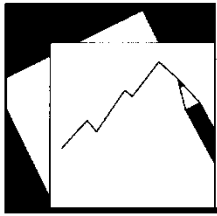


Managing Income Tax Compliance through Self-Assessment



IMF Working Paper

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March 2014

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Abstract

Modern tax administrations seek to optimize tax collections while minimizing administration costs and taxpayer compliance costs. Experience shows that voluntary compliance is best achieved through a system of self-assessment. Many tax administrations have introduced self-assessment principles in the income tax law but the legal authority is not being consistently applied. They continue to rely heavily on “desk” auditing a majority of tax returns, while risk management practices remain largely underdeveloped and/or underutilized. There is also plenty of opportunity in many countries to enhance the design and delivery of client-focused taxpayer service programs, and better engage with the private sector and other stakeholders.

JEL Classification Numbers: H20, H24, H25

Keywords: income tax, tax compliance, self-assessment, risk management, Sub-Saharan Africa

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FOREWORD

Modern tax administrations seek to optimize tax collections while minimizing administration costs and taxpayer compliance costs. The most cost effective systems of collecting taxes are those that induce the vast majority of taxpayers to meet their tax obligations voluntarily, leaving tax officials to concentrate their efforts on those taxpayers who do not comply. Taxpayers are more likely to comply voluntarily when the tax administration: (1) adopts a service-oriented attitude toward taxpayers, and educates and assists them in meeting their obligations; (2) creates strong deterrents to non-compliance through effective audit programs and consistent use of penalties; and (3) is transparent and seen by the public to be honest, fair, and even-handed in its administration of the tax laws. Experience shows that voluntary compliance is best achieved through a system of self-assessment.

This paper reviews the key issues in income tax compliance and taxpayer self-assessment¹ in 10 SSA countries.² The objective is to identify common implementation gaps and challenges, and draw broad lessons for tax administrations that plan to implement, or are in the process of strengthening income tax compliance through self-assessment. The findings also have implications for the design of tax administration reform programs and for technical assistance intended to help these countries better manage income tax compliance through effective self-assessment systems.³ Overall, the review suggests that all countries have introduced self-assessment principles in the income tax law but the legal authority is not being consistently applied. Many countries, though at different stages, continue to rely heavily on “desk” auditing all or a majority of income tax returns, while risk management practices remain largely underdeveloped and/or underutilized. Overall, there is plenty of opportunity in all the countries reviewed to enhance the design and delivery of client-focused taxpayer service (TPS) programs, change the attitude of tax officials, enhance trust in taxpayers and engage with the private sector and other stakeholders in a mutually beneficial manner. Also, much work is still needed to strengthen and implement selective risk based ex-post controls.

¹ While discussions in this paper are limited to income tax administration, the general principles and the key issues cut across, and are applicable to all taxes, including the VAT, excises taxes, and customs duties.

² Botswana, Ghana, Kenya, Lesotho, Liberia, Malawi, Nigeria, Rwanda, Tanzania, and Zambia. They are English-speaking Sub-Saharan African countries representing three geographical blocks (East, West and South) and are currently at various stages of implementing income tax self-assessment. Some were early adopters of income tax self-assessment (in the 1990s) while others are still in the early stages of implementation. Further some have implemented universal self-assessment while others are implementing self-assessment only for certain types of tax or taxpayers.

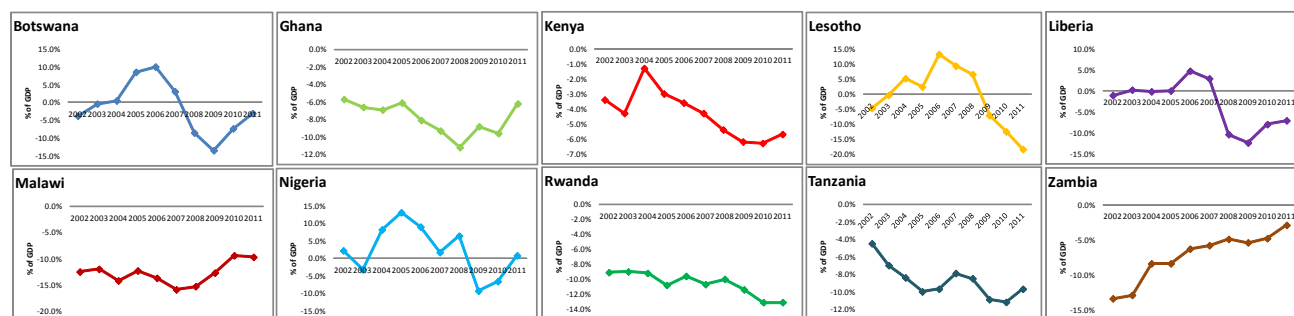
³ This is a qualitative study that has been developed through a review of recent FAD technical assistance reports and IMF and other research on this topic.

I. INTRODUCTION AND GENERAL OVERVIEW

A. Economic and Fiscal Context

1. **The majority of the countries under review face serious fiscal challenges.** Although most SSA countries have rebounded from the Great Recession, many of them have been slow in rebuilding fiscal positions that weakened during the downturn. Central government revenue, for example, currently falls short of expenditures by unsustainable margins in most countries (except Botswana, Nigeria, and Zambia)—Figure 1. A number of these countries (e.g., Liberia, Malawi, Rwanda, and Tanzania) therefore continue to rely very heavily on donor financing, which is, by its nature, volatile. Against this backdrop, and assuming that growth remains robust as envisaged, the policy implication is that fast-growing economies will be required to rebuild fiscal and external buffers, without unduly affecting key social and capital spending. Overall, most low-income countries and fragile states need to strengthen domestic fiscal positions by improving revenue bases, to meet investment needs and avoid risks from unpredictable aid flows (IMF, REO, 2013).

Figure 1. Overall primary balance, excluding grants, 2002 to 2011



Source: IMF World Economic Outlook (WEO) database

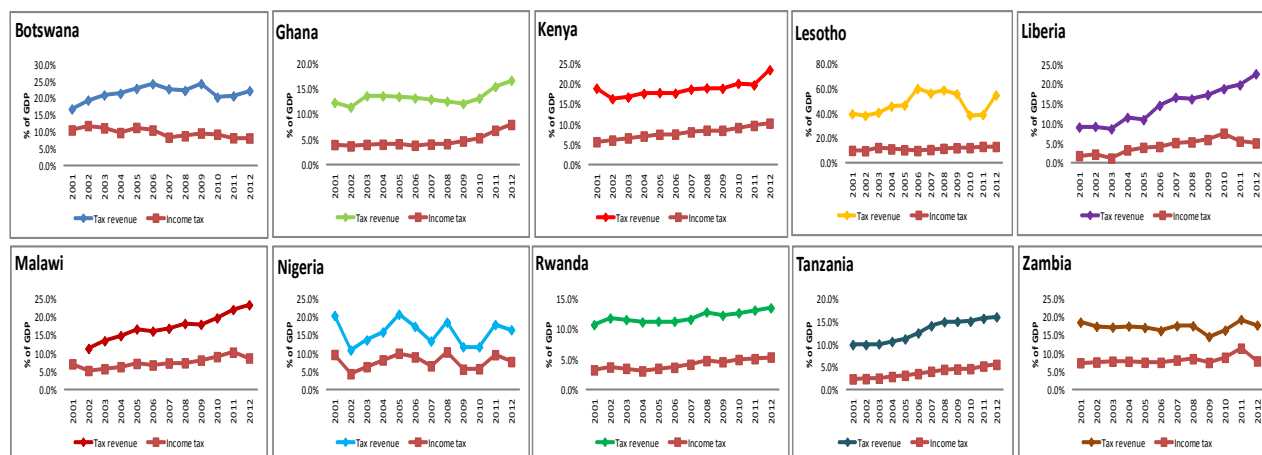
2. **Tax revenue is very low compared with international standards.** Figure 2 shows total central government tax revenue performance in the 10 countries. In 9 of the countries (Lesotho is excluded as it is an outlier),⁴ total central government tax revenue averaged about 16.9 percent of GDP during the period 2008 to 2010.⁵ This is relatively weak in comparison with international standards. During the same period, the comparator figure in advanced countries (the 32-member countries of the Organization for Economic Cooperation and Development (OECD) is 25.4 percent (IaDB, 2013)—these countries also collect, on average, an additional 10 percentage points of GDP in social contributions, bringing their tax-to-GDP

⁴ Receipts from the South African Customs Union (SACU), a common revenue pool that is allocated to member countries based upon a formula), account for over 60 percent of total tax revenue in Lesotho.

⁵ Kenya, Liberia, Malawi, and Tanzania stand out as countries that have successfully strived to increase the tax-to-GDP ratio over the 10-year period, 2002 to 2011.

ratio to about 35 percent. Income tax is an important source of government revenue but there is still much potential from this source. It currently accounts for over 7 percent of GDP in seven countries as indicated in Figure 2. It has also been consistently on a growth trajectory in recent years in many of the countries under review.

Figure 2. Tax revenue, 2001 to 2012



Source: IMF World Economic Outlook (WEO) database

3. **Notwithstanding the growth, revenue productivity for the income taxes is low by international standards, especially with respect to corporate income tax (CIT).**⁶ Table 1 shows that, compared with averages for groupings of countries, CIT productivity is below or equals the SSA average in most countries (except Botswana, Kenya, and Lesotho). Personal income tax (PIT) productivity, on the other hand, is above the SSA average for all countries (except Ghana) reflecting, in part, the dominance of the payroll tax (pay-as-you-earn), and the ease of collecting this tax, which is typically withheld at source.

⁶ Productivity indicators are calculated by dividing the tax yield as a percent of GDP by the head line rate for each tax. For example, if CIT revenues are 10 percent of GDP and the corporate tax rate is 20 percent, then the CIT productivity is 0.50.

