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ECA/PHSD/BUD/90/1[2.2(1)]

United Nations
Economic Commission for Africa
Public Administration, Human Resources
and Social Development Division

Report On
A Regional Taxation Workshop
On
Improvement in Tax Administration
Addis Ababa (Ethiopia) 26-29 March, 1990

Organized in collaboration with the Association of
African Tax Administrations (AATA)

April, 1990

I. Introduction

1. The pressing demand for increased government outlays for socio-economic development underscores the need to ascertain commensurate levels of public revenues to meet the demand. Apart from determining the appropriate levels and scope for additional revenues, attention ought to be relentlessly focused upon the efficiency of the tax system which is a crucial factor in the successful exploitation of a country's tax revenue potentials or base. A country's tax base is composed of a wide range of economic activities. From some activities, it may be easy to collect tax revenues, yet from others it may be difficult to collect the tax revenue.

2. The differences in the revenue collection may, by and large, derive from the structure of a country's economy. For example, in small poor countries, there may be diseconomies of producing only for domestic consumption since the population cannot absorb any large portion of potential output. The surplus production is then exported to earn foreign exchange with which to buy goods and services not available at home. There are, therefore, more possibilities of taxing exports with lesser degree of the difficulties in collecting the tax revenues therefrom. Similarly, the relative scarcity of natural resources in small countries which makes it necessary to import resources, goods and services, opens the way for imposing of a range of import duties. Since the demand for import is less elastic in most developing countries, the governments of such countries view import duties as a reliable source of revenue often applying very high rates of revenue. 1/ Again, revenue collection is administratively easy from this type of source of revenue.

3. However, owing to the declining trends in the world markets for prices of the commodities from the developing countries, these countries have and continue to experience enormous downturn in tax receipts from the international trade. It is a known fact that any slump in the world market quickly affects economic activities and trade tax receipts. For example (Zambia 1987/88), it was observed that government revenues had been a major casualty of the slump in the world copper prices 2/ on which government trade taxes depended.

1/ Harold Codrington, Journal of Development Studies, Volume 25 No. 4 July, 1989 Frank Cass and Co. Ltd. Gainsborough House, Gainsborough Road, London E11 1RS.

2/ Country Profile on Zambia 1987-88, The Economist Intelligent Unit London W1A 1DW, United Kingdom.

4. The decline in international trade sources of tax revenue, then, imperatively demands the diversification of the tax base which entails the introduction of a plethora of miscellaneous domestic taxes. But needless to say, some of the taxes on domestic sources have either a very low base or are very difficult to collect than taxes on international trade; hence any exercise undertaken seeking to initiate broad and fundamental tax reforms requires coordinated efforts at strengthening tax administration. A soundly broad base ought at least to be composed of all the country's tax potentials and efficient tax administration. Tax administration is in effect, a component of the tax base. If strengthened, it may as well provide substantial portion of the required additional domestic revenue through successful implementation of the existing laws and regulations. Indeed, greater and more efficient domestic financial resource mobilization ought to be regarded as one of the crucial policy directions taking into account the dire need for African developing countries to increasingly depend upon domestic financial resources owing to the ever weakening and uncertain quantum of external resource flows to Africa, coupled with the increasingly tough conditions attached yet to the very reduced inflows of the external resources.

5. Inefficiency in tax administration leads to inequity in terms of after-tax income of people in similar economic circumstances arising out of under-assessments and evasion. This causes people in the same economic circumstances not to pay equal tax. Under-assessments result normally from lack of appropriate accounting skills in the tax administrations for the verification and examination of income tax returns, in particular, the complicated supporting accounts and other financial statements. So much would-be-taxable income escapes tax in the form of inflated expenditure and losses carried forward. The individual income under-assessments usually occur because of the inability of tax officers to cope with the workload, that is too many returns, too few officers and too many short-cuts in the examination of the returns. The result is that those taxpayers whose returns do not get exhaustive verification and examination, pay less tax than those whose returns were thoroughly examined, even though, the taxpayers were in the same economic circumstances. This leads to inequity not as a result of the tax rate structure, but as a result of inefficiency in the tax administration. Similarly, where taxes assessed are not collected at all, or partly collected, effectively taxpayers in similar economic circumstances pay unequally. Also evasion through non-filing or under-declaration of income without detection by the tax administration, leads to inequity.

