

PUBLIC FINANCE MANAGEMENT CONFERENCE FOR AFRICA

Topic: Regional Tax Reforms -A Case for East Africa

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Presentation agenda



- Introduction
- Revenue collection trends in East Africa
- Emerging issues affecting tax collection
- Current tax reforms
- What more needs to be done?
- Conclusion
- Interactive Session

Introduction



- * Taxes constitute the largest percentage of the total revenue collected in each country to finance the annual budget
- ❖ The importance of efficient and structured revenue collection and management mechanisms can therefore not be underrated
- Tax reforms also aim to improve tax administration and to provide economic or social benefits



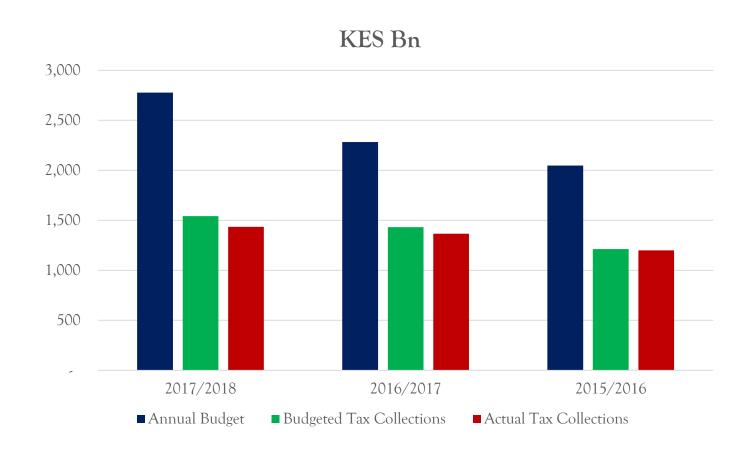
Revenue collection trends in East Africa





Revenue Collection Trends -Kenya



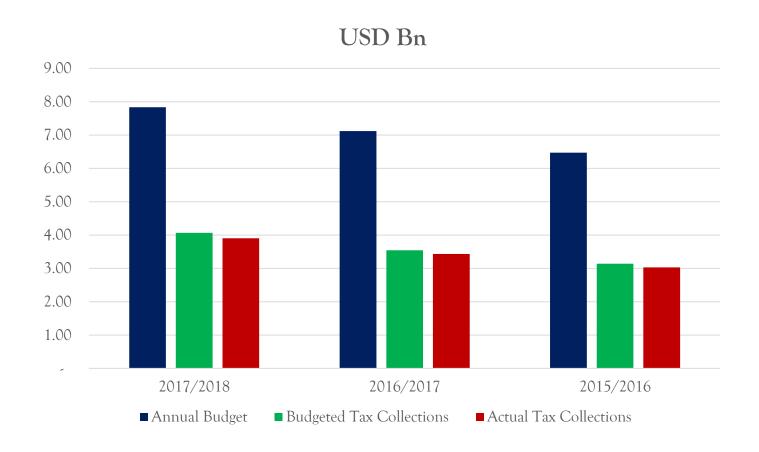


Source: KRA 7th Corporate Plan 2018/19 - 2020/21 & KNBS 2018-2018 Economic Surveys



