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TAX OUTLOOK

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Foreword from the Executive Secretary

The impact of the African Tax Outlook has gone beyond African borders. The flagship publication has become a worldwide invaluable source of knowledge for Tax Administrations, tax experts in policy making, development partners, members of the academic fraternity, and other stakeholders. We are excited to publish the 2018 edition of the African Tax Outlook (ATO). The journey began with the inaugural 2016 ATO (1st edition) comprising of fifteen countries. In 2017, six more countries joined the bandwagon, resulting in the 2017 (2nd) edition attracting 21 countries in total. In the 2018 (3rd) edition, five more countries have joined, taking the total number of countries in this publication to twenty-six.

Guided by its vision and mission statements, the African Tax Administration Forum (ATAF) continues to collaborate with African countries in building strong, effective and efficient tax systems. Tax administrations and policy makers require reliable statistics to come up with efficient, effective and sustainable policy and administrative decisions on taxation. However, these statistics are not always readily available, even within the Tax Administrations themselves. Cognisant of this reality and pushed by the desire to see African Tax Administrations easily accessing quality information on taxation, the ATO was launched and became Africa's flagship publication. The purpose of the publication is to build a solid framework of meaningful indicators that will assist countries to compare, assess and ultimately improve their Tax Administrations and revenue performance.

Due to its advisory flair, this publication deviates considerably from several publications on taxation statistics worldwide. It is ATAF's hope that the 2018 edition, with its distinctive methodology, shall remain an invaluable addition to knowledge on tax issues. The publication seeks to raise awareness of tax policy and administration at different levels; promote revenue administration performance measurement and management; and provide governments and various stakeholders with information on indicators such 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 that is spearheaded by African Tax Administrations. The Tax Administration Heads of Research contributed in defining the indicators and themes of the ATO, developing the data collection tool and guide book and were heavily involved in the validation and analysis of the data. The Heads of Research identified critical demand driven indicators that they thought would assist in providing strategic direction necessary to drive revenue mobilisation in Africa. The Tax Administrations' data collectors were trained during a capacity workshop which enhanced their capability and stimulated peer learning exchanges among the data collectors. Additionally, awareness was raised on the essence of evidence-based policy recommendations and, therefore, the significance of data collection and management within a revenue authority. This makes the ATO a source of reliable information that serves as an African and potential global reference since the process encourages full participation and ownership.

The span of the ATO publication has increased to 26 African countries, which is very encouraging. Even more countries continue to indicate their enthusiasm and willingness to be on board this exciting and unstoppable journey. ATAF is very grateful for the feedback received so far from the first and second editions. This is crucial in a bid to continue perfecting this African flagship publication. Hence, the chapter on tax expenditures was additionally included and some indicators and processes in the making of the publication were further polished up on. The third edition has reviewed the methodology previously used to compute the tax-to-GDP ratios for Lesotho and Botswana, having noted that some of those figures were previously inflated due to double counting. The methodology previously used to compute the registered taxpayers-to-auditor ratios (Chapter 8) has also been reviewed to match international best practice. It is therefore essential that we continue to get feedback from all users of the ATO publications.

This publication is intended to serve as a manual which the African Tax Administrations and others are encouraged to utilise in their day to day work. The indicators are crucial to African Tax Authorities when 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 a work in progress, it is the first-ever attempt by African Tax Administrations themselves to compare, in a consistent fashion, the ways in which they raise revenue. The findings of this publication are interesting and thought provoking. More than that, however, they raise many further questions. Why is it that South Africa has a tax-revenue-to-GDP ratio of 28.5% and Nigeria only 4.7%? Why do value added taxes (VAT) contribute 51% to total tax revenue in Senegal but only 17% in Nigeria? Why is the VAT refunds-to-VAT collections ratio 49% in Zambia but only 1% in the Gambia? Why does it take only one auditor to carry out 106 audits per annum in Zambia, yet in Chad one auditor does only 2 audits per year? 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, being the need for robust data collection efforts and initiatives to produce high-quality taxation statistics in Africa.

Mr Logan Wort

Executive Secretary

African Tax Administration Forum

Message of the ATAF Council

It gives immense pleasure to the ATAF council to present the ATAF's 2018 African Tax Outlook (ATO) Publication. The ATO publication arose from the necessity to make available reliable tax statistics and analysis pertaining to African tax administrations, with a view to improving the efficiency and effectiveness of member country taxation. It is a flagship African publication which provides valuable, practical and relevant descriptive and analytical work on tax issues to improve tax administrations and inform tax policy formulation and implementation in Africa.

The present ATO report sets out the African tax trends and analysis of twenty-six countries. For a successful preparation of each ATO edition, two key workshops are scheduled to take place prior to the year of publication: a Consultative Workshop combined with the Validation Worksop attended by the Heads of Research of tax administrations and the Capacity Building Workshop attended by the data collectors. ATAF member countries have a great opportunity to be involved in writing the content of the African Tax Outlook publication. Thus, influencing the narrative of the ATO, bringing visibility to their institution, building capacity and providing international exposure to the writers.

Key among strategic improvements to the previous publication are: firstly, an introduction of a thematic chapter which deals with tax expenditures and secondly, a new methodology that standardises variables previously used to compute some ratios has been implemented to match international best practice.

We wish every success to the ATO publication in all its endeavours. I take an opportunity to congratulate the ATAF Executive Secretary, the ATO research team and all the ATAF staff for the sense of commitment, service and responsibility that has transformed this institution into an outstanding and significant African organisation of learning.

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Acronyms

AEO	Authorized Economic Operators
AEOI	Automatic Exchange of Information
AMATM	ATAF 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
CEMAC	Central African Economic and Monetary Community
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	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
IFFs	Illicit Financial Flows
IGC	International Growth Center
ILO	International Labour Organization
IMF	International Monetary Fund
ISIC	Standard Industrial Classification

JDs	Job Descriptions
MFEZ	Ministry of Finance and Economics of Zambia
MNEs	Multinational Enterprises
MoF	Ministries of Finance
MOUs	Memorandums of Understanding
NT	National Treasury
NSO	National Statistic Office
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
SADC	Southern African Development Community
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

2018 ATO countries and their currencies

Country	Currency	Currency code
Angola	Angolan Kwanza	AOA
Benin	CFA franc	XOF
Botswana	Botswana pula	BWP
Burundi	Burundi franc	BIF
Cameroon	CFA franc	XAF
Chad	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	NGN
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 **Other adopted currencies** Botswana pula British pound Chinese yuan renminbi Euro Japanese yen South African rand United States dollar	ZWD BWP GBP CNY EUR JPY ZAR USD

Executive summary

In modern societies taxes are the most important source of governmental revenue. Taxes differ from other sources of revenue in that they are compulsory levies and are unreturned – meaning that taxes are generally not paid in direct exchange for some specific good or service, such as a public service, the sale of public property, or the issuance of public debt. e 2018 African Tax Outlook publication presents the different composites of taxation for a period from 2010 to 2016 for the 26 participating African countries.

Tax Revenue Performance

For the ATO countries the nominal revenue growth is generally in line with economic growth reflective of buoyant revenues while real revenues tend to decline even though nominal revenues increases are observed. This therefore, suggests that the tax systems can be adjusted to be more responsive to economic performance and price movements. In such cases, the use of ad valorem rather than specific taxes is recommended. Tax-to-GDP ratios and contributions to total revenue vary by regional groupings. Regions with lower tax-to-GDP ratios can learn from those with higher ratios for revenue efficient harmonisation policies. By increasing domestic revenue through tax base expansion, ATO countries will notably increase tax-to-GDP ratios but also ensure stability in revenue and tax-to-GDP ratios.

The value added tax (VAT) remains the cash cow in most ATO countries, with the average VAT-to-total tax revenue ratio of 31% which is higher than the OECD average of 20%. Conversely, ATO countries continue to reduce their dependence on import duties as they pursue the regional integration agenda. Therefore, it is critical that ATO countries continue to develop innovative ways for domestic revenue mobilisation, especially through the VAT and direct taxes, which are proving to be sustainable sources of revenue. However, ATO countries need to decisively deal with the Achilles heel of the VAT, namely VAT refunds. Various ATO countries have very low VAT refunds-to-VAT collections ratios, with some as low as 1%, against the 30% observed benchmark by Harrison & Krelove (2005).

The personal income tax (PIT)-to-GDP ratios for ATO countries are still very low compared to those of the OECD countries. This could be attributed mainly to the low-income levels for these countries, as compared to the developed economies. It may also suggest that some of the rich people in developing countries, use their political influence to evade taxes. Therefore, ATO countries should take a cue from South Africa and Uganda which have increased revenue collections from the PIT through creating a register of high net worth individuals. Due to the complexity of their tax affairs, this segment of taxpayers requires a specialised kind of treatment for taxation purposes.

Non-Tax Revenue – A Reliable Contribution

For most of ATO countries, the social security programs are financed by contributions made by both the employee and employer, with the contribution rate in most countries being higher for the employer (Turner, 2002). However, for the ATO countries it seems to be obvious that employer contribution will always be higher than employee contribution. In majority of these countries, the combined rate of the total contributions from employee and employer are less than 10% of tax revenue. For countries such as Mauritius and South Africa, the government subsidizes the system completely out of the tax revenue. In short, there is a need to extend coverage of social security in ATO countries in improving the administrative functioning of social security institutions, sustaining the economic growth and formalising the economy.

ATO countries which relying on oil revenue such as Angola, Chad and Nigeria have seen their revenue decrease due to price fluctuations in the international oil price. Declining oil revenues have resulted in extensive spending cuts across departments and agencies. An increase in domestic revenue, be it tax or non-tax, can enable countries to decrease their dependency on foreign aid. Therefore, it is critical that ATO countries enhance their domestic revenue mobilisation initiatives, in the face of dwindling foreign aid.

VAT and Import Duty Expenditures

Tax expenditure data deficiency[1] is still a major challenge among several ATO countries. While some countries such as South Africa and Ghana are more transparent with regards to budgeting and reporting on tax expenditures at the national level, several ATO countries do not budget nor report on them. The revenue loss due to import duty and VAT expenditures was quite high among ATO countries. However, the loss was not reflected accurately as some countries were not able to differentiate zero-rates for export sales from those related to domestic sales for VAT expenditures.

In the same vein, import duty expenditures could not be properly accounted into Trade Agreements and Rebates. Zambia and Zimbabwe have huge shares of zero-rated exports like minerals, consequently have high tax expenditures, in the form of zero-rated sales. It was generally observed that Tax Administrations which budget for tax expenditures tend to have lower ratios of tax- expenditure-to-revenue collections.

Modernising services to taxpayers

A tax administration's service management includes all services to taxpayers provided in person, telephonically or electronically. The majority of ATO Tax Administrations reported that they have a formal plan for the development and delivery of services to taxpayers, and for some, these plans form part of their overall business or strategic plan. Internet has become an important tool that Tax Administrations substantially use to increase the information content, functionality, and user-friendliness of their service offering.

The nature and scope of tax assistance services has directed Tax Administrations to establish Call Centres where taxpayers can make calls to the revenue administration at their convenience. Sixteen of the twenty-six ATO countries have put in place mechanisms in Call Centres to track trends in response times. Senegal has established a call and support centre that is available for extended hours. The toll-free number is open from 07:30 to 20:30.

Processing tax returns and taxpayer payment information are some of the most time-consuming activities for Tax Administrations. By 2016, eighty-eight percent of the ATO countries (twenty-three Tax Administrations) had modernized their tax collection processes. The use of electronic systems to replace traditional means of return submissions and making payments are eliminating the mistakes associated with manual submissions. Sixty four percent of the ATO countries use an electronic filing system while 78% have implemented electronic payment systems to facilitate payment. Among all ATO countries, seventeen have confirmed the use of various customs lanes: red, yellow, blue and green, to simplify their customs procedures. Imports and exports are cleared through the four lanes.

Auditing for compliance and customs enforcement

In 2015, ATO countries based their taxpayer-to-auditor ratio on the different registered tax types. In 2016, in line with good practice, a decision was made to base the index on the number of registered taxpayers, rather than tax types. However, it was concluded that staff shortage remains a key challenge for ATO countries which have an average taxpayer-to-auditor ratio of 1044:1. When compared with an average taxpayer-to-auditor ratio of 411:which is even regarded as very high in the Royal Malaysian Customs Wilayah Persekutuan Kuala Lumpur (RMC-WPKL), the ATO countries average taxpayer-to-auditor ratio is not sustainable. Uganda and Zambia had the highest number of taxpayers per auditor, at 4421 and 2762 respectively. The average ATO staff-to-auditor ratio is 20% below the international benchmark of 30%.

1. Tax expenditure has been included in the ATO as a thematic chapter, however many countries have not been able to collect the desired amount of the data as per the request from ATAF.

ATO countries are faced with a daunting task of eradicating tax arrears. The average ATO ratio of arrears to net revenue rose from 19.17% in 2015 to 20% in 2016. This was an unfavourable result, compared to the IMF's Tax Administration Diagnostic Assessment Tool (TADAT) recommendation that the ratio of stock and flow of tax arrears to total revenue should be below 10%. However, Zambia and Zimbabwe boasted the highest arrears-to-net-revenue-recovery rates of 82% and 93%, respectively, against an ATO average of 20%.

In the ATO region, customs offences manifest in the form of smuggling, under-declaration, non-declaration and misclassification. The ATO statistics on customs seizures are challenging because several countries still fail to disaggregate customs seizures. However, in terms of aggregated seizures, Uganda, Nigeria and Rwanda have the highest number of customs seizures. With regards to disaggregated seizures, other seizures are widespread in Angola and Cameroon, followed by seizures from smuggling in Nigeria and Uganda.

Human Resources Challenges

The Human Resources (HR) function in ATO countries should work hand in glove with management to identify the right staff needed to execute strategic and operational business plans.

Gender Disparities

The gender imbalance remains high with the ratio of male-to-female staff marginally increasing from 1.83 in 2015 to 1.84 in 2016. Factors such as culture, job requirements and work environment that inhibit gender parity ought to be addressed by ATO countries. The employment of senior managers was also tilted more towards males than females. This should also be addressed in the modern world where there is need for gender equity.

Age Differences

On average, employees in the ATO region are more experienced professionals who are within the 30-55 years age range. Only 4% are below 25 years old. The fact that more than 5% of the ATO employees are above 55 years old and in some countries, no employees are below 25 years old, this could be a threat to future succession planning within the Tax Administrations.

Level of Education

There was no standard approach in defining education levels in prior editions of the ATO publication, due to the non-standard tertiary education systems between Francophone and Anglophone countries, average, employees that possess an undergraduate degree are more than those with Diplomas and Master's degrees. However, it is concluded that mere possession of a university degree is not a proxy for staff efficiency and effectiveness. This is because staff in Tax Administrations need to be equipped with technical know how since taxation is a highly technical field.

Tax Administration Staff Coverage

An analysis of the ratio of population-per-Tax Administration employee in the ATO region showed that the region was heavily understaffed with an average of 10506 people per Tax Administration employee. Surprisingly when the ratio of taxpayer-to-Tax Administration staff was computed, it fell below the 150-250 threshold, which is the international benchmark. It was proposed that there was either misplacement of human resources in ATO Tax Administrations, or that the Tax Administrations were overstaffed with support staff. When the general staff-to-core staff ratios were computed, it was discovered that the Tax Administrations in the ATO region were overstaffed with support staff.

Employee Retention and Motivation

In a bid to retain and motivate their employees, Tax Administrations in the ATO region employ various tactics and incentive schemes. These include among others: fringe benefits, performance awards, medical aid schemes, providing a good working environment, station visits, long service awards and the provision of education grants.

1 Introduction

1 Introduction

ANGOLA	Angola Tax Administration (AGT)
BENIN	Benin Tax Authority (DGI Benin)
BURUNDI	Burundi Revenue Authority (OBR)
BOTSWANA	Botswana Unified Revenue Service (BURS)
CAMEROON	Cameroon Tax Administration (DGI - Cameroon)
CHAD	Chad Tax Administration (DGI-Chad)
GHANA	Ghana Revenue Authority (GRA)
GAMBIA	Gambia Revenue Authority (GRA)
KENYA	Kenya Revenue Authority (KRA)
LESOTHO	Lesotho Revenue Authority (LRA)
LIBERIA	Liberia Revenue Authority (LRA)
MALAWI	Malawi Revenue Authority (MRA)
MAURITIUS	Mauritius Revenue Authority (MRA)
MOZAMBIQUE	Mozambique Revenue Authority (ATM)
NIGER	Niger Tax Administration (DGI-Niger)
NIGERIA	Federal Inland Revenue Service (FIRS)
RWANDA	Rwanda Revenue Authority (RRA)
SENEGAL	Senegal Tax Administration (DGID - Senegal)
SEYCHELLES	Seychelles Revenue Authority (SRA)
SOUTH AFRICA	South African Revenue Service (SARS)
SWAZILAND	Swaziland Revenue Authority (SRA)
TANZANIA	Tanzania Revenue Authority (TRA)
TOGO	Togo Revenue Authority (OTR)
UGANDA	Uganda Revenue Authority (URA)
ZAMBIA	Zambia Revenue Authority (ZRA)
ZIMBABWE	Zimbabwe Revenue Authority (ZIMRA)

The 26 "ATO countries" who contributed to the 2018 edition of the African Tax Outlook


NIGER
BENIN
NIGERIA
CHAD
UGANDA
KENYA
TOGO
GHANA
CAMEROON
RWANADA
BURUNDI
TANZANIA
ANGOLA
SEYCHELLES
ZAMBIA
MALAWI
BOTSWANA
ZIMBABWE
MAURITIUS
MOZAMBIQUE
SOUTH AFRICA
SWAZILAND
LESOTHO

1. Introduction

The main objective of the *African Tax Outlook* is to deliver credible information and data on taxation that will serve as an African and global benchmark in formulating tax policies and tax administration reforms across the African continent.

Fifteen countries participated in the production of the first edition of the ATO which was launched in 2016, while twenty-one participated in the 2017 edition. The 2018 edition saw five new countries coming on board, to make the total twenty-six. These ATO countries are presented in Table 1-1. The number is likely to increase in the next edition, as more and more countries continue to embrace the ATO project. This collaborative initiative for African Tax Administrations was spearheaded to provide a continental platform for sharing credible tax statistics, improve tax policy and administration decisions and ultimately, maximise revenue collection. The publication is unique in that it goes beyond merely sharing tax statistics among the different jurisdictions. It serves as an advisory tool to tax administrations in Africa and beyond on matters of tax policy and administration.

Table 1-1: The 26 "ATO countries" who contributed to the 2018 edition of the African Tax Outlook

Angola Angola Tax Administration (AGT)	**Benin** Benin Tax Authority (DGI Benin)	**Burundi** Burundi Revenue Authority (OBR)
Botswana Botswana Unified Revenue Service (BURS)	**Cameroon** Cameroon Tax Authority (DGI-Cameroon)	**Chad** Chad Tax Administration (DGI-Chad)
Ghana Ghana Revenue Authority (GRA)	**Gambia** Gambia Revenue Authority (GRA)	**Kenya** Kenya Revenue Authority (KRA)
Lesotho Lesotho Revenue Authority (LRA)	**Liberia** Liberia Revenue Authority (LRA)	**Malawi** Malawi Revenue Authority (MRA)
Mauritius Mauritius Revenue Authority (MRA)	**Mozambique** Mozambique Revenue Authority (ATM)	**Niger** Niger Tax Administration (DGI-Niger)
Nigeria Federal Inland Revenue Service (FIRS)	**Rwanda** Rwanda Revenue Authority (RRA)	**Senegal** Senegal Tax Administration (DGID Senegal)
Seychelles Seychelles Revenue Authority (SRA)	**South Africa** South African Revenue Service (SARS)	**Swaziland** Swaziland Revenue Authority (SRA)
Tanzania Tanzania Revenue Authority (TRA)	**Togo** Togo Revenue Authority (TRA)	**Uganda** Uganda Revenue Authority (URA)
Zambia Zambia Revenue Authority (ZRA)	**Zimbabwe** Zimbabwe Revenue Authority (ZIMRA)	

The compilation process for the 2018 ATO edition started with a consultative workshop held in South Africa in 2017. Participants were drawn from ATO countries tax administrations national heads of research and planning. The feasibility of the indicators collected for the first and second ATO editions were discussed and the workshop participants agreed to continue collecting most of the same indicators for the 2018 Edition. Other indicators which proved unfeasible, because they were hard to collect and or interpret, were either dropped from the 2018 Edition or placed on hold[2]. Indicators placed on hold are deferred until either method of data collection and or interpretation improve with time and experience.

Furthermore, at a subsequent workshop held in Niger in September 2017, the heads of research and planning agreed to include new indicators, such as the determination of tax expenditures from VAT zero rates, VAT Exemptions, Trade Agreements, Customs Duty, Rebates and Suspensions. Some indicators which were proposed, particularly those that measure in greater detail revenues from domestic and imported goods, are seen as improvements on the previous ones and are therefore reserved for future ATO editions.

The different statistics from the 26 ATO countries were captured onto the African Tax Outlook data portal, confirmed by data collectors from Tax Administrations and validated by the respective heads of research in all ATO countries. To ensure that all indicators are understood and interpreted in the same way, interrogation marks with tooltips were developed on the ATO data portal. The tooltips on the data portal itself were developed from the guidebook, updated and discussed with focal points at a data collectors workshop held in Ghana in April 2018. In addition, the guidebook[3], which is still available, will be replaced with the tooltips in future. The ATO data portal contains statistics that were collected over a period of six fiscal or calendar years from 2011 to 2016 by appointees, known as "focal points", from each country.

Data verification and validation on the ATO data portal was completed in January 2018. However, the cut-off point for data revisions was the end of February 2018. Revisions and corrections after that point in time could not be integrated in the 2018 ATO publication, but will be incorporated in future editions.

Parts I and II

The 2018 *African Tax Outlook* is divided into two parts. Part I consist of Chapters 2 to 5 and deals with revenue and its determinants. It first considers total tax revenue, then revenue under different tax heads, followed by non-tax revenue and finally tax expenditures. Part II consists of Chapters 6 to 9 and addresses issues relating to tax administration. This begins with an analysis of the organisational structure of Tax Administrations then moves on to taxpayer management services and then the management of taxpayer compliance. The final chapter deals with human resource issues in Tax Administrations, ranging from staff training, motivation and retention to gender disparities.

2. Critical indicators with missing data such as: on taxpayer type on the taxpayer register (nil filer taxpayers, active taxpayers, non-filer taxpayers); on audits (audits assessed, audit yield, revenue collected from audited taxpayers); number of tax investigations conducted; number of criminal cases emanating from tax audits; average time to process VAT refunds and government arrears

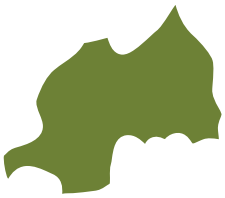
3. The ATO guidebook defines the scope of ATO indicators which would lead to harmonization of data collection from all participating countries. The guidebook has been divided into two main parts.; one defines the indicators and guides the data collectors into understanding what each indicator means; and the other which shows the importance of each theme, sub-theme and indicator.

2 Total Tax Revenue

2 Total Tax Revenue

Economic performance

AS MEASURED BY REAL GROSS DOMESTIC PRODUCT (GDP), GROWTH VARIES WITHIN THE ATO REGION



8.6%

Rwanda recorded 8.6% as the highest growth rate 2016

1.4%

1.4% average for sub-Saharan Africa in 2016

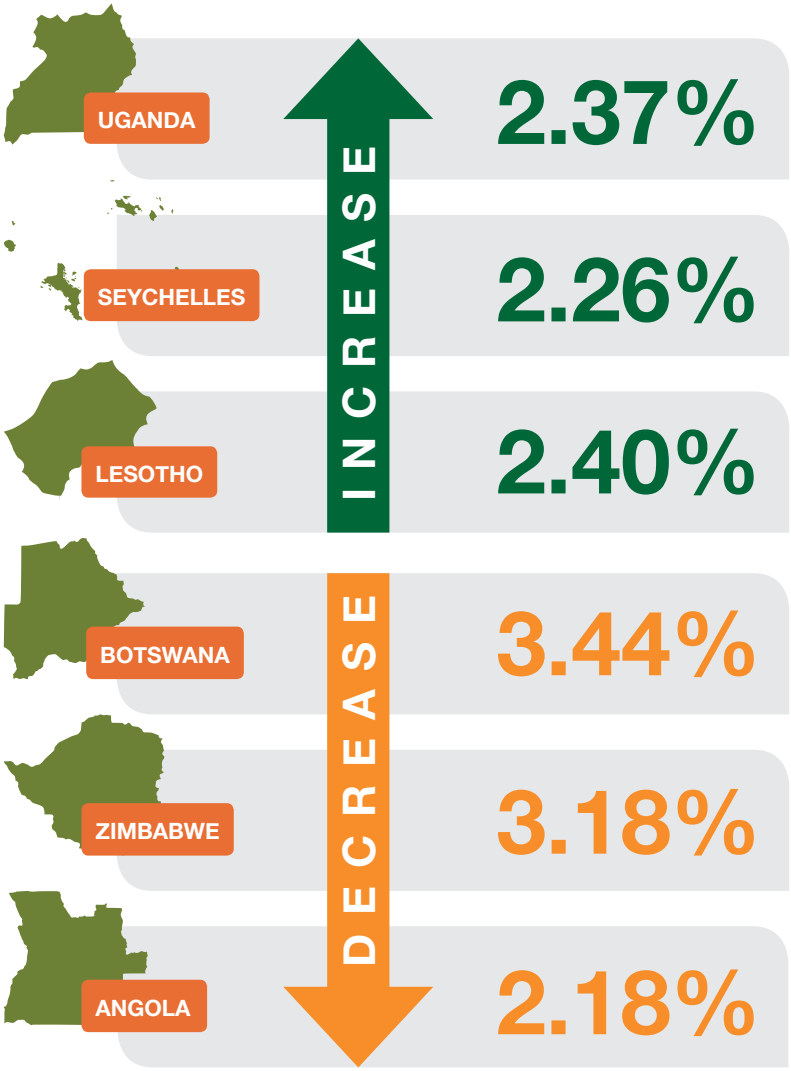
Of the 26 ATO countries **10 recorded or experienced negative real growth in revenue**

negative GDP between

3% & 9%

ATO countries fall into three **regional groupings**

GDP ratios



Uganda, Seychelles and Lesotho respectively observed an increase of **2.37, 2.26 and 2.4 percentage points in their tax to GDP ratio from 2015**

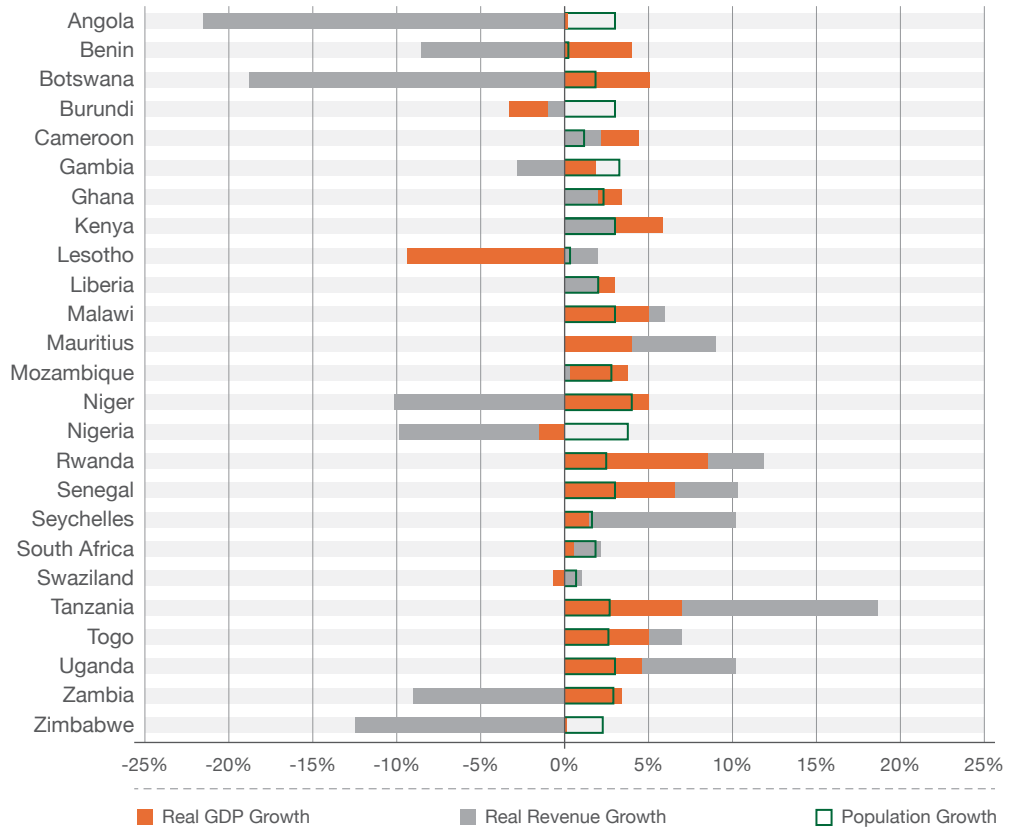
Botswana, Zimbabwe and Angola experienced declines of **3.44, 3.18 and 2.18 percentage points respectively in their Tax to GDP ratios**

2. Total Tax Revenue

2.1. GDP and Revenue Growth

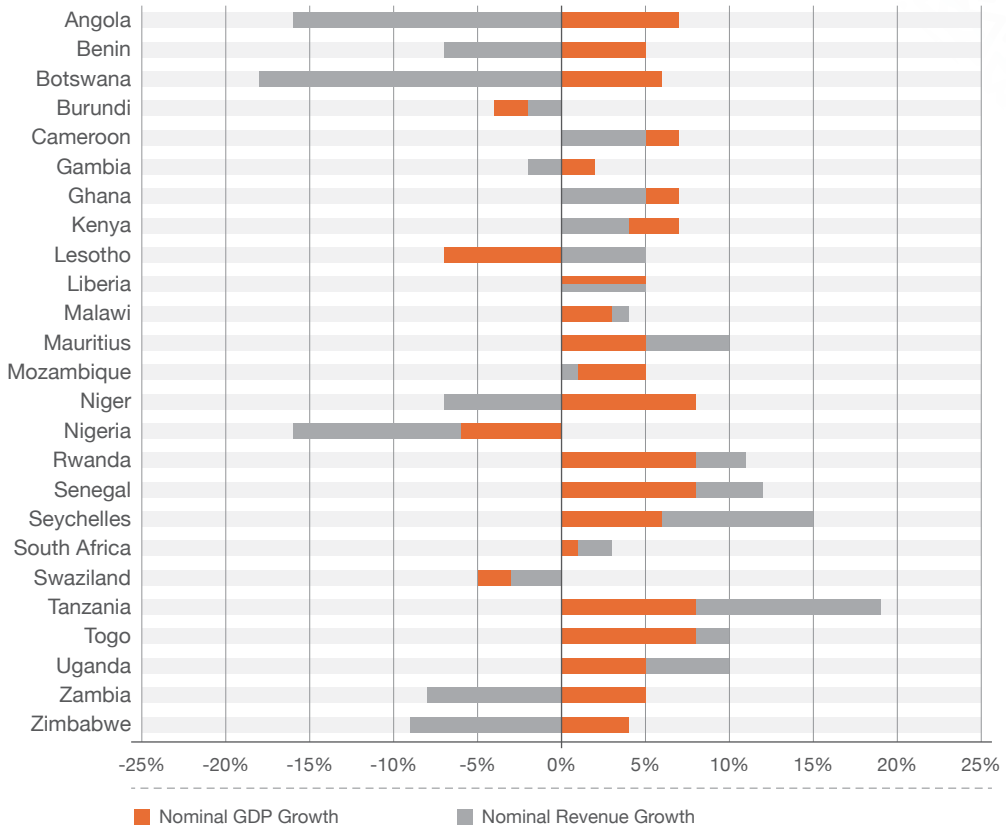
Economic performance, as measured by real Gross Domestic Product (GDP), growth varies within the ATO region. Countries like Rwanda recorded 8.64% growth in 2016 which was higher than the 1.4% average for sub-Saharan Africa in 2016 (IMF, 2018). On the other hand, Burundi, Lesotho, Nigeria and Swaziland recorded negative real GDP growth of between 9% and 3%. Of the 26 ATO countries 10 recorded or experienced negative real growth in revenue. Great disparities are evident in real revenue growth with Tanzania recording the highest positive real growth of 18,7% compared to Angola's negative growth of 21.7%. Performances in real revenue are influenced by real GDP i.e. countries that have higher real GDP growth also have higher real revenue growth. The performance of Botswana, Benin, Gambia, Niger and Zambia recorded negative growth in revenue despite growth in real GDP, which is an exception to expected norm performance. To ensure economic development and sufficiency in the provision of public services, real revenue growth must be higher than growth in real GDP. The growth in GDP must also be higher than population growth to trigger growth in per capita income.

Figure 2-1: Real GDP and Real Revenue growth, 2016



Since revenue growth monitoring is done in nominal terms by most revenue agencies, it is important to note that several countries in the ATO experienced a positive nominal growth in revenue except for ten (10) countries; Angola, Benin, Botswana, Burundi, Gambia, Niger, Nigeria, Swaziland, Zambia and Zimbabwe. When growth in tax revenue is higher than GDP growth, it implies that tax revenues are buoyant. Only 10 countries of the ATO countries had buoyant revenues in 2016 with the highest buoyancy observed in Tanzania. Movements in GDP are important too in the determination of revenue collections, as tax revenues tend to increase in a period of good economic performance and decline when there are economic challenges. Generally, the capacity of taxpayers to pay taxes declines during a recession while cases of tax evasion and avoidance increase during this period.

Figure 2-2: Nominal GDP and Revenue Growth in the ATO, 2016



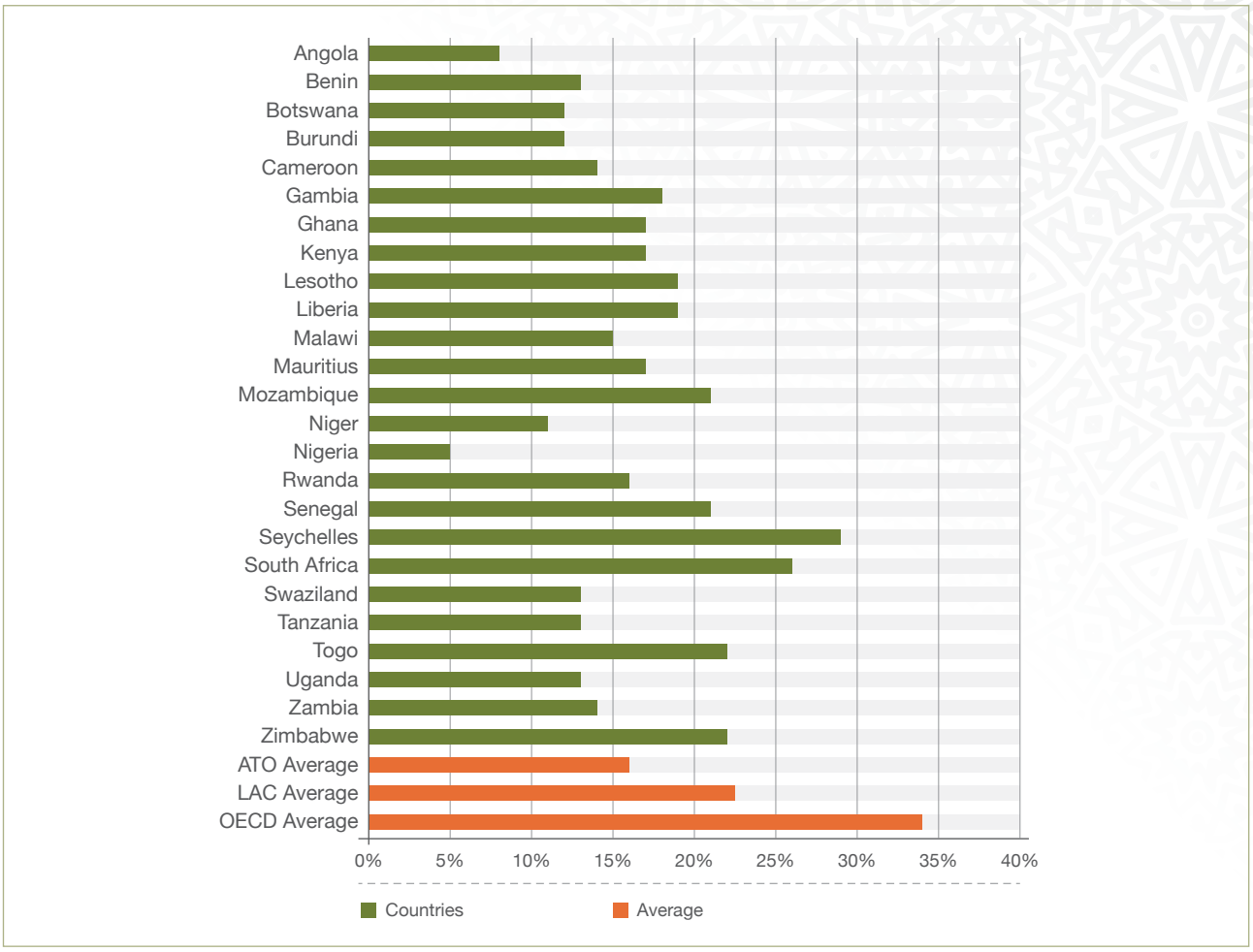
2.2. TAX-to-GDP Ratios

The tax-to-GDP ratio is the total tax revenue of a country divided by the GDP/output of that specific country. It is a measure of the extent to which tax is collected in the available economic capacity. The ratio is reflective of both the soundness of a tax policy design and revenue administration effectiveness. The is no "perfect" tax to GDP ratio, however the revenue raised at a particular ratio should be able to support economic development and support the availability of the required social services. Factors that affect the tax-to-GDP ratio range from economic, political, legislative and social. The structure of the economy limits the extent to which a country can raise its revenue. Agriculture dependent economies tend to have lower tax-to-GDP as reflected in the Second Edition of the ATO publication. Oil revenue dependent economies tend to have lower tax-to-GDP ratios as most of their budget requirements are funded mostly through oil revenue than tax revenues. Higher per capita incomes are also associated with higher tax-to-GDP ratios as they increase capacity of a country for tax purposes. The design of the tax system including the range of taxes and the share of different taxes in the total tax mix also has an influence on the tax-to-GDP ratios. Tax morale is amongst the other social plays an important role on the social side towards influencing the level of tax revenues. When pursuing increases in tax-to-GDP ratios, countries should therefore be cognisant of these factors during reforms.

Tax-to-GDP ratio in the ATO stood at 16.4% for 2016. This was a decrease of 0.3 percentage points from the 16.7% observed in 2015. This decrease in Tax-to-GDP ratio was mainly due to decreasing ratio of Income Taxes to GDP. The ATO average is 17.9 percentage points lower than the OECD average and is only 6.4 percentage points lower when compared to the Latin American Countries (LAC) average. The OECD and LAC recorded increases of 0.6 and 0.3 percentage points respectively during the same period. The lower tax-to-GDP ratio in the ATO could be attributable to the high dependence on trade taxes compared to the OECD, large informal sector and the design of tax policies (tax expenditures, tax rates and the range of taxes levied).

Significant variations in the tax-to-GDP ratio still characterise the ATO with Seychelles, South Africa and Senegal at 28.5%, 25.9% and 24.6% respectively which are amongst the highest tax-to-GDP ratios in the ATO. However, the highest tax-to-GDP ratio in ATO is 5.77 percentage points lower than the OECD average. Tax-to-GDP ratios in high performing countries are supported by higher per capita income, relatively higher tax rates, a wider range of taxes (broader tax base) and the structure of their economies (lower share of agriculture and large share of tertiary sector). Countries with the least tax-to-GDP ratios are Nigeria, Angola and Niger, at 5%, 8% and 11%, respectively. Factors contributing to the lower tax-to-GDP ratios were the narrow tax bases, dependence on oil revenue to finance the fiscus and the economic challenges that these countries were going through during this period. Eleven (11) countries were above the ATO average with most of the countries clustered around the 12%-15% tax-to-GDP range.

Figure 2-3: ATO Tax to GDP Ratios, 2016



Note: Tax to GDP ratios from the SACU countries (Botswana, Lesotho, Swaziland and South Africa) exclude revenue shares received from SACU resulting from the SACU revenue sharing arrangement but includes excise and customs revenue collected by these countries.

Performance remained divergent in the ATO with some countries observing sharp increases in tax-to-GDP ratios, for example, Uganda, Seychelles and Lesotho respectively observed an increase of 2.37, 2.26 and 2.4 percentage points in their tax to GDP ratio from 2015. In contrasts countries like Botswana, Zimbabwe and Angola experienced declines of 3.44, 3.18 and 2.18 percentage points respectively in their Tax to GDP ratios. Uganda benefited from increase in their PIT-to-GDP ratio due to compliance enhancement efforts, thus increasing their tax-to-GDP ratio while the ratio in Botswana was affected by a sharp decline in corporate income tax (CIT) revenues.

Figure 2-4: Growth in Tax to GDP Ratio, 2015-16

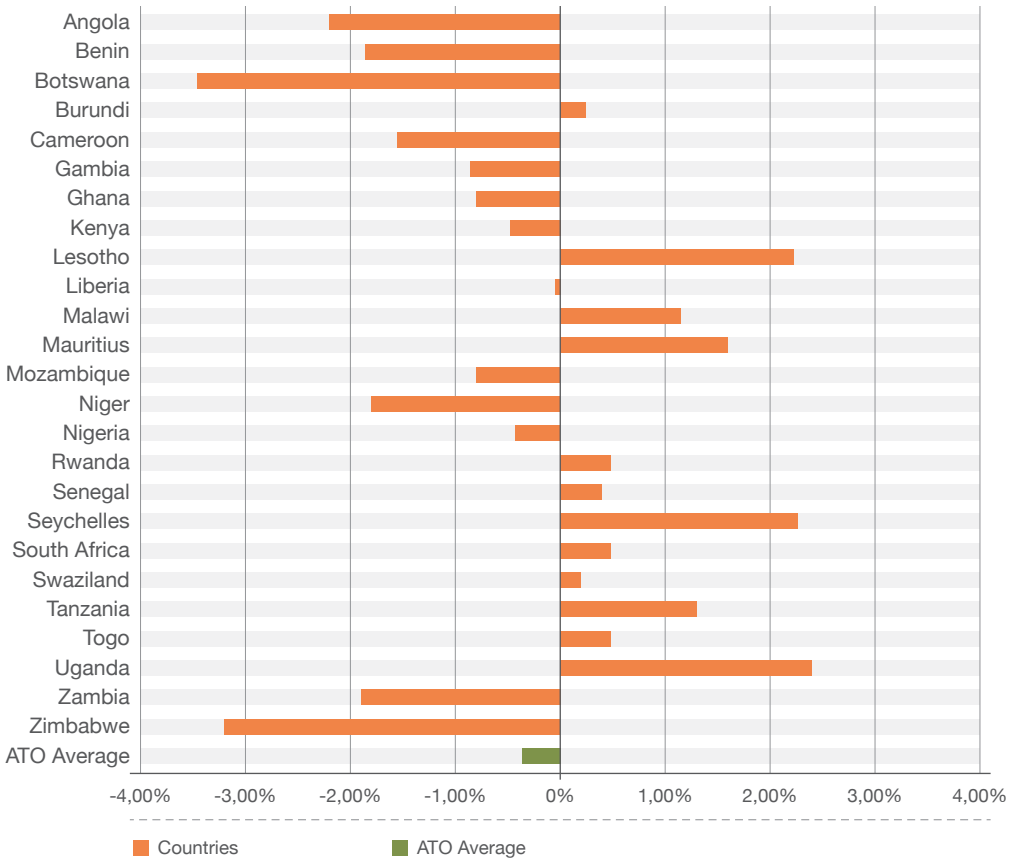
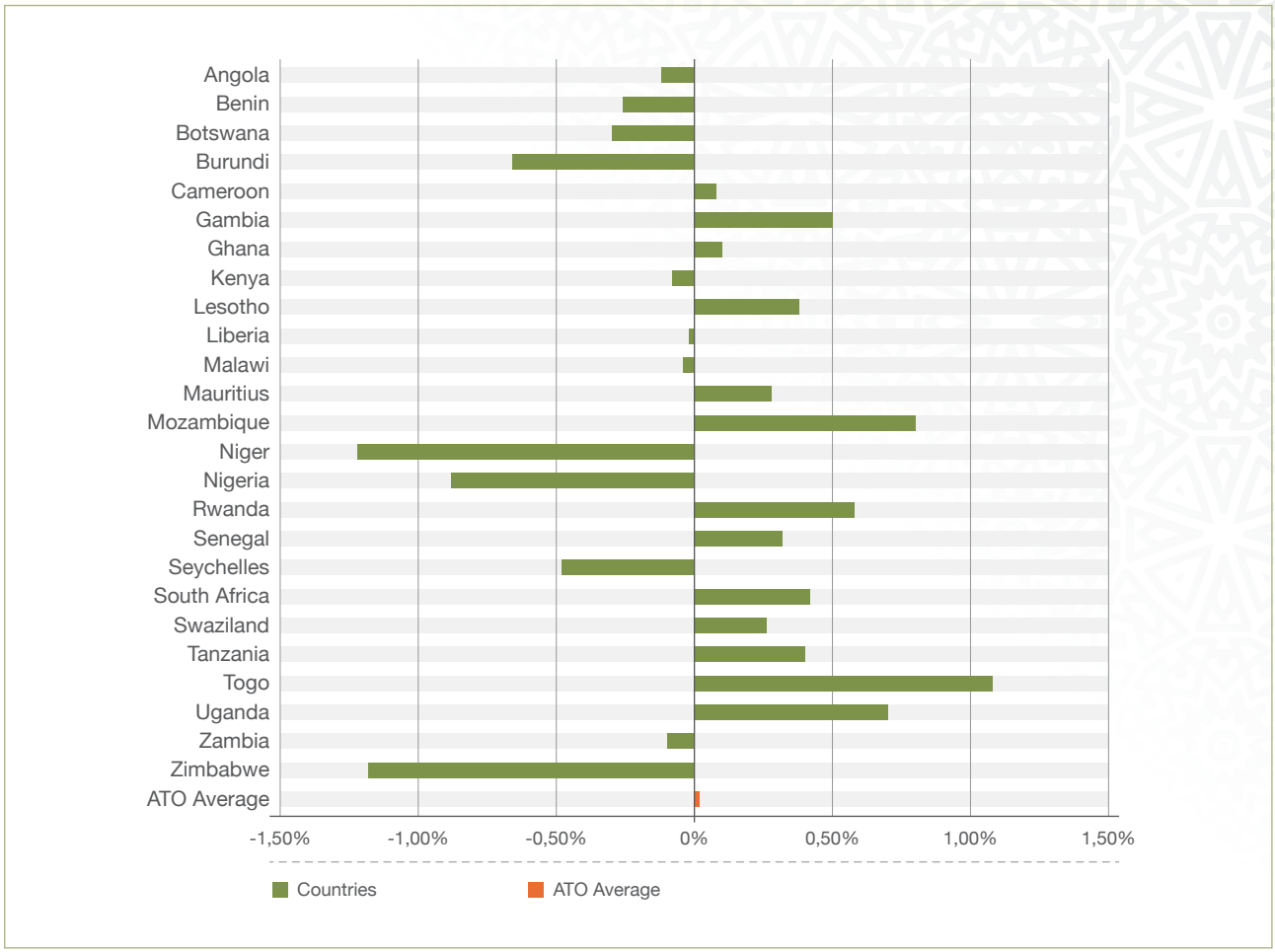


Figure 2-5: Average Growth in Tax to GDP Ratio, 2011-16



In the period between 2011-2016, ATO Tax-to-GDP ratio has been steadily increasing from 16.3% in 2011 to 16.8% in 2014. A marginal decline to 16.7% is observed in 2015 with a further decline in 2016 to 16.4%. These trends in tax-to-GDP ratios are reflective of the varying and challenging economic conditions that the ATO countries found themselves in during this period. Within the ATO, countries that have been experiencing significant average changes in tax-to-GDP ratios were Togo, Mozambique and Uganda with average growths of 1.07, 0.79 and 0.70 percentage points respectively. Countries that have managed to increase tax-to-GDP ratios were those that managed to increase their shares of domestic taxes in total taxes. There was an increase in the tax-to-GDP ratio in thirteen (13) countries. Niger, Zimbabwe and Nigeria experienced significant declines in tax-to-GDP ratios of 1.22, 1.16 and 0.88 percentage points respectively. Tight economic conditions, declining CIT, VAT and PIT to GDP ratios have contributed to the average decline in Zimbabwe while Nigeria suffered from the fall in oil prices that resulted in lower revenues and an economic downturn.

Figure 2-6: Tax to GDP Ratio and GDP Per Capita

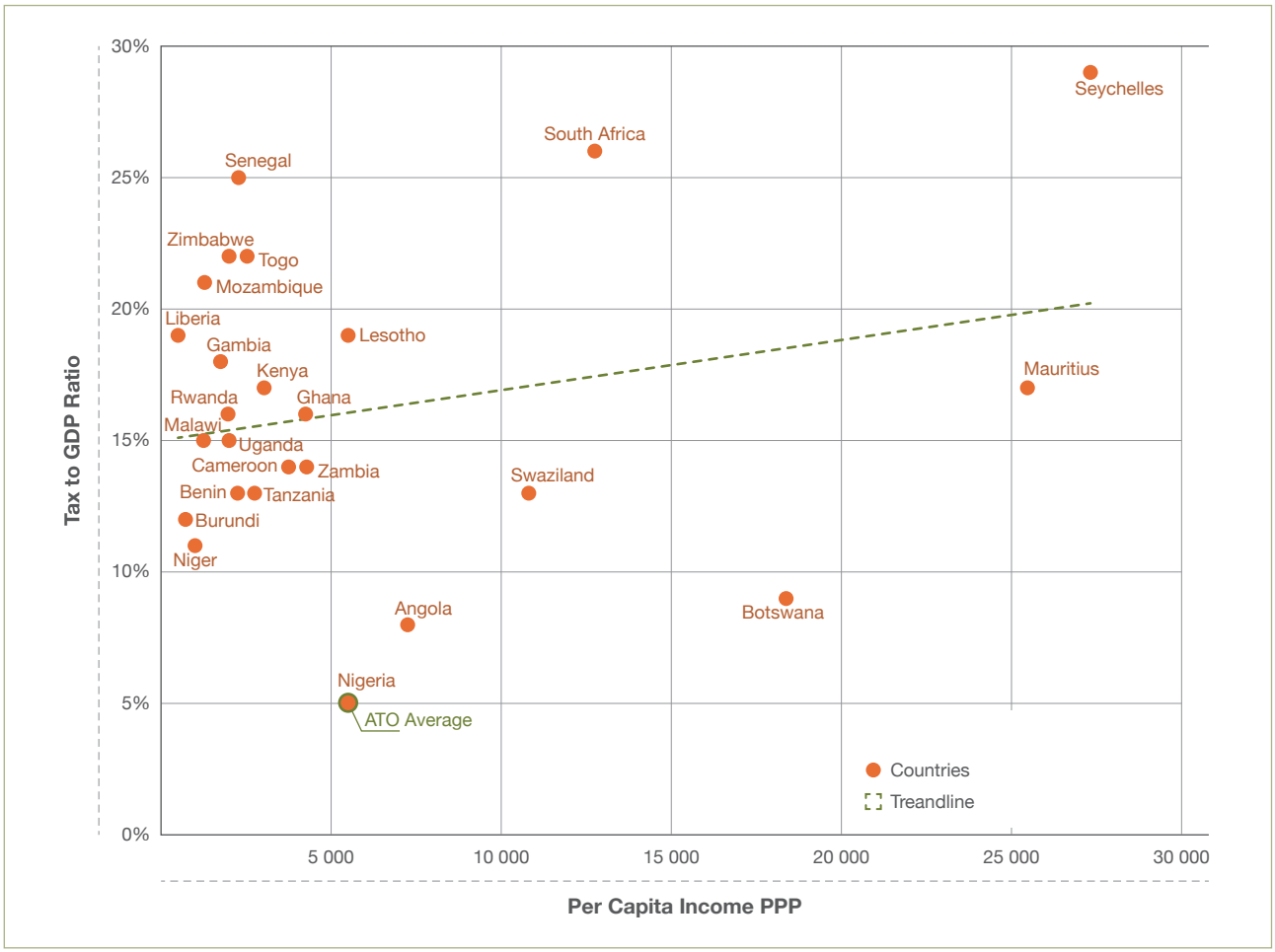


Figure 2-6 shows that ATO countries that have higher per capita income tend to have higher tax-to-GDP ratios, for example, Seychelles and South Africa that have the high tax-to-GDP ratios as well as high per capita income. Swaziland and Botswana have high per capita incomes relative to the other ATO countries yet still have low tax-to-GDP ratios while Senegal has a low per capita income and has one of the highest tax-to-GDP ratios in the ATO. Per capita incomes not only increase the capacity to collect taxes but also the ease with which they can be collected through improved infrastructure that comes with the associated development.

Stability and predictability of fiscal revenues are critical to the budgeting process of governments. If the process is uncertain, it disrupts resource allocation, causes fiscal deficits and results in other finance related social problems. From this perspective, it is desirable to have stable revenue streams and tax-to-GDP ratios. Highly volatile tax-to-GDP ratios that are highly unpredictable cause difficulty in fiscal planning which can be remedied through implementation of revenue diversification and stabilization policies.

