African Capacity
Building Foundation
(ACBF)

Enhancing Domestic Resource Mobilizaion

WITH

" EMPHASIS ON IMPROVING TAX ADMINISTRATION IN LIBERIA "

CONSULTANT MANAGEMENT ENTERPRISE (CME)

OCTOBER 2018

Preface

In response to a "Request for the Expression of Interest" to conduct research studies on "Domestic Resource Mobilization with emphasis on Tax Administration and Assessing the Economic Impact of the Withdrawal of the UN Military Force in Liberia," Consultant Management Enterprise (CME) made a submission that resulted in CME"s selection by the Liberia Macroeconomic Policy Analysis Center (LIMPAC) to conduct the study on one of the two themes: Domestic Resource Mobilization with Emphasis on Tax Administration. The African Capacity Building Foundation supported LIMPAC in facilitating the Study.

LIMPAC is a center established to undertake intensive research, provide analysis and technical support to the Ministry of Finance and Development Planning of Liberia and the Government of Liberia in general. LIMPAC provided supervisory oversight to CME in carrying out the study and finalizing the Report.

The Study, characterized by evidence-based research, extensive consultations and stakeholders' interviews, was conducted between April 2018 and early July 2018.

How can Liberia, one of the poorest countries in the world, with its current "pro-poor" development agenda and strong desire to meet the high expectations and demands of its population, address the need to transform and improve the lives of its people?

How can the Liberian people mobilize the resources to fund their development activities in the interest of all Liberians? How can the continuing financial gap between Revenues obtained in any one-year period and Expenditures during the same period be bridged? How can the tax base be expanded to bring within the tax net a greater number of taxpayers who currently are not contributing to the mobilization of national resources? How can the other non-tax revenue instruments be more effectively administered to increase domestic resources?

These and other such questions and various other relevant challenges constitute the groundings on which the Study is based. There were a number of constraints that were encountered during the study but in the end, the Consultants were able to collect some relevant data, obtained access to wide range of information and consulted and questioned key personalities in the Public and Private Sectors as well as in Civil Society. To all of them, we remain very grateful.

The assessments made and the conclusions drawn from those assessments were all made by the Consultants and do not represent any single individual or group of individuals.

[1]According to the IMF Country Report on Liberia, No. 16/238, Poverty levels in the country are very high. In 2014 it stood at 54%.

ACBF	Africa Capacity Building Foundation
AfDB	The African Development Bank
BoTA	The Board of Tax Appeals of Liberia
BIT	Business Income Tax
CBL	The Central Bank of Liberia
CIT	Corporate Income Tax
CG	Commissioner General, LRA
CME	Consultant Management Enterprise
DRM	Domestic Resource Mobilization
DTD	Domestic Tax Department, LRA
ECOWAS	Economic Community of West African States
GATT	General Agreement on Tariff & Trade
GNI	Gross National Income
GST	General Service Tax
IBRD	International Bank for Reconstruction & Development (The World Bank)
IMF	International Monetary Fund
IT	Information Technology
LBO	Legislative Budget Office
LBAD	Legal & Board Affairs Department, LRA
LRC	Liberia Revenue Code – the Revenue Bible
LTA	Large Tax Division
LBR	Liberia Business Registry
LRA	Liberia Revenue Authority
MFDP	Ministry of Finance & Development Planning
MLME	Ministry of Lands, Mine & Energy
MSMSD	Medium Small and Medium Tax Division
PATEL	Patriotic Entrepreneur of Liberia
SDGs	Sustainable Development Goals
SIGTAS	Standard Integrated Government Tax Administration System
SOPs	Standard Operating Procedures
TADAT	Tax Administration Diagnostic Assessment Tools
TBO	Tax Business Office
TIN	Taxpayer Identification Number
TSD	Taxpayers Services Division, LRA
VAT	Value Added Tax
WTO	World Trade Organization

ACKNOWLEDGEMENT

We wish to acknowledge with thanks and appreciation the support of the Staff of the Ministry of Finance & Development Planning, especially LIMPAC. Without their cooperation and support, we would not have successfully completed the assignment.

The Legislative Budget Office, the Secretary of the Liberian Senate, the Leader and his team of the Department of Transformation and Modernization of the Liberia Revenue Authority were very supportive and their cooperation and sharing of information were very valuable to the Consultants. To all of them as well as to the Secretariat of the Liberia Chamber of Commerce and the President of the Liberia Business Association we express our thanks.

Finally, and most importantly, we wish to express our gratitude and appreciation to the many ordinary small, medium and large taxpayers, including Chief Executive Officers of a selected few of the 9 banks in the country, PATAL, the Customs Brokers Association and others who gave so much of their valuable time to discuss the questions and concerns we tackled in the Study. The invaluable insights they offered the Consultants facilitated a better handling of the challenges faced in improving the mobilization of tax and non-tax revenues.

The insights and concerns of all those interviewed are appreciated and we hope that their expectations for an improved and more efficient administration will help to increase resource mobilization and advance the economy and the well-being of Liberians in all areas of the Country.

Enhancing Domestic Resource Mobilization With Emphasis On Improving Tax Administration

EXECUTIVE SUMMARY

SUMMARY

The Liberia Macroeconomic Economic Policy Center (LIMPAC), Ministry of Finance and Development Planning, supported by the African Capacity Building Foundation, contracted Consultant Management Enterprise (CME) to conduct a study on Domestic Resource Mobilization with Emphasis on Tax Administration. The study, characterized by evidence-based research, consultations, and interviews, was aimed at, inter alia, improving tax administration and systems that affect the enhancement of domestic resource mobilization. It gives insights into the challenges of improving the administration of both tax and non-tax revenue mobilization institutions and provides recommendations to improve the collections of taxes.

BACKGROUND

Given the continuing decline in official development assistance from international partners, the Liberian Government has to rely more on enhancing domestic resources to meet its development needs. The balance or lack thereof between incremental revenue and pro-poor expenditure justify support for Domestic Resource Mobilization in the Development Plans of the Government of Liberia. With the objective to strengthen public institutions; accelerate infrastructure investments needed to boost productive capacity; improved productivity in the rural sector, enhance economic diversification; increase human capacity and construct roads which is critical to alleviate poverty, the government of Liberia embarked a medium-term development – the Pro-Poor Agenda for Prosperity and Development (PAPD). Implementing the PAPD takes into consideration the many challenges critical to mobilizing revenues hence the need to source finance domestically is of crucial importance. One critical challenge is the administration of Revenues domestically.

MAIN FINDINGS

- In the study, we learned that the four-year old Liberia Revenue Authority has made good progress increasing revenue generation in the three reporting years. There are, however, a number of challenges that must be met if domestic resource mobilization is to be substantially enhanced.

- The Study found that the Large Tax Department and Medium Tax Division do have tax rolls but have not been fully synchronized with the Integrated Government Tax Administration System (SIGTAS). As a result of this, there is a problem in identifying active and inactive taxpayers in the system.

- The database is not computerized outside Monrovia and information contained on the roll at outstations are generally inadequate.

- The is an inadequate risk-based compliance management system highlighted as one of the core weaknesses of the LRA. This underpins the fact that the LRA uses a manual parameter mechanism for audit proposes. This mechanism is ineffective in achieving the targeted audits to mitigate the risk imposed from underreporting. There is a need to also develop the capacity of more auditors.

- The differential procedure in compliance with the BIVAC regulations and procedures may be creating inequity and could have an impact on the price of commodities and ease of doing business thereby negatively influence the collection of revenue. It is evident from study that there is overlapping of government ministries and agencies managing the inflow of revenues from customs and lack of understanding about their respective responsibilities to the process.

- A large portion of Liberia's tax incentives was granted to concessions, government projects, and others. These incentives cost more in foregone tax revenues than the tax generated from incremental induced activities. These incentives distort the allocation of resources and could be detrimental to DRM.

- The clear evidence on Real Estate tax shows that about 75% of properties listed on the tax roll contains unclear information and vague address with questionable location. The lack of a credible secondary source of information such as functional land registry and information on the value of property also imposed constraints on the coverage.

- Profit-shifting and Transfer Pricing is increasingly becoming an issue that may likely undermine the effectiveness of the Corporate Income Tax.

KEY RECOMMENDATIONS

Many of the findings of the study are of interest principally to the Government as they face the challenges of implementing the PAPD. The following recommendations have been proposed:

- ***It is recommended that a project is undertaken to automate significant taxpayers' services so as to reduce time and compliance costs.***

- ***In view of the issues concerning audit, we recommend the development of a risk-based centralized selection process for audits. This requires the development over time of a computer-based track records to identify high-risk taxpayers***

- ***It is recommended that the Customs Department speedily transition to the General Agreements on Tariffs and Trade (GATT) under the WTO protocol. That would reduce the complex procedure at the port of entries and allow ease of movement of goods within the region.***

- ***It is highly recommended that the Government terminates its current BIVAC contract and adhere to the recommendations of WTO. In addition, customs administration should upgrade the 'internal complaint traders' program to the fully authorized operator program to include more complaint importers and exporters as well as customs agents so as to allow more transparency into the system and encourage the free movement of traded goods. The Senegal Model is highly recommended for adoption (see appendix 5).***

- *It is recommended that a Broad-Base Credit-Method Consumption VAT is introduced and that taxpayers be educated on the process on all tax payments and appeals procedures. In addition, website is regularly updated with a roadmap to all tax payment procedure and all other relevant information.*

- *There is a critical need to maintain fiscal cadaster information for Real Estate Tax purposes. An appropriate strategy will be to develop a comprehensive fiscal at the central government level which could be adopted by the local authorities as an initial data estimating the local property tax base.*

- *Given the lack of a tax culture in the country, it is highly recommended that a robust tax education, awareness and sensitization program be implemented.*

1.0 INTRODUCTION

It is well established that resource mobilization within national borders is critical and extremely necessary if developing countries are to meet the urgent and rising demands of their people for basic needs, social services and infrastructural improvements in their countries. Liberia is a low-income country, one of the poorest in the world, with over 50 percent of its population living below the officially established poverty line. Liberia is experiencing continuous fiscal deficit.

The Liberian Government has to meet growing debt servicing demands while official development assistance (ODA) from the country's development partners is declining and will continue to do so. With reduction and fluctuations in the prices of the country's major export commodities, particularly Iron Ore and Rubber, and the resulting lower than expected foreign exchange earnings, Liberia is challenged to be able to make the public investments required to improve education, health services, and to provide food security, rural revitalization and urban rehabilitation. The country needs to enhance its mobilization of domestic resources. In simple words, Liberia needs to raise more national resources.

Mobilizing domestic resources is primarily raising revenues and that is the main objective of a well-functioning tax and non-tax revenue system and a functional and effective tax system depends upon appropriate policy and administrative measures that remove obstacles, inform and encourage compliance of all taxpayers. The entire international community now considers that Domestic Resource Mobilization (DRM) is "a core priority of the sustainable development agenda."[2] In the United Nations' 2030 Agenda for Sustainable Development Goals, which Liberia's former President Ellen Johnson Sirleaf, one of the Co-Chairs of the Select Group produced, the International Community committed to "strengthen domestic resource mobilization to improve domestic capacity for tax and other revenue collection."

DRM is therefore crucial for Liberia if the country is to make meaningful progress in its development efforts. In recent years, the Liberian Government has addressed some of the policy constraints that have handicapped DRM, particularly within the legal and institutional frameworks. Several institutional changes have taken place and new laws and regulations have come into being. In the area of DRM, responsibilities for policy formulation have been centralized. The Ministry of Planning and the Bureau of the Budget have all been merged into the new Ministry of Finance & Development Planning. Responsibility for Revenue Collection has been separated from Expenditure and by Legislative enactment the Liberia Revenue Authority (LRA), created in 2013, became operational July 1, 2014 with the powers to engage the appropriate professional staff, develop the capacity required and provide the incentives to effectively collect lawful taxes and other non-tax revenues in keeping with the Revenue Code. The Revenue Code has been revised and the Revision enacted into law.

[2]World Bank Group, "Strengthening Domestic Resource Mobilization – Moving from Theory to Practice in low and middle-income Countries, p. ix

In further pursuance of efforts to reform the tax collection regime, encourage taxpayers to comply with the Tax Laws and thereby enhance revenue collection, the Government established the Board of Tax Appeals (BoTA) in accordance with the Revenue Code to ensure that the rights of taxpayers are protected by providing due process fast and inexpensively.

With the progress made on the policy front, although there is still more progress to be made, implementing the policies, ensuring the administrative framework and systems are effective and efficient continue to hamper rapid progress in enhancing DRM.

One critical challenge in the administration of the improved Revenue Code by the LRA and other institutions like BoTA is the constrained financial capacities these institutions faced due to budgetary limitations.

1.1 Scope and Coverage

Within the context of reducing poverty, the new Liberian Government has embarked on a Pro-Poor agenda, which calls for galvanizing massive support and resources to implement programs and projects that will assist in alleviating poverty and improve the standard of living of all Liberians. To pursue this, there is need to substantially increase domestic revenues sustainably.

This Study was designed to throw the spotlight on the issues relevant to improving the administration and systems that affect the fundamental need to mobilize more domestic resources. It sought to establish the strengths and weaknesses inherent in the administration of both the tax and non-tax resource mobilization institutions.

