REPUBLIC OF SENEGAL

DEPARTMENT OF ECONOMY AND FINANCES

DIRECTION GENERALE
DES IMPOTS ET DES DOMAINES

Workshop on Tax Base Protection for Developing Countries

Tax Incentives and Tax Base Protection Issues

Presented by M. Baye Moussa NDOYE

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OUTLINE

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INTRODUCTION

- Tax incentives are special provisions that create exemptions from ordinary law and cause lost of tax revenue.
- They are one of the instruments for economic or social policy and have been widely used in Senegal over the last few years.
- Improve the competitiveness of the country
- to attract foreign investments;
  - Job Creation
  - Intensification of existing industrial enterprise, etc.

I – SENEGALESE POLICIES ON TAX INCENTIVES

I. 1. The tax incentives regulation

- The 70's: giving maximum incentives to attract big investments (1st generation of Investment Code, Law 74-08, April 22nd 1974 on Industrial Free Zone of Dakar, etc.)
- The 80's/90's: developing local SMEs/SMIs (2nd generation of investment code, Law 87-25, April 18th 1987)
- The 90's/2000's: encouraging export (Law 95-34, December 29th 1995 on Free Export Companies)
- Current policy (since 2004): rationalizing incentives (new generation of Investment Code, Law 2004-06, February 6th 2004) but new Policy to attract big investments (Law 2007-25, May 22th 2007 for investments whose amount exceeds 250 milliard F CFA).

I – SENEGALESE POLICIES ON TAX INCENTIVES

I. 2. The harmful effects of tax incentives

- Revenue losses
- Loss of revenue due to probable tax evasion
- Increase of administrative burden
- Heavier tax burden to offset the loss of revenue due to incentives
- The inequalities created can weaken the tax compliance
- Lack of transparency
- The financial aspect of tax incentives can encourage corruption

II – THE EVALUATION OF TAX EXPENDITURES

II.1 - OBJECTIVES OF THE EVALUATION

General objective: evaluate the budgetary, economic and social impact of the principal tax expenditures, with a view to optimize the tax efficiency, improved the transparency in the management of public finances.

II – THE EVALUATION OF TAX EXPENDITURES

- **II.1 - OBJECTIVES OF THE EVALUATION**

❑ Specific Objectives :

- measure the cost of tax expenditures, their allocation by beneficiary (business / household sectors) or goal (economic or social);
- measure their share in the tax revenues, tax expenditures and the GDP in order to improve the monitoring;
- evaluate, if possible, the impact of tax expenditures on beneficiaries regarding their objective.

II – THE EVALUATION OF TAX EXPENDITURES

II. 2 RESULTS OF THE EVALUATION

II.2.1– Quantitative evaluation of tax expenditures

Results for 2008 et 2009

	Measures counted		Mesures evaluated	
	2008	**2009**	**2008**	**2009**
Direct tax	101	110	48	64
Indirect tax	94	96	47	63
Registration tax	75	79	16	14
Custom duties	38	41	22	30
Total	**308**	**326**	**133**	**171**
Percentage estimated	-	-	43%	52%

II – THE EVALUATION OF TAX EXPENDITURES

II.2. RESULTS OF THE EVALUATION

II.2.1. Quantitative evaluation of tax expenditures

	tax Expenditures (Mds)		% Revenue collected		% GDP	
	2008	**2009**	**2008**	**2009**	**2008**	**2009**
Direct tax	39,5	56,6				
Indirect tax	258,4	204,9				
Registration tax	8,1	6				
Custom duties	71,5	33				
Total	**377,5**	**300,5**	**33%**	**27%**	**5%**	**3,7%**

II – THE EVALUATION OF TAX EXPENDITURES

II.3 – Evaluation of economic and social impact

- Economic analysis of the mining sector
- Microeconomic analysis of the tax regime for the mining code:

  - no significant effect on the productivity and the investment in the sector;

  - A result consistent with the results of the study "the impact of corporate tax on investment decisions in Senegal."

II – THE EVALUATION OF TAX EXPENDITURES

II.3 – Evaluation of economic and social impact

- Social impact of the elimination of exemptions

- Using a Social Accounting Matrix (SAM), which pointed out that there is a multiplier effect on economic activity in the cut of tax expenditures relating to VAT. Therefore beneficial to households.

III – PROTECTIVE MEASURES OF THE TAX BASE

III.1 – At the political level

- Officials are aware of the weakness of the tax system because of the tax intencives ;
- Technical and financial partners, too, are aware of such situation.

III – PROTECTIVE MEASURES OF THE TAX BASE

III.2 – For tax purposes: rationalization of Tax Expenditures

❑ Rationalization of tax incentives related to :

- VAT exemptions and / or specific taxes (operations financed from foreign resources, NGOs, etc.);
- VAT exemptions in favor of Export Free Zones;
- Introduction of more flexible and efficient (tax credit for investment & exports, VAT suspension) mechanisms.

III – PROTECTIVE MEASURES OF THE TAX BASE

- **III.3 – At the technical and strategic level**

- Improve the transparency in the management of tax incentives.

- Adoption of a new Tax Code after the evaluation of tax expenditures.
  - Institution of an Incentive common law through the consolidation of tax legislation

CONCLUSION

- An interesting opportunity for Developing Countries facing financing needs for development (efficiency and transparency in the management of fiscal policy).

- Three perspectives:
  - (i) explore the ante-evaluation of tax incentives,
  - (ii) consider the issues of international taxation and
  - (iii) promote coordination and international cooperation.

THANK YOU FOR YOUR KIND ATTENTION !!!