tax justice network-Africa

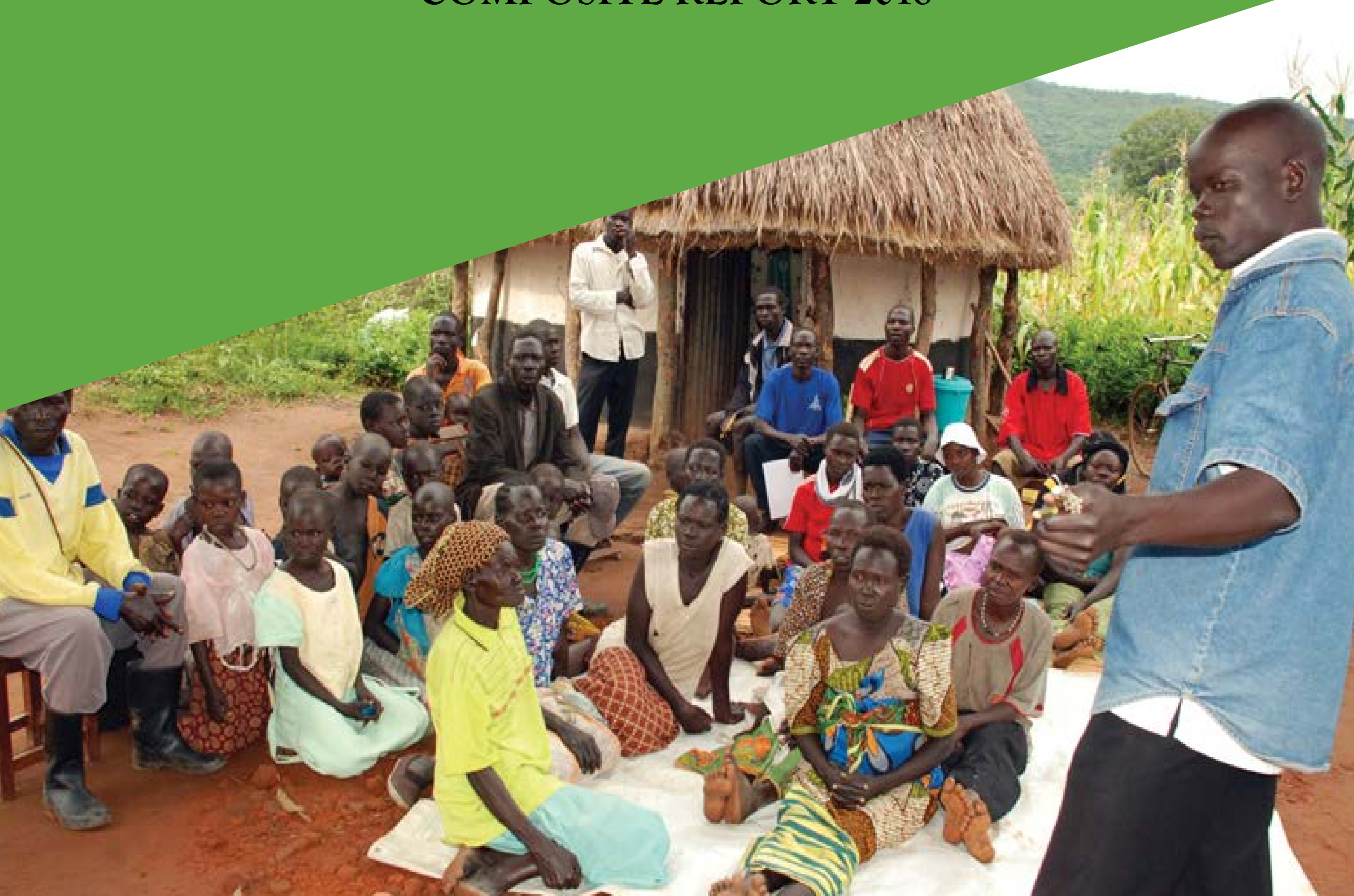
MAKE TAX FAIR

OXFAM

Fair Tax Monitor

A unique evidence-based advocacy tool to identify the main bottlenecks in national tax systems

COMPOSITE REPORT 2016



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Acronyms

CG	Central Government
CIT	Corporate Income Tax
CRAFT	Capacity for Research and Advocacy for Fair Taxation
EAC	East African Community
FTI	Fair Tax Index
FTM	Fair Tax Monitor
GDP	Gross Domestic Product
GST	General Sales Tax
IBP	International Budget Partnership
(I)NGO	(International) Non Governmental Organization
LG	Local Government
MoFPED	Ministry of Finance, Planning and Economic Development
NBR	National Board of Revenue (Bangladesh)
OBI	Open Budget Index
ON	Oxfam Novib
PAYE	Pay As You Earn
PIT	Personal Income Tax
SEATINI	Southern and Eastern African Trade, Information and Negotiations Institute
SUPRO	Sushasoner Jonny Procharavizan (Campaigning for Good Governance)
TJN-A	Tax Justice Network – Africa
UGX	Ugandan Shilling
URA	Uganda Revenue Authority
USD	United States Dollar
VAT	Value Added Tax
XOF	West African Franc

Introduction

The report in front of you is the result of over a year of intensive work by development practitioners, activists, tax experts and researchers across the world. It presents the results of the Fair Tax Monitor's work offline, while you can find the online tool at www.maketaxfair.net. The Fair Tax Monitor is a unique evidence-based advocacy tool that makes it possible to identify the main bottlenecks in national tax systems and to provide strong evidence for advocacy. At the same time, the tool allows for a comparison of tax policies and practices in different countries, using a standardized methodology and unified approach in the research.

> "The reforms' potential is not fully realized and reflected in the revenues collected.

The tool relies on the data and analyses presented in the country reports written with a common research framework. At later stages in the project, it will also enable the monitoring of progress in the countries over time. Internationally, the Fair Tax Monitor contributes to global advocacy efforts by providing solid evidence and by showcasing the relative fairness of selected tax systems.

The research results show a general trend towards improving tax policies in all focus countries. However, these changes seem to take too long and their implementation is slow. The reforms' potential is not fully realized and reflected in the revenues collected. To ensure that people fully benefit from the improved tax systems, we call for greater transparency, including the proper auditing of tax authorities, the publication of information on companies' financial statements and ownership, a greater engagement of civil society in the policy making process and the public availability of disaggregated data. It is crucial to further broaden the coverage of tax systems and eliminate harmful tax exemptions that distort tax systems, do not benefit the poor and contribute to higher profits for selected companies and individuals. Finally, increased tax revenues must be reflected in higher investments in government essential services, especially in healthcare and education.

The current work is only the beginning of what we hope will be an encompassing tool covering a broad range of countries. The methodology and common research framework are based on a participatory process, including country teams in Uganda, Senegal, Bangladesh, Pakistan, Kenya and the Netherlands[1]. Both reports were reviewed by a broad Advisory Group and during a stakeholders' meeting in Nairobi in September 2015.

In this phase, with the country reports ready and the scoring methodology tested, we share the outcomes as widely as possible.

In doing so we invite you and all interested parties to get in touch with us and share your thoughts and ideas for adaptation and improvement. Please use the following email address to contact us: fairtaxmonitor@oxfamnovib.nl. The ultimate goal is to have the FTM's research framework, the methodology and web-tool be used and supported by an ever-increasing number of organisations within and outside the Oxfam and TJN-A networks.

1 Oxfam Novib, Tax Justice Network – Africa, SEATINI (Uganda), Forum Civil (Senegal), SURPO (Bangladesh), Indus Consortium (Pakistan).