Revenue Collection Trends -Uganda



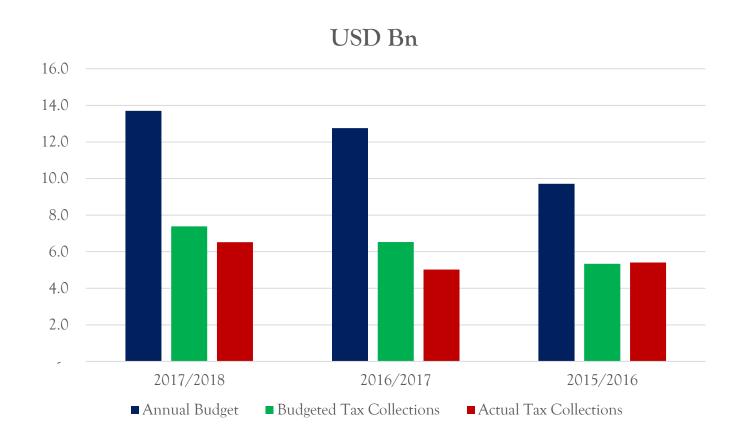


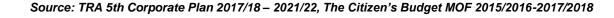




Revenue Collection Trends -Tanzania



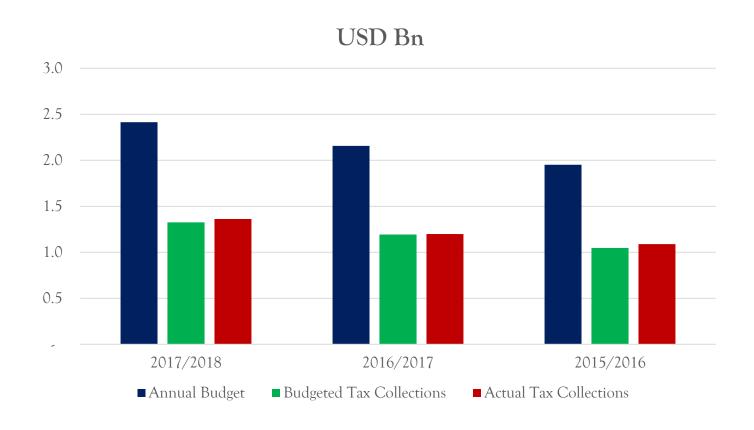






Revenue Collection Trends -Rwanda







Emerging Issues Affecting Revenue Collection





Emerging Issues Affecting Revenue Collection



Some of the key challenges affecting revenue collection include:

- 1. Taxation of the digital economy
- 2. Taxation of the informal sector
- 3. Low tax morale due to perception of misuse of taxes collected



Taxation of the digital economy







Challenge of e-commerce and taxation of the digital economy



This quote by Tom Goodwin clearly brings out the meaning of the digital economy.

"The world's largest taxi firm, Uber, owns no cars. The world's most popular media company, Facebook, creates no content. The world's most valuable retailer, Alibaba, carries no stock. And the world's largest accommodation provider, Airbnb, owns no property.

Something big is going on."



Challenge of e-commerce and taxation of the digital economy



- The digital economy is characterized by:
 - a) unparalleled reliance on intangible assets;
 - b) massive use of data (notably personal data);
 - c) widespread adoption of multi-sided business models capturing value from externalities generated by free products; and
 - d) The difficulty of determining the jurisdiction in which value creation occurs



Challenge of e-commerce and taxation of the digital economy



- → E-commerce has revolutionized doing business in the world and East African as well
- → This growing economy has brought about a challenge on how to tax the revenues generated
- → This means the East African region is losing out on tax revenue as a result of the lack of adequate policies and collection mechanisms



Taxation of the informal sector



- In Kenya, it is reported that employment in the informal sector accounts for over 83.4% of the total employment
- This sector also features the highest rate of unbanked transactions with cash and platforms such a M-Pesa being the key medium of exchange
- The introduction of presumptive tax in the Finance Act 2018 looked to bring businesses in the informal sector in the tax ambit

Low tax morale





Letter from Africa: Are Kenyans still scandalised by scandals?









Low tax morale

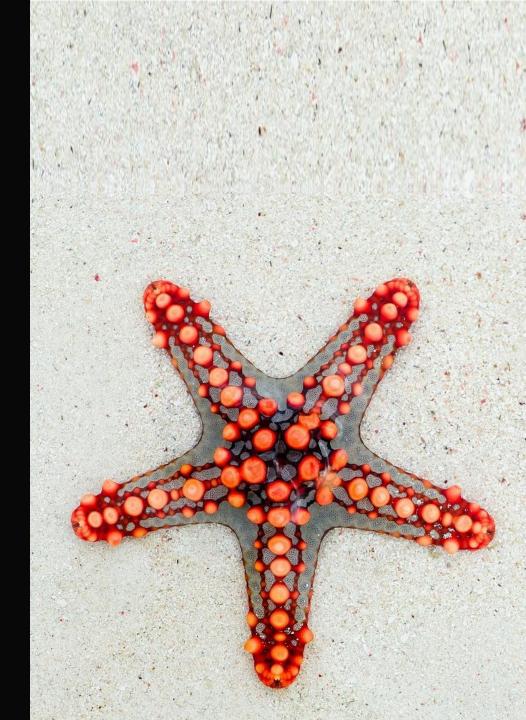


- Mismanagement of public funds is a key contributing factor to low tax morale
- Goodwill on the part of taxpayers is invaluable in achieving revenue collection targets
- This is likely to suffer with the growing apathy as a result of the current blatant corruption



