A COMPARISON OF FOUR AFRICAN MANUFACTURERS SALES TAXES AND TWO RETAIL SALES TAXES

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ABSTRACT

This paper presents information on manufacturers sales taxes in four African countries -- Kenya, Tanzania, Zambia and Ghana. Because there are no retail sales taxes in tropical Africa, a comparison is made with the retail sales taxes of two relatively small non-African countries -- Barbados and Iceland.

Topics discussed in this paper include the coverage of the taxes, the rates, the revenue importance, the numbers of registered firms, the administration and operation of the taxes, inspection and audit programmes and the problem of delinquency. Finally, a number of merits and criticisms of these taxes are pointed out.

A number of general conclusions are suggested from the inspection of these six sales taxes. It is found that in a developing country a sales tax can be a very significant revenue source and sales taxes at the manufacturing level can function extremely well. A general problem has been the failure to develop adequate audit programmes, and also the need for simplicity in tax structure and operation has often been overlooked. There are serious dangers in placing sales tax administration under the jurisdiction of customs and excise departments because the personnel in these departments generally lack the accounting knowledge necessary to effectively administer a sales tax. Finally, it appears that the exemption of basic foods from sales tax has effectively lessened possible complaints against the taxes on equity grounds.

This paper provides a comparison of the manufacturers sales taxes of four African countries, Kenya, Tanzania, Zambia and Ghana, and with two retail sales taxes of relatively small non-African countries (there are no retail sales taxes in tropical Africa). Table 1 summarises the general features of these taxes.

INTRODUCTION OF THE TAXES

All of these taxes were introduced between 1960 and 1974 and therefore belong to the "modern" generation of sales taxes. All countries discussed here, except Iceland,are British Commonwealth countries. The first sales tax to be introduced was in Iceland, influenced by experience in the Scandinavian countries, imposed at a low (3 per cent) rate in 1960 as a revenue measure. The rate was gradually raised, particularly in 1973-74 when customs revenue was lost as a result of Iceland's participation in EFTA.

The first of the Commonwealth African countries to impose a sales tax was Ghana, in 1965, urgently in need of revenue. The Act imposed a multi-stage turnover tax, but this was in fact (but not by law) modified into a manufacturers sales tax before it became operative. In East Africa, the three members of the East African Community were restricted in their ability to adjust income tax and customs-excise duties by agreement on common policy, but were free to impose sales taxes, and Uganda took the lead in 1968, followed by Tanzania in 1969. These two taxes, designed by an adviser from Israel, were unusual in that the tax was imposed separately by BTN category (as is true in Guyana also). Kenya debated the tax for several years and finally in 1973 adopted an act greatly simplified, compared to those of the two neighbouring countries. The tax was sought primarily to gain additional revenue and to increase the elasticity of the revenue system. In the same year Zambia introduced its sales tax of limited scope; it was influenced by Kenya's experience but sought to experiment by taxing only a few commodities initially rather than all. The scope has been progressively broadened. All three countries adopted the manufacturers sales tax for administrative reasons.

The last of the six countries discussed in this paper was Barbados, which imposed a sales tax in 1974 to offset the loss in revenue from elimination of intercountry duties within CARICOM. The retail form was adopted in view of the very limited manufacturing and the desire to include wholesale and retail margins.

OVERALL COVERAGE

All of the taxes except Zambia's are general in coverage; Zambia's applies to all dutiable imports and to specified domestically produced goods. In practice, most domestic industries are now covered. The taxes of Barbados and Ghana differ from the others in that imports are not taxed -- a source of obvious leakage. Kenya, after changing policy, now requires payment of tax on all imports (except for exempt commodities), but allows refund of tax on materials used in manufacturing. The other countries allow importation of materials and parts by registered firms tax free under certificate.

All of these levies are designed to be single stage taxes, but the extent of exclusion of producers' goods varies substantially. Materials and parts becoming physical ingredients are universally excluded from tax through import or purchase under certificate (and, in Kenya, refund of tax paid). Zambia limits the exemption to materials in categories specifically designated for each taxed commodity, but in fact excludes most materials. Virtually all farm inputs -- seed, feed, fertiliser, machinery and some other items -- are exempted outright in all six countries, partly specifically to aid agriculture, as for example in Zambia and Kenya, partly because of political pressures of farm groups. Iceland exempts virtually everything used in the fishing industry.

