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Tax Initiative

Brief on ATI partner countries' perspectives from moving towards equitable tax systems

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Executive Summary

Introduction

Raising public revenues through taxation is fundamental to the development process, as it supports vital public investments and helps promote improved governance by facilitating a process of bargaining between citizens and their government.

A key factor that influences the way in which taxation shapes the development process is the distributional effects of these policies and how equitable they are. The equity impacts of taxation can emerge both directly and indirectly. From a direct perspective, equitable tax policies require those with higher levels of income or wealth, or those who are less marginalised (in relation to gender, geography, ethnic groups, or other factors) to be taxed at a higher rate. From an indirect perspective, the public spending facilitated by tax revenues can promote equity through disproportionately benefitting poorer or more marginalised groups, which can in turn help generate greater social and economic benefits for these groups. Conversely, where tax and public spending policies pay little regard to their distributional consequences or favour richer or less marginalised groups, the process of improving equity and reducing poverty can be undermined. This issue of 'equitable taxation' therefore has major consequences for efforts to achieve the Sustainable Development Goals (SDGs), especially those of ending poverty in all of its forms (SDG2), achieving gender equality and empowering all girls (SDG5), and reducing inequality (SDG10).

This brief presents the findings of case studies of the emergence of equitable tax policies in three partner country members of the Addis Tax Initiative (ATI). In doing so, it aims to serve as a "good practice" reference document for peer-learning among ATI members on equitable tax reforms, by providing practical examples of their implementation, as well as guidance and inspiration for their introduction in other countries.

These case studies were selected based on tax reforms whose goal of producing equitable effects was supported by existing analysis and data. The case studies were developed through reviewing relevant documents and interviews with key actors involved in these reforms.

Case study findings

This section sets out briefly the findings of the three case studies – on the Philippines, Sierra Leone, and Uganda – that were undertaken through the research on ATI partner countries' perspectives from moving towards equitable tax systems.

Philippines – Sin Tax Reform and Revenue-Raising for Access to Healthcare

This case study explored the introduction of taxes on alcoholic drinks; tobacco, heated tobacco, and vapour products; and sugar-sweetened beverages, as well as earmarking of most of the revenues for spending on expanding access to health services, especially for low-income groups.

Specific taxes on alcohol and tobacco products were first introduced in the Philippines in 1996, but were set at relatively low levels. The initial impetus for the tax reforms came from the need to raise revenue to support the agenda of the incoming administration of President Benigno Aquino in 2010, but also to ensure that tax regime for spirits met international trade rules. The successful introduction of these taxes, overcoming resistance from industry, was secured through support from a wide coalition of actors – including the President, the ministries of finance and health, civil society, and economic reform groups. Linking the reforms to health expenditure and outcomes (from reduced consumption) was also thought to have helped secure wide support for the reforms.

The tax regime that was introduced in 2012 focussed on setting higher and simpler taxes on tobacco products and alcoholic drinks over a phased period during 2012–17. It was also legislated that 85% of the additional revenues from these taxes would be earmarked for health spending, especially investments in expanding access to the National Health Insurance Program (NHIP) for lower income groups. Then in 2018 new taxes were introduced on sugar-sweetened beverages and heated tobacco and vapour products, with 50% of the revenues from the former and all the revenues from the latter being earmarked for health expenditures. At the same time, taxes on alcohol and tobacco products were also increased.

Revenues from these "sin taxes" have increased rapidly since 2012 and have in turn supported a significant increase in health expenditure. Revenues earmarked for health spending increased from ₱34 billion (USD 0.7 billion) in 2013 to ₱93.6 billion (USD 1.7 billion) in 2022, helping health expenditure to increase from ₱87.2 billion (USD 1.9 billion) to ₱262.9 billion (USD 4.9 billion) over the same period. Amongst other impacts, these expenditures have helped increase coverage of the NHIP from 52.6% of the population in 2011 to 89% in 2022.

Over the period 2012–17, the price increases precipitated by taxes on cigarettes contributed to a 23% reduction in their sales volumes. Initial market surveillance suggested that taxes on sweetened beverages led to a price increase of 20%, which in turn helped reduce consumption by more than a fifth, with higher reductions noted for amongst males and the poorest quintile. Whilst sin taxes may have constituted a higher proportion of the incomes of poorer groups, they likely benefitted most significantly from the greater access to health services.

Sierra Leone – Subnational Revenue Generation through Property Tax Reform in Freetown

Property taxes are a core component of local government revenues in most countries. However, in Sierra Leone, as in most low-income countries, these taxes are highly under-performing, largely due to issues such as incomplete and out-of-date valuation rolls, under-assessment of the most valuable properties, and weak enforcement. In order to address these challenges, beginning in 2019, the Freetown City Council (FCC) initiated a process of comprehensively reforming its property tax system.

Plans for reforming the property tax system in Freetown emerged from a technical working group convened by Mayor Aki-Sawyerr, that included representatives from central government agencies, (including the Ministry of Finance and the National Revenue Authority), the International Centre for Tax and Development (ICTD) and the International Growth Centre (IGC). A small-pilot in two wards of the city was carried out, which led to the development of a system for the identification of properties with satellite images and handheld devices, a points-based valuation methodology and a new IT system for management of the property tax system. The introduction of the new system attracted support from the United Kingdom government. A key element of the reforms was the decrease in the tax liability of the two lowest quintiles of properties in terms of value, and a significant increase in the tax liability applied to the two highest quintiles.

Significant increases in revenues have been achieved through the introduction of the new property tax system. As FCC was able to identify and calculate the taxes for a larger number of properties, the total potential level of revenue increased from about 8 billion Leones (USD 650,000) prior to the reform to almost 45 billion Leones (USD 3.65 million) in 2020. In terms of actual revenue levels, these increased from 4.25 billion Leones (USD 340,000) in 2017 – just over half of total FCC revenue – to 15 billion Leones (USD 1.2 million) in 2020 out of a total of 25 billion Leones (USD 2.12 million) – just over 60% of total FCC revenue – despite the impacts of the COVID-19 pandemic (FCC 2021).

Uganda – Strengthening the administration of taxes paid by High-Net-Worth Individuals

Tax compliance for individual taxpayers is generally low in Uganda, including amongst those with high incomes and wealth, who could provide a significant source of revenue. Raising revenues from this group is thought to be constrained by their political influence; the under-utilisation of available data by tax authorities; and siloed operations and information-sharing across relevant institutions. This results in severe inequities in the distribution of the tax burden, with taxes revenues mainly being generated by taxes on goods and services, which are mainly regressive, and the average employee shouldering the burden of personal income tax over their wealthy counterparts.

In an effort to promote compliance with existing tax policies by wealthy individuals, the Uganda Revenue Authority (URA) – a semi-autonomous revenue agency – established a High-Net-Worth Individuals (HNWI) Unit in 2015. The Unit began its work by developing a formal set of criteria to identify HNWIs (supported by ICTD), thereby generating a list of key individuals it needed to engage. It also began to improve its collection of information on these individuals, to professionalise its approach to managing relationships with HNWIs and develop an approach to undertaking taxpayer education. There were also initially high levels of support from senior management in the URA for the work of the HNWI Unit.

The initial impact of the work of the HNWI Unit was to help facilitate a gradual increase in revenue generated from HNWIs, from 19.2 billion UGX in FY 2015/16 to 22.4 billion UGX in FY 2017/18, with the proportion of HNWI's initially targeted by the Unit filing tax returns increasing from 13% to 78%. However, over time the Unit's impact has declined, as HNWIs have engaged in complex and aggressive tax minimisation and avoidance schemes, which the Unit had only limited capacity to address and required stronger collaboration across government to address. Nevertheless, filing activity has increased amongst some HNWIs and overall revenues increased marginally.

Literature Review

Introduction

Taxation is a central element of the economic and political environment of any country. As such, the way tax systems are designed and implemented affects multiple aspects of any economy, including economic growth, work, innovation, institutions and social justice, amongst others, all of which are reflected in the SDGs (for example, SDGs 8, 9, 16). Taxation is also one of the available tools to address global challenges, such as those related to the environment and climate change (for example, related to SDGs 12, 13, and 14).

Against this broader background, this conceptual framework focuses more specifically on how tax reforms can be designed to improve equity. In the context of advancing SDGs, we can think about the role of taxation in promoting equity along two main dimensions.

First, taxation has direct implications on equity both at the national and international level. At the national level, the way tax is raised has direct implications on redistribution and equity, as discussed in more detail below. This includes tax systems' implications on gender equity (related to SDG 5). At the international level, international tax policies – like the ones recently agreed under the Inclusive Framework – could positively affect equity across countries and within countries, to the extent that they allow for a fairer distribution of the tax burden to previously un- or under-taxed multinationals. Similar efforts are underway for the taxation of wealthy individuals, which remains a key source of global inequity.

Second, taxation can have indirect implications on equity by being a major source of financing for development. From a broad perspective, the amount of tax that is raised globally affects the total amount of financing available for development and the pursuit of all SDGs. In the narrower context of national fiscal systems, total tax revenue affects the amount governments have available to fund redistributive policies such as cash transfers and social security, both of which are important tools to reduce poverty and inequality (related to SDGs 1, 2 and 10, amongst others).

This document focuses particularly on the direct implications of tax reform, but takes into consideration also its more indirect implications.

1. Tax equity, progressivity and their contextualisation in LICs

Equity is one of the key principles in tax policy design and one of the overarching objectives of tax systems. There are two broad dimensions of equity:

1. **Horizontal equity** compares similar people or firms, in terms of their size or income. The basic principle is that similar taxpayers should be treated similarly.

2. **Vertical equity** compares higher income people or firms with lower income ones, where the former would be expected to contribute proportionally more than the latter to the tax system, to address equity concerns.

Vertical equity is at the core of the concept of **progressivity,** which can be defined as follows: a progressive tax represents a larger share of the tax base (typically income) for higher income people than for lower income people. This usually requires a tax rate that increases as income increases – the typical setting of a tax on employment income, for example. The fact that higher income people might pay more tax in absolute terms than lower income ones is not sufficient to ensure progressivity: a proportional tax rate (i.e. same rate for everyone) would be neutral in terms of vertical equity, rather than progressive, although the rich would pay more than the poor in absolute terms. Typically, direct taxes can more easily be designed to be progressive, with tax rates increasing with income, while indirect taxes are usually levied with proportional rates. Going beyond progressivity, the Commitment to Equity Institute proposed a more stringent criterion to define tax equity: the net effect of new taxes should never reduce the cash incomes of poor people (CEQ Handbook).