6. On the other hand, inefficiency in tax administration, may lead to overtaxation of the existing tax bases. For example, given the frequent and high proportion of revenue losses through inefficiency in administration the alternative for tax authorities is to raise the rates of tax on existing bases in order to recoup the revenue losses. The effect of these increased rates is increase in tax evasion which in the end, further leads to soaring of tax rates; and so the cycle goes. If tax administration is, therefore, revamped or strengthened, the inequity would be eradicated and evasion

minimized and more or less, the revenue-yielding capacity of the existing tax bases would be ascertained. The near-maximum revenue capacity level can then be used as a basis or a guide for the choice of alternative sources should the demands of revenue dictate.

7. It is true that establishing an efficient tax administration is an expensive venture, and the cost may be too high. But administrative efficiency must be seen in a dynamic sense. Expenditure on improved administration in the short run is amply vindicated in the long run by the increased revenue productivity of a more developed system. It is along this line that all costs incurred on improving tax administration should be seen.

8. It was against this background that the Economic Commission for Africa (ECA), in collaboration with the Association of African Tax Administrators (AATA), organised the regional taxation workshop on improvement in Tax Administration.

II. Organization and Venue

9. The regional taxation workshop was held in Addis Ababa (Ethiopia) from 27-29 March, 1990. It was organized by the Economic Commission for Africa (ECA), in collaboration with the Association of African Tax Administrators (AATA).

III. Attendance

10. The regional taxation workshop was attended by 31 senior officials representing the following member states: Algeria, Burkina Faso, Cameroon, Congo, Egypt, Ethiopia, Gabon, Guinea, Nigeria, Sierra Leone, Togo, Uganda, Zambia and Zimbabwe. There were also individual observers, in attendance, from the Addis Ababa University (Ethiopia) Law Faculty and the Ethiopian Chamber of Commerce.

IV. The Objective of the Taxation Workshop

11. The primary objective of the workshop was to provide a forum for the African tax administrators, to review, in general the taxation systems and policies in Africa, and in particular to exchange ideas and experiences on the taxation of the hard-to-tax sectors and also on the improvement of revenue collection through the withholding tax systems.

V. Methodology

12. Background country papers were presented by the participants on each theme and that was followed by discussions and summary of findings and recommendations. In addition to the country papers presented, some participants made also oral presentations.

VI. Topics Discussed

13. The following topics were discussed:

- Approaches and Methods of Improving Compliance Within the Self-Employed and or Small Business Sectors.
- Improving Tax Revenue Collection Through the Withholding Tax System.

14. The thrust of the workshop as regards theme I, was to identify the types of taxes which were common in the self-employed and or small business sectors of the African economies, to examine their origin (i.e., the policy and legislative aspects), the mechanisms used to enforce the collection of revenue from these taxes, to identify the problems encountered in the routine administration thereof and to provide ideas and suggestions on ways and means of improving their administrations for increased revenue collection.

15. As regards theme II, the focus of the workshop was to identify the types of the withholding tax systems in operation in the African tax systems, examine their scope and coverage of the tax sources, identify the problems encountered in the routine administration thereof and make suggestions on the ways and means of improving them for increased revenue collection.

VII. Official Opening of the Workshop

16. The Regional Taxation Workshop was opened by Dr. Tsegaye Habte, Vice-Minister, Ministry of Finance, Ethiopia. The Vice-Minister, in his opening speech welcomed, on behalf of his government, the delegates to Addis Ababa and expressed the hope that their stay in Addis would be a pleasant one. He then pointed out that in the wake of the changing world, in particular with regard to Africa's economic stagnation and in some cases decline, concerted effort needed to be made to mobilize domestic and international resources in order to lay down at least the infrastructure necessary for modest and economic development. It was that task of generating and managing resources for development entrusted to finance ministries and to tax revenue agencies that brought the delegates together on this occasion he said. He called for greater concentration for mobilization of resources at national, regional and international fronts.

17. He mentioned that the two major functions of taxation were the generation of tax revenue and the provision of incentives through the legal framework. To be able to discharge much of these responsibilities, it was necessary to relentlessly strengthen tax administrations. He then concluded by wishing the delegates successful and fruitful deliberations.

