

The non-oil tax reform in Angola: Escaping from petroleum dependency? *

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ABSTRACT

Angola experienced an extraordinary oil boom between 2004 and 2014. During this period, oil revenue accounted for 80% of all government revenue. In 2011, the Government of Angola started implementing a non-oil tax reform. The main objective of this reform was to reduce the Government's dependency on oil revenues by broadening the tax base and improving tax administration. This paper examines the achievements of the Angolan tax reform with respect to revenue generation. We find that the non-oil tax revenues, as a share of total revenue, have increased since the reform was initiated, largely due to the fall in oil revenues since 2014. However, the share of non-oil taxes to GDP remains mostly the same today as at the beginning of the oil boom. The reform has not effectuated any fundamental shift in state-society relations. A regime that has been fueled by massive revenues from natural resource extraction cannot easily alter state-society relations through a major tax reform without threatening the stability of the regime. Developing the non-oil tax system remains as urgent today as it was when the tax reform started.

Keywords: Oil dependence, Natural resource revenues, Tax reform, Tax administration, Angola

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1. Introduction

The commodity price falls since 2014 have dramatically changed the economic and political prospects for natural resource-rich economies (Goldberg, 2015). It is likely that prices will stay low, at least for hydrocarbons (Venables, 2016). Resource-rich countries that became used to high commodity prices during the first part of the millennium, have had to adjust to the gap in public finances. Several developing countries have introduced tax reforms aiming to reduce resource revenue dependency by enhancing domestic revenues (Crivelli and Gupta, 2014; ITC, 2017).¹ However, there is no empirical evidence of whether these tax reforms have contributed to reducing resource dependency by diversifying public finances. In this paper, we remedy this gap in the literature by examining the non-oil tax reform in Angola, one of the most oil dependent countries in the world (Hodges, 2004; Soares de Oliveira, 2015). We find no evidence that the tax reform has reduced resource dependency and contributed to diversification of public finances in Angola.

The non-oil tax reform in Angola started during the oil boom period in 2011 and should be understood in the context of the country's overall need to broaden the revenue base to reduce the exposure to volatile oil revenues. This paper examines three main questions: whether the reform has contributed to broadening the tax base; whether the reform has reduced the dependency on revenues from the petroleum sector; and finally whether the reform has caused any fundamental shift in state-society relations. We find that there has been a substantial increase in the number of both personal and corporate taxpayers. We also find that the non-oil tax revenues as a share of total revenue has increased since the reform was initiated. However, this can be mostly explained by the fall in oil revenues since 2014. The share of non-oil taxes to the GDP today remains largely the same as or lower than in 2002. Moreover, the reform has not led to any major changes in state-society relations. Wealthy individuals and businesses continue to contribute very little to tax revenues, while the vast majority of adult Angolans are

¹ In addition to Angola, which is the focus of this article, examples include Nigeria (Oriakhi and Ahuru, 2014); Zambia (PwC, 2017); Papua New Guinea (Tax Review Committee, 2015; and Timor-Leste (Lahey, 2016).

still not registered as taxpayers, reflecting a high degree of economic and political marginalisation.²

Based on the analysis, there seems to be some merit in the tax administration focusing on creating the habit of paying taxes by bringing more businesses and people into the tax system, rather than tightening the tax burden on registered taxpayers. There is also a considerable untapped potential for taxing wealthy individuals and businesses, though for political reasons this can be challenging in the Angolan context. Given the limited fiscal impact of the tax reform in the short run, further reforms should focus on the long-term goals of expanding the tax base and building taxpaying culture to improve compliance.

The paper relates to the literature on tax reforms in developing countries (Kaldor, 1963; Burgess and Stern, 1993; Keen and Mansour, 2009; Besley and Persson, 2014; Ahlerup et al., 2015). Our study contributes to this literature by adding important nuances to our understanding of the design and accomplishment of non-resource tax reforms in a country highly dependent on natural resource rents. Further, our study looks at the political, economic and institutional constraints facing the implementation of such reforms.

Our paper is also related to the literature on taxation and state-building in developing countries (Braütigam et al., 2008; Prichard, 2015; Moore et al., 2018). A key proposition in this literature is that the more a state ‘earns’ its income through the operation of a bureaucratic apparatus for tax collection, the more it needs to enter into reciprocal arrangements with citizens about the provision of services and representation in exchange for tax contributions.³ Thus, the greater the share of total revenues represented by ‘earned’ incomes, the more likely it is that state-society relations will be characterized by accountability, responsiveness and democracy. Our paper does not counter this proposition, but shows that a regime that has been fueled by

² The Instituto Nacional de Estatística de Angola (INE) estimates that more than 40% of the population in Angola are poor, living on 1 USD or less per day (INE, 2019: 16).

³ Moore (1998: 94) argues that the use of the concept ‘earned’ is a logical extension from the term ‘rentier’, since rentier is ‘unearned’ in the language of classical political economy.

massive ‘unearned’ non-tax revenues from oil for a long period of time cannot easily alter state-society relations through a major tax reform without upsetting the stability of the regime.

The analysis draws on findings from research carried out in Angola between 2011 and 2017. Our main sources of data are: (i) a dataset made available to us from the Ministry of Finance in Luanda, and complemented by data from the National Budgets and Angola’s Institute of Statistics (INE); (ii) tax legislation and policy documents; (iii) reports and newspaper articles, including IMF reports on fiscal reforms in Angola; and (iv) interviews with staff of the Ministry of Finance, PERT and AGT, international tax consultants, domestic tax practitioners, IMF staff, representatives of the business community, individual business people, and sector interests.

The article is organized as follows. The next section discusses the background for the non-oil tax reform in Angola and the political economic context in which it was implemented. Section 3 describes the changes in non-oil revenue generation over time. The nominal non-oil revenue growth is analysed in Section 4 by controlling for economic growth and inflation. In Section 5, the expansion of the non-oil tax base is discussed. Section 6 concludes.

2. The non-oil tax reform in Angola

The international financial crisis in 2008/09 and the drop in oil prices that followed exposed Angola’s heavy dependency on oil revenue (Soares de Oliveira, 2015; Jensen and Paulo, 2011; Luther et al., 2017).⁴ In response, the Government initiated a tax reform in 2011 aiming to increase non-oil tax revenues. The Government realised that the oil dependency was dangerous in many ways, especially for state finances, and it became urgent to enhance revenues by restructuring the tax system. At the time, the non-oil tax system in Angola was seen as “obsolete, inefficient, excessively complex and at times based on laws that date back to colonial times...” (GoA, 2011).