Figure 2-7: Stability of Tax Revenues in the ATO

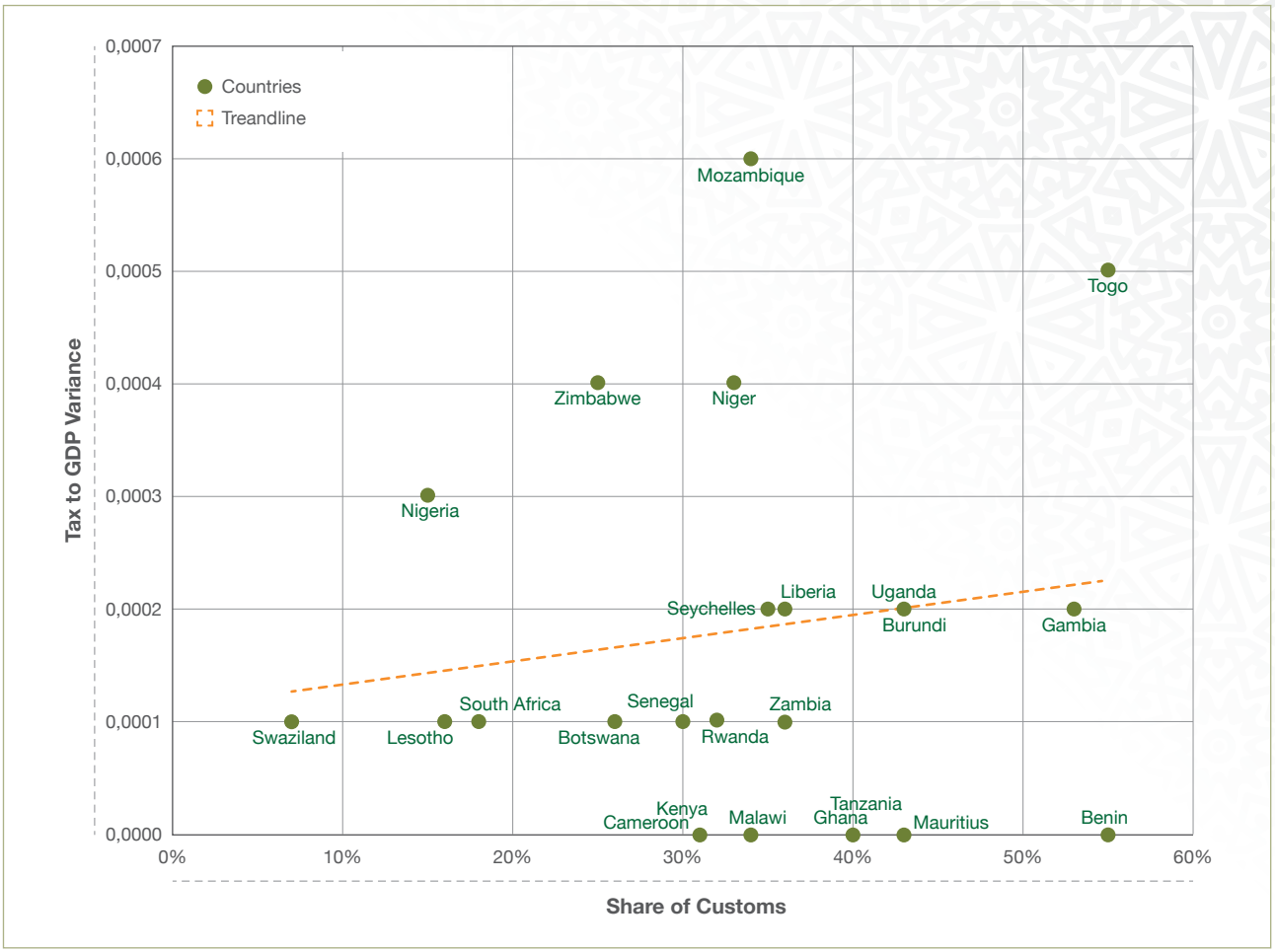
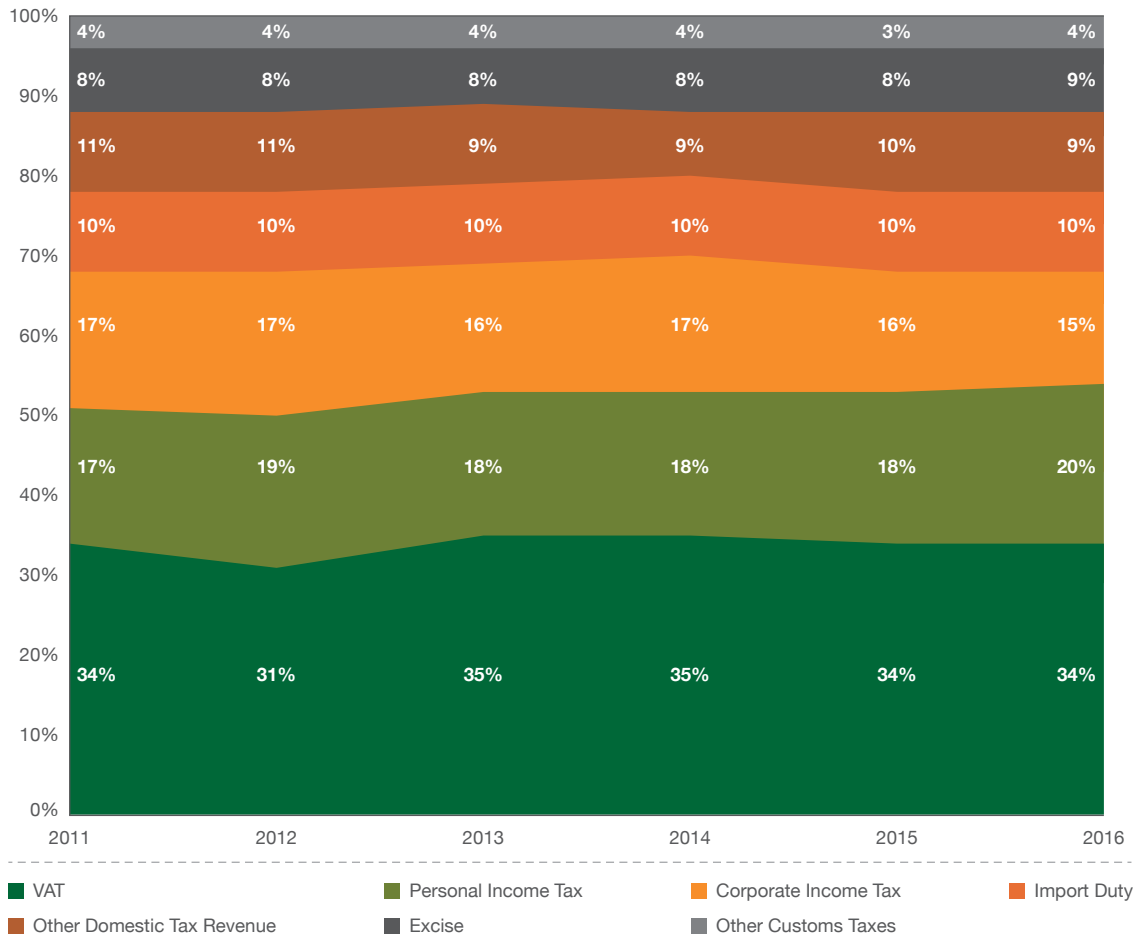


Figure 2-7 shows the volatility of tax-to-GDP as measured by the variance of the tax-to-GDP ratio for the period 2011-2015. Mozambique and Togo had the highest volatility in tax-to-GDP ratios while Mauritius and Kenya had the least volatility. The high volatility in Mozambique, Togo Niger and Zimbabwe is reflective of positive increases in tax-to-GDP ratio over the period. In Mozambique and Togo, the significant increases were due to positive performance in income taxes while in Zimbabwe it is reflective of the unstable economic conditions during the period. After adjusting for the outlying countries in the data, countries that had larger share of Customs revenue in total revenue tended to have a higher level of volatility in their tax-to-GDP ratios.

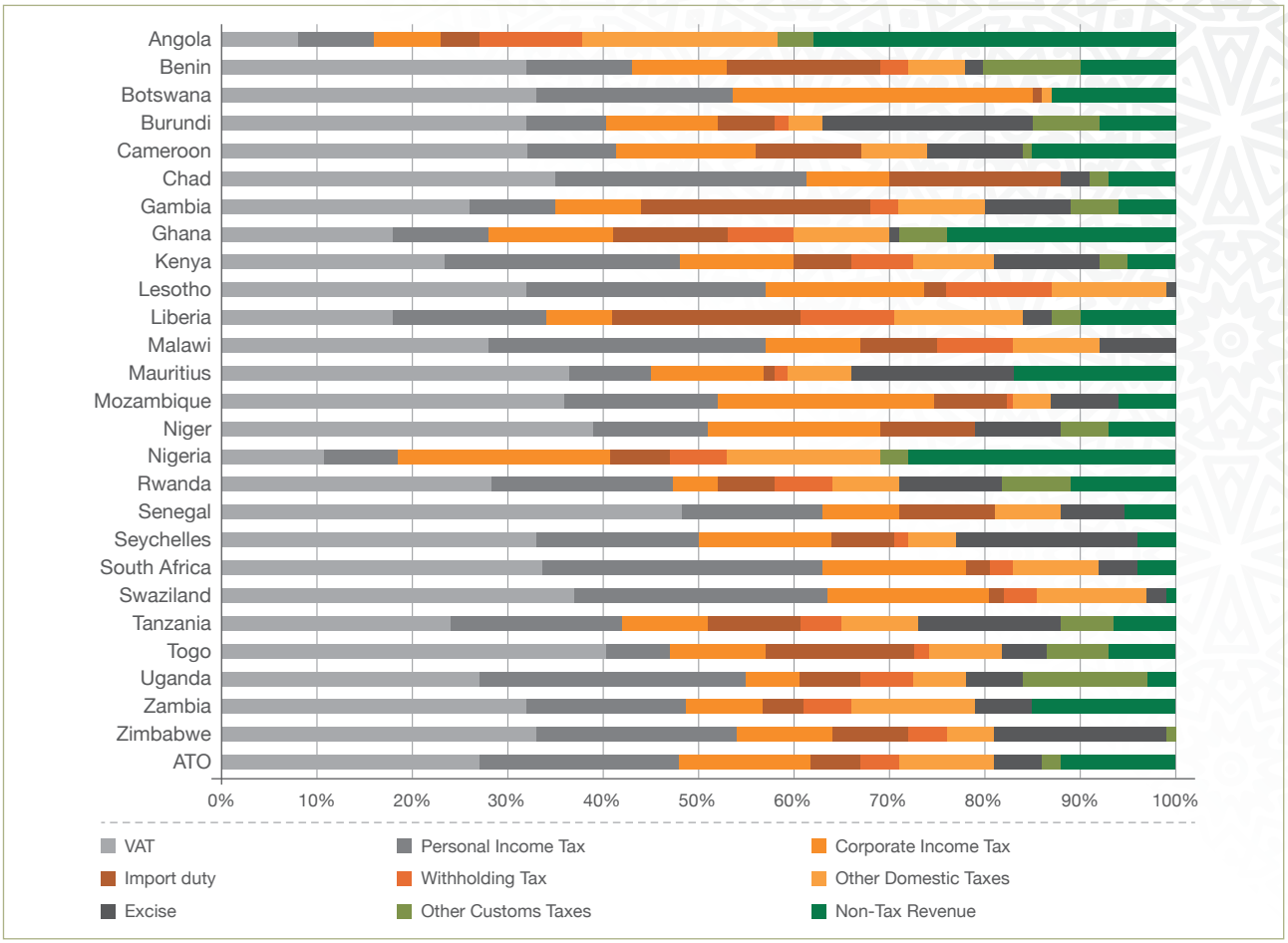
2.3. Tax Composition

Figure 2-8: Trends in Revenue Composition in the ATO (2011-2016)



The relative composition of tax revenue in the ATO has remained almost similar with slight variations observed. The largest contribution to ATO revenue in 2016 was VAT at 34% followed by PIT at 20%. The relative importance of personal income taxes-to-total tax revenue has been increasing within the ATO from an average of 17% in 2011 to 20% in 2016 while CIT revenue has shown a decline in relative contribution to total revenue to 15% from 17% in 2011. The contribution of Excise taxes to total revenue has also increased slightly from 8% to 9% between 2015 and 2016. The implication of these relative contributions is that individuals and consumers are beginning to contribute more than before to the fiscus compared to companies. This maybe be a result of increasing number of individual taxpayers and or increasing tax rates on individuals (including lack of adjustment for bracket creep) with declining profitability and or tax rates on corporations (including increase in tax concessions).

Figure 2-9: Contribution to Total Revenue in the ATO by Country (2016)



Analysis of revenue by economic sectors is an important aspect of revenue monitoring. Revenue administrations that invest in this aspect are able to asses and link revenue performance to economic developments. Only fourteen (14) ATO countries were able to provide this breakdown for 2016. The Tertiary sector played an important role in ATO economies as it accounted for 64% of revenue of ATO countries followed by the Secondary sector at 22%. Exceptions to this ATO average were Tanzania and Cameroon that had significantly larger shares of revenue from the Secondary sector at 64% and 37% respectively. The data for Zambia should be treated with caution, as some of the data from other sectors was unavailable.

The ATO countries consider Customs revenue as all revenue that has been collected by the Customs function. It includes all revenue collected at Customs offices or Entry Points. This may differ from other definitions of trade taxes as would be classified for example by the OECD. A grouping of taxes into Domestic and Customs taxes by this definition shows that most of revenue of the ATO countries is from domestic revenue with the largest share of domestic revenue-to-total revenue observed in Swaziland, South Africa and Lesotho at 88%, 84% and 82%, respectively. This generalisation however excludes other countries like Togo, Benin and Gambia that are more dependent on Customs revenue with contributions to total revenue of 57%, 52% and 44% respectively. On average 66% of ATO countries' revenue was from Customs and 34% from Customs.

Figure 2-10: Contribution to Total Tax Revenue by Sector in the ATO (2016)

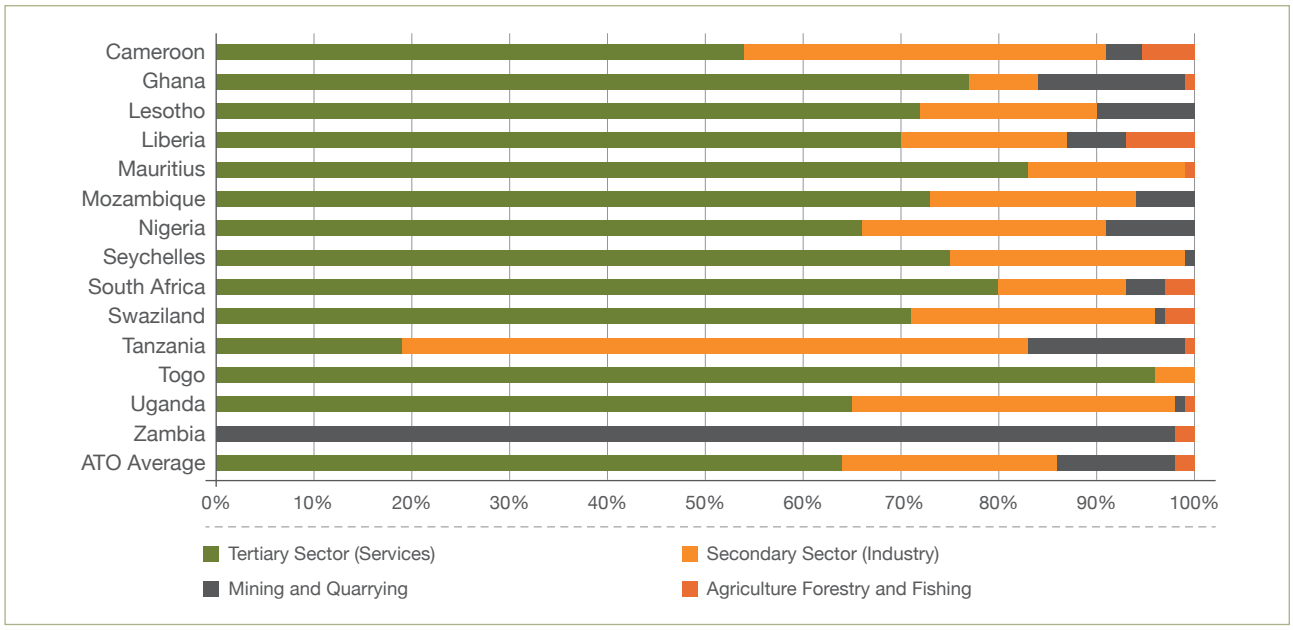
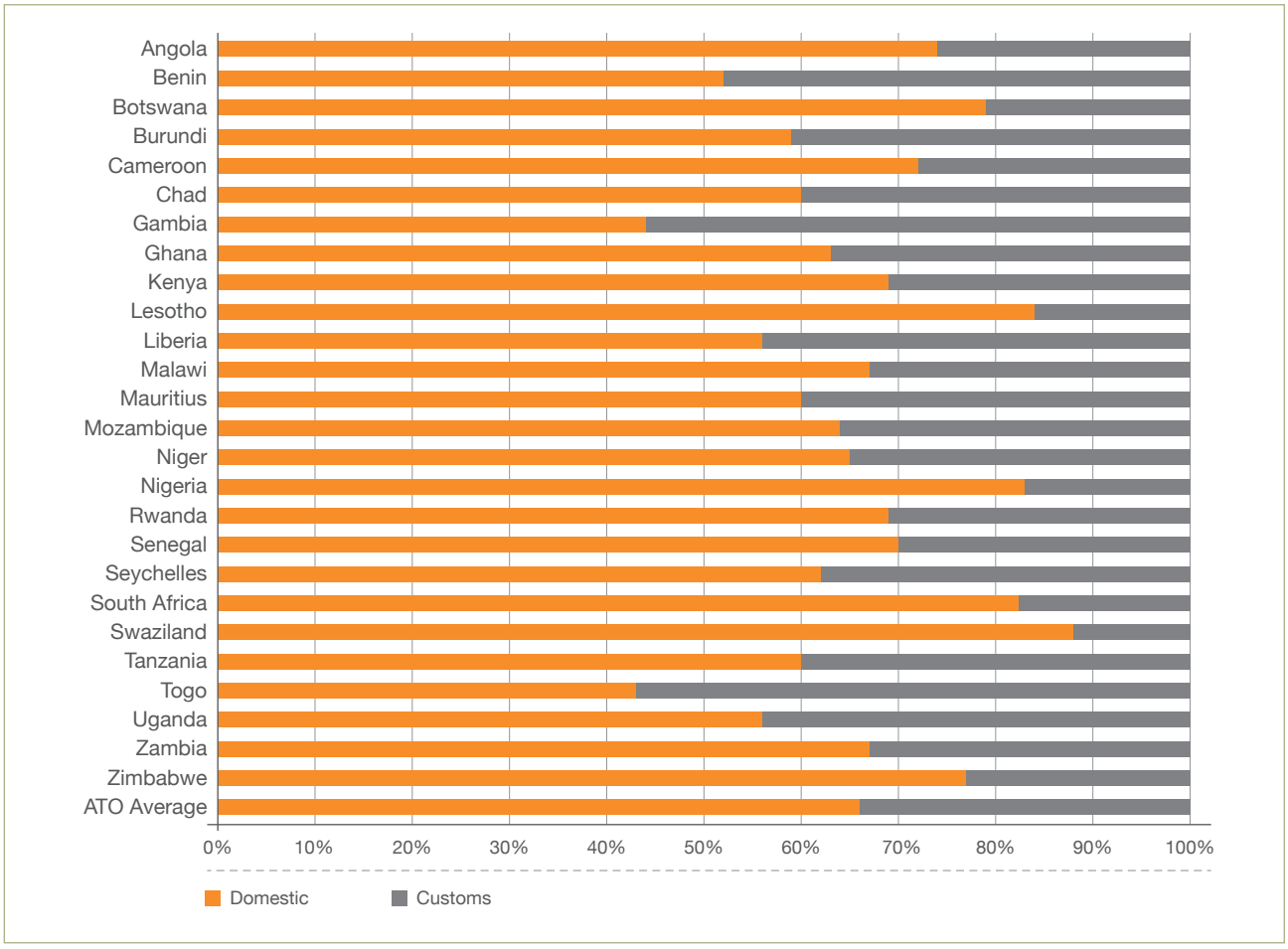


Figure 2-11: Domestic and Customs Revenue Share in the ATO, 2016



Box 2.1.

Specific vs Ad Valorem Taxes

A specific tax is an indirect tax charged at a fixed rate on sales of a good or service. Revenue from this kind of tax will only increase if the number of taxable units sold/produced increase. Inflation or increase in prices will not affect taxes collected through this. An Ad valorem tax is an indirect tax charged as a percentage of the price of a good or service. Revenue collected from Ad valorem taxes will increase both with increase in volume and prices. Indirect taxes are often favoured in revenue mobilization because the burden of the tax can be hidden and they give consumers a choice (Jensen, 1997).

By creating an appropriate mix and level of Ad valorem taxes that does not change the behaviour of taxpayers, the government can generate higher tax revenues by using a system that is made only of Ad valorem taxes than using a system made only of specific taxes (Jensen and Schjelderup, 2009).

Advantages of Ad valorem taxes:

- Revenue increases automatically with increase in output
- Reduces the need for continuously adjusting tax rates to keep up with prices changes
- Easier to administer as the tax rate remains fixed.
- Automatically adjusts the tax burden

Advantages of Specific Taxes:

- No Need to define the value for base for a tax

2.4. Regional Analysis

ATO countries fall into three (3) regional groupings namely SADC, EAC and ECOWAS. Some countries are members of more than one regional grouping for example all SACU members are members of SADC and further Swaziland and Zambia benefit from the COMESA bloc. Regional integration increases trade, expands markets, promotes economic growth and macroeconomic stability. This, however, comes with a cost to fiscal autonomy as harmonisation of tax rates reduces the extent to which countries can manipulate tax rates and taxable products/services to increase tax revenue and, in turn, tax-to-GDP ratios. This harmonisation also in part dictates the composition of taxes by country within the regional grouping with some arrangements more dependent on trade taxes and others less dependent.

Figure 2-12: Tax to GDP Ratio for ATO-SADC Member Countries

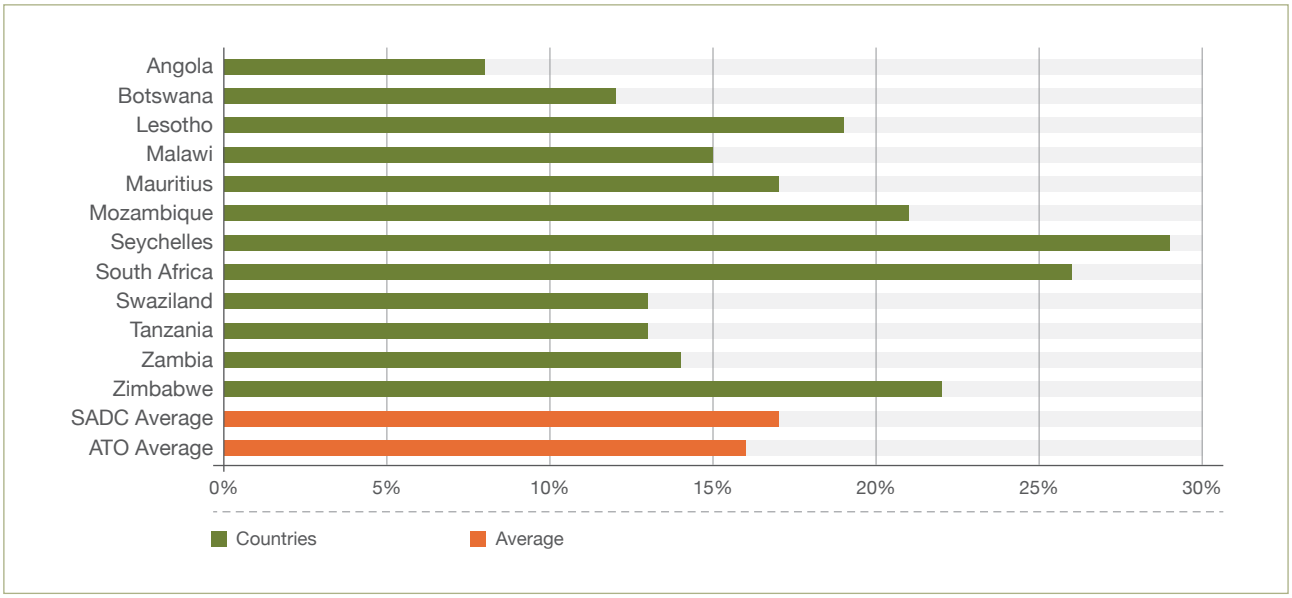
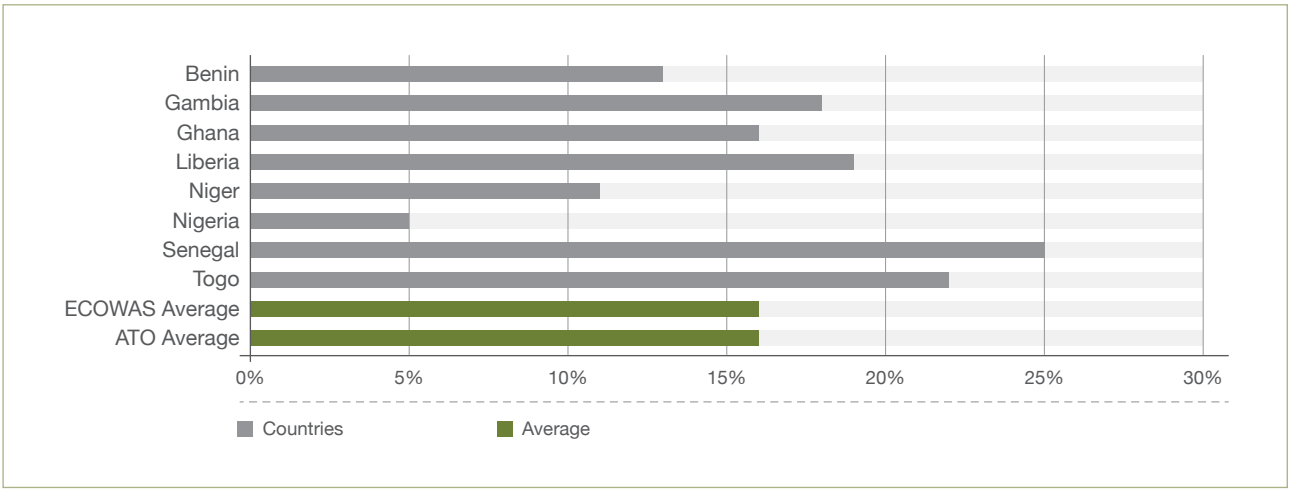


Figure 2-13: Tax to GDP Ratio for ATO-ECOWAS Member countries



An analysis of tax-to-GDP ratios by regional groupings showed that SADC had the highest tax-to-GDP ratio at 17% followed by ECOWAS at 16%. The EAC average was the lowest at 15%. The SADC ratio was 1% higher than the ATO average of 16%. Within SADC, the SACU countries had relatively higher tax-to-GDP ratios compared to their counterparts with an average of 17%. The reasons for this higher ratio were the relatively higher tax-to-GDP ratios for personal income tax as compared to other regions. Within the different regions the ratios still differed considerably with Seychelles at 29% and Angola at 8% in the SADC region. In ECOWAS Senegal has the highest ratio at 25%, while Nigeria in the same grouping have a tax-to-GDP ratio of 5%.

Figure 2-14: Tax to GDP Ratio for ATO-EAC Member Countries

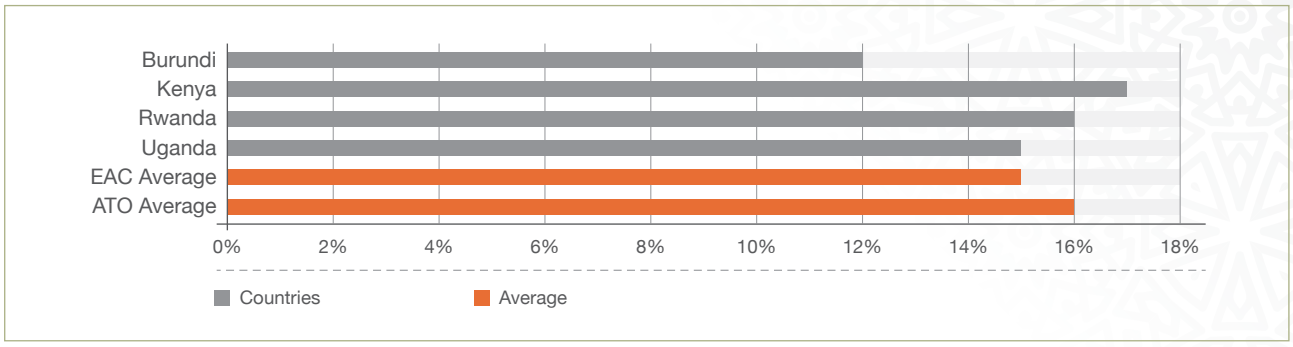
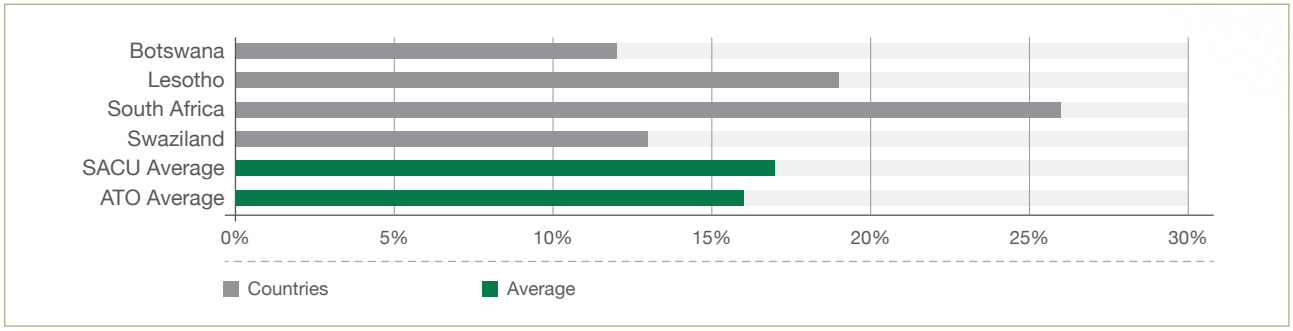
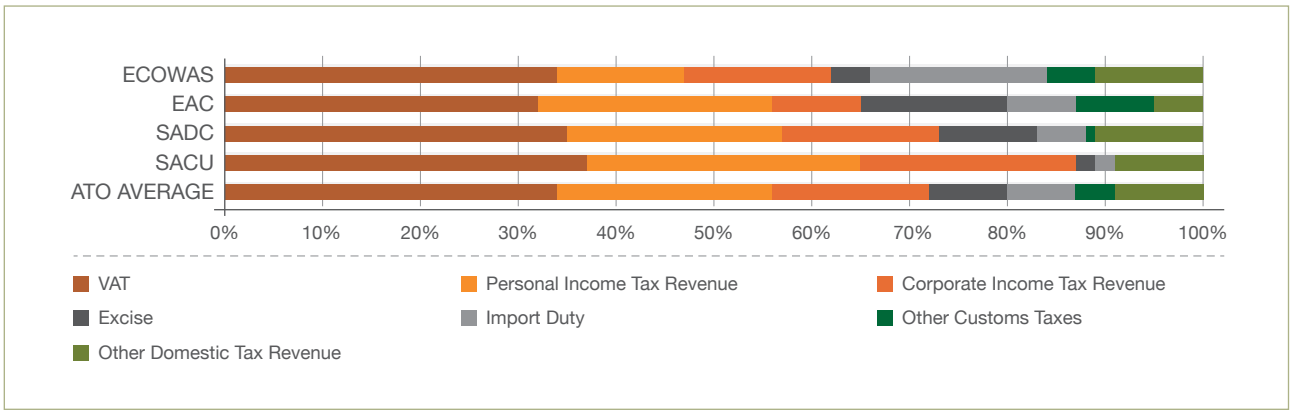


Figure 2-15: Tax to GDP Ratio for ATO-SACU Member Countries



Composition of taxes by regional grouping also shows the heterogeneity of regions within the ATO. While all regions are dependent mostly on VAT for revenue, SADC (and mostly SACU) and ECOWAS are more dependent than the rest of the regions with VAT accounting for 35% and 34% respectively of total tax revenue. This is despite the fact that the standard VAT rate average in SADC is lower compared to the other regions. Personal income taxes are the second largest contributor to tax revenue in the ATO, however the PIT's relative importance is lower in the ECOWAS at only 13% compared to 23% in both SADC and EAC. The ECOWAS region tends to depend mostly on Customs taxes as import duties account for 17% of revenue making it the second largest contributor to revenue in the ECOWAS region. Excise taxes have a larger role in the tax revenue in EAC compared to the other regions accounting for 15% of total revenue compared to less than 10% in the other regions. These differences in composition by region show the impact that harmonisation may have on the overall composition of tax revenue of member countries.

Figure 2-16: Tax Contribution by Regional Groupings in the ATO



2.5. Conclusion

Nominal revenue growth is generally in line with economic growth reflective of buoyant revenues while real revenues tend to decline even though nominal revenues increases are observed, this therefore, suggests that the tax systems can be adjusted to be more responsive to economic performance and price movements. The use of ad valorem rather than specific taxes is recommended in this case. Tax-to-GDP ratios and contributions vary by regional groupings. Regions with lower tax-to-GDP ratios can learn from those with higher averages for revenue efficient harmonisation policies. By increasing domestic revenue through tax base expansion, ATO countries will notably increase tax-to-GDP ratios but also ensure stability in revenue and tax-to-GDP ratios. The relative contribution of corporate income taxes to total tax revenue is decreasing, policy and administrative actions may need to be considered in this regard.

3

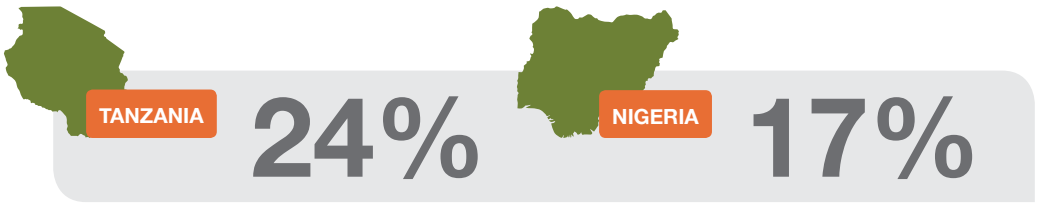
Analysis of the different Tax Types

3 Analysis of the different Tax Types

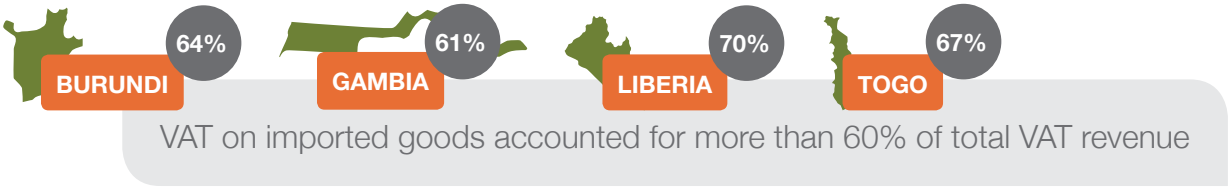
The ATO average for the ratio of VAT-to-total tax revenues **31%**

HIGHEST GROSS VAT REVENUES-TO-TOTAL TAX RATIOS

LOWEST VAT REVENUES-TO-TOTAL TAX RATIOS



IT IS ADVISABLE THAT THE RATIO OF DOMESTIC VAT TO VAT ON IMPORTS BE AT LEAST 100%

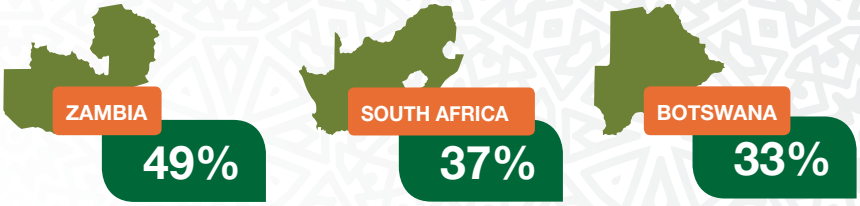


On average, the ratio of Domestic VAT to VAT on Imports was 143% in ATO countries, thereby exceeding the international benchmark of 100%.

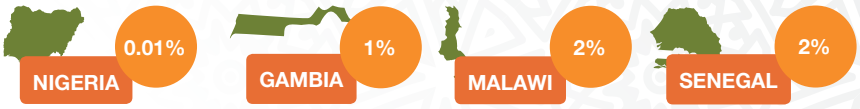
2016 VAT-refunds-to-VAT collections ratios

Regarding the VAT-refunds-to-VAT collections ratios, the ATO average for 2016 stood at 15%, while for the period 2011-2016, the ATO average stood at 14%.

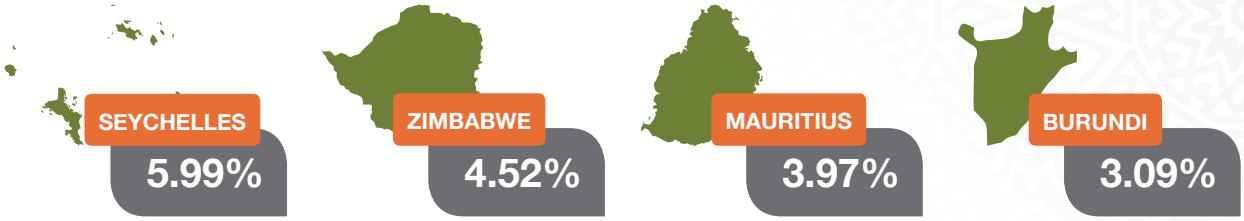
HIGHEST RATIOS



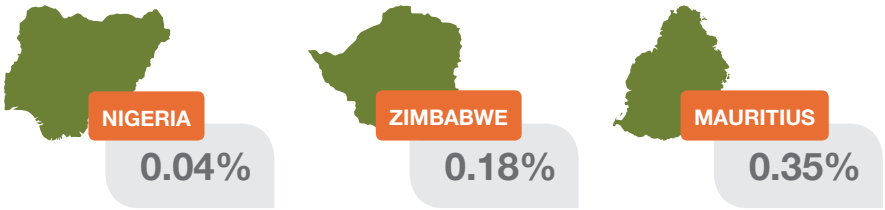
LOWEST RATIOS



HIGHEST REVENUE-TO-GDP RATIOS

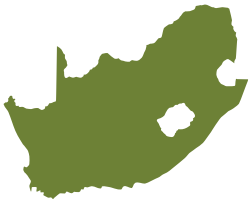


LOWEST REVENUE-TO-GDP RATIOS



Against an ATO average of **1.76% and an OECD average of 2.6%**

South Africa's PIT-to-GDP ratio **was above the OECD level in the ATO region.**



Top marginal rate (41%)

Bottom marginal rates (18%)

Zimbabwe, Zambia, Uganda, Seychelles, Lesotho and Kenya

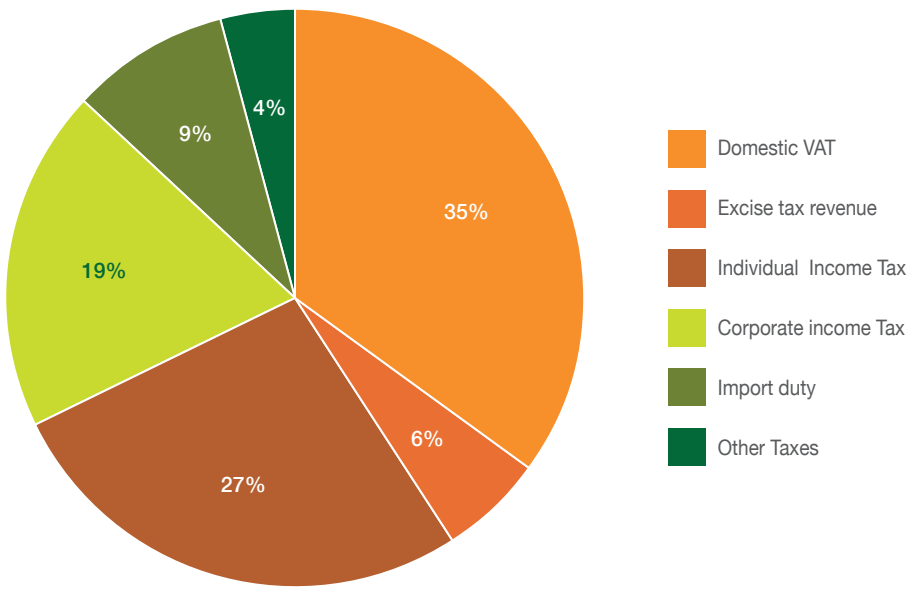
5%

The rest of the countries **were below 5%**

3. Analysis of the different tax types

Major individual tax types in ATO countries were divided into two broad categories, namely indirect taxes and direct taxes. Indirect taxes include VAT, excise duties and import duties, while direct taxes are corporate income taxes and individual income taxes, also referred to as personal income taxes. In 2016, the breakdown of the main individual tax types was as depicted on Figure 3-1.

Figure 3-1: Breakdown of major tax heads in the average ATO country, 2016



Note: Gross figures were used for computing VAT, and in Figure 3-1, VAT revenue included Angola which still administers a retail sales tax.

VAT and excise duties are levied on both domestic and imported goods, while import duties are levied on imported goods only. Direct taxes are levied on income or wealth.

From Figure 3-1, VAT yielded the most revenue (35%) in total, followed by individual income taxes which contributed 27%. Excise taxes contributed 6%, while other taxes, which included all minor tax types combined, had the least contribution of 4%. It is interesting to note that the ATO average for VAT revenue-to-total tax (35% when Angola was included) and 36% without Angola, were both within the international benchmark of 35% (Gallagher, 2004). Angola is the only country in the ATO region that does not administer a VAT, but a retail sales tax.

3.1 Value-Added taxes

VAT and sales taxes

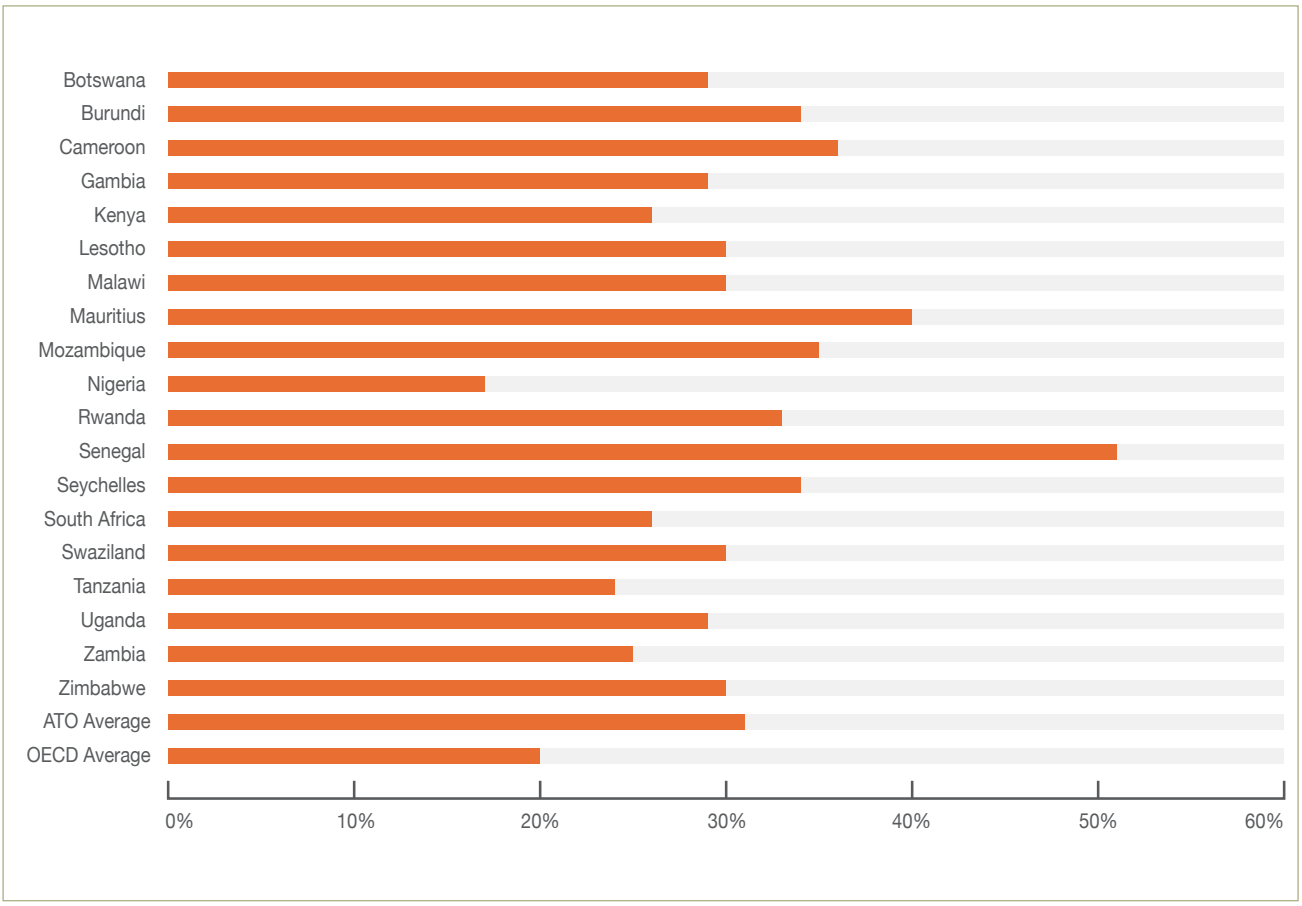
Twenty-five out of twenty-six ATO countries have a VAT system in place. Angola is the only country without a VAT. VAT remains the highest revenue-yielding consumption tax in ATO countries. The tax-head was introduced in 2013 in Gambia, Seychelles and Swaziland.

Bird and Gendron (2007, p. 10) define a value added tax as a "broad-based tax levied at multiple stages of production and distribution with-crucially-taxes on inputs credited against taxes on output." The advantage of VAT is that it is imposed on the buyers all the way throughout the supply chain. Therefore, revenue is secured by being collected throughout the production process, unlike a sales tax, where revenue is collected once at the end of the chain of production. VAT is collected on the "value added" at each stage in the chain of production and distribution.

The main difference between the VAT and the retail sales tax (RST) is the mechanism of removing tax on intermediary sales (Krever, 2008). On one hand, the RST suspends the tax if evidence is availed that the business is registered and that the purchase is going to be used for business purposes. On the other hand, the VAT imposes the tax as if the purchaser was a final consumer and then allows the purchaser to claim a credit for the tax if the purchase was meant for use in the business of the registered enterprise.

Some of the factors that affect VAT performance include: the country's level of economic growth; openness to trade; VAT design features, such as standard rates; VAT thresholds; VAT expenditures (zero-rates and exemptions); inflation and the administrative efficiency of the revenue authority in dealing with non-compliance and VAT fraud. Figure 3-2 shows the VAT revenues-to-total tax ratios in 19 selected ATO countries, while Figure 3-3 shows the growths in total VAT revenues for 25 countries for the period 2015-2016.

Figure 3-2: VAT revenue-to-total taxes ratio, 2016



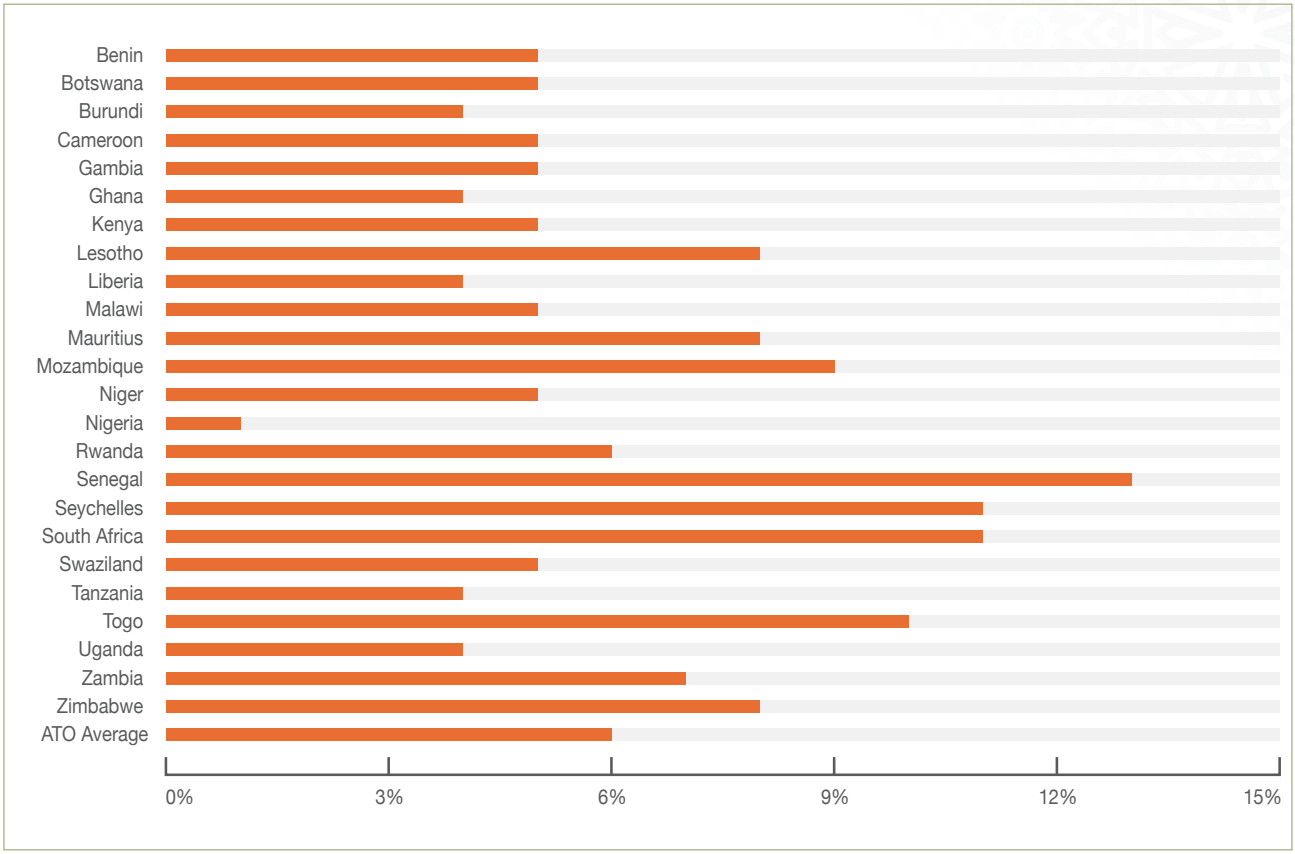
Note: Benin, Chad, Ghana, Liberia, Niger and Togo could not supply data on VAT refunds. Net VAT figures were used in the computations.

The ATO average for the ratio of VAT-to-total tax revenues was 31% and above the 2015 OECD average of 20%. Senegal (51%) and Mauritius (40%) had the highest VAT revenues-to-total tax ratios, while Tanzania (24%) and Nigeria (17%) had the lowest ratios. Mauritius' performance could have been influenced by a variety of factors ranging from positive growths in both domestic and import VAT revenues, drop in the VAT refunds-to-VAT collections ratios from 21% in 2014 to 16% and 17% in 2015 and 2016, respectively. It is also interesting to note that Mauritius had the highest threshold in the ATO region at US$361, 000.00 (PPP converted). There was also an increase in the number of VAT taxpayers from 17253 in 2015 to 18202 in 2016. Other interesting stories for both Senegal and Mauritius, are the reforms undertaken in the past in both countries to rationalise tax expenditures, and the transparent manner in which VAT expenditures are published regularly at national level in Mauritius (CRC Sogema, 2013). Senegal had one of the lowest VAT refunds-to-VAT collections ratios among ATO countries, at 2% against an average of 13%. In addition, Senegal's performance could also have been influenced by the high VAT rate of 18%, against an ATO average VAT rate of 15%.

It is interesting to note that when using the ratios of gross VAT revenues-to-total taxes, (calculated separately but not reflected here), Senegal (52%) and Zambia (49%) topped the group, while Nigeria (17%) and Liberia (23%) were in the bottom. Zambia was heavily affected by their high VAT refunds-to-collections ratios, mainly because of the huge exports of the mining sector which are zero-rated and therefore prone to VAT refunds. Nigeria's low ratio could have been influenced by the fact that being a resource rich nation, the country has the lowest VAT rate in the ATO region, at 5% against an ATO average of 15%. In addition, Nigeria operates its VAT system without a threshold.

With regard to the share of net VAT revenues in total tax revenues, only four countries (Cameroon, Mozambique, Mauritius and Senegal) were above the international benchmark of 35% (Gallagher, 2004), while only one country (Senegal) was above the Central America benchmark of 45% (ibid). The ATO average of 31% was also below the international benchmark.

Figure 3-3: VAT revenue-to-GDP ratios, 2016



As reflected in Figure 3-3, the ATO VAT-to-GDP ratio for 2016 stood at 6.3%, which is comparable to the OECD average of 6.8% (OECD, 2017). The ratios of overall VAT revenue-to-GDP were highest in Senegal, Seychelles and South Africa where they exceeded 10%. Nigeria had the lowest total VAT-to-GDP ratio (1%), attributable to the low VAT rate of 5% which could not be offset by the absence of a VAT threshold.

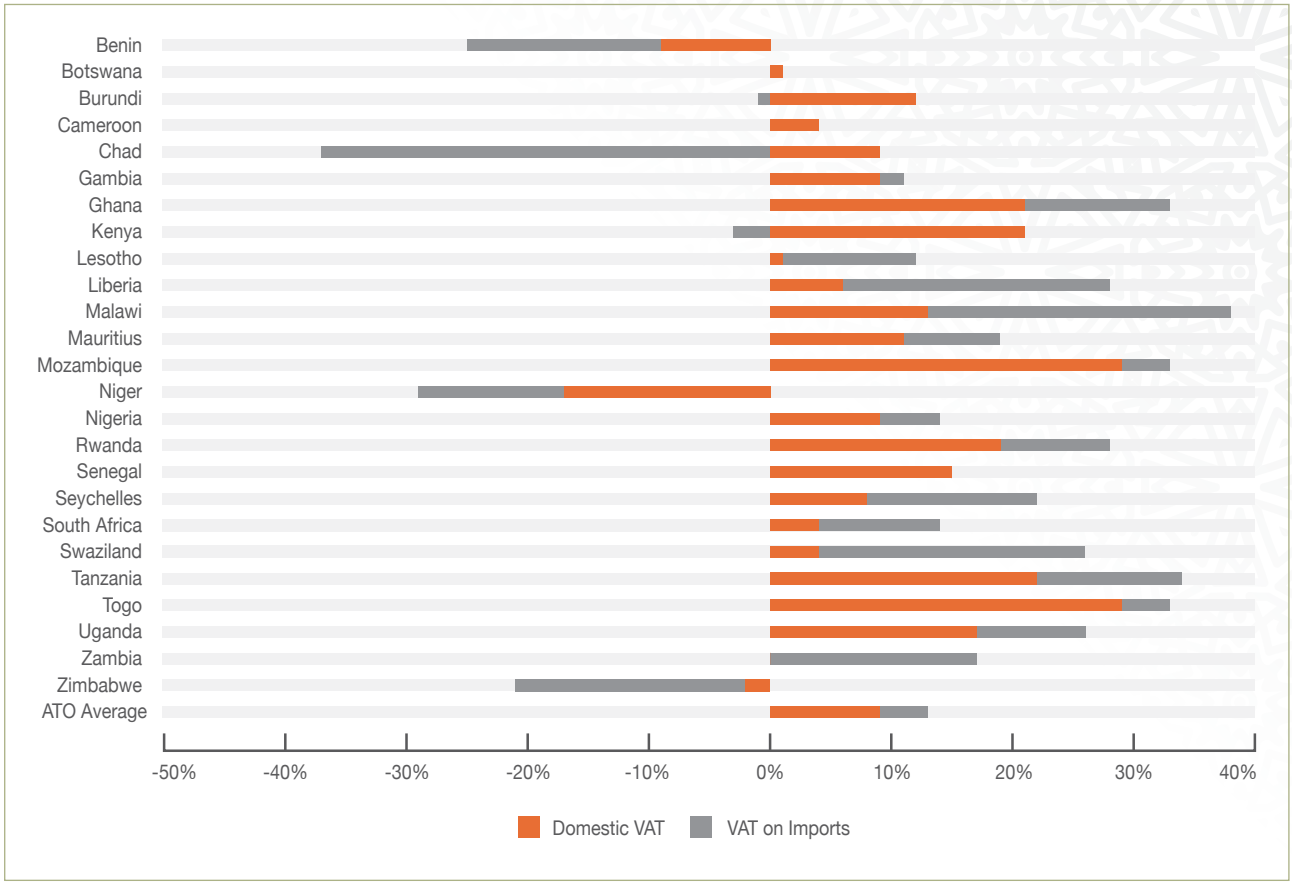
The same points mentioned for Senegal and Mauritius in the preceding discussion under the ratios of VAT-to-total taxes apply for their VAT-to-GDP ratios. With regards to South Africa, the rationalisation of VAT incentives (zero-rates and exemptions) has assisted in enhancing its VAT revenue-to-GDP ratio, in addition to the fact that the economy is more advanced compared to its ATO counterparts.

VAT on domestic and imported goods

ATO countries distinguish between VAT on domestic goods and VAT on imports, although a similar rate is applied to both. In twenty-one of them, revenue from VAT on domestic goods accounted for between 40%-60% of total VAT revenue and in ten of those same countries domestic VAT provided at least 60% of VAT revenue (Cameroon (64%), Chad (62%), Lesotho (65%), Niger (60%), Nigeria (79%), Rwanda (69%), Senegal (68%), South Africa (66%), Swaziland (77%) and Zimbabwe (69%)). In four countries (Burundi (64%), Gambia (61%), Liberia (70%) and Togo (67%)), VAT on imported goods accounted for more than 60% of total VAT revenue (Refer to Figure A3-1 in Appendices). Generally, it is advisable that the ratio of domestic VAT to VAT on imports be at least 100% (Gallagher, 2004). On average, the ratio of Domestic VAT to VAT on Imports was 143% in ATO countries, thereby exceeding the international benchmark of 100%. Fifteen out of twenty-five countries exceeded the international benchmark of 100%, with Nigeria and Swaziland topping the group with 366% and 327%, respectively. Botswana, Burundi, Gambia, Ghana, Liberia, Malawi, Mozambique, Togo, Uganda and Zambia fell short of the international benchmark (see Figure A3-2 in the Appendices).

Figure 3-4 shows the VAT revenue-to-GDP ratios by VAT type for the year 2016.

