TAX MOVEMENT SIERRA LEONE

FAIR TAX MONITOR STUDY FOR SIERRA LEONE

NATIONAL AFFORDABLE HEALTH CARE

ACCESS TO FREE QUALITY SCHOOL EDUCATION

FAIR TAX MONITOR -INTENSIFYING DOMESTIC REVENUE COLLECTION AND EXPENDITURE RATIONALIZATION

IMPROVE ACCESS TO WATER

MAY 2022

AFFORDABLE HOUSING & EFFECTIVE GENDER SENSITIVE SOCIAL SERVICE DELIVERY

Contents

LISTS OF FIGURES

LISTS OF TABLES

ACRONYMS

AASL:	ActionAid Sierra Leone
AAV:	Assessed Annul Value
AYCUDA:	Automated System for Customs Data
BAN:	Budget Advocacy Network
CET:	Common External Tariff
CIT:	Corporate Income Tax
CRF:	Common Research Framework
CSOs:	Civil Society Organizations
DFID:	Department for International Development
DTD:	Domestic Tax Department
DTIS:	Domestic Tax Information System
EIRA:	Extractive Industry Revenue Act
FDI:	Foreign Direct Investment
FTM:	Fair Tax Monitor
GDDO:	Government Gold and Diamond Office
GDP:	Gross Domestic Product
GST:	Goods and Services Tax
ECOWAS:	Economic Community for West African States
ICT:	Information Communication and Technology
IED:	Import and Excise Duties
ITA:	Income Tax Act of 2000
ITAS:	Integrated Tax Administration System
LGA:	Local Government Act 2004
LTO:	Large Tax Office
MDAs	Ministries, Department and Agencies
MTNDP:	Medium Term National Development Plan
NACE:	National Advocacy Coalition on Extractives
NGOs:	Non-Governmental Organizations
NRA:	National Revenue Authority
NSAs:	Non-State Actors
NTA:	Non Tax Revenue
PAYE:	Pay As You Earn
PIT:	Personal Income Tax
RDF:	Revenue Development Foundation
RUF:	Revolutionary United Front
SLPP:	Sierra Leone People Party
SMEs:	Small to Medium Enterprises
SMTO:	Small to Medium Tax Office
TIN:	Taxpayer Identification Number
TJA-A:	Tax Justice Network Africa
TSA:	Treasury Single Account
UK:	United Kingdom
USAID:	United States of America Information Department
VIPS:	Value added Tax Information Processing System
WARDC:	Western Area Rural District Council
WB:	World Bank
WHT:	Withholding Tax

EXECUTIVE SUMMARY

Domestic Resource Mobilization (DRM) is of prime importance for any country to meet its development aspirations, inclusive of Sierra Leone. In its Mid-Term National Development Plan (MTNDP) 2019- 2023, Sierra Leone planned to spend approximately US8.15 billion to meet its development aspirations. The plan intends on restoring macroeconomic stability through fiscal consolidation, which involves intensifying domestic revenue collection and expenditure rationalization[1]. While the emphasis is placed on the need for domestic resources to play a key role in financing development, natural resource-rich[2] Sierra Leone is ranked 181/189 countries on the Human Development Index (HDI), with 64%[3] of people still living in poverty and unemployment standing at over 70%.[4] This naturally begs the question of where the much-needed domestic resources to finance development should come from and if will be raised in a fairway.

Fairness in revenue mobilization plus the efficient utilization of the revenue proceeds is a fundamental concern for all countries including Sierra Leone. Though difficult to measure fairness, international NGOs and think tanks like ActionAid, Oxfam Novib and Tax Justice Network–Africa in collaboration with partners and Oxfam Country Offices developed a Fair Tax Monitor (FTM) tool that assesses, compares and evaluates countries' tax systems and creates a strong foundation to strengthen advocacy activities to influence tax policies and administration at the national level. It is common that tax systems in least developing countries like Sierra Leone are plagued with numerous challenges ranging from discretionary tax expenditures and other tax waivers embedded in agreements of mining companies, to widespread poverty and illiteracy; hard-to-tax groups in subsistence agriculture and the informal sector, corruption; and weak administrative capacity.

> The study utilized the common FTM framework to evaluate Sierra Leone tax system for the past five (5) years (2015 to 2019). The criteria used in this framework focuses on the first three (3) of the six (6) thematic areas namely: distribution of the tax burden and progressivity; revenue sufficiency and tax leakages; and tax competition and corporate incentives.

This study is commissioned by ActionAid Sierra Leone (AASL) in collaboration with other partners to conduct FTM for Sierra Leone with the aim to contribute to a better understanding of Sierra Leone's tax system and to provide a firm basis for both civic education and advocacy campaigns to promote fairness in the tax system.

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General Findings

The figure below gives summary result of the Fair Tax Monitor Index. The figure shows that Sierra Leone overall tax system is moderately progressive and sufficient, with somewhat unfair competition in the tax system.

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[1] Sierra Leone's Medium-Term National Development Plan 2019-2023, available at https://www.slurc.org/uploads/1/0/9/7/109761391/sierra_leone_national_development_plan.pdf/

[2] International Trade Administration, 2021, https://www.trade.gov/country-commercial-guides/sierra-leone-mining-and-mineral-resources#:~:text=Sierra%20Leone%20is%20well%20known,well%20as%20promising%20petroleum%20potential./

[3] Sierra Leone Multidimension Poverty Index, 2019 available at https://ophi.org.uk/wp-content/uploads/Sierra_Leone_MPI_2019_final.pdf/

[4] United Nations Development Programme, 2021, About Sierra Leone available at https://www.sl.undp.org/content/sierraleone/en/home/countryinfo.html/

Summary of Fair Tax Monitor Index

Scoring themes	1	2	3	4	5	6	7	8	9	10
Overall Progressivity					■					
Overall Sufficiency				■						
Overall Tax Competition			■							
Key	0-2		2-4		4-6		6-8		8-10	
	unfair		→						Fair	

Specific findings

On Distribution of the Tax Burden and Progressivity

a. The research found that Indirect taxes (which are generally less progressive) contributed marginally higher 45.1 %, as compared to Direct taxes at 37.9% (which are generally more progressive) and non-tax revenue 17%, between the period 2015 -2019. The main direct taxes in Sierra Leone are Personal Income Tax (PIT) (28.8%) and Corporate Income Tax (CIT) 9%, PIT is collected from only 0.03% of the country's population from a projected 0.14%, and CIT is hampered by income tax incentives given to some mining and agricultural investments and potentially by inadequate rules implementation of transfer pricing regulation and thin capitalization.

b. Women face a higher tax burden considering that they earn way less and generally are less wealthy than male compatriots in the economy. Despite government policies being clear on gender equality, interestingly, the survey reported that for households that pay personal income tax, female-headed and female-dominant households pay a larger proportion of tax relative to household income

c. Although a step has been taken to implement legislation and regulation relating to transfer pricing and thin capitalization, it is questionable if current rules such as the demand dividend rule and authority given to the commissioner general[5] to reverse transactions classified to lead to tax avoidance are adequate. There is no evidence whatsoever that the Commissioner-General has used such powers. It is assumed that the enacted regulation will help address problems of transfer pricing.

Revenue sufficiency and Tax Leakages.

a) In terms of sufficiency, Sierra Leone has seen a significant and steady increase in domestic revenues (direct taxes, indirect taxes, and non-tax revenues). Domestic revenues increased in nominal terms by 130.8 percent to Le5.39 trillion in 2019 from Le2.33 trillion in 2015. On average, the Government was able to collect about 95.6 percent of its budgeted revenues for the period under review (2015-2019). However, the tax system is **less sufficient** because the country is not free from chronically high debt and the tax to Gross Domestic Product ratio (10.4%) is less than the least developing country's average of 13%.

[5] Part XI of the Income Tax Act (ITA) 2000 (Anti-Avoidance), that gives powers to the Commissioner General to distribute, apportion or allocate assessable income, deductions or credits between the taxpayers using the arm's length transaction

b) In Sierra Leone, inflows and outflows estimated from import mis-invoicing and export mis-invoicing stood at US$132 and US$572 million respectively in 2015 (Global Financial Integrity, 2019). Despite concerns about tax revenue leakage in the mining sector the government of Sierra Leone is yet to take action to safeguard its tax base. Comprehensive legal and administrative reform is urgently required if Sierra Leone is to combat tax avoidance and secure its fair share of resource rents.

c) To combat IFFs, corruption and to recover stolen assets, the country has enacted subsequent Anti-Corruption Acts (2000 and 2008), the latest was its amendment in 2019. Also, enactment of the Anti-Money Laundering and Combating of Financing of Terrorism Act 2012. On June 18, 2019, the ACC presented a cheque of Le7.5 billion (US$750,000) to H.E the President of the Republic of Sierra Leone, Dr. Julius Maada Bio as part of a whooping Le16 billion (US$1.6 million) of stolen cash recovered from corrupt officials.

Competition and corporate incentives

a. Sierra Leone offers several tax incentives across different sectors, this is extended to several exemptions on selected tax handles such as Goods and Services Tax (GST), Withholding Tax (WHT) and import duties. In as much as the tax forgone from exemptions and incentives from import duty and GST is published, corporate tax incentives and their impact is not monitored on a yearly basis by the government. Data on the opportunity costs and benefits of the income tax incentives are unavailable. Incentives lead to massive losses to potential government revenue and hence should be informed by cost-benefit analysis. In cases where incentives are redundant, they should be scrapped.

b. The tax system is somewhat less competitive as per the Fair Tax Monitor assessment. Despite, there being clear and transparent rules for granting corporate tax incentives, uniformity of incentives is a problem for corporation tax. Waivers are granted to some companies articulated in mining agreements. Notwithstanding, the enactment of the Extractive Industry Revenue Act (EIRA) of 2018 tends to solve this problem

c. The tax rates for small and micro businesses range from 2% to 6%. This is among the highest in Africa, the report would benefit from a commentary on the impact on such for small and Micro businesses. Tax policy changes targeting formalization could have been made for only purposes of generating revenue while impacting business survival.

Recommendations

Government

a) Speed up the automation of tax collection processes and procedures through implementation of Information Technology Systems including Integrated Tariffs Analysis System (ITAS) and Automated Systems for Custom Data (ASYCUDA) World.

> Sierra Leone overall tax system is moderately progressive and sufficient, with somewhat unfair competition in the tax system

Effective use of these systems has proven to increase revenue collection efficiency.

b) The Ministry of Finance and the National Revenue Authority should strongly think of putting together a framework to quantify the size of tax incentives and exemptions in Sierra Leone. The outcome would inform Government of the quantum of lost revenues, which will guide the appropriate policy measure to curtain incentives and exemptions.

c) Government also needs to speed up the capacity building and implementation of a full-blown regulation on transfer pricing and thin capitalization. There is high risk of revenue loss while the execution and enforcement of the legislation and regulation needs to be fast tracked.
d) Government to pay attention to sincerely implementing its tax policies as articulated in the 2019 and subsequent budget speeches especially the tax policy relating to eliminating duty and tax waivers/exemptions for contracts awarded by Ministries, Departments and Agencies (MDAs) for the supply of goods, services and works. Addressing this will increase tax revenue/GDP ratio by 0.9 percent.
e) It is quite evident from studies that there is a knowledge gap on types of taxes administered by NRA and rates paid by taxpayers including when and how taxes should be paid. There is need to double efforts in simplifying the existing tax laws and policies, where applicable in local languages, including simplification of the budget speeches that dictates annually the revenue measures to be implemented to boost the revenue profile of Government
f) In other to strengthen tax compliance, the Government through NRA should further strengthen the existing aggressive nation-wide taxpayer education and sensitization programme and putting a robust taxpayer assistance strategy for SMEs; strengthen the field audit of large taxpayers and conducting special audits on the mining and telecommunications sectors; pursuing the establishment of a tax court to prosecute tax defaulters; and to build systems for the effective taxation of professionals (lawyers, doctors, accountants and engineers. One way to do this is to ensure renewal of practice licenses is pre-conditioned to obtaining a Tax Clearance certificate from NRA as implemented in other African countries like Uganda.
g) Given the non-functionality of the real estate market,[6] which is critical to determining rates, implementation of the points-based system of property taxation should be improved upon to determine rates in a way that will mimic the true market value of properties.
h) The Government must focus on implementing all other revenue reforms articulated in previous years budget speeches that deem worthy to be implemented to increase its revenue profile.
i) Given that female-headed and female-dominant households pay a larger proportion of tax relative to household income, there is need to provide specific tax exemptions on specific business activities dominated by women.

CSOs and NSAs

a) There is need to build public awareness on their constitutional duty to pay taxes and influence government affairs (including demanding quality public services). Citizens need to understand that as taxpayers they can make their voices heard and actively take part in public policy decision-making processes about how taxes are collected and spent on public services and hold governments accountable.
b) There is need for more advocacy work by CSOs and NSAs in ensuring tax administration by government is transparent and accountable.
c) To make effective engagement on tax policies, there is need to undertake more empirical studies (evidence based) to determine how equitable and efficient the tax system is and the impact of taxes on various categories of people.

[6] This is uniform problem for most African councils

SECTION 1: INTRODUCTION

1.1 Background Information

Fairness in revenue mobilization plus the efficient utilization of the revenue proceeds is a fundamental concern for all countries including Sierra Leone. It is however always difficult to measure fairness, especially when data is not readily available. International NGOs and think tanks like Oxfam Novib and Tax Justice Network–Africa in collaboration with partners and Oxfam Country Offices succeeded in developing the Fair Tax Monitor (FTM) Methodology in December 2014.

> The Fair Tax Monitor's overall goal is to strengthen the advocacy activities at the local and global levels. On the demand side, the FTM is an evidence-based advocacy tool that provides an overview of national tax systems and identifies the main bottlenecks and opportunities for making tax systems fairer and raising sufficient revenues to finance quality gender responsive public services. The tool evaluates the performance of national tax systems and creates a strong foundation for programming to influence tax policy at the national level. On the supply side, the tool provides reliable evidence for the advocacy and lobby work of our partners, which strengthens their position and increases their credibility as well as their influencing power.

The FTM Methodology assesses, compares and evaluates fairness; and investigates the general characteristics of countries' tax systems based on a Common Research Framework (CRF)[7] developed by the FTM Methodology experts.

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The FTM Working Group identifies a fair tax system to include the following:(1) progressive and serves as a mechanism to redistribute income in a gender responsive way; (2) allows to raise sufficient revenue to perform government functions and provide high-quality essential public services; (3) refrains from and eliminates tax exemptions and incentives to the elite (individuals and corporate); and (4) tackles causes of illicit capital flight and tax evasion & avoidance by multinational companies and the wealthy.

1.2 Rationale

Taxation is the main means by which a government finances its expenditure. Taxation is also the cornerstone of the social contract between state and citizens– quality gender responsive public services provided by the state in exchange for taxes paid – and therefore, a vital path to build legitimacy and a sense of fairness. This is predicated on a tax system that is based on principles of transparency,accountability and participation. A regressive tax system though may be fair because it is

[7] The CRF was developed throughout a pilot phase in 2015/2016 and was first applied to four pilot countries, namely: Bangladesh; Pakistan; Uganda; and Senegal. In 2017, the CRF was further revised and implemented in nine countries, including Senegal, Tunisia, Nigeria, Uganda, Occupied Palestinian Territories, Pakistan, Bangladesh, Viet Nam, and Cambodia.

applied to everyone but tend to place greater burden on especially the poor compared to high income earners.

Studies by research institutions (OECD, 2013; NRGI, 2015; ECA, 2018) revealed that discretionary tax expenditures and other tax waivers embedded in agreements of mining companies granted by the government and derogations, particularly in resource-rich countries continue to erode the country's tax base. Other challenges that affect the feasibility of raising taxes and other revenue include widespread poverty and illiteracy; hard-to-tax groups in subsistence agriculture and the informal sector; problematic accounting in the private sector; deficient rule of law and a high incidence of corruption; and weak administrative capacity. The effectiveness of national tax systems and domestic revenue mobilization efforts may be further undermined by the presence of a narrow tax base and an imbalance between direct and indirect taxation.

However, the Pronouncement by the current Government Sierra Leone at the State Opening of the 5th Parliament of the Republic of Sierra Leone[8] that the nation's domestic revenue to GDP ratio would be increased from about 10 percent to 20 percent by 2023[9], gives hope to champion reforms that will increase the government revenue profile to finance needed public services. Also, the government commitment in the form of increased budgetary allocations in the 2019 budget to education from 14 percent to 21 percent is a clear indication there is political will to champion revenue reforms to finance these expenditures.

It is against this background that ActionAid Sierra Leone (AASL) and Civil Society Organizations through the Tax Movement Sierra Leone working on Taxation decided to commission the first Fair Tax Monitor (FTM) evaluation in Sierra Leone.
We hope that the report will provide a general, systematic and authentic view of revenue and tax administration for policy-advocates, developers, and experts. Simultaneously, it is hoped this report will serve as clear and specific pieces of evidence for policy-advocates to improve the equity and efficiency in revenue administration in Sierra Leone.

1.3 Research Objectives

The goal of this study is to contribute to a better understanding of tax issues in Sierra Leone and to provide a firm basis for both civic education and advocacy campaigns to promote a fairer tax system. The specific and target-oriented objectives are stated below.

The specific and target-oriented objectives are stated below.

1. Provide a detailed review of Sierra Leone's tax system and expenditure on public services based on the FTM methodology.
2. Provide strong evidence-based support for country-level advocacy, campaigns and influencing work.
3. Create a framework to compare tax systems of selected countries over time and measure changes in tax policy in Sierra Leone.
4. Contribute to the global level advocacy on taxation by showcasing the relative fairness of selected tax systems and providing strong recommendations for national tax policy making

[8] Presidential Speech at the State Opening of the 5th Parliament

[9] Save the deadly Corona virus that is currently terrorizing the world economy including Sierra Leone. In fact, recent pronouncement by the Minister of Finance reported revenue projection initially reported at Le6 trillion will be revised to Le2 trillion in 2020

1.4 Research Methodology

The main research method of the FTM for Sierra Leone is synthesis and interpretation through secondary information. The study utilizes the common FTM framework for measuring several indicators and assessed the relevant content (quantitative methodology). For further evidence, the report also utilized qualitative research methodology using rapid assessment techniques such as key informant interviews with some experts of key relevant institutions.

The FTM in its present version has six distinct thematic evaluation categories as stated below.

1. Distribution of the tax burden and progressivity
2. Revenue sufficiency and tax leakages
3. Tax competition and corporate incentives
4. Effectiveness of the tax administration
5. Government spending
6. Transparency and accountability

However, in terms of scope, this FTM study for Sierra Leone focuses on the first three (3) of the six (6) thematic areas namely: distribution of the tax burden and progressivity; revenue sufficiency and tax leakages; and tax competition and corporate incentives.

Exploratory methods are mainly applied in this study. Information is acquired via two channels: (1) by researching secondary data and archival resources, and (2) by using rapid assessment techniques such as key informant interviews.

Many group discussions between the research team and stakeholder groups/organizations were conducted. In the discussions, the subject, scope, and method of this study were presented. Feedback from the participants in the discussion was collected and served for research. With a careful selection, a limited number of tax practitioners in the National Revenue Authority, the Ministry of Finance and other think tank organizations were interviewed on their perceptions on the country's tax system, tax administration and on overall revenue structure.

It should be noted that this report evaluates fairness under the FTM Research Framework. Therefore, the assessment results can be different when compared to other studies using different research methods.

1.5 Limitations of the Study

Although the study provides some interesting findings and makes important contributions to the fair taxation literature, few potential limitations are worth noting. First the scope of the study was limited to three (3) of the six (6) key thematic evaluation categories of assessment. As such, Sierra Leone FTM study is not complete. Second, this study was based on Common Research Framework to assess fairness and equity of Sierra Leone tax system not on any empirical data, which findings could possibly be different from the CRF. Third, the study was largely quantitative and longitudinal quantitative studies with in-depth interviews could possibly provide more insights into fairness and equity of Sierra Leone tax system.

1.6 Structure of the Report

This report comprises of 5 chapters[10]. These five chapters include the introduction, analysis of the current tax system, distribution of tax burden (tax classification) and progressivity, revenue sufficiency and tax competition including corporate incentives. The last chapter concludes the report and gives some policy recommendations.

[10] The FTM country report, like any other FTM county reports comprise 8 to 9 chapters' analytical chapters (inclusive of the introduction and conclusions and recommendations) following the guiding questions from the CRF

CHAPTER 2: OVERVIEW OF SIERRA LEONE TAX SYSTEM

2.1 Legal Framework

The tax system in Sierra Leone is governed by several laws and regulation as stipulated in table 2.1 below. The table shows the country has amended series of Finance Acts. Every year since 2006, Finance Acts have been amended and tabled in Parliament save the Financial Years 2012, 2014 and 2016. Tax provisions in previous Finance Acts keep on reoccurring in subsequent years because of delays in implementation of legal tax provisions as planned.

