South Sudan Democratic Engagement, Monitoring and Observation Programme (SSuDEMOP)

Submission on Tax Exemption by Citizen's Working Group on PFR Reform Process in South Sudan

"Comparative Assessment on Tax Exemption to Inform PFM Reform Process"

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Introduction

Since independence, most South Sudanese citizens have been eager to understand national processes including their obligation to the state. On the other hand, the Government of Republic of South Sudan has made attempts to meet their obligation and provide services to the people. However, both the government and the citizens have been experiencing challenges to all these efforts. This submission seeks to communicate concerns from the public regarding access to information and, tax exemptions and provide possible recommendations to the PFM-OC and other policy makers to inform efforts being made to enhance revenue management in the country.

Issue

This submission is made as a contribution to unravel the misinformation address the question of "Which is the rightful in institution to grant tax exemptions?" "How do the tax exemptions benefit the country?" In order to communicate public concerns regarding the above-mentioned questions, members of the Citizen's Working Group on PFM Reform Process (CSWG-PFMRP) took the initiative to conduct a comparative assessment to understand how countries in the region handle the issue of tax exemption including literature review on lessons drawn by World Bank and IMF engagement in other developing countries.

Taxation is an important aspect of national revenue collection and income generation. For any government to finance the national budget and provide services to the people. The collection of taxes and fees is a key development priority. It is essential to finance investments in human capital, infrastructure and the provision of services for citizens and businesses, as well as to set the right price incentives for sustainable private-sector investment[1]. It is therefore prudent that a country ensures that every tax collection and revenue generation is done to sole interest of financing public goods. Its important to note that public partnership is an important element of the process to provide legitimacy and prevent leakage (tax evasion, or manipulation to favour groups or individuals).

Complex and unclear tax regime that is not easily understood by the public provides conducive environment for various malpractices including tax evasion or manipulation to favour specific groups or individuals. Tax exemption, which is the focus of this submission, has been identified in studies conducted in other developing countries as an area of interest for increasing revenue collection. Curbing exemptions can also reduce the tax system's complexity while boosting revenue by broadening the tax base. Many countries incur a sizable loss of revenue through ill-designed exemptions, such as costly tax holidays and other incentives that fail to attract investment and discretionary granting of exemptions provides opportunities for corruption. Merely hiking tax rates would aggravate poverty and slow growth. It takes a smarter approach to boost tax revenues in ways that are sustainable and this include; Build trust and provide proof, Keep it simple, go digital – Enable electronic tax payment, find new sources of revenue[2]

1. https://www.worldbank.org/en/topic/taxes-and-government-revenue#2

2. https://blogs.worldbank.org/voices/4-ways-low-income-economies-can-boost-tax-revenue-without-hurting-growth

Findings

Members of the Citizen's Working Group on PFM Reform Process conducted a desk research to understand how issues of tax exemption and tax policies are handled in the three (3) countries of the East African region (Kenya, Tanzania and Uganda). This submission is made with an intension to help inform possible steps South Sudan could follow and address the key questions regarding tax exemptions; **"Which is the rightful in institution to grant tax exemptions?" "How do the tax exemptions benefit the country?"**

In the region, Kenya, Uganda and Tanzania have a comprehensive approach to tax policies and this allows public participation, access to information regarding tax regime, exemption and oversight role as indicated in the table below. Institution such as the office of the Auditor General also has a role in auditing the exemptions together with other government expenditure and this is anchored on the Constitution[3]. In all the three countries, the Revenue Authority is the body mandated to implement tax policies and this is explicitly reflected in the act establishing the revenue authority[4].

It is therefore important to note that in all these three countries, involvement of the Ministry of Finance is to provide supervisory role. Tax policy in these three countries, is shaped by several government institutions (Parliament, Cabinet, Revenue Authority and Ministry of Finance) in Kenya, county Governors and Legislative Assemblies are also involved due to the devolved system of government while in Tanzania the Council of Zanzibar is involved base on their governance arrangement. This arrangement is likely to provide more checks and balance and reduce leakage.

Possible Recommendations

1. Produce annual list of exempted goods and institutions based on analysis and advise from National Revenue Authority. This should be endorsed by Parliament and published in the Financial Act each year;
2. National Revenue Authority be empowered to publish list of exemptions (companies/institutions and the amount exempted) for every financial year The Audit Chamber to audit annual tax exemptions and to provide a clear picture of the implications, impact and provide recommendations;
3. Introduce a digitalize tax system and implement electronic pay-roll to facilitate minimize leakage and loss of revenue.

Conclusion

In the spirit of the PFM reforms that the country has embarked, the Citizen's Working Group on PRM Reform Process urge the PFM-OC to consider taking progressive steps towards strengthening the tax regime and provide adequate checks and balance, ensure public involvement and access to information regarding tax regime and tax exemptions.

Studies have shown that reforms in the area of tax exemption leads to increased national revenue. Guyana, for example, implemented a comprehensive exemption reform with main elements that included eliminating the power of the finance minister to grant discretionary exemptions, publishing exemptions annually,[5] Therefore South Sudan could also consider reform in tax exemptions to generate more revenue for the country and ease suffering of the people.

[3] Constitution of Kenya, Constitution of Tanzania and Constitution of Uganda
[4] Revenue Authority Act of Kenya, Revenue Authority Act of Tanzania and Revenue Authority Act of Uganda
[5] https://www.imf.org/external/pubs/ft/fandd/2018/03/akitoby.htm

S/N	Specific aspect of the Law	Kenya	Tanzania	Uganda
1.	Constitutions from the three countries provide Comprehensive approach that allows public participation, role of Audit Chamber, check and balance from Parliament	**Article 210 (2) (a)** a public record of each waiver shall be maintained together with the reason for the waiver. **Article 210 (2) (b)** each waiver, and the reason for it, shall be reported to the Auditor-General	**(Article 138 (1)** no tax of any kind shall be imposed save in accordance with the law enacted by parliament or pursuant to a procedure lawfully prescribed and having the force of law by virtue of a law enacted by Parliament.	**Article 152 (1)** no tax shall be imposed except under the authority of Taxation and act of Parliament. **Article 152 (2)** where a law enacted under clause (1) of this article confers powers on any person or authority to waive or vary a tax imposed by that law, that person or authority shall report to parliament periodically on the exercise of those powers, as shall be determined by law.
2.	In the three countries, the Revenue Authority is the body mandated to implement	**Kenya Revenue Authority Act 1995 Section 5 (1)** The authority shall, under the general supervision of the minister, be an agency of the	**Tanzania Revenue Authority Act, Section 5** **(b)** to monitor, oversee, coordinate activities and ensure the fair, efficient and effective administration of revenue laws by revenue departments in the jurisdiction of union government. **(f)** to determine the steps to be taken to counteract fraud and other form of	**Section 3, Uganda Revenue Authority Act (b)** to advise the Minister on revenue implications, tax administration and aspect of policy change relating to all taxes referred to in the first schedule.

	tax policies.	government for the collection and receipt of all revenues	tax and other fiscal evasions	
3.	Involvement of the Ministry of Finance is to provide supervisory role.	**Section 5 (1) Kenya Revenue Authority Act** as indicated above	**Section 5 (8)(a)** subject to other relevant written law of the united republic, to determine and ensure the effectual application of the fiscal policy of the united republic. **(b)** See to the effective coordination of the policy for the collection and preservation of the revenue accounts	