⁴ President dos Santos emphasized the impact of the fiscal crisis in his 2010 ‘State of the Nation’ speech. Retrieved from http://www.angop.ao/angola/pt_pt/noticias/politica/2010/9/41/Discurso-Presidente-sobre-estado-nacao.a2f97d55-7f2b-40f2-98a2-daf624e4c00a.html [last accessed 16 February 2020].

From the beginning, the tax reform was seen as an administrative undertaking, rather than aiming to fundamentally alter state-society relations. The reform took place during the final years of President José Eduardo dos Santos' rule. Dos Santos was in power from 1979 to 2017, outliving the long and devastating civil war (1975-2002), the transition from one-party rule to a multiparty and liberal constitutional setting, and from state-centered “socialism” to free-market capitalism (Hodges, 2004). Despite the upheavals, the regime's ability to finance its state apparatus and support its principal constituency – the wealthy elite and the top of the MLPA – through revenue from the offshore oil exploitation remained consistent (Le Billon, 2001; Hodges, 2007; Soares de Oliveira, 2007, 2015). Therefore, until 2010 when the Government announced the tax reform, the regime relied on oil revenues and did not make much effort to tax non-oil activities.⁵

In his State-of-the-Nation address in 2013, dos Santos extolled the virtues of “primitive accumulation” as the method through which Angola would fortify its emerging business class. He argued that the country's “capable elites” should have the right to be rich and that elite creation would lead the country “progressively out of its underdevelopment”.⁶ Privileging the few over the many was seen as an epitome of his rule. In January 2020, the Luanda Leaks broke and revealed that nepotism dominated the political economy of the regime, at least during the final years of the dos Santos presidency.⁷ Elite accumulation took place largely through accessing the rents of oil through public expenditure. Such rent-seeking and associated corruption resulted in a damaging drainage of the public purse – producing meagre results in

⁵ Like many other oil-rich states, Angola relied on the national oil company to bankroll its budget, rather than bothering much to collect taxes (Torvik, 2009: 250).

⁶ President José Eduardo dos Santos, *State of the Nation Address* (October 2013). Retrieved from <https://www.voaportugues.com/a/leia-na-integra-o-discurso-do-presidente-jose-eduardo-dos-santos/1771017.html>

⁷ The Luanda Leaks, published online by the International Consortium of Investigative Journalists (ICIJ), can be accessed from <https://www.icij.org/investigations/luanda-leaks/>

terms of welfare, jobs and quality infrastructure, despite immense public spending during the boom years.⁸

The regime that emerged under the dos Santos presidency relied on an economy, particularly a treasury, that objectively yearned for a tax reform. Wealthy individuals and businesses paid little taxes, and the majority of Angolans paid nothing. Relying on oil rent as the main revenue source had its obvious limitations and dangers. Yet, the political economy at the time militated against substantial reforms and taxing the emerging elite was contrary to the dos Santos regime's nature. Not only was that elite the regime's political mainstay, but much of the elite's wealth came directly and indirectly from tapping into the public purse, for instance through the banking sector (Ennes Ferreira and Soares de Oliveira, 2019). Expanding the tax base to include larger segments of the population would also be challenging for other reasons. First, the Government would have to invest in major improvements of the bureaucratic apparatus for tax collection. Second, taxpaying citizens would be more likely to hold an underperforming government to account (Moore et al., 2018). Thus, the legitimacy of a broad-based tax system would require massive improvements in public service provision.

These contradictions call the Government's dedication to tax reform into question. After more than 30 years in power, the dos Santos regime was not a force for fundamental change. Symbolic allusion was needed for political reform, but state-society relations could not be easily altered through a major tax reform without threatening the stability of the regime. Yet, at the outset of reform, the enormous inflow of oil revenues could mask the lack of deep *reform* in many sectors with expenses on *form* rather than substance – such as offices, equipment, new institutional names, study trips abroad and above all, expensive foreign consultants (Soares de Oliveira, 2015: 73-79).

Against this background, the tax reform, known as the *reforma tributária* in Portuguese, publicly addressed the challenges related to heavy oil dependency, an outdated tax system, and ineffective tax administration. It set out to modernize the tax administration by broadening the

⁸ From 2002 to 2018, the Angolan government spent more than USD 113,6 billion in the public investment programmes for reconstruction of the country (CEIC-UCAN, 2018).

tax base, clarifying and communicating legislation, improving auditing procedures, closing loopholes, and fighting tax evasion. According to Government representatives, one of the goals of the tax reform was to reduce the country's external debt-to-GDP ratio.⁹

The Government set up a well-funded entity called the Executive Tax Reform Project (PERT) for the purpose. The action plan for reform came in 2011.¹⁰ In 2014 and 2015, legislation and presidential decrees transformed the tax regime in Angola. The General Tax Code (*Código Geral Tributário*), the Code of Tax Procedure (*Código de Processo Tributário*), and the Tax Collection Enforcement Code (*Código das Execuções Fiscais*), generally referred to as the transversal tax codes, were updated and simplified. The domestic tax administration (*Direcção Nacional de Impostos*) and customs (*Serviço Nacional das Alfândegas*), as well as the PERT, were merged to create the new General Tax Administration, known by its Portuguese acronym as AGT (*Administração Geral Tributária*). The aim was to create an effective tax administration, to improve collection mechanisms and modernize audit procedures. These measures were seen as essential to enhance tax revenues from the non-oil sector.¹¹

PERT was richly aided by foreign consultants led by the international consulting company McKinsey & Co. The company has been active in Angola since 2007 and has supported the Angolan government in expanding key infrastructure and driving institutional reforms. According to the company's own declaration, "McKinsey has played an active role in Angola's reconstruction and modernization, contributing to the country's rapid development and to Africa's economic rebirth".¹² This statement contrasts recent revelations in the Luanda Leaks, which identifies McKinsey & Co. as one of the trusted advisors who helped Isabel dos Santos,

⁹ See statement by the Minister of State Carlos Feijó (Reuters, 2010).

¹⁰ In 2010, a Presidential Decree (GoA, 2010) created the PERT (*Projecto Executivo para a Reforma Tributária*). A few months later another presidential decree gave PERT its executive structures (GoA, 2011). The reform was coordinated by the Tax Reform Technical Unit (Unidade Técnica Executiva para a Reforma Tributária – UTERT) in the Ministry of Finance.

¹¹ The non-oil tax reform in Nigeria has many similar features (Oriakhi and Ahuro, 2014).

