Report of the Second Virtual Workshop for 2026
Title: The VAT Compliance Gap – Towards Accurate Diagnosis and Radical Treatment

Tuesday, 22 September 2026

The proceedings of the Second Virtual Workshop of the Association of Tax Authorities of Islamic Countries (ATAIC) opened with a recitation of verses from the Holy Quran, and were moderated by Dr. Osman Mohammed Abkar, Assistant Secretary-General of the ATAIC .

Address by the Secretary-General :

The Secretary-General of ATAIC opened the Second Virtual Workshop, held under the title "The VAT Compliance Gap – Towards Accurate Diagnosis and Radical Treatment," welcoming Their Excellencies the Directors General, representatives of member states, and participating experts.

He stressed that the workshop is convened at a critical time amid growing reliance on VAT as a major source of revenue, noting that the compliance gap – the difference between revenues actually collected and those due under applicable legislation – is not merely an accounting figure, but lost resources that could have financed health, education, infrastructure, and social protection.

He emphasized that since its establishment the Association has been founded on the principle of exchange of expertise and mutual learning, explaining that the workshop aims to accurately diagnose the legislative, administrative, technical, and behavioral causes of the gap, review successful experiences of member states in digitalization and risk analysis, and produce practical, implementable recommendations. He renewed the Permanent Secretariat's commitment to documenting the workshop's outcomes and publishing best practices on the Association's new website, thanked the speakers and the Secretariat team, and declared the workshop open.

First Working Paper – State of Iraq

Speaker : Bahaa Abdulhussein Sadiq

The paper presents Iraq's experience with sales tax, which began in a limited form in 1997 at 10% on services of first-class and deluxe hotels and restaurants, then gradually expanded after 2003 through budget laws, instructions, and decisions to cover various goods and services such as telecommunications, malls, and barber shops. The absence of a unified and comprehensive law led to multiplicity of bases, rates, and legal foundations, creating the need for a comprehensive study and system development keeping pace with digital transformation and diversification of non-oil revenues.

The paper defines the compliance gap as the difference between tax legally due and tax actually collected, and classifies its causes into four areas: legislative (multiplicity of texts and lack of stability), administrative (weak registration and risk-based control), technical (lack of database integration and electronic payment), and behavioral/economic (weak tax culture and spread of cash and the informal economy). It notes the gap arises from non-registration of activities, incomplete declaration of sales, and difficulty in cross-matching data.

The paper proposes moving from traditional control to an integrated system based on unified legislation, a unified database, e-invoicing, e-payment, risk analysis, and interconnection with customs, banks, and company registration. It concludes that increasing revenues does not necessarily require raising rates, but expanding the compliance base and reducing the informal economy, through periodic measurement of the gap, simplification of procedures, promotion of voluntary compliance, and benefiting from member states' experiences.

Second Working Paper – State of Indonesia

Speaker: Himawan Sabotro

The presentation of the Directorate General of Taxes of Indonesia (September 2026) presents a methodology for measuring the VAT compliance gap using two integrated approaches. Gap analysis began in 2016 with the top-down approach based on macroeconomic data and input-output tables, then evolved to include the bottom-up approach since 2021 based on partial audit data, within the 2025-2029 strategic plan and with expertise from ATO and AFD and Indonesia's joining of the OECD tax gap community.

Results showed the top-down approach recorded a decline in the gap rate from 44% in 2020 to 33% in 2024, reflecting improved compliance and tax administration, despite an increase in its nominal value from 336 to 391 trillion rupiah with economic growth. In contrast, the bottom-up approach showed relative stability at about 25% during 2017-2021 with a nominal rise from 79 to 92 trillion rupiah. By sector, manufacturing recorded the largest nominal gap (214 trillion rupiah) followed by construction, while the rate exceeded 50% in other services, health, and mining, and geographically the highest gap was concentrated outside Java Island.

To overcome the limitations of risk-based audit and its non-representativeness of the tax community, the Directorate developed a two-stage model using Gradient Boosting with inverse probability weighting to correct selection bias, proving that the highest-risk decile concentrates most of the expected gap, supporting risk-based targeting. The paper concluded with key challenges: reliance on an old statistical base year, limited audit data and absence of a non-detection factor, and reliance on declarations only without third-party data, recommending increased audit, improved governance of its data, and deployment of artificial intelligence.