18. On behalf of Prof. Adebayo Adedeji, Un Under-Secretary-General and Executive Secretary of ECA, the Deputy Executive Secretary, Mr. Tchouta Moussa also addressed the workshop. In his statement, he welcomed the delegates to ECA Headquarters. He also expressed profound appreciation to the Government of the People's Democratic Republic of Ethiopia for cordially hosting the joint ECA and AATA regional workshop. He reiterated the aim of AATA as being "to promote co-operation in the field of taxation policy, legislation and administration in Africa". Indeed, the workshop was taking place in the wake of the growing need for regional co-operation among African countries in the field of fiscal policy in general, and taxation issues in particular, due to the continent's continuing economic crisis, spurred in part by the inadequate mobilization of domestic financial resources for socio-economic development.

19. To redress the persistent and general decline in economic activity, social welfare and living standards, Mr. Tchouta Moussa said that African countries had implemented policy reforms and structural adjustment programmes which had failed to arrest the crisis. Indeed, it became evident to all concerned that adjustment must be pursued in tandem with transformation of the structures of the African economies, if sustained and self-reliant growth and development were to take place. For that purpose, the African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation (AAF-SAP), was adopted in April 1989 by the ECA Joint Conference of African Ministers of Finance and Development and approved by the African Heads of State and Government in July 1989. It was also endorsed by the General Assembly of the United Nations.

20. Mr. Tchouta Moussa pointed out that within AAF-SAP, greater and more efficient domestic resource mobilization was considered as one of the crucial policy directions in view of the need to increasingly rely on domestic resources because of the uncertainties surrounding the quantum of external resource flows to Africa and the increasingly stiff conditions attached to those inflows. He further stated that the capabilities of African tax departments had great bearing on how much tax revenues could be collected and on the economic effects of collecting the taxes due. It was, therefore, important to have the Tax Administrators to periodically come together to exchange ideas and experiences on how to improve taxation policies and systems in the continent.

21. Mr. Tchouta Moussa concluded by saying that the themes selected for deliberations were very important since they addressed the complex practical situations where revenue collection was hard to accomplish and hence called for revamped measures to bring to the tax net the eligible taxpayers hidden in the hard-to-reach trade.

Closing of the Workshop

22. The workshop was officially closed by Ato Tesfaye Andargie, Head of the Inland Revenue Ethiopia whose country was host to the regional taxation workshop. In his closing remarks, he commended the participants for their active deliberations at the workshop and expressed the hope that their findings and recommendations would be useful to the African tax administrations in their quest for better and improved tax revenue collection.

Recommendations

23. After thorough deliberations on the themes, the participants made the following recommendations:-

- (a) That the tax systems of African countries should be streamlined in order to reflect the countries' economic and social order.
- (b) That the African governments should focus greater attention on the role of taxpayer education as means of instilling, in the mind of taxpayers tax awareness, tax consciousness and to develop taxpayer confidence for enhanced voluntary compliance and in that regard, the governments should invest more on taxpayer education programmes.
- (c) That African Tax administrations should intensify the use of tax 'Clearance Certificate' systems in order to increase tax revenue collection from the self-employed and or small business sectors.
- (d) That greater autonomy should be granted to the tax administration in order to curtail institutional constraints and allow for better organisation of the Tax administration for increased efficiency.
- (e) That the Tax administration should embark on complete and exhaustive census of taxpayers in order to have full knowledge about the taxpayers (i.e., where they live and what they do).
- (f) That, considering the incidents of history on the African tax systems, African tax administrators should focus more attention on the broadening of the tax bases and the simplification of the tax laws.
- (g) That tax administrators should create good relationship between themselves and the taxpayers in order to reduce the opinion gap that often exists between the taxpayers and the tax administrators.

Summary of Discussions

Theme I. Approaches and Methods of Improving Compliance Within the Self-Employed and or Small Business Sectors

24. The representatives of Congo, Ethiopia, Togo and Zambia prepared and presented country papers on the above theme. The country papers delivered, provided background documents for discussions.

25. The papers presented gave brief accounts of the historic development of the tax systems prevailing in the respective countries. The overall historical picture portrayed by those country papers was that, almost invariably, the prevailing tax regimes of African developing countries were a legacy of the colonial era. As a consequence, the citizens of Africa had always viewed the African tax systems as foreign and superimposed upon them and as a result, the systems were incompatible with the basic traditional values of the African people. Further, the advent of the colonial regime, in most African countries, led to the creation of dual systems of the economies composed of the modern and the traditional models; and with the modern model dominating the economies not much enthusiasm was shown, even after independence, to formulate tax policy directions best suited for the traditional model though in some countries (Congo) the post independence tax regime did reflect the picture of the dual nature of the economy, which reflected the social and economic realities in that country. Consequently, the complex tax laws applied in the modern models had since penetrated into the traditional model. That development was not without serious compliance problems to the traditional African people who had least knowledge of those tax systems, the presentations revealed. Indeed, the feeling of the people was that the actual purpose of the tax systems as imposed by the colonial regimes was to support the colonial economic enclaves and other institutions. Hence, the participants felt that there was always a linkage between the taxpayers' refusal to pay tax and the colonial elements enshrined in the African tax regimes.