Against this theoretical backdrop, there are at least three issues to keep in mind as one evaluates tax equity in low-income countries. They are cross-cutting issues that link equitable taxation to the broader fiscal and administrative context.

The first issue concerns the practical **implementation of tax** policies and how taxpayers interact with the taxpaying process. Quite aside from what the rate structure is (progressive or neutral, taxes are rarely regressive by design), a tax can end up being progressive or regressive in practice. For example, the Corporate Income Tax (CIT) is typically levied at a proportional rate – say, a flat tax rate (e.g. 30%) that is the same for all firms regardless of their size – so it should be neutral. However, research has shown that the effective tax burden of the CIT is often regressive (evidence from Ethiopia and South Africa, amongst others). This happens largely because small firms in particular are less likely to take up provisions in the tax system that would allow them to pay less tax (e.g. deductions for business expenses), which results in a higher tax burden than they would otherwise be able to obtain. This is related to complex rules and administrative practices, which increase compliance costs for taxpayers. A similar result was found for the VAT: despite its proportional rate, a recent study from Rwanda shows that smaller firms bear a larger burden than larger ones, largely because they fail to claim for their input costs.

Secondly, an evaluation of tax equity needs to consider the **broader fiscal context**. As discussed in the Introduction, taxes are an important source of development financing. As such, one needs to consider how they are spent, alongside how they are collected, to gain a full picture of its impacts on equity and redistribution. A regressive tax whose revenue is spent to disproportionately benefit the poorest (e.g. with targeted transfers that might outweigh the burden of the tax) might still imply an equity improvement, if one considers the fiscal system as a whole. This is especially important in contexts where access to social safety nets and basic public services is often lacking or inadequate, as in many low-income countries. For example, sales taxes (and the VAT), if no exemption is allowed, are expected to be regressive: since the poor consume more of their income than the rich, their tax payments would represent a larger share of their income. For this reason, virtually no country levies such a consumption tax without exemptions for basic items, to relieve the tax burden on the poor. As a result of these exemptions, consumption taxes are often neutral or even progressive (for example: evidence from Ethiopia). However, researchers recently argued that exemptions benefit disproportionately the rich, as they are usually granted regardless of income. In this context, scaling back exemptions would indeed make the tax more regressive. However, the resulting revenue gain might make the fiscal system as a whole more progressive, if the extra revenue was spent in a targeted way for the poorest, for example using cash transfers (IFS cross country evidence).

Thirdly, evaluations of tax equity are typically mainly or exclusively concerned with formal taxes levied by national or sub-national governments – thus excluding **informal taxes**. However, citizens in low-income countries usually make several of these informal tax-like payments and contributions in relation to essential and/or public services (e.g. education), large development projects, and even, more recently, linked to crisis response during the pandemic (the tax side of the pandemic, summary brief, evidence from Somalia and Sierra Leone). Recent research has shown that these informal taxes are heavily regressive, bearing disproportionately on the poorest (evidence from

the DRC and Rwanda). Taking these informal tax burdens into account is important to evaluate equity of tax systems more broadly, for at least two reasons. First, contrary to the prevailing narrative that the informal sector is untaxed, many small firms and poor households already pay a lot of tax – sometimes even more than their better off counterparts, in proportion to their income. Second, since most citizens have very low knowledge of tax matters (see recent research from Rwanda, and from Ghana and Sierra Leone), they might not make distinctions between the formal and informal tax systems. Instead, they might consider their overall burden from all tax-like payments they make. In this context, an unfair combination of formal and informal taxes might fuel perceptions of unfairness and distrust in government – in addition to affecting equity more broadly.

Importantly, all three issues above – the actual implementation of the law; the broader fiscal system, including how government revenue is spent; and informal taxation – often have a **gender** dimension. Businesswomen are more likely to have weak knowledge and higher compliance costs, and they often face higher burdens from informal payments in their work (evidence from Sierra Leone and Tanzania), while a lot more could be done to make fiscal systems as a whole more oriented towards closing gender inequities (gender and tax paper).

2. A conceptual framework to identify equitable tax reforms

The discussion above provides an indication of the key elements that define an equitable tax system, both in the theory of tax design and in the practice of low-income countries. As a next step, the question would be how we can identify equitable tax reforms, in practice. There are at least three categories of reforms that could fit the bill.

Reforms of tax policy

Equity in tax policy design has much to do with two basic parameters: tax rates and the tax base. As discussed above, **tax rates** might be progressive or neutral (they are almost never regressive by design). Given an existing tax system, an equity-improving reform could, for example, revise tax rates to introduce a higher top rate for the better off, or to reduce the rate for lower-income people. A different example is a reform introducing an entirely new equity-improving tax. One example that has been widely discussed in recent months is the wealth tax, which would target specifically the better off in society.

While considerations on progressivity often focus on tax rates, policy decisions on the **tax base** are equally important for equity. Two examples can illustrate this, concerning the top and the bottom end of the income distribution.

- At the bottom end, decisions on the exempt threshold for income taxes define at which level of income should individuals or firms start paying taxes – in other words, when does the tax base begins. At a minimum, this threshold should be above the poverty line, so that those whose incomes imply poverty should not pay any tax. While this principle is intuitive and easy to agree with, tax systems can end up taxing the poor not by design, but because reform is delayed. For example, in Ethiopia the combination of high inflation and the lack of revision of thresholds, resulted in those thresholds being out of sync with the country's economic situation and in the inclusion of the poor in the tax net (evidence from Ethiopia).

- At the top end, headline parameters like the corporate tax rate or tax base are usually complemented by a set of rules and regulations issued by various parts of the government (e.g. Ministry of Trade, Ministry of Investment, Revenue Administration, Ministry of Finance) that erode the tax base by providing exemptions to certain firms. These exemptions are usually accessed by larger companies that invest large sums, typically bringing capital from abroad. The result is a lighter tax burden of larger and more internationally-connected firms.

Reforms of tax administration

As highlighted at the beginning of this document, the way in which tax laws are administered can have dramatic implications on equity. More specifically, this can be related to three aspects that might be the subject of equity-improving reforms.

1

Equitable enforcement: even when tax laws are equitable in terms of the key policy parameters, enforcement can be uneven and thus result in inequity. Perhaps the most important example of this is related to taxing the better off. Cross country data shows that the tax types on which low-income countries perform particularly poorly are property taxes and personal income taxes (see Figure 1 below). Both of these usually bear more heavily on higher income individuals, as they are more likely to own property and be liable for certain types of personal income taxes (e.g. capital gains, dividends), compared with lower income people. However, the problem is not that a legal framework is lacking: most countries have laws to impose taxes on various personal incomes like capital gains, rental and interest incomes, as well as property. However, these taxes are enforced so weakly in low-income countries that they generate very little revenue (reference to this blog on taxing the wealthy).

2

Trust, fairness and accountability: many taxpayers in low-income countries don't know what taxes are for and why they should be paying them (see article) – a situation that is particularly exacerbated in a context of poor public service delivery (see above). At the same time, everyday experiences and interactions between citizens and tax administrators might fuel feelings of unfairness and distrust. Reforms that improve transparency and accountability in tax administration, and/or encourage citizen engagement in tax matters, can improve perceptions on equity and fairness – as well as pushing governments to actually adopt more equitable policies and practices (Van den Boogaard, 2020).

3

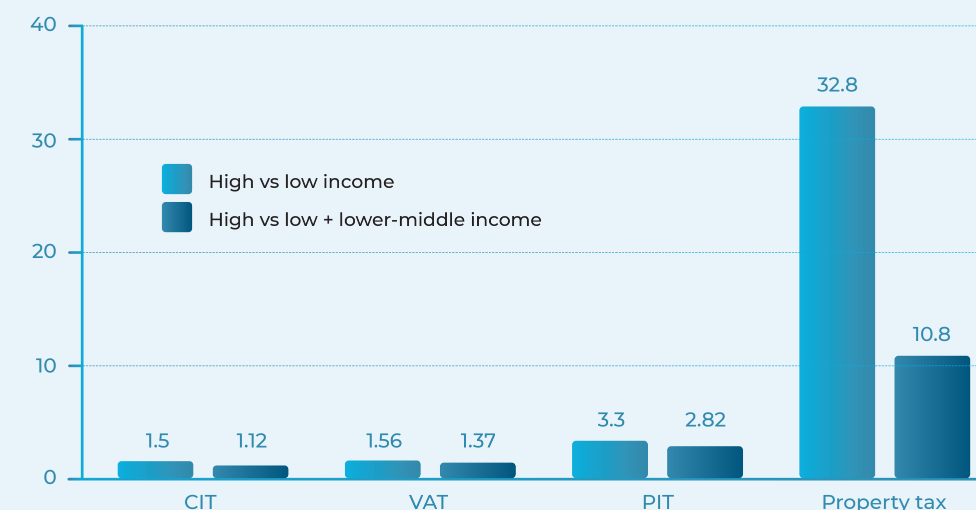
Facilitation and compliance costs: recent evidence shows that many taxpayers are confused about the tax system and have very little knowledge of both tax policy and tax administration. Navigating complex administrative procedures can be particularly daunting for smaller firms, which do not have the resources to hire professional help on their tax matters. Such compliance costs have been shown to be large, and highly regressive (Coolidge). Reforms that simplify tax systems, particularly for smaller firms (e.g. presumptive regimes, exemptions) and measures that provide support for smaller firms to comply with their tax obligations (e.g. taxpayer education) are likely to improve equity by putting smaller firms on a more equitable footing when it comes to fulfilling their tax obligations.

Reform of international tax rules

International tax rules have been the subject of complex international negotiations, most recently in the context of the Inclusive Framework. Whether these rules work for lower-income countries is still unclear, and many observers point to important gaps in their applicability and relevance in lower income contexts (for example, see article). Therefore, a lot remains to be done at the national level to address inequities in the treatment of multinationals (and wealthy individuals, though this is somewhat separate from the ongoing international negotiations). For example, Kenya has recently introduced an Alternative Minimum Tax that would ensure that multinationals pay at least a minimum of corporate income tax in country, thus limiting the scope of profit shifting. Similarly, countries can consider various kinds of withholding taxes to ensure some revenue is paid in country, thus limiting the inequitable under-taxation of multinationals in the countries where they operate.

