

Taxing Africa: Coercion, Reform and Development

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“Taxation and Tax Reform in Africa: Lessons From and For Tanzania”

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Structure of the presentation:

1. Why taxation matters for development
2. Tax in Africa compared: aid, tax ratios and tax structures
3. How can Tanzania increase tax revenues?
4. Concluding remarks

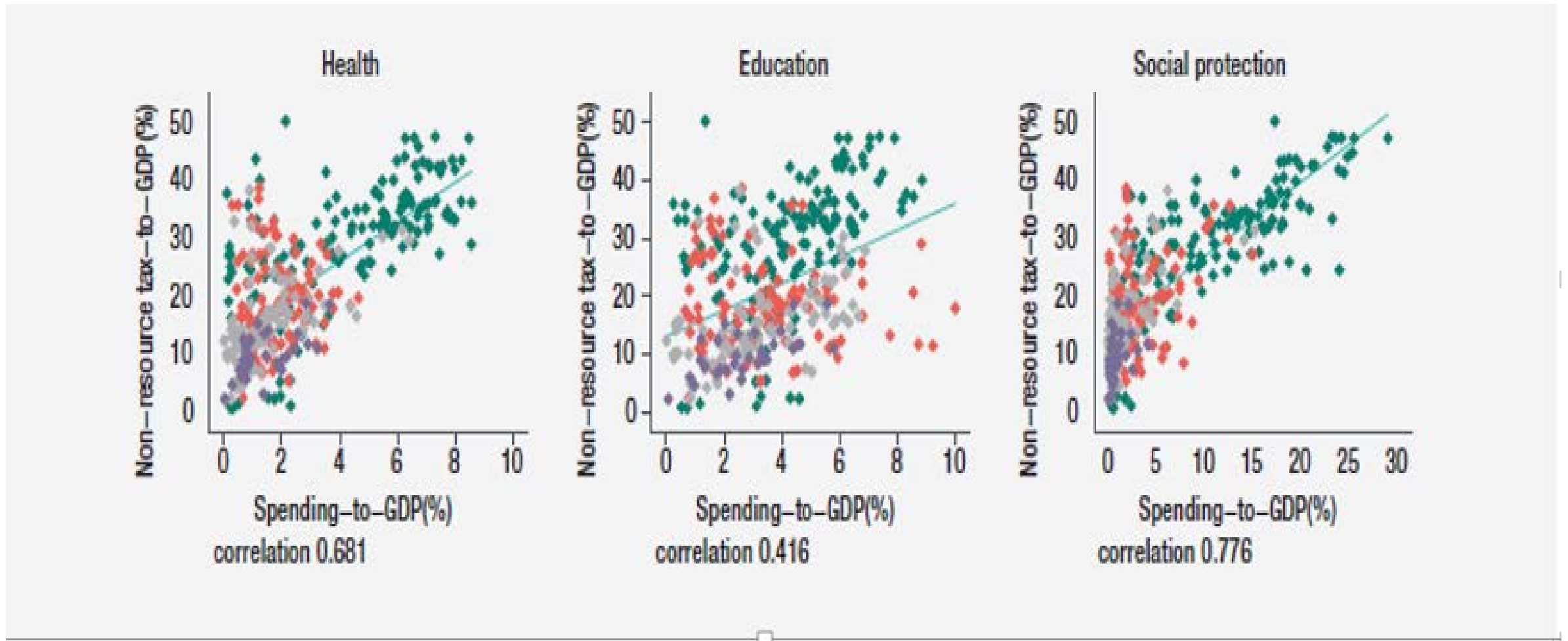
1. Why taxation matters for development

Tax is not an end in itself, but a means towards a well-functioning state:

- Revenues are required to finance public goods and services
- Governments dependent on taxes, will be inclined to pursue policies to expand the economy and thus the tax base
- Dependence on taxes requires states to develop tax raising capacities
 - *Building an effective tax administration*
- The development of an effective tax administration may stimulate the development of institutions in other parts of the public sector
- Bargaining over taxes is central to building relations of accountability between state and citizens based on mutual rights and obligations
 - *Social fiscal contract*
 - Theory: Taxation → Participation → Accountability

