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TECHNICAL ASSISTANCE REPORT—TAX POLICY—DIAGNOSTIC ASSESSMENT

March 2016

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Fiscal Affairs Department

MALI

TAX POLICY (DIAGNOSTIC ASSESSMENT)

TECHNICAL ASSISTANCE REPORT

Grégoire Rota-Graziosi, Anne-Marie Geourjon, and Gilbert Ménard

September 2014

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ACRONYMS

AMO	Compulsory Health Insurance
BIC	Tax on industrial and commercial profits
Bln	billion
CAISFF	Tax and Financial Services Computerization Support Unit
CET	Common External Tariff
CFAF	Franc of the African Financial Communities
CFE	Fixed employer contribution
CGI	General Tax Code
CI	Investment Code
CM	Mining Code
CP	Petroleum Code
CPF	Tax Policy Unit
CPS	Tax on services
DGD	Directorate General of Customs
DGI	Directorate General of Taxes
DNDC	National Property and Land Registry Directorate
DNGM	National Geology and Mines Directorate
EITI	Extractive Industries Transparency Initiative
IBA	Tax on agricultural profits
INPS	National Social Security Institute
IMF	Minimum flat tax
IRF	Tax on property income
IRVM	Tax on investment income
IS	Corporate income tax
ISCP	Tax on selected products
ISY	Alternative minimum business tax
ITS	Tax on wages and salaries
Mln	million
OECD	Organization for Economic Cooperation and Development
SMIG	Guaranteed minimum wage
TAF	Tax on financial activities
TARTOP	Tax on access to the public telecommunications network
TEJ	Youth employment levy
TF	Property tax
TFP	Vocational training levy
TIPP	Domestic tax on petroleum products
TL	Housing tax
UNO	United Nations Organization
VAT	Value added tax
WAEMU	West African Economic and Monetary Union
WAS	Withholding at source

PREFACE

As part of the implementation of the technical assistance program financed by a specialized fund (*Tax Policy and Administration Topical Trust Fund,* or *TPA-TTF*), a mission from the IMF Fiscal Affairs Department (FAD) visited Bamako from June 19 to 30, 2014. A document detailing the objectives and technical assistance financed by this fund can be found on the IMF's website at: http://www.imf.org/external/np/otm/2011/100110.pdf. The members of the mission were: Grégoire Rota-Graziosi (mission chief), Anne-Marie Geourjon, and Gilbert Ménard (experts). The purpose of the mission was to perform a diagnostic assessment of the Malian tax system.

The mission presented its conclusions to Messrs. Togola and Soussourou, advisors to the Minister of Economy and Finance, Mr. Sidima Dienta, Director General of Taxes (DGI), and senior officials in the ministry's central and external services.

The mission also met with representatives of the major development partners.

The mission was assisted in its work by Mr. Théodore Dembélé, official responsible for planning and monitoring the reforms. It also received assistance from Mr. Anton op de Beke, IMF Resident Representative, who facilitated the mission logistics.

SUMMARY OF RECOMMENDATIONS[1]

With a ratio of tax revenue to GDP of 15.4 percent in 2013, Mali should improve its tax system in order to finance its economic and social development and reach the WAEMU tax transition target of 17 percent. This increase is also a benchmark agreed by the authorities under the program supported by the IMF Extended Credit Facility.

The diagnostic assessment discussed in this report looked at the country's main taxes and levies; it is supplemented by a second report on the mining and petroleum sector. This assessment is also aimed at identifying the topics for the successive missions included in the TPA-TTF (Tax Policy and Administration Topical Trust Fund) technical assistance program.

The mission identified five areas of intervention, which can be fine-tuned during future missions. In order of priority, they concern:

- support for the definition and analysis of tax expenditures;
- a detailed analysis of the tax on financial activities and, more generally, the taxation of certain sectors such as the banking and telecommunications sectors;
- an analysis of the tax and quasi-tax burden on wages;
- a review of quasi-taxation;
- an analysis of the property tax system.

In parallel with this technical assistance in the field of general taxation, technical support in the area of mining and petroleum taxation identifies certain weaknesses in the Malian tax system related to aggressive tax optimization behaviors. Several of its recommendations are also relevant to general taxation, since they pertain to certain major taxes, namely, the corporate income tax (IS) and the value added tax (VAT).

[1] The original version of this report was in French. The present English translation is for consultation purpose only.

Table A.1. Key Recommendations

Headings	Deadline	Supp. TA
Direct taxes		
IS		
Limit the deductible interest expenses of partner loans to the enterprise to a percentage of income (percentage to be determined).	2015 BL	No
Consider the introduction of an undercapitalization rule.	2016	Yes
Include capital gains on the sale of fixed assets in the IS tax base.	2015 BL	No
Extend the period for carrying forward losses from 3 to 5 years and eliminate the carryforward of depreciation in the event of a loss.	2017	No
Consider regular direct taxation of the agricultural sector for enterprises with a turnover in excess of CFAF 250 million.	2017	Yes
Clarify the application of BIC withholding to ensure its conformity with the territoriality provisions of the tax legislation.	2016	No
ITS		
Revise all mandatory payroll levies.	2016	Yes
ISY		
Replace the 288 ISY categories with a proportional rate applied to turnover (possibly 3 or 4 percent).	2015 BL	No
Property taxes		
Tax capital gains realized by individuals on sales of real property.	2015 BL	No
Revise the property taxes.	2017	Yes
Investment incentives		
Limit the incentives granted for investments in special economic zones.	2016	No
Do not exempt enterprises benefiting from Investment Code approval from the minimum flat tax.	2016	No
Eliminate the additional incentives contingent upon the preponderance of exports, R&D intensity, use of local raw materials, and location in an industrial zone.	2016	No
Limit the IS-BIC reduction granted under the Law on Housing Development to 5 years.	2016	No
VAT		
Limit eligibility for the reduced rate of 5 percent to goods and services exempt from VAT as of January 1, 2012.	2015 BL	No
Revise the list of VAT exemptions to: (1) align Article 195 of the General Tax Code (CGI) with the WAEMU directive; and (2) expand the tax base.	2015 BL	No
Eliminate the VAT exemptions granted pursuant to the Investment Code (CI) and special agreements.	2016	No
ISCP		
Unify the ISCP rate on tobacco by applying a rate of 25-30% and increase the rate annually while at the same time monitoring the impact of the increase on smuggling.	2015 BL	No
Increase the ISCP rate on nonalcoholic beverages from 10% to 20% and include noncarbonated beverages, with the exception of water, in the list of products in Article 240 of the CGI.	2015 BL	No
Resolve the technical issue related to application of the ISCP to passenger vehicles, and eliminate the practice of exempting vehicle imports for certain categories of government officials and members of parliament, as well as the special exemptions granted to individuals.	2015	No

Table A.1. Key recommendations (continued)

Headings	Deadline	Supp. TA
Other		
Revise the methods of indirect taxation of specific sectors, banks, insurance companies, and telecommunications companies.	2016	Yes
Tax expenditures		
At the Ministry of Finance, create a unit dedicated to tax expenditure analysis in order to institutionalize and sustain the regular collaboration of the departments concerned.	2015	No
Fine-tune the tax expenditure analysis process based on the approaches proposed. Specific technical assistance could be provided to that end under the Tax Policy Trust Fund program.	2016	Yes
Quasi-taxes		
Inventory the main quasi-tax levies and determine whether the revenue generated is included in the government budget.	2016	Yes

BL: Budget law.

Supp TA: Supplementary technical assistance financed by the TPA TTF program.

The mission also defined the following matrix of technical assistance projects financed by the TPA-TTF trust fund.

Table A.2. Matrix of Objectives and Measures (Tax Policy Component of the Technical Assistance Project)

Objectives/Measures	Performance Indicators	Deadline
Objective 1: Rationalize and improve the control of tax expenditures		
Draft a tax expenditure document and attach it to the budget law in accordance with international best practices.	Annual publication of the document. At the ministry, creation of a tax policy unit responsible for data collection (tax and customs administration), tax reform studies and proposals.	Budget law for 2015 and following years
Objective 2: Simplify and consolidate wage-based taxation and quasi-taxation (social contributions) in order to increase fairness and promote the development of formal employment in Mali		
Adjust the progressivity of the tax on wages and salaries and streamline deductions and reductions.	The tax and quasi-tax burden of the guaranteed minimum wage is reduced significantly (at least half, the difference between disposable income and the cost to the employer declining from CFAF 10,341 to CFAF 5,000). The progressivity of the ITS schedule and the reductions are capped, or even eliminated, to increase the fairness of mandatory levies and preserve or even improve tax revenues.	2016 budget law
Streamline the various mandatory levies on wages: CFE, TFP, TEJ, and TL (1).	<u>Intermediate indicator</u>: The options are presented to the authorities with an assessment of their impact on revenue and the distribution of the tax burden on taxpayers.	
Revise the social contributions and the possible methods of financing the National Social Security and Health Institute (INPS).		
Objective 3: Optimize the taxation of the banking sector and reduce the cost of bank credit		
Revise the terms and conditions of the tax on financial activities.	A draft law is submitted to the Council of Ministers. The options are presented to the authorities with an assessment of their impact on revenue and the cost of bank credit.	December 2015
Objective 4: Improve the property tax		
Mobilize the property tax as a source of tax revenue.	Property tax revenues contribute significantly to the mobilization of domestic revenue (2% of GDP, for example).	December 2016
Tax capital gains on property realized by individuals. Streamline registration fees.	<u>Intermediate indicator</u>: The options are presented to the authorities with an assessment of their impact on revenue.	December 2016
1/CFE: fixed employer contribution; TFP: vocational training levy; TEJ: youth employment levy; TL: housing tax.		

I. INTRODUCTION

1. **Tax revenues represented 15.37 percent of GDP in 2013, up slightly from the 2012 level (14.87 percent).** This tax burden falls short of the WAEMU convergence criterion of 17 percent. The increase is explained primarily by an improvement in the corporate income tax (IS), VAT, and customs duties, which made up for the decline in turnover-based mining sector revenues caused by falling gold prices. VAT is the main source of tax revenue (31.5 percent of revenue) and is collected chiefly at the border. The IS, the rate of which was lowered from 35 percent to 30 percent in 2011 pursuant to Directive 08/2008/CM/UEMOA, benefited from the performance of the mining sector, which is analyzed in detail in the report on the taxation of mining and petroleum.

2. **The revenue structure has scarcely changed since the last general assessment mission conducted in 2011, and the analysis performed then remains relevant now.** Since 2002, the tax burden in Mali has fluctuated between 14 percent and 15 percent of GDP; a jump to 15.5 percent occurred in 2004-05, but a drop to 13.3 percent followed in 2008. The evolution of the revenue structure in Mali is similar to that of other low-income countries, especially in Africa: declining customs revenues, a stagnant VAT with relatively low yields and high rates, and a direct tax system that does not fully serve its purpose in the mobilization of revenue. Mining sector revenues benefited partially from the recent upsurge in gold prices (2010-2012), which has since faded. The yield of direct taxes on individuals and corporations, property taxes, and other similar taxes and levies, remains low. Finally, tax expenditures, which have been analyzed since 2011 and an estimate of which has been attached to the budget law since 2012, appear to be steadily rising and represent at least 4 percent of GDP (mission estimate). It seems difficult, therefore, to increase the tax burden without including a reform of the tax system as part of the technical assistance projects financed by the dedicated trust funds on tax policy and the taxation of the extractive industries.

Table 1. Tax revenue 2010-2013 (CFAF billions)

CFAF billion		**2011**	**2012**	**2013**
Revenue and grants	940.0	1057.1	925.8	1163.1
Tax revenue	**691.9**	**765.1**	**785.6**	**824.4**
% of GDP	*15.10%*	*15.19%*	*14.81%*	*15.37%*
Tax revenue excluding natural resources	650.1	717.1	720.0	769.1
% of GDP excluding natural resources	*14.88%*	*15.34%*	*14.72%*	*15.09%*
Direct taxes	**204.6**	**220.8**	**263.2**	**258.1**
Taxes / Corporations	109.9	103.6	118.6	132.1
BIC withheld	8.1	9.7	16.6	12.1
Taxes on wages and salaries (ITS)	48.6	57.6	67.9	65.4
Fixed employer contribution (CFE)	6.0	7.8	9.9	8.5
Taxes on investment income (IRVM)	13.5	18.8	16.9	16.4
Other direct taxes	18.4	23.3	33.3	23.6
Indirect taxes	**404.6**	**437.2**	**407.8**	**453.9**
VAT	256.0	271.4	225.8	259.7
VAT (DGI)	*99.0*	*125.0*	*115.0*	*124.5*
VAT on imports	*162.8*	*185.4*	*171.5*	*198.1*
Reimbursement of VAT credits	*-5.7*	*-28.2*	*-47.5*	*-47.8*
Tax on financial and insurance activities	19.6	21.0	26.1	27.3
Taxes on imports	94.6	112.1	100.5	115.3
Domestic taxes on petroleum products	25.5	4.7	25.3	24.3
Tax on telecommunications (TARTOP)	0.0	0.0	0.0	5.0
Other indirect taxes	8.9	28.0	30.0	22.2
Other taxes and levies	**41.0**	**59.1**	**49.0**	**57.1**
Registration and stamp fees	17.8	18.4	15.9	21.4
Other	23.2	40.6	33.1	35.7
Natural resource revenue (gold)	**41.7**	**48.0**	**65.6**	**55.3**
Ad valorem royalties	21.2	22.3	31.8	28.9
Excise tax on gold (ISCP/CSP)	20.5	25.7	33.8	26.4
GDP	*4,582*	*5,038*	*5,303*	*5,364*
GDP excluding natural resources	*4,368*	*4,673*	*4,890*	*5,098*

Source: DGI, DGD, and IMF.

