BENCHMARKING THE TAX SYSTEM IN LIBERIA

PREPARED BY THE REVENUE GENERATION FOR GOVERNANCE AND GROWTH (RG3) PROJECT

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Acronyms

AAA	Accounting, Analysis, and Assessment
ASECUDA	Automated System for Customs Data
ATO	Africa Tax Outlook 2016
BIVAC	Bureau Inspection Valuation Control of Bureau Veritas, a private company
BOTA	Bureau of Tax Appeals
CAMA	Computer Assisted Mass Appraisal
CG	Commissioner General
CIT	Corporate Income Tax
DI	Destination Inspection regime
ECOWAS	Economic Community of West African States
EITI	Extractive Industries Transparency Initiative
EPD	Export Permit Document
FAQ	Frequently Asked Question
GDP	Gross Domestic Product
GOL	Government of Liberia
GST	General Sales Tax
HS	Harmonized System (customs tariff)
IMF	International Monetary Fund
IPD	Import Permit Document
LPRC	Liberian Petroleum Refining Company
LRA	Liberia Revenue Authority
LTD	Large Taxpayers Department
MFDP	Ministry of Finance and Development Planning
MSMTD	Micro, Small, and Medium Taxpayer Department
NTB	Non-Tariff Barrier
OECD	Organization for Economic Cooperation and Development
PAR	Performance Assessment Report
PIT	Personal Income Tax
RG3	Revenue Generation for Governance and Growth project
SAD	Simplified Administrative Document
SIGTAS	Standard Integrate Government Tax Administration System
TADAT	Tax Administration Diagnostic Assessment Tool
TBO	Tax Business Office
TFA	Trade Facilitation Agreement
TIN	Taxpayer Identification Number
TP	Taxpayer
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development
USD	United States Dollar
VAT	Value Added Tax
WTO	World Trade Organization

Tables:

Figures

Executive Summary

In 2015, The Government of Liberia, cognizant of the need to enhance its domestic resource mobilization to fund the current and future needs of the people, took the transformational step of enacting legislation to create the Liberia Revenue Authority (LRA). This new institution is entrusted with greater autonomy than the former Tax and Customs Departments that was part of the Ministry of Finance. Today, the Liberia Revenue Authority is responsible for collecting almost all revenues received by the Government and to ensure that these are transferred to the budget to fund public services.

The LRA is a new organization in great need of investment, development of systems and procedures, and modernization of techniques. At the same time, many of the procedures and techniques have migrated from the prior organization.

There has been some progress in this short period. Despite establishing an entirely new organization, re-ordering staff and hiring many new middle management officers, revenues have not suffered. Indeed, statistical analyses do not indicate any revenue loss due to these changes. New facilities, equipment, and IT systems have been rolled out or transferred and adapted. Many new, young, professional staff have been hired and trained, and new methods and processes are being designed and prepared for implementation.

Revenue performance in Liberia compared to other countries has been mixed. The overall tax-to-GDP ratio of 18-20 percent is quite a bit higher than most comparator countries and compared to countries of similar income levels. The personal income tax produces surprisingly high levels of revenue. At the same time, the corporate income tax manifests rather lackluster revenue performance. The poor performance of the corporate income tax likely arises from the rather generous tax incentives granted to many companies, an issue that warrants investigation. One area of taxation that could easily lead to enhanced revenue is that of excises. The country imposes too many excises on too many products and in ways that are not conducive to revenue performance. For this reason, we have dedicated special attention to excise taxation and make recommendations that, if accepted, could swiftly result in increased revenues of one to two percent of GDP.

Most of the focus of this report is on domestic taxation. However, we do devote one chapter to customs operations and trade facilitation. With enhanced trade facilitation and methods of risk-management, as well as applying a variety of international standards, Liberia could both improve the movement of goods and services across borders as well as increase compliance and enhance revenues collected at the border.

The report assesses LRA's resources, structure, processes, and methods in an internationally comparative framework and finds that that the road ahead is long and arduous. In almost all areas Liberia falls short. Shortcomings include the need to improve its taxpayer registry, identify stop- and non-filers, simplify the payment of tax, modernize its tax management information system (SIGTAS) so that it performs to standards, improve the quality and frequency of consultations with taxpayers, improve taxpayer services, improve management and enforcement of tax arrears, shift the activities of staff to conduct more and better audits, and to use risk-management techniques, not only for audit selection but for all aspects of running the tax administration. To an extent, these shortcomings are mainly legacy issues from the old system but should be targeted for improvement over the coming three or four years.

In order to address the enormity of all that needs to be done, the benchmarking team presents below set of prioritized reforms. These reforms would not for the most part require radical legal or policy changes, and could have quick impact on fiscal performance. These prioritized reforms or measures are itemized and described in the final chapter in Table 16, and are briefly summarized here.

The Team recommends the following measures or actions be taken to improve domestic tax revenue performance in the near-to-medium term:

1. Reform the system of **excise tax**, adopting specific rates instead of ad-valorem, reducing the number of items that are excisable, raise excise rates on tobacco, alcohol, petroleum and derivatives, and a limited number of other items. This could deliver two percent of GDP in additional government revenues.
2. Establish a **data processing center** in LRA. This will enhance revenue integrity and pave the way for other modernization efforts that will reduce the compliance costs of paying taxes.
3. Introduce **mobile payments**.
4. License **commercial banks to receive tax payments**. This will improve management of tax payments, reduce the inconvenience of the current system for complying taxpayers, and encourage others to pay taxes on time.
5. Improve **risk-based audit selection**. This will enhance the ability of the LRA to focus on those taxpayers that warrant such attention, encourage greater voluntary compliance and enhance revenue within a short period.
6. Clean and maintain the **taxpayer registration database**. Cleaning the registry of large taxpayers can be accomplished within six months, after which the process would be rolled out to the other taxpayer categories.
7. Improve debt or **arrears management**, from improving the management of information, to the selection of collection cases based on risk-management techniques, to applying a number of legal and administrative tools already authorized in the tax code. Since arrears do not yet appear to be a large financial problem in Liberia, we cannot say that this will immediately lead to increased revenues. Instead, this measure can mitigate future such problems, as is the case so in many countries similar to Liberia.
8. Develop automated systems for **identifying and notifying stop- or late-filers**. LRA currently has no such system. Implementing such systems in other countries has shown to have immediate revenue enhancing or protecting impacts.
9. Other measures include undertaking a pilot to **decentralize the property tax**, conduct a review of the corporate income tax and identify legal lacunas and leakages.
10. Introduce **e-filing**. Indeed, e-filing should be introduced in the short term starting with the largest taxpayers.

Most of the recommendations are summarized schematically as follows:

Schematic for sustained modernization

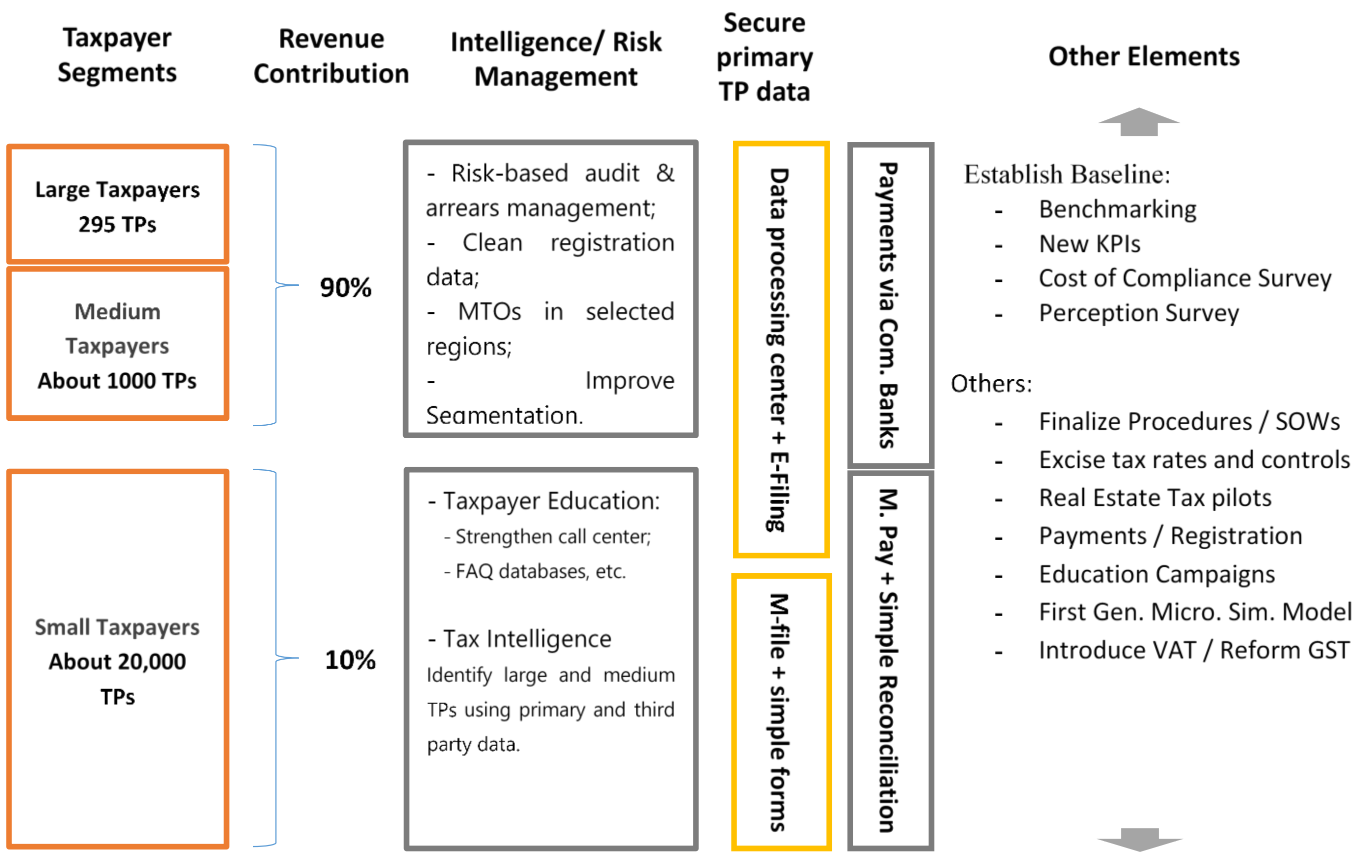
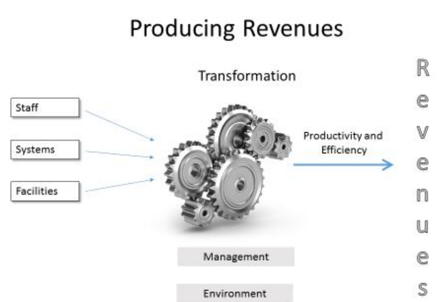


Table of Contents

I. Methodology

The benchmarking methodology, whether applied to tax systems or to business processes and organizational development in private business, applies a production model approach. In tax benchmarking, there are inputs, such as human resources and other budgetary resources, transformation processes, and outputs. The output of the tax system is the amount of revenues generated. When optimized, these are the revenues to be collected according to law. From an efficiency point of view, these revenue collections should be at the lowest feasible cost, both in terms of the costs of tax administration, as well as in terms of taxpayer compliance.[1] Figure 1 presents the production schema.

Figure 1: Producing revenues



USAID-RG3 deployed a team of international experts to Liberia between September and December 2016 to conduct the benchmarking study. The team reviewed documents, forms, collected fiscal data, and interviewed staff of the MFDP and Liberia Revenue Authority (LRA).

The Team applied information from the Liberian tax system in a comparative framework, comparing it to international benchmarks. The international benchmarks have been under development for more than a decade based on new information, new research, and advances in tax administration diagnostic tools. Tax system benchmarking exercises, similar to this study, have been carried out in a number of countries and by a number of actors. While these studies have been funded by USAID in several countries, in some countries the studies were carried out by national tax agencies using their own resources. Some of the countries that have conducted tax-benchmarking studies applying the methodology in this report include Bosnia and Herzegovina, Egypt, El Salvador, Guatemala, Jamaica, Jordan, Moldova, the Philippines, and Tanzania.

The purpose of this benchmarking exercise is to assess system performance, inputs, and practices, by comparing specific indicators that capture the essence of any tax system to either international best or perhaps most relevant practices. The benchmarking exercise can help facilitate establishing goals and specific targets. Moreover, benchmarks can be useful evaluation and monitoring indicators over time and can show even how system enhancement contributes to performance. None of these benchmarks tells the whole story of how well the Liberian tax system is operating, but each represents a mere pixel in a complex system. Together the benchmarks provide a picture of system structure, revenue performance, and application of resources and practices.

Although USAID's tax benchmarking methodology and the IMF's *Tax Administration Diagnostic Assessment Tool* (TADAT) can overlap, particularly as they are both diagnostic tools, and the new

[1] The original USAID methodology for tax benchmarking is laid out in Gallagher, Mark (2004), *Assessing Tax Systems Using a Benchmarking Methodology*, Research Paper, USAID Fiscal Reform in Support of Trade Liberalization, April. Available at: http://pdf.usaid.gov/pdf_docs/Pnadc940.pdf.

research conducted in the development of the TADAT has been useful in refining and bringing the tax benchmarks up to date, there are important differences. Table 1 presents the differences in aspect and focus of the TADAT and the Tax Benchmarking tools.

Table 1: Comparing TADAT and Tax Benchmarking

Aspects and focus	TADAT	Tax Benchmarking
Holistic/systematic	X	X
Performance outcome areas	X	
Revenue productivity		X
Functions	X	X
Organizational issues	X	X
Best/good practice basis	X	X
International comparative scoring	X	
Secretariat approval	X	
Recommendations for modernization		X
Performance targets/indicators for modernization		X

Perhaps the most important way that the Tax Benchmarking methodology differs from the TADAT is that the former has an explicit focus on revenues and revenue productivity. By comparing revenue productivity along with the application of best practices, the Tax Benchmarking methodology allows us to develop a set of prioritized reforms that can both address the organizational issues of strengthening the tax administration, while also ensuring that targeted reforms or measures can help to either increase revenues or at least ensure greater revenue integrity.

The Tax Benchmarking methodology can easily be used, once decisions are made as to which reforms and measures are to be implemented, to provide a checklist of actions, timelines for actions, and future-date target values for indicators. We have not proceeded to this step, but this report can be used for annual workplans and for LRA's out action planning.

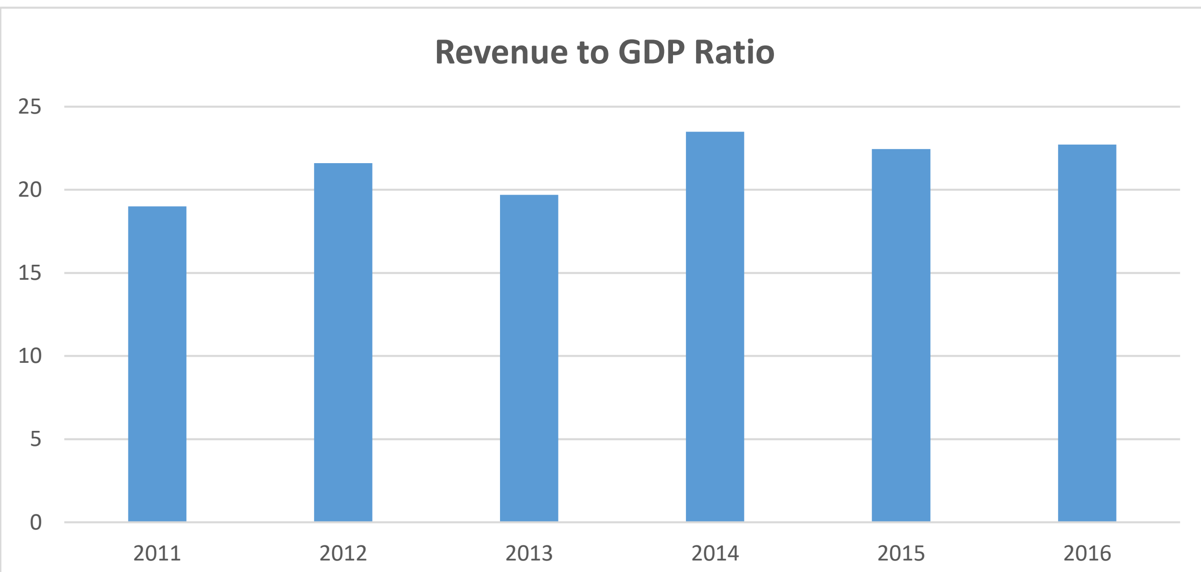
II. Revenue performance

This section briefly discusses the overall fiscal situation of the country first and then compares a number of high-level revenue performance indicators for Liberia to international benchmarks. This is followed by a discussion of the excise tax. The excise tax has been mostly ignored by both TADAT and other Tax Benchmarking exercises. Then we discuss the GST and corporate and personal income tax.

