

Workshop report

TOWARDS FISCAL SELF-RELIANCE: Capacity building for domestic revenue enhancement in Mozambique, Tanzania and Zambia

Maputo, 30-31 March, 2011



Jointly organised by Norad, the Royal Norwegian Embassy in
Mozambique, Chr. Michelsen Institute and
the International Centre for Tax and Development

Workshop report

Kari K. Heggstad (CMI and ICTD)
with Tanja Ustvedt, Thomas Lange Myhrvold-Hanssen
and Marte Briseid (Norad)

Front page illustration: Jan Speed, Bistandsaktuelt

Contents

Acronyms.....iv

Summary report from the workshop 1

Summary of presentations and discussions 3

 The tax system in Mozambique, Tanzania and Zambia: Achievements, challenges and recommendations for Norwegian support..... 3

 Comments and discussion of the research report 4

 Tax compliance, enforcement and taxpayer education..... 5

 Tax for development – Norwegian policy and perspective..... 6

 Overview of ATAFs work on transfer pricing and exchange of information 7

 Panel debate..... 7

 Tax administration reforms in Tanzania – experience and challenges 9

 Basic building blocks of domestic resource mobilisation..... 10

 The simplified tax-model for small taxpayers (ISPC) – an example of successful tax reform..... 11

 Taxation of multi-national enterprises..... 12

 The Norwegian petroleum tax model 13

 Workshop summary and conclusions 14

Annexes 15

 1. List of participants 16

 2. Agenda..... 18

 3. Pictures..... 20

Acronyms

ATAF	African Tax Administration Forum
ATM	Tributária de Moçambique (Mozambique Revenue Authority)
CIP	Centro de Integridade Publica (NGO, Mozambique)
EITI	Extractive Industries Transparency Initiative
GFI	Global Financial Integrity
ICT	Information and communication technology
ISPC	Simplified tax model for small taxpayers (Mozambique)
LTO	Large Taxpayer Office
LTP	Large Taxpayer
LTU	Large Taxpayer Unit
MoF	Ministry of Finance
MoU	Memorandum of Understanding
NTA	Norwegian Tax Administration
RA	Revenue Authority
SARS	South African Revenue Service
TA	Tax Administration
TRA	Tanzania Revenue Authority
ZRA	Zambia Revenue Authority

Summary report from the workshop

The workshop *Toward fiscal self-reliance: Capacity building for domestic revenue enhancement in Mozambique, Tanzania and Zambia* took place in Maputo, Mozambique 30-31 March 2011. The purpose of the workshop was to facilitate information exchange and discussions between revenue authorities on mutual challenges and practical experiences regarding domestic revenue mobilization.

The workshop gathered participants from the revenue authorities in Mozambique, Zambia, Tanzania, South Africa and Norway, as well as the African Tax Administration Forum (ATAF), the Ministry of Finance in Mozambique; the Norwegian Ministry of Foreign Affairs, Norad and the Norwegian Embassies in Dar es Salaam, Maputo and Lusaka, Chr. Michelsen Institute and the International Centre of Tax and Development (ICTD). The Norwegian State Secretary for International Development, Ingrid Fiskaa, participated in the first day of the workshop.

The presentations and discussions during the workshop demonstrated how the revenue authorities in Tanzania, Mozambique and Zambia have made significant progress in reforming their tax systems. Positive changes have especially been simplification of the tax systems (rates and procedures) and improved tax administration at the central government level. Donor support has contributed to build capacity in areas such as human resource development, internal audits and integration of tax departments. The past five years have seen a substantial increase in domestic revenue mobilization measured in nominal USD in Zambia, Tanzania and Mozambique. Measured in tax as a share of GDP, Tanzania and Mozambique have seen an increase while Zambia has maintained a relatively stable level from 2005 to 2009. Both in Zambia and Tanzania the tax-to-GDP ratio declined in 2008/09.

The current tax ratio is likely to be far below its potential in all three countries. Substantial reforms of the exemption regimes and the tax systems for natural resources would help to move the countries towards fiscal self-reliance. There was broad agreement among the tax administrators that the extent of tax exemptions needs to be reduced, while it was recognized that the issue is highly political and difficult for the revenue administrations to influence in practice. However, applied research can be a powerful tool to influence and convince policy makers of the need for, and direction of, reforms. Good working relations and efficient exchange of information between the Revenue Authority and other parts of government such as the Ministry of Finance, ministries dealing with natural resources, the Auditor General's office and local governments are crucial.

The research report presented by Prof. Fjeldstad showed that there is a need to encourage broader citizen engagement around taxation in the three countries, because of the positive effects civil involvement may have on accountability of the tax administration operations and government spending. This could help improving tax compliance by facilitating dialogue between taxpayers and the tax administration. A more accountable system could improve tax compliance and also help tax collectors to strike a better balance between revenue and service targets.

The discussions during the workshop reflected many commonalities in the challenges faced by the revenue authorities. The solutions to the challenges do however differ across countries and should be tailored to fit the local context. Taxpayer education was seen as one area in which contextual campaigns are of particular importance.

