero-rated basket, all duties of RD$ 3,087 million are forgone. For all other baskets, only a fraction of the duty collection is lost, because the reduction is phased out. For example, the second basket that contributes RD$ 271 million now will give up RD$ 54 million, which is one-fifth of the current collection. For the sensitive goods, subject to special tariff reduction schedules, we know that these stretch from 5 to 20 years, and we can assume an average duration of 10 years.

Table D-1: Estimation of Revenue Loss under Simple Average Assumption

Basket	Commodity Lines	Basket Share	Contribution to Duty Collection (RD$ million)	Duration (years)	Duty Loss in First Year (RD$ million)
Immediate zero-rate	4,326	63%	3,087	0	3,087
5-year basket	380	6%	271	5	54
10-year basket	692	10%	494	10	49
15-year basket	107	2%	76	15	5
Special Schedules	1,327	19%	947	10	95
Total	**6,832**	**100%**	**4,876**		**3,291**

The resulting loss of duty revenue is RD$ 3,291 million or 0.37 percent of GDP in 2005. In addition, some excise taxes and ITBIS losses will have to be added on top of this figure. The IMF report quotes an estimate of 0.3 percent of GDP for the first year of DR-CAFTA agreement (based on an implicit assumption that the agreement is effective in the second half of 2006), and 0.5 percent of GDP in 2007.[77] Other estimates that have been shown to us indicate a loss of about 0.4 percent of GDP, which is very close to the figure we have derived in Table D-1.

If the actual amount of import duties collected on US-made imports is known, then instead of the earlier figure of RD$ 4,876 million one can use the actual duty collection of RD$ 4,334 million, reported in Table D-2. Under the assumptions outlined in Table D-1, the resulting revenue loss is RD$ 2,925 million or 0.33 percent of GDP in 2005.

The underlying problem with the simple average approach is that it does not take into account the actual trade flows into the country, which could be biased either towards tariff-protected goods or towards goods that are already competitively traded with the US. One alternative method that rather addresses this issue is to follow a weighted average approach that, however, requires some gross information about the trade with the US. Table D-2 shows the summary of the Regime 1 imports originated from the US by import duty rate. Only 4,907 different commodities were actually traded in 2005, out of which 531 are already zero-rated. Most of the goods are either subject to a 3-percent duty (1,852 lines) or to 20-percent duty (1,570 lines). The CIF value of imports and tax collection are also reported, and most of duties are collected from a single group: RD$ RD$ 3,041 million on 20-percent rated goods. The three groups that are immediately zero-rated in the first year of trade liberalization (0%, 3% and 8%) account for only RD$ 670 million.

Table D-2: Imports from US by Import Duty Rate

Duty Rate	Commodity Lines Traded	CIF (RD$ million)	Duty (RD$ million)
0%	531	12,345	0
3%	1,852	14,510	446
8%	524	2,764	224
14%	378	3,093	438
15%	12	10	2
20%	1,570	15,616	3,041
25%	20	545	141
40%	20	103	43
Total	**4,907**	**48,986**	**4,334**

Next, the trade flow should be categorized according to the proposed US-CAFTA commodity schedule. Table D-3 shows the allocation of the 2005 imports by the proposed baskets. Baskets A and G contain goods that are immediately zero-rated; basket B reduces the current duty rate over 5 years; basket C stretches over 10 years; and basket D and its special annexes are designed to last for 15 years. Baskets M and N are for 10 years, but starting at different initial rates: M at 20 percent duty and N at 14 percent duty. Basket V is complex because contains a mix of goods that are currently subject to duty rate from 20 to 40 percent, and there are

[77] "Staff Report for the Third and Fourth Reviews under the Stand-By Arrangement, Review of Financing Assurances, and Requests for Waivers of Nonobservance of Performance Criteria and Rephasing of Purchases under the Arrangement", IMF, April 24, 2006.

different schedules that reduce these rates to zero over a period from 10 to 20 years. Basket W has goods that are currently subject to duty rate of 20 percent and each year the rate is reduced by 5 percent. Basket X is the same as basket W but the first year the initial 20 percent duty is maintained and the reduction starts in the second year. Basket Y has goods that will have a rate of 25 percent for the first six years of agreement, and then gradually reduce to zero over a 10-year period. The number of commodities actually imported from the US but not covered by the FTA was 209, coded as "NO".

Using the actual reduction schedule, one can estimate the pace of import duty reduction in the first year of the FTA. For basket A and G all import duty collection will be lost. Baskets X, Y and NO do not lose any duty revenue in the first year of FTA. Basket V contains some goods which are currently taxed as high as 25 and 40 percent of CIF, and we can assume an average reduction of, let's say, 10 percent of the duty in the first year of FTA. All other baskets reduce the import duty rate by a fraction, indicated in Table D-3, which corresponds to the phased plan of tariff reduction. The last column shows that the resulting total loss of duty revenue is RD$ 1,405 million or 0.16 percent of GDP.

Table D-3: Estimation of Revenue Loss under Weighted Average Assumption

Basket	Commodity Lines	CIF (RD$ million)	Duty (RD$ million)	Annual Reduction in Duty Rate	Duty Loss in First Year (RD$ million)
A	2,952	17,303	1,168	-	1,168
B	280	2,329	276	1.0%	23
C	561	2,951	502	2.0%	59
D	80	374	85	1.0%	4
D /Annex	9	105	24	2.0%	2
D/1	3	1	0	1.5%	0
G	510	11,739	5	-	5
M	240	1,423	221	1.0%	14
N	11	48	10	1.0%	0
N /Annex	1	67	14	2.0%	1
V /Annex	38	1,267	287	10.0%	127
W	2	23	5	5.0%	1
X	9	7,704	1,454	0.0%	0
Y	2	61	16	0.0%	0
NO	209	3,591	267	-	0
Total	**4,907**	**48,986**	**4,334**		**1,405**

Under the micro-simulation approach, each commodity line (4,907 different goods imported from the US in 2005) is individually modeled to estimate the amount of import duty, excise tax, and ITBIS under the current regulations. Then, the rate of import duty is lowered according to the basket in which the commodity belongs to. The consequent change in the amount of duty, excise, and ITBIS is recorded for each commodity. Appendix C shows that the result of micro-simulation, carried out by individual commodity, is a total loss of RD$ 1,884 million or 0.21 percent of GDP.

The weighted average approach gives us a closer estimate to the actual micro-simulation result than the simple average method. In short, the amount of revenue loss in the first year of free trade with the US is over-estimated by using the simple average approach; and the weighted average approach produces a closer figure but still under-estimates the result.

