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Analysis of tax harmonisation in SADC

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In this paper the authors provide an analysis of the extent of tax harmonisation (including tax rates and tax policy) in the SADC and also assess robust levels of tax harmonisation on foreign direct investment (FDI) inflows. Anecdotal evidence shows that the environment in which multinationals operate in the SADC is characterised by tax information asymmetry, corruption, inefficiency, lack of specialised skills and tax policy uncertainty. All such factors reinforce each other, creating a situation in which countries tend to be inward looking (focusing domestically), striving to maximise FDI inflows and tax revenue from their respective tax bases. This can result in costly tax competition, a governmental strategy of attracting capital and high value human resources by minimising the overall taxation level (Letete, 2012). For instance, countries in the SADC can lower their tax rates on income earned by foreigners within their borders, so as to attract FDI from such parties. The argument is that without harmonised or co-operative regimes, such a practice may lead to an inefficient tax level or what the Tax Justice Network-Africa and ActionAid International (2012) termed the race to the bottom. This contrasts with a common SADC practice (on taxation or FDI) as outlined in the 2002 MOU on taxation or the 2006 finance and investment protocol (FIP). Consequently, the ability for countries to attract FDI through taxation is largely based on a country-by-country initiative, rather than regional initiative. Given that countries may advertently or inadvertently gravitate towards tax competition, the paper argues the increased need for better coordination in taxable activities, towards improved economic activities and FDI.

In the discussion a comprehensive analysis of the tax rates in the SADC is conducted. The data shows that in terms of the CIT rates, the SADC region has slightly higher CIT rates than the EAC (Burundi, Kenya, Tanzania, Uganda and Rwanda); but does comparatively well in terms of VAT rates posting lower rates. Globally, the data generally shows that both the CIT and the VAT rates in Africa (including the SADC) are high. Accordingly the study highlights the need for Africa to lower tax rates and move towards more internationally competitive average tax rates in order to boost FDI and tax revenue. The analyses also emphasises the importance of tax harmonisation for the SADC, as it helps address the concern of tax information asymmetry leading to better decision making by multinationals in bringing in foreign capital. Improved fiscal harmonisation in the SADC augurs well for external private capital flows which can - together with domestic capital flows - significantly improve economic growth and development. Generally, the analyses enables a better understanding of the quandary faced by the SADC in setting tax rates, developing tax policy, administering taxes and pursuing a regional tax policy harmonisation initiative. This paper also contributes to the discourse and existing empirical literature on the role of tax harmonisation towards FDI inflow across SADC countries by employing a broad panel dataset (including cross-sectional data) in the investigation.

A further computation of a tax policy harmonisation measure (TPHM) and an optimum tax rate (OTR) for the SADC is done in this paper. In this regard, the study makes a contribution in terms of the methods used and the new dataset derived from the computations. The data obtained from the TPHM and the OTR was further used to ascertain robust measures of tax rates on FDI in the SADC through an extreme bound analysis (EBA) technique. Specifically, the results highlight the fragile role of TPHM in influencing FDI flows to the SADC in 2010, while also delineating the robust role of OTR in enhancing FDI. Jointly the TPHM, the OTR and the EBA all form part of a comprehensive analysis of the extent of tax harmonisation in the SADC. Importantly, the sensitivity analysis (by means of the EBA results) provided impetus to further empirical

investigations on the effects of tax harmonisation towards better FDI flows to the SADC. The analysis highlights some important policy implications for the SADC countries, aimed at enhancing the process of regional tax harmonisation.

References:

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