REPUBLIC OF GHANA

SPEECH BY
HON. MINISTER OF FINANCE, GHANA
(SETH TERKPER)

IMF INTERNATIONAL SEMINAR FOR TAX POLICY AND ADMINISTRATION TOPICAL TRUST FUND (TPA-TTF) BENEFICIARY COUNTRIES.

THEME: “MANAGING TAX ADMINISTRATION REFORM PROGRAMS”

KEMPINSKI HOTEL, ACCRA

28TH – 30TH JUNE, 2016
Mr. Chairman
Distinguished Guests
Ladies and Gentlemen

INTRODUCTION AND WELCOME STATEMENT

1. I would like to start by welcoming our distinguished dignitaries to Ghana, a beacon of democracy, an interactive investment destination and a country with a welcoming and genuinely hospitable environment. As we say in one of our local dialects “Akwaaba”, which means “welcome”.

2. It is a distinct honor to be invited to give an open remarks and it is also a privilege to host the IMF International Seminar for Tax Policy and Administration Topical Trust Fund (TPA-TTF) beneficiary countries. Distinguished Ladies and gentlemen, permit me to use this opportunity to thank the organizers of this event, the IMF Fiscal Affairs Department for creating the platform for continuous dialogue on this all important issue of Tax Policy and Tax Administration Reform.

3. The theme of the seminar, Managing Tax Administration Reform Programs, is a topical one. The seminar comes toward the end of the six-year Tax Policy and Administration Topical Trust Fund (TPA-TTF) program and follows the launch of the second phase of the program now rebranded as the “Revenue Mobilization Trust Fund (RMTF).” This seminar provides a useful starting point to discuss future tax administration reform priorities and the role we all have to play in the financing for development agenda.
4. My opening remarks this morning, distinguished ladies and gentlemen, will center on three broad areas.
   - The importance of strengthening Tax Policy and Tax Administration;
   - A review of Tax Administration Reforms in Ghana; and
   - Highlight Challenges in developing and Implementing Tax Administration Reform programs.

THE IMPORTANCE OF STRENGTHENING TAX POLICY AND TAX ADMINISTRATION

5. Notwithstanding an extremely challenging macroeconomic environment, most Low and Lower Middle Income countries (LLMICs) including Ghana have recorded robust growth over the past decade. The Ghanaian economy continues to remain resilient, and is currently in its thirteenth (13th) consecutive year of expansion, combining improvements in macroeconomic management and strong capital investments in infrastructure and the energy sector during this period. Continued economic growth has pushed Ghana into the Lower Middle Income bracket and accelerated poverty reduction in the country.

6. However, it cannot be lost on all gathered here this morning that, improved domestic resource mobilization policies in developing countries, driven by Tax Policy and Tax Administration reforms have played a crucial role in the strong growth and significant poverty reduction in some Low and Lower Middle Income Countries.
7. Ghana’s inclusive economic growth of about 6% between 2001 to 2010 and improved social spending under the Ghana Poverty Reduction Strategy (GPRS) and Ghana Shared Growth and Development Agenda (GSGDA 1 and 2) have contributed to a significant decline in poverty rates. In 2013, Ghana achieved the Millennium Development Goal (MDG) of halving its extreme poverty level. The overall poverty rate declined from 31.9 percent in 2005/06 to 24.2 percent in 2012/13. Similarly, extreme poverty rate declined from 16.5 percent to 8.4 percent over that period.

8. Economic performance and progress towards the Sustainable Development Goals (SDGs) differ and are uneven across developing countries, reflecting weak policies and governance and the need for countries to foster growth and development through the crucial process of enhanced resource mobilization efforts.

9. Indeed, the Addis Ababa Action Agenda, which builds on the outcomes of two previous Financing for Development Conferences in Monterrey – Mexico and Doha – Qatar, identifies effective domestic resource mobilization as central to its agenda and key to the realization of the Sustainable Development Goals (SDGs). Key among the Addis domestic resource mobilization theme, is the need to widen the revenue base, improve tax collection and combat tax evasion and illicit financial flows.

10. In recent times, Low and Lower Middle Income countries (LLMICs) have had to contend with fiscal imbalances, as they push for rapid economic
development, which has resulted in huge fiscal expansionary programs by governments. Revenue however has not kept pace with spending, with consequential downside implications on development financing. The current situation is further exacerbated by a rapid decline in grant financing deteriorating the overall fiscal position of countries.

11. The biggest lesson for us from the existing scenario is to identify more sustainable and alternative ways of financing development, with emphasis on domestic resource mobilization. Studies have found that more than 40% of tax potential in developing countries remains untapped, preventing these countries to be financially self-sufficient and making them donor dependent.\(^1\) Therefore, reforms of countries’ systems of revenue administration are a priority.

12. In many developing economies, tax administration reform has formed an integral part of a broader fiscal reform strategy aimed at restoring macroeconomic stability and at restructuring tax systems so that taxes are more efficient, less distortionary of market forces and easier to administer. The impetus is for these countries to modernize tax administration and make it responsive to the demands of a growing economy as well as broaden the overall tax base.

