

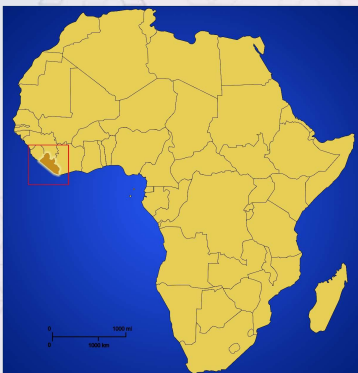
Taxation of ODA Funded projects

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Outline

- Liberia – Snapshot
- Role of ODA in Liberia
- ODA Tax Exemptions
 - Broad Tax Exemptions
 - Problems With Broad Exemptions
- Liberia’s experience in ODA exemptions
- My Perspective

Liberia : Snapshot



Liberia : Snapshot

Description	FY14/15	FY15/16	FY16/17
Total National Budget (US\$m)	635.2	522.8	600.2
Total Revenue Outturn (US\$m)	644	571	524
Domestic Revenue Target (US\$m)	417.2	416.3	525
Domestic Revenue Actual (US\$m)	437.2	452.8	461.8
Revenue Performance against target	105%	109%	88%
Average Monthly Collection	36.4	37.7	38.5
Annual Revenue Growth	-7%	4%	2%
GDP (US\$m)	2012	2035	2301
Tax to GDP Ratio	21.7%	22.3%	20.1%
Domestic Resource Contribution to Budget	68%	79%	88%
Tax Roll	30,514	40,140	51,880
Total Number of Staff	801	847	839
<i>o/w</i> Number of Male Staff	604	587	644
<i>o/w</i> Number of Female Staff	197	183	195
LRA Expenditure Budget (US\$m)	13.1	17.5	18.7
Total Cost per Dollar Collected ratio	3.0%	3.9%	4.0%

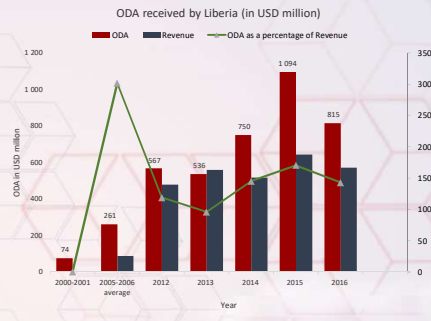
1. Liberia depends on the Natural resource sector (Rubber, Iron Ore, Gold, Forestry) and international trade (Imports) for National Revenues

2. Over past decade, Liberia has faced multiple challenges that have affected overall economic growth and subsequently National Revenues, thus increasing dependence on ODA.

ODA Trend In Liberia



1. National Budget for Liberia for FY 2015/2016 was US\$571m (this includes Budget support). ODA received in 2016 is 143 % of National Budget
2. A larger percentage of the ODA is in the form of assets and not cash flow. The cash flow generally remains in the donor country



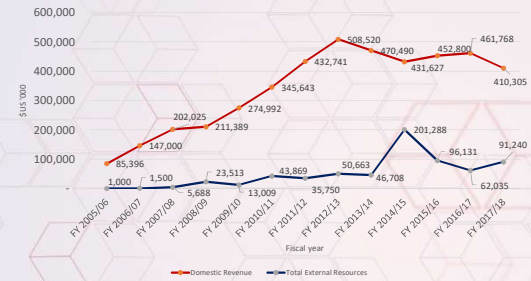
¹Statistics on Resource flows to developing Countries, OECD

5

External Resources Contribution To Revenue



Domestic Revenue versus Total external resources



1. Total external resources are Grants and Borrowings that are cash budget support
2. Domestic Revenue contribution is higher than the direct budget s

6

Broad Tax Exemptions Example - A typical TE provision



1. "...the Government will ensure that all Funding is free from the payment or imposition of any existing or future taxes, duties, levies, contributions or similar charges..."
2. "...Specifically, and without limiting the generality of the foregoing, Funding will be free from the payment of (i) any tariffs, customs duties, import taxes, export taxes, and other similar charges on any goods, works or services introduced into Liberia in ..."²

2

7

Broad Tax Exemptions Example - Cotonou Agreement "MFN"



- "... The ACP³ States shall apply to contracts financed by the Community, tax and customs arrangements no less favorable than those applied by them to the most favored states or international development organizations with which they have relations..."