APPENDIX E

Customs Resolutions: Actual and Potential Revenues, 2005 (RD$ million)

			ACTUAL								POTENTIAL			
	Resolution		**CIF**	**Share**	**# Vehicles**	**CIF Vehicles**	**Duty**	**Excise**	**ITBIS**	**Total**	**Duty**	**Excise**	**ITBIS**	**Total**
1	Exonerations for public organizations and institutions	Y	90	0.08%	3	2.1	0.0	0.0	11.7	**11.7**	13.8	1.4	16.9	**32.1**
2	Religious institutions and services	Y	12	0.01%	0	0.0	0.7	0.0	1.3	**1.9**	0.7	0.1	1.9	**2.6**
3	Donations destined to official institutions or by external governments		30	0.03%	0	0.0	0.0	0.0	0.0	**0.0**	3.1	0.5	5.2	**8.8**
4	Diplomatic missions from foreign governments		174	0.16%	117	112.0	0.0	0.0	0.0	**0.0**	32.0	44.3	39.8	**116.1**
5	Tourism and hotels	Y	295	0.27%	5	1.2	0.0	0.0	0.0	**0.0**	33.2	16.0	55.0	**104.2**
6	Cooperative societies and foundations	Y	26	0.02%	5	3.6	0.0	0.0	0.0	**0.0**	1.6	1.0	4.6	**7.2**
10	Exoneration for public sector education	Y	5	0.00%	1	0.5	0.0	0.0	0.0	**0.0**	0.9	0.1	1.0	**1.9**
11	Provisional delivery pending for exoneration		7,599	6.89%	86	51.3	751.0	60.7	1,241.7	**2,053.4**	752.6	71.5	1,328.0	**2,152.0**
13	Personal effects that will remain in the country		225	0.20%	5	2.8	0.0	0.0	0.0	**0.0**	36.2	9.0	42.3	**87.6**
14	Reduced samples of pharmaceutical products		158	0.14%	0	0.0	0.0	0.0	0.0	**0.0**	5.9	0.7	26.0	**32.6**
16	Moving of other merchandise		4	0.00%	0	0.0	0.0	0.0	0.0	**0.0**	0.6	0.1	0.7	**1.5**
18	Free Trade Agreement		5	0.00%	0	0.0	0.0	0.0	0.8	**0.8**	0.8	0.0	0.9	**1.7**
19	Hydrocarbons Law		67,987	61.67%	0	0.0	0.0	0.0	0.0	**0.0**	2,039.6	0.0	11,204.3	**13,243.9**
20	Unpacked merchandise Form 22		12	0.01%	1	0.1	0.0	0.0	0.0	**0.0**	1.0	0.2	2.1	**3.3**
21	Free trade agreement (CA)		3,719	3.37%	1	0.3	0.0	4.4	509.1	**513.4**	604.7	4.5	636.3	**1,245.5**
22	CARICOM Free trade agreement		234	0.21%	0	0.0	0.0	0.4	38.0	**38.4**	34.8	0.5	43.1	**78.5**
23	Military vehicles only tax	Y	6	0.01%	6	5.8	0.2	0.0	0.1	**0.3**	1.2	2.1	1.5	**4.7**
24	Catalogues and samples	Y	51	0.05%	0	0.0	0.0	0.0	0.0	**0.0**	7.9	0.9	8.0	**16.8**
25	Catalogues and samples	Y	116	0.10%	0	0.0	0.0	0.0	0.0	**0.0**	3.5	0.0	0.1	**3.6**
26	Catalogues and samples	Y	117	0.11%	0	0.0	0.0	0.0	0.0	**0.0**	2.6	0.0	17.0	**19.6**
27	Vehicle moving 1 year		66	0.06%	77	53.4	0.3	1.1	10.2	**11.6**	13.2	14.5	15.0	**42.7**
28	Vehicle moving 2 year		58	0.05%	103	51.1	0.3	0.3	7.5	**8.0**	11.5	8.6	12.4	**32.5**
29	Vehicle moving 3 year		126	0.11%	143	57.8	3.2	0.0	16.8	**20.1**	25.2	6.1	25.2	**56.5**
30	Vehicle moving 4 year		109	0.10%	306	100.9	0.3	0.0	9.4	**9.7**	21.8	7.8	22.1	**51.7**
31	Vehicle moving 5year		391	0.36%	1,356	365.4	1.0	0.0	30.0	**31.0**	78.3	14.4	77.5	**170.1**
33	Pacemaker and hearing items		2	0.00%	0	0.0	0.0	0.0	0.0	**0.0**	0.1	0.0	0.3	**0.5**

Customs Resolutions: Actual and Potential Revenues, 2005 (RD$ million) (cont'd)

			ACTUAL								POTENTIAL			
	Resolution		**CIF**	**Share**	**# Vehicles**	**CIF Vehicles**	**Duty**	**Excise**	**ITBIS**	**Total**	**Duty**	**Excise**	**ITBIS**	**Total**
36	Parts and pieces for boats and planes in process		8	0.01%	0	0.0	0.0	0.0	0.0	**0.0**	0.5	0.0	1.3	**1.8**
37	Inputs, packing material, merchandise	Y	644	0.58%	0	0.0	0.0	0.0	0.0	**0.0**	27.2	0.4	106.9	**134.5**
38	Pieces and replacements for computers	Y	1	0.00%	0	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.1	**0.1**
40	Definitive delivery for the government	Y	6,706	6.08%	79	59.2	3.9	0.0	0.0	**3.9**	479.1	66.5	1,138.0	**1,683.6**
42	Special treatment for vehicles (%CIF)	Y	6	0.01%	7	5.6	0.8	0.3	0.8	**2.0**	1.1	2.1	1.4	**4.7**
43	Military vehicles only tax (generals)	Y	160	0.14%	146	152.8	7.6	0.7	7.4	**15.6**	31.9	60.2	40.3	**132.5**
44	Partial exoneration for vehicles (%CIF)	Y	0	0.00%	0	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	**0.1**
46	Participation certificates from DGII		533	0.48%	0	0.0	45.0	0.2	0.5	**45.7**	43.7	0.2	89.2	**133.0**
48	Insulin exemption		34	0.03%	0	0.0	0.0	0.0	0.0	**0.0**	0.1	0.0	5.5	**5.6**
49	Definitive delivery to private sector	Y	0	0.00%	0	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.1	**0.1**
51	Private sector education exemption	Y	18	0.02%	1	0.4	0.0	0.0	0.0	**0.0**	0.7	0.1	1.9	**2.7**
52	Inputs for fertilizers and animal food	Y	34	0.03%	0	0.0	0.5	0.0	0.0	**0.5**	0.5	0.0	5.5	**5.9**
53	Inputs for fertilizers and animal food	Y	2	0.00%	0	0.0	0.0	0.0	0.0	**0.0**	0.3	0.0	0.4	**0.7**
55	Exoneration to vehicles from ex high diplomatic	Y	6	0.01%	5	6.1	0.2	0.0	0.2	**0.4**	1.2	2.8	1.6	**5.7**
56	Exoneration to vehicles from ex medium diplomatic	Y	3	0.00%	2	2.6	0.2	0.1	0.2	**0.4**	0.7	1.2	0.9	**2.8**
58	Special treatment other merchandises (%CIF)	Y	8	0.01%	0	0.0	0.4	0.4	0.6	**1.4**	1.0	1.1	1.5	**3.6**
59	Exonerations to religious institutions	Y	600	0.54%	65	20.9	0.0	0.0	0.0	**0.0**	71.6	3.4	100.8	**175.9**
60	Books and magazines on consignation	Y	121	0.11%	0	0.0	0.0	0.0	0.0	**0.0**	4.2	0.0	1.3	**5.5**
61	Elimination late declaration ticket		0	0.00%	1	0.1	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	**0.0**
63	Equipments, medicines and supplies for dialysis		7	0.01%	2	0.5	0.0	0.0	0.0	**0.0**	0.4	0.0	1.2	**1.6**
64	Equipments, medicines and supplies for private sector dialysis		53	0.05%	0	0.0	0.0	0.0	0.0	**0.0**	1.9	0.8	8.8	**11.5**
65	Equipments, medicines and supplies for private sector dialysis		12	0.01%	0	0.0	0.0	0.0	0.0	**0.0**	0.5	0.0	0.2	**0.6**
66	Exemption to the disabled		0	0.00%	1	0.2	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	**0.1**
67	Liquidation without commission		66	0.06%	0	0.0	16.0	0.0	0.0	**16.0**	13.1	0.0	12.6	**25.8**
68	Panama Free trade agreement		6	0.01%	0	0.0	0.0	11.1	0.5	**11.6**	0.9	11.1	2.8	**14.8**
70	Frontier development special zone	Y	125	0.11%	0	0.0	0.0	0.0	0.0	**0.0**	13.3	0.5	22.0	**35.8**
71	Exemption to congressmen	Y	163	0.15%	44	137.7	0.0	0.0	0.0	**0.0**	28.8	90.4	45.2	**164.5**
72	Exemption for frontier development	Y	240	0.22%	0	0.0	0.0	0.0	0.0	**0.0**	18.0	0.1	41.2	**59.2**
73	Exemption for judges	Y	29	0.03%	52	27.9	0.0	0.0	0.0	**0.0**	5.9	6.0	6.6	**18.5**

