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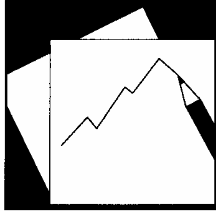

IMF Working Paper

Harmonization of Domestic Consumption Taxes in Central and Western African Countries

Lubin Doe

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Fiscal Affairs Department

Harmonization of Domestic Consumption Taxes in Central and Western African Countries

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Abstract

This Working Paper should not be reported as representing the views of the IMF.
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This paper examines the reform of the main domestic consumption taxes initiated by the CEMAC and the WAEMU aimed at reinforcing their economic integration. On the whole, compliance with the VAT is relatively weaker in the CEMAC than in the WAEMU. The opposite applies for excises. Major reforms would need to be undertaken by WAMZ countries, except Ghana and, to a lesser extent, Nigeria in order to align their tax structure with that of the WAEMU as planned for 2007.

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Contents Page

I. Introduction....................4

II. Domestic Consumption Tax Policy in the CEMAC and the WAEMU Before Harmonization....................4
A. Common Features Between the CEMAC and the WAEMU....................5
B. Differences Between the CEMAC and the WAEMU on Domestic Consumption Taxes....................6

III. Harmonization of Domestic Consumption Taxes in Francophone Central and Western African Countries: Policy Framework....................8
A. VAT....................8
B. Excise Tax....................13
C. Petroleum Taxes in the WAEMU....................14

IV. Implementation of Harmonized Domestic Consumption Taxes in Francophone Countries....................14
A. VAT....................14
B. Excises....................16
C. Taxes on Petroleum Products in the WAEMU....................18

V. Domestic Consumption Tax Policy in the WAMZ....................18

VI. Unfinished Agenda....................19
A. Need for Progress in the CEMAC and the WAEMU....................19
B. Future Actions....................20

Figures

1. CEMAC, WAEMU, and WAMZ: Maximum Rate of Turnover Tax, VAT, or Special Protection Tax Before Harmonization....................6
2. CEMAC: Actual Rate of VAT After Harmonization....................15
3. WAEMU: Actual Rate of VAT After Harmonization....................16
4. CEMAC: Maximum Rate of Excise Tax After Harmonization....................17
5. WAEMU: Maximum Rate of Excise Tax After Harmonization....................17
6. WAMZ: Rate Differential from WAEMU VAT....................18

Boxes

1. What Is the VAT?....................5
2. Technical Assistance Provided by IMF's Fiscal Affairs Department on Revenue Policy and Administration....................8
3. CEMAC and WAEMU: Measures to Enhance Compliance with Harmonized Domestic Consumption Taxes....................22

Appendix Tables

1. WAEMU: Structure of the VAT Before Harmonization..24
2. WAEMU: List of Goods Subjected to Excise Tax in 1996..25
3. CEMAC: Structure of Domestic Consumption Taxes...26
4. CEMAC: Summary of Domestic Consumption Taxes..27
5. WAEMU: Main Domestic Consumption Taxes...28
6. WAMZ: Regimes of Domestic Consumption Taxes..29

References...30

I. INTRODUCTION

To eliminate distortions arising from complex and disparate domestic consumption taxes, West African Economic and Monetary Union (WAEMU) countries[2] decided to harmonize[3] these taxes in the mid-1990s. In 1999, the Economic and Monetary Community of Central Africa, *Communauté Economique et Monétaire de l'Afrique Centrale* (hereinafter referred to as the CEMAC) buttressed its common external tariff by harmonizing its domestic consumption taxes as well.

The WAEMU is part of a larger group of 15 countries called the Economic Community of West African States (ECOWAS). Five of the non-WAEMU members of ECOWAS also formed the West African Monetary Zone (hereinafter referred to as the WAMZ). The WAMZ has not harmonized its domestic consumption taxes. Nevertheless, some of its members have tax regimes that share common features with the harmonized systems. It is useful to review them because prospects for a successful merger, enhanced regional growth, and macroeconomic stability[4] would be improved if tax policies in the WAEMU and the WAMZ were not divergent.

The paper covers respectively, the tax system before harmonization in the CEMAC and the WAEMU (Section II), the main features of the harmonized taxes (Section III); progress in implementing the harmonized domestic taxes (Section IV); and the common features as well as differences of the tax regimes of the WAMZ and the WAEMU (Section V). The paper ends with a call for further reforms in Section VI. The analysis is primarily based on the official acts published by the three institutions and national authorities, and IMF documents (technical assistance and staff reports).