Current reforms





Use of Technology



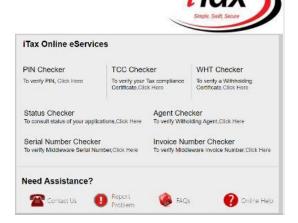
- The greatest reform currently in the area of tax administration is the automation of the return filing and revenue collection platforms
- This has improved tax compliance and revenue collection over the years for those who are within the tax base



Use of Technology









Forgot Password?

e-Filing Log In	
eFIN:	
Password:	
Remember me next time.	
	Log In
REGISTER FORGOT MY PASSWORD	
CHANGE SECURITY QUESTION AND ANSWER	



Presumptive Tax



- As a way to deal with the informal sector, the countries in the East African Region have put into place the presumptive tax regime.
- Though a positive step in taxing the informal sector, the tax collected is not a reflection of the potential in this sector



Presumptive Tax



- The revenue collected may not be significant compared to the other traditional taxes for similar amount of income
- ❖ However, it may yield data on players in the sector that will assist in policy formulation that is adequate to continue to bring the informal sector into the tax base



What more needs to be done?





What more needs to be done?



- → Policy reforms to address the challenges posed by the digital economy
- → Leveraging big data to determine taxpayer trends in revenue collection
- → Scaling up of taxpayer education









- The key policy consideration for the taxation of the digital economy is the taxing rights, who they belong to and how they can be shared.
- The OECD held a public consultation forum on the tax challenges of digitalisation in March 2019
- Consultation was on proposals put forward on how to address these challenges





- Some of the proposals include:
 - a) User participation focuses on the value created by certain highly digitalised businesses through developing an active and engaged user base, and soliciting data and content contributions from them





b) Marketing intangibles - addresses a situation where an MNE group can essentially "reach into" a jurisdiction, either remotely or through a limited local presence, to develop a user/customer base and other marketing intangibles. It sees an intrinsic functional link between marketing intangibles and the market jurisdiction.





c) Significant economic presence - a taxable presence in a jurisdiction would arise when a non-resident enterprise has a significant economic presence on the basis of factors that evidence a purposeful and sustained interaction with the jurisdiction via digital technology and other automated means





- The issue on the taxation of e-commerce is two fold where the East African region is concerned.
 - On one hand is the taxation of the owners of the platforms such as Amazon, Facebook, Netflix
 - ii. On the other hand is the taxation of the users of these platforms who derive economic gains that should be subject to tax





- Due to the developing nature of the East African region's economy, the OECD proposals are likely to work for taxation of the platforms
- This is because of the peculiarities in the East African region such as our largely cash driven economies
- More needs to be done in the area of taxation of the users of these platforms to derive economic gain



- However, some of the measures countries have put in place to tax digital transactions in the interim include:
 - a) Levying VAT on qualifying transactions with no minimum threshold for registration e.g. European Union, Serbia, Taiwan Russia etc.
 - b) Introduction of digital services tax (DST) such as in Uganda.



Leveraging big data





Leveraging big data



- Data and analytics is revolutionizing the way business operate today and converting the analysis of customer trends into increased profits
- The same results can be achieved for revenue collection
- Big data can be utilized to understand tax payer trends to assist in coming up with tailor made solutions for various categories of taxpayers









Scaling up of taxpayer education



- Revenue authorities are still more reactive than proactive
- Though ignorance of the law is no defence, it is clear that most tax payers have no access to information
- Increased compliance can be achieved by proactive tax payer education that starts from the grass roots



Conclusion





Conclusion



- More reforms are needed in order to tackle the emerging issues challenging revenue collection
- These reforms require active participation and collaboration between both the public and private sector in order to come up with solutions that are tailor made for the East African economic reality
- Additionally, transparency and accountability are non-negotiable if we are to achieve the targeted revenue collection to fund our development.

Interactive session