26. Addressing the main issues in general, the presentations observed that, in general, there was a very high rate of illiteracy in most African countries. It was common, therefore, that most cases of non-compliance with the tax obligations were caused by ignorance and non-awareness of the tax laws. In the case of small traders or small businessmen, the problems manifested themselves in poor maintenance of proper book-keeping records or, in some cases, total absence thereof. However, there was a corollary to that observation that was in practice, illiteracy could be a benefit in taxation. For example, illetrate taxpayers by definition of illiteracy, could not exploit the tax laws. Instead, only the experts in tax laws, generally, could exploit the tax laws in order to reduce the burden of tax. What was of importance was the establishment of effective tax systems that would monitor the activities of the illetrate taxpayers and render assistance to them.

27. Further observed was the problem of locating the taxpayers in the hard-to-tax sectors of the economy. The traders or businessmen in that category of taxpayers were scattered throughout the country, in some cases, in remote inaccessible areas, thus making tracing them almost impossible. Even those traders who would otherwise be within the reach of the taxman, could not, in some cases, be easily traced owing to the fact that they frequently moved from one locality to the other. It was observed that easy mobility in some cases, was as result that those taxpayers never organised themselves into well-established trade and instead, they operated without permanent establishments. The problem of the geographical spread of the traders was further made worse by lack of adequate decentralization of the tax administrations. It was common that the tax administrations were centralized and that even where there were regional or district branches, those branches tended to concentrate their services in nearby areas without reaching out to the remote country sides. The failure of those branches to cover remote areas was due, among other factors, to shortage of staff both in quantity and quality and also lack of mobile service equipment. Even where equipment were available, the revenue collected from those remote areas did not justify the costs incurred. As a result, in some countries (Ethiopia), where it was found that the tax yields were small and the administrative costs too high, the tax law did not require the tax administration to assess every taxpayer annually. The participants had a common view that the African situation, in many forms, was a special one and therefore, required special tact or art that would be best suited to it. The informal sector was particularly very difficult to tax and needed exclusive consideration.

28. The participants also agreed with the observations made in the country papers presented that the experience of most African countries was that the taxpayers' illiteracy and the complexity of the tax laws made recovery of tax from the informal sectors difficult. In addition to that, there was the problem of lack of co-operation from the firms which had financial information on the taxpayers engaged in trade in the formal sectors. In most cases, those firms were not willing to supply the tax administrations with the financial information at their disposal. There was, therefore, a very strong feeling among the participants to urge for tougher legal measures to compel those firms to declare the information required. It was, however, also felt that, where no information was available, the process of estimating the income of the taxpayers in the informal sections could still be accomplished through reconciling the external wealth of those taxpayers on the basis of determined parameters, with the income declared in their returns.

29. In discussing estimation of income where taxpayers records did not exist, some participants (Algeria) observed that there were problems, for example, as to who should do the estimation or evaluation of the taxpayers' wealth. Should the duty be assigned on specialization basis (i.e., a tax inspector to be specifically trained for particular areas or should a group of specialised persons or committees be assigned the responsibilities). In fact the latter was the practice in Nigeria where

specialization of inspectors was the answer. One of the advantages was that inspectors would get to know the characters and habits of the taxpayers in the category assigned them, and the way they conducted their businesses in their locality. Likewise, the taxpayers would know the tax officials closer and then develop positive attitudes towards compliance. But it was pointed out, on the otherhand, that the same tax inspectors, knowing they were exclusively assigned, were tempted into corrupt practices, particularly where there was no standardization of turnovers as parameters for income estimation or guidelines for evaluation. The inspectors could easily twist the methods of estimation or engage in corruption. Again where committees were used, there was a problem of administrative delays in gathering the committees together to carry out the work.

