

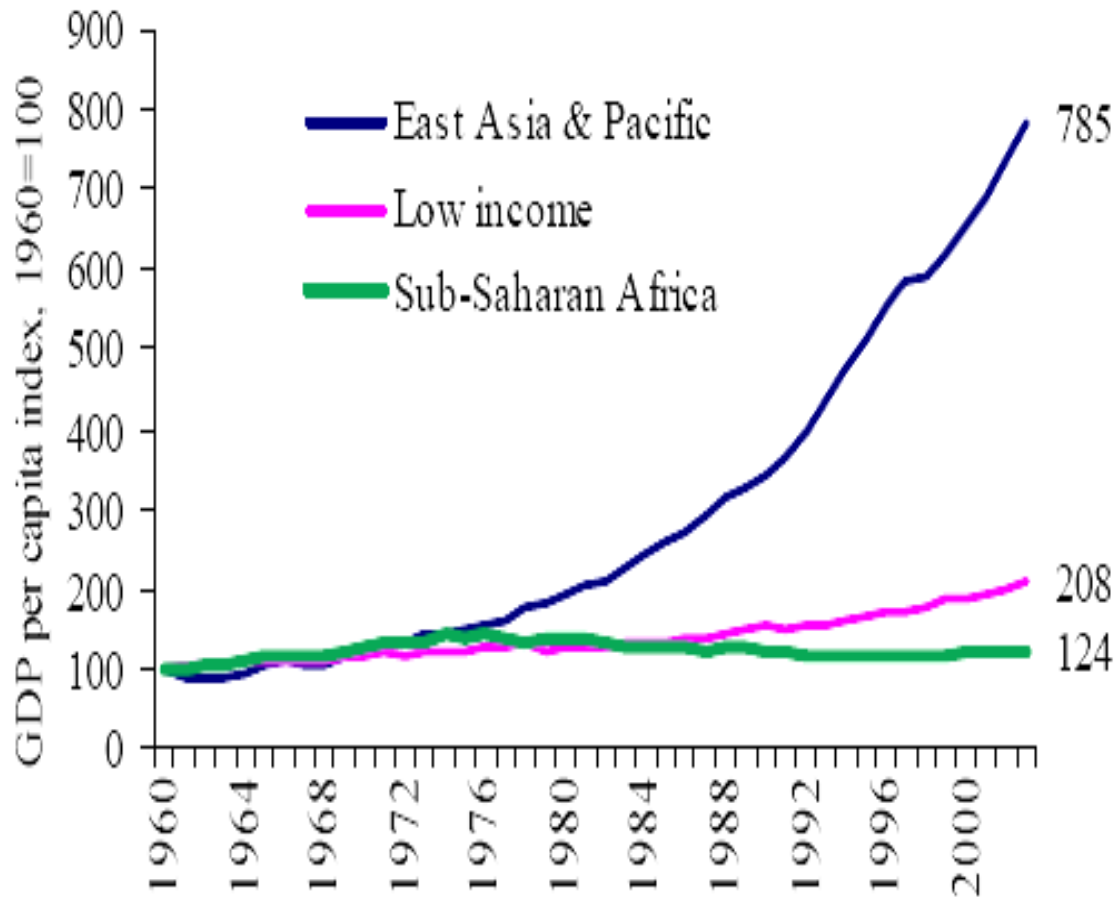
Why does tax matter? Expectations for the Conference