Table 2.1: Legal framework of taxation in Sierra Leone

No	Laws/regulations	Provisions on taxation
1	Constitution of the Republic of Sierra Leone, 1991	Chapter VI (Legislature), Part VI (Finance) **<u>Authority for imposition of taxation</u>** Section 110 sub sections 1 and 2 states as follows: ***Sub section 1:*** No taxation shall be imposed or altered otherwise than by or under the authority of an Act of Parliament. ***Sub section 2:*** Where an Act enacted pursuant to subsection (1) confers a power on any person or authority to waive or vary a tax (otherwise than by reduction) imposed by that Act, the exercise of the power of waiver or variation in favour of any person or authority shall be subject to the prior approval of Parliament by resolution passed in that behalf.
2	➢ The Finance Act, 2020 ➢ The Finance Act, 2019 ➢ The Finance Act, 2017 ➢ The Finance Act, 2016 ➢ The Finance Act, 2015 ➢ The Finance Act, 2014 ➢ The Finance Act, 2013 ➢ The Finance Act, 2012 ➢ The Finance Act, 2011 ➢ The Finance Act, 2010 ➢ The Finance Act, 2009 ➢ The Finance Act, 2008 ➢ The Finance Act, 2007 ➢ The Finance Act, 2006	**<u>Finance Act, 2016</u>** ➢ Being an act to provide for the imposition and alteration of taxes, duties and excise and for other related matters. **<u>Finance Acts, 2009, 2010, 2011, 2013, 2015, 2017, 2019 and 2020</u>** ➢ Being an act to provide for the imposition and alteration of taxation for the years 2009, 2010, 2011, 2013, 2015, 2017, 2019, 2020 and for other related matters. **<u>Finance Act, 2008</u>** ➢ Being an act to provide for the imposition and alteration of taxation for the year 2008 and for other related matters. *Amends the Finance Act, 2007 [No. 22 of 2007]* **<u>Finance Act, 2007</u>** ➢ Being an act to provide for the imposition and alteration of taxes and for other related matters. *Amends the Income Tax Act, 2000 (No. 8 of 2000). Amends the Restaurant Food Tax Act, 1989 (No. 6 of 1989. Amends the External Telecommunications Act, 1995 (No. 2 of 1995). Amends the Sales Tax Act, 1995 (No. 5 of 1995). Amends the Finance Act, 2006 (No. 7 of 2006). Amends the National Revenue Authority Act, 2002 (No.*

No	Laws/regulations	Provisions on taxation
		11 of 2002). Amends the Cargo (Clearing and Forwarding) Act, 1994 (No. 5 of 1994). **<u>Finance Act, 2006</u>** ➢ Being an act to provide for the imposition and alteration of taxation and for other related matters. *Amends the Income Tax Act, 2000, the Sales Tax Act, 1995 and the Government Budgeting and Accountability Act, 2005*
3	Public Financial Management Act 2016	Part VI (Management of Extractive Industries Revenues), Section 77 sub section 3 states all public money received as extractive industries revenues shall be deposited in the Transformational Development Fund Account[11].
4	The Extractive Industries Revenue Act, 2018	Being an Act to provide for and coordinate various taxes and charges on extractive industries, the regulation of fiscal aspects of extractive industry agreements and for other related matters This act provides amendment to: i) The Mines and Minerals Act, 2009 (Act No. 12 of 2009); ii) The Income Tax Act 2000 (Act No. of 8 2000); and iii) The National Revenue Authority Act, 2002 (Act No. 11 of 2002) as stated below: **<u>The Mines and Minerals Act, 2009 (Act No. 12 of 2009)</u>** The Mines and Minerals Act, 2009 is amended a) by repealing and replacing of section 148 with the following new section- "148. A holder of a mineral right shall be subject to the following: (a) royalties and mineral resource rent tax as imposed by the Extractive Industries Revenue Act, 2018; (b) income tax as imposed by the Income Tax Act, 2000 and modified by the Extractive Industries Revenue Act, 2018; (c) annual charges and other amounts payable under this Act; and (d) without limitation or modification, all other applicable taxes, fees and charges, including those listed in the First Schedule of the National Revenue Authority Act, 2002." b) by deleting sections 149, 150 and 151; c) in subsection (1) of section 157 by replacing the words "Royalties, import duty and any annual charge" with the word "Amounts"; d) by deleting subsection (3) of section 157. **<u>The Income Tax Act 2000 (Act No. of 8 2000)</u>**

[11] Section 77 sub section 1 states The Minister shall open with the Bank of Sierra Leone a bank account to be known as the Transformational Development Fund Account.

No	Laws/regulations	Provisions on taxation
		The Income Tax Act, 2000 is amended by a) repealing and replacing section 21 with the following new section 21: The manner in which this law applies to mining and petroleum operations shall be modified by the Extractive Industries Revenue Act, 2018." b) deleting paragraph (n) of subsection (2) of section 32; c) deleting section 42; d) deleting the sixth schedule **The National Revenue Authority Act, 2002 (Act No. 11 of 2002)** The National Revenue Authority Act, 2002 is amended as follows: a) in subsection (1) of section 24 by repealing and replacing paragraphs (a) and (b) respectively with the following new paragraphs: (a) 3% of the actual revenue collected annually other than royalties, income tax, resource rent tax (mineral and petroleum) and bonus payments referred to in the Extractive Industries Revenue Act, 2018; b) a percentage to be specified from time to time by the Minister with the approval of Parliament, of the revenue referred to in paragraph (a) for each year in excess of the estimate of that revenue in the estimates of Sierra Leone for the relevant year"; (b) by inserting the following new paragraph immediately after paragraph (f)- "(g) a dedicated budget allocation for administration of the Extractive Industries Revenue Act, 2018"; c) in the Schedule, by inserting the following new item immediately after item 10- "11. Extractive Industries Revenue Act, 2018"
5	➢ The Petroleum Regulatory Act 2014 ➢ The Petroleum (Exploration and Production) Act, 2011	**The Petroleum Regulatory Act 2014** ➢ Being an act to establish the Sierra Leone Petroleum Regulatory Agency to license and regulate the efficient importation, storage, transportation and distribution of petroleum so as to ensure its regular availability to consumers at reasonable prices and to provide for other related matters. **The Petroleum (Exploration and Production) Act, 2011** ➢ Being an act to provide for the management of petroleum operations, to regulate and promote petroleum exploration, development and production; to regulate the licensing and

No	Laws/regulations	Provisions on taxation
		participation of commercial entities in petroleum operations; to provide for proper supervision of petroleum operations, to promote the participation of Sierra Leoneans in the petroleum industry; to provide for efficient and safe petroleum operations; to provide for an open, transparent and competitive process of licensing and for other related matters.
6	The Customs Act, 2011	Being an act to modernize and simplify the laws relating to customs and the prohibition and control of importation and exportation of certain goods; and to provide for related matters.
7	The Goods and Services Tax Act, 2009	Being an act to provide for the imposition of a broad-based tax on the consumption of goods and services in Sierra Leone and to provide for other related matters. *Repeals the Entertainment Tax Act, 1971; the Restaurant Food Act, 1989; the External Telecommunications Act, 1995; the Sales Tax Act, 1995. Amends the Development of Tourism Act, 1990.*
8	The Mines and Minerals Act, 2009	Being an act to consolidate and amend the law on mines and minerals; to promote local and foreign investment in the mining sector by introducing new and improved provisions for exploration, mine development and marketing of minerals and mineral secondary processing for the benefit of the people of Sierra Leone; to ensure that management of the mineral sector is transparent and accountable in accordance with international best practice; to promote improved employment practices in the mining sector; to improve the welfare of communities adversely affected by mining; to introduce measures to reduce the harmful effects of mining activities on the environment and to provide for other related matters. *Repeals the Mines and Minerals Act, 1994. Repeals the Commission for the Management of Strategic Resources, National Reconstruction and Development Act, 1999.*
9	The Diamond Cutting and Polishing Act, 2007	Being an act to provide for the control of diamond cutting and polishing, the licensing of diamond cutters and polishers, to define the rights and duties of a licensee and for other matters connected therewith.
10	➢ The Income Tax (Amendment) Act, 2006 ➢ The Income Tax (Amendment) Act, 2005 ➢ Income Tax (Amendment) Act, 2004	➢ Being an act to amend the Income Tax Act, 2000 ➢ Being an act to amend the Income Tax Act 2000 ➢ Being an act to amend the Income Tax Act 2000

No	Laws/regulations	Provisions on taxation
11	The Local Government Act, 2004	➢ Section 45 sub section 1 of the LGA stipulates local councils shall be financed from 3 sources: grants for devolved functions; transfers for services delegated by central government ministries; and own source revenues ➢ Sub section 4 of section 1 further states own source revenues of councils shall comprise of: precepts from local taxes; property rates, fees and charges; licenses; interests and dividend; mining revenues; and any other revenues deemed by government to be given to local councils
12	The Payroll Tax (Amendment) Act, 2004	Being an act to amend the Pay-Roll Tax Act, 1972
13	The National Revenue Authority (NRA) Act, 2002	Being an act to establish the National Revenue Authority as a central body for the assessment and collection of national revenue, to provide for the administration and enforcement of specified laws, to make consequential amendments to certain laws relating to revenue and to provide for other related matters. *Amends the Income Tax Act, 2000.*
14	The Income Tax Act, 2000	Being an act to consolidate, with amendments, the law relating to the taxation of incomes. *Repeals the Income Tax Act, the Surtax (Temporary Imposition) Act, 1968 (No. 14 of 1968), and the Income Tax (Clearance) Act, 1992 (No. 4 of 1992).*
15	Other laws governing taxation	The National Electricity (Amendment) Act, 2018; Sierra Leone Water Company Act, 2017; Sierra Leone SME Development Agency Act, 2016; Sierra Leone Road Safety Authority Act, 2016; The National Civil Registration Act, 2016; The Telecommunications (Amendment) Act, 2015; The Trade Marks Act, 2014; The Company's Act, 2014; The Roads Transport Authority (Amendment) Act, 2014; The Sierra Leone Produce Marketing Act (Repeal) Act, 2013; The Postal Services Regulatory Agency Act, 2012; The Patents and Industrial Designs Act, 2012; The Road Maintenance Fund Administration Act, 2010 etc.

2.2 Institutional Framework

Tax administration in Sierra Leone is coordinated by central government agencies, local councils and chiefdom councils. They include Ministry of Finance; National Revenue Authority (NRA); Fiscal Decentralization Unit (FDU)/Local Government Finance Committee (LGFC); Local Councils; and Chiefdom Councils. Table 2.2 shows the institutional framework for tax administration in Sierra Leone.

Table 2.2: Institutional framework for tax administration

Policy Formulation	Central Government Tax Administration	Local Government Tax Administration	Dispute Management
Parliament Parliament has authority impose or alter any form of tax or may confers a power on any person or authority to waive or vary a tax subject to its prior approval by resolution passed in that behalf. In addition, Parliament may make provision under which the President or a Minister may by order provide that, on or after the publication of a Bill (being a Bill approved by the President) for the imposition or alteration of taxation, for such period and subject to such conditions as may be prescribed by Parliament **President** Admits and sign to all tax bills that becomes law	**Ministry of Finance** formulate sound economic policies that enhance economic stability and sustainable growth and mobilization of resources including drafting of tax laws **National Revenue Authority (NRA):** established as a central body for the assessment and collection of national revenue, responsible for the administration and enforcement of specified revenue laws **Bank of Sierra Leone:** Custodian of the Consolidated Revenue Fund	**Local Councils** Responsible for the administration of key revenue sources including property rates, market dues, licenses, mining revenues, interest and dividends etc. **Chiefdom councils** Responsible for the collection of precepts from local taxes, market dues, few licenses through guidelines issued by the ministry responsible for local government. **Local Government Finance Committee (LGFC)** The LGFC is a statutory committee appointed by the President with the approval of Parliament responsible to: recommend to the Minister responsible for finance the amount of grant allocations to each local council; and indicate the formulae used in arriving at the various amounts recommended.	**Income Tax Board of Appellate Commissioners** Section 138 to 142 of the ITA finely articulated the composition, roles and responsibilities and proceedings of the Board of Appellate Commission For instance, section 140(1) of the ITA of 2000 states the Board shall hear and determine appeals from taxpayers with respect to objection decisions. Sub section 2 states an appeal shall be heard by not less than three members of the Board, who shall be nominated by the chairman. Section 142 sub sections 1&2 states proceedings of the Board shall be in public unless the chairman directs otherwise and in all proceedings before the Board, the taxpayer and the Commissioner may be represented by a solicitor or an accountant.

Sierra Leone Parliament is mandated by the 1991 Constitution of the Republic of Sierra Leone to impose and or alter taxes. In addition, Parliament by law is required to approve budget of local councils and may assign any other revenues due local councils as may be determined by Government through Parliament.

The Ministry of Finance' mandate is to formulate sound economic policies that enhance economic stability and sustainable growth; mobilize resources for public expenditure; improve fiscal discipline and ensure efficiency and transparency in public expenditure; and regulate financial management. In terms of its functional organization, the structure of the Ministry of Finance is broadly categorized into two levels: policy and technical management levels. At policy level the Minister heads the Ministry of Finance, assisted by 2 Deputy Ministers and a Financial Secretary. At the technical management level, the organizational structure of the Ministry of Finance comprises a Principal Deputy Financial Secretary ({PDFS) and Chief Economist. They are assisted by a Senior Deputy Financial Secretary and one Deputy Financial Secretary Administration, 12 divisions, 3 departments and 2 units falling under the Financial Secretary.

The Bank of Sierra Leone is a body corporate having perpetual succession and capable of acquiring, holding and disposing of property, whether movable or immovable, of entering into contracts and of suing and being sued in its corporate name and performing all such acts as bodies corporate may by law perform.[12] The Bank shall be autonomous and accountable in the performance of its functions.[13]

The National Revenue Authority (NRA) of Sierra Leone is an independent body established by Act of Parliament in 2002. The NRA is a body corporate with perpetual succession and power to acquire, hold and dispose of property, whether movable or immovable, to enter into contracts, to sue and be sued in its corporate name and to otherwise do all things which a body corporate may lawfully do.

The NRA's statutory objective is to strengthen the assessment and collection of the national revenue and the administration and enforcement of the laws relating to the national revenue. In pursuit of this objective, it has the following functions –

1. to administer and enforce the specified revenue laws
2. to collect non-tax revenue under the specified non-revenue laws
3. to make recommendation to Government for amendments and other improvements in the specified revenue laws;
4. to formulate and implement plans for developing and maintaining an effective, fair and efficient revenue collection system;
5. to take such measures as may be necessary to improve the standards of attendance to the need of taxpayers with a view to maximising the efficiency of revenue collection;
6. to advise the Government on matters of policy relating to revenue, whether or not arising from any revenue law;
7. to initiate, develop and sustain programmes for public education on the need for the payment of taxes and the consequences of non-payment and evasion of taxes;
8. to institute measures to counteract tax fraud and other forms of fiscal evasion;
9. to administer discipline and control over all members of staff;

The Commissioner General is the Chief Executive of the organization and is responsible for the day-to-day management of the Authority's operations. Functional areas of the Authority are:

1. Commissioner General's Office
2. Administration & Human Resources

[12] Section 3 sub section 2 of the Bank of Sierra Leone Act, 2019
[13] Section 4 sub section 1 of the Bank of Sierra Leone Act, 2019

3. Corporate Services
4. Customs Service Department
5. Domestic Taxes Department
6. Non-Tax Revenue Unit
7. Information & Communication Technology
8. Internal Controls & Audit
9. Revenue Intelligence and Investigations Unit
10. Extractive Industries Revenue Unit
11. Monitoring, Research and Planning

Nineteen (19) **Local Councils** were established through the enactment of the Local Government Act in April 2004 and the Assumptions of Functions Regulation of November 2004 (the Statutory Instrument). Later in 2017, three (3) additional local councils (Port Loko city, Falaba district and Karene district) were created through the Government de-amalgamation policy[14] making the total to 22 local councils. Section 45 sub section 1 of the LGA 2004 stipulates local councils shall be financed from three (3) sources; own source revenues; grants for devolved functions; and transfers for services delegated by central government ministries. Sub section 4 of section 45 states the own source revenues of local councils shall comprise: precepts from local taxes; property rates; fees and charges; licenses; share of mining revenues; interests and dividends; and any other revenues due to the Government but assigned to local councils by the Minister responsible for finance by statutory instrument.

The 22 local councils are made up of 6 city and 15 district councils including Western Area Rural District Council (WARDC) and 1 municipality (Bonthe Island). The 14 district councils excluding WARDC comprise of 190 Chiefdom Councils.[15]

2.3 Categories of Taxes Collected

There are two (2) categories of all taxes collected in Sierra Leone: Direct and Indirect taxes (NRA, 2016). Direct taxes are levied on companies, individuals, or entities whose burden cannot be easily shifted to another party. These include: Corporate Income Taxes (CIT); Personal Income Tax (PIT) mostly collected through the Pay as You Earn (PAYE) method or directly from owners of businesses; Goods and Services Tax; Rental Income Tax (RIT); Presumptive Tax for small businesses; Withholding tax, etc. Non-Tax Revenues (NTR) are also collected by the NRA and include trade licenses, traffic penalties, driving permits, passports, road user fees, environmental levy and others etc.

Summary of the taxes administered in Sierra Leone including rates as shown in table 2.3 below

Table 2.3: Type of taxes

[14] In a Cabinet Conclusion, CP (2011) 124 of 19th November 2011, the Government of Sierra Leone through the Ministry of Local Government and Rural Development (MLGRD) facilitated the process of the De-amalgamation of Chiefdoms. The objective of the de-amalgamation is to review the entire process of how chiefdoms were amalgamated since the latter part of the colonial period and proffer recommendations to Government on the chiefdoms to be de-amalgamated. The de-amalgamation process coupled with the recent National Population Census conducted in 2016 created additional 41 chiefdoms and 3 new local councils

[15] Chiefdom councils are tiers of local governments underneath the local councils that should, by law (the LGA 2004) collect certain revenues and share with the local councils

Tax type	Definition	Legal basis	Tax base	Tax rate
Corporate Income Tax (CIT)	Tax on profit made by corporate entities	Section 5 of Income Tax Act 2000	Company's profit	30%
Pay As You Earn (PAYE)	Tax on employment income (example salary)	Income Tax Act 2000 as amended in section 11 of the Finance Act, 2019	Employment income	0% - 30%
Goods and Services Tax (GST)	Tax on goods imported	Section 14 of GST Act 2009	Value of Taxable Import	15% of their value at the time they entered the country
	Tax on the domestic consumption of imported and locally-produced goods and/or services		Taxable supply of Goods/Services sold.	15% of their value at the time they are sold.
Payroll Tax	Tax paid by non-citizens	Payroll Tax Act 1972 as amended in Section 4 of Finance Act 2017	Income of non-employed citizens.	Le1.5 million & Le5 million for ECOWAS & non-ECOWAS citizens respectively per annum.
Capital Gains Tax (CGT)	Tax on profit from sale of capital asset	Section 57-61 of Income Tax Act 2000 as amended	Profit from sale of capital asset	30%
Withholding Taxes				
Rent Tax	Tax on rental income	Section 120 (3) Income Tax Act 2000	Rental income	10%
Payment to Contractors	Tax on contract value	Section 117 of the Income Tax 2000 as amended	Contract value	5.5% & 10.5% for resident & non-resident respectively
Dividends	Tax on dividends	Section 118 of the Income Tax Act 2000	Dividend	10%
Interest Payment	Tax on interest payment	Section 119 of the Income Tax Act 2000	Interest	15%

Tax type	Definition	Legal basis	Tax base	Tax rate
Maintenance Fees	Tax on the value of management fees paid	Income Tax Act 2000 as amended in section 22 of Finance Act 2019	Value of management fees	20%
Foreign Travel Tax (FTT)				
Foreign Travel Tax (FTT)	Every person departing from Sierra Leone by ship, aircraft or other means of transport	Finance Act 2017	Every person departing from Sierra Leone by ship, aircraft or other means of transport It shall be paid on or before the date of departure. It is collected by the person issuing the ticket (whether hardcopy or e-tickets), and is	Departing to an ECOWAS country (Economy \$25; Business \$50; First Class \$75) Departing to a non-ECOWAS country (Economy \$55; Business Class \$170; First Class \$250) It is payable not later than 15 days after the end of every month following its issuance.
Non-Tax Revenues				
Royalties	Payment to government for on-going use of its asset or property. Largely applicable to natural resources such as minerals, oil and gas, forestry and fisheries as owned by government	Section 120 of the ITA 2000; Extractive Industries Revenue Act, 2018; Petroleum Exploration and Production Act 2001; Fisheries (Management and Development) Decree 1994 (Amended) 2007; Forestry Act, 1998	The specific detailed tax bases and rates are discussed in section 3.6	

Tax type	Definition	Legal basis	Tax base	Tax rate
Other fees (immigration, landing visas, registration of non-citizens, work permit etc.		Finance Act 2019	The specific tax bases and rates are discussed in section 3.6	

Source: (NRA, 2019)

2.4 Reforms in Tax Laws in Sierra Leone

The tax reform measures of the 2000s were geared toward post-conflict economic recovery. In December, 2001, the idea of establishing a unified and an autonomous National Revenue Authority (NRA) was conceived. The NRA, which is an amalgamation of the Income Tax and Customs and Excise Departments, commenced operations in August 2002 following the enactment by Parliament with the adoption, in September, 2002 (Siaffa, 2015). Some of the tax reforms include:

i. The threshold for income tax was raised from 800,000 Leones to 1,000,000 Leones while the top marginal tax rate for employees, self-employed and property owners was reduced from the then 40 percent to 35 percent effective 1 April, 2002. This reform aimed at reducing the tax burden for individuals, and at the same time rewarding enterprises and individual efforts. The net effect of these changes to the individual tax regime was to make all taxpayers better off, with a revenue loss to Government of about 3.5 billion Leones. To minimize the impact of this revenue loss, employers were required to submit monthly PAYE returns (spreadsheets) with payment of tax deduction effective January 2002

ii. Effective January 2002, income earned from rice farming became exempt from tax for a period of ten years[16] from the date of commencement of the activity for both incorporated and unincorporated businesses. This measure sought to encourage greater private sector activity in local rice production to reduce the country's dependence on rice imports.

iii. Import duty rate for social services (including all basic educational materials, pharmaceutical products for primary health care and agricultural machinery and inputs) were reduced from 20 percent to 5 percent. Also, import duty rates on rice and baby food remains unchanged at the special rate of 15 percent, as well as those for intermediate and final products also remain unchanged at 20 and 30 percent respectively. Furthermore, to enhance the efficiency of local industries and boost exports, the import duty rate of 5 percent applicable for all raw materials (as defined in the Tariff Code) for industries with a market share of 60 percent or more of the market for that product, was abolished. But these industries continued to pay domestic sales tax on output. The changes in the application of import taxes resulted in a reduction of the average effective tariff rate from 27.7 percent to about 25.5 percent and a revenue loss to Government of about 8.0 billion Leones. It was therefore anticipated that the changes to the rates for social products and the products manufactured by qualified industries would result in a proportionate reduction of the market prices of these goods.

iv. Excise tax was applied only to tobacco products, petroleum products and alcoholic beverages. The excise tax which was applicable to luxury and related goods was abolished. In January, 2002 the rates of duty applicable in neighboring countries were applied to cigarettes imported into Sierra Leone.