¹² See <https://www.mckinsey.com/ao/en> (last accessed 3 April 2020). According to the website, the firm has completed more than 110 projects in the country and more than 400 consultants from across McKinsey's offices have worked in Angola.

daughter of the former president, amass and shield a fortune.¹³ McKinsey was chosen as the key consultant for the tax reform. At a news conference in September 2010, the Minister of State Carlos Feijó, said: “*We will work with McKinsey to revamp all our fiscal sector. Our goal is to increase our tax revenues*” (Reuters, 2010). The deep involvement of foreign consultants was indicative of the technocratic character of the reform: It aimed to boost state revenue in the non-oil sector, not to effectuate any fundamental changes in state-society relations.

Eight years after President dos Santos announced the tax reform, Angola remains one of the most oil-dependent countries in the world.¹⁴ In 2016, oil represented 96% of the country’s export value. Even after the dramatic drop in oil prices in 2014, oil revenues represent approximately half of the country’s fiscal revenue (CEIC, 2017: 32). In the medium and long-term, there is concern over Angola’s dwindling oil reserves (da Rocha, 2014), as well as the global future of the fossil fuel industry. Another reason for concern is that the petroleum sector creates relatively few jobs¹⁵ – and thus few taxpayers. Most Angolans do not pay any direct taxes, and the country remains among Africa’s least formalised economies (Medina et al., 2017). In this context, tax reform plays – or could play – a major role in transforming the economy and improving state-citizen relations.¹⁶

¹³ See <https://www.icij.org/investigations/luanda-leaks/western-advisers-helped-an-autocrats-daughter-amass-and-shield-a-fortune/> [last accessed 4 February 2020].

¹⁴ In December 2018, Christine Lagarde, then Managing Director of the International Monetary Fund, said that Angola should lower the economy’s dependence on oil and its vulnerability to the commodity’s price fluctuations so that enough resources can be made available to improve living standards in the nation (Ombok, 2018).

¹⁵ According to the *Relatório Económico de Angola* (CEIC-UCAN, 2017), the oil sector in 2016 employed only 1.25% of the total employed labour force in the country. Angola’s oil resources are offshore and much more capital intensive than onshore oil.

¹⁶ In theory, the domestic tax system may contribute to improved governance through three main channels (Moore, 2008). First, fiscal bargaining and negotiation between the state and citizens over taxes is central to the development of a social fiscal contract. Taxpaying citizens are more likely to hold their government to account if it underperforms. Second, governments have stronger incentives to promote economic growth when they are dependent on taxes and therefore on the prosperity of taxpayers. Third, dependence on taxes requires states to develop a bureaucratic apparatus for tax collection. In contrast, it is argued that non-tax revenues (oil, minerals) tend to leave regimes freer to make whatever expenditures they wish without their having to be concerned about the likely reactions of citizens (Bornhorst et al., 2009; Ross, 2011, 2012, 2015). Thus, rentier states have limited incentives to build up institutions to collect and administer tax.

In the following sections, we assess the tax reform's initial and most urgent objectives, related to revenue enhancement and expansion of the tax base. We base this analysis on publicly available data – except data on the number of active taxpayers (*contribuintes*) between 2003 and 2015, which was provided to us by the Ministry of Finance.¹⁷ The graphs and tables that follow are compiled by the authors: Data on tax revenues, GDP and inflation rates are extracted from the annual state budget reports (*Relatórios de Fundamentação do Orçamento Geral do Estado*) published by the Ministry of Finance for the years 2003-2018.¹⁸ Data on the number of companies and enterprises in Angola are taken from the National Bureau of Statistics (INE).¹⁹

3. Nominal non-oil tax revenues, 2002-2017

In nominal terms, there was a formidable increase in non-oil tax revenue between the end of the civil war in 2002 and 2017 (see Fig. 1). During these 15 years, the nominal tax revenue increased by a factor of 30. In order to answer the question of the extent to which tax reforms since 2011 contributed to this increase, we will examine possible explanatory factors behind the increase in the context of general trends of the Angolan economy during the period 2002-17.

Angola experienced very high economic growth between 2002 and 2017. The Gross Domestic Product (GDP) increased from 405 billion kwanza to 20,262 billion – equivalent to a nominal 50 times increase. In US dollar terms, the GDP increased more than 10 times (IMF,

¹⁷ The sharing of the dataset on taxpayers reflects the long-standing cooperation between Centro de Estudos e Investigação Científica (CEIC), Universidade Católica de Angola, and the Ministry of Finance on studies of the Angolan economy. The taxpayer dataset can be made available by contacting CEIC or by request to the authors.

¹⁸ Each budget report includes data from the foregoing years of the national accounts. The data can be retrieved from <https://www.minfin.gov.ao/PortalMinfin/#!/materias-de-realce/orcamento-geral-do-estado/oge-passados> [last accessed 13 April 2020].

¹⁹ Available at <https://www.ine.gov.ao/indicadores-estatisticos/empresas> [last accessed 13 April 2020].

2019). Inflation was high during this period, although it fluctuated. It fell from 105% in 2002 to an average of 11% per year for the period 2006-14. From 2015, inflation started to rise sharply again and reached 42% in 2016.

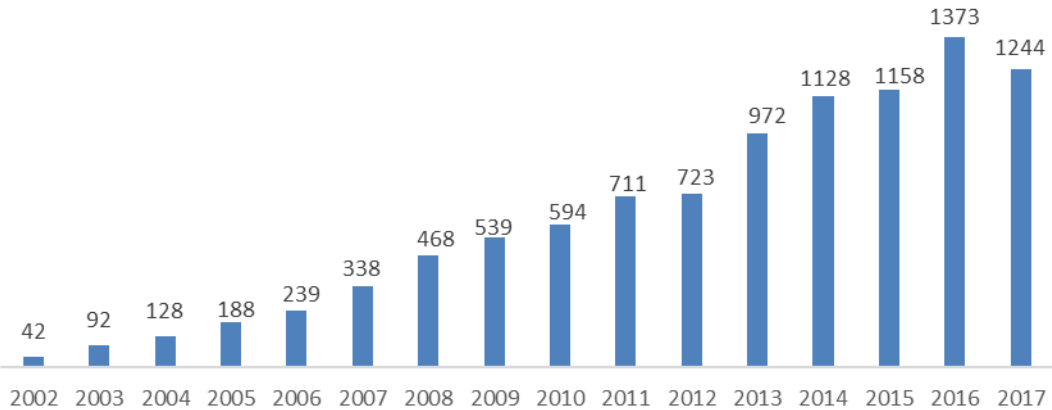


Fig. 1. Non-oil tax revenues (billion Kwanzas)

In May 2016, USD 1 = Kz 165.7 (FX-rate, 2019).

