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Second Edition

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ATAF also wishes to extend its sincere congratulations to its research team and genuine thanks to the people who helped, both directly and indirectly, in the successful completion of the *African Tax Outlook*. ATAF is proud that the special environment and support which it is able to provide facilitated work on this project, which was brought to fruition thanks to the hard work, diligence and support of the following people:

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Foreword

We are proud to publish the second edition of the *African Tax Outlook* (ATO). The inspiration drowns from the focus of our inaugural ATO which stimulated and led 6 more countries to join the publication, moving from 15 countries in the first edition to 21 countries in the 2nd edition.

The African Tax Administration Forum (ATAF) continues to assist African countries in building strong, effective and efficient tax systems. Tax administrations generate a substantial amount of data fragmented across different databases and often of varying focus and scope. The ATO is informed by the need for accessible quality information on taxation in Africa. The purpose of the publication is to build a solid framework of meaningful indicators that will help to compare, assess and ultimately improve countries' tax administration and revenue performance.

ATAF hopes that the second ATO edition will, with its distinctive methodology, continue to make a significant contribution to the overall tax literature. It seeks to raise awareness of tax issues at different levels; promote revenue administration performance measurement and management; and provide governments and other important stakeholders with information on such important indicators as tax rates, tax bases, tax revenues, non-tax revenues, tax administration, taxpayers, compliance services and staff in tax administration.

This ATAF flagship publication is a project led by African tax administrations. The tax administrations' Heads of Research fully participated in determining the indicators and themes of the ATO, in developing the data collection tool and guide book and were heavily involved in the validation and analyse the data. The Heads of Research identified critical demand driven indicators that they thought will assist them in providing strategic direction necessary to drive revenue in Africa. The tax administrations' data collectors were trained during a capacity building workshop which increased capability to collect and led to peer learning exchange among the data collectors. Additionally, the participants were made aware of the importance of evidence-based policy recommendations and, therefore, the significance of data collection within a revenue authority. This makes ATO a source of reliable information that serves as an African and potential global reference in tax matters in Africa, since the process encourages full participation and ownership.

We are delighted that the participation has increased to 21 African countries in this publication which first of its kind on the continent. ATAF is also very grateful for the feedback and recommendations we received after publishing the first edition and tried our best to include them in the process of compiling the second edition. Hence, chapters on non-tax revenues and staff in tax administration were additionally included; indicators and processes in the making of the publication were further developed. However, it cannot immediately aspire to the level of perfection that it one day plans to achieve. Subsequent editions, however, will bring it closer to its ultimate objectives. To get there, we rely on your continued feedback.

It is our sincere hope that this ATAF flagship publication will be of use by our members and beyond. The indicators are crucial to African tax authorities as they implement reforms and policies to broaden the tax base, narrow tax gaps, simplify and improve fairness in tax systems, enhance overall voluntary compliance, keep policy makers informed on tax matters and make tax administrations more efficient.

The ATO is still on the beginning of its journey. It is an attempt by African tax authorities themselves to compare, in any consistent fashion, the ways in which they raise revenue. The findings are interesting in their own right. More than that, however, they raise many further questions.

Why is it that Botswana has a tax-revenue-to-GDP ratio of 25.7% and Uganda only 10.1%? Why do value added taxes (VAT) contribute 38% to total tax revenue in Lesotho and just 5% in Togo? Some readers, of course, might be able to draw policy conclusions from the comparisons made in these pages. Others, though, will find more questions than answers. Indeed, at this stage, questions are just as important because they will help to shape the next edition of the *African Tax Outlook* and feed into ATAF's broad research programme.

One policy recommendation is inescapable, however: the need for much more robust data collection and more, higher-quality taxation statistics in Africa.

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Acronyms

AEO	Authorized Economic Operators
AEOI	Automatic Exchange Of Information
AMATM	ATAF Agreement on Mutual Assistance in Tax Matters
ASYCUDA	Automated System for Customs Data
ATAF	African Tax Administration Forum
ATO	African Tax Outlook
BEPS	Base Erosion and Profit Shifting
BMS	Block Management System
CIT	Corporate Income Tax
CPCs	Central Processing Centres
CPI	Consumer price index
CRE	Customs Risk Engine
DRU	Debt Recovery Unit
DTAs	Double Taxation Treaties
EAC	East African Community
EBMs	Electronic Billing Machines
ECOWAS	Economic Community of West African States.
ECTSs	Electronic cargo tracking systems
EDI	Electronic Data Interchange
EGMS	Excisable Goods Management System
EMT	ATAF Executive Master's in Taxation
ERM	Enterprise-wide risk management
ERP	Enterprise Resource Planning
ESW	Electronic single window
GDP	Gross Domestic Product
HNWIs	High Net-Worth Individuals
HRIS	Human Resource Information System
ICTD	International Centre for Tax and Development
IGC	International Growth Center
ILO	International Labour Organization
IMF	International Monetary Fund

ISIC	Standard Industrial Classification
JDs	job descriptions
MNEs	Multinational Enterprises
MoFs	Ministries of finance
MOUs	Memorandums Of Understanding
NT	National Treasury
OECD	Organization for Economic Co-operation and Development
OJT	On Job Training
PAYE	Pay As You Earn
PE	Permanent Establishment
PEFA	Public Expenditure and Financial Accountability Tool
PIT	Personal Income Tax
PMS	Performance Management System
PPP	Purchasing Power Parity
PSI	Personal Services Income
PSO	Public Sector Office
RAs	Revenue Authorities
SACU	Southern African Customs Union
SEFT	Seychelles Electronic Funds Transfer
SEW	Single Electronic Window
SIGTAS	Standard Integrated Government Tax Administration System
SME	Small and Medium Enterprise
TADAT	Tax Administration Diagnostic Assessment Tool
TIN	Tax Identification Number
TIWB	Tax Inspectors Without Borders
TMS	Tax Management System
TPL	Transfer Pricing Legislation
UK	United Kingdom
UNDP	United Nations Development Programme
VAT	Value Added Tax
WCO	World Customs Organization

2017 ATO participating countries and their currencies

Country	Currency	Currency code
Benin	CFA franc	XOF
Botswana	Botswana pula	BWP
Burundi	Burundi franc	BIF
Cameroon	CFA franc	XAF
Gambia	Dalasi	GMD
Kenya	Kenyan shilling	KES
Lesotho	Lesotho Loti	LSL
Liberia	Liberian Dollar	LRD
Mauritius	Mauritius rupee	MUR
Mozambique	Mozambican Metical	MZN
Nigeria	Nigerian Naira	₦
Rwanda	Rwandan franc	RWF
Senegal	CFA Franc	XOF
Seychelles	Seychellois rupee	SCR
South Africa	South African rand	ZAR
Swaziland	Lilangeni	SZL
Tanzania	Tanzanian shilling	TZS
Togo	CFA franc	XOF
Uganda	Ugandan shilling	UGX
Zambia	Zambian Kwacha	ZMW
Zimbabwe *The Zimbabwean currency, the Zimbabwe dollar, has been suspended since 2009. A multi-currency system is in place.*	Zimbabwe dollar **Zimbabwe's adopted currencies** Botswana pula British pound Chinese yuan renminbi Euro Japanese yen South African rand United States dollar	ZBD BWP GBP CNY EUR JPY ZAR USD

Executive summary

Twenty-one countries contributed to data collection for this edition of the *African Tax Outlook* – six more than for the 2016 edition. The "ATO countries" are different in size, income and population – all factors that determine tax revenue. One newcomer, Nigeria, has a population of 186 million, while that of Seychelles is a mere 92 000. Similarly, GDP per capita is nearly PPP USD 26 000 in Seychelles, but less than PPP USD 5 000 in Burundi. Economic structures, too, are different, with the largely informal agricultural sector generating considerable GDP in some countries, but far less to tax revenue. Nevertheless, common patterns do emerge and cast light on economic and fiscal trends. Similarly, differences between ATO countries may offer valuable tax policy insights.

Growth in tax revenue and GDP

Overall, ATO countries show firm nominal GDP growth (increases in production and prices), with annual growth rates just short of 10%. And as aggregate production and income (i.e. nominal GDP) determine tax revenue, most ATO countries could increase their tax revenue substantially. Exceptions are those where political and economic crisis have caused slow or negative growth and those which are unwilling to tax.

In most ATO countries, tax revenue growth exceeds nominal GDP growth. In other words, the revenue-to-GDP ratio is on the rise. Even though there is no such thing as an ideal ratio of tax revenue to GDP, an increase is warranted in most ATO countries. If tax revenue grows faster than GDP, governments enjoy greater resources for public investment. The ATO countries would indeed benefit from greater investment in education, healthcare and public infrastructure. Not only it is socially warranted, it would foster growth.

Between 2011 and 2015, about half of nominal GDP growth in ATO countries was attributable to inflation and the other half to real growth. Although tax revenue does not differentiate between growth due to rises in prices (inflation) and rises in production, inflation lowers real thresholds. So, even though their income is no higher, people and firms might become liable to tax or to higher tax.

Admittedly, lower thresholds broaden the tax base. But they also put unnecessary pressure on small enterprises. Revenue authorities in the ATO countries should therefore monitor inflation and its effects on thresholds and, if required, adjust nominal thresholds to keep them constant in real terms.

VAT and excises

VAT – a pro-growth tax, but a fair one?

In most ATO countries, consumption taxes are the biggest source of revenue. The most widely used is VAT which, in some countries, replaced sales taxes only recently. It accounts for over 90% of consumption tax revenue. Unlike the sales tax which is paid only at point of sale, VAT is levied and collected along the whole supply chain. Because of its staged nature, VAT is much more difficult to avoid and so reduces leakage. However, collection is more costly, involving many individuals and firms.

One advantage of consumption taxes is that they are relatively reliable sources of revenue. A disadvantage, though, is that they are regressive because the poor spend a higher proportion of their income on consumption than the rich.

VAT is widely considered to not to distort growth prospects. However, in the ATO countries, where VAT coverage is patchy because of the scale of the informal sector, it might reduce welfare. In order to reap the benefits of VAT, therefore, ATO countries must formalise the informal economy

VAT revenue's share of GDP was highest in Lesotho, Senegal and South Africa where it exceeded 10%. Nigeria has, with less than 1%, by far the lowest share, attributable to its very low tax rate of 5% which cannot be offset by the absence of a VAT threshold.

VAT tax revenue may also fall short when countries offer too many exemptions and/or do not have robust refund mechanisms. The tax base narrows, effective tax rates may fall to zero and considerable revenue is lost. Uganda and Tanzania fell into that trap before legislating in 2015 to reform VAT.

Excise – double dividend or double indemnity

Excises are charged on certain goods, particularly fuel, tobacco and alcohol. They are widely regarded as double-dividend taxes: they are stable sources of revenue and deter the consumption of goods seen as harmful for people and society.

However, increasing excises might rob them off both dividends by giving rise to smuggling – particularly when countries with high excise rates share border with countries with low rates. Contraband tobacco constitutes between 40% and 50% of South Africa's total market and there is evidence that illegal cigarettes are of inferior quality. Excise revenue is thus lost to smuggling, and the effects of tobacco consumption on health actually worsen.

Direct taxation

Personal income tax – revenue on the rise, but ratios low

The fairest tax from a redistribution perspective is personal income tax (PIT). However, it is very vulnerable to economic shocks, so that revenue growth is strongly affected by economic or political crises.

PIT-to-GDP ratios in ATO countries are relatively low: the ATO average of around 4% is less than half of the OECD's due to particularly low-income bottom marginal tax rates, as in Nigeria and Togo. Low rates do not tell the whole story, however. For example, Liberia's bottom marginal rate of 5% is lower than Nigeria's, and its top rate of 24% practically the same to 25%. Yet its PIT-to-GDP ratio was 3.5%. Clearly, productivity, too, is key.

Nevertheless, ATO countries experienced positive income tax revenue growth. It was particularly high in Kenya, Mozambique and Uganda, where it ranged between 17% and 20% thanks to improved productivity (and to a rise of 10% in the top marginal rate in Uganda's case). Mozambique and Uganda also increased the number of registered income taxpayers by 270% and 225%, respectively.

Corporate income tax – high ratios but volatile

Ratios of corporate income tax to GDP were generally quite high and close to the OECD average. Even in countries where the overall tax-to-GDP-ratio is low, the corporate income tax ratio was not far below the average during the 2011-15 period. The highest ratio of 32% came in Mozambique, the lowest in Rwanda at 0.8%.

CIT revenue is very volatile, and of all tax revenues it is the one that shows the widest disparities between countries. While it grew by 32.6% in Togo and 21.8% in Mozambique, it fell by over 11% in Nigeria and Liberia.

Non-tax revenue – prone to swings

In the ATO countries where the information was available, the average ratio of social security contributions to GDP ratio was 1.4%, far lower than the OECD average of 9.1%.

Other non-tax-revenue accounts for large shares of revenue – particularly in oil- and resource-rich countries like Nigeria, Mozambique and Cameroon. However, such revenue is very vulnerable to price changes in the international markets. Cameroon's oil revenue fell from 4.3% of GDP in 2011 to 2.3% in 2015 and Nigeria's from 10% to 3%.

Tax authorities' organisational structure and operating practices

Semi-autonomous revenue authorities less prone to political pressure

Most ATO tax authorities are semi-autonomous, which affords them greater freedom to set salaries, choose staff, allocate their budgets – and carry out their mandates. Almost all are integrated, administrating both the tax and customs revenue.

The tax directorates of Benin, Cameroon and Senegal are departments within the finance ministries. They have to contend with political interference, which particularly affects the auditing of large taxpayers, often closely associated with the ruling political party.

RAs divide most taxpayers into segments by size and economic activity, e.g. extractive industry and financial sector. Some RAs also use special criteria, like multinational corporations (Lesotho) or public sector (Kenya and Uganda).

The average cost of tax administration in ATO countries was 1.5% of tax collected, compared to the OECD average of 0.9%. They ranged from 0.1% to 3.4%. Countries with tax departments in the ministry of finance reported low cost of tax administration, doubtless because they enjoy little room for recruitment and budgetary approvals. For the rest of the countries, disparities are due to their different levels efficiency and development.

Embedded risk management is crucial to efficiency

To address and assess the risk that prevent them from achieving their objectives, 13 RAs use enterprise-wide risk management (ERM), an organization-wide set of consistent methods and continuous processes. ERM gives a holistic view of risk in tax administration at all levels of the organization.

RAs cite corporate risks as the major kind of risk that they have to face. Corporate risks comprise system disruptions and security threats, human resources risks, financial resources risks, external risks, and planning. For an effective ERM, RAs should:

- put in place functional risk management committees;
- have comprehensive, clear ERM policy documents, ERM framework documents, ERM manuals and ERM registers;
- provide continuous ERM training and awareness raising for staff at all levels;
- put in place formal channels of communication and feedback.

The key requirement, though, is that ERM should be built into all processes.

The informal and small taxpayer compliance challenge

ATO countries continue to grapple with the challenge of the informal sector which accounts for 50% to 80% of GDP, 60% to 80% of employment, and as much as 90% of new jobs. Clearly, revenue authorities are foregoing huge amounts of revenue.

Factors that contribute to the development of the informal sector are:

- high tax rates and transaction costs;
- complex, costly procedures for creating and registering businesses;
- lack of proper identification systems and single identifiers for all institutions.

Educating and reaching out to the taxpayer

Another cross-cutting reason for non-compliance is as much ignorance as avoidance. Indeed, research and experience reveal that educated taxpayers are compliant taxpayers. Accordingly, ATO countries are increasingly making taxpayer services – education and outreach – the cornerstone of their compliance efforts.

Most ATO countries' revenue authorities indeed have taxpayers' education divisions supported by an adequate budget and implemented by a fully fledged division. And because they are cross-functional, they help bring down administration costs.

To educate taxpayers and raise their awareness, RAs in ATO countries run schemes such as tax clinics, seminars, workshops, talk shows and propose tax administration services. However, they should be careful to adjust their tax education and outreach strategies to the needs and abilities of taxpayers.

Accordingly, when it comes to taxpayers in remote areas, mobile education units in some ATO countries drive out to them in tax vans to educate, raise awareness and help them register for income tax and file tax returns. RAs also map far-flung areas where informal taxpayers live and work and break them down into blocks. Tax educators are

then allotted blocks and visit taxpayers in the field to educate and encourage compliance.

The smaller a taxpayer, the higher the costs of compliance. Some ATO countries have therefore made policy and administrative reforms, such as raising VAT thresholds to cut small firms' running costs. RAs should also simplify their record-keeping and reporting requirements and supply pre-filled tax declarations for filing returns.

Modernising for compliance

Modernisation also helps cut the cost of compliance. All ATO countries have modernised, albeit to varying degrees. While small taxpayers still declare their taxes manually in some ATO countries, others have already switched to automation.

Countries like Mauritius and Uganda have developed systems that enable taxpayers to pay and file returns from anywhere at any time.

Most ATO countries allow taxpayers to file their returns and pay electronically. Four – Kenya, Tanzania, Togo and Uganda – have made it compulsory, while it is a requirement in other ATO countries only for large taxpayers, for the payment of income tax and VAT, and in PAYE systems. ATO countries are increasingly introducing tax payment by mobile phone.

Automated information systems make compliance easy, thus widening the tax base. And they enable revenue authorities to identify and mitigate risk, related not only to compliance but to staff, technology and processes. They also make enforcement more effective and efficient by enabling ATO revenue authorities to share information.

Share information on taxpayers

ATO countries like the Gambia, Mauritius, Nigeria, Seychelles and Zimbabwe have built information systems that interface or are integrated with government and other systems in critical areas like the financial sector. Domestic tax returns and payments are automatically compared with export and import data to detect underreporting. RAs may then identify unregistered taxpayers doing business with registered taxpayers and any sales or income they may have failed to declare.

The need for strong regulatory systems persists

In addition to efforts to foster and ease compliance, ATO countries should strengthen their legal and regulatory systems to effectively tax informal business. They should seek to formalise the informal sector, particularly through measures to regulate the cash economy, control market entry and access and map all businesses' locations. However, unless regulatory obligations are light enough not be burdens, informal businesses will have no incentive to go formal.

The large taxpayer challenge

Over 50% of some ATO countries' revenue comes from large taxpayers – high net-worth individuals (HWNIs) and multinational enterprises (MNEs). Accordingly, RAs in ATO countries have put in place special large taxpayers units to better understand their overall tax position and tax avoidance behaviour.

However, their aggressive tax-planning schemes can be so complex that RAs can do little to stop revenue escaping them. Large taxpayer units are therefore increasingly opting for collaboration over confrontation. To curb inaccurate reporting, for example – a major compliance risk between 2011 and 2015 – ATO revenue authorities seek to build collaborative, trust-based relationships. As a result, they have reached voluntary compliance agreements with MNEs.

Such deals encourage large taxpayers to make full disclosures of their tax liabilities, including offshore activities, while RAs can collect tax and any interest or penalties due without resorting to long, complex investigations. Voluntary disclosure programs must never, though, allow large taxpayers to gain relief for past non-compliance.

AMATM – a valuable tool

MNEs might use weak systems to avoid tax. ATO countries have responded with information-exchange agreements. One that will be especially valuable now that ratification has made it effective is the ATAF Agreement on Mutual Assistance in Tax Matters (AMATM). It formalises mutual administrative assistance among RAs in ATO countries, so strengthening mutual cooperation for auditing, investigating MNEs, and sharing of information and expertise in the fight against base erosion and profit shifting.

AMATM signatories should also benefit from the automatic exchange of information (AEOI) and exchange of information on request through competent authority offices established in their revenue authorities. As such, AMATM is a powerful tool for tracking cross-border transactions and illicit financial flows.

Limited staff resources

A persistent challenge to RAs' efforts to coax and coerce compliance is the inadequate ratio of tax administrators to taxpayers.

One staffing source that RAs widely overlook is women. Discrimination robs them of the chance of achieving their full potential and robs RAs of potential tax administrators. The average male-to-female staff ratio was 1.83 in 2015, ranging from 4/1 in the Togolese revenue authority and over 2/1 in some other countries.

High qualifications, lower competencies

The average taxpayer-to-staff ratio in the ATO countries is 202, which is within the international benchmark of between 150 and 250 economically active people per tax administrator.

Almost 62% of revenue authority staff in ATO countries boast at least a degree-level qualification. Nevertheless, many RAs singled out competency gaps as a major corporate risk especially in areas like complex transfer pricing cases and estimating the tax gap.

Tax administration needs to invest more heavily in human capital, particularly in operations functions, to increase numbers of highly skilled workers who are abreast of the rapid changes in specialized sectors.

Building competencies – a continuous requirement

Revenue authorities ought to continuously build staff capacity in areas that contribute to domestic resource mobilization. These include areas such as international taxation, transfer pricing, auditing of related transactions and Inter-party transactions, etc. To that end, ATO countries and ATAF members in general need to, as a matter of urgency, accede to the ATAF Agreement on Mutual Assistance in Tax Matters (AMATM) and make use of the ATAF Technical Assistance Unit.

Competency frameworks help build skills that meet the needs of the department concerned. The first step is to draw up job catalogues that list all positions and their requirements in the different departments. Job descriptions (JDs) comprehensively spell out what jobholders are expected to do and assign clearly delineated responsibilities. RAs in building competency frameworks, should setup dictionaries describing each job in order to guide and promote consistent, transparent and fair recruitment that meets needs.

RAs should also encourage creativity, fostering a strong innovative culture where staff proactively generate ideas to improve service delivery. Indeed, a regular timeslot should be set aside for staff brainstorming.

Corruption – a question of culture

Recent figures indicate that tax and customs rank third after government procurement and land administration on the corruption scale. The danger of corruption for revenue mobilisation has prompted ATO revenue authorities to design measures to root out staff corruption and build a professional workforce. Action includes tough, consistent disciplining of corrupt staff and stringent pre-screening and vetting when recruiting.

However, upstream action must take precedence. RAs should build integrity and anti-corruption into corporate culture and require their staff to work and behave in accordance with ethical standards. Staff should be financially literate and trained to recognise and respond to fraud, conflicts of interest and integrity dilemmas.

01

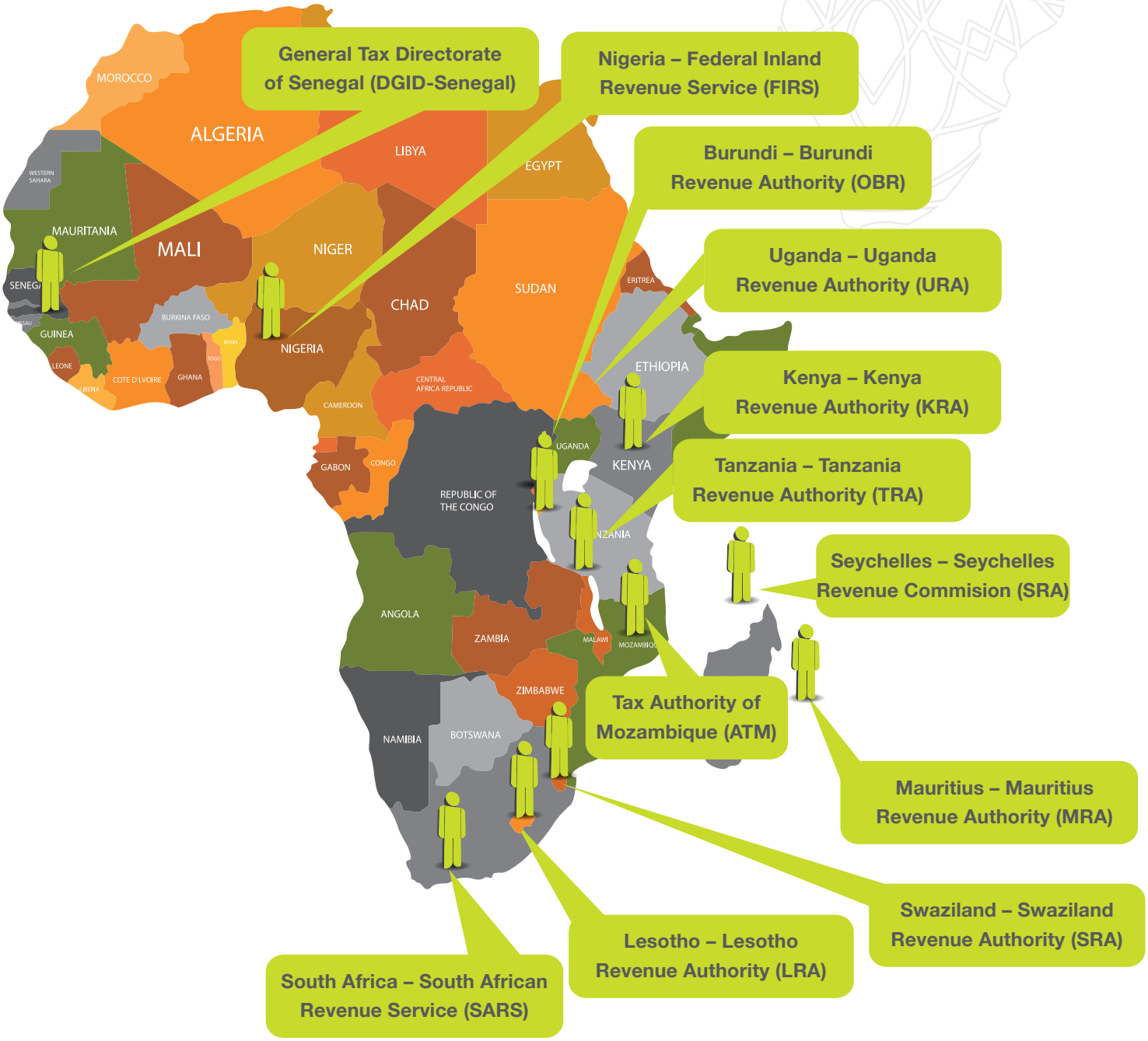
CHAPTER 1
Introduction

CHAPTER 1

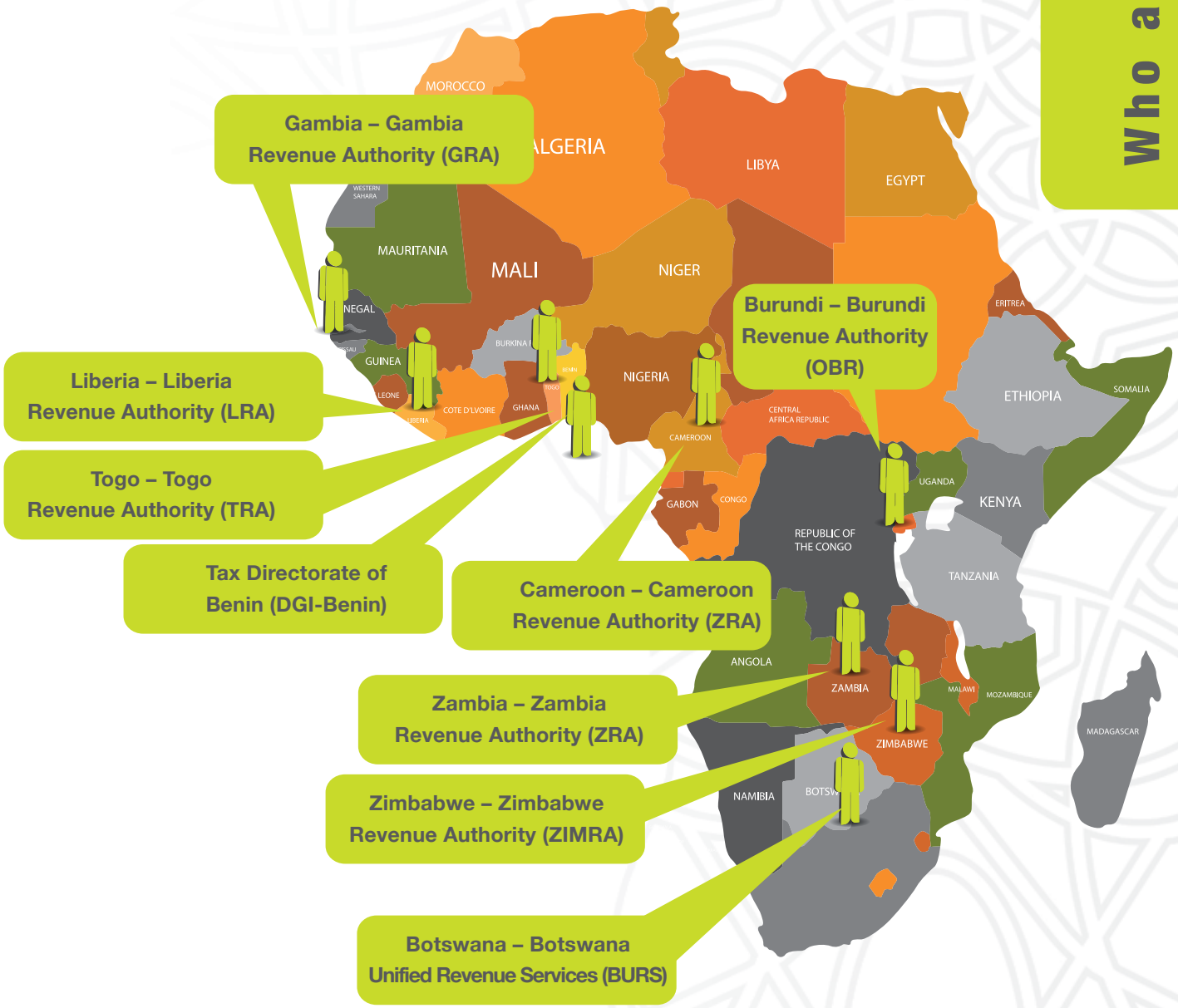
01

Introduction

The 21 "ATO countries" who contributed to the 2017 edition of the African Tax Outlook



Who are the "ATO Countries?



1. Introduction

The *African Tax Outlook's* objective is to provide reliable information on taxation that will serve as an African and global benchmark in formulating tax policies and tax administration reforms across Africa.

In the first edition, which appeared in 2016, 15 "ATO countries" (Table 1.1) participated and provided information. It was the beginning of a journey. This edition is the second stage of that journey – with six new countries on board, one of which is Africa's most populous country Nigeria. So 21 ATAF member countries cooperate in building reliable tax statistics and analyses pertaining to tax administration and tax policy in Africa. Another benefit of this important ATO process is that participating countries learn from one another on how to collect more and better tax statistics and embed them in their daily work, share good practices, build capacity, improve evidence-based tax policy and administrative decision-making and, ultimately, maximise revenue collection.

The production process for this second ATO started with a consultative workshop in June 2016. Participants were the national heads of research and planning from tax authorities in the ATO countries. At the workshop, they discussed the usefulness of the indicators collected for the first ATO, agreeing to continue collecting most of them for the second edition. Although the obvious advantage was that the time series data available for those indicators would increase, there were also other indicators which proved impractical – because they were hard to collect and/or interpret. Accordingly, a number have been dropped from the second *African Tax Outlook*. Nevertheless, some have been kept in the hope that collection and/or interpretation improve with experience.

Furthermore, the heads of research and planning meeting at the workshop agreed to include new indicators. Some are clear improvements on the previous ones and will therefore be kept for future editions – particularly those that measure in greater detail revenues from domestic and imported goods. Finally, information collected from a contemporary cross-country comparison might not have to be collected every year.

To ensure that all indicators are understood and interpreted in the same way, a guidebook is available. The data it contains were collected over a period of five fiscal or calendar years from 2011 to 2015 by appointees, known as "focal points", from each country. The guide book itself was developed and discussed at the consultative workshop with the focal points in June 2016.

The data collection was finished in October 2016. However, data revisions where excepted until March 2017. Revisions and corrections after that point of time could not be integrated in the current ATO, but will be considered in future editions.

Parts I and II

The *African Tax Outlook 2017* is divided into two parts. Part I consists of Chapters 2 to 4 and deals with revenue and its determinants. It first considers total tax revenue, then revenue under different tax headings and, finally, non-tax revenue. Part II – Chapters 5 to 8 – addresses tax administration. It starts with an analysis of the organisational structure of tax and customs administration organisations. It then turns to taxpayer services and the management of compliance. The final chapter considers human resource issues in tax administration – ranging from training to retaining.

Table 1.1: The 21 "ATO countries" who contributed to the 2017 edition of the African Tax Outlook

Nigeria Federal Inland Revenue Service (FIRS)	**South Africa** South African Revenue Services (SARS)	**Uganda** Uganda Revenue Authority (URA)
Kenya Kenya Revenue Authority (KRA)	**Tanzania** Tanzania Revenue Authority (TRA)	**Swaziland** Swaziland Revenue Authority (SRA)
Lesotho Lesotho Revenue Authority (LRA)	**Benin** Benin Tax Administration (Direction Générale des Impôts – DGI Benin)	**Togo** Togo Revenue Authority (Office Togolais des Recettes - OTR)
Gambia Gambia Revenue Authority (GRA)	**Senegal** Senegal Tax Administration (Direction Générale des Impôts et des Domaines – DGID Sénégal)	**Rwanda** Rwanda Revenue Authority (RRA)
Mozambique Mozambique Revenue Authority (ATM)	**Liberia** Liberia Revenue Authority (LRA)	**Burundi** Burundi Revenue Authority (OBR)
Zimbabwe Zimbabwe Revenue Authority (ZIMRA)	**Seychelles** Seychelles Revenue Commission (SRC)	**Mauritius** Mauritius Revenue Authority (MRA)
Botswana Botswana Unified Revenue Service (BURS)	**Zambia** Zambia Revenue Authority (ZRA)	**Cameroon** Cameroon Tax Administration (Direction Générale des Impôts – DGI Cameroun)

02

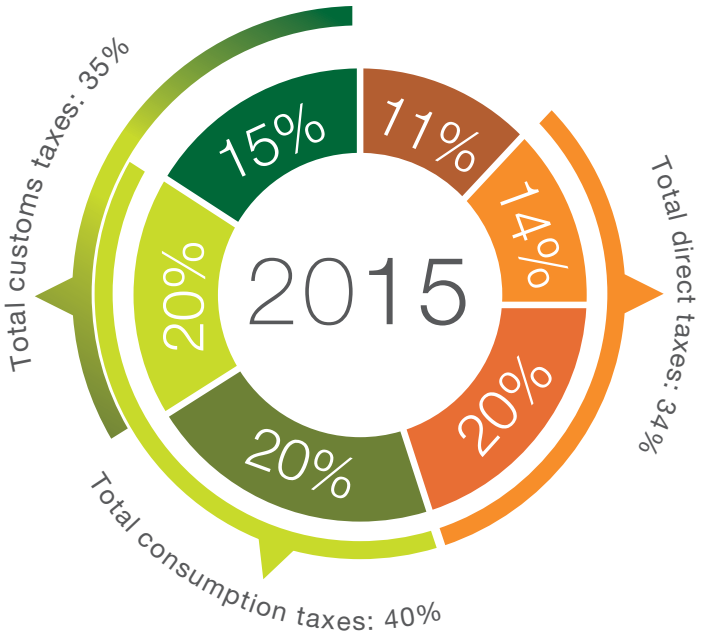
CHAPTER 2

Total tax revenue

CHAPTER 2

Total tax revenue

TAX REVENUES AND GDP



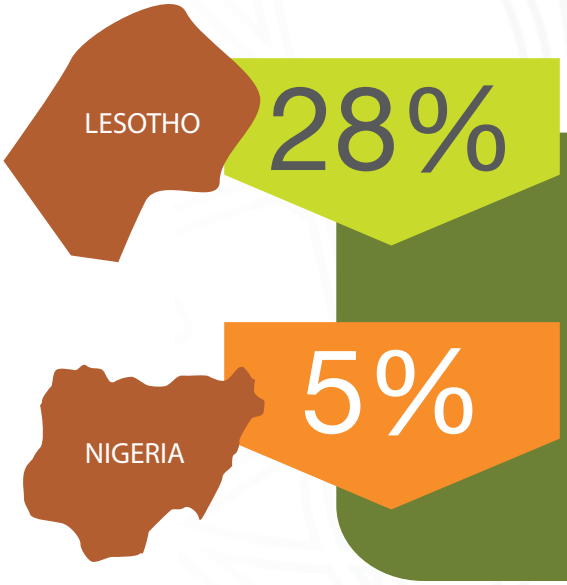
- 20% Personal income tax
- 20% Consumptions tax on domestic goods
- 20% Consumptions tax on imported goods
- 15% Import duty
- 11% Other taxes
- 14% Corporate income tax

Tax revenue in the ATO countries came from 6 tax types in 2015…

…which may be divided into two categories:

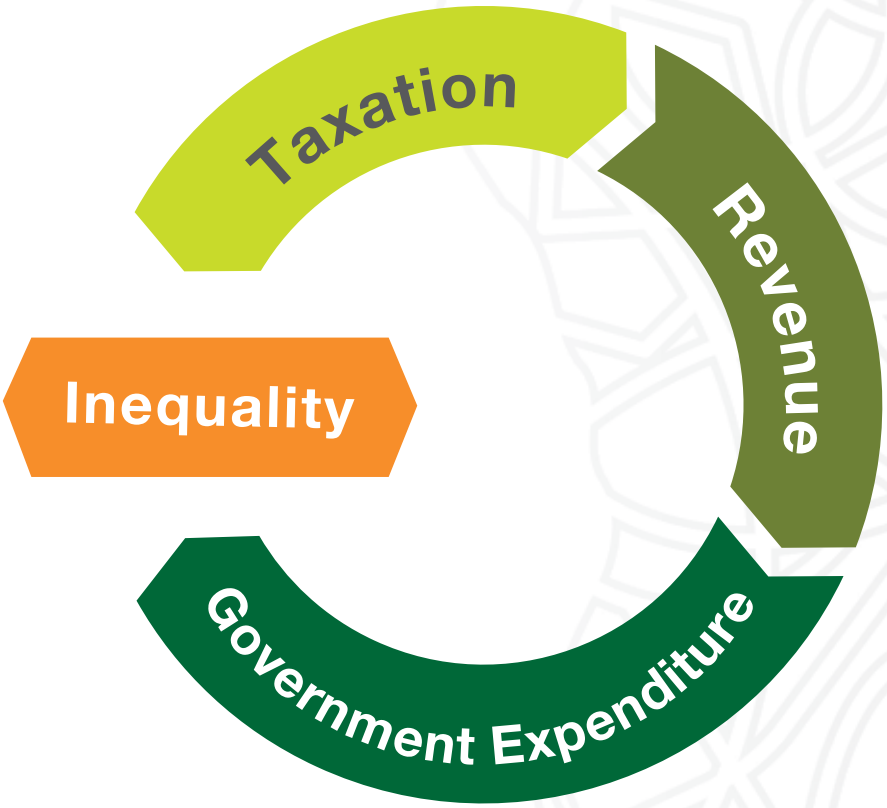
- Indirect taxes, where consumption and customs taxes overlap, and which account for 55% of the average ATO country's total tax revenue.
- Direct corporate and personal income taxes account – 35%.

TAX REVENUE IN ATO COUNTRIES ACCOUNTS FOR SHARES OF GDP THAT RANGE…



. . . from 28% in Lesotho to 5% in Nigeria, for an average ratio of tax revenue to GDP of 18% – well below the OECD average of 25.1%.

Direct and indirect effects of taxation on inequality



2. Total tax revenue

2.1. Tax revenue and GDP

ATO countries vary considerably in size, income and economic structure. For meaningful comparison between countries, the data must be adjusted for the differences in populations, which range from 186 million in Nigeria to 92 000 in the Seychelles. Furthermore, monetary variables must be converted into a common currency using market exchange rates or purchasing power parities (Box 2.1).

The average per capita GDP in ATO countries between the two extremes of Burundi and Seychelles is just below PPP USD 6 000. However, in 16 of the 21 countries, GDP per capita is below PPP USD 5 000 (Table 2.1).

Box 2.1

Market exchange rates and purchasing power parities

Market exchange rates express the currency value in relation to the US dollar. Exchange rate-converted figures show international purchasing power and are therefore suitable for the analysis of international trade. By contrast, PPP conversion is more suitable for cross-country comparisons of income and welfare, as it takes into account local purchasing powers (which vary as some local goods are cheaper than in the US).

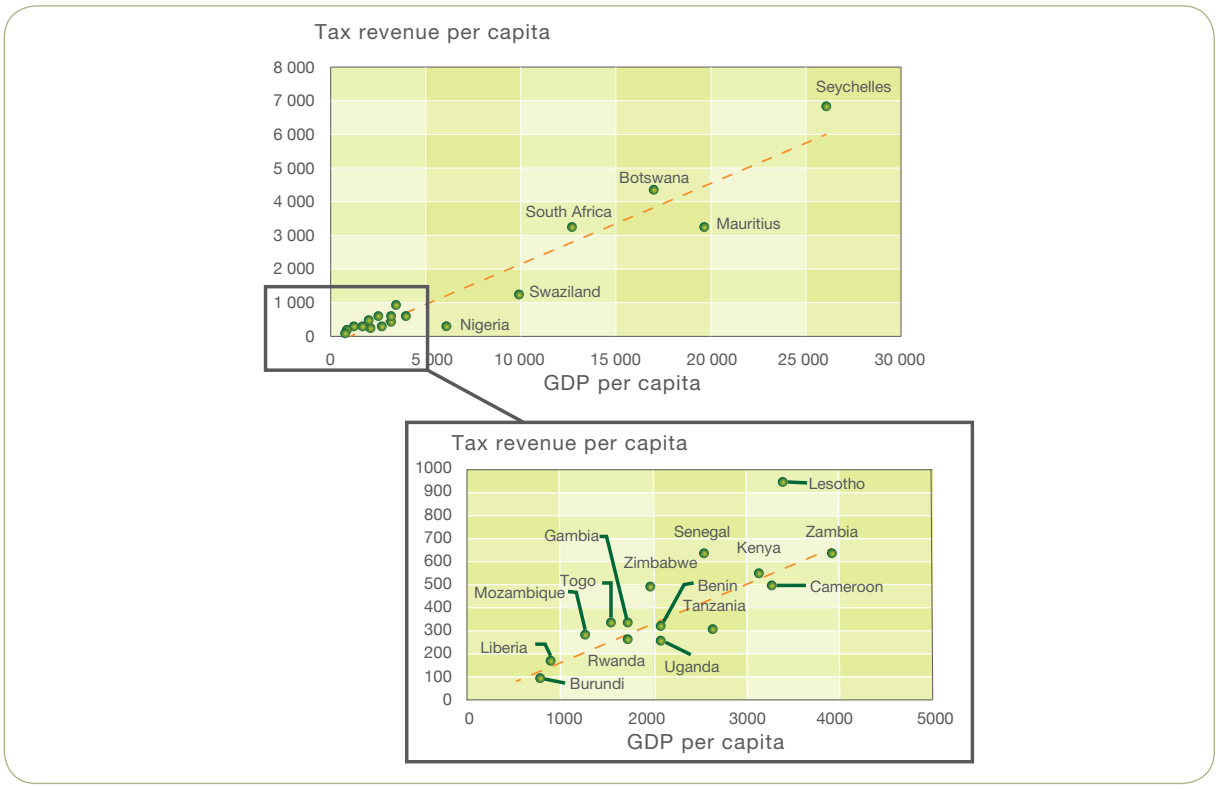
Table 2.1: *Tax revenue per capita and GDP per capita of ATO countries, 2015*

		PPP (USD)			Exchange rate conversion (USD)		
Country	Population (millions)	GDP (millions)	GDP per capita	Tax revenue per capita	GDP (millions)	GDP per capita	Tax revenue per capita
Botswana	2.18	36.983	16.954	4.362	13.649	6.257	1.610
Benin	10.88	22.472	2.065	317	8.295	762	117
Burundi	9.82	7.711	785	94	2.881	293	35
Cameroon	22.22	72.522	3.264	494	28.430	1.279	194
Gambia	1.97	3.405	1.729	330	933	473	90
Kenya	43	134.900	3.137	556	58.393	1.358	241
Lesotho	1.92	6.508	3.395	950	2.291	1.195	334
Liberia	4.20	3.748	892	165	2.035	484	90
Mauritius	1.26	24.649	19.563	3.249	11.647	9.244	1.535
Mozambique	25.73	32.837	1.276	278	14.807	576	125
Nigeria	186.47	1.149.822	6.166	317	516.305	2.769	142
Rwanda	11.27	19.330	1.715	626	7.825	694	106
Senegal	14.35	36.559	2.548	632	13.617	949	235
Seychelles	0.09	2.422	25.997	6.830	1.377	14.783	3.883
South Africa	54.96	700.341	12.743	3.254	302.929	5.512	1.407
Swaziland	1.12	11.095	9.912	1.197	4.121	3.681	444
Tanzania	49.86	131.867	2.645	308	42.766	858	100
Togo	6.84	10.654	1.559	333	4.090	598	128
Uganda	37.71	78.489	2.081	256	24.308	645	79
Zambia	15.47	60.517	3.911	637	21.122	1.365	222
Zimbabwe	13.94	27.344	1.962	496	13.891	996	252

There are several reasons for the wide range in GDP per capita:

- Since GDP mainly takes market transactions into account, those countries with large informal sectors have low GDP per capita.
- Productivity in the secondary and tertiary sectors is generally higher than in the primary sector. So, when agriculture is the dominant sector, average GDP per capita is lower.
- Productivity, particularly in industry and agriculture, is determined by workers' levels of skills and educational attainment. An equally important factor is productive capital endowments: the greater they are, the higher is productivity and, by the same token, GDP per capita.
- Productivity and GDP per capita also depend on public infrastructure. With improvements in transport, for example, goods can be more easily shipped and traded. And the resources saved can be used in other productive activities. Furthermore, trade and transport enable better division of labour and greater specialisation.
- Countries' natural resources earn them wealth in different ways, e.g. fertility of land, raw materials, tourism. All allow firms and individuals in a country to offer unique goods and services that can be sold on the market. Hence, their direct positive effect on production and employment. There are also indirect effects, because workers employed in the sector concerned earn money, which they spend – at least partly – on the consumption of locally produced goods, so further strengthening production and employment.
- Some resource-rich countries are nevertheless poor, with low levels of GDP per capita. Factors like corruption, political instability and lack of institutional independence impair output.
- As for differences in tax revenue per capita, they are, to a large extent, mirror images of those in GDP per capita (Figure 2.2). In other words, countries with high GDP per capita have high tax revenue per capita.

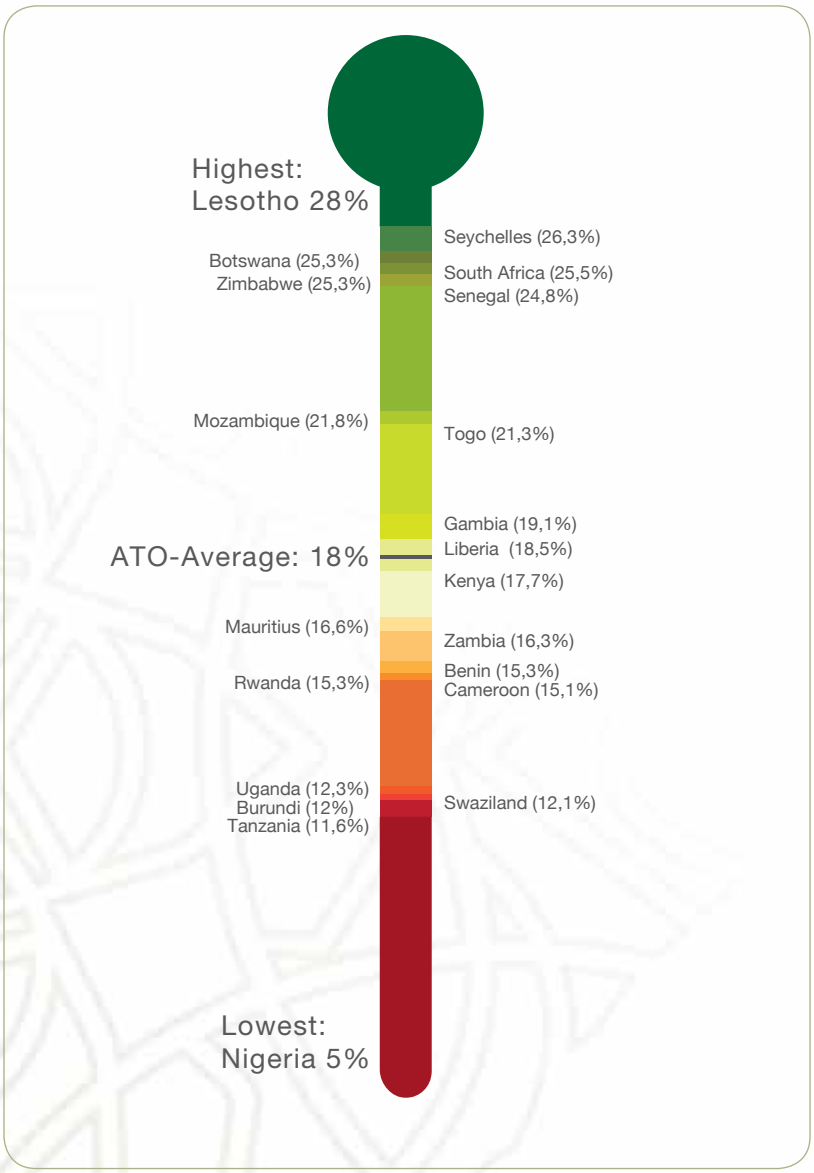
Figure 2.2: *GDP per capita and tax revenue per capita*



Tax to GDP ratio among ATO countries

If all countries were arranged along a straight line, they would all have the same tax-to-GDP ratio. The slope of the line in Figure 2.2 shows the average tax-to GDP-ratio. An increase in the tax to GDP ratio would mean that line becomes steeper. Obviously, there are some where the ratio is higher than average (above the line) and others where it is lower (below the line). The relative distance from the average becomes explicit in the tax-revenue-to-GDP ratio, which ranges widely among ATO countries (Figure 2.3) – from as high as 28% in Lesotho to 5% in Nigeria[1].

Figure 2.3: *Differences in tax-revenue-to-GDP ratios (2015)*



1. *Refer to table A.1 in the appendixes for the tax revenue to GDP ratios in ATO participating countries from 2010 to 2016.*

As for the average ratio, it is, at 18%, considerably lower than the OECD's 25.1%, although some ATO individual countries (Botswana, Lesotho, Seychelles, South Africa and Zimbabwe) boast ratios that compare very favourably with the OECD average.

It is important to note that there is no best revenue-to-GDP ratio. Expenditure needs determine revenue needs across all tiers of government. The *African Tax Outlook* does not address local taxes. It should be borne in mind, therefore, that subnational governments with responsibility for providing services might also finance them through local taxes. In that event, the tax-revenue-to-GDP ratio is underestimated (Box 2.2).

Leaving aside issues of subnational government, there is no consensus as to which tasks should be government responsibility and which be left to private activity. In countries where the state has relatively few responsibilities, public expenditure is lower than in those where it provides a high proportion of services. Countries where public spending is low levy less tax and therefore have lower tax-to-GDP ratios. One example is education.

While it is generally agreed that taxes should fund basic schooling, there is no consensus in that regard when it comes to higher education. Some countries finance universities through tax, while others charge fees. Another example is social security. Some countries finance parts of their social security system through taxation, while others use private providers. In a third group of countries, there is no comprehensive social security system and it is up to households to take precautionary savings to pay for private arrangements.

Although there is no consensus as to what constitutes a government's responsibilities, there is evidence that an increase in public revenue in ATO countries is required to finance growth. There is a particular call for greater spending on education, health care and public infrastructure (AfDB/OECD/UNDP, 2016). Understanding of the need in those areas is wide and improved investment is high on the political agenda (AUC, 2015).

Box 2.2

Reasons for low tax revenue in Nigeria

The tax-to-GDP ratio in Nigeria is only 5.1%, by far the lowest level of any ATO country, much lower than the second lowest of 11.6% in Tanzania. There are several reasons:

- Nigeria's system of government is federal and only federal revenue is considered in this edition of the *African Tax Outlook*, which does not address tax revenue figures from sub-national entities.
- Nigeria has high non-tax revenue, particularly from oil and royalties, and is therefore able to keep tax rates low.
- In 2011, the tax-to-GDP ratio in Nigeria was 9.1%. So, to some extent, the low level is the result of political and economic crisis resulting from tumbling oil prices and insurrection in the north of the country.
- Even though the tax-to-GDP ratio in Nigeria is very low, only 51% of respondents in the Afrobarometer survey – more or less the ATO-country average – agreed that it would be good to have higher taxes and more public services.