[16] Since 2019 Rice considered to be in its raw state is exempt even if it has undergone stripping or polishing. Also, exempt is supply of ports services in respect of the imports of rice

v. The threshold of the 30,000 Leones per month, after which rental income is taxable, under Section 120 (2) of the Income Tax Act 2000 (as amended), was abolished in July 2002. This is aimed at encouraging voluntary compliance by landlords for the payment of tax on rental income and facilitates investment in landed properties. In addition, the withholding tax of 10% was then considered a final tax which resulted to a reduction of the tax rate on rental income from an average of about 30% to 10%. Furthermore, the threshold for payment to contractors and suppliers for which the withholding tax applied was increased from 50,000 Leones to 500,000 Leones during the month in which the payment was made as stipulated in section 117 (5) of the Income Tax Act 2000 (as amended). This applied to all payments irrespective of whether the payment is in foreign currency or not.
vi. Duty free was awarded to the tune of 88.6 billion Leones in 2002.

In 2003, technical assistance was further sought to undertake a comprehensive review of the existing tax structures and to operationalize the NRA, to broaden the tax base and to enhance the competitiveness of the Sierra Leone economy. The reforms implemented to achieve this include:

i. An increment in the maximum redundancy payment or termination benefit that is to be excluded from employment income under paragraph (H) of sub-section (3) of the Income Tax Act 2000, from 4 million Leones to 10 million Leones
ii. The rate of tax applicable to mining companies (including those engaged in petroleum exploration) was reduced from 37.5 percent to 30 percent
iii. From January 2003, all operators of telephone and video centres were liable to a standard assessment tax. Apart from these, all import duty, import sales duty; domestic sales tax and excise tax rates remained unchanged
iv. Total value of duty free awarded amounted to 70.9 billion Leones in 2003.

In 2004, the revenue generation focused more on making the NRA fully operational by achieving target level of staff and administrative benchmarks, and making the Customs and Income Tax Departments as well as the Government Gold and Diamond Office (GGDO) fully integrated into the NRA structure. To facilitate the operations of the Authority, border posts were re-established, offices set up nearer to taxpayers and new guidelines and implementation of simple and transparent procedures for clearing goods at the ports were issued. The NRA was therefore mandated to issue licenses to Clearing and Forwarding Agents, supervise and assess them to ensure effectiveness in the implementation of the new clearing procedures (NRA, 2006).

Furthermore, in line with sections 138-145 of the Income Tax Act 2000, His Excellency the President appointed members of the Income Tax Board of Appellate Commissioners to assist in improving the credibility in the assessment and diligence in tax collection. It provides the taxpayer with an opportunity to challenge the decision(s) of the Commissioner-General whenever he/she feels the assessed tax is incorrect.

However, some tax reforms were done in this direction that includes: a reduction in the top marginal rate of income tax from 35 percent to 30 percent and a corresponding adjustment to all income tax bands; and the payroll tax for Economic Community of West African States (ECOWAS) citizens was revised upwards from 100,000 Leones to 500,000 Leones and non-ECOWAS citizens 3,000,000 Leones. All of these changes in personal tax rates, which took effect from April 1 2004, resulted in a net revenue loss to Government of over 8.0 billion Leones (NRA, 2006).

Government also reduced the tax rate (corporation tax) applicable to companies' resident in Sierra Leone from 35 percent to 30 percent, effective April 1, 2004. Additionally, all exemptions on entertainment tax were abolished. This also led to an estimated net loss to Government of over 3.8 billion Leones. Notwithstanding all these the Government substantially denied the award of duty-free concessions in 2004, except where protocols or bilateral arrangements were firmly in place.

However, these changes in the tax system proposed in 2004, whose implementation were delayed due to a huge shortfall in projected revenues came into effect in 2005. Thus, to partly compensate for the loss of revenue from the implementation of all these measures, the Government introduced a sales tax of 10 percent on professional services and local telephone calls, both on land lines and mobile calls. This commenced in January, 2005. Another milestone reform in the tax system undertaken in 2005 was the alignment of the tax year with financial cum calendar year, i.e., January-December.

During this same era (2005), meaningful reforms also took place in the mineral (diamond) sector. Diamonds were one of the major causes of the 10 years bloody civil war which has to result a loss of lives and property. In 1996, formal government regulation of this sector was completely eroded and physical control of the diamond-bearing areas by the then government and the Revolutionary United Front (RUF)17 was heavily contested. To address the problem, the then Kabba led Sierra Leone Peoples' Party (SLPP) government backed by the international community as their key priorities, put what was mostly based on consultations with key stakeholders into place.
objectives from these consultations include:

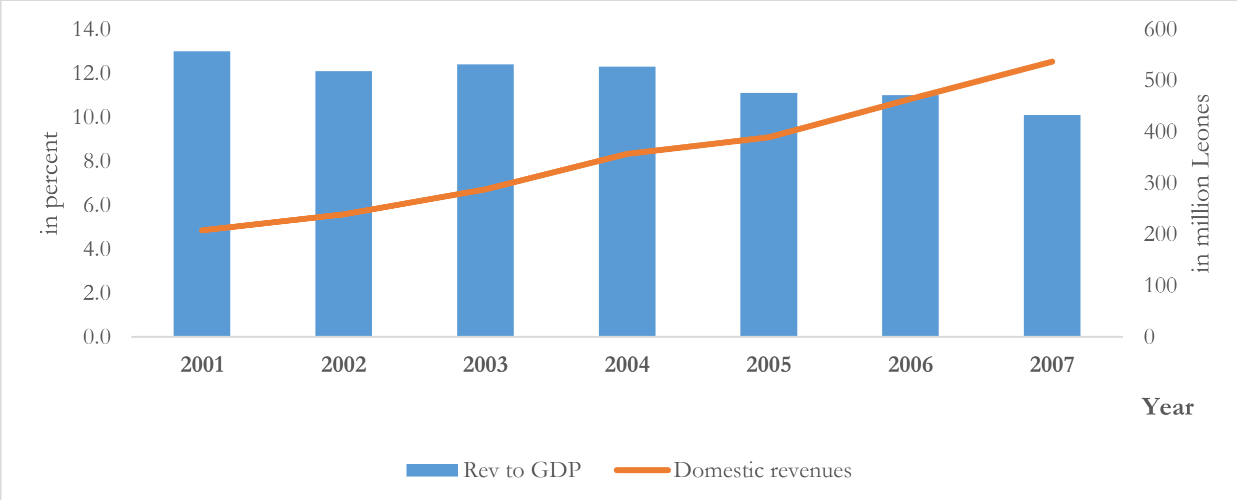
i. Curtailing the smuggle of Sierra Leonean diamonds by the RUF and other armed groups;
ii. Mobilizing diamond revenues for the use of the state;
iii. Making the diamond industry financially transparent;
iv. Encouraging reputable investors to restart industrial mining;
v. Improving the wages and working conditions of the large numbers of laborer's involved in artisanal diamond mining

The United States backed by the international community, in 1999, paid much attention to the diamond sector when the RUF leader, Foday Sankoh treated with levity the implementation of the Lomé agreement, which he conceded to, with regards the aspects that related to mineral exploitation. Because of the greater concern expressed by the public and the international community over the issue of blood diamonds, the Kimberley process certification scheme was launched in November 2002 and was supported by key donor partners inclusive of the World Bank (WB), United States of America Information Department (USAID) and Department For International Development (DFID). DFID provided a Diamond Sector Adviser to the President from May 2002 whilst the World Bank and USAID helped the government develop a minerals sector strategy that was published in 2005 that encouraged stakeholders in the industry to create a Peace Diamond Alliance, respectively. All this pushed the government to publish its core minerals policy in January 2004.

All reforms implemented during the post-war recovery period (2000 to 2006) had some positive impact on revenue performance as depicted in figure 2.1 below
The impact of the tax measure for the period 2001 to 2007 was a sustained increase in domestic revenues in nominal terms, though the share to GDP maintained some steady decrease over the period.

[17] RUF was the entity or institution officially responsible for spearheading the rebel movement in Sierra Leone during the period 1991 - 2002

Figure 2.1: Domestic revenues versus revenues to GDP, 2001 - 2007



Source: IMF PRGF, 2005, 2008

Since 2007, a number of computer-based systems and/or custom-built tax software have been used by NRA. Annex 1 depicts the different computer-based tax systems or ICT infrastructure implemented so far by NRA.

2.5 Summary

This chapter discussed overview of the tax system with specific focus on the legal framework for taxation in Sierra Leone, the institutional framework for tax administration including the categories of tax collected and reforms in tax laws in Sierra Leone. The reforms implemented in 2001 to 2007 saw significant increase in domestic revenues in nominal terms by 158.5 percent for the period 2001 – 2007

CHAPTER 3: DISTRIBUTION OF THE TAX BURDEN AND PROGRESSIVITY

3.1 Allocation of the Tax Burden

In Sierra Leone, the key direct taxes include personal income tax including Government PAYE[18] and corporate tax. Other direct taxes include rental income tax, withholding tax, presumptive tax for small businesses etc. Direct taxes are perceived as progressive as the burden falls more on those with greater earnings than those with less earnings (NRA, 2019). Unlike indirect taxes including import and excise

[18] Government PAYE is the PAYE from government employees

duties and GST and taxes on international trade, they are regressive, and the burden is shifted to taxpayers and the poor.

Before commencement of the implementation of the Integrated Tax Administration System (ITAS), the approximate number of taxpayers registered for each type of tax in 2017 stood at 59,021. The details across tax type are depicted in table 3.1 below. The number of active taxpayers (direct and indirect) is small compared to the projected taxpayers accounting for about 21 percent of the projected taxpayers. With active population of about 3,314,350,[19] the number of active taxpayers accounted for about 0.2 percent of the active population in 2017.

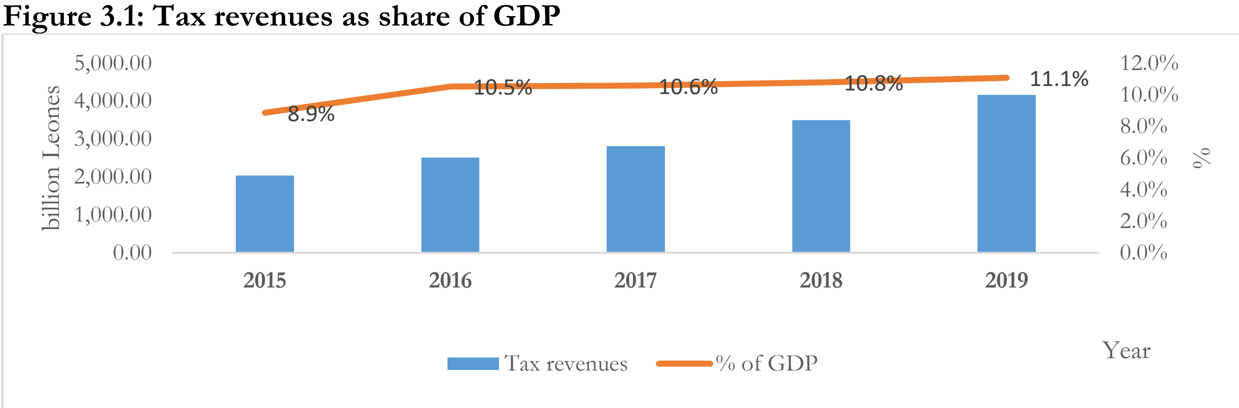
Table 3.1: Number of taxpayers for each tax type, 2017

Tax type	Active taxpayers		Projected taxpayers		Current annual figures		Projected annual figures	
	MTO	**LTO**	**MTO**	**LTO**	**MTO**	**LTO**	**MTO**	**LTO**
GST	1,500	124	7,500	620	18,000	1,488	90,000	7,440
PAYE	800	158	4,000	620	9,600	1,896	48,000	7,440
Withholding (contractors)	550	120	2,750	500	6,600	1,440	33,000	6,000
FTT	10	0	50	0	120	0	600	0
Corporate	445	158	2,225	620	445	158	2225	620
International Trade	400	0	2000	0	400	0	0	0
Payroll	150	101	750	450	300	202	1,500	900
Excise	1	6	75	5	180	120	900	600
Capital Gains	690	158	3,450	620	8,280	1,896	41,400	7,440
Rental Income	500	158	2,500	620	6,000	1,896	30,000	7,440
	5,060	**987**	**25,300**	**4,100**	**49,925**	**9,096**	**247,625**	**37,880**

Source: NRA 2017

Direct, indirect, and non-tax revenues accounted for an average of 37.9 percent, 45.1 percent and 17.0 percent, respectively of the total domestic revenue basket for the period 2015 to 2019. Total tax revenues (direct and indirect taxes) accounted for an average of 83 percent of domestic revenues and 10.4 percent of GDP. Compared to 2019, tax revenues accounted for 77.8 percent and 11.1 percent of domestic revenues and GDP, respectively (see figure 3.1).

Figure 3.1: Tax revenues as share of GDP



[19] The active population was estimated at 18 years and above from the 2015 Population and Housing Census. Summary of final results, Available at

The trend in direct, indirect and non-tax revenues is shown in figure 3.2 below.

Figure 3.2: Trend in direct and indirect taxes

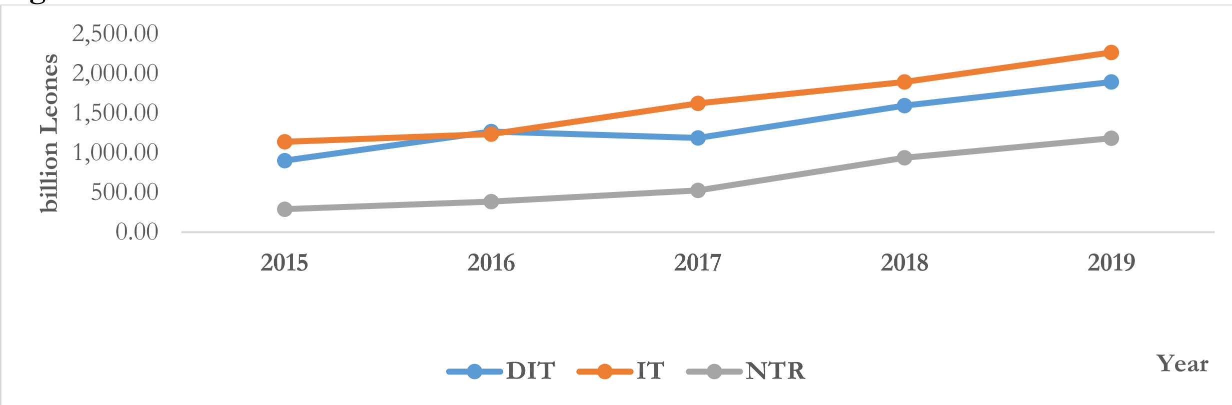
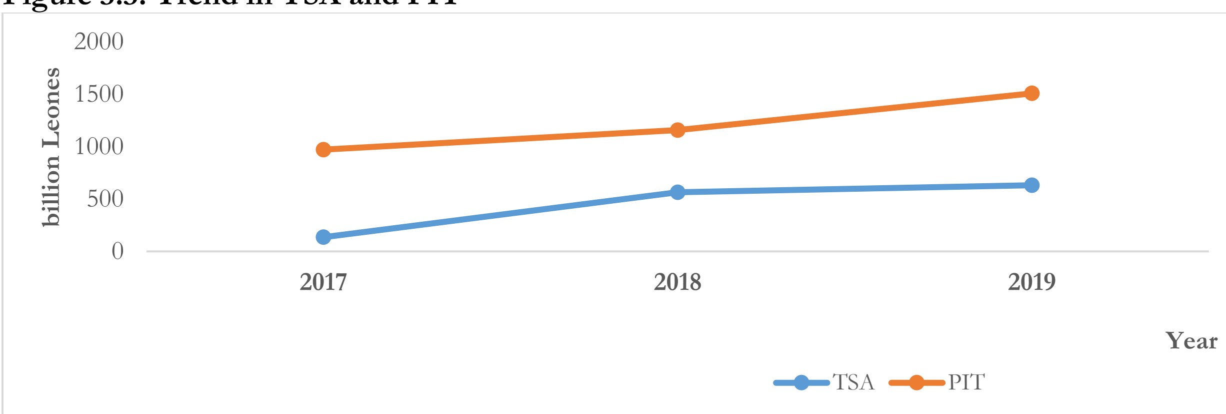


Figure 3.3 shows that Sierra Leone collects and reports indirect taxes more than direct taxes. Both direct and indirect taxes plus non-tax revenues have maintained some steady increase in nominal terms over the years except in 2017 where direct taxes decreased slightly compared to its 2016 level. Sustained increases were realized for direct, indirect and non-taxes for the outer years (2017 to 2019). The significant increase noted in PAYE was as result of government PAYE, which accounted for a huge portion[20]. In addition, non-tax revenues especially revenues from introduction of Treasury Single Account (TSA)[21] agencies and timer licenses also increased significant for the same period, though at a rate lower than the rate of increase in PAYE from 2018 to 2019 (see figure 3.3)

Figure 3.3: Trend in TSA and PIT



On TSA, page 17 paragraphs 79 and 80 of the Government Budget and Statement of Economic and Financial Policies for the Financial Year 2020 reads…….

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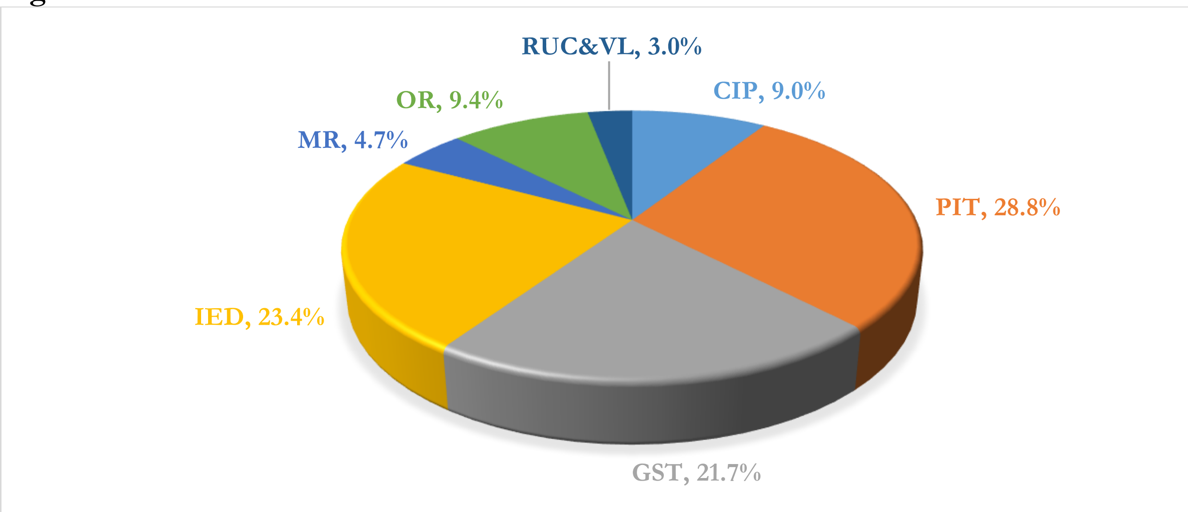
[20] Government wage bill increased in 2018 and 2019. It increased by 51.2% in 2018 from its 2017 level and by 22% in 2019 from its 2018 level

[21] TSA is a government initiative supported by the IMF. TSA is a structure that links all government bank accounts held in several commercial banks to enable consolidate and optimize utilization of government cash resources. It separates transaction-level control from overall cash management. Simply put, it is a bank account or a set of linked bank accounts through which the government transacts all its receipts and payments and gets a consolidated view of its cash position at the end of each day.

79. Mr. Speaker, Honourable Members, the operation of the TSA commenced in 2018 with six semi-autonomous Agencies. Following the enactment of the Finance Act 2019. The coverage was broadened in 2019 with additional five (5) semi-autonomous Agencies.
80. While the TSA has enabled Government to mobilize additional revenue into the Consolidated Fund, idle cash balances continue to exist in the accounts of MDAs especially sub-vented agencies that receive bulk disbursements. To ensure efficient cash management, Government will commence the implementation of Phase II of the TSA in 2020. This will broaden the scope of the TSA to include all Sub-vented and semi-autonomous agencies.

Of the total number of taxes, personal income tax, corporate income tax, goods and services tax and import and excise duties account for an average of 28.8 percent, 9 percent, 21.7 percent and 23.4 percent, respectively of the revenue basket of government for the period 2015 to 2019 (see figure 3.4)

Figure 3.4: Share of taxes to total domestic revenues[22]



Note: PIT=Personal Income Tax; GST=Goods and Services Tax; IED=Import and Excise Duties; MR=Mining Revenues; CIP=Corporate Income Tax; OR= Other Revenues; RUC&VL=Road User Charges & Vehicle Licenses

3.2 Personal Income Tax (PIT) including PAYE

Personal income tax is a form of income tax levied on individuals and partnership taxed on the profit made in an accounting period, which is referred to as their year of assessment. Income tax is levied in each year on the total income of both resident[23] and nonresident persons in Sierra Leone. To be specific, resident persons are taxed on their worldwide income while nonresident persons are taxed on income which has a source in Sierra Leone. Income has a source in Sierra Leone if it accrues in or is derived from activities in Sierra Leone irrespective of where the contract is awarded or signed (NRA, 2019).