MONITORING TAX SYSTEMS

This chapter highlights the most important findings, conclusions and recommendations for the focus countries per category researched (progressive tax system, sufficient revenues, well governed tax exemptions, effective tax administration, pro-poor public spending, and accountable public finances). It also provides an overview of the scores that the countries have received (ranging from zero to ten, whereby zero = unfair tax system, and ten = fair tax system) and explains the differences and similarities between the countries. The colour scheme of the scores is shown on the picture below. More information about the scoring methodology and the challenges encountered while developing it can be found in chapter 2.

0-2	3-4	5-6	7-8	9-10
unfair		→		fair

1.1 PROGRESSIVE TAX SYSTEM

By a progressive tax system we understand a system that places the biggest burden on those with the greatest ability to pay.

7	5	7	6
Uganda	Senegal	Bangladesh	Pakistan

Progressive taxes are most often applied in the form of income tax, where the tax rates rise as incomes increase, so that those who earn high incomes have a greater proportion of their incomes taxed.

In this sense, all focus countries apply progressive tax rates. It is, however, important to highlight that the design of the tax tables does not always reflect the distribution of income in a society.

Comparing the average incomes in each quintile with the tax tables, it was found that in Uganda the threshold for paying personal income tax (PIT) is lower than average and does not protect low-income earners (the poorest 20% of the households) as they do not fall under the tax exempt threshold. In contrast, in Bangladesh the tax brackets for the PIT are not set high enough, and thus do not properly tax the richest part of the population. Even the high-income earners (the top 20% of population) are not taxed with the highest tax rates.[2]

Wealth tax is considered to be a progressive tax whose application greatly contributes to the creation of a progressive tax system. However, challenges related to the application, collection and categorisation of this type of tax are notable across the focus countries. In Uganda, it is difficult to monitor the amount and the trend in revenues raised through wealth taxes, as they are administered at different levels in the tax authorities. The same problems are seen in Senegal, where wealth taxes are collected and registered together with the PIT, which makes it difficult to monitor. In Bangladesh, although a wealth surcharge system is in place, proper wealth taxes and systematic mechanism for evaluating property and financial assets are missing, which creates room for an under-evaluation of the real value of assets owned. As a result, only 0.006% of the total population (10,152 persons) declare assets worth over 20 million Taka (approximately 256,000 USD), which is highly improbable. Similar problems with poor administration of wealth taxes are experienced in all countries.

2 These findings are based on comparison between the income distribution and the tax tables. The data for average income per person within each quintile are based on the calculations for the whole population, the results are therefore slightly distorted. However, even if we take into account that a small family includes two or three children, the conclusions would remain very similar.

The progressivity of tax systems is hindered by heavy reliance on revenues from indirect taxes, as the same rate is applied to all taxpayers, regardless their income status.

Bangladesh, Pakistan and Senegal collect the largest portion of their tax revenues from VAT or GST. This tax is applied to generate tax revenues efficiently at a low cost, but is often regressive as the poor spend most of their income on immediate consumption. However, Bangladesh is struggling to properly collect VAT and it is one of the most inefficient collectors with the lowest VAT productivity, with only 60,000 out of nearly 700,000 companies paying VAT regularly.

The 'regressivity' of VAT can be balanced by imposing lower rates, or none, on basic goods and services, which all four countries do to some extent. In some cases, the same lower or zero VAT rates are unfortunately used to benefit mainly the rich, e.g. when it is levied on tourism facilities or jet fuel, as in Bangladesh and Senegal.

In Uganda, the tax system is overly dependent on taxes from import and export (almost 43% of total tax revenues), which poses a risk for the stability of revenues as the global trends lean towards free trade across borders.

Excise taxes are in general levied on harmful goods to discourage their consumption. However, they are sometimes imposed on essential goods, which considerably hurt the poor. Such examples are Uganda, where excise tax is levied on bottled water, sugar, and soft drinks; Senegal that taxes dietary fat, female cosmetics products, coffee, and tea; and Pakistan where dietary fat, tea and refined sugar carry excise tax.

1.2 SUFFICIENT REVENUES

6	6	4	7
Uganda	Senegal	Bangladesh	Pakistan

The category of sufficient revenues evaluates a set of indicators related to the amount of tax revenues collected, management of revenues from extractive industries, coverage of tax systems and tax leakages. The scores above therefore reflect an overall score achieved for this category.

When it comes to the amount of tax revenues collected as a share of GDP, none of the countries, perhaps with the exception of Senegal, is performing well. Uganda's tax to GDP ratio is less than 12% and Pakistan's and Bangladesh's ratios are even below 10%. Senegal's performance in terms of the level of tax revenues to GDP is slightly below 20% and is the highest in the West African Economic and Monetary Union.

"For example, more than 40% of total tax revenues collected in 2013 was collected from just 101 companies in the postal and telecommunication sector.

One of the reasons for such poor results is an extremely low number of taxpayers. In Bangladesh, less than 1% of the population pays income tax; in Uganda, this figure stands at 1.1%. In Senegal, only a limited number of companies pays a large portion of total tax revenues. For example, more than 40% of total tax revenues collected in 2013 was collected from just 101 companies in the postal and telecommunication sector.

As mentioned in the previous chapter, large numbers of people operate in the informal economy and do not pay income taxes (in Uganda, the informal sector is estimated at 52.4% of GDP). In Bangladesh, surveys found that 70% of the firms were not interested in compliance and in receiving the offered tax benefits. Administrative hassle and the high costs were identified as the main reasons. In Pakistan, the amount of revenue lost due to the informal sector's activities is estimated at 2-4% of GDP. Although measures have been taken to tax the informal sector and to subsequently formalize more and more businesses (simplifying the rules for informal businesses, amnesties to invite them to the formal sector, etc.), the amount collected from presumptive or turnover taxes is low (e.g. in Bangladesh it is 0.004% of total tax revenues). The conclusions suggest that that the key issue is the bad enforcement of existing policies, which is related to the inefficiency of tax administration.

In resource dependent countries, revenues from extractive industries play a very important role. None of the focus countries is resource dependent, but for instance in the case of Uganda, recent discoveries of oil and gas entail a potential rise in revenues in the future. Uganda's legal framework for properly managing such revenues is in place, but further improvements are needed in terms of public access to the information.

1.3 WELL GOVERNED TAX EXEMPTIONS

Uganda	Senegal	Bangladesh	Pakistan
7	7	2	6

Well designed tax exemptions can benefit tax systems, alleviate the tax burden carried by the poor and strengthen certain sectors of the economy. However, they are very often misused and mismanaged and cause huge losses of tax revenues. In Senegal, the revenue lost to tax exemptions amounted to 4% of GDP in 2012, which is extremely high. In Uganda, the losses equalled 2.3% of GDP (2013) and in Pakistan 1.6% of GDP. Taken into account the large amounts forgone, it is of utmost importance to create clear and transparent rules for exemptions.

In the past year, in all focus countries, except Uganda, secret individual tax exemption deals between companies and the government were revealed. For instance in Senegal, a deal between the government and a large bank operating in the country implied a loss of 10 billion XOF (almost 17 million USD) in tax revenues. Such cases highlight the importance of parliamentary oversight of the process of granting tax exemptions and the need for more transparent governance.

Senegal has made serious progress in the governance of tax exemptions. It now publishes detailed information on the amount forgone and the costs or benefits these exemptions generate. Senegal has also transparent rules for granting exemptions and publishes the companies that benefit from them.

