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THE ISLAMIC REPUBLIC OF MAURITANIA

SELECTED ISSUES

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Middle East and Central Asia Department

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IMPROVING TAX REVENUE MOBILIZATION IN MAURITANIA[1]

A. Background

1. Mauritania urgently needs to mobilize additional resources to address its current challenges and finance its development. The first challenge is to maintain fiscal sustainability, as anchored by a non-extractive primary deficit target of 3.5 percent of GDP per year under the IMF program. The second challenge is the significant gap in investment needs in areas such as education, water and sanitation, and access to electricity and roads, despite progress towards achieving the SDGs (Annex VI).

2. To address these challenges, additional resources are essential to maintain fiscal and debt sustainability while safeguarding growth prospects and protecting the most vulnerable households. Tax revenues appear to be one of the most reliable sources of domestic resource mobilization that could help increase public investment without increasing public debt level. However, increasing tax revenues through tax policy and revenue administration reforms is not a simple exercise and requires careful balancing of different—often competing—objectives. Reforms can aim to improve the efficiency and effectiveness of the tax system, for instance by broadening the tax base, increasing tax rates, or introducing new taxes. At the same time, it is crucial to protect vulnerable households to prevent a worsening of poverty and inequality and to maintain social stability. It is also important to ensure that tax reforms do not hinder the development of key sectors of the economy by disproportionately increasing their tax burden, as their stimulating role in economic growth generates the resources needed to support public services, create jobs, and improve household living standards. Moreover, streamlining tax administration and simplifying procedures could help improve revenue mobilization, by reducing costs, encouraging voluntary compliance, curbing tax evasion and corruption, and enhancing resource allocation.

3. This paper analyzes how Mauritania could increase its tax revenue in a way that is consistent with the aforementioned objectives. The first section discusses the evolution of revenue mobilization in Mauritania over the past decades. The second section assesses Mauritania's performance relative to its potential, and the final section discusses reform options to increase tax revenue, including both tax policy and revenue administration measures.

B. Evolution of Revenue Mobilization in Mauritania and Comparison with Peers

4. Since 2013, Mauritania has made significant progress in terms of tax policy and revenue administration. The first reform consisted in replacing the "Impôt Global sur le Revenu

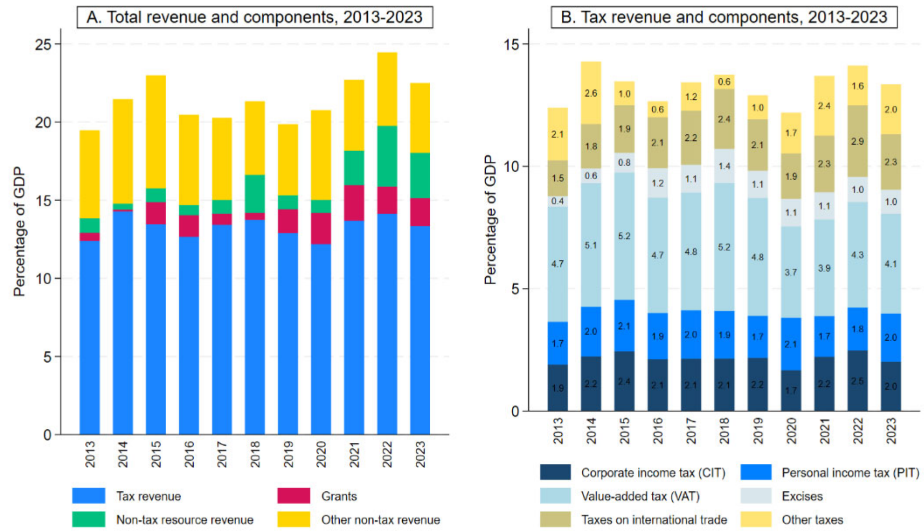
[1] Prepared by Faycal Sawadogo, Fadia Sakr, and Robert Kokoli (All FAD).

