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TAX OUTLOOK

2016

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**First Edition**



AFRICAN TAX  
ADMINISTRATION FORUM

FORUM SUR  
L'ADMINISTRATION  
FISCALE AFRICAINE



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## FOREWORD

The African Tax Administration Forum (ATAF) continues to assist African countries in building strong, effective and efficient tax systems. Tax administration generates a substantial amount of data fragmented across different databases and often of varying focus and scope. This first edition of the African Tax Outlook (ATO) is informed by the need for accessible quality information on taxation in Africa. The purpose of the publication is to build a solid framework of meaningful indicators that will help to compare, assess and ultimately improve countries' tax administration and revenue performance. ATAF is aware of the needs of its members and will continue to encourage tax authorities to build systems and processes able to provide the quality data needed to improve the functioning of tax administration in Africa.

ATAF hopes that the ATO will, with its distinctive methodology, make a significant contribution to the overall tax literature. It seeks to raise awareness of tax issues at different levels; promote revenue administration performance measurement and management; and provide governments and other important stakeholders with information on such important indicators as tax rates, tax bases, tax revenues, tax administration, and taxpayer and compliance services. The indicators are crucial to African tax authorities as they implement reforms and policies to broaden the tax base, narrow tax gaps, improve fairness in tax systems, enhance overall voluntary compliance, and keep policy makers informed on tax matters.

It is our sincere hope that the African Tax Outlook, alongside other country statistics and studies, ultimately contributes to improving tax administration and revenue performance in Africa. I trust this ATAF flagship publication will be of use to our members and beyond. Being the first such publication that ATAF has developed, it cannot hope immediately for the level of perfection that it one day plans to achieve. Subsequent editions, however, will bring it closer to its ultimate objectives.

The ATO is the beginning of a journey. It is the first-ever attempt by African tax authorities themselves to compare, in any consistent fashion, the ways in which they raise revenue. The findings are interesting in their own right. More than that, however, they raise many further questions. Why is it that Togo has a tax-revenue-to-GDP ratio of 20% and Tanzania only 12.5%? Why do personal income taxes contribute 35% to total tax revenue in South Africa and just 7% in Cameroon? 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 research programme.

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



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Executive Secretary  
African Tax Administration Forum



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## HEADS OF TAX ADMINISTRATION

(as of October 2015)



**Burundi - Commissioner  
General:**  
Dr. Domitien Ndoyokubwayo



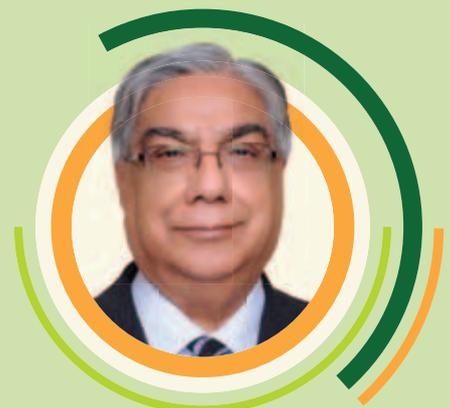
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**Lesotho - Commissioner  
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# Acronyms

<b>ACM:</b> Automated Cargo Management	<b>IRAS:</b> Integrated Revenue Administrative System
<b>AEO:</b> Authorized Economic Operators	<b>ITAS:</b> Integrated Tax Administration Solution
<b>ASYCUDA:</b> Automated System for Customs Data	<b>ITMS:</b> Integrated Tax Management System
<b>ATAF:</b> African Tax Administration Forum	<b>MCP:</b> Managing Compliance Program
<b>ATO:</b> African Tax Outlook	<b>Mill:</b> Million
<b>BMS:</b> Block Management System	<b>OECD:</b> Organization for Economic Co-operation and Development
<b>CBM:</b> Coordinated Border Management	<b>PAYE:</b> Pay As You Earn
<b>CCS:</b> Cargo Community System	<b>PIT:</b> Personal Income Tax
<b>CDLS:</b> Computerized Drivers' License System	<b>PPP:</b> Purchasing Power Parity
<b>CIT:</b> Corporate Income Tax	<b>RMS:</b> Revenue Management System
<b>CSR:</b> Corporate Social Responsibility	<b>SADC:</b> Southern Africa Development Community
<b>DWBI:</b> Data Warehouse and Business Intelligence	<b>SCT:</b> Single Customs Territory
<b>ECTS:</b> Electronic Cargo Tracking System	<b>SME:</b> Small and Medium Enterprise
<b>EFD:</b> Electronic Fiscal Device	<b>SOPs:</b> Standard Operating procedures
<b>EGMS:</b> Excisable Goods Management System	<b>TIMS:</b> Tax Information Management System
<b>ESW:</b> Electronic Single Window	<b>TIN:</b> Tax Identification Number
<b>FY:</b> Financial years	<b>VAT:</b> Value Added Tax
<b>GDP:</b> Gross Domestic Product	<b>VDP:</b> Voluntary Disclosure Programme
<b>GKMS:</b> Gemba Kaizen Management System	<b>WACAM:</b> West African Customs Administration Modernization
<b>IBM:</b> Integrated Border Management	<b>WCO:</b> World Customs Organization
<b>IECDB:</b> Import and Export Commodity Data Base	<b>WHT:</b> Withholding Tax
<b>ILO:</b> International Labour Organization	
<b>IMF:</b> International Monetary Fund	

# ATO country currencies

Country	Currency	Currency code
Burundi	Burundi franc	BIF
Cameroon	CFA franc	XAF
Gambia	Dalasi	GMD
Kenya	Kenyan shilling	KES
Lesotho	Loti	LSL
Mauritius	Mauritius rupee	MUR
Rwanda	Rwandan franc	RWF
Senegal	CFA	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
Zimbabwe	Zimbabwe dollar	ZBD
The Zimbabwean currency, the Zimbabwe dollar, has been suspended since 2009. A multi-currency system is in place.	Zimbabwe's adopted currencies	
	Botswana pula	BWP
	British pound	GBP
	Chinese yuan renmimbi	CNY
	Euro	EUR
	Japanese yen	JPY
	South African rand	ZAR
United States dollar	USD	

# Executive Summary

This first edition of the African Tax Outlook (ATO), which covers the five years from 2010 to 2014, is the beginning of a journey. It is the first-ever attempt to compare, in any consistent fashion, the ways in which African tax authorities raise revenue. And, precisely because it is a first, it has inevitably encountered teething problems, the principal being the collection, quality and availability of data. However, it is important to start somewhere and lay the foundations for future editions. The African Tax Outlook 2016 assesses and compares 15 countries against indicators in four broad categories: tax bases, tax structure, revenue performance, and tax administration. It also to compensate data shortcomings by highlighting examples of effective, efficient tax administration.

## Key points and findings

**The ATO countries' widely varying tax revenues and the way in which they change over time are determined by their widely varying tax bases. The tax bases are, in turn, shaped by population, taxpayer registration, economic structure, output and patterns of growth.**

The populations of the 15 ATO countries\* range from 54 million in South Africa to 90 000 in Seychelles. Seychelles is also the ATO's richest country, with GDP per capita that is nearly 28 times higher than that of Burundi, the poorest. Labour force participation in the ATO countries does not vary widely. The average rate is around 47%. Differences in GDP per capita may therefore be ascribed to differences in labour productivity. Nominal economic growth was strong in the five years under study – nearly 11% annually in nominal GDP (the main driver of increases in tax revenue). The highest growth came in East Africa (Burundi, Tanzania, Uganda), the lowest in Senegal and Mauritius.

The numbers of registered taxpayers in the ATO countries are well short of the numbers of potential taxpayers. They prefer not to register for reasons of equity, to avoid high numbers of inactive registered taxpayers, and because they prefer to register employers rather than their wage-earning employees. Where agriculture (the primary sector) accounts for a high share of national output, GDP per capita is generally lower. And, as much agricultural activity is informal and hard to tax, the primary sector contributes even less to tax revenue than to GDP.

**As the Gambia and Senegal introduced VAT in 2013, all ATO countries use both main consumption taxes – VAT and excise duty. Although they account for the bulk of tax revenue, they can be costly and inefficient when applied to small companies.**

The ATO average VAT rate is 16.5%, significantly lower than the OECD's 19.5% and higher than the CIAT's 14.9%.† At USD 150 000, though, its average monetary VAT threshold is far higher than the OECD's. Thresholds range from USD 400 000 in Seychelles to less than USD 70 000 in Rwanda.

Consumption taxes – VAT and excise duty – make the biggest single contribution of any tax to revenue. They account for 36% of revenue, with excise revenue rising faster than GDP between 2010 and 2014 – even tripling in the Gambia and Zimbabwe. Although low monetary thresholds ostensibly widen the tax base, as they capture small firms, they may exact a high administrative price for little revenue. High thresholds, however, can yield high revenue surpluses although the tax base is narrow. In other words, revenue is high relative to administrative costs are lower. VAT thresholds as a ratio of company turnover (which constitutes GDP) tell a different story. Indeed, low monetary thresholds (e.g. Rwanda and Tanzania) may be high relative to GDP per capita and vice-versa. So in Seychelles, which sets a high monetary VAT threshold, VAT revenue accounts for a low share of GDP per capita. But where monetary thresholds are low, e.g. Gambia and Rwanda, ratios of VAT revenue to GDP are high.

**Personal income tax (PIT) is progressive in all ATO countries save Mauritius, which applies a 15% flat rate. There is no great variation in the distributions. Many people are income-tax-exempt or pay the lowest rates as their income is close to the bottom marginal rate.**

Bottom marginal income tax rates range from 5% in Gambia to 20% in Burundi, Lesotho, Rwanda, Swaziland Zimbabwe and Senegal. The top marginal rates lie between 30% and 40%. Only in Zimbabwe is it higher, at 50%. On average, the bottom and top marginal rates of ATO countries are similar to the OECD averages and above the CIAT's.

Average PIT rates were close to bottom marginal levels

\* Burundi, Cameroon, Gambia, Kenya, Lesotho, Mauritius, Rwanda, Senegal, Seychelles, South Africa, Swaziland, Tanzania, Togo, Uganda and Zimbabwe.

† CIAT stands for the Inter-American Center of Tax Administrations. The CIA databank contains tax data for a group of 18 countries from Latin America and 2 Caribbean countries.

(less than half in Senegal and just above in South African and Tanzania). The inference is that high proportions of individuals in ATO countries are tax-exempt – even they though they may earn income – and many pay only at the bottom marginal rates as they live below the poverty line or earn very little. Nevertheless, personal income tax contributes 22% to the total tax revenue of the ATO countries.

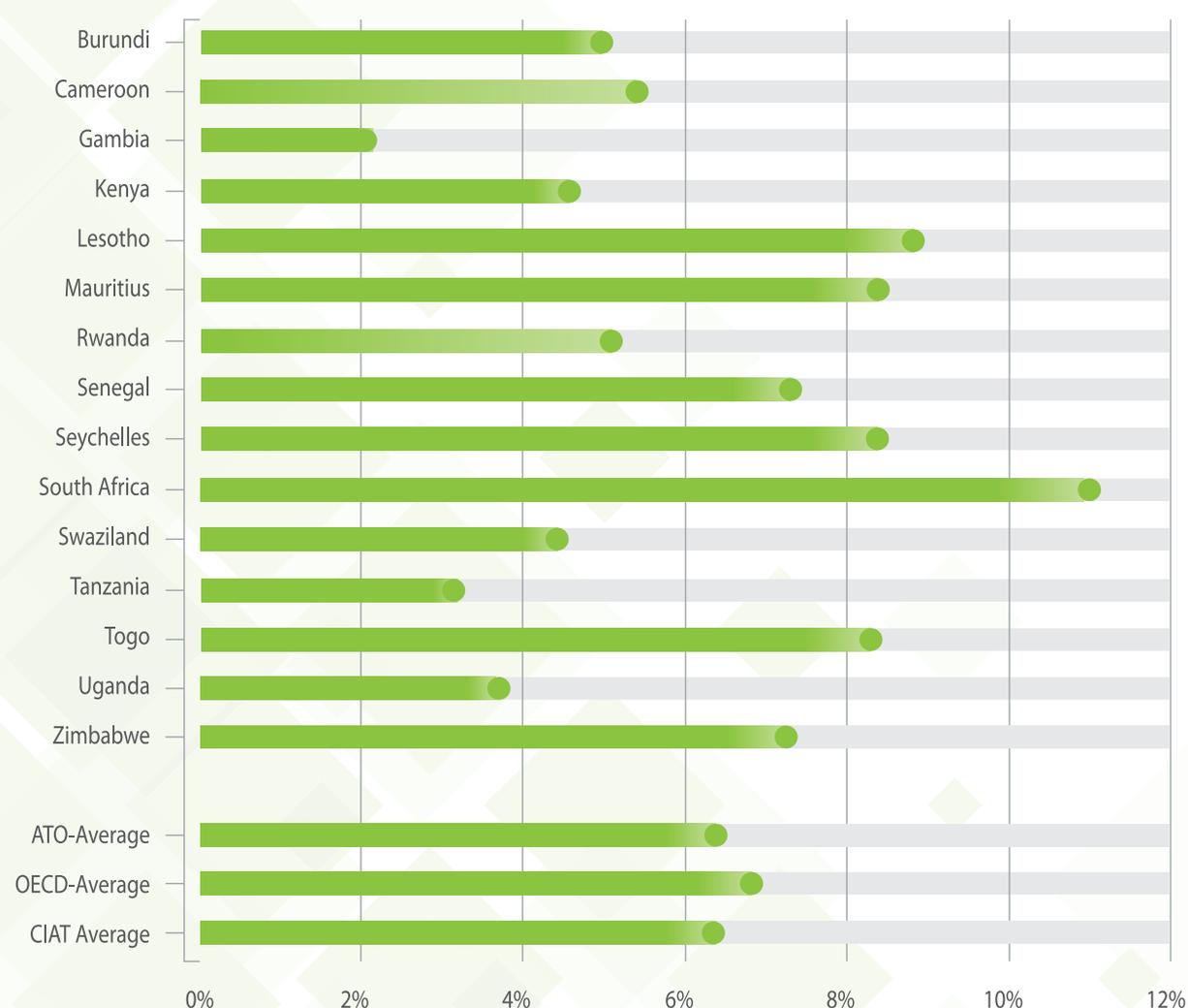
In the five years covered by the African Tax Outlook, 8 out of 15 ATO countries made changes to their tax rates. Some lowered their bottom rates to broaden the tax base and increase tax revenue, while others raised them to protect low-income populations from excessive taxation. Similarly, governments reduced top marginal rates to shield high-income individuals from over-taxation or raised

them to involve the wealthy more fully in public finances.

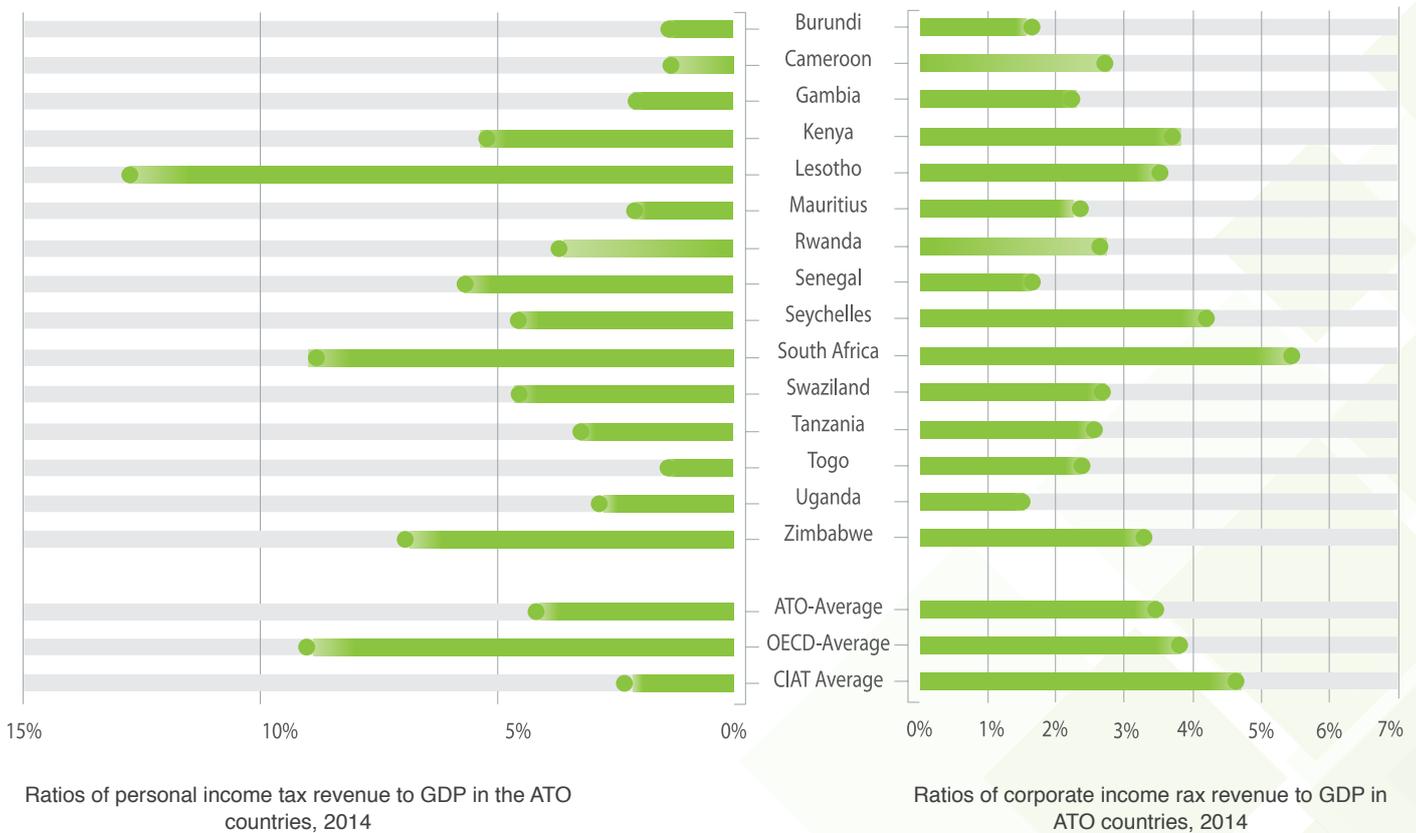
**Most ATO countries tax companies at uniform rates, regardless of sector. Standard corporate income (CIT) tax rates fall within a narrow range and the trend is towards convergence. Very low tax-to-GDP ratios in some countries point to narrow corporate tax bases. However there were also some steep rises in CIT revenue.**

In most ATO countries, CIT rates lie between 25% and 31%. The average rate is 28.3% – almost 4 percentage points above the OECD average and similar to the CIAT rate. The trend is towards convergence in CIT rates, with ATO countries that practice above-average rates lowering them and those with below-average rates raising them. Some countries recorded steep rises in corporate tax

**Figure 1: Ratios of VAT revenue to GDP in ATO countries in 2014**



**Figure 2: Ratios of corporate income revenue to GDP in ATO countries in 2014**



revenue that stemmed from improved compliance and tax administration. They include low-income countries where agriculture and informal sectors account for much production. Kenya, Togo and Rwanda kept their rates low, securing growth from high revenue productivity. Corporate income tax accounts for 16% of ATO tax revenue.

**The ATO countries’ ability to mobilize revenue – measured by the average tax-revenue-to-GDP ratio – is well below the OECD average. There is a need to widen the tax base and/or increase revenue productivity. Indeed, a number of countries with low revenue-to-GDP ratios, achieved revenue growth that was much greater than nominal GDP growth. And they did so by increasing their revenue productivity, not their tax rates.**

The average revenue-to-GDP ratio among ATO countries’ was 17.6%, significantly below the OECD’s 25.7%. Figures ranged from 25% - 26% in Zimbabwe, Seychelles and South Africa to around 12% in Tanzania. The figures show ratios of VAT, PIT, and CIT to GDP country by country (See figure 1 and figure 2).

Almost all the ATO countries increased their revenue-to-GDP ratios between 2010 and 2014. On average the increase was 1.7 percentage points, with Togo and Rwanda showing rises of 4.6 and 2.9 percentage points, respectively.

The inference is that tax collection became more efficient – in other words, revenue rose more steeply than GDP, so revenue-to-GDP ratios improved. The driver was productivity – the result of good tax administration.

**The ATO country tax administration authorities are adequately structured to their task, but administration is costly. Most have taken action to cut costs, increase compliance and improve collection. They have introduced ICT and web-based procedures, particularly electronic filing, payment and information sharing. There have also been measures both to educate taxpayers and to train staff, but tax authorities remain understaffed and underskilled. Countries also need urgently to address illegal outflows of funds that rob them of revenue.**

ATO countries have relatively high costs of tax administration. On average, they spend 2.1% of their

revenue on tax administration and as much as 4% - 5% in some countries. To reduce the cost of tax administration, tax authorities have sought to simplify their systems and make compliance easier. Most have enabled taxpayers to file their returns electronically and pay their taxes online. Some countries – Cameroon, Mauritius, Rwanda, South Africa and Tanzania – have also introduced tax payment by mobile phone. Automation and connectivity must be widened, strengthened and introduced where not in place.

Almost all tax administration authorities are semi-autonomous revenue agencies, structured by taxpayer segment to tailor the treatment of taxpayers to their revenue potential. Accordingly, most revenue agencies have special large taxpayer units, as tax systems depend heavily on large taxpayers. They account for 45.2% of tax revenue on average in the ATO countries.

But, as the ATO countries seek to maximize domestic revenue mobilization, they should not overlook the potential of small and very small businesses. The Rwanda Revenue Authority, for example, trains staff to address the needs of the informal sector (nearly half of GDP).

Revenue authorities should encourage voluntary compliance by outreach and education. Indeed, all revenue authorities have special service units in place. They should also closely link their staff training provision to taxpayer education and service activities. The law should clearly spell out to taxpayers what their obligations are. And, while it should also require that third parties transmit information to the revenue authorities, it should also foster compliance through, for example, provisions to extend deadlines for taxpayers who file electronically.

To enforce compliance, tax authorities must make more efficient use of auditing. Small VAT audits of taxpayers who do not have the accounting and record-keeping capacity account for half of all audits. Resources should be freed up to focus audits on big companies, where tax evasion is most likely and most damaging. Financial penalties should be set high enough to deter non-compliance

A serious threat to development lies in illicit financial flows (IFFs) out of the ATO countries. IFFs from Sub-Saharan

Africa between 2003 and 2012 averaged 5.5% of GDP per annum, compared to 3.9% in all developing countries (Source: Global Financial Index). The most pervasive malpractice is misinvoicing which hits South Africa particularly hard. It is urgent that African countries adapt the OECD's action plan against tax base erosion and profit shifting to their own particular needs. They should also work together and share information through the African Tax Administration Forum's Agreement on Mutual Assistance in Tax Matters.

**Improvements in the efficiency of tax administration and reductions in the cost of compliance are necessary conditions for further action to broaden the tax base through lower thresholds and fewer exemptions. A number of countries have already taken measures to that end. The result has been much more efficient tax administration, which has translated into markedly improved – and often high – revenue productivity and greater potential tax revenue collection. The ATO journey continues.**

# INTRODUCTION TO THE AFRICAN TAX OUTLOOK



# HIGHLIGHTS

## ATO Themes

The collected data allow comparisons between the ATO countries' tax bases, rates, revenues and administration. Systematic analysis of the four sets of indicators makes it possible to draw conclusions as to reasons for differences in revenue performance. They may also be useful in a number of topics for comparing ATO countries to other country-based groups. There is plenty of international evidence for tax bases and revenue performance.

Future editions will be able to build on groundwork laid by the indicators that fall under four main headings:



## Data collection, an integral component of tax administration



## FIFTEEN COUNTRIES PARTICIPATED IN THIS INAUGURAL AFRICAN TAX OUTLOOK:

Burundi	Mauritius	Swaziland
Cameroon	Rwanda	Tanzania
Gambia	Senegal	Togo
Kenya	Seychelles	Uganda
Lesotho	South Africa	Zimbabwe

The average of ATO countries tax to GDP ratio is **17.6%** while the OECD's is **25.7%**. However, in Mexico it only 19.6% and in the USA it is 24.4%. On the other hand, it is 44.0% in France and 47.2% in Denmark. In the CIAT countries, the average is **21.3%** and the range goes from 14.0% in the Dominican Republic to 35.7% in Brazil.



NOTE:

For the purposes of international comparison, the performances of the ATO countries are set against those of the OECD and the Inter-American Center of Tax Administrations (CIAT). They are two of the few international organisations that compare countries' tax administration and rates.



The question as to what African tax authorities can learn by comparing themselves with one another and with other country groups remains an open one. But both the African Tax Administration Forum (ATAF) and the 15 African tax authorities who worked together to produce this, the first edition of the African Tax Outlook (ATO), are convinced that a great deal is to be learned and are determined to learn it – particularly how to collect more and better data in order to improve tax policy and administrative decision-making and, ultimately, to maximise revenue collection. This first edition of the ATO marks the beginning of a journey.

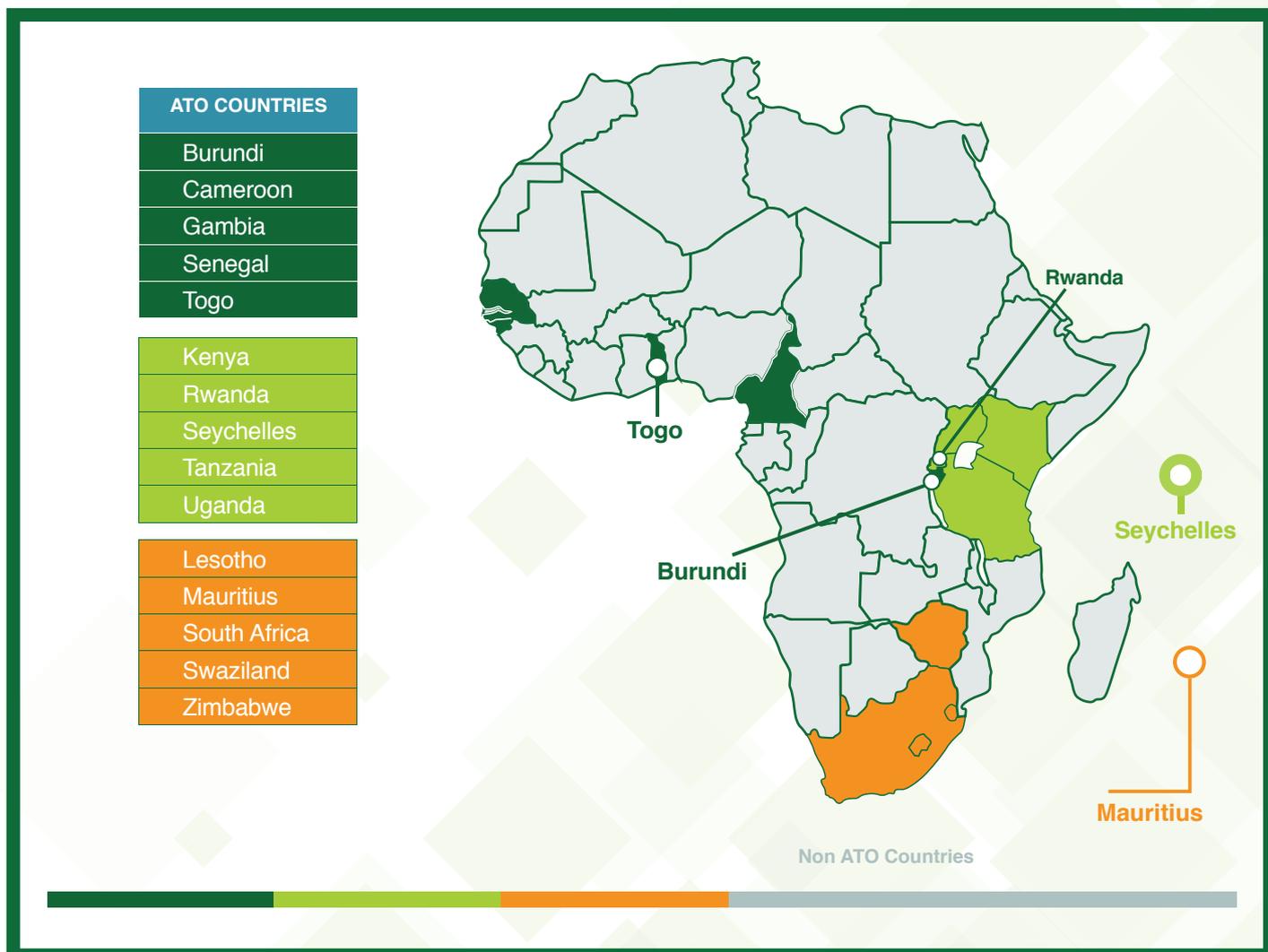
## 1.1. Background to the first edition of the African Tax Outlook

The African Tax Outlook is produced by the African Tax Administration Forum, a platform for promoting cooperation, knowledge sharing and capacity building among African tax authorities. The African Tax Outlook's objective is to be a reliable source of information on taxation that will serve as an African and global benchmark in formulating tax policies and tax administration reforms across Africa.

It also seeks to be a barometer for the business community. To those ends, the African Tax Outlook endeavours to:

- enable improved comparisons and benchmarking between ATO countries and between regions;
- supply meaningful, comparable data on tax policy, tax administration and tax legislation;
- analyse data to determine trends in taxation;
- identify good practices within the African region to improve revenue administration.

Fifteen countries participated in this inaugural *African Tax Outlook*:



National heads of research and planning from the tax authorities in the participating countries came together in April 2015 in a consultative workshop, where they determined and agreed upon four sets of indicators under the following headings:

- 1. Tax Bases**
- 2. Tax Structure**
- 3. Revenue Performance**
- 4. Tax Administration.**

The purpose was to harmonise the data collected so that the countries could measure and compare their tax administration performances and analyse policy. While the ultimate aim of tax administration is fair, efficient revenue collection, it is not possible if the data have not been collected. Accordingly, the 15 countries developed a guidebook that describes the four sets of indicators required and a template that defines the scope of each item of data. Those four sets of indicators structure this first edition of the *African Tax Outlook*.

Each country appointed a focal point whose job was to collect data over a period of five fiscal or calendar years. For countries using calendar years, the data period was 2010 to 2014 (inclusive), while for those that apply the fiscal year it ran from 2009/10 to 2013/14. The *African Tax Outlook* considers only data from those calendar and fiscal periods. As a result, reforms initiated in early 2015 will be covered only in the next edition (although this edition does include some examples of best practice that relate to 2015).

The collected data allow comparisons between the ATO countries' tax bases, rates, revenues and administration. Systematic analysis of the four sets of indicators makes it possible to draw conclusions as to reasons for differences in revenue performance. They may also be useful in a number of topics for comparing ATO countries to other country-based groups. There is plenty of international evidence for tax bases and revenue performance. However, when it comes to groups of countries, there is little systematic consideration of tax rates or administration. Exceptions are the OECD and the Inter-American Center of Tax Administrations (CIAT) which groups Latin American and Caribbean countries.

To offer some international comparison and benchmarking, figures and tables showing ATO country averages include the equivalent OECD and CIAT averages. In that respect, it is important to note that the OECD and CIAT themselves are benchmarks. But they can be neither optimal nor

reasonable targets for ATO countries, particularly in light of the sheer heterogeneity of all three country groups considered. The average OECD tax-to-GDP ratio, for example, is 25.7%. However, in Mexico it is only 19.6% and 24.4% in the United States, but as high as 44% in France and 47.2% in Denmark. Similarly, the CIAT country average of 21.3% encompasses the Dominican Republic's 14% and Brazil's 35.7%.

## 1.2. How the African Tax Outlook is structured

The four sets indicators agreed upon by the ATO countries structure the *African Tax Outlook*.

Chapter 2 presents and compares the tax bases of the ATO countries. To that end, it considers socio-demographic indicators such as population size and labour force participation rates, and economic indicators like the levels, growth and structure of GDP.

Chapter 3 explores tax rates and structures, beginning with consumption taxes. It analyses VAT rates and thresholds, then goes on to review excise duties. As for direct taxation, Chapter 3 examines personal and corporate income tax rates and discusses withholding taxes.

Chapter 4 considers ATO countries' revenue performances. It assesses total tax revenue in relation to GDP, the structure of total revenue and revenue growth. It also conducts a detailed analysis of the revenue ratios of different types of tax.

Chapter 5 takes an overview of the way revenue authorities are organised and structured, highlighting the relevant costs and efficiency of revenue administration and evaluating issues relating to reform and modernisation.

Chapter 6 brings together the strands of thought from the previous chapters and addresses open questions that arise from them. It looks at the fundamental issue of data collection in African tax administration and considers critical data that still need to be collected to improve databases. The chapter then seeks to draw pertinent fiscal policy conclusions.

Chapters 2 to 6 of the Outlook all feature examples of good practices among the ATO countries.

# SNAPSHOT OF THE TAX BASE



# HIGHLIGHTS

## TAX BASES

The size of the tax base is the main determinant of tax revenue. It is shaped by population, GDP and number of taxpayers. The ATO countries' tax bases vary widely, which rules out any one-size-fits-all policy recommendations.

## POPULATION & LABOUR FORCE

ATO countries' labour force relative to the population (labour force participation rate) was just below 50%. Variation was not wide, with rates mostly between 50% and 55% and a clutch of countries just above 40%. Only in South Africa was participation under 40%, while in Lesotho it was nearly 60%.



**2014**  
**SOUTH AFRICA**  
**54 MILLION**

In 2014, the largest ATO country was South Africa with a population of 54 million, while the smallest was Seychelles with 90 000 inhabitants. Population growth was 2.3% – an average that covers rates as low as 0.3% in Lesotho and as high as 5.7% in Zimbabwe.

## POPULATION & LABOUR FORCE

**40%**

Only in South Africa was participation under 40%

**< 50%**

In 2014, the average ATO labour market participation rate was just below 50%.

**60%**

While in Lesotho it was nearly 60%.

## GDP per capita a gauge of productivity

The GDP per capita average is driven by 4 countries with above-average growth.

**51.1%**

### SEYCHELLES

*Labour Force participation, 2014, percentage of population*

## Average Annual Population growth, 2010-2014



**3.9%**

**THE GAMBIA**

AVERAGE ANNUAL  
Population growth,  
2010-14 percentage



**5.7%**

**ZIMBABWE**

AVERAGE ANNUAL  
Population growth,  
2010-14 percentage



**0.3%**

**LESOTHO**

AVERAGE ANNUAL  
Population growth,  
2010-14 percentage

The size of the tax base in absolute terms is the main determinant of tax revenue. It is shaped by population, GDP and the number of taxpayers. However, ATO economies differ in size, structure and level of income and development. To assess and compare tax bases meaningfully, therefore, the African Tax Outlook (ATO), also referred to as the Outlook, considers them in relation to population size or as a ratio of GDP.

Furthermore, because weak growth in GDP generally translates into poor revenue performances and strong growth into good performances, GDP growth is a good gauge of rises and falls in tax revenue.

## 2.1. Population, labour force and GDP per capita

This first edition of the Outlook covers 15 African countries that lie in different regions, are of different size, and are at different stages of economic development. The most natural indicator for measuring the size of a country is its population<sup>1</sup>. It is the standard point of reference for economic and fiscal indicators, enabling proportional, meaningful comparisons between countries.

### Population size and growth

In the year 2014, the largest ATO country was South Africa with a population of 54 million, while the smallest was Seychelles with 90 000 inhabitants (Table 2.1). There were 5 countries – Gambia, Lesotho, Mauritius, Seychelles and Swaziland – with populations of below 2 million and 4 of them with over 30 million – Kenya, South Africa, Tanzania and Uganda.

As for population growth in the 5 years covered in this first edition of the African Tax Outlook, it was 2.3% on average across the 15 countries (Table 2.1, middle column). In some, however, like the Gambia with 3.8% and Uganda with 3.6%, it was considerably higher.

### Labour market participation rates

Strong population growth can swell the labour force and thereby stimulate economic growth – on condition that a high share of the population is economically active<sup>2</sup>. The size of the labour force is also the reference point for such indicators as “taxpayer” or “tax administration employee”. It is used in standardised indicators like the ratio of taxpayers to the labour force.

**Table 2.1:** Population sizes and growth and labour market participation in ATO countries

Country	Millions of population 2014	Average annual population growth rate in the years 2010 to 2014	Labour force participation rate 2014
Burundi	9.5	2.9	53.7
Cameroon	21.7	2.5	41.2
Gambia	1.9	3.9	41.8
Kenya	43.0	2.8	40.1
Lesotho	1.9	0.3	58.8
Mauritius	1.2	0.5	47.2
Rwanda	11.0	2.3	43.8
Senegal	13.9	2.7	54.4
Seychelles	0.1	1.1	52.1
South Africa	54.1	1.6	37.4
Swaziland	1.1	1.2	41.3
Tanzania	46.1	1.6	52.6
Togo	6.8	2.4	47.3
Uganda	36.6	3.6	41.7
Zimbabwe	14.6	5.7	50.8
ATO-Average	17.6	2.3	46.9

Source: Population figures come from the countries national statistics. Labour force participation rates come from the ILO, with the exception of Rwanda.

The labour market participation rate is the labour force relative to the population. In 2014, the average ATO participation rate was just below 50% (Table 2.1, right-hand column), although that figure masks wide differences between countries. Some, like Lesotho, boast participation rates that are close to 60%, while in others, such as Uganda, Kenya and Gambia, participation hovers around the 40% mark. South Africa is the only country where labour market participation is below 40%<sup>3</sup>.

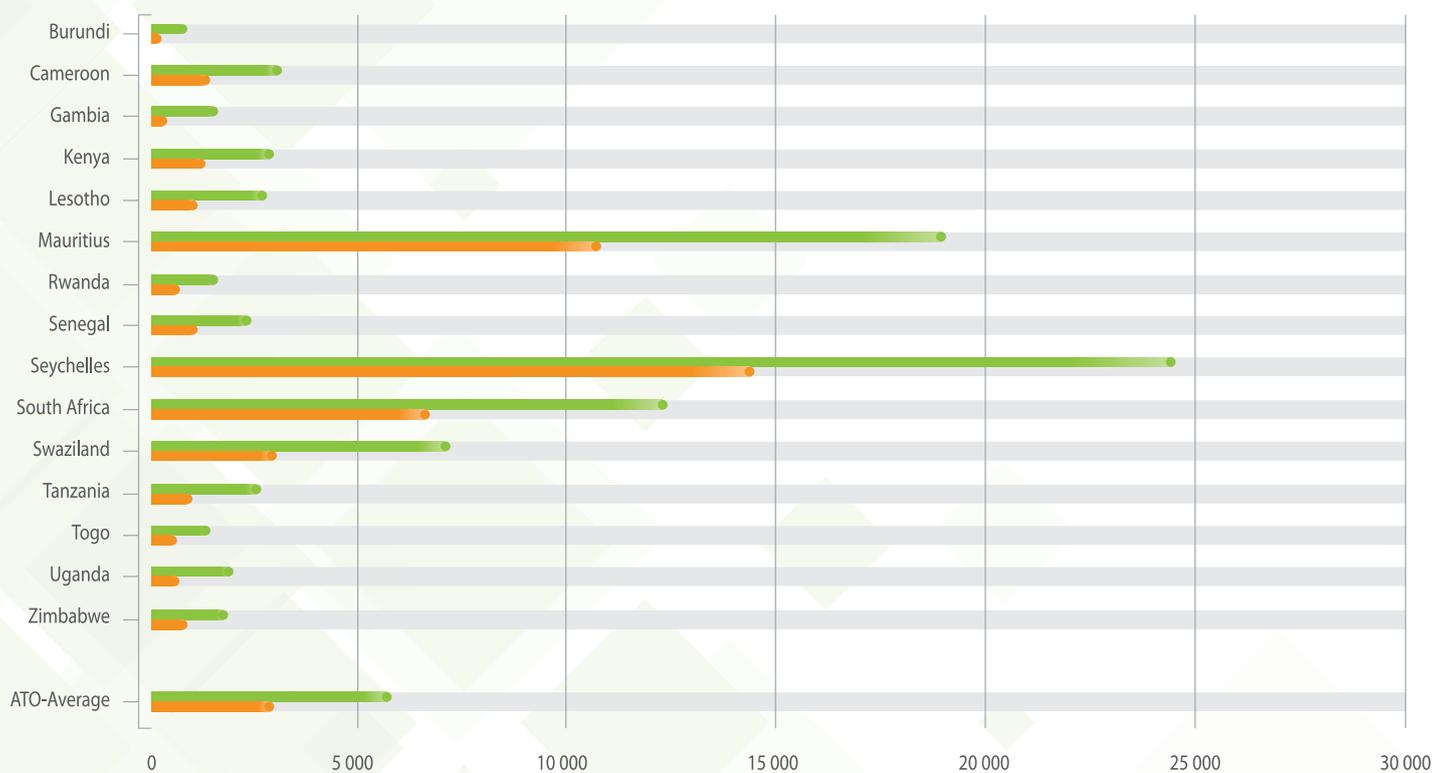
### GDP per capita as gauge of productivity and welfare

GDP per capita can serve as a yardstick for measuring countries' productivity and welfare over time. However, if countries' GDP per capita is to be comparable, figures must first be converted into international dollars<sup>4</sup> using either exchange rates or purchasing power parity (PPP) rates. PPP conversion equalises the purchasing power of different currencies by eliminating the differences in price

levels between countries<sup>5</sup>. PPP conversion is thus more suitable for assessing and comparing living standards and exchange rate conversion for analysing international trade (Figure 2.1).