Uganda also performs quite well as it abolished all exemptions based on the discretionary powers of the Ministry of Finance. Furthermore, the legal framework assures parliamentary oversight of the process of granting the exemptions. The majority of revenues forgone in Uganda is due to international trade (56%).

> " Exemptions are also misused as certain individuals wrongly classify the source of their income to become eligible for tax exemption.

A very poor score was assigned to Bangladesh, as various forms of exemptions were granted to many different kinds of companies and industries, but the information about the exemptions is not transparent and unavailable to the public. Furthermore, no good estimates are available of the amounts forgone due to tax exemptions. Exemptions are also misused as certain individuals wrongly classify the source of their income to become eligible for tax exemption. This issue is connected to the wide range of corporate income tax exemptions that are granted (e.g. for tire manufacturing industry, automobile manufacturing sector, etc.) and to the limited transparency.

1.4 EFFECTIVE TAX ADMINISTRATION

Uganda	Senegal	Bangladesh	Pakistan
8	8	4	9

The performance of the tax administration is an important factor that also influences the scores in other categories, especially in the category of sufficient revenues. This section however concentrates on the organisation and capacity of the tax authorities, as the actual ability to collect revenues is scored in the other categories.

Serious concerns were raised about understaffing of the revenue authorities in Bangladesh, Pakistan and Uganda. For instance in Bangladesh, there are almost 5,000 vacant positions yet to be filled with the tax authority (NBR), which even if filled, will still not be enough. Furthermore, questions were raised about the qualifications of personnel, even though training programmes are in theory implemented. Corruption is another challenge tax authorities face, particularly in Bangladesh, where insufficient oversight mechanisms create space for such practices.

The tax authority in Uganda (URA) is well administered, with digitalized data and processes, and the possibility of filing taxes online, which decreases the room for corruption, together with other policies in place. URA has adopted a segmentation approach, dividing corporate taxpayers by gross turnover. The office dealing with large taxpayers administers more than 50% of tax revenues.

In Senegal, similar segmentation is realized to manage different types of taxpayers. As in the case of Uganda, a large portion of revenue from corporate income taxes is managed by the large taxpayer unit, in the case of Senegal responsible for 80% of all tax revenues. This extreme disproportion is related to the fact that a significant portion of tax revenues is paid by just a few companies.

It was noted that in Senegal and Bangladesh, the activities of tax authorities are concentrated in capital city or district, with limited presence outside the capital. This was observed mainly in Senegal and Bangladesh and although there is a valid argument for such representation as the majority of economic activities take place in the capital cities (e.g. 80% of Senegal's GDP is generated in Dakar), the low presence in other areas make it more difficult to expand the number of taxpayers there.

1.5 PRO-POOR PUBLIC SPENDING

4	7	3	6
Uganda	Senegal	Bangladesh	Pakistan

The Fair Tax Monitor's main focus is on analysing the revenue collection side of the fiscal system (please see the Chapter 2 for further information). However, in order to make sure that the collected revenue is put to good use, an assessment is necessary of a country's performance in pro-poor public spending. In this category, the focus is on two areas of government spending: education and healthcare which are of key relevance to poor people. This does not give the whole picture, but it does provide a quick insight into government priorities in terms of pro-poor public spending and it allows reference to international benchmarks on minimum spending standards.

> "In Uganda, a decreasing or stagnating trend in education spending has resulted in decreased levels of numeracy and literacy.

Spending on education in Uganda, Pakistan and Bangladesh does not yet reach the international standard of 15% of total spending (or 4% of GDP) by the Incheon Declaration in 2015[3]. Bangladesh scores badly on education spending, even though public expenditure on education is categorized as 'Education and technology', which presumably includes other associated costs, e.g. for military institutions, as argued by CSOs in Bangladesh. In Uganda, a decreasing or stagnating trend in education spending has resulted in decreased levels of numeracy and literacy.

Regarding public expenditure on healthcare, all focus countries are below the required level of 15% of total public spending set by the Abuja declaration. In Bangladesh, the need of increased investment in healthcare is supported by statistics showing that the

3 http://en.unesco.org/world-education-forum-2015/incheon-declaration out-of-pocket spending of households represents the main source (64%) of total health expenditures, compared to 26% covered by the government spending.

Such unsatisfactory results in public spending give rise to more resistance with the population to pay taxes, as improvements in the area of essential services are hardly visible.

1.6 ACCOUNTABLE PUBLIC FINANCES

Uganda	Senegal	Bangladesh	Pakistan
3	5	3	5

The state of accountable and transparent finances is especially worrisome in Uganda compared to the other countries, especially where the availability of information is concerned. Information related to companies' financial matters and ownership structures are not available to the public.

"In Pakistan, there is a particular lack of transparency on the financial affairs of state-owned enterprises, subsidised by the government.

In Pakistan, there is a particular lack of transparency on the financial affairs of state-owned enterprises, subsidised by the government. The problem Uganda faces is that even if certain information is supposed to be public (as the law dictates) it is not so in practice. This is also noted in Senegal, where the proposed solution is to adopt a policy and law based on the right to access to information.

"If the audit findings were transparent and publicly available, or debated by the parliaments, it would create a bigger pressure to improve the efficiency of tax administration across the researched countries.

It appears that there is a lack of transparency when it comes to audit results for revenue authorities. Although some sort of audit, either internal or external, is done in all countries, parliaments do not debate the results, and neither are they made public. If the audit findings were transparent and publicly available, or debated by the parliaments, it would create a bigger pressure to improve the efficiency of tax administration across the researched countries.

Uganda, Bangladesh and Pakistan equally report limited or no engagement of civil society in the policy making processes. In the case of Pakistan, it is mainly the private sector that is consulted during the budgetary processes, civil society organizations are left out, whereas in Senegal this is not an issue as civil society is included in the process of making tax policies based on their rights rooted in the constitution since 2001.

Development of the Fair Tax Monitor

PROJECT BACKGROUND

The Fair Tax Monitor project was started in December 2014 as part of the CRAFT[4] programme. It was developed by Oxfam Novib and Tax Justice Network–Africa in collaboration with partners and Oxfam Country Offices in the pilot countries: Bangladesh (SUPRO), Pakistan (Indus Consortium), Senegal (Forum Civil) and Uganda (SEATINI). Throughout the year partners and Oxfam staff in other CRAFT countries were consulted in the different steps of the development.

> This composite report is a compilation of findings in the country reports. It also includes information on the FTM project and its outcomes, and provides complementary information on the advocacy tool.

It was initiated as a pilot project to develop a common research framework and an online advocacy tool, and to subsequently test them in practice in the selected focus countries. It is anticipated that the project will grow in terms of number of countries and in terms of the quality of its framework and methodology. The project foresees regularly updating and becoming a reliable source of information and analyses on fiscal policies and practices.

The common research framework was developed in collaboration with all the partners and applied in the focus countries to gather qualitative and quantitative information in a standardized manner. The collected data were later categorized and evaluated and entered into the FTM online tool. A research report with more detailed information and analyses is available for each focus country at www.maketaxfair.net. This composite report is a compilation of findings in the country reports. It also includes information on the FTM project and its outcomes, and provides complementary information on the advocacy tool.

The Fair Tax Monitor's overall goal is to strengthen the advocacy activities at the local and global levels and to increase the visibility of our work on fiscal justice. It provides an overview of national tax systems and identifies the main challenges they face. 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. Furthermore, the FTM compares key elements of tax systems and thus complements the activities of Oxfam's global Even it Up! campaign and TJN-A's activities realized at the African level.

