V Taxation of the Agricultural Sector

Introduction

Agriculture is the most important economic sector in the majority of the countries in the sub-Saharan region (see Part II, Table 2). It is characterized by a preponderance of traditional agricultural pursuits. According to conventional development theory, the expansion of the nonagricultural sector is part of the development process, and it is based on increases in the marketed supply of food, in the nonagricultural labor force, and in capital formation outside of agriculture. Agricultural taxation is one of the instruments available to governments to help bring about all or some of these transformations.11

Agricultural taxation may affect resource allocation within the sector by penalizing the underutilization or inefficient use of resources—mainly land. Heavy land taxes, as the argument goes, may paradoxically increase agricultural productivity, because it is assumed that there exists unutilized potential in the sector that can be mobilized through the combined "stick-and-carrot" approach of increasing land taxes and making other investment more attractive. In addition to the development considerations mentioned above, a strong case for equity is often put forward in support of agricultural taxation. Heavy direct taxes, usually on land, can make the rich landowners pay their fair share of taxes. Furthermore, such taxes may complement or replace land reform efforts by forcing many large landowners to sell some of their land, thus reducing land prices by increasing the supply on the market and permitting small farmers to acquire land.

In recent years, however, an alternative view has emerged, placing more emphasis on agricultural development as an essential component of economic development. Whether the flow of resources should be to or from agriculture depends, in this view, entirely upon the circumstances of the country in question—its social and institutional framework, its technological and market prospects and possibilities, the relative size and productivity of the agricultural and nonagricultural sectors, and so on.

No general prescription can be expected to fit all circumstances. In addition, the potential of taxation policies to solve the many and varied problems underlying low agricultural productivity appears to have been overestimated. Agricultural taxes should be analyzed together with the use that governments will make of the proceeds. For example, governments could, on the one hand, finance expenditures to improve agricultural infrastructure or to reduce the price of essential goods. On the other hand, they could finance urban wage increases, especially those of senior civil servants. Enhanced agricultural taxation may, by restraining agricultural output, force the importation of certain food items and actually reduce the availability of foreign exchange, causing an additional constraint on development.

Greater agricultural productivity that is achieved through massive use of fertilizers, improved seeds, and other inputs further complicates public finance issues in developing countries and requires a reorientation of the government's taxation and expenditure policies, since substantial new investment in agriculture is likely to be needed. The immediate effect of this increased productivity will probably be to accentuate inequality within the sector, making changes in agricultural taxation policies unavoidable. Equity issues thus become important in the design of an appropriate mix of tax instruments to tap the presumably increased taxable capacity of agriculture.

For purposes of discussion in this section, the agricultural sector is divided into three subsectors: (1) subsistence production; (2) production of primary export crops on a commercial scale; and (3) production for commercial sale on the domestic market, mainly of fresh vegetables and dairy products for sale in urban areas. Tax instruments used include income and personal taxes, livestock taxes, export duties, land and land-related taxes, import duties, marketing taxes, sales taxes, and excises. In addition, there may be nontax levies due to operating surpluses of marketing boards, and implicit contributions due to exchange rate changes.

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11 Various non-tax policies may also be used to alter the internal terms of trade between agriculture and other sectors—for example, credit policies, subsidies and other expenditure policies, protective policies, and price controls.
Although data are not available on the total contribution to revenue of the agricultural sector in countries of the sub-Saharan region, export duties constitute the major part of agricultural taxation; their contribution to total tax revenue reached 70 per cent in 1978 in Uganda, 36 per cent in 1980 in São Tomé and Príncipe, 26 per cent in 1977 in Ethiopia, and 26 per cent in 1978 in Ghana. On the other hand, the relative share of personal taxes declined in Niger from 34 per cent in 1968 to 3 per cent in 1977 and in Mali from 21 per cent in 1962 to 4 per cent in 1977. Land taxes contributed very little as a result of the predominance of tribal land tenure systems in many of the sub-Saharan African countries.

