

Africa Tax Symposium – Webinar Edition



Global tax developments aimed at post-Covid recovery

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Agenda

- Introduction: COVID-19 Impact on domestic revenue mobilization
- Role of taxation in government responses: timing, opportunities and challenges
 - Tax administration measures
 - Tax policy measures
- Trends towards digitalization and automation
 - Developments in the use of technologies in African tax administrations
- Increased tax cooperation



Impacts of COVID-19 on Domestic Revenue Mobilization



- The COVID-19 pandemic gave rise to a greater focus on taxation, including as a crucial means for providing initial relief as an immediate response and, in the longer term, to stimulate growth that will be critical to fund the social and economic recovery efforts as well as to reduce deficits.
- African countries have lost revenues from both domestic and external sources as economies suffered the effects of the mitigation and containment measures aimed at combating the COVID-19 pandemic:
 - Decline in the prices and demand for commodities that resulted in decreased government revenues
 - Negative impact of the pandemic on specific sectors (travel, tourism, the informal sector) also resulted in declining tax revenues from these sectors.



- Necessity to stimulate a quick recovery
- Call for immediate short-term temporary measures
- An opportunity to shift to a greener economy and/ or contemplate innovative taxes taxes (digital services tax, property taxes, wealth taxes, etc)
- Covid-19 revealed that domestic resource mobilisation needed to be further expanded through stronger tax administration and better enforcement of tax laws
- Formalisation of informal trade to capture actors left outside the tax pool



Role of taxation in government responses: timing, opportunities and challenges



Tax administration measures

Specific practical examples from selected countries

- Tax relief measures
- Tax rebates
- Expedites tax refunds
- Exemptions or zero rating on essential goods and services

Tax administration measures ATAF's suggested measures

- Extension of deadlines
- Penalty and interest suspension
- Temporary reduction of taxes
- Suspension of compliance and enforcement activities
- Suspension of advance payments



Tax policy measures

Revenue mobilization

- Introduction of new taxes
 - Carbon tax (i.e. South Africa)
 - Windfall taxes
 - Covid-19 levy
- Broadening the tax base
 - Taxation of the digital economy



Transfer pricing issues

- Disruptions in the global supply chain
- Declining profits
- Effects on financial markets
- OECD guidance on Covid-19 implications on Transfer pricing
 - Comparability analysis
 - Allocations and losses of Covid-19 specific costs
 - Advance pricing arrangements
- Specific measures implemented in selected countries
 - ► Guidance issued by Greece, Singapore, etc.
 - Government pricing programs

Tax treaties

- OECD guidance on tax treaties and the impact of the COVID-19 pandemic dealing with:
 - creation and continuation of a permanent establishment (PE), including home office, agency, and construction-site PEs
 - change of residence, including by entities and individuals, plus the application of tie-breaker rules to dual residents
 - income from employment, i.e. payments under stimulus packages, stranded workers, cross-border (frontier) workers, and teleworking from abroad.



Trends towards digitalization and automation

Trends towards digitalisation & Automation

OECD October 2021 report

Experiences during the crisis have influenced tax administrations' future strategies and ways of engaging with taxpayers:

- by providing extended payment deadlines and penalty waivers;
- by working with digital files, and platforms with electronic signatures and electronic notifications,
- by moving field audit work to a virtual / digital environment going forward;
- by looking to make additional changes to further enhance the resilience of their IT systems to be prepared for future crises.



Trends towards digitalisation & Automation

- The COVID-19 pandemic led to a boom in the use of digital commerce. The adoption of technology can:
 - enable successful and sustainable tax reforms,
 - ensure the proper taxation of the digital economy, and
 - reduce the obstacles to compliance.
- Digital tax administration and transparency expected to drive the next wave of litigation



Tax cooperation aimed at improving revenue mobilization



Overview – Tax cooperation

International tax cooperation

- Tax transparency issues
 - Exchange of information implies effective digital and automated processes (i.e. OECD report October 2021)
 - Country by Country reporting
- Combating illicit financial flows (IFFs)
 - Increased cooperation between Tax Authorities



Overview – Tax cooperation

Tax policy and Capacity building programs

- OECD: assistance to developing countries through on site programs, increased online trainings, toolkits
- The Platform for Collaboration on Tax (PCT)
- IMF and World Bank latest reports on compliance gaps

UN





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Financing the post-Covid recovery: Tax policy challenges and prospects in Africa

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Introduction

- Domestic Revenue Mobilization in Africa: an age long priority.
- Trend in domestic revenues and external flows to Africa are insufficient to support the Sustainable Development Goals (SDG)
 - COVID-19 pandemic and multiple lockdowns exacerbated the funding challenge—due to both the freeze in economic activity as well as tax forbearance measures implemented to help businesses survive
 - Most African countries now in dire search for alternative revenue source to finance development.