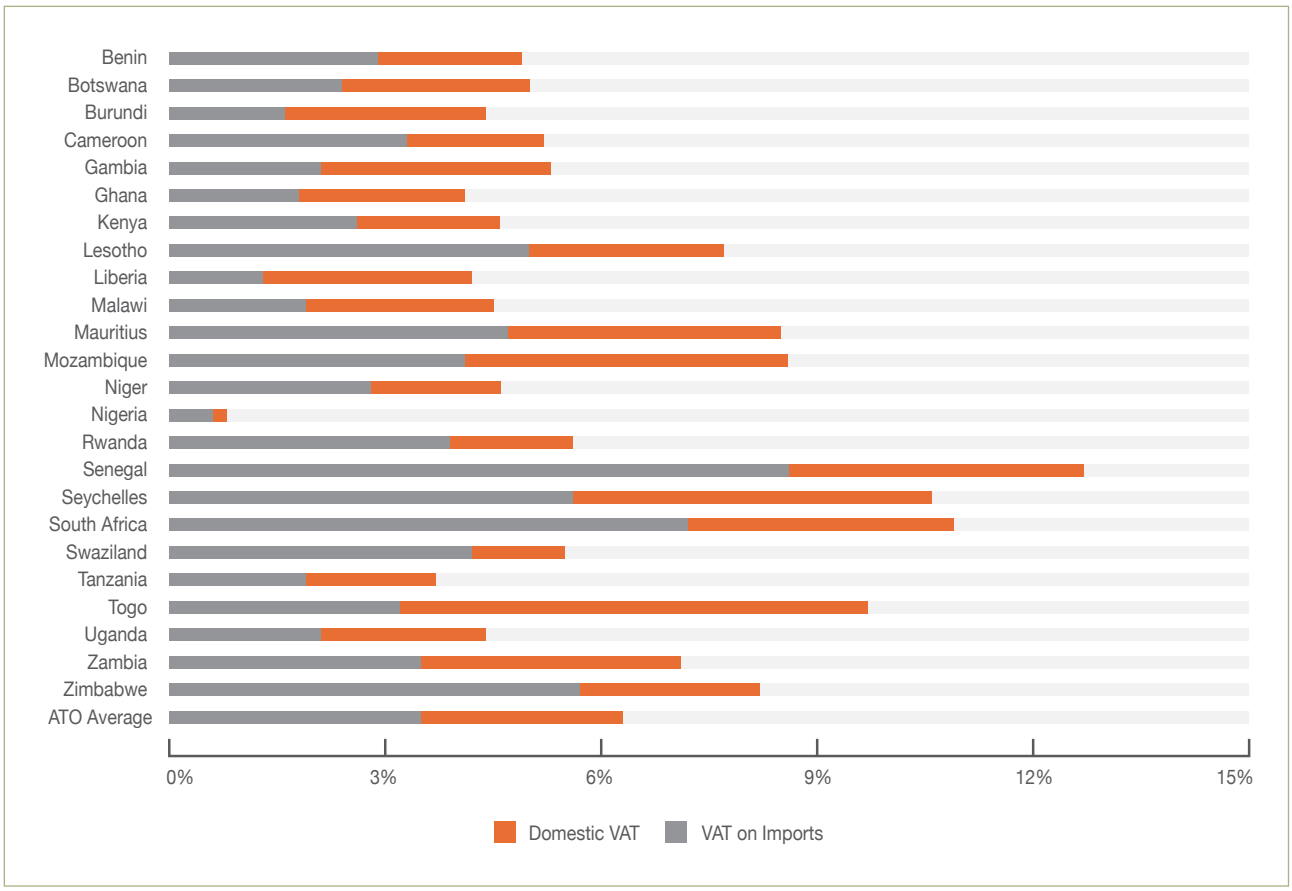
Figure 3-4: VAT revenue-to-GDP ratios by VAT type, 2016



High domestic VAT revenue-to-GDP ratios of 5% and above were observed in Lesotho (5%), Senegal (8.6%), Seychelles (5.6%), South Africa (7.2%) and Zimbabwe (5.7%). Ratios below 2% were observed in Burundi (1.6%), Ghana (1.8%), Liberia (1.3%), Malawi (1.9%), Nigeria (0.6%) and Tanzania (1.9%). With reference to import VAT-to-GDP ratios, Seychelles (5%) and Togo (6.5%) were the only countries that exceeded 5%. Ratios below 2% were observed in Cameroon (1.9%), Kenya (1.97%), Niger (1.8%), Nigeria (0.2%), Rwanda (1.7%), Swaziland (1.3%) and Tanzania (1.8%). It is interesting to note that most of the countries with high GDPs per capita, as reflected in Figure 2-6 in chapter 2 also had the highest domestic VAT revenue-to-GDP ratios. This is essential because high GDPs per capita, imply high disposable income which enables consumers to buy VAT-paying goods. These countries included South Africa, Seychelles, Lesotho, Mauritius and Swaziland. Outliers who performed well in terms of domestic VAT revenue, yet with low GDPs per capita ratios were Senegal and Zimbabwe. Although Botswana is one of the countries with the highest GDP per capita ratios, its domestic VAT-to-GDP ratio was 2.4%.

Figure 3-5 shows the VAT growth rates by VAT type for the period 2015-2016.

Figure 3-5: VAT revenue growth rates by VAT type, 2015-16



Note: Gross figures were used in the computations to cater for all countries

Highest growths in domestic VAT were witnessed in Ghana (21%), Kenya (21%), Tanzania (22%), Mozambique (29%) and Togo (29%), whilst Liberia (22%), Malawi (25%) and Swaziland (22%) had the highest growths in VAT on imports, against ATO averages 9% for domestic VAT and 4% for Import VAT. Declines in domestic VAT revenue were witnessed in only 3 countries, namely Zimbabwe (-2%), Benin (-9%) and Niger (-17%). With reference to VAT on imports, negative growths above 15% were in Benin (-16%), chad (-37%) and Zimbabwe (-19%). In Zimbabwe, revenue from VAT on imports went down due to Statutory Instrument 64 of 2016, that was put in place to deter importation of specified goods that were produced locally in the Zimbabwean market. On the other hand, the huge negative growth in Chad could be partly attributed to the prevalence of VAT exemptions, which constituted approximately 3% of GDP in 2016.

On average, total gross VAT in ATO countries grew by 6% between 2015 and 2016. Growths above 15% were experienced in Liberia (17%), Rwanda (16%), Tanzania (17%), and Malawi (20%). Negative growths in gross VAT, beyond -10% were witnessed in Niger (-15%), Chad (-15%) and Benin (-12%).

VAT Rates and Thresholds

The standard VAT rates for 25 ATO countries range from 5% (Nigeria) to 19.25% (Cameroon), with an average of 15%, against the international benchmark of 16% and the Central America benchmark of 13% (Gallagher, 2004). Seven countries, namely Botswana, Ghana, Lesotho, Liberia, Nigeria, South Africa and Swaziland had VAT standard rates below the ATO average and the international benchmark (See Figure A3-3 in the Appendices). Fourteen countries' standard VAT rates were above the ATO average and international benchmark, while four countries had rates within the ATO average and international benchmark. Six ATO countries, namely Burundi, Ghana, Lesotho, Liberia, Niger and Senegal have multiple VAT rates, or at least another special VAT rate in place. Other things being constant, VAT generates higher revenue in countries with a single VAT rate than in countries with multiple rates (Bogetie & Hassan, 1993). It was observed that out of the six countries with multiple VAT rates, four (Burundi, Ghana, Liberia and Niger) had VAT-to-GDP ratios below the ATO average of 6%.

When VAT was introduced, the common expert advice held was to set the thresholds as low as possible (Bird & Gendron, 2007, p. 115). The idea was to include many vatable transactions in the VAT net, thereby expanding the VAT base. However, as time went on, it was realised that thresholds could be set as high as US$100, 000.00 per annum (ibid). The optimal threshold is determined by balancing collection costs against the marginal value of additional tax revenue. (Keen & Mintz, 2004). A higher VAT threshold is still desirable even if some revenue is forgone by dropping many small taxpayers. The revenue loss is eventually recouped if the administrative effort moves away from processing numerous low return taxpayers and shift to the medium and large taxpayers who account for most VAT revenue. Tables 3-1 and 3.2 shows the VAT thresholds for 25 ATO countries. It is worth reiterating that Mauritius, with the highest threshold in the ATO region, had the second highest ratio of VAT revenue-to-total tax.

Table 3-1: VAT Thresholds, SADC & SACU Regions, 2016

Region	Country	VAT Thresholds in Local Currency	VAT Thresholds in US$ PPP Converted	VAT Rates
SADC	Botswana	1 000 000.00	219 250.16	12%
	Lesotho	850 000.00	178 533.92	14%
	Malawi	10 000 000.00	53 917.95	16.50%
	Mauritius	6 000 000.00	360 728.67	15%
	Mozambique	750 000.00	38 173.77	17%
	Seychelles	2 000 000.00	269 142.78	15%
	South Africa	1 000 000.00	170 386.78	14%
	Swaziland	500 000.00	99 760.57	14%
	Tanzania	40 000 000.00	57 943.39	18%
	Zambia	800 000.00	240 312.41	16%
	Zimbabwe	60 000.00	120 481.93	15%
SADC/SACU	Botswana	1 000 000.00	219 250.16	12%
	Lesotho	850 000.00	178 533.92	14%
	South Africa	1 000 000.00	170 386.78	14%
	Swaziland	500 000.00	99 760.57	14%

Note: Angola has no VAT in place and the sales tax rate is 10%.

Table 3-2: VAT Thresholds, ECOWAS & EAC Regions, 2016

Region	Country	VAT Thresholds in Local Currency	VAT Thresholds in US$ PPP Converted	VAT Rates
	Togo	50 000 000.00	221 432.94	18%
EAC	Burundi	100 000 000.00	151 157.18	18%
	Kenya	5 000 000.00	106 794.25	16%
	Rwanda	20 000 000.00	68 863.17	18%
	Tanzania	40 000 000.00	57 943.39	18%
	Uganda	150 000 000.00	144 511.45	18%
OTHER	Cameroon	50 000 000.00	221 741.29	19.25%
ATO Average	ATO Average	Not applicable	146 355. 03	15.45%

Thresholds above US$200,000.00 (PPP converted) were witnessed in the SADC region, in Botswana, Mauritius, Seychelles and Zambia. In the ECOWAS region, Togo exceeded the US$200, 000.00. All countries in the ATO, except Niger and Nigeria have VAT thresholds in place. Burundi, Gambia, South Africa and Tanzania have at least another additional threshold. During the past three years, only three countries revised their thresholds, namely Mauritius, Seychelles and Uganda. For Uganda, the threshold was revised upwards by three times. In the First ATO publication, Uganda had indicated an intention to quadruple its VAT threshold.

An optimal VAT threshold is one of the essential design features of a VAT. Lessons can be derived from Uganda, which trebled its VAT threshold in 2016 and Niger and Nigeria which do not have VAT thresholds in place (see Box 3.1).

Box 3.1:

Uganda VAT Threshold trebled in 2015

Country examples on how high VAT thresholds can influence VAT performance Uganda

In the First ATO publication, Uganda indicated its intention to quadruple the VAT threshold in 2015. The review of the threshold was eventually done in 2016, when the country trebled its VAT threshold. What is not clear is the effect this had on its VAT performance. The country experienced growth in both domestic VAT (15%) and VAT on imports (7%). Total VAT also grew by 11% in 2016. Uganda's VAT performance could be attributable to several factors, including the review of the VAT threshold, although the quantum attributable to the threshold review is not obvious. It has also been established from the Mauritius case that a high threshold, could have positive effects on VAT revenues.

Niger and Nigeria

It is interesting to note that countries without VAT thresholds were among the countries that did not achieve significant VAT revenue growth in 2016. For instance, Niger attained the highest negative growth rate of 15 percent on Domestic VAT. Niger's VAT on imports fell by 10 percent, whilst total VAT revenue attained a 13 percent negative growth. Nigeria attained a paltry 1% growth in domestic VAT, while its VAT on imports fell by 3% and 0.2%, respectively. However, besides the threshold other factors were also at play, for instance the low VAT tax rate of 5% in Nigeria. In addition, as an oil rich country, Nigeria's revenue is more from non-tax than tax revenue.

VAT Refunds

The invoice credit system of VAT has an important attribute that some businesses will pay more tax on their inputs than is due on their output, and so ought in principle to receive VAT refunds (*Ebrill, Keen, Bodin, & Summers, 2001*). Williams in (*Thuronyi, 1996*) asserted that VAT refunds can also emanate where the VAT legislation makes provision for rebating taxes to exporters. The destination principle of the VAT implies that VAT on exports ought to be zero-rated. It was confirmed in (Le, 2003) that several developed countries, including New Zealand, Canada and countries in the European Union allow for a complete refund of all excess tax credit, while developing countries often embark on a hybrid system of refunds and carry-forward arrangements of the excess credit. However, (Le, 2003) argued against delaying refunding of VAT, asserting that delays in VAT refunds adds a layer of "hidden costs" to registered firms and thereby discourages investment.

Regarding the ideal level of VAT refunds, they can be substantial, averaging 30% or more of gross VAT collections (Krever, 2008). In some economies, VAT refund levels can be as high as 50% of gross VAT collections (Harrison & Krelove, 2005). However, VAT

refund levels are generally low in Africa, Asia and Latin America (ibid).

It is crucial for tax administrators to have a sense of the level of refunds they might reasonably expect to pay. According to Harrison and Krelove (2005), refunds as a proportion of VAT revenues under a fully functioning, single-rate, invoice-credit VAT would be:

$$\frac{(\square i+(1-\square)z)}{e}$$

where ***i*** and ***z*** denote respectively the shares of investment and zero-rated items (including exports) in GDP; □ is the proportion of investments that generates excess credits (a quantity one would expect to be higher in faster-growing economies); and □ denotes the ratio of value added to sales in the zero-rated sector and e the efficiency ratio.

VAT refunds are the "Achilles heel" of the VAT system (Bird & Gendron, 2007) and (Harrison & Krelove, 2005) . Many countries in ATO countries could not provide estimates of the time taken to process a VAT refund. Only ten countries provided information and out of those ten countries, 70% were outside the international benchmark of 25 days (Gallagher, 2004), while only 20% (Zambia and Malawi) were outside the Central America benchmark of 30-90 days (ibid.). The average time taken to process a VAT refund ranged from four days in Uganda to four months in Malawi. The average ATO time to process a VAT refund was 43 days, which was above the international benchmark of 25 days but within the Central America benchmark of 30-90 days. This was a confirmation to (Tanzi & Zee, 2000)'s claim that in developing countries, the credit mechanism of the VAT is excessively restrictive, in that there are denials or delays in providing proper credits for the VAT on inputs, especially with regards to capital goods.

Figure 3-6 shows the VAT refunds-to-gross VAT revenue ratios for nineteen ATO countries that submitted statistics on VAT revenues and refunds for 2016. Figure 3-7 shows the average VAT refunds-to-gross VAT revenue ratios for the period 2011 to 2016.

Figure 3-6: VAT refunds-to-VAT revenue ratios, 2016

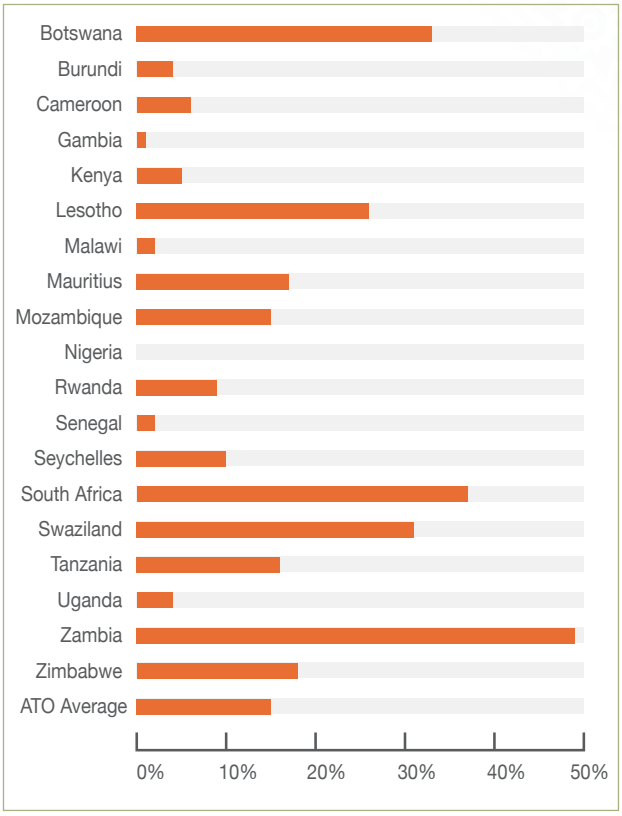
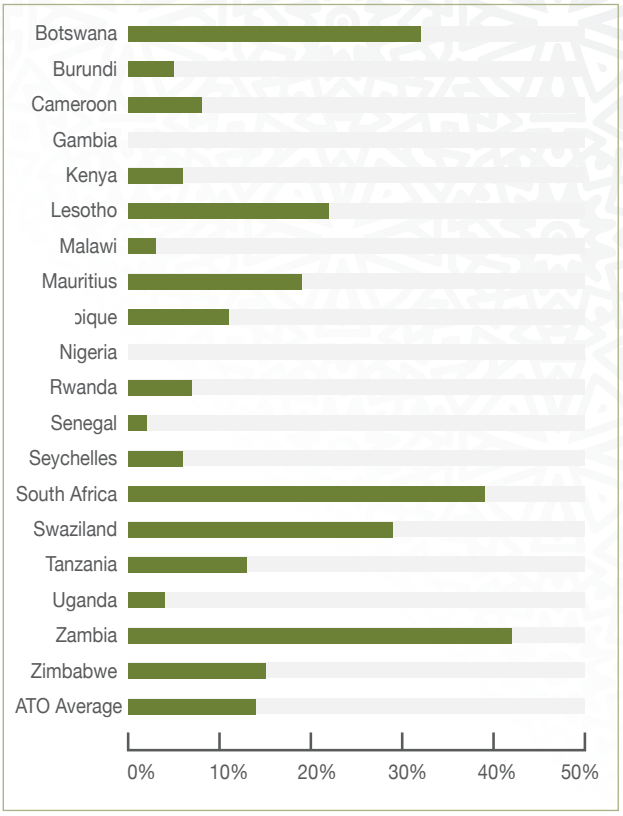


Figure 3-7: Average VAT refunds-to-VAT revenue ratios, (2011-2016)



Regarding the VAT-refunds-to-VAT collections ratios, the ATO average for 2016 stood at 15%, while for the period 2011-2016, the ATO average stood at 14%. Zambia had the highest ratio (49%) in 2016 and on average 42% between 2011-2016. South Africa and Botswana had 37% and 33%, respectively in 2016 and 39% and 32%, respectively between 2011-2016. Low ratios were experienced in Nigeria, Gambia, Malawi and Senegal each with 0.01%, 1%, 2% and 2% in 2016, respectively. Their averages for the period 2011-2016 were 0.15%, 0.24%, 3% and 2%, respectively. Benin, Chad, Ghana, Liberia, Niger and Togo did not provide statistics on VAT refunds and were therefore left out in the analysis. Table 3-3 shows the VAT refunds-to-VAT revenue ratios for each of the years, 2011-2016 in nineteen ATO countries.

Table 3-3: VAT Refunds to VAT Revenue Ratios, 2011-2016

Years	2011	2012	2013	2014	2015	2016	Average
Botswana	27%	38%	29%	37%	30%	33%	32%
Burundi	3%	3%	5%	5%	9%	4%	5%
Cameroon	11%	10%	8%	7%	8%	6%	8%
Gambia				1%	0%	1%	0%
Kenya	7%	7%	7%	6%	5%	5%	6%
Lesotho	19%	21%	25%	20%	19%	26%	22%
Malawi	0%	0%	8%	4%	5%	2%	3%
Mauritius	22%	20%	18%	21%	16%	17%	19%
Mozambique	10%	11%	9%	7%	11%	15%	11%
Nigeria	0%	0%	0%	0%	1%	0%	0%
Rwanda	7%	6%	6%	7%	7%	9%	7%
Senegal	2%	1%	3%	2%	1%	2%	2%
Seychelles			3%	4%	8%	10%	6%
South Africa	36%	41%	39%	40%	38%	37%	39%
Swaziland			26%	28%	33%	31%	29%
Tanzania	7%	7%	10%	17%	19%	16%	13%
Uganda	5%	7%	6%	5%	0%	4%	4%
Zambia	49%	51%	36%	26%	42%	49%	42%
Zimbabwe	11%	12%	10%	18%	22%	18%	15%
ATO Average	13%	15%	14%	13%	14%	15%	14%

Note: Figures are rounded up to the nearest percentage

Ten out of 19 countries had VAT refunds-to-VAT revenue ratios averaging below 10% in at least five of the six years ranging from 2011 up to 2016. Three countries, namely Botswana, South Africa and Zambia had ratios above 30%, while six countries had ratios between 10 and 30%. This confirmed Harrison and Krelove (2005)'s finding that VAT refunds are lower in developing economies. While on one hand, this may seem to be a good development for African economies in that they lose less revenue through refunds, on the other hand it actually points to the inefficiencies of the ATO countries' VAT systems. As Harrison and Krelove (2005) put it, VAT refunds are high in countries with more open and faster growing economies, as well as in countries with modern systems of tax administration.

The high VAT refunds to collections ratios in Zambia can be supported by the fact that most of the claims on VAT refunds from Zambia are from the mining sector. Exports are zero rated, and in Zambia, the major exports are from the mining sector. This means that they claim input VAT for the exports made. The amendment to VAT Rule 18 in 2013 also added two

additional requirements; namely, a tax invoice for the exported goods; and documentary evidence proving that payment for the exported goods had been made into the exporter's bank account in Zambia. However, this proved to be impractical and resulted in delayed processing of VAT refunds. This created a backlog in the VAT refunds. It was against this backdrop, that the VAT Rule 18 was again amended with effect from September 8, 2014., resulting in an increase in VAT refunds as can be seen in 2015 and 2016.

Box 3.2:

Zimbabwe reduced fraudulent VAT refunds through automation?

"Notwithstanding the depressed economic environment, VAT on Local Sales for H1:2016 was 38.82% above the prior year. This significant rise is attributable to the benefits of automation, specifically the efficiency arising from finalising the Fiscalisation project and the roll out of the Tax Management System (TMS). Full automation of ZIMRA systems is expected to improve revenue inflows and compliance across all tax heads. It is also expected to make it more difficult to commit fraud or engage in corruption" (ZIMRA, 2016).

Zimbabwe is one country that has been battling with the challenges of fraudulent VAT refunds. However, the country's VAT refunds-to-collections ratio went down from 22% in 2015 to 18% in 2016. In January 2016, the Zimbabwe Revenue Authority had rolled out the Tax Management System (TMS) in terms of Section 80D of the Zimbabwean Income Tax Act (Chapter 23:06). 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.

TMS was introduced for many reasons, including:

reducing clients' costs in record keeping; improving and enhancing the existing fiscalisation; creating a national sales database from business for economic planning and policy making decisions; harnessing ICT platforms to increase revenue collections through automation; and recording and monitoring all sales transactions for tax purposes (Zimbabwe Revenue Authority, 2017).

Some of the electronic devices used under TMS include:

- Fiscal cash registers used to generate sales transactions such as invoices, receipts, credit notes and debit notes.
- Transmission disks used for declaring data captured on fiscal cash registers and entering e-invoice numbers from the ZIMRA server to fiscal cash registers.
- Automated revenue machines used for uploading data from fiscal devices via transmission disks to IMS servers (data declaration). They are also used to authenticate invoices generated by fiscal cash registers and to submit tax returns such as PAYE and VAT.
- ATO countries could emulate Zimbabwe's move, since the use of technology has been recommended as one of the best ways in dealing with the challenges of VAT refund fraud (Madzivanyika, Kadenge, & Zhou, 2015).

3.2 Excise taxes

Excise taxes have been nicknamed "the orphans of tax policy", because they usually receive little attention in tax policy (Cnossen, 2006). The economic rationale for imposing excise taxes is different from that of imposing a general consumption tax such as a VAT, whose focus is on revenue generation. Excise taxes ought to be highly selective, narrowly targeting a few goods, mostly because their consumption involves negative externalities on society (Tanzi & Zee, 2000). However, some excise tax systems would also include various items of luxury, such as toiletries, cosmetics, perfumes, jewellery, watches, televisions, pleasure boats, paintings, antiques, firearms and ammunition (Cnossen, 2006). In several ATO countries, traditional excise goods that are included in the excise tax base are tobacco products, alcoholic beverages, petroleum products and motor vehicles. Excise taxes on tobacco, alcohol and petroleum products are productive sources of revenue in ATO countries, although their alternative objective is to discourage consumption of these products that are deemed as undesirable and hazardous to society (sin goods).

Figure 3-8: Excise-revenue-to-GDP ratios, 2016

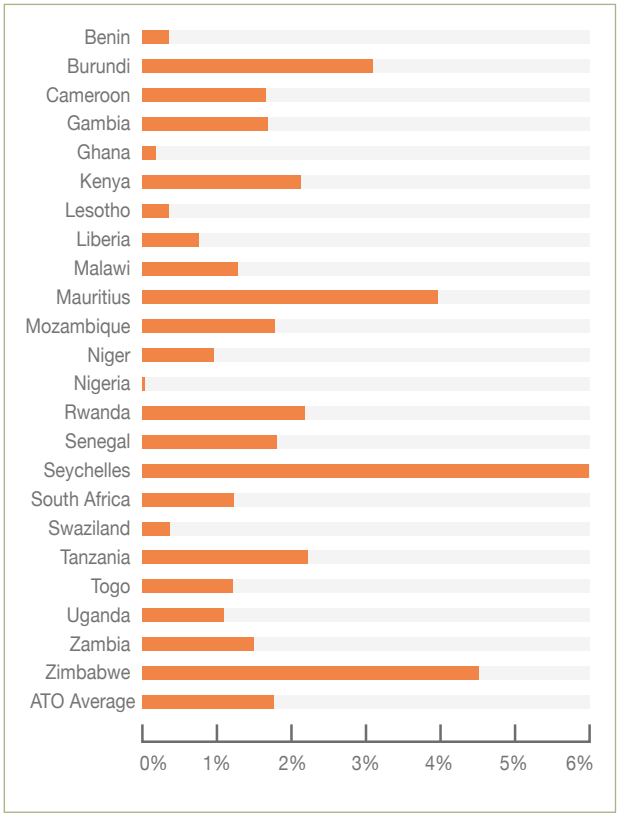
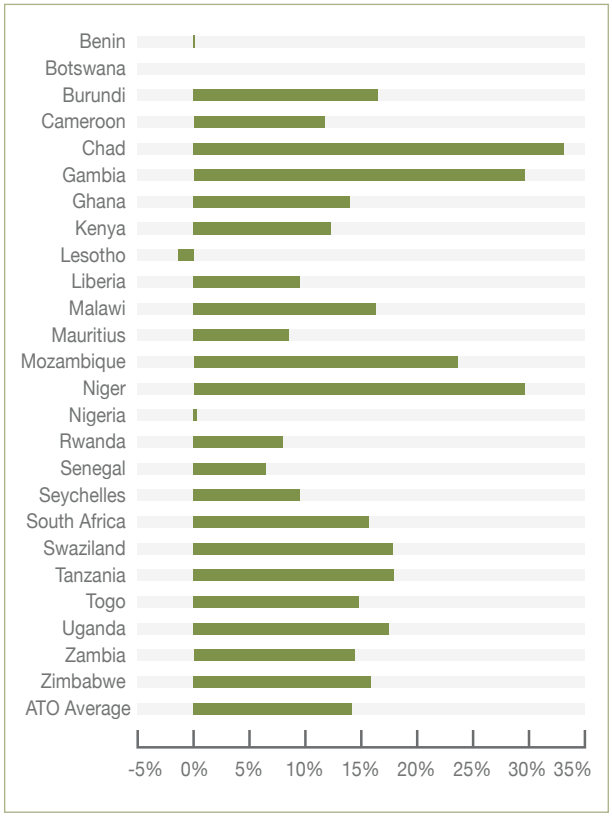


Figure 3-9: Growth in excise tax revenues, 2011-16



Seychelles (5.99%), Zimbabwe (4.52%), Mauritius (3.97%) and Burundi (3.09%) topped the ATO countries in terms of excise revenue-to-GDP ratios (see Figure 3-8). Countries with the lowest ratios were Nigeria (0.04%), Ghana (0.18%) and Benin (0.35%), against an ATO average of 1.76% and an OECD average of 2.6%. Zimbabwe's high contribution of excise revenue-to-GDP was enhanced by fuel whose contribution to total excise tax was 79.31% in 2016 (Zimbabwe Revenue Authority, 2017).

All countries in the ATO region, except Lesotho, showed positive growths in their excise revenues for the period 2011-2016 (Figure 3-9). While the ATO average growth rate was 14.2%, highest growth rates were witnessed in Chad (33.1%), Niger (29.6%), Gambia (29.6%) and Mozambique (23.6%). Nigeria's average growth rate for the period 2011-2016 was only a paltry 0.3%.

Figure 3-10: Growth in the average excise tax revenue-to-GDP ratios, 2011-16

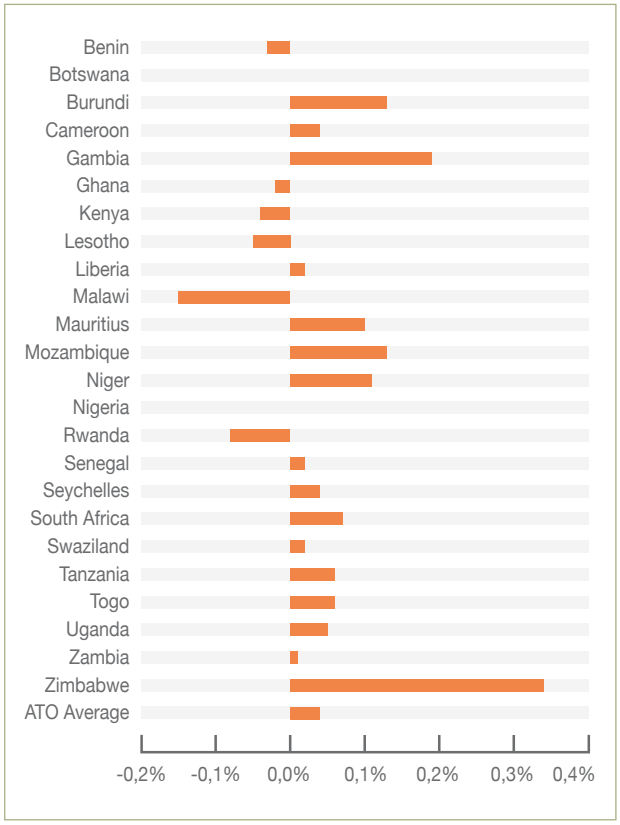
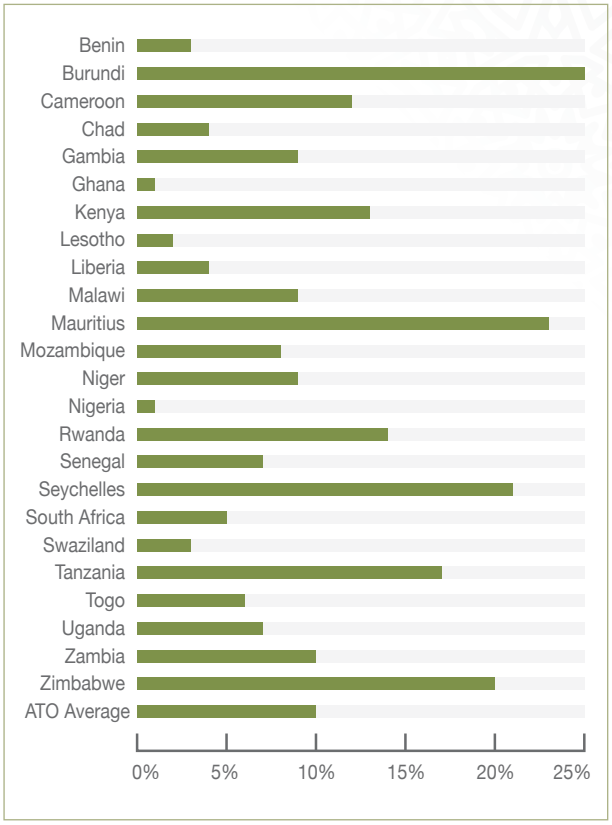


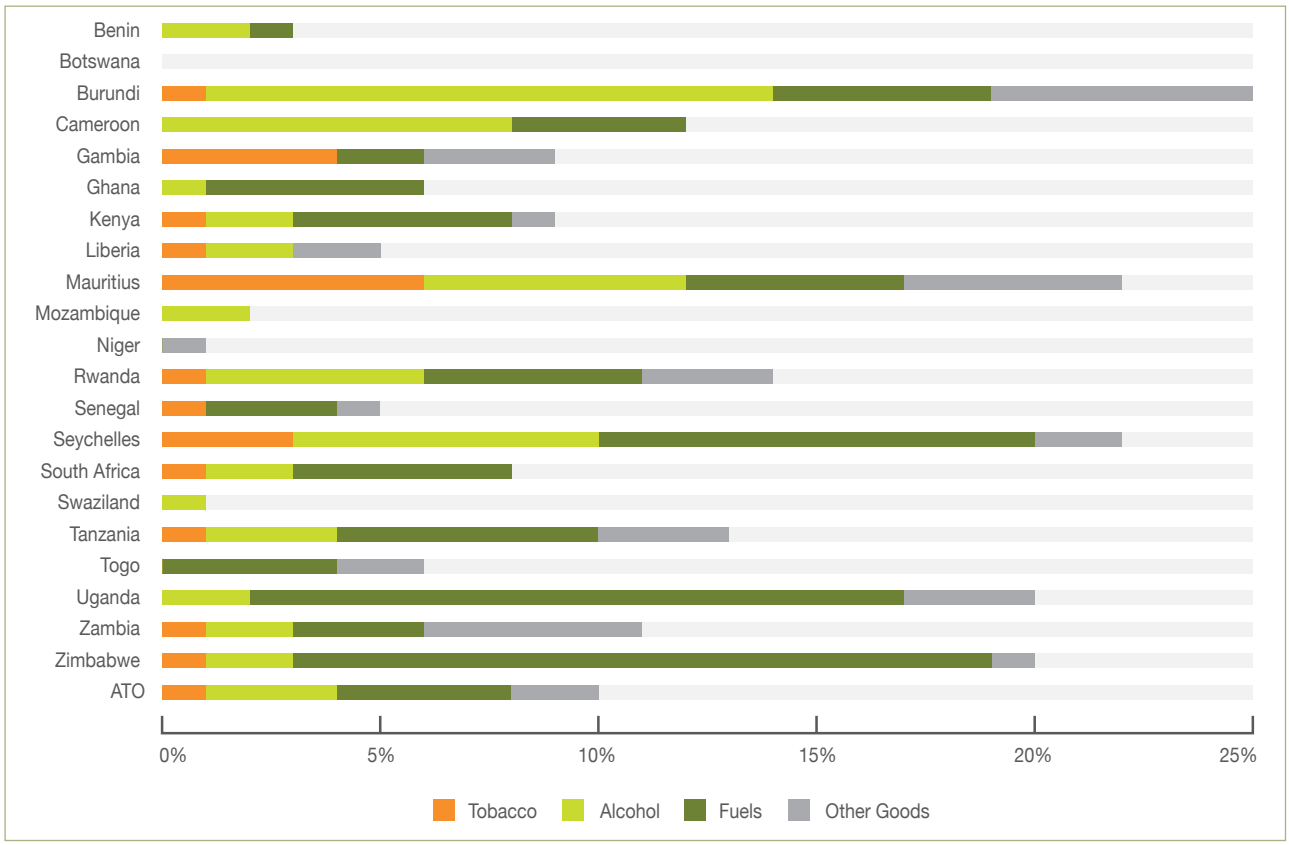
Figure 3-11: Contribution of excise revenue to total taxes, 2016



Growth in the average excise tax revenue-to-GDP ratios signifies the relative importance of excise taxes (Figure 3-10). The ATO average excise tax-to-GDP ratio was 0.04 percentage points for the period 2011-2016. The ATO average excise tax-to-GDP ratio maintained an upward trajectory of varied magnitudes, rising by 0.06 percentage points in 2016, compared to 0.02 percentage points and 0.08 percentage points in 2013 and 2014, respectively. The highest percentage point increase (0.11) was experienced in 2015. Beyond the aggregation, only seven countries (Benin, Ghana, Kenya, Lesotho, Malawi, Nigeria and Rwanda) saw reductions in their average excise tax-to-GDP ratios from 2011- 2016, while the rest of the countries saw increases. Although Zimbabwe boasts of the highest average growth in the average excise tax-to-GDP ratio (0.34 percentage points) in the ATO, in 2014 and 2016 it experienced reductions of -0.10 and -0.16 percentage points, respectively. The average for Zimbabwe was enhanced by its performance in 2012 and 2013, where the average growth in excise tax-to-GDP ratios rose by 0.40 and 0.58 percentage points, respectively. The growth in the share of excise taxes-to-total revenue is reflected in Figure A3-4 in the Appendix.

Burundi (25%), Mauritius (23%), Seychelles (21%) and Zimbabwe (20%) had the highest contributions of excise revenue-to-total taxes, against an ATO average of 10% (Figure 3-11). Lower ratios were observed for Nigeria (1%), Ghana (1%) and Lesotho (2%). The contributions of excise tax revenues to total taxes by excise tax type are reflected in Figure 3-12.

Figure 3-12: Ratio of Excise taxes to total taxes by tax type, 2016



There were wide variations in the shares of excise revenues-to-total taxes by excise tax type in ATO countries. Fuel had the highest contribution to total taxes, with ten countries contributing at least 5% each. Alcohol came second, with five countries, each above the 5% mark. Burundi, Mauritius and Zambia were the only countries that had at least 5% on excise on other goods, while Mauritius was the only country that exceeded 5% on excise on tobacco.

With reference to the share of excise taxes-to-GDP by excise types, the highest contributor was fuel, which came first in Zimbabwe, Uganda, Togo, Tanzania, South Africa, Seychelles, Senegal, Kenya and Ghana (see Figure A3-5 in the Appendices). Excise on fuel contributed 3.58% to GDP in Zimbabwe, while in Seychelles, Uganda and South Africa, the contributions were 2.78%, 2.16% and 1.37%, respectively. Alcohol was the second highest contributor in Seychelles, with 1.87% of GDP. In Rwanda, Mauritius, Cameroon and Burundi, the ratios of excise tax on alcohol to GDP were 0.81%, 1.13%, 1.04% and 1.59%, respectively.

Environment Taxes

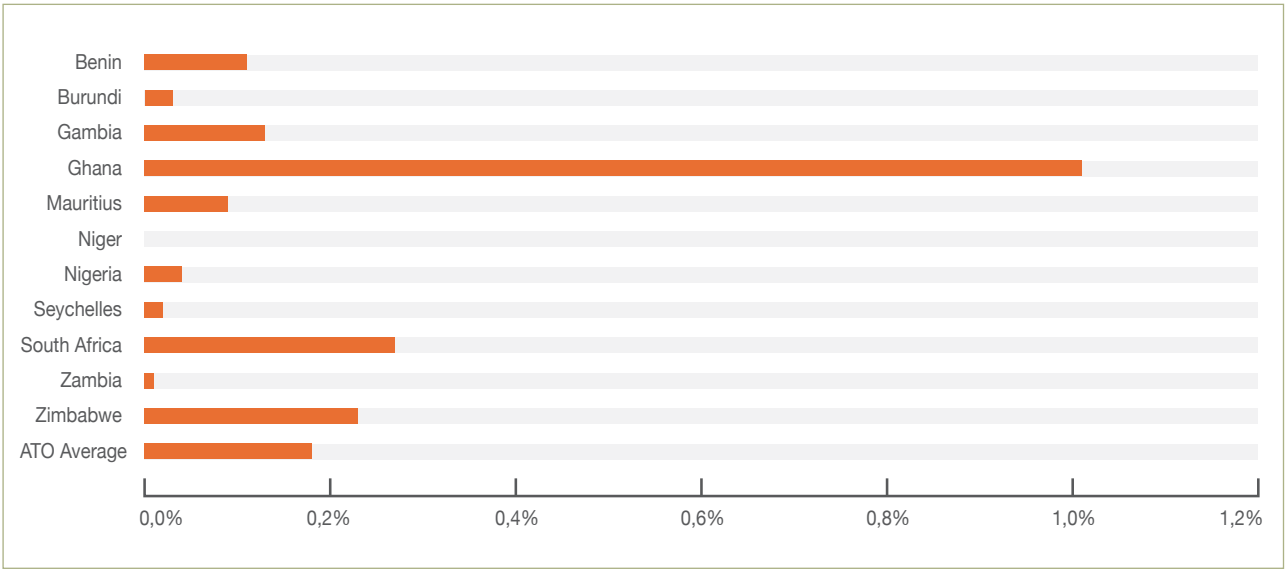
Environment taxes are a type of excise taxes, levied on environmentally related bases. Without the involvement of government, firms and households would not be incentivised to account for the environmental damage emanating from their actions. This is essentially because the impact is spread across many people and has very little or no direct cost to the polluter. In bygone decades, environmental policy was dominated by command control regulations, but over the recent decades, the use of market based instruments, such as taxes and tradable and emission permits has grown (OECD, 2011). According to the OECD, environmental taxes are preferred for one or more of the following reasons:

- They have a direct effect of addressing the market failure by "pricing in" environmental costs.
- Through environmental taxes, consumers and business are left with flexibility to decide on the least cost way to reduce the environmental damage.
- Taxes increase the cost to the polluter and hence provide an incentive for innovation, for instance, coming up with fuel efficient vehicles in the automobile industry, or even designing vehicles powered with alternate sources of power.
- Environment taxes are transparent in terms of cost and coverage.

Smith (2006), citing (Smith 1992; OECD 1993; Cnossen 1995 and Braathen 2005), argued that while environmental taxes have the potential to contribute to more efficient and more effective environmental policy, they are not a panacea for all environmental problems. While they may be effective in dealing with one group of environmental problems, other environmental problems are better tackled with alternative economic instruments, such as tradable permits and regulations.

Figure 3-13 shows the environmental taxes-to-GDP ratios in ATO countries.

Figure 3-13: Environment taxes-to-GDP ratio, 2016



Among the 26 ATO countries, only eleven submitted statistics on environmental taxes. Ghana had the highest ratio of environmental taxes-to-GDP of 1%, while South Africa and Zimbabwe followed with 0.3% and 0.2%, respectively. Benin, Gambia and Mauritius were at par, each with 0.1% of GDP. Since several ATO countries are either oil-rich or mineral-rich, this poses a serious threat to the environment. Therefore, it may be prudent for them to continue meditating on ways of revamping their tax systems by incorporating additional environment taxes, both as a disincentive to pollution, and as a potential revenue enhancing measure.

Designing Excise Taxes

In designing excise taxes, there is need to consider whether the rates should be specific (fixed amounts per quantity) or *ad valorem* (fixed percentage of trade price). The choice between the two rates centres on the primary objective of tax policy, i.e. whether it is to discourage consumption or to raise revenue. There is also a need to consider the desirable degree of harmonisation for regional integration, for instance between SACU or ECOWAS member states.

Taxation of alcohol

From a public policy perspective, alcohol is considered both a villain and a hero: as a villain it contributes to social problems and as a hero, it rides to the rescue with copious fiscal returns (Bird & Wallace, 2006). Excise tax on alcohol has the following advantages:

The price elasticity of demand for alcohol is relatively low, thereby reducing the welfare cost of the tax and thus making it as sustainable revenue source.

- Taxing alcohol is administratively easier than taxing a lot of other things.
- Excise rates, whether *ad valorem* or specific can be differentiated with relative ease and can be targeted to specific populations.

Alcohol taxes should be kept as simple as possible to enable effective and efficient administration. Specific rates are preferred to *ad valorem* rates, but the rates ought to be adjusted periodically for inflation. Excise rates should be defined in terms of alcohol content in order to treat different alcoholic beverages similarly. However, of note is that in Africa, higher

taxes on beer may encourage many consumers to shift lower taxed local brews or even to homemade brews that are produced outside the formal sector.

Cigarettes/Tobacco

The harms to society, or even to the smoker are closely connected to the quantity of cigarettes smoked and not the amount spent on cigarettes. Therefore, a unit tax per pack of cigarettes is a more appropriate remedy than an *ad valorem* tax. Since cheaper cigarettes can pose great risks, an ad valorem tax will have disproportionate effects on the comparatively safe cigarettes on the market. The structure of taxes for cigarettes should also be able to accommodate technological innovations.

Challenges associated with cigarette taxation include contraband and smuggled cigarettes (Viiscussi, 2006). South Africa, Zimbabwe and Malawi are some of the ATO countries that have been affected with excise-induced illicit trade.

Fuel

The taxation of fuel is not uniform among ATO countries. There are countries that did not levy excise duty on fuel, although the greater part of ATO countries had excise taxes on fuel. Countries that did not levy excise taxes on fuel had low excise taxes ratios to both total taxes and GDP. In Zimbabwe, taxation of fuel is based on import volumes of diesel and petrol. Although diesel volumes went down from 863.69 million litres in 2015 to 826.12 million litres in 2016 (Zimbabwe Revenue Authority, 2017), Zimbabwe still occupied the second position in terms of overall contribution of excise taxes-to-total taxes ratios in ATO countries. Transit fraud had a negative effect on Zimbabwe's excise tax on fuel, as some importers declared their cargo as transit, yet they were destined for home consumption. Towards the end of 2016, Zimbabwe launched a pilot project on electronic cargo tracking system that resulted in the country busting transit fraud.

3.3 Trade taxes (export taxes and import duties) in ATO Customs unions

Trade taxes can be imposed on imports or exports. Historically, they provided the most significant sources of revenues, but, currently, they no longer occupy a significant place in revenue structure. With globalisation and trade liberalisation, the need to reduce tariffs as part of an overall program of trade liberalisation is imminent for developing countries, although it has its challenges such as short-term revenue losses. To compensate revenue losses from tariff reductions, developing countries should reduce the scope of tariff exemptions in the existing system (Tanzi & Zee, 2000). In addition, there is need to compensate for tariff reductions on excisable imports by a commensurate increase in their excise rates and adjusting the rate of the general consumption tax such as VAT to meet remaining revenue needs. Citing Emran and Stiglitz (2005), (ATAF, 2017) reiterated that 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, Emran and Stiglitz (2005) 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 housed in the informal sector.

Export taxes

The argument for export taxes is two-fold, depending on whether or not a country has market power in the export commodity (Devarajan, Go, Schiff, & Suthiwart-Narueput, 1996). For countries without market power, export taxes can weaken the domestic incentive structure and hinder economic development. However, for those countries with market power, they can be effective in taxing certain important industries like mining. In Zambia, the copper industry has produced significant national value added and represented the

greatest share of export earnings, but it would not have generated much revenues for government had an export tax not been imposed. Zimbabwe also levies export taxes on exports of un-beneficiated products such as raw hides, unprocessed platinum ore and rough diamonds. However, export taxes can generate severe economic distortions and they are a poor instrument for encouraging high value addition activities (Devarajan, Go, Schiff, & Suthiwart-Narueput, 1996).

Import duties

Import duties have three primary roles, namely: to serve as a revenue source, to protect domestic industries, and to remedy trade distortions. Ideally, import duties should not be designed as a major source of tax revenue due to their non-neutral effects. However, in practise, they still fulfil this role if no other convenient tax handles are available. In bygone days, the revenue function was one of the major reasons for levying import duties. In the face of regional integration, economic growth and improved efficiency in the administration of domestic taxes, the shares of import duties-to-GDP have been dwindling in most African Tax Outlook countries.

Figure 3-14 shows the import duty revenue-to-GDP ratios in ATO countries, while Figure 3-15 shows the growth in import duty revenues for the period 2011-2016.

Figure 3-14: Import-duty-revenue-to GDP-ratio, 2016

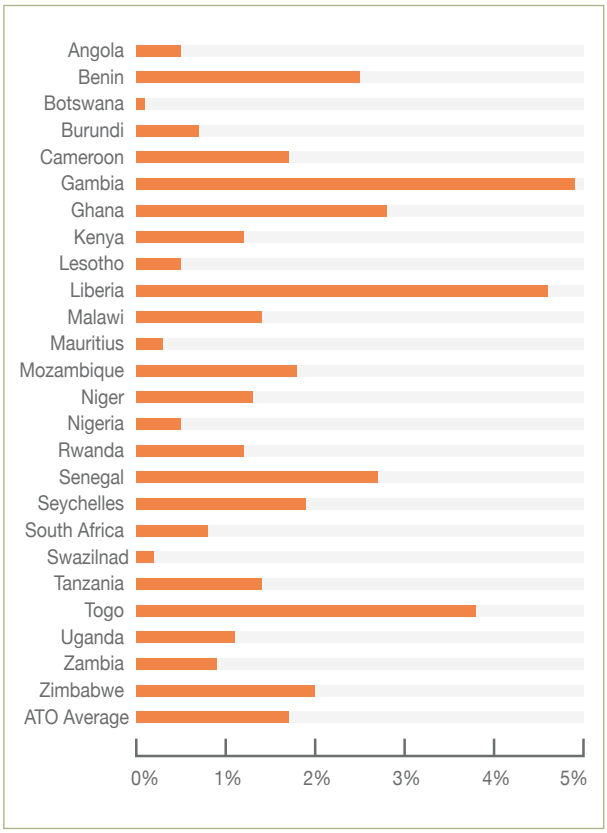
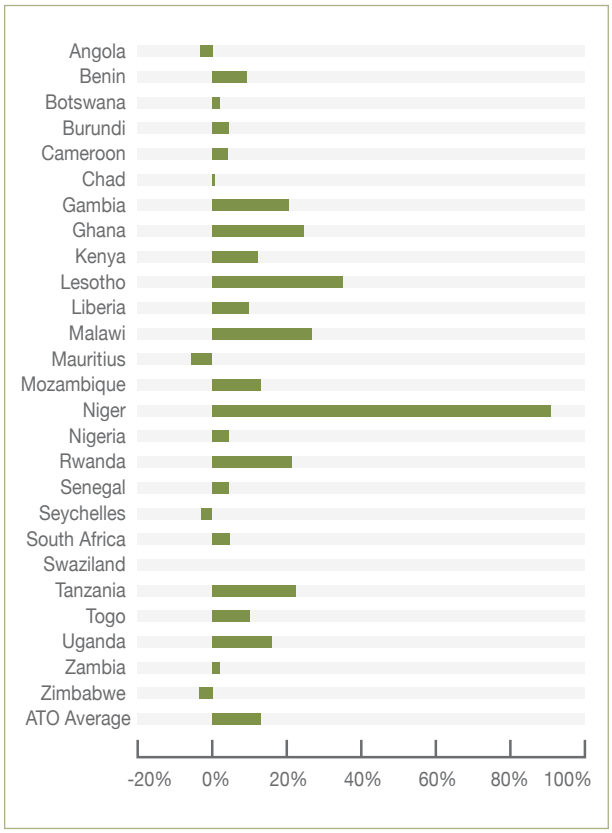


Figure 3-15: Average growth in import duty revenues, 2011-2016



The ATO import duty-to-GDP average ratio stood at 1.68%. Only in Togo (3.76%) Gambia (4.88%) and Liberia (4.59%) did revenue from import duties account for between 3%-5% of GDP (Figure 3-14). The import duty-to-GDP ratios were above 2% but below 3% in Benin (2.51%), Ghana (2.75%) and Senegal (2.69%). The rest of the ATO countries showed low import duty-to-GDP ratios, with the lowest, below 0.3% recorded in Botswana, Mauritius and Swaziland.

With regards to the growth in import duty revenues for the period 2011-2016, the ATO average stood at 12.9% (Figure 3-15). Niger was an outlier due to its very low import duty figure for 2011 which was not consistent with those in the subsequent years. Four countries, namely; Tanzania (22.4%); Ghana (24.5%); Malawi (26.8%); and Lesotho (35.1%) topped the region in terms of growths in import duty revenues. Negative growths rates were witnessed in Seychelles, Angola, Zimbabwe and Mauritius.

From the average growth in import duty-to-GDP ratios (average changes in tax-to-GDP ratios[4]) (see Figures A3-6 in Appendices), it can be observed that ATO countries continue to reduce their reliance on import duties and increasingly use VAT and direct taxes. 57% of the ATO countries that were analysed saw a decline in the relative importance of import duties as measured by the average change in the ratio of import duty-to-GDP for the period 2011-2016. The ATO average was also negative at -0.01%. Only 10 countries witnessed improvements in the relative importance of import duties. Highest increases were recorded in Gambia (0.35%), Liberia (0.12%), Rwanda and Tanzania, each with 0.08%. Highest decreases were encountered in Seychelles (-0.29%), Zimbabwe (-0.22%) and Zambia (-0.12%), largely due to revised import rates, reduction in import volumes and a switch from custom duties to alternative taxes, such as excise duties.

ATO Countries and Customs Unions

A customs union is the third stage of economic integration, after a preferential trade area and a free trade area. It is composed of a free trade area (FTA), with a common external tariff. Custom unions create internal markets with no physical border controls. ATO countries were classified into four regional groupings, three of which are already customs unions, while the fourth (SADC) is still an FTA.

Economic Community of West African States ECOWAS

The Economic Community of West African States (ECOWAS) comprises 15 states, of which 8 are ATO countries, namely: Benin, Liberia, Niger, Nigeria, Senegal, Gambia, Ghana and Togo. The initial treaty was signed in 1975. A revised treaty was then signed in 1993 by 15-member states. ECOWAS charges a levy of 0.5% tax on goods from non-ECOWAS member states. The region was determined to forge ahead with the Customs Union and with effect from 1 January 2015, ECOWAS's activities focused on work leading to a common external tariff.

East African Community (EAC)

The East African Community (EAC), comprise of Burundi, Kenya, Rwanda, Tanzania and Uganda. A protocol for the establishment of the EAC Customs Union was signed on 2 March 2004 by Tanzania, Kenya and Uganda. Rwanda and Burundi joined the Customs Union in 2008, but started applying its instruments in 2009. The EAC Customs Union comprises a triple band structure for raw materials and capital goods (0%), intermediate goods (10%) and final goods (25%), as well as sensitive items list with exceptions to the three-band rule for specified commodities attracting high rates of duty, above 30%.

4. Changes in the tax-to-GDP ratios are driven by the relative change in nominal tax revenues and in nominal GDP. From one year to the next, if tax revenues rise more than GDP (or fall less than GDP), the tax-to-GDP ratio will increase. Conversely, if tax revenue rises less than GDP, or falls further, the tax-to-GDP ratio will go down (OECD, 2017)

Southern Africa Customs Union (SACU)

The Southern African Customs Union (SACU), consists of Botswana, Lesotho, Namibia[5], South Africa and Swaziland. SACU is the oldest customs union, that dates to 1889, although a new agreement was later signed in 1910. The 1910 SACU was in effect until 1969 and it created: a common external tariff on all goods imported into the union members from the rest of the world; free movement of SACU manufactured products within SACU; and a revenue sharing formula for distribution of customs and excise revenues collected by the union. In 1969, a SACU agreement was signed by Botswana, Lesotho, Swaziland and South Africa, and it culminated into two changes of the previous SACU, namely: the inclusion of excise duties in the revenue pool; and a multiplier in the revenue sharing formula that enhanced Botswana, Lesotho and Swaziland revenues annually by 42%. The current SACU was signed in 2002, with Namibia as the fifth member state and it addressed three outstanding issues, namely: joint decision-making process; new revenue sharing formula; and the question of external (outside SACU) trade.

Box 3.3.:

When will SADC graduate from an FTA to Customs Union?

Southern African Development Community (SADC) is not yet a customs union. Its free trade area was achieved in 2008, when a phased program of tariff reductions that had commenced in 2001, resulted in the minimum attainment of the minimum conditions for the FTA. However, maximum liberalisation was only achieved in 2012, when the tariff phase down process for sensitive products was completed. The SADC customs union was originally pencilled for 2010, and later revised to 2013, but up to now has not been achieved.

It has been suggested that the failure by SADC to achieve regional integration within their proposed timelines could be a result of several factors which include: setting targets that were too high as a roadmap to economic regional integration; multiple and concurrent memberships of different regional economic communities; the heterogeneous nature of SADC economies which have provided an uneven economic environment; duplication emanating from the activities of SACU and SADC; the complexities of SADC rules of origin; and the different levels of economic development within SADC member states (Mapuva & Muyengwa-Mapuva, 2014)

5. Namibia was not yet an ATO member state in 2016.

As stated in the ATO (ATAF, 2017), 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 has a VAT rate of 12% while the other three ATO countries apply a rate of 14%. In the EAC, the VAT rate in Kenya is 16% and 18% in the four other countries. Among the 8 ATO countries in ECOWAS, Benin, Togo and Senegal have the same VAT rate of 18%, Gambia 15%, Ghana 12.5%, Niger 19%, while Liberia and Nigeria have 7% and 5%, respectively. Among the 12 SADC countries, three countries apply the same rate of 14%, while the other three apply 15%. The other six countries have different rates.

3.4 Personal Income Taxes

Discussions on the personal income tax in developing countries ought to start with the observation that this tax has yielded very little revenue in most of these countries and that the number of individuals who are subject to this tax, especially the highest marginal tax rate is very small (Tanzi & Zee, 2000). Tanzi and Zee, reiterated that the low revenue productivity of the PIT in developing economies emanates from the fact that the PIT is often used by governments to underscore their commitment to social justice, thereby gaining political mileage for their policies. This assertion seems to hold water up to this day, as the PIT-to-GDP ratios in ATO countries are still relatively low, with the ATO average at 3% in 2016, against an OECD average of 8.4% by the end of 2015 (OECD, 2017).

