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What is Wrong with African Tax Administration?

Summary of ICTD Working Paper 111 by Mick Moore

National tax administrations in sub-Saharan Africa have undergone considerable reform in recent decades. In several respects, they are, on average, more reformed and more efficient than tax administrations in other low-income regions. Many have made major organisational changes, responding effectively to a number of major challenges. This includes the introduction of VAT, a rather complex tax, in almost every country in the region. Tax administration staff are increasingly educated and professionally specialised. While women employees are still on average a small minority, their numbers are growing. However, actual revenue collections are not increasing relative to GDP. We now have evidence from benchmarking evaluations organised by TADAT (Tax Administration Diagnostic Assessment Tool) that overall tax administration performance in the region is unimpressive. There has been less positive change in the actual functioning of tax administration than might appear from some outward indicators. This paper assembles a wide range of evidence from recent research on two inter-connected sets of issues that need more attention from policymakers and where there is scope for considerable improvement: the underuse and misuse of digital technologies and the taxation of small-scale businesses.

Digital technologies

The first set of issues is the use of digital technologies in tax administration. These have great potential to reduce costs, to make collection less unpleasant and fairer for taxpayers and, by providing more analytical information on the collection and money-management processes, help address the problem of weak oversight and accountability of tax administrations. But digital technologies are already widely employed. The principal problem may not be insufficient investment in hardware and systems. The limited evidence available suggests that digital technologies are often both underused and misused. They tend to be deployed in a rather fragmented way and are often bypassed by tax administration staff who continue to use older manual and discretionary procedures when dealing with taxpayers. Further, there is a marked tendency to prioritise the use of digital technologies for 'taxpayer facing' activities like online registration, filing and payments. By contrast, digital technologies are less used for more basic but important organisational functions such as internal accounting. Policymakers need to pay at least as much attention to the way digital technologies are used as to the making of new IT investments.

Taxing small businesses

The second set of questions concerns organisational arrangements for taxing small business in sub-Saharan Africa. Which organisations should be taxing them and how? More specifically, does it make sense to place so much emphasis

> “There is a case for radical reconsideration of how small businesses are taxed and by whom.”

on registering small businesses for tax purposes? Current practice is in several respects inefficient and problematic and there is high potential for improving these organisational arrangements.

For a number of reasons, including the near-exclusive focus of external aid for revenue raising on national level institutions, tax administration in sub-Saharan countries is relatively centralised. Nearly all revenues are collected by central government tax agencies, leaving very little for sub-national revenue collectors. This has adverse consequences for the quality of governance more broadly, by reinforcing the centralisation of government power and the weakness and informal character of local revenue raising; in addition, this concentration of tax collection activities at national level is not organisationally efficient. Central government tax agencies have to organise themselves to deal with a very diverse range of taxpayers. They need to deal with the small numbers of large companies, many of them very transnational, that provide the great bulk of revenues in almost every country. This requires staff with appreciable accounting, auditing, investigatory and legal skills and knowledge, and international connections. At the same time, most organisational energy and staff time goes into trying to tax legions of small enterprises – from auto mechanics and carpenters to street vendors and and welders – who are hard to track down, move in and out of different activities, are rarely high earners, and collectively provide little revenue. This labour intensive task requires a staff cadre who are street-smart and mobile.

Further, many if not most national tax administrations have on their books large proportions of *inactive taxpayers* – people and companies who are registered with the tax administration, but do not actually pay tax, either because they do not file tax returns (*non-filers*) or because they file returns that imply no tax liabilities (*nil-filers*). Taxpayer registers are often inaccurate. A major reason for both the large numbers of *inactive taxpayers* and the inaccuracy of the registers is that in many countries considerable efforts are continually being made to register new taxpayers, although few actually end up paying tax. This *registration obsession* is closely associated with the idea that the major source of uncollected revenues in sub-Saharan Africa is the so-called *informal sector* – implicitly, small-scale businesses and relatively poor people. There are informal economic activities that should be brought into the tax net, but these are large and not small-scale. They are undertaken by larger companies, self-employed professionals, and wealthy people. Registering small-scale businesses is not an effective way of dealing with the actual problem, and actively pursuing small taxpayers incurs high collection costs. Many small businesses should be taxed only by one level of sub-national government, and often in ways that amalgamate tax payments and business registration fees. The *informal sector* narrative is diversionary, distracting attention from the major sources of uncollected revenues, which include the formal and informal activities, incomes and assets of the wealthy and the unjustified tax exemptions granted to companies. National tax administrations need to confront, and reject, both the *registration obsession* and the belief that the parts of the informal sector that should be taxed are populated by small-scale enterprises. They could raise more revenue if they were to focus more on the real sources of uncollected revenues: the inadequate taxation of high incomes, wealth, and many transnational economic transactions.

> “African tax administrations should renounce the registration obsession.”

Further reading

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Credits

Mick Moore is a political economist. His broad research interests are in the domestic and international dimensions of good and bad governance in poor countries, focusing specifically on taxation. He has done extensive field research in Africa and Asia, especially in Sri Lanka, Taiwan and India. He was the founding CEO of the ICTD 2010-2020 and is now Senior Fellow, and is co-author of Taxing Africa with Wilson Prichard and Odd-Helge Fjeldstad, published in 2018.

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