Citizens Role in development: Can Tax Issues be simplified?

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Presentation Outline

- Introduction – Role of citizens in the development
- Principles of Sound Tax Policy
- How does taxation support development?
- State Building Role of Taxation
- Principles of Tax Policy
- Key Tax Considerations
- Concluding Remarks
Introduction

• Taxation & development critical to all policy makers;
• Additional 4% of GDP to meet SDGs;
• State Building Role of Taxation;
• Multiple challenges, e.g. infrastructure, climate change, etc.
• Differences in country profiles (geographical, historical, political, etc.);
• Natural resource abundance – blessing or curse?
• How is non-resource tax doing?
How does taxation support development?

• Collection of taxes to support national objectives;
• Taxpayers seeing tax put to worthwhile use;
• Examples? Tax obligations, tax compliance
• Welfare improving characteristics – balancing act;
• Stability and infra-structure improvements (FDI);
• Promotion of entrepreneurship and innovation (tax incentives);
• Behavioral changes (excise);
• State building role of taxation.
Principles of Sound Tax Policy

• Simplicity, transparency, neutrality, stability, non-retroactivity, a wide base and low rates;
• Means that:
  • Low administrative costs;
  • Sound legislative procedures;
  • Tax certainty exists;
  • Broad base that ensures stable revenue flows.
• Tax most visible part of social contract:
  • Funding government;
  • Encourages responsive & honest government
Taxpayer Service and Modernisation

- **16 ATO countries have put in place call centres that track response times.** They are Angola, Botswana, Burundi, Cameroon, Kenya, Liberia, Mauritius, Mozambique, Rwanda, Senegal, South Africa, Swaziland, Tanzania, Togo, Uganda and Zambia.

- **Ten ATO countries have created websites that statistically monitor taxpayers’ queries.** These are Burundi, Cameroon, Kenya, Liberia, Rwanda, Senegal, South Africa, Togo, Uganda and Zambia.

- **23 out of 26 ATO countries (85%)** confirmed that they had modernised, their tax collection processes. The only exceptions were Benin, Burundi and Chad.

- **Further to this, 17 countries were able to introduce the electronic filing and payment systems.** These were Angola, Botswana, Cameroon, Ghana, Kenya, Mauritius, Nigeria, Rwanda, Senegal, Seychelles, South Africa, Swaziland, Togo, Tanzania, Uganda, Zambia and Zimbabwe.
Role of Tax in State Building

• The process of increasing the administrative, fiscal and institutional capacity of governments to “interact constructively with their societies” and to pursue public goals more effectively;

• necessary for any state to function, and the most reliable way to get it to do so is with an effective tax administration;

• “tax collection is central to the exercise of state power, making the need to address governance issues in tax collection of wider importance.”
Role of Tax in State Building (2)

• Encouraging constructive state-society engagement around taxes is one of four channels by which tax reform contributes to state building.

• Implies:
  • prominence of taxation issues on the public political agenda;
  • Levying of taxes as “consensually and as transparently as possible.”
  • Equal and fair treatment of taxpayers in the recovery of debt.
  • Creating the commitment of citizens not to evade tax is a political process central to state building;
Tax-to-GDP ratios: Regional Analysis, 2016
Factors that undermine State Building

• Tax evasion undermines the funding of the state and therefore, the legitimacy associated with the state through the delivery of public services;
• Corruption in turn, affects the moral legitimacy of the government;
• Criminality becomes a challenger to the legitimacy of the government.
• Direct correlation between “the perceived quality of governance” and “tax compliance”; 
• Public perception important: in the face of rampant corruption, criminality, and waste in the public sector, taxpayers may see tax evasion as a legitimate response to corruption
Factors that support State Building

GOOD GOVERNANCE

PUBLIC INTEREST

RESPONSIBLE GOVERNMENT

ANTI-CORRUPTION

PUBLIC DISCLOSURE

ACCOUNTABILITY
Factors that support State Building

• Sound legal framework;
• Strong anti-corruption framework;
• Presence of good governance principles,
• Respect for transparency,
• High ethical and professional requirements,
• Efficiency of the judiciary and;
• The enforcement of judicial decisions.

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1) How much money should government gather as tax?
   • Public spending needs;
   • Discourage wasteful expenditure

2) How should the tax burden be distributed among actual or potential taxpayers?
   • Fairness;
   • To achieve public policy goals, e.g. encouraging businesses to locate in poorer regions or to invest in particular sectors,
3) How can the potential adverse economic costs of taxation be contained or minimized?

- **Simplicity** – avoid complex and costly paperwork and record-keeping obligations,
- **Avoid taxpayer harassment; arbitrariness on the part of tax collectors, and the need to pay bribes.**
- **Avoid inefficiencies**: e.g. government chooses the easy option of raising most of its income by taxing coffee exports, then it may be biasing the whole economy, in an inefficient way.
4) Simplifying the way citizens pay tax

- Paying tax online, easy e-filing, get the refund in a short period
  => Solution is the self-service platform for paying taxes
- Simplifying the tax code: for small businesses, for personal income taxpayers and for corporates.
  ⇒ Consolidate individual tax rates into brackets
  ⇒ Eliminate as much as possible the personal exemptions compared to those who have families
  ⇒ Encourage the top corporates for continuous payment over a set number of years
Conclusion

• There is a strong, consistent connection between the ways in which governments are financed and the ways in which they govern;
• Governments are more accountable and responsive to their citizens when dependent for them for revenue;
• Effective tax policies generate developmental opportunities.