II. DIRECT TAXES

A. Corporate Income Tax and the Tax on Industrial and Commercial Profits[2]

Current situation

4. **Mali's corporate income tax and tax on industrial and commercial profits (IS-BIC) are in compliance with the WAEMU harmonization directives.** The approach taken by WAEMU, set out in Decision 16/2006/CM/UEMOA, consists in particular of harmonizing the tax bases defined in the member countries' national legislation. The WAEMU issued three directives on the taxation of profits (07/2001/CM/UEMOA, 01/2008/CM/UEMOA, and 08/2008/CM/UEMOA).[3] In general, Mali's corporate income tax (IS) complies with the WAEMU directives. The base and rate of the tax are in line with the directives. Losses in one fiscal year can be carried forward for three subsequent fiscal years, as authorized by the WAEMU.

5. **The IS-BIC rate is 30 percent.** Directive 08/2008/CM/UEMOA, Article 2, specifies that "for the taxation of industrial and commercial profits, member states shall set a rate within the range of 25 percent to 30 percent." The reduction of the IS rate from 35 percent to 30 percent in 2001 ensures the conformity of Mali's IS with that directive.

6. **A minimum flat tax (IMF) of 1 percent of turnover is applied (Article 86 of the CGI).** The minimum flat tax complies with Directive 01/2008/CM/UEMOA, Article 2, which stipulates that member states are authorized to establish a minimum flat tax payable by enterprises subject to the BIC (without, however, indicating a range of rates).

7. **A simplified tax regime based on actual income is applied to taxpayers with turnover between CFAF 50 million and CFAF 250 million**. The IS-BIC is payable in three installments, due March 31, July 31, and November 30 of each year (Article 276 of the Tax Procedures Manual). The installments are based on the previous year's earnings for enterprises subject to the simplified actual income regime and on the tax paid the previous year for enterprises subject to the regular actual income regime. The DGE told the mission that many taxpayers eligible for the simplified actual income regime opt instead for the regular actual income system, as permitted under the General Tax Code (CGI).

8. **The methods of depreciation are straight line, declining balance, and accelerated.** The method of depreciation is straight line by default (Article 51-A of the CGI). Accelerated depreciation applies to machinery and equipment used for industrial manufacturing, handling, and transport operations when their useful life is greater than 5 years and they are used exclusively for industrial manufacturing, handling, hotel, telephone, transport, or agricultural operations. For the machinery and equipment in question, the amount of the first depreciation expense is doubled, in accordance with the WAEMU directive. Enterprises taxed under the actual

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[2] Legal entities are subject to corporate income tax and individuals to the tax on industrial and commercial profits.

[3] See Mansour and Rota-Graziosi, 2013, for a discussion of the WAEMU directives.

income regime may depreciate their new machinery and equipment using the declining balance method.[4] The declining balance rate is obtained by applying a coefficient based on the useful life of the asset to the straight line depreciation rate. These coefficients are harmonized with those set out in Directive 01/2008/CM/UEMOA, that is, 1.5 for fixed assets having a useful life of 3 to 4 years, 2 for those having a useful life of 5 or 6 years, and 2.5 for those having a useful life of 7 years or more. The private sector chartered accountants the mission met with confirmed that the declining balance method of depreciation was little used. Depreciation can be deferred indefinitely when an enterprise incurs a loss.

9. **Enterprises in the agricultural sector are not subject to the IS-BIC, but rather to the tax on agricultural profits (IBA).** The provisions of the IBA are contained in Section V (Articles 99-120 of the CGI). The IBA grants new agricultural enterprises a five-year exemption from the BIC. Agricultural profits may be taxed at the rate of 10 percent when the taxpayer is subject to the actual income tax regime. However, agricultural profits should normally be calculated in accordance with the flat rate system, based on fixed yields per cultivated area. However, no tax is levied on the sector because the IBA implementing decree was never enacted.

10. **Capital gains on sales of fixed assets are either taxed at the IS rate or are exempted.** In accordance with Directive 01/2008/CM/UEMOA, these capital gains are exempt from the IS if the taxpayer agrees to reinvest this income within the three years following the sale in an enterprise located in a WAEMU member state (Article 55 of the CGI). In the event of reinvestment, the capital gain is deducted from the acquisition cost of new fixed assets for the calculation of depreciation or capital gains on future sales. Capital gains on sales of fixed assets occurring upon the cessation of operations or in the event of the partial sale of an enterprise, monies received upon the relinquishment of a professional practice, or the transfer of clientele are counted as taxable profits at half their amount. When the sale, transfer, or cessation occurs more than five years after the acquisition of the assets, the capital gains are counted as profits at half their amount.

11. **Interest on partner contributions in excess of their proprietary interest is deductible**. In accordance with Directive 01/2008/CM/UEMOA, the CGI (Article 51) permits the deduction of interest paid to partners on loans granted by the latter to the company in addition to their capital contribution, provided that the rate of interest is no more than three points above the BCEAO discount rate.

12. **A withholding of 15 percent for purposes of the BIC (BIC withholding) is collected on services provided by individuals having no permanent professional premises in Mali.** The rate of 15 percent is based on the IS rate (30 percent) reduced by half in recognition of the expenses incurred in providing such services. This withholding applies to the provision of services; to the use or concession of the right to use a copyright, patent, formula, or process; to equipment leasing, and to any service provided or used in Mali, such as research, technical assistance, financial or accounting, and prospecting services.

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[4] Declining balance depreciation cannot be used for used machinery and equipment or for machinery and equipment having a normal useful life of less than three years.

Discussion

13. **The IS yield is comparable to that of neighboring countries.** IS revenues amounted to CFAF 132.1 billion in 2013 (CFAF 144.2 billion counting BIC withholding). IS productivity – the yield of one tax point as a percentage of GDP – was 0.08 percent in 2013, which compares favorably with certain countries in the sub-region (0.06 percent in Senegal, 0.08 percent in Ghana, and 0.04 percent in Togo).[5]

14. **Despite the reduction of the IS-BIC rate from 35 percent to 30 percent and the increase in the minimum flat tax (IMF) from 0.75 percent to 1 percent introduced in 2011, IS-BIC revenues did not decrease, instead rising from CFAF 118 billion or 2.6 percent of GDP in 2010 to CFAF 144.2 billion or 2.7 percent of GDP in 2013 (including BIC withholding).** This outcome is due in large part to the increased contribution of the telecommunications sector, the IS-BIC of which rose from CFAF 495 million or 0.2 percent of total IS-BIC revenue in 2010 to CFAF 32 billion or 22.2 percent of IS-BIC revenue in 2013. This increase is the result of the elimination of the IS exemption under the Investment Code (CI).

15. **Close to 36 percent of enterprises pay the minimum flat tax,** which, in 2013, generated CFAF 14.4 billion, or 11.8 percent of IS-BIC revenue.

16. **The de facto exemption of agricultural profits is difficult to justify from a tax standpoint**. In particular, the exemption from income tax during the first five years of operation of an agricultural enterprise is, like any other exemption from direct taxes, one of the least effective ways of promoting investment. Of particular note is the fact that the agricultural sector accounted for 37 percent of Mali's GDP in 2008.[6] Given the problems involved in taxing the agricultural sector, taxation could be phased in, starting with the sector's largest enterprises. Fully exempting these companies could prove unfair to Mali's other enterprises and weaken tax revenue. Gradual taxation of the agricultural sector is envisaged by the DGI in the draft 2016 budget law. IMF technical assistance could be requested on this topic, specifically to acquaint the authorities with best African and international practices in this matter.

17. **The current 3-year period for carrying forward losses could be revised by eliminating the carryforward of unused depreciation.** A longer carryforward period would be consistent with best practices in this regard and would greatly reduce the need to defer depreciation in loss periods. Indeed, a company, even a loss-making one, would record and deduct depreciation from its profits, thus increasing the amount of the loss that could be carried forward over a longer period. The carryforward of unused depreciation could therefore be eliminated and the IS simplified as a result. The WAEMU Directive leaves it to the member states to choose the period for carrying forward losses, provided it is at least three years. Any extension of the loss carryforward period should be accompanied by a corresponding extension of the statute of

[5] 2011 data.

[6] Date of the most recent FAO study of the sector.

limitations. The draft 2014 budget law introduced such a change, extending the statute bar to 5 years should tax fraud be discovered.

18. **A limit should be placed on the deductibility of interest on partner contributions in excess of their proprietary equity.** Without such a limit, a partner can artificially increase such additional capital contributions in order to benefit from the 15 percent rate of the tax on investment income (IRVM) and generate IS deductions at the rate of 30 percent. The possibility of incorporating such a limit does not seem inconsistent with the WAEMU directives. The Malian authorities are encouraged to ask the WAEMU Commission to consider the introduction of a limit on the deductibility of interest paid to partners.

19. **More generally, an undercapitalization rule could be considered to prevent the most aggressive tax optimization behaviors of certain multinational corporations.** This rule would set a maximum debt/equity ratio, making any excess interest expenses non-deductible for IS purposes. The requirements of such a rule, which specifically concerns mining and petroleum taxation, could be defined during one of the technical assistance missions financed by the Managing Natural Resource Wealth Topical Trust (*cf.* Rota-Graziosi et al., 2014). This rule should also conform to the WAEMU directives.

20. **The exemption of capital gains on real property contingent upon reinvestment in a WAEMU member state, although consistent with Directive 01/2008/CM/UEMOA, can easily be circumvented and should be eliminated.** Indeed, this measure should be monitored by the administration over the course of several years. If the exemption is not eliminated, the IS could be made payable when the capital gain is realized and a refund made for purposes of the exemption only when the taxpayer provides proof to the tax administration that the capital gains were actually reinvested as required to be eligible for the exemption. This would have the effect of limiting the possibilities of avoidance and would facilitate control inasmuch as the burden of demonstrating fulfillment of the conditions of the exemption would fall on taxpayers rather than the administration. The capital gains should also be taxed in full at the IS-BIC rate.[7]

21. **The application of BIC withholding should be clarified.** The chartered accountants the mission met with indicated that the tax administration applied BIC withholding very broadly to services provided outside Mali. The authorities also pointed out that these withholdings were applied only to services provided by taxpayers without a tax identification number (TIN) and to contracts or public procurement, in order to limit tax evasion. If the withholding is applied to services performed outside Mali, the withholding constitutes a derogation from the territoriality rules of Mali's tax legislation (see Article 44 of the CGI, which stipulates that only profits realized in Mali are subject to the BIC). It is also possible that certain services provided in Mali could be identified as provided by nonresidents outside Mali constituting a form of tax evasion. Clarification of the application of BIC withholding is advisable in order to ensure, in particular, its conformity with the concept of territoriality in the tax legislation.

[7] The taxation of half or one-third of the capital gains on fixed assets is not mentioned in the WAEMU directives.

Recommendations

- Limit the deductible interest expenses of partners' loans to the enterprise to a percentage of income (percentage to be determined).
- Consider the introduction of an undercapitalization rule (cf. Rota-Graziosi et al., 2014).
- Include capital gains on the sale of fixed assets in the IS tax base and refund the tax paid when the taxpayer has furnished proof of reinvestment of the taxed amount in Mali or in another WAEMU member state.
- Increase the period for carrying forward losses from 3 to 5 years and eliminate the carryforward of depreciation in the event of a loss.
- Consider regular direct taxation of the agricultural sector for enterprises with turnover in excess of CFAF 250 million.
- Clarify the application of BIC withholding to ensure its conformity with the territoriality provisions of the tax legislation.

B. "Taxation" of wages

Current situation

22. **The mandatory levies on wages, taxes, and social contributions, payable by the employee and the employer, are the following: tax on wages and salaries (ITS), fixed employer contribution (CFE), vocational training levy (TFP), youth employment levy (TEJ), housing tax (TL), and mandatory levies for the National Social Security Institute (INPS) and Health Insurance (AMO).** The INPS and AMO levies are of course not included in the government's tax revenue; nevertheless, the mission believes that a wage tax reform can only be effective in promoting formal employment if it includes all mandatory wage-based levies.