30. To encourage taxpayers in the informal sectors to comply, the participants examined the possibility of providing incentives. Some participants, based on their country experiences, (Cameroon), pointed out that certain incentives, in the form of consensus, granting grace period to taxpayers, were not effective since the beneficiary taxpayers exploited them by accumulating profits during the grace period and winding up business before it expired. They either left the country with no tax paid on the accumulated profits or they formed themselves into new businesses. That was common, in particular where the enterprises did not have "fixed life span" determined. That meant that the law became necessary to provide that those taxpayers should have "fixed life span" of their businesses before they could qualify for those tax holidays. On that problem, some participants (Nigeria) expressed the view that, in practice, "there was no machinery that could be used for good efforts, that could not be used for bad effects". What was important in circumstances where taxpayers exploited tax incentives was to monitor the situation effectively through, among other techniques, the decentralization of specialization.

31. In recognition of the indisputably high rate of illiteracy, lack of tax awareness and tax consciousness among taxpayers, in most African countries, the participants expressed unanimous view that one major way to encourage taxpayers in the informal sector to comply with the tax law, was educating them. It was pointed out that though taxpayer education did not bring about immediate results, it did, indeed, yield better fruits in the long-run. Some participants (Zambia) expressed the view that greater budgetary support was needed to enable the tax administrations to embark on full-scale taxpayer education programmes, to enhance compliance. Indeed, it was unanimously agreed by the participants that the major constraints to taxpayer education programmes included inadequate budgetary support, scarcity of human resources and inadequate institutional infrastructures. Nevertheless, taxpayers' education instilled into the mind of taxpayers tax awareness, tax consciousness and the will for compliance and thus reducing the opinion gap between the taxpayers and the tax administrators.

32. Further, on the point of encouraging taxpayers in the informal sector to comply, some participants advocated the rewarding systems. For example, situations where the good and honest taxpayer could be rewarded either in the form of money or in the form of benefit in kind. The benefit in kind would include flexibility by the tax departments on the application of compliance enforcement instruments like the tax clearance certificates, access to banking facilities and other loan facilities. However, some participants still felt that greater pragmatism was needed in order to make taxpayers comply. For example, it was felt that tax administrators should enforce the tax laws to the letter since any form of incentives to taxpayers to comply with the tax laws was tantamount to the admission that the tax administrations left alone, were not effective. But in enforcing the tax laws, the tax administrations should not act ultra vires (i.e. beyond the scope of their responsibilities). The guarantee of the rights of taxpayers as well as the protection of the taxpayers should be fully observed, it was pointed out. The consensus of the participants, however, was that taxpayers' education in the informal sectors was vital to make them understand why they had to pay tax despite their low level of income.

33. The participants further discussed other instruments that could be applied to solicit voluntary compliance. Those included the simplification of the tax laws, modification of the tax returns, the establishment of comprehensive taxpayer identification or location systems, equality before the law, applications of exemptions at the early stages to allow for growth (i.e. exempt now and tax later) substitution of annual assessments with fixed rates of tax, delays in the legal processing of amendments, tightening the penal provisions etc.

34. Regarding the simplification of the tax law, it was pointed out that the existing tax laws were too advanced for most taxpayers in the informal or traditional sectors. The taxpayers simply did not understand them and hence difficulties in their honouring their tax obligations. In some cases, the complexity of the tax laws made it even difficult for tax administrators themselves to properly interpret them and prepare taxpayer guides based on the regulations of those laws, it was pointed out. Modification of forms was essential in order to be made easier to understand and also to get a wider range of information useful for effective tax administration. Regarding the establishment of comprehensive taxpayer identification system, it was pointed out that, that system constituted a cornerstone for any tax administration. It was the key to all the information that could be regained. Without comprehensive data base, the tax administration was unable to carry out its work the participants observed. Equally important was the equal treatment of taxpayers before the law. Taxpayers loathed to learn that there were certain people to whom the law was not applied to the letter because of socio-political status. Indeed, that situation created disincentives to comply.

35. Regarding exemptions at the early stages, it was pointed out that at times it was good not to kill the goose that laid the golden egg. Small businesses should be exempted to allow for growth once fully developed then, they should be taxed. However, there were reservations expressed as to what constituted a small business as that might be one of a definitional issues depending upon a set of circumstances in a given country. For example, should smallness be based on size of space occupied, turnover, number of employees or risks involved? Finally, the delays in processing amendments by the office of the Attorney-General, was considered an impediment to progressive tax reforms since it was impossible to put into practice any proposals for improvement in the tax laws unless proposals were drafted into bills for parliamentary approval.