Figure 3-16: PIT-revenue-to-GDP ratios, 2016

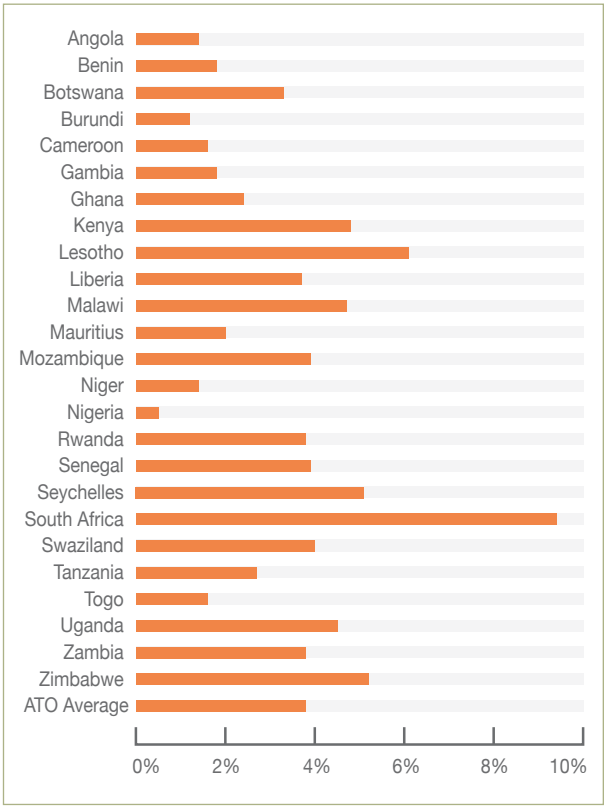
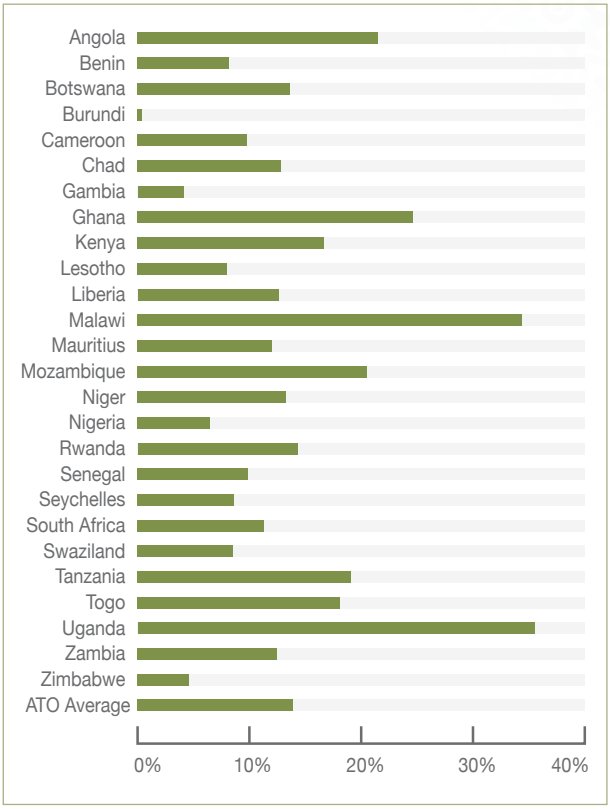


Figure 3-17: Growth in personal income tax revenue 2011 - 16



South Africa's PIT-to-GDP ratio was above the OECD level in the ATO region. As stated previously, South Africa applies one of the highest bottom marginal rates (18%) which is above the ATO average of 13% and its top marginal rate (41%) is above the ATO average of 32% (ATAF, 2017). Zimbabwe, Zambia, Uganda, Seychelles, Lesotho and Kenya managed PIT revenue-to-GDP ratios of 5%, while the rest of the countries were below 5%. It is interesting to note that countries that were above the 5% mark apply bottom marginal tax rates of 10% and above. Four of them, except Kenya and Uganda apply bottom marginal tax rates that are above the ATO average of 13%.

The low PIT-to-GDP ratios in ATO countries are attributed to low incomes and low bottom marginal tax rates, as in Angola, Botswana, Gambia, Ghana, Liberia, Niger, Nigeria and Togo. All these countries apply bottom marginal tax rates below 10%. Marginal rates of PIT influence the progressivity and effectiveness of the tax system. High marginal tax rates with few exemptions are expected to increase the tax-to-GDP ratio. They can also increase the revenue per labour unit taxed. The top marginal rates had an influence in the tax-to-GDP ratios of the ATO countries. However, there could be exceptions to this, since other factors like the bottom marginal rates, progressivity of the PIT system and exemptions, can also influence the amount of tax that can be collected.

As alluded to by Tanzi and Zee (2000), developing countries such as those in the ATO region, have PIT rate structures that have many rate brackets and high personal exemptions. These exemptions can amount to several times the countries' per capita incomes. In some ATO countries, the levels of top marginal PIT exceed the corporate income tax rate by a significant margin, which inevitably provides strong incentives for taxpayers to choose the corporate form of doing business, purely for tax purposes. It is good tax policy to ensure that the top marginal PIT rates do not differ materially from the CIT rates (ibid).

All countries experienced positive individual income tax revenue growths (Figure 3-17). Growth rates were highest in Uganda (35.5%), Malawi (34.4%) and Ghana (24.6%), while lowest growth rates were witnessed in Burundi (0.4%), Gambia (4.1%) and Zimbabwe (4.6%). The ATO average growth rate was 14%. It is interesting to note that Uganda experienced a high PIT growth rate of 126% between 2015 and 2016. One of the reasons for such a remarkable performance was the initiative to tax high net worth individuals (Kangave, Nakato, Waiswa, Nalukwago, & Zzimbe, 2018).

Box 3.4.

Drawing Lessons from Uganda on Taxing High Net Worth Individuals

High net worth individuals (HNWIs) were being undertaxed in Uganda, just like in many ATO countries due to: the tendency by revenue authorities to focus on large companies and formal employment; the political influence of many HNWIs; and lack of data sharing among various government departments.

According to (Kangave, Nakato, Waiswa, Nalukwago, & Zzimbe, 2018), the process taken by URA to draw HNWIs into the tax net included the following:

- Establishing of a HNWI Unit in August 2015.
- Coming up with a register of 117 HNWI individuals, from a total of 17 individuals prior to the initiative.
- URA approached the Electoral Commission before the 2016 presidential and parliamentary elections and requested that it be made

a requirement for those intending to vie for political office to have a tax clearance certificate. This resulted in several politicians applying for tax clearance certificate and making some payments.

- To deal with the political sensitivity of taxing HNWIs, the unit was moved from Large Taxpayer Office to Public Sector Office, which had experience in dealing with politicians.

The number of individuals registered for PIT grew from 566 658 in 2015 to 669 651 in 2016. Revenue from PIT also grew by 126% between 2015 and 2016. Specifically, revenue from HNWIs grew from US$390 000.00 before the creation of the HNWIs Unit to US$5.5 million in rental tax, PIT, VAT and stamp duty, with only six months after the HNWIs unit was created (Kangave, Nakato, Waiswa, Nalukwago, & Zzimbe, 2018). The PIT tax revenue-to-GDP ratio also rose from 2% in 2015 to 5% in 2016. In addition, there was great improvement in the filing of income tax returns.

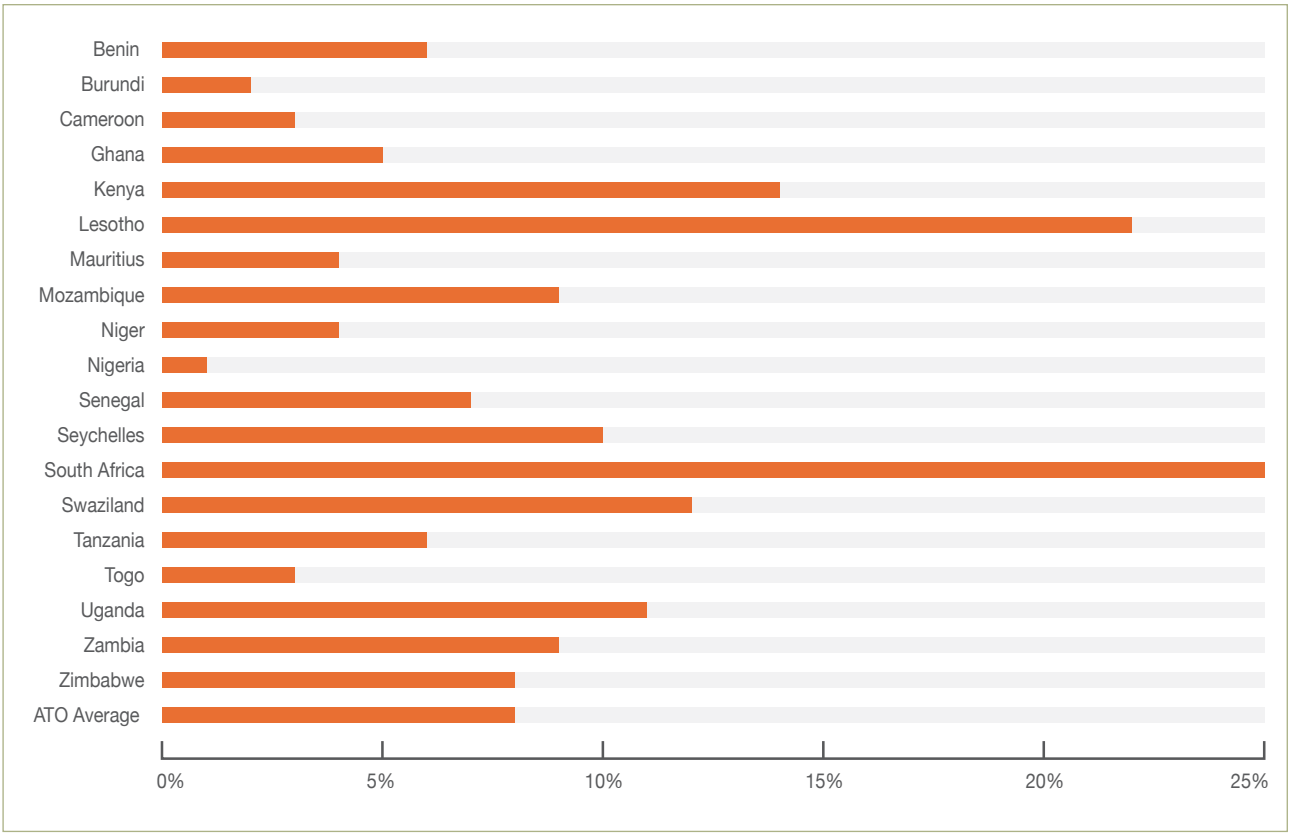
It is worth noting that South Africa, with its highest PIT revenue-to-GDP ratio in the ATO region is one of the few countries (4) in the ATO region who have specific units dealing with HNWIs.

Table 3-4 shows the revenue per labour force in 2016, while Figure 3-18 shows the effective PIT rates on GDP per capita in 2016.

Table 3-4: Revenue per Labour Force, 2016

Country	Revenue per Labour Unit	GDP Per Capita (PPP converted)
Benin	133	2 167
Burundi	15	711
Cameroon	114	3 772
Ghana	214	4 188
Kenya	428	3 143
Lesotho	681	3 132
Mauritius	899	20 720
Mozambique	117	1 328
Niger	45	1 034
Nigeria	68	5 577
Senegal	179	2 675
Seychelles	2 843	27 144
South Africa	3 081	12 564
Swaziland	1 142	9 829
Tanzania	151	2 736
Togo	54	1 648
Uganda	226	2 096
Zambia	359	4 088
Zimbabwe	166	1 994
ATO Average	575	5669

Figure 3-18: Effective PIT rates on GDP per capita, 2016



Revenue per labour unit is the amount of revenue that would be collected from each employed individual assuming all persons earned equal income. Revenue per person tends to increase with high per capita income (See Table 3-4). Countries with high per capita income tend to have more revenue per labour unit (Seychelles, South Africa and Swaziland). Mauritius had the second largest per capita income with a low revenue per labour unit due to the lower tax rates compared to the rest of the region. Effective rate of tax on per capita income is given by the revenue per capita divided by GDP per capita (see Figure 3-18). It is a proxy measure for the effectiveness of the PIT system. South Africa, Kenya, Swaziland and Seychelles have the highest rate of tax paid per labour unit despite that their marginal rates are not the highest in the region. Nigeria, Burundi and Cameroon have the least effective tax rate on per capita Income.

3.5. Corporate Income Taxes

A notable difference between developed and developing countries is the ratio of CIT to PIT. As (Tanzi & Zee, 2000) asserted, developed countries raise about four times as much revenue from PIT as from the CIT, while developing countries raise more from the CIT. This is because wage income is usually a small share of national income in developing countries. Other contributing factors are the sophistication of the tax administrations and the political power of the richest deciles between developing countries and developed countries. In developing countries, some high net worth individuals have some degree of political muscle and would not be willing to cooperate with their tax administrations on taxation matters. In tandem with Tanzi and Zee's claim, the CIT-to-GDP ratios for 2016, in a significant number of ATO countries were within the OECD average of 2.8% (see Figure 3-19).

Figure 3-19: Corporate income tax-to-GDP ratio, 2016

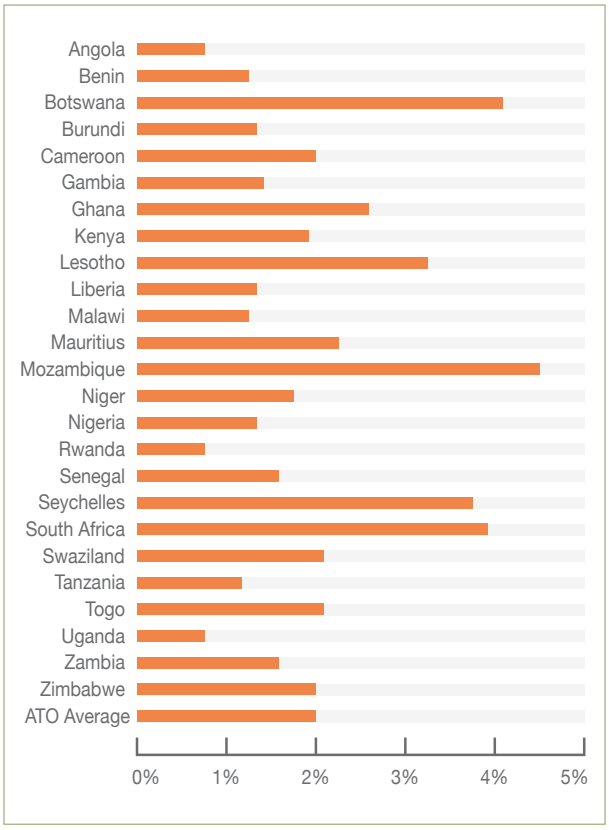
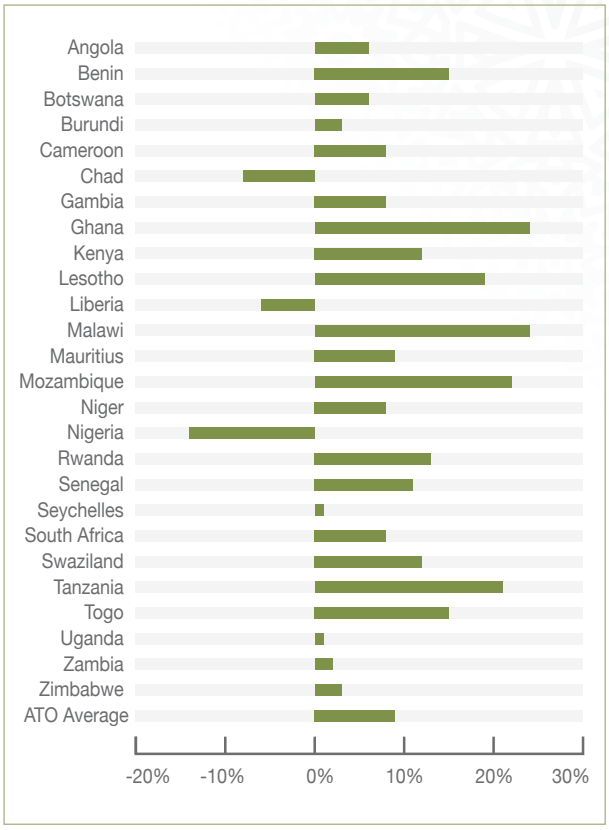


Figure 3-20: Growth in CIT revenues, 2011-2016



Six ATO countries had CIT-to-GDP ratios above 3%, with some going as high as 5%, thereby exceeding the OECD average of 2.8%. In total eight countries had CIT revenue-to-GDP ratios of at least 3% and above. Mozambique had the highest CIT-to-GDP ratio, attributable (at least in part) to also having the highest tax rate of 32% (ATAF, 2017). The lowest ratios were at 1% in Angola, Rwanda and Uganda. The remainder of the ATO countries had ratios of 2%.

With reference to CIT growth over the 6-year period (2011-2016), negative growth rates were witnessed in Liberia (-6%), Chad (-8%) and Nigeria (-14%). Seychelles and Uganda experienced the lowest positive growths at 1%, while Tanzania (21%), Mozambique (22%), Malawi (24%) and Ghana (24%) had the highest growth rates.

According to (Tanzi & Zee, 2000), the unification of multiple CIT rates across the sectors where they exist is an important outstanding tax policy issue for developing economies. Citing Zambia as an example, Tanzi and Zee state that developing countries are prone to having multiple rates differentiated along sectoral lines. Although most ATO countries levy uniform rates of CIT across the sectors in which the companies operate, Kenya, Lesotho, South Africa, Seychelles, Tanzania, Uganda, Zambia and Zimbabwe still apply multiple CIT rates based on sector or economic zones. Such a practise is often criticized based on the principle of equity and for the fact that it creates distortions in the market and further increases the cost of administration.

3.6 Conclusion

The VAT tax head remains the cash cow of ATO countries, with the average VAT-to-total tax ratio of 31% surpassing the OECD average of 20%. Conversely, ATO countries continue to reduce their reliance on import duties, as they pursue the regional integration agenda. Therefore, it is critical that ATO countries continue to come up with innovative ways for domestic revenue mobilisation, especially through the VAT and direct taxes, which are proving to be sustainable sources of revenue. However, ATO countries need to decisively deal with the Achilles heel of the VAT, namely VAT refunds. Various ATO countries have very low VAT refunds-to-VAT collections ratios, with some as low as 1%, against the 30% benchmark observed by (Harrison & Krelove, 2005). In addition, several of these countries take time to process VAT refunds, thereby falling short of the international benchmark of twenty-five days.

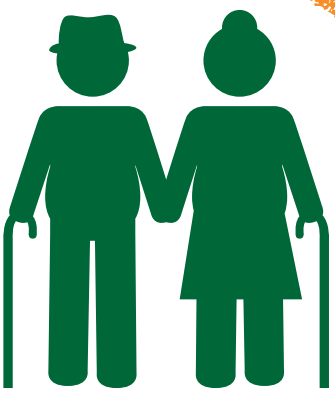
The PIT-to-GDP ratios for ATO countries are still very low as compared to those of the OECD countries. This is mainly due to the low-income levels for these countries, as compared to the developed economies. In addition, some of the rich people in developing countries use their political influence to evade taxes. Therefore, ATO countries should take a cue from South Africa and Uganda who have increased revenue collections from the PIT through creating a register of high net worth individuals. This special class of taxpayers requires a specialised kind of treatment for taxation purposes.

4 Non-Tax Revenue

4 Non-Tax Revenue

24 ATO countries have a public health system

5 are fully tax financed, 11 are partly tax financed and 8 are partly financed by compulsory contributions



OLD AGE PENSION SCHEMES

3 ATO countries are completely tax financed

9 ATO countries are partly tax financed

14 ATO countries are financed by compulsory contributions

2016

INCREASE TO

1.91%

2015

In the main categories of non-tax revenues

0.70%

Ratio to GDP

NON-ASSIGNED REVENUES ARE THE MAIN CONTRIBUTORS

Royalties-to-GDP ratio **0.49%**

0.44% Fees and licences revenues

Oil revenues **0.28%**

4. Non-Tax Revenue

A sizeable number of ATO countries have access to considerable non-tax revenues. The non-tax revenues emanate from transactions other than tax revenues which are made up of contributions, sales of goods and services, property incomes, fines, penalties, royalties and any undefined revenues.

4.1. Social security

In Africa, countries are at different phases of creating comprehensive and inclusive social security systems. Although some are further along this journey than others, most have introduced some form of arrangement for pension provision or have social security as a strategic goal. Twenty-two of twenty-six ATO countries have a public social security system. However, only 3 countries have their public health system financed by their social security system. Most of the social security systems in Africa are backed by governments, with public health derived from taxes or partly financed by compulsory contribution in form of government revenue (essentially PAYE). With a large proportion of formal sector workers concentrated in the civil service, pension funds for public sector workers are well established and benefits are often more substantial compared to the private sector. Both employers and employees are subject to these contributions at a certain percentage and depending on each country.

Another important form of social security organized by governments is the old age pension and this is not completely tax financed but partly financed by compulsory contribution for a considerable number of countries (See Table 4-1). These pensions are covered by employees as per their statutory obligations and even employers for some countries. In general, almost all ATO countries don't have unemployment insurance. This is due to exceptional circumstances in Africa such as a large informal employment sector, migration with limited pension portability, a large youth unemployed population and dependent on government finances.

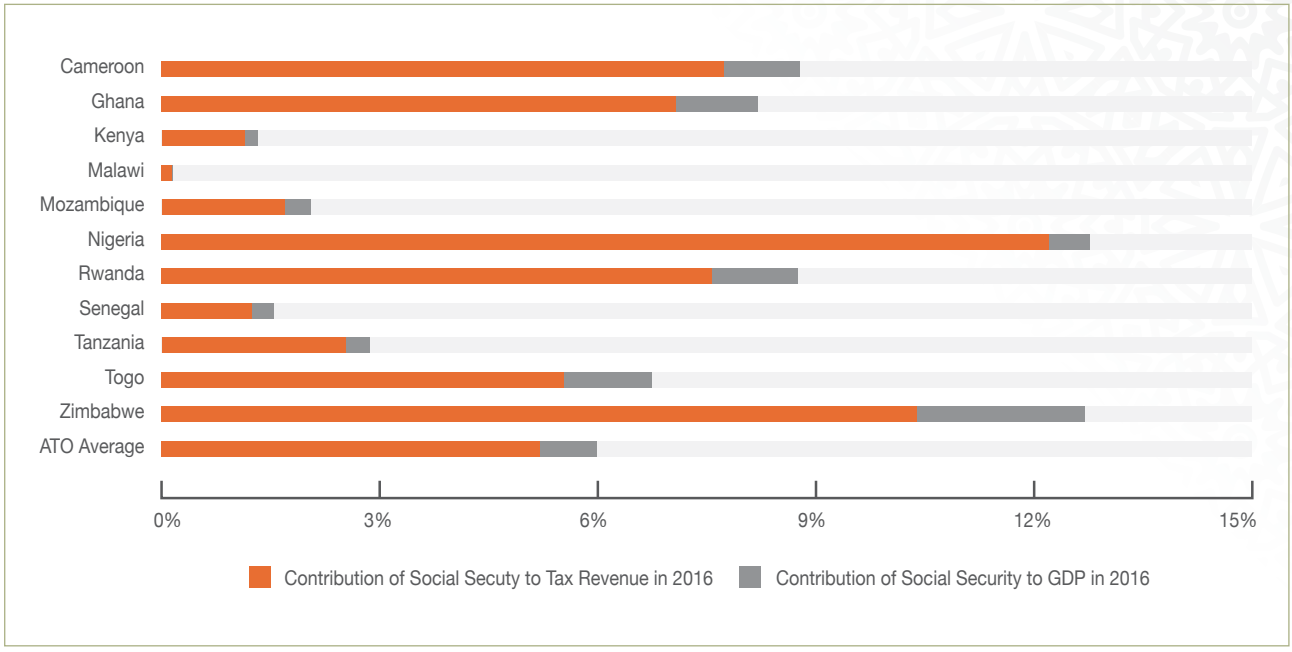
Table 4 1: Social security systems and old-age pension in selected ATO countries, 2016

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
Angola Malawi Mauritius Seychelles South Africa	Botswana Burundi Cameroon Ghana; Kenya Lesotho Niger Nigeria Senegal Togo Zambia	Burundi Ghana Kenya Mozambique Niger Nigeria Rwanda Togo	Malawi Mauritius South Africa	Angola Botswana Ghana Kenya Lesotho Niger Nigeria Senegal Zambia	Benin Burundi Chad Kenya Lesotho Mozambique Nigeria Rwanda Niger Senegal Seychelles Tanzania Togo Zambia Zimbabwe

Table 4-1 shows that 24 ATO countries have a public health system, although 5 are fully tax financed, 11 are partly tax financed and 8 are partly financed by compulsory contributions. With regards to old age pension schemes, three countries are completely tax financed, nine partly tax financed and fourteen financed by compulsory contributions (refer to Table 4-1 also).

Reforms are needed to improve financial sustainability and administrative efficiency in response to the complex economic climate in the continent (fight poverty in old age, pension coverage, etc.) To meet this challenge, Africa has been on a journey to design, finance and deliver social security to the continent. Figure 4-1 shows the ratios of social security contributions-to-GDP for selected ATO countries in 2016.

Figure 4-1: Ratios of social security contributions-to-GDP, selected ATO countries, 2016

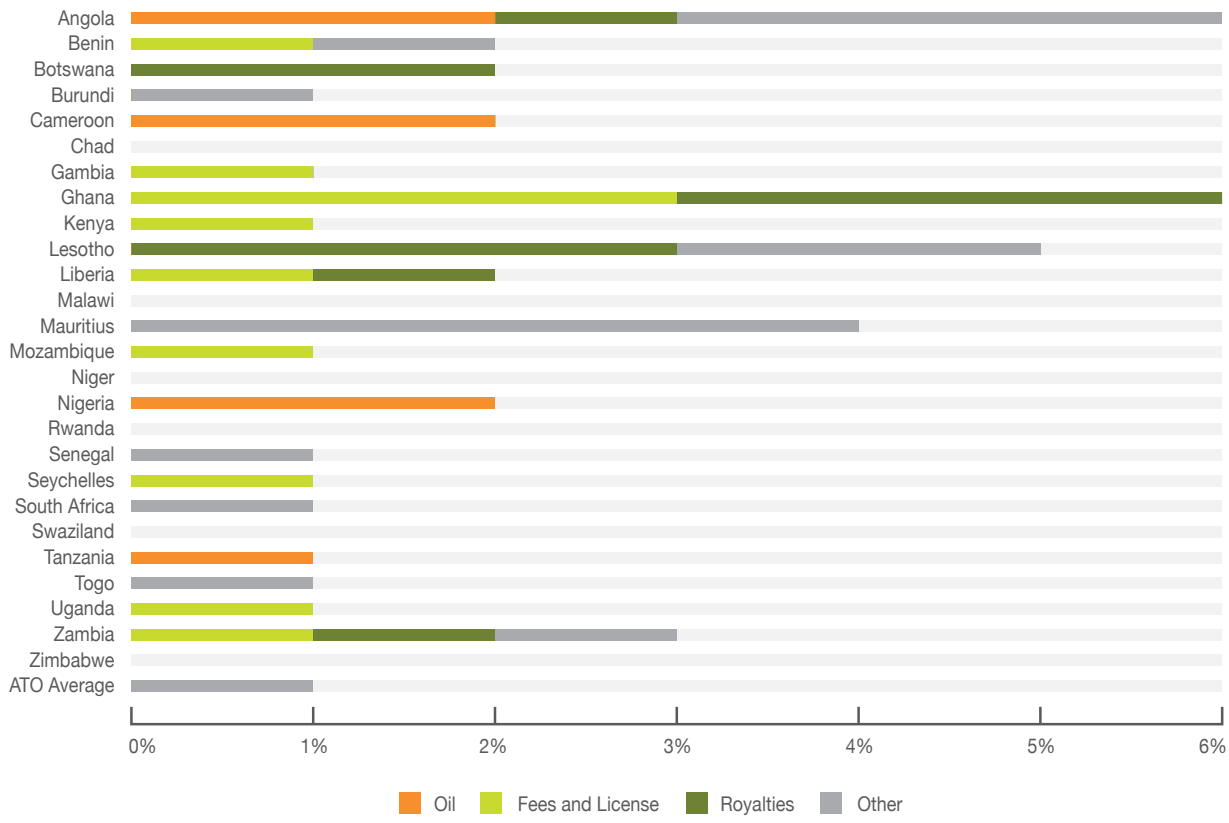


Comparatively to 2015 social security contribution to GDP (1.4%), 2016 has seen a drop to 0.79% of the ATO average versus 9.15% for the OECD countries. The reason for such a low figure is that there were 5 additional countries that joined the ATO countries and had not yet availed adequate statistics on social security when this 2018 publication was drafted. Due to its vast oil reserves, Nigeria had the largest social contribution to the tax revenue, followed by Zimbabwe. Zimbabwe's performance on non-tax revenue was enhanced by mining royalties, which are classified as tax revenue in Zimbabwe. Most ATO countries' social security programs cover only a small number of workers, with those covered being primarily in urban areas and modern companies.

4.2. Other non-tax-revenue

Besides social security contributions, the ATO countries acknowledged other forms of non-tax revenues, which include revenues from oil, fees and licenses, royalties and rents and other non-assigned revenues. African countries have vast wealth in natural resources and as such the non-tax revenue potential of the ATO countries is considerable. The ATO countries have on average a wide range of the following reported non-tax revenues as a percent of GDP for the 26 countries in 2016.

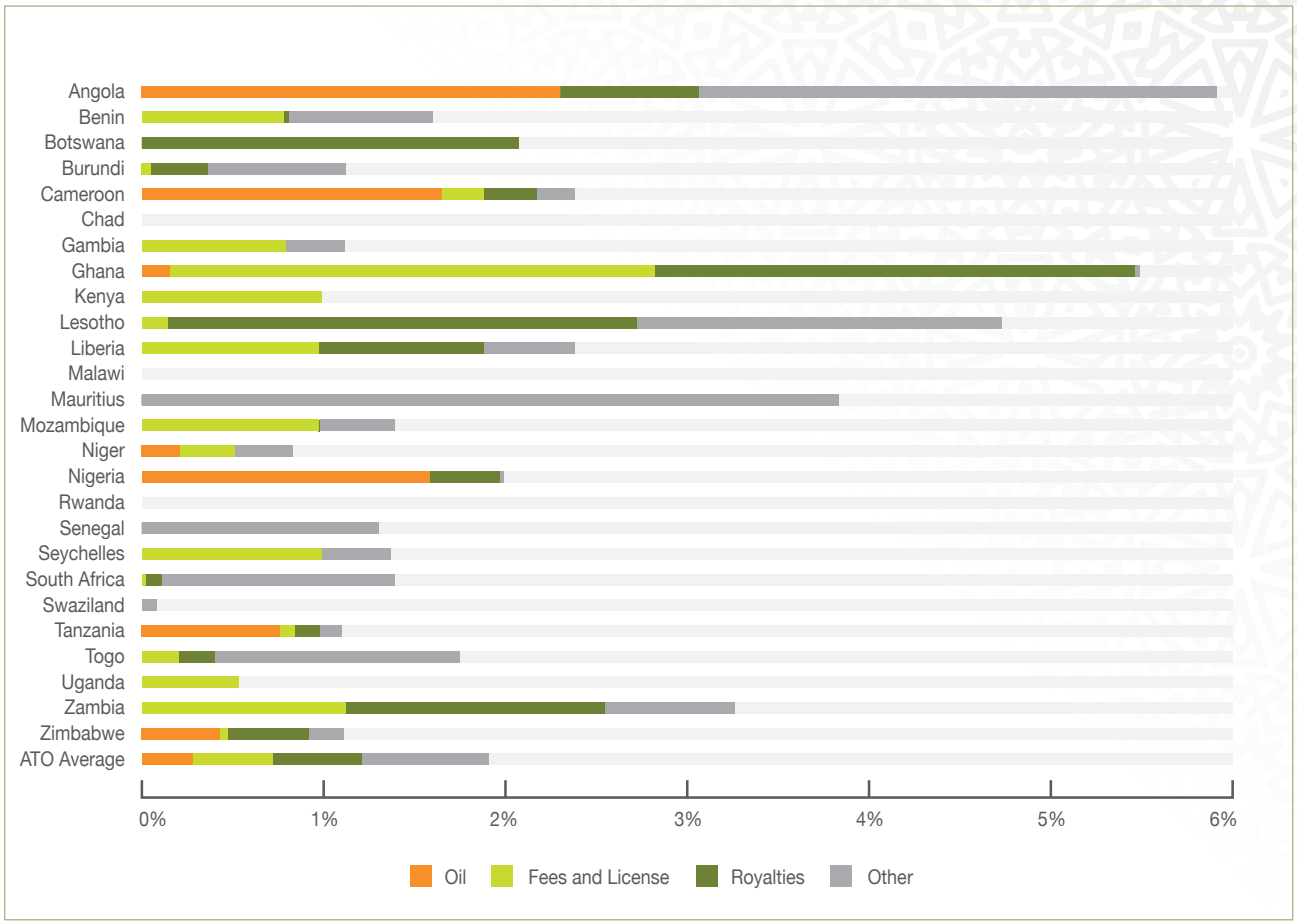
Figure 4-2: Ratios of non-tax revenue to GDP in ATO countries, 2016



There has been an increase to 1.91% from 2015 to 2016 ratio as shown in the main categories of non-tax revenues as depicted in Figure 4-2. Non-assigned revenues are the main contributors with 0.70% ratio to GDP; followed by the revenues from royalties-to-GDP ratio which was 0.49%; then the fees and licences revenues with 0.44%; and finally, the oil revenues at 0.28%.

Figure 4-3 shows the ratios of non-tax revenue-to-total taxes in ATO countries for 2016.

Figure 4-3: Ratios of non-tax revenue-to-total tax revenue, 2016



As the African governments sought to diversify sources of revenue, a review of data by the African Tax Outlook showed that non-tax revenues ratios to the total tax revenues for 2016 was high at 13.41%. Angola 76%, Nigeria (43%) and Ghana (34%) were the three countries with highest non-tax revenue to tax revenue ratios, respectively (See Figure 4-3).

The main contributor for Angola and Nigeria is the oil revenue followed by other non-assigned revenues for Angola, while for Ghana fees and licences combined with royalties are main contributors. Mauritius had a high other non-tax revenue of 20% on its total tax revenues, probably obtained from property income, sales of goods and services and interest and dividends.

4.3. Conclusion

For most of ATO countries, their social security programs are financed by contributions made by both the employee and employer, with the contribution rate in most countries being higher for the employer (Turner, 2002). In a majority of these countries, the combined rate of the total contribution is less than 10%. For countries such as Mauritius and South Africa, the government subsidize the system completely out of the tax revenue. In short, there is need to extend coverage of social security in ATO countries in improving the administrative functioning of social security institutions, sustaining the economic growth and formalising the economy.

The ATO countries which rely on oil revenue such as Nigeria, Angola, Cameroon, Chad and Tanzania have seen their revenue decrease due to price fluctuations in international markets of oil. They have been making extensive spending cuts across departments and agencies due to the decline in oil revenue. An increase in domestic revenue, be it tax or non-tax will enable countries to decrease their dependency on foreign aid. Therefore, it is critical that ATO countries enha

5

Tax Expenditure

5 Tax Expenditure

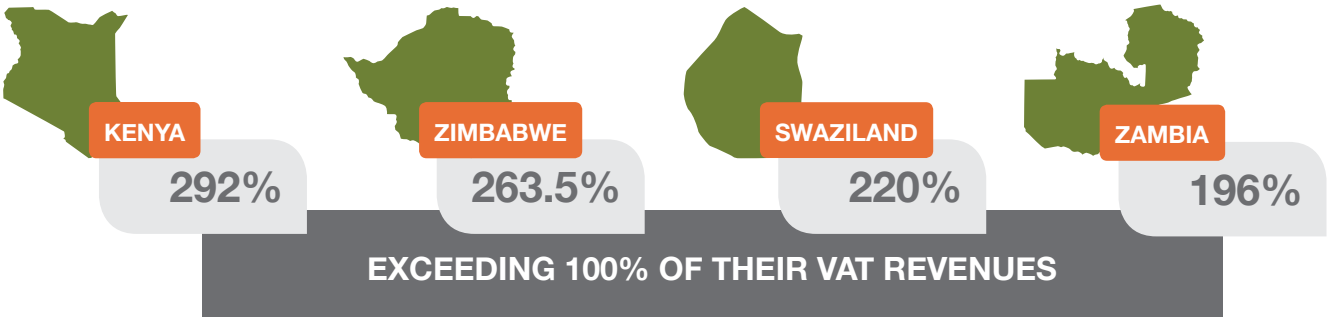
VAT expenditures that were analysed were the sums of revenue **forgone from zero-rated VAT and VAT exemptions**

7/26

ATO countries submitted VAT expenditure statistics

152% **Gross VAT revenue was forgone through the granting of VAT expenditures**

HIGHEST RATIOS OF VAT REVENUE FORGONE THROUGH VAT EXPENDITURES



18.03%

SOUTH AFRICA

18.03%

MAURITIUS

18.03%

MALAWI

Low ratios of VAT revenue forgone, below 100%

5. Tax Expenditures

5.1. Background Information

As Bratic (2006) alluded to, the increasing number and scope of tax expenditures, their proper use, quality of administration and record keeping is one of the major challenges for tax administrations and governments. While there is no conclusive definition of tax expenditures, the OECD (OECD, 1996) define tax expenditures as concessions that fall outside the tax norm or benchmark. Bratic (2006) defined them as instruments used by government to favour certain categories of taxpayers and to provide incentives to given economic activities or branches. Although there are different definitions of tax expenditures, most of them are bound by a common thread that there is relief given to a person, sector or activity which translates into tax forfeited by government for a given tax policy objective to be achieved. Categories of tax expenditures include tax deductions or allowances, reduced rates of taxes, tax exemptions, tax exceptions (exclusions), tax incentives and tax credits. They were categorised into five groups, namely, exemptions, allowances, deductions, rate reliefs and tax deferrals (Stanford, 2000).

Tax expenditures have positive and negative effects. On the positive side, tax expenditures such as tax holidays, reduced tax rates and capital allowances have the potential to attract foreign direct investment (James & Van Parys, 2009; Bolnick, 2004; Calitz, Wallace, & Burrows, 2013). Even though it is still debatable among researchers, they have also been commended for their potential to improve economic growth (Madzivanyika, Kadenge, & Zhou, 2015; Bolnick, 2004). Tax expenditures encourage private sector participation in economic and social programs. They further reduce the need for close government supervision of government expenditures (Polackova & Valenduc, 2004).

Negative effects of tax expenditures include the fact that many Tax Administrations in ATO member countries and beyond lose significant tax revenue through them. In addition, besides distorting the neutrality of the tax system, they also increase the cost of administration and further reduce the transparency of the tax system. Since tax expenditures are not always recorded, their costs-and -benefits are not always clear. Furthermore, they are often taunted for their distortionary effects on the equity, equality and efficiency of a tax system. On equity grounds, they are criticised for being regressive in modifying the tax burden across tax payers (both horizontal and vertical equity).

Cross-country comparisons of tax expenditures are limited since tax codes and tax systems are heterogeneously defined across different jurisdictions. The methodologies of calculating tax expenditures also vary across countries. Three ways of measuring tax expenditures have been proposed (CRC Sogema, 2013). These include the revenue forgone approach, which compares the prospective treatment and the benchmark treatment, assuming taxpayer behaviour is static. There is also the revenue gain approach which measures how revenue could increase if a concession was removed and then the outlay equivalence approach, which measures how much direct expenditure would be needed to provide a benefit equivalent to the tax expenditure.

Cognisant of these challenges, and coupled with time constraints, ATO member countries agreed to focus on VAT expenditures and import duty expenditures as a starting point. The analysis will cover other tax types in subsequent years. VAT zero-rates and VAT exemptions were analysed under the VAT system, while the import duty expenditures that were analysed included trade agreements, rebates and suspensions of duty. Figure 5-1 presents aggregated statistics on ATO countries' responses on tax expenditures, while Table 2 presents the disaggregated country responses.

Figure 5-1: Consolidated Country Responses on Tax Expenditures

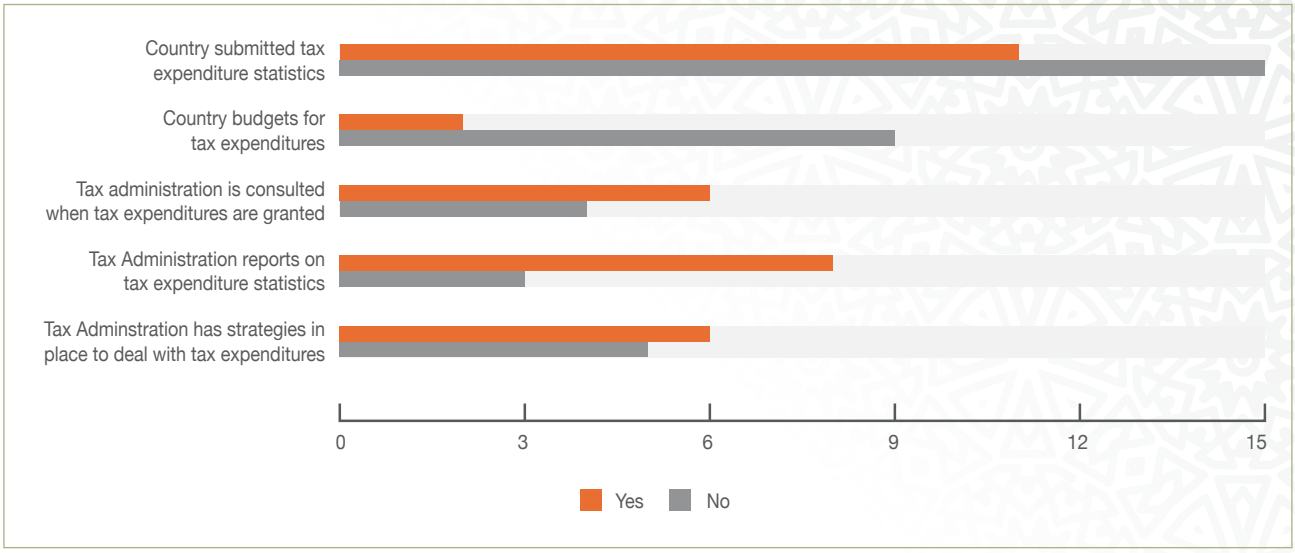


Table 5-1 : Responses per-country on Tax Expenditures

Country	Availability of Tax expenditure budget	Is the TA Consulted by Government	Report on Tax Expenditures	Have strategies
Gambia	No	Yes, but for customs only	Yes	No
Zambia	No	Yes, but not always	Yes, but not on revenue reports	Yes
Mauritius	Yes	Yes	No	No
South Africa	No	Yes	Yes	No
Burundi	No	Yes	Yes	Yes
Kenya	No	No	Yes	Yes
Swaziland	No	No	Yes	No
Ghana	Yes	No Information	Yes	Yes
Zimbabwe	No	Yes	Yes	Yes
Malawi	No	No	No	No
Cameroon	No	No	No	Yes

In an analysis of tax expenditures by the OECD (2010), produced tax expenditure data for only seven out of thirty-four-member states, pointing to the challenge of obtaining information on tax expenditures among OECD member states (Collins & Walsh, 2011). Likewise, in the ATO member states, only eleven countries out of twenty-six submitted tax expenditure statistics (see Figure 5-1). Such information deficits could undermine the ability of tax systems to function efficiently, and could compromise the ability of policy makers to design, control and evaluate taxation interventions (Collins & Walsh, 2011). From the submitted statistics by ATO countries, 2 countries (18%) indicated that they budget for tax expenditures while the rest (82%) do not budget for tax expenditures. Seven out of eleven countries are consulted by their parent ministries in the granting of tax expenditures. In addition, eight countries report on tax expenditures, while six countries have strategies in place to deal with tax expenditures.

5.2. VAT Expenditures

Based on the definitions of tax expenditures provided earlier, VAT expenditures (incentives) were classified into three categories, namely VAT zero-rates, VAT exemptions and VAT deferment (Madzivanyika, 2016). However, ATO member countries agreed to limit the analysis on VAT zero-rates and VAT exemptions in the 2018 edition of the African Tax Outlook.

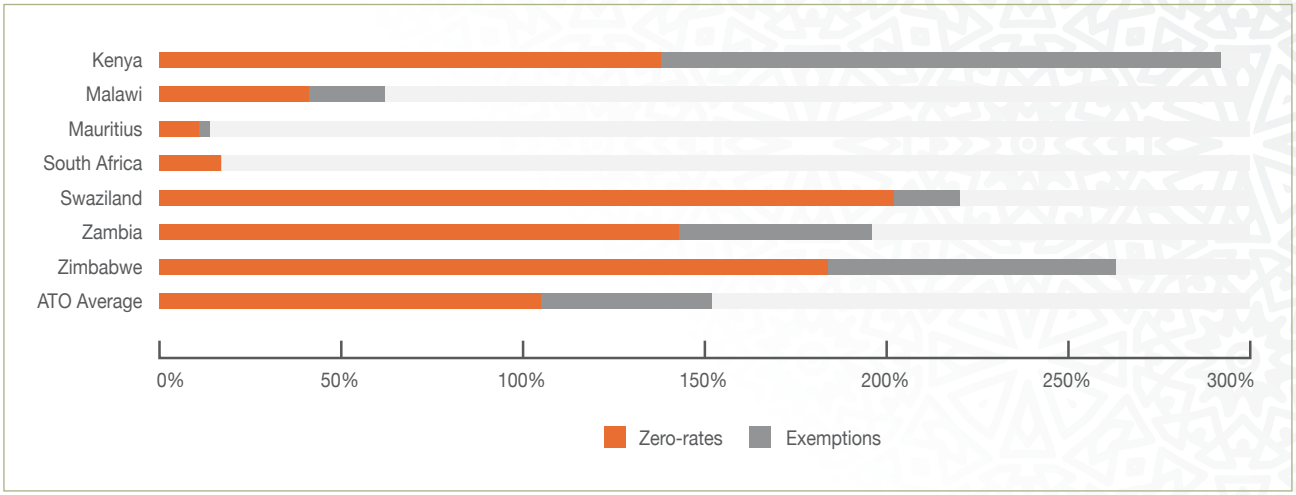
A zero-rated supply is a taxable supply and registered operators making zero-rated supplies may claim full input tax credit in respect of goods or services acquired to make zero-rated supplies. Zero-rating applies primarily to exports and other types of transactions which should not bear VAT for social and economic reasons. Zero-rates and VAT exemptions diminish the VAT base, thereby reducing revenue and increasing the amount of refunds.

Exempt supplies are supplies on which no VAT is chargeable. A trader of exempt supplies is not required to register for VAT even though they meet the threshold. VAT paid on the purchase of inputs used in the production of exempt supplies is not claimable. Ideally, VAT should be broad based with a single uniform rate and very few exemptions, perhaps for foodstuffs (Bird & Gendron, 2007) (Krever, 2008). VAT exemptions add complexity to the tax code by increasing the time and resources needed for audits and education activities. They also add to compliance burden by increasing the time and resources businesses must spend on accounting and record-keeping activities. According to De la Feria & Van Kesteren (2011, p. 300), exemptions are the "fundamental imperfection of the common VAT system". Maurice Laure, nicknamed the father of the VAT for developing the VAT in France, described exemptions as "the cancer of the VAT system" (De la Feria & Krever, 2010) This is because exemptions break the VAT chain. This design imperfection of the VAT causes an array of administration problems for the VAT in many countries where there are widespread exemptions.

Figure 5-2 shows the ratios of domestic VAT expenditure-to- domestic VAT revenues for selected ATO countries. It should be noted that the VAT exemptions used in the analysis were only the recorded exemptions. Several of the exemptions are not even accounted for by Tax Administrations because they are not recorded.

VAT expenditures that were analysed were the sums of revenue forgone from zero-rated VAT and VAT exemptions. Only seven out of twenty-six ATO countries submitted VAT expenditure statistics. Several countries could not submit due to lack of recorded and readily available data on VAT expenditures. On average, for those countries that submitted VAT expenditure statistics, 152% of gross VAT revenue was forgone through the granting of VAT expenditures (zero-rates and exemptions combined). Kenya (292%), Zimbabwe (263.5%) Swaziland (220%), and Zambia (196%) had the highest ratios of VAT revenue forgone through VAT expenditures. These countries all had VAT expenditures exceeding

Figure 5-2: Domestic VAT Expenditures-to-Domestic VAT revenue ratios, 201

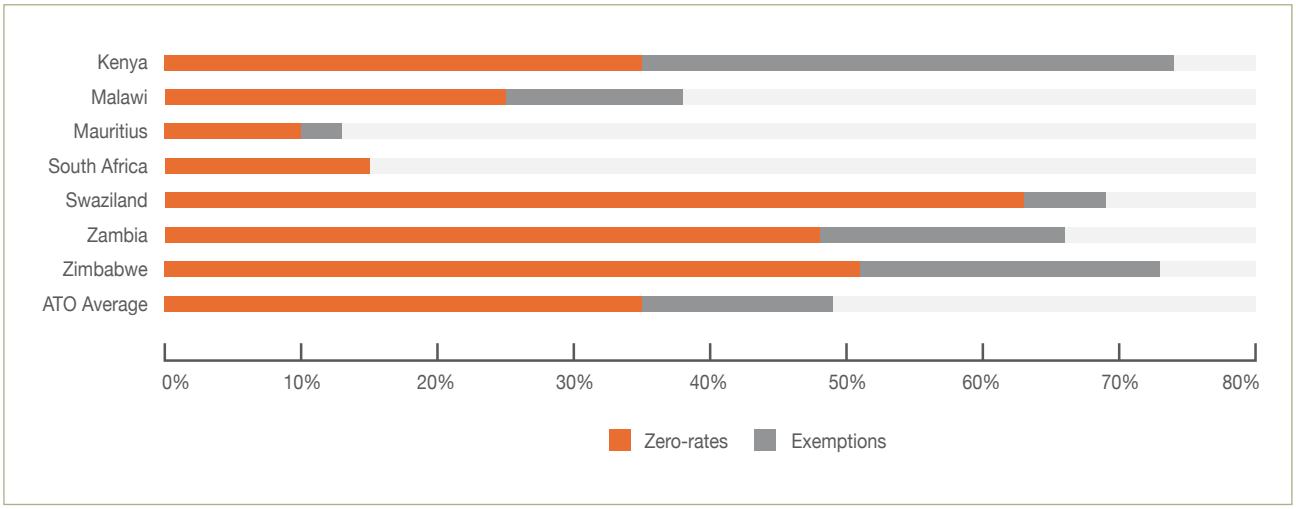


Note: Many countries could not separate VAT zero-rates for exports from those of domestic/local supplies. South Africa submitted statistics for 2015.

100% of their VAT revenues. South Africa (18.03%), Mauritius (14.57%) and Malawi (62%) had low ratios of VAT revenue forgone, below 100%.

It was also interesting to note that zero-rates accounted for a greater share of VAT expenditures in the ATO region. On average, they constituted 105% of gross domestic VAT revenue, while exemptions comprised 47%. It was only in Kenya where the share of exemptions in total VAT expenditures outweighed that of zero-rates. Zambia and Zimbabwe included zero-rates of both local sales and exports, and their ratios were very high since their mining sectors have so many zero-rated mineral exports. Mauritius's low VAT expenditure ratios were influenced by the fact that the country included only zero-rates from local supplies.

Figure 5-3: VAT Expenditures to Potential VAT Revenue Ratios, 2016



A further analysis was done on VAT revenue forgone as a ratio of potential VAT revenue (see Figure 5-3). Potential domestic VAT revenue was defined as (gross domestic VAT revenue + total domestic VAT expenditures). The ATO average was 49% for combined domestic VAT expenditures. It was observed that Kenya (74%), Zimbabwe (72%), Swaziland (66%) and Zambia (66%) had highest ratios of VAT revenues forgone as ratios of their potential VAT revenues. These countries' ratios of revenue forgone through VAT expenditures exceeded 50% of their potential domestic VAT revenues. Malawi (38%), Mauritius (13%) and South Africa (15%) had the lowest ratios. When the VAT expenditures were broken down as ratios of potential VAT revenue, the ATO average for zero-rates stood at 35%, while the one for exemptions was 14%. Again, Kenya was the only ATO country with a high share of VAT exemptions, compared to VAT zero-rates in both total VAT expenditures and potential VAT revenues.

Although Uganda could not submit statistics on tax expenditures, SEATINI (2012) argued that due to numerous VAT incentives, Uganda's VAT gross compliance ratio (an indicator of how well the VAT produces revenue for government) was 26.5%, which unfavourably compared with the global and sub-Saharan averages of 65.48% and 38.45%, respectively. Citing an IMF report, SEATINI revealed that at introduction in Uganda, VAT revenue reflected good international practice, with a single positive rate, a broad base, and limited exemptions. The VAT base was later diluted by a multiplicity of exemptions, especially for intermediate goods which made VAT appear like the sales tax it replaced. Even in Chad, it was observed that the country was losing a lot of revenue due to tax expenditures, VAT included (International Monetary Fund, 2017).

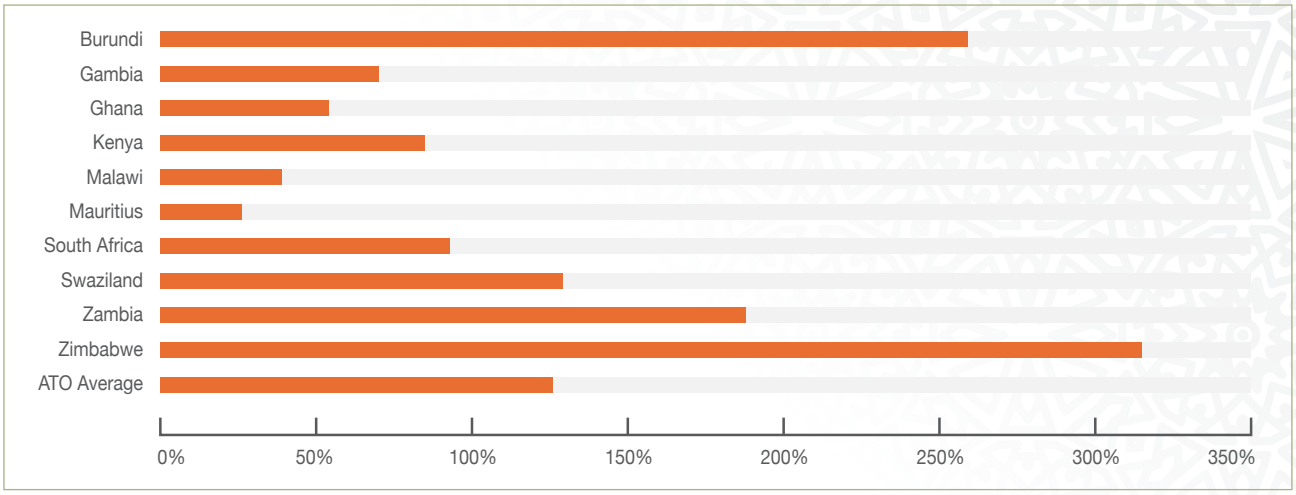
5.3. Import Duty Expenditures

ATO countries grant preferential treatment on tariffs amongst themselves in the framework of bilateral and regional trade agreements, which overlap in terms of trading partners. These agreements aim to encourage trade between countries through the elimination of tariffs and other non-tariff barriers to trade. The agreements allow buyers/importers to purchase goods from the signatory country without paying import duty (or paying a small agreed duty rate) if the goods in question qualify under the terms of the agreement and are registered as such with the relevant authorities.

Besides preferential tariffs, customs duty incentives are also in the form of rebates, suspensions and remissions. A rebate of duty is a waiver of the duty payable. Rebates apply both on imports and exports. A rebate of duty exempts recipients from paying import duty, VAT and surtax, where applicable, whereas a suspension only exempts payment of import duty.

Keen and Ligthart (2002) argue that tariff removals can result in the reduction of import duties and is consequently linked to reduced international trade tax revenue. However, the relationship is not always straight forward and depends on other factors such as structure of the tax system and its administrative capabilities. Agbeyegbe, Stotsky and Asegedech (2004) argue that the effect of tariff reductions depends on how the level and coverage of tariff changes. CRC Sogema (2013) suggests that the use of customs duty exemptions in developing countries has been harmful to the countries' economies and their government treasuries. The study also acknowledges the limitations faced while conducting the inventory of tax exemptions due to limited information. Figure 5-4 presents the import duty expenditure statistics for selected ATO countries in 2016, inclusive of trade agreements.