23. **Mali's tax on wages and salaries (ITS) applies to all amounts paid during the year to wage earners by public and private employers.** The scope of this tax covers employment income, commissions, premiums, tips, and all other compensation or fees received as income from employment. Also covered are pensions and life annuities and per-share remunerations paid to company directors. The ITS is also applied to amounts paid to individuals who reside in Mali and engage in a professional activity or collect taxable income in the country, regardless of their status or nationality. Income earned outside Mali is also subject to the tax if the recipient is considered to be resident in Mali. The following are exempt from the ITS: family allowances and family assistance; wage increases based on the family responsibilities (if they are granted to all the employees of an enterprise); veterans' pensions; life annuities and temporary compensation to work-related accident victims; and severance or retirement benefits. The rates applicable to taxable income are set as follows for each income bracket:

Table 2. Rates for the Tax on Wages and Salaries

Income Brackets (CFAF)	Rate (%)
0 – 175,000	0
175,001 – 600,000	5
600,001 – 1,200,000	13
1,200,001 – 1,800,000	20
1,800,001 – 2,400,000	28
2,400,001 – 3,500,000	34
More than 3,500,000	40
Source: CGI	

24. **The gross tax obtained using the above schedule is reduced based on the size of the taxpayer's family.** The reduction is 10 percent of the gross tax for a married person with no dependent children (if both spouses are liable for ITS, each receives the 10 percent reduction), 2.5 percent per dependent child up to and including the tenth, and 10 percent per disabled adult dependent.

25. **ITS is withheld directly at source each month by the employer**. The employer is required to pay the amounts withheld no later than the 15th of the month following the month of withholding to the account of the receiver of the appropriate tax center or to the Collection Division of the Directorate of Medium-Sized Enterprises or the DGE. Employers also submit an annual payroll statement to the DGE in January of each year. This payroll statement contains, in addition to the total tax withheld, detailed information about the compensation paid to each employee, including all the information needed to calculate the ITS. The employer is also required to provide employees with a monthly statement showing the gross wages earned and the amount of tax withheld, as well as an annual statement containing the same information in February of each year.

26. **The other taxes: CFE (CGI, Articles 159-163), TFP (CGI, Articles 183-185), TEJ (CGI Articles 185A–185D), and TL[8] are single-rate taxes levied on gross wages and salaries as defined under the ITS.** These taxes are payable by the employer. The respective rates are 3.5 percent for the CFE, 2 percent for the TFP, 2 percent for the TEJ, and 1 percent for the TL. The CFE, TFP, and TEJ are levied on the payroll of enterprises subject to the IS-BIC or the IBA. The TL is levied on the payroll of enterprises in the private and parapublic sectors. The base of these fixed contributions is the gross amount of wages and salaries as defined under the ITS. Unlike CFE revenues, which are paid into general funds, the revenue from these taxes are paid to separate funds: Vocational Training and Apprenticeship Support Fund (TFP), National Youth Employment Fund (TEJ), and National Housing Fund (TL).

[8] The TL is governed by non-codified tax laws and decrees: Law 85-35 of June 21, 1985 creating a National Housing Fund and Decree 183/PG-RM of July 26, 1985 organizing and defining the operating procedures of the National Housing Fund.

27. **The mandatory INPS and AMO levies are based on total wages.** The average rate for these levies is close to 25 percent. A breakdown of these rates is shown in Table 3 below.

Table 3. Rates for the Mandatory INPS and AMO Levies on Wages

Categories	Employer share	Employee share
Family allowances	8%	
Benefits in kind (AMO)	3.5%	3.06%
Work-related accidents and illnesses	1% – 4%	
Old-age	3.4%	3.6%
Disability, survivor's benefits	2%	
ANPE (National Employment Agency)	1%	
Source: INPS		

Comments

28. **Labor is very heavily (excessively) taxed.** The CFE, the TFP, the TEJ, and the TL together constitute a total payroll levy of 8.5 percent. An unmarried individual receiving the guaranteed minimum wage (SMIG), which is CFAF 28,460 per month, will have net disposable income after the deduction of all mandatory levies for which he is liable (including the ITS) of CFAF 25,917. The cost of this employee to the employer, including all employer contributions and the various taxes (CFE, TFP, TEJ, and TL), will be CFAF 36,258. The difference between the cost of an employee for the employer and the net disposable income of that employee is CFAF 10,341, or nearly 40 percent of the net disposable income received by the employee. The ITS represents only 7 percent of that difference.

29. **The excessive taxation of formal employment jeopardizes the formalization of the economy and encourages arbitrage by employers, who will logically prefer to use service providers.** Regardless of the type of activity, the cost of labor will be significantly lower if it involves a service provider subject to VAT (deductible). A very simple simulation reveals that a task performed by an individual receiving 100 entails a tax expense of around 70 if the individual is an employee, and only 33 or even less if the individual is a service provider subject to the 30 percent IS rate, having no deductible tax expenses, and distributing all profits in the form of dividends subject to the IRVM. This is a highly optimistic and perhaps even naïve scenario, but it shows that even in this extreme case where all business income is reported as profit, the tax cost of an employee is twice that of a service provider.

30. **Adjusting the progressivity of the "tax" on wages and salaries, broadly defined, thus requires a review of all mandatory levies and their methods of calculation.** An improvement in the ITS will only have a very limited effect on the development of formal employment because this tax represents only a small portion of the tax burden (cf.: example of an unmarried individual earning the SMIG).

31. **The tax administration has no computerized database showing ITS by income bracket.** This lack of usable data prevents any quantitative assessment of the proposals put forward in this subsection. Structuring and computerizing this revenue is a prior condition not only for measuring the fiscal impact of any change to the ITS, but also for better control of the corresponding base. Working more closely with the INPS could solve this problem.[9]

32. **Reforming the schedule (rates and thresholds) requires detailed data on the distribution of income for all civil service and private sector employees.** At present, only the wages and salaries of public sector employees are available in electronic form. A complete database of all wage earners, including those in the private sector, or else a representative database of the employed labor force, would make it possible to calibrate the thresholds of the various brackets in order to achieve the desired income and progressivity objectives. For example, taking best international practices into account, a simplified schedule with four rates (0, 15, 25, and 35 percent) could be considered. However, given the lack of usable data on the distribution of wages and salaries, the mission cannot suggest, even indicatively, what income brackets a simplified schedule would apply to. Moreover, the wage disparity between the public and private sectors is significant. The maximum rate in the current schedule (40 percent) applies to an income level of CFAF 3.5 million, a low threshold that covers a large proportion of private sector employees. The aggregate wage and salary data confirm this lack of progressivity. Based on the aggregate data on taxable wages and salaries in each income bracket provided by the DGI, in 2013 68 percent of all wages and salaries were taxable at the maximum marginal rate of 40 percent, and thus at a total tax rate of more than 70 percent.

33. **Taking family responsibilities into account by reducing a percentage of the tax based on the number of dependents is unfair.** This method of taking family responsibilities into account results in a tax reduction that increases with income and does so without limit. It would be fairer, instead, to offer a deduction from taxable income of a fixed amount per dependent (deduction) or a fixed amount of tax reduction (tax credit). The tax credit has the advantage of increasing the progressivity of the tax schedule. Both methods limit the amount of reductions granted for family responsibilities, which is in line with best tax practices.

Recommendations

- Revise all mandatory levies on wages to promote the development of formal employment and formalization of the Malian economy.
- On a priority basis, compile a complete database with a breakdown of ITS revenue by income bracket. Then, determine whether the number of rates could be reduced from 7 to 3 or 4, and the income brackets adjusted to attain the desired progressivity and revenue objectives.
- Replace the system of coefficients for dependents with a fixed amount deductible from taxable income or a fixed ITS reduction per dependent (tax credit).

[9] The mission was unable to meet with the INPS, but will try to do so during a future visit.

C. Tax on Investment Income

Current situation

34. **The IRVM is levied on interest and dividends paid by legal entities or individuals residing or considered to be residing in Mali under the CGI.** Several exemptions are provided for in the CGI, including the following: interest on savings accounts (up to the limits set in the banking regulation), current accounts of industrial, commercial, or agricultural operations and all accounts opened in a cooperative by its members; interest on securities issued by the government or low-cost housing companies; and interest on certain mortgage-backed securities. In accordance with Directive 02/2010/CM/UEMOA, income distributed by mutual funds (OPCVM) and other forms of collective investment approved by the Regional Public Savings and Financial Markets Council are exempt. The tax rates are 10 percent for dividends; 7 percent for dividends distributed by companies listed on an approved securities exchange; 6 percent for bond income; 3 percent for government bonds with a maturity of five to ten years; 0 percent for bonds issued by the government with a maturity of more than ten years; 9 percent for interest on sight or fixed-term deposits and current accounts; 15 percent for bonuses paid to bond creditors and holders; and 18 percent on all other income.

Discussion

35. **The 2011 IMF tax policy mission (Mansour et al., 2011) noted that the 2010 IRVM diverged in some cases from Directive 02/2010/CM/UEMOA.** Changes were then made to the IRVM to align it with the regional directive. The mission is not recommending changes to the IRVM. It should be noted, however, that the exemption from the IRVM for income distributed by OPCVMs poses an evasion risk. It is possible to interpose an OPCVM between an enterprise and investors in order to shield income on such investments, particularly capital gains, from the IRVM. The problems associated with this exemption should be discussed by the WAEMU Commission.

D. Consolidated Tax

36. **The alternative minimum business tax (ISY) allows small taxpayers with a turnover of less than CFAF 50 million to choose a simplified regime.** The ISY is a consolidation of several taxes. By paying the alternative minimum business tax, the taxpayer pays not only the BIC but also all direct and indirect taxes provided for in Titles I and II of the CGI, i.e., nearly all taxes with the exception of registration and stamp fees and the tax on property income.

37. **The ISY is levied on individual operators.** Excluded are enterprises with turnover greater than CFAF 50 million, accountants and chartered accountants, tax advisors, and the enterprises approved under the CI. Table 4 shows the percentage of taxes and levies included in the ISY. It suggests that the revenue from this tax is distributed in proportion to those percentages. Local governments should therefore receive 11 percent of ISY revenue (business license tax and road taxes), the central government 83.9 percent, the chamber of commerce 1.1 percent, the housing fund 0.35 percent, etc.

38. **The amount of the tax varies depending on the activity, the taxpayer's profession, and the conditions in which the latter is exercised.** The amount owed is determined by Article 74 of the CGI and varies from CFAF 14,700 to CFAF 2,400,000. The tax is paid no later than March 31 of each year. The ISY threshold was raised from CFAF 30 million to CFAF 50 million in 2014 and is harmonized with the VAT liability threshold.

Table 4. ISY Rates

Taxes and levies	Percentage of ISY
Business license	10.45
Road taxes	0.55
Chamber of Commerce dues	1.1
VAT	33
Fixed employer contribution	2.47
Housing tax	0.35
Vocational training levy	0.18
ITS withholding	1
BIC	50.9
Source: CGI	

Discussion

39. **Although it is a poor source of revenue, the ISY is nonetheless an important tax because it is essential to the effort to tax the informal sector.** To fulfill its role effectively, the ISY should be simple enough to be clearly understood by small, less sophisticated taxpayers and easy to implement in order to avoid high administrative costs, given the tax's low revenue potential.

40. **The methods of implementing the ISY are complex and are being revised (draft 2014 budget law)**. By combining most of the taxes in a single levy, the ISY fulfills certain simplicity requirements. However, the application of multiple criteria to determine the amount of ISY resulted in 2013 in a table with 220 separate taxpayer categories. For example, in the "artisans" category, 7 ISY amounts can be levied, depending on the number of workers (never more than 10). For some of these categories, as in the case of artisans, a presumptive ISY amount is specified. For other taxpayer categories, the ISY is based on turnover. For example, sewing workshops are subject to one of 10 ISY amounts specified for that line of business, based on turnover. As a result, a sewing workshop with turnover of between CFAF 5 million and CFAF 10 million will owe CFAF 18,000 in ISY and another with a turnover of between CFAF 25 million and CFAF 30 million will owe CFAF 900,000 in ISY.

41. **Raising the ISY threshold from CFAF 30 million to CFAF 50 million will complicate the ISY structure.** For all categories liable for turnover-based ISY, 4 new turnover brackets will be added to take account of the increase in the threshold. Starting in 2014, there would thus be 68 new ISY categories, for a grand total of 288.

42. **It would be advisable to retain the ISY but considerably simplify how it is levied.** Turnover should be used as the base for all taxpayers and a single or graduated rate should be

applied, depending on turnover. This approach was proposed by previous technical assistance missions and the DGI told the mission that such a reform was expected for 2015.

