ANALYSIS OF TYPICAL TAX CHALLENGES AND FINDING ACROSS ECOWAS AND CEMAC

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ABSTRACT

This study seeks to analyse the typical tax challenges and findings across CEMAC and ECOWAS. It goes further to look at the overall tax performance, the performance of different types of taxes and the difficulties faced in the implementation of these taxes in these communities. The study adopts the use of secondary data from relevant articles, working papers, journals and pronouncements by different professional and regulatory bodies. The findings revealed that, although taxes are the main sources of government revenue and it plays a great role in the growth process of these economies. However, direct taxes slow down growth while indirect taxes foster growth. Poor tax administration, non-availability of tax statistics, multiplicity of taxes, regulatory challenges, tax evasion and avoidance among others are the challenges faced across CEMAC and ECOWAS.

Keywords: CEMAC, ECOWAS, Tax Evasion, Performance

INTRODUCTION

CEMAC and ECOWAS are “economic communities found in Africa. There are six Central African Economic and Monetary Community (CEMAC) countries and they include Cameroon, Central African Republic, Chad, Gabon, and Equatorial Guinea, Republic of Congo (Freetown, 2011; Beer & Loeprick, 2020). This community has as objective to achieve the economic integration of the member states. While they are fifteen Economic Community for West African States (ECOWAS), they include Benin, Burkina Faso, Cote d’lvoire, Ghana, Nigeria, Liberia, Togo, Senegal, Sierra leone, Guinea, Guinea Bissau, Gambia, Mali, Cape Verde and Niger. The main goal of this community is to promote economic cooperation among member states in order to raise living standards and promote economic development. Just like CEMAC, ECOWAS regulates the economic systems of their various states and these communities have similar tax systems. At the level of tax performances of both communities especially ECOWAS states, the tax performance depends on the GDP ratio. Some examples of taxes administered in this region include categories like direct taxes and indirect taxes which are sub divided in to corporate tax, turn over tax, income tax, trade tax, VAT”, excise duty etc. Poor Tax administration is one of the main challenge faced across these two communities, and that is why this study seeks to analyse the typical tax challenges and findings across ECOWAS and CEMAC (Oboh et al., 2018; Karl et al., 2019; Freetown, 2011; Beer & Loeprick, 2020).

The rest of this paper is divided as follows section 2 provides the overall tax performance across ECOWAS and CEMAC, section 3 examine the performance of different types of taxes across these two regions, section 4 analyses the challenges faced across CEMAC and ECOWAS, section 5 gives the conclusion and finally section 6 suggestions for further research.

Overall Tax Performance in ECOWAS and CEMAC

Tax performance in ECOWAS

Generally, the tax performance in "ECOWAS is measured by the Monetary Cooperation Program (EMCP) which states that tax performance for all member countries should be at least 20%, that is the tax-GDP ratio. Statistics of tax performance of ECOWAS is presented thus: from 2001 to 2004, Gambia and Ghana had a tax-GDP ratio of 22.4%, being the only countries meeting the EMCP criterion. This was before Ghana's GDP was rebased. Gambia alone met this criterion after Ghana's GDP was rebased between 2005 to 2009, just Ghana (before Ghana's GDP was rebased) and Cape Verde consistently met this criterion with averagely 22.7% and 24.4% respectively (OECD-DAC, 2012; Morrissey & Leson, 2011; IMF, 2011; 2012; 2019).

Only "Cape Verde met this criterion after Ghana was rebased. Liberia also satisfied this criterion in 2009 with 22.3%. During the period 2001 to 2009, Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo which are member states of UEMOA's best performance was 16.1% (2009) whereas Gambia, Guinea, Ghana, Liberia, Nigeria, members of WAMZ's best performance was 19.1% (2001) and ECOWAS best performance was 17.3% (2001). In 2010, the general tax performance for ECOWAS countries was weak except for Cape Verde and Liberia whose tax-GDP ratio was 20.9% and 24.7% respectively. Guinea, Sierra Leone and Burkina Faso experienced the lowest tax performance of 6.1%, 11.1% and 12% respectively (OECD-DAC, 2012; Morrissey & Leson, 2011; IMF, 2011; 2012; 2019).

The average tax-GDP ratio from 2000 to 2010 was 13.2% for ECOWAS, 20.6% for non ECOWAS countries (Botswana, Kenya, Namibia, South Africa and Zambia) and 15% overall for both ECOWAS and non ECOWAS states. In ECOWAS, UEMOA had an average tax performance (without the inclusion of natural resource tax) of 12.2%, WAMZ 13.4% and Cape Verde 20.1%. After the inclusion of the natural resource tax, the tax performance ratio for UEMOA was 14.1%, WAMZ 17.9% and Cape Verde 21.4%.