[22] RUC&VL means Road User Charges & Vehicle Licenses; OR means other revenues; CIP means corporate income tax; PIT means personal income tax; MR means mining revenues; IED means import and excise duties; GST means goods and services tax

[23] An individual is generally resident for tax purposes if that individual is present in Sierra Leone for an aggregate period of 182 days or more in any 12-month period that commences or ends during the year; a citizen, including one who is temporarily absent from Sierra Leone or has a permanent home outside Sierra Leone; or an employee of the Government of Sierra Leone posted abroad. Also, a Sierra Leonean permanent establishment is treated as a resident company for the purposes of income taxation

PAYE is a part of Personal Income Tax (PIT) paid by employees on their employment income including benefits, emoluments and over-time pay. Employees pay PAYE Tax but it is a withholding tax withheld by employers and paid over to the NRA (Section 116 of the ITA 2000 as amended).

3.2.1 Rates of PIT including PAYE

Permanent, Temporary and Non-Residents

a). For Individuals and partners in a Partnership[24] with a turnover or income above Le350 Million, the Tax Rates are detailed under Part 1 of the First Schedule of the Income Tax Act 2000 as amended in the Finance Act of 2019.

Rates of tax applicable to individuals resident in Sierra Leone for the year of assessment that commenced 1st January 2019 and each succeeding year of assessment. The rates are depicted in table 3.2.

Table 3.2: Amended PIT rates including PAYE[25]

If chargeable income is	The tax is
Less or equal to Le6,000,000 per annum (approx. US$634.18)	Nil
>Le 6,000,000 but not>Le12,000,000 per annum (approx. US$1,268.37)	15%
>Le12,000,000 but not >Le18,000,000 per annum (approx. US$1,902.55)	20%
>Le18,000,000 but not >Le24,000,000 per annum (approx. US$2,536.73)	25%
Over Le24,000,000 (approx. US$2,536.73)	30%

Note: Further, for individuals receiving employment income, there is a threshold on non - taxable allowance of Le6,000,000 per annum or Le500,000 per month. For employees receiving leave allowance in excess of their gross monthly salary, the excess shall be subject to income tax at 30% or the higher marginal band.

b). Where the turnover, excluding income from property, of a person, not being a company specified under Part III of the First Schedule, is less than Le350,000,000 but not less than Le10,000,000, the income tax payable as amended in the Finance Act 2017 shall, at the option of such a person, be taxed at the following rates as shown in table 3.3.

Table 3.3: General rate for small and micro taxes

Amount of turnover	Income tax payable in Leones
Under Le10,000,000	Nil
Le10,000,000 to Le20,000,000	Le100,000 plus 2% of the amount of turnover above Le10,000,000
Le20,000,0001 to Le100,000,000	300,000 plus 4% of the amount of turnover above 20,000,000
100,000,001-200,000,000	3,500,000 plus 5% of the amount of turnover above 100,000,000
200,000,000-350,000,000	8,500,000 plus 6% of the amount of turnover above 200,000,000

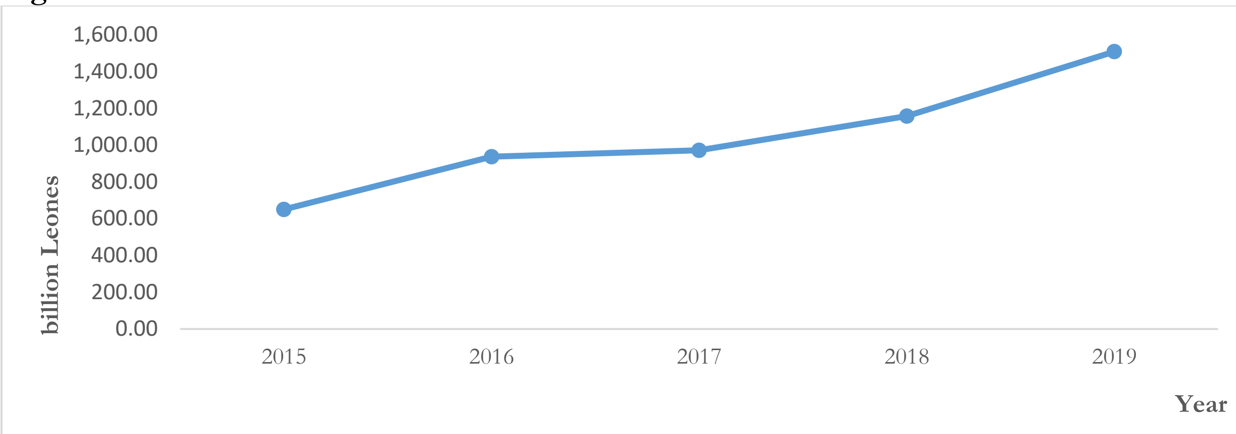
3.2.2 Performance of PIT

In terms of performance in nominal terms, PIT collections steadily increased in normal terms to Le1.51 trillion in 2019 from Le650.33 billion in 2015 with significant increase of about 30.3 percent recorded from 2018 to 2019 (see figure 3.4). However, as a share of total domestic revenues, PIT

[24] Partnership comprise more than 1 individual or businesses up to maximum of 20 people or businesses

collections fluctuated throughout the period averaging 28.8 percent for the period under review (2015 to 2019) (refer to figure 3.5). As percent of GDP, PIT accounted for an average of 3.6 percent.

Figure 3.5: Trend in PIT



For PIT, the ratios of the number of active and projected taxpayers to the total population stood at 0.03 percent and 0.14 percent, respectively. Given that the sustained increase in PAYE over the period (refer to figure 3.5), though at a fluctuated PIT rate (30% & 35%), it is likely the number of active PIT payers may have increased over the period 2015 to 2019

3.2.3 Filing/Declaration and Payment Obligations for Individuals and Partnerships for PIT

i). An Estimate of Chargeable Income and Turnover

- For new individuals and partnerships with a year of assessment of 1st January to 31st December, Section 113 (1)(a) of the Income Tax Act 2000 as amended states that the deadline for submission of an estimate of chargeable business income and turnover is 31st January.
- For new individuals and partnerships with a substituted year of assessment, Section 113 (1)(a) of the Income Tax Act 2000 as amended states that the deadline for submission of an estimate of chargeable business income and turnover is the last day of the first month of that substituted year of assessment. For example, if an individual has a year of assessment of 1st August to 31st July, the estimate of chargeable business income and turnover should be submitted by 31st August.
- For existing or continuing individuals and partnerships with a year of assessment of 1st January to 31st December, Section 113 (1)(c) of the Income Tax Act 2000 as amended states that the deadline for submission of an estimate of chargeable business income and turnover for the next year of assessment is 15th September.

ii) Payment of Quarterly Instalment of PIT

- Section 113 (3) and (5) of the Income Tax Act 2000 as amended states that quarterly instalments of PIT are spread evenly at 25% or are simply divided into four (4) equal instalments and payable on or before the 15th of the 3rd, 6th, 9th and 12th months of the year of assessment.

iii) Final Instalment of PIT

- Section 113 (6) of the Income Tax Act 2000 as amended states that the amount of the final instalment due is the difference between the tax payable on the individual's or partnership's chargeable business income for the year of assessment (i.e. total tax due for the year) and the total quarterly instalments paid during the year (i.e. total paid under (ii) above).

- The Final Instalment of PIT is payable on the day the taxpayer is required to file a return of income for the year of assessment not more than 120 days after the year of assessment - Section 97 of the Income Tax Act 2000 as amended.

iv) Annual Return of PIT

- Section 97 of the Income Tax Act 2000 as amended states that an individual or a nominated officer of a partnership should file a return of income for each year of assessment and make arrangements to pay any balance of tax thereon not later than 120 days after the end of the year of assessment.

3.2.4 Filing/Declaration and Payment Obligations for Individuals and Partnerships for PAYE

i) Filing of PAYE Tax Returns

- Section 130 (1) of the ITA 2000 as amended states that an employer, who is a withholding agent, should lodge a PAYE Tax return for each month not later than the 15th of the month following the month in which employment income was earned. For example, PAYE Returns for the month of March should be submitted 15th April. A penalty of Le1,000,000 is levied for late filing of PAYE returns for each month a return is not filed.

ii) Payment of PAYE Tax

- Section 130 (1) of the ITA 2000 as amended states that the due date for payment of PAYE Tax is the same as the due date for submission of a PAYE Tax Return, which is, for each month, not later than the 15th of the month following the month in which employment income was earned.

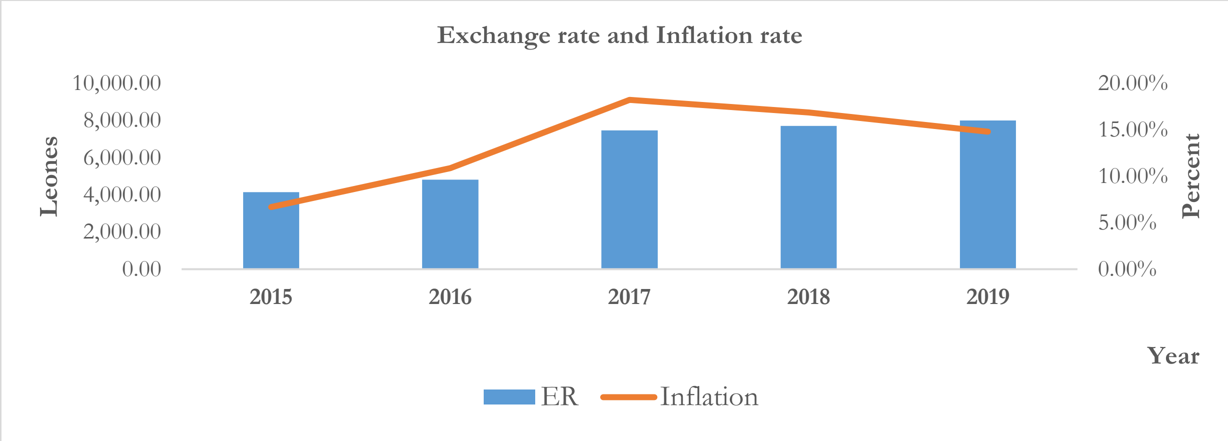
iii) Penalty for Default

- 10% if paid within 30 days from the due date.
- 15% % if paid after 30 days and up to 90 days from the due date.
- 25% if paid after 90 days from the due date.

The PIT including PAYE was recently amended in the Finance Act of 2020, which is the basis of the new PIT rates as presented in table 3.1. Analysis of the 2018 SLIHS[26] also produces a food poverty line of Le2,125,000 per adult equivalent annually, which results in an extreme poverty rate of 12.9 percent. The food poverty rate is 54.5 percent. In other words, the average household income (food poverty) or the basic food basket for a family stood at Le2,125,000 (US$212.5) in 2018. This means the bear minimum a household in Sierra Leone need to survive on is less than US$1 a day (US$0.58 per day). This coupled with a relatively steady depreciation of the exchange rate and a relative increased inflation rate over the years (see figure 3.6), the PAYE threshold as referred to in table 3.1 is too low to accord employees a relief from paying income taxes. Because of the one-on-one relationship between the exchange rate and inflation rate, given that most of Sierra Leone consumption are imports, any depreciation of the exchange rate affects inflation rate.

[26] Sierra Leone Integrated Household Survey (SLHIS), 2018. Available at:

Figure 3.6: Exchange and Inflation rate, 2015 to 2019



3.3 Corporate Income Tax (CIT)

Corporation Tax is a form of Income Tax that is levied on corporate bodies such as limited liability companies, trusts and cooperatives. Companies are taxed on the profits made in an accounting period, normally their financial year. The geographical basis for the tax charge depends on where the company is resident for tax purposes. Companies resident in the Sierra Leone pay corporation tax on their worldwide profits. Companies resident elsewhere normally pay Corporation Tax only on profits from their activities undertaken in Sierra Leone e.g. through permanent establishments, branches, agencies or subsidiaries (NRA, 2019).

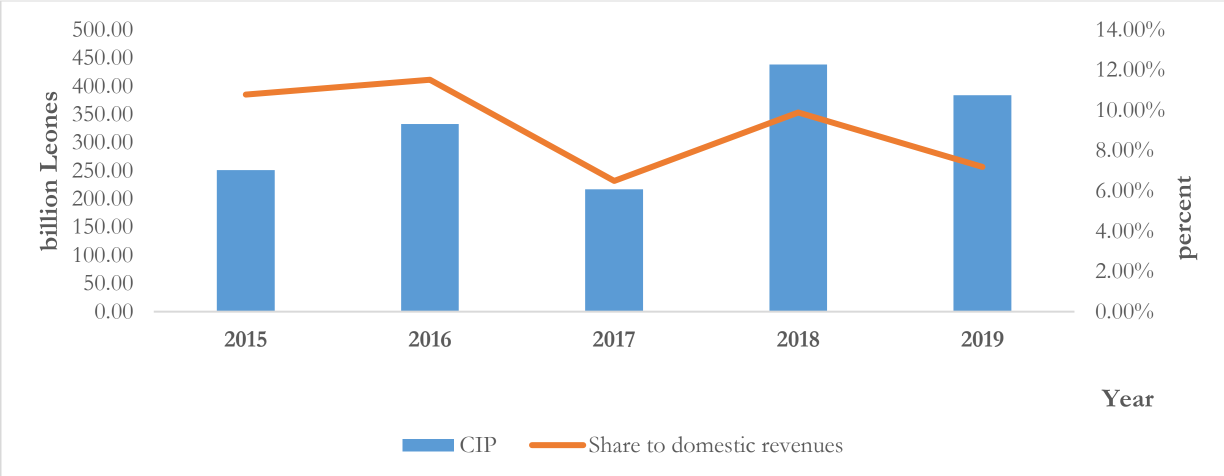
3.3.1 Rate of Corporate Tax

Corporation Tax is paid by corporate bodies such as limited liability companies, trusts and cooperatives. Section 5 & 6 and Part III of the First Schedule of the Income Tax Act 2000 as amended states that the Corporation Tax Rate for Resident and Non-Resident Companies is 30% of their taxable income. However, there are differential rates applied for certain mining and large scale agricultural investments articulated in their respective mineral licenses agreements. For instance, Article 19 of the Sandor Iron and Steel company license agreement stipulates the company shall pay 25% corporation tax throughout the life of the mining. Also, article 9G of the SocFin license agreement states the company is entitled to full exemption of CIT till the end of December 2022.

3.3.2 Performance of CIT

The performance of corporate income tax over the years, though predictable has not been encouraging compared to PIT. Figures reported both increase and decrease throughout the period under review. The share of the tax to total domestic revenues follow the same pattern. However, compared to 2015, 2016 and 2017, CIT increases at a decreasing rate to its share to total domestic revenues in the outer years (2018 and 2019). See figure 3.7 below

Figure 3.7: IT and its share to total domestic revenues



The low performance of CIT is possibly attributed to several issues mainly attributed to inefficiencies in tax collection and the unprecedented legal provisions of tax incentives and exemptions, the lack of transfer pricing rules and inadequate implementation of punitive sanctions on tax dodging and avoidance, among others.

3.3.3 Filing/Declaration and Payment Obligations for Corporation Tax

i) An Estimate of Chargeable Income and Turnover

- For new companies with a year of assessment of 1st January to 31st December, Section 113 (1)(a) of the Income Tax Act 2000 as amended states that the deadline for submission of an estimate of chargeable business income and turnover is 31st January.
- For new companies with a substituted year of assessment, Section 113 (1)(a) of the Income Tax Act 2000 as amended states that the deadline for submission of an estimate of chargeable business income and turnover is the last day of the first month of that substituted year of assessment. For example, if a company has a year of assessment of 1st August to 31st July, the estimate of chargeable business income and turnover should be submitted by 31st August.
- For existing or continuing companies with a year of assessment of 1st January to 31st December, Section 113 (1)(c) of the Income Tax Act 2000 as amended states that the deadline for submission of an estimate of chargeable business income and turnover for the next year of assessment is 15th September.

ii) Payment of Quarterly Instalment of Corporation Tax

- Section 113 (3) and (5) of the Income Tax Act 2000 as amended states that quarterly instalments of Corporation Tax are spread evenly at 25% or are simply divided into four (4) equal instalments and payable on or before the 15th of the 3rd, 6th, 9th and 12th months of the year of assessments. For example, companies with a year of assessment of 1st January to 31st December, will pay equal quarterly instalments on 15th March, 15th June, 15th September and 15th December.

iii) Final Instalment (usually referred to as 5th Instalment) of Corporation Tax

- Section 113 (6) of the Income Tax Act 2000 as amended states that the amount of the final instalment due is the difference between the tax payable on the company's chargeable business income for the year of assessment (i.e., total tax due for the year) and the total quarterly instalments paid during the year (i.e., total paid under (ii) above).

- The Final Instalment of Corporation Tax is payable on the day the taxpayer is required to file a return of income for the year of assessment which is not more than 120 days after the year of assessment - Section 97 of the Income Tax Act 2000 as amended. For example, companies with a year of assessment of 1st January to 31st December will pay the final instalment of Corporation Tax on or before 30th April after the year of assessment.

iv) Annual Return of Corporation Tax

- Section 97 of the Income Tax Act 2000 as amended states that a company should file a return of income for each year of assessment and make arrangements to pay any balance of tax thereon not later than 120 days after the end of the year of assessment.

v) Penalty for failure to file tax returns

- Section 150 sub section 1 of the Income Tax Act 2000 states a taxpayer who, without reasonable excuse, fails to file a return of income within the time required, shall be liable to the following penalties: a) the amount specified in paragraph 12 of the Ninth Schedule (Le50,000); and b) 10% of the tax payable. Sub section 2 of section 150 further states that a taxpayer who, without reasonable excuse files a return, of income incorrectly stating his chargeable income, shall be liable to a penalty of 25% of the difference between the amount of tax payable for the year of assessment and the amount that would have been payable if the tax payable had been calculated by reference to the incorrect return.

3.3.4 Related Party Transactions

Although nothing in the law disallows related party transactions, the Commissioner-General has authority to disregard or reverse any transaction that is geared towards tax avoidance schemes that are impermissible. Transactions can also be reclassified or re-characterized under the anti-avoidance provisions.

3.3.5 Transfer Pricing and Thin Capitalization

Sierra Leone has put in place a regulation on transfer pricing, and was enacted by Parliament. In addition to the powers of the Commissioner General to reclassify or re-characterize transactions consistent with the anti-avoidance rules, the law requires associated persons to disclose and include information or details of parent and holding companies, subsidiary companies, associates or joint ventures for transactions undertaken with related parties, irrespective of their residential status for tax purposes. However, the application of such provisions is yet to seen.

Also, despite a detailed Thin Capitalization rule yet to be developed by the NRA, there are restrictions on shareholder loans as stated below:

- Application of the Demand Dividend Rule. The amount allowable in respect of interest expenses deductibility is restricted on loans from a shareholder or his associate to the extent of interest on one half (50%) the excess of that loan over the shareholder's paid up share capital. Any excess of this will be treated as dividend and taxed at the rate of 10%
- In the case of mining companies, the amount allowable in respect of interest expenses is restricted on loans from a shareholder or his associate on total borrowing of the paying company to three times its paid-up share capital. Interest on the excess of the loan in this regard is disallowed as a deduction against taxable profit. Any amount disallowed shall be treated as a deemed dividend.

3.4 Goods and Services Tax (GST)

Sierra Leone's Goods and Services Tax (GST) is a modern form of sales tax. It is tax on the domestic consumption of imported and locally-produced goods and/or services, paid as a percentage of their value at the time they are imported, sold, exchanged, or delivered. At each stage in the chain of production and distribution, GST is effectively charged on the value added generated. It is collected by GST registered businesses[27] on behalf of the NRA (NRA, 2019)

Section 15 (1) of the GST Act 2009 as amended states that a person is required to apply for registration under three circumstances:

- If the person exceeded the registration threshold in the period of 12 or lesser months;
- If the person exceeded one-third of the registration threshold in the period of 4 months; or
- There are reasonable grounds to expect that the person will exceed the registration threshold in the twelve-month period commencing on the following day.

However, Section 15 (4) of the GST Act 2009 as amended states that a person is required to apply for registration, irrespective of whether the person exceeds the registration threshold if:

- The person is a government entity or a local council that carries on a taxable activity; or
- The person is a promoter of public entertainment or a licensee or proprietor of a place of public.

It is a MUST that taxpayers register for GST if their turnover exceeds Le350,000,000 per annum and they are dealing in chargeable supply. Goods and/or services that are not in the second schedule (exempt supply schedule) must register for GST if the turnover threshold is attained.