The tax treatment of industrial machinery, however, varies, as it does in the rest of the world. Barbados and Ghana seek to exclude all of it; Tanzania exempts some; Zambia, while not taxing when domestically produced, does tax it at importation. Iceland and Kenya apply the tax; Kenya in recent years, like Zambia, has also commenced to apply customs duty to industrial machinery to lessen capital intensiveness in production. The common tendency in developing countries to overvalue their currencies may justify taxation of capital equipment, while there is strong objection to such taxation in industrialised countries. The tax treatment of fuel is complex, but the category is at least partially taxable in all of the countries except Barbados; most is not taxable in Ghana and Zambia. Zambia taxes all electricity.

The tax treatment of services is somewhat limited; only the tax in Iceland applies to all services except those excluded -- but the exclusion list is lengthy: real property construction on the site, all transport, rentals, hospitals, all professional services, water and computer service. Zambia singles out hotels, restaurants, laundry and drycleaning for taxation; Barbados employs a separate [illegible]

le 1. Basic features of sales taxes in six countries.

	Retail Sales Taxes		
	Barbados	Iceland	Ghana
ır Introduced	1974	1960	1965
ıeral or Specified	General	General	General
ɔorts covered	no	yes, except by registered firms	no
ɜignation of Taxed Items	General	General	General
signation of Exempt Items	BTN category	specified	specified
sic Rate (%)	5%	20%	11.5%
ıer Rates	none	none	5, 7 1/2, 10, some specific
parate Collection of Tax ıt the Retail Level	yes[e]	no[c]	--
les Tax Revenue as % of tal Tax Revenue, 1975-76	6%	32%	5%
of Sales Tax Revenue llected on Domestic Sales	100%[d]	97%	100%[d]
mber of Registered Firms (approx)	6,000	7,700	1,250
pulation (approx) 1975	250,000	225,000	9 million
timated per capita GNP (US$)	-	$5,400	$266

Many exceptions; basic rate of limited significance. b. Many semi-
Imports not taxable. e. By law.

	Manufacturers Sales Taxes		
	Kenya	Tanzania	Zambia
	1973	1969	1973
	General	General	Specified categories
	yes, all	yes, except by registered firms	yes, except by registered firms
	General	BTN category	BTN category
	BTN category	BTN category	all except those specified as taxable
	10%[a]	12%[a]	10%[a]
	20[b], 15, 30, some specific	24[b], 17, 40, plus 13 others, plus specific	15, 20, 30, motor vehicles 4, 8, 12, 17, one specific rate
	--	--	--
	25%	38%	14%
	60%	84%	36%
	1,600	1,000	420
	12 million	12 million	5 million
	$155	$113	$384

-luxury goods. c. By practice, not by law.

in conjunction with the sales tax.

All of the taxes provide some exemptions of food. All food is exempt in Barbados and Kenya (the original plan to exempt only basic foods was abandoned for political reasons). Of necessity unprocessed domestically produced food in the other African countries is exempt since it does not pass through a manufacturing stage. Tanzania, Ghana and Zambia tax much, but not all, processed food, depending on the importance of the items in the diets of the poor, and Zambia taxes some imported unprocessed food. Medicines are not taxed in Kenya, Tanzania and Zambia and are partly taxed in the other countries; books, magazines and newspapers are universally free of tax. Some other exemptions are noted in Table 2. In general, the taxes are relatively broad in coverage, in Zambia much more so on imported than on domestic goods.

RATES

The two retail taxes have single uniform rates -- 5 per cent in Barbados, 20 per cent in Iceland, the latter one of the highest in the world. Ghana has an unusual structure, a basic 11.5 per cent rate on non-excise-taxed goods, 7.5 per cent on goods also subject to excises, plus iron reinforcing rods; 10 per cent on liquor and electricity; 5 per cent on cement; and specific rates on tobacco products, diesel oil and fuel oil.

