2025 and in subsequent years. We will also continue to ensure that annual budgets approved by Parliament are consistent with program parameters including the targets on the primary balance, revenues, and non-interest expenditure and that needed revenue measures requiring legislative amendments are approved by Cabinet by end-September of the preceding year (**structural benchmarks**). Additional quantitative targets will continue to ensure our commitment to (i) increase tax revenue collection (**quantitative performance criterion**), (ii) reduce the stock of budget expenditure arrears to zero (**quantitative performance criterion**), (iii) a ceiling on the issuance of treasury guarantees (**indicative target**), (iv) a new ceiling on new treasury guarantees on FX borrowing **(new IT).** We remain committed to refraining from any tax policy or administrative measures that may erode tax revenue and from any fiscal measure that may result in deviations from the agreed fiscal path under the program.

7. We will continue with revenue mobilization reform to sustain our fiscal consolidation. We remain committed to raising the tax ratio to at least 14 percent of GDP by 2026. Staying the course on revenue mobilization is important given the still-large interest bill on restructured debt. We will adopt both tax policy and revenue administration measures to be effective from January 1st, 2025 (¶8, 9 and 10), unless otherwise stated in ¶9, with an expected yield of 1.5 percent of GDP in 2025. These measures would ensure reaching the program revenue objective and the primary surplus target of 2.3 percent of GDP starting 2025.

8. We will adopt tax policy measures for 2025 including to compensate for the shortfalls from the property tax (¶9). We have already obtained cabinet approval of the revenue measures. All measures will be submitted to Parliament by end-June 2024 (**new SB),** and we will obtain parliamentary approval for them by end-July 2024 **(new SB)**. We expect tax policy measures to yield at least 1.2 percent of GDP in 2025. We are committed to adopting measures to partially compensate for the expected shortfalls from the property tax gains, with an expected yield of at least 0.4 percent of GDP as agreed with IMF staff. We are planning to (i) introduce an imputed rental income tax (0.15 percent of GDP) (¶9), (ii) introduce the VAT tax at a rate of 18 percent of GDP on items currently subject to the special commodity levy (which will be removed), and on the supply of digital services (0.08 percent of GDP), (iii) remove the CIT exemption on the export of services (0.04 percent of GDP), and (iv) increase the CIT rate on betting and gaming, tobacco and liquor industries from 40 to 45 percent (0.08 percent of GDP). In addition, we expect to raise about 0.8 percent of GDP from the lifting of import restrictions on motor vehicles (¶31). We also plan to increase the stamp duties on lease contracts from 0.1 to 0.2 percent (0.03 percent of GDP) which would lower transfers to provincial councils and thus lower spending. If the yield from these measures does not fully materialize, we commit to adopt additional measures to compensate for the shortfall.

9. We will promptly initiate preparatory work to introduce an imputed rental income tax, though the expected gains would only fully materialize in 2026. The introduction of the property tax and the gift and inheritance tax by 2025 encountered delays, due to constitutional restrictions on sharing revenues between the central and local authorities and the lack of adequate information on property values. Given these constraints, we will introduce an imputed rental income tax on owner-occupied and vacant residential properties before the beginning of the tax year on April 1st, 2025.[1] An exemption threshold and a graduated tax rate schedule would make this tax highly progressive. The full revenue yield from this tax is estimated at 0.4 percent and would materialize in 2026 (with a partial yield of 0.15 percent in 2025). This yield would still fall short by 1 percent of GDP relative to the expected yield of 1.2 percent of GDP from the property tax envisaged for 2025 onwards. The shortfall is compensated by the new revenue measures with a yield of 0.7 percent of GDP (¶8 and 10) and the revenue overperformance from 2023 (0.2 percent of GDP). We will continue to explore options to implement a tax on property in the medium-term. To ensure that the imputed rental income tax is fully operational by 2026, we will undertake the following measures:

- Establish the first database on estimated current market values by end-December 2024 with immediate efforts to (i) digitize the valuation records held by the government valuation department, starting with municipal councils, finalizing this effort by end-2025, (ii) collect information from a representative sample of 5,000 standard properties that includes key variables, including annual values, latest assessment date, and property type, of all properties in all municipal councils by August 2024 (**new Structural Benchmark**). This would help determine the capital values of these properties.