Representatives from the revenue authorities singled out sharing of experiences and good practices as one of the most important areas for further collaboration. ATAF was seen as a natural forum and a potential important 'knowledge base' for tax administrations in Africa. Exchange of staff between revenue authorities was discussed as a possible way to work together and learn from each other. Transfer pricing, taxation of extractive industries, specialised audits, taxation of the informal sector, VAT and taxpayer education were the most discussed topics throughout the workshop. The participants pointed to the need for technical assistance in strengthening the legal expertise, building specialised audit capacity for taxation of key sectors and increasing voluntary compliance, integrity and dialogue.

The participants supported a suggestion made during the final discussion to follow up the workshop with a new event in 2012. Norad and ATAF will explore the opportunities for jointly organising a workshop. This could also be an opportunity for assessing the ongoing cooperation between the Norwegian Tax Administration and the revenue authorities in Zambia, Tanzania and Mozambique.

Summary of presentations and discussions

Mr. Hermínio Sueia, the Director General of Planning, Studies and International cooperation of Mozambique Revenue Authority (ATM), welcomed the participants to the workshop and gave a brief introduction to ATM and their strategic plan for 2011-14. The Norwegian Ambassador to Mozambique, Tove Bruvik Westberg, gave the opening statement. Ms. Westberg expressed appreciation of the long-term collaboration Norway has had with Tanzania, Zambia and Mozambique, and she emphasised the importance of looking beyond the technical tax matters so that the redistribution of tax revenue gets included in the concerns of building a better system. The moderator was Norad Director Per Øyvind Bastøe.

The tax system in Mozambique, Tanzania and Zambia: Achievements, challenges and recommendations for Norwegian support

Professor Odd-Helge Fjeldstad, Chr. Michelsen Institute and the International Centre for Tax and Development

Professor Fjeldstad summarised the main findings and recommendations of the research report *The tax systems in Mozambique, Tanzania and Zambia: capacity and constraints*. The purpose of the study was to systematise and analyse existing knowledge of capacity and constraints of the tax systems and administrations in the three countries. The study examines current work to strengthening the tax systems, identifies gaps and provides recommendations for Norwegian support for effective and accountable taxation.

The report finds that Mozambique, Tanzania and Zambia have made significant progress in reforming their tax systems, in particular with respect to simplifying the tax system, including rates and procedures, and improving tax administration at the central government level.

Over the past five years, all three countries have witnessed a substantial increase in domestic revenue measured in nominal USD. Measured in tax-to-GDP terms, Mozambique (15.4% in 2009) and Tanzania (14.2% in 2009) have both seen a substantial increase in the tax share in recent years, although Tanzania experienced a decline in FY 2008/09. In Zambia (15% in 2009) the tax share has stagnated in recent years and declined in FY 2008/09. Prof. Fjeldstad argued that considering the extent of natural resource rents in all three countries the current tax-to-GDP ratios are significantly below their potential. This is particularly so for Zambia, where the level of foregone rent is very significant, but it also counts for Tanzania and Mozambique.

According to Dr. Fjeldstad, tax policy represents the main obstacle for the development of effective tax systems in Mozambique, Tanzania and Zambia. The presence of tax incentives in the form of exemptions and tax holidays have enabled a number of firms, notably in extractive industries, manufacturing and processing, but also hotels and tourist lodges, to effectively escape taxation altogether for a large number of years. Dr. Fjeldstad argued that without substantial reforms of the tax exemption regime and the tax system for natural resources it is unlikely that fiscal self-reliance is in reach in the foreseeable future.

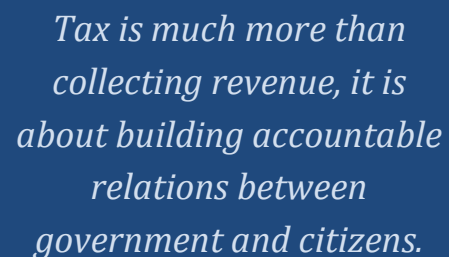
Tax is only one of many factors that decide investment

The establishment of revenue authorities has led to substantial improvements of tax administration in the three countries. Donor support has contributed to building capacity in a range of areas, including human resource development, internal audits and integration of tax departments. There is a need for further technical assistance related to specialised audits and legal expertise for taxation of key and growing sectors such as extractive industries, telecommunications, the financial sector and tourism. There is also a need to strengthen measures that aim to improve voluntary compliance, including taxpayer education, dialogue forums where taxpayers and tax administrators can meet, e-taxation, as well as measures to improve the integrity of tax officers.

Although the tax administrations in the three countries have made significant progress over recent years, and the private sector acknowledges this, problems in taxpayer and tax administration relations remain. In spite of well formulated and ‘business friendly’ tax laws, tax officers in practice have discretion over important decisions, such as those related to the determination of tax liabilities (assessments), selection of audits, litigation and delays in VAT refunds, etc. Many administrative procedures, including those related to the reporting of tax revenues, could be more transparent.

Dr. Fjeldstad argued for the need to strike a balance between revenue and service targets. The uncompromising revenue target focus of the tax administrations implies that achieving the collective target becomes not ‘everything’, but the ‘only thing’ and sometimes also at ‘any cost’, to the detriment of other responsibilities of the tax administration. This may legitimise extortion and harassment of taxpayers, and transparency, accountability and customer friendliness are likely to suffer.

