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Distr.
LIMITED

E/CN.14/FISC/
29 December 1965

Original: ENGLISH

ECONOMIC COMMISSION FOR AFRICA
Advanced Seminar on Current Problems and
Training Needs in Tax Administration
Addis Ababa, 6 - 15 December 1965

REPORT OF THE ADVANCED SEMINAR IN CURRENT PROBLEMS AND TRAINING NEEDS IN TAX ADMINISTRATION

M66-100

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PART I INTRODUCTION

OBJECTS AND PURPOSES OF THE SEMINAR

1. The Seminar was convened by the Executive Secretary of the Economic Commission for Africa in connexion with Project 88 of the E.C.A. Work Programme. In his letter of invitation dated 3 August 1965 and addressed to all member governments, the Executive Secretary stated inter alia:

"...It is becoming increasingly clear from studies being undertaken under the auspices of the Commission and elsewhere that the success of African Development Plans is going to depend not merely on an increased flow of external funds but also on a more effective mobilization of domestic African resources, particularly by way of taxation. The two sources are in fact complementary; indeed the amount of external aid which will become available may well be influenced substantially by the extent to which the recipients are undertaking effectively to raise more resources at home.

"Unfortunately this is one of the fields in which African countries are encountering some of their greatest difficulties, either because their existing fiscal systems are ill-adapted to present and changing circumstances, or because of difficulties in maintaining a sufficiently high standard of administration in what is becoming a progressively more technical field...

"...The purpose of this Seminar would be to bring about an exchange of views between Heads of Taxation Departments on the principal current problems with which they are faced, and the ways and means by which tax administrations in Africa can be strengthened in the face of present trends. It is proposed that special attention should be given to questions relating to the recruitment and training of personnel employed in tax administrations, to the need for the reform of fiscal systems, and to the directions in which individual administrations urgently feel the need for external help.

"It will be expected that the Seminar will make specific recommendations on these subjects, with particular reference to the role which should be played by the United Nations, Specialized Agencies and others..."

ORGANIZATION AND PARTICIPATION

2. The Seminar met in Addis Ababa from the 6 to 15 December 1965; 22 African administrations were represented by 36 participants, the majority of whom were officers in actual charge of taxation departments.

3. In addition, participants were nominated by the Organization for African Unity, the International Monetary Fund, the Organization for Economic Co-operation and Development and the International Fiscal Association.[1] A senior officer of the Inland Revenue Department of India, who had had experience of African conditions, and the Inter-Regional Adviser for Fiscal Affairs, United Nations, Headquarters, also participated in the Seminar. (A full list of participants is given as Annex I.)

4. As to procedure, it was decided that in order to emphasize the African character of the Seminar, the majority of substantive fiscal discussions on fiscal matters should be opened by participants from African tax administrations. Only for the general discussions on Taxation and Development and the special discussions relating to the international aspects of taxation and to management principles were other participants or members of the Secretariat invited to open the discussion in question.

5. Apart from the formal opening addresses and introductory papers on Taxation and Development, the substantive items on the agenda were divided as follows:[2]

4. CURRENT FISCAL PROBLEMS
   - (i) Taxation of personal incomes.
   - (ii) Taxation of business incomes.
   - (iii) Fiscal incentives for development.
   - (iv) Sources of revenue for local government.

5. FUTURE ORIENTATION OF FISCAL SYSTEMS IN AFRICA

1/ This last organization was represented by Mr. J. van Hoorn, Director of the International Bureau of Fiscal Documentation in Amsterdam.

2/ The numbering quoted here is that used in the Agenda.

6.[1] PROBLEMS IN TAX ADMINISTRATION

(i) Management and recruitment

(ii) P.A.Y.E. (Deduction of tax at source)

(iii) Mechanization

(iv) Training

6. The Time-table is attached as Annex II.

7. The Seminar was formally opened on 6 December 1965 by Ato Bulcha Demeksa, Assistant Minister of Finance of the Imperial Ethiopian Government who welcomed the participants to Addis Ababa on behalf of his Government. The objectives and purposes of the Seminar were then set out in an address by Mr. R.K. Gardiner, Executive Secretary of the Economic Commission for Africa. Mr. Gardiner's statement is reproduced as Annex III.

8. The Seminar elected Mr. S.K. Sebagereka (EACSO) as the Chairman. Ato Damte Bereded (Ethiopia) and Mr. N. Makanguile (Mali) were elected Vice-Chairmen. Mr. Mohamed Ba (Mauritania) and Mr. G.W. Brake (Malawi) were elected as rapporteurs.

9. In Part II of this report will be found Notes on the Seminar discussions.[2] Part III contains the Seminar's general Conclusions and Recommendations.

10. At its closing session, on the 15th of December, members of the Seminar unanimously adopted resolutions expressing their appreciation of the action of the Executive Secretary in convening the Seminar, their gratitude to the Imperial Ethiopian Government for its hospitality and their appreciation of the manner in which the Seminar had been organized.

11. The usefulness of the Seminar in relation to the tasks assigned to it by the Executive Secretary in his original circular letter were affirmed and a recommendation was made to the effect that in order to ensure that the work started in the Seminar should be sustained and continued, further meetings of senior taxation officials should be held regularly and not less than once every two years.

1/ The numbering quoted here is that used in the Agenda.

2/ The Discussion Notes do not, however, include the proceedings in respect of Agenda Item 7 (Conclusions and Recommendations) at the sessions of the 14th and 15th December, since the results of these discussions are set out fully in Part III of the report.

PART II : NOTES OF THE DISCUSSIONS

NOTES OF THE DISCUSSION OF THE AFTERNOON MEETING OF 6 DECEMBER 1965

Agenda Item 3 - TAXATION AND DEVELOPMENT

1. The meeting opened with a discussion of the future time-table of the seminar as a result of which it was decided that meetings would be held henceforward from 9 to 12.30 a.m. and from 2.30 to 5.00 p.m.

2. The Chairman then gave the floor to Mr. Spencer for an introductory exposé of the economic aspects of taxation and development.

3. Till not long ago, the subject would have been summarily dismissed. Today there is instead a growing realization of the close connection between taxation and development. Economists and tax specialists emphasise the need for reform of taxation and for close integration of fiscal policies with national economic planning. In developing countries governments must play a major role in promoting and sustaining development and act as spearhead in raising the rate of investment.

4. In order to accelerate development, however, governments have to surmount vital problems such as those connected with the modernization of the agricultural sector and with the impact of economic development on the balance of payments.

5 The objective of fiscal policy is therefore not merely that of raising revenue to meet the growing needs of governments but also to promote development, and, subordinately, to favour economic stability and to reduce inequalities in wealth.

6. It would be premature to expect that African fiscal policies should all be attuned to the attainment of these objectives. But important progress has been made in certain countries.

7. It is often argued that income per head in Africa is too low to enable African governments to raise the level of the economy by way of taxation.

8. The discrepancies in the distribution of income which characterize African countries should, however, make it possible to extract more taxes from the richer few. Recorded income, furthermore, may not be a real guide to the potential taxable income of the agricultural sector. Finally fiscal policy, which can do very little where income per head is low, should strive at increasing marginal rates of saving as income increases.

9. Mr. Spencer dealt subsequently with the different forms of taxation. In connection with taxes on persons, income and wealth he pointed out the duality between the simple forms of poll and hut taxes and the progressive European style income taxes, the latter being applied in certain African countries to the low income strata of the population and the former to the high income groups. Questions to be examined in this context are whether personal taxation should be applied to all forms of income taken together or whether different types of tax should be applied to different incomes; what are the effects of income taxation on economic incentives; and whether a system of taxation on personal expenditure and wealth, such as was suggested by Prof. Kaldor, would not be more effective than taxation on income and inheritance. Taxation of property and land, on the other hand, raises the problem of shaving off a portion of the increase in the value of land and property, especially urban, resulting from the rapid rate of development of African countries in recent years.

10. Taxation of corporations raises the question of whether emphasis should be on the imposition of distributed rather than undistributed profits, and of the incentives which are appropriate for the stimulation of developmental investment.

11. The subject of taxation of internal production and expenditure opens, finally, the question of what type of the existing taxes is most advantageous for developing countries: sale taxes, taxes on the output of specific commodities (excises) or taxes on value added.

12. The Chairman then gave the floor to Mr. Weisfelt who examined the administrative aspects of taxation and development. Administration once upon a time was conceived only in terms of collecting the maximum amount of taxes, reducing the cost and time of collection and ensuring compliance with the law. Modern tax administration, especially in developing African countries, should not only do this but also contribute to the tax policy of the country.

13. It is important for a tax administrator, to devote prominent attention to obtaining facts about his administration. But for this, he needs competent personnel and may find it useful to create a Fiscal Research Unit.

14. The increasing influence of the tax administrator should operate among other, in the gathering of basic facts, in the speeding up of collection, in the codification of the existing tax laws, in the uniformity of procedures, in the simplification of the tax systems, in the strengthening of the investigational powers of the tax administration, and of the means of enforcement, in the search for clear and simple instructions to personnel and finally in the education of taxpayers by means of booklets and other illustrative material.

15. It is important that co-operation between administration and legislation should be radically improved and that rules about the maintenance of strict secrecy should be established and respected. Co-operation between the different divisions of the Ministry of Finance and related governments services is also important. Today with the emphasis all developing countries place on development planning and economic integration, it is important that fiscal policy should be put under one responsible official to achieve the highest possible co-operation and a free exchange of data.

16. The agenda of the Seminar contains several items of interest in the administrative field such as management, mechanisation and the introduction of P.A.Y.E. system. The problem of how to recruit and maintain competent personnel in sufficient numbers is, however, the overriding difficulty of African tax administrations.

17. Just as an order of priority has to be established in development plans, the same is true for administration: government must decide, for instance, whether the personnel situation of, say, the Ministry of Finance is more urgent than that of the Ministry of Public Works. In a developing economy, the financial administration should indeed be placed very high in the list of priorities. This is seldom understood by politicians, but there are ways of convincing them. There are daily opportunities to draw their attention on these facts in conversations and by way of memoranda. The yearly report is, however, the most efficient channel to achieve this result. It should contain detailed information on the structure and organization of the administration and should try to make comparisons at the national and international level.

18. Taxation needs planning just like economic planning. Changes in taxation should be gradual and synchronised with development, but also with changes in the administration. Administrators in Africa are fighting with lack of personnel and time, but should nevertheless pay more attention to the general problems of administration even to the detriment of their daily work.

19. The Chairman thanked warmly the two speakers and adjourned the meeting at 5.30 p.m.

4. Mr. D.A. Obiri, Ghana, explaining the system of personal income tax obtaining in his country stated that it was introduced in 1943 on the British Colonial model. On account of the very liberal personal and other allowances, the tax yield was very small, as the system then obtaining was suited to societies in which the average level of income was relatively high.

5. The year 1961/62 was one of major revolution in the tax legislation in Ghana, when Professor Nicholas Kaldor of Cambridge University was invited by the Government to make a study of the tax laws. He recommended the abolition of personal allowances, the introduction of a modified PAYE scheme, the cancellation of reliefs in respect of losses incurred by traders and the imposition of a minimum tax based on 2% of the turnover.

6. The speaker gave comparative figures of tax payable by single and married persons in 1955/56, 1960/61 and 1965/66 which showed the progressive increase in personal taxation. The minimum taxable limit was at present £120 and the slab rates varied from 1 to 14s. in the pound.

7. The introduction of income tax clearance certificates which were required to be obtained for various purposes, not directly connected with the payment of taxes, like import and other licenses, tenders for government contracts, remittance of funds abroad, etc. had been very fruitful in bringing the defaulting taxpayers to book. Other steps adopted to check tax evasion were the shifting of the burden on the taxpayers to file on their own the annual returns of income, deduction of a provisional tax at 5% on the payments made to government contractors and progressive estimated assessments at 2% of the turnover in cases of traders who did not maintain proper books of accounts. In order to ensure that all unearned incomes were taxed, legislation was soon to be enacted for the purpose of taxing all such income at source, at the company rate of 10s. in the pound. With a view to bring the small traders into the tax net, the Standard Assessment Act-1964 had been enacted under which there were at present 24 classes of persons carrying on different trades and vocations, from taxi owners to watch repairers, who were by law required to pay a standard rate of tax, varying from £12 to £96 per year, which was a provisional advance tax subject to adjustment on final assessment.

8. Mr. Antoine Tahaulan of Togo explained the personal income tax system obtaining in the French-speaking countries. Broadly speaking, this was a schedular system, under which each category of income was subject to taxation at a proportional rate that varied according to the origin of the income, whether earned or unearned. The total income of the taxpayer was then liable to tax at a graduated rate under the global personalized income tax, subject to exemption of part of the income at the base level, and deduction of family allowances, etc. In some of the French-speaking countries, however, a different method was applicable which consisted of imposing a single general income tax at a graduated and personalized rate on the total income of a taxpayer, irrespective of its origin or nature. Though different rules were applicable for determining the net income according to the different categories, the income from all sources was aggregated for the imposition of the graduated tax.

9. The above two systems applied to all taxpayers who had a relatively high income which could be declared to the fiscal services and was capable of verification. Persons whose income was difficult to determine or for whom a sufficiently clear tax base could not be established for obtaining a return of income, were subjected to a presumptive assessment known as "impôt minimum forfaitaire" (capitation tax). This tax was usually calculated according to a scale worked out for each economic region and took into account both the taxpayers occupation and his apparent and assumed income. In some countries, this tax was administered by local committees under the chairmanship of a representative of the central authority. This tax was applicable to all male adults over 18 years, exemption being granted to children, women and old persons of over 65 years of age.

10. In the course of general discussion which was very enlivening, delegates of nearly all the countries participated. Besides commenting on the system of personal income taxation obtaining in Ethiopia and Ghana as brought out by the main speakers, many of them outlined the structure obtaining in their countries. The experts from the United Nations and other International Agencies also gave their views pointing out the systems obtaining in advanced countries, and the main problems which were required to be tackled in respect of personal income tax.

11. Comparison of the British and French systems of taxation showed that though the former was a unitary one and the latter schedular, there was not very great difference between the two. It was also observed that most of the taxation structures in the world were now being based on the global system, the different sources of personal income being taxed at the same rate on a progressive slab basis, there being in some countries a preferential treatment of taxing earned income at a lower rate than the unearned income. In most cases, a separate corporation tax was levied on companies.

12. It was felt that the basic problems to be considered were the mode of taxing persons in the small income group and the method of computing the income of persons carrying on trade, business, profession or vocation on a small or medium scale and who did not maintain proper books of accounts to record the different transactions. The simplification of the tax statutes, the introduction of a PAYE system, and the part to be played by the tax administration in making proper assessments and collections as well as in checking tax evasion were very important problems for getting the due revenues to the Exchequers. The allocation of the taxes to the Central and Territorial regions or Local Authorities was required to be properly considered in the light of social and economic conditions of the different African countries. The question of taxing capital gains and the net wealth of persons apart from income was necessary to be looked into, having regard to its impact on investment and savings in developing economies of the African countries.

13. One of the main points discussed was whether the present dual system of personal taxation obtaining in most of the African countries, namely the personal graduated tax, the local rate or the capitation tax, in addition to income tax, be retained to tax the persons in the low income brackets or be done away with, so as to have only one central income tax. Having regard to the difficulties of tax administration, especially due to the lack of trained personnel at present available in the developing African countries, and the higher cost of collection involved in taxing small incomes, it was felt that the personal graduated tax, or its equivalent in force in many African countries should be retained for the present as it could be administered in a simple manner without the sophistication of allowances and

deductions obtaining in income tax. It could be made an important source of revenue of local authorities at the regional levels for the various services rendered by them.

14. Criticism was levelled at the high minimum taxable limit obtaining in many countries, as compared to the average wage earnings or income per capita, on account of very liberal personal and other allowances for marriage, children, dependants, education, etc. It was suggested that gradually the income tax base should be lowered, by reducing or eliminating these allowances so as to bring in more and more taxpayers within its fold in order to broad-base the direct tax structure and have a more equitable distribution of tax burden between the different classes of people and at the same time increase the revenue of the Governments. The aggregation of the income of the husband and wife and making the family as the unit of taxation was deemed desirable in the context of African social and economic conditions.

15. The role of taxation on investment and savings in developing countries was brought out in the discussion. It was stressed that though the taxation rates and the minimum and maximum limits of taxation should be kept at fair and adequate levels, taxation and development went hand in hand and with the increase in income and wealth in developing countries as a result of planned economic and industrial progress, the higher monetary returns which led to inflation and wasteful expenditure should be properly mopped up by higher taxation, though at the same time there should be provisions in the tax statutes for incentives for investment and savings.

16. The taxation of foreign income of the residents and the liability of non-resident foreigners in the tax statutes was considered and it was suggested that in developing economies the role of taxation of such income should be properly looked into so as not to impede the industrial and economic advancement of the African countries.

17. Tax concessions to be allowed to foreign technicians, besides Consular and United Nations officials, who were exempted from payment of income tax under international conventions, was also discussed. It was opined that with a view to obtain technical assistance of experts in the different fields in developing African economies, which in the present transitory stage lacked necessary experienced personnel, exemption or concession in tax to foreign technicians could be a good incentive to secure the necessary talent for implementing a planned programme of industrial and economic development of the African countries.

18. It was pointed out that political influence sometimes played a considerable part in the mode of taxation, besides the local, social and economic conditions, which were rightly taken into consideration in framing the tax structures. It was felt that the tax administrators were very often ignored by the Treasury and Finance Ministries in the framing of the taxation statutes and in the introduction of new taxes. It was stressed that the tax administrators should be consulted well in advance and play their rightful role in the planning and framing of the taxation structures in the different countries.

NOTES OF THE DISCUSSION OF THE AFTERNOON MEETING OF 7 DECEMBER AND THE MORNING MEETING OF 8 DECEMBER

Agenda item 4 (ii) - TAXATION OF BUSINESS INCOME

1. Mr. E.A. OSINDERO, Chairman of the Federal Board of Inland Revenue of Nigeria said that in discussing taxation of business income he would not limit himself to the taxation of companies, but would include the taxation of professional income and income of traders. However, he preferred in this connection not to treat the taxation of oil-companies because special arrangements on a fifty-fifty basis were made for their taxation.