Kenya, which has a basic 10 per cent rate, applies a 20 per cent rate to a wide range of luxury items including consumer durables, jewelry, cosmetics, etc., 15 per cent to wine and motor vehicles, 30 per cent to tobacco products, and specific rates to beer, motor fuel, oil, grease and electricity. Tanzania has far more rates and much higher rates, with a basic figure of 12 per cent on many foods and items of widespread household use; 24 per cent on items regarded as luxuries; 25 to 50 per cent on motor vehicles, 50 per cent on most liquor and cigarettes, a number of high rates on textile products not produced in the country (and thus protective, particularly against imports from Kenya which are not subject to customs duties), and a large number of other rates, each on a few items. The rate structure has become very complex, as the tax has been used as a protective and sumptuary instrument.

The Zambia rate structure is much simpler, with a basic rate of 10 per cent, 15 per cent on a few items, 20 per cent on footwear, clothing and

and rates from 4 to 17 per cent -- very low figures -- on motor vehicles according to engine capacity. The variation applies only to domestic goods; all dutiable imports are taxed at 10 per cent.

REVENUE IMPORTANCE

The rate levels, coverage and exemptions influence the revenue importance of the taxes: the figures range from 38 per cent of tax revenue in Tanzania and 32 per cent in Iceland to 5 and 6 per cent in Ghana and Barbados, neither of which taxes imports. In Kenya and Zambia sales tax is a significant element in the overall tax structure. The percentage of tax collected on domestic sales as distinguished from imports is lowest in Zambia -- 36 per cent (which taxes far more imports than domestic goods). The Tanzania and Kenya figures are surprisingly high -- reflecting in part the drastic restriction of imports into Tanzania (for foreign exchange reasons) and the extensive growth of Kenya manufacturing.

THE NUMBER OF REGISTERED FIRMS

The two countries with retail sales taxes have far more registered firms than the others despite their much smaller population, as shown in Table 3.

There is 1 registered vendor for every 42 persons in Barbados and for every 30 persons in Iceland, compared to 1 per 12,000 in Tanzania. The difference reflects in part the difference in commercial economic development in the two sets of countries, but also partly the difference between the two forms of tax. The experience of Ghana, Kenya and Zambia suggests that a developing country with an established manufacturing sector can expect to have roughly 1 registered manufacturer for each 8,000 population.

In all of the countries, registration is required of firms in the categories subject to tax. Thus in Barbodos and Iceland all retailers are registered (and in fact wholesalers and manufacturers since they make some sales at retail), and in the other four countries all manufacturers are registered except certain small firms. Kenya and Zambia set the exception figure by law, at 100,000 Kenya shillings and 10,000 Kwacha respectively (about $US 12,000 and $15,600 at current official exchange rate). (These figures refer to turnover per annum: editor's note.) Ghana and Tanzania have no set figure, but do not register firms so small that control is believed to be impossible. Tanzania, like Uganda, also taxes some firms on the sales to them instead of their sales, and does not register them.

Table 2. Tax treatment of major categories in six countries.

	Barbados	Iceland	Ghana
Food	X(all)	Basic X	Unprocessed X[a]
Beverages	X	T	T
Medicines	T	T	T
Books, magazines, newspapers	X	X	X
Stationery	X	X	for schools, X
Building materials	X(most)	T	T
Fuel	X	T	X(indus., etc.)
Motor vehicles	X	T	S
Commercial transport equipment	X	T	X
Materials, parts	X	X	X
Farm feed, seed	X	X	X
Fertiliser	X	X	X
Pesticides	X	X	X
Machinery	X	X	X
Fishing equipment	T	X	T
Sand, stone	X	T	T
Tractors	X	T	T
Charcoal, firewood	T	T	X
Industrial machinery	X	T	X
Small radios	T	T	X
Exports	X	X	X
Hotels, restaurants	S	X	NT
Services generally	NT	T, except specified	NT

T = taxed; S = special tax; X = exempt ; NT = not specified as taxable.
a. Some processed items also X.
b. Some items taxed on importation, not domestic production.