Taxation of the Subsistence Sector

Development strategies have aimed at making fundamental structural changes in the economy through reducing the share of the labor and other resources devoted to the agricultural sector. Some development programs have used fiscal measures to accelerate this structural change. In recent years, however, there has been a reaction against such policies, based on doubts about the validity and social desirability of such change and on the increasing recognition of the inability of other sectors to absorb the workers released from agriculture. Moreover, as the largest numbers of chronically poor people are in the agricultural sector, increased attention to agriculture has been considered mandatory to solve the problem of poverty. One of the major results has been a tendency to reduce tax rates on, or to exempt, goods purchased by the subsistence sector.

The possibility of using income taxation in the subsistence sector is discussed first. Farming in this sector has traditionally been, and still is, more a way of life than a commercial venture. Only a small proportion of subsistence farmers have taxable incomes in excess of the standard family allowances and other deductions conventionally provided under an income tax. Moreover, in considering how subsistence farmers could be taxed, attention should be paid to the usual conditions for a successful income tax: (1) existence of a predominantly monetized economy, (2) a high level of literacy, (3) prevalence of reliable accounting records to determine income, (4) a large degree of voluntary compliance, (5) an appropriate political environment, and (6) an honest and efficient tax administration.

In an attempt to overcome the difficulties of direct taxation of the subsistence sector in the sub-Saharan region, personal taxes were introduced to replace the traditional tribute payments. Examples of these taxes are the poll tax and the hut tax in Liberia, which are levied on men and women between ages 18 and 61; the minimum tax in Mali, which is levied on men and women of age 14 and above; the head tax in Madagascar, which is levied on men of age 20 and above; the head tax in Chad, which is levied on men and women between ages 18 and 60; the minimum tax in Malawi, which is levied on men of age 18 and above; and the personal tax in the Central African Republic, which is levied on men of age 18 and above. Most personal taxes are levied on persons listed on the tax rolls and do not require individual tax returns. As a rule, these taxes have been levied by central governments but collected by local authorities, with the proceeds going to both levels of government in many countries. In view of their contribution to revenue and their role in inducing monetization of this sector, these taxes should probably be maintained in the short run; however, their gradual transformation into a modern income tax should be considered the ultimate goal because of the inherent inequities of the personal taxes, their regressive character, and their enforcement problems. In particular, enforcement measures involving prison sentences or forced labor for taxpayers who do not comply have been observed in several countries. The poll tax, as such, has been neither understood nor generally accepted by the taxpaying community. Furthermore, uneven enforcement of this tax has contributed to substantial tax evasion and tax arrears.

A hybrid between a poll tax and a simple income tax has been used in some countries, following the pattern of the graduated personal tax first adopted in Uganda. This Ugandan tax has been the best approximation so far to a modern income tax. For farmers, crop incomes per acre are estimated and multiplied by acreage under cultivation; for livestock owners, income per head of livestock is presumed and multiplied by the number of head owned by an individual. Income from other activities is essentially presumed. The main difficulty has been that wide differences exist in the level and quality of assessments among the various districts. Complaints of favoritism and discrimination are frequent because the local assessment committees rely heavily on the parish chief’s estimates. Lesotho, northern Nigeria, Swaziland, Tanzania, and Zambia apply similar techniques.

In countries where livestock production is important, a type of property tax is levied on owners of livestock as a crude substitute for the income tax. Cameroon, Mali, Sudan, and Upper Volta levy this tax. It may

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12 It should be noted that not only income taxes can be used to replace poll taxes. For example, the Tanzanian authorities, when they introduced a general sales tax in 1969, announced that sales tax revenues would be used, inter alia, to make up for the revenue lost as a result of having abolished the personal tax.
cover cattle, sheep, goats, mules, camels, donkeys, and horses. This tax has often been criticized for creating enforcement problems (e.g., coping with smuggling of herds across borders where control is difficult) and for discouraging marketing of livestock.