2. The main difficulty was to be found in the fact that adequate business accounts are greatly lacking. African traders had the habit of mixing business expenses and private expenses. Since 1 September 1965 an Institute of Chartered Accountants had been founded in Nigeria and it was felt that the discipline of its members could greatly contribute to improving this bookkeeping situation.

3. The tax administration found it extremely difficult to get and to keep qualified personnel. It took three years to educate an inspector of taxes (in the U.K.) and the drain from other government departments and from commercial firms was heavy.

4. The assessment by the Department is supervised by scrutiny commissions which had a knowledge of local conditions and increased assessments when they thought fit.

5. Some results had been attained by co-operation with the Customs Department. However it was found difficult to reconcile the total of imports according to Customs with the accounts of taxpayers.

6. Mr. Osindero wondered whether a solution for training of intermediate personnel could not be found in the creation of a training school for several African countries.

7. The appeal procedure as well as the general attitude of the African population, which does not like to seek each other's downfall, made the work of tax officials more difficult.

8. A particular difficulty furthermore was in the working of the postal services: assessment notices had to be delivered by registered post.

9. In the international field difficulties were encountered by the fact that the diplomatic corps is not bound to give information even about Nigerian nationals and that in double taxation agreements the advantages go largely to the capital exporting countries.

10. In Nigeria a few steps had been taken to Africanize the tax legislation. The income of the wife/wives was no longer included in the income of the husband, and children's allowances were also accorded for another person's children provided they were being educated by the taxpayer.

11, Mr. RAJOANA gave an account of the system of taxing business profits in Madagascar. In this country there is a tax on miscellaneous profits payable by any person in receipt of such profits. The field of application is therefore very wide and only wage-earners are exempt. In calculating taxable profits, costs and expenses may be deducted, such as overheads, financial charges, losses, capital investment carried out or even poroly planned (automatic deduction for certain capital investments, corresponding to the objectives of the plan). Taxation is proportional, there being a fixed rate for individuals and reductions according to the number of their dependants. In the case of companies, a flat rate is applied, of course, without any tax-free allowance.

12. The normal method of taxation is on returns from the taxpayer verified by the tax office. Failing such returns or when it would be illusory to expect any, the tax office makes a presumptive assessment. The tax returns are processed in a computer so that they can be followed up more easily and checked and so that information useful for national accounting can be extracted from them.

13. In the application of the tax, difficulties arise because accounts are often lacking or are non-uniform or fraudulent. In addition to such technical difficulties there are other administrative difficulties arising because of the large area of the country and the relative frequency of fraudulent practices.

14. Various measures have been taken in Madagascar in an attempt to remedy these defects and to improve the taxation system:

- Merchants are required to keep regular accounts, otherwise the tax office makes a presumptive assessment; it is hoped that this method will encourage taxpayers to keep satisfactory accounts.

- Industrialists and wholesalers must provide invoices and indicate the IBM numbers of their clients.

- As has been indicated the electronic computer makes it possible to process returns of every kind and to establish the turnover.

- A national auditing team has been established, with powers to inspect books throughout the island.

- Action has also been taken in the field of training, and mention was made of the establishment of an association of chartered accountants and accredited bookkeepers, the establishment of a centre for business administration and the organization of courses in bookkeeping.

15. Finally, Mr. Rajoana pointed out that new measures were to be taken with the object, notably, of standardizing the presentation of accounts and progressively implementing a general accounting plan.

16. In the discussion which ensued, the following difficulties were especially stressed:

1. The inadequacy of book-keeping accounts.

Remedies applied in Africa -

- Support for professional organizations of qualified accountants which have disciplinary rules for their members (Nigeria)
- Sanctions against negligent accountants (Ivory Coast - penalties for mistakes discovered)
- Sanctions against taxpayers whose book-keeping is insufficient (Liberia - fee of $25 for every auditor/day necessary to come to a correct assessment)
- Burden of proof is laid on taxpayer (Madagascar) if the book-keeping is inadequate or unreliable.
- Import-export declarations together with copies of invoices of wholesalers can provide, with the help of a computer, fairly reliable figures about the turnover of traders (Madagascar)
- The swearing-in of tax declarations (Sierra Leone)
- Models of simple book-keeping accounts (little success in Northern Nigeria, some success in Sierra Leone)
- Free book-keeping courses for taxpayers (Madagascar)
- Right of appeal only after payment of arbitrary tax assessment (Liberia), in cases where the book-keeping is inadequate
- Very severe investigation, almost a raiding party, made possible with search warrant of the competent magistrate. All documents and correspondence seized (Malawi)
- High administrative penalties if declarations are false (Malawi and others)
- Hiring of foreign auditors from first-class international firms (Liberia)

- Forfaitaire system in many francophone countries for small enterprises. The book-keeping is limited to the minimum: books for sales and purchases, with the invoices which have to be made available for the tax administration; declaration of the total of sales and purchases, the stocks, the number of employees, total of salaries paid, total of rents paid as well for business as for private purposes, description of utility - and private cars held, number and names of persons belonging to the household. The income is calculated by applying a gross profit rate derived from studies made about the profession
- The right of access to bank accounts and to the books of taxpayers in general (Ivory Coast)

2. Shifting of income

a) within the territory, e.g. to members of the family

b) outside the territory:

i) by high interest rates for loans, which limit the profits domestically made

ii) by high import and low export prices

iii) by high cost of services and a high share in headquarters costs

Remedies:

a) little or none

b) i) Withholding tax on interest or a legal provision to limit the possibility of deduction of interest

ii) by legal provision to enable the readjustment of prices between parent companies and subsidiaries and to replace them by prices "at arm's length".

iii) One African country (Burundi) did not allow any deduction of headquarters costs.

Sierra Leone requires from foreign companies a consolidated account of their world wide profits and calculates the domestic profits on a basis of 2% turnover or on the average world percentages.

3. To avoid a flight from private income into company income, the francophone countries apply a minimum tax on companies, which is due even if no profits are made.

4. The exchange of data with foreign tax administrations is non-existent or very limited.

NOTES OF THE DISCUSSION OF THE AFTERNOON MEETING OF 8 DECEMBER

Agenda Item 6 - PROBLEMS OF TAX ADMINSTRATION INCLUDING STAFFING AND RECRUITMENT

1. Mr. I.S. FRASER(1) outlined the importance of Good Administration and Management and emphasized the necessity for consideration of administrative requirements at all stages:

(a) Regarding the type of tax to apply;
(b) When drafting legal provisions;
(c) Regarding economic, social and political aims of taxation.

2. He emphasized the need for simplicity in laws, organization structure, administrative procedures and forms and for staffing training at all levels including management development programmes.

3. Mr. H. HINDLE(2) outlined the principles or rules to be applied in making an assessment of an organization or in creating a new organization structure:

(i) Rational Assignment - The identification of distinct functions and their related grouping;

(ii) Span of Control - Endeavour to restrict the number of senior officers reporting to the Head of the organization to not more than four or five;

(iii) Delegation of Authority - To arrange the functional grouping of activities so as to facilitate the delegation of authority;

(iv) Co-ordination - The organization structure should facilitate co-ordination of activities without overlapping responsibilities.

(1) Chief, Public Administration Section, ECA
(2) Regional Public Administration Adviser (O&M), ECA

4. The need for an effective forms management and forms design programme in Taxation Departments was also emphasized.

5. Staffing and Recruitment - Mr. Sebagereka (EACSO Commissioner-designate) opened discussion on these subjects with an outline of the problems prevailing in EACSO:

(i) Acute shortage of qualified personnel;
(ii) Lack of persons capable of absorbing training;
(iii) Need for additional training facilities;
(iv) High rate of staff turnovers;
(v) Maintenance of standards.

6. Delegates generally agreed with this outline of problems. There was considerable discussion of the qualifications needed for tax officials and particularly of the place of the University graduate in tax administration. The French-speaking territories appeared to place high importance on a background in law, supplemented by a long course in the Tax School at Paris. Although this was concerned primarily with the French tax system which was of course more complicated than that found in French-speaking African territories, this training was highly esteemed and carried great prestige. English-speaking territories appeared to rely more on training within, or during service. Some delegates draw attention to the importance of providing training and avenues of promotion for tax officials who showed high ability but lacked academic qualifications.

7. Many tax services found that they tended to lose a considerable number of their officers to private business; various devices for checking this were discussed; however many participants thought this situation must be accepted. It even brought some advantage to tax departments inasmuch as the personnel thus trained helped to raise the standard of tax accounting in private business.

8. Many delegates complained that salaries and conditions of service in tax departments, and the standing of senior tax officials compared unfavourably with those prevailing in other government departments. There was general agreement on the usefulness of Organisation and Methods techniques as means of improving internal organization.

NOTES OF THE DISCUSSION OF THE MEETING OF 9 DECEMBER

Agenda Item 5 - FUTURE ORIENTATION OF FISCAL SYSTEMS IN AFRICA

1. The subject was introduced by Mr. G.K.O. Turkson of Ghana. After a preliminary survey of the implications of economic development on taxation and of the emphasis on productive investment placed by the Ghanaian government in its development effort, the speaker indicated the growing importance in Ghana of excise duties as a result of industrialization. While customs duties have slightly declined in recent years, excise duties have rapidly increased.

2. The search for additional revenue has induced the Ghanaian government to impose in recent times new taxes: on expenditure, such as the purchase tax introduced in 1961 and now applying only to motor vehicles, and the sales tax established in 1965; on property by virtue of the property Act of 1963 which taxes property exceeding a minimum rateable value; on capital gains, following a law adopted in 1965 which taxes the gains derived from the sale of certain "chargeable assets"; and on inheritance following the Ghana Estates Duty Act of 1965 which provides for the imposition of the estates of deceased persons.

3. A second speaker on the same subject was Mr. M'Bemba from Congo (Brazzaville). He emphasized the growing expenditure governments have to incur to promote development and the difficulties they are faced with in raising adequate revenue for this purpose. The problem was visible in Congo (Brazzaville) where expenditure in the 1964/65 fiscal year was estimated at 10 billion CFA francs while estimates for 1965/66 stood at 20 billion CFA francs.

4. The solution of the problem created by the growing gap between expenditure and revenue was to be found in the cautious increase of the rates of taxation where this promised to yield the best results.

5. As far as Congo (Brazzaville) is concerned, extra revenue can be obtained from direct taxation merely by reducing the allowance (presently 40%) for salaried personnel. The same is true for companies' tax where a 20% allowance is presently granted and can be progressively eliminated. Rates of indirect taxation, on the other hand, are also rather low, for instance in the case of turnover tax, excises on alcoholic drinks and tax on petrol the price of which in Congo (Brazzaville) is only 1/3 of the French level. The same appears to be true for taxation of TV and radio sets as well as for excises on cigarettes and tobaccos.

6. The discussion which followed centered on the difficulties which stand in the way of the imposition of new taxes and on the usefulness of searching for new fiscal instruments instead of trying to improve existing ones. It was thus indicated that shortage of staff and qualified administrators made it both difficult and uneconomic for African tax administrations to branch out into new and unexplored fields. There were vigorous statements against the danger of a proliferation of taxes and in favour of efforts aimed essentially at improving the administration and increasing the yield of present taxes. Other participants voiced instead their belief that new taxes were instruments designed to tap resources which would otherwise escape from the fiscal net.

7. Some participants pointed out that finance for the development effort of African countries comes both from internal and external sources. The tendency so far seems to be a chronic overestimation of external resources and a steady underestimation of internal resources. During the colonial times territorial governments had to provide only a small share of the total resources needed by the respective territories, as these resources were mostly of external origin. The situation is today completely reversed. This makes it necessary for tax collection to be closely related to planning and for the tax administration to search for new revenues in areas other than that of customs duties which, in the African experience, already provide the bulk of government revenue.

8. Related problems are those concerning tax concessions and holidays which are designed to act as a stimulant to foreign investment but involve a loss of revenue to the Treasury; and the need for harmonization of fiscal policy in Africa. To this end one participant, Mr. Ogbu of Nigeria, underlined the usefulness of the ECA sponsored seminar on Current Problems and Training Needs in Tax Administration and suggested that the seminar should become a regular annual or bi-annual feature in the ECA programme.

9. The rest of the discussion, both in the morning and in the afternoon, was devoted primarily to an examination of the problems connected with such new forms of taxation as capital gains, value added, land and inheritance.

10. On the capital gains tax the aspects which were considered were: the scope of the tax, i.e. the type of assets (property, business assets etc.) which should be taken into consideration; the moment at which the capital gain should be considered to have been realized; the basis for the charge, that is the distinction between short and long term capital gains; the need to exclude certain assets such as for instance houses occupied by the owners; and finally the treatment of timber and mineral rights upon their sale.

11. There appeared to be certain basic differences in the treatment of capital gains as between countries of British and French tradition. Several participants intervened to clarify this issue and to explain in detail the system adopted for capital gains both in Britain and in France.

12. Mr. Chafanel, of UN Headquarters, opened the afternoon session with a statement designed to explain the principles on which the tax on value added operates in countries of French tradition. His statement as well as the declarations of the delegate from Ivory Coast concerning the operation of the tax on value added in his country raised considerable discussion as to the merits of this relatively new form of taxation and of its applicability to African conditions.

It was felt generally that the system was perhaps useful and applicable in developed European countries but required specialized personnel and particular skills which were scarce in African administrations. The delegate from the Ivory Coast underlined, however, the simplicity of the value added tax as applied in his country, where the whole business was transacted by himself and no more than ten assistants.

13. The discussion was concluded by a series of exposés by several delegates on the land and inheritance tax systems applied in their respective countries (Ethiopia, Burundi, Congo (Brazzaville), Sudan, Cameroun). Particular interest was evoked by the Sudanese delegate who described the mode of operation of the Gezira scheme. This is a vast irrigation project designed primarily for the production of cotton, where all infrastructure and other capital investment has been borne by the government. The land has been alloted to tenant famers on the basis of an arrangement whereby profits are shared on a fifty-fifty basis by the tenants and the government.

NOTES OF THE DISCUSSION OF THE MORNING MEETING OF 10 DECEMBER

Agenda Item 5 - FUTURE ORIENTATION OF FISCAL SYSTEMS IN AFRICA (CONT'D)

1) The discussion of this item, scheduled to be completed on Thursday, was extended to the morning of Friday to enable delegates who had not intervened the previous day to state their position. The meeting was almost entirely taken up by a discussion of technical aspects of the capital gains tax.

2) In particular, the participants dealt with the methods of determining capital gains in relation to both business and private individuals, with the difficulty of drawing a clear distinction between income and capital gain, and with the problems arising from currency depreciation. In connection with the last point, it was indicated that certain countries allow coefficients of revaluation of assets precisely to compensate for monetary devaluation.

3) Some interventions were also aimed at further clarifying the difference in the treatment of capital gains in countries of French and British tradition. In the latter, only income is taxed with the result that the taxpayer is constantly trying to present as capital gain something which is in fact income. Taxation of capital gains is, however, under consideration in Britain while even certain African countries, Ghana for instance, have already included capital gains tax in their fiscal structure.

4) The discussion ended with a statement by Mr. Spencer who summarized the debates on item 5 of the Agenda.

NOTES OF THE DISCUSSION OF THE MORNING MEETING OF 10 DECEMBER

Agenda Item 6 - PROBLEMS IN TAX ADMINISTRATION (CONT'D)

The Role of Mechanization

Mr. F. A. Adelaja, tax administrator of Western Nigeria, pointed out that, contrary to what might be expected, his administration was not mechanised. However, in the application of the P.A.Y.E. system, it greatly profited from the mechanisation of several large employers in Western Nigeria, who provided the tax administration with complete data, analyses and statistics about their employees and taxes deducted.

Very different was the situation in Madagascar where a computerized system had been working for some time not only for the tax administration but also for the national accounts, public expenditure and statistics. There were punch cards of the whole population and of all the enterprises. The turnover of every enterprise was calculated mechanically on the basis of available data about imports and exports and of sales from the wholesalers. This kind of control on the control on the declared turnover figures could only be offered by a computer and contributed considerably to an increase in tax revenue.

Ivory Coast went as far in the application of a computerized system but found advantages in faster handling of all public accounts. However, as in Madagascar, the introduction of the system had taken several years because in the beginning many mistakes had been made by the tax officials not fully aware of the exigencies of the machines.

Cameroun was considering the introduction of mechanization much on the same lines as Madagascar.

The Eastern Region of Nigeria had had already for years a conventional type of mechanisation but found difficulty in reconciling into tax accounts with the accounts of the Accountant General, which were kept with a somewhat different system. This constitutes a warning to those who consider introduction of mechanisation, to start from the beginning with a unified system.

The discussions were useful for all those countries who were considering remedying administrative shortcomings by mechanisation. The general feeling was that greater speed and precision could be attained, but that labour costs could not be reduced. However, some personnel could be made free to improve assessment and collection.

NOTES OF THE DISCUSSION OF THE MORNING MEETING OF 10 DECEMBER

Agenda Item 6 - PROBLEMS IN TAX ADMINISTRATION

Deduction of Tax at Source in the Case of Personal Income Tax (P.A.Y.E.)

Mr. Sheikh Hassan Belail of the Sudan opening the discussion stated that under the Personal Income Tax Ordinance, 1964, a P.A.Y.E. system was introduced in Sudan for enforcing a tax on salaries including other emoluments and allowances, exceeding SL1,350 per annum. Though the employer was held responsible for deducting the tax from the emoluments paid by him to the employees, the ultimate responsibility for making the returns of income and for paying the due tax on final assessment rested on the individual employee.

