



2018 ITJA Session 4: Obstacles to Tax Collection

Jason Rosario Braganza, Deputy Executive Director

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jbraganza@taxjusticeafrica.net

@JasonBraganza1



Presentation Outline

- **Why Tax?**
 - Chapatis and its discontents
- **Domestic Resource Mobilisation**
 - Definition
 - Components of DRM
 - Data sources for DRM
 - Sample Statistics
- **Obstacles to Tax Collection (APP)**
 - Administration (A)
 - Policy (P)
 - Practice (P)



Why Tax?

- ▶ generate revenue for resources
- ▶ reinforce the social contract between citizens & state
- ▶ provide for wealth redistribution
- ▶ provide for re-pricing in accordance with social values

- ▶ Remember the 4Rs?
- ▶ Riva's chapatis?
- ▶ Jared's Tax Challenges?
- ▶ Vincent's Typologies?



Domestic Resource Mobilisation (DRM)

► Definition

- Domestic Resource Mobilisation (D.R.M.) refers to the generation revenue from domestic resources and allocating these revenues to economically and socially productive expenditures.
- DRM comes from **Public sector => through taxation and other funds e.g. aid;** and **Private sector => through economic activity**
- **DRM is the most sustainable form of finance for developing countries**

► Components of DRM

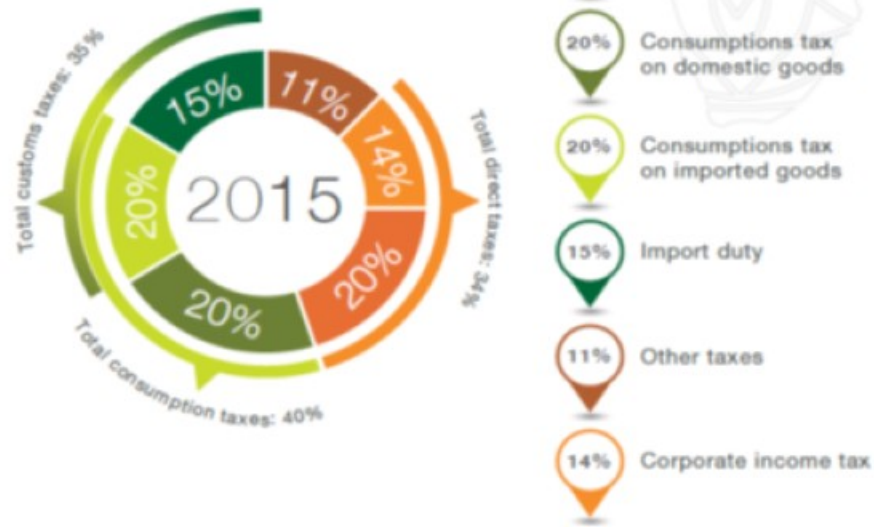
- tax or non-tax sources (royalties, licenses, levies or other income)
- DRM creates additional space for sustainable budget expenditures, fosters ownership and reduces dependency on external assistance.
- When assessing DRM, not only the volume of revenue must be considered (e.g. tax to GDP ratio). The content and fairness of tax policies also matters (e.g. to avoid distortions and inequity)



Domestic Resource Mobilisation (DRM)

Total tax revenue

TAX REVENUES AND GDP



Tax revenue in the ATO countries came from 6 tax types in 2015...

...which may be divided into two categories:

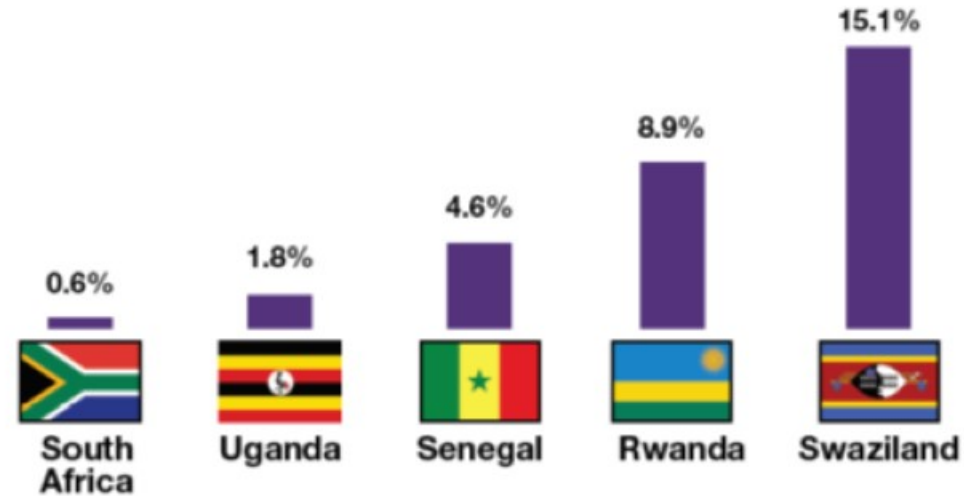
- Indirect taxes, where consumption and customs taxes overlap, and which account for 55% of the average ATO country's total tax revenue.
- Direct corporate and personal income taxes account – 35%.