Increased revenues (in nominal terms) would be expected if the state had expanded the tax base, for instance by collecting revenue from more individuals and companies, and/or by introducing new taxes (see Section 5). Revenue would also increase if the state collected more from each registered taxpayer. Economic growth and inflation are also likely to affect revenue growth. In the two following sections, we examine the revenue increase in relation to these features of the Angolan economy, starting with economic growth and inflation.

4. Increased revenue: Controlling for economic growth and inflation

In theory, nominal tax revenues are expected to increase with the general growth of economic activities and the inflation rate. But was this the case in Angola?

4.1 Revenue and GDP growth

Did the growth of the tax revenue correspond to economic growth in the non-oil sector? As illustrated in Fig. 2, the growth pattern of the non-oil GDP – like the total Angolan GDP –

fluctuated considerably during these years, with a high point in 2007 (23.3% real annual growth), to an estimated low point in 2016 (-2,5%). The growth in non-oil tax revenues followed a similar volatile pattern as the growth in the non-oil sector demonstrating that non-oil tax revenue growth in Angola is not stable (Bornhorst et al., 2009; Davis et al., 2003; IMF, 2011). The non-oil tax revenue has also on average grown slower than the non-oil GDP after the start of the tax reform.



Fig 2. Real (inflation adjusted) growth in non-oil GDP and non-oil tax revenues

The relative importance of oil and non-oil revenue for the state budget is illustrated in Fig. 3. It demonstrates the Government’s high dependency on oil revenue, which accounted for an average of around 80% of all government revenue until 2012 when non-oil revenues started to increase as a share of total revenues. After 2014, oil revenues plummeted with major negative impacts on public finances. The increase in non-oil tax revenue is nowhere near enough to compensate for the drop in oil revenues.

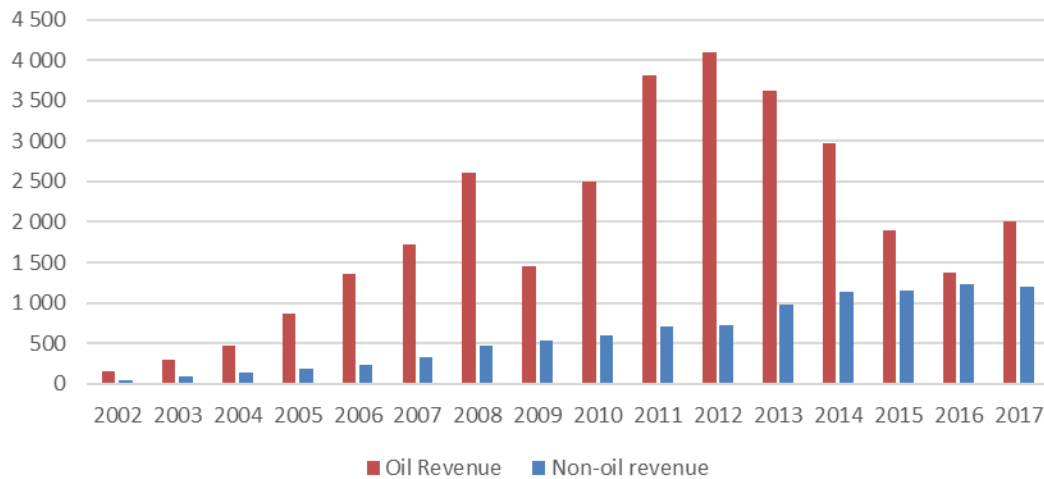


Fig. 3. Oil and non-oil revenues (in billion Kwanzas), 2002-17

In Fig. 4, budget forecasts are compared to the executed total non-oil revenues. It reveals a clear trend: Until the onset of the tax reform in 2011, the government revenue forecasts were fairly accurate. After 2011, the government issued overly optimistic forecasts. This shift came at the same time as the tax reform period, meaning it is reasonable to question whether the tax reform led to unrealistic expectations of non-oil revenue growth. Fjeldstad et al. (2014) argue that the poor revenue forecasting after 2011 can be explained by a combination of political, economic and technical factors including: (a) difficulties in diversifying the economy as fast as assumed by the forecasters and a remaining excessively narrow and volatile non-oil tax base; (b) poor administrative capacity to accurately assess the revenue base; and (c) political pressure to provide optimistic non-oil growth and revenue projections.²⁰

²⁰ Revenue forecasting in developing countries is a much under researched topic. Despite its strategic role in the budget preparation process, little is known about forecasting practices, the efficiency of the forecasting process, and the rationale for forecasting meddling (Danninger et al., 2005: 25). See also Jochimsen and Lehmann (2016) on the political economy of national tax revenue forecasts in OECD-countries.