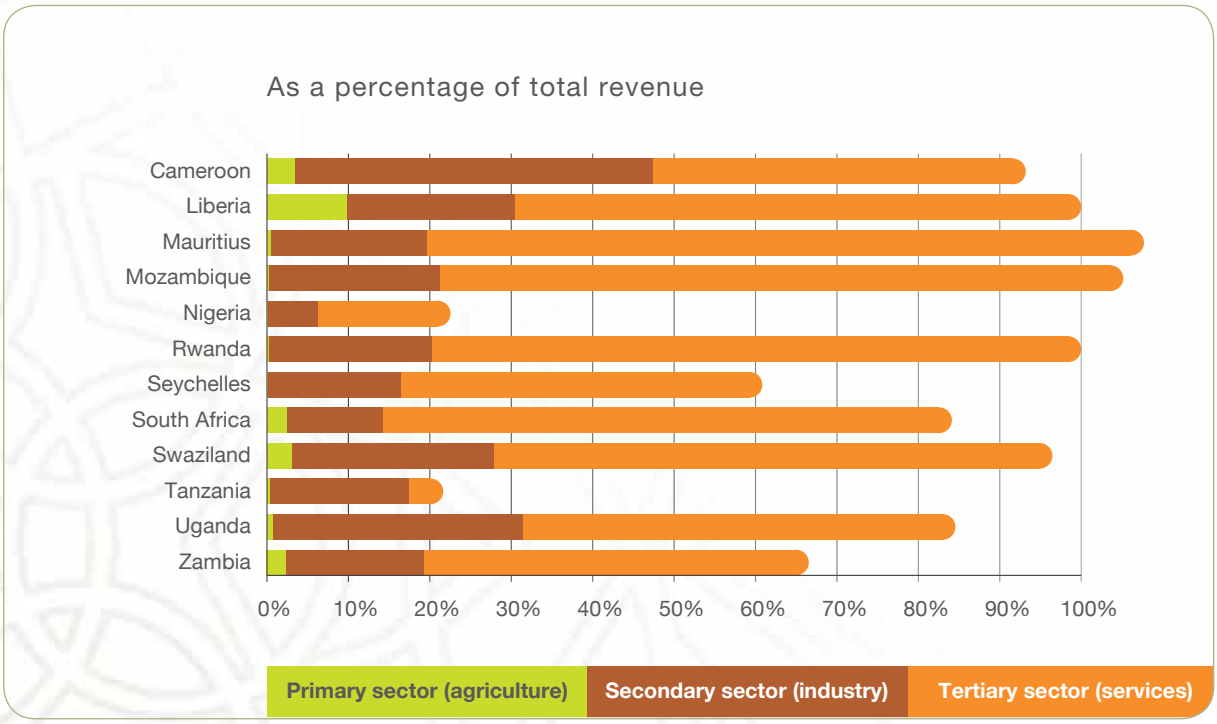
Another objective of tax policy is redistribution, whereby revenue is either directly redistributed or used to fund public expenditure. Such policy is generally determined by social objectives, such as reducing poverty and/or increasing equity. According to Okun's famous hypothesis (Okun, 1975), redistribution is a "leaky bucket" that wastes part of the total income available to society. Hence, Okun's notion of trade-off between equity and efficiency. However, in recent years that simple trade-off view has been challenged and it is now widely accepted that equality may well be necessary to improving economic growth. Indeed, there is a strong case for considering inequality as harmful to long-term economic growth.

Drawing on the best available macroeconomic data, Tsangarides, Berg and Ostry (2014) observed that there is nearly no evidence that redistribution reduces economic growth – the sole exceptions are extreme cases. Indeed, public investment fosters greater labour market participation among low-income groups, so cutting poverty, which also implies that the fairness of the tax system cannot be judged without considering expenditure.

Differences in tax-to-GDP ratios are attributable – at least partly – to countries' readiness to tax. Those that are unwilling to tax practice low rates, while those that are willing have higher tax rates.

A country's economic structure might also determine its ability to raise revenue, as sectors marked by high levels of informal activity are more difficult to tax. Typically, they contribute less to revenue than to GDP, particularly in the agricultural sector, where monetisation is generally low. As a result, some ATO countries distinguish tax revenue by sector. In all of them, however, the primary sector contributes far less to tax than to GDP (Figure 2.4).

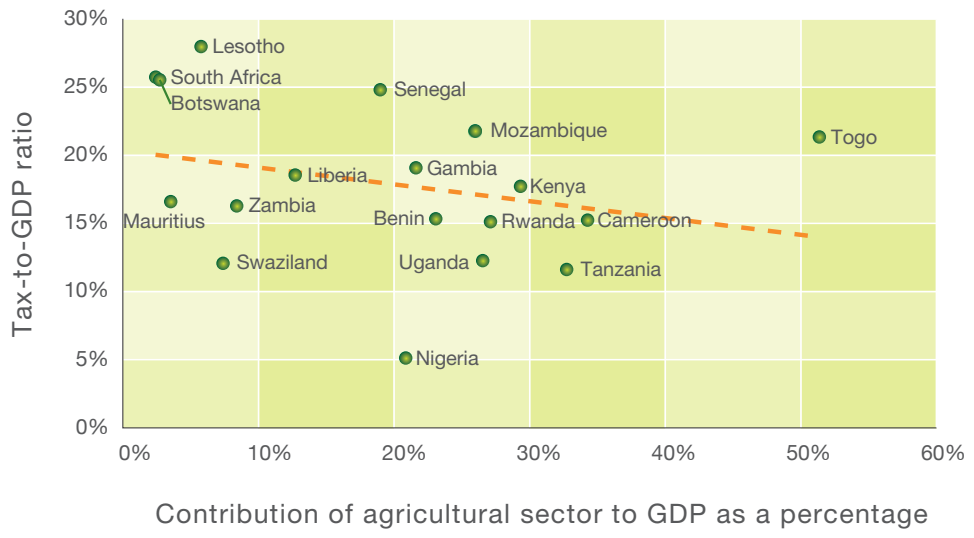
Figure 2.4: *Agriculture contributes much less to tax revenue than industry and the services, 2015*



Note: The sum of the revenue might be not exactly 100% because not all revenue can be attributed or revenue is attributed to two sectors. Data relate to calendar year 2015 or fiscal year 2014-15.

Not only does agriculture contribute less tax than industry and the services, but countries where it accounts for a high share of GDP tend to have a lower tax-to-GDP ratio (see Figure 2.5).

Figure 2.5: *The effects of sectoral structure on tax revenue, 2015*



However, there are also countries where agriculture's contribution to output is high but which have relatively high tax-to-GDP ratios, e.g. Togo. Conversely, there are countries like Swaziland with low tax-to-GDP ratio where agriculture contributes relatively little to GDP.

Another reason for differences in tax outcomes might lie in how efficiently tax administration ensures participation in and compliance with the tax system. Efficient countries are likely to boast higher revenues than inefficient ones with the same tax rates and base. Furthermore, the ability of a revenue authority (RA) to collect tax depends on people's willingness to pay.

Attitudes towards tax are very different from one country to another and are also shaped by levels of taxation and the way revenue is used. The 2011/12 Afrobarometer survey afforded insights into such attitudes in 34 African countries, which included 18 ATO countries (i.e. all except Gambia, Rwanda or Seychelles).

The first question that Afrobarometer asked respondents was whether they agreed with the statement, "Citizens must pay their taxes to the government in order for [their] country to develop." The greatest compliance came in Liberia and Senegal, where 80.5% respondents agreed or agreed strongly. In Lesotho, where only 32.2% said yes, willingness to pay taxes was by far the lowest. Interestingly, both Lesotho and Senegal have high tax-revenue-to-GDP ratios, so attitudes towards taxation cannot be the main explanation of differences in tax-to- GDP ratios.

Ali, Fjeldstad and Sjursen (2014) used the 2011/12 Afrobarometer to examine factors determining citizens' tax-compliance attitudes in Kenya,

Tanzania, South Africa and Uganda (see Box 2.3) They found that they were positively correlated with the provision of public services and people's knowledge and awareness of tax.

Box 2.3

Best practice from Uganda

A business model that is client-focused for optimal compliance

In order to minimize non-client focused revenue mobilization strategies, Uganda Revenue Authority (URA) developed a revenue agency model to define how URA creates, delivers and captures value.

The model describes how URA is structured and through which avenues it can maximise revenue mobilization and how the activities fit together to collect revenue and create a shared understanding in guiding and informing strategic directions. The URA business model provides answers as to what, how, with whom and where any revenue authority should be positioned to minimise revenue leakages in advanced tax-planning schemes and hard-to-tax areas (e.g. the digital economy and informal sector) through thorough analysis of the URA's internal organisational and of taxpayer behaviour.

The URA model helps tax administration agencies to better understand their clients and so provide them with optimum services.

Source: Ugandan Revenue Authority (URA)

How much tax RAs collect might, therefore, be less important than how they collect and what for. The same idea emerges from responses to the statement, "It is better to pay higher taxes, if it means that there will be more services provided by government". Here again, rates of agreement were among the lowest in Lesotho (36% agreed or strongly agreed) and highest in Senegal (70%).

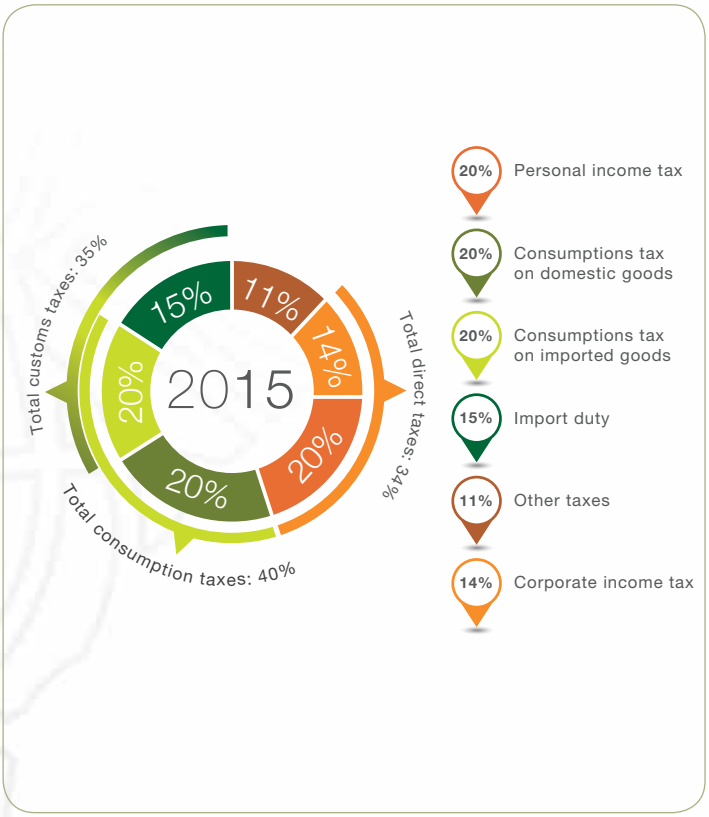
2.2. The composition of tax revenue

Tax revenue can be broken down into different categories. Two particularly important distinctions to be drawn are between, on one hand, domestic and custom taxes and, on the other, direct and indirect taxes.

Domestic and customs

If domestic and custom taxes are distinguished in the total tax revenue of the average ATO country, then 35% of revenue comes from customs taxes (Figure 2.6). Unlike OECD countries, which do not generally regard consumption taxes on imported goods as foreign tax or distinguish them from consumption taxes on domestic goods, the ATO countries consider import duties plus consumption taxes on imported goods as customs taxes.

Figure 2.6: *Composition of tax revenue, ATO average, 2015*

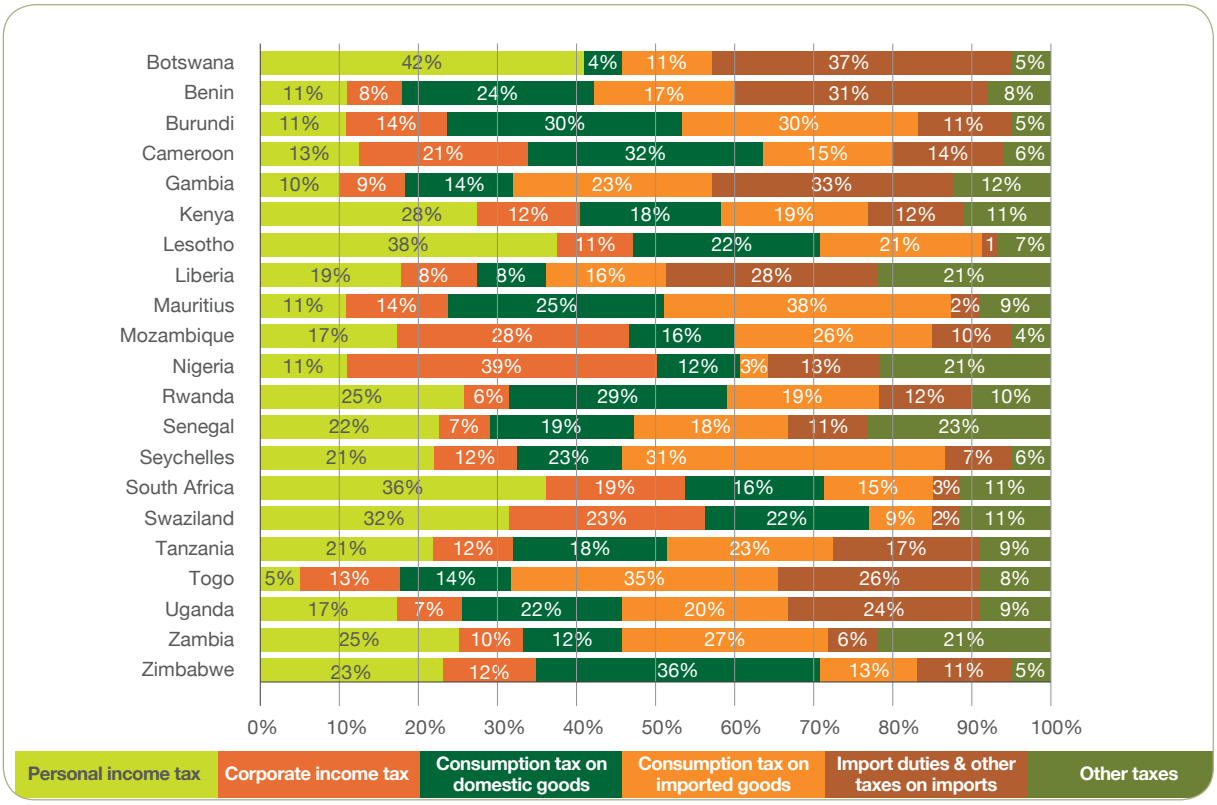


Consumption taxes on domestic and imported goods account for an ATO average of about 20% of total tax revenue respectively – only slightly less than from personal income tax (PIT). Aggregate imported and domestic goods consumption taxes are the largest source of revenue[2] in ATO countries.

A break-down of tax revenue by country shows that aggregate customs taxes are the most important source of revenue in 16 ATO countries (Figure 2.7). However, VAT and excises on imports are taxes on domestic consumption, so import duties alone should be viewed as international tax. Only in three countries (Botswana, Benin and Gambia), do import duties account for more than 30% of total tax revenue, making them the major source of revenue.

In 16 countries (Benin, Burundi, Cameroon, Gambia, Kenya, Lesotho, Mauritius, Mozambique, Rwanda, Senegal, Seychelles, Tanzania, Togo, Uganda, Zambia, Zimbabwe) though not the same 16, consumption taxes on domestic and international goods combined yield the highest revenue, accounting for between 37% of all revenue in the Gambia and 63% in Mauritius. In Lesotho, South Africa and Swaziland, PIT supplies the most revenue, with shares of between 32% and 38%, while in Nigeria and Mozambique corporate income tax is the largest source – nearly 40% and 30%, respectively.

Figure 2.7: *Breakdown of tax revenue by ATO country, 2015*



Note: Botswana's income tax revenue combines personal and corporate income tax.

2. In Botswana, personal and corporate income tax revenue is not separated. The sum of these income tax revenues is larger than the revenue from import duties.

Advantages and disadvantages of direct and indirect taxes

ATO countries structure their tax revenue very differently, as Figure 2.7 illustrates. An interesting question, therefore, is: what are the advantages and disadvantages of the different types of taxation? Taxes should seek to do at least one of the following:

1) distort markets as little as possible

2) be fair

3) generate stable revenue

4) be easy to administer and collect.

Sadly, no one tax achieves all four goals more fully than the others.[3]

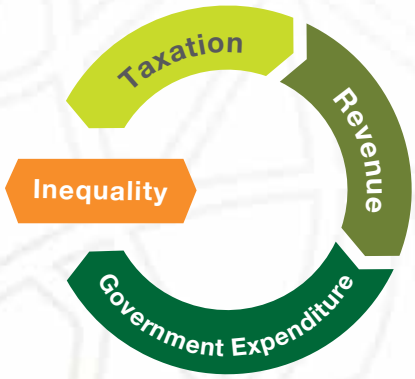
With regard to direct taxes, it is often argued that income and wealth must first be produced, then consumed. The inference is that personal and corporate income taxes are particularly detrimental to growth. Indeed, a series of studies for OECD countries lends empirical credence to that school of thought (overviewed by Arnold et al. in 2011).

However, numerous studies challenge the view and point to a nonlinear relation between taxes and growth. Gordon and Li (2005) argue that tax policies in developing countries are sometimes in sharp contrast to those in developed countries. And recent evidence from Nantob (2014) points to a non-linear U shaped relation between direct taxes and growth: increasing very low direct taxes might increase growth, as might cutting them if they are high. Phiri (2016) finds that a shift from direct to indirect taxation would boost growth in South Africa.

One advantage of direct taxes is that they clearly translate the ability-to-pay principle: high-income individuals pay more than their low-income peers. This is in contrast to indirect taxes which are levied on consumption, with low earners spending a greater proportion of their income on consumption and, thereby, on tax.

However, even a regressive tax can, in some instances, increase equality – when, for example, tax revenue is of a sufficiently high level to fund strongly progressive spending. The progressivity of specific tax measures should always be assessed according to how the benefits of the additional expenditure that they finance are distributed.

Figure 2.8: *Direct and indirect effects of taxation on inequality*



3. Some of these principles go back to Adam Smith who spelled out four canons of taxation in the Wealth of Nations (Book V - Of the Revenue of the Sovereign or Commonwealth): that taxes should be (1) proportionate to the ability to pay, (2) "certain and not arbitrary" (3) payable at times and in ways convenient to the taxpayers and (4) inexpensive to administer and collect.

Since direct taxes are strictly determined by income earned, they mirror swings in income growth. A decline in economic growth due to external or cyclical effects, for example, generally triggers a decline in the growth of revenue. If there are no compensating sources of revenue, the government either must fund public expenditure by borrowing or by cutting it. The consequence is a fall in domestic demand, which aggravates the economic downturn (Konuki and Villafuerte, 2016).

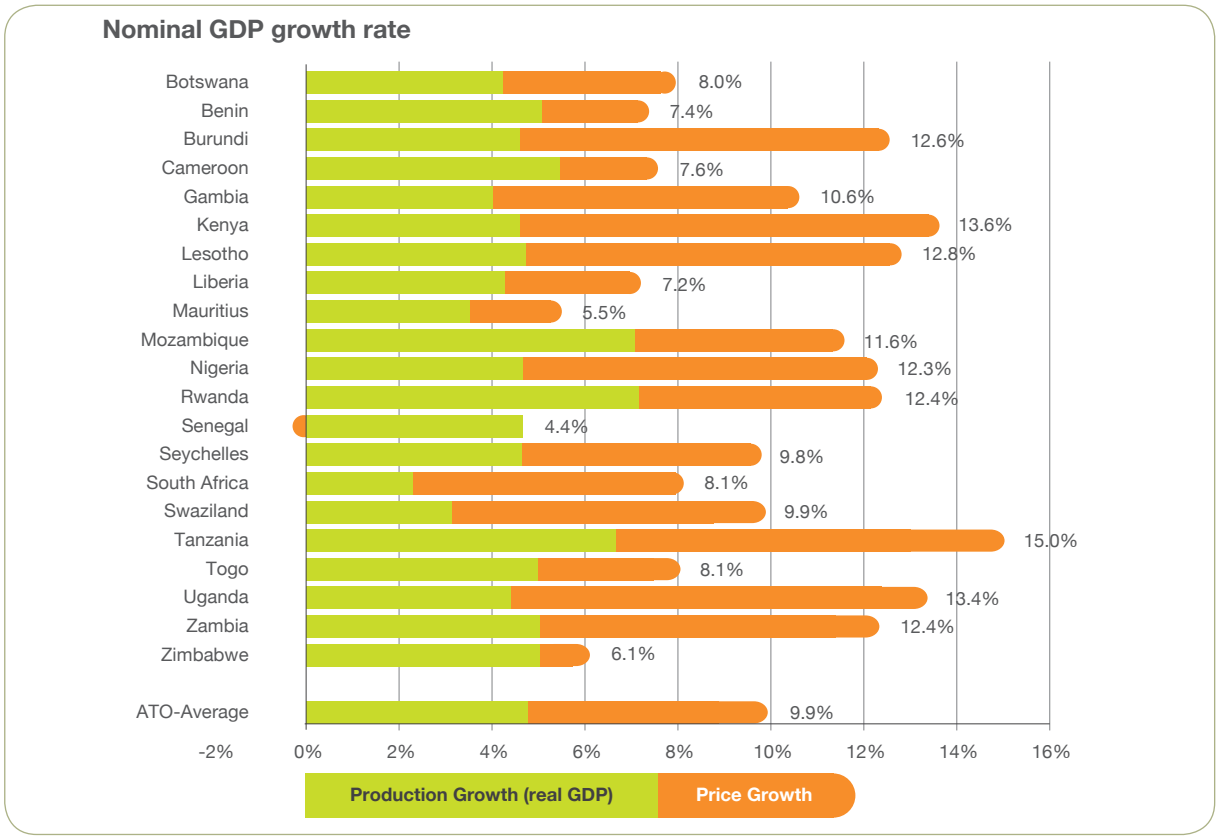
The assumption that people try to keep their consumption stable, even when their income declines, suggests that they save more in good times and finance their consumption from their saved wealth when their income drops. Tax revenue from consumption taxes is thus more stable than income tax revenue. However, poor people in developing countries might very well spend all their income on consumption and never enjoy the opportunity to consume out of wealth. Their consumption is thus as variable as their income.

2.3. Growth in tax revenue

Among the factors that determine tax revenue are personal and corporate income, consumption and imports. All those variables are closely related to aggregate production and income, measured as nominal GDP. Average annual nominal GDP growth over the period 2011-15 was 9.9% in the ATO countries (Figure 2.9). About half of that growth was due to an increase in production. Real GDP therefore grew at an average rate of 4.8%, while the 5.2% of nominal growth was attributable to an increase in the price deflator.

Behind those average figures lie very different patterns of growth from country to country. The highest nominal growth rate, at 15%, came in Tanzania. In Kenya, Uganda and Lesotho, too, it exceeded 12%. Only in three countries – Zimbabwe, Mauritius and Senegal – was it below 5%. Real growth was highest in Rwanda (7.2%) and in Tanzania (6.7%).

Figure 2.9: *Average growth in real and nominal GDP in ATO countries, 2011-15*



The only ATO country to show average negative price growth between 2011 and 2015 was Senegal. Deflation there was caused by a decline in food, energy and raw material prices, with the inflation rate (GDP deflator) becoming negative in 2013 and 2014.

Box 2.4

GDP deflator and consumer price index

The GDP deflator is – like the consumer price index (CPI) – a measure of the price level of all new goods and services provided in a country. The growth of both indices (CPI and GDP deflator) is a measure of price inflation. The difference is that the CPI is a "Laspeyres index" which measures the cost of a fixed "basket" of goods and services and allows the comparison of those cost to a given base year. The GDP deflator, by contrast, is a Paasche index which compares a basket of goods and services in each valued at current prices with the same basket valued at prices over the previous year. The price of the basket of goods therefore changes every year.

Nominal GDP growth measure the growth rate of GDP in national currency at current prices, regardless of whether production or prices increase (measured by the GDP deflator [see Box 2.4]). Economic welfare does not change if prices alone change and real production stays constant, which is why economic analysis is concerned mainly with real growth. Tax revenue, however, is a nominal variable and revenue growth is tied to nominal growth. "Inflation and tax revenue growth" below discusses the relationship between price and revenue growth.

Inflation and tax revenue growth

To highlight the factors that determine the relationship between revenue and inflation, strictly proportional taxes are assumed. Thresholds and progressions are then introduced to drive a wedge into the proportional relationship.

A consumption tax with no thresholds is strictly proportional, so an increase in consumption expenditure produces a proportional climb in tax revenue. It does not matter whether the increase in consumption spending stems from a rise in levels of prices or amounts consumed.

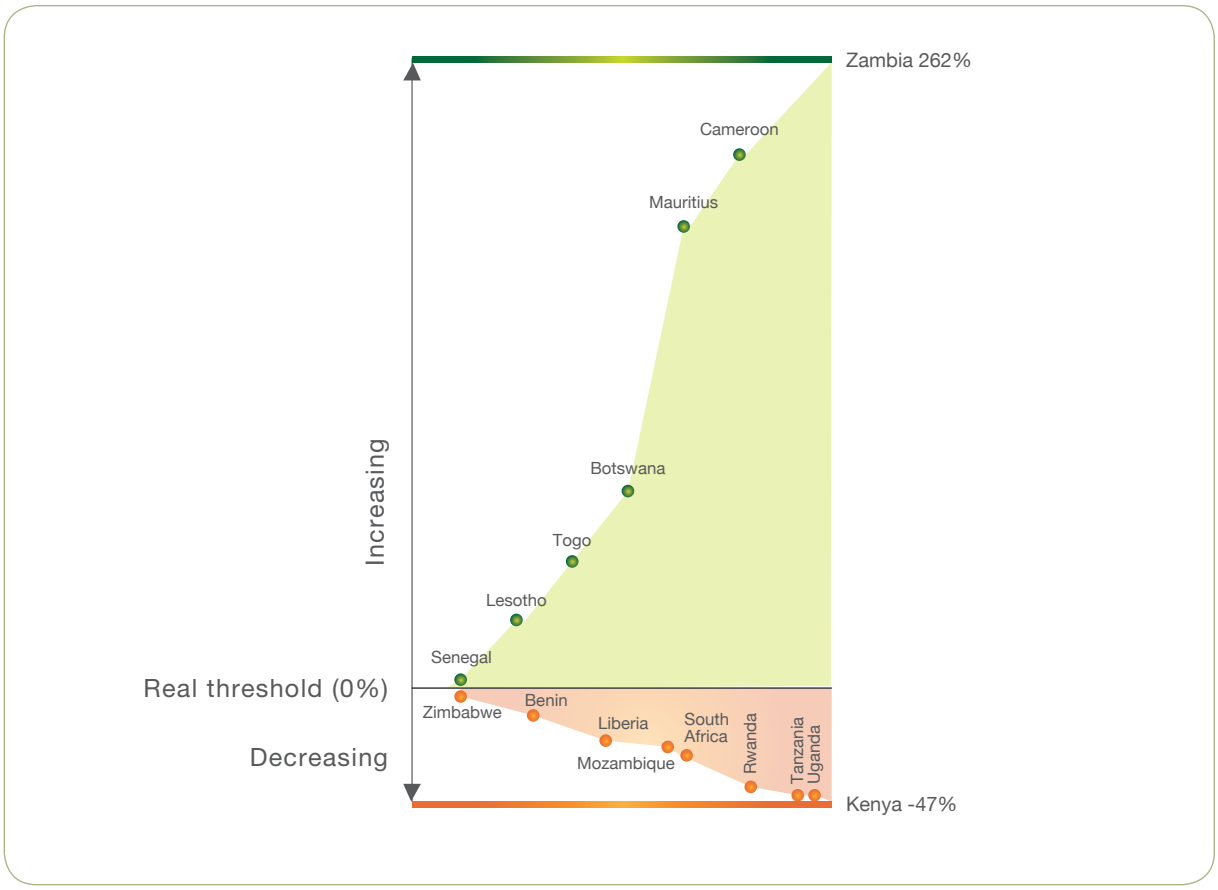
The same holds for a strictly proportional personal income tax with no threshold or progressivity. An increase in income leads to a proportional rise in tax revenue. It does not matter whether the increase in labour income only compensates for a price increase (inflation) or whether real labour income rises, so enabling people to buy more goods.

Pure inflation means all prices, income and wages increase by the same proportion, which also increases nominal GDP and tax revenue. Since everything is proportional, the tax-revenue-to-GDP ratio stays constant. However, most taxes are not strictly proportional. They usually have thresholds and PIT is progressive in all ATO countries. The one exception is Mauritius, where inflation affects the tax-to-GDP ratio.

Inflation causes a proportional increase in sales, cost and profits. However, the purchasing power of profits and wages does not change. In real terms, nothing happens if inflation is the same in all economic activities. What, then, of VAT thresholds?

Due to a climb in nominal sales, a firm's turnover might exceed the threshold and, though not previously liable to VAT, it now becomes so. The VAT-revenue-to-GDP ratio should then increase. Changes in ATO countries' real VAT thresholds over the period 2011-15 were driven by inflation and discretionary threshold adjustments (Figure 2.10). In countries with inflation and no discretionary change in nominal VAT thresholds, threshold levels fell – by nearly 50% in Uganda, Kenya and Tanzania. In countries with lower inflation rates – like Benin, where inflation over the period was only 11% – the effect was much less acute. In other countries, changes in nominal threshold overcompensated inflation and real thresholds therefore rose.

Figure 2.10: *Real changes in ATO countries' VAT thresholds, 2011-15*



Now take progressive personal income tax. When inflation rises, wages and prices rise proportionately. Real wages – i.e. measured by the amount of goods they can buy – do not change. However, as nominal wages rise, higher marginal tax rates become binding and greater shares of personal income are taxed. And the tax-to-GDP ratio increases.

Pure inflation would translate into all types of income, wages and prices growing by the same amount and real variables staying constant. In practice, that seldom happens. Sometimes price inflation can outstrip wage growth and real wages consequently decline, even though PIT liabilities:

- stay constant if nominal wages are constant;
- or increase if nominal wages rise, but less than prices.

As a result, disposable income declines even more, driving down demand. So, while price inflation prompts a rise in VAT revenue, falling demand reduces it. The total effect on VAT revenue can therefore be positive or negative.

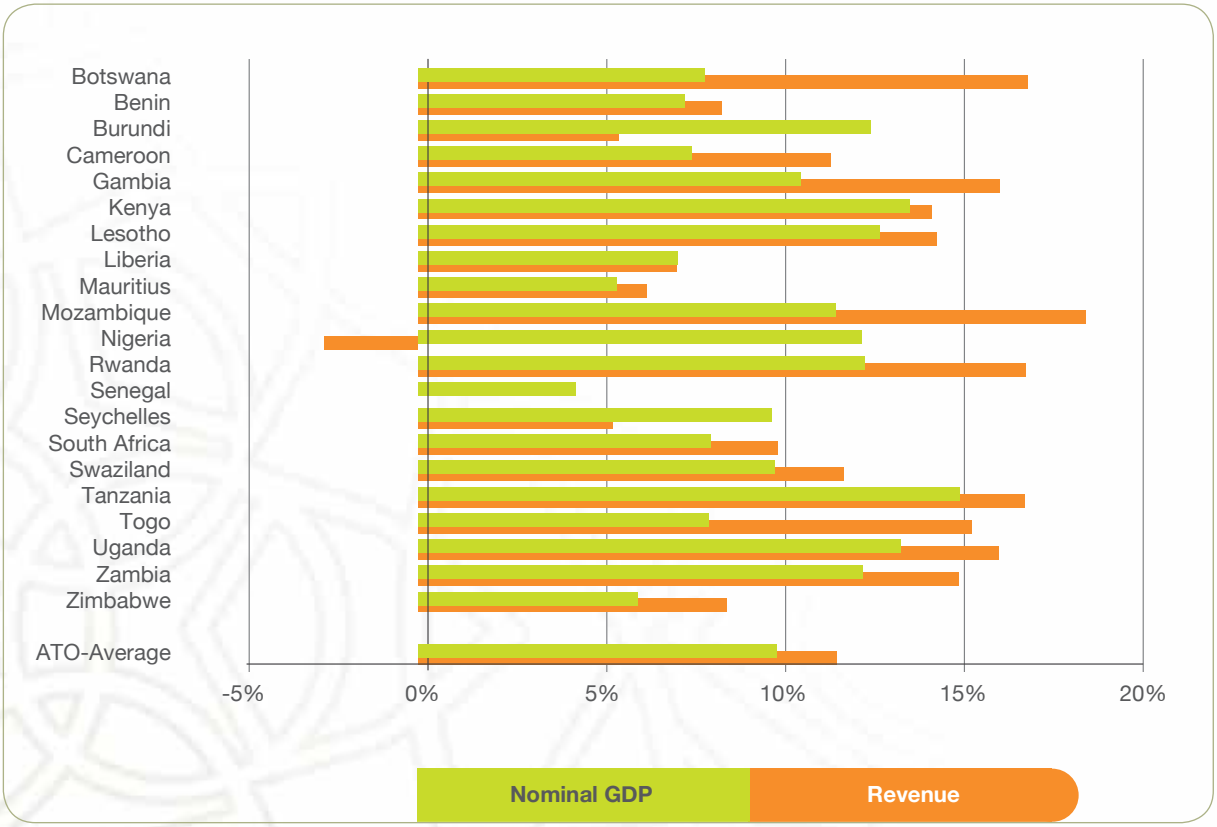
Finally, inflation affects not only tax revenue but government spending, too. Again, if inflation were pure and all nominal variables rose at the same rate, so would government expenditure. Assuming a proportional increase in tax revenue, government budget would increase in nominal terms, but stay constant in real terms. As argued above, though, rises in tax revenue are likely to outstrip other variables – and inflation eases budget constraints.

Nominal GDP and revenue growth

The main driver of tax revenue growth is growth of nominal GDP. It increases tax revenue without governments having to raise tax. When tax revenue growth exceeds GDP growth – i.e. when the ratio of tax revenue growth and GDP growth exceeds 1:1 – tax is said to be buoyant. In nearly all ATO countries tax is buoyant, as revenues have grown faster than nominal GDP.

Total tax revenue growth between 2011 and 2015 was highest in Mozambique with an average annual rate of 18.6%, followed by Botswana with 16.9% (Figure 2.11)[4] . Since nominal GDP rose by only 11.6% and 8% in the two countries, respectively, the tax-to-GDP ratio increased by 4.7 and 7 percentage points. The total tax revenue dropped only in Nigeria, although its growth rate was less than that of nominal GDP in Burundi, Liberia and Seychelles, where the tax-to-GDP ratio consequently fell.

Figure 2.11: *Average annual growth in ATO countries' GDP and tax revenue, 2011-15*



Because growth in GDP and tax revenue are so closely intertwined, economic crises directly affect revenue growth (Box 2.5). Internal or external economic shocks can trigger large swings in GDP growth rates which impinge on tax revenue.

4. Senegal could only provide custom tax revenue for the year 2015. Therefore, total tax revenue - which includes custom tax revenue - can only be calculated for the year 2015. This implies that growth rates of total tax revenue cannot be calculated.

Box 2.5

Economic crises and their impact on tax revenue

- Burundi 2015. Post-electoral turmoil saw conflict and unrest escalate, causing production in the industry and construction sector to contract. Nominal GDP growth shrank from nearly 16% to minus 3%. And tax revenue, in turn, declined by almost 5%.
- Liberia 2014. The Ebola disease and the decline in international commodity prices slashed nominal GDP growth, which dropped from more than 12% to 2.6%. The impact on tax revenue was considerable, as it fell by more than 10%.
- Nigeria. The conflict with Boko Haram led to nominal GDP growth tumbling from more than 23% to 1.5%. At the same time, tax revenue plunged by 17%.

However, some countries experience shocks that impact powerfully on GDP growth, but with no negative effect on tax revenue:

- Togo 2014. Although GDP growth fell from nearly 13% to 4%, revenue growth climbed from 12% to 23% at the same time. Interestingly, the main swing in nominal GDP growth sprang from a change in inflation associated with a decline in food prices and falling agricultural production. Output in industry and the services continued growing, however, so real GDP growth remained relatively stable at 5%. The fall in agricultural production had no effect on tax revenue because the sector is widely exempted from taxation.
- Uganda 2013. Nominal GDP growth slid from 26% to 7%, yet growth in tax revenue remained steady at about 18%. The negative effect on nominal GDP growth was generated by a fall in inflation, while real GDP growth remained stable at about 3.5%.

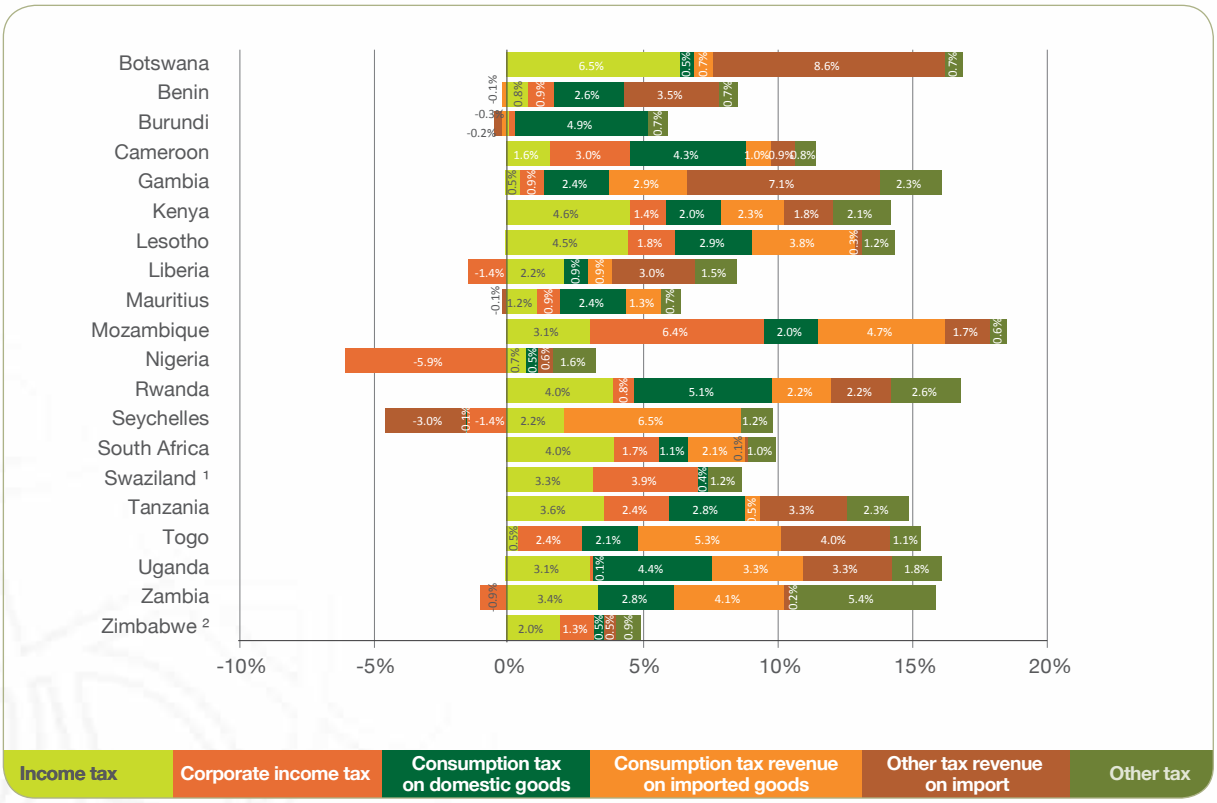
How different taxes contribute to growth in total tax revenue

Total growth in tax revenue can be broken down into growth by type of tax (Figure 2.12). The sum total of the different sources of taxation yielded aggregate revenue growth over the period 2011-15. (See Box 2.6 on how contributions from different types of tax to growth should be calculated and interpreted.)

Personal income taxes contributed positively to growth in all countries between 2011 and 2015, with the largest overall effect coming in Botswana. In five other countries (Lesotho, Kenya, South Africa, Tanzania and Zambia) PIT was also the tax that made the largest single contribution to revenue growth.

As for corporate income tax (CIT), it accounted for a considerable share of total tax revenue growth in some countries – particularly, Mozambique and Swaziland. However, it also made a strong negative contribution in other countries (Nigeria, Liberia, Zambia and Seychelles) in 2011-15. In Nigeria, for example, the decline in revenue was attributable to a fall in corporate income tax revenue.

Figure 2.12: *The contribution of different taxes in average total revenue growth, 2011-15*



Notes: 1) Growth in Swaziland relates only to the four taxes shown. Total tax revenue growth cannot be calculated due to missing customs tax data. 2) Growth in Zimbabwe relates to only the fives taxes shown. Total tax revenue growth cannot be calculated due to missing customs tax data.

Consumption taxes on domestic goods contributed positively to revenue growth in all countries, except Seychelles. They were the largest single source of revenue growth in four countries (Burundi, Cameroon, Mauritius and Uganda). In all countries except Benin, consumption taxes on imported goods accounted for considerable shares of revenue growth, and were the biggest single source of revenue growth in Seychelles and Togo.

Taxes on imports contributed negatively to revenue growth in three countries –Seychelles, where the effect was sizeable, Burundi and Mauritius, where it was slight. They accounted for the bulk of growth in Botswana, Benin, Gambia and Liberia.

Box 2.6

Calculations and interpretation of growth contributions

Total tax revenue in period t is the sum of revenue from different types of tax:

$T_t = \sum_i T_{t,i}$,

where the t denotes the period and i denotes the type of tax. Accordingly, the change in tax revenue from period t-s to period t is $\Delta T_{t-s} = T_t - T_s = \sum_i \Delta T_{t-s,i}$. The growth rate is then given by:

$$\frac{\Delta T_{t-s}}{T_s} = \sum_i \frac{\Delta T_{t-s,i}}{T_s} = \sum_i \frac{T_{s,i}}{T_s} \frac{\Delta T_{t-s,i}}{T_{s,i}}$$

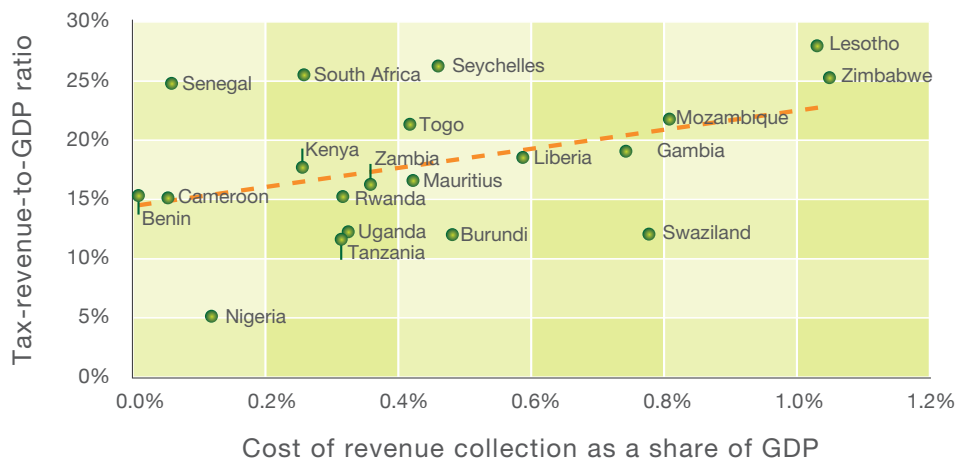
The contribution of the growth rate of tax i to revenue is therefore given by:
$(\Delta T_{t-s,i} / T_{s,i})$ weighted with the share of revenue from tax i to total tax revenue in period s, which is $T_{s,i} / T_s$

Interpreting the contributions of different types of tax to Mozambique's revenue growth
In Mozambique, revenue growth was 98% for the period 2011 to 2015. In 2011, personal income tax revenue's growth rate was 16.8% % and its share of total tax revenue 16.2%. Its contribution to total growth revenue was 16.4%, which is the product of the tax share (16.2%) and tax revenue growth (10.1%). The share of consumption taxes was only 20%. Consumption tax revenue growth was 52.1%, but its contribution to total revenue growth was only 10.5%. Figure 2.12 shows the corresponding annualised rates.

2.4. The cost of collecting revenue

Collecting tax revenue involves effort and cost (Figure 2.13). Although a greater collection effort generally entails higher costs, revenue is – at least to some extent – relatively easy to collect.

Figure 2.13: *The cost of collecting revenue relative to GDP in ATO countries, 2015*



Benin and Cameroon spend less than 0.05% of GDP on revenue collection, yet still manage to gather revenue that makes up about 15% of GDP. Expenditure on the tax effort in Senegal is only slightly higher, but yields nearly 25% of GDP. Lesotho and Zimbabwe, by contrast, spend more than 1% of GDP on revenue collection for tax-to-GDP ratios of 28% and 25%, respectively. In the average ATO country, a rise in the spending for revenue collection by 0.1 percentage points of GDP leads to a 0.8 percentage point increase in the tax-revenue-to-GDP ratio.

2.5. Conclusion

Tax revenue is closely related to nominal GDP, which measures aggregate production and income. Growth in ATO countries' nominal GDP is firm, which should enable most of them to increase their tax revenue substantially. In some countries, however, political and economic crisis has led to slow or negative growth.

On average, about half of nominal GDP growth is attributable to inflation and the other half to real growth. From a strictly revenue perspective, though, it does not matter whether growth comes from increases in prices or in production. However, price rises lead to declines in real thresholds, so individuals and firms might become liable to tax even though their real situation has not changed. Although falls in real thresholds might offer the advantage of broadening the tax base, they might also put unwarranted pressure on small enterprises. Revenue authorities should therefore monitor inflation and its effects on thresholds and adjust nominal thresholds accordingly to keep them constant in real terms.

In most ATO countries, tax revenue growth exceeds nominal GDP growth and, therefore, revenue-to-GDP ratios increased. Even though there is no such thing as an ideal tax-revenue-to GDP ratio, there is evidence that, when tax revenue grows faster than GDP, economic growth benefits as greater resources for public investment become available.

Box 2.7

Nigeria's FIRS invests in the ISHARE platform to improve efficiency

Nigeria's Federal Inland Revenue Service (FIRS) sought to cut the cost of tax administration by introducing a robust coloration software platform called iShare (secure, handy, accessible, reliable and efficient).

iSHARE comprises the following tools: Active Directory (with single sign on to computer network resources); SharePoint (n Intranet platform); Exchange and Outlook (corporate email); Lync (which offers services like instant messaging, video conferencing and online meetings) and Yammer (corporate social networking).

The intranet service, SharePoint, has significantly cut the costs of staff travelling to attend meetings, deliver documents and provide ICT support. And because they can save and share documents through SharePoint, printing costs have also fallen considerably (which all the attendant environmental benefits of cutting back on the consumption of paper).

In October 2015, over 90% of FIRS employees (6 039 out of 6 653) had actively used one iShare tool or another. The platform has helped make FIRS staff more productive and efficient, cutting costs and improving enthusiasm for using technology. With the working environment it created, staff are comfortably able to do more in less time. (See Box 8.1) in Chapter 8 for more on iShare in Nigeria.)

Source: Federal Inland Revenue Authority (2016).

03

CHAPTER 3

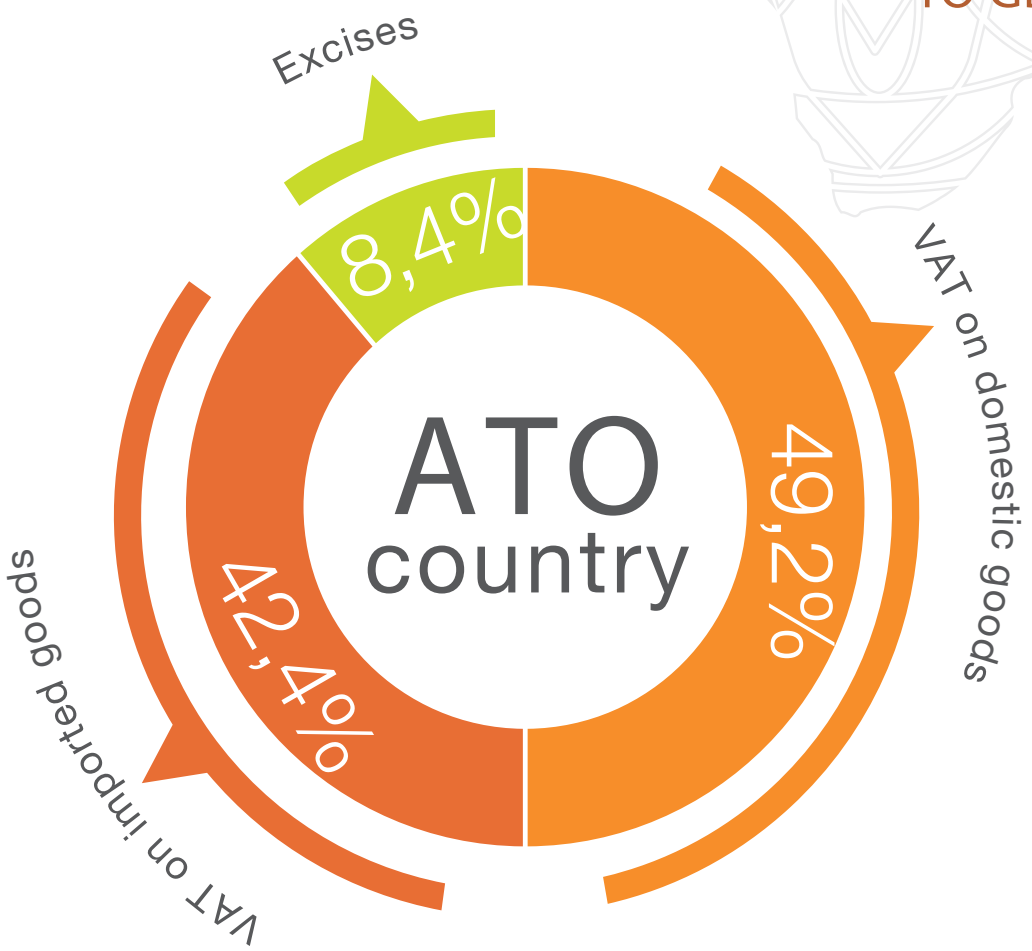
Individual taxes

CHAPTER 3

03

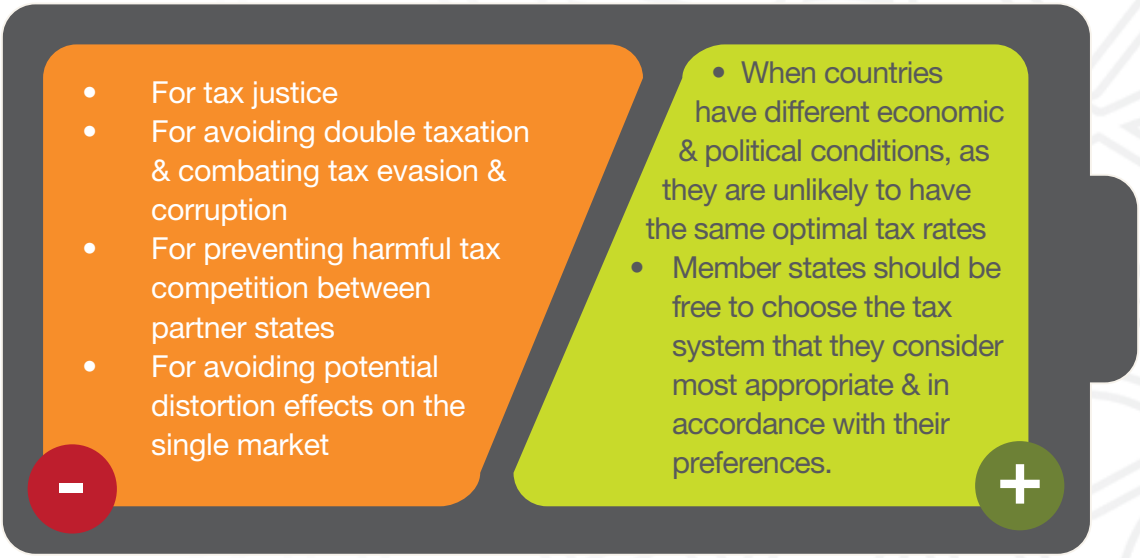
Individual taxes

VAT IS THE CONSUMPTION TAX THAT CONTRIBUTES BY FAR THE MOST TO GDP



- VAT, which is proportional to the value of sold goods. Gambia, Seychelles and Swaziland introduced VAT in 2013, so all ATO countries now use it.
- Excises, which are levied on goods sold irrespective of their price.