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Growth matters in Africa



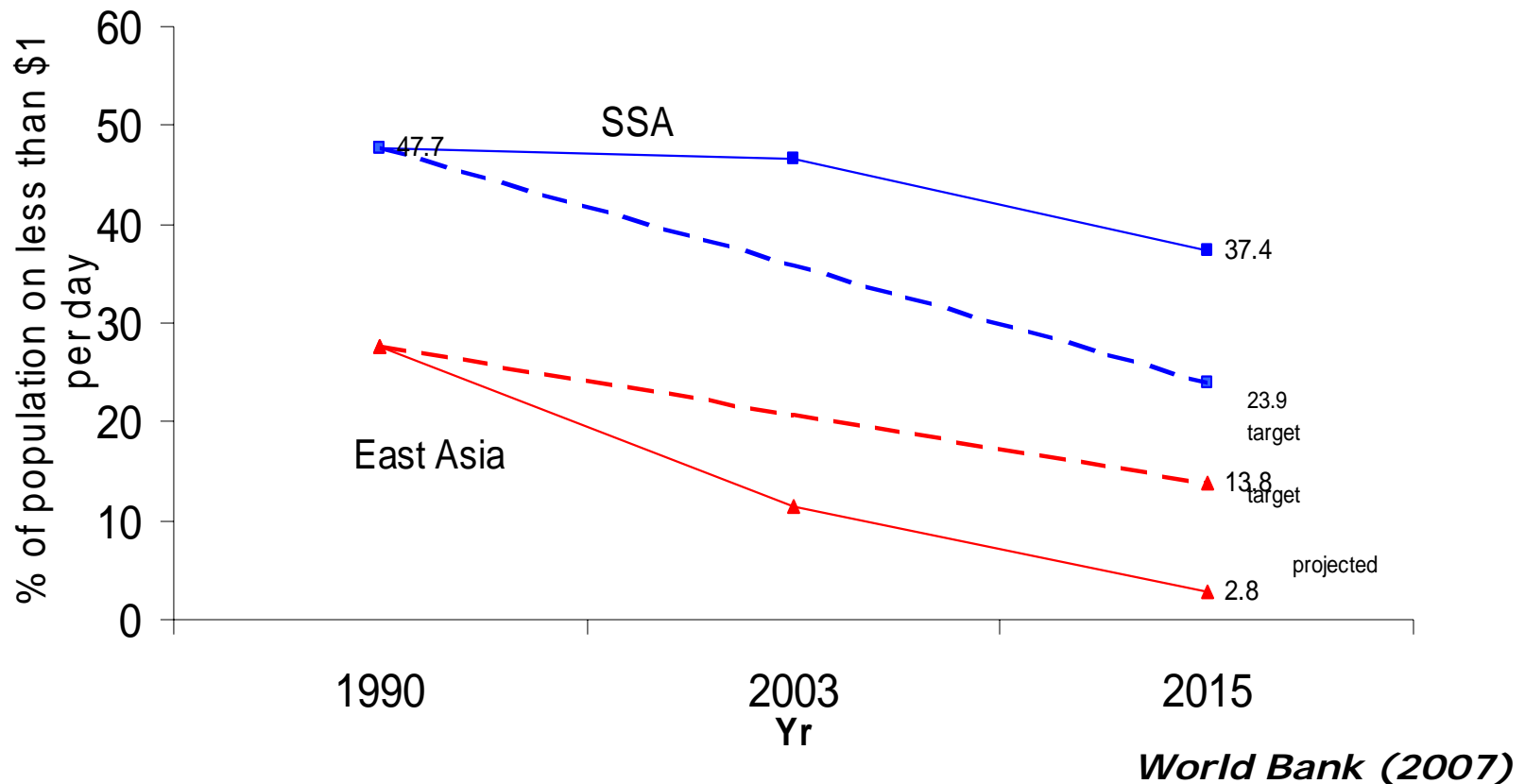
World Bank (2007)

Growth is **key** to reducing poverty in Africa

Economic growth rates in many African economies have been positive in recent years but **are still low** compared to other regions