As described above, the FTM project provides a wide range of information related to tax justice and represents a solid overview of the strengths and weaknesses of tax systems. However, it does not aspire to provide in-depth analyses of all features of the fiscal systems. The project's main focus is on tax policies and practices, and by deliberate choice it pays only limited attention to issues related to public expenditure.

The project builds on the previous experience in the CRAFT project in developing a Fair Tax Index. The idea of creating an index was seen as too ambitious

4 CRAFT was developed through collaboration between Oxfam Novib (ON), Tax Justice Network-Africa (TJN-A) and national partner organizations in Uganda, Mali, Senegal, Nigeria, Ghana, Egypt and Bangladesh with a view to achieving accountable, fair and pro-poor tax systems.

and perhaps not even suitable for the ultimate purpose of improving tax policies and practices on a broad range of issues. For this reason it was decided to adopt the form of a scorecard and rename the project to Fair Tax Monitor. This approach allows for scoring specific components of tax systems without drawing conclusions about a tax system as a whole.

While developing the Fair Tax Monitor, several issues and obstacles were encountered that shaped the project's final outcomes. The major challenges included the unavailability of data, lack of detailed and disaggregated information (e.g. on tax exemptions, illicit financial flows, gender, etc.) and difficulties in assessing the fairness of certain areas as international standards are non-existent. The FTM 2015 report is the tool's first edition and we are aware that certain areas of the research framework and the methodology need to be improved.

We therefore provide all FTM related documents as open source materials and invite organizations, researchers and experts in the area of fiscal justice to contribute to the tool's further development. We are open to feedback and eager to improve the tool's quality. All the documentation related to FTM can be found at the CRAFT Make Tax Fair website (www.maketaxfair.net). Should you wish to comment on the reports and methodology, ***please contact us at fairtaxmonitor@oxfamnovib.nl.***

APPROACH

The Fair Tax Monitor uses the data from the country reports and the methodology that Oxfam Novib, TJN-A and partners have developed. The methodology is inspired by Oxfam's Behind the Brands and Fair Finance Guide work. All documents are available at www.maketaxfair.net. Thanks to the common research framework, the country reports collect information uniformly and provide analyses of the same issues across the countries. Therefore, the same methodology can be applied to analyze the data collected in the country reports, which subsequently allows for comparing the different aspects of tax systems.

The FTM is currently structured to reflect the state of tax systems in developing countries. With future adjustments it may be possible to include a wider range of countries. The methodology is based on the experience of both local and international organizations, and at the same time it builds on the knowledge of experts in global tax policies.

The structure of the methodology used to analyse the data is rooted in the common research framework and is divided into six thematic categories used for evaluation. These categories are meant to cover the main issues that tax systems in developing countries face today, and to reflect the idea of a fair tax system. The categories included in the FTM's methodology to evaluate the tax systems are:

~ PROGRESSIVE TAX SYSTEM
~ SUFFICIENT REVENUES
~ WELL GOVERNED TAX EXEMPTIONS
~ EFFECTIVE TAX ADMINISTRATION
~ PRO-POOR PUBLIC SPENDING
~ ACCOUNTABLE PUBLIC FINANCES

To properly assess the categories above and to be able to compare the data between the countries, each category is divided into several topics for which a series of scoring questions are designed. The scoring questions were formulated as binary (yes/no) questions and their structure is adjusted so that a scoring point is assigned to a positive answer and no scoring point to a negative answer. In this way, it is possible to work with both qualitative and quantitative data and to combine them in constructing the final score for each category.

There are certain exceptions to the rule of assigning a scoring point to a yes answer to a scoring question, and vice versa. Firstly, when no data is available for a specific question, the question is not included in the scoring process. Secondly, some questions include an additional 'b-question' that allows the countries to gain a part of the score, e.g. when there is progress towards the ideal situation, but the final goal has not yet been reached, the partial scores reward the efforts made. And lastly, in the category of Accountable public finances, four scoring questions have been included that are retrieved from the Open Budget Index (OBI) created by the International Budget Partnership[5]. The questions are weighed on the original score received in the OBI.

As explained in the previous paragraph, each of the categories includes several thematically related topics which receive scores based on binary questions. All topics have an equal importance (weight) in each category and the final score for the whole category is calculated as a sum of accumulated scoring points. This sum is then adjusted to fit the scoring scale, reflecting the relation between points collected compared to the maximum possible score. More details can be found in the scoring methodology available on the website.

The scoring scale is defined from zero to ten; zero representing an unfair component of a tax system and ten representing a fair component of a tax system. The final scores are rounded up for practical purposes, but the exact scores are available in the methodology sheets for each country. The scale is also divided into five coloured intervals corresponding to scores (0 to 2), (3 to 4), (5 to 6), (7 to 8) and (9 to 10).

CHALLENGES

The development of the Fair Tax Monitor was an organic process and numerous changes were made to improve the research framework and the methodology using the feedback from numerous consultations.

In the process, we encountered various challenges that shaped the project's final outcome. The challenges were mainly technical difficulties, issues with time limitation and problems in properly incorporating certain topics into the framework. We strive to overcome these issues in the future and we therefore welcome any suggestions and recommendations.

5 "International Budget Partnership." International Budget Partnership. Web. 02 Dec. 2015. <http://internationalbudget.org/>.

RESEARCH PROCESS

The first issues appeared when we realized that the practical implementation does not always happen as planned and that the assumptions initially made in the research framework and methodology turned out to be insufficient when applied in practice. Therefore, adjustments had to be made to both reports, even though the country research was already in the final stages. As a result, certain data and statements lack more detailed analyses, although they deserve to be explored further. These changes have also caused discrepancies between the methodology and the country reports in terms of structure and terminology (names of categories, classification of the topics researched, etc.). We plan to incorporate properly the lessons from the 2015 edition in the future so that we get more comprehensive and better structured information about the researched topics.

DATA AVAILABILITY

Great difficulties were encountered in terms of data availability, especially when it comes to disaggregated data, which was already pointed out in the preliminary study TJN-A carried out in the framework of this project in March 2015[6]. Although the data that was obtained from the national databases provided more complete and more recent information, the researchers faced challenges with lengthy procedures in requesting the data available only upon request, and with the aggregated nature of the data, which hindered further analyses.

COMPARABILITY

The design and structure of tax systems differ from country to country, which makes it a challenge to compare and classify. This problem was anticipated and therefore we tried to prevent confusions in terminology in advance as we provided a glossary with potentially unclear expressions. However, certain differences where noticed only when the country reports were finalized.

6 The preliminary study is available at http://www.maketaxfair.net/towards-measuring-fair-tax-systems-in-developing-countries/.

A case in Bangladesh provides an example of a misunderstanding in analysing excise taxes. What is considered to be an "excise tax" in Bangladesh is a very specific tax levied on a couple of items and does not fulfil the same function as in other countries. Only later was it found out that Bangladesh applies a "supplementary duty" applied that serves the same purpose as the excise tax. These last moment findings were addressed briefly and were taken into account while constructing the scores, but were not properly analysed in the country reports.

GAP BETWEEN POLICIES AND PRACTICES

It is also important to mention the challenges we faced due to differences between policies and practices. As in many other areas, when it comes to taxes, there is a significant gap between policies and their implementation in practice. Thanks to the knowledge and experience of the researchers, certain differences were identified, incorporated into the methodology and reflected in the final scores. However, it was not possible to address all topics from the perspective of policy and practice, and therefore additional information accompanying the scores provide further insights in the cases where differences between theory and practice were identified.