As part of the Study, we have reviewed the "Republic of Liberia Performance Assessment Report" and USAID's "Benchmarking the Tax System in Liberia", published February 29, 2017.[3] These reviews were complemented by field research, which included the filling out of questionnaires and interviews of tax paying and tax collecting stakeholders in greater Monrovia, other parts of Montserrado, Margibi, Bong and Nimba Counties and people in the public and private sectors as well as in civil society.

This Report covers the Macroeconomic Environment and Policy Overview, Revenue Trend and the institutions involved in administering the mobilization of domestic revenues as well as a description of their strengths and weaknesses and the challenges to enhancing DRM.

Information on the perception of small, medium and large taxpayers have been captured in Chapter 5 and that is followed by Conclusions and Recommendations. A list of relevant charts and tables are at the end of the Report. They provide the groundings for the conclusions drawn and recommendations put forth.

1.2 Limitations of the Study

There were some limitations in carrying out this assignment. Firstly, there were budgetary constraints to the extent of the coverage, to look further than the four counties and the time allotted for fieldwork had to be shortened.

The reason for the study was to put greater emphasis on the administrative hurdles that should now be addressed. The Sponsors felt considerable attention has already been paid to policy issues. The element of time then became a crucial limitation, especially in our environment where stakeholders are often very shy and reluctant in filling out questionnaires or speaking out or have their views on critical issues written down. It took some amount of persuasions and repeated visits and telephone calls to obtain the audiences needed to get the information we sought and have the questionnaire filled out.

Lastly, a third limitation was this: A fundamental principle in the creation of wealth or the generation of more revenues is to apply a relatively substantial amount or percentage of available revenues or financial resources to reinvestment that will produce returns in the near or future term. That does have the potential to increase wealth as more revenues are generated in later periods. The trade-off of investment or reinvestment is consumption. If we consume more, we invest less and vice versa. It can, therefore, be expected that in the public sector, if the Government spends increasing amounts of its annual budget on consumption, appropriations for investments will be minimum and the National Budget becomes mainly a consumption-oriented budget or a budget of mainly consumption

[3]"Benchmarking the Tax System in Liberia" was prepared by the Revenue Generation for Governance and Growth (RG#) Project and released on February 28, 2017

expenditure. Expanding DRM becomes more challenging as Policy Makers will have to think beyond the realm of fiscal policies. In the Public Sector, Government can expand DRM by increasing the level of budgetary allocation to investment activities as against pure consumption or appropriating scarce resources on unproductive expenditures. This Study, however, did not incorporate consideration of the expenditure side of the National Budget.

2.0 MACROECONOMIC ENVIRONMENT & POLICY OVERVIEW

2.1 The Liberia Economy and GDP performance

Liberia is a small low-income country geographically located on the west coast of sub-Saharan Africa. With a population of 4.6 million people, 50.5 percent[4] live below the poverty line. The country's economic growth during the period 2006-2010 averaged 14.2 % and increased by US$131.5 million or 30.3% from US$433.2 million in 2006 to US$564.7million in 2010. The increase was largely attributed to the Agriculture and Services sectors, accounting for an average of 9.3% and 16.3 % respectively of overall GDP. (Table 2.1)

From the period: 2015-2018, real GDP was estimated to rise by US $38.1 million or 4.2% from US$896.4 million in 2015 to US$934.5 million in 2018 (Table 2.1). According to the Central Bank of Liberia's 2017 Annual Report, the expansion in real GDP was a result of increases in the mining and panning sector to 28.7% (from negative 33.0 percent, and the manufacturing sector of 1.3% (from negative 5.0 %). Growth in 2018 is projected to increase by 4.2 % from US$904.1 in 2017 to US$934.5 in 2018. However, a realization of this target is unlikely due to decline in the global market prices of Liberia's primary export commodities – Rubber and Iron Ore, and the unpredictability/uncertainty of government's fiscal policy including revenue, expenditure and tax policies.

2.2 Fiscal Issues

Liberia has been and continues to be engaged in major efforts to mobilizing resources to finance its economic and social development. Since 1975, Government has undertaken a number of fiscal policy reforms including tax reforms. Launched in 1975, the Government's first Four Year Socio-Economic Development Plan was aimed at, inter alia, achieving a higher standard of living for its people, economic diversification, and more equitable distribution of the benefits of economic growth.

In the second term of the presidency of President Ellen Johnson Sirleaf, the Government of Liberia, in 2011, launched the second generation of the Poverty Reduction Strategy (PRS-II) named the Agenda for Transformation (ATF). The ATF was a five-year development plan that underpins Vision 2030 to achieve middle income status for Liberia. The financing for the five pillars of the AFT was set at 3.4 billion dollars (PRS-II, 2011).

[4]http://www.worldbank.org/en/country/liberia/overview

A smooth political transition in 2017 ushered in a new government headed by President George M. Weah. With the objectives to strengthen public institutions; accelerate infrastructure investments needed to boost productive capacity; improve productivity in the rural sector, enhance economic diversification; increase investment in human capital, through strong support to youth employment and health; and improving competitiveness, while simultaneously safeguarding macroeconomic and debt sustainability, the government embarked on the preparation of a medium-term development plan called the Pro-poor Agenda for Prosperity and Development (PAPD) 2019-2023[5].

The Plan also necessitates huge demand for roads construction which is a critical component of the PAPD linked to alleviating poverty. To achieve this, the government will need to take cognizance of the challenges in implementing the PAPD as financing both from domestically generated revenues and from foreign source is of crucial importance.

In June 1977, a new Revenue and Finance Law came into effect. The law modified the system and adjusted upwards the income tax rate and the real property tax rate. In addition to these changes, harmonization of import and excise duties with the Customs Union of Liberia and Sierra Leone brought relief in the taxation of essential commodities under an overall policy of regional cooperation, while placing a heavier burden on luxury items. The impact of these changes was minimal as the tax structure, dominated by indirect taxes contains major income tax exemptions under a fiscal incentive system.

Overall fiscal performance has been fairly commendable reflecting the government's prudent appr oach to financial and economic management. However, the demand for domestically finance investment and the high wage bill placed a constraint on the Country's fiscal capacity. Total Revenue and grants remained stable following the post-war era at an average of 29.0 percent of GDP between 2006-2010 (See Table 2.2). Total Expenditure on the other hand had averaged 24.3 percent of GDP during the period 2006-2010, increasing to 33.3 percent in the next five years 2011-2015[6] (See Table 2.2.). A significant part of the expenditure reflects the wage bill as the government increased public employment as part of its Agenda for Transformation and Poverty alleviation policies.

[5]The PAPD financing cost has not be concluded. However, given that it is a five year development plan and mirrors the AFT we have estimated the financing cost at 3.4 billion US. Dollars

[6]development grants characterized significant amount of the expenditure in the wake of the reconstruction periods, the Ebola outbreak and the Hydro Power Plant construction, IMF, Republic of Liberia, Article IV Consultation, July 2016.

Liberia: Sectoral Origin of Gross Domestic Product (GDP) at 1992 constant prices (Selected: Summary)

TABLE 2.1 Selected Origin of GDP at 1992 constant price

SECTOR	2006	% Change	2008	% Change	2010	2015	% Change	2016	% Change	2017	% Change	2018
Agriculture & Fishers	192.3	11.1	213.8	7.5	229.9	218.2	6.4%	232.2	1.7%	236.3	2.6%	242.5
Forestry	74.1	31.5	97.5	22.8	119.8	94.8	0.%	94.8	-8%	87.2	-4%	83.7
Mining & Panning	0.7	14.2	0.8	12.5	0.9	103.5	-33%	69.3	28.7%	89.2	3.1%	92
Manufacturing	55.5	15.8	64.3	0.0	64.5	63.5	-5%	60.2	1.3%	61	1.6%	62
Services	110.5	18.2	130.7	14.3	149.5	416.4	2%	425.1	1.0%	429.4	1.1%	434.5
Real GDP	433.2	17%	507.0	11.3	564.7	896.4	2.4%	882.1	2.4%	904.1	3.9%	939.4

Source: Liberian Authorities & IMF Staff estimates and project

Given the fiscal performance, the economy is projected to grow at 5.5 percent in the medium term.

Table 2.2 Liberia Budget Aggregates and Averages

Total Expenditure (including net lending) as a share of GDP	24.3	33.3
Total Revenue and Grants as Share of GDP	20.6	29.0
0verall Surplus (Deficits) share of GDP	-3.6	-4.3

Source: IMF World Economic Outlook (WEO) Database; authors calculations

2.3 Tax Revenue as Percent of GDP

Liberia is estimated by the IMF World Revenue Longitudinal Data to have the highest revenue to GDP ratio of selected regional countries. Liberia ranks (17.3%); Sierra Leone (8.8%); Guinea (15.4%); Togo (15.2%) while Benin is (16.0%). While Liberia's GDP ratio is commendable, it fell short of the UN Millennium target of 22% (Average GDP ratio of 18% plus 4%).

2.4 Liberia's Budget Performance

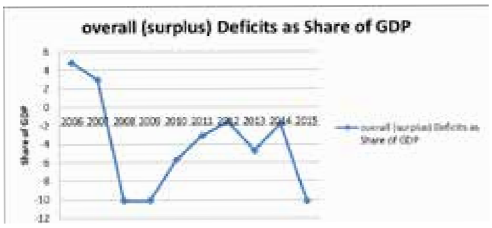
In the late 1970s and virtually through the 80s, Liberian government adopted an expansionary fiscal policy through the implementation of the First Socio-Economic Development Plan. The plan was to ensure the diversification of the economy in order to broaden its export base and promote food production. The implementation of the plan resulted in huge budget deficits as well as a through implementation of a policy of salary and wage increase. Assessing the financial operations of government over the period 2006 – 2015, paints a picture of a not too favorable transaction, except for years 2006 and 2007. Overall Deficits as share of GDP were incurred in 2008 to 2015 (See Table 2.3 and Figure 2). Deficit financing through borrowings increased the debt burden of government and crowded out the private sector.

Table 2.3: Liberia Overall (Surplus) Deficits as Share of GDP

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
overall (surplus) Deficits as Share of GDP	4.8	3	-10	-10	-5.7	-3.1	-1.6	-4.7	-2	-10.2

Source: IMF World Economic Outlook (WEO) Database; Authors Calculations

Figure 2.0 Overall (Surplus) Deficits As Share Of Gdp



Source: IMF World Economic Outlook (WEO) Database; Authors Calculations

2.5 The issue with aid flows and dependence

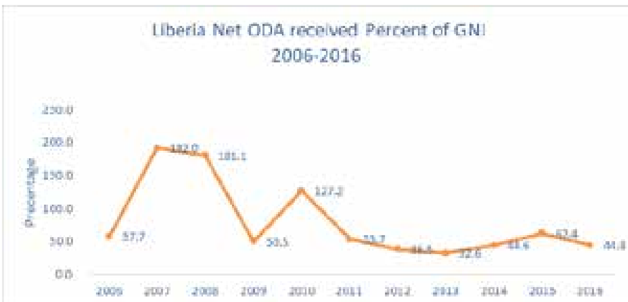
As stated above, the Government of Liberia faces a range of fiscal constraints arising from a large informal sector, the hard-to-tax businesses, and the inadequate performances of some core taxes, which compelled the government to bring deficits under control through foreign assistance and eventually the need for aid.

Liberia has been a high recipient of aid follow given the reported Official Development Assistance (ODA) report by the World Bank Development Indicators. Figure 2.0 illustrates the flow of development assistance to Liberia between 2006 -2016.

The analysis shows that ODA is clearly finite and fluctuates over time. As depicted by the graphical representation (See Figure 2.0), ODA peaked in 2007 with a performance of 192 percent of Gross National Income (GNI). The years following was volatile and uncertain until the outbreak of the Ebola virus where the country experienced the inflow of Ebola-related aid of 44.6% of GNI.

While it is not expected that aid cut back will occur in the medium term, it is expected that aid flow will decline in the long run. Therefore, it is imperative that Liberia grows and graduate from aid dependency and face the challenge of increasing its domestic revenue and control expenditure on public goods and services.

Figure 2.1 Flow of Official Development Assistance to Liberia



World Bank Development Indicators 2018

2.6 Fiscal Reform and Modernization

Extensive changes were made to the tax system from 2000. The Revenue and Finance Law was repealed in its entirety and replaced by Phase one of the Revenue Code 2000 enacted in August 2002. Though not flawless and simple in some provisions which will be covered in subsequent chapters, generally, the new code removed and minimized financially stringent trade barriers and enhanced the competitive trade position of Liberia with the rest of the African region and the world. The 2000 Act was further amended to address some of the complex policy issues affecting the collection of taxes and high tax incidence. The amendment of 2011 consolidated all provisions of the old 2000 code, introduced some new provisions and amended some provisions. For instance, the income tax bracket was reduced from a band of 8 to a band of 4 in conformity with acceptable best tax practices. This change saw the Marginal Personal and Corporate income tax rates reduced to 25 percent respectively in 2011 from a rate of 35 percent.