3.4.1 Rate of GST

Section 14 (3) of the GST Act 2009 as amended states that the standard rate of GST is 15%, the same as in Cameroon, Ethiopia, Ghana and The Gambia. In Guinea and Ivory Coast, the rate is 18% whilst in Liberia, the rate is 10%

GST Act 2009 classified four categories of goods and services collectively known as 'supplies.'
These are:

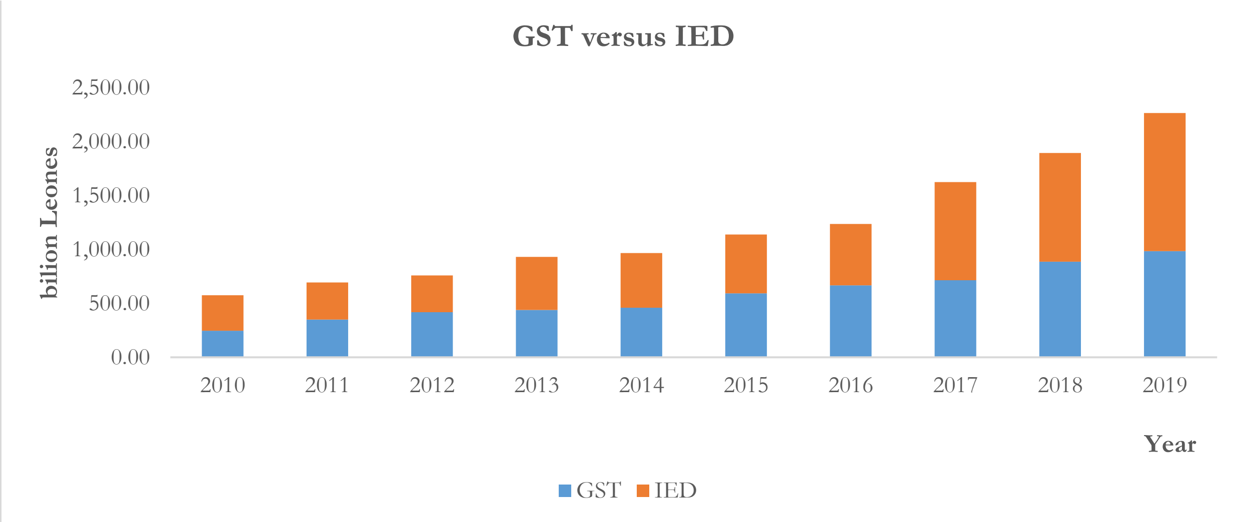
a) Standard-rated supplies: These are supplies of goods or services made by a taxable person for consideration in the course of or as a part of his business activities. They attract GST of 15%.
b) Zero-rated supplies: supplies that are taxable but attract a zero rate of GST (section 10 and the First Schedule of the GST Act 2009 as amended). GST is charged at rate of 0%. However, input GST on export can be claimed.
c) Exempt supplies: supplies listed under the Second Schedule of the GST Act 2009 as amended and they are no part of the GST chargeable supply. There is no input GST claim on this (section 9 of the GST Act 2009 as amended)
d) Supplies outside the scope of GST. Example, sale of business as a going concern, mergers and acquisitions.

3.4.2 Performance of GST

Despite the numerous categories of exemptions, the performance of GST has been encouraging as it maintained some steady increase since the commencement of its implementation in 2010. Similarly, import and excise duties maintained the same steady increase though at a rate higher than that of GST (see figure 3.8). GST on average accounted for 21.7 percent of total domestic revenues for the period under review (2015 to 2019)

Figure 3.8: GST and import and excise duties

[27] Registered businesses can be companies, sole traders, partnerships or any other person undertaking a taxable business activity



Records show that duty and GST waivers granted over the last couple of years surged from Le59.6 billion in 2004 to Le570.3 billion in 2017, with an increase of 53 percent between 2014 and 2017. This significantly undermined domestic revenue mobilization during the period. These are as a result of bad Agreements with wide-ranging waivers and exemptions signed by previous Governments in many cases ratified by Parliament. To address this problem, the Ministry of Finance established a Technical Committee in 2018 to review the existing processes and procedures for granting duty and tax exemptions.

3.4.3 Filing/Declaration and Payment Obligations for GST

i) Issuance of Invoices for GST Supplies

Section 31 of the GST Act 2009 as amended states that a GST registered person who makes taxable supplies is required, at the time of the supply, to issue the recipient with an original GST invoice, for the supply.

ii) Filing of GST Returns

Section 37 of the GST Act 2009 as amended states that a GST registered person should lodge a GST return for each tax period not later than the end of the month following the tax period. For GST, the tax period is one month. Therefore, for example, a GST registered person should submit his March GST return on or before 30th April.

iii) Payment of GST

Section 38 of the GST Act 2009 as amended states that the due date for payment of GST is the same as the due date for submission of a GST return, which is not later than the end of the month following the tax period.

3.5 International Trade Taxes

In Sierra Leone, the categories of taxes that comprise International Trade Taxes include among others: import duty (range from 0% to 35%)[28]; excise duty ; GST on imports (15% with exception of broken rice and infant milk for which rate is 0%); ECOWAS levy (0.5% on CIF), Transit Fee (2.5% of FOB); Withholding Income Tax (5% of CIF); Insurance (1% of FOB); ASYCUDA Processing Fee (Le30,000 per declaration); Export Duty (0% for most product with exception of diamonds which attracts 3%

[28] The 35% is for soft drinks, energy drinks, mineral waters, and aerated waters whist 0% is for broken rice

duty on FOB); and Stamp and Transfer Duty[29] (range from 1% to 12.5%). Detailed tax rates on international trade (import duty) is shown in annex 2. The rate on broken rice is 0% because rice is the staple food.

3.5.1 ECOWAS Trade Liberalization Scheme

This is a regional agreement signed with ECOWAS member states that allows free movement of goods within ECOWAS member States at zero rate duty for originating goods. The scheme covers three groups of products, namely: ***Unprocessed goods:*** these include fish, plants or minerals which have not undergone industrial transformation exempt from duties and taxes.
Traditional handicraft products: exempt from duties and taxes
Industrial products: reduce customs duties and taxes gradually over 10 years period, starting 1 January 1990, until eliminated.
To qualify and benefit:

- Products must originate from Member States;
- Products must be approved by ECOWAS;
- Enterprise producing product must be registered in ECOWAS;
- Product must be accompanied by a certificate of origin;
- Products must be accompanied by ECOWAS export declaration.

3.5.2 ECOWAS Common External Tariff (CET)

ECOWAS Common External Tariff is one of the instruments used to harmonize ECOWAS Member States and strengthen its common market. The CET is composed of four (4) tariff bands, or rates of customs duty as depicted in table 3.4 below.

Table 3.4: ECOWAS CET rates

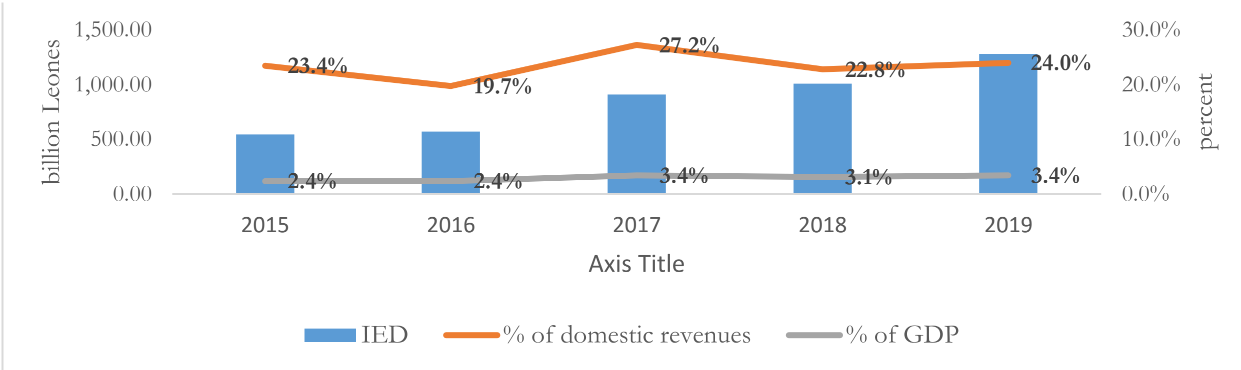
Category of goods	Import duty
Essential social goods	0%
Goods of primary necessity, raw materials and specific inputs	5%
Intermediate goods	10%
Final Consumption goods	20%

3.5.3 Performance of Import and Excise Duties

Custom duties are collected through the Sierra Leone National Revenue Authority and are levied based on classification of commodity and country of origin. For the last five years (2015 to 2019), import and excise duties contributed an average of 23.4 percent to the total domestic revenues and 2.9 percent of GDP. The figure shows that IED increases at a decreasing rate to its share of domestic revenues with the exception of 2019 where IED increases at a rate more than its share to total domestic revenues. The ratio of import and excise duty to GDP in contrast, maintained steady increase during the period under review (see figure 3.9)

Figure 3.9: Share of IED to domestic revenues and GDP

[29] Stamp duties are levied on a wide range of instruments and documents include agreements, bills of exchange and promissory notes, bills of lading, bonds, leases and power of attorney letters.



3.6 Non-Tax Revenues

Non tax revenues in Sierra Leone comprise the following:

- Royalties largely applicable to natural resources such as
  - Minerals (6.5% for precious stones,[30] 5% for precious metals, and 3% for all other minerals, including bulk minerals)
  - Oil and gas
  - Forestry
  - Fisheries (ranges from US$12,010 for demersal & pelage mid-water per vessel for 6 months to US$29,250 for shrimper and cephalopods trawler per vessel for 12 months
  - Telecommunications (0.5% royalty on their turnover, being an allowable deduction in computing the final corporate tax payable)
  - Timber (US$2,500 for every 20-feet container prior to exportation)
- Mining licenses (ranges from US$400 for rehabilitation fees for diamond dealers and monitoring fees for non-citizen gold dealers to US$35,000 for alluvial diamond exporters license - exporter plus 7 agents per inclusive of two free agents per year
- Fisheries fees ((ranges from US$150 for demersal & pelage mid-water for 6 months to US$70,000 for tuna purse seiner per vessel per annum)
- Other fees
  - Immigration (Le750,000 for passport (new and replacement) and US$3,000 for naturalization fee)
  - Landing visa (ranges from Le277,000 for 3 months from China to Le1,200,000 from USA/South America
- Registration of non-citizens (ranges from Le500,000 for Missionaries to Le10,000,000 for Miner (owner of company) and mining employees
  - Dependents of employees (ranges from Le250,000 for persons below 21 years to Le1,000,000 for adults).
  - Telecommunication (employer Le10,000,000 and employee Le15,000,000).
  - Merchandise/business, banking & insurance, manufacturing industry, security agencies, fishing companies and construction companies (employer Le4,500,000 and employee Le5,000,000).
- Work permit (ranges from Le500,000 and Le1,000,000 for educational institutions, wild life Zoo and volunteers for ECOWAS and Non0ECOWAS citizens, respectively to Le5,000,000 and Le6,250,000 for mining sector, aviation, shipping agency and marine sector for ECOWAS and Non-ECOWAS citizens, respectively).

30 defined as those precious stones whose market value is above five hundred thousand United States Dollars

- Factories (ranges from Le300,000 for project costs not more than 175 metres to Le2,000,000 for project that costs Le1.25 billion and above).
- Fees for National Civil Registration (NCR) (ranges from Le10,000 to Le50,000 for the delay in taking birth and adoption certificates, respectively and Le25,000 to Le150,000 for reissuance of birth certificate and adoption birth certificate, respectively).
- Registration of contractors (ranges from Le900,000 to Le6,000,000 for citizens for work categories C&D and premier class work categories A, B, C&D, respectively and Le1,350,000 to Le9,000,000 for foreigners for work the same work categories).
- Standard Bureau
  - Import clearance tests for petroleum products (0.05% of CIF/FOB amount per product
  - Recertification tests for shore tank petroleum products (Le150,000 per works unit for tests carried out)
  - Compliance tests for imported base oil lubricants (Le150,000 per works unit tests carried out)
  - General quality assurance tests for petroleum products and base oil lubricants (Le150,000 per works unit tests carried out)
- Marriage registration (ranges from Le20,000 for certificates of both Muslim and Christian marriage certificates to Le300,000 for civil and Christian marriage license)
- Business registration fees (ranges from Le60,000 for certified copy to Le300,000 for partnership)
- Trademarks (ranges from Le50,000 for trademark certified true copy to Le800,000 for business registration fee)
- Conveyance (ranges from Le50,000 for search fees and certified true copy of conveyance to Le200,000 for registration of instrument)
- Land fees (ranges from Le10,000 per acre of farmland to Le200,000 per acre of land in central Freetown)

3.7 Property Tax

In Sierra Leone it is referred to as rates and is defined in the Local Government Act of 2004 as tax on improvement on land (buildings).[31] It may be perceived as a tax on wealth using the point-base system of property taxation that is currently being implemented in most councils in Sierra Leone. Wealth in this context is indicated by the value of the built property the taxpayer owns or has use of in a local council area. It may also be perceived as a tax that should be directly linked to services provided by local councils like solid and liquid waste management, street lighting etc.

The tax is payable on the 'assessed annual value' of all buildings. As such, the ***tax base*** of a council is the total of the Assessed Annual Value (AAV) of all buildings in its area. Assessed annual value (AAV) is not defined in the Act but was defined in the Freetown Municipality Act 1973[32] as: the amount at which a premise can reasonably be let out in the open market over a period of time usually a year. Exemptions to payment of rate include:

[31] However, one of the key discussion points in the 2019 review of the Government of Sierra Leone decentralization policy and local government act of 2004 is to include land and machinery as part of the definition of property. But lease rent applies to all agricultural land leased to large scale agricultural investors. The structure of land tenure and land markets may affect the market for large scale agricultural investment.

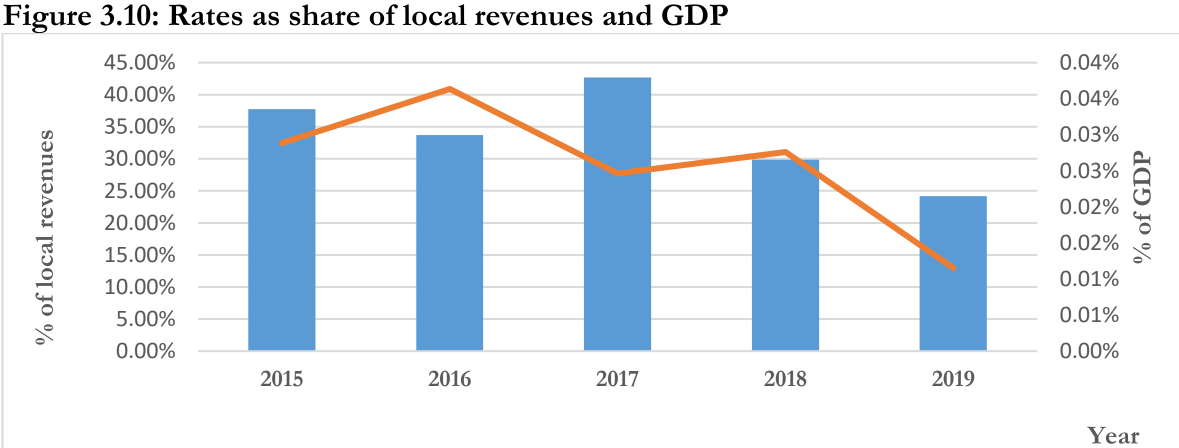
[32] Freetown Municipality Act 1973 was an act that has been in existence and utilized by management committees of the capital city Freetown and other urban councils to administer property tax and other local taxes. This act was repealed by the LGA 2004

a) any church, chapel, mosque, meeting-house or other building exclusively used for public religious worship;
b) buildings used for public hospitals and clinics;
c) buildings used for charitable purposes;
d) buildings used for public educational purposes, including public universities, colleges and schools;
e) buildings on burial grounds and crematoria; and
f) buildings owned by diplomatic missions as may be approved by the Ministry responsible for foreign affairs.

Because the real estate market is not functional and difficult to get the appropriate skilled valuers to determine the market value of properties, a customized point-based system was developed as proxy to value properties with the support of Paul Fish, a Canadian and Chartered Surveyor. The object of the program is to efficiently assess all properties so that a fair system of taxation can be implemented. The success of the program depends on the cumulative performance of 5 critical steps: Discovery; Assessment; Billing; Sensitization and Collection. The system is an on-going repeated process that needs be carried out annually. New properties have to be discovered and assessed, adjustments have to be made in the tax rates and the billing, sensitization and collection stages have to be followed in order to achieve success (Fish, May 2008).

Rates are exclusively administered by local councils by law (the LGA 2004). It is one of the most lucrative revenue sources of local councils especially the city councils. For the last five years (2015 to 2019), rates contributed an average of 33.6 percent to the total local revenues, 0.19 percent of domestic revenues and 0.03 percent of GDP (see figure 3.10). The figure shows that the performance of rates has been fluctuating over the period though significant increases were recorded in 2016 and 2018 compared to other years at a rate higher than their ratios to total local revenues.

Figure 3.10: Rates as share of local revenues and GDP



It is given that there is higher rates of property ownership amongst male-headed households compared to their female counterparts. As such, male ownership of properties is more likely to pay property rates compared to female-ownership of properties. Also, SRL administers an inheritance tax/Estate Duty at 10 percent of the value of the estate

3.8 Presumptive Taxes

Presumptive taxes involve levying of specified tax burdens on businesses irrespective of its volume of activity or level of income each year. Presumptive taxes are the most common method of taxing small informal firms. Taxing small informal sector firms is hindered by two factors: high compliance costs for small taxpayers and high costs of collection for tax administrations (Jan Loeprick, 2014). Presumptive taxes resolve these problems by using a simplified indicator of the tax base to simplify recordkeeping for firms and estimation of tax liabilities by tax collectors.

Presumptive taxation for businesses is covered under PART V (Section 4 (2)) that listed various rate for a range of informal sector businesses. In page 18 paragraph 93 of the Government Budget and Statement of Economic and Financial Policies for the Financial Year 2017, the Minister responsible for finance proposed changes to several regulations including the Income Tax Act of 2000. The provisions amended in the Income Tax Act are: to revise the presumptive income tax rates for commercial vehicles and motor bikes operators; and to revise the presumptive income tax regime for alluvial gold and diamond mining activities among others. These provisions were reflected in the 2017 Finance Act that gave threshold to businesses based on their amount of turnover as already presented in table 3.2.

3.9 Public Perception of the Tax System

A couple of studies have been done on public perception of the tax system in Sierra Leone. The most recent is the 2019 tax perception survey result.[33] The main trust of the survey is understanding taxpayers' perceptions on the taxes they pay, their knowledge of the tax system and confidence level on tax officials. The survey also tried to understand taxpayers' wider views of government and how they relate to their attitudes and motivation towards paying taxes. In terms of scope, the survey targeted about 2,755 businesses (80% of which are registered mostly SMEs in the trade and services sector) in 16 administrative districts nationwide with a response rate of about 98.4 percent. The key findings across the thematic areas are depicted in table 3.5 below

Table 3.5: Summary findings of survey report

No		Thematic area	Findings
		Business registration process	Low registration rate of businesses with OARG (31.7%) and CAC (19.1%) Inconsistency in the manner in which businesses register with these institutions
		Taxpayer knowledge of the tax system	Taxpayer knowledge of the tax system is mixed. Whilst 77.5% of taxpayers are aware of the key NRA taxes, 62.9% had ever pay taxes or fines or filled tax returns. This figure may have increased if the distance to NRA offices to pay taxes is closer as reported by 20% of respondent taxpayers. Low understanding of how to fill out tax return (24% for income tax and GST). The figure is much higher for large taxpayers (56.4%).

[33] The report was commissioned by the Public Financial Management Consortium, Christian Aid Led Consortium including Budget Advocacy Network, Restless Development and Centre for Accountability and Rule of Law with support from DfID

No		Thematic area	Findings
		Businesses that have attended tax education programs.	16% of the respondent had attended tax education and sensitization programs and rated the programs good or excellent. However, the report revealed people mostly get information on tax issues through radio programs.
		Impression of tax officials (professionalism, fairness and honesty)	Impressions of taxpayers about tax officials was good as less than 26% taught otherwise.
		Nature of tax system	Half (50%) of the taxpayers stated the tax system as complex.
		Motivation factors for paying taxes	Legal obligation and citizens responsibility to pay taxes in return for improved services are the key motivation factors for payment of taxes. Also, enforcement of the appropriate penalties and fines for defaulters was also reported as a motivation factor as 84% stated payment of fines for defaulters could also serve as motivation factor.
		Tax evasion by taxpayers	High and multiple tax rates were cited as the key reasons for evading tax, though few (13%) stated corruption of tax officials and discrimination in the tax system is a recipe for evading tax.
		Trust in Government in adhering to social contract between the taxpayers and Government	Only 34% believe Government is using tax proceeds to provide and improve services to taxpayers, though 45% believed tax proceeds are meant to provide services like the free education programmes.

3.10 Gender and Taxation

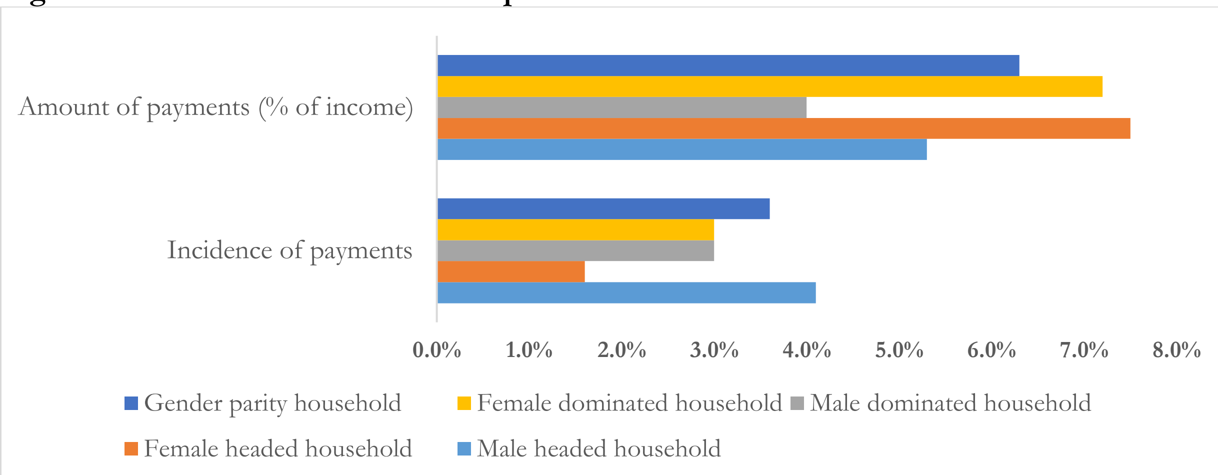
Increasing attention and importance has been given by the West and OECD to the importance of taxation to sustainable and equitable development, while recognizing gender equity and women's empowerment as development goals. For the past decade and the recent past, activists and policy-oriented researchers have begun to explore how tax policy and administration reform may serve to reinforce or address gender inequities (Stosky 1997; Barnett and Grown 2004; Huber 2005; Action Aid 2015). During these periods, majority of the research in this area remains focused on issues of taxation and gender equity in high-income countries, hence policy-oriented work about tax and gender was viewed through a narrow-Westernised lens. This completely ignores the more complex dynamics of local public finance that affect citizens in low-income countries.