With respect to land taxation, a few governments in sub-Saharan Africa have successfully assessed taxes on land values, but because of special land tenure systems, particularly the "customary" nature of most agricultural land holdings (especially in tribal areas), such taxes have been effectively limited to urban areas or to land owned and leased by the government. In many countries, individual ownership of agricultural land is the exception rather than the rule. For instance, in Malawi, 85 per cent of the land is used or occupied under customary laws, against 2.5 per cent under individual ownership and 12.5 per cent under government ownership; in Zambia, the land tax was levied only on the European farming area, along the railway.

Another instrument used in taxing the subsistence sector is taxation of goods purchased by the people in this sector (e.g., salt, sugar, basic clothing, kerosene, tobacco, coffee, and tea). As was explained in Section IV, traditional excises and sales taxes levied on mass consumption goods for revenue purposes have regressive effects on tax burden distribution. A good example of this outcome is seen in Kenya. According to a household survey conducted there in 1974, expenditures on taxed items were 77 per cent of household incomes in the lowest-income rural group, but amounted to only 14 per cent of household incomes for the highest-income rural group.

Taxation of Primary Exports

Many countries in sub-Saharan Africa are producers of primary export commodities, such as coffee, cocoa, tea, tobacco, sugar, groundnuts, cotton, livestock, and timber. Export taxes, which have traditionally raised substantial revenue, have three principal forms, and a country may apply a combination of all of them. The first form is an explicit export tax levied on an ad valorem or specific basis. Rates can be specific, proportional, or based on a sliding scale in which the rate varies with the export price of the commodity. The second form involves the purchase and sale of export products by state marketing boards, which have a statutory export monopoly, as their operating surpluses constitute an implicit tax on agriculture. The third form involves the exchange rate, with overvaluation of the domestic currency resulting in the implicit taxation of exports. In addition, profits generated in the export sector have also been subject to income taxation.

Export Duties

Export duties are a convenient means of taxing producers of export crops because they are administratively easy to levy and to collect. While export duties can be evaded through smuggling or underinvoicing, most other taxes involve far more serious enforcement problems. Export duties have sometimes been used as a crude substitute for an income tax on small and medium farmers. In some countries, a de facto income tax exemption is granted to producers of dutiable export crops. In such cases, a statutory exemption should be introduced until the administrative machinery is established to implement an effective agricultural income tax. From the viewpoint of equity, however, export taxes do not have the virtues of an income tax levied on the entire income of an individual at progressive rates corresponding to his ability to pay.

Fund missions to various countries in sub-Saharan Africa have evaluated the impact on agricultural crops of export duties on the production and export of such crops. In doing this, it has been difficult (1) to make a firm judgment without carrying out a detailed analysis of the cost-price structure in the export sector, and (2) to assess the potential of alternative revenue sources (e.g., land taxes and progressive income taxes), which are not always feasible in many countries of the region.

The incidence of export duties is determined by such factors as the nature and organization of production, the country's share in the world market for a particular crop, and the options open to market participants. If the taxing country supplies a large part of total world exports of a crop, such as Ghana does for cocoa, or if similar taxes are levied by several exporting countries, there is a greater possibility of shifting part of the tax burden to foreign consumers. But shifting is limited even in these cases by the possibility that a price rise will, in time, stimulate production elsewhere or that other products may be substituted for the taxed ones if prices rise (for example, tea for coffee, synthetic rubber for natural rubber, and one vegetable oil for another). International commodity agreements may help, however, to regulate both the production and the price of the commodity involved. But the main incidence of export duties in sub-Saharan Africa is generally assumed to be on domestic producers and distributors.