Third Working Paper – State of Morocco

Speaker: Ghita Belkasri

Ghita Belkasri (Directorate General of Taxes, Morocco, July 2026) presented a self-assessment of the VAT compliance gap for 2017-2025 using the IMF's RA-GAP methodology. The task was implemented as an Assisted Self-Assessment (ASA) in which the Directorate's team ran the VGEM model itself, with guidance, quality assurance, and capacity building from the Fiscal Affairs Department and METAC Center, aiming to establish repeatable local capacity to monitor tax performance via the DaTax big data platform.

The methodology relies on the top-down approach comparing potential revenues estimated from consumption data in national accounts with revenues actually collected, decomposing the total gap into a compliance gap (reflecting taxpayer behavior and administration performance: detection and collection gap) and a policy gap (reflecting design choices: exemptions and multiple rates). Results showed historical improvement where the compliance gap more than halved from 32.5% of potential revenues (3.1% of GDP) in 2017 to 14.3% (1.3% of GDP) in 2025, and the C-Efficiency ratio rose from 50% to 62.2%, the strongest productivity gain in the period.

In international comparison, Morocco recorded an average compliance gap of 22.3% of potential revenues during 2017-2025, about 6 points below the emerging markets average (28.7%) and MENA average (28.4%), close to the advanced economies average (21%) and Europe (22.2%), and far from the low-income countries average (40%). The paper concludes the Directorate now possesses a locally-owned analytical tool to monitor the gap annually and support VAT reforms, especially the 2024 reform package.

Fourth Working Paper – State of Palestine

Speaker: Reham Al-Noubani

Researcher Reham Al-Noubani's paper (ATAIC 2026 workshop) diagnoses the tax compliance gap in Palestine as a financial and national issue, not merely a technical one. With the occupation withholding about $4.5 billion of clearance funds cumulatively until 2025, local revenues ($1,484 million, of which $935.8 million taxes) have become the pillar of financial sovereignty. The paper estimates annual evasion at about $500 million, with an informal economy representing 35-45% of GDP, and only 20-25% of the workforce under the income tax umbrella, amid a 20% GDP contraction and 48% expected unemployment in 2025.

The paper decomposes the gap into four gaps: non-registration, underreporting, non-payment, and non-compliance with procedures, and attributes root causes to a mix of administrative factors (absence of systematic inventory and weak unified database), legislative (complexity of exemptions and multiple interpretations), and behavioral (weak trust and absence of link between tax and quality of services). Risk analysis concludes taxpayer behavior is the most influential factor, followed by administrative performance, while the legislative impact is limited, calling for directing resources toward targeted intervention instead of random audit.

The paper proposes a radical treatment model in an integrated 9-step cycle across three phases: diagnosis and understanding, then targeting and linking, then sustainability and evaluation, centered on digital transformation and AI to link income, VAT, and withholding systems, automate declarations, and analyze big data to predict risks. It concludes with 16 recommendations in four tracks: legislative (simplifying Law No. 8 and reviewing exemptions), administrative (activating field inventory and risk-based audit), technological (unified central platform), and behavioral (promoting voluntary compliance, rectifying status, and spreading tax citizenship), stressing that narrowing the gap is a national partnership based on trust.

Fifth Working Paper – State of Lebanon
Speaker: Wissam Salim

The Lebanese Ministry of Finance presentation (ATAIC Second Workshop 2026) reviews the VAT compliance gap reality, where VAT represents 42% of estimated tax revenues for 2026, with about 60,000 VAT registrants within a general tax base of 300,000. It defines the gap as the difference between theoretical revenues under full compliance and actual revenues, distinguishing three gaps: registration (meeting conditions without registering), declaration (tax not accurately declared), and collection (declared tax not collected). It notes the last comprehensive measurement was in 2016 and updating it is currently being prepared, using top-down methodology with macro data and bottom-up with declarations and audit results.

