



# Mobilizing Revenue in Africa

**NAIROBI, FEBRUARY 14, 2019**

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Director

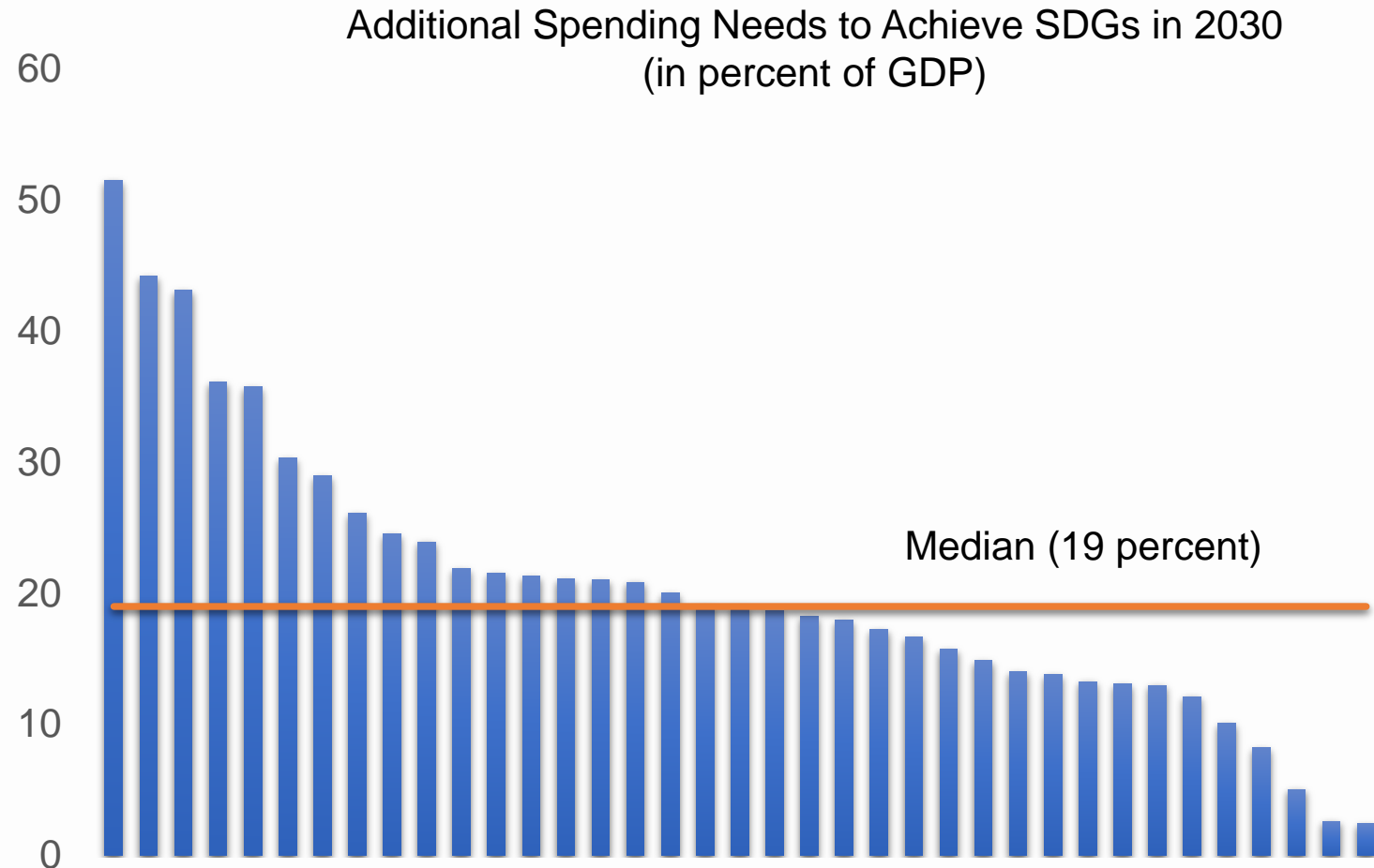
Fiscal Affairs Department

# Outline

- ❑ Tax Capacity and MTRS
- ❑ Tax expenditures
- ❑ International tax issues