Given the importance of informal taxes and user charges to the financing of local public goods, an ICTD working paper on gender and the informal and formal systems of local public finance in Sierra Leone 2018, assess gendered differences in the incidences and burdens of taxation for central government taxes, local government taxes, user fees, and informal taxes to access public goods. In making these comparisons, the paper took a common approach, using gendered household categories based on the gender of the head of the household and the proportion of male and female household members (ICTD, 2018).

Summary of the findings of the survey are stated below

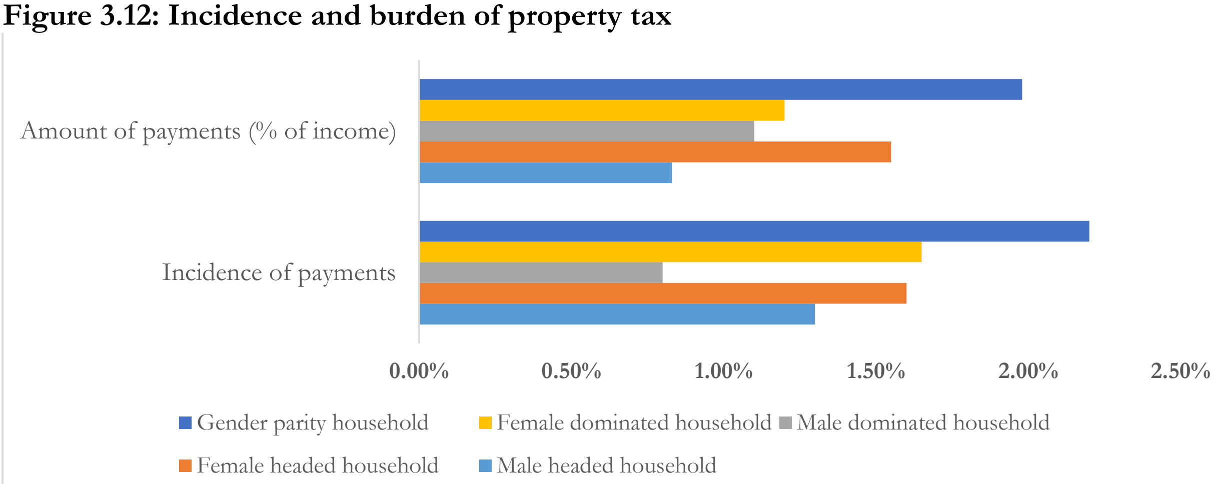
Central government taxes: Despite government policies are clear on gender equality, interestingly, the survey reported that for households that pay personal income tax, female-headed and female-dominant households pay a larger proportion of tax relative to household income (see figure 3.11)

Figure 3.11: Incidence and burden of personal income tax



Property tax: Despite the higher rates of land ownership amongst male-headed households compared to their female counterparts, female-headed and female-dominant households are more likely to pay property tax as well as paying a greater proportion of their income in property tax (see figure 3.12)

Figure 3.12: Incidence and burden of property tax



3.11 The Results of Grading the Fair Tax Monitor Index

The results of the grading fair tax monitor index is shown in table 3.6. Summary analyses of FTM for the distribution of tax burden and progressivity is presented in annex 3.

Table 3.6: Grading for tax burden and progressivity

Scoring themes	1	2	3	4	5	6	7	8	9	10
Cross-cutting progressivity										
Personal Income Tax (PIT)										
Corporate Income Tax (CIT)										
Wealth Tax										
Goods & Services Tax (GST)										
Presumptive Taxes										
Overall Progressivity										
Key	**0-2**		**2-4**		**4-6**		**6-8**		**8-10**	
	unfair								**Fair**	

3.12 Summary

This chapter discussed distribution of the tax system and progressivity with specific reference to allocation of tax burden for key tax handles (PIT/PAYE, CIT, GST) including filling/declaration and payment obligations for all the key tax handles. Transfer pricing issues and thin capitalization associated with CIT were also discussed. In addition, analysis was done on international trade taxes, non-tax revenues, property taxes, presumptive taxes and gender taxation. For households that pay personal income tax, female-headed and female-dominant households pay a larger proportion of tax relative to household income. In all this, the public perception of the tax system was analyzed ending with the result of grading the fair tax monitor index. The grading system depicts a fairly progressive tax system

CHAPTER 4: REVENUE SUFFICIENCY AND TAX COMPETITION

4.1 Introduction

This chapter discusses all types of taxes and revenue contributing to the government domestic revenues. To assess revenue sufficiency and tax competition, this chapter also sheds light into other factors such as the number of taxpayers, administration of tax incentives and the informal sector.

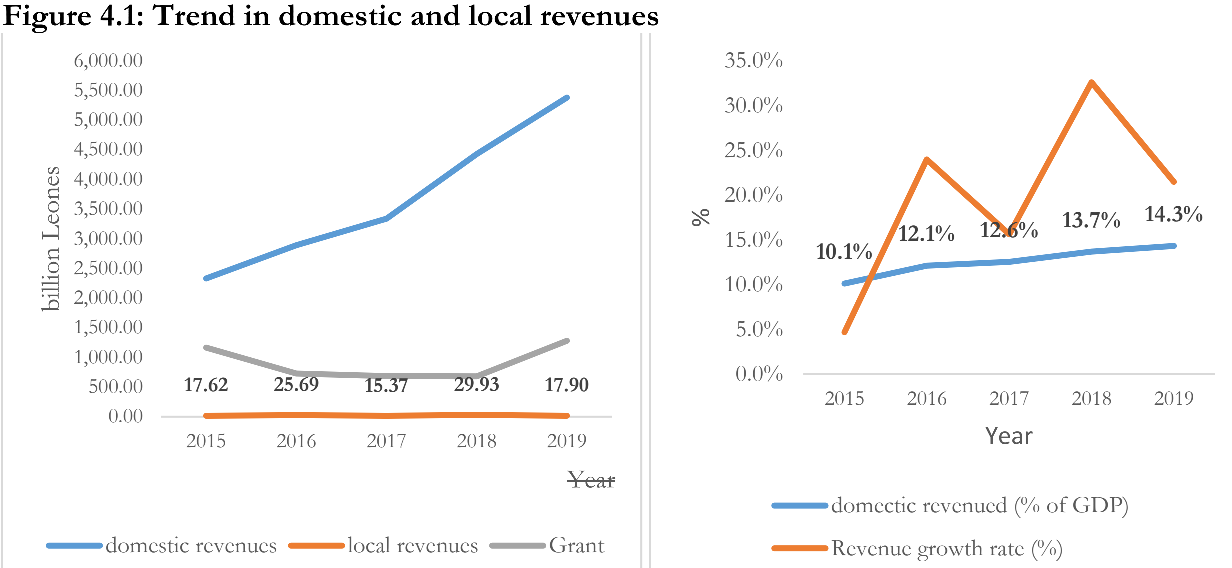
4.2 Revenue Sufficiency

4.2.1 Total Budget Revenues

Sierra Leone has seen significant and steady increase in domestic revenues (direct taxes, indirect taxes and non-tax revenues). Domestic revenues increased in nominal terms by 130.8 percent to Le5.39 trillion in 2019 from Le2.33 trillion in 2015. On average, the Government was able to collect about 95.6 percent of its budgeted revenues for the period under review (2015-2019). Total grants decreased throughout the period except for 2019 where it increased more than its 2015 level with programme grant (external donors' budgetary support) accounted for about 60 percent. On average, grants for the period 2015 – 2019 accounted for an average of 21 percent of total domestic revenues.

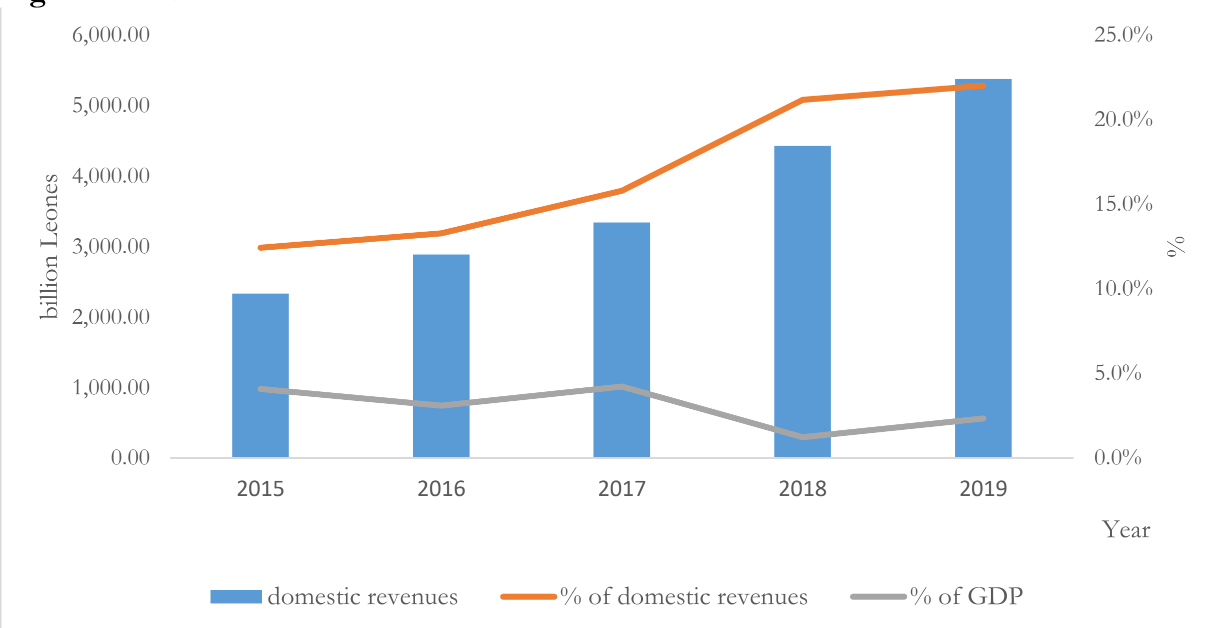
Unlike for local government revenues, the pattern is not smooth showing both increase and decrease over the period, though its size is minute compared to the size of domestic revenues (see figure 4.1). Total domestic revenue to GDP maintained some steady increase over the period from 10.1 percent in 2015 to 14.3 percent in 2019. Revenue growth rate also increased except for 2017 and 2019 where it falls, though the fall in 2019 is almost equal to the increase in 2016. The IMF advised Government to revise the growth rate to 3.1 percent from 3.2 percent because they noted the global economic recovery was fragile, with uneven prospects among countries and regions in the world (MOFED, 2017). The situation worsened by Britain's vote to exit from the European Union (EU), which deepened economic and institutional uncertainties within the EU, threatening the growth momentum witnessed in early 2016. These uncertainties dampened investor confidence with implications for the global financial markets.

Figure 4.1: Trend in domestic and local revenues



Besides the direct and indirect taxes that mainly comprise of the domestic revenue basket of Sierra Leone, non-tax revenues especially revenues from government MDAs (royalties on fisheries) and mining royalties and license also contribute meaningfully to domestic revenues. They account for average of 16.9 percent for the period 2015 to 2019. It shares to domestic revenues increased steadily at a rate more than increase in revenues till 2019 when they almost maintained the same rate of increase. Its share to GDP maintained a slightly steady decrease at an average of 3 percent (see figure 4.2).

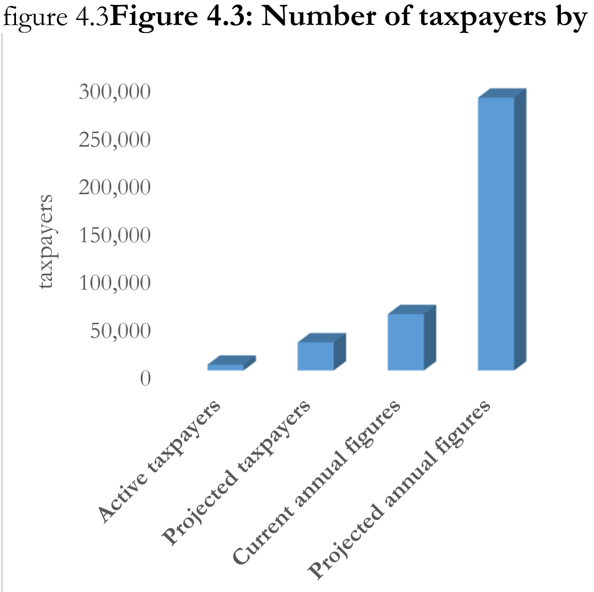
Figure 4.2: NTR share of domestic revenues and GDP

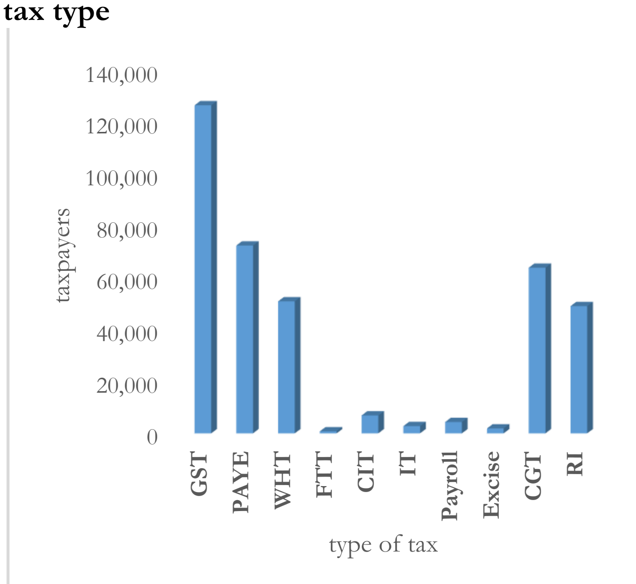


4.2.2 Taxpayers

Recall that the number of taxpayers registered for each type of tax in 2017 stood at 59,021 classified as depicted in figure 4.3 below.

figure 4.3**Figure 4.3: Number of taxpayers by tax type**





Given what the NRA has in the Taxpayer Identification number (TIN) registration database, it is quite evident the number of taxpayers within the system far exceeds those registered for taxation as per the registers of the various tax types. Additionally, a substantial portion of information of taxpayers as per the TIN system remains incomplete to be effectively migrated to and utilised for any modern tax administration system to realize its full benefits.

Now with the smooth implementation of all modules in the ITAS system especially the first module, which is the registration module, NRA undertook a pilot exercise of capturing and verifying taxpayer information. Preliminary results from the exercise revealed that roughly less than 3,000 business taxpayers do file in their tax returns, the basis on which the registration module was administered.

4.2.3 Large Informal Sector

Recent data may not be available on the size of informality in Sierra Leone. Survey results from the sources of informal economic activity in Sierra Leone[34] estimated that about two-thirds of the population is engaged in subsistence agriculture and accounts for 52 percent of GDP in 2006, while the industry sector accounts for about 30 percent and the service sector for about 18 percent. The survey was based on a sample of 1,362 business establishments operating across the four regions of Sierra Leone. According to most community leaders who were interviewed during the survey, the proportion of unregistered establishments lies between 40 percent and 80 percent. The survey shows that 56 percent of respondents believed that formal businesses are in a much better situation to operate in Sierra Leone than their informal counterparts. The survey further revealed that 30 percent of businesses are informal because of avoiding licensing process, 27 percent because of avoiding labour taxes and contributions, 25 percent because of avoiding income and profit tax, and 18 percent because of avoidance of labour regulations and preferring flexibility of labour (Soltani-Koroma , 2015).

4.2.4 Tax Incentives and Exemptions

Sierra Leone has over the years offered generous tax holidays to selected companies, preferential tax-rates and several exemptions on selected tax-handles such as GST, Withholding Tax (WHT) and import duties. In almost all cases the government foregoes such taxes. Annex 2 shows a lists and conditions for the exemptions especially for GST granted in Sierra Leone. Also, tax incentives are granted on a sectoral basis which are subject to review based on the economic priority of the government. The category of legislated tax incentives to key sectors of the economy and the conditions for the exemptions are listed in annex 4.

Corporation tax is the tax handle abused with exemptions and incentives. Corporate tax incentives are fiscal provisions offered to investors with the belief that it will help attract Foreign Direct Investment (FDI). They include reduced corporate tax rates or full 'holidays', whereby companies pay no taxes for certain time periods. These incentives permit companies to pay less tax on their profits than normal, or to benefit from reduced or no tax on specific services such as land, water and or electricity (Action Aid, 2015). Due to the lack of readily available data, it is improbable for authorities (National Revenue Authority and the Revenue and Tax Policy Division of the Ministry of Finance) to estimate the size of such incentives and exemptions in Sierra Leone and the rest of ECOWAS countries. However, research shows that three countries alone – Ghana, Nigeria and Senegal – are losing up to $5.8 billion a year in corporate tax incentives. If the rest of ECOWAS lost revenues at similar percentages of their GDP, total revenue losses among the 15 ECOWAS states would amount to $9.6 billion a year (Action Aid, 2015).

Effort by the relevant authorities to quantify exemptions and incentives from not only import duty and GST but from the key revenue handles would contribute to increased government expenditures

[34] The survey was conducted by FIAS in conjunction with Statistics Sierra Leone (SSL) in 2010

and foregone revenues. Such exemptions not only violate the principle of equity, but also lower the tax revenues. Also, tax incentives for foreign investments (mines and minerals and petroleum products) not only enable foreign firms to avoid taxation but in turn give rise to illegal tax evasion activities of domestic companies. This is, it incentivizes domestic investments to transform to FDI (round-tripping) or selling businesses to subsidiaries disguised as new investors as a means to become eligible for tax holidays that are exclusively granted to new investors (double dipping). Such a potential revenues loss could be used for spending on public services such as health, education and social welfare thus supporting sustainable development and creating favorable conditions to attract better investment.

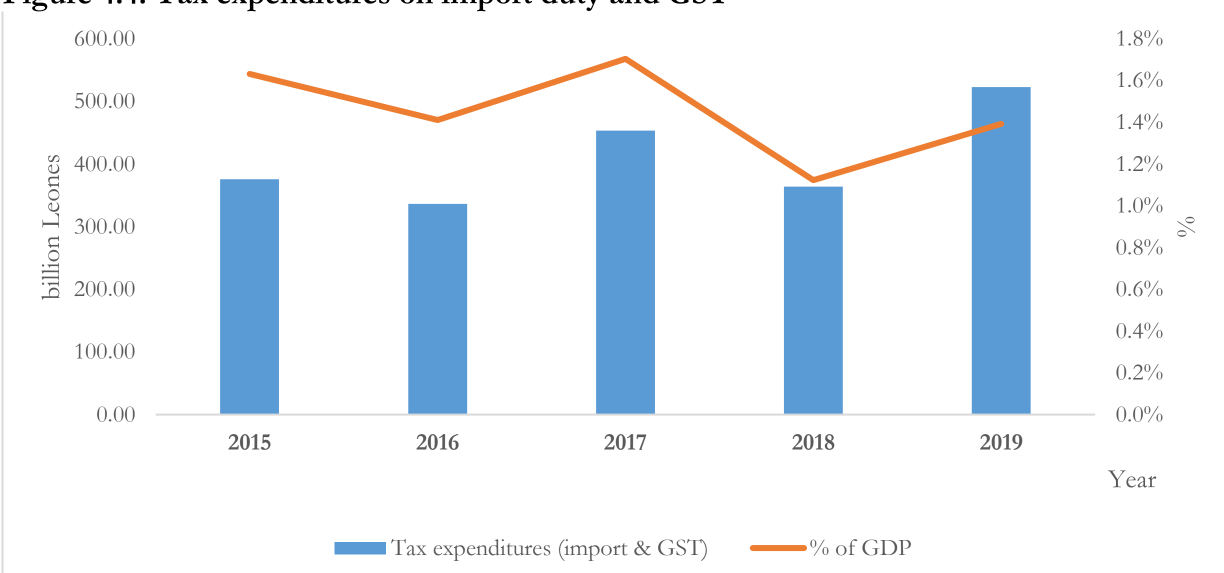
4.2.5 Tax Expenditures

Tax expenditures are special provisions of the tax code such as exclusions, deductions, deferrals, credits, and tax rates that benefit specific activities or groups of taxpayers. Deductions and exclusions reduce the amount of income subject to tax.

Current tax expenditures have resulted to massive revenue losses. Based on research[35] it was estimated that the government lost revenues from customs duty and Goods and Services Tax (discretionary and non-discretionary) tax expenditures worth Le966.6 billion (US$224 million) in 2012, amounting to an enormous 8.3 per cent of GDP. In 2011, losses were even higher – 13.7 per cent of GDP. The annual average loss over the three years 2010-12 was Le840.1billion (US$199 million).[36]

For the period 2015 to 2019, the government lost US$307.91 billion from both discretionary and non-discretionary tax expenditures, which represents an average of 1.5% of GDP (see figure 4.4).