Generally, there is a need in all three countries to strengthen the demand side of tax accountability, i.e. to encourage broader citizen engagement around taxation (including business and taxpayer associations). Civil Society Organisations (CSOs) can be an important channel for improving awareness and education on tax issues. Zambian and Tanzanian CSOs have been instrumental in initiating public debate on tax policies, and their role has not been limited to the commercial interests of the private sector. NGOs in the social sectors



Tax is much more than collecting revenue, it is about building accountable relations between government and citizens.

with a pro-poor agenda have contributed to the public discussion, in particular with respect to taxation of natural resources. Caritas Zambia and Revenue Watch Institute Tanzania (RWI) have also initiated dialogue meetings and training workshops for parliamentarians on mining sector reforms. These and other CSOs, including CIP in Mozambique, have published reports which have led to widespread public debate on the role of the mining sector for the development of the country.

Comments and discussion of the research report

Mary Maganga from TRA, Dingani Banda from ZRA and Maria Otilia M. Santos from ATM presented comments from their respective organisations before the floor was opened for general discussion. There was a general agreement on the findings of the study. Further, the recommendations were largely considered to be feasible to implement within the existing strategic frameworks of the revenue administrations.

Common concerns on the mining sector were access to information from the mining companies and the legal hoops of renegotiating existing contracts with lucrative conditions for international mining companies. Specialised technical expertise for auditing mining activities is in short supply in the revenue authorities. Further, the tax administrations often experience difficulties to get relevant information from the international mining companies.

Research is a powerful tool to influence reforms

There was broad agreement that the extent of tax exemptions needs to be reduced but that this is a highly political issue which is difficult for revenue administrations to influence. The participants encouraged each other to continue the dialogue and share lessons on how to address the challenges of political pressure for exemptions.

Taxation of the informal sector was seen as a common challenge in all three countries. Further, taxpayer education is a challenge, due to high levels of illiteracy. It was suggested that these areas should be considered for further cooperation.

Participants stressed that facts-based research can be a powerful tool to influence and convince policy makers of the need for, and direction of, reforms. The revenue authorities should have the capacity to use and, in some cases also to conduct, research projects. Tanzania Revenue Authority (TRA) shared their experiences of using research as the main basis for the development of strategies and plans, and showed how this has reduced the reliance on recommendations from various donors. ATAF could act as a 'knowledge base' for tax administrations in Africa and assist by creating diagnostic tools, model frameworks and facilitating knowledge sharing between tax administrations, researchers and other relevant parties.

Tax compliance, enforcement and taxpayer education

Fredrik Aksnes, International Director of the Norwegian Tax Administration (NTA)

Mr. Aksnes discussed what tax compliance is, why taxpayers may be non-compliant and possible counter measures for tax administrations. Taxpayers tend to interpret tax rules to their own advantage. Reasons for non-compliance may be a 'flexible tax morale'; low education; rules that are too complicated to follow; taxable activities that are manipulated to avoid tax; a perception that the risk of being caught is low; an aversion towards the public sector; and a culture of corruption. Some of the challenges may be addressed by simplifying rules and procedures, but others will require long-term commitment to change. Third-party information given to the revenue authorities by for example employers makes tax evasion more difficult for employees. In addition the filing in of tax returns becomes easier for taxpayers. The use of media to display that the revenue authority does catch tax fraudsters has been a success in Norway, but media messages need to be balanced carefully to simultaneously signal that very few is cheating on their tax.

Taxation of the informal sector is also a challenge in Norway. NTA has tried to deal with this by establishing partnerships with trade unions, as these tend to be interested in moving firms to the formal sector to get more members. A successful method has been to use the media to highlight cases in which NTA has discovered tax

Genuine interest in the taxpayers and their needs creates trust

evasion in a specific sector and insinuate that this sector will be targeted in the near future.

Recent research finds that professional and polite treatment by tax officials towards taxpayers is significantly more important for enhancing compliance than other measures. The Norwegian experience shows that a high competence level in the tax administration makes the staff more likely to behave in a professional, fair and polite manner.

Summary of the discussion

Surveys were suggested as a tool to gain better understanding of the taxpayers’ perspectives. Experiences from various survey-based studies, however, show that it is a challenge to achieve reliable and operationally relevant results. Revenue authorities often categorise taxpayers according to size in large, medium and small, while taxpayers tend to think of themselves in categories related to the sector they are operating in, such as agriculture, manufacturing, trade and mining. One successful approach is to carefully design the survey questions to address sector-specific issues that taxpayers can easily relate to.

Involve taxpayers in building the tax system and showcase the public goods that tax money pay for

Channels used to reach taxpayers are many and creative. The successful ones are context sensitive. One example is to include tax discussions in the dialogue of popular soap opera characters. Disseminating information by radio is often found to be more far reaching than newspapers in Africa. Sending SMS reminders on deadlines for tax payment can also be effective. Customer service training of tax officers and taxpayer information centres are other measures applied to improve compliance. ATM in Mozambique has good experience with campaigns showing people in everyday settings while they talk about taxation in their local language.