2. Mr. R.S. Latham (E.A.C.S.O.) said that the withholding of tax at source (specifically that due on wages and salaries) satisfied the four principal maxims of taxation viz equality, certainty, convenience of payment and economy in collection. The present British system combined the advantages of cumulation, graduation and coding, which gave it a high degree of accuracy and flexibility, so that it responded effectively to varying economic conditions. He then outlined the Swedish system obtaining both for wage earners and self employed persons and those having different sources of income under which current payments on account of ultimate liability had to be made on a provisional basis. He also outlined the system of P.A.Y.E. as obtaining in Northern Nigeria since 1962, and the one to be introduced in East Africa from the middle of 1966.

3. In the course of discussion, the P.A.Y.E. systems obtaining in some of the countries having British and French backgrounds were brought out. The consensus of opinion was that the P.A.Y.E. system was an effective measure which should be generally introduced in Africa. This system was beneficial to the governments as it increased the number of taxpayers and the amount of revenue, which came in as a regular flow of tax every month. It was also more convenient for the taxpayers to pay by instalments. Finally, the tax administration was relieved of procedural work, and had to only take care of the final assessments necessary.

4. It was however suggested that in the case of employees in the lowest income group, a flat-rate of deduction, instead of the graduated scale,

might be introduced as was contemplated in East Africa. It was also felt that the withholding of tax on a monthly basis could be made the final liability in the case of small income taxpayers without seperate assessments being made on them as was the case in some countries. To control tax evasion, it would be necessary to have an enforcement staff making spot checks and visiting the establishments of employers.

5. Discussion also centered around the question as to whether the P.A.Y.E. scheme applicable to wage earners could be extended to self employed persons and those having different sources of income. In this connection, the system of advance or provisional payment of tax obtaining in some countries on the basis of the last completed assessment or on an estimated basis made either by the tax authorities or the taxpayers, was suggested for implementation. The withholding of tax at source from incomes like dividend, interest, rent, payments to contractors, etc as was the practice prevailing in some countries, was also discussed and it was felt that the same could be applied in suitable conditions for collecting the tax at the point where the income was earned or paid.

NOTES OF THE DISCUSSION OF THE AFTERNOON MEETING OF 10 DECEMBER

Agenda Item 6(cont'd) - THE TRAINING OF THE OFFICIALS

1. Mr. Osindero of Nigeria reported the general opinion of the English-speaking group of participants. They considered that the training of clerical staff could only be done by the countries concerned but that the training of higher staff (to start with inspector) would benefit by putting it on an international African basis. The English-speaking group thought that considerations should be given to the establishment of two institutes for higher education of tax officials, one for West Africa and one for East Africa.

The group had no firm opinion about the desirability of extending this education to the highest professional ranks (to start with Deputy Commissioner).

2. Mr. Golly of Ivory Coast gave as the opinion of the French-speaking group that international cooperation in educating tax officials should be limited to the higher ranks and that it would be necessary to create two institutes in Africa for this purpose, one for the French-speaking, the other for the English-speaking participants.

They were furthermore almost unanimously of the opinion (contrary to the English-speaking group) that the institutes should only admit students who have already a law degree.

3. Burundi stated that it would be difficult for several African countries and maybe not even desirable, to have the access to the institute limited to students with a law degree.

4. Mr. Weisfelt reported his analysis of the questionnaires send in by the participants. The conclusions which he could draw were very general. The costs of tax collection in the thirteen countries examined varied between 0.5 percent and 3 percent of the total tax yield and therefore seemed nowhere excessive nor prohibitive for further training costs. For the higher grades with the existing differences in gradations, some arbitrary explanations were necessary about which grades could be reckoned to be higher grades. It was found that all countries (left apart U.A.R.) counted together the number of students represented 20% of the existing staff, for all other grades a percentage of only 8 was found. Some countries did not have any trainees at all. These figures could indicate that existing training facilities (Ecole des Impôts Paris; Overseas Territories Income Tax, London; Ife University Western Nigeria) are, generally speaking, sufficient and that the intermediate and maybe the lower ranks need more urgently attention.

5. During the discussion the attention was drawn to the fact that the tax legislation of the African countries exhibited some tendency to grow further and further apart, a phenomenon which is apparently less accute in the countries with a French tradition, but which, nevertheless, makes a uniform training of tax officials more and more difficult.

There was a general feeling that the need for assessors for smaller and medium size businesses and it might well be that some countries could provide others with technical assistance in this field by making experienced trainers available. It was also felt that for lower and intermediate personnel relatively little profit could be derived from sending them to neighbouring countries to follow the lessons of existing training-institutes.

NOTES OF THE DISCUSSION OF THE MORNING MEETING OF 13 DECEMBER

Agenda Item 4 (iii) - FISCAL INCENTIVES FOR DEVELOPMENT
(National aspects)

1. The subject was introduced by Mr. Pembroke of EACSO, who stated that he was basing his intervention on the ECA paper INR./96 dealing with the subject under consideration and distributed to participants. In East Africa (Kenya, Tanzania and Uganda), the main emphasis of governmental policy to attract foreign investment was on generous capital allowances and a favourable tax climate. The major concessions to foreign investors were in the form of a 100% write-off of capital expenditure, plus an investment allowance of 20% of capital on new factories and hotels. The favourable tax climate consisted essentially of the possibility of carrying forward indefinitely any losses incurred in any one year or years.

2. East Africa had avoided carefully the concession of tax holidays which represent a net loss of revenue, were difficult to administer and not a decisive element in the investor's decision. What investors required, in order of decreasing importance, were basically the following elements: (a) political stability; (b) a good supply of labour; (c) adequate services, such as power, water etc.; (d) adequate markets; (e) reasonable profits; (f) the right to repatriate the profits and eventually also the capital.

3. The speaker quoted from several sources to demonstrate that the absence of a tax holiday is not in most cases likely to tip the scales against any proposed foreign investment. In East Africa the principle of tax holidays is strenuously opposed because of its complexity and inequity deriving from the difficulty of defining the profits to be exempted; from the dangers of diverting profits from established concerns to tax exempted firms; from the inevitable political pressures brought to bear on Government to admit this or the other industry to the benefit of the tax holiday and the difficulty of distinguishing quick profits enterprises from those which only produce profits in the long run, after the expiration of the holiday.

4. Last but not least, in a number of cases, the benefits granted by developing countries in the form of tax holidays are neutralized by taxation of profits repatriated to the metropolitan country, this merely resulting in a loss of revenue by developing countries in favour of developed countries.

5. A second presentation of Agenda item 4 (iii) was made by Mr. A. Golly who professed an entirely opposite attitude than that expounded by Mr. Pembroke. To convince investors to invest their capitals in developing African countries these have to offer adequate concessions and be prepared, therefore, to forego a certain amount of fiscal revenue.

6. With these considerations in mind, the Ivory Coast decided in 1959 to pass an investment code which grants ample concessions to enterprises satisfying given requirements. These are first and foremost that the projects should contribute to the realization of the country's development plan or be in the national interest. The law gives a complete list of the enterprises which qualify for the benefits provided for in the law. These range from tax holidays, to accelerated depreciation of assets. The speaker described the benefits in detail and mentioned that certain industries, in addition to other concessions, can be assured fiscal stability for periods of up to 25 years.

7. The speaker concluded by saying that the Ivory Coast had embarked on an accelerated development program since 1959. If the program had at all been successful it was because the concessions granted by the investment code had provided an adequate stimulus to foreign private investors.

8. In the following discussion the pros and cons of tax holidays were debated at length. Among other, participants evoked the problem of determination of profits when exemptions are also granted for extensions of existing industries; the dangers that taxation sacrificed by developing African countries should merely land in the coffers of developed countries;

the risk of abuse of tax holidays by companies which do not need or deserve them; the need to control the price charged by industries benefitting from tax exemptions to prevent undue profits; and finally the usefulness of limiting somehow the cope of tax holidays, as was done for instance in India where exempted profits were only those not exceeding a certain percentage of the invested capital.

9. Some participants illustrated the investment incentive provisions in their respective countries (Ethiopia, Madagascar and Mauritania). In conclusion it was generally agreed that tax holidays had essentially a psychological value and were significant only to provide the marginal incentive necessary to provoke a favourable decision on the part of the investor.

10. The need for co-operation among African countries to harmonize their industrial incentive legislation was underlined by many participants who pointed out the risks involved in useless competition in this field. Harmonization is, however, far from being standardization. Certain African countries are less favoured than others due to their geographical position and resources and may therefore have to offer higher incentives if the foreign investor is to be at all attracted.

11. In this context several delegates described the efforts towards harmonization of investment legislation undertaken within economic and customs unions or other sub-regional forms of association in existence or under consideration, such as the Central African Economic Union, the proposed West African group including Guinea, Ivory Coast, Liberia and Sierra Leone, and the East African Common Market. In these cases, however, co-operation goes beyond the field of industrial incentives, to cover the whole fiscal field and, more important, the allocation of industrial projects among member countries. The latter proved in fact one of the most difficult points in the working of the East African Common Market.

NOTES OF THE DISCUSSION OF THE AFTERNOON MEETING OF 13 DECEMBER

Agenda Item 4(iii) - FISCAL INCENTIVES FOR DEVELOPMENT (International aspects)

1. Mr. J. van Hoorn, representative of the International Fiscal Association, after having summarized the causes of international double taxation, distinguished between 3 methods of unilateral or treaty relief:

(a) the exemption method (foreign source income is exempt);

(b) the credit method (foreign tax on foreign source income is deducted from domestic tax)

(c) the reduced rate method (foreign source income is taxed at a reduced rate).

2. Indirect double taxation may arise where definitions in the two countries concerned differ (what is dividend, deductible expense, permanent establishment?) or where other differences exist, such as with respect to depreciation allowances and carry forward of losses.

3. The credit method can annihilate the effect of unilaterally granted tax privileges in developing countries, unless a tax sparing credit is given as is the case in some newly negotiated double taxation conventions. However even if such a tax sparing credit exists, the difficulties in assessing its extent can make this device difficult to apply.

4. Tax incentives should be based on objective criteria so as to make them more acceptable than arbitrary devices. Tax conventions can largely contribute in establishing those objective criteria. However as the negotiation for tax conventions are extremely time consuming, African countries are advised to enact the tax incentives they consider desirable in a form known and accepted in the tax laws of developed countries.

5. Dr. H. Debatin, representative of the O.E.C.D. stresses the importance of harmonization of tax incentives with the legislation of the capital exporting countries as well as with the other countries of the region.

6. Tax incentives should be generous enough to achieve the desired result, but not so generous as to give away windfall gains to the investors.

7. Competition between developing countries in granting tax privileges ought to be avoided, which does not mean that all African countries should go so far with the harmonization of their tax incentive systems as to make them the same. Not equality, but harmonization in the context of different fiscal, financial and social circumstances, is the task to be pursued urgently.

8. The foreign investor expects in the developing country a taxation system which is not less favourable than that in his own country. Incentives given in his own country make the pattern which is most acceptable to him.

9. Capital exporting countries could contribute to investment in developing countries if they extend the incentives given to their own industry, to investments in developing countries. Capital allowances granted to local industry could be extend to investments overseas.

10. Tax conventions are indispensable to take the full profit of tax incentives African countries are willing to give. Unilateral measures can never synchronize the tax legislation of the capital exporting as well as the capital importing country.

11. Generally speaking the capital exporting countries are rather generous in granting developing countries the possibility of taxation at source of dividends, royalties, rents etc.

12. In the following discussion it was pointed out that the difference between a tax holiday and capital allowances is that tax holidays are limited in time while capital allowances are limited in amount. Which of the two is to be preferred depends upon the international tax situation, the risk the government is willing to take and the exigencies of different types of enterprises. Attention was also drawn to the fact that the system of tax incentives should be administratively feasible and that it should be compatible with the tax system of the main capital exporting country.

This means that the francophone and the anglophone countries are likely to develop different systems of tax incentives.

13. In negotiating double taxation conventions the following goals should be pursued:

(i) Companies formed in an underdeveloped country, even if they are financed with foreign capital, should not fall under the tax jurisdiction of the foreign country;

(ii) Exemptions of tax should only be granted if they are fully recognized in the capital exporting country;

(iii) The capital exporting country should grant initial allowances, to be deducted from other gains of the capital supplier, also for investments made in the capital importing country.

NOTES OF THE DISCUSSION OF THE MORNING MEETING OF 14 DECEMBER

Agenda Item 4 (iv) - SOURCES OF REVENUE FOR LOCAL GOVERNMENT

1. The subject was introduced by M. Abdoulaye Makanguile (Directeur des Contributions Diverses et Chef du Service des Domaines, Mali), who described the fiscal systems of his country, both in respect of central and local authorities and the difficulties being encountered by reason of the fall in the revenues of the country. He explained the efforts being made to offset imbalances in revenue and expenditure. Economies were being made in expenditure, the numbers of civil servants were drastically reduced by means of early retirements, simplifications in the taxation systems were being effected and everything that could be done to increase revenue was being undertaken.

2. The Chairman thanked M. Makanguile for his able presentation and introduced Mr. J.A. Green (Regional Adviser in Public Administration, Local Government), who informed the Seminar of the intention of ECA to hold a Seminar on Local Government Finance in September 1966. In view of the importance of the subject and the dependence of local authorities upon sources of revenue granted by Central Government, it was desired to obtain from the participants of the Taxation Seminar their ideas upon the scope of this Seminar, its orientation and method of presentation, e.g., whether the Seminar should be bilingual, whether two simultaneous but separate seminars should be held and brought together to compile a final report, or whether two completely separate seminars for English and French expression countries should be held at different times.

3. Discussions then ensued on the subject of the proposed Seminar. It was suggested that the scope of the Seminar should embrace items such as: a comparative study of fields and methods of collection of local taxes; the allocation of tax authority, with a review of existing and potential sources of funds; credit facilities; grants and loans and financial administration. The general consensus of opinion was that the proposal was not only welcome, but would be of immense value to African countries. The majority of these countries were experiencing difficulties in meeting the requirements of expanding local government services and increasing the sources of revenue available to local authorities, which were more and more being involved in expansion of existing functions and being required to adopt new tasks. Several delegates also emphasised the desirability of organizing the Seminar on a bilingual basis and of including, as participants, Central Government officials concerned with financial policy, as well as Local Government officials and officials of the Ministry or Department concerned with local government.

PART III CONCLUSIONS AND RECOMMENDATIONS

NO.1: TAXATION OF PERSONAL INCOMES [Agenda item 4(i)]

1. The Seminar concluded that systems of Personal Taxation in African countries should be guided by three principal objectives viz.:

(i) on grounds of equity, they should be progressive;

(ii) on revenue grounds,[1] they should (so far as administratively practicable) reach downwards to embrace the great majority of the income-earning population;

(iii) on administrative grounds, they should be susceptible of reasonably efficient enforcement with the staff resources likely to be available.

2. A further consideration of importance in countries where the role of the private sector in the economy is accepted, is that they should, as far as possible without prejudicing the framework of an effective system of taxation, encourage a high rate of investment in that sector.

3. The principal obstacles to the attainment of these objectives are the great difficulties attending the accurate determination for tax purposes of certain types of income (particularly rent and the incomes of small traders, businessmen, craftsmen and farmers) and the high administrative costs also liable to be involved in attempting to do so.

4. The Seminar noted that there was common recognition of these problems in Africa as evidenced by the fact that nearly all African countries had developed special devices of some kind or another to deal with them. Thus in the former British East African territories there was a "dual" system consisting of a conventional "unitary"[2] income tax on the British model for incomes individually assessed above £600.- (for married persons) side by side with a simpler slab-type system of personal graduated tax for individuals who were assigned for tax purposes to lower income and tax

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1/ i.e. the urgent need of almost all African states for additional revenue in order to finance development.

2/ By a "unitary" system is meant one where all taxpayers' income, regardless of source, is aggregated before assessment to tax; a "schedular" system is one in which different sources of income (e.g. from employment, rent, business etc.) are taxed separately. Former British territories follow the unitary system; French-speaking ones, with some exceptions the schedular one, fortified in some cases by global taxes on aggregate income. Liberia has a unitary system largely on the American model; Ethiopia and Sudan schedular systems without any aggregation or global tax.

groups on the evidence of their way of life. In Ghana the conventional system of income tax had been retained but simplified and modified by the elimination of personal, family etc. allowances, the introduction of standard assessments for scheduled trades and professions and other devices; in French-speaking territories schedular[1] systems of income tax still generally prevailed but were supplemented by global taxation on aggregate income, the difficult cases and the low income groups being covered by devices such as the "forfaitaire" system and the "minimum" tax.

5. In some countries tax assessment or classifications at lower income levels, or in respect of traders etc. whose records were insufficient, were facilitated by resort to local assessment bodies.[2]

6. The Seminar noted that the differences between the "unitary" and "schedular" systems were usually not as great as appeared at first sight: the unitary systems certainly all had their regulations prescribing how each major type of income should be determined for tax purposes; most (although not all) schedular systems had progressive global tax rates which were applied to total income over and above the (usually flat-rate) schedular taxes on different sources of income.

7. Where conventional income tax was concerned the Seminar was generally of the opinion that on grounds of equity, simplicity, and comprehensiveness African territories should, within the framework of their fiscal traditions, continue to move towards arrangements whereby all sources of income would be aggregated and assessed at global rates.[3]

1/ By a "unitary" system is meant one where all taxpayers' income, regardless of source is aggregated before assessment to tax; a "schedular" system is one in which different sources of income (e.g. from employment, rent, business etc.) are taxed separately. Former British territories follow the unitary system; French speaking ones, with some exceptions the schedular one, fortified in some cases by global taxes on aggregate income. Liberia has a unitary system largely on the American model; Ethiopia and Sudan schedular systems without any aggregation or global tax.

2/ Cameroun, Nigeria and Sudan were noted as successful examples of the use of this device.

3/ It was noted that of the French speaking countries Congo (Brazzaville) had already done so; so also had Ethiopia.