Liberia is in a challenging fiscal position. The country has recently gone through a devastating civil war and Ebola crisis. The budget deficit was forecasted to be 8.5 percent of GDP in 2016 or two to three times higher than that of its peers (See table 2 below). Current tax revenues are reportedly lower than salary and wage expenditures by the government of Liberia. Yet, as the growth forecast has been recently revised downwards, the actual deficit is expected to be even higher. Despite a generous $4.6 billion debt relief that Liberia received in 2010 under the HIPC initiative, the debt-to-GDP ratio is estimated to be around 35 percent of GDP in 2015 and is growing rapidly. Given the budget shortfall, the foreign debt could soon reach unsustainable levels. The latter combined with dwindling foreign aid could lead to renewed debt crisis.

In many ways, tax revenue performance and revenue productivity have been robust. Figure 2 shows that the Revenue-to-GDP ratio had been climbing from FY2011 and FY2012, dipping somewhat in 2013, recovering in 2014, the first year of LRA operations but also the start of the Ebola crisis, while maintaining itself for the next two years.

Figure 2: Tax and Non-Tax Collections as percent of GDP, FY2011 to FY2016



Source: From IMF Article IV Consultations, 2012 and 2016.
GDP base data may vary from that used elsewhere in this report.

Table 2 presents a number of revenue performance indicators. The benchmarking team made the calculations for the Liberia indicators based on data received from the LRA and from other Government of Liberia sources, while the international benchmark data were taken from a recent report of the African Tax Forum, *Africa Tax Outlook 2016* (ATO), from USAID's Collecting

Taxes Database, and from selected comparator country experiences. The USAID database is a few years outdated but remains the premier central location for much of these comparative data. At the same time, additional international practice indicators are based on recent research, including that comprising the basis for the IMF TADAT.[2]

Indicators highlighted in green meet or exceed international benchmarks, while those in red show where Liberia falls shy of international benchmarks.

Table 2: High-level and performance indicators

Benchmark Indicator	Liberia	International	SSA	Selected comparators / Notes
Budget Deficit, % of GDP	8.5**		NA	Mali: 3.2, Niger: 2.9; Sierra Leone: 3.1
Tax collection, % of GDP**	18.8	18	14.8	Kenya 20.1, Tanzania 15.2.
Excises/GDP, %	0.7	3		Kenya: 2.9; Uganda: 2.9; Tanzania: 3, Georgia: 3.2
Excises/Tax Revenues, %	3.8	10-20%		Tanzania: 20; Uganda: 24
Excise rates	Ad valorem	Specific (good practice)		The latest good international trend to apply specific rather than ad valorem rates. All OECD countries, except for Mexico, apply specific excise tax rates.
GST/GDP Ratio, %	3.8 GST	6.1 (USAID for VAT)	6.5 (ATO for VAT)	VAT/GDP: Gambia: 4.4; Tanzania: 6.8; Guinea: 7.1; South Africa 11%; Georgia: 11.5%
GST/VAT rate	10 GST	15 (USAID for VAT)	14	Note: GST is a single stage sales tax in Liberia.
GST Productivity	0.36*	0.42 (USAID for VAT)	0.33 (VAT USAID)	VAT: Zimbabwe - 0.69, South Africa - 0.61
GST/Tax Revenues, %	20			Kenya: 31, Uganda: 32
CIT headline rate	25	24 (USAID)	31 (USAID)	
CIT/GDP, %	1.45	3.3 (USAID)	3.5 (ATO)	Zambia 2.46, Cape Verde 2.55, Uganda 3.63 International Average: 3.32
CIT productivity	0.06	0.15 (USAID)	0.12 (USAID)	
PIT minimum rate	5	11 (USAID)	10 (USAID)	
PIT maximum rate	25	28	35 (USAID)	
PIT weighted average rate	18	28	34 (USAID)	
PIT/GDP, %	5.7	5.5	4.0 (ATO)	Senegal 5%, Benin: 3.5%; Ghana 2.5%
PIT productivity	0.32	0.22	0.14 (USAID)	
Property Tax/GDP, %	0.21	1.9 (OECD only)	0.51[3]	In contrast to Liberia, property tax is a local tax in good practice countries. It accounts for 0.51% of GDP in SSA and 1.9% in OECD countries on average[4].

[2] See the *TADAT Pocket Guide*: http://tadat.org/files/TADAT-PocketGuide(print).pdf

[3] Levies on land and buildings are estimated to account for 0.5% of GDP in sub-Saharan Africa. See *How Property Tax Would Benefit Africa*, By Nara Monkam and Mick Moore: http://www.africaresearchinstitute.org/newsite/publications/property-tax-benefit-africa/

[4] 2015 or the latest data available, OECD Data. See: https://data.oecd.org/tax/tax-on-property.htm

Benchmark Indicator	Liberia	International	SSA	Selected comparators / Notes
LRA cost of tax administration per $100 collected	$3.0[5]	$1.1 (USAID)	$2.1 (ATO)	Botswana 0.88, Rwanda 3.31, Uganda 3.10, South Africa 0.80, Philippines 1.25, US 0.62, Argentina 1.25, Peru 2.24, UK 0.83.
Number of tax staff per 1,000 people in national population	0.19	0.65 (USAID)	0.32 (USAID)	Botswana 0.70, South Africa 0.31, Vietnam 0.45, US 0.26, UK 0.83
Number of active taxpayers per tax official	59	677 (USAID)	316 (USAID)	South Africa 965, Argentina 81, Vietnam 60, US 3,078, UK 497

***** GST productivity of 0.54 means that one percentage point of GST/VAT tax rate yields 0.36 percent of GDP in terms of revenues, i.e. 54 percent of its estimated potential.
** World Bank forecast.
USAID refers to Collecting Taxes Database, available at: https://www.usaid.gov/data/dataset/cdeb8a1b-3440-4e88-b6cb-81b2428f8cea
ATO: *African Tax Outlook 2016*, African Tax Administration Forum
The estimate of active taxpayers draws from data provided by LRA to the TADAT Assessment Team, but seeks to estimate only "unique" taxpayers, i.e., to avoid double counting of taxpayers.

There are several important, positive aspects of revenue performance in Liberia. First, overall tax revenue as percent of GDP is higher than the average for all of Sub-Saharan Africa and is on par with the rest of the world[6]. Second, although the GST produces much less revenue than does the average VAT in the rest of the continent or the rest of the world, it does so applying a much lower tax rate and with a similar revenue productivity. Third, the personal income tax structure, while certainly competitive with Sub-Saharan Africa, with lower minimum and maximum rates and clearly lower weighted-average personal income tax rate, the revenue yield of 5.7 percent of GDP exceeds the Sub-Saharan average yield of only 4.0 percent, and slightly edges out the worldwide average of 5.5 percent. Indeed, personal income tax productivity of 0.32 is nearly 50 percent higher than worldwide personal income tax revenue productivity and more than 250 percent of productivity for Sub-Saharan Africa. The latter must be explained by a relatively well functioning PIT withholding system on government and corporate employees.

There are opportunities for LRA to optimize its resource use and to increase its outreach to potential taxpayers. This includes addressing issues of total spending on tax administration, size of LRA staff, and number of taxpayers in the system.

The cost of tax administration is high. For every one hundred dollars that LRA collects, it spends about 3 dollars on salaries and remunerations, goods and services, and capital investments. It is common for a newly minted revenue authority to have such high start-up and capital investment costs. Indeed, more capital investments will be required over the next 3-5 years to achieve full revenue potential. Yet, there is plenty of scope to reduce the cost-to-revenue rate by about 50 percent over time. To achieve that the tax administration should focus on improving risk management across the organization, promoting voluntary compliance, self-assessment practices, implement measures curbing corruption and promoting automation and concerted effort to bring in ever more economic actors from the "hidden economy" to increase greatly the number of active,

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5 It should be noted that younger Tax Administration usually require higher level of financing given the investments necessary during the initial years of establishment. Yet, the cost of tax administration is generally expected to revert to around 1% of revenues generated over the medium to long run.
6 It is important to note that the difference in quality of national statistics among SSA countries may limit the quality of direct comparison and the level of tax policy and administration can be improved substantially as discussed in the rest of the report.

contributing taxpayers. In addition, reduction in tax expenditures (tax exemptions), introduction of excise tax stamps and decentralization of real property tax revenues and administration should help achieve leaner and more effective tax administration. As the LRA finalizes its corporate strategic plan, it should seek to decrease the cost-to-revenue rate.

LRA is not overstaffed. With only 0.19 staff members per 1,000 Liberians, the LRA looks rather lean compared to other tax administrations around the world. When we also take into account that this number includes not just tax but also customs administration, it is clear that LRA staffing is relatively small. The Team is not recommending a general expansion of staff, but there is a clear need to expand the number of auditors (see Audit section of this report).

At the same time, it is very important to recognize that while not overstaffed *per se*, there are actually **very few active taxpayers per staff member**. Much of LRA's revenues come from the largest taxpayers in the country, which is quite normal for a developing country, especially one that relies to a great deal on its resource extraction sectors for a goodly share of its government revenues. However, LRA should take steps over the coming years to reach out to both the "informal" sector as well as to the "hidden" sector, to get these businesses into the tax system. LRA should develop strategies for identifying these persons and these strategies should be important aspects of any national revenue strategy.

Excise taxation is an area of great opportunity to restructure, reform, and generate considerable new revenue. Very low excise tax revenue results in part from an ongoing controversy over which are the legally applicable tax rates, absence of excise stamps, and application of *ad valorem* excise rates. Internationally, generally the excise tax is levied on a limited list of goods that are easily taxed, may be considered sumptuary in consumption, or may create social costs in terms of negative externalities, i.e., may harm the environment, public health, or some perception of broader public welfare. The tax usually applies to certain luxury goods with the stated purpose to affect income or wealth redistribution. Despite the long and growing list of excisable goods in Liberia (See Table 3 below), excise tax revenues account for a mere 0.7 percent of GDP. In contrast, excise taxes on relatively few goods, such as fuel, tobacco, and alcohol generate as much as 3 percent of GDP in peer countries (See Table 1 above).

There are three primary reasons for such a suboptimal excise revenue performance. First, there is an ongoing controversy of whether the lower excise tax rates as stated in Revenue Code of 2000 or the higher tax rates as stated in the Revenue Code of 2011 are applicable. Second, administration of excise taxes is suboptimal. For example, the LRA has not adopted such an important control instrument as excise stamps that are used universally. Third, ad valorem excise tax rates that are applicable today in Liberia are difficult to administer given the potential problem of under invoicing and profit shifting. Finally, while, there is no clarity in the legislation as to the treatment of imported excisable goods by manufacturers, it is possible that manufacturers receive additional personalized exemptions creating substantial room for abuse. The fact that certain excisable categories are listed in the Harmonized System and Customs Tariff Schedule or selected regulations but not in the Revenue Code, itself may also reduce transparency. As a quick win, the Team recommends that the HS Tariff Schedule be published on LRA and MFDP websites.

Table 3: List of current excisable goods and applicable rates in Liberia

Harmonized Code	Items	Rate
Good practice excisable items used in Liberia		
2202.10 &2202.90	Non-alcoholic beverages, energy drinks	$0.10/lit
2203, 2204, 2205, 2207, 2208	Alcoholic beverages	35%
2401, 2402, 2403	Tobacco products	35%
2701-2716	Mineral fuels, mineral oils and products	7%
8703-24	Luxury Vehicles	20%
Examples of suboptimal excise taxes used in Liberia		
0407.21 &29.00.00	Eggs	$0.10kg
1701.91 & 1701.99	Sugar & sugar confectionery	5%
1905, 10 &20	Bread	$0.10/kg
1905, 31, 40 & 90	Biscuit	$0.40/kg
2105.00	Ice Cream	5%
2106.90	Food preparation syrups, supplements, powder, herbal tea	5%
2516. 11, 2516.12 2516.20 2516.90	Granite, stone	35%
2523.90	Cement	$0.25/50kg bag
2524	Asbestos	35%
2601-2621	Ores, slag and ash	7%
2804	Hydrogen, rate gases and other non-metals	20%
3303	Perfumes and toilet waters	5-10%
3305	Preparations for use on the hair	5-10%
3406	Candles	$0.10/kg
3917, 3923, 3924, 3915	Plastic basin, bowl, bucket, dust bin, drum, square stool, strainer, plates, watering can, jerry can, rubber cups, poly tank, plastic crates, plastic bags and sacks , PVC fitting, preform, PVC pipes, foam plate, foam lunch kid, foam tray, foam bowl	15%
3924	Plastic baby bath tub, baby food basket, baby potty seat	10%
6807	Articles of asphalt	7%
6812	Fabricated asbestos fibers etc.	35%
7113-7117	Jewelry	10%
7210.30, 60 &7212.20 &30	Zinc	15%
7317.00	Wire Nail	$0.20/kg
8516	Electronics (electronic instantaneous or storage water heater, hair dryers, irons, microwave ovens, coffee or team makers, toaster, kettle)	20%
9403	Plastic furniture	15%
9504	Video game consoles and machines etc.	30%
9601	Worked ivory and articles of ivory	20%
Sources: Harmonized Customs Tariff of Liberia and Administrative Regulation No. 14.1204 – 1/MOF/R/BCE/01 April 2014 issued by the Ministry of Finance on April 15, 2014.		

The next table demonstrates that countries that only apply alcohol, tobacco and fuel, can generate 2-3 times higher revenues than the existing excises in Liberia (See Table 4).

Table 4: Excise taxes as percent of total tax revenues in selected countries

Excisable items \ Countries	Chile	Greece	Estonia	UK	Liberia
Alcohol	0.0	0.6	3.0	1.8	n.a.
Tobacco	3.0	3.7	2.7	1.5	n.a.
Fuel	4.3	5.8	6.5	4.5	n.a.
Others	0.0	0.3	0.5	0.0	n.a.
Total	7.3	10.4	12.6	7.8	3.8
Source: OECD					

Application of specific, rather than ad valorem, excise tax rates should lead to improved policy and reduced scope for corruption. Ad valorem excise tax rates are currently used in Liberia. Yet, among other things, ad valorem tax rates create undervaluation issues, especially in a country where imports undervaluation is a significant problem. Countries around the world have been experimenting with excise tax rates over the last several decades. Several countries have experimented with ad valorem excise taxes, then shifted to mixed tax rates and are finally moved entirely to specific excise tax rates.

Ninety-seven percent of OECD countries apply the specific excise tax rate today. In fact, only one OECD country, i.e. Mexico continues to apply the ad valorem excise tax rates (See table 5 below).

Table 5: Ad valorem vs specific excise tax rates in OECD countries

	Currency	Still wine			Sparkling wine			Low-alcohol (still) wine (< 8.5% abv)		
		Excise per hectolitre of product		VAT	Excise per hectolitre of product		VAT	Excise per hectolitre of product		VAT
		National currency	USD	%	National currency	USD	%	National currency	USD	%
Australia*	AUD	Country note	-	10.00	Country note	-	10.00	Country note	-	10.00
Austria	EUR	0.00	0.00	20.00	100.00	110.99	20.00	0.00	0.00	20.00
Belgium	EUR	74.91	83.14	21.00	256.32	284.48	21.00	23.91	26.54	21.00
Canada*	CAD	62.00	48.51	5.0/13.0/14.0/15.0	62.00	48.51	5.0/13.0/14.0/15.0	Country note	-	5.0/13.0/14.0/15.0
Chile*	CLP	Country note	-	19.00	Country note	-	19.00	Country note	-	19.00
Czech Republic	CZK	0.00	0.00	21.00	2 340.00	95.15	21.00	0.00	0.00	21.00
Denmark*	DKK	1 161.00	172.64	25.00	1 496.00	222.45	25.00	534.00	79.41	25.00
Estonia*	EUR	111.98	124.28	20.00	84.67	93.97	20.00	48.55	53.88	20.00
Finland*	EUR	339.00	376.25	24.00	339.00	376.25	24.00	Country note	-	24.00
France*	EUR	3.77	4.18	20.00	9.33	10.36	20.00	3.77	4.18	20.00
Germany*	EUR	0.00	0.00	19.00	136.00	150.94	19.00	0.00	0.00	19.00
Greece	EUR	20.00	22.20	23.00	20.00	22.20	23.00	20.00	22.20	23.00
Hungary	HUF	0.00	0.00	27.00	16 460.00	58.96	27.00	0.00	0.00	27.00
Iceland*	ISK	Country note	-	11.00	Country note	-	11.00	Country note	-	11.00
Ireland*	EUR	424.84	471.52	23.00	849.68	943.04	23.00	141.57	157.13	23.00
Israel*	ILS	0.00	0.00	17.00	See note	-	17.00	0.00	0.00	17.00
Italy	EUR	0.00	0.00	22.00	0.00	0.00	22.00	0.00	0.00	22.00
Japan	JPY	8 000.00	66.11	8.00	8 000.00	66.11	8.00	8 000.00	66.11	8.00
Korea*	KRW	See note	-	10.00	Country note	-	10.00	Country note	-	10.00
Latvia*	EUR	70.00	77.69	21.00	70.00	77.69	21.00	Country note		21.00
Luxembourg*	EUR	0.00	0.00	14 or 17	0.00	0.00	17.00	0.00	0.00	14.00
Mexico*	MXN	26.5%/30%	-	16.00	26.5%/30%	-	16.00	26.5%	-	16.00
Netherlands*	EUR	88.36	98.07	21.00	254.41	282.36	21.00	44.18	49.03	21.00
New Zealand*	NZD	Country note	-	15.00	Country note	-	15.00	Country note	-	15.00
Norway*	NOK	5 712.00	708.33	25.00	5 712.00	708.33	25.00	Country note	-	25.00
Poland	PLN	158.00	41.91	23.00	158.00	41.91	23.00	158.00	41.91	23.00
Portugal	EUR	0.00	0.00	13.00	0.00	0.00	23.00	0.00	0.00	23.00
Slovak Republic*	EUR	0.00	0.00	20.00	79.65	88.40	20.00	0.00	0.00	20.00
Slovenia	EUR	0.00	0.00	22.00	0.00	0.00	22.00	0.00	0.00	22.00
Spain*	EUR	0.00	0.00	21.00	0.00	0.00	21.00	0.00	0.00	21.00
Sweden*	SEK	2 517.00	298.61	25.00	2 517.00	298.61	25.00	Country note	0.00	25.00
Switzerland*	CHF	0.00	0.00	8.00	0.00	0.00	8.00	0.00	0.00	8.00
Turkey*	TRY	557.00	204.55	18.00	3 763.00	1 381.93	18.00	557.00	204.55	18.00
United Kingdom*	GBP	273.31	417.91	20.00	350.07	535.28	20.00	84.21	128.76	20.00
United States*	USD	47.00	47.00	-	116.00	116.00	-	Country note	-	-

Source: Consumption Tax Trend 2016, VAT/GST and Excise Rates, Trends and Policy Issues, OECD, 2016, Table 4.A4.2, p. 136.