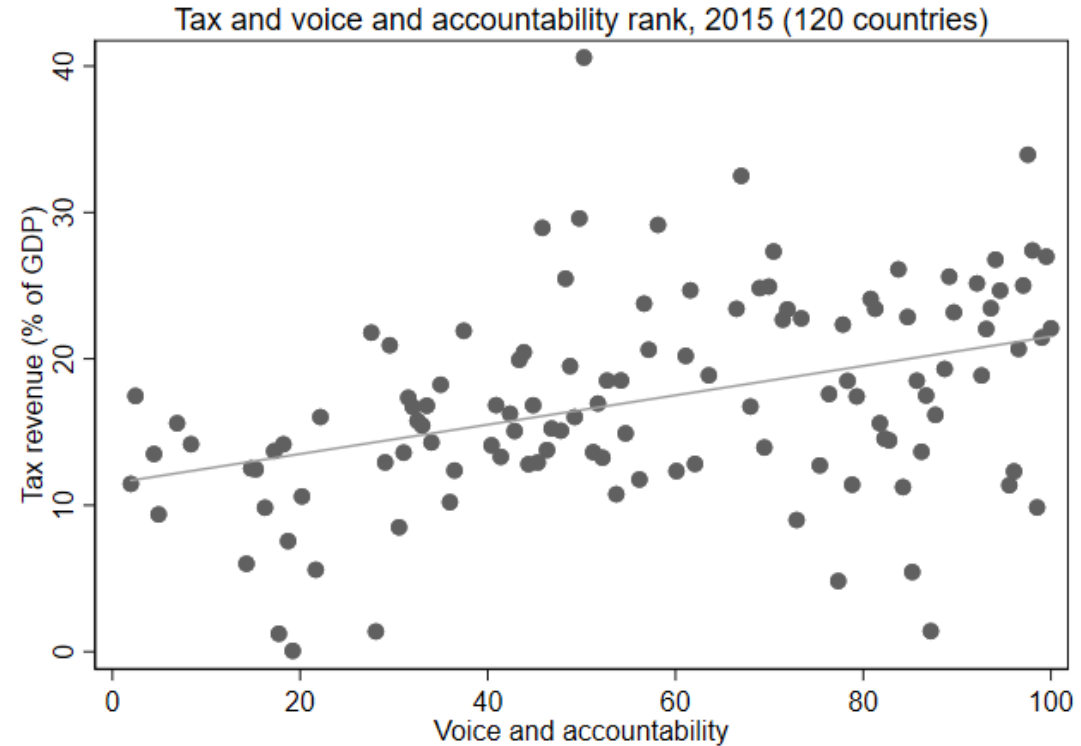
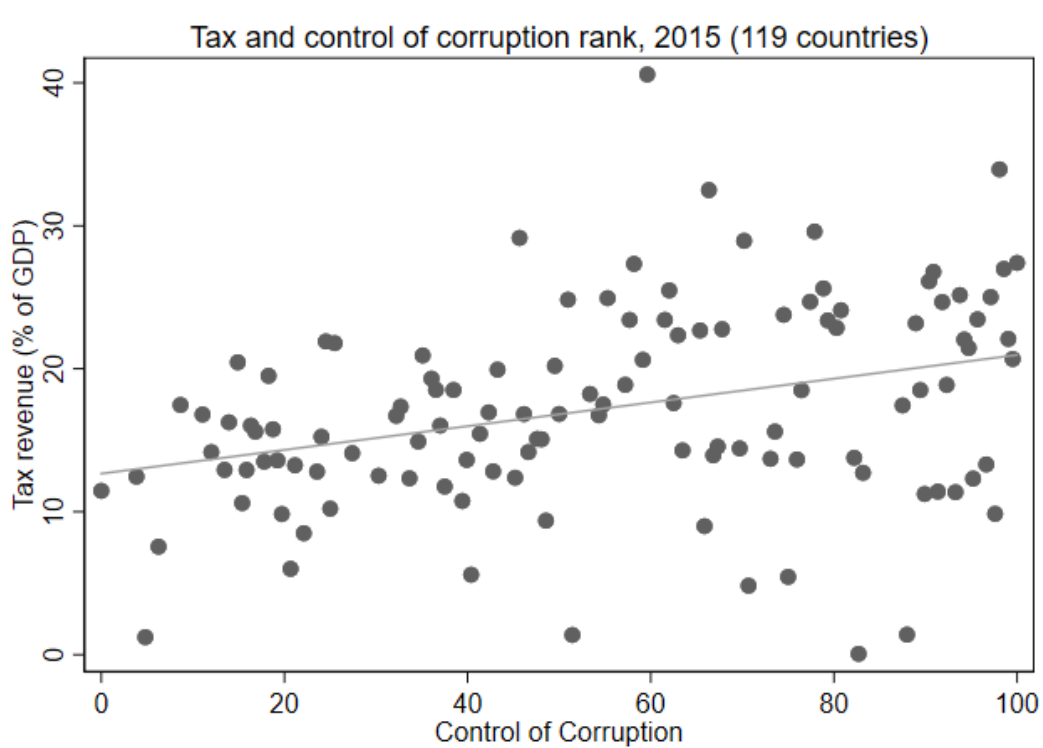
- Bad governance is often correlated with limited state reliance on revenues from taxation of its citizens and businesses
- Non-tax revenues (oil, minerals) tend to leave regimes more free to make whatever expenditures they wish without their having to be concerned about the likely reactions of citizens
- Rentier states have limited incentives to build up institutions to collect and administer tax, or to extend the reach of the government to poorer, more remote regions
- In particular, large oil and mineral revenues are associated with low levels of democracy

More taxation is associated with more social sector spending (1980 – 2012, 10 year averages)



