HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

MAURITANIA

Tax Policy Diagnostic

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Prepared By

Grégoire Rota-Graziosi, Thomas Benninger, Jean-François Brun, Emilie Caldeira, and Fayçal Sawadogo

FISCAL AFFAIRS DEPARTMENT

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

ABSTRACT: The IMF's Fiscal Affairs Department has been working with Mauritania on capacity building in tax policy. Mauritania has recently created a tax policy unit and adopted a new General Tax Code in 2019 with a corporate income tax and a semi-dual approach to personal income taxation. However, there is significant scope to enhance the efficiency and effectiveness of income taxes, including due to the proliferation of wasteful tax exemptions. The fast urbanization also calls for a review of recurrent property taxation. The formalization of property rights requires a temporary suspension of the excessive registration fees. Consumption taxation can also be improved by broadening the tax base, for example, by abolishing regressive value-added tax exemptions or by imposing excise taxes on imported used vehicles. Finally, several recommendations aim to support the reform of the Mining Code, such as introducing some progressivity, prohibiting the negotiation of any tax parameters, and strengthening the principle of ring-fencing.

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Mauritania's tax-GDP ratio was 12.7 percent in 2023, below the regional average. Its tax potential is estimated at between 15 percent and 19 percent of GDP, suggesting a significant room for revenue mobilization. The tax transition, which corresponds to the replacement of customs revenues by domestic tax revenues, appears to have been completed.

Mauritania has received sustained technical assistance in tax policy since 2008. The country has significantly modernized its direct tax system in the last decade. The income tax reform that started in 2013 simplified personal income taxation. The abolition of the *Impôt Global sur le Revenu* (IGR) enabled adopting a semi-dual approach, which is easier to administer. The reform also encouraged the formalization of the Mauritanian economy by introducing a corporate income tax (CIT) and an individual business profits tax (IBAPP), with distinct rates and bases that favor incorporated entities. These reforms were finalized with the adoption of a new General Tax Code (CGI) in 2019. The creation of a Tax Policy Unit in 2023 is expected to strengthen the institutional capacity for tax policy making.

The tax on salaries and wages (ITS) is the primary source of revenue from direct taxes, accounting for almost 1.8 percent of GDP in 2023. While the tax is de jure progressive and appears to be in line with regional best practices, as defined in the CGI, de facto progressivity is limited or inexistant for some categories of employees. For example, while the 60 percent deduction for in-kind benefits offers opportunities to avoid the higher rates of the tax scale, a considerable share of recent increases of civil servants' remuneration appears to be exempt from tax (not specified in the CGI). This means that individuals with the same income are taxed in an unequal manner, undermining the fairness of Mauritania's tax system. Restoring the tax law on these salaries could increase revenues by up to 0.75 percent of GDP. In addition to the ITS, the tax wedge, which measures the difference between the cost of labor for the employer and the net income for the employee (expressed as a percent of cost of labor), is very high in Mauritania, at around 37 percent. This level, which can be explained by high social security contributions similar to, or even higher than, those applied in OECD countries, is an obstacle to the formalization of jobs.

Mauritania's definition of the CIT aligns with best practices. However, the proliferation of wasteful exemptions, specific sectoral tax regimes, and taxes and parafiscal fees levied on sales or production factors undermine its neutrality and equity. An analysis of the effective tax rate of economic sectors reveals a wide disparity, ranging from 3 percent for garages to almost 70 percent for fishing and telecommunications. It is recommended to stop granting exemptions from the CIT and instead consider cost-based incentives such as the use of accelerated depreciation already foreseen in the CGI or non-refundable investment tax credits that directly link the reduction in the tax payment to the amount of investment. The investment tax credit would allow the carryforward of unused credits during periods of losses, without cash payments in those periods. Cost-based CIT incentives should only be in the tax law with clear eligibility criteria, without room for discretion, to ensure a robust governance.

Mauritania's property tax system needs a thorough overhaul. Property tax collection should be centralized and entrusted to the General Directorate for Taxes (DGI) or the General Directorate of Domaine, at least in the main urban centers. Service charges for the administration and an automatic transfer of revenues to the commune budget should secure this transfer of responsibility. Mass titling of the 800,000 plots of land is necessary to formalize land ownership. This requires a drastic reduction or even temporary abolition of registration fees.

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Indirect taxes have changed little over the last decade, and there is still much room for improvement. The refund mechanism of the Value Added Tax (VAT) is not operational, and there is no VAT reverse charge. Exemptions are numerous, with tax expenditures estimated at MRU 2.2 billion (0.57 percent of GDP). Analyzing their redistributive implications reveal that some, accounting for 0.14 percent of GDP, are regressive and should be eliminated. Furthermore, considerations should be given to removing exemptions on locally produced agricultural goods, such as vegetables, which would protect small domestic producers—instead of seasonally doubling import tariffs.

The excise duties (*Taxe de Consommation*) cover a narrow set of consumption items and are only applied on imported goods. They could be extended to certain goods such as cars, plastic packaging, and sugar and its derivatives to internalize the negative externalities. This broadening would generate an estimated revenue gain of 0.5 percent of GDP and would help to modernize land transport by making it more efficient and bringing it into line with practices in neighboring countries.

Finally, as the authorities embark on a revision of the Mining Code, it is important to note that project-specific average effective tax rates (AETRs) places Mauritania's 2008 mining tax regime (revised in 2014) among those generating a high share of the mining rent for the government. However, this regime is one of the region's most regressive and, therefore, a deterrent to investment if project profitability is low. The reform should consequently focus on introducing progressive elements into the tax regime, such as a tax on economic rents, eliminating possibilities for negotiating with investors tax parameters outside the law, modernizing the ring-fencing rule, eliminating CIT exemptions, and more generally referring to the CGI for any general tax provisions—instead of writing specific ones in the Mining Code.

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