Exchange rate conversion yields (unweighted) average GDP per capita of just below USD 3 000 and PPP USD 5 800. The averages are driven by a handful of countries whose GDP per capita is much higher than that of their peers. In fact, only 4 out of 15 boast above-average GDP per capita. The highest GDP per capita is to be found in Seychelles with PPP USD 24 548 and USD 14 488 at the average exchange rate. Mauritius (PPP USD 19 081 and USD 10 816) comes next, followed by South Africa (PPP USD 12 392 and USD 6 729), and Swaziland (PPP USD 7 214 and USD 3 076). Of the countries with GDP per capita below the ATO average, the one with the highest is Cameroon (PPP USD 3 146 and USD 1 483) just above 50% of the ATO country average.

**Figure 2.1:** GDP per capita ATO countries in 2014 (Expressed in USD converted using PPP and exchange rates)



■ ppp conversion  
■ average exchange rate  
 OECD-Average: 39,317 (PPP)  
 42,258 (average exchange rate)

*Notes: Data for Seychelles relate to 2013. Data for Kenya, Rwanda, South Africa, Tanzania and Uganda relate to the fiscal year 2013/14. Exchange rates and conversion rates for fiscal years have been calculated as weighted averages of calendar years.*

*Source: Unless otherwise stated all sources of data for the figures and tables were supplied by the 15 countries as part of the ATO project*

Data suggest that there are no wide variations in the labour force participation rates of the 15 ATO countries under review (Table 2.1). The differences in their GDP per capita may therefore be attributed to differences in productivity, which is itself dependent on economic structure and sectoral productivity. Economic structure and sectoral productivity may also explain the disparities in GDP per capita between, on one hand, Seychelles

and Mauritius and, on the other, the rest of the ATO countries. Mauritius and Seychelles have relatively small populations of 1.2 million and 90 000 respectively and are high-end tourist destinations. Although the tourist sector makes a significant contribution to the two countries' GDP per capita, it is of much less importance to aggregate GDP in bigger economies.

## 2.2. Economic structure

### *Sectoral shares of GDP*

The sectoral composition of GDP is a key determinant of average GDP per capita, as labour productivity in some sectors can be much greater than in others. In general, it is relatively low in the primary sector (agriculture) and higher in the secondary (manufacturing) and tertiary (service)<sup>6</sup> sectors. Among the ATO countries the primary sector's average share of GDP is 23% and the secondary sector's 20%. Behind those figures, however, there are wide variations from one country to another (Figure 2.2). One pattern to emerge is that, in those countries where GDP is above the ATO average, the primary sector accounts for a relatively small share of output – only 3% in Seychelles and Mauritius, for example,

#### **Box 2.1. Economic sectors' contributions to tax revenue**

Importantly, economic structure impinges on tax revenue, too. Unlike the secondary and tertiary sectors, the primary sector's contribution to tax revenue is difficult to tax and monitor because most agricultural activity tends to be informal. Sectoral contributions to GDP might not therefore square with sectoral contributions to tax revenue. In agriculture, countries grant particular high numbers of exemptions from VAT on agricultural input and from corporate tax. As a result, the sector contributes far less to tax revenue than to GDP (see Figure 4.3).

11% in South Africa, and 12% in Swaziland. Moreover, low primary sector shares tend to be found in economies with particularly high tertiary sector shares. Conversely, in countries with very low GDP, agriculture accounts for high shares of production – 42% in Burundi and 52% in Togo, for example.

### *Changes in the sectoral structure of the economy*

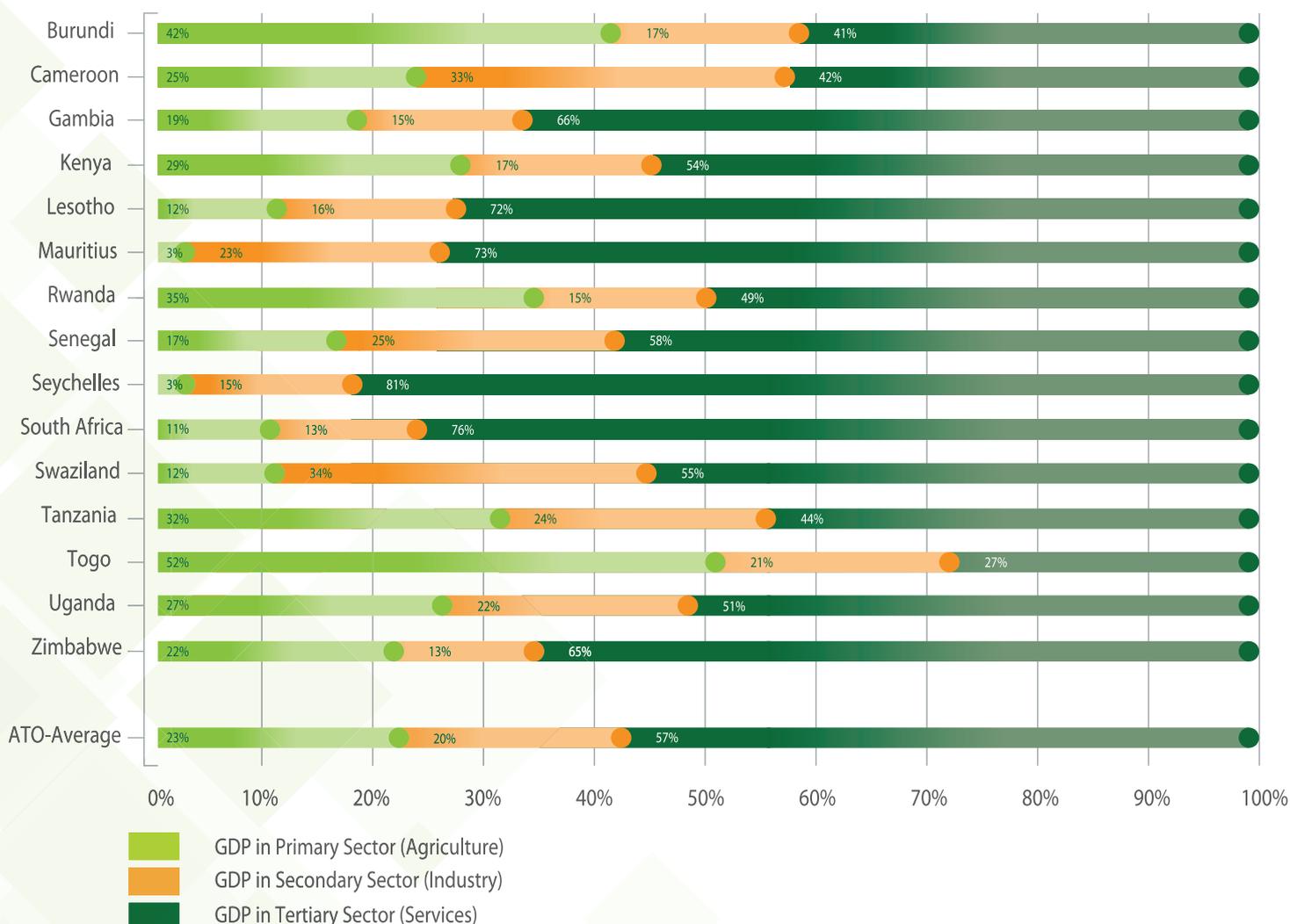
Comparison of sectoral contributions to GDP in the ATO countries in the five years under study shows that sectoral change is a slow process, with sectors' shares of GDP shifting by only 1 or 2 percentage points in most countries. A very notable exception was the Gambia, a predominantly agricultural country, where agriculture as a share of output declined from 30% to 19% – an absolute fall caused by decreasing rainfall that led to devastating droughts between 2011 and 2013 (Yaffa, 2013). As agricultural production dropped, though, nominal GDP in the industrial and service sectors grew by more than 27%.

In Swaziland, the service sector increased its share of GDP by 3 percentage points, while industry grew 4 percentage points in Tanzania. There was also growth in the other sectors in both countries, albeit at a slower rate. The trends observed in Swaziland suggest that changes in the sectoral make-up of GDP were attributable to the development process (AfDB, 2013) resulting from a decline in the export sector and the ensuing need for economic diversification (World Bank, 2015). As for Tanzania, the growth in the industrial sector may be ascribed chiefly to growth in manufacturing and construction (Tanzania, 2013).

## 2.3. Economic growth was dynamic

The ATO economic environment is very dynamic (Figure 2.3). The unweighted average for all ATO countries between 2010 and 2014 points to a near-11% average annual growth rate in nominal GDP – i.e. the sum of growth in real GDP (production) and price rises (inflation).

**Figure 2.2: Sector-by-sector breakdown of GDP in ATO countries, 2014**



*Note: Data for Seychelles from 2013. Data for Kenya, Rwanda, South Africa, Tanzania and Uganda relate to the fiscal year 2013/14.*

### The effects of growth in nominal GDP

Seven countries boasted nominal GDP growth rates that were above the ATO average. The highest was Burundi with 17.7%, followed by Tanzania (16.3%) and, in joint third, Kenya and Uganda with 13.7%. At the lower end of the distribution lie Senegal (4.8%) and Mauritius (6.5%). Much of the nominal GDP growth in those countries might be attributable to inflation, in which case tax revenue rises along with wages and prices. However, with increases in wages and prices, public expenditure also grows, cancelling out improvements in the government budget. On average, price rises accounted for just over half of the 11% rate of growth in nominal GDP in the ATO area between 2010 and 2014.

Some countries experienced a peak in nominal growth in 2012 (Figure 2.4). In Uganda, for example, it exceeded 26%, while real GDP grew only 3.4%. Uganda subsequently moved to introduce structural reforms (of fiscal and monetary nature, for example, to contain inflationary pressures) that saw production increase to 4.7% in 2014 and inflation tumble drastically, bringing nominal growth down to 7%. Rwanda's nominal growth peaked at 17%, before slipping back to around 10% in 2014. Unlike Uganda, though, its real growth was remarkably high, reaching a high point of 10% in 2012 and, despite declining thereafter, never dropped below 5%. It was, moreover, highly inclusive, benefitting all sectors and enabling a substantial reduction in poverty (Thomas, 2014).

### Box 2.2. Nominal GDP and fiscal strain

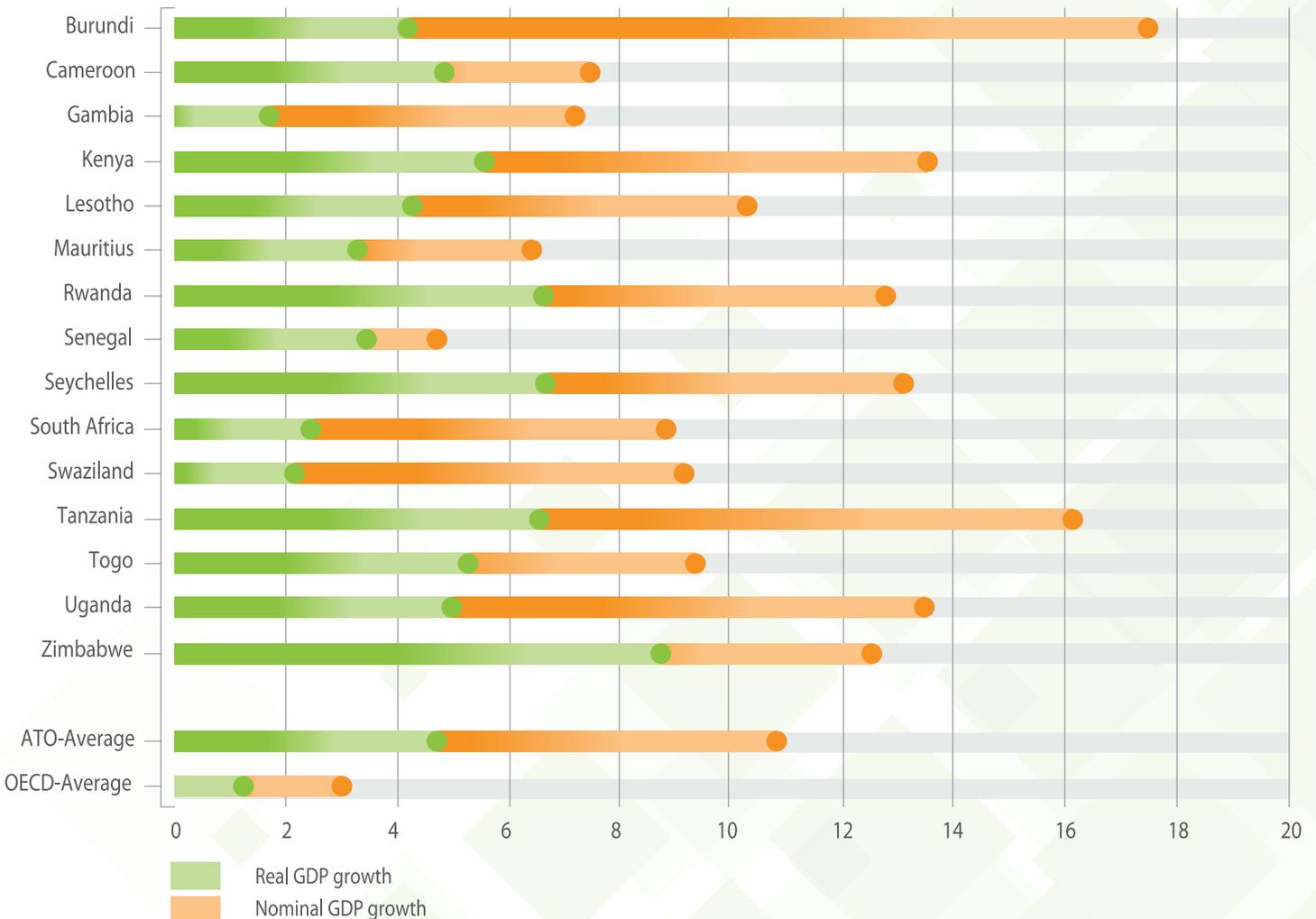
Nominal GDP growth is the main driver of increases in absolute tax revenue, while real GDP measures the standard of living and helps governments to draw up budget projections. Growth in nominal GDP is the sum of growth in real GDP (production) and rises in prices (inflation), both of which boost tax revenue.

However, because rising prices are normally associated with growth in public expenditure, increases in revenue do not necessarily help ease fiscal strain. Only when GDP growth fuels a more-than-proportionate increase in tax revenue through progressive taxation, does fiscal strain lessen (Flood and Savini, 2014).

### Patterns of growth in real GDP

Production – or real GDP – in the ATO countries grew by an average of around 5% over the five-year period under study (Figure 2.3). While it was as high as 6.5% in Rwanda, Tanzania and Seychelles<sup>7</sup>, the highest growth rate in real GDP was nearly 9% in Zimbabwe. There, after a collapse over the period 2000–2007, the economy rebounded between 2009 and 2012, with growth rates exceeding 10%. Thereafter, though, growth fell back to more normal levels, bad weather reduced agricultural production, and weak demand for exports led to a further decline in growth.

Figure 2.3: Average annual ATO growth rates in nominal and real GDP, 2010–14



Notes: Data for Seychelles run to 2013. Data for Kenya, Rwanda, South Africa, Tanzania and Uganda relate to fiscal years.

**Figure 2.4. Patterns of growth in nominal and real GDP in individual ATO countries, 2011 - 14**



Note: Data for Kenya, Rwanda, South Africa, Tanzania and Uganda relate to fiscal years.

External shocks and cyclical adjustments preclude growth that is constant over time. Recession and upswings impinge on tax revenue not only in the years they occur, but also in ensuing years. Senegal was affected by external shocks (e.g. spikes in fuel and food prices, regional droughts and floods) before recovering from low growth rates in 2011 and lifting them to around 4% between 2012 and 2014. The Gambia, too, was hit by exogenous shocks (poor rainfall), experiencing a drop in agricultural production in 2011 so steep that it caused a recession. By 2013, the country had restored growth in real GDP to 5% until the Ebola crisis saw it deteriorate again.

Seven countries (Burundi, Lesotho, Kenya, Mauritius, Seychelles, Tanzania and Togo) managed to shield real GDP growth from cyclical variations and kept it relatively stable between 2011 and 2014 (Figure 2.4). At the same

time, they reduced inflation<sup>9</sup> considerably. Tanzania, in particular, brought its inflation down from over 20% in 2011 to 4% in end 2014, largely through prudent monetary policy and recent falls in global food and energy prices.

Cameroon, for its part, saw its real GDP grow from less than 4% to 6%, driven by the strong performance of the services sector and public investment programmes. The main engine of South Africa's relatively weak real GDP growth – between 2% and 3% – was slack domestic and international demand, especially from trading partners (Kumo, Minsat and Omilolola, 2015). The GDP deflator – a measure of price inflation – increased by about 6% annually in accordance with the country's inflation targets. Similar patterns of real GDP growth were observed in Swaziland, whose economic development is heavily dependent on South Africa.

## 2.4. Registered and potential taxpayers

### *Taxpayer registration not always a true reflection of a country's tax base*

For the purposes of tax administration and compliance, countries register taxpayers. According to the definition agreed by the ATO member countries, registered taxpayers are those taxpayers who have been issued a taxpayer identification number (TIN).

Comparisons of numbers of taxpayers in countries of different size need to use a standardised metric if they are to be meaningful. In the case of PAYE and PIT taxpayers, for example, an ideal indicator would be the total number of individuals in the economy who earn wages or other income above the relevant thresholds. When it comes to VAT and CIT, the ideal indicator would be the total number of self-employed individuals and companies in the country with sales or profits above the relevant thresholds. However, given that tax registers in general reflect only a fraction of the reality on the ground, data on these ideal indicators are not always available. Consequently, as the ideal number of taxpayers is closely correlated with the labour force, this first Outlook uses labour force as a proxy for the number of enterprises and self-employed individuals in a country. Accordingly, the Outlook assesses and compares VAT and corporate taxpayers in proportion to the labour force (Table 2.2, middle and right-hand columns).

Furthermore, countries do not generally seek to register all potential taxpayers – principally because, for reasons of equity, they do not wish to tax very low-income individuals.

Accordingly, they set income threshold levels below which registration is not required. Another reason for not registering very low earners is to avoid high numbers of registered, but inactive, taxpayers. They would place a heavy administrative burden on the tax authorities for the low revenue they collect. Low numbers of registered taxpayers might also, however, denote a highly active underground economy – which would explain poor revenue performance.

Most ATO countries do not register wage-earning taxpayers (employees). Rather, they register employers who withhold employees' income taxes as part of pay-as-you-earn. The number of income taxpayers as a ratio of the labour force is thus very low in most countries (Table 2.2, left-hand column). The sole exceptions are South Africa and – to a lesser extent – Seychelles, Mauritius and Kenya. Variations in the ratios of VAT and corporate taxpayers to the labour force are smaller than the ratios of income taxpayers to the labour force. Low ratios of taxpayer – irrespective of what type – to the labour force suggest poor rates of participation in the tax system and, therefore, a narrow tax base.

**Table 2.2.** Ratios of taxpayers, by type, to the labour force, 2014

Type of taxpayers			
Country	Income tax	Type of taxpayer VAT	Corporate tax
Burundi	0.03%	0.03%	0.03%
Cameroon	0.24%	0.23%	0.13%
Gambia		0.08%	
Kenya	37.30%	2.31%	0.82%
Lesotho	7.34%	0.32%	1.38%
Mauritius	31.37%	3.28%	10.27%
Rwanda	1.09%	0.19%	0.41%
Senegal	0.30%	0.63%	0.12%
Seychelles	27.31%	1.75%	12.05%
South Africa	83.00%	3.28%	13.28%
Swaziland	3.20%	0.60%	0.60%
Tanzania	5.88%	0.09%	0.22%
Togo	0.16%	0.14%	0.08%
Uganda	0.09%	0.10%	3.27%
Zimbabwe	0.03%	0.33%	0.85%
ATO-Average	13.16%	0.89%	2.90%

Note: Taxpayer data for Lesotho, Kenya, Rwanda, South Africa, Swaziland, Tanzania and Uganda relate to fiscal years.

## 2.5. Tax base round-up and key findings

ATO countries are very different not only in population size, but in economic structure and levels of development, too. The result is wide disparities in per capita GDP and GDP growth. Similarly, numbers of registered taxpayers as a ratio of the labour force differ considerably from country to country – from less than 0.1% in Burundi to over 80% in South Africa when it comes to income taxpayers. As a consequence, the tax base also varies sharply.

Economic growth was dynamic in the five years under study, 2010 - 14. The ATO countries registered a near-11% average annual growth rate in nominal GDP (the main driver of increases in absolute tax revenue). The highest growth came in Burundi, Tanzania, Kenya and Uganda. The lowest was in Senegal and Mauritius. Rwanda's nominal GDP growth was robust and inclusive, benefitting all sectors and enabling a substantial reduction in poverty. In cyclical economic conditions, variations in GDP often affect tax revenue with a time lag – both in the year in which

they happen and for a few years afterwards. In countries like Zimbabwe, where growth rates declined from over 10% to less than 2% between 2011 and 2014 (Figure 2.4), tax revenue growth is set to continue its decline in subsequent years.

By contrast, countries that recovered from periods of low growth – either because they overcame external shocks, like Senegal, or because they successfully implemented structural reform, e.g. Uganda – might well reap increased tax revenue growth in the future.

The following chapters compare and analyse tax rates, tax revenue performance and tax administration in the ATO countries. In the light of the great differences between the ATO economies, the chapters seek to emphasise that:

- The wide variations in the tax base rule out all one-size-fits-all policy recommendations.
- Policy recommendations should take individual countries' economic structure into account.

# TAX STRUCTURE AT A GLANCE

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3

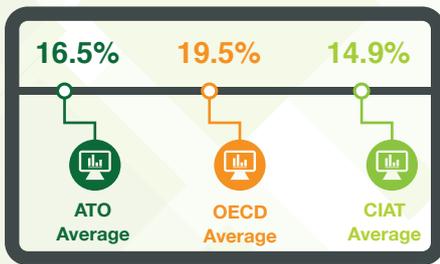
## CONSUMPTION TAXES

In 2014, all ATO countries were using a VAT system (the Gambia, Swaziland and Seychelles introduced VAT in 2013) and no ATO country had changed its VAT rate. It is a stable form of revenue collection that is more cost-effective to administer than other taxes.

### VAT thresholds

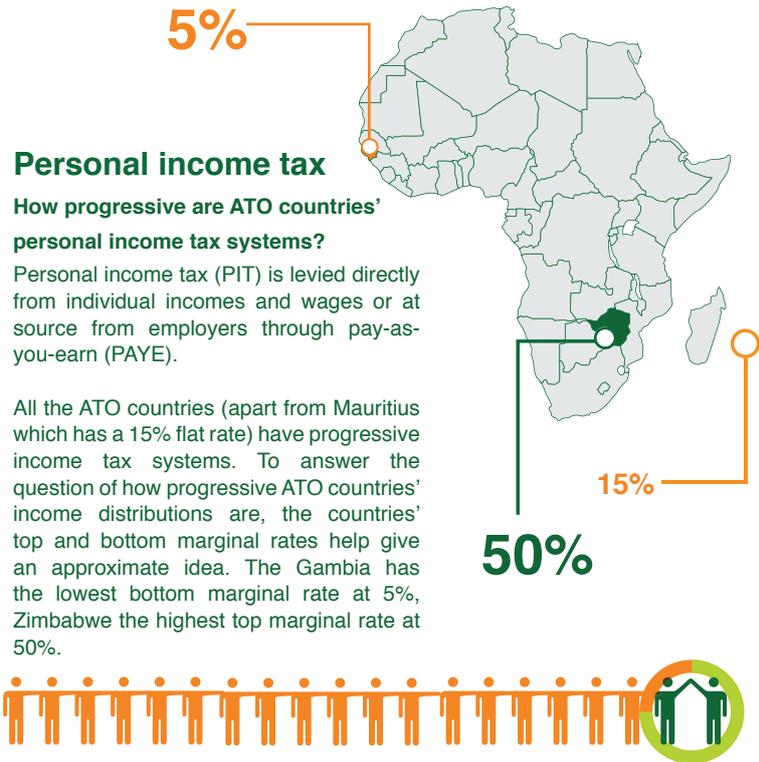
ATO countries set their VAT thresholds at an average of USD 151 000 – more than 4 times higher than the OECD average of USD 34 000. Behind that figure, thresholds range from nearly USD 400 000 in Seychelles to less than USD 70 000 in Rwanda. However, purely monetary VAT thresholds (measured in USD) bear no relation to a country's income levels which are generated by company turnover and vary from one economy to another.

### Standard VAT rate



### Many developing countries have raised their VAT thresholds

Raising VAT monetary thresholds lightens the administrative burden on small businesses – which tend to pay higher effective tax rates – and makes VAT collection more efficient. The Uganda Revenue Authority, for example, is thinking of quadrupling its VAT threshold.



## Togo

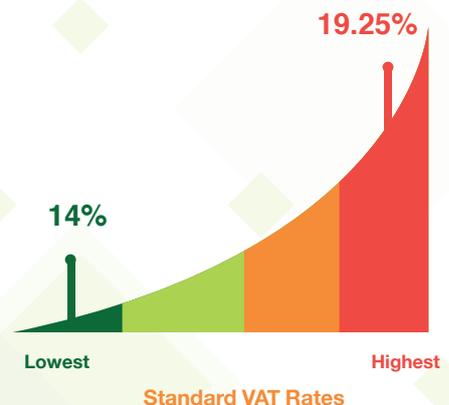
Had the highest relative VAT threshold relative to GDP per capita sitting at 90.3% in 2014.



Personal income tax (PIT) is levied directly from individual incomes and wages or at source from employers through pay-as-you-earn (PAYE). All the ATO countries (apart from Mauritius which has a 15% flat rate) have progressive income tax systems.

## Standard VAT Rates

Standard VAT rates range between 14% and 19.25%, averaging out at 16.5%. They are thus significantly lower than in the OECD area, where the average rate is 19.5%, and higher than in CIAT countries, where it is 14.9%.



This chapter examines tax rates, thresholds and the regimes put in place for small and medium enterprises (SMEs). It seeks to compare ATO countries' statutory rates for consumption tax, personal income tax and corporate income tax and to identify broad trends in the 15 ATO countries' tax policy.

### 3.1 Consumption Tax

#### All ATO countries use VAT and levy fair rates

The most widespread consumption tax in the ATO countries is value added tax (VAT) – all the countries use it. It is charged at each stage in the production and distribution chain of goods and services. The tax burden is passed down the chain and VAT is levied on the end consumer, which makes it an effective, stable form of revenue collection. VAT is also more cost-effective to administer than other taxes (Charlet and Owens, 2010). In 2014, all ATO countries were using a VAT system,

although three (Gambia, Swaziland and Seychelles) operated sales taxes until 2013. In the five years under study in the African Tax Outlook, no ATO country changed its VAT rate.

ATO countries levy VAT at standard rates on a broad set of goods, services and commodities, including imported goods. Only Burundi, Lesotho, and Senegal apply special reduced rates to certain goods, although all countries do practice zero-rated VAT. Standard VAT rates range between 14% and 19.25%, averaging out at 16.5% (Figure 3.1). They are thus significantly lower than in the OECD area, where the average rate is 19.5%, and higher than in CIAT countries, where average VAT is 14.9%.

A number of economists (Krever, 2008; Charlet and Owens, 2010) have long supported the view that broad-based, single-rate VAT helps to stimulate growth and allows governments to increase their revenues while cutting administration and compliance costs.

Figure 3.1: Standard VAT rates in ATO countries, 2014



Note: Final year for Seychelles is 2013; data for Kenya, Rwanda, South Africa, Tanzania, Uganda for fiscal years.

### Box 3.1. Single rate VAT – pro’s and con’s?

#### Pro’s

- An “efficient, non-distorting, buoyant and stable” revenue source (Butler, 2015).
- VAT revenues can be raised without increasing rates.
- Single rates are useful when tax administration is weak and help minimise exemptions and facilitate compliance.

#### Con’s

VAT can be politically problematic because of its regressive nature as the poor need to spend a greater share of their income on consumption goods than the affluent – in other words, they consume proportionately more of what they earn than the rich (Butler, 2015). Similarly, the well-off derive greater monetary benefit from zero-rated goods, which rich and poor alike consume.

#### Differential rates

Governments apply differential rates to further their distributional and fiscal objectives. Indeed, lower rates on certain commodities or sectors may ease the tax’s regressive nature. Moreover, VAT systems widely incorporate exemptions to reduce the impact on low-income households. Other mechanisms, like direct taxes and social transfers, may in fact be more efficiently pro poor.

#### Differential VAT rates:

- entail higher administration and compliance costs
- complicate companies’ books and invoices and revenue authorities’ audits
- create scope for argument and incentive for deliberate misclassification,
- make governments and politicians prone to lobbying.

Source: ATO analysis and Butler A. (2015), “Few silver bullets from taxation for SA’s woes”, *Business Day BDLive*, [www.bdlive.co.za/opinion/columnists/2015/07/31/few-silver-bullets-from-taxation-for-sas-woes](http://www.bdlive.co.za/opinion/columnists/2015/07/31/few-silver-bullets-from-taxation-for-sas-woes).

## Setting, assessing and comparing VAT thresholds

A core feature of VAT is the use of thresholds – the level of sales above which individuals and companies are required to register as VAT-taxable. Table 3.1 shows ATO threshold levels in national currencies, in PPP-converted United States dollars<sup>9</sup>, and in proportion to GDP per capita (see “GDP per capita as gauges of productivity and welfare” in Chapter 2.1).

**Table 3.1:** ATO countries’ VAT thresholds, 2014 (In national currencies, PPP USD and relative to GDP)

VAT thresholds...			
Country	in Millions of national currency	in US dollars (PPP conversion)	relative to GDP per capita
Burundi			
Cameroon	50	214,978	68.3
Gambia	1	89,627	53.9
Kenya	5	123,905	42.6
Lesotho	0.85	191,736	68.3
Mauritius	4	240,882	12.6
Rwanda	20	69,159	42.8
Senegal	30	131,088	53.8
Seychelles	3	398,740	16.2
South Africa	1	185,571	15.0
Swaziland	0.5	108,122	15.0
Tanzania	40	64,175	24.5
Togo	30	133,928	90.3
Uganda	50	53,582	26.8
Zimbabwe	0.06	119,078	64.1
<b>ATO-Average</b>		<b>151,755</b>	<b>42.4</b>
<b>OECD-Average</b>		<b>34,241</b>	<b>0.9</b>

ATO countries set their VAT thresholds at an average of USD 151 000 – far higher than the OECD average of USD 34 000. Behind that ATO average, countries' thresholds range greatly from nearly USD 400 000 in Seychelles to less than USD 70 000 in Rwanda.

However, purely monetary VAT thresholds (measured in USD) do not take into account a country's income level, which is related to companies' turnover and varies from

one economy to another. Turnover, as a ratio of GDP per capita, sheds a different light on the issue of VAT thresholds in the different ATO countries and allows comparisons between countries and regions (Table 3.1, right-hand column). For example, measured in USD, the difference in VAT threshold between Cameroon and Mauritius is not particularly wide. However, adjusted for the two countries' different income levels, the VAT threshold in Mauritius is much lower than that in Cameroon

### Box 3.2. A proposal from Uganda for quadrupling its VAT threshold

In a recent paper the Ugandan Revenue Authority (URA) aired its thoughts on the benefits to be gained from raising its VAT threshold which had been UGX 50 million since 1996 – the lowest in East Africa.

The VAT-registered companies whose turnover exceeds the threshold are considered VAT collection agents and must, accordingly, comply with administrative obligations. Their cost is a burden on small businesses, curbing their profitability and growth. Low thresholds pull in small businesses that are difficult to manage, lead tax administrations to misallocate resources and, in the end, result in poor compliance and high costs of enforcing compliance. The URA believes its low VAT threshold of UGX 50 million has swollen numbers of non-value adding agents (i.e. small businesses), resulted in low effective VAT rates for businesses whose turnover is low and, consequently, a lower VAT-to-GDP ratio.

Accordingly it proposes to lift its threshold to UGX 200 million to lower not only the administrative costs of small businesses but its own, too. It spends a considerable amount on managing VAT agents who yield little revenue. VAT audits, for example, account for 48% of all audits, which suggests that many VAT taxpayers do not have the proper accounting and record-keeping capacity. The URA feels its resources would be better employed in auditing big companies for possible tax evasion, since they tend to pay much lower effective VAT rates as Figure 3.2 illustrates.

Figure 3.2. Effective VAT rates paid by companies in Uganda



Drawing on analysis by the International Finance Corporation, the URA found that the average cost of compliance for VAT agents with turnovers of less than UGX 200 million is 30%. Raising the threshold to UGX 200 million would afford thousands of small companies, relief from counterproductive VAT obligations.

Source: URA (Uganda Revenue Authority) (2014), "Raising the VAT Threshold from UGX 50 Million to UGX 200 Million", proposal prepared by the Research, Statistics and Policy Analysis Section, December.

– from which it may be inferred that Mauritius has more companies, greater coverage and a wider tax base than Cameroon. Mauritius and Seychelles have the highest VAT thresholds when expressed in PPP-converted US dollars. Yet both are at the lower end of the distribution when it comes to thresholds measured relative to GDP per capita. By contrast, the thresholds of countries such as Rwanda or Tanzania, which are low in absolute dollar terms are higher than those relative to GDP per capita, which points to low VAT participation.

### *Lowering VAT thresholds may actually lessen VAT revenue*

Countries could elect to lower thresholds in order to broaden their tax bases as firms with smaller turnovers also become liable to VAT. However, although doing so would entail more revenue collection, the cost thereof may not be offset by the small amounts collected. From that point of view, the optimal VAT threshold should factor in the cost and efficiency of revenue collection.

Lowering the VAT threshold also comes at an administrative cost to VAT-taxable businesses and could, for example:

- increases costs for enterprises not previously liable to VAT;
- affect their profitability;
- force them to cease activity (a worst-case scenario), which would, in turn, diminish the tax base.

Consequently, many developing countries have raised their VAT thresholds in recent years both to lighten the administrative burden on small businesses and to improve the efficiency of VAT collection.

### *Excise duties*

Excise duties are taxes levied on specific goods and commodities imported, produced or sold within the country. They are typically levied together with other indirect taxes such as VAT or the sales tax. Rates are per unit or ad valorem and vary widely according to product.

#### **Box 3.3. Kenya increases excise duty compliance and revenue**

In 2013, Kenya moved to strengthen the enforcement of excise duties on tobacco wines and spirits. Under the terms of a customs and excise regulation that came into effect in November 2013, the Kenyan Excise Authority makes it an offence to market any unstamped alcoholic beverages or tobacco product. All producers and importers must activate an excise stamp online.

Central to the KRA has been the roll-out of excisable goods management system (EGMS). The online EGMS enables the KRA to track and trace stamped and unstamped products the length of the supply chain. It is designed to detect counterfeit goods, prevent smuggling, and to stamp out the falsification of production volumes. The ultimate aim is to improve compliance. Indeed, the KRA states that the EGMS has increased excise tax compliance by 45% in 2014.

The KRA has extended online excise duty stamps – which initially targeted tobacco products, wines and spirits – to beer and plans to apply it to many more products.

The system enables KRA to manage stocks and home in on points of loss or theft of stamps. There are plans to use mobile phones to provide similar stamp scanning capacity in order to empower consumers in authentication of goods to eliminate falsification of production quantities as well as eliminate contraband goods from the market.

*Source: Mwita M. (2015), Kenya: KRA Says Excise Duty Stamps Have Pushed Up Revenue, The Star, March, <http://allafrica.com/stories/201503020772.html>; Trade Watch (2015), Impact of the Excisable Goods Management System legislation on businesses in Kenya, p. 39, March, [www.vergidegundem.com/c/document\\_library/get\\_file?uuid=c4c399ab-b203-4e94-9944-5ceb108e7e35&groupId=10156](http://www.vergidegundem.com/c/document_library/get_file?uuid=c4c399ab-b203-4e94-9944-5ceb108e7e35&groupId=10156); Daily Nation (2014), Kenya Revenue Authority bets on technology to plug excise duty loopholes, 14 July, <http://mobile.nation.co.ke/business/KRA-Electronic-Goods-Management-System-Fraud-Collection/-/1950106/2385210/-/format/xhtml/-/7h549jz/-/index.html>.*

Many products and services are excisable – ranging from “sin products” like tobacco and alcohol, to luxury goods and communication services. All are widely consumed, one reason why excise duties are a key source of revenue. Other advantages of excise duties are that administration and compliance costs are low – particularly as there are often only a few big producers and providers of excisable goods and services. (Chapter 4 examines revenues from excise duties, while Annex 5(d) offers a comprehensive run-down of all excisable goods and services in ATO countries.)

### 3.2. Personal income tax

Personal income tax (PIT) is levied directly from individual incomes and wages. It is collected either from individuals or at source through pay-as-you-earn systems. Individual income tax is levied on registered taxpayers who are not classified as limited companies, while under PAYE employers withhold it from the wages they pay their employees.

### How progressive are ATO countries’ personal income tax systems?

All ATO countries, apart from Mauritius, have progressive income tax systems – in line with the ability-to-pay principle of taxation – whereby PIT rates increase with income. That being said, there are wide differences in the amount of marginal income tax that individuals pay within a country. An individual’s effective tax burden depends both on his or her personal income and on how progressive the tax system is.

On the country level, tax revenue depends on the number of individuals affected by a certain marginal tax rate. Income distribution matters, therefore. Accordingly, this chapter focuses on two basic parameters – the top and bottom marginal rates, which frame the personal income tax system. Some ATO countries also provided information on average or effective income tax rates, which affords additional insight into the progressive (or regressive) nature of income distributions.

Figure 3.3: Range of income tax rates in ATO countries, 2014



### *ATO countries' top and bottom marginal rates vary moderately*

While the tax rates governing the income tax paid by individuals within a country vary widely, comparison between the ATO countries (Figure 3.3) reveals that there is no great variation in the distribution. (Mauritius, which has a single marginal rate of 15% is a special case.)

Although the Gambia has a bottom marginal rate of 5% – the lowest of all the ATO countries – and Zimbabwe has the highest top marginal rate of 50%, rates can be loosely grouped as follows:

- highest bottom marginal rate at 20% – 6 countries;
- lowest top marginal tax rate at 30% – 8 countries;
- top marginal rate between 30% and 40% – 5 countries.

The distribution is, in fact, very similar to that in OECD countries and wider than in Latin America and the Caribbean (Table 3.2).

To obtain more information from ATO countries on how progressive their tax systems are in relation to the income distribution, they were asked to calculate their average and/or effective personal income tax rates. The average tax rate was computed as total tax revenue divided by personal income and the effective tax rate as tax revenue divided by taxable personal income.

### *Average personal income tax rates point to many earners not paying taxes*

Senegal reported the lowest average income tax rate at 10.4%, scarcely half the level of the bottom marginal rate of 20%. The inference is that a high proportion of individuals are not taxed, even though they earn income – the mirror-image of the low proportion of taxpayers in the labour force (Table 2.2). Tanzania and South Africa reported average rates that were less than 1 percentage point above the bottom marginal rate and Cameroon 1.8

percentage points. Again, the figures point to substantial proportions of income earners not paying tax and/or to many of those who do pay tax paying only at the bottom marginal rates because high numbers of people live below the poverty line or earn very low income.

### *Effective tax rates point to little progressivity or many exemptions*

Effective rates (the amount that people actually pay) factor in tax allowances and do not therefore take non-taxed individuals into account. Effective tax rates as defined in this study are thus always higher than bottom marginal rates. South Africa's effective rate is just 1 percentage point above the bottom marginal rate, in Swaziland and in Togo about 4, and in Rwanda 6 percentage points above.

The closer the effective rate is to the bottom marginal rate, the higher the proportion of people taxed close to the bottom rate. The inference drawn may be:

- either that progressivity is very weak and few people pay higher marginal rates,
- or that the effective rate might be low because few people are fully exempted from taxation.

### *Changes to tax rates in ATO countries*

In the five years covered by this first edition of the African Tax Outlook, 8 out of 15 ATO countries made changes to their tax rates. Some changed their bottom marginal income tax rates, some their top ones and some both. There were various reasons for increasing or reducing the rates.