Sources: World Development Indicators and World Governance Indicators

More taxation is associated with more accountable states



Positive correlations between Tax (in % of GDP) and:

- Control of corruption rank
- Voice and accountability rank
- Government effectiveness rank
- Political stability rank



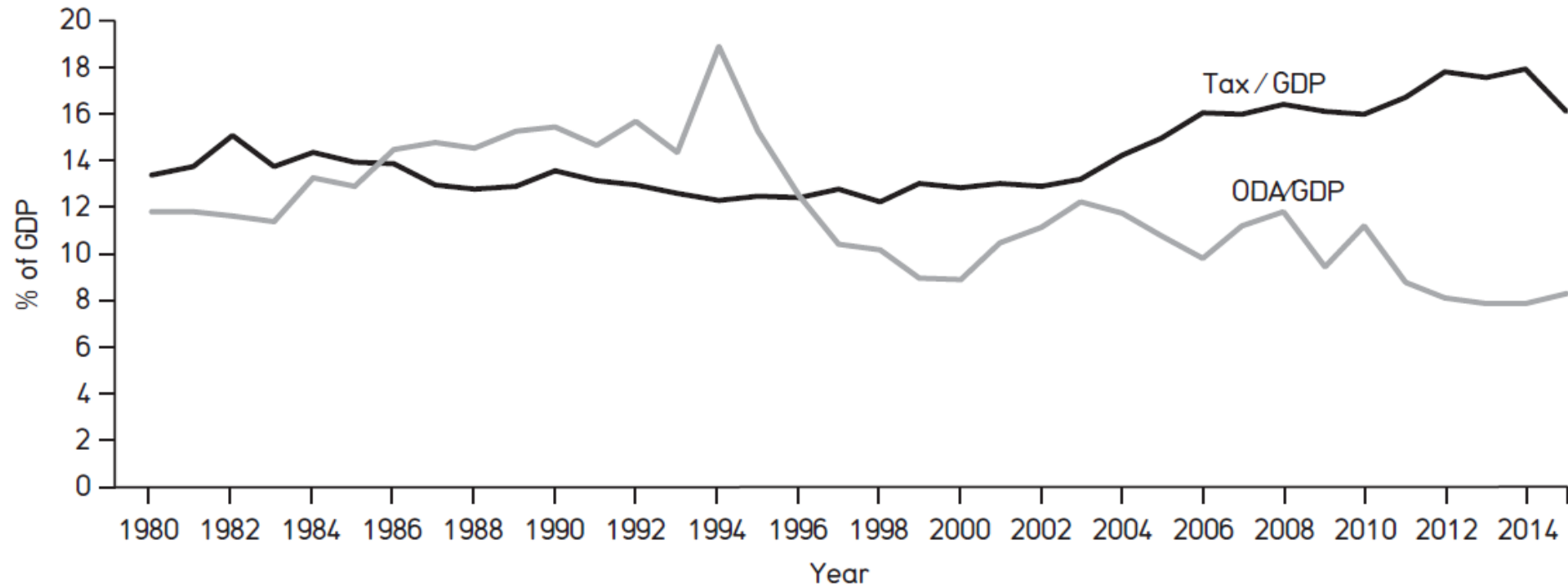
What are the risks of targeting more taxes?

- Too much tax can impede private investment
- Taxation can be predatory and divisive
- The benefits of more taxes depend upon how money is used

2. Tax in Africa compared: Aid, tax ratios and tax structures

Africa has moved from the Aid Era to the Tax Era

Figure 2.2 Tax revenue as % of GDP and ODA as % of GDP. Averages for all sub-Saharan Africa countries, 1980–2014