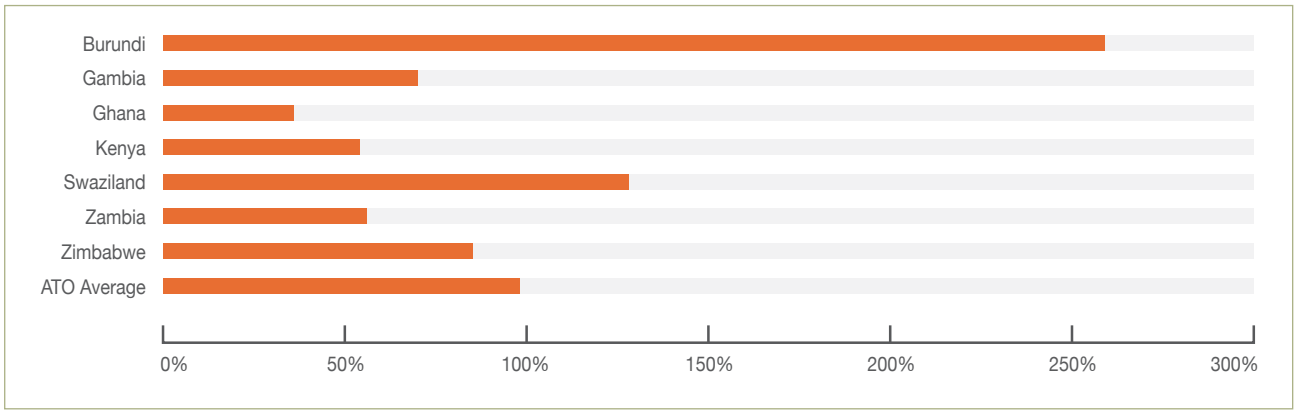
Figure 5-4: Import Duty Incentives, including Trade Agreements, 2016



Note: Figures for South Africa relate to 2015. Burundi, Gambia, Ghana and South Africa provided statistics for rebates and suspensions only. Malawi could not provide statistics on rebates and suspensions.

Total import duty expenditures were defined as (trade agreements + rebates and suspensions of duty). Only ten out of twenty-six ATO countries submitted import duty expenditure statistics, with some of the ten countries submitting only part of the required statistics. Regarding the ratios of total import duty expenditure to actual import duty revenue, Zimbabwe topped with (315%), followed by Burundi (259%) and Zambia (188%) against an ATO average of 126%. The implication of these statistics was that on average ATO countries spent 126% of their import duties revenue on import duty expenditures. Lowest ratios were witnessed in Mauritius (26%) and Malawi (39%), of which these low ratios were influenced by the fact that those countries provided only part of the required statistics. Gambia, Burundi and South Africa provided statistics on rebates only. Countries in the SACU region such as South Africa and Swaziland have no bilateral agreements due to arrangements in their customs union, where agreements are made as a bloc. Multilateral agreements include those goods approved by SACU member states for exemption. Figure 5-5 shows the import duty expenditures, excluding trade agreements.

Figure 5-5: Import Duty Expenditures, Rebates & Suspensions for selected ATO countries, 2016



When trade agreements were removed from the analysis, and only import duty rebates and suspensions were included, as a ratio of actual import duty revenues, Burundi (259%), Swaziland (128%) and Zimbabwe (85%) were the top three countries in terms of revenue forgone through the granting of import duty expenditures. Ghana (36%), Kenya (54%) and Zambia (56%) were in the bottom three categories. Mauritius and South Africa were removed from the analysis as there was no breakdown of rebates on their data. Kenya provided only part of the import duty rebates, hence contributing to its position in the bottom three class.

Box 5-1

Learning from Zambia's Strategies on Tax Expenditures

Zambia has put in place a few strategies to deal with the challenge of tax expenditures. These are outlined below:

- Conducting post clearance audits to ensure adherence to tax expenditure provisions.
- The Tax Administration is part of a committee that approves tax incentives.
- Revocation of investment licenses for investors that do not fulfil their investment pledges.
- Enforcement of regulations governing the granting of tax expenditures.
- Limiting the granting of tax expenditures to MFEZ, industrial parks, priority areas and rural areas.

5.4. Conclusion

Tax expenditure data deficiency is still a major challenge among several ATO countries. While some countries such as South Africa and Ghana are more transparent with regards to budgeting and reporting on tax expenditures at the national level, several ATO countries do not budget and report on them. The revenue loss due to import duty and VAT expenditures was quite high among ATO countries. However, this loss was not reflected accurately as some countries could not differentiate zero-rates for export sales from those related to domestic sales for VAT expenditures. In the same vein, import duty expenditures could not be properly accounted into trade agreements and rebates. Countries like Zambia and Zimbabwe which had huge shares of zero-rated exports like minerals, consequently had high tax expenditures, in the form of zero-rated sales. It was generally observed that Tax Administrations who budget for tax expenditures tend to have lower ratios of tax- expenditure-to-revenue collections.

6

Tax and customs administration structures and functions

6 Tax and customs administration structures and functions

2016

The ATO member countries were assessed with regards to their set up

20% of the 25 ATO countries operated under the Ministries of Finance

ON THE OTHER HAND, 80% OF THE ATO MEMBER COUNTRIES WERE SEPARATED AND OPERATED INDEPENDENTLY OF THEIR RESPECTIVE MINISTRIES OF FINANCE.

19/26

ATO MEMBER COUNTRIES

Have an Integrated **(Domestic tax and Customs)** Administration

ON AVERAGE IN

2016

Revenue Administrations spent 1.6% of the revenue collected on operational costs **which represented a marginal increase over the average proportion recorded between 2011 and 2016**

SWAZILAND

5.2%

ZIMBABWE

4.0%

SOUTH AFRICA

0.9%

SEYCHELLES

0.5%

CAMEROON

0.3%

SENEGAL

0.1%

6. Tax and customs administration structures and functions

Through specific management philosophies and organisational set-ups, tax administrations can be shaped in various ways. Structures involve some requirements which are based on coordination, division of labour and integration. The philosophy adopted, requires that appropriate responses should be provided in a cost-effective manner. A well-functioning tax administration must often use the teamwork principle to be effective. In such a model, the following responsibilities must be shared: planning and organising the team; identifying the required resources; identifying client needs; setting performance goals; solving problems; and developing strategies for improvement.

6.1 Organizational structure of Tax Administrations in the ATO, 2016

The core mandate of every tax administration in any country is to optimize revenue collection for their respective governments. Other secondary functions such as border protection and trade facilitation among several functions may be assigned to the revenue administration from time to time. In their book Hand Book on Tax Administration, Alink & Kommer (2016, p.163) note that "The core tasks of a Tax Administration are centered on the implementation and enforcement of tax legislation and regulations. These activities include identification and registration of taxpayers, processing of tax returns and third-party information, examination of the completeness and correctness of tax returns, assessment of tax obligations, (enforced) collection of taxes and provision of services to taxpayers" (Alink & van Kommer, 2016, p. 163).

The effective execution of these mandates will largely depend on the organizational set up of the tax administration.

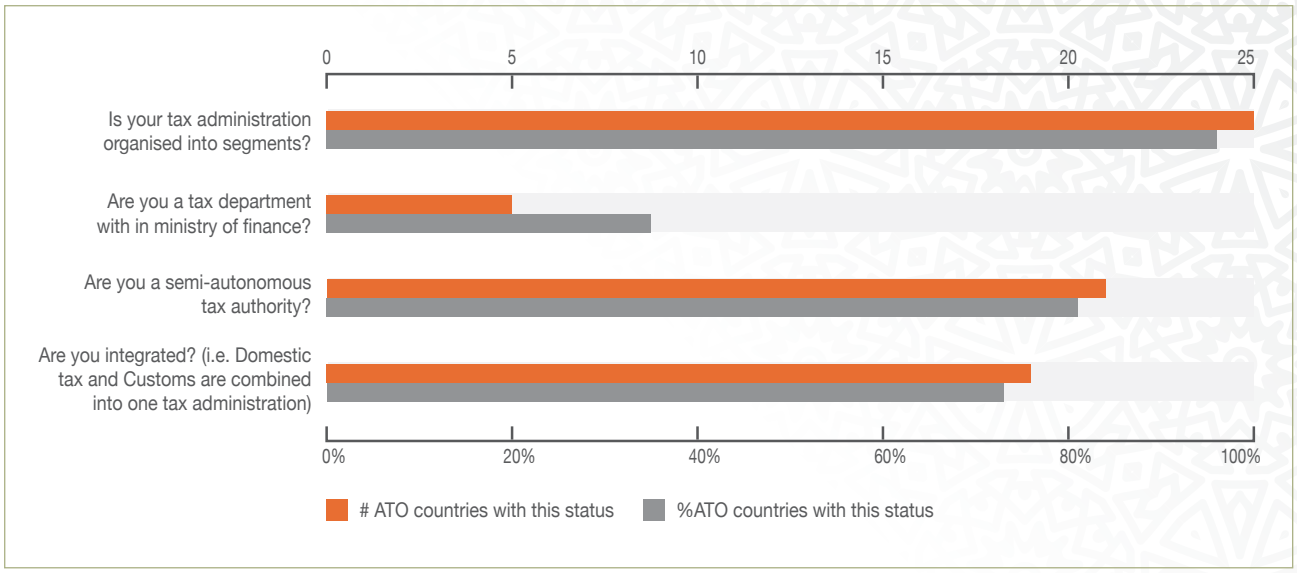
The ATO member countries were assessed with regards to their set up. In 2016 it was established that 20% of the 25 ATO countries operated under the Ministries of Finance. These were Benin, Cameroon, Mozambique, Niger and Senegal. On the other hand, 80% of the ATO member countries were separated and operated independently of their respective Ministries of Finance.

When compared to their peers, the countries with tax administration as part of the Ministry of Finance had a slightly higher (2%) tax-to-GDP ratio than their peers. However, contrary to the belief that Semi-Autonomous Tax Administrations have a higher positive tax effect than those that are not, Dom, using a panel dataset of 46 countries over the period 1980-2012, and accounting for revenue dynamics, fails to find the effect of Semi-Autonomous Revenue Authorities on tax effort, revenue volatility and corruption. He concludes that there is little statistical support for a systematic relationship between semi-autonomous revenue authorities and tax capacity in Sub-Saharan-Africa (Dom, 2017).

Notwithstanding, some of the shortcomings of non-semi-autonomous tax administrations, include top-heavy bureaucracy, discretionary powers and narrow tax bases (Talierco, 2004). Tax departments attached to Ministries of Finance must 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, 2017).

In 2016, 80% (20 of 25 countries) of the ATO countries reported being Semi-Autonomous while 20% of the ATO countries (namely Benin, Cameroon, Chad, Niger and Senegal) reported being a department within the Ministry of Finance. It can be said that the ECOWAS region has fewer countries with semi-autonomous tax administrations relative to the rest of the countries while the SADC region has more integrated tax administrations than any other region in the ATO. A tax administration that has greater than usual autonomy along several organizational design dimensions, including: legal character, financing, governance, personnel policy, procurement policy, and accountability relationships, is said to be semi-autonomous.

Figure 6-1: Structure and design of ATO Tax Administrations



Nineteen of the 26 ATO member countries (73%) that responded to the question on whether or not they have an Integrated (Domestic tax and Customs) Administration responded in the affirmative while only 27% claimed not to. The exceptions in this case were Benin, Cameroon, Chad, Mozambique, Niger, Nigeria and Senegal. It should be noted that in Nigeria while the FIRS and Customs are distinct from each other, Nigeria being a federation, States and local governments are constitutionally empowered to collect some tax and non-tax revenues (e.g. PIT, Stamp duties, tenement rate etc.) within their jurisdiction.

It has been observed that a single institution that registers, collects and audits achieves more cost – effective administration and taxpayer compliance. Such institutions are believed to standardize core processes, eliminate duplication in support service functions, enhance information flows and service delivery, reduces administrative costs, promotes staff professionalism and makes efficient use of resources (ATAF, 2017).

Table 6-1 : Organisational Set up of ATO Tax Administrations

	Status of the Revenue Administration		
Country	Department within ministry of finance	Semi-autonomous	Integrated (Domestic tax and Customs)
Angola	×	√	√
Benin	√	×	×
Botswana	×	√	√
Burundi	×	√	√
Cameroon	√	×	×
Gambia	×	√	√
Ghana	×	√	√
Kenya	×	√	√
Lesotho	×	√	√
Liberia	×	√	√
Malawi	×	√	√
Mauritius	×	√	√
Mozambique	√	√	×
Niger	√	×	×
Nigeria	×	√	×
Rwanda	×	√	√
Senegal	√	×	×
Seychelles	×	√	√
South Africa	×	√	√
Swaziland	×	√	√
Tanzania	×	√	√
Togo	×	√	√
Uganda	×	√	√
Zambia	×	√	√
Zimbabwe	×	√	√

Key: √ means yes, x stands for no

Different tax administrations across the ATO have segmented their taxpayers according to their needs and requirements. In many instances, the segmentation criteria depend on a combination of taxpayer characteristics such as the nature of the business of the taxpayer, business turnover, economic/industrial activity, etc. Segmentation is understood to be the identification and classification of distinct mutually exclusive customer groups (Dorhmann & Pinshaw, 2009). Segmentation is important for tax administrations as it helps revenue administrations to tailor their services, communication, enforcement and risk profiling strategies.

Taxpayer segmentation is not often static in ATO member countries. Some of the ATO member countries have revised their taxpayer segmentation in the recent past. Ghana for instance only revised and implemented a new taxpayer segmentation in 2012 while Lesotho and Burundi revised and implemented theirs in 2013.

One of the common criteria used to segment taxpayers is using a predetermined business turnover threshold. Thus, taxpayers are classified as Micro, Small, Medium or Large on this basis. The characteristics of these segments of taxpayers and their associated risks are discussed in Table 6 – 2 below.

In addition to the principles established in the table below, it was established that countries like Nigeria and Uganda have added segments that define and deal with Public Sector taxpayers. In Uganda, this has proven to be very effective in dealing with this group of taxpayers with an estimated impact of increased collections to the quantum of 239% from USD 62.3 million dollars billion in the 2014/15 financial year to USD 211.0 million dollars in FY 2015/16 (ATAF, 2017). Furthermore, some tax administrations combine the Medium and Small taxpayers and deal with them collectively. This is apparent in countries such as the Gambia, Liberia, Lesotho, Mauritius, Mozambique, Rwanda, Swaziland and Zimbabwe.

Benin, Cameroon and Nigeria have further made segmentation provisions for Micro Enterprises. The Nigerian Federal Inland Revenue Service (FIRS) has a further segment called the Individual & Enterprise income segment. The Gambia, classifies any taxpayer belonging to the informal sector as someone who is neither taxed, nor monitored by any form of government as informal. This is the only country that has segmented taxpayers by this heading.

Table 6-2 : Taxpayer Segmentation, Associated Risks in ATO Countries

Segment	Degree of risk	ATO Counties with this Segmentation
Large Taxpayers	• Low risk of under-declaration • High level of tax planning • Low risk of misclassification	Benin, Botswana, Burundi, Cameroon, Kenya, Gambia, Liberia, Lesotho, Malawi, Mauritius, Mozambique, Nigeria, Rwanda, Swaziland, Senegal Seychelles, Tanzania, Togo, Uganda, Zambia and Zimbabwe
Medium Taxpayers	Moderate risk of under-declaration and misclassification	Benin, Burundi, Cameroon, Kenya, Malawi, Nigeria, Senegal Seychelles, Tanzania. Togo, Uganda and Zambia
Small Taxpayers	• 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	Benin, Burundi, Cameroon, Kenya, Malawi, Senegal Seychelles, Tanzania. Togo, Uganda and Zambia
Micro Taxpayers	• Very high risk of non-declaration • Determination of income is difficult • High compliance enforcement costs • Highly difficult to trace	Benin, Cameroon and Nigeria

On the other hand, South Africa does not seem to follow Table 6 – 1,s segmentation criteria but it has its own that is based on the nature of the business activity as follows: Business and Employers; Large Business Centre; Small Business; Tax-Exempt organizations; Embassies; and Individuals

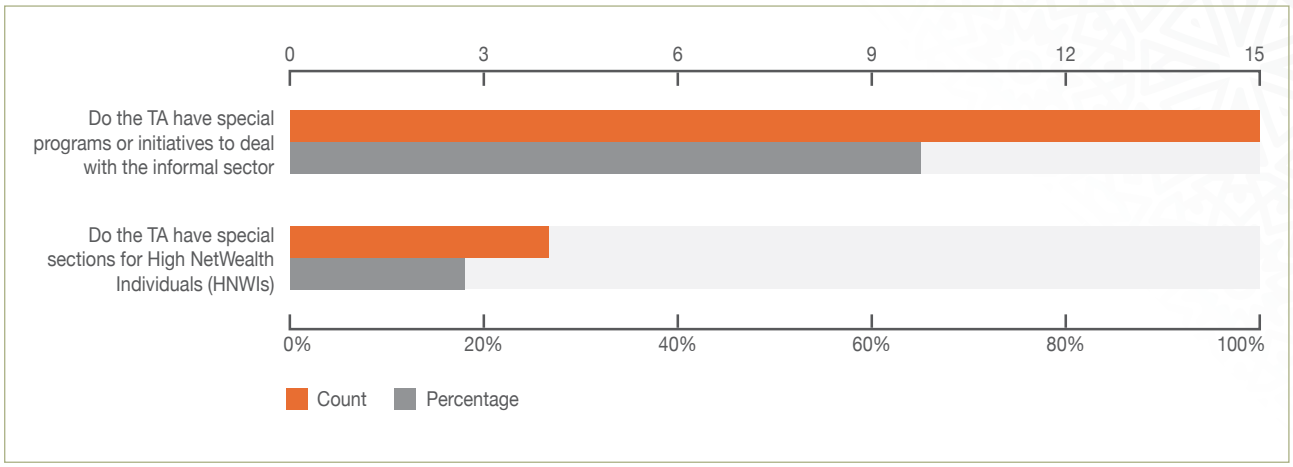
Whichever form the taxpayer segmentation takes, it is crucial to ensure that tax administrations develop business models around the characteristics of their taxpayers as this will improve their efficiency and effectiveness. The IMF has recognised taxpayer segmentation as a critical tool in combating non-compliance (International Monetary Fund, 2015) and it is encouraging to note that all the tax administrations in the ATO have taken this route in managing their taxpayers.

A direct benefit of taxpayer segmentation is the ability of the respective tax administration to tailor their enforcement efforts to the different needs of their clients. This may involve having specified units that address client specific need or the implementation of programs suited to a segment of taxpayers. In many countries in the ATO, Tax Administrations have for instance developed special compliance driven initiatives targeted at the informal sector – a sector that is often difficult to tax. In 2016, 65% of the Tax Administrations in the ATO had in place a special program to deal with the informal sector. This is important given that the forgone revenue from not taxing the informal sector is estimated around 42% in some countries such as Zambia (Phiri & Nakamba-Kabaso, 2012). Angola, Botswana, Chad,

Lesotho, Mauritius, Mozambique and the Seychelles are among the countries in the ATO that are yet to develop special programs or initiatives to deal with the informal sector. However, Mauritius has already made some positive strides in that every person indulging into any business activity needs to compulsorily obtain a Business Registration Number from the Companies Division of Mauritius. Once registered, the Revenue Authority obtains the information electronically. This practice had the effect of bringing those operating in the informal sector into the formal course of business

Similarly, some of the ATO member countries such as Kenya, Mauritius, South Africa, Swaziland and Uganda have established special section/units to deal with High Net Worth individuals. Such initiatives need commendation and must be encouraged across all the ATO countries. Administrations in more advanced countries in the OEDC are documented to have specialized units considering HNWI mostly because such taxpayers are significantly many and pay significant taxes in their jurisdictions.

Figure 6-2 : Program Segmentation for Taxpayers in ATO Tax Administrations



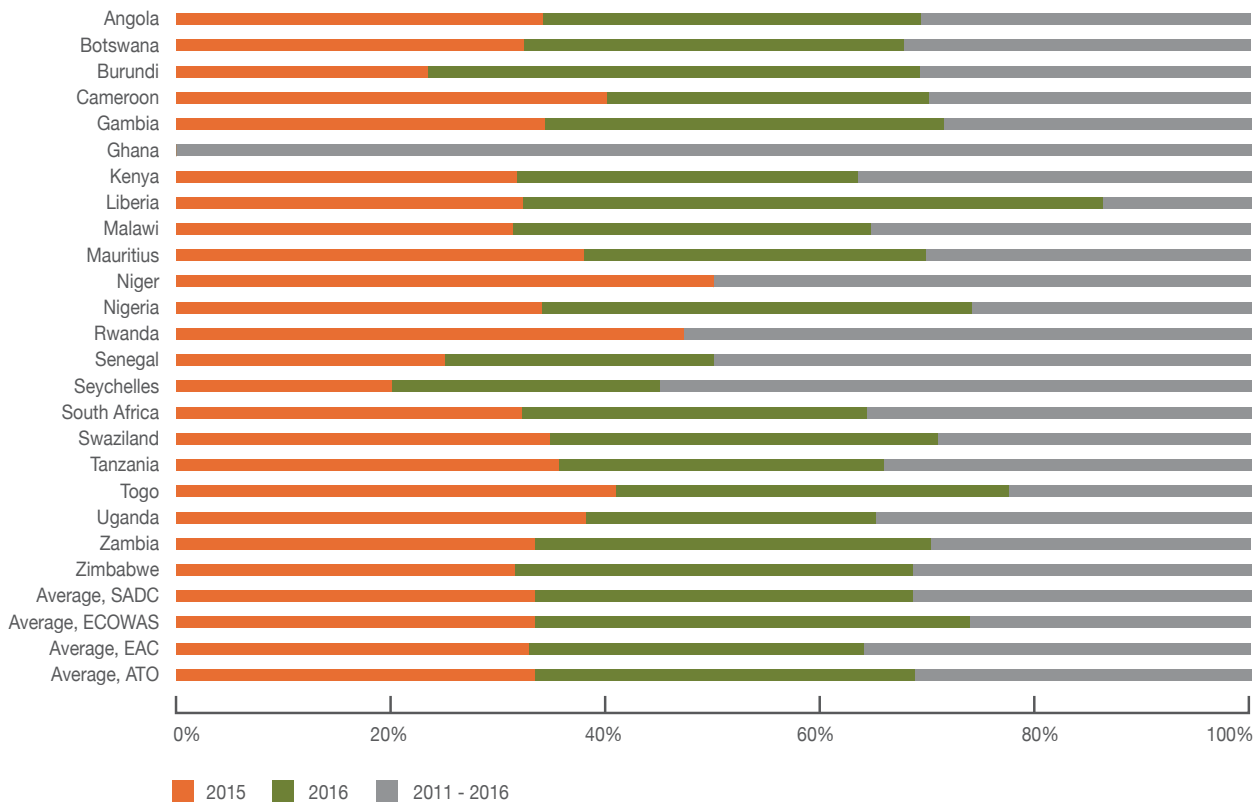
6.2 The Cost of Tax Administration

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.

The data shows that on average in 2016, Revenue Administrations spent 1.6% of the revenue collected on operational costs which represented a marginal increase over the average proportion recorded between 2011 and 2016. Swaziland has the highest cost collection ratio relative to its peers (5.2%) followed by Zimbabwe (4.0%) while Senegal, Cameroon, Seychelles and South Africa had the lowest cost to revenue ratios of 0.1%, 0.3%, 0.5% and 0.9% respectively.

Comparatively, SADC and EAC had the highest cost to revenue ratio (1.9%) followed by the ECOWAS region at 1.4%. This could largely be because of the structural

Figure 6-3 : Costs of Tax administration relative to revenue in ATO countries, average, 2011-16



set up of the tax administrations in the ECOWAS region. Zimbabwe, Burundi, Liberia and Swaziland recorded tax administration costs that were 4% or more of revenue. 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 The Seychelles, Cameroon and Senegal. In the latter two countries, such low levels could perhaps be attributed to the fact the tax departments are within the finance ministries, which limits their recruitment and budgetary scope.

Change in the cost of collection

On average the collection cost to revenue between 2015 and 2016 in the ATO countries increased by 4.5%. However, 7 of the 26 ATO countries experienced a decline in their cost of collection as measured by the cost to revenue ratios with the biggest decline observed in Uganda (29.8%) followed by Mauritius (14.9%) and Tanzania (12.1%). On the other hand, Burundi recorded the largest increase in its cost to collection ratio by 90.7% followed by Liberia and Nigeria. This could have been due to changes in the structural set up in the respective tax administrations.

Regionally, the EAC recorded the largest increase in the cost to revenue ratios (12.1%) between 2016 and 2015 followed by the SADC region (3.6%). The ECOWAS posited the smallest change in the cost to revenue ratio (3.3%) of all the ATO regions. Over the past 6 years (2011 – 2016) the cost of collection has on average grown at a rate of 1.5% in the ATO countries. The lowest growth rates were observed in the ECOWAS region at a rate of 1.1% followed by the SADC (1.7%) with the EAC having the highest growth rate at 2.2%. At country level, Senegal has had the lowest growth rate in costs over the 6-year period (0.2%) followed by Cameroon (0.3%). The highest growth rates were observed in Swaziland (4.2%) followed by Zimbabwe (3.4%) and the Gambia (3.0%).

As expected the different tax administrations in the ATO have been conscious of their costs in the process of optimizing revenue collection. The observed growth rates have been within reasonable limits though there remains room for improvement for some tax administrations.

Figure 6-4 : Change in Cost of collection 2015/2016

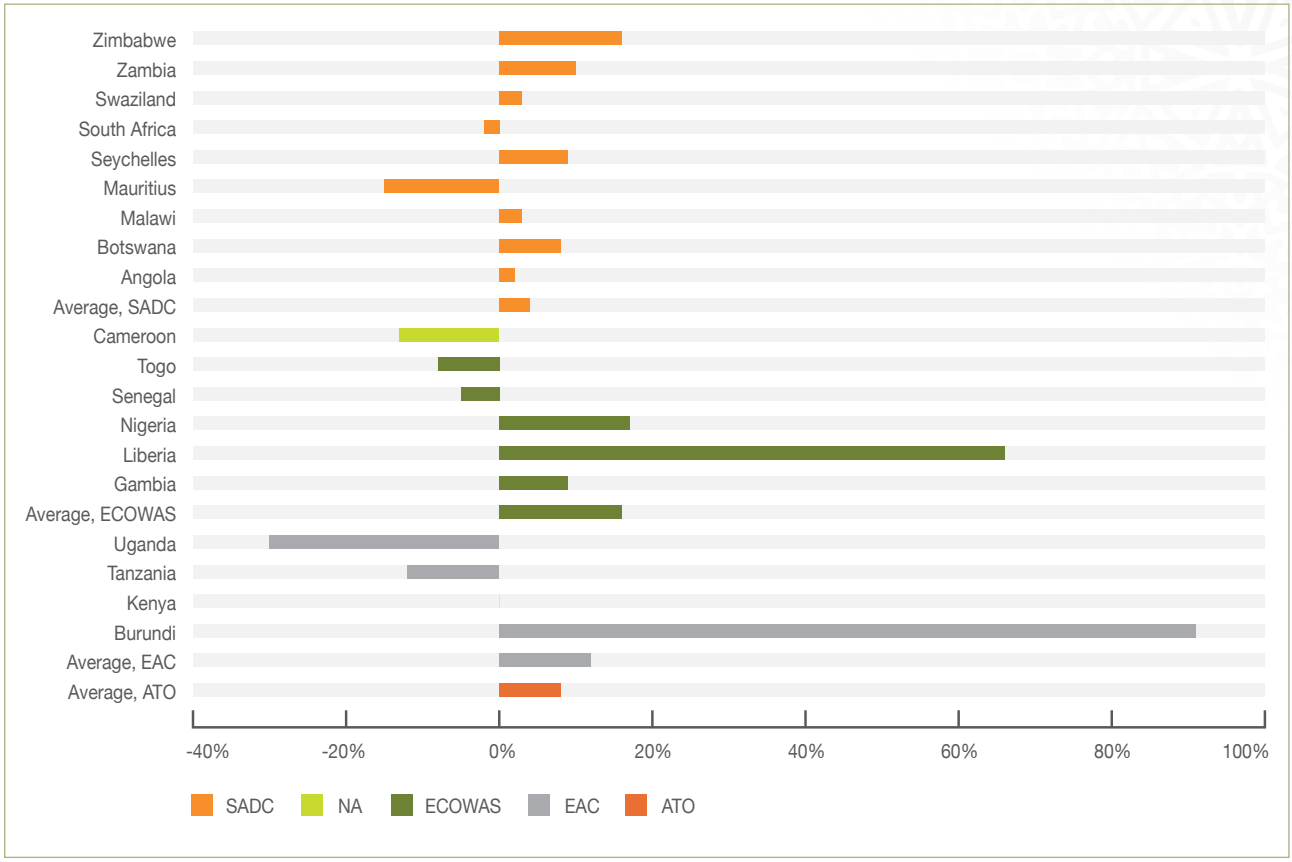
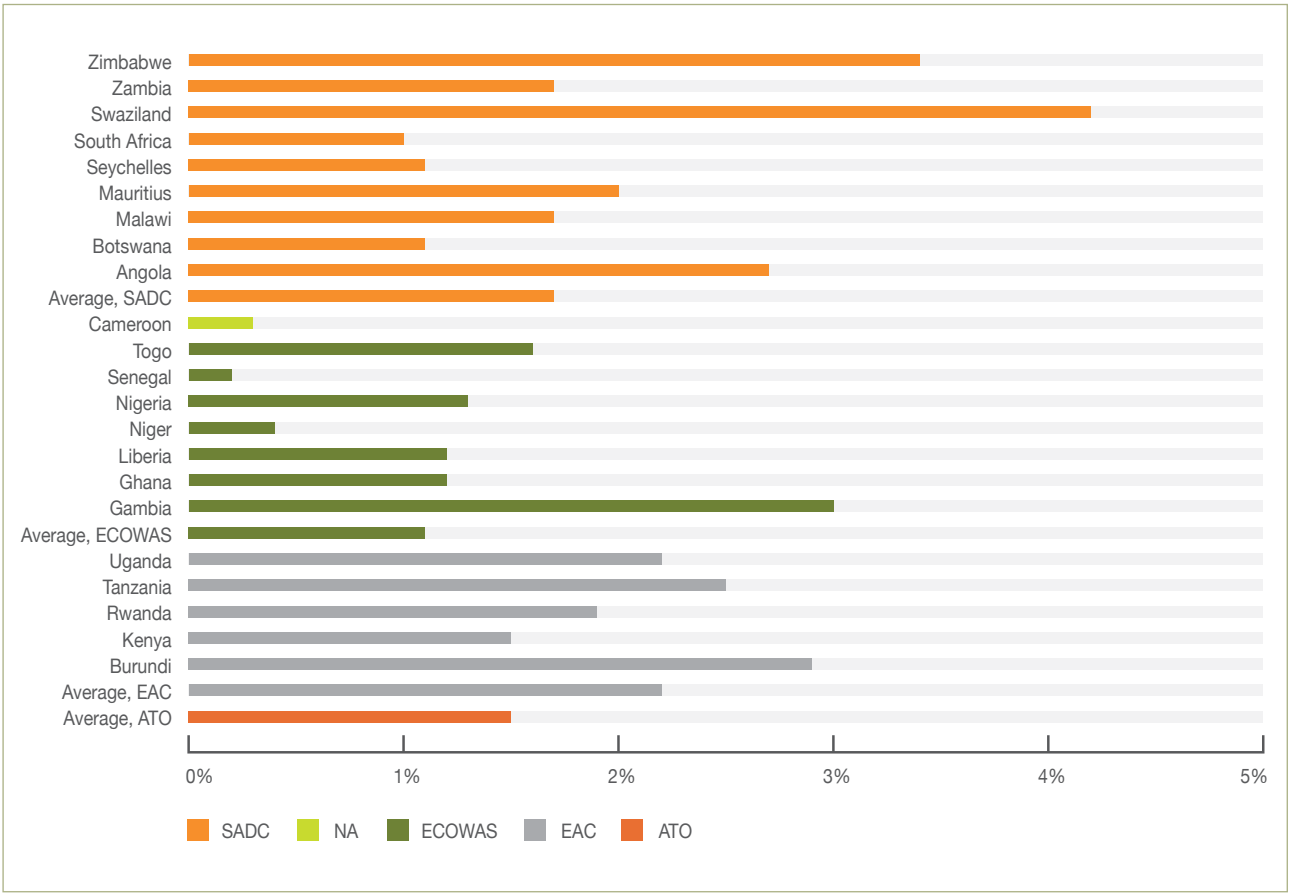


Figure 6-5 : Average Growth in Cost of collection 2011 - 2016



6.3 Risk Management in Tax Administrations and the fight against corruption

Risk can be defined as the threat or probability that an action or event will adversely affect an organisation's ability to achieve its objectives. It has always been characterised by the uncertainty and the exposure to loss (Alink & van Kommer, 2016). The management of risks must always be a fundamental element of any tax administration's strategic business execution to protect the tax administration core public service values, vision and objectives. Risk management is recognised as an integral part of responsible management and any enterprise that adopts an approved enterprise wide risk management methodology and philosophy has to ensure adequate and effective risk management. It is expected that all departments or sections, operations and processes will be subject to the risk management strategy. It is the intention that these departments or sections will work together in a consistent and integrated manner, with the overall objective of mitigating risk.

Enterprise Risk Management (ERM) is defined as "a process, effected by an entity's board of directors, management and other personnel, applied in strategy-setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide seasonable assurance regarding the achievement of entity objectives (Protiviti Independent Risk Consulting, 2006). ERM is about establishing the oversight, control and discipline to drive continuous improvement of an entity's risk management capabilities in a changing

operating environment. It advances the maturity of the enterprise's capabilities around managing its priority risks (Ibid, 2006).

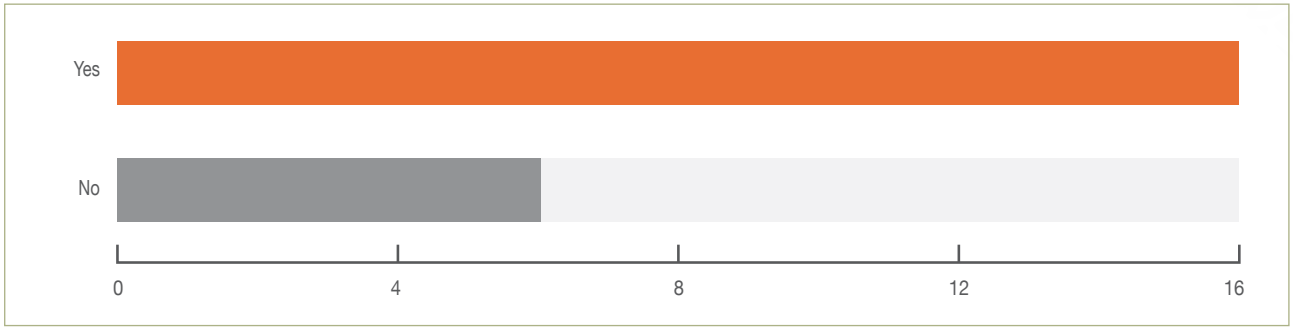
The overriding objective of implementing ERM in a Tax Administration is to provide reasonable assurance the management and board that the tax administration's business objectives are achieved. Risk management helps different organisations in addressing risks which appear to threaten their mission and further provides 'quality assurance for the organisational actions. Thus, applying risk management enables tax administrations to accomplish the revenue collection mandate by facilitating management to make better decisions.

Tax administrations face risks that fall under three broad categories; Strategic risks, Operational Risks, and Financial risks. Specifically, some of the risks common to many tax administrations includes the risk of non-compliance, particularly tax fraud, and taxpayer insolvency. The risks are further propelled by various factors such as complexity and innovation in business structures, new financial products, the large numbers of taxable persons and services, and e-commerce developments. At the same time, tax administrations are often faced with the need to work more efficiently, not only in view of public opinion, which demands new levels of efficiency and accountability of government services, but also in view of reductions in budgets and restrictions to hire new personnel. Thus, risk management allows tax administrations to deal with these risks. (European Commission - Taxation and Customs Union, 2006).

TADAT (2015) notes that a well-integrated ERM system mitigates risks by improving resource allocation, encourages the fair and equal treatment of taxpayers, and makes the auditing of non-compliant taxpayers more efficient.

Figure 6-6 shows that 16 out of the 22 or 73% of the ATO countries had an enterprise-wide risk policy. These include The Gambia, Ghana, Kenya, Lesotho, Liberia, Malawi, Mauritius, Niger, Nigeria, Rwanda, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. However, six of the twenty-two (or 27%) ATO countries which reported on the ERM system, stated that they had no enterprise-wide risk policy.

Figure 6 - 6 The tax administration has an enterprise-wide risk policy



An effective ERM requires a competent collection and tracking of all risks as they arise in line with a laid down procedure. To this effect, risk registers become cardinal. Risk registers are tools – at operational, tactical and corporate levels – designed to monitor and assess risks and enable revenue administrations 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 ((ATAF, 2017).

All but four (Angola, Burundi, Mozambique and Senegal) Tax Administrations in the ATO reported having corporate risk registers in place which prioritize the risks affecting both operational and strategic objectives (See table 6-3)

Table 6- 3 Enterprise Risk Management tools in ATO Countries, 2016

Country	The tax administration has an enterprise-wide risk policy?	The tax administration has a corporate risk register?
Angola	No	No
Botswana	No	Yes
Burundi	No	No
Gambia	Yes	Yes
Ghana	Yes	Yes
Kenya	Yes	Yes
Lesotho	Yes	Yes
Liberia	Yes	Yes
Malawi	Yes	Yes
Mauritius	Yes	Yes
Mozambique	No	No
Niger	Yes	
Nigeria	Yes	Yes
Rwanda	Yes	Yes
Senegal	No	No
Seychelles	No	Yes
South Africa	Yes	Yes
Swaziland	Yes	Yes
Tanzania	Yes	Yes
Uganda	Yes	Yes
Zambia	Yes	Yes
Zimbabwe	Yes	Yes

Corporate risk

Following the guidelines of the enterprise risk management, revenue administrations in the ATO identified and their ranked their top corporate risks. Corporate risks are the top strategic risks that may affect a revenue authority's revenue and tax administration. It was established that the key risks included IT system disruptions and security threats, followed by risks related to human resources, financial resources, external conditions and planning related risks.

Figure 6-7: The five biggest corporate risk that ATO countries must address

Table 6- 4 Corporate & Strategic risks facing ATO Countries

Risk Type	Detailed risk description	Country
IT Related Risks	Manual procedures in tax administration; IT Security threats including Cyber Crime due to weak system controls; Unscheduled Information Technology System Downtime; Ineffective utilization of technology system	Gambia, Liberia, Malawi, South Africa, Swaziland, Zambia & Zimbabwe
Human Resource Risks	Inadequate staffing levels; High attrition rates among skilled staff resulting in loss of expertise; Inability to attract and retain the required talent; Low Employee Satisfaction/Motivation; Staff Integrity	Gambia, Ghana, Kenya, Liberia, Malawi, Rwanda, Swaziland, Tanzania, Uganda, Zimbabwe
Financial Resource Risks	Insufficient funding for TA operations and implementation of project management goals and Priority Initiatives; Allocation of resources and Strategic management initiatives	Kenya, Lesotho, Liberia, Malawi, Nigeria, Uganda
Planning Risks	Lack of Business Continuity Plans; Failure to accomplish project management goals due to ineffective planning & Monitoring; Inability to identify sectors with high revenue yields resulting in improper assessments of correct incomes; Lack of Tax gap analysis; Cumbersome processes and Procedures; Resistance to change; Transitioning to the new operating model;	Gambia, Lesotho, Liberia, Malawi, Nigeria, South Africa, Swaziland, Tanzania, Rwanda, Zambia,
External Risks	Outdated legislation; Incorrect Interpretation of the law; Political instability, Taxpayer fraud; Revenue collection pressure to fund government operations; Erratic utility services across the branch network; Unfavorable public perception of poor state delivery and corruption; Unfavorable public perception Large and increasing informal sector; External economic shocks; Political trends	Gambia, Kenya, Lesotho, Liberia, Nigeria, Seychelles, South Africa, Uganda, Zambia, Zimbabwe

Growing IT system disruptions and security threats

As a way of delivering their business objectives, Revenue administration rely heavily on efficient, integrated, modern and secure ICT systems. However, the revenue administrations 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 of the IT

inherent risks 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. Unscheduled information technology system downtime affected operations in Zimbabwe, while South Africa and Zambia faced security threats, including cybercrime. Additionally, the lack of automation of some of the business processes has been a threat to operations in Swaziland.

Human resources risks

Tax Administrations across the ATO countries have faced significant risks relating to their Human resources. Many have lost skilled, competent staff to better paying local and international organisations, accounting firms, auditors tax consultancies, and to corporate departments in big private companies.

Many tax administrations in the ATO indicated that they had high staff attrition rates particularly among specialized functions such as audits. This has resulted in loss of expertise and low staffing levels well beyond the tolerance levels in countries like Zimbabwe and Swaziland. Some of the consequences noted because of the Human resource related risks include:

- 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, revenue administrations 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 (ATAF, 2017).

Financial resource risks

Finances remain crucial to the operations of many organizations. Tax Administrations are not spared from more so that they depend on government funding as they do not generate their own funds. Enforcement activities require adequate financing and so too does investment in ICT which is crucial to reducing tax compliance costs. However, limited budget allocations imply that some key programs have to be put off which affects 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. In 2016, Kenya, Lesotho, Liberia, Malawi, Nigeria, Uganda all cited financial challenges as part of their key corporate risks.

Planning risks

Planning in tax administrations take center stage and play a crucial role for such organisations. It is often said that failing to plan is in fact planning to fail. Most tax administration have thus dedicated units that manage the planning function. Despite this intervention, there have been many systemic risks related to planning that were cited by countries in the ATO. Some of the notable planning related risks include the lack of business continuity plans and the failure to accomplish project management goals due to the ineffective planning and Monitoring. This was especially highlighted by the Malawian Revenue Administration.

In some ATO countries, the planning risks relate to the administration's inability to properly identify sectors with high revenue yields resulting in improper assessments of correct incomes. Some countries indicated that they had not conducted a tax gap analysis which was affecting their ability to determine where enforcement efforts needed to be directed. Tax gaps reflect the difference between the amount of tax that should, in theory be collected by a tax

administration, given the underlying economic tax base, and what is actually collected (Burke, 2017, p. 3). Tax gap analysis provides tax administrators and policy makers, and their stakeholders, with a measure of the amount of tax revenues lost through noncompliance, avoidance, and the impact of policy choices (Eric, 2017). Thinking about the tax gap helps the tax administrations to understand how non-compliance occurs and how the causes can be addressed and further provides insight into which strategies are most effective at reducing the tax gap.

Other planning risks identified in the ATO countries relate to cumbersome processes and procedures that discourage compliance among taxpayers. Furthermore, countries such Zambia, South Africa, the Gambia and Nigeria cited the lack of effective change management as key planning risks. This is because some taxpayers and staff in tax administrations have been left behind in the implementation of key initiatives and tax policy changes.

Table 6-5 Compliance risk in ATO countries

Risk type	Detailed Compliance Risk	Initiatives to mitigate risks	Examples of Countries
Filling	Filling risk includes stop filers, Nil filers - construction and Non-Filers; Risk of non-filing due to evasion; significant number of missing returns Payment risks; issues with Poor tax compliance culture; Tax incentives and exemptions; late payment of other types of taxes for Government Institutions Growing informal sector; Non-compliance with requirements to maintain proper books and records (PIT, CIT, VAT)	Interfacing with relevant stakeholders, Continuous inspections, Pilot projects on VAT non-filing and conducting VAT Gap Analysis.	Botswana, Kenya, Nigeria, Rwanda, Zambia
Trade related compliance risk	Risk arise due to smuggling resulting from reasons such as porous borders; Diversion of transit and export cargo into the domestic markets; Falsification of customs documents, Risk of abuse of VAT privileges and exemptions due to fraudulent activities perpetuated by importers and taxpayers; violation of import and export controls and abuse of rebates	Automation of systems to reduce interface between officers and clients and Periodic system upgrades; Setting up of elite Mobile Compliance Unit	Uganda, Malawi Zambia & Zimbabwe,
Tax avoidance & Evasion	Risk of non-registration by the informal sector; Risk of incorrect information on the register; Significant number of ``fly by night `` and fictitious companies; significant number of foreign workers not registered. It also includes Failure to register & non-payment of withholding taxes;	Tax education, Collaboration with Corporate Affairs Commission for companies' registration information; development of risk register; Massive sensitization on the role and contribution of taxes to the Economy and the advantages of good compliance; Procurement of IDRAS; Introduction of block management system to deal with the informal sector;	

Risk type	Detailed Compliance Risk	Initiatives to mitigate risks	Examples of Countries
Introduction of electronic registration system for clearing Agents with stricter requirements	Nigeria, Rwanda, Zambia, Ghana		
Trade related compliance risk	Taxpayer failure to pay taxes due; Widespread under declaration of taxable income and Fake invoicing. It also includes; Under-valuation, under declaration of income, quantity, misstatements of weight and volume; Risk of tax refund fraud due to businesses; Unreported rental income, and understated sales value on disposition are other forms of reporting risk; Commercial fraud on imports; Value-Added Tax (VAT) refund fraud; Over stating of expenses; Unreported deduction of income tax; tax evasion; significant number of taxpayers conducting off-books transactions, tax planning issues,	Preliminary analysis for under-declaration of income on various commodities to deter and detect Taxpayer non-compliance (fraud and evasion); Increase cooperation of Other Government Agencies (OGAs) towards easing compliance; robust taxpayers database clean-up; Increasing site visitations to provide on-site registration and increase the level of taxpayer education; Stakeholder engagement both external and internal Whistle blower program, awareness and education for Customs brokers; Investment in staff and infrastructure; Enhance risk-based audit coverage for effective detection and deterrence to ensure only legitimate refunds are processed; Creation of Compliance and Risk Department as well as Anti-Corruption and Transparency Unit.	Nigeria, Malawi, Kenya, Lesotho, Liberia, Rwanda, Seychelles
Tax avoidance & Evasion	Transfer pricing risk include: Sophisticated financial schemes used by large businesses to avoid tax and Unprofessional clearing agents; the threat of the illicit economy and illicit financial flows; intragroup transactions; Complex and sophisticated tax avoidance scheme for high net worth individual	Recruiting new and training of staff; develop and acquire additional capacity and capability to tackle HNWIs effectively in dealing with trusts, and re-defining taxpayers in this segment; Increase the capacity and capability of auditors dealing with large business taxpayers to equip them to engage and deal with the complexities of this segment and facilitate quicker resolution of issues;	Ghana, Zambia, South Africa, Uganda

Risk type	Detailed Compliance Risk	Initiatives to mitigate risks	Examples of Countries
Management	Change in strategic direction, ineffectiveness in collecting VAT; Inefficiency of Other Government Agencies, Risk of under collection of revenue due to electricity outages, suspension of donor aid, slow economic growth i.e. company downsizing; Risk of increase in debt stock and weak enforcements.	Develop and implement a business continuity plan; Sanction of staff involved in corruption; Launch and implement e-payment system and clean-up of debt register; Elevate focus to clean up taxpayer accounts; Increase capacity and capability for dealing with the debt book and focus on responsive follow-up in line with the debt book age analysis; Introduce differentiated reporting to split collectable debt from disputed debt and prioritise focus in each category, Timely assessments and audits; Enhance surveillance enforcement, Recruitment of critical additional staff;	Ghana, Lesotho, Malawi, South Africa, Zambia
Other risks	Low compliance to Property transfer and taxes on rented property; Noncompliance with Electronic Tax Register (ETR) requirements; Excise duty risk	Creation of database to establish and manage non-compliance trend; Enhance specific excise risk rules in the SARS risk engines, create a specialised excise capacity within the Customs and Excise regime, increase targeted audits and inspections at the Excise manufacturing points and at ports of entry, Introduce Excise markers and assurance mechanisms into the production cycle to help identify and track excisable goods.	South Africa, Kenya, Botswana

External risks

External risks refer to actions or conditions outside scope of influence of the tax administration that however affect their operations. Such risks have to be anticipated and managed as they have a bearing on the tax administration's ability to meet their objectives.

In the 2017 edition, some countries indicated that they have to contend with outdated legislation that was at times unresponsive to the current realities in their domain. This was particularly true for Lesotho. Other ATO countries indicated that they faced the risk of incorrect interpretation of the law by their taxpayers (Seychelles) which at times bordered and led to tax fraud (Liberia).

With many countries in the ATO facing limited external financing for their developmental agenda, tax administrations have been the only feasible alternative. This risk has been perpetuated by external economic shocks, particularly in resource dependent countries (such as Zambia) that have depressed countries expected economic growths as well as changing political dynamics (Lesotho & Gambia).

This has resulted in added pressure on tax authorities to generate revenue sometimes beyond their capacity and that of the economic base. This risk was particularly pronounced in Uganda and South Africa.

Some ATO countries cited the negative perception of corruption as a risk they have to deal with. Perceptions of corruptions erode public confidence and reduce compliance among taxpayers. Often such negative sentiments are backed by a perceived notion of poor state delivery by public service sectors which may at times be beyond the control of a tax administration and puts a significant risk on the reputation of such institutions. Reputational risks have adverse effects on public confidence and ultimately compliance. This risk was mostly cited by Kenya, Nigeria, South Africa, Zambia and Zimbabwe. Tax administrations thus need to be wary of this risk. It is for this reason that some revenue administrations in the ATO such as the Zambia Revenue Authority set up an integrity committee to spearhead integrity initiatives among internal and external stakeholders.

Other Corporate Risks facing tax administrations in the ATO

Some of the tax administrations in the ATO indicated facing risks arising from limited border infrastructure which created challenges in managing smuggling activities especially in boarder areas, and facilitating the border activities. This has posed a significant risk to revenue especially for Liberia.

Additionally, some countries in the ATO cited low tax compliance on payment and filling of returns as a significant risk which had resulted in deterioration in the cost to revenue ratios for such administrations (Kenya, Rwanda, Seychelles and Swaziland). This in many instances was attributed to negative taxpayer perceptions formed by the lack of knowledge on the importance of complying with the tax laws.

It was also noted that advanced tax planning and transfer pricing among some multinational organizations was a risk for some tax administrations in the ATO (Seychelles). This affected the management of refunds by the tax administrations (Tanzania) mainly exacerbated by inadequate staff to conduct appropriate audits and inspections.

Box 6.1

Dealing with Compliance Risk – The Case of South Africa

1) **The threat of the illicit economy and illicit financial flows;**
   a) Continue to target the entire supply chain of illicit cigarette and tobacco trade through better control of our warehouses, enhancement of our excise systems to improve risk detection, and increase our collaborations with key stakeholders
   b) Enhance the inter-agency co-operation in fighting tax and other financial crimes
   c) Build internal capacity and capability by continuing to participate in the International Academy on criminal tax investigations;
2) **Complex schemes used by large businesses to evade and avoid tax;**
   a) Increase the capacity and capability of auditors dealing with large business taxpayers to equip them to engage and deal with the complexities of this segment and facilitate quicker resolution of issues, particularly in areas such as BEPS and Transfer Pricing
   b) Work with other government agencies to identify cross-border risks;
3) **Low compliance of High Net-Worth Individuals (HNWIs)**
   Develop and acquire additional capacity and capability to tackle HNWIs effectively in dealing with trusts, and re-defining taxpayers in this segment;
4) **Significant Debt book**
   a) Elevate focus to clean up taxpayer accounts, as a parallel initiative to the clean-up of the register as well as outstanding returns
   b) Increase capacity and capability for dealing with the debt book and focus on responsive follow-up in line with the debt book age analysis

c) Introduce differentiated reporting to split collectable debt from disputed debt and prioritize focus in each category

5) Commercial Fraud on imports

a) Invest in building a stronger and sophisticated transfer pricing, valuation and rules of origin capability in both our systems and people

b) Participate in the trade and international customs bodies and initiatives with other countries;

6) Value-Added Tax (VAT) refund fraud

a) Enhance our risk engines to ensure only legitimate refunds are processed and increase audit coverage for effective detection and deterrence

b) Increase enforcement activities to address fraudulent claims

c) Improve the VAT registration process to ensure accurate taxpayer accounts, including bank account details

d) Cross-referencing of transactional data across an entity profile;

7) Excise Duty Risk

a) Enhance specific excise risk rules in the SARS risk engines

b) Create a specialized excise capacity within the Customs and Excise regime

c) Increase targeted audits and inspections at the Excise manufacturing points and at ports of entry

d) Introduce Excise markers and assurance mechanisms into the production cycle to help identify and track excisable goods

6.4. Conclusion

The organisational design of the revenue authority is an important success factor for tax administrations. It is gratifying to note that most of countries in the ATO have set up autonomous tax administrations in keeping with international best practices. There are, however, a few tax administrations that need to be migrated into independent tax administrations. Furthermore, it was noted that there are some tax administrations that are operated as separate Customs and tax administrations. These need to integrate so that they can harness the benefits and efficiencies from integrated compliance monitoring and management. A further noteworthy finding is that the different tax administrations have segmented their taxpayers. This allows for better and improved customer care and the provision of specialised and customised services to taxpayers, which has a positive effect on the identification and risk prioritisation of taxpayers.

The 2017 edition of the ATO revealed that the ATO countries have been monitoring both their corporate and compliance risks and have developed strategies to deal with their recognised risks albeit some risks being beyond the scope of influence.

Finally, the tax administrations in the ATO have been conscious of their operational costs and in 2016, they spent an average of 1.6% of the collected revenue on their operations, a marginal increase over the 2015 levels. Seven out of the 26 ATO countries notably reduced their collection costs as measured by the cost to revenue ratio indicator. It is important that tax administrations pay attention to their operational costs even as they develop initiatives to maximise revenue for their respective Governments. This can only be achieved once tax administrations manage both their internal and external risks and further encourage voluntary compliance. Voluntary compliance can only be achieved once tax administrations build a level of trust between themselves and taxpayers. It is for this reason that building and improving the administrations' reputation has been of primal importance in most ATO countries.

7

Service management in tax administrations

7 Service management in tax administrations

16 ATO countries put call centres in place that track response times

THESE WERE ANGOLA, BOTSWANA, BURUNDI, CAMEROON, KENYA, LIBERIA, MAURITIUS, MOZAMBIQUE, RWANDA, SENEGAL, SOUTH AFRICA, SWAZILAND, TANZANIA, TOGO, UGANDA AND ZAMBIA.

[17 ATO countries were able to introduce the electronic filing and payment systems]

THESE WERE ANGOLA, BOTSWANA, CAMEROON, GHANA, KENYA, MAURITIUS, NIGERIA, RWANDA, SENEGAL, SEYCHELLES, SOUTH AFRICA, SWAZILAND, TOGO, TANZANIA, UGANDA, ZAMBIA AND ZIMBABWE.

7. Service management in tax administrations

Service management is crucial to a Tax Administration as it promotes voluntary compliance among taxpayers, and hence is at the centre of the performance of a revenue administration. The African Tax Outlook Tax Administrations reach out to taxpayers to reduce the cost of tax compliance due to low taxpayer education. With respect to taxpayer services, high quality and modernized services should be the goal. To ensure that revenue is collected efficiently, taxpayer service centres and their policies should support the improvement of customer experience. In addition, countries with advanced stages of the modernisation process have made use of online tax processes. Customs clearance has seen some improvements and enhanced the facilitation of trade through quick release of goods.

There are various processes used within a Tax Administration. Some processes are primary or core while others are supporting. Primary processes include identification and registration of taxpayers, file management, assessment, audit, administrative appeals, investigation and prosecution, collection and service management. Among the supporting processes are finance, procurement, human resources, information and automation, research and development. (Kommer, 2015)

In this chapter, the service management was considered on three processes, namely: taxpayer service centres, modernisation and customs clearance.

7.1. Taxpayer service and communication

Every Tax Administration should aim to establish and maintain good relationships with its taxpayers to inform, assist and simplify the taxpayer's obligations. For this reason, taxpayers should be aware of their duties and be able to fulfil them under all circumstances. Taxpayer service centres should be designed to be taxpayer-friendly, which means that these services are easy to be understood and accessible at low costs. These service centres should be tailor-made on the needs of different groups and segments of taxpayers by providing the highest chance of resolving issues in the first instance and by being the most cost-efficient for both taxpayers and Tax Administrations.

The purpose of the taxpayer service centres is to achieve voluntary compliance spontaneously and to reduce the degree of controversy within the relationship between taxpayers and Tax Administrations. 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). In providing these services, it requires a targeted professional and specialised staff with the right skills and attitudes. The cost-efficient aspects invite the Tax Administrations to continue searching for ways to reduce compliance costs for taxpayers in filing procedures, payments arrangements and collection of information. The use of electronic filing programs that guide taxpayers easily through their return forms and the use of pre-populated forms, are examples of easy procedures convenient for taxpayers and effective cost-efficient for both parties.

- Sixteen ATO countries have put in place call centres that track response times. They are Angola, Botswana, Burundi, Cameroon, Kenya, Liberia, Mauritius, Mozambique, Rwanda, Senegal, South Africa, Swaziland, Tanzania, Togo, Uganda and Zambia. For example, Senegal's central tax office, 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.
- Ten ATO countries have created websites that statistically monitor taxpayers' queries. These are Burundi, Cameroon, Kenya, Liberia, Rwanda, Senegal, South Africa, Togo, Uganda and Zambia.
- The above figures indicate that compliance costs for individual taxpayers are often substantially high in the other countries and can potentially be reduced by making tax legislation and procedures simple.

