**MODULE 1: 12TH MARCH 2019**

**PANEL 1: TAX EXEMPTIONS AND TAX EXPENDITURES - CORPORATE TAXATION**

There were two presenters as follows:

1. Dr. Rose Fumpa-Makano, Copperbelt University.
2. Dr. Agustin Redonda, Council on Economic Policies (CEP), Zurich (Switzerland).

The following are some of the key highlights from their presentations:

Dr. Rose – A complementary view from Zambia

First of all, the speaker observed that it is very difficult to collect data on finance related research from people. She further pointed out that Zambia is a very rich country (resources below and above the ground) yet very poor! One of the reasons for this was attributed to the fact that Zambia losses over US $ 4.5 Billion annually in tax fraud.

Additionally, Zambia has a very generous tax regime e.g. a tax incentive of 5 years paying nothing for businesses with an investment of US $ 10 Million and above. And even in subsequent years, taxing of these businesses depends on their making of profits! On top of these legislative provisions, investors can also still negotiate for more. It is also important to note that these said incentives mostly cater for foreign investors as opposed to local businesses.

The government also provide some non-fiscal incentives such as free facilitation on applications for immigration permits, land acquisition, and free secondary licenses among others. Worryingly, the Zambian authorities do not provide information on any analysis of income foregone hence there are no proper cost-benefit analysis done before issuing these incentives. Also, the various double-taxation agreements entered into by Zambia do not benefit Zambia. Additionally, there are a lot of financial loopholes in these agreements; the example of Zambia Sugar Company was given

Some of the suggestions given by the speaker to address these include; reforming the tax system by addressing incentives for example, fighting corruption, stemming out IFFs, addressing weak institutional capacity for law enforcement as well as using media effectively.

Dr. Agustin – Improving Resource Mobilization and Stemming IFFs

Governments pursue policy goals through two means namely; Direct Spending, and Tax Expenditures. Examples of these Tax Expenditures include the tax refunds program for low income households in the US. It should be noted that Tax Incentives are huge globally e.g. in the US it accounts for 7.5% of the GDP.

It is very important however to take note that Tax Incentives are not necessary to attract investments in to a country. There is data to back this claim and this data indicate that the percentage of investors who do not care are above 90% in Rwanda and above 60% in Kenya for example.

Corporate Income Tax for Revenue was also mentioned. It was pointed out that this has been significantly declining over the years and that mostly poor countries depend on it. The other issue that was pointed out was that of data on Tax Expenditures which is very rare world over and not just in developing countries. This therefore makes to analyze the effectiveness of Tax Expenditures. Finally, Tax Expenditures are not comparable in different countries e.g. there is CO2 Tax in Switzerland.

Comments from Participants

Dr. Raymond Baker observed that mechanisms to avoid and evade taxes are globally increasing among multinational corporations to an extent that payment of taxes is starting to look optional for them! In some countries, this is done through trade mis invoicing of equipment coming in.

Mr. Victor Kimosop from TJNA noted that the conversation at hand is a power conversation and that this should not be lost on the participants. He observed that the way to solve this is to understand how power is constructed. For example, a government looks good for imposing sin tax but building a hospital will take a while.

The role of advocacy was also emphasized as important to address all these on the ground. On the other hand, the role of breakthrough academic research was also recognized as successful in bringing changes like the establishment of the National Social and Economic Council which has given birth to Vision 2030 in Kenya.

PREPARED BY: IBRAHIM GODOFA – RAPPORTEUR, UNIVERSITY OF NAIROBI