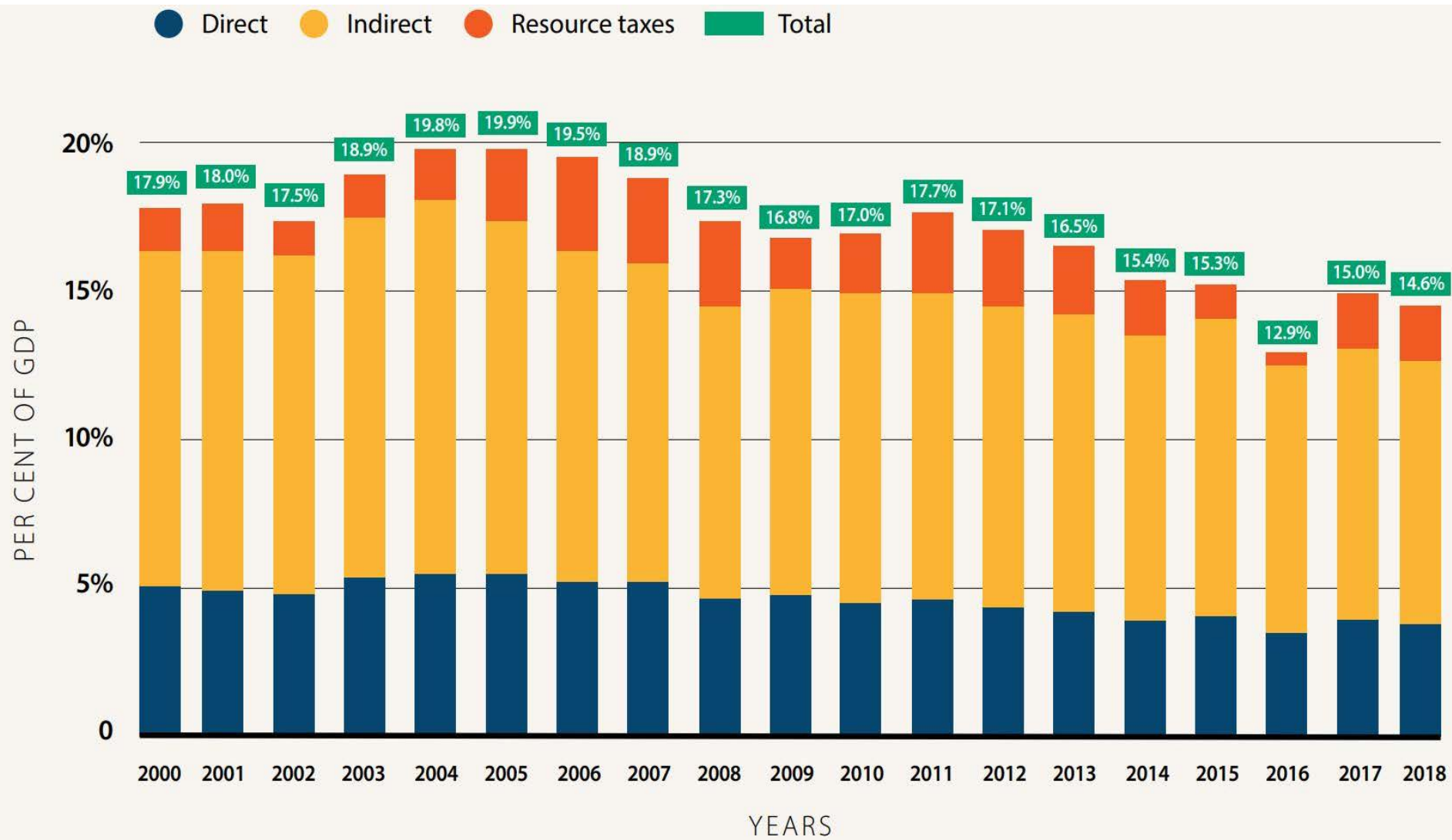
Sources: World Bank (2015a); ICTD/UNU-WIDER (2017).

Table 2.1 Government revenue collection as a percentage of GDP, regional averages, 2011–15

Region (number of countries covered)	Total revenue collected as a percentage of GDP	Tax revenue collected as a percentage of GDP	Direct tax revenue collected as a percentage of GDP	Direct tax revenue as a percentage of tax revenue
	(a)	(b)	(c)	(d)
Sub-Saharan Africa (49)	21	17	6	31
South Asia (8)	16	12	4	25
East Asia and Pacific (30)	29	20	9	35
Middle East and North Africa (20)	35	14	7	25
Latin America and the Caribbean (34)	22	20	7	30
Europe and Central Asia (51)	38	32	20	48
North America (2)	36	28	22	63
OECD (35)	41	34	23	55

World Bank regional classifications used.