For ease of accessing tax information and services that make queries and compliance easy, the example of Senegal is worth illustrating (Box 7.1)

Box 7.1

Good practice in taxpayer services - Senegal

Support and Call centres and other modes of communication

Senegal Tax Administration (DGID) presents an illustrative case of reforms focused on communication, taxpayers in the informal sector and intelligence management. However, here only communication with taxpayers is considered.

A call and support centre has been created and is available beyond working hours. This toll-free number is open from 7.30am to 8.30pm. In addition, several other communication methods are available to facilitate communication:

- There is a messaging system by mobile SMS that the DGID is using to facilitate communication with taxpayers.
- Once a year only, a day is organized for taxpayers and it is called the "open day".
- Several TV shows are organized during the year and these shows are called "minutes of the DGID". Once every week for an hour, a TV show is done and known as "an hour of big audience."

A call centre or tax information line, allows taxpayers to obtain their tax information from their homes or working places. Furthermore, this service does not have the physical limitations of a local office that may not always have at his disposal enough staff to solve all information needs that taxpayers may have. Taxpayers want the phone service available when it is convenient to them, including weekends and after hours.

The website, internet and mailing services are other important aspects. Tax administrations should provide taxpayers with the service to file electronically, making use of the website technology that allow them to download electronic forms, obtain an identification number, check the status of the refunds and calculate the correct amount of tax to be withheld. This process may be organised in the form of computer-based programs. Using the email is another option that helps Tax Administrations to communicate with taxpayers although it raises some concerns of effective management of emails.

7.2. Modernising to Improve Tax Administration

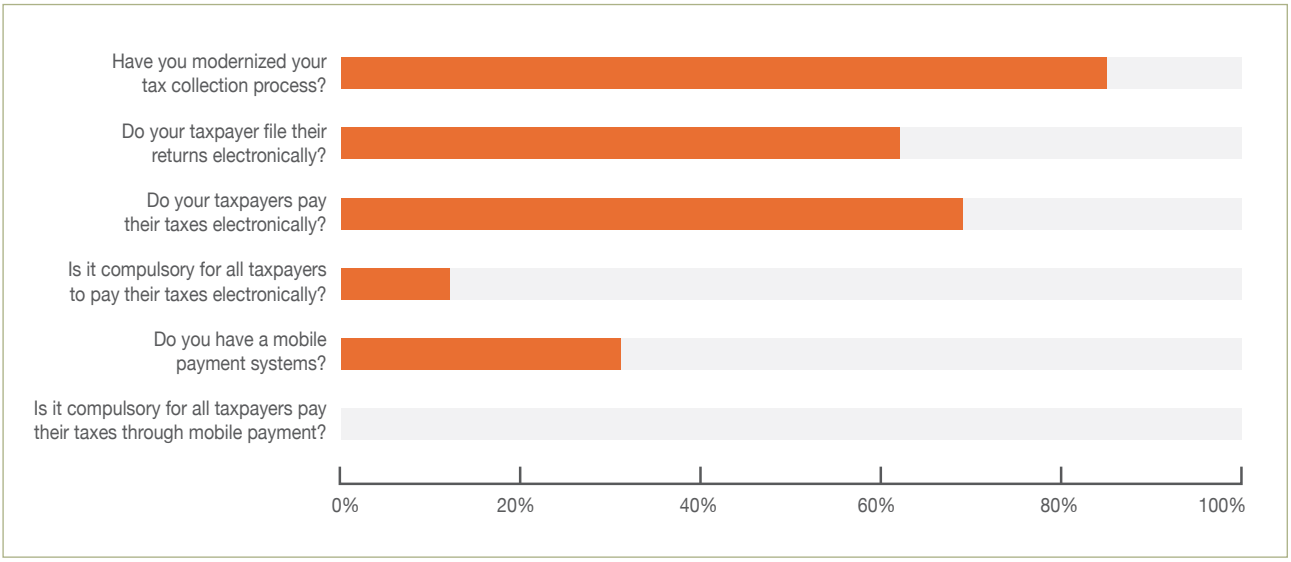
Tax modernisation programmes are about increasing collaboration between the Tax Administration, taxpayers and government agencies. Knowing that revenue administrations operates in an extremely complex environment, its weakness or strength can be easily traced to the constraints imposed by its environment. Its inability or its capacity to deal with the environment determine how efficient a Tax Administration is. In a diagnosis of a revenue administration, some important environment factors include: legislation, fiscal policy, economic environment, taxpayers, public agencies and institutions, banks, stakeholders and other factors (Gill, 2000). The call for modernisation in Tax Administration often requires a major overhaul of the present organisation and the introduction of new legal and administrative mechanisms.

Many ATO countries introduced tax modernisation programmes with the hope to enhance revenue collection, improve tax administration and reduce compliance and collection costs. Thus, the objective

is to assist the government to increase tax revenues without increasing tax rates. Modernisation also enables revenue authorities to identify and mitigate risk, related not only to compliance but to staff, technology and processes. Above all, ATO countries want modernisation outcomes to include aspects such as an improved taxpayer experience and perception of the tax administration.

The Tax Administration Diagnostic Assessment Tool (TADAT) and its revenue counterpart Public Expenditure and Financial Accountability Tool (PEFA) recommend that Tax Administrations ought to 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 (ATAF - African Tax Outlook, 2017).

Figure 7 1: Status of taxpayer services



E filing and e paying

Based on Figure 7-1, 23 out of 26 ATO countries 85% confirmed that they had modernised, their tax collection processes. The only exceptions were Benin, Burundi and Chad. Further to this, 17 countries were able to introduce the electronic filing and payment systems. These were Angola, Botswana, Cameroon, Ghana, Kenya, Mauritius, Nigeria, Rwanda, Senegal, Seychelles, South Africa, Swaziland, Togo, Tanzania, Uganda, Zambia and Zimbabwe.

Only three ATO countries have made it compulsory for all taxpayers to pay their taxes electronically – Kenya, Uganda and Zimbabwe. It is a requirement in other ATO countries only for large taxpayers and for the payment of core taxes such as income tax, VAT, PAYE. While small and medium taxpayers still submit their returns manually in some ATO countries, Seychelles has introduced the E-Services facilities. The E-Service Gateway brings together under one SRC and government online services - it is easy to use internet portal for all the online government services. It provides a uniform process for establishing electronic identity for residents and organizations online as well as a common security mechanism for accessing these online government services.

Box 7.2

Good practice from Seychelles

The E-Service platform at Seychelles Revenue Commission (SRC) facilitates the process of doing business. It allows taxpayers to pay taxes online and to file their returns. The platform is called Seychelles Electronic Funds Transfer (SEFT), it is a facility that enables money transfers between commercial banks through an online communication channel in a safe and efficient manner. To use the SEFT platform taxpayers have to log in the e-service portal using an SRC electronic identification and password. After that they are able to lodge their returns and pay their tax liabilities.

Seychelles has pursued its e payment drive for the implementation of the Seychelles Electronic Funds Transfer platform (SEFT) (Box 7.2) jointly with the Central Bank of Seychelles. The aim was 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.

ATO modernisation efforts and initiatives

Many of the changes in the role of Tax Administration have already been undertaken by several countries, but the ATO countries cannot compare their experiences and outcomes. In Ghana, the Revenue Authority that was instituted in 2009, designed the modernisation of domestic tax and customs operations through the review of processes and procedures with ICT as the backbone. In Kenya, the modernisation agenda was to create operational efficiency, through reengineered business processes and leveraging on technology to drive revenue collection. The objective was to establish an online registration, filing, payment and applications platform. Among challenges faced by the Kenya Revenue Authority (KRA)[6] were the high cost of modernisation, inadequate resources and skills and limited network coverage. The modernisation of the South African Revenue Services (SARS) has yielded incredible results – both in terms of improving their internal efficiencies, enhancing the service offering and broadening the tax base. As with the transformation of the PAYE and income tax systems and processes, customs moved from a complex, partially paper-based and labour-intensive environment to a simplified, automated and cost-efficient one.

7.3. Customs clearance

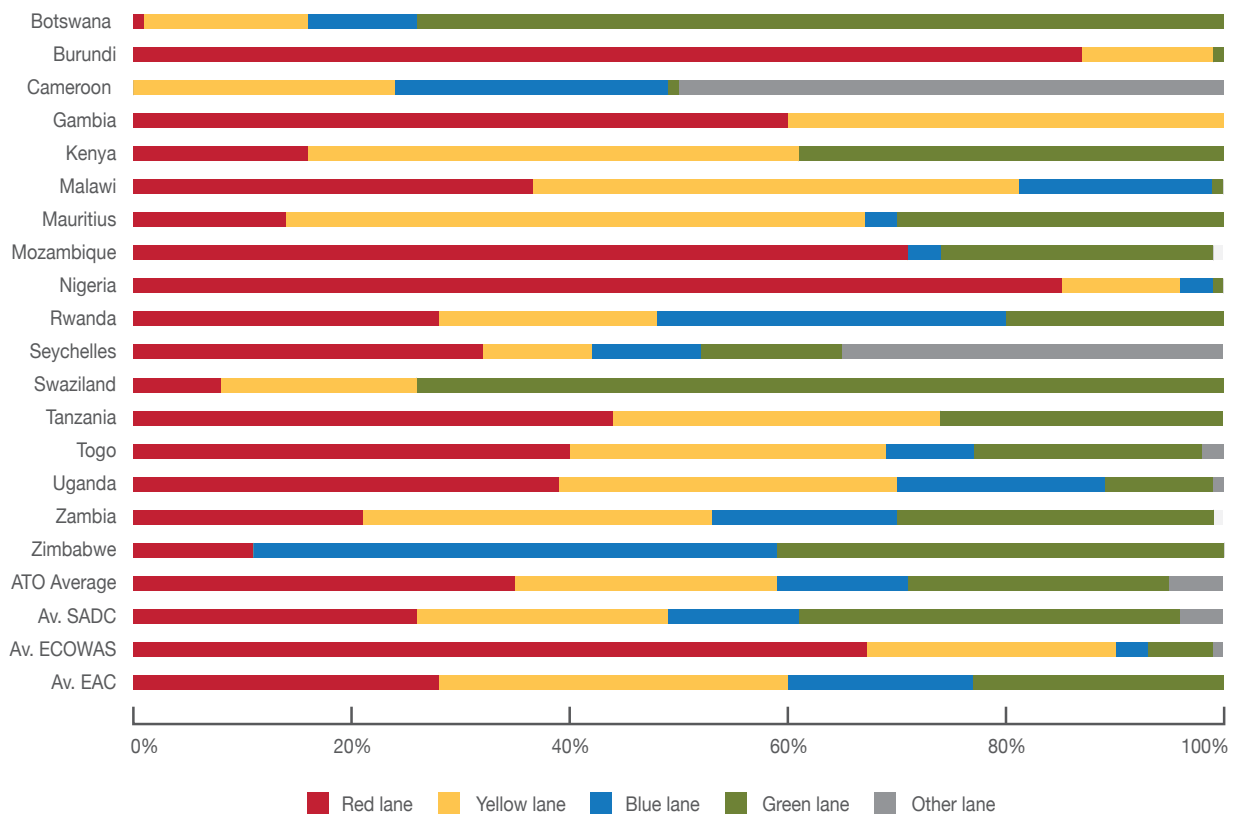
Customs clearance is the permission given by customs authority to importers of goods so that goods can enter the country or to exporters of goods so that goods can leave the country. Customs clearance is one of the most important components in the approach a country or group of countries can have towards trade. Trade is a key driver of growth and prosperity since it stimulates greater efficiency and higher productivity (EU Customs Union, 2017). Regarding customs clearance, some countries ensure that more people can access a wider choice of goods at lower cost, businesses benefit from cheaper and better inputs therefore trade is vital for African prosperity.

When declaring goods, customs officials are required, in the interest of ensuring compliance with Customs law and other related legislation, to take certain measures about the clearance of the goods that include: accepting and checking the goods declaration form and supporting documents, examining the goods, assessing and collecting import duties and taxes and releasing the goods. Traders are therefore requested to cooperate with Customs Officials in their course of business to facilitate smooth and fast clearance of goods.

6. These challenges were mentioned among others and presented by KRA on the topic of Modernising Kenya's tax processes in September 2016.

- Red lane is for high-risk importers and imports. Goods are physically examined and non-compliant importers are audited. On average, nearly 34.9% of imports went through the red lane in 2016.
- Yellow lane is for medium-risk importers. Customs officials carry out documentary checks before releasing the goods. It the ATO region, it accounted for 24.4% of imports in 2016.
- Blue lane is 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. It accounted for almost 11.5% of imported goods in 2016.
- Green lane is meant for low risk cargo destined for immediate release and the goods need not pass through documentary checks or physical examinations– 23.9% of all goods were cleared through the green route in 2016. Compliant importers are usually directed through the green lane.
- Other lanes for 5.2% of goods.

Figure 7-2: The share of imported goods inspected by coloured lane, 2016[7]



7. Due to incomplete data, the following countries have been removed from the analysis: Angola, Benin, Chad, Ghana, Lesotho, Niger, South Africa and Senegal

The ATO-wide average percentages of goods going through the lanes are 35% in the red, 24% in the yellow, 12% in the blue lane, 24% in the green lane and 5% in other lanes. The ECOWAS region has 68% of goods going through the red lane and the SADC community has 35% of goods through the green lane.

Which countries use which customs clearance lanes

The World Customs Organisation (WCO) is an inter-Governmental body, whose objective is to improve customs administrations' efficiencies. It develops and administers many international instruments, tools and standards, aimed at harmonizing and simplifying customs procedures that control cross-border movement of people and merchandise (Mfune, 2015). The International Convention on the Simplification and Harmonization of Customs Procedures as revised, is one of the most prominent international instruments developed by the WCO that guides the processes and procedures of Customs.

The Customs inputs information directly into a system called "Automated System for Customs Data" (ASYCUDA) – ASYCUDA allows the verification of the customs declaration with reference documents in the system, and performs some examinations. The system enables registration of customs declarations when information is completed and validated. By using Figure 7-2, the system of customs declaration in ATO countries have the following aspects:

- **Red Lane:** Burundi, Nigeria and Mozambique have the highest number of declarations in the red lane, respectively 87%, 86% and 71% which implies that most of goods passing through their customs are considered high risk and therefore subjected to physical examinations.
- **Yellow Lane:** Mauritius, Malawi and Kenya have more yellow lane goods compared to other ATO countries. It means the documentation must be scrutinized before re-routing to green lane and assessment by Customs.
- **Green Lane:** Botswana and Swaziland have 74% of their goods under the green lane. These are automatically assessed and a clearance document issued.
- **Blue Lane:** the least average in the ATO countries is the blue lane and ECOWAS region has 4% of its goods under the blue lane. Some countries don't even have this lane. As reiterated, the blue lane is mainly used for goods that eventually will be subjected to post-clearance audit.

Figure 7-3: Which countries chiefly use which customs lane by colour

Lane	Country	Percentage of goods
	Burundi Nigeria Mozambique Gambia	87% 86% 71% 60%
	Mauritius Malawi Kenya Gambia	53% 45% 45% 40%
	Botswana Swaziland Zimbabwe Kenya	74% 74% 41% 39%
	Zimbabwe Rwanda Cameroon	48% 32% 25%

Good practice in customs modernisation - Electronic formalities ease formalities for traders

Many African customs administrations are recognising that information and communication technology (ICT) is becoming omnipresent, impacting every walk of life including the international supply chain and regulatory processes. They realise the need of finding innovative solutions through the maximum use of ICT to address new and emerging challenges in terms of facilitating seamless movement of goods, people, and conveyances across borders, while strengthening risk management and control. The widespread implementation across the continent of the ASYCUDA to manage foreign trade transactions (e.g. manifests, customs declarations, transit and suspense procedures etc) is remarkable. A later version of ASYCUDA used in countries such as Benin, Botswana, Cameroon, Tanzania, Zambia and Zimbabwe allow for direct trader input so that importers can lodge declarations from their bases, and to minimise the build-up of documents (ATAF, 2013).

In the case of the East African Community, ASYCUDA and other customs systems are interfaced with an electronic cargo tracking system, the Revenue Authority Digital Data Exchange (RADDEX). RADDEX seeks to reduce the time and cost of cargo clearance between EAC countries by providing a secure information bridge that can be readily accessed by authorised users (USAID, 2012). "Data communicated through RADDEX consist of exports, re-exports and transit declarations that have been cleared by customs in the country of departure and reconciliation data from goods accepted in the country of entry".

7.4. Conclusion

Service management in the ATO countries includes all services to taxpayers covering the electronics services. The majority of ATO Tax Administrations reported that they have a formal plan for the development and delivery of services to taxpayers and for some these plans form part of their overall business or strategic plan for delivery of tax administration. The internet has become an important tool that Tax Administrations are using substantially to increase the information content, functionality, and user-friendliness of their websites.

The nature and scope of tax assistance services have directed Tax Administrations to establish call centres where taxpayers can phone when it is convenient for them. 16 of the 26 ATO countries have put in place call centres to track trends in response times. Senegal has established a call and support centre which is available beyond working hours. The toll-free number is open from 7.30am to 8.30pm.

In 2016, 92% of the ATO countries (23 Tax Administrations) had modernized their tax collection processes. Processing of returns and payment information is one of the most time-consuming activities of Tax Administrations. As traditional ways of return submission and payment forms create unthinkable number of mistakes, Tax Administrations are aiming at using electronic systems to overcome these challenges. 64% of ATO members are using electronic filing while 78% have implemented a system for their taxpayers to use the electronic payment.

Among all ATO Revenue Authorities, 17 countries have confirmed the use various customs lanes to simplify their customs procedures. The imported and exported goods are cleared through four main lanes: red, yellow, blue and green.

8

Compliance management in tax administration

8 Compliance management in tax administration

Taxpayer education can be offered through several channels

30/1 Recommended international staff-to-auditor benchmark ratio

Tax auditors account for approximately

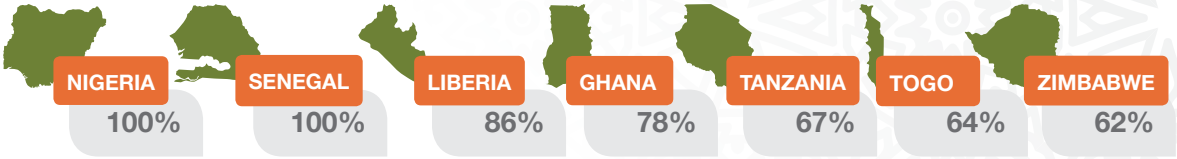
10-15% or less

of the Tax Department's staff in many countries, compared to the desirable

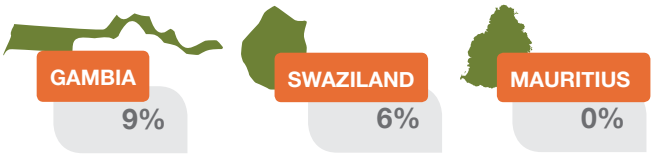
target of 30%

Comprehensive audits	Desk audits	Issue audits
39%	27%	24%

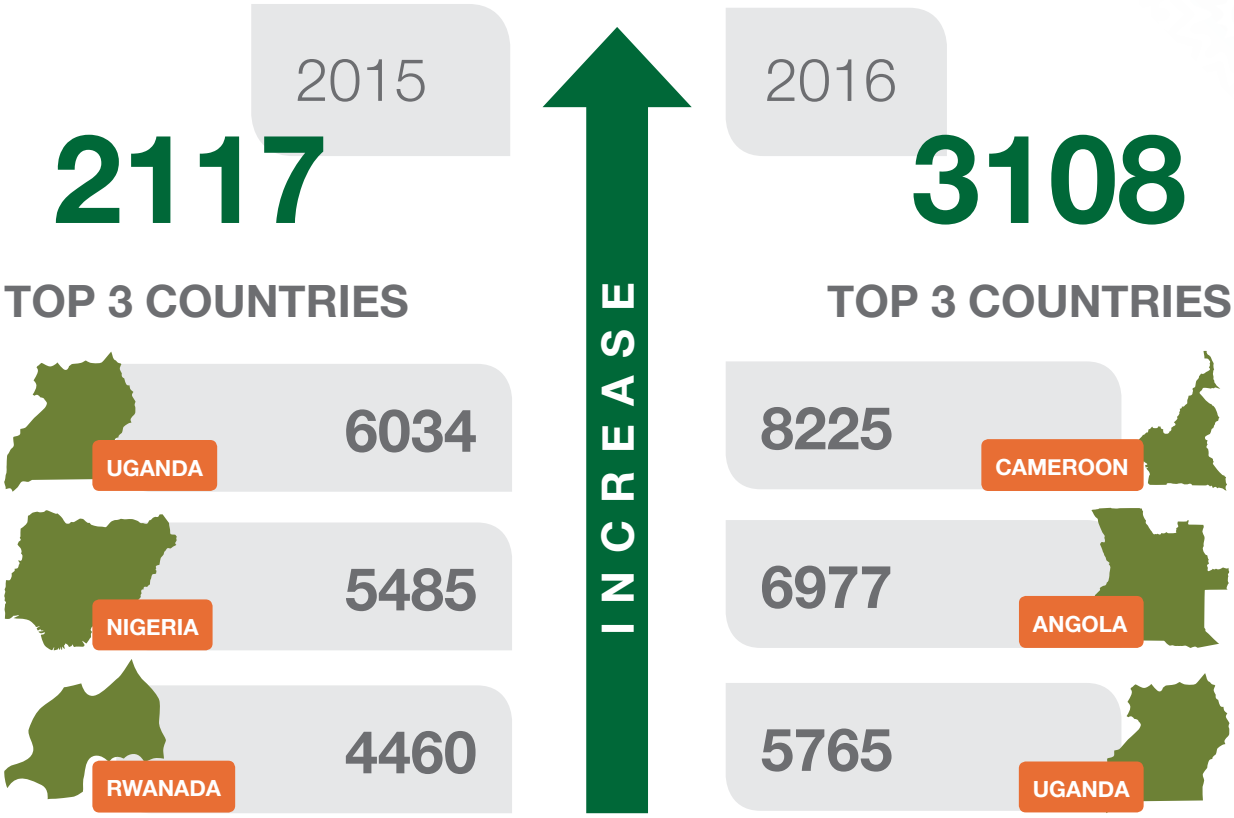
HIGHEST COMPREHENSIVE AUDITS



LOWEST COMPREHENSIVE AUDITS



The ATO average seizures



8. Compliance management in tax administration

Reform mechanisms targeted at enhancing tax compliance vary across jurisdictions and regions, and can be indicators of disparities in their stages of development, administrative capacity and scope of tax abuse (Russel, 2010). In this chapter, the analyses on compliance management in ATO countries confirms Russel's assertion. This chapter outlines the compliance approaches undertaken by ATO countries in 2016 to improve tax compliance. These measures were categorised into four groups, namely, taxpayer education, auditing, arrear management and customs enforcement interventions.

8.1. Taxpayer education

Tax Administrations ought to provide information, assistance and guidance to taxpayers on their dealings with the Tax Administration, informing them of their rights and duties (Alink & Van Kommer, 2015, p. 536). Taxpayer education can be offered through several channels, including personal consultations, call centres, internet, e-mail, publications, mass media and taxpayers' day. As mentioned in the previous chapter, effective taxpayer education programs by Tax Administrations may require the setting up of fully-fledged taxpayer education divisions with adequate budgets. While a greater portion of ATO countries have separate divisions earmarked for taxpayer education, there are some that do not. Table 8-1 shows the status of taxpayer education services in ATO countries as at the end of 2016.

Table 8-1: Status of Taxpayer Education Services in ATO Countries

Country	Taxpayer education division in place	Taxpayer educational budget available	Call centre in place	Website managing statistics of taxpayer queries available
Angola	√	×	√	√
Benin	√	×	×	√
Botswana	√	√	√	√
Burundi	√	√	√	×
Cameroon	√	/	/	/
Chad	/	/	/	/
Gambia	√	√	×	×
Ghana	√	√	√	√
Kenya	√	√	√	√
Lesotho	√	√	×	√
Liberia	√	√	√	√
Malawi	√	√	×	√
Mauritius	√	×	√	×
Mozambique	√	×	√	×
Niger	×	√	×	×
Nigeria	√	√	×	×

Country	Taxpayer education division in place	Taxpayer educational budget available	Call centre in place	Website managing statistics of taxpayer queries available
Rwanda	√	√	√	√
Senegal	×	×	√	√
Seychelles	√	×	×	×
South Africa	√	√	√	√
Swaziland	√	√	√	×
Tanzania	√	√	√	√
Togo	√	√	√	√
Uganda	√	√	√	√
Zambia	√	√	√	√
Zimbabwe	×	√	×	×

Key: × means yes, √ stands for no and / means there is no available data

Several ATO Tax Administrations have taxpayer education services in place. In 2016, twenty-two ATO countries had specialized taxpayer education divisions, while only three (Niger, Senegal and Zimbabwe) did not have taxpayer education divisions. However, it is interesting to note that Zimbabwe has fully-fledged Client Care Units, dedicated at assisting clients from all angles, and with diverse kinds of queries. Eighteen countries had separate taxpayer educational budgets. Exceptions were Angola, Benin, Mauritius, Mozambique, Senegal and Seychelles. Sixteen countries had call centres that tracked the response times in a bid to improve customer service and fifteen countries had websites that managed taxpayer queries. Benin, Gambia, Lesotho, Malawi, Niger, Nigeria, Seychelles and Zimbabwe did not have call centres that tracked the response times. However, Benin, Lesotho and Malawi had websites that managed statistics of taxpayer queries. Burundi, the Gambia, Mauritius, Mozambique, Niger, Nigeria, Seychelles, Swaziland and Zimbabwe did not have websites that managed statistics of taxpayer queries.

8.2. Auditing for compliance

Tax Administrations often rely on tax audits as one of the ways to improve tax compliance. A tax audit involves examination of the financial affairs of a taxpayer to establish the correct amount of taxes due by the taxpayer. As alluded to by Alink and Van Kommer (2015), tax auditing goes beyond just authentication of information declared by the taxpayers in their tax return and detection of discrepancies between the information in the return and supporting books and other documentation. It should also include third party verifications. It is essential that Tax Administrations are empowered legally to access information on revenues and deductible expenses from third parties. In addition, tax audits ought to go beyond the paper world created by the taxpayer. Tax auditors should further investigate how the business is being managed and operated, benchmark its performance with competitors in the same industry and examine the life style of the taxpayer. This is essentially because the main part of non-compliance cannot be found in books and records but in reality (ibid). The Tax Administration must be adequately resourced to effectively perform the audit function.

Audit capacity and coverage

Staffing capacity

As highlighted in the previous publication (ATAF, 2017), two measures of auditing staff capacity are:

- Ratio of tax administration staff per auditor

  The number of staff 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 the Tax Administration work in enforcement and auditing functions.

- 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 indicates that they have small caseloads.

  The recommended international staff-to-auditor benchmark ratio is 30/1 (Gallagher, 2004). Tax auditors account for approximately 10-15% or less of the Tax Department's staff in many countries, compared to the desirable target of 30% (International Tax Administration Conference, 2010, p. 247). Figure 8-1 shows the ratios of Tax Administration staff per auditor in ATO countries, for the year 2016.

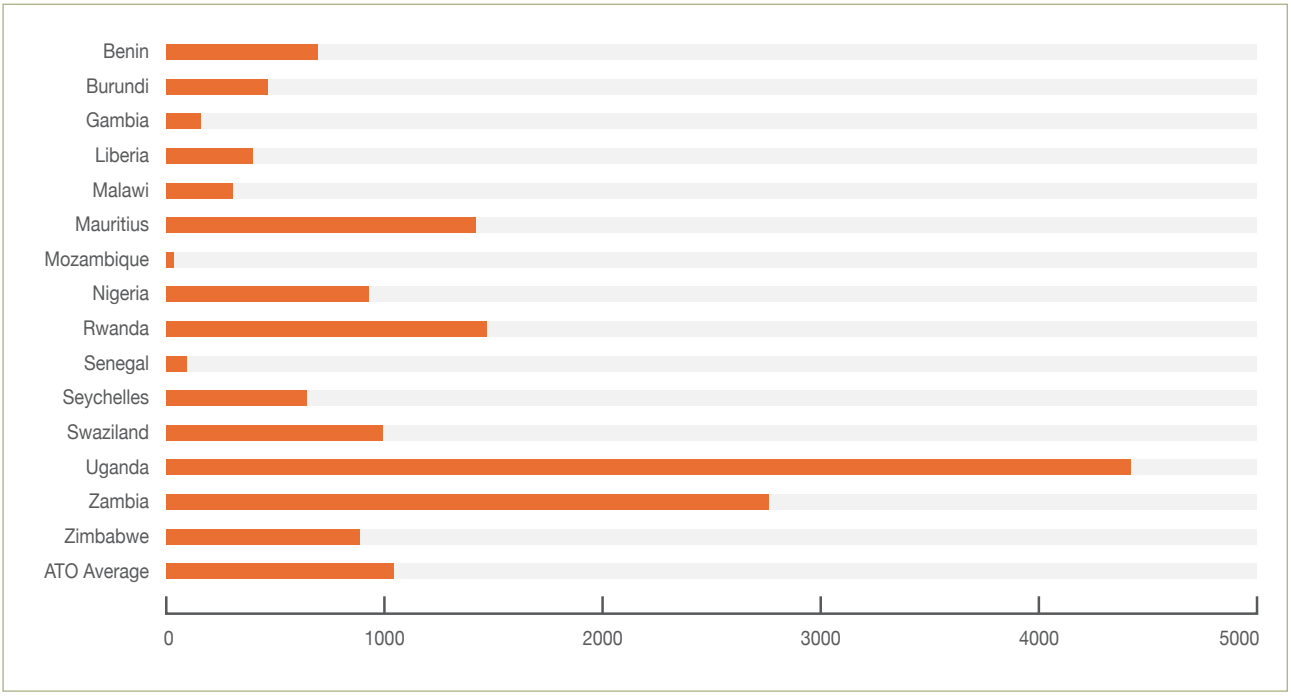
Figure 8-1: Ratio of Tax Administration staff to Auditor, 2016

Figure 8-1 shows that, in 2016, there were around twenty employees per auditor in the ATO region. This figure is comparable to the international benchmark as proposed by Gallagher. Citing an OECD survey contacted on twelve revenue bodies, it was highlighted that these bodies allocated staff resources to audit, investigation and other verification functions in excess of 40% (International Tax Administration Conference, 2010). From a regional perspective, the staff to auditor ratio was highest in the SADC region, at 25, and lowest in the EAC, at 11. However, the EAC average should be interpreted with caution since only 2 out of five countries submitted statistics on this index. High ratios are not desirable, since they imply that low proportions of employees in these Tax Administrations work in the audit functions.

At country level, Togo (1 to 1) had the lowest staff to auditor ratio followed by Mauritius (7 to 1), Nigeria (7 to 1) and Liberia (9 to 1). It is worth mentioning that Togo comes as an outlier because it included all customs officers who do searches and verifications at ports of entry, hence their low ratio. On the other hand, Mozambique had the highest staff to auditor ratio (78 to 1) followed by South Africa (48 to 1) and the Gambia (42 to 1). It is interesting to note that only 2 countries, Nigeria and Uganda maintained the same ratios as the previous year, while Botswana, Liberia, Mozambique, Swaziland, Tanzania and Zambia had lower ratios compared to 2015, indicating an increase in the number of auditors in these countries. In Benin, Burundi, the Gambia, Senegal, Seychelles, South Africa and Zimbabwe, the ratios went up, indicating a reduction in the number of auditors, or, alternatively, an increase in the number of staff. The ATO average ratio went down from thirty-four in 2015, to twenty in 2016.

Fifteen countries availed statistics on the taxpayer-to-auditor ratios in 2016, compared to fourteen countries in 2015. Citing the Royal Malaysian Customs Wilayah Persekutuan Kuala Lumpur (RMC-WPKL), the International Tax Administration Conference (2010) asserted that its ratio of taxpayer per auditor was 411: 1 or one auditor per every 411 taxpayers in 2009. According to the cited source, this is a large number of taxpayers to be catered for by one auditor. If 411:1 was not ideal as suggested above, then several ATO countries fell far short on this index in 2016. However, ATO countries' taxpayer-to-auditor ratios for 2015 should be interpreted with caution, since some countries defined the total number of registered taxpayers as the sums of the different tax accounts by tax types (VAT, PIT, CIT, etc.). This had a double counting effect as one taxpayer could be registered for three or four tax heads. Citing Gallagher, (International Tax Administration Conference, 2010) argued that Tax Administrations should not audit tax types, but should rather audit the taxpayer. In 2016, this anomaly was corrected. Figure 8-2 shows the ratio of taxpayers to auditor for 2016, in selected ATO countries.

Figure 8-2: Ratio of taxpayers-to-auditor in selected ATO countries, 2016



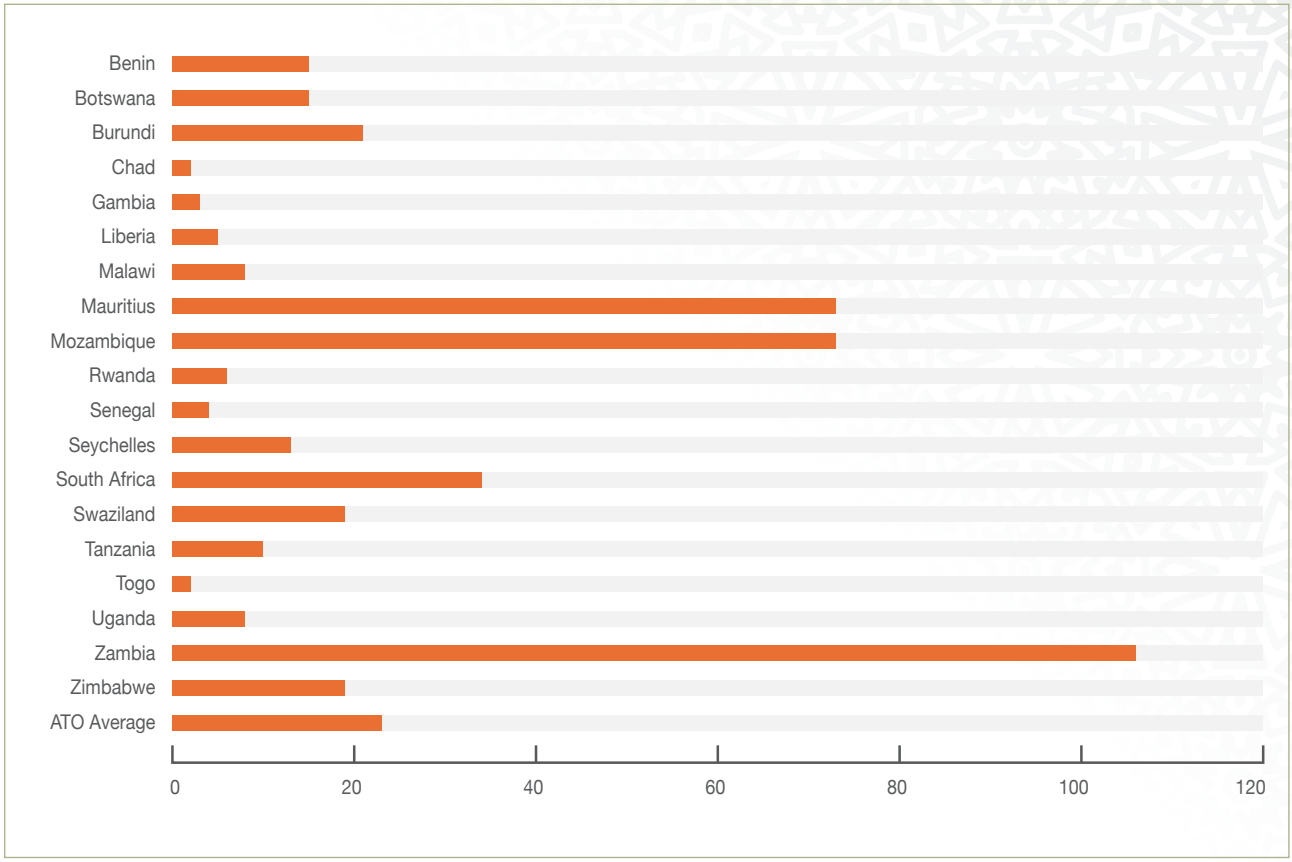
Note: Data were available for only 15 ATO countries. Mozambique and the Gambia left out some taxpayers, hence their figures are to be interpreted with caution. For Burundi taxpayer statistics that were availed were for 2015.

In assessing the workload of each auditor in the ATO countries, the ratio of the number of taxpayers per each auditor was computed. On average in 2016, each auditor in the ATO region handled 1044 taxpayers, compared to the 411 which was regarded as too high in the RMC-WPKL. Uganda and Zambia recorded the highest taxpayer-to-auditor ratios of 4421 and 2762, respectively, signifying extremely high workloads for auditors in these areas. Mozambique, Senegal and the Gambia had the lowest taxpayer per auditor ratios of 34:1, 93:1 and 160:1, respectively. However, statistics from Mozambique and the Gambia are to be interpreted with caution since Gambia excluded its regional taxpayers, while Mozambique excluded SMEs. It is also interesting to note that some of the ATO countries had high ratios due to the biggest numbers of SMEs in their tax registers, some of which contributed less than 20% of tax revenues. For instance, Zimbabwe had a total of 211 415 taxpayers, of which only 2502 were in the Large Taxpayer Unit, contributing 77% of total tax revenues. Mauritius had only 14766 in the Large Clients Office, contributing 70% of total tax revenue, while small and medium enterprises constituted 286 567.

Audits per auditor

The audits-per-auditor ratio is a computation of the quantity of audits that an auditor carries per annum. A high ratio may signify that the auditor in the Tax Administration carries out many audits. However, it is essential to note that the number of audits-per-auditor may vary between auditors depending on the nature of the audits. For instance, desk audits may be carried out much faster than comprehensive audits. Figure 8-3 shows the audits-per-auditor ratios in ATO countries, for the year 2016.

Figure 8-3: Number of Audits per Auditor in selected ATO countries, 2016

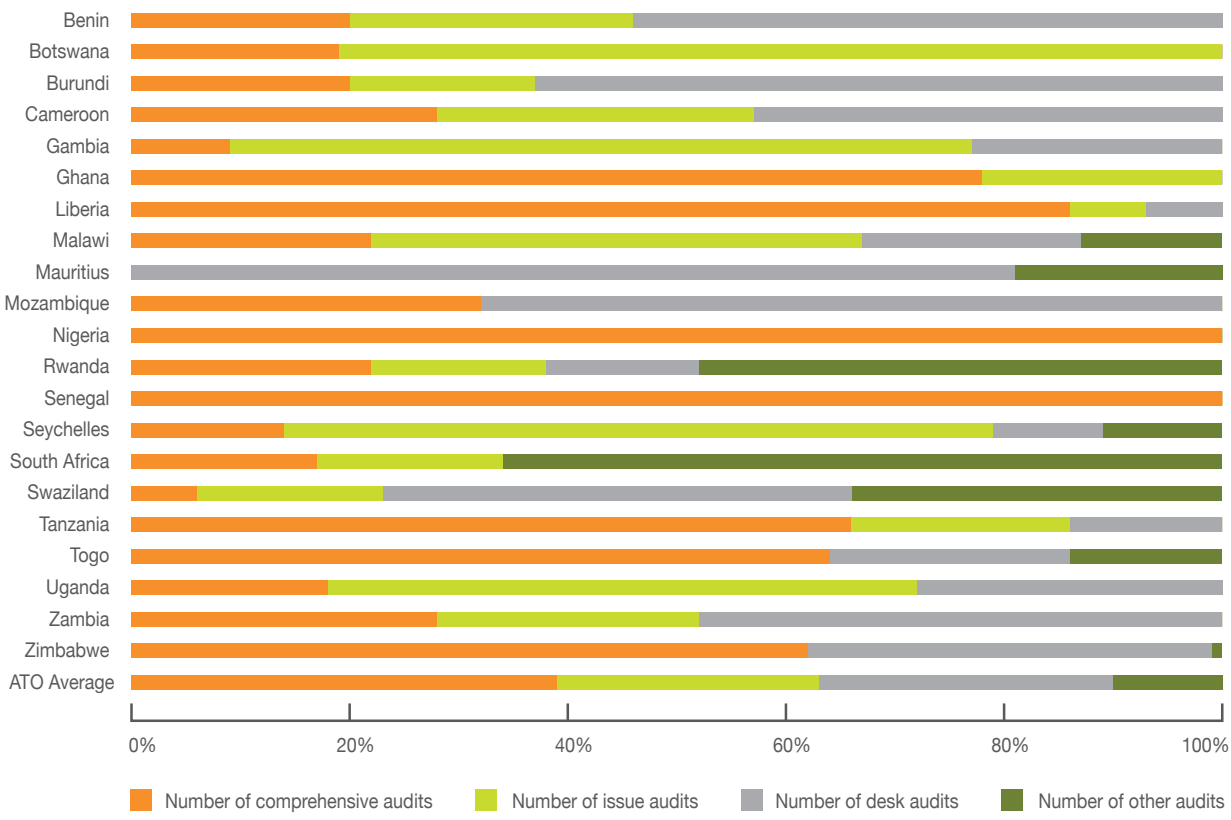


In 2016, Zambia recorded the highest number of audits per auditor in the ATO (106) followed by Mozambique (73) and Mauritius (73). This was significantly above the ATO average (23). Mozambique and Zambia had reductions in the number of audits per auditor in 2016, as compared to 2015. Mozambique had 128 audits per auditor in 2015, while Zambia had 118 audits. Conversely, Mauritius which had 33 audits in 2015, had an increase of 40 audits per auditor, resulting in 73 in 2016. The lowest number of audits per auditor in 2016 were observed in the Chad and Togo (2 in each case) and the Gambia (3).

However, from explanations provided by countries on the statistics it was interesting to note that Uganda and Rwanda included statistics from Domestic Taxes Division only. for Gambia, the ratio was low because issue audits were changed to field audits and instead of the 36 done in 2015, in 2016 only 5 field audits were carried out, thereby reducing the total number of audits. For Togo and Liberia, the ratios went down due to unprecedented increases in the number of auditors from 10 and 101 in 2015 to 82 and 596 in 2016, respectively. Malawi statistics did not cover the whole country but only major stations of the Large Taxpayer Office (LTO).

Figure 8-4 presents the assessments that were issued out by ATO countries from diverse types of audits, in 2016.

Figure 8-4: Assessments by Audit Type in Selected ATO countries, 2016



There were variations among ATO countries with reference to the assessments issued by auditors. Comprehensive audits topped the ATO group at 39% followed by desk audits (27%) and then issue audits (24%). Nigeria (100%), Senegal (100%), Liberia (86%), Ghana (78%), Tanzania (67%), Togo (64%) and Zimbabwe (62%), issued more assessments from comprehensive audits in 2016. Mauritius (0%), Swaziland (6%) and the Gambia (9%) carried out the lowest number of comprehensive audits. On the one hand, while Botswana carried 81% issue audits, Mauritius, Mozambique, Togo and Zimbabwe had 0%. On the other hand, while Mauritius (81%) and Mozambique (68%) had highest percentages of desk audits carried out, Ghana, Botswana, Nigeria, Senegal and South Africa had nil. South Africa carried out 66% of other audits.

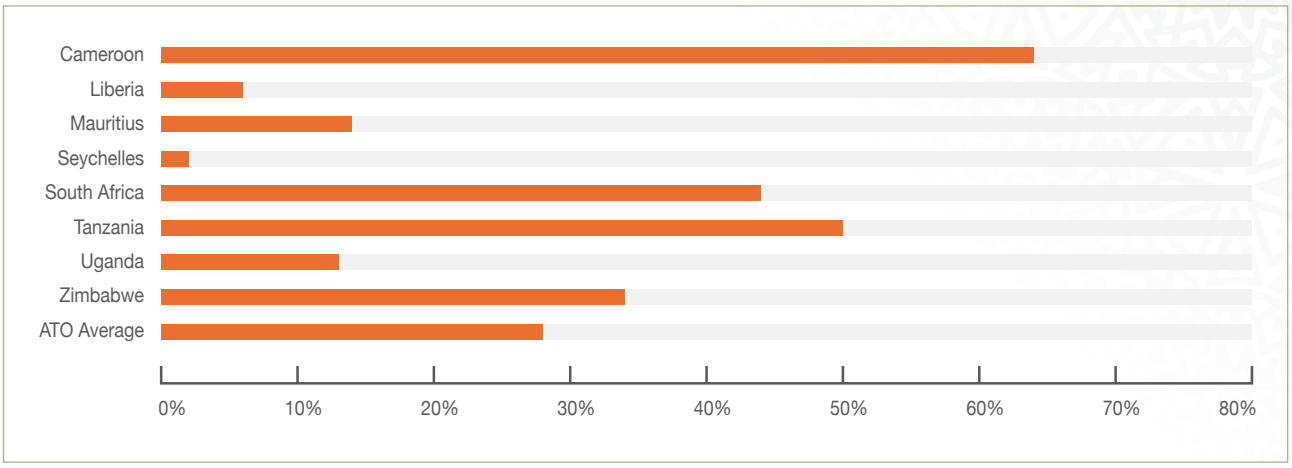
It is worth noting, from explanations received from countries that Senegal recorded 100% comprehensive audits from specialized centres and those of the Tax Audit and Intelligence Directorate (Direction du Contrôle fiscal et du Renseignement - DCFR) only,

while Nigeria's FIRS conducted only comprehensive audits that covered all tax types. Chad was removed from the analysis since its statistics were not broken down. South Africa, Botswana and Tanzania had breakdown of audits that did not tally with totals submitted. For these countries, the totals used in computations were as per breakdown of audits by audit type.

Audit efficiency

The audit recovery rate is one of the indicators often used to gauge audit efficiencies (ATAF, 2017). It is defined as the ratio of total audit yield to the amount assessed. Total audit yield comprises initial and additional revenue recovered from audits during a given tax period. Figure 8-5 shows the audit recovery rates for selected ATO countries in 2016.

Figure 8-5: Audit recovery rates, selected ATO countries, 2016



Note: Ghana, Mozambique, Nigeria and Rwanda were dropped from the analysis due to data inconsistencies. Their ratios were above 100%.

Cameroon (64%), Tanzania (50%), South Africa (44%) and Zimbabwe (34%) recovered more than the ATO average of 28%, with Cameroon boasting of an efficient audit recovery rate which was the highest among all ATO countries. Seychelles and Liberia had the least audit recovery rates of 2% and 6%, respectively. This could be an indication of high level of non-compliance from taxpayers, disputable tax debt and accrued debt emanating from delayed audits. Seychelles had a very low audit recovery rate even in 2015. It should be highlighted that the low recovery rates have a negative bearing on arrears portfolios, resulting in the build-up of outstanding amounts. The consequence to Tax Administrations would be failure to surpass the set targets (ATAF, 2017).

8.3. Arrears management

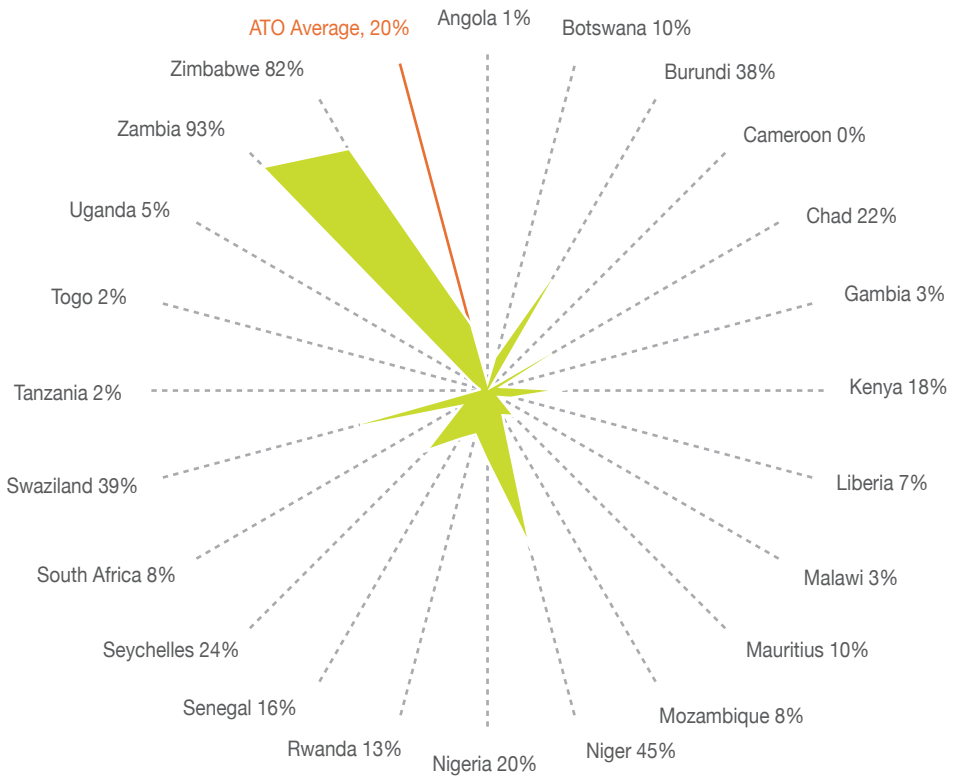
Arrears are unfulfilled tax obligations and taxes or duties that remain unpaid after the due date (ATAF, 2017). The arrears can be classified into new and old arrears. Usually, it is recommended to collect new and undisputed arrears first (Baer & Silvani, 1997). International experience has shown that arrears are a critical tax issue whereby the older the debt, the more difficult it is to recover. Tax administrators are also encouraged to write off uncollectable debt, or at least set it aside apart from files on collectable amounts (ibid). 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, 2017)

Arrears and debt recovery ratios

Stock of arrears as a share of net tax revenue

In ATO countries, just like elsewhere tax arrears are defined to also include penalties and interest however, they exclude disputable arrears. Aggregate arrears as a ratio of net tax revenue is simply the amount of arrears divided by net tax revenue. The ratio of arrears to revenue collected enables cross-Tax Administrations comparisons in relation to their collection enforcement practices and resources. A high ratio of arrears to revenue collections is not a desirable thing because it impairs the normal flow of revenue collections and thus contributes to the Tax Administrations' failure to surpass set revenue targets. Figure 8-6 shows the status of aggregate arrears-to-net tax revenues for ATO countries in 2016.

Figure 8-6: Aggregate arrears as a ratio of net tax revenue in selected ATO countries, 2016

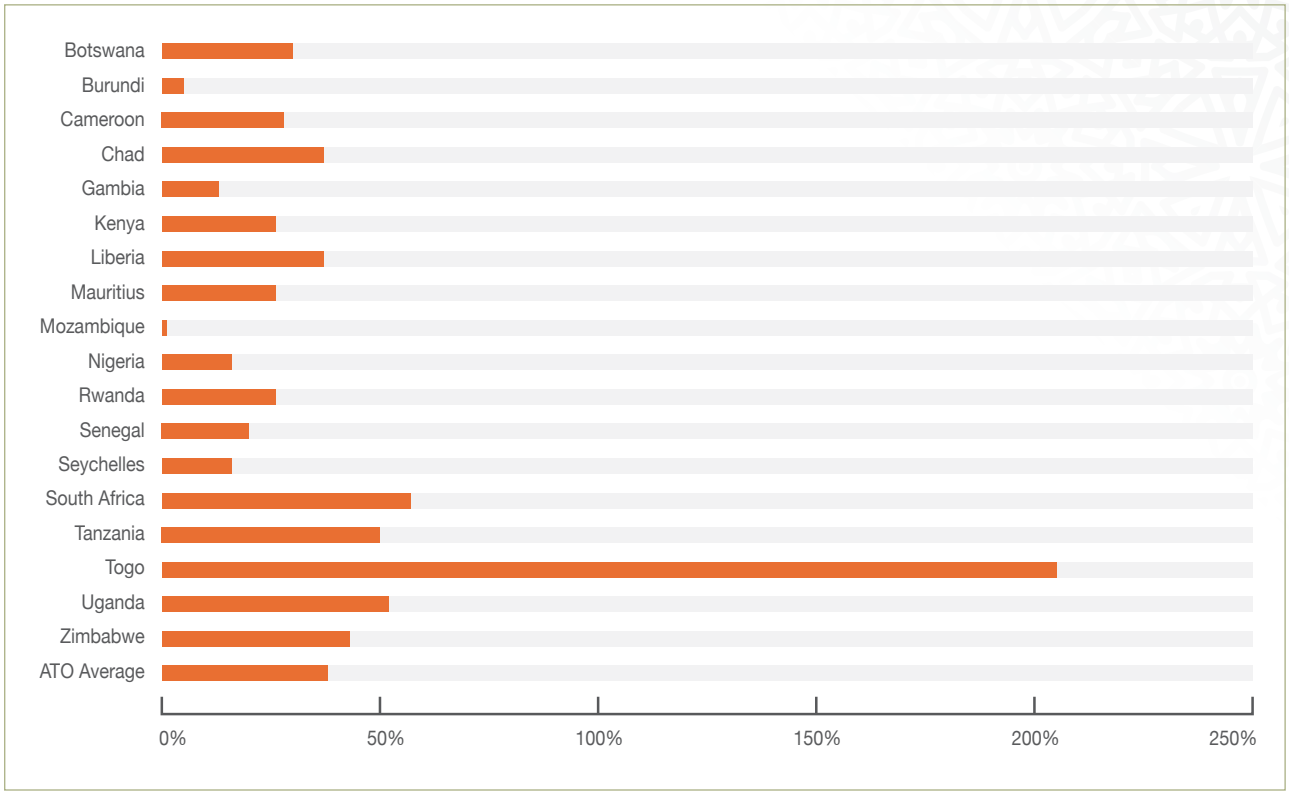


The ATO average stood at 20%, against 19.2% in 2015. Best practice requires that the ratio of the stock and flow of tax arrears to total revenue should be below 10% (TADAT , 2015). Thirteen countries exceeded the below 10% threshold in 2016, against nine countries in 2015. Zambia and Zimbabwe had the largest stock of arrears-to-net tax revenues ratios at 93% and 82% respectively. The lowest ratios were observed in Angola, Togo and Tanzania at 1%, 2% and 2%, respectively.

Arrears collected as a share of total arrears

Tax Administrations in Africa are faced with the challenges of arrears from both their loyal and delinquent taxpayers. Usually, a small percentage of delinquent taxpayers' accounts for a high percentage of delinquent taxes in arrears (Baer & Silvani, 1997). The ratio of arrears collected to total arrears measures arrears recovered relative to total arrears outstanding at the end of the tax period. It is an indication of the extent of debt. A high ratio suggests that Tax Administrations have efficient arrears recovery enforcement mechanisms in place – e.g. audits, investigation, penalties and interest. In dealing with tax arrears, the trick is to target larger amounts as a priority (Baer & Silvani, 1997). Figure 8-7 shows the arrears collected in ATO countries as a ratio of the stock of arrears in 2016.

Figure 8-7: Arrears collected as a ratio of stock of arrears in selected ATO countries, 2016



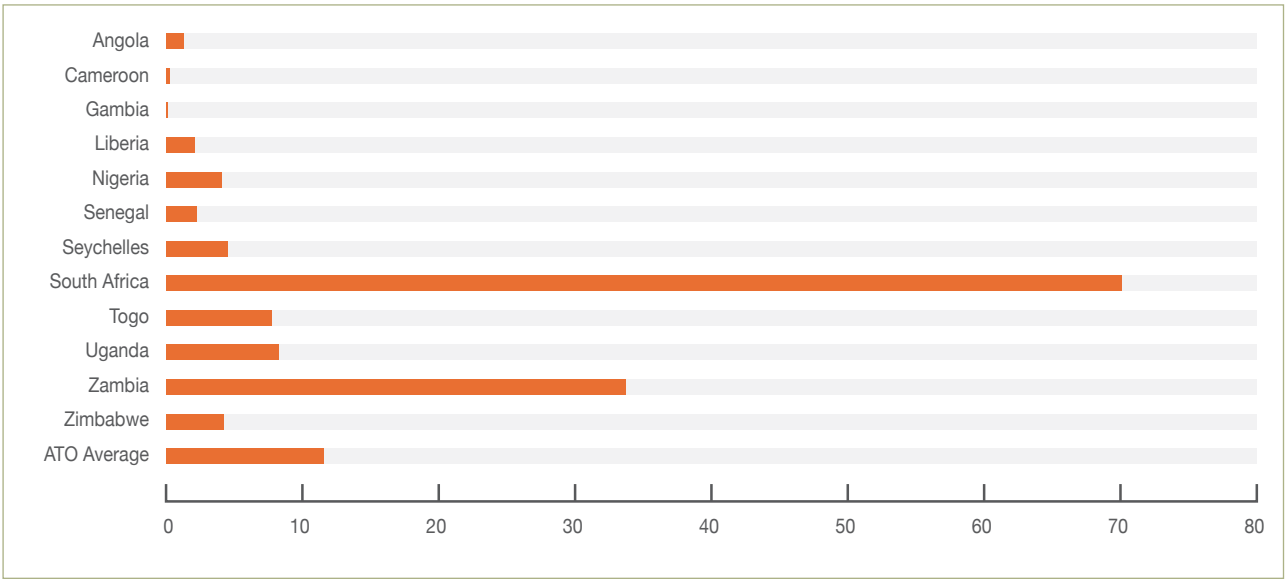
In 2016, ATO countries recovered an average of 28% of their stock of arrears. South Africa (57%), Uganda (52%) and Tanzania (50%) recovered the highest amounts from their arrears in 2016. It is interesting to note that in 2015 these three countries topped the ATO group again with recovery rates of 63%, 58% and 52%. Maybe ATO countries ought to take a cue from these countries. The lowest recoveries were noted in Mozambique (1%), Burundi (5%) and the Gambia (13%). Surprisingly Mozambique and Burundi had the lowest recovery rates in 2015, at 1% and 9%, respectively.