Table 6: Excise tax rates on cigarettes, spirits, and gasoline in selected countries

Country	Excise Rates (in USD or Percent)		
	Cigarettes/1000	Spirits/Liter	Gasoline/Liter
Benin	15%	20%	5%
Ghana	175%	25%	-
Guinea	11%	45%	9-13%
Israel	$101.62	$21.94	$0.79
Niger	30-43%	45%	25-30%
New Zealand	$378.74	$1.94	$0.47
South Korea	$109.25	70%	$0.69
Tanzania	$5.90	$0.73	$0.07
Turkey	$81.16	$55.35	$0.80
United Kingdom	$289.74	$42.29	$0.89
Uganda	$19.30	1.20 or 140%, whichever is higher	$0.27
Sources: Consumption Tax Trend 2016, VAT/GST and Excise Rates, Trends and Policy Issues, OECD, 2016; Excise/Finance Acts of countries concerned.			

Introduction of VAT could bring as much as 3 percent of GDP in additional revenues. Liberia is currently using a single-stage Goods and Services Tax (GST). The tax is imposed at the manufacturing stage and on a number of services, i.e. services specifically listed in the Revenue Code. The tax is levied at ten percent except for communications services which is levied at 15%. Exports are zero-rated. Its revenue productivity is low compared to what a broad-based VAT could generate. While GST generates around 3.8 percent of GDP in Liberia, VAT generates 6.2 percent on average internationally and as much as 11-12 percent in selected countries (See table 2 for peer country comparison). A relatively weak performance of GST results from:

1. GST is not levied on the imports of GST registered companies. The latter could lead to a substantial abuse of the GST regime in the country. For this reason, some countries have introduced a system where they tax all imports under a similar tax and credit the payments towards output GST.
2. Multiple exemptions provided to selected producers. It is unclear what the rationale is for granting multiple exemptions. In addition, unless granted according to a rules-based mechanism and in a completely transparent way, awarding such exemptions and exonerations leaves the system open to abuse and mismanagement.
3. As GST is applied at the manufacturing stage, it creates an incentive for shifting profits to related dealers.

RG3 recommends that Liberia introduce a broad based VAT. As an interim step, the GST regime can be amended to bring it closer to the future VAT system. Potential steps could include eliminating arbitrary tax exemptions, including exemptions on imported inputs by GST-registered manufacturers, crediting the amount paid at the border towards tax liabilities on output GST and modifying GST forms to bring them closer to VAT forms and others.

Corporate income taxation is one of the weakest links. Corporate income tax nominal rates in Liberia are similar to those prevailing in the rest of the continent and are comparable with worldwide averages. Yet, corporate income tax revenues are very low in Liberia, yielding only 1.45% of GDP compared to more than double that for the Sub-Saharan Africa countries included in the ATO study as well as for the worldwide average reported in the USAID Collecting Taxes Database. Liberia's Corporate Income Tax productivity of 0.06 is less than half that of its neighbors in Africa and around the world. The sources of this leakage seem to be more policy than administratively based and may potentially be explained by the natural resource sector related exemptions.

Property tax produces little revenue and is high cost to administer. Property tax is a national tax in Liberia and generates only 0.21 percent of GDP. While the tax performs better in developed countries, it is also usually a local, rather than national tax. The latter ensures help from the local authorities in administering collections. In addition, it directly connects tax revenues to local services provided, such as financing for school districts in the US, community amenities and even local public safety and order. It is recommended that the tax is decentralized. One of the quick wins that could be realized would be an implementation of a Property Tax Decentralization pilot in Monrovia and/or other selected cities. Under such a decentralization pilot as much as 50% or more of the revenues could remain with the subnational governments, ensuring their active participation in revenue administration.

Administration of the tax in Liberia could also be significantly enhanced. Taxpayers are required to have their property appraised, physically produce a valuation document to deliver to LRA, have LRA officers produce an assessment and bill the taxpayer. Only once these processes are completed, may the taxpayer remit payment. Such a complicated administrative system limits the number of administered taxpayers to those that LRA can physically administer, which is around 11,000 taxpayers in Monrovia. LRA does not utilize modern property tax methods, such as a Computer Assisted Mass Appraisal (CAMA) system, nor does it do mass billings, nor use an up-to-date electronic property tax cadastre. In addition, a simpler zonal valuation system may be more appropriate for a developing country such as Liberia and could simplify administration of the tax significantly.

Liberia has adopted a comprehensive revenue code. The tax code is a single, comprehensive piece of legislation that covers all matters relating to all taxes, including structure of all taxes, their functional areas, procedures, administrative matters, appeals and so on. Liberia is one of the limited but growing number of countries, including Cameroon, Colombia, France, Gabon, Georgia, Kazakhstan, Dominican Republic, Mali, Moldova, the Philippines, Togo and the United States, that has adopted a single revenue code in place of multiple tax type laws. There are different practices regarding the coverage of the single revenue code. One approach is to consolidate only the common procedures relating to various taxes and to develop a single administrative code. Another way is to include both the structural and operational aspects of all the taxes in the single revenue code. Liberia has not only adopted the second option but also has gone even further by including customs duties and all non-tax revenue related provisions in the revenue code.

Liberia does not have micro-simulation models. Revenue modelling in general is quite poor. To a large extent this stems from the fact that macroeconomic indicators are hardly reliable. In addition, Liberia does not have micro-simulation model. Modern micro-simulation models rely heavily on tax administration databases and are less reliant on macroeconomic indicators. Yet, only about four percent of tax return information (i.e. 2 out of approximately 50 fields) is entered into LRA's databases today. Establishing a small data processing unit to process tax return data for large taxpayers on priority basis will allow LRA to make an early and significant gain in providing data for selected micro-simulation models. It would also improve transparency and allow for improved risk-based management for taxpayers audit and enforcement for 75-80 percent of revenues. It is recommended that LRA develops GST/VAT and Corporate Income Tax micro-simulation models. Not only the models will be useful in forecasting revenues, but will also help simulate the impact of future tax policy reforms.

III. Tax Administration

From review of the benchmark indicators, it is clear that LRA has made significant progress in a number of areas. In particular, LRA has made considerable progress towards taxpayer segment organizational structure, improved appeals system and a number of others. Yet, there is a great scope for further improvement, especially in tax audit, data processing, taxpayer registration, filing, payments, debt management, and administration of the excise taxes as well as taxpayer segmentation outside of capital region.

Note well, we have highlighted in red the areas where LRA's practices could be improved to meet international best practice. There are very many areas for improvement and not all are of equal weight or importance in how they affect revenue productivity and maintain the integrity of the system. In the final section of this report, we provide a set of prioritized reform actions that will both move Liberia closer to international best tax practices and will yield positive revenue effects.

Table 7: Tax administration benchmarks

Benchmark	Liberia	International Practice
Organizational Structure		
Taxpayer Segment and functional organization in the capital region (Montserrado region)	Mostly Yes	Yes
Taxpayer Segmentation outside of the capital region (outside of Montserrado)	No	Yes
Functional duplications	Yes	No
Units by type of tax	Yes	No
Taxpayer Services		
Taxpayer Registration		
Clean taxpayer registry (especially for large and medium taxpayers)	No	Yes
% of inactive taxpayers in LTD registry	> 50%	< 5%
Multiple TINs issued to the same taxpayer	Yes	No
Online taxpayer registry available to taxpayers	No	Yes
TINs harmonization between Customs and Domestic Tax	No	Yes
Use of tax return data to update taxpayer registry	No	Yes
Are taxpayers being deregistered?	No	Yes
Return Filing		
E-filing, % of total tax liabilities reported through e-filing	0	80-90%
Tax Payment		
E-payments (mobile, credit, debit, prepaid cards)	No	Yes
Tax payments through commercial banks and their branches	No	Yes
Cash payments made through tax officers	Yes	No
Filing reference number as a precondition for payments	Yes	No
Reliable system performance around payment deadlines	No	Yes
Other: Cross Sectional		
Taxpayer perception surveys conducted regularly	No	Yes
Cost of Compliance Surveys conducted	No	Yes

Benchmark	Liberia	International Practice
Call Center	Basic	Yes
FAQ database	Limited	Yes
Clearly defined Taxpayer Service functions in the regions	No	Yes
Use of paper or electronic excise stamps as an enforcement mechanism	No	Yes
Return Processing and Accounting		
Taxpayer ledger by branch	Partially	No
Centralized data processing function	No	Yes
Automated data verification	No	Yes
% of primary data captured in tax databases	> 2-5%	100%
Existence of disaster recovery and data base site/servers	No	Yes
Online taxpayer ledger available to taxpayers	No	Yes
Adequate automated compliance monitoring	No	Yes
Taxpayer Audit		
% of auditors as % of total personnel (domestic tax only)	< 15%	> 30%
Use of risk-based audit selection, % of cases	Limited	95-99%
% of large taxpayers targeted for audit annually, %	100%	≤ 25%
Audits conducted outside of audit units	Yes	No
Audit/Inspection results recorded in the database	No	Yes
Use of third party databases	Limited	Yes
- including:		
- Customs Database	Partial	Yes
- Public Procurement Database	No	Yes
- Investment Agency Registration Database	No	Yes
- Bank account information	No	Yes
- Ministry of Commerce Licensing Database	No	Yes
- Land Cadastral Database	No	Yes
Debt/Arrears Management		
Risk-based arrears management	No	Yes
Debt write off procedure	No	Yes
Debt Collection Strategy	No	Yes
Enforcement (case management) Database	No	Yes
Ageing of arrears	No	Yes
Use of automated debtor's lists	No	Yes
Use of automated stop-filers’ lists	No	Yes
Tax payments in instalments	Yes	Yes
Tax Appeals		
Relatively good procedures in Montserrado	Mostly Yes	Yes
Relatively good procedures outside Montserrado	No	Yes
Existence of the Independent Tax Appeals Tribunal	Yes	Yes
Cross-Sectional Indicators		
Are performance audits being conducted	No	Yes

Benchmark	Liberia	International Practice
Micro-Simulation Models	No	Yes
Taxpayer Advocate Function	No	Yes
Publish Quarterly Reports	Yes	Yes
Server utilization %	90%	50-60%
Performance of the Management Information System	Poor	Good
Source: International practices derive from prior tax benchmarking studies and the USAID (2014) Assessing Tax Systems Using a Benchmarking Methodology, http://pdf.usaid.gov/pdf_docs/Pnadc940.pdf; the IMF TADAT Pocket Guide (ob. cit.) and team member expertise.		

Organizational structure

Organizational structure of tax administrations around the world have gone through significant transformations over recent years. Inefficient structures centered on "a single tax officer" and "tax type" have been abandoned. Instead, tax administrations have tended to migrate to organizational structures centered around "taxpayer segments" and into "functions." Table 8 presents the generic evolution of these organizational structures.

Table 8: Evolution of organizational structures of tax administrations

Model	First level	Second level	Third level	Comments
Single-officer system	By major **tax groups**	By taxpayer groups (type, location, or both, etc.)	Most routine taxpayer-related entrusted to a single officer	• Little or no specialization due to multi-tasking across functions • Prone to taxpayer–tax official collusion and corruption
Type of tax	Separate units for major **groups of taxes**	Functional	(a) by taxpayer OR (b) by taxpayer location	• Multiple, functionally organized TAs; • Waste resources by duplicating functions; • high compliance costs for taxpayers owing many taxes
Functional	**By – functions**	By type of taxpayers	By type of tax	• Better Specialization • Better focus / accountability • Difficult to coordinate among functions • Lack of tailored approach to taxpayers • Lack of focus on major taxpayers where revenue risk is high
Taxpayer segmentation	**By type of taxpayer**	By function	Usually absent	• Better Specialization • Separate units for large, medium and small taxpayers • Closer coordination between functions • Strategic allocation of scarce human and financial resources across taxpayer segments, etc.

Source: based on the material from "A Handbook for Tax Simplification," Sebastian James, World Bank, 2009.

While there is no "one-size fits all" organizational structure, there are broad general guidelines that are usually observed. The following general guidelines are useful to keep in mind.

Tax administrations generally include two types of functions broadly subdivided into "core operational" and "corporate" functions. Core operational functions include taxpayer services (may include taxpayer registration, filing and payments); returns processing and taxpayer accounting; tax audit; debt or arrears management[7]; and, appeals or disputes settlement, among others.

Corporate functions include, among others, human resources, training; information technology (IT); finance; and procurement.

In recent years, many tax administrations have separated the IT function into its own specific division, often reporting directly to the Commissioner General. This is done to (a) ensure that IT needs of corporate functions are not prioritized at the expense of core functions; and, (b) emphasize prominence of the function in modernizing tax administration in the 21st century.

In recent decades, modernizing tax administrations have been phasing out "single-officer" elements from the organizational structure and eliminating units centered on tax types. Usually, the first tier of tax administrations is organized around taxpayer segments, while the second tier is organized by functions. The "housing" of functions under a "single roof" or manager provides for a better coordination among functions, while separation of functions provides for increased independence and economies of scale whenever deemed available.

Modern tax administrations tend to separate Headquarter (HQ) and field operations functions, including physical separation to minimize unnecessary physical interaction between tax HQ and back office personnel and taxpayers. HQs usually focus on strategic issues, operational policies, and overall performance monitoring. It is important to maintain a strong degree of policy-making independence (including operational policy and procedures) from field operations, i.e. their implementation.

In this separation, it is important to avoid functional duplications within and between HQ and field operations units, provide for clear specialization and associated accountability, and minimize unnecessary physical interaction between tax officers and taxpayers. At the same time, best practice recommends substantial delegation of responsibilities and accountability to operational managers.

A more elaborate structure for large taxpayer divisions, such as tax audit teams organized by sectors and taxpayer services and compliance monitoring provided by "account representatives" may be required.

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[7] The function is often referenced to as "collections"

> *Typical Features of SARAs*
> - Created by legislation
> - Head selected in transparent manner, granted degree of freedom in line with responsibility, reports to external board of directors
> - Budget independence (usually based on a formula)
> - Resides outside civil service system
> - Better salaries and conditions
> - Freedom to hire and fire
> - Clear performance indicators

The Liberia Revenue Authority is a new organization, and demonstrates some but not all the attributes of the "typical" revenue authority. LRA was created by law enacted in September 2013. Its Commissioner General and Deputy Commissioner General are appointed to a four-year term by the president, but with consent of the Senate, and though they can be denominated for a truncated period, their terms are limited. While initially, the employees of the Ministry of Finance Tax Departments were all eligible to transfer to the new organization, they were subject to a limitation of one year, at which point they were required to either apply, almost as new applicants, for their positions. Almost all of these original employees have been retained. Salaries and other aspects of employment are superior at LRA than in the rest of government. LRA management seems to have greater freedom in hiring and firing than do other administrative offices of the GOL. Revenue targets are set for the LRA in each annual budget exercise and LRA receives a bonus from the general budget if it exceeds the revenue target, however, the LRA' does not have what in other countries might be called "budget independence" instead it must participate in the annual budgeting process as do other GOL budgetary units.

Figure 3 is the current LRA organizational chart.

