4TH HIGH-LEVEL TAX POLICY DIALOGUE: A COLLABORATION BETWEEN THE AFRICAN TAX ADMINISTRATION FORUM AND THE AFRICAN UNION COMMISSION

TAXING RIGHTS FOR AFRICA IN THE NEW WORLD & EFFECTS OF COVID-19: THE ROLE OF TAX POLICYMAKERS & TAX ADMINISTRATORS

OUTCOME STATEMENT

27 AUGUST 2020

1. The 4th ATAF High-Level Tax Policy Dialogue attracted over 529 officials from Ministries of Finance and African Tax Administrations of 48 African Union (AU) member states, Members of Parliament, Regional Economic Communities (RECs), Civil Society, African Development Bank (AfDB), African Central Banks, African Stock Exchanges, Organization for Economic Cooperation and Development (OECD), United Nations Economic Commission for Africa (UNECA), International Monetary Fund (IMF), Development Partners including DfID and SECO, other key partners, individual tax policy experts and private sector players. The High-Level Tax Policy Dialogue took place virtually through Zoom Conferencing on the 26th and 27th August 2020 under the theme **"Taxing Rights for Africa in the New World and Effects of COVID-19: The Role of Tax Policymakers and Tax Administrators**". The event was jointly organised by the African Tax Administration Forum (ATAF) and the African Union Commission (AUC), and with the support of the African Development Bank (AfDB).

2. The three speakers in the Opening Session: Mr Logan Wort (Executive Secretary, ATAF), Mr Muhammad Nami (Chairman, ATAF Executive Council) and H.E. Victor Harison (Commissioner of Economic Affairs, African Union Commission) highlighted the following critical issues:

- As countries try to get back on their feet as a result of the uncertainties introduced by COVID-19, countries must remember that behind uncertainty, lies opportunity. The opportunity, to re-channel our efforts towards Domestic Revenue Mobilisation, the opportunity to design and introduce new economies which are cognisant of gender and alive to inclusivity, a continental platform for policymakers and administrators to collaborate, the pursuit of more substantial taxing rights, and the opportunity to mobilise relevant institutions in a way that facilitates a coordinated and formidable African voice in the international tax arena.
- The COVID-19 pandemic has shocked all economies and has resulted in significant operational and policy challenges for African tax administrations and large-scale negative growth projections.

African countries introduced measures to ensure business continuity and survival, which measures will add to the already reduced tax revenues in African countries.

- The pandemic has forced many people to work from and stay at home, and this has increased online activities, including video conferencing, online marketing, electronic sales and procurement of goods and services, and streaming of electronic media. An increase in digital activities is an indication that taxing rights will form a vital part of the post-pandemic environment for Domestic Revenue Mobilisation; hence the need for African political leadership to weigh in for a positive outcome from the global debate on these rights.
- Policy direction is a great tool that African countries can use to ensure effective use of our current resources but also useful for tax collection and closing of loopholes. The ATAF partnership with the African Union could not have come at a better time given the task ahead. An African tax position requires the political backing of the African Union to ensure equitable taxing rights for African countries.

3. The meeting took note of the complexities surrounding the global debate on the tax challenges arising from the digital economy, including the uncertainty on the timelines towards completion of negotiations. As such, the importance of African countries speaking with one voice for a cohesive approach to the global solution was underscored. The meeting indicated that the COVID-19 pandemic had exposed the weaknesses in the tax base of many African countries, putting excessive pressure on the tax revenues. However, the meeting pointed out that COVID-19 presents an opportunity for African countries to gain more taxing rights and pursue a comprehensive African solution that will enable countries to expand their tax base. The meeting emphasised the urgent need to agree on a harmonised African position on the approach toward taxing digital MNEs operating on the continent and to ensure continuous engagement with the global process on taxing the digital economy.