# Tax Capacity and MTRS

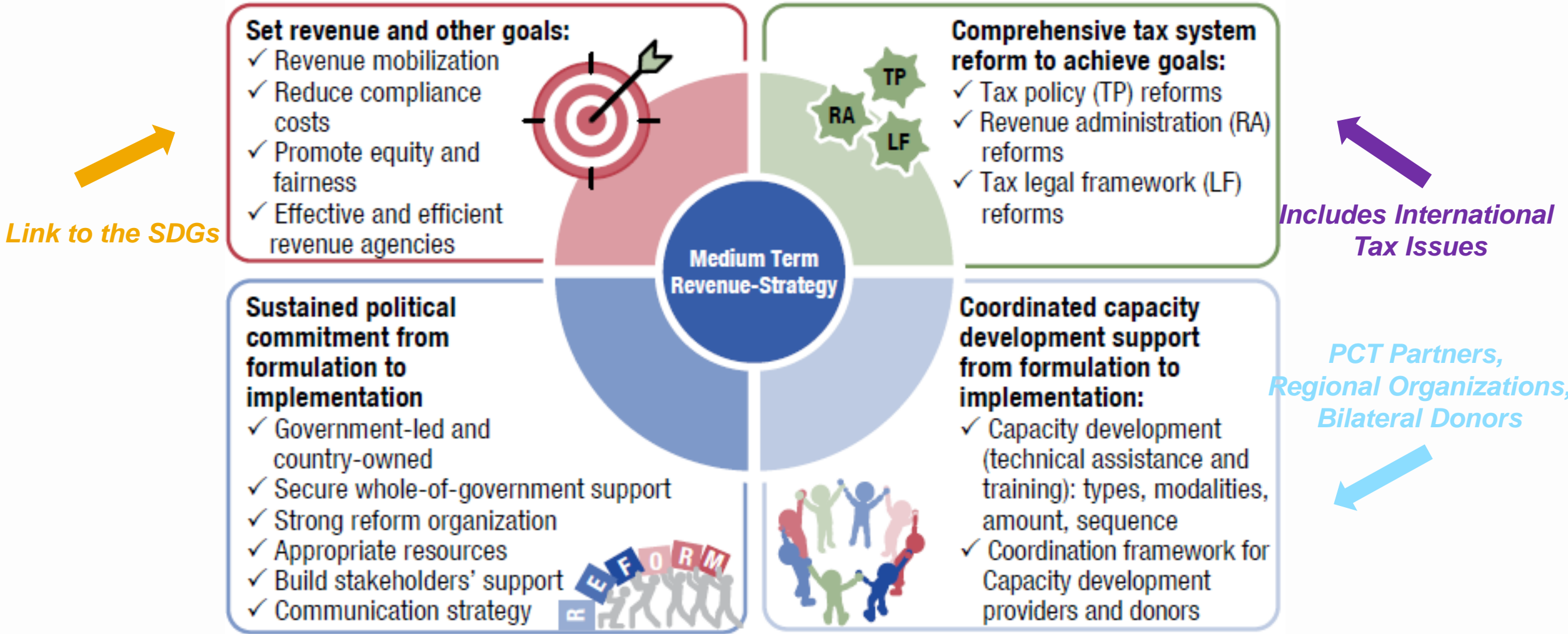
## Large Additional Spending Needs in 37 Countries in SSA



Source: IMF staff estimates.

# Tax Capacity and MTRS

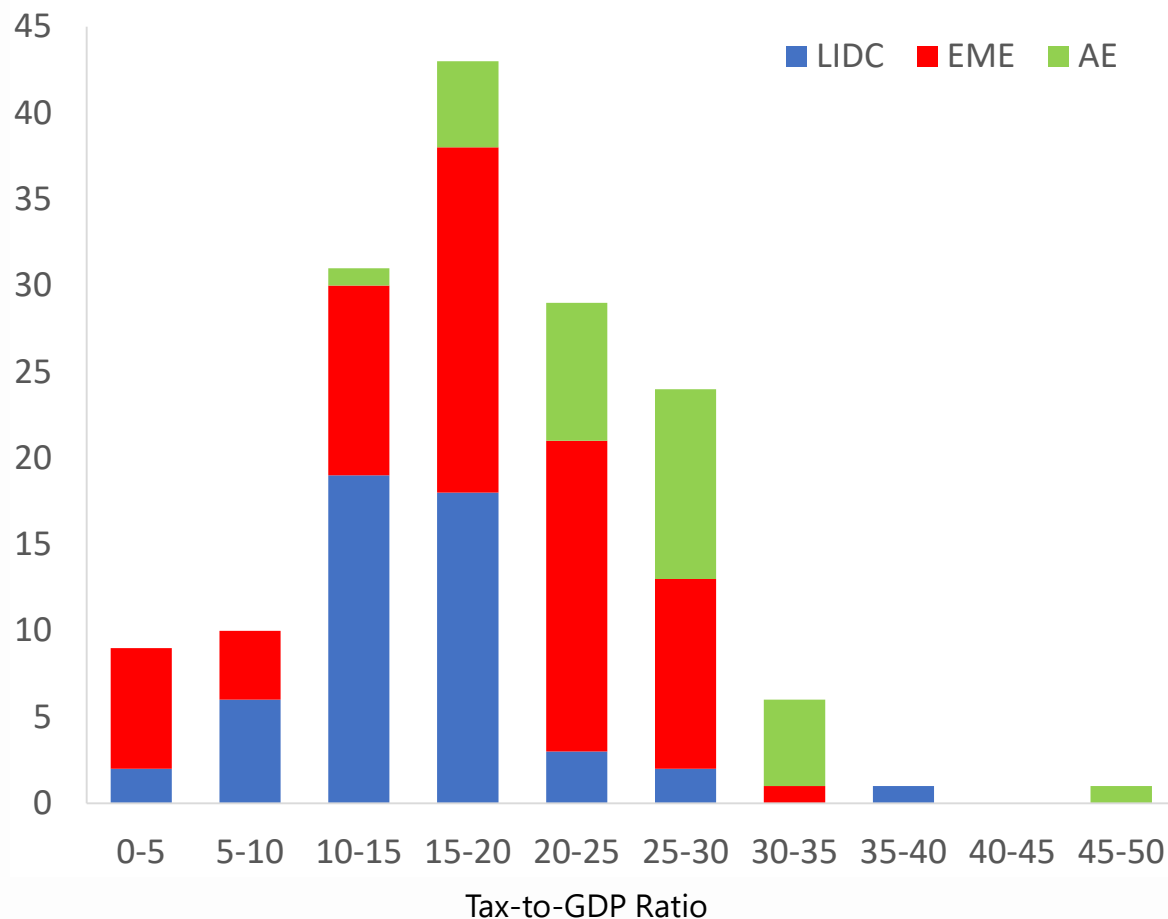
## The Role of Medium-Term Revenue Strategies, Key Recommendations