43. **It should be noted that since 2014** taxpayers subject to ISY are required to submit a short tax return including some information for assessment purposes: annual turnover, number of employees, number of machines, geographic location, price of services or deliverables. The deadline for filing the returns is March 31 and the payment due date is April 30 of each year. The obligation to file such a return will facilitate the transition to a simplified ISY structure.

44. **Single proportional rate or simple schedule?** A single rate would certainly be the simplest option, but it could have undesirable effects. Considering that the threshold was raised and, as discussed, 4 brackets were added for categories currently liable for ISY based on turnover, the actual ISY rates vary from approximately 1.5 percent of turnover to approximately 5 percent. Selecting a single low rate (1 or 2 percent) would lower the ISY for taxpayers with higher turnover. Beyond considerations of fairness, this could act as an incentive for enterprises not to report turnover greater than CFAF 50 million in order to continue benefiting from the decrease in the ISY. If a single rate is adopted, it would therefore be preferable for it to be sufficiently high (4 percent, for example) to minimize these effects.

45. **A simple schedule would minimize the impact on the smallest taxpayers and would thus not hinder taxation of the informal sector.** A single rate of 3 or 4 percent would increase the ISY for the smallest taxpayers. Alternatively, a two-rate system could be adopted. For example, the first CFAF 20 million could be taxed at a rate of 2 percent and the CFAF 20-50 million bracket at a rate of 5 percent. With a simple schedule of this kind, the average ISY rate would be 2 percent for taxpayers with less than CFAF 20 million in turnover, and this average rate would gradually increase from 2 percent to 3.8 percent for taxpayers with turnover between CFAF 20 million and CFAF 40 million.

Recommendation

- Replace the 288 ISY categories with a proportional rate applied to turnover (3 or 4 percent).

E. Property Taxes

46. **The property tax system encompasses the taxation of property income and real property.** The latter could be the subject of a specific mission under the technical assistance program financed by the Tax Policy Trust Fund.

47. **The tax on property income (IRF) (CGI, Articles 14-22) is payable on income from developed properties received by individuals and legal entities when the properties in question are not included in their balance sheet assets.** Exempt from the IRF are unrented properties occupied by the owner and/or members of the latter's family, provided they are legal dependents of the owner; properties occupied by employees of the owner on condition that they provide guard or security services for the properties; properties included in the balance sheet assets of a company liable for the IS; and public railways. The basis of calculation of the tax is the

gross amount of rent and other property income received during the year, regardless of the period to which it pertains, plus expenses and charges normally borne by the owner but paid by the tenant, minus those paid by the owner.

48. **Capital gains on the sale of real property are not subject to the IRF and thus are not taxed for individuals.** However, these capital gains are taxable when the properties sold are included in the balance sheet assets of an enterprise subject to the IS.

49. **The IRF rates are 12 percent for permanent and semi-permanent buildings and 8 percent for earthen brick (adobe) buildings.**

50. **The property tax (TF) (CGI, Articles 185E -185L) is based on the rental value of developed properties, building sites, and land owned for at least 3 years.** Buildings and land used in the agricultural sector, places of worship, sports fields, etc., are exempt. The determination of rental value is based either on leases concluded verbally or in writing, an assessment of leases for equivalent buildings or land, or direct appraisal if neither of the two lease-based methods can be used. The TF is payable by the owner of the building or land on January 1 of the year preceding the tax year. The rate of the TF is 3 percent, reduced to 1 percent for vacant buildings. The TF is collected for the benefit of local governments.

Discussion

51. **The lack of a well-established land register in rural and urban areas makes it very difficult to implement any property tax.** The authorities and certain private sector chartered accountants the mission met with pointed out this problem as the main source of the very poor yield of these taxes. Because of these difficulties, transfers to local governments have little or no connection with the amounts of property taxes collected. A land register is being set up with donor help. If so requested by the authorities, a technical assistance mission could be sent to Mali for an in-depth study of the property tax system.

52. **The real property capital gains of individuals have been subject to the tax on capital gains realized by individuals since 2001, but according to the DGI, the tax was not implemented until 2011.** This tax is collected by notaries for the account of the National Property and Land Registry Directorate (DNDC). The revision of the property tax system could categorize capital gains of individuals as property income subject to the tax on property income at the rates of 15 percent or 10 percent, depending on the nature of the asset sold. This revision will be the subject of a future technical assistance mission.

Recommendation

- Optimize and streamline the property tax system (a future technical assistance mission could focus on this issue).

F. Investment Incentives

53. **The vast majority of investment incentive measures are contained in the Investment Code (CI), the Mining Code (CM), the Petroleum Code (CP), and the Law on Housing**

Development. The CM and the CP are analyzed in a separate report and are therefore not covered in this section.

The Investment Code

54. **Taxpayers approved in accordance with the CI benefit from a range of exemptions from various taxes.** There are 4 CI regimes: Regime A for investments of between CFAF 12.5 million and CFAF 250 million; Regime B for investments valued at between CFAF 250 million and CFAF 1 billion; Regime C for investments of more than CFAF 1 billion; and Regime D for investments of more than CFAF 12.5 million, limited to enterprises with 80 percent of their output destined for export. There is also a separate regime for investments in the special economic zones established by Decree of the Council of Ministers. Table 5 summarizes the incentives granted by the CI.

55. **Stability clause**. Investors approved in accordance with the CI will continue to benefit from these CI incentives, notwithstanding any change in the law or regulations aimed at eliminating them. This stability clause applies to all measures contained in the law or the regulation deemed most advantageous.

56. **Approval procedure**. A committee is responsible for examining applications for approval. If an investment project is accepted, the approval is granted by the Minister responsible for investment promotion within a period of twenty business days from the date of receipt of the application. The lack of a response signifies that approval is considered granted.

57. **Conditions governing approval**. Direct value added is the essential condition for the granting of approval. It is defined as the sum of personnel expenses, taxes and levies, depreciation, financial expenses, and gross operating profits. Enterprises approved in accordance with the CI must have value added representing at least 35 percent of turnover. The advantages that the investment is likely to bring to the government, domestic entrepreneurs, and consumers, as well as the external financing component and the effects on the environment, are also taken into account.

58. **Monitoring**. The decree implementing the CI calls for a committee made up of representatives of the ministries and public agencies concerned, including the Agency for the Promotion of Investments in Mali (API-MALI), the DGI, and the DGD. The minister responsible for the promotion of investment and the Minister of Finance define the Committee's powers and operating rules.

Discussion

59. **Apart from Regime D and the treatment accorded special economic zone investments, Mali's CI avoids some of the most disadvantageous aspects of investment codes.** The duration of exemptions from import duties and taxes is relatively short and direct taxes are reduced rather than exempted, with the exception of the minimum flat tax. The CI also omits many conditionalities such as job creation or the targeting of certain sectors or regions.

Table 5. Incentives Granted under the Investment Code

	Regime A	Regime B	Regime C	Regime D	Special economic zone
Indirect taxes					
Import duties and taxes on equipment and parts		3- or 2-year exemption (1)		30-year exemption	10-year exemption (3)
VAT invoiced by local suppliers		3- or 2-year exemption (1)		30-year exemption	10-year exemption
BIC withholding and VAT withholding on technical assistance		3- or 2-year exemption (1)		30-year exemption	10-year exemption
Direct taxes (for new activities only)					
IS-BIC	Rate reduced to 25% 7-15 years (2)	Rate reduced to 25% 10-18 years (2)	Rate reduced to 25% 10-18 years (2)	30-year exemption	10-year exemption
Minimum flat tax	5-year exemption	8-year exemption	10-year exemption	30-year exemption	10-year exemption
Other direct taxes****	n/a	n/a	n/a	n/a	10-year exemption

Source: CI
1/ 3 years for new activities, 2 years for the extension of existing activities
2/ The basic durations (7 years Regime A, 10 years Regime B, and 15 years Regime C) are extended by 3 years for enterprises developing local raw materials; by 2 years for enterprises conducting R&D; by 1 year for enterprises in industrial zones; and by 2 years for export enterprises. The upper limit assumes a total of 4 extensions.
3/ Also includes exemption from VAT payable at customs on equipment imported for approved programs.
4/ Business license taxes, ITS, CFE, housing tax, youth employment levy, vocational training levy, TAF.

60. **Nevertheless, several aspects of the CI could be revised to reduce the inefficiencies inherent in this type of regime.**

61. **Regime D should be eliminated.** Most of the pitfalls avoided in regimes A, B, and C are present in Regime D. The 30-year exemptions from a majority of direct and indirect taxes are subject to abuse, and all the more so as the Regime D conditionality – the obligation to export 80 percent of production – can easily be circumvented. Long-term exemptions of this type are generally introduced in duty-free ports that can better control conditionality and leakage of exempted goods (which compete unfairly with local production) toward local markets by concentrating these free zones in secure areas adjacent to the port. It is nearly impossible to

exercise any control, particularly of the percentage of exempted goods sold on the local market, which constitutes unfair competition with local producers.

62. **The investment incentives granted in special economic zones should be revised and better targeted.** Although regional development may be a desirable public policy objective and investment incentives can contribute to the attainment of that objective, the investment incentives granted in special economic zones are too broad. Exemptions from nearly all taxes and levies on labor (ITS and payroll taxes) are granted for a period of ten years, which is unjustifiable in a code aimed at promoting investment, as they have no direct impact on investment. Investment incentives should be limited to the cost of capital, as the effect on employment is indirect.

63. **The exemption from the minimum flat tax should be eliminated**. The objective of the minimum flat tax is to ensure that enterprises pay the IS-BIC each year, both to stabilize revenues and to ensure that enterprises remain on the tax authorities' radar. When, by definition, there is no tax to collect, the authorities tend to lose sight of these enterprises and not monitor them. This opens the door to abuse, such as exaggerating losses in order to benefit from them when the exemptions expire. The same principles should be applied to enterprises under agreements.

64. **The additional conditionalities needlessly complicate the CI**. The conditions related to the percentage of exports (discussed above in connection with Regime D), use of local raw materials, intensity of R&D, and location in an industrial zone are difficult to manage and are subject to abuse.

65. **Certain provisions of the CI implementing decree are not applicable.** In particular, Article 20 of the decree stipulates that other criteria will be taken into account in considering applications for approval. Article 11, however, states that approval can be denied only if the investment project is inconsistent with one of the legislative or regulatory provisions. Since no specific criterion is stipulated concerning the environmental aspects, the advantages for the country, and the external financial support, these factors have no impact on the decision to grant approval.

66. **The more immediate problem is the lack of control and monitoring of the incentives granted under the CI.** The authorities have two initiatives on the table. The first is an audit of the process of granting, extending, and monitoring exemptions since January 1, 2014. The Fossat et al. report (2013) raised this issue and suggested that an audit be performed. The objective is to put in place a reliable mechanism for granting and monitoring the exemptions granted under the various exemption regimes.

67. **The second initiative was to establish the Tax and Financial Services Computerization Support Unit (CAISFF)**. CAISEFF's first task will be to inventory all the incentives granted under specific codes, orders, decrees, and letters. The unit has developed an initial version of an IT tool and is expected to have identified and inventoried the existing exemptions within a few months. The second phase of this project will be to create an interface with databases containing information on exemptions (DDD, GDI, etc.). The medium-term objective is to ensure better control and monitoring of exemptions by interfacing the pertinent databases. These initiatives,

particularly the work of the CAISFF, will also be important for the production of reliable tax expenditure accounts (see the discussion in the section on tax expenditures).

The Law on Housing Development

68. Certain real estate activities that focus on the construction of new social and low-cost housing are granted tax incentives under the Law on Housing Development. The eligibility of projects varies depending on the size and nature of the real estate operation. In the Bamako district, the project must include at least 50 housing units or 100 parcels of land to be eligible. In other regions, the minimum is lowered to 25 housing units or 50 parcels of land. The eligible taxpayers may be legal entities or individuals, and they benefit from several tax incentives:

- ➢ 50 percent reduction of the IS-BIC and a 5-year exemption from the business license fee following expiration of the incentives granted by the Investment Code;
- ➢ exemption from VAT (including at the customs frontier) on equipment, materials, and services used in construction and development;
- ➢ exemption from the stamp and registration fees applicable to contractual documents;
- ➢ exemption from the tax on financial activities applicable to contracted loans.

69. **The indefinite 50 percent reduction of the IS rate seems excessive and should be subject to a time limit.**

Recommendations

- Eliminate Regime D of the Investment Code.
- Limit the incentives granted for investments in special economic zones.
- Do not exempt enterprises benefiting from Investment Code approval from the minimum flat tax.
- Eliminate the additional incentives contingent upon the preponderance of exports, R&D intensity, use of local raw materials, and location in an industrial zone.
- Ensure that the IT tool developed by CAISEFF for monitoring exemptions receives the support of the DGI and DDD tax specialists so that its structure will permit attainment of the above-mentioned objectives.
- Limit the IS-BIC reduction granted under the Law on Housing Development to 5 years.