The tax-GDP ratio for Burkina Faso, Benin Republic, Ghana, Nigeria, Sierra Leone between the period 2000 to 2015 were 13.9%, 16.26%, 16.86%, 8.78% and 9.34% respectively. All the countries were unable to meet the secondary convergence criterion of EMCP except for Ghana in 2004 and 2005. From the period 2012 to 2015, the tax-GDP ratio for Sierra Leone fell from 9.5% to 9.09%, that of Benin 14.41% to 13.7%, Nigeria 6.90% to 3.93%, and Burkina Faso 15.63% to 15.29% whereas Ghana raised from 14.64% to 16.84%. From the statistics, it is seen that the tax performance in ECOWAS is generally low not meeting the EMCP criterion. Just few countries like Ghana, Cape Verde and Liberia have for some periods been able to meet this criterion (OECD-DAC, 2012; Morrissey & Leson, 2011; IMF, 2011; 2012; 2019; Freetown, 2011; Beer & Loeprick, 2020).

Tax Performance in CEMAC

From the period 1995 to 2012, the "tax-GDP ratio for the various CEMAC countries were: Cameroon 7.8% (1995) and 11.7% (2012), giving a tax increase of 50%. Central Africa Republic 5.5% (1995) and 7.3% (2012), giving a tax increase of 32.7%. Chad 3.8% (1995) and 5.9% (2012), giving a tax increase of 55.3%. Congo 6.9% (1995) and 5.5% (2012), giving a tax decrease of 20.3%. Gabon 8% (1995) and 8.5% (2012), tax increase of 6.3%. Equatorial Guinea 4.9% (1995) and 8.7% (2010), tax increase of 77.5%. Thus, the tax performance for Cameroon, Chad and Equatorial Guinea have significantly increased with more than a half percent while that of Gabon has remain significantly low and Congo decreased (Freetown, 2011; Beer & Loeprick, 2020; OECD-DAC, 2019; IMF, 2012; Keen & Mansour, 2010; Appelt & Cabral, 2019).

Performance of Different Types of Taxes across CEMAC and ECOWAS

Taxes in CEMAC

Turnover taxes have a moderate nominal rate of “less than 20%. The effective rate of turnover taxes borne by the final consumers or users in CEMAC members States has been high in recent time due to the nature of turnover tax which is cascading. CEMAC countries have imposed different turnover taxes to local production and due to importation of goods. The turnover taxes in CEMAC countries have noticed drastic differences in the rates especially between their countries. In 1993, the turnover tax had a minimum rate of 5% in the Central African Republic, the Congo Republic applied almost 14% (FMF, 2016; Loeprick, 2020; OECD-DAC, 2019; IMF, 2012; Keen & Mansour, 2010; Appelt & Cabral, 2019; WIEGO, 2019; ESBIR & SPARC, 2014).

Value added tax is a tax imposed at each stage of value added in the production and distribution chain. VAT due is the difference between final taxes collected at the sales stage and that of the initial input or purchase. In CEMAC, all countries implemented VAT, but there are some differences in thresholds. For example, Cameroon set a uniform threshold which is low for both in its production and sales of goods and services. Cameroon uses 19.25% as the standard VAT rate which is gotten as 17.5% plus an additional council tax of 10% of the 17.5% (*i.e.*, 1.75%), which makes its 19.25%, while Gabon set three thresholds at a higher rate and Gabonese rate is the highest in CEMAC which is 35%. Not all the 6 countries in CEMAC are in agreement with the VAT rate. Cameroon, Chad, Republic of Congo, Central African Republic uses the single rate provision, while Gabon and Equatorial Guinea have opted for multiple rate which ranges from 15% to 18% (OECD-DAC, 2019; IMF, 2012; Keen & Mansour, 2010; Appelt & Cabral, 2019).

Excise Tax Another type of tax imposed in the CEMAC zone is the excise tax. These are taxes imposed mainly to increase Government revenues or to restrict the importation of luxury goods and for security reasons. Excise tax has the same base as that of VAT. It is imposed on income inelastic goods such as beverages, cigarettes and on a few luxury products like cameras and vehicles. All CEMAC countries levy excise tax including Equatorial Guinea where it is known as sub-charge. Half of the zone that is Cameroon, Republic of Congo, Central African Republic apply a single rate whereas the others uses multiple rates between 5% and 38% (WIEGO, 2019; ESBIR & SPARC, 2014; OECD-DAC, 2019; IMF, 2012; Keen & Mansour, 2010; Appelt & Cabral, 2019).