Kenya	Tanzania	Zambia
X(all)	Unprocessed X[a]	Unprocessed X[a]
T	T	S
X	X(most)	NT
X	X	NT
T	T	NT[b]
T	T(most)	NT(most)[b]
T	T(most)	NT[b]
T	T	T
T	X	NT
X	X	X(specified categories)
X	X	NT
X	X	NT
X	X	NT
X	X	NT
T	T	NT[b]
T	X	NT
X	X	NT
X	X	NT
T	X(some)	NT[b]
T	T	T
X	X	X
NT	NT	T
NT	NT	NT

revenue loss. Some form of exception of small craft producers is imperative for successful operation of a manufacturers sales tax. The two retail sales tax countries provide no similar exemptions, but Barbados does not in fact succeed in registering the itinerant sellers on the beaches.

All countries require firms to fill out a registration form and then issue a registration number.

ADMINISTRATION

The countries fall into two patterns: in Ghana and Zambia, following Commonwealth traditions, sales tax administration is assigned to the customs and excise department. In Ghana, the sales tax is administered by a separate section, under a Deputy Controller, with its own personnel (about 30). In Zambia, there is less separation from customs operation, although one person in headquarters has general jurisdiction over the tax, and in the larger custom houses separate personnel are assigned to sales tax, but they have a customs officer background.

The other four countries assign sales tax to the internal or inland revenue department. In Tanzania and Kenya the tax could not be assigned to customs and excise, which in 1973 was an agency of the East African Community (and still was in 1976). In Tanzania the sales tax predated the transfer of the income tax from the EAC, and so a separate staff was set up which in 1973 inherited the income tax as well. In Kenya, a separate sales tax staff, under an Assistant Commissioner, is essentially coordinate with the income tax administration. Iceland and Barbados deliberately assigned the tax to inland revenue in the belief that the operation wasmmore closely related to income tax than to customs -- a view that has strong validity.

Thus there are separate sales tax units and staffs in Barbados, Ghana and Kenya, some separation of personnel in Zambia, and integration with the income tax staffs in Iceland and Tanzania.

The countries differ in their degree of centralisation. Kenya was completely centralised in 1976, but planned offices in Mombasa and two other cities to reduce travel cost. Barbados assigned inspectors by area, but operations were centralised in view of the small size of the island. Iceland's operation was highly decentralised, with 9 district offices and 24 collection offices handling income tax as well, but over two-thirds of the tax was paid in the Reykjavik area. Tanzania operations were decentralised. with 21 regional offices and 80 internal revenue offices in total,

the records being kept in these offices. Records were also kept in the local offices in Ghana. In Zambia the tax was administered through the ports of entry (there were ten, but four handled most of the tax), but duplicated records were kept at headquarters in Livingstone.

All of these countries have computers -- in general third generation ones (for example, IBM 360 in Iceland, 370 in Zambia) -- but only Iceland uses the computer for sales tax purposes, and then only partially, to provide the listing of registered firms, to make assessments and to address return forms in larger jurisdictions.

The staffs vary widely in training and adequacy. Of the African countries, Kenya has the most adequate and one of the better trained staffs, under a Deputy Commissioner of Taxes. There are 2 assistant commissioners, a senior collector and 2 senior inspectors, 5 inspectors Grade I (8 authorised), 12 inspectors Grade II (15 authorised), 6 collectors Grade I, and 4 collectors Grade II. Thus there are 25 authorised inspectors for 1,600 firms, or one to every 64 firms -- a figure that compares very well with those for industrialised countries. The aim is to recruit persons as inspectors who have university degrees in economics or commerce plus some persons with professional accounting background. The initial difficulty in finding personnel has been overcome.

In Tanzania, the inspection staffs are located in the regional offices, with a few auditors in Dar-es-Salaam. The inspectors, except for a few senior ones, are not university graduates and have learned through on-the-job training. The internal revenue officers and the regional finance officers have been promoted on the basis of experience. While some recruiting is now done at the university level, most new employees are recruited at the secondary school graduate level.