LRA's organizational structure is mostly in line with international best practices. Today, LRA is mostly organized along taxpayer segments such as large, medium, and small. The second tier organizational structure is semi-functional. Yet, there are several areas where organizational structure can be improved further. For instance, there is a need for greater centralization of the audit function (audits seem to be carried out in many departments of the LRA that should not actually be conducting audits). Mineral Taxation Unit should be subsumed by LTD and medium and small divisions depending on their size. Enterprise Risk unit could be integrated with Internal Audit. There still remain some tax-type units that might be better integrated with other functional units, for example the Real Estate Tax Unit. Finally, while, tax administration in Montserrado region is organized by taxpayer segments, the single officer system remains operational in the rest of the country in the form of Tax Business Offices (TBOs). The team recommends that TBOs be absorbed into medium and small taxpayer units in the medium to long run. The latter process could be initiated by setting up medium taxpayer units in priority regions.

There may be room to consolidate and restructure to reduce the number of units reporting directly to the CG. Currently, nine units report directly to the CG. It is advisable to consolidate some of the units and delegate some of the functions.

Figure 4 below presents a possible new structure of the Domestic Tax Department for LRA that included the consolidation of some functions, such as internal audit with enterprise risk management, tax audit into specific segmented units, and medium taxpayers from TBOs being absorbed into Medium Taxpayer Units

Figure 3: Organizational chart of the Liberia Revenue Authority

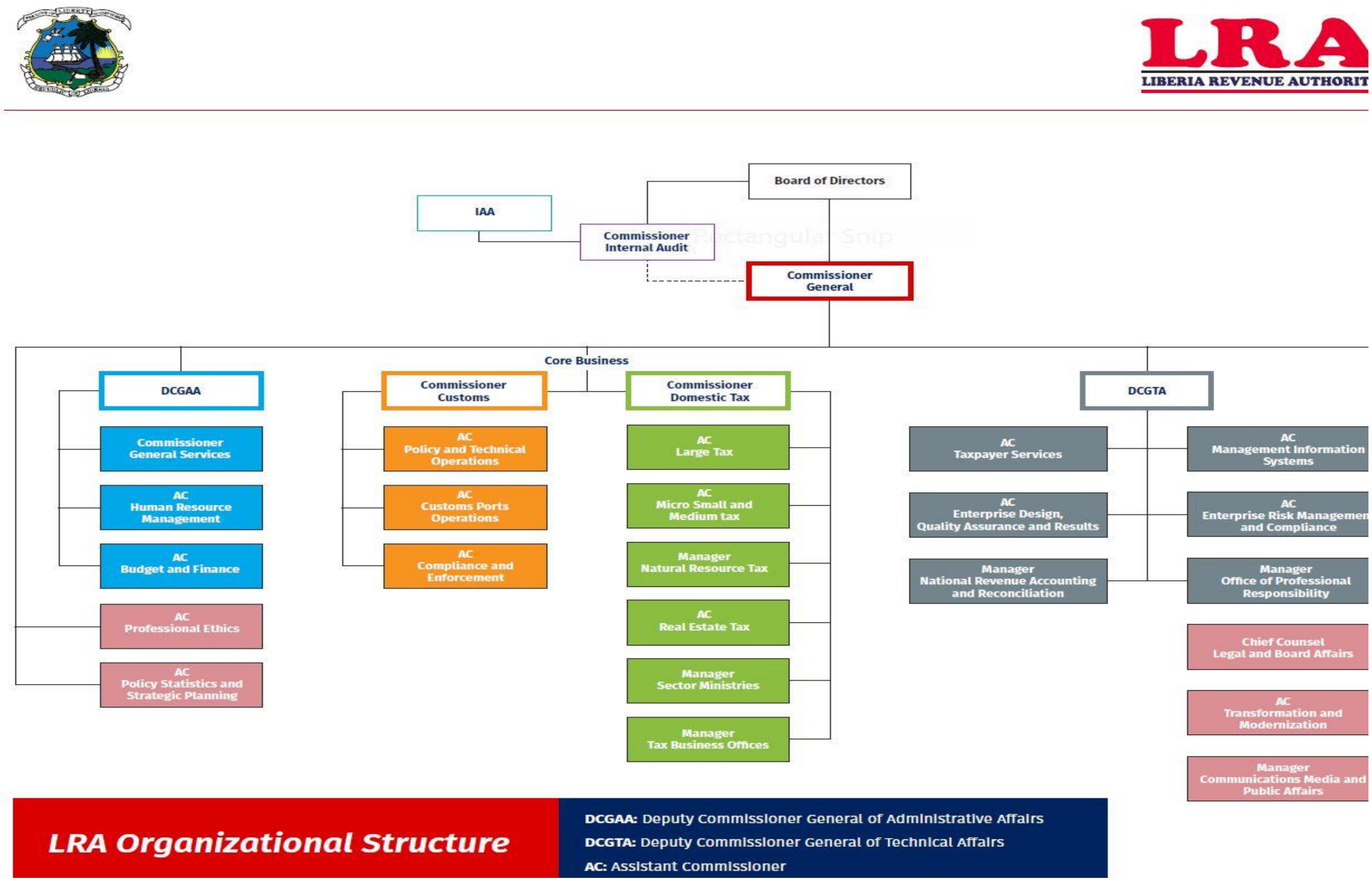


Figure 4: Potential future organizational design of LRA

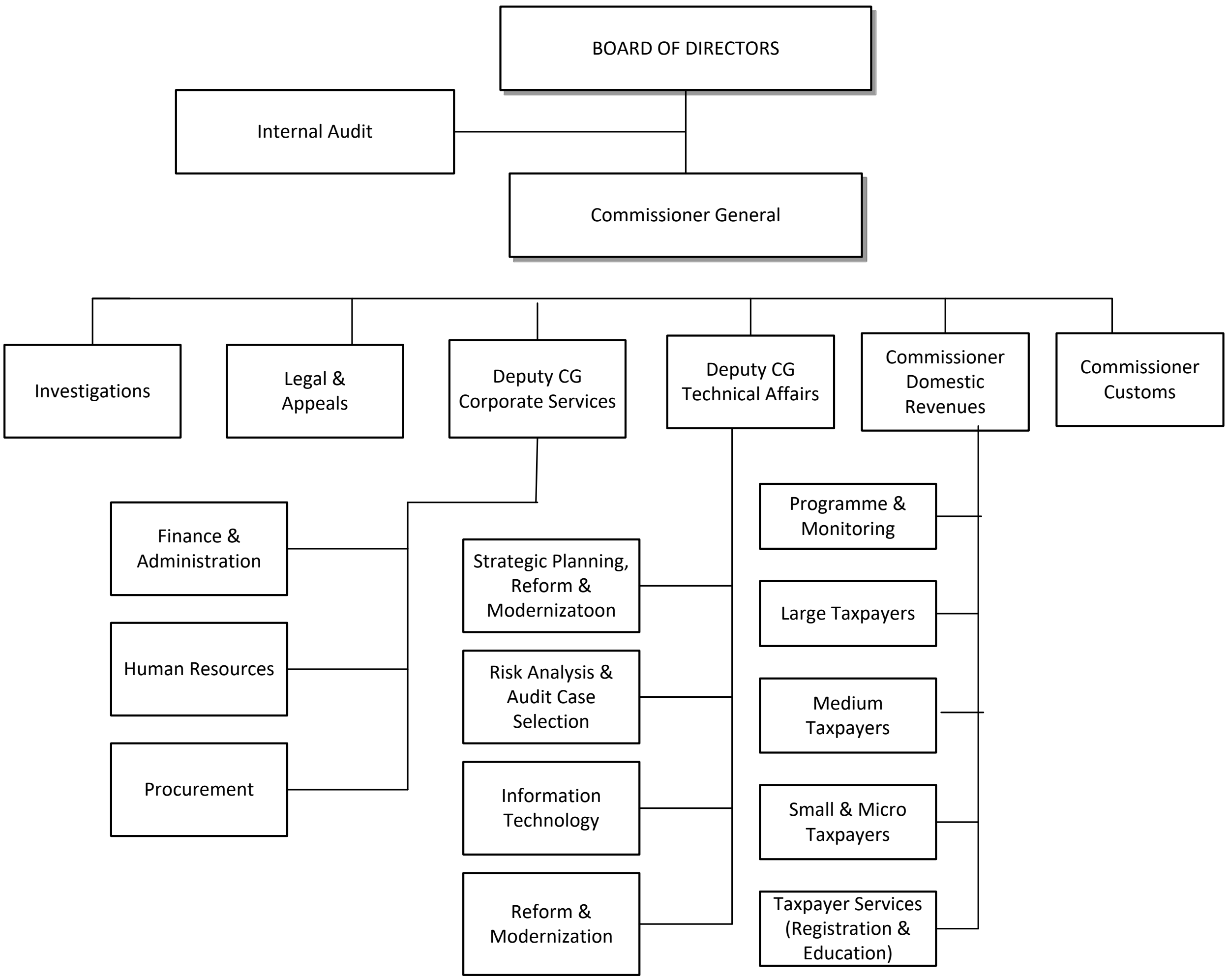
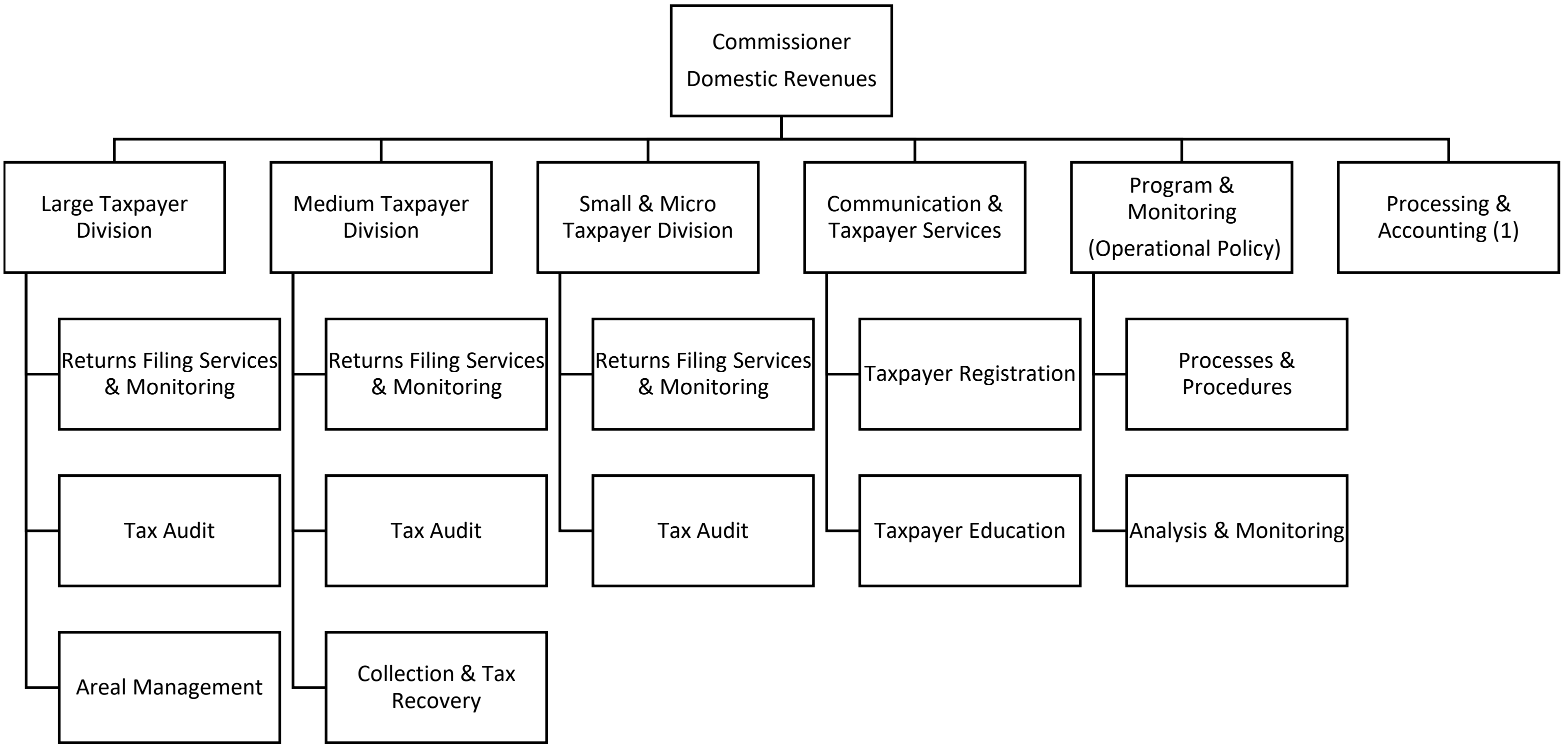


Figure 4: Proposed new structure of domestic tax organization, for consideration[8]



Taxpayer Registration

The reliability and accuracy of the registration database can be greatly improved. Accurate taxpayer registration information is crucial for effective taxpayer control and services. The challenges are formidable across segments. In total, there are some 2,506 errors to rectify in order to clean up taxpayer registry for large taxpayers. About three-quarters of the taxpayers are either inactive or do not meet segmentation criteria. The number of erroneous entries in the medium and small taxpayer database has to be determined yet and is likely to be substantially higher. Inaccuracies include inadequate taxpayer segmentation, absence of tax accounts, inaccurate or missing sector classifications, inadequate validation process at time of registration, and lack of immediate validation of newly registered taxpayers. We found that some taxpayers have been

[8] This structure considers the IMF recommendations put forward in the "Liberia Report HQ Mission Nov 2016", page 19 on taxpayer services. However, another option would be to put the Communications and Taxpayer Services Division under DCGTA as is currently the case. This latter option may work as good by putting in place more elaborate SOPs to streamline the workflow between the Domestic Tax Department and Taxpayer Services.

issued multiple TINs. Taxpayer registration is computerized and centralized at the LRA HQ in Monrovia. Operations outside of Monrovia are mostly manual, with limited scope to cater meaningfully for regional taxpayers. LRA has inherited most issues from its predecessor and is currently working to address a number of weaknesses.

Updating the taxpayer registry is also an issue. One efficient way to update the taxpayer registry is to capture the latest data from taxpayer filings, i.e., when a taxpayer files a new tax form or declaration, changes in taxpayer information, such as address, ownership, or industry codes, should be captured and entered into the taxpayer registry as an update. This is not currently the practice in LRA. It should be noted that the latter requires an introduction of the data processing center to start processing tax return information, starting from large taxpayers.

LRA has only deregistered one taxpayer. Taxpayer deregistration is important to keep tax databases clean and to improve quality of compliance monitoring. A company may also be taken over by another company or may dissolve, in which case it may apply for de-registration. The tax administration may also initiate de-registration, when a taxpayer becomes inactive for a long time and the administration exhausts all effort to locate and bring back the taxpayer to the net. To date, the LRA has reportedly deregistered only one taxpayer despite the overwhelming number of inactive taxpayers in its databases.

When a taxpayer requests de-registration, the LRA should only verify that the business is closing down. It is not a good practice to condition de-registration on indiscriminate audits. The audit and collection of unpaid taxes can still take place after de-registration. De-registration means that the person ceases to be a taxpayer from a specified date, onwards.

Return Filing

E-filing has changed the face of tax administrations around the world. Benefits of e-filing to taxpayers and tax administration are substantial. First of all, e-filing reduces costs of compliance with tax laws and regulations. Taxpayers can submit their tax returns seven days a week and 24 hours a day. Taxpayers do not have to spend time in traffic and in queues just to submit their return to a tax officer or an officer of a banking institution. Second, e-filing can help LRA increase transparency by ensuring timeliness and completeness of primary taxpayer information and related taxpayer databases. E-filing reduces scope for corruption by minimizing physical contact between tax officers and taxpayers. It also leads to faster reconciliation and a reduced risk of non-compliance by banks and taxpayers alike, reduced costs of printing and processing tax returns, helps decongest tax offices, and reduces the burden of return processing for document processing centers. Eventually, e-filing should lead to better risk-management at LRA, reduced frequency of audits for compliant taxpayers, better targeted and more timely taxpayer services, reduced time to receive tax refunds from the government, comprehensive

Benefits of Electronic Tax Filing and Payment

- Increase the transparency of tax administration by facilitating the timeliness and completeness of primary taxpayer databases
- Information supplied on tax returns helps improve quality of taxpayer registration
- Reduce opportunities for corruption by limiting face-to-face interactions between taxpayers and tax officers
- Reduce taxpayer costs of compliance by simplifying tax return preparation and filing processes
- Enhance risk-based audit selection and audit effectiveness
- Enable timely risk-based arrears management
- Enable more timely response to non-compliant behavior, such as non-filing and underpayment of taxes
- Enable improved (more targeted) taxpayer services
- Facilitate better tax payments reconciliation
- Speed up tax refunds

online taxpayer accounts, and would simplify the process of receiving tax clearances from LRA. Finally, e-filing improves taxpayer registration and segmentation by supplying such crucial information as taxpayer's turnover, updated address and contacts, sector codes and other information in electronic format with no need for transcription.