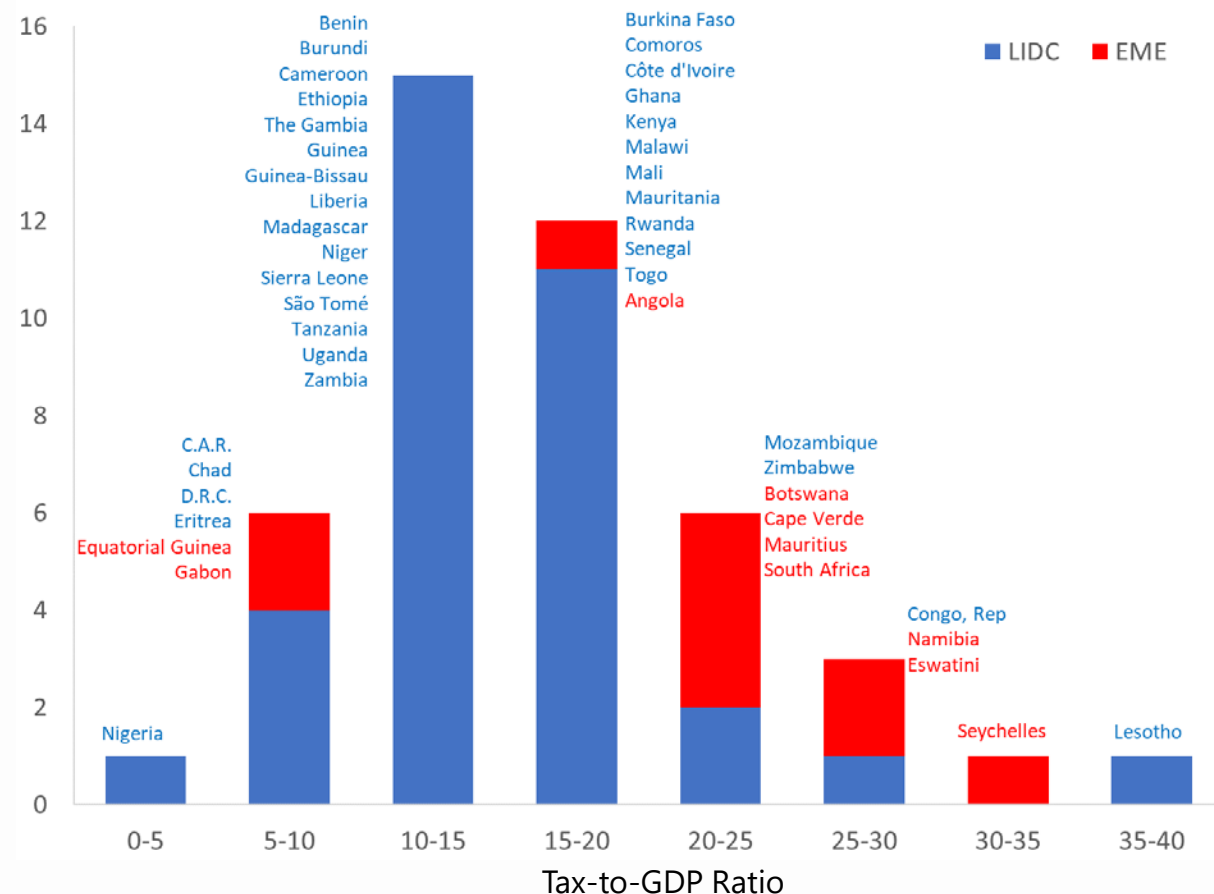
# Tax Capacity and MTRS

## Tax-to-GDP ratios

Distribution of Tax-to-GDP Ratio in the World, 2017



Distribution of Tax-to-GDP Ratio in SSA, 2017

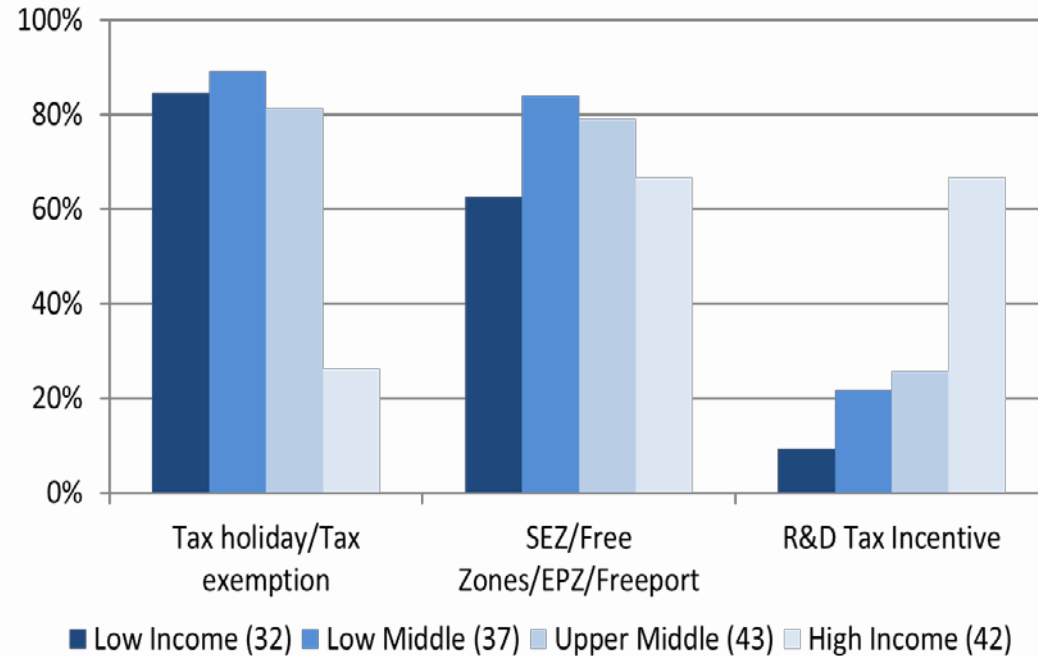


Source: IMF staff estimates based on WoRLD database.