4. The participants agreed that the African Union (AU) should play a critical role in providing the much-needed political support and leadership on the ongoing discussions on consensus-based solutions. As a starting point, the AU should organise a Continental Tax Dialogue on Tax primarily involving AU Finance Ministers, with the technical support from ATAF, to ensure that critical African positions on the proposed solutions are identified. Thereafter, the AU should provide political support on the positions taken through amongst other actions; making political pronouncements on critical issues on the proposals; engaging other global political organs such as the United Nations, Economic Blocks such as the EU for political negotiations of the new taxing rights and measures to redress the current imbalance in the allocation of taxing rights between the source and residence states.

5. The meeting noted with appreciation the role that the African Union Commission continues to play in economic matters on the continent in general and taxation issues in particular. The participants further agreed that the African Union Commission in collaboration with ATAF and other partners should play a critical role in coordinating tax policy discussions on the continent, through the creation of a regular continental forum on tax. This would lead to the harmonisation of tax policies and address challenges such as taxation of cross border transactions of multinational enterprises, granting of wasteful tax incentives, enhanced tax policies for critical industries such extractives and development of unified approach on taxation of digital transactions.

6. The participants were briefed on the proposal by the United States government of implementing Pillar 1 on a Safe Harbor, where Multinational Enterprises (MNEs) would elect whether or not to apply the new rules. Participants noted and agreed that this approach would make the rules tantamount to a voluntary tax and would not solve the current challenges of countries not being able to tax profits of highly digitalised businesses that have experienced exponential increased in their activities as a result of the COVID-19 crisis.

7. The meeting acknowledged that although African countries are facing challenges in implementing unilateral measures of taxing the digital economy, including Digital Services Tax, participants urged countries to continue contributing to the global debate in finding a consensus-based solution. In this regard, the participants agreed that there was an absolute need for African countries to invest in appropriate technologies for tracking and tracing digital transactions. Leveraging on existing data, especially that held by telecom companies and other internet service providers as well as exploiting the emerging technologies such as blockchain technologies could help governments to automate transactions in the economy, enhancing capacity to track and trace digital transactions. It was noted that the suggested approach on taxing digital services (DST), being developed by ATAF on the behest of its membership; will support members who opt for this measure as work continues on the global solution.

8. The participants noted the current status of development of consensus-based solution where Blueprint Reports, for both Pillar 1 and Pillar 2, have been released for review and comments by the Inclusive Framework Members and thereafter, for discussion in October 2020. The participants noted the benefits of the consensus-based solution to African countries such as the possible allocation of new taxing rights and new simplified measures for applying the current international rules. However, participants expressed concern that the current geopolitical conflict between some developed countries was negatively impacting the development of the global solution, thus delaying the collection of accruing tax.

9. Participants took note of the projected fall in revenues in African countries, resulting from the negative impact of the COVID-19 pandemic on the various sectors of the economy. The pandemic came on the backdrop of already fragile African economies, with weak macro-fiscal conditions, high levels of external debt, and increasing fiscal deficits. It was highlighted that the emergency response to the pandemic was limited by the rising cost of borrowing and the slump in commodity prices and demand, resulting in revenue losses of up to 80 per cent for some commodity-dependent African countries.

10. Participants commended the efforts made by tax administrators to ensure business continuity amid the pandemic, intending to cause minimal disruptions to their business. Participants further commended the efforts of governments to minimise the impact of the loss of revenues on businesses and individuals through the adoption of stimulus packages. Going forward, the meeting noted the need for African jurisdictions to take or strengthen the actions below to sustain an enabling environment for economic recovery and growth. Digitisation of the Africa economy was mentioned as key to increasing efficiency in resource mobilisation, whilst expanding the tax base for the continent. This should entail the development of a holistic approach for taxation of the digital economy, training and building the capacity of tax administrators and officers, and the allocation of a special fund for tax authorities to draw from to improve their operations. There also needs to be a one-stop platform for all tax transactions to take place, to facilitate taxation through electronic means.