BENCHMARKING

One of the main struggles while developing the scoring methodology was to find the right benchmarks that would identify whether the performance of the country is good (fair) or not. As there is a great variety of opinions on what 'fair' tax policies and practices are, international standards on what an ideal state should be like are not available in the majority of cases. Therefore, it was extremely difficult to set the benchmarks to assess quantitative data that would reflect the context of all participating countries. As a solution to this problem, we have opted for scoring the trend rather than finding a fixed benchmark evaluating the current state. This allows us to monitor the progress the countries made, even though they may not yet have reached the desired figures.

PUBLIC SPENDING

Taxation is a complicated and rather technical topic and it goes beyond the simple perception of taxes as rates that are charged. One of the main purposes of taxation is to collect enough revenue and to redistribute it among the population. It is therefore inseparably connected to the expenditure side of the budget. Collecting taxes in a fair way, but not spending them on essential services and sustainable development does not benefit the majority of the population. We therefore realize that the connection between the revenue side of the budget and the expenditure side needs to be emphasized. This is why the category of 'Pro-poor government spending' was included in the methodology and the research framework. We acknowledge the limited depth of the information collected in this category; however, the FTM's main objective is to analyse issues related to revenue generation. Furthermore, other existing tools can be used to assess government expenditures. Including an extensive section dedicated to this topic would duplicate work already done.

GENDER

Another theme that needs to be improved in the research framework and methodology is gender. Gender justice[7] and the strengthening of the position and rights of women is one of the core values of Oxfam and TJN-A. However, we struggled with the question of how to add genuine and valuable gender components to the FTM.

During our discussions around tax and gender we came to the conclusion that there are two issues at the root of our struggle. First of all the difficulty of defining what exactly constitutes a fair tax system from a gender perspective, and secondly designing the specific research questions

7 "Gender justice" brings work towards gender equality into a rights based framework. It is the goal of full equality and equity between women and men in all spheres of life; resulting in women jointly and on an equal basis with men defining and shaping the policies, structures and decisions that affect their lives and society as a whole, based on their own interests and priorities. Gender Justice commits to taking a gender perspective on the definition and application of civil, political, economic and social rights.

and indicators that would be helpful in assessing this issue. With regards to defining a gender-fair tax system, we felt strongly influenced by the so-called "taxpayer neutral approach". This approach is based on the belief that identity characteristics (gender, gender identity, sexual orientation, race, religion, ethnicity, etc) should not play a role in designing tax policies. As such tax policies should only take financial positions into account (income, wealth) and not identity issues. The approach reflects a commitment to equality of opportunity and the desirability of an identity-blind society[8] as it upholds the principle of "equality before the law". In this light, any suggestion that tax policy should treat men and women differently is directly contrary to the principle of equity.

> It is thus crucial for policy makers, civil society organizations and (I)NGOs to understand that taxation can have a clear interaction with gender norms in a society.

On the other hand, the taxpayer neutral approach carries a significant disadvantage. As it does not consider identity characteristics important, it also does not attempt to evaluate the potential unequal impact of tax measures based on demographic differences among taxpayers. The lived reality of many women around the world shows that tax policies often do carry both explicit and implicit negative biases.

Explicit biases are often easy to identify as these tax provisions discriminate outright against women. Implicit biases are not made evident just by analysing a tax code, but become apparent when analysing the real impact of certain tax policies. It is thus crucial for policy makers, civil society organizations and (I)NGOs to understand that taxation can have a clear interaction with gender norms in a society. What is taxed in a society, and how, always reflects a multitude of social, political, ideological and philosophical choices and ideas.

We therefore acknowledge the importance of doing research on the previously mentioned biases in the tax design and to make sure that a tax system disadvantages nobody. At this point, however, we do not think that the tax system should also be used to address the overall gender inequality that is present in society. We believe that the gender inequality that exists in a society, beyond a non-discriminating and non-biased tax system, should be further addressed through the expenditure side of the fiscal system, e.g. social protection programmes and targeted subsidies.

With regards to this edition of the FTM, even though we are aware of the fact that the implicit biases built into the tax systems often disadvantage women (and other disadvantaged groups), the difficulty of formulating concrete indicators, the lack of disaggregated data and the lack of concrete research findings have led to an unsatisfactory coverage of this issue in the FTM's research. We hope that our 2015 FTM work will enhance discussions on tax (research) and gender, and will help design improved gender indicators that can be included in the common research framework to be used in future editions.

Overall, we are eager to improve the Fair Tax Monitor's research and the methodology, as we realize that some of the above-mentioned issues are crucial to sharpening our analysis of tax systems. The next edition of FTM will be based on an improved research framework and methodology that reflect the challenges we have encountered over the past year. We will further explore the options of including the topic of gender in more detail, an extended glossary of common terms will be elaborated and improvements will be made in the research process.

For a further discussion about the assessment of taxation and natural resource revenues, informal sector taxation, and gender aspects of fair taxation, please visit www.maketaxfair.net where you can download background papers.

8 Nancy J. Knauer, 'Critical Tax Policy: a Pathway to Reform?', Northwestern Journal of Law & Social Policy, p.214-219.

Conclusion

	PROGRESSIVE TAX SYSTEM	SUFFICIENT REVENUES	EFFECTIVE TAX ADMINISTRATION	PRO-POOR PUBLIC SPENDING	ACCOUNTABLE PUBLIC FINANCES	WELL GOVERNED TAX EXMPTIONS
Pakistan	6	7	9	6	5	6
Bangladesh	7	4	4	3	3	2
Senegal	5	6	8	7	5	7
Uganda	7	6	8	4	3	7

0-2 3-4 5-6 7-8 9-10

Unfair → Fair

The scorecard above presents an overview of the final scores for the focus countries on each of the selected categories. The scoring methodology was designed to focus both on evaluating the current state of the tax system and the progress made in the selected categories. Some countries may therefore achieve high scores due to the positive changes to the tax system's policies and practices in the recent years, and still not have a fully fair tax system in place. For example, Pakistan has a relatively high score for revenue sufficiency because it has improved revenue collection in various ways over the last three years, but Pakistan's total tax revenues are still below 10% of GDP.

Certain tendencies have been noted in all the focus countries. The findings suggest that there is a general trend towards improving tax policies, as tax reforms have continued in several countries to simplify the tax collection and broaden coverage. The latter is of utmost importance as the number of income taxpayers in all countries is extremely low. A large portion of the population is employed in the informal economy and thus does not contribute to the revenue from income tax. These reforms however require a faster and more efficient implementation in order to build a fair tax system and increase revenues.

Some differences can be noted in the way tax exemptions are governed in the focus countries. Bangladesh scored very poor on this category, indicating that urgent measures are needed to make the management of tax exemptions more efficient and transparent. Nevertheless, all four countries face high losses of tax revenues due to numerous tax exemptions, especially those that do not benefit the poor, but contribute to raising the profits and revenues of the rich. Not only do such exemptions cause enormous revenue leakages, they also create a complicated, less efficient and less transparent tax system, which is not desirable.

It cannot be stressed enough that taxes are the core in the relationship between government and the public, as they are the basis of the social contract. The revenues collected must therefore be used to benefit the population, especially those marginalized and in poor economic situation. The category of public spending, although examined superficially, shows that not enough funds are allocated to basic services (especially in Bangladesh and Uganda). Countries need to meet the international benchmarks for spending on education and healthcare to motivate taxpayers to higher compliance.