# Tax Expenditures

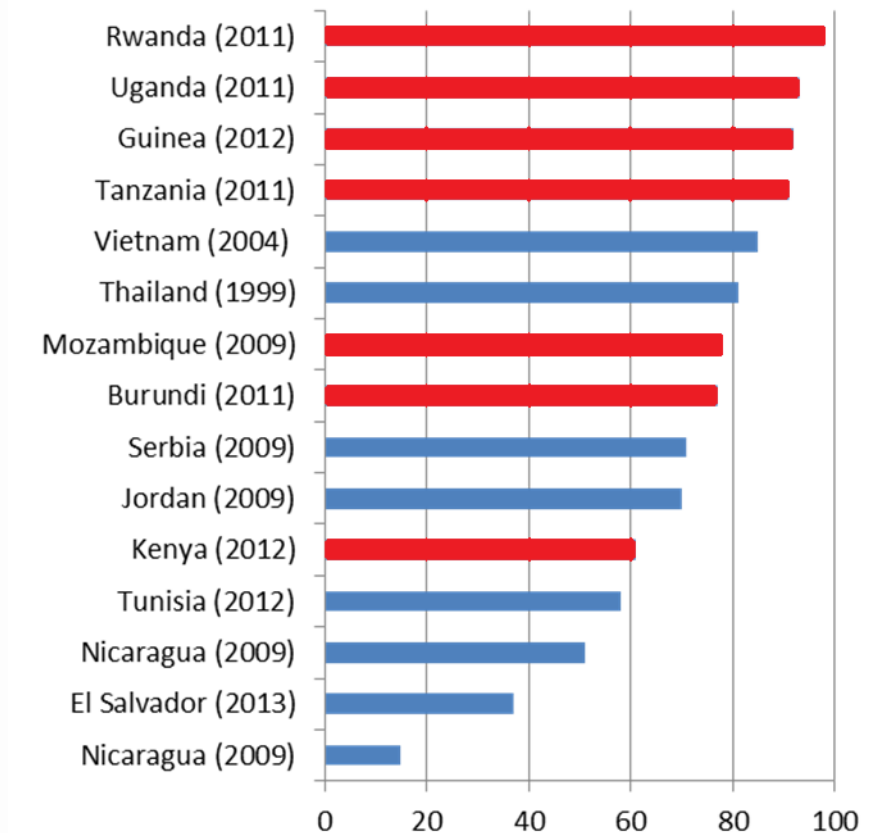
## High prevalence, but low effectiveness and efficiency of tax incentives

High prevalence of tax incentives



Sources: IMF, OECD, UN and World Bank, 2015, "Options for Low Income Countries' Effective And Efficient Use Of Tax Incentives For Investment"

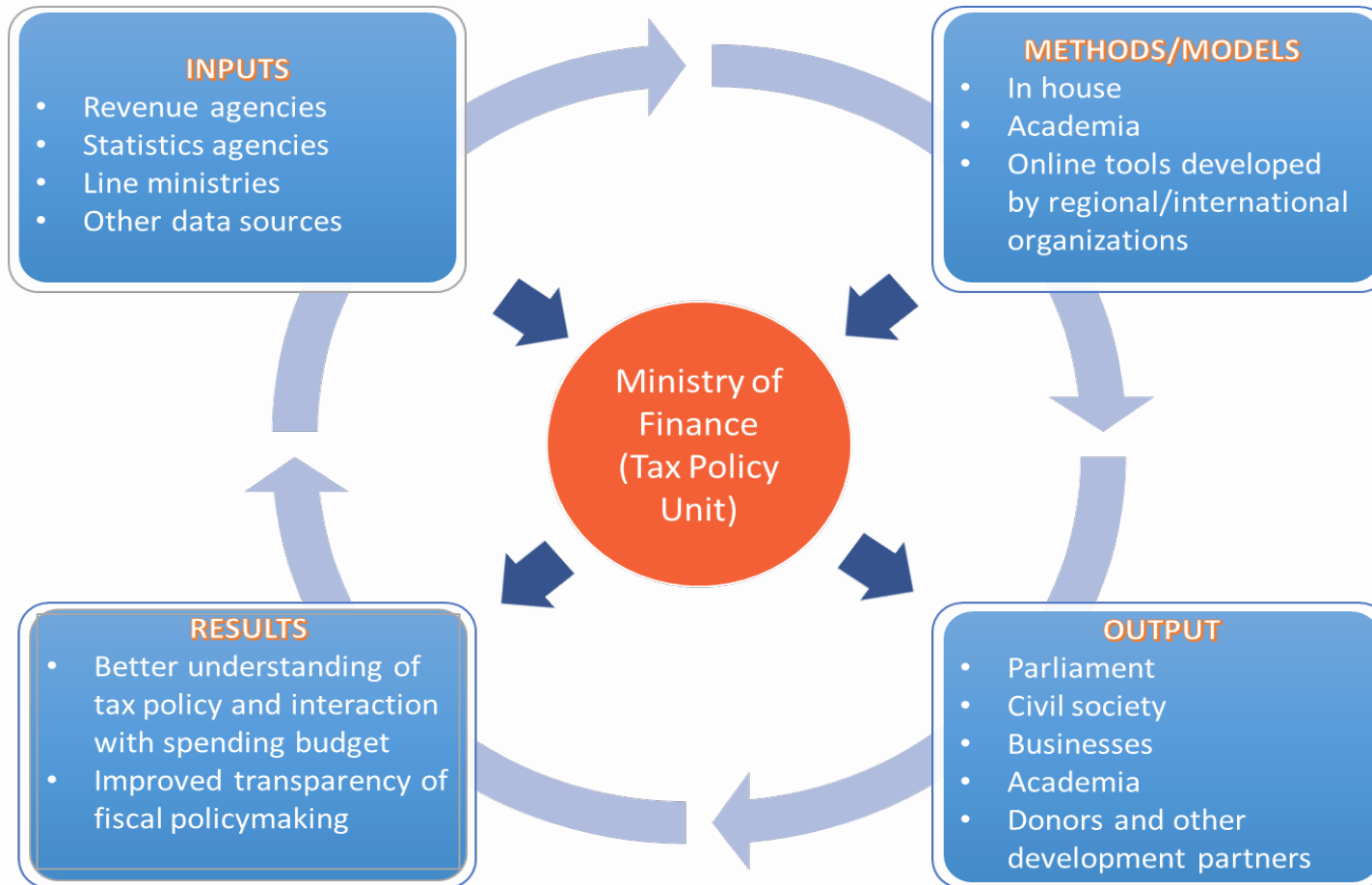
Ineffective – most investors would have come also without the incentive (% respondents)