Emerging Tax Policy Approaches in Africa

- Countries are now providing more incentives/palliatives to taxpayers by way of extensions and exemptions on their direct taxes as well as reduction in compliance costs.
- Refocusing on digitalization of tax services
- Widespread experimentation on the use of tax incentives to promote development of small businesses/underdeveloped sectors and low-income earners
- Taxation of digital services now a go to.



Country Specific Approaches: Nigeria

- Late Returns Penalty (LRP) waived for taxpayers who pay early and file later.
- Remittance of VAT on or before 21st of every month extended to the last day of the month
- Field Audit, Investigations and Monitoring visits were suspended till further notice
- Enactment of the innovative Finance Act 2020 with key provisions such as:
- 1. Exemption from payment of CIT and VAT taxes of companies with gross turnover of N25 million and below;
- 2. Provided further reduction in minimum tax under the Companies Income Tax Act to 0.25% for tax returns prepared and filed for any year of assessment falling due 2020 and 2021
- 3. Exemption of Personal Income Tax and minimum tax on Persons earning the National Minimum Wage or less from an employment.

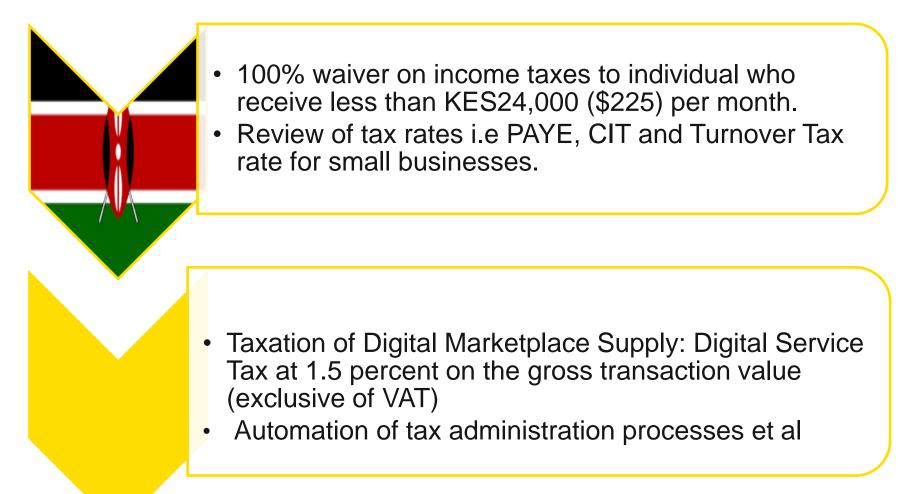


Country Specific Approaches: Senega

- Tax debt reduction for individuals and corporates operating in the tourism, catering, hotels, passenger transport, education, culture, agriculture and the press
- Flexibility of VAT payment
- Extension of the VAT payment deadline suspended from 12 to 24 months
- Review of tax treaty: termination of treaty with Mauritius



Country Specific Approaches: Kenya





- Balancing the need for short term revenue gains vs long term gains
- Low level of citizen's tax morale
- Inadequate political will to support tax administration and policy reforms
- Capacity building of government officials in Tax policy and administration
- Transparency issues in the management of our government's tax expenditure
- Harmonisation of taxes



- Opportunity exists to access global cooperation on tax matters: OECD, UN Committee of Experts on Tax Matters, etc.
- Space to broaden the tax base exists in most African countries
- Improvement in the social contract between government and citizens has attendant domestic revenue benefits
- Wealth, property and consumption taxes are viable but yet unexplored avenues for raising revenue for African governments
- Renegotiate unproductive treaties



- As the world recovers from the onslaught of the COVID-19 and the attendant economic hardship, it is pertinent for African governments to begin to take measured steps towards promoting long-term inclusive development through institutionalizing domestically stable, broad-based and fair tax systems.
- Africa must not be left behind again!



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Introduction

- Tax avoidance and COVID-19
 - Related?
 - Avoidance should receive renewed focus
 - COVID-relief measures abused
 - Corporate profits under strain



Relief measures adopted

- Some permanent relief
 - Kenya
 - ► VAT
 - Income tax
 - PIT



Relief measures adopted

- Most relief temporary only
 - Delayed tax obligations
 - South Africa, Mauritius, Botswana
- Compliance related relief
 - Return filings extended
 - Nigeria, Uganda, Algeria, Tunisia
 - Imposition of penalties
- Very little relief, therefore, very little to avoid
- Schemes also not necessarily susceptible to avoidance



Responses to avoidance

- The responses we have seen thus far were not from the judiciary
 - Too soon on COVID-schemes
 - Very limited GAAR application
 - (Very few states have a GAAR)
- To some extent the Legislature
 - SAARs preferred



Responses to tax avoidance

- ► The Executive is leading the charge
 - Not necessarily COVID-related, but tackling tax avoidance in general
 - Digitization of tax compliance systems
 - Transfer pricing
 - With corporate profits and tax revenues both under strain, expect
 - More aggressive Revenue
 - Increased tax controversy



