

OECD publishes *Revenue Statistics in Africa 2020*

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Executive summary

The Organisation for Economic Co-operation and Development (OECD) published [Revenue Statistics in Africa 2020](#) (the Publication) on 12 November 2020. The Publication is a joint undertaking by the OECD Centre for Tax Policy and Administration and the OECD Development Centre, the African Union Commission (AUC) and the Africa Tax Administration Forum (ATAF). It is the fifth annual edition of the publication and covers data from 1990 to 2018.

The Publication compiles comparable statistics of tax and non-tax revenues for 30 African countries¹ using the OECD Revenue Statistics database. Extending the OECD methodology to African countries allows comparisons of tax levels and tax structures on a consistent basis among African economies, OECD economies and those economies featured in Revenue Statistics in Latin America and the Caribbean. According to the OECD, these comparable indicators on tax and non-tax revenues can be used to track progress on domestic resource mobilization (DRM) and to inform tax policy analyses and future reforms. Additionally, the Publication provides an important backdrop in understanding the fiscal capacity of the African region to respond to the COVID-19 crisis.

The 2020 Publication also includes a special feature in terms of discussing factors likely to affect the future of DRM in Africa post the COVID-19 pandemic, including the impact of the African Continental Free Trade Area (AfCFTA)² on trade and public revenues.

Detailed discussion

For purposes of the Publication, the term “taxes” is limited to “compulsory, unrequited payments to general government.” Taxes are “unrequited” says the Publication in the sense that benefits provided by government to taxpayers are not normally in proportion to their payments. The OECD methodology classifies a tax according to its base, namely, income, profits and capital gains (classified under heading 1000), payroll (heading 3000), property (heading 4000), goods and services (heading 5000) and other taxes (heading 6000). Compulsory social security contributions paid to general government are treated as taxes and classified under heading 2000.

The term “non tax revenue” includes all general government revenue that does not meet the OECD definition of taxation. These would include grants (e.g., foreign aid), returns on government market investments, rents on the extraction of resources from public lands, sales of government produced goods and services and the collection of fines and forfeits.

The main trends in tax revenues in the 30 participating African countries from 2010 to 2018 are summarized below:

- ▶ In 2018, the unweighted average tax-to-gross domestic product (GDP) ratio for the 30 countries (the “Africa (30) average”) was 16.5%. The Africa (30) average in 2018 was below the Latin America and the Caribbean (LAC) average of 23.1% and the OECD average of 34.3% in the same year.
- ▶ While 21 countries had ratios between 10% and 25%, only four countries’ tax-to-GDP ratio exceeded 25% (Morocco, Seychelles, South Africa and Tunisia).
- ▶ The increase in the Africa (30) average tax-to-GDP ratio between 2010 and 2018 was 1.4 percentage points (p.p.), although since 2014, the average has remained relatively constant at between 16.4% and 16.5% of GDP. This increase (since 2010) is lower than the increase in the LAC and the OECD averages over the same period (1.9 p.p. and 2.0 p.p. respectively).
- ▶ The main changes in the Africa (30) average tax-to-GDP ratio between 2010 and 2018 came from Value-Added Tax (VAT) (1.0 p.p.) and personal income taxes (0.7 p.p.).
- ▶ Taxes on goods and services were the main source of tax revenues among the 30 African countries included in the Publication, accounting for 51.9% of total tax revenues on average in 2018, with VAT alone accounting for 29.7%. Taxes on income and profits accounted for 38.7% of tax revenues.

- ▶ Africa’s average tax structure was similar to that of the LAC region in 2018, except in relation to social security contributions, which were on average more than twice as high in LAC than in Africa.
- ▶ Labor taxes remain low in Africa and LAC compared to the OECD average. Personal income taxes and social security contributions amounted to 24.7% of total tax revenues for the Africa (30) average and 26.7% in the LAC region, whereas in the OECD these revenues represented on average 49.9% of tax revenues.
- ▶ Environmental taxes are a key tool for countries to decarbonize their economies and raise revenues, says the Publication. In Africa, revenues from such taxes amounted to 1.1% of GDP in 2018, on average, the same level as the LAC region and lower than the OECD unweighted average of 2.3% of GDP.
- ▶ The Publication also presents data on the VAT revenue ratio (VRR) for each country. VRR is calculated as the difference between VAT revenues that would be expected if standard rates were uniformly applied to the entire potential tax base versus what was actually collected. These differences could be a result of exemptions and reduced rates, fraud, evasion and tax planning, as well as weaknesses in tax administration. In 2018, Cabo Verde and South Africa had the highest VRR (0.73 and 0.61 respectively) while Chad, the Democratic Republic of the Congo and Equatorial Guinea had the lowest, at below 0.15.

With regards to non tax revenue trends, the following is noted:

- ▶ In 2018, average non-tax revenues were equivalent to 6.5% of GDP. Non-tax revenues were below 5% of GDP in 16 of the 30 African countries and above 10% in six.
- ▶ Non-tax revenues were lower than tax revenues in all countries except Botswana, the Republic of the Congo, Equatorial Guinea and Lesotho.
- ▶ The sources of non-tax revenues vary across the countries in the Publication. For 12 countries, grants were the principal source of non-tax revenues, while other sources included rents and royalties, interest and dividends and fees for goods and services.

Special feature

As noted, a special feature of the Publication is the discussion of the factors likely to affect DRM in Africa in the aftermath of the COVID-19 pandemic. As in other regions, the pandemic is expected to have significant socio-economic impacts in Africa, with the Publication noting that it is likely to severely affect public revenues, potentially endangering progress made in DRM over the past decades.

While there is considerable uncertainty about how the COVID-19 crisis will evolve, it is noted that fiscal policies will be an essential tool for all countries in the economic and fiscal recovery process over the longer term. DRM will be an important part of this discussion, says the Publication, as countries seek to restore public finances in a fair and sustainable way, to boost resources to reduce inequalities and promote development, and to create a greater degree of fiscal space to respond to future shocks. This includes exploring new avenues of raising domestic resources to offset the financing gap created by the pandemic, due to resources being diverted to minimize the effects of an emerging humanitarian and economic crisis. It is further noted that the implementation of the AfCFTA can contribute to this process. In the short term AfCFTA has the potential to mitigate the effects of COVID-19 by deepening intra African trade and accelerating the post-pandemic economic recovery; while over the longer term, it will likely play an important role in building greater resilience and insulating the continent against future shocks.

Implications

Tax statistics can be a valuable tool in understanding how structural, political and economic factors, the composition of an economy, and tax policies all affect different jurisdictions' tax systems. The Publication, using identical factors, provides an understanding of these aspects for the African region, not in a vacuum, but in clear comparison with other regions including LAC and the OECD.

In regard to the COVID-19 crisis, the Publication notes that in order to support economic recovery, policy makers and African tax administrations should consider a range of different measures, including increasing their focus on wealth taxes, the taxation of high net worth individuals and property taxes, or placing caps on existing tax reliefs, among other things. Companies should therefore closely monitor the impacts of COVID-19 on the tax regimes of African countries where they have operations, ensuring that any new measures are built into existing or new business strategy.

Endnotes

1. Botswana, Burkina Faso, Cabo Verde, Cameroon, Chad, Republic of the Congo, Democratic Republic of the Congo, Côte d'Ivoire, Egypt, Equatorial Guinea, Eswatini, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocco, Namibia, Niger, Nigeria, Rwanda, Senegal, Seychelles, South Africa, Togo, Tunisia and Uganda.
2. The AfCFTA aims at creating a single continental market for goods and services, with the free movement of businesspersons and investments.

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