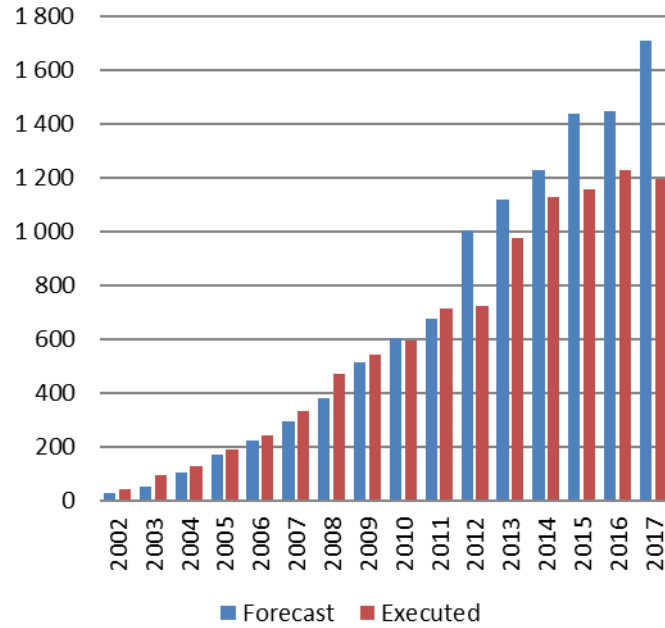


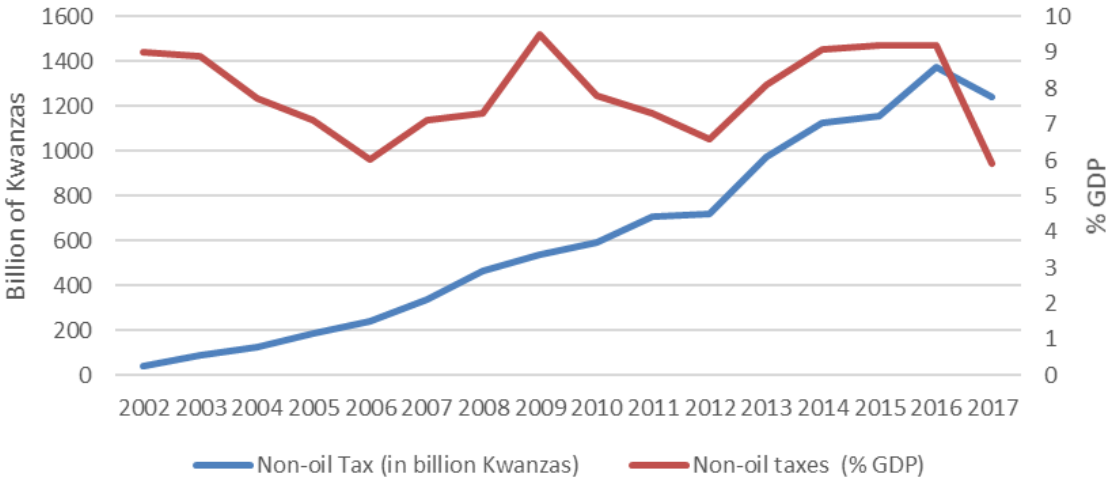
Fig. 4. Forecasts versus actual non-oil tax revenues (in billion Kwanzas)

Despite the large growth in the nominal value of the non-oil tax revenue, in percent of total GDP it remains at about the same level as in 2002 (see Fig. 5). There are, however, some important qualifications. Nominal non-oil tax revenue was at its highest level in percent of GDP in 2009. That year’s major decrease in oil revenues, with a resulting dip in the overall GDP growth, related to the global financial crisis of 2008.²¹ From 2009 to 2012, there was a drop in non-oil tax revenues in percentage of GDP. Thereafter, from 2013 to 2014, subsequent to the start of the tax reform, the non-oil tax-to-GDP ratio recovered again and reached around 9% of the GDP – the same level as in 2002. Under the economic slowdown and recession that struck Angola from 2015, the non-oil tax-to-GDP ratio fell to 5.9% in 2017, its lowest point since 2002. This compares to 15% in Algeria and 14% in Gabon – the only countries among the major oil producing countries in Africa with a non-oil tax to GDP ratio above 10%. Some other

²¹ See Tooze (2018) for an insightful analysis of the financial crises during the last decade and how they have changed the world.

African oil producing countries have even lower ratios than Angola, including Equatorial Guinea and Nigeria which are both below 5%.²²

If an increase in the non-oil tax revenues to GDP ratio is an indicator of the desired reduction in oil dependency, then the tax reform period provided a slight improvement. Yet, it only managed to restore the tax-to-GDP ratio back to the pre-reform high points before levelling out from 2014. Therefore, the 15-year perspective (2002-2017) based on this indicator provides no evidence of a successful tax reform effect.



²² IMF, Article IV 2016 reports on each country (all last accessed 17 February 2020).
 Angola: IMF Country Report No. 17/39 <https://www.imf.org/en/Publications/CR/Issues/2017/02/06/Angola-2016-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-44628>.
 Algeria: IMF Country Report No. 16/127 <https://www.imf.org/external/pubs/ft/scr/2016/cr16127.pdf>.
 Equatorial Guinea: IMF Country Report No. 16/341 <https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Republic-of-Equatorial-Guinea-2016-Article-IV-Consultation-Press-Release-Staff-Report-and-44371>.
 Nigeria: IMF Country Report No. 16/101 <https://www.imf.org/external/pubs/ft/scr/2016/cr16101.pdf>.

Fig. 5. Non-oil tax revenues in billion Kwanza (nominal) and as share of GDP, 2002-17

4.2 Revenue and inflation

Inflation would, normally, *ceteris paribus*, lead to higher nominal tax revenue.²³ For instance, as long as there is economic growth, higher prices will result in higher returns on consumption tax. Fig. 6 illustrates that in line with the reduced inflation rate, the nominal growth of the non-oil tax revenues also drops. Hence, inflation alone cannot explain the increase of the non-oil tax revenue (da Rocha, 2014).

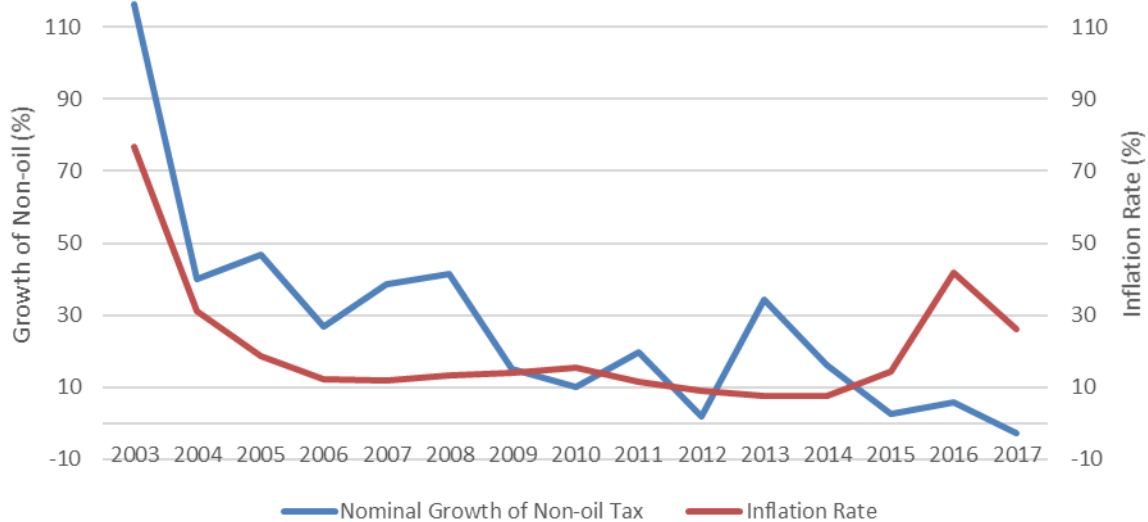


Fig. 6. Nominal growth of non-oil tax vs inflation rate, 2002-17

A critical question is whether the growth in non-oil revenue generation manages to keep up with the inflation rate. If tax collection cannot keep up with inflation, budgetary difficulties

²³ For a technical analysis of inflation and the real value of tax revenue, see Tanzi (1977).

will soon increase. The figure shows how inflation rose quickly beyond nominal revenue from 2014, coinciding with the major budgetary cuts that started in 2015.

From 2003 to 2010, the average nominal growth rate of non-oil tax was 41.9%, and the average inflation rate was 24.1%. In real terms, when adjusted for the inflation rate, the average revenue growth was 14%. During the tax reform period from 2011 to 2017, the average increase in non-oil revenue was 11.1%, and the inflation 16.9%, i.e. a negative real revenue growth. From 2015 to 2016 nominal revenue generation increased by 6% while inflation rose to 42%.