The staff in Zambia consists of persons with customs officer training (recruited at the secondary school level) who in general have no accounting or business background. Ghana likewise recruits from secondary school graduates, increasingly from commercial schools where bookkeeping training is provided. But the Ghanaian staff has little training in accounting and work approaching true auditing is impossible.

The two retail sales tax countries, like Kenya, seek to recruit persons with knowledge of accounting. Barbados, with a staff in 1976 of five and two vacancies, has recruited persons with training in accounting, gained by articling with public accounting firms or from courses in the

work. Iceland, where the staff handles both sales and income tax work, though with some specialisation, recruits at the university graduate level with a BA in law or economics and trains in accounting. Unfortunately civil service salaries are not fully competitive and trained persons are often lost to the private sector. There are at present eighteen in the investigation department located in Reykjavik. The Director of Internal Revenue has a university degree in accounting, while the head of the collection office is a lawyer.

OPERATION OF THE TAXES

All six taxes are collected on the basis of returns, all required on a monthly basis by the dates noted in Table 3. Neither Ghana nor Zambia supply return forms; the firms must buy their own, of a prescribed nature. Only Iceland mails the forms out monthly (addressed by the computer for the larger areas); the others make theirs available in batches. The forms differ widely, from very simply ones in Barbados, Iceland and Kenya (which does not even require figures of exempt sales), to detailed ones, calling for sales by type of good, invoice numbers, etc., in the other three countries. Zambia requires a return form, a sales tax entry form and details of all sales -- necessitating a number of pages from the larger firms. Ghana requires copies of invoices. In Ghana the tax is paid to a bank and the duplicate deposit slip is filed with the return, together with a copy of each invoice. In Zambia, payment is made to the cash office in the custom house, the return filed separately. In the other countries, payment is made by check or cash, in person or by mail, together with the filing of the return. In Iceland, payment is made to the local collection offices, distinct from the district offices.

Kenya, like the state governments of the United States, requires only one copy of the tax return; Zambia requires seven copies; the others three.

DELINQUENCY

Different systems are used to ascertain delinquents (nonfilers); none use computers for this purpose as yet, though computers play some role in Iceland.

Barbados: No system is yet developed, though a check can be made from ledger cards. A store-to-store check was being made to ensure that firms have registered and have filed returns.

Iceland: Two days after the due date, the returns are checked agai

3. Operational features of the six sales taxes.

	Barbados	Iceland
ion of firms with nnual sales under:	No X	No X
iction over dministration	Inland Revenue	Internal Revenue
alised ministration	Centralised but inspectors in areas	Decentralised
te staff	Yes	No, integrated with income tax
ated sales and ncome tax audit	No, but plans	Yes
ed auditors	Yes	Yes
erisation	No, but plan; ledger cards	Listing of firms, mailing returns, and assessments in larger districts
turn interval	Monthly	Monthly
te, following nth	15th	25th
eturn forms to rms	No	Yes
f return form	Simple	Simple
of return quired	3	3
quency percentage, itial	Not known yet	10-12%
ement, initial	Not developed yet	Notice

Ghana	Kenya	Tanzania	Zambia
No formal figure	shs 100,000 ($US 12,00)	as proposed by inspector	K10,000 (US$ 15,600)
Customs & Excise	Sales Tax Unit	Tax Dept.	Customs & Excise
Decentralised	Yes	Decentralised	No: ports of entry
Yes (with excise)	Yes	Partial integration with income tax	Partial
No	No	Yes, but some specialisation	No
Limited training	Yes	Limited training	No
No, ledger page	No, ledger sheet	No, ledger kept in local offices	No, file in custom house, ledger page at headquarters
Monthly	Monthly	Monthly	Monthly
21st	End of month	15th	21st
Do not supply forms	Issue batch	No, made available	Do not supply return forms
Detailed, and file invoices	Simple	Relatively detailed	Very detailed information
3	1	3	7
Substantial	No data yet	Not available; apparently low	Est. 50%
Letter	Letter	Officer contacts	Call by officer

the master list in the collection office provided by the computer. The basic delinquency lists, however, are made up at three month intervals in the district offices, by checking the master list against the lists of payments. Late filing penalties are assessed against those that filed late, and assessments of tax against those that have not yet filed.