11. The meeting noted that now more than ever in an era of social distancing as a result of the COVID-19 pandemic and beyond, African countries should adopt digital technologies and automate tax administration processes to improve tax compliance and revenue collection. To manage cost, challenges causing inefficiencies in existing systems should be identified and addressed through updates or upgrades rather than the acquisition of new systems. Digitalisation and automation should include the introduction of online registration, filing and payment. It was noted that the use of digital channels and automation of processes reduces the cost of compliance and administration, facilitates ease of compliance, and improves transparency which are all critical to the growth of voluntary compliance.

12. Participants agreed that it is vital to ensure tax certainty in the tax system in a period of socio-economic uncertainty, especially as the pandemic may have altered the modes or forms of transactions. All relevant agencies in the country should address policy issues cohesively and make sure that both the taxpayers and revenue officials are consistently engaged and educated on the various policy or administrative measures being implemented or withdrawn.

13. The meeting agreed that the improvement of efficiency in tax policy and administration is vital to the balanced act of effectively providing services to taxpayers while mobilising the much-needed revenue for the provision of socio-economic infrastructures. Also, the meeting agreed that there should be concerted

and coordinated effort to systemically bring the informal sector players into the tax net through financial inclusion programmes, civic duties education programmes including tax education, business education with a focus on basic record keeping and business or trade licensing processes that do not place an undue burden on the informal sector operators. Improvements in efficiency will also include minimising the opportunities for tax evasion or avoidance through the implementation of effective compliance risk assessment framework, legislative reforms to block loopholes that enable Base Erosion and Profit Shifting (BEPS) and effectively operationalising all the available Exchange of Information (EOI) frameworks.

14. The meeting agreed that in achieving efficiency, revenue authorities should prioritise taxpayers that can afford to pay by taxing wealth taxes, target incentives to help the disadvantaged taxpayers, keep things simple by using available tools that work and follow the money to ensure due to compliance by taxpayers. Furthermore, the participants highlighted the need to dedicate more resources to innovations, processes, policies and legislative reforms that enable the revenue administrations to fight corruption, address the informal sector challenges and withstand future pandemics or emergencies.

15. The participants agreed that while African countries should in the short term have economic policies that are focused on mitigating the loss of livelihoods, considerations should be given to public finance policies that improve investor confidence and inclusive growth. In line with the above, it was agreed that governments need to use resources and embed the culture of accountability efficiently.

16. The meeting agreed that countries should continue to anticipate and implement measures that are appropriate at every stage of the pandemic. The impactful measures have been those focused on enhancing cashflows for businesses and improving ease of compliance. Although measures have already been taken to ensure the survival of businesses at the peak of the pandemic, jurisdictions need to monitor and anticipate the actions required for the recovery stage and the subsequent periods as they develop. As economies reopen, it is essential to have data-driven policy decisions that maintain the balance between health measures of saving lives and the economic need to sustain the livelihood of the public.

17. Participants emphasised the critical role that the AU should play in setting tax policy on the continent as countries will require more taxing rights in the post-COVID-19 era. Of note was the need for the AU and the Regional Economic Communities (RECs) to coordinate tax policy harmonisation that should be aligned to national tax policies. Participants also called for the establishment of a tax department within the AUC to coordinate tax policy in Africa. The meeting emphasised the necessity for a continental solution rather than implementing unilateral solutions. As such, the legislative role of the Pan African Parliament (PAP) was deemed to be crucial for the advancement of continental cooperation in tax policy and administration. Also, the meeting called for enhanced partnerships in Africa, focusing on standards, statistics, and the development of multilateral instruments.

18. The role of ATAF in building capacity within African administrations on the continent was commended, and encouraged by all participants. Further, the new partnership between ATAF and AUC in building the capacity of African countries was underscored, with participants calling for the deliberate and consistent building of capacity for information sharing; and other measures to stem illicit financial flows, and the pursuit of more taxing rights. The meeting also highlighted the role of the Ministers of Finance in setting the policy direction in tax matters and noted the urgent need for the Ministers to convene and discuss the taxation of the digital economy.

19. The meeting underscored the importance of building the necessary infrastructure by tax administrations and Ministries of Finance that will assist in producing qualitative and scientific data which should be based upon in formulation of tax policies. It was further recommended that the structure of the economy should be a guiding factor. Policies on taxation of the economy based on natural resources ought to be different from the one based on manufacturing or tourism.