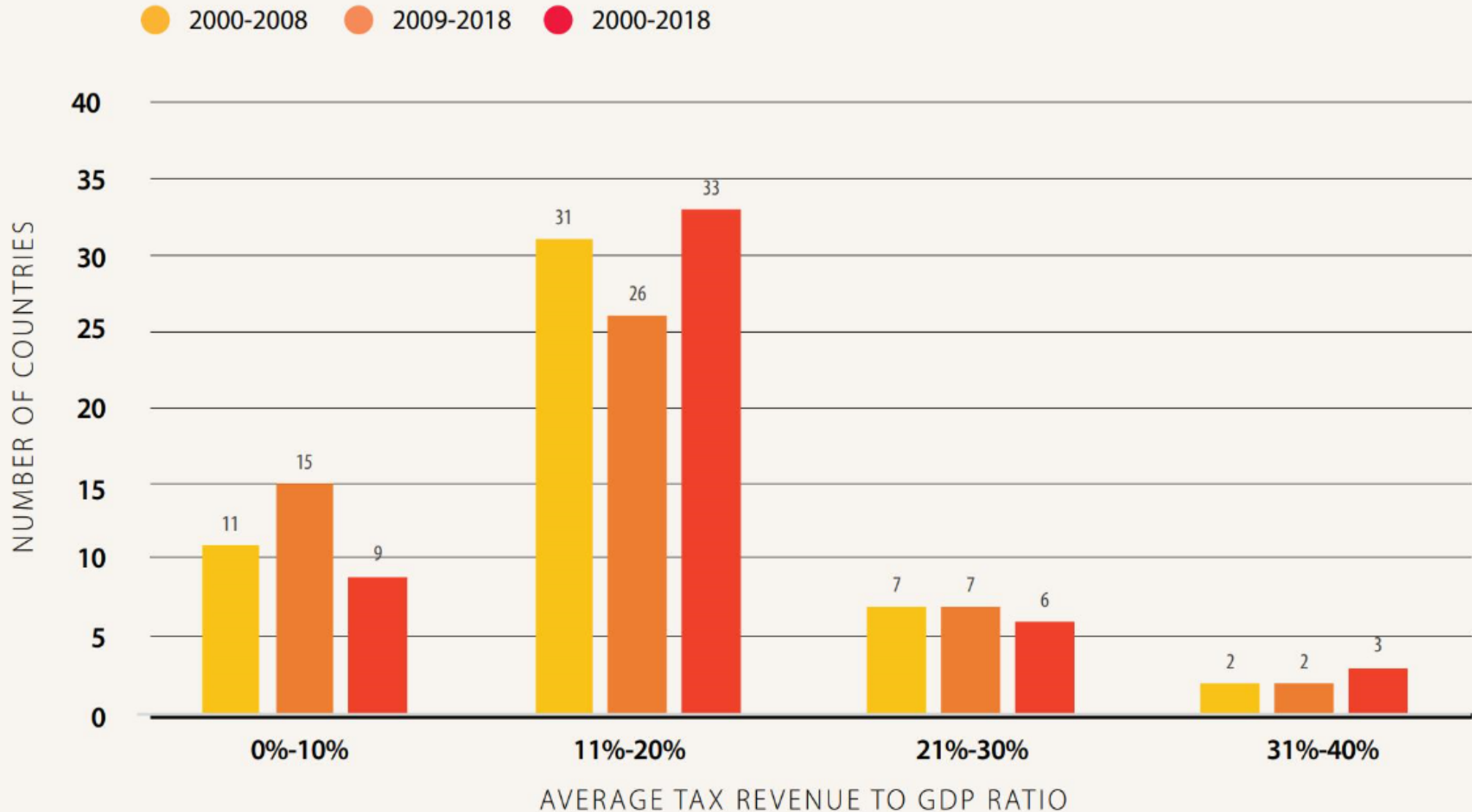
Source: ICTD/UNU-WIDER (2017).



Note: Data are estimated for 2017 and 2018.