In addition to these changes, a new regime for mineral extraction and taxation was enacted with variable income tax rates to replace individual and more discretionary agreements. The establishment of the Natural Resource Regime brought increase mining revenue prior to the economic crisis and the sharp decline in commodity prices. The sector attracted the largest inflow of Foreign Direct Investment (FDI) amongst Liberia productive sectors. Growth in the mining sector resumed with increase export in 2011 and the mining output peaked in 2012. The Sector, which contributed 9.2 percent of GDP in 2008 peaked to an estimated 11.2 percent of GDP in 2015[7] .

The tax code is adequate for taxing the mining sector, however, the challenge is imposed by the concession agreement, which has terms not in conformity with the mining regime of the tax code. Most of these challenges are centered around the tax break (Tax incentives awarded to the concessions) which will be covered in later chapter.

Noticeable among the many reforms and moderation efforts was the establishment of the Liberia Revenue Authority (LRA). The key reason of separating the Department of Revenue from the Ministry of Finance and creating an autonomous revenue authority was to improve domestic Resource mobilization through a strengthen tax systems and administration. It is widely accepted that a well-functioning tax administration is essential to mobilizing domestic resource[8]. This is indicative of the fact that design of the tax system should be influenced by the ability of the tax administration to administer it.
The Act establishing the LRA was enacted on September 19, 2013 and published into handbill on the 21 of September the same year[9]. Full operations did not begin until July 9, 2014, following the outbreak of the Ebola crisis.

2.7 Revenue Perfomance and Trend for selected taxes

In Appendix 4, the data on total revenues collected according to the various sources for the year 2006 to 2016 is provided. Here, we will look at some of the dimensions of the revenue challenges inherent in the performance of some of these core Tax Revenues. Improvements in the administration of some of these core taxes could substantially enhance revenue generation as they are already important sources of national revenues.

The personal Income Tax and Corporate Income Tax

Policy Reformed as mentioned earlier brought a significant change to the PIT and CIT structure within Revenue Code of Liberia. Top Statutory rates of CIT and PIT have been reduced. Both rates were reduced from 35 to 25 percent as a means of alignment to mitigate the risk of tax avoidance.

Between FY2006/08 and FY2016/17, the revenues from both CIT and PIT averaged about 9.5 and 18.9 percent of total revenue respectively (see appendix 4). The percentage growth rate of the PIT peaked at 150 percent of total PIT collected in FY2012/13 from previous year 2011/2012.

[7]MFDP, Annual Economic Review, 2015; IMF Article IV Consultation, Liberia Report, June 2012
[8]Supporting the Development of more Effective Tax System, G-20 Report, 2011
[9]"An Act Establishing the Revenue Authority, Republic of Liberia", www.lra.gov.lr/Official_files/revenue _act/revenueauthority.pdf

There was no evidence to show that the change in rates were as the results of the increased tax revenues from PIT. However, other factors – the growth in employment and wages, and the ease of collecting this tax, which is most often withheld at source, could explain the performance of the PIT.

Performance of Corporate Income Tax, on the other hand, has been slightly moderate and on a declining trend. The highest performance of CIT was recorded in 2010/11 at 84.5 percent higher than previous year and then in 2011/12 at 49 percent, a little below the performance of the previous year.

The volatility and poor performance of the CIT can be attributed to several factors: (1) burden of self-assessment which increases the compliance time of returns filers and the large informal sector not captured in the tax base.

This calls for clear articulation of the self-assessment system and the scope of the changes needed, and (2) the increasing incentives given to corporations pose concerns of the effectiveness and leakages in the collection of the CIT.

A looming threat that may have an adverse effect on the CIT is Profit-Shifting by Multinationals. This is an increasing concern globally, which is likely to undermine the effectiveness of the CIT in the coming years. In fact, there are instances of Transfer Pricing case reported by dispute resolution agency. [10]

On the peripheral and as a consequence of the recession, the performance of the CIT and PIT is not favorable, as CIT is down to negative 4.1 percent and PIT down to negative 3.9 percent in 2016/17 compared to the previous year. A critical administrative challenge is migrating taxpayers operating in the informal sector to a category of large or medium taxpayers. As mentioned earlier, this is a huge challenge for the LRA as data within SIGTAS is inconsistent on the number of large taxpayers and on registered businesses.

Figure 2.2 Percent Growth Year-to-Year and Revenue Performance CIT/PI

Source: Ministry of Finance and Development Planning, Liberia

Source: Ministry of Finance and Development Planning, Liberia

The Goods and Service Tax (GST)

The current sale tax is levied on goods and services, and together they are referred to as Goods and Service Tax (GST). The GST is applied to registered manufacturing and taxable import at a rate of 10%. This system is based on a single stage manufacturing level sales tax using the ring system. That is, according to the Revenue Code provision 1001f, Manufacturers are given exemptions on inputs and imported inputs of raw materials to the extent that the inputs are used in making taxable supplies. The ring system is meant to eliminate the cascading where sales tax does not apply between registered producers.

Enhancing revenue from the GST is considered a key source of tax yield particularly given it is a general consumption tax.

[10] The Board of Tax Appeals recently concluded a case between West Africa Diamond Inc. and West Africa Diamond LTD vs. the LRA. Incidence of transfer pricing was uncovered but could not be reviewed by the Board as a result of the absence of the Transfer Pricing Regulations not in effect at the time of the case.

However, the GST administration has been relatively weak netting on average 5.4 percent of total revenue from the period of 2006 to 2017[11]. One feature of the economy that affects the potential tax collections from GST is the size of the informal sector.

The underlying source of imperfect compliance of the GST is the basic level of illiteracy, inadequate record keeping, weak accounting systems evidenced by the large informal business sector, and the low GST rate as compare to other economies in the region. This imperfection is also characterized by the insufficient awareness or education on the part of the Tax Administration given to taxpayers to comply with paying GST.

The Revenue Authority has the responsibility to create robust education awareness and improve taxpayers' services on the compliance of domestic GST. Figure 2.2 shows the trend and average of GST performance over the years.

Figure 2.3 General Sales Tax Revenue

Source: Ministry of Finance and Development Planning

Tax on International Trade

Since 2006, trade revenue has been constantly improving. The amendment to the Revenue Code 2011 helped to facilitate this trend, with the excise rate increasing to 50 percent and the GST on imports up to 10 percent.

For Liberia, imports form significant tax handle for both import duties collected and for capturing the import component of the GST under the 'ring-fence' system. Given the economy has a large informal sector, taxation of imports that are inputs into the informal sector production are captured fully at the port of entry. Export receipts, on the other hand, face a challenging of balance pressure from weaker exports. With weaker iron ore and rubber prices, total export earnings declined by 45 percent in 2015. Despite the earnings from Gold exports is expected to remain weak[12].

Given the data used, the variables of the fiscal years between 2006/07 and 2016/17 is included to pick up any trend in the performance of the taxes on trade. Figure 2.3 shows that after a slump at negative 0.05 percent in 2012/13, trade tax shows a significant positive effect between 0.04 and 0.1 percent increase in taxes for 2013/14 and 2015/16 fiscal years and slightly decline in 2016/17.

The accession to World Trade Organization (WTO) protocols ratified by the legislature in April 2016 is a sign that revenue from Trade would improve significantly.

However, as emphasized elsewhere in this study, there are intensified challenges due to unfavorable tax collection characteristics as a result of the use of BIVAC Pre and Post shipment inspection arrangements as opposed to the stipulated procedures enshrined in the agreement detailing Liberia's accession to the WTO protocols.

Figure 2.4 Taxes on International Trade

Source: Ministry of Finance and Development Planning

[11]The analysis of GST excluded the collection of Maritime Revenue which is not actually a domestic consumption tax.

[12]IMF, Liberia, Article IV consultations and Staff Report, July 2016

Property & Real Estate Tax

In FY2006/07, taxes on property accounted for US$908k (.006%) of total tax revenues (US$140,957k); while in FY 2016/17, they accounted for US$5,096k or .013% of total tax revenues (US$385,378k). Based on the analysis, while its contribution has been increasing over the years, taxes on property remain the least contributor to total tax revenues. In terms of its contribution to 2017 GDP[13], taxes on property generated .0023% of GDP in 2016/17. This percentage is far less than the international benchmark of 0.3 -0.6% of GDP for developing and transitional countries (Kelly, 2012).

In assessing the challenges faced by the Real Estate Tax Division, the consultants found the followings:

- Work on the Geographic Information System (GIS) the system or platform that provides information on property location, ownership, and estimates valuation is in progress;
- Currently, the estimated number of properties listed on the tax roll is about 11,000, and that mapping exercise is ongoing;
- That about 75% of properties listed on the tax roll contains unclear information, and vague address with questionable location;
- Property owners provide vague addresses in order to avoid or evade tax payment; LRA does not have adequate information to determine property location;
- Weak real estate laws and weak enforcement laws.

In house LRA technicians think that decentralization of property taxes to local government, especially implementation – mapping entire city, property place on tax roll, assessed accurately and revenue collected and enforced should be the responsibility of local government, while central government have the responsibility to provide policy and technical assistance.

There is evidence of a pilot project on decentralization ongoing in Buchanan, Grand Bassa County but with challenges on valuation of properties and updating the tax roll for reasons stated above.

We found out through the study that it is required by law that every property should be registered with the government upon acquisition with in a period of 30 days. This is hardly the case. Property tax agent relies on voluntary declaration from individuals to populate the cadaster. 90% of the cadaster is populated by commercial property (commercial property brings in significant portion of tax revenue) through the effort of the tax agents who tracks these entities.

The lack of credible secondary source of information such as functional land registry and information on the value of property also imposed constraints on the coverage.

Given the estimated 11,000 properties listed on the tax roll, the 2008 LISGIS Population and Housing Census Statistics, the summarized table below clearly show the potential for mobilizing improved revenues from property and real estate tax.

Table 2.4 Summary Statistics on Population and Housing

Population	3,476,608
Growth Rate	2.1
No. of Households	670,295

Source: LIGIS 2008

Household Structure in Percentages

1.	Concrete	50%	335,148
2.	Mud	25%	167,574
3.	Zinc	15%	100,504
4.	Thatch	7%	46,921
5.	Tarpaulin	3%	20,109

Source: LIGIS 2008

[13]Liberia 2017 GDP at current price was 2.158 billion as Estimated by the World Bank

Non-Tax Revenue

Liberia non-tax revenues consist of the Royalties from mining, other mining revenues (Licensing fees), Petroleum bonus and fees, GSM Licensing, Royalties and fees from agriculture products, revenues from other collecting agencies including the Ministry of Transport and other government agencies. Figure 2.4 illustrates the performance of Non-Tax Revenue between 2006 and 2017.

In FY 2007/08 non-tax revenue raise to 30million from under 10million US dollars (an increase of 329% percent changes from previous year). This growth in non-tax revenue was as a result of the influx of Foreign Direct Investments--payments of bonus fees, Licenses, and royalties on mining and other direct investments. The years following had been considerable moderate with a steady growth in the collection of non-tax revenues netting about 80 million US dollars in FY2016/17.

Apart from the collections of Royalties and Bonuses, as evidence from the files reviewed, fees and taxes on motto vehicles contributed greatly to the growth of non-tax revenue at an increasing rate.

With evidence that tax from the Ministry of Transport is a steady source of revenue for the Government of Liberia, the team visited the Ministry of Transport and gathered that motor vehicles registration is a cumbersome business process that involve different manual processes with critical administrative challenges. E.g., the security of stamps and stickers and the monitoring by the joint LRA, National Police, and Transport team is not effective. At the point of the stickers, control on the accountability of the stickers are lacking resulting to several vehicles with sticker but no proof of registrations and payments. While at the same time monitoring by the joint vehicle task force team is not free of bribery and rent-seeking. Though taxpayer's perception of the service is satisfactory as seen in appendix 2, there is significant reform efforts needed to improve collections on the supply side.

A broader remedy to collection challenges is to involve the private sector in tax collections in this situation. There are evidences to substantiate that involving the private sector in the collection of taxes may contribute to broadening the tax base and address capacity constraints in administering the tax.[14]

An approach could be the used of the transport unions wherein the stickers would be distributed to and accounted for by each transport leadership that will serve as agents for tax collections. This scheme was successfully used in Ghana but ended due to the lack of a sticker system[15]. This initiative should be considered carefully, however.

The mining sector[16] has been a significant target for Liberia's revenue given that it has several tax handles (i.e. Royalties and Rents) in term of ownership and has an output that is measured and exported.

Over-reliance on the mining revenue over the years has likely reduced the pressure on the government to increase its tax efforts-increase domestic resource mobilization. Therefore, it is important to note here that dependency on non-tax revenue inclusive of grants weakens tax efforts. Nonetheless, there are other collection agencies that consistently produce revenues for the government that has administrative challenges and need to improve on its collection's characteristics.

These entities include the Ministry of Transport, Postal Affairs, The Division of Passport and the Bureau of Immigration. Increasing the capacity of these institutions would generate more revenues as compared to the current collections. Figure 2.4 gives a trend of the revenue from 2006 -2017.

[14]It is important to note however that contracting the collection of taxes to private organization is risky as this may lead to harassment of taxpayers and possible lower the tax collection. "Designing a Tax System for Micro and Small Business", World Bank Group, 2007.
[15]"Building Tax Compliance through Reciprocity with Government", Ayee, 2007
[16]Includes the Petroleum exploration and Gold sectors

Figure 2.4 Non-Tax Revenue

Source: Ministry of Finance and Development Planning

2.8 Regional Comparison of Tax-to-GDP ratios and Tax Productivity

The impact of domestic tax capacity shows up strongly when the level of government revenues is compared across different Countries or Regions. We present a regional pattern and trend in collections of taxes using the tax-to-GDP ratio.