Customs Resolutions: Actual and Potential Revenues, 2005 (RD$ million) (cont'd)

	Resolution		ACTUAL CIF	ACTUAL Share	ACTUAL # Vehicles	ACTUAL CIF Vehicles	ACTUAL Duty	ACTUAL Excise	ACTUAL ITBIS	ACTUAL Total	POTENTIAL Duty	POTENTIAL Excise	POTENTIAL ITBIS	POTENTIAL Total
74	Provisional delivery to churches pending for exoneration	Y	22	0.02%	7	2.2	0.0	0.0	0.1	**0.1**	2.4	0.2	3.9	**6.4**
75	Credit to Cerveceria generated by INDAL SA	Y	286	0.26%	0	0.0	6.0	0.1	14.3	**20.5**	20.3	0.5	49.1	**69.9**
76	Exoneration proportional payment	Y	6	0.01%	1	0.7	0.0	0.0	0.0	**0.0**	0.3	0.2	1.1	**1.6**
77	Re-imported merchandise without changes		3	0.00%	0	0.0	0.0	0.0	0.0	**0.0**	0.3	0.0	0.4	**0.7**
79	Files to "Placa" payments (auction)		6,018	5.46%	3,712	835.6	518.6	107.2	753.1	**1,378.9**	523.8	162.1	965.6	**1,651.5**
80	Exemption to the disabled		14	0.01%	17	11.7	0.0	0.0	0.0	**0.0**	2.5	3.7	3.2	**9.4**
81	Exemption to non-government organizations	Y	755	0.68%	9	6.0	0.0	0.0	0.0	**0.0**	63.4	2.3	131.3	**197.1**
82	Provisional delivery to religious institutions	Y	158	0.14%	5	1.4	0.0	0.0	0.0	**0.0**	15.2	0.1	24.2	**39.5**
83	Abandonment		0	0.00%	0	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.1	**0.1**
86	Treatment for machines and equipments	Y	2,120	1.92%	0	0.0	61.1	3.2	292.2	**356.5**	121.8	6.4	357.1	**485.3**
87	Invoice before validation		7,692	6.98%	3,519	723.8	663.9	43.5	599.9	**1,307.3**	660.6	63.4	1,181.0	**1,905.1**
90	Domestic appliances exempted by law 28-01	Y	5	0.00%	0	0.0	0.7	0.0	0.7	**1.4**	1.0	0.0	0.9	**1.9**
92	Exoneration to energy consortium	Y	263	0.24%	1	0.7	0.0	0.0	0.0	**0.0**	12.1	0.4	44.1	**56.5**
93	Exoneration from 4 to 5 years and 15 to 20 of residence abroad		2	0.00%	2	1.0	0.1	0.0	0.1	**0.1**	0.3	0.1	0.3	**0.8**
94	Exoneration from 4 to 5 years plus 25 years or more of residence abroad		1	0.00%	1	0.5	0.0	0.0	0.0	**0.0**	0.1	0.1	0.2	**0.4**
95	Exoneration from 4 to 5 years plus 10 to 15 years or more of residence abroad		0	0.00%	0	0.0	0.0	0.0	0.0	**0.0**	0.1	0.0	0.1	**0.2**
96	Embassy exonerations		1	0.00%	2	1.3	0.0	0.0	0.0	**0.0**	0.3	0.3	0.3	**0.9**
97	Treatment for trucks	Y	1,631	1.48%	59	17.3	63.1	0.0	269.8	**332.9**	127.8	0.0	281.4	**409.2**
98	Treatment for trucks	Y	36	0.03%	48	27.7	2.8	0.6	2.6	**6.0**	6.8	5.9	7.8	**20.6**
100	Treatment for navy equipment	Y	15	0.01%	0	0.0	0.4	0.0	2.4	**2.8**	0.8	0.0	2.5	**3.3**
102	Zero rate low consumption lamps	Y	20	0.02%	0	0.0	0.0	0.0	0.0	**0.0**	3.5	0.0	3.6	**7.1**
	Total		**110,251**	**100%**	**10,003**	**2,852.4**	**2,148.5**	**234.3**	**3,821.9**	**6,204.7**	**6,037.0**	**696.8**	**18,282.6**	**25,016.5**
	Sub-Total, Proposed to Remove		**14,903**		**551**	**482.7**	**148.7**	**5.3**	**604.3**	**758.3**	**1,126.3**	**272.3**	**2,528.5**	**3,927.0**

Source: Simulations were conducted using detailed micro data by harmonization code, and associated specific tax rates within each resolution. The data was obtained from the Customs Department, Ministry of Finance, Dominican Republic.

APPENDIX F

Largest Tax Gains (> RD$ 10 million), by Expenditure Item (RD$ million, 2005 prices)

