

***Do Revenue Authorities as Institutions
Have the Correct Incentives
To Promote Private Investment and
Raise Necessary Revenue?***

Introduction

The rôle of a Revenue Authority is generally to administer revenue laws within a policy framework set by the Government.

While many Revenue Authorities are charged with the responsibility for rendering advice to Governments on issues of tax policy, the ultimate decisions regarding tax policy – including the use of tax and duty incentives to attract and direct private investment – rest with Government alone.

In fact, from a Revenue Authority perspective, there are strong arguments to be made for clearly distinguishing between the respective roles of Governments and RA's.

On this basis it may be tempting to say that whether or not Revenue Authorities have “the correct incentives” is a question better addressed to Governments than to Revenue Authorities themselves.

However, such a statement would be trite, and would ignore those things that Revenue Authorities can – and should – do to encourage investment and raise revenue.

Incentivising Investment

This is an international issue. Many countries in the developing world are dependent on foreign investment to create employment and generate increased purchasing power in the domestic economy. As international investment dollars are limited, this means that we are in competition with one another as potential investment destinations.

Pressure will inevitably be placed on Governments to put in place attractive policy incentives – but it is also incumbent on Revenue Authorities to support these with the necessary operational level incentives. Even if tax and duty rates, capital allowances and tax holidays are all highly attractive, investors will still be reluctant to invest if they perceive that the revenue laws are not equitably administered. Investors must know that they will not be competitively disadvantaged by complying with their revenue obligations. They must also know that a transparent, objective and efficient appeals mechanism is available to them in the case of disagreement with the Revenue Authority.

The creation of a level playing field for investors, where everyone is treated the same, compliance is rewarded, and defalcation is penalized, therefore represents an important operational incentive to investment. For this reason, Lesotho Revenue Authority expressly cites the creation of a “Fair and Effective Revenue Environment” and “Fight[ing] Corruption” as two of its six key strategic objectives.

Reducing the Compliance Burden and Rewarding Compliance

The equitable administration of revenue laws is a necessary, but not a sufficient condition for the attraction of investment into an economy. If a Revenue Authority applies the law uniformly, but inefficiently or with unnecessary aggression, this will be frustrating to businesses and unattractive to investors.

We must recognize that the cost of being compliant is not only the financial cost of paying taxes and duties; it also includes the time and effort that must be expended by businesses in, for example, preparing and filing returns, and participating in tax audits.

In order to provide operational level incentives to investment, which will render their countries attractive to investors, Revenue Authorities must not only be fair – they must be fair and efficient.

While Revenue Authorities will probably never escape from having their performance measured by whether or not they meet their revenue targets, they can (and many do) establish strategic objectives and Key Performance Indicators that reflect a shift in focus from taxes to taxpayers.

In the LRA we have embarked on a major change programme, that will in the near future see the disappearance tax types as the basis of the organizational structure; and the introduction of Commissioners responsible for “Taxpayer Services” and “Compliance Management”. The establishment of Taxpayer Services will also see the introduction of a Large Taxpayer Unit, responsible for managing the relationship with our critical taxpayers across all tax types.

The consolidation of our technical activities across tax types is planned to have considerable efficiency benefits for taxpayers. For example, under the present arrangement, taxpayers have separate audit visits from VAT, Income Tax and PAYE; under the new arrangement, the tax audit function will be planned and managed on a consolidated basis, and taxpayers will receive a single audit visit.

One of the key benefits of restructuring our organization is intended to be the reduction of the burden of compliance placed on taxpayers, and the removal of obstacles and inconveniences to being compliant.

Revenue Authorities also have opportunities to create an environment that is attractive to investors through offering operational incentives, which further reduce the compliance burden, as rewards for compliant behaviour. Such operational incentives might include Customs Accreditation schemes, which facilitate trade; Withholding Tax Exemption schemes, to improve the cash flow of compliant taxpayers; and bi-monthly VAT filing to improve cash flow and reduce the administrative compliance burden of businesses.

Conclusion

In conclusion, while Revenue Authorities do not set the policy framework within which they operate, and so do not control the policy incentives at their disposal; there are nevertheless numerous operational initiatives they can take in order to render the countries in which they operate relatively attractive to investors, and to encourage increased voluntary compliance and revenue collections.