We can conclude that – when adjusted for inflation – gains in non-oil tax revenue were higher in the pre-reform years. There has been little or no real increase in non-oil revenue generation after the onset of the tax reform in 2011.

5. Expansion of the tax base

5.1 Increasing the number of “contribuintes”

Data on the expansion of the base of *active* taxpayers (*contribuintes*) between 2003 and 2015 are presented in Fig. 7 and in Table 1. After the civil war in 2002, Angola’s tax system was in complete disarray. In 2003 there were only 453 registered active taxpayers.²⁴ The number of *active* taxpayers²⁵ increased rapidly thereafter.²⁶ In 2015, there were 548,180 active taxpayers, of whom:²⁷

²⁴ There may have been many more as the major fluctuations between the “registered” versus the “active” and “ceased” taxpayers make it difficult to establish strong assertions about the actual numbers before 2005.

²⁵ The Ministry of Finance provided figures for three categories of taxpayers: Active taxpayers, those who currently pay tax; “ceased” taxpayers, those who somehow are not paying tax; and “registered taxpayers”, all of whom are registered in the rolls. By subtracting the ceased taxpayers from the registered ones, one gets the total number of active taxpayers. For the first few years after 2003, we found anomalies and variations in the numbers. From about 2005 – long before the onset of the tax reform - the number of ceased taxpayers is almost insignificant in comparison with the registered, indicating a consolidation of the taxpayer records.

²⁶ Luther et al., (2017: 303) claim that the Angolan taxpayer base broadened “from 964,000 taxpayers in 2010 to 3.74 million by the end of 2015”. That is an increase of 2.77 million taxpayers. The source for these data is not reported in the article, and it diverges substantially from data provided by the Ministry of Finance.

²⁷ The four categories of taxpayers were defined in a 2004 law decree (GoA, 2004). Each type of taxpayer has a corresponding tax identification number starting with 1, 2, 5 or 7, respectively – hence, there are no “missing” types in between.

- 93% were individuals (type 1)
- 4% were individuals owning small businesses (type 2)
- 3% were companies or other collective personalities (type 5)
- 0.2% were companies or other collective personalities that by their nature of activity are exempt from paying corporate tax (type 7).

Compared to countries with a similar GDP per capita level, the number of individuals and companies paying tax is exceptionally low, even in 2015 (ITC & OECD 2015). The 509,071 individuals paying income tax (type 1) in 2015 represented only 4.6% of the population above 18 years of age.²⁸

Table 1
Number of taxpayers in each category (2003-15)

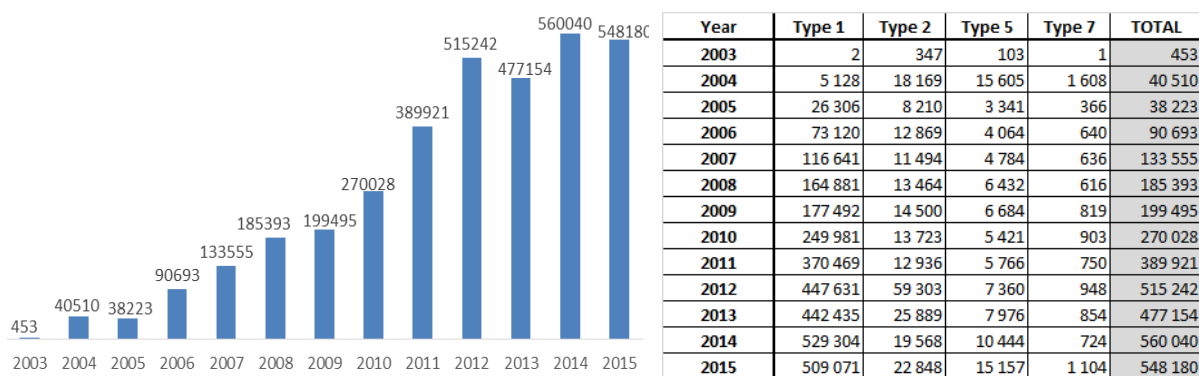


Fig. 7. Number of taxpayers in Angola (2003-15)

The fastest increase in registered taxpayers took place before the tax reform period in 2011. From 2011 onwards, the rapid expansion of the tax base seems to have halted. During the five years from 2007-2011, the number of individual taxpayers (type 1) increased by 320%, while for the following five-year period (2011-2015) it expanded by only 38%.

²⁸ The total taxpaying population above 18 years old was estimated to about 11 million people in 2015. Demographic data from United Nations Populations Fund (UNFPA, 2019).

The taxpayer figures are best understood when disaggregated into individuals and companies. There is a demographic element of considerable concern: The number of individual taxpayers increased by 61,440 people between 2012 and 2015. However, the high population growth in Angola, around 3.5% annually in the period (UNFPA, 2019), means that the population increased by nearly 1 million per year. Thus, the AGT should ideally expand its taxpayer rolls by at least another 400,000 individuals annually to keep up with the growth of the tax-paying age population.

The numerical expansion is limited by the number of people registered in formal employment and the number of existing and active businesses which explains one reason for the relative slow-down in the expansion of the individual taxpayer base. However, many employed individuals are still not registered as taxpayers. Angola's National Institute of Statistics (INE) provides employment figures for all sectors, including the primary sectors.²⁹ It shows that in 2006, only 2% of the employed people were registered as taxpayers. The share increased to 7% in 2011 and 8% in 2015. Hence, only a very small increase in the registration of individual taxpayers (type 1) materialised in the tax reform period. Still, only a small fraction of Angolans pays individual taxes.

The disaggregated tax data reveal that the number of taxpaying businesses doubled (type 2, 5; see Table 1) during the tax reform period. By 2015, there were 39,109 corporate taxpayers in Angola, representing 94% of the 41,507 companies/organizations registered by the statistical bureau INE, which keeps an inventory of *de facto* businesses whether they are registered with the AGT or not. That was the highest percentage measured since 2008.^{30 31} The increase in the number of registered businesses came during an economic slowdown. It is likely that the

²⁹ Available at <https://www.ine.gov.ao/indicadores-estatisticos/empresas>.

³⁰ 2008 is the first year with available data on the number of corporate taxpayers.