(IGR)" with a schedular income tax, which, unlike the previous approach, taxes income separately and is collected independently from other sources of income. This has simplified the income tax system and facilitated the collection of withholding taxes on certain types of income, such as salaries. In 2017, Mauritania adopted a new customs code. The revision of the general tax code in 2019 also introduced several changes, including (i) replacing the tax on industrial and commercial profits (BIC) and the simplified minimum tax (IMF) with the corporate income tax (CIT) and a tax on business profits for individuals (IBAPP), (ii) strengthening Mauritania's capacity to tax capital gains on the direct and indirect transfer of movable and immovable assets, (iii) protecting the CIT base against tax avoidance, (iv) introducing a simplified tax regime for companies with a turnover between MRU 3 million and MRU 10 million, and (v) reducing the depreciation period for IT equipment. In addition, a Tax Policy Unit has been created and operationalized in 2024 with the objective of conducting analyses and formulating recommendations on Mauritania's tax policy framework. Mauritania has been publishing a tax expenditures report on a yearly basis since 2017 and is continuously working to improve and modernize the approach used. More recent reforms include the introduction of mandatory CIT declarations in 2023, including for companies benefiting from tax holidays, and the revision of the Nouadhibou Free Zone Law in July 2024.

5. Tax revenue, particularly from consumption and income, represents the main source of revenue for Mauritania with a contribution averaging more than 60 percent of total revenue. Indeed, total revenue, which averaged around 21 percent of GDP before 2019, has since experienced a steady increase to 24.5 percent of GDP in 2022, mainly driven by non-tax resource revenue, before dropping to 22.5 percent of GDP in 2023 (Figure 1).[2] Meanwhile, tax revenue also increased from 12.2 percent of GDP in 2020 to 14.1 percent in 2022, and decreased to 13.3 percent of GDP in 2023, mainly driven by CIT and taxes on international trade. However, consumption taxes, driven by value-added tax (VAT), are the largest contributors to tax revenue throughout the period.

[2] In 2022, a large part of non-tax resource revenue was collected from dividends received from Société Nationale Industrielle et Minière (SNIM) at approximately 3.1 percent of GDP.

Figure 1. Tax and Total Revenue Components, 2013-2023



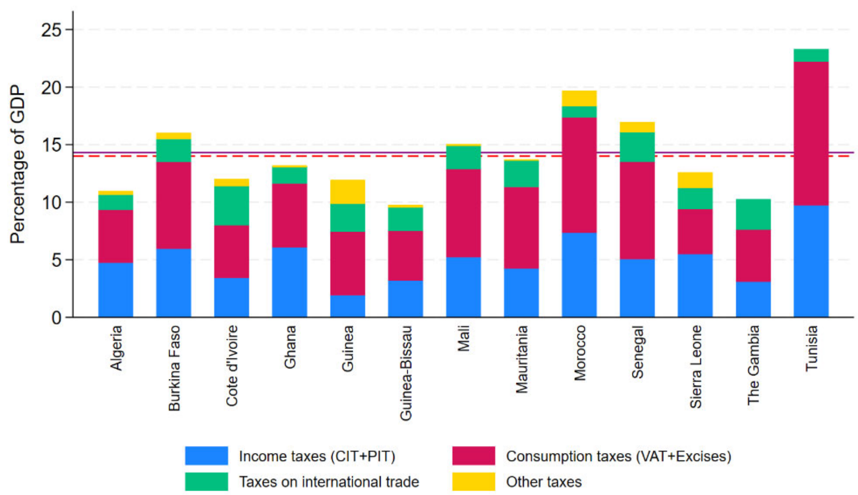
Source: WoRLD (2024).

6. Despite recent progress in tax revenue mobilization, Mauritania collects less than its peers and low-income countries (LICs). Figure 2 shows the composition of tax revenue in 2021 for Mauritania and its peers.[3] Compared to its peers and LICs, which collect on average 14.3 percent and 14 percent of GDP, respectively, in 2021, Mauritania's tax-to-GDP ratio is 13.7 percent of GDP. In terms of tax structure, Mauritania, along with several of its peers such as Morocco, Tunisia, Senegal, Mali, and Burkina Faso, shows a greater reliance on indirect taxes, mainly driven by VAT. Conversely, taxes on income, including CIT, personal income tax (PIT), and capital gains tax, are relatively lower compared to peers such as Tunisia, Morocco, Ghana, and Burkina Faso.

[3] Mauritania’s peers in this paper include Algeria, Burkina Faso, Cote d’Ivoire, Ghana, Guinea, Guinea-Bissau, Mali, Morocco, Senegal, Sierra Leone, The Gambia, and Tunisia. 2021 is considered for the comparative analysis given detailed tax revenue data availability in peer countries. Nonetheless, in terms of tax revenue level in 2022, Mauritania collected 14.1 percent of GDP, below the average for its peers at 14.9 percent of GDP, but above the average for LICs, at 13.6 percent of GDP.