The presentation analyzes root causes in four dimensions: economic (cash transactions, informal economy, smuggling), administrative and technical (limited human resources and need for mechanization and AI), legislative (complexity of texts and multiplicity of exemptions), and behavioral (weak knowledge, negligence, and deliberate evasion). To address them, it relies on graduated mechanisms: expanding the taxpayer base via matching income data, built properties, the NAR customs system, open sources, and field survey; early intervention via reminders and warnings before comprehensive audit; risk-based audit directing resources to highest-risk cases; and enhancing collection via warnings, seizure, and suspension of customs operations which showed tangible deterrent effect.

The presentation emphasizes digital transformation and promoting voluntary compliance via electronic declaration, notification, and payment, mechanization of administration, the "Sawt Al-Maliya" platform, and preparation for e-invoicing and a lottery on purchase invoices to encourage requesting invoices. It concludes with future priorities: periodic updating of gap measurement, strengthening linkage between tax and customs databases, developing risk management and employing AI, evaluating the impact of compliance measures on registration, declaration, and collection, and enhancing exchange of international experiences, under the slogan "The right intervention for the right risk at the right time."

: Discussion and Questions Session

The workshop witnessed wide interaction from attendees, with many questions and interventions on methodologies for measuring the compliance gap, mechanisms for expanding the tax base, and employing digital transformation and AI in risk management and promoting voluntary compliance.

The speakers and participating experts answered them extensively, providing practical clarifications drawn from their countries' experiences, including:

Q1. An attendee to the Kingdom of Morocco delegation: What is the degree of compatibility in closing the economic gap by following total quality self-assessment in accordance with international standards?

Answer : The representative of Morocco (Ghita Belkasri) explained that self-assessment is a starting point for identifying capacities and gaps within the tax administration and converting them into a reform roadmap, covering data quality, governance, and risk management, stressing it is a continuous improvement process tested and reviewed with benefit from international expertise before adoption.

Q2. An attendee: Did e-invoicing help reduce evasion in VAT payment?

Answer : The representative of Morocco confirmed that digital transformation provided more accurate data on taxpayers and their transactions, enhancing the administration's ability to monitor, cross-match, and identify non-declaration cases, and helped simplify the tax system and direct control more effectively.

Q3. An attendee to the Republic of Iraq delegation: What is the status of VAT and efforts to address the compliance gap?

Answer : The representative of Iraq clarified that VAT has not yet been applied in Iraq, and work is underway to enact a sales tax law as a basis for promoting compliance, noting evasion remains a challenge and the administration is working on developing the legislative framework and enhancing tax awareness.

Q4. An attendee: How do you address delays in declaration and payment?

Answer : The representative of Lebanon explained that treatment is via reminder messages after the deadline, then warnings, then escalatory measures that may reach assessment and comprehensive audit, in addition to suspending some customs operations for the non-compliant taxpayer.

Q5. An attendee : How is the informal economy dealt with and AI employed?

Answer : The representative of Palestine explained that treatment is by simplifying registration procedures, reducing documents, expanding e-payment and e-invoicing, and risk-based control, with data used to estimate the size of the informal economy. He added that digitalization and data linkage represent the basic infrastructure for future AI use in risk analysis, with the final decision remaining with the auditor

: Workshop Recommendations

- Periodically update measurement of the compliance gap
- Strengthen linkage and cross-matching between tax and customs databases and other information sources
- Risk-based targeting: focus audit efforts on the highest-risk segment where most of the expected gap is concentrated, by developing risk management
- Employ AI and advanced analytics with expansion of digital systems, e-invoicing, cash registers, and linking them to the tax administration
- Evaluate effectiveness of compliance measures by measuring their impact on registration, declaration, and collection
- Enhance exchange of international experiences
- Train tax administration staff in electronic audit and data analysis
- Develop tax awareness for taxpayers
- Promote voluntary compliance by simplifying procedures and improving services

: Closing of the Workshop

Dr. Osman Mohammed Abkar, Assistant Secretary-General of ATAIC, concluded the Second Virtual Workshop, expressing his thanks and appreciation to Their Excellencies the Directors General, experts, speakers, and attendees for their active participation and valuable interventions.