


*The Republic of the Sudan
Ministry of Finance and National Economy
Taxation chamber*

The Evaluation of the
Cost and the impact of tax expenditure

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- Taxes are the main source of government revenues. In the Sudan the Taxation Chamber played a significant role in financing the activities of the country in economic and social and cultural aspects, also its role in steering and implementing the government's financial and economic policies.
 - Taxes are divided to direct and indirect taxes. Direct taxes are those taxes which are paid by the person directly like business profit tax, and personal income tax, and rental income tax, and the burden of it cannot be shifted to another person. Indirect taxes are paid by the customer mainly value added tax (VAT).
 - The main objectives of taxes are the elimination of social injustice and the redistribution of the national income between different categories of the Sudanese community, and social national projects within the frame of total economic reform in the Sudan.

The evaluation and impact of tax expenditure:

This paper is to deal with the impact of tax reform in the Sudan regarding its expenditure as a tax loss in government revenue. The sparing of that revenue to achieve the goal of encouraging investment as an economic incentive, and for social equity and justice. Also we must mention the government's goal of alleviating tax burden of some categories in the Sudan as a developing country which a large part of the population living in the agricultural subsistence sector. For those of limited source of incomes. The strategy requires no doubt a derogations in tax laws regarding tax rates, exemptions, other tax incentives, also these derogations are in fact represent an expense for the government budget, and may affect at the other side the government capacity of financing other social and economic activities, therefore there must be a harmonization between these regulations and the governments needs. That we need a strategy of tax reform so as to analyze and select from many options the policy that achieves the goals and objectives of any tax policy.

The strategy of tax reform in the Sudan:

According to international standards. The task for the tax administration is to collect the reasonable amount of taxes what is known as effectuality, with least possible cost and that is known as efficiency in an equitable and just way. From the experience of many countries that tax reform is a possible operation, and can be achieved if the tax administration, pursued a major system for restructuring, simplifying the tax system. That when there is a firm willingness from the government and stakeholders of taxpayers. Also when the obstacles facing the reform are determined. It is determined that there are main principles for tax reform in developing countries especially the Sudan, these are the following:

1. A permanent political obligation to undertake tax reform.
2. Facilitating the procedures of the taxation system and minimizing the cost of tax compliance.

3. Determining a clear cut strategy for tax reform.
4. Determine the tax and accounting laws that need to be reformed.
5. An effective tax administration to undertake tax reform.
6. The discrimination in the treatment of tax payers according to their ability to pay taxes.
7. Impose an integrate procedures to collect taxes.
8. Setting priorities and determining a time schedule for implementing a tax reform strategy.
9. To begin the tax reform by pioneering projects.

Every country should put a special strategy for tax reform a time table for implementing it according to the surrounding circumstances like the political situation and the economical structure. In any case we find that the direction of the reform is more important than the speed of implementation.

The Tax role and importance:

Taxes are a fundamental tool in the country's economic and financial policies. In addition to its main role of supporting the government revenue. Also it has a social impact in the community, and it is considered one of the dominant tasks of the government there for its law must prevail over other laws in the country. In the Sudan the taxation chamber is concerned with taxes collection and administration at the federal and state levels. It has about (230) tax offices, centers and administrations covering (18) state. The work force is about (9) thousand employees. Half of that workforce is tax executives. The tax administration is concerned with the collection of direct taxes they are business profit tax and personal income taxes on wages and salaries, rental income tax and stamp duty. The indirect taxes are mainly the value added tax. And this is the latest modern tax applied in the Sudan in June 2000.

The Taxation Chamber according to the 2005 transitional constitution is concerned of collecting these taxes and about 40% of the total tax collection is allocated to the states that portion includes: 47% of VAT, business profit tax for individual and state stamp duty and capital gains tax and rental income tax.

The development of tax reform:

There are continuing tax reform programmes the main tax reform committees in the Sudan were held during the years (1983, 1987, 1994, 2006). Many recommendations were issued by these committees most of them were applied. The famous recommendation since 1994 was the application of VAT. Which had been implemented since June 2000. As a result of the recommendations of these reform committees, the government in the Sudan pursues a tax policy in the past ten years, with a tendency of alleviating tax burden and encouraging investment. We hereby present the main features of this police and its effects on the main economic sectors as follow:

First : The agricultural sector:

The agricultural sector in the Sudan with its two main parts agriculture and animal production is the most important sector it comprise in (2012) 34% of the G.D.P and 50% of the population and workforce is enrolled in this sector. Since March 2001 this sector is exempt from and taxes and duties including business profit tax, VAT. Also agricultural products and imports are exempt. The main reason of exemption is the alleviation of tax burden, increasing living standards, encouraging investment on this sector. But that exemption had definitely a negative impact on tax revenues and government financial resources.

