The Angolan Parliament has recently approved a comprehensive set of new tax legislation as part of the ongoing non-oil tax reform. An amnesty for taxpayers’ outstanding debt is part of the reform package. Given the lawlessness that has characterised non-oil taxation in Angola since independence, the Government’s position seems to be that the tax amnesty is required to “put the past behind us in order to move forward”. Embarking on a tax amnesty is a challenging path full of potential pitfalls. This brief addresses some of these challenges and discusses how to minimise the potential costs of the amnesty. The purpose is to contribute to the public debate in Angola since the legal and regulatory framework for the tax amnesty still seems to be under development.

**NEW TAX LEGISLATION APPROVED BY THE PARLIAMENT**

On June 26, 2014, the National Assembly (NA) approved the long delayed tax reform package consisting of the corporate and personal income taxes and three comprehensive crosscutting tax codes. The approval of the package has been underway for a long time and it is good news for the credibility of the tax reform that it has passed this political obstacle. A detailed analysis of the extent to which the draft legislation has been revised before the NA moved to approve it remains to be made as the laws have not yet been published in the national gazette (Diário da República).

The Ministry of Finance and PricewaterhouseCoopers (PwC) recently published an article on their website explaining what the reform package, to be implemented from 2015, will imply for the taxpayers. The article explains that the basic personal allowance (or the minimum exemption limit) for Personal Income Tax will be increased from AKz 25,000 (equivalent to approximately USD 250) to AKz 34,450 per month (USD 345). This is in line with CEIC/CMI’s recommendation of doubling the personal allowance to AKz 50,000 per month even if the increase is more modest. Also in line with the CEIC/CMI policy recommendations, the holiday pay (the so-called 13th month) will be included in the tax base and no longer exempted. It remains to be seen if the Personal Income Tax schedule has been simplified, but this is not mentioned in the article.

**THE TAX AMNESTY**

Together with the news of the approval of the new tax legislation, it was announced that the Parliament has approved a tax amnesty covering taxpayers’ debts related to the Corporate Income Tax, Personal Income Tax owed by self-employed,
Tax amnesty is defined as a rule or law issued by the government to forgive tax debts of previous years to taxpayers. Through this measure the government provides a benefit to taxpayers by allowing them to rectify mistakes or omissions in tax returns without fear of legal actions. In other words, the Government sacrifices the penalties for past non-compliance (and often the tax owing itself) in exchange for improved compliance in the future. The amnesty is usually established for a fixed period of time.

According to the weekly Expansão (4 de Julho, 2014: Perdão fiscal divide partidos, Edição Nº 273, p. 20), the measure was not proposed by the PERT, but by MPLA members of Parliament. If not unprecedented, it is at least an unusual way of policymaking in Angola to have legislation tabled by Members of Parliament and not proposed by the Executive. However, it seems that the Executive has quickly rallied behind the idea. A member of the Economic and Finance Committee (EFC) of the National Assembly clarified that the proposal was introduced as a way to get the tax legislative process back on track at a time when it has been hard to find genuine backing, particularly for the Tax Collection Code, even within the ranks of the party in power. This corresponds with interviews conducted by the authors’ of this brief in February 2014. MPLA leaders of the EFC then stated that the package would not pass without significant alterations. The idea of the amnesty was therefore tabled by the MPLA and discussed within the EFC with the opposition being against the amnesty.

Ultimately, the tax amnesty was passed with the rest of the tax reform package, but in a highly contested political climate with opposition Members of Parliament claiming that the amnesty was introduced exclusively to benefit the business interests of the MPLA. The fact that the Tax Collection Code was controversial is reflected in the voting record as each code was voted on separately in the National Assembly. The Personal Income Tax was approved unanimously; the General Tax Code, the Tax Procedure Code and the Corporate Income Tax were approved with 165 votes in favour and 7 abstentions, whereas the contentious Tax Collection Code was approved with only 141 votes in favour and 31 abstentions.

CHALLENGES AND UNINTENDED EFFECTS OF TAX AMNESTIES

Tax amnesties are especially attractive to politicians who commonly view an “amnesty as a way to obtain revenue owed to the government which would never have been collected without the amnesty”. However, international evidence shows that tax amnesties are rarely successful. The main argument against tax amnesties is that credibility problems may arise concerning the ability and/or commitment of the state to enforce the tax laws. Even if amnesties are accompanied by declarations about new and stronger enforcement efforts, taxpayers who take past auditing policy into account are likely to correct only slightly their perception of the riskiness of tax evasion. Therefore, the collection of taxes from past evaders is likely to be low, and the expectation of future amnesties can induce those who previously complied to evade. If an amnesty leads to larger tax evasion, pressure may arise for further subsequent amnesties. This might lead to a vicious circle where more and more generous and frequent amnesties
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The Urban Property Tax (Imposto Predial Urbano) is excluded from the Angolan tax amnesty. This implies that the tax authorities must now apply the new Tax Collection Code to hold property owners to account for any owed taxes retrospectively. The property tax before 2011 was 30 percent of the estimated value of the property and the effective rental income tax was 24 percent. When the revised Urban Property Tax was approved in April 2011 (Law 18/11) it massively reduced the property tax rate to 0.5 percent and included a basic exemption for AKz 5m (US$ 50,000) of the value. The effective tax on rental income was reduced to 15 percent.

There are pros and cons to exclude property taxes from the amnesty as in relation to the tax amnesty in general. Authorising a tax amnesty for outstanding property tax payments would seem grossly unfair to those who have complied voluntarily. On the other hand, this is perhaps one of the subsectors where an amnesty could contribute to ‘normalise’ taxpayers’ relations with the tax authorities by changing future behaviour.

CONCLUSION AND RECOMMENDATIONS
In this brief we caution against the perspective that the tax amnesty will imply a fresh start for the non-oil tax system in Angola. There is a real danger that the amnesty actually might contribute to undermine future compliance, because some taxpayers may be encouraged to engage in non-compliance in anticipation of future tax amnesties, especially if the design is not improved. This could lead to a vicious circle where the unintended effects of the current amnesty will justify future amnesties.

If the authorities decide that this is a risk worth taking, the tax amnesty must be designed and implemented cautiously from a public policy.
Apart from the importance of careful design, a tax amnesty will only be effective if taxpayers can be certain that they do not risk future investigation of possible tax evasion in years covered by the amnesty if they start declaring after the cut-off date of 1 January 2013 after which they are expected to start paying. This will require that the implementation of the amnesty should include a taxpayer education and outreach component, as well as active use of the media. PERT staff should be specially trained and one should consider to establish a dedicated call centre to handle amnesty queries. Dedicated outreach teams should be set up in all regions. These teams should visit businesses to facilitate the process of submitting tax amnesty applications. It is important that these perspectives are incorporated in the legal framework and guidelines to be prepared to regulate the Angolan amnesty.

To avoid using tax amnesties in the future, the Government should continue to pursue policies aiming at reducing tax evasion by (a) addressing its basic determinants such as complex legislation and regulations, insufficient and improper enforcement, malfunctioning courts, and poor links between tax payment and public service provision; and (b) improving the effectiveness of the tax administration.

RECOMMENDED LITERATURE

PREVIOUS CEIC/CMI PUBLICATIONS ON TAXATION IN ANGOLA
Fjeldstad, O.H., Jensen, S.K. and Paulo, M.F. 2014. The non-oil tax reform in Angola: On track or losing momentum?