Revenue Administration Reforms in Anglophone Africa since the early 1990s

Developments & Trends

David Kloeden – IMF Fiscal Affairs Department
## Anglophone Sub-Saharan Africa

<table>
<thead>
<tr>
<th>Grouping</th>
<th>Countries (19 total)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>West Africa</strong></td>
<td>Gambia, Ghana, Liberia(^1), Nigeria(^2), &amp; Sierra Leone(^1)</td>
</tr>
<tr>
<td><strong>Southern Africa</strong></td>
<td>Botswana(^2), Lesotho, Mauritius, Namibia(^2), Seychelles, South Africa(^2), Swaziland, &amp; Zimbabwe</td>
</tr>
<tr>
<td><strong>East Africa</strong></td>
<td>Kenya, Malawi, Rwanda(^1), Tanzania, Uganda, &amp; Zambia(^2)</td>
</tr>
</tbody>
</table>

1. Post-Conflict
2. Non-renewable resources important source of government revenues
Topics

- Revenue Authorities (RA)
- VAT
- Self-Assessment
- Management & Organization
- Integration
- Taxpayer Segmentation
Reform Drivers

- Enhance revenue
- Modernize administration/improve service
- Reduce compliance burden
- Reduce administration costs
- Facilitate trade and investment
- Improve integrity
RAs: History in Anglophone Africa

- 14 of 19 countries now have a form of RA
- All but two include customs
- 8 of 14 include non-traditional functions
- Varied role of board
- RAs now dominate Anglophone Africa
Revenue Authorities: Their Impact

<table>
<thead>
<tr>
<th>Claims</th>
<th>Findings</th>
</tr>
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<tbody>
<tr>
<td>Best vehicle for reform</td>
<td>Reforms without RA</td>
</tr>
<tr>
<td>Address civil service problems</td>
<td>HR better</td>
</tr>
<tr>
<td>Better services</td>
<td>Higher public confidence</td>
</tr>
<tr>
<td>Reduce corruption</td>
<td>Mostly perception of stakeholders</td>
</tr>
<tr>
<td>More autonomy</td>
<td>Not followed or flawed</td>
</tr>
<tr>
<td>Independent funding</td>
<td></td>
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But this is only part of the story
VAT

- Major revenue source – particularly on imports
- Global phenomenon
- Associated tariff reform
- 14 of 19 Anglophone Africa countries from 1990
- Single rate common – average 15 percent
- Low registration thresholds
VAT Administration

- Separate department initially, sometimes Customs
- Why not initially integrated with income tax?
- Trend now to integrate tax administration
- Current status:
  - 1 – customs
  - 6 – separate unintegrated VAT organizations.
  - 4 (+1) – fully integrated domestic tax administration
  - 2 – integrated but separate administrations by segment
VAT: Current Challenges

- Registration & filing compliance
- VAT refunds
- VAT fraud
- VAT withholding
Self-Assessment

- VAT was the impetus
- Income tax now mostly self-assessed
- Move effective with:
  - Clear legislation
  - Good taxpayer services
  - Simple filing and payment procedures
  - Strong collection enforcement
  - Selective risk-based audit
  - Fairly applied penalties
  - Fair and timely dispute resolution
Self-Assessment enablers

- **Taxpayer Identification Number**
  - Single identifier objective
  - Design/implementation problems
  - Taxpayer register integrity

- **Computerization**
  - Growth from low base
  - Bespoke and package approaches
  - Expectations achieved?
  - Shift to integrated solutions
Management & Organization

- Corporate/Strategic Planning
- Taxpayer Charters/Codes of Conduct
- Performance indicators – Balanced Scorecard
- Updated legislation
- Emergence of Tax Procedure Codes
- Stronger non-operational Headquarters
Management & Organization

- Common RA services
- Integrated tax/customs functions:
  - Taxpayer Services
  - Enforcement and Investigations
  - Synergies/optimality?
- Tax admin reforms low priority in RA launch
- Tax administration organization evolution:
  - Tax Type to Functional
  - Functional to Taxpayer Segment
Integration