Some countries lowered their bottom rates in order to broaden the tax base and increase tax revenue. Others, by contrast, increased bottom marginal rates to protect low-income populations from excessive taxation. Such action holds particularly true of countries with high inflation, where nominal income might exceed tax thresholds due to

**Table 3.2.** Average tax rate distribution in the ATO countries compared to OECD and CIAT countries

Marginal rates	ATO	OECD	CIAT
Average bottom	15%	14%	11%
Average top	33%	34%	26%

Source: The average OECD bottom marginal rate is calculated from Table I.1, "Central government personal income tax rates and thresholds in the OECD Tax Database Explanatory Annex Part I – Taxation of Wage Income. Average rates for CIAT countries calculated from "Historical rates of personal income taxes" table in "CIAT Tax Rates in Latin America".

wage and price increases even though real income stays constantly low. The same argument applies to top marginal rates. Governments may bring them down to shield high-income individuals from over-taxation or raise them so that the very well-off participate more fully in public finances (Table 3.3).

### 3.3. Taxing company income

Generally, companies are taxed on their income either directly or through a withholding tax. Direct corporate income tax (CIT) is chargeable on the business income earned by limited companies. The withholding tax is an advance income tax which authorised bodies levy on the provision of services and/or imported goods and services.

#### *Standard corporate income tax*

In most ATO countries, standard corporate income tax rates fall within a narrow range of between 25% and 31%

(Figure 3.4). The only exceptions are Cameroon, where the CIT rate is 38.5%, and Mauritius, which practices a single rate of 15%. The ATO average rate stands at 28.3% – almost 4 percentage points above the OECD average and of a similar level to the average rate among CIAT countries.

Most ATO countries tax corporations at uniform rates, regardless of the sector in which they operate (see Annex 5(a)). Exceptions are Kenya, Lesotho, South Africa, Seychelles, Tanzania and Uganda, which all practice rates that vary according to sector and/or economic zone.

Although differentiated rates might be warranted as part of efforts to steer economic development, they can also distort market results and so impair growth prospects. Furthermore, they may complicate already complex tax systems even further and prompt additional administration costs (see Box 3.1 on differentiated VAT).

**Table 3.3.** Changes to tax rates in ATO countries, 2010 -14

Action on marginal rates		
Country	Bottom	Top
Tanzania (2011 - 14)	Reduced 15% – 13% in 2 stages	
Seychelles (2012)		Reduced 33% – 30%
Gambia (2013)	Reduced 10% – 5%	Reduced 35% – 30%
Lesotho (2014)	Reduced 22% – 20%	Reduced 35% – 30%
Burundi (2013)	Introduced at 20%	Reduced 35% – 30%
Togo (2013)	Raised 4% – 7%	Reduced 40% – 35%
Senegal (2013)	Raised 18% – 20%	Reduced 50% – 40%
Zimbabwe (2011-12 -14)		Raised 34% – 45% – 50%

In the five years under study, three ATO countries reduced their corporate income tax rates primarily to attract investment, ease the tax burden on businesses and improve compliance. By contrast, four countries raised the CIT rates to increase revenue.

Overall, though, there was a trend towards convergence in corporate tax rates among ATO countries: those with above-average rates reduced them and those where rates were below average raised them.

#### *Corporate withholding tax*

The withholding tax is an advance income tax or final payment that authorised bodies levy on the provision of services and/or imported goods and services. The payer withholds the amount from the payment it makes to the payee, and pays it to the revenue authorities. The amount the payer deducts may vary according to the nature of the product or service for which it is paying. The purpose

of withholding tax is to facilitate or accelerate collection by collecting tax from payers rather than from a much greater number of payees.

Because the ATO countries have so many different withholding tax rates, comparing selected ones would not help understand how they address this type of tax. Countries have, however, reported the products and services that attract withholding tax and are deducted at source from final payments. Although the tax withheld is generally treated as a tax prepayment that is later offset by the payee against its final liability, it may, in some cases, be considered a final tax (see Annex 5b for further details on withholding tax rates).

#### *Presumptive taxation*

Presumptive tax, too, is a tax that ATO countries apply to companies – mainly micro and small (MSMEs)

businesses and the self-employed – who may otherwise be difficult to tax. Presumptive taxpayers may be sole proprietor companies, partnerships, or self-employed individuals. Most ATO countries introduced presumptive taxes in order to bring small and informal businesses into the tax fold without placing an undue administrative burden on them. Lesotho, Mauritius and Swaziland have, however, maintained the standard regime for all taxpayers with simplified income tax returns for self-employed taxpayers.

Although the ATO countries generally use a turnover-based presumptive tax, they do not apply it in the same way (Box 3.5). There are, for example, different threshold bands below the income tax threshold in different sectors that are governed by different types of presumptive tax regime. The Gambia, Seychelles, Senegal and Togo have single rates for presumptive tax under a certain turnover threshold. By contrast, Cameroon, Kenya, South Africa, Tanzania and Uganda apply different presumptive tax rates to different threshold bands. Zimbabwe, for its part, operates a presumptive tax regime for each different sector. (See Annex 5(e) for further details.)

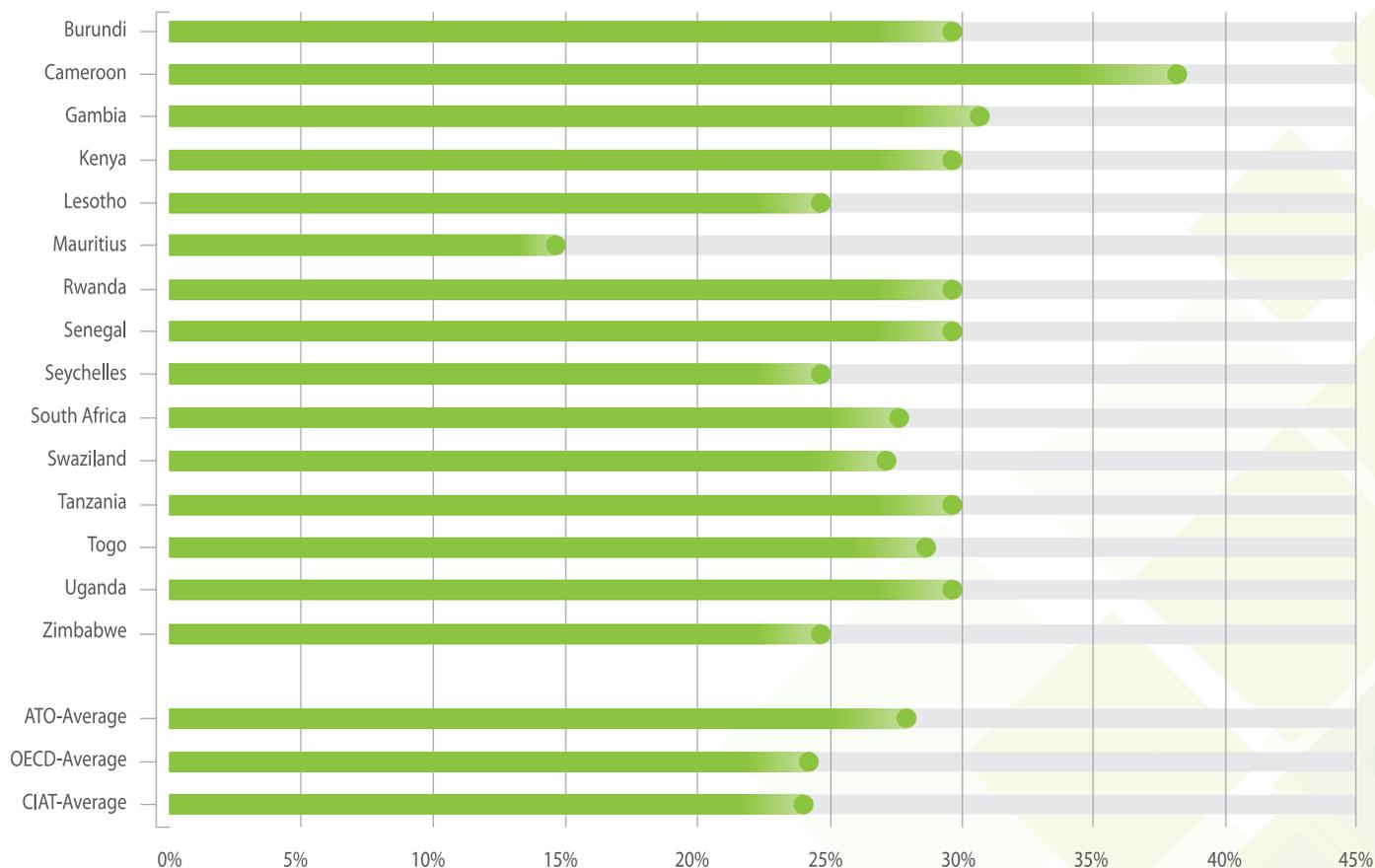
#### **Box 3.4. South Africa’s differentiated company taxes**

South Africa practices different rates on different types of company:

- Local businesses are taxed at the standard corporate income tax of 28%.
- The rate is 15% on an eligible company operating in a special economic zone (SEZ).
- Graduated tax rates apply to small business corporation (SBCs) with an annual turnover not exceeding ZAR 20 million.

<b>Tax rate</b>	<b>Taxable income</b>
0%	ZAR 0 - ZAR 67 111
7% of taxable income above ZAR 67 111	ZAR 67 112 - ZAR 365 000
ZAR 20 852 + 21% of taxable income above ZAR 365 000	ZAR 365 001 - ZAR 550 000
ZAR 59 702 + 28% of taxable income above ZAR 550 000	Above ZAR 550 000

**Figure 3.4.** Standard corporate income tax rates in the ATO countries, 2014



**Table 3.4.** ATO countries that lowered and raised their corporate income tax rates, 2012 - 14

Lowered CIT rates	Raised CIT rates
Gambia from 35% to 31%, 2012	Togo from 27% to 29%, 2013
Burundi from 35% to 30% (to align with East African Community requirements)	Senegal from 25% to 30%, 2013
Swaziland from 30% to 27.5%, 2014	

**Table 3.5.** Products and services from which all ATO countries withhold corporate tax

All ATO countries withhold taxes from...	
...payment for	...advance payment for
<p>Interest, treasury bills and bonds, dividends, royalties, management or professional fees, public tenders, commissions, insurance premium pension or retirement annuity, rent, performance fees for entertaining audiences and spectator sports events.</p> <p><i>The withholding tax in these instance is considered a final tax</i></p>	<p>Imported goods, general supplies of goods to gazetted bodies, the government and government institutions.</p> <p><i>The withholding tax in these instances can be offset against a company's final liability</i></p>

### Box 3.5. The advantages of a turnover-based presumptive tax

- Guarantees minimum level of vertical and horizontal equity.
- Easier transition from presumptive to standard regime as turnover is also decisive element of tax calculation in standard systems.
- High revenue potential compared to other presumptive systems.

*Source: Tanzania Revenue Authority (2011), Review of Informal Sector for Taxation Puposes, First Draft Report, Tanzania Revenue Authority, Dar-es-Salaam, January, [www.tzdp.gov.tz/fileadmin/\\_migrated/content\\_uploads/TRA\\_Informal\\_Sector\\_Presumptive\\_Income\\_Tax\\_Report\\_draft\\_Jan11.pdf](http://www.tzdp.gov.tz/fileadmin/_migrated/content_uploads/TRA_Informal_Sector_Presumptive_Income_Tax_Report_draft_Jan11.pdf).*

## 3.4. Tax structure round-up and findings

The ATO countries have similar tax structures. They all use VAT and excise duties as consumption taxes, they all tax personal and corporate income, and they all have provisions for the special treatment of SMEs.

In 2014, all ATO countries used VAT systems with standard rates that ranged between 14% and 19.25%, averaging out at 16.5%. In the last two years under study in the African Tax Outlook, three countries – Gambia, Swaziland and Seychelles – introduced VAT systems in 2013, while the others kept their VAT rates constant.

ATO countries' average VAT rates are significantly below those of the OECD, though higher than in the Latin American and Caribbean CIAT countries, and their thresholds are significantly above OECD VAT thresholds. All ATO countries, apart from Mauritius, use progressive tax systems. Bottom marginal rates range from 5% in Gambia to 20% in Burundi, Lesotho, Rwanda, Senegal, Swaziland and Zimbabwe. Top marginal rates lie between 30% and 40%, with the exception of Zimbabwe's 50%. The distribution of personal income tax rates in ATO countries is similar to the OECD average and spread

significantly wider than the average CIAT distribution (Figure 3.3) rates. Some countries – e.g. Tanzania and Seychelles reduced their marginal rates to broaden the tax base and increase revenue, while others – like the Gambia, Lesotho, and Zimbabwe – raised them to protect individuals from excessive taxation. Three countries – Burundi, Togo and Senegal – narrowed the spread between bottom and top rates by raising bottom rates and lowering top ones at the same time.

Standard corporate income tax rates range from 25% to 31%, with exceptions of Mauritius and Cameroon, where the rates are 15% and 38.5%, respectively. The average corporate income tax rate among ATO countries is 28.3% – almost 4 percentage points above the OECD and CIAT averages.

During the period 2010 to 2014, five ATO countries adjusted their corporate tax rates. The Gambia, Burundi and Swaziland reduced their rates, while Togo and Senegal raised them. These changes accentuated the trend of convergence between ATO countries' corporate tax rates, where differences are gradually narrowing.

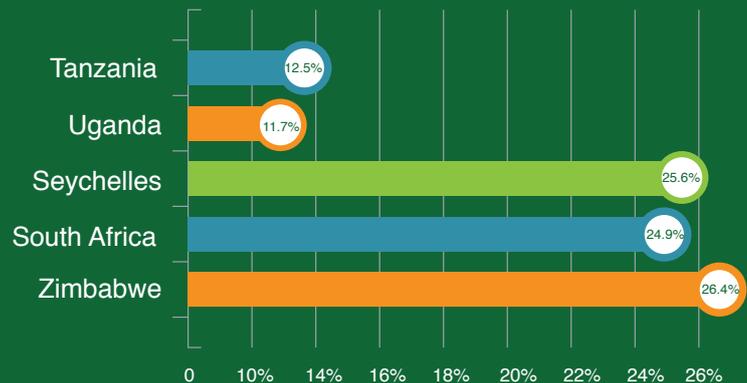


## TAX REVENUE PERFORMANCE

In the long term, the ATO countries should finance their public expenditure through fiscal revenue since alternatives, such as deficit financing and money creation, are fiscally unsustainable. The tax-revenue-to-GDP ratio measures a country's ability to mobilize and use its domestic resources – i.e. its tax revenue performance relative to its economic potential.

### REVENUE-TO-GDP RATIOS ARE LOW BUT ON THE RISE

The 17.6% average is significantly below those of the CIAT (21.3%) and OECD (25.7%). Behind that average figure lie wide differences: 26.4% in Zimbabwe, 25.6% in Seychelles, and 24.9% in South Africa – twice as high as Uganda (11.7%) and Tanzania (12.5%):



## Composition of tax revenue in GDP in ATO countries, 2014



**18%**  
CUSTOMS TAXES

**16%**

CORPORATE INCOME TAX



PERSONAL INCOME TAX

**22% of total tax revenue on average of ATO countries**

It is the largest source of tax revenue in Lesotho. Above average shares in Kenya, Lesotho, Rwanda, Senegal, South Africa, Swaziland and Zimbabwe.



**10%**  
OTHER TAXES

of total revenue on average of ATO countries levies on lotteries, betting, transport fares fees, special goods and services.

### Consumption taxes VAT and excise duties

**43%**

The largest single source of tax revenue in 12 out of 15 countries. Exceptions are the Gambia, Lesotho and Togo. Lesotho's largest revenue source is income tax.

**R**evenue mobilization has a crucial role in fiscal policy implementation. In the long term, all public expenditure should be financed by fiscal revenue since alternatives such as deficit financing and money creation are fiscally unsustainable. The tax-revenue-to-GDP ratio, the composition of tax revenue, and tax productivity measure a country's ability to mobilize and use domestic resources to finance public services and investments. They are gauges of the tax base, tax structure and the efficiency of tax administration and policy implementation.

This chapter compares general tax revenue to GDP ratios and such tax-specific revenue performance indicators as the ratios of value-added tax (VAT), personal income tax (PIT) and corporate income tax (CIT) to GDP. It also calculates revenue productivity as an indicators for measuring how effectively different taxes are collected.

## 4.1. Total tax revenue

### Ratio of tax revenue to GDP

Tax-revenue-to-GDP ratio measures the share of a country's output that is collected by the government through taxes – or, in other words, its tax revenue performance relative to its economic potential. Differences in ratios might be the result of various factors – such as tax policy decisions, the efficiency and effectiveness of tax administration, and the degree of fiscal corruption<sup>11</sup>.

### *ATO revenue-to-GDP ratios are low but on the rise*

Most ATO countries' tax-revenue-to-GDP ratios are low – hence the ATO average of 17.6% that is significantly below the averages of the CIAT (21.3%) and OECD (25.7%). Within that ATO average, however, there are wide differences from country to country. Revenue-to-GDP ratios are 26.4% in Zimbabwe, 25.6%<sup>12</sup> in Seychelles, and 24.9% in South Africa – twice as high as those of Uganda (11.7%) and Tanzania (12.5%).

In nearly all ATO countries, the revenue-to-GDP ratio rose in the five years from 2010 to 2014. There were, however, two exceptions – Burundi and Seychelles. In Burundi, the ratio of personal and corporate income tax revenue to GDP accounted for most of the decline. The country cut the rates of both taxes to increase competitiveness and align them with other countries, particularly those in the East African Community (EAC).

As for Seychelles, which relies heavily on the tourist industry, it is naturally exposed to international growth shocks. Its revenue-to-GDP ratio dropped as a result of the global and economic downturn and the ensuing European debt crisis. Because tax revenue responds to GDP growth with a time lag, its revenue-to-GDP ratio is not likely to pick up until after 2014.

The generally positive trend in revenue-to-GDP ratios reflects ATO countries' efforts to widen their tax bases and close loopholes by making tax administration more efficient and effective. On average, they improved their revenue-to-GDP ratios by 1.7 percentage points. With increases of 4.6 and 2.9 percentage points, respectively, Togo and Rwanda led the way.

Togo's tax reforms to broaden the tax base (see Chapter 3) boosted VAT, corporate tax and customs tax revenue without affecting stable economic growth. As for Rwanda, it increased all revenue-to-GDP ratios, particularly those of VAT and income tax revenue. Driving its increased tax ratios was strong, inclusive growth that improved income throughout the economy (see Chapter 2).

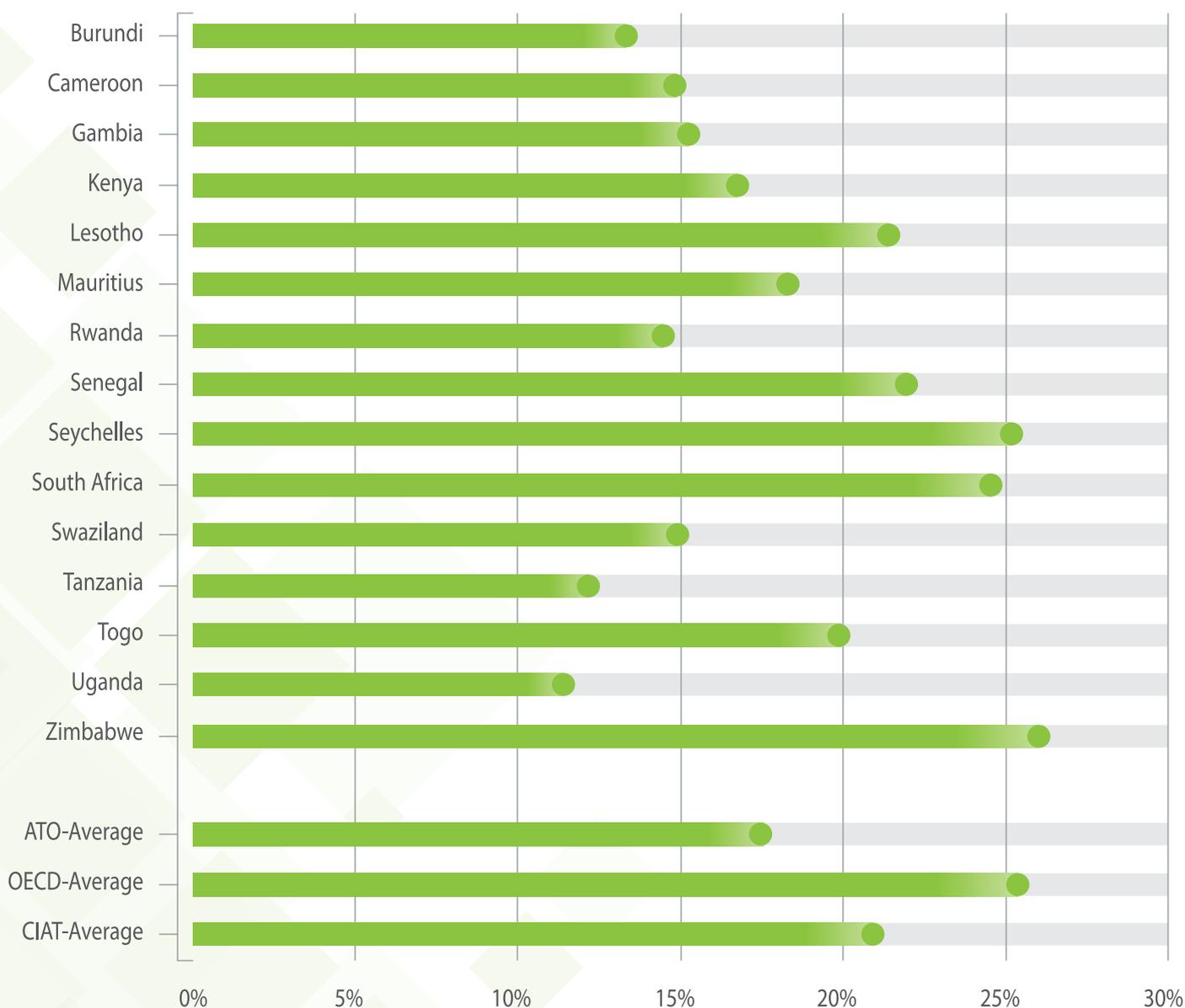
## Tax revenue and economic structure

### *Ratios of tax to non-agricultural GDP paint a better picture in agricultural economies*

Countries where agriculture accounts for much of the national output may well have high GDP but low tax-to-GDP ratios. In such countries, the agricultural sector is largely informal with many cash transactions that are difficult to monitor and tax. Ratios of tax to non-agricultural GDP thus paint a truer picture of revenue performance than tax-to-GDP ratios – particularly in countries like Burundi, Kenya, Rwanda, Tanzania and Uganda where agriculture boasts shares of GDP that are in excess of 25% (Figure 4.2).

Some countries where agriculture accounts for substantial shares of GDP still have below-average ratios of tax to non-agricultural production. In Burundi, the tax-to-GDP ratio in 2014 was 13.7% (Figure 4.1) compared to a 21.9% ratio of tax to non-agricultural GDP (Figure 4.2). Togo in particular belies the received idea whereby “a high share of agriculture equals low revenue-to-GDP ratio”. It has the highest share of agricultural GDP in the ATO at 52%, but boasts an above-average tax-revenue-to-GDP ratio that translates into the highest ratio by far of tax to non-agricultural GDP<sup>13</sup>.

**Figure 4.1. Ratios of tax revenue to GDP in ATO countries, 2014**



*Note: Data for Seychelles relate to 2013. Data for Kenya, Rwanda, South Africa, Tanzania, Uganda and revenue data for Lesotho and Swaziland relate to fiscal year 2013/14. OECD data – which exclude social security contributions – are from 2012. CIAT data are from 2013.*

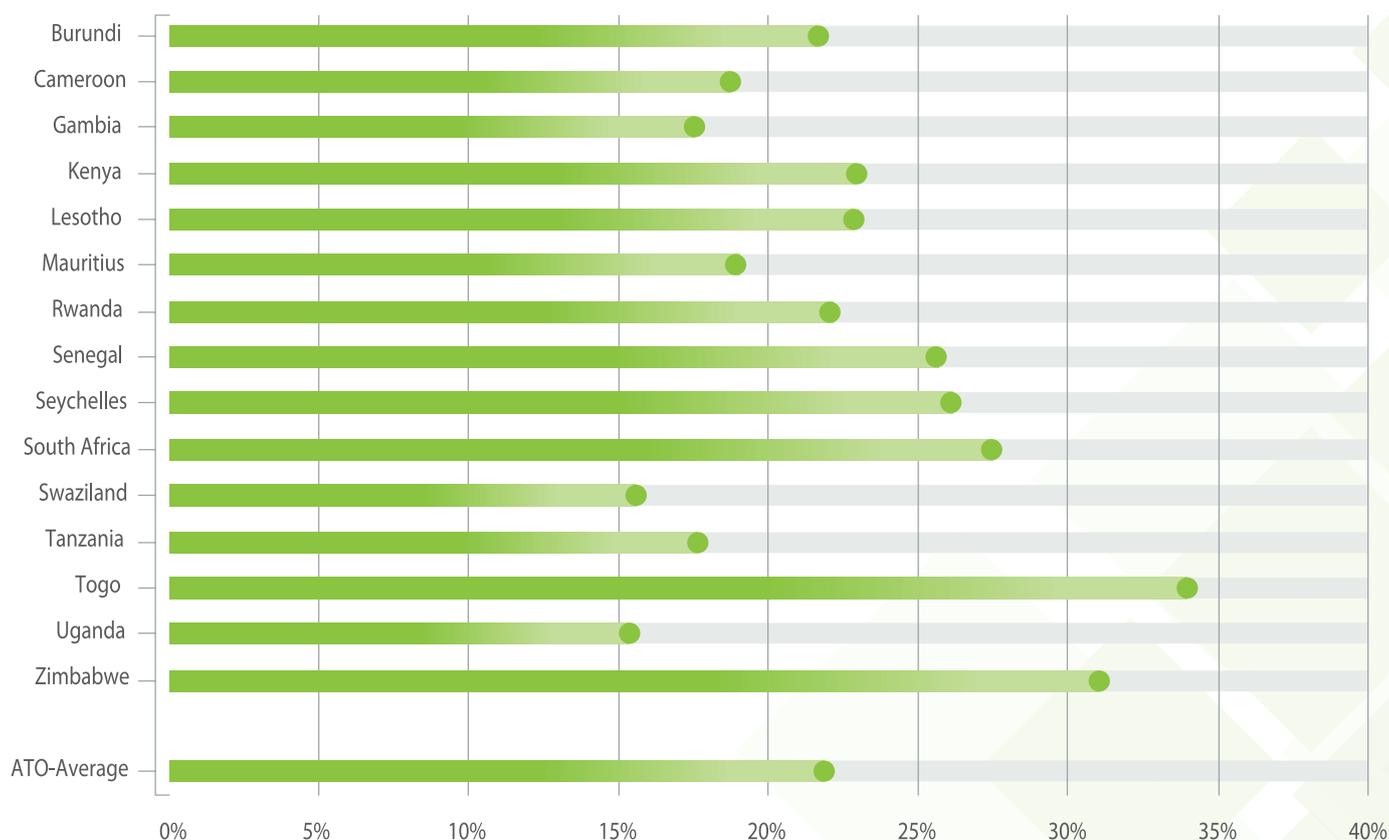
### Revenue-to-GDP by sector: *agriculture less productive than industry and services*

Revenue-to-GDP by sector is the ratio between the sectors' share of tax revenue and their share of GDP (Figure 4.3). A sector-specific revenue-to-GDP ratio of less than 1 indicates that a sector contributes less to revenue than to GDP, and more than 1 that it contributes more to revenue than to GDP.

According to the sector-specific revenue data available, the revenue-to-GDP ratio in the agricultural sector is below 1 throughout the ATO countries. Nevertheless, there are

marked regional differences. In South Africa, for example, the agricultural revenue-to-GDP ratio is 0.77 – i.e. the sector's contribution to revenue is 77% of its contribution to GDP. That is far higher than in all other ATO countries, probably because a large share of South African farms are commercial. Other ATO countries, by contrast, have many smallholdings geared towards subsistence farming operating in the informal sector and benefiting from multiple exemptions. Agricultural revenue-to-GDP ratios are particularly low in Kenya (0.066), Rwanda (0.001), Togo (0.002) and Tanzania (0.020).

**Figure 4.2.** Ratios of tax to non-agricultural GDP in ATO countries, 2014



*Note: Data for Seychelles and Zimbabwe are from 2013. Data for Kenya, Rwanda, South Africa, Tanzania and Uganda and revenue data for Lesotho and Swaziland relate to fiscal year 2013/14.*

The revenue-to-GDP ratio in the industrial sector exceeds 1 in most ATO countries. Exceptions are Rwanda (0.60), Swaziland (0.77) and Seychelles (0.98), while the highest industrial tax revenue-to-GDP ratio is observed in Cameroon (1.55).

The service sector's tax revenue-to-GDP ratio is also above 1 in all ATO countries, and as high as 2.8 in Togo, where it contributes nearly three times more to tax revenue than to GDP. However, sector-specific revenue-to-GDP ratios as high as those of Cameroon and Togo may point to a heavy tax burden, which detracts from the sector's competitiveness and could prompt internationally mobile businesses to relocate.

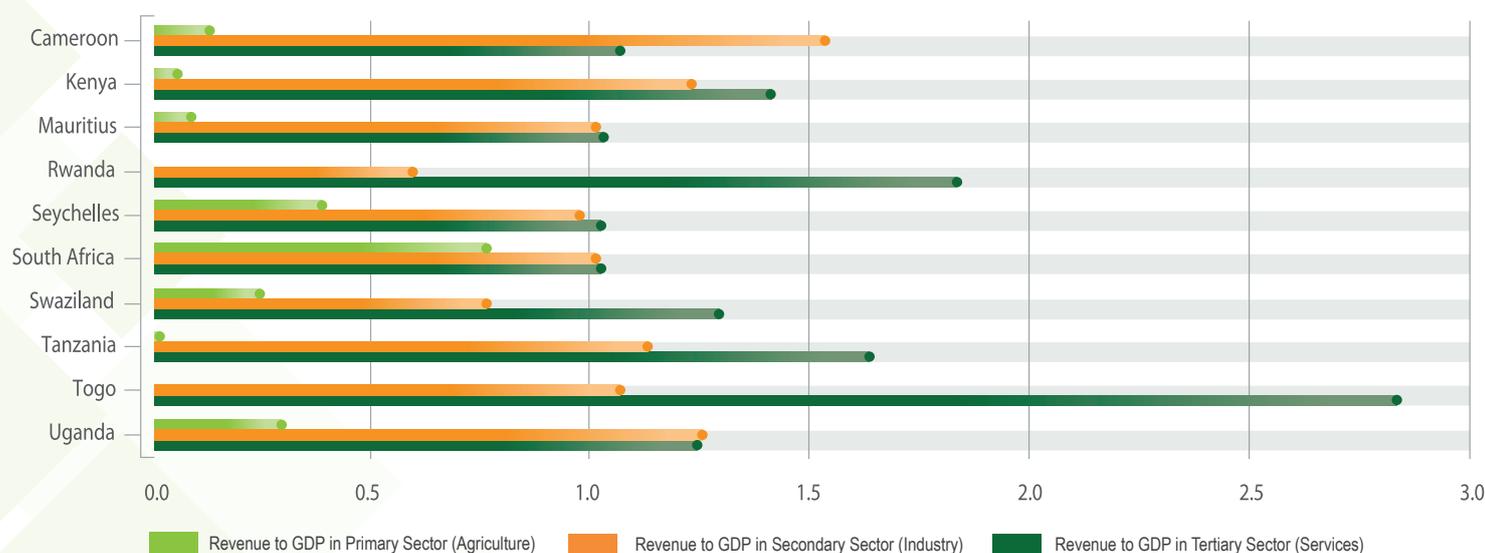
However, if tax revenue is used to finance the required infrastructure, the tax increase could well improve firms' international competitiveness and, by the same token, domestic growth prospects.

### Revenue growth outpaced nominal GDP growth and revenue ratios further rose

Tax revenue is closely related to nominal GDP, which makes nominal growth in GDP a powerful driver of revenue growth. In addition, changes in tax rates, the broadening of the tax base and measures to increase compliance could further accelerate revenue growth, which would then increase the revenue-to-GDP ratio.

In nearly all ATO countries between 2010 and 2014, revenue growth exceeded nominal GDP growth, prompting an increase in the revenue-to-GDP ratio (Figure 4.4). Exceptions are Seychelles and Burundi, where the revenue to GDP ratio declined by 2.6 and 1.3 percentage points, respectively. In Burundi, the fall was a result of tax reforms that are likely to pay off in coming years, while in the Seychelles it was attributable to adjustments in the business cycle. That growth has since picked up, which will probably translate into a

**Figure 4.3.** Revenue-to-GDP ratios in the three chief economic sectors in selected ATO countries, 2014



higher tax-to-GDP ratio from 2015 as the delayed effect on tax revenue kicks in. On average, ATO countries increased their revenue ratios by 1.7 percentage points, with Tanzania, Rwanda, Kenya and Uganda registering the highest pace of revenue growth. The showings of Tanzania, Kenya and Uganda were driven chiefly by high nominal GDP growth, while Togo and Rwanda – where tax revenue outpaced nominal GDP in growth by the greatest margins – reaped, respectively, the benefits of tax reform and robust income growth in all population groups. Togo’s revenue authority was singled out for praise by the African Development Bank.

## 4.2. How different taxes contribute to revenue

Countries differ with respect to their tax systems. Some rely heavily on direct taxes and others on indirect taxes. This section compares the contributions that different taxes make to revenue in the ATO countries (Figure 4.5).

### Taxes’ contributions to revenue at a glance.

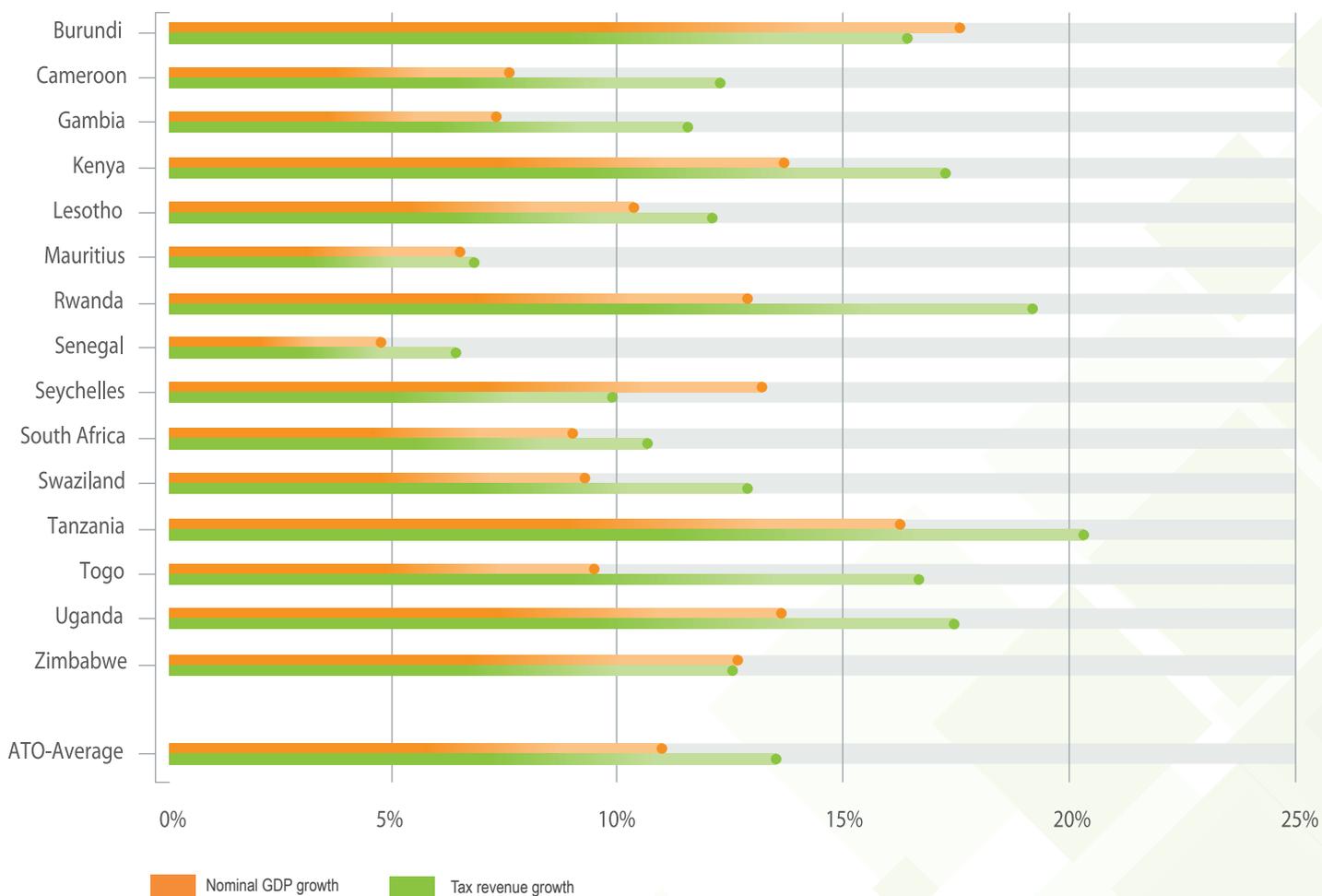
Consumption taxes in ATO countries contribute about the same share to total revenue as in OECD countries, but less than in Latin America. Personal income tax is a smaller component of ATO’s tax revenue than the OECD’s, but appreciably larger than in CIAT countries. As for corporate income taxes, they account for about the same share of revenue in the 15 ATO and CIAT countries,

but considerably less in the OECD area. In the average ATO country, consumption taxes (including VAT and excise duties) finance 36% of total revenue and are the largest single source of tax revenue in 9 out of 15 countries. The sole exceptions are the Gambia, Kenya, Lesotho, South Africa, Swaziland and Uganda. Lesotho’s largest revenue source is income tax, whereas the domestic tax base is still weak in the Gambia and Togo, where customs taxes provide the most revenue.

Most other ATO countries have reduced or removed import duties, making customs taxes less important. As a result, the customs tax share of revenue is below 10% in seven ATO countries, although it still accounts for over 10% in eight – Cameroon, the Gambia, Kenya, Senegal, Tanzania, Togo, Uganda and Zimbabwe. On average, personal income tax contributes 22% to the total tax revenue of ATO countries, though in many it accounts for less than 20%. However, its share of revenue is far above average in Kenya, Lesotho, Rwanda, Seychelles, South Africa, Swaziland and Zimbabwe.

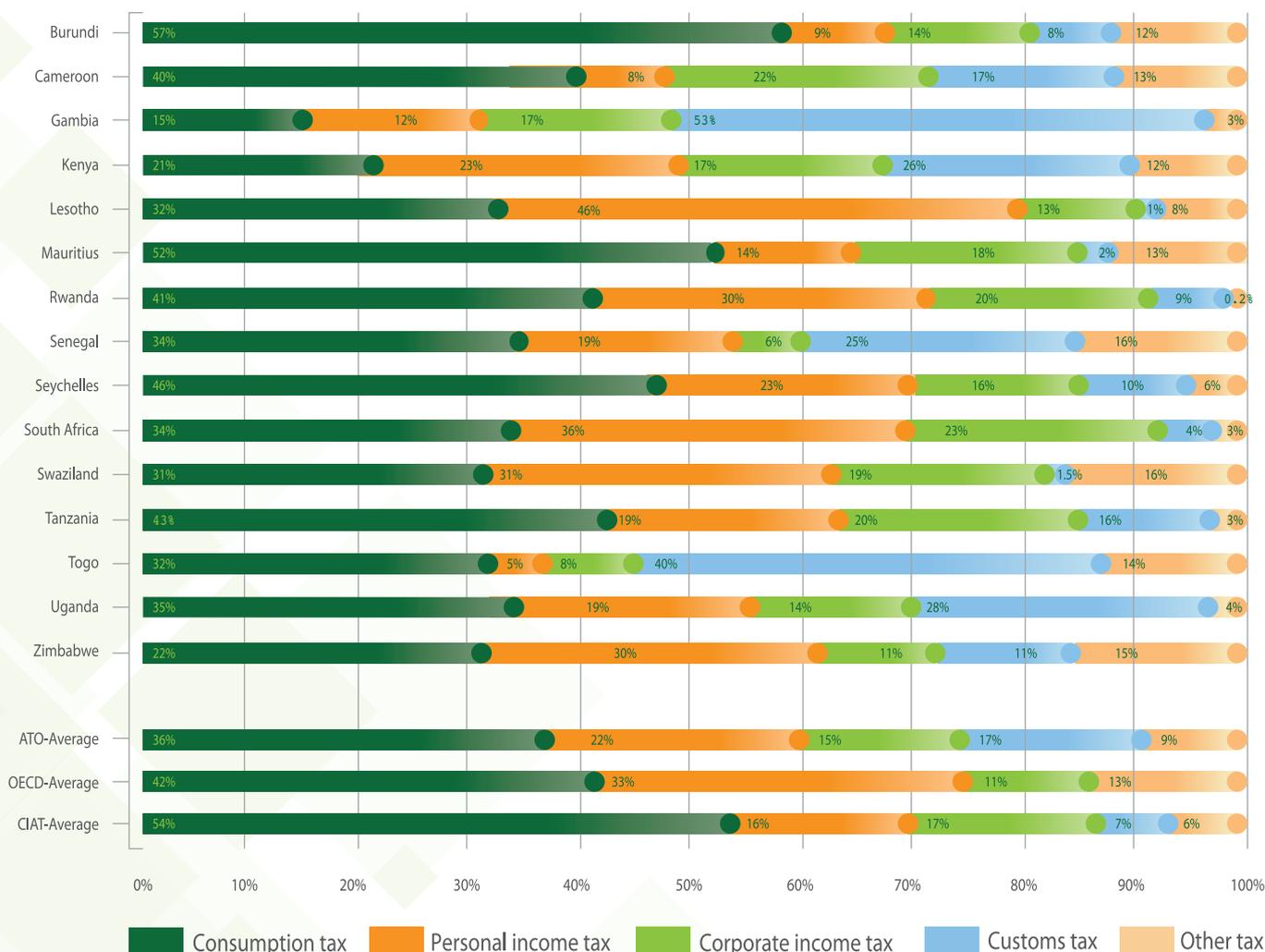
When it comes to corporate income tax (CIT), its share of ATO tax revenue is 16% on average. Moore (2013) argues that CIT accounts for a higher share of tax revenue in Africa than in OECD countries because it is easier to tax firms than households. South Africa, with 23%, is the country where corporate tax’s share of revenue ranks highest.