Source: IFC Investment Climate Advisory (FIAS)

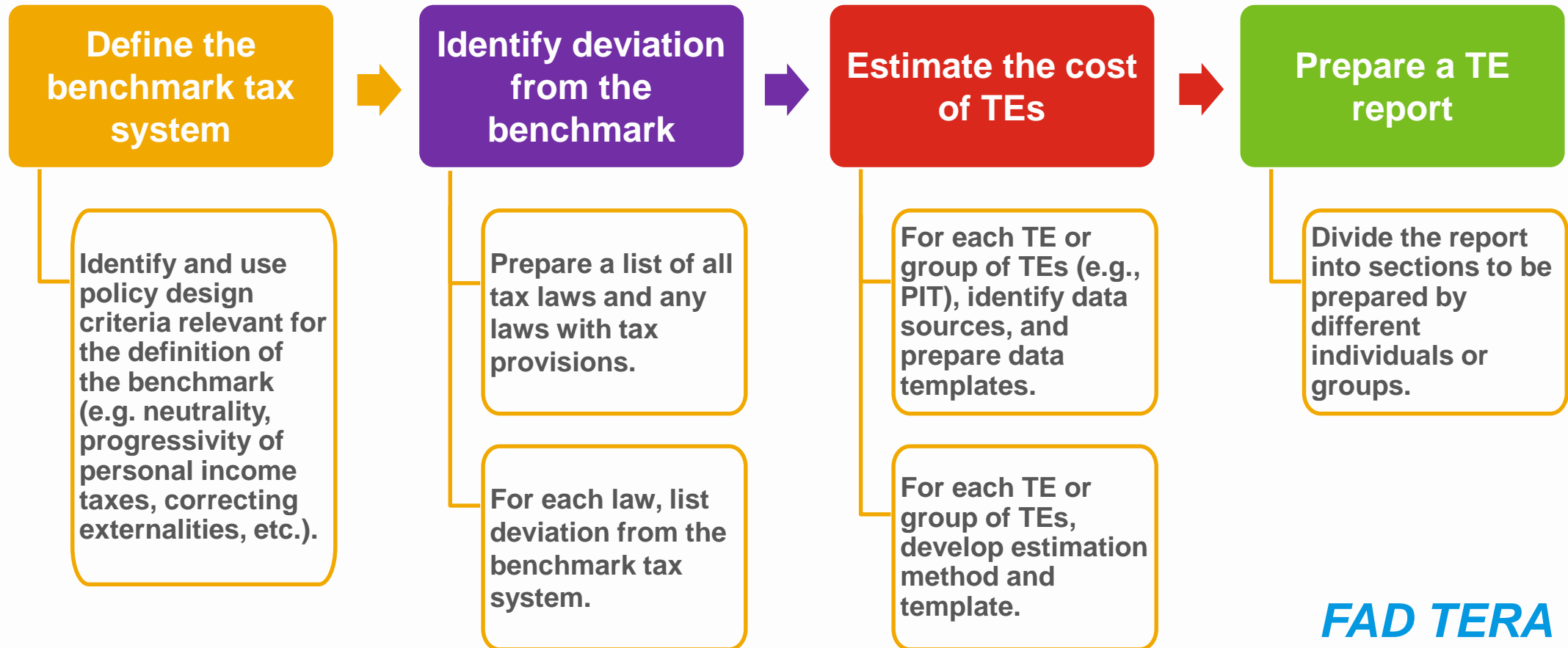
# Tax Expenditures

## Process, output, and results of analyzing tax expenditures



# Tax Expenditures

## Steps in the Preparation of Tax Expenditure Reports



**FAD TERA  
Program**



# International Tax Issues

## Major challenges

### Profit shifting

- Significant share of profit lightly or untaxed
- Based on arms-length principle, but pricing/locating intangibles or risk impossible, which is especially problematic for developing countries