8. Where the taxation of incomes of small traders, craftsmen and professions and others particularly well placed to evade taxation was concerned, the Seminar was of the opinion that revenue needs dictated that serious efforts should be made to bring these effectively within the tax net. It suggested that in this context African tax administrations should, where appropriate, give consideration to:

(i) placing the primary onus for making a return on the taxpayer instead of leaving the tax administration responsible for initiating the tax process by serving individual notices;

(ii) where income from rent is concerned, compiling registers of property and taking power to require tenants to deduct tax at source before payment of rent;

(iii) where income of traders etc. is concerned, the use of standard assessments or assessments based on estimated turnover, sales or other evidence;

(iv) closer collaboration between government departments, local authorities and taxation departments in order to obtain cross-checks of taxable income and close loopholes for evasion[1].

9. As to the taxation of persons with apparently small incomes[2] the Seminar favoured the maintenance, and even the development of existing devices such as the graduated personal tax, forfaitaire system, poll,

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1/ The Seminar noted the difficulties encountered, e.g. in Nigeria, in attempting to marry importers tax statements with their customs declarations, and the use in Ghana of Tax Clearance Certificates as requirements before taxpayers can obtain foreign exchange, exit visas, government contracts etc. The Seminar reached no conclusions regarding these specific devices beyond recommending (see below) that they should receive further study. The Seminar was generally of the opinion however that the existence of widespread evasion, when known or suspected, was a major challenge to the equity of the entire system and taxpayers should not be able to count on legal protection of his privacy etc. to the point where effective implementation of tax legislation was frustrated.

2/ e.g. too low to be appropriate for individual assessment.

hut, animal and minimum taxes.[1] The system should be simple and the rates imposed should be at levels which would yield substantial revenues in excess of administration costs; where imposed on sections of the population in, or on the fringe of the subsistence sector, they should be accompanied by measures designed to enable such people to increase and dispose of their output under favourable conditions[2] or discharge their tax obligations by work on local developmental projects.

10. The Seminar noted and accepted the importance of encouraging private savings and investment in developmental projects. It observed with interest the provisions in the personal tax legislation of Madagascar and the Ivory Coast granting concessions in favour of such activities. It recommended that these provisions should be studied by other tax administrations and that the necessary information should be obtained and made available to them for this purpose.

11. The Seminar noted that various countries adopted different practices with regard to the tax treatment of foreign income accruing to residents. It did not have time to discuss these in detail, but considered they should be the subject of further study.

12. In order that more effective progress might be made with these matters the Seminar recommended that studies should be undertaken, in association with, and with the help of the countries concerned on the following topics:

(i) A comparative analysis of the personal taxation of the middle and lower income groups in representative African countries viz. Congo (Brazzaville), Cameroun, Ghana, Mali and Uganda designed to identify the principal problems encountered and assess the effect of the solutions attempted;

1/ Participants from Ivory Coast and Congo (Brazzaville) reserved their position on this suggestion; those types of taxes had been abolished in their countries. The Northern Nigerian delegate drew attention to the community tax system successfully adopted in his territory.

2/ e.g. by providing extension services, credit, marketing facilities etc.

(ii) The various devices in use in African countries to combat evasion of personal income tax;

(iii) The use of incentives to investment in the personal tax systems of Madagascar and Ivory Coast;

(iv) African practices in respect of the taxation of income from foreign sources.

CONCLUSIONS AND RECOMMENDATIONS (CONT'D)

NO.2: TAXATION OF BUSINESS INCOMES[1] [Agenda item 4(ii)]

1. The Seminar noted that most African countries were encountering similar problems with respect to the taxation of business incomes. These fell into two groups: problems relating to local undertakings and those relating to foreign companies.

The taxation of local business undertakings

2. Here the main problems were the submission of inaccurate or false accounts and, in the case of small businesses (or even large ones in some areas) the complete absence of accounts at all.

3. Clearly the long-term objective must be to promote the keeping of proper accounts; the distribution by tax authorities of simple model accounts might be helpful for this purpose, although experience in some countries where it had been tried was not encouraging. The best approach appeared to lie in sustained pressure by tax officials, backed by legal sanctions, to persuade at least the medium and large businesses to keep proper accounts.

4. In order to promote higher standards of accounting the Seminar recommended that governments should

(i) encourage the formation of local Institutes of Accountants;
(ii) consider providing for the imposition of administrative penalties on accountants who certified tax accounts which were subsequently found to be incorrect.[2]

5. So long as traders' accounts remained inadequate, the Seminar concluded that the main objective should be to secure at least reasonably accurate figures for gross turnover and if possible, purchases, as a basis for estimating profit.

1/ i.e. incomes derived from industry, commerce, mining etc. whether undertaken by individuals, partnerships or companies, except insofar as these have already been discussed in connection with item 4(i) [i.e. the incomes of small traders and professional men].

2/ cf. the provisions in Ivory Coast and elsewhere.

6. To this end the Seminar recommended that

(i) All traders should be required by law[1] to keep at least records of sales and purchases and all documentary evidence relating thereto for the inspection of the tax authorities;

(ii) liaison should be established as appropriate with other Government departments in order to provide some cross-check on these figures[2];

(iii) taxable profit should be estimated on the basis of gross turnover by the use of conversion factors established for individual types of business by means of spot-checks or sample surveys. Tax departments should be staffed adequately to permit such surveys;

(iv) Governments should also consider the feasibility of a system similar to that introduced in Madagascar whereby all taxpayers receive national code numbers and are required, in the case of traders, to use these numbers on all bills, accounts etc. copies of which must be sent to a National Accounts Office, where, by the use of a computer, turnover and other relevant figures are calculated, and inter-sectoral transactions checked.

7. The Seminar noted that in English-speaking territories generally the taxation authorities did not have the right of direct access to Bank Accounts; whilst feeling that this right was desirable in principle, most delegates felt that it might be unwise to press for it until the banking habit was more firmly established.[3]

1/ This is a minimum requirement; traders of substance should be under a legal obligation to keep proper accounts.

2/ e.g. with Customs, to check import declarations and with Government departments awarding tenders. But importers should not be allowed to get away with underdeclarations of value for Customs and then revalue the same goods upwards for their income tax accounts.

3/ In the majority of French-speaking territories, banks are under an obligation to report the opening of all new accounts, and to provide the tax authorities with relevant information. Some English-speaking participants considered that in their territories banks should be requested to report the opening of accounts.

Foreign Companies

8. The Seminar noted that the principal problem encountered in the taxation of foreign companies was that the level of local taxable profits might be deflated by such devices as the under-invoicing of exports, over-invoicing of supplies or excessive charges for interest[1] or services rendered.

9. The Seminar recommended that tax administrations should keep a close watch for such malpractices and that to this end:

(i) market information should be collected on an international basis in respect of the items mainly concerned and used to cross-check company accounts;

(ii) interest remitted abroad should be subject to a withholding tax[2];

(iii) in the cases where the profit disclosed appeared unreasonably low tax legislation should empower the tax authorities (a) to make a special assessment based on what a reasonable profit should be if the undertakings were entirely independent[3] or (b) to call for consolidated world-wide accounts and apply a pro-rata rate of profit in relation to local turnover[4];

(iv) smaller tax administrations might find it advantageous to engage the services of international auditors to inspect selected accounts;[5]

1/ The widespread practice of financing foreign industrial development to a large extent by loans as opposed to equity investment from abroad was particularly suspect by tax authorities.

2/ Ideal would be to have a withholding tax at the same rate as the tax on company profits, however, this might be impossible as it might be prohibitive to foreign loans. For double taxation agreements a withholding tax of 10% is mostly acceptable. The place where the loan contract has been made, or where the loan has to be repaid, is immaterial.

3/ As in EACSO legislation.

4/ cf. the practice in Ghana and Sierra Leone.

5/ cf. the experience of Liberia.

(v) African Governments should be prepared to enter into reciprocal agreements for the direct exchange (subject to suitable safeguards) of fiscal information between tax administrations in relation to national or international undertakings where there was reason to believe that this would facilitate effective assessment.

Mining Companies and Export Duties

10. The Seminar also noted that the imposition of export duties might sometimes be appropriate in order to ensure that a certain share in the gross proceeds of exports was retained in the country, but care must be exercised to avoid penalising marginal mines.

11. The Seminar was unable to find time to discuss this subject, but noting widespread interest in it, recommended that consideration be given to convening a special meeting on this subject.

CONCLUSIONS AND RECOMMENDATIONS (CONT'D)

NO.3: FISCAL INCENTIVES FOR DEVELOPMENT [Agenda item 4(iii)]

1. The Seminar noted that

(i) there were considerable differences in the tax treatment accorded to foreign investment between African countries; these differences were most marked between the French and English speaking countries, but also existed, although to a lesser degree, between countries having the same type of tax system[1];

(ii) no evidence was offered to the Seminar that these divergencies in fiscal treatment had led to any substantial diversion of capital as between one country or group of countries and another,[2] although there was a general apprehension that they might do so;

(iii) the effect of tax concessions to foreign investment in African countries could easily be nullified by incompatible tax treatment in the country of origin; unfortunately there were also wide divergencies in this respect in the practices of the major capital exporting countries themselves;

(iv) the general justification for the granting of special concessions to new investment lay in the element of risk and uncertainty in the mind of the entrepreneur which had to be overcome, i.e. the investment had to be made more attractive than investment at home or in his accustomed channels; these considerations also applied in principle to savings by local enterpreneurs who were not accustomed to investment in industry. In many cases

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1/ viz. As far as direct taxes are concerned, the English speaking countries all focus their concessions on income tax, in respect of which they give substantial investment allowances (over and above depreciation); some also give tax-holidays as well. The French speaking countries do not generally give investment allowances, but grant reinvestment allowances as well as tax-holidays. They also enter into tax stabilisation agreements which are not used by English speaking countries.

2/ This was probably because the French speaking countries still looked mainly to France for foreign capital and the English speaking countries to the U.K. However, it was felt American and other (Continental) capital might be more liable to be influenced in its orientation by these differences in fiscal treatment.

higher costs and special difficulties surrounded industrial development in African countries and inducements were needed to persuade entrepreneurs to overcome these.

2. The Seminar concluded that

(i) special incentives were necessary to stimulate industrial and other forms of development in Africa;

(ii) these incentives should take into account:

(a) the needs of both local and foreign investors;

(b) the corresponding tax practices of those countries from which the African country expected to obtain the bulk of its foreign capital; if they failed to do this they might be completely ineffective;

(iii) tax incentives were only one part of what should be an integrated programme embracing all aspects of public policy in relation to development; considered by themselves, their effect was only marginal, although that did not mean they were of no importance;

(iv) the main features of a sound incentive programme should be:

(a) avoidance of taxation which added to the cost of investment;[1]

(b) avoidance, as far as possible, of taxation on industrial inputs of materials, fuel and services;[2]

(c) the offer of positive inducements to the entrepreneur to take the risks of investment by enabling him to write-off his capital fairly quickly out of profits.[3] This could be

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1/ e.g. taxation on imports of capital goods, company formation, construction etc.

2/ However, the majority of the French speaking countries made a reservation with respect to the extent to which such services should be exempt from tax.

3/ It was noted that to be effective this concession should be accompanied by permission to remit such sums to the country from which the capital originated.

achieved either by a tax-holiday or by a system of investment allowances or a combination of both; the former had the disadvantage that the value of the concession was quite uncertain and potentially unlimited; it might also encourage the exportation of profits in the earlier years of the undertaking while the latter might tend to favour the capita-intensive type of enterprise;

(v) the harmonization of incentives for the purpose of avoiding one African territory outbidding another for foreign capital was quite a different subject from the harmonization required where a common market was being established; in the former case an agreed ceiling of maximum concessions under the main heads would probably be sufficient; in the latter, complete harmonization of the entire fiscal system would be the ultimate goal. However, the technical difficulties involved in either type of harmonization were considerable where two basically different systems of taxation were concerned, and very careful technical study would be required. In both cases too the least developed territories would probably have to be allowed to offer special additional incentives.

3. The Seminar recommended that

(i) harmonization, in the sense referred to in ECA resolution 140 (VII)[1] should be a matter for negotiation between territories on a sub-regional basis, but the secretariat should endeavour to ensure that sub-regional agreements did not diverge too much from each other;

and that

(ii) the basis of negotiation should be the principles set out in paragraph 2 above;

(iii) where concessions in respect of taxation on profits were concerned, the main objective should be to place a ceiling (which should probably be expressed as a percentage of the approved capital invested on the total amount of the tax which could be

1/ For text see Annex V.

remitted and also, if possible, on the number of years over which this could be done in any individual case;

(iv) within such ceiling(s), it should be left to the individual government to decide on the exact manner of application; this would probably be influenced by its own fiscal tradition and the tax practices of the country which was (or which it expected to be) its major source of capital;

(v) it would be desirable that the countries participating in any agreement[1] should:

(a) undertake to give each other, through the ECA Sub-regional Office full information regarding their incentive systems and any changes therein;

(b) undertake to consult with each other in the event of any participant objecting to any feature or administrative practice not covered by any agreement;

(c) undertake not to impair the effect of any agreement by granting any direct or indirect subsidies in respect of new foreign investment beyond what had been agreed between and that the parties;

(vi) participating territories[2] should agree, to allow new investments in less developed participants, (or major subdivisions of territories) to receive additional inducements up to an agreed limit if this was shown to be necessary in order to overcome economic disadvantages in respect of climate, geography, natural resources, transport or communication facilities.

4. The Seminar further recommended that

(i) in order to ensure the effectiveness of their systems of fiscal incentives African countries should give favourable consideration to the negotiation of Double Taxation Conventions with their principal sources of foreign capital;

1/ and discussions leading thereto.

2/ i.e., territories participating in any agreement for the harmonization of fiscal incentives to foreign investment.

and that

(ii) such Conventions should, if possible, be so negotiated as to include

(a) recognition by the capital exporting country that subsidiary companies formed by its nationals in the African country should be subject to tax only in that country;

(b) that the effect of any concession or waiver granted by the African countries in respect of any tax which would be otherwise payable on any dividend, interest or other lawful remittance to the capital exporting country should be recognised by appropriate measures of relief in the latter;

(c) the grant by the capital exporting country to its own nationals (in respect of investments in the African country) of investment allowances which could if necessary be set off against profits earned in the capital exporting country or a third country.

CONCLUSIONS AND RECOMMENDATIONS (CONT'D)

NO.4: REVENUE PROBLEMS OF LOCAL GOVERNMENT
/Agenda item 4(iv)/

1. The Seminar welcomed the proposal of the Economic Commission for Africa to convene a Seminar in Local Government Finance in 1966, and recommended

(i) that this Seminar should be conducted on a bilingual basis;

(ii) participants should include central government officials concerned with financial policy as well as local government officials and officials of the Ministries and Departments concerned with local government;

(iii) that the scope of this Seminar should embrace:

(a) comparative studies of existing and potential sources of local government finance;

(b) the structure of local tax administration, including the modernisation and amalgamation of existing separate systems for central and local governments;

(c) a study of the machinery and facilities for making loans to local authorities;

(d) a discussion of methods whereby local authorities can supplement revenue sources, (e.g. by public enterprises and utilities, establishment of cottage industries, etc.);

(e) a discussion of the administrative methods for the assessment and collection of local government revenues in the form of Personal Rates, Capitation Taxes, etc. imposed on low income groups.

CONCLUSIONS AND RECOMMENDATIONS (CONT'D)

NO.5: THE FUTURE ORIENTATION OF TAX SYSTEMS IN AFRICA
/Agenda item 5/

1. The Seminar noted that

(i) almost all African territories needed rapidly increasing revenues in order to finance a higher rate of capital investment and the expansion of essential developmental services;

(ii) all African territories were bent on changing the structures of their economies, by agricultural and industrial development and general diversification;

(iii) many African territories could, however, still obtain additional revenues from the more efficient administration of existing taxes.

SHORT TERM POLICY

2. The Seminar therefore recommended that African governments should:

(i) give immediate priority to a review of their existing tax administrations and the internal organization thereof, and of the measures adopted for countering tax evasion;

(ii) take all necessary steps to maximise the yield of existing taxes (and particularly taxes on incomes and profits) within the present rate structure;

(iii) consider the feasibility of increasing rates where these are below what may be regarded as normal or acceptable levels in developing countries.

LONG TERM POLICY

3. The Seminar noted that in many countries relations between Tax Departments and the Treasuries[1/] were more often concerned with the immediate technical or administrative aspects of taxation than long-range policy. It therefore recommended that African Governments should:

(i) accept the principle of long-range fiscal planning as an integral part of national economic planning;

1/ or Ministry of Finance

(ii) ensure that the closest possible relations are established between Heads of Taxation Departments and the most senior officials in the Treasury[1] and National Planning Authority;

(iii) study, and decide upon, the most appropriate and effective direction for the future development of the revenue structure of the country with special reference to the following headings:

(a) Taxes on Internal Production and Expenditure;

(b) Taxes on Land, Property, Wealth and Capital Gains.

TAXATION ON INTERNAL PRODUCTION AND EXPENDITURE

4. The Seminar noted with very great interest the experience of France, and, in Africa, of the Ivory Coast in the introduction of a Tax-on-Value-Added. Many delegations however considered that the administrative burdens imposed by such a tax would, notwithstanding the experience of the Ivory Coast, outweigh its usefulness in their particular cases at least for the present. Other delegations were concerned lest such a tax should favour unduly capital-intensive industries in countries where capital was the most scarce factor of production. The Seminar recognised the advantages offered by such a system, particularly that it avoided any taxation of capital goods; it also facilitated the determination of tax refunds for exports. However the general consensus of opinion among delegations was that it would be premature to recommend the general adoption of this form of taxation in African countries in the immediate future, although its potential usefulness should certainly be borne in mind.