Figure 4.4: Tax expenditures on import duty and GST

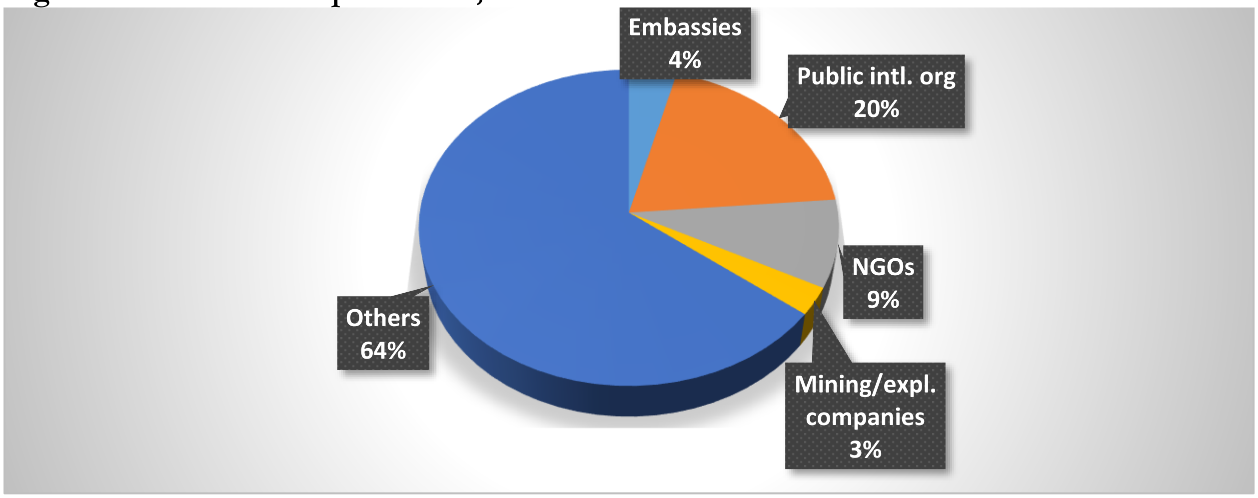


Of this, others (comprising both Government MDAs and private) and public international organizations accounted for 64 percent and 20 percent, respectively (see figure 4.5)

[35] The research was undertaken in 2013 by the Budget Advocacy Network (BAN) and the National Advocacy Coalition on Extractives (NACE), with support from Tax Justice Network-Africa (TJN-A), Christian Aid, IBIS, and Action Aid, SL (AASL),

[36] The report has been written and researched by Mark Curtis (www.curtisresearch.org)

Figure 2: Share of tax expenditures, 2015 to 2019



In 2019, tax expenditures on import duties and GST for others stood at Le397.52 billion (US$42.02 million) of which tax expenditures for Government MDAs accounted for about 87.4 percent.

4.2.6 Illicit Financial Flows

Illicit financial flows are monies illegally earned, transferred or utilised.[37] They typically originates from three sources: commercial tax evasion, trade mis-invoicing and abusive transfer pricing; criminal activities, including the drug trade, human trafficking, illegal arms dealing, and smuggling of contraband; and bribery and theft by corrupt government officials (Nnadozie, 2012)

According to the Global Financial Integrity,[38] Africa is a net creditor to the world with more money leaving the continent than flowing in. This is contrary to what most may believe. The outflows encompass both legal flows such as investment, foreign aid, debt relief, and remittances moving into and out of the country and illicit flows, such as the proceeds of crime, corruption, and tax evasion moving out of the continent. Illicit financial flows (IFFs) were the main driving force behind the net drain of resources from Africa totaling US$1.2 – 1.3 trillion (on an inflation-adjusted basis). This is in stark comparison with the continent's inflow of US$50 billion a year in Official Development Assistance (ODA). Additionally, a recent World Bank study also estimates that US$20-40 billion are lost by developing countries every year through corruption, and yet only US$5 billion has been recovered by various state agencies around the world, in the past 15 years. In Sierra Leone, inflows and outflows estimated from import mis invoicing and export mis invoicing stood at US$132 and US$572 million respectively in 2015 (Global Financial Integrity, 2019). The lack of legislation to deal with IFF has left Sierra Leone vulnerable in tacking the problems with IFF

It is stated in the medium-term National Development Plan (MTNDP) 2019-2023 that evidence thrives to show that a genuine fight against corruption and illicit financial flows at all levels is crucial for alleviating extreme poverty and boosting private sector growth and development. One of the strategic objectives and targets in the MTNDP is to reduce corruption significantly through the empowering of the Anti-Corruption Commission to prevent, investigate and prosecute corruption in

[37] Global Financial Integrity Index

[38] a non-profit research and advocacy organization

all its forms and scale up the fight against illicit financial flows in Sierra Leone so as to increase domestic revenue to finance development programs

4.2.7 Double Taxation Treaties (DTTs)

Governments have decided to go into double taxation treaties to promote international commerce through eliminating double taxation and double non-taxation on the cross-border flow of goods, services and income. However, DTTs are most times open to abuse especially if the design is not well-structured. Sierra Leone has signed about 5 double taxation treaties with Norway, the UK, South Africa, United Arab Emirates and Sweden. The double taxation treaty with the UK is very old but is still valid because it has never been cancelled. The UK – Sierra Leone Treaty was extended by the colonial authorities to cover countries such as The Gambia; Ghana; Nigeria; Canada; New Zealand; Denmark and Norway. However, this does not reduce the rate of withholding taxes on payments to non-residents. In fact, evident show the double taxation agreements are currently not being enforced by the NRA.[39]

4.3 Strategies to address insufficient tax collection

The Government, during the period under review (2015 to 2019) finely articulated a number of strategies to broaden the tax base, strengthen tax administration and to improve efficiency in tax collection. Annex 2 show all revenues strategies stated to be implemented each year for the past five (5) years and status of implementation of the strategies.

Annex 5 shows that most of the strategies that has to do with adjustments to the tax base and or rates and/or involve one off implementation as explained in the respective Finance Acts were easily implemented. For instance, revenue strategies limited to increasing excise duty on alcoholic beverages with less than 10% of alcohol to US$1.5 per litre from US$4 per litre, increase the tariff rate on import of soft drinks, juices and juice drinks to 35% on CIF value; increase the tariff rate on imported wheat flour from 10% to 35%; introduce an Africa Union levy of 0.2% on CIF value of all imports etc. Unlike those that are structural in nature. For instance, revenue strategies related to developing and implementing a revenue accounting and reconciliation system for effective reconciliation with transit accounts in the commercial banks and the Central Bank; and expand on current automation drive of tax administration, including the introduction of ITAS and migration from ASYCUDA++ to ASYCUDA World for customs operations,[40] since stated to be implemented in subsequent budget speeches (2015, 2016, 2017 and 2018) only experienced implementation realities in 2019 and is still ongoing.

Most jurisdictions have commercial courts that prosecute tax crimes but as a means of Alternative Dispute Resolution, a Taxpayers Tribunal exists. This dual system enables both Government and the Tax payer to seek remedy. It would be nice to establish if neither of these exists in Sierra Leone before we recommend.

Also, strategies to streamlining and rationalizing tax and duty exemptions including payment of taxes for contracts awarded by MDAs came to reality in 2019. In fact, it was evident that this strategy was in existence since 2006 as provided for in the 2006 Finance Act. The provision states that for the avoidance of doubt MDAs should pay duty on their imports. In the 2015 Finance Act, the provision

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[39] Global Mobility Services: Taxation of International Assignees – Sierra Leone. Available at www.pwc.com/globalmobility

[40] In the drive of aiming at widening the tax base, fostering voluntary compliance and improving the conditions necessary for effective and efficient tax collection, ITAS and ASYCUDA World was initiated. The reforms will ensure efficiency in the revenue collection drive through: reduction in the use of discretion in operations; reduction in revenue leakages; reduction of taxpayers; compliance cost; and availability of complete and quality data and tax administration.

states MDAs should make provision in their budgets for the payments of all duty waivers. In the 2019 Finance Act, the provision states that no waver should be granted on government contracts awarded by MDAs and all contracts' costs should be inclusive of taxes. There are also other revenue strategies, since their pronouncement could not be enforced. A typical case is the penal fee of Le5 million (US$500) on each unauthorized receipt issued by a GST registered business other than that provided or certified by NRA.

In summary most of the revenue strategies, though not timely implemented have to large extent ensured efficiency in the revenue collection drive through: reductions in the use of discretion in operations; revenue leakages; taxpayers; compliance cost; and availability of complete and quality data and tax administration.

4.4 The Results of Grading Fair Tax Monitor Index

The results of the grading fair tax monitor index is shown in tables 4.1 and 4.2. Summary analyses of FTM for the revenue sufficiency and tax competition are presented in annexes 6 and 7, respectively.

Table 4.1: Grading of revenue sufficiency

Scoring themes	1	2	3	4	5	6	7	8	9	10
Sufficiency										
Illicit Financial Flows										
Taxpayers										
Overall Sufficiency										
Key	**0-2**		**2-4**		**4-6**		**6-8**		**8-10**	
	unfair								**Fair**	

Table 4.2: Grading of tax competition

Scoring themes	1	2	3	4	5	6	7	8	9	10
Governance										
Transparency										
Overall Tax Competition										
Key	**0-2**		**2-4**		**4-6**		**6-8**		**8-10**	
	unfair								**Fair**	

4.5 Summary

The section discussed and analyzed revenue sufficiency and tax competition in terms of the relation between domestic revenues, local revenues and grants, their growth rates and share to GDP. It was evident that Government has been able to harness over 95 percent of its budgeted revenues for the period 2015-2019, which is also reflected on the size of grant contributed to the total revenue basket (20 percent) for the same period. The section also analyzed the number of taxpayers by tax type and the size of the informal sector; in addition to tax exemptions, tax incentives and tax expenditures and their contributions to domestic revenues and GDP, illicit financial flows, double taxation and strategies to address insufficient tax collections. The enactment by Parliament of the regulation on transfer pricing will possibly help to curtain issues of IFFs

SECTION 5: CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section concludes the study and proffer recommendations as to improving tax collection in Sierra Leone.

5.2 Conclusion

How efficient and equitable national and sub national taxes are administered and subsequently how the tax proceeds are expended is critical towards enhancing economic development. However, in practice, there is always a tradeoff between equity and efficiency in tax administration. The extent to which tax authorities reach a fine balance between equity and efficiency makes a big difference in tax administration. Policy practitioners and social activists often pay more attention to the tax burden on citizens and during spending, who deserve the greater share of the budget.

Sierra Leone, like many other African countries has a robust legal and to a large extend an institutional framework on taxation. However, the country is still yet to raise tax-to-GDP ratio (11.1 percent in 2019) to the level of other low income countries (13 percent). This is mainly attributed to a number of factors but not limited to losses in revenue due to the long lists of legal provisions on tax incentives and exemptions and the continued closure of the iron ore mines and its attendant negative impact on growth, revenues, foreign exchange and inflation. Despite the Government pronouncement to curtail duty waiver to MDAs articulated in subsequent budget speeches: all NGOs are required to pay import duty on their imports into an Escrow Account which can be reclaimed (FY 2017 budget speech); all contracts for the procurement of goods, services and works by MDAs and donor-funded projects must be at market price, inclusive of all applicable taxes (FY 2018 budget speech); and elimination of duty and tax waivers/exemptions for contracts awarded by MDAs for the supply of goods, services and works (FY 2019 budget speech), import duty waiver granted to Government MDAs still continue to account for significant portion of duty waivers in 2019 estimated at Le347.43 billion (US$36.73 million) or 0.93 percent of GDP. Importantly also, is the unprecedented social policies stated to be implemented in the 2020 especially. To name but few, adding to the already proliferated lists of exemptions/rebates to include a reduction of import duty (from 20 percent to 5 percent) of all raw materials, semi-processed and finished products, properly labelled for use as input into the production of goods by manufacturing companies; exempt from GST all aviation related charges,[41] and on free and promotional calls and free data use.

Also, Sierra Leone depends largely on indirect taxes (e.g. excise duty, GST, and customs) averaging 45.1 percent for the period 2015 to 2019 and non-tax revenues (mining, road user and vehicle licenses etc.), averaging 17 percent for the same period. Indirect taxation also affects women more because they spend a higher proportion of their income on consumer goods for their families.

Table 5.1 below gives summary result of the Fair Tax Monitor Index. The figure shows Sierra Leone overall tax system is fairly progressive and sufficient, with rather unfair competition in the tax system.

[41] These include landing and parking fees, aircraft towing, aircraft cleaning, baggage handling, aircraft security as well as aircraft fuelling

Table 5.1: Summary of Fair Tax Monitor Index

Scoring themes	1	2	3	4	5	6	7	8	9	10
Overall Progressivity										
Overall Sufficiency										
Overall Tax Competition										
Key	**0-2**		**2-4**		**4-6**		**6-8**		**8-10**	
	unfair								**Fair**	

5.3 Recommendations

5.3.1 Government

a) Speed up the automation of tax collection processes and procedures through implementation of Information Technology (IT) systems including ITAS and ASYCUDA World, save the pandemic and government restrictions on the pandemic, the User Acceptance Test (UAT) of ITAS should have commenced as initially planned.

b) The Ministry of Finance and the National Revenue Authority should strongly think of putting together a framework to quantify the size of tax incentives and exemptions in Sierra Leone. The outcome would inform Government of the quantum of lost revenues, which will guide the appropriate policy measure to curtain incentives and exemptions.

c) Also speed up the full-blown implementation of regulation on transfer pricing.

d) Government to pay attention to sincerely implementing its tax policies as articulated in the 2019 budget speech especially the tax policy relating to eliminating duty and tax waivers/exemptions for contracts awarded by MDAs for the supply of goods, services and works. Addressing this will increase tax revenue/GDP ratio by 0.9 percent.

e) It is quite evidence from studies that there is a knowledge gap on the types of taxes administered by NRA and rates paid by taxpayers including when and how taxes should be paid. There is need to double efforts in simplifying the existing tax laws and policies, where applicable in local languages, including simplification of the budget speeches that dictates annually the revenue measures to be implemented to boost the revenue profile of Government.

f) In other to strengthen tax compliance, the Government through NRA should further strengthen the existing aggressive nation-wide taxpayer education and sensitization programme and putting a robust taxpayer assistance strategy for SMEs; strengthen the field audit of large taxpayers and conducting special audits on the mining and telecommunications sectors; pursuing the establishment of a tax court to prosecute tax defaulters; and to build systems for the effective taxation of professionals (lawyers, doctors, accountants and engineers.

g) Given the non-functionality of the real estate market,[42] which is critical to determining rates, implementation of the points-based system of property taxation should be improved upon to determine rates in a way that will mimic the true market value of properties.

h) Focus on implementing all other revenue reforms articulated in previous years budget speeches that deem worthy to be implemented to increase the revenue profile of Government

i) Given that female-headed and female-dominant households pay a larger proportion of tax relative to household income, there is need to provide specific tax exemptions on specific business activities dominated by women.

[42] This is uniform problem for most African councils

5.3.2 CSOs and NSAs

d) There is need to build public awareness on their constitutional duty to pay taxes and influence government affairs (including demanding quality services). Citizens need to understand that as taxpayers they can make their voices heard and actively take part in public policy decision-making processes about how taxes are collected and spent on public services and hold governments accountable.

e) There is need for more advocacy work by CSOs and NSAs on ensuring tax administration by government is transparent and accountable.

f) To make effective engagement on tax policies, there is need to undertake more empirical studies (evidence based) to determine how equitable and efficient the tax system is and it's impact of taxes on various categories of people.

g) NSAs to engage government to ensure its tax policies are gender sensitive could undertake gender audits of taxes and demand that government implements gender-sensitive tax policies.

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ANNEXES

Annex 1: ICT software implemented by NRA

No.	ICT Infrastructure	Year obtained/ deployed	Objective of system	Service provider	Software
1	Taxpayer Identification Number (TIN)	2007	Provides functionality for the registration of Taxpayers and issuing a unique Taxpayer Identification Number.	Crown Agent	Developed on an Oracle 10g data base
2	Automated System for Customs Data (ASYCUDA++)	2007/ 2008	Used for the processing of Customs transactions data. The system was deployed at Lungi airport and Gbalamuya Customs post. Deployment to the Jendema Customs post was delayed due to connectivity issues.	Obtained from UNCTAD in 2007 and deployed in 2008	
3	Value Added Tax Information Processing System (VIPS)	2008	Provides capability for capture and processing of GST data. Its main functionality includes registration, returns processing, payment processing, debt management and the generation of MIS reports for GST. Only operational at the DST offices in Freetown not the provinces.	Crown Agent no longer supported the system.	Utilizes the same Oracle database as the TIN system.
4	Sole Proprietor Database	2010	The application works alongside the TIN and ASYCUDA++ systems. It provides information on the different businesses owned by taxpayers registered as individuals or sole proprietors. The printout from this system is attached to the declaration form used in ASYCUDA++ to clear goods imported under a specific business name that is not captured in the TIN system for a particular sole proprietor.	Developed internally by the ICT department	Micro Soft Access
5	Domestic Tax Information System (DTIS)	2012	The application automates the basic functions of the Income tax aspect of DTD, which are taxpayer registration, returns	Developed internally with support of local	Visual Studio 2010 with SQL

No.	ICT Infrastructure	Year obtained/ deployed	Objective of system	Service provider	Software
			and payment processing, and reporting. Successfully implemented at both the LTO and SMTO offices in Freetown but not at the provincial offices.	consultant contracted by Crown Agent	Server 2008R2
6	Debt Management Information System (DMIS)	2013	The application expanded NRA IT system functionality with the ability of consolidating taxpayers' liabilities from both the VIPS and DTIS systems. Implemented at LTO but is not fully operational.	Developed with assistance from Crown Agents and local consultant.	Visual Studio 2010 with SQL Server 2008R2
7	Microsoft Dynamics Great Plains	2013	The License was purchased for specific modules (Accounting, HR & Payroll) that can handle the processing and reporting of data and information for the major functions of the Finance & Budget, and Human Resources departments. There were plans for expansion to management of procurement and stores and assets management.	Obtained from Microsoft	Micro Soft
8	In the process to introduce E-Services with the development of the **E-Filing system.**	2014	The e-filing system will allow: to register as e-filing taxpayer; online application for TIN; to register for submitting returns for Income tax and/or GST (Corporation/Individual Tax, PAYE, 5%/10% withholding tax, and payroll tax); submit returns online; review historical data; updating of Taxpayer details?		Developed on ASP.net connecting to SQL 2014 database
9	Cisco Call Manager Express	2015	Provide a solution for a **Call Centre system.** Integration into the NRA PABX system has been completed.		
10	DTIS Bank Payment module		Provides functionality to the banks acting as NRA agents to	Developed internally	

No.	ICT Infrastructure	Year obtained/ deployed	Objective of system	Service provider	Software
			record any tax payments. The system forwards the payment details to NRA via the existing network connections. The system is fully operational for the banks stationed at LTO. There are plans to roll out the solution to other banks stationed at NRA locations and subsequently at the bank premises.		
11	Non-Tax Revenue system (NTRS)		A payment and reporting system for the mining and extractives, and the fisheries sectors.	Revenue Development Foundation (RDF) with support from German and United Kingdom governments.	

Annex 2: Tariff on import duty

No	Product name	Tariff	GST on import	Excise
1	Broken rice,	0%	15% with exception of infant milk (baby food)	
2	Infant milk (baby food), wheat flour, lubricating oils (meant to be mixed further and others), soap (medicated), ceramic toilet seat (WC), iron rod.	10%		
3	Onion, soap (household soap and soap in other forms)	15%		
4	Milk, egg (fowl and others), chicken, cheese, potatoes, sugar (in powder, crystal or granule from), vegetable cooking oil, sardines (in 1/4 club cans of height of 30mm or less, others), sweet biscuit, waffles and wafers, salt for human consumption, mayonnaise (prepared mustard), tomato ketchup and other tomato sauce, assorted juice (of different flavour), wine of fresh grapes, other alcohol drinks, paints, school bags, other bags, toilet papers, plywood, plastic sandal including others, plastic slippers including others, ceramic tiles, batteries (dry cell and auto), plastic chairs.	20%		

No	Product name	Tariff	GST on import	Excise
5	Beer (made from malt), other fermented beverages (e.g., cider), non-alcoholic beer	30%		
6	Soft drinks, energy drinks, mineral waters, aerated waters.	35%		
	Energy drinks			20%
	Assorted juice (of different flavour)			10%
	Luxury vehicles			20%
	Beer (made from malt), Wine of fresh grapes			US$0.015 per cl or US$1.50 per litre (Alcohol content less than 10%); US$0.02 per cl or US$2.0 per litre (Alcohol content greater than 10%)
	Other fermented beverages (e.g., cider), other alcohol drinks, non-alcohol beer			US$0.015 per cl or US$1.50 per litre (Alcohol content less than 10%); US$0.02 per cl or US$2.0 per litre (Alcohol content greater than 10%)
	Imported Alcohol (≥10%) apv (raw material is sourced abroad)			US$0.02 per cl or US$2.0 per litre
	Imported Alcohol (<10%) apv (raw materials sourced abroad)			US$0.015 per cl or US$1.50 per litre
	Alcoholic beverages (≥10%) apv (raw materials sourced locally)			30%
	Alcoholic beverages (<10%) apv (raw materials sourced locally)			20%
	Petroleum products			Based on formula provided by PRA. It varies from time to time, depending on changes in landed cost and exchange rate.

