

ICF Tax Modernization Projects

The Challenge:

One of the biggest challenges facing the private sector in Africa is the bureaucracy involved in the tax compliance process. Inefficient tax collection systems often require businesses to physically file paperwork at tax bureaus and authorities for processing, payment and refunds of taxes. This poses a significant burden on the private sector in terms of time and cost, and often



leads to low tax compliance. In addition, such inefficient tax systems create an uneven playing field, whereby some investors face taxes and duties that others are able to avoid. Ultimately, this has an adverse effect at the national level as it potentially reduces tax revenue that could be applied towards achieving development goals.

The Solution:

ICF intervention in this area focuses on simplifying and streamlining tax procedures and creating online systems for processing and paying taxes. Modernizing the way revenue authorities operate can create efficient tax collection systems that can have a significant impact on the investment climate of a country and benefit both the private sector and the Government. For the private sector, a simple, clear and transparent system enables businesses to meet their tax obligations quickly and in a cost effective manner knowing that they are paying the same taxes as their competitors. For Government, an efficient system increases tax compliance and broadens the tax net, leading to increased revenue and also protects the system against manipulation thereby levelling the playing field for all actors.

The Impact:

From a macro perspective, efficient tax collection systems can have a great socio-economic impact on a country by providing Government with the resources it needs to implement development initiatives aimed at reducing poverty and provide social services. Strong tax systems also reduce vulnerability to economic shocks by enabling governments to take corrective action and in the long-term, reduce dependence on external aid. Finally, clear and transparent tax systems also encourage and incentivize informal businesses to formalize their economic activities, thus stimulating the growth of the domestic private sector and its contributions to economic development.

The Projects:

As of March 2016, ICF had 11 completed and ongoing projects in 8 countries and 1 special initiative in the taxation sector with a total funding commitment of US\$ 16.12m.

Project Name	Expected Results
Rwanda – Modernization of Tax Administration	<ul style="list-style-type: none"> • Reduced the time to process domestic taxes (VAT, income tax, PAYE) from 23.5 days to instantaneous, due to a new online system. • Reduced the time to process Tax Clearance certificates from 3 days to 10 minutes • Made possible secure online filing of tax returns from anywhere, making it easier and more convenient for the taxpayer. Taxpayers can also pay electronically through banks or mobile banking.
Zambia – Modernization of Tax Administration	<ul style="list-style-type: none"> • Reduced the time taken to file, pay and process VAT and income tax returns from 10 days to 1 day • Reduced the time taken to register a taxpayer from 3 days to 1 day • Reduced the time to process tax refunds from 45 days to 30 days
Senegal – Modernization of Tax Administration	<ul style="list-style-type: none"> • Reduced the time taken by large taxpayers to declare and pay taxes from 2 days to 15 minutes • Reduced the time taken to process corporate tax reimbursements from a minimum of 175 days to 15 days • Reduced the time taken to process VAT credit refunds from a minimum of 175 days to 30 days
Cape Verde – Tax Reform	<ul style="list-style-type: none"> • Made VAT electronic declarations mandatory by law in 2014. • Increased the tax revenue growth from 7.7 in 2013 to 14.6 in September 2015. • Decreased the time it takes to pay taxes from 7 days to within 1 day. • Increase the share of taxpayers submitting income tax returns from the current 40% to 70%.
Ethiopia – Modernization of Tax Administration	<ul style="list-style-type: none"> • Reduced the time taken by large taxpayers to submit tax applications and effect payment to 1 day • Established a call center to facilitate interaction with all taxpayers

The Future:

Tax reform and modernization remains a critical goal for improved investment climate and demand for ICF interventions in this area remains high. Going forward, ICF will pay particular attention to interlinkages between tax reform and modernization and other priority areas such as PPPs, trade facilitation, business registration, SME development and ADR mechanisms for resolving commercial disputes.