Tax for development – Norwegian policy and perspective

Ingrid Fiskaa, Norwegian State Secretary for International Development

Ms. Fiskaa highlighted the importance of fair and predictable tax systems, as well as the problems of the global financial system which allows tax avoidance. She further gave a short introduction of the Norwegian experiences and the new programme *Tax for Development*. In Norway companies remain in the country despite high taxes. The perceived fairness of the system contributes to this, and so does the perceived predictability of the tax system, although this is a more challenging point due to changes in political leadership. To build trust, predictability has to be visible on a long-term basis. Political promises are not sufficient. Illicit financial flows from the poor to the rich must be stopped. Country-to-country reporting would make tax evasion more difficult for multinational companies, which could lead to larger tax revenues for developing countries.

Illicit financial flows from the poor to the rich countries must be stopped.

Norway supports international processes aiming at reducing illicit capital flows. Through the *Tax for Development* programme Norway supports measures to strengthening domestic tax administrations,

civil society and research on taxation. The programme includes support to institutional cooperation between the Norwegian tax administration and the revenue authorities in Mozambique, Tanzania and Zambia.

Overview of ATAFs work on transfer pricing and exchange of information

Lincoln Marais, Director, Institutional Development, African Tax Administration Forum (ATAF)

Mr. Marais gave an overview of the status, current work and future plans of the organisation. The main role of ATAF is to provide a forum for revenue authorities from across Africa to meet, discuss, exchange experiences, and provide each other with mutual support. Currently, ATAF has member organisations from 30 African countries. ATAF's work includes capacity developing events (8-10 per year). Topics for these workshops and seminars are financial management and good governance in tax administrations and stakeholder management, communications, media, marketing for revenue administrations. Research is another component of ATAF's efforts.

ATAF will be focusing on two projects in the near future; 'Transfer pricing' and 'Exchange of information'. The project on transfer pricing will be kicked off in April 2011, and a working group with representatives from six member countries has been established. The purpose of the project is to assist in building capacity of ATAF member organisations to identify and address areas of risk for transfer pricing and thin capitalisation issues. The project will include measures to improve legislation; review existing mechanisms and guidelines; identify risks and share good practice. One possible output is a handbook on transfer pricing cases applicable to ATAF-member organisations.

A working group on exchange of information, consisting of 6 members, will meet in April. ATAF will also be involved in the Global Forum on Transparency and Exchange of Information for Tax Purposes that will meet in Africa in June 2011.

ATAF is planning a conference on taxation of natural resources, including renewable resources and is considering establishing a working group on this issue as well.

Summary of the discussion

The participants were positive to this 'home grown' African initiative and consider ATAF to be an important organisation for strengthening African tax administrations. While TRA and ZRA are members, ATM plans to join.

ATAF's work on transfer pricing and exchange of information was seen to be relevant and useful. It was stressed that negotiating exchange of information treaties is a first step and that the next step is training people to use them.

Panel debate

Panel: Hermínio Sueia, ATM; Mary N. Maganga, TRA; Dingani Banda, ZRA; Lincoln Marais, ATAF; Fredrik Aksnes, NTA; Ingrid Fiskaa, State Secretary for International Development (Norway)

The panel participants were asked to identify possible areas of cooperation between the tax administrations. The revenue authorities from Tanzania, Mozambique and Zambia highlighted exchange of information as key to better cooperation. Other topics discussed were transfer pricing,

taxation of extractive industries, building specialised auditing expertise, how to deal with the informal sector, VAT and taxpayer education.

While warning that transfer pricing is one of the most difficult tax issues to deal with, the Norwegian Tax Administration offered to share the Norwegian experiences and the good practices developed by OECD. The Norwegian Tax Administration could also provide advice on measures to broadening the tax base, building taxpayer- tax administration relations, and on the use of media actively to enhance taxpayer compliance.

Ms. Fiskaa argued that international mobilization is needed in order to address illicit capital flight. It is important to build a better case as to why a change in international regulations is needed and to put pressure on governments, private companies and organizations such as the International Accounting Standards Board (IASB). Experiences from developing countries on how Exchange of Information agreements work in practice must be fed into the OECD process. The revenue administrations can also play a role by engaging in public debate and providing information to the public. However, one needs to have realistic expectations with regard to what role a country's revenue administration can play on the international arena. The participants were encouraged to join the Global Financial Integrity Task Force on Financial Integrity & Economic Development to fight illicit capital flows.

ATAF saw the responses from the revenue authorities as an indication that the organization is focusing on the right areas, such as natural resource taxation. Other areas of concern to ATAF is the relationship between ministries of finance and revenue authorities (due to the close connection between tax policy and tax administration), revenue forecasting and reporting, organizational matters and questions related to accountability, governance and transparency. Productive approaches for closer collaboration between the revenue authorities could be secondment of staff and study trips to examine good practices. ZRA pointed to the possibility of organizing regional workshops at their training school in Lusaka. TRA suggested creating focal points in each revenue administration in charge of cooperation and communication between the revenue authorities. ATM added the possibility of creating inter-agency groups of specialists that could work together within specific areas and bring the experiences back to their organizations. Another idea was to set up a knowledge network/"resource bank", possibly to be hosted by ATAF. NTA underlined that although seminars and workshops can be useful, the best way to learn from each other is to work together on practical cases.