To conclude the FTM's findings, the need for more transparency must be mentioned. Unless the tax collection processes become less opaque and the tax data is made available to the public, a tax system cannot be considered fair. More transparency and fewer discretionary powers will also contribute to higher tax revenues and therefore to more resources available to essential services. Citizens' rights to information should also cover fiscal policies. Governments must collect and publish data and information on tax systems in a way that is useful to further analyses (i.e. in a disaggregated manner), and also understandable to general public.

> " The contributions of external experts from diverse backgrounds to the creation of the Fair Tax Monitor are highly valued, as they brought important expertise and insights into the process.

The Fair Tax Monitor project started in December 2014 and has been a great learning journey for all involved. The outcomes produced in the past year will help increase the impact of the work on fiscal justice. These results were possible thanks to the active participation of all parties involved and thanks to the sharing of knowledge and experiences from different perspectives and aspects of work around fiscal justice. The contributions of external experts from diverse backgrounds to the creation of the Fair Tax Monitor are highly valued, as they brought important expertise and insights into the process.

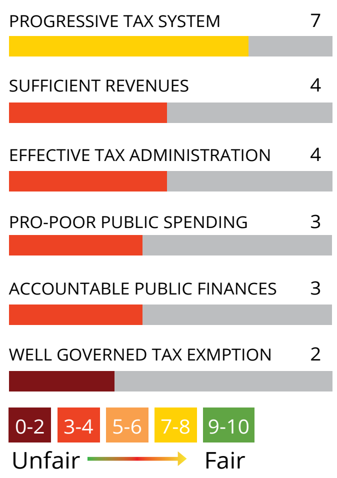
We consider the developed common research framework as an essential building block in the FTM as it provides valuable guidelines on how to approach research on tax systems. The main advantage of the common research lies in the fact that it can be reproduced in more countries, expanding the FTM tool. We expect that organizations in other countries using the common research framework will work as a capacity building experience as it systematically guides the research through all the major aspects of fair taxation. The methodology that was developed made it possible to provide an easily communicated overview of the main issues countries face. This is the project's great added value, as taxation is a rather specialized issue that remains less accessible to wider audiences.

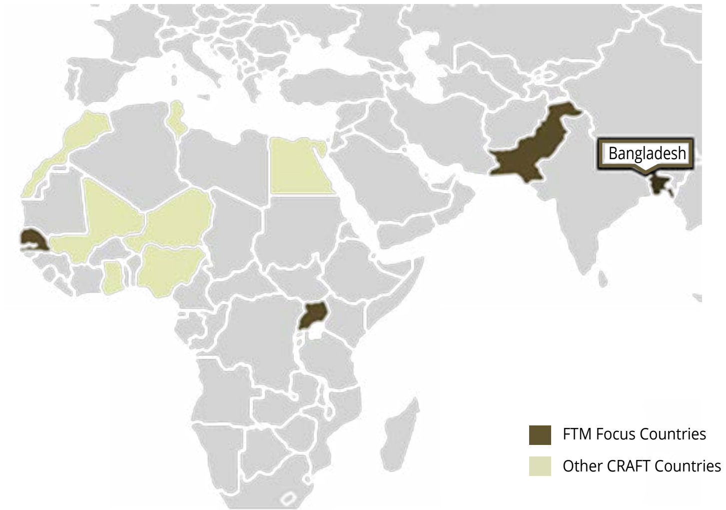
We are proud to present the FTM's results and to continue fighting for fair tax systems and accountable governments. To make this battle more successful, the Fair Tax Monitor's research will be carried out in more and more countries to become a database of tax related data. The comparison between countries will then become even more interesting. Our vision is to expand on the two continents where the FTM is already present, Africa and Asia, and to also reach developing countries in Latin America. The research will be regularly updated and will therefore provide not only comparisons between countries, but also an overview of trends, improvements or deteriorations over time.

To make the expansion possible, the applicability and quality of the FTM's research framework and the methodology will be regularly reviewed. As more countries come on board, more experience and knowledge will be generated and shared, which will contribute to improving the FTM tool. All supporting documents of the FTM are available on the website www.maketaxfair.net. It provide exhaustive information on how the tool was created and how it works.

We invite researchers, civil society, (I)NGOs and other (fiscal) experts to contribute to the vision of fair taxation by providing their feedback and suggestions on the existing research framework, scoring methodology and the (online representation of the) FTM tool itself. Please contact us at fairtaxmonitor@oxfamnovib.nl to share your ideas and comments.

Annex CountrY summaries

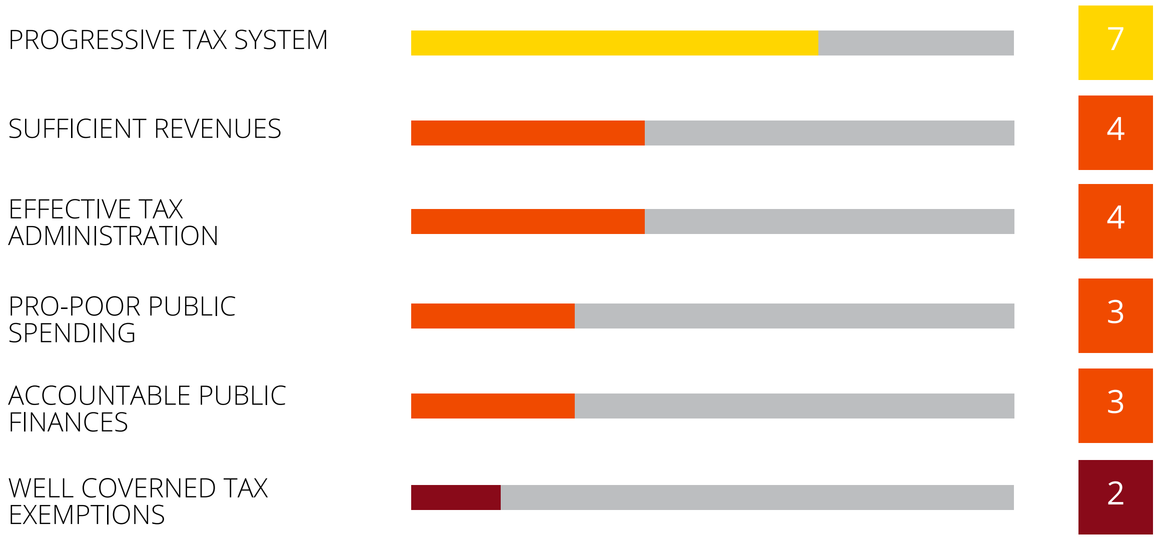




BANGLADESH

Bangladesh, as an emerging developing country, is committed to raising revenue and achieving fiscal discipline with a view to increasing self-reliance. The external environment influencing the tax performance of Bangladesh has changed remarkably as the country became increasingly integrated with the global economy during the 1990s. In recent years, the Government of Bangladesh has initiated administrative and policy reforms in the tax system. An improved tax administration in association with pragmatic policy initiatives have resulted in a modest improvement in the tax-GDP ratio. However, the performance is still unsatisfactory compared to other countries at a similar stage of economic development.

Currently, Bangladesh's VAT system is one of the most inefficient in the world as it includes various exemptions, amendments added over the past 25 years, and a large number of differential rates, which make the system



excessively complicated. A new Value Added Tax and Supplementary Duty Act will become effective in 2016 and is expected to bring significant changes, mainly broader coverage and a simplification of the VAT system.