While the discussion above treated these three categories of reform – of tax policy, tax administration, and international tax rules – separately, in practice they are often overlapping. The most obvious overlap is between the first two categories – tax policy and tax administration – to the extent that tax experts often say that "tax policy is tax administration". Similarly, international tax issues are essentially about setting tax policy parameters in an international framework or about taxpayers that are highly internationally mobile. While it is useful to discuss these three categories separately to define a conceptual framework, in reality they are often more confounded.

Figure 1: Comparison of tax/GDP ratios across income groups



Note: *Author's computations based on the ICTD/UNU-WIDER Government Revenue Dataset. The bars show how the tax to GDP ratio in high-income countries compare to the same metric for lower-income countries, for the relevant tax types. A bar height of one indicates the same tax-to-GDP ratio in HICs and LICs. A higher bar indicates higher collection of the relevant tax in HIC compared to LIC – suggesting a tax gap. For example, high income countries collect about three times (bar height is about 3) as much revenue from PIT than lower income countries, even considering the ratio to GDP (not absolute vales, for which the difference would be a lot larger). Similarly, higher income countries collect about 10 times more property tax than low and middle income countries. A version of this graph is also reported in Brockmeyer and others here.*

3. Principles towards equitable tax systems

Having set out a framework to think about tax reform and equity, this section provides more specific principles and directions to move towards more equitable tax systems. The principles below are not exhaustive of all possible reform options, but they aim to provide a more practical policy guide to evaluate concrete ways to improve equity in tax systems. These principles should be read in light of the conceptual framework described above, to which they link closely.

1. **Expand the tax base for personal income taxes,** with two more specific principles:
   a. The focus should be particularly on the wealthier segments in society that are currently taxed little or not at all (see evidence from Uganda, Rwanda, and this blog). This can be done, for example, by better implementing existing taxes on property, on incomes from the self-employed (e.g. dentists, lawyers), as well as on incomes on rental of real estate, dividends, capital gains, and interests on investment.
   b. Efforts to expand the tax base to smaller taxpayers should be clearly accompanied by facilitation measures. Recent research has shown that registration campaigns might otherwise fail to produce much (or any) revenue gain, and might even have unintended consequences on perceptions around trust and fairness (evidence from Rwanda and South Africa).

2. **Close opportunities for international tax avoidance and evasion,** for both companies and individuals. Along with negotiations and agreement in global fora like the Inclusive Framework and the Global Forum, countries might consider the adoption of alternative minimum taxes or withholding taxes to prevent profit shifting.

3. **Reduce exemptions on all tax types,** including on business profits, VAT, and import duties. For those exemptions deemed necessary, ensure transparent processes and rules are in place. When the reduction of exemptions raises potential concerns over equity (e.g. cancelling some types of VAT exemptions), compensation might be made by using the extra revenue for targeted transfers to the poor.

4. **Ensure indirect taxes are not regressive, if not progressive.** Taxes like the VAT can be made less regressive, and even progressive, by including appropriate exemptions for basic items. While some of these exemptions are desirable, they often benefit largely higher income households. Their benefits should therefore be carefully evaluated against the potential use that the foregone revenue could have to fund targeted pro-poor expenditure (for an example, see this simulation exercise).

5. **Provide for appropriate exempt thresholds in income tax schedules,** to exempt lower income people or small businesses from paying tax (e.g. PAYE or VAT). These thresholds should be revised regularly, especially in high-inflation environments, to avoid bracket creep (see Ethiopia case).

6. **Provide for appropriate administrative thresholds to reduce compliance costs** for small firms, even if they are liable to pay tax (e.g. if they are above the exempt threshold mentioned above). This includes, for example, allowing for simplified regimes for small firms under a given threshold, with simpler reporting requirements.

7. **Adopt other measures to reduce compliance costs,** especially for small firms, for example measures aimed to improve taxpayer knowledge, to make tax information easily accessible, and to facilitate the taxpaying process with online tools like filing online or via mobile phones.

8. **Boost property taxes and ensure they are progressive.** As the recent example of Freetown (Sierra Leone) shows, there is considerable room to make property tax systems more effective and progressive, both at the valuation and collection stage. This would involve valuating properties according to objective criteria and providing for a progressive rate schedule.

9. **Improve accountability and citizen engagement.** This can be done by providing transparent information both on how revenue is collected (e.g. what the rates are, how much citizens should be expected to pay, citizens' rights and obligations) and on how it is spent. Civil society has an important role to play in encouraging taxpayer engagement, which can in turn help improve perceptions around fairness and trust (see this blog and relevant references).

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Part A

Methodology

Methodology

1. Preparatory activities

The following tasks will be undertaken to prepare for starting the case study research:

I. **Literature brief** – A short brief will be produced summarising the existing literature related to the case being researched, so as to help identify gaps in the analysis and to test the interview questions

II. **Mapping of relevant institutions, officials and stakeholders** – This will be undertaken through desk research and information requested from ATI; this mapping will identify the key institutions relevant to the case study, an initial list of key officials in these institutions, and an initial list of wider relevant stakeholders (including external actors – such as civil society representatives and other accountability actors, the wider policy community, and academics) who could be interviewed; this list of actors will then be used to prioritise who should be interviewed

III. **Testing and tailoring the research and interview questions** – Using the literature brief and the gaps identified in the existing analysis and information for each case study, the priority research questions (from amongst the list presented in section 4 and others that can be added) will be identified

2. Research methods

This case study will incorporate analysis based on information gathered through both quantitative and qualitative research methods.

The **quantitative research** will involve gathering data from reviewing documentation and data requests (to relevant officials) on the following categories of statistics, covering the period addressed by the case study:

- Basic economic and social data, including GDP growth levels, share of key sectors in the economy, per capita income level, poverty rates and levels of inequality
- Tax revenue structure – share of tax revenue from i) tax on income, profits and capital, ii) taxes on goods and services, iii) taxes on international trade and transactions., and iv) a range of other taxes of more modest significance
- Data from the Commitment to Reduce Inequality Index on i) Progressivity of the tax structure; and ii) Impact of tax collection on levels of inequality
- Detailed data on the taxes covered by the featured reforms, including their significance for revenues and information on incidence pre and post reform

This data will be used to illustrate the economic and tax context of the country case study, and also to tell the story of the impact of the tax reforms covered by the case study.

The **qualitative research** will involve undertaking interviews with key stakeholders, but also gathering information through a review of documentation and existing research. This qualitative research will aim to explore the following:

- The socioeconomic and political economy factors that were relevant to the context and the events surrounding the design, introduction and implementation of the reforms
- They key actors involved in tax policy-making and the reforms that were enacted, and how they interacted in the reform process
- The technical, political and other challenges that were involved in designing, introducing and implementing the reforms
- How the political coalition required for these reforms emerged and the incentives involved in driving them

3. Interview approach and methodology

Interviews will provide the primary source for gathering qualitative information and the most significant elements of the narrative on the reform(s), including how they came about and the factors that were most important in driving them. The following principles and approaches will be applied to the interviews:

- Semi-structured approach – A menu of research questions (see next section) will be utilised to guide the main interview questions, with time allowed for additional questions to be addressed in response to opportunities identified during the interview

- Open-ended questioning – This involves asking questions without presupposing the response (as would be the case if the question included response options), and therefore creating space for the interviewee to take the discussion in unexpected and more insightful directions
- Triangulation – A key objective of the interviews will be to test emerging findings (from the full set of interviews or other information sources), so as to try and find more than one source to confirm findings and ensure their robustness; this will involve utilising some common questions across all relevant stakeholders so that their responses can be compared and contrasted

The 8–10 interviews carried out for each case study will cover a cross section of stakeholders, so as to test research themes with those with different roles, perspectives and experiences in the tax community. The main group of stakeholders interviewed will be officials from relevant public institutions (4–5 interviews), with other groups interviewed being policy/academic institutions (1–2 interviews), civil society actors (1–2 interviews) and donors/international organisations supporting tax reform efforts (1–2 interviews). However, the mix of different actors interviewed will be context dependent and will differ for each case study.

The stakeholder mapping carried out in preparation for the case study will be used to identify most of the interviewees, although some interviewees will be identified through initial interviewees recommending others to be interviewed (i.e. a snowballing approach).

4. Research questions

This section presents a set of questions which will be used to guide the process of gathering information (through document review and interviews) and presenting the analysis for each of the case studies on 'equitable tax reforms'. These questions are organised around each of the key themes and sections that Agulhas proposed would be included in the case study (in its bid proposal).

These questions assume that the criteria used for selecting case studies have identified robust and well evidenced tax reforms that have promoted a higher level of equity.

Relevant country and political economy context (pre-reform)

- What is the recent economic and political context relevant to tax policy (e.g. nature and priorities of recent governments, economic and social trends, capacity of institutions etc)?
- What has been the recent history of tax policy and reform?
- What are trends in tax revenues and in equity of tax policies and incidence (in the period before the reforms covered by the case study)?
- Who are the main actors i) engaged in, and ii) with significant influence over equitable tax policy?
- What are the main interests and priorities of each of these main groups of actors as regards tax policy?

Case study tax reforms

- What specific tax reforms are reported to have helped improve equity?
- What is the evidence that these tax reforms have helped improve equity? What efforts have been made to monitor and evaluate the reforms, and what does this M&E suggest about the channels through which these reforms have promoted improved equity?
- How were these reforms introduced? Where did the initiative to introduce them come from, which actors helped to promote them, who designed them, what activities were involved in their design (e.g. research, capacity building etc), what was the process for introducing them and who led the process of securing political support for them?
- What were the main technical and political obstacles that had to be overcome in order to introduce and implement these tax reforms? Which vested interests resisted these reforms? How were these obstacles and vested interests overcome?
- What (if any) compromises and adjustments had to be made in order to secure political support and effective implementation? How did these affect the equity impact of the reforms?
- What contextual factors (e.g. major political changes, political opening etc) helped or hindered the introduction and implementation of these reforms?
- To what degree did tax administration capacity and efficiency play a role in determining the effectiveness of these reforms and their impact on equity?

Lessons learnt

- What are the key lessons that can be learnt from this case study on i) the tax reforms that can help promote equity; ii) the factors than can help or hinder the introduction of such reforms; iii) how the challenges for introducing equitable tax reforms can be overcome?
- To what degree might these lessons be transferable to other contexts?