ATAF believes regional communities like SADC can play an important role, for example by developing a multilateral agreement on exchange of information. ATAF wants to facilitate capacity building and has been in contact with development partners about how technical assistance can be provided in specific areas. The involvement of African institutions in building research capacity is important. Local research institutes and think tanks can play a significant role in this respect. The need for strengthening the research and analytical capacity within the tax administrations was also emphasised. Such capacity can be developed by conducting empirical research on specific topics in cooperation with experienced researchers.

Tax administration reforms in Tanzania – experience and challenges

Mary Ngelala Maganga, Planning and Modernisation Programme Manager, Tanzania Revenue Authority (TRA)

Ms. Maganga shared achievements and challenges related to tax administration reforms in Tanzania. The current work of TRA is guided by the third corporate plan for TRA 2008/09-2012/13. Among the main achievements thus far are: improved revenue collection as share of GDP; integration of VAT and Income Tax operations; establishment of a Large Taxpayers Department and a Domestic Revenue Department; banks are now handling almost all the money transactions; introduction of a new ICT system and a risk analysis system. Improving taxpayer services and education is a priority, as well as governance and integrity issues. Challenges which still need to be addressed are: further improvements of ICT; integrity and attitudes among TRA-staff; and broadening of the tax base. At the national level, the availability and stability of the electricity supply are major challenges, along with the lack of bio-data connected to national identity cards. Other challenges are generous tax exemptions and incentives; over-reliance on trade taxes; and the scarcity of specialised expertise to audit key and growing sectors such as natural resources.

TRA's Mission: To be an effective and efficient tax administration which promotes voluntary tax compliance by providing high quality customer services with fairness and integrity through competent and motivated staff

Strategies to meet the challenges include enhancing audit capacity; facilitating more efficient exchange of information internally and externally; increasing compliance in specific sectors; improving handling of customs data; and expanding the taxation of the informal sector.

Summary of the discussion

Broadening the tax base is a common challenge. As the revenue authorities make use of different approaches, this is an area with high potential co-benefits for mutual learning. There are differences, however, which make some methods less applicable in certain countries.

Informal sector compliance has been facilitated by trade organisations' and unions' membership registrations. Such organisations have an incentive for a large membership base (partly due to membership fees) and thus work to recruit non-registered taxpayers. ATM collaborates with informal sector associations in implementing the simplified tax-model for small taxpayers (ISPC). ZRA has MoUs with parts of the agricultural sector to collect tax on behalf of the tax administration. Further, ZRA collects presumptive income tax on transporters (owners of mini-buses) which are collected by contracted agents.

Annual renewal of the taxpayer certificate will facilitate a continuously updated register of taxpayers. Taxpayer education is possible when registration is being done. One incentive for taxpayers to be compliant is to link the certificate with access to welfare services.

Lack of reliable national ID cards makes the revenue authorities' work more difficult. An important step forward is the introduction of such cards. In Zambia a taxpayer ID number is required for importing goods, and the imports are taxed.

Compliance is easier to achieve when there is a certain degree of trust and respect between the tax administrators and the taxpayers. Tax officers who act like policemen are a challenge, and changing the mindset of tax officers to favour more professional relations should therefore be a goal because of the need to build trust. This counts for all staff and not only those in direct contact with taxpayers.

Possible quick win areas identified include: use of research findings to broaden the tax base, learning from other countries, build constructive relationships with trade unions and business associations, enter into MoUs with the business associations that can collect taxes on behalf of the RA; increased use of risk profiling of taxpayers.

Advice was given of the importance to remember that sometimes small steps, such as improving daily routines, can be very effective.

Basic building blocks of domestic resource mobilisation

Aidan Keanly, Director, International Relations, South African Revenue Service (SARS)

Mr Keanly gave an introduction to the building blocks of domestic resource mobilisation and the South African experience. In South Africa the approach has been to change the focus from products, such as VAT and domestic income, to people and processes, including the use of ICT-systems. Keanly stressed that every organisation is different, and that it is a mistake to buy off-the-shelf ICT products and solutions. A strong message was that research and facts should be used as the basis for decisions. Small steps and gradual adjustments can have big impacts, such as the use of e-mails and text messages when communicating with taxpayers.

Important building blocks for SARS have been political support; an understanding of the legal framework; good knowledge of the different taxpayer segments and use of technology. The SARS compliance model puts enforcement, taxpayer services and education at the core for effective segmentation and risk assessment. The goal is to make taxpaying as easy as possible and non-compliance difficult. Segmentation of taxpayers makes it possible to adjust strategies on how to deal with different taxpayers, such as for example individuals with a complex situation, individuals below the threshold for tax and businesses of all sizes and sectors.

The tax gap in South Africa is between 15% and 30%, and capital flight is estimated at 6.6% of GDP. SARS addresses the leakages through policy reform and international collaboration; enhancement of administrative efficiencies to optimise compliance of formal-economy taxpayers; education and outreach to the informal economy; and risk management.

Summary of the discussion

What is our real mandate as revenue authorities – collecting money or closing the tax gap?