In aggregate, intake increase overtime as Liberia surpasses other countries in the region. The tax-GDP in Liberia rose from 10.9 percent in 2005 to 21.1 percent and 2012, by 2014 the ratio shrank to 19 percent.

Liberia's performance in fact did surpass its regional partners - Sierra Leone, Guinea, and Togo. Carefully examining the regional comparators, the high tax-to-gdp ratio performance of Liberia may have resulted from discrepancies in its National Accounts leading to underestimation of its GDP base. However, the improved voluntary compliance, robust enforcement of tax collection and other efficient tax policy measure may explain performance of the ratio. (see appendix 1).

It is, however, of interest to note that the ratio of tax to GDP is ineffective and distortionary in giving a clear picture of Liberia's Tax performance by regional comparison. There are differences in compliance with policies on taxation and trade, diversity ranging from national differences in GDP per capita, corruption index, trade openness, population growth and agriculture value added.

This feature requires a more robust structural tax capacity analysis using a standard regression analysis not covered in the study. Empirically, a study conducted by J. G. Stotsky et al on the Tax Efforts in Sub-Saharan Africa found that countries with relatively high tax share tend to have a relatively high index of tax effort.

A higher share of imports in GDP also offers the opportunity of improving taxation efficiency (stotsksy et al 1997).

In the absence of the robust regression analysis on estimating the tax effort, we used The Collecting Taxes Productivity index developed by USAID. Again, we compared Liberia with its regional economic groupings to ascertain the performance of the core taxes.

The Tax Productivity index measures how well a particular tax performs in generating revenues for the government, given its overall rate structure, and how well the overall tax system produces revenues, given the costs of administering the tax system[17].

Using the 2012 and 2013[18] data as shown in Table 2.3 on the page following, the Productivity of the GST for Liberia is below regional average and stands at 11.0 in comparison. Compare to the economic groupings, CIT is on par with the regional average of 0.10 in 2013. PIT shrank from 0.29 to 0.08 in 2013.

These averages performance can be attributed to factors that make the collection of these taxes infeasible, expensive or unproductive. This may be as a result of poor administrative procedures and practices, relatively high illiteracy rate that makes compliance with self-assessed taxes such as the income and GST taxes difficult and large informal or micro-business enterprises. These issues are addressed in the next two chapters.

[17]http://www.usaid.gov/opengov/developer/datasets/Collecting%20Taxes_About%20the%20indicators.pdf
[18]Collecting taxes calculate the productivity by dividing the tax yield as percent of GDP by the headline rate of each tax. There were no updates available for 2014 -2016.

Table 2.5 Tax Productivity

Selection Countries	CIT Productivity		PIT Productivity		VAT/GST Productivity	
	2012	2013	2012	2013	2012	2013
Benin	**0.05**	0.05	0.04	0.11	0.39	0.39
Cote d'Ivoire	0.11	0.05	0.01	0.08	0.09	0.06
Guinea	N/A	N/A[19]	0.07	0.08	0.31	0.37
Liberia	0.09	0.10	0.29	0.08	N/A	0.11
Sierra Leone	0.06	0.02	N/A	0.11	0.22	0.19
Togo	0.03	0.04	0.02	0.05	0.39	0.46

Sub-Saharan Africa Ave	**0.1**	**0.13**
Low-Income Countries	**0.09**	**0.14**

Source: Collecting Tax Database, USAID 2013

3.0 THE ROLE OF TAX & NON-TAX INSTITUTIONS IN RESOURCE MOBILIZATION

3.1. The Liberian Legislature & The Legislature Budget Office

The Liberian Legislature, under the Constitution of the Republic, has the prime responsibility to make laws including laws governing taxation and the establishment or approval of all policies affecting the generation, mobilization, and utilization of taxes and non-tax revenues.

It is in the lower House, the House of Representatives, where fiscal and financial bills, including the National Budget consisting of revenue generated through taxes and non-tax revenues and expenditure originate. The upper House, the Liberian Senate may propose acts to be made into law or simply concur with the actions of the Lower House.

It is the Legislature therefore that levies all taxes on citizens and residents and it is the same Legislature that must determine how resources mobilized are to be utilized, be it for the upkeep of the Army, protect the nation or support its citizens in pursuit of their happiness and wellbeing.

Both Houses in the Legislature work through Committees and in addition there is a Legislature Budget Office (LBO) created by Act of the Legislature in August 2010.

The purpose of the LBO is to serve as a technical arm of the Legislature to collect, review, analyze and ensure that adequate consideration is given to the processes, intends and justifications for all allocations, ensuring that they comply with national goals and objectives.

The LBO is to also collect, process and interpret for members of the House or Senate, as well as for their committees, information, and data relevant for the projection of tax revenue as well as non-tax revenues.

In practice, the LBO works along with the MFDP to ensure that the appropriate Committees in both the House and the Senate are informed and supplied with all required information to enable the committees to propose to their Plenaries the appropriate actions to be taken regarding the bills and legislation for passage into law.

As is the case with other entities in both the Executive and Legislative Branches, the LBO desire additional technical staff and additional budgetary appropriations to enhance its administrative effectiveness.

3.2 Department of Fiscal Affairs, MFDP

This Department has responsibility for the Country's fiscal matters, mainly expenditure and revenues. On the Revenue side, there is the semi-autonomous Liberia Revenue Authority so this Department responsibilities are limited to Tax Policy, which includes drafting legislation, regulations and procedures, the development of international tax policies including but not limited to harmonization of taxes within the Mano River Union, ECOWAS, and the African Union.

The head of this Department is the Deputy Minister for Fiscal Affairs and in the absence of the Minister of Finance and Development Planning, the Deputy Minister for Fiscal Affairs acts as the Minister for Finance & Development Planning. Establishing appropriate fiscal policies is important for enhancing DRM.

3.3 Department of Budget & Development Planning

This Department has the responsibility to prepare, frame and implement the annual national budget. The preparation of the National Development Plan is also the responsibility of this Department.

On a regular basis this Department, as part of its budget responsibility, ensures the National Annual Budget is implemented and monitored. It works closely with the CBO and undertakes fiscal consolidation, always under the guidance of the Legislative appropriate committees and the Minister of Finance and Development Planning.

Monitoring the Budget execution is important in the use of scarce resources and by extension, affect DRM.

3.4 Ministry of Lands, Mines & Energy

The responsibility to control the issuance of permits and licenses allows the Ministry to levy various fees, fines and obtain payments from businesses in the sector for the granting of all such licenses including Prospecting Licenses, Brokerage Licenses, Export Dealership Licenses and Licenses to deal in Scrap. The Ministry also negotiates royalty payments for mineral exploration and export. It appraises Diamonds and Gold and controls the mechanisms over their production, sales, and export from Liberia.

This Ministry has control and supervision of the Country's endowment of land, mineral resources, and energy. The responsibility of Land is now being transferred to the new Land Authority.

In view of the country's rich endowment of mineral wealth, the Ministry's Department of Mineral Exploration and Research and the Department of Mines & Mineral Resources grant various permits and licenses to enable Liberian nationals and businesses and foreign individuals and businesses to undertake mining operations in the country. For diamonds, which have been the subject of international deliberations with the view of trying to stop the trade in "blood diamonds" the Ministry of Lands, Mines & Energy in collaboration with an International Diamonds Office, controls the issuance of Kimberly Certification, indicating the origin and approximate value of diamonds exported from Liberia. The Ministry is, therefore, an important player in mobilizing resources from the mineral sector.

3.5 Ministry of Commerce and Industry

The Ministry of Commerce & Industry has the responsibility for the growth and development of the economy through the promotion of domestic and international trade and the development of industries. Its functions include but are not limited to establishing and regulating trade standards, establishing and enforcing good standards for businesses, the issuance of import and export permits and licenses, the issuance of business registration, ensuring quality control of goods particularly edibles, and monitoring and regulating prices on the market.

The Commerce & Industry Ministry also co-partner with other Government agencies such as the Ministry of Foreign Affairs to operate "one stop shop" to establish corporate entities expeditiously. With the initial registration of a new business and the annual renewal of business registrations, with the administering of fines and the granting of various permits and licenses, the Ministry is an important player in DRM.

3.6 The Liberia Maritime Authority and the Corporate Registry

For overseas companies, wishing to have their operations, particularly their ships registered under the Laws of Liberia or registered under the Liberian Flag to ply international waters, the Liberian Corporate Registry, with 60 years of experience in the business, offers a good service. Although Liberia has no shipping fleet of its own, it is recognized as having a lucrative maritime program, well known in the industry and projecting Liberia as an important maritime nation. LISCR Trust Company, a private entity, serves as the exclusive agent of the Registry and it functions as an integral part of the Liberia Maritime Authority.

The Registry, through LISCR and the former agent, Liberia Trust Company, is an important source for resource mobilization for the country.

3.6 The Ministry of Transportation

The Ministry of Transportation, which was formally a department in the Ministry of Commerce and Industry, has responsibility for regulating all means of transportation in the country and the granting of licenses to operators as well as vehicles' operating licenses. The Ministry's responsibility covers not just land transportation but also air and water. Thus, the Ministry is responsible for the various airports in the country including Roberts International Airport, the Civil Aviation Authority, etc.

Although the market is free for anyone to run public transportation, the Ministry of Transportation does regulate, from time to time, the fare structures for ground transportation in parts of the country. From the perspective of DRM, the licensing and the annual renewal of licenses for vehicles, trucks and other heavy equipment, three and two-wheel vehicles and the issuance of operator's license are all sources for generating revenues.

3.7 The Courts

The Liberian Judiciary, in addition to its prime role of dispensing justice to all, does generate some revenues for the State. Revenues are collected from fees and fines, Costs of Court, Contempt of Court charges, Oath of Allegiance charges, Traffic Tickets charges and Concession Security charges, amongst others. Typically, when a Judge renders a decision to fine a party litigant or when the Court through the Sheriff or the Clerk requires the payment of a fee, fine or cost, the party litigant who must make the payment goes to the LRA and makes the payment, receives a receipt which is then taken to the Court as a confirmation that the fee or fine has been paid into Government revenues. Between the financial years 2007/08 to 2016/17, the following non-tax payments were made by orders of the Courts at the Temple of Justice and paid into the General Revenues Account of Government:

Table 3.1 Temple of Justice Revenue Contribution 2007-2016 in Thousands

Year	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	15/17
AMOUNT ON US$ 000	8	3	17	11	11	14	41	22	26	22

Source: MFDP Forecasting Unit

4.0 RESOURCE MOBILIZATION CHALLENGES: THE LIBERIA REVENUE AUTHORITY

4.1 Achievements & Recent Reforms

On June 30th, 2018, the Liberia Revenue Authority ended its fourth full year of operations as the top most important establishment dedicated to the mobilization of national resources by virtue of its primary role of collecting legitimate taxes and other non-tax revenues. To discuss the challenges affecting the tax administration's ability to mobilize resources, it is useful to begin by outlining the current achievements of the LRA so as to ascertain what have been successfully undertaken and what structures and procedures need improvement.

LRA Annual Reports for its first three years show good progress and revenue growth. Actual domestic revenue collected is indicated in the Table below. In its first full year of operation, Financial year 2014/2015, actual revenue performance against target amounted to 105%. In the second year, FY2015/16, LRA collected 109%, that is 9% better than expected. In the third year, however, actual performance was only 88% of target.

Table 4.1: Revenue Report 2016-2017 (Figures In Us$'000,000, Except For

Description	1st Year (2014/2015)	2nd Year (2015/2016)	2nd Year (2015/2016)
Total National Budget	635.2	522.8	600.2
Domestic Revenue Target	417.2	416.3	525.0
Revenue Target as a Percentage of National Budget	66.7%	79.6%	87.5%
Domestic Revenue Realized	437.2	452.8	461.8
Percentage of Target Realized	105%	109%	88%
Number of Taxpayers on LRA Roll	30,513	40,140	51,880
Percentage Cost per $1 Collected	3.0%	3.9%	4.9%

Source: Liberia Revenue Authority Annual Report 2016/2017

For the two financial years prior to the establishment of the LRA, domestic taxes comprising CIT, PIT, Excise Duties and GST collected by the Department of Revenues in the then Ministry of Finance, was US$359 million in 2013/2014 and US$382 million. LRA has made a difference and collected more taxes than the Department of Revenues in the Ministry of Finance in each of the two years prior to LRA start-up. There have been several other achievements and from the LRA reports, several key milestones have been reached, including those listed above, in just three years.

In addition, we list below some of the recent administrative reforms launched by the LRA:

I). The Establishment of the Transformation and Modernization Division; This Division manages the administration reform agenda through resource coordination, projects management and result-oriented monitoring and evaluation for all existing and future projects and programs;

II). The Establishment of Call Center based on TADAT assessment; The program is not yet digitized to effectively log calls for future reference;

III). The Creation of the Mobile Money Platform to enable easy payment of taxes and fees and to reduce the time to comply with payment of taxes. The Mobile payment covers CIT, PIT, Excises, GST, RET and Business Tax;

IV). The Creation of E-filing platform to provide convenience to taxpayer filing returns manually. The E-filing platform would reduce the compliance cost for all return filers and the time it takes to comply. The Platform, however, is limited to Large Tax Payers only;

V). The ongoing automation and establishment of a Centralized Customs Declaration Processing system, which when fully operational, will allow Customs users to adapt to a paperless environment and reduce clearing period. The process will enable ASYCUDA to be available online through the internet; and

VI). Establishment of an Authorized Customs Operation Scheme with limited users. The impact of these reforms measures is yet to be fully assessed.