5. Case study structure

The final case study will be presented in 4–5 pages and will be structure broadly across the sets of issues and themes identified for the research and interview questions (see previous section). The structure of the case study is presented below:

A. Relevant country and political economy context (pre-reform)

- Economic context
- Recent tax context
- Main political trends and political economy issues
- Key institutions

B. Case study tax reform

- Introduction to tax reforms
- How reforms emerged (including main promoters), were designed and implemented
- Evidence for equitable impact and channels through which this emerged
- Main challenges involved in implementation
- How these challenges were overcome

C. Lessons learnt

- Lessons on reforms that promote equity
- Lessons on how to implement such reforms
- Lessons on how to address challenges within implementation

Part B

Case Studies

Case 1 – Philippines: Sin tax reform and revenue raising for access to healthcare

Introduction

"Sin taxes" are defined as taxes on goods and services whose consumption is considered to have a net negative effect on society. In the Philippines context sin taxes are specifically applied to alcohol, cigarettes, e-cigarettes and sweetened beverages. Historically, these taxes have provided a dependable and significant source of revenue for countries. However, in recent years there has been a growing focus on using these taxes to incentivise a reduction in their consumption and/or to raise revenues to directly address their negative effects on society (Bird, 2015).

This case study focuses on a series of reforms introduced by the Government of the Philippines to simplify and increase sin taxes on tobacco and alcohol products, beginning in 2012, and to introduce a tax on sugar sweetened beverages, beginning in 2018. It also focuses on the allocation of most of the revenues from these taxes to expanding access to health insurance and services. The case study begins by setting out the background to these reforms, before presenting an overview of the technical aspects and outcomes of these reforms, then exploring the key challenges and lessons learnt from these reforms with a set of conclusions.

Background to the reforms

Prior to 2012, there had been efforts to substantively reform taxes on alcohol and tobacco products in Philippines, but these had all too often been watered down by strong lobby groups linked to these sectors. The strength of the lobby around alcohol and tobacco led some academics to conclude that "so-called sin taxes cannot be raised sufficiently because of the inordinate influence of tobacco and liquor interests" (Severino and Salazar, 2007: 332). It has also been suggested that the tobacco lobby in the Philippines is the strongest in Asia (Alechnowicz and Chapman, 2004).

The previous effort to comprehensively reform taxes on alcohol and tobacco products occurred in 1996, with some further amendments to this system made in 2004. These reforms began with the Philippines Bureau of Internal Revenue carrying out a market survey, which led to a range of alcoholic drinks and cigarettes being placed in tiers by value, and tax levels (cash amounts per unit sold) set at higher levels for higher value tiers. However, the price range for each tier of products was frozen at the level of 1996 prices, which meant that existing products did not change tier regardless of changes to their prices and new entrants to the market were also placed in tiers based on their price when entering the market, which advantaged older brands (Hoe et al, 2021). In addition, these reforms also allowed for an increase in the level of set taxes by 12% in 2000 (RA8240, 1997). A subsequent 2004 amendment to this framework largely kept in place the tiered system of taxes, but adjusted tax levels upwards and allowed for tax increases every two years to help protect the real value of tax levels (RA9334, 2004). Overall, these reforms led to a gradual erosion of the levels of taxes raised from these products (Sicat, 2006) and led to the emergence of an elaborate set of tax rates applied to these products (Kaiser et al, 2016).

As a result of the 1996 (and 2004) reforms, the prevailing system of taxes for alcohol and tobacco products (ahead of the 2012 reforms) applied lower rates of tax to lower-priced cigarettes, making "entry level" cigarettes cheaper; applied low tax rates overall by global standards; did not adequately link tax rates to inflation, eroding their value over time; and allowed certain brands already on the market to pay lower rates of tax than brands that came to market after the legislation was introduced in 1996. As regards alcohol taxes, a key issue was that the Philippines had been challenged through the World Trade Organisation (WTO) for applying a tax system for spirits that applied lower tax rates for products that used designated locally available inputs (such as e.g., sugarcane, coconut, and nipa), than products made from non-designated inputs (which were more commonly used for producing imported spirits) (Kaiser et al, 2016).

In addition to inefficiencies in the tax system and pressures from the WTO, a number of other factors combined to motivate the incoming administration of President Benigno Aquino in 2010 to begin to mobilise a political coalition to introduce tax reforms. Firstly, there was the imperative to raise revenues to finance the administration's election commitment to increase social investments in order to support the poor and other low-income groups – its 'social contract with the Filipino people'. Secondly, there was a recognition that, relative to other countries at its levels of development, tax levels on alcohol and tobacco products were low and consumption was high in the Philippines, which was contributing to significant health problems across the country (Kaiser et al, 2016). Analysis suggested that, amongst the 20 top diseases causing premature death and disability among Filipino males, 12 were in some way associated with tobacco use and alcohol abuse (World Bank and IHME, 2013). There was also a recognition that there was limited competition in the market for alcohol and tobacco products, which was not beneficial to consumers of these products (Kaiser et al, 2016).

As regards sugar-sweetened beverages, before 2018 no specific tax was applied to such products, although they were subject to a 12% value added tax. These beverages are viewed as a significant contributor to the major challenges of obesity and related health problems in the Philippines. In 2013, 31.1% of Filipino adults were overweight and the percentage of overweight youth nearly doubled in the decade before 2013, from 4.9% to 8.3% (Saxena et al, 2019). Over the period 2005–15, the volume of sugar that the average Filipino consumed through sugar-sweetened beverages increased by 44% (Onagan et al, 2019). Efforts to begin introducing such a tax followed shortly from a recommendation from the World Health Organization (WHO 2016) in 2016 to apply taxes on sugar-sweetened beverages in order to address childhood obesity (Onagan et al, 2019).

As illustrated below, a key element of the reforms was the earmarking of incremental revenues from these sin taxes for expanding access to health insurance and services. Before the introduction of the tax reforms, there were notable inequities in the access of poor and lower income groups to health insurance. In 2011, 49% of households below the poverty line in Philippines had access to the state health insurance system, compared to 56% for those households above the poverty line (Bredenkamp et al, 2017).

Overview of the reform process and tax system that emerged

A key challenge when introducing the main sin tax reforms in 2011–12 was finding a way to ensure that their design helped to address both the objectives of raising revenues and improving health outcomes, as either pursued alone would have likely led to very different tax regimes emerging[1]. This challenge was addressed through a number of approaches. Firstly, in relation to cigarettes there was an emphasis on applying a final single tax rate, as this was seen as helping to avoid the outcome of simply incentivising

1 For example, a very high tax would help to significantly discourage consumption and promote strong health outcomes, but would be likely to limit revenues.

consumers and producers to move towards lower value products (Kaiser et al, 2016). Secondly, there was extensive analysis undertaken in 2011 and 2012 – including with support from the World Bank and the World Health Organization – to explore potential options, model outcomes and understand what approaches would help to balance the core objectives (Kaiser et al, 2016; Madore et al, 2015).

There was also a challenging, but relatively short, political process for considering various reform options, negotiating, and evolving the tax framework, and securing support to pass the final set of reforms. The Philippines has a bicameral political system, which meant that the sin tax reforms needed to be agreed by both the House of Representatives, with its 236 members, and the Senate, with its 24 members. The process of discussing the reforms in the House began in 2011, and the House eventually agreed a Bill in June 2012. The Bill then moved to the Senate Ways and Means Committee, and after intense debate, a Senate Bill passed in November 2012. The final step was for the House and Senate leaders to convene and agree a final bill, which they did on 11th December 2012, and the new excise taxes came into effect on 1st January 2013 (Kaiser et al, 2016).

This legislation led to a simplification of and an increase in taxes on alcohol and tobacco products, which were introduced over a phased period during 2013-17, with an annual increase in tax rates of 4% then applying from 2017 (RA10351, 2012). Additional legislation introduced in 2017 (RA10963, 2017) and 2019 (RA11467, 2019) further increased tax rates on these products, largely through the tax structure introduced in 2012.

As regards sugar sweetened beverages, unsuccessful efforts to introduce taxes on these products had been made by a number of legislators over the decade from the mid-2000s. Then during the 17th Congress (2016-19), Congress member Estrellita Suansing's proposal for a tax on sugar-sweetened beverages attracted support from the Government of the Philippines, who saw the value of taxes on sugar sweetened beverages for tackling health challenges and mobilising revenues. As a result, the proposal for these taxes was adopted by the Government and introduced as a part of a wider package of tax reforms – the Tax Reform for Acceleration and Inclusion (TRAIN) Law. The process for introducing these taxes involved initial Bills tabled in the House of Representatives (April and May 2017), a Bill tabled in the Senate (November 2017) and then a process for reconciling the House and Senate legislation (Onagan et al, 2019). The framework of taxes was passed as a part of the TRAIN Law in December 2017 and applied a tax of ₱6 per litre for beverages sweetened using calorific and non-calorific sweeteners, as well as a tax of ₱12 per litre sweetened beverages using high fructose corn syrup (RA10963, 2017).

Included in the reforms introducing these sin taxes, were measures to reserve a significant portion of the additional revenues generated for promoting access to health insurance and services. The 2012 reforms on excise taxes for alcohol and tobacco products earmarked 85% of the incremental revenues to financing universal health care, with 80% of these funds earmarked for providing free access to the National Health Insurance Program (NHIP) to low-income households, and 20% allocated to support the Health Facilities Enhancement Program (HFEP) and the Medical Assistance Program. In addition, the remaining 15% of the total incremental revenues from tobacco taxes were used to maintain long-standing allocations of finance to support the provincial governments and municipalities of domestic tobacco-growing regions (RA10351, 2012). The 2017 reforms then adjusted these ear-markings, to require 50% of the total revenues from taxes on alcohol and tobacco products to be allocated to health expenditure. They also introduced provisions for 50% of the revenues from the tax on sugar-sweetened beverages and all of the revenues from taxes on heated tobacco products and vapor products to be allocated to health priorities (RA11346, 2017).

In order to support the directing of free health insurance to the neediest households, it was decided to use an existing ranking of poor households nationwide – the National Household Targeting System for Poverty Reduction (NHTS-PR) – that had been used to administer the country's large conditional cash transfer program (Kaiser et al, 2016).

Summary of the reform outcomes

This section identifies the outcomes of the reforms presented above, in terms of their effects on consumption of "sin" products, the revenue impacts of the reforms and the impacts that the accompanying health spending had on access to health insurance and services.

