HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

ANGOLA

Modernization of Income Taxation

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Fiscal Affairs Department

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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: A capacity development mission of the Fiscal Affairs Department (FAD) of the IMF visited Luanda, during the period November 6-17, 2023, to provide advice on tax policy and administration reforms to modernize and improve the income tax system. The mission recommended moving from a highly fragmented toward a more unified approach to taxation of income, with all labor income aggregated over the year and taxed under a common progressive tax schedule. The mission pointed to opportunities for improving income taxes compliance approaches, including through the development of capacities to manage tax incentives and international tax risks.

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Keywords: Personal income tax, corporate income tax, progressivity.

Background

In response to a request from the Angolan authorities, a capacity development mission of the Fiscal Affairs Department (FAD) of the IMF visited Luanda, during the period November 6-17, 2023, to provide advice on tax policy and administration reforms to modernize and improve the income tax system.

This mission considered all taxes related to income and the interactions among those taxes. In Angola these are the labor income tax (Imposto sobre os rendimentos do trabalho, IRT), the corporate income tax (Imposto industrial, II), and the investment income tax (Imposto sobre a aplicação de capitais, IAC). The report develops reform proposals aiming at improving efficiency, equity, and raising more revenue, combining analysis based on both tax policy and administration.

Summary of Findings

The taxation of labor income is highly fragmented, leading to both economic inefficiency and significant inequity of treatment among different taxpayers. Employees are taxed under a progressive schedule with rates ranging from 0 to 25 percent. Self-employed people and sole traders, however, face fixed rates. These in turn can be 25 percent, or when a service is provided to a formal sector business, just 6.5 percent.

Focusing on labor taxation, the marginal tax rate schedule is marked by two strong threshold effects. These occur when individuals start paying tax and when the rate increases from 16 to 18 percent. In both cases, earning just one more kwanza raises tax liability by thousands of kwanza. This creates a strong disincentive to work for affected individuals. A separate issue is that the tax is collected through final monthly withholding. As a result, workers whose incomes are seasonal are overtaxed, as they face high tax rates during their good months, higher than what would be applicable if their annual average income were taken into account. On the other hand, workers who have more than one employer are undertaxed, because they qualify again for the low and zero introductory rates for each employer.

Regarding corporate income tax, the main issue encountered is the widespread use of tax incentives. These erode the tax base, because firms that qualify will pay much lower taxes, in some cases 90 percent less than what the standard tax system foresees. The presence of a contractual regime, under which taxes can be negotiated rather than being determined based on clear rules, creates further complications.

The administration of income taxes is based on self-assessment. The collection of taxes relies strongly on final withholding of tax at source, which supports enforcement, but does not allow implementing tax systems that more accurately reflect each individual’s earnings and hence their capacity to pay taxes.

The corporate income tax is collected late in the year, as there is only one advance payment for corporations and only under the general regime. It is moreover calculated as a simple percentage of turnover rather than a forward-looking estimate of the year’s expected tax liability. Loss carryforward is restricted to 5 years, which seems appropriate.

The Angolan General Tax Authority (AGT) has made good progress expanding electronic filing so now it is not only able to identify taxpayers who fail to file income tax returns but also to identify amounts that have not been paid on time and quickly generate demand-for-payment notices. Inspections are gradually transitioning from verifying formal obligations to properly reviewing or auditing substantial obligations, but the detection of inconsistencies and discrepancies of self-assessed income taxes using third-party data should still be strengthened.

For taxpayers other than large national and regional ones, information, guidance, and assistance are less tailored to their needs. Anti-BEPS measures and other limitations of deductions to protect income tax bases are not in place. There is no obligation for corporations to report beneficial ownership information.

Overall, international tax administration is in its early stages. Transfer pricing auditing has stagnated though taxpayers submit the documentation periodically.

Summary of Recommendations

The mission recommended unifying all parts of the labor income tax, so that employees, the self-employed and sole traders all face the same tax schedule. This is recommended to be progressive, that is, with a rising average tax rate. It should be determined based on the sum of all such incomes over the year, with monthly withholding being provisional rather than final.

Regarding corporate taxes, tax incentives should be streamlined, with more reliance on rules-based rather than negotiated incentives. The introduction of a new 15 percent global minimum tax, which will be implemented by the first adopters from 2024, will affect all countries, including Angola. It will reduce downward pressure on taxes, giving more leeway to removing incentives. It will require legislative action to ensure that any additional revenue collected on Angolan affiliates is collected in Angola rather than other countries.

To allow introduction of a unified progressive income tax, withholdings on individuals should be made provisional rather than final, and creditable at the end of the fiscal year in an annual tax return. Prefilling of tax returns can support individuals in filing an annual tax return. On the other hand, the single advance payment under the general regime of the corporate income tax should be expanded to more regular payments and better reflect expected profits.

There are opportunities to improve compliance approaches. Angola should adopt anti-BEPS measures and other limitations of deductions to protect income tax bases and set up an inter-institutional working group for the creation of a centralized beneficial owners register. AGT should accelerate efforts to expand access to third-party data in relation to individuals subject to income taxes, gradually refine information cross-matching rules for risk-based case selection and adopt a comprehensive tax gap research program focused on income taxes.

Finally, transfer pricing audits should be resumed, starting with audits focused on verifying domestic related-party transactions given the proliferation of investment tax incentives. As reforms for streamlining investment tax incentives will likely take time, a whole-of-government approach to managing investment tax incentives should be adopted to prevent revenue leakages. AGT must build capacity to manage international tax risks through strengthening international tax administration.