

REVENUE MOBILIZATION AND DEVELOPMENT

Overview of Lessons, Issues and Opportunities

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NAIROBI WORKSHOP

- First, I would like to say that this conference builds on a similar one that we had in Nairobi
- I must admit that a lot of remarks were made in that workshop regarding issues on revenue mobilization in SSA
- I will therefore try to avoid repeating these remarks but certainly it will be a hard task
- Again this is a policy focus remarks as the issues of administration will follow this session

OUTLINE

- I will briefly say something on the broader issue on revenue mobilization-development nexus;
- Then highlight some of the lessons learnt on tax policy reforms in developing countries; and
- Finally, some thoughts on measures to raise revenue from various taxes
 - *This will just be some areas of emphasis which I consider key as the presentation/background paper has captured them in details*

ON BROADER ISSUES

- The context, trends, and opportunities for tax policy reforms are well captured in the paper
- But while efficient tax system is key, sustaining revenue mobilization also entails assuring broad-based economic growth and development
- And this calls for continued implementation of appropriate economic policies and structural reforms that support growth and promote private sector expansion
- There is also need for policymakers to reflect on what role tax policy will play in terms of:
 - ✓ Encouraging economic efficiency, promoting productivity and growth
 - ✓ Raising additional resources to finance priority development
 - ✓ Redistribution and promoting governance and accountability

CHALLENGES/LESSONS ON TAX REFORMS

- It is now clear that revenue mobilization is crucial for creating fiscal space to finance important priority development.
- But creating such fiscal space from revenue effort will remain a challenges in a number of developing countries, because:
 - ✓ Structures of economies, which makes it difficult to enhance revenue efforts;
 - ✓ Increasing complexity of the tax code due to many amendments
 - ✓ Narrow tax bases arising from large informal sector and widespread tax evasion
 - ✓ Inappropriate tax policy designs with many exemptions and incentive regimes; and
 - ✓ Institutional constraints such weaknesses in tax administration (the subject of the next session)

SCOPE FOR RAISING INCOME TAXES

○ PIT

- ✓ Need to limit relief and other deductions as they are not equitable
- ✓ Need to strengthen existing PIT withholding mechanism
- ✓ The need for appropriate tax and expenditure policies that grow the revenue base by expanding the private sector and formalizing the under-ground economy

○ CIT

- ✓ Need to review the entire exemptions and incentive regimes in order to enhance effective tax rate (for Kenya, the effective tax rate is estimated at about 16%)
- ✓ Integrating economies should coordinate and harmonize the tax structures, especially on human and capital under Common Market
- ✓ At the international level, there is need for coordination on transfer pricing and re-look at various DTAs by developing countries to ensure their taxes are not transferred to developed countries

VAT

- Improving VAT yield will require decisive actions to address the following challenges:
 - ✓ Complexity arising from various amendments, often driven by interest groups
 - ✓ Narrow VAT base arising from design and compliance enforcement challenges
 - ✓ Expanded list of exemptions and zero-rating purported to safeguard the poor against regressivity (some studies now question the regressivity of VAT)
 - ✓ Refund backlog and governance related challenges it poses to the tax system and compliance in general;
 - ✓ Existence of multiple rates in some countries, inappropriate level of threshold; and
 - ✓ Any design challenges, including withholding mechanism if any

EXCISE TAX

- Usually the major sources of excise revenue are the petroleum, alcohol and cigarettes
- For alcohol and cigarettes, tax policy should focus on:
 - ✓ Promoting investment (consistent with economic agenda),
 - ✓ ensure productivity of the tax system through inflation indexation for specific regimes; and
 - ✓ safeguard against cross-border challenges through coordination and harmonization, especially those economies under regional trade
- For oil-importing economies, given the impact of high oil prices on the economy, there is a dilemma as to whether to adopt an ad valorem or specific regime, and if specific whether to index for inflation
- This workshop should help us to draw lessons on feasible options to tax petroleum products that safeguards the revenue base and assure productivity

TRADE TAXES

- As noted, trade taxes are not good for growth, especially imported inputs
- Raising additional revenue is constrained by the regional economic arrangements hence focus should be on streamlining customs administration:
 - ✓ Facilitating trade, while ensuring proper valuation and enforcement of standards
 - ✓ Breaking the chains of risk profiling, scanning and verification;
 - ✓ Implementing a single window cargo clearance system bring all cargo related port community players

OTHER MEASURES TO RAISE REVENUE

- Need to explore innovative and new sources of additional revenues such as:
 - ✓ Design and implement a simplified tax regime for the small taxpayers and those in the informal sector
 - ✓ Appropriate tax design to expand urban property tax revenues and capital gains taxes
 - ✓ Imposition of land tax to raise revenue, discourage speculation and enhance productivity of the economy
 - ✓ Investment in environmental conservation and raising of carbon credit financing as a source of revenue

CONCLUDING REMARKS

- Overall, the paper is timely as many countries are now reflecting on their tax regimes with a view to modernize them.
- In addition to the usual norm of focusing on restructuring expenditure, we now see opportunities for creating some fiscal space by revitalizing our tax regime to finance critical developmental needs.
- And finally—yes, there is more scope to raise revenue but political commitment to tax policy reforms is imperative.

Thank you