**Figure 4.4.** Growth in tax revenue and nominal GDP growth, 2010 - 2014



*Note: Data for Seychelles run up to 2013. Data for Kenya, Rwanda, South Africa, Tanzania, Uganda and revenue data for Swaziland relate to the fiscal years.*

**Figure 4.5. Composition of tax revenue in GDP in ATO countries, 2014**



*Note: to have a consistent representation across countries, a harmonized method was applied. Percentages were calculated from the sum of individual tax revenues supplied by the ATO member countries. Due to other definitions in some countries, percentages in the national publication might differ.*

It is followed by Cameroon (22%) and Tanzania (20%), while the shares are lowest in Zimbabwe with 11% and Senegal at 6%. The average share of other taxes – which include taxes on lotteries and betting, passenger fees and charges on other special goods and services – is 10%.

## Consumption tax revenues

Consumption taxes (the biggest single source of tax revenue) are indirect taxes on the purchase of goods and services. The most widely used in the ATO area are VAT and excise duties.

### VAT productivity and administration has improved overall

Tax revenue is determined by tax base and rates. Chapter 2 looked at how ATO countries' tax bases differ widely according to the size and structure of their GDP, the thresholds they set, the number of exemptions and the degree of compliance. The same parameters – and the way they differ – also affect revenue from VAT whose rates range between 14% and 19.25%, averaging out at 16.5% (Chapter 3.1.) Considerable disparities in tax performance between ATO countries lie behind the 6.2% ATO average ratio of VAT revenue to GDP and average VAT productivity of 0.38 (Figure 4.6).

South Africa has the highest VAT-to-GDP ratio at 10.9% and the Gambia, which did not introduce VAT until 2013, the lowest at 2.1%. Although the Gambia's VAT productivity, too, is low, it may be because VAT does not kick in for a year or two after its introduction. Because VAT rates are higher in the OECD area, its VAT-to-GDP ratios are higher than those of the 15 ATO countries and the CIAT. As for VAT productivity, CIAT countries boast the highest, followed by the ATO and OECD countries. Some ATO countries – such as Uganda, Tanzania and Gambia – register VAT-to-GDP ratios of less than 4%. The same countries also show particularly low VAT productivity, which suggests that their low revenues may stem less from low rates than from inefficient tax systems that moved away from applying a uniform tax on all consumption with no exemptions – though

it should not be forgotten that VAT in the Gambia is still in its infancy.

VAT revenue growth was relatively stable in most ATO countries between 2010 and 2014. Only five of them registered a revenue performance below nominal GDP growth and in none was the shortfall large. Cameroon, Rwanda, Togo and Uganda recorded high paces of VAT revenue growth, which yielded rises in their VAT-revenue-to-GDP ratios. And, even though the ratios were still low, the increase indicates gains in productivity and an improvement in tax administration, since none of the four countries changed their tax rates in the five years between 2010 and 2014.

#### **Box 4.1. Tax productivity**

How much revenue different tax types contribute to GDP is not determined solely by tax rates. Of course, if tax rates are low, low revenue is to be expected. And if they are high, revenue generally is, too. However, taxes can be more or less productive. Tax productivity measures how well a tax generates revenue at the prevailing statutory rate. It is calculated by dividing the ratio of revenue to GDP by the statutory rate. A productive tax is one that generates revenue even though rates are low. A productive tax is one that generates revenue even though rates are low.

For example, VAT productivity will be 100% if VAT has a broad based, single rate and is perfectly enforced. However, it is important to note that a VAT rate closer to 100% does not necessarily mean a better VAT. Indeed, although productivity can be increased, for example, by denying VAT refunds to exporters, or by exempting intermediate goods, the result will be to undermine the role of VAT as a tax on domestic consumption.

*Source: Garcimartin, C. et al. (2014), Study on the feasibility and effectiveness of tax policy changes to support inclusiveness and sustainability of growth, European Commission and B&S Europe .*

Like Gambia, Seychelles did not usher in VAT until early 2013. It then lowered its threshold the following year to increase revenue, as growth in revenue was slower in the wake of the newly introduced VAT. As for Gambia, revenue from VAT was actually lower than from the sales tax (Table 4.1). And there are reports that the country's introduction of VAT was over-hasty (Sanneh, 2013) – though it should be said that VAT generally takes two or three years to kick in. It is crucial that a country should meticulously prepare tax collectors and taxpayers with training, education and awareness-raising. It should be careful not to pitch the rate too high to begin with. Both the Gambia and the Seychelles set it at 15%. Countries should apply VAT to all products and services at an initial sustainable rate at points of sale. And they should exempt micro businesses and farmers, who would struggle with the record-keeping, from standard VAT. Doing so would not involve much revenue loss but would, by contrast, bring considerable savings in costs of administration and compliance (Fjeldstad, 1995).

#### **Excise revenue outpaced GDP and climbed steeply**

Excise tax revenue accounts for about 1.7% of GDP on average in the ATO countries – nearly one percentage point below the OECD average of 2.6%. In some ATO countries, though, excises constitute a far greater source of revenue – particularly Seychelles, Mauritius and Zimbabwe where the ratios of excise tax to GDP exceed 3.7%.

In most ATO countries, excise revenue rose faster than GDP between 2010 and 2014, which increased excise-revenue-to-GDP ratios. Exceptions were Tanzania, where the ratio remained pretty much constant, and Senegal, Lesotho, Kenya and Seychelles. The Gambia and Zimbabwe, by contrast, saw their excise tax revenue grow at an average annual rate of more than 30%, so tripling over the five years. The increase in the Gambia's excise revenues was attributable chiefly to a rise in excise duties on tobacco products, the expansion of the excise base and the robust enforcement of

**Figure 4.6.** Ratios of VAT revenue to GDP (left) and VAT productivity (right) in ATO countries, 2014



Note: Data for Seychelles are from 2013. Data for Kenya, Rwanda, South Africa, Tanzania, Uganda and revenue data from Lesotho and Swaziland relate to fiscal year 2013/14.

the levying of excise tax among local producers. Zimbabwe simultaneously raised excise duties on fuel, beer and cigarettes, and increased the levy on tobacco growers.

### Personal income tax: contribution and productivity

Personal income tax is a direct tax on personal incomes and wages and is levied either from individuals or at source through pay-as-you-earn schemes.

The average ATO PIT-to-GDP ratio of 4.1% is less than half the OECD's 8.6%, but more than double the CIAT average of 2%. Some ATO countries, e.g. Lesotho with

12.9% and South Africa with 8.6%, have high PIT-to-GDP, ratios while others – like Burundi (1.1%), Togo (1.3%) and the Gambia (1.7%) – have much lower ones. Ratios fell in Burundi and the Gambia in the wake of reform, with Burundi lowering its top marginal tax rate and increasing its bottom rate in 2013, while the Gambia reduced both and raised the tax-free threshold (the amount people can earn before they pay income tax) from GMD 7 500 to GMD 18 000 per annum.

Zimbabwe by contrast increased its top marginal rate, so generating a rise in the PIT-to-GDP ratio (see Table 3.3). PIT productivity is separated into bottom

**Table 4.1.** Changes in revenue growth after the introduction of VAT in Gambia and Seychelles, 2010 - 14

	Sales tax revenue			VAT	
	2010	2011	2012	2013	2014
Gambia (GMD millions)	427.67	517.01	594.5	671.58	743
Growth		21%	15%	13%	11%
Seychelles (SCR millions)	1 057.18	1 221.73	1 463.47	1 623.46	1 820.03
Growth		16%	20%	15%	12%

**Box 4.2. Uganda's revenue authority expresses caution over the cost of compliance**

The smaller a business, the higher its cost of VAT compliance. If governments are truly committed to private-sector-led recoveries, then they must allow small firms to grow and invest.

Higher thresholds would bring small companies much-needed cash flow, which they could plough back into the business by lowering their prices or taking on more staff.

There are many small businesses in ATO countries who would be reluctant to register for VAT because of the red tape and sheer cost of compliance involved. A number of them would choose to operate below the VAT threshold or even to stop operating altogether. Yet they could easily expand their business if the threshold were higher. (See Box 3.2, "A proposal from Uganda for quadrupling its VAT threshold".)

*Source: UGA (Uganda Revenue Authority) (2014), "Raising the VAT Threshold from UGX 50 Million to UGX 200 Million", proposal prepared by the Research, Statistics and Policy Analysis Section, December.*

and top marginal rate productivity<sup>14</sup>. With regard to PIT productivity, Lesotho is the top performer among the ATO countries (as it is in the PIT-to-GDP ratio), followed by Kenya and South Africa. Interestingly, although Kenya boasts an above-average PIT-to-GDP, it has a low bottom marginal tax rate of only 10%, with which it has nevertheless achieved high bottom marginal rate productivity. Burundi, by contrast, has the lowest PIT productivity – in accordance with its also having the lowest PIT-to-GDP ratio. PIT revenue growth is very volatile over time and the five-year average growth rates might include – and be affected by – extreme highs, lows and swings in single years. However, some trends can be derived from observation.

Some countries made considerable progress in income taxation and achieved PIT revenue growth that was much higher than nominal GDP growth. Kenya, Rwanda, Uganda and Zimbabwe enjoyed growth rates in PIT revenue of close to or above 20%, which helped secure rises in their revenue ratios of between 0.5 and 2 percentage points. Zimbabwe increased – to a certain extent – its PIT-to-GDP ratio through a change in tax rates (raising the top marginal rate). The other three countries,

however, left their tax rates constant and increased their PIT productivity through strong GDP growth. In addition, Uganda managed to secure a considerable increase in the number of personal income taxpayers through its Taxpayer Register Expansion Project (TREP), in which the Ugandan Revenue Authority worked closely with local government agencies to widen the tax base, particularly by registering small businesses.

Similarly, the ATAF Innovation Awards 2015 commended the Kenya Revenue Authority on its web-based revenue administration system, iTax, which had brought huge increases in taxpayer registration (Figure 4.8). To the 70 000 taxpayers in the iTax Platform database in 2013, it added a further 2 million in 18 months.

**Corporate income tax revenue**

Corporate income tax (CIT) encompasses tax chargeable on business income earned by limited companies, withholding tax on final payments, and advance income tax that authorized bodies levy on the provision of services and/or imported goods and services. On average, CIT's contribution to ATO countries' GDP (2.8%) is very close to the OECD average (2.9%) though lower than the CIAT's (3.8%). All three may be ascribed to relatively high average tax rates

**Box 4.3. South Africa improves excise duty transparency**

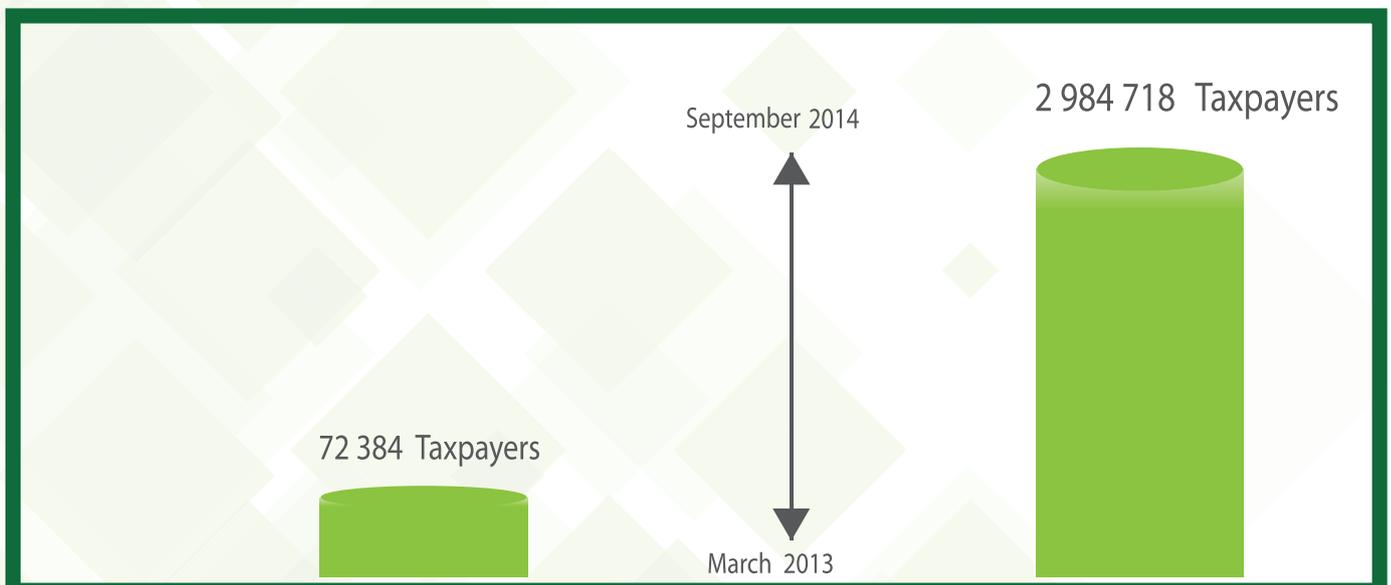
The South African Revenue Authority (SARS) moved to modernise its administration of excise duty, bringing its services online and scrapping time-consuming manual reconciliations and interventions. Taxpayers may now submit excise returns through the Internet – either to the SARS e filing service or through a service manager at a SARS branch office. The result has been improved financial transparency and administrative efficiency.

**Figure 4.7.** Ratios of personal income tax to GDP (left) and personal income tax productivity (right), 2014



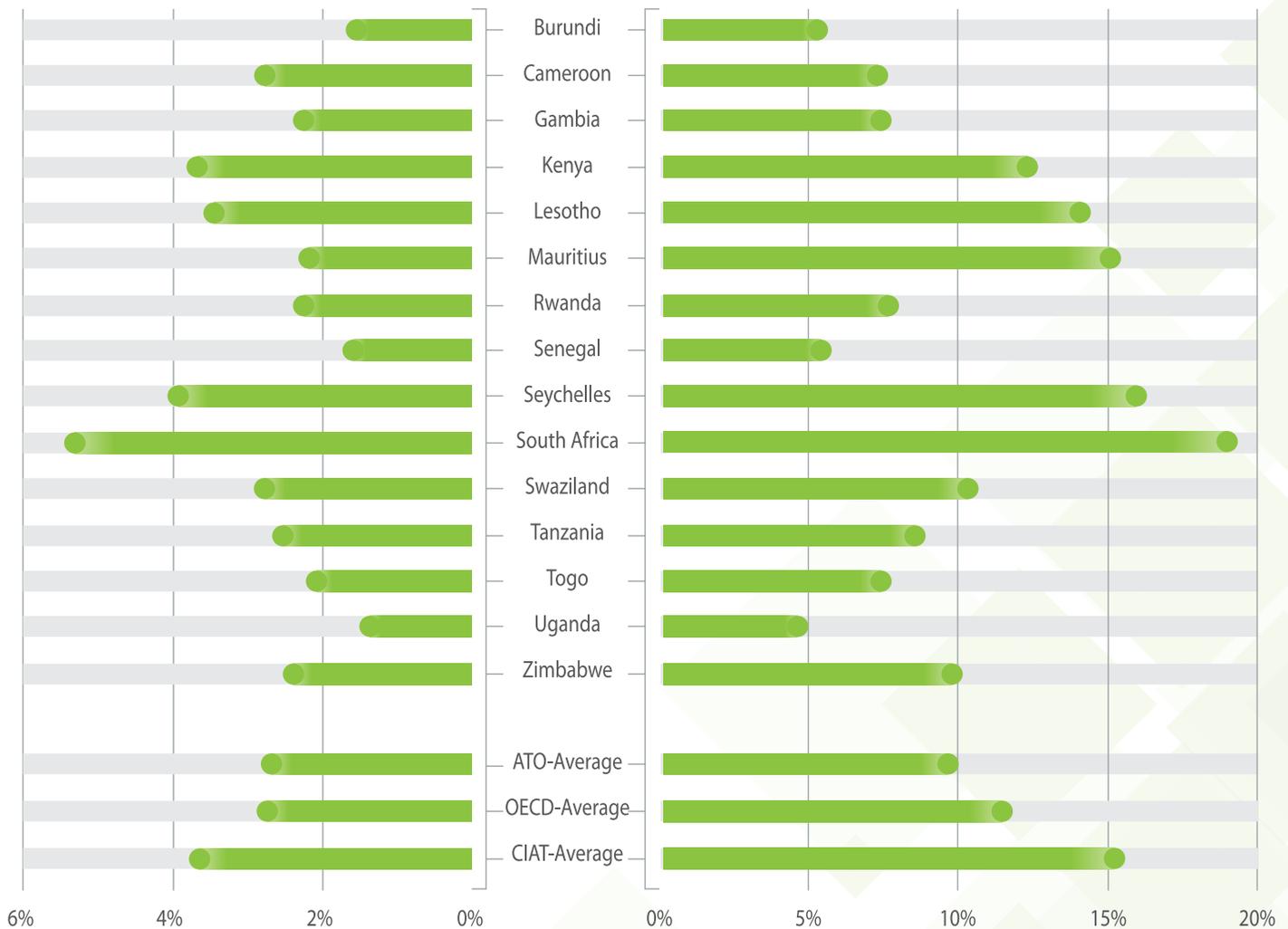
Data for Seychelles from 2013; data for Kenya, Rwanda, South Africa, Tanzania, Uganda and revenue data from Lesotho and Swaziland are for the fiscal year 2013/14. Revenue Statistics in Latin America and the Caribbean only give the ratio of total (personal and corporate income) tax to GDP. The PIT ratio presented here is calculated from individual country data, wherever data exists. Revenue Statistics in Latin America and the Caribbean only give the ratio of total (personal and corporate income) tax to GDP. The PIT ratio presented here is calculated from individual country data, wherever data exists.

**Figure 4.8.** How the Kenyan Revenue Authority’s iTax system increased taxpayer registration



Source: Adapted from ATO data

**Figure 4.9: Corporate income tax to GDP ratio and corporate income tax productivity, 2014**



Data for Seychelles from 2013; data for Kenya, Rwanda, South Africa, Tanzania, Uganda and revenue data from Lesotho and Swaziland are for the fiscal year 2013/14.

Revenue Statistics in Latin America and the Caribbean 2015 only give the ratio of total (personal and corporate income tax to GDP ratio. The PIT ratio presented here is calculated from individual country data, where they exists.

– 28% in ATO, 24% in CIAT and 25% in OECD countries – combined with taxation at similar levels of efficiency<sup>15</sup>. ATO countries’ CIT-to-GDP ratios range between 1.5% in Uganda and 5.5% in South Africa (Figure 4.9, left-hand column), while productivity lies between the same two countries at 5% 20% (Figure 4.9). Mauritius is an interesting case when it comes to productivity. It has a particularly low corporate tax rate of 15% (Figure 3.4), but a CIT-to-GDP ratio that is still about average and the third highest productivity. Such a performance is possible only with highly efficient tax administration. Indeed, Mauritius has integrated its various tax departments and revamped its governance structure, systems, processes and human resources framework. As a result, it has improved the efficiency of its tax administration.

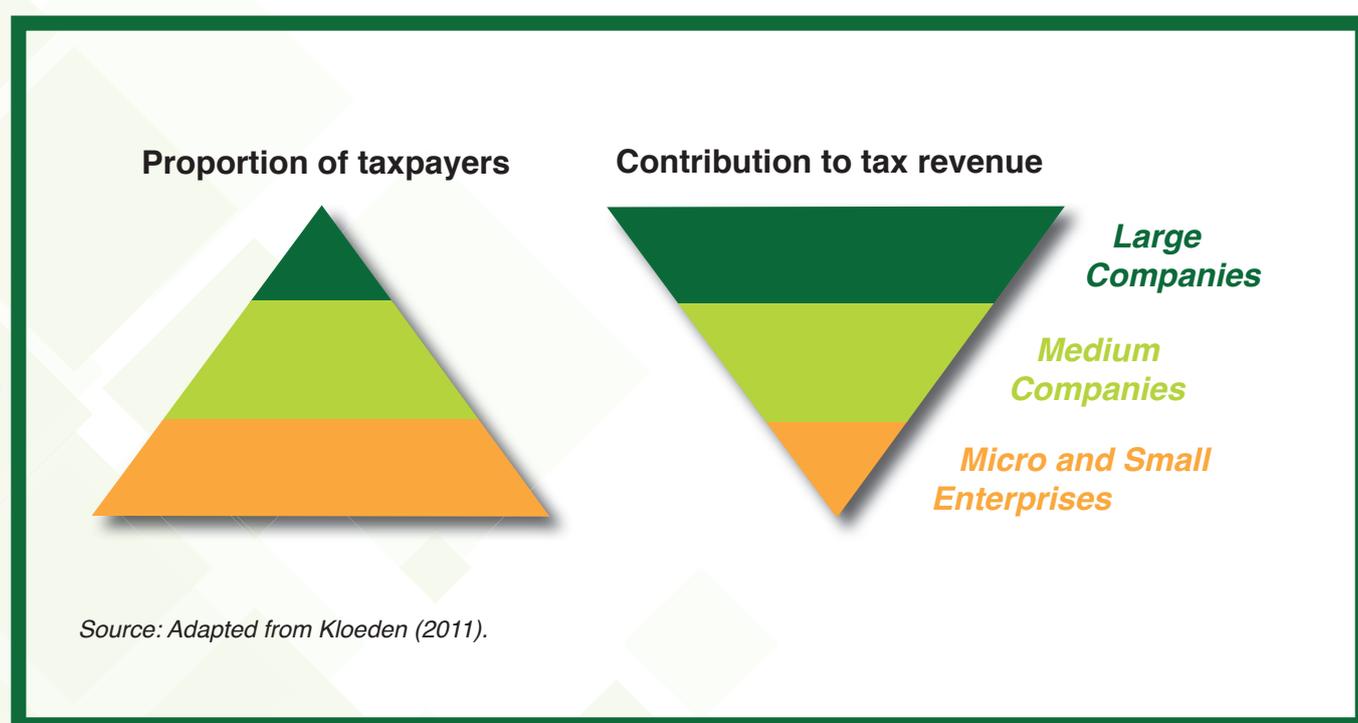
### 4.3. Large taxpayers: few in number, big in revenue

In most ATO countries, a few large taxpayers contribute a high proportion of total tax revenue (Figure 4.10). The compliance behaviour of large taxpayers is critical: it can make or break the tax system as a whole. Because non-compliance from large taxpayers is the highest single tax administration risk, most ATO countries have developed special units to administer all issues relating to them. Although countries apply country-specific thresholds, they use similar criteria to define their large taxpayer segments (see “Taxpayer segmentation” in Chapter 5.1). To meaningfully compare ATO countries’ large taxpayers

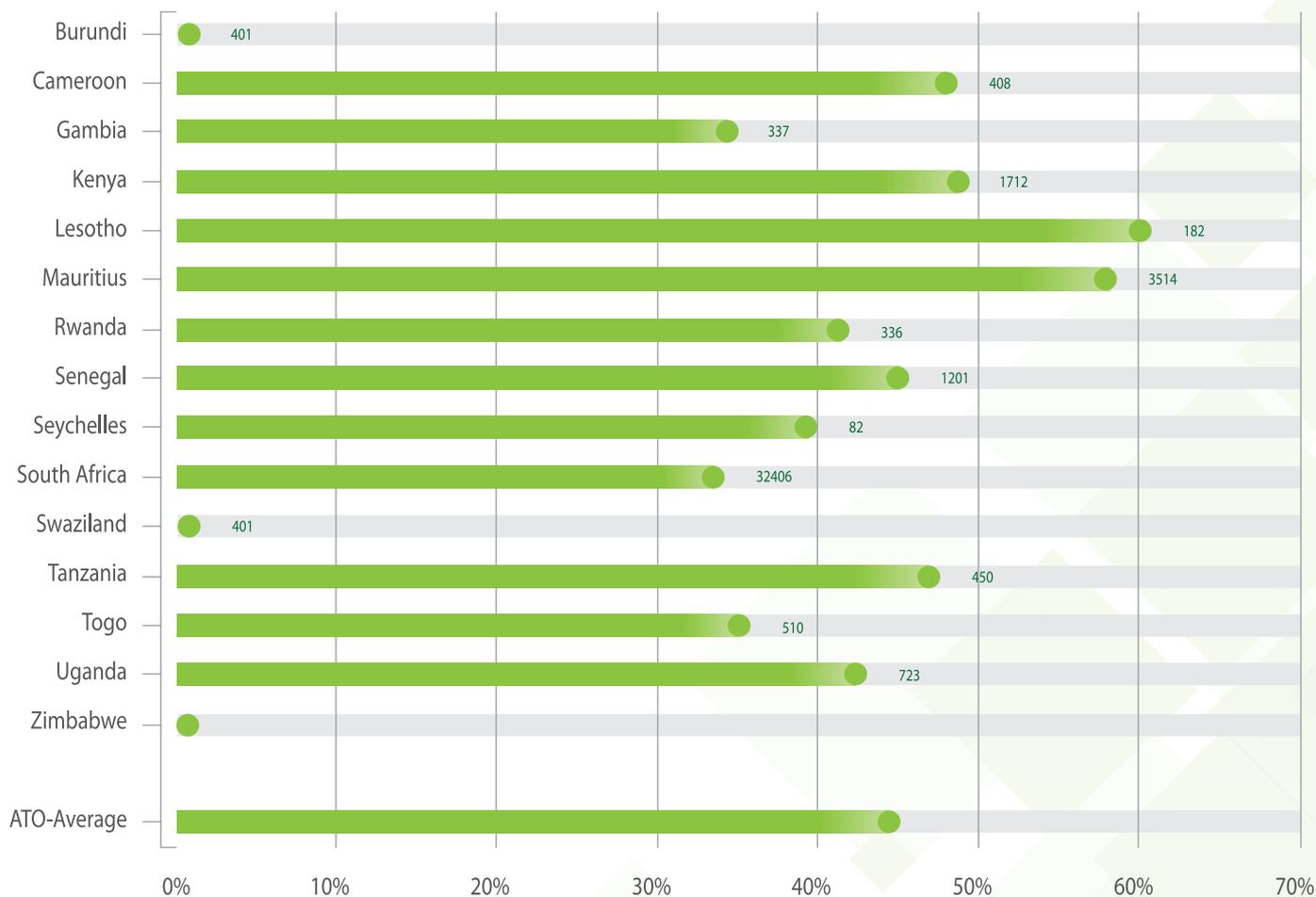
(in accordance with national definitions thereof) and their contribution to total revenue, this report considers revenue from large taxpayers as a share of total revenue (Figure 4.11). A high ratio denotes a high concentration of large taxpayers – possibly because revenue bases are narrow and/or because a handful of large taxpayer accounts for much of a country’s revenue. The fewer there are, the greater the country’s dependence on large taxpayers.

On average, ATO countries collect 45.2% of total tax revenue from large taxpayers<sup>16</sup>, with a few large taxpayers contributing particularly high shares in Lesotho (60.9%), Mauritius (58.6%), Kenya (49.7%) and Cameroon (48.8%). By contrast, South Africa with 34.4%, Gambia at 35.2%, and Togo with 35.9% have ratios that are lower than in other countries and point to considerably broader tax bases.

**Figure 4.10.** Schematic representation of taxpayer/revenue distribution



**Figure 4.11: Ratio of tax revenue from large taxpayers to total tax revenue and absolute number of large taxpayers, 2014**



*Note: Data for Seychelles from 2013; data for Kenya, Rwanda, South Africa, Tanzania, Uganda and revenue data from Lesotho and Swaziland are for the fiscal year 2013/14. Large taxpayer revenue is not available for Burundi, Swaziland and Zimbabwe.*

#### 4.4. Tax revenue round-up and key findings

ATO countries have generally low ratios of tax revenue to GDP, particularly in those where agriculture accounts for the bulk of production because tax productivity in the sector is very low (except in countries like South Africa). The greatest differences between countries are to be found in the ratios of PIT revenue to GDP. PIT's contribution to the average ATO country's revenue is only half the level of the average OECD country, but greater than in the Latin American and Caribbean countries of CIAT. The difference in VAT-to-GDP ratios between ATO and the other two groupings is far less pronounced, while corporate income tax revenue relative to GDP is much the same as in OECD countries. Some of the difference is attributable to variations in tax rates, though mainly to tax productivity. There are considerable disparities between the ATO countries' revenue-to-GDP ratios. Although they are widest in personal income tax revenue to GDP, they are also considerable in the ratios of VAT and corporate income tax revenue to GDP. Once more, they can be ascribed mainly to differences in levels of productivity, not to differences in rates.

A positive finding is that, over the five years covered by this publication, some countries, particularly those with low revenue-to-GDP ratios, achieved revenue growth that was much greater than nominal GDP growth. As a result, their revenue-to-GDP ratios improved. In most cases, those high achievers secured robust revenue growth with no change to their tax rates. Yet again, tax productivity – the result of good tax administration – was the driver.

#### Box 4.4. Large taxpayers can be large tax evaders – the challenge of BEPS

The African Tax Administration Forum has identified illicit financial flows (IFFs) in general and base erosion and profit shifting (BEPS) in particular as critical challenges to African countries’ ability to mobilise and retain resources – particularly tax revenue.

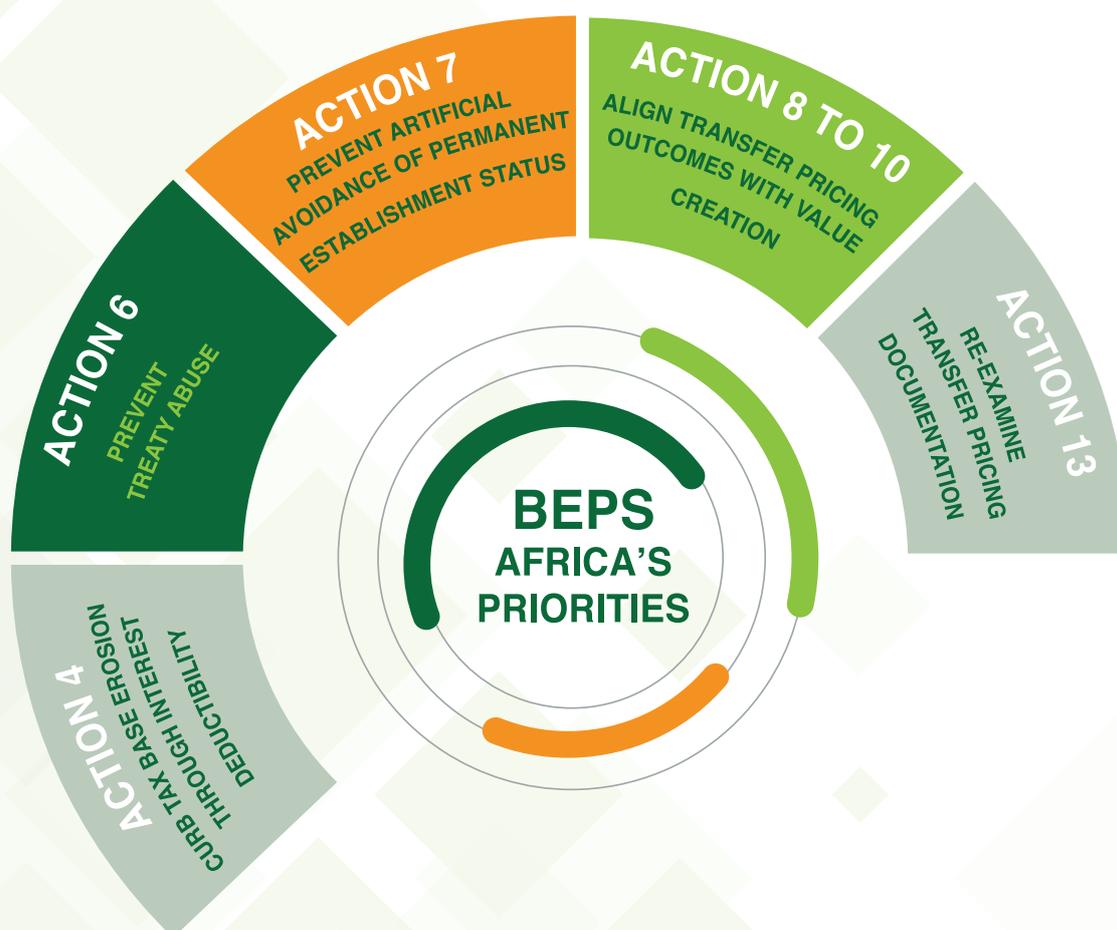
BEPS is aggressive planning by multinational enterprises (MNEs) to shift their profits to low or no-tax locations where there is little or no economic activity to avoid paying tax in the countries where they do business. The OECD describes it in these terms:

“In an increasingly interconnected world, national tax laws have not always kept pace with global corporations, fluid movement of capital, and the rise of the digital economy, leaving gaps and mismatches that can be exploited to generate double non-taxation. This undermines the fairness and integrity of tax systems.”

BEPS can seriously jeopardise domestic resource mobilisation in Africa, where countries rely heavily on tax revenue from MNEs:

- Rwanda reported that 70% of its tax base comes from MNEs.
- Burundi has stated that one single MNE taxpayer contributes nearly 20% of the country’s total tax revenue.

The effect of BEPS is loss of revenue that can be seen in mounting poverty, inequality and unemployment. To halt or curb the erosion of their tax base through profit shifting, the ATO countries should implement those “actions” from the OECD’s BEPS Action Plan which ATAF has identified as relevant to Africa. The BEPS Action Items in the OECD/ G20 Action Plan that ATAF has identified as of highest priority to African countries are as follows:



Source: ATO and ATAF analysis; OECD (2013), Action Plan on Base Erosion and Profit Shifting, OECD Publishing, Paris.

5



## THE COST OF TAX ADMINISTRATION

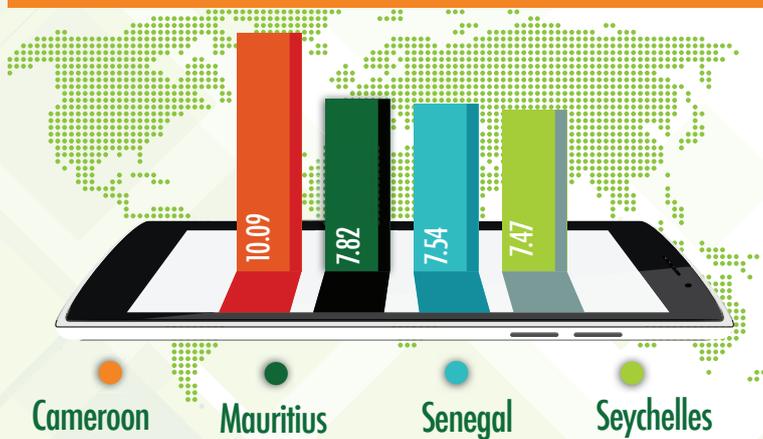
The average ATO revenue administration operating cost is 2.1% of net revenue collected – considerably higher than the OECD’s average of 0.9%. The variations in the cost of tax administration among the ATO countries are wider than in the OECD due to differences in efficiency and effectiveness. The lowest ATO ratio is 0.3% (Cameroon) and the highest 5.3% (Swaziland), while among the OECD countries, the range runs from 0.4% to 1.7%.



*The tax administration core worker to support staff ratio is the total number of employees in the core function divided by the number of employees in support staff.*



### RATIOS OF TAX ADMINISTRATION STAFF IN CORE FUNCTIONS TO SUPPORT STAFF



### Association between high core-to-support staff ratios and high tax to GDP ratios

Seychelles, for example, where the core-to-support staff ratio is 7.47, has a tax-to-GDP ratio of 25.56%. In other high-ratio countries, the numbers are:

- Senegal, 7.54 – 22.31%,
- Mauritius, 7.82 – 18.63%,
- Cameroon, 10.09 – 15.13%.



The lowest ATO country ratio is 0.93 in Lesotho, the only country where the ratio is lower than 1 and which therefore has more support than core staff. The highest ratio is 10.09 in Cameroon where, for every employee in support functions, there are 10 in core functions. Other countries that registered high core-to-support-staff ratios are Mauritius (7.82), Senegal (7.54) and Seychelles (7.47).



## Modernisation to improve tax administration and management

12 tax authorities have rolled out integrated tax administration systems (ITAS) and tax management systems (ITMS). Examples include the Kenya Revenue Authority’s iTax (see Box 5.7) and Swaziland’s eTax. Such systems simplify filing and payment, reduce the cost of paying taxes and excise and doing business, and enable taxpayers to check their tax status at all times.

Revenue performance is largely determined by revenue administration. This section analyses a number of quantitative and qualitative indicators that assess ATO tax authorities and how effectively they generate revenue. The indicators encompass dimensions that gauge the efficiency and capacity of tax administration and range from organisational structure, cost, staffing and modernisation to the provision of taxpayer services, compliance, enforcement and tax authorities' place in the community.

## 5.1. Organisational and governance profiles

### *Semi-autonomous revenue authorities are the norm in ATO countries*

Traditionally, tax administration and collection was the job of a tax department within the finance ministry – it still is in Cameroon and Senegal. However, like many developing and developed countries worldwide, though, the other ATO countries have put in place semi-autonomous revenue authorities. They enjoy varying degrees of independence in staffing, salaries

and incentives, procurement and budgets and, by the same token, in their freedom to undertake the important changes needed for modernisation. For example, South Africa's revenue authority which, though not governed by public service rules, is under close government control, whereas KRA, the Kenyan Revenue Authority, enjoys rather more room for manoeuvre (Crandall, 2010).

How a revenue authority is designed is a key determinant of how efficiently it administers and collects taxes and is, therefore, a central element in reform and modernisation programs.

The semi-autonomous revenue authorities among the ATO countries have integrated their tax and customs revenue administration. A single body that registers, collects and audits achieves more cost-effective administration and taxpayer compliance. The process of ATO data collection and analysis demonstrated that countries where tax and customs revenue services are not integrated struggle to access information from customs departments. Togo's revenue authority, the first to integrate taxes and customs in francophone Africa, was singled out for praise by the African Development Bank.

#### **Box 5.1. "Togo Revenue Authority: model for good tax governance"**

The African Development Bank lauds Togo's Office National des Recettes (Togo Revenue Authority, OTR) which has been operational since 2014. A semi-autonomous body, it is the first in French-speaking West Africa to merge tax and customs services together in a single body in order to streamline revenue collection, reduce administrative costs, and increase revenues through improved efficiency.

The commissioners general of the customs and taxes branches are recruited on a competitive basis and are held accountable to the taxpayer – the corollary of autonomy. Staff, too, are recruited in the same way, though their numbers were cut by 17%, which led to strike action. The protests prompted fears that the OTR's performance would be affected. Yet in its first year of operation it increased cash revenue by 23% through the computerisation of filing and payment procedures and the consequent facilitation of compliance. The OTR collects revenue directly through banks to ensure transparency and traceability. The results have been reduced delays in customs clearance and the "disappearance of queues when paying taxes". There are plans to introduce an e tax project with an online interface that will enable taxpayers, tax services and the Treasury to communicate in real time.