Although the price of cigarettes initially increased modestly following the 2012 reforms, by 2015 the price of cigarettes had increased significantly, especially at the high- and medium-priced end of the market. These price increases seem to have contributed to a 23% reduction in sales volume of cigarettes over the period 2012–17 (Lane et al, 2021). Research suggests that the decline in market activity was largely a result of smokers consuming fewer cigarettes, and to a lesser degree because of a decline in the number of smokers (Austria and Pagaduan, 2018).

In contrast to cigarettes, the price of beer and spirits did not increase significantly, as the taxes applied were more modest in comparison to the prices of these products. As a result, over the period 2012-15, the volume of beer brought onto the market only fell marginally and that of spirits only started to see some decline in 2015, after robust growth in 2013 and 2014 (Kaiser et al, 2016).

The 2012 reforms led to a significant increase in revenues from tobacco and alcohol products. In cash terms, total revenue from these products almost tripled during the period 2012–15, from around ₱50 billion to just over ₱140 billion. Revenues from tobacco taxes made the most significant contribution to this increase during 2012-15, with their value as a share of GDP doubling from just under 0.3% to just under 0.7%. As a share of GDP, revenues from taxes on alcohol increased more moderately, from 0.2% in 2012 to 0.3% in 2015.

These increased revenues also fed into a significant increase in health spending, helped by the earmarking of most of the revenues for this purpose. Between 2013 and 2014 (the first year of major allocations from sin taxes), the Department of Health's (DoH's) budget increased from ₱53.2 billion (USD 1.2 billion) to ₱87.2 billion (USD 1.9 billion), and by 2016 this budget had reached ₱122.6 billion (USD 2.62 billion). The DoH's budget then increased to ₱171.9 billion (USD 3.5 billion) in 2020, helped by earmarked sin tax revenues of ₱93.6 billion (USD 1.9 billion), before falling off as a result of the impacts of COVID-19, and then increasing to ₱262.9 billion (USD 4.9 billion) in 2022, helped by earmarked sin tax revenues of ₱93.6 billion (USD 1.7 billion) (DoH, 2022).

Within the DoH's budget, allocations for the NHIP increased rapidly, and the agency managing this scheme (PhilHealth) was required to meet reporting and accountability requirements in relation to the number of poor and near-poor beneficiaries they have reached (Kaiser et al, 2016).

A 2016 study suggests that by 2015 this increase in spending had contributed significantly to expanded access to health insurance. Based on administrative data, health insurance coverage increased by 20% during 2011–15 – from 52.6% to 63.2% of households – with a larger increase (by 31%) among poor households. Household surveys did though report lower levels of access and suggested that just over a third of households in the poorest two quintiles remained without access to this insurance (Bredenkamp, 2017).

Earmarked revenues from sin taxes have continued to increase in the period since 2016. As a result, the Government of the Philippines has been able to fund a rapid increase in the coverage of the NHIP. By 2022 the NHIP had registered over 89% (equivalent to 90 million registered members and their dependents) of the population of the Philippines (DoH, 2022).

As regards taxes on sugar sweetened beverages, evidence suggests that these had fed into increased prices and had an initial impact on reducing consumption of these beverages. Initial market surveillance suggested that prices had increased by 20% (Onagan et al, 2019). Research comparing consumption levels of sugar sweetened beverages in 2013, 2018 and 2019 suggested that taxes on these products had led to a reduction in consumption of more than a fifth, with a larger reduction in consumption observed amongst males and the poorest quintile (Lee et al, 2022).

One claim of the opponents of the sin tax reforms – especially companies producing and selling sin products – was that these taxes would end up being paid disproportionately by poor people, as they spend a higher share of their income on relevant products. However, proponents claimed that poor groups would benefit the most, given that they had very limited access to affordable health services before the reforms (Madore et al, 2015).

Overall, the introduction of these sin taxes has had a significant effect on revenue levels, which has in turn contributed to large increases in health expenditure and an expansion in access to health services. The impact of taxes on tobacco products and sugar sweetened beverages led to a notable reduction in consumption, although taxes on alcohol seem to have had a much more modest effect on their consumption. This conclusion suggests that it is possible that higher taxes on these products could help to balance the objectives of these reforms more evenly.

Key Challenges and Lessons Learnt

As emphasised in the background section, although there were some technical issues that needed to be worked through in developing the reforms, the key challenge for securing the reforms was dealing with political resistance to excise taxes on tobacco and alcohol products, which had prevented serious reforms over the previous two decades.

The challenging political context was driven by a number of factors. Firstly, there are a small number of large companies that dominate the alcohol and tobacco sectors, and these companies have strong political connections which they have used to resist tax and other reforms. Secondly, because there is significant domestic production of tobacco, which is concentrated in certain regions (mainly five provinces in northern Luzon), and the political representatives of these regions have used their influence to oppose tax and other reforms. There is also the challenge that party discipline is weak, which makes mobilising the required support for reforms difficult, even for an executive which has strong powers (Kaiser et al, 2016).

It has been suggested that a number of factors have been critical for overcoming long-standing political to reform taxes in these sectors. Firstly, it is important that there was strong leadership from the President to introduce these reforms and secure political support for them. Secondly, the narrative that sin taxes were being introduced to secure health outcomes, especially for the poorest in society, is thought to have helped to build public and political support for the reforms.

Thirdly, a broad coalition of civil society groups and other organisations – including health NGOs (especially those focussed on tobacco control), economic reform organisations and international organisations such as the World Bank – supported the Government's efforts to introduce the reforms and helped to mobilise public and political support for them (Kaiser et al, 2016; Hoe et al, 2021). There was also reported to have been a highly organised group of actors that met regularly to coordinate their efforts and pursue a highly strategic approach to securing political support (Hoe et al, 2021). Finally, it has been noted that reform proponents were prepared to show compromise as they negotiated support for their reforms, whilst also sticking to a firm set of principles, objectives and non-negotiables on which they would not compromise (Kaiser et al, 2016).

Conclusions

This case study illustrates the challenges involved in undertaking highly sensitive tax reforms in a complex political environment. It shows that such reforms can take some time to come to fruition, but that opportunities often emerge where the right are in place for transformative tax reforms to be successful.

In addition, this case study suggests that for sin tax reforms to be successful in these contexts it is necessary to combine robust technical and political efforts, to mobilise a wide coalition of actors to secure support, to take advantage of political openings strategically, and to apply the right balance of flexible and principled negotiation.

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Case 2 – Sierra Leone: Strengthening Subnational Revenue Generation through Property Tax Reform in Freetown

Introduction

Property taxes provide the backbone of local government finance in most countries. In low-income countries, however, property taxes are the most underperforming of all major national and subnational taxes relative to higher-income countries (Dom et al., 2022). In sub-Saharan Africa, the weakness of property tax collection can be attributed to a range of factors, including incomplete and out-of-date valuation rolls (Kelly, 2012; Kitchen, 2012), under-assessment of the most valuable properties (Bahl, 2009), and weak enforcement of property tax liabilities (Bodea and LeBas, 2016).

Recognising these challenges, the Freetown City Council (FCC) engaged in a comprehensive reform of its property tax system in 2019. The reform took a broad approach, including efforts to improve property identification, a novel points-based method of valuation, the construction of a new IT system, a new payments process, clear and systematic appeals procedures, contracting a private firm to deliver bills, and explicitly linking property tax payments to service provision through a sensitisation campaign and a participatory budgeting pilot.

The reform program has demonstrated significant success. Prior to the reform, the total potential level of annual revenue that could be collected based on the then existing property tax base and system (the 'revenue potential') was only about 8 billion Leones (USD 650,000), with data suggesting collection of around 4.25 billion Leones (USD 340,000) in 2017 (FCC, 2019). This was out of a total of around 10 billion Leones ($800,000) own-source revenue raised by Freetown City Council in 2017 (FCC, 2019). By contrast, in the first full year of the reforms being introduced, 2020, revenue potential jumped to almost 45 billion Leones (USD 3.65 million), and collection was about 15 billion Leones (USD 1.2 million) out of a total of 25 billion Leones[1] (USD 2,12 million), despite the impacts of the COVID-19 pandemic (FCC, 2021). The reform thus resulted in a quintupling of revenue potential, a near tripling of collections and property tax revenues making a growing contribution to total revenues raised by Freetown City Council. It also nearly doubled the number of properties in the valuation roll, and dramatically improved the vertical and horizontal equity of tax bills.

This case study illustrates how the Freetown City Council, central government, and partners like the International Centre for Tax and Development (ICTD) and the International Growth Centre (IGC) have worked together to strengthen property tax collection in Freetown.

Background to the Reform

On assuming the office of Mayor of Freetown in March 2018, Yvonne Aki-Sawyerr initiated a strategic planning process that would result in the "Transform Freetown" agenda. The Transform Freetown Agenda identified 11 priority sectors grouped into four key clusters for policy action: resilience, human development, healthy city, and urban mobility. Central to the agenda was an ambitious revenue target – situated in the "resilience" cluster – to increase own-source tax revenue five-fold from 7 billion Leones (USD 565,000) to 35 billion Leones (USD 2.8 million) by 2020.

1 This figure includes 6.6 billion Leones in revenue listed in FCC (2021) as "payment in lieu of property rates".

At the time of Mayor Aki-Sawyerr's election, Freetown's system of property taxation faced challenges common to many subnational governments in Africa. Most estimates placed coverage of the property valuation roll somewhere around 50% – that is, only half the properties in Freetown had been assessed for taxation. Many properties were severely undervalued and paying similar rates to much lower quality properties. Property taxes were administered manually, with a paper-based system of valuation. Compliance was also tracked manually, bill delivery was difficult to trace, and taxpayers were required to follow a complex process to make payments. As a result, record keeping was challenging and imperfect, and the methods used to assess property values were opaque to taxpayers.

To begin addressing these challenges, Mayor Aki-Sawyerr convened a technical working group that included representatives from the International Centre for Tax and Development (ICTD), the International Growth Centre (IGC), and central government agencies including the Ministry of Finance and the National Revenue Authority. The technical working group agreed to proceed with a small pilot project to assess the feasibility of adopting a new valuation system for properties in Freetown. The pilot phase of the reform ran from January to March 2019, ultimately collecting data on the characteristics of 11,000 properties in two Freetown wards. The pilot results demonstrated the feasibility of applying a simplified and automated method of property valuation in Freetown and were used to secure support from the UK Department of International Development (now the Foreign, Commonwealth and Development Office) for scaling-up the reform.