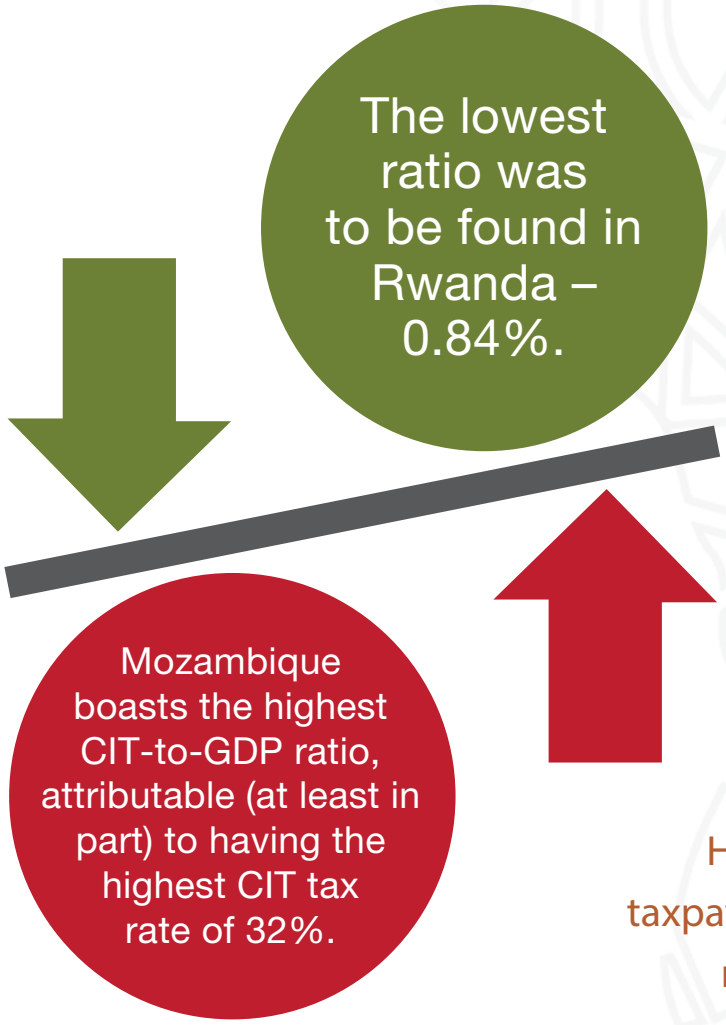
SOME PRO'S AND CON'S OF TAX RATE HARMONIZATION IN CUSTOM UNIONS



Harmonisation is unnecessary

Harmonisation is necessary

RATIOS OF CORPORATE INCOME TAX TO GDP ARE GENERALLY HIGH…



…and close to the OECD average. Even in countries where the overall tax-to-GDP-ratio is low, the CIT ratio was not far below average. Here, it shows that corporate taxpayers are easy to register and revenues are easy to collect.

3. Individual taxes

3.1 Consumption taxes

Consumption taxes comprise:

- VAT or sales taxes that are proportional to the value of sold goods
- excises, which are normally levied on sold goods irrespective of their price.

Both types of taxes are levied on domestic and imported goods, though VAT yields by far the most revenue. Most of it is imposed on domestic goods (Figure 3.1), though imports also supply a significant share.

***Figure 3.1**: The three components of consumption tax revenue in the average ATO country*

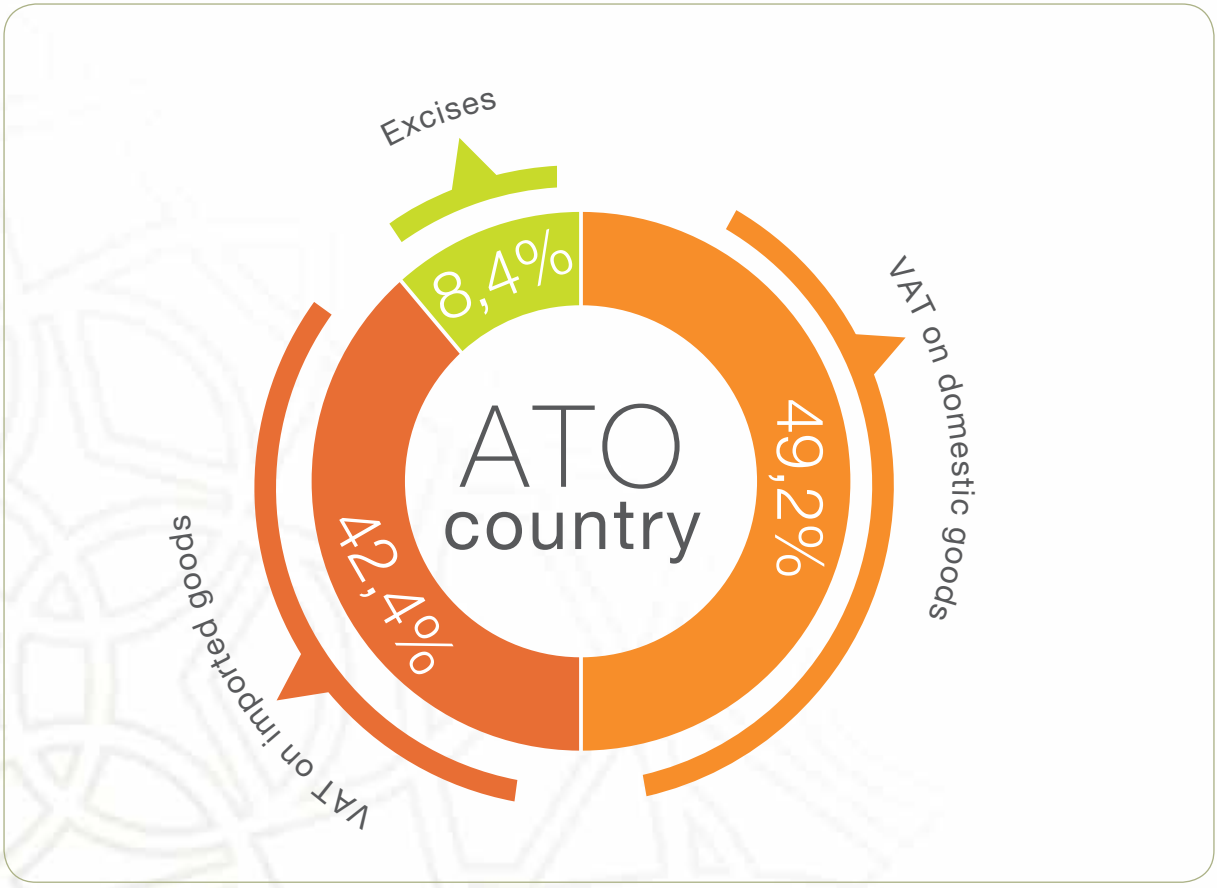


Figure 3.2: *VAT-revenue-to-GDP ratio, 2015*

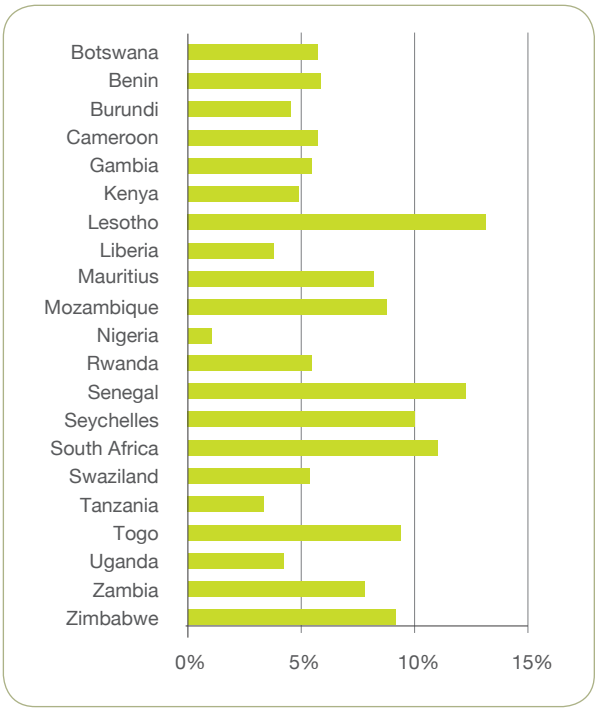
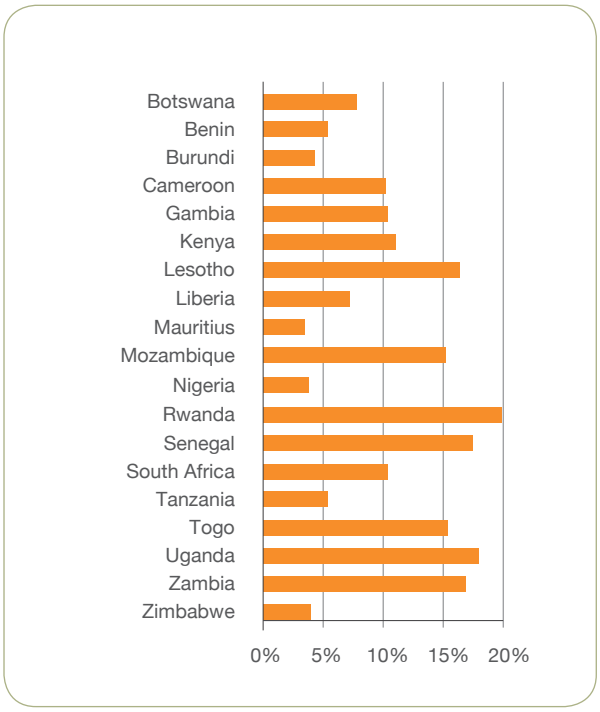


Figure 3.3: *Average VAT revenue growth, 2011-15*



Note: Figures for Swaziland and Seychelles are not available.

VAT and sales taxes

Although VAT is the consumption tax that yields the most revenue in all ATO countries, it replaced sales tax only recently in some. They were, Gambia, Seychelles and Swaziland, which did not introduce VAT until 2013.

The advantage of VAT is that it is imposed on the buyer all the way along the supply chain – from the initial purchase of raw materials through to the retailed product bought by the consumer at point of sale. Thus, each firm in the supply chain takes part in the process of collecting and remitting the tax. What the firm remits is the difference between the VAT imposed on its taxed outputs and on its taxed inputs. That difference is the share of tax that corresponds to its margin, i.e. the value that it has added. In other words, VAT is collected on the "value added" at each stage in the chain of production and distribution. Sales tax, by contrast, is collected once only – at the end of the chain. Because of its staged nature, VAT is much more difficult to avoid and so reduces leakage.

VAT revenue's share of GDP was highest in Lesotho, Senegal and South Africa where it exceeded 10%. Nigeria has, with less than 1%, by far the lowest share, attributable to the very low tax rate of 5% which cannot be offset by the absence of a VAT threshold.

When it comes to growth in revenue from VAT in countries which only recently introduced it and previously had a sales tax, VAT and sales tax revenues are combined in one time series (Figures 3.2 and 3.3). For the sake of simplicity, the combined series is referred to as VAT revenue growth. In no country did VAT revenue decline over the five-year period from 2011 to 2015.

VAT is thus a relatively steady source of revenue, with Rwanda (20%) boasting the highest average growth rate and Tanzania (5%) among the lowest (Box 3.1).

Box 3.1

Country examples of low VAT revenue growth in Tanzania and high growth in Rwanda

Tanzania

Analysis of tax capacity shows that Tanzania's tax revenue falls short not only of that raised in other countries, but also of its own tax capacity. The finding is particularly true of VAT, where collection has been affected by exemptions, compliance issues and a weak refund mechanism. The exclusion of fuel products from the VAT tax base is a case in point. To address those shortcomings, Tanzania introduced a new VAT law in July 2015 (Baunsgaard et al. 2016).

Rwanda

Rwanda's International Growth Center (IGC) was asked to evaluate the impact of electronic billing machines (EBMs) on VAT collection. Their intention was to help the Government of Rwanda understand if the expensive machines were a worthwhile investment. It also analysed how EBMs could be made optimally cost-effective and how they would increase revenues. The study found that (government-mandated) EBM usage increased VAT receipt by 5.4%. The IGC suggested that future strategies should therefore focus on expanding EBM coverage in specific sectors where adoption rates were low and potential impact highest (Zeitlin and Eissa, 2015).

VAT on domestic and imported goods

ATO countries distinguish between VAT on domestic and imported goods, although they all apply the same VAT rate to both. In 12 of them, revenue from VAT on domestic and imported goods accounts for similar shares of total VAT revenue – 60% and 40%, respectively – while in five countries domestic VAT supplies over 60% of revenue (Nigeria, Rwanda, South Africa, Swaziland, Zimbabwe). The proportions are the other way round in four countries (Burundi, Gambia, Liberia, Togo), however, where VAT on imported goods accounts for more than 60% of revenue.

VAT on imported goods is, ultimately, a tax on domestic consumption. Imported goods are VAT-taxable and the importing firm is usually charged when it clears customs. VAT-registered firms can, however, deduct the import VAT from their own payments as if the goods were domestic, robbing RAs of much revenue. And as VAT rates on imported and domestic goods are the same in all ATO countries, imported goods have been taxed at the same rate as domestic ones by the time they reach the end consumer. In other words, all VAT is a tax on the consumption of goods used in the country. (No VAT is charged on exported goods.)

Revenue growth from VAT on domestic and imported goods differs from country to country when the structure of consumption changes. If consumption switches from imported to domestic goods then VAT revenue from imports falls and VAT revenue from domestic goods rises. Variations in consumption patterns might be the result of changes in domestic income or in exchange rates. Another important factor is openness to trade and participation in customs unions.

Figure 3.4: *VAT revenue-to-GDP ratio, on domestic and imported goods, 2015*

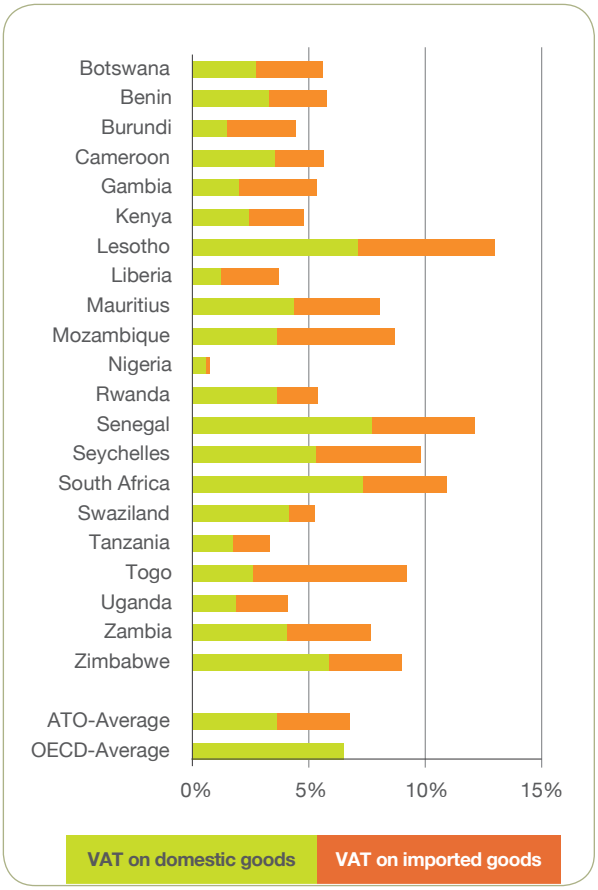
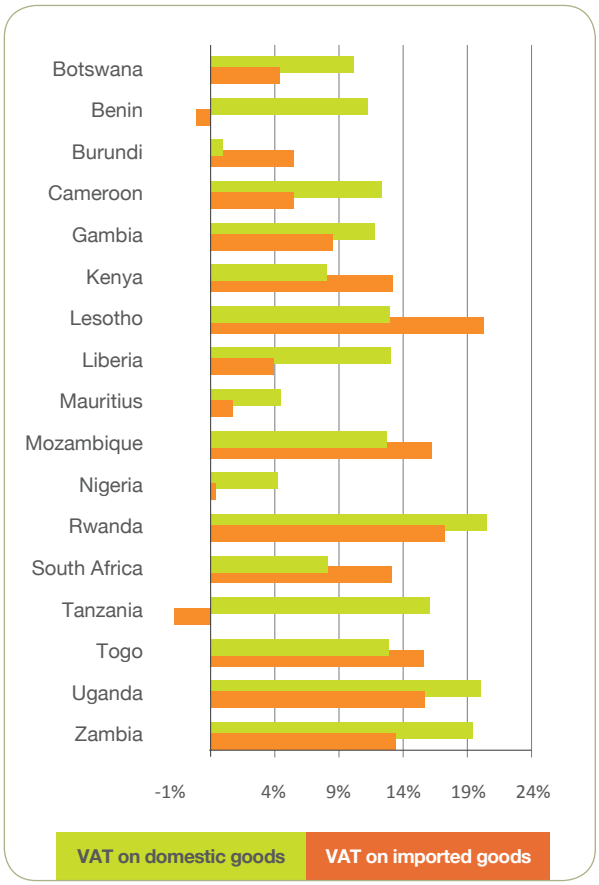


Figure 3.5: *Average VAT revenue growth, on domestic and imported goods, 2011-15*



From an economic perspective, there is no reason to differentiate between VAT on domestic and imported goods. However, many countries do make a formal distinction between the two, with customs agencies dealing with import VAT and revenue authorities with inland goods. The different bodies must therefore coordinate their work and exchange information on import VAT and zero-rated exports for automatic cross-checking against VAT returns to spot any anomalies or high-risk cases that call for audit (IMF, 2011).

3.2 Excise tax

Although excise accounts for only a slight share of total consumption revenue, it varies widely within that narrow range from one ATO country to another. In Seychelles and Zimbabwe, for example, it accounts for more than 5.3% of GDP, with the highest single source of revenue coming from fuels in Zimbabwe – 4% of GDP. In Seychelles again and Uganda revenue from excise duty on fuel accounts for more than 2% of GDP and in South Africa over 1%. In Burundi, Cameroon, Mauritius and Seychelles excise on alcohol accounts for more than 1% of GDP, as does excise on tobacco in Liberia. Burundi, for its part, nearly doubled its excise revenue in the 2011-15 period, while it rose in Togo by over 50%.

Figure 3.6: *Excise-revenue-to-GDP ratio, by type of good, 2015*

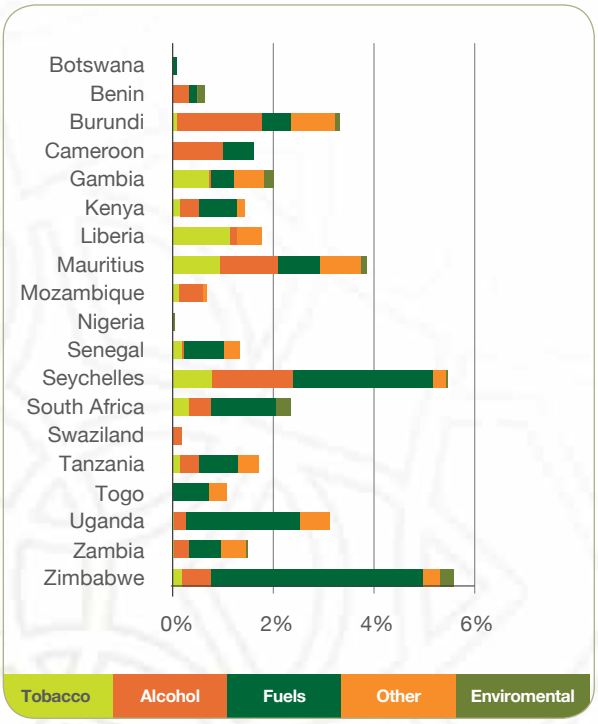
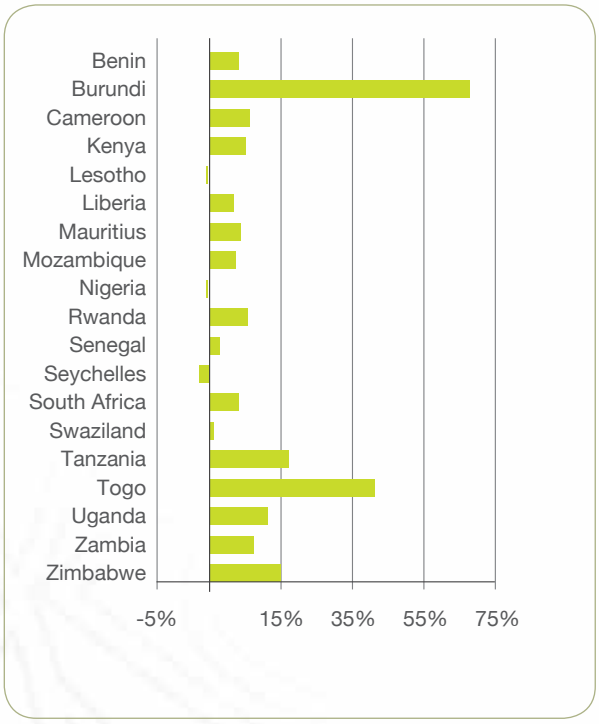


Figure 3.7: *Average tax revenue growth, 2011-15*



In most countries, the excise-revenue-to-GDP ratio was relatively stable or climbed slightly between 2011 and 2015. In some countries, though, there was strong growth which drove up the excise-revenue-to-GDP ratio. In Burundi, it rose from 0.3% in 2011 to 2.5% in 2015, as the government increased excises on alcohol, fuels and other goods.

Excises on tobacco have been very volatile. In Gambia, the rise in the excise-revenue-to-GDP ratio from 0.08% to 0.5% is chiefly attributable to the increase in tobacco taxation between 2013 and 2015. Excise duty on a pack of cigarettes increased from GMD 5 to GMD 12 and on unmanufactured tobacco products from GMD 37.50/kg to GMD 200/kg.

As for Zimbabwe, the steep rise in its excise-revenue-to-GDP ratio from 1.8% to 5.1% may be ascribed to the increase in fuel tax between 2014 and 2015. It also introduced an excise tax on airtime in the last quarter of 2014, which yielded an increase in 2015.

Advantages of excise taxes and limits to revenue

Excises are levied chiefly on consumable products (e.g. petroleum, alcohol and tobacco) and some non-essential or luxury items (e.g. electronic equipment) and impact directly on consumer prices.

Excises are often seen as double dividend taxes:

- They ensure stable tax revenue.
- They discourage consumption of products harmful to human health or the environment. The perception of excises as sin taxes is widely deemed to justify their high rates and large increases thereof.

However, excise taxes sometimes actually cut revenue without exerting any positive impact on behaviour. They have that effect when they are so high that they give rise to an illicit market, particularly when countries where goods are expensive share a common border with those where they are cheap. Smuggling becomes an attractive prospect.

Excise-induced illicit trade in ATO countries: tobacco, alcohol, fuel

Tobacco

South Africa increased excises on cigarettes from 0.12 cents per cigarette in 1999-2000 to 0.38 cents in 2009-10 to cut cigarette consumption and the attendant negative externalities. Although National Treasury (NT) data seem to suggest that the price hikes were effective in curbing cigarette consumption, comparison between an independent consumption survey and the NT data reveals that they also led to a rise in the number of cigarettes smuggled into South Africa. Contraband tobacco constitutes between 40% and 50% of the total market and there is evidence that illegal cigarettes are of inferior quality. Thus, combined with the tax-driven shift to smuggled cigarettes, it seems that excise tax rises may have had the perverse effect of worsening rather than easing the overall negative effects of tobacco consumption (Lemboe and Black, 2012).

Alcohol

Alcohol taxation varies among southern African countries due to:

- differences in revenue potential (shaped by the size of the tax base, price elasticity and smuggling);
- different degrees of concern about the externalities associated with alcohol.

International experience suggests a link between the affordability of alcoholic beverages and levels of illicit trade. As higher excise taxes make alcoholic beverages less affordable, they may also have increased incentives for smuggling, illegal production and illicit trade. The World Health Organization estimates that unrecorded alcohol consumption – illicit trade, homebrews and moonshine – constitutes approximately 27% of the total worldwide alcohol market. In Africa, the estimated figure is 36% of the continent-wide alcohol market. As for South Africa, it is estimated at a conservative 20% thanks to relatively strong domestic enforcement policies (National Treasury, 2015).

Fuel

The fiscal treatment of fuel also varies between ATO countries. In Benin, contraband fuel is 30% cheaper than official petrol gas stations. It accounts for more than 80% of the fuel market in the country, smuggled in from neighbouring Nigeria, where fuel is heavily subsidized. Contraband fuel trade has adverse effects on health and the environment caused by outdoor sales and leaky containers, not to mention the fact that improper storage heightens the risk of explosion. Furthermore, smuggling robs the government of significant revenue, as 80% of the market escapes fuel excise and other taxes that would have been collected from oil companies, such as VAT or corporate income tax (Noyde, 2014).

3.3 Import duties and consumption taxes in customs unions

Like most of the developing world, African countries long relied heavily on import duties as they were relatively easy to collect. However, globalization has prompted countries to embrace greater trade and financial integration. They have thus moved their tax base away from tariffs that are easy to collect to harder ones like domestic taxes, such as VAT. Aizenman and Jinjarak (2009) confirmed the prediction from economic theory and showed that for a broad set of countries the ratio to GDP of revenue from "easy to collect" taxes fell by about 20%, while that from "hard to collect" taxes increased by 9%. Aizenman and Jinjarak considered the period from the early 1980s to the late 1990s. However, many African countries really started opening their borders later, so are still in the process of transition.

The shift from trade to consumption taxes is widely regarded as favourable, because tariffs on trade distort international trade and so reduce growth prospects. However, that view was challenged in the early 2000s by Emran and Stiglitz (2005). They showed that in developing countries a tax reform that combines a reduction in trade taxes with an increase in VAT to raise revenue does not necessarily improve growth prospects when much of the economy is informal. In a model that explicitly factors in incomplete VAT coverage attributable to the informal sector, they showed that, contrary to the prevailing consensus, the standard revenue-neutral selective reform of trade taxes and VAT reduces welfare.

Import duties

Import duties are still important sources of revenue in but a few ATO countries. Only in Gambia does revenue from import duties account for over 5% of GDP (Figure 3.8). In Botswana, Seychelles and Mauritius, import tax revenue actually fell between 2011 and 2015 due to revised import rates and a switch from custom duties to excise tax. And although Lesotho tripled its revenues from import duties, they were of minor importance against the background of a ratio of import tax revenue to GDP that was 0.3%.

Figure 3.8: *Import duty-revenue-to GDP-ratio, 2015*

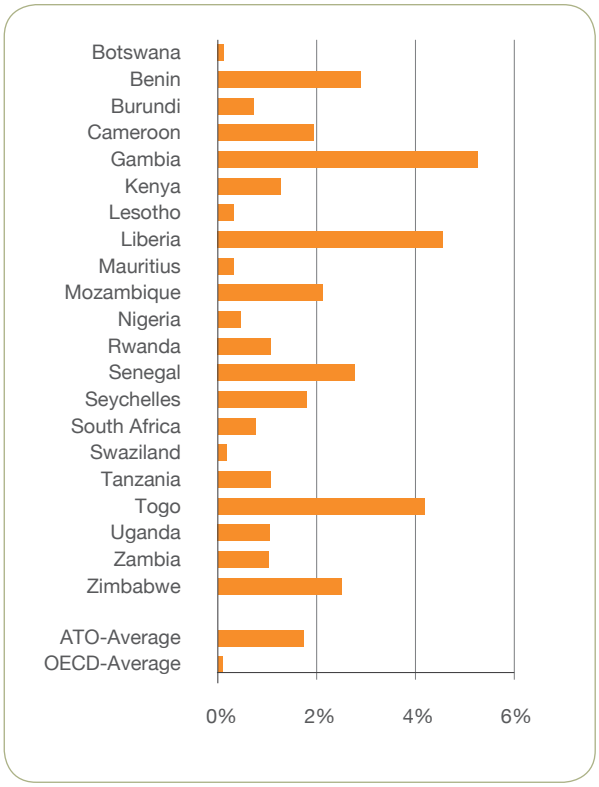
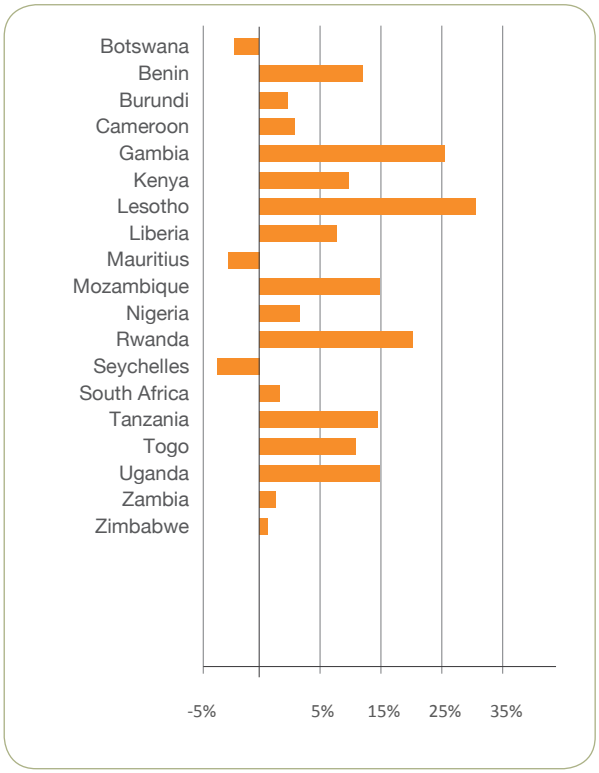


Figure 3.9: *Average growth in revenue from import duties, 2011-15*



From the rates in Figures 3.8 and 3.9, it is obvious that ATO countries continue to reduce their reliance on import duties and increasingly use VAT. They should, therefore, as Emran and Stiglitz advocate, seek to reduce the size of their informal sectors.

Despite scaling down import duties, however, they should still streamline import and customs formalities to make them more cost-effective. Many have implemented electronic single-window systems whereby import, export and transit-related trade documents are submitted and processed at one stop in a single location. The result is smooth, faster clearance and short cargo exit times (see Box.3.3 on Mozambique's single window).

Box 3.3

A best practice from Mozambique: the single electronic window

To facilitate faster, easier clearance of certain goods at different customs entry points, the Mozambique Revenue Authority (ATM) integrated its customs procedures with those of other government agencies. With this single electronic window (SEW), the ATM provides a platform where all parties involved in trade and transport lodge standardized information and documents at a single-entry point to fulfil all import, export, and transit-related regulatory requirements:

- Importers and exporters can submit trade-related information online to the government agencies responsible.
- Agencies can keep traders and their representatives up to date with the progress of the transactions.
- Government agencies in Mozambique and their clients are able to perform international trade-related transactions.

SEW has significantly changed the way in which government agencies interact to promote and facilitate business and has transformed the traditional government operating structure into new arrangements that best serve the needs of citizens and businesses. It has cut the cost of doing business, created transparency in the supply chain, and will translate into an increase in government revenue when fully operational.

Customs unions

Custom unions create internal markets with no physical border controls. Such intra-community trade organisations require control systems to manage customs taxes and must put in place mutual assistance arrangements in recovery of taxes, customs duties and certain fees. Currently, there are multiple regional trade blocs in Africa, some of which form tight customs and/or monetary unions. The most relevant for ATO countries are:

- The Southern African Customs Union (SACU), which consists of Botswana, Lesotho, Namibia, South Africa and Swaziland.
- The East African Community (EAC), which brings together Burundi, Kenya, Rwanda, Tanzania and Uganda.
- The Economic Community of West African States (ECOWAS). It encompasses 15 states, 6 of them ATO countries – Benin, Liberia, Nigeria, Senegal, Gambia and Togo.

The defining characteristics of a customs union are a common import policy and single market for goods and services.[5] Next comes the question of whether the removal of trade barriers between member states requires the harmonisation of taxes.

Clearly, member states must coordinate their tax policies to avoid double taxation or tax shortfalls. With regard to VAT, that requires the customs union arriving at a common definition of exports and imports. If the member countries treat imports and exports within the customs union like other imports and exports, they will avoid the risk of double and tax shortfalls. That, however, raises the question as whether tax rates should be harmonised and not tax systems alone.

The first answer is that consumers might be tempted to buy their goods in countries with the lowest tax rates. Similarly, to avoid the harmful loss of domestic sales, member countries might be forced to reduce their tax rates as well. The result would be a race to the bottom.

5. *Deeper integration require opens movement of capital and labour and perhaps a common economic and monetary policy, too. Here the focus is on the free movement of goods and services and the consequences for consumption taxes.*

It could, however, be argued that taxes are parameters of international competitiveness just like income, wages, labour cost, infrastructure and accessibility, where countries also differ. Hence, tax policy is therefore one of many legitimate parameters for improving international competitiveness. Furthermore, taxation provides revenue for national budgets and have complex impacts on multiple policies. That being said, tax issues are first and foremost the right of member state parliaments.

Box 3.4

Some pro's and con's of tax rate harmonization in custom unions

Harmonisation is necessary

- For tax justice
- For avoiding double taxation and combating tax evasion and corruption
- For preventing harmful tax competition between partner states
- For avoiding potential distortion effects on the single market

Harmonisation is unnecessary

- When countries have different economic and political conditions, as they are unlikely to have the same optimal tax rates
- Because member states should be free to choose the tax system that they consider most appropriate and in accordance with their preferences. (This is the position of the European Commission, which sees no need for across-the-board harmonization of EU member states' tax systems.)

Different African custom unions have made different decisions with respect to harmonization of tax rates. In the Southern African Customs Union (SACU) and in the East African Community (EAC), VAT rates are quite similar. In SACU, Botswana practices a VAT rate of 12% while the other three ATO countries share a rate of 14%. In the EAC, the VAT rate in Kenya is 16% and 18% in the four other countries. Among the 6 ATO countries in ECOWAS, Benin, Togo and Senegal have the same VAT rate of 18%, Gambia 15%, and Liberia and Nigeria have 7% and 5%, respectively.

By way of comparison, the EU's minimum VAT rate is 15%, which was set in 1992. The original European Commission proposal also included a 20% ceiling, which was not implemented. In 1995, a Commission proposal to set a 25% upper limit was rejected by both Parliament and Council, despite the fact that, at the time, no member state exceeded that level. Currently, VAT rates vary between 17% in Luxembourg and 27% in Hungary.

3.4 Taxes on income and profits

Personal income tax (PIT)

In general, PIT-to-GDP ratios in ATO countries are relatively low: the ATO average is less than half of the OECD's. Genschel and Seelkopf (2016) show that developing countries emulate industrialised countries with respect to consumption taxes but not personal income taxes. Exceptions to the rule are Lesotho and South Africa where the PIT-to-GDP ratio was above the OECD level. Both countries apply some of the highest bottom marginal rates, while the top marginal rate is above average in South Africa and about average in Lesotho.

Figure 3.10: *PIT revenue-to-GDP ratios, 2015*

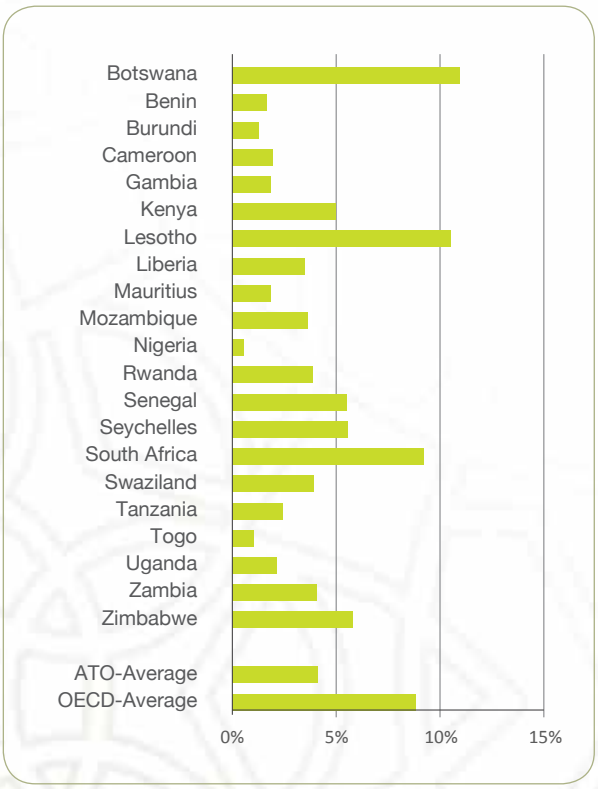
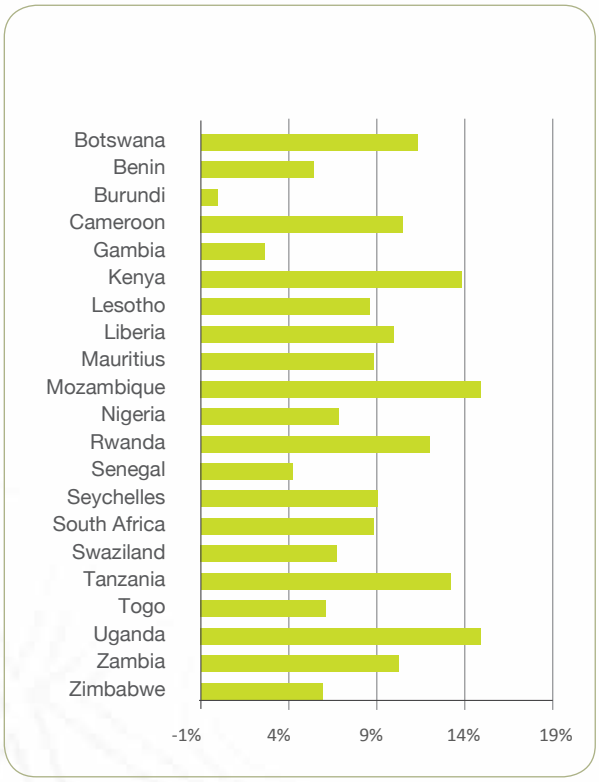


Figure 3.11: *Average growth in personal income tax revenue, 2011 - 15*



Note: In Botswana, income tax includes corporate income tax, so data are not comparable.

Particularly low PIT-to-GDP ratios in ATO countries are due to particularly low-income bottom marginal tax rates, as in Nigeria and Togo. Yet other countries with similar tax rates achieve higher ratios thanks to greater tax productivity. For example, Liberia's bottom marginal rate is 5% and top marginal rate 25%. In Nigeria, they are 7% and 24%, respectively. Yet Liberia boasts a PIT-to-GDP ratio of 3.5%, compared to Nigeria's 0.5%.

The 2011/12 Afrobarometer survey, which includes 18 ATO countries,[6] gives some indication of the coverage of personal income taxation. Respondents were asked whether they were "required to pay personal income taxes". Their answers revealed that the ATO country with the greatest coverage was Liberia at 55%. The only other ATO country to exceed 50% was Swaziland. In the countries with a particular high PIT-to-GDP ratios, Botswana and Lesotho, coverage was 21% and 27%, respectively.

All countries experienced positive income tax revenue growth. It was particularly high in Kenya, Mozambique and Uganda, where it ranged between 17% and over 20%. In Mozambique and Uganda, the number of registered income taxpayers increased by 270% and 225% respectively in 2011-15. In addition, Uganda raised its top marginal rate by 10%.

Increasing the number of registered taxpayers does not guarantee revenue growth, however, as can be seen from countries like Zimbabwe and Nigeria. Both raised the number of taxpayers without any positive effect on revenue growth. The reason was that the adverse effects of economic development outweighed the positive structural effect gained from increasing the number of registered taxpayers. In the future, however, the positive effects might be dominant.

In Zimbabwe, weak average growth of 8.2% between 2011 and 2015 was attributable mainly to a 14% decline in tax revenue in 2015, coming after a 12.4% of annual growth in previous four years. The steep fall in growth 2015 was due to a 2.2% decline in nominal GDP, in contrast to the 5% average growth rate in the years immediately before. In 2015, adverse weather conditions reduced agricultural output and the mining sector was still suffering from low commodity prices.

Nigeria, too, experienced a severe slump in GDP growth in 2015, with nominal growth plummeting to 1.5% after 23.3% the year before. Although the fall in inflation must bear much of the blame, real growth also dropped from 6.2% to 2.7% under the combined effect of low oil prices and low investor confidence. Because of low GDP growth, there was a plunge in income tax revenue growth from 23.3% in 2012 to 1.4% in 2014, followed by a very slight pick-up to 4.5% in 2015.

Corporate income tax (CIT)

CIT-to-GDP ratios in ATO countries are generally quite high and close to the OECD average. Even in countries where the overall tax-to-GDP-ratio is low, the corporate income tax ratio was not far below the average during the 2011-15 period. Mozambique boasts the highest CIT-to-GDP ratio at 6,10% in 2015, attributable (at least in part) to also having the highest tax rate of 32%. The lowest ratio was to be found in Rwanda (0.84%).

There are wide differences in CIT productivity between the ATO countries. In Nigeria, where the CIT rate is only slightly lower than in Mozambique (30% instead of 32%), the CIT-to-GDP ratio was less than 2%. The reason was lower tax productivity. The highly volatile petroleum profits tax (PPT), part of corporate income tax in Nigeria, affected CIT's overall performance over the period 2011-15.

6. South Africa, Benin, Botswana, Burundi, Cameroon, Mauritius, Kenya, Lesotho, Liberia, Mozambique, Nigeria, Uganda, Senegal, Swaziland, Tanzania, Togo, Zambia, Zimbabwe.

Figure 3.12: *Corporate tax revenue-to-GDP ratio, 2015*

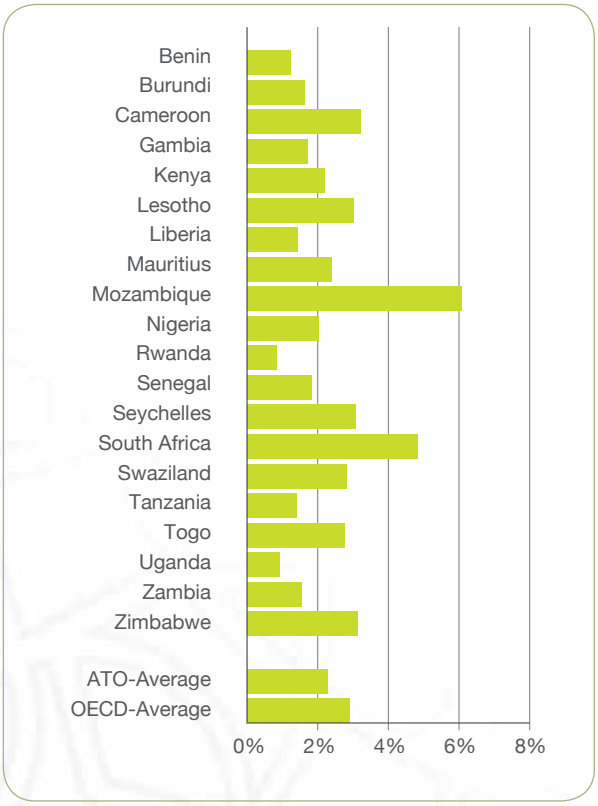


Figure 3.13: *Average growth in revenue from corporate income tax, 2011-15*

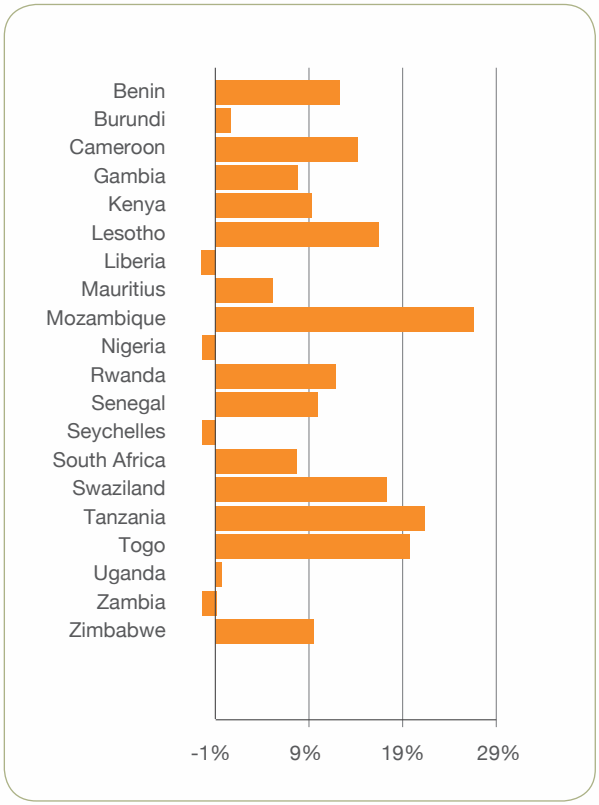


Figure 3.14: *The growth of production and corporate tax revenue in Nigeria, 2011-15*

CIT revenue is very volatile, and of all tax revenues it is the one that shows the widest disparities between countries. While it grew by 32.6% in Togo and 21.8% in Mozambique, it fell 11.7% in Nigeria, 11.1% Liberia and 6% in Zambia. At the same time, interestingly, nominal GDP rose nearly 10% in Nigeria and Zambia and 6% in Liberia, which suggests that it is a poor indicator of corporate profits.

One reason for GDP being a poor indicator of CIT in Nigeria, Liberia and Zambia might be that mining and quarrying account for large shares of their total production (GDP). Yet revenue in those sectors is driven by forces other than the remaining GDP. In all three countries, raw material prices reduced revenue in the mining sector, which had a negative impact on production and corporate tax revenue in the two activities. While growth in corporate tax revenue and production in mining and quarrying runs parallel in Nigeria, there seems to be a one year lag in Liberia and Zambia.

3.5 Conclusion

Consumption taxes – particularly VAT – are the most important source of tax revenue in most ATO countries. By contrast, revenue from import duties has declined since countries opened for free trade. With open borders and customs unions in place, taxes will be decisive factors in international competitiveness and international trade flows. Against that background, countries in customs unions might be well advised to harmonise tax systems to avoid double and non-taxation. On the other hand a harmonisation of tax rates might not be necessary, as they are only one of many parameters in international competition and trade.

The advantage of personal income taxes is that they meet fairness concerns since they translate the ability-to-pay principle. On the downside, though, they are very vulnerable to shocks so growth in revenue from PIT is strongly affected by economic or political crisis. The same is even truer of corporate income tax, while VAT and excises are far less responsive to economic downturns. In sum, the ATO countries have to find the appropriate mix between different forms of taxation.

04

CHAPTER 4

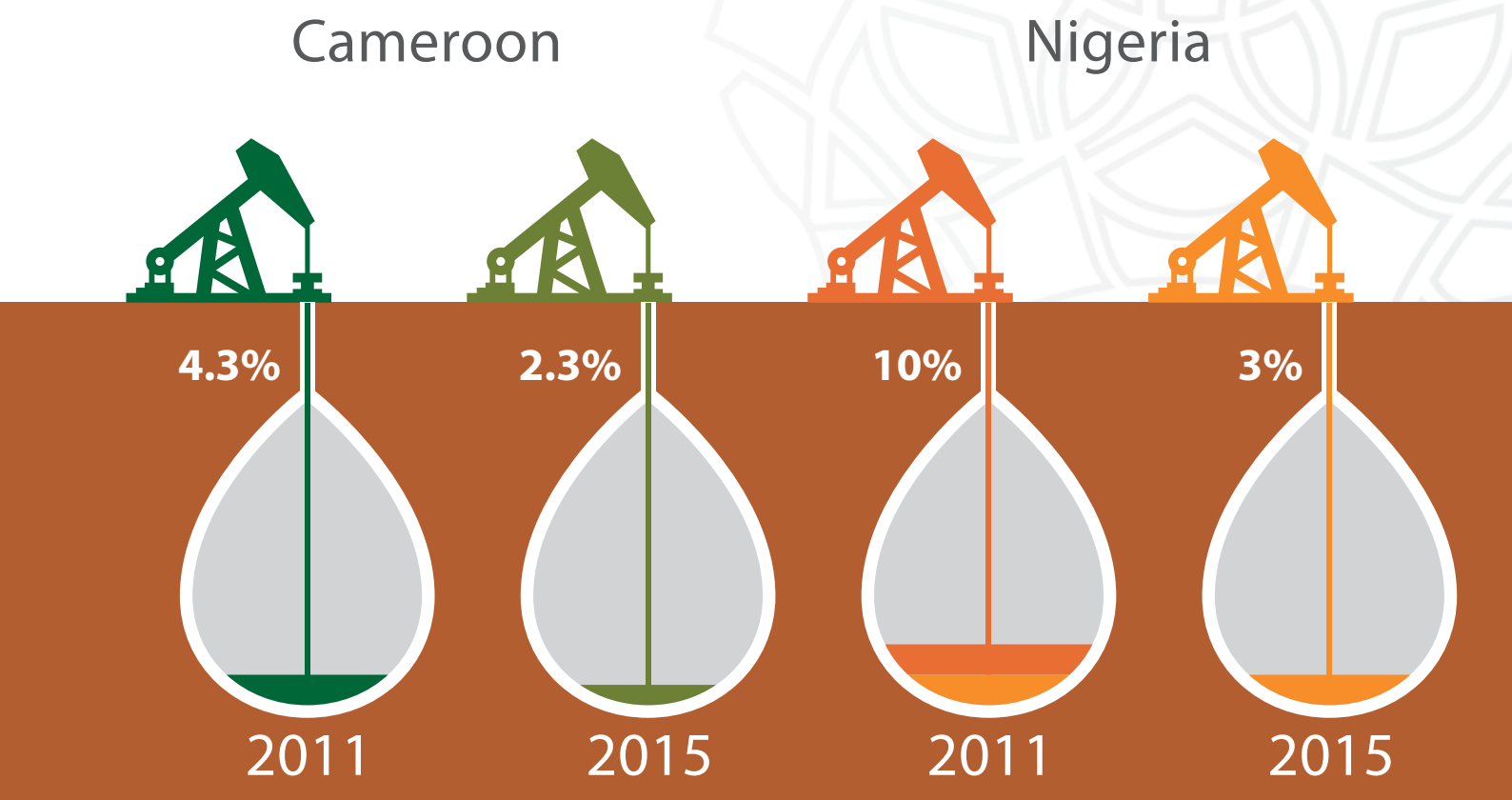
Non-tax revenue

CHAPTER 4

Non-tax revenue

NON-TAX SOURCES OF REVENUE INCLUDE…

…oil, fees and licensed, royalties and other non-assigned sources.
Non-tax revenue is of major importance for oil- and resource-rich ATO countries.



4. Non-tax revenue

Governments in some countries have access to considerable non-tax revenue. When it reaches high levels, non-tax revenue can lessen the need to mobilise through taxation the revenue required to finance government expenditure. Generally speaking, it raises the question as to what the government should finance within the general budget. Clearly, there is no consensus among OECD or developing countries as to what the state's obligations are. However, the assignment of expenditure responsibilities to different tiers of government requires revenue assignments for financing expenditure and, therefore, different levels of taxation revenue.

One important area where countries differ as to what constitutes government obligations and duties is social security. In OECD countries, there are two distinct models, represented by Great Britain and Germany and named after their respective founders Beveridge and Bismarck.

- The Bismarck system is characterised by the following points:
  - The insured are employees.
  - It is financed by contributions, graduated according to income.
- The Beveridge system is defined by these features:
  - It includes the entire population.
  - It is financed primarily from the state budget or by lump-sum contributions.

Any comparison of government financing practices with the Bismarck or Beveridge models should take into account two facts:

- In the Beveridge system, taxes have to finance social security expenditure.
- Under Bismarck, contributions to social security are independent of taxes – so social security contribution must be added to taxes.

In the United Kingdom (UK), the tax-to-GDP ratio is 26.1% and in Germany 22.7%. The figures point to the UK having higher financing requirements than Germany. However, if statistics include social security contributions – 13.9% of GDP in Germany and 6% in the UK – then the tax-to-GDP ratio in Germany is 36.6%, higher than in the UK, where it is 32.1%.

4.1 Social security

All ATO countries report having at least partially tax-funded social security systems which cover either public health or pension systems or both. It was difficult to obtain information on social security systems in some countries because contributions are not part of revenue authorities' remit. However, 15 countries did state that they had public health systems which they financed, in part at least, by tax or social security contributions (Figure 4.1). Of those, 3 funded their social security systems through taxes alone, while seven did so through compulsory contributions – for all or parts of their systems. Three countries said they had no public health system.

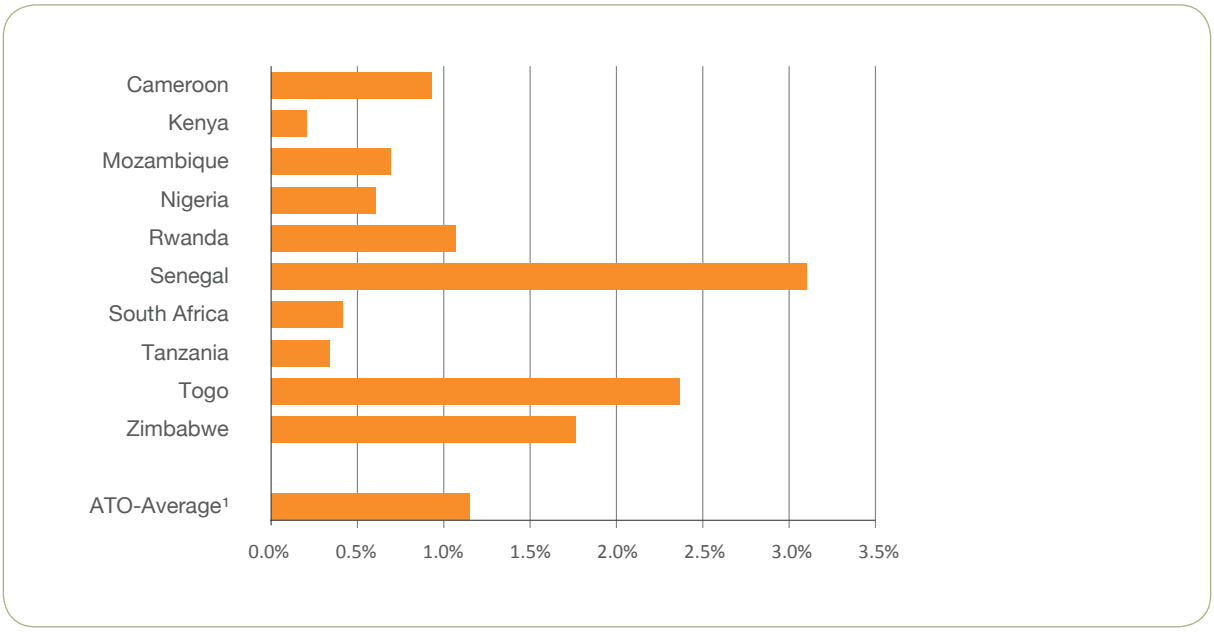
With regard to old age pensions, 16 countries reported operating public systems. In 2 of them, the system is fully tax funded, while all the others levy compulsory social security contributions which partly cover old-age pensions.