The African Economic Outlook also commends the OTR for requiring its agents to disclose their assets and putting in place a service allowing taxpayers to air their complaints.

*Source: Ntagungira, C. (2015), "Togo Revenue Authority: model for good tax governance", African Development Bank, [www.afdb.org/en/blogs/measuring-the-pulse-of-economic-transformation-in-west-africa/post/togo-revenue-authority-a-model-for-good-tax-governance-14486/](http://www.afdb.org/en/blogs/measuring-the-pulse-of-economic-transformation-in-west-africa/post/togo-revenue-authority-a-model-for-good-tax-governance-14486/); Ntagungira, C. and N. Kazadi (2015), "Togo", Country Notes, African Economic Outlook, [www.africaneconomicoutlook.org/en/country-notes/west-africa/togo/](http://www.africaneconomicoutlook.org/en/country-notes/west-africa/togo/).*

## Taxpayer segmentation

Taxpayers do not form a homogeneous whole and different groups of taxpayers generate different types of tax administration challenges. Revenue authorities may be organized by type of tax (e.g. corporate, VAT, income), function (registration, collection, audits, appeals, etc.) or taxpayer (large, medium, small business and individual). As for the ATO countries' tax authorities, they are split into taxpayer segments which address the needs of large, medium, small and very small taxpayers.

**Table 5.1:** Taxpayers segments as at end of 2014

Country	Taxpayers Segment
Burundi, Senegal Seychelles, Tanzania Togo, Uganda	Large – Medium – Small.
Cameroon	Large – Medium – Small – Very small
The Gambia	Large – Medium and small – Informal
Kenya, Lesotho Mauritius, Rwanda Swaziland, Zimbabwe	Large – Medium and small
South Africa	Business and employers: <ul style="list-style-type: none"> <li>• Large business centre</li> <li>• Small business</li> <li>• Tax-exempt organisations</li> <li>• Embassies</li> <li>• Individuals</li> <li>• Tax practitioners</li> </ul>

The criteria that countries use to segment taxpayers are principally turnover, tax payment trends and the nature of business (i.e. the economic sectors in which businesses operate). A further category used by the South African Revenue Service (SARS) is “registered importers and exporters”, while Lesotho has a “multi-national corporation” criterion.

Most ATO countries segment large taxpayers by annual turnover (including that of their subsidiaries and associates), followed by the nature of their business. Tanzania and South Africa, for example, automatically classify companies as “large taxpayers” if they belong to the banking, insurance and mining sectors. Altogether, ATO countries use criteria similar to those of the OECD, with the exception of its number<sup>17</sup> of employees and size criteria (which includes turnover and value of assets).

As the ATO countries seek to maximize domestic revenue mobilization, they should not overlook the potential of small and very small businesses. In that regard, the African Tax Administration Forum (ATAF) highlights a project from Rwanda (Box 5.2).

## 5.2. The cost of tax administration

The cost of tax administration is measured as the ratio of recurrent operating costs to net revenue collected (Figure 5.2). It is an indicator of the efficiency of revenue

authorities, gauging their institutional set-ups, scope of activities, performance measurement systems and differing administration strategies. International administrative costs vary widely, with the richest countries showing the lowest and the poorest countries the highest operating costs relative to revenue collected (Gallagher, 2004). However, there is also considerable variation between countries at similar levels of development.

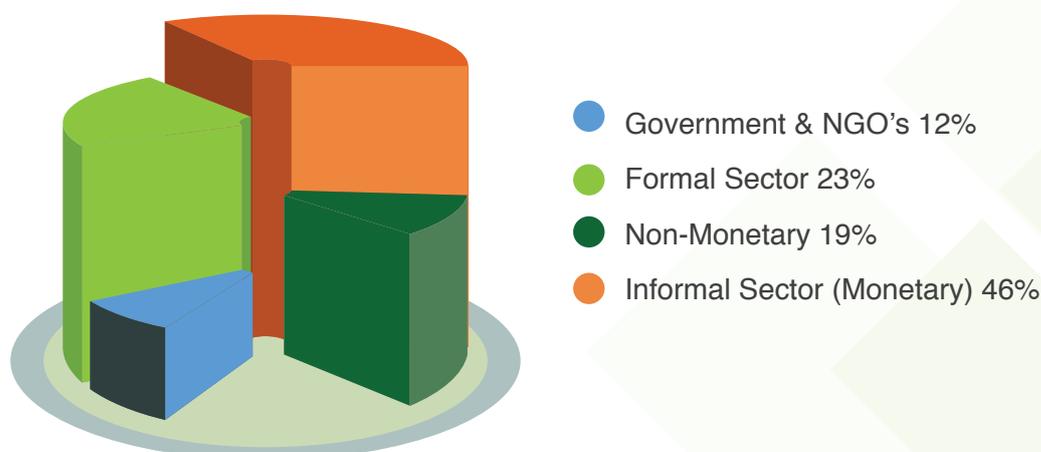
The average ATO revenue administration operating cost is 2.1% of net revenue collected— considerably higher than the OECD’s average of 0.9%. The variations in the cost of tax administration among the ATO countries are wider than in the OECD due to differences in efficiency and effectiveness. The lowest ATO ratio is 0.3% (Cameroon) and the highest 5.3% (Swaziland), while among the OECD countries, the range runs from 0.4% to 1.7%.

Among the ATO countries, Swaziland and The Gambia<sup>18</sup> have the highest average costs of revenue collection, while tax administration costs in Cameroon<sup>19</sup>, Senegal and Togo are particularly low at under 1%. Although the prime reason for such differences is likely a more efficient tax administration in the latter three countries, another explanation could be that huge investment in reform and modernisation initiatives has not yet borne fruit in those with the highest administration costs (see Annex 1, “Modernisation initiatives implemented, 2014”).

### Box 5.2. Best practice from Rwanda: training revenue authority staff to work with the informal sector

In 2006, the Rwanda Revenue Authority (RRA) went through major restructuring that saw the Income Tax Department merge with the VAT Department to form the Domestic Tax Department (DTD). The new DTD required staff to be retrained in new specialised skills geared to the needs of the taxpayer segment they would be targeting. Accordingly, workers in the Small and Medium Taxpayer Office (SMTO) went through a Special Training Programme (STP) designed to equip them to serve SMEs operating in an ever more informal sector but with unique strengths for contributing to the revenue base of the country – in 2011, the informal sector accounted for 46% of GDP (Figure 5.1).

**Figure 5.1** The informal sector's share of GDP in Rwanda



Each year, the STP upgrades to meet the needs of staff, taxpayers and stakeholders. Accordingly, there is input from external sources (taxpayers and stakeholders) and internal sources (staff themselves). The RRA works closely with Taxpayer Service Department and the Private Sector Federation (PSF) in conducting special SME training.

The STP has run up against challenges in implementation, which has led to the constant review of policies and strategies to find solutions. The challenges are:

- constraints on the training and education budgets due to limited resources,
- retaining trained staff now able to enter the private sector in search of greener pastures,
- a technical environment that is not fully automated, which hampers the effective management of SMEs.

Nevertheless, the STP has managed to improve tax compliance among SME taxpayers, as the increase in revenue yield and number of registered taxpayers attests. During the financial year 2010/11 to 2012/13, the SME taxpayer population grew from 42 538 to 90 485, while the revenue collected rose from RWF 385.2 billion (USD 636.2 million) to RWF 651.9 billion (USD 1 076.6 million).

Other revenue authorities should draw on the example of the RRA and ensure that their staff training provision is closely linked to taxpayer education and service activities. They should also run staff integrity programmes to improve taxpayer perception of the tax authorities. In addition, their strategies should deliberately seek to sustain adequate resources and staff-to-taxpayer ratios.

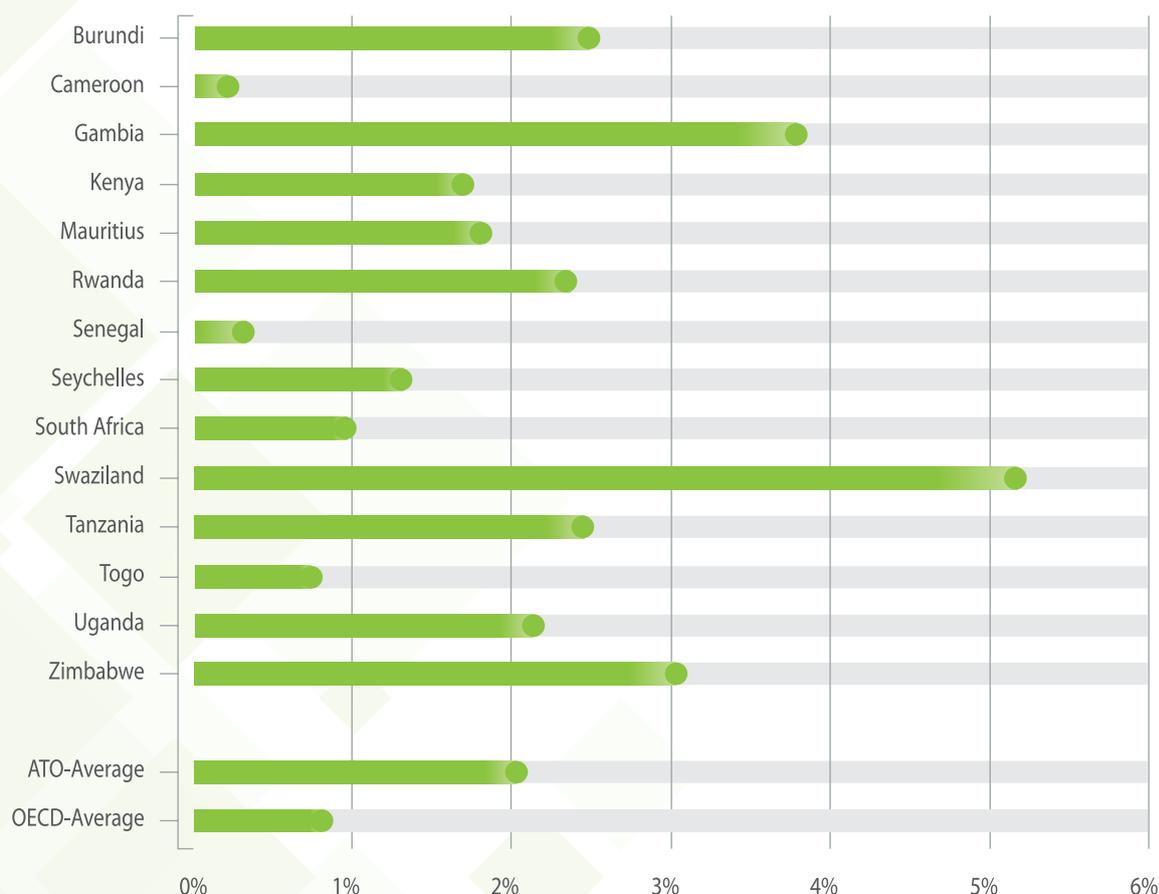
Indeed, the RRA believes that specialised training schemes to harness the strengths and improve the compliance of the informal sector is a good practice that can be replicated by other revenue authorities.

*Source: ATAF and GIZ (2014), Taxation of SME in Africa: Good Practices and Lessons Learned: a Case Study of Specialised Training in Rwanda, African Tax Administration Forum, Pretoria, September.*

### 5.3. Staff productivity

Tax revenue per employee gauges the mean productivity of tax administrators<sup>20</sup>. The same indicator is used to measure the productivity of revenue authority employees working in the core functions related to revenue collection<sup>21</sup>. The average revenue per ordinary ATO tax administration employee is USD 3.3 and per core employee USD 4.4. South Africa enjoys the highest staff productivity, followed by Senegal, Kenya and Lesotho, while Gambia, Seychelles and Togo have the lowest (Figure 5.3).

**Figure 5.2:** Cost of tax administration in relation to revenue, average 2010-2014



### 5.4. Staff outreach

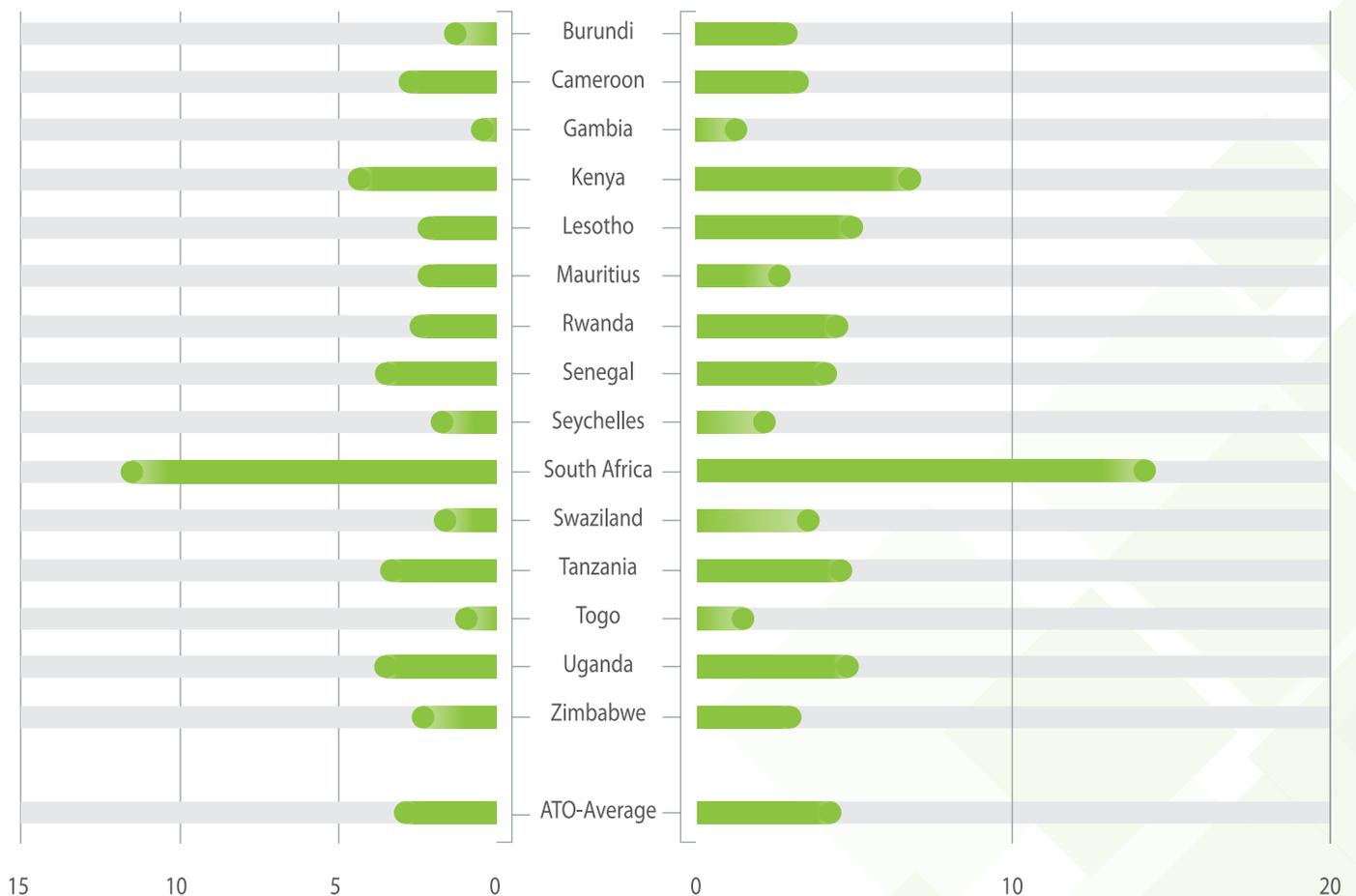
Staff outreach is an indicator of the tax authority's size and its ability to serve all taxpayers – potential and registered. Tax administrators should be able to reach both liable and registered taxpayers to prevent the revenue losses that stem from poor enforcement. With the rise of self-assessment regimes and such services as online registration, filing and payment, it is essential that revenue administrators should be on hand to ensure that enforcement and audits operate smoothly.

The population and labour force per tax administration employee are indicators of tax administration resources and make it possible to compare them from country to country. The international benchmark for effective tax administration outreach is around 1 000 people per tax administrator (Al-Momani et al., 2010). The average population-to-staff ratio in the ATO countries is six times higher than that benchmark at 6 631, while the labour

force to staff ratio is 2 844/1 (Figure 5.4). In comparison, the OECD averages are 774/1 and 510/1. Within the ATO average, there are wide differences between ATO countries. Whereas Mauritius, Seychelles and Swaziland are well staffed, with number of potential taxpayers per administrator below the international benchmark, the ratio of labour force to staff is over 6 000/1 in Burundi and Uganda.

The tax administration core worker to support staff ratio is the total number of employees in the core function divided by the number of employees in support staff. A high core staff ratio could be the sign of a highly effective revenue authority which concentrates on its core duties. However, it could also be the result of low levels of automation and the consequent need for high numbers of employees to perform tasks manually.

**Figure 5.3:** Revenue in relation to staff and revenue in relation to staff in core function in million US dollars, 2014.



PPP conversion in million US dollars

In that case, revenue authorities have to employ staff in enforcement, collection, tax investigation and audit functions to ensure good taxpayer compliance (Figure 5.5).

If a tax authority's ratio of core workers to support staff is equal to 1, then it has the same number of staff in core and support functions. A ratio higher than 1 means that there are more people working in core than in support functions. The ATO average ratio of core workers to support staff ratio is 4.19, compared to 4 in the OECD countries. In other words, there are over 4 times more workers in core than in support functions.

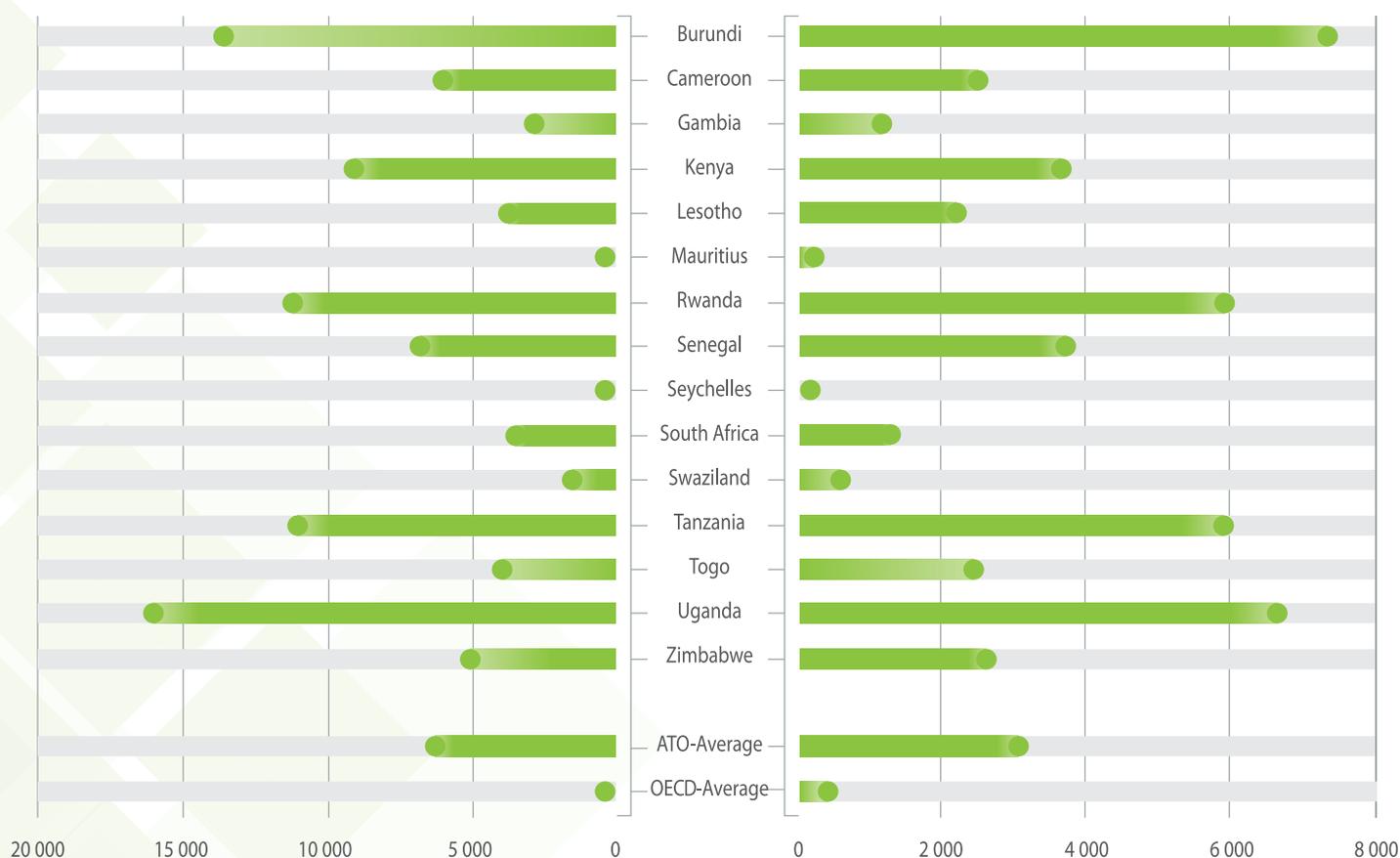
The lowest ATO country ratio is 0.93 in Lesotho, the only country where the ratio is lower than 1 and which therefore has more support than core staff. The highest ratio is 10.09 in Cameroon where, for every employee in support functions, there are 10 in core functions. Other countries that registered high core-to-support-staff ratios are Mauritius (7.82), Senegal (7.54) and Seychelles

(7.47). At the other end of the scale lie Lesotho (0.93), Swaziland (1.15), Burundi (1.23) and the Gambia (1.49). The figures hint at an association between high core staff ratios and high tax-to-GDP ratios. Seychelles, for example, where the core-to-support staff ratio is 7.47, has a tax-to-GDP ratio of 25.56%. In other high-ratio countries, the numbers are:

- Senegal, 7.54 – 22.31%,
- Mauritius, 7.82 – 18.63%,
- Cameroon, 10.09 – 15.13%.

The conclusion could be that high proportions of staff in core functions point to effective tax administration, as high tax-to-GDP ratios indicate. However, other factors also contribute to high tax-to-GDP ratios and there are other ways of measuring the effectiveness of tax administration than the tax-to-GDP ratio. Further research could yield insight into whether core staff ratios have a causal effect on tax-to-GDP ratios.

**Figure 5.4:** Population (left side) and labour force (right side) in relation to tax administration employees, 2014



## 5.5. Modernisation to improve tax administration and management

All the ATO revenue authorities have taken measures to modernise. They have brought information and communication technology (ICT) into internal revenue administration and allowed external interaction with taxpayers, harnessing it to a set of strategies:

- higher compliance, lower compliance costs
- reduced tax administration costs
- reinforced revenue and arrears collection
- greater transparency and integrity
- stronger risk management.

In sum, they have – often successfully – used ICT to make tax administration efficient, increase compliance, bolster enforcement and boost revenue. Despite the modernisation measures implemented, and although most ATO countries use electronic methods (e.g. e registration, e filing, and e payment), few of them – apart from the Gambia, Mauritius and South Africa – could provide statistics on the electronic filing and payment of different types of tax. Most were able to do so only for VAT. The lack of data made it impossible, therefore, to calculate average volumes of electronic filing and payment. Nevertheless trends do emerge.

When it comes to domestic taxes, 12 tax authorities have rolled out integrated tax administration systems (ITAS) and tax management systems (ITMS). Examples include the Kenya Revenue Authority's iTax (see Box 5.7) and Swaziland's eTax. Such systems simplify filing and payment, reduce the cost of paying taxes and excise and doing business, and enable taxpayers to check their tax status at all times.

**Figure 5.5:** Ratio of staff in core function to total and ratio of staff in core function to support staff, 2014



ITASs and ITMSs have improved access to and exchange of information through interfaces between the revenue authorities and other government agencies, thus helping to identify taxpayers and monitor transactions made by actual and potential taxpayers. Management systems also enable revenue authorities' internal departments (e.g. financial, human resources, domestic tax and customs) to interface and communication between their own internal departments (see Annex 1).

In the vast majority of ATO countries, taxpayers can file their returns and pay their taxes electronically (Table 5.3). Some ATO countries have implemented mobile

payment systems – such as Mobisite and MobiApp – which taxpayers can use to complete and submit returns and remit payment. The World Bank reports that the implementation of online services in Rwanda reduced the time it took to prepare, file and pay taxes by 10 hours in 2014/15 (World Bank, 2016).

As for customs, a good number of revenue authorities have dedicated management systems like ASYCUDA in place. With ASYCUDA taxpayers can register, file and lodge import and export documents as well as pay their taxes, duties and track their tax situation. (See Annex 2 for further details.)

**Table 5.2:** Countries that modernized their tax collection processes until the end of 2014

Taxpayers segments	Countries
General modernization of tax collection process	Burundi, Cameroon, Gambia, Kenya, Mauritius, Rwanda, Senegal Seychelles, South Africa, Swaziland Tanzania, Togo, Uganda and Zimbabwe.
Taxpayer file their returns electronically	Cameroon, Kenya, Mauritius, Rwanda, Seychelles, South Africa, Swaziland, Togo, Tanzania, Uganda and Zimbabwe.
Taxpayers pay their taxes electronically	Kenya, Mauritius, Rwanda, Seychelles, South Africa, Swaziland, Tanzania and Uganda
Mobile payment systems	Cameroon, Mauritius, Rwanda, South Africa and Tanzania

**Box 5.3. Electronic billing machines in Rwanda and electronic fiscal devices in Mauritius**  
**EBMs boost VAT payments by small firms in Rwanda**

VAT payments in Rwanda climbed by 6.5% on average between 2012 and the second half of 2014 among firms that adopted electronic billing machines (EBMs). This was a finding to emerge from a paper entitled “The Incidence and Impact of Electronic Billing Machines for VAT in Rwanda”. The rise came chiefly among small firms where compliance was relatively low prior to the introduction of the EBM. To capitalise on the greater gains in VAT compliance secured by EBMs than by other types of enforcement activities, the authors of the paper recommend that:

- Revenue authorities should focus on extending EBM coverage to sectors where adoption rates are low and potential impact is highest.
- Revenue authorities should develop and implement VAT policies that build on existing policies to strengthen enterprises’ incentives to report transactions through EBMs.
- Administrative policies that strengthen purchasers’ incentives to request EBM receipts and/or sellers’ perceived risk of audits. Such policies could be reinforced by consumer VAT lottery and the use of “mystery-shopper” style inspectors to examine how EBM is used.

*Source: Eissa, N. et al. (2015), The Incidence and Impact of Electronic Billing Machines for VAT in Rwanda, International Growth Centre.*

**Mauritius Revenue Authority tracks and matches VAT with EFDs**

The Mauritius Revenue Authority intends to introduce electronic fiscal devices (EFDs) in restaurants and supermarkets where desk and field audits have uncovered a high degree of non-compliance – particularly in the non-issuance of VAT invoices and under-declaration of sales. The project involves introducing EFDs at sales outlets to capture all sales made by a VAT-registered person and inform the tax authorities of every transaction either outright or on a daily basis through online connectivity to the MRA server. The tax authorities will use the Information obtained electronically to checkmate the tax compliance of every VAT-registered person in the restaurant and supermarket retail sectors.

As a start-up to this project, the VAT legislation was amended in 2015 to enable the MRA to require taxpayers to use EFDs to record any matter or transaction which may affect their tax liability.

*Source: ATAF (2015), ATAF Innovation Awards 2015.*

**Long-term strategic action**

To further their strategic goals, the ATO countries have undertaken reform to strengthen the capacity of revenue authorities and increase their tax administration efficiency and effectiveness. Such reform action is **long-term (with timelines of at least one year)** and rolled out as part of strategic programmes which may, for example, build on the online ICT systems that the revenue agencies have introduced as part of their modernisation efforts (see Annex 1).

**Table 5.3.** Automated online systems used by ATO countries to meet their strategic goals

Strategic goals	Means used
Enhance voluntary compliance	<ul style="list-style-type: none"> <li>• Online filing and payment systems</li> <li>• Electronic billing machines (EBMs) and electronic fiscal devices (EFDs)</li> <li>• Risk management systems</li> </ul>
Reduce the cost of doing business	<ul style="list-style-type: none"> <li>• Single customs territories (SCTs)<sup>22</sup></li> <li>• Authorized economic operators (AEOs)<sup>23</sup></li> </ul>
Improve clearance efficiency in the clearance process	<ul style="list-style-type: none"> <li>• Automated System for Customs Data (ASYCUDA)</li> <li>• Cargo management and tracking systems</li> <li>• Integrated and Coordinated Border Management (IBM/CBM)</li> </ul>
Standardise work procedures	<ul style="list-style-type: none"> <li>• Tax information management systems</li> <li>• Standard operating procedures (SOPs)</li> <li>• ISO certification</li> </ul>
Enhance analytic and risk management	<ul style="list-style-type: none"> <li>• Data warehousing and business intelligence (DWBI) (see Box 5.4)</li> </ul>

#### **Box 5.4. Data warehousing and business intelligence for a culture of data-driven decision-making**

Revenue authorities generate masses of data that are scattered across other agencies' information systems. Furthermore, they lack the analytical tools for producing statistical reports that facilitate decision making. In response Kenya, Rwanda, South Africa and Uganda have introduced a data warehousing and business intelligence system (DWBI). It provides the countries' revenue authorities with an interface for exchanging statistical information with other strategic government agencies and helps build a culture of data-driven decision-making.

DWBI is designed specifically to:

- be a single source of integrated information,
- empower staff with analytic competencies and foster decision-making that is based on facts,
- provide users with easy-to-use reporting and analysis tools for timely business insights,
- accelerate access to integrated information.

The four countries' revenue agencies have improved taxpayer registration, data matching, risk profiling and validation of tax returns. And they now boast an analytic and risk management capability that has strengthened their intelligence-driven operational performance.

#### **Short-term initiatives to improve tax administration and management**

Within their overarching strategies, revenue authorities undertake initiatives – **short-term measures, budgeted for a year** – which seek to reduce the complexity of the tax system, encourage voluntary taxpayer compliance, and treat taxpayers according to their revenue potential (see Annex 3). Some of the tax administration initiatives that the ATO tax authorities had put in place at end 2014 were:

- call centres
- interfaces with the internal systems
- tax segmentation
- organizational restructuring
- strengthened audit functions
- enterprise-wide risk management systems (see Box 5.5)
- taxpayer awareness campaigns.

#### **Tax policy action**

The backbone of domestic revenue mobilisation is the coming together of tax policy and tax administration. Tax policy initiatives are aimed at simplifying tax systems and reducing performance obstacles not directly linked to the structure or functions of tax administration (see Annex 4).

ATO revenue agencies continuously review and analyse existing policies to ensure ongoing progress in compliance, the simplification of tax systems and increased revenue collection by closing any loopholes in the tax system.

The dominant tax policy issues are related to tax rates and thresholds (see Chapter 3). Countries also introduced new excise taxes or raised existing excise duties on certain commodities and services (e.g. mobile calls) to generate revenue and to deter the consumption of luxury and harmful goods. Most ATO countries, for example, increased excise duties on fuel and cigarettes, others

on money transfers. Some, however, also reduced rates to foster value added and protect local industries (see Annex 5).

Tax policy also included action to:

- expand tax bases to reflect the changing structure of the economy,
- increase tax-to-GDP ratios,
- reduce numbers of tax exemptions,
- increase transparency in collection and enforcement to improve tax administration,
- ease the tax burden on small taxpayers,
- prevent and curb smuggling and the illegal exportation of goods.

A critical policy area that cuts across all areas of tax administration and revenue collection is compliance. Tax authorities should both foster and enforce compliance.

**Box 5.5. Best practice: SARS hones its enterprise-wide risk management**

Enterprise-wide risk management (ERM) is a continual, organisation-wide set of methods and processes for managing and responding to risks that prevent a revenue authority from achieving its objects. ERM can be implemented as part of corporate planning, compliance, risk management, and business continuity management.

How does ERM foster taxpayer compliance?	What are the benefits?
Treats taxpayers equally	A valuable component in business planning, it helps clearly state and achieve strategic and operational objectives.
Focuses auditing on non-compliant taxpayers	Helps maximize opportunity and minimise risk.
Makes best use of the available human, financial and technical resources	Helps better cross-departmental risks more effectively
Matches available resources to risk levels	Ensures effective resource allocation.
Assesses the likelihood of compliant taxpayers becoming non-compliant	A risk-secure environment improves stakeholder confidence

The South African Revenue Service (SARS) is widely acknowledged as an efficient tax administration body in the advanced stages of implementing ERM. SARS complies with the principles and standards of risk management and has developed some stand-out practices that other ATO revenue authorities could emulate.

- It has mainstreamed ERM and integrated it into 4 focus areas – planning, decision-making, processes and sub-processes, and the control environment.
- Its risk management and compliance functions are highly automated.
- Capacity building in RM is an integral part of staff training.
- It has a department dedicated to risk and governance that embeds risk at strategic, operational and transactional levels.
- Its mitigation of the top 10 risks is based on the Pareto principle (or the “80/20 rule”).
- The SARS Compliance Plan is a public document that lets taxpayers know the areas of focus in the coming financial year.
- RM is one of the Key Result Areas in SARS’ performance management system.
- RM is championed by the management committee.
- SARS has put in place an institutionalized risk committee and a compliance committee.

*Source: South African Revenue Service (SARS) and Uganda Revenue Authority (URA).*

***Policies to foster and enforce compliance***

ATO countries contend with significant challenges in mobilising domestic resources. A key issue in increasing tax revenue is to create an environment that encourages taxpayer compliance through legislative and administrative changes (Corrick, 2016). To that end laws must be clear so that taxpayers know what are their obligations are and how to comply with them.

There should also be provision to foster voluntary compliance through, for example, granting additional filing time to taxpayers who file electronically. Laws should also:

- Empower revenue authorities to obtain relevant and appropriate information. Where appropriate, the law should also require that revenue authorities be automatically provided with information. For example, banks should automatically transmit the details of all investment income paid to each of their customers on an annual basis.
- Provide appropriate sanctions for non-compliance. In most developed countries penalties for tax non-compliance are financial. Imprisonment is used only sparingly in the most serious cases of tax fraud. Financial penalties need to be set high enough to deter non-compliance.

#### **Box 5.6. Mauritius Revenue Authority: sharing information with third parties for taxpayer compliance**

The Mauritius Revenue Authority (MRA) gathers third-party information from various sources. They include government departments, parastatal bodies, and agencies like the Registrar of Companies, the National Transport Authority and Registrar General Division. The MRA also obtains information statutorily from:

- employers in respect of pay-as-you-earn deducted from employees' salaries;
- and taxpayers, including government agencies, on tax deducted at source (TDS) for certain categories of payments.

The MRA then uploads the electronic data on a taxpayer which it receives from government organisations to that taxpayer's account in its database. By matching the data received from third parties with income or turnover declared by taxpayers in their tax returns, the MRA can track:

- non-and under-declaration of taxes
- issue assessments on non-compliant taxpayers.

*Source: ATAF (2015), ATAF Innovation Awards 2015*

## **5.6. Taxpayer services**

Taxpayer service indicators measure tax administration efforts to reach out to taxpayers and reduce the cost of tax compliance. It is the duty of taxpayers to comply with tax laws over and above the actual payment of tax. As compliance costs may constitute a sizeable share of the total tax burden, its magnitude is an essential piece of information for policy makers. The obligation to comply can be lightened by educating taxpayers to make compliance easier and, therefore, less costly.

### **Taxpayer education**

To ensure that taxpayers have the information and the support they need to meet their tax obligations, most ATO countries have adopted a service-oriented approach towards them and provide taxpayer education interventions.

The ATO governments have sought to inform taxpayers of new procedures and requirements through radio and television talk shows, tax clinics and seminars, educational materials (e.g. brochures and newspapers), stakeholder training and forums, and school projects

and outreach. In the long term, tax education reduces penalties attributable to errors committed by taxpayers, curbs tax evasion, increases compliance and enhances revenue mobilization.

All ATO countries, with the exceptions of Cameroon and Swaziland<sup>24</sup>, have centralised taxpayer education in special education units within their revenue authorities. The taxpayer education units help identify and address issues that cut across different tax and customs revenue administration functions. Ultimately, they help bring down administration costs by focusing resources in a coordinated manner chiefly on non-compliance issues. What is more, most ATO countries set aside budgets for taxpayer education.

### **Taxpayer service centre**

Tax administration responsiveness to taxpayers and the swift resolution of their queries improve customer service and enhance compliance. To track and trend response times, 7 of the 15 ATO countries have put in place call centres and 5 have created websites that manage

### **Box 5.7. Best practice from Kenya: automating the taxpayers' experience**

The Kenya Revenue Authority's iTax system is a secure, web-enabled, fully-integrated solution for administering domestic taxes. It is designed specifically to be convenient and user-friendly with an integrated approach that affords taxpayers access to multiple tax administration services. They can:

- update their registration details,
- file tax returns,
- remit their taxes through mobile payment services at their convenience,
- enquire about their tax status,
- apply for a tax compliance certificate (TCC),
- lodge a refund claim online in real time.

KRA has formed partnerships with all Kenya's commercial banks and has integrated them into iTax. Taxpayers can thus pay their taxes through any bank from their mobile devices using iTax's Payment Gateway feature. The system also allows all taxpayers employees to view their ledgers and check their PAYE deductions in real-time basis when they are filing returns or paying.

iTax has, for example, shrunk the corporation tax pre-to-post filing procedure from 59 to 16 steps. Similarly, VAT filing time has been cut to 72 minutes and it takes only a day to obtain tax compliance certificates.

The iTax has met its aims of:

- lowering compliance times and cost for taxpayers,
- increasing tax compliance levels,
- reducing human errors through comprehensive automation

KRA believes that its iTax system can be replicated in other African Countries.

*Source: ATAF (2015), ATAF Innovation Awards 2015.*

statistics on taxpayers' queries:

- The countries with call centres that track response times and trends are Burundi, Kenya, Rwanda, South Africa, Tanzania, Togo and Uganda.
- The countries with website that manage statistics on taxpayers' queries are Burundi, Kenya, Rwanda, South Africa, Togo and Uganda.

To encourage voluntary compliance, tax authorities have to track and monitor taxpayers' queries and ensure responses in short turnaround times. They should also put in place a mechanism or platform to allow taxpayers to express their views when service standards are not being met.

### **Box 5.8. Mauritius's campaign to raise awareness of taxes**

Revenue authorities must manage the expectations of the business community through continuous awareness-raising. Lifting the VAT threshold tends to create a perception that non-VAT-registered businesses have an unfair advantage over VAT-registered ones, since they can sell their goods at VAT-exclusive, therefore lower, prices.

As part of a nationwide campaign to foster a tax culture in Mauritius, the Mauritius Revenue Authority (MRA) launched a VAT sensitisation campaign in 2014. The ultimate objective was to promote the practice of asking for a receipt for any transaction and for the VAT-registered to issue VAT invoices for every sale and transaction. As part of the campaign, the MRA introduced the VAT Lucky Draw Scheme in February 2014. Under the scheme, taxpayers who have a VAT invoice can text or email the details of the invoice and win up to MUR 50 000.

*Source: Mauritius Revenue Authority, "Lucky Draw Scheme 2016", website, [www.mra.mu/index.php/media-centre/publications/vat-lucky-draw-scheme-2016](http://www.mra.mu/index.php/media-centre/publications/vat-lucky-draw-scheme-2016).*

### **Box 5.9. Best practice from Burundi – call centre for low-literacy taxpayers**

In January 2015, the new tax helpline of the Burundi revenue authority (Office burundais des recettes [OBR]) went into service. It is a call centre that answers enquiries and complaints from taxpayers. It initially received up to 25 calls a day but is now fielding 60 – and still rising – in Kirundi, French, English and Kiswahili.

Prior to the inception of the OBR in 2009, Burundi's tax office was practically inaccessible to the ordinary taxpayer, who were compelled to travel long distances and spend time and money in the hope of speaking to an official. The new call centre has opened up tax administration and given taxpayers access through the spoken word. Indeed, an important aspect of the call centre provision is that it meets the needs of Burundians, 60% of whom cannot read or write, or “do not have the culture of the written word”.

Officials from the OBR state that taxpayers' queries have grown more refined. Whereas they one asked “What's the revenue office”, they now ask questions like “How can I move out of informal work into the formal sector”. The OBR believes that change of question demonstrates greater understanding of tax obligations and willingness to comply.

*Source: ATAF (2015), ATAF Innovation Awards 2015.*

### ***Taxpayers' appreciation programmes***

Revenue authorities in some countries – e.g. the Gambia, Kenya, Rwanda, Tanzania, Uganda and Zimbabwe – organise “good taxpayer” days in honour of those who consistently pay their taxes and duties on time and accurately. It is a way of acknowledging and expressing appreciation of the role of taxpayers in the country's economic development. In the week before taxpayers' day, many revenue authorities

- stage events like tax clinics and hubs,
- hold activities such as the awareness raising of revenue products and services,
- take corporate social responsibility initiatives,
- hold regional celebrations.