In the short term it is important for revenue authorities to collect tax ('money in the bank'). A more long term concern is how to increase compliance and broaden the tax base. This must be done through taxpayer education and modernisation of the revenue authorities.

How can we use research findings in our reform process?

The challenge is not necessarily to find research reports and data, but the real difficulty may rather be how to use the available information and knowledge. Research is important not only because of the end product (findings and recommendations), but also because of the building of a knowledge base and research capacity the research process. Involving local researchers in partnership with international research institutions may help build domestic research capacity.

Recommendations from research need to be adjusted to fit the existing strategic plans of the revenue authorities. While some of the recommendations can easily fit into the strategic plans, others will need political backing.

The simplified tax-model for small taxpayers (ISPC) – an example of successful tax reform

Julio Mazembe, ISPC Coordinator, Mozambique Revenue Authority (ATM)

Mr. Mazembe introduced the discussion by presenting the simplified tax-model for small taxpayers (ISPC) in Mozambique. The ISPC was introduced by ATM in 29 April 2009. The main objective is to enlarging the revenue base. It is a direct tax that is imposed on individuals or collective entities doing small-scale agricultural, industrial or commercial activity, including rendering of services. The ISPC was introduced to reduce the cost of paying taxes for small taxpayers, to reduce the cost for ATM to control small taxpayers and to promote a positive change towards increased compliance in the informal sector.

Information about the ISPC has been disseminated in the form of lectures in local settlements, markets and fairs; through brochures, music and advertisements; and through training of officials and state agents. Furthermore, ATM has signed MoUs with three informal sector organisations. Translation of the legislation into six local languages has made the ISPC more accessible and understandable for informal sector operators.

In total 33 130 taxpayers were registered in 2010 in the ISPC. The goal for 2011 is to register 50 000 new taxpayers. Furthermore, ATM aims in 2011 to improve the databases and records of taxpayers; to provide fiscal education to informal sector operators; to inform about the ISPC through community radios; and to strengthen the ISPC implementation at the district level.

Summary of the discussion

It is difficult to collect taxes from the small taxpayer segment. ATM comments that it is important that people start to pay taxes even though the system is not optimal from the beginning. Through paying tax people get training in the procedures, rules and principles of taxation. Although the taxpayer may not pay all the tax s/he is supposed to from the beginning, the process educates the taxpayer (for instance on how to register income and expenses) and creates a relationship between the taxpayer and the tax administration. All the participating revenue administrations see taxation of small taxpayers as a challenge, and ATM was acknowledged for its approach to taxing informal sector operators.

Taxation of multi-national enterprises

Wisdom Nhekairo, Commissioner General, Zambia Revenue Authority (ZRA)

Mr Nhekairo shared the rationale for setting up a Large Taxpayer Office (LTO) in ZRA, described which services the LTO provides and demonstrated some risks and challenges posed by multi-national enterprises. Given the importance of large taxpayers for the total revenue

Moving away from one size fits all approach

collection of most countries, there is a common trend to create LTOs that deal exclusively with large taxpayers. All taxes imposed on large taxpayers are handled from one office, which has thorough knowledge of the industry and business of the large taxpayer. Thus, the service level is improved and the relationship between the revenue authority and the corporate taxpayers enhanced. Further, adherence to standards enumerated in the taxpayer charter is ensured, and the administrative and compliance costs on both the tax administration and the taxpayer are reduced.

To qualify as a large taxpayer in Zambia the client has to meet one of the following criteria: i) have a turnover of ZK 20 billion (approx. USD 4 159 910) and above; ii) be a specialised industry or business operating in mining, finance or insurance sectors; or iii) be a multinational company.

All tax types are handled from one office

Major challenges are transfer pricing, thin capitalisation, hedging transactions, intra-group services and treaty shopping. It is important to have efficient audit systems. In order to deal with the challenges, the legislation has been strengthened. ZRA has also organised capacity building of staff through training and workshops. Further, ZRA has created a Transfer Pricing Practice note for reference, and they cooperate with other tax jurisdictions. Recently, ZRA signed a MoU with the Norwegian Tax Administration aimed at strengthening the specialised large taxpayer revenue administration. Other measures targeting multi-national enterprises include enhanced integrated audits and fostering improved relationships with taxpayers.

After the establishment of the LTO, ZRA has experienced an increase in the level of voluntary disclosures by taxpayers on tax underpayments; reduced enforcement costs for the revenue authorities and reduced compliance costs for taxpayers.

Summary of the discussion

All the participating revenue authorities are confronted with similar problems related to transfer pricing. Hence, enhanced collaboration to address these challenges could be useful. In South Africa SARS has bought expertise from tax administrations in other parts of the world. Their experience is that it is more productive to aim for dispute resolution rather than litigation, as court cases are difficult to win. The present environment characterized by governments in need of money, CSOs advocating for country-by-country reporting and a strong general public awareness, makes this a good time to address illicit capital flight and transfer mispricing problems. NTA estimates that it takes about five years to build solid expertise on transfer pricing within a revenue administration.

