

## The non-oil tax reform in Angola On track or losing momentum?



Since 2010, Angola has been implementing a tax reform aiming to increase non-oil tax revenues. This brief addresses main achievements of the reform since mid-2012 on administrative and legislative issues. Does the reform still have momentum? In spite of the rhetoric of modern tax reform characterised by simplification, participation and predictability, the actual reform process appears indecisive and non-transparent.

### CONTEXT AND SCHEDULE OF THE TAX REFORM

In June 2012, we argued that the reform “seems to have strong political support”, and further that “there is a political and technocratic impetus to push forward the reform at the central level”.<sup>1</sup> Unfortunately, the tax reform has suffered a series of delays suggesting that the support for the reform might have suffered a setback.

In 2012 and 2013 Angola continued to recover from the global financial and economic crisis in 2008/2009. Following strongly rebounding oil revenues in 2010 and 2011 this evened out in 2012 and saw a decline in 2013. Non-oil revenues grew very modestly and fell far short of the optimistic projections. GDP growth has also been disappointingly modest in comparison to forecasts.<sup>2</sup>

Economic growth closely depends on public expenditure in Angola. In 2013 expansive fiscal policies were planned to lead to a 3.4 percent

budget deficit. Instead, the Government’s own figures indicate that particularly capital spending fell short of planned levels, and the result was a budget surplus of 0.3 percent of GDP. According to recent IMF-data, the level of execution of the Public Investment Programme has been on a downward trend since 2011, falling from around 75 percent to just above 60 percent in 2013. According to the IMF, the gap in capital spending then stood at roughly US\$ 5bn.

It seems that Armando Manuel, the new Minister of Finance and former president of the Angolan Sovereign Wealth Fund, has come in with a strong mandate to correct this trend, and get the public sector behind a push for increased growth rates and stronger execution of public investments. The 2014 budget has definitely posted a big challenge for the new minister with an increase in budgeted capital expenditure from an estimated 9.7 percent of GDP in 2013 to 13.3 percent of GDP in 2014.

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What does this imply for the tax reform? The jury is still out on whether the new Minister of Finance is backing the tax reform (having been put in motion by his predecessor). A senior official interviewed in June 2013 indicated that the tax reform was perceived as adding both economic and administrative constraints to GDP growth. This could explain reduced political enthusiasm for the reform. However, if more long-term perspectives still hold sway, the reform might still have support. What advances have been made on the administrative and legal fronts?

#### **ADMINISTRATIVE REFORMS - STRIKING INDECISIVENESS**

It was expected that 2012 would be a slow year for the legal side of the reform as it was an election year in Angola. This was not seen as an impediment for the reform, however, as progress could be made on the administrative front without the need for politicians' involvement.

A merger of the two main government bodies responsible for tax collection, i.e. customs and the domestic tax administration, was planned from the reform's outset. The key administrative feature of the reform has been to redefine the institutional setup, which currently is dominated by the National Customs Services (*Serviço Nacional de Alfândegas* - SNA). The SNA started administrative reforms several years ago and is better staffed and organised than the National Tax Directorate (*Direcção Nacional de Impostos* - DNI). Some collaboration between the domestic and customs departments already takes place, for instance in the implementation of a unique taxpayer identification number system.

The specific organisational model for an integrated revenue administration is still being analysed by the management team of the tax reform project, PERT (*Projecto Executivo da Reforma Tributária*). It has proven difficult to decide whether the new revenue administration, referred to as the *General Tax Administration*, should be located within the Ministry of Finance or be structured as a semi-autonomous revenue authority. One challenge noted by the reform team is that the domestic tax and customs departments are very different entities with different working cultures and different responsibilities. This challenge is not specific for the Angolan context, but applies to most countries, including the 18 African countries that during the last two decades have established revenue authorities. However, in contrast to other and less resource rich countries the indecisiveness when it comes to the organisational setup of the new tax administration in Angola is striking. According to a top official, it has not been possible to reach consensus in the management team about when and how to launch the integrated revenue administration.