“Good” taxpayers are general classified in categories ranging from compliance to tax collection support (tax collection supporters are institutions that the implementation of tax administrations' reform initiatives). On the customs side, classification includes categories like best exporters, best importers and top performers in authorised economic operator programmes. The criterion of appreciation most widely used by the ATO countries is taxpayer compliance. It looks at timely filing and payment, the accuracy of tax calculations, queries made during tax audits, and the accuracy of declarations. Compliance awards usually go to the largest contributors, overall winners by region, distinguished taxpayers by tax type and the largest contributing sectors.

Awards such as gold medals and certificates are given out on taxpayer appreciation day – usually by Heads of State during organised official ceremonies. Ceremonies are covered by all media, which encourages other taxpayers to comply with their tax obligations and remit their taxes on time.

### ***Non-fiscal services***

The ATO tax authorities' principal duty is to collect revenue. However, they also perform other duties that include such non-fiscal services as administering the estates of the recently deceased, collecting administrative fees, providing government agencies with trade statistics, facilitating trade, and patrolling borders. Tax authorities also seek to live up to their corporate social responsibility (CSR), taking part in local community events, for example, and explaining tax issues.

**Table 5.4.** Non-fiscal services provided by the ATO countries

Non-fiscal services	Purpose	Countries
Corporate Social Responsibility (CSR)	Support government priorities such as improving education and healthcare and combating crime. Donate assets such as IT equipment and furniture. Run schemes to support community leaders, educators and learners.	Burundi, Gambia, Kenya, Lesotho, Mauritius, Rwanda, Senegal, Seychelles, South Africa, Swaziland, Tanzania, Togo, Uganda and Zimbabwe.
Provision of trade statistics to other government agencies and researchers	Coordinate the collection, compilation and generation of statistics on local and international trade	Burundi, Gambia, Kenya, Lesotho, Mauritius Rwanda, Senegal, Seychelles, South Africa, Swaziland, Tanzania, Togo and Uganda.
Trade facilitation and border control	Facilitate legitimate trade and prevent illegal entry and exit of prohibited goods.	Burundi, Gambia, Kenya, Lesotho, Mauritius, Rwanda, Senegal, Seychelles, South Africa, Swaziland, Tanzania, Togo and Uganda.
Trusteeships	Manage issues of inheritance and estate	Cameroon
Tax advocacy	Raise tax awareness among taxpayers	Burundi, Gambia, Kenya, Lesotho, Mauritius, Rwanda, Senegal Seychelles, South Africa, Swaziland, Tanzania, Togo and Uganda.
Administrative fees	Sell and rent public land and objects. Collect court, traffic, immigration and building permits, driving licenses, toll fees and other fees and fines Collect aid levies, third party Insurance and oil levies Collect medical insurance and social security contributions	Burundi, Gambia, Rwanda, Seychelles, South Africa, Uganda and Zimbabwe.
Celebration of national events	Revenue administration staff take part in national holidays, such as independence days, Labour Day, and Mandela Day.	Cameroon, Gambia, Rwanda, South Africa, Tanzania and Uganda

## 5.7. Customs clearance and enforcement

### Customs clearance

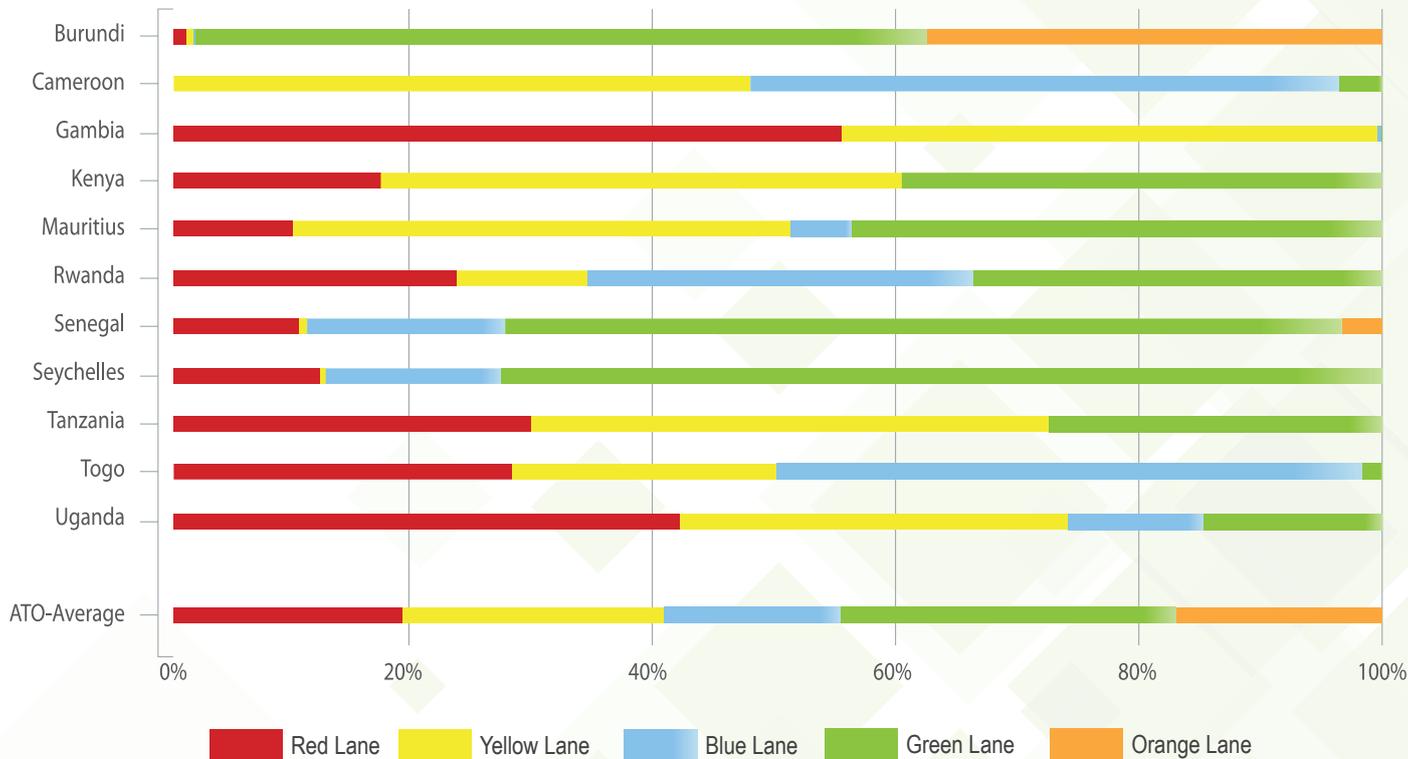
Customs clearance is the documented permission granted to imported goods so that they can enter the country or to exported goods so that they can leave it. Goods are cleared through five channels (Figure 5.6):

- the red lane, where goods are physically examined;
- the yellow lane, where a full document is carried out before release;
- the blue lane, where there is immediate release but goods are subject to post-clearance audit;
- the green lane, where there is immediate release of goods with nothing to declare;
- and orange lane, where goods are screened by scanner.

How long customs clearance takes – between the lodging of the import or export entry and the release of goods – depends on the channels that the ATO countries use.

Low-risk consignments are cleared through the blue and green channels, while medium-to-high-risk ones go through the yellow and red channels. Countries endeavour to strike a balance between trade facilitation and the risk management rules that require inspection (i.e. documentary and physical examinations of consignments). Some ATO countries comply with the SAFE Framework of Standards to Secure and Facilitate Global Trade which was adopted by the World Customs Organization (WCO).

**Figure 5.6:** Number of customs declaration per channel, 2014



The ATO average number of goods declared in the red lane is 21%, 26% in the yellow lane, 16% in the blue lane, 33% in the green lane and 4% in the orange lane. Cameroon and Togo clear the bulk of imported goods (above 32%) through the blue lane, which is designed to facilitate clearance for compliant importers and motivate their non-compliant peers. The blue lane helps importers significantly reduce their turnaround times through quicker release which offers faster access to goods and cuts the cost of doing business.

**Box 5.10. Best practices in Togo, Mauritius, Rwanda and Kenya: the electronic single window streamlines customs formalities, increases revenue, stores data**

Kenya, Mauritius, Rwanda and Togo have all put in place electronic single windows (ESWs). ESWs – or one-stop shops – allow cross-border traders to access customs-related documentation and submit regulatory documents through a single ITC interface.

ESWs considerably streamline customs clearance formalities and improve revenue authorities' ability to monitor goods in transit. The system's transparency ensures peace of mind for traders and increases customs revenue. It also acts as an interface between government agencies and institutions integrating them into the system. It is a valuable tool in the struggle against smuggling and a high-quality repository of economic and customs statistics.

Burundi (61%), Mauritius (44%), Rwanda (34%), Senegal (69%) and Seychelles (73%) clear most imported goods through the green lane, while Kenya and Tanzania do so chiefly through the yellow lane (over 40% of goods), and the Gambia (with 55%) and Uganda (42%) use the red lane for clearing most of their imported goods. The red lane can delay the release of goods and lengthen importers' turnaround time, especially in countries that have complicated customs clearance procedures in which different government agencies (particularly those that protect public health and ensure quality control) are involved in the physical examination of goods.

**Customs enforcement interventions**

Since some ATO countries rely heavily on imported goods and services, it is important to consider the issues of smuggling and under-declared and misclassified imports. The number of criminal cases with regard to national and international tax issues and the amounts recovered give an indication of the prevalence of such criminal activity and countries' capacity to enforce the law and prosecute.

Smuggling is the evasion of custom duties on imported goods, while misclassification occurs when goods are wrongly classified and become liable to duty at the wrong rate. Misclassification might be a result of importers or clearing agents not being fully knowledgeable of customs regulations. Misdeclaration, by contrast, is the deliberate suppression, distortion or misrepresentation of information pertaining to imported goods in order to declare them as something they are not. Under-declaration is also the wilful misrepresentation of a product: it involves declaring it a value lower than its true value. Six out of the 15 ATO countries were able to provide information on the number of cases of smuggling, under-declared imports,

and misclassification that they prosecuted. They were Mauritius, Seychelles, Swaziland, Rwanda, Tanzania and Uganda. In 2014, Uganda carried out the highest number of customs enforcement interventions (5 149), followed by Swaziland (3 257) and Mauritius (with 370) and Tanzania (with 174) the fewest. Misdeclaration was significant in Swaziland and Uganda, while in Mauritius, Seychelles and Swaziland the most prevalent criminal activity was smuggling.

**Illicit financial flows**

Illicit Financial Flows (IFFs) is defined as any money that is illegally earned, transferred or utilized. IFFs include practices like tax evasion, trade misinvoicing, abusive transfer pricing and profit shifting all too frequently involve multinational corporations. Their malpractice accounts for 65% of IFFs (Global Financial Integrity, 2014).

Between 2003 and 2012, illicit outflows from Sub-Saharan Africa averaged 5.5% of GDP per year, compared to 3.9% in all developing countries. One of the worst affected countries was South Africa for whom the cost of IFFs was estimated at USD 29 134 million in 2012. Indeed, it was one of the 10 developing countries worst affected by IFFs during the 10-year period (ibid.).

A critical arm in the fight against IFFs is information (Box 5.11). If the ATO countries are to stem the outward flow of revenue that is rightfully theirs' and vital to their development, they need to pool their forces. They must respond to the cross-border flow of illicit funds in kind – with a cross-border flow of information on tax matters, bolstered by shared, cross-border audits and tax collection.

### Box 5.11. ATAF Agreement on Mutual Assistance in Tax Matters – exchanging information to combat IFFs

Participation in the global economy brings benefits and involves responsibilities. Yet large taxpayers who take advantage of their cross-border transactions to aggressively plan tax evasion and avoidance, thus shirking those responsibilities. The social and economic damage they cause to developing countries, as a result, is acute. They operate globally, while revenue administrations do so only within the confines of their domestic jurisdictions. To right that imbalance and help developing countries thrive in an open world economy policy makers sought to curb harmful tax through improved transparency and co-operation between tax authorities.

A key component in international tax co-operation is exchange of information. Accordingly, in April 2012, the ATAF drafted its Agreement on Mutual Assistance in Tax Matters (AMATM). It is the first agreement of its kind in Africa, committing the signatories committed to :

- exchanging information in tax matters,
- sharing expertise
- carrying out tax joint audits and investigations at home and abroad,
- mutual assistance in tax administration.

As such the ATAF AMATM is a key instrument in the fight against BEPS in Africa. It aims to be the Africa's "Tax Inspectors without Borders". It is urgent that all the ATO countries sign the AMATM. ATAF is already working tirelessly through its Exchange of Information Initiative to establish the necessary skills, capacity and capability for African revenue authorities to exchange Information.

*Source: ATAF (African Tax Administration Forum), website, Exchange of Information (EOI) webpage, [www.ataftax.org/en/TaxPrograms/Pages/EOI.aspx](http://www.ataftax.org/en/TaxPrograms/Pages/EOI.aspx); ATAF (2013), Transparency and Exchange of Information on Request, presentation by ATAF Executive Secretary L. Wort, 4th Plenary Meeting of the OECD Task Force on Tax and Development, Seoul, 30 31 October 2013, [www.oecd.org/ctp/tax-global/tf-on-td-sess-sixa-ataf.pdf](http://www.oecd.org/ctp/tax-global/tf-on-td-sess-sixa-ataf.pdf)*

### Trade Misinvoicing – a widespread practice

The misinvoicing of trade transactions accounted for 77.8% of IFFs making it the single most costly form of illicit outward flows. Trade misinvoicing is the falsification of the price, quality, quantity, value or composition of traded goods on customs declaration forms and invoices. Traders misinvoice for purposes like evading customs duties and domestic levies, laundering money, and exporting foreign exchange. (Source: Global Financial Integrity, 2014)

All of which raises the question of how the ATO countries can prevent or curb trade misinvoicing.

**Table 5.5.** Who should do what to combat misinvoicing

Who?	What should they do?
Governments	Establish registries of meaningful beneficial ownership information on all legal entities
	Significantly boost their customs enforcement by equipping and training officers to better detect intentional misinvoicing of trade transactions
Financial regulators	Require that all banks in the country know the true beneficial owners of all accounts
Policy makers	Require multinational companies to publicly disclose their revenues, profits, losses, sales, taxes paid, subsidiaries, and staff levels
	Require country-by-country reporting from multinational corporations
Tax, customs, and law enforcement officials	Rigorously scrutinise all trade transactions that involve tax haven jurisdictions
All countries	Actively further the worldwide movement towards the automatic exchange of tax information as endorsed by the OECD and the G20.
	All ATO countries should, as a matter of urgency, sign up to the ATAF Agreement on Mutual Assistance in Tax Matters (AMATM)

*Source: Source: ATO and ATAF analysis; OECD (2013), Action Plan on Base Erosion and Profit Shifting, OECD Publishing, Paris.*

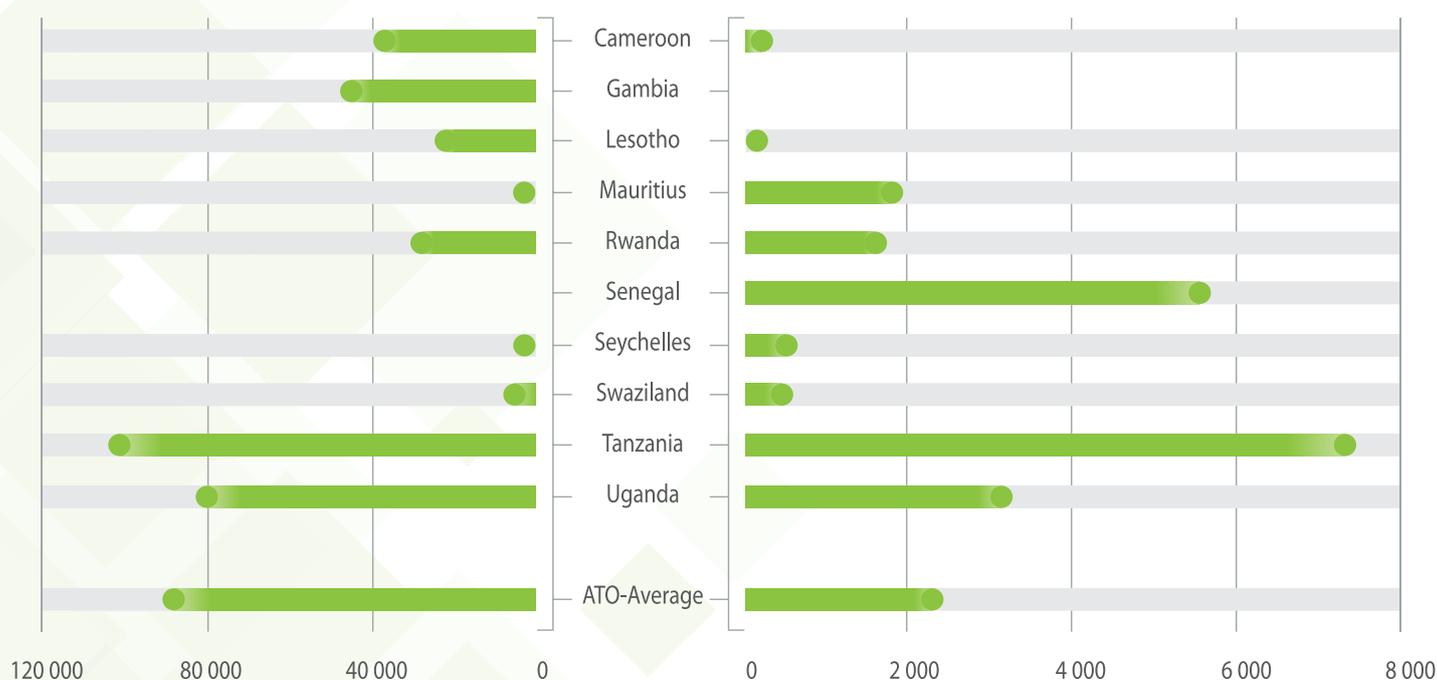
## 5.8. Audits and arrears

### Auditing for compliance

One of the most important goals of tax administration is to manage and improve overall compliance with tax laws. Tax audits examine whether taxpayers have correctly assessed and reported their tax liability and fulfilled other obligations. Audits are a critical and significant component of compliance activities. Most developing countries have to grapple with limited resources and relatively large numbers of taxpayers to serve, especially in SME sectors, which makes it important to measure audit productivity and efficiency.

The labour force and number of actual registered taxpayers per tax auditor is a measure of auditing capacity (Figure 5.7). A high ratio indicates that auditors have to attend to a large number of actual or potential taxpayers, while a low ratio denotes auditors with small caseloads. Seychelles and Mauritius employ more auditors per labour force/taxpayers than any other ATO country, while Senegal, Tanzania and Uganda appear to be in sore need of auditing staff reinforcement.

**Figure 5.7.** Labour force per auditor (left) and taxpayers per auditor (right) in selected ATO countries



*Note: Senegal was removed from the left-hand graph as it was an extreme outlier with a ratio of labour force to auditor of 539 395. Data for The Gambia for taxpayers per auditor is not available.*

Most ATO countries concentrate less on desk audits than on field (issue and comprehensive) audits. Field audits tend to involve larger assessment jobs that result in bigger audit yields than desk audits. However, they are more time-and-human-resource-intensive. Rwanda, Seychelles and the Gambia appear to focus essentially on issue audits and Uganda and Tanzania on comprehensive audits.

### Debt recovery and arrears ratios

Arrears are taxes or duties that remain unpaid after the due date or tax obligations that are unfulfilled. Arrears are a critical tax issue in the light of international experience that has shown that the older the debt, the more difficult it is to collect. The ratio of arrears<sup>25</sup> to revenue collected makes it possible to compare different revenue authorities' collection enforcement mechanisms.

### Box 5.12. Lesotho bolsters its audit function for large taxpayer compliance

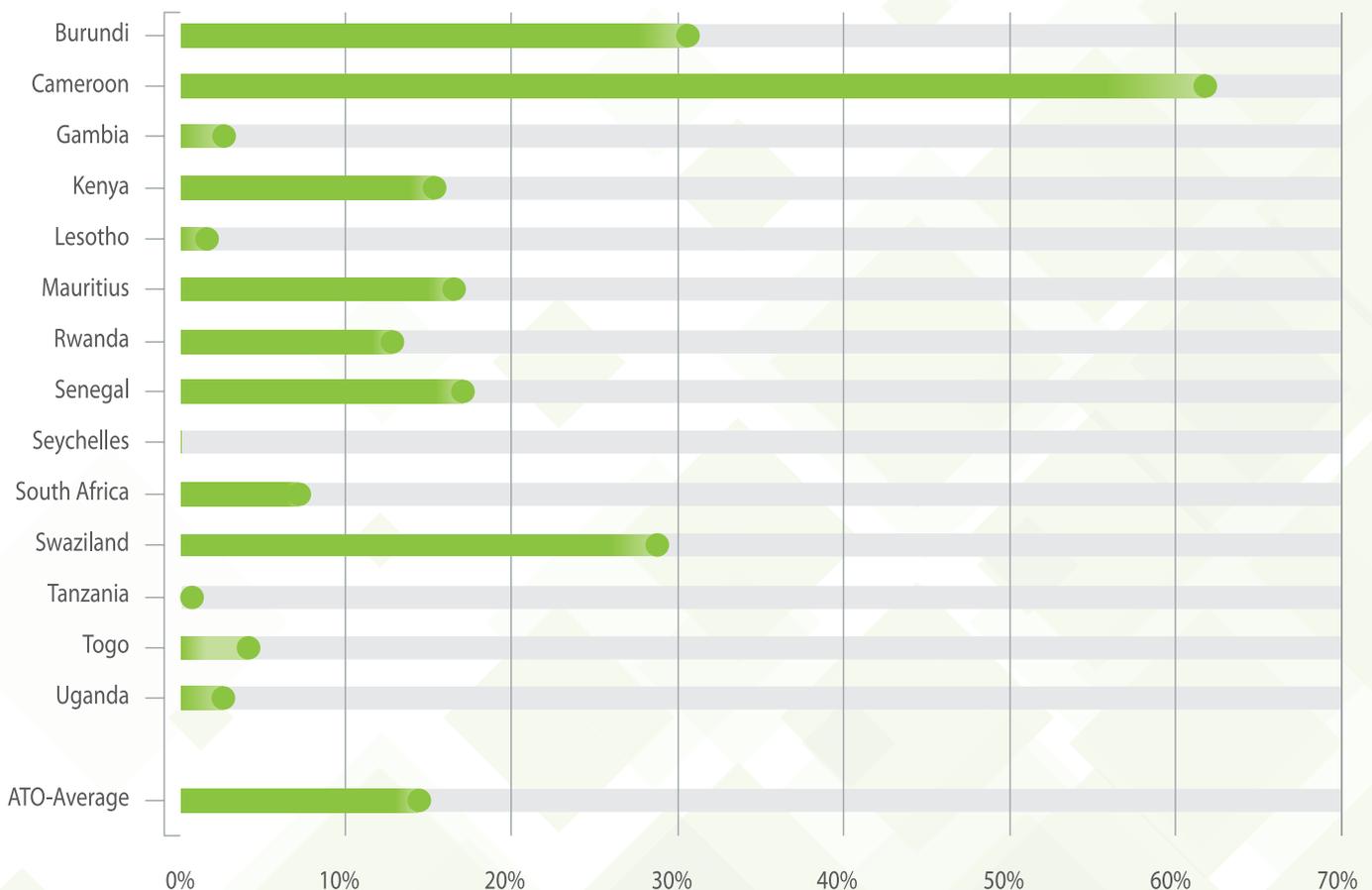
In 2014, as part of its work to restructure by taxpayer segment, the Lesotho Revenue Agency (LRA) put in place a large taxpayer unit (LTU) to administer Lesotho's largest corporate taxpayers – High Net Worth Individuals (HNWI). The LTU was geared to meeting the needs of the HNWI and enforcing compliance. To that end, the LRA built close links to ensure communication between the strategic and tactical levels of risk management levels. Those provision would not have been complete, or effective, without a strong audit function. Accordingly, Lesotho moved to strengthen its audit function as follows:

- it developed a joint compliance strategy plan,
- increased the staffing capacity and capability of the post clearance unit,
- developed and implemented an audit programme based on risk analysis,
- strengthened linkages between audit and debt management operations in order to enforce debt collection.

A high ratio of arrears to revenue collected indicates that tax authorities have to contend with large amounts of uncollected arrears attributable to causes such as:

- political influence,
- large government arrears,
- weak penalty and interest regimes,
- inadequate collection enforcement powers in law or adequate laws,
- poor enforcement of provisions by revenue authorities;
- the lack of a legal framework for writing off irrecoverable debt.

Figure 5.8: Arrears in relation to net tax revenue at the end of 2014

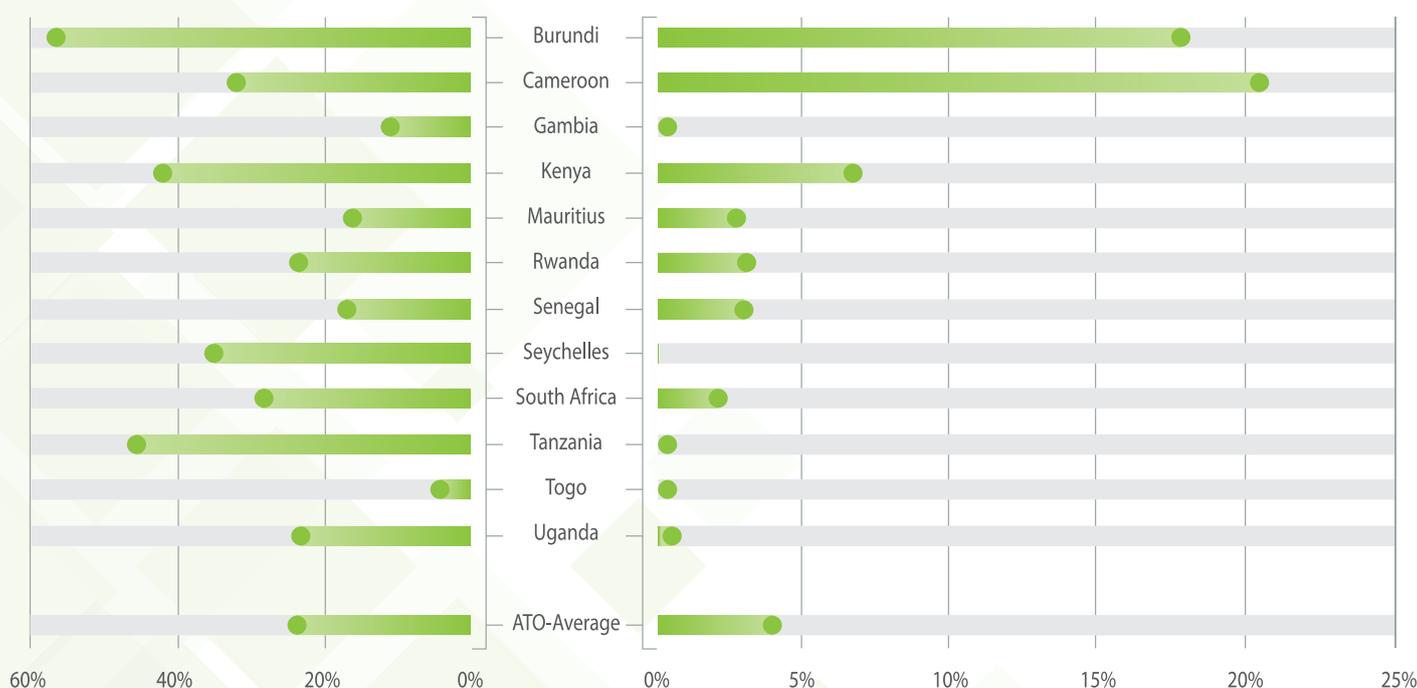


The average ATO ratio of arrears to net revenue (i.e. revenue collected) is 15%. The proportions in Burundi, Cameroon and Swaziland, though, are more than twice as high while, at the other end of the spectrum, Seychelles and Tanzania have extremely low percentages of arrears (Figure 5.8).

There is a general perception that government arrears account for the biggest single share of total arrears. To test that hypothesis, countries were asked to report government and private arrears. Unfortunately, only 5 of the 15 ATO countries (Cameroon, the Gambia, Senegal, South Africa and Togo) could provide statistics on government arrears and Senegal, South Africa and Togo reported government arrears that were not large. The general sentiment on government arrears could not, therefore, be confirmed or disproved.

The arrears-to-net-revenue ratio measures arrears recovered relative to total arrears outstanding at the end of the tax period. A build-up of arrears denotes consistently low levels of compliance, ineffective enforcement measures and inefficient auditing practices. Collection should be enforced promptly and expeditiously, as the further back arrears go, the more difficult they are to collect.

**Figure 5.9:** Arrears recovered in relation (left side) to total arrears and in relation to total revenue (right side), 2014



Burundi, Kenya and Tanzania are ATO countries with the highest ratios of arrears collected to total arrears, which points to their having the political will and enforcement mechanisms – audits, investigation, prosecution, sanctions (penalties and interest) – for recovering arrears. In other words, all three countries can swiftly detect taxpayers who fail to submit their tax returns, initiate enforcement to avoid the aging of debt, and/or have legal frameworks for writing off irrecoverable arrears (Figure 5.9).

Three countries – Lesotho, Swaziland and Zimbabwe – could not provide any information on arrears recovered

since their payment systems cannot differentiate between the normal flows and arrears payments, which leaves the planning authorities uncertain as to the composition of their revenue.

### 5.9. Tax and customs round-up and key findings

Almost all ATO revenue authorities are semi-autonomous bodies structured by taxpayer segment. Even though that structure is the most efficient, ATO countries spend 2.1% of their revenue on tax administration compared to the

OECD average of 0.9%. Furthermore, as the cost of tax administration varies substantially across ATO countries, there are some where it is extremely high (nearly 4% and as high as 5.3%). To compound matters, the ratio of population per tax administration employee is 6 631 – 6 times higher than the international benchmark of 1 000. Alternative measures that relate staff to the labour force or the general population to core staff lead to the same finding – revenue authorities in ATO countries tend to be poorly staffed.

ATO countries seem to be in a predicament. They need, on one hand, to reduce the cost of tax compliance and, on the other, to increase administrative staff levels, which in turn pushes up costs. They can meet both needs only if they increase the number of taxpayers. Greater rates of participation in the tax system among ATO countries'

populations would compel them to increase the ratio of administrative staff to the population and, at the same time, boost revenue relative to staff numbers.

Most ATO countries have initiated action to ease the complexity of the tax system, encourage voluntary taxpayer compliance, and treat taxpayers according to their revenue potential. In addition, efforts to modernise tax administration and collection now allow taxpayers in most ATO countries to file their returns and pay their taxes electronically, and a handful of countries (Cameroon, Mauritius, Rwanda, South Africa and Tanzania) have also implemented mobile payment systems. Action to modernise tax administration reduces the cost of compliance, which could well help boost numbers of taxpayers.

## HIGHLIGHTS CONTINUED...



Granting additional filing time to taxpayers who file electronically can help foster voluntary compliance.

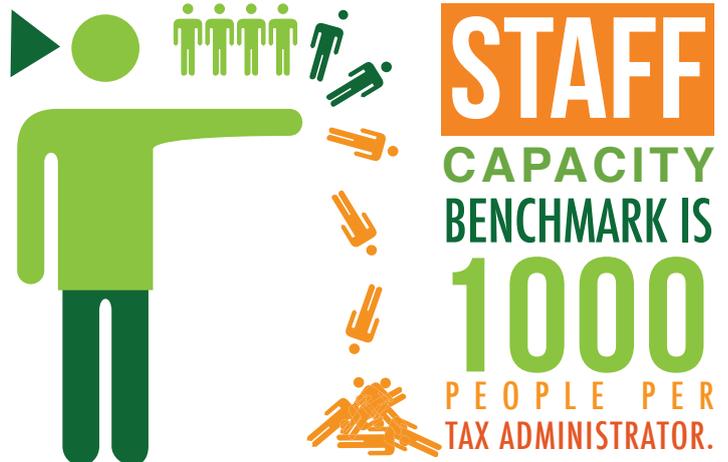
**As the ATO countries seek to maximize domestic revenue mobilization, they should not overlook the potential of MSMEs.**

**In Rwanda, for example, MSMEs operating in the informal sector account for 46% of GDP**



## Staff Outreach

The international benchmark for effective tax administration staff capacity is widely considered to be around 1 000 people per tax administrator. The average population-to-staff ratio in the ATO countries is 6 times higher at 6 631, while the labour force to staff ratio is 2 844/1. In comparison, the OECD averages are 774/1 and 510/1 respectively.

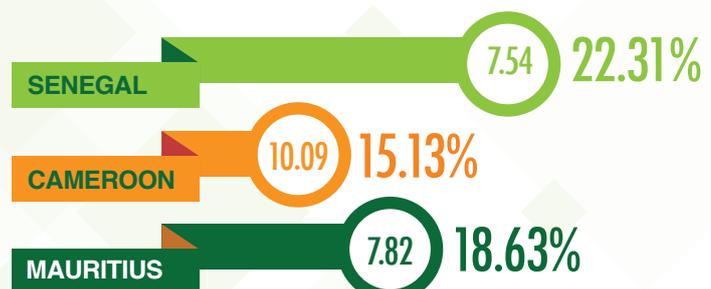


## The cost of tax administration

The average ATO tax administration operating cost is 2.1% of net revenue collected – much higher than the OECD's 0.9%.

### ATO Average ratio of core workers...

The ATO average ratio of core workers to support staff ratio is 4.19, compared to 4 in the OECD countries. In other words, there are over 4 times more workers in core than in support functions. The figures hint at an association between high core staff ratios and high tax-to-GDP ratios. Seychelles, for example, where the core-to-support staff ratio is 7.47, has a tax-to-GDP ratio of 25.56%. In other high-ratio countries, the numbers are:



# TAX ADMINISTRATION, POLICY AND RESEARCH RECOMMENDATIONS



6

# HIGHLIGHTS

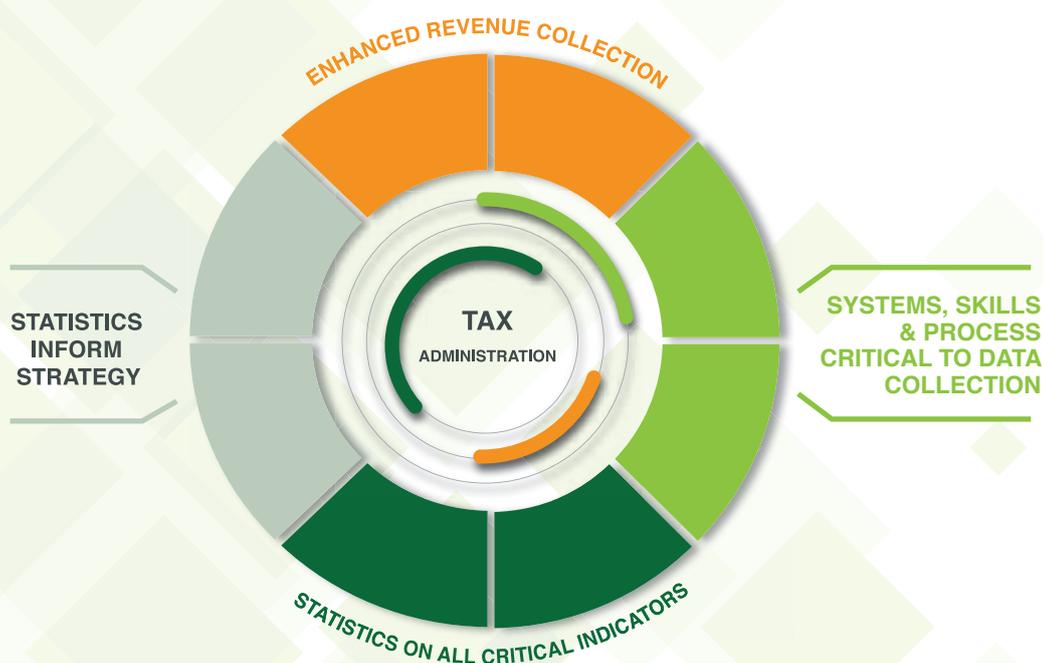
## Overview of missing tax administration indicators in the first edition of the African Tax Outlook

### OVERVIEW ON MISSING TAX ADMINISTRATION INDICATORS

Critical for tax administration reforms and policy formulation and implementation



## Data collection, an integral component of tax administration



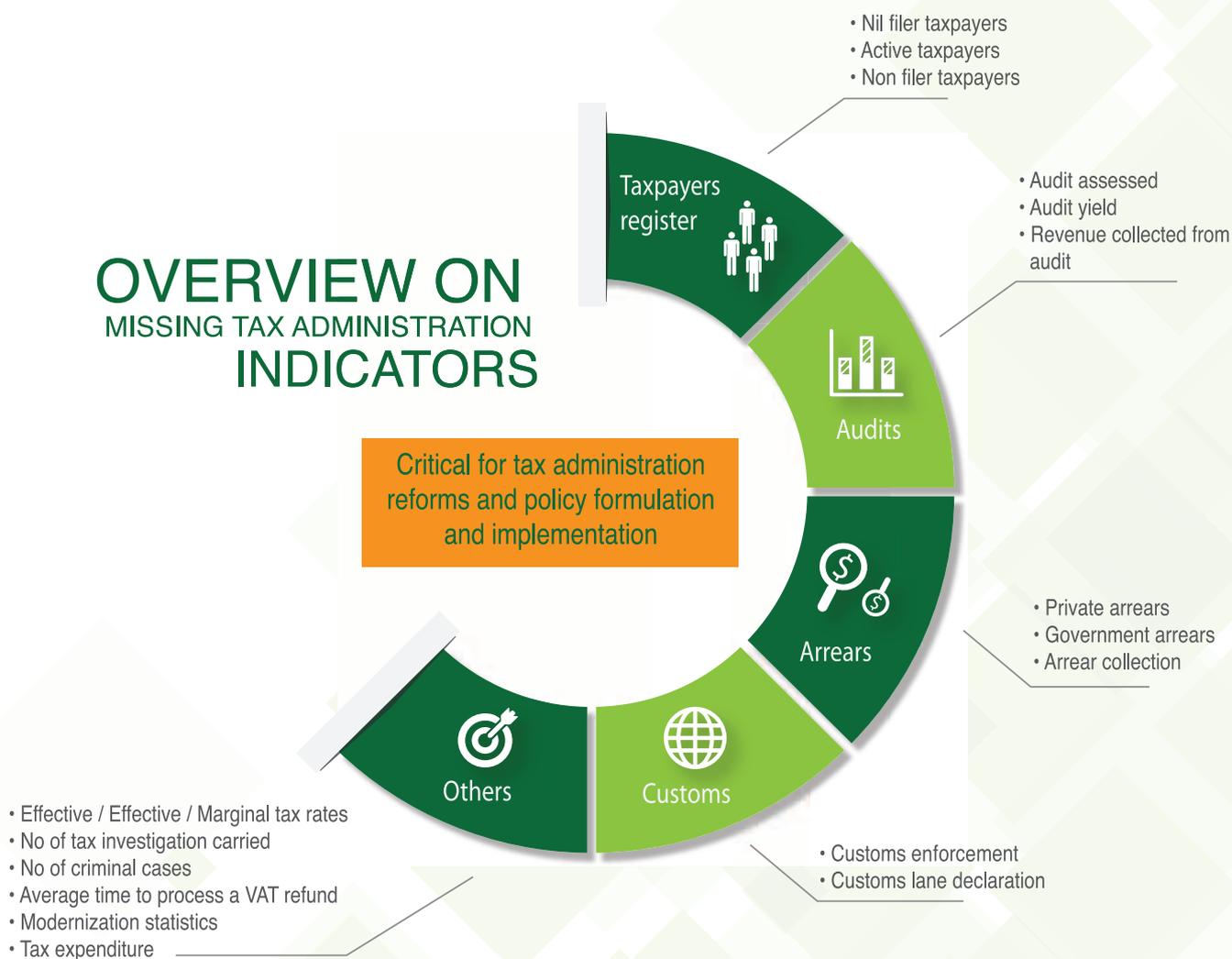
African governments at various stages of economic and social development rely on the optimal collection of revenue from all types of taxes to meet their public expenditure obligations and budget commitments. Some ATO governments can meet their public spending obligations only if they boost their currently low tax-revenue-to-GDP ratios. To that end they must take policy action which includes measures to increase tax rates, broaden the tax base and improve the efficiency of revenue administration<sup>26</sup>. A necessary condition for such improvements is up-to-date information on the current condition of the tax system. Revenue authorities need, therefore, to link tax statistics to their revenue collection mandate – in other words, they must develop processes, skills and systems to collect and extract data on critical indicators. The importance of data collection cannot be overestimated.