No tax returns are e-filed in Liberia. Currently, there is no e-filing in Liberia while some countries around the world have achieved 100 percent e-filing. LRA is working to deploy an e-filing module of SIGTAS. Countries generally benefit from deploying more than one e-filing solution. For instance, a SIGTAS module can help introduce e-filing for larger taxpayers, but medium and small taxpayers will likely require a simpler system with simplified business processes. Even smaller taxpayers may benefit from a simplified mobile filing solution. Finally, it is generally considered good practice to shift the costs of e-filing towards private sector providers. Some private sector providers have already developed a commercial e-filing solution that would compete with the SIGTAS e-filing module and LRA would be well advised to facilitate such private sector initiatives. The initiatives have a potential to shift the burden of development, maintenance and even taxpayer education to the private sector providers. In the latter case, LRA would only have to develop system requirements for the providers and focus on back-end processing.

E-filing is clearly a reality around the world, as is demonstrated in Table 9. It is even more prevalent in non-OECD countries.

Table 9: Percentage of tax returns that are e-filed

Country	%	Country	%	Country	%
Czech Rep.	1	Greece	49	Lithuania	87
Luxembourg	1	Belgium	54	Australia	92
Malta	1	Canada	62	Iceland	92
Russia	3	Sweden	63	Israel	92
Bulgaria	5	OECD avg.	65	Estonia	94
Colombia	6	Malaysia	69	Netherlands	95
Poland	11	New Zealand	71	Singapore	96
Hong Kong, China	14	Spain	74	Denmark	98
Latvia	15	United States	76	Chile	99
Hungary	17	United Kingdom	77	Mexico	99
Cyprus	22	Austria	79	Turkey	99
Germany	32	Ireland	81	South Africa	99
Finland	33	Portugal	83	Italy	100
France	33	Philippines	85	Argentina	100
Japan	44	Norway	86	Brazil	100
Non-OECD avg.	75	Korea	87		

Source: OECD 2012; Philippines: Bureau of Internal Revenue 2016.

Tax Payments

Limited payment options. In general, there are two modes of settling tax liabilities in Liberia. The first method is to pay taxes at limited selected locations in Montserrado. Outside of Monrovia, payments are made in cash at Tax Business Offices and later deposited at commercial banks. There are no e-payments or payments through commercial banks. Existing complex processes, electricity outages, and IT system underperformance further complicate payments.

Limited available payment facilities that suffer from payment system outages. In most countries, about half of payments take place during the last two or three days before the payment deadline and 80 percent occur during peak hours between 10 am and 3 pm. The payment systems are reportedly underperforming during these crucial periods in Liberia. The underperformance of the payment systems appears mainly to be due to frequent power outages at LRA facilities, as well as SIGTAS concurrency (number of users on system at the same time) issues. The inability of taxpayers to make timely payments results in those being recorded as non-compliant and requiring future case-by-case settlement of the issues and writing off erroneously accrued interest and penalties. It is highly recommended that LRA deploys monitoring tools to properly pinpoint and liquidate bottlenecks undermining system underperformance at LRA.

Taxpayer Education

Liberia's taxes are based on the principle of self-assessment. Taxpayers are responsible for assessing, reporting, and paying all the applicable taxes. The successful implementation of such a tax system depends, among other things, upon the level of voluntary compliance by taxpayers. The level of voluntary compliance heavily depends on taxpayer education. LRA has initiated a number of taxpayer education activities, mainly through its taxpayer service division, to raise the level of voluntary compliance. There is a Communication, Media and Public Affairs Section within the taxpayer services division. Taxpayer education is conducted through a range of means, including:

- Publication of tax calendars. These provide information on due dates for filing and payments of various taxes;
- Distribution of printed materials in the form of FAQs, brochures, pamphlets, and posters;
- Tax clinic/information sessions for specific groups of taxpayers;
- Talk shows on radio and television;
- Newspaper and radio advertisements;
- Billboards;
- Call center; and,
- LRA website.

LRA's taxpayer education activities are, however, limited in their scope and are concentrated in Monrovia. Little attention has been given to areas outside Monrovia where potential taxpayers are often unfamiliar with their rights and responsibilities as citizens and residents. In addition, such cost-effective and direct means of taxpayer outreach as e-mail and SMS blasts remain unutilized.

LRA has created a call center. LRA has established a call center, which is staffed with two personnel. The center reportedly receives only a few phone calls per week. The call center is not fully automated and may require procurement of an additional call transfer system.

It should be possible to increase the number of phone calls through a more aggressive advertising of the call center's phone numbers and the services it provides. Around the world, call centers tend to be useful for taxpayer and even tax officer education. The same call center could be used for a single entry point for taxpayer complaints. For example, the call center currently receives only 5-

8 phone calls a month. One of the 2 phone numbers available was unresponsive during our assessment and the phone numbers are not advertised through readily available LRA billboards.

Current forms do not include instructions. It is a good practice to have tax form instructions on the reverse side or at the end of the tax return. These instructions help minimize errors and improve the quality of the primary information provided by taxpayers. The same information can be used to inform future e-filing, e-payment and registration declarations.

Telephones, e-mails, business associations, and the LRA website are underutilized. Taxpayer phone numbers and e-mails provide for a strong and targeted way of communicating with taxpayers. Ideally, this information would be captured upon registration and regularly updated from submitted tax returns. The information should be used to develop a contact database to facilitate e-mail and SMS blasts to registered taxpayers. In addition, business associations could serve as conduits for effective dissemination of important tax information, such as the latest legislative or rule changes. For example, Harmonized Tariff information provides much more information on excise tax tariffs than even the current version of the tax code. Yet, only a limited number have been printed and distributed. Posting the materials on the LRA and MFDP websites and blasting the link to registered taxpayers could increase transparency substantially at a relatively low cost.

Conducting taxpayer perception and cost of compliance surveys. Taxpayer perception and cost of compliance surveys could serve as a mean to measure progress on taxpayer services provided. The LRA conducted a taxpayer satisfaction survey in 2013, but it only covered Monrovia and was of a size too small to be statistically significant. USAID funded another taxpayer satisfaction survey in 2015, but this was limited to only services provided to small and medium taxpayers in ten decentralized service centers. Neither of these surveys have been published and the Team did not have access to their results. Conducting a standard survey of taxpayer cost of compliance would allow the LRA, GOL, and the public; in general, observe the progress that is being made in terms of making the tax system easier to comply with. Regular reporting on taxpayer satisfaction can be useful in demonstrating commitment to reform and showing progress in meeting reform commitment.

LRA does not have a taxpayer advocate function. A taxpayer advocate or ombudsman would typically report directly to the Commissioner General. The advocates would help the tax administrations ensure that taxpayer rights are properly protected and established business processes, including on audit and appeals, are adhered to and respected by all parties.

Processing and Accounting

Proper risk-based and effective management of a tax administration is impossible without data and especially primary taxpayer data. Only about two percent of tax return data is currently captured by LRA across all taxpayer segments. Capturing registration and tax return data in full helps inform all aspects of tax administration, including the generation of stop-filer and non-filer reports, risk-based audit selection, risk-based arrears management and targeted taxpayer services. In addition, the information will be used to inform micro-simulation modeling and forecasting that is usually carried out or facilitated by tax administrations. Improving data processing will enable a number of other good practices, such as online taxpayer ledgers (sometimes referred to as "taxpayer current accounts") available to taxpayers and automated data verification. Capturing primary taxpayer data is a crucial first step towards risk-based audit selection and improving tax intelligence, where primary data is compared against third party data sets. **The Team recommends that LRA establish a tax returns processing unit to capture all data for large taxpayers**. The initiative can have high payoff at low cost and in short time. It would help improve transparency for up to 300 taxpayers and cover about three-fourths of tax revenues.

The LRA does not have a dedicated data processing function or unit. International best practice suggests that a tax administration should have a centralized data processing center to allow for substantial economies of scale and increased transparency. The processing and accounting functions can be merged and will be accountable for data entry, completeness, and quality of information in the databases. Data processing at the LRA is fragmented across operational units. The units often provide other primary services such as registration, filing, and compliance monitoring. Combining data processing with operational activities substantially compromises both service delivery and processing. For the reasons outlined above the current database is incomplete and highly inaccurate. The introduction of e-filing and automated data processing would make life easier for the tax administration but will not eliminate the need for the data processing center.

As taxpayers submit their CIT and PIT returns in 2017, it is an opportune time for the LRA to quickly set up the Processing and Accounting Unit, assign staff, provide training, and begin the processing of data as described above. By the end of April this year, the LRA could have all returns data for active large taxpayers in the system. This will bring a dramatic improvement on the way the LRA works and would address one of the critical shortcomings identified in the TADAT report.

As mentioned, LRA should start from setting up a unit that will process data for large taxpayers. Eventually, the unit can be transformed into a centralized data processing center that will capture medium and small taxpayers' data, as well.

Tax Audit Function

All large taxpayers are targeted for audit in Liberia. LRA has developed a first generation risk-based audit selection model. Yet, under this approach, as many as 358 large taxpayers have received the same high risk rating. It should be noted that there are only 275 active and truly large taxpayers at LTD (See Table 10). Prioritizing 100% of taxpayers for audit is not prioritization at all. Instead, all taxpayers can be audited over four years (or some lesser interval), on average, if only 25 percent are audited each year. In addition, prioritizing virtually all large taxpayers for audit gives too much discretion over audits to be conducted. As of this writing, the LTD Audit Division has only conducted 109 audits. The number of large taxpayer audits may be high given human resource and capacity limitations. Finally, taxpayers that are not audited through field audits by LTD Audit Division, are reportedly subject to desk audits by the LTD AAA division.

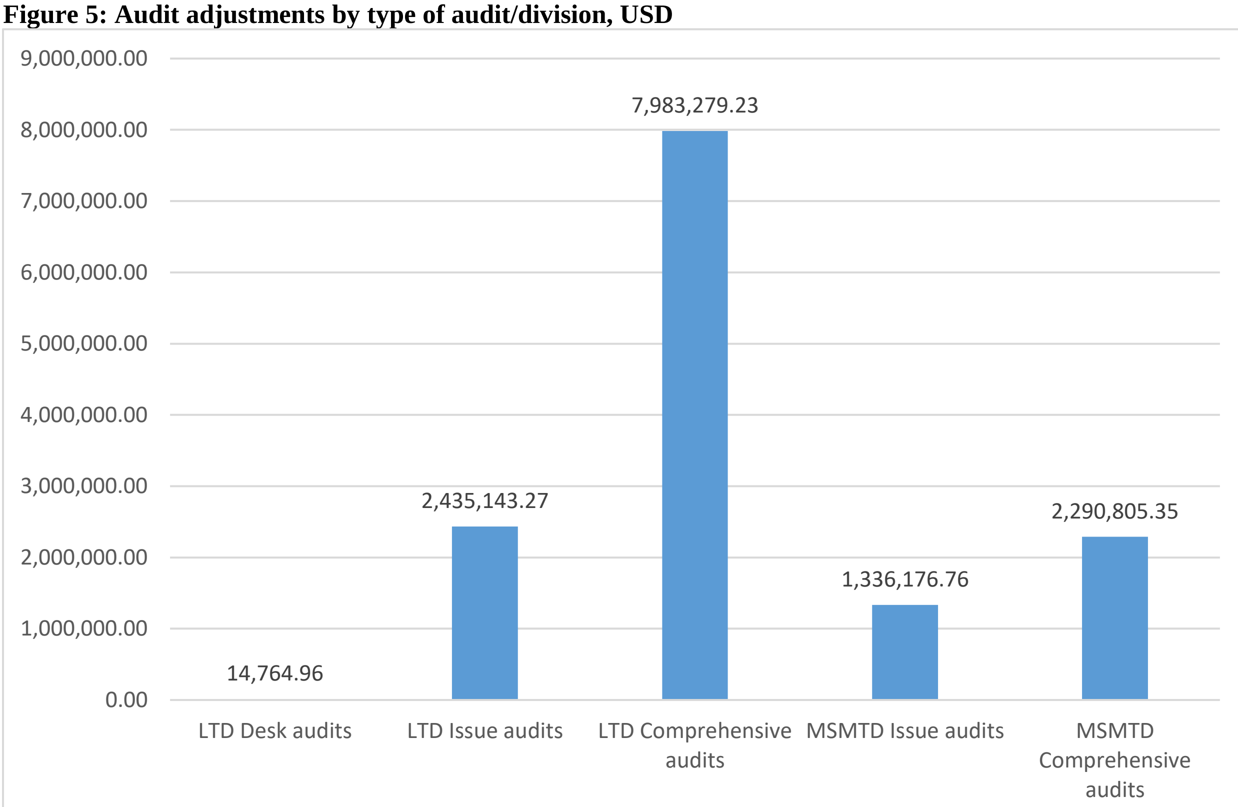
Table 10: Summary of audit performance

<table>
<tr><th>Assessed areas</th><th>LTD</th><th>MSMTD</th><th>Recommendations</th></tr>
<tr><td>% of active taxpayers</td><td></td><td></td><td rowspan="5">• LTD taxpayer's population needs to be revised to focus on a manageable number.
• Clean and update taxpayer database to reduce the number of inactive taxpayer.</td></tr>
<tr><td>Registered in SIGTAS</td><td>2308</td><td>28650</td></tr>
<tr><td>Acknowledged taxpayers</td><td>1,272</td><td>28650</td></tr>
<tr><td>Active/monitored taxpayers</td><td>275</td><td>5,000</td></tr>
<tr><td>% of active taxpayers</td><td>22%</td><td>17%</td></tr>
<tr><td colspan="3">Planned audits</td><td rowspan="2">• Revise the risk selection criteria to match selected cases with available resources</td></tr>
<tr><td>Risk based selected audit cases</td><td>358</td><td>528</td></tr>
</table>

Planned audits	109	300	• Track and use the audit results as input to monitor taxpayer behavior and improve compliance risk strategy.
Completed audits	109	300	
Staff contribution			• Increase the number of auditors and resources like computers for both LTD and MSMTD. • Extend the audit trainings to all auditors. • Increase audit coverage outside Monrovia. • Develop the standard tax audit review and quality control.
Planned audits	109	300	
Actual Audits completed	109	300	
Number of staff	28	39	
Staff contribution per Year (audits)	4 cases	8 cases	
Source: LRA 2016			

Desk audits are considered relatively ineffective internationally. Despite the notional appeal of desk audits, their effectiveness as a tool to encourage taxpayer compliance or detect errors has recently come into question. In line with the international experience, desk audits in Liberia produce less than 15 thousand dollars a year in additional adjustments (See Figure 6). In total, audit assessments stand at about 1.4 percent of tax revenues.

Figure 5: Audit adjustments by type of audit/division, USD



Source: Liberia Revenue Authority, 2015

There is a need for approved business processes and their automation. The audit manual was developed by the Ministry of Finance and Development Planning in 2011 and does not include current LRA audit processes, procedures and mandates. It should be revised to include audit processes and procedures and audit business process maps, quality assurance processes and audit sector notes. In addition, the audit module in SIGTAS should be operationalized to support audit functions mostly initiating the tax audit engagement letter, tracking audit processes, giving feedback to taxpayers, producing the draft and final report and audit appeals.

Lack of qualified auditors and insufficient sector specialization. LRA has a relatively low proportion of tax auditors by international standards. Tax auditors account for less than 15 percent of domestic tax and other associated personnel. Auditors tend to account for 30-60 percent of internal revenue service personnel around the world. While large taxpayers are subdivided into a number of sectors, auditors themselves are not. Finally, there is a lack of tax audit skills across the organization, including at Large and Medium Taxpayer, Enterprise Risk as well as Quality Assurance and Internal Audit divisions. While some short-term audit training is being provided by donors on an *ad hoc* basis, there is a need for a long-term and sustainable audit training program at LRA. With increased automation, including e-filing, the need for taxpayer service and other personnel declines and the proportion of auditors increases (See Table 11 below.)

Table 11: Tax auditors as percent of total personnel of internal revenue authorities

Country	Auditors as % of all staff	% of returns filed electronically
Liberia	23	0.00
Philippines	24	0.26
Netherlands	31	95
Denmark	34	98
Mexico	35	99
Argentina	36	100
Italy	48	100
Singapore	52	96
Austria	71	80
OECD tax administrations 2013		

Arrears Management and Enforcement

The stock of recorded arrears is relatively low. The recorded stock of tax arrears is relatively low and stands at about $66 million or 13 percent of tax revenues. There is a possibility that the

Source: OECD Tax Administration 2013

actual stock of arrears is higher especially given the fact that no arrears are being currently written off. In a number of countries, improved arrears recording resulted in a substantially higher figure of actual arrears.

Taxpayer services and compliance units, such as AAA sections at LRA, serve an important function by providing a first line of defense in arrears management. The unit should focus on compliance monitoring and remind taxpayers of potential or actual non-compliance in a timely manner. LRA should ensure that debtors, non-filers, late-filers and stop-filers lists are produced within the first 15 days from the deadline to ensure higher probability of collection.