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Capacity Development Initiatives on Domestic Resource Mobilization

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International Tax and Development Cooperation Branch, FSDO, DESA, United Nations

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AGENDA - TOWARDS EFFECTIVE DRM

- Some potential 'new' taxes
- Preventing tax avoidance and evasion
- Supporting tax administration (including through effective

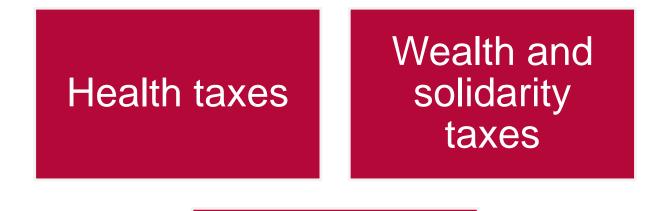
dispute avoidance and resolution)

Capacity development



SOME POTENTIAL 'NEW' TAXES

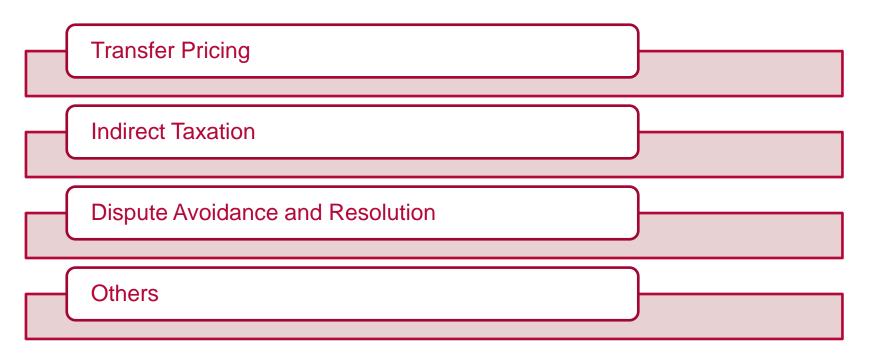
The United Nations Committee of Experts on International Cooperation in Tax Matters is currently working on the following matters:



Environmental taxation

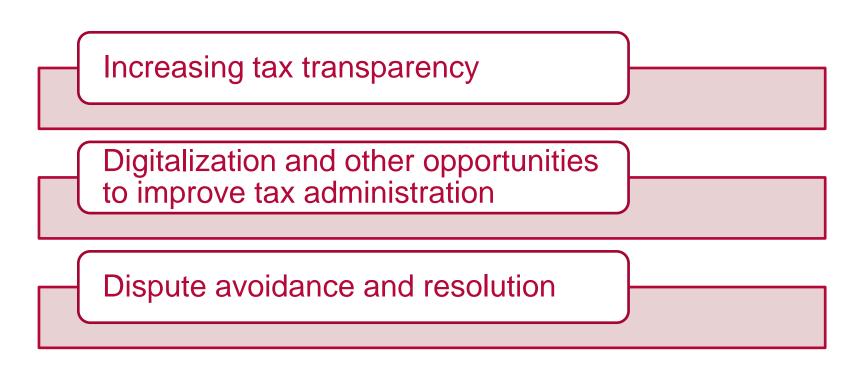


The United Nations and the Committee of Experts on International Tax Matters have worked on the following areas with the purpose of closing tax gaps to prevent tax avoidance and evasion:





The United Nations and the Committee of Experts on International Tax Matters are working on the following areas to build capacity of tax administrations:





CAPACITY DEVELOPMENT

The Financing for Sustainable Development Office (FSDO) supports especially developing countries in the uptake and effective use of UN Tax Committee guidance, through a comprehensive programme:

Tax Cooperation	Workshops and webinars (global, regional and country level);
	Online courses (existing, updates and development of new ones)
	Technical advisory/assistance to requesting Member States
	Tax talks
Dissemination of Tax Committee Guidance	Translation of publications into UN official languages
	Partner events



Other outreach activities include the following:

Platform of Collaboration on Tax	Toolkits for developing countries: Transfer Pricing Documentation and Tax Treaty Negotiation recently released
	COVID-19 response
	Regional workshops
ECOSOC Special Meeting	Important venue for advancing policy discussions and be part of a global platform for enhancing intergovernmental consideration of tax issues to achieving the, 2030 Addis Agenda and the SDGs
	In the context of COVID-19 response and recovery, it is an important occasion for action-oriented discussion on fiscal policies to build back better
	It brings the Council together with top-tier experts from the Tax Committee, civil society, academia, private sector and international organizations



Workshops and Webinars (Planned 2022)

- Taxation in a Digitalized and Globalized Economy
- Dispute Avoidance and Resolution
- Intermediate/Advanced Topics on Tax Treaties
- Intermediate/Special Topics on Transfer Pricing
- Attribution of Profits to Permanent Establishments
- Environmental Taxation
- Taxation of the Extractives Industries