International treaties are not always possible to implement locally. Double taxation could be the result if the RAs do not agree on pricing. Standardising prices is important. One aim should be to avoid that revenue authorities turn against each other in arguing about who is entitled to the tax. In Mozambique there is a problem with internal transfer pricing between free production zones and the rest of the territory. Legislation exists, but it is not very detailed and difficult to enforce.

In TRA, the LTO is headed by a Commissioner and the large taxpayers are identified by total turnover. Large taxpayers are not differentiated. ATM has similar experiences as ZRA, but one main difference is the size of the country. According to ATM, it is not possible to only have one centralised LTU in Mozambique. Due to the large distances and relatively poor infrastructure large taxpayers may choose if they want to be moved to the Large Taxpayer Office or if they want to continue to relate to the local ATM office in the region(s) where they operate. Bank transfers are accepted, so taxpayers do not have to pay directly to the tax office.

The Norwegian petroleum tax model

Håvard Holterud, Director of Tax Audits and Economics at the Norwegian Petroleum Tax Office (NPTO)

Mr. Holterud gave an introduction to the Norwegian petroleum tax model explaining how petroleum is taxed and the objectives behind the model. Ordinary income tax on profits is applied for all industries with a uniform tax rate of 28%. For the petroleum sector there is an additional tax levied on the profit with a 50% tax rate. Hence, the total marginal tax rate is 78%. For companies with no taxable income, losses can be carried forward with annual interest.

This Norwegian tax model is created to put petroleum companies in a neutral tax position in order to decrease entrance barriers and increase competition.

Instead of carrying real value of exploration expenses forward, the taxpayer may choose cash refund of exploration costs. In real terms the petroleum company pays 22% of the exploration expenditure while the government carries 78% of the cost in the exploration phase of a project.¹ Thus, market competition is improved because less risk in the exploration phase is taken by the company.

There are also taxes on negative external effects (CO2 and NOX tax). The royalty system was phased out from year 2000, because this system gave petroleum companies the incentive to close down fields earlier than the optimal extraction path.

The Norwegian Government keeps a direct interest in many oil and gas fields by paying a share of the investments and costs and receiving a corresponding share of the gross income from the license. When licenses are awarded the state interest is decided. A state participation of 25% is common, but the size of state interest depends on how promising the area is considered to be.

¹ Financial Expenditure deductible Offshore in 78% Tax Regime equals:
Net Financial Expenditure x 50% x (Tax Value Offshore Assets/ Interest carrying Debt)

The objectives of the Norwegian petroleum tax system is transparency, fairness, to avoid distortions of investment incentives; to create long-term stability and predictability for investors; equal tax treatment of all petroleum companies with no exemptions; and; simplicity for tax administration and taxpayers.

Workshop summary and conclusions

The last session discussed how to follow up the ideas and suggestions that emerged during the workshop. There was a consensus among the revenue authorities to continue collaboration, especially regarding exchange of information on how to deal with key issues of revenue collection, transfer pricing, specialized audits, taxpayer education and compliance. The suggestion to have a new workshop in 2012 was well received. Norad and ATAF will explore the opportunities for jointly arranging the workshop. Such a workshop could also be an opportunity to assess the ongoing cooperation between NTA and the revenue authorities in Mozambique, Tanzania and Zambia.

The power-point presentations and other information from the workshop in Maputo are available on Norad's web-pages:

<http://alturl.com/gmkpz>

<http://www.norad.no/en/Thematic+areas/Macroeconomics+and+public+administration/Tax+for+Development/The+Maputo+seminar/Successful+tax+workshop+in+Maputo.315331.cms>

Annexes

1. List of participants
2. Agenda
3. Pictures

1. List of participants

Name	Position	Institution
Hermínio Sueia	Director Geral de Planificação e Coop. Int.	ATM
Domingos Muconto	Department Head	ATM
Asmucrai	Department Head	ATM
Carlos E. Matlava	Technician	ATM
Albino Franque	Technician	ATM
Maúricio Cumbi	Head of Division	ATM
Francisco Monjane	Technician	ATM
Maria Otília M. Santos	General Director	ATM
Aly Malla	Director	ATM /DGA
Julio Mazembe	ISPC Coordinator	ATM
Eduardo P. Sengo	Technician	MoF, Mozambique
Benedito José Dgedge Júnior	Technician	MoF, Mozambique
Gonzalves Tibashobokeliwa	PMPO	TRA
Stephen Gama	PMPO	TRA
Mary N. Maganga	Planning & Modernisation PGM Manager	TRA
Highness H. Chacky	Regional Manager	TRA
Adolf H. Ndumuro	Manager Public Finance	TRA
Wisdom M. Nhekairo	Commissioner General	ZRA
Mary Chitala	Provincial Manager - ZRA Eastern Province	ZRA
Martin Banda	Provincial Manager - ZRA Northern Province	ZRA
Peter Phiri	Assistant Director - Mining Audit	ZRA
Dingani Banda	Deputy Commissioner	ZRA
Miambo Nyanga	Assistant Director - CG's Office	ZRA
Lincoln Andre Marais	Director, Institutional Development	ATAF
Jean Mouli	Stakeholder Relations - ATAF Secretariat	ATAF
Håvard Holterud	Director Tax, Audits & economics	NTA
Fredrik Aksnes	International Director	NTA
Kirsten Ånneland	Head of department	NTA
Ane Dokka	Senior Advisor	NTA
Aidan Keanly	International Relations	SARS
Jan Isaksen	Counsellor	Embassy of Norway - Lusaka
Tove Bruvik Westberg	Ambassador	Embassy of Norway - Maputo
Jon-Åge Øyslebø	Minister Counsellor	Embassy of Norway - Maputo
Marit Strand	Counsellor	Embassy of Norway - Maputo
Sofie Bårnes	Intern	Embassy of Norway - Maputo
Tahia Carim	Programme Secretary	Embassy of Norway - Maputo
Olav Lundstøl	Counsellor	Embassy of Norway - Tanzania
Ingrid Fiskaa	State Secretary for International Development	MFA Norway
Håkon A. Gulbrandsen	Head of Project	MFA Norway
Stine Horn	Higher Executive Officer	MFA Norway
Hege Hertzberg	Director, Development Policy	MFA Norway
Hege Fisknes	Senior Advisor	MFA Norway
Mette Masst	Policy Director	MFA Norway
Per Øyvind Bastøe	Department Director	NORAD