III. INDIRECT TAXES

70. **In Mali, indirect taxes account for more than half of all tax revenue (56.4 percent in 2013) and nearly 10 percent of GDP (8.9 percent in 2013). Most indirect tax revenue comes from the VAT (more than 50 percent).** Apart from the VAT, taxes are levied on specific goods (the special tax on selected products or ISCP and the domestic tax on petroleum products or

TIPP) or specific activities (the tax on financial activities or TAF and the tax on access to the public telecommunications network or TARTOP).

71. **Several indirect tax measures have been adopted since 2010, based on the recommendations of the two previous IMF technical assistance missions.**[10] They chiefly concern the VAT, the system of which has evolved significantly. However, the recommendations regarding the ISCP have not been followed, with the exception of the recommendation concerning petroleum products. The mechanism for pricing, taxing (TIPP), and subsidizing these products was revised. A new petroleum products price structure is expected to be introduced shortly. This section will therefore not address the TIPP.

Table 6. Follow- Up of the Recommendations on Indirect Taxes of Previous Missions (2010 and 2013)

Indirect tax	**Status**
VAT	
Eliminate the reduced VAT rate without replacing it with exemptions	Not followed
Harmonize the VAT threshold with the threshold for medium-sized businesses	Followed
Make liability for the VAT optional for legal entities below the threshold	Followed
Align the investment code with the VAT directive	Not followed
Gradually eliminate withholding at source	In progress
Consider applying the VAT to the banking sector	Not followed
ISCP	
Do not levy excise taxes on the new goods permitted in the 2009 Directive	Not followed
Increase the ISCP rate on nonalcoholic beverages to 20%	Not followed
Harmonize the tobacco rates at 25% and increase that rate by 1% per year up to 30%	Not followed
Introduce a 5% excise tax on “luxury” passenger vehicles	Not implemented
Revise the role of the TIPP and the mechanism for setting retail prices	In progress

Source: IMF missions

VAT

72. **Following an appreciable decline in 2012, mainly attributable to circumstances, VAT revenues improved in 2013.** They represented 4.8 percent of GDP in 2013, down from the level observed in 2010 (5.6 percent).

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[10] Mansour, M. et al., 2010, *Mali: Simplifier et améliorer l’efficience du système fiscal* (Mali: Simplifying and improving tax system efficiency), IMF, November; Geourjon, A-M, 2011, *Mali: Propositions pour la mise en œuvre de la réforme fiscale* (Mali: Proposals for implementing the tax reform), IMF, June; and Fossat, P. et al., 2013, *Mali: Poursuivre la modernisation du système fiscal* (Continued modernization of the tax system), IMF, August.

Table 7. VAT 2010-2013 (CFAF billion)

	2010	2011	2012	2013
VAT	**256.0**	**271.4**	**225.8**	**259.7**
% of tax revenue	35.93%	34.40%	27.56%	30.53%
% of GDP	5.59%	5.39%	4.26%	4.84%
Domestic VAT (% GDP)	2.16%	2.27%	1.92%	2.04%
VAT on imports (% GDP)	3.55%	3.68%	3.23%	3.69%
VAT credit reimbursements (% GDP)	-0.12%	-0.56%	-0.90%	-0.89%
Sources: DGI, DGD, and mission calculations.				

Although it represents more than 30 percent of tax revenue, the productivity of the VAT appears average compared with several neighboring countries. The efficiency indicator of one percentage point of VAT based on final consumption, which allows for international comparisons,[11] is 0.42 in Mali, which is below the level in Burkina Faso, Senegal, and Ghana, but close to that of Kenya, and far above that of Niger (see Table 8). VAT efficiency in Mali is estimated to be slightly above the average observed in low-income countries, estimated at 0.38.[12]

Table 8. VAT Efficiency in Several Sub-Saharan African Countries

	VAT rate	C-efficiency
Mali (2013)	18%	0.42
Burkina Faso (2012)	18%	0.55
Ghana (2012)	13%	0.58
Kenya (2012)	16%	0.41
Niger (2012)	19%	0.12
Senegal (2012)	18%	0.53
Sources: IMF, AEO, DGI		

73. **Apart from harmonizing the VAT threshold with that of medium-sized enterprises,[13] the main improvement in the VAT system concerns credit refunds.** The refund of VAT credits was generalized in 2010, and only purchase-resale enterprises are ineligible for refunds. In 2013, in order to facilitate the reimbursement of approved refund amounts, an escrow account was opened at the BCEAO for the deposit of VAT collected from mining companies at the customs frontier. Since 2014, this VAT and 10 percent of all domestic VAT revenues are paid into a Treasury account earmarked for the refund of VAT credits. The flow of refunds has improved considerably in recent years (see Table 9) and the backlog of credits, estimated at CFAF 35 billion,

[11] This indicator should be assessed in light of the inherent difficulties in estimating final consumption in developing countries, as well as the problems related to the functioning of VAT systems, which can differ greatly from one country to another, particularly with regard to the non-refund of VAT credits.

[12] IMF, 2011, *Revenue Mobilization in Developing Countries*, Board Paper.

[13] The VAT threshold was raised from CFAF 30 million to CFAF 50 million in 2014.

has been cleared.[14] For the system to function properly, revenue must be deposited in the earmarked account.

Table 9. Status of VAT Credit Refunds (CFAF million)

	2011	2012	2013
Number of requests received	38	65	70
Total amount of requests	35,379	71,584	86,129
Total amount approved	32,908	64,483	84,926
Total amount rejected	2,216	6,218	1,204
Amount of pending requests	255	883	0
Source: DGE			

74. **The reduced VAT rate introduced in 2012 has not been eliminated, despite the recommendations of previous IMF missions.** The 2010 mission had listed the disadvantages of the change from a single-rate system to a two-rate system. A reduced tax of 5 percent was nevertheless adopted in 2012. It is applied to two categories of previously exempted goods: IT hardware and renewable energy equipment. This provision is consistent with the WAEMU Directive of 2009 (Article 29).

75. **The adoption of the 5 percent reduced rate has so far had no impact.** In fact, the reduced rate has scarcely been implemented, for two reasons. The first is that for a period of 5 years from 2009, the collection of import duties and taxes on renewable energy equipment has been suspended.[15] The reduced rate will therefore not be applicable until 2015. The second reason is that because of technical difficulties with ASYCUDA application of the 5 percent rate was not officially effective in customs until October 2013.[16]

76. **Eliminating the reduced rate now seems difficult, but expanding its applicability should be strictly limited.** Multiple rates were used in Mali until the Community Directive of 1998 imposed a single rate. The authorities' resistance to the IMF's recommendations not to adopt and then to eliminate the reduced rate illustrates their desire to have a two-rate VAT system. The impact of the reduced rate on revenue will necessarily be positive, as it applies only to goods exempted in 2012. However, the risk of taxpayer pressure to expand the application of this reduced rate to goods or services previously taxed at the regular rate of 18 percent is obvious and could significantly reduce VAT efficiency as well as tax revenues in Mali. Consequently, the legislative provisions necessary to limit the reduced rate of 5 percent strictly to goods and services exempted from VAT on January 1, 2012 should be quickly adopted.

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[14] Fossat, P. et al., 2013, *Mali : Poursuivre la modernisation du système fiscal*, IMF, August.

[15] Decree 09-503-P-RM of September 23, 2009.

[16] Circular letter 057-MF-DGD-DRPPV of October 7, 2013.

77. **The CGI (Article 195) grants more VAT exemptions than are authorized by the WAEMU Directive**. The exemptions apply to agricultural inputs and equipment, staple breads, and baby bottles and nipples. Harmonization with the community provisions is advisable, as it would then be possible to begin taxing the agricultural sector, possibly by initially subjecting agricultural equipment to the 5 percent reduced rate. The exemption of bread is debatable, given that the imported wheat used to make the flour is exempt,[17] whereas the flour itself is not. This measure appears to favor Malian mills (processors of wheat into flour). The latter benefit from the protection afforded by the VAT payable on flour at customs, as flour importers will certainly find it very difficult to obtain refunds for their VAT credits. However, this arrangement does not favor local wheat growers competing directly with large international producers. Finally, it is possible that the VAT exemption may not have been fully reflected in the price of bread, but may have gone, in part at least, to the production chain (bakeries, mills) in the form of additional profit margins. The exemption of baby bottles and nipples should be quickly eliminated to avoid encouraging formula feeding in the most vulnerable segments of the population, at the risk of increasing infant mortality.

78. **Certain so-called "social" exemptions have a regressive impact; eliminating them would expand the tax base.**[18] The social component of water consumption, for example, does not target the poorest populations, inasmuch as the rate of access to drinking water in Bamako is 36 percent. General application of the exemption to the first 20 m^3 reduces the amount of the tax for all taxpayers, even the largest consumers.[19] The same is true of the social component of the electricity exemption, which should also be reconsidered, though the limit imposed by a 5 ampere meter reduces its regressive impact. Finally, it is not certain either that the drug exemption chiefly benefits the most vulnerable categories.

79. **The VAT benefits granted to some enterprises are contrary to the WAEMU Directive,** Article 19 of which in fact excludes VAT exonerations and exemptions in the context of measures to encourage business start-ups and investment, measures or provisions targeting specific sectors, or special agreements. The only exceptions are conditional relief arrangements in the mining, forestry, and petroleum sectors during the research, prospecting, and exploration phases.

80. **There are at least two alternatives to the VAT exemption for investor-imported goods (the optimal solution being a uniformly applied VAT mechanism): a reverse charge mechanism or the deferred payment of VAT debt.** These two options are designed to protect enterprises' cash and limit the risk of fraud-related revenue losses. Under the reverse charge

[17] ASYCUDA: Additional code 773.

[18] Eliminating them is equivalent to considering the list of exempted products in the WAEMU Directive as limitative and nonobligatory.

[19] African Development Fund, *Project to Supply Drinking Water to Bamako, Appraisal Report,* OWAS Department, September 2013.

mechanism,[20] the deductibility and collection of VAT are simultaneous (see Box 1). In the case of the deferred payment of VAT on imports, the proposed mechanism of recording a notional VAT debt (DN-TVA) shifts the burden of proof in respect of tax benefits: the beneficiary enterprise is thus responsible for demonstrating compliance with the conditions of the exemption.

81. **The elimination of withholding at source by the Treasury,[21] initially slated for January 2014, was postponed to January 2015 because of the risk of revenue losses. At present, the Treasury continues to withhold 40 percent of the gross VAT invoiced by its suppliers.** The IMF revenue administration mission[22] of June 2014 underscored this risk and stressed the importance of a support mechanism focused on improving the monitoring of tax obligations and making payments under government contracts conditional upon the fulfillment of tax obligations by the beneficiaries.

The tax on financial activities (TAF)

82. **The TAF (CGI, Articles 244-249) is levied on the amount of income realized in financial operations, operations associated with banking or financial activities and, in general, the trading of securities and currency, exclusive of interest and commissions earned on the money market.** Banks, financial institutions, exchange dealers, discounters, and intermediate brokers are subject to the TAF. Leasing operations are not subject to the TAF. The rate of the TAF is 15 percent and it is collected pursuant to the same rules, with the same guarantees, and subject to the same penalties as VAT.

83. **The TAF was introduced to make up for the forgone revenue from the exemption of operations of banks and financial institutions from the VAT.** In 2013, the TAF brought CFAF 27.3 billion into the Treasury. By comparison, the same sector generated approximately three times less IS revenue (CFAF 7.7 billion).

84. **A well-designed TAF can compensate for the exemption of financial activities from the VAT.** Because of the difficulty of correctly determining the value added of financial services, it is common, as in Mali, to exempt these services from the VAT. Unless a financial service is explicitly invoiced, it is difficult to assess the value of the service because it is generally included in the margin the bank earns from its financial intermediation activities. This difficulty is twofold: first, as the VAT is levied on the basis of completed transactions, the cost of the goods or services purchased and the price of the goods and services sold should be identifiable. Financial intermediation services do not identify this margin on a transactional basis (individual borrowers are not associated with a particular depositor or supplier of funds or with a particular cost of

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[20] The VAT reverse charge was introduced in European law in 1977 with the 6th VAT Directive 77/388 and has been in effect, particularly in France since September 1, 2006 and in Germany, Spain, Great Britain, Italy, etc., and since 2011 in Algeria.

[21] Withholding at source by private enterprises was eliminated in January 2012.

[22] Fossat, P. et al., 2014, *Mali : Mise en œuvre du projet de renforcement des capacités de l'administration fiscale* (Mali: Implementing the tax administration capacity building project), IMF, June.

funds). The second difficulty is that even if an overall margin were identified, that is, the difference between the bank's total cost of funds and the total income earned on loaned amounts, it would be necessary to determine what portion of that margin should be allocated to each participant in the transaction (the lender and the borrower), which is not easy given that the various components of the margin (risk premium, service charges) are not allocated.