Domestic Resource Mobilisation (DRM)

Non-tax revenues

Non-tax revenues (royalties, grants, fees, fines, etc.) ranged from 0.6% of GDP to 15.1% and were lower than tax revenues in 2015



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Obstacles to Tax Collection (APP)



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Obstacles to Tax Collection (APP)

- ▶ Administration
 - ▶ Institutional and Staff Capacity
 - ▶ Lack of systems
 - ▶ Lack of automation -> Manual processes
 - ▶ Complicated/cumbersome tax policies



Obstacles to Tax Collection (APP)

► Policy

- **Tax Incentives** -> is a government measure that is intended to encourage individuals and businesses to spend money or to save money by reducing the amount of tax that they have to pay
 - Can be detrimental as these are open to abuse from individuals and business -> eroding the tax base and undermining collection
 - Encourages tax competition between countries and regions -> undermine DRM efforts => 'Race to the bottom'
- **Tax treaties** -> Double taxation agreements specify which country has taxing rights over an individual or business, and, if they both have such rights, which one takes priority..
 - **Legislative Gaps in these treaties** -> undermine taxing rights of developing countries in most cases; encourage 'bad behaviour' if the agreement is with a more favourable tax jurisdiction
- **Tax Base** -> many developing countries have narrow tax base => rely on a few taxes (often regressive ones) as part of DRM efforts



Obstacles to Tax Collection (APP)

► Practices

- **Tax Avoidance** -> the arrangement of one's financial affairs to minimize tax liability within the law.
- **Tax Evasion** -> the illegal non-payment or underpayment of tax
- **Corruption** -> the abuse of power for private gain
- **Informal Sector**
 - Many developing countries have a large informal sector whose activities largely go unreported and avoid being taxed
 - The activities are largely legal but because these entities in the informal sector are not registered => tax revenue losses accrue to revenue authorities



Can WE Close the Holes?





Administration

- ▶ **Strengthen independent institutions and agencies of government**
 - ▶ Increased support in terms of building tax capacity in Revenue Authorities of developing countries to realise their revenue generation goals.
- ▶ **Automation**
 - ▶ Widespread use of automation to improve collection -> e.g. Kenya Revenue Authority
 - ▶ User-friendly systems and process can lead to increased compliance and increase revenue collection
- ▶ **Staff Capacity**
 - ▶ Regular capacity building for revenue authority officials
- ▶ **Compliance**
 - ▶ Simple and predictable tax systems -> Culture Change: adoption to new ways of business for staff and taxpayers -> Enhanced Taxpayer Compliance



Policy

► Review of Treaties and Tax Agreements

- Policy enactments and Treaty provisions that create a balance between protecting revenue by maintaining source taxing rights and encouraging inbound investment through reduction of tax barriers.
- Review current and prospective **double taxation conventions**, particularly those in place with jurisdictions that are significant destinations of IFFs

► Tax Harmonisation

- Having a common approach on imposition of Capital Gains Tax on transfer of interests in the Extractives sector would be helpful for developing countries with the natural resources
- Require multinational companies operating in their countries to provide the financial information on a **country-by-country** basis
- Establish Framework regionally and globally **Automatic exchange of tax information**



➤ Harmful Practices

➤ Tax Avoidance ->

➤ Tax Evasion

- Trade Mispricing: ensure that they have clear and concise laws and/ or regulations in place that make it illegal to intentionally incorrectly or inaccurately state the price, quantity, quality or other aspect of trade in goods and services
- Transfer Pricing: National and multilateral agencies to make fully and freely available and in a timely manner data on trade pricing of goods and services in international transactions, according to accepted coding system categories

➤ Corruption -> Reduce avenues for corruption in tax administration through automation, robust revenue collection systems, increase transparency of business activities and processes

➤ Informal Sector

- Improve the capturing of informal sector agents
- Use of direct and indirect taxes to support the tax revenue in a manner that is equitable and transparent



In the end ... reducing obstacles to tax collection means

- Reduced cost of collection
- Efficient business processes
- Transparency in tax administration
- Increased tax compliance levels
- Increase revenue collection
- Reduced leakages (next session)
- Reduced tax burden
- And ...



In the end ...



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Questions?



Thank you for you kind attention!

jbraganza@taxjusticeafrica.net

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@JasonBraganza1