³ African, Caribbean and Pacific States

⁴ EC-ACP Cotonou Agreement, June 2010

8

Broad Tax Exemptions Example – African Development Bank

Excerpts from a Road Construction project

1. "...14.1.1 (b).. Contractor shall pay all taxes, duties and fees.. The contract price shall not be adjusted for any of these costs.."
2. "... Notwithstanding the provisions of clause 14.1.1 (b), The Contractor will be EXEMPTED from the payment of Import duties and local taxes on all local Goods and Equipment.."

Broad Tax Exemptions Example – A World Bank Contract

Excerpts from a Transmission Lines Project

1. General Condition
"... the Contractor shall bear and pay all taxes, duties, levies.. Assessed on the Contractor, its Subcontractors or their employees.."
2. Particular Condition
"...The Employer and the Contractor are exempted from taxes and duties as specified in the "Treaty"
Particular conditions take precedence over General conditions

Key Reasons For Tax Exemptions

1. Taxation reduces the available aid to be spent in recipient country
2. Concerns about recipient country's public expenditure mechanisms – Donors rather contribute directly to certain sectors through individual projects than contribute to National Budget by paying taxes
3. It would be more difficult to attract employees or contractors or employees to work in the countries of operation without exemptions⁶

⁶Department of Foreign Affairs and Trade, Australian Government, 2017

Key Reasons For Tax Exemptions

4. Financing the tax costs will reduce the actual infusion
5. Calculation of the tax costs of projects is normally not undertaken to fairly compare tax costs and the claimed impact on ODA
6. Recipient countries many times do not have a choice

Issues With Broad Tax Exemptions



1. Cascading effect

Goes beyond the agency implementing ODA thereby compounding the revenue implications

2. High costs of administering

- a) Contractors tend to misuse duty free exemptions by importing goods not intended for project use
- b) Petroleum products exemptions are difficult to administer
- c) Difficult to administer taxes on Goods imported duty free that are resold in the local market

13

Issues With Broad Tax Exemptions



3. Economic distortions⁷

- Competitive disadvantage for local producers as compared to duty free imported goods
- Incentivizes tax avoidance among local producers
- Black market sales of fuel, movable items, vehicles, spare parts, generators that are imported duty free

4. Future and other negotiation of tax exemptions becomes difficult when precedent is set as seen in the Cotonou agreement (the clause on most favored nations). Other subsequent ODA providers request the most broad set of exemptions granted previously to any other institution

⁷Working draft on ODA tax exemptions, Overseas Development Institute, 2018.

14

Problems With Broad Tax Exemptions



5. Under-mining the effectiveness and fairness of the tax system.

They affect uniformity in implementation of tax laws.

This problem is also cited in WB Report as one reason why broad exemptions should be discouraged.

".. World Bank's policy of not financing local taxes and duties encourages governments (especially the ones that are fiscally stressed) to provide tax exemptions, thereby undermining the integrity of the fiscal system.."⁸

⁸Eligibility Of Expenditures In World Bank Lending: A New Policy Framework. Following this Framework, 2004

15

Needed Revenue Not Captured



Example, exemptions on taxes for services rendered

(i) Contracts awarded by the World Bank in Liberia. The total amount for all fiscal years from 2007-2018 is \$US 15.8 million¹¹



¹⁰ Data Source : <https://finances.worldbank.org/Procurement/Major-Contract-Awards/ldui-wcs3/data>

¹¹ Data Source : http://www.mca.gov.lr/index.php?option=com_content&view=article&id=261&Itemid=914&lang=en

16



My Perspective

LRA
LIBERIA REVENUE AUTHORITY

1. Exemption on capital equipment, raw material and related imports
2. Payment of income and related taxes by natural and profit making legal persons

18

My Perspective

LRA
LIBERIA REVENUE AUTHORITY

1. PIT, GST, CIT, should be paid to recipient country instead of requesting broad exemptions. Tax Authority can provide certificate to avoid double taxation in Home Country

SECURITY

19

My Perspective

LRA
LIBERIA REVENUE AUTHORITY

2. Import duty and related taxes on capital equipment and required raw materials for implementing projects should be exempt and the HS Code clearly defined.
3. Import duty and related taxes on petroleum should not be exempt. This is a common operating cost and should not be exempt as it is very easily subject to abuse.
4. ODA donors should please also embrace practical cooperation and assistance in the DRM effort by agreeing to serve as withholding agents or helping to facilitate compliance by requiring Tin and tax clearance

20



Thank you