A REVIEW OF TAX ADMINISTRATION REFORMS IN GHANA

---

\(^1\) Study by the IMF (Silvani and Baer, 1997) and More recently the OECD (2014)
13. Bold changes in Ghana’s tax administration have played a key role in improving the country’s revenue mobilization efforts. Prior to 1986, revenue mobilization in Ghana was embedded with the Civil Service. The thrust of the early tax administration reforms in Ghana centered around removing the revenue institutions from the civil service and granting them operational autonomy, with a view to improving efficiency through enhanced work and employment conditions.

14. Two practical steps were taken in 1986 to reform and strengthen revenue administration in Ghana. These were the establishment of the National Revenue Secretariat (NRS) and the creation of 2 major revenue organizations; i.e. the Customs, Excise and Preventive Service (CEPS) and the Internal Revenue Service (IRS). The 2 separate revenue authorities were effectively placed under the NRS giving them that operational autonomy from the Civil Service.

15. With the establishment of the NRS, Ghana was the first African country to establish an independent Revenue Authority on the continent and in doing so created the foundation for a tax administration system.\(^2\) The NRS played the coordinating role for the newly established revenue agencies.

16. The creation of the NRS and the respective revenue agencies did not fully address the country’s tax administration problems as shown by the

relatively low ratio of taxpayers to the population despite the improvement in revenue mobilisation. The incidence of domestic taxes continued to fall on public service employees, the few manufacturing companies and other formal businesses.

17. Therefore to enlarge the tax base and improve tax collection, the government introduced the Value Added Tax (VAT), a system that has been shown to facilitate improved revenue mobilization in other countries. However the implementation of the VAT system was not plain sailing. The VAT Act (Act 486) which was implemented in 1995 was quickly withdrawn in the same year in response to a general public outcry against a sudden increase in the prices of goods (including food items) which was blamed mainly on the introduction of VAT.

18. VAT was reintroduced in 1998 under the Value Added Tax Act, 1998 (Act 546) and the Value Added Tax Regulations, 1998 (L.I 1646). Its primary aim was the administration and collection of the Value Added Tax (VATs) that replaced the Sales and Service Taxes previously administered by Customs, Excise and Preventive Service (CEPS) and the Internal Revenue Service (IRS), respectively.

19. In 1998, as part of the tax administration reforms, the Revenue Agencies Governing Board (RAGB) was introduced to replace the NRS as a way of ensuring stronger cooperation among the 3 agencies (i.e. IRS, CEPS and VATs). The RAGB was to act as the central governing body in place of the existing boards of the respective revenue agencies.
20. Ghana having blazed the trail in tax administration reforms on the continent, was however slow in introducing the requisite reforms towards the establishment of an integrated revenue mobilization Authority, which will work coherently to enforce the tax laws in a balanced manner, such that all the different taxes are collected, across all taxpayer classes and among all classes of income.

21. In 2009, the Ghana Revenue Authority Act - Act 791 was passed. This effectively completed the full integration of the IRS, VATS, CEPS and the RAGB into a holistic Revenue Authority with a Commissioner General at the apex. The formation of the Ghana Revenue Authority (GRA) was to help integrate the management of the erstwhile Agencies and also modernize its operations through the review of processes and procedures.

22. Following the creation of the GRA, Ghana has embarked on crucial tax administration reforms to achieve its overall goal of modernizing domestic revenue mobilization. The following are some of the key modernization reforms embarked on by the GRA:

- **Review of Existing Tax Laws to bring them in line with international best practice.** The Tax Policy Unit of the Ministry of Finance working together with the GRA has reviewed some of the key tax laws in Ghana resulting in the passage of four new and modernized charging Acts: the VAT Act, 2013 (Act 870); Excise Duty Act, 2014 (Act 878); Customs Act, 2015 (Act 891) and the Income Tax Act, 2015 (Act 896). Regulations are
being developed to facilitate the smooth implementation of these Tax laws.

- **Revenue Administration Bill.** Currently the Revenue Administration Bill is before parliament. The bill is to facilitate the integration of the various administrative provisions of the erstwhile Acts (i.e. Income Tax, Customs, VAT and Excise Acts).

- **Introduction of an integrated ICT system to support tax administration.** The introduction and roll out of the Total Revenue Integrated Processing System (trips™) has greatly facilitated the processing of a uniform Taxpayer Identification Number (TIN) that is used for business registration and across the tax administration. The system also automated the processes and procedures for domestic tax administration. Government last year modernized its Customs Administration by introducing the **National Single Window,** which commenced with the return of the classification and valuation function to the Ghana Revenue Authority and the introduction of the Pre-Arrival Assessment Reporting System (PAARS). When fully deployed the system will facilitate trade in Ghana and is estimated to save the country about **US$120 million annually.**

- **Setting up of an integrated Domestic Tax Revenue Division (DTRD).** Creation of one-stop shop offices for domestic taxes (VAT, Income Tax and Excise Duty) where taxpayers can transact their business.

- **Segmentation of taxpayers.** The application of client-oriented organization concepts to cater for special needs of different
categories of taxpayers has resulted in the creation of one Large Taxpayer Office (LTO), 15 Medium Taxpayer Offices (MTO) and 50 Small Taxpayer Offices (STO).

