Strengthen and Pass the Revenue Management Bill

The Budget Advocacy Network (BAN[1]) and the National Advocacy Coalition on Extractives (NACE[2]) together with their strategic partners, IBIS and Tax Justice Network Africa, has launched a report: "Losing out-Sierra Leone's massive revenue losses from tax incentives"

The above report is aligned to our objective of promoting equitable development in In Sierra Leone. It is observed in that this report that, revenues lost to the government of Sierra Leone as a result of tax incentives to major investors are extremely large, which means that the Government is spending far less than it could on the country's urgent development priorities, such as health, education and agriculture. Our estimates in this report show that 0ver the past three years, the country has lost US$199 million on tax incentives granted to just six companies. We understand that taxes raised from companies and individuals fund key public services needed to promote the welfare of the population and reduce poverty. But tax incentives granted by the Government are a major reason for Sierra Leone's low tax revenues. The UN estimates that Least Developed Countries need to raise at least 20 per cent of their GDP through taxes to meet the Millennium Development Goals by 2015. Yet Sierra Leone is way off this target, currently raising only around 10.9 per cent of GDP in taxes.

We recognized the governments commitments in the 2014 Budget Speech to (i) broadening the tax base; (ii) reducing customs and GST duty waivers; (iii)combating tax evasion; (iv) enhancing transparency and accountability in revenue collection, (v) strengthening enforcement and compliance and (vi) strengthening revenue administration through administrative reforms including use of advanced information technology. The Revenue Management Bill when becomes an Act of Parliament will act to regulate the management of revenue, especially with reference to the granting of tax incentives, and further strengthen the government's efforts to leverage fiscal policy effectiveness in the 2014 budget speech. However, since the introduction of the bill in Parliament in 2010, it has not yet passed into an Act. BAN and NACE, and our strategic partners see this bill as an important document that will help reduce tax incentives and foster transparency and accountability in the granting of tax incentives. We therefore call on the Ministry of Finance and Economic Development and Parliament to speedily fast track the passing of this bill with the following suggestions:

1. Transparency

More detailed tax expenditure document: The Revenue Management Bill (RMB) already includes key provisions for increased transparency. This includes the provision for annual tax expenditure to be prepared with the budget (Article 5). However, the wording only highlights that the tax expenditure should contain the amount of revenue losses attributable to tax expenditures[3]. This is a weak statement as it only commits the Ministry to produce one consolidated figure for all tax expenditure, which will be of little use for transparency purposes (it might not be clear

[1] Members on BAN

[2] Members of NACE

[3] The wording is: *"The budget documents required by section 23 of the Government Budgeting and Accountability Act, 2005 shall include a statement of tax expenditures containing the amount of revenue losses attributable to tax expenditures."*

how much is attributable to foreign investors, from exempted items such as food, medicine etc. Also it might not be clear how the estimate is arrived at reducing the possibility of assessing the estimate). As such, we are calling for another wording:

1. *The budget documents required by section 23 of the Government Budgeting and Accountability Act, 2005 shall include a statement of tax expenditures containing the following:*
   - *a) the benchmark against which each tax expenditure is assessed (the tax structure that would normally apply to taxpayers in the absence of the expenditure)*
   - *b) the method used for estimating each expenditure as well as an assessment of the accuracy of the estimate*
   - *a) an estimate of the total amount of revenue losses attributable to all tax expenditures with comparisons to the previous 5 years*
   - *b) the amount of revenue losses attributable to tax expenditures divided by the various revenue streams with comparisons to the previous 5 years*
   - *c) the amount of revenue losses attributable to tax expenditures from various sectors, both public and private with comparisons to the previous 5 years*
   - *d) the amount of revenue losses attributable to the tax expenditures from 20 of the largest investors, divided by company with comparisons to the previous 5 years*
   - *e) the legal source of the tax expenditure*
   - *f) the distributional impact of major tax expenditures, including gender analysis where relevant*

Full disclosure of contracts to the public: Article 2, section 2 states that Parliament must approve all tax incentives granted. We hereby urge the government to ensure that the granting of incentives can only happen with full disclosure to the public. That means that contracts for investors cannot be passed by Parliament unless they are publicly available, as has been the case for example with the AML contract. This could translate into an addition to Article 2 reading:

> *"2.(3) In the case of a treaty, convention or agreement containing tax incentives this can only be passed Parliament if said treaty, convention or agreement is made publicly available prior to being tabled in Parliament"*

2. **Accountability and reduction of tax incentives:**

Stronger commitments on review of existing tax incentives: As a matter of accountability in the granting of tax incentives the RMB calls on the Minister to carry out period reviews of the continuance of existing tax incentives in the following clause:

6. (1) The Minister shall carry out period review of the continuance of existing tax incentives by assessing the extent to which they could meet the objectives the budget.

(2) The review shall take place every five years or at such interval, as the Minister may determine.

The content of this review is not made clear, only that it should focus on assessing whether they meet the objectives of the budget. Also, the Minister can essentially decide when or if such a review should ever take place. Lastly, it is not made clear whether this assessment should be publicly available. In light of this we hereby suggest the following changes:

6. (1) The Minister shall carry out period review of the continuance of existing tax incentives by analyzing the costs and benefits associated with the incentives.

(2) The review shall contain recommendations and justifications on whether specific tax expenditures should be continued or discontinued.

(2) The review shall take place every year.

(3) The review shall be presented to Parliament and made publicly available.

Discretionary incentives: In the RMB it is specified that the Minister may make further regulation, including on the criteria and conditions for providing tax incentives in a particular sector.

7.(2) Regulations made under subsection (1) may provide for-

(a) the criteria and conditions for providing tax incentives for a particular sector;

Instead of leaving this for subsequent debate we are calling for the following article to be added:

7. No tax incentives can be granted to individual investors without applying to all actors in the same sector

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