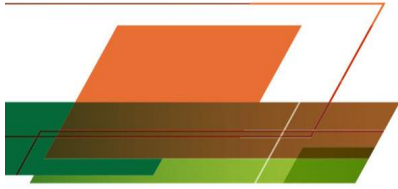


Tax Expenditures

Nairobi, Kenya. 18-19 October 2022

M. Frankie Mbuyamba



Outline

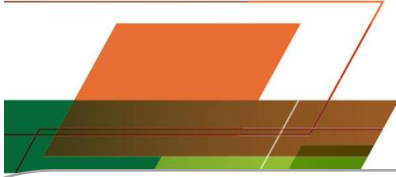


- ❖ Background on Tax Expenditures (TEs)
- ❖ ATAF's work and initiatives on TEs Reporting in Africa
- ❖ Collection on TEs data on the ATAF online data portal
- ❖ ATAF-UNECA Approach to reporting of TEs
- ❖ Areas of priorities for ATAF

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

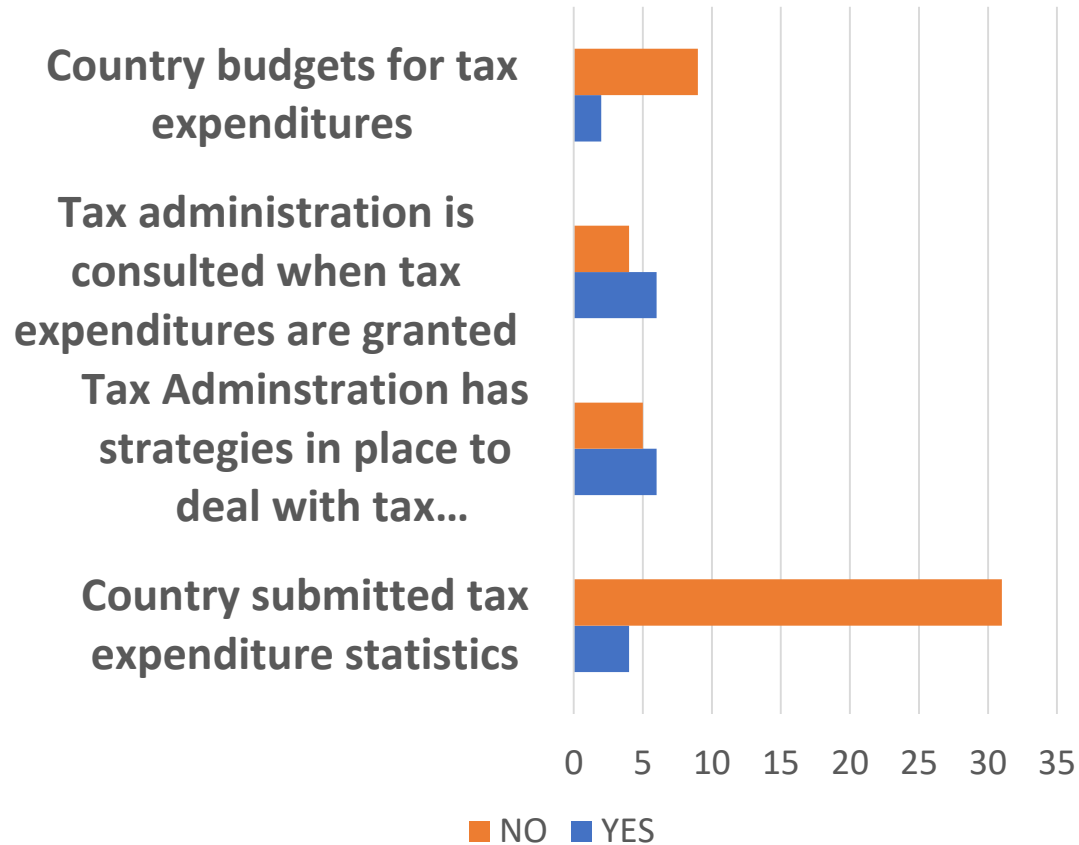


- ❑ In 2021, ATAF embarked in conducting a project on TIs/TEs.
- ❑ A background paper was produced with the following:
 - A review of tax incentives by sectors and on various tax types
 - Framework of tax incentives to promote investment
 - Principles for governance on tax incentives on the continent (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 – ATO Data