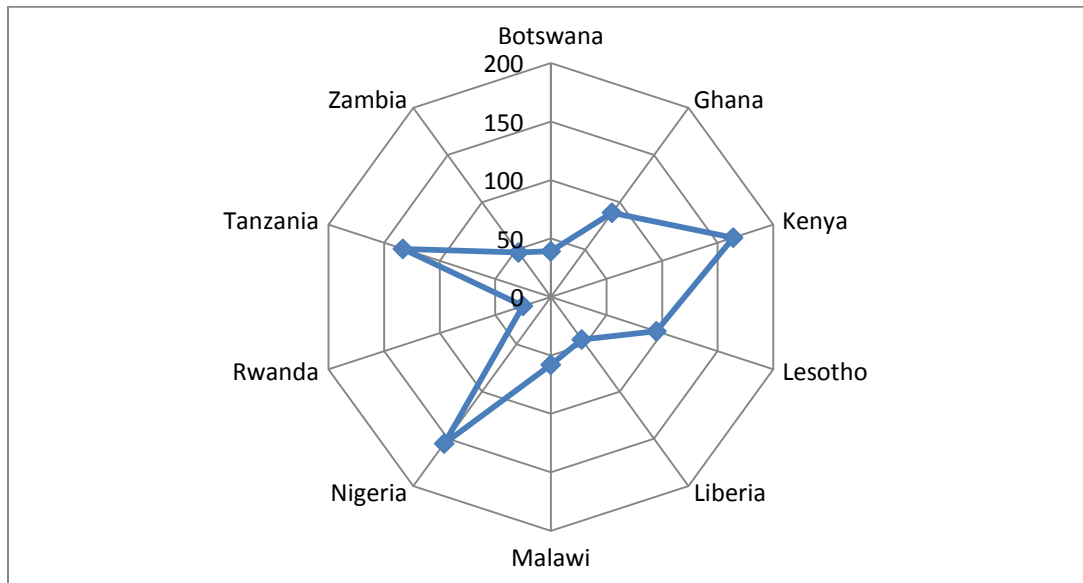
Table 1. Productivity indicators for the CIT and PIT (2011/12)

Country/income group	CIT productivity	PIT productivity
Botswana (low-middle-income)	0.32	0.43
Ghana (low-middle-income)	0.09	0.10
Kenya	0.13	0.16
Lesotho (low-middle-income)	0.51	0.35
Liberia	0.09	0.29
Malawi	0.10	0.41
Nigeria	0.03	N/A
Rwanda	0.08	0.18
Tanzania	0.06	0.16
Zambia	0.08	0.17
SSA	0.10	0.13
Low-income Economies Group	0.09	0.14
High-income Economies Group	0.17	0.21

Source: USAID, Collecting Taxes database for 2012

4. **A number of countries also rank very poorly on the World Bank Doing Business Paying Taxes Index**—Figure 3.⁷ Botswana, Liberia, Rwanda and Zambia are ranked favorably, while Kenya and Nigeria, on other hand, rank very poorly in this area. The implication is that, in most countries, there is still scope for introducing tax administration reforms with a view to reducing the burden of paying taxes. Tax policy is also likely to play a role in this regard, but this is not the focus of this paper.

Figure 3. Paying taxes ranking (out of 185 countries)



Source: Data from World Banking Doing Business Report, 2012

⁷ This index measures both the policy and administrative burden of paying taxes and contributions by a hypothetical medium-size company. It does this with 3 indicators: number of payments, time to comply, and total tax rate.

5. The extent to which countries mobilize and utilize additional domestic resources efficiently and effectively to finance development has major social implications. Many of the countries under review in this paper lag behind the Millennium Development Goals (MDG) targets for SSA, in some cases by wide margins (Table 2).⁸ Good progress is being made towards achieving universal primary education (except Nigeria) and improving the enrolment of girls in primary education. However, many lag behind the SSA MDGs target for people living below the poverty line (except Ghana), infant mortality (except Botswana and Rwanda) and maternal mortality (except Botswana), in some cases by wide margins. Improved domestic revenue mobilization is thus critical.

Table 2. Selected MDGs indicators for selected SSA countries.

	Botswana	Ghana	Kenya	Lesotho	Liberia	Malawi	Nigeria	Rwanda	Tanzania	Zambia	SSA average for 2015
% of population living below \$ 1.25 (PPP) a day.	-	28.6	43.4	43.4	83.8	73.9	68	63.2	67.9	68.5	47.5
Net enrolment ratio in primary education.	87.3	84.2	84	73.7	-	97.5	57.6	98.7	-	92.7	76.2
Ratio of girls to boys in primary educations.	0.96	1.00	0.98	0.98	0.91	1.04	0.91	1.03	1.02	1.01	0.93
Under-5 mortality rate (deaths per 1000 births).	25.9	77.6	72.8	86	78.3	82.6	124.1	54.1	67.6	82.9	121
Maternal mortality rate (deaths per 100,000 live births).	160	350	360	620	770	460	630	340	460	440	500
% of population using an improved water source.	96	86	59	78	73	83	58	65	53	61	61

Source: Millennium Development Goals Report for 2012

6. In the last two decades, and with the support of FAD,⁹ tax administrations in the 10 countries implemented a wide range of reforms but there is much work to be done. These reforms are benchmarked against international good practice and typically entail: (1) integrating domestic tax administration by shifting from tax-type to function-based organizational structures; (2) establishing a strong headquarters (HQ) function to develop operational policies and oversee field operations; (3) segmenting taxpayers in order to better understand, and develop organizational structures and compliance strategies that address, their characteristics; (4) modernizing tax legislation, including harmonizing tax administration procedures; (5) implementing systems and procedures based on the principle of self-assessment and ex-post risk-based controls; and (6) automating tax procedures to support integrated administration of all domestic taxes. Implementing all six components is

⁸ Eight MDGs form a blueprint agreed to by all the world's countries and all the world's leading development institutions. The global target of reducing extreme poverty by half was reached five years ahead of the 2015 deadline, as has been the target of halving the proportion of people who lack dependable access to improved sources of drinking water. Sub-Saharan Africa, however, has made insufficient progress and is unlikely to meet other targets for 2015, if prevailing trends persist. MDGs Report, 2012.

⁹ In all the countries, FAD has provided technical assistance in developing comprehensive strategies to modernize tax administration; the most recent revenue administration technical assistance mission is: Botswana - 2011; Ghana - 2013; Kenya - 2013; Lesotho - 2011; Liberia - 2013; Malawi - 2012; Nigeria - 2012; Tanzania - 2012; and Zambia - 2008. The countries also benefitted from short term expert assistance.

crucial in realizing the major benefits of a tax administration reform program, as none of them is sufficient on its own.

7. **It is with this background in mind that this paper reviews implementation of income tax self-assessment, the fifth component of this holistic approach, in 10 SSA countries.** The paper is structured in four sections: (I) General Overview; (II) Approaches to Income Tax Assessment; (III) Status of Implementing Conditions for Effective Self-assessment; and (IV) Lessons and Concluding Remarks.

II. APPROACHES TO INCOME TAX ASSESSMENT¹⁰

A. Administrative Assessment System

8. **Income tax has traditionally been assessed by the tax departments.** Under an administrative assessment system, the onus is on the tax administration to (ex-ante) examine tax returns and financial statements, calculate the amount of tax payable, and notify the taxpayers of the tax liability—see Box 1 for key features of the administrative assessment system generally in place in most SSA tax administrations.

Box 1. Key features of the administrative assessment system

- ✓ Taxpayers report on their activities on an annual basis.
- ✓ Reporting consists of completion of a tax return and filing financial statements, and other supporting information to the tax administration.
- ✓ Tax returns and the supporting financial statements are reviewed and verified by tax officials.
- ✓ The tax administration makes the decision on the tax liability and informs the taxpayer of what to pay, typically through a notice of assessment.
- ✓ Taxpayers pay the tax due or object to the assessment.
- ✓ The tax administration reconciles assessment notices and payments.

9. **Administrative assessment systems are resource-intensive and tend to be ineffective.** The draft Technical Note on Voluntary Compliance and Self-assessment identifies the following challenges of an administrative assessment system:

- Costly to administer because of the high level of intervention of tax officials.¹¹

¹⁰ Views in this section draw heavily from, and build on observations in the draft *Technical Note on Voluntary Compliance and Self-assessment* by Graham Harrison (unpublished) and several FAD technical assistance reports.

- Resource limitations mean that checks by the tax administration are often ineffective in detecting unreported income.
- Taxpayer education and assistance programs are often not well developed.
- Penalties tend to be lower, and are often inconsistently applied or are open to negotiation.
- Less tax is collected overall because of insufficient focus on the highest revenue risks.
- High level of disputes, often with each step in the dispute resolution process presenting an opportunity for taxpayers and tax officials to negotiate the tax liability.¹²

10. **Administrative assessment systems are however still common in many countries**, including advanced countries such as Austria, Belgium, Denmark, France (for PIT only), Germany, Greece, Netherlands, Norway, Portugal, etc. The system is also still common in many countries in the Middle East and some countries in South East Asia. It is not clear why advanced countries continue to operate a system that has many challenges but this is not the focus of this study. However, it should be noted that some of these countries have largely automated their return processing operations and risk assessment procedures so that only a small proportion of tax returns are identified for technical scrutiny before a formal notice of assessment is sent to the taxpayer (OECD, 2013).

11. **Singapore is an interesting and unique exception in many ways.** It has a highly literate population and a high rate of voluntary compliance across society. However, the country has chosen to operate an administrative assessment system it calls official assessment system (OAS) for income tax administration. The system is primarily founded upon the technological edge that the country possesses to capture data required for tax assessment from the source instead of the taxpayer, and electronic data matching with data from external

¹¹ A review of the administrative assessment system in Australia, for example, found that: (1) it cost the tax administration more to assess business and most company returns than was gained in revenue; (2) the process for assessing business and company taxpayers was perceived to have little effect in deterring non-compliance; (3) challenging claims for excessive and more questionable deductions usually resulted in costly disputes that clogged up objection and appeals processes; and (4) there was little (if any) job satisfaction for assessing staff (D'Ascenzo, 1993).