Table 4.1: *Social security systems and old-age pension systems in place and how they are funded, selected ATO countries, 2015*

Countries with a public health system			Countries with old age pension systems		
Fully tax financed	Partly tax financed	Partly financed by compulsory contributions	Completely tax financed	Partly tax financed	Partly financed by compulsory contributions
Mauritius Seychelles South Africa	Burundi Cameroon Kenya; Lesotho Nigeria; Senegal Togo; Zambia Zimbabwe	Burundi Kenya Mozambique Nigeria Rwanda Tanzania Togo	Mauritius South Africa	Botswana Kenya Lesotho Nigeria Senegal Zambia Zimbabwe	Benin; Burundi; Kenya; Lesotho; Mozambique; Nigeria; Rwanda Senegal; Seychelles Tanzania; Togo Zambia; Zimbabwe

In the ATO countries where the information was available, the average ratio of social security contributions to GDP ratio was 1.4%, far lower than the OECD average of 9.1%. The highest ATO ratio was in Senegal, where social security contributions accounted for 3.1% of GDP.

Figure 4.1: *Ratios of social security contributions to GDP, selected ATO countries, 2015*

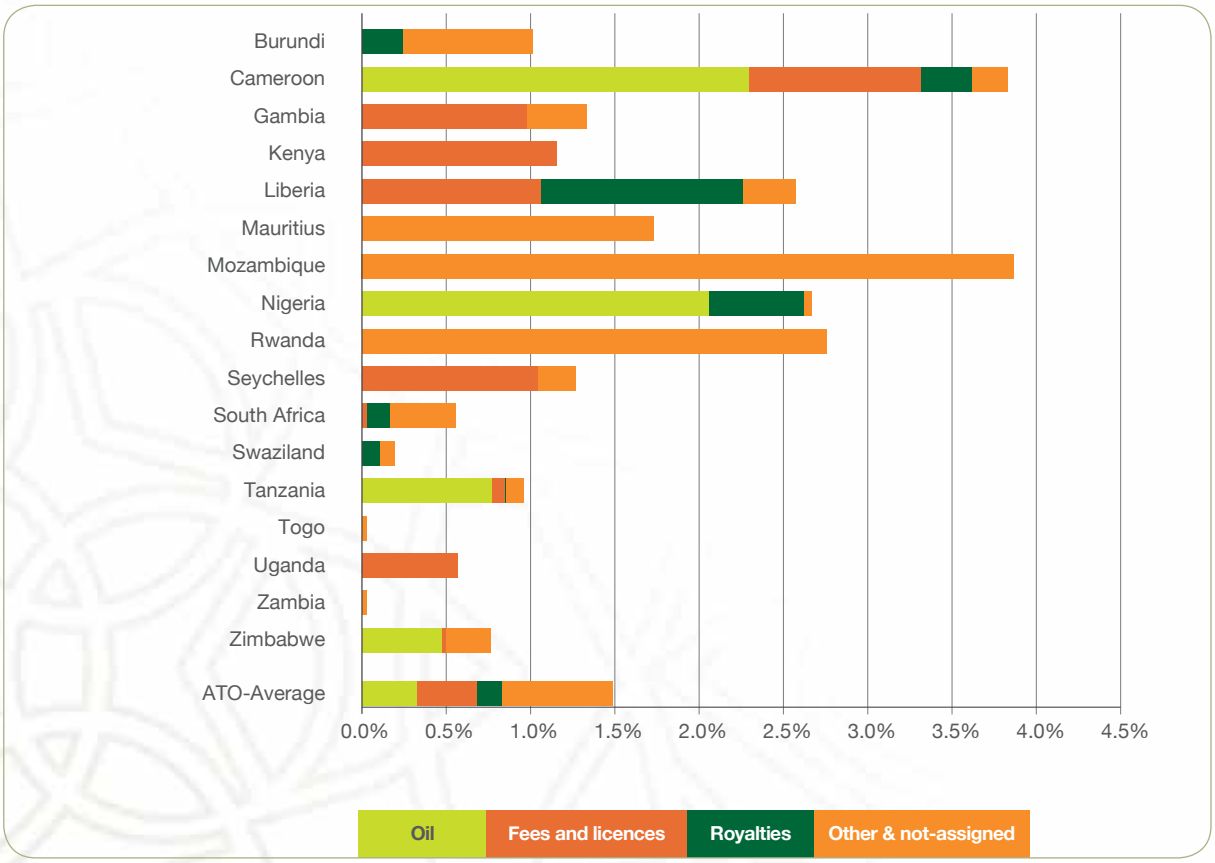


1. Average of countries which could provide data

4.2 Other non-tax-revenue

Besides social security contributions, there are other forms of non-tax revenue. The current ATO countries were asked to report revenue from oil, from fees and licenses, from royalties and from other non-assigned revenue. The bulk of revenue is non-assigned or comes from oil and royalties. In Mozambique and Cameroon, non-tax revenue accounts for nearly 4% of GDP. It is important to bear in mind that revenue from oil and royalties is highly volatile, since it depends on commodity prices. Indeed, in Cameroon, revenue from oil declined from 4.3% of GDP in 2011 to 2.3% in 2015. In Nigeria, the swing was even larger. Here, the share of non-tax-revenue-to-GDP declined from nearly 10% in 2011 to below 3% in 2015. The reasons are the decline in oil prices and conflicts in the Niger-Delta region which prohibited oil production.

Figure 4.2: *Ratios of non-tax revenue to GDP in ATO countries, 2015*



Note: Figures for Mauritius relate to 2014.

4.3 Conclusion

In some ATO countries, social security contributions account for a considerable share of revenue. In any comparison of revenues which fund countries' social expenditure, social security should be factored in. Otherwise, no meaningful comparison is possible.

For some ATO countries, non-tax revenue is a major contributor to GDP – particularly among oil- and resource-rich countries. Revenue from oil, however is very vulnerable to price fluctuations in international markets.

05

CHAPTER 5

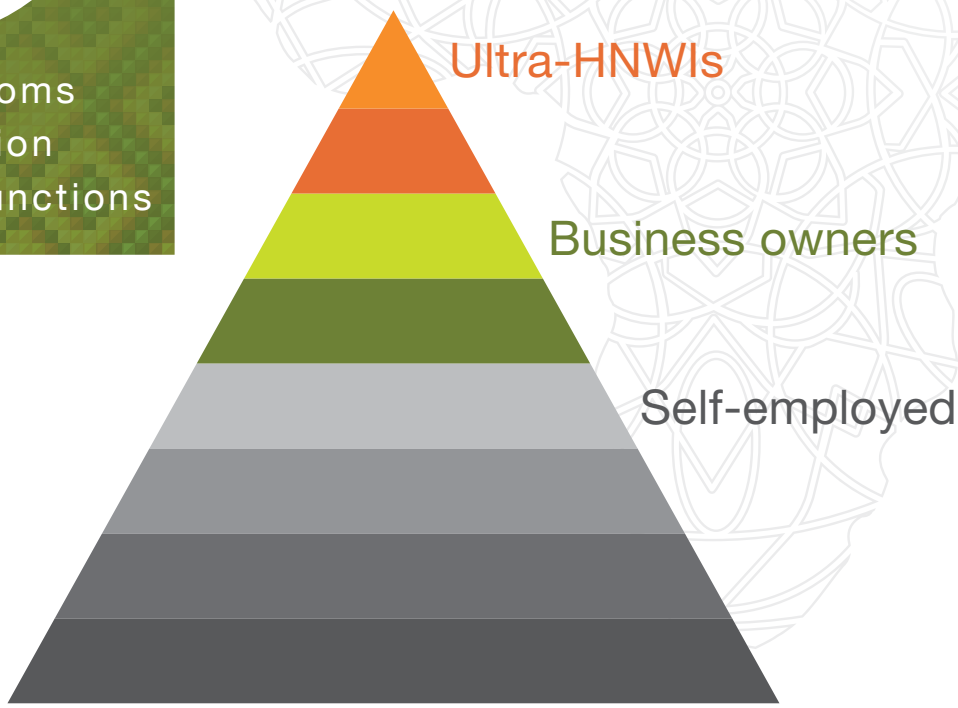
Tax and customs administration structures and functions

CHAPTER 5

Tax and customs administration structures and functions

HNWI

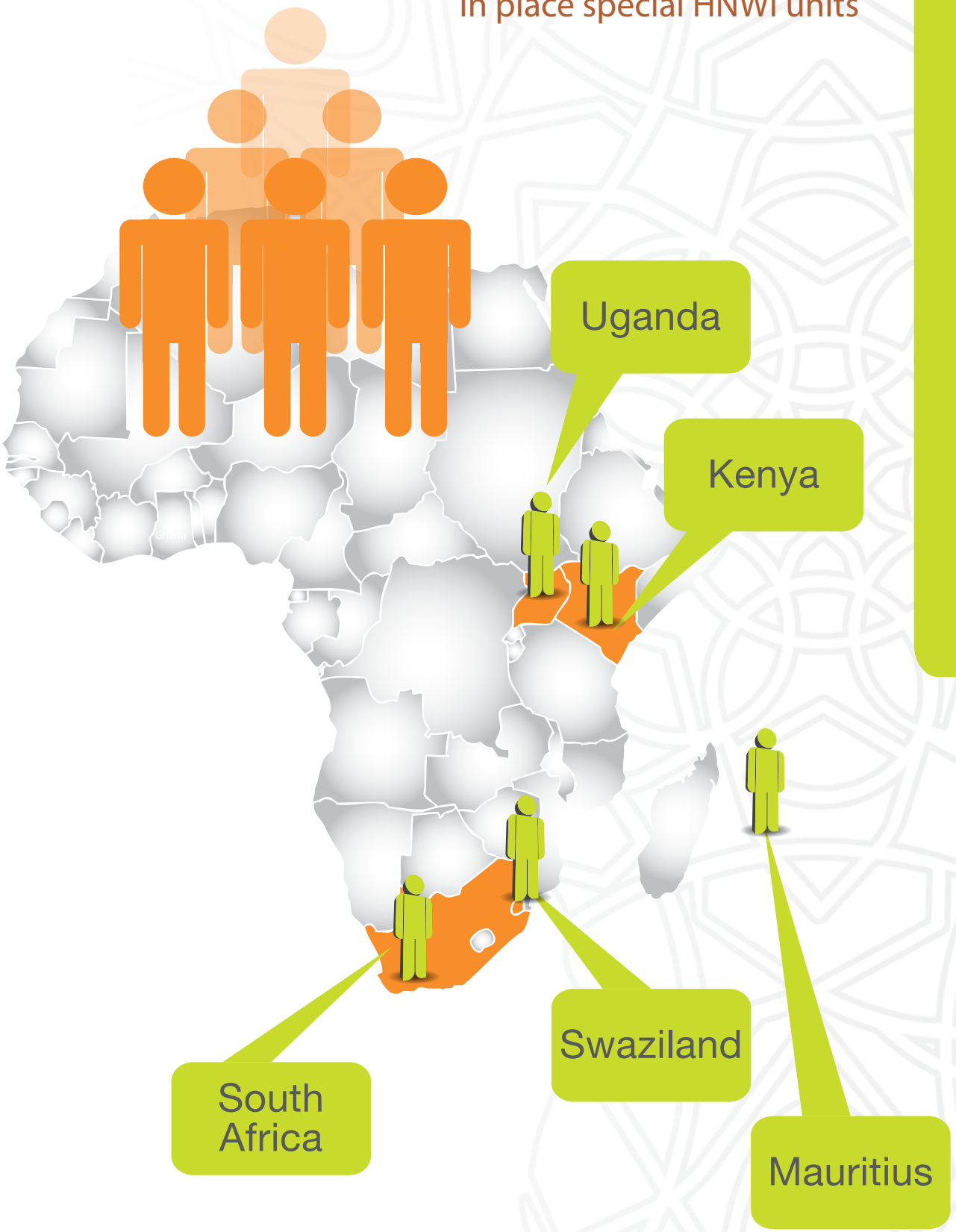
The riskiest HNWI are:



COLLABORATING IS ONE OF WAYS OF EXPANDING THE TAX REGISTER TO BROADEN THE TAX BASE

HNWI UNIT

Kenya, Mauritius, South Africa, Swaziland and Uganda have put in place special HNWI units



5. Tax and customs administration structures and functions

Revenue performance is determined largely by the efficiency of revenue administration. This section examines how revenue authorities (RAs) might achieve that efficiency and the functions and practices which determine it. It considers:

- organisational structure and design
- taxpayer segmentation
- how revenue authorities approach the informal sector
- the importance of high net-worth individuals
- multinational companies
- how revenue authorities manage tax registers and seek to expand the tax base
- the cost of tax administration
- how RAs manage risk and fight corruption.

5.1 Organizational structure and design

Tax departments that report to ministries of finance in Africa were long deemed ineffective revenue collectors and short on accountability. To strengthen their tax administration most countries have now introduced semi-autonomous RAs (AfDB/OECD/UNDP, 2016).

Semi-autonomous revenue authorities are the norm in ATO countries

Semi-autonomous RAs enjoy varying degrees of independence in staffing, salaries and incentives, procurement and budgets and, by the same token, in their freedom to undertake the important changes needed for modernisation (Crandall, 2010). Autonomy empowers revenue authorities to carry out their mandates and be more innovative, professional and responsive to the changing environment (AfDB/OECD/UNDP, 2016).

Degrees of autonomy vary from country to country. South Africa's revenue authority which, though not governed by public service rules, is under close government control, whereas the Kenya Revenue Authority enjoys rather more room for manoeuvre.

Revenue authorities should be given full autonomy, enjoying powers such as retention of a given percentage of revenue collection. A fully autonomous RA would improve public confidence in the tax system, listen to taxpayers and tailor services accordingly, involve the private sector in tax agency strategic management and strengthen accountability (Aborkpui et al., 2013). Generally, though, few RAs enjoy full autonomy. They have no say in their budgets, which affects their ability to live up to their remits.

Integrated tax and customs revenue administration is also the norm

All ATO countries' semi-autonomous revenue authorities have integrated both their tax and customs revenue administration. The sole exception is Nigeria's RA.

A single body that registers, collects and audits achieves more cost-effective administration and taxpayer compliance. It eliminates duplication in support service functions, standardizes core processes, enhances information flows and service delivery, makes efficient use of resources, reduces administrative and tax compliance costs, and promotes staff professionalism (Gallagher, 2004 and Jacobs et al., 2013).

Drawbacks of tax offices that report to ministries

The only ATO countries that do not have semi-autonomous RAs are Benin, Cameroon and Senegal, where tax directorates are departments within the finance ministries. Their shortcomings include top-heavy bureaucracy, discretionary powers and narrow tax bases (Taliercio, 2004). Tax departments attached to ministries of finance have to contend with political interference, which particularly affects the auditing of large taxpayers, often closely associated with the ruling political party. Senior tax officials are likely to be political appointees, while tax offices have little scope for establishing competitive salary scales to attract and retain skilled staff (ATAF, 2012).

5.2 Taxpayer segmentation

Taxpayers are not homogeneous and different groups of taxpayers generate different types of tax administration challenges. Most RAs in the ATO countries are organised into taxpayer segments to address the needs of large, medium, small and very small taxpayers (Table 5.1).

Table 5.1: *Taxpayer segments in ATO countries, end 2015*

Country	Taxpayer segment
Burundi, Kenya, Senegal, Seychelles, Tanzania, Togo, Zambia	Large Medium Small
Benin and Cameroon	Large Medium Small Very small
Gambia and Liberia	Large Medium and Small Informal
Lesotho, Mauritius, Mozambique, Rwanda, Swaziland, Zimbabwe	Large Medium and Small
Botswana	Large Others
Nigeria	Large Medium Micro and small Individual and enterprise income Public sector
Uganda	Large Medium Small Public sector
South Africa	Business and employers: Large business centre Small business Tax-exempt organizations Embassies Individuals Tax practitioners

The criteria that countries use to segment taxpayers are principally:

- Turnover, where taxpayers are classified as large, medium or small according to the size of their turnover.
- Tax payment, where they are classified as large, medium or small according to the amount of tax collected from them.
- Nature of business, i.e. the economic sectors in which a taxpayer operates. Those that operate in the financial sector, like banks and insurance companies are generally considered large taxpayers.

Only Benin does not use "tax payment" or, for that matter, "nature of business".

Special criteria to identify taxpayers

Some countries use particular criteria to identify taxpayers. The South African Revenue Service (SARS) regards "registered importers and exporters" as a separate group of taxpayers who declare (or on whose behalf agents declare) imports or exports and are liable to the payment of any duties on goods.

As for Lesotho, it considers as "multi-national corporations" taxpayers who belong to organizations that own or control the production of goods or services in one or more countries other than their home country.

Kenya, Nigeria and Uganda have a "public sector" criterion, where a special tax administration office handles the revenue of government agencies (Box 5.1).

Finally, in the Gambia, any taxpayer belonging to the informal sector who is neither taxed, nor monitored by any form of government is classified as informal.

Box 5.1

Public Sector Office as a tax segment in Uganda

Aware that governments are generally the biggest spenders in Africa, the Uganda Revenue Authority (URA) realised that monitoring their activities should be a key part of its efforts to raise domestic revenue. To that end, it created, a Public Sector Office (PSO) in financial year 2014/15. The purpose was to provide high-quality, customised services to ensure compliance from government ministries, departments, agencies and local authorities. The PSO monitor their expenditure at all levels throughout the country to stem tax leakage, tracking key contractual obligations and spending to ensure that they account for the income tax of all their service providers. The result? URA revenue collection grew 239% from USD 62.3 million dollars billion in financial year 2014/15 to USD 211.0 million dollars in FY 2015/16.

Taxpayer segmentation and degrees of risk

Each taxpayer segment has its own defining features and levels of risk. No segment is risk-free, as low risk does not mean no risk. Furthermore, the same segment may be high-risk in one aspect of tax administration, but low in another (Table 5.2).

Table 5.2: *Defining characteristics and degree of risk of different taxpayer segments*

Segment	Characteristics	Degree of risk
Large taxpayers	Management and ownership are separate Hire highly skilled tax advisors Conduct complex transactions Think about their reputation and are willing to declare	Low risk of under-declaration High level of tax planning Low risk of misclassification
Medium taxpayers	Fairly complex transactions Mixture of separate ownership and sole proprietorship Hire moderately skilled tax consultants Willing to declare but sometimes ignorant of what to declare	Moderate risk of under-declaration and misclassification
Small taxpayers	Are both owners and managers Highly mobile Do not hire qualified tax advisors Poor record-keeping Speculation	High risk of under-declaration Hard to track and trace Inaccurate returns Constantly change International Standard Industrial Classification (ISIC), which makes them hard to monitor
Micro taxpayers	Highly informal and keep no records Very unwilling to declare Do not use tax advisors Ignorant of the tax laws Highly mobile	Very high risk of non-declaration

To counter the high prevalence of risk in small and very small businesses, ATO RAs should take action to maximise domestic revenue. They should keep down the cost of compliance – especially for small businesses – through simplified requirements for record keeping and reporting, prefilled tax declaration forms and/or systems that do away with the need to file, such as withholding tax at source by officially approving withholding agents and collecting withholding tax on imports (TADAT Secretariat, 2015).

Revenue authorities should use segment-specific criteria for big taxpayers

ATO countries should classify their taxpayers, according to their size and the economic segment in which they do business. Large taxpayers in particular should be classified by segment, such as banking, extractive industries (mining, oil and gas), electronic services or telecommunications (Jacobs et al., 2013). RAs can then customise interventions and services accordingly. Indeed, RAs should document and implement clear segmentation criteria that reflect their countries' economic conditions, at both national and regional level (ATAF, 2012).

5.3 How RAs approach the informal sector

There is a close relationship between the existence of a large informal sector and a country's ability to raise tax revenue (Moore, 2013). ATO-wide, the informal sector accounts for between 50% and 80% of GDP, between 60% and 80% of employment, and up to 90% of new hires (Benjamin and Mbaye, 2014). Commonly known as the black, shadow, hidden, irregular or unofficial economy, it is the hardest sector to tax. The revenue it yields is low and costly to collect (Joshi, Prichard and Heady; 2012). Some of the defining features of the informal sector are (ATAF, 2012):

- an economy based on cash transactions,
- weak regulatory institutions,
- relatively high risks associated with illegal activities perpetuated by poor tax law enforcement.

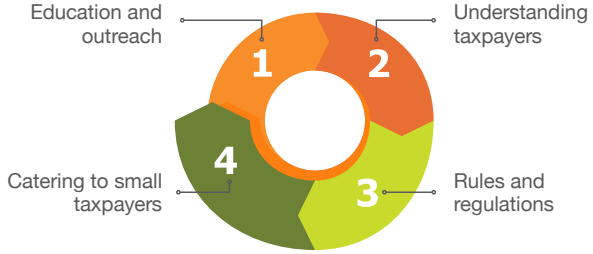
Tax related factors that contribute to the development of the informal sector are:

- high tax rates and transaction costs,
- complex, costly procedures for creating and registering businesses,
- lack of proper identification systems and single identifiers for all institutions.

Despite the difficulties, some ATO countries have adopted mechanisms for generating revenue from the informal sector. Some are related to tax policy, administration and institutional reform. The RAs of Cameroon, the Gambia, Kenya, Liberia, Nigeria, Rwanda, Tanzania, Zambia, Senegal and Togo, for example, have established dedicated informal sector units.

The various measures that address the informal sector may be loosely divided into four groups that often overlap.

Figure 5.1: *ATO countries' four-pronged approach to raising revenue from the informal sector*



Education and outreach

A number of ATO countries like Mauritius, Tanzania and Uganda have designed and rolled out tax education programmes aimed at the informal sector through television, radio, and brochures (see Chapter 7). However, a number of more purpose-built, hands-on schemes are also in operation.

Table 5.3: *Informal taxpayer outreach measures in the field*

Informal taxpayer outreach schemes	How they work and who uses them
Memorandums of understanding (MOUs)	South Africa's revenue authority, SARS, has signed memorandums of understanding (MOUs) with informal taxpayers' representative groups whereby they share information. Since the taxpayer groups interact with other government agencies, The RA cooperates with them to establish one-stop shops to educate and inform taxpayers, thus reducing compliance and revenue administration costs
Mobile education	Tax administrators drive out in vans to meet taxpayers from the informal sector and help them with registering for income tax and filing tax returns and answer queries. Liberia operates such a mobile education service.
Block Management System (BMS)	A taxpayer outreach scheme which physically identifies and maps taxpayers and breaks them down into manageable blocks. Tax administrators then visit them in person to educate and encourage compliance (see Box 5.2). East African countries and Zambia use BMS.
Stakeholder forums	Revenue authorities in Liberia and Zimbabwe come together with taxpayers to hear their views on customer service issues, compliance-related risks and proposed policy changes. Zimbabwe holds stakeholder meetings to encourage voluntary registration and compliance.

Box 5.2

Intensive taxpayer outreach through the Block Management System

The BMS reaches out to informal taxpayers by physically identifying and mapping where they live and work. It demarcates such areas, sizing them to manageable blocks. Businesses in the blocks are identified by business type (e.g. transport providers), economic segment (e.g. cross-border traders) and geographical area (e.g. street, district). Revenue authority staff move from door to door visiting taxpayers, identifying non- and late-filers and explaining and educating accordingly. Kenya, Rwanda, Tanzania and Zambia all use BMS .

Tax administrators and taxpayers communicate openly, while field visits and person-to-person education on an everyday basis incites traders to register. Furthermore, BMS enables taxpayers to pay their taxes without having to go to the tax office, which shortens queues and improves services.

Understanding taxpayers

To understand the nature of informal businesses, the players in the different value chains, the issues affecting them, and their compliance behaviour, RAs develop industry-specific notes. The notes paint holistic pictures of each industry and identify its salient features. In this way, RAs – in Zambia, for example – have been able to detail practical issues applicable to industries dominated by small businesses. Accordingly, they have drawn up risk profile and developed both administrative measures and tax policies that address their particularities.

Zambia's RA, like others, also runs cost-of-compliance surveys to gather information on the challenges and perceptions of small taxpayers. The aim is to make policy and administrative reforms that reduce the cost to small taxpayers of complying with their tax obligations. TADAT (2015) recommends that RAs should conduct surveys on the quality of services in different segments at least once every 3 to 5 years.

Easing compliance for small taxpayers

To make life easier for small taxpayers, RAs in a number of countries – Mauritius, Rwanda, Tanzania and Zimbabwe – require them to take up electronic billing machines (EBM). The purpose is to encourage them to improve their sales analysis and stock management, especially among those whose compliance is low. Proper implementation of EBMs prevents the under-declaration of sales and profits, the non-issuance of invoices, false refunds and offset claims. It also helps RAs track down untraceable taxpayers and reduce the size of the large informal sector.

Some revenue authorities have put in place Internet bureaus in their medium and small taxpayer offices designed to help small taxpayers file their returns electronically at no cost. A measure designed specifically for the small taxpayer, it has helped to bring services closer to the taxpaying community. Zambia, again, is one country that has introduced internet bureaux.

The smaller a business, the higher is its cost of VAT compliance. ATO countries like Uganda have raised VAT thresholds to cut small firms' running costs. The move has enhanced their cost-effectiveness and performance. And those with low revenue obligations have been able to increase their cash flow and pay what they owe later through personal and corporate income taxes.

Rules and regulations

Reaching out to small taxpayers is about encouraging voluntary compliance. But raising revenue also entails the coercive power of rules and regulations. Nigeria, for example, is currently working with the Central Bank of Nigeria to formalise the informal sector, and particularly to regulate the cash economy.

Presumptive tax legislation and regimes

Presumptive taxation applies to small businesses unable to keep proper records of accounts or handle other complexities associated with regular tax regimes. It is based on their turnover.

In Kenya, for example, any business with sales of less than KES 5 million is taxed at a flat rate of 3% of annual turnover. And because they do not necessarily have to provide complex financial statements and returns to the tax authority, informal businesses' tax compliance costs have fallen as a result. Nigeria, Uganda and Zimbabwe are following suit.

Enhanced excise systems and association taxation

ATO countries like Kenya, Mauritius and South Africa have enhanced their excise systems to detect and deter the use of fake excise stamps and provide real-time data transmission. The excisable goods management system (EGMS) has enabled the KRA to track and trace stamped and unstamped products all along the supply chain. As a result, It has detected counterfeit goods and prevented smuggling and the falsification of production volumes. SARS has enhanced the detection capability of its excise

systems by eliminating manual reconciliation and interventions and improving financial transparency and efficiency.

In association taxation, small business trade associations are closely involved in formulating and implementing tax policy that affects the informal sector. Association taxation has been a success in Ghana and Senegal (Joshi and Aye, 2002).

Overall need to strengthen the regulatory framework

Fostering a favourable policy environment and taking administrative measures are desirable and effective. But legal and regulatory systems must be bolstered if governments are to effectively tax informal business (Mawejje, 2013). They are so weak in some countries that informal businesses' market entry, access and location escape all control. The result? Unfair competition between products from the informal and formal sectors, with those made by informal businesses cheaper and more likely to survive. Unless, their regulatory obligations are light enough not be burdens, they will have no incentive to go formal.

5.4 Importance of high net-worth individuals

The taxation of high net-worth individuals (HNWIs) has recently drawn much attention from RAs since they contribute significantly to tax revenue and are often involved in complex commercial transactions conducive to base erosion and profit shifting (Kangave et al., 2015). Who are HNWIs? According to SARS (2016), the riskiest are:

- ultra-HNWIs because of their involvement in complex financial structuring across an array of business entities, both on and off-shore, including trusts;
- business owners, who may not be transparent about company valuation;
- the self-employed, because they can do business through a number of companies.

How much are high worth individuals worth?

According to	Worth
SARS (2015)	Over ZAR 3 million and/or net assets of at least ZAR 16 million.
MRA (2015)	Over MUR 15 million and/or assets of at least MUR 50 million
OECD (2009)	USD 3 -30 million or more in financial assets

ATO countries seek to tax the wealth of HNWIs as one way of redistributing income, as inequality continues to widen and, with it, socio-economic tensions. HNWIs' income comes from multiple sources spread all over the world, which affords them opportunities for aggressive tax planning and offshore tax evasion.

HNWIs are second only to multinational enterprises as practitioners of aggressive tax planning – a threat to the overall integrity of the tax systems (OECD, 2009). Accordingly, Kenya, Mauritius, South Africa, Swaziland and Uganda have put in place special HNWI units to better grasp the overall tax stance and behaviour of HNWIs.

HNWI units and what they do

The units chiefly monitor HNWIs' compliance with their obligations through audits, research and intelligence. They have relationship managers assigned to each taxpayer who seeks to build a relationship with them and better understand their tax affairs.

First, though, units must identify high net-worth individuals. They do so by comparing and matching third-party information. South Africa's revenue agency has, for example, integrated its tax administration system with other systems, such as those of the public bodies that manage deeds of trust and property registers. Its updated trust system uses the SARS risk engine to run extensive integrated audit and compliance checks on HNWIs. SARS has made improvements to its trust register by building audit trails of distributions made to trust beneficiaries and creating links to third-party information systems.

Swaziland and South Africa, whose revenue agencies share information, also conduct desk and lifestyle audits by analysing publicly available information to build comprehensive profiles.

As they do with other taxpayers, ATO countries seek to educate HWNIs on the consequences of failing to meet their tax obligations generally the job of relationship managers.

Voluntary compliance and cooperation

Tax authorities are increasingly taking steps towards a cooperative approach, in accordance with the growing preference for collaboration over confrontation (OECD, 2009). Rather than enforcement through statutory obligations, they seek to cooperate with taxpayers who volunteer relevant information.

Box 5.3

Cooperative compliance builds on a reciprocal arrangement

Cooperative compliance should be based on taxpayers being able to demonstrate:

- good governance of their affairs, as evidenced by review and validation of their accounting systems,
- willingness to operate in an open, transparent manner and make full disclosures of their tax risks as they occur (i.e. in real time).

Revenue authorities' provision of enhanced taxpayers services should include:

- dedicated single points of contact,
- speedier resolution of technical and administrative issues,
- assignment of a reduced risk rating to the taxpayer for audit purposes,
- reduced penalties.

Source: TADAT Secretariat (2015)

This cooperative approach encourages accurate reporting through a working relationship based on mutual trust and transparency. It also enables RAs to carry out fully informed risk assessments of tax administration issues that taxpayers find unclear or contentious, so helping dispel legal uncertainty and the risk of disputes (OECD, 2009; TADAT, 2015; NAO, 2016).

The cooperative compliance initiative developed in the OECD Forum on Tax Administration would allow countries to reconcile their need for stable revenues with the desire to create a fiscal climate that encourages inward investment. Although the benefits of the initiative for developing countries seem to be clear, they are not yet sufficiently informed by practical experience (OECD, 2013). It is therefore crucial to implement proactive and cost efficient solutions to help bridge the trust gap between government and multinational enterprises (MNEs). Enhanced Engagement Programmes (EEP) offer an opportunity to reconcile the goals of securing the tax base of countries with the need to create a more certain and transparent environment that encourages economic growth and investment, especially in a context of limited human and financial capacity.

If well implemented, these programmes can be a transparent, cost effective approach for both parties. Their main objectives would be to overcome information asymmetries at an early stage, determine mutual obligations with regard to filing, reporting, controlling and auditing, and thus lower the costs of tax compliance and tax administration. The EEP would start to function before the filing of tax returns and other traditional compliance approaches, like audits and risk reviews. Under such programmes, MNEs willing to provide high levels of disclosure and transparency would discuss with the tax administration their high-risk transactions and be provided with the tax administration's views on the transactions. It is a collaborative approach that would take place before any audit, tax dispute and involvement of any tax tribunal.

As large businesses are extremely complex, understanding the business and the environment within which they operate is crucial to the success of the EEP. As such, the programme must be underpinned by systems that ensure taxpayer confidentiality to make sure that companies are willing to provide information that is commercially sensitive. The EEP would also require highly skilled tax officials with extensive industry knowledge and with in-depth knowledge of different tax regimes (e.g. corporation tax, VAT, employment taxes, etc.). Businesses would be grouped by sectors to offer an accurate picture of sectoral issues and apply the EEP approach consistently. As tax administration skills are being developed domestically, countries can consider secondments from other countries which have successfully implemented EEP programmes.

Voluntary compliance and amnesties

Initially, though, limited human and financial resources prompt African countries to use voluntary compliance as they cannot get through to all taxpayers. Consequently, very few of them – including HNWIs – are aware of their obligations and many fail to meet them (Kangave et al., 2015). In that event, if they agree, taxpayers are offered tax amnesties, which involve reducing or waiving penalties or interest – and even the principal – for those who come forward voluntarily. Amnesties can increase revenue collection from non-compliant taxpayers, registered and new, at a limited cost to the tax authorities.

South Africa runs voluntary compliance programmes to encourage HNWIs to come forward and fully disclose their onshore and offshore tax liabilities. SARS has thus been able to collect tax, interest and any penalties due without having to go through long, complex investigations. And the cost of compliance has been cut for both SARS and the taxpayer.

Voluntary disclosure programmes should also influence behavioural changes. Tax amnesties reward taxpayers who disclose their incomes and assets and let them know that any future non-compliance will be punished. And they help revenue authorities make better use of their resources, as they can devote greater audit and enforcement resources to high-risk cases.

Box 5.4

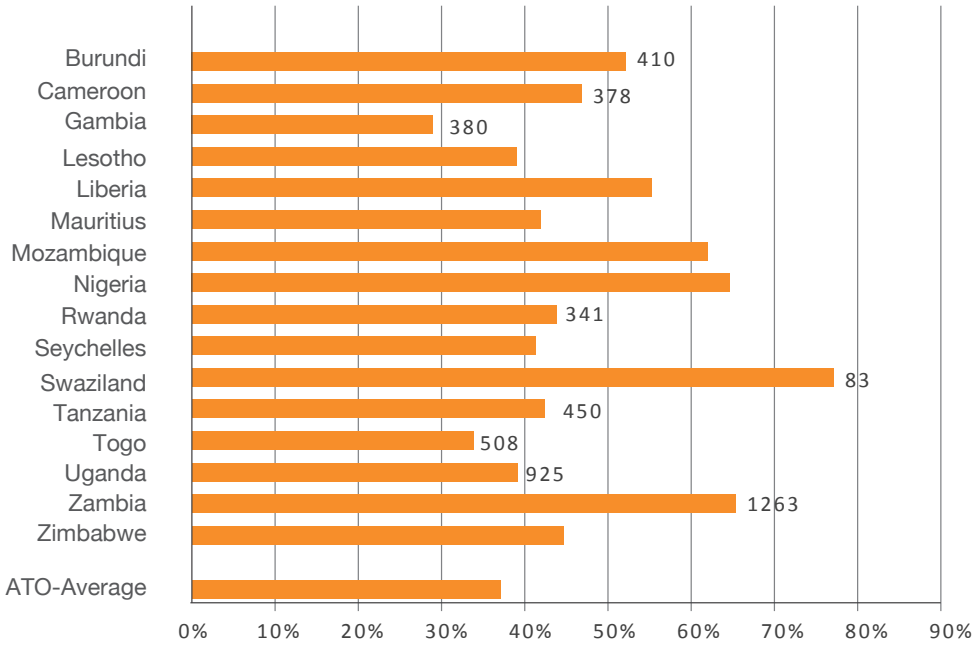
Enhanced engagement programs (EEPs), key element to increase bi-directional certainty in the complex area of controlling and clarifying tax obligations

- Programes through which mutual transparency, justified trust, better understanding of taxpayer's businesses and thus more effective risk management can be implemented to facilitate economic growth and domestic resource mobilization.
- The EEP would start to function before the filing of tax returns and other traditional compliance approaches, like audits and risk reviews.
- Under such programmes, MNEs willing to provide high levels of disclosure and transparency would discuss with the tax administration their high-risk transactions and be provided with the tax administration's views on the transactions.
- It is a collaborative approach that would take place before any audit, tax dispute and involvement of any tax tribunal.
- The program must be underpinned by systems that ensure taxpayer confidentiality to make sure that companies are willing to provide information that is commercially sensitive.
- The EEP would also require highly skilled tax officials with extensive industry knowledge and with in-depth knowledge of different tax regimes (e.g. corporation tax, VAT, employment taxes, etc.).
- In such programmes, transparent regulatory and procedural framework are essential to prevent collusion or other forms of illicit behaviour (e.g. aggressive tax planning, treaty shopping).

5.5 Multinational enterprises

Most ATO countries rely heavily on tax revenue from multinational corporations. Indeed, large taxpayers account for over 50% of the revenue of Zambia, Swaziland, Nigeria, Mozambique, Liberia and Burundi (Figure 5.2).

Figure 5.2: *Large taxpayers account for very high shares of government revenue in ATO countries, 2015*



Avoidance and aggressive planning make MNEs high-risk taxpayers

The risk of such heavy reliance is that base erosion and profit shifting (BEPS) can seriously jeopardise domestic resource mobilisation. Multinational enterprises are widely considered the highest-risk taxpayers because of their aggressive tax planning practices (OECD, 2010a). They seek to exploit gaps and mismatches in tax laws to bend the rules of the tax system.

To avoid paying taxes, MNEs interpret the law differently from how it was intended, a practice falling under the legal interpretation of complex tax issue risks (NAO, 2016). They might shift their profits to low tax locations where there is little or no economic activity to avoid paying tax in the countries where they do business. They claim large allowable deductions, carry forward losses indefinitely and practise transfer pricing. An MNE could, for example use partnership loss schemes to shelter other income from tax. It artificially increases its losses by using circular loans or deferred expenditure which it never incurred (OECD, 2009). Such international taxation practices, though legal, rob governments of much needed revenue.

In response, ATO countries have developed instruments that address international taxation issues.

Foreign tax credits and withholding taxes

Liberia and South Africa, for example, use foreign tax credits and withholding taxes (taxes levied at source) on payments to non-residents.

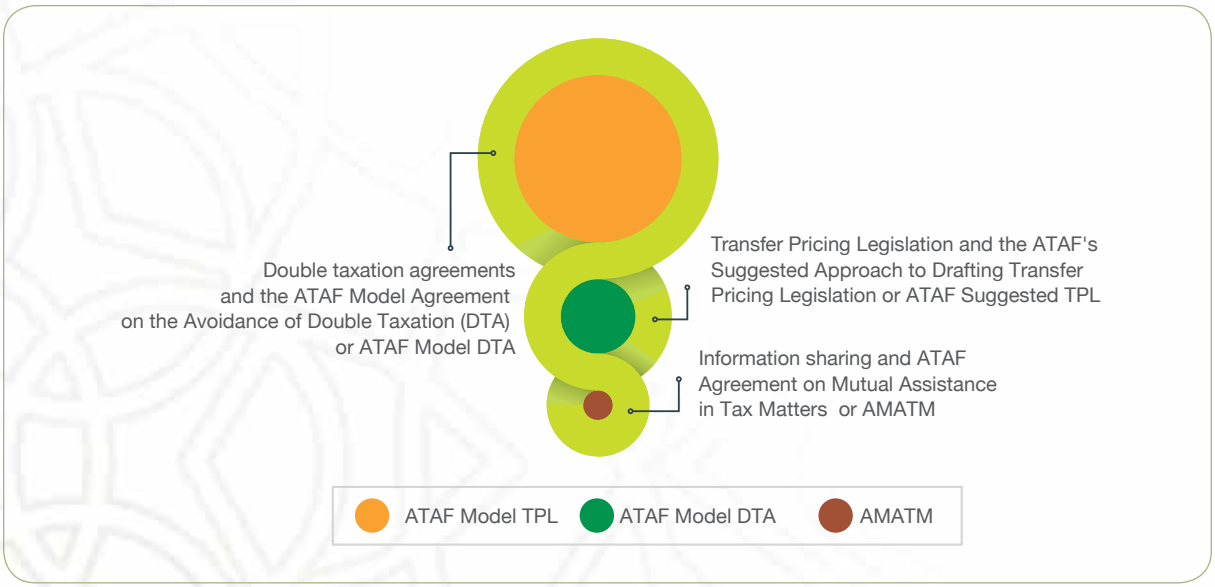
Both countries require their taxpayers to declare all their income. In order to avoid double taxation, they grant foreign tax credits to MNEs to reduce domestic tax on income from a foreign source. However, they cap the amount on which MNE taxpayers can claim foreign tax credit to prevent them from claiming tax credits that exceed the ceilings they place on foreign sources of income.

Liberia and South Africa also charge withholding taxes on payments made to non-residents to reduce profit repatriation and intragroup transactions among MNEs. For example, South Africa began withholding tax on interest in March 2015, then on service fees from January 2016. As for the Gambia, to ensure that taxpayers are taxed on all the income they earn worldwide, it withholds taxes on the payment of dividends, interest, royalties and technical service fees (see Section 5.6, "Legislating to broaden the tax base").

ATAF's tools addressing MNE compliance and avoidance

As part of the ongoing struggle to counter MNEs' aggressive tax planning, ATAF has developed tools that come under three headings (Figure 5.3)

Figure 5.3: *The African Tax Administration Forum's three-pronged approach to aggressive tax planning*



For each of the three tools, ATAF has built templates which ATO countries can adapt to their needs and capacity. They are the "ATAF models".

Double taxation agreement and the ATAF Model DTA

Double taxation treaties (DTAs) are designed to prevent the risk of double taxation on income in the country of residence and country of business activity. They also help curb offshore investment and illicit financial flows. ATO countries that sign DTAs with each other (and other countries) use them to access information on residents who have commercial dealings in any signatory counties.

Most ATO countries – like Botswana, Senegal, Zambia, Zimbabwe and Mozambique – have signed DTAs with other African and non-African countries. Mozambique, for example, has concluded DTAs with Mauritius, South Africa, Portugal, and the United Arab Emirates.

Box 5.5

The ATAF Model DTA

The African Tax Administration Forum (ATAF) has developed the ATAF Model Agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income for the African Continent. It is a template that covers between 75% and 80% of any DTA that a given African country is likely to sign. It remains only to negotiate specifically domestic provisions such as withholding rates and the definition of permanent establishment.

The ATAF Model DTA came in response to the growing need for double taxation agreements in the critical task of mobilising domestic revenue. It also sought to upgrade previous DTAs which robbed developing countries of their fair shares of taxation.

The significance of the ATAF Model DTA is that it clearly spells out the policy stance of African countries, and is backed by the clout and expertise of ATAF, an organisation that carries more weight than a single country. ATAF continually updates its model DTA in accordance with international standards.

Transfer pricing and the ATAF Suggested TPL

Transfer pricing is the pricing of goods, services, capital and intangibles between related parties or associated legal entities within an enterprise (OECD, 2015). It is one of the most significant tax issues with which MNEs and tax administrations have to contend (OECD, 2010b). For example, MNEs might attempt to shift their profits to low-tax jurisdictions by setting unrealistic prices for their actual commercial or financial dealings with related parties. The related parties include the MNE's own branches and head offices.

A similar issue relates to the pricing of intangibles where an MNE acquires a local company with local trademarks and other intangibles. The MNE then transfers the intangibles out to another group member in a low or no tax (and often opaque) jurisdiction. It then charges royalties to the African MNE taxpayer, which erodes the taxable profits of that taxpayer

ATAF has observed how difficult and technical it is to audit multinational firms with massive resources. Revenue authority auditors are often unable to resolve cases or fully understand the impacts of transfer pricing. Many resource-rich countries across Africa are currently faced with the challenge of exported commodities that are undervalued by MNE taxpayers (ATAF, 2014). ATAF has always stressed the need to develop the auditing capacity of member countries in the area of transfer pricing.

Capacity building in transfer pricing prevention

Building staff capacity has enabled ATO tax administrators to stay abreast of the changes constantly made to the OECD Transfer Pricing Guidelines. ATAF workshops have, for example, grounded Botswana's revenue authority staff in the skills required to effectively handle transactions that involve cross border and intra-group transactions. Similarly, countries like Kenya, Tanzania, Zambia and Zimbabwe have run staff capacity-building programmes in:

- international taxation,
- transfer pricing issues,
- forensic auditing,
- the auditing of related transactions,
- Inter-party transactions.

Further action by ATO revenue authorities to stem the risks related to transfer pricing involves: audits and investigations to detect inter-group pricing transfers of intellectual property, tangible goods, services, and loans (or other financing transactions) and counteract the shifting of profits to other jurisdictions.

Box 5.6

Country Programmes (EOI and TP)

In the past 9 months, ATAF has completed a total of 24 missions in 13 countries. ATAF is also engaged in 16 countries; 10 in transfer pricing (TP) and 6 in exchange of information (EOI). The transfer pricing country programmes delivered in Botswana, Egypt, Kenya, Liberia, Nigeria, Malawi, Rwanda, Zambia, Zimbabwe and Uganda. Meanwhile, the programmes on EOI take place in Botswana, Cameroon, Lesotho, Senegal, Swaziland and Togo. The focus during this period has largely been on transfer pricing as the exchange of information roll out of activities and missions commences in the second half of 2017. The teams on the missions have been assisting ATAF's member countries to reform their legislation and regulations to address any transfer pricing issues or facilitate their exchange of information, while assisting them with risk assessment and audit training.

Through ATAF's technical assistance in 2017, an East African country reported its first ever revenue collection from a transfer pricing audit, nearly USD 10 million, while a Southern African country has collected over USD 110 million from audits in two years.

ATAF Suggested TPL

ATAF's *Suggested Approach to Drafting Transfer Pricing Legislation* seeks to offer its members guidance and clarity.

The *Suggested Approach to Drafting Transfer Pricing Legislation* ATAF Suggested TPL provides ATAF members with very effective tools for addressing commodity pricing risks to their tax base, raising more tax from profits and cutting tax losses. It is designed to prevent MNEs artificially shifting profits out of a country's jurisdiction and to level the playing field between MNEs and independent enterprises doing business within a country.

ATO countries like Botswana, Kenya, Liberia, and Nigeria have used the ATAF Suggested TPL. It has already had significant impacts, with reported increases in tax revenue in Kenya and Botswana, for example.

Intangible transactions and multi-tiered services account for a high percentage of MNEs' commercial transactions, which makes analysing and understanding such transactions resource-intensive and complex (UN, 2015). ATO countries have responded accordingly, drawing on tools from the ATAF Suggested TPL:

- **Transfer pricing regulation**

ATO countries like Cameroon, Kenya, Nigeria, Swaziland, Seychelles, South Africa, Tanzania, Zambia and Zimbabwe have drawn up transfer pricing rules to minimize risk related to transfer pricing. Cameroon, Nigeria, Swaziland and Tanzania have gone on to put in place transfer pricing units to handle international transactions, while Kenya has a dedicated team tackling transfer pricing. Staff allocated to units are experienced and able to deal with complex, specialised operations involved in the banking, insurance, energy, telecommunications, e-commerce and mining sectors (ATAF, 2012).

- **Anti-income-splitting rules**

Some ATO countries, e.g. Seychelles, have introduced anti-income splitting rules to prevent the shifting or splitting of income with other individuals or entities in an attempt to pay less tax. The risk is greatest with intangibles given the complexity of ascertaining the jurisdiction in which the value of the good or service was created. For example, personal services income (PSI) is income which individuals produce chiefly as a result of their personal skill or efforts.

- **Redefining Permanent Establishment**

Permanent establishment (PE) is a fixed place of business which generally gives rise to income or value-added tax liability in a particular jurisdiction. Technology advances in the digital economy (online payment, advertising, marketing, banking,

etc.) enable companies to do business in different jurisdictions with no need to be there. The digital economy and e-commerce are a risk to untapped revenue. In response, Zambia and other ATO countries changed their definitions of PE to prevent any artificial avoidance of permanent establishment status in relation to base erosion and profit shifting through commissionaire arrangements or specific activity exemptions. Redefining PE has been key element in responding to the issue of attributing profits to permanent establishments.

Exchange of information and the AMATM

ATO countries need to share information on the economic activities of MNEs as part of efforts to improve domestic revenue mobilization and governance and to curb illicit financial outflows. Since most MNEs take advantage of weak systems to evade taxes, some African countries have put in place legal frameworks which include the exchange of information through DTAs and the Africa Initiative, a joint effort of ATAF, the OECD and other members of the Global Forum on Transparency and Exchange of Information for Tax Purposes. In Africa, ATAF members came together in 2014 to sign a mutual assistance and tax information sharing agreement (Box 5.7).

If AMATM signatory countries are to benefit from the agreement and other instruments, they should adopt the standard on the automatic exchange of information (AEOI) and set up AEOI units in their revenue authorities. AEOI units would be a boon in ATO countries as they strive to track the transactions of MNEs involved in cross-border transactions and illicit financial flows.

It is crucial that RAs share information from other ministries and agencies with their own departments and divisions which should, in turn, put into competent, effective use. Tax administrations should have a documented process of data collection, analysis and dissemination in order to make effective use of information exchanged through DTAs (OECD, 2009).

Box 5.7

ATAF Agreement on Mutual Assistance in Tax Matters (AMATM)

In a bid to avert and stem the tide of tax and capital outflow, the African Tax Administration Forum (ATAF) member countries established a legal basis upon which their tax authorities would assist one another and exchange information in tax collection and other tax matters. The Agreement on Mutual Assistance in Tax Matters (AMATM) also promotes increased cooperation among tax authorities to combat tax avoidance and evasion.

The AMATM could be a key instrument in the fight against BEPS in Africa. For it be effective, five countries must ratify it. Four have signed and ratified – Lesotho, Mozambique, South Africa and Uganda. On 11 January 2017, Nigeria signed, making it the fifth country required to make the AMTAM operational. On 10 March, 2017, Liberia sent the signed agreement. Botswana, Ghana, Malawi, and Swaziland signed statements of intent in Durban at ATAF's 4th General Assembly in October 2016.

The AMATM applies to all income and capital taxes and to taxes on goods and services imposed by, or on behalf of, the contracting parties. ATAF urges members to sign the Agreement on Mutual Assistance in Tax Matters in order to strengthen mutual cooperation.

Source: ATAF (2016)

5.6 Managing tax registers and expanding the tax base

Taxpayer registration is the building block of tax administration on which hinge all other processes and procedures – filing, payment, assessment, collection, auditing, reporting to key stakeholders, etc. (TADAT, 2015).

However, most ATO countries grapple with taxpayers' registers that are incomplete and/or inaccurate with, for example, the wrong ISIC

codes or addresses. One reason is that national identification numbers are seldom connected to tax and other income- and asset-related systems such as bank accounts and land and business registers. Moreover, RAs have only meagre resources for post-registration verification, while taxpayers widely fail to update registration files. (Box 5.9 highlights Liberia's successful efforts to register small taxpayers.)

The upshot is that RAs struggle to identify eligible taxpayers and ensure that those who are registered pay the right tax. In order to improve compliance among taxpayers, ATO revenue authorities first need to improve the quality of the data in their registers.

How ATO countries ensure quality tax registers

As urged to by TADAT (2015), RAs should seek to ensure that all businesses, entities and individuals required to register do so. It is revealing to compare TADAT's efficient registration recommendations (Box 5.8) with ATO country practices (Table 5.4)

All ATO countries have taken action to improve the quality of their registration procedures and their tax registers (Table 5.4), though not always in accordance with TADAT's recommendations.

Box 5.8

IT-based taxpayer registration for a quality register – a TADAT good practice

Taxpayer databases should have accurate information that is regularly updated. To that end, taxpayer registration should be an ICT-based online procedure that:

- Allocates a unique Taxpayer Identification Number (TIN) to each registered taxpayer.
- Automatically checks and validates TINs to prevent registration being duplicated.
- Follows up related parties so that the revenue authority can check if the newly registering taxpayer is already registered – as the director of another company, for example.
- Automatically updates the taxpayer database on each new registration.
- Generates statistics on taxpayers by type, location and economic activity for the purpose of decision-making.
- Interfaces with other administrative procedures (e.g. filing or enforced payment) to streamline the management of arrears and nil/non-filers
- Verifies and crosschecks the accuracy of information held in the registration database against third-party sources such as government agencies.
- Gives front office staff a comprehensive taxpayer profile that covers all the core taxes registered, filed and paid

Using the registration database, a revenue authority should be able to generate information like the number of active business or individual taxpayers, the number of dormant taxpayers, and the number of nil or non-filers.