5. For countries which did not feel able to contemplate at present the introduction of a Tax-on-Value-Added, the Seminar recommended:

(i) the gradual development of single-stage taxes on internal expenditure which, according to local circumstances, might include either general sales taxes, special "single-taxes" (Taxes-uniques) on factory output, or ordinary taxes on factory production, supplemented by higher excise taxes on the output or sale of selected products

1/ or Ministry of Finance

the demand for which was inelastic in relation to price or elastic in relation to income;[1]

(ii) that in imposing such duties[2] care should be taken to avoid as far as possible penalising development in industry or agriculture, e.g. by taxing the act of investment itself or the industrial inputs.[3]

TAXES ON LAND AND PROPERTY[4]

6. The Seminar noted that most African countries had some form of taxation on land and property. Although these systems varied greatly from one country to another, the Seminar was of the opinion, that the capital values of land and property in Africa were likely to rise rapidly in the years ahead and that since the larger part of this increase would be attributable to the general developmental efforts of government or the community as a whole, it was most desirable that at least a proportion of such increase should be subject to taxation. The taxation of land and property could, and should, also play a part in ensuring its most economic use.

7. The Seminar therefore recommended that governments should review their systems of taxation of land and property in order to ensure that incomes therefrom were subject to adequate taxation and that where tax is calculated by reference to land values the rising value thereof should be taken into account and that such taxation should encourage its most economic use.

1/ It was noted that where there was no prospect of local assembly, processing or manufacture of a particular product, the imposition of a higher rate of import duty was often the most effective way of imposing additional taxation. However this might have the disadvantage that, owing to the operation of the percentage mark-up system by traders at various stages, the additional burden finally imposed on the consumer would substantially exceed the additional tax. Each case should therefore be studied on its merits.

2/ And also, import duties.

3/ i.e. plant, constructional materials, heavy vehicles, industrial materials, etc.

4/ i.e. immovable property.

TAXES ON CAPITAL GAINS AND NET WEALTH

8. The Seminar noted that traditionally capital gains had been exempted from taxation in most English speaking countries; however Ghana had recently introduced such a tax and other countries had the matter under consideration. In French speaking territories capital gains were in principle liable to taxation when they occurred in connection with business operations, but the regulations provided for exemption in a number of specified circumstances. Personal capital gains were not taxed.

9. The Seminar was generally of the opinion that

(i) it was hardly feasible under African conditions to contemplate the taxation of capital gains in respect of personal movable property, personal family residences, small farming businesses and farms etc. In some of these cases increases in capital value should however be taxed indirectly via annual taxes on land and property; they might also be caught to some extent by stamp and registration duties on transfers of property;

(ii) the principal sources of concern in respect of capital gains lay with the large landowner, real estate developer and large business proprietor[1/];

(iii) where these cases were likely to be serious, consideration should be given to the introduction of capital gains taxes with the following general provisions:

(a) such taxation should, wherever feasible, be incorporated closely with income tax legislation;

(b) the capital gains tax should normally be imposed either on only a portion of the gain, or if imposed on the whole gain should be at a concessionary rate of tax compared with the income rate;

1/ Who disposed of his interest in a business or company at a large capital profit which reflected the effect of the ploughing back of profits which had therefore not been subject to progressive income tax on distribution.

(c) the tax should be imposed on gains "realised" by sale, disposal or inheritance;

(d) consideration should be given to tapering the effective rate of tax on the gain according to length of the period for which the asset had been held[1];

(e) consideration should be given to exceptions for family residences, personal movable property and other assets (including small family businesses and farms etc.) either where these were below a specified value or where the net wealth was below a specified figure.

10. The Seminar noted the potential usefulness of taxation on net wealth as introduced in some other countries; it doubted whether the yield from such taxation in Africa would be very great at least for many years to come. However there was general agreement that taxation authorities should have power to call for statements of net wealth in order to facilitate investigations into assessments for income or other taxes.

REVENUE FROM GOVERNMENT CORPORATIONS

11. Although not strictly within the field of taxation the Seminar noted that a large number of African Governments had established independent Boards or Corporations for the provision of public utility services[2] or for the conduct of agricultural, commercial, industrial or financial operations.

12. The Seminar considered that these undertakings if efficiently managed, could and should provide a major source of public revenue. The fact that a particular service or product was supplied from a public source was no reason for it to be subsidised. It was also noted that many of these undertakings themselves required large annual injections of capital for development.[3]

1/ or, if it had not changed hands, from a prescribed base date.

2/ Including postal and telecommunication services, electricity and railway undertakings.

3/ Particularly in the case of electricity, railways, etc.

13. The Seminar recommended that in view of the urgent needs of African Governments for additional revenues to finance development

(i) the price policy of services supplied by public departments and statutory corporations should be framed to secure an adequate return[1] on the capital invested and also a substantial contribution towards the needs for national development[2];

(ii) Agricultural, Industrial, Commercial and Financial undertakings owned by the Government should normally be required to conduct their operations as far as possible on lines which would yield an adequate return[1] to the Government on its equity investment after providing for any necessary reinvestment for internal development.[3]

1/ After depreciation and loan service obligations.

2/ i.e. at least in respect of their own needs for new capital.

3/ It was appreciated that the ability of a corporation to do this would vary with its circumstances and stage of development.

CONCLUSIONS AND RECOMMENDATIONS (CONT'D)

NO.6: TAX ADMINISTRATION PROBLEMS [Agenda item 6]

A. Management, Staffing and Recruitment[1]

1. Problems of staffing and recruitment varied considerably from one territory to another; the majority however appeared to be finding difficulty in recruiting staff in adequate numbers and with the appropriate educational qualifications. When recruited some countries found it often difficult to retain them owing to a growing demand from the private sector for officials who had been trained in tax departments. High salaries were frequently offered to induce them to leave their employment with the government.

2. There was general agreement that senior tax officials dealing with the public must be educated and trained to a level which ensured that they were respected by the professional accountants etc. with whom they must deal; there was however some difference of opinion, particularly among English speaking participants, as to the role of university graduates as such in the recruiting policies of taxation departments.

3. The Seminar noted that salary and other conditions of service were a cause of dissatisfaction among a number of taxation departments, where it was felt that these did not compare sufficiently favourably with those of the administrative service to attract and retain recruits of the right calibre.

4. The Seminar recommended that

(i) the personnel requirements of taxation departments should be taken fully into account in national Manpower Planning;

(ii) salary and other conditions of service in taxation departments should be such as to accord parity of esteem with other professional and administrative branches of the public service; and that some flexibility should be allowed in fixing starting points for new entrants to the service with particularly good qualifications;

1/ excluding training

(iii) whilst qualifications for recruitment to tax services must be determined in the light of local conditions, governments should bear in mind the importance of:

(a) offering recruits the prospect of a satisfying long-term career with good opportunities for promotion to the highest levels in the tax administration;

(b) providing facilities for internal training and promotion of tax officers of natural ability and proven experience notwithstanding lack of academic or other formal qualifications;

(iv) in order to improve operating efficiency and recruitment, taxation departments should be encouraged to review, with the help of qualified Organisations and Methods advisers, their internal organisation, and also the basic qualifications and training necessary for the efficient discharge of duties at various staff levels;

(v) the status of the Head of the Tax Administration should be such as to ensure his position as a principal adviser to the Minister of Finance on tax policy.

B. The Training of Tax Officials

1. The Seminar noted that there were considerable variations in the training situations in African countries. Thus many of the French speaking administrations relied mainly on the two-year course at the French Tax School in Paris for the training of senior officials[1/] while the larger English speaking administrations had developed their own arrangements. Training at lower levels was usually undertaken locally; this was quite feasible for the larger tax administrations, but some of the smaller ones found difficulty in arranging this efficiently.

2. There was general agreement on the importance of tax officials acquiring a knowledge of the taxation systems of other African countries; without such knowledge, cooperation and harmonisation would be very difficult to attain.

1/ at the inspector level ("Assessor" in E.A.C.S.O.)

3. The Seminar recommended that the Economic Commission for Africa should:

(i) ascertain the regular or special training needs of African countries at various levels in the field of taxation which cannot be met from local resources;

(ii) make proposals for meeting these needs within Africa either by arranging bilateral or multilateral technical assistance between African countries or by organizing regular or ad hoc training facilities under its own auspices, always provided that such proposals should take into account any preferences expressed by the countries as to the source or type of training which they favoured including the use of training facilities in countries outside Africa;

(iii) make an inventory of training facilities in taxation available in non-African countries for the information and possible use of African tax administrations;

(iv) provide training and orientation courses for senior tax officials in Africa designed to improve their knowledge and effectiveness in broader fields, including

(a) comparative and analytical studies of taxation systems in Africa;
(b) collaboration and harmonization of tax administrations in Africa;
(c) fiscal policy and economics;
(d) general international aspects of taxation, including relations with the developed and capital exporting countries;
(e) general commercial, industrial and financial practice;
(f) the comparative study of international accountancy practices in relation to taxation.

(v) determine in consultation with African Governments and international bodies what form of organisation is most appropriate to carry out this programme.

C. Deduction of Tax at Source in the Case of Personal Income Tax (P.A.Y.E.)

1. The Seminar agreed that

(i) the practice of withholding tax at source on wages and salaries, (P.A.Y.E.) satisfied the four principal maxims of a tax, namely, equality, certainty, convenience of payment and economy in collection,

(ii) experience in many countries had shown that the P.A.Y.E. system can be efficiently administered under African conditions,

(iii) those African countries which had not so far adopted this system should give favourable consideration to its introduction in the near future, and

(iv) those African countries which had already adopted P.A.Y.E. should be prepared to put their experience at the disposal of other African countries, if so requested.

2. With regard to the system of P.A.Y.E. to be adopted, it was generally agreed that

(i) there were advantages in having a system of proportional deductions (which may avoid the need for any subsequent individual assessment) in the case of employees in the low income groups;

(ii) it should be possible, in many cases, to extend the principle of deduction at source on a proportional basis and subject to later assessment, to contractors' payments, dividends, rent, interest, etc.

D. The Role of Mechanization

1. The Seminar noted with interest that several African countries had already enlisted the aid of mechanical or electronic systems in their tax administration,[1/] usually as part of a more general system covering all

1/ cf. Nigeria and Ghana have punched-card systems. Ivory Coast, Madagascar and Northern Nigeria have computerized systems, and Cameroun is introducing such a system. U.A.R. has both systems.

public revenue and expenditure and national statistics.

2. The Seminar noted that these experiences had shown the need for a long period of careful study and preparation before mechanisation was introduced; but that when introduced successfully it could lead to a substantial increase in the yield of taxation as a result of better assessment and fast collection.

3. The Seminar recommended that

(i) African countries should examine the experience of other countries in the continent in the introduction of mechanical or electronic aids for tax collection etc. with a view to considering their applicability to local conditions;

(ii) to facilitate this a study should be made of such African experience for consideration by other African administrations.

CONCLUSIONS AND RECOMMENDATIONS (CONT'D)

NO.7 AFRICAN FISCAL PROGRAMME [Agenda item 7]

1. The Seminar noted

(i) the achievements of the Latin American Tax Programme as an example of successful co-operation between governments, international organizations and other bodies in research, surveys and provision of technical advice in respect of fiscal matters in Latin America;

(ii) the widespread need for similar research, surveys and technical assistance in Africa:

- expressed the opinion that, in view of its technical character and cost, such work could be most effectively conducted, co-ordinated and financed under the joint auspices of, or by co-operation between, regional and international institutions interested in African development;

- recommended that the Economic Commission for Africa, in consultation with African governments should:

  (a) consider favourably the advantages of establishing a comparable programme adapted to African needs, and

  (b) explore with appropriate regional and international institutions the possibility of establishing such a programme as soon as possible.

CONCLUSIONS AND RECOMMENDATIONS (CONT'D)

NO. 8 TECHNICAL ASSISTANCE [Agenda item 7]

1. The Seminar concluded that its discussions had indicated the possibility of African governments helping each other with technical assistance on a bilateral and multilateral basis in various aspects of tax administration including training and mechanization;[1]

- recommended that the Economic Commission for Africa pursue this subject further by ascertaining from member governments their needs and potentialities in this field, and facilitating the provision of technical assistance in fiscal matters between the governments of the region.

1/ The word mechanization is here intended to include both mechanical and electronic aids to administration.

CONCLUSIONS AND RECOMMENDATIONS (CONT'D)

NO. 9 FUTURE MEETINGS AND DISSEMINATION OF FISCAL INFORMATION
/Agenda item 7/

1. The Seminar desired to record

(i) the unanimous opinion of participants that:

(a) the Seminar had provided a unique and most valuable opportunity for the exchange of views and experiences between tax administrators from over 20 African countries, many of which had inherited quite different traditions in fiscal matters;

(b) the informal notes distributed by the Secretariat to participants on various aspects of African fiscal systems had greatly facilitated this process;

(c) it was greatly in the interest of closer co-operation and harmonization between African territories in the fiscal and economic matters and also of a higher level of efficiency in fiscal administration in Africa that these contacts, and the exchange of views and information between tax administrations should be maintained on a continuing basis.

2. The Seminar further noted with appreciation the willingness of the International Bureau of Fiscal Documentation to include particulars of African fiscal developments in its regular publications.

3. The Seminar therefore recommended that:

(i) the Economic Commission for Africa should prepare and issue from time to time, and as far as its resources would permit, Notes on Taxation Systems in Africa;[1]

1/ As a beginning it was hoped that the Notes referred to in sub-para i(b) preceding would be collected and circulated to all member governments for the information of their tax departments.

(ii) African governments should provide both the Commission and the International Bureau of Fiscal Documentation[1] with full particulars of all changes in their fiscal legislation in order that the latter might arrange for the information relating thereto to be included in its regular publications, and circulated to tax administrations, commercial undertakings and other subscribers all over the world;

(iii) African governments should take note of the services available also in the fiscal field from the Development Centre of the Organization for Economic Co-operation and Development;[2]

(iv) In addition to any meetings of a specialised character, the Commission should endeavour to convene general meetings of senior African tax administrators on a regular basis and not less than once in every two years.

1/ International Bureau of Fiscal Documentation, "Muiderpoort"-Sarphatistraat 124, Amsterdam-C, Netherlands.

2/ OECD Development Centre
91 Boulevard Exelmans, Paris 16ème, France

ANNEX I

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LISTE DES PARTICIPANTS

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Mr. J. A. GREEN (Agenda Item 4 iv)
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TIME-TABLE

Date	Agenda item and subject	Invited introduction by
Monday 6 December 1965		
0900 - 1030	Registration of participants	
1030 - 1230	Agenda Items 1 & 2	
	Opening Address	Executive Secretary of the Economic Commission for Africa
	Election of : - Chairman - 2 Vice-Chairmen - Rapporteur (French speaking) - Rapporteur (English speaking)	
	Approval of Agenda and Timetable	
1230 - 1300	Registration of participants (Cont'd)	
	Agenda Item 3	
1500 - 1630 1645 - 1800	TAXATION AND DEVELOPMENT (An introductory discussion of the economic and administrative aspects)	(i) Mr. Spencer Senior Regional Adviser, Public Finance and Chief, Fiscal Unit (ii) Mr. Weisfelt Regional Adviser in Fiscal Policy and Administration

1/ It is suggested that a Steering Committer should be established consisting of the Seminar Chairman, Vice-Chairmen, Rapporteurs and the Seminar Secretary.

Date	Agenda item and subject	Invited introduction by
Tuesday 7 December 1965		
	Agenda Item 4 (i)	
0930 - 1100	TAXATION OF PERSONAL INCOME	(i) Ato Damte Bereded Director Ministry of Finance Ethiopia
1115 - 1300		(ii) Mr. Obiri Senior Inspector of Taxes, Ghana
	Agenda Item 4 (ii)	
1500 - 1630	TAXATION OF BUSINESS INCOME	(i) Mr. Osinderi Chairman Federal Board of Income Tax, Nigeria
1645 - 1800		(ii) M. Rajaona Directeur-adjoint des impôts Madagascar
Wednesday 8 December 1965		
	Agenda Item 4 (ii) (cont'd)	
0930 - 1100 1115 - 1300	TAXATION OF BUSINESS INCOME (Cont'd)	
	Agenda Item 6	
1500 - 1630	PROBLEMS OF TAX ADMINISTRATION Principles of Management	(i) Mr. Fraser Chief, Public Administration Section, ECA
		(ii) Mr. Hindle Regional Adviser in Public Administration
1645 - 1800	Staffing and Recruitment	Mr. Sebagereka Commissioner designate, EACSO

Date	Agenda item and subject	Invited introduction by
Thursday 9 December 1965		
	Agenda Item 5	
0930 - 1100 1115 - 1300 1500 - 1630 1645 - 1800	FUTURE ORIENTATION OF FISCAL SYSTEMS IN AFRICA (Including New Sources of revenues, Taxes on Internal Expenditure, Land, Property, Inheritance, Capital gains, etc.)	(i) Ghana representative (ii) M. Binouani[1] Directeur des Contributions directes et indirectes du Congo (Brazzaville)
Friday 10 December 1965		
	Agenda Item 6 (cont'd)	
	PROBLEMS IN TAX ADMINISTRATION	
0930 - 1100	The role of Mechanization	Mr. Adelaja Western Region Tax Administrator, Nigeria
1115 - 1300	Deduction of tax at source in the case of personal income tax (P.A.Y.E)	Sheikh Hassan Belail Director of Taxation, Sudan
1500 - 1630	The Training of Tax Officials	Mr. Weisfelt Regional Adviser on Fiscal Policy and Administration will introduce the results of the questionnaire
Saturday 11 December 1965	Agenda Item 4 (iv)	
0930 - 1145	Sources of Revenue for Local Government (Discussion of the Desirable orientation of Seminar on Local Government Finance proposed for 1966)	M. Makanguilé Directeur des Contributions Diverses et Chef du Service des Domaines, Mali
1200 - 1300	Review of Progress and Agenda	Seminar Chairman

1/ In the absence of M. Binouani, this address was given by M. M'Bemba.