II. DOMESTIC CONSUMPTION TAX POLICY IN THE CEMAC AND THE WAEMU BEFORE HARMONIZATION

In the 1980s, Francophone African countries experienced a debt crisis that led them to implement economic and financial adjustment programs. In the context of these programs, they were confronted with the need to raise additional tax revenue. Governments created several ad hoc taxes and increased the rates of existing ones. Faced with a drop in employment and inflationary pressures, they also granted ad hoc concessions. Little effort

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[2] The WAEMU comprises Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo. The other two groups of countries covered are: the CEMAC (Cameroon, the Central African Republic, Chad, the Republic of Congo, Equatorial Guinea, and Gabon); and the WAMZ (the Gambia, Ghana, Guinea, Nigeria, and Sierra Leone). The coverage of Guinea-Bissau, a member of WAEMU since 1994, and Equatorial Guinea is limited because of lack of information.

[3] In this paper, the word "harmonization" is used to indicate the adoption of a common regulation. It does not mean that this regulation has been or is being effectively implemented.

[4] Macroeconomic stability is monitored in the three zones using convergence criteria (see Doe's 2006 companion paper entitled "Reforming External Tariffs in Central and Western African Countries").

was made to ensure consistency between the existing and new tax provisions, or to raise public awareness about the changes in the tax laws. The results were complex tax regulations that were difficult to comply with and administer.

A. Common Features Between the CEMAC and the WAEMU

With respect to structure, both zones applied mainly two types of taxes: a turnover tax and an excise tax in the CEMAC; and the value-added tax (VAT, Box 1) and excises in the WAEMU. Countries in the two zones also derive significant revenue from the taxation of petroleum products. However, the tax regime applied to petroleum products in the CEMAC is not presented here because of lack of information.

Box 1. What Is the VAT?

The value-added tax (VAT) is an ad valorem tax imposed on consumption, in the sense that it drives a wedge between the prices paid by the consumer and the money received or kept by the seller, with the seller being an agent for collection. The difference between the higher price paid by the consumer and the amount received by the producer or seller is the tax surrendered to government. It is also referred to as a domestic consumption tax because, under the destination principle, it is a tax on consumption expenditure as opposed to a tax on capital expenditure or exports.[1] This tax is generally recommended because it is not cascading and yet buoyant. A cascading tax yields a base that includes taxes imposed at earlier stages of production and distribution. It can be illustrated by the imposition of a sales tax on wheat grains, then on the flour made from those grains, on sugar, water, electricity or gas, yeast, that is, on all the ingredients used to make the bread. The cascading scheme can extend to the truck used for the transportation of the bread to the grocery store and finally to the bread purchased by the consumer. The higher effective tax rate on bread will translate into a higher-than-warranted price of bread. This price distortion is inefficient and inequitable. These deficiencies are considerably attenuated under a VAT regime whereby the tax paid to the baker is deducted from the taxes paid on all ingredients used in making the bread. This deduction will considerably reduce the tax incidence on the final price of the bread at the supermarket. The deductibility of VAT paid on all intermediate transactions and the application of the same rates to imports and domestic supplies make it a neutral tax on production. The yield from the VAT rises as consumption increases.[2]

[1] It is not a tax on capital equipment, because the VAT due is deductible from the VAT paid on inputs and capital equipment. Likewise, it is not a tax on exports, because exports are zero-rated.

[2] This is so because the VAT is the difference between the taxes collected on the final sale of the product and the tax paid on purchases upstream. Therefore, the VAT rises with increases in final consumption.

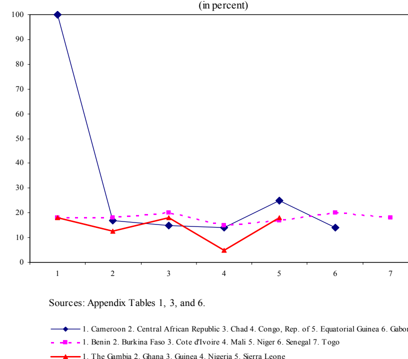
The nominal rates for the turnover tax and the VAT were moderate, standing at below 20 percent. However, because of the cascading nature of the turnover tax, the effective rate borne by final users was certainly high in the CEMAC. In the 1990s, the excise tax rate was also in the moderate range in both zones, except for the rates applied to salt in Mali (50 percent), alcoholic beverages in Mali and Niger (50 percent), and cigarettes and tobacco in Burkina Faso (80 percent).