Code	Expenditure Item	Private Consumption, 2005 (RD$ million)	Effective Rate (2006)	Effective Rate (Potential)	Collection, 2006 (RD$ million)	Potential Collection (RD$ million)	Tax Gain (RD$ million)
060201002	Gasolina de automoviles con plomo	20,198.1	0.00%	13.67%	0.00	2,428.33	2,428
030401001	Pago de factura de energia electrica	18,763.7	0.00%	13.60%	0.00	2,246.84	2,247
010108072	Pollo fresco	19,945.2	0.00%	8.70%	0.00	1,596.12	1,596
010101002	Arroz selecto o superior	13,972.4	0.00%	9.92%	0.00	1,261.47	1,261
060302002	Transporte en autobus, guagua transporte publico	10,182.9	0.00%	11.84%	0.00	1,078.11	1,078
080101008	Enseñanza universitaria privada	8,674.2	0.00%	13.79%	0.00	1,051.41	1,051
060201001	Gasolina de automoviles sin plomo	7,662.0	0.00%	13.75%	0.00	926.02	926
080101004	Pago de mensualidad enseñanza primaria	8,661.9	0.00%	11.79%	0.00	913.41	913
060302001	Transporte en autos y carros de concho	7,935.1	0.00%	11.93%	0.00	845.66	846
010107001	Platano verde	10,711.2	0.00%	8.08%	0.00	800.83	801
060302004	Transporte en motoconcho	7,129.3	0.00%	11.84%	0.00	754.88	755
010112001	Aceite de soja	7,182.7	0.00%	10.21%	0.00	665.14	665
010111006	Leche en polvo	5,410.5	0.00%	10.90%	0.00	531.56	532
080101006	Pago de mensualidad enseñanza secundaria	4,375.2	0.00%	12.19%	0.00	475.37	475
010101062	Pan sobado	5,110.2	0.00%	10.10%	0.00	468.95	469
050300001	Internamiento	4,391.4	0.00%	11.62%	0.00	457.17	457
010101003	Arroz corriente	4,878.9	0.00%	9.88%	0.00	438.58	439
010108132	Salami especial	4,384.5	0.00%	10.21%	0.00	406.35	406
010101061	Pan de agua	4,160.2	0.00%	10.11%	0.00	382.07	382
010102001	Yuca	4,679.9	0.00%	8.23%	0.00	355.91	356
010109001	Huevos de granja	3,996.0	0.00%	9.76%	0.00	355.29	355
060303001	Pasaje al interior o a la ciudad (de viaje)	3,310.4	0.00%	11.72%	0.00	347.41	347
100102003	Lavado, secado y peinado	2,873.4	0.00%	13.16%	0.00	334.13	334
010108026	Carne corriente de res	3,455.8	0.00%	10.16%	0.00	318.61	319
030100002	Alquiler de vivienda pagado	29,839.9	0.00%	1.07%	0.00	316.16	316
080101002	Enseñanza pre-escolar (mensualidad)	2,488.2	0.00%	13.17%	0.00	289.55	290
010104001	Habichuelas rojas	3,132.3	0.00%	10.04%	0.00	285.83	286
010113163	Cafe molido	3,044.6	0.00%	10.11%	0.00	279.59	280
030403001	Gas propano	2,314.8	0.00%	13.40%	0.00	273.58	274
030402001	Pago de factura del agua	2,325.4	0.00%	12.96%	0.00	266.88	267
010110040	Bacalao	2,772.4	0.00%	10.39%	0.00	261.01	261
010108058	Carne corriente de cerdo	3,149.0	0.00%	9.03%	0.00	260.89	261
100102001	Corte de pelo	2,485.9	0.00%	11.01%	0.00	246.58	247
080201001	Libros de texto	2,396.0	0.00%	11.47%	0.00	246.50	247
010103003	Azucar parda o crema	2,354.8	0.00%	10.13%	0.00	216.55	217
010104002	Habichuelas pintas	2,324.4	0.00%	10.01%	0.00	211.45	211
060304001	Servicios de taxi	1,923.8	0.00%	11.97%	0.00	205.71	206
050300003	Cirujia mayor	2,244.5	0.00%	9.91%	0.00	202.43	202
010103001	Azucar blanca	2,057.6	0.00%	10.39%	0.00	193.71	194
010102003	Papa	2,002.4	0.00%	10.05%	0.00	182.81	183
050102016	Marcapasos	1,455.2	0.00%	13.79%	0.00	176.39	176
010107005	Guineo verde	2,708.8	0.00%	6.91%	0.00	175.13	175
050101019	Pastillas y capsulas (para tratamientos diversos)	2,664.8	0.00%	6.82%	0.00	170.21	170
010106044	Cebolla roja	1,783.9	0.00%	10.20%	0.00	165.08	165
010111008	Leche evaporada	1,761.7	0.00%	10.29%	0.00	164.38	164
010111033	Queso amarillo corriente	1,624.3	0.00%	10.58%	0.00	155.40	155
050200003	Consulta especializada	1,585.8	0.00%	10.54%	0.00	151.20	151
080102017	Clases de idiomas	1,290.7	0.00%	12.82%	0.00	146.68	147
010106047	Ajo	1,548.3	0.00%	10.12%	0.00	142.28	142
010201001	Agua purificada (de botellon)	1,539.6	0.00%	10.15%	0.00	141.87	142
080101007	Enseñanza universitaria publica	1,148.4	0.00%	13.79%	0.00	139.20	139
010111001	Leche fresca o cruda de vaca	2,184.7	0.00%	6.61%	0.00	135.50	136
010108001	Bola	1,435.1	0.00%	10.12%	0.00	131.90	132
050200001	Consulta general	1,408.8	0.00%	10.03%	0.00	128.39	128
100102002	Desrizado (aplicacion)	1,080.3	0.00%	13.20%	0.00	125.95	126
010108104	Chuleta ahumada	1,253.0	0.00%	10.72%	0.00	121.30	121
010101001	Arroz super-selecto o premium	1,195.6	0.00%	10.60%	0.00	114.62	115
010111034	Queso blanco de freir	1,203.7	0.00%	10.13%	0.00	110.74	111
010101116	Spaguetti	1,172.6	0.00%	10.19%	0.00	108.41	108
060201003	Gas-oil (diesel)	858.1	0.00%	13.77%	0.00	103.87	104
010107020	Naranja de jugo	1,231.1	0.00%	9.12%	0.00	102.93	103
010104012	Guandules verdes	1,353.8	0.00%	7.92%	0.00	99.31	99
010108133	Salami corriente	1,065.0	0.00%	10.24%	0.00	98.91	99
080101003	Gastos en matricula enseñanza primaria (inscripcion)	912.7	0.00%	11.09%	0.00	91.10	91
010108051	Masa de cerdo	929.3	0.00%	10.62%	0.00	89.20	89
010113046	Chocolate en barra	948.4	0.00%	10.26%	0.00	88.24	88
010106007	Aji grande (cubanela)	961.6	0.00%	10.04%	0.00	87.77	88
030402004	Pago de recogida de basura	760.8	0.00%	12.50%	0.00	84.55	85
010108007	Carne no. 7	875.7	0.00%	10.48%	0.00	83.06	83
050200055	Cirujia menor	757.4	0.00%	12.15%	0.00	82.06	82
010107016	Aguacate corriente	1,012.2	0.00%	8.68%	0.00	80.84	81