Many practices that LRA does not currently implement could have broad scope for improving debt management and enforced collections. These include, inter alia:

- Setting up a system for risk management,

- Introduce a debt write-off procedure,
- Develop a debt collection strategy,
- Develop a debt and arrears database, which among other things would allow the classification of debt by likelihood or feasibility of collection, including debt ageing,
- Develop automatic debtor lists, and
- Develop automatic stop- and late-filers lists, with automated follow-up procedures.

Tax arrears management should be risk-based. The Enforcement Section does not currently apply risk-management techniques in its prioritization of enforcement cases of delinquent taxpayers. There is little evident prioritization of amounts due on the basis of size, age or collectability. The enforcement section should identify and extract non-payers lists and prioritize cases according to age, value, and likelihood of success, and give the highest priority to those cases where potential collectability is at its maximum. Ideally, LRA would establish an automated system for prioritizing collection actions.

Figure 7 presents a typical risk-rating matrix. Generally, the likelihood of collection depends on the age of debt. According to this matrix, a very large debt that is almost certainly collectable, say because it was just incurred within the last two months, would be classified as "extreme," and should therefore be given the highest priority for enforced collection effort. Compare this to say a rather small debt owed by a hawker that has been on LRA's books for two years already. This small debt might be difficult to collect because the hawker may have moved to a different location or even to next-door Sierra Leone, has gone out of business, or has died. The small value debt that is already two years on the books should register as low priority and not be addressed until almost all other debts have been collected.

Figure 6: Risk management matrix

Typical Risk Rating Matrix

Likelihood of collection	SMALL DEBT	MEDIUM DEBT	LARGE DEBT
REMOTE	Insignificant	Low	Moderate
UNLIKELY	Low	Low	High
POSSIBLE	Moderate	Moderate	High
LIKELY	Moderate	High	Extreme
ALMOST CERTAIN	High	Extreme	Extreme

Table 12 demonstrates, based on actual US – Internal Revenue Service case files, that delaying collection action will likely result in lower collection. For instance, if collection action starts within 12 months after the debt is incurred, only 28 percent of debt is likely to be collected.

Table 12: US IRS collectability curve – probability of collecting $1 of debt

	Number of months past due that collection procedures are implemented						
Current	1	3	6	9	12	24	36
	Likelihood of collecting a dollar of tax debt						
$1.00	0.97	0.72	0.53	0.43	0.28	0.13	0.00

Source: US IRS publication on website.

Temporary closure of business. According to the Revenue Code, if a delinquent taxpayer does not meet her/his tax obligation or does not make an objection or appeal within 30 days, Enforcement Section of LRA sends a notice to the taxpayer warning her/him that her/his business will be temporarily closed if she/he does not pay the tax due within 72 hours. If the taxpayer does not pay within this time, then LRA has the authority to close the business of the taxpayer for five days. LRA, however, has yet to exercise this authority. The Enforcement Section instead pursues enforcement action by way of the Legal Division to the court that has authority to issue an order to close taxpayer's business for seven days. It takes up to 15 working days to get court order to close the business. After the receipt of the court order, some taxpayers may come to seek a settlement. In order to carryout enforcement action quickly, the Enforcement Section should exercise its authority to the close delinquent taxpayer's business for five days, as it is done by the Anti-Smuggling and Intelligence Unit of LRA.

Installment payment is possible. If a taxpayer cannot pay the whole amount of due taxes at one time, it is possible for him to pay in installments. The enforcement officer analyzes financial information to determine the taxpayer's ability to pay and negotiates with taxpayers regarding installment payments where financial circumstances of a taxpayer prohibit immediate payment of the tax due. The time limit for the installment payment may vary depending upon the amount of arrears. The taxpayer must pay at least 25 percent of the tax due up front.

Provision of lien, seizure and sale exists but not implemented. If a taxpayer does not pay the tax due on time, the tax administration has authority to put a lien on the taxpayer's property, which would notify prospective purchasers of the delinquent taxpayer's tax debt. LRA has the authority to seize the property of the delinquent taxpayer and sell it. However, this power has not been exercised yet. This is an important instrument available to the LRA to collect tax arrears.

Third party provision exists but procedures are not developed. Revenue code has a provision that gives authority to the tax administration to collect tax arrears. It is brief and detailed procedures are not developed yet. LRA could collect arrears from third parties, who might include persons:

- who have received a delinquent taxpayer's assets at below-market price,
- who owe money to the delinquent taxpayer,
- who are liable to make payments of salary or wages or other similar payments to a delinquent taxpayer,
- who are holding money for the delinquent taxpayer,
- who hold money on behalf of some other person for payment to the delinquent taxpayer, or
- who have authority of some other person to pay money to the delinquent taxpayer.

Other collection measures. There are many other collection measures that are in use by many tax administrations around the world but have not yet been introduced in Liberia. They may include:

- ban on exports/imports by delinquent taxpayers,
- the withholding of payments owed to the delinquent taxpayer by the government/government organizations,
- disqualify delinquent taxpayers from bidding on government contracts,

- “naming and shaming: publishing delinquent taxpayer’s name through the media (only used for large amount of arrears that are outstanding for lengthy period of time),
- disqualify delinquent taxpayers from such public services as electricity, telephones and licenses, provided by the government bodies, and
- arrest and detention of the taxpayer for a period of say up to six months.

LRA should consider adopting the above measures to collect arrears.

There is no automated case management system for tax recovery cases. Without a structured and automated tax recovery case management system, case monitoring and enforcement becomes difficult. It is likely that follow up measures on cases could easily be forgotten by enforcement officers who do not have information on what subsequent measures they should take by a given date. The Team recommends that LRA implement an automated case management system to monitor tax recovery cases.

The provision for debt write-off has not been used. An effective system of enforced collection should provide tax authorities with powers to write-off uncollectible debts. While the Revenue Code has given authority to the Minister to write-off bad debts owed for taxes, penalties and interest these powers have not been exercised due to the lack of appropriate procedures. The Enforcement Section does not seem to have the authority to write-off even the smallest (one dollar debts). It is necessary to develop clear relevant guidelines and procedures. International best practice is that small debts be written off by lower ranking officers while larger debts would require increasingly higher levels of authority.

Lack of enforcement strategy and procedures. No strategy has been drawn up and no procedures have been adopted so far to collect tax arrears based on revenue risks. There is no automated system for detecting and notifying non-filers, late-filers, and stop-payers, and prioritizing and assigning collection cases. Procedures for establishing payment plans, freezing bank accounts, seizing and selling assets and writing-off bad debts are not established, which need to be prepared, approved and implemented soon.

Enforcement manual is under development. LRA has been developing an enforcement manual. It should be finalized and implemented as soon as possible to carry out the enforcement function effectively. The Team has not reviewed the work in drafts of the enforcement manual.

Appeals

The appeals system is relatively well established in the capital region but not in the rest of the country. The appeals system may need some improvements, but, it functions relatively well in Monrovia where about 200 appeals are reportedly received and processed every year. None of the cases come from outside of Montserrado. Some of the 200 cases reach BOTA for a final resolution. Only a small fraction of cases reaches tax courts and courts rarely overturn decisions reached by BOTA. Still, LRA may take as long as 6 months to address an appeals case. The system needs further improvements and should be extrapolated to the areas outside of Monrovia.

Summary Recommendations

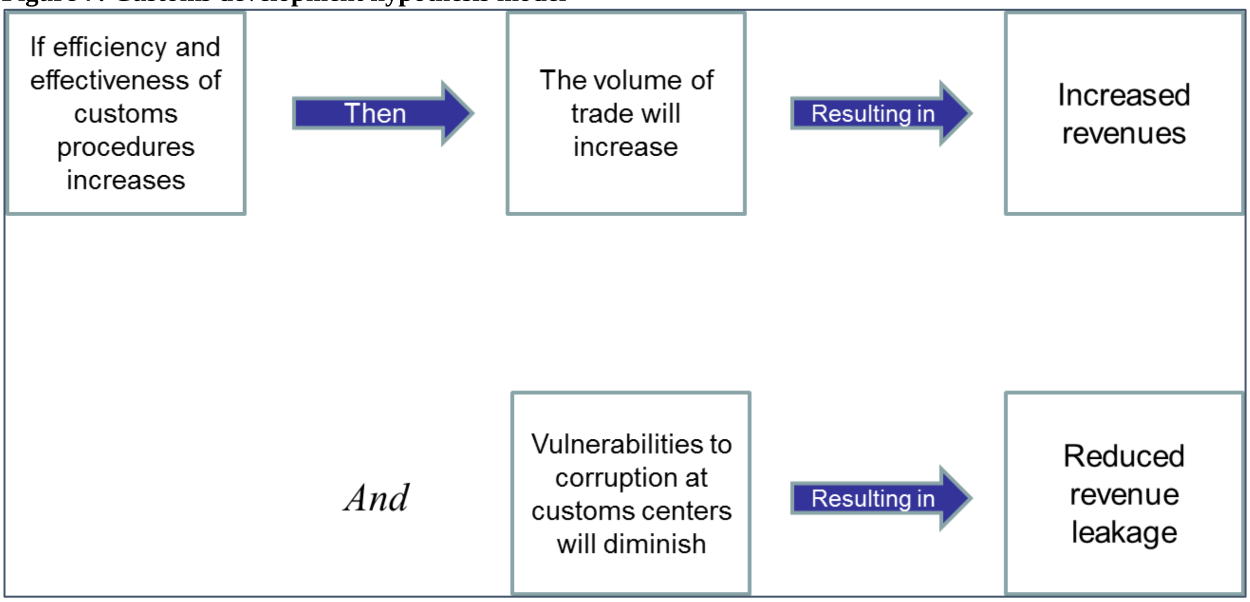
- Reform the system of excises
- Establish data processing unit

- Introduce mobile payment
- License commercial banks to accept tax payments
- Improve risk-based audit selection
- Improve taxpayer registration processes and data quality
- Improve debt/arrears management
- Develop automated system for identification and notification of late and non-filers
- Review performance of CIT and implement reforms to reduce leakages
- Launch a real estate taxation decentralization pilot
- Introduce e-filing
- Begin preparation for introduction of VAT.

IV. Customs Operations

Development Hypothesis for Customs. To increase revenue generated by the collection of customs tariffs, duties, and fees, the Liberia Revenue Authority (LRA) must work to increase the volume of trade. Improving the efficiency and effectiveness of customs procedures and simplifying the business process for importers and exporters is an effective way to increase the volume of trade. In addition, the LRA can reduce revenue leakage by addressing the organization's vulnerabilities to corruption at customs centers such as through improved internal controls and strengthened internal investigations capabilities. Our development hypothesis for work in the area of customs is as depicted in Figure 6.

Figure 7: Customs development hypothesis model



Meeting international standards

Doing Business – Trading across Borders.

Doing Business ranks Liberia seventh-to-last among all nations for Trading across Borders. In 2016, Liberia ranked 183rd among all countries evaluated in the Trading across Borders measure, surpassed only by Yemen, Venezuela, Sudan, Cameroon, DRC, and Eritrea. The World Bank/IFC measures the time required to complete border compliance procedures for import and export, the time required for document compliance (import and export), and the costs for both. The table below outlines Liberia's performance in these areas relative to other Sub-Saharan African countries and OECD countries.

Table 13: Doing Business, Trading across Borders in Liberia

	Liberia	Sub-Saharan Africa	OECD Countries
Time to export, border compliance (hours)	193	108	15
Cost to export, border compliance (USD)	750	542	160

	Liberia	Sub-Saharan Africa	OECD Countries
Time to export, doc compliance (hours)	186	97	5
Cost to export, doc compliance (USD)	628	246	36
Time to import, border compliance (hours)	217	160	9
Cost to import, border compliance (USD)	655	643	123
Time to import, doc compliance (hours)	192	123	4
Cost to import, doc compliance (USD)	528	351	25

Costs to import and export are high relative to other Sub-Saharan African countries. This table demonstrates that an average medium-sized company based in Monrovia exporting through the Freeport of Monrovia must pay $750 for border compliance costs and $628 to complete all necessary documentary requirements, for a total of $1,378 to export a container. This is compared to a total of $196 in the richest OECD countries. In addition, Liberian companies should expect to invest 193 hours for export border compliance and 186 hours for document compliance, compared to 15 hours and 5 hours respectively in OECD countries. Based on preliminary interviews with LRA leadership and our own field visits, the extra time and costs in Liberia relative to OECD countries reflect inefficient customs processes, confusion about requirements, broker error, processes of other government agencies and the port operators, as well as the cost of fraud and corruption.

The number of document required for import and export is high. In addition, the Trading across Borders score takes into consideration the number of document required for both import and export. The Doing Business Report presents the following documents as legally required in Liberia:

Export documents (10)
Bill of lading
Cargo Acceptance Note (shipping note)
Certificate of origin
Clean Report of Findings (from BIVAC)
Commercial invoice
Customs release form
Export Permit Declaration (EPD)
Packing list
Simplified Administrative Document (SAD) export declaration
Terminal handling receipt

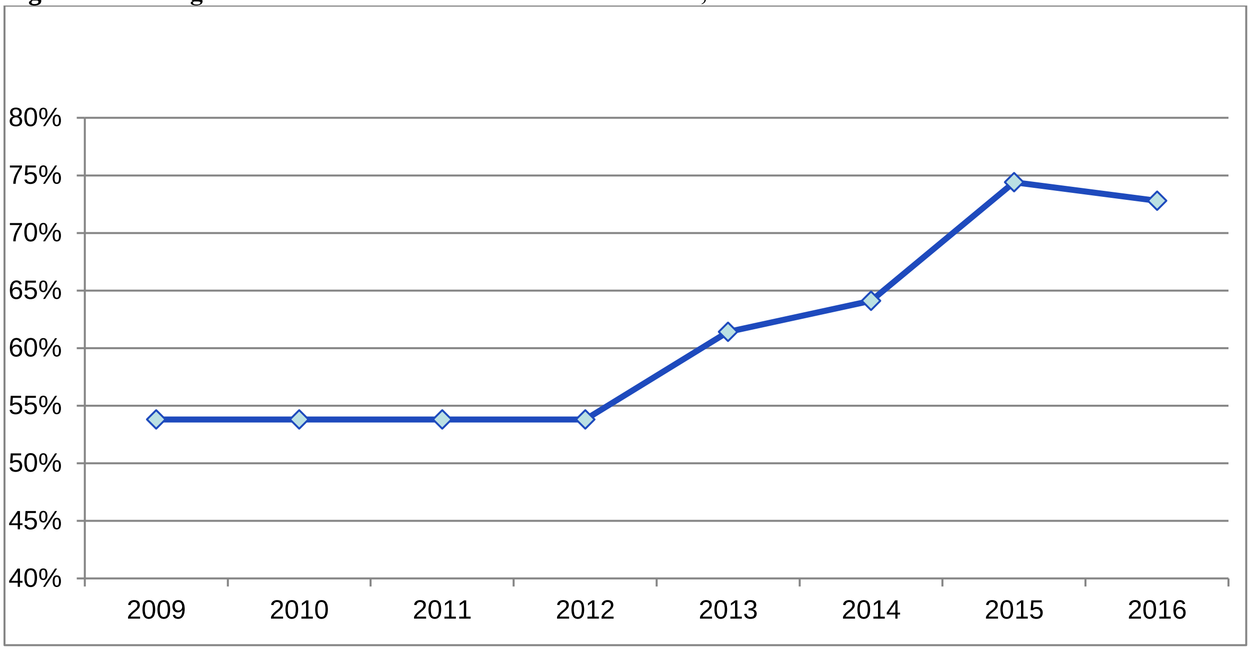
Import documents (11)
Bill of lading
Certificate of origin
Clean Report of Findings (from BIVAC)
Commercial invoice
Confirmation receipt of payment of customs fees and duties
Customs release form
Exit Note
Import Permit Declaration (IPD)
Official receipt of payment of port charges (from NPA)
Packing list
Simplified Administrative Document (SAD) import declaration

Not all documents counted by Doing Business are legally required indicating confusion among traders about documentary requirements but also a quick win opportunity. In our preliminary discussions with the LRA, the Head of Customs reported not all documents listed above are legally required. In fact, only eight of the 11 import documents are legally required, and some may be included in this list above only because importers or their broker agents are not fully aware of the legal requirements. As a quick win for the LRA (and USAID), the LRA has committed to clarifying documentary requirements and will post these requirements prominently on the LRA website and at customs locations around the country. If the LRA is able to effectively clarify and reduce the number of import documents from 11 to eight, this quick win alone represents a 27 percent reduction of import document requirements.

Heritage Foundation Index of Economic Freedom

Liberia's Trade Freedom score has improved steadily since 2012 due to the low average tariff rate. The Heritage Foundation Index of Economic Freedom includes a Trade Freedom score. The score is computed based on the average tariff rate and penalties for the presence of non-tariff barriers. According to the 2016 Index of Economic Freedom, Liberia's average tariff rate is 6.17 percent. We expect this rate to continue to fall as a result of ECOWAS and WTO commitments. Liberia's Trade Freedom score is 72.8 percent, locating the country in the "mostly free" decile. Looking at the country's score since 2009, we see a rapid improvement after 2012 through 2015 and a slight decline from 2015 to 2016. We project a slight increase in Liberia's Trade Freedom score in the future, as average tariff rates continue to fall. If Liberia is able to address its non-tariff barriers and improve the overall score by even 5 or 10 percent, it is likely to move into the "fully free" range in the next few years.