Source: TADAT (2015)

Table 5.4: ATO taxpayer registration procedures and practices

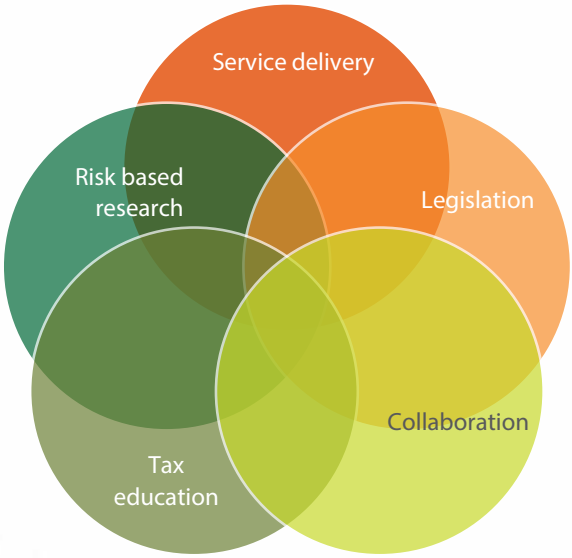
Countries have...	ATO country examples
...documented and standardised registration.	Policy, in Rwanda, for example, spells out registration requirements such as whether a registering taxpayer is active, dormant or inactive.
...introduced checks in registration.	Zambia's registration system has a built-in cross-check process that validates or red-flags inconsistencies to ensure that all key taxpayer details are entered at the initial stage of registration.
...implemented register monitoring systems	Systems in Cameroon, Swaziland and Zambia generate registration statistics on active and inactive taxpayers and non-filers by sector.
...upgraded to automated, digitised registration	Cameroon has upgraded its system so that, on registration, it automatically checks whether the taxpayer registering has filed returns or paid taxes in order to identify nil filers and dormant taxpayers. A further upgrade to registering is the use of biometrics for foolproof identification of taxpayers.
...introduced register clean-ups	Botswana, the Gambia, Lesotho, Mauritius, Rwanda, Seychelles, South Africa, Uganda and Zimbabwe clean up their tax registers on a routine basis. Clean–up involves removing dormant taxpayers and updating taxpayers' details, returns filed status, changes in large and medium taxpayers' situations and economic activity classification.
...assigned door-to-door relationship managers	The RAs of Gambia and Nigeria assign officers responsibility for the case files of certain taxpayers. Officers go door-to-door to check in person the information provided in registers and tax returns.
...created Interfaces and Intensified data mining	Nigeria's and Senegal's revenue authorities interface their systems with business registers and external stakeholder systems to ensure consistency in taxpayer segmentation.
...introduced internal auditing of taxpayer data.	In Senegal, Uganda and Tanzania internal auditors (from domestic tax and compliance departments) check, whenever they conduct an audit, that taxpayer information is up-to-date. Internal audits in a number of countries also check whether tax registration policy conforms to data processing standards and the International Standard Industrial Classification (ISIC).

Expanding the tax register to broaden the tax base

Developing countries have less efficient tax revenues collection than their developed peers with an average tax-to-GDP ratio of under 15% (IMF, 2016) or 18% (ATO average). African countries run budget deficits of some 30% of GDP and generally finance their expenditure through foreign aid. Deficits result from dependency on trade and tax administration operational inefficiencies and lack of capacity (Cheeseman and Griffiths, 2005). In a word, misalignment between tax and economic structures leads to narrow tax bases (Mascagni, Moore and McCluskey, 2014). African countries must expand their tax bases so that they are in a position to forecast revenue collection and develop long-term fiscal plans.

ATO countries have sought to expand their tax bases through action in five broad areas: service delivery, legislation, collaboration, tax education, and risk-based research.

Figure 5.4: ATO countries' efforts to expand their tax bases fall into five overlapping areas



Service delivery

Delivering services essentially involves bringing services closer to the taxpayers – see "Education and Outreach" in Section 5.3, which cites mobile education units, BMSs and field visits as examples of outreach.

Further instances include the decentralization of revenue collection services to branch offices. The Gambia, for instance, has opened branch offices across the country with staff assigned to specific taxpayers in the informal sector.

Elsewhere, Nigeria and South Africa are among the ATO countries that have implemented business support programmes in the regions to help taxpayers keep proper records, register for TINs and pay the appropriate amount of tax (or as near as possible). South Africa also operates bulk online registration at workplaces where employers register all their employees.

Legislating to broaden the tax base

To stem outflows of revenue, ATO governments like Botswana, Tanzania and others have reformed their tax laws to expand tax registers, protect public revenues by closing loopholes in the law, raise tax rates in some areas, and improve revenue collection.

To tax informal business more effectively, ATO countries have introduced robust regulatory frameworks, while monitoring markets and businesses' locations to contain informal activities. Cameroon, Kenya, Tanzania, Zimbabwe and Uganda have all taken such action.

Reforming VAT to prevent more revenue leakage

ATO countries have been reforming legislation to reduce the VAT and corporate income tax exemptions they had offered in sectors such as agriculture, health, education, financial services and to multinational enterprises. They had introduced them to attract investment, generate employment

and keep prices affordable for consumers. The tax breaks and incentives had the opposite effect, however. A great deal of revenue was foregone, the structure of VAT grew distorted, the VAT gap widened, and enforcement and compliance became complicated, so causing revenue leakage. The already narrow tax base was further squeezed, giving rise to zero or low effective tax rates and revenue losses (ATAF, 2012).

In response, countries like Tanzania and Uganda have enacted reforms that cut back or abolish such VAT and income tax exemptions as allowable deductions, capital deductions and carry-forward losses afforded to certain companies in certain sectors.

Increasing numbers of withholding tax agents

ATO countries also, of course, seek to raise revenue. One way is by increasing the number of officially approved withholding tax agents. Withholding tax is an advance income tax levied at source on the provision of services by authorized agents and/or on the importation of goods and services by revenue authorities. The amount is withheld by the party making the payment (the payer) to another (the payee) and paid to the RA. Expanding the list of official withholding tax agents makes more products and services taxable, so increasing the number of potential taxpayers and amount of possible income through faster, simpler collection.

Collaborating to raise revenue

One-stop shops

ATO countries have collaborated with government agencies to operate joint one-stop shops (OSS) for business and tax registration. Tax administration and local authorities work together to register, grant licenses, assess and collect taxes. Taxpayers in Kenya, Rwanda, Tanzania, Uganda and Zambia can now register the names of their businesses, acquire trade licenses and register for taxes at the same window, which also electronically updates the tax register with the names of the taxpayers newly issued with business licences.

Sharing information with third-party systems

Another example of collaboration enabled by automated information systems comes from ATO countries like the Gambia, Mauritius, Nigeria, Seychelles and Zimbabwe. There, RAs have built interfaces or integrated with government systems and systems in other critical areas like the financial sector and so enjoy online access to third-party information. The integrated system automatically compares domestic tax returns and payments with export and import data to detect underreporting. RAs may then identify unregistered taxpayers doing business with registered taxpayers and any sales or income they may have failed to declare.

Similarly, the Seychelles Revenue Commission receives electronic notifications and updates of new business licensees from the Seychelles licensing body, which it immediately registers.

MOUs on information sharing

Collaboration also comes in the shape of memorandums of understating (MOUs) (see Table 5.3). Rwanda, Swaziland and Liberia have signed MOUs with key stakeholders (e.g. government agencies) on information sharing. To meet their evolving needs, though, RAs should regularly update MOUs and sign data exchange agreements with new institutions to minimize underreporting and any possibly unregistered taxpayers.

Implementation of risk-based studies in economic sectors to uncover untaxed areas

ATO countries like Uganda and Tanzania have conducted sector-based research into the administrative and policy issues affecting economics sectors. The objective is to pinpoint good practices that can be harnessed to prevent revenue leakage resulting from unpaid taxes.

Uganda's revenue agency, for example, ran a study into high net-worth individuals based on identified risks. As a result of its findings, the URA established an HNWI unit in September 2015 which had collected USD 5.0 million by the end of financial year 2015/16.

Tax education

As stressed throughout this edition of the *African Tax Outlook*, people who have a grasp of the why's and wherefores of taxation tend to be more compliant. To educate taxpayers and raise their awareness, ATO countries run schemes such as tax clinics, seminars, workshops, talk shows and different types of tax and tax administration services (see "Education and Outreach" in Section 5.3 and Chapter 7). Botswana, Gambia, Kenya, Lesotho, Liberia, Mozambique, Nigeria, Swaziland, Uganda and Zimbabwe have all run campaigns to raise awareness among taxpayers in the informal sector on registration requirements and record-keeping.

Box 5.9

Good practice from Liberia on registering small and informal sector businesses.

One of the current challenges of the Liberia Revenue Authority (LRA) is locating and identifying small businesses and petty traders (as most businesses in the informal sector are called). Indeed, there is no appropriate zoning system in the country, which affects the integrity of the information on business locations into Standard Integrated Government Tax Administration *System* (SIGTAS). The physical addresses recorded in the SIGTAS system are vague and there is little or no updating after registration. And because small businesses are so mobile, the LRA often struggles to find them.

Previous efforts to overcome the challenge involved field exercises using compliance checklists and interviews with taxpayers, then uploading or inputting the data supplied into SIGTAS. Such a manual process, however, was that it was prone to human error and to loss, as not all the data would be updated. Moreover, there were often delays between field visits and the production of reports.

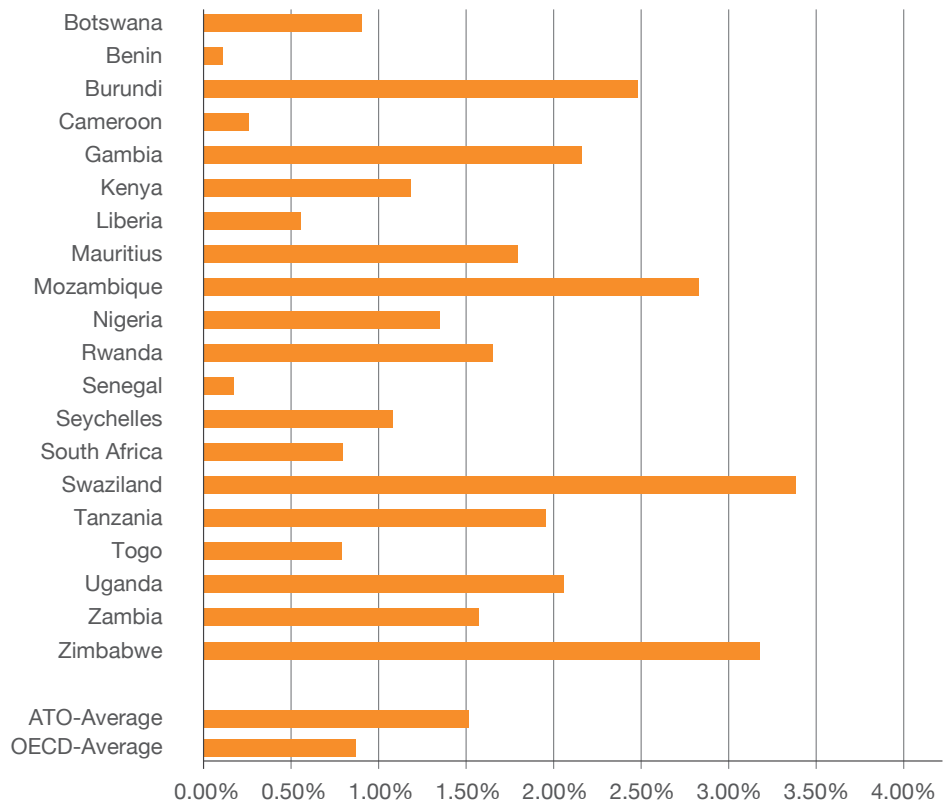
To address the issue, the LRA used Kobo, a data collection toolbox supported by mobile phones, phablets and tablets. It uploaded taxpayer-specific information – like location, type of business activity, ownership, compliance status – to an online KoboCollect platform from where it is downloaded into Excel or PDF format. The LRA has reaped the following benefits from using Kobo as a mobile tool to register small and informal businesses:

- no paperwork
- no more errors from manual data entry
- much shorter times between data collection and the field report
- easier data analysis and management as reports, downloaded in Excel format, are easily edited for different purposes.

5.7 The cost of tax administration

The cost of tax administration is measured as the ratio of recurrent operating costs to net revenue collected. It is an indicator of the efficiency of revenue authorities, gauging their institutional set-ups, scope of activities, performance measurement systems and different administration strategies. International administrative costs vary widely, with the richest countries showing the lowest operating costs relative to revenue collected and the poorest the highest (Gallagher, 2004). However, there is also considerable variation between countries at similar levels of development.

Figure 5.5: *Costs of tax administration relative to revenue in ATO countries, average, 2011-15*



The OECD average cost of administration is 0.9% of revenue, compared to the ATO average of 1.5%. The lowest ratio among OECD countries is 0.4% and the highest 1.4%, while among the ATO countries they are 0.1% and 3.4%, respectively.

The cost of tax administration varies substantially across ATO countries due to differences in levels of efficiency. Burundi, Gambia, Mozambique, Swaziland, Uganda, Tanzania and Zimbabwe recorded tax administration costs that were over 2% of revenue. In Swaziland, by contrast, it was far higher, at 4.2%. One possible explanation for high administration costs could be the very extensive investments in reforms and modernization which have not yet paid off.

The cost of tax administration is less than 0.5% in Benin, Cameroon and Senegal. Such low levels can be attributed to the fact the tax departments in the latter three countries are within the finance ministries, which limits their recruitment and budgetary scope.

Revenue bodies are constantly lobbying for funds from the ministries of finance and development partners in order to offset financing shortfalls and maximize revenue collection. Indeed, ATO revenue authorities have identified limited funding for priority action as a corporate risk (see Section 5.8). The fact of the matter is that resources will never be enough to conduct effective domestic revenue mobilisation.

The Kenya Revenue Authority (KRA) nevertheless sought to bring about a culture change though a concept known as "Hidden Treasures Hunt.". Hidden Treasure's ultimate objective is to expand the tax base by reducing the cost of doing business and boosting efficiency.

Box 5.10

Hidden treasure and costly money – best practice from Kenya

The Hidden Treasure concept sought to eliminate wasteful activity from work processes as part of KRA's effort to strengthen effective service delivery. It aimed at cost reduction by emphasising time saving, removing duplication, easing bureaucracy, and simplifying procedures.

KRA organised three "treasure hunts" that involved "red", "blue" and "green" money. The aim of the game was to spend more green money so that less and less red and blue money would be spent.

"Red money" denoted unnecessary costs generated by tax administration inefficiencies such as waste, waiting for meetings to start, correcting mistakes, double-checking, waiting for input, recruiting the wrong people, managing staff poorly (so causing high turnover), and handling complaints but making no improvement.

"Blue money" represented the indirect costs of red money. They included declining reputation, difficulties attracting the right people, mediocrity, and low motivation.

"Green money" was the cost of preventing the spending of red money. It included all kinds of action such as leading "right from the start", recruiting the right people, promoting the right leaders, making clear agreements and assigning clear roles, rewarding the right behaviour, and praising the right hero.

Source: ATAF Innovation Awards 2016.

5.8 Enterprise risk management and the fight against corruption

Enterprise-wide risk management (ERM) is an organization-wide set of methods and continuous processes for addressing and assessing the risks that prevent a revenue authority from achieving its objectives. It should be integrated into all processes.

A well-integrated ERM system not only mitigates risks, it improves resource allocation, encourages the fair and equal treatment of taxpayers, and makes the auditing of non-compliant taxpayers more efficient (TADAT, 2015). Thirteen of the 21 ATO countries have enterprise-wide risk policies in place. They are Burundi, Gambia, Kenya, Liberia, Lesotho, Mauritius, Nigeria, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

ERM involves constantly seeking opportunities to mitigate all kinds of risks at all levels – from the day-to-day running of an organization to strategic thinking and operations. First, though, if ERM is to be effective, RAs must have in place:

- An ERM policy to guide the risk management process and lend impetus and direction.
- An ERM framework that sets out:
  - the operational "how",
  - who does what in procedures,
  - the roles of ERM committees and units,
  - the appetite for risk and tolerance levels,
  - the threshold for likelihood (high, medium, low) and consequence (high, medium and low).
- The ERM manual, which tells staff what is expected of them. It should also provide them with day-to-day guidance and performance benchmarks.

Ultimately, however, organizational performance can be improved only when:

- ERM is embedded in all processes and activities
- when risks to revenue and tax administration operations are systematically identified and dealt with (TADAT, 2015).

To that end risk registers should be in place.

Risk registers are tools – at operational, tactical and corporate levels – designed to monitor and assess risks and enable RAs to gradually manage them and develop proactive measures. They generally include the name and nature of the risk identified, its possible consequences or opportunities, the risk owner, and action taken.

Revenue authorities from Kenya, Liberia, Lesotho, Mauritius, Nigeria, Rwanda, South Africa, Swaziland, Seychelles, Tanzania, Uganda, Zambia and Zimbabwe all have corporate risk registers in place which prioritize the risks affecting both operational and strategic objectives.

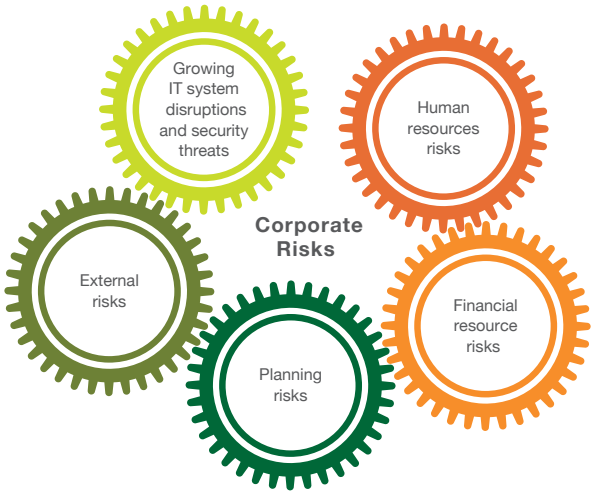
Corporate risk

Corporate risks are the top strategic risks that may affect a revenue authority. They are ranked against RAs' enterprise-wide risk management guidelines.

Revenue authorities do not have enough resources or the capacity to verify every taxpayer's liabilities. They consequently have no choice but to embed risk management practices in all their processes (TADAT, 2015).

During data collection for this edition of the *African Tax Outlook*, RAs in the ATO countries that have embraced risk management were requested to list the top 5 corporate risks that affected their revenue and tax administration. They were: IT system disruptions and security threats, followed by risks related to human resources, financial resources, external and planning.

Figure 5.6: *The five biggest corporate risks that ATO countries must address*



Growing IT system disruptions and security threats

Revenue administration relies heavily on efficient, integrated, modern and secure ICT systems. However, the RAs of ATO countries experience disruptions such as power failures, system overloads and unreliable support from service providers. Others have been on the receiving end of security threats.

The consequence is lengthy downtime, which erodes the confidence of taxpayers, tarnishes a revenue authority's public image, and can have a devastating financial impact on tax administration. Uganda has experienced system failures, while South Africa and Zambia have faced security threats, including cybercrime.

Human resources risks

Revenue authorities are losing skilled, competent staff to better paying local and international organisations, to accountancy firms, Audit and Tax consulting firms, and to corporate departments in big private companies.

The nature of the risk is the inability to attract and retain competent, experienced staff. Despite efforts to train personnel in the required skills, the consequences are:

- A dwindling knowledge base identified, for example, in the RAs of Rwanda, Tanzania and Uganda.
- Staffing levels that are not equal to the fast-changing business environment and too low to effectively collect revenue. It is likely that tax policy and strategic initiatives may be affected, a risk identified in Kenya and Uganda.
- As staff turnover rises, RAs increasingly lack skilled, competent staff. It takes time to skill up new recruits, which makes succession strategies difficult. Critical functions like those relating to corporate strategy, revenue collection and stakeholder relations are sorely affected, as is public image. Such has been the experience of the revenue authorities in South Africa, Kenya and Liberia.

According to ATAF (2012), ATO countries lack skilled, experienced staff to identify and analyse complex transfer pricing cases.

Financial resource risks

Limited budget allocations rob key programmes of funding, thus affecting both tax administration efficiency and revenue yield. Few revenue authorities are entitled to keep percentages of revenue collected. Instead they rely on government allocations. The resources approved by parliament and finance ministries are seldom adequate – hence shortfalls in funds for operational costs and capital investment, particularly in priority areas. The consequence? RAs struggle to collect revenue, as in Liberia and Uganda.

Planning risks

RAs must transition to the new operating models of integrated tax administration. Some struggle to do so, while others resist change. There is therefore a risk associated with change management, identified in Nigeria, South Africa and Zambia.

Manual registration, filing and payment procedures involve person-to-person interaction between tax officials and taxpayers, which gives rise to opportunities for corruption. RAs that work manually struggle to spot non-compliance as they have no access to taxpayer profiles, nor do they interface with other government information systems. Information, auditing and revenue collection, too, are affected (Jimenez, 2013).

Poor service delivery and corruption prompts dim public perception. Corruption steals revenue, wastes resources, skews tax systems and reduces trust. The increase in corruption scandals bedevilling most African countries dampens tax morale in the business community. Tax compliance and revenue collection suffer. This risk was identified in Kenya, Mauritius, Nigeria, South Africa and Zimbabwe. For example, the 2015 second-half client satisfaction survey in Zimbabwe showed that 62.5% were satisfied with service delivery – a rate that fell short of ZIMRA's target of 65%.

External risks

If there is growth in the informal sector and activity is not taxed, then substantial revenue may be foregone. By their very nature – mobile, small scale, cash-based and unwilling to keep business records – informal businesses escape registration. This risk was identified in Seychelles, Uganda and Zambia which reported struggling in that regard.

Public expenditure requirements grow as governments seek to deliver public services and meet development goals. To fund their spending, governments set RAs unrealistic revenue-raising objectives that are disconnected from the real economy or tax base. Pressure mounts, therefore, on revenue agencies in Lesotho, Mauritius, South Africa and Zimbabwe. Tax authorities and the Ministry of Finance, the National Treasury, and the Reserve Bank need to come together to set realistic revenue targets (ATAF, 2012).

Political instability creates anxiety in the business community and takes its toll of revenue from taxation and duties on imports and export. Unrest and political tension also tend to foster a poor taxpaying culture – a risk identified in Lesotho, ahead of the general election in 2017.

Effective revenue administration requires an enabling legal framework and political support. A lack of political will and leadership in ATO countries, as in Lesotho, has hindered comprehensive tax policy and administration reform. It has proved a stumbling block, especially when it comes to taxing informal businesses and workers (who are seen primarily as voters) and tackling bottlenecks in the financial sector.

Recommendations for managing corporate risk

Risk management in revenue administration requires continuous improvement to meet business requirements. It must be rooted in business as a tool that helps the continuous creation, feeding, and delivery of stakeholder value. And to match and move with business dynamics, it should be built into tax administration operations.

Box 5.11

Requirements for an ERM that operates effectively

- Ownership and sponsorship from the executive: risk management should be the norm in tax administration and be built into all operations and processes.
- Functional risk management committee: risk management committees should be set up. They should then clearly assign roles and responsibilities at every level of the RA, particularly in tax and customs compliance, enterprise risk management and institutional risk. Risk management committees have worked successfully in South Africa and Rwanda.
- Risk management working documents: they include ERM policy document, ERM strategic framework, ERM manual and risk register.
- Capacity building: they entail continuous ERM training and awareness raising for ERM staff and all other levels of staff and senior management.
- Collection tools and data sources: Risk management requires access to sufficient, accurate, timely data. Data (both raw and intelligence) informs the identification, assessment and prioritisation of risk.
- Formal communication and sharing of feedback: since risk may be identified at all levels, management should provide staff with mutual feedback across operational, tactical and strategic levels.
- Automation of risk management: RAs should document their business processes, then procure connected, IT-based risk management systems that meet their needs.

Source: IMF East AFRITAC (2016)

Compliance risk management

Compliance risks arise when revenue is lost because businesses and individuals fail to meet registration, filing, payment and reporting obligations (TADAT, 2015). Most ATO countries have automated registration, filing and payment, yet compliance procedures and processes are still largely manual and complicated. RAs in ATO countries wrestle with a wide range of compliance risks.

Transit-related compliance risks

Smuggling

Smuggling across borders is one the largest sources of capital flight in Africa. It is worsened by the large underground economy and porous borders. The risk is particularly acute in Lesotho, Liberia, Mauritius, Uganda, Zimbabwe and Zambia.

Closely tied to smuggling is trade misinvoicing. It moves money illicitly across borders and is the most common form of misreporting commercial transactions. It stems from corruption, poor access to information, inadequate risk detection capacity, and is often part of capital flight networks.

The consequences are lost opportunities, lost jobs, and lost potential. Kenya and Zimbabwe both identified the risk, with South Africa, too, badly affected by illicit financial flows.

Under declaration

Under declaring goods and taxes generally involves manipulating customs documentation to misrepresent the value, quantity or quality of goods being imported or exported. The opportunity often arises from the poor professionalism of clearing agents. The root causes, though, are lack of integrity, outdated valuation controls and the inability to detect risk.

The result is a great deal of lost revenue. Kenya, Liberia and Zimbabwe have all identified the under declaration of goods and taxes as a major risk.

Trade mispricing

Trade mispricing – false information about prices, quantities or qualities on export and import documents – can be a means of tax evasion and a channel for the movement of illicit funds. Trade mispricing spans a wide range of practices – from overstating import costs to understating export revenues. In contrast to transfer pricing (see "Transfer pricing and the ATAF suggested TPL" above), trade mispricing also involves transactions between formally unrelated parties. The balance is paid into a trading partner's account (usually in a foreign jurisdiction).

Transit fraud

As for transit fraud, it is one of the greatest challenge in most ATO countries. Transit is movement of goods from one customs control area to another one in the same or another country. It offers opportunities for fraud such as the dumping of cargo to divert funds.

Electronic cargo tracking systems (ECTSs) are operational in very few ATO countries, so The dumping challenge has spread unfettered. The rise in volumes of trade across African borders has not been matched by an increase in the use of tracking tools, which has blunted the impact of revenue administration compliance measures. Both Kenya and Uganda identified the transit fraud risk.

Arrears risk

Arrears are a past due debt or an unfulfilled tax obligation. Though some build up from the delayed payment of taxes, almost 80% are audit-detected. The self-assessment systems introduced in all ATO countries require taxpayers and agents to assess their liabilities and pay any tax arising therefrom. However, some taxpayers file returns but fail to remit payment, which leads to penalties and interests. Others do not file at all, often because, contrary to the assumption on which self-assessment is based, taxpayers do not have the knowledge or skill to fulfil their legal obligations.

Furthermore, because the ratio of tax administration staff to taxpayers, is so low, there may be no audits for long periods of time. As a result, taxpayers struggle even more to comply and are liable to fines and accrued interest. Paying off outstanding tax by instalment further complicates recovery, since interest builds up. For all those reasons, there is an upward trend in the arrears portfolios of most revenue agencies.

The risk of accruing arrears was high in Nigeria and Rwanda, as well as in Zimbabwe, where uncollected debts accounted for 52.9% of the annual target, compared to the 30% expected.

Tax avoidance – established and emerging schemes

Intergroup transactions are an MNE tax avoidance practice. Many MNEs in Africa enjoy income tax deductions for service fees and royalties paid by African-based companies to foreign affiliates. This is another form of tax avoidance that affects revenue mobilization in ATO countries like Seychelles and Uganda.

Among emerging tax avoidance schemes, some MNEs active in Africa have recently been implicated in shifting profits through abusive transfer pricing and other aggressive tax planning schemes. They dump their costs in high-tax jurisdictions – especially in Africa – to be deducted against tax, then shift their profits to tax havens, where they pay little or no tax.

ATO countries like Lesotho, South Africa, Rwanda, Seychelles, Tanzania and Zambia grapple with tax avoidance schemes. According to the OECD (2009), some of the most widespread are:

- High-income individuals who claim losses, then deduct considerable sums on the grounds of capital allowances, depreciations and research and development allowances.
- Highly paid employees and professionals who convert employment income or remuneration into less heavily taxed capital gains or non-taxable income, such as loans or life insurance policies.
- Entrepreneurs who create tax-deductible losses by minimising tax on capital gains resulting from the sale of a business, or divert private assets through business entities to obtain tax relief on expenditure and depreciation.

How ATO revenue authorities mitigate corporate and compliance risk

ATO countries have rolled out programmes and measures to mitigate risk and enable continuous improvement at all levels of operations (Table 5.5). They should be compared with the IMF's most risk-free compliance practices (Box 5.12).

Table 5.5: *ATO countries' efforts to mitigate corporate and compliance risks*

ATO revenue authorities have...	Examples by country
...introduced comprehensive strategic information plans	Uganda has rolled out a plan to address issues of disaster, safeguard the integrity of tax data, and ensure continuity of service to taxpayers.
...improved refunding and investigation of fraudulent refund claims	SARS has enhanced its risk engines to ensure that only legitimate refunds are processed. It has also intensified its focus on fraudulent claims, VAT registration, and accurate taxpayer accounts. Zambia has set up a tax refund fraud unit, while Tanzania has also reviewed and enhanced VAT refunding.
…strengthened human resources to keep staff and upskilled them in response to the brain drain	Uganda has developed comprehensive staff retention plans by drawing up clear job descriptions and career development plans, building capacity and improving social security benefits. Tanzania, for example, has developed succession policies to mitigate the consequences of losing skills, knowledge and expertise to private business. South Africa, for its part, has strengthened the capacity and capability of large taxpayer auditors to equip them for the complexities of the segment and help them resolve issues of BEPS and transfer pricing.
…enforced border surveillance more effectively in the fight against smuggling	Zimbabwe has strengthened its teams and stepped up post-clearance audits to minimise smuggling and undervaluation. South Africa is strengthening its risk-detection capability. It continues to target the entire tobacco smuggling chain through closer surveillance of warehouses and enhanced excise systems. SARS also works with other government agencies to identify cross-border risks. In Liberia, the LRA has established a unit to combat smuggling and gather intelligence. It has also introduced ASYCUDA system to identify commodities prone to weight and volume manipulation.
...strengthened arrears management	South Africa has built the capacity to deal with stocks of debt and aged debt. It has also introduced differentiated reporting to separate collectable and disputed debt and prioritise focus in each category.
...fostered compliance through taxpayer education	Zambia has intensified taxpayer education. Taxpayers have grasped that taxation is designed to fund public services and are more willing to pay.
...sought funding from donors	RAs experience funding shortfalls and many ATO governments have large budget deficits. The tax effort requires external funding to avoid raising tax rates given the limited tax base. Lesotho seeks donor support.
...has engaged with stakeholders	Despite widespread non-compliance among Africa's taxpayers – particularly small and micro enterprises – tax officials have engaged with taxpaying stakeholders through budget conferences, breakfast meetings, and awareness workshops, for example. Lesotho has sought to raise the tax policy awareness of the Minister of Finance and Parliament's Economic Development Cluster Committee on tax policy. In South Africa, agencies across government cooperate in the fight against tax crime.
...used third-party data for intelligence gathering	ATO RAs increasingly handle big data. Many – e.g. Nigeria, South Africa and Mauritius – have developed systems and linkages with other government bodies to harmonise information and improve intelligence gathering as part of compliance management.

Box 5.12

Good practice recommendation from the IMF: implementing a holistic, structured and systematic compliance approach

A model compliance improvement plan should:

- cover all taxpayer segments – individuals, micro and small taxpayers, medium taxpayers, large taxpayers, non-profit organizations, government organizations, HNWIs;
- illustrate clearly documented procedures for assessing and prioritising all types of compliance risks;
- outline the most significant compliance risks for each taxpayer segment in a single document;
- explain how the revenue authority will respond to those risks and record its action for each taxpayer segment in the future;
- summarise the number of taxpayers, the nature of their business, total tax contributions, number of employees, and structural features of each taxpayer segment or sector;
- categorise taxpayers as compliant, partially compliant or non-compliant and describe the risk mitigation strategies and action that address the underlying drivers of the category concerned;
- be built on industry sectors and locations to enable the monitoring of sector-related tax compliance behaviours and so identify economic sectors that show high non-compliance and low compliance and undertake requisite measures.

Source: TADAT (2015)

As the IMF emphasises, the objective of tax administration is compliance. To that end, a holistic, carefully structured, systematic approach that builds a trustful relationship with taxpayers is necessary. RAs in the ATO countries must facilitate compliance by fostering an environment in which straightforward administrative procedures, guidance for taxpayers, and a variety of incentives help taxpayers meet their tax obligations as fully as possible.

5.9 Integrity drives to reduce corruption

Tax administrations are ranked as one of the most corrupt institutions in Africa. Taxation and customs come third for corruption after government procurement and land administration (Business Anti-corruption, 2016). Corruption costs billions of dollar. Globally, it is estimated that 2% of GDP is lost to corruption (IMF, 2016).

Related consequences are biased tax systems, low tax morale, poor services for people unable to afford bribes, and the risk of political instability. And governments are forced to seek other ways of raising revenue to offset shortfalls especially in health, education and infrastructure (Purohit, 2007).

Corruption in tax administration takes the form of bribery and collusion with taxpayers to defraud or cheat. Taxpayers may underdeclare in their tax returns and/or undervalue duty on goods. Staff who deal directly with taxpayers have been dismissed and prosecuted for abuse of office. For example, 35 staff were dismissed from the Kenya Revenue Authority in late 2016 for corruption stretching back to 2013 (Herbling, 2016). Ideally, though, matters do not come to such a pass. Tax authorities should:

- take action upstream of recruitment;
- educate and foster a culture of professionalism, fairness, accountability and integrity;
- monitor, detect and investigate.

Only then might it be necessary to apply sanctions.

Upstream intervention

Stringent vetting throughout recruitment helps ensure that staff have the high standards so critical to the whole integrity-building process. Revenue authorities have developed recruitment policies that seek to hire competent workers and promote consistency, fairness and transparency.

Some tax authorities, such as SARS, also vet job applicants for criminal convictions or records of indiscipline.

Building awareness of integrity

Integrity and awareness building among staff

ATO revenue agencies require their staff to work and behave with integrity in accordance with ethical standards. They should be financially literate and aware of fraud, conflicts of interest and integrity dilemmas and know how to respond.

RAs seek to maintain constant staff awareness of integrity and anti-corruption. Some make integrity a key item on the agendas of departmental meetings, while it is a priority all year round for the anti-corruption committees of the Botswana and Burundi revenue authorities.

Integrity and awareness building among taxpayers

Taxpayer awareness, too, is critical. To that end, revenue authorities constantly engage with taxpayers through external stakeholders' workshops, the media, events and seminars. They chiefly address taxpayers' rights and obligations, the quality of service expected, the mechanisms in place for handling complaints, and arrangements for reporting cases of non-compliance.

External stakeholders' workshops focus on taxpayers' rights and obligations, the role of local leaders and professionals in tax administration, the part the community plays in improving integrity, and channels for reporting non-compliance by tax administration staff – all of which helps build anti-corruption partnerships. Workshops are designed for tax advisors, clearing agencies, the police, politicians and church leaders.

In Uganda, for example, the URA uses public and private groups already in place to lend clout to its integrity drive. The Tanzanian Revenue Authority, for its part, works together with the government's Institute for the Prevention and Combating of Corruption Bureau (PCCB) on issues relating to corruption.

Monitoring and investigating

Asset disclosure, integrity checks and monitoring

RAs in almost all ATO countries verify the assets disclosed by staff and run integrity checks on new recruits. Zimbabwe, for example, is currently implementing lifestyle audits on staff, while the MRA in Mauritius has set up a digital platform to manage and analyse declarations of assets.

RAs also seek to prevent improper conduct by promoting adherence to legal obligations and ethical standards and constantly monitor and appraise their policies.

To prevent corruption, RAs should take a participatory approach and engage with business owners at operational, tactical and strategic level to prioritize the riskiest business areas.

Investigation units take proactive approaches

However, some RAs in ATO countries have taken a proactive approach to investigations. They have put in place investigation units to look into staff thought possibly to be involved in corrupt practices or misconduct. The unit receives and investigates complaints, disciplines the offending staff members and, where necessary, refers them the judicial authorities for prosecution.

Investigation units also review and coordinate dispute settlement and staff grievances, queries, claims and complaints. Nigeria's FIRS, for example, has instituted an Anti-Corruption and Transparency Unit to watch for corrupt practices while the KRA's Ethics and Intelligence Department prevents and weeds out any infringements of integrity.

For a unit to be effective:

- Its staff is a cross-section of skilled professionals who include lawyers, criminal investigators, accountants and economists.
- It does not focus solely on disciplining offending staff members, but on preventing the same offence and the circumstances that enabled it.

- It should use case-conferencing to skill up staff. Unlike one-on-one approaches, case conferencing elicits ideas from the whole unit team on how best to handle ongoing cases in the shortest time.

Whistleblowing and reporting provisions

ATO countries' revenue authorities have introduced toll-free phone lines for whistleblowers to report bribery and any other misconduct. Some RAs give informants a certain percentage of the amount recovered. In Burundi, they receive 10%. Zimbabwe, for its part, has drawn up a protection policy and guidelines to encourage clients to report incidences of misconduct to revenue authority.

Whistleblowing hinges on public awareness and understanding, as in so many facets of tax administration. In Swaziland, the revenue authority's Internal Affairs Division launched a campaign under the slogan, "I refuse to be silent". It is intended to raise public awareness and encourage people to come forward with any suspicions of corruption or fraud cases through a toll-free number that they can any time. Clients may also walk in to report any non-compliance to the Internal Audit and Compliance Department. Thirty per cent of the Ugandan RA's investigation unit's cases in financial year 2015/16 were brought to its notice by whistleblowers.

In Mauritius, the MRA has an online complaints management system specifically for the general public to report tax non-compliance. This is a central, stand-alone system that hears, records and analyses reports and complaints and responds to them in a timely manner. The MRA also has an online provision for reports of non-compliance.

Sanctions

When staff members do get caught, however, disciplinary action should always be taken – be it a written warning, suspension, dismissal or prosecution.

Tax administrations have put in place administrative tribunals which hear cases of corruption and wrongdoing. Cases come under any of the following headings: fraud, negligence, corruption, bribery, violation of procedures, conflicts of interest, immorality, and absconding from duty.

ATO countries have implemented two- or three-tier disciplinary mechanisms that allow suspects to defend themselves. Should a suspect be found guilty, disciplinary guidelines for committees at each level set out sentencing rules. In order to deter any future wrongdoing, decisions are made public.

Uganda's revenue authority has just such a three-tier disciplinary mechanism:

- the Departmental Disciplinary Committee, which handles misdemeanours and misconducts;
- the Management Disciplinary Committee, which deals with cases of misconduct and gross misconduct;
- the Staff Appeals Committee.

To ensure that staff live up to codes of ethics, sentencing guidelines are regularly reviewed and made more stringent for deterrent purposes. Reviews also plug any loopholes and address new forms of corruption and other integrity issues. The Ugandan RA, for example, reviews its sentencing rules and offence categories and aligns them with those set out in the Anti-Corruption Act and the Computer Misuse Act.

5.10 Conclusion

Most ATO revenue authorities are semi-autonomous. The exceptions are Benin, Cameroon and Senegal, where the tax offices are departments within the ministry of finance. Semi-autonomous RAs are better equipped to live up to their remits. The Nigerian RA is the only semi-autonomous revenue authority among the ATO countries that has not fully integrated its tax and customs administration revenue functions.

The criteria for segmenting taxpayers vary with the diversity of taxpayers and the tax administration challenges they pose. Most taxpayer groups are segmented by size and economic sector, e.g. the extractive industries or the financial sector. Some RAs, however, have special segments for high net worth individuals (HNWIs) and multinational enterprises (MNEs). Lesotho actually has a special unit that focuses solely on MNEs.

ATO countries are still grappling with the challenge of the informal sector which accounted for 50% to 80% of GDP, 60% to 80% of employment, and up 90% of new hires in 2011-15. The potential of the informal sector for offsetting revenue shortfalls is immense and ATO countries have developed mechanisms for harnessing it. Accordingly, RAs in Cameroon, the Gambia, Kenya, Liberia, Nigeria, Rwanda, Tanzania, Zambia, Senegal and Togo have established special units. Additionally, other ATO countries have also put in place special units whose job is to garner a better understanding of the overall tax position of HNWIs and their behaviour.

The cost of tax administration varies substantially across ATO countries, determined by variations in countries' levels of development and tax authorities' efficiency. Countries whose tax departments are within the ministry of finance reported relatively low costs of tax administration, attributable to the fact that they enjoy only restricted scope for recruitment and budgetary approval. On average, the cost of tax administration accounts for 1.5% of revenue collected in the ATO countries, compared to the OECD average of 0.9%.

Most ATO countries – 13 out of 21 – have adopted an enterprise-wide approach to risk management in their revenue authorities that ensures a structured, consistent and continuous process. Enterprise Risk Management has enabled RAs to take a holistic view of internal and external risks in tax administration at all levels of their organization. They may either be corporate, compliance or operational risks. To address those risks and understand how to manage them, they should make ERM an integral part of operations. To that end, they should have an ERM policy, framework, manual and register.

Corruption in tax administration among the ATO countries remains a challenge. Recent figures indicate that tax and customs rank third after government procurement and land administration on the corruption scale. A case in point is the dismissal by the Kenya Revenue Authority of 35 employees for corruption-related issues. The danger of corruption for revenue mobilisation has prompted ATO revenue authorities to develop and take measures designed to root out staff corruption and build a professional workforce. Action includes tough, consistent disciplinary action against corrupt staff and stringent pre-screening and vetting when recruiting.

06

CHAPTER 6

Service management in tax administration

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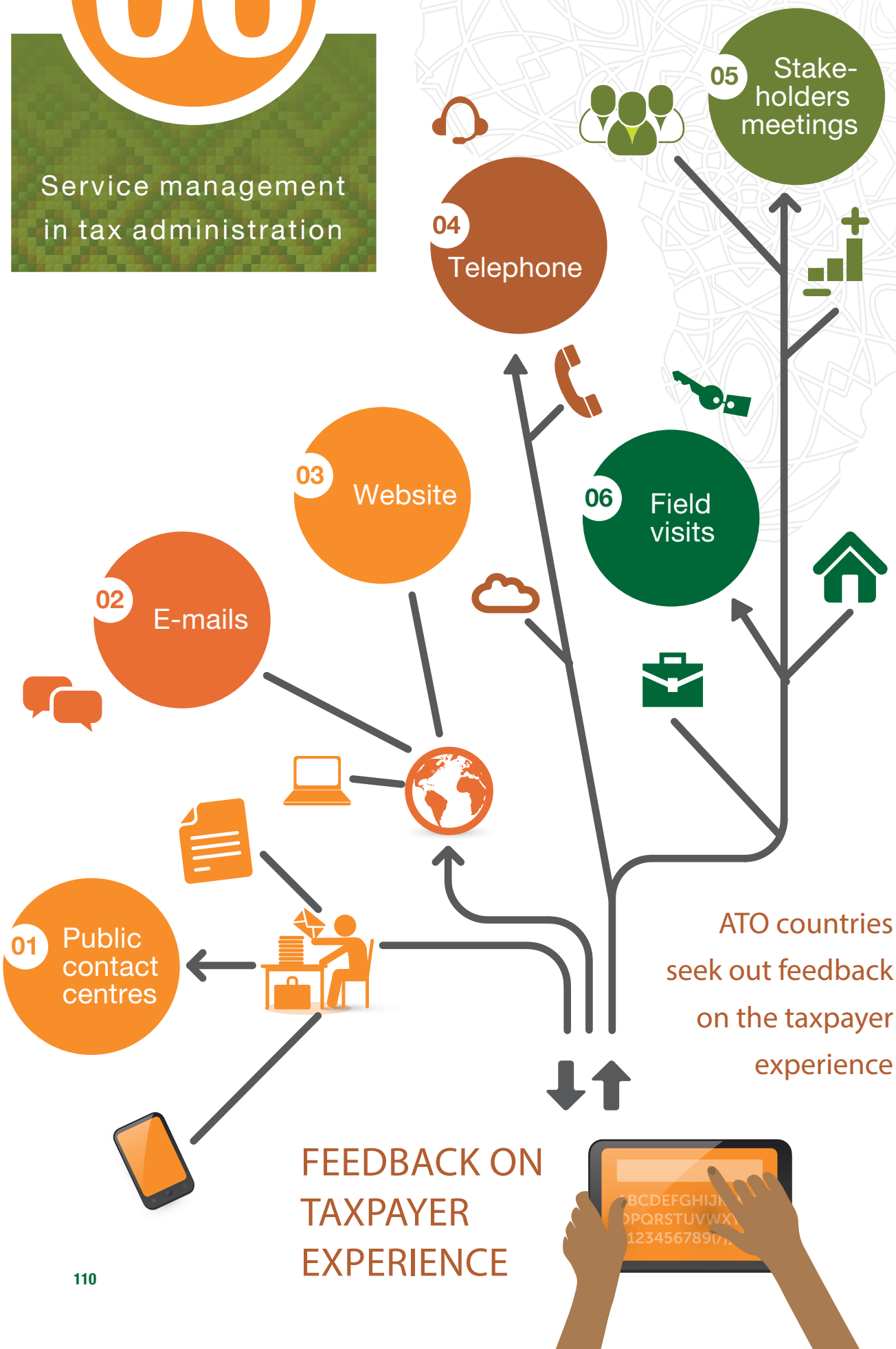
Service management in tax administration



CUSTOMS **CLEARANCE**

The ATO-wide average percentages of goods going through the lanes

RED Lane	29.5%
GREEN Lane	22.8%
YELLOW Lane	19.9%
BLUE Lane	15.9%
ORANGE Lane	11.8%

6. Service management in tax administration

Taxpayer service indicators measure tax administration efforts to reach out to taxpayers and reduce the cost of tax compliance. To ensure that taxpayers have the information and the support they need to meet their tax obligations, most ATO countries have adopted a service-oriented approach. The approach entails putting in place taxpayer service centres and taxpayer appreciation programmes, modernizing tax administration processes, and facilitating trade through quick release of goods.

6.1. Taxpayer service centres

Taxpayer services centres are central to improving customer service and compliance (IOTA, 2009). Similarly, tax administration responsiveness to taxpayers and their queries play a major role in shaping taxpaying culture and, by the same token, compliance.

Tax authorities should put in place arrangements and events that allow taxpayers to air their views when service standards are not being met. And they should seek out feedback on the taxpayer experience. To that effect, they could, for example, run perception surveys through field visits or by telephone, website and e-mail. Face-to-face interactions with taxpayers in public contact centres, stakeholders meetings in other places and spaces afford taxpayers the chance to raise concerns about the quality of services (TADAT, 2015).

- Twelve of the 21 ATO countries have put in place call centres that track response times. They are Burundi, Cameroon, Kenya, Liberia, Mozambique, Rwanda, Senegal, South Africa, Tanzania, Togo, Uganda and Zambia. For example, Senegal's tax administration, the *Direction Générale des Impôts et Domaines* (DGID), has implemented a call centre to provide taxpayers with reliable, accurate information and the necessary technical assistance to enable them to meet their tax obligations.
- Nine ATO countries have created websites that statistically monitor taxpayers' queries. These are Burundi, Cameroon, Kenya, Liberia, Rwanda, Senegal, Togo, Uganda and Zambia.
- Perception surveys are another way in which taxpayers can submit enquiries and air their grievances. Zimbabwe's revenue authority, ZIMRA, carries out bi-annual client satisfaction surveys to find out how its clients view its services. As a result, ZIMRA has been able to intervene in areas where customers have flagged shortcomings. ZIMRA also makes suggestion boxes available to clients at its offices.

When it comes to the provision of easily accessible tax information and services that make queries and compliance easy, the examples of Mauritius and Uganda are worth examining (Box 6.1).

Box 6.1

Two best practices in taxpayer services – Uganda and Mauritius

AskURA for swift responses

Uganda's business register shows that Small and Medium Enterprises (SMEs) constitute 91% of all business in the country. By August 2016, URA's tax base had grown to 928 083 taxpayers, mostly SMEs and, with it, an increase in the volume of transactions and complexity of cases. On average the URA receives over 3 000 emails and 600 walk in clients daily with enquiries ranging from taxpayer registration to customs and motor vehicles.

Analysis reveals, however, that 81% of e-payments were for less than 3 million shillings. What is more, Uganda has areas where the nearest bank is more than 80 km away and the costs incurred by clients in meeting their payment obligations were no longer acceptable. In addition to the time spent understanding formalities and filling in forms came the challenge of the language barrier.

It was against this backdrop that the URA decided to create an online tool for mobile devices that gave taxpayers ubiquitous access to client information and revenue services. Easier, faster access would also greatly improve compliance in the SME sector. Accordingly, the URA developed AskURA in house.

AskURA has been an enormous time-saver, as clients can access URA services from anywhere at their convenience and receive instant feedback. They can check their tax status, pay all kinds of tax, and register online. AskURA has brought fast accessible access to a wide range of taxpayers. It has greatly reduced the cost of doing business, saved time, and bridged the language gap.

Good practice from Mauritius: e-filing system expanded to improved service provision

Before 2015, when the Mauritius Revenue Authority (MRA) put in place its tax portal, taxpayers had no way of knowing their tax position in real time. They had to either write letters, make phone calls or call in person. During peak filing seasons, it was even more troublesome for taxpayers to obtain up-to-date information.

MRA's electronic filing services were originally designed for submitting tax returns only. To provide continuously evolving, innovative services to taxpayers and encourage compliance, MRA widened the portal's service provision, taking a client-centric approach. The upgraded portal came online in early 2015 and taxpayers are now able to access MRA services from anywhere, anytime, and on any device with no need for third-party assistance or special training. They can:

- Register and update basic registration data – address, phone details, email, etc. And, when they register, their tax obligations are immediately displayed.
- File returns relating to current and previous obligations, view their refund and tax payment status and pay their taxes online using credit cards and online banking. They can also pay with their mobile phones.

The tax portal has improved the convenience, availability and quality of service and, by the same token, compliance and revenue collection. It has, for example, considerably shortened the turnaround time from filing a tax return to payment. And the time it takes to file a tax return has been reduced from 5 to 2 minutes.

By January 2016, 150 000 taxpayers had used the taxpayer portal to view their tax filing obligations, significantly cutting the number of taxpayers calling or visiting the MRA and giving integrity management a boost: the less interaction, the less opportunity for corruption. The taxpayer portal has also added impetus to MRA's drive to create a paperless office environment.

6.2. Modernising to improve tax administration

Modernisation improves the efficiency of tax administration, compliance, enforcement and thereby increases the size of tax base. Above all, it enables revenue authorities to identify and mitigate risk, related not only to compliance but to staff, technology and processes.

The Tax Administration Diagnostic Assessment Tool (TADAT) and its revenue counterpart Public Expenditure and Financial Accountability Tool (PEFA) recommend that revenue authorities adopt electronic filing and payment and other online platforms to reduce the costs to taxpayers of doing business, boost the number of taxpayers and encourage voluntary tax compliance.

All the ATO countries have taken measures to modernise their tax administration. The modernisation process is at different stages in each country, however.

E-filing and e-paying

Good practice from TADAT and PEFA recommends that 85% of core tax returns and 100% of large taxpayers' declarations should be filed electronically.

The ATO countries that allow taxpayers to file their returns and pay electronically are Botswana, Cameroon, Kenya, Mauritius, Nigeria, Rwanda, Senegal, Seychelles, South Africa, Swaziland, Togo, Tanzania, Uganda, Zambia and Zimbabwe. Eight of them (Cameroon, Kenya, Mauritius, Nigeria, Rwanda, South Africa, Tanzania and Uganda) have also introduced mobile phone payment.

Only four ATO countries have made it compulsory for all taxpayers to pay their taxes electronically – Kenya, Tanzania, Togo and Uganda. It is a requirement in other ATO countries only for large taxpayers and for the payment of core taxes such as income tax and VAT, and PAYE. And, while small taxpayers still declare their taxes manually in some ATO countries, countries like Mauritius have moved from computerization to automation.

Automation in the Mauritius Revenue Authority has eased the examination of returns, checking figures for accuracy, flagging errors, exceptions and inconsistencies for nil and payable returns, and minimizing refund processing time. As a result, internal processes are now seamless, which makes it easier to audit perpetual offsetters effectively.

Some countries, e.g. Seychelles, have focused on small taxpayers with incomes of less than SCR 1 million. The SRC has simplified assessment and payment forms to help them comply. Since they pay 1.5% of their annual turnover as tax and do not have to maintain records, the SRC has developed a one-page tax return form.

Table 6.1: *Some figures on e-taxation*

15	Number of countries that allow e-payment of taxes - Botswana, Cameroon, Kenya, Mauritius, Nigeria, Rwanda, Senegal, Seychelles, South Africa, Swaziland, Togo, Tanzania, Uganda, Zambia and Zimbabwe.
4	Number of ATO countries that require e-payment – Kenya, Tanzania, Togo and Uganda.
8	Number of countries where tax payment is possible with mobile phones – Cameroon, Kenya, Mauritius, Nigeria, Rwanda, South Africa, Tanzania and Uganda
9	ATO countries with websites that statistically track taxpayer queries – Burundi, Cameroon, Kenya, Liberia, Rwanda, Senegal, Togo, Uganda and Zambia
85	The percentage of core tax heads for which TADAT and PEFA returns should be filed electronically
75	The percentage of each core tax (corporate income tax, personal income tax, VAT) that should be paid electronically. The same percentage applies to electronically paid tax in PAYE systems.