A narrow tax base, widespread exemptions and administrative inefficiencies are the main factors behind the extremely low tax-to-GDP ratio in Bangladesh. This also implies that tax reforms over the last decades have not brought about significant changes in Bangladesh's tax system. The most basic challenge has been the overall weakness of the policy framework, which is characterized by an enormous range of exemptions, incentives and special regimes. These range from the existence of simplified regimes associated with VAT, to significant scope in the law for tax officials and political elites to grant discretionary benefits. Not only does this directly undermine revenue collection and equity in the tax system, but it also complicates administration and creates significant room for officials to exercise discretion in both policy and administration.

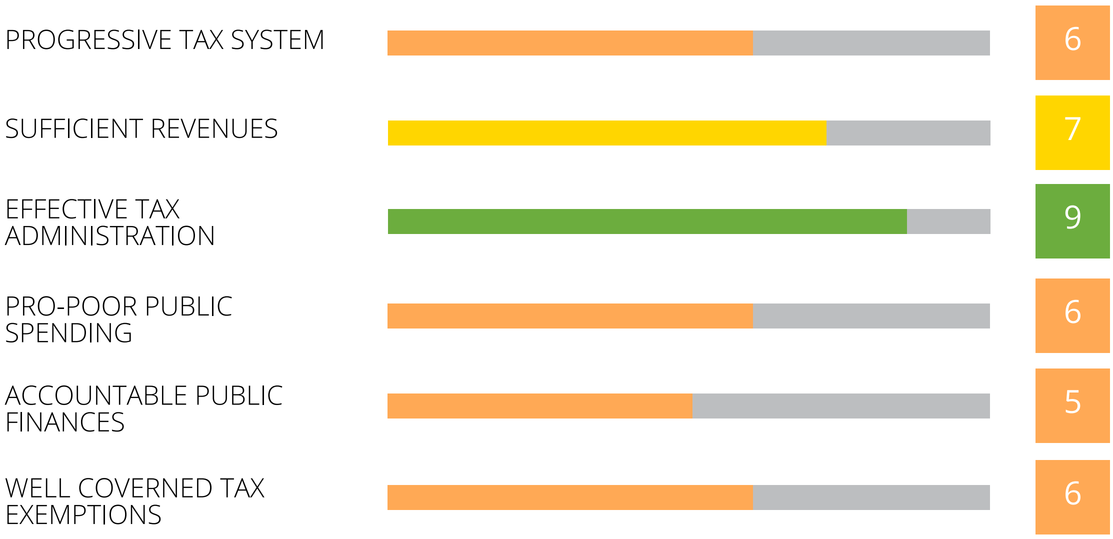
PAKISTAN

Pakistan, like other developing countries, faces the daunting challenge of mobilising domestic revenues in order to create the fiscal space for the critically needed human development for the millions of its population.

Successive governments have initiated tax reform programmes in order to achieve this goal, but somehow failed to realize the country's true revenue potential. Consequently, the tax machinery opts for short-term revenue measures, which help to achieve short-term targets, but further distort the tax system in the long term. The fundamental anomalies include, for instance, undocumented transactions, unfair tax exemptions, weak enforcement, tax evasion and related massive under-declarations of income and wealth.

> "For Pakistan, in order to meet the development challenges in the global framework of sustainable development goals, it is critical to focus on domestic revenue mobilization.

The legislative tax framework allows the governments to grant a large number of tax exemptions and concessions. These arrangements provide space for various sectors to negotiate their effective tax rates with government and it is this bargaining power that brings substantial revenue losses to the country. Different concessionary grants, exemptions and preferential treatment given to particular classes, elites and specific sectors, with the help of so called Statutory Regulatory Orders (SROs), thus reduce tax collection by 2 to 3 percent of GDP per year. According to the plan, all the exempted and concessionary SROs will end completely by 2016. Moreover, an Act



of Parliament has cancelled the revenue authority's power to issue any SRO.

For Pakistan, in order to meet the development challenges in the global framework of sustainable development goals, it is critical to focus on domestic revenue mobilization. It can only be achieved if the fundamental anomalies and distortion in tax system are removed and the tax administration is re-aligned according to the local needs and aspirations of people, so that Pakistan has a fair, just and transparent tax system.

SENEGAL

The tax system of Senegal is modern and inherited from the former coloniser, France. At the institutional level, it is placed under the authority of the Ministry in charge of the Economy and Finances. The history of the tax system shows that it has developed towards fairer taxation and a more equitable distribution of taxes, as shown by the reforms in the past years. However, a narrow tax base indicates that there is still room for improvement of the fairness of the tax system in Senegal.

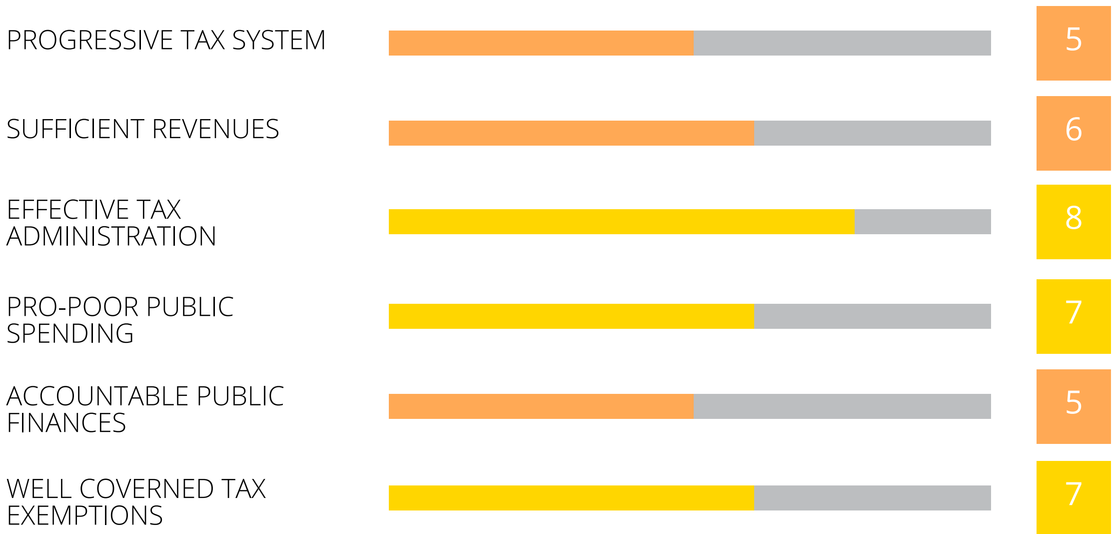
The corporate income tax (CIT) is a fixed levy unadjusted to profit levels and provides for approximately 10% of total fiscal income. The CIT rate is in principle a single one and equals 30%. It is reduced to 15% for enterprises that export more than 80% of their production. Mining companies, those located in industrial zones, those covered by the Investment Code, as well as certain others, benefit from a total exemption or a reduced tax rate. The CIT is nevertheless paid by a limited group of enterprises, due to the presence of a growing informal sector and tax evasion.

With regard to indirect taxes, the VAT is the central element in budgetary receipts (44 - 45% of fiscal income). A VAT rate of 6% on sugar was introduced in 2012. Likewise, basic food products, health services and products and agricultural inputs were excluded from a VAT levy.

Senegal has a relatively high ratio of tax revenues to GDP, the highest in the West African Economic and Monetary Union (19.5%). Nevertheless, when compared to other more dynamic developing countries in Africa or outside that have ratios between 20 and 26%, the efforts in strengthening the tax base need to be re-enforced. Senegal, in the framework of its development programme for the coming years, foresees a rise in the tax to GDP ratio to 20.9% by 2018.