Technical Overview of the Reform Program

The reform program was designed with a view to minimising administrative costs and complexity, simplifying compliance, increasing transparency and trust in the system, and expanding accountability. While the new valuation system was central to reform, a series of other administrative processes were also critical for sustainability. To this end, the reform took a broad approach, including the identification of properties with satellite images and handheld devices, a points-based valuation methodology, a new IT system for management of the property tax system, bill delivery with a private firm, a clear process for property owners to appeal their valuations, integrated payments with the banks, and a sensitisation and participatory budgeting strategy that linked property taxes to service delivery.

Discovery and identification

A primary challenge facing many property tax systems in sub-Saharan Africa is the accurate identification and measurement of properties, especially in rapidly urbanising areas. The Freetown reform employed a hybrid method whereby properties were identified and measured by satellite image, while enumerators visited each property in-person to record key property characteristics and verify geolocation with handheld devices. The two datasets were then merged, resulting in a detailed property map that identifies each property by geolocation, and includes data on roofline measurements and property characteristics.

Valuation methodology

The Freetown reform employed a simplified, points-based method[2] of property valuation that takes a middle position between the trade-offs of conventional market-based and area-based valuation approaches[3]. Most simply, the logic of the points-based system rests on the fact that larger and higher quality buildings are expected to command higher market values than smaller and poorer-quality buildings. Drawing on this fact, the points-based methodology begins by assigning points, rather than price, to properties based on the area of buildings. Additional points are then awarded for positive features or deducted for negative features of the property[4]. The points value assigned for different property characteristics are, in turn, harmonised with a sample of market value indicators collected by property experts, to arrive at estimated values.

2 For a detailed description of the points-based methodology see Fish 2018.

3 For a discussion of the trade-offs inherent to different property valuation approaches see Collier et al. 2018.

4 In Freetown, the characteristics included in the final valuation calculation include location, street quality and access, drainage, water access, space for building extension, wall, roof, and window quality, and the presence of air-conditioning and security, among others.

IT system for management

The reform included the creation of a custom IT system to manage property valuation, billing, and payment tracking. The IT system automatically calculates tax liabilities for properties once property characteristics are entered, allows for a transparent understanding of overall revenue potential, produces transparent rate demand notices so that taxpayers can understand how their liabilities are calculated, and tracks payments entered against individual property records. It was designed with a focus on simplicity, interoperability, transparency, and flexibility, while keeping costs down.

Bill delivery

Tracking bill delivery is a challenging administrative problem facing many subnational governments in Africa. Lack of effective delivery tracking undermines compliance and enforcement efforts because administrators cannot tell which properties have received their bills. To address this challenge, the reform developed a new mobile app to record bill delivery, including automatic matching to property geolocation data. Tracking bill delivery through the mobile app allowed for the use of backcheckers and data technicians to ensure quality control. Bill delivery was then carried out by a subcontracted private logistics firm, in cooperation with the reform team and FCC administration.

Clear process of appeals

To increase trust in the new system among taxpayers, and to ensure data quality, a help desk was established at the FCC council offices. Help desk staff provided information about the reform process and answered taxpayers' questions about the new system. Frontline staff were empowered to add basic information to property records, while alterations that would change final tax bills were required to go through a secondary verification step.

Integrating payments with the banks

When payments are not reliably matched to taxpayer accounts enforcement becomes impossible, because authorities cannot identify who has, and who has not, paid. Even when payments are made at banks, local administrators are still responsible for reconciling bank records with individual taxpayer accounts, which can lead to errors and gaps. As part of the reform, FCC completed an API integration between the new property tax software and one bank, which was the first integration of its kind in Sierra Leone. Two other banks were also authorised to receive property tax payments, and bank tellers were trained to enter payment details directly into the property tax software, alleviating the need for manual payment matching by the administration.

Sensitisation approach

The reform was accompanied by a comprehensive sensitisation campaign that emphasised the improved equity of the new property tax system, and the services that new revenue would be spent on. The reform also included a pilot participatory budgeting project whereby randomly selected residents in each ward discussed service delivery priorities, before voting on how a small pool of money should be allocated to their ward.[5] Winning projects were then delivered over the course of 2021, accompanied by messaging that emphasised the connection between service delivery and property taxation.

Summary of Outcomes

Now in its second year of implementation, the Freetown reform has recorded significant success.

Pre-reform property records were maintained in a series of physical books, making comparability with the new valuation roll challenging. However, the FCC Valuation Department reported that the pre-reform valuation roll contained about 57,000 properties, which can be compared to the over 103,000 properties captured by the reform. Domestic properties in the valuation roll more than tripled, from about 30,000 pre-reform to over 97,000 after the reform.

Tax bills also became significantly more equitable under the reformed system, driven by large increases for valuable properties, large decreases for low-value properties, and little or no change for moderately valued properties. Based on samples from the pre- and post-reform valuation rolls, for instance, properties in the highest quintile saw a 242% increase in their tax liabilities, while those in the lowest quintile saw a 70% decrease in their tax liabilities. Most properties (83%) received a final tax bill of a maximum of 500,000 Leones (USD 40) (FCC, 2021).

5 Grieco, Kevin, Abou Bakar Kamara, Niccolo Meriggi, Julian Michel and Wilson Prichard. 2022. "Strengthening Fiscal Contracts Through Digital Town Halls in Freetown, Sierra Leone". mimeo

Table 2 – Change in tax liabilities in Freetown, Sierra Leone by property quintile

Quintile	Existing system, average tax liability per property (USD)	New system, average tax liability per property (USD)	Change to average tax liability per property (%)
1st	14.33	4.31	–70
2nd	15.85	9.48	–40
3rd	16.10	17.40	+8
4th	23.38	36.94	+58
5th	41.64	142.25	+242

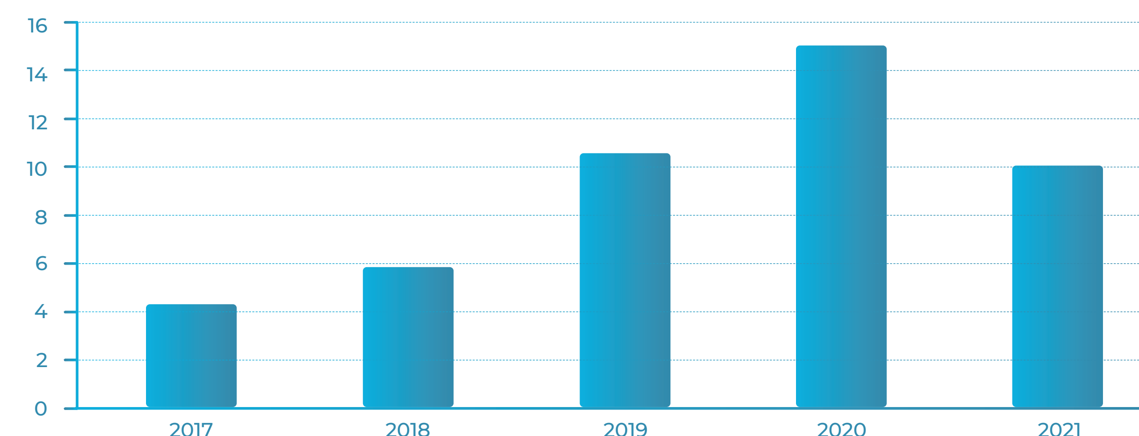
Source: Dom et al. 2022, 143

The property tax system also became significantly more transparent, both for the FCC and for taxpayers. Under the previous system, it was difficult for FCC to determine overall revenue potential, given the outdated and manual valuation roll. Estimates by the reform team, however, placed overall revenue potential around Le 8 billion (USD 650,000). Under the new system, overall revenue potential increased substantially, to Le 45 billion (USD 3.65 million), and is displayed transparently on a dashboard included with the new IT system against total payments received. The IT system also enables FCC to produce bills that include a clear breakdown of the characteristics informing the valuation calculation on demand. As a result, the new system also provides more transparency to taxpayers about how their liabilities are calculated.

The reform also yielded a significant increase in revenue collected by FCC. In 2017, total property tax collection was 4.25 billion Leones (USD 340,000), and in 2018 it was 5.8 billion (USD 470,000). Property tax collection in 2019 was also between about 5-6 billion Leones, although an aggressive revenue drive in the latter part of the year yielded an additional 5 billion Leones (USD 400,000) in arrears payments. In its first full year of operation, in 2020, the reformed property tax system yielded 15 billion Leones (USD 1.2 million), representing a near tripling in collections.

Early data for 2022 suggest further improvements as the new system becomes more established and accepted, with a 13% revenue increase from 2021 in the first 12 weeks of bill delivery.

Figure 2: Property tax revenue, billions Leones, 2017–21



Note: *Revenue levels for 2020 are based on assuming an initial revenue level of 5.5 billion Leones (the mid-point of the estimated 5–6 billion Leones), plus the 5 billion in arrears payments.*

Sources: FCC (2019, 2020, 2021, 2022)

Key Challenges and Lessons Learnt

Reforming subnational tax systems is both a technical and political challenge, and successful reform requires managing a set of political relationships as much as it requires getting the technical details right.

- **Valuation is central to property taxation, but it is equally important to get other administrative processes right.** While the simplified, points-based method of valuation provided the technical core of the reform program, the accompanying administrative reforms were just as important for the program's success. For a new valuation system to yield sustainable increases in revenue collection, administrators must be able to accurately identify all properties in their jurisdiction, deliver bills to these properties in a cost-effective manner, and accurately track payments against individual taxpayer accounts to allow for effective enforcement. Addressing these administrative challenges, in turn, requires buy-in and support from taxpayers, central government, and subnational administrators.

- **Strong political leadership and a clear strategy to confront resistance from taxpayers are essential to advance reform.** As with any change that is likely to result in higher tax bills for a segment of the population, resistance should be expected, and a clear strategy to confront such resistance is required. Strong political leadership is an important part of such strategies. Mayor Aki-Sawyerr's Transform Freetown Agenda, for instance, provided an important framework within which increased tax demands on the highest value properties could be credibly linked to a commitment to provide improved services to the city. On launch of the Freetown reform in May 2020, some taxpayers expressed concerns about large increases in their tax bills. Such concerns emerged mainly on social media and tended to come from better off taxpayers. Given that the reform was launched during the COVID-19 pandemic, taxpayers also argued that it was not an appropriate time to introduce higher tax bills. To counter these objections, the reform deployed a communications strategy that was led by the mayor and emphasised the new system's fairness, equity, reciprocity, and accountability.