85. **Mali's TAF lacks the necessary attributes to be a good replacement for the VAT, and the fact that its exemptions – CFAF 56 billion in 2013 (see Table 14) – are more than double the revenue generated, attests to its deficiencies.** The revenues derived from the financial activities used as the base of the TAF are not a good approximation of the value added by the financial sector. A better assessment would involve determining value added not on a transactional basis but rather based on its equivalent in an overall approach to an enterprise's activities. This equivalent could be based on the total adjusted profits of financial institutions, plus the wages they pay their employees.

86. **Overhauling the TAF (and the fee for registering insurance contracts, which is the equivalent for insurers) could be simple to implement.** However, making a recommendation to that effect is beyond the scope of this diagnostic mission. The details of such a modification could be the topic of a follow-up mission within the framework of one of the technical assistance missions financed by the Tax Policy Trust Fund.

The ISCP

87. **Although ISCP revenues improved between 2009 and 2013, from 0.09 percent to 0.22 percent of GDP, they still account for less than 2 percent of tax revenues (see Table 10).** Excise revenues are of lesser importance in sub-Saharan Africa, especially francophone Africa, than they are in Asia or Latin America.[23] In Mali, as in all the WAEMU countries, the ISCP represents a revenue potential that should be exploited.

88. **Excluding the ISCP on gold,[24] nearly all (close to 99 percent) the revenue is generated by the ISCP on beverages and cigarettes**. Other products subject to an excise tax are: kola nuts, plastic bags, ammunition, marble, and passenger vehicles with a rating of 13hp or more.

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[23] IMF, 2011, *Revenue Mobilization in Developing Countries*, Board Paper.

[24] The ISCP rate on gold is 5 percent. In reality, most mining companies remain subject to the 1991 Mining Code, which establishes a tax on services (CPS) and an ad valorem tax of 3 percent each. This point is discussed in greater detail in the report on natural resources.

Table 10. Breakdown of Revenue in 2013 (CFAF million)

Products	DGD	DGI	Total
Kola nuts	149.57	0.00	149.57
Nonalcoholic beverages	942.71	1,941.28	2,883.99
Alcoholic beverages	321.15	2,850.78	3,171.93
Cigarettes	3,650.34	1,854.77	5,505.10
Plastic bags	0.00	0.00	0.00
Ammunition	0.02	0.00	0.02
Passenger vehicles	0.00	0.00	0.00
Total	**5,063.77**	**6,646.83**	**11,710.60**
In % of GDP	*0.09*	*0.13*	*0.22*
In % of tax revenue	*0.60*	*0.78*	*1.38*
Sources: DGI, DGD			

89. **The ISCP levied in Mali is consistent with the community provisions on excise taxes in the WAEMU[25] and thus with those issued by ECOWAS as they are less restrictive (see Table 11).** As provided for in the WAEMU Directive, all the member states impose an excise tax on beverages and tobacco. Beer is more heavily taxed in Mali than in Benin, Niger, Senegal, and Togo. The ISCP rate applied to cigarettes, however, is the lowest: 15 percent, 20 percent, or 25 percent, depending on the product line, with luxury cigarettes being the most heavily taxed.

90. **Increasing the yield of the ISCP will require extending its applicability and increasing the rates, as recommended in previous missions. Another possibility would be to expand the list of products subject to the tax.** This option is not feasible in the WAEMU context, as the directive limits the number of products to eight.[26] Moreover, given the almost nonexistent yield of the ISCP on certain products, their taxation should be reconsidered. The DGI does not collect ISCP on domestically produced plastic bags and ammunition, the few excises collected in customs acting as a protective tax. In 2010 it was further recommended that the list of products subject to ISCP not be expanded, with the exception of passenger vehicles. The reform of the ISCP should target three categories of products: tobacco, beverages, and passenger vehicles. For the first two, the importance of controlling the base of domestic production should not be overlooked.

[25] Directive 03/98/CM/UEMOA amended by Directive 03/2009/CM/UEMOA.

[26] The member states are required to levy an excise tax on beverages and tobacco, and they have the power as well to tax a maximum of six products selected from a community list.

Box 1. Two Alternative Exemption Systems: Reverse Charge and Notional VAT Debt

VAT reverse charge mechanism

The reverse charge system works as follows:

The foreign operator issues an invoice exclusive of taxes to its Malian customer. This invoice clearly states that the VAT is payable by the customer and mentions the legal provision indicating that the VAT is not collected by the supplier.

The Malian importer pays the Malian VAT to the DGD under the reverse charge system and simultaneously recovers the VAT paid. It declares the amount of the operation exclusive of taxes by creating a "Purchases of goods or services from a taxpayer not established in Mali" account. The deductibility and collection of VAT are thus simultaneous, as in a self-supply system.

The problems generally encountered with the VAT reverse charge mechanism concern eligibility for this mechanism and the concept of a stable establishment in Mali. In the case of the CI, these problems can be largely avoided by limiting the eligible operations and the enterprises concerned.

Recognition of a notional VAT debt

The mechanism for recognizing a notional VAT debt (DN-TVA) would function as follows:

At the customs frontier, for imports mentioned in the CI, the DGD records a DN-TVA equal to the amount of VAT that would have been collected had the enterprise been subject to generally applicable provisions.

This DN-TVA is canceled when the importer obtains documentation from the DGD attesting that the conditions set out in the CI for obtaining a VAT exemption have been satisfied. More precisely, the promoter of the investment project obtains a certificate, possibly issued by the API, stating that the exempted fixed assets are in the installation or operational phase of the investment program. In the case of exemptions under the free zone regime, the importer can request cancellation of the DN-TVA or a portion thereof. It must then submit a certificate stating that the goods have been exported, that they are still in the free zone, or, if they have been cleared for consumption on the domestic market, that the import levies (including VAT) have been paid.

If importing enterprises cannot provide the required certificates one year at the latest after the date of importation (except in cases where a postponement authorization issued by the API attests that the program is in process of implementation), the authorities may undertake to collect the DN-TVA, which then becomes an outstanding debt.

Tobacco

91. **Currently, the ISCP rate for imported cigarettes is the maximum of 25 percent, and for most locally produced cigarettes the rate is the minimum of 15 percent.** There are two reasons for this difference: (1) most locally produced cigarettes are of lower quality; and (2) with the quality determination left to the administration, the ISCP can be used as a protection tool.

92. **Increasing the ISCP rate on tobacco is necessary in the subregional context.** Compared to other WAEMU member countries, the level of taxation is significantly lower in Mali. In a

customs union, the coordination of excise taxes is advisable, to avoid tax competition and minimize fraud, with all the associated risks. The other member states have officially asked Mali to increase the ISCP rate.

93. **A draft decree has been prepared to amend Decree 2012-278/P-RM in order to increase the ISCP on tobacco**. The draft calls for discarding the principle of differentiated rates based on product quality and applying the maximum rate of 45 percent specified in the WAEMU Directive to all products.

94. **The proposed elimination of different rates based on the quality of cigarettes is a step forward.** First of all, imposing higher taxes on luxury products deemed to be of better quality and thus less harmful to health does not contribute to the reduction of externalities; on the contrary. The application of a single rate also avoids the temptation to use the ISCP as a substitute for customs duties. Finally, this would eliminate the technical difficulties associated with the application in customs of different rates for a single position in the harmonized system used in ASYCUDA.

95. **Switching abruptly from a 15 percent tax to a 45 percent tax on local production and from 25 percent to 45 percent on imports carries great risks in Mali's current circumstances.** First, the elasticity of demand should be taken into account. According to the World Health Organization, a tax increase that raises the price of tobacco by 10 percent reduces consumption by about 4 percent in high-income countries, and by as much as 8 percent in low- or middle-income countries. Clearly, then, a hike in the ISCP, if it is reflected in the price of cigarettes, will result in a sharp decrease in the "official" cigarette consumption. The additional revenue will thus fall far short of expectations, if the latter did not take into account the impact of the price change on the quantities consumed officially. The second risk is that of encouraging the consumption of black market cigarettes. These low-quality products adversely affect health. Moreover, given the specific circumstances in Mali, cigarette smuggling has security consequences that should be addressed. In the mission's opinion, the proposed increase is too sudden, and a gradual approach should be considered. It would consist of applying a single rate of 25 or 30 percent in 2015, and then converging toward 45 percent over the course of two or three years.

Table 11. Excises: Comparison between a Number of West African Countries and WAEMU and ECOWAS Community Provisions

Products	Benin (2012 BL)	Mali (Decree, 2012)	Niger (2008 BL)	Senegal (2010 BL)	Togo (2012 BL)	WAEMU		ECOWAS	
						Min. rate	Max. rate	Min. rate	Max. rate
1) Beverages									
Nonalcoholic beverages excluding water	5	10	12, 15 (2)	2.75	2	0	20	1	10
Alcoholic beverages								10	45
Beer	15	45	25		15	15	50		
Other alcoholic beverages	35, 40	45	45	40 (3)	35	15	50		
2) Tobacco	40	15, 20, 25	40	20, 45	40	15	45	15	100
3) Coffee	5		12	3.8	10	1	12	1	30
4) Kola nuts		20	15	30		10	30	5	30
5) Wheat flours	1				1	1	5	1	20
6) Edible oils and fats	1			5, 12, 15	1	1	15	1	15
7) Tea				3.8		1	12	1	30
8) Arms and ammunition		40				15	40	20	50
9) Perfumes and […]	5		15	12.5	15	5	15	5	40
10) Plastic bags		5			5	5	10	1	10
11) Marble		5				5	15	5	15
12) Gold bars		5				3	15		
13) Precious stones								3 (4)	50
14) Passenger vehicles of 13hp or more	7	5			10	5	10	1, 5 (5)	25, 150 (5)

Source: 2012 BL, WAEMU and ECOWAS directives

1/ In addition to the products listed above, ECOWAS authorizes excise taxes on caviar, hides and skins, recreational boats, works of art, and monosodium glutamate.

2/ 12% for fruit juices, 15% for mineral waters.

3/ Senegal levies specific additional taxes on alcoholic beverages.

4/ The ECOWAS directive also applies the same rate to precious metals as it does to precious stones.

5/ The ECOWAS directive distinguishes new vehicles (1% to 25% bracket) from used vehicles (5-150%).

Beverages

96. **Additional revenue could be raised by raising the tax on nonalcoholic beverages.** The 10-20 percent rate increase recommended by previous missions should be included in the draft decree modifying the ISCP rates. The applicability of the ISCP to nonalcoholic beverages should also be expanded. Article 240 of the CGI only mentions soft drinks (HS: 22 02 10 00), which is contrary to the WAEMU Directive. Other nonalcoholic beverages, with the exception of water, should therefore be subject to the ISCP. The additional revenue would be considerable. For example, in 2013, the value of imported soft drinks subject to ISCP was CFAF 690 billion [million?], while that of other nonalcoholic beverages (HS: 22 02 90 00) not subject to ISCP amounted to CFAF 2.1 billion, or three times more

Passenger vehicles

97. **The ISCP on vehicles with a rating of 13hp or more, the aim of which was to raise revenue and protect the environment, is not applied.** The DGD's revenue from this tax is zero and the customs administration admits not having programmed its implementation into the automated customs clearance system. The reason is apparently technical: the harmonized system (HS) nomenclature does not distinguish vehicles on the basis of horsepower but rather according to the cubic centimeters of the engine. As Mali's CGI repeats word for word the product designation used in the WAEMU Directive, a request should be made at the regional level to amend the directive. In the meantime, the CGI could be revised to specify the "luxury" passenger vehicles to be taxed, using the HS nomenclature. The mission stresses, however, that even if this technical issue were to be resolved, the result of applying this tax to privately owned high-power vehicles would be marginal at best, as long as the practice of exempting the vehicles of certain categories of government officials and members of parliament, as well as the ad hoc exemptions enjoyed by certain individuals, remains in place. In 2013, the forgone revenue owing to exemptions granted for privately owned vehicles amounted to CFAF 216 billion, and for the special exemptions granted to individuals, CFAF 1.43 billion.

The tax on access to the public telecommunications network (TARTOP)

98. **The TARTOP is a 2 percent turnover tax levied on any person holding a network operating license issued by or on behalf of the government of Mali.** This tax was introduced in the 2013 budget law. The following are exempt from the tax: (1) internet services and products; (2) the sale, leasing, and supply of equipment used to access the internet; (3) the sale and leasing of telephone equipment; (4) services related to inbound international traffic, with the exception of services involving the use of the public telecom network; and (5) services interconnecting the holders of operating licenses.