As reiterated in the 2017 ATAF publication, the older the arrears become, the more difficult they are to collect. ATO countries should ensure that old debt (older than 12 months) does not exceed 25% of the aggregate stock of arrears and as previously highlighted, the emphasis should be on recovering recent debt (TADAT, 2015).

Private arrears as a share of government arrears

It was proven in the second edition of the ATO publication that private arrears accounted for the major share of total arrears in ATO countries. In 2016, it was observed that private arrears still contributed the largest share in ATO countries' total arrears. Figure 8-8 shows the ratios of private arrears in government arrears for selected ATO countries.

Figure 8-8: Private arrears as a percentage of government arrears, 2016



Except for Cameroon and Gambia, there was a bigger build-up of private than public arrears. The ATO average was 11.54, implying that the average share of private arrears in government arrears was almost 12 times in ATO countries. In South Africa, they were 70 times greater in 2016, compared to 80 times in 2015. Zambia also saw a higher ratio of 33,68 times in 2016, compared to 59 times in 2015. The biggest drop was recorded in Gambia, where it was over 43 times in 2015, but almost 0 in 2016.

In a bid to reduce private arrears, ATO countries ought to introduce effective procedures for collecting unpaid taxes and methodically administering the prevailing penalties and sanctions (ATAF, 2017). As reiterated, they should concentrate on new arrears and give priority to high valued arrears.

8.4. Customs enforcement interventions

In international law and regulations, there are certain sources for identifying customs crimes such as the Revised Kyoto Convention, which included the International Convention on the Simplification and Harmonisation of Customs Procedures. The convention defined a customs offence as any violation or attempted violation of customs legislation, an example being deception of customs. Customs fraud covers a range of taxpayer offences, such as smuggling, under-declaring and misclassifying goods to escape customs duties. Citing Ovchinnikov (2015), (Czyzowicz & Rybaczyk, 2017) categorised the features of customs offences as follows:

- Material – acts that relate to the conveyance of goods across the border, for instance smuggling.

- Documentary- violation of customs legislation, for instance falsifying invoices and
- Procedural- acts that relate to customs practice and procedures.

The 2017 ATO publication revealed that ATO countries carry out customs operations targeted at smuggling, misclassification, misdeclaration and under-declaration. Smuggling is defined as the deception of customs by conveying goods across a customs border in any hidden form (Czyzowicz & Rybaczyk, 2017). Misclassification occurs when goods are wrongly classified and become liable to duty at the wrong rate. This could also be the result of importers or clearing agents not being fully knowledgeable of customs regulations (ATAF, 2017). Misdeclaration is the deliberate suppression, distortion or misrepresentation of information pertaining to imported goods, while under-declaration involves declaring it at a value lower than its true value.

In carrying out their customs operations, ATO countries should be cognisant of the fact that there is a growing need for co-operation and exchange of information on all levels, as well as embracing a totally different approach in dealing with customs issues (Polner, 2015). This is essentially because in a globalised world, criminals are not solely a challenge of the Tax Administration of one state, but a threat of the global community as a whole,

In reforming their customs operations ATO countries' tax policy makers and customs administrators ought to realise that higher tariffs are also an incentive for smuggling. An IMF study by (Mishra, Subramanian, & Topalova, 2007) found out that a one percentage point increase in tariffs increased customs evasion by about 0.1%. In the same study, it was also discovered that the mode of entry had a bearing on the level of evasion. Goods that came by air had a lower evasion elasticity, as compared to those that came through the seaports.

Number of seizures from customs enforcement interventions

A low number of customs seizures could be an indication of the efficiency of the Tax Administration in dealing with customs related offences. However, it can also be a clue that customs offences are on the increase. In South Africa, the reduction in the number of seizures between 2016 and 2017 was attributed to the vigilance, capacity and training of customs officials in South African Revenues Service (Business Day, 2017). Figure 8-9 shows the number of seizures from ATO countries' customs enforcement interventions in 2016.

The ATO average rose from 2117 seizures in 2015 to 3108 seizures in 2016. The top 3 countries in terms of customs enforcement interventions in 2015 were Uganda (6034), Nigeria (5485) and Rwanda (4460). In 2016, the three countries that recorded the highest number of seizures were Cameroon (8225), Angola (6977) and Uganda (5765). Conversely, 3 countries that recorded the lowest number of seizures in 2015 were Togo (146), Tanzania (248) and Zambia (272). Malawi and Tanzania recorded the least number of seizures in 2016 at 295 and 232, respectively. It was reported that Togo made the lowest number of customs interventions in 2015 because 69% of its goods were cleared in the green lane where there is immediate release of goods and nothing to declare. Uganda had most of its goods going through the red lane where goods were subjected to physical examinations.

Figure 8-9: Number of seizures from customs enforcement interventions in selected ATO countries, 2016

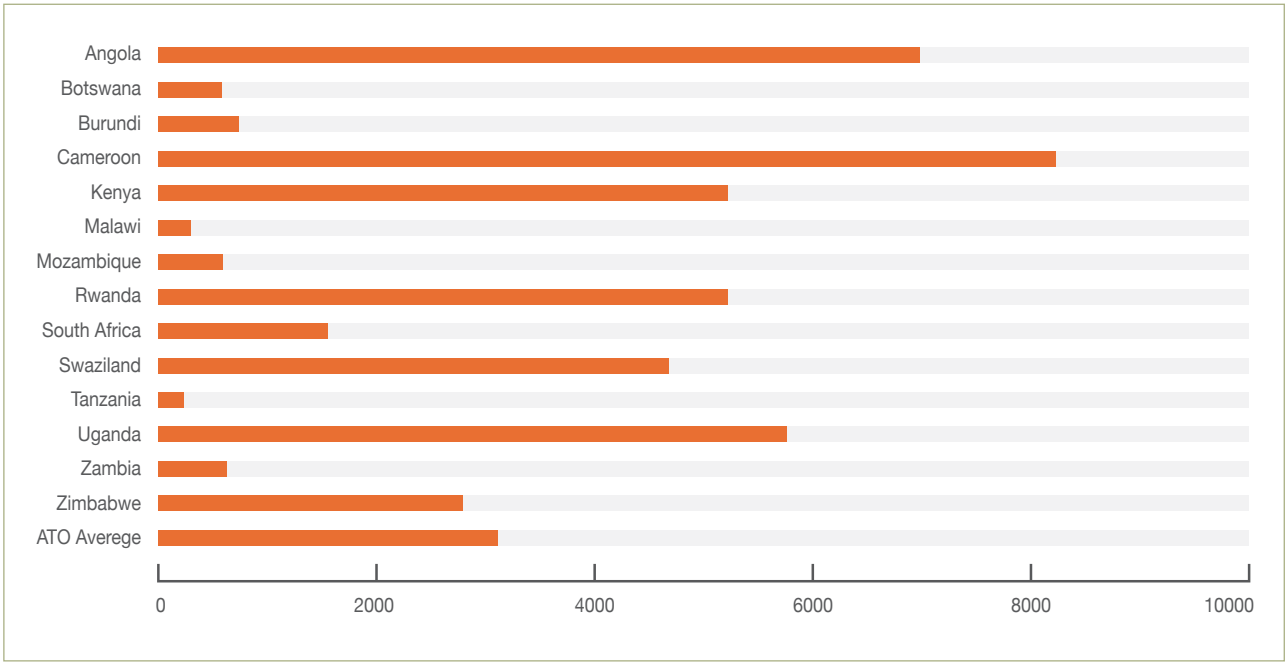
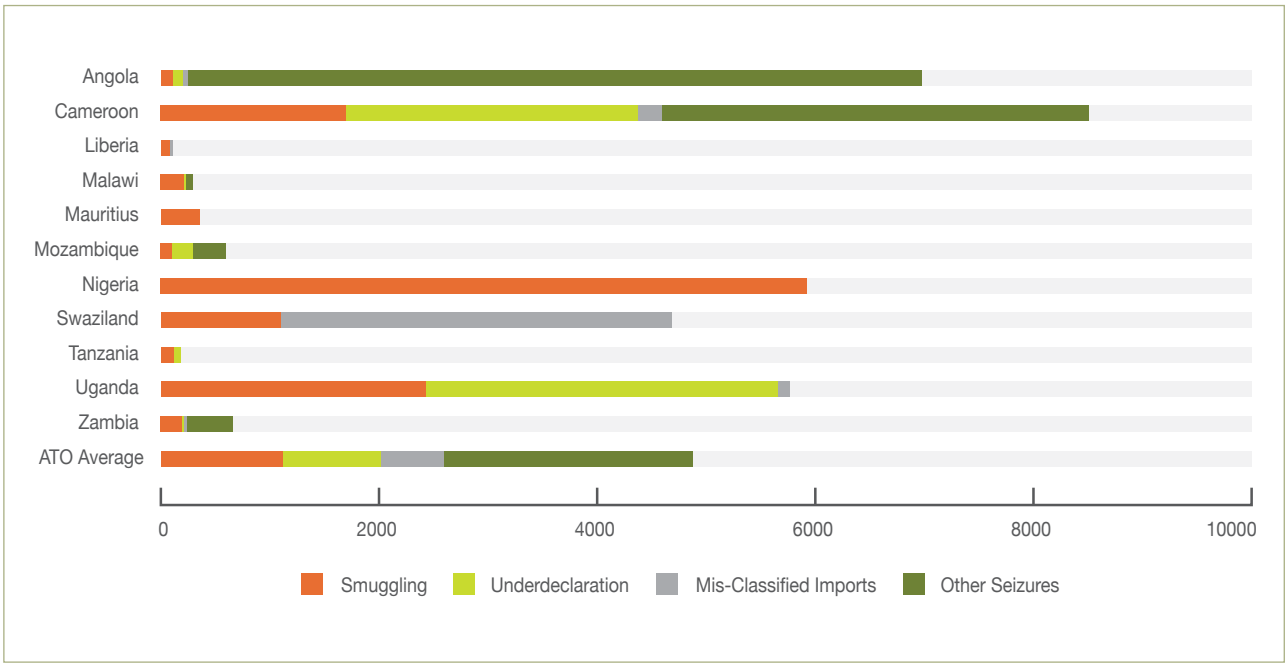


Figure 8-10: Breakdown of seizures in selected ATO Countries

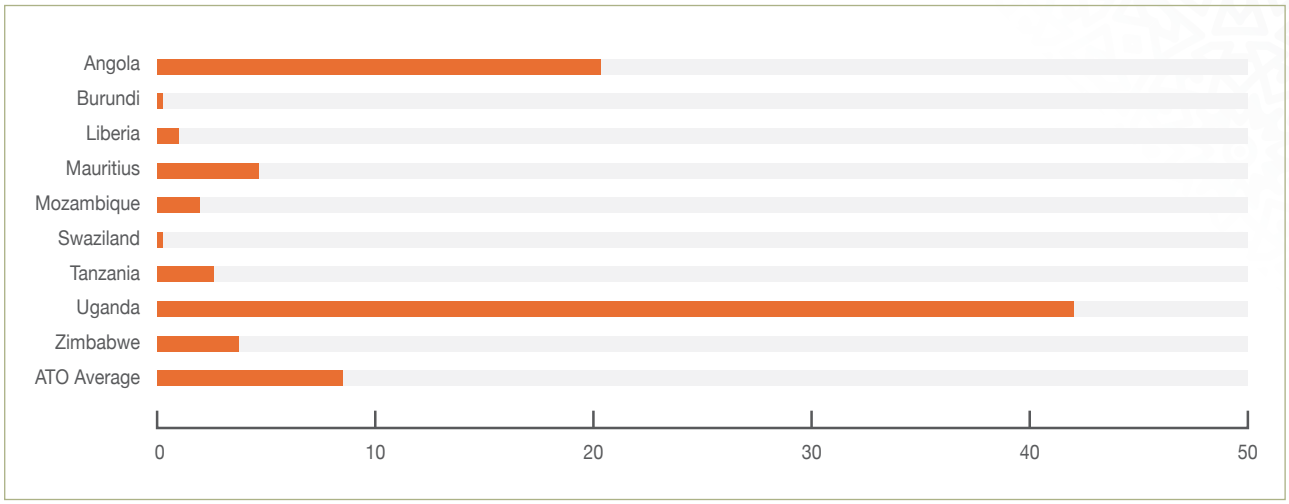


Several ATO countries could not disaggregate their data on customs seizures. However, for the 11 countries that managed to disaggregate, it was observed that other seizures were the most prominent for Angola and Cameroon, resulting in a high ATO average of 2285 (Figure 8-10). Smuggling came second with an ATO average of 1118 seizures, while under declaration had 898. Under declaration was prominent in Uganda (3232) and Cameroon (2671), while other seizures mostly affected Angola (6727) and Cameroon (3910). In percentage terms, other seizures contributed the highest percentage of seizures in the ATO region, with 47%, followed by smuggling (23%), then by under declaration (18%) and lastly misclassification (12%).

Recoveries from customs enforcement interventions

In analysing the value of recoveries from customs seizures, it is essential to note that smugglers have recently focused on smuggling fewer but high-valued goods (Business Day, 2017). The seizure of dutiable goods results into higher recovery values than non-dutiable goods. Therefore, a high recovery rate from customs enforcement could be an indication that the offences committed involved high-valued goods. Figure 8-11 shows the recoveries from customs interventions for selected ATO countries in 2016. The figures were converted from the respective countries' local currencies using the PPP exchange rates.

Figure 8-11: Recoveries from customs enforcement interventions (in million USD), selected ATO countries, 2016



Note: 11 countries submitted data on recoveries from customs enforcements. However, Botswana and Zambia were removed from the analysis due to data inconsistencies

Uganda (approximately US$42 million) recorded the highest customs enforcement recoveries in value terms, followed by Angola with US$20 million, against the ATO average of US$8.5 million. In 2015, Zimbabwe recovered US$7.8 million, but in 2016 the figure went down to US$3.7 million. Lowest recoveries in 2016 were in Burundi and Swaziland at US$0. 252 million and US$0. 253 million, respectively. As for offences, the incidence of misclassification was noticeable in Swaziland and Zambia. Smuggling was most prevalent in Tanzania and Zimbabwe and under-declaration in the Gambia, Mauritius, Mozambique and Togo.

8.5. Conclusion

While taxpayers have a statutory obligation to comply with tax legislation and procedures, Tax Administrations have a duty to educate them. Therefore, it is critical that Tax Administrations have stand-alone departments, with adequate budgets to carry out taxpayer education tasks. Non-compliance can emanate from the taxpayers' lack of knowledge on taxation laws and regulations. Apart from education, Tax Authorities in the ATO endeavour to reduce non-compliance through compliance audits, arrears management and customs enforcement.

In 2015, ATO countries based their taxpayer-to-auditor ratio on the different registered tax types. In 2016, a decision was made to base the index on taxpayers, rather than tax types, in line with international best practice. However, it was concluded that staff shortage remained a key challenge for ATO countries, with 1044 being the average taxpayer-to-auditor ratio in the ATO region, against 411 which is even regarded as very high in the RMC-WPKL. Uganda and Zambia had the highest number of taxpayers per auditor, at 4421 and 2762 respectively. Conversely, the average ATO staff-to-auditor ratio of 20% was healthier compared to the international benchmark of 30%.

ATO countries are faced with a daunting task of eradicating tax arrears. The average ATO ratio of arrears to net revenue rose from 19.17% in 2015 to 20% in 2016. This was an unfavourable result, compared to the TADAT recommendation that the ratio of stock and flow of tax arrears to total revenue should be below 10%. However, Zambia and Zimbabwe boasted of the highest arrears-to-net revenue recovery rates of 82% and 93%, respectively, against an ATO average of 20%.

In the ATO region, customs offences manifest in the form of smuggling, under-declaration, non-declaration and misclassification. Statistics on ATO seizures were negatively affected by the fact that several countries are still faced with the challenge of failing to disaggregate customs seizures. However, in terms of aggregated seizures, Uganda, Nigeria and Rwanda had the highest number of customs seizures. With regards to disaggregated seizures, other seizures were widespread in Angola and Cameroon, followed by seizures from smuggling in Nigeria and Uganda.

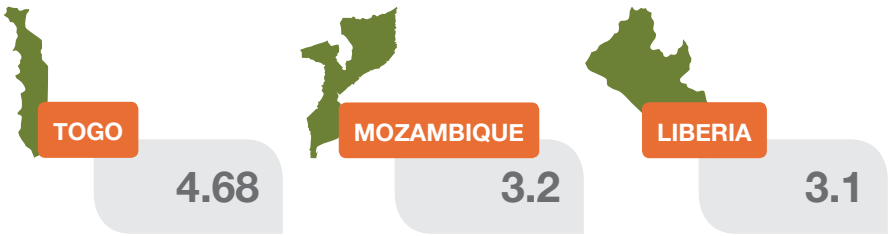
Human Resources in Tax Administration

9 Human Resources in Tax Administration

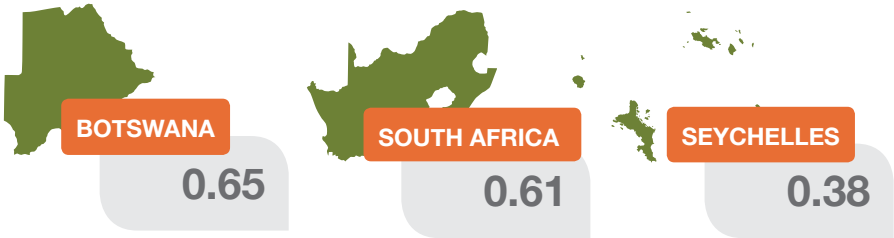
Gender disparity remained high in 2016

RATIO OF MALE-TO-FEMALE STAFF ROSE MARGINALLY **1.84**

HIGHEST RATIOS



LOWEST RATIOS



On average

36.43%

Tax Administration employees

35-44

years age group

4%

Tax Administration employees

below 25

years age group

On average

30.91%

Tax Administration employees

25-34

years age group

23.17%

Tax Administration employees

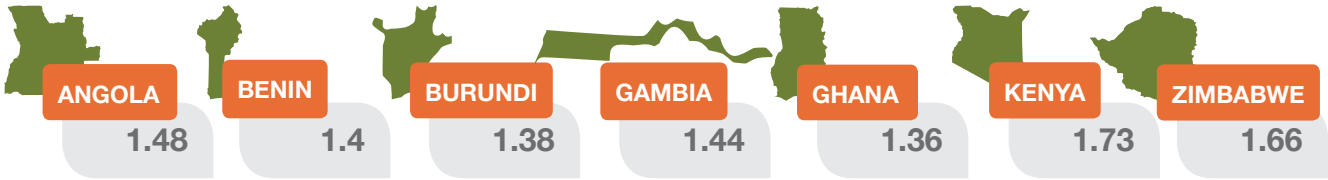
45-54

years age group

ATO average core-to-support-staff ratio

2.74 close to the international bench mark of 3

Only Swaziland, Mozambique and Tanzania were close to the proposed benchmark



Several ATO countries had ratios close to 1

9. Human Resources in Tax Administration

Human resources (HR) activities can be classified as follows: attracting, selecting, retaining, developing, motivating and effectively utilising staff (Osinski, Lethbridge, & Bond-Hinsz, 2013). Instead of concentrating simply on day-to-day administration issues, such as processing the necessary paperwork for employees to join or exit the Tax Administration, the HR function should support management in identifying the human resources needed to execute strategic and operational business plans. This chapter analyses HR issues in the ATO region, touching on such aspects as employee demographics, staff productivity, staff coverage (span of control), training and staff retention and motivation.

9.1. Employee demographics

Heterogeneity in the Tax Administration's workforce is a welcome factor since it brings with it competitive advantage. In the second edition of the ATO, employees were defined to include permanent and temporary staff, together with contract and casual staff. Those on internship were also covered in that definition. Employee demographics include various factors such as gender, age, ethnicity, occupation, marital and family status. These attributes of employees have effects on an organization's performance, employee productivity and staff retention.

In the 2017 edition of the ATO, it was recommended that Tax Administrations have human resource information systems in place that automatically generate employee profiles, including staff levels and the various employee demographics, not limited to those cited earlier. A good example cited was Togo which developed 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 Disparities

It is crucial for Tax Administrations to have policies and procedures that do not discriminate against gender, when recruiting and placing staff in various positions. Women can achieve full potential and realise their capabilities, opportunities and choices, if they are not discriminated against (ILO, 2014). While it is ideal to have a ratio of one woman per every man employed, currently, this may not be easily achievable in the ATO region due to several factors which includes culture, job requirements, working environment/conditions, among many. As highlighted in the previous edition of the ATO, the gender-related labour participation gap remains high in African countries at 21%, compared to 12% in the OECD countries (ATAF, 2017).

Figure 9-1 shows the ratios of male-to-female staff in the ATO region in 2016. The gender disparity remained high in 2016, when compared to 2015. The ratio of male-to-female staff rose marginally from 1.83 in 2015 to 1.84 in 2016. Togo remained the highest, with 4.68 times more men than women in its Tax Administration. Mozambique came second with 3.2 times, while Liberia had 3.1 times more men compared to women. The lowest ratios were in Botswana (0.65 times), South Africa (0.61 times) and Seychelles (0.38times).

Executive-Gender and Executive-Staff Disparities in the ATO Region

The share of women in top management rose from 29% in 2015 to around 39% in 2016 (Figure 9-2). This was an indication that some ATO countries embraced the previous recommendations to have effective policies providing equal opportunities between men and women. However, on average, the male-to-female executive ratio went down to 3.25 in 2016, from 3.79 recorded in 2015. The implication of this ratio is that, on average there were still over 3 times more male than female senior managers in 2016.

The ratio of executive staff to total staff is the number of executive (senior) managers divided by the total number of all workers. Executives have a huge responsibility of superintending over the entire organization. They provide strategic and policy directions for the organisation. However, a high share of executives to total staff reflects multiple layers of management, which, in turn, imply top-heavy decision-making and lack of agility and responsiveness (ATAF, 2017).

Figure 9-1: Ratio of male-to-female staff, 2016

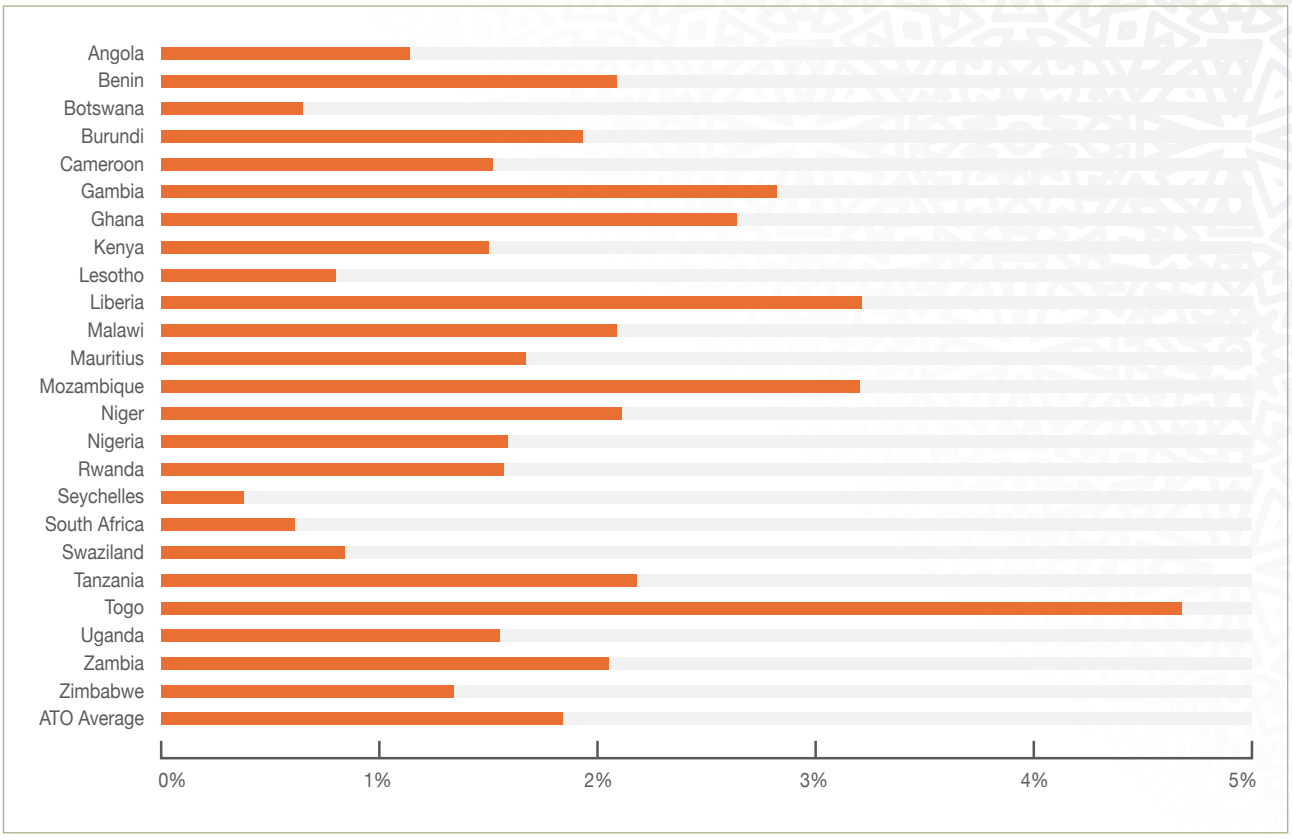


Figure 9-2: Shares of women in top management

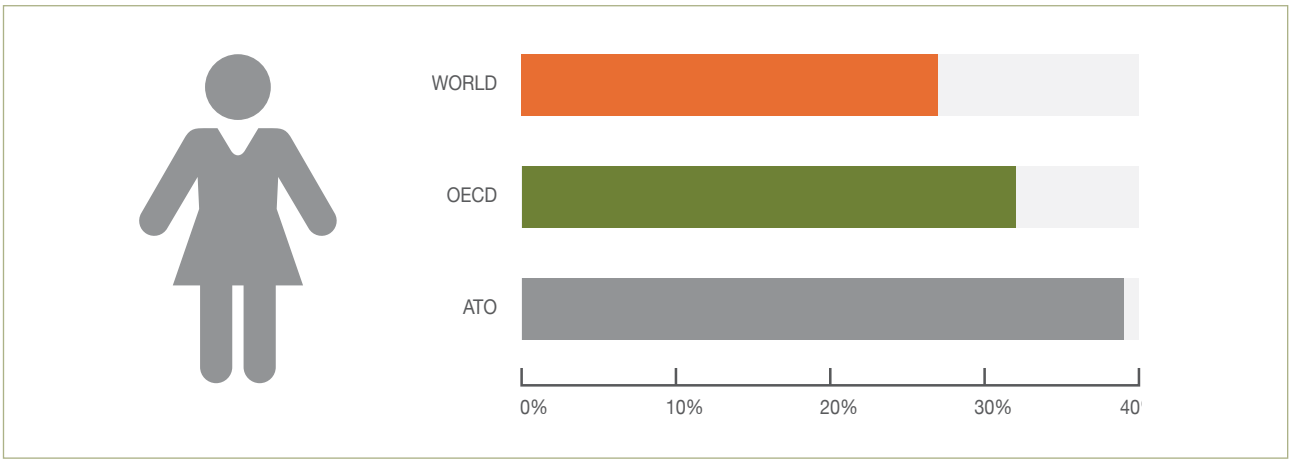
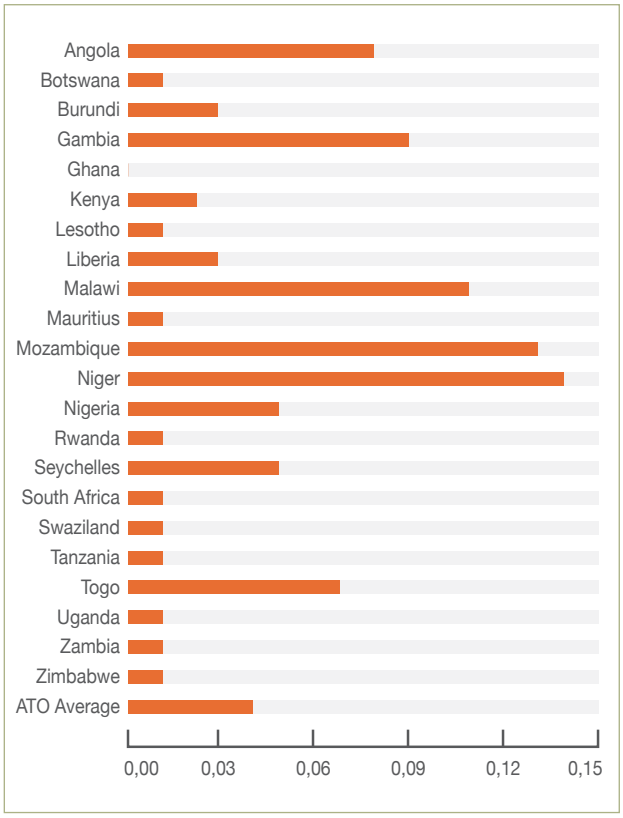
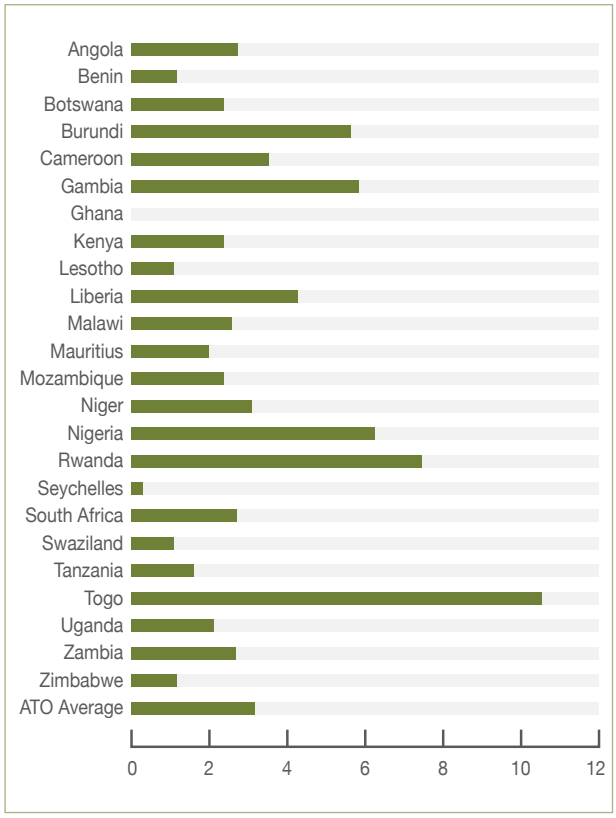


Figure 9-3 provides detailed breakdown of ratios for both the executive-to-total staff and male-to-female executive staff in the ATO region.

Figure 9-3: Ratios of executive staff to total staff (left) and male to female executive staff (right), 2016





As reflected on the left panel in Figure 9-3, the average ATO executive-to-staff ratio is 4%. The implication of this ratio is that for every 100 workers, 4 are in executive management positions. Niger, Mozambique, Malawi and Gambia have top-heavy structures. For every 100 staff members, 14 are in executive management in Niger, 13 in Mozambique, 11 in Malawi, and 9 in the Gambia. Such high ratios of "executives" (defined loosely) to staff could affect decision making (ATAF, 2017). It was reiterated in the previous edition of the ATO that Tax Administrations with more than 5 levels of senior management should restructure and reduce them to no more than four to improve agility.

The number of male divided by the number of female executives was computed to give the male-to-female executive ratios. As reflected on the right-panel in Figure 9-3, Seychelles was an outlier with the ratio of male to female executives of 0.27, implying that the share of female executives to their male counterparts was 73%. Although the ratio established that the Tax Administration embraced policies that empowered women, it was also tilted on one side, implying that the Tax Administration provided better opportunities to more women than men. In the 2017 ATO publication, Cameroon, Gambia, Nigeria, Swaziland and Togo recorded 4 times more male executives than their female counterparts. Using a similar analysis, where some countries defined executives to include all senior management, the same countries recorded ratios of male to female executives of 3.67, 5.56, 6.23, 1.0, and 10.50, respectively in 2016. This is an indication that recruitment policies for senior

managers in these Tax Administrations favoured males to their female counterparts. However, this was not a healthy situation in the modern and global world where women empowerment programmes are being widely propagated.

It is noteworthy to realise that initially the definition of executives in the 2017 and 2018 publications was used loosely by several countries to include all senior management. For instance, Mozambique recorded 388 male executives and 165 female executives. Other outlier figures included Angola (190:71), Benin (145:137), Cameroon (50:14), Kenya (56:24), Malawi (116:43), Niger (89:28), Nigeria (274:44) and South Africa (87:31). For uniformity, in the 2019 publication of ATO, the definition of executives will be standardised.

Age Disparities in Tax Administrations

Age diversity is an integral feature of the cultural structures that eventually emanate in work environments. Most work environments have a reasonable array of age differences. These different generations bring with them distinctive talents and challenges. The younger generations tend to be more energetic and enthusiastic; they are more likely to take up new challenges and move with change. This generation also tends to be easily mobile. They jump on to the next opportunity as soon as it proves more profitable now than later. The older generations on the other hand are more concerned with the reasoning behind the idea, hence at times they resist change but stay focussed. It is therefore important for RAs to pay attention to the age divergences in their organizations. The African Development Report mentioned that countries with high youth unemployment rates also tend to have high adult unemployment, with the former exceeding the latter. This discrepancy is, in part, to be expected because youth do not have the social capital, networks and experience to compete with adults in the labour market (African Development Report, 2015).

Table 9-1: Age groups as a percentage of total staff in ATO Revenue Authorities, 2016

ATO Countries	less than 25	25 to 34	35 to 44	45 to 54	above 55
Angola	1.69%	35.76%	36.60%	18.17%	7.79%
Benin	0.00%	25.92%	56.08%	15.08%	2.93%
Botswana	0.22%	26.12%	38.35%	28.35%	6.98%
Burundi	0.00%	29.69%	46.44%	20.19%	3.68%
Cameroon	0.22%	11.64%	55.52%	32.00%	0.62%
Gambia	7.38%	28.73%	33.23%	26.16%	4.49%
Ghana	12.34%	11.60%	27.54%	36.15%	12.38%
Kenya	0.45%	27.54%	30.57%	27.82%	13.63%
Lesotho	0.30%	28.72%	48.66%	18.45%	3.87%
Liberia	0.13%	15.19%	40.39%	29.87%	14.42%
Malawi	1.92%	28.38%	45.08%	18.85%	5.77%
Mauritius	1.53%	40.20%	32.15%	26.12%	0.00%
Mozambique	5.79%	39.18%	32.86%	16.59%	5.59%
Niger	23.19%	28.92%	25.53%	20.02%	2.34%
Nigeria	0.15%	21.71%	39.02%	35.23%	3.89%
Rwanda	0.00%	32.00%	49.92%	15.96%	2.12%
Seychelles	19.29%	36.98%	27.65%	11.90%	4.18%
South Africa	1.99%	24.52%	42.56%	23.64%	7.28%
Swaziland	1.03%	37.56%	42.42%	14.58%	4.42%
Tanzania	13.94%	23.88%	17.91%	33.52%	10.75%
Togo	1.20%	52.40%	19.36%	20.55%	6.49%
Uganda	0.87%	50.91%	28.00%	20.22%	0.00%
Zambia	1.35%	33.72%	38.15%	25.95%	0.83%
Zimbabwe	4.28%	50.70%	20.46%	20.75%	3.81%
ATO Average	4.13%	30.91%	36.43%	23.17%	5.34%

On average, most (36.43%) of the Tax Administration employees in the ATO countries were in the 35-44 years age group, while 30.91% were in the 25-34 years age group. Only 4% of the employees were aged below 25 years while 23.17% were in the 45-54 years age group. Table 9-1 shows that, most employees in Zimbabwe (50.70%) were within the 25-34 years age group, while 50.91% and 52.40% were within the same age group in Uganda and Togo, respectively. In Rwanda, 49.92% of the Tax Administration staff were in the 35-44 years age group, while 55.56% and 56.08% were also within the same age range in Cameroon and Benin, respectively. These indicators suggest that many of the employees in the Tax Administrations were likely to be more experienced professionals in taxation and customs issues as they were relatively older.

Countries such as Rwanda, Burundi and Benin had no employees younger than 25 years implying that they were not giving opportunities to train and employ young graduates. This could also be a pointer to a policy that widely employs support staff, contract workers and interns. Conversely, Ghana (12.34%), Niger (23.19%), Seychelles (19.29%) and Tanzania (13.94%) had the highest proportion of employees within the less than 25 age cohort. Angola, Botswana, Kenya and Liberia had high ratios of Tax Administration staff in the above 55 years age cohort, while they also had very low ratios of young employee in the below 25 years age group. This is likely to present succession problems in future as the older employees reach their retirement.

The age distribution in the ATO Tax Administrations depicted some digression from the OECD average distribution, where 9% of Tax Administration employees were under 30 years, 50% between 30 and 50, 34% between 50 and 60 years old, and 7% over the age of 60 (African Development Bank , 2016). The relative disparity in the age distribution of staff between ATO and OECD countries suggests different recruitment, retirement and employment policies.

Does possession of a university degree imply efficiency in the Tax Administration's workforce?

University degree holders are likely to be innovative and drivers of higher revenue productivity if well mentored. However, taxation and customs legislations and procedures are highly technical in nature. Therefore, Tax Administrations should recruit, train and retain highly qualified employees. Mere possession of a university degree should not be the only goal for recruiters in Tax Administrations, particularly for staff working in core functions. What they should aim for is a specialised technical degree and on-the-job training, especially for professionals such as tax auditors, investigators, HR professionals, senior managers, lawyers, accountants, ICT specialists and economists. It is critical that the recruitment and retention policies of Tax Administrations take cognisance of both the academic and qualities other than the academic only. These could include interpersonal skills, analytical skills and the ability to work under minimum supervision (Osinski, Lethbridge, & Bond-Hinsz, 2013). According to Toner (2011) attainment of education, skills and training have a positive effect on organizational performance. Figure 9-4 depicts statistics on the percentages of staff by qualification to the total staff population in Tax Administrations.

Figure 9-4: Percentages of qualified staff by qualification to total staff, 2016

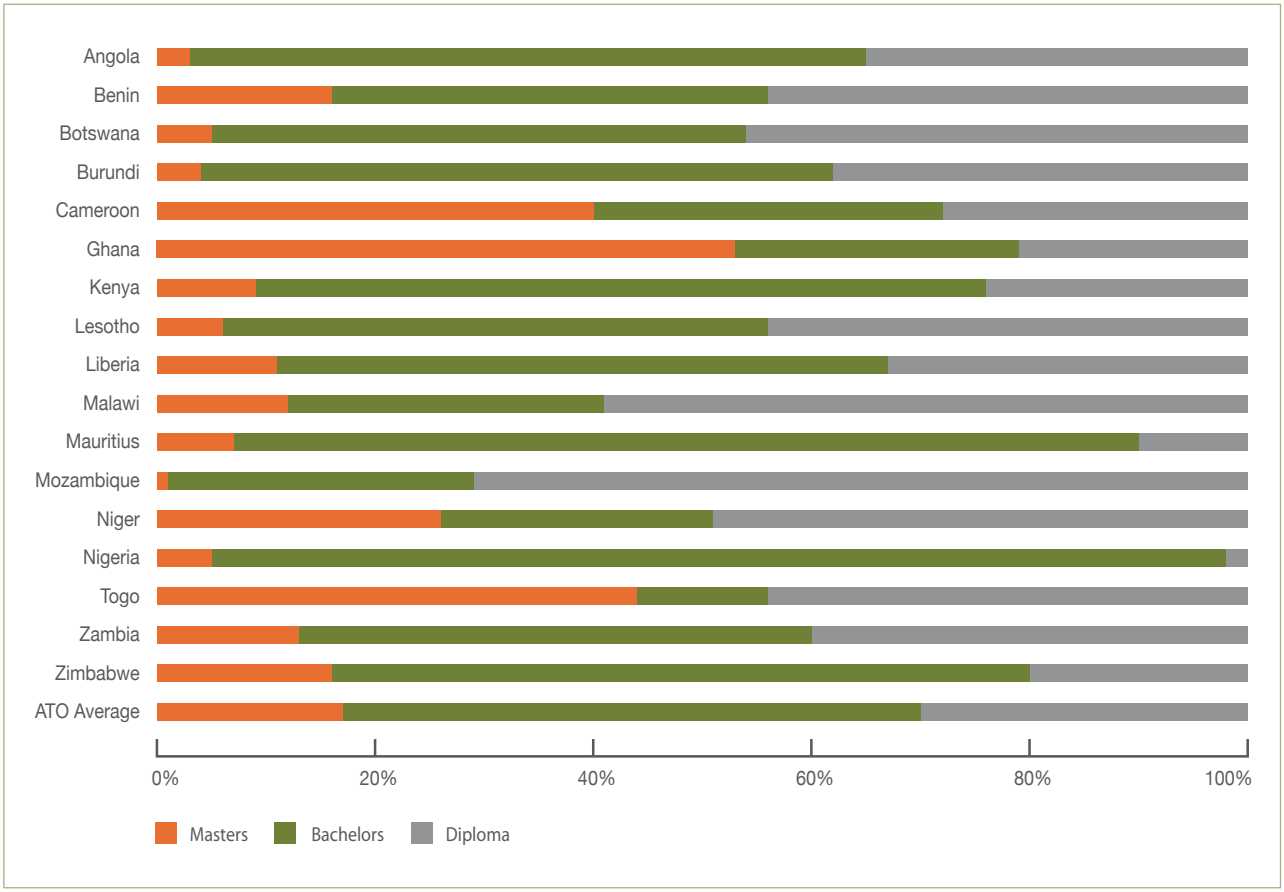


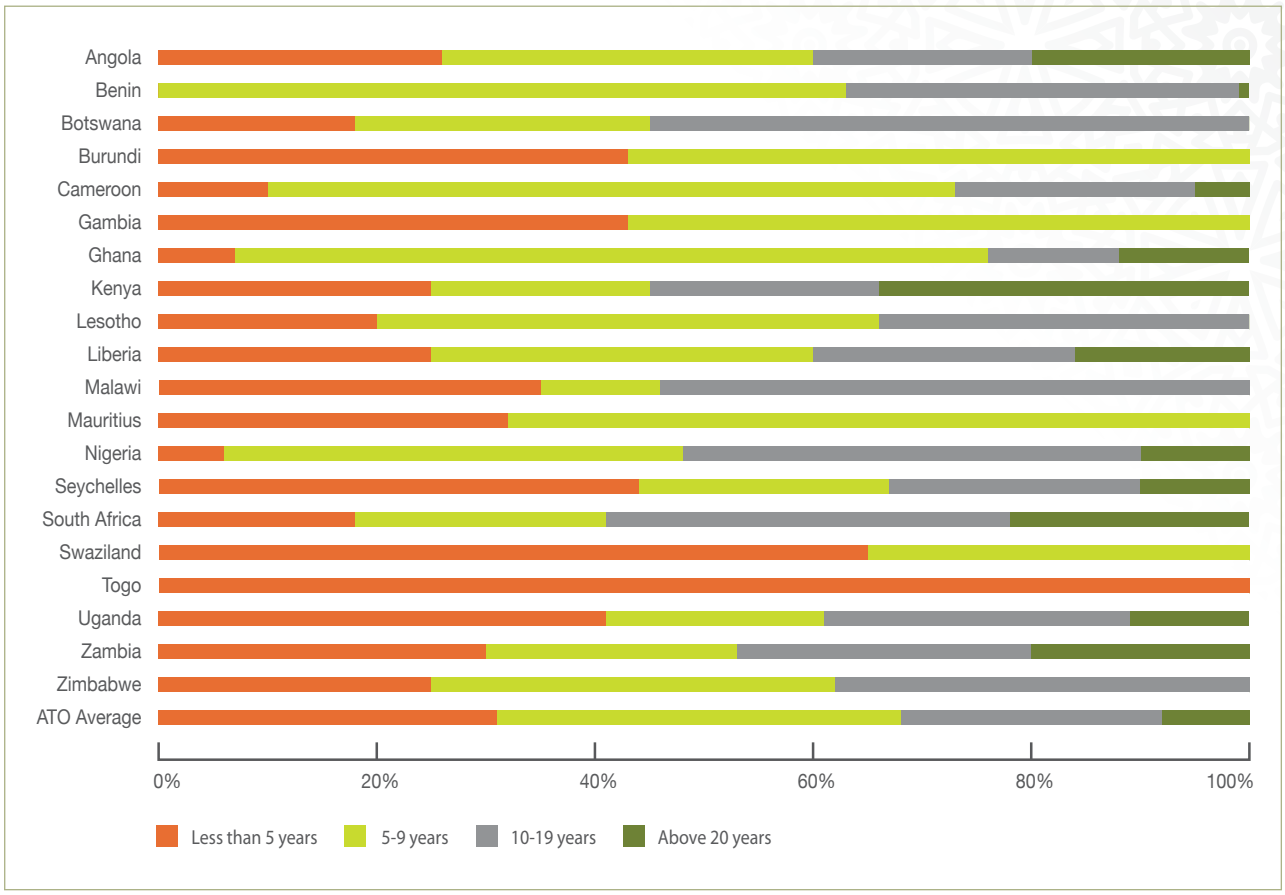
Figure 9-4 shows that Benin (16%), Cameroon (40%), Ghana (54%), Liberia (11%), Malawi (12%), Niger (26%), Togo (44%), Zambia (12%) and Zimbabwe (16%) were among the countries with high ratios of staff that possessed a master's degree. However, it is worth noting that figures from some Francophone countries were very high as some of these countries included the undergraduate degree within the definition of the master's degree. In some of these countries, the term bachelor also had a different meaning since it was interpreted to mean pre-university education. Mozambique (79%), Malawi (59%) and Niger (49%) employed more people with diplomas as compared to university degrees.

In the 2018 edition and prior periods of the ATO publication, the analyses on education levels (Figure 9-4) were not standardised due to the different educational systems in Anglophone and Francophone countries. Some oversights in translation/interpretation by some countries also played a part, hence the bachelor's degree did not retain the same meaning in some Francophone countries as it did in the Anglophone region. By the same token, Master's Degree had different connotations in some French speaking countries, compared to English speaking countries. These anomalies will be dealt with in the 2019 edition of the ATO publication due to the efforts done in 2018 to standardise the definitions on the various levels of tertiary education.

Average Tax Administration official's length of service

Staff retention is a crucial aspect that is worth pursuing by all Tax Administrations. This is because it is not ideal to continue recruiting and training staff that eventually leave the Tax Administrations for greener pastures. Revenue Authorities are faced with serious competition from Tax Accounting firms and Clearing agents in this respect. While most organizations attempt to retain staff in whom they have invested heavily, usually motivated employees tend to stay much longer than their dissatisfied peers (Figure 9-5).

Figure 9-5: Length of service among Tax Administration Employees in ATO Countries, 2016



On average, the highest proportion of employees (38%) in the ATO countries had 5-9 years of experience, followed by 31% with less than 5 years of experience and 24% with 10-19 years of experience. Seychelles (44%), Swaziland (65%) and Togo (100%) had the highest number of employees who had less than 5 years of service within the Tax Administrations. However, these statistics should be interpreted with caution since countries like Togo and Gambia had young Tax Administrations (Revenue Authorities) as compared to their ATO counterparts. It is therefore obvious that staff in these Tax Administrations would be regarded as having less experience, although some would have been incorporated from the prior departments of Taxes and Customs & Excise that were formally under their respective Ministries of Finance.

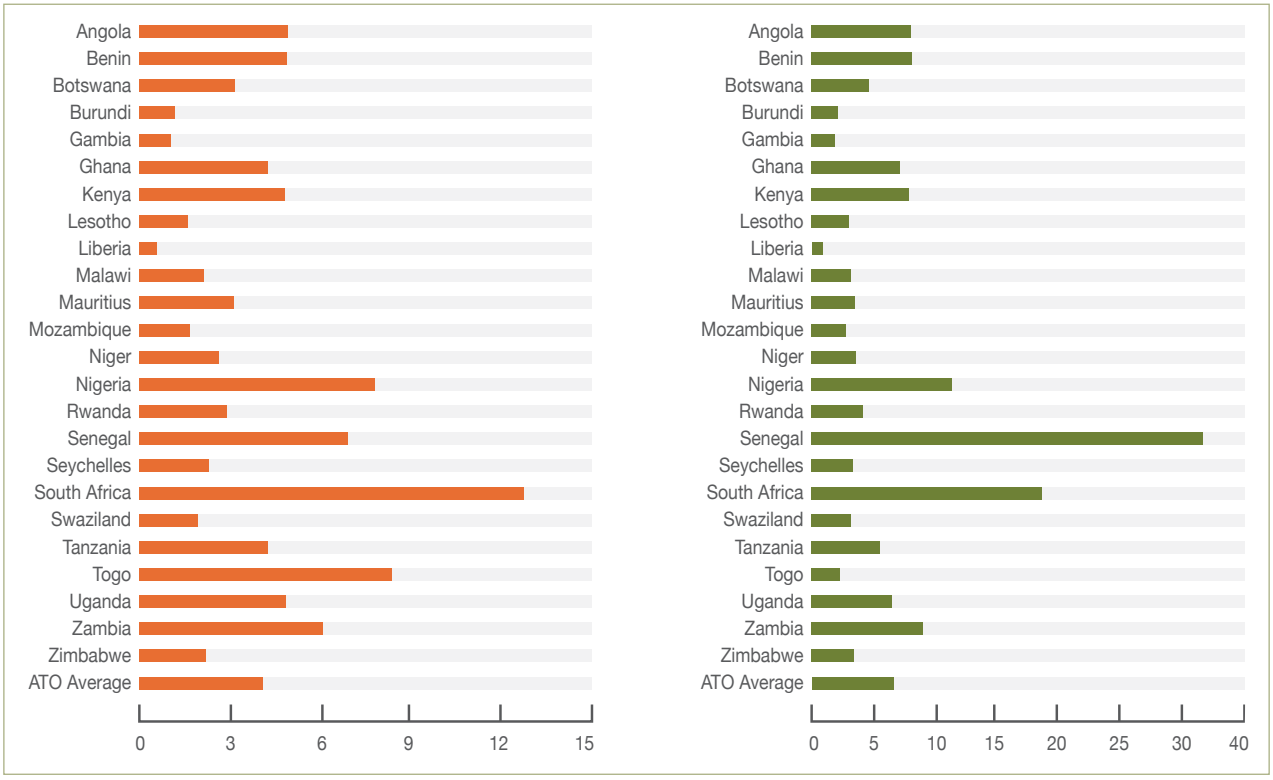
Benin (63%), Cameroon (63%), Ghana (69%) and Mauritius (68%) had the highest percentage of employees that had served between 5-9years as at end of 2016. Botswana (55%) and Malawi (54%) had the highest percentage of employees that had served between 10 and 19 years, while Angola (20%), Kenya (34%) and South Africa (22%) had the highest percentage of employees that had served the Tax Administrations for more than 20 years. The South African Revenue Services has an academy that employs retired tax officers to teach and pass on skills to the young officers (ATAF, 2017).

9.2. Staff productivity

Two indicators were used to measure staff productivity in the ATO region. The two productivity indicators (Figure 9.5.) were:

- Revenue per Tax Administration employee -: total revenue collected divided by the total number of employees in Tax Administration in the year 2016. The revenues were converted to international currency using the PPP exchange rate for comparability across the different Tax Administrations;
- Revenue per employee working in core tax collection functions -: total revenue collected in 2016 divided by the total number of employees working in core revenue collection functions (customs and tax departments) for the same year. Similar conversions were done as explained above.

Figure 9-6: Revenue productivity in Revenue Authorities



Left panel: Revenues per General Tax Administration Employee (millions), 2016. Right panel: Revenues per employee working in core revenue collection functions (millions) 2016

The average revenue collected by Tax Administration employees across the ATO countries rose marginally from USD 3.95million in 2015 to US$3.96 million in 2016. Measured against that average, South Africa (US$12.84million) boasted the highest staff productivity, followed by Togo (US$8.04 million) Nigeria (US$7.55 million) and Senegal (US$6.74 million). The least productive Tax Administration employees were those of Lesotho (US$1.73 million), Burundi (US$1.05 million), Gambia (US$0.94 million) and Liberia (US$0.51 million).

With reference to the revenue per employees working in core revenue collections functions, the story changed as Senegal topped the ATO group with US$31.44 million per employee, followed by South Africa (US$18.96 million) and Nigeria (US$11.07 million). The least staff productivity indices were recorded in Burundi (1.81), Gambia (1.60) and Liberia (0.75), against an ATO average of 6.34.

9.3. Tax Administration Staff Coverage

This section presents analyses of four key ratios used to gauge Tax Administration staff sufficiency or inadequacy. These ratios include labour force-per-Tax Administration employee, population-per-Tax Administration employee, taxpayers-per-Tax Administration employee and core Revenue Authority staff-to-support staff.

Population and Labour Force-to-Tax Administration Employee Ratios

In the 2017 ATO publication it was highlighted that the lower the ratio of labour force to Tax Administration staff, the more tax officials there are to serve workers and the greater their capacity to reach them. Citing Al-Momani et al, ATAF (2017) revealed that the international tax administration outreach benchmark is 1 000 people per tax administrator. However, it was observed that in 2015, the average workforce-to-Tax Administration staff ratio in ATO countries was three times higher at 3 545/1. Araki and Claus (2014) calculated two ratios of efficiency and effectiveness, namely:

i) Total population compared with the number of full time equivalent Tax Administration staff and

ii) The number of labour force participation to full time equivalent Tax Administration employees

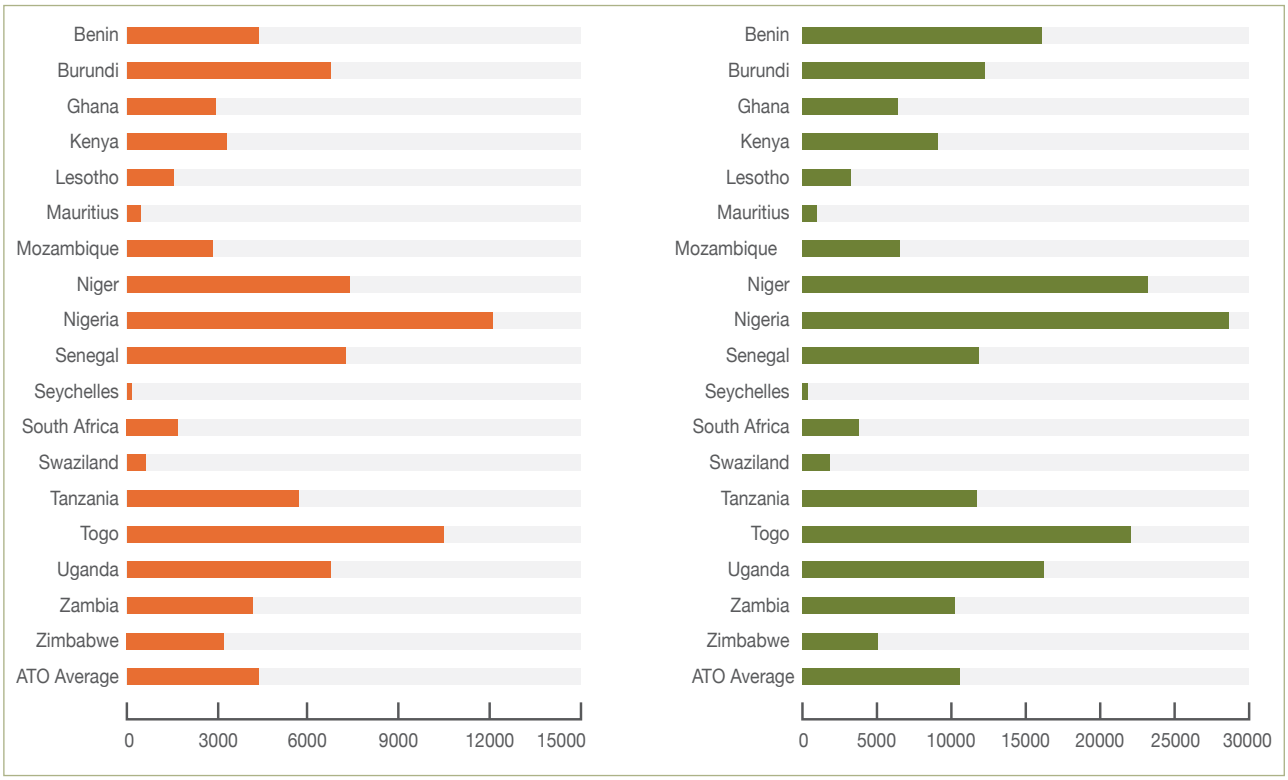
In line with Araki and Claus's ratios of efficiency and effectiveness, Figure 9-7 shows the ratio of labour force and population-to-Tax Administration employees in the ATO region, in 2016.