- **Securing buy-in and cooperation from central government is vital to reform success.** Property taxation is not only carried out by local governments but also relies on cooperation and support from central government. Support from the parent ministry – in the case of Freetown, this was the Ministry of Local Government – is particularly important. On launch of the reform, the central government raised concerns about the new property tax system, especially related to its implementation during COVID-19 and its conformance to national guidelines. Ultimately, the delivery of tax bills in 2020 was paused to await national consultations on guidelines for permissible property tax reforms. The national consultations culminated in a meeting of all subnational mayors and chief administrators in September 2020, during which it was essential that reformers were able to clearly explain, justify, and illustrate the rationale for, and advantages of, the new system. From these consultations, it was agreed that FCC could maintain its new points-based system of valuation but would reduce the tax rate on domestic properties from a flat rate of 3% to 2.5% of their taxable value and would develop discount schemes for elderly and disabled property owners (a 10% discount on tax liabilities are currently applied to these groups) (FCC, 2022). The FCC adopted these guidelines for the 2021 tax cycle.

- **Securing buy-in and support from local administrators is also vital to reform success.** In the face of reform, administrators are likely to feel that their positions are being undermined, or that their autonomy is at risk from more rigid automated systems. To manage this relationship and to counter objections, the reform program sought to work closely with FCC administrators, and to incorporate them into reform processes at every stage. Valuation Department staff, for instance, participated in the pilot phase of the reform and were consulted extensively in the refining of property characteristic measurements. Valuation staff also participated in the data collection and delivery exercises throughout the lifecycle of the reform, played key roles in the operation of the help desk, and were actively supported to gain mastery of the new IT system. Most critical has been working closely with the administration in the development of all systems and processes, to ensure local ownership and sustainability.

Conclusion

Reforming Freetown's property tax system has been equally a technical and political challenge. On the technical side, Freetown has succeeded in implementing a novel points-based property valuation methodology that is more transparent and equitable than the previous system and has the potential to generate significantly more revenue. Implementing the new valuation methodology in a sustainable manner required the reform program to address the serious administrative hurdles that face most local governments in Africa. Accurately identifying properties, delivering bills, and tracking payments, for instance, present major challenges in most jurisdictions regardless of the valuation methodology that is adopted. Advancing these technical reforms has, in turn, required careful management of a set of political relationships, along with a high degree of flexibility and willingness to compromise, when necessary, while seeking to maintain the core of the reformed property tax system intact.

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Case 3 – Uganda:
Strengthening the administration of taxes paid by High-Net-Worth Individuals

Introduction

In many low-income countries low tax rates are in part driven by the challenges of a small tax base, resulting from being largely cash-based, informal and agricultural economies (Mills 2017). Although in the longer term, significantly raising tax revenues in these contexts requires substantive reforms, in the short term it is vital that the existing tax base is effectively taxed, so that vital development needs can be resourced. This effort can reduce inequality, as formal incomes are generally higher, and it can help avoid an over-reliance on often regressive consumption taxes. This is especially the case if individuals with high incomes can be effectively targeted.

In Uganda, the tax system consists of direct taxes (e.g. taxes on personal income from employment, renting and property, as well as business taxes), indirect taxes (e.g. Value Added Tax and Excise Duty), and non-tax revenues (e.g. stamp duty on transfer of land ownership) (Santoro and Waiswa, 2021). In 2020, Uganda's tax revenues as a share of GDP totalled 11.26%, a modest increase from 10% in 2015 (ATI, 2021).

In FY 2014/2015 – the beginning of the period covered by this case study – indirect taxes on goods and services constituted around half of total tax revenue whilst Personal Income Taxes (PITs) constituted around a quarter of the total (UNU-Wider, 2021). As regards PITs, 68% of the total was collected from individuals in formal employment (Kangave et al, 2018). To collect PITs, the Uganda Revenue Authority (URA) utilises a withholding tax system, where employers are required to withhold a portion of an employee's salary to pay to the URA as the PAYE tax (Santoro and Waiswa, 2021).

Tax compliance for individual taxpayers is generally low, with over 80% of individuals who are required to file tax returns not filing (Santoro and Waiswa, 2021). Compliance for Uganda's wealthiest is also historically low[1]. This may be explained by a few reasons: tax collection efforts were focussed on large companies and individuals in formal employment; High Net Worth Individuals (HNWIs) hold significant political influence; the underutilisation of available data and siloed operations within the URA; and challenges in interagency information sharing (Kangave et al, 2018). Ultimately, there is a severe inequity in the distribution of the tax burden. With taxes on goods and services constituting the majority of tax revenue in Uganda, tax burden falls disproportionately on poorer citizens. Similarly, the average employee shoulders the burden of PIT over their wealthy counterparts.

This case study illustrates the efforts of the URA to maximise the potential of PIT, against the backdrop of a growing fiscal deficit, with little room to further increase taxes on goods and services and inequities in the tax burden.

1 An assessment of the tax compliance of 71 senior government officials over the period 2011/12 – 2013–14 showed that despite all having had stakes in commercial enterprises, the majority did not pay PIT, nor did the associated companies comply with tax obligations (Kangave et al 2018). In FY 2013/14, only 5% of directors of the top taxpaying companies paid income taxes (Kangave et al 2018; Santoro and Waiswa 2021).

Background to the Reforms

The Uganda Revenue Authority (URA) was established in 1991 as a semi-autonomous revenue agency charged with administering tax laws and advising the Minister of Finance on tax administration, revenue-related policies and implications (Kangave et al, 2018). Because it is a semi-autonomous department, the URA has independence in its tax administration responsibilities.

During missions engaging the Government of Uganda in 2014 and 2015, the International Monetary Fund (IMF) raised concerns about high levels of non-compliance among large taxpayers and recommended that further work was done to better segment and engage these taxpayers (URA, n.d.). An important element of the Government's response to these recommendations was to establish the HNWI Unit within Large Taxpayer Office (LTO) in the Domestic Taxes Department of the URA. Staffed with four tax officers and a supervisor (Dom et al, 2022), this was the first effort in Uganda to identify the wealthiest individuals and enforce tax compliance (Kangave et al, 2018; Santoro and Waiswa, 2021). During interviews carried out for this study, it was pointed out that URA's independence and the fact the HNWI Unit was tackling compliance with existing tax laws implied no legal barriers and limited political obstacles to this Unit's work.

In 2017, the HNWI unit was moved to the Public Sector Office (PSO) and merged with the Very Important Persons (VIPs) unit (Kangave et al, 2018), which dealt with politicians and popular and prestigious figures in society, who were often very politically connected (Santoro and Waiswa, 2021).[2] The decision to merge the two units was driven by the fact that there was a substantial overlap between individuals categorised as both HNWIs and VIPs, as well as observed similarities in characteristics, such as their political and economic influence, as well as lifestyle (Kangave et al, 2018). The interviewees indicated that URA officials reasoned that the skills required to interact with and manage the affairs of both HNWIs and VIPs would be similar and it would be more efficient to merge the units. Having the new HNWI-VIP Unit within the PSO also facilitated the identification of HNWIs using information from government contracts (URA n.d.). The HNWI-VIP unit was staffed with six tax official working with 396 individuals by the end of 2021 (157 HNWIs and 236 VIPs) (Tumukunde, 2019).

Technical Overview of the Administration Reforms

The unit did not have formal criteria for identifying HNWIs at the time of its inception, and as a starting point, officials generated a list of potential HNWIs consisting of directors of large companies and individuals whose wealth was publicly known (Dom et al, 2022; Santoro and Waiswa 2021). Following the analysis of senior management within the Domestic Taxes Department, the initial HNWI list comprised 117 individuals (Kangave et al, 2018; Okecho and Seery, 2020). With the active support of senior management, the unit engaged with HNWIs in order to educate taxpayers on their tax obligations and signal that the URA was observing their compliance (Dom et al, 2022; Kangave et al, 2018; Santoro and Waiswa, 2021).

Following the initial identification of HNWIs based on public knowledge and available data, a research by the International Centre for Tax and Development (ICTD) supported the development of a set of criteria which could be used to more systematically identify HNWIs. The research helped identify the full range of income sources relevant to HNWIs as well as the assets they typically own and the types of transactions they engage in. Once these areas of income and spending were identified a series of weighted parameters for each were proposed to operate as a set of criteria to identify an expanded group of HNWIs (Tumukunde, 2019; Okecho and Seery, 2020; Kangave et al, 2018). The parameters included cases where:

- Rental income exceeds USD 142,000 per year, or if land worth more than USD 285,000 is traded in a five-year period;
- Shareholders in private companies have an annual turnover of more than USD 14.3 million;
- Bank transactions exceed USD 1 million per year, or total loans are more than USD 1.5m over a five-year period;

2 Santoro and Waiswa (2021, p13) note that VIPs were identified as including "high ranking government officials, such as the president, the vice president, cabinet ministers, speaker and deputy speaker of parliament, heads of political parties, heads of government institutions and members of parliament that lead committees, as well as influential non-governmental officials, such as kingdom heads, heads of professional and business associations, famous religious leaders and public figures".

- Someone is publicly known to be wealthy;
- An individual imports or exports goods worth more than USD 142,000;
- An individual maintains commercial forests, plantations or large ranches
- An individual owns a car with a market value greater than USD 142,858 (Okecho and Seery, 2020).

This multi-pronged approach to identifying HNWIs was favoured over a simple wealth threshold as a lack of data and information-sharing across relevant institutions remains a consistent barrier to enforcing tax compliance amongst Uganda's wealthiest (Kangave et al, 2018; Dom et al, 2022). Competition between URA departments in meeting their own individual performance targets and their lack of internal cooperation were key factors leading these departments to operate in silos and fail to link up information they each held. Better sharing of information across these departments would have made developing criteria for identifying HNWIs easier (Dom et al, 2022). In addition, difficult legal and political realities are reported to have negatively impact information sharing between the URA and other key organisations (Dom et al, 2022). For example, limited URA collaboration with the Bank of Uganda and the Ministry of Lands has constrained efforts to identify more clearly which people fit within the HNWI criteria in relation to bank transactions and land ownerships (Kangave et al, 2016). Also, URA struggles to collaborate with commercial banks to gain access to important data for identifying HNWIs and their tax liabilities because of legal and political obstacles to sharing information (Dom et al, 2022).