Date	Agenda item and subject	Invited introduction by
Monday 13 December 1965		
	Agenda Item 4 (iii)	
0930 - 1100	FISCAL INCENTIVES FOR DEVELOPMENT	(i) Mr. Pembroke Commissioner of Income Tax EACSO
1115 - 1300	National Aspects Investment Codes, harmonization, etc.	(ii) M. Golly Directeur des Contributions Diverses Ivory Coast
1500 - 1630	International aspects Double taxation agreements; unilateral measures in exporting countries; harmonization between tax systems in capital exporting and importing countries	(i) Mr. Van Hoorn Director International Bureau of Fiscal Documentation, Amsterdam
1645 - 1800		(ii) Dr. H. Debatin Member of Fiscal Committee, OECD
Tuesday 14 December 1965		
0930 - 1100	(Reserved for additional or unfinished items)	
1115 - 1300		
	Agenda Item 7	
	CONCLUSIONS AND RECOMMENDATIONS	
1500 - 1630	ECA Work Programme, Information, Studies and Research on Development of Fiscal Systems	
1645 - 1800		
Wednesday 15 December 1965	Agenda Item 7 (Cont'd)	
0930 - 1100	Training and Technical Assistance	
1115 - 1300	Co-operation between Tax Administrations	
1500 - 1630	Final Report	
1645 - 1800		

OPENING ADDRESS BY MR. R.K.A. GARDINER (EXECUTIVE SECRETARY OF THE ECA)

1. On behalf of the Commission and of my colleagues in the Secretariat, I welcome you all to Africa Hall. I do so with a sense of pleasure and high anticipation - although these are not sentiments which I have usually felt when confronted by Inspectors of Taxes! But to-day it is different; if only because for the next ten days it will be you and not the taxpayer who will be having to produce the results.

2. I hope however that you will find this experience a satisfactory and fruitful one.

3. May I now say a few words about the background to this Seminar and what we hope it will achieve?

4. The background is easy to explain: it is simply that in Africa generally, insufficient attention is being given to fiscal policies and problems as major elements in planned economic development. Insufficient, that is, by comparison with the thought and attention which is being given to the review, reform and development of policies in other fields, and insufficient in relation to the role which fiscal policies can and should play in national planning. Thus in almost every other field of public affairs, be it agriculture, industry, trade, communications, health, education or the like, it is taken for granted that the planning process should include a thorough-going review of existing policies and practices and a re-appraisal of their validity in the light of long-term needs. But this is rarely the case with fiscal policy. More often it appears almost as an afterthought: when everyone has added up, and then recoiled from, the cost of the plan, then at last, consideration is given to the role of taxation in meeting this. Thus whereas in these

other fields of government which I have mentioned, there is nowadays a steady flow of activity on national and international levels in the form of research and surveys, the exchange of views between one country and another, and the studied formulation of new policies and projects of local, sub-regional or even regional importance, little comparable activity can be discerned in the fiscal field - at least in Africa.

5. I am aware of course that some African governments have essayed various important reforms in their fiscal systems - and since some of them are represented here to-day I hope your Seminar will provide an occasion for you to hear and appraise the results of their experience. It is also true that among the various publications which have appreared in recent years on fiscal policy in developing countries, there have been some which have dealt specifically with African problems. The International Monetary Fund and the Organization for Economic Co-operation and Development (both of which I am pleased to see represented at this Seminar) have also embarked on various studies of particular interest to African countries; the most recent of these, just published by O.E.C.D., has been placed in your hands this morning. But valuable though all this is, it does not yet add up to anything which can be described as a concerted programme of study and co-operation between African countries themselves and between them and the international agencies, deliberately designed to ensure that fiscal policy plays a full role in the processes of economic planning in this continent.

6. There is nothing which can be compared, for example, with the Latin American Tax Program, which was initiated some years ago by the United Nations Economic Commission for Latin America, the Inter-American Bank and the Organization of American States.

7. There is also, as far as I am aware, little exchange of experience between African tax administrations, although many of them must be encountering new, but similar, problems as they endeavour to adjust their fiscal systems to the requirements of the situations which are arising from the diversification and development of their economies.

8. The first objective in convening this Seminar has therefore been to provide senior officials responsible for fiscal policy and administration with an opportunity to compare experiences with each other, to take stock of their respective positions in relation to development needs, and to make some assessment of the appropriateness or otherwise of existing practices to the needs of Africa.

9. Of course I realise that ten days cannot be enough for a really thorough discussion of the various aspects of your fiscal system. Nevertheless I believe the time available should be sufficient to lay the foundations of a continuing programme of research and collaboration on your part and ours, which will strengthen fiscal administration in Africa and enable fiscal policy to play its rightful place as an essential element in development policy and planning.

10. As you know we have not burdened you with a heavy volume of pre-Seminar documentation for prior study; nor do we propose to subject you to a long lecture programme. We think that the emphasis should be placed on African tax administrators and African treasury officials telling us, and each other, what their problems are, and how they think the international agencies, and particularly us here in ECA, can help them. It is for this reason that we have proposed that most of the substantive "tax" subjects on the Agenda should be opened by participants drawn from African tax administrations and that the role of our external participants and advisers should be to bring the fruits of their wider experience to the general debate as it goes along. I am sure that this arrangement will ensure that your discussions are characterised by practicality and relevance to African conditions.

11. I should add, and I am sure I do so on your behalf as well as my own, that we are very grateful to the OECD and the International Fiscal Association for sending us two outstanding experts in the persons of Dr. Debatin and Dr. van Hoorn to introduce your discussion on the International Aspects of Taxation affecting developing countries. I am sure their experience and that of the other external participants will contribute most usefully to the Seminar.

12. Turning now to the substance of your discussions, I believe there are two fundamental principles on which our, and your, work in this field should be based. The first is that the reform and improvement of fiscal systems is a long-term and continuing process; it is not a once-and-for-all exercise. The second is that fiscal policy and fiscal administration should always go hand-in-hand.

13. Taking the first of these principles: what I have in mind is that the evolution and development of a taxation system is something which should be married with the corresponding evolution and development of the economic and social system within which it operates. Thus substantial reliance on import and export duties was all very well when African economies relied largely on the export of a handful of primary products to buy most of their needs in the form of imports of raw materials, fuels and manufactured goods. It is less appropriate in an era when diversification and industrialisation are slowly changing the pattern of both exports and imports, and reducing their importance in relation to domestic production and consumption. But new taxes, for example, on internal production and expenditure require careful planning in considerable detail and with considerable foresight.

14. Similarly the introduction, or (where it already exists) the reform, of taxation on land and property must obviously be adapted to the current economic situation. What is appropriate to a small-holder or peasant agriculture may not do at all where the land is in the hands of big proprietors or where the real problem is to mop up windfall gains from speculation in urban development. And whatever is done is likely to need careful long-term planning, for example, in the form of cadastral surveys if these have not been done previously.

15. National planning too will require considerable improvement in the techniques used for forecasting revenue trends.

16. All of these considerations suggest that the governments should take the necessary institutional steps to effect this. One device which may be useful for this purpose, would be the establishment in each country of a standing Commission on Taxation which would be charged with considering, in association with the agencies of government and other responsible interests, all aspects of fiscal reform including legal economic and administrative implications. In some countries such a Commission might perhaps address itself to a codification of fiscal legislation, or to the amalgamation of several tax collecting agencies into one or two larger and more efficient entities; in others it may tackle the question of simplifying the tax structure, reducing the number of taxes levied in effect on the same or associated transactions, - eliminating taxes the yield of which is small and replacing them by a unitary and more efficient system. Such a Commission would no doubt study with care the impact, burden and effects of existing taxation systems and appraise their suitability in relation to national needs. An alternative device, if the establishment of a Commission appears too cumbersome, might be the establishment of Tax Research Group within the Government which would undertake similar tasks but with less publicity and formality in its proceedings.

17. My second principle was that fiscal policy and administration should go hand in hand. I hesitate to generalise about the conduct of thirty governments with a great variety of political and economic policies, but if my own observations are correct, I would say that in many of them at any rate, fiscal policy is largely determined in the Ministry of Finance and administrative difficulties are then left to the Director of Taxation to deal with. I do not suggest that there is no prior consultation between the Ministry and the Taxation Department (or at least I trust that is not the case!). Rather my impression is that decisions in fiscal matters are still often taken ad hoc and in response to the budgetary needs of the moment, rather than as part of a settled long-term policy in which economic, technical and administrative aspects have all been thought out in advance.

Of course, no Finance Minister is immune from a crisis whether it takes the form a failure of a major crop or a collapse in export prices, and when such a crisis supervenes ad hoc measures become ineascapable. But such should be the exceptions which prove the rule, rather than, as I suspect is often the case, being the other way round.

18. Perhaps, and I know I am making a controversial statement when I say this, this is partly the fault of tax officials themselves. Have they - have some of you that is - become so immersed in the legal and administrative complexities of your systems that you have been too content to leave the policy implications, the economic aspects, to the other people in the Ministry of Finance?

19. I cannot answer this question for you. But what I do suggest to you is that no taxation system is better than its administration; that it is not sufficient for a fiscal policy to be theoretically sound; it must also be sound in practice, - that is, capable of being justly and efficiently administered. Theory and practice should go together. But how can this result be achieved unless this fiscal policy is determined by people who understand equally the theoretical (by which I mean here largely the economic) aspects, and also the technical and administrative aspects. No doubt in the last resort fiscal policy must be determined by the Minister of Finance, but the top advice which goes to him should reflect the result of balanced consideration of all these aspects of the problem in question by the officials of his own Ministry and those of the Taxing Departments working in the closest possible collaboration.

20. Another field which will engage your attention during this Seminar is the question of the specific directions on which fiscal incentives should be applied in order to stimulate economic development, and how African countries can avoid any undesirable competition between each other in the matter of these incentives. This latter problem was the subject of a Resolution adopted by the last Session of the Commission; I understand that this Resolution has been placed in your hands, and shall welcome your

advice as to how it should be implemented. But the need for harmonization will soon extend beyond such specialised matters as incentives. As the present drive towards inter-territorial collaboration in economic, and particularly industrial, development gets under way it will become necessary for African States to co-operate in fiscal matters too. To do this, there will be required, not merely machinery for the necessary consultation, but also a mutual confidence between tax administrators and a prior understanding of each other's fiscal systems. I hope this Seminar will lay the foundation for such understanding and collaboration.

21. You will, I think, infer from what I have said that whilst I do not expect you to solve all your problems in the field of tax policy and administration in the next ten days I do hope that you will make this Seminar a unique opportunity for the exchange of views and experience and, finally, of agreement on the broad lines on which you and we should work in the future.

22. May I venture to submit the following ideas for your consideration in this context?

23. I have five suggestions:

(i) that in this Seminar you should aim at pin-pointing the most important current problems in the field of tax policy and administration in Africa and at some preliminary assessment of the directions in which African fiscal systems should be orientated in order to meet these problems;

(ii) linked with these conclusions would be suggestions as to fields in which research and surveys should be undertaken either by individual countries themselves, or by international agencies, or by both in partnership;

(iii) an assessment should be made of the principal problems currently encountered in recruitment, staffing and training in African taxation departments, leading to recommendations whereby these may be remedied, either on a national or international basis (e.g. by the provision of training facilities by international agencies);

(iv) we should like to know the directions in which you feel technical assistance will be most needed and can best be given in the reform and strengthening of your taxation systems;

(v) finally, if, as I hope, you find that the discussion and exchange of experience facilitated by this Seminar has been of practical value, you may wish to consider how this dialogue may be continued so that the exchange of information and experience and other forms of co-operation between African tax administrations may be put on a continuing basis. You may also indicate whether you consider there are certain topics of special importance which should receive priority treatment in this respect at future meetings.

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TAXATION AND DEVELOPMENT: PAPERS

(a) By Mr. O.A. Spencer, Senior Regional Adviser (Public Finance)

1. Our subject this afternoon is Taxation and Development. The very choice of this title is symptomatic of the age in which we live: until the last war, or even later, a gathering of this sort would probably have dismissed the topic in a few derisive sentences to the effect that taxation had little to do with development except very often to impede it and that fiscal theory should be confined to considering how the funds required for public services can best be raised by means which respect the principles of equity, certainty and efficiency - and leave development to other people.

2. To-day the attitude is different. Although there are differences in emphasis here and there, there is a broad measure of agreement, at least among fiscal and planning economists, that the tax systems of most developing countries need two things: reform and integration with the processes of national planning. Reform - to meet the rapidly changing circumstances of the post-colonial period with its emphasis on diversification, industrialisation away from export-orientated economies dependent on one or two primary products; integration with national planning - because this is essential to the success of these plans.

3. The basic fact of fiscal life in too many developing countries is that the tax base is not broad enough, and the yield not elastic enough in relation to national income to raise sufficient revenues for development purposes.

4. Since the prime objective is economic and social development it may be as well to start there. Here two concepts are now generally accepted: first, that in developing countries, and in the absence of some special stimulus, such as the discovery of petroleum or other valuable minerals, the Government must play a major part in initiating, guiding and sustaining development; the second that the spearhead of this process must lie in raising the rate of investment within the economy. For whereas the developed and industrialised nations commonly invest about a quarter of their national income, the less developed countries frequently invest only about 10%, sometimes even less and rarely more than 15%. There are exceptions of course, even in Africa; UAR, Gabon, Mauritania and Zambia spring to mind; they are usually the pointers to higher growth rates, and sometimes a reflection of special situations such as the development of rich mineral deposits.

5. Certainly a high rate of investment is, for most countries, an indispensable step to development, and fiscal policy must be attuned to this objective, but it is not the only objective of national policy; nor should it necessarily be confined to the public sector. There are other aspects to be considered. Capital investment by itself is not the sole springboard of economic development; it is equally necessary that labour and management should be trained to use the new techniques and tools that are being made available to them; and that the mental and physical health of the workers should be adapted to the new tasks, and the factory discipline, that an industrialised society will impose upon them. In fact Kuznets, discussing the historical processes of industrialisation in the West, went as far as saying: "It is thus generally found that most of the rise in per capita income is due either to improvement in the quality

of labour associated with shorter hours, better selection and in particular greater education, and even more to improved knowledge...and organisation". Fiscal policy must thus provide the means both for increasing capital investment in the public sector and also for expanding basic services in education, technical training and health.

6. Nevertheless the emphasis on investment and other developmental expenditure in the public sector should not be stressed to the point where the importance of raising investment in the private sector is overlooked. No doubt this is a question where the philosophy of the Government will play a determining role in policy; however it is clear that given the right circumstances, private investment can play a large part in the growth of a developing economy - as the recent histories of Kenya, Nigeria and Ivory Coast all show quite clearly. Fiscal policy should therefore also take this into account.

7. There are other problems to be taken into account too. One of the most important of these is that of modernisation of the agricultural sector. All too often - although there are notable exceptions - the most efficient part of the agricultural sector is orientated towards exports rather than domestic consumption. But a national plan which aims at raising the standard of living of the whole population must include in its programme an increase in food production and an improvement in its variety and quality. Thus fiscal policy must be framed - in association with other policies of course - to draw people out of subsistence farming into more modern methods of agriculture.

8. But the process of economic development will involve other changes in the economy with fiscal implications. As consumer incomes rise there will, in the absence of offsetting measures, be a sharply increased demand for imports, extending from simple manufactures such as textiles and footwear to luxury and semi-luxury items. This increased demand can impose an intolerable strain on the balance of payments of a country which must in any event increase its imports of capital goods and constructional materials.

Economic policy must therefore be directed towards curbing the consumption of luxuries and stimulating the local production of necessities. Fiscal policy may have an important role to play here. Even more important may be its reorientation to meet the structural changes taking place in the economy. As local production rises both in the agricultural and industrial sectors and the emphasis in the pattern of imports shifts away from consumers goods to capital equipment, constructional and industrial materials, import duties will find that their leading role in the economy is being undermined. The yield, in real terms, of export duties may also decline if, as is often predicted, the next decades see a deterioration in the terms of trade of African countries. Thus fiscal planning must embrace the search for new sources of revenue to offset any absolute or relative decline in the yields of import and export duties: in effect this means planning the long-term development of taxation on internal production and expenditure.

9. Thus a fiscal system for a developing state has a much wider role than that of merely raising enough money to meet the current needs of the Government. It must encourage investment in the private sector as well as financing it directly in the public one; it must facilitate agricultural reform and industrial development; it must take into account and be able to offset where necessary, any absolute or relative loss of revenues resulting from structural changes in the national economy.

10. Some authorities would also say that the fiscal system should promote <u>economic stability</u>. This objective is important in a developed state where instability is caused primarily by fluctuations in investment. In less developed countries the case is not so clear. In Africa the principal causes of instability are not, as in developed countries, flucutations in investment, but more usually fluctuations in <u>external</u> income due to changes in prices of primary products. When these fall, there is a fall in the real purchasing power of the country abroad; there is little that fiscal policy <u>per se</u> can do to counteract that;

although the effect may be mitigated by other measures if the country happens to have large external reserves on which it can continue to draw. In such circumstances it can maintain a higher level of internal expenditure than would otherwise be possible. On the other hand, when external incomes rise sharply, it is possible to use fiscal measures to damp down inflationary or other undesirable effects at home, e.g. by raising export duties; however in such cases fiscal policy should not be relied on alone, but should be deployed in close harmonization with monetary policy. In other words tax policy may be used in a developing country to damp down inflation, but is not likely to contribute much to dealing with a depression imported from abroad.

11. A further common objective of fiscal policy nowadays is to reduce inequalities of wealth. Any country which introduces progressive income tax has presumably accepted this objective to some extent; the extent to which it accepts it will be determined partly by political and social thinking and partly no doubt by whether it is concerned with righting existing inequalities inherited from former times or merely with preventing inequalities arising in the future from the processes of development and growth in the private sector.

12. All these statements of fiscal objectives are useful, but they are easier to formulate than to apply. They tend to gloss over possible conflicts and complexities. To take the most obvious case, there is a clear conflict between the two objectives of increasing the level of taxation (i.e. transfers from the private to the public sector) and reducing inequalities of wealth on the one hand, and that of encouraging increasing investment by the private sector itself on the other. For part of the ability to save is derived from inequalities of wealth. Thus in the last resort fiscal policy will reflect political as well as economic objectives. In this discussion therefore we only discuss the economic aspects and leave the political to the judgement of the country concerned.