¹² Tax administrations operating administrative assessment systems “tend to report substantially and proportionately larger volumes of disputes cases, for example Austria – 145,440 (cases in 2011); Denmark – 93,448; Germany – 4,149,543; Netherlands – 439,033; Norway – 82,270; Portugal – 49,756; compared to the following countries operating a self-assessment system: Australia – 24,513; Japan – 8,463; and Korea – 5,905. (OECD, 2013).

sources. In fact, a large majority of taxpayers file a nil return because they do not have information not already captured in the IT system to report (Source: CATA, 2003).

B. Self-assessment Implementation

12. The self-assessment system accepts the reality that no tax administration has, or ever will have, sufficient resources to determine the correct liability of every taxpayer.

It also recognizes that taxpayers themselves—with appropriate assistance from the tax department—are in the best position to determine their tax liabilities, given that they have first-hand knowledge of their business affairs and financial transactions, and have ready access to underlying accounting records.

13. Self-assessment is based on the idea of voluntary compliance. In a self-assessment system, taxpayers calculate and pay their own taxes without the intervention of a tax official. If this is not done appropriately and within the prescribed timeframes, the tax administration detects this failure and takes appropriate enforcement action, including applying the penalties provided for in the law. Tax administrations generally accept tax returns at face value (i.e. not subjected to technical scrutiny) at the time of filing, at which time the tax due is paid. Some simple checks may be performed; however, the focus is to ensure arithmetical accuracy and that the taxpayer has completed the appropriate items on the tax return form.

14. Self-assessment systems require far less information and supporting documents from taxpayers when returns are filed. Business taxpayers must, however, keep records explaining all transactions relevant for tax purposes, including sales and expense invoices and receipts, wages records, cash register tapes, bank account statements, and details of debtors, creditors, trading stock and depreciable assets. Generally, it is permissible for a taxpayer to issue and store records in either paper or electronic form. The law typically provides for penalties for not maintaining the required records and for not keeping them for the required period, generally around five years for business taxpayers.

15. The role of the tax administration under self-assessment is first and foremost to assist the taxpayers to understand their rights and obligations under the law. Given that more responsibility is placed on taxpayers to correctly interpret the law, greater attention is given to educating and assisting taxpayers in understanding the law's requirements. The tax administration also makes it easy and as least costly as possible for taxpayers to meet their obligations. Self-assessment demands that tax administrations adopt a service-oriented attitude towards taxpayers.

16. The emphasis under a self-assessment system shifts the verification process from pre- to a post-filing basis. The tax administration relies more on post-filing controls such as risk-based audits, collection enforcement measures, and prosecution of tax evaders. Tax administrations operating self-assessment systems adopt targeted verification approaches, (e.g., through information sharing, data matching, and risk-based desk and field audits) to verify the information contained in tax returns. In this way, the tax administration's limited

resources are directed toward addressing the most significant threats to the tax system, while, in principle, leaving compliant taxpayers free to conduct their business without unnecessary intervention by tax officials.¹³

17. Internationally, there has been a steady movement towards self-assessment and away from administrative assessment practices. Self-assessment for tax purposes is not a new phenomenon. Canada and the United States first implemented self-assessment in the 1910s, followed by Japan in 1947 (Loo et al., 2005). In the last 30 years, however, the spread of self-assessment for income tax has been a common phenomenon—Sri Lanka (1972), Pakistan (1979), Bangladesh (1981), Indonesia (1984), Australia (1986-87), Ireland (1988), New Zealand (1988) and the United Kingdom (UK) in 1996-97 (Noor et al., 2013). Presently, around half (18) of revenue bodies in the OECD, for example, apply self-assessment principles for the PIT while 22 apply self-assessment for CIT (OECD, 2013).

18. All the countries under review have enacted income tax self-assessment provisions in the last two decades or so (Table 3). Kenya and Zambia were the pioneers in this area; they implemented self-assessment in 1992. In the majority of the countries, self-assessment was implemented as part of a broader tax reform agenda, including income tax policy (review of tax rates, expanding the tax base) and administrative (legislation, processes and procedures) aspects (Kenya, Lesotho, Liberia, Malawi, Rwanda, Tanzania, and Zambia).

Table 3. Self-assessment implementation in the selected SSA countries

Countries	Year self-assessment/VAT implemented	Justification	Coverage
Botswana	2002/2002	Not clear	Corporate income tax
Ghana	2001/1999	Not clear	Large and selected medium taxpayers.
Kenya	1992/1991	Part of broader income tax reforms	Universal
Lesotho	2004/2003	Part of broader income tax reforms	Universal
Liberia	2000/No VAT	Part of broader post conflict reforms	Universal
Malawi	2010/2001	Part of broader income tax reforms	Large taxpayers
Nigeria	1997/1994	Not clear	Selected pilot offices
Rwanda	1998/2001	Post conflict reforms	Universal
Tanzania	2004/1998	Part of broader income tax reforms	Universal
Zambia	1992/1995	Part of broader income tax reforms	Universal

¹³ In practice many tax administrations maintain some small random audits to test the robustness of the risk system.

19. **In many countries, the development of self-assessment is closely linked to the rise of the VAT, which is only feasible as a self-assessed tax.** Thus, in countries such as France and the United Kingdom, while VAT systems and procedures have been built around self-assessment from the outset, the move toward self-assessment for other tax liabilities such as the personal and corporate income tax has been more recent (Ebrill *et. al.* 2001). In accordance with this trend, the VAT (a self-assessed tax) was implemented in advance of extending self-assessment practices to the administration of income taxes (in all countries except Liberia (which currently does not have a VAT), Rwanda, and Zambia). Only half the countries are implementing universal self-assessment (across all taxes and taxpayers).

20. **Overall, the move to self-assessment is being driven by a desire to improve revenue performance through better compliance and more efficient administration.** These improvements most often result from filing of returns by a more enlightened taxpaying population, earlier collection of tax revenue (because taxpayers are induced to file and pay the correct amounts on time), expanded and better targeted audit inquiries, and reduced numbers of disputed assessments. In the United Kingdom, for example, it was estimated that over the 10-year period to 2007-2008, self-assessment would result in administrative savings of £500 million (UK National Audit Office as cited in Loo et al., 2005).

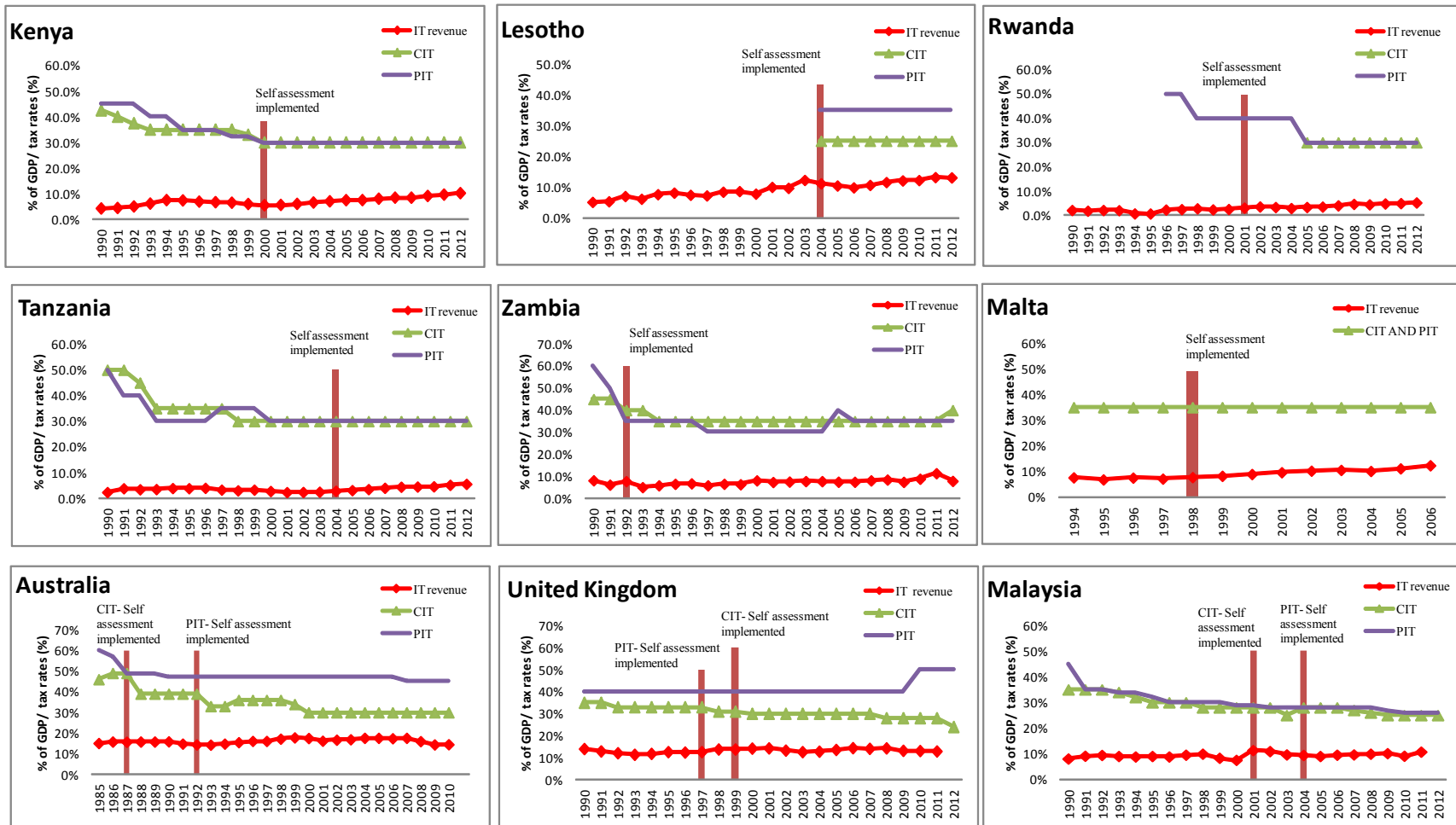
21. **From the taxpayers' perspective, self-assessment allows for the democratic exercise of taxpayers' rights,** resulting in an increased involvement by the taxpayers in their own tax affairs (Loo et al., 2005). In Japan, for example, the self-assessment system was implemented along with other reforms such as the introduction of a more democratic political system under the new constitution. The system was cast as a symbol of post-war tax administration reform, and efforts were made to raise, among the public, a sense of moral duty by holding up the ideas of a democratic nation where taxpayers voluntarily file and pay tax (Kimura, 2006).