### Tax competition


- Addressing only BEPS may make real spillovers larger
- Tax competition using CIT rates can intensify
- Has seen substance being shifted to justify profit in low-tax places

### “Fair” distribution?

- Interest of developing countries not well represented
- Digitalization

# International Tax Issues

## 2014 IMF Policy Paper



INTERNATIONAL MONETARY FUND

**IMF POLICY PAPER**

**SPILLOVERS IN INTERNATIONAL CORPORATE TAXATION**

May 9, 2014

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following document(s) have been released and are included in this package:

- The **Staff Report** on Spillovers on International Corporate Taxation prepared by IMF staff and completed on May 9, 2014 to brief the Executive Board on May 23, 2014.

The Executive Directors met in an informal session, and no decisions were taken at this meeting.

The policy considerations in this paper should be attributed to IMF staff and not to the IMF or its Executive Board. The analysis was prepared by the staff of the Fiscal Affairs Department and has benefited from comments and suggestions by staff from other IMF departments, as well as by Executive Directors following their discussion of the report on May 23, 2014.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

Electronic copies of IMF Policy Papers are available to the public from <http://www.imf.org/external/pp/ppindex.aspx>

International Monetary Fund  
Washington, D.C.

Characterization of international tax architecture

Analysis of spillovers

- Base (real & financial)
- Strategic (tax competition)

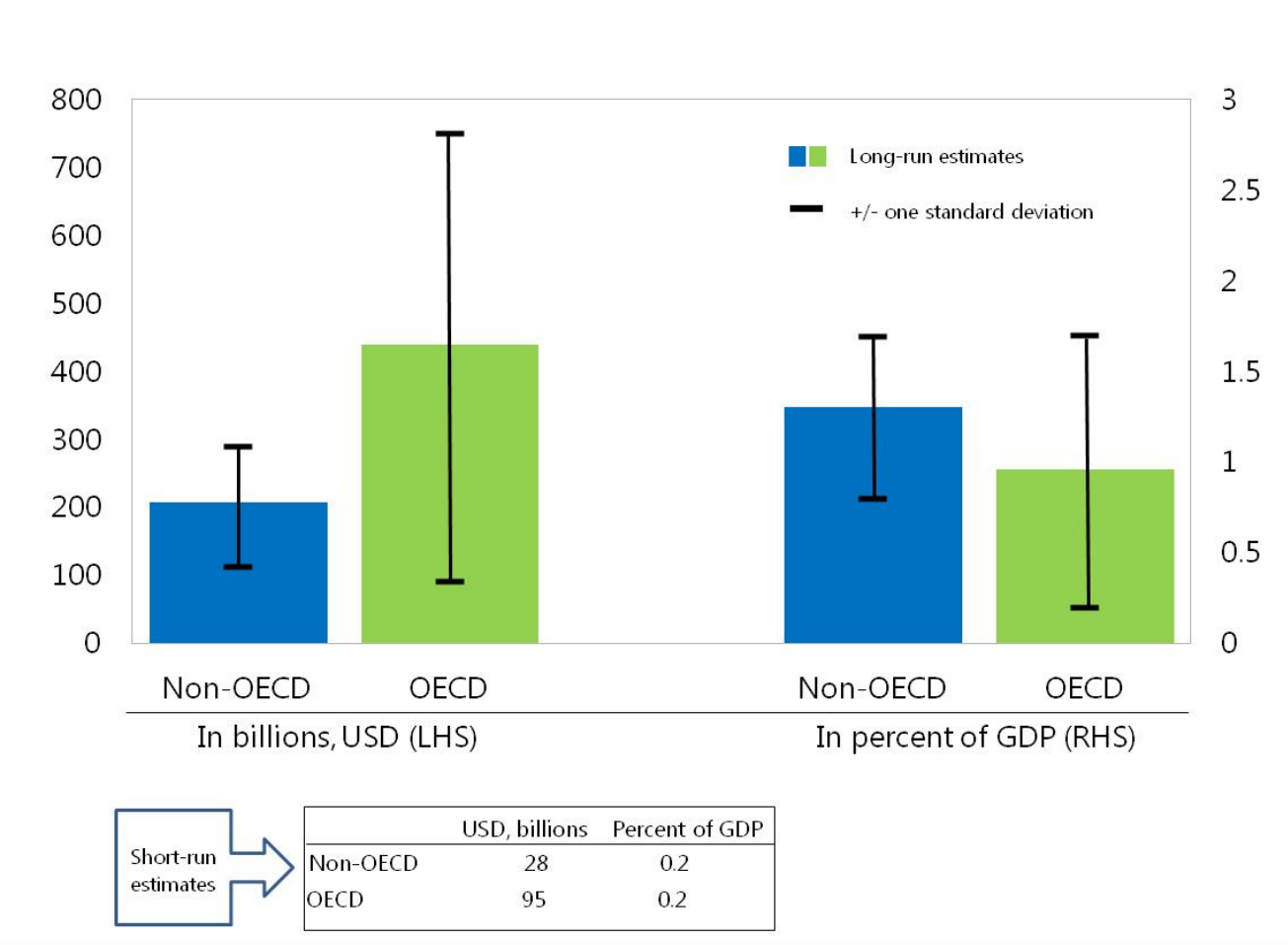
Specifics on developing countries

- Where issues matter more

Rethinking international tax architecture itself

# International Tax Issues

## Revenue loss estimates from base erosion



Source: E. Crivelli, R. De Mooij and M. Keen, 2016, Base erosion and profit shifting in developing Countries, Finanzarchiv 72(3).