B. Differences Between the CEMAC and the WAEMU on Domestic Consumption Taxes

Differences between zones

While WAEMU countries shifted early to VAT,[5] Gabon was the only CEMAC country that enacted this tax as of 1996. All the other CEMAC countries were still applying cascading turnover taxes, and other taxes such as a special production tax,[6] with rates as high as 100 percent in Cameroon in 1993. As a result, CEMAC had the highest rate of domestic consumption taxes before harmonization (Figure 1). The delay in switching to the VAT in the CEMAC reflected largely lags in policy-decision making in the two groups.

Figure 1. CEMAC, WAEMU, and WAMZ: Maximum Rate of Turnover Tax, VAT, or Special Production Tax Before Harmonization
(in percent)



Concerning tax rates, the WAEMU regime preserves the neutrality of the VAT by applying the same rate to domestic production and imports. In contrast, CEMAC countries imposed different rates of turnover tax to local production and to imports. Therefore, price distortions in the CEMAC were attributable not only to the cascading nature of the turnover tax but also to the lack of neutrality of this tax.

It is also noteworthy that while all the CEMAC countries applied multiple-rated turnover tax, in the WAEMU, the VAT was single-rated in four countries (Benin, Burkina Faso, Niger, and Togo), and multiple-rated in the other three (Côte d'Ivoire, Mali, and Senegal). In respect of excises, the situation was reversed: all the WAEMU countries imposed multiple rates, whereas Cameroon and the Central African Republic in the CEMAC enforced single rates. Multiple VAT rates are more complicated to administer, but allow governments to base their tax policy on the ability-to-pay principle. Disparities in rate structures therefore reflected mainly differences in the sensitivity of policymakers to income in comparison to revenue administration considerations.

Differences within zones

In the WAEMU, Côte d'Ivoire was, in 1960, the second country in the world to have enacted a VAT after the introduction of this tax in France in 1948 (Ebrill, Keen, Bodin, and Summers, 2001). The other WAEMU countries followed, with Senegal in 1980 and last with

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[5] Togo was the last of the WAEMU countries to have introduced the VAT in 1995. Guinea-Bissau has yet to reform its domestic consumption taxes as prescribed by the WAEMU.

[6] It was a production tax levied on locally manufactured goods that were exported to other UDEAC countries. This tax was paid by companies that received tax incentives such as exemptions from the payment of the customs duty and the turnover tax.

Togo in 1995, all of them replaced their cascading sales and turnover taxes by the more efficient and business friendly VAT.[7] Even after the change, disparities in rates persisted, with Benin, Burkina Faso, and Togo applying a single nonzero rate of 18 percent in 1996 while multiple rates were implemented in Côte d'Ivoire (11 percent, 20 percent), Mali (10 percent, 15 percent), and Senegal (10 percent, 20 percent, Appendix Table 1). The single rate was set at 17 percent in Niger. The coverage of the VAT also was not uniform, with activities in selected sectors[8] being subject to taxation in some countries, and excluded in others. Exemption policy was also different. For instance, retail trade was exempted in all countries, except in Benin, Burkina Faso, and Niger.

There was little common ground with regard to the excise tax as well. While all the countries preserved the neutrality of this tax, Benin applied it solely to domestic production thereby favoring imports. Significant differences existed also in the lists of goods (hence in the base). Indeed, of the 36 categories of goods that were subject to excise tax in WAEMU prior to harmonization, only four[9] were common to all seven countries (Appendix Table 2).

Petroleum taxes were not spared from complexity before harmonization. In all the WAEMU countries, import taxes, VAT, and excises were levied on these products. In addition, many other levies were imposed, including a price stabilization tax (Côte d'Ivoire and Niger), a price equalization tax (Burkina Faso), an environmental tax (Mali), a road tax (Benin) and a vehicle tax (Togo). The disparities cut across countries and products. For example, in 1997, taxes and parafiscal levies accounted for 83 percent of the pump price of diesel fuel in Burkina Faso versus 31 percent in Mali.[10]

In the CEMAC, differences in rates were noticeable between the countries. In 1993, the minimum rate of the turnover tax in the Central African Republic (5 percent) was double the rate in Cameroon, but much lower than the single rate of almost 14 percent applied in the Congo Republic (Appendix Table 3). With respect to excises, in 1996, the single rate of the Central African Republic (30 percent) was triple the minimum rate applied in Gabon.