**Tax Type Weaknesses**
- Resource duplication
- Multiple taxpayer contact
- Uncoordinated audit & enforcement
- Lack of harmonization
- Higher costs
- No single taxpayer view

**Benefits of Integration**
- Economies of scale
- One-stop shop
- Comprehensive audits & coordinated enforcement
- Harmonized procedures
- Lower costs, better service
- ‘Whole-of-taxpayer’ view
Integration

- Recent phenomenon in Anglophone Africa
- RA and VAT - missed integration opportunities
- Address legal constraints:
  - Remove prescribed departments in RA legislation
  - Assign authority to RA head in revenue acts
- Integration steps:
  - Appoint single head with all legislative powers
  - Amend legislation to merge organizations
Integration: desired End-State

Income Tax Department

Sales Tax Department

Customs Department (with Sales Tax)

VAT Department

Excises

Domestic Tax Department

Sales Tax

Excises

Customs Department

Domestic Tax Department
Taxpayer Segmentation

*Taxpayers are not homogeneous, so many administrations are moving away from a one-size fits all approach with a growing trend to separate taxpayers into “market segments”*
Taxpayer Segmentation

- **Size related segments:**
  - Large businesses
  - Medium-size businesses
  - Small businesses
  - Micro businesses

- **Other segment groupings not primarily size related:**
  - Individuals (non-business)
  - Government agencies
  - Non-profit organizations
Taxpayer Segmentation: Taxpayer/Revenue Distribution

Number of Taxpayers

- **Large Business**: < 1%
- **Medium Business**: 5 – 25%
- **Small & Micro business**: 70 – 95%

Revenue Contribution

- **Large**: 70+%
- **Medium**: 10 – 25%
- **Small & Micro**: 0 – 10%
**Taxpayer Segmentation: Measuring Size**

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Problems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax paid or tax liability</td>
<td>Tax minimization/holidays</td>
</tr>
<tr>
<td>Employee numbers</td>
<td>Non labor intensive sectors</td>
</tr>
<tr>
<td>Capital base</td>
<td>Undervalues service sector</td>
</tr>
<tr>
<td>Entity type</td>
<td>Small companies and big non-corporates</td>
</tr>
<tr>
<td>International transactions</td>
<td>Many small players in open exporting economies</td>
</tr>
<tr>
<td>Industry type</td>
<td>Large competitive markets</td>
</tr>
</tbody>
</table>
Taxpayer Segmentation: Turnover, the best measure of size

- Simple concept
- Easily understood
- Easily measured
- Basis for VAT
- Correlation to actual/potential tax liability
- Thresholds to delineate segments
## Taxpayer Segmentation: Characteristics

<table>
<thead>
<tr>
<th></th>
<th>Large</th>
<th>Medium</th>
<th>Small</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxpayer entity</td>
<td>Legal entities, groups, corporations, global</td>
<td>Legal entities, incl partnerships</td>
<td>Individuals and small traders</td>
</tr>
<tr>
<td>Numbers of taxpayers</td>
<td>Small – powerful local/international</td>
<td>Moderate – many diverse activities</td>
<td>Large – high churn rate, very diverse</td>
</tr>
<tr>
<td>Classification</td>
<td>Turnover threshold and secondary criteria</td>
<td>Above VAT threshold</td>
<td>Less than VAT threshold</td>
</tr>
<tr>
<td>Revenue potential</td>
<td>$ 100,000’s+ per taxpayer</td>
<td>$ 1,000’s+ per taxpayer</td>
<td>Max a few $1,000 to much less/taxpayer</td>
</tr>
<tr>
<td>Non-compliance</td>
<td>Legal interpretation, tax is cost to minimize</td>
<td>Mis/unrecorded transactions</td>
<td>Cash sales, poor records - evasion</td>
</tr>
<tr>
<td>Self-assess</td>
<td>Yes – no problem</td>
<td>Yes – with help</td>
<td>Difficult</td>
</tr>
<tr>
<td>Accounting &amp; legal skills</td>
<td>Professional legal and accounting expertise</td>
<td>Maybe in-house with some help</td>
<td>Own poor records, help too expensive</td>
</tr>
</tbody>
</table>
Taxpayer Segmentation: begins with....