# International Tax Issues

## Design issues

### Learn from advanced economies

- G20/OECD BEPS & Inclusive Framework (e.g. interest deductibility, treaty abuse);
- Recent reforms in e.g. U.S. (minimum tax).

### Address specific concerns of developing countries

- Toolkits by *Platform for Collaboration on Tax*.
- Specific issues encountered in IMF technical assistance
  - ▶ Should developing countries sign tax treaties?
  - ▶ Transfer pricing.

# International Tax Issues

## Transfer Pricing

- Has become extremely complex.
- Challenge for Africa differs from that in advanced economies.
- Need for capacity building.

Simpler rules (see toolkit)

- ‘Safe harbor rules’;
- Simple caps.

Minimum tax as a safeguard

- Used in 31 countries;
- See also U.S. tax reform.

### The Platform for Collaboration on Tax

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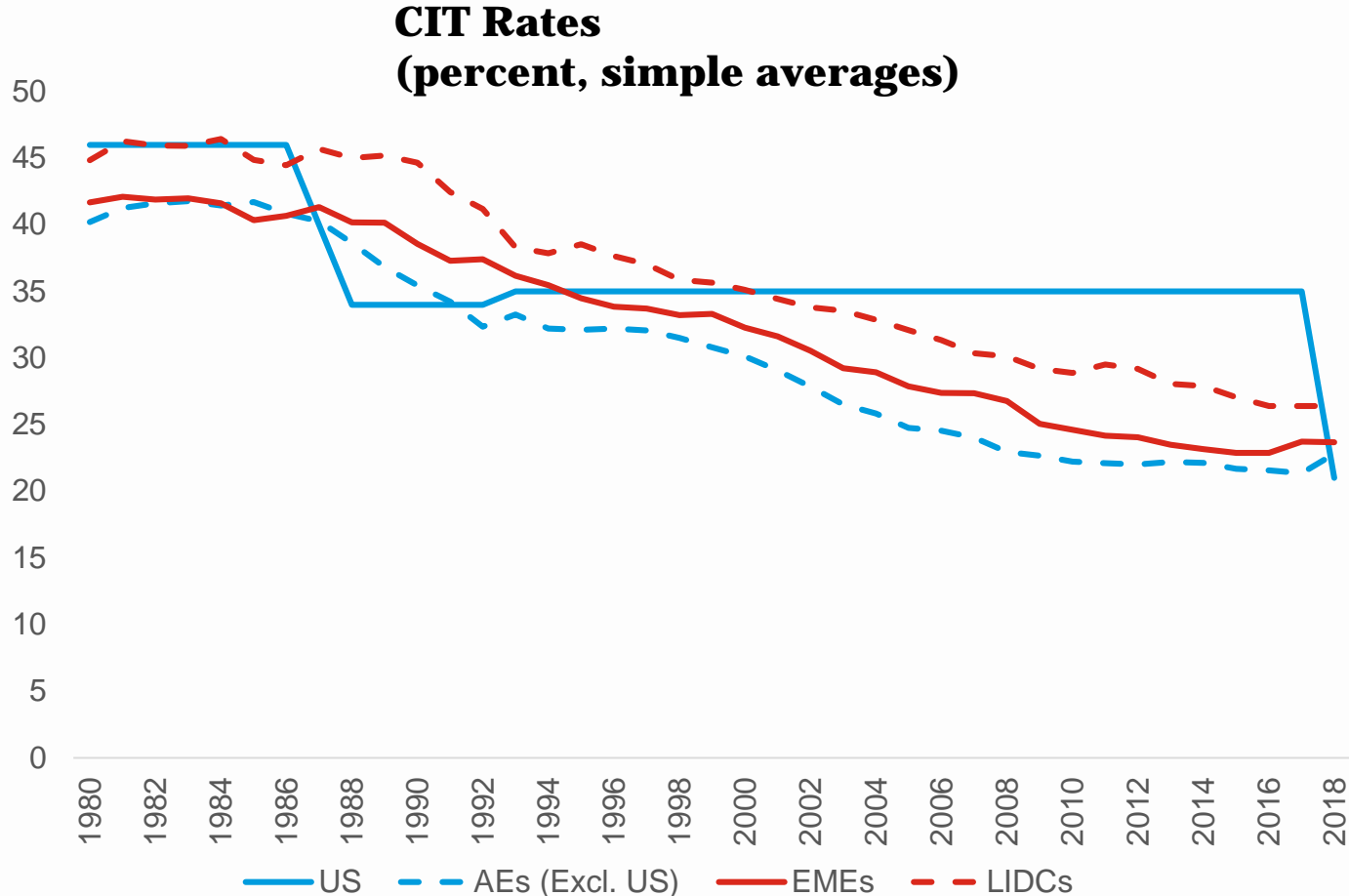
**A Toolkit for Addressing Difficulties in  
Accessing Comparables Data for Transfer  
Pricing Analyses**

Including a supplementary report on  
**Addressing the Information Gaps on Prices of  
Minerals Sold in an Intermediate Form**

International Monetary Fund (IMF)  
Organisation for Economic Co-operation and Development (OECD)  
United Nations (UN)  
World Bank Group (WBG)

# International Tax Issues

## CIT competition affects Developing Countries



Source: IMF Tax Rate Database.