99. **The TARTOP brought in CFAF 5 billion in 2013, nearly equal to the amount of the ISCP collected on tobacco.** Two enterprises are currently subject to this tax: Orange Mali and Sotelma Mali. A third license was recently granted to Alfa Télécom. The revenue generated in 2013, when the tax was first introduced, fell short of the results expected by the DGI (CFAF 7 billion). The main reason is the difficulty the DGI experienced in trying to control the tax base, or, more precisely, the share of exempt turnover over which the administration has no control. Levying a special tax on the telecom sector is an effective way of raising revenue. Countries are increasingly adopting it. The current Malian system should, however, be revised during a subsequent mission within the framework of the Tax Policy Technical Assistance Program to facilitate its application by the DGI.

Recommendations

- Limit eligibility to be taxed at the reduced rate of 5 percent to goods and services exempt from the VAT as of January 1, 2012.

- Revise the list of VAT exemptions in order to: (1) align Article 195 of the CGI with the WAEMU Directive; and (2) expand the tax base.

- Eliminate the VAT exemptions granted pursuant to the CI and special agreements.

- Modify the definition of the TAF base and optimize the fee for registering insurance contracts, which is its equivalent for insurers.

- Unify the ISCP rate on tobacco by applying a rate of 25-30% and increase the rate annually while at the same time monitoring the impact of the increase on smuggling.

- Increase the rate of ISCP on nonalcoholic beverages from 10% to 20% and include noncarbonated beverages, with the exception of water, in the list of products in Article 240 of the CGI.

- Resolve the technical issue related to application of the ISCP to passenger vehicles, and eliminate the practice of exempting vehicles imported for certain categories of government officials and members of parliament, as well as the special exemptions granted to individuals.

- Revise the methods of indirect taxation of specific sectors, banks, insurance companies, and telecommunications companies. This recommendation, if it is followed up by the authorities, could serve as the subject of special technical assistance under the Tax Policy Trust Fund.

IV. TAX EXPENDITURES

A. General

100. **According to the OECD report[27] on the subject, a tax expenditure is a transfer of public resources that is achieved by reducing tax liabilities relative to a benchmark tax, rather than by a direct expenditure.** This definition establishes two characteristics for identifying a tax expenditure: (1) a reduction in government revenue, and (2) a deviation from the benchmark tax (reference system) to be defined.

101. **Tax expenditure analysis is new to Africa.** It is an important factor in enhancing fiscal transparency. In developing countries, where tax incentives have often been used to attract foreign investors, analyzing the corresponding tax expenditures is a good way of slowing their proliferation, perhaps even calling them into question. Finally, the publication of a document on tax expenditures serves both to inform civil society and to fuel public debate about the benefits granted, particularly those in favor of special interests.[28]

102. **Tax exemptions and tax expenditures are not equivalent concepts.[29]** Not all exemptions are tax expenditures, and measures other than exemptions can give rise to tax expenditures. In particular, exemptions from the VAT on goods imported by enterprises under the Mining Code or the CI regime cannot be considered tax expenditures because they do not result in revenue losses. The VAT that would have been collected on the imports of such enterprises is deductible and thus does not constitute a revenue loss. Similarly, depending on the benchmark tax selected, certain VAT exemptions, such as the one for the financial sector, cannot be considered tax expenditures. Other than exemptions, all exceptional measures that reduce government revenue can, depending on the benchmark tax selected, give rise to tax expenditures. This is the case, for example, with the application of a reduced VAT rate, any measure that reduces the base of a direct tax, or the granting of an investment tax credit.

103. **Defining the benchmark tax is a prerequisite for the identification of tax expenditures.** It is possible to identify the exemptions that do not give rise to revenue losses and that cannot, therefore, be considered tax expenditures. However, it is impossible to go beyond this initial differentiation without referring to a validated benchmark tax. The definition of the latter and its validation are priority steps in the tax expenditure analysis approach.

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[27] OECD, 2010, *Tax Expenditures in OECD Countries*. http://www.oecd.org/gov/budgeting/taxexpendituresinoecdcountries-oecdpublication.htm

[28] World Bank, IMF, UN, and OECD, 2011, "Supporting the Development of More Effective Tax Systems," *Report of the G20 Development Working Group*.

[29] Geourjon, A-M, Rota-Graziosi, G., 2014, "The Illusion of Tax Expenditures in Africa," *Policy Briefs*, No. 96, FERDI, June.

104. Analyzing tax expenditures does not mean eliminating any tax incentive measure. Certain exemptions can be justified economically, socially, or on some other basis. The objective is to provide decision-makers with a tool for assessing the merits of these measures by estimating their cost, their effects on the tax base, their impact on fairness, and their efficiency compared to that of the direct expenditures that could possibly replace them. A document listing tax expenditures is a technical report that quantifies each measure and groups them by beneficiary in summary tables organized by type of tax.

105. **Tax expenditures can be divided into two categories, based on the chosen objective.** Investment tax expenditures aim to promote domestic or foreign investment (direct and indirect taxation, customs duties, etc.). Consumption tax expenditures promote household consumption by reducing the tax burden (essentially indirect taxation) and, normally, the price of the goods concerned,[30] or by increasing disposable income (direct taxation of individuals). The aim of the first category is efficiency, whereas the second focuses more on fairness by targeting goods that are more likely to be consumed by the poorest households (foodstuffs, for example) or by modifying the progressivity of the wage tax burden.[31]

B. Current Practice in Mali

106. **Tax expenditure analysis is a long-standing concern in Mali.** The tax expenditure concept has been discussed for a long time, particularly in the context of Canadian cooperation. The practice of analyzing tax expenditures began after the 2011 FAD mission, which recommended it.

107. **The analysis is entrusted to a dedicated unit of the DGI: the Tax Policy Formulation, Proposal, and Analysis Unit (CPF).** The CPF was created in 2010 and reports directly to the Director General. It is composed of four members. Tax expenditure analysis is a priority for the authorities, and the CPF participates actively in regional meetings and seminars on that topic. The broad principles related to tax expenditure are defined by the CPF. A Tax Expenditure Steering Committee, including all the concerned departments, was recently created within the DGI to oversee and validate the work of the CPF.

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[30] The implicit assumption is that the producer reflects all VAT or customs duty exemptions in the consumer price. This assumption is generally disproven in practice. For example, the exemptions for foodstuffs in 2010 in Senegal were not reflected in the price, but were used essentially to improve the margins of intermediaries in the distribution chain. Another widely documented example is the reduction of the VAT rate in France's restaurant industry, which did not have the desired effect of lowering prices or of creating jobs.

[31] Thus, in certain countries such as the United States, the largest tax expenditure is related to the interest charges on loans granted to individuals to purchase their primary residence. Under the benchmark tax system, tax deductions for dependents can be considered socially oriented tax expenditures.

108. **Each year, the CPF updates the list of exceptional provisions.** The list is organized by regime (CGI, CI, etc.), tax category, incentive method, legal framework, objective, industries, and beneficiaries. The list for this year includes 600 lines.

109. **It should soon be possible to supplement the list of exemptions with information from the Tax and Financial Services Computerization Support Unit (CAISFF).** This unit was recently created within the Ministry of Finance. Its first task is to inventory all existing exemptions in order to put together a comprehensive file organized according to the legal basis for the exemption. This file should increase the awareness of the Minister of Finance, who until now has had little knowledge of the exemptions granted by the technical ministries. The Unit's second task will be to interface with the other databases of the two directorates (DGI and DGD). The list is expected to be completed in July.

110. **A report on tax expenditures is produced each year.** It has accompanied the draft budget law since 2012. All the estimates of revenue forgone as a result of exemptions reported by the DGI and the DGD are included in this document. In the summary table of annual tax expenditures, the CPF adds to the DGI figures the total amount of forgone revenue provided by the DGD (see Table 12). The amount of tax expenditure for 2013 was estimated by the CPF at CFAF 452.9 billion, or 8.4 percent of GDP.

111. **The CPF has begun discussing the benchmark tax, but it has yet to be approved.** The Head of the CPF is aware of the stakes and would like to be able to quickly submit a proposal to the DGI Steering Committee. The proposal would then be sent to the minister, forwarded to the DGD for comments, and then returned to the ministry for approval.

Table 12. Total Tax Expenditures Analyzed by the Tax Policy Unit, 2013
(in CFAF billion and in percent of GDP)

	CFAF billion	% GDP
Tax expenditures under the CGI	*21.1*	*0.39*
Tax expenditures under the Investment Code	*54*	*1.01*
Tax expenditures under the Mining Code	*163.1*	*3.04*
Tax expenditures under ministerial decrees	*78.9*	*1.47*
Other tax expenditures	*1.4*	*0.03*
Total DGI tax expenditures	318.5	5.94
Total DGD tax expenditures	134.4	2.51
Total tax expenditures	**452.9**	**8.44**
Source: CPF		

C. Comments

112. **The CPF has made remarkable strides, which should now be consolidated in order to achieve a result conforming to international standards.** The mission proposes the following guidelines for achieving that objective.

Reprocess the data

113. **One of the first tasks is to revise the list of exemptions.** This should encompass all the exceptional provisions (full or partial exemptions, reductions of the tax base, etc.) used during the year. The two directorates general (DGI and DGD) are responsible for the application of these provisions and should be involved in this exercise, as well as the CAISFF.

114. **At present, the CPF compiles the data it receives, without having the essential information to be able to assess their exact significance, reliability, and consistency.** This is obvious in the case of customs data, as the exemption tables are sent to it without explanation. This is also true of the data forwarded by the DGI departments that complete a form sent to them by the CPF and return it without any detail concerning the figures provided.

115. **For example, the mission reprocessed the customs data, bringing down the total figure for 2013 from CFAF 134.4 billion, or 2.5 percent of GDP, to CFAF 71 billion, or 1.33 percent of GDP (see Table 13).** The mission concluded that some forgone customs revenue did not constitute revenue losses for the government. The exemptions in question were granted for goods originating in the WAEMU, diplomatic privileges under international law, and exemptions from the VAT on inputs benefiting enterprises and investors whose output is subject to the VAT. Because customs considers the VAT exemptions granted by Article 195 of the CGI as generally applicable provisions, it does not record the corresponding forgone revenue. It was therefore added.

Table 13. 2013 Customs Exemptions Adjusted by the Mission for Tax Expenditure Analysis (in CFAF billion and in percent of GDP)

	CFAF billion	% GDP
Total exemptions (Source: DGD)	**134,396**	**2.5%**
WAEMU approved goods	15	0.00%
Diplomatic privileges/personal belongings	24,930	0.46%
VAT exemptions for enterprises and investors (2)	50,075	0.93%
Regular VAT exemptions (CGI) (3)	11,736	0.22%
Adjusted DGD total	**71,112**	**1.33%**

Source: DGD, CPF, and mission calculations

1/ Gray area = exemptions that cannot be considered tax expenditures and should be deducted. The VAT exemptions (blue area) established in the CGI should be added.

2/ Imported goods subject to non-deductible VAT (passenger vehicles, light fuels) were not taken into account.

3/ These include "social" goods and agricultural inputs. Inputs imported by enterprises above the VAT threshold and therefore required to pay VAT were not taken into account.

116. **In 2013, the DGI recorded tax expenditures of CFAF 85.8 billion stemming from TAF exemptions, most of which were granted under the CM (CFAF 82.7 billion).** Given the reservations expressed concerning the base of the TAF in this report (see Chapter III), it would be advisable not to record an absence of TAF liability as a tax expenditure but rather to identify it as an item under evaluation. It would then be possible to determine whether the TAF as currently defined should be included in the benchmark and, if the base of the TAF is modified, to justify revision of the tax expenditure associated with the TAF.

Initiate dialogue and discussions between the various departments

117. **Tax expenditure analysis requires regular collaboration among the DGI, DGD, CAISFF, and the Statistics Institute**. Every stage of the process (inventory, definition of the benchmark tax, method of calculation, preparation of the report) requires such collaboration.

118. **The institutional framework should be adapted to permit and sustain such collaboration.** The existing units involved with tax expenditures are the DGI, CPF, the Tax Expenditure Steering Committee and, at the Ministry of Finance, the CAISFF. At the DGD, the Directorate of Revenue, Planning, and Verification Programs (DRPPV) is responsible for monitoring the forgone revenue and forwarding the total figure to the CPF. The departments of the DGI and the DGD exchange information through the established channels of communication, i.e., the request is sent by the requesting department to its director general, who forwards the request to the director general of the department holding the information, who then sends it back to the department concerned for appropriate action. There is no procedure that would

allow staff of the various departments to meet to discuss the issues of tax exemptions and expenditures. Each directorate works independently on the subject. The same is true of the CAISFF. The mission met with the CAISFF, but, regrettably, was not able to speak with the customs and tax departments.