Figure 8: Heritage Foundation's Index of Economic Freedom, Trade Freedom in Liberia

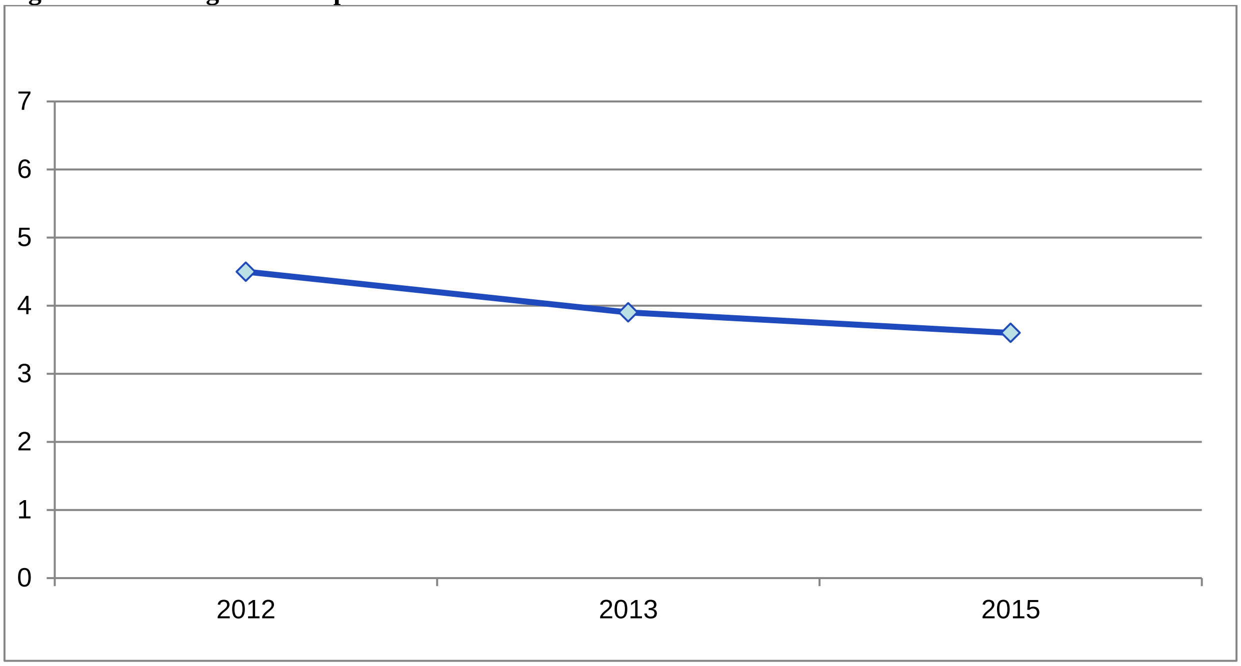


Liberia has an opportunity to improve its Trade Freedom score further. During a recent meeting with Anthony Kim who is the Research Manager for the Index of Economic Freedom at the Heritage Foundation, Mr. Kim explained Liberia received a 15 percent penalty for non-tariff barriers out of a possible 20 percent penalty. He indicated it would be possible to cut this penalty to 10 percent over the next 3-5 years if there was clear indication of major reforms undertaken by the LRA. While it is not common for an underdeveloped country like Liberia to move from a 15 percent to a 10 percent NTB penalty, it is possible if the GOL embraces major reforms and communicates effectively to importers and exporters, as well as to the World Bank, IMF, and the Heritage Foundation. As Mr. Kim explained, the Heritage Foundation draws upon data supplied by the GOL to the World Bank and IMF when setting their Index of Economic Freedom. Therefore, it is essential that GOL representatives at the Bank and IMF, and economic officers at the Liberian Embassy in Washington, are accurately reporting on the weighted average tariff rate and other economic improvements. As the weighted average tariff drops due to ECOWAS and WTO commitments, it is incumbent upon the GOL to report these changes. One potential quick win is to recalculate the weighted average tariff rate and report this to the Liberian Embassy and Liberian representatives to the World Bank and IMF. In addition, Mr. Kim indicated that he would be willing to receive a high-level Liberian delegation at the Heritage Foundation and would be interested in receiving special reports outlining major reform initiatives and results.

Enabling Trade Report and Logistics Performance Index

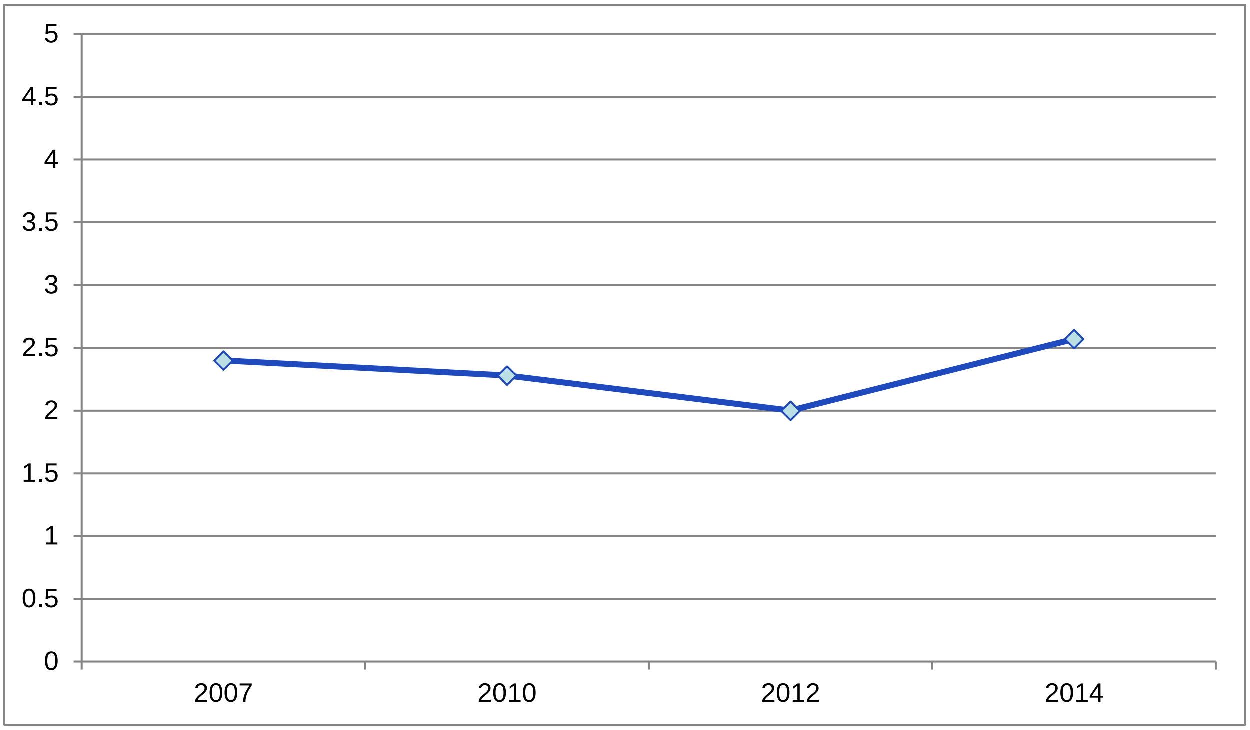
Liberia's rating on the Enabling Trade Report is neutral and declining slightly. The Enabling Trade Report measures the "Burden of Customs Procedures." In 2015, Liberia received a middle-of-the-road score of 3.6 where 1 is extremely inefficient and 7 is extremely efficient. The score has been gradually falling since 2012 as illustrated in the graphic below:

Figure 9: Enabling Trade Report - Burden of Customs Procedures



Liberia's rating on the Logistics Performance Index has been neutral with a slight uptick since 2012. The Logistics Performance Index measures the "Efficiency of Customs Clearance Procedures." Again, Liberia received a middle-of-the-road score of 2.57 where 1 is low and 5 is high. The country's score has recently moved upward from 2012 to 2014, the last year for which data is available. This is illustrated in the graphic below:

Figure 10: Logistics Performance Index - Efficiency of Customs Clearance Procedures



Trends at Liberia Customs

Customs revenue collection in 2015/16 has increased from 2014/15 levels. In Liberia's fiscal year 2015/16, there were 25,892 customs transactions, up from 23,576 in FY2014/15. These 25,892 transactions were valued at $5.13 billion. From these transactions, the LRA collected $136,942,557. This is an increase of $14.65 million despite the fact that the value of goods decreased by $1.6 billion. The LRA has proposed a hypothesis for this situation of reduced total value matched by increased collection: they suggest that during 2014/15, while the Ebola crisis continued, international agencies imported expensive medical equipment and relief supplies duty free. As Ebola in Liberia abated in 2015/16, the value of goods declined, but the LRA was able to collect tax on more transactions since fewer were now duty free. In addition, the LRA suggests that an increase in administrative efficiency could explain a marginal increase in total revenues collected.

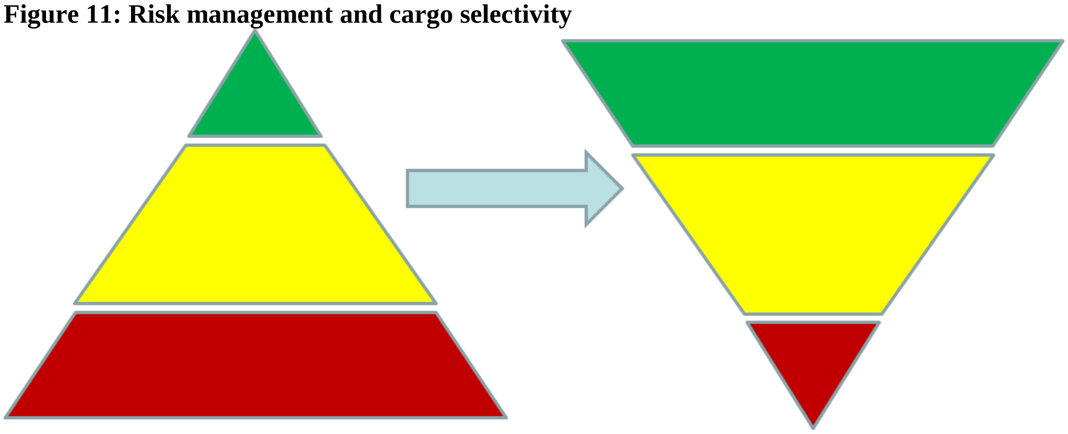
Table 14: LRA Cargo Selectivity Time Series

	FY2014/15	%	FY2015/16	%	Trend
Total Transactions	23,576		25,892		2,316
Total value	$ 6,738,856,986.51		$ 5,128,929,729.16		$ (1,609,927,257.35)
Total Fees	$ 122,290,613.95		$ 136,942,557.16		$ 14,651,943.21
Red Lane	14,136	60%	16,611	64%	4%
Yellow Lane	8310	35%	8516	33%	-2%
Green Lane	348	1%	11	0.042%	-1%
Blue Lane	1733	7%	2134	8%	1%

Source: LRA, Customs Risk Management Department

Too many transactions are routed to the red lane, and too few are routed to the green lane. According to the LRA, 64 percent of transactions were routed to the red lane in 2015/16, followed by 33 percent in the yellow lane, and 8 percent to the blue lane. Only 0.043 percent of transactions, or 11 out of the 25,892 total transactions, were routed to the green lane. Cargo selectivity allocations in 2014/15 were similar. International best practice is to rely on risk criteria and intelligence to identify truly high-risk shipments, and not to subject a large percentage of transactions to a full physical inspection. In more mature customs administrations, a larger percentage of transactions are able to pass through the green lane, and far fewer transactions are routed to the yellow or red lane. Figure 10 illustrates the typical transformation in risk management and cargo selectivity as an institution moves from less institutionally mature to more institutionally mature.[9]

Figure 11: Risk management and cargo selectivity



The LRA should rationalize its cargo selectivity and coordinate risk management with other border agencies. Based on the cargo selectivity date provided by the LRA, it appears that the LRA should focus on moving more transactions through the green lane. The LRA has made a stated

[9] One could argue that as many as 180% of imports are subjected to audit, since about 80% of imports are subject to pre-shipment inspection and almost 100% of imports are subjected to various types of inspections upon arrival to Liberia.

commitment to reduce the number of containers going for full physical inspection by 40 percent in the next year. In addition, the LRA notes that while Customs relies on the cargo selectivity module in ASYCUDA, other government agencies deployed at the border do not have equivalent systems for risk management and are more inclined to flag a shipment for full physical inspection. One possible solution is to help other government agencies develop their own risk criteria and deploy an integrated risk management platform through ASYCUDA as part of a broader single window initiative. It should be noted that the risk criteria that are being currently used are based on historical profile of the importers and do not take factors like the size of the shipment, risk of undervaluation and the risk of misclassification into account. The latter results in almost indiscriminate inspections, increased scope for corruption and misuse of limited LRA human resources.

The LRA's administrative efficiency to collect import duties is improving. This time series also illustrates the performance of the LRA in terms of import duties over total value of imports. In FY 2014/2015, total import duties collected were $122,290,614 for goods valued at $6,738,856,987, yielding 1.8 percent collection against total value. In FY 2015/16, collections increased to $136,942,557 despite total value decreasing (for reasons discussed above) to $5,128,929,729, yielding 2.67 percent collection against total value. This demonstrates that LRA administrative efficiency is improving, with more room for growth possible given the average effective tariff rate of 6.17 percent

The table below presents time series data on use of the ASYCUDA system, electronic payments, and value of penalties and fines.

Table 15: LRA Time Series on Automation, Electronic Payment, and Fines

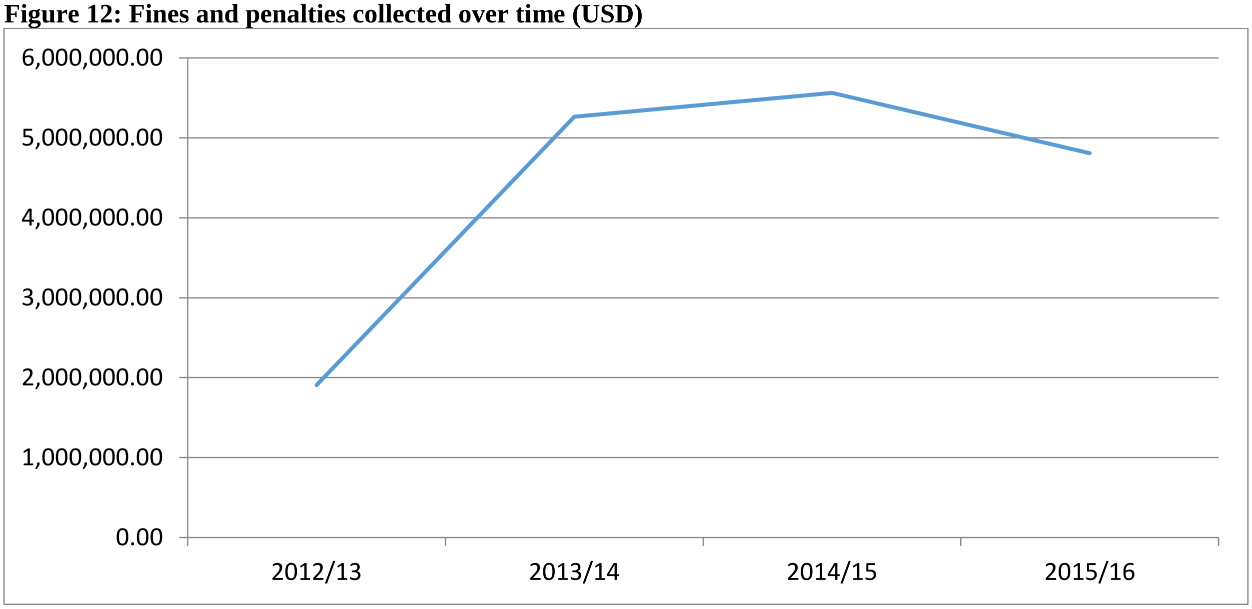
	2012/13	2013/14	2014/15	2015/16
# of transactions processed using ASYCUDA / # of transactions processed manually	169,388/9560	144,688 /14,014	127,745/8,889	142,482/15,876
Value of transactions paid in cash vs. paid electronically (through credit card or other electronic payment system) in thousand US $s	1,468,013/609	$1,654,852/13,457	$1,815,321/555	$1,504,450/26,766
$ of fines/penalties levied (in thousand US$s or L$s	1,907/4,534	5,263/L$5,386	US$5,563/L$18,891	US$4,807/L$23,187

Source: LRA Customs

LRA uses the ASYCUDA system to conduct most customs transactions; payments in the vast majority of cases are not done electronically. This data show the vast majority of transactions are processed using ASYCUDA as opposed to manual processing. The ratio is almost 10:1 in FY 2015/16. Similarly, data from the LRA show that few payments are transacted electronically, amounting to a little under 2 percent of total value of all transactions.