- Large Taxpayer Office (LTO): now in 7 of 19 Anglophone African countries
- Secure 50+ percent of revenue
- Modernize with:
  - Functional and integrated organization
  - Simplified procedures
  - New approaches – risk analysis, self-assessment
  - Computerization
Taxpayer Segmentation: Medium and Small Taxpayers

- With large taxpayer administration strengthened, strategies and structures are emerging to differentiate the administration of medium-size and small taxpayers, including micro businesses

- Not segmenting beyond the largest taxpayers fails to optimize up to 95 percent of resources to administer 99 percent of the taxpayers who pay a minority of taxes
Taxpayer Segmentation: Medium-Size Taxpayers

- Non-LTO taxpayers who are:
  - VAT registered – mandatory* and voluntary, and/or
  - Corporate income taxpayers, and/or
  - Formal employers

- Commonality
  - Record keeping obligations
  - Can/must self-assess
  - Most above the VAT threshold

* Depends on an appropriate VAT registration threshold
Taxpayer Segmentation: Medium-Size Taxpayers

- Volumes:
  - 5 – 25% of taxpayers – tens of thousands
  - 10 – 25% of revenue

- Administration costs:
  - 1 – 2% of collections if efficient and segment focused
  - 10% or more of collections without small taxpayer differentiation

- Location:
  - Most in main economic center/s
  - Clusters in a few larger provincial centers, lightly scattered beyond

- Compliance enforcement:
  - Higher audit capacity/coverage than small taxpayers, but less intensive than large taxpayers
  - More intensive arrears and filing measures than for small taxpayers to meet compliance and revenue risks
Taxpayer Segmentation:
Management Arrangements

- Some countries are now developing dedicated offices and/or programs for the administration of medium-size taxpayers

- Others have simplified presumptive regimes for small business below the VAT threshold
Taxpayer Segmentation: Management Arrangements

- Co-mingling small & medium taxpayer approaches may:
  - Spread scarce resources and skills too thinly
  - Apply incorrect compliance approach for segment
  - Treat similar taxpayers inconsistently
  - Distort the cost of collection – some offices may seem cost effective from the revenue of a few taxpayers
Taxpayer Segmentation: Medium Taxpayer Administration

- Emulate and adapt LTO model to medium taxpayers
- Dedicated Medium Taxpayer Office/s (MTO):
  - If enough critical mass of medium-size taxpayers and tax administration resources – main economic center/s
  - Functionally organized MTOs within single tax department
  - Operational policy and oversight from tax department HQ
- Exclusively administers medium taxpayers
- No small taxpayer responsibilities
Taxpayer Segmentation: Small Taxpayer Administration

- Small taxpayers difficult and costly to administer – large numbers that contribute little revenue
- Strategies and structures for the large and medium segments leaves the remainder (and majority) of resources to focus on small taxpayers
- Best solution – a simple presumptive regime for those below the VAT threshold who have not been allowed to voluntarily opt in
- Turnover basis – a natural transition to VAT
Conclusions

- RAs were a major development, but are not effective without system and procedural modernization, integration, and segmentation
- Operational improvements are continuously needed
- Tax type structure is inefficient
- Functional approach maximized by integration
- Segmentation begins but should not end with an LTO
- MTO concept emerging
- Presumptive regime most efficient for small taxpayers
Integration & Segmentation
Desired End-State

HQ and operational offices functionally organized for: Taxpayer Services, Payment/Returns Processing, Audit, and Enforcement.