Progress and prospects for reducing poverty in Africa by 2015

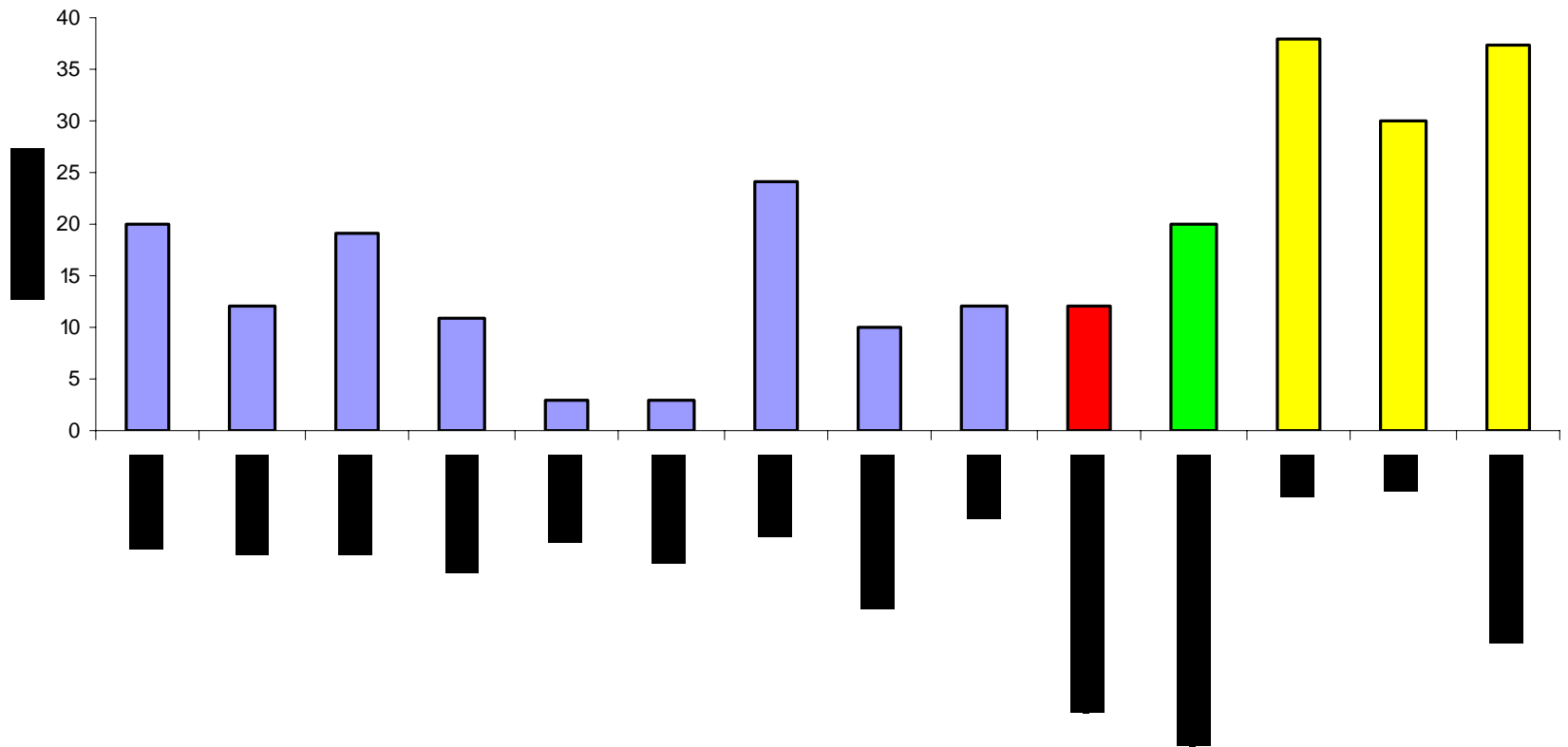
Progress and progress in meeting MDG1 in Africa and East Asia



A strong private sector is vital for growth...

- ❑ Although challenges to growth and the MDGs remain, positive gains have been made on improving economic performance and in reforming institutions.
- ❑ A strong private sector will be vital to underpinning these gains.
- ❑ Africa's relatively disadvantaged position reinforces the critical need for sound public policies to encourage private investment.