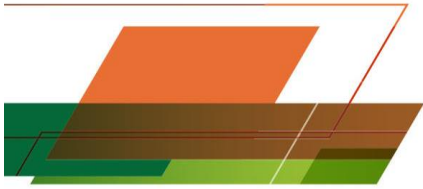


ATO Data - Tax Expenditures



**ATAF
MEMBER
COUNTRIES:
29 in 2019**

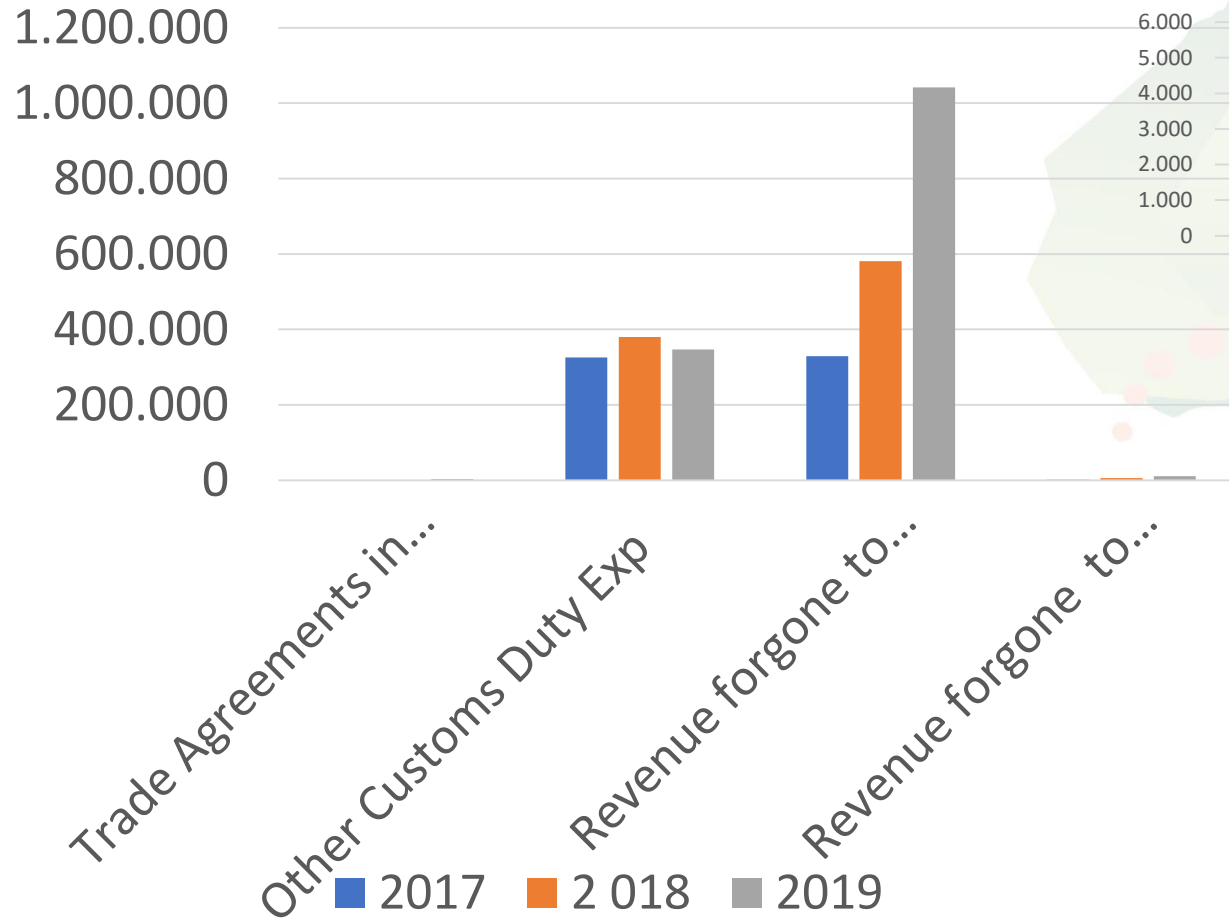
**ATAF
MEMBER
COUNTRIES:
35 in 2021**



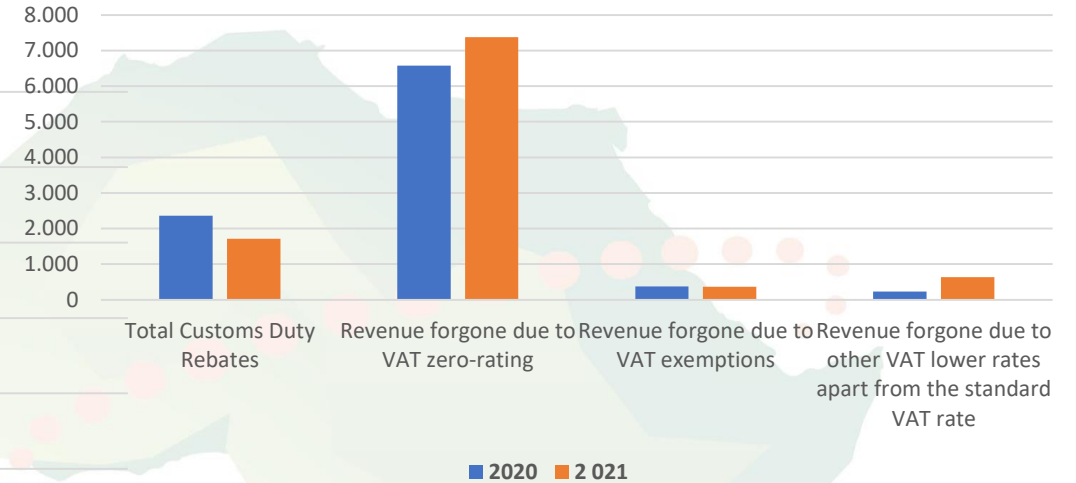
Tax Expenditures – ATO Data



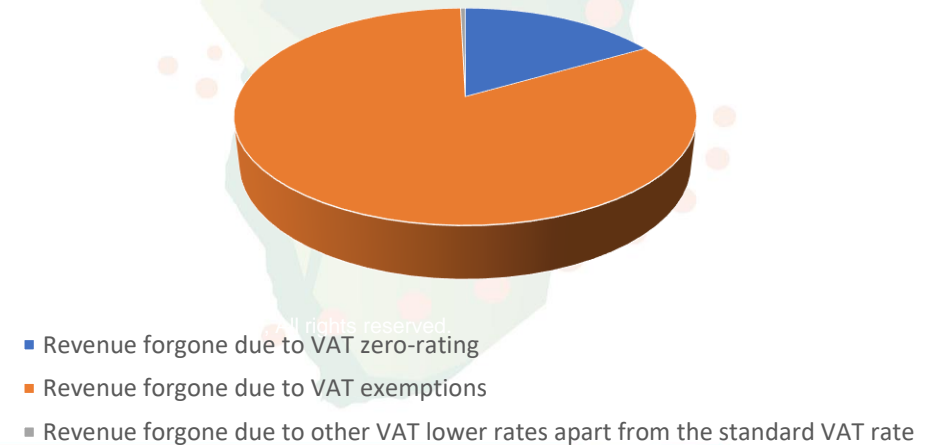
Madagascar (In Millions)

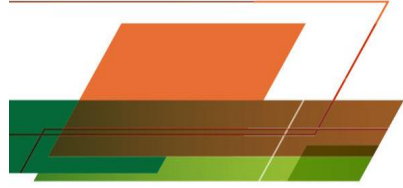


Cabo Verde (In Millions)



Gabon - 2021 (in millions)



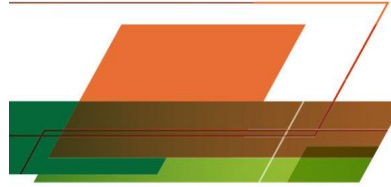


Tax Expenditures per tax types – Joint work with UNECA



- 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 and on-boarded: Reports received so far are from 10 countries ([Benin](#), [Burkina Faso](#), Ghana, Kenya, [Morocco](#), Mauritius, South Africa, Uganda, Zambia and Tanzania)

