



HIGH- LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

GUINEA BISSAU

Further Improvements in Tax Compliance

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Summary Technical Assistance Report Fiscal Affairs Department

Guinea Bissau: Further Improvements in Tax Compliance
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The *Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: This summary provides an overview of the guidance provided to the Guinea-Bissau tax administration on the consolidation of its modernization agenda, underpinned by the tax administration's digital transformation. Starting amid the COVID-19 pandemic, the digitalization journey has progressively improved taxpayer services with FAD guidance. The tax administration reform's next steps should focus on the use of information technology and third-party data to enhance timely voluntary tax compliance, enforce accurate reporting, and incentivize and monitor revenue mobilization. The TA report also reviewed the next steps to the Value-Added Tax implementation.

Background

In response to a request from the Ministry of Finance (MOF) of Guinea-Bissau, a capacity development mission team of the International Monetary Fund's Fiscal Affairs Department (FAD) visited Bissau from August 14 to 25, 2023, as part of the continuing support to the authorities' medium-term tax administration reforms.

Guinea-Bissau has been implementing comprehensive tax administration reforms over the past decade. Despite various setbacks due to political changes and limited institutional capacity, the reform has been successful in increasing professionalism in the Direção-Geral de Contribuições e Impostos (DGCI)'s technical team, establishing a new comprehensive tax legal framework (composed of a new general tax code, a new tax penalty regime, the VAT, and a new excise tax), enhancing inter-agencies cooperation on data sharing, and implementing digital solutions to tax filing and payment.

The DGCI embarked on a digital transformation amid the pandemic. When COVID-19 occurred, the DGCI was not prepared to risk the health of both taxpayers and officials by continuing the operation of a face-to-face and paper-based tax administration system. Without resources to invest in a new IT system, the MOF agreed with FAD to the development of a Minimum Viable Product (MVP) of a platform for electronic filing and payment. An FAD mission developed the Kontaktu MVP, launched in 2021.

Kontaktu is one of the main GovTech initiatives adopted by the government of Guinea-Bissau.

With support from the MOF, a component of the Kontaktu platform was deployed to automate data exchange with Customs and the Treasury departments, and the port of Bissau. The DGCI also receives automated information on payments from four of the six banks and the two telecoms' companies. In 2023, the DGCI started to monitor the revenue generation from the cashew harvest and exportation in real-time using the MVP. This set of information gathered opens the way for the tax administration to implement a risk management strategy and improve tax compliance.

However, an important milestone for 2023 has been missed since the Value-Added Tax (VAT) implementation was postponed twice. A comprehensive set of four tax laws was approved by the Parliament and published in the Official Gazette in 2022. The general tax code and the new penalty regime have been applied since 2022, but the VAT and the new excise are yet to be implemented. The initial proposed date for the implementation (January 1, 2023) was postponed to July 1, 2023, and, close to the electoral period, was not met. Kontaktu is ready to support the implementation since 2022.

Summary of Findings

The new timeline for the VAT implementation needs to be clarified to ensure the prioritization of the preparatory measures. If the new government desires to implement the VAT in January 2024, a decision must be undertaken soon given that at least four months are needed for the preparations and roll-out. A previous mission designed a workplan with the necessary VAT implementation steps, which was approved by the authorities in February 2023 and needs to be ratified by the new government.

A seminar on the ongoing digital transformation of DGCI was delivered to around 200 taxpayers by the DGCI and the mission team. It emphasized the electronic notifications and the new invoicing system. Banks and telecoms also participated and explained the options for electronic payment of taxes.

The DGCI is making relevant progress in enhancing electronic services to taxpayers. Since March 2022: (i) all large and medium taxpayers are required to file electronically; (ii) electronic payment options

have increased from zero to six; and (iii) an electronic database of tax laws and regulations is available on a website to facilitate voluntary compliance. New electronic services to improve electronic payments were reviewed and approved during the mission and can become available in the next months.

While taxpayer services have improved, there is room to adopt enforcement measures to improve tax compliance. The new general tax law created the basis for electronic taxpayer domicile, allowing taxpayers to be notified electronically, which can be done through the Kontaktu platform immediately. Using it to apply electronic penalties on non and late-filers and debtors will increase on-time filing and payment rates. The DGCI can also improve voluntary compliance by selecting cases for audit using the third-party information gathered.

The electronic control of the revenue generated from the cashew harvest and export allows comprehensive monitoring of operations. Data matching from four independent data sources can help monitor the cashew nut flow and control the tax revenue generated by this relevant economic sector.

The DGCI needs to modernize its IT department and follow the approved multiyear development plan. Efforts should be made to ensure ownership in the IT area, including the handover of the Kontaktu platform to the tax administration. An ongoing public tender to hire skilled IT specialists is crucial.

Summary of Recommendations

The mission's key recommendations included:

The MOF should decide on the date for the VAT implementation and ratify the implementation plan reviewed during the mission. Despite some preparatory work having been completed, there is a need to prioritize key actions and resources allocation.

The DGCI should intensify new electronic services to taxpayers to facilitate voluntary compliance. Electronic payment has shown a great improvement, but traction has been slow in part due to lack of knowledge about the benefits from the taxpayers. Improving taxpayer services will save resources to focus on non-compliant taxpayers.

The DGCI should invest in electronic notifications. With physical addresses not being accurate in the taxpayer register and other challenges for paper-based notifications, the electronic notification project, which is ready, has the potential to boost notifications and tax compliance.

The DGCI should adopt enforcement measures based on risk management criteria. Using third-party data, the institution can prioritize higher-risk cases. The mission prepared a pilot, data-matching data from the DGCI and customs, with detailed guidance.

The DGCI and customs should coordinate to audit the cashew export cycle. Data-matching information from DGCI, customs, the Bissau port, and the cargo manifest can bring a comprehensive identification of revenue losses. As it is the first year of the project, close monitoring is crucial to ensure consistency.