CEMAC countries experienced an increase in domestic revenue as a proportion of GDP. Between 1995 and 2012, Cameroon had an increase change of 50% (7.8% and 11.7%). Chad, another CEMAC country, had a 55.3% change (that is 3.8% to 5.9%), just to name a few. In general, CEMAC countries like Cameroon and Chad had a positive tax revenue increase between 25% and 50%. This increment has off-setted losses of custom duties and increase goods of Government recourses. Tax revenues and tax policies effect on revenue mobilization have been marked by a significant reduction in receipt from trade taxation although corporate income” tax revenues increased. Trade taxes and corporate taxes rates remain high by global standard. However, pressure from both sources is likely to intensify still further

Taxes in ECOWAS

Tax revenue is an “important aspect of revenue generation. Member countries in ECOWAS Monetary Cooperation Programme (EMCP), GDP tax ratio needs to be at 20% by law. Never the less in 2010, the performance of tax in ECOWAS was weak. Only Cape Verde and Liberia satisfied the law of ECOWAS with tax GDP ratio of 20% and 24.7% respectively. International trade taxes in ECOWAS countries are heavily relied. More so, taxes on wealth, land and property exist in theory but ineffective in practice. Direct taxes account for only 30% of tax revenue, while international; trade taxes make up the largest portion of total taxes.

Direct taxes in ECOWAS between 2000 and 2010 are high though they are below tax capacity. They are exception which is Guinea Bissau and Nigeria with tax effort of 41% and 53% respectively. Tax efforts for indirect taxes are relatively low ranging from 11% to 55%. Exemptions exist like Senegal (92%), Ghana (86%) and Burkina Faso (67%).

For trade taxes, the efforts are generally low ranging from Nigeria (17%) to 58% in Sierra Leone. Exemptions to this area are Liberia. Niger, Mali and Benin with trade tax efforts of 70%, 78%, 81% and 86%. When aggregated, the performance of these three taxes in all of ECOWAS was below their potential despite the exceptions.

Income tax and corporate tax in ECOWAS are not statistically significant in economic growth. The results were revealed when income tax and corporate tax where employ separately. The actual marginal tax impact on an increased individual income tax burden is only about 20% of the impact of the overall revenue. Cutting corporate tax rate by 10% actually increases growth rate by 1.1%. In ECOWAS, taxation places a big role in their growth processes though not all categories are production. It was discovered that total taxes and indirect tax revenue improve growth. Direct taxes slowly dampen economic growth clearly indicating that direct taxes are unproductive. A wider base for indirect taxes should be implemented to gain more revenue. Thus, this will as well reduced tax" evasion.

Typical Tax Challenges across ECOWAS and CEMAC

Tax Challenges across ECOWAS

Poor Tax Administration

In most countries "across the ECOWAS region, tax administration generally suffers from shortage in logistics and staffs in other to meet up with the ever increasing challenges and difficulties. Due to the poor remuneration and motivation, most tax collectors have negative attitude toward to tax payers. According to Philip, (1997), the insufficiency in tax administrators is a major problem to the government in its attempts to raise revenue in Nigeria. For example, as of March 2003, the Federal Inland Revenue Service (FIRS) had 7643 staff members throughout the country, of these members, only a mere 12.6% of employees where tax professional officers. Again, according to Leyira, et al., (2012); anecdotal evidence shows that tax staffs are not provided with regular training to keep them abreast of new developments in tax matter. Thus, this makes the administration of taxes in terms of total coverage and accurate assessment very week. Hence, posed as a challenge to the implementation of taxes across ECOWAS.

Non Availability of Tax Statistics

Taxation has been one of the oldest source of generating revenue for the government in most countries since the era of colonial masters in Africa, so it is normal for one to expects some tax records of statistics to be readily available for users, but this is not the case, as this expectation has not been met. This is very common amongst most ECOWAS states especially with countries like Nigeria and Togo, due to the fact that most of these countries have serious failures in data management. Also, these countries don't put any efforts to make available the limited data that is available collected or analyse on a routine basis or made easily accessible or retrievable. Thus, this posed as a problem.

