

DO REVENUE AUTHORITIES AS INSTITUTIONS
HAVE THE CORRECT INCENTIVES TO PROMOTE
PRIVATE INVESTMENT AND RAISE NECESSARY
REVENUES?

Presentation by
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A. Introduction

- Revenue Authorities (RAs) main responsibility is mobilizing domestic revenues.
- RA revenue streams derived from incomes and profits of businesses and individuals.
- The profitability of businesses however depends on the investment climate which includes;
 - the tax structure,
 - the ease of business transactions,
 - infrastructure, and
 - the legal and regulatory framework.
- policy certainty and the security of investment outlays are important considerations..
- RAs have an inherent incentive to promote private enterprise because their very survival depends on the existence of successful and profitable private enterprises/individuals from which they derive tax revenues.

B. Doing Business in Africa.

- A World Bank/IFC publication titled Doing Business in 2006 revealed:
- extreme difficulty in doing business in most Sub-Saharan African countries.
- more tax and revenue reform measures are needed for African Economies to attract increased private sector investments that create jobs and generate economic growth.

The next slide presents selected indicators of the ease of doing business in Sub-Saharan Africa (excluding South Africa) compared to the Maghreb region plus South Africa.

- On average a company in Sub-Sahara Africa in 2006 paid nearly 60% of their gross profits if it attempted to be tax compliant.
- Over the same period an average company operating in Sierra Leone paid 164% of gross profits to be tax compliant.
- These figures indicate a heavy burden on businesses operating in Africa and Sierra Leone in particular.

Table 1: Cost of Doing Business in Africa in 2006

Country/Grouping	Starting Business (days)	Dealing With Licenses (Days)	Difficulty of Hiring Index (0-100)	Difficulty of Firing Index (0-100)	Registering Property (days)	Getting Credit (Strength of legal rights [0-10])	Time Spent Paying Taxes (hrs per yr)	Total Tax Payable (% of Gross Profit)	Time Taken to Export Across Borders (days)	Time Taken to Import Across Borders (days)	Time taken to Close a Business (in Yrs)
Sub-Saharan Africa (Excl South Africa)											
Average	62	253	49	46	122	4	377	59	48	60	4
Highest	155	569	100	100	382	9	1,120	174	116	124	10
Least	14	127	0	10	28	1	50	27	6	16	1
Sierra Leone	26	236	89	70	58	5	399	164	36	39	3
South Africa and the Maghreb Region											
Average	25	211	52	66	81	3	432	48.4	29	36	3
All Africa											
Average	57	248	49	49	117	4	384	58	45	57	3
Highest	155	569	100	100	382	9	1,120	173.5	116	124	10
Least	11	127	0	10	23	1	50	27.1	6	16	1
World Top 5 A	8	90	13	16	7	8	126	35.6	8	10	1

Source: Doing Business in 2006 – Creating jobs; World Bank/IFC, 2006

Doing Business in Africa Cont.

- The dilemma of RAs in Africa lies in the conflict between raising revenues now to meet set targets and the need to promote investments and facilitate job creation ultimately leading to greater profits in the future and increased revenues.
- Thus RAs often approach tax and revenue reforms measures with caution especially if they sense a risk of revenue erosion in the short term.
- RAs are always under pressure for tax and revenue reforms to be as harmless as possible to short term revenues.

C. Typical Investment Incentives in African Countries

- Typically the following investment incentives are offer by most Sub-Saharan countries:
 1. Tax holidays; incentives to attract usually FDI.
 2. Concessionary rates of corporate tax; provided to income from certain sectors or meet certain criteria.
 3. Investment Allowances or credits; a relief based on the value of of expenditures on qualifying investments.
 4. Tax rate reduction across the board.
- Investment Incentives in Sierra Leone are provided for in the Income Tax and Customs Laws and include:
 1. Capital allowances for plant, machinery, equipment and other tangible assets excluding buildings.
 2. Amortization deduction allowed for start up expenditures.
 3. 10 year exemption from corporate tax for agricultural enterprises.
 4. Exemptions other types of Relief granted by Law.

Correctness of Investment Incentives Offered by RAs

- RAs desire policies that promote investments because profitable investments enhance future revenues.
- RAs are also under tremendous pressure to meet short term revenue targets to support domestic budget expenditures.
- Expert opinion on investment incentive indicate that such measures on balance erode tax and other domestic revenues in the short term.
- RAs should therefore advocate for economic policies that balance these seemingly conflicting short and long term policy aims.

Concluding Comments.

- RAs definitely have an incentive in the long run to promote investments.
- Because all tax and other revenues collected by RAs are derived from profitable businesses/individuals which in turn depend on an appropriate long term investment climate.
- This long term aim has to be balanced with the short term imperative of meeting set revenue targets to support the domestic budget.

Concluding Comments Cont.

- The extent to which incentives offered by RAs can be regarded as the correct set of incentives for attracting and retaining investment whilst at the same time allowing businesses to thrive, grow and generate economic growth and development is a question we are still grappling to answer.