Seychelles has pursued its e-payment drive with the joint implementation of the Seychelles Electronic Funds Transfer platform (SEFT) platform, together with the Central Bank of Seychelles. The aim is to involve banks and attract more taxpayers to make use of e-payment. As a result, it has cut the long queues on the 21st of every month.

Zimbabwe has made strides in electronic taxpayer services. ZIMRA has implemented not only an online revenue mobilisation system (Box 6.2), but an electronic services platform, too. It has reduced revenue turnaround cycles, made collection more efficient, reduced compliance costs and raised higher revenue through online revenue collection. The result? Greater client satisfaction.

ZIMRA has also improved its overall tax administration through a systematic case management approach and increased automation (Box 6.2).

Box 6.2.

Good practice from Zimbabwe

Electronic case management

Ideally, a case management system should be able to allocate audit cases, monitor progress, record decisions, store working papers and data, and generates management reports. And indeed, ZIMRA's Electronic Service Platform has made tax administration more efficient thanks to its systematic case management approach. It is an approach that staff approve and enables them to give clients feedback. The Electronic Service Platform also has a function for audit logging system interactions and events, so making it possible to retrieve audit data for the previous three years, taxpayer data for the previous six, and archived data older than six years.

The Tax Management System (TMS)

ZIMRA, the Zimbabwe Revenue Authority, has been accelerating automation. It carried out a number of automation measures in 2015. They included the launch of Tax Management System (TMS), client self-service systems, and business intelligence and internal collaboration systems and platforms. ZIMRA is also championing the implementation of an e-government project.

TMS is an electronic invoice management system that monitors real time sales transactions from clients to ZIMRA's server as part of an effort to reduce noncompliance. TMS has enabled ZIMRA to gather data, register additional clients who were outside the tax net, unravel audit cases, and cut down on VAT refunds. It has been instrumental in gathering information to profile taxpayers for audits. Thanks to the accurate tax declarations it has secured in this manner, ZIMRA has improved its VAT administration, with both voluntary tax compliance and VAT productivity growing.

The roll-out of Tax Management System is still in progress and legislation requires all businesses operating in trade to register in the system by January 2017.

ATO do not monitor or evaluate their modernisation efforts

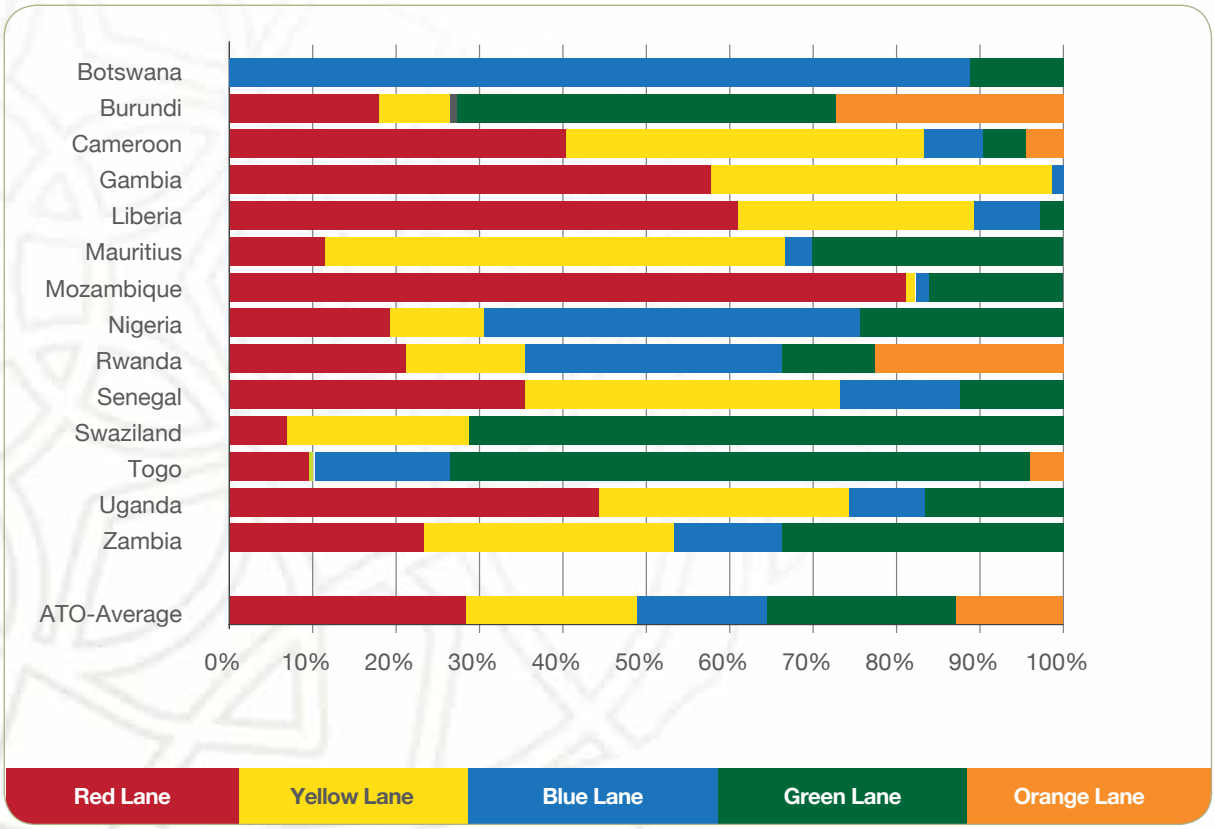
According to ATAF (2012), there is too little evaluation of reform in most revenue authorities across African regions (East Africa, Northern Africa, Southern Africa, West Africa and Central). It calls on ATO countries to systematically monitor and evaluate the results of efforts to modernise. To that end, states ATAF, they need to put in place robust, coherent monitoring and evaluation frameworks. Such frameworks will enable revenue authorities to ascertain whether reforms are meeting their intended objectives, identify lessons learned, and implement future reform accordingly.

6.3. Customs clearance

Customs clearance is the documented permission granted to imported goods so that they can enter a country or to exported goods so that they can leave it. When it comes to imported goods, importers themselves assess the value of their goods. Customs officials may question such self-assessments and perform documentation checks or physical examinations – and their findings compel importers to pay top-up taxes. However, there is always the risk that undervalued goods may go through, giving rise to revenue leakage. To prevent that, ATO countries build profiles of importers' behaviour patterns and require them to pass through one of five lanes according the level of risk they present.

- Red lane for high-risk importers and imports. Goods are physically examined and non-compliant importers are audited. Nearly 30% of imports take the red lane.
- Yellow lane for medium-risk importers. Customs officials carry out documentation checks before releasing the goods. Accounts for 19.9% of imports.
- Blue lane for accredited traders like diplomatic shipments that enjoy preferential treatment and big companies considered low-risk traders. Goods are immediately released but subject to post-clearance audits. Accounts for almost 15.9% of imported goods.
- Green lane for the immediate release of goods where there is nothing to declare – 22.8% of all goods. Compliant importers are usually directed down the green lane.
- Orange lane for 11.8% of goods. They are inspected simply by scan.

Figure 6.1: The share of imported goods inspected by coloured lane, 2015



Which countries use which customs clearance lanes

The blue lane, which ensures speedy clearance for compliant importers, is also designed to encourage their non-compliant peers to join the Authorized Economic Operators (AEO) system. Most WCO member countries have rolled out AEO, which has secured immense reductions in clearance times and reduced the cost of doing business, though implementation is at different stages. Authorised economic operators benefit from:

- priority treatment at all times,
- pre-arrival cargo clearance,
- self-managed bonded warehouses,
- choice of location for physical examinations of cargo
- automatic renewal of agency licenses.

Botswana, Nigeria and Rwanda clear the bulk of imported goods through the blue lane. Despite the ease of passage through the blue lane, others countries make sparing use of it (Table 6.2). Four countries chiefly use the red lane, where there may be delays in the release of goods and lengthen importers' turnaround times – especially in countries with complicated customs clearance procedures in which different government agencies (particularly those concerned with public health and ensure quality) are involved in the physical examination of goods.

Table 6.2: *Which countries chiefly use which customs lane by colour*

Lane	Country	Percentage of goods
	Mozambique	82.4%
	Liberia	62.4%
	Gambia	58.8%
	Uganda	45.7%
	Mauritius	55.42%
	Cameroon	42.9%
	Senegal	37.9%
	Botswana	89.8%
	Nigeria	44.9%
	Rwanda	30.7%
	Swaziland	70.2%
	Togo	69.2%
	Burundi	45.3%
	Zambia	32.7%

South Africa, exemplar of good practice in customs modernisation

Electronic formalities ease formalities for traders

The South African Revenue Service (SARS) is doubtless the revenue authority that has taken customs modernisation furthest. It embarked on the first phase of its multi-year upgrade in October 2010.

Automated customs management

Customs management has now moved from a complex, partially paper-based, labour-intensive environment to one that is a simplified, automated and more cost-efficient. Systems and organisational structures have improved trade facilitation and produced an improved service offering along the import chain – starting with one-stop registration.

All SARS's stakeholders – taxpayers, traders and practitioners – can now register with SARS at a single electronic port-of-call. Only one integrated SARS form has to be completed. The electronic registration platform builds on the interactive forms technology from Adobe™. Applicants fill in a form wizard that dynamically adjusts forms to the information required by SARS.

Alternatively, they can go to any SARS office and, in just one visit, physically register for any customs products, where (again) they have to fill only one form.

Electronic supporting documentation

Supporting documentation, too, is electronic. SARS allows traders to electronically submit any supporting document required by customs to close a transaction or case. The SARS system interfaces with third-party software to communicate with traders and brokers. The electronic support documentation function has helped greatly reduce paper overloads and eased the burden on traders and brokers who had hitherto to supply documents physically.

Compulsory use of EDI

In October 2009 and April 2010 SARS made it compulsory for all traders, customs brokers, carriers and release agents from South Africa and the BLNS countries (Botswana, Lesotho, Namibia and Swaziland) to adopt Electronic Data Interchange (EDI) and submit declarations for clearance electronically. In EDI receipts of declarations and release messages are also electronic. SARS customs now receive in excess of 90% of clearance declarations electronically.

Traders need to know their customs formalities and services. To respond to their queries, the SARS Contact Centre has widened its scope to accommodate customs queries. Following a successful pilot run, all queries to branch offices are routed through the SARS-trained call centre agents.

Electronic tools improve risk assessment for SARS customs agents

SARS has implemented a risk-based customs automated facility which brings the highest-risk declaration at any given time to the notice of the assessment officer. It has strengthened the integrity of the customs process and reduced opportunities for illegal gains by internal user or colluding internal and external parties.

Risk management lies at the heart of the customs process. Accordingly SARS has enhanced its Customs Risk Engine (CRE), but not solely to manage risk. CRE has given rise to an enhanced trader management system. So, in addition to goods declarations, it also processes cargo declarations.[7] The inclusion of cargo reports not only improves customs risk assessment, it also acts as an additional form of supply chain reconciliation between what is declared and what is physically landed.

7. To understand the difference between goods and declarations go to http://tfig.unece.org/contents/declaration.htm.

To centralise customs-related administrative activities away from ports of entry, SARS has put in place trade administration centres, which conduct tasks such as risk assessment and audits. Dubbed "centres of excellence", the trade administration centres are staffed by specialists in tariffs, valuation and origin.

6.4. Conclusion

Service management among the ATO countries continues to be the bedrock of modern tax administration. In this regard, revenue authorities have taken action to improve outreach to taxpayers and reduce costs of tax compliance. All ATO countries have also taken measures to modernise their tax administration, although the level of modernisation is at different stages in every country.

Key measures include the establishment of taxpayer service centres where taxpayers can air their views about RAs' service standards. In the same vein, 12 of the 21 ATO countries have put in place call centres to track trends in response times. As a result, RAs are now swiftly providing reliable, accurate information and any technical assistance that clients may need to meet their tax obligations.

Other tools include client perception surveys carried out biannually in Zimbabwe, while nine other ATO countries have created websites to manage taxpayer queries. The feedback that they receive has prompted them to take action in areas where clients had flagged shortcomings.

As for modernisation, 16 of the 21 ATO revenue authorities are working to apply the TADAT good practice which calls for 85% of core tax returns and 100% of large taxpayers' declarations to be filed electronically. On the payment side, only 15 ATO countries allow taxpayers to pay their taxes online, while a further 4 have made it compulsory to do so. Eight ATO countries have implemented mobile payment systems to ease the cost of compliance, especially for small taxpayers.

Revenue authorities have also simplified their customs procedures, with goods being cleared through five lanes: red, yellow, blue, green and orange. The ATO-wide average percentages of goods going through the lanes are 29.5% in the red, 19.9% in the yellow, 15.9% in the blue lane, and 22.8% and 11.8% in the green orange lanes, respectively.

ATO countries have also been implementing the Authorized Economic Operators (AEO) system. Although they are at different stages, AEO has seen a massive fall in goods clearance time and much lower costs of doing business.

07

CHAPTER 7

Compliance management in tax administration

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Compliance management in tax administration

TAXPAYER EDUCATION

Educated taxpayers are compliant taxpayers. Tax education is a proactive approach that encourages voluntary compliance by:

STEP 1

Raising taxpayers' awareness of the importance of meeting their obligations and paying taxes (see Box 7.1)

STEP 2

Reducing errors as taxpayers' tax knowledge improves

STEP 3

Reducing costs that spring from errors, objections and complaints

TAX EDUCATION STRATEGIES IN THE COUNTRIES

School projects is one of the Tax education strategies used.

Kenya,

Lesotho, Nigeria, South Africa and Tanzania run school outreach projects to create taxation awareness among future taxpayers

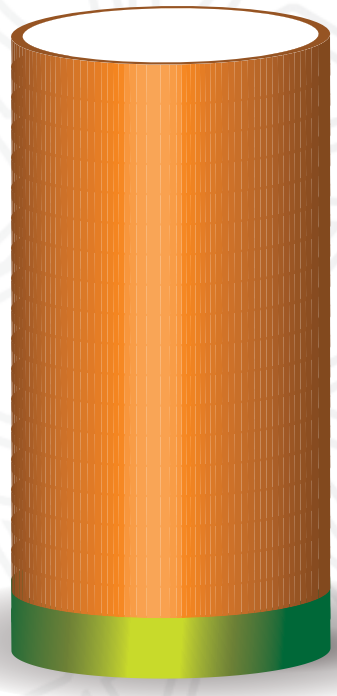
ARREARS AND DEBT RECOVERY RATIOS

Ratio of stock and flow of tax arrears to total revenue should be below **10%**

Average ATO ratio of arrears to net revenue is **19.17%**

OLD DEBT

(OLDER THAN 12 MONTHS) SHOULD NEVER EXCEEDS **25%** OF THE AGGREGATE STOCK OF ARREARS (TADAT)



25%

It is the duty of taxpayers to comply with tax laws over and above the actual payment of tax. Tax administrations have put in place mechanisms to coax or compel taxpayers to comply with their tax duties. This chapter looks at pro-compliance measures and approaches that ATO revenue authorities have taken, such as tax education and enforcement measures like audits, arrears and customs interventions.

7.1. Taxpayer education

Educated taxpayers are compliant taxpayers. Tax education is a proactive approach that encourages voluntary compliance by:

- raising taxpayers' awareness of the importance of meeting their obligations and paying taxes (see Box 7.1);
- reducing errors as taxpayers' tax knowledge improves;
- reducing costs that spring from errors, objections and complaints.

To achieve those ends, a tax administration must have a taxpayer strategy in place supported by an adequate budget and implemented by a fully fledged division. Most ATO countries' revenue authorities indeed have taxpayers' education divisions which identify and address non-compliance issues that cut across the different tax and customs revenue administration functions. Because they are cross-functional, they help bring down administration costs.

Tax education strategies in the ATO countries

ATO countries' tax education strategies should draw on all media and use events that bring tax professionals together with taxpayers. They should seek out new and recently registered taxpayers, targeting them according to their ability to:

- attend and benefit from different workshops,
- access online information,
- use call centres,
- read printed manuals and guides on compliance.

Box 7.1.

Low-cost communication channels to taxpayers in RRA

A study jointly conducted by the African Tax Administration Forum (ATAF) and International Centre for Tax and Development (ICTD) into Rwanda Revenue Authority's compliance project indicate that taxpayers respond to friendly messages such as gentle reminders of deadlines and of the importance of meeting tax obligations.

It also emerged that low-cost electronic channels of communication, such as emails and text messages, were very effective in the enhancing voluntary compliance among taxpayers in Rwanda.

The ATAF-ICTD study found that the RRA's compliance effort had raise an additional USD 9 million in tax revenue and has been instrumental in automating personalised communications and expanding the functionality of its SMS platform.

According to the RRA's Commissioner-General, the non-deterrent approach is an effective way of encouraging voluntary compliance in low-income countries, where enforcement is severely limited by lack of financial and human resources.

Source: ATAF-ICTD (2016).

Table 7.1: Media-based tax information and education

Media	How they are used
Radio and television	Radios announcement are an efficient mode of conveying information to the public at large – in both national and local languages. Talk shows afford tax administration officials the opportunity to raise awareness and explain in more accessible layperson's language tax procedures, obligations and compliance. To reach as wide an audience as possible, RAs broadcast in local languages through regional radio stations.
Print media	RAs in many ATO countries inform taxpayers through newspaper articles, publications, guidebooks, brochures, etc. RAs have developed booklets which contain basics that all registered taxpayers need to know in clear, concise information on which taxpayers can rely. Again, some ATO tax administrations translate their tax information material into different local languages.
Outdoor advertising	Some ATO countries – e.g. Gambia, Tanzania and Uganda – place billboards at strategic locations to urge the public to meet their tax obligation. They provide at-a-glance guidance on filing tax returns and payment deadlines. They also point people towards outlets where they can obtain more detail, e.g. hotline numbers, website links, and tax station phone numbers.
Social media platforms	ATO countries use social media platforms (Facebook, Twitter, YouTube, WhatsApp) to engage with taxpayers, raise their awareness, and get their views in a bid to improve compliance. Liberia, for example, uses YouTube videos to educate its taxpayers. The Uganda Revenue Authority's Commissioner-General engaged with over 26 000 followers on the URA Twitter page and with 21 followers on the Commissioner-General's own Twitter feed during financial year 2014/15.
Websites	All RAs should have easily accessible websites that supplies clear, concise relevant tax information. The Tax administration Diagnostic Assessment (TADAT) recommends that RA websites provide links to sector-specific pages where information should be regularly updated.
Revenue authorities use text messages, emails, phone calls, and TV and radio adverts to remind taxpayers of obligations and deadlines.	

In addition to harnessing media to the tax education and information message, many ATO revenue authorities also take a more proactive stance. They organise public events in which tax administrators interact with taxpayers.

Table 7.2: Taxholder education events – what countries do

Event	Purpose and country interventions
Stakeholder training and forums	Botswana, Burundi, Kenya, Tanzania and Uganda hold forums for stakeholders (company directors, the media, trade associations, etc.) who have a strong influence on taxpayer compliance behaviour. These forums give the public an opportunity to take part in formulating and reviewing policy, air their views, and put forward the community perspective on tax issues affecting them. Revenue authorities use feedback from forums as input to their tax education strategy. In Uganda, for example, the URA holds post-budget seminars to educate clients and other stakeholders on the impact of tax proposals on government revenue and business. Zimbabwe stages public debates to collect information on factors influencing tax compliance and feedback on how to improve services offered. The feedback becomes an input for ZIMRA's tax education strategy.
Tax conferences	Botswana, Gambia, Liberia, Senegal and South Africa invite selected taxpayers from different sectors to conferences. The multi-sector approach is designed to bring together a wide spectrum of taxpayers. Some concerns may be sector-specific, others may cut across sectors. Alternatively, awareness campaigns could target certain groups of taxpayers. For example, regional revenue authorities' small taxpayers' offices could organise clinics or hubs for farmers or wholesale and retail traders.
School projects	Kenya, Lesotho, Nigeria, South Africa and Tanzania run school outreach projects to create taxation awareness among future taxpayers. Such action usually takes the form of essay competitions, debates or puzzles. There have also been moves to introduce a taxation option in school curricula, increase schools' access to materials on taxation, create magazines, set up tax clubs and introduce tax advocacy programmes.
Mobile education services	RAs in several ATO countries go out to taxpayers to educate them through road shows or open-air tax education vans. The vans help people register, file their returns and pay their taxes. They educate on the need to pay taxes as part of the effort to increase citizens' tax literacy.

7.2. Auditing for compliance

One of tax administration's most important goals is to manage and improve overall compliance. Tax audits examine whether taxpayers have correctly assessed and reported their tax liability and fulfilled other obligations. Examination of taxpayers' business records and financial affairs helps ascertain that tax reported and paid is correct and in compliance with laws and regulations. An audit might simply be a check of a taxpayer's tax registration details, or it could be a comprehensive probe into their business and personal tax records.

Audit capacity and coverage

Staffing capacity

There are two basic measures of auditing staff capacity:

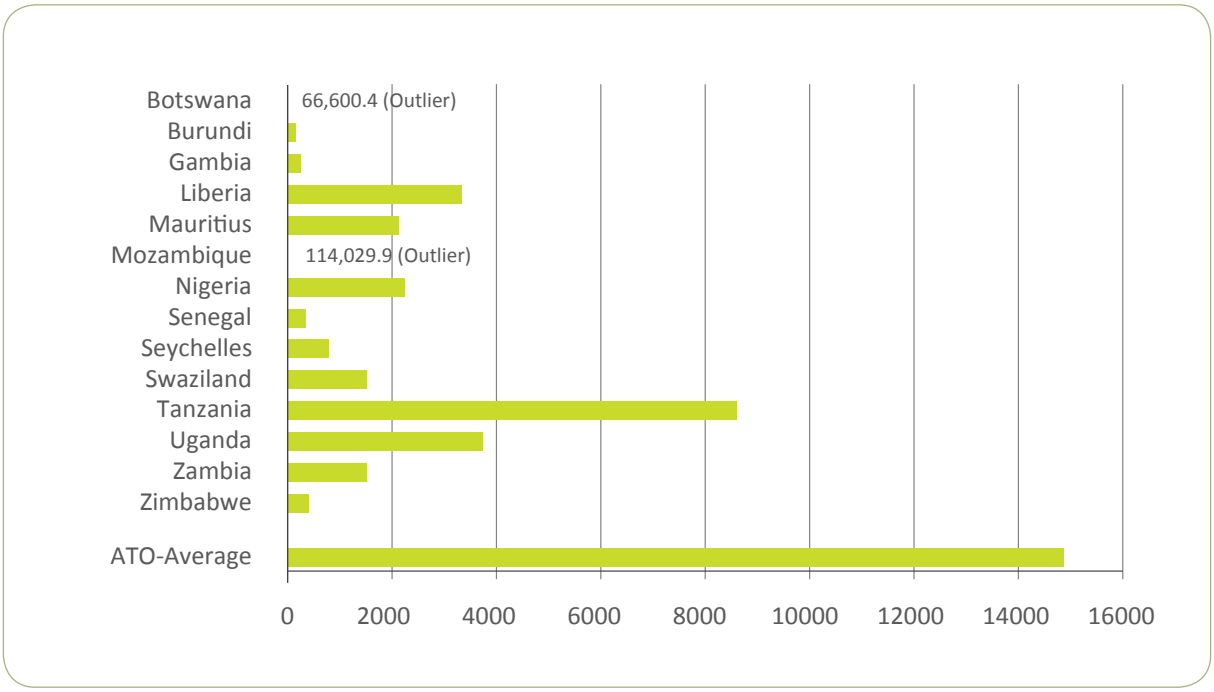
- Number of registered taxpayers per auditor

  A high taxpayer-to-auditor ratio indicates that auditors have large caseloads of actual or potential taxpayers, a low ratio that they have small caseloads (Figure 7.1).

- Number of employees per auditor

The number of employee working in customs and domestic taxation divided by the total number of auditors is the staff-to-auditor ratio. A high ratio means that a low proportion of employees in a revenue authority work in enforcement and auditing functions. However, with the rise of self-assessment and online registration, filing and payment, RAs have an ever greater need for auditors.

Figure 7.1: *The number of taxpayers per auditor, selected ATO countries, 2015*



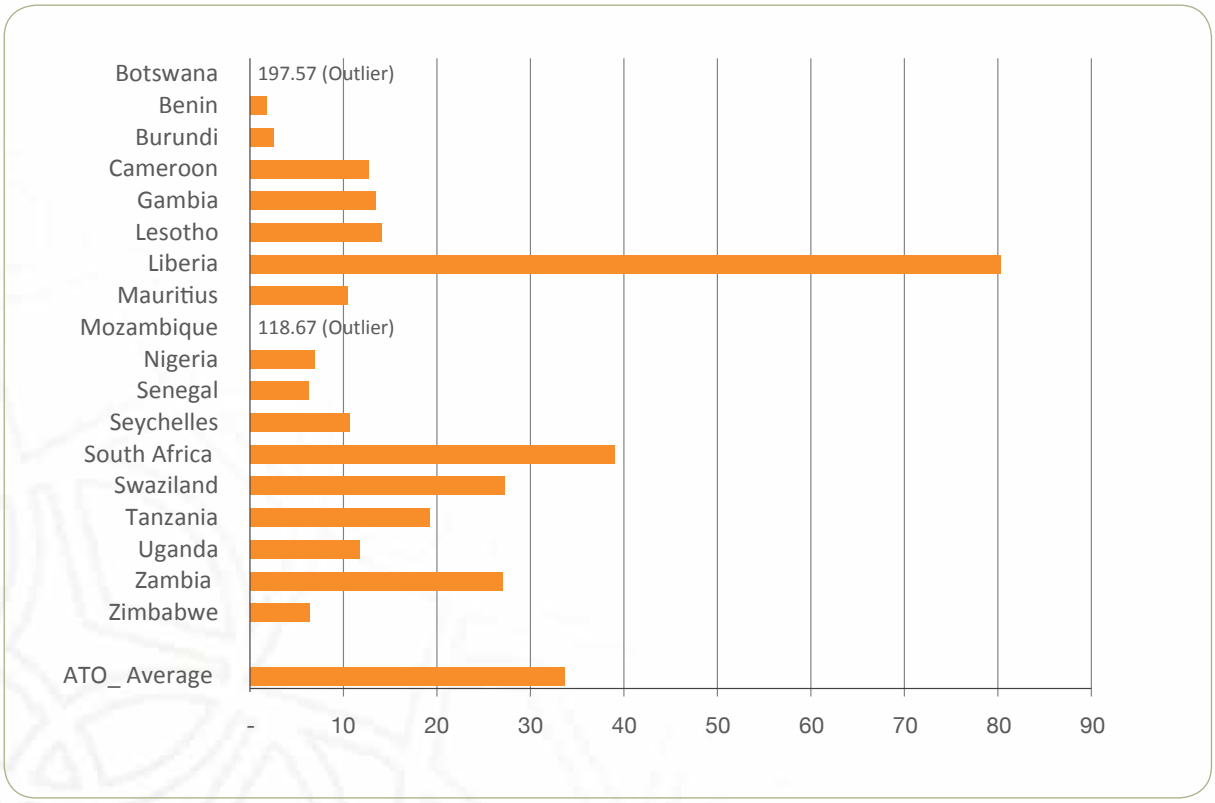
Note: Data are available for only 14 ATO countries – those able to determine their number of registered taxpayers.

Some ATO countries grapple with very low auditing resources. In Botswana, for example, a single auditor has to attend to 66 000 people – a ratio far in excess of those to be found in other countries, with the exception of Mozambique. There the ratio is an off-the-scale 114 000 taxpayers. Mozambique is a special case, however, as all eligible taxpayers are registered, even if they do not actively file or make payment.

Ratios of staff to auditors

The recommended international staff-to-auditor benchmark ratio is 30/1 (Gallagher, 2004). Out of 18 countries for which data are available, 14 have an auditor for every 30 employees. Liberia and South Africa have the highest ratios, while once again, staff-to-auditor ratios are off the scale in Botswana with 197/1 and in Mozambique with 118/1.

Figure 7.2: *Number of tax administration employees per auditor, selected ATO countries, 2015*



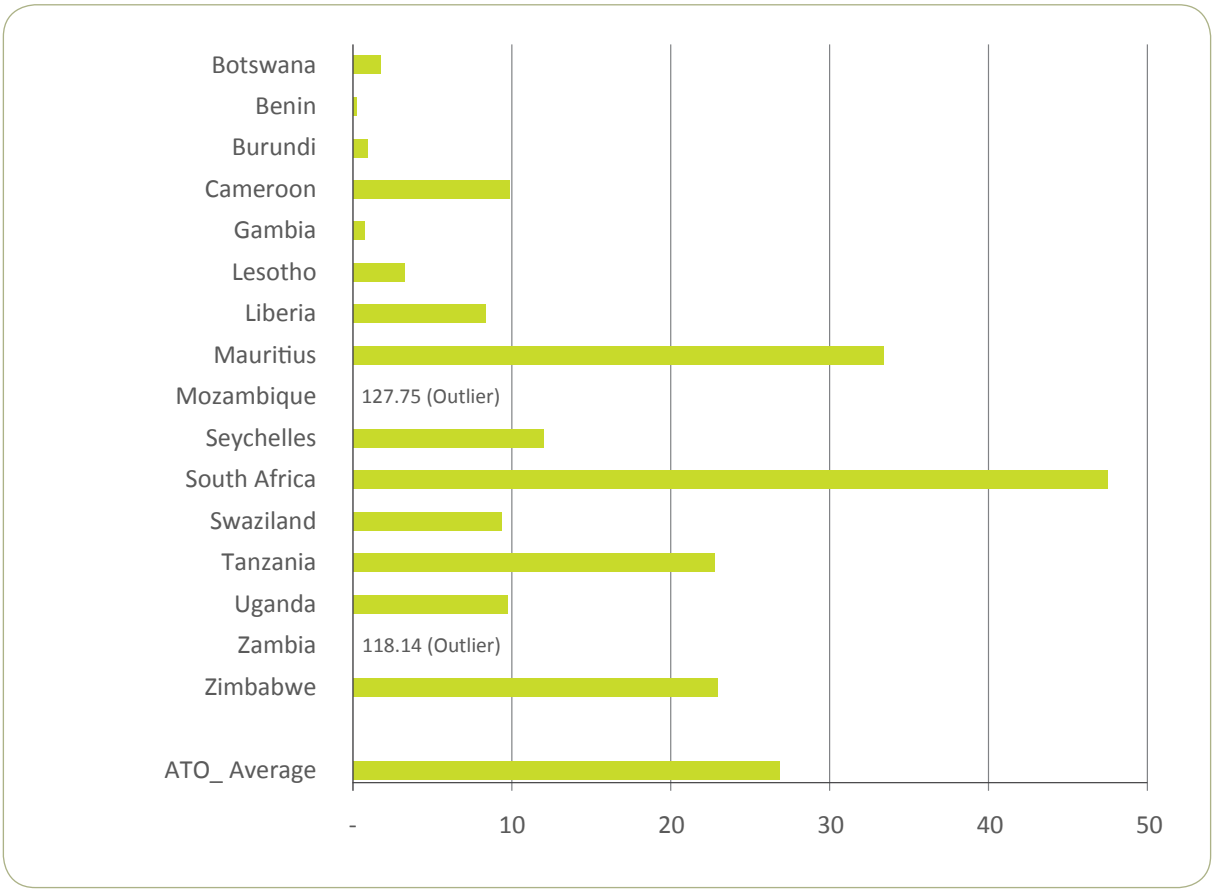
Note: Data are available for 18 ATO countries only.

Audits per auditor

The number of audits that auditors have to carry is measured by the audits-per-auditor ratio. A high ratio indicates that every auditor in a revenue authority has a lot of audits to do, particularly in Mauritius, Mozambique, South Africa and Zambia. In Mozambique – again off the scale – auditors conducted an average of 127 audits each in 2015, with Zambian auditors not far behind with an ratio of 118/1.

The number of audits that a country's auditors carry out depends on its tax compliance strategy. Some give desk audits preference over field audits, which may be comprehensive investigations or issue-related. Mozambique and Zambia make greater use of field audits, Mauritius puts the onus on desk audits. Field audits are bigger and more time-and-human-resource-intensive jobs, they generally yield more than desk audits.

Figure 7.3: Number of audits per auditor, selected ATO countries, 2015



Audit efficiency

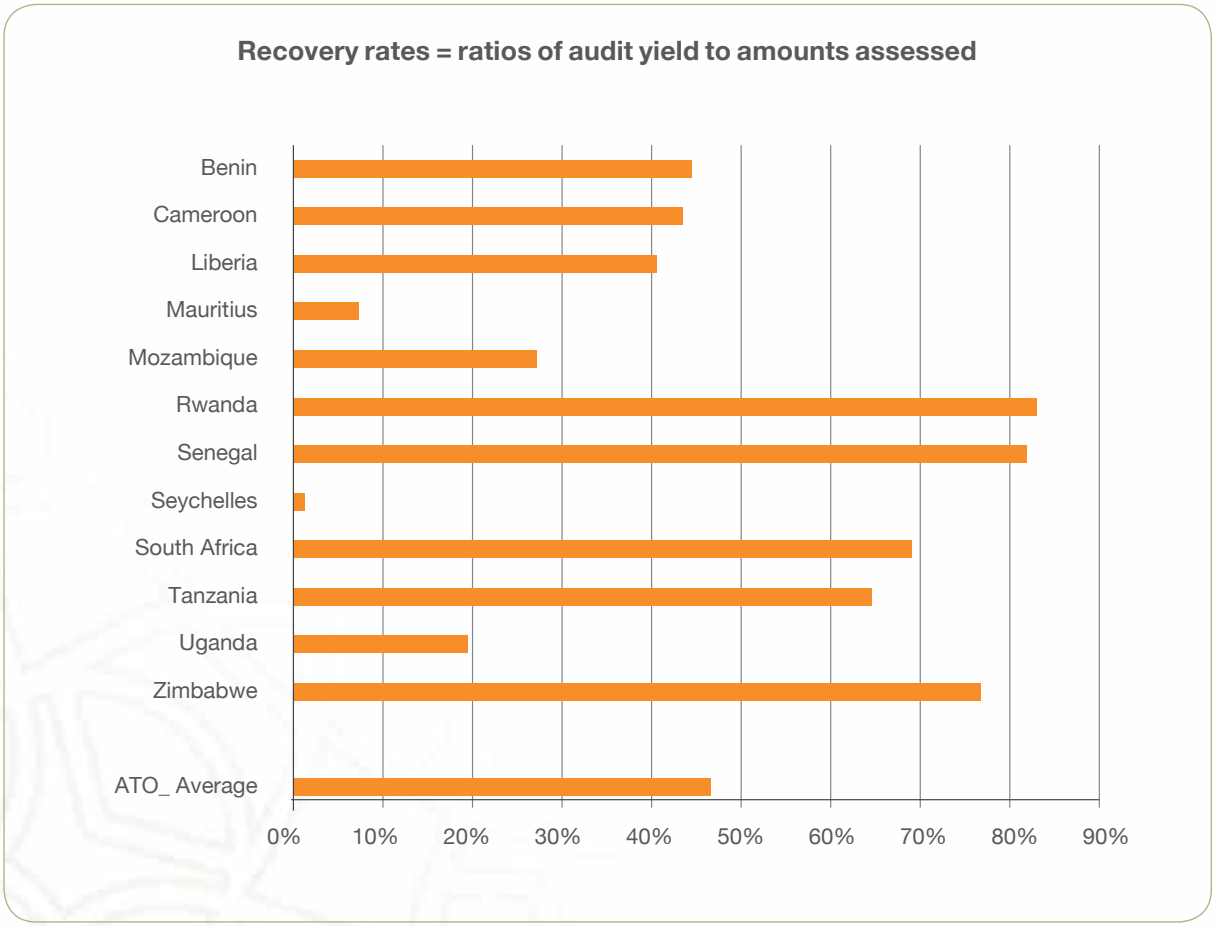
The Tax administration Diagnostic Assessment Tool (TADAT) recommends that RAs use a range of audit types to identify major areas of risk, detect non-compliance and make changes to policies, processes and procedures to plug gaps in tax laws and administration. Such audits range from comprehensive and issue-related ones to examinations of returns (desk audits), compliance visits, inspections of taxpayer records and books and tax fraud investigations.

However, ATO countries have to serve large numbers of taxpayers, especially small and medium-sized enterprises (SMEs), with limited resources. They should consequently focus on examining tax returns, conducting compliance advisory visits and auditing records if they are to increase the numbers of taxpayers filing tax returns and bring in higher revenue yields.

Measuring audit efficiency

Not all tax audit efficiency metrics necessarily produce clear pictures of performance. One that does produce good measure of the quality and efficiency of audits conducted is the ratio of total audit yield to the amount assessed, or audit recovery rate. Total audit yield comprises initial and additional revenue recovered from audits during a given tax period.

Figure 7.4: *Audit recovery rates, selected ATO countries, 2015*



Note: Data from Senegal on audit yield relate to 2014. Lesotho, which audits manually, has difficulty separating amounts of revenue assessed from audit yields.

Revenue authorities in Rwanda and Senegal boast the most efficient audits, recovering over 80% of amounts assessed. Mauritius, Mozambique, Seychelles and Uganda, for their part, have low audit recovery rates of below 20%. The explanation may lie in accumulated outstanding tax attributable to delayed audits, high interest rates and penalties, and the inability even to pay instalments. Low recovery rates impact powerfully on arrears portfolios, causing arrears to build up and revenue authorities to fall short of their annual targets.

Box 7. 1.

Recommendations from TADAT on efficiently influencing taxpayer behaviour through audits

Audits are a critical and significant component of compliance activities. Tax compliance audits enable revenue authorities to understand taxpayers' business and evaluate the internal controls that they use to ensure that tax declared is accurate, complete and reliable. Audits help to shed light on how taxpayers apply the law and identify how they might improve their record-keeping. To those ends, RAs should support audit operations with:

- An IT system that provides a consolidated view of a taxpayer's compliance history across all types of tax.
- Centralised audit case selection that uses analytics to select the highest-risk cases within a target population of taxpayers.
- An automated case management system that allocates audit cases, monitors progress, records decisions, stores working papers and data, and generates management reports.
- An automated system that extracts, analyses and cross-checks large volumes of data.
- Administrative penalties that are uniform and cut across all tax types. For example, penalties for inaccurate reporting, under-declaration and the falsification of records should be uniform.
- Benchmarked economic performance parameters for key industries, business activities, professions, and occupations to identify out-of-pattern tax declarations.

Source: TADAT Secretariat (2015)

7.3. Arrears management

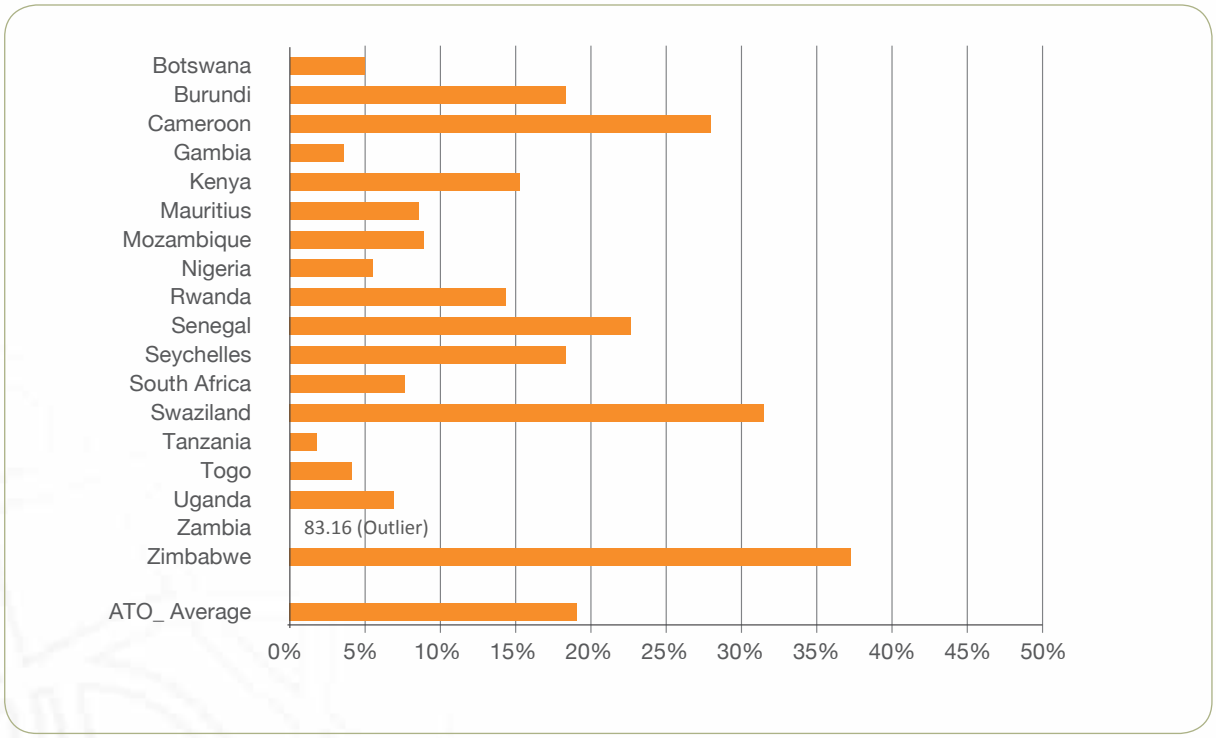
Arrears are unfulfilled tax obligations and taxes or duties that remain unpaid after the due date. The extent of arrears and management thereof affect a revenue authority's ability to collect and meet annual targets (PEFA, 2016). International experience has shown that arrears are a critical tax issue whereby the older the debt, the more difficult it is to recover. Indeed, arrears are major problem for ATAF member countries. They are faced with a massive debt portfolio resulting from uncoordinated enforcement procedures and inadequate risk-based approaches to debt management (ATAF, 2012).

Arrears and debt recovery ratios

Stock of arrears as a share of net tax revenue

Aggregate arrears as a ratio of net tax revenue is the amount of arrears divided by net tax revenue. The ratio of arrears (interest and penalties but not disputed debts) to revenue collected makes it possible to compare different revenue authorities' collection enforcement practices and resources. A high ratio of arrears to revenue collected indicates that tax authorities have to contend with large amounts of uncollected arrears. The normal flow of revenue collection is thus impaired and countries fail to meet their annual revenue targets.

Figure 7.5: Aggregate arrears as a ratio of net tax revenue, selected ATO countries, 2015

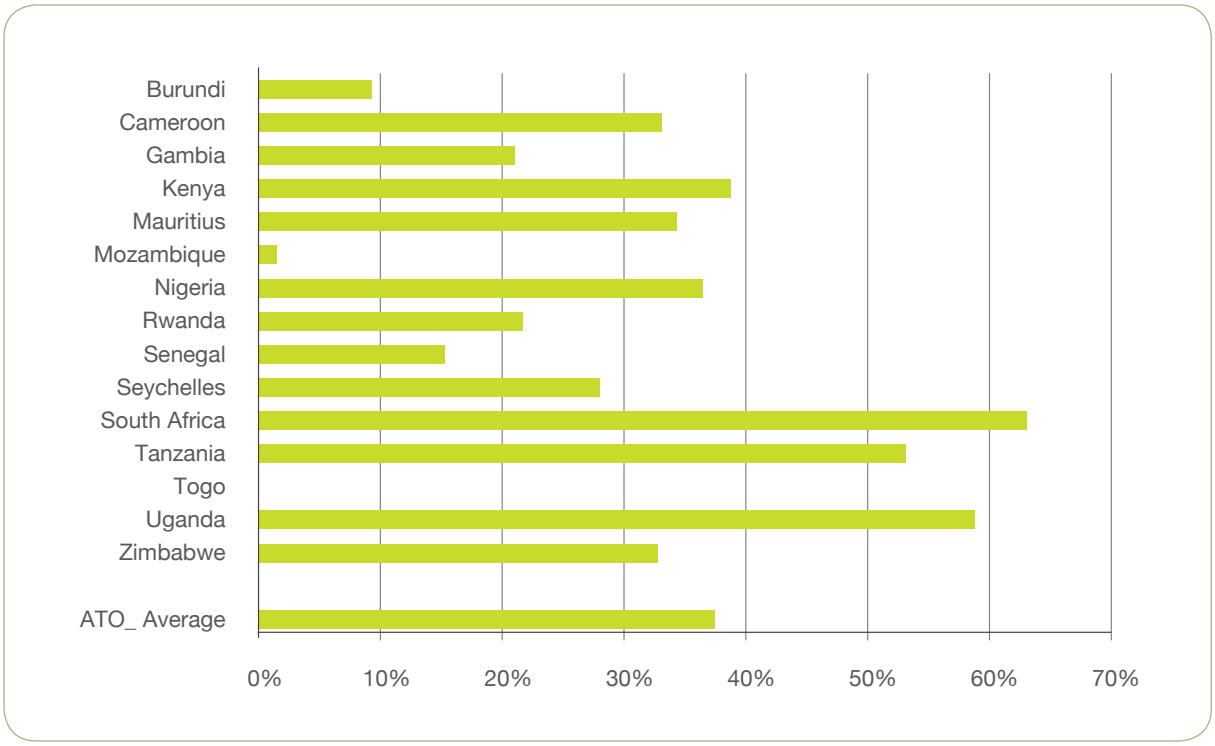


The average ATO ratio of arrears to net revenue (i.e. revenue collected) is 19.2%. Good practice recommends that the ratio of the stock and flow of tax arrears to total revenue should be below 10% (TADAT, 2015). Burundi, Cameroon, Kenya, Rwanda, Senegal, Seychelles, Swaziland, Zambia and Zimbabwe all exceed 10%. Zambia has an out-of-scale ratio of 83.2%, followed by Zimbabwe (46.5%) and Swaziland (31.9%).

Arrears collected as a share of total arrears

The ratio of arrears collected to total arrears measures arrears recovered relative to total arrears outstanding at the end of the tax period. It gives an indication of the extent of debt. A high ratio suggests that RAs are backed by political will and have arrears recovery enforcement mechanisms in place – e.g. audits, investigation, penalties and interest.

Figure 7.6: *Arrears collected as a ratio of arrears stock, selected ATO countries, 2015*



Cameroon, Kenya, Mauritius, Nigeria, South Africa, Tanzania, Uganda and Zimbabwe have high ratios of revenue collected to total arrears (above 30%). The inference is that, despite high stocks of arrears, their debt recovery mechanisms are efficient. Burundi, Mozambique and Senegal are the ATO countries with the lowest ratios of arrears collected to total arrears.

Collection should be enforced promptly and expeditiously, as the further back arrears go, the more difficult they are to collect. ATO countries should ensure that old debt (older than 12 months) never exceeds 25% of the aggregate stock of arrears and always put the emphasis on recovering recent debt (TADAT, 2015).

Three ATO countries – Benin, Lesotho and Liberia – were unable to provide data on their stocks of arrears and six – the same three plus Swaziland, Zambia and Togo – on arrears collected. This inability to generate statistics on the value and age of arrears and arrears recovered by type of tax heads may, according to TADAT (2015), denote:

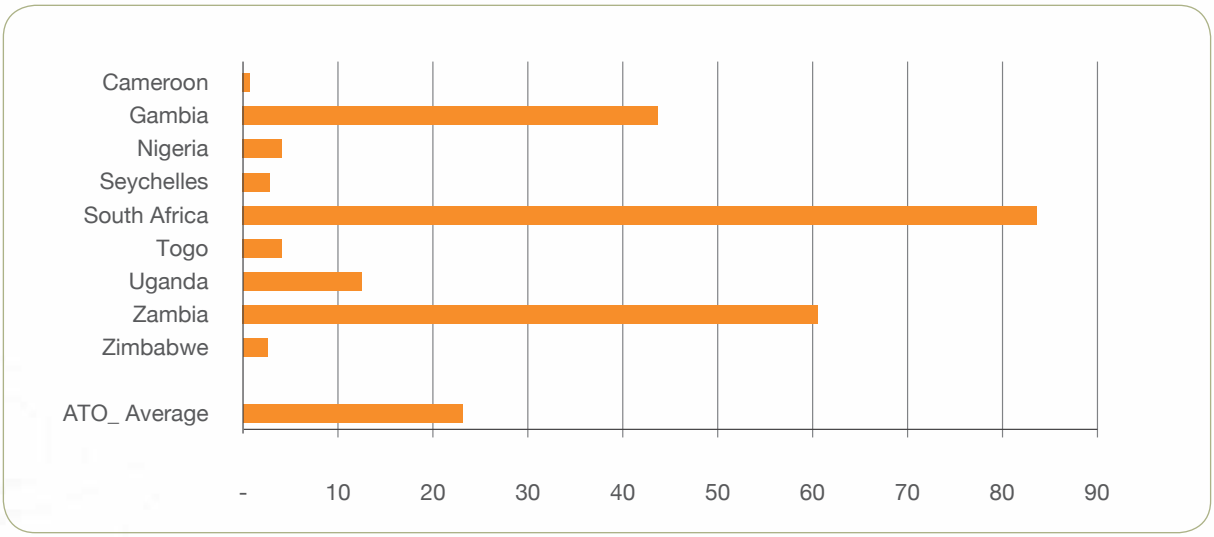
- the absence of a well streamlined arrears recovery process,
- or a failing in the tax administration's management information systems and performance practices.

Private arrears as a share of government arrears

There is a widely held perception that government arrears account for the major share of total arrears. To test that hypothesis, ATAF asked the countries to report their arrears.

It emerged that, with the exception of Cameroon, there was a bigger build-up of private than public arrears (Figure 7.7). In South Africa, for example, they were 80 times greater in South Africa, 59 times in Zambia, and over 43 times in the Gambia.

Figure 7.7: *Private arrears as a ratio of government arrears, 2015*



Thus, contrary to what the literature states, private arrears exceed government arrears in all ATO countries. The reason appears to lie in arrears management frameworks that play down the accumulation of arrears by government agencies. Formerly, in order to attract investment, for example:

- Ministries of finance (MoFs) used to undertake to pay taxes on behalf of other ministries – e.g. health, defence and education – and on behalf of private businesses engaged in key sectors like agriculture and mining. However, they failed to honour their debts on time and arrears begin to accumulate.
- Government agencies prepared their budgets net of taxes, which also led to the build-up of arrears. However, they are now required by law to draw up their annual budgets inclusive of tax.
- MoFs waived arrears arising from indirect taxes like VAT.

If ATO countries are to bring down their private arrears, they need to introduce effective procedures for collecting unpaid taxes and systematically enforce existing penalties and sanctions (ATAF, 2012). Private arrears should be minimized to ensure that ATO governments are in position to meet all obligation when they are due. This would minimize on external borrowing and avoid high debt service costs (PEFA, 2016)

Box 7.2.

Best practice from Zambia – the Debt Recovery Unit (DRU)

Backed by the Norwegian Tax Authority, the Zambia Revenue Authority (ZRA) commissioned a study to examine how to make debt management more efficient. The study found that a dedicated debt recovery unit should be put in place at corporate level to manage and optimize the collection of debt. Accordingly, the ZRA formed its Debt Recovery Unit (DRU) in 2015, which commenced operations on 1st January 2016

Prior to the inception of the DRU, all operating divisions had its own in-house debt management unit responsible for enforcing compliance and collecting debt arising from their operational activities. Those decentralised units now gave way to the centralised DRU, designed to:

- eliminate the duplication that arose from several small units performing the same tasks in different divisions;
- improve operational efficiency by freeing up division-level debt-recovery staff so that they could take up other important functions such as auditing;
- make it possible to follow up and collect debt across all tax types, rather than each division seeking to recover the debt that came under its jurisdiction;
- recover tax debt in a timely manner.

The DRU uses debt collection instruments that include demand notices, attachment of debt or garnishee orders, distress warrants, charging orders against land, and court procedures.

The DRU also provides a single point of contact for all divisions seeking to recover their debts. It has increased efficiency and improved cost management by pooling resources, so preventing the duplication of divisions' efforts. This has optimized revenue by reducing the cost of collection as a percentage of total cost.

The DRU's integrated tax debt collection has increased operational efficiency and reduced interaction with taxpayers, which can be conducive to bribery. Since it went into operation in 2016, the DRU has recovered KWACHA 869.53 million of debt – well over three times the target of KWACHA 286.93 million that it was set.

Source: Zambia Revenue Authority (2016)

7.4. Customs enforcement interventions

ATO countries' heavy reliance on imported goods and services affords opportunities for customs fraud, which accounts for an ATO-wide average of 35% of net revenue collected. Customs fraud covers a range of taxpayer offences, such as smuggling, under-declaring and wrongly classifying goods to escape customs duties.

Because of the enormous financial gains at stake, customs fraud is on the rise in both Africa and the world at large (Bryssinck, 2017). In 2014, for example, 139 kilograms of cocaine, estimated at ZAR 28.2 million, and ZAR 40 millions' worth of cigarettes were seized during customs enforcement operations (SARS, 2014). Again, in the European Union, over a period of 10 months in 2013, 816 million cigarettes and 240 000 litres of alcohol were seized (EC, 2014).