This chapter looks at recommendations – first for improved data collection and then for more efficient tax systems. The final section discusses questions that remain open and warrant further research.

### 6.1. The critical issue of data collection

Heads of research and planning, tax policy units, tax statistics and revenue forecasting, as well as academics from 15 ATAF member countries, came together in consultative workshops to identify tax-related themes and indicators. The purpose of the indicators was to make it possible to assess, compare, and ultimately improve ATO countries' tax administration, revenue performance and policy formulation. However, some indicators could not be calculated because few countries could provide the necessary data (Figure 6.1) – partly because

Figure 6.1. Overview of missing tax administration indicators in the first edition of the African Tax Outlook



macroeconomic accounting did not generate enough and partly because of they lacked the resources and/or expertise for collecting and handling tax data.

On the macroeconomic side, the data on numbers of private-sector employees and the sum totals of wage income were particularly scarce. As a result, most countries were unable to calculate either effective or average personal income tax rates. Moreover, this first edition of the African Tax Outlook had to drop some indicators because countries did not have the ICT-based processes and systems for collecting reliable tax data and because the 15 ATO countries do not share common definitions. Consequently, most of the critical tax administration indicators illustrated in figure 6.1 do not feature in this first version of the African Tax Outlook, but will do in later editions.

### *Data collection a prerequisite for revenue collection*

Tax administration generates considerable bodies of data that stem from all variety of tax statements and returns in all categories of taxes and duties. Yet such data are under-collected and underutilised. Assessment and

collection data inform the business and strategic goals and outputs of tax administration.

Relevant, accurate and reliable statistics are critical to risk profiling and identification in tax administration. Without statistics, tax authorities cannot address or reduce non-compliance. They must have the resources and skills to gather data that support compliance and enforcement activities. Statistics are a condition for better policy formulation and fiscal planning (Revenue's Data Strategy, 2010). Indeed, without them there can be neither efficient policy nor reform.

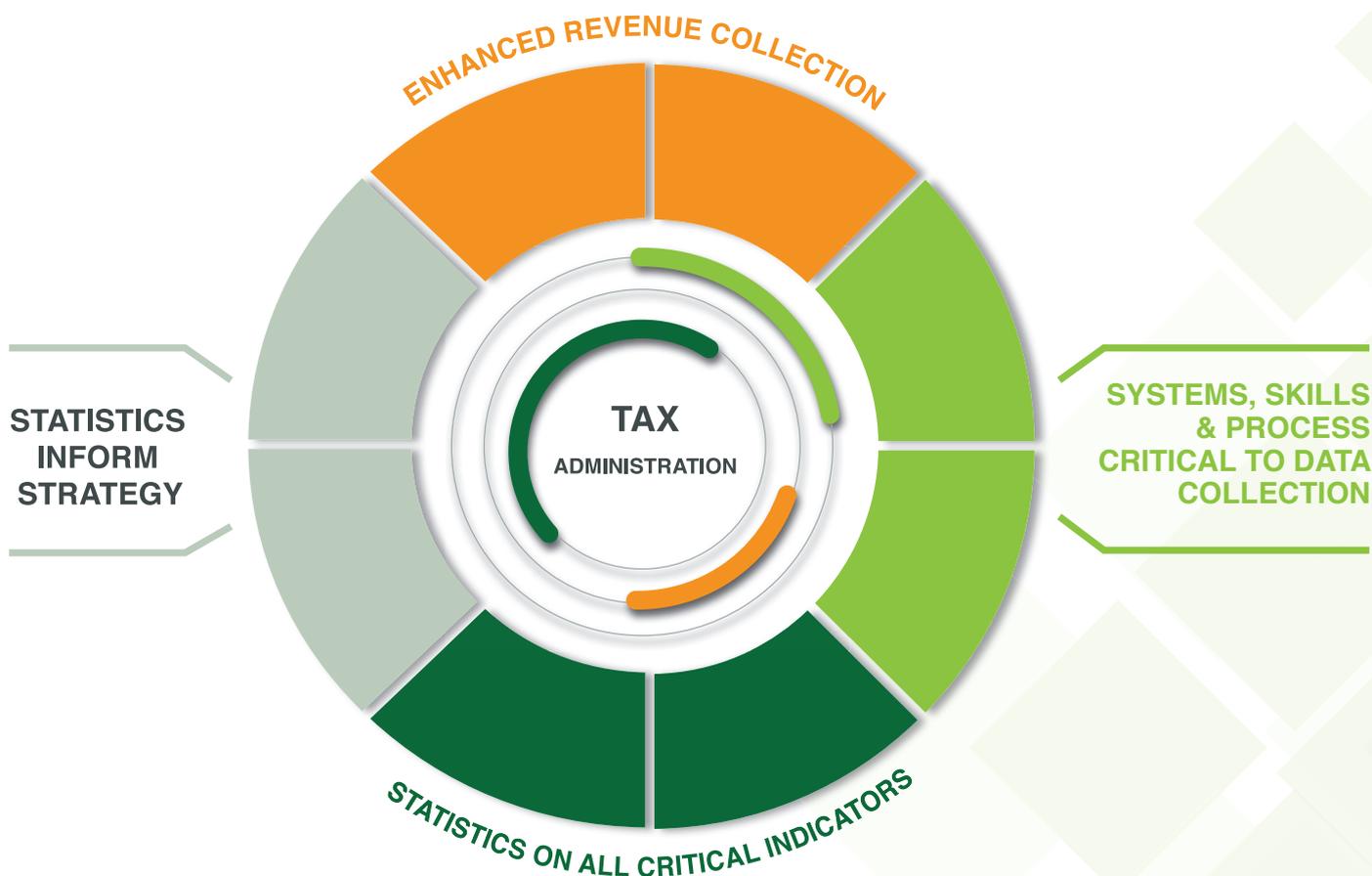
Tax administrative data, research and analysis as well as the improvement in the measurement of key economic variables, would be immensely useful to policy and decision makers to inform tax policy formulation and implementation and improve the performance of tax administrations in Africa. Data, and therefore data collection, are an integral part of tax administration (Figure 6.2). In other words, revenue authorities should collect revenue and data. It should be part of their mandate.

#### **Box 6.1. The critical need for statistical data in the ATO countries**

Data and information are critical to such aspects of policy as:

- strategic and fiscal planning
- forecasting
- informed and objective decision-making
- economic and national development planning
- public dialogue
- raising awareness of tax issues at continental and international levels
- improving cross-country and/or regional comparisons and benchmarking
- measuring and managing revenue administration performance.

Figure 6.2: Data collection, an integral component of tax administration



### *Data collection challenges for the ATO countries*

During the collection and analysis of data for this first edition of the African Tax Outlook, the following areas emerged as particular challenges to ATO countries:

- **Collecting the income data of private-sector employees**

There is a scarcity of data on the number of taxpayers working in the private and on the personal income tax that they pay because few countries register wage-earning company employees. The register only their employers. The paucity of data available, together with the general lack of resources and expertise for collecting and processing tax data, mean that few ATO countries are able to calculate effective tax rates.

- **Lack of computerised, automated processes and systems (ICT)**

Some ATO countries have not yet developed processes and systems for capturing, collecting and extracting data. They have modernised procedures like registration, filing and payment but not for collecting such information. A further, related, shortcoming to emerge was that ICT systems require the storage of historical data which are scarce in most ATO countries. Nor are arrears collection, auditing or customs clearance procedures automated, which further complicates data collection.

Some ATO countries have not yet defined certain indicators – especially “active taxpayers”, “nil-income taxpayers”, “non-taxpayers”, “arrears accrued”, “arrears collected”, “audit assessment” and “audit yield”. As result, there are no procedures for collecting and extracting such data.

- **Unintegrated systems**

Some ATO countries do not have unified tax administration systems – in other words, customs and domestic taxation are administered separately. Stand-alone systems make it hard to access information and data. As a result, data on customs clearance lanes and customs enforcement could be collected only in Cameroon and Senegal where tax administration is still the work of tax departments within the ministry of finance.

- **Lengthy bureaucracy**

Tax administration procedures for approving and signing off on paperwork are time-consuming in most ATO countries. Customs clearance formalities remain complex and slow despite the efforts of some countries to introduce one-stop shops for traders. And, although the e filing of tax returns and the e payment of taxes have streamlined revenue collection, administrative formalities are a costly, lengthy burden on micro, small and medium-size enterprises.

- **Unreliable data**

Although some ATO countries were able to provide data on critical indicators, there were quality issues related to problems in the data collection process itself.

- **Statistics not linked**

Some ATO countries struggled because there were no linkages, within tax authorities, between data-producing divisions like research, audit, arrears and enforcement. Audit, arrears and enforcement divisions in particular took no action to collect information. As a result, only seven countries – Burundi, Mauritius, Rwanda, Senegal, Seychelles, Tanzania and Uganda – could supply data on audit yields and assessments and it was impossible to measure the productivity, quality and efficiency of audits. A system of collecting data on audit assessments and yields would enable revenue authorities to evaluate audits and examine the different types of audit, which would then help to improve the productivity and effectiveness of tax administration.

- **Shortage of data extraction and processing skills**

Personnel – particularly in-house statisticians – in the revenue authorities of a number ATO countries struggle to extract data and process data from their ICT-based tax systems.

- **Insufficient time devoted to systematic data collection**

Most countries focus their efforts on collecting revenue and meeting their revenue targets. As a result, they have neither the time nor the technical means to collect, monitor, and evaluate data.

- **No common definition of “active taxpayer”**

ATO countries failed to agree on a definition of “active taxpayer”. Some considered taxpayers to be active if they had filed and paid monthly taxes within the last month and annual taxes within the last year. Others considered taxpayers to be active if they had filed or paid monthly taxes in the last month and annual taxes in the past year.

- **Issues of tax expenditure**

A number of issues affect tax expenditure:

- First, although it is mandatory for taxpayers in exempted sectors to file returns, they do not do so. Consequently, there is a lack of data on the exempted sectors, which makes it impossible to calculate foregone revenue.
- Second, definitions of tax expenditure vary from country to country. As a result, some taxes (e.g. income tax), where the effective rate depends on allowances for tax deductions and exemptions, are difficult to compare.
- Last, it is important to allow for the fact that, from one country to another, different legislation governs tax expenditure.

## 6.2. Tax policy recommendations

### *Offsetting falls in revenue from customs duty*

Some ATO countries still rely heavily on customs tariffs and excise duties which offer the twin advantage of being easy to implement and not placing a tax burden directly on individuals or firms. However, customs duties can distort international trade. Most ATO countries have adopted duty-free or low-tax regimes, so have removed or cut import duties. Trade liberalisation in regional trading blocs like the East African Community (EAC) and Southern African Development Community (SADC) have significantly reduced the importance of customs tariffs and excise duties, and the ratio of customs duty to revenue is now less than 10% in most ATO countries.

the additional revenue. Only if revenue is higher than administrative cost might lowering thresholds be desirable.

Bringing down thresholds might also have a further counterproductive effect. Broadening the tax base by lowering VAT thresholds forces up the running costs of small firms, which impairs their cost-effectiveness and performance. The result might be lower cash flows, liquidity tightening and eventual closure, which has the knock-on effect of reducing revenue from other taxes, such as personal and corporate income taxes. Indeed, some countries with relatively high VAT thresholds – e.g. Cameroon, Rwanda, Togo and Uganda – have successfully raised their VAT-revenue-to-GDP ratio.

#### **Recommendation for generating revenue despite fall in customs duty revenue**

The ATO countries that still rely heavily on customs duties must offset the decline in revenue due to reduced tariffs by widening the tax base to raise more domestic taxes from VAT, personal and corporate income taxes, and domestic excise duties.

### *The risks of lowering VAT thresholds*

The analysis of consumption taxes revenue has shown that VAT and excise revenue are much lower in some ATO countries than in others. Comparison of VAT productivity reveals that low revenue ratios are due not to low rates but to the inefficiency of tax systems. One reason for such inefficiency could be high thresholds. Yet comparisons of thresholds find that countries with low VAT productivity – like the Gambia, Tanzania and Uganda – set their VAT thresholds at intermediate levels. However, raising thresholds to increase VAT participation rates has two effects that run counter to each other.

While it broadens the tax base and therefore boosts tax revenue, it also pulls in the small firms with low revenue obligations. Collecting VAT from them comes at an extra administrative cost to revenue agencies and, from the revenue perspective, that cost has to be set against

An important plan in recent initiatives to improve VAT revenue collection has been the implementation of electronic billing machines and electronic fiscal devices (EFDs). They improved VAT administration by making it easier for taxpayers to file accurate tax declarations, thereby promoting voluntary tax compliance and increasing VAT productivity. Here reform should follow the example of countries like Mauritius where the high VAT-to-GDP ratio and strong VAT productivity are attributable to:

- the efficient use of third-party network information to track tax evaders
- dedicated tax enforcement strategies
- taxpayer education programs
- taxpayer facilitation measures to promote compliance.

#### **Recommendation for VAT thresholds: do not set them too low**

When the informal sector is extensive, most businesses are small, and where agriculture accounts for a high share of production, VAT thresholds should be high rather than low. Introducing electronic billing machines and electronic fiscal devices for tracking VAT transactions and modernise administration could improve VAT productivity.

The VAT Lucky Draw Scheme that Mauritius launched last year as part of its VAT awareness campaign is a successful initiative that has helped build a tax culture and given taxpayers incentive to help the Mauritius Revenue Authority in its fight against tax evasion.

### **Recommendation: enforce the payment of excise duty**

To improve the collection of excise duties, policy should seek to:

- Strengthen the enforcement of excise duties.
- Enforce sanctions on the marketing of any goods that are not excise-duty stamped.
- Introduce a system for online stamping.
- Draw on the example of the Kenyan Revenue Authority which has introduced an excisable goods management system (EGMS).

### *Excise duty revenue limited by illegal trade*

On average, ATO countries collect – in relation to GDP – less excise revenue than OECD countries. An increase in excise duty might therefore lead to improved revenue in some countries. However, goods subject to excise duty are prone to illegal trade and smuggling practices, which limits revenue. Optimal excise revenue collection is thus necessarily country-specific.

income taxation (PIT). While rates are generally similar, the ATO average ratio of personal income tax revenue to GDP is only half the level of the OECD's. There are nevertheless two countries – Lesotho and South Africa – with ratios of PIT revenue to GDP that are higher than the OECD average. They do not, however, practice higher tax rates – they tax more people. Indeed, South Africa has the highest number of registered income taxpayers of all ATO countries.

### *Personal income tax registration key to higher revenue-to-GDP ratios*

The greatest differences in taxation among ATO countries (as in the OECD area) come in the field of personal

Taxpayer registration can be very cumbersome – particularly in the agricultural sector where cash transactions are the norm and difficult to monitor. Agriculture thus contributes less to tax revenue than to

### **Recommendation for boosting PIT-to-GDP ratio: improve registration and compliance**

Strategies to boost the ratios of personal income tax revenue to GDP must include the registration of more taxpayers and improved compliance. To that end, countries should devise interfaces and integrate third-party data, e.g. the personal identity and immigration status of taxpayers, information on taxpayers from banks, and the records of utilities. The objective is to use unique taxpayer identifiers that make it possible to verify information on wages, pensions, government benefits, interest, dividends, contract income and asset sales or purchases.

As ATO revenue agencies have limited audit capacity they need to identify the areas of taxation that present the greatest risk to the tax base, e.g. multinational enterprises, high net worth individuals (HNWI). They should then focus on strengthening their administrative capacity in the areas identified – e.g. build the skills of the tax officials who will be carrying out the work. Effective risk assessment processes should be in place to ensure the right cases are selected for audit to maximize the use of limited resources.

### **Recommendation on PIT policy reform**

Policy reforms should seek to broaden the tax base and move effective rates towards the highest marginal rates. Tax rates that can be applied to different bases should not vary too widely. Reform should seek to simplify the tax system, as simple tax rules enable lower tax rates and avert tax-induced distortions. Simpler systems also tend to foster compliance.

GDP. To some extent the problem of low ratios of tax revenue to GDP will be resolved as countries develop and the industrial and services sectors account for larger shares of GDP. However, issues related to taxpayer registration will persist in other sectors, especially if the prevalence of the informal sector remains at current levels.

Analysis of average or effective tax rates shows that they are close to the bottom marginal rates, which indicates that very few taxpayers are taxed at high marginal rates. There is some indication that personal income taxes remain largely untouched by reform which has overly focused on consumption taxes (Moore, 2013).

### **Recommendation for improving corporate income tax contributions to GDP**

Implement administrative measures to make the monitoring of operational functions effective. Such measures will lay the groundwork for lowering corporate tax rates because good administration, not low rates, is the prime determinant of corporate income tax productivity.

### ***Corporate income tax: efficient administration is the key***

With an average share of 16% of total revenue, corporate income taxation (CIT) is very important to ATO countries. Its high share of revenue may be ascribed to relatively high rates which, in some countries, yield high revenue-to-GDP ratios. However, there are other countries, like Senegal, Burundi and Uganda, which have far lower CIT-to-GDP ratios than other countries. They also show tax productivity that is particularly low.

The Mauritius Revenue Authority, by contrast, achieves an intermediate CIT-to-GDP ratio even though it has the lowest corporate tax rate in the ATO. Low rates are sustainable only if tax productivity is high, which requires highly efficient tax administration that Mauritius has achieved by integrating tax departments and revamping the revenue authority's governance structure, systems, processes and human resources framework. Some countries with low CIT productivity – Tanzania, Togo, Rwanda and Kenya – introduced similar reforms which have yielded tremendous improvements in tax productivity and robust growth in corporate tax revenue.

### *Base erosion and profit shifting undermine corporate income taxation*

In recent years, debate has revolved around the fact that multinational firms may undermine national corporate taxation in industrial as well as in developing countries by claiming large allowable deductions, carrying forward losses indefinitely and abusing transfer pricing. To address this core issue, the OECD has developed an action plan to address base erosion and profit shifting (BEPS) action plan and invited non-OECD countries to join as part of a multilateral approach to the problem.

South Africa has taken several measures to check BEPS and ensure high tax productivity of CIT. The policy principles are based on the taxation of the source company and allow the ring-fencing of deductions in certain circumstances. It focuses the taxation of corporate profit on worldwide income and transfer pricing, especially in services, to ensure higher effective tax rates.

#### **Recommendation: ATO countries should join in action against BEPS**

To halt the erosion of their tax bases by large profit-shifting companies, ATO countries should implement those “actions” from the OECD’s BEPS Action Plan which ATAF has identified as Africa-relevant. They should also, as a matter of urgency, sign up to the ATAF Agreement on Mutual Assistance in Tax Matters (AMATM). This powerful multilateral instrument in the fight against BEPS – the first of its kind in Africa – enables African countries to exchange information, share expertise, conduct joint audits and investigations, and mutually assist each other in tax administration.

### *The cost of revenue collection remains high*

Most ATO tax authorities are semi-autonomous authorities, structured into segments. Even though segmentation is probably the most efficient administrative structure, the cost of revenue collection in relation to revenue collected in ATO countries is, on average, more than twice as high as in OECD countries. Yet tax administration staff levels relative to the population and work force in the OECD area are much higher. Comparisons between ATO countries point in the same direction. The countries with the most tax administration staff also tend to have the lowest costs relative to revenue. However, the positive correlation does not mean that there is a causal link. An increase in tax administration staffing levels initially increases the cost of administration. It generates increased revenue if there is concomitant action to broaden the tax base and boost numbers of taxpayers.

#### **Recommended action to cut the cost of revenue collection**

ATO governments should increase their revenue authorities’ staffing levels, as administration costs relative to revenue are lower when staff levels are high. At the same time, however, they must take measures to broaden the tax base and increase numbers of taxpayers. And revenue authorities should carefully monitor staff productivity through effective performance measurement systems.

### *Modernisation of tax administration is critical*

Modernisation appears to underpin and enable reform in all areas of tax administration. To reduce the cost of tax administration, increase compliance, and improve the availability of data, governments should modernise tax administration.

#### **Recommended action to cut the cost of revenue collection**

ATO governments should increase their revenue authorities' staffing levels, as administration costs relative to revenue are lower when staff levels are high. At the same time, however, they must take measures to broaden the tax base and increase numbers of taxpayers. And revenue authorities should carefully monitor staff productivity through effective performance measurement systems.

### **6.3. Recommendation for further research**

Analysis in this first edition of the African Tax Outlook has sought to offer insight into how important tax rates, administration and collection are for tax revenue. When it comes to assessing the relevance of the different determinants, the concept of tax productivity is of particular value. Additional critical factors are average and effective tax rates and measurable administrative efforts. As stated in Section 6.1, some of the necessary indicators were not available to some ATO countries for inclusion in this first edition of the African Tax Outlook. Future editions will be able to build on a fuller spectrum of information and so paint a more detailed picture of tax performance in the ATO countries.

This edition concentrates on cross-country comparisons of tax systems, an approach made possible by data collection from 15 countries. Comparing the tax bases, rates and revenues of 15 countries would be a complex matter even for a given year. Comparing and considering changes over five years and contending with problems of data collection was even more complex. Accordingly, this first edition studied only the main trends over that period.

#### **Recommendation: revenue authorities should interface with other government agencies' online services**

Revenue authorities should invest in the use of online services – especially the filing of returns, tax collection and payment – with the aim of reducing the cost of compliance, making tax administration more efficient and effective, and enhancing tax compliance. They should particularly invest in interfacing with other online government services such as trade licensing agencies and company registers. Interfacing helps to improve information availability and sharing, to reduce the size of the informal sector, to expand taxpayer registration, to strengthen revenue agency enforcement and boost revenue growth.

Future editions will be able build on groundwork laid here and examine changes in tax revenue determinants and revenue performance in more detailed year-to-year analyses.

They will also be able to look at more precise information on two important issues:

- cyclical variations in tax revenues
- the delayed effects of tax reform on revenue.

To detect such revenue changes over time and compare them across countries will require continuous monitoring of tax trends over a number of years.

Some important developments will be hard to analyse at all within a macroeconomic framework. The evaluation of tax reforms in individual countries factors in political elements, institutional frameworks, social support and state legitimisation, informality, avoidance and evasion, tax policy and administration, economic factors, and external actors. In many cases, it is important that reforms and institutional changes take place simultaneously (Moore 2013). Such detailed, multi-faceted investigation is beyond the scope of an aggregate analysis. However, aggregate analyses do show where there is need for individual case studies on policy reforms (Garcimartín et al., 2014).

## Notes

- <sup>1</sup> Population figures are taken from national statistical offices and include all individuals living in the country. In other words, they include migrants.
- <sup>2</sup> The economically active population is defined by the International Labour Organisation (ILO) as follows: "The economically active population comprises all persons of either sex who furnish the supply of labour for the production of goods and services during a specified time-reference period" (<http://laborsta.ilo.org/applv8/data/c1e.html>).
- <sup>3</sup> There is some evidence that high unemployment and poor labour market performance deter workers from labour market participation. In addition, the effects of HIV/AIDS have to be taken into account (see Lehutso-Phooko, 2004 and Festus et al., 2015).
- <sup>4</sup> The international dollar has the same purchasing power (or purchasing power parity) in the country in question as the US dollar in the United States.
- <sup>5</sup> OECD definition from OECD Data webpage on conversion rates.
- <sup>6</sup> Sectors are defined using the United Nations International Standard Industrial Classification (ISIC) of All Economic Activities (version 4.0). The three-sector theory was developed by the economists Alan Fisher in the *Clash of Progress and Security* (1935), Colin Clark in the *Conditions of Economic Progress* (1940), and Jean Fourastié in *Le Grand Espoir du XXe siècle. Progrès technique, progrès économique, progrès social* (1949).
- <sup>7</sup> A more detailed analysis of economic development can be found in the IMF country reports.
- <sup>8</sup> Nguyen et al (2015) show that, in past 25 years, the main drivers of inflation have been domestic supply shocks. However, in recent years, the impact of such shocks on inflation has fallen. Therefore, there is no single common reason for disinflation. In contrast, country-specific policy can reduce inflation. However, as the region became more closely integrated with the global economy, the effect of spillover from global oil and food shocks and inflation in other countries has increased
- <sup>9</sup> Purchasing power parity (PPP) conversion factors in the different purchasing power of USD 1 in different countries. In Zimbabwe, for example, the local currency is the United States dollar. The VAT threshold is USD 60,000. However, USD 1 buys nearly twice the amount of goods in Zimbabwe as in the US. Therefore, the PPP-converted threshold is USD 119,078.
- <sup>10</sup> The definition of bottom marginal rates differs from country to country. Some countries have a zero marginal rate for low incomes, while others apply a threshold for income tax and positive bottom marginal rate. ATO countries agreed to use the first positive marginal rate as bottom marginal rate. The average OECD bottom marginal rate was calculated from Table I.1, "Central government personal income tax rates and thresholds in the OECD Tax Database Explanatory Annex Part I – Taxation of Wage Income. Average rates for CIAT countries were calculated from the table "Historical rates of personal income taxes" on the webpage "CIAT Tax Rates in Latin America".
- <sup>11</sup> In recent years, large-scale revisions of GDP figures in some African countries raised concern about the general reliability of African GDP figures. One exception was Ghana where GDP estimates were revised upwards by over 60% in 2010. However, an AfDB study shows that when one or two outliers are ignored, revisions to African GDP in both size and direction are commensurate to those made by countries in Asia and the OECD area. The study concludes that the overall situation with regard to GDP estimates in Africa is not nearly as bad as has recently been suggested (Chinganya, 2013).

<sup>12</sup> The OECD figure excludes social security contributions, which are assimilated with taxes in many OECD countries. This is also the case in some ATO countries where contributions are also excluded. However, social security contributions are of minor importance in ATO countries, unlike in many OECD countries. The OECD tax-to-GDP ratio, including social security contributions, is therefore 33.7%.

<sup>13</sup> To some extent, this is due to high customs taxes and a high trade ratio. However, they only explain part of the high revenue ratio in Togo (see the analysis of tax ratios).

<sup>14</sup> For Mauritius, there is no tax rate differentiation. Productivity for both tax rates is thus the same.

<sup>15</sup> CIAT countries only provide data on income taxes and profits. The split between income and profits is calculated on the basis of individual country data and in many countries there is a high proportion of revenue that cannot be assigned to personal or corporate taxes. As a result, the CIT ratio (which is quite high in comparison) might be overestimated and the PIT revenue ratio (which is quite low) underestimated.

<sup>16</sup> Here revenue relates only to large business centres and does not take into account revenue from customs and excise collected by large corporations.

<sup>17</sup> For the criteria used to determine large corporate taxpayers, see OECD (2015), “Table 2.5: Large taxpayer operations: Identification criteria used in 2013”, Tax Administration 2015, [www.oecd.org/tax/forum-on-tax-administration/database](http://www.oecd.org/tax/forum-on-tax-administration/database).

<sup>18</sup> The Gambia Revenue Authority collects significant non-tax revenues not included in the net revenue collection

<sup>19</sup> Cameroon’s operating costs comprise only the tax department’s cost.

<sup>20</sup> Employees encompasses permanent, temporary, contract and casual staff and interns (integrated or not). The number of employees is given for the end of the tax period.

<sup>21</sup> Core functions are those functions that bring in revenue directly – e.g. customs and domestic tax. After long discussions between ATO member countries it was agreed to leave the definition of the exact borderline for core functions to the individual countries.

<sup>22</sup> A customs territory is a geographically based trade bloc governed by the customs regulations.

<sup>23</sup> An authorized economic operator (AEO) is defined by the WCO SAFE Framework of Standards as a party involved in the international movement of goods. Definition from UNECE, “Trade Facilitation Guide”, <http://tfig.unece.org/contents/authorized-economic-operators.htm>.

<sup>24</sup> Swaziland has a communication division that handles taxpayers’ services and education.

<sup>25</sup> Including the interest and penalties but excluding disputed debts.

<sup>26</sup> To evaluate tax reforms in individual countries political factors, institutional framework, social support and state legitimisation, informality, avoidance and evasion, tax policy and administration, economic factors and external actors have to be taken into account. This type of investigation is beyond the scope of an aggregate analysis. Cases studies on individual policy reforms can be found in Garcimartín et al. (2014).

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*(as of October 2015)*

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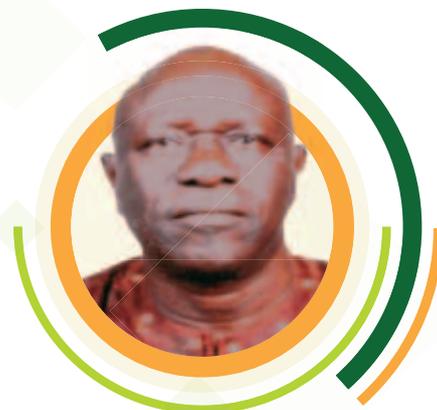
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# Annexes

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## Annex 1. Modernization initiatives implemented as at 2014

### The modernization of tax administration in the ATO countries

The ATO countries have all sought to make tax administration more cost-effective by bringing it online, introducing integrated electronic services, and doing away with manual practices. While some countries are more advanced than others, automation and improved connectivity and have helped cut costs, boost compliance, make revenue more productive, improve information sharing, and improve revenue collection.

**Table A.1.** How ATO countries have modernized tax administration

New system introduced	Countries
Integrated tax administration and management systems (ITAS and ITMS)	Burundi, Gambia, Kenya, Mauritius, Rwanda, Seychelles, South Africa, Swaziland Tanzania, Togo, Uganda and Zimbabwe
E-filing systems have been developed	Cameroon, Kenya, Mauritius, Rwanda, Seychelles, South Africa, Swaziland, Tanzania, Togo, Uganda and Zimbabwe
E-payments systems have been developed	Burundi, Kenya, Mauritius, Rwanda, Seychelles, South Africa, Swaziland, Tanzania, Uganda and Zimbabwe
Mobile payments systems have been developed	Cameroon, Mauritius, Rwanda, South Africa and Tanzania
Automated Cargo Management (ACM)/ electronic cargo tracking systems (ECT)	Mauritius, Rwanda, South Africa, Tanzania and Uganda
Automated customs systems like ASYCUDA world/customs management systems	Burundi, Gambia, Rwanda, Mauritius, Seychelles, South Africa, Togo, Uganda and Zimbabwe
Integrated Financial Management System	Swaziland and Zimbabwe
Revenue Management System (RMS)	Swaziland and Zimbabwe
Computerized Drivers' License System (CDLS)	Tanzania and Uganda
Cargo and Risk Management Systems	Burundi, Mauritius, South Africa, Tanzania and Zimbabwe
Import and Export Commodity Data Base (IECDB) / e valuation database system	Tanzania
Computer Forensic Laboratories for tax investigations	South Africa, Tanzania and Uganda
Integrated/coordinated border management (IBM/ CBM)	Burundi, Kenya, Mauritius, Rwanda, Tanzania, Uganda and Zimbabwe

## Annex 2. Long-term strategic projects

Almost all the ATO countries have undertaken organisational and operating restructuring. They involve long-term projects that were in place in 2014.

Revenue authority	Project	Objective and description
Burundi Office burundais des recettes (OBR)	Human resources management project	Implement recruitment management, performance management and a self-service module in the Enterprise Resource Planning (ERP) system.
	Registration of new taxpayers	Broaden the tax base.
Gambia (GRA)	ASYCUDA 2.7 to ASYCUDA ++ upgrade in 2010, then roll-out to all border stations	Facilitate trade through faster clearance.
	Upgrade of the GAMTAXNET tax administration system and planned extension to all regional tax offices.	Ease compliance and ensure proper record keeping.
	Human resources management project conducted as part of the WCO's West African West African Customs Administration Modernization (WACAM) Project	Strengthen human resource policies and formulate staff development programmes that support future customs administration strategic priorities.

Revenue authority	Project	Objective and description
Kenya (KRA)	Simba System Transformation Project	• Introduce new technology to enhance system performance and increase the efficiency of certain functionalities.
		• Address past security challenges to improve system security
		• Introduce Unique Consignment Reference (UCR) – a WCO requirement whereby all transactions, customs documents, and declarations are linked by a single reference number)
		• Reduce time spent on pre-clearance formalities
		• Increase efficiency and accountability and reduce the cost of doing business
		• Improve quality of service
		• Increase versatility to address challenges in risk profiling, valuation processes, and other administrative procedures such as the management of virtual auctions
		• Integrate Simba with the domestic iTax system for a unified view of all taxpayers' operations in both international and domestic trade
	Integrated customs management system	Integrate customs management with other KRA business systems and incorporate all customs processes
	Integrated domestic tax management system (iTAX)	Integrate all personal income tax, VAT and excise transactions through a single window for: electronic filing, registration and payment
		transmitting taxpayer accounts and electronic tax return data
		online taxpayers status queries with real-time monitoring of ledger accounts
		monitoring work assignments
reducing paperwork and improving the timely resolution of tax-related issues		
Tax information management system (TIMS)	• Modernize tax operations and make them more efficient by simplifying, standardising and automating work procedures and offering integrated online services and self-service to taxpayers	
Enhance the monitoring and reception of trader information (ETR data)	• Enhance the monitoring and reception of trader information (ETR data)	
Data warehouse and business intelligence (DWBI)	• Interface KRA systems with strategic external sources for the purposes of information exchange, taxpayer compliance, data matching, risk profiling and the validation of tax returns	
Enhance KRA's analytic and risk management capability for improved intelligence-driven operational performance	* Enhance KRA's analytic and risk management capability for improved intelligence-driven operational performance	
Change-managed switch from enforcement-based compliance to a service delivery approach of fostering tax compliance by building trust through facilitation.	• Make it easy for all taxpayers to comply with the tax laws and enhances taxpayer experience and confidence when dealing with the authority	
Excise Goods Management System	• Reduce counterfeiting of duty stamp through enhanced security features	
	Make it easier for members of the supply chain and public to authenticate stamps Ensure online and offline tracing of stamps Ensure stamps are used to account for production and taxes Ensure the full-time monitoring of production Simplify the stamp management system (online application, approval, order and delivery of stamps)	
Lesotho (LRA)	Staff restructuring 2013 14	• Increase efficiency in tax administration
Mauritius (MRA)	Clearly defined standard operating procedures (SOPs) put in place for all activities undertaken by the Mauritius Revenue Authority (MRA)	• Make services of consistently high quality Operationalize and communicate policies, regulations, procedures and best practices Reduce corruption
	ISO certification	• Ensure an effective quality management system is in place and that the processes meet quality standard criteria  * Enhance organizational service delivery through the provision of high quality and responsive customer services
	Record management system (RMS)	• Reduce paper record-keeping, minimise loss of documents and facilitate instant retrieval
	Taxpayer portal	• Offer taxpayers a wider portfolio of services (e.g. modify to their profiles)
	Cargo Community System (CCS)	• Enable the customs authorities to exchange information with other agencies in a timely manner, so helping to reduce cargo dwell-times and operational costs
	E-auctions sales system	• Make auctioning more efficient and better monitor goods earmarked for auctions
	Increase the provision of electronic taxpayer services	• Reduce corruption and the cost of administration by minimising contact between tax officers and taxpayers
	Internal Affairs Division overseeing integrity management and ethical standards put in place	• Reduce corruption and the cost of administration

Revenue authority	Project	Objective and description
Rwanda (RRA)	Data warehousing, risk management and business intelligence system	
South Africa South African Revenue Service (SARS)	Compliance programme	• Address targeted areas of non-compliance.
	Voluntary disclosure programme (VDP)	• Encourage taxpayers to voluntarily regularise tax issues with SARS and avoid understatement and other penalties
	Modernization	• Improve the efficiency, productivity and effectiveness of SARS by modernising corporate income tax, customs and excise operations
	Enable customs and excise taxpayers to submit their returns online using the SARS e filing service or terminals at SARS branches	•
Protected disclosure	Allow fraud and corruption whistle-blowers to remain anonymous and so protect them from any victimisation or reprisal	
Swaziland (SRA)	Integrated revenue administrative system (IRAS)	• Afford a 360-degree view of domestic tax and customs taxpayers
Tanzania (TRA)	Gemba Kaizen Management System (GKMS)	• Enable continuous improvement to enhance processes and reduce waste • Constantly improve processes, promote discipline and standardize staff service delivery
	Tanzania Revenue Authority Monitoring and Evaluation Database (TRAMED) system	• Monitor and evaluate all TRA initiatives, processes and projects
	Aruti staff performance appraisal system and integrated human resource data update system	• Enhance staff performance management systems through a balanced score card approach • Harness an integrated human resources information management system that: - improves the accuracy of available human resources data - eases the administrative burden or manual workload of human resources activities - facilitates the regular production of reports and data analyses - reduces operational costs through automated online job applications, electronic pay slips, automated employee performance management, automated asset declaration, automated sick sheets and bills processing - helps to manage staff working hours more effectively - improves the flexibility of information for business planning tracks employees' transfer improves quality of services for employees
	Central motor vehicle registration system (CMVRS)	• Provides a comparable standards for pricing and evaluating motor vehicles
	Block management system enhanced	• Improve taxpayer registration • Promote voluntary tax compliance
Togo Office togolais des recettes (OTR)	Anti-Corruption Department put in place	• Prevent and curb corruption
	Intelligence and Anti-Fraud Department introduced	• Prevent fraud and fight against smuggling
	Interface between Tax Inspection Department and the Intelligence and Anti-Fraud Department put in place	• Better monitor taxpayers through easily available information
	Risk analysis software program (PVS)	• Facilitate taxpayer risk profiling
Uganda (URA)	Managing Compliance Programme (MCP)	• Enhance voluntary compliance through excellent client service delivery that draws on a professional work force and appropriate technology. The MCP includes: - Service Support Enhancement Project (SSEP) to enhance services through data warehousing and business intelligence systems, culture change and service management - Integrated Tax Systems Enhancement Project (ITSEP) to interfaces and integrate with other government agencies - Customs Business Support Enhancement Project (CBSEP) to improve the management of maritime and intra-regional trade, increase the efficiency of clearance procedures, improve inspection, lower non-tariff barriers (NTBs) and reduce the cost of doing business - Infrastructure Development Project (IDeP) to improve the URA's entire infrastructure
Zimbabwe (ZIMRA)	Taxpayer segmentation	• Manage taxpayers effectively
	Systems application programme upgrades	• Reduce taxpayer compliance costs • Increase operational efficiency
	Direct banking and e filing	• Reduce compliance costs

### Annex 3. Short-term administration initiatives

Almost all the ATO countries had undertaken short-term action, or “initiatives”, to improve their tax administration. These short-term initiatives were funded for no more than one year and were in progress in 2014.

Country	Tax administration initiative
Burundi	Established a call centre to manage, monitor and report all taxpayer enquires.
	Reviewed the structure of the Investigation Commission as part of the effort to curb tax avoidance and evasion.
Cameroon	Restructured tax centres into front and back offices and put in place new medium-size taxpayer centres to simplify procedures and improve taxpayer follow-up (and help cut compliance costs).
	Restructured the taxpayers' register and published the names of active and known taxpayers online.
Gambia	Established and operationalized the Tax and Customs Tribunal for greater transparency and fairness in taxation decisions.
	Put in place a new taxpayer services section in the Domestic Tax Department.
	As part of a taxpayer education effort, the revenue authority broadcast twice-weekly radio talk shows and uploaded taxpayer information to its website.
	Established the Direct Trader Input Centre to enable clearance and forwarding agents to enter declarations in ASYCUDA++. The aim is facilitate the flow of trade and enhance revenue collection.
	Stakeholders' worked with commercial banks to come up with better procedures for cutting the cost of compliance.
Kenya	Undertook revenue enhancement initiatives (REIs) to clearly assess revenue risk and take appropriate measures at the beginning of the financial year.
	The REIs also involved a work plan to monitor and report on a fortnightly basis and take mitigation measures based on new developments.
	Implemented integrated financial management information systems (IFMISs) to: <ul style="list-style-type: none"> <li>• unify financial management in all government departments,</li> <li>• cross-match data between suppliers and purchasers to reconcile VAT data.</li> </ul>
	Implemented the SMS Gateway System and Mobile Payment Gateway System.
	Linked with banks, the systems encouraged taxpayer uptake of e filing and e payment through simplified payment systems – using the mobile phone payment applications m pesa™ and Airtel.
	They also helped decongest KRA by moving payment to the banks.
	Undertook the Real Estate Initiative to improve the compliance of all owners of rental property with the Income Tax Act.
	Introduced one-stop-shop for registration logbooks and number plates to improve efficiency in the Transport Revenue Department.
	Ran initiative to monitor the extractive industry in the wake of the discovery of oil and mineral deposits in Kenya.
	Put in place the Market Surveillance Unit. Its task are: <ul style="list-style-type: none"> <li>• improve compliance with excise duty obligations</li> <li>• conduct compliance checks on excisable goods</li> <li>• seize products that fail to comply with excise obligations</li> <li>• educate taxpayers on the new features of excise stamps and where to obtain validators.</li> </ul>
	Held Taxpayers' Week to recognize and reward taxpayers with exemplary tax compliance.
Lesotho	Drew up the Audit Improvement and Governance Framework to: <ul style="list-style-type: none"> <li>• restore transparency and efficiency to audit and investigation functions</li> <li>• provide a platform to support the paradigm shift in audit procedures and processes such as case profiling, case selection, registration, notices, conduct, the reporting and sharing of information contained in reports, and the identification and resolution of key issues affecting audit performance</li> </ul>
	Segmented the taxpayer population by turnover size into large, medium and small segments. Segmentation involved: <ul style="list-style-type: none"> <li>• operationalizing the Large Taxpayer Unit (LTU) which administers Lesotho's largest corporate taxpayers (“high net worth individuals”)</li> <li>• developing clear procedures for the entry and exit of taxpayers into and from the LTU</li> <li>• tailoring LTU work procedures to more effectively meet the needs of large taxpayer administration and prevent non-compliance</li> <li>• opening an office in Maseru for medium and small taxpayers.</li> </ul>
	Consolidated human resources, information technology and support services within a single Corporate Services Department. Repositioned the Intelligence and Investigation Section to better serve both tax and customs.
	Ran compliance management initiative. <ul style="list-style-type: none"> <li>• Build close links and information exchange between the strategic and tactical risk management levels.</li> <li>• The initiative also involved incorporating risk management initiatives in LRA's annual strategic planning cycle.</li> </ul>
Mauritius	Strengthened the audit function by: <ul style="list-style-type: none"> <li>• developing a joint compliance strategic plan</li> <li>• increasing the staffing capacity and capability of the post clearance unit</li> <li>• developing and implementing an audit programme based on risk analysis</li> <li>• improving linkages between the audit and debt management operations</li> <li>• enforcing debt collection through closer links between the audit and debt management operations</li> </ul>
	Put in place a Small Business Unit, a Special Measures Unit, a High Net Worth Individuals Unit, a Non-Filers Unit, and a Tax Risk Management Unit in order to improve and enforce compliance.
	VAT Lucky Draw Scheme improve VAT taxpayer awareness and compliance.