7. While Mauritania's CIT and VAT perform relatively better than its peers, the PIT is inefficient. Mauritania collects 2.2 percent of GDP in CIT revenue, which is about equal to the average of its peers which stands at 2.1 percent of GDP. However, Mauritania's statutory CIT rate (25 percent) is below the average of its peers (27.1 percent), such that the country has greater CIT productivity;[4] estimated at 8.9 percent for Mauritania, i.e., 0.4 percentage points higher than the average of its peers (Table 1). Similarly, the assessment of VAT C-efficiency[5] shows an efficiency of 35.3 percent for Mauritania, compared to 27.5 percent for its peers. Conversely, despite having a top PIT rate (40 percent) that is 8 percentage points higher than its peers, Mauritania collects 37.4 percent less PIT revenue than its peers.

Figure 2. Tax Revenue Composition for Mauritania and Peers in 2021



Source: WoRLD (2024).
Note: The horizontal dashed red presents the average tax-to-GDP ratio for LICs, while the horizontal solid purple line presents the average tax-to-GDP ratio for Mauritania's peers, including Algeria, Burkina Faso, Cote d'Ivoire, Ghana, Guinea, Guinea-Bissau, Mali, Morocco, Senegal, Sierra Leone, The Gambia, and Tunisia.

[4] CIT productivity measures the amount of revenue raised as a percentage of GDP for each percentage point of the CIT rate. Is calculated as the ratio of actual CIT revenue to the product of the statutory rate and GDP.

[5] VAT C-efficiency is defined as the ratio of actual VAT revenue to theoretical VAT revenue, i.e., the product of VAT statutory rate to final consumption.

Table 1. PIT, CIT, and VAT revenue and Rates in Mauritania and Peers

	PIT		CIT			VAT		
	Rate *(percent)*	Revenue *(percent of GDP)*	Rate *(percent)*	Revenue *(percent of GDP)*	CIT-Productivity *(percent)*	Rate *(percent)*	Revenue *(percent of GDP)*	C-Efficiency *(percent)*
Algeria	35	3.3	26	1.5	5.7	19	1.3	12.7
Burkina Faso	25	1.2	28	2.2	7.9	18		
Cote d'Ivoire	60	1.5	25	1.5	6.0	18	3.0	22.5
Ghana	30	2.0	25	2.8	11.3	18.1	3.3	21.1
Guinea-Bissau	12	1.0	25	1.3	5.1	19	3.2	18.4
Mauritania	**40**	**1.7**	**25**	**2.2**	**8.9**	**16**	**3.9**	**35.3**
Morocco	38	3.6	31	3.7	11.9	20	7.3	46.5
Senegal	40	2.8	30	2.2	7.4	18	6.0	39.9
Sierra Leone	15	3.8	30	1.7	5.8	15	2.8	17.7
The Gambia	30	1.0	27	1.8	6.7	15	3.7	23.8
Tunisia	35	7.3	15	2.4	16.3	19	6.7	36.9
Average	**32.7**	**2.6**	**26.1**	**2.1**	**8.5**	**17.7**	**4.1**	**27.5**

Sources: IMF Staff calculations, Tax Policy Rates Database, and WoRLD (2024).

C. Estimation of Mauritania's tax potential

8. Mauritania's tax policy is well defined by the general tax and customs codes, but several obstacles undermine the collection of tax revenues in Mauritania. These include: (i) an extremely complex legal and tax system with numerous derogatory tax regimes covering a large part of the economy (free zones, tax provisions existing in the oil and mining codes, the investment code, the start-up law, the specific regime for the Grand Tortue Ahmeyim (GTA) gas project); (ii) an outdated organizational structure; (iii) the absence of a modern reform governance framework; and (iv) an unclear administrative arrangements and lack of cooperation with the free zone authorities, which continue to hamper the management of taxpayers by the tax and customs administrations.