In the short run, and independently of the possible establishment of an integrated revenue authority, the Government aims to strengthen the revenue administration by: (a) recruiting and training new technical staff; (b) making training a permanent feature of a career in the tax administration and in customs; and (c) modernising customs in the major entry ports to the country. These are all important measures that may lay the foundation for more substantive tax administrative reforms. These will have to include systematic approaches to tackle corruption challenges within the revenue departments if the new general tax administration is to be considered legitimate by taxpayers and the general public. This is particularly relevant in relation to the discretionary administration of tax breaks given to well-connected companies and individuals. The cost of tax exemptions is hard to gauge but, according to one centrally placed source, a conservative estimate would be 4 percent of GDP.

#### **LEGISLATIVE REFORM - SIGNIFICANT DELAYS**

Obviously, improved tax administration cannot compensate for poor tax design and there is not much merit in marginally improving an inefficient and outdated tax system. That is why a legislative overhaul should precede or at least move together with the reform of tax administration. However, the tax reform has suffered a significant delay on the legislative front. One of the main priorities of the tax reform from the outset has been to update the General Tax Code (*Código Geral Tributário*), the Code of Tax Procedure (*Código de Processo Tributário*) and the Tax Collection Enforcement Code (*Código das Execuções Fiscais*) generally referred to as the transversal tax codes.

The Council of Ministers approved these codes already by 2011, according to an October 21 press release,<sup>3</sup> with the expectation that the National Assembly would enact them shortly. This new legal framework would then take effect from January 2012, following President promulgation. This did not happen. Instead, the codes were resubmitted to the Council of Ministers in 2013 which yet again approved them on June 12, 2013.<sup>4</sup> The approval by the Council of Ministers meant that they could be resubmitted to the National Assembly where the codes, at the time of writing this brief, are being reviewed in the standing committees. It is expected that the National Assembly will approve the codes towards the end of February 2014. It is unclear what has caused this remarkable delay and why the codes did not pass smoothly through the National Assembly in 2011 in a political system where the legislators usually exert very little influence over the policy process.

The objective of the revision of the tax codes is clear. The old ones were outdated and in practice not applied. In the presentation of the package to the National Assembly, Minister of Finance, Armando Manuel reportedly said that the new legislation would be more modern and up-to-date, which is an ambition that should easily be within reach when some of the old codes date back more than five decades.

Our research shows that the new codes in some cases are not easy to understand for taxpayers due to the technical language used, so a simplified presentation is required. Some particularities of the law are distinctly surprising. The General Tax Code (article 60) permits the possibility of the tax to be paid in cash and kind which is unusual for modern tax systems as it increases the risk for discretionary behaviour by tax officers. Countries that have implemented major tax reforms have reduced the amount of face-to-face interaction between taxpayers and tax collectors by automating the whole taxpaying through the bank system or at collection centres. Such measures have contributed to reduce corruption.

It is important also to highlight that although the three tax codes were submitted to the National Assembly in late November 2013, they are not yet officially available to stakeholders and the general public which obstructs an informed debate on the reform. In addition to the delay in the approval of the transversal codes, two other key laws have been under preparation since 2011. This is the Personal Income Tax (PIT) and the Industrial (corporate) Tax (IT). According to one source there have been significant difficulties within PERT in reaching a decision on how to reform the PIT. There have apparently been strong reservations to reduce the current 24 brackets (!) in the Angolan income tax. This observation relies on one centrally placed source, and has not been possible to verify. If correct, the authors consider it of such significant importance to the quality of the reform process that it should be discussed in the public. The reason is that it runs directly contrary to recommendations in tax literature, which has it well established that a common problem with personal income taxation in institutionally weak contexts is the plethora of income brackets established to give a false sense of a progressive tax system.<sup>5</sup>

#### THE QUALITY OF THE REFORM

The action plan for the reform outlined in a Presidential decree (no. 50/11, of March 15, 2011) recognises the magnitude of the task. This was also emphasised by central leaders of the tax reform in interviews. Still, the delays and indeed the quality of the reform efforts to date are causes for concern. Experience from other countries show that in order to succeed with a tax reform transparency and participation are key features.

So far, the tax reform process in Angola has been defined by the opposite. Several stakeholders interviewed regretted the closed and sometimes arrogant attitude of PERT. The outreach component pertains to be a public relations campaign flavoured by large conferences where speakers present their views in a one way communication. By taking into consideration the views of the various segments of the business sector, it will also be easier to achieve success on vital fiscal policy objectives. Consultations with taxpayers are an important mechanism to learn about challenges with the tax system, educate a major constituency, and promote good tax policy.