20. Delegates acknowledged the fact that taxing rights is a challenge and a common denominator facing most of the African tax administrations. And to achieve the above, African countries were called upon to combine their efforts and jointly work together in fighting for their rights. African countries stand out to lose if they fail to remain firm and articulate their positions with other stakeholders. The delegates tasked ATAF to take a leading role in coordinating African tax administrations in negotiations with other stakeholders.

21. Participants observed that achieving better taxing rights and better policies requires skills in taxation, negotiations and other relevant fields. The digital economy is a case in point and is an emerging phenomenon. Taxing digital economy, therefore, may pause challenges; hence African countries were urged to build internal capacities to mitigate these evolving challenges in the world of taxation. ATAF, which is already building capabilities of many African tax administrations, was requested to continue this noble cause.

22. The meeting welcomed the progress made towards the operationalisation of the African Continental Free Trade Area (AfCFTA), citing its expected positive impact on African economies resulting from increased trade among nations. Though the advent of the COVID-19 pandemic disrupted the implementation of the AfCFTA, high-level discussions on the new date and work towards the successful implementation are underway. However, the meeting noted that there would be an initial decline in tax revenues for some countries in the short term of AfCFTA implementation, which will be surpassed by the overall future gains. Participants called for the speedy conclusion of the negotiations on the outstanding regulatory issues and welcomed the official commissioning of the AfCFTA Secretariat earlier this month.

23. The meeting was provided with a statistical background on the forecasted impact of the agreement on both customs and revenue. It was emphasised that the agreement did not only envisage losses in customs revenue but rather presented opportunities for domestic revenue mobilisation on the tax side (Income Tax and VAT) as domestic activities as production increases. This is because the agreement was expected to contribute positively to African countries' Gross Domestic Product (GDP). The participants were more broadly concerned as to whether tax administrations are ready to take advance of these gains.

24. While Phase 2 implementation negotiations were still pending, the meeting emphasised that to realise potential gains from AfCFTA, challenges preceding the agreement still needed to be addressed. These include (i) monitoring and preventing capital flight (ii) tax evasion (iii) low penetration of the formal banking sector and (iv) addressing existing human capacity constraints in the implementation of tax policy.

25. The panel identified the need to strengthen small to medium-sized enterprises as a critical success factor in enabling domestic revenue gains from the implementation phase of the agreement. This support could include small business funding or incentives. The widening of the tax base to include mining, agriculture and digital services, through digitisation was identified as an urgent aspect for countries to consider. A twin-factor to widening the tax base was noted by the panellists to be an emphasis on inter and intra-governmental collaboration between customs, revenue and other arms of government.

26. It was observed that while the onset of COVID-19 had delayed the implementation phase of the AfCFTA, (which is now expected to be in the first half of 2021), this presented an opportunity for countries to come to the negotiating table to discuss various aspects relating to implementation such as tariffs, concessions and the like.

27. The cooperation of all stakeholders was highlighted as the most crucial factor in efforts geared toward the mobilisation of domestic resources in Africa. The meeting underscored that tax policy and administration coherence was vital for the efficiency of the tax system. Also, the policymakers need to create space and an enabling environment for the private sector, especially indigenous businesses, to be involved in tax policy design and implementation as changes in tax policy impact businesses. Participants were of the view that including private sector players in the tax policy decision making would increase compliance and as a result, revenue collection. Also, the private sector is always affected and impacted by these policies especially during the implementation process. Involving the private businesses at an early stage of process formulation makes implementation at a later stage much easier because they feel included and have a sense of ownership. It was also noted that the private sector could provide technology-based solutions to assist governments in their revenue collection efforts.