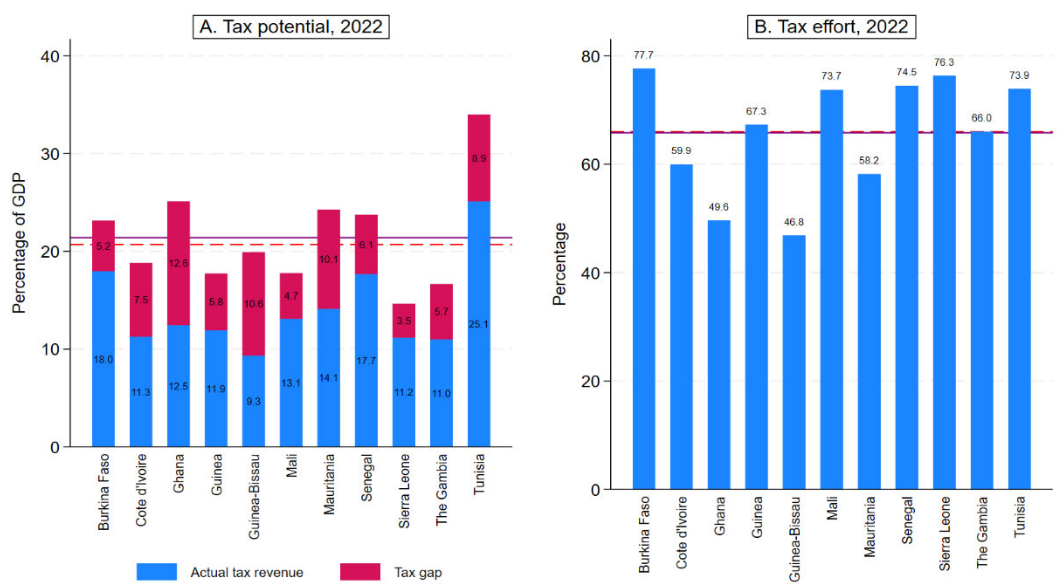
9. Mauritania's tax potential is estimated at 24.2 percent of GDP using stochastic frontier analysis (SFA). This approach estimates the maximum possible tax revenue that individual countries could collect, defined as the tax potential, given their characteristics. This allows for the identification of countries' tax inefficiencies by considering the gap between tax potential and actual tax revenue – also defined as the "tax gap". Following Benninger (2024), the Generalized True Random Effect (GTRE) model is used to estimate the tax potential, with agricultural value added as a percentage of GDP, GDP per capita in PPP USD 2017 and its square, trade, and public corruption as explanatory variables.[6] The tax potential is estimated at 24.2 percent of GDP, compared to the actual tax collection of 14.1 percent of GDP for 2022. In other words, the gap between the level of tax

[6] For details about the estimation methodology, refer to Colombi et al. (2014) and Tsionas and Kumbhakar (2014). Following Benitez et al. (2023), all explanatory variables are log-transformed. For more details about variables definition, and data sources, refer to Benitez et al. (2023).

collection and the tax potential is estimated at 10.1 percent of GDP in 2022 which corresponds to a tax effort of 58 percent.

10. MRT has a relatively above-average tax potential, but a larger tax gap, resulting in a lower tax effort compared to its peers and LICs. Panel A of Figure 3 shows that Mauritania's tax potential is estimated at 24.2 percent of GDP, above the average of its peers and LICs (21.4 and 20.7 percent of GDP, respectively). It has one of the largest tax gaps among its peers. On a country basis, only two countries, including Ghana and Guinea-Bissau, have a larger tax gap than Mauritania. Given its relatively high tax gap compared to its peers, Mauritania's tax effort – the ratio of actual tax revenue to potential tax revenue – is relatively low, just above Guinea-Bissau, and Ghana, as shown in the panel B of Figure 3 However, data availability limits a robust assessment of the estimated tax gap by contributing factors, i.e., tax policy and compliance. Nevertheless, the authorities' estimate of tax expenditure for 2022 is MRU 7.7 billion (2.1 percent of GDP, 14 percent of total tax revenue, and 7 percent of total expenditure).[7]

Figure 3. Tax Potential and Tax Effort in Mauritania and Peers



Sources: IMF Staff calculations and WoRLD (2024).
Note: The horizontal solid purple line presents the average tax potential for Mauritania's peers, while the horizontal dashed red line presents the average tax potential for LICs. Mauritania's peers include Burkina Faso, Cote d'Ivoire, Ghana, Guinea, Guinea-Bissau, Mali, Senegal, Sierra Leone, The Gambia, and Tunisia.