Ghana: A check is made in the local office to find those firms for which there is no ledger entry.

Kenya: A check is made on the ledger sheets each month to ascertain those firms for which there is no entry for the month.

Tanzania: A check is made monthly in the local offices to find those firms for which there is no return.

Zambia: A check is made by the custom ports to ascertain which firms have not filed, usually by checking the returns against the master list of firms. Headquarters, which records the payments in a ledger book, also checks to ascertain the nonfilers, but leaves the initiative for action to the local offices.

In these countries the check is made within a few days after the due date.

Most of these countries have not compiled data on nonfilers as a percentage of accounts. Iceland reported a 10 to 12 per cent figure. One custom house in Zambia reported nearly 50 per cent.

The initial action is taken by the local offices, except in Kenya where the system is completely centralised. Barbados has not yet developed a formal system. In Iceland, Ghana and Kenya a form letter is sent to the firm requesting filing. In Tanzania, the internal revenue officer contacts the firm by phone, visit or letter, and a similar procedure is followed in Zambia. Typically, most of the firms file and pay, but there is a hard core that does not -- usually smaller firms hard pressed for cash. In Iceland, the collection office threatens to close the business by legal action (and does in a few cases). Ghana ultimately obtains a distress warrant and seizes the property. Tanzania, after assessing the tax, obtains a court order to force collection. In Zambia legal proceedings are initiated, the Controller lacking power to seize property or close the business. Kenya has not yet taken action but plans to begin criminal prosecution once all firms are familiar with the tax.

There are two difficult problems. First, some of the firms do not pay because they have no funds, and governments are reluctant to force them out of business. Secondly, some of the nonpayers are government-owned firms,

and frequently there is no way the revenue department can seize or close down a government-owned and operated hotel, for example, and the management knows this.[1] Solution to this very real problem can be obtained only at top levels of government.

Automatic Penalties

Governments long ago discovered that effective enforcement is aided by provision in the tax act for automatic (without court action) application of penalties for late filing. Tanzania, with an automatic 20 per cent penalty + 1 per cent a month, is the most drastic; the Iceland rule is 2 per cent a day for 5 days, plus 1.5 per cent a month; Barbados applies a 10 per cent penalty with a $10 minimum + 0.5 per cent a month; Kenya 2 per cent a month; Zambia 2.5 per cent a month. Only Ghana has no automatic penalty and must use criminal prosecution. There are, of course, criminal penalties for violation of the tax act in all the countries, but these are rarely ever used.

INFORMATION

Barbados, Iceland and Kenya provide relatively detailed information booklets to the registered firms. The other three provide general instructions and answers to questions, but the information is much less detailed.

INSPECTION AND AUDIT PROGRAMMES

None of these six countries yet has a systematic overall audit programme with substantial coverage and scientific selection of accounts for audit, although there are plans for such systems. As distinguished from a true audit, which seeks to ascertain the accuracy of reported figures by utilising external data, norms and the like, Ghana and Zambia have frequent inspection, in which officers (who have little knowledge of accounting) check data in the returns against the records from which these returns were prepared. Thus, if the returns show taxable sales of 15,000, do the sales records and invoices show this same figure? Stress is placed on invoices per se; Ghana requires that they be issued from numbered books purchased from the government.

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1. The problem is particularly difficult if the government-owned business is out of funds.

In Kenya, inspectors have been busy thus far simply checking refunds, giving information, etc. Under present plans, once the audit programme is under way each manufacturer will be subjected to a complete audit every two years, with briefer intermediate checks. In Tanzania, all returns are examined in the district offices and if there is any doubt an inspector visits the firm. There are few persons competent to make a true audit. There are plans, however, for improved training and audit programmes.

Iceland has the most effective audit programme of the group at the moment. Some inspection is done at the district office level, but actual audit is done by the investigation unit at headquarters. There is no broad audit coverage, but a substantial amount is done, some of sales tax jointly with income tax, some separately. Recently selection has been primarily by business category -- all car dealers, for example. Invoices are expected in larger firms. Detailed information is required on exempt sales, including information on markup and spoilage.