- Introduce a provisional nationwide digital Sales Price and Rents Register (SPRR) by August 2024. We will ensure that the SPRR is fully established and operational by end-March 2025 and that it is accessible by the IRD, the valuation department, the land registry and the general public (**new structural benchmark**). A fully operational digital SPRR would be the key resource for the assessment of property values and hence the basis for several taxes, including imputed rental income taxation, capital gains taxation, stamp duties, and local recurrent property taxes.

- Improve data-sharing among relevant government entities. We have introduced a gazette notification on March 21, 2024, under the IRA requiring the Registrar General's Department to share all real estate sales information with the IRD. We will also amend the Notaries Act by April 2025 to ensure comprehensive information on each notarized real property contract (which will include the valuation roll, the cadastral number, and a unique tax ID) is automatically fed into the digital SPRR.

10. We will prioritize the implementation of a VAT compliance improvement program in 2025 to detect and deter noncompliance. The overall efficiency of our VAT system remains low, and our VAT compliance remains weak. To address these weaknesses, we will develop a VAT compliance improvement program which would be expected to raise about 0.3 percent of GDP in 2025. This program will identify, assess, and prioritize compliance risks for each taxpayer segment

[1] Imputed rental income is the deemed income that homeowners could earn if they rented out their homes. The tax is imposed on the income of individuals (rather than real property itself) and thus raises central government revenue in accordance with the constitution. A similar tax was previously included in the Inland Revenue Act. No. 10 of 2006. Under this regime, primary residences were exempt and the assessed values for rating purposes were used to determine the base. Given the broad exemption and the use of outdated and downward biased annual values, the tax generated hardly any revenue.

and determine a detailed plan to respond to those risks. It will involve proactive strategies in all aspects of compliance management from taxpayers' education, registration, filing, payment, and risk-based verifications including by reintroducing taxpayer field visits. To this end, we will provide IRD with sufficient additional resources (staffing, funding, transportation etc.) to conduct core operations including field inspections.

11. We will continue implementing revenue administration reforms that strengthen tax compliance. These efforts should improve the perception that the tax system is equitable and treats all taxpayers equally. We are committed to the following measures:

- To improve core tax administration functions, we have introduced and are tracking and reporting 7 Key Performance Indicators related to: (1) payment; (2) filing; (3) reporting; and (4) registration (Appendix II) (**end-March 2024 structural benchmark**). We will add a new KPI as of September 2024 to improve the functioning of the VAT refund system and have agreed with the IMF mission on new targets for all KPIs up to March 2025 **(revised structural benchmark)**. We will share the data on the quarterly KPIs with IMF staff within two months after the end of each quarter as specified in table 2).

- To support digitization efforts, we will obtain cabinet approval by August 2024 of a prioritized, time-bound, and costed Information Technology Strategic Plan to deliver the Revenue Administration Management Information System (RAMIS) (version 3.0) with the needed functionality enhancements and design improvements **(new structural benchmark).**

- To improve tax collections from large taxpayers, the mission will recommend (i) the completion of risk profiling of the largest 100 High Wealth Individuals (HWI) taxpayers by September 2024, and (ii) for IRD to solicit, by end-December 2024, information from 100 profiled HWI taxpayers via questionnaire.

12. We have already initiated work to fix the VAT refund system to ensure the full repeal of the SVAT system by April 2025. In December 2023, cabinet adopted a strategy laying out a gradual multi-step process to fully repeal the SVAT by April 2025 **(structural benchmark)**. We have formed a committee to oversee the SVAT repeal and we will specify its role and responsibilities in coming months working in conjunction with the Risk Management Committee in IRD. Given the tight timeline to repeal the SVAT and transition to a new refund program, IRD will prepare a project management plan with concrete next steps by end-April 2024. In addition, we will expedite the following efforts: (i) identify the exporters that would strictly be eligible for VAT refunds, (ii) extract from IT systems a comprehensive compliance history of eligible VAT taxpayers, (iii) commence risk profiling for exporters, (iv) develop post payment validation and verification procedures and (v) ensure adequate funding for the VAT refund account. We expect to begin testing these new procedures in a limited and controlled manner by September 2024. In parallel, we are also working to ensure that the current foreign exchange repatriation requirements do not create unnecessary delays in the refund process.