Second: The industrial sector:

The second sector is the industrial sector also had a moderate tax treatment by reducing the tax rate for business profits tax from 35% to 10% in July 2003 for the main reason encouraging investment and to increase the capacity of this sector to compete with similar imports and substitute them. Also this sector enjoys the incentive included in the income tax law of 1986, including depreciations deductions, and a 30% preliminary discount on tools and machineries as depreciation deduction on the first year of production. The value added tax for this sector is also at his side in comparison with the sales and consumption and excise tax which were prevailing before the VAT application in June 2000. That the VAT is an encouraging tax by its advantages of deducting the previous taxes from the levied tax (credit) mechanism. And the VAT rate now is 17% since June 2012.

Some industrial products like vegetable oils production are treated regarding VAT with 50% reduction in the tax base. Also this sector is exempt from VAT for all capital goods, production lines and equipments. According to the VAT department statistics it was found that on average the exemption from VAT on capital goods constitute 25% of the total VAT collection. In addition to the minor contribution of this sector on income tax revenue regarding its volume in the national economy which is no less than 18%.

Third: Housing and estates sector:

The tax rate for this sector was reduced from 35% to 10% since December 2006 in addition to increasing the deduction rate for expenses from 30% to 35% from the total income, for those declaring their right rental income. The capital gains tax on estates and land alienation was also reduced from 5% to 2% .

Fourth: Personal income tax on wages and salaries:

For this sector the highest rate was reduced from 20% to 15% in December 2007 the exemption limit was raised from (2160 SG) to (9090 SG) per annum an amount which equals two thousand dollars. In addition of exempting a wide range of bonuses and incentives. Also according to article (17) of the 1986 income tax law those above 50 years old are exempt from personal income tax.

The above mentioned rate reductions and exemptions, and incentives, affected the performance of the tax administration in the Sudan its contribution to G.D.P and government public revenues as illustrated in the coming schedules.

Fifth: Banks, trade and services sector:


The standard tax rate for this sector is 15% raised to 30 % for banks in June 2012.

Schedule (1)
Federal tax revenues collection and rate
growth
2010-2012

Million SG

Year	Targeted budget revenues	Collection	%	Growth rate
2010	4917	5225	106%	-
2011	5382	6698	113.3%	13.3 %
2012	5594	7166	128%	17.5%

Source : taxation chamber .




From schedule (1) we can see that the taxation chamber as an organization concerned with collecting government revenues used and allocated its resources from workforce and different assets according to set plans to estimate and collect tax revenues and achieved its goals during the period 2010 – 2012. Surpassing the targeted budget revenues by 6% in 2010. And by 28% in 2012. With growth rate in revenues by 13.3% in 2011 and 17.5% in 2012.

Schedule (2)
The contribution of tax revenues
and its percentage of GDP

Million SG

Year	Federal tax revenues	Public revenues	%	GDP	%
2006	3292	16070	20 %	98291	3.3 %
2007	3833	18128	21 %	119837	3.2 %
2008	4040	21950	18 %	135511	3 %
2009	4529	20045	22.6 %	148137	3 %
2010	5225	19552	28.7 %	164978	3 %
2011	6098	21455	28.4 %	186556	3.3 %
2012	7166	21252	33.7 %	243412	2.9 %
Average			21 %		3 %

Source: taxation chamber .



From schedule (2) the average contribution of tax revenues to the public federal revenues is 21 % in the period from 2006-2012.

In the year 2011 this contribution increased to 28.4% and in 2012 to 33.7% that is because the secession of southern Sudan and the reduction of petroleum revenues in the government budget which was about 45% of the public revenues. That revenue was the main reason of reducing the tax rates which was 35% for business profit tax and was reduced in 2007 to 30% then for 15% in 2008. And for personal income tax on wages from 20% to 15%.

A zero rate was applied to the agricultural sector since 2001. And a reduction to the industrial sector to 10 % from the net profits since July 2003 for rental income tax the rate was reduced to 10% since 2007. All these reductions in the rates in addition to the tax exemption to some investments .led to a drop in tax revenues.

The value added tax which is the modern tax applied in June 2000. had its share from tax exemptions, because of all these factors the contribution of tax revenues according to schedule (2) was only about 3% of the (G.D.P) in the period from 2006 to 2012 and this a mild contribution because this contribution is about 18% to 24% in some the neighboring African and Arab countries including Kenya, Ethiopia, Uganda, Egypt and Algeria.

Schedule (3)
Tax contribution to total collection of federal tax

Million SG

Tax	B.P.T corporation	Federal stamp duty	P.I.T	V.A.T	Other	Total
Collection	867.6	575.1	310.3	5296.2	117.1	7166.3
%	12.1 %	8 %	4.3 %	74 %	106 %	100 %

Source: taxation chamber .

From schedule (3) we see the big deficiency in tax contribution because the big share is generated from value added tax (VAT) which is 74% of the total revenues in 2012.while the contribution of corporations from business profit tax (B.P.T) is only 12.1% and from personal income tax (P.I.T) is a mere share of 4.3% and the federal stamp duty contributed with 8% more than what is collected from wages and salaries as personal income tax.