4.2 Challenges affecting Tax Administration

As a semi-autonomous agency within the Executive Branch of Government, the LRA has an elaborate organization structure. Governed by a Board of non-Executive Directors, the aLRA has five top Executive Commissioners; two of them are responsible for the LRA's core businesses – one for collecting Domestic Taxes and the other collecting Custom Duties. The two departments are headed by two Commissioners. There are two other departments – Technical Affairs headed by a Deputy Commissioner-General and Administrative Affairs, also headed by another Deputy Commissioners. The fifth is the Commissioner General who is in overall charge of the LRA and its Chief Executive, reporting to the Board. The Commissioner-General also has a functional responsibility to the Minister of Finance and Development Planning.

The LRA has about 23 different sections engaging, at the latest count, 1066 employers and contractors. There are some 200 other staff personnel engaged with or by the LRA for various services. While one gets the impression that, compared to other governmental entities, the LRA is a giant organization with lots of people moving robustly like a piece of heavy equipment to collect lawful taxes in keeping with the Tax Code, the USAID's Benchmark Study finds that the LRA is not overstaffed.

This Study was not specifically an assessment of the LRA, but the Consultants have had the opportunity to review the TADAT Performance Assessment Report of July 2016 and the USAID's Benchmarking the Tax System in Liberia of February 2017. Given those reviews and the results obtained from our own Field Study, there are some key issues to be addressed if Tax Administration is to be improved to enable DRM to be enhanced. Here they are with specific regards to the LRA:

1. Broadening the Tax Net, expanding the taxpaying base

I). The LRA reports that in the three financial years since it became operational, the numbers of taxpayers on the Roll were 30,513 in the year 2014/2015; 40,140 in 2015/2016 and 54,880 in the year 2016/2017. That is an average increase of over 12,000 new taxpayers added to the roll yearly. That is positive, and an important objective to continuously pursue. In our Field Study, however, several persons interviewed are of the view that only a small number of taxpayers are being taxed and re-taxed to the point of being overtaxed. They wish to see many more taxpayers contribute to DRM. In this Study, we learned that the Large Tax Department (LTD) and the Medium, Small and Micro Tax Division (MSMTD) do have tax rolls but they have not been fully synchronized with the Standard Integrated Government Tax Administration System (SIGTAS). Accordingly, there is a mismatch of registered taxpayers by segmentation and the number of registered taxpayers in SIGTAS. This has created a problem in identifying active and inactive taxpayers and would result in inconsistency in payment of taxes across segments with such an unreliable tax roll.

Mitigating the risks associated with an incomplete Tax Roll is important. The weak tax roll database is attributed to the lack of proper procedure to de-registered inactive or dormant taxpayers. In practice, the Taxpayers Service Department tracks new applicant only and does not routinely follow-up on inactive taxpayers. This has resulted in an overstatement of the tax roll and inaccuracy of the number of taxpayers actively involved in the economy. Though there is evidence of efforts on the part of the LRA to mitigate some of the challenges on the tax roll, for example, enterprise coding done in collaboration with the Liberian Business Registry and inspection visits to Businesses, there are enormous work needed to be done to computerize most of these procedures and follow-ups so as to avoid the loss and inaccuracy of taxpayer information. This is certainly an area that requires attention.

The LRA has recognized this inconsistency and has reported the problem in its 2016/17 Annual Report by stating that it has embarked on plans to mitigate the risk associated with the incorrect and incomplete tax roll. and it is not clear what magnitude of urgency the LRA is giving to it. Some information on the tax roll are presented elsewhere in the report. However, further analysis on the tax roll could not be done because information had not been made available at the time of this writing.

II). The TADAT Assessment Report indicates that the Database is not computerized outside Monrovia and the information contained on the roll is generally inadequate. The process of registering is weak and no means of identifying taxpayers that are active and those that are not.

III). Approaches should be made to register taxpayers from the vast informal sector, including residents in the urban areas. This may require working with marketers and other business organizations.

2. The Table 4.1 above on page 29 indicates that it cost an average of 3.93% to raise every $1.00 in taxes[20]. In other words, during the financial year 2014/15, it cost three cents to raise $1.00 in taxes . In actual terms, the cost rose from 3 cents for every dollar of taxes raised in the first year of LRA's operation to 3.9 cents per dollar in the second year and to 4.9 cents for every dollar of taxes collected in the third year of operations. LRA's costs includes salaries and other benefits for its employees, goods (equipment, machinery, vehicles) and services, rent for the NASSCORP building and other offices it is leasing and for other capital investments.

[20]The Administrative cost for raising revenue does not include the compliance cost borne by the taxpayers in this case.

I). It is not clear whether the cost to revenue collected ratio will go down, up or remain constant. It will depend on whether LRA needs to acquire further investment in higher quality and more costly staff, build greater capacity in the existing staff, purchase more equipment and machinery to further enhance its capacity, etc. Recently it was announced that LRA was mandated to pay monies to some former staff members who had been discharged from the LRA or have them re-hired. Such interventions, be they legal or political could undoubtedly increase the ratio.

II). It is required that the LRA expands its outreach. Taxes should be collected from all parts of Liberia. That of itself will require more expenditure.

III). It is felt that the current average cost of collecting tax ratio is on the high side by comparison to other countries. USAID's Benchmarking Report believes that there is plenty of scope for the LRA to reduce that ratio

IV). To achieve the twin objective of outreaching to more places in Liberia and reducing or keeping constant the cost of tax collection ratio, consideration should be given to outsourcing certain services to competent private sector players on commission basis.

3. As indicated above, reference was made to LRA's staffing. While it is felt that the LRA is not overstaffed, some critical areas are not appropriately and adequately staffed.

I). As observed by our team visiting the LRA, in the Audit Department, there are needs for more auditors. This finding was also highlighted in the USAID report while at the same time Interviewees from the Board of Tax Appeals also have stated that when Taxpayers take appeals to the Board for hearing, the LRA's representation hardly ever includes Auditors as witnesses to testify to the audit which may have led to the Taxpayer's appeal. The LRA's representations at appeals before the Board are always dominated by Lawyers. (See the section on additional challenges for a full detail on tax audit capacity.)

II). Taxpayers appearing at the LRA to make tax payments or to request explanations for tax determination given, meet what they described as "Clerks." These clerks do not always provide satisfactory solutions and the Taxpayers' requests for the interventions of Supervisors are hardly ever met. Meeting such requests enhances the services to taxpayers as customer of the LRA. One taxpayer has specifically recommended that an adequate number of Supervisors be on hand, at or behind the duty stations, to provide the level of comfort taxpayers need to ensure that what the Clerks indicate are indeed correct.

4.3 The Inadequacy of Tax Awareness

Information obtained from Board of Tax Appeals annual report for 2013, indicates that the responsibility of Liberian citizens and residents to voluntarily pay their taxes was not known in many parts of the country. During the Board's first series of Town Hall Meetings, it was clear that in Pleebo, Maryland County, many residents and citizens were not cognizant that they were "taxpayers." When the Speaker at a Town Hall Meeting asked for all taxpayers to lift their hands, only about five percent of those in the audience showed their hands. When the speaker changed the question and asked for a show of hands of all those who had travelled across the Cavalla River to buy produce such as pepper and tomatoes in La Cote d'Ivoire and upon their return were asked by the Liberia Customs to pay a duty? A large number showed hands. They did not know that customs duty is a form of tax. They also did not know anything about Real Estate and other Taxes. The only tax most of those attending that particular Town Hall Meeting knew, at that time, was with-holding tax their employers deducted from their salaries and paid into Government Revenues. Four years later, in the same Pleebo, the situation was different. Most participants knew of many of the taxes and could proudly report they were "patriotic taxpayers."

Again, traveling in South East of Liberia the Board of Tax Appeals' Team stop at a petroleum station to purchase gasoline for their vehicles. When asked for receipts, the station attendant had no receipt book from which to issue receipts for the sales. "How would you know", the Salesman was asked, "how much you sell and how much tax you will have to pay?" The Attendant questioned: "Pay what? Pay tax in my own country?" His questions suggest that as a Liberian, he did not feel he had the responsibility to pay taxes. Who will build our roads, our schools, and our hospitals? The answer one gets is that Liberia can get the World Bank, the European Union or the United States for aids to build our roads, our schools, and our hospitals.

That ignorance about our responsibility as Liberians to pay legitimate taxes is pervasive amongst many Liberians in several parts of the country. To change that, we need education and more education. We need to be made aware of our responsibility and our rights as taxpayers.

Additional comments regarding improving tax administration and the current system are captured in the Interviews Report and questionnaires filled out by stakeholders.

4.4 Additional Challenges in Domestic Resource Mobilization

The LRA Tax Audit Capacity

In any efficient Tax Administration system, audits are critical components in mitigating revenue leakages. There are three aspects of a good or successful audit - the Audit itself, the capacity of the Auditors (training), and the control mechanisms in the exercise (Ebrill et al, 2001).

Figure 4.1 Tax Audit Component

The first component an audit program focuses on should be the basis of selection of the taxpayers to be audited. What is the probability that the targeted taxpayer has underreported his/her liability? In-depth interviews and reviews of earlier reports[21] on audits programs revealed that LRA's audit program is conducted on an annual basis with a monthly target. The type of audit ranges from comprehensive to specific issues audits. The audit selection is decentralized with each department (Large Tax Department and the Medium, Small Tax Department) manually selecting its own audit types using a manual risk parameter.

[21]See LRA FY2016/17 Annual report

Clearly, in the LRA strategic plan SWOT analysis, the Administration articulates as one of its weaknesses an inadequate risk-based compliance management. The acknowledgment of this weakness underpins the fact that a manual risk parameter mechanism is ineffective in achieving the targeted audits to mitigate the risk imposed from underreporting. For example, it is reported by the LRA that the risk base selected audit for the Large Tax Department and the Medium and Small Business Department were 358 and 528 out of 2,308 and 28,650 registered taxpayers respectively. Of these numbers, 109 from the Large Tax and 300 from the Medium and Small Tax Departments were completed in 2016.

It is clear that there is much scope for developing an objective risk-based centralized selection process for audits. This requires the development, over time, of a computer-based track records to identify high-risk taxpayers.

Trained Tax Auditors

The SWOT analysis shows, as one of its weaknesses, a low level of technical capacity which also includes the lack of sufficiently trained tax auditors to conduct targeted audits, as seen from the Reports and the Corporate Strategic Plan. The building of capacity within the tax administration is a major short-term challenge that needs to be addressed. According to reports, the LRA has 23% of total staff as auditors, and that is far below international accepted standard[22] .These auditors are not centralized and majority of the auditors lack the needed audit skills relevant for the tax segment (i.e. Medium Enterprise, Large Tax, Natural Resources,) and development of Enterprise Risk Strategy.

Training strategies and recruitment of additional qualify staff will need to be at the core of moves towards an effective functional audit unit. The auditors will need to be trained in the greater use of Enterprise Risk Management, specialized tax segment audit and Information technology to enhance audit performance.

Control Mechanism

A mechanism to control the quality of the audit and the prevention of corruption is critical to any audit program. It is for this reason field audit is recommended as the best audit mechanism in controlling the accuracy of the tax returns filed. A look at the audit procedure at the LRA reveals that there is a mix of audit methods using the field audits, desk audits and issue audit. The desk audit has not been effective in collecting revenue. For instance, data from LRA shows that desk audit report a total of US$ 14,764.96 as compare to US$ 7.9 million for the Large Tax Department using the field audit in 2015.

Audit is a risky activity in a sense that it can open opportunities for improper negotiation between the auditor and the taxpayer. The role of a supervisor is therefore imperative to scrutinize field audit reports. The LRA has in placed an External audit department headed by a Commissioner, who reports administratively to the Commissioner General of the LRA and functionally to the Board of Directors and the Internal Audit Agency (IAA) of the Government. The Internal Audit Department conduct a multiyear and annual audit of the LRA on its internal control checks, operations, and revenue accounting. However, there is evidence of weak assurance provided by the internal audit as a result of insufficient IT functions of the system.

Challenges Of Customs Operations

One type of revenue losses arises from the creation of administrative hurdles and overlapping of functions of the government agencies managing the inflow of revenues

[22]The percent of auditors is far below the international acceptance of 30 to 60% allowed for Tax Administration.

from customs. As mentioned previously in the study, the greatest share of total revenue is as a result of international trade receipts but there are enormous challenges inherent in the administration of customs.

Interview with stakeholders using the port of entries revealed some dissatisfaction and lack of adequate understanding of the operations in regards to Pre and Post-shipment of containers, processing of Imports Declaration Permits, Payment of related duties and user charges, Licensing of brokers and the impact of the transition to ECOWAS Common External Tariff.

