



A MORE DETAILED LOOK AT TAXES AND GROWTH

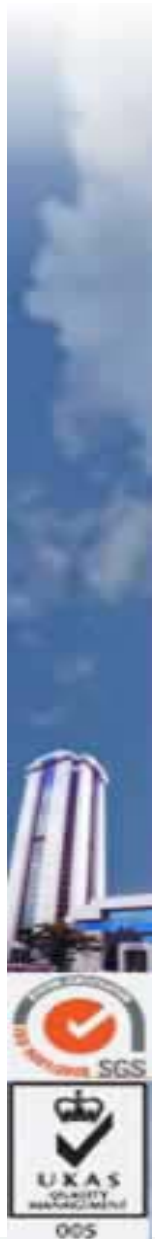
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OUTLINE OF THE PRESENTATION

- ❑ Outlining the African development challenges
- ❑ Limitations of relying on Official Donor Assistance (ODA) or Foreign Direct Investment (FDI) in meeting these challenges
- ❑ An overview of African tax systems
- ❑ Recommendations for reforming the Sub Saharan African Countries (SSA) tax systems





Outlining the African development challenges

SSA remains the most under developed region in the world and is characterised by several development challenges:

Challenge of economic growth: To achieve the critical MDG on poverty reduction, SSA need to raise their GDP growth to about 7%. Yet since 1950, only 13 countries have been able to sustain growth of over 7% per year for over 25 years.

- High savings and investment levels are a pre requisite to development.
- **Millennium Development Goals (MDGs)** - SSA remains the region with the greatest distance to cover the MDGs





Development challenges (cont.)

Infrastructure: The lack of adequate infrastructure services poses severe constraints on economic growth, trade and poverty reduction across Africa.

Industrial development: Africa is the least industrialized region of the world with only a few countries having manufacturing value added/GDP ratios that are above 20 percent while in some cases it can be lower than 5 percent.

Agricultural development: The African continent has not benefited from the Green Revolution, leading to a fall in per capita food availability since the 1970s.

Urban development: African urban development is faced by High urban poverty, inadequate housing, water supply or sanitation.





Limitations of relying on ODA

- **Foreign Aid:** Whereas there has been good progress on meeting the debt commitments, there has been inadequate progress on the ODA front.
- **FDI:** FDI in Africa is hampered by macro economic & political instability, poor regulatory environment, small domestic markets, poor infrastructure; high commodity dependence and weak governance
- **Remittances** constitute the second largest financial inflow in SSA.
- There is evidence that international migrant remittances have a significant impact on income inequality in African countries.





An Overview of the African Tax Systems

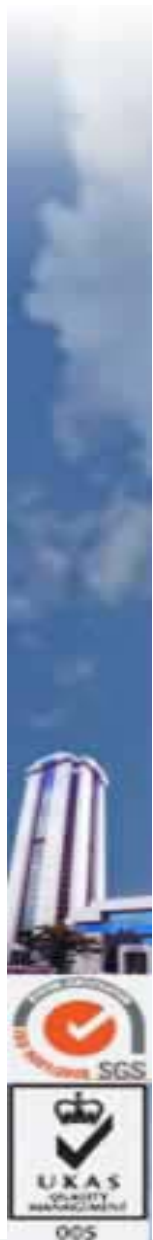
- a. Revenue Performance:** African countries have been successful in raising their revenue performance by increasing the resources available to meet their development challenges⁸;
- b. Composition of taxation:** African countries use a broad spectrum of taxes, encompassing:
 - Domestic taxes on goods and services (**VAT, General Sales Tax, Excise Duties, Tax on turnover**),
 - International Trade Taxes (**Imports and Export Duties**) and
 - Taxes on income and profits and capital gains (individual **PAYE** and **Corporate**)