11. The above findings suggest that Mauritania could improve its domestic revenue by raising additional tax revenues, which will reduce its tax-gap. Indeed, reducing the tax gap, by one third over the medium would generate additional tax revenue of 3.4 percent of GDP and increase Mauritania's tax effort to 72 percent. This tax gap is considerable and if collected would

[7] http://impots.gov.mr/DGI/documentation/rapports_depenses_fiscales.html. The mentioned tax expenditures estimates come from the authorities and are underestimated as not covering all taxes and all derogatory measures representing a tax expenditure.

allow for important growth-accelerating public investments to be financed without incurring more debt. For example, that would allow financing at least 35 percent of the cost of the 1,500 km electrical line connecting Mauritania to Mali – at 9.1 percent of GDP in 2023,[8] or increasing spendings in health and education by about 86 percent of their 2023 level – at 3.9 percent of GDP. The experience of several countries has shown that a sustained increase in the tax-to-GDP ratio can be achieved through a combination of reforms aimed at improving the effectiveness and efficiency of tax systems and developing institutional capacity, with a focus on governance, as discussed in the next section.

D. Looking Forward: Reforms Options

Tax Policy

VAT

12. Despite its comparatively high revenue performance, the VAT reform offers considerable scope for increasing tax revenues. In 2022, VAT revenues stood at MRU 14.8 billion, or 4.1 percent of GDP**.** VAT C-efficiency, estimated at 35 percent, allows assessing the potential for increasing VAT revenues. A 100 percent VAT C-efficiency would generate revenues equivalent to MRU 11.7 billion, leading to an estimated VAT gap of around 7.6 percent of GDP.

13. Improving the VAT C-efficiency to 48 percent[9] without changing the rate, would generate additional VAT revenue of 1.5 percent of GDP. With a VAT rate at 16 percent, Mauritania has a higher VAT C-efficiency compared to its peers, although it remains low compared to other countries, including Senegal, Morocco, and Tunisia (Table 1). Increasing Mauritania's C-efficiency to 48 percent, would generate, ceteris paribus, VAT revenue of 5.6 percent of GDP, which would be an important step- towards reducing the overall tax gap by 3.4 percent of GDP.

14. Reducing exemptions and enhancing compliance could help Mauritania increase VAT revenue. In 2022, total VAT expenditures, reached 0.94 percent of GDP, or 22 percent of collected VAT revenue, according to the authorities' tax expenditures assessment report for 2022.[10] Among the 710 measures evaluated in the 2022 tax expenditures assessment, 394 are related to VAT. In addition, more than 75 percent of household food consumption is exempt from VAT (Rota-Graziosi et al., 2024). Although the aim of the food exemption policy is to reduce inequalities and protect the poorest households, many exempted food products benefit the wealthiest households more, as consumption of these products increases with household income. These include milk, certain meats (such as camel meat) and fish (such as sea bream), potatoes and local couscous, as well as certain fruits (such as apples and watermelon) and vegetables (such as turnips and beet) (Rota-Graziosi et

[8] https://www.agenceecofin.com/electricite/2507-110629-mali/mauritanie-un-investissement-de-900-millions-annonce-pour-l-installation-d-une-ligne-electrique-de-1-500-km.

[9] 48 percent refers to the average value of the VAT C-efficiency for emerging markets and developing economies (EMDEs).

[10] http://impots.gov.mr/DGI/documentation/rapports_depenses_fiscales.html.

al., 2024). Similarly, exemptions for private health services and certain medicines have been found to benefit wealthier households. Eliminating exemptions, especially regressive ones that benefit wealthier households, would improve the efficiency of VAT and tax revenues. The repeal of VAT exemptions could be accompanied by complementary budgetary policies aimed at protecting vulnerable households, such as targeted social spending.

15. **Another source of VAT exemptions is the weakness of the VAT credit refund mechanism.** Conditions to benefit from VAT credit refunds are restrictive, reducing the number of qualified taxpayers, and each refund claim is subject to an accounting audit. This situation has led to an accumulation of carry forward credits, which could lead taxpayers to favor exemptions. Measures such as reverse charge or notional VAT debt could strengthen the VAT credit refund mechanism for exporters, while adopting strategies to limit the risk of VAT fraud schemes.

Consumption tax

16. **Mauritania's Consumption Tax covers a limited range of products, including mineral water, cement, iron bars, tobacco, and milk, etc., and applies only to imported products**. This appears to be a protection mechanism for local industry rather than an excise tax system. In addition to the non-application of consumption taxes to locally produced goods, certain advantages are granted de facto without any legal basis. These may be exceptional exemptions or the non-application of tax laws. For example, the consumption tax on plastic bags is not applied by customs, although it is included in the general tax code. The effective application of tax laws and the inclusion of local production in the scope of the consumption tax would help broaden its tax base and increase tax revenues. However, a thorough analysis is required to review and determine the list of products to be considered and the nature (specific or ad valorem) and level of the rates to be applied depending on the type products.[11]