Multiplicity of Taxes

Another challenge faced across ECOWAS states is the multiplicity of taxes. Lack of co-ordination between the central and local levels has led to duplication of taxes and inconsistencies between taxes imposed by local authorities and the national government's development policies. Most corporate bodies and individuals across these states always complaint about the multiplicity of these tax multiplicity. This problem arose from the states complains about the mismatch between their fiscal power or jurisdiction. To compensate, some states took the initiative of levying certain taxes which has led to arbitrariness, harassment and even the closure of some businesses. To rectify this embarrassing situation, the taxes and levy act of 1998 was enacted. To control this tax multiplicity across ECOWAS states, the joint tax board was created that was responsible to published a list of approved taxes and levies and to declare any other unspecified tax illegal not to be paid. This has created a certain degree of harmony in these states".

Regulatory Challenge

Generally, most African countries suffer from regulatory challenges in their tax systems. These include political struggles and exchange control which posed as one of the biggest business challenge in most states. A "major impediment for tax collection in local authorities is direct political interventions in the tax enforcement processes. To maintain their political positions politicians may advocate low rates (or free services), and accept that their constituents don't pay the tariffs. Generous tax exemptions provided to political supporters are also observed in some countries. Direct political intervention is often most visible at the local government level. The problem stems from the fact that taxes and fees are generally disliked and councilors who want to be reselected disassociate themselves from increased rates. Councilors may also be reluctant to raise taxes and charges because they are major local landowners or business people who seek to minimize their personal tax burden. Political interference is often exacerbated during election campaigns when politicians may instruct the administration not to push tax enforcement, and not to "harass" taxpayers. Thus, local authorities may experience substantial revenue shortfalls during election years.

Underground Economy

This is another major challenge faced in tax implementation across ECOWAS. Underground economy refers to those hidden economic activities. The major issue here is how Inland Revenue authorities would tackle these hidden underground economic activities. Businesses that ought to be registered to pay taxes such as sales tax or VAT are operating underground. This is the case with most of these states such as Sierra-Leone, Togo, Nigeria, and Benin. Another case is with people who only select some certain activities to pay their taxes and fail to declare taxes for the others. This is a serious challenge faced by the tax authorities across ECOWAS.

Tax Challenges Faced Across CEMAC

Lack of Flexibility

There is lack of flexibility amongst most Francophone African Countries in their tax administration, IMF paper, (2010). This refers to the lack of flexibility in the governance framework of most CEMAC countries and the inadequate experience of these tax administrations in managing the tax system. To address this issue, most CEMAC countries have signed a performance contract with the member states ministers of finance go regularized the system.

Tax Evasion and Avoidance

Another major challenge faced in this region is the issue of tax evasion and tax avoidance. This issue was discussed by G8/G20" on how to address the issue.

Compliance Cost

Tax compliance cost is another cost major challenge that is faced across most African States especially across CEMAC states. The cost of compliance is usually higher than the revenue generated, which is due to the lengthy processes involve, bribery and corruption etc. This is a major challenged faced by the tax department.

Poor Tax Administration

The tax administration in the various CEMAC states is really poor. This same challenge is faced by most African countries due to lack of logistics because of the egoistic nature of most tax officials.

CONCLUSION

From the literature explored from different articles, it was discovered that, the overall tax performance in both CEMAC and ECOWAS States considered in this study were below their tax capacities before the year 2010. Except for Guinea Bissau, Togo and Nigeria with tax efforts on direct taxes being 21%, 50% and 55% respectively. The ECOWAS states had high performance on direct taxes in 2010. While indirect tax in this region between the year 2000 to 2010 were found low for most ECOWAS states except Burkina Faso, Senegal and Ghana. With respect to the trade taxes amongst ECOWAS member states, with the exception of Benin, Mali, Niger, and Liberia, tax performance was low before the year 2010.

Moving to CEMAC states, it was discovered that its member states experienced an increase in domestic revenue as a proportion of GDP. For instance, between 1995 and 2012, Cameroon had an increase change of 50% (7.5% and 11.5%) while Chad had 55% changes in domestic revenue that is 3.8% to 5.9%. In general, CEMAC countries had s positive tax revenue increase between 25% to 50%. It was also discovered that, comparing the tax administration of CEMAC with that of ECOWAS, it revealed that, CEMAC countries have well understood and assimilated the fundamental concepts in their reform strategies. This was particularly true with the case of Value Added Tax (VAT) implementation. However, despite this advantage at the conceptual level, the situation in terms of implementation of tax administration reform shows that most CEMAC countries are lacking behind as compared to most ECOWAS states.

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