010101117	Fideos	864.2	0.00%	10.17%	0.00	79.76	80
030100004	Alquiler que incluye servicios basicos vivienda	2,526.3	0.00%	3.26%	0.00	79.66	80
010106029	Verduras	871.6	0.00%	9.92%	0.00	78.66	79
010106015	Repollo corriente	868.7	0.00%	9.81%	0.00	77.58	78
100102004	Tintes (aplicacion)	672.8	0.00%	12.44%	0.00	74.44	74
010110038	Arenque	772.4	0.00%	10.34%	0.00	72.41	72
050200079	Postura de piezas dentales	753.5	0.00%	10.38%	0.00	70.84	71
010102002	Batata	968.3	0.00%	7.73%	0.00	69.44	69
010110001	Carite	769.1	0.00%	9.89%	0.00	69.25	69
010106001	Tomate de ensalada	765.1	0.00%	9.95%	0.00	69.23	69
010106057	Guandules verdes en lata	721.6	0.00%	10.28%	0.00	67.28	67
010101009	Avena	720.3	0.00%	10.07%	0.00	65.92	66
050200076	Consulta odontologica	799.2	0.00%	8.52%	0.00	62.76	63
050101006	Antibioticos	930.0	0.00%	6.94%	0.00	60.39	60
010111002	Leche entera de vaca (pasteurizada, homogenizada)	625.2	0.00%	10.31%	0.00	58.43	58
050200078	Empastes	582.4	0.00%	11.14%	0.00	58.35	58
010108112	Jamon cocido	605.5	0.00%	10.47%	0.00	57.41	57
010112016	Margarina	602.6	0.00%	10.50%	0.00	57.28	57
010101048	Galletas saladas	611.6	0.00%	10.33%	0.00	57.26	57
010101081	Bizcochos	611.9	0.00%	9.97%	0.00	55.46	55
010107002	Platano maduro	620.5	0.00%	9.66%	0.00	54.67	55
010106011	Berenjena corriente	647.8	0.00%	9.11%	0.00	54.08	54
010108004	Carne molida de primera	518.8	0.00%	11.47%	0.00	53.37	53
010111035	Queso blanco corriente	564.1	0.00%	10.13%	0.00	51.89	52
100500001	Pago de servicios de tarjetas de credito	426.2	0.00%	13.79%	0.00	51.66	52
010108126	Longaniza	561.9	0.00%	10.08%	0.00	51.46	51
010106006	Auyama	697.9	0.00%	7.96%	0.00	51.46	51
080102011	Cursos tecnicos de todo tipo	427.1	0.00%	13.40%	0.00	50.48	50
010111005	Leche con proceso uht	524.8	0.00%	10.53%	0.00	50.00	50
100102007	Arreglo de unas (manicure)	436.1	0.00%	12.84%	0.00	49.64	50
060201004	Gas propano	397.5	0.00%	13.57%	0.00	47.49	47
010113072	Sazon en polvo	494.4	0.00%	10.46%	0.00	46.81	47
010107036	Manzana roja	477.0	0.00%	10.87%	0.00	46.78	47
100606003	Contratacion servicios juridicos	866.1	0.00%	5.68%	0.00	46.53	47
010113071	Sazon liquido	471.7	0.00%	10.30%	0.00	44.05	44
100500018	Pago cuota seguro medico	357.8	0.00%	13.79%	0.00	43.36	43
050101020	Vitaminas	714.0	0.00%	6.23%	0.00	41.86	42
080202002	Utensilios y materiales escolares	374.7	0.00%	12.51%	0.00	41.66	42
080101005	Gastos en matricula enseñanza secundaria (inscripcion)	402.9	0.00%	11.41%	0.00	41.27	41
010101049	Galletas de harina	438.5	0.00%	10.26%	0.00	40.80	41
010108052	Chuletas de cerdo	406.4	0.00%	11.13%	0.00	40.72	41
010112002	Aceite de mani	419.1	0.00%	10.74%	0.00	40.65	41
100102008	Arreglo de pies (pedicure)	361.6	0.00%	12.63%	0.00	40.54	41
030403004	Gas kerosene	407.8	0.00%	10.67%	0.00	39.30	39
050101002	Analgesicos	658.3	0.00%	6.32%	0.00	39.14	39
010106073	Habichuelas cocidas	455.4	0.00%	9.15%	0.00	38.16	38
010113158	Hielo casero (detalallado, en moldes, etc.)	431.0	0.00%	9.67%	0.00	37.98	38
010102004	Yautia blanca	463.9	0.00%	8.91%	0.00	37.95	38
010108131	Salami super especial	397.4	0.00%	10.50%	0.00	37.76	38
010102007	Name	552.8	0.00%	7.31%	0.00	37.68	38
010108025	Panza-mondongo de res	411.2	0.00%	9.94%	0.00	37.18	37
010110002	Colorado	506.1	0.00%	7.89%	0.00	36.99	37
010108073	Pollo congelado	350.1	0.00%	11.44%	0.00	35.94	36
050200083	Tratamiento de canal	371.4	0.00%	10.57%	0.00	35.50	35
010110011	Tilapia	528.1	0.00%	7.20%	0.00	35.48	35
010108111	Jamon bolo	353.8	0.00%	11.02%	0.00	35.12	35
010106004	Lechuga corriente	388.8	0.00%	9.87%	0.00	34.93	35
010104013	Guandules en cascara	522.0	0.00%	7.16%	0.00	34.90	35
010113047	Chocolate en polvo	371.5	0.00%	10.31%	0.00	34.73	35
080301001	Contratacion transporte escolar	286.4	0.00%	13.79%	0.00	34.71	35
010110004	Mero	350.0	0.00%	11.00%	0.00	34.68	35
010111014	Helados de frutas a base de leche	315.9	0.00%	12.27%	0.00	34.53	35
050200081	Profilaxis (limpieza)	430.3	0.00%	8.71%	0.00	34.47	34
010106013	Zanahoria	378.6	0.00%	10.01%	0.00	34.46	34
010101014	Corn flakes (incluye rice flakes,bran flakes y demas)	303.5	0.00%	12.14%	0.00	32.85	33
050200085	Postura de retenedores (brazzer)	265.1	0.00%	13.79%	0.00	32.14	32
010107033	Lechosa cartagena	394.5	0.00%	8.85%	0.00	32.08	32
050101018	Inyecciones (diversas)	501.7	0.00%	6.70%	0.00	31.49	31
010108014	Pecho	320.8	0.00%	10.62%	0.00	30.81	31
010107004	Guineo maduro (banano)	359.2	0.00%	9.30%	0.00	30.56	31
010101130	Maiz en grano	339.4	0.00%	9.88%	0.00	30.52	31
080102042	Cursos de formacion en otras areas del conocimiento	245.4	0.00%	13.79%	0.00	29.74	30
010108171	Aves de corral vivas	515.5	0.00%	6.09%	0.00	29.60	30
010106023	Tayota	339.1	0.00%	9.46%	0.00	29.30	29
010101015	Harina de maiz	324.9	0.00%	9.90%	0.00	29.28	29
010108071	Carne de ganado caprino (chivo)	427.9	0.00%	7.00%	0.00	27.98	28
010101047	Galletas de soda	276.6	0.00%	10.99%	0.00	27.39	27
010111032	Queso de hoja	292.9	0.00%	10.29%	0.00	27.33	27
080101009	Post-grado	335.3	0.00%	8.78%	0.00	27.07	27