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ATAF – UNECA

Overall approach to measuring TEs cont'd

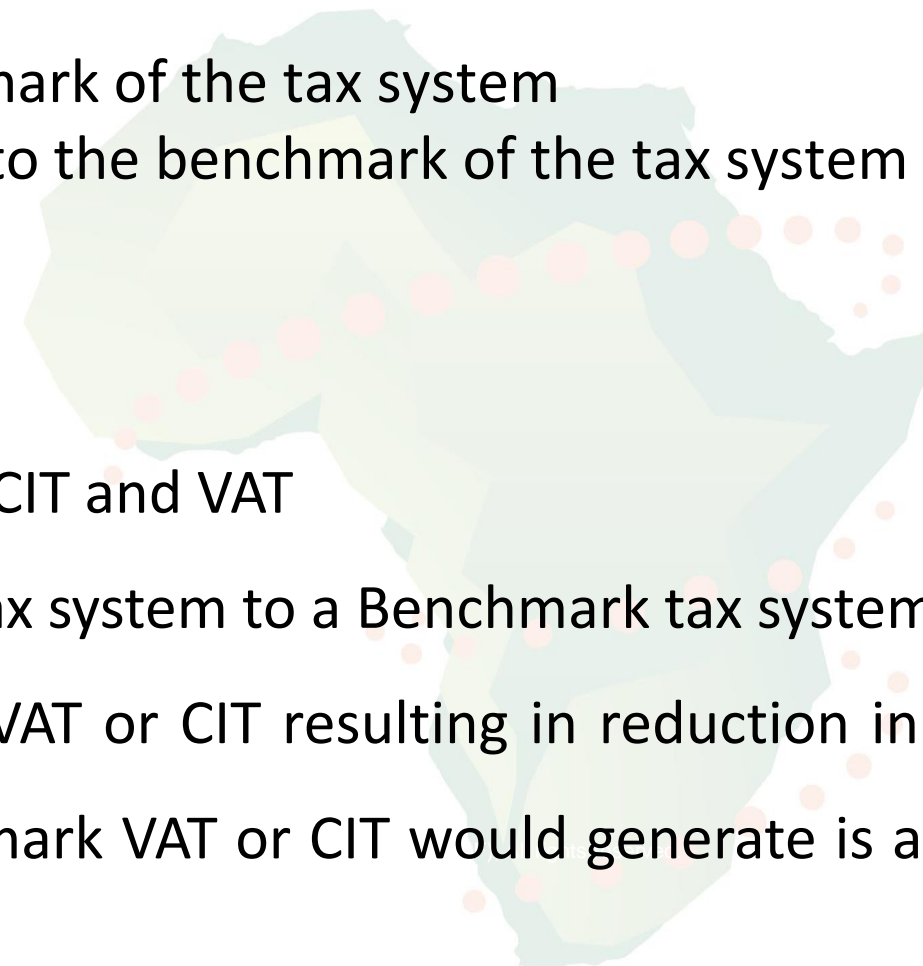


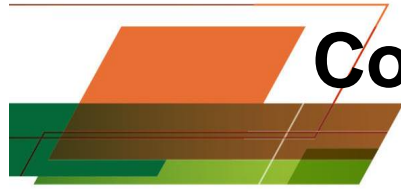
Prerequisites:

- 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.





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 effective 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.





Priorities Areas

Expanding the tax base to diversify sources of revenue
– i.e. Formalise the informal sector, taxation of DST, Extractives...

Rethink the tax expenditures – tax incentives
(TEs with UNECA)

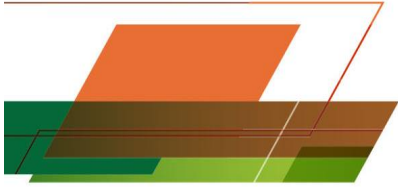
Better tax policies: Tax treaties, trade agreements

World class Tax & Customs Administrations

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