#### GENERAL CHARACTERISTICS OF A GOOD TAX SYSTEM

1. Clear, unambiguous rules with few exceptions
2. Long term stability and predictability for investors
3. Equal treatment of companies
4. Simplicity for both tax administration and taxpayers
5. Better links/consistency between the national and sub-national revenue regimes
6. Clear links between taxes paid and benefits/services received by taxpayers

Currently stakeholders have no access to diagnostic reports or draft legislation to reach an informed position. Remarkably, for an institution which is seemingly generously funded with public money and has clear performance objectives, its progress reports are not publically available even after they have been presented to the Council of Ministers. PERT's website is not frequently updated, it is difficult to navigate and it cannot be determined what date a post was uploaded. Finally, there is no connection between the tax reform and the decentralisation process. Thinking ahead of how local government could in the future be granted the ability to raise revenue locally seems to be a major missing element – and important to both processes.

As long as these aspects of the reform remain old-fashioned and outdated there is little realism to the discourse about creating a modern and effective tax system and even less hope of achieving the objective. Policymakers need to have the courage to open up to scrutiny and criticism from society in general and the business community in particular, to test the ideas in the real world to ensure that they are on the right track.

#### CONCLUSION AND RECOMMENDATIONS

The reform effort, which in many respects appears genuine, seems to have clashed with the reality of the political economy of Angola as well as closed-circle approaches to policymaking. The political and technocratic impetus observed two years ago seems to have waned. PERT has limited power to execute the reform without strong political support. There are indications

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that the policy agenda is being driven primarily by a desire to eliminate constraints on GDP growth and a strong focus on the expenditure side of the budget. Rebounding oil prices seem to sustain this approach. Consequently, the tax reform has lost momentum in spite of the challenges that only five years ago led to the launch of the reform.

Internally, PERT does not seem to embrace the importance of meaningful stakeholder participation to build a modern and efficient tax system. Meaningful participation is not possible without dialogue and transparency of the measures being proposed at an early stage in the policy process. Up to this point the process has been very closed. One may hope that the slowdown of the reform process will enable PERT to open up and allow sufficient time for broad and informed public discussion of proposed measures.

Key recommendations that emerge from this study:

- Serious considerations should be given to the **negative long-term implications** of impeding a thorough reform of the outdated tax system in Angola.
- It is time for the Government to **decide the model for the new General Tax Administration**. In line with the majority of SADC-member countries, we will recommend moving tax collection out of the Ministry of Finance and establish a semi-autonomous revenue authority. By granting the new agency, in law, some autonomy from central executive power, the model may contribute to limit direct political interference in the tax administration's day-to-day operations.

- PERT should significantly **increase the openness and transparency** of the reform process by posting background analysis, draft legislation and progress reports on its website as well as keeping this up-to-date and easier to navigate.
- PERT should **enable meaningful participation** in the reform process and allow individuals, businesses, civil society, academics and the media to actively engage in the deliberations about the reform.

#### NOTES

1. See O. H. Fjeldstad, S. K. Jensen and A. Orre (2012): *Taking stock of the tax reform process in Angola, and why tax incentives should be avoided*. Angola Brief vol 2 no 1. Bergen: Chr. Michelsen Institute <http://www.cmi.no/publications/publication/?4477=taking-stock-of-the-tax-reform-process-in-angola>
2. See O. H. Fjeldstad, S. K. Jensen and F. M. Paulo (2014): *Poor revenue forecasting. A major challenge for sound fiscal policy in Angola*. Angola Brief vol 4 no 1. Bergen: Chr. Michelsen Institute <http://www.cmi.no/publications/publication/?5049=poor-revenue-forecasting-a-major-challenge-for>
3. [www.pert.minfin.gv.ao/comunicados.php?page=comunicado07](http://www.pert.minfin.gv.ao/comunicados.php?page=comunicado07)
4. <http://www.scm.gov.ao/index.php?id=38&s=61>
5. See for example, V. Tanzi and H. Zee (2001): <http://www.imf.org/external/pubs/ft/issues/issues27/>