³¹ INE apparently failed to register the huge spike in the number of small businesses (type 2) in 2012, the year of the general election. The likely explanation was the creation of nearly 50,000 micro-businesses registered that year at BUE (Balcão Único do Empreendedor). BUE is a local office where individual entrepreneurs would register (and in the process receive a taxpayer ID) in return for a small loan. According to the authorities, BUE never recovered most of these loans and is now practically inoperative (Rede Angola, 2016).

administrative effort of registering businesses – attributable to new practices of the tax administration (AGT) – can best explain the increase in the number of registered businesses and corporations (type 5) since 2013, and particularly in 2015. The AGT has not had a similar success in expanding the number of individual taxpayers, neither compared to the number of employed people nor to the number of adult citizens. More than 95% of adult Angolans are still not registered as taxpayers.

The increased number of taxpayers explains to a large extent the high nominal growth of non-oil tax revenues. In Fig. 8, the number of active taxpayers is compared with the revenue from all income taxes (corporate, personal and capital). For most of the period under analysis, tax revenues grew at a similar pace to the expansion of the tax base. Only in 2014-15 did the revenues from income taxes expand more rapidly than the number of taxpayers, implying that the tax burden on active taxpayers increased that year. Otherwise, there is no clear evidence of increased tax pressure.

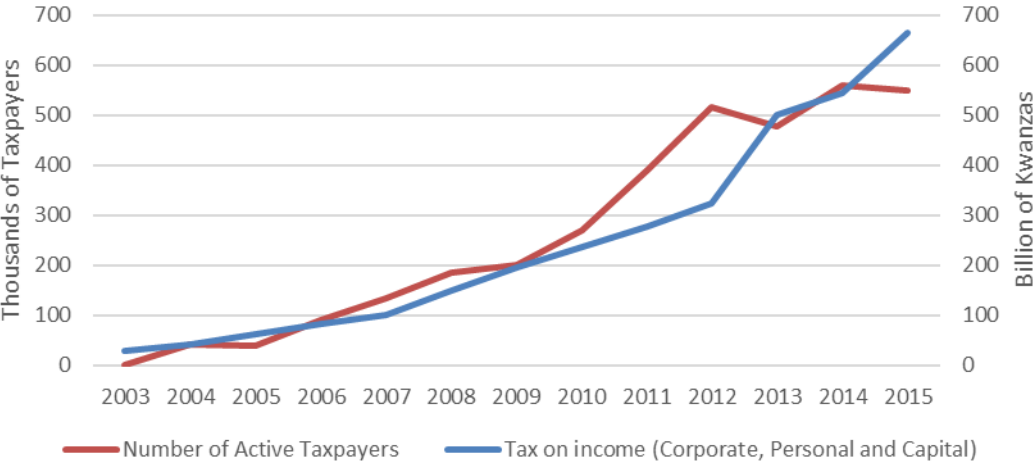


Fig. 8. Income tax revenues (in billion Kwanza) and the number of taxpayers (in 1000)

The data suggest that there has been no significant increase in the average tax burden in Angola, except in the year 2015. Thus, the nominal increase in tax revenue is best explained by the increased number of taxpayers, not inflation or the tax burden. The increase in the number of new taxpayers was larger before than after the start of the tax reform in 2011. However, the

number of corporate taxpayers has tripled since the tax reform was initiated. This seems to be the major achievement of the tax reform period.

5.2 Non-oil taxes disaggregated

What does a disaggregation of the term “non-oil taxes” tell us? What types of taxes contributed more to the treasury? Which changes could be observed during the reform period? Answering these questions requires a breakdown of the revenue figures.

The disaggregated revenue data could be treated as a proxy for the tax administration’s priorities. We may then assume that the revenue source that increased most did so because of AGT’s deliberate measures. However, we caution against that interpretation, since many policy measures and the general economic development also influence revenue collection. Including all those variables in the analysis is beyond the scope of this paper, but it does not preclude a discussion of the possible causes behind the observed changes.³²

Fig. 9 provides a pattern: Historically the consumption tax was the most important part of non-oil tax. However, after 2010, corporate tax increased more rapidly than other taxes and overtook consumption tax in importance. By 2016, corporate tax generated almost as much in revenues alone as the consumption and personal income taxes together.

³² Diamonds account for an almost negligible share of non-oil revenue, despite representing a high share of total non-oil exports. Between 2002 and 2015, revenue from the diamond sector represented only 5% of the total non-oil revenue, and in the latter years only 1% (compiled by CEIC-UCAN, based of official data from INE and the Ministry of Finance).

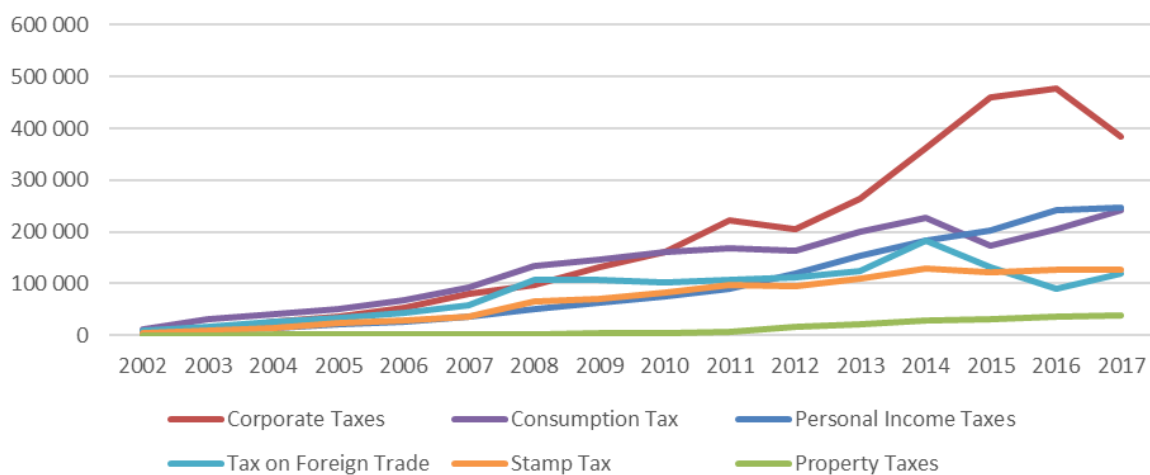


Fig. 9. Main components of non-oil tax revenues, 2002-2017 (in million Kwanzas)

In order to search for a clear “reform effect”, we compare the year 2010 – the year before the government began implementing the tax reform – with 2017, the last year for which we have disaggregated data. Table 2 shows that corporate taxes in 2017 accounted for one third of the non-oil tax revenue. Taxes on personal income accounted for merely 21.3% in 2017 (up from 13% in 2010). These observations are consistent with the proposition that the tax reformers prioritized increasing the number of taxpayers in the revenue bases that already generated most revenue, i.e. the enterprises paying corporate tax. In contrast to consumption tax, revenues could relatively easily increase by expanding the corporate and business tax base.