Further to information barriers, the political nature of taxing HNWIs can act as an obstacle to enforcing tax compliance. The URA is semi-autonomous in nature, indicating that there is still the likelihood of political interference when attempting to identify and tax HNWIs, which could account for the low numbers of individuals identified at the outset of the HNWI strategy (Kangave et al, 2016). Because many HNWIs wield great economic and political influence, high-level political and administrative support is critical to ensuring the strategy's success and enforcing tax compliance (Dom et al, 2022; Santoro and Waiswa, 2021).

Support provided by URA's top leaders can explain the initial success of the unit. As recounted to the research team in interviews, as well as through the literature (Kangave et al, 2018), shortly before the 2016 parliamentary and presidential elections the URA requested that the Electoral Commission require a tax clearance certificate from the URA before accepting nominations from candidates for parliamentary seats. The URA and Domestic Taxes Department made public announcements and contacted candidates via text and email, urging them to file their returns and pay any tax due in order to obtain a Tax Clearance Certificate. Nearly all candidates applied for the clearance and made payments towards the taxes they owed, signalling the crucial nature of political buy-in when enforcing HNWI tax compliance.

Despite this initial success, however, a recent study finds that senior management support was not strong enough in regards to resourcing the unit with a sufficient number of skilled staff, or increasing the number of HNWIs in the unit (Santoro and Waiswa, 2022). In 2021, the unit's staff consisted of three tax officers, most of whom have limited experience and training in the area, and one supervisor. The study also finds that the criteria developed to identify HNWIs are not being fully used, with management blocking requests to migrate newly identified HNWIs unto the HNWI/VIP unit.

Another key element of the Unit's efforts to expand revenues from HNWIs was the upskilling of staff in relation to client management, which has involved ensuring that staff know what is the best way to make the case for tax compliance, develop interpersonal skills to effectively engage high profile individuals and identify ways to support HNWIs to better manage their tax affairs. It has also included researching the background of targeted HNWIs so that a tailored approach to client management could be pursued. Interviewees identified that these client management skills have become central to the operations of the HNWI unit, as effective relationship management is vital to the success of its work.

Summary of Outcomes

Impact on revenues

Following the implementation on taxes on HNWIs, the unit saw an increase in revenue collection from around USD 5.6 million in FY 2015/16 to around USD 6 million in FY 2017/18 (Tumukunde 2019). Within the first year of the unit's operation the proportion of the initial cohort of 117 wealthy individuals focussed on by the unit who filed income tax returns increased from 13% to 78% (Kangave et al, 2018).

However, a recent in-depth study of the impact of efforts to better engage HNWIs on tax compliance since 2015 found that the response of many individuals to these efforts seems to have been to engage in "complex and aggressive tax minimisation and avoidance schemes". This has involved these individuals pursuing an 'appearing small' strategy, whereby they have substantially reduced their income and final tax liabilities in relation to income tax, VAT and land transactions. The most significant effect of shifting reporting was in relation to personal income tax, for which declared income fell by 27% for relevant HNWIs during 2015–20 (Santoro and Waiswa, 2022). It has been suggested that the level and complexity of this shift in behaviour was too extensive for the HNWI Unit to respond to effectively with the limited number of staff and resources they have at their disposal (Santoro and Waiswa, 2022). Interviewees noted that there were plans to bring in new staff to the HNWI unit to support broader and more intensive client management, but no new initiatives to ensure that the unit was better able to collaborate with other parts of URA and other relevant institutions to respond to tax planning behaviour were identified.

The study which identified this effect, did though note that across this period VIPs increased their likelihood to file tax returns by 37% over a comparator control group, probably because they are less likely to know about their filing responsibilities, face public reputational pressures to begin filing and may be encouraged by the business networks they are a part of (Kangave et al, 2018; Santoro and Waiswa, 2022). In addition, overall research suggested that payments by HNWIs increased very marginally, by around 2.5% (Santoro and Waiswa, 2022), much lower than the levels that had been hoped for.

Information was not available on trends in payments by HNWIs for the period since 2020. However, we were informed in interviews that the shutdowns introduced to control the spread of the COVID-19 pandemic have had a significant negative effect on payments from HNWIs (and on overall revenues), because many had to suspend business activities or were unable to rent their properties for an extensive period. It therefore seems clear that the HNWI Unit will face significant challenges in the coming years in terms of re-building their engagement with and the response from HNWIs.

Impact on inequality

As the overall direct effect on revenues of the work of the HNWI Unit over the period 2015–20 was only very modest, it is unlikely that this alone has already helped effect inequality. In addition, an analysis of detailed revenue data for 2021 suggests that Uganda's tax structure has remained broadly the same during 2015–21, with proportion of tax revenue coming from income, profits and capital gains (35%) and that coming from taxes on good and services (53%) remaining relatively constant. This could indicate that the tax system has not become more progressive over this period.

It is though the case that during 2015–20 overall tax revenues increased (with the tax to GDP ratio increasing from 10% to 11.2% (UNU-Wider, 2021)), which has helped significantly increase the level of planned public spending across this period, including on social sectors (see table 1 below), where spending may have benefitted low-income groups. It is possible that the visibility of efforts to take HNWIs, and the more active engagement of these individuals with the tax system, has had some sort of demonstration effect on taxpayers more broadly.

Table 1 – Planned public spending for social sectors, UG Shillings, thousands 2015–21

	2015	2018	2019	2020	2021	% change 2015–21
Agriculture	458	829	893	1,047	1,327	190%
Education	2,025	2,509	2,736	3,225	3,704	83%
Health	1,289	1,824	2,310	2,581	2,789	116%
Social Protection	33	98	333	359	452	1270%
WASH	303	360	919	680,895	1,202	297%
Total	4,108	5,620	7,191	7,893	9,474	131%

Source: Okecho and Seery 2020; Government Spending Watch (Uganda data pages)

Key Challenges and Lessons Learnt

Setting up the HNWI unit and the political support that has been given to its work has provided an indication of Uganda's commitment to improve tax revenues and equity within the country. The work of the HNWI unit has helped strengthen the engagement of these individuals with the tax system, and its efforts may have had an important demonstration effect on tax morale more broadly. It is also the case that this work has helped test innovative new approaches to engaging HNWIs on tax compliance, and to learn important lessons that can inform the future work of this unit and in relation to tax compliance in Uganda more broadly. However, overall, the HNWI Unit seems to have only had a limited impact in expanding tax revenues from HNWIs, due to wide use of tax minimisation and avoidance schemes.

One area that clearly requires further consideration is human capacity in the HNWI Unit. With only four current staff members to attend to the current list of 396 HNWIs and VIPs, the number of staff in the unit will need to increase in order to effectively manage the complexities of engaging this group, and especially if the target group of HNWIs is expanded further. These staff also need further support to develop effective client engagement approaches, especially as one of the lessons of the work of the HNWI Unit to date is that more tailored approaches are required to secure positive responses from HNWIs.

Information-sharing and data scarcity will also continue to hinder the identification of and effective engagement with potential HNWIs. As such, further emphasis should be placed on improving intra- and inter-agency information sharing amongst relevant institutions in Uganda.

Linked to this challenge is securing adequate levels of political support both for the work of the Unit and for pursuing effective and joined up approaches to engaging HNWIs across the tax system. Securing such support may require mobilising more vocal and visible support from civil society groups.

Conclusion

URA has engaged in a valuable effort to use low-cost administrative changes to better engage HWNIs on their tax compliance, with some notable impacts on filing rates, and marginal positive impacts on revenues. This case study provides a valuable example for tax authorities, especially in low resource environments, about what can be achieved through a more strategic, data driven and client-sensitive campaign to promote tax compliance from high income individuals.

However, at the same time, the fact that many HNWIs have successfully engaged in tax planning to side-step the powers of the HNWI Unit, illustrates the limitations of trying to pursue tax compliance changes through a modestly resourced and siloed approach to engaging HNWIs. It therefore seems clear that a system-wide, coordinated and adequately resourced effort is required to achieve substantive changes in the tax behaviour of and revenues generated from HNWIs. It may also be important to ensure that efforts to expand taxes paid by HNWIs are accompanied by a process of communicating how revenues will help improve services and strengthen the social contract in general, so as to better incentivise these groups to pay more tax.

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Conclusion

The case studies presented above span a wide range of sectors and experiences, with a diverse range of factors helping or hindering the emergence of these reforms.

In the Philippines, the case of sin tax reform illustrates that high level and broad support, combined with a strategic and flexible approach to proposed reforms, can help to overcome vested interests that resist change. It also illustrates how with informed and detailed planning tax reforms can achieve multiple public policy objectives, including promoting equity.

In Sierra Leone, the introduction and implementation of the property tax reforms was helped by the fact there was buy-in and support from the political leadership, central government and local administrators. The reforms provided a comprehensive response to property tax challenges by addressing a range of administrative challenges that were acting as a constraint to the collection of property taxes. There was also extensive support from international organisations and a development partner, which helped address the substantial technical and financial challenges in setting up the new property tax system.

In Uganda, the impact of the reforms was held back by a failure to sustain initial high levels of political support for the HNWI Unit, as illustrated by the limited capacity in the Unit. These political constraints, and a failure to share information and work collaboratively across relevant government authorities to tackle aggressive tax planning, was also a major factor.

Despite the diversity of these case studies, a number of common themes emerge out of these case studies, which could provide lessons for the implementation of equitable tax reforms in other countries:

Firstly, **high level political support and engagement across a wide range of actors** can be critical to efforts to implement these reforms, especially as, by their nature, they usually imply a degree of resource reallocation from economically and politically powerful groups.

Secondly, **linking revenues and the narrative of promoting tax reforms to public spending priorities** can help secure broad public support for these reforms.

Thirdly, it is important that **reforms address the wide range of constraints that hold back efforts to promote equitable tax reforms,** so that a comprehensive approach to tacking relevant challenges is promoted.

Fourthly, **a clear strategic approach and methodology for promoting equity** is important, as these outcomes are not automatic and require explicitly targeted efforts.

Finally, **external support from donors or international organisations** can help address key constraints to undertaking such reforms, especially in contexts where there are significant resource and capacity constraints.