The analysis based on Figure 9-7 shows that only 4 out of 18 jurisdictions had ratios of total population to full-time Tax Administration staff of 1000-3000, while 8 countries had ratios greater than the ATO average of 10506 (see right panel). Nigeria, Togo and Niger were outliers, with ratios of population-per-Tax Administration employee exceeding 20000. Low ratios were recorded for Lesotho (2863), Swaziland (1639), Mauritius (858) and Seychelles (304). Conversely, high ratios were observed for Nigeria (28800), Niger (23425) and Togo (23396).

With reference to the labour force-per-employee ratio (left panel), the 2016 ATO average at 4551 was far above the international benchmark of 1 000. However, Seychelles (148), Mauritius (395) and Swaziland (560) had low ratios that were far below the international bench mark. On the other hand, highest ratios were recorded in Nigeria (12085), Togo (10639), Niger (7555) and Senegal (7131). As suggested in the 2017 edition of the ATO, such extreme ratios were attributable to correlations between:

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

Figure 9-7: The ratios of labour force and population-to-Tax Administration Employees in ATO countries, 2016



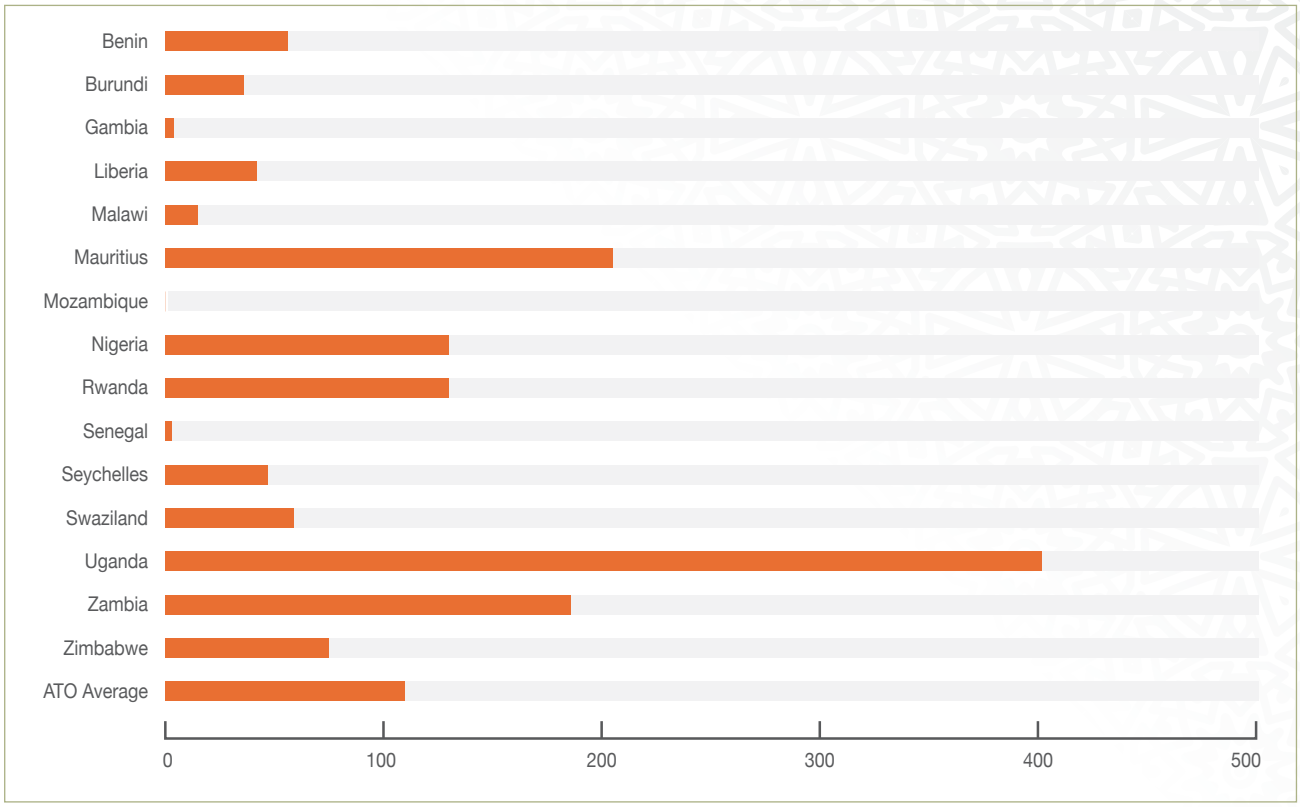
Left panel: Labour force per Tax Administration employee, 2016. Right panel: Population per Tax Administration employee, 2016

Taxpayers-per-Tax Administration Employee

The taxpayers-per-tax administrator ratio refers to the number of registered taxpayers, divided by the total number of tax administration employees at the end of the tax period. The lower the ratio, the more registered taxpayers the Tax Administration can reach. However, this ratio should be interpreted with caution since some of the Tax Administration staff are not involved in core revenue collection functions.

In 2015, the average taxpayer-to-Tax Administrator ratio in the ATO countries was 202 (ATAF, 2017). However, in 2016, the ratio went down to 110 on average and it was below the recommended range of between 150 and-250 (Jacobs, 2013). Figure 9-8 shows the numbers of taxpayer-per-Tax Administration staff in selected ATO countries for 2016.

Figure 9-8: Numbers of taxpayer per tax administrator in selected ATO countries, 2016



Within the recommended range of 150-250 were only 2 countries, Zambia and Mauritius, while Uganda at 402, exceeded the recommended benchmark. The rest of the ATO countries were below the 150-250 threshold. Mozambique and the Gambia had low ratios because they could not capture all their taxpayer populations in 2016. For instance, Mozambique indicated that the figure it included was exclusive of the SMEs who normally contribute a high proportion of taxpayers.

It is also interesting to note that the ratios of taxpayers to auditors computed and discussed in Figure 8-2 of chapter 8 were very high, yet the ratios of taxpayers-per-tax administrators were lower than the proposed benchmark. This anomaly could be a pointer to the notion that either human resources are misplaced in several Tax Administrations, or alternatively, several of these Tax Administrations are overstaffed with support staff, yet understaffed with staff meant for performing core revenue collection functions.

Staff in Core versus Support Functions

Core functions of Tax Administrations are the basic functions that a modern tax administration performs in its direct operations (Jacobs, 2013). These include taxpayer registration, taxpayer services, filing and processing of tax declarations and tax payments, tax audits, taxpayer objections and appeals, collection of arrears and tax fraud investigations. On the other hand, non-core functions are support functions which provide the resources, support and guidance to the staff that perform the core functions. These include information technology, legal services, human resources, budget planning and resources management, internal audit, research, integrity checks and investigations of tax administration staff.

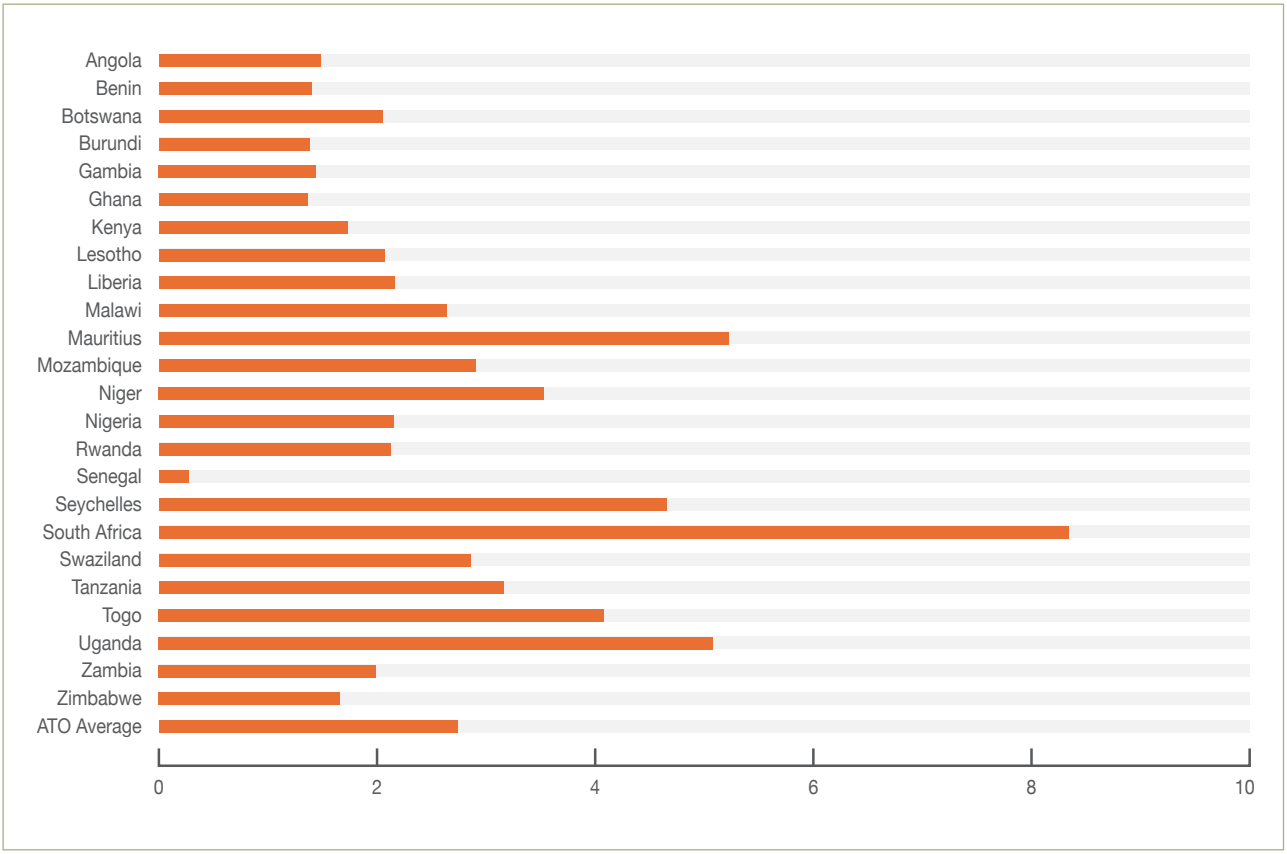
The ratio of Tax Administration core workers to support staff is the total number of employees in core functions divided by the number of support staff.

A high core-to-support-staff ratio could be the sign of a highly effective Tax Administration focused on its core responsibilities. However, it could also point to low levels of mechanisation and the resultant need for high numbers of employees to perform tasks manually. It was emphasised in the 2017 edition of the ATO that Tax Administrations need to increase staff in enforcement, collection, tax investigation and audit functions to ensure good taxpayer compliance.

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. Best practice recommends a ratio of 3, with human and financial resources accounting for 70% of support functions (Jacobs, 2013).

Figure 9-9 shows the ratios of Tax Administration staff in core functions to their counterparts in support functions for the year 2016.

Figure 9-9: Ratio of Tax Administration workers in core functions to those in support functions, 2016



While the ATO average core-to-support-staff ratio stood at 2.74, which was close to the international bench mark of 3, only Swaziland, Mozambique and Tanzania were close to the proposed benchmark. Several ATO countries had ratios close to 1, implying that they had almost similar numbers of staff in core revenue functions as in support functions. These countries included Angola (1.48), Benin (1.4), Burundi (1.38), Gambia (1.44), Ghana (1.36), Kenya (1.73) and Zimbabwe (1.66). Senegal, just as it was in 2015, was still in a worse off position among all ATO countries at 0.27. In the 2017 ATO edition, this was attributable to the fact that Tax Administration in Senegal is still under the tutelage of the Ministry of Finance. These low ratios further confirmed the assertion in the previous section that several Tax Administrations

in the ATO region are overstaffed with support staff, but understaffed with core Tax Administration staff, thereby compromising core revenue functions.

The ATO average ratio of Revenue Authority core staff-to-RA support staff was 2.74, compared to 4 in the OECD. However, high ratios were recorded in Mauritius (5.22), Niger (3.53), Seychelles (4.65), South Africa (8.34), Togo (4.08) and Uganda (5.08). The remainder of the countries were below 3, but above 2. It is also interesting to note that all the countries that had high ratios of core Tax Administration staff-to-support staff, except for Niger, also had higher tax-to-GDP ratios above the ATO average of 16% (refer to Chapter 2). South Africa (26%) and Seychelles (29%), were the top 2 countries in the SADC region, while Togo was the second highest in the ATO region.

9.4. Leadership and Staff Training to Build Competencies

Human capital investment is one of the key ingredients for the success of any Revenue Authority. Due to the highly technical nature of Tax Administration tasks/works, the employment pool (job market) does not always provide full baked technocrats to work for Tax Administrations. It is therefore critical that Tax Administrations develop plans to train leadership and all staff to build their competencies. The adage "leaders are born leaders" does not always apply for Tax Administrators. The view that leaders are made, is buttressed in this section as it analyses the essence of leadership and talent management, career development and inclusive training.

Leadership and talent management programmes

As stated in the 2017 edition of the ATO, managers at operational levels ought to 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.

Botswana, Kenya, Mauritius, Nigeria, South Africa, Swaziland, Togo and Uganda had internal and outsourced leadership programmes in 2016. Uganda developed the "Fired Up Excellent Leadership", intended for senior management, and "Getting Equipped and Reinforced Leadership" for line managers. The programmes were designed to reinforce the aptitudes of executives and line managers and help their teams to excel. Nigeria introduced the FIRS Executive Leadership Program and the Inspector of Taxes Development Program. Botswana ran a management development program in partnership with Stellenbosch University. Kenya introduced a talent management policy and innovation management framework to ensure that gifted staff were identified, inspired and retained. South Africa had divisional talent boards to superintendent over talent management. SARS also had "divisional talent grids" to inform succession planning for senior executives and preserve knowledge assets. South Africa further introduced operations manager development programmes to groom future executives. They targeted managers at both operational and tactical levels. Malawi had talent management and succession planning policies in place, in addition to various leadership development programs. Botswana, South Africa, Mauritius and Zambia send their senior managers overseas on leadership, talent management and succession planning courses.

Career Development and Inclusive Training

A career development program is a formal program requiring the human resources function to coordinate the collection of information from across the organisation and develop a program that satisfies the needs of the Revenue Authority and its employees. There are many components of a formal career development program which are not limited to: analysing staffing plans; identification of jobs grouped by similar skills, knowledge and experience requirements targeted for career development; Identification of skills requirements for jobs within targeted job families; developing career paths and;

developing systems to track individual employee career development plans and progress (Osinski, Lethbridge, & Bond-Hinsz, 2013).

Tax Administration roles and responsibilities are dynamic; hence it is critical that all staff are afforded adequate training, despite their career levels. According to Osinski, Lethbridge & Bond-Hinsz (2013) since Tax Authorities' work is of a technical nature, it is mandatory that tax administrations train their staff, including outsourcing from private companies where necessary. Citing the 70/20/10 learning concept created by the Centre for Creative Leadership, Osinski, Lethbridge & Bond-Hinsz (2013) stated that on average: 70% of learning and development takes place from real life and on the job experiences, tasks and problem solving. The implication is that real learning from a skill acquired in a training program takes place on the job when the skill is applied to a real-life situation; 20% of learning and development comes from feedback and from observing and working with role models and; 10% of learning comes from formal training

Tax Administrations such as Gambia and Uganda granted their employees paid or unpaid leave to develop their careers through studying for post-graduate qualifications. Bonding arrangements with staff helped these RAs to retain well trained, resourceful staff and ensures continuous succession and the imparting of skills to new staff. Some Tax Administrations sent their employees to domestic or foreign learning institutions. Gambia and Zambia had dedicated training budgets, to ensure that employees get the opportunity to improve their knowledge and competencies. Botswana introduced a personal action plan to guide tax officers in applying and sharing what they had learnt to enhance productivity. Seychelles was running ESAMI Leadership and Administration programs together with WCO Leadership and management programs for Customs. Zimbabwe offered succession planning and supervisory development programs for various career levels, while Mauritius offered leadership courses for new managers.

9.5. Staff Retention and Motivation Schemes

Retention and motivation of employees encompasses various measures employed by the organisation to retain employees who wish to move on (Juneja). Employees must find their jobs interesting and challenging. Motivation acts as a catalyst that enables the success of the employee, thereby leading to his/her retention. Even simple words like "Well done", "Keep up the good work" and "Excellent" can go a long way in motivating employees (ibid). Superiors can send motivational e-mails to their employees. They can also introduce incentives, perks and even cash prices as a way of motivating employees. In the 2017 edition of the ATO publication, schemes necessary for retaining and motivating staff were loosely classified into four categories, namely: wages, benefits, performance and recognition and workplace.

In the 2018 edition of the ATO publication, staff retention and motivation schemes employed by Tax Administrations in the ATO region were grouped and analysed as per Table 9-2. This table shows some of the staff retention and motivation schemes offered by Revenue Authorities in ATO countries. The tick (√) shows that the scheme is available. The blank boxes should be interpreted with caution. Tax Administrations in the ATO region were requested to outline the staff retention and motivation schemes in their jurisdictions. While some exhausted almost all the schemes, others could have outlined only the few they considered to be major.

Table 9-2: Staff Retention and Motivation Schemes in ATO Revenue Authorities, 2016

Country	Performance Awards or Bonus	Conducive working Environment	Staff Promotion	Capacity Building	Long Service Awards	Fringe Benefits, Vehicle, House etc.	Bursary or Education Grants	Medical Aid Schemes	Recognition of High Performers	Staff Retention Allowances
Botswana	√									√
Burundi	√	√	√							
Cameroon	√	√	√							
Ghana	√	√	√	√	√	√	√	√		
Kenya	√		√			√		√	√	
Malawi	√								√	
Mauritius	√	√		√		√		√		
Mozambique			√							
Nigeria	√	√	√	√						
Senegal						√		√		
Seychelles							√			
South Africa	√									
Swaziland	√		√	√			√		√	√
Tanzania	√	√	√							
Togo	√		√	√			√		√	
Uganda		√		√			√	√	√	√
Zambia	√		√	√		√	√		√	
Zimbabwe	√	√		√	√	√		√		
No. of countries that indicated availability of the Scheme	14	8	10	8	2	6	6	6	6	3

Most of the Tax Administrations with a certain degree of autonomy indicated that they offered competitive salaries to their employees. Apart from salaries considered to be competitive, Tax Administrations in some countries had policies designed to retain highly skilled employees who work in critical areas such as ICT and international taxation. For instance, Botswana, Swaziland and Uganda Revenue Authorities offered their employees retention allowances in addition to their salaries. In the 2017 ATO edition it was recommended 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 are offered by some Tax Administrations, as a way of motivating and retaining staff. These are financial provisions that ensure employees welfare and security. The Mauritius Revenue Authority indicated that they offer retirement benefit packages to which both employer and employee contribute as a way of promoting the savings culture. Ghana, Kenya, Senegal, Zambia and Zimbabwe were some of the countries that indicated the use of fringe benefits for staff motivation and retention. The same countries plus Mauritius had medical aid schemes or health insurance in place for their employees.

Fourteen (14) out of 18 countries indicated that they had policies of paying bonuses or performance awards in place. Kenya, Mauritius, Nigeria, South Africa, Togo, Zambia and Zimbabwe were using performance-based reward scales in their annual bonus schemes in 2016. In 2016, Zambia and Zimbabwe restricted their bonuses to high performers. While the Zimbabwe Revenue Authority (ZIMRA) could issue warning letters to non-performers as a last resort, both ZIMRA and the Zambia Revenue Authority recognised poorly performing staff by motivating them to do better through counselling and mentorship programmes. Recognition of high performers goes beyond the provision of bonuses in six of the ATO countries, namely Kenya, Malawi, Swaziland, Togo, Uganda and Zambia. These jurisdictions have non-monetary performance recognition schemes designed to encourage employees to keep up the good work. In addition, high performers ought to be promoted to encourage a culture of performance. Ten (10) countries indicated that they had policies of promoting high performers. These were Burundi, Cameroon, Ghana, Kenya, Mozambique, Nigeria, Swaziland, Tanzania, Togo and Zambia.

Eight (8) countries, namely; Burundi, Cameroon, Ghana, Mauritius, Nigeria, Tanzania, Uganda and Zimbabwe indicated that they offer a conducive working environment to motivate their staff. A modern, thoughtfully ergonomic workplace is conducive to the delicate work of tax collection. The work environment ought to help staff to strike a balance between work and life. As was highlighted before, some work places 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 (ATAF, 2017). The good working environment should not be limited to the physical environment. Employees ought to be free to communicate among themselves and with their management. Regular feedback between management and employees helps to build a sense of connection and mutual accountability between staff and senior management. For this reason, senior executives in some of the ATO Tax Administrations have resorted to conducting periodic station visits where they collate employees' grievances and provide them with necessary feedback.

Eight (8) countries indicated that they offer capacity building programs to retain and motivate staff. These countries include Ghana, Mauritius, Nigeria, Swaziland, Togo, Uganda, Zambia and Zimbabwe. The same countries, except for Zimbabwe, Mauritius and Nigeria also indicated that they had bursary schemes in place for Tax Administration staff education at Universities or any other recognised institutions.

Lastly, Ghana and Zimbabwe have policies to recognise length of service in their Tax Administrations. They introduced awards known as long service awards. For Zimbabwe, the award is in the form of a certificate/plaque, which may be accompanied with some monetary benefit that tallies with the employee's length of service in the Tax Administration.

9.6. Conclusion

The Human Resources (HR) function in ATO Tax administrations should work hand in glove with management in order to identify the right staff needed to execute strategic and operational business plan.

Gender Disparities

The gender imbalance remained high in 2016, with the ratio of male-to-female staff marginally increasing from 1.83 in 2015 to 1.84 in 2016. Factors such as culture, job requirements and work environment that inhibit gender parity ought to be addressed by ATO countries.

The recruitment of senior managers was also tilted towards males than their female counterparts. This should also be addressed in the modern world where there is need for gender equity.

Age Differences

While on average, employees in the ATO region were more experienced professionals whose age cohorts were within the 30-55 years threshold, only 4% were below 25 years. The fact that more than 5% were above 55 years old and in some countries no employees were below 25 years old, while on average only 4% was 25 years and below could be a threat to succession plans in future.

Level of Education

There was no standard approach in defining education levels in prior editions of the ATO publication, due to the non-standard tertiary education systems between Francophone and Anglophone countries. On average, employees that possessed an undergraduate degree were more than those with diplomas and master's degrees. However, it was concluded that mere possession of a university degree was not a panacea for staff efficiency and effectiveness because staff in Tax Administrations need to be equipped with technical knowhow since taxation is a highly specialised field.

Tax Administration Staff Coverage

An analysis of the ratio of population-per-Tax Administration employee in the ATO region showed that the region was heavily understaffed with an average of 10506 people per Tax Administration employee. Surprisingly when the ratio of taxpayer-to-Tax Administration staff was computed, it fell below the 150-250 threshold, which is the international benchmark. It was proposed that there was either misplacement of human resources in ATO Tax Administrations, or that the Tax Administrations were overstaffed with support staff. Additionally, when the general staff-to-core staff ratios were computed, it was discovered that the Tax Administrations in the ATO region were overstaffed with support staff.

Employee Retention and Motivation

In a bid to retain and motivate their employees, Tax Administrations in the ATO region employ various tactics and incentive schemes. These include fringe benefits, performance awards, medical aid schemes, good working environment, station visits, long service awards and education grants, to mention a few.

10

Policy recommendations

10. Policy recommendations

10.1. Tax policy

Diversify Revenue Sources

Economic performance affects the degree to which an economy can mobilize tax revenues. A good tax system should aim to minimize the revenue instability that arises from economic shocks by relying less on cyclical revenue sources. Widening the tax base, including the range of taxes can assist in this regard. ATO countries should consider increasing revenue as there is still potential, given their lower tax-to-GDP ratios relative to both more developed counterparts like the OECD and other developing countries like the LAC.

Revenue stability including ensuring real revenue growth can be achieved by changing the composition of the basket of taxes in a manner that makes it to comprise mostly of Ad valorem taxes (i.e. the largest contributors to total tax should be ad valorem taxes). In addition, ATO countries should continuously adjust specific rates of taxes for price changes.

There is an accepted observation that trade liberalisation has limited the use of trade taxes. To deal with this challenge and that of revenue stability (customs taxes tend to be volatile), countries can consider increasing the ratio of their domestic revenue in total revenue by increasing domestic revenue sources.

Review VAT Thresholds

With the inception of the VAT, the general sentiment was that lower VAT thresholds were more revenue productive that higher VAT thresholds. However, even though low thresholds have the effect of including several vatable transactions in the VAT net, it is not always true that lower VAT thresholds consequently lead to higher VAT revenues. Therefore, ATO countries should strike a balance between costs of collection and the marginal value of additional VAT revenue when attempting to come up with optimal VAT thresholds. A high VAT threshold is still desirable, even though it results in some revenue forgone by dropping many small taxpayers.

Review VAT Rates and Streamline Multiple VAT Rates

There is still room for some ATO countries to consider reviewing their VAT rates upwards to enhance domestic revenue mobilisation. All countries whose VAT rates were below the ATO average of 15.45% have room to raise their tax rates to the ATO average but remaining below the international benchmark of 16%. In addition, it was observed that some countries with multiple VAT rates were also among those with the lowest VAT-to-GDP ratios. Therefore, it is recommended that ATO countries streamline multiple VAT rates and aim for single standard VAT rate in line with international best practice.

Consider Reforming Administration of VAT Refunds

The ATO average time to process a VAT refund was 43 days against an international benchmark of 25 days. Therefore, it is critical that ATO countries strive to find efficient ways of administering VAT refunds and reduce the turnaround time to process a VAT refund. In addition, ATO countries ought to stop restricting the credit mechanism of the VAT through denials and delays in the provision of credits for VAT on inputs. Such a practice results in very low VAT refunds-to-collection ratios and militates against the tenets of the modern VAT. In some ATO countries, VAT refunds fraud resulted in high VAT refunds-to-collection ratios. ATO countries are encouraged to take a cue from Zimbabwe which managed to reduce fraudulent VAT refunds through automation. The country's VAT refunds-to-collection ratios went down from 22% in 2015 to 18% in 2016. This was after the Zimbabwe Revenue Authority had rolled out the tax management system (TMS).

Embrace Environment Taxes

Faced with environmental degradation and the threat of global warming emanating from ozone depletion, ATO countries should continue embracing environment taxes. These special excise taxes have a direct effect on addressing market failure by "pricing

in" environmental costs. In addition, they also provide an incentive for innovation since they increase the cost to the polluters.

Design Excise Taxes Accordingly

ATO countries should consider whether to levy specific or ad valorem taxes, depending on the excisable products. For alcohol, specific rates are recommended, but the rates should be adjusted periodically for inflation. For cigarette taxes, a unit tax per pack of cigarette is more appropriate. Taxation of fuel is easy since it can be levied per volume of fuel consumed. ATO countries that have not yet introduced excise on fuel could consider its introduction, since it has proved to be a significant source of revenue for several countries.

Review Marginal PIT Rates and Reduce the Number of PIT Brackets

ATO countries should consider reducing the number of personal income taxes (PIT) brackets to simplify their PITs and possibly harness more revenue from PITs. In addition, it is recommended that they review their marginal PIT rates. It is good tax policy to ensure that the top marginal PIT rates do not vary considerably from the CIT rates. Several ATO countries should also consider increasing the bottom marginal rates of PIT since it was observed that those countries that applied low bottom marginal rates of PIT had low PIT-to-GDP ratios. High marginal tax rates with few exemptions have the potential to increase the PIT revenue-to-GDP ratios.

Reduce Heavy Reliance on Non-Tax Revenues

In the face of fluctuating international market prices of oil, minerals and other commodities, heavy reliance on non-tax revenue is no longer a viable option for ATO countries. Even resource rich ATO countries should fall back on tax revenue which is more sustainable in future. Therefore, it is critical that they also find ways of expanding their tax bases and increase their tax-to-GDP ratios.

Protect Revenue Losses through Streamlining Tax Expenditures

It was confirmed that ATO countries lose significant chunks of revenue through the granting of tax expenditures, specifically VAT and customs duty expenditures. Therefore, ATO countries should streamline their tax expenditures to safeguard revenue collections. In some cases, it may be prudent to collect the tax revenue and then grant relief to deserving sectors and economic players through the granting of government subsidies.

10.2. Tax and customs administration recommendations

Interact and Improve Communication Channels with Taxpayers

In the modern business world, taxpayers should be afforded the opportunity to interact with their Tax Administrations while being in the comfort of their homes. A call centre or tax information line is therefore a critical tool for this purpose. Taxpayers want the phone service available when it is convenient to them, including weekends and after hours.

The website, internet and mailing services are other important aspects. Tax administrations should provide taxpayers with service to file electronically, making use of the website technology that allow them to download electronic forms, obtain an identification number, check the status of their refunds and calculate the correct amount of tax to be withheld.

Intensify Taxpayer Education Initiatives

In 2016, 22 ATO countries had separate divisions that dealt with taxpayer education, while 4 countries did not have separate divisions with separate budgets for taxpayer education. Since it is the duty of Tax Administrations to educate taxpayers in order to enhance tax compliance, it is recommended that ATO Tax Administrations without separate budgets for taxpayer education take a cue from those that have and include that aspect in their budgets.

Increase the Number of Auditors and Aim to Recover More from Audits

The ATO average ratio of taxpayer-per-auditor stood at 1044:1 in 2016. This figure was too high when compared with other Tax Administrations such as RMC-WPKL where the ratio was 411:1. Therefore, ATO countries should strive to place more staff in audit functions to lower the ratio. Regarding audit recovery rates, the ATO average stood at 28%. Such low audit recovery rates have negative effects on arrear portfolio and can result in the build-up of outstanding amounts, thereby hindering Tax Administrations from meeting their revenue targets. ATO Tax Administrations should therefore strive to increase their audit recovery rates.

Decisively Deal with Tax Arrears

While international best practice recommends that the ratio of stock and flow of tax arrears to total revenue be below 10%, in 2016, the ratio stood at 20% in the ATO region. Therefore, ATO Tax Administrations should find efficient ways of collecting arrears. It is further recommended that debt which is impossible to collect should be written off. ATO countries should also major on collecting new arrears with high values as opposed to old and low valued arrears.

Intensify Information Exchange and Reduce Import Tariffs to Curb Smuggling

ATO Tax Administrations should intensify co-operation and information sharing among themselves. As reiterated, criminals are not solely a challenge of the Tax Administration of one state, but they are a threat of the global community. As pointed out in the 2017 edition of the ATO, ATAF Agreement on Mutual Assistance in Tax Matters (AMATM) is a key tool in the fight against tax avoidance and evasion by MNEs and HNWIs. Tax Administrations should use double tax agreements (DTAs) when collecting information in order to facilitate audits and investigations of MNEs.

In addition, since high import tariffs are an incentive for smuggling, it is crucial for ATO countries to reduce high tariffs, especially in the face of regional integration.

Embrace Non-Discriminatory Recruitment Policies

It was observed that some ATO countries had male-to- female staff ratios that comprised above four times more men than their female counterparts, while the ATO average stood at almost twice more men than their female counterparts. Even in the recruitment of executives, on average there were over 3 times more male than female senior managers. Learning from this anomaly, ATO countries ought to embrace policies and procedures that do not discriminate against gender, when recruiting and placing staff.

Continue to Offer On-the-Job Training

Although several ATO Tax Administration staff possess at least a University degree, it was highlighted that mere possession of a degree was not an indicator of efficiency and effectiveness of the Tax Administration staff. When recruiting staff, Tax Administrations in the ATO region should aim for specialised technical degrees. In addition, since taxation and customs are highly technical areas, staff in core revenue collection functions should continuously receive on the job training, in line with changing global and economic trends. ATO Tax Administrations should operate continuous staff capacity building in areas like international taxation, transfer pricing, forensic auditing, the auditing of related transactions and Inter-party transactions. It was also highlighted in the 2017 edition of the ATO publication that ATO countries could join Tax Inspectors Without Borders (TIWB), a joint initiative of the OECD and the United Nations Development Programme (UNDP), which supports countries in building tax audit capacity.

Hire and Retain Competent Staff

Tax Administrations in the ATO region should strive to motivate their employees through monetary and non-monetary schemes. This is critical since Tax Administration employees are prone to the scourge of corruption due to the inherent nature of their work. There is also the threat of losing trained and specialised

staff through resignations, since Tax Administrations face serious competition from accounting firms, tax consultants and customs clearing agents.

Modernise and Automate Tax Administrations

Tax Administrations like Zimbabwe have achieved a lot through modernisation and automation. Among the benefits were: reduction in fraudulent VAT refunds through tax management services, effective risk management through selectivity module in ASYCUDA World, e-lodgement of bills of entry by customs clearing agents, busting smuggling activities using scanners, among several achievements. It is therefore worthwhile that other ATO countries take a cue from such innovations. As was recommended in the 2017 ATO edition, Tax Administrations need to modernise and move from a complex, partially paper-based, labour-intensive environment to one that is simplified, automated and more cost-effective. They ought to 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.

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Figure A3-1: VAT by type 's contribution to total VAT, 2016

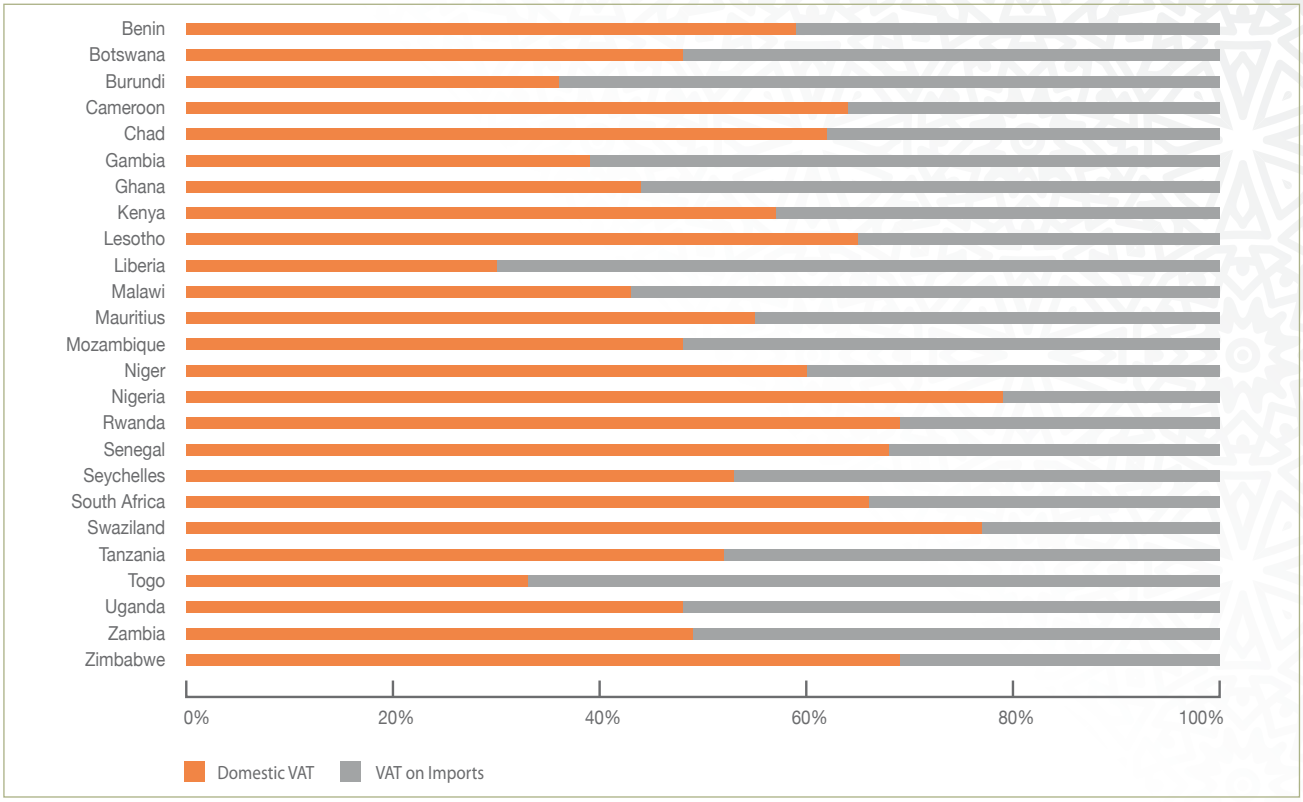


Figure A3-2: VAT rates (%) in ATO Countries, 2016

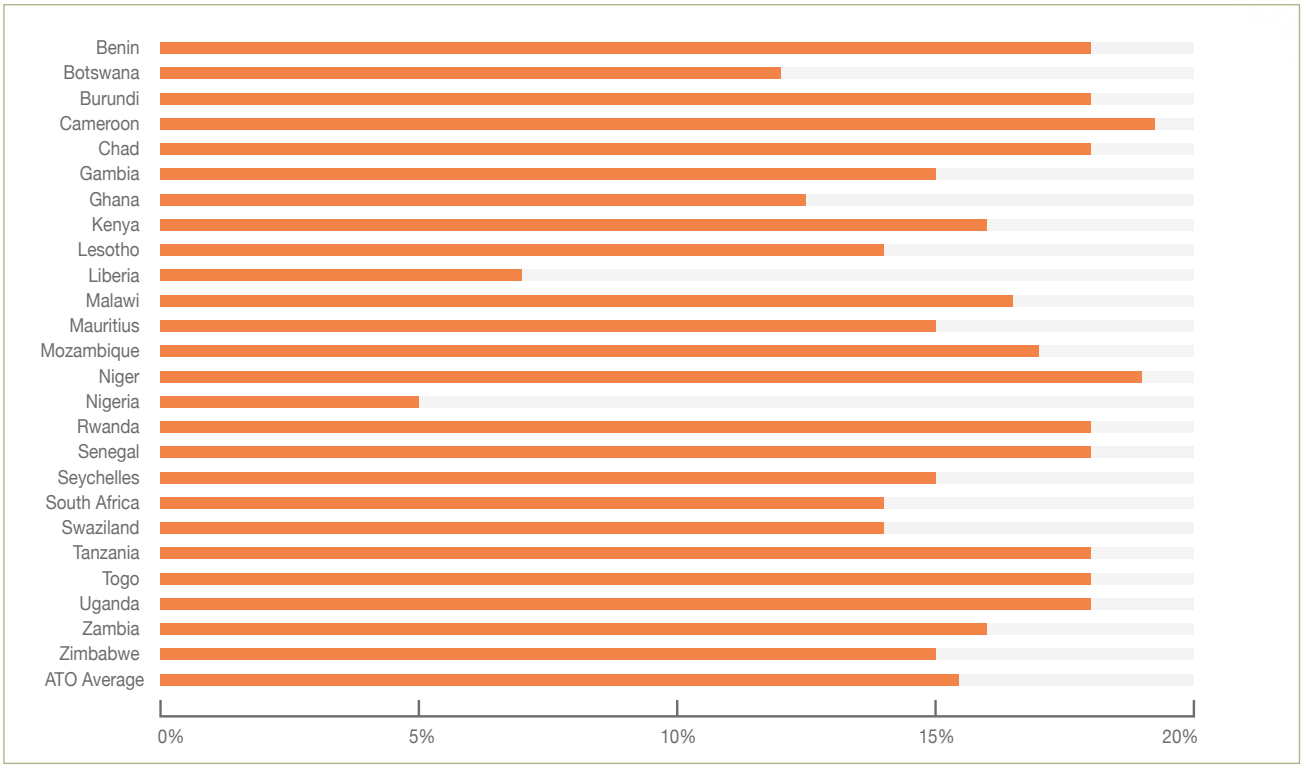


Figure A3-3: Ratio of Domestic VAT to VAT on Imports, 2016

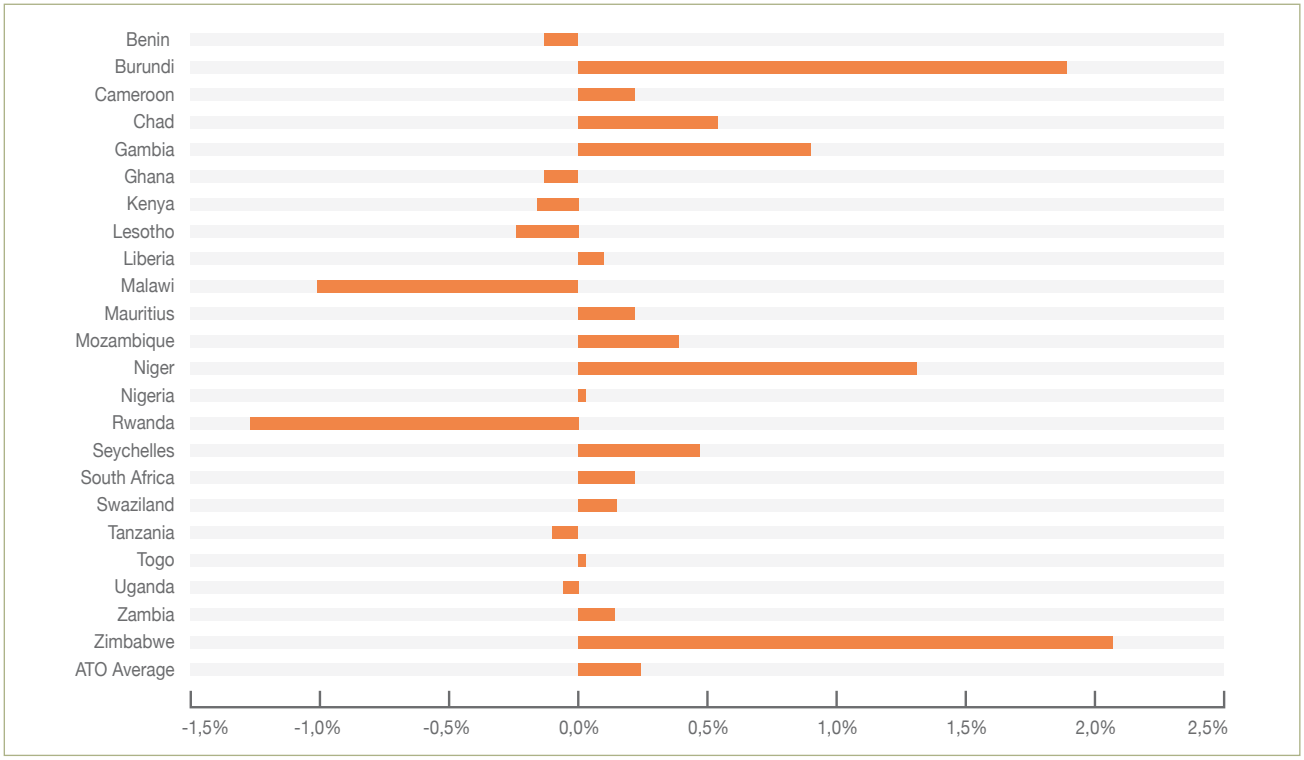


Figure A3-4: Growth in share of excise revenue to total taxes, 2011-2016

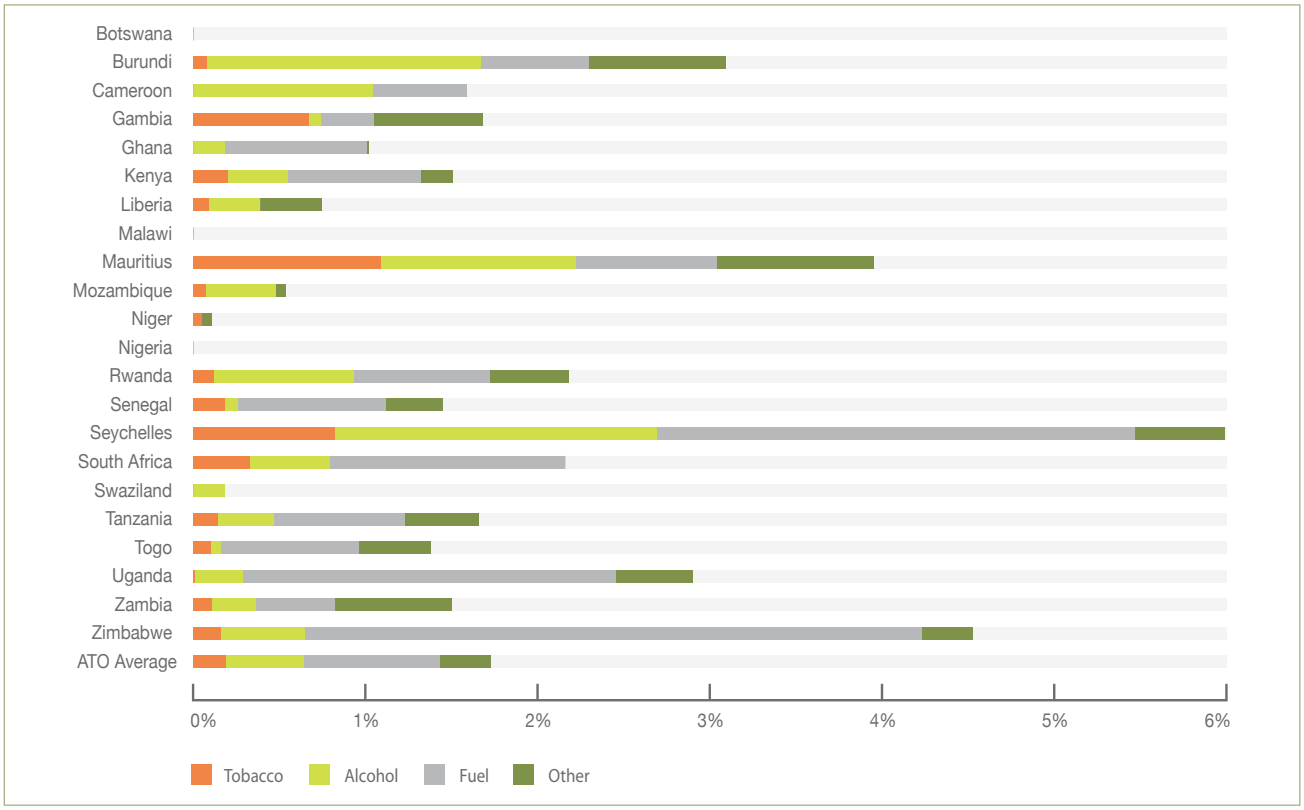


Figure A3-5 : Excise-to-GDP ratios by Excise Type, 2016

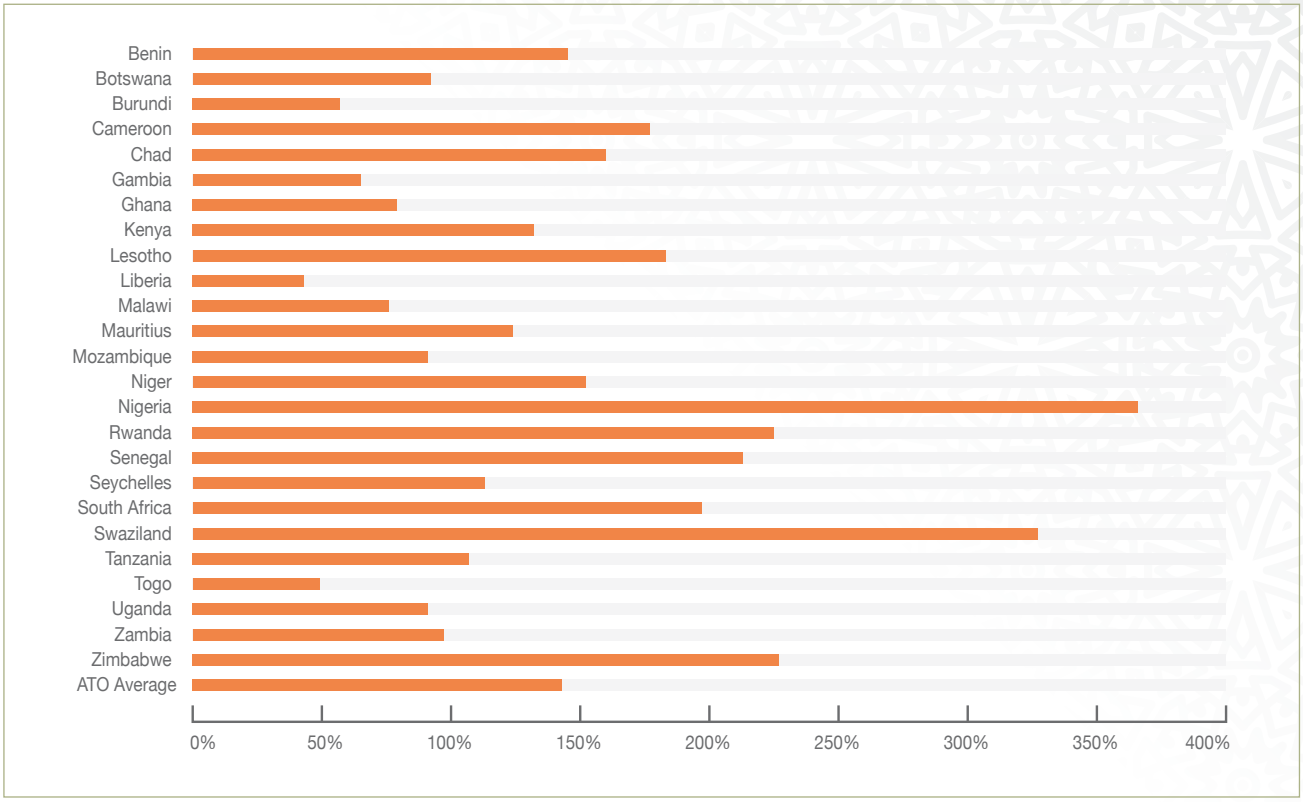
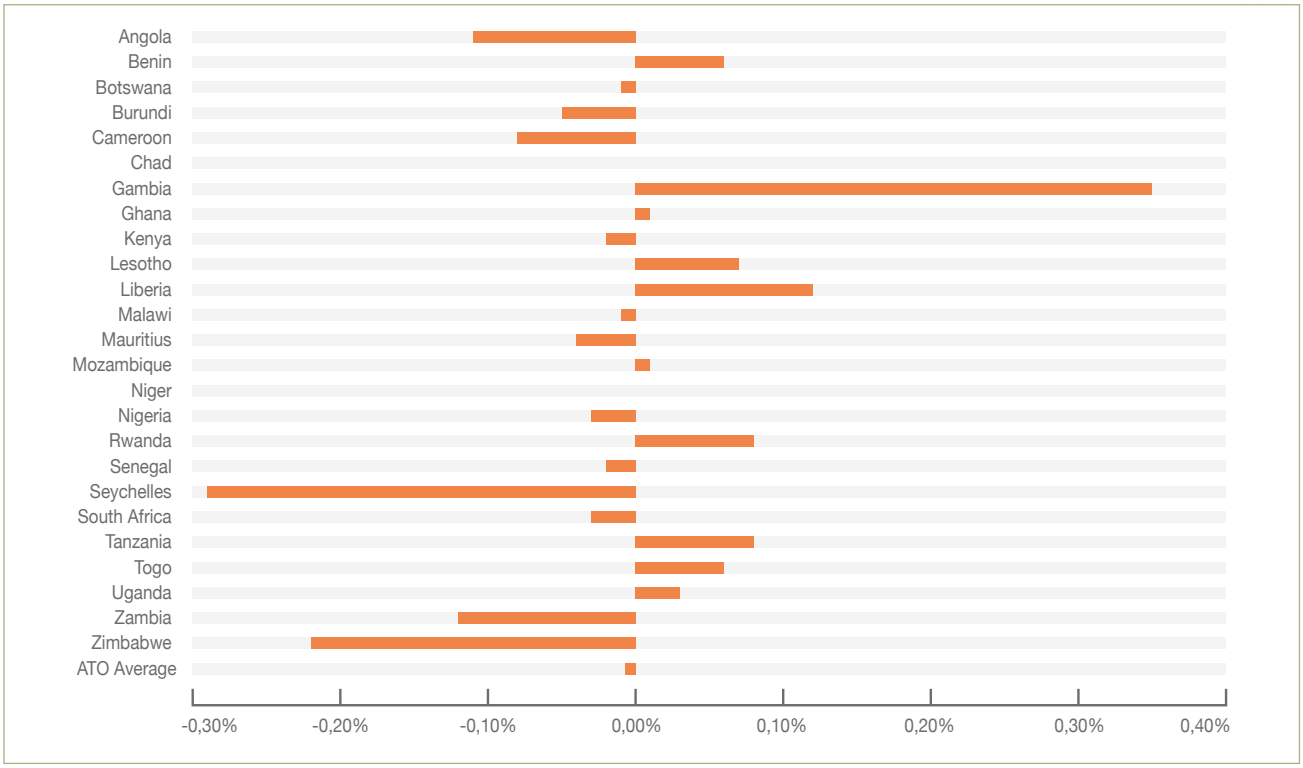


Figure A3-6: Growths in share of import duty-to-GDP, 2016



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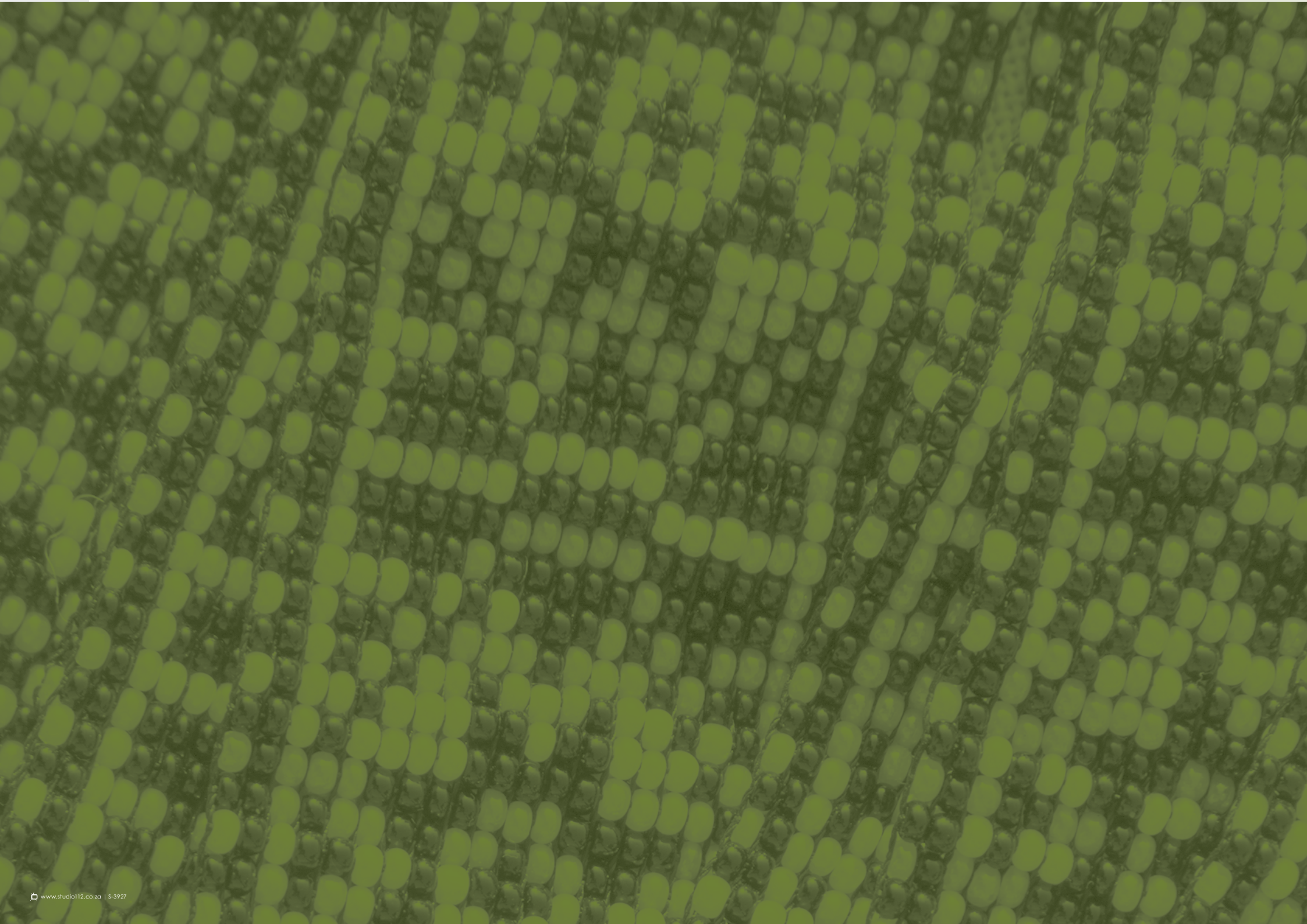

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