050101017	Jarabes para la gripe	409.8	0.00%	7.07%	0.00	27.06	27
010112017	Mantequilla	275.7	0.00%	10.77%	0.00	26.79	27
050200010	Sonografia	244.4	0.00%	12.13%	0.00	26.45	26
010108088	Carne de gallina	635.0	0.00%	4.31%	0.00	26.26	26
010111036	Queso holandes	248.4	0.00%	11.58%	0.00	25.79	26
010103002	Azucar afinada	272.5	0.00%	10.44%	0.00	25.77	26
010111031	Queso de bola	271.6	0.00%	10.48%	0.00	25.77	26
080102027	Cursos de paquetes para sistema operativo-dos	209.5	0.00%	13.79%	0.00	25.39	25
080201004	Enciclopedias	253.9	0.00%	11.03%	0.00	25.22	25
050200008	Analisis de laboratorio especializado	238.8	0.00%	11.80%	0.00	25.20	25
010107032	Lechosa hawaiana	301.2	0.00%	8.99%	0.00	24.84	25
010107019	Naranja dulce	317.6	0.00%	8.47%	0.00	24.81	25
010107021	Limon agrio	369.9	0.00%	6.82%	0.00	23.60	24
080102025	Cursos sobre sistema operativo	192.6	0.00%	13.79%	0.00	23.35	23
100500007	Primas de seguro de vida	192.1	0.00%	13.79%	0.00	23.29	23
010106021	Pepino	258.8	0.00%	9.81%	0.00	23.11	23
060302007	Alquiler vehiculos para realizar actividad economica	942.8	0.00%	2.47%	0.00	22.72	23
060302008	Pago de transporte local durante el viaje	213.2	0.00%	11.92%	0.00	22.71	23
010106068	Maiz enlatado	223.9	0.00%	10.99%	0.00	22.17	22
010108056	Costillas-pecho	229.1	0.00%	10.62%	0.00	22.00	22
010108147	Chicharron	280.0	0.00%	8.52%	0.00	21.98	22
050300006	Parto	247.2	0.00%	9.67%	0.00	21.80	22
010113059	Canela en estilla	228.8	0.00%	10.30%	0.00	21.35	21
010108017	Roti sin hueso	203.8	0.00%	11.65%	0.00	21.27	21
030402003	Abastecimiento de agua por carga	298.6	0.00%	7.59%	0.00	21.05	21
080102030	Cursos de programacion	170.1	0.00%	13.79%	0.00	20.62	21
010106036	Cilantro	236.0	0.00%	9.39%	0.00	20.26	20
010101046	Galletas dulces	214.7	0.00%	10.03%	0.00	19.57	20
050200025	Examen hemograma	196.8	0.00%	11.04%	0.00	19.57	20
010101063	Pan de sandwich	175.5	0.00%	12.49%	0.00	19.48	19
080102016	Cursos comerciales	166.4	0.00%	13.20%	0.00	19.40	19
070202001	Gimnasio	160.0	0.00%	13.79%	0.00	19.39	19
010113090	Vinagre amarillo (corriente)	192.6	0.00%	11.11%	0.00	19.26	19
010108028	Higado de res	219.9	0.00%	9.39%	0.00	18.87	19
010108002	Boliche limpio	191.1	0.00%	10.94%	0.00	18.84	19
050400001	Pago cuota igualas medicas	155.2	0.00%	13.79%	0.00	18.81	19
010101019	Harina de trigo	199.9	0.00%	10.38%	0.00	18.79	19
010112006	Aceite de maiz	179.8	0.00%	11.57%	0.00	18.65	19
010106018	Remolacha	205.8	0.00%	9.83%	0.00	18.42	18
010107031	Piña	241.2	0.00%	8.21%	0.00	18.29	18
010106002	Tomate industrial (barcelo)	205.4	0.00%	9.75%	0.00	18.25	18
050200009	Radiografia	195.5	0.00%	10.23%	0.00	18.14	18
010113099	Sal en grano	193.9	0.00%	10.29%	0.00	18.09	18
010111019	Leches con aditamentos vitaminicos	160.8	0.00%	12.66%	0.00	18.07	18
100500002	Pago de servicios de cajero automatico	145.5	0.00%	13.79%	0.00	17.64	18
010108011	Filete especial limpio	170.3	0.00%	11.53%	0.00	17.61	18
010101034	Suplementos alimenticios balanceados en polvo	155.7	0.00%	12.70%	0.00	17.55	18
100102012	Limpieza de cutis	144.5	0.00%	13.79%	0.00	17.51	18
100606025	Servicios funerarios	139.9	0.00%	13.79%	0.00	16.96	17
010108016	Roti con hueso	176.7	0.00%	10.44%	0.00	16.70	17
050200077	Extracciones	228.8	0.00%	7.73%	0.00	16.41	16
010106022	Molondrones	173.7	0.00%	9.46%	0.00	15.01	15
010106005	Lechuga repollada	156.5	0.00%	10.59%	0.00	14.99	15
070302001	Libros no escolares de carreras profesionales	127.4	0.00%	13.26%	0.00	14.92	15
010110027	Atun en aceite de soja y vegetal	150.5	0.00%	10.72%	0.00	14.56	15
010107026	Chinola	196.5	0.00%	7.92%	0.00	14.41	14
010111011	Leche chocolatada	149.2	0.00%	10.66%	0.00	14.36	14
010104004	Habichuelas negras	156.8	0.00%	9.98%	0.00	14.23	14
080102031	Tecnico en computadoras	119.2	0.00%	13.48%	0.00	14.16	14
010108003	Cadera limpia	145.0	0.00%	10.79%	0.00	14.12	14
010108060	Asadura (cerdo)	146.6	0.00%	10.39%	0.00	13.80	14
010101120	Coditos	164.2	0.00%	9.00%	0.00	13.56	14
010110036	Pica-pica	147.8	0.00%	10.08%	0.00	13.53	14
050101003	Antigripales	216.6	0.00%	6.63%	0.00	13.47	13
010108005	Carne molida de segunda	143.5	0.00%	10.34%	0.00	13.44	13
060302010	Transporte local viaje al exterior	126.2	0.00%	11.92%	0.00	13.44	13
010108036	Carne preparada para bistec	138.2	0.00%	10.68%	0.00	13.34	13
010107023	Toronja	183.7	0.00%	7.58%	0.00	12.94	13
050200012	Electrocardiograma	111.2	0.00%	13.12%	0.00	12.89	13
010112005	Aceite de girasol	130.7	0.00%	10.82%	0.00	12.76	13
010111007	Leche en polvo corriente	134.0	0.00%	10.51%	0.00	12.75	13
010108013	Grillada	143.1	0.00%	9.70%	0.00	12.66	13
050200034	Gastroscopia	119.6	0.00%	11.78%	0.00	12.60	13
030402005	Servicio de cloaca	103.4	0.00%	13.79%	0.00	12.53	13
010108054	Masa de pierna	154.4	0.00%	8.58%	0.00	12.19	12
010105006	Cocos secos	163.1	0.00%	7.97%	0.00	12.05	12
070203002	Teatros	105.7	0.00%	12.63%	0.00	11.85	12
100102011	Tratamiento con color, aplicacion	97.6	0.00%	13.72%	0.00	11.77	12
050200004	Consulta especializada con seguro medico	98.6	0.00%	13.46%	0.00	11.70	12

010104003	Habichuelas blancas	127.1	0.00%	10.09%	0.00	11.65	12
010101067	Pan de otro tipo (rellenos, dulces,etc.)	131.4	0.00%	9.69%	0.00	11.61	12
010106024	Apio	128.2	0.00%	9.91%	0.00	11.57	12
010108087	Carne de pavo	95.9	0.00%	13.70%	0.00	11.56	12
050101001	Expectorantes	173.8	0.00%	7.12%	0.00	11.55	12
010108139	Salchichas tipo vienna	115.8	0.00%	11.03%	0.00	11.50	12
080201003	Diccionarios	94.7	0.00%	13.79%	0.00	11.48	11
050101052	Antihipertensivo	176.2	0.00%	6.94%	0.00	11.44	11
010108061	Capa	123.7	0.00%	10.10%	0.00	11.35	11
010108059	Mondongo de cerdo	127.0	0.00%	9.81%	0.00	11.35	11
100606020	Otros gastos juridicos (acta nacimiento, matrimonio,	145.4	0.00%	8.40%	0.00	11.27	11
050200027	Examen de orina	113.0	0.00%	10.53%	0.00	10.76	11
010113157	Hielo en funda	128.6	0.00%	8.96%	0.00	10.58	11
010101064	Pan integral	96.7	0.00%	12.12%	0.00	10.45	10
030401004	Pago de contrato de electricidad	84.4	0.00%	13.79%	0.00	10.23	10
010107034	Melon cantaloupe redondo	107.0	0.00%	10.54%	0.00	10.21	10
080101001	Gastos en matricula enseñanza pre-escolar	84.5	0.00%	13.57%	0.00	10.09	10
080102009	Clases de cocina	83.9	0.00%	13.38%	0.00	9.90	10
010111012	Leche condensada	100.4	0.00%	10.87%	0.00	9.84	10
010108118	Jamoneta	106.6	0.00%	10.14%	0.00	9.81	10
010108023	Patas de res	107.4	0.00%	10.04%	0.00	9.80	10
010106008	Aji gustoso o cachucha	107.8	0.00%	9.86%	0.00	9.68	10
080102036	Gastos en aprendizaje de oficios o similares	86.4	0.00%	12.48%	0.00	9.58	10
010101011	Maicena (fecula de maiz)	101.8	0.00%	10.36%	0.00	9.56	10

Source: Own Estimates.