Increasing tax revenue as a percentage of GDP is important

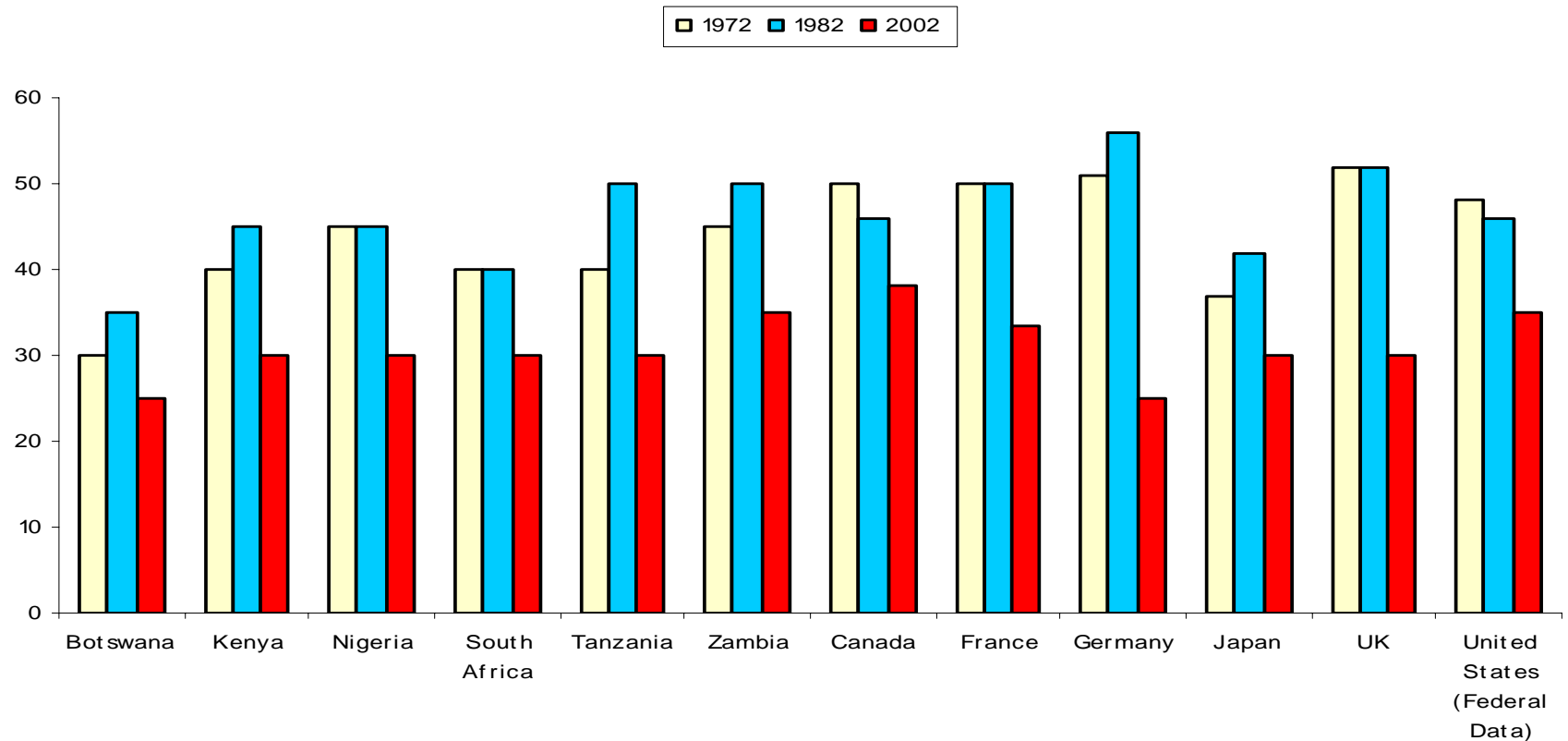


There are big variations in the ratio of tax revenue to GDP in Africa

Source: WDI, various

Corporation tax rates are falling...