# Conclusions

- ❑ Building tax capacity is at the center of the process of growth and development.
- ❑ Tax Expenditure Reporting and Assessment improve transparency and support tax capacity.
- ❑ International Tax Spillovers are particularly important for Developing Countries.
- ❑ A global approach is justified and it constitutes one of the most important priorities for a global agenda.

# Background Slides

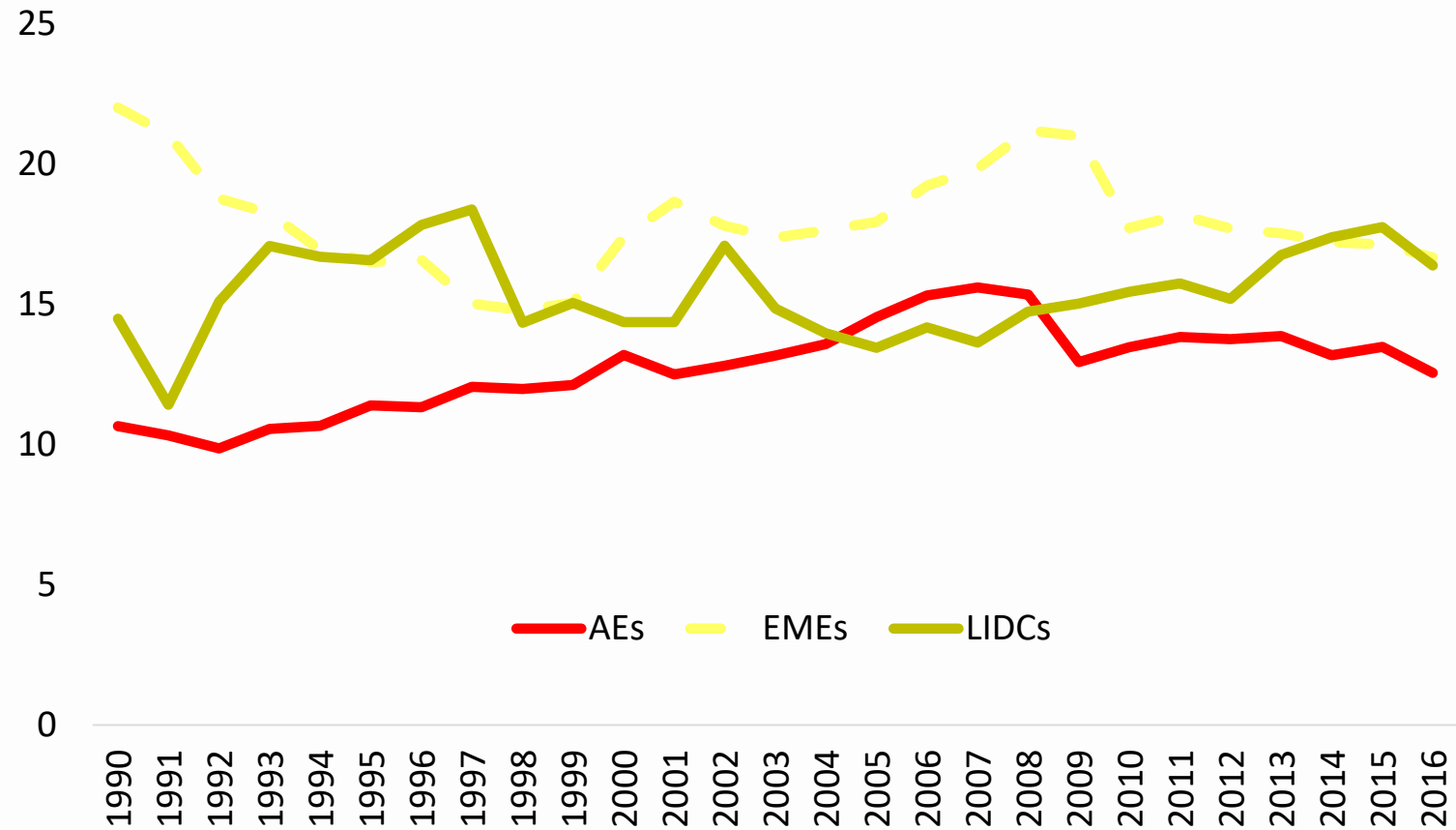


# Useful References

- ❑ Corporate Taxation in the Global Economy (2019, Forthcoming)
- ❑ Tax Expenditures Accounts and their use in Fiscal Management: A Guide for Developing Countries (2019, Forthcoming)
- ❑ [The Cost and Benefits of Tax Treaties with Investment Hubs: Findings from Sub-Saharan Africa](#) (2018)
- ❑ [Building Fiscal Capacity in Fragile States](#) (2017)
- ❑ [Enhancing the Effectiveness of External Support in Building Tax Capacity in Developing Countries](#) (2016)
- ❑ [Tax Capacity and Growth : Is there a Tipping Point?](#) (2016)
- ❑ [Political Institutions, State Building, and Tax Capacity: Crossing the Tipping Point](#) (2016)
- ❑ [Spillovers in International Corporate Taxation](#) (2014)
- ❑ [Understanding Countries' Tax Effort](#) (2013)
- ❑ [Tax Coordination, Tax Competition, and Revenue Mobilization in the West African Economic and Monetary Union](#) (2013)
- ❑ [Revenue Mobilization in Sub-Saharan Africa : Challenges from Globalization](#) (2009)

# CIT is Important for Developing Countries

**CIT Revenue, 1990-2016 (in percent of Tax Revenue)**



Source: IMF World Database.