28. The meeting acknowledged that any tax policy that will stand the test of time and have a positive bearing on tax collection needs the involvement of tax officials at all levels of the formulation process. The meeting therefore strongly recommended Finance Ministries and tax administrations to work as partners not as competitors in putting in place tax policies that will be smoothly implemented by tax administrations. The meeting recommended constant dialogue and communication between the two institutions whether at the initial stage of policy formulation or a later stage of policy implementation to iron out possible areas of misunderstanding and conflict. Tax awareness by other arms of government such as the legislature and judiciary was encouraged as well as inter-agency cooperation to ensure the development of strong tax policy.

29. The meeting unanimously agreed that a poor policy would lead to poor implementation, which will culminate into less revenue collection by respective tax administrations. It was observed that "imported tax policies"must not blindly be adopted, planted and implemented without the consideration of local economic landscape on the African continent.

30. The meeting noted the importance of the AfDB's support of Africa's Domestic Revenue Mobilisation efforts on tax policy and tax administration initiatives, including the Nexus between Tax Policy and Tax Administration Project implemented by ATAF. Also, the meeting commended the AfDB's response to COVID-19 by setting up a US$ 10 billion facility. This facility has enabled the Bank to provide loans and grants to multiple African countries, to respond to the health impact of COVID-19, and boost their economies. This clear focus on tax reforms as an enabler of Africa's development agenda is equally embraced by ATAF and will form a continued partnership to deliver this noble vision for the continent jointly.

31. The meeting identified gender inequality, unfairness and injustice as one of the primary challenges of the tax responses to COVID-19. It was highlighted that women make up about 70% of the health sector workforce and the majority of informal sector operators thus are most affected by the pandemic. However, only five measures out of about 245 measures adopted to mitigate the impact of COVID-19 by 44 African countries had gender-based considerations. Subsequently, the meeting noted that explicit and implicit biases of public policy, tax policy and administration measures on gender should always be considered and duly addressed.

32. Participants urged policymakers and tax administrators to address explicit biases towards women in tax policy and administration measures. One of such biases is the in the filing of personal income taxes like the need to provide proof of a dependent husband for women where the woman is the sole or primary provider for the family. Also, tax credits, reliefs and cash transfers should accrue equally to all genders as an individual or joint filers.

33. The meeting noted that the implicit biases of indirect taxes and informal sector presumptive taxes that tend to impact women unfavourably should be addressed to ameliorate its disproportionate or unbalanced impact on women. Women bear the burden of indirect taxes, especially consumption taxes. Presumptive taxes are highly implementable at markets and places with physical business spaces which are mostly operated by women. Thus the economic impact on women of taxing the informal sector should be duly considered and addressed. Rather than expand the tax burden on the informal sector, efficiency gains should be made on the administration of personal income tax, property tax and taxes on the wealthy.

34. Participants pointed out the need for African countries to have gender-segregated data as it will facilitate better-informed policy decision making that is not unduly gender-biased. It was also highlighted that revenue administrations need to invest more resources in tax engagement and education for women considering that there are literacy and other limitations to women's access to information in Africa.

35. Participants urged revenue authorities to deploy and sustain human resource management and development frameworks that provide women with an equal opportunity with regards to recruitment, career paths and career progression. The meeting also urged revenue authorities to implement diversity, inclusion and equity programmes that educate its internal and external stakeholders on explicit and implicit gender biases that may hinder the equal participation of women in the tax policymaking and tax administration.

36. Participants agreed that steps are needed to eliminate explicit gender discrimination in the area of taxation. Also, more focus needs to be placed on tax policy development and tax administration with a gender-focused lens. As Africa, there are some excellent lessons on the continent and we should build on this towards reaching SDG 5.

37. Governments should invest more tax revenue in the provision of socio-economic infrastructure that alleviates the involvement of women in the provision of unpaid home care. Such infrastructures include access to clean portable water, affordable quality healthcare, education, etcetera. Removing such burden from women provides more opportunity for the participation of women in other economic activities and self-actualisation.

38. The participants appreciated the High-Level Dialogue and urged both ATAF and the AUC to organise the event annually so as to afford relevant stakeholders the opportunity to debate salient tax issues while building a nexus between tax policy and tax administrators.