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Pathways Into the Tax Net: Better Ways to Register African Taxpayers

Edward Groening, Mick Moore, Denis Mukama and Ronald Waiswa

Summary of ICTD African Tax Administration Paper 34

The problem

A good system for registering taxpayers is central for effective revenue collection. This is especially true for three taxes that account for the majority of revenue collected in most countries – corporate income tax, personal income tax (PIT), and value added tax. However, systems for registering taxpayers in sub-Saharan Africa are often poorly designed and managed. There are three characteristic problems:

- The process of registering new taxpayers is not sufficiently targeted on people and businesses likely to be liable for tax. On one hand, there can be too much enthusiasm for registering more people and businesses, although many are not liable for tax. On the other, prosperous enterprises often escape registration – especially if, like money-lenders and foreign exchange dealers, they do not have very visible business premises.
- Too many registered taxpayers are inactive or unproductive – they either fail to file tax returns, or file returns that show no income or tax liability. Tax agencies need to be more proactive in: (a) ensuring those who are liable for tax send in accurate returns and become productive taxpayers; and (b) de-registering businesses and individuals that have ceased trading or earning, and have no prospect of becoming productive.
- Identification (ID) details entered in tax registers are often inaccurate or incomplete, and of limited practical use, because accurate registration is not an organisational priority.

These problems interact in a perverse fashion. If ID information in the tax register is not used for operational purposes, there is little incentive for organisational effort to make it more accurate and comprehensive. If there is a policy to increase the number of registered taxpayers rapidly, information collected on new taxpayers may not be accurate or complete.

The long-term solution

In the longer term, these problems – and especially inaccurate and incomplete data in tax registers – will largely be solved due to further digitalisation of organisational record-keeping and communication. Digitalisation makes it easier to check and amend records. It creates opportunities for organisations to share data. This, in turn, increases the incentive to enter accurate data and update it regularly. If customs, VAT, and income tax departments of a tax agency use a common taxpayer register, and automatically give each other access to information they have on every taxpayer, any inaccuracies entered are more likely to attract attention and be corrected. It is a system of mutual checking. This is especially significant for taxpayer IDs in the tax register.

Tax agencies in sub-Saharan Africa and other low-income regions typically create and maintain their own ID database, and do not share it with other government agencies. In higher-income countries it is increasingly the norm for tax agencies to use a cross-government ID database to which multiple government agencies contribute information, and rely on for ID information. Cross-government ID databases are intrinsically superior from a technical perspective. First, they are likely to be checked and updated more frequently – potentially each time a citizen (or business) is issued with a citizen ID, motor vehicle licence, social security number, property title, tax identification number, business licence, passport, or import or export clearance. Second, mutual checking by the contributing organisations is built in. If any of them regularly upload inaccurate or incomplete data, they will be exposed.

For many reasons, including access to cross-government ID databases, tax agencies in richer countries face few of the registration problems summarised here. This may be why these registration problems are rarely discussed. Richer countries still have a major influence on the way international organisations like the IMF and OECD understand tax administration.

Interim solutions

There are many measures that African tax agencies can take to simultaneously target new tax registrations more effectively, rid the taxpayer register of unproductive taxpayers, and improve accuracy and coverage of ID data in the tax register. We organise these into three categories.

A. Practices to avoid

1. Regular street campaigns to register large numbers of new taxpayers.
2. Paying bonuses to tax agency staff to register new taxpayers.

B. Practices to be wary of

1. Using the number of new taxpayer registrations as a performance indicator for either tax agencies or their staff.
2. Simplified taxpayer registration. It can be too simple – there need to be safeguards to ensure accuracy.
3. Mass registration of new taxpayers using third-party (digital) data sources (business or property registries, and customer lists from electricity or water utilities). This can have considerable costs, as well as benefits.

C. Positive lessons to build on to target registration more effectively

1. If using digitalised risk-based approaches, third-party data sources (business or property registries and customer lists from electricity or water utilities) can be an effective way of expanding the tax register to include more businesses and people who seem liable for tax based on their transactions or assets.
2. Many national tax registers would be more fit for purpose if it was easier to de-register companies or individuals who should no longer be on them.
3. There may be considerable benefit to increasing the few official records of people paying PIT through their employer by placing the more highly paid on the tax register.
4. It is often sensible to require certain categories of professionals – accountants, doctors, engineers, and lawyers – to register themselves for tax if they are practising their profession. It can be easy for them to escape the attention of the tax agency.
5. It generally makes sense to require people involved in urban property rental – landlords and tenants – to notify the tax agency of every new rental contract. This is a significant potential source of tax revenue in African cities that tends to escape the tax net.
6. It is often possible to expand the tax register efficiently by requiring country offices of international organisations, including embassies and NGOs, to provide the tax agency with details of all people and companies to whom they make salary or contract payments.

The principles underlying these recommendations are:

- Procedures and resources for new registrations should be targeted on categories of individuals or companies that are most likely to be liable for tax.
- Tax registers should routinely be cleared of individuals or companies that do not, and should not, pay tax.
- Checks should be built into the registration process to ensure data entered is accurate and adequate.

"There is considerable scope to improve the ways in which taxpayers are registered in Africa. The essence of that improvement is a shift from valuing the number of registered taxpayers [....] to focusing on the registration (only) of taxpayers who need to be registered."

Further reading

Groening, E.; Moore, M.; Mukuma, D. and Waiswa, R., (2024) *Pathways Into the Tax Net: Better Ways to Register African Taxpayers*, ICTD African Tax Administration Paper 34, Brighton: Institute of Development Studies, DOI: 10.19088/ICTD.2024.029

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Credits

Edward Groening is Director of the Research, Strategy and Statistics Department at the Eswatini Revenue Authority.

Denis Mukama is Assistant Commissioner Research, Planning and Statistics at the Rwandan Revenue Authority.

Ronald Waiswa is Specialist in Applied Research and Statistics at the African Tax Administration Forum.

Mick Moore is Senior Fellow at the International Centre for Tax and Development, and Professorial Fellow at the Institute of Development Studies.

ICTD is based at the Institute of Development Studies, Brighton BN1 9RE UK.

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