Revenue Challenges Ahead: Southern Sudan

Presentation to OECD’s Task Force on Tax and Development

11-12 April 2011
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Background

- South Sudan is heavily dependent on Oil Revenues:
  - 98% of budgeted revenues for past 5 years
- Population and economic statistics:
  - 8.26 million citizens;
  - 54% of population under age 21;
  - 28% of population age 6 and above literate;
  - government largest employer, and;
  - traditional herders next largest occupation.
South Sudan gained semi-autonomous self rule with the signing of the Comprehensive Peace Agreement (CPA), 2005.

The CPA Wealth Sharing Protocol, reflected in the Interim Constitution (ICSS), divided taxing authority between the:
- Government of National Unity (GoNU);
- Government of Southern Sudan (GoSS), and;
- 10 States of Southern Sudan.

The GoNU retained authority over Customs, VAT, and Business Profits Tax of large companies.

The GoSS obtained authority over Personal Income Tax (PIT), Excise on luxury goods, and Business Profits Tax on small- and medium-sized businesses.

South Sudan will become independent on July 9, 2011 and GoNU will no longer exist.
“Legacy” Tax System

• Currently a “legacy” tax system, including ad hoc nuisance fees that are charged at road checkpoints by the states:
  – Impedes economic development;
  – Impedes the free flow of goods;
  – Recent road survey shows that 3 hours per 100 km and 8% of the value of the goods per 100 km were lost;
  – AfDB Non-Oil Revenue Report noted that Customs had collected customs duties, a 15% VAT, and a 10% State development tax but not remitted, and;
  – The National and State Tax Offices then attempted to re-collect these taxes.
A significant milestone in tax policy for GoSS was the passage of the Taxation Act (2009) that provides for:

- a sound tax policy framework;
- a strong basis for tax administration, and;
- a modern, easily administered tax law.

The Act is very investor-friendly, including provisions for:

- a very low and simple rate structure, and;
- liberal business deduction and depreciation systems:
  - depreciation over 10 years for buildings;
  - 3 years for equipment including vehicles, and;
  - 4 years for all other assets.
New Tax System

• The Act is designed as a package and is one of the few comprehensive tax laws in Africa which encompasses:
  – Personal income tax marginal rates are 0, 10, and 15 per cent;
  – Excise duties range from 5 to 20 per cent, and;
  – Business profit tax is 10 per cent on small- and 15 per cent on medium-sized businesses.

• The Act will need to be amended, post-Independence, to broaden the tax base:
  – Introducing a general sales tax, and;
  – Expanding business profit tax to large business.

• The major challenge now lies in actually implementing the Act to replace the “legacy” system and increase non-oil revenues.
Mission Statement of the Directorate of Taxation:

“To Collect The Proper Amount Of Tax By:

√ Applying The Tax Laws With Fairness And Integrity,
√ Assisting Taxpayers With Meeting Their Tax Obligations,
√ Enhancing Our Employees’ Knowledge, Skills, and Motivation

To Contribute To The Prosperity Of Southern Sudan”
The Directorate of Taxation under the Ministry of Finance is responsible for implementation of the Taxation Act.

In support of the implementation of the Act, the Directorate has been organized into six functional areas:

1. Administration
2. Taxpayer Services
3. Returns Processing
4. Audit
5. Collections
6. Research and Tax Coordination

Of the existing 200 Tax Officers, about 25% have received basic training.

Ministries and Agencies are still collecting fees but are not remitting to MoFEP as required by the Act.
Tax Administration

• Officers were assigned to the Directorate’s six functional areas in the first half of 2010.
• The initial priority is Taxpayer Registration:
  – 800 businesses have been registered;
  – Campaign targeting registration of 300 largest taxpayers is being concentrated on as the top priority, and;
  – A government vendor registration campaign is being implemented.
• A media campaign has begun focusing on wage tax withholding and excise collections and targeting:
  – Government Vendors
  – Airlines
  – Hotels and restaurants
• A simple, yet integrated, Access database Taxpayer Registration/Master File programme is being instituted.
• The Wealth Sharing Protocol and Interim Constitution (ICSS) grant taxation authority to all levels of government in Sudan.

• As a result, there is multiple taxation at all levels in South Sudan.

• There are numerous checkpoints levying illegal charges on goods in transit.

• This increases costs for businesses and inhibits economic development in South Sudan.
Task Force

• The Minister of Finance established the Intergovernmental Fiscal Relations Task Force late in 2010.
• The Task Force will assist GoSS and states to rationalize each government level tax systems by:
  – clarifying legal jurisdiction;
  – establishing sound tax policies at each level, and;
  – systematically dismantling nuisance and illegal taxes.
• The Task Force’s initial recommendations:
  – a reporting methodology for revenues;
  – replacing multiple taxes with a single source sales tax at the borders and on selected businesses inside South Sudan;
  – allowing States to impose a surtax on Personal Income Tax (PIT) withholding by the Government of South Sudan, and;
  – moving to a more equitable system of intergovernmental grants.
Customs

- Customs is currently the competency of the national government:
  - Plans are being prepared to incorporate Customs under the Ministry of Finance, post independence.
- A Customs administration needs to be in place on July 9, 2011 under the Ministry of Finance & Economic Planning.
- Current practice of funding operations from collections must be replaced by budgetary funding.
- A central database for compiling information on imported goods must be established.
On-Going Support

- USAID: Tax Directorate organization, registration of taxpayers, improved income tax and excise tax collections, and tax policy reform.

Planned Support

- DfID: legal, organizational and procedures, Customs modernization.
- JICA: Customs automation and training.

Gaps in Assistance

- Policy and administration support for the implementation of a sales tax system and royalties.
- Customs and tax software and IT systems.
- Improvements to Customs and tax administration infrastructures and offices.
- Customs exemptions expert and audit advisors.
- Energy collections and reporting.
- Rationalization and collection improvements of levies and user fees.
- Inspection equipment.
Thank You