The value of fines and penalties grew sharply from 2012/13, peaking at 2014/15. LRA data indicate that the value of fines and penalties levied peaked during the 2014/15 fiscal year at $5.56 million dollars but has recently dropped to $4.8 million (after growing dramatically following $2 million in collections in FY2012/13. The graph below depicts the changes in fines and penalties collected.

Figure 12: Fines and penalties collected over time (USD)



ASYCUDA

LRA has deployed ASYCUDAWorld to major customs centers covering 85% of trade. The LRA uses the Automated SYstem for CUstoms Data or ASYCUDA, created by the United Nations Conference for Trade and Development (UNCTAD). Liberia is operating the most up-to-date version of the system known as ASYCUDAWorld. ASYCUDA is deployed at core locations in and around Monrovia including the Freeport of Monrovia, Roberts International Airport, and the Liberian Petroleum Refinery Corporation (LPRC), as well as a few other locations in-country. These locations account for approximately 85 percent of trade. Other locations, such as border crossings, collectively represent the remaining 15 percent of trade and are not yet operating on ASYCUDAWorld. Some border locations had recently deployed ASYCUDA before the outbreak of Ebola but rolled back the upgrade in the face of the health crisis. The GOL is now resuming its attempt to roll out ASYCUDA to all customs locations.

Customs centers experience frequent electricity failures and experience internet connectivity and potential other challenges. With the important exception of the Freeport of Monrovia (which alone accounts for 75 percent of trade), other locations using ASYCUDA suffer from frequent electricity failures, internet connectivity challenges, or incomplete deployment (for example, not all stations at the airport have ASYCUDA terminals). The Liberia Post and Telecommunications Center is a very small operation but sheds some light on the challenges Liberia faces for the ongoing deployment of ASYCUDA. While visiting the LPTC, we learned that the ASYCUDA system was down and had been down for the past several weeks. It appears also that the LRA officers stationed at this location were more comfortable processing the small volume of trade manually. This suggests that the LRA must enhance its change management approach as it rolls out ASYCUDA to the final locations, including the border posts.

Business Processes and Work Flow

Businesses processes should be simplified and streamlined. After observing business processes at multiple locations, we recommend reducing steps, particularly in the convoluted payment process, and eliminating procedural redundancies. Customs stations in many locations can be rearranged to promote smoother work flow. In addition, the LRA should consider efforts to create a secured customs area to reduce security vulnerabilities.

The payment process is overly complex. As noted above, the payment process appears convoluted and should be simplified and streamlined. Early in the declaration process, the trader must procure a manager's check from a commercial bank. (Note that a manager's check typically costs $10). The trader then makes payment to a Central Bank window and received a Treasury receipt. The trader (or agent) then returns to the customs center furnishing the Treasury receipt to continue the process. If, at any subsequent point in the process, customs determines additional payment is required (if, for example, earlier estimates on duty are corrected), the trader must begin the whole payment process again for the difference. There is an opportunity to simplify this process, eliminate steps, and introduce reforms such as options for electronic payment or mobile payment.

Duplicative manual processes should be eliminated. Also, our team observed that while locations like the Freeport of Monrovia use ASYCUDA for all steps in the process, there is a duplicative manual process that includes the stamping and signing of paper documents. We recommend that the LRA fully adopt ASYCUDA as the primary process and reduce or eliminate the need to stamp and sign paper documents.

Inspections

The LRA will need to strengthen its inspections capabilities. Currently, the GOL relies on the Bureau Inspection Valuation Assessment Control (BIVAC) of Bureau Veritas, a private company, for the majority of inspections. However, as a result of Liberia's accession to the WTO Trade Facilitation Agreement (TFA), the country will need to shift from the current pre-shipment inspection regime to a destination inspection (DI) regime; this shift is expected to take place around 2018. While BIVAC has scanners and other inspection equipment, the GOL has limited equipment and limited human capacity. Liberia Customs does carry out a limited number of inspections currently at the Freeport of Monrovia. Customs estimates they have the current ability to inspect a maximum of 10 containers per day at the Freeport but they note the limited space for inspection and lack of equipment of skilled manpower. While our assessment team was present at the inspection stage at the Freeport, Liberia Customs had to engage private contractors to lower vehicles from a container under inspection because Liberia Customs lacks the tools or know-how to lower the vehicles down themselves. Also while on the inspection stage, the assessment team noted not all personnel present were in uniforms or wore badges identifying them as official personnel. A number of broker agents were also present on the inspection stage freely interacting with customs officers. While traders or their broker agents are legally entitled to observe the inspection, Customs should consider creating an appropriate separation between brokers and officers, thus limiting the ability of brokers to interfere with inspections or otherwise attempt to influence the process.

Records Management

The LRA should focus on improving records management. At multiple locations throughout the country, Customs officers complained about the inadequate state of records management. Documents are kept in attics (as at the LPRC) or in boxes or plastic bags on the floor in a seemingly haphazard state. Liberia Customs is understandably worried about flood and fire damage and the possible catastrophic loss of data. There is an opportunity for RG3 or other assistance programs to help Liberia Customs develop a records management plan. This plan would include clear records retention policies and procurement plans for document storage boxes and shelving or compression shelving depending on need. The records management plan should also explore the opportunity to store documentation electronically.

Corruption Vulnerabilities

LRA's Professional Ethics Division is able to carry out investigations but would benefit from additional training and support. The LRA has a Professional Ethics Division that is devoted to combatting fraud and other forms of malfeasance. The Professional Ethics Division is also responsible for propagating a code of conduct among LRA officers. The internal investigations function of the Professional Ethics Division does conduct sophisticated investigations of suspected LRA officers but they require proper equipment, advanced training, and other logistical support. The Professional Ethics Division has also rolled out an asset disclosure requirement and they do look into unexplained wealth. However, they need support with this program and also need a system to manage complaints or tips. The LRA has a whistleblower program and provides assurances to whistleblowers that there will not be retaliation. Whistleblowers are eligible to receive up to 10 percent of the value of fraudulent or corrupt transactions reported. There is also a nascent anti-smuggling unit that requires a full range of support and assistance including equipment and capacity building support.

Related agencies

Brokers

The LRA should strengthen broker certification requirements and work with the Brokers Association to improve professionalism. The National Customs Brokers Association of Liberia is a self-regulating professional organization representing broker agents. In addition, the LRA administers a broker certification exam to brokers. However, many customs officers cite broker ignorance and incompetence as the reason for slow processes. Brokers reportedly do not understand documentary requirements. In addition, Customs officers report that brokers are often responsible for valuation fraud, and regularly misreport quantities. Customs reports that because brokers are typically poor and cannot afford to procure scanners, they do not require scanned documents to be attached to the ASYCUDA declaration, thus introducing inefficiencies and the requirement for paper documents and face-to-face interaction into the process. Assistance programs such as the EU Customs Programme or RG3 should assess the broker certification process and consider helping the LRA to strengthen certification requirements.

Other Government Agencies

LRA must work with other border agencies to coordinate inspections and other processes. Other agencies deployed at the borders, ports, and inland customs centers include the Ministry of Commerce, Ministry of Agriculture, Health, the Drug Enforcement Agency, the Environmental Protection Agency, and the National Security Agency. The Ministry of Lands, Mines and Energy is also present with representatives from the LRA at certain locations such as gold mines. As noted above in this report, none of these agencies have articulated risk criteria nor do they coordinate their risk criteria with Customs. As a result, more than 60 percent of transactions are flagged for full physical inspection. There is an opportunity to integrate these other government agencies into both a manual and electronic single window environment. Assistance programs may have a role in encouraging some agencies to delegate their duties to Customs. The LRA reports that they have reached verbal agreement with a number of other government agencies about delegation of duties to Customs or other coordination protocols. However, these agreements have not been written down or documented through MOUs. The LRA should document these agreements and train border officers on the MOUs and new responsibilities they may assume as a result of newly delegated authorities.

The Freeport of Monrovia

Customs operations at the Freeport of Monrovia are modern and relatively efficient, but there is room to enhance security and work flow further. As noted above, the Freeport of Monrovia represents approximately 75 percent of the flow of goods into and out of the country. During our site visit, we observed what appeared to be a professional customs operation and full adoption of ASYCUDA. The workflow was logical. We suggest Liberia Customs consider sealing off official areas with key card entry systems to create a secured customs area and thus reduce security risks. In addition, as there are many broker agents waiting around in the hallway, Customs at the Freeport would benefit from an automated queueing system and a designated waiting area for brokers. As noted in the Inspections section, the Liberia Customs operation at the Freeport will need substantial assistance as it assumes greater responsibility for inspections and will require training, equipment, and infrastructure improvements to accommodate a larger inspection area. We suggest the LRA pilot an electronic single window and e-payments at the Freeport.

Roberts International Airport

The customs center at Roberts International Airport requires extensive rehabilitation and modernization. No cargo planes fly into Roberts International Airport. Rather, any cargo coming into the country comes in through commercial flights and courier shipments. The Liberia Customs operations are housed in an auxiliary structure close to the main airport terminal. According to a source working in the building, Customs officers are working in "deplorable conditions." Indeed, the building is dilapidated, the air conditioning is broken, officers are not in uniform, and the business process is unclear. Further, while ASYCUDA is deployed at some stations at the airport, it is not deployed at all stations. Although the airport represents only a small fraction of trade, it is a major point of intersection where citizens receiving courier shipments must interact with the government and form their impression of government. Therefore, we recommend the LRA rehabilitate the building, fully deploy ASYCUDA at all stations, introduce streamlined business processes and make the process flow clear to brokers and regular citizens, procure uniforms for officers, secure customs areas, and create appropriate separation between brokers and customs officers. In addition, the airport would be a logical location to pilot electronic payments and pilot a manual and electronic single window environment.

Other Customs Centers

Other customs centers will benefit from the rollout of ASYCUDAWorld, training, and human resources improvements. Liberia suffers from widespread smuggling across its porous borders. Border centers have limited electricity and internet connectivity. In some cases, customs officers do not even have basic shelter. Further, LRA officers in the headquarters indicate the need to improve human resources at the border centers.

Mines and other extractives represent a significant revenue opportunity for the LRA but collection can be complicated by political challenges. Mines and other extractives operations are an important part of the Liberian economy and a potential source of increased government revenue through royalties (and also withholding payments for Liberian employees). However, the large players are able to use political influence and other forms of bargaining power to renegotiate terms and timelines for their royalty payments. There is an opportunity to support an assessment of revenue potential in the mines, gas, and other extractives industries with an eye to the Kimberley Process and the EITI.

Summary Recommendations

- Improve risk-based audit/inspection management at customs
- Reduce # of documents required
- Streamline work flow, business processes at key locations (airport, Freeport) especially payment processes
- Pilot electronic payment at select locations (Freeport, airport)
- Support creation of manual, electronic Single Window
- Support ASYCUDA expansion
- Strengthen internal investigations function
- Support public outreach / public engagement
- Enhance records management capabilities
- Support transition from PSI to DI regime
- Assess extractives – Royalties, EITI, Kimberley process.

V. Prioritized set of recommendations for domestic taxation

Throughout this report, we have included findings, weaknesses, and strengths, as well as recommendations that would help to bring the Liberia tax system into greater accordance with international best and good practices.

In Table 13, we provide a set of recommendations or measures that the Benchmarking Team believes should be of highest priority as well as recommendations that would be of more intermediate priority. We set priority by the likely impact the measure might have on revenue collections or how it might affect revenue integrity, how quickly it would take to implement the reform, and how quickly it would increase revenue.

Table 16: Priority recommendations

Recommendation	Details	Revenue impact	Timeframe	Responsible agency
Reform the system of excises	Clarify and enact new legislation. Change all excise rates from ad valorem to unit (specific) basis Eliminate most goods from the list of excisables. Introduce excise electronic or paper excise stamps and fuel excise control mechanisms. Excise tax should only be on sumptuary and luxury goods, goods that relate to use of public services, and on goods that impose environmental negative externalities. Excises should only be on: - Tobacco products - Drinking alcohol products (beer, whiskey, similar) - Fuel, non-alcoholic beverages	Rates should be set so that excises will deliver two percent of GDP in revenue for the Government of Liberia.	Immediate. Revenue impact can be in next fiscal year or two.	MFPD and LRA
Establish a data processing unit	Data for large and medium taxpayers should be processed on priority basis. The information is important for risk-based management of all aspects of tax administration, including revenue forecasting.	The measure should lead to improved risk-based audit selection and audit yield, improved automated compliance monitoring, improved, revenue forecasting, etc.	1 year	LRA
Introduce Mobile Payments	Mobile payments and new background reconciliation systems should be piloted	The solution will help eliminate cash payments to tax officers and has the	2 years	LRA

Recommendation	Details	Revenue impact	Timeframe	Responsible agency
	with both mobile operators in combination with partnering commercial banks.	ability to facilitate most payments by small taxpayers who account for more than 90% of taxpayers.		
License commercial banks to accept tax payments	Set up pilot program so that commercial banks can help relieve backups and peak hour crashes in the LRA receipt system.	This could have immediate beneficial impact for taxpayers.	Pilot period should be limited to one year.	MFPD, LRA, must be coordinated and approved by Treasury office.
Improve risk-based audit selection. Start new auditors recruitment and training	LRA has far too few auditors and a suboptimal risk-based audit selection. Improve risk-based audit selection modeling. Plan to double number of new auditors over next two years. Recruit both from within LRA as well as from new college graduates. Initiate new hires training program and in-depth audit training program. It is recommended that taxpayer audits are conducted by audit units.	Strengthened audit will improve taxpayer voluntary and non-voluntary compliance and will lead to increased revenues over the course of the next few years.	Implement over the next several years, but it is imperative to begin immediately.	LRA
Improve taxpayer registration and database	Review all taxpayer registrations and TINs, identify taxpayers with multiple TINs and unify with a single TIN; identify inactive taxpayers, indicate reasons for inactivity, take steps to notify inactive taxpayers or to segment or remove from database.	The revenue impact is not direct, but this step is important to further steps that will lead to improved compliance and increased revenue, namely, identification and notification of stop and non-filers, risk-management of audit and other revenue-integrity measures.	Purification of the Large Taxpayers Database within six months. Once the large taxpayer database is clean and maintenance procedures are in place, roll out process to medium size taxpayers, for another year. Implement the same process for all other taxpayers.	LRA

Recommendation	Details	Revenue impact	Timeframe	Responsible agency
Improve debt/arrears management	Undertake full inventory of taxpayer debt to the LRA. Categorize tax debts by value, probability of collection, age, complexity of case, dispute status. Develop strategy to actively pursue tax debts	Since debts are not estimated to be large, immediate revenue impact will not be large, however, an active debt management system is important to holding down the accumulation of debts and hence will impact into the indefinite future.	Implement *pari passu* with taxpayer database and registration improvements.	LRA
Develop automated system for identification and notification of non- and late-filers	This will depend on a number of other system fixes. An automated system will detect when a tax return, such as for GST, CIT, or even excises does not get filed when expected. The system should notify LRA management but also issue automated notifications to the delinquent taxpayers.	Key to ensuring taxpayer compliance. Revenue impact can be immediate, but will require good monitoring to assess the impact on compliance and revenues.	Begin immediately.	LRA
Review performance of the CIT and implement reforms to reduce leakages	The Revenue Code allows for the reduction of tax obligations upon application for a very wide range of sectors (fifteen) and with little guidance as to how request for application of these incentives be handled. Conduct a survey of all the tax-based investment incentives that have been granted to date, assess methods approved, assess transparency in application of the law, and provide recommendations for how handling requests for tax incentives might be improved and include draft language to strengthen the Revenue Code and other legislation. Tax incentives should only be granted on a rigorous cost-benefit analysis basis.	Liberia collects less than half what it could collect if tax incentives were consistent with international best practices. It is possible to double CIT collections, i.e., increase revenue by about 1.5% of GDP, simply by limiting the granting of tax incentives.	TBD	MFDP
Launch a Real Estate Decentralization Pilot and improve	Real Estate should be a subnational tax. Local authorities should be able to help administer the tax. Plan to introduce at least a	Real Estate Tax revenues may double over the next couple of years.	2 years.	LRA and MFDP

Recommendation	Details	Revenue impact	Timeframe	Responsible agency
related business processes.	50/50 split in terms of revenues.			
Introduce E-Filing.	The team is still waiting for LRA to share the details of the new e-filing module of SIGTAS. Yet, it is expected that the module will be most suitable for large taxpayers. It will most probably be advisable to deploy a parallel e-filing system that will better serve small and medium taxpayers as well as the regions. In addition, it is recommended to allow private sector participation, i.e. the development of commercial e-filing modules by third parties.	E-filing will help populate primary taxpayer databases, improve risk management, registration data, reduce corruption and improve transparency.	2 years	LRA and MFDP
Begin preparation for VAT introduction.	It may take about 2 years to prepare for VAT introduction. It is recommended to start now.	The introduction of VAT is expected to help increase tax revenues by 1-2% of GDP.	2 years	MFDP and LRA