



ICTD

Research in Brief

Issue 53 • May 2020

Assessing the Performance of African Tax Administrations: A Malawian Puzzle

Summary of ATAP Working Paper 14 by Wazona Ligomeka

The puzzle

When judged by the standard criteria for effective tax administration, as carried out under the Tax Administration Diagnostic Assessment Tool (TADAT), the Malawi Revenue Authority (MRA) appears to perform very poorly, even by the standards of low-income countries. These observations are in conflict with the facts that the MRA (a) is rather effective at capturing a relatively high proportion of gross domestic product (GDP) in tax (above the average for sub-Saharan African (SSA) countries every year since 2009), and (b) collects a high proportion of that through what is normally seen as a very challenging channel, i.e. direct taxes on corporate profits (corporate income tax – CIT) and on employment income (personal income tax – PIT). This paper aims at exploring this puzzle in detail.

The issue is explored by examining the MRA's performance in four areas: taxpayer registration and data management; detection and prosecution of tax fraud through tax audit; handling of administrative appeals and complaints through a dispute resolution process; and provision of services and assistance to taxpayers through taxpayer education.

Findings

a) Tax registration and data management

Anyone operating a business in Malawi is required to register with the MRA for tax purposes, either under the standard income tax regime or the turnover tax regime. Businesses whose

annual gross income is below MK10 million (equivalent to approximately \$13,516) are registered under the turnover tax regime, while those whose annual gross income exceeds MK10 million are registered under the standard scheme. Taxpayers in the standard regime are further classified as either small, medium, or large. A special department known as the Large Taxpayer Unit (LTU) within the Domestic Revenue Department manages large taxpayers. The challenge with the tax records is that they are not up to date. There are over 70,000 taxpayers registered but only 32,000 are thought to be active (paid taxes in the past 6 years).

In terms of data management, five IT systems are used in the administration of domestic taxes. This has created a number of challenges, including the following: duplication of work, difficulty for the MRA in tracing some activities such as taxpayer payments due to systems being managed by different units, and taxpayers with multiple tax identification numbers using them to circumvent payment of tax arrears or penalties when filing a return.

Regardless of the challenges with registration and data management, it was noted that information about large taxpayers is kept in a separate excel file which is up to date and comprehensive.

b) Tax audit

The main weakness in MRA audits relates to case selection. To select a case for audit, the MRA is supposed to use a risk matrix. The risk matrix is a systematic way of identifying

“This paper contributes to the debate on tax revenue mobilisation in sub-Saharan Africa by providing comprehensive evidence from Malawi, on how a low-income country, with a pattern of tax administration that appears to be ineffective by normal measures, is effective in practice.”

the risk of tax non-compliance. It is intended to help officers in the audit section target their actions to; the various identified risk categories, better allocate resources across different types of audits (comprehensive, issue-oriented, and desk audit), and improve the overall effectiveness of the audit function. However, officers in the audit section of the MRA pointed out that the risk matrix is largely ignored. Officers just use their intuition to select cases for audit. This increases the chance of risky taxpayers being skipped. The revenue-collecting departments in the MRA are aware that the audit matrix is largely ignored. To ensure that all risky large taxpayers are audited, the LTU formulated its own risk matrix. The LTU submits the list of additional taxpayers to be audited to the audit division, and funds these additional audits using its divisional budget. The small and medium taxpayer units do not have a similar arrangement.

It was further noted that the audit system lacks a feedback mechanism. Auditors identify risks in the field, but these risks are not being collated to inform any review of risk selection criteria or compliance improvement plans. Assessment of audit reports mainly focuses on the number of audits conducted in a year, and how much money is recovered from audits. In addition, no feedback is provided by the legal division to the audit division on the outcomes of different court cases that have been handed over.

c) Dispute resolution

On paper, the dispute resolution process in Malawi seems comprehensive, providing recourse to independent arbitrators and the courts, instead of the MRA itself resolving all disputes. However, in practice, the tax dispute resolution process does not follow all the steps outlined in the law. The majority of cases end with the MRA (i.e. they are not appealed), because most taxpayers are not aware of the dispute resolution process. The shortage of information on the process mostly affects small and medium taxpayers. Almost all large taxpayers have access to specialised tax advice (including MRA

officers assigned to each large taxpayer) and lawyers who are aware of the dispute resolution process.

d) Taxpayer education

The MRA disseminates tax information to the public in a number of ways, though primarily through brochures, press releases, magazine articles, radio and television slots, and content on the MRA website. The MRA also conducts seminars and workshops for taxpayers, and awareness programmes in schools. In 2018, it introduced walk-in enquiries and phone services (including WhatsApp) to address taxpayer questions. In addition, every year, the MRA publishes on its website a list of tax policy changes made by Parliament. The taxpayer education services are expansive and cover different types of taxes.

The primary limitation of the taxpayer education service provided by the MRA is that the publicly available resources and activities do not, in most cases, explain in detail the taxpayer's technical obligations and the rules that apply to them. The resources and information sessions provide basic information rather than full guidance or manuals. As mentioned above, to ensure that large taxpayers have all the information that they need, the LTU assigns a desk officer to each large taxpayer.

Contribution

This paper contributes to the debate on tax revenue mobilisation in SSA by providing comprehensive evidence from Malawi, on how a low-income country, with a pattern of tax administration that appears to be ineffective by normal measures, is effective in practice. Furthermore, the findings from this paper have two broader implications. One is that performance can vary considerably between different parts of the same organisation, and therefore, performance indicators intended to apply to the organisation as a whole may be misleading. The other is that we still have some way to go in both understanding and measuring the factors that lead to good tax administration.

Further reading

Citation: Ligomeka, W. (2019) *Assessing the Performance of African Tax Administrations: A Malawian Puzzle*, ICTD African Tax Administration Paper 14, Brighton, IDS.

Credits

Wazona Ligomeka is a Chief Economist in the Revenue Policy Division of the Ministry of Finance in Malawi. He is completing his PhD in Development Studies at the Institute of Development Studies, University of Sussex.

The ICTD is funded with UK aid from the UK Government and by the Bill & Melinda Gates Foundation; however, the views expressed herein do not necessarily reflect the UK Government's official policies, nor those of the Bill & Melinda Gates Foundation. Readers are encouraged to quote and reproduce material from the series. In return, ICTD requests due acknowledgment and quotes to be referenced as above.



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

© ICTD 2020