22. **There is no evidence to show that revenue has suffered adversely because of self-assessment implementation.** Tax administrators in countries that are slow in adopting full self-assessment are typically afraid of possible adverse impact on revenue citing poor taxpaying culture and low literacy levels of taxpayers. This paper does not seek to prove that self-assessment results in increased tax revenue. What it demonstrates, from a review of income tax revenue data across the select SSA countries that have implemented universal income tax self-assessment (and four other countries for international comparison), is that in all countries (except Lesotho and Zambia), income tax revenue continued to grow in the period following the implementation of self-assessment—Figure 4. In the two exceptions, Lesotho, and Zambia, performance of income tax revenue was already declining or volatile in the period preceding self-assessment implementation, a trend that was reversed within two years of implementing self-assessment. The four international comparator countries also show good or stable revenue growth post self-assessment implementation.

23. **These results must be interpreted with caution as income tax revenue growth in these countries could be explained by other factors such as changes in tax policy that could impact on tax rates and the tax base.** Indeed as already mentioned, self-assessment implementation was part of a broader income tax reform agenda in many countries. It is however interesting to note that growth in income tax revenue has been achieved in a period when PIT and CIT rates were either declining or remained stable in many countries.

24. **The point is to allay fears of countries that are hesitant or slow in refining their assessment practices** by illustrating that there is no evidence to show that revenue has suffered adversely because of self-assessment implementation. Indeed, implementation of taxpayer self-assessment, coupled with other compliance enforcement measures, could lead to better revenue performance.

Figure 4. Data on income tax rates (%) and income tax revenue performance (as a percent of GDP)



Source: GFS, IMF Staff Estimates, KPMG Global Tax Rate Tables, OECD

III. STATUS OF IMPLEMENTING CONDITIONS FOR EFFECTIVE SELF-ASSESSMENT

25. **The need to embrace self-assessment is not in doubt; all the countries under review have enacted self-assessment provisions in the income tax law.** What can be questioned is the extent to which the various countries have put in place the conditions needed for a self-assessment system to operate effectively—Box 2 summarizes the essential conditions for a self-assessment system.

Box 2. Conditions for a successful self-assessment system

Clear and simple tax laws. In order for taxpayers to calculate their own tax liabilities, they must first understand the tax law and how it applies to their situation. Simple laws and regulations facilitate self-assessment, while minimizing taxpayer effort and compliance costs. This can be achieved by rewriting the tax law to reduce the volume of information and in clear language that helps ensure that taxpayers know and understand their rights and obligations under the tax laws. Simplified and harmonized administrative procedures can also help lower cost of compliance. Simplified rules (including record keeping requirements) should be in place for small taxpayers. A rulings regime that is binding can also help clarify the law and ensure consistency of application of the law by both taxpayers and tax officials should also be enacted in law.

Good service to taxpayers. Self-assessment demands that tax administrations adopt a service-oriented attitude toward taxpayers, ensuring that taxpayers have the information and support they need to meet their tax obligations. Taxpayers must receive clear information describing their obligations, the taxes applicable, and when and where they are payable. They need to be informed about changes to the laws and they should have easy access to information and tax forms. Modern tax administrations provide taxpayers with a range of advice and information through enquiry centers, web sites, public seminars, and so on.

Simple filing and payment procedures. Tax forms must be simple, with clear instructions on how to complete them. Filing of returns and payment of taxes should be through means convenient to taxpayers. Modern innovations in this area should also be exploited to improve the business environment and reduce the cost of compliance. Examples of new practices in this area include e-filing or other means (e.g., drop-off boxes in the tax administration or a commercial bank), and e-payment (internet and mobile banking).

Effective collection enforcement. Prompt detection of taxpayers failing to file tax returns and/or pay the tax due is critical to improve tax compliance. This begins with having a cleansed and updated taxpayer register. Collection enforcement must be prompt and expeditious, since international experience has consistently shown that the older the debt, the more difficult it is to collect.

Selective risk-based audit. Taxpayers must know that if they fail to comply with the tax laws, they face a reasonable risk of being detected. Self-assessment systems therefore rely heavily on a strong audit program focused on higher-risk taxpayers. The tax office must have sufficient resources to audit a reasonable percentage of taxpayers each year, using a variety of audit techniques, to effectively increase the risk of detection of noncompliance.

Fairly applied interest and penalties. Interest and penalties serve to remind taxpayers of the need to take reasonable care in preparing their tax returns and managing their tax affairs. Interest and penalties must be neither too lenient nor unrealistically harsh, and must be applied consistently throughout the country and between taxpayer groups. It is important to draw a distinction between interest and penalties: while penalties are imposed as sanctions for violations of the law, interest is intended to compensate for the time the taxpayer has used the government's money.

Fair and timely dispute resolution. While a tax administration must have effective powers to detect and sanction non-compliance, it is also important that taxpayers have access to an appeal process to protect their rights. When taxpayers disagree with the results of an audit, they must have access to processes for the resolution of any dispute with the tax office. The processes should be simple, neutral, and transparent, and typically include: (1) an independent administrative appeals process within the tax administration; (2) a special tribunal when the taxpayer is dissatisfied with the outcome of the administrative appeals process—the tribunal should include qualified professionals, typically considered as judicial appointments at the level of the lower courts of law; and (3) a judicial process to resolve matters of law and assure procedural fairness.

26. This section benchmarks conditions prevailing in the ten countries against those discussed in Box 2 to make an assessment as to how far (or near) they are to implementing effective taxpayer self-assessment practices.

A. Clear and Simple Tax Laws

27. **Three countries implemented self-assessment when they introduced a new income tax law (Liberia, Lesotho, and Tanzania).**¹⁴ The advantage of this approach is that in addition to the technical aspects of the income tax, the three countries had the opportunity to comprehensively review the income tax legislation to ensure it is easily understandable, well organized, effective, and integrated into the respective country's legal system, all of which are supportive of a self-assessment system.¹⁵

28. **In most other countries self-assessment was initially introduced by making only minimal but critical changes to the income tax legislation.**¹⁶ While this is not desirable, it may be the most practical approach, initially. This approach, however, may leave conflicting legal and administrative provisions in place which can confuse the public and administrators. In such cases, effective self-assessment will require a comprehensive overhaul of tax legislation.¹⁷ This is particularly a problem in countries that are not implementing universal self-assessment—Botswana, Ghana, Nigeria, and Malawi.¹⁸ The general tendency in such countries is for tax officials to revert to administrative assessment procedures even for taxpayers that are subject to self-assessment provisions under the law.

¹⁴ Rwanda also subsequently enacted a new income tax law as part of a broader legislative review process.

¹⁵ The Income Tax Act in Lesotho for example has interesting, although uncommon, features. It goes into great detail explaining the self-assessment system—"The new law introduces a system of self assessment under which taxpayers calculate their chargeable income and the income tax payable thereon for a year of assessment, and pay the tax due on filing the return for that year. The move to self-assessment is consistent with international trends, as the traditional assessing function (which is provided for under the 1981 Act) is now viewed as an inefficient use of a tax administration's scarce resources...." (Section 133).

¹⁶ Typically, those provisions relate to interest, penalties, tax assessments, and payments. Botswana for example, introduced a new section 65(2) and others that provide for self-assessment, but maintained section 65(1) that provides for administrative assessment.

¹⁷ Ghana and Nigeria have been reviewing their income tax laws, among other laws, the last few years, with a view to simplifying and modernizing them. However, it is unclear whether strengthening self-assessment is a key motivating factor for this exercise.

¹⁸ In Nigeria, for example, Section 65(2) provides that "where a company has delivered audited accounts and return, the Board may: (a) accept the audited accounts and return, and make an assessment accordingly; or (b) refuse to accept the return, and to the best of its judgment, determine the amount of total profits of the company and make an assessment accordingly". Malawi provides for maintenance of an assessment register, a practice that is outdated.

29. International experience demonstrates the importance of deliberately and consistently reviewing the self-assessment system the administration has put in place.

The focus should be to assess whether the self-assessment system is operating in the manner that was intended and whether it is realizing its full potential. While this has been done in some developed countries, there is no evidence that any of the countries reviewed (including those that implemented self-assessment with the introduction of a new income tax law) have undertaken such reviews as a basis for improving the income tax law. Box 3 summarizes, for illustrative purposes, the changes implemented by the Australian Tax Office (ATO) and Treasury Department to address problems that the administration identified with the self-assessment arrangements. Various reviews were undertaken and changes made over the years. The highlights include a major review that was commissioned by the Australian Government on November 24, 2003. It was conducted by the Department of the Treasury and involved extensive public consultation with, and submissions from professional associations, business groups, and taxpayers. It examined whether the right balance had been struck between protecting the rights of individual taxpayers and protecting the revenue for the benefit of the whole Australian community. It also sought to identify whether there were refinements to the present arrangements that would reduce the level of uncertainty for taxpayers, reduce compliance costs and enhance the timeliness of ATO audits and amendments, while preserving the capacity of the ATO to collect legitimate income tax liabilities.