There is a widespread perception (some 85 percent of our respondents and the executives of the Customs Broker Association) that the differential procedure in compliance with Bureau of Veritas International (BIVAC) regulations and procedures may be creating inequity and could have an impact on the price of commodities and ease of doing business thereby negatively influencing the collection of Revenues. Consequently, reasonable number of stakeholders believes that the BIVAC Pre-Shipment Inspection Operation (PSI) which is acceptable by Government poses a problem to users and consumers alike. We were informed that the use of BIVAC contravene section 1705[23] of Customs administration of the Revenue Code and violates Liberia accession commitment to the World Trade Organization (WTO). In addition, that extra penalties imposed by the Customs for not using BIVAC's services is not in the best interest of free trade and fair business practice.

We verified these complaints by examining documents and reviewing the operations of BIVAC. The Ministry of Finance regulation reveals that the Government, through the Ministry of Finance, has instituted a pre-shipment inspection regime for imports and exports, which requires the compliance of all importers and exporters except those exempt by treaties, concession or otherwise. The inspection is to ensure quality control, proper valuation, classification, protection of revenues, restrict importation of undesirable items into Liberia and prevent exportation of protected items and national treasures. The penalties to be imposed for non-compliance are as follows and the count of offenses shall begin to accrue as of the effective date of this Regulation.[24]

I).	1st and 2nd offense	10% penalty
II).	2nd and 4th offense	20% ‘’
III).	4th and 5th offense	30% ‘’

with effective date January 2nd, 2008.

A closer look at the issues revealed that upon Liberia accession to the WTO, several commitments were made and they include, amongst others: :[25]

I). The Establishment of fees and charges would be constant with GATT rules. In particular, the current PSI fee would be change to US$ 426 for a 20-foot container and US$ 587 for a 40-foot container;

II). Pre-shipment inspection requirement would be temporary and in conformity with the requirement of WTO PSI agreements and relevant WTO agreement;

III). WTO due process and transparency would be applied.

The WTO strongly advise Liberia to phase out over time the use of BIVAC, discontinue the use of Pre-shipment inspection services in relation to tariff classification and valuation of imports, discontinue the use of mandatory custom broker, and encourage the use of transparency in the licensing of customs brokers.

[23]The Revenue Code Section 1705 provision states that the valuation of imported goods shall be taken to be the normal price that is the price which they would fetch at the time referred to in subsection (2)(D) on a sale in the open market between a seller and buyer independent of each other.

[24]Ministry of Finance, Public Notice- Administrative Regulation No. 14247-1/MOF/R/January 1, 2008

[25]WTO Trade Facilitation Agreement, Liberia Gap Analysis and Reform Action Plan, February 2017

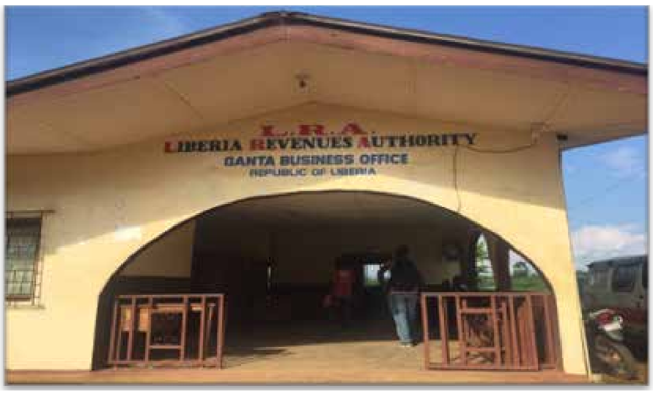
Processing Time

Respondents to the Study Questionnaire also indicated the process of Import Permit Declaration (IPD) between pre-shipment and final shipment is longer than usual, exceeding the amount of 15 days on average. They attributed the delays to the lack of coordination between BIVAC, the Ministry of Commerce and the LRA. Our investigations found that there is limited coordination of activities among these agencies and lack of understanding about their respective responsibilities to the process. The agency coordination problems have

created delays in clearing of goods and accumulation of storage charges borne by the Free Port users.

Some respondents expressed reservations about LRA staff particularly their behavior during Clearing. Respondents cited rudeness and arrogance as a common occurrence, especially at border points. At some border posts, taxpayers revealed that it was common for Customs officers to levy high taxes depending on the mood of the tax assessor.

While it may be prudent to mitigate customs abuses on the part of the port users or customs brokers, a poor formulation of policy measures has a direct negative effect on compliance. Imposing a rigorous regime on taxpayer could serve as a conduit of non-compliance which breeds rent-seeking and revenue losses. Conversely, the reduction of burdensome administrative measures could reduce the cost of compliance and of doing business leading to increase resource mobilization.



Side view of LRA office at Guinea-Liberia border in Ganta, Nimba County

Serious Challenges at Tax Business Offices & Customs Business Offices in the Counties

There are some serious operational challenges inTax Administration at the inland revenue and cross-border Custom Offices. Those challenges appear to be significantly impairing the effective collection of revenues. At the Customs Business Offices (CBOs) and Tax Business Offices (TBOs) in both Bong and Nimba counties the Study Team identified some serious risks factors that require reporting. In the highly commercial city of Ganta, Nimba County, which borders the neighboring Republic of Guinea, the following were observed:

I). There was no electricity – electrical equipment could not be used, obviously there was no lights in the nights;

II). Computers could not be used to process documentation for tax or custom duties payment;

III). Procedures and processing are carried out manually using the Single Administrative Document (SAD);

IV). No link to SYCUDA to cover customs declaration;

V). Goods, in whatever quantity, have to be physically examined and valued which takes a good amount of time.

VI). Delays often require unchecked goods to be stored but in the absence of appropriate warehousing, unsecured Custom offices are used for storage as well.

All of the above coupled with other poor management control systems put tax administration at risk in efforts to enhance revenue collection.

Inadequate Tax Receipt Control System

In respect to the payment of taxes in the two counties, traders with goods value at US$100 and above, are asked to make the deposits at a Bank, the nearest some 2 miles away. After the deposit before a tax receipt is issued. Payments below US$100 are made to the Cashier within the Business Office. In one office, it was observed that all records are poorly kept in a broken cabinet and in used bags. The poor management control of cash and records are recipes for rent-seeking and revenue losses.

Picture of Storage Facility at one of the custom office in Liberia

The Ganta Tax Business Office had two staff taking responsibility for handling all core taxes including GST, CIT, RET and PIT. There are also reports of long working hours in the Tax and Customs Business Offices. It was observed that the officers focus only on petty traders and Micro, Small and Medium business enterprises using only manual transactions. Large taxpayers of Ganta come to Monrovia to transact their tax business at the headquarters of the LRA. Accountings for actual tax collection in the various counties are therefore not properly assured.

The TBO also reports inconsistency in the use of Mobile Money Platform. For instance, if a taxpayer uses the Platform to make tax payment, there is not a channel alerting the TBO that the particular taxpayer has made a payment. The TBOs and the CBOs will have to be properly equipped and brought up to speed with the appropriate computers and better working conditions, etc. if the modernization efforts the LRA have launched will result in the desired improvements in tax administration.

Nonfunctional Equipment at one of Customs Business Office in Liberia

Asked about their perception of the services the CBO and TBO provide to taxpayers, two large taxpayers in Ganta and Gbarnga, (the one in Gbarnga had been recognized by the LRA in 2017 as the largest taxpayer in Bong Count) revealed that on average, the Business Offices are performing better than expected in delivering tax services and in educating taxpayers. However, they have problems obtaining tax clearance, in filing returns and in the payment processes. On the issue of Tax Clearance, the TBOs and CBOs have to rely on the Central Office in Monrovia which takes time. As a result of such delays, these businesses miss out on bidding for competitive contracts and income generation simply because they are unable to provide tax clearances. Moreover, assistance needed to file tax returns are delayed resulting in late filing and ultimately penalty could be imposed.
Giving all these issues, it is no wonder that data and other relevant information regarding revenue collection and tax roll from the counties and border entry points are weak and negatively impact effective tax administration and the raising of domestic resources. Efforts at modernization must therefore extend beyond Montserrado to all parts of the

country where taxpayers are. Modernizations efforts must include availability of electric power, effective computerization system and improved management controls.

Abandoned Container Warehouse

Transition to ECOWAS Common External Tariff

Another type of challenges comes about with Liberia accession to trade liberalization and the transition to the Common External Tariff. There is a split agreement from respondent on the

impact of the CET. Some are of the view that the CET would reduce the price of commodities on the market while some respondents are pessimistic that the CET would add another barrier to doing business and increase cost of living.

The regional harmonization to the CET generally is likely to create a loss in revenues from lowering external tariff. When external tariffs are lowered the loses of revenues occur, it will be largely accompanied by a decrease in domestic prices. As the price starts to decline, it opens up an opportunity to increase consumption taxes to reduce the revenue losses. Introducing a broad-base Credit-Method VAT, in this case, would be adequate to replace any revenue loss. It is imperative that a full impact analysis of the external tariff is conducted and the larger business communities be made aware of the subsequent impact to avoid recurrence of public protests over the application of the CET. This would erase any doubt on the implementation of the CET and expected impact on businesses.

Impact of Duty exemption and investment incentives

Tax incentives or duty exemptions are common in emerging economies to attract Foreign Direct Investments aimed at stimulating the economy. Various tax incentives have been put in place including tax rate deduction, allowances on accelerated depreciation (common in huge capital investments concessions), and investment tax credits. These incentives cost more in foregone tax revenues than tax generated from incremental induced activities. The incentives distort the allocation of resources and could be detrimental to domestic resource mobilization. They tend to erode the tax base and make tax administration more difficult.

In an effort to enhance economic growth, Liberia has been endeavoring to attract FDI. While some gains have been realized from these investments, the outcome has resulted in some negative returns to the economy at large. For example, taxes from investment incentives and duty waivers amounted to 80.6 million in FY 2010 / 2011 constituting 20.5 percent of total revenue and grants. By 2015/2016 fiscal year, the tax waivers increased to 91.5 million representing 16 percent of the year total revenue and a percentage points growth of 13.5 from 2010[26]. Despite the numerous reports on the impact of tax exemptions, the political will is lacking on the part of Policymakers to take a decisive action. In 2016/17 the tax expenditure further increased to 96 million again representing about 5 percentage points growth from prior fiscal year and constituted 17.2 percent of the year's total revenues. A large portion of these incentives was reportedly granted to concessions, government projects and others, supported by Revenue Code.

[26]Liberia Revenue Authority Annual Reports 2015-2017

Automation of the tax system and Procedures

Computerizing tax administration system makes internal process more efficient and reduces the burden and compliance time for taxpayers. Appendices two and three of this report summarize the results from the field survey on the automation and improvement of the tax administration system. Filing Tax Returns required by the LRA in Liberia are predominately paper base. Forty-two point three (42.3%) percent of respondents rate the services as inefficient and burdensome. The process is follow by payment of tax at the bank or a visit to the LRA offices. Eighty-five (85%) percent of the Respondents pay their taxes by a visit to the LRA offices while the rest uses the banks or other medium to pay taxes. This payment process results into long queues that takes between 1-5 hours and about 11- 16 hours to process a payment and its rated by 39 percent of the respondents as poor compare to the rest of the responses.

Majority of the taxpayers are welcoming the idea of greater automation of the tax system. The effort by the LRA to introduce the mobile money payment options and the initial launch of the e-filing platform were highly welcomed by the business communities. Nonetheless, the need to rapidly expand the platform to include all segments of taxpayers and cover larger taxpayer base is imperative to the efficiency of the system. Moreover, the response from the survey indicates that twenty-five to fifty-nine (25 to 59%) percent of the respondents are opting for an e-payment platform or option of a bank transfer with electronic issued receipt as a means to ease the burden of tax payments.

Taxpayer Services

The cost-effective education and services of taxpayer can lower the cost of compliance and improve the quality of compliance. The results of the survey show several service channels that need improvement from tax administration (See Appendix 2).

The Refund of overpayment of taxes to taxpayers is rated the poorest by over fifty (50%) percent of the respondents and constitutes one of the greatest flaws by the tax administration (see Chart). Eighty -two (82%) percent of the respondents believes that a credit for overpayment of taxes to use for payment of other tax liabilities would solve most of the problems of refund issues.

Customs Services

Clearly, the results from the survey show that customs services ranked the second poorest services offered by the tax administration. As previously discussed above on the challenges of customs, about seventy-five (75%) percent of the respondents believes that customs services are in need of improvements.

Information dissemination and Appeal Process

Liberia has a three-stage tax dispute resolution mechanism by international standards and was rated as an effective and efficient process by TADAT assessment on Liberia. However, the responses from the survey prove otherwise. The survey indicates that thirty-three (33%) percent of the respondent classified the appeals as satisfactory but thirty (30%) percent rated the service as poor. The respondents reveal that information on accessing the service is not readily available and awareness on the practice and procedures insufficient. We set out to acquire from the questionnaire the issue of access to information and we were informed by eighty-nine (89%) percent of the respondent that access to readily information is inadequate. They attributed their responses to infrequent website updates and poor awareness campaigns.

Tax Clearance

The effectiveness of the timely issuance of tax clearance on tax compliance is difficult to judge from some of the survey responses. However, thirty-five (35%) percent of the respondent indicate that the process is satisfactory while twenty-three (23%) percent believes that the process is good and works effectively. There were some mix feelings on the time of issues and the bureaucratic hurdles at the LRA. Albeit, the process should be revisited and improved upon.