36. One other main point that emerged from some participants, (Nigeria) relating to the encouragement of taxpayers in the informal sectors to comply, was the 'political will'. It was pointed out that it was common, in most African countries that politicians were not courageous enough in building taxpayer confidence. The politicians did not usually come out openly to encourage taxpayers to pay. For example, as was mentioned earlier that there was a linkage between taxpayers' refusal to pay tax and the colonial elements in the existing African tax systems. It was felt that only politicians could sever that linkage through convincing the taxpayers about the expenditure policy i.e. how the revenue collected benefited those taxpayer in the traditional sectors. How was the public money being used? Taxpayers expected measurable benefits from the taxes paid unless otherwise explained. Therefore, it was felt that the political will was the main driving force for voluntary compliance. It was also pointed out that the political support was also needed to strengthen the tax administrations. For example, taxpayer education programmes without adequate budgetary support from the leaderships could hardly be a reality.

Theme II: Improving Tax Revenue Collection Through the Withholding Tax system

37. The representatives of Congo, Ethiopia, Gabon, Nigeria and Sierra Leone presented country papers on the above theme. Cameroon also contributed through oral presentation.

38. The presentations in general, initially gave a brief definitions of the withholding tax systems. What emerged to be the commonly accepted notion of the withholding tax system was that the system required the participation of a third party, known as the withholding agent. The role of the third party was to make deductions from any funds payable to the taxpayer under any contract (unless specifically exempted), and to remit the sum total of the funds so deducted to the tax administration within the prescribed time. The amount deducted was determined according to the schedules or statutory rule prescribed by the tax administration. The schedules or statutory rules stipulated the type of funds or income subject to the withholding tax system, taking into account the rates applicable, the exemptions available, the frequency of payment, the

responsibilities and penalties involved for non or underpayments and other system-specific factors. In most cases, the payments under the withholding tax systems were payments in anticipation of the taxpayer's final tax liability in which case the systems merely approximated the amount to be deducted. That practice was commonest within the payroll systems involving salaries and wages. In some cases, the amount deducted under the withholding tax system was definitive and final. That practice was commonest where the person from whose income certain amount was deducted in lieu of the withholding tax, was not expected to fill an income tax return for annual assessments. For example, in the case of foreign transactions which were not of continuing nature.

39. Further, the rationale for the introduction of the withholding taxes into almost all the African tax systems was the need for financial resource flow to the treasury. The African authorities realized that the budgetary needs could not be adequately met on the basis of the tax assessment systems which collected tax revenue on the past one year's income of the taxpayers, and where, due to administrative constraints there could ever be delays in the collection of tax revenue over quite a long period of time. The spreading of tax revenue collection over the budget year resulting to constant and regular flow of revenue to the treasury, was considered a very useful administrative instrument for tax revenue collection. From the taxpayers' view point, the spreading of payments over the assessment year reduced the tax burden, when the actual annual income assessment was finalised, since the sum total of the amounts deducted over the year was off-set against the total tax assessed on the annual income, resulting to the taxpayers having to pay small amounts arising out of the 'approximation short-falls' or in some cases getting refunds due to over-payments when due recognition of the taxpayers social circumstances were taken into account (i.e. marital status, number of children, number of dependents, insurance and other social security schemes contributions etc).

40. The other feature of the withholding tax systems that emerged from the presentations was that it constituted the largest source of revenue to the treasury. For example, in some countries (Congo) 90% of the total tax revenue came from the withholding tax systems, (Gabon) between 80-90% of the total tax revenue came from the withholding tax systems, (Nigeria) the withholding tax system accounted for about 80% of the individual income tax. In addition to being a source of revenue, the withholding tax systems ensured greater equity to taxpayers. For example, the deductions from source meant that even those taxpayers who, otherwise could have evaded payment of tax through the declaration of annual income tax returns, were brought into the tax net. It was further pointed out that the withholding tax systems, by shifting responsibilities to the third parties, lessened the administrative cost to the tax administration, in particular, where there was a great deal of compliance from those third parties and hence least pressure for monitoring the deduction and remittances through field inspections audits and other means. A further feature of the withholding tax systems recognised was that, politically,

their impact upon the people could not easily be a source of social upheavals since the taxes paid were not quite visible. For example, on monthly basis, what reflected on the taxpayers' payroll slips as net pay was not further subjected to income tax. Although, in effect that was not correct since at the end of the year an annual income assessment had to be finalised, resulting in some cases, as already mentioned above, to further tax being paid.