Box 3. Modernizing taxation laws to support full income tax self-assessment

Australia has operated a system of self-assessment of income tax since 1987. Under the initial genre of self-assessment, taxpayers' returns were accepted at face value in the first instance and the Tax Office could subsequently verify the accuracy of the information in the return within a prescribed period after that initial assessment. From 1990, the returns of companies and superannuation funds became subject to a system of full self-assessment. Under this system, taxpayers calculate their liability and pay their tax when lodging their returns. By the early 1990s, problems had been identified with the initial self-assessment arrangements, particularly in relation to penalties and interest, the need to provide greater taxpayer certainty, striking the right balance between protecting the rights of individual taxpayers and protecting the revenue. Several changes were introduced over the years to address these problems:

- ✓ The *Taxation Laws Amendment (Self Assessment) Act 1992* introduced the following notable changes: (1) a new system of binding public rulings; (2) a new system of binding private rulings; (3) an extension (to four years) of the period within which a taxpayer could object against an assessment; (4) a new system of penalties for understatements of income tax liability, based on the requirement that taxpayers exercise reasonable care; (5) a new interest system for underpayments or late payments of income tax, based on commercial principles and market interest rates.
- ✓ The new *Tax System (Tax Administration) Act 1999* shortened the period of review for taxpayers with straightforward tax affairs, and introduced binding oral advice.
- ✓ Schedule 4 of the *Taxation Laws Amendment Act (No.3) 2001* reduced the rate of interest on shortfalls and late payments.
- ✓ The 2004 Report on *Aspects of Income Tax Self-Assessment* was implemented from July 2005 to: (1) improve certainty through providing for a better framework for the provision of Tax Office advice and introducing ways to make that advice more accessible and timely, and binding in a wider range of cases; (2) improve certainty by reducing the periods allowed for the Tax Office to increase a taxpayer's liability in a wide range of situations; (3) mitigate the interest and penalty consequences of taxpayer errors arising from uncertainties in the self-assessment system; and (4) provide for future improvements through better policy processes, law design and administrative approaches. The report contained 54 recommendations, 30 of which were legislative while the others were administrative.

30. **In accordance with good international practice, two countries (Rwanda and Liberia) have enacted a tax procedures code (TPC).** A TPC brings together, in one act, a set of harmonized rules for administration of all taxes.¹⁹ This generally provides for greater clarity in the law and reduces compliance and administration costs. Draft TPCs have been prepared in many other countries (Botswana, Malawi, Ghana, Kenya, Tanzania, and Uganda); however, enactment has been delayed for various reasons.

31. **Two countries (Ghana and Tanzania) have provisions for a rulings regime (private) that is binding.**²⁰ Providing clarity on how the tax administration will treat transactions or economic sectors where the legislation is not clear is a critical element of supporting taxpayers to self-assess. This critical service is currently not supported by law in many countries and thus not being delivered; rulings are largely non-binding.

32. **Overall, only Liberia, Lesotho, Rwanda, and Tanzania have income tax laws that can be considered to be relatively simple and clear.** These are countries that implemented a self-assessment system as part of an overhaul and introduction of new income tax laws. In the majority of the countries, income tax laws are complex, not understood by the taxpayers and the tax administrators, and have provisions that are inconsistent with self-assessment principles. In addition, they do not provide for a binding rulings regime and common administrative procedures have not been simplified and harmonized.

B. Service to Taxpayers

33. **Common features of the TPS program across majority of the countries include:** (1) annual taxpayer service implementation plans are prepared by the TPS HQ department/staff (function); (2) taxpayer education is disseminated through tax clinics, seminars and workshops, the print and electronic media, and information brochures and pamphlets; (3) taxpayer service centers or call centers are set up to provide walk- or call-in services; and (4) websites are set up as an avenue for disseminating information. Table 4 summarizes various aspects of the taxpayer service functions in the ten countries.

¹⁹ These rules relate to key administrative functions and taxpayer obligations (e.g., record-keeping, filing and payment, audits, appeals, and recovery).

²⁰ However, there is no evidence to indicate that binding rulings have been issued in recent years in these two countries.

Table 4. Aspects of the taxpayer service function

Country	Prepares a TPS strategy and action plan	Delivers a wide range of TPS programs?	Actively engages stakeholders ²¹
Botswana	Prepares annual TPS plans but has a weak headquarters (HQ) function.	Yes; including an integrated Taxpayer Service Center in Gaborone. Has a website but it is not updated regularly.	Ad hoc in nature
Ghana	TPS planning is in development. TPS activities are coordinated by the Public Relations Office.	General awareness and public relations programs are delivered. Basic services ²² are delivered by front office staff. Has a website but it contains outdated information.	Ad hoc in nature
Kenya	Prepares annual TPS plans. TPS function fragmented at the corporate (revenue authority) and departmental levels.	Yes, including a Call Center in Nairobi. Basic services are delivered by front office staff. Has a website with a wide range of information and functionalities.	Ad hoc in nature
Lesotho	Prepares annual TPS plans. Has a small HQ function headed by a Commissioner.	Partly (limited printed material is available). Basic services are delivered by front office staff. Has a website with basic information and functionalities.	Ad hoc in nature
Liberia	Yes, but has a very weak HQ function.	Yes, including a Taxpayer Service Center in Monrovia. Basic services are delivered by front office staff.	Ad hoc in nature
Malawi	Prepares annual TPS plans. Has a small HQ function	Yes, including a TPS Center in Blantyre that answers queries, distributes information material, etc. Basic services are delivered by front office staff. Has a website with basic information and functionalities.	Ad hoc in nature
Nigeria	Yes, but the HQ function is still under development (set up in 2011).	General awareness and public relations programs are delivered. Basic services are delivered by front office staff. Has a website, however, much information is unavailable or outdated. Overall, the TPS function is still under development within the tax administration.	Ad hoc in nature
Rwanda	Prepares annual TPS plans. Both HQ and delivery functions centralized at the RA-level.	Yes, including TPS Centers in Kigali to serve small taxpayers. ²³ Basic services are delivered by front office staff. Has a website with a range of information.	Yes
Tanzania	Prepares annual TPS plans. Both HQ and delivery functions centralized at the RA-level.	Yes, including TPS Centers in Dar es Salaam to serve small taxpayers. Has developed a wide range of information material that has been translated in the local language (Swahili). Basic services are delivered by front office staff. Has a website with a wide range of information and functionalities.	Ad hoc in nature
Zambia	Yes	Yes, including Tax Advice Centers in three cities and a National Call Centre in Lusaka. Basic services are delivered by front office staff. Has a website with a wide range of information and functionalities.	Ad hoc in nature

²¹ Assessment based on views of private sector as indicated in recent FAD reports.

²² Including receiving returns, answering questions, handing out pamphlets, etc.

²³ They provide a “shop window” for the tax administration in outlying areas to make access to the services more convenient for the taxpayer. The compliance functions are retained within the main office.

34. **An overall multi-year taxpayer service strategy has not been developed in many countries (except Nigeria and Liberia) attributable, in part, to a weak HQ TPS function.**²⁴ As a result, solid TPS strategies have not been developed even though a number of TPS programs are being delivered based on annual plans. While most countries claim they prepare these plans after assessing the requirements identified in the operational areas, it is not clear that credible systems exist to help systematically identify, assess, and prioritize the critical risks presented. It is also not clear that adequate thought has been given to TPS strategies centered on mitigating compliance risks.²⁵ The development of a TPS, with robust internal processes for managing it, is therefore critical. A TPS strategy will set out the tax administration's vision, guiding principles, and high level objectives for taxpayer service and describe its operational delivery plans. It will also explain how the tax administration will measure performance and judge success. Close collaboration between internal stakeholders as well as engagement with external stakeholders in its preparation is vital. The framework for a taxpayer service strategy is shown in Box 4.

Box 4. Elements of a taxpayer service strategy

- ✓ A clear statement of the tax administration's high-level vision regarding taxpayer service.
- ✓ The guiding principles for taxpayer service delivery.
- ✓ A short description of the sociological and environmental issues influencing the delivery of service to taxpayers, and of the drivers for change in modernizing taxpayer services.
- ✓ A summary of the current position on taxpayer service delivery. In subsequent versions of the strategy, as action plans are updated, this would contain a brief summary of progress achieved since the previous iteration of the strategy.
- ✓ An overview of the key areas of focus and related operational plans for taxpayer service.
- ✓ The persons or units accountable for delivering the plans.
- ✓ The measures by which the tax administration will assess its performance and judge success.

35. **In some countries, the TPS function has been centralized both for tax and customs thus denying the respective department effective control of a critical compliance tool to enhance voluntary compliance.** This is common in some countries that have adopted the revenue authority (RA) governance model²⁶—Kenya, Rwanda, Tanzania,

²⁴ In some countries, the HQ function has a small number of officials who are devoted to this task but are inexperienced and given little authority. In others, both the HQ and TPS delivery functions are either fragmented or centralized at the corporate level (discussed later).

²⁵ For example, priority of preparing informational brochures and pamphlets should be data-driven and given to areas on which taxpayers often make mistakes or areas concerning which taxpayers often raise questions to the field and headquarters offices and those topics identified as contributing to non-compliance.

²⁶ The revenue administration functions (both tax and customs) are carried out by a unified semi-autonomous body.

and Zambia.²⁷ In these countries, both the planning and delivery aspects of the taxpayer service function (tax, customs, and public relations) are centralized at the RA-level. In theory, this is justified on the basis of enabling the RA to assess TPS needs across the whole organization (tax and customs) and focus limited resources, in a coordinated manner, on the critical risks. In practice, however, the respective revenue departments (tax and customs) are typically have little flexibility to make and/or influence choices on where the available resources are targeted or the messaging leading to generic programs. The clients for tax and customs are different and the business processes are totally different so the messages need to be different. The geographic distribution of the taxpayers may also be different, tax at the capital or major cities and customs at the border points. Only if the taxpayer service function is decentralized will the right audience hear the right message. There is therefore a need for a clear distinction between the services that are delivered at the corporate RA level and those delivered at the tax and customs departmental levels. The RA-level function should be responsible for corporate imaging, media relations, and external communications. Within the revenue departments, the policy and planning aspects of taxpayer service should be the responsibility of the headquarters function, while the delivery of taxpayer services should be the responsibility of the field tax offices. For illustrative purposes, typical activities at each of these levels under an RA model are displayed in Box 5.