119. **The creation of a tax expenditure analysis unit within the Ministry of Finance is urgently needed.** Its mission will be to facilitate regular collaboration among the departments concerned, to take the lead in this area, and to validate the work of the CPF, particularly the benchmark tax. It should include the members of the CPF, three members from the DGD (DRPPV, IT Directorate, and Legislation Directorate), one or two representatives from the CAISFF, and one representative from the Statistics Institute. It would be chaired by a Technical Advisor representing the Minister of Finance. It would meet regularly, at least once a month.

Separate tax expenditure analysis from the monitoring of exemptions

120. **The tax expenditure analysis for which the Ministry of Finance is directly responsible is not the same as the monitoring of exemptions carried out by the directorates general, customs and taxes.** Tax expenditure analysis is a particularly effective tax policy tool for assessing the merits of government decisions (laws, decrees, orders, etc.) that deviate from the generally applicable provisions of the CGI. Monitoring exemptions with a view to providing essential data for tax expenditure analysis is a tax policy implementation task, that is, a government responsibility.

Investment tax expenditures and consumption tax expenditures

121. **Tax expenditures were chosen on the basis of two criteria: their relative importance and the availability of data.** Thus:

➢ Investment tax expenditures:

- Indirect taxes on imports cleared for consumption: CFAF 24.5 billion, or 0.5 percent of GDP. They involve:
  - the Investment Code (customs duties and statistical fee: CFAF 8.5 billion);
  - the Mining Code (customs duty and statistical fee): CFAF 8.7 billion;
  - a special exemption for the wheat used to make flour (customs duty and statistical fee): CFAF 1.5 billion;
  - VAT exemptions for the agricultural inputs and equipment[32] mentioned in the CGI: CFAF 5.8 billion.

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[32] These clearly constitute a tax expenditure because final agricultural products are not, for the most part, subject to VAT, and the VAT levied on inputs and equipment cannot be deducted from the amount of VAT collected. The estimate of CFAF 5.8 billion is very approximate. On the one hand, it is underestimated because it does not take

- Direct taxes (CI): CFAF 6.6 billion. They reflect the IS-BIC exemptions (taking into account the minimum flat tax) granted under the Mining Code, the CI, and their respective decrees.

➢ Consumption tax expenditures: CFAF 5.9 billion (0.1 percent of GDP). They are attributable to the VAT exemptions for drugs, bread, and butane gas provided for in the CGI. These tax expenditures could have been increased by the ITS reductions discussed in Chapter II, aimed at boosting the disposable income of wage earners and, therefore, some of their consumption. An estimate requires a detailed or representative payroll database.

122. **Table 15 [Table 14?] contains an estimate of tax expenditure that incorporates the main modifications or adjustments discussed above (4.3 percent of GDP compared to the 8.4 percent estimated by the CPF).** The variation in investment tax expenditures related to the IS was not shown because it requires a breakdown based on the various codes responsible for this revenue loss.

123. **A large proportion of tax expenditures can be attributed to ministerial decrees: CFAF 78.9 billion, or 1.5 percent of GDP or 33 percent of tax expenditures.** These decrees are not only the result of discretionary measures that escape parliamentary oversight and by definition deviate from the law, but also the administrative consequence of bilateral or multilateral agreements ratified by the National Assembly. Their significance in terms of revenue losses for the government reinforces the crucial role of the CAISFF in inventorying them. A future technical assistance mission will perform a more detailed analysis and provide more in-depth comments.

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account of the agricultural sector margins, that is, the value added by Malian agricultural producers. On the other hand, it may seem overestimated because imported agricultural equipment is depreciated over a span of several years, whereas the estimated tax expenditure is annual. It would be advisable, therefore, to recognize only the amount of annual depreciation of imported agricultural equipment.

Table 14. Revised Tax Expenditures in 2013 (CFAF billion and percent of GDP)

	CPF			Adjustments	
	CFAF billion	% GDP	Reprocessed	CFAF billion	% GDP
DGI tax expenditures					
Tax expenditures under the CGI	21.1	0.4%		21.1	0.4%
Tax expenditures under the Investment Code	54	1.0%	VAT in reduction of tax expenditures	4.7	0.1%
Tax expenditures under the Mining Code	163.1	3.0%	TAF in reduction of tax expenditures	56	1.0%
Tax expenditures under ministerial decrees	78.9	1.5%	To be reprocessed based on CAISFF data	78.9	1.5%
Other tax expenditures	1.4	0.0%		1.4	0.0%
Total	**318.5**	5.9%		162.1	3.0%
DGD tax expenditures	**134.4**	2.5%	See Table 13 details (1)	71.1	1.3%
Total tax expenditures	**452.9**	8.4%		**233.2**	**4.3%**

1/ Including forgone revenue associated with NGOs and external financing that may require reprocessing
Source: CPF

Management of exemptions

124. **Exemptions, particularly from indirect taxes, have recognized negative effects on the tax system and the mobilization of revenue.** The cost of managing exemptions is high and the risk of evasion difficult to control in countries where administrations are weak. The existence of exceptional provisions implies a proliferation of legal and regulatory texts and renders the tax system less comprehensible and more complex, which encourages the taking of discretionary decisions. VAT exemptions are breaches in the chain that disrupt the operating mechanism of the tax. Finally, lack of control and oversight of these provisions promotes informal sector growth and leads to erosion of the tax base.

125. **Improving the management of exemptions is a priority activity that complements tax expenditure analysis.** Whether or not they give rise to tax expenditures, all exemptions must be closely monitored to prevent abuse. Monitoring is also essential for tax expenditure analysis. It should make it possible, in particular, to obtain the information needed to analyze the forgone revenue attributable to each legal or regulatory provision.

126. **The imprecision of the customs data obtained from ASYCUDA prevents a detailed analysis of the exemption and tax expenditure amounts.** This suggests reconsidering how exemptions are taken into account in the customs clearance process and in ASYCUDA, and, more specifically, revising the additional codes used for that purpose. For example, there are three additional codes with especially vague designations: code 030 ("duty-free except PCS, PC, and RS"); code 031 ("exempt except RS"); and code 034 ("VAT-exempt import"). The exemption categories used by customs also need to be revised to align them with the WAEMU categories. For example, the category "national needs" is specifically Malian.

127. **Managing exemptions becomes all the more complex as the volume of exempt imports increases.** The value of imported goods cleared for consumption under generally applicable provisions in 2013 represented only 35.5 percent of the total value of goods cleared for consumption. Limiting exemptions to the greatest extent possible is a priority. At present, customs lacks the capacity to effectively monitor either exemption certificates or the final destination of exempted goods. The exemptions to be eliminated on a priority basis are the special or ad hoc exemptions, particularly those granted to individuals.

128. **The systematic exemption of goods and equipment imported in connection with projects financed by donors and aid funds is not set in stone (see Box 2).** This practice, which leads to the misuse of exempted goods and in fact promotes informal activities, should logically change. With the relative share of direct budgetary assistance in ODA growing, donors' refusal to pay taxes is harder to justify, especially when a donor uses both these instruments. The amount of direct budgetary assistance can in fact be diminished by the amount of taxes paid on projects.

129. **The Malian authorities should take the initiative of asking donors to reconsider exemptions of this type**. Denmark recently agreed to pay taxes on the projects it finances. This has been the case for a year. Based on that example and the official positions taken by the principal donors (see Table 14 [Table 15?]), discussions could be initiated with other donors and commitments made on both sides.

Recommendations

- Create a unit dedicated to tax expenditure analysis in the Ministry of Finance to institutionalize and sustain the regular collaboration of all concerned departments.

- Fine-tune the tax expenditure analysis process based on the approaches proposed. Specific technical assistance could be provided to that end under the Tax Policy Trust Fund program.

Table 15. Donor Undertakings on the Taxation of the Assistance They Provide

Donor	Donor position on the Taxation of Assistance	Examples of Projects
Germany	No position	
Austria	Favorable	
Belgium	Favorable	
Bulgaria	Favorable	
Croatia	No	
Cyprus	No position	
Czech Republic	Favorable	
Denmark	Favorable	Mali
Estonia	Refusal	
Finland	No position	
France	Currently providing assistance without exemptions in some cases	AFD and Cameroon: Debt Settlement and Development Contract (C2D)
Greece	No	
Hungary	No	
Ireland	Favorable	
Italy	No position	
Latvia	No position	
Lithuania	Favorable	
Luxembourg	Favorable	
Malta	No position	
Netherlands	Favorable	
Poland	Refusal	
Portugal	Refusal	
Romania	Favorable	
Slovakia	Refusal	
Slovenia	Currently providing assistance without exemptions	
Spain	No position	
Sweden	Refusal for the time being	
United Kingdom	No position	
European Union	Favorable	
World Bank	Yes, if the costs are reasonable	Implementation of new cost eligibility rules by the World Bank in 2005
African Development Bank	Yes, if the costs are reasonable	Example of Liberia
Asian Development Bank	Yes, if the costs are reasonable	2011 assessment of new eligibility rules by the bank: 7% of projects were involved
USAID	No, bilateral negotiations	

Source: Foundation for International Development Study and Research (FERDI) and IMF.

Box 2. Taxation of Assistance

Historically, donors have insisted on receiving exemptions. This practice has become increasingly common, despite rising donor transaction costs. The administrative procedures necessary to obtain exemptions prolong customs clearance times. Furthermore, the measures recommended over time by donors to improve the monitoring of exemptions (Treasury checks, lists, quotas) have made them more constricting. The recipient countries, for their part, agree to grant these exemptions. In a context of weak fiscal capacity, exemptions represent the recipient government's contribution to project financing.

There are several reasons for this requirement on the part of donors (ITD, 2006). The "unreasonableness" of the tax system (high rates, opaque legislation, abusive interpretation of texts, etc.) and the inefficient management of public expenditure, including the risk of embezzlement, in the recipient countries have led donors to request exemptions. Finally, if the overall amount of assistance is fixed, donors tend to prefer financing projects that constitute targeted and, therefore, more visible objectives. This type of assistance is better for mobilizing aid, but is riskier if the project fails.

Donor positions have been evolving since 2004. The change was initiated by the World Bank when it officially announced its willingness to pay taxes, provided they are "reasonable and nondiscriminatory." Other international institutions then decided to reconsider their position within the framework of the International Tax Dialogue (ITD). The work of the conference led to the production of several documents, including a draft directive on the tax treatment of aid-financed projects (ITD, 2006; United Nations, 2007), which is expected to give rise to a recommendation from the United Nations Economic and Social Council (ECOSOC). The main advances made in these discussions were recognition of the changes that have occurred in the international aid environment; a theoretical opening in favor of taxing projects, although on a case-by-case basis; and the recommendation to promote discussions and exchanges of views between donors and recipient countries to define the actions to be taken to tax projects.

Today, the principal donors say they are prepared to finance projects including all taxes (see Table 13 [Table 15?]). They officially accept the idea of paying taxes, sometimes under certain conditions, such as the levying of "reasonable taxes." Despite this change of discourse, the status quo is more often upheld and externally financed projects are exempted from duties and taxes.

V. QUASI-TAXES

130. **The proliferation of agencies, a common tendency throughout sub-Saharan Africa, leads to fragmentation of the power to levy taxes.** By definition, a public agency (or fund) operates independently of political power. Established by a law, charter, or contract, it autonomously controls its budget, subject to rules laid down by the government. It is therefore financed with a combination of own resources, earmarked revenue, and transfers from the government budget. The assets of a public agency cannot be used for private purposes, and it is accountable to the public.

131. **Quasi-taxes include all obligatory levies not collected by the dedicated administrations: the DGI and the DGD.** For example, the review of mining or petroleum taxes includes the above-defined quasi-taxes, as it concerns levies by the Ministry of Mines and the Ministry of State Property. While most revenue from the mining sector is included in the government's tax and nontax revenue, that of other sectors of activity, such as the INPS for example, is not.

132. **Improvement in the generally applicable provisions could be undermined by the development of quasi-taxation, which by definition circumvents the Ministry of Finance.** Quasi-taxation erodes the business climate by complicating and robbing the overall tax system (quasi-taxation included) of transparency. The taxation of labor is a glaring example. Improving the ITS will only have a limited effect on the development of the wage system, as a levy of nearly 30 percent is imposed regardless of the wage level.

133. **Quasi-taxes also affect imports, driving up the cost of international transactions in a country whose land-locked status and poor infrastructure already weigh heavily on its competitiveness.** Apart from the regular taxes (VAT, customs duties, excise taxes) and the WAEMU and ECOWAS community levies, it would be helpful to analyze the cumulative amount of the other levies on imports. Some may not conform to the WTO provisions because their amount, calculated ad valorem, does not square with the price of the service provided.

134. **A survey of agencies, offices, or institutes is required, as was the case with tax expenditures.** A survey of this type would constitute a first step toward rationalizing the overall tax burden and would place all tax reforms in a broader context.

Recommendation

- Inventory the main quasi-taxes and determine whether the revenue generated is included in the government budget.

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