41. Discussing the theme, the participants, by and large, agreed with the main points highlighted by the presentations, particularly the fact that the withholding tax systems were, indeed, good administrative instruments for providing regular tax revenue to the treasury. Some participants, however, expressed the view that under the French system the notion of withholding tax was rather narrow due to the French legal system and financial rules and regulations. It was agreed that the advantages that the withholding tax systems offered included, among others, the following:

- Regular flow of income to the Treasury
- Good management of financial reserves
- Reduction of tax burden to taxpayers
- Responses to the immediate needs for flexibility in budgets
- Savings on administrative costs through transfer of responsibilities to third parties
- Reduction on paper work and where the systems were definitive and final, freeing of manpower for other administrative assignments
- Curtailing chances of evasion
- Reduction in the problems of filing
- Maintenance of links and information between tax assessors and tax collectors
- Enhancement of administrative efficiency
- Ease with which to control and monitor
- Provision of greater equity to taxpayers
- Incentive to file annual tax return in anticipation of tax refunds
- Provision of leads to elusive taxpayers

42. As regards the disadvantages of the withholding tax systems, it was pointed out that the commonest criticism was that the systems shifted over to the designated third parties the responsibilities for collection and with it, to certain extent, the operational cost for compliance. At times, the shifting of responsibilities entailed certain risks. For example, the third party or withholding agent might either not remit to the tax administration the total of the amounts deducted or delay the remittances. In another case, the advantage of regular flow of income to the treasury was lost. In the case of designated withholding agents whose trade was not firmly established in the country, there was a risk of those agents simply disappearing from the country without having remitted the money so deducted. For all that and other possible risks, the tax administrations had to re-enforce field inspections and audits and thus losing the cost-saving advantage of the withholding systems. A further disadvantage of the withholding tax systems was their limitations in coverage. In other words, there were certain sources of income where the systems could not be successfully applied. For example, in the case of the receipts of the self-employed professionals where no third party in the form of employer existed. Indeed, under those situations, an alternative method known as an estimated or advance tax payment system was applied whereby the self-employed taxpayer made advance or provisional payments either quarterly or half-yearly calculated on the basis of the previous years tax liability, it was pointed.

43. Addressing the issue of how the withholding tax systems could be improved in order to enable tax administrations to collect more tax revenue, the participants observed the problem of identifying the persons to be designated withholding agents. In most African countries it was difficult to exhaust the complete census of the establishments employing people whose income was subject to the withholding tax because of the geographical spread of those establishments. Even where they were located, it became necessary to educate the designated withholding agents on the requirements of the withholding schedules or statutory regulations prescribing the tax deduction tables and the manner of their application. It was also necessary to educate them on how the various withholding tax forms were used. But, because of shortage of manpower in tax administrations, it was not an easy task providing education to the withholding agents. As a result, there was more pressure on the tax administrations to monitor the deductions made through the annual reconciliation processes followed up by field inspections and audits. However, it was agreed that tax administrations should strive to locate those tax paying agents to know what they were doing and make a comprehensive master file to serve as a data base to provide key information for various purposes including effective monitoring, it was pointed out.

44. The participants further stressed the importance of improving the relationship between the tax paying agents and the tax administrations and advocated the creation, where none existed, of independent departments specializing on offering services and information and receiving any queries from the public and in response provide prompt accurate answers. It was the general feeling of the participants that good relationship between the tax administrations and taxpayers would contribute to a climate for positive attitudes of the taxpayers towards taxation and ultimately, enhance voluntary compliance, leading to increased tax revenue collection.

Evaluation

45. On the last day of the workshop, the participants, reviewing the deliberations expressed satisfactions that the workshop was, indeed, a great success. They unanimously agreed that the forum provided jointly by the Economic Commission for Africa and the Association of African Tax Administrators was significant in providing the opportunity for the mutual exchange of ideas and enriched experiences on not only themes discussed but also on various other administrative and technical issues relating to the routine administration of taxes.

46. The participants commended the relevance of the themes to the realities of the situation in African tax systems and that the quality and seriousness of the deliberations was evident of the importance of the themes. The participants then thanked the host government, and the Economic Commission for Africa for making the workshop a success.

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