SSA Tax Structure and Performance

	Percentage to GDP		
Countries Income Levels	Low Income Countries (LIC)	Low Middle Income Countries (LMIC)	Upper Middle Income Countries (UMIC)
Total Tax	13.0	17.7	20.7
Income Tax	3.5	5.0	5.4
Corporate Tax	2.2	2.9	3.4
Individual Tax	1.6	1.9	2.3
Trade Tax	3.7	4.9	4.6
Tax on Goods & Services	5.0	6.1	7.1
Of which: VAT	4.9	5.0	2.5
Excise	1.6	2.2	0.9





Overview of African tax systems (Cont.)

c. Tax Administration: Most of the SSA countries have:

- Semi-autonomous revenue bodies with enough powers to manage tax and non-tax revenue operations,
- Embraced current tax administration practices e.g. creating requisite departments such as Large Taxpayers' Office (LTO),
- Received funding through parliamentary appropriations,
- Functional ICT units. Investment in ICT in SSA is less than 2 percent of total administrative expenditure,
- Taxpayers issued with unique Personal Identification Numbers (PIN) or Taxpayer Identification Number (TIN),
- VAT established while Personal and Corporate Income Tax utilize the self assessment method



Overview of African tax systems (Cont.)

d. Review of performance against the Principles of Taxation

African tax systems do poorly when measured against the core principals of taxation as follows:

- ✓ **Sufficiency Principle:** SSA countries are not collecting enough revenue and hence there is room for improvement,
- ✓ **Convenience Principle:** Compliance costs remain high,
- ✓ **Efficiency Principle:** SSA countries experience high costs of collection up to 4%,
- ✓ **Equity:** Direct taxation in African countries is hampered by low base and limited scope for direct taxes to impact on equity,
- ✓ **Stability:** with substantial revenue bases dependent on commodity prices or volumes, tax and revenue rates have tended to be unstable.



Review of performance against Role tax plays

VAT: Is no longer broad based because of exemptions, zero rated goods leading to refunds, refund delays converts the VAT into a tax on production rather than on consumption,

Trade taxes: no longer offering protection from import due to leakages and smuggling of goods,

Corporate tax revenues: International best practice now recognises the need for low stable tax rates with few exemptions,

Excises taxes: designed to tackle externalities and discourage certain social behaviour have become a significant source of revenue in SSA,

- Scope of Excise taxes being expanded to products that have no real externalities but are easier to tax.



Recommendations

Tax Policy Design

1. ***Core principles of taxation:*** Tax policy should emphasise limiting the expectations from a tax and focusing on taxes being used for what they were designed for,
2. ***Taxation and equity:*** Because of limited scope for progressive taxation, this should be left out of tax policy and confined to expenditure side interventions,
3. ***Tax incentives, zero rating and exemptions:*** African countries should consider rolling back the range of tax incentives available given that other factors determine investment decisions,
 - VAT should be left to play its role as a broad based tax with few exemptions,
 - Deductions and exemptions in the individual tax regime should be removed.



Recommendations (Cont.)

- 4. Tax information exchange:** SSA should have adequate legislation to exchange information both among themselves and with developed partners.
- 5. Stability of tax policy:** adopt the practice of a comprehensive review once, over a specified period and only make minor amendments year on year to avoid tax system uncertainty.

Tax administration reforms

- 6. *Organization of the tax administration:*** the traditional approach now is the unified semi autonomous body.
- 7. *Functional organizational structure*** needs to be encouraged.



Recommendations (Cont.)

8. ***Client oriented organizations:*** Taxpayer segmentation should be encouraged given the large size of the underground economy by segmenting further to the medium and small categories including presumptive regimes, for micro enterprises, where they do not exist,
9. ***Modernization of customs*** to deal with challenges arising from modernization; sophisticated and demanding clients; international commitments, impact of regional and bilateral trade agreements,
10. ***Establish Single window facility*** to provide traders with a single point for complying with all documentation and government requirements,
11. ***ICT*** allows for a more targeted and risk based approach to enforcement as well as improving integrity through reduction of face to face interactions,
12. ***Utilise the results of Doing Business analysis*** as it provides a realistic checklist of areas of improvement.



**THANK YOU VERY MUCH
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