Country	Tax administration initiative
Rwanda	<p>Rwanda ran a series of initiatives:</p> <ul style="list-style-type: none"> <li>• Initiative to make the collection of local government revenue and social security contributions more efficient</li> <li>• Put in place a taxpayer call centre</li> <li>• Introduced the quarterly VAT payment and PAYE</li> <li>• Introduced a queue management system</li> <li>• Deployed mobile cargo scanners to speed up customs inspections and turnaround times and improve revenue collection</li> </ul>
Seychelles	<p>VAT refund counter at the airport departure</p> <p>Decentralized services to bring them closer to taxpayers</p>
South Africa	<p>Introduced a customs management system (CMS):</p> <ul style="list-style-type: none"> <li>• a single processing engine clears of all import, export and cross-border declarations</li> <li>• information process is automated</li> <li>• replaces a wide range of systems and manual paper-based procedures for the import and export of cargo transported.</li> </ul>
Swaziland	<p>Drew up a taxpayers charter</p>
	<p>Put in place a taxpayers' call centre</p> <p>Introduced the WCO performance measurement tool Time Release Study (TRS) to promote trade and shorten clearance</p> <p>Introduced Sekulula VAT Easy – a memorandum of understanding for Processing and Administering the VAT refund system between the Swaziland Revenue Authority (SRA) and SARS.</p> <p>Put in place toll-free whistle-blower call service.</p> <p>Set up Anti-Smuggling Unit.</p> <p>Implemented a document and record management system.</p> <p>Introduced a revenue authority employee performance management system.</p>
Tanzania	<p>Implemented quality management system based on the ISO 9001:2008 international standard to enhance organizational service delivery through the provision of high quality, responsive customer services. and hence its public image.</p> <p>Established the Dar es Salaam Tax Service Centres (DTSC) and Taxpayer Call Centre to provide customers with high-quality, responsive customer services.</p> <p>Introduced an enterprise-wide risk management system (ERMS) to promote voluntary tax compliance.</p>
Togo	<p>Reviewed taxpayer segmentation with changes to thresholds: the minimum for larger companies was set at XOF 500 million, raised from XOF 50 million to 500 million for medium companies, and set at less than XOF 50 million for small companies.</p> <p>Simplified and modernized certain tax procedures – particularly by introducing tax payment through banks.</p> <p>Implemented new digital registration system for the taxpayers – with tax identification numbers (TINs) in compliance with international standards – to improve taxpayer monitoring and compliance.</p> <p>Ran aggressive awareness campaign to promote voluntary taxpayer compliance.</p>
Uganda	<p>Launched Taxpayer Registration Expansion Program (TREP) to increase tax registration and revenue collection through closer collaboration between government agencies.</p> <p>Introduced a rental project to strengthen and improve revenue collection from the real estate sector.</p> <p>Established the Public Sector Office (PSO) to enforce the collection of tax levied on government projects.</p> <p>Introduced the Joint Compliance Strategy for joint audits to improve revenue administration at the corporate level.</p> <p>Introduced the ASYCUDA e valuation database in place of the cumbersome, inefficient manual valuation database.</p>
Zimbabwe	<p>Restructured the revenue authority by splitting its Operations Division into Customs and Excise Division and the Domestic Tax Division.</p> <p>Introduced point of sale (POS) machines for greater client security and convenience.</p> <p>Rolled out a solar farm scheme to alleviate power shortages and expedite customs clearance through clean, environmentally friendly sources of energy.</p>

## Annex 4. Tax policy action

“Tax policy actions” denote measures taken as part of taxation policy which were still in place in 2014.

Countries	Policy	Action
Burundi	Reduce the tax burden on companies and attract FDI	Reduced the corporate income tax rate from 35% to 30%.
	Attract investment	Cut telephone taxes on international calls from BIF 0.32 to BIF 0.16 Introduced a fixed levy/withholding tax of 3% on imported goods
	Encourage investment and boost GDP	Exempted certain imports from VAT (in accordance with the Investment Code) to
Cameroon	Restructure taxation	Reviewed the Taxpayer Index and reduced the tax population managing VAT.
	Reduce the informal sector	Introduced accredited management centres to attract informal firms with services like free book-keeping, and counselling and offer reduced tax rates.
	Reduce tax expenditure	Granted tax incentives to limit the loss of tax yield.
Gambia	Simplify taxation	Replaced the progressive tax on commercial vehicles and boats with a presumptive tax (January 2014).
	Widen tax base and encourage compliance	<ul style="list-style-type: none"> <li>Introduced a 15% air transport tax on the sale of air tickets.</li> <li>Introduced VAT in place of replace sales tax (January 2013)</li> <li>Introduced a flat 15% rate on income from rented commercial property</li> <li>Reformed the personal income tax regime by reducing the top rate and increasing the tax free threshold in 2013.</li> </ul>
	Expanded the ad valorem excise tax base to include duty and other charges (January 2014)	
	Attract investment and improve compliance	Reduced the corporate tax rate from 35% to 33% in 2012 and will further reduce it by 1% annually to 30% in 2015.
	Generate excise revenue	Instituted annual increases in specific excise taxes on tobacco products from 2014 to 2016: <ul style="list-style-type: none"> <li>rise in excise on pack of cigarettes from GMD 9 to GMD 15</li> <li>rise in excise on unmanufactured tobacco products from GMD 150 per kg to GMD 300 per kg plus rise in environment tax will from GMD 75 per kg to GMD 120 per kg by 2016</li> </ul>
Kenya	Generate revenue	Introduced Excise Duty Bill 2015 which proposes increases in excise duty on various products – principally: <ul style="list-style-type: none"> <li>cigarettes containing tobacco or tobacco substitutes</li> <li>beer</li> <li>oil products.</li> </ul>
	Make tax systems clearer	Introduced the Finance Bill 2015 to bring clarity to: <ul style="list-style-type: none"> <li>Income Tax Act</li> <li>VAT Act (principally, capital gains taxation),</li> <li>the operation of tax appeals tribunals,</li> <li>the Road Maintenance Levy.</li> </ul>
	Standardise tax procedures and improve consistency and efficiency	Introduced the Tax Procedures Bill 2015 that proposes uniform procedures in the administration of tax laws, the facilitation of tax compliance by taxpayers, and collection of taxes
Lesotho	Attract FDI	Eased the tax burden on companies by reducing the corporate tax rate from 30% to 27.5%.
	Increase revenue	Introduced a 10% corporate income on exporters from outside the Southern African Customs Union.
	Increase the tax base and compliance	Reduced PAYE tax rates.

Country	Policy	Action
Mauritius	Increase the tax base and revenue collection	Extended the scope of tax deducted at source (TDS) to: <ul style="list-style-type: none"> <li>• certain consultancy and management services and medical services</li> <li>• the VAT on government projects to ensure public agencies remit VAT to the MRA.</li> </ul> Extended gambling and betting duty to betting on football matches
	Level the playing field between residents and non-residents	Harmonised fees by non-residents with those paid by residents
	Curb pollution and protect the environment	Introduced environmental excise taxes on pollutant products: <ul style="list-style-type: none"> <li>• CO2 levy on motor vehicles and levies on plastic products, PET bottles and canned products,</li> <li>• The so-called MID levy on fossil fuels and coal (MID stands for Maurice Ile Durable, or Sustainable Mauritius).</li> <li>• Duty on greenhouse gas (GHG) products such as refrigerators, electric ovens, dishwashers, air conditioners, tumble dryers and electric lamps.</li> </ul>
	Deter the abusive consumption of unhealthy food and beverages	Introduced an excise tax on soft drinks with high sugar content.
	Improve tax compliance, widen the tax base, and mop up tax arrears	Introduced tax incentive schemes
	Facilitate MSME tax compliance	Introduced a simplified tax system for small businesses.
Rwanda	Increase penetration of telecommunication services	Removed VAT on mobile handsets and import duty on SIM cards.
	Align with East Africa Community	Changed from ad valorem to specific excise duty on petrol and diesel and removed VAT.
	Increase tax revenue	<ul style="list-style-type: none"> <li>• Introduced gaming tax</li> <li>• Increased rates of tax on imported construction materials</li> <li>• Introduced royalty tax on minerals</li> </ul>
	Facilitate compliance	<ul style="list-style-type: none"> <li>• Introduced new SME regime</li> <li>• Introduced VAT withholding tax on public tenders</li> </ul>
Senegal	Increase revenue	<ul style="list-style-type: none"> <li>• Special tax levied on telecommunications turnover</li> <li>• Increased investors fees, royalties, and taxes as part of new mining code</li> </ul>

Country	Policy	Action
Seychelles	Ease tax burden on SMEs and widen the tax base	Introduced a presumptive tax regime was introduced for small businesses with an annual turnover SCR 1 million (January 2013).
	Increase tax revenue	Introduced VAT in place of the sales tax in 2013 with a threshold of SR 5 million, reduced to SCR 3 million in 2014 and to 2 million in 2015.
	Foster ethical and regulatory compliance and business accountability	<ul style="list-style-type: none"> <li>To entail compliance with ethical and regulatory standards.</li> <li>To promote accountability for businesses' actions that can lead to a positive impact on the communities and markets in which it operates.</li> <li>Introduced a corporate social responsibility tax (January 2013), payable at a rate of 0.5% of monthly turnover</li> </ul>
	Increase revenue to fund the tourist industry	Introduced the Tourism Marketing Tax (TMT) in January 2013. It is levied at 0.5% of monthly turnover on tourism businesses and sectors like banks, insurance companies and telecommunication service that benefit from tourism with sales above SCR 1 million.
South Africa	Foster entrepreneurship	Taken various measures to support the development of SMEs.
	Reform the tax treatment of long-term insurers' risk business	Introduced measure to ensure that the corporate fund, not a policy-holder fund, is taxed on risk policy business and profits.
	Combat gold smuggling	Amended the rules governing VAT input tax on second-hand goods made from precious metals so that such goods no longer obtain notional input tax.
	Foster youth employment and career development	Introduced employment tax incentives designed to support young workers and those employed in special economic zones.
	Require online suppliers to register for VAT in the country where the consumer resides	Introduced the obligation for foreign businesses selling digital goods in South Africa to register as VAT vendors.
	Mitigate effects of climate change	Introduced Carbon Tax Bill to be aligned with an energy-efficiency savings tax incentive and an increased electricity levy to promote behaviour change.
	Change company tax system	Implemented the dividend withholding tax at 15% to offset revenue losses resulting from the switch from the secondary tax on companies to the new tax.
	Make tax system more equitable	Increased effective capital gains tax rates (March 2012) on the disposal of assets.
	Improve equity	Converted medical tax deductions to tax credits. Tax credits are a more equitable form of tax relief because their relative value does not increase as an individual's marginal tax rate increases.
Swaziland	Increase tax efficiency	Replaced sales tax with the more efficient VAT.
	Improve revenue collection	Increased the rate of the fuel tax
	Improve trade facilitation	Introduction of the VAT Refund Agreement with South Africa (VRA)/ Sekulula VAT Easy.
	Attract FDI and reduce tax burden on companies	Reduced corporate tax rate from 30% to 27.5%.
Tanzania	induce voluntary compliance	Reviewed the presumptive income tax rate downward after strong taxpayer resistance .
	Expand the income tax base	Introduced 10% final withholding tax on company directors' fees.
	Reduce the tax burden on low -income earners	Continued to reduce the bottom marginal tax rate for employees (PAYE).
	Curb smuggling, promote domestic activity, create jobs and increase revenue	Reviewed export levy rates to: <ul style="list-style-type: none"> <li>curb the illegal skin exports and promote domestic processing and value addition</li> <li>create jobs</li> <li>increase government revenue.</li> </ul>
	Deter old vehicle imports, reduce road accidents, and protect the environment.	Increased excise duty on used motor vehicles.
	Safeguard domestic cement production	Increased import duty rate on cement.
Protect the environment	Introduced the Environmental Tax on Waste, Electrical and Electronic Materials (WEEM) as part of action to prevent Tanzania from becoming a dumping ground.	
Togo	Increase efficiency of VAT	Raised the VAT liability threshold to XOF 50 million in an amendment to the General Tax Code.

Country	Policy	Action
Uganda	Sustain domestic competitiveness	Introduced legislation for the remission of duty on Ugandan inputs and raw materials while infrastructure constraints were being addressed
	Curb excise duty evasion and increase revenue	Increased excise duty on imported spirits from 70% to 100% in response to illegal spirits imports
	Support and promote the local brewing industry	• Reduced the import duty rate on barley from 25% to 10% for one year to encourage the consumption of locally produced beer.
	Generate revenue	• Introduced an excise duty on incoming international calls • Introduced an excise tax of 10% on fees charged on the transfer of money by mobile networks and other money transfer operators.
	Improve tax administration and generate revenue	Eliminated VAT exemptions on the supply of water for domestic use. Introduced VAT on wheat milled or produced in Uganda Eliminate VAT exemption on hotel accommodation and wheat and flour
	Encourage commercial goods transport by road	Introduced 0% duty on road tractors units for semi-trailers.
Zimbabwe	Curb VAT losses	Rolled out electronic fiscal devices in retail outlets.
	generate revenue	Introduced 5% excise on mobile airtime.
	Widen the tax base	Amended the Income Tax Act to reduce tax expenditure
	support recapitalisation.	Introduced VAT deferrals on the import of capital goods for use in specific sectors .
	Recover revenue from defaulting taxpayers	Introduced legislation that provides for assistance in recovering tax in double taxation agreements .
	Encourage payment of outstanding taxes	Introduced tax amnesty

## Annex 5. Tax rates as at 2014

### Annex 5(a). Corporate tax rates as at end of 2014

Countries	Rates	Countries	Rates										
Burundi	<ul style="list-style-type: none"> <li>30%</li> </ul>	Cameroon	<ul style="list-style-type: none"> <li>33%</li> </ul>										
Gambia	<ul style="list-style-type: none"> <li>31%</li> </ul>	Kenya	<ul style="list-style-type: none"> <li>30% for resident companies</li> <li>37.5% for non-resident companies</li> <li>Export processing zones enterprises(0% for the first 10 years and 25% for the next 10 years)</li> </ul>										
Lesotho	<ul style="list-style-type: none"> <li>10% for manufacturing</li> <li>10% for farming businesses</li> <li>25% for commercial companies</li> </ul>	Mauritius	<ul style="list-style-type: none"> <li>15%</li> </ul>										
Rwanda	<ul style="list-style-type: none"> <li>30%</li> </ul>	Senegal	<ul style="list-style-type: none"> <li>30%</li> <li>15% for free zone companies</li> </ul>										
Seychelles	<ul style="list-style-type: none"> <li>First SR1 million = 25%</li> <li>30% above SR1 million for normal</li> <li>33% above SR1 million for telecommunication, banks, insurance and manufacturing of alcohol and tobacco</li> </ul>	South Africa	<ul style="list-style-type: none"> <li>28% for normal income tax</li> <li>15% on income derived by qualifying company within a Special Economic Zone (SEC)</li> <li>Graduated tax rates for qualifying Small Business Corporation(SBCs) with annual turnover not exceeding R20 million</li> </ul> <table border="1"> <thead> <tr> <th>Tax rate</th> <th>Taxable income</th> </tr> </thead> <tbody> <tr> <td>0%</td> <td>R0 - R67,111</td> </tr> <tr> <td>7% of taxable income above R 67,111</td> <td>R67,112 - R365,000</td> </tr> <tr> <td>R20,852 + 21% of taxable income above R365,000</td> <td>R365,001 - R550,000</td> </tr> <tr> <td>R59,702 + 28% of taxable income above R550,000</td> <td>Above R550,000</td> </tr> </tbody> </table>	Tax rate	Taxable income	0%	R0 - R67,111	7% of taxable income above R 67,111	R67,112 - R365,000	R20,852 + 21% of taxable income above R365,000	R365,001 - R550,000	R59,702 + 28% of taxable income above R550,000	Above R550,000
Tax rate	Taxable income												
0%	R0 - R67,111												
7% of taxable income above R 67,111	R67,112 - R365,000												
R20,852 + 21% of taxable income above R365,000	R365,001 - R550,000												
R59,702 + 28% of taxable income above R550,000	Above R550,000												
Swaziland	<ul style="list-style-type: none"> <li>27.5%</li> </ul>	Tanzania	<ul style="list-style-type: none"> <li>30% to all companies</li> <li>25% to newly listed corporation to the Dar es Salaam stock exchange, with at least 30% shares issued to the public for three consecutive years from the date of listing</li> <li>10% repatriated income of a branch owned by non-resident person (branch remittance)</li> </ul>										
Togo	<ul style="list-style-type: none"> <li>29% on profit of trading and industrial companies</li> </ul>	Uganda	<ul style="list-style-type: none"> <li>2% for non-resident companies in shipping &amp; aircraft</li> <li>25%- 45% for mining companies</li> <li>30% for resident companies</li> </ul>										
Zimbabwe	<ul style="list-style-type: none"> <li>0% industrial park developer less than 5 years in operation</li> <li>15% for mining companies with special mining leases</li> <li>25% for the rest of companies</li> <li>15% for pension funds from trade or investment</li> <li>0% for Build Own Operate and Transfer (BOOT) and Built Operate and Transfer (BOT) for the first 5 years and 15% second 5 years and thereafter normal rate of 25%</li> </ul>												

## Annex 5(b). Withholding tax rates as at end of 2014

Countries	Rates	Countries	Rates
<b>Burundi</b>	<ul style="list-style-type: none"> <li>• 3% of the customs value of imports</li> <li>• 15% of interest of any kind of dividends, royalties, lottery winnings and games of chance</li> <li>• 4% on those providing public procurement</li> <li>• 5% withholding on the acquisition of real property or a right in respect of non-residents</li> <li>• 1% withholding tax on the sugar sales price</li> <li>• 1% on the ex-factory price of beer primus</li> <li>• 0.66% of the ex-factory price of amstel beer 65 cl</li> <li>• 0.42% of ex-factory prices of amstel bock 65 cl</li> <li>• 1% of ex-factory price on the primus beer Nyongera</li> <li>• 0.21% of the ex-factory price on the amstel bock 33cl</li> <li>• 0.33% of the ex-factory price on the amstel beer 33 cl</li> <li>• 0.42% of the ex-factory price of soft drinks</li> <li>• 0.42% of the ex-factory price on beer Soma Burundi</li> <li>• 0.42% of ex-factory prices of mineral water</li> <li>• 0.85% of the ex-factory price of flour</li> <li>• 1% of ex-factory price of locally produced oils</li> <li>• 1% of the selling price of the cigarettes purchased from local manufacturers</li> <li>• 1% of the tissue selling price</li> <li>• 0.74% of the selling price of fuels and lubricants bought from importers</li> </ul>	<b>Cameroon</b>	<ul style="list-style-type: none"> <li>• 10% for taxpayers of the informal sector who are not on the tax register</li> <li>• 16.5% applied on income paid to non - resident individuals and corporate bodies</li> </ul>
<b>Gambia</b>	<ul style="list-style-type: none"> <li>• 10% on contractor or subcontractor</li> <li>• 15% on interests</li> <li>• 15% on dividends</li> </ul>	<b>Kenya</b>	<ul style="list-style-type: none"> <li>• Artists and entertainers:0% for residents and 20% for non-residents</li> <li>• Supplies to government:6%</li> <li>• Interest from bank:15% for both residents and non-residents</li> <li>• Insurance commissions:10% for residents and 20% for non-residents</li> <li>• Royalties: 5% for residents and 20% for non-residents</li> <li>• Consultancy and agency: 5% for residents and 20% for non-residents</li> <li>• Interest on housing bonds: 10% for residents and 15% for non-residents</li> <li>• Interest on government-bearer instruments: 15% for residents and 25% for non-residents</li> <li>• Management, and professional fees: 10% for residents and 20 % for non-residents</li> <li>• Winnings from betting and gaming:29%</li> <li>• Contractual: 3% for residents and 20% for non-residents</li> <li>• Pensions/provident schemes (withdrawal):10 - 30% for residents and 5% for non-residents</li> <li>• Insurance brokerage: 10%</li> <li>• Professional fees: 10% for residents and 20 % for non-residents</li> <li>• Telecommunication services/message transmission: 0% for residents and 5% for non-residents.</li> <li>• Training fees (inclusive of incidental cost): 10% for residents and 20% for non-residents.</li> </ul>
<b>Lesotho</b>	<ul style="list-style-type: none"> <li>• 10% for Foreign Taxpayers</li> <li>• 5% for Locals Taxpayers</li> </ul>	<b>Mauritius</b>	<ul style="list-style-type: none"> <li>• 10% on Interest</li> <li>• 10 % on royalties for residents</li> <li>• 15% on royalties for non-residents</li> <li>• 5% on rent</li> <li>• 0.75% on payments to contractors and sub-contractors</li> <li>• 3% on payments to providers of services</li> </ul>
<b>Rwanda</b>	<ul style="list-style-type: none"> <li>• 3% WHT on Public tenders</li> <li>• 5% WHT on imports</li> <li>• 15% WHT on dividends, royalties and service fees</li> <li>• 15% on lottery and other gambling proceeds</li> </ul>	<b>Senegal</b>	17% on interests, commissions, banks charges of financial institutions
<b>Seychelles</b>	<ul style="list-style-type: none"> <li>• 15% on dividends, royalties, natural resource amounts or technical services fees</li> <li>• 5% on insurance premiums</li> <li>• 10% on commissions paid to sellers of lottery and games of chance tickets</li> <li>• 5% on interest on current, call and fixed accounts</li> <li>• 33% on bearers bonds</li> </ul>	<b>South Africa</b>	<ul style="list-style-type: none"> <li>• 15% on dividends</li> <li>• 12% on royalties for non-residents (increased to 15% on 1 January 2015)</li> <li>• 15% on gross payments to foreign entertainers and sportspersons</li> <li>• Withholding tax on disposal of immovable property by a non-resident: <ul style="list-style-type: none"> <li>• 5% of the amount payable where the seller is a natural person,</li> <li>• 7.5% where the seller is a company and</li> <li>• 10% where the seller is a trust</li> </ul> </li> </ul>

Countries	Rates	Countries	Rates
<b>Swaziland</b>	<ul style="list-style-type: none"> <li>• <b>non-residents</b></li> <li>• 15% on royalty and management fees</li> <li>• 15% for sportsmen and entertainers</li> <li>• 15% on interest</li> <li>• 15% on contractors</li> <li>• 12.5% on dividends for companies in Botswana, Lesotho, Mozambique, Namibia and South Africa</li> <li>• 15% on dividends for other countries</li> <li>• 15% on payments to persons</li> <li>• 12.5% on repatriated branch profits to neighbouring countries (Botswana, Lesotho, Mozambique, Namibia and South Africa)</li> <li>• 15% on repatriated branch profits to other countries</li> <li>• <b>Residents</b></li> <li>• 10% on rent and dividends</li> <li>• 33% on trust</li> </ul>	<b>Tanzania</b>	<ul style="list-style-type: none"> <li>• 5% dividends from the Dar es Salaam Stock Exchange listed corporations</li> <li>• 5% (resident) &amp; N/A (non-resident) on dividends from resident corporation to another corporation where the corporation receiving the dividend holds 25% or more of the shares in the corporation</li> <li>• 10% on dividends from other corporations</li> <li>• 10% (resident) &amp; N/A (non-resident) commission on money transfer through mobile phones</li> <li>• 10% on interest</li> <li>• 15% on royalties</li> <li>• 5% (resident) &amp; 15% (non-resident) on technical services fees (mining)</li> <li>• 10% (resident) &amp; 15% (non-resident) on rental income</li> <li>• 0% (resident) &amp; 5% (non-resident) on insurance premium</li> <li>• 5% (resident) &amp; 15% (non-resident) on service fees</li> <li>• 2% (resident) &amp; 15% (non-resident) on gross payments for goods supplied to government and its institutions by any person</li> <li>• 15% on other withholding payments</li> </ul>
<b>Togo</b>	<ul style="list-style-type: none"> <li>• 1% for economic operators with a tax identification number (TIN)</li> <li>• 5% for economic operators without a tax identification number (TIN)</li> </ul>	<b>Uganda</b>	<ul style="list-style-type: none"> <li>• 20% on bonds and treasury</li> <li>• 15% on dividends for both residents and non-residents</li> <li>• 5%(residents) and 15%(non-residents) for foreign transactions</li> <li>• 6%(residents) and 15%(non-residents) for management fees</li> <li>• 15% on royalties for non-residents</li> <li>• 6% on importation of goods, general supply of goods to government payments</li> </ul>
<b>Zimbabwe</b>	<ul style="list-style-type: none"> <li>• 15% on Capital Gains Tax on Immovable properties acquired after the 1st of February 2009</li> <li>• 15% on Remittances</li> <li>• 10% on amounts payable under contracts</li> <li>• 20% on Non-executive director's fees</li> <li>• 20% on property or insurance commission tax</li> <li>• \$0.05 on intermediated money transfer tax</li> <li>• \$0.05 on automated financial transactions tax</li> <li>• 5% for residents tax on interest for fixed term deposits with a tenure of at least 90 days</li> <li>• 15% for Other</li> <li>• 0% on non-residents tax on interest</li> <li>• 15% for Non-residents tax on Artistes and Entertainers</li> <li>• 15% for Non-residents tax on fees</li> <li>• 15% for Non-residents tax on royalties</li> <li>• 10% for resident shareholders' tax and non-resident shareholders' tax on dividend from Security which is listed on the Z S E -</li> <li>• 15% on other dividends</li> </ul>		

### Annex 5(c). VAT tax rates as at end of 2014

Countries	Rates	Countries	Rates
<b>Burundi</b>	<ul style="list-style-type: none"> <li>• 18% for standard</li> <li>• 0% for exports, international transportation and related services</li> <li>• 10% for imported foods, products processed locally and agricultural inputs</li> </ul>	<b>Cameroon</b>	<ul style="list-style-type: none"> <li>• 19.25%</li> </ul>
<b>Gambia</b>	<ul style="list-style-type: none"> <li>• 15%</li> </ul>	<b>Kenya</b>	<ul style="list-style-type: none"> <li>• 16%</li> </ul>
<b>Lesotho</b>	<ul style="list-style-type: none"> <li>• 14% for standard</li> <li>• 15% for alcoholic beverages</li> <li>• 5% for utilities</li> <li>• 0% for basic goods</li> </ul>	<b>Mauritius</b>	<ul style="list-style-type: none"> <li>• 15%</li> </ul>
<b>Rwanda</b>	<ul style="list-style-type: none"> <li>• 18%</li> </ul>	<b>Senegal</b>	<ul style="list-style-type: none"> <li>• 18%</li> <li>• 10% for tourism sector</li> <li>• 0% for the products of primary necessity</li> </ul>

Countries	Rates	Countries	Rates
Seychelles	<ul style="list-style-type: none"> <li>15%</li> </ul>	South Africa	<ul style="list-style-type: none"> <li>14% standard rate</li> <li>0% for certain goods and services: Example of zero-rated supplies include certain basic foodstuffs, fuel levy goods, going concern, farming goods, goods temporarily imported for repairs, exports, international transport, land situated in an export country, services physically performed outside the Republic, certain services supplied to non-residents, municipal property rates.</li> <li>Exemptions on supplies of certain goods or services. Examples include: financial services; donated goods or services sold by non-profit bodies; residential accommodation in a dwelling (but not holiday accommodation); passenger transport in South Africa by taxi, bus or train; educational services provided by recognised educational institutions which have been approved as public benefit organisations (PBOs); childcare services provided at crèches and after-school care centres; and services provided to members of body corporates, share block companies, retired persons housing schemes and home-owners associations which are met out of levy contributions by such members</li> </ul>
Swaziland	<ul style="list-style-type: none"> <li>14%</li> </ul>	Tanzania	<ul style="list-style-type: none"> <li>18% on supply of taxable goods and services in Mainland Tanzania and importation of taxable goods and services into Mainland Tanzania</li> <li>0% on export of goods and certain services from the United Republic of Tanzania</li> </ul>
Togo	<ul style="list-style-type: none"> <li>18%</li> <li>0% for exports by companies in the free zone</li> </ul>	Uganda	<ul style="list-style-type: none"> <li>18% standard</li> </ul>
Zimbabwe	<ul style="list-style-type: none"> <li>0% for exports, and certain goods and services</li> <li>15% is the standard rate</li> <li>There are also some supplies which are exempt from VAT</li> </ul>		

#### Annex 5(d). Excise tax rates as at end of 2014

Countries	Items	Countries	Items
Burundi	Wines and spirits, mineral waters and aerated waters, telephone consumption in GSM, subscription and purchase of audio-visual recharge cards, vehicles under HSC code (8703) except ambulances, police vans and cars	Cameroon	Juices, imported mineral water, liquors, wines, tobacco products, cars, petroleum products, jewellery, precious metals etc.
Gambia	Tobacco products, alcohol, spirits, new vehicles, nails, beverages etc.	Kenya	Cigarettes, beer, soft drinks, spirits, cosmetics and perfumes, phone talk time, sugar, bottled water, cement, money transfer, promotional activities, financial services, packaging material, imported used computers, motor vehicles, mobile cellular phone services and other wireless telephone services
Lesotho	Tobacco products and alcohol beverages: wine spirits and beer	Mauritius	
Rwanda	Beers, lemonades, mineral water, juices, liquors, wines, fuel, vehicles, powdered milk, cigarettes and telephone communication	Senegal	Raw or manufactured tobacco, alcoholic or soft drinks, food greasy substances, kola nuts, tea, coffee, petroleum product and cosmetic products
Seychelles	Cigarettes or tobacco, alcohol, motor vehicles and petroleum products	South Africa	Beer, sorghum beer, wine, spirits, cigarettes, pipe tobacco, petroleum products, motor vehicles, electronic equipment, cosmetics, perfumes and other products generally regarded as "luxury items"
Swaziland	Alcoholic drinks, tobacco products, road fuels, cars, TVs, refrigerators, cosmetics and phones	Tanzania	Specific rates: Beer, cigarettes, soft drinks, bottled water, wine and spirits, petroleum products and natural gas Ad-valorem rates: Telecommunication services, motor vehicles and money transfer
Togo	Tobacco products, alcohol, spirits, new vehicles, nails, beverages etc	Uganda	Alcohol, cigarettes, sugar, beer, spirits phone talk airtime, cement, cosmetics, mobile money transfers, international calls and bottled water
Zimbabwe	Wines, ciders, beers, spirits, aerated waters, tobacco, cigarettes, pipe tobacco, bio fuels, petroleum fuel, electric bulbs, airtime and second hand motor vehicles.		

## Annex 5(e). Presumptive regimes and tax rates as at end of 2014

Countries	Rates	Countries	Rates																			
Burundi		Cameroon	<table border="1"> <thead> <tr> <th>Turnover</th> <th>Flat amount tax due per quarter</th> </tr> </thead> <tbody> <tr> <td>0 to less than 2,500,000 francs</td> <td>0 – 10,000 francs</td> </tr> <tr> <td>2,500,000 and less than 5,000,000</td> <td>10,001 - 20,000 francs</td> </tr> <tr> <td>5,000,000 and less than 7,500,000</td> <td>20,001 – 25,000 francs</td> </tr> <tr> <td>7,500,000 and 10,000,000</td> <td>25,001 – 50,000 francs</td> </tr> </tbody> </table>	Turnover	Flat amount tax due per quarter	0 to less than 2,500,000 francs	0 – 10,000 francs	2,500,000 and less than 5,000,000	10,001 - 20,000 francs	5,000,000 and less than 7,500,000	20,001 – 25,000 francs	7,500,000 and 10,000,000	25,001 – 50,000 francs									
Turnover	Flat amount tax due per quarter																					
0 to less than 2,500,000 francs	0 – 10,000 francs																					
2,500,000 and less than 5,000,000	10,001 - 20,000 francs																					
5,000,000 and less than 7,500,000	20,001 – 25,000 francs																					
7,500,000 and 10,000,000	25,001 – 50,000 francs																					
Gambia	3% for small taxpayers with turnover of D500,000 and below	Kenya	<ul style="list-style-type: none"> <li>Annual turnover between Ksh. 500,000 and Ksh. 5 million: 3%.</li> <li>Advance tax on vans, pickups, trucks and lorries: Ksh. 1,500 per ton of load capacity per year or Ksh. 2, 400, whichever is higher</li> <li>Advance tax on saloons, station wagons, mini-buses, buses and coaches: Ksh.60 per passenger capacity per month or Ksh.2, 400, whichever is higher</li> </ul>																			
Lesotho	Not yet effective. A study to assess willingness and ability to pay is currently being commissioned	Mauritius																				
Rwanda	<table border="1"> <thead> <tr> <th>Turnover</th> <th>Tax due per year</th> <th>Flat amount tax due</th> </tr> </thead> <tbody> <tr> <td>2,000,000</td> <td>and</td> <td>4,000,000</td> <td>Flat amount tax due of 60,000</td> </tr> <tr> <td>4,000,001</td> <td>and</td> <td>7,000,000</td> <td>Flat amount tax due of 120,000</td> </tr> <tr> <td>7,000,001</td> <td>and</td> <td>10,000,000</td> <td>Flat amount tax due of 210,000</td> </tr> <tr> <td>10,000,001</td> <td>and</td> <td>12,000,000</td> <td>Flat amount tax due of 300,000</td> </tr> </tbody> </table>	Turnover	Tax due per year	Flat amount tax due	2,000,000	and	4,000,000	Flat amount tax due of 60,000	4,000,001	and	7,000,000	Flat amount tax due of 120,000	7,000,001	and	10,000,000	Flat amount tax due of 210,000	10,000,001	and	12,000,000	Flat amount tax due of 300,000	Senegal	Annual turnover between 500,000 and 20 million: 0.5% of the turnover
Turnover	Tax due per year	Flat amount tax due																				
2,000,000	and	4,000,000	Flat amount tax due of 60,000																			
4,000,001	and	7,000,000	Flat amount tax due of 120,000																			
7,000,001	and	10,000,000	Flat amount tax due of 210,000																			
10,000,001	and	12,000,000	Flat amount tax due of 300,000																			
Seychelles	Less or equal to SR1 million: 1.5%	South Africa	<table border="1"> <thead> <tr> <th>Micro business – Turnover tax</th> <th>Tax liability</th> </tr> </thead> <tbody> <tr> <td>Turnover</td> <td></td> </tr> <tr> <td>R0 – R150,000</td> <td>0%</td> </tr> <tr> <td>R150,001 – R300,000</td> <td>1% of each R above R150,000</td> </tr> <tr> <td>R300,001 – R500,000</td> <td>R1,500 + 2% of each R above R300,000</td> </tr> <tr> <td>R500,001 – R750,000</td> <td>R5,500 + 4% of each R above R500,000</td> </tr> <tr> <td>R750,001 – R1,000,000</td> <td>R15,500 + 6% of each R above R750,000</td> </tr> </tbody> </table>	Micro business – Turnover tax	Tax liability	Turnover		R0 – R150,000	0%	R150,001 – R300,000	1% of each R above R150,000	R300,001 – R500,000	R1,500 + 2% of each R above R300,000	R500,001 – R750,000	R5,500 + 4% of each R above R500,000	R750,001 – R1,000,000	R15,500 + 6% of each R above R750,000					
Micro business – Turnover tax	Tax liability																					
Turnover																						
R0 – R150,000	0%																					
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R750,001 – R1,000,000	R15,500 + 6% of each R above R750,000																					
Swaziland	<ul style="list-style-type: none"> <li>No presumptive tax</li> </ul>	Tanzania	<table border="1"> <thead> <tr> <th>Annual Turnover</th> <th>without records</th> <th>with records</th> </tr> </thead> <tbody> <tr> <td>Tshs 0- Tshs 4,000,000</td> <td>NIL</td> <td>NIL</td> </tr> <tr> <td>Tshs 4,000,001- Tshs7,500,000</td> <td>Shs. 100,000</td> <td>2% of each Tshs above 4,000,000</td> </tr> <tr> <td>Tshs7,500,001 - Tshs11,500,000</td> <td>Shs. 212,000</td> <td>Tshs 70,000 + 2.5% of each Tshs above 7,500,000</td> </tr> <tr> <td>Tshs11,500,001 - Tshs16,000,000</td> <td>Shs. 364,000</td> <td>Tshs 170,000 + 3.0% of each Tshs above 11,500,000</td> </tr> <tr> <td>Tshs16,000,001 - Tshs20,000,000</td> <td>Shs. 575,000</td> <td>Tshs 305,000 +3.5% of each Tshs above 16,000,000</td> </tr> </tbody> </table>	Annual Turnover	without records	with records	Tshs 0- Tshs 4,000,000	NIL	NIL	Tshs 4,000,001- Tshs7,500,000	Shs. 100,000	2% of each Tshs above 4,000,000	Tshs7,500,001 - Tshs11,500,000	Shs. 212,000	Tshs 70,000 + 2.5% of each Tshs above 7,500,000	Tshs11,500,001 - Tshs16,000,000	Shs. 364,000	Tshs 170,000 + 3.0% of each Tshs above 11,500,000	Tshs16,000,001 - Tshs20,000,000	Shs. 575,000	Tshs 305,000 +3.5% of each Tshs above 16,000,000	
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Tshs16,000,001 - Tshs20,000,000	Shs. 575,000	Tshs 305,000 +3.5% of each Tshs above 16,000,000																				

Togo

Below 30 million: 2.5%

Uganda

Annual Turnover	Rates
UGX.5Mn<GT≤UGX.20 Mn	100,000
UGX.20Mn<GT≤ UGX.30 Mn	UGX.250,000 or 1% whichever is lower
UGX.30 Mn<GT≤UGX.40 Mn	UGX.350,000 or 1% whichever is lower
UGX.40 Mn <GT≤ UGX.50 Mn	UGX.450,000 or 1% whichever is lower

Zimbabwe

Presumptive Tax Rates for Road Transport

Operators of:	Description	Presumptive Tax (US\$ per quarter for each vehicle)
	8 to 14 passengers	150
Omnibuses	15 to 24 passengers	175
	25 to 36 passengers	300
	From 37 passengers and above	450
Taxi-Cabs	All	100
Driving Schools	Class 4 vehicles	500
	Class 1 and 2 vehicles	600
	More than 10 tonnes but less than 20 tonnes	1000
Goods Vehicles	More than 20 tonnes	2500
	10 tonnes or less but with combination of truck and trailers of more than 15 but less than 20 tonnes	2500

Other Presumptive Tax Rates

Industry	Presumptive Tax rate
Hair saloons	\$1500/quarter
Informal Traders collecting rentals	10% of the rental
Cross border commercial consignments	10% of VDP
Bottle stores	\$300
Restaurants	\$300
Cottage Industry	\$300

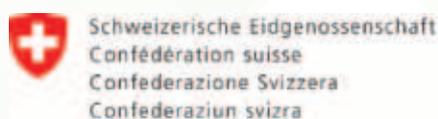




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