In conclusion, a number of potential areas from the survey findings are summarized in the appendices. As mentioned earlier, the team could not have detailed as many of the flaws in the tax administration system due to the time allotted to conduct this study. A full analysis would require considerably more thorough examination of the system and individual component. This may be covered in subsequent studies.

4.6 Tax Collection Administration & Services The Reactions of Taxpayers

As part of the Study, the Consultants conducted field activities through interviews of key stakeholders and requested a number of large, medium and small stakeholders / taxpayers together with some Revenue Collectors to fill out questionnaires. Nineteen interviews were attempted but due to the limitation of time, several taxpayers targeted were not available at short notice. Only 11 interviews were conducted with large taxpayers including two leading Executives in financial institutions, businesses represented in the Chamber of Commerce and the Liberia Business Association, trade organizations and individual taxpayers in the medium and small categories. The Table and charts in Appendices 2 and 3 summarize the results of the information collected from the questionnaires.

5.0 CONCLUSION AND RECOMMENDATION

In conclusion, we outlined most of the key findings collected from the study and present them as a summary below:

A. Ambiguity in the Liberian Revenue Code (RCL)

I). Part of the constraints of the RCL is that provisions amended in 2016 need to be placed in the original Code of 2000 as amended in 2011. In addition, there is a need for general provisions to be placed in appropriate chapters;

II). Sections of the Code that require regulations have not been regulated since the RCL was operationalized;

III). There is a lack of sufficient or adequate clarity in the RCL (the Code of 2000, 2011 and 2016) as amended. Taxpayers express the view that with such lack of clarity, the LRA can be heavy-handed in administration and make determinations not in favor of taxpayers, for instance, Section 200 and 704.

B. With regards to Resource Mobilization for both the public and private sector

I). One large taxpayer expressed concern about the "lopsided" attempts we are experiencing in the system. Policymakers give in to pressure in response to the symptoms of our problems and shy away from the underlying root causes. Reference was made to the recent changes in tariff on imports which could cost a reduction in revenues to the magnitude of about US$15,000,000.

II). There is continuing tendency for the Government to rely on sourcing debts from banks, and by doing so the public sector is "crowding out" the private sector from acquiring bank financing for investment purposes that create wealth. When Government delay its debt payment, credit system in the economy, especially creditworthiness, is undermined.

III). Financial institutions make large contributions to domestic resource mobilization and that can be further increased if the Banks are allowed to make more profits.

IV). The LRA has to do everything possible to broaden the Tax Net. More citizens and residents need to be brought within the "Net" so that they can pay their share of taxes. It seems as though the LRA, desiring to increase the revenues it collects, tries to overburden or "over tax" taxpayers already in the tax net by increasing rates from time to time.

VI). Taxpayers interviewed named certain businesses that they believe do not pay certain taxes. Automobile Garages that service vehicles, for example, should be collecting/ paying GST. It does not appear that some garages and some restaurants pay that tax.

VII). LRA should encourage taxpayers to pay their taxes, provide tax awareness and education programs and desist from looking at taxpayers as "crooks" and threaten them to "go to jail."

VIII). LRA's fees (penalties and interests) are excessive and they are not prepared to negotiate. Excessive penalties and interests have, in recent years, led to political pressure on policymakers so much so that an Executive Order from the Executive Mansion was issued, waving penalties and interest for a particular period.

IX). A large percentage of respondents to the questionnaire stated that overpayment of taxes in a given year should be refunded. Tax credit was not a preferred option, although many respondents feel that under the current regime, tax credit is all that they can expect.

X). LRA's insistence on tax payment by Bank Manager's checks for amounts over US$100.00 puts an additional cost of about US$10 on each such payment for taxes above US$100.00. All nine banks in Liberia and their branches are in good standing. Why can't the LRA have accounts in the nine banks that taxpayers could use to make deposits for taxes instead of getting the bank to sell them a Manager's check at cost to the taxpayer to go pay his/her taxes?

XI). LRA should work with local authorities (cities and towns) all over the country to get property owners to register on the Tax Roll, real estate location and the value of the property establish so that it will be easy to contact property owners to pay the requisite taxes.

XII). Taxes on property should be paid before the property is sold to new owners. The rates on property tax should remain unchanged for the five-year period as expected.

XIII). The Bureau of Customs appears not to be accepting BIVAC determination of import duties for items coming through Liberian Ports. After spending considerable efforts and time behind having BIVAC inspect your shipment and then work with you on what payments are to be made, why disregard it? What is to replace the process?

XIV). If under the Economic Community of West African States Customs Tariff are harmonized, why is it that vehicle importers are opting to go to neighboring countries to receive their shipment of vehicles and drive them across the border into Liberia?

C. Concerns Raised Regarding Non-Tax Revenue Collecting Institutions:

I). The process of motor vehicles registration and issuing of Operator's License and their renewals is a near disaster. The Ministry of Transportation (MOT) staff should be trained and made more efficient and should not go out with Police support to impound vehicles, embarrass people in their vehicles and block the traffic.

II). The Registration of Vehicles seems to have no other purpose other than raising revenues. Vehicles are never inspected to ensure safety before being licensed.

III). MOT operates like an agent of the Insurance companies. They sell their insurance stickers and the benefits seems to be for private purposes. Insurance companies should issue their own stickers. All the Ministry should do is for the vehicle owner or operator to show evidence that his / her vehicle has third-party insurance to complete the registration process.

Recommendations

Here are some specific recommendations that could enhance tax administration and accordingly increase the mobilization of additional domestic resource for sustainable development as we learned from the study.

- ***It Is Recommended That A Project Be Undertaken To Automate Significant Taxpayers' Services So As To Reduce Time And Compliance Costs.***

Despite current efforts by the LRA to automate the system through the introduction of mobile payments, improvements are needed in the areas of e-payment and e-filings so as to reduce time of payment and filings for large and medium taxpayers. Moreover, the Modernization efforts should extend to external tax offices in the counties to improve revenue collections and administrative procedures and processes.

- ***In view of the issues concerning audit, we recommend the following: developing an objective risk-based centralized selection process for audits. This requires the development, over time, of a computer-based track record to identify high-risk taxpayers.***

- ***It is recommended that the Customs Department speedily transition to the General Agreements on Tariffs and Trade (GATT) under the WTO protocol. That would reduce the complex procedure at the port of entries and allow ease of movement of goods within the region.***

Regional experience is showing that the use of the WTO recommended customs pre-shipment procedure under GATT arrangement has increased the transparency of tradable commodities, allowing for improved port management and is likely to reduce prices in the domestic market.

Regional experience is showing that the use of the WTO recommended customs pre-shipment procedure under GATT arrangement has increased the transparency of tradable commodities, allowing for improved port management and is likely to reduce prices in the domestic market.

- ***It is highly recommended that the Government terminates its current BIVAC contract and adhere to the recommendations of WTO. In addition, customs administration should upgrade the 'internal complaint traders' program to the fully authorized operator program to include more complaint importers and exporters as well as customs agents so as to allow more transparency into the system and encourage the free movement of traded goods. The Senegal Model is*** *highly recommended for adoption (see appendix 5).*

- *There is a critical need to maintain fiscal cadaster information for Real Estate Tax purposes. Currently, this information is being collected at the central level but lack of secondary information, insufficient qualified staff and motivated staff particularly at the local government level is lacking. Local capacity is undeveloped therefore the technical skills needed to collect and maintain information is insufficient. An appropriate strategy would be to develop a comprehensive fiscal cadaster at the central government which could be adopted by the local authorities as an initial data estimating the local property tax base.*

- *It is recommended that a Broad-Base Credit-Method Consumption VAT be introduced and that taxpayers be educated on the process on all tax payments and appeals procedures. In addition, website be regularly updated with roadmap to all tax payment procedure and all other relevant information.*

- *Given the lack of a tax culture in the country, it is highly recommended that a robust tax education, awareness and sensitization program be implemented.*

The need to inform and educate property owners, community leaders, and to expand the tax base should all be addressed. The Program should also be targeted to LRA employees who are in contact with taxpayers enabling them to recognize the importance of customer service, and of the fact that they are servants of the taxpayers.

- *LRA should collaborate with local communities (Towns and Cities), the Lands Authority and Ministry of Public Works to carry out a major property owners' registration, which should include the locations of properties, their valuation, tax rate and instructions on policies and procedures on the payments of taxes. All taxes should be paid on properties before their titles are transferred to new owners.*

- *It is recommended that further comprehensive study be undertaken on the impact of the current automated services provided and taxpayers perceptions of these services so as to ascertain the effectiveness and how taxpayer are reacting to the use.*

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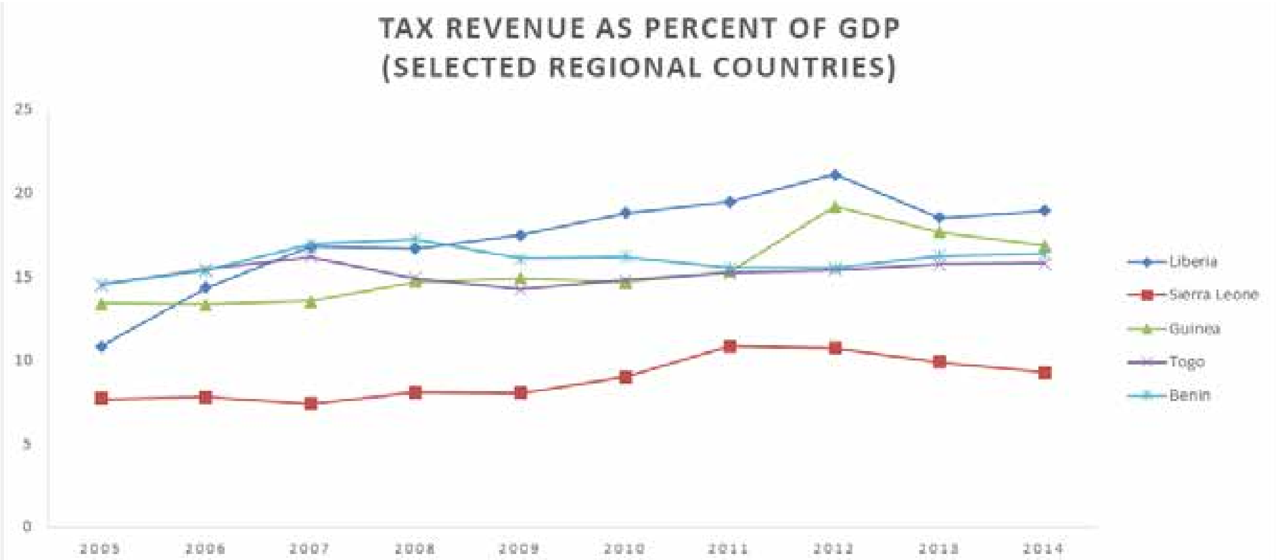
APPPENDICES



Source: IMF World Revenue Longitude Dataset

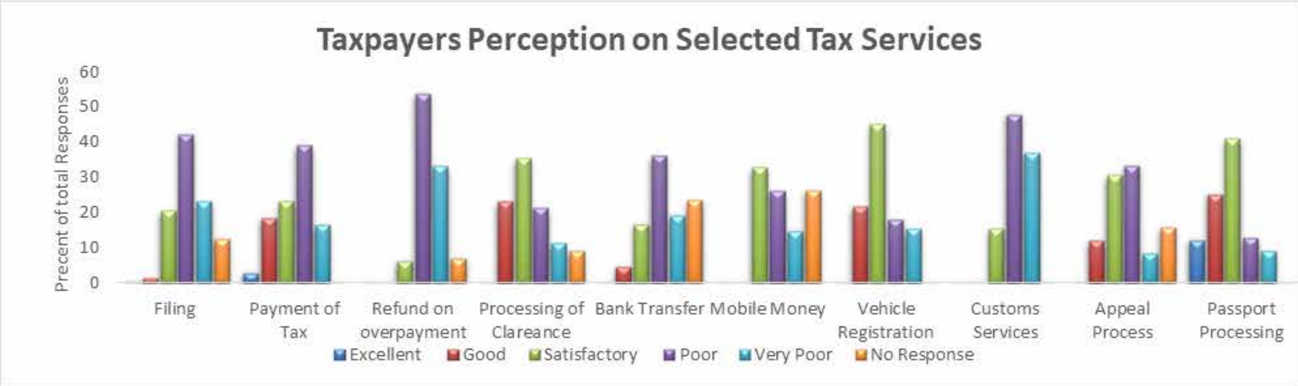
Appendix 2 Taxpayers Responses

Services	Excellent	Good	Satisfactory	Poor	Very Poor	No Response
Filing	0.1	1.4	20.6	42.3	23.1	12.5
Payment of Tax	2.8	18.5	23.2	39.1	16.4	0
Refund on overpayment	0	0	6.2	53.7	33.2	6.9
Processing of Clearance	0	23.1	35.4	21.3	11.2	23.4
Bank Transfer	0	4.5	16.7	36.2	19.2	26.3
Mobile Money	0	0	32.8	26.1	14.8	26.3
Vehicle Registration	0	21.6	45.1	18	15.3	0
Customs Services	0	0	15.3	47.8	38.9	0
Appeal Process	0	11.9	30.6	33.4	8.5	15.6
Passport Processing	12.2	25.1	40.9	12.8	9	0