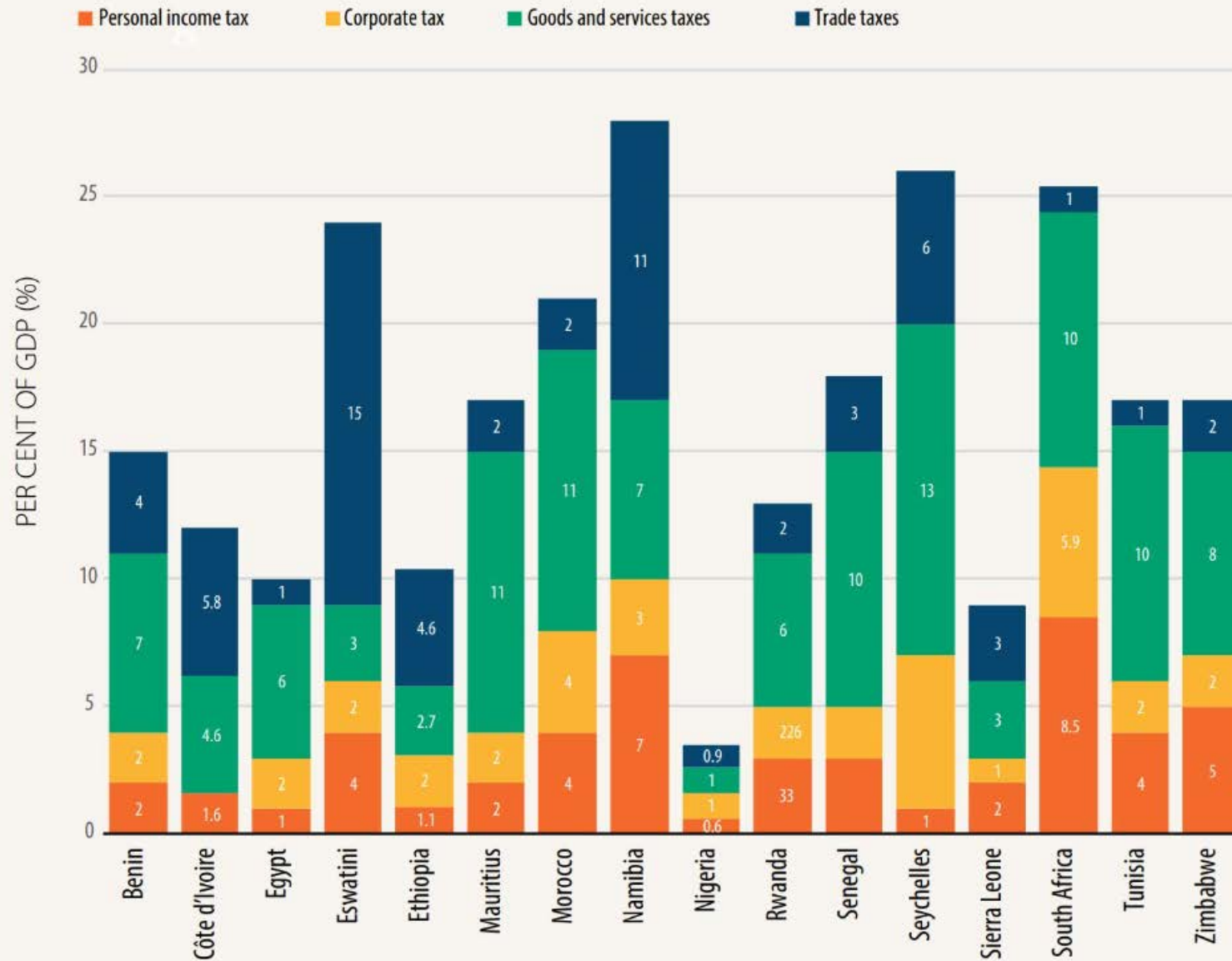
Source: Economic Report on Africa 2019

FIGURE 3.2. DISTRIBUTION OF AFRICAN COUNTRIES BY AVERAGE TAX REVENUE TO GDP RATIO, 2000–2008, 2009–2018 AND 2000–2018



Source: Economic Report on Africa 2019

FIGURE 3.3. AVERAGE TAX STRUCTURES IN SELECTED AFRICAN COUNTRIES, 2000–2018



Note: Data are estimated for 2017 and 2018.

Source: Economic Report on Africa 2019

What the data does not tell:

The different tax territories in Africa and how they interact

1. **The international tax system:** Involving a limited number of large corporations, multinational companies and wealthy individuals
2. **The national tax system:** Formal and standardised → Employees and businesses in the formal economy (PIT, CIT, VAT, excises, customs duties ...)
3. **Sub-national taxes:** Less formal and composed of a diversity of smaller taxes, fees, charges, and licences → Affects many people directly
4. **Informal taxes:** Paid to a variety of state and non-state actors
→ Substantial in-kind labour payments, bribes, extortions, and protection payments

3. How can Tanzania increase tax revenues in a sustainable way?

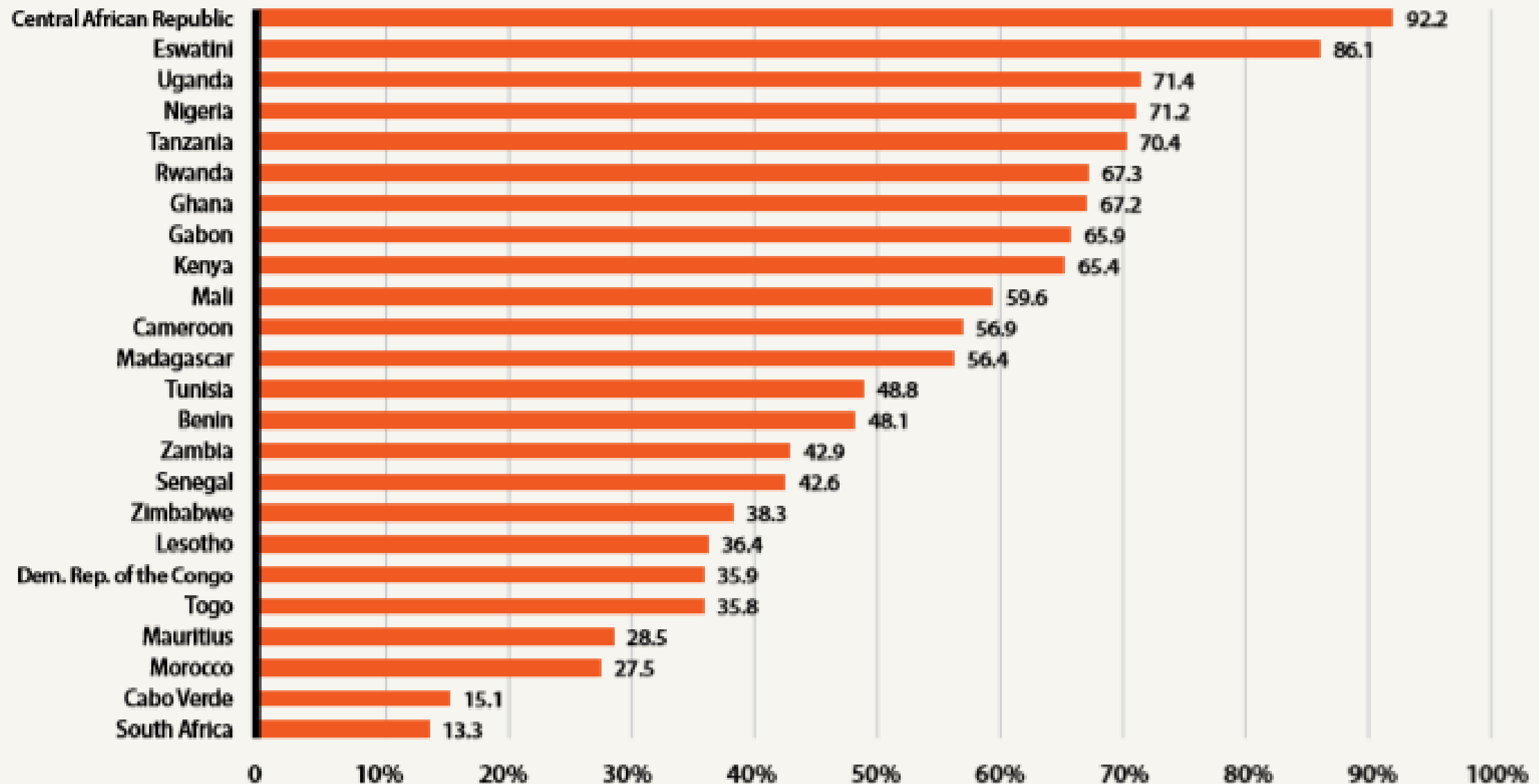
- 1) Under-exploited revenue sources with high revenue potential
 - 2) Strengthen tax policy
 - 3) Strengthen tax administration
 - 4) Create broader citizen engagement around tax and public expenditures
- What are the risks of targeting more taxes?