TAXABLE PRICE

With most of the taxes, tax applies to actual selling prices on domestic sales and duty-paid value on imports. Ghana requires inclusion of the excises on excisable goods. Only Zambia requires adding markups, designed to apply the tax rate to a figure approximating the retail price. On domestic goods, the taxable price is the factory cost plus 25 per cent or the retail selling price (although the tax is collected from the manufacturer) whichever is higher. Almost always the retail price alternative is higher. On imports, tax applies to value for customs duty purposes, plus customs duty, plus 20 per cent of the value for customs duty, plus 25 per cent of the sum of these three items. In Iceland, on imports for use by the importer, tax applies to duty-paid value plus 10 per cent.

In no instance does the taxable price include the amount of the tax itself. Discounts actually given are usually deductable, and bad debts in some instances.

MERITS AND CRITICISMS OF THESE TAXES

In general all six of these taxes have become accepted as permanent elements in the tax systems of the respective countries, and basically all are acceptable in structure, given the environment. There is perhaps greatest enthusiasm for the taxes in Kenya and Tanzania, where they yield

about one-third of the tax revenue. They are regarded as highly productive and causing few difficulties. The Tanzanian levy has higher overall rates and is used in part as a protective and sumptuary device; the Kenyan levy is simpler and regarded more strictly as a revenue measure.

The tax in Iceland, the largest revenue source, is also widely accepted in a country in which even the labour unions prefer sales taxes to income taxes. The debate in Iceland is almost solely over the question of whether it should follow the other Nordic countries in shifting to the value-added form.[2] The Barbados tax, the newest one and the only one quoted separately to the consumer, created the greatest public outcry, but this has died down. The only issue now is whether the tax might preferably be imposed at the wholesale level rather than the retail level.

The tax in Ghana is not highly productive of revenues, but has not been subjected to great criticism. In Zambia, the tax, still in experimental form, has become a significant revenue producer, and there is some sentiment for converting it into a generalised manufacturers sales tax.

In none of the countries is there criticism of the tax on the grounds of regressiveness, the traditional complaint in many countries. The exemption of basic foods, by far the largest item in the budgets of the lowest income groups, and the use in Kenya, Tanzania and Zambia of higher rates on luxury goods have minimised complaints on an equity basis. The relative equality of income in Iceland and the widespread support of indirect taxation in the country lessen criticism.

There are, however, certain defects noted in the countries:

1. Lack of trained personnel for inspection. In all of the countries, though to a lesser extent in Barbados and Kenya, the inadequacy of trained personnel for an effective inspection and audit programme is recognised. This is true even in Iceland, a country with a well educated population and high civil service standards. It is particularly true in Tanzania and Zambia, with a severe shortage of personnel trained in accounting. In both Zambia and Ghana the location of sales tax administration in customs and excise departments has resulted in a failure to recognise the need for personnel trained in accounting. Barbados and Kenya have plans for an effective audit programme, but they are not yet implemented.

2. The lack of records on the part of smaller firms, especially family businesses, impairs effective control of the tax. There is greatest concern over this problem in Barbados and Iceland, with retail taxes and no

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2 [illegible]in and has not shifte[illegible] to [illegible] complete v lue-addel tax. In I ela d.

exemption of small firms. In Barbados, there are a number of itinerant firms selling taxable products. Some do not register; others register and buy tax free for their own use without accounting for tax. Small rural stores buy from vans without purchase invoices, and the sellers do not issue sales invoices. Iceland likewise expresses concern about evasion by smaller firms, under the pressure of the very high (20 per cent) tax rate. Revenues are substantially protected by the fact that 4 per cent the firms pay 55 per cent of the tax, 20 per cent pay 80 per cent of the tax. The oil companies, the state liquor monopoly, and the co-operatives are the largest payers. Even with the manufacturers sales tax in Ghana there is concern about the poor records of the smaller firms. Less concern is expressed in the other three countries.