Table 2
Tax revenues disaggregated on tax bases

	2010		2017		Change
	AKZ (bn.)	%	AKZ (bn.)	%	
Non-oil taxes					
Corporate	161	27,6	385	33,2	+ 5,6
Consumption	160	27,5	242	20,9	- 6,6
Personal income	75	13,0	247	21,3	+ 8,3
Foreign trade	102	17,5	120	10,4	-7,1
Stamp tax	82	14,0	126	10,9	-3,1
Property tax	3	0,5	38	3,2	+ 2,7
Total	586	100	1159	100	

Revenues from property taxes are very low and in 2017 accounted for only 3.2% of the total non-oil tax revenues (38 billion Kwanza, approximately equivalent to USD 230 million).³³ Some Angolans own urban properties, for instance apartment blocks, worth hundreds of millions of dollars. There is considerable potential to increase the revenues from property taxes.³⁴ However, many of the wealthy property owners are politically well connected so this would be challenging to implement.³⁵

³³A breakdown of the property tax figures shows that 90% of the property tax collected was from the “tax on urban real-estate” (*imposto predial urbano*), a tax that was negligible until 2011.

³⁴ A simple web search at OLX where properties are commonly marketed showed that in May 2019 more than 200 houses and flats were put up for sale at between one and ten million USD in Luanda only. If the transaction tax of 2% of the property sales value were paid for all these sales (averaging, say USD 2 million), then this tax alone would provide USD 8 million to the Treasury. If the tax value of these houses had been set at a mere 10% of the sales value and taxed at 0,5% annually, it would have mustered another USD 200,000. Thousands more property transactions, albeit for smaller sums, were certainly carried out in Luanda alone. See https://www.olx.co.ao/imoveis-casas/luanda/q-a-venda/?search%5Bfilter_float_price%3Afrom%5D=1000000&search%5Bfilter_float_price%3Ato%5D=10000000&search%5Bprivate_business%5D=private¤cy=USD (last accessed 28 May 2019).

³⁵ Some African countries, including Uganda, have recently implemented measures taxing high net worth individuals (Kangave et al., 2018). These measures were possible to implement due to strong support from the highest level of government.

After the introduction of the tax reform, corporate tax and personal income tax were the two revenue sources that increased most significantly as share of total non-oil tax revenues, with about 6 and 8 percentage points respectively between 2010 and 2017. The consumption tax decreased by almost 7 percent in the same period.

The nominal corporate tax revenue increased by 186% between 2010 and 2015. This increase was closely matched by inflation, which accumulated to 160% in the same time period. Since there were nearly twice the number of type 5 taxpayers in 2015 (see Table 1), this implies that there was a real decrease in the average tax burden on businesses in the period.³⁶ Due to the integration and enrolment of many new businesses, the overall nominal revenue from the business sector increased. The growth in the number of businesses taxed was far more important to the Treasury than the taxes extracted from each.

Assessing the revenue figures according to source during the reform period, we suggest the following propositions deriving from the non-oil tax reform:

- Three taxes have increased in relative importance: Corporate income tax, personal income tax and property tax.
- The increase in corporate tax revenue is by far the most significant.
- Property tax has a huge, unexploited revenue potential.
- Despite much controversy around the tax on foreign trade after 2014, it decreased in relative importance.³⁷

We see a clear pattern when examining these figures together with the size of the tax base. It informs about a tax reform that has succeeded more in taxing businesses than to adding more individuals into the tax system.

³⁶ However, these are average figures, so some types of businesses and/or sectors might have experienced either a tightening or an ease of their tax burden.

³⁷ The increased tax on foreign trade in 2014 was justified as a protectionist measure, not a measure to increase government revenue.

6. Conclusion

We have assessed the performance of the non-oil tax reform in Angola by analysing data on tax revenues before and after the implementation of the non-oil tax reform. We find that the results of the reform on revenues and the tax base have not been as substantial as predicted (Luther et al., 2017), despite the substantial resources invested in developing the tax administrative capacity with strong involvement of international consultants. Although the non-oil tax revenue as share of total revenue increased substantially from 2012 (mainly due to falling oil prices), the reform has not resulted in reduced dependence on oil revenues. The importance of non-oil taxes to the overall GDP remains largely the same or lower compared to 2002. When considering inflation, we found that the real increase in non-oil taxes was higher before than after the tax reform.

In nominal terms, there was a significant increase in non-oil tax revenues since the start of the reform in 2011, but that was also the case before the tax reform. The increase in revenues took place despite major fluctuations in the overall economic growth. The increase in the number of registered taxpayers through administrative measures is the most important explanation for this development, reflecting the general expansion of private businesses along with economic liberalisation and gradual formalisation of the economy. From 2012, there has been a major expansion in the number of registered corporate taxpayers. The relative disconnect between economic growth and the tax revenue potential should be an important insight for policy makers.

The reform has had a largely technocratic character aimed to boost government revenue in the non-oil sector, but it has not effectuated any fundamental changes in state-society relations. Wealthy individuals and businesses continue to contribute very little to tax revenues, while small and medium sized enterprises report a heavier burden of taxes and associated accounting rules. Five years into the tax reform period in 2015, the vast majority – more than 95% – of adult Angolans were still not registered as taxpayers. By our estimates, that figure increased along with the high population growth and the growing informalisation of the Angolan economy.

However, the meagre results of the tax reform cannot be understood merely as a failure of poor implementation but were to a large extent a consequence of the political economy of

the time. The Executive Tax Reform Project (PERT) and subsequently the Administração Geral Tributária (AGT) were established during the dos Santos presidency. It was in the nature of his regime to avoid experiments that could alter state-society relations. A major reduction in oil dependency would have required the introduction of new, broad-based taxes, which in turn would have required a new social contract, different from the one offered by the dos Santos regime. These contradictions call the Government's dedication to tax reform into question. After more than 30 years in power, President dos Santos was not a force for fundamental change. Politics required symbolic allusion to reform. The regime could not easily alter state-society relations through a major tax reform without threatening the stability of the regime.

The steep drop in oil prices in 2014 led to a dramatic overall fall in government income, since the non-oil tax revenues were not able to compensate for the reduced oil revenues. With the fiscal crisis that followed the oil bust, the Government of Angola cut budget spending, and also resorted to large-scale borrowing from international financial institutions and banks and to major budget cuts after 2015 (CEIC-UCAN, 2017). Considering the marginal gains attributable to the tax reform from both revenue and state-society perspectives, we can conclude that developing the non-oil tax system remains as urgent today as it was when the tax reform started in 2011.

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