Export duties may result in lower producer prices, which, in turn, may have adverse effects on production. Experiences of several countries in the sub-Saharan region have indicated a responsiveness of production to changes in producer prices. Governments should be cautious in setting these producer prices because of the risk of creating disincentives to agricultural production. They may, however, compensate for low producer

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prices by using more of the proceeds from export duties and net profits of marketing boards for the support of agriculture. Production of certain crops regulated by international arrangements may need to be curtailed because the country is bound not to exceed the limit set by its export quota. It is generally agreed that most countries in the sub-Saharan region cannot afford to abolish export duties because of their urgent need for tax revenue. Instead, they should review, and adjust from time to time, their existing export tax structure to obtain the maximum revenue and yet maintain a reasonable relationship between production costs and export prices.

The majority of agricultural exports are taxed on an ad valorem basis, although specific rates are applied by some countries. For instance, specific rates are levied on livestock in the Congo, Mali, and Somalia; on peanuts and peanut oil in Cameroon and Mali; on tobacco in Benin and Malawi; on coffee in Burundi, Cameroon, the Central African Republic, the Congo, Ethiopia, and Malawi; on hides and skins in Burundi and Uganda; and on timber and logs in Ghana and Liberia. As in the case of imports taxed at specific rates, the Fund has generally recommended a shift to ad valorem rates in taxing exports in order to increase the elasticity of export duties or, alternatively, the review of specific rates as frequently as changes in export values require to keep the level of export taxation buoyant.13

As for ad valorem taxation of exports, the general principle is reliance on f.o.b. values based on internationally accepted standards. This taxation requirement, however, has posed extremely difficult problems in several sub-Saharan African countries because of the lack of trained personnel needed to cope with frequent under invoicing problems. Many countries have, therefore, resorted to the establishment of minimum price lists or administrative values for their traditional exports as a substitute for the actual f.o.b. export price. Somalia and most of the francophone countries in the region use this technique. Revenue erosion has taken place in these countries because the administrative prices had not been updated at frequent intervals to reflect increasing world market prices of the goods involved.

Marketing Boards

The main purposes of marketing boards, when they were organized during World War II and in the immediate postwar period, were to improve facilities for the marketing of major export crops, stabilize prices received by producers, and improve and standardize quality. But marketing boards can also serve as fiscal instruments by raising revenue in lieu of export duties. Given this function of marketing boards, profits of these boards are regarded by producers as an effective tax equal to the value of all export proceeds in excess of the official product price. From the government's point of view, the large fluctuations of these profits have added an element of uncertainty to the flow of revenue that has made financial management more difficult. In addition, the operations of marketing boards often require commodity price forecasting capabilities that governments in the region do not have. With respect to the use of the profits of marketing boards, Fund missions generally have recommended that the central government set the priorities for development purposes rather than grant these boards the power over such considerable investment resources, although the boards should be allowed a profit margin that is sufficient for their proper management.

Exchange Rates

As to implicit taxation through exchange rates, Fund missions generally have advised against this practice. In addition to the basic Fund policy against it, such taxation discourages official exports while encouraging smuggling and inhibiting the development of a country's export potential in various agricultural activities.

Income Taxation

Income taxation may be more feasible for farmers who produce for the commercial domestic market or for export markets than it is for farmers in the subsistence sector. Fund missions, in fact, have recommended that export duties on agricultural goods be gradually replaced by improved enforcement of the income tax on producers with rising incomes. Compliance is, however, rather low in countries where agricultural incomes are subject to tax. In Cameroon, for example, the schedular tax on agricultural incomes represented less than 1 per cent of the total individual income tax in fiscal year 1977/78. The ability of income tax departments to assess the income of the farming population is limited. Farm households often have multiple sources of income under the African extended family systems. Taxation of farmers is relatively hazardous, and the few tax offices outside capitals cannot reach even the medium-to-large farms. If a farmer has

13 Other, more specialized, criteria have occasionally been used. For example, in case of forestry product exports, Fund missions have recommended rate differentiation in favor of processed goods with higher local value added in order to encourage more employment and better utilization of transportation capacity, while leaving the country less exposed to the price fluctuations of logs.
never filed a tax return, the departments simply do not know that he exists. In cases where filing does take place, figures submitted on costs of production are normally accepted without an audit. Tax departments seldom use norms of productivity or of costs of production of different crops that are available to them through farm management surveys conducted by ministries of agriculture; nor do they generally use data on producer prices and purchases that they might obtain from marketing boards.