Box 5. Typical taxpayer service program

At the corporate level

- ✓ Strategic communications and management advice
- ✓ Corporate brand identity through key messages and appropriate delivery mechanisms
- ✓ Internal communications to inform and engage with staff during and beyond the implementation process
- ✓ Concepts and campaigns for communication products, media relations, internal communications, events, support to communications within individual projects, etc.
- ✓ In support of taxpayer services, promotion of awareness, accessibility, assistance and services to the taxpayer in order to increase compliance
- ✓ Provision of multi-media and event management services
- ✓ Provision of crisis support to senior management

At the tax and customs administration levels

- ✓ Policies and procedures for all taxpayer services and education in all operating offices
- ✓ Taxpayer services and education objectives, targets and annual plans
- ✓ Operational and statistical reports for evaluation of program delivery
- ✓ Monitoring to ensure policies, procedures and legislation are being applied uniformly
- ✓ Training requirements and course material
- ✓ Advice and guidance to the operating units
- ✓ Surveys of other jurisdictions to determine best practices
- ✓ Participate in the design and development of forms, guides, public information circulars and brochures

²⁷ In both Kenya and Zambia, the TPS HQ function is fragmented at both the corporate and departmental level but effectively controlled (and funded) at the corporate level. In Zambia, the corporate level TPS HQ function is coordinated by the research and planning department, clearly a misalignment of functions and responsibilities.

36. **There are opportunities to enhance TPS delivery methods and operational processes.** In general, the 10 countries would appear to provide a wide range of TPS programs. However, in reality most of these programs are generic in nature and have little focus on taxpayer segments, and more still needs to be done to optimize returns from these investments and reach/educate taxpayers more effectively. Table 5 summarizes common themes in recent FAD technical assistance reports in these countries.

Table 5. Common observations on TPS delivery methods

Modes of Delivery	Key observations in many countries
Streamlined filing and payment processes	<ul style="list-style-type: none"> Take up rate for e-filing and payment still very low. Long queue at the tax offices on the due dates for filing and payment. Little engagement with agents of the tax administration, e.g., banks, tax agents, etc. Provision of e-filing but no provision for e-payment.
Information brochures	<ul style="list-style-type: none"> Very few and sometimes dated. Do not effectively address topical issues or focus on key taxpayer segments. Not available in field offices. Not available on the website.
Telephone enquiries	<ul style="list-style-type: none"> Available services are not well publicized nor are they governed by a uniform approach. No tabulation of phone enquiries to be used for planning. Assigned inexperienced and/or non-technical staff.
Website and email	<ul style="list-style-type: none"> Not updated regularly. No online or email facility for raising questions regarding tax procedure or compliance. Crucial forms, circulars, and information not available on the website. Website unavailable for extended periods.
Advance Rulings:	<ul style="list-style-type: none"> Only non-binding rulings are issued. Process unclear. The availability of such guidance as a vehicle for taxpayer assistance and the process of seeking it are not well understood in the tax administration and thus not well known by taxpayers.

37. **External stakeholder engagement is narrowly focused in many countries and ineffective.** Based on feedback from private sector representatives during discussions with visiting FAD TA missions, all countries (other than Rwanda) score poorly in this area. Many indicate that they hold regular meetings with stakeholders; however, the effectiveness of these meetings is questionable as reflected in the generally negative views from the private sector. They are not effective because they are currently ad hoc in nature, sometimes without an agenda and with little follow up. To be effective, external stakeholder engagement initiatives must be institutionalized as an avenue for genuinely and routinely seeking the input of the private sector to new initiatives and enhancements, identify the challenges

taxpayers face (and genuinely address them), and publicize positions on interpretation of the tax law or implementation of administrative procedures. They must be targeted, planned in advance with a substantive agenda, and supported by a technical team comprising both parties. The team will be responsible for identifying the issues, preparing the agenda, following up action, and reporting on progress. Importantly these activities must be seen by the private sector as a genuine effort to address the issues they face in complying with the tax law.

C. Filing and Payment Procedures

38. The design of the return filing and payment procedures has changed significantly in all of the 10 countries. In all of the countries, income tax is paid in quarterly instalments and an annual reconciliation of tax liability is done through a tax return after the end of the accounting year—Table 6. This in itself is a fundamental change from previous administrative assessment systems. Other positive features of the current return filing and payment procedures in all or some of the 10 countries are: (1) tax payment can be made through the bank in all countries (electronically in four countries); (2) tax payment can be made at any customs office in Zambia; (3) tax returns can be filed electronically (e-filing) in Kenya and Rwanda; and (4) tax returns can be deposited in drop-off boxes at a bank in Lesotho.

Table 6. Key aspects of the current filing and payment function

Country	Simplicity of the filing process	Simplicity of the payment process.
Botswana	Paper returns are filed at the tax office accompanied by a pay-in slip. All income tax returns are reviewed at various levels, (TPS, return processing, risk management, etc.).	Tax is paid in four installments while an annual income tax return is submitted within 4 months of the end of the tax year. Tax can be paid through banks or the tax office.
Ghana	Paper returns are filed at the tax office accompanied by a pay-in slip. All tax returns are subjected to a 'desk audit'. Every 'desk audit' is concluded by the GRA sending a letter to the effect that the taxpayer assessment has become final.	Tax is paid in four installments while an annual income tax return is submitted within 4 months of the end of the tax year. Tax can be paid through banks or the tax office.
Kenya	E-filing systems have been developed but are not widely used.	Tax is paid in four installments while an annual income tax return is submitted within 4 months of the end of the tax year. Tax is widely paid through the banks (e-payment or internet banking options are available).
Lesotho	Returns can be deposited in drop-off boxes at the banks; however only a small proportion of taxpayers (less than 15 percent) use this option.	Tax is paid in four installments while an annual income tax return is submitted within 3 months of the end of the tax year. Tax can be paid through banks or the tax office.
Liberia	Paper returns are filed at the tax office. Various tax officials review (desk audit) and sign every tax return, an exercise that consumes considerable amount of time.	Tax is paid in four installments while an annual income tax return is submitted within 3 months of the end of the tax year. Tax can be paid through banks in Monrovia or the tax office.

Malawi	Paper returns are filed at the tax office.	Tax is paid in four installments while an annual income tax return is submitted within 6 months of the end of the tax year. Payment is widely made at approved banks.
Nigeria	Paper returns are filed at the tax office. Return processing procedures are not uniform across the tax administration. The general practice however is that the Tax Controller conducts the initial review and may identify areas for follow up. Return and Payment Processing officials conduct further reviews of the return (in some cases contacting the taxpayer for additional information or explanation) and may make changes to the tax self-assessed.	Tax is paid in four installments while an annual income tax return is submitted within 6 months of the end of the tax year. The e-payments system allows taxpayers to pay tax at accredited financial institutions and receive a receipt of payment. The tax administration also prints a separate receipt at tax offices and expends significant resources distributing the printed receipts to taxpayers.
Rwanda	E-filing systems have been developed and are widely used especially by large taxpayers and taxpayers within the Kigali area.	Tax is paid in four installments while an annual income tax return is submitted within 4 months of the end of the tax year. Tax is widely paid through the banks (including e-payment), although the cashier function is still utilized.
Tanzania	Paper returns are filed at the tax office.	Tax is paid in four installments while an annual income tax return is submitted within 6 months of the end of the tax year. Tax can be paid through banks (including e-payment) or any tax office.
Zambia	Paper returns are filed at the tax office.	Tax is paid in four installments while an annual income tax return is submitted within 6 months of the end of the tax year. Tax can be paid through banks (including e-payment) or any tax or customs office.

39. **Manual filing and payment processes continue to dominate.** Submission of a paper return accompanied by proof of payment (e.g., bank pay-in-slip) is the predominant process in the majority of the countries. It typically entails various steps, including tax computation and completing a paper return (at the taxpayer's premises), payment of tax at a bank, and physically visiting the tax office to submit a return where a TPS official generally reviews and acknowledges the filing. The result is long queues, especially during the peak filing and payment period, at both the banks and the tax office. The tax administration cashiering function is also still the predominant option even in countries with a well-developed banking sector.

40. **Reviewing all tax returns undermines the very essence of a self-assessment system.** In three countries (Botswana, Ghana and Nigeria) all tax returns are subject to some form of desk audit or review. All countries have retained a return and payment processing (RPP) function and do check returns in varying degrees. Retaining this process presents a high likelihood that the processing task will revert back to the previous administrative assessment approach, as the assigned staff are those that were formerly responsible for assessing returns and they often exercise undue scrutiny of each return.²⁸ Such checks in a

²⁸ This has been observed in some countries (Ghana and Nigeria) in which tax officials tend to ignore the taxpayers' self-assessments and instead issue arbitrary best-of-judgment assessments. This is the case even for large taxpayers.

manual environment are considerably more costly and bring into doubt some of the key benefits expected from instituting a self-assessment system.

41. **The return submission processing function could be redesigned in all countries with a view to automating superficial review of returns and eliminating substantive pre-filing scrutiny completely.** In a manual environment, checks undertaken by return and payment processing staff should in principle be confined to correcting those errors that prevent the return from being correctly processed—as distinct from ensuring that income is correctly assessed. This includes: (1) quality control – consisting mainly of checking the returns for completeness and applying penalties; (2) data entry (in an automated environment), which is an important task that is more efficiently completed by dedicated data entry operators rather than processing staff in general or even better through e-filing; and (3) error resolution. With respect to the last item, when an error occurs, a manual intervention will be required to correct it before processing of the return can be completed. Such “error resolution” work should be a key focus of RPP activity. With greater automation, this function can be eliminated, which frees up resources for more productive tasks, such as taxpayer services and audit.²⁹

42. **Overall, current return filing and payment procedures can be improved to reduce the cost of compliance.** Drop-off boxes (in the tax administration or banks) should be used to allow taxpayers to deposit their tax returns and proof of payment without the need for face-to-face contact with tax officials. Use of secure mailing services should also be encouraged. Electronic filing of tax returns should be made compulsory for all large taxpayers (once tax procedures are automated). The objective should be to encourage taxpayers or their agents to use the most convenient means and discourage them from physically coming to the tax office to either file a return or make a payment, which is still the predominant practice in many countries.

