



EAC experience in regional integration- Customs policy reforms & taxation harmonization

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**Tharcisse Kadede, Director of Planning
EAC Secretariat**



Outline

- ❑ Background on EAC integration process
 - ❑ EAC Customs reforms
 - ❑ Tax harmonization
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A – Background on EAC Integration process: key pillars

❖ **Membership:**

* Kenya – Uganda – Tanzania (1999) / Burundi - Rwanda (2007)

❖ **EAC Pillars of integration**

Article 83 2 (e) of EAC Treaty, PS shall harmonise their tax policies

□ **Customs Union** (1st Jan. 2005):

- CU = Point of entrance of EAC integration - Main reforms:
- Gradual removal of internal tariff barriers
- Establishment of a Common External Tariff (CET) vis-à-vis tariffs on trade with the Rest of the World (January 2010)

□ **Common Market** (1st July 2010):

- Free movement of goods , factor of production (K, L,) and Services;
- Right of establishment and residence
- **Art, 32 of the CM Protocol:** PS shall harmonise their tax policies to remove distortions and promote investment

EAC Integration process: key pillars

❑ Monetary Union (Planned for 2012):

- Meet the prerequisites: macroeconomic convergence, legal convergence & market integration (Single market);
 - Establishment of common central bank and a single currency
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❑ Political Federation

Establishment of a centre of decision (political, economic)

B- Customs reforms

- ❑ Gradual elimination of internal tariffs (2005- 2009)
- ❑ Establishment of Common External Tariff (Jan. 2010)
- ❑ EAC PS to remove charges of equivalent effect such as suspended duties, import declaration fees and import commissions

- ❑ Objectives
 - Intra trade liberalization
 - Production efficiency
 - Enhance investment
 - Economic development through industrial diversification

B- Customs reforms- Challenges

- ❑ An essential character of a functional Customs Union is free movement of goods on **entry into the Customs territory** and collection of duties at that first point of entry into the Union;
- ❑ Learn from best practices and choose suitable mechanism;
- ❑ This requires **an institutional and legal frameworks** to facilitate collection/ accounting/ sharing of Customs revenue collected at the first point of entry;
- ❑ The establishment of **a Customs Authority** to run a single customs territory is targeted (Administration reform);
- ❑ **Existence of sensitive goods** reviewed time to time during the pre/post-budget consultative meetings of Ministers of Finance (principle of temporarily protection of the nascent/ infant industry: creation of jobs, importance of budgetary revenues generated).



C- Tax harmonization

- Tax harmonization is a constituent element of the integration process of EAC
 - Customs union
 - Common market
 - Monetary union
 - Political federation
- Viewed in the context of Fiscal policy harmonization
- Based on the principle whereby treatment to each other is not less favorable than treatment accorded to third parties
- Mutually beneficial to all Partner States
- Neutrality – non interference with free trade, free competition and investment flows

C- Tax harmonization

- ❑ Draw lessons from the defunct EAC:
 - Common income tax code
 - Common customs code
 - Common excise duty code
 - Similar sales tax code

- Institutional framework for management of taxes in the region
- ❑ Started in 1997 with the development of an Agreement on Avoidance of Double Taxation under the permanent Tripartite Commission (concluded in 2010)
- ❑ Development of a Model DTA which will guide negotiations of EAC PS with third parties
- ❑ Development of a code of conduct against harmful tax competition

C- Tax harmonization

- ❑ Identify areas of convergence and divergence in the tax systems and laws between a EAC PS
- A Study on Tax system and Harmonization in EAC informed on the convergences and divergences in the main areas of domestic taxation (VAT, Income tax and excise tax)
- Propose and develop tax harmonization framework
- Promote exchange of information on domestic taxation
- ❑ Promote exchange of information on domestic taxation
- ❑ Institutional framework on Tax matters at regional level
- ❑ Provide IT support such as common databases
- ❑ Support and develop common training framework on domestic taxation



**THANK YOU FOR YOUR
ATTENTION**