13. Compared with these objectives, how do most fiscal systems appear in Africa to-day. It would be sanguine to pretend that in most countries fiscal policy was yet fully realigned in accordance with modern development requirements. To quote a paper delivered by a Nigerian, Dr. Okigbo at the recent Rehovoth Conference: "The features of the fiscal system in developing countries are the low tax base, the relatively regressive tax structure, the enormity of tax evasion, and consequential low percentage of tax to other revenues." He might have added one other: many tax systems in developing countries are not income elastic, that is they do not grow as fast or more fast than the growth in national income; a feature which may of course be related to their regressive character.

14. Or to refer to another study by Professor Lee on local taxation in Tanganyika. Leaving aside his assumption that the entire population contributes to Customs revenue (which in turn accounts for over 50% of all revenues) he points out that less than one quarter of Tanganyika's 9,000,000 citizens paid any direct taxes at all and less than 200,000 any direct taxes to the Central Government; in fact nearly a quarter of the country's revenues were derived from no more than 17,000 taxpaying units (i.e. individuals and companies).

15. Or to take a third author, Professor John Due. In his recent book Taxation and Economic Development in Tropical Africa, he discusses the question of the Taxation of real property. Of this he says "the role of taxation of real property in the tax structure of developing countries has been the subject of substantial discussion in recent years but the studies of this question have been largely ignored in former British Africa."

16. Nevertheless despite these criticisms, there have been a number of important reforms and development in fiscal policies in Africa. In personal taxation, the taxation of land and property, the taxation of internal expenditure and the taxation of exports, there are scattered across Africa a number of interesting developments and experiments which will repay our study. The unfortunate thing is that too little is usually known about

them outside the countries concerned. If this Seminar can remedy this situation, serve as a preliminary to a thorough study of these experiences, it will have performed a useful purpose.

17. But let us keep our own sights on the general or economic aspects. What are the basic requirements of a tax system which can meet the objectives previously listed? A recent study Tax Reform and Integration in Latin America listed four:

"(a) a broad based progressive individual income tax;

(b) a tax on the net worth of individuals;

(c) a tax on value added; and

(d) perhaps a limited number of taxes on certain items such as tobacco, alcohol, etc."

I do not think I should entirely subscribe to this model where Africa is concerned. Apart from omitting corporation tax (which was clearly an oversight since it was referred to elsewhere in the Report) it does not seem to me to deal sufficiently with the important question of export duties or the taxation of land and agricultural activities.

18. But before trying to outline what should be the framework of a national fiscal system in the African conditions I would like to deal with a common general objection. This usually takes the form of asserting that taxable capacity is a function of national income per head and if as in Africa, national income per head is low there is not much you can do by way of taxation to raise the level of the economy. It is undoubtedly true that the more advanced economies with high per capita incomes have generally succeeded in appropriating larger shares of those incomes by way of taxation than poorer countries; and it is certainly easier to tax the rich [if you can catch them] than the poor, without inflicting serious personal hardship. Yet I suggest that this approach conceals a dangerous over-simplification.

19. What is amiss in the less developed economy is that average income per head is low and productive investment is low. But behind these statements variety of situations may lie concealed.

20. Thus phrases about low average income may conceal wide discrepancies in its distribution. They may conceal for example that 2 per cent of the nation's families control a quarter of its incomes - figures which were taken from Mexico in the last decade; or to cite another case often quoted by Kaldor, that in Chile the personal consumption of the property-owning sector accounted for over a fifth of the national product. There are some similar cases in Africa.

21. Clearly in such cases there is scope for creaming off a sizeable share of the national product by way of taxation from the relatively very wealthy minority, without inflicting any really serious hardship or injustice upon them.

22. But one may go further. Over the large agricultural sectors of the economy, which may account for 80 per cent of national output, conventional national accounts usually substantially under-estimate the real income of the population. Thus the recorded average income expressed in monetary terms may be no real guide at all to the taxable capacity of that part of the population. Nor by its nature does it say anything about their potential taxable capacity. Sometimes this may be appreciable. Very often it may transpire that in a rural society the standard of living of the farming community is needlessly depressed by two factors:

(i) absence of basic extension services, simple instructions in the improvement of techniques and tools, the provision of seeds etc.;

(ii) exploitation by middlemen and/or landlords who buy the farmers produce at deflated prices, give him credit at usurious rates of interest, sell him his daily requirements at excessive prices, and in the case of landlords take too much out of him by way of rent.

23. In effect therefore the farmer, poor though he may be, is already subject to what one might describe as private taxation by other economic groups. In such circumstances a well conceived programme of agrarian reform, built perhaps round a combined credit-cum-marketing-and-advisory service may be able to raise both the farmers production and the share thereof which he retains for himself. What is more important it may be able to do this with only a limited investment in capital goods, infrastructure or the like. Indeed the capital-output ratio of such programmes may be far more favourable than those on projects in any other sector of the economy.

24. However, and this is where fiscal policy arises: it may be ncessary, to introduce various measures, including direct taxation, to induce the farmer to take a more active interest in production for the market i.e. for money. Poll taxes, land and market taxes, animal taxes may perform this purpose, which as pointed out earlier may also be necessary in order to achieve a sufficient growth in domestic food production to feed the growing population anyway. Thus an increase in productivity plus improved credit and marketing facilities may so improve the farmers' position that it may be possible to raise a reasonable quota of taxation from a sector which was previously regarded as a barrier field in this matter. Marketing boards may of course also help to fulfil this role - and have already been used for this purpose in some parts of Africa.

25. Thus the reform of primitive agriculture may provide a good example of the way in which general economic planning, technical improvements and fiscal policy may be dovetailed into a single integrated policy.

26. There is a final observation I would like to make on the argument that where average income per head is low, fiscal policy cannot do much to remedy matters. This is to say, in economic language, that what matters for development is not the <u>average</u> level of savings and investment

on the economy, but the marginal rate, i.e. what proportion of any increase in income is saved. Now a country with a low rate of income per head can undoubtedly, (if it has the will) increase its rate of saving as its national income increases, slowly perhaps, but progressively. It is likely that external aid will be forthcoming more willingly and in greater quality if the donors, whether they be governments or institutions such as the I.B.R.D. etc, can see that a growing portion of any increases in output which results, will be ploughed back into further productive investment. Thus a fiscal system which is elastic in its yield and financial policies which promote a high marginal rate of investment in relation to national income, are likely to command strong support abroad as evidence of the country's intention to tackle development seriously.

Taxes on Persons, Incomes and Wealth

27. Taxes on persons, incomes and wealth range from simple poll and hut taxes, through various types of income tax to taxes on property, capital gains and inheritance.

28. Taxes on the person or the hut have a bad reputation in political and social circles, but they are still to be found in many African countries; from the economic point of view they can perform a useful role in encouraging people to move out of the subsistence sector and into the monetary sector. They may also be particularly useful if the fiscal obligation can be discharged by useful work, e.g. on development projects for the benefit of the local community. Taxes on animals, when applied in conjuction with other measures, may facilitate the culling of herds and the improvement of stock and of the meat supply.

29. Progressive income tax claims the advantage that it is a form of taxation uniquely related to capacity to pay, and conducive to the better distribution of wealth. Its claims in this respect depend however

on the efficiency of its administration, and there is a widespread belief, (cf. the article quoted earlier) that evasion is rife particularly among the trading community. No doubt this is a subject which will be discussed at the Seminar. Certainly it is a form of taxation, which taxes the salaried classes very effectively, and if its impact on other large sections of the community is suspect, then grave inequity may arise.

30. A shortcoming of conventional European-type income taxes - as largely inherited in Africa - is that they are complicated to administer where the lower income groups are concerned. From this source of difficulty there has emerged in some African countries what I will call a dual system of personal income tax: that is the maintenance of a conventional European-type system for the higher levels of income side by the side with the establishment of a simpler slab-type system for the lower income groups - where liability to tax is based not on any detailed system of assessments, but on a simple classification of the individual into an income and tax group according to appearance or local knowledge of his affairs. This system is widely used in former British East Africa. It is obviously open to theoretical criticism, but has survived these onslaughts so far. It provides a means of widening the tax base without getting involved in the complex administrative commitments involved in a full blown income tax system with its complex provisions for determining taxable income.

31. This Seminar will, I suggest, serve a useful purpose if it discusses African experience with these two types of taxation, and makes an appreciation of the directions in which further development of personal taxation in Africa should proceed.

32. Another aspect of personal taxation which may repay study is whether all forms of income should be aggregated for taxation by a single process or whether different types of income should be assessed and taxed separately. Both systems can be found in Africa today; thus one may see separate laws, and even different departments for the taxation of incomes from employment, incomes from business, incomes from rent and so on. On the one hand it may be argued that a differential system of this sort may be used to

encourage or discourage different types of economic activity; or to tax more highly those who are known habitually to understate particular types of income, such as traders. Against this one must ask the question whether the system is in practice used in such a constructive way, or whether the existence of different systems and rates of taxation for different types of income does not increase the chances of some incomes slipping through the net altogether. Thus in the Sudan, until the reform of 1963/64, the taxation of business and trading profits was subject to tax whereas incomes from employments and rent were not. There is little doubt that this tended to encourage private investment in urban houses for rent, rather than industrial development - which was of course the opposite of what the planners intended.

33. Before leaving income tax it is necessary to say something about its effect on the incentive to save and invest. It is cogently argued that all progressive taxation of personal incomes is likely to have an adverse effect on saving and investment particularly at higher income levels. In theoretical terms this is based on Keynes' statement to the effect that the marginal propensity to consume of an individual was less than unity and that as he progressed up the income scale he tended to save an increasing proportion of his income. If so taxation imposed on the increment to income must eat into his savings and investment. This argument has not gone unchallenged. A recent study has suggested that consumption patterns in developing societies are not determined in this manner; the argument runs that in such societies the propensity to consume is very high among those classes likely to be in the lead where higher incomes are concerned; that attracted by the higher living standards of advanced countries learned through personal travel, literature, films or education abroad, these groups exhibit a strong tendency to spend all or a large part of additional income on items which are regarded as symbols of affluence - cars, radios, television, transistors, imported furniture and so on - items which are luxuries by the standards

of the mass of the population of the country concerned, but every day possessions in more advanced countries. If, and to the extent, that this argument is accepted, progressive taxation of personal incomes may curb excessive and ostentatious consumption rather than saving. The best answer to this question is perhaps that more research is needed before one can be dogmatic.

34. However it is easy to see how the emphasis on the one hand on the importance of progressive income tax both as an equalising factor in the social fabric, and as a source of revenue, and on the other hand on the importance of encouraging saving in the private sector have led to suggestions, such as that by Kaldor, in favour of taxation on personal expenditure and wealth rather than on incomes and inheritance.

35. Whether such taxation on expenditure is feasible in practive may be a fruitful subject for discussion here, where we also have the advantage of Indian experience among our advisers. But even if it is not, then may it not be worthwhile giving consideration on economic grounds even in respect of personal income tax to a form of investment allowances? In some countries such allowances are given for charitable donations; in Africa I believe both Madagascar and Ivory Coast have a system whereby such allowances are conceded in respect of certain forms of saving and investment. No doubt there would be administrative difficulties and undue loss of revenue, if such an allowance was a general one. However I suggest that some such device is well worth considering; perhaps the savings in question should be confined to scheduled investments such as Government Development Bonds, authorized Savings Banks, and the taking up of shares in approved industrial undertakings, also perhaps to a maximum percentage in relation to the taxpayers'income.

36. The question of the taxation of property and wealth raises even broader issues. It is always difficult to generalise about a number of different fiscal systems, but it seems broadly true that in most of Africa taxation of land and property is mainly concentrated in the towns. But is this good enough? If one thing is certain it is that Africa as a whole stands today on the threshold of half a century or more of the most

rapid development and increase in population which it has ever experienced. If this is accepted, it would seem to follow that one must also anticipate a sharp and sustained increase in the values of land and property generally, particularly of course in urban areas. Indeed the process has already started. Surely this is a form of capital gain which African treasuries should not allow to slip entirely through their fingers? I hope the Seminar will discuss this, and perhaps in doing so also compare the experience of the former British East African territories with those of her former territories in West Africa where, in the former case, urban property taxation has been based in principle on the unimproved site value, whereas in the latter it has been based on the rentable value of the property actually rented.

37. Taxation on land based on its potential value in its most economic use could provide a useful instrument for encouraging the most economic use of land and discouraging its misuse or the mere holding of undeveloped land for prestige or speculative reasons. Such taxation would call for thorough administrative preparation e.g. in cadastral surveys, classification of land by use and fertility etc. It would no doubt be difficult to administer; nevertheless it is difficult not to believe that something more effective could be done in this direction if there was sufficient determination and careful long-term planning. In some countries at least, the only form of agriculture which is effectively taxed are foreign owned plantations. The Sudan of course has set a special example here in the irrigated Gezira scheme which is in effect a partnership between the tenants, government and the managing board. This imaginative exercise in modernised agriculture has become a major source of prosperity to the farmer and revenue to the government.

Taxation of Corporations

38. The taxation of corporations is almost too large a subject to be treated at all in a brief summary of this character. There are two major items of the Agenda devoted to it. Perhaps from the economic point of view what requires emphasis is the importance of encouraging a high rate of investment and reinvestment in both industrial and agricultural

industries. This points to the imposition of direct taxation on the distributed rather than the undistributed profits of the firm. This, if taken to its logical conclusion, may also call for the introduction of a capital gain tax, as the value of the companies assets and shares tends to grow faster than its dividend distribution. The question of what types of incentives are most appropriate to the stimulation of developmental investment is a complex one and extends far beyond the fiscal system as such. It has been discussed at greater length in an ECA paper prepared for the Lusaka Conference which has been circulated to participants. Here again participants will observe that we have in Africa two main types of system, viz. that inherited from the former French territories and that derived from British practice and a comparison of their respective experiences in this field should therefore be valuable.

39. Special problems involved in the taxation of foreign companies and related questions are also largely outside the scope of a limited introduction of this sort. But they are provided for in the Agenda. Reference may however be made en passant to the role of export duties in this connection. Although the latter are often attacked as regressive they may be justified when imposed on industries which are by national standards relatively very prosperous; where minerals are concerned they may also serve to ensure that the nation gets a fair share of the proceeds even though the reported profits of the foreign owned corporations concerned in their exploitation are not very high. Care has however to be exercised in avoiding the imposition of export duties at rates which inhibit the mining of lower grade ground. Some flexibility therefore seems called for: either by having ad valorem and possibly progressive rates in relation to the export price, or by basing the duty on a hypothetical profit, or even by transforming it into a special form of profit tax and possibly even adjusting it to meet the different cases of undertaking operating under different conditions. Various innovations of these types, for example in Ghana and Zambia have been undertaken in Africa, and should be a source of fruitful study.

40. Turning to indirect taxation: it seems generally although perhaps not quite universally, accepted in Africa that import duties and other similar levies should be avoided on capital investment of a developmental character,

i.e. on plant and machinery, buildings and construction costs; the policy is usually also extended to raw material and other inputs although difficulties may arise where these are also commonly used by consumers and where supervision of any exemption would be difficult. Petrol and sugar are perhaps two examples in point.

The taxation of internal production and expenditure

41. Some of the most important issues in taxation in Africa today lie in the field of internal production and expenditure. As has been pointed out earlier, a policy of economic diversification and industrialization has a built-in tendency to undermine the role and relative importance of import, and possibly also export duties in the fiscal system. Some substitute must be found and not even the most advanced countries have been able to dispense with indirect taxation despite the obvious objections to its regressive character.

42. The main types of tax may be considered in this connections: sales taxes imposed at retail outlets; excise or production taxes imposed at the factory gate, and that most recent and sophisticated of fiscal devices - the tax on value added.

43. A general sales tax has important advantages for a developing country. It makes the tax system more income elastic and helps to raise the incremental savings ratio. But it may be difficult to administer. However, some African countries including Ghana, and our host Ethiopia have introduced this type of taxation so we shall have the opportunity of listening to their experiences.

44. Taxes on factory output, which are passed directly on to the consumer and normally called Excise Taxes in English usage, are generally easier to administer than sales taxes. The normal practice is of course to levy them in addition to import duties when the same item happens to be imported. Where the demand for the product is inelastic in relation to price (as is usually the case with conventional necessities such as liquors, alcohol, tobacco, perfumes, etc) and with necessities on which however the individual spends only a small portion of his income,(such as sugar, kerosene or salt) such taxes may be used to raise large revenues. Admittedly they are regressive and for this reason the yield may not rise as fast as national income. They should therefore be balanced with other duties -either by way of excise or import duties as the case requires - on items the demand for which is income elastic. Petrol, films, domestic electricity [illegible] consumption, domestic services and foreign travel may be good examples although the last three named may not be popular, and the last two may present administrative difficulties.

45. It is necessary to add however that the fact that a particular industry has received pioneer or other concessions to assist in its establishment is no reason by itself for exempting its products from excise, turnover or sales taxes.

46. The imposition of excise duties is simple and effective when confined to a handful of selected products such as liquor, sugar etc.; its extension to a large number of industries becomes a very complicated matter as the economy develops. It also becomes increasingly likely that the effect of such taxation is to distort the pattern of development, output and costs. The search for a widespread tax which is also economically neutral has led to the evolution in Europe of the tax on value added. This is in effect a sales tax levied at a stipulated rate ad valorem - in France usually 20% - on every sale at each stage in the chain of production. However the distinguishing feature of this tax is that the producer or large wholesaler who adds it to the bill and collects it, is entitled at the end of the month to deduct from his TVA payment to the Treasury all the amounts of the same tax which he himself paid during the previous month. He cannot however ask for a refund, except in cases of exportation. In France he can however deduct any taxes paid in respect of personal services. (Taxe sur la prestations de services). Thus the amount of the tax actually paid over is closely related to the value added by the producer etc. conerned, and gets over what can otherwise become a difficult problem in any widespread system of taxation of commodities, viz. that one is liable to tax productive investment and industrial inputs as well consumption and final products.