D. Effective Collections Enforcement

43. **Most of the countries studied have a series of prescribed steps in their income tax laws to guide collection enforcement activity.** A large number of countries have also developed a national collection enforcement strategy and action plan and a few countries have write-off provisions for irrecoverable debt. Table 7 describes key features of current collection enforcement practices in the ten countries.

²⁹ A key objective of the self-assessment approach to tax administration is that it should free up staff from undertaking low value tasks, such as the manual assessment and processing of tax returns, and allow the tax administration to redeploy its resources to more productive tasks such as taxpayer services and enforcement activities.

Table 7. Key features of current collection enforcement practices.

Country	Has a national collection enforcement strategy and annual	Has adequate collection enforcement powers in law ³⁰ and uses them frequently.	Has a legal framework for write-off of irrecoverable debt
Botswana	Yes	Partly, the VAT Act has more diverse collection enforcement powers.	Yes.
Ghana	Yes; new initiative/staff being trained. Weak HQ.	Yes, but not fully utilized.	No, but has provisions to waive tax.
Kenya	Yes, but the audit HQ function is fragmented.	Yes. Uses agency notices to banks and other third parties more widely.	Yes.
Lesotho	Yes, but has a weak HQ.	Yes. Mainly uses the powers to collect taxes by appointing third party agents, including banks.	No
Liberia	Yes, but has a weak HQ.	Yes. Information on use unavailable.	Yes
Malawi	Yes, but has a weak HQ.	Yes. Legal recovery actions, including asset seizures, liens, and temporary closure of businesses, are rarely used.	No, but has provisions to waive tax.
Nigeria	Yes, but poor linkages between HQ and field offices.	Yes. However, sale of immovable property is subject to a Court Order. The use of enforced collection techniques is still limited because of the level of approval required to appoint agents and the lack of comfort in the reliability of the accounts receivable data.	No, but tax can be waived by the President.
Rwanda	Yes, but has a fragmented HQ function.	Yes and actively utilized.	No.
Tanzania	Yes. No HQ function.	Yes. Information on use unavailable.	No. But Minister of Finance can waive tax while Commissioner General can waive penalty and interest.
Zambia	Yes	Yes. Information on use unavailable.	No. But Minister of Finance can waive tax while Commissioner General can waive penalty and interest.

44. The headquarters collections function is generally weak in many countries.

Collection enforcement manuals and plans have been developed in most countries, usually with the assistance of development partners. However, in the absence of a strong headquarters function, as is the case in many countries, they have not been reviewed or are not being effectively implemented.

45. The full range of enforcement actions is not being utilized. The tax law in many countries adequately provides for a series of progressive enforcement steps and actions that can be taken against non-compliant taxpayers. However, in many countries, tax officials prefer to use the less aggressive actions, such as reminder letters and telephone calls. These measures are appropriate and have a place in an effective collection enforcement program,

³⁰ Indicates availability of powers to: institute proceedings through the courts, seize and sell assets, appoint third parties to collect and remit taxes due, and place liens on immovable property.

but the reality is that they are often insufficient to bring all taxpayers into compliance. More aggressive actions based on a structured escalation process are therefore necessary. One tool that is commonly utilized internationally with very good results, for example, is seizing bank assets/deposits..

46. Provisions for write-off of irrecoverable debt are available only in three countries. In the process of collecting tax arrears, situations arise where it is appropriate for the tax authority to discontinue collection activity because the amount is uncollectible. Generally, the decision not to pursue recovery of tax arrears is made when the amount is deemed a “bad debt” to be written-off under government accounting procedures. Write-off provisions and procedures (as opposed to waiver provisions that are common in many countries) provide a transparent process to remove irrecoverable tax arrears from the books of account—see Box 6.

Box 6. Write-off of irrecoverable tax arrears

Write-off actions are generally limited to three situations:

- The tax arrears are not economical to pursue; typically, cases involving small amounts or situations where the taxpayer cannot be located.
- The taxpayer has no funds or other assets (e.g., where a company has ceased operations and there are no assets or where a debtor has died and left no assets).
- The arrears are not legally recoverable (e.g., where the amount represents the balance outstanding after a final dividend has been paid under bankruptcy or liquidation proceedings).

Most write-off systems have the following features:

- Legal authority to write-off tax arrears in some countries is provided under financial management and accountability laws, while in other countries they are specifically included in the revenue legislation. Write-off powers are given to a limited number, only, of senior tax officials.
- Write-off approvals (and supporting reasons) are fully documented, and reviewed—sometimes by a committee, in the case of large arrears. The write-off system is also subject to audit by the auditor-general, and the total value of arrears written-off is published annually.
- Except where the amount is irrecoverable in law, the debtor is not absolved from having to pay the liability (i.e. arrears may be re-established and action taken to collect it if a debtor’s financial position improves).
- Tax arrears are considered for write-off on a case-by-case basis.
- Uncollectible arrears are written-off without the knowledge or involvement of the debtors concerned (i.e., write-off is an internal accounting function).

E. Risk-based Audit

47. Most countries have developed national audit strategies and plans and use risk analysis techniques in varying degrees. A few countries also use a wide range of audit techniques. Table 8 presents the information on the features of the audit programs in the 10 countries.

Table 8. Key features of the current audit programs.

Country	Has a national audit strategy and plan	Uses risk analysis	Uses a wide range of audit types	Has access to a wide range of third party
Botswana	Yes	Yes, but the system is manual and rudimentary	No, desk review and examination is conducted by assessors, while auditors carry out comprehensive audits only.	No
Ghana	Yes; new initiative/staff being trained. Has a weak HQ function.	No	No, focus is overwhelmingly on reviewing all returns. The audit function, which was previously centralized, was decentralized in 2012 but is underdeveloped.	No
Kenya	Yes, but the audit HQ function is fragmented.	Yes, uses an excel-based matrix in the LTO. Manual processes are used elsewhere.	Yes.	No
Lesotho	Yes.	No, case selection is done randomly by audit managers.	No, audit dominated by limited scope type audits and low-value document verification initiatives.	No
Liberia	Yes, but has a weak audit HQ function.	Approach to selecting audit cases is manual and generally done by senior tax officials.	No, audit dominated by comprehensive audits.	No
Malawi	Yes but has a weak audit HQ function.	Yes, but relies on manual procedures.	Yes, but could be better realigned to increase coverage.	No
Nigeria	Yes but the HQ audit function has no direct link to field offices.	In progress.—a pilot risk-based audit selection system has been developed but not deployed.	No, focus is overwhelmingly on reviewing all returns.	No
Rwanda	Yes, but has a weak HQ function.	Yes, but a manual system	Desk audits, issue audits and comprehensive audits are carried out. However, most issue audits tend to be escalated to a comprehensive audit.	Yes, but on ad hoc basis
Tanzania	Yes, but has no HQ audit function.	Yes, but manual	Yes.	No
Zambia	Yes	Yes, but relies on a manual system.	Yes.	Yes, but on an ad hoc basis

48. **All countries, with the exception of Tanzania, have established a HQ audit function.** However, in most countries the function is considered very weak due to such factors as the limited resources allocated to the function, the low capacity of staff and the lack of proper planning. Considerable effort is needed in most of the 10 countries to strengthen the audit function if they are to have an effective and sustainable self-assessment system in place. Many of the diagnostic missions FAD has carried out and experts providing technical assistance have made this point.

49. **Examination of all tax returns is still dominant and use of risk analysis is manual and rudimentary.** In some countries, the audit program is still focused on checking

taxpayers that voluntarily self-assess before they file, as already discussed; this is clearly a waste of resources. In all the countries, use of risk analysis is either non-existent (audit selection is based instead on the judgment of senior officials) or very rudimentary (manual and complex to apply). Audits need to be driven by an objective determination of the risk of non-compliance.

50. **The need to utilize a range of verification and audit products according to nature of risk cuts across all countries.** Audit manuals recognize the need to use a range of audit types. However, in practice, most countries rely predominantly on comprehensive audits, and in some cases, issue oriented audits tend to escalate without justification into comprehensive audits. A broader mix of audit products would better address the tax risks and expand audit coverage in most countries leading to a broader perception by the taxpaying public of the risks of not complying with the tax rules.

51. **Audit effort is not effectively evaluated.** Most countries do not maintain or track performance indicators outside of the number of audits carried out and the additional assessments raised. The focus in many countries is solely on the amount of additional assessments raised in any period. To have an effective audit program there is a need for strengthened evaluation practices focusing on the quantity and quality of audits conducted, the voluntary collections generated, the filing of amended returns by taxpayers after an audit, etc. A wide range of tools for monitoring the performance of the audit program is therefore required. Examples of indicators typically used by many tax administration are:

- Number of audits completed by type of audit, and by taxpayer segment, and time spent on these audits.
- Additional tax assessed by audit, by tax type.
- Number and value of audits completed per person year.
- Percentage of audits where taxpayer accepted assessment.
- Percentage of audits completed within prescribed time limits, by type of audit.
- Number of cases referred to the investigations department.
- Percentage of wins or losses but the tax administration in appeal tribunal and tax courts.

52. **Access to third party information is constrained in many countries.** Sources of information that are typically useful to the tax administration include: industry or professional associations; licensing and regulatory bodies; land and property registries; government procurement agencies; government departments; police and other law enforcement agencies; banks and other financial institutions; etc. Only a few countries have the necessary linkages with such sources, and even then, they use the data only on an ad hoc basis. Building mutually beneficial relationships with these organizations would aid in this process significantly. Some of the steps involved are: (1) identifying useful third party data sources; (2) reaching agreement on how the data will be used; (3) developing IT solutions for how the data will be received, stored, perfected, analyzed, and matched to in-house

information; (4) establishing the legal ability to obtain the data; and (5) developing Memoranda of Understanding with providers.