1) Under-exploited revenue sources with high revenue potential

- “low hanging fruits” -

- Undertaxed natural resources: Mining, fishery, forestry and tourism
- Extensive tax exemptions granted to both domestic and foreign investors
- Wealthy people undertaxed: Impacts income distribution and fairness
 - Less than 5% of the African population pay PIT, compared to nearly 50% in developed countries.
 - Only 5% of company directors in Uganda remitted any PIT (Kangave *et al.* 2017)
- Low and ineffective taxation of fossil fuels and plastic (→ environmental concerns)
- Low and ineffective taxation (excises) of tobacco and alcohol (→ public health)
- Messy VAT-regime: VAT-gap in Tanzania >70% (see next slide)
- Huge potential for more effective Property Taxation ↔ Hyper-urbanisation

FIGURE 3.4. VALUE-ADDED TAX GAP FOR 24 AFRICAN COUNTRIES WITH DATA, 2018



Source: Economic Report on Africa 2019

2) Strengthen tax policy

- Much have been achieved in Tanzania with respect to simplification of tax laws, regulations and rate structures, but more remains to be done
 - The ease of paying taxes is important for taxpayers' compliance
- Current weaknesses related to:
 - Unpredictable and inconsistent legislation, e.g. in the extractive sectors
 - Granting of tax exemptions
 - Clear, unambiguous rules with not too many exceptions would likely avoid many unnecessary current and future conflicts
- Public-private sector consultations on tax policy reforms generally weak
- Intra-governmental coordination and exchange of information poor
 - Dysfunctional working relations between national and sub-national governments on tax matters
 - Inconsistencies between national and sub-national tax legislation

3) Strengthen tax administration

- TRA has achieved much since it was established in 1996
- TRA has been a pioneer in the African context on taxpayer education and outreach programmes, and on non-cash payment of taxes

Current challenges:

- Capacity to audit companies operating in natural resource sectors
- Capacity to handle widespread non-compliance with EFDs
- Effective gathering and sharing of data lies at the hearth of effective tax adm., but...
 - TRA does not publish much information about its own performance
 - Too little analysis of the tax administrative data → partly due to weak analytical capacity
- Much to gain by digitalisation and eGov systems on the same platform, but today...
 - Weak integration of data from multiple sources, incl. with ICT-systems in other parts of gov.
- Poor coordination and cooperation between TRA and local governments on tax issues
- Much to gain by building more constructive and transparent relations between tax adm. and taxpayers, esp. smaller and medium sized companies

4) Create broader citizen engagement around tax and public expenditures

- Strengthen the consultative processes on tax policy reforms and changes in legislation
- Better and more visible connection between tax payment and public service provision
- Engaging civil society, academia and the media in the process of building a “taxpaying culture”
- This is about building trust in and legitimacy of the tax system
- Trust is a compliance enhancing ‘device’