ATO countries carry out customs operations targeted at such fraudulent operations as:

- Smuggling, i.e. the evasion of custom duties on imported goods.
- Misclassification, which occurs when goods are wrongly classified and become liable to duty at the wrong rate. This might be the result of importers or clearing agents not being fully knowledgeable of customs regulations.

- Misdeclaration, which, by contrast, is the deliberate suppression, distortion or misrepresentation of information pertaining to imported goods in order to declare them as something they are not.
- Under-declaration, or the wilful misrepresentation of a product, which involves declaring it at a value lower than its true value.

Customs agencies' main objective is to facilitate trade. However, the risk of customs fraud has forced ATO countries to seek a compromise between, on the one hand, applying risk management rules – which involves inspection operations like documentary verification and the physical examination of consignments – and, on the other, trade facilitation.

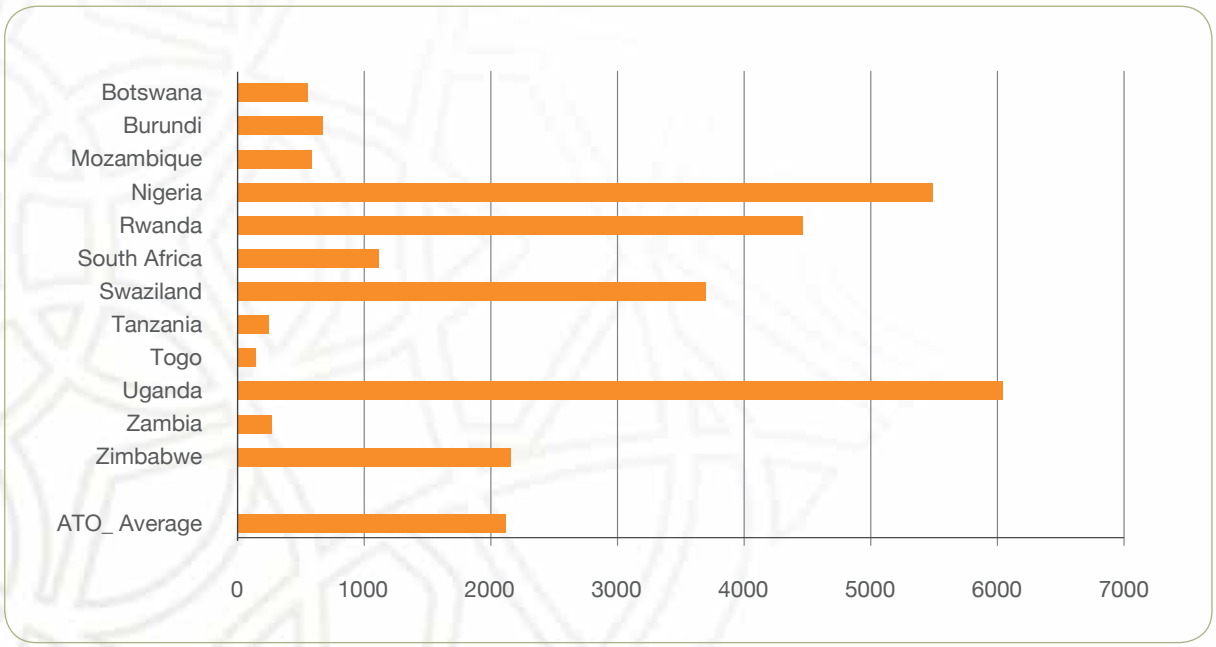
ATO revenue authorities use risk management systems in customs enforcement interventions to improve their ability to detect high-risk shipments and prevent revenue loss. Depending on the level of risk and the nature of possible offences, customs officials use different clearance channels to examine consignments (see Figure 6.1 in Section 6.3, "Customs clearance"). The following two sections look at the number and nature of goods recovered by customs enforcement interventions.

Number of customs enforcement interventions

A high number of customs enforcement interventions indicates that customs offences are on the increase (Figure 7.8). The number of interventions that revenue authorities in a country make may be determined by how intensively they use a particular customs clearance lane (Table 6.2). There are three :

- the red lane, where goods are physically examined;
- the yellow lane, where documentation checks only are carried out;
- the orange lane, where consignments are scanned.

Figure 7.8: *Number of customs enforcement interventions, selected ATO countries, 2015*



Uganda carried out the highest number of customs enforcement interventions in 2015, followed by Nigeria and Rwanda. Togo made the fewest – mainly because 69% of its goods are cleared in the green lane where there is immediate release of goods and nothing to declare. Uganda has the highest rate of enforcement interventions, with 45% of its goods going through the red lane where goods are physically inspected.

Smuggling is the most widespread customs-related criminal offence in ATO countries, followed by misclassification. It is highly prevalent in Mauritius, Nigeria, Tanzania, Zambia and Zimbabwe. Misclassification is high in Swaziland where 22% of goods are cleared through the yellow lane and only documentary checks are performed.

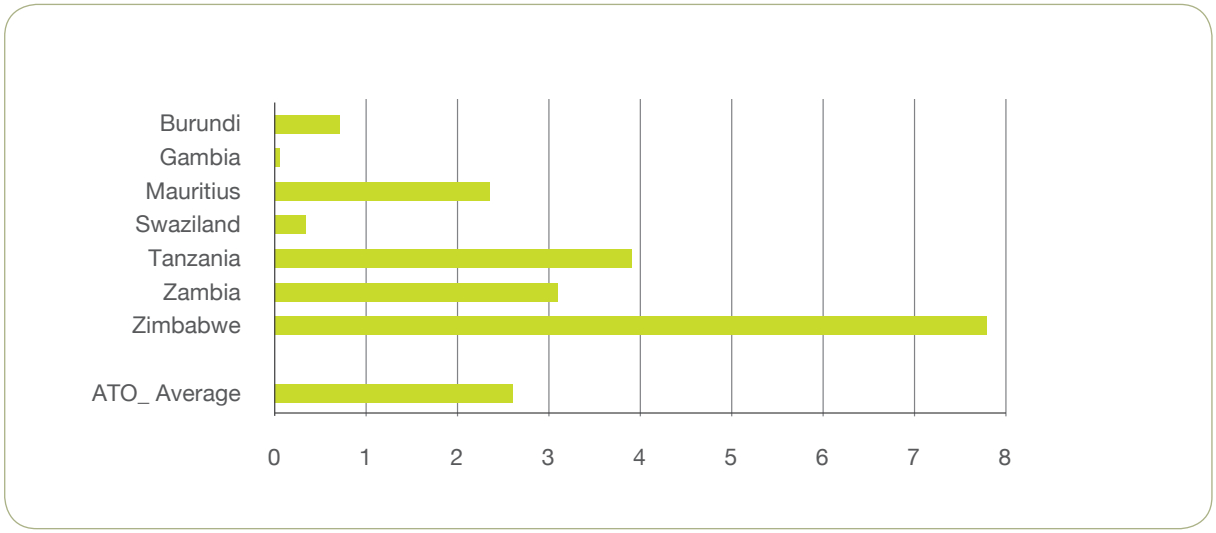
ATO countries should intensify inspections at their borders and customs clearing points to curb fraud. The European Commission (EC, 2014) recommends that effective customs interventions should incorporate:

- risk criteria,
- timely risk analysis,
- real-time exchange of information,
- cooperation between countries,
- monitoring customs inspections' impact and results,
- the implementation of customs mobile units.

Recoveries from customs enforcement interventions

The amount of revenue recovered – tax plus penalties – from the total number of offences recorded during the 2015 tax year depends on the value of goods. The seizure of dutiable goods translates into higher recovery values than non-dutiable goods, for example. A high recovery rate from customs enforcement points to offences involving high-value goods.

Figure 7.9: *Recoveries from customs enforcement interventions (in million USD), selected ATO countries, 2015*



Zimbabwe recorded the highest customs enforcement recoveries in value terms, followed by Tanzania and Mauritius, while the Gambia registered the lowest. As for offences, the incidence of misclassification was significant in Swaziland and Zambia. Smuggling was most prevalent in Tanzania and Zimbabwe and under-declaration in the Gambia, Mauritius, Mozambique and Togo.

To mitigate the risks of smuggling, misclassification, misdeclaration and under-declaration and the revenue loss therefrom, RAs in ATO countries have put in place a number of detection tools and systems (Table 7.3). Among the most successful have been Zambia's processing centres (Box 7.3)

Table 7.3: *Customs fraud detection tools used by ATO countries*

Tools and systems	What they do and who uses them
Non-intrusive scanners	Mozambique and Zambia, for example, have significantly reduced physical examinations, so facilitating trade and improving compliance.
Electronic Cargo Tracking System (ECTS)	Kenya, South Africa, Uganda and Zambia have reduced transit fraud, e.g. transit outstanding and deviation due to cargo dumping.
Centralized customs document checks (see Box 7.3)	Ensures the application of customs procedures is consistent. Used by South Africa, Uganda and Zambia.
Automated risk management, or selectivity management, system	Countries like Rwanda, South Africa, Tanzania and Uganda have improved their ability to identify high-risk shipments and reduced revenue loss.
Electronic customs tariff books	Botswana has improved the efficiency of clearance through enhanced goods classification and coding.
Electronic single window (ESW)	A single platform where revenue authorities share with other government agencies standardized information and documents for use in import, export, and transit-related formalities. Kenya, Mauritius, Rwanda, Togo, Uganda and Zimbabwe all have ESWs.

Box 7.3.

Best practice – Zambia's Central Processing Centres

The Zambia Revenue Authority (ZRA) long wrestled with the challenge of segmented processing of customs declarations. It led to inconsistent application of customs procedures in three critical areas: valuation, classification and origin. In order to re-engineer its customs and excise business processes and relieve border posts of certain core activities, it created central processing centres (CPCs) in Lusaka, Ndola and Kabwe. CPCs are single centralised document processing points which conducted all customs declarations documentary checks.

Part of the thinking behind the CPCs was that a back-office arrangement working on a 24/7 basis would reduce customs clearance delays, as the CPCs would operate round-the-clock, so effectively reduce processing and waiting times at the borders.

By eliminating interaction at border posts, CPC significantly reduced possible risks of clearance and revenue officials compromising their integrity.

ZRA has reduced the cost of doing business for taxpayers and increased processing efficiency. It is instrumental in high-revenue yields thanks to:

- the consistent, uniform service it provides to the public;
- its standardized application of the law and procedures regardless of border crossing point;
- its elimination of physical interaction between importers, exporters, agents and customs officers, thereby improving levels of integrity.
- In sum, implementation of the CPCs has led to improved staff productivity, declaration checks, integrity, standard operating procedures, and improved staff professionalism.

However, to effectively draw maximum benefit from the CPCs, staff should have technical skills so that they can provide real-time support on issues such classification and valuation. CPC staff may be deployed in functional sections on the basis of a well thought-out risk management approach. Such functional sections would process documents by product, value, revenue yield, origin, top-ups, and previous history, for example.

Source: Zambia Revenue Authority (2016)

7.5. Conclusion

Taxpayers are required to comply with tax law. Accordingly, revenue authorities in the ATO seek to secure compliance through measures and approaches like tax education, audits, arrears management and customs enforcement.

RAs, however, come up against the challenge of understaffing, given the large numbers of taxpayers they must serve. Mozambique and Botswana contend with the particular daunting challenge of catering to taxpayers with tax-administrator-taxpayer ratios of 1/66 000 and 1/114 000, respectively. As regards auditors, 14 countries out of 18 have auditor-to-staff ratios above 30% of their staffing levels which is the recognized international standard. On the other hand, only 5 ATO countries reported audit recoveries in excess of 50%, which points to low recovery rates in most countries. As a result, arrears have built up and revenue authorities have failed to meet their annual targets.

The average ATO ratio of arrears to net revenue is 19.17%, compared to the TADAT recommendation that the ratio of stock and flow of tax arrears to total revenue should be below 10%. Normal flows and timely revenue collections have been affected as a consequence. At over 50%, South Africa, Zimbabwe and Tanzania were among the ATO countries that boasted the highest arrears recovery rates.

ATO countries' heavy reliance on imported goods and services affords opportunities for customs fraud, which accounts for an ATO-wide average of 35% of net revenue collected. Accordingly, ATO countries have instituted risk management rules that involve inspections such as document verification and the physical examination of consignments. In 2015, Uganda carried out the highest number of customs enforcement interventions, as it clears 45% of goods through the red lane. It was followed by Nigeria and Rwanda, while Togo performed the fewest. As for customs fraud, smuggling is the most widespread offence in ATO countries, followed by misclassification.

08

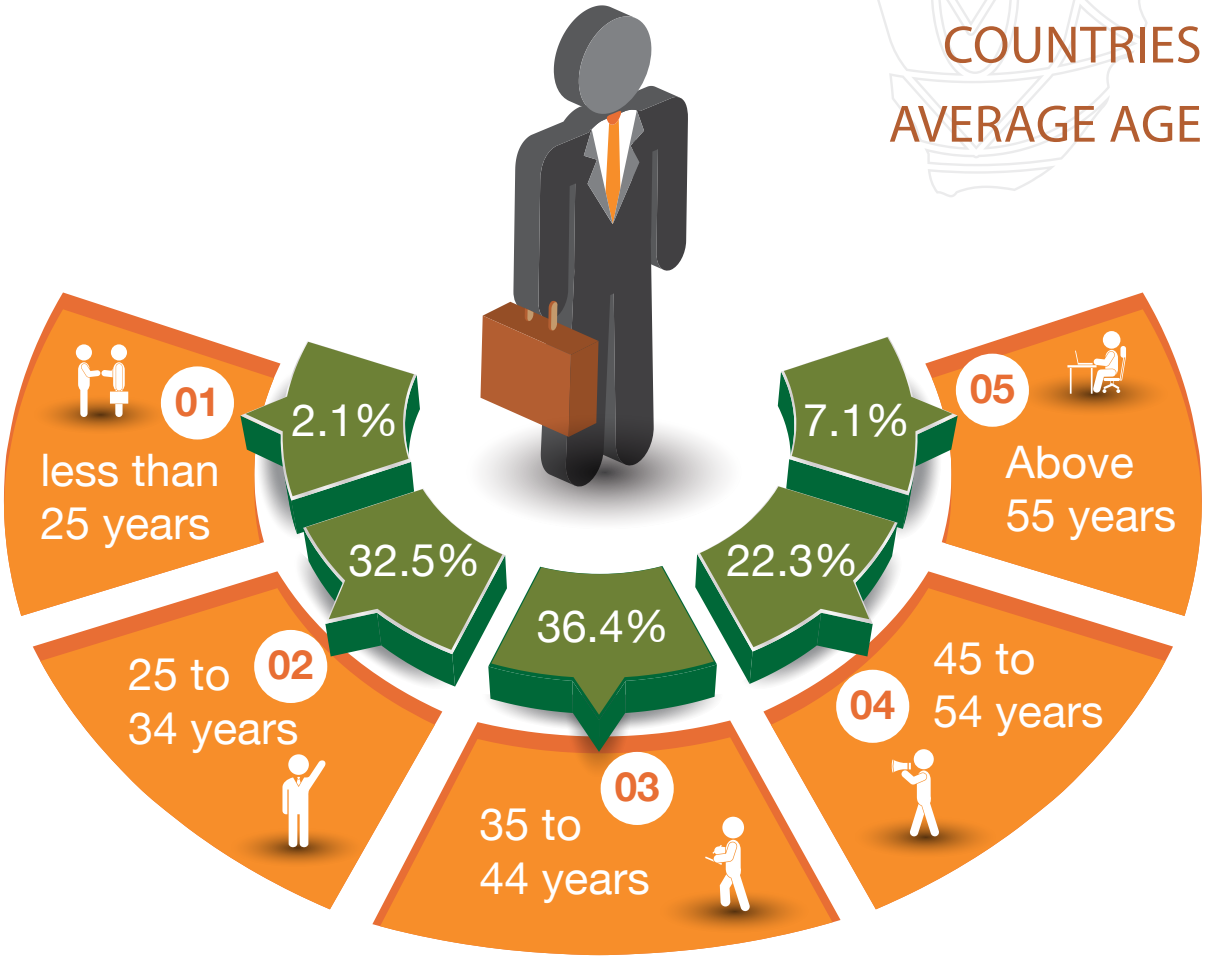
CHAPTER 8

Human resources in tax administration

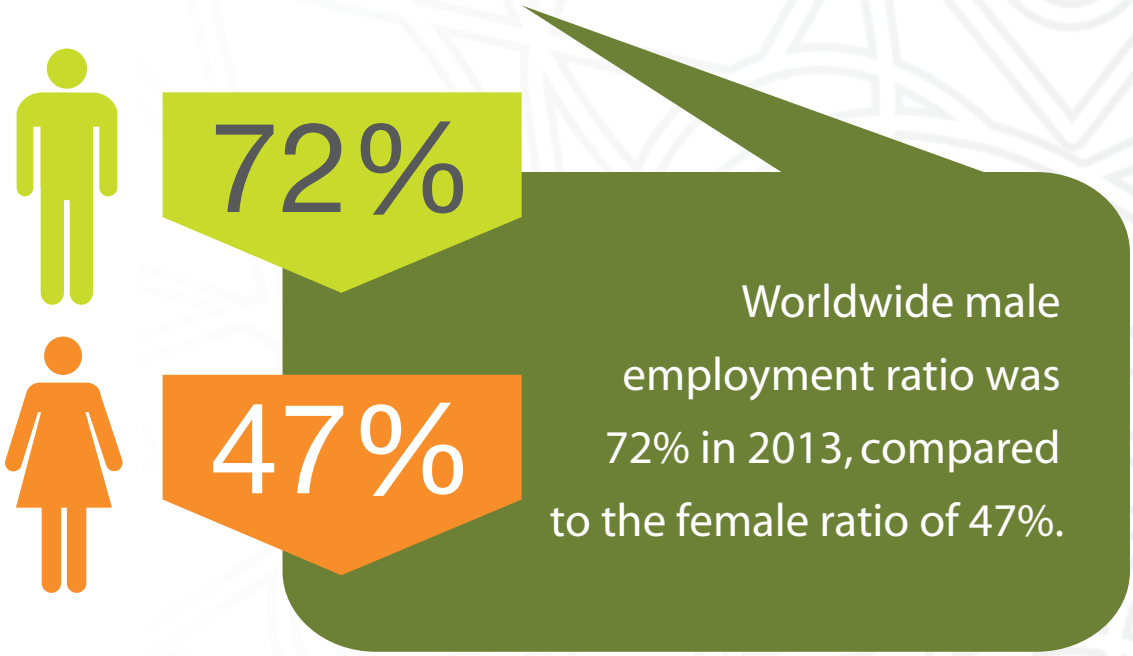
CHAPTER 8

Human resources in tax administration

ATO COUNTRIES AVERAGE AGE

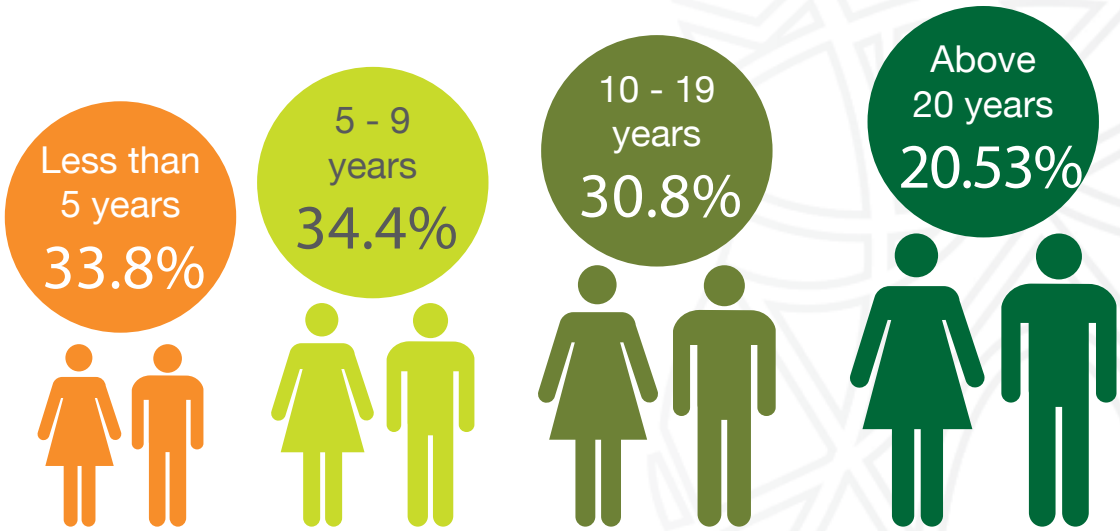


Gender imbalance



Qualifications in ATO countries

Length of service in ATO countries



8. Human resources in tax administration

Internal resources, and most importantly human resources, are essential to any organization's efficiency and strategic advantage. If tax administration bodies are to provide taxpayers with the best services and improve revenue collection, every ATO revenue authority should implement a human resource strategy that seeks to develop a highly competent, motivated and productive workforce.

8.1. Employee demographics

A diverse workforce is a competitive advantage. The term "employees" encompasses permanent and temporary staff, together with contract workers, casual staff and interns. Employee demographics take in many factors – gender, age, ethnicity, occupation, seniority, salary levels, marital and family status – that impact directly on an organization's performance, employee productivity and staff retention.

Every revenue authority should have a human resource information system (HRIS) that automatically generates employee profiles, staff levels by gender, educational background, age, and department. Togo, for instance, has developed an enterprise resource planning (ERP) module. It is an automated system that manages financial accounting, stocks and requisitions of goods and items in addition to facts, figures and assessments relating to the workforce.

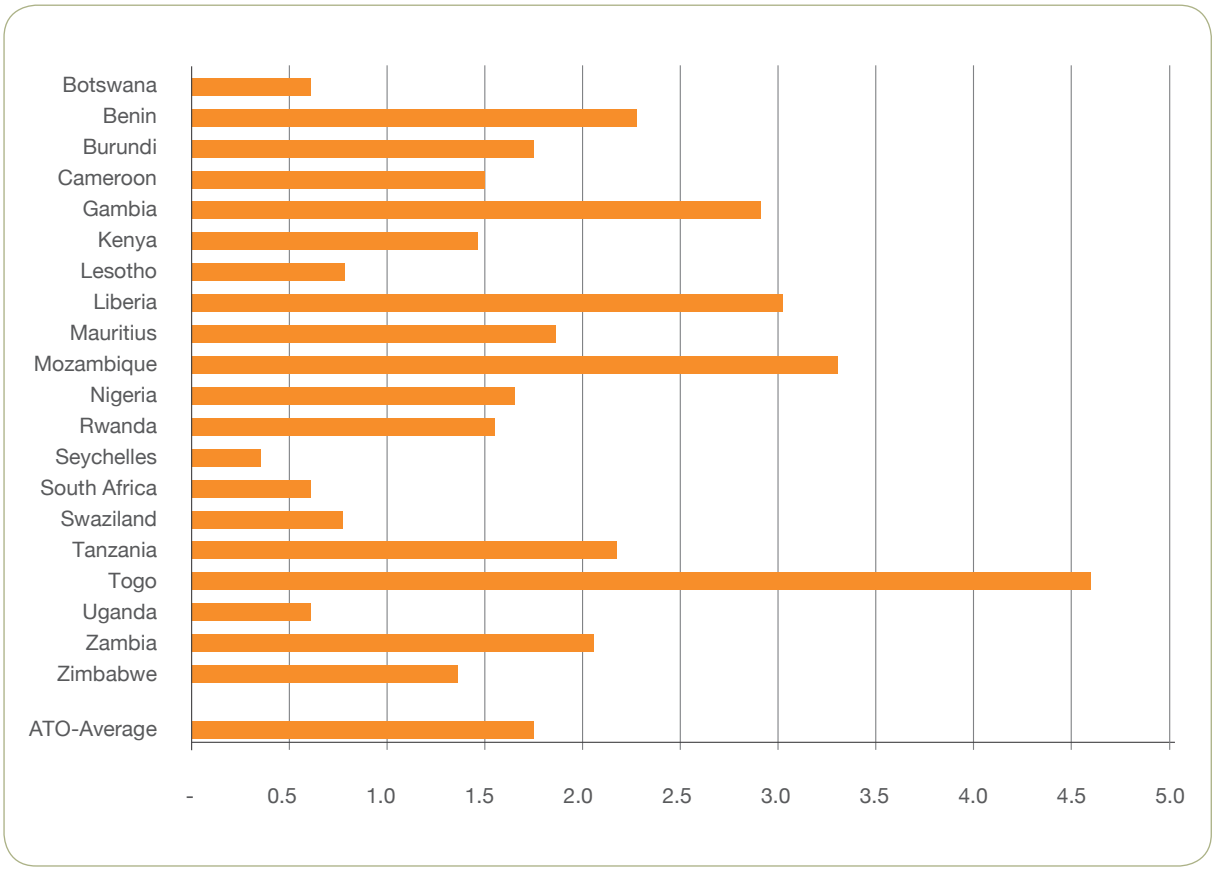
Gender imbalance

Equal opportunities are critical to human development in any country. Discrimination against women in the labour market affects their capabilities, opportunities and choices and prevents most women from achieving their full potential (UNDP, 2015).

Worldwide female employment ratio (i.e. the percentage of women in the total employed population) was 47% in 2013, compared to the male ratio of 72% (ILO, 2014). Equal opportunity should seek to afford women the same level of access to and participation in every level and area of the organization.

As for the ratio of male to female staff (where 1 would be parity), it is 1.79 on average in the ATO countries. The gender-related labour participation gap – although it has narrowed with rises in rates of female employment – remains high in African countries at 21%, compared to 12% in the OECD countries (Elborgh et al., 2013). In Togo, for example, over 4 times more men than women were in work in 2015, while in Benin, Gambia, Liberia, Mozambique, Tanzania and Zambia, men employed there were over twice as many.

Figure 8.1: Ratio of male staff to female staff, 2015



Excess executive numbers and levels

A top-down structure affects an organisation's performance. A tall organization, with its many levels of management, is generally authoritarian. And, because it centralises decision making, tends to overly bureaucratic.

The ratio of executive staff to total staff is the number of senior managers divided by the total number of all workers. Executives have final say and are responsible for guiding and managing the entire organization. They give strategic direction and determine policy.

However, a high ratio of executives to total staff points to multiple layers of management, which, in turn, suggests top-heavy decision-making and lack of agility and responsiveness.

The average ATO executive-to-staff ratio is 4.84%. In other words, for every 100 workers, more than 4 are in senior management positions. Benin, Burundi, Gambia and Mozambique appear to have particularly unwieldy structures. For every 100 staff members:

- almost 34 are in senior management in Benin,
- 12 in Mozambique,
- 11 in Burundi,
- 8 in Gambia.

Such high ratios of "executives" (defined flexibly) to staff could affect decision making. RAs in ATO countries with more than 5 levels of senior management should restructure and reduce them to no more than four to improve agility.

Executive gender gap

The number of male divided by the number of female executives yields the male-to-female executive ratio. In an ideal world, with effective equal opportunity policies in place in most ATO countries, there should be a ratio of 1 in senior executive positions or, at worst, the male-female distribution should mirror distribution across tax administration. However, it is 3.25 on average. In other words, there were over 3 times more male than female senior managers staff in 2015 – and 4 times more in Cameroon, Gambia, Nigeria, Swaziland and Togo.

Figure 8.2: *Shares of women in top management*

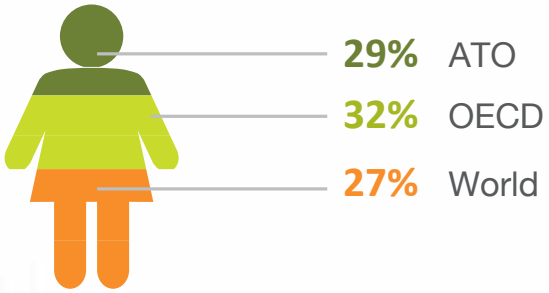
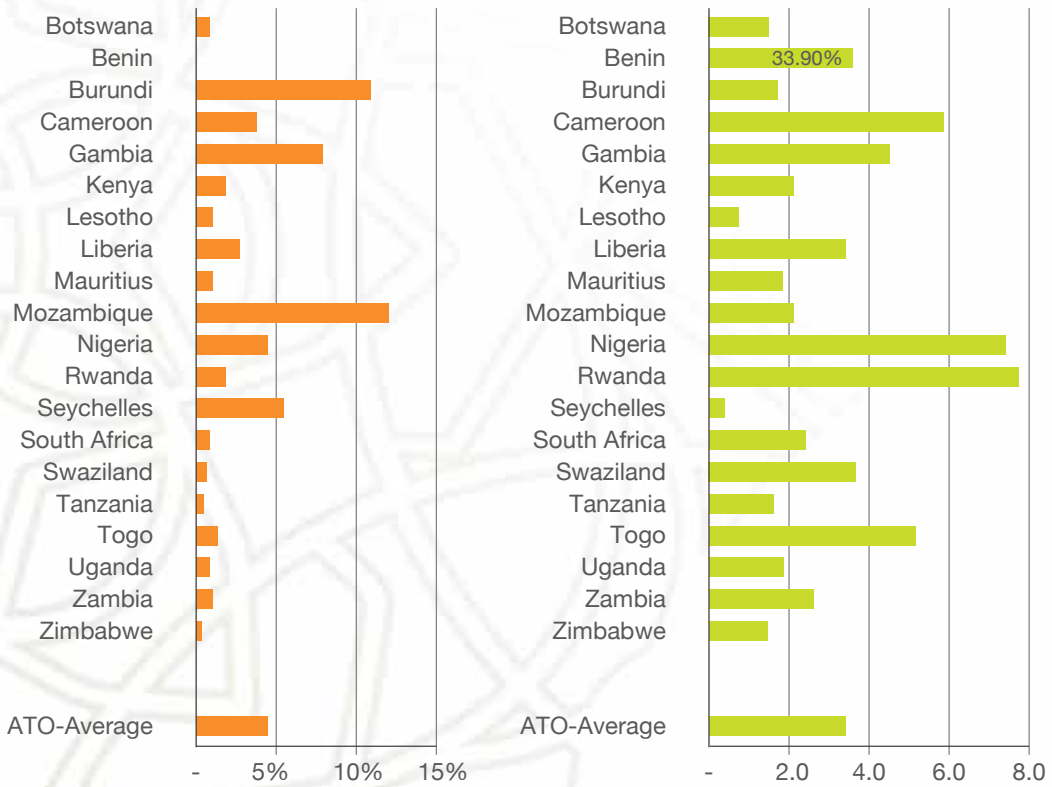


Figure 8.3: *Ratios of executive staff to total staff (left) and male to female executive staff (right), 2015*



Age cohorts in revenue authority workforces point to different policies

Age diversity prompts culture changes in the workplace, as different generations bring with them distinctive talents and challenges (Table 8.1).

Younger staff tend to be innovative and responsive to the changing environments within which RAs operate. However, they also tend to be head-hunted, which gives rise to high staff turnover as they leave for higher salaries in the private sector.

Table 8.1: *Age groups as a percentage of total staff in ATO revenue authorities, 2015*

ATO countries	less than 25	25 to 34	35 to 44	45 to 54	above 55
Botswana	0.66%	27.8%	38.7%	26%	6.9%
Benin		20.1%	53.9%	17.9%	8.2%
Burundi		24.6%	50.1%	21%	4.3%
Gambia	5.9%	29.4%	32.8%	25.3%	6.6%
Kenya	0.5%	27.5%	30.6%	27.8%	13.6%
Mauritius	0.44%	30%	28.5%	19%	22.1%
Mozambique	0.44%	19.9%	41.3%	26.3%	12.1%
Nigeria	0.02%	23.1%	37.7%	35.13%	4.4%
Rwanda		27.9%	50.8%	18.5%	2.8%
Seychelles	13.64%	39.51%	28%	14%	4.9%
South Africa	2.1%	24.7%	44.3%	22.1%	6.9%
Swaziland	0.9%	35.6%	41.7%	16.7%	5.5%
Togo	1.4%	54.2%	16.6%	23.2%	4.1%
Uganda	0.8%	49.2%	30%	20%	
Zambia	2.2%	34.3%	38.4%	24.7%	0.4%
Zimbabwe	4.5%	52.6%	20.7%	19.2%	3.3%
ATO average	**2.1%**	**32.5%**	**36.4%**	**22.3%**	**7.1%**

The 35 - 44 year-old age group accounts for the highest share of employees working in ATO tax administration, at 36%. Next come 25 - 34 year-olds with 32.5%, followed by 45 - 54 year-olds with 22.3%. The figures are similar to the OECD average distribution, where 9% of tax administration employees are under 30, 50% between 30 and 50, 34% between 50 and 60 years old, and 7% over 60 (ADB, 2016). The relative variation in the age distribution of staff between ATO and OECD countries suggests different recruitment, retirement and employment policies.

The Seychelles tax authority employs the biggest share of under 25s, which points to a policy that widely employs support staff, contract workers and interns.

At nearly 50%, the 25 - 34 year-old cohort accounts for the largest share of employees in Togo, Uganda and Zimbabwe – a pattern that reflects those countries' age distributions and is attributable to policies of recruiting graduates fresh from university. Graduates are widely considered to be innovative and drivers of higher revenue productivity if well mentored (Ouimet et al., 2013).

The 35 to 44 year-old cohort is the most widely employed in Benin, Burundi and Rwanda – at over 50% of workers. As for the over 55s, they account for a sizeable 10% of staff in the revenue authorities of Mauritius, Kenya and Mozambique. Uganda, by contrast, employs none.

The over 55s and 35 to 44 year-olds are cohorts with a wealth of experience and knowledge of tax administration. RAs need to develop succession plans so that, by the time older workers retire, they have passed on their knowledge and groomed the younger generation to step into their shoes. The South African Revenue Service (SARS) has an academy that employs retired tax officers to teach and pass on skills to their younger peers.

Revenue authorities require highly skilled staff

Skilled staff are usually innovative and productive. Educational attainment, skills and training impact on an organization's performance (Toner, 2011). Organizations, whatever their size, that invest in actively managing ethnic diversity in their workforce add new skills and knowledge to their talent pool, generate innovation and tap into new market segments.

Work related to tax law is of a highly technical nature. Revenue authorities need to hire, train and retain highly qualified employees – particularly tax auditors, investigators, HR professionals, senior managers, lawyers, accountants, ICT specialists and economists (ADB, 2016). To ensure that the most suitable are hired, the recruitment procedure must consider qualities other than academic – e.g. interpersonal skills, analytical skills and the ability to work under minimum supervision (Osinski, 2013).

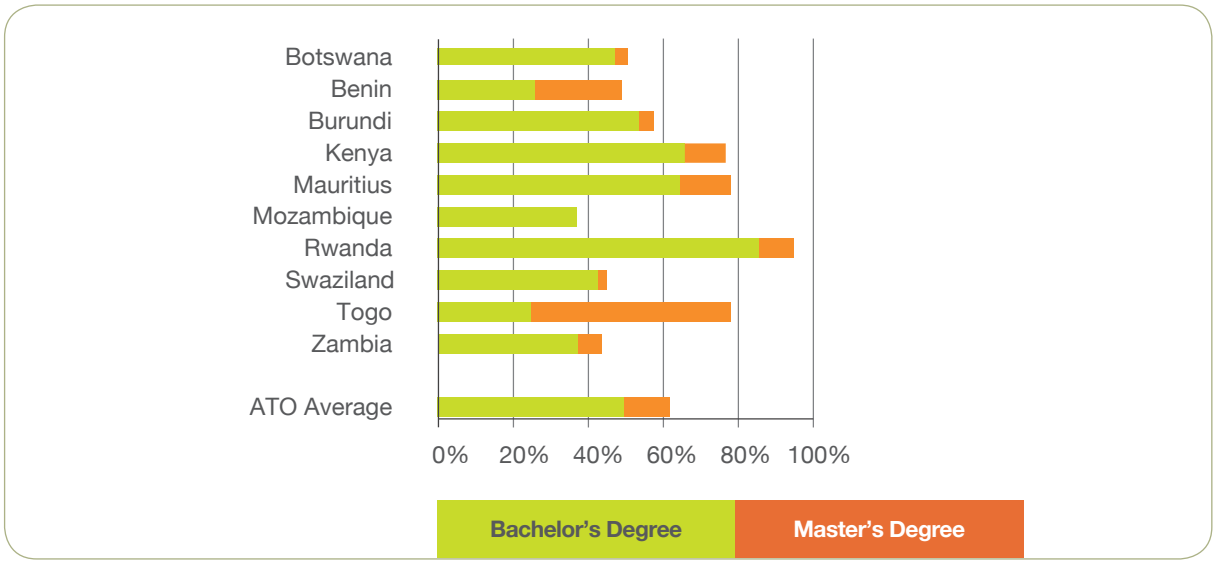
Growing shares of degree holders in the tax administration workforce

Of tax administration employees with qualifications in ATO countries, most have bachelor's degrees (50%), followed by degree-level vocational qualifications (38%), then master's degrees (12.6%) (Figure 8.4). The more developed a country is, the greater its proportion of degree-level graduates (Gallagher, 2004).

Table 8.2: *Percentages of qualified staff, by qualification to total staff, 2015*

Country	Master's degree	Bachelor's degree	TVET
Botswana	3.4%	47.3%	49.3%
Benin	21.6%	26.9%	51.7%
Burundi	4.6%	53.2%	42.2%
Kenya	9%	66.9%	24.1%
Mauritius	12.6%	66.5%	20.6%
Mozambique	0.9%	34.4%	64.8%
Rwanda	9%	88.7%	2.3%
Swaziland	3.5%	46.8%	49.7%
Togo	51.5%	25.9%	22.3%
Zambia	10.4%	36.8%	52.8%
ATO average	**12.7%**	**49.3%**	**38%**

Figure 8.4: Share of staff with Master's and Bachelor's degree, selected ATO countries, 2015



Togo's revenue authority chiefly employs staff with master's degrees (51.5%), while bachelor's degree holders are the most common in Burundi, Kenya, Mauritius and Rwanda with over 53% on average. Botswana, Benin, Mozambique and Swaziland employ higher proportions of staff with technical vocational degrees (above 42%).

Shortages of staff with technical skills

Although numbers of tax administration employees with higher education qualifications are growing, there is still a shortage of skilled workers (OECD, 2013). To perform effectively in a revenue authority, employees should have special technical training as well as an academic degree. In fact, the degree level of a new employee is not especially important, particularly for staff working in core functions. What he or she needs is a specialised technical degree and on-the-job training. To that end, ATO countries should provide training in taxation and secondments to research facilities.

Indeed, some ATO countries cited competency shortages as a corporate risk, particularly in complex transfer pricing cases. RAs must identify the skills that serve the needs of their organizational strategies if they are to find the right, technically proficient professionals (ATAF, 2012). ATO countries should carry out staff skills and capacity analyses and develop training schemes to fill staff competency gaps. Training should meet a balance of needs in the areas of strategy, maintenance and leadership.

- Strategic training is intended to equip staff with the specialized skills that help meet business strategy objectives. Courses are usually tailored to the specific needs of a certain department or division – e.g. on-the-job training (OJT) in auditing, customer services, or data analysis.
- Maintenance training entails specialized training and professional development programmes intended to equip staff with the most up-to-date competencies in their operational fields. Courses are usually sponsored by revenue agencies seeking to improve employee proficiency and business continuity. They are degree courses that can last between six month and two years, e.g. ATAF's Executive Master´s in Taxation (EMT) and post-graduate degrees in tax and revenue administration or tax investigation.

- Leadership training programmes are robust, comprehensive schemes designed to bring out the leadership qualities of present and future managers. Courses may be in a classroom setting or short secondments to specific organizations or universities.

Tax administration must invest in human capital, particularly when it comes to staff working in operations functions like auditing, investigation, litigation or ICT. There is a need for learning and development systems that equip staff with the right skills, help motivate and retain them, so stemming the brain drain.

Average tax official's length of service

Most organizations try to retain staff in whom they have invested heavily. Indeed, motivated employees tend to stay much longer than their dissatisfied peers (Table 8.3).

Table 8.3: *Length of service among employees of revenue authorities in ATO countries, 2015*

As percentage of total staff in ATO countries				
	less than 5 years	5-9 years	10-19 years	above 20 years
Botswana	20.8%	26%	53.2%	
Benin	1.6%	71.8%	26.6%	
Burundi	93.4%	6.6%		
Gambia	35.6%	64.4%		
Kenya	24.5%	20.5%	21.2%	33.8%
Liberia	40.7%	23.8%	35.4%	
Mauritius	22.8%	77.1%	0.1%	
Nigeria	18.1%	25.6%	28.7%	27.6%
Rwanda	32.5%	27%	40.5%	
Seychelles	41.8%	28.3%	29.8%	
South Africa	22%	35.3%	42.7%	
Uganda	33.3%	22.5%	30.8%	13.4%
Zambia	51.9%	17.9%	30.2%	
ATO average	**33.8%**	**34.4%**	**30.8%**	**24.9%**

Tax officers were most likely to work for between 5 and 9 years – an average of 34.4% had done so in 2015. Behind that average, up to 71.8% worked 5 to 9 years in Benin, 64.4% in Gambia and 77.1% in Mauritius. Nearly all tax officials (93.4%) in Burundi left before 5 years had elapsed, 40.7% in Liberia and 51.9% in Zambia. Those percentages point to high staff turnover in all 6 countries.

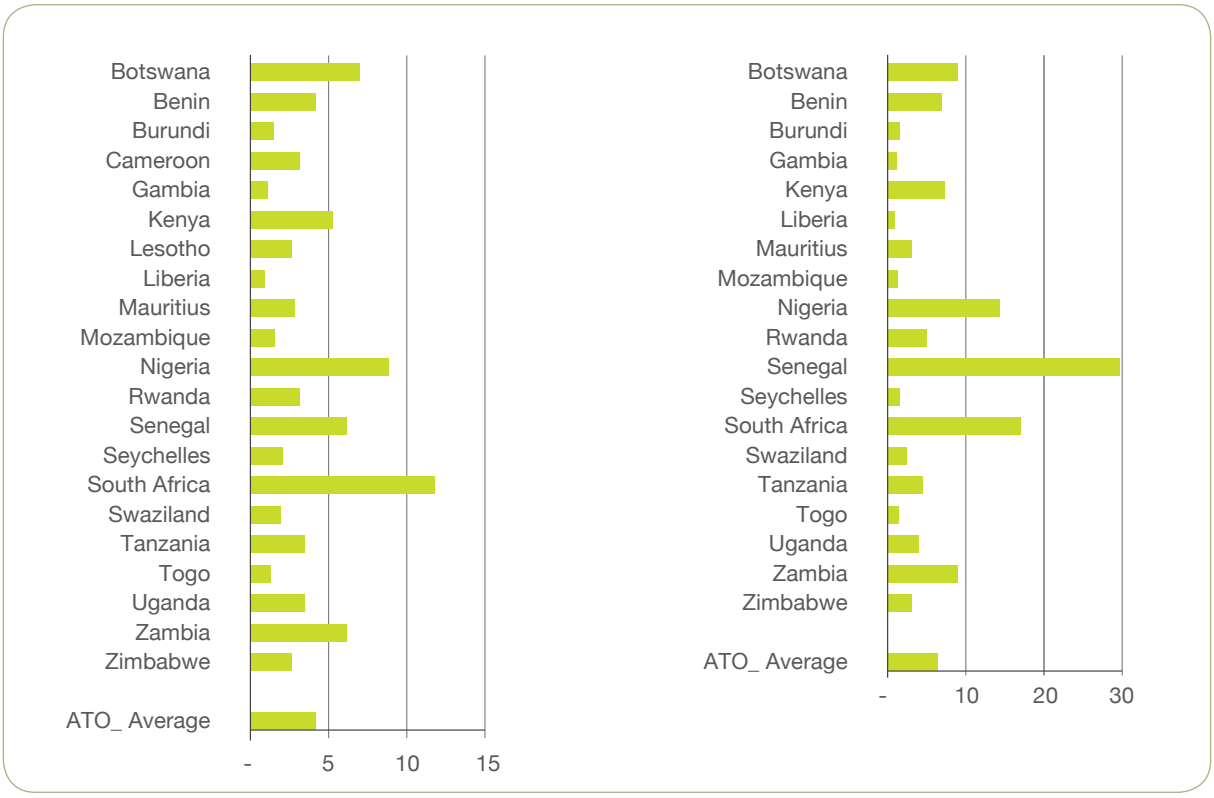
Tax officials in Botswana, Rwanda and South Africa were most likely to serve for between 10 and 19 years – the percentages of total staff were 53.2%, 40.5% and 42.7%, respectively. Nigeria, Kenya and Uganda were the only three countries where most staff were likely to work in a revenue authority for more than 20 years. Although RAs wish to retain employees for long periods, effective performance systems must be in place to ensure that they are productive and that any unproductive staff maybe demoted or dismissed. The following section considers what productivity is and how it may be measured.

8.2. Staff productivity

Tax revenue per employee gauges the mean productivity of tax administrators. The same per capita metric is used to measure the productivity of RA employees working in core functions related to revenue collection. The two productivity indicators (Figure 8.5.) are:

- revenue per tax administration employee: total revenue collected divided by the total number of employees in revenue agencies in a given financial year;
- revenue per employee working in a core tax collection function: total collected revenue divided by the total number of employees working in core tax collection (customs and tax departments).

Figure 8.5: *Revenue productivity in revenue authorities*



Left panel: Revenues per ordinary tax administration employee (millions), 2015. Right panel: Revenues per employee working in core tax collection functions (millions) 2015

The average revenue collected by tax administration employee across ATO countries is USD 3.95million. Measured against that average, South Africa boasts the highest staff productivity, followed by Nigeria, Botswana, Senegal, Zambia and Kenya. The least productive tax administration employees are those of Gambia, Liberia and Togo.

Simplifying and reengineering support functions helps yield more efficient tax collection and higher revenues. In that respect, Nigeria's revenue authority secured improvements in productivity by reworking its communication practices.

Box 8.1

Good practice from Nigeria: iSHARE platform improves corporate communication

The Nigerian revenue agency (FIRS) sorely lacked any real ICT-based corporate messaging and collaborative infrastructure. Staff had to travel to deliver documents or attend meetings instead of sharing them over networks or holding video-conferences.

FIRS responded with a robust messaging and collaboration platform called iSHARE (secure, handy, accessible, reliable and efficient). It includes tools like Active Directory (with single sign-on access to computer network resources), SharePoint (Intranet platform); Exchange and Outlook (corporate email), Lync (Instant messaging, video conferencing, online meetings etc.) and Yammer (corporate social networking).

The iSHARE platform has increased staff productivity by:

- institutionalising online information sharing;
- scheduling meetings on the FIRS Intranet;
- assigning staff tasks through Outlook;
- providing routine online training and online staff surveys.

Instead of printing dozens of reports for meetings, participants simply log on to the SharePoint Intranet portal to view all meetings. Alerts and meeting reminders are received even on mobile devices. Action points from meetings are now scheduled, assigned and tracked as tasks on Outlook.

Source: Federal Inland Revenue Authority Nigeria (2016)

8.3. Tax administration outreach and coverage

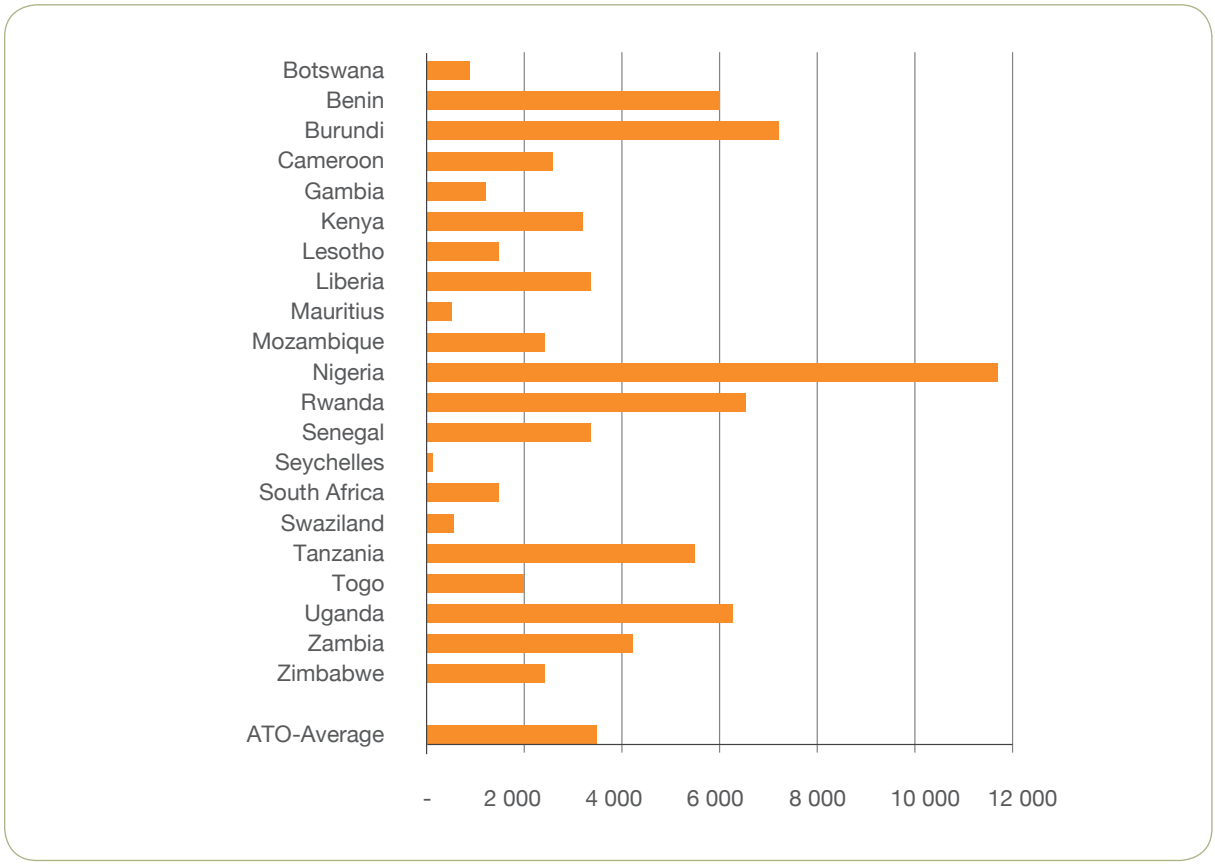
Outreach is an indicator of a tax authority's staffing levels and ability to reach all taxpayers – potential and registered – and prevent revenue losses that stem from poor enforcement. With the rise of self-assessment regimes and online registration, filing and payment, it is essential that revenue administrators be present on the ground to ensure that enforcement and audits go smoothly.

Two indicators of an RA's human resources that enable inter-country comparison, are labour force per tax administration employee and taxpayers per tax administration employee.

Workforce to RA employee ratio

The workforce-to-RA staff ratio is the number of economically active individuals in a country divided by the total number of revenue authority employees at the end of the financial year. The lower the ratio, the more tax administrators there are to serve workers and the greater their capacity to reach them. The international tax administration outreach benchmark is 1 000 people per tax administrator (Al Momani et al., 2010). The average workforce-to-RA-staff ratio in ATO countries, however, is three times higher at 3 545/1.

Fig 8.6: *The ratio of labour force to tax administrator in ATO countries, 2015*



Note: Labour force data for Botswana, Lesotho Seychelles, Tanzania and Zimbabwe relates to 2014

Within that relatively low ATO average, however, Botswana, Mauritius, Seychelles, and Swaziland are well staffed, with ratios below the international benchmark of 1 000.

Nigeria is an outlier with its 11 872 economically active people per tax administrator. Such an extreme ratio is attributable to correlations between:

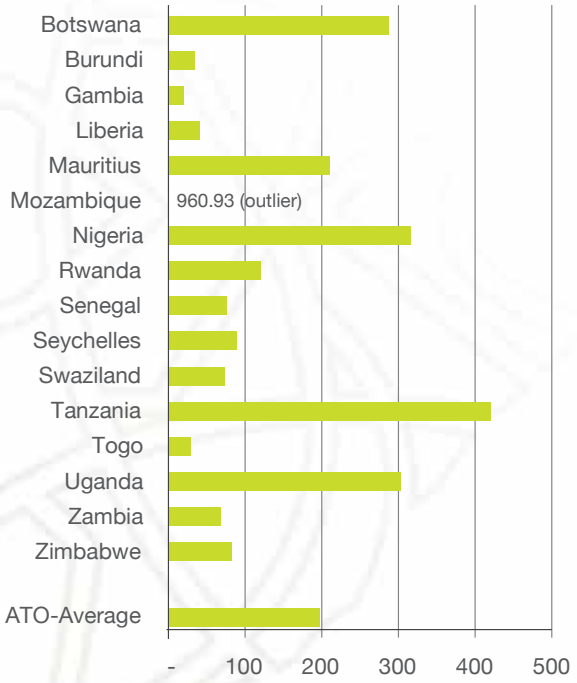
- the population and staff numbers,
- the rates of growth in the population and in staff numbers
- the rate of growth in the labour force and in staff numbers.

Taxpayers per tax administrator

The taxpayers-per-tax administrator ratio refers to the number of people with a taxpayer identification number (TIN), divided by the total number of tax administration employees at the end of the tax period. The lower the ratio of taxpayers to tax employee, the more registered taxpayers the revenue authority can reach to prevent revenue loss.