F. Effective Interest and Penalty Regimes

53. **The majority of the countries under review appear to have good interest and penalty regimes as stated in law.**³¹ Table 9 describes key features of current interest and penalty regimes in the 10 countries.

Table 9. Features of current interest and penalty regimes.

Country	Has a good interest and penalty regime that can serve as an effective deterrent	Strictly enforces the interest and penalty regime.
Botswana	Yes, but being reviewed in the draft TPC.	Information not available.
Ghana	No. However, the new draft laws have addressed the shortcomings.	Anecdotal evidence suggests no. For example, in 2011, out of 610 audits conducted by the LTO, only 18 cases were penalized. Additionally, the effective penalty rate (assessed penalties against total assessments) works out to one percent.
Kenya	Yes, but being reviewed in the draft TPC.	Yes, but subject to request for waiver.
Lesotho	Yes.	No. For example, penalties for failing to file returns on time are not applied consistently, and to the fullest extent.
Liberia	Yes.	Information not available.
Malawi	Yes, but being reviewed in the draft TPC.	No. Not all penalties are applied, and penalty application is also inconsistent.
Nigeria	No, being reviewed.	Additional tax penalties for late lodgment & late payment are routinely imposed. Other penalties for understatement and record keeping are not routinely imposed.
Rwanda	Yes, detailed in the tax procedures code.	Yes.
Tanzania	Yes, but being reviewed in the draft TPC.	Yes.
Zambia	Yes	Yes.

54. **Ongoing application of the interest and penalty regimes in most countries is limited.** The design of an interest and penalty regime is one side of the coin; however, the other side is its application. Information in this area is generally limited, as is information on the actual amounts of tax, interest and penalties remitted. However, anecdotal evidence suggests that interest and penalty provisions are not strictly enforced. Many countries rely on manual systems and have a high number of inactive taxpayers on the register, which makes the application of interest and penalties very cumbersome. Further, a number of countries rely on checking all returns and typically raise a large number of “best-of-judgment”

³¹ A single criterion was used to assess whether the countries under review have a good interest and penalty regime; that is, does the income tax law contain provisions for charging: penalty on late-or non- filing; interest on late- or non-payment; understating installment payments; and failure to maintain records. What was not assessed is whether the respective rates are adequate. For example, is the rate of interest on late payment comparable with market interest rates?

assessments, which are arbitrary, difficult to enforce, and often understate true tax liabilities. Applying interest and penalty provisions effectively in such an environment is generally difficult.

G. Fair and Transparent Dispute Resolution Processes

55. **All of the ten countries have administrative procedures for handling disputes.** In addition, they (except Ghana) have external tribunals to handle cases where taxpayers are dissatisfied with the outcome of the administrative process. Table 10 describes key features of current dispute resolution procedures in the ten countries.

Table 10. Dispute resolution procedures in the ten countries.

Country	Has an objective dispute resolution procedure (administrative) within the tax administration.	Has an “external” tribunal for cases where taxpayers are dissatisfied with the outcome of the administrative process.
Botswana	No. The structure provides for an internal objections committee. However, this has not been implemented.	Yes. However, very few cases are referred to the Appeals Adjudication Board—seven cases in 2010/11 of which 2 were resolved.
Ghana	No. Disputes are initially resolved by officials in the tax office, and can escalate the objection through the ranks of the tax administration.	No.
Kenya	Yes. Disputes are initially resolved by independent teams set up in tax offices.	Yes. Five regional Local Committees resolve all disputes, except those relating to tax evasion, which are resolved by an Income Tax Tribunal (which is generally dormant). 130 cases were handled by the Local Committees in FY 2012/13.
Lesotho	No. Disputes are resolved by the original officer involved with the case (the officer may consult widely).	Yes. However, only a few cases have been pursued through the appeals process—3 cases in 2009/10 (1 was resolved).
Liberia	Yes, but is assigned one staff.	Yes, but handles very few cases, 2 in 2011.
Malawi	No. Objections are handled by managers in the respective jurisdictions.	Yes, but handles very few cases, 5 in 2009/10 (of which only 3 were resolved).
Nigeria	No. The CIT law states that the objection is filed with the FIRS Board. The PIT Law states the objection is filed with the “relevant tax authority.” In reality, the objection is first reviewed by the head of the office where the audit was conducted.	Yes. Handled 129 cases in 2010/11 of which only 23 were finalized.
Rwanda	Yes, a two-step process: an appeal with the Appeals Committee, which has been set up under the coordination of the Legal Department and an Arbitration Committee—as an interlude before proceeding to the special tax courts. Handles over 150 cases a year.	No.
Tanzania	Yes, objections are handled by special teams in the respective jurisdictions. Handled 988 cases in 2010/11.	Yes, the Tax Appeals Tribunal. Handled 37 cases in FY2011; predominantly brought up by large taxpayers.
Zambia	No. Objections can be handled by the head of the tax office, the Commissioner, or the Commissioner General.	Yes.

56. **Internal administrative procedures for handling objections lack transparency.** There are no independent internal structures for handling objections³² in many countries (except Kenya, Liberia, Rwanda and Tanzania). Very few countries maintain or track data on objection cases. As a result, it is unclear in many countries how many objection cases are lodged with the tax administration, are finalized or outstanding, or how long it takes to finalize cases. This level of opaqueness is a breeding ground for many undesirable practices generating unfortunate consequences. An unmonitored and nontransparent objection process can become an avenue for “negotiation” and corrupt practices. It also precludes a formalized feedback loop from objections and appeals to TPS and audit.

57. **Independent appeals tribunals are not functioning as intended.** In practice, with the exception of Kenya and Tanzania very few cases are being referred to the Tribunals.³³ Additionally, very few cases are being finalized even in light of this low work-load. This delay in the processing of appeals increases both the administrative and compliance costs and consumes resources that could be better utilized elsewhere.

IV. LESSONS AND CONCLUDING REMARKS

58. **Only half of the countries under review can be categorized as having in place many rudiments of an income tax self-assessment system—Kenya, Lesotho, Rwanda, Tanzania, and Zambia.** However, in all the 10 countries, the complete suite of all the conditions necessary for an effective income tax self-assessment system have not been put in place. The following lessons and observations can be drawn from the review of self-assessment implementation in the 10 SSA countries. They apply in varying degrees to countries that have made little progress implementing income tax self-assessment and those have taken significant steps in this area.

59. **A self-assessment system is more than just accepting taxpayers’ returns and then undertaking audits to make adjustments to the assessment.** Self-assessment demands that tax administrations adopt a service-oriented attitude towards taxpayers, ensuring that taxpayers have the information and support needed to meet their obligations under the law. It relies heavily on post-filing controls such as risk-based audits, collection enforcement measures, and prosecution of evasion—the objective is to detect and bring non-complying taxpayers to account.

³² Meaning objections are currently handled either by the same tax official that originally conducted the review or audit and raised the assessment or on an ad hoc basis by the head of the tax office, the head of the tax administration, or the head of the revenue authority.

³³ The appeals process in Tanzania has, in recent years, been criticized due to long delays in settling cases and, in some cases, questionable interpretations of the law. The appeals process remains dominated entirely by large taxpayers (there have been no non-large taxpayers appeal cases during the last three years).

60. **A better appreciation of the magnitude of reform and transformation needed to make income tax self-assessment work effectively is needed.** A self-assessment system therefore requires a considerable shift in the mindset of both the tax administration staff and the taxpayers. This starts with a clear articulation of the self-assessment system, why it is important, why it is being implemented, the scope of changes needed, and the benefits to be derived from its implementation. Self-assessment implementation should therefore feature prominently in the organization; generally or explicitly on the conditions that must be put in place for its effectiveness.

61. **The legislative framework should be fully supportive of a self-assessment system.** Focus should be on both enhancing certainty of the tax system and protecting those taxpayers that comply voluntarily, and protecting the revenue. Importantly, this is not a one-time event but should be an ongoing endeavor.

62. **A strong tax administration headquarters function must take the lead in instituting an effective TPS program.** The objective is to ensure that taxpayers are aware of and understand their obligations and entitlements under the tax laws and also seek to elevate the sense of moral responsibility to pay taxes. The tax administration headquarters TPS function should prepare a comprehensive multi-year TPS strategy setting the tax administration's vision, guiding principles, and high level objectives for TPS and describe its operational delivery plans.

63. **Filing and payment procedures must be streamlined.** The tax administration must make it as easy as possible for taxpayers to file and pay their taxes, through innovation and modern technology, reducing the taxpayer's cost of compliance.

64. **All available collection powers must be fully and effectively utilized to enforce collection.** Income tax laws confer powers which should be utilized to enforce collection, including: the right to institute proceedings through the courts; seize and sell assets; appoint third parties to collect and remit taxes due; and place liens on immovable property.

65. **The audit program must be comprehensive, involving a range of audit products, and based on an assessment of critical compliance risks.** Focusing on examining all tax returns is misplaced and wasteful. Audit policies and procedures need to reflect the risk-driven approach from case selection through to settlement of cases. The objective is to maximize the use of resources for optimum tax revenue outcomes and compliance with the laws. A wider range of audit products should also be utilized effectively and on the basis of risk assessment to increase coverage and impact.

66. **Interest and penalty must be applied and the application must be consistent.** Taxes not paid on time should be subject to penalty and interest charges. Administrative rules are also required to guide the application of penalties and interest on a basis proportional to the taxpayer's neglect.

67. **The dispute resolution process must be fair and expeditious.** Various levels of review must be made available to taxpayers. Internally, a review could be taken by a formally established objections committee with set operating rules. An appeal is referred to an independent Tax Appeal Tribunal which should be staffed with qualified individuals, given the resources they need to operate effectively, and made to account for results. Taxpayers can also seek review in the courts (not discussed in this paper).

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