3. Concern is expressed about the demand for more and more exemptions and deductions. In Barbados, for example, there is pressure to allow deduction of trade-in allowances and to exempt coffins. Iceland expresses concern about the vicious cycle of a high rate leading to demand for more exemptions, which reduce yield and complicate control. The Kenya government exempted a much broader range of food than the ministry sought.

4. While these levies are all basically single stage, some cascading occurs (the least, apparently, in Barbados), as certain purchases for business use are taxed without subsequent credit. Greatest concern is expressed in Iceland, where an estimated 33 per cent of the tax strikes business sector purchases without credit or refund. The effects on exports are feared, since all EEC and most EFTA countries now minimise the cascade element. This is the primary reason for serious consideration of a value-added tax in Iceland (plus the belief that evasion would be lessened through collection of much of the tax at import, the desire to harmonise with the EFTA countries, and the hope that income tax administration would be strengthened). Tanzania also expresses concern over cascade elements in the tax. By contrast in Kenya, taxation of capital equipment is regarded by the government as desirable to increase the relative use of labour.

5. The relationship of the tax on imports and domestic goods is of concern in several countries. The failure to tax imports at all in Barbados invites importing by final consumers and clearly needs correction. The tax in Ghana likewise does not apply to imports, with consequent revenue loss and possible distortions. The tax in Zambia applies to all dutiable imports but to far fewer domestic goods, thus constituting an additional protective mechanism. Rates differ on imports and domestic products for many goods.

Kenya has changed policy on tax treatment of materials. Initially registered firms could import or buy materials tax free under certificate. But there was substantial unreported selling of the materials for taxable purposes, and so imports and purchases of materials were made taxable, with subsequent refund. But this has resulted in so much more work in refunding and excessive tying up of working capital that the government now plans to exempt outright major types of materials not also used for consumption purposes.

6. Some other adverse effects are noted. In Barbados, small shops selling only food and cigarettes have quit handling cigarettes to avoid the need to file tax returns. The Iceland rule, common with most sales taxes, that on real property contracts fabrication work on the site is not taxable, discourages pre-fabrication.

7. Several countries, but especially Iceland and Zambia, are concerned about the tendency of sales tax increases to lead to wage increases, destroying the anti-inflationary effectiveness. The problem is most acute in Iceland, with a high rate of inflation and general indexing. But exclusion of the sales tax element from the cost of living index is regarded as politically impossible and is made more difficult by the fact that the tax element is not quoted separately from the price.

8. The tax in Zambia is still in a somewhat experimental, evolving stage, with coverage limited (on domestic products) to specified categories and with imports and domestic goods treated differently.

9. The Tanzania tax, like that of the Republic of Guyana, has far too many different rates, with very fine distinctions that cannot possibly be justified on any scientific basis; there are, for example rates of 10, 12, 15, 17 and 18 per cent (plus others).

CONCLUDING OBSERVATIONS

These six sales taxes suggest several general conclusions:

1. A sales tax can be a very significant revenue source in developing countries if imports are included, the base is relatively broad and higher rates are used on luxury goods. But careful attention to the structure of the taxes is necessary if the desired results are to be attained.

2. Sales taxes at the manufacturing level function extremely well in developing countries if properly structured, without encountering the distortions of distribution channels created by such taxes in highly

the use of several different rates and minimises the number of taxpayers. A single rate is almost imperative with a retail tax.

3. Retail sales taxes can be operated successfully when retail sectors are more commercialised and sophisticated, but there are more problems with small firms.

4. A general problem is the failure to develop adequate audit programmes with reliance on excessively detailed reporting and routine inspection instead of true audit. Delinquency, in the sense of failure to file on time, is also high, a result in part of inadequate penalties for late filing.

5. The need for simplicity -- in tax structure and operation -- is very great but often ignored. Kenya offers the model of the manufacturers sales taxes; the retail taxes are relatively simple.

6. There are serious dangers in placing sales tax administration under the jurisdiction of customs and excise departments unless a separate unit with its own personnel selection is created, because the background and training of customs personnel are not suitable for a tax which to be effectively controlled depends on the knowledge of accounting.

7. Exemption of basic foods appears to be effective in lessening complaints against the taxes on equity grounds.