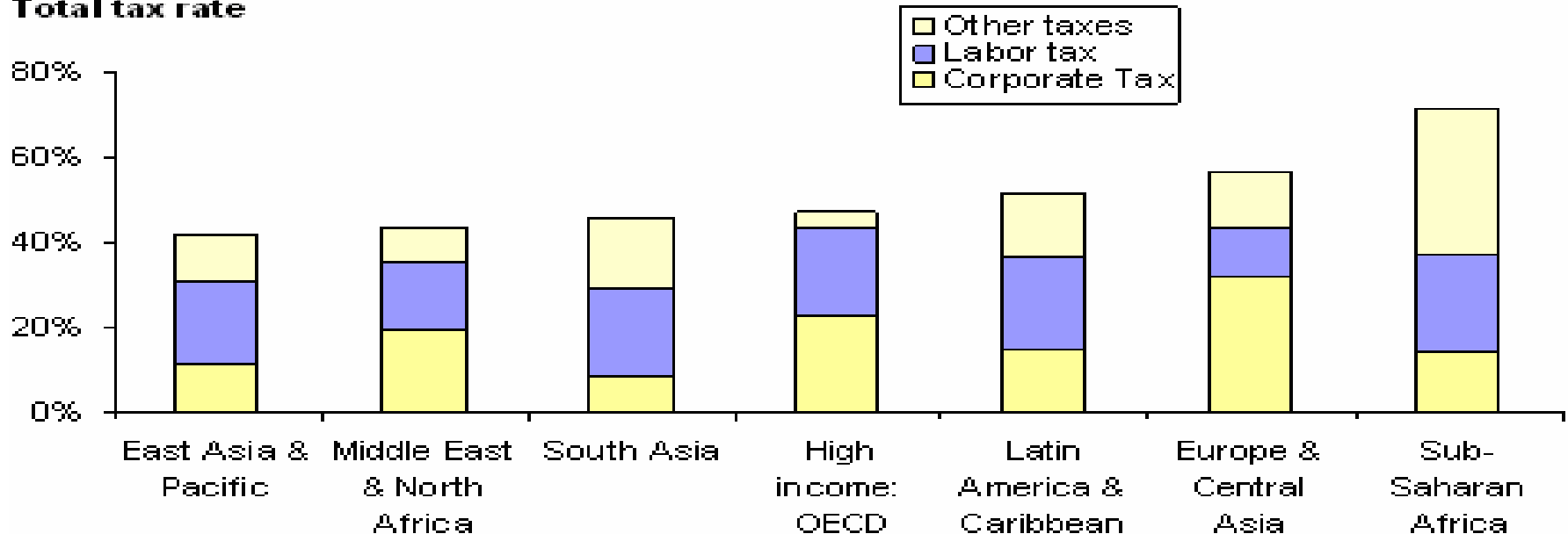
Top marginal tax rate on corporations



Source: World Tax database

...but African tax regimes could be more business friendly

Total tax rate



African businesses still face disproportionately high **overall** tax burdens

Source: Doing Business 2006

Governments need to reduce the amount of resources taken from the private sector through over regulation and onerous tax systems (BES 2005)

Tax and development – DFID Tax

Review highlighted:

- ❑ State-building
- ❑ scaling up aid
- ❑ Impact of tax on informality
- ❑ Climate change and environmental taxes
- ❑ Gender dimensions of tax systems
- ❑ Changes in patterns of tax – e.g. customs and VAT; land and property taxes
- ❑ International aspects of tax: Regional tax harmonisation
- ❑ Politics: e.g. tackling exemptions and preferential regimes
- ❑ Decentralisation and sub national tax systems

ODA statistics suggest donors favour support to country systems that are focused on expenditure rather than revenue

- **Scaling up** of aid presents a major opportunity to take a holistic approach to the problems around revenue – but also a major political challenge
- *The ‘social fiscal contract’*: domestic revenue mobilisation partner countries require to meet Monterrey Consensus obligations

REVENUE AUTHORITIES' IMPACT ON THE BUSINESS CLIMATE IN AFRICA

- *investigate the effects of tax systems on the **business climate** by linking **tax policy** impacts with the impacts from the **administrative discretion of revenue authorities***
- *offer recommendations on **how tax administrations can encourage an investment and business climate for growth and poverty reduction**;*
- *improve understanding of **the link between tax policy and its administration, and the broader political economy context** for business development and poverty reduction.*

Practical proposals for tax reforms

1. Simplifying tax systems

2. Broadening tax base

- **Business Impact** – proposals by size [large, SMEs, informal] and by Sector
- **Political support**: for better Growth?
- **Institutions**: MoFs and RAs – has RA reform weakened overall policy for growth? Corruption from too much discretion?

The Political Economy Challenges 1

1. Social Fiscal Contract –

- how to build it?
- Role of Business [v. few personal income tax payers in Africa]
- Trust/
- Harassment vs. Customer Service
- Public-Private Dialogue on Tax – SMEs/informal

2. Political Accountability over Tax –

- MoFs and Legislatures
- Rights of Taxpayers

3. Political Incentives – how to work with/on

The Political Economy Challenges 2

1. Admin
 - Complexity and Time: Compliance Costs
 - Discretion and Corruption
2. Policy and Admin – MoFs and RAs
3. Linkages to other Ministries – eg. Incentives
4. Linkages to local government – capacity

Social Fiscal Contract

- Political as well as Economic Dividend
- 1. Simplification
- 2. Balance between Efficiency & Service
- 3. Taxpayer Rights/Appeals Tribunals
- 4. Broadening Tax Base:
 - Evasion
 - Exemptions
 - Informal sector – more sizeable urban business

Workshop Recommendation for tax reforms must ask:

- Is it *administratively feasible*?
- Is it *politically sensible* in short-term and desirable in long-term?
- Does it *deliver growth* – e.g. encourages formalisation and market entry?