17. **Extending the application of the consumption tax to certain goods, such as motor vehicles, plastic bags, sugar-sweetened beverages, would generate a tax revenue gain of at least 0.30 percent of GDP.[12]** This would also allow the internalization of negative externalities by reducing the consumption of products that are harmful to health and the environment by increasing their cost. However, for some products such as motor vehicles, while taxing them could generate revenue and serve as an environmental policy tool, it is crucial to consider fuel as the primary pollutant. A balanced strategy might involve implementing a moderate, age-based tax on motor vehicles coupled with a carbon tax. This dual approach could discourage the import of older, less efficient vehicles while encouraging the purchase of newer vehicles, which have higher safety standards, and simultaneously providing incentives for reduced fuel consumption. Such a policy

[11] For instance, fuel excises should be reviewed in line with the introduction of the carbon tax to incorporate the structure of prices at the pump and new environmental issues.

[12] This estimate is based on the findings by Rota-Graziosi et al. (2024).

would not only address the immediate concern of old motor vehicles imports, but also contribute to Mauritania's long-term emission reduction goals.[13]

CIT

18. The proliferation of exemptions is one of the main difficulties for tax revenue collection in Mauritania. With the reforms introduced since 2013, the Mauritanian CIT is in line with best practices. However, several derogatory regimes, such as the mining code, the investment code, the free zone regime, free points, the start-up law, etc., all provide CIT exemptions for periods ranging from 3 to 7 years (Benninger et al., 2022). Moreover, in addition to the loss of revenue, CIT exemptions are regressive in the sense that they benefit more profitable firms to the detriment of less profitable ones. That could also narrow the tax base and lead to a less equitable distribution of the tax burden, as suggested by the tax system.

19. In addition to its general tax system, Mauritania has several sector-specific regimes that applies to key economic sectors, such as fishing and telecommunications. The fishery sector operates under two main tax regimes: a simplified system based on turnover for artisanal fishery, and a progressive system for industrial fisheries that is based on the quantities of exploited marine resources. As for the telecommunications sector, it is subjugated to a special regime that taxes turnover at a combined rate of 11 percent[14], a specific tax on incoming international calls, and an annual numbering fee applied to each telephone number, payable by mobile network operators. These sector-specific tax regimes, which include parafiscal taxes and fees levied on sales or quantities, can be burdensome and may hinder their development by raising production costs, and undermine the neutrality and fairness of Mauritania's tax system. Therefore, it is essential for Mauritania to strike a balance by strengthening its general tax system, particularly through broadening the CIT base, while moderating sector-specific taxation. This includes avoiding excessive taxes on production factors or volumes and limiting turnover-based taxes.

20. In existing and future systems, priority should be given to cost-based incentives to improve the efficiency of the CIT system and to promote fairness among taxpayers. These incentives include the use of accelerated depreciation (as already provided in the general tax code), investment allowances, or non-refundable investment tax credits that directly link the reduction in tax liability to the amount of investment made. For instance, an investment tax credit could allow unused credits to be carried forward during loss periods, allowing companies to companies to offset future tax liabilities when they become profitable. Eligibility criteria should be clearly defined in the general tax code, with no room for negotiation, to improve governance.

[13] The effectiveness of this approach should be monitored and adjusted over time to ensure it meets both fiscal and environmental objectives.

[14] This includes a special tax on telecommunications services (5 percent), contributions to the universal service fund (3 percent), the research and development fund (1 percent), and regulation financing (2 percent).

PIT

21. Mauritania's tax on salaries, with a progressive tax rate capped at 40 percent, generated MRU 5.65 billion in revenue in 2022 (1.6 percent of GDP). This contribution primarily comes from private-sector employers, who pay around 99 percent of the revenues. The low contribution of the public sector to tax revenues from salaries suggests that a significant portion of civil servants' remuneration is not taxed, possibly as (unlawful) compensation for historically stagnant public sector wages.[15]

22. Although the tax appears progressive de jure, de facto progressivity is limited or non-existent for certain categories of employees, as shown by the breakdown of contributions by sector. Indeed, the 60 percent deduction on the value of benefits in kind is high and makes it possible to avoid the highest rates of the tax schedule. However, these benefits account for a significant part of the recent increases in the salaries of highly paid civil servants. This means that individuals with the same income are taxed unequally, even within the same sector, undermining the fairness of the Mauritanian tax system. Moreover, the exemption of a significant share of civil servants' salaries is not legally justified. Indeed, Article 110 of the general tax code only allows allowances for actual expenses incurred by employees to be deducted from the salary tax base, but not salary bonuses, which in practice are being considered as "in kind" and have increased in recent years.