Annex 2: Exemptions to GST

No	Exempt supply as at 2019	Description
1	Animals, fish and birds imported for breeding and rearing purposes; seeds, bulb rooting imported for propagation.	Live asses, mules and hinnies, live marine mammals, live fish and aquatic invertebrates (excluding ornamental fish and pets), edible fruits, seeds, bulbs, roots, nuts and vegetables
2	Rice in its raw state	➢ Rice is considered to be in its raw state even if it has undergone stripping or polishing. ➢ Supply of ports services in respect of the imports of rice
3	Supply: Agricultural inputs	Chemicals used solely as agricultural inputs, including all forms of fertilizers, acaricides, fungicides, romanticizes, growth regulators, pesticides, veterinary drugs and vaccine and animal feed unfit for human consumption
4	Local agricultural produce for manufacturing	Supply of following local agricultural produce to local industries for exclusively local manufacturing: ➢ rubber, palm oil, coffee, cashew and similar cash crops ➢ tuber such as cassava, potato and yam ➢ fruits of all kind such as pineapples, bananas and plantains ➢ others, such as sorghum, cotton, beans, groundnuts, sesame seeds and vegetables
5	Water	Supply of water excluding bottled or other packaged and distilled water
6	Education services	These include tuition or instruction for students provided by an institution duly registered or licensed by the appropriate institution being a) a pre-primary, primary or secondary school; b) a technical college, community college or university; c) an educational institution established for the promotion of adult education, vocational training, improved literacy or technical education; d) an institution established for the education or training of physically or mentally handicapped persons; e) and published by the Minister responsible for education in the Gazette
7	Medical services and pharmaceuticals	Medical services; mosquito nets; and a list of drugs approved and published in the Gazette by the Ministry of Health for treatment of malaria, HIV-AIDS, leprosy, tuberculosis, snake bites, rabies and laser fever; and condoms as classified in the Harmonised Commodity Description and Coding System.
8	Transportation of passengers	Transportation of persons by bikes, buses and similar vehicles, ferry, train and air excluding internal air travel, boat and hovercraft services.
9	Crude oil and hydrocarbon products	Petrol, diesel, liquefied petroleum gas, kerosene and residual fuel oil, bitumen but excluding lubricating oils.
10	Financial services	Provision of insurance; dealing in money (including foreign exchange) provision of credit; operation of any bank but excluding fees and similar charges for non-intermediation

No	Exempt supply as at 2019	Description
		services including transfers, professional advice such as accountancy, investment and legal; and safe-keeping services
11	Goods for the disable	Articles designed exclusively for use by the disabled
12	Land and buildings	Land and buildings; the granting of assignment or surrender of an interest in land or buildings: the rights to occupy land or buildings.
13	Machinery	Machinery, apparatus and appliances designed for use exclusively in- (a) agriculture, veterinary, fishing and horticulture, (b) manufacturing, and (c) mining and classified as exempt under the Harmonised Systems Commodity Classification Code.
14	Issuance of identification documents	Passport, Voter ID Cards etc.
15	Baby foods	Baby food given to children between the age of 1-5years
16	Exercise books	Exercise books used in primary and secondary schools
17	Raw fish	Raw fish that is caught in Sierra Leone territorial waters
18	Solar and energy saving equipment	Importation and sale of photovoltaic system equipment and low energy or energy efficient appliances that meet relevant International Electro-technical Commission (IEC) global standards.

Annex 4: Tax incentives by sector

Sector	Legislation	Exemption/incentive category	Tax incentives
Agriculture	ITA 2000 (section 31)	Income tax-exempt income	The income of an individual or a company incorporated in Sierra Leone derived from any agricultural activity involving rice farming and tree crop farming for a period of ten years from the commencement of the agricultural activity (and in the case of company, 50% of any dividend paid in that period).
Airlines	ITA 2000 Section 31A; Finance Act 2016 (section 6)	Income tax-exempt income	The income of any Sierra Leone company that provides commercial passenger flights is exempt from tax for the year of assessment ending 31st December 2016 and the subsequent four years of assessment.
Fish farming	Finance Act 2015 (section 26)	Income tax-exempt income	Fish farms comprising at least ten fish ponds and measuring at least 200 square metres shall, of the 1st January 2015, be exempted from income tax on (a) income derived from any fish farming activity; and (b) 50% of any dividend paid as a result of these activities, for a period of five years.
Infrastructure	Finance Act 2011 (section 23)	Income tax-exempt income	Income derived from any undertaking under the Public-Private Partnership Infrastructure Projects in excess of twenty million dollars shall enjoy a corporate tax relief for fifteen years.

Sector	Legislation	Exemption/incentive category	Tax incentives
Petroleum Refinery	Finance Act 2013 (section 47)	Income tax-exempt person	A petroleum refinery investing a minimum of $20,000,000 and employing at least fifty Sierra Leonean citizens shall be eligible for a corporate tax relief not exceeding five years.
Pharmaceuticals	Finance Act 2011 (section 25 subsection 1)	Income tax-exempt business	Any new business- (a) manufacturing drugs, medical devices, and other health-related items according to the guidelines of the World Health Organization; and (b) investing a minimum of $500,000, and (c) employing a minimum of fifty persons for that purpose; shall be eligible for a corporate tax relief not exceeding ten years in addition to other incentives the business may be eligible for.
Poultry	Finance Act 2013 (section 50)	Income tax-exempt income	The income derived from investment in poultry business shall be exempt from income tax for a period of three years (a) In the case of a Sierra Leonean citizen if the investment is at least $50,000 (b) in the case of a non-citizen, if the investment is at least $500,000
Depreciable Assets	ITA 2000 (section 39); ITA 2000 7th Schedule; ITA 2000 (section 41)	Income tax deductions	A capital allowance deduction is allowed for depreciation of a taxpayer's depreciable assets, as per the following groups and depreciation rates: 1) Plant, machinery, and equipment, including automobiles and trucks: 40% 2) All other tangible depreciable assets except buildings, and intangible depreciable assets 10%; 3) Buildings used to house industrial, manufacturing, or agricultural activities: 15%; 4) Buildings used to house commercial activities other than those described in group 3: 10%; 5) Buildings other than those described in groups 3 and 4: 5% A deduction is allowed in respect of expenses incurred to repair, renew, alter, or improve depreciable assets
Investment and Employment	Finance Act 2015 (section 24)	Income Tax-exempt persons	Any business registered in Sierra Leone and having, at least, 20% Sierra Leonean ownership as of 1st January 2015, and beyond shall be entitled to corporate tax exemption (a) For a period of 5 years if its fulltime workforce is at least 100 employees and minimum investment is $5,000,000 (b) For a period of 10 years if its workforce is at least 150 employees and minimum investment is $7,500,000
Research and Development	Finance Act 2011 (section 14)	Income tax deductions	For the purposes of income tax, any expenses incurred on R&D by an investor shall be eligible for deduction from profits of 100% of the cost incurred up to the extent of profits of the same year the expenditure is made but any

Sector	Legislation	Exemption/incentive category	Tax incentives
			unclaimed amount shall not be made available for future deductions
Training Expenses	Finance Act 2011 (section 15)	Income tax deductions	For the purposes of income tax, any expenses on training of local staff in an approved training programme shall be eligible for deduction from profits of 100% of the cost incurred up to the extent of profits of the same year the expenditure is made, but any unclaimed amount shall not be available for future deductions.
Manufacturing	Finance Act 2013 (section 48)	Income tax-exempt person	A new business investing a minimum of $2,000,000 and employing at least twenty Sierra Leonean citizens shall be eligible for a corporate tax relief not exceeding five years.
Disabled Persons	Finance Act 2011 (section 21)	Income tax deductions	For the purposes of income tax, there shall be deducted from the taxable profits of any business or establishment, 200% of the actual cost of the remuneration payable to any physically or mentally disabled employees, up to the extent of the profits of the year in which the expenditure is made, but any unclaimed amount shall not be available for future deductions.
Social Services	Finance Act 2011 (section 16)	Income tax deductions	Any expenses on social services, such as building of schools and hospitals and any investment that is outside the scope of the original investment and which would be also available to the general public for use free of charge, shall be eligible for deduction from profits of 100%% of the cost incurred up to the extent if profits for the purposes of the Income Tax Act 2000.
Women Employment	Finance Act 2016 (section 38)	Income tax credit	Any business employing a female employee in a management position between 1st day of January 2016 and 31st of December 2018 shall be eligible to a tax credit at a rate of 6.5% on the PAYE of that female employee.
Youth Employment	Finance Act 2015 (section 23)	Income tax credit	Any small or medium size business employing any Sierra Leonean youth who is (a) between the age of 18 and 35, and (b) previously unemployed or working part time, between 1st December 2014 and before 1st December 2015 shall be eligible to a 6.5% tax credit on employee PAYE of that employee.
Youth and Women Skills Development	Finance Act 2015 (section 25)	Income tax deduction	For the purposes of income tax, any investor who makes a donation into the Skills Development Fund shall be eligible for 100% deduction of the donation from the profits for

Sector	Legislation	Exemption/incentive category	Tax incentives
			the same year that the donation is made, but any unclaimed amount shall not be available for future deductions.
Mines and Minerals and Petroleum	ITA 2000 (section 42); the 6th Schedule of the ITA 2000; Finance Act 2016 (section 16)	Income tax deductions	Expenses incurred to acquire mineral and petroleum exploration and production rights and in respect of mineral and petroleum development are treated as if they were incurred for a depreciable asset – (a) an initial allowance of forty percent of cost in the year of expenditure; and (b) an annual allowance of twenty percent of cost for each of the three years succeeding the year of expenditure The rate of capital allowances (a) on expenditure (start-up costs) on mineral and petroleum prospecting and exploration shall be 100% (b) on production rights and other expenditure incurred on mineral and petroleum development shall be (i) an initial allowance of 40% of cost in the year of expenditure; and (ii) an annual allowance of 20% of cost for each of the three years succeeding the year of expenditure. A loss in any year of assessment may be carried forward as a deduction against income of the subsequent year of assessment. Accumulated losses can be carried forward up to a maximum of ten years from the date of commencement of commercial production.
Tourism	Domestic Tourism Act 1990 (sections 30, 31, 32, 36)	Income tax deductions and Income tax-exempt income	Where for the purpose of an Approved Development by Income Tax way by constructing a new hotel, extending, restoring, or renovating and other an existing hotel; or any tourist facility or amenity with a minimum number of rooms for hotels established in the Western Area of 50 ensuite bedrooms and 10 ensuite bedrooms for the rest of the country, eligible expenditure is incurred, such expenditure shall qualify for relief by way of capital allowance. Any net loss incurred by any person during the tax holiday period shall for the purpose of ascertaining the total income of that person be carried forward and be available for set-off against the profits or income arising from any business in the basis period of the year of assessment immediately following the expiration of the tax holiday period or against the profits or income arising from such business in any of the basis periods of the next following five years of assessment immediately

Sector	Legislation	Exemption/incentive category	Tax incentives
			following the expiration of the tax holiday period. Where for the purpose of an Approved Development by Income Tax way by constructing a new hotel, extending, restoring, or renovating and other an existing hotel; or any tourist facility or amenity with a minimum number of rooms for hotels established in the Western Area of 50 ensuite bedrooms and 10 ensuite bedrooms for the rest of the country, relief from income tax (a) For a period not exceeding five years (b) in value, not exceeding, during the tax holiday period, one hundred and fifty percent of the original capital invested. Original capital invested means, for the purpose of taxation, both the equity and non-equity capital initially utilized in setting up the business.

Annex 5: Tax policies of Government (2015 to 2019)

Appropriation Bills	Strategies	Reference
Statement of Economic and Financial Policies for the Financial Year 2015	Streamline and rationalize tax and duty exemptions including payment of taxes for contracts awarded by Ministries, Departments and Agencies (MDAs).	Paragraph 63, page 11
	The ministry responsible for finance in consultation with the ministry responsible for local government will improve property tax collection through cadastre mapping of all lands and buildings in urban centres to determine the base of property taxes in the country.	Paragraph 64, page 11
	NRA to implement the following tax administration efficiency measures: (i) extensive stakeholder engagement; (ii) monthly reconciliation between ASYCUDA and the Destination Inspection Companies Database to identify discrepancies in value of assessments; (iii) work with Indian Customs and World Customs Organisation (WCO) to adopt its reference price database; and (iv) develop and implement a revenue accounting, reconciliation, and commercial bank integration system to facilitate swift payment and accounting of taxes paid	Paragraph 64 page 11&12
	With support from the ADB, Government will strengthen the newly established Extractive Industry Revenue Unit to ensure maximum realization of revenues from the extractive sector	Paragraph 65, page 12
	Government to introduce a Revenue Administration Bill that consolidates the administrative provisions in the various tax legislations into a single document. The objective was to reduce the	Paragraph 66, page 12

Appropriation Bills	Strategies	Reference
	burden of tax compliance on taxpayers including importers. Accordingly, the Income Tax, Goods Services Tax and Customs Acts will be reviewed in line with the new Revenue Administration Act.	
Statement of Economic and Financial Policies for the Financial Year 2016	MDAs to make provisions in their budgets for import duty for all contractors subject to tax.	Paragraph 90(i), page 34
	All duty and tax waivers and exemptions, including waivers for petroleum products, will require prior approval of Parliament. Duty concessions to NGOs, tourism sector and road construction companies will be strictly reviewed.	Paragraph 90(i), page 34
	Increase the top PAYE marginal tax rate by 5% to 35% from 30%	Paragraph 90(ii), page 34
	Government to apply the existing commercial fuel price regime to the retail pump price to ensure a full pass-through from international prices, exchange rate movements and other inherent costs in the formula. This is to regain revenue loss from the retail price formula in 2015, which amounted to Le113.1 billion (US$22.8 million)	Paragraph 90(iii), page 35
	Other tax policy measures to be incorporated in the 2016 Finance Bill are as follows: (i) raise withholding tax on management and technical fees from 10% to 15%; ii) introduce a national health insurance levy of 0.5% on the value of all contracts in support of the proposed National Health Insurance Scheme; and iii) the non-taxable threshold for personal allowances is increased from Le220,000 to Le400,000.	Paragraph 93, page 35&36
	NRA to undertake key actions to curb fraud and tax evasion as follows: (i) build capacity for specialized revenue audits, especially in the mining, financial and telecommunication sectors; (ii) implement the Small Tax Payer Preparer Scheme to add flexibility in compliance management of the hard –to-tax sector; (iii) develop and implement a revenue accounting and reconciliation system for effective reconciliation with transit accounts in the commercial banks and the Central Bank; and (iv) expand on current automation drive of tax administration, including the introduction of ITAS and migration from ASYCUDA++ to advanced customised management systems for customs operations.	Paragraph 94, page 36
	All registered GST vendors to use electronic cash registers to interface with the Tax Online System and allow real time capture of transactions to enhance GST compliance as well as reduce under-declarations.	Paragraph 95, page 36
	Apply a penalty of Le5 million on each unauthorized receipt issued by a GST registered business other than that provided or certified by NRA.	Paragraph 95, page 36

Appropriation Bills	Strategies	Reference
	Implement the 3 year "Revenue for Prosperity" programme support to the NRA and RTPD of MOF approved by UK-DFID.	Paragraph 96, page 37
Statement of Economic and Financial Policies for the Financial Year 2017	Propose changes to the following in the 2017 Finance Bill: (i) the Income Tax Act 2000; (ii) the Goods and Services Tax Act 2009; (iii) the Payroll Tax Act 1972; (iv) the Control of Gaming and Lottery Act 1969; (v) the Excise Act 1982; (vi) the Customs Act 2011; (vii) the Customs Tariff Act 1978; and (viii) other amendments to various Finance Acts.	Paragraph 93, page 18
	The 2017 Finance Bill will state the following: tariff rate on import of water from 20% to 35% on CIF value; increase the tariff rate on import of soft drinks, juices and juice drinks to 35% on CIF value; increase the tariff rate on imported wheat flour from 10% to 35%; revise customs tariff rate for raw and packaging materials to 3%; introduce an Africa Union levy of 0.2% on CIF value of all imports; implement fully the ECOWAS Common External Tariff (CET) rates; remittance of PAYE of expatriate staff in foreign currency to the Consolidated Revenue Fund; all NGOs are required to pay import duty on their imports into an Escrow Account which can be reclaimed.	Paragraph 94, pages 19&20
	To strengthen compliance and administrative efficiency, the 2017 Finance Bill also addresses the following: i) limits income tax loss carry forward to 10 years; (ii) clarifies and broaden the definition of chargeable assets for purposes of determining when and how Capital Gains Tax applies; (iii) strengthens and removes inconsistencies from procedures relating to filing of income tax returns; (iv) clarifies and streamlines procedures for distress proceedings and installment of income tax; (v) provides more specific definitions of GST exempt supplies for ease of administration; and (vi) strengthens procedures for customs control zones.	Paragraph 95, page 20
	To reform NRA through the Revenue for Prosperity (R4P) programme funded by DfID; the Tax Administration Improvement Programme supported by the IMF; and the Revenue Administration Systems supported by the multi-Donor funded PFMICP. The specific reforms include: (i) the establishment of a centralised debt management and compliance unit; (ii) Migration from ASYCUDA++ to ASYCUDA World; (iii) Development of a revenue accounting and reconciliation system; (iv) improvement in customs valuation by updating the Price Reference Database (PRD) with original price data from the Cargo Tracking Company; (v) Full utilisation of mobile scanners for nonintrusive methods of import examination; (vi) Establishment and operationalisation of an Integrated Tax Administration System (ITAS); and (vii)	Paragraph 96 & 97, page 20

Appropriation Bills	Strategies	Reference
	Procurement and installation of electronic cash registers for GST administration.	
Statement of Economic and Financial Policies for the Financial Year 2018	Fully liberalise the price of petroleum products to minimize cross-border smuggling of fuel products as well as the difficulty of preventing commercial customers from buying fuel from the retail outlets.	Paragraph 64, page 17
	Revise provisions of the Finance Acts 2008, 2017 and 2018, which is in compliance with the ECOWAS Common External Tariff (CET) for which Sierra Leone is one of the two remaining countries that have not been implementing the regime. The revisions are as follows: excise duty on alcoholic beverages with less than 10% of alcohol is reduced to US$1.5 per litre from US$4 per litre; For more than 10% alcohol, excise duty is reduced to US$2 from US$6; import duty on wheat or meslin flour is reduced to 10% from 20%; Import duty on fruit juice reduced to 20% from 30% in line with ECOWAS CET whose implementation in Sierra Leone commenced effectively on the 18th of June 2018; 20% excise duty is imposed on non-alcoholic beverages (energy drinks;) Import duty on imported water increased to 35% from 30%; in line with ECOWAS CET, import duty on tobacco products increased to 35% from 25% while excise duty on these products remained unchanged at 30 percent; royalty on timber and timber products increased to US$2,500 from US$1,500 per 20 cubic meters.	Paragraphs 65 to 72, pages 18 & 19
	All contracts for the procurement of goods, services and works by MDAs and donor- funded projects must be at market price, inclusive of all applicable taxes.	Paragraph 73, page 19
	Demurrage grace period is increased from 3 to 5 working days excluding public holidays.	Paragraph 74, page 19
	Though eligible to duty and specific tax exemptions consistent with the Finance Act 2016, NGOs are required to submit to the Ministry of Finance their annual import requirements stating the potential amount of duty exemptions.	Paragraph 75, page 20
	To minimize delays in processing duty and tax waivers and avoid payments of demurrage, all requests for duty and tax waivers should be forwarded to the Ministry of Finance through the supervisory Ministry fourteen (14) days before the arrival of the consignment at the Ports.	Paragraph 76, page 20
	NRA legally obligated to only apply the fiscal terms included in the EIRA to any new or renegotiated Agreement after the passage of the EIRA.	Paragraph 78, page 20
Statement of Economic and Financial Policies for the	**Finance Bill 2019** Broadening the scope and coverage of the Treasury Single Account (TSA) agencies to include the Sierra Leone Road Safety Authority, Sierra Leone Standards Bureau, National Civil Aviation Authority and the Pharmacy Board of Sierra Leone. (ii) Elimination of GST	Paragraph 40, page 9

Appropriation Bills	Strategies	Reference
Financial Year 2019	waivers as part of duty waivers granted to all beneficiaries except international organisations and diplomatic missions covered by international conventions; (iii) Elimination of GST waivers for the supply of materials for the construction of hotels; (iv) Elimination of duty and tax waivers/exemptions for contracts awarded by MDAs for the supply of goods, services and works; (v) Upward review of fees, licenses, rates, charges and levies imposed and collected by MDAs to reflect current economic trends; (vi) Compulsory preparation and registration of lease/rental Agreements with rental value above the Leone equivalent of US$1,000 per annum to strengthen compliance of rental income tax; (vii) Introducing the labeling of imported raw materials designated for Sierra Leone to avoid under-invoicing and smuggling; (viii) Strengthening the enforcement of existing tax legislations by amending various provisions in these acts and the imposition of stiff penalties for defaulters	
	Automating tax collection processes and procedures Adoption of ITAS for domestic taxes, the web-based ASYCUDA World for Customs and Electronic Cash Registers for GST. The Automated Payment Gateway and Reconciliation system and integrate with all banking and Government Information Management systems to ensure complete reconciliation of revenue in terms of tax assessed, collections, transfers and tax arrears.	Paragraph 42, page 10
	Strengthening tax compliance Developing a comprehensive, accurate, up-to-date and reliable taxpayer database by cleaning and broadening the coverage of the TIN and GST registers and harmonising the two databases to improve compliance with business registration and tax payment; (ii) expand the tax base through systematic use of third-party information to detect unregistered taxpayers. (iii) strengthening field audit of large taxpayers and conducting special audits on the mining and telecommunications sectors where technical knowledge is required for the proper assessment of tax liabilities; iv) audit medium and large GST registered businesses that claim huge GST credits; (v) pursuing the establishment of a tax court in 2019 to prosecute tax defaulters; (vi) furthering the implementation of the Post Clearance Audit monitoring systems to improve compliance in customs declaration; (vii) improving voluntary compliance through an aggressive nation-wide taxpayer education and sensitization programme and developing a taxpayer assistance strategy especially for SMEs to improve compliance.	Paragraph 43, page 10
	Collection of tax from self-employed professionals NRA with assistance from development partners to build systems for the effective taxation of professionals (lawyers, doctors, accountants and engineers); The CG, in the assessment of tax	Paragraph 44, page 11

Appropriation Bills	Strategies	Reference
	liabilities, is authorised to access all financial documents including bank accounts of the professionals and their businesses.	
	Implementation of the Extractive Industry Revenue Act Government to embark on a comprehensive review of mining leases whose fiscal terms are due for review, with a view to affecting a transition of those projects into the provisions of the EIRA. The EIRA contains detailed provisions that stabilise fiscal terms for existing mining agreements until such time when they are due for review.	Paragraph 48, page 12