Schedule (4)

Tax efficiency of corporation income tax in the Sudan

in comparison with African countries

Tax efficiency of (C I T)

Country	Year	Corporation tax to G.D.P cit to G.D.P	Cit rate	Tax efficiency of corporation
Algeria	2012	2.2 %	25%	8.9 %
Central Africa	2012	1.1 %	30 %	3.6 %
Egypt	2010	5 %	25 %	20 %
Ethiopia	2011	1.6 %	30 %	5.3 %
Kynea	2010	3.8 %	30 %	12.7 %
Morocco	2011	5.1 %	30 %	17 %
Sudan	2012	0.4 %	15 %	2.9 %
Tunisia	2010	3.8 %	30 %	12.7 %
Uganda	2011	1.1 %	30 %	3.7 %

Source: (IMF staff collection).



Tax efficiency is calculated by dividing corporation income tax ratio to (G.D.P) by the standard rate.

From schedule (4) tax efficiency of the corporation income tax (CIT) in the Sudan in comparison to peer African and Arabian countries is very low. In comparison with Egypt the tax efficiency there is 20% while in the Sudan it is 2.9%. And it is in Uganda 1.1% Tunisia 2.9%. And according to IMF mission to the Sudan in May 2013 this ratio is low due to the following reasons:

1. Low tax rate.
2. Narrow tax base.
3. Extensive tax exemptions.
4. Weak tax administration.

Schedule (5)

Tax efficiency of value added tax collection in the Sudan in comparison with some African countries

Country	Year	value added tax collection to G.D.P	tax rate	Tax efficiency of VAT
Algeria	2012	4.2 %	17 %	24 %
Central Africa	2012	5.2 %	19 %	27.4 %
Chad	2012	1.3 %	18 %	7 %
Dem. Congo	2012	7.8 %	16 %	48.9 %
Rep. Cong	2012	3.7 %	18 %	20.8 %
Egypt	2010	3.3 %	10 %	33 %
Ethiopia	2011	1.9 %	15 %	12.7 %
Kynea	2010	5.8 %	16 %	35 %
Morocco	2011	9 %	20 %	45 %
Sudan	2012	2.1 %	17 %	12.3 %
Tunisia	2012	6.6 %	18 %	36.7 %
Uganda	2012	3.4 %	18 %	18.9 %



VAT tax efficiency rate is calculated by dividing the VAT to G.D.P ratio by the standard VAT rate.

From schedule (5) and according to IMF statistics the contribution of VAT to G.D.P in the Sudan is 3.4% in comparison with Egypt 3.3% Algeria 4.3%. the VAT efficiency rate in the Sudan is 12.3% while in Morocco it is 45% and Democratic Congo is 48.9%. the Sudan has a comparative advantage and credit and competing with his African peers regarding VAT collection which contributes 74% of the total federal collection of taxes in the Sudan according to schedule (3). But still the IMF insists that a large portion of collected VAT is from imports and more efforts should be exerted in collecting domestic VAT.

Taxation performance:

Taxation performance in the Sudan is estimated to be no more than 30% of the G.D.P. The gross domestic product in a country is the total value of the goods and services produced in that country in one year. Also it is equal to the total revenues generated by the producers and services lenders in that country.

The contribution of direct and indirect taxes in average was about 3.1% from schedule (2).and it is a minor contribution regarding of the resources of the Sudanese economy, and that is due to the following factors:


- 1) The agricultural sector with its two parts agriculture and animal production which contribution is about 34% of the (G.D.P) is out of the umbrella of income tax (due to the exemption of this sector in March 2001), this sector is also exempt from (VAT).
- 2) The petroleum sector (government share) which contributes by about 3.7% of the (G.D.P) has no contribution in business profit tax because it is included in the government share.

- 3) Foreign imports as recorded in the customs statistic for 2012 refer that 43% of the imports are exempt from customs duty and VAT.
- 4) The sectors of industry, services, telecommunication, banks and insurance which contribute to about 64% of the (G.D.P) is affected with the huge volume of tax exemptions.
- 5) The reduction in tax rate for business profit tax from 35% to 15% is a big factor in reducing tax revenue from corporation.
- 6) From all the previous reasons it is estimated that the taxation performance does not exceed 30% of the (G.D.P).

The strategy of enhancing tax revenues :

The taxation chamber as an organization of non profit goals has a unique goal of collecting taxes and enhancing government revenues by allocating its resources from man power and other facilities. And selecting from different suitable solutions by management strategy to achieve its goals in this respect we induce and propose the following arrangements:

1. Monitoring all tax exemptions from income tax and value added tax.
2. The prevailing of the tax laws is another factor to eliminate tax exemptions in investment laws, and the free trade area law. In addition to other private laws.
3. To enhance the administrative performance by a betterment of the working environment to develop the tax community.

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4. The evaluation of auditing department and personnel performance so as to bridge the gap of tax evasion and avoidance.
 5. Strengthening the information sector in the taxation chamber.
 6. Going ahead with computerization of the tax administration and other sectors especially auditing, and information technology.