23. The effective application of the tax law to public sector employees would generate a significant increase in revenue from the salary tax, without modifying the tax schedule, as defined in the general tax code. According to estimates by Rota-Graziosi et al. (2024), this would lead to additional tax revenue of up to 0.75 percent of GDP. However, in the absence of a salary increase, it is important to implement this reform gradually to maintain its fiscal neutrality in the short term, as the reduction in public sector employees' disposable income could have a negative impact on other types of tax revenues. In addition, given the political sensitivity of such reform, it is important to integrate it into an overall reform of the PIT.

24. Property ownership in Mauritania is subject to a complex system of property taxation, as part of individuals' non-wage income taxation. Currently, property owners are subjugated to five recurring taxes: the tax on built properties, the tax on unbuilt properties, the residential tax, the communal contribution, and the contribution on agricultural property, with the latter two being managed by local collectivities (Rota-Graziosi et al., 2024). However, many of them face difficulties with tax collection due to challenges related to the identification and management of taxpayers and taxes. Additionally, the reliance on transfers from the central government does not encourage local collectivities to actively collect their own resources.

[15] The authorities commented that these exemptions were granted through individual decrees which stated that salary increases were net and therefore should not be subject to tax on salaries.

25. Given these challenges, Mauritania's property tax system needs to be reformed. Indeed, centralizing property tax collection under the general tax directorate or the general property directorate, particularly in major urban areas, could prove more efficient. To support this, mass titling of land parcels is essential to formalize land ownership and enable accurate identification of landowners. This effort would require a significant reduction or even a temporary suspension of the currently high registration fees, coupled with the development and clear communication of a coherent land and property management strategy by the government. Furthermore, simplifying the property taxation system appears crucial to improve its efficiency and management.

Revenue Administration

Tax administration[16]

26. The fragmented and complex tax system makes it difficult for authorities to ensure that companies comply with their obligations and for taxpayers to understand which system applies to them, leading to increased risk of non-compliance and corruption. To address this, it is necessary to reduce the number of special regimes and limit the discretionary aspects in negotiating the applicable tax regimes. The General Directorate of Taxes (GTD), under the supervision of the Minister of Economy and Finance (MoEF), should be responsible for determining the tax base and collecting all taxes and levies specified in the General Tax Code and other relevant legal and regulatory texts.

27. Following the enactment of the new Free Zone Law, the Ministry of Economy and Finance (MoEF), represented by the General Directorate of Taxes (GDT) and the General Directorate of Customs (GDC), should work with the Free Zone authorities to establish a Memorandum of Understanding (MoU). This MoU will clarify their respective roles and responsibilities in the administration of the Free Zone, with a focus on ensuring effective tax and customs control of approved companies and preventing tax evasion and fraud. It should specify that the MoEF (GDT and GDC) is responsible for the administration of taxes and customs both inside and outside the Free Zone, thereby centralizing tax administration and preventing the double collection of taxes—a problem previously reported by some companies.

28. The actions of the tax administration are guided by the General Tax Code and the Book of Tax Procedures, both of which should be updated, with a simple lump sum contribution introduced for small businesses. While the tax administration's rules are generally sound, they are challenging when it comes to procedures related to small businesses. Instead of a simple lump sum, the flat-rate system requires all small business taxpayers to file a declaration to calculate tax based on turnover. This system is inefficient for taxpayers and does not provide an effective method of tax administration.

[16] This section is based on the Fiscal Affairs Department Technical Assistance Report on supporting the General Directorate of Taxes in the pursuit of its reforms.

29. Effective management of tax arrears should be a key component of the revenue mobilization strategy, as the stock and flow of arrears remain significantly high. A significant share of these arrears is overdue, mainly because the write-off procedure, although provided for in the Tax Procedure Code, has not been enforced, so that 81 percent of arrears are more than two years old. The problem is exacerbated by the large number of small amounts due, due to the lack of a collection threshold and insufficient control over the automatic liquidation process. Taxes on wages and salaries and VAT are the main sources of unpaid taxes, with state-owned enterprises (SOEs) being the main debtors. Of the 34,757 debtors managed by the tax administration (DGI), 476 SOEs, representing only 1.4 percent of the total, account for more than 40 percent of tax arrears. To address these issues, the authorities should implement measures to prevent the accumulation of outstanding receivables and develop a comprehensive recovery strategy. This strategy should focus on the most recent and significant receivables, considering the different interests and segmentation of taxpayers.