"Selected" Tax Services (Percentage of Total Responses = 123 Respondent)

Sources: Survey Questionnaires

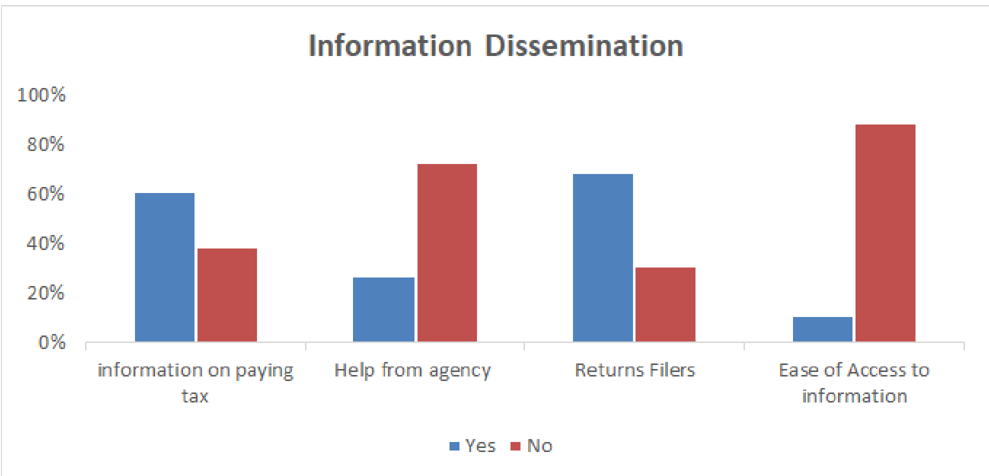
Graphical representation of Responses



Source: Survey Questionnaires

Appendix 3: Tax Administration Service in need of improvement

Other Services highlighted and in need of improvements	Visit to LRA	credit on liability to refund	update web/ awareness	1-5hr/11-15hr	e-payment/ Bank Transfer	satisfactory/ overburden	Banks/transport
Payment method	85%						
Time taken Payment				70%/22%			
Procedure to save time					59%/25%		
paper workload						67%/39%	
Refund settlement		82%/39%					
Suggestion to improve			majority				
Use of secondary agency							21%/3%



Appendix 4: Liberia Revenue DATA and Percentages Growth in Revenue (Year-to-Year)

LIBERIA, TOTAL REVENUE SOURCES/COLLECTION (IN MILLIONS)

REVENUE SOURCES	2006/07	% CHANGE	2007/08	% CHANGE	2008/09	% CHANGE	2009/10	% CHANGE	2010/11	% CHANGE	2011/12	% CHANGE	2012/13	% CHANGE	2013/14	% CHANGE	2014/15	% CHANGE	2015/16	% CHANGE	2016/17	% CHANGE
A. TAX REVENUES																						
INTERNATIONAL TRADE																						
TAXES ON IMPORTS	69.5	20.8%	84.0	10.4%	92.7	4.7%	97.1	19.0%	115.5	32.9%	153.4	-3.4%	148.2	4.4%	154.7	8.2%	167.2	10.4%	184.5	-0.1%	184.3	-100.0%
TAXES ON EXPORTS	1.3	-24.8%	1.0	-79.2%	0.2	102.5%	0.4	340.8%	1.8	96.1%	3.5	-86.0%	0.5	-3.4%	0.5	16.4%	0.6	-2.5%	0.5	-37.2%	0.3	-100.0%
TAXES ON INCOME & PROFIT																						
INDIVIDUAL TAXES &PROFIT	20.7	31.7%	27.3	42.2%	38.8	15.3%	44.7	39.5%	62.3	12.4%	70.1	150.2%	175.3	-32.1%	119.1	-1.3%	117.5	9.5%	128.7	-13.9%	110.8	-100.0%
COPERATE TAXES	21.8	23.3%	26.8	2.2%	27.4	-7.1%	25.5	84.2%	47.0	49.0%	70.0	-64.4%	24.9	8.8%	42.4	-30.9%	29.3	18.1%	34.5	-4.1%	33.1	-100.0%
OTHERS	0.3	-87.6%	0.0	-64.7%	0.0	-100.0%	0.0	% CHANGE	1.1	-54.3%	0.6	-66.7%	0.0	-100.0%	0.0	% CHANGE	0.0	% CHANGE	0.0	CHANGE	0.0	-100.0%
TAXES ON GOODS & SERVICES																						
GOODS &SERVICES TAX	8.7	16.3%	10.1	16.7%	11.8	42.4%	16.7	14.6%	19.2	16.9%	22.4	44.9%	32.4	6.9%	34.7	-13.5%	30.0	7.3%	32.1	-3.3%	31.1	% CHANGE
EXCISE TAXES	0	% CHANGE	0.0	% CHANGE		0% CHANGE	0.0	% CHANGE	0.0	% CHANGE	0.0	% CHANGE	0.0	%CHANGE	0.0	% CHANGE	0	% CHANGE	0	CHANGE	0.0	% CHANGE
MARITIME REVENUE	11.8	18.6%	14.0	-7.4%	13.0	25.4%	16.3	13.1%	18.4	-1.0%	18.3	14.7%	21.0	2.0%	21.4	-34.5%	14.0	-40.5%	8.3	18.1%	9.8	-100.0%
OTHERS	5.4	34.7%	7.2	-8.7%	6.6	-15.0%	5.6	90.6%	10.7	30.0%	13.9	-40.9%	8.2	-4.3%	7.9	-21.8%	6.2	11.7%	6.9	12.4%	7.7	-100.0%
PROPERTY AND REAL ESTATES TAXES	0.9	29.5%	1.2	13.9%	1.3	23.5%	1.7	33.3%	2.2	15.1%	2.5	50.0%	3.8	7.6%	4.1	5.0%	4.4	26.8%	5.6	-13.8%	5.1	-100.0%
OTHER TAXES	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0	0.0%		0.0%	0.0	0.0%
B. NON-TAX REVENUES																						
ADMINISTRATIVE FEES &OTHER CHARGES	6.0	330.8%	26.0	-30.5%	18.1	312.1%	55.7	2.9%	57.3	-1.0%	56.7	21.0%	68.7	8.6%	74.6	-33.1%	49.9	2.1%	50.9	57.5%	80.2	-100.0%
GRANTS	1.5	279.2%	5.7	313.4%	23.5	54.6%	13.0	217.2%	41.9	-35.6%	28.3	61.8%	45.7	-20.4%	36.4	65.4%	60.1	13.5%	68.2	-50.5%	33.8	-100.0%
OTHERS	0	#DIV/0!	4.3	-67.2%	1.4	698.3%	11.3	-13.1%	10.0	117.6%	21.7	-47.0%	11.5	-2.1%	11.3	13.5%	12.8	-100.0%		0.0%	3.3	-100.0%
CONTIGENT REVENUE												0.0%		0.0%		0.0%		0.0%		0.0%		#DIV/0!
BORROWING											7.5	-33.8%	5.0	108.5%	10.4	1312.2%	146.1	-80.9%	27.9	102.0%	56.4	-100.0%
CARRY FORWARD									3.3	165.4%	8.8	-100.0%		0.0%		0.0%		0.0%	22.0	-100.0%		0.0%
TOTAL REVENUE &GRANTS	148.0		207.7		234.9		288.0		362.8						537.2		637.9		570.6		591.8	

Source: Ministry of Finance and Development Planning

Appendix 5: Model Authorized Customs Operators

Title	Date launched	Scope	Type of operator	Legislation	Further plans (deadlines)	Miscellaneous
Privileged Partnerships Programme	17 June 2011	Import/ export	Importers, exporters, customs agents, transporters		Preparing a modification to the Customs Code (to integrate the facilitation aspect)	Two companies signed the protocol; four requests are being studied.

Accreditation (components, process)	Benefits
1. Produce a file on: a) the level and nature of the activity; b) the existence of a protected electronic filing system for documents of interest to Customs; c) working methods in relation to Customs regulations; d) history of taxation and disputes; e) policy on training in supply chain security. 2. Satisfy the following conditions: a) submit credit declarations; b) fiscal and social security contributions must be in order; c) financial situation is such as to allow commitments to be met and ensure payment of the relevant duties and charges; d) have secure buildings, loading sites and means of transport; e) have sufficient experience in the branch of activity concerned; f) comply with all control measures conducted by the service, whether they be scheduled periodic checks (one check per year in principle) or unannounced; g) be capable of maintaining up-to-date, accurate, full, verifiable records on Customs operations; h) have a computerized accounts management system; i) have a filing system such that Customs can conduct any necessary check on Customs operations during the prescribed period. Full access by Customs to those files in accordance with the conditions laid down in the regulations is a requirement.	1. Immediate release of goods upon registration of the accounting documents and fast-track removal procedure; 2. Declarations acknowledged as "In Compliance" for randomly selected operations in the inspection channel and priority processing of those operations; 3. Possibility of replacing the usual financial securities (e.g. bonds, cash deposits) with a company surety; 4. Relocation of physical controls to the undertaking's premises; 5. Establishment within the Customs service of mandatory time limits on processing for all stages; 6. Possible conclusion of protocols to deal with special circumstances; 7. Possibility of obtaining binding prior information; 8. Reduction and rationalization of post-clearance audits.

Source: WTO Compendium of Authorized Operators, 2012 Edition

APPENDIX 6. PERCEPTION SURVEY QUESTIONAIRE

Improving the Administration & Systems for
Domestic Resource Mobilization
With Emphasis on the payment of Taxes, Customs Duties,
Royalties, Various Fees, and other Non-Tax Revenues

Study Questionnaire

Focus of the Study

- Taxpayers & Collectors of Income Tax & Profit Tax
- Taxpayers & Collectors of Property & Real Estate Taxes
- Taxpayers & Collectors of Goods & Services Taxes
- Taxpayers & Collectors of Custom Duties & Other International Trade
- Payment Makers for With-Holding Taxes
- Payment Makers for Government Services
  - Work & Residence Permits
  - Legal Services and Court Related Fines and Fees
  - Diplomatic & Consular Services including Passport Acquisition
  - Business Registration & Renewals
  - Vehicle Registration, Renewals & Driver's License
- Rents, Sales Proceeds and Dividend from Government's Assets & Businesses

Person Interviewed / Filling Out the Questionnaire: ______________________________________

Category of Payment Makers:

______ Income & Profit
______ Goods & Services
______ With Holding
______ Court Related
______ Business Registration
______ Rent, Sales Proceeds & Dividend
______ Property & Real Estate
______ Customs
______ Work & Residence
______ Dip. & Consular
______ Vehicle & Drivers

For the Taxpayers:

1. How often do you have to make payments to Government for this category of Taxes?

_____ Every month ______ 3 months _____ 6 months ______ 1 year

2. Do you have appropriate Information on how the payment is determined?

____ Yes _____ No

3. How do you make the payment?

_____ Visit to LRA Office ______ E-payment ______ Mobile Money _______Bank Transfer __________ others (specify)_______________________________________

4. How much time it takes to make the payment?

______1-5hr _______6-10hrs ________ 11-15hr________ 16 -24hrs_________ above 24hrs

5. Are there other agencies or Offices involved that take up more time in making this payment?
______ **Yes** _______ **No**
If Yes. Name of Agency_______________

6. How much Paper Work is done to make/collect this payment?
_______ **Over burden** _________ **satisfactory** ________ **too little**

7. How can you save on time and the amount you pay?
_____ **E-payment** _________ **Mobile Money** _________ **Bank Transfer** ___________ **others (Specify)**_________________

8. How can some of the problems, challenges and hurdles be reduced or completely eliminated to make the administration and processes of collecting Government resource be more efficient?
____
____
____
____

9. Do you know whether you are registered at LRA and are required to voluntarily pay your taxes annually or quarterly?
______ **Yes** __________**No**

10. Do you file Tax Returns?
_______ **Yes** _________ **No**

11. How do you rate the effectiveness of the following Revenue Services?

Services	Excellent	Good	Satisfactory	Poor	Very Poor
Filing Returns					
Payment of Taxes					
Refund on overpaid taxes					
Processing tax clearance					
Bank transfer					
Mobile Money Tax payment					
Vehicle Registrations					
Customs services					
Passport processing					
Appeal Process					

12. What improvements can you suggest with regards to any of the services above?
____
____
____

13. Are you able to easily access all the relevant information you made need from the Revenue Authority to may your taxpayer easier? __________ Yes __________No.

14. If No. What are some of challenges and suggested improvements

____
____
____

15. If you have or do overpay, how would you like the overpayment **settled?________ Refund _________ Credit to tax liabilities on same or other taxes.**

16. For the Government Agent / Tax Collector:
How do your rate the effectiveness of the collection system you manage?
________ Excellent _________ Good ________ Satisfactory _____________ Poor

17. What suggestions can you make to improve the system and the administration of tax collections?

____
____
____

18. For Internationals Involved in Paying Taxes in Liberia:

a. How do you compare the administration and systems of tax paying in Liberia to those in other countries you know?

____
____
____

b. What improvements can you suggest to save time and money with regards to paying legitimate taxes in Liberia?

____
____
____