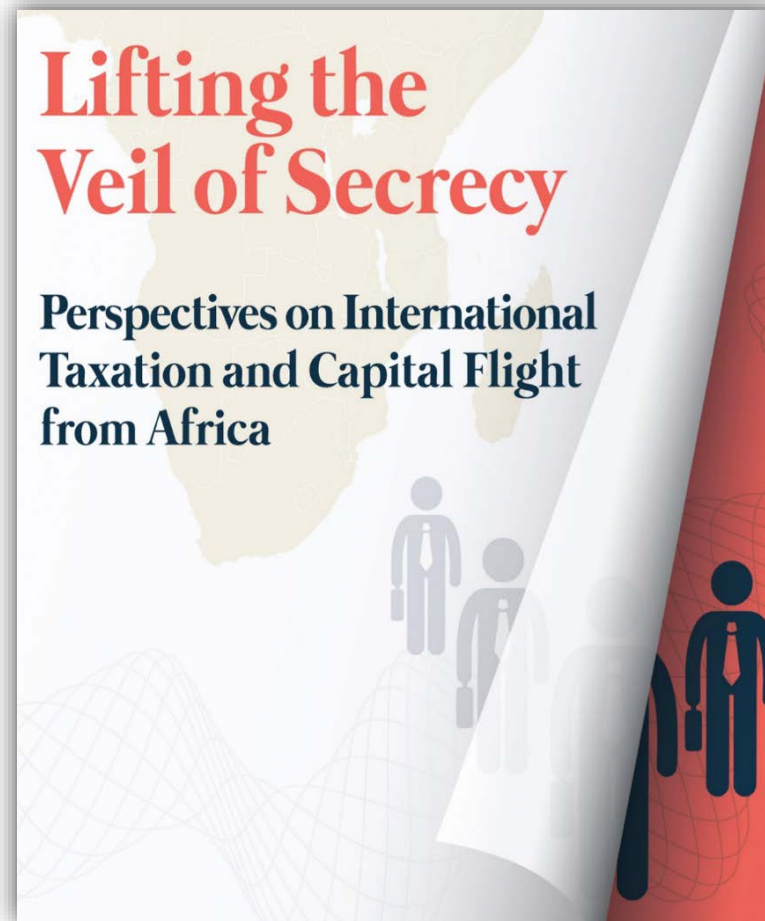
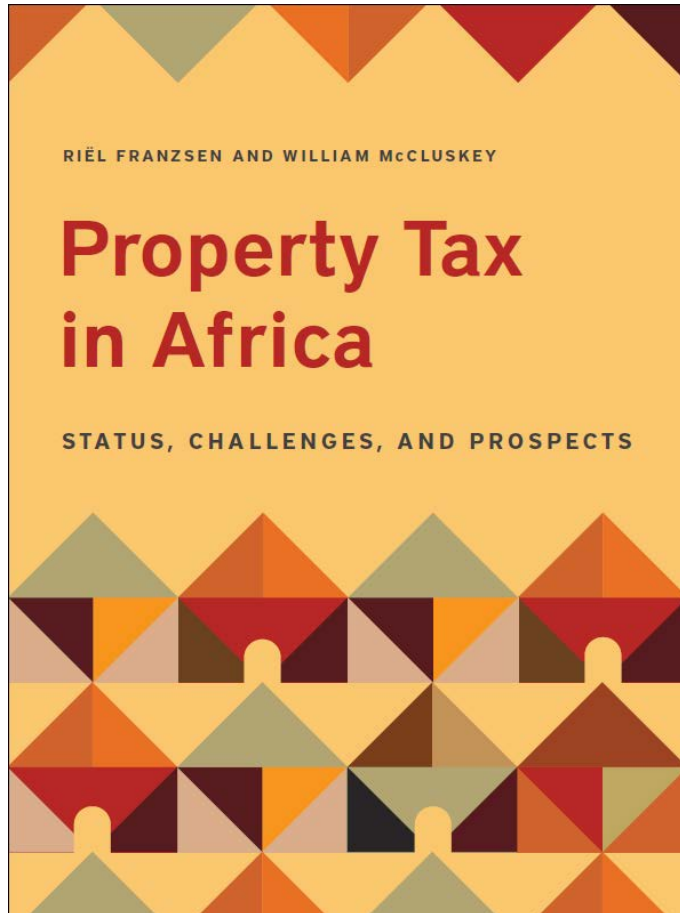
What are the risks of targeting more taxes?

- Increasing the tax-to-GDP ratio in Tanzania is important, but...
- Tax performance also depends on other factors such as:
 - Administrative costs of tax enforcement
 - Compliance costs for different segments of taxpayers
 - Time required for VAT refunding
 - Number of personal income taxpayers registered and compliant
 - The working of the tax appeal system for different segments of taxpayers
- Taxation can be coercive and divisive
- Too much tax in a system with many ‘loopholes’ can impede private investment
 - Private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation
- The relation between taxation and the SDGs should take into account where tax revenues actually come from (who pays), how they are collected, and how the revenues are spent

4. Concluding remarks

- Attention should be paid to identifying entry points and priorities for reform, as well as to possible threats to successful implementation of reform
- Caution is required in pushing for too many reforms too quickly
- *Domestic resources are first and foremost generated by economic growth, supported by an enabling environment at all levels*
 - Addis Ababa outcome document “Financing Development 2015”
- **The overall challenge in Tanzania is not only to tax more, but to tax better: more consistent, transparent, predictable, efficient, fair and honest**

Recent books on taxation in Africa



THANK YOU FOR YOUR ATTENTION!

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