Customs administration[17]

30. In the area of customs administration, it is essential to prioritize tax arrears as part of the revenue mobilization strategy. Indeed, a significant portion of tax arrears at customs debt is due to deferred payment schemes awarded as incentives to companies in extractive industries, particularly in the oil, gas, and mining sectors. These companies are required to obtain approval of import invoices from the Ministry of Petroleum, Energy and Mines before making payments at customs, leading to procedural delays, and thereby resulting in the accumulation of arrears over years. The Mauritanian customs administration should undertake the necessary legal and structural reforms in collaboration with the Ministry of Petroleum, Energy and Mines to ensure effective enforcement of customs tax arrears collection.

31. To maximize revenues, it is essential to improve the management and monitoring of tax exemptions and tax relief initiatives. The ongoing improvement of the codification of exemptions will streamline the approval process, allow for more accurate identification of exemptions by category and contract, and enable more effective automated monitoring and control mechanisms.

32. The selectivity process should be streamlined to increase the number of green lane declarations for compliant companies, in particular trusted traders. The goal is to exceed the current 10 percent allocation for Green Lane selection. At the same time, the proportion of selections for the Yellow Lane (documentary controls), currently at 40 percent, and the Red Lane (physical examination), also at 40 percent, should be reduced. This adjustment will result in fewer, but more thorough, physical examinations.

33. In addition to efforts to maximize revenue, the Mauritanian customs administration needs to improve its automated valuation control within the ASYCUDA system. This could be

[17] This section is based on the Fiscal Affairs Department Technical Assistance Report on customs diagnostic in Mauritania.

done by implementing in the system, a rule using valuation reference files as a risk-based tool to identify transactions with valuation discrepancies (both overvalued and undervalued) for subsequent post-release verification by the Post-Clearance Audit (PCA) units. It is recommended that a dedicated pathway within the system, referred to as the Blue Lane, be established to route transactions flagged for valuation review to the PCA for desk review while allowing the goods to be released.

34. In the area of trade facilitation, the Post-Clearance Audit (PCA) program requires urgent development to effectively address revenue leakage and deter non-compliance. Current PCA staffing level is inadequate and limits the PCA function to audits of waiver and dispute cases, resulting in a reactive approach. It is imperative that the PCA program evolve into a system that includes both full risk-based transactional audits and risk-based systems audits. In addition, the establishment of an annual risk-based audit plan is essential for conducting systematic audits of enterprises through on-site visits, with the plan based on segmentation of enterprises according to their risk level. A substantial increase in staffing is thus crucial to achieve this transformation.[18]

E. Conclusion

35. Revenue mobilization in Mauritania is important to create additional fiscal space. Despite progress in revenue collection in recent years, Mauritania still collects less revenue than its peers and LICs. Several obstacles undermine the productivity of the tax system and revenue mobilization. These include an extremely complex legal-fiscal system with numerous derogatory tax regimes, an outdated organizational structure, the absence of a modern reform governance framework, and unclear administrative arrangements and lack of cooperation between institutions. The paper shows that Mauritania's tax potential is estimated at about 24 percent of GDP.

36. The paper also highlights that the authorities could increase tax revenues by up to 3.4 percent of GDP in the medium term, allowing Mauritania to close its tax gap by one third.[19] Options for reform in both tax policy and revenue administration in this sense include: (i) reducing VAT exemptions, especially those that are regressive; (ii) replacing corporate tax exemptions with cost-based tax incentives, such as non-refundable tax credits, accelerated depreciation, and tax allowances; (iii) effectively taxing all earned income, including public and private wages on a gradual basis, in accordance with the tax schedule established by law, (iv) simplifying the overall PIT system, (v) extending the consumption tax to local production and other products such as plastic bags, motor vehicles, and sugar-sweetened beverages, (vi) simplifying tax procedures, (vii) managing tax arrears, and (viii) improving tax compliance.

[18] On both tax and customs administration, it is essential to conduct a thorough diagnostic of the personnel, review the organizational structure, and subsequently implement the deployment and recruitment of necessary staff.

[19] The scenario for reducing the tax gap by one third is based on an evaluation of the medium-term revenue gains expected from implementing the proposed realistic and feasible reform agenda.

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