- **Implementation of Geographic Information System (GIS).** To widen the tax net particularly in the informal sector, the GRA has adopted and is applying the GIS technology as a viable option to realize this objective. This uses the Geographic Positioning System (GPS) to locate and register potential taxpayers.

- **Introduction of an enhanced Presumptive Tax system.** To further make it easier for small taxpayers to fulfil their obligations a simplified system has been put in place that allows an individual to make payments based on turnover or to keep records and submit returns using a modified cash basis of accounting.

**CHALLENGES IN DEVELOPING AND IMPLEMENTING TAX ADMINISTRATION REFORM PROGRAMS.**

23. Notwithstanding the immense reforms undertaken by many developing countries including Ghana, there are still challenges in the design and implementation of Tax Administration Reform Programs. A lot more still needs to be done. International experience has shown that political commitment to and the sustainability of reforms is crucial if progress can be made in resource mobilization.
24. I can assure you that in Ghana, the political will is at the highest levels of Government. In this regard, we have asked the IMF’s Fiscal Affairs Department to visit Ghana to review the status of revenue administration reforms and propose the next steps. This request comes mid-way into the implementation of the Ghana Revenue Authority’s 3-year strategic plan (2015 - 2017). We trust that the diagnostics will take stock of reform progress and address some of the challenges in the design and implementation of reforms.

25. Another key challenge to tax administrators especially in developing countries is the modernization of tax administration such that it can operate effectively in an increasingly global economic system characterized by the growth of difficult-to-tax sectors such as the financial and services sectors and the rapid expansion of sophisticated computer and communications technology which could be used by taxpayers to conceal economic transactions.

26. Sophisticated tax planning as demonstrated by the infamous Panama Papers Leaks and illicit Financial flows from especially developing countries has been identified as one of the key binding constraints to improved domestic revenue mobilization efforts. Global Financial Integrity (GFI) in its research estimates that US$1 trillion moves illicitly out of developing countries annually, shifting primarily into western economies. What is even more disturbing is that, the bulk of illicit financial flows emanate not from corruption or criminal activity, but rather from commercial activity, (i.e. international trade).
27. The research arrives at a staggering conclusion that, illicit financial flows outpace Official Development Assistance by a ratio of **nearly 10 to 1.** Measured against the flow of Official Development Assistance in 2006, developing countries **in aggregate are losing close to $10 dollars for every $1 dollar they receive in aid.** Illicit financial flows from developing countries deny those countries of revenues that could be used to meet their obligations to their citizens in terms of poverty reduction and sustainable development.

28. Another area of concern is ensuring that taxpayers’ rights are protected. Fair and transparent cooperation with taxpayers must be based on a proper legal definition of their rights and duties, with appropriate checks and balances integrated in the design and implementation of tax reforms.

29. Evidence shows that, even though reforming the tax system can be a valuable instrument for fostering economic growth and competitiveness, the implementation of such reforms in a piece-meal manner could in itself become a source of uncertainty and consequently jeopardize stability and undermine the integrity of the reform process.

30. Issues of tax transparency should also be high on the agenda. For many citizens, the details of tax are difficult to understand, and seem detached from everyday life. It is regarded as a black box of rates, thresholds and reliefs. It is little wonder that most taxpayers find it difficult to know
exactly when and where to pay taxes and how much of their income earned they get to keep.

31. The fact that tax is necessary to support critical public services should not give governments carte blanche to take as much as they can get away with. Governments need to be accountable for what they raise, how they raise it and how it is spent. And for this to happen, citizens need to be in a position to understand what they pay for and why.

32. Following from the previous challenge is the need to simplify the tax system to facilitate administration and reduce compliance costs. One of the most important lessons learnt from experience and which I am sure will again be discussed at length, is the importance of simplifying the tax system in order to enhance the effectiveness and efficiency of tax administration.

33. A simplified tax system can also help address the challenges of voluntary compliance to some extent. Ultimately, one of the key goals of tax administration reforms must be to promote voluntary tax compliance, and not penalizing tax evaders and pursuing tax delinquents, which is necessary to ensure the sanctity of the tax system.

34. It is my hope that some these challenges will be effectively discussed during this seminar based on country experiences which will provide useful insights to others in addressing similar challenges. I also hope the experience (both positive and negative) of the IMF in providing technical
assistance in 20 TPA TTF countries will be brought to bear and provide useful leads in the ensuing discussions throughout the seminar.

CONCLUSION
35. Governments need sufficient tax revenue to finance the spending required to reduce poverty. Smart tax reforms can help developing countries lower their financial dependency on foreign aid and make governments more accountable to its citizens.

36. I will want to end with quote by Jean Baptiste Colbert, the Finance Minister under King Louis 14th, who famously said “the art of taxation consists in so plucking the goose as to obtain the largest amount of feathers with the smallest possible amount of hissing.”

37. Ladies and gentlemen, with those wise words, I declare this seminar officially open, and wish you all a fruitful deliberation over the next 3 days.