Two major techniques are used in taxing agricultural incomes: (1) the actual income basis, and (2) the presumed income basis. The first technique involves determination of agricultural income in exactly the same way income figures are derived from industrial and commercial sources—i.e., through regular record keeping and accounting. The second technique, largely used in francophone countries under the so-called forfait regime, requires determination of farm income on the basis of the kind of crop, area planted, quantity harvested, and other factors. In essence, a national net income per hectare is established for the various agricultural products and regions, and each farm's net income is derived from this base. Except for forestry activities, farmers are given the option of choosing the forfait regime. Although this scheme seems to be working satisfactorily in France, where it originated, the different conditions of land tenure, the virtual absence of property cadastres, and the lack of comparable administrative capabilities make it less practical in African countries. Graduated personal taxes, as noted above, are a practical but crude approximation of presumptive assessment of farm incomes.

In addition to enforcement difficulties, there is a statutory discrimination in favor of agricultural income taxation in some countries of sub-Saharan Africa. Rates of schedular taxes on agricultural incomes in francophone countries are usually lower than those on other incomes, and other favorable deductions and allowances are also granted to farmers. In Cameroon, the schedular tax rate on agricultural incomes is 15 per cent, against 22 per cent on industrial and commercial incomes. In the Central African Republic, agricultural companies are taxed at 25.5 per cent, compared with 30 per cent on other companies, while the corresponding rates are 26 per cent and 35 per cent, respectively, in the Congo. Additional deductions of 15 per cent in the Central African Republic and 20 per cent in the Congo are allowed for the agricultural schedular income tax. In Kenya, a generous depreciation allowance of 37.5 per cent is granted on agricultural machinery, and a full deduction is allowed for capital expenditures by farmers to combat soil erosion, to clear land, and to plant permanent and semipermanent crops. These allowances primarily benefit rich farmers owning large, mechanized farms and may, in fact, have encouraged overmechanization to the detriment of the employment of labor. Fund missions have generally recommended elimination of such differentials in order to reduce inequities between farm and nonfarm incomes; and they have also advised strengthening tax enforcement and developing a system of standard assessments on farmers whom they find difficult to tax.

**Taxes on Produce**

In several sub-Saharan African countries, taxes are levied on marketed produce in lieu of land and income taxes. These taxes are aimed primarily at truck farmers serving urban centers, and they are levied normally only when transactions take place in relatively controlled markets. Production for self-consumption is, therefore, excluded from the tax. In most cases, these levies are collected by local authorities. In Tanzania, for example, a cess ranging from 0.5 per cent to 5 per cent was levied until 1971 on agricultural produce, hides, skins, livestock, and fish bought or sold within, or exported from, a district. Today, various market dues are levied for the use of shops or stalls in market places maintained by local authorities; in the cattle markets, a fee is charged on each head of cattle sold. Similar levies are applied in other countries. In Sudan the traditional tithe (Ushur) has evolved into a market tax on agricultural produce sold. Types of produce that are taxed and rates of the tax differ from province to province. The Gabana, which originated as a weighing charge in markets, is now levied as a surtax on the Ushur. The rates of both levies appear to be specific rather than ad valorem ones. These levies tend to discourage commercial marketing of agricultural goods, whereas the main objective of agricultural policy in many countries of the region should be to improve the supply of food to the nonagricultural sector. Furthermore, differential costs of production are neglected, resulting in varying degrees of incidence on operators of different farm units. Producers of cash crops are heavily taxed, while others who consume most of their own produce are lightly taxed. If, on the other hand, many or all of the marketing taxes are shifted forward to consumers, then these levies become the equivalent of highly regressive consumption taxes.