

Do Revenue Authorities as institutions have the correct incentives to promote private investment and raise the necessary revenue?

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A. Panel Chair Comments: Mr. Jenkins, Lesotho Revenue Authority

- A distinction needs to be made between policy incentives and operational incentives. Policy incentives are the responsibility of government, whereas operational level incentives can be put in place by RAs. So while RAs do not set policy (therefore incentives), they can reward compliance through operational measures.
- It is possible for RAs to establish performance indicators beyond revenue, such as will be put in place in Lesotho. Lesotho is also implementing a major change program which will include: instating commissioners of taxpayer's services and compliance management (rather than by tax types e.g. VAT commissioner, Income tax commissioner); single audit visits, rewarding compliance through various schemes e.g. accreditation for customs, withholding tax exemptions, allowing to file VAT every two months.
- While compliance costs and burdens can be reduced, being fair/equitable is not same as being efficient (can have equitable but poor tax system). So, the key is to be fair and efficient.
- The goals of the Lesotho Revenue Authority are to have effective tax collection and to fight corruption.

B. Presentations: Mr Fjeldstad, Mr Karimu, Mr Jousten, Mr Everest-Phillips, Mr Pasi.

- Enforcing the Social/Fiscal contract and building a relationship between the state and people is critical. A shift in mind-set is needed to see taxes not as a cost but as an investment.
- Performance targets should be extended in order to balance long and short term goals.

C. Discussion Highlights

- Revenue administration cannot be separated from tax policy, since some tax instruments are selectively administered. RAs need to have more broad-based objectives aside from revenue generation.

- There is more progress in the reforms at the central tax administration level rather than at local/sub-national tax administration level.
- There is a need for taxpayer education to encourage taxpayers to demand services from the government (social/fiscal contract).
- The process for developing a lobby for change necessitates taking the debate to politicians. Currently there is little discussion at the policy level on the revenue side (all expenditure side). There is a need to focus on the relationship between expenditures and revenue. While there is a lot of literature about tax compliance regimes, there is little on how to create/develop a lobby for change.
- There is an increasing justification to manage RAs as businesses. RAs are now developing corporate plans, and restructuring including modernization/computerization.
- What recourse do businesses have against harassment by officials? Options include confidential help-lines/hot lines, whistle-blowers within RAs, and complaints to government institution other than RAs (e.g. Anti-Corruption Commissions). However, taxpayers need assurance that when complaints are reported through the established hotlines that issues raised are actually followed up by the authorities.
- While taxpayers question what happens to tax-dollars (for example in talk-shows), it is difficult for RAs to answer because they are not involved in decision-making regarding expenditure priorities.
- Building public-private partnership is critical A forum is required through which complaints from the private sector can be addressed with the assurance that they will not be victimized. Hence, it is important to establish a dialogue for mutual understanding between the public and private sectors. For example, Rwanda and Tanzania have tried to establish dialogue mechanism and worked on building trust. The challenge is to expand this to all parts of the private sector.