AFRICAN TAX ADMINISTRATION FORUM

FORUM SUR L'ADMINISTRATION FISCALE AFRICAINE

Tax Expenditures

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Outline

- Background on Tax Expenditures (TEs)
- ATAF's work and initiatives on TEs Reporting in Africa
- Collection on TEs data on the ATAF online data portal
- Cutting on financial flows through proper reporting of TEs
- Areas of priorities for ATAF

Background

- Tax Expenditures (TEs): as revenue forgone due to selective provisions in the tax code, which include exemptions, allowances, tax credits, tax rate reductions and tax deferrals.
- Tax Incentives (TIs): as fiscal measures used to attract local or foreign investment capital to certain economic activities or particular areas in a country.
- Governments pursue public policy objectives through revenue collection and public spending. However, they also rely on TEs.
- TEs refer to benefits granted to specific sectors or groups through preferential tax treatments.

ATAF's TEs work and initiatives

- In 2021, ATAF embarked in conducting a project on TIs/TEs.
- A background paper was produced with the following:
  - A review of tax incentives by sectors and on various tax types
  - Framework of tax incentives to promote investment
  - Principles for governance on tax incentives on the continent (governance structures and political landscape)
  - Key recommendations: publicly reporting of TIs (TEs); streamline of TI; Cost-Benefit Analysis; Excluding political reasons in awarding TI; Avoid discrimination against domestic investment when giving TI to FDI…
- **ATO online Data Portal:** on Customs duties Expenditures and VAT expenditures

Tax Expenditures per tax types – Joint work with UNECA

- ATAF and UNECA collaborated on the TEs report in 2022.
- **Process:**
  - ✓ to recruit in-country Revenue Authority Secondees as consultants
  - ✓ Conducted a capacity building workshop to bring Team to same page on the details and methodology of how to estimate Tes
  - ✓ Of 12 countries initially participated, 10 countries are on-board: Reports received so far are from 8 countries (Benin, Burkina Faso, Ghana, Kenya, Morocco, South Africa, Uganda and Zambia)

ATAF – UNECA
Overall approach to measuring TEs cont'd

Prerequisites:

- ❑ Appropriate definition of the benchmark of the tax system
- ❑ Correct deviation from tax laws and to the benchmark of the tax system

Overall approach to measuring TEs

- ❑ Focus on CIT and VAT
- ❑ Defined a benchmark tax system for CIT and VAT
- ❑ Estimation - comparing a country's tax system to a Benchmark tax system.
- ❑ Tax provision in a country's law on VAT or CIT resulting in reduction in tax revenue relative to what the Benchmark VAT or CIT would generate is a tax expenditure.

Comprehensive TEs reports to enhance DRM

Key issues to consider:

- ❑ Efforts to increase cooperation and coordination on TEs
- ❑ Legislative reform - harmonization of legal standards and definitions and sharing of data among countries in Africa.
- ❑ The role of technology in promoting cooperation and improving efficiencies within countries.
- ❑ The need to adopt a common understanding of risks – the potential for a continental risk assessment analysis.

Overall approach to measuring TEs cont'd

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Tax Expenditures/TI and international tax

- ❑ Pillar 1 focuses on the allocation of taxing rights, and the Pillar Two aims at countering artificial profit shifting strategies used by MNEs
- ❑ ATAF proposed that, under Pillar 2, a minimum eff tax rate may lead to another jurisdiction taxing the income of taxpayers who benefit from a tax incentive regime.
- ❑ Hence, the revision of tax incentives regimes and policies to assess the impact that the rate might have on its effectiveness
- ❑ Complex issue: if MNE in a country is getting a CIT tax incentive (of 10 years tax holiday), the Pillar 2 rule may result in the tax given up by a country being taxed elsewhere.

IFFs and impact on DRM

- UNCTAD estimates that capital flight from Africa, including trade-mis-invoicing and other transactions, was approximately US$ 88.6 billion between 2013 - 2015
- This total of the IFFs toward GDP of the Continent during this period represents 3.8%.
- **Total Tax revenues** - the IFFs represent between 21% and 25% of tax revenues collected every year on average.
- Average Tax to GDP for the continent is between 15% and 17% for the past 10 years (ATAF (ATO) 2021/OECD 2021/AEO 2020…)
- An efficient management of IFFs could bring the average Tax to GDP of Africa to a lower bound of 18% and the higher of 21%.
- **IFFs are qualified with the illegality compared to TEs** - Limitation of IFFs will bring to public purse revenue and restore the legitimacy

Priorities Areas

Expanding the tax base to diversify sources of revenue – i.e. Formalise the informal sector, Cutting on tax incentives

Rethink the tax expenditures – tax incentives (TEs with UNECA

Better tax policies: Tax treaties, trade agreements

World class Tax & Customs Administrati ons

Countries to compete for investment

Increased focus on more efficient tax administration and better compliance (TADAT, DEA, other possible evaluations)

Combating IFFs– IFF risks raised by the AfCFTA, focus on curbing these risks in order to compensate for potential revenue loss.

Thank you
Merci beaucoup
Obrigado