The informal sector is the cause of significant losses in tax revenues, despite efforts of the national legislature. The same observation can be made with regard to tax exemptions as statistics show the considerable failure to collect 3 to 4% of GDP. Fiscal incentive policies are therefore more and more rationalized. Incidentally, the authorities have published evaluation reports on fiscal expenditures since 2008.

Regarding the performance of the tax administration, one can see gaps between



projections and realized tax revenues, which is caused by limited human resources, limited specialization of services and lack of transparency.

The availability and accessibility of information on the country's fiscal regime is published on the official government websites. It is nevertheless daunting and not intelligible for the public at large. The financial accounts of businesses and fiscal audits are not available. Similarly, the utilization of certain non-fiscal receipts escapes at times from State control (agencies, public enterprises, funds, etc.). The financial information is therefore not exhaustive, explaining certain difficulties encountered in obtaining statistical data during these surveys.

UGANDA

Uganda is a country with a very young population – almost 75% of population is below 30, and with an overwhelming percentage of people living below the poverty line of USD 1.9 (UGX 6,175). It is therefore urgent to rethink the fiscal system, i.e. who contributes to the revenue basket and who benefits from the collected revenues. The fact that the burden of taxation is carried mainly by the poor, while the rich enjoy the incentives cannot be ignored.

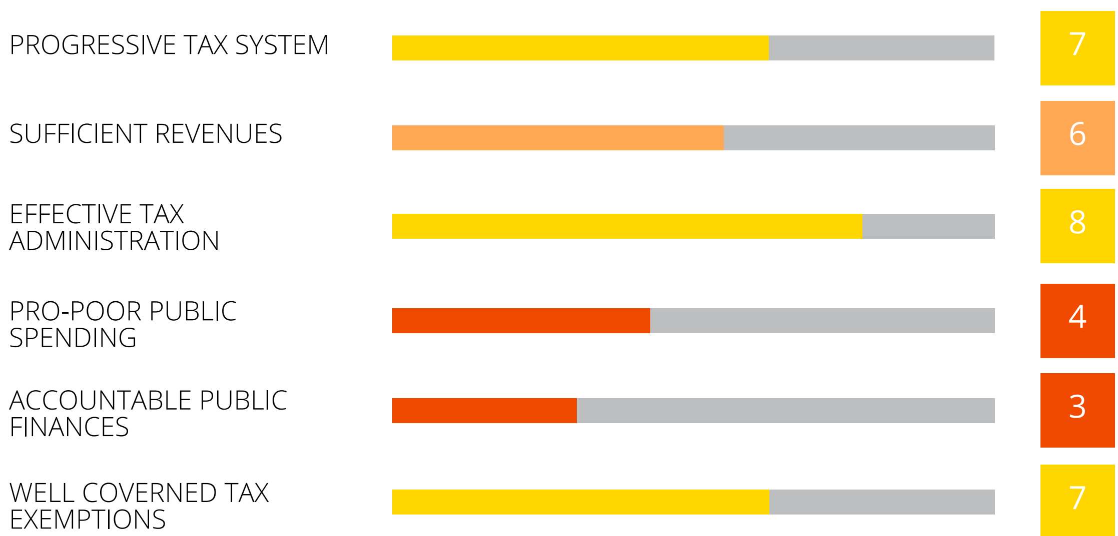
Uganda's comprehensive and all-round fiscal legal framework is well established. Emphasis should therefore be put on the active implementation of the tax laws.

Harmonization of institutional roles and responsibilities is essential as almost all related tax-heads, such as ground-tax by LGs, rental-tax by CG (URA) and property-tax by ethnic dynastic authorities (Kingdoms) have created elements of "double-taxation" in the eyes of taxpayers but also increased the burden on individuals.

Uganda remains highly dependent on revenues from import taxes making the country vulnerable to shocks and curtailing the domestic revenue mobilization sustainability in the long-run. The presence of mineral resources and the heavy investment in infrastructure show that Uganda has a potential to develop its domestic revenue base.

As a measure to relieve the burden, it is necessary to remove excessive tax holidays for selected companies. Regarding the exemptions, which cost UGX. 1,579 billion (approximately 600,000 USD) in FY2013/14, it was established that they would be withdrawn from certain sectors, e.g. exemptions for international agencies or certain type of personnel providing government service, among others. Such preferential treatment for some groups of service providers over others in the same or even worse income bracket creates an imbalance, while all equally provide a fundamental service to the nation.

Furthermore, the regular increments in fuel duties without a proper regulation of pump prices impacts on vulnerable households,



especially in the rural areas, who use kerosene for lighting. It has also increased the cost of transportation in the country. In 2020 UBOS estimated that 66.2 percent of Ugandans use a Tadooba powered by kerosene, implying that any increase in kerosene prices would make it inaccessible to rural livelihoods.

The tax-to-GDP ratio is used as a credible indicator for measuring revenue efficiency and sufficiency. It was noted that Uganda's revenue collection effectiveness has stagnated and dropped further after the rebasing of the GDP from 12.6 percent to a current 11.7 percent. The growing informal sector, which accounts for almost 36 percent of the economy in the central region alone, the extravagance in tax exemptions, unaccounted financial outflow (capital flight and illicit flows) and finally tax-administration gaps have in unison provided an enabling environment for the revenue mobilization ineffectiveness to surge.

While the taxpayer register has grown significantly, the load on tax administration staff is high. It is therefore important that the Uganda Revenue Authority lobbies for its institutional ability to collect taxes through increasing the numbers of employees. Automation has been seen as a driving factor to enabling the authority to improve compliance, however, there is more that needs to be done. In addition, the quality of the personnel should be raised through intentional financing of in-depth specialized training in international taxation, transfer pricing and audit function to enable them to deter and detect tax evasion and avoidance schemes.

As instances of corruption have occurred at the tax-responsible offices, the institutions with the powers to act against such abuse should be in place to take immediate action. There have been steps to ensure at least some degree of transparency and accountability by publishing Government tax expenditure reports periodically.

The analysis conducted shows pronounced interest and commitment by the government to the social contract by prioritising social services delivery. However, in the recent years, the expenditure priorities have changed. The government of Uganda has shifted towards infrastructural development, especially in areas of mineral development, security, energy, roads, railway and other modes of transport. Whether or not this will have an effect on widening service delivery gaps (in health, education, agriculture and social protection) is too early to tell, but the risk is present.

> Whether or not this will have an effect on widening service delivery gaps (in health, education, agriculture and social protection) is too early to tell, but the risk is present.

Based on the resource envelope and respective allocations, the country has lagged behind on the actualization of a set of international commitments and ratifications. These include: the Maputo 2000 declaration (10 percent to Agriculture - yet only 2.9 percent of the budget was allocated in FY 2013/14), Abuja declaration (15 percent to health, yet only 8.9 percent was allocated in FY 2013/14) and Dakar framework (Education for All). It is important that Uganda returns to the commitments made, since the government and its people are held accountable.

By law, the revenue authority is required to be audited by the office of Auditor. The extent to which the results of the audits are published remains limited. While such information could be important in ensuring that the authority is held accountable, the public remains disempowered to make any such citizenry contribution.

Uganda has achieved a commendable level of openness in its budget[9] and has increased citizens' engagement. It is crucial that government and civil society ensure that there is continuity in the collaborative synergies that have been created between both parties.

9 This openness refers to the publication of the "non-discretionary" budget, at the same time 40% of the total budget is labeled "discretionary".

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