The average taxpayer-to-tax administrator ratio in the ATO countries is 202 – i.e. each administrator serves 202 taxpayers (Figure 8.5). International good practice recommends that the ratio of active taxpayers (those who have filed tax returns in the previous year) to tax administrator should be between 150 and 250 (Jacobs, 2013). The range allows for countries with large economically active populations.

Figure 8.7: *Numbers of taxpayer per tax administrator, selected ATO countries, 2015*



Within the ATO average, there are wide differences between ATO countries. Burundi, Gambia, Liberia, Senegal, Seychelles, Swaziland, Togo, Zambia and Zimbabwe are well staffed, with the ratio of registered taxpayers to administrator below both the ATO average of 201 and the international reference ratio of 100.

Mozambique is an outlier with 960 taxpayers per tax administrator. The size of its ratio is ascribable to a correlation between tax administration coverage, the expansion of the taxpayer register and registration policy. To put that correlation in perspective: Mozambique registers all liable taxpayers, even when they do not actively file returns or pay taxes. As result, the tax register comes to be dominated by dormant taxpayers, which makes the register hard to monitor.

Staff coverage

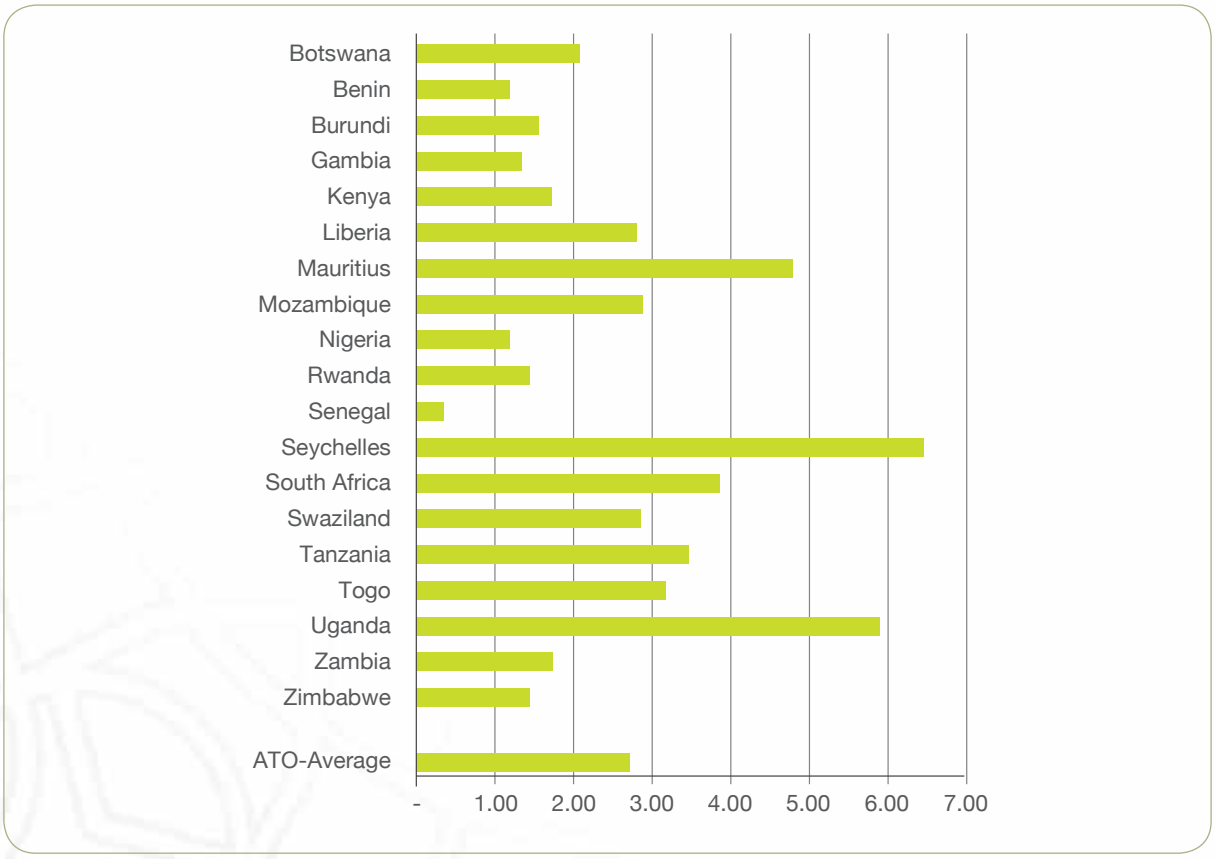
The increase in automation has changed the nature of RAs' service delivery. RAs in developed countries rely more on emails, websites and phone calls than on person-to-person interaction. By contrast, physical presence is crucial in developing countries where the informal sector is large, tax formalities are manual, and taxpayers have no access to modern technologies (Jacobs, 2013; Kidd, 2008).

The ratio of tax administration core workers to support staff is the total number of employees in core functions divided by the number of support staff.

- Core functions are critical in domestic tax and customs departments such as taxpayer registration, filing, declaration, payment, auditing, taxpayer services and the collection of arrears.
- Support functions are those that enable and guide core functions – e.g. human resources, finance, internal audit, tax investigation, legal services, information technology and strategic planning.

A high core-to-support-staff ratio could be the sign of a highly effective revenue authority focused on its core duties. However, it could also point to low levels of automation and the consequent need for high numbers of employees to perform tasks manually. In that event, RAs need to increase staff in enforcement, collection, tax investigation and audit functions to ensure good taxpayer compliance.

Figure 8.8: *Ratio of tax administration workers in core functions to those in support functions, 2015*



The revenue agencies with the highest core-to-support-staff ratios are those of Seychelles and Uganda, where core workers outnumber by 6 to 1 their peers in support functions. The lowest ratio – 0.27 comes in Senegal, the only country where the ratio is reversed, which may be attributable to the fact that tax administration in Senegal is still under the aegis of the finance ministry.

If a revenue authority's core-to-support-staff ratio is 1, then it has the same number of staff in core and support functions. The ATO average ratio of core to support staff is 2.74, compared to 4 in the OECD. In other words, there are almost 3 times more core than support workers in the ATO countries and 4 times more in the OECD. International good practice calls for a ratio of 3, with human and financial resources accounting for 70% of support functions (Jacobs et al., 2013).

8.4. Training for leadership and building competencies

Revenue authorities need talented, loyal, committed staff to maximize revenue collection. Staff costs account for 80% of total tax administration operating costs. Clearly, competencies, performance and integrity are critical requirements (Osinski et al., 2013). To attract and retain staff with the necessary expertise, professionalism and leadership, RAs should promote themselves as employers of choice – among both incumbent and potential employees. To be perceived as such, though, RAs must demonstrate their ability to retain employees, groom talent, and bring out leadership qualities. They should constantly review human resources action and monitor staff feedback through channels such as staff exit interviews, human resources surveys, and staff discussion groups (IRAS, 2011).

This section stresses the importance of the quality of leadership required to serve the cause of revenue collection and tax compliance. Spotting and grooming talent, building leadership competencies (technical expertise, drive, imagination and creativity) and ensuring prospects of career development are essential components in the competency frameworks that RAs should build. RAs can modernise and reform work only if management is equal to the task.

Leadership programmes

A number of ATO countries operate leadership-building programmes.

The revenue authorities of Botswana, Kenya, Mauritius, Nigeria, South Africa, Swaziland, Togo and Uganda are among those that run in-house and external leadership programmes. They are designed to address the special needs of revenue authorities and ensure that management skills and leadership abilities are not too uneven and meet standards.

Uganda, for example, has developed its own standard leadership development programmes – "Fired Up Excellent Leadership", intended for senior management, and "Getting Equipped and Reinforced Leadership" for line managers. The programmes are designed to:

- strengthen the abilities of executives and line managers,
- make them more effective leaders,
- help them help their teams to excel.

Revenue bodies must ensure that the training provision and career prospects which they offer engage staff fully, so that they see themselves contributing to a strategic goal. To that end, capacity building is a necessity. Nigeria's Federal Inland Revenue Service (FIRS), for example, has introduced capacity building in leadership, professionalism, maintenance and strategy.

RAs in the ATO countries strive to deliver a taxpayer experience that fosters voluntary compliance. That, however, requires highly competent, innovative staff. To find such people RAs need to have schemes in place for spotting and managing talent.

Talent management

Talent management is the ability to attract, groom and retain talented, innovative staff. Although RAs have recruitment procedures that enable them to recruit the right candidates, they could do more to get the best out of their employees. They still struggle to spot their special qualities and lack proper methods of harnessing new talents and grooming them in the ways of corporate culture.

Kenya, for example, runs a talent management policy to ensure that talented staff are spotted, motivated and retained. South Africa, for its part, has put in place divisional talent boards to oversee talent management. SARS has put in place "divisional talent grids" in its divisions to inform succession planning for senior executives and preserve knowledge assets.

Botswana, South Africa, Mauritius and Zambia all send their senior managers overseas on leadership, talent management and succession planning courses. Swaziland's New Manager Development Programmes and Zambia's Graduate Management Development Programme are both designed for newly recruited management staff.

Some ATO countries, such as South Africa, have implemented operations manager development programmes to groom the executives of the future. They target managers at both operational and tactical levels who will design, control and manage business processes and operations and build the highest possible level of tax administration efficiency. Managers at operational levels must be strong leaders, fast problem solvers, and good communicators if they are to effectively manage the business processes which convert input (tax laws, staff, taxpayers and systems) into revenue.

Career opportunities and development

RAs, like those of the Gambia and Uganda, give their staff opportunities to develop and grow by sponsoring or granting them paid or unpaid leave to study for post-graduate qualifications. Bonding staff helps RAs retain well trained, resourceful staff and ensures seamless succession and the imparting of skills to new staff.

Some revenue authorities send employees to domestic or overseas learning institutions. The Gambian and Zambian RAs have dedicated training budgets, which ensures that employees get the opportunity to improve their knowledge and competency base.

Although RAs widely fund training courses, long and short, designed to build competencies that are in short supply, they should continuously evaluate how effective learning programmes are in order to ascertain whether they have invested their resources in the right people and courses. And they should make a point of ensuring that staff apply the knowledge and technical competencies to theirs job and pass them on to their colleagues.

Botswana, for example, has introduced a personal action plan to guide tax officers in applying and sharing what they have learnt to enhance productivity.

Professional and standard development programs

Some training programmes designed to build and hone the technical competency of tax officers – such as auditors, tax investigators and litigation officers – also deliver a qualification that formalises the high level of technical proficiency that they have achieved. In a word, the programmes make tax officers tax specialists and, at the same time as they acquire new skills, they effectively gain promotion.

The programmes – professional and standard development programmes – are sponsored by external organizations like ATAF and the IMF in order to enhance proficiency and ensure business continuity. Examples are:

- post-graduate diplomas in tax and revenue administration;
- post graduate diplomas in tax investigation;
- Executive Master´s in Taxation (EMT), delivered by ATAF.

A key component of the programmes are refresher courses, where the skills of the newly qualified professionals are updated. And a particularly constructive requirement is that they should share their skills and knowledge with their peers to help them, in turn, develop.

Professional and standard development programmes deliver enhanced technical proficiency, business continuity, professional development and high-level qualifications.

Certification schemes, too, formalise an employee's high degree of technical competency with certificates that are recognised both domestically and internationally. Mozambique issues certificates in formal recognition of technical competency to tax workers.

Building staff competency and encouraging innovation

A competency is the ability and knowledge required to do a particular job properly and successfully perform to the requirements of that job.

Revenue agencies should identify key job roles and develop critical competencies (be they core, functional, leadership- or career-related) to improve performance and ensure that the competencies developed match their goals. Standardized staff development programmes, planned training courses, and relevant course modules are key to improving staff competencies and, where necessary, bringing them up to the required standard.

ATO countries should develop competency frameworks where:

- job descriptions (JDs) spell out exactly what a job entails, distinguishing between responsibilities and tasks and listing the competencies and qualifications required;
- a job catalogue lists all positions in different departments, classified by type of job, e.g. be it a core or support function or related to operations or management;
- an inventory lists the competencies specific to different departments;
- a competency dictionary defines each competency and provides guidelines for consistent, transparent and fair recruitment processes geared to motivating and retaining staff.

The MRA in Mauritius is one of the RAs to have defined and automated job roles and expectations to enable ready identification of strengths and skill gaps. If need be, RAs mentor and coach employees to enhance the skills, knowledge and ability that are in accordance with performance goals. New employees generally go through orientation courses to ground them in organizational policies and rules. Similarly, staff promoted to new supervisory positions attend structured management training courses to improve their supervisory and leadership skills and clarify their job descriptions.

Box 8.2

GRA puts competency at the centre of human resources

Gambia's revenue authority has developed a competency-based framework that focuses more on competency than on qualifications or experience. It seeks to facilitate the achievement of objectives and the implementation of human resources processes such as staff planning, recruitment, development and career management. And regardless of the tasks and responsibilities assigned to them, employees are held accountable for their actions.

The competency framework has also facilitated the development, monitoring and evaluation of SMART objectives making performance appraisal much easier. And it has enabled the assessment of staff competencies against the required proficiency levels and specific training programs to address any competency gaps identified.

Source: ATAF Innovation Awards 2016.

Innovation frameworks

Closely related to grooming talent and developing competences is fostering innovation. To that end, revenue authorities in ATO countries should build comprehensive innovation frameworks to encourage staff to proactively come up with ideas that improve service delivery. All employees should be involved. They may generate ideas through meetings and brainstorming sessions, which are then passed on to project teams for evaluation and implementation. It is recommended that a time slot should be regularly set aside for staff to get together and brainstorm. It is important that employees whose ideas improve processes and systems should be formally recognized for their achievements (IRAS, 2011).

Training for all personnel

Training must not be reserved for employees who are management material or exceptionally gifted. All should be entitled to training as a matter of routine to improve efficiency and instil positive attitudes. To that effect, RAs in ATO countries should have provisions for on-the-job (OJT) training courses in their departments and regional offices.

OJTs are designed to develop hard skills – i.e. which impact directly on productivity, like the taxation of MNEs – and soft skills, such as interpersonal competencies that sustain the core values of tax administration.

ATO countries require staff with unique, specialized skills to match the dynamics of the business environment. To that end, training should extend skills training to as many employees as possible to ensure continuity within the organization, especially in such critical functions as auditing, investigation, litigation and ICT-based services – bearing in mind that unskilled staff is a corporate risk.

8.5. Retaining staff

Grooming talent, building leadership skills and developing competencies offer stimulating career prospects that are an important factor in employee loyalty. In addition to the purely professional appeal of developing, learning and working in the highly skilled and challenging environment of a revenue authority, money, job security and intangible factors like well-being are also powerful incentives when it comes to retaining staff. They may be loosely categorised under four headings:

Wages

Benefits

Performance and recognition

Workplace

Wages and financial incentives

A proportion of staff budgets is allocated to making salaries competitive. A major challenge for RAs is attracting and retaining competent, committed staff. And in the battle for talent, an arm they can use to portray themselves as superior employers is a highly effective, strategically designed compensation scales. Indeed, high wages have been found to motivate staff, spur them to intensify their efforts (Greiner and Ockenfels and Werner, 2011), and attract highly able people (Burgess and Ratto, 2003). A share of revenue authorities' budget therefore goes into competitive salaries to keep staff motivated and prevent issues of staff turnover due to poor pay.

RAs' wage structures should be adjustable to changes in business and economic conditions. For example, 1% of the SARS staff budget is allotted to

offsetting salary discrepancies with the going rates on the job market and ensuring pay is competitive. Nevertheless, they should benchmark their annual salary scales in such a way that remuneration packages, while competitive, are realistic.

Wages paid to some workers can be very high, though. Revenue authorities in some countries have policies designed to retain highly skilled employees who work in critical areas such as ICT and international taxation. Accordingly, the RAs of Botswana, Swaziland and Uganda, for example, offer such employees allowances in addition to their salaries.

Similarly, revenue authorities practice remote area service allowances, also known as hardship allowances, as incentives to take up positions in inhospitable locations. It is very important for a revenue authority to leave its footprint in the furthest reaches of the country. To that end, they need staff who are prepared to work in remote areas which lack infrastructure and social amenities and may be prone to crime and even civil strife. Botswana, Uganda and a number of other RAs offer such hardship allowances.

A general recommendation is that, every three years, RAs should review all salaries to ensure they are competitive and accurate reflections of what their jobs entail (IRAS, 2011).

Benefits

Benefits refer to financial provisions that ensure employees welfare and security. They, too, help RAs to retain personnel. The MRA in Mauritius, for example, offers retirement benefit packages to which both employer and employee contribute as a way of promoting the savings culture. It is another incentive for employees to stay loyal, and where the employee's interest coincides with revenue authorities' objectives. Retirement benefit also acts as a token of appreciation and ensures that tax employees enjoy peace of mind in their later years.

RAs also look after their staff during their working lives. They run a wide range of employee well-being schemes that help build and retain an efficient, healthy workforce.

Table 8.4: *Examples of employee well-being schemes offered by ATO revenue authorities*

Well-being scheme	How it works	Which countries provide?
Health insurance	Covers staff and dependents. Staff pay small contribution for full coverage	Gambia, Mauritius, Senegal, Uganda
HIV policies	Free medical treatment for HIV-positive staff	Uganda
Life insurance and personal insurance	Provide against occupational hazards and accidents in and outside the workplace	Kenya (insurance covers even natural disasters)
Check-ups and healthcare	Employees and their family members receive free medical advice and treatment	Uganda (runs "health weeks")
Physical fitness activities	Dance classes and staff sports tournaments, which help keep staff fit and relieve stress	Botswana

Financial security and peace of mind are another strong incentive for employees to stay on and work productively in an organisation. In this regard, RAs like those of Gambia, Kenya, Senegal and Zimbabwe have agreements with banks, whereby employees can obtain cheap loans and the RA stands guarantor for any outstanding liabilities in the event of default.

Recognition and motivation

RAs' efforts to improve performance hinge on their ability to successfully motivate their employees. Motivated employees increase productivity, innovation and quality. And recognition for their work is in itself motivation. Annual performance bonuses are perhaps the clearest kind of formal reward, and are no more than innovative, hard-working employees deserve.

Monetary and non-monetary recognition of performance

For reasons of cost-effectiveness, RAs should tie bonuses to performance, scaling them up or down to match to achievement. Kenya, Mauritus, Nigeria, South Africa, Togo, Zambia and Zimbabwe all currently use performance-based reward scales in their annual bonus schemes. It might be even more efficient, though, if bonuses were restricted only to the highest levels of performance. That is the practice in Zambia's revenue authority, where deserving employees have prospects of promotion. The ZRA actually recognises poorly performing staff, too, motivating them to do better through counselling and mentorship programmes.

Box 8.3

Swaziland's automated performance management system

The Swaziland Revenue Authority (SRA) long had a manual performance management system (PMS) that used MS Excel files for score cards, reviews and appraisals. All had to be signed, scanned and emailed to the human resources division – a cumbersome, time-consuming process for an organisation with over 800 employees.

SRA introduced its automated PMS in 2013/14 to streamline performance management, cut printing costs, avoid exchanges of emails and, generally, shorten the time spent on managing performance.

Internal experts from the Innovations Division automated the PMS. Its drill-down function and drop lists build on SharePoint to enable all staff to generate scorecards and performance agreements. Employees at all levels can conduct online reviews during the appraisal process, upload them, then sign off. Prior to signing off, though, there is always a person-to-person meeting with management.

With its online PMS, SRA has been able to cut the time spent on managing performance and save on the costs of printing and emailing.

Source: ATAF (2016)

Recognition does not only take the financial form of bonuses. Countries such as Burundi, Nigeria, Swaziland and Togo congratulate high-performing staff to strengthen their sense of worth. A number of RAs also have non-monetary performance recognition schemes – also known as "positive reinforcement" – designed to encourage employees to keep up the good work.

Senior management visits and talks also can also motivate. In South Africa, Uganda and Zambia, for example, senior management visits help build employees' sense of belonging as they see that the top echelons of their organisation think about them, understand what they have to endure at times, and offer meaningful solutions to challenges.

Staff performance appraisals

Staff appraisal systems must be transparent. Transparency ensures that the right employees are recognised, rewarded accordingly and know that decisions have been fair. It thus helps to foster a workplace environment where staff feel that they can use their abilities meaningfully and will be recognised for so doing.

Burundi's revenue authority has a staff evaluation management system in place. It is based on SMART objectives. The system fosters continuous collaboration between employee and supervisor during the objectives-implementation phase through to the evaluation phase. Burundi's revenue authority has thus instituted uniform standards throughout the organization that ensure equity in assessment and evaluation. Employees are thus safe in the knowledge that they will enjoy recognition for their efforts because they will be judged fairly.

The Workplace

A modern, thoughtfully ergonomic workplace is conducive to the delicate work of tax collection. A number of RAs have sought to create work environments that help staff strike a work-life balance. They offer services like nursery stations for breast-feeding mothers, relaxation spaces where staff can unwind, and playgrounds and gyms where they can work off stress and keep physically fit.

More important than such services, though, is good working relationships. That is the aim of open-door policies, which encourage feedback and communication between management and tax workers. Mauritius, for example, has put in place just such an arrangement. Regular feedback to management helps build a sense of connection and mutual accountability between staff and senior management.

The revenue authorities of Cameroon and Nigeria, too, have sought to build working environments that encourage fairness, transparency and open communication between staff and management. A productive workplace is one which encourages strong working relationship between coworkers, has sound occupational safety measures in place and operate provisions grievance procedures. Revenue authorities which meet those conditions, and where there is communication and recognition across all levels of management, are likely to retain their staff. Employees take an active interest in their jobs and work with a sense of involvement and belonging.

8.6. Conclusion

Tax administrations need quality employees as they seek to provide taxpayers with quality services to improve revenue collection.

Gender gap

The average gender gap in labour force participation rates in ATO countries' revenue authorities is 21%, compared to 12% in the OECD area. Togo, for example, employed over four times more male than female staff in 2015. Moreover, executive staff account for an average of 4.8% of all staff. Within that percentage, the ratio of men to women is 3.8 – in other words, there were well over three times more male than female executives in ATO countries in 2015.

ATO countries employ more staff (36.4%) from the 35 44 age bracket than from any other. Next come the 25 to 34 year-olds with 32.5%, followed by 22.3% of staff aged between 45 and 54. This age distribution broadly matches the OECD average, where 9% of staff are under 30, 50% between 30 and 50, 50 to 60 year-olds account for 34% and 7% are over 60. The relative variation in the age distribution of staff between ATO and OECD countries is attributable to differences in recruitment and retirement policies and levels of experience among tax employees in the different economies.

Tax administration needs more specialised workers

Tax administration needs to invest more heavily in human capital, particularly in operations functions, to increase numbers of workers with specialised skills.

Almost 62% of revenue authority staff in ATO countries boast at least a degree-level qualification, however. Rwanda's RA has the largest share of qualified staff – over 97% have a university degree. In Mozambique, by contrast, only 35% do.

One trend that does emerge, however, is that RAs in ATO countries do provide on-the-job and specialized technical training courses – key requirements if staff, particularly those working in core functions, are to deliver fully.

Staffing levels, motivation and retention

The average taxpayer-to-staff ratio in the ATO countries is 202, which is within the international benchmark of between 150 and 250 economically active people per tax administrator. Mozambique is an off-the-scale outlier with a ratio of 960/1.

RAs in ATO countries have also acted to improve staff competencies by spotting and grooming talent and building leadership qualities. They also seek to retain and motivate high-quality employees through competitive pay levels, monetary and non-monetary recognition of performance, and the provision of career opportunities.

Recognising that tax administration workers are part of the wider community, revenue authorities also provide services – e.g. health insurance, keep-fit programmes, guaranteed low-interest access to loans – which help staff strike a good work-life balance. Healthy, skilled, professionally fulfilled, and financially secure workers are motivated and more likely to stay.

09

CHAPTER 9

Policy recommendations

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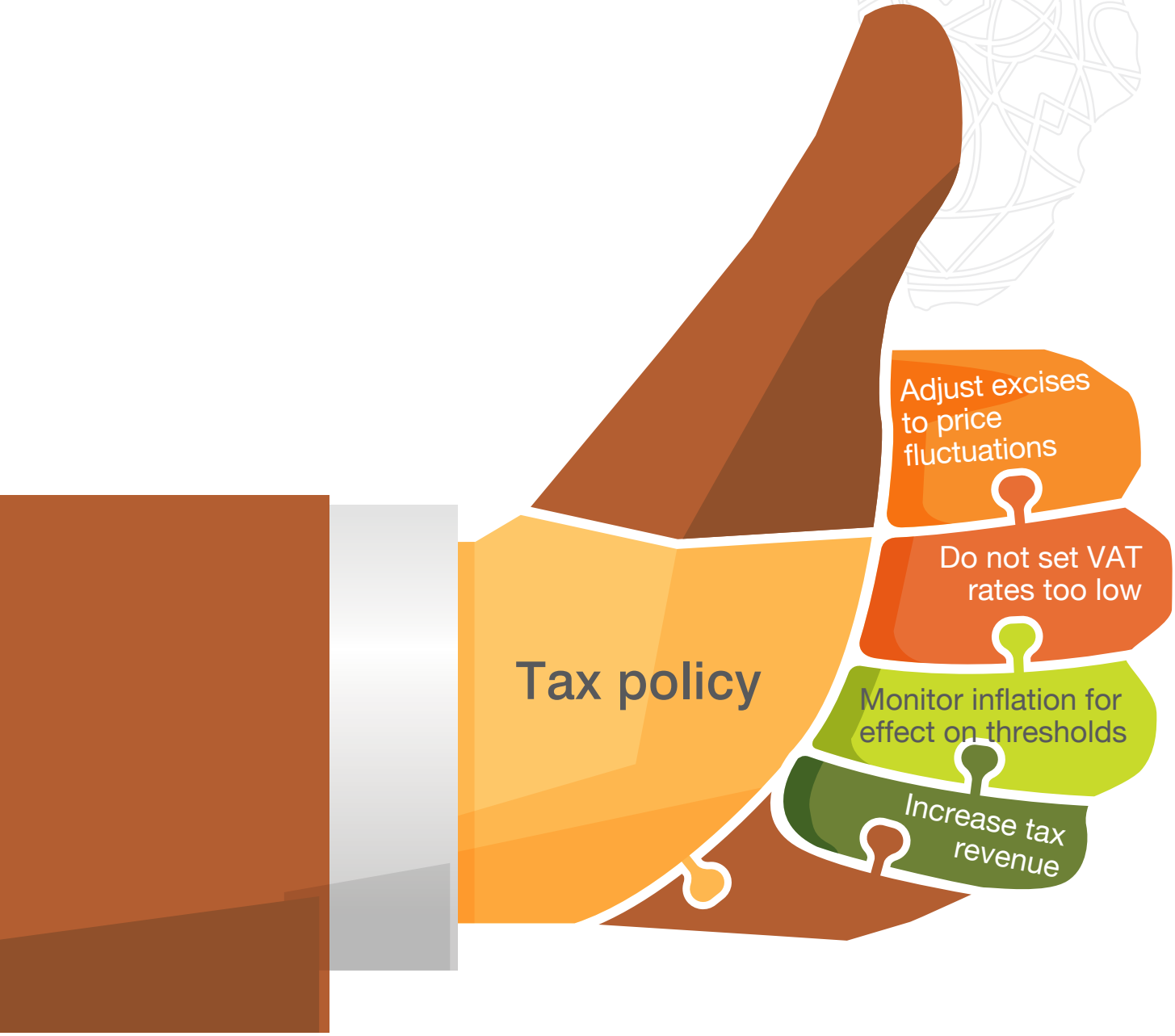
POLICY RECOMMENDATIONS



TAX AND CUSTOMS ADMINISTRATION RECOMMENDATIONS

Dealing with large taxpayers

Improving the general efficiency of tax administration

Dealing with small enterprises and the informal sector

9. Policy recommendations

9.1. Tax policy

Increase tax revenue

It is widely acknowledged that African countries would benefit from an increase in public spending in education, healthcare and public infrastructure. Such expenditure would not only be socially warranted, but growth-enhancing, too. It would help expand the tax base and increase future tax revenue. However, greater expenditure would require greater tax revenue.

The need for higher tax revenue is made all the more acute by the fact that African countries have opened their borders and thus lost income from easy-to-collect customs duties. Indeed, liberalisation in trading blocs has cut customs duties, so much so that they are no longer a major source of government revenue.

Do not set VAT rates too low

Consumption taxes are the biggest sources of tax revenue in most ATO countries, with VAT the consumption tax that brings in the most. Since VAT is collected all along the chain of value creation, it is the most stable source of revenue. What is more, there are some ATO countries with low VAT rates which could raise them to increase revenue. However, low-income earners spend a larger proportion of their income on consumption and would suffer from a hike in VAT.

ATO countries need to strike a balance between considerations of fairness and the need for revenue. At the same time, though, they should bear in mind the distributive aspects of public expenditure and that, were it to benefit society, they might be able to expand regressive taxation and make it more acceptable.

Low VAT tax rates bring in low revenue, even when thresholds are low. And the cost for firms of administering VAT is largely unrelated the amount of VAT due. The same applies to the cost of collection for revenue authorities. So even if small firms were to pay low levels of VAT, the tax's cost-effectiveness and performance would be low and it would fail to bring in adequate revenue.

Monitor inflation for effect on thresholds

Half of growth in nominal GDP in the average ATO country, is attributable to inflation and the other half to real growth. It is immaterial for tax revenue, however, whether growth is price- or production-related. That being said, a rise in prices leads to a fall in real thresholds, so people and firms might become liable to tax even though their real situation has not changed. Although the decline in real thresholds might be good in that it broadens the tax base, it might also put pressure on small enterprises. Revenue authorities should monitor inflation, therefore, and its effects on thresholds and adjust nominal thresholds accordingly to keep them constant in real terms.

Adjust excises to price fluctuations

Excises are levied on consumable products – such as alcohol, tobacco, petroleum products and luxury items like electronic equipment. Excises are normally fixed per unit of a good and independently of price. The real value of excise, therefore, declines in periods of inflation and it has to be adjusted to the general price level.

The advantage of excise taxes is that they earn stable revenue and discourage the consumption of products harmful to health and the environment. However, the more effective they are at the latter task, the less revenue they earn. Moreover, for many highly taxed goods, there are illicit markets, which would burgeon with no positive effect on behaviour if excise were increased. The optimal level of excises depends on income and prices within a country and in neighbouring countries, particularly if there are large flows of goods and people between them.

Corporate income tax revenue is highly vulnerable

Corporate income tax (CIT) rates in ATO countries are set at the same level as in OECD countries and the revenue raised is an important component of government finance. In many countries, a few large taxpayers account for the bulk of CIT revenue, which makes it dependent on their compliance. However, it also depends on their particular economic situation, as some companies' business development may be determined by international markets and lie beyond national control. Shocks to the global economy may consequently impact on national tax revenue. Therefore, even though corporate taxes might be easy to collect and seen as fair, countries should not be over-reliant on it.

Further investigate personal income taxes

Personal income taxes (PITs) are a straightforward reflection of the ability to pay principal. They are good, therefore, from a fairness perspective. However, they are widely regarded as detrimental to growth because they deter incentive and drive economic activity underground. In most ATO countries, PIT revenue's share of GDP is far below the levels in the few ATO countries with high PIT-revenue-to-GDP ratios. The main reason is the low number of taxpayers. Furthermore, most pay only the bottom marginal rates.

To date, few ATO countries have been able to calculate effective and average tax rates, which depends on the progressive structure of tax rates and income distribution. Given their importance, there is clearly need for further investigation in future editions of the *African Tax Outlook*.

9.2. Tax and customs administration recommendations

Dealing with small enterprises and the informal sector

Reduce costs of compliance for taxpayers, especially small businesses

ATO countries have extremely high percentages of very informal small and micro taxpayers who keep poor records. They are largely ignorant of tax law, never hire or use qualified tax advisors, so the risk of under- and non-declaration is high. To mitigate that risk, revenue authorities should seek to reduce costs of compliance, especially for the small and micro businesses that struggle most. RAs could simplify their record-keeping and reporting requirements and supply pre-filled tax declarations for filing returns (TADAT, 2015).

Strengthen the legal and regulatory systems in the informal sector

Cash-based transactions, weak regulatory institutions and the lack of proper taxpayer identification systems result in low revenue yield from the informal sector (ATAF, 2012). In addition to foster policy environments and taking administrative measures conducive to compliance, ATO countries should strengthen their legal and regulatory systems to effectively tax informal business (Mawejje, 2013). They should seek to formalise the informal sector, particularly through measures to regulate the cash economy, control market entry and access and map all businesses' locations.

Build a tax-paying culture through education, awareness and outreach

One reason for ATO countries' generally poor taxpaying culture is limited knowledge and understanding of tax rules. Taxpayer education and awareness campaigns help convey to the public the importance and benefits, direct and indirect, of paying tax. Since taxpayers are very mixed group of

people, RAs should tailor tax education strategies to their abilities to access online information, attend workshops, access call centres, and read printed material.

Given RAs' limited financial and human resources, their tax education efforts should include stakeholder management. It would enable them to get through to taxpayers with widely varying levels of tax awareness, effectively influence compliance behaviour and reduced the incidence of corruption and fraud. RAs should join forces with local leaders, politicians, tax advisors, business associations, clearing agencies, policy makers and the police.

Use memorandums of understanding to widen information exchange

Revenue authorities in ATO countries should use Memorandums of Understanding (MOUs) and the ATAF Agreement on Mutual Assistance in Tax Matters (AMATM) to exchange information with both internal and external sources. Through MOUs, ATO countries could integrate their tax administration systems with external systems such as those of trust funds, land and property registers, and banks and companies. Interfacing with outside systems should be central to efforts to expand the tax base and so maximise revenue from informal sector.

TADAT (2016) recommends that RAs regularly update their MOUs with key partners and enter into data exchange agreements to minimise under-reporting and numbers of unregistered taxpayers.

Dealing with large taxpayers

Segment large taxpayers by multiple sector-based criteria

Some ATO countries do not segment their taxpayers by business sector. RAs should process large taxpayers in ways that are specific to the sectors in which they do business – e.g. finance, the extractive industries, IT service providers, or telecommunications. Such taxpayers' complex business transactions require specialized skills to handle and effectively maximise revenue collections. Accordingly, ATO countries should segment their taxpayers by sector and size (Jacobs, 2013) so as to tailor interventions and services to particular groups. Clear segmentation criteria that reflect a country's economic conditions should be documented and implemented at both national and regional levels (ATAF, 2012).

Promote fair and effective mechanisms to increase certainty and create a climate of trust between Government and MNEs

One major compliance risk observed in ATO countries between 2011 and 2015 was inaccurate reporting through false documents, mispricing, trade pricing, and under-declaration of goods and taxes. To encourage accurate reporting, ATO revenue authorities need to build collaborative, trust-based relationships – especially with the high net-worth individuals (HNWIs), large companies and intermediaries such as tax advisors (TADAT, 2015). Enhanced Engagement Programmes (EEP) offer an opportunity to reconcile the goals of securing the tax base of countries with the need to create a more certain and transparent environment that encourages economic growth and investment, especially in a context of limited human and financial capacity. If well implemented, these programmes can be a transparent, cost effective approach for both parties. Their main objectives would be to overcome information asymmetries at an early stage, determine mutual obligations with regard to filing, reporting, controlling and auditing, and thus lower the costs of tax compliance and tax administration.

Run voluntary compliance programmes

Over 50% of ATO countries' revenue comes from large taxpayers, who are often MNEs. There is a risk, however, that they could be involved in multiple, complex tax-planning schemes, with RAs struggling to ascertain their activities inside and outside the country.

Disclosures enable RAs to carry out fully informed risk assessment of tax issues that are uncertain or contentious from a tax administration view (OECD,

2009; NAO, 2016). ATO countries must implement voluntary compliance programs to encourage large taxpayers to make full disclosures of their tax liabilities, including offshore activities. In that way, they will be able to collect tax and any interest or penalties due without resorting to long, complex investigations.

Voluntary disclosure programs should never, though, allow large taxpayers to gain relief for past non-compliance (Fjeldstad et. al. 2014). ATOs' voluntary disclosure programmes should seek to secure behavioural changes by increasing the likelihood that future non-compliance will be punished.

Exchange information mechanisms

ATAF Agreement on Mutual Assistance in Tax Matters (AMATM) is a key instrument in the fight against tax avoidance and evasion by MNEs and HNWIs. It is important that RAs use double tax agreements (DTAs) when collecting information in order to facilitate audits and investigations of MNEs (Kangave et al., 2015). Revenue authorities should also share information collected by different agencies and through forums across all their departments. To that end, they should put in place documented processes of data collection, analysis and dissemination in order to make effective use of information gathered through DTAs (OECD, 2009).

Improving the general efficiency of tax administration

Minimise political interference in tax departments

Findings indicate that tax departments under aegis of finance ministries wrestle with the challenge of growing political interference (ATAF, 2012). ATAF recommends that the tax departments within the finance ministries are either made semi-autonomous or that ministries act to prevent political interference, especially in operations, appointments, recruitment and promotion. Tax departments would then be able to appoint competent managerial staff and attract and retain skilled workers through differential pay and competitive salary scales.

As well as enjoying the freedom to appoint their own staff, semi-autonomous revenue agencies enjoy greater public confidence of the public, provide taxpayers' tailored services based on feedback, involve the private sector in tax agency strategic management, and show strengthened accountability (Aborkpui et al., 2013).

Hire and retain competent staff

As pressure on revenue grows in the ATO countries, RAs need talented, loyal, committed staff to maximise revenue collection effectively. To that end, all employees should play an active role in improving service, systems and processes.

RAs countries should build competency frameworks tied to the needs of the department concerned. They should incorporate job descriptions (JDs) which spell out what jobholders are expected to do and assign clearly delineated responsibilities. As part of its competency framework, each RA should draw up job catalogues that list all positions and their requirements in the different departments. They should also compile a dictionary describing each job in order to guide and promote consistent, transparent and fair recruitment, which would, in turn, help to foster staff motivation and increase retention.

RAs should ensure that there are structures in place that help build a strong innovative culture where staff proactively generate ideas to improve service delivery. Ideas can be generated through meetings and brainstorming sessions and later passed on to project teams for evaluation and implementation. Indeed, a regular timeslot should be set aside for staff brainstorming. Furthermore, staff should be recognized for their achievements in improving processes and systems (IRAS, 2011).

Strengthen staff capacity building

Staff competency gaps were identified as an important corporate risk in some ATO countries – especially in the handling of complex transfer pricing cases and estimating the tax gap (ADB, 2016). There is consequently a need for RAs to align their training needs with their organizational

strategies, if their staff are to boast technically skilled workforces who are abreast of the rapid changes in specialized sectors (ATAF, 2012).

They should operate continuous staff capacity building in areas like international taxation, transfer pricing, forensic auditing, the auditing of related transactions and Inter-party transactions. ATO countries should, for example, continue to take advantage of the ATAF's country programmes and technical assistance on transfer pricing and exchange of information which assist member countries to reform their legislation and regulations to address any transfer pricing issues or facilitate their exchange of information, while assisting them with risk assessment and audit training.

Investment in human capital must go hand-in-glove with retention of staff. Accordingly, RAs should develop programmes specifically to retain creative, productive technical staff.

Automate customs administration

ATO countries rely heavily on imports for 35% of their net revenue. The inflows of goods and services has spawned opportunities for customs fraud, such as cross-border smuggling, which has become one the largest causes of capital flight in many African countries.

Customs administration needs to modernise and move from a complex, partially paper-based, labour-intensive environment to one that is simplified, automated and more cost-effective. Examples of measures that RAs could take as they bid to modernise include:

- putting in place electronic supporting document centres;
- rolling out automated targeting and risk-based assessment systems;
- taking up the Authorised Economic Operator (AEO) system;
- making wide use of electronic single window (or one-stop shops);
- enhancing customs risk engine through automated risk management systems;
- creating "centres of excellence" which employ specialists in the areas of tariffs, valuation and origin of goods;
- introducing electronic cargo tracking system (ECTSs).

Systematically monitor and evaluate reform

ATO countries have undertaken modernisation programmes and reformed tax administration in accordance with their strategic plans. According to ATAF (2012), few tax offices or revenue authorities do much evaluation of reform in any of the regions (East Africa, Northern Africa, Southern Africa, West Africa and Central). To gauge how effective their reform programmes are, though, ATO countries must systematically monitor and evaluate their performance. To that end, they should build strong, coherent monitoring and evaluation frameworks. They will then be able to ascertain whether the reforms met their intended objectives and identify the lessons learned for the future.

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Figure A.1: *VAT rates*

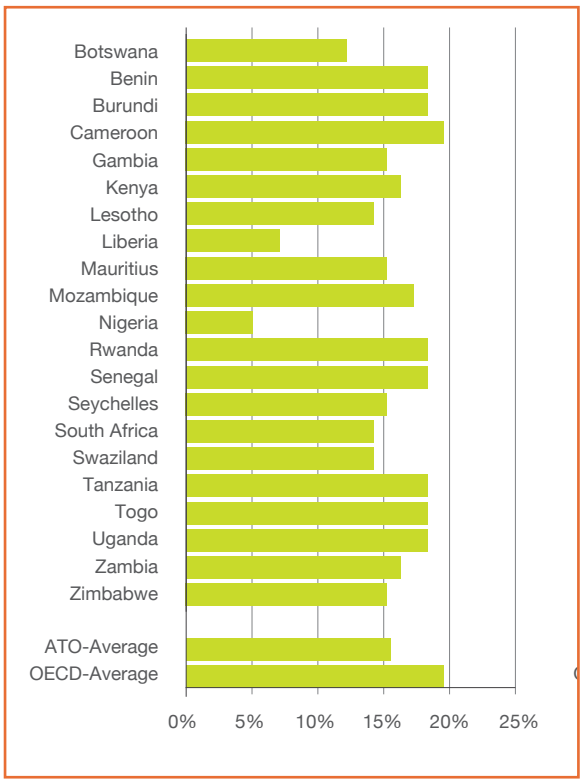


Figure A.2: *VAT productivity*

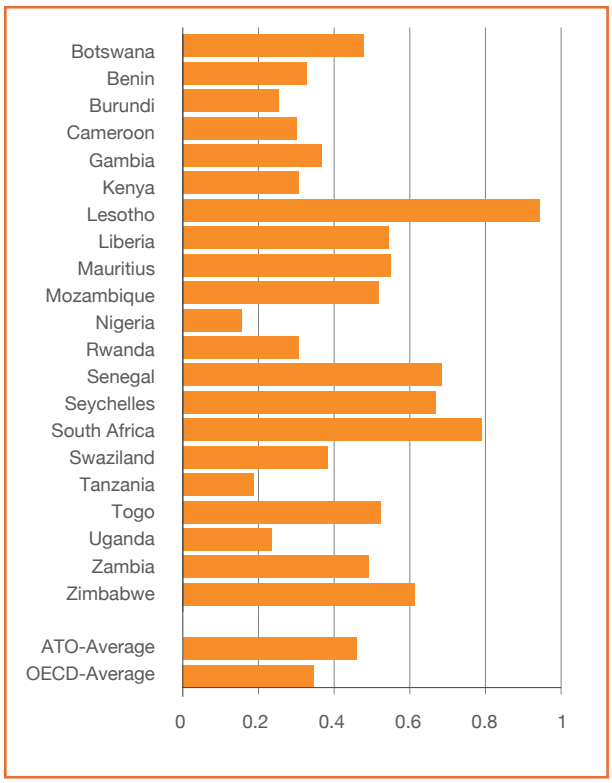


Figure A.3: *Corporate income tax rates*

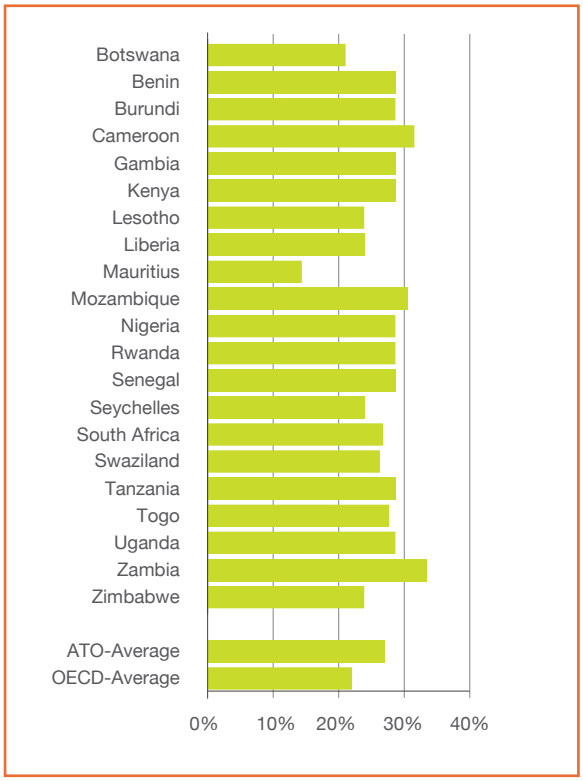


Figure A.4: *Corporate income tax productivity*

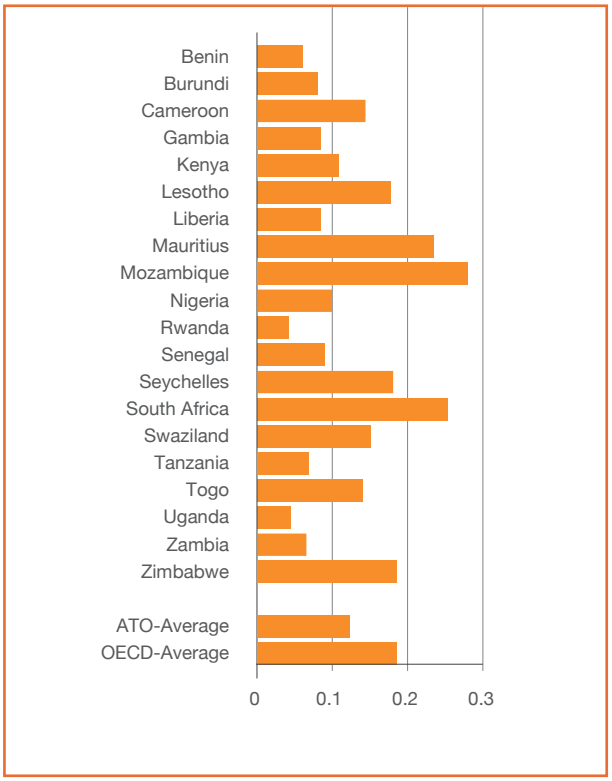


Figure A.5: *Range of income tax rates*

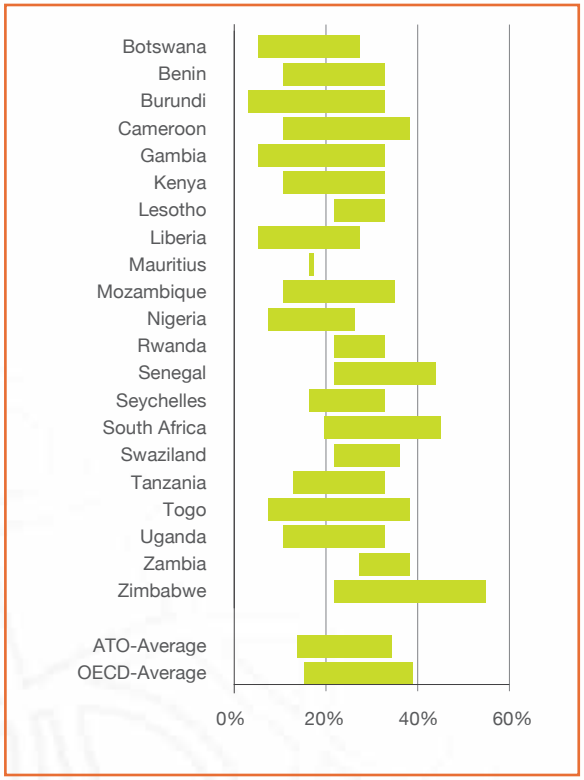


Figure A.6: *Personal income tax productivity*

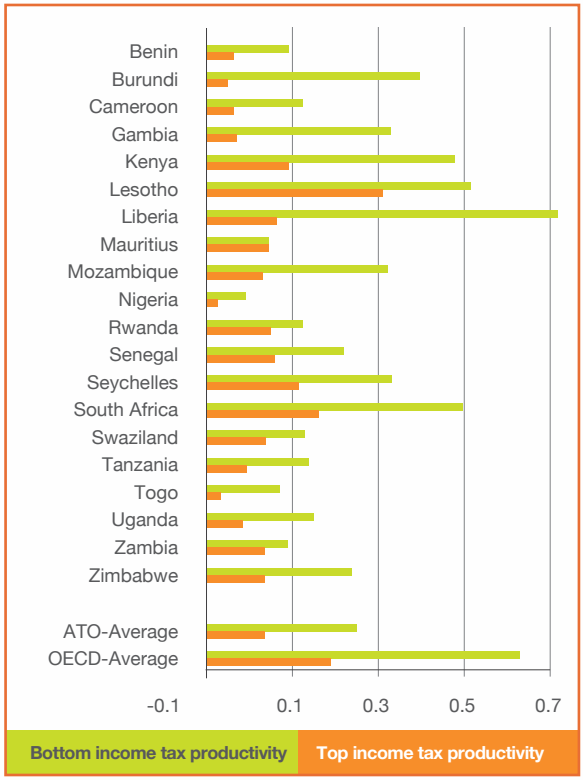
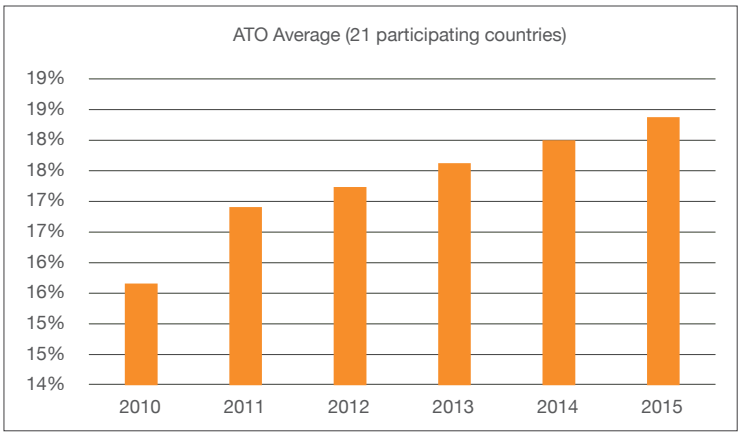


Table A.1. *Tax Revenue to GDP (%) in ATO participating countries from 2010 to 2016*[8]

	2010	2011	2012	2013	2014	2015
Botswana	23.03%	18.71%	21.78%	24.03%	22.47%	25.73%
Benin	-	14.76%	14.39%	15.47%	15.34%	15.34%
Burundi	13.66%	15.56%	13.95%	12.84%	12.25%	12.03%
Cameroon	12.35%	13.13%	13.78%	14.27%	14.79%	15.13%
Gambia	14.47%	15.71%	16.21%	15.95%	17.66%	19.09%
Kenya	16.54%	17.35%	16.75%	16.84%	18.16%	17.72%
Lesotho		26.47%	26.89%	26.49%	27.24%	27.97%
Liberia	16.84%	18.58%	21.39%	22.22%	19.47%	18.55%
Mauritius	16.08%	16.09%	16.59%	16.64%	16.38%	16.61%
Mozambique	15.39%	17.11%	18.70%	21.58%	24.78%	21.79%
Nigeria	6.79%	9.09%	8.75%	7.65%	6.29%	5.14%
Rwanda	11.94%	13.06%	13.41%	13.88%	14.83%	15.26%
Senegal						24.81%
Seychelles	28.28%	30.95%	28.31%	27.11%	27.77%	26.27%
South Africa	23.47%	23.86%	24.12%	24.49%	24.83%	25.53%
Swaziland	10.45%	11.27%	11.03%	10.60%	12.20%	12.07%
Tanzania	10.81%	10.93%	11.39%	11.69%	12.48%	11.64%
Togo	15.70%	16.44%	16.47%	19.54%	20.67%	21.35%
Uganda	10.62%	11.16%	10.48%	11.53%	11.72%	12.28%
Zambia	13.50%	14.84%	16.14%	16.00%	16.58%	16.28%
Zimbabwe	21.95%	23.07%	24.20%	23.71%	24.04%	25.29%
ATO Average	**15.66%**	**16.91%**	**17.24%**	**17.63%**	**18.00%**	**18.38%**

Figure A.7: *Tax Revenue to GDP (%) in ATO participating countries from 2010 to 2016*



8. Senegal could only provide custom tax revenue for the year 2015. Therefore, total tax revenue - which includes custom tax revenue - can only be calculated for the year 2015. This implies that growth rates of total tax revenue cannot be calculated.

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The below are the Heads of Research, Strategic Planning, Analysis and Statistics of tax administrations participating in the 2nd Edition of the ATO Publication (as of December 2016)

They have contributed to the success of this publication by providing valuable inputs during the various consultative workshops, and by collecting and validating the final data.

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