47. The Tax on Value Added originated in France and is already spreading to other countries. It is of course even more complicated to administer than a single stage sales tax. However it has already appeared in at least one French-speaking African country. It would seem therefore appropriate to discuss during the course of this Seminar the administrative and other problems associated with it whether it is likely to be suitable to African conditions.

48. To sum up: what should be the main features of taxation in the average African State? First I suggest that it must be part of the framework of the national plan; second that it must be definitely income elastic in relation to growth of GDP. It must facilitate investment in both public and private sectors, agrarian reform, proper land use and industrial development.

49. To this end, I suggest the following elements may be considered:

(i) Direct Personal Taxation

This may consist of three elements:

(a) Taxes (such as Hut, Poll, Animal and Date Taxes) designed to coax farmers out of the subsistence sector. These should be at rates which make collection worthwhile.

(b) Taxes on income as such; these should be progressive, but of a type or types deliberately designed to meet African conditions. The top marginal rates should not be penal, the consumption of luxuries, being curbed by heavy indirect taxes rather than excessive personal income tax. The system should facilitate, or even encourage approved types of saving and investment. The system should be comprehensive (i.e. no particular sources of income should be exempt) and unless there are good reasons to the contrary it should be aggregative (i.e. different sources of income accruing to one person should be aggregated before assessment).

(c) Taxes on Land, Property and Inheritance and possibly Capital Gains (when realised) designed in the case of land tax as far as possible to encourage the economic use of assets.

(ii) A system of Corporate Taxation designed to favour a high rate of investment and development and characterized by growing collaboration between African territories themselves and between them and capital exporting countries in order to reduce the opportunities for evasion and the risk of loss of revenue by granting fruitless or excessive tax concessions in the case of foreign corporations.

(iii) More highly developed systems of internal taxation or production and expenditure than are customary at present. This may include:

(a) system of export duties which are sufficiently flexible to avoid any discouragement to the mining of marginal land or the processing of local produce for export in manufactured form;

(b) high duties on imports and/or local products for which the demand is elastic in relation to income or inelastic in relation to price;

(c) A widespread system of taxation at lower rates on general expenditure, probably in the form of a single stage sales tax [but possibly in future in the form of a Tax on Value Added.]

TAXATION AND DEVELOPMENT: PAPERS (CONT'D)

(b) By Mr. H. Weisfelt, Regional Fiscal Adviser

1. The education of tax officials used to put a heavy accent on law; taxation belonged to the field of the jurists, its task being to spread the burden of the expenses of the State, in the most equitable way over the population.

2. Nowadays one has only to look at the ever growing volume of tax literature to notice that the field of taxation has been taken over largely by the economists. Equity keeps its importance, but the economists have added their knowledge to make taxation a valuable instrument for economic stability and more important in Africa: for progress.

3. If I see things in their true perspective, there is besides the jurist and the economist, a third force coming up very fast: the administrator. The administration used to be seen as just an executing agency of the legislation and it had, in the case of taxation, nothing else to do than

1. to collect the maximum amount
2. to reduce the cost and time of collection
3. to ensure compliance with the law.

4. These duties are certainly important and this was always understood. Hardly ever has a tax reform been proposed without the remark that the administration had to be improved; but one hardly ever really studied how far improvement would be possible. The administration was an instrument, not a factor, like justice or economics.

5. Many a tax reform however, became a failure because the tax administration could not cope with it and, for this esteemed gathering of tax administrators, it will be clear, that it is madness to change a tax system only on juridical and economic grounds without listening to the recommendations of the tax administrator.

6. If it is true that, especially under the present conditions in Africa, with tax systems rather poorly adapted to the indigenous circumstances and with tax administrations in a rather poor shape as a consequence of the departure of many expatriate officials and as a consequence of the drain put upon these administrations by other government departments or by private business; if it is true that the tax administrator should have a say of, at least, the same importance as the say of the economist or the jurist, we should ask ourselves very sincerely if we are really living up to the standard required.

7. I can sympathise with the tax administrator who, being put in front of the impossible task of levying higher and higher taxes from an unwilling public with an outmoded legislation, complains repeatedly about a lack of personnel, trained personnel, competent personnel. I can sympathise with him, but I cannot appreciate his attitude. He is still behaving, I think, in the old fashioned way, as the simple executor of the plans hatched by the lawyers and the economists. He still has not fought his way to the conference table, where he should have an equal place in every discussion about taxation problems; where he should be one of the policy makers.

8. The modern tax administrator, especially in Africa, should no longer run behind the facts, trying to fight backlogs everywhere by chasing up his personnel, trying to fight tax evasion by controlling as many tax returns as possible, trying to control bookkeeping accounts which are so poor that they are beyond control. All these things, and many others in the same line, do belong to his responsibilities, certainly; but on top of that it can be rightly expected that he should also make a considerable contribution to the tax policy of his country by coming forward on all occasions with well proved arguments derived from the administrative practice.

9. Let me give a very simple illustration of what I mean.

10. The Minister of Finance considers steepening the progression of the personal income tax. Let us assume that the maximum marginal rate was 60% and that it should become 80%. He asks, as a wise Minister always should do, for the advice of his principal staff. It is not so easy for a jurist to say something wise about the difference in equity between a 60% levy and an 80% levy; it is not so easy for an economist to make a more or less reliable estimate of the economic consequences of this shift of financial means from the private to the public sector. If in a case like this the tax administrator were not to do better than just draw attention to the fact that assessment and collection would become more difficult and that the danger of evasion would increase, the Minister would be poorly advised indeed and would have to rely almost fully on his own political aptitude or instinct (as alas is too often the case in Africa). I think that the tax administrator ought to be the one to give the best advice of the three. An analysis of a sample of the returns of the highest taxpayers in the country should enable him to produce some fairly reliable figures about the maximal results of this tax measure, he will know what percentage of these taxpayers usually invest their available money in business or industry, what percentage will only find its consumption possibilities limited; he can estimate the danger of a switch from income to capital gains, he can even, and this may be the most important, give an insight into the amount of those high incomes on which the fisc has no grip, or an insufficient grip. Shortly he can change the pure risk of such a measure into a calculated risk.

11. This is only <u>an example</u> of how the administration can become an important and independent factor in tax policy, how the administrator can contribute to better decisions in the tax field. How necessary it is that the voice of the tax administrator be heard can be proved by the example of India where it was found that overall government taxes have in fact an elasticity of only .6 to national income while it could be expected that the income elasticity with the many progressive taxes existing would be well over 1. The difference represents the administrative shortcomings.

12. It will pay off for a tax administrator, especially for one who has to work with an apparatus that is in poor shape, to give a large part of his attention to getting the facts about his administration. To get the facts it will be necessary to have some very competent members of his staff working on nothing else. One might wonder whether it would be necessary for this purpose to create a separate unit, a Fiscal Research Unit. This will depend largely upon the size of the country concerned. Personally I would not decide too quickly to create such a separate unit, because I believe it to be useful that this kind of creative research should be a normal part of the work of our top tax officials. One thing is certain however: the work has to be done, and if we do not do it in our own administration somebody else is going to do it, perhaps in the planning office, with the result that it will be done less competently and with less immediate benefits for our administration.

13. Improvements have to come from several sides: from the administration itself by greater efficiency and larger work output, but also from changes in the tax system, made to facilitate the administrations work and on the part of the public by better understanding and better co-operation.

14. How will the increased influence of the tax administrator manifest itself? I cannot be complete but I can try to give an idea about what can be achieved.

15. It might well be that the facts, for example, the limitation of the capacities of the tax administration, coerces into the conclusion that we have to make a step back in direct taxation and a step forward in indirect taxation, even if jurists and economists are opposed to this.

16. Against the opposition of the lawyers the administrator may want to speed up collection by a change in the legal system which enables him to assess immediately after receipt of the returns or even before that without losing his right to review the assessment at a much later moment. This is somewhat revolutionary, but it might save a large amount of time and work if and where introduction of a Pay as You Earn system is not immediately feasible. An immediate collection is of special importance during periods of inflation. I found this clearly illustrated in a recent

article in the Economist about Latin America. I quote:

17. "In most rich countries of the western world, budget surpluses rise automatically when you have an inflation, and thus taxation serves as a built-in corrective mechanism.

18. By sharp contrast, in Latin America budget deficits usually widen in an inflation and thus serve as a built-in further stimulant to that inflation. It is usual to say that this is because marginal tax rates on rich men's incomes in Latin America are too low or are not obeyed; but an even bigger factor is that the administrative system only allows most income tax to be collected a year in arrears, so that in an 80 per cent per annum inflation the Treasury may be drawing in taxes on money incomes that were 80 per cent lower than they are now, even though the administrative costs of government are now 80 per cent higher than they were then." unquote

19. A uniform codification of the existing tax laws is often an urgent point, complete up-to-date texts are sometimes difficult to obtain. Uniformity in procedures should be achieved. In this connection it is really astonishing to see how often the efficiency of the administration is hampered by legal refinements of minor importance. Bearing in mind the overwhelming difficulties that have to be surmounted by African tax administrations it can in fairness be expected that the legislator is willing to find an easy way to do away with formalities and obstacles which are not fundamental.

20. In many countries one finds a real proliferation of tax laws and different taxes, some of them overlapping, some of them contradicting each other in the economic consequences. Without attacking too much the saying that "old taxes are good taxes", there is often room for a very fruitful simplification taking fully into account the exigencies of the administration. Sometimes the situation is complicated by the earmarking of tax revenues and by the fact that taxes are levied by several authorities on the same tax basis.

21. Practically everywhere there is a strong need for strengthening the investigational powers of the tax administration. I know this is a delicate subject. The citizen has a right to be protected against arbitrary

actions, but this protection can go too far and it goes too far if it damages fair application of tax laws. I am afraid that the tax administrator will have to make a very special effort to "get facts" to make the lawyers give in on this point.

22. We will have to strengthen our means of enforcement. Where the legislation is too lenient, it should be revised. And where the number of trespassers is too large to apply the law to all, we should pick and choose some to undergo the full severity of the law, even if this hurts our feelings of fair play.

23. We need clear instructions for our personnel. They should have their powers clearly described. They should also have a clear idea of the costs of their efforts, by which I mean to say that tax collection too can and should be done in an efficient way and that in some cases the costs are prohibitive for a 100% collection. The instruction of personnel should not be limited to the teaching of law texts; it is more important for us to know where exactly the assessment mostly fails and to make sure that our personnel knows how to fight these failures. Some quite remarkable results are achieved with case study techniques. These case studies, however, are useful only if the administration knows exactly where the assessment fails. The problems of assessment and of control and audit can then be reduced to a relatively small number of cases.

24. We have to extend our efforts to the taxpayers too. With folders and booklets we can enlighten their task considerably. And we should certainly try to get the facts about what we really are demanding in taxpayers' time and effort and try to make life easier for them in this respect.

25. With the foregoing, I am not recommending that the tax administration should be accepted as it is with all its shortcomings and failures and with its lack of competent personnel, and that the tax legislation should be simplified to such an extent that its application by the existing, poor, tax administration can be assured for 100%. That would be putting the clock backwards. I only want to stress that the co-operation between administration and legislation should be radically improved.

26. If this is the case, we have a sound basis to start a well planned campaign for improving the tax administration itself. Improving the tax administration calls for some imaginative thinking. Take for instance the question of secrecy. Perhaps there are good reasons for Africa to copy the rules of conduct of most developed countries in this matter, and to maintain a strict secrecy about what the fisc knows of its taxpayers or would like to know about them (for instance, their bank accounts).

27. I often wonder however if we really should behave as if we were Switzerland, having to be afraid that our whole economy would be upset if something leaked out about the finances of our customers! I also wonder why the Swedish example of publication of the list of taxpayers and their incomes never found imitators in Africa. I do not say that I recommend such a step but this subject needs study and could offer a case for good international African co-operation.

28. Somewhat connected with the "secrecy" subject is the co-operation between the different divisions of the Ministry of Finance and between those and related government services such as, for example, price control and social security.

29. When tax rates were low and the influence of taxation on the economy very limited there must have been good reasons for dividing the revenue department of the Ministry of Finance into several tax administrations (direct taxes, indirect taxes, customs, etc.) which worked independently from each other. Nowadays however, with our planning, our development, our integration efforts and our high tax rates, taxation should be put under one responsible official to achieve the highest possible co-operation and a free exchange of data. Furthermore it is difficult to find good reasons why the tax administration should withold its knowledge if services like price control should be in need of it. The number of competent auditors is very limited. If, with little effort, they can control more than just one kind of tax why not instruct them to do so?

30. There are a number of items on our agenda which are in my opinion of extreme interest in our administrative field. For instance, the principles of management, mechanisation, introduction of a P.A.Y.E. system. But I think you will agree if I state that the personnel problem, the problem of how to get and keep competent personnel in sufficient numbers is probably the overriding difficulty in African tax administration. Allow me therefore to say a few words about it, in a very introductory way.

31. In all efforts for development one of the most important things to be done is to establish an order of priority. A decision has to be taken as to whether certain schools are more important than certain roads, whether and to what extent defence is more important than agriculture; but it also has to be decided whether the personnel situation of the Ministry of Finance has to be improved more urgently than for instance, that of the Ministry of Public Works. The easiest solution is not to take a decision at all and to treat all civil servants equally, to give them comparable salaries and comparable training facilities, to open higher ranks for them and to divide the available manpower equally among all departments. This may be the more equitable way and more as it is done in the western world. I wonder, however, if it is right. I personally think that we are simply not in a position to allow our administrative financial set-up to grow and improve only as fast as the set-up of other services. This equity is too expensive. Not only because we need the money now: maybe taxation now is still relatively easy if we could compare it with what is waiting for us in the future. Laxity in taxation, and in financial administration, is likely to create a general atmosphere of laisser aller which will strengthen with the years and will be very difficult to reverse later. If however we could manage right from the start to get a better administration for finance than for any other department of government we might succeed in keeping ahead of development events. To keep ahead we should also ensure that we get a fair part of the university graduates available. The speed with which the tax administration is getting more complicated is not everywhere recognized.

32. If a road is poorly built, we suffer a loss, but a calculable one; if the financial administration of a country fails we cannot even calculate

our loss and we cannot oversee all the consequences for the future. At the moment there are several African States in almost deadly difficulties (and so are their governments!) not only because their financial situation is poor, but even more because they do not know exactly how poor this situation really is. This lack of facts is exactly the situation which money lenders fear most.

33. The conclusion to be drawn is that in a developing economy the financial administration of a country should be placed very high on the list of priorities and we should be prepared to fight for this.

34. We have seen that to the initial list of duties of the tax administrator (to collect the maximum amount, to reduce cost and time of collection, and to ensure maximum compliance with the law) should be added a fourth: the fact-finding about present and future administrative capacities.

35. The finding of these facts - of course - has to be followed by the drawing of the appropriate conclusions and subsequently these conclusions have to be sold to our governments. This process of trying to sell our conclusions based on facts, should be a continuous one. It is rarely clearly seen and understood by politicians how the administration is a factor in itself for development and how damaging its shortcomings can be for the future of a country. It is rarely understood that examples such as those I quoted from India and Latin America, where results were fully contrary to what the legislator tried to achieve, are only due to overestimating the capacities of an administration. In India the legislator thought that his tax system was income-elastic, and it was not; in Latin America it was thought that the progressive taxation would work as a built-in corrector of inflation, and instead it turned out to be a built-in stimulant to inflation.

36. There are of course many ways of selling our conclusions. Sometimes there are almost daily opportunities to draw the attention to the exigencies of the administration, in conversations or by way of memoranda. But I would like to emphasize one way of "selling" which I think of particular importance. What I mean is the yearly report. We should try to make

a yearly report well in time and to get it published. The more administrative facts it will contain and the more valuable studies about the administration that will be published in it, the more influential it will become and the less it will have to be feared that it can be considered as an unwelcome criticism of the government. Let us face the facts: it often requires courage to witness publicly about situations which we believe to be wrong and which we believe should be remedied by the government.

37. Therefore it would be a considerable support if we could come to an international, or in this case to an African understanding about the importance of such a report and, if possible, to an understanding about its minimum contents. In our own service we will always try to make comparisons in efficiency between one office and another; we should do the same internationally. If we could make our yearly reports in a form that would allow for some comparison with other countries of the region, we could profit considerably from each other's experiences and we would make our own case easier to defend.

38. Talking about "taxation and development" means that we are aware that taxation needs the same kind of planning that is generally accepted to be necessary for development. Changes in taxation should, by preference, be accomplished gradually and in accordance with a plan that is synchronised with the development plan of the country. There is probably no better way than a yearly report to point out in how far the past period has achieved what was planned, and in how far it will be necessary in the near future to revise the initial plans. I am not only talking about the legislation, but also about the administration and about personnel and training.

39. Knowing how difficult is the position of tax administrators in Africa, how they are fighting with a lack of qualified personnel and with a lack of time, I nevertheless venture to advocate that there is more to do than to raise taxes according to the legislation. Maybe a little less attention will have to be paid to the daily work and a lot more to the more general problems of administration. I believe firmly that a broader concept of our task will soon pay off generously.

CO-ORDINATION OF INDUSTRIAL INCENTIVES AND LEGISLATION

Resolution 140(VII) adopted by the Commission at its 126th plenary meeting on 22 February 1965

The Economic Commission for Africa

Recognizing the importance of co-ordinating programmes of industrial development in African countries in order to achieve maximum economic growth,

Recognizing the dangers inherent in competition among African States in the provision of economic incentives and industrial legislation to attract capital investment,

Noting that a preliminary study of African investment codes including data on current legislation has been prepared at its request and will shortly be published,

1. Recommends to the Governments of member States and associate members of the Commission that they should review and if possible harmonize industrial legislation and incentives through the sub-regional offices of the Commission;

2. Requests the Executive Secretary to report to the Commission at its next session on the progress made.