APPENDIX G

Rates of Excise Tax for Alcohol and Tobacco

Year		1992			2000			2004	2005	2006	2007	2008
Origin		Dom.		Imp.	Dom.		Imp.					
Commodities:		Mark-up %	Rate %	Rate %	Mark-up %	Rate %	Rate %	Rate RD$/unit	Rate RD$/unit	Rate RD$/unit	Rate RD$/unit	Rate RD$/unit
22.03	Beer made from malt	n/a	10%	30%	30%	25%	25%	326.03	302.99	335.94	308.29	280.64
22.04	Wine	n/a	10%	30%	30%	35%	35%	217.26	221.42	270.68	275.65	280.64
22.05	Vermouth and Other Wine of Fresh Grapes	n/a	10%	30%	30%	35%	35%	217.26	221.42	270.68	275.65	280.64
22.06	Other fermented beverages (cider, perry, mead)	n/a	10%	30%	30%	30%	30%	326.03	302.99	335.94	308.29	280.64
22.07	Undenatured ethyl alcohol of >80 per cent vol.	n/a	15%	30%	30%	45%	45%	136.5	160.85	222.23	251.42	280.64
22.08	Ethyl alcohol and other spirits, denatured	n/a	15%	30%	30%	45%	45%	136.5	160.85	222.23	251.42	280.64
2208.20.00	Cognac, brandy, grappa	n/a	n/a	n/a	30%	45%	45%	381.59	344.66	369.28	324.96	280.64
2208.30.00	Whiskies	n/a	n/a	n/a	30%	45%	45%	324.77	302.04	335.18	307.87	280.64
2208.40.00	Rum and Tafia	n/a	n/a	n/a	30%	35%	35%	136.5	160.85	222.23	251.42	280.64
2208.50.00	Gin and Geneva	n/a	10%	10%	30%	45%	45%	181.95	194.94	249.5	265.07	280.64
2208.60.00	Vodka	n/a	10%	10%	30%	45%	45%	354.98	324.71	353.3	316.98	280.64
2208.70.00	Liquors	n/a	10%	10%	30%	35%	35%	341.73	314.78	345.37	313.01	280.64
2208.90.00	Other alcohol	n/a	10%	10%	30%	45%	45%	348.95	320.18	349.69	315.17	280.64
2402.20.00	Cigars, cigarettes, tobacco	n/a	10%	30%	20%	25%	25%	6.72	6.72	8.13	8.13	8.13
2402.90.00	Cigars, cigarettes, tobacco: other	n/a	10%	30%	20%	50%	50%	6.72	6.72	8.13	8.13	8.13

Source: DGII, October 2006. [http://www.dgii.gov.do/]

APPENDIX H

Rates of Excise Tax for Other Excisable Goods

H. Code	Description	2000	2004	2005	2006
1604.30.00	Caviar and caviar substitutes	50%	50%	65.0%	65.0%
24.03	Cigars, cheroots and cigarillos, containing tobacco	50%	50%	130.0%	130.0%
33.03	Perfumes and toilet waters	30%	30%	39.0%	39.0%
3922.10.11	Baths, shower-baths, wash-basins, inclusive of Jacuzzi type	40%	40%	52.0%	52.0%
57.01	Carpets and other textile floor coverings, knotted, whether or not made up: of other textile materials	45%	45%	58.5%	58.5%
57.02	"kelem", "schumacks", "karamanie" and similar hand-woven rugs	30%	30%	39.0%	39.0%
57.03	Carpets and other textile floor coverings, tufted, whether or not made up of other textile materials	30%	30%	39.0%	39.0%
58.05	Hand-woven tapestries of the type gobelins, Flanders, aubusson, Beauvais	30%	30%	39.0%	39.0%
71.13	Articles of jewelry and parts thereof, of precious metal or of metal clad with precious metal	30%	30%	39.0%	39.0%
71.14	Articles of jewelry and parts thereof, of precious metal or of metal clad with precious metal other	30%	30%	39.0%	39.0%
71.17	Imitation jewelry: of base metal, whether or not plated with precious metal	30%	30%	39.0%	39.0%
7324.21.00	Sanitary ware and parts thereof, of iron or steel: plated with precious metal	40%	40%	52.0%	52.0%
7324.29.00	Sanitary ware and parts thereof, of iron or steel: other	40%	40%	52.0%	52.0%
7418.20.00	Table, kitchen or other household articles and parts thereof, of copper	40%	40%	52.0%	52.0%
7615.20.00	Table, kitchen or other household articles and parts thereof, of aluminum	40%	40%	52.0%	52.0%
84.15	Air conditioning machines, comprising a motor-driven fan and elements for changing the temperature	30%	30%	39.0%	39.0%
8479.60.00	Machines and mechanical appliances having individual functions, evaporative air coolers	30%	30%	39.0%	39.0%
8509.10.00	Electro-mechanical domestic appliances, with self-contained electric motor	20%	20%	26.0%	32.5%
8509.10.00	Electro-mechanical domestic appliances, with self-contained electric motor: vacuum cleaners	20%	20%	26.0%	32.5%
8509.30.00	Electro-mechanical domestic appliances, with self-contained electric motor: kitchen waste disposers	20%	20%	26.0%	32.5%
8509.40.09	Electro-mechanical domestic appliances: food grinders and mixers; fruit or vegetable juice extractors	20%	20%	26.0%	32.5%
8509.80.00	Electro-mechanical domestic appliances, with self-contained electric motor: other appliances	20%	20%	26.0%	32.5%
8516.10.00	Electric instantaneous or storage water heaters and immersion heaters	40%	40%	52.0%	32.5%
8516.50.00	Microwave ovens	15%	15%	19.5%	32.5%
8516.60.10	Ovens; cookers, cooking plates, boiling rings, grillers and roasters	15%	15%	19.5%	32.5%
8516.60.30	Other ovens; cookers, cooking plates, boiling rings, grillers and roasters	25%	25%	32.5%	32.5%
8516.71.00	Coffee or tea makers	25%	25%	32.5%	32.5%
8516.72.00	Toasters	15%	15%	19.5%	32.5%
8516.79.00	Electric instantaneous or storage water heaters and immersion heaters; electric space heating apparatus and soil heating apparatus; electro-thermo hair-dressing apparatus	15%	15%	19.5%	32.5%
8517.19.10	Telephone sets	25%	25%	32.5%	32.5%
85.19	Coin- or disc-operated record-players	15%	15%	19.5%	32.5%
8520.32.00	Magnetic tape recorders and other sound recording apparatus: digital audio type	15%	15%	19.5%	32.5%
8520.33.00	Magnetic tape recorders and other sound recording apparatus: other cassette-type	15%	15%	19.5%	32.5%
8520.90.00	Magnetic tape recorders and other sound recording apparatus: other	15%	15%	19.5%	32.5%
85.21	Video recording or reproducing apparatus, whether or not incorporating a video tuner: magnetic tape-type	25%	25%	32.5%	32.5%
8525.40.00	Still image video cameras and other video camera recorders; digital cameras	25%	25%	32.5%	32.5%
8527.13.10	Reception apparatus for radio-telephony, radio-telegraphy or radio-broadcasting	25%	25%	32.5%	32.5%
8527.21.10	Reception apparatus for radio-telephony, radio-telegraphy or radio-broadcasting with sound recording or reproducing apparatus or a clock	25%	25%	32.5%	32.5%
8527.31.10	Reception apparatus for radio-telephony, radio-telegraphy or radio-broadcasting combined with sound recording or reproducing apparatus	25%	25%	32.5%	32.5%
8528.12.00	Reception apparatus for television, whether or not incorporating radio-broadcast receivers or sound recording or reproducing apparatus	15%	15%	19.5%	19.5%
8528.21.00	Video monitors	25%	25%	32.5%	32.5%
85.29	Parabolic aerial reflector dishes of a diameter not exceeding 120 cm	15%	15%	19.5%	19.5%
88.01	Parts and spares for aircraft and sea boats	45%	45%	58.5%	58.5%
8903.91.10	Yachts and other vessels for pleasure or sports; rowing boats and canoes, sailboats	45%	45%	58.5%	58.5%
91.01	Watches	30%	30%	39.0%	39.0%
9111.10.00	Complete watch or clock movements, unassembled or partly assembled; incomplete watch or clock movements	30%	30%	39.0%	39.0%
9113.10.00	Watch straps, watch bands and watch bracelets, and parts thereof, of precious metal	30%	30%	39.0%	39.0%
93.02	Revolvers and pistols	60%	60%	78.0%	78.0%