Name	Position	Institution
Thomas Myhrvold-Hanssen	Senior Advisor	NORAD
Tanja Ustvedt	Senior Advisor	NORAD
Marte Briseid	Advisor	NORAD
Odd-Helge Fjeldstad	Research Director	CMI Norway and ICTD
Kari K. Heggstad	Research Officer/Programme Coordinator	CMI Norway and ICTD

2. Agenda

Wednesday 30 March

09:00 **Opening and Welcome**

The Norwegian Ambassador to Mozambique, Tove Bruvik Westberg

09:20: **Introduction**

Per Øyvind Bastøe, Director, Aid Strategy and Development Economics, Norad

09:45 **The tax systems in Mozambique, Tanzania and Zambia: Achievements, challenges and recommendations for Norwegian support**

Prof. Odd Helge Fjeldstad, Chr. Michelsen Institute (CMI) and the International Centre for Tax and Development (ICTD)

10:30 *Break*

10:45 Comments to the findings in the report by ATM, TRA and ZRA. Short prepared comments (5 min) followed by general discussion.

12:00 **Tax compliance, enforcement and taxpayer education**

Fredrik Aksnes, International Director, Norwegian Tax Administration, NTA

13:00 *Lunch*

14:30 **Welcome**

Hermínio Sueia, Director General, Planning, Studies and International Cooperation, ATM

14:40 **Tax for Development – Norwegian policy and perspective**

Ingrid Fiskaa, State Secretary for Environment and International Development (Norway)

15:00 **Transfer Pricing and Exchange of Information**

Lincoln Andre Marais, International Relations, African Tax Administration Forum, ATAF

16:00 **Panel debate – Possible areas cooperation between Revenue Authorities**

Panel members: State Secretary Ingrid Fiskaa; ATM; ZRA; TRA; ATAF; NTA

17:00 *End day one*

18:00 Reception at Cardoso hotel with short remarks by Ingrid Fiskaa State Secretary for Environment and International Development and Ambassador Tove Bruvik Westberg (Norway)

Thursday 31 March

- 09:00 **Tax administration reforms in Tanzania - experience and challenges**
Mary Maganga, Planning and Modernisation Programme Manager, Tanzania Revenue Authority, TRA.
- 10:15 **Basic Building Blocks of Domestic Resource Mobilisation**
Aidan Keanly, International Relations, South African Revenue Service (SARS)
- 11:00 *Break*
- 11:15 **The Simplified tax-model for small taxpayers (ISPC) – an example of successful tax reform.**
Julio Mazembe, ISPC Coordinator in Mozambique Revenue Authority, ATM
- 12:30 *Lunch*
- 13:45 **Taxation of large enterprises**
Wisdom Nhekairo, Commissioner General, Zambia Revenue Authority, ZRA
- 15:00 *Break*
- 15:15 **The Norwegian petroleum tax model**
Håvard Holterud, Director of Tax Audits and Economics at the Norwegian Petroleum Tax Office, NTA
- 16:00 Wrap-up and conclusion
- 17:00 End

3. Pictures

Pictures Maputo 30-31 March, 2011





	(i) Support to tax policy reform	(ii) Capacity building of ATM, TRA, ZRA	(iii) Support to civil society	(iv) Build research capacity on taxation
(a) Capital flight	IMF, Central Bank, ATAF, AfDB, OECD	NTA (specialised capacity building); ATAF	Internat. and domestic NGOs; TIN-Africa; media	Research Inst.; ATAF, ICTD, Research Depts. in ATM, TRA, ZRA
Natural resource	MoF, IMF, ATAF, EITI, OFD, RAs & NGOs	NTA (specialised tax audits); ATAF; EITI; OJD	Caritas, NCA, RWI, CIP, media	ICTD in coll. with ATM, TRA, ZRA, ATAF, AERC
		NTA (technical support to tax compliance); ATAF	Caritas, NCA, RWI, CIP; media, bus. as & taxpayer ass; media	ICTD in coll. with ATM, TRA, ZRA, ATAF, AERC (research on compliance)