Source: DGII, October 2006. [http://www.dgii.gov.do/]

APPENDIX I

Actual Revenue Collection on Excisable Imports under Resolutions (Except Vehicles, Alcohol and Tobacco), 2005 (RD$ million)

			ACTUAL					POTENTIAL				
H. Code	**Description**	**Rate 2005**	**CIF**	**Duty**	**Excise**	**ITBIS**	**Total**	**Duty**	**Excise**	**ITBIS**	**Total**	**Gain**
1604.30.00	Caviar and caviar substitutes	65.0%	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	**0.0**	**0.0**
33.03	Perfumes and toilet waters	39.0%	7.5	0.7	1.9	1.1	**3.6**	1.5	3.5	2.0	**7.0**	**3.3**
39.22	Baths, shower-baths, wash-basins, inclusive of jacussi type	52.0%	2.6	0.3	0.9	0.4	**1.6**	0.5	1.6	0.8	**2.9**	**1.3**
57.01-57.03	Carpets and other textile floor coverings, knotted, whether or not made up: of other textile	58.5%	12.4	1.4	3.2	1.8	**6.4**	2.5	5.8	3.3	**11.6**	**5.2**
71.13-71.17	Articles of jewellery and parts thereof	39.0%	0.8	0.1	0.3	0.2	**0.6**	0.2	0.4	0.2	**0.7**	**0.2**
73.24	Sanitary ware and parts thereof, of iron or steel: plated with precious metal	52.0%	1.0	0.2	0.6	0.3	**1.0**	0.2	0.6	0.3	**1.1**	**0.0**
74.18 and	Table, kitchen or other household articles and parts thereof, of aluminium	52.0%	1.0	0.2	0.1	0.2	**0.4**	0.2	0.6	0.3	**1.1**	**0.7**
84.15	Air conditioning machines, comprising a motor-driven fan and elements for changing the	39.0%	142.2	11.2	30.4	18.1	**59.8**	24.4	65.0	37.1	**126.5**	**66.7**
8479.60.00	Machines and mechanical appliances having individual functions, not specified or included	39.0%	12.2	2.2	5.1	2.9	**10.3**	2.4	5.7	3.3	**11.4**	**1.1**
85.09	Electro-mechanical domestic appliances, with self-contained electric motor: vacuum cleaners,	26.0%	7.1	0.8	1.2	1.0	**3.0**	1.4	2.2	1.7	**5.3**	**2.4**
85.16	Electric instantaneous or storage water heaters and immersion heaters; Microwave ovens; Coffee	19.5%	21.5	3.3	6.7	4.5	**14.5**	4.3	8.1	5.4	**17.8**	**3.3**
8517.19.10	Telephone sets	32.5%	3.2	0.0	0.0	0.0	**0.0**	0.6	1.3	0.8	**2.7**	**2.7**
85.19	Coin- or disc-operated record-players	19.5%	9.6	1.2	1.5	1.4	**4.1**	1.9	2.2	2.2	**6.4**	**2.2**
85.20	Magnetic tape recorders and other sound recording apparatus, whether or not incorporating a	19.5%	0.9	0.2	0.2	0.2	**0.6**	0.2	0.2	0.2	**0.6**	**0.0**
85.21	Video recording or reproducing apparatus, whether or not incorporating a video tuner: magnetic	32.5%	18.5	2.7	5.2	3.4	**11.3**	3.7	7.2	4.7	**15.6**	**4.3**
8525.40.00	Still image video cameras and other video camera recorders; digital cameras	32.5%	6.9	0.5	1.1	1.0	**2.6**	1.4	2.7	1.7	**5.8**	**3.2**
85.27	Reception apparatus for radio-telephony, radio-telegraphy or radio-broadcasting	32.5%	23.2	4.0	7.8	5.0	**16.8**	4.6	9.0	5.9	**19.6**	**2.8**
8528.12.00	Reception apparatus for television, whether or not incorporating radio-broadcast receivers or	19.5%	118.5	19.5	22.8	22.4	**64.6**	23.7	27.7	27.2	**78.6**	**14.0**
8528.21.00	Video monitors	32.5%	0.6	0.1	0.1	0.1	**0.3**	0.1	0.2	0.2	**0.5**	**0.2**
85.29	Parabolic aerial reflector dishes of a diameter not exceeding 120 cm	19.5%	16.6	0.6	1.0	1.0	**2.7**	2.2	3.7	3.6	**9.5**	**6.8**
8903.91.10	Yachts and other vessels for pleasure or sports; rowing boats and canoes, sailboats, with or	58.5%	0.6	0.1	0.4	0.2	**0.7**	0.1	0.4	0.2	**0.7**	**0.0**
91.01	Watches	39.0%	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	**0.0**	**0.0**
93.02	Revolvers and pistols	78.0%	51.6	4.8	22.5	8.2	**35.5**	10.3	48.3	17.6	**76.3**	**40.8**
Total			**458**	**54**	**113**	**73**	**240**	**87**	**197**	**119**	**402**	**161.3**

Source: Customs Department of the Ministry of Finance, Dominican Republic, 2006.

APPENDIX J

Actual Volume of Imports under Resolutions and Average Effective Excise Tax Rates for Vehicles, 2005 (RD$ million)

From	To	Rate	# Vehicles	Share	CIF	Share CIF	Duty	Excise	ITBIS	Effective Excise Rate
0	10,000	0%	7,635	76%	1,367	48%	214	0	229	0.00%
10,001	12,000	15%	650	6%	210	7%	22	0	29	0.00%
12,001	14,000	30%	377	4%	143	5%	16	0	20	0.00%
14,001	20,000	45%	594	6%	291	10%	24	0	36	0.06%
20,001	32,000	60%	372	4%	272	10%	18	3	29	1.19%
32,001		80%	375	4%	571	20%	31	21	41	3.49%
Total			**10,003**	**100%**	**2,852**	**100%**	**324**	**25**	**383**	**0.78%**

Source: Customs Department of the Ministry of Finance, Dominican Republic, 2006.