These disparities in tax structure and rates in the two zones translated into complex and nontransparent tax regimes that complicated fiscal management and investment decisions, and hindered economic integration and growth. The harmonization of domestic consumption taxes aimed at eliminating these disparities. Another objective of the harmonization was to ensure that these taxes are not used for protection purposes. The harmonization of external

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[7] Applied neutrally to imports and domestic production.

[8] Agriculture, mining, transportation, pharmaceuticals, printing, etc.

[9] Alcoholic beverages, cigarettes and tobacco, petroleum products, and vehicles.

[10] Gasoline bore a smaller effective tax than diesel in Burkina Faso compared to Mali. Taxes accounted for 64 percent and 83 percent of pump price of gasoline and diesel, respectively, in Burkina Faso compared with 49 percent and 31 percent in Mali.

tariffs in the CEMAC and the WAEMU has resulted in sharp decreases in rates, and governments could be tempted to yield to pressure to protect local firms or recoup the revenue loss by enacting nonneutral VAT and excises, thereby creating price distortions.

The reform of domestic consumption taxes was supported by technical assistance from multilateral (European Union (EU), IMF, World Bank) and bilateral (France notably) donors. Box 2 contains a summary of IMF advice.

Box 2. Technical Assistance Provided by IMF's Fiscal Affairs Department on Revenue Policy and Administration

The Fiscal Affairs Department (FAD) of the IMF provided technical assistance to the WAEMU and the CEMAC in connection with domestic consumption taxes.

Three **WAEMU** countries (Côte d'Ivoire, Mali, and Senegal) were advised to comply with the planned harmonized VAT by replacing their multiple rates with the single rate. Côte d'Ivoire, Burkina Faso, and Senegal would cut exemptions. Other recommendations included improvements in the taxpayer registry and monitoring of taxpayers by the use of a single identification number (Côte d'Ivoire, Burkina Faso, and Niger), and better control and audit (Côte d'Ivoire and Burkina Faso).

Regarding excises, country-specific advice was limited to Côte d'Ivoire and Senegal. Côte d'Ivoire was urged to replace specific excises on alcoholic beverages and tobacco products by ad valorem rates to reflect price changes. In Senegal, the neutrality of excises was upset by the application of rates to imported alcoholic beverages and cigarettes, of rates that were double the rates applied to domestic products.

On petroleum products, the reduction in the statistical tax rate from 2.6 percent to 1 percent would significantly reduce revenue in Côte d'Ivoire, whereas prices were distorted in Senegal by a complex web of subsidies and surcharges.

In the **CEMAC**, Fund assistance concentrated on measures to improve revenue administration (Cameroon) and the introduction of modern VAT practices (Central African Republic and Chad). Chad was advised to introduce deductibility in its draft VAT law.

III. Harmonization of Domestic Consumption Taxes in Francophone Central and Western African Countries: Policy Framework

Both the CEMAC and the WAEMU have harmonized their domestic consumption taxes, except for the petroleum taxes that still belong to national domain in the CEMAC. In rationalizing these taxes, the unions sought: (i) to prevent countries from using these taxes for protection purposes; and (ii) to improve government revenue. In the case of excises, social objectives (notably reduce the consumption of health hazard products) were also pursued, particularly in the WAEMU.

A. VAT

Similarities in need for higher revenue, improved efficiency, and ease of administration, combined with the same source of technical advice, yielded close resemblance in the VAT legislation of the two economic zones. However, there are also a few differences in policies governing the base, the threshold, exemptions and credit reimbursement.

Similarities

Base

The potential coverage of the VAT is broad in both zones, encompassing the delivery of goods and services undertaken for profits. Reflecting the same economic structures, the CEMAC and WAEMU laws also define in almost identical terms, the nature of the taxpayers (physical persons and companies) and the taxable operations, although the CEMAC is somewhat more precise about the nature of the transactions. In both laws, the tax liability is determined at the time of transferring ownership. Tax neutrality is preserved in both zones with the extension of coverage to both imports and local production. This is consistent with the underlying shift from border trade taxes to domestic taxes as the main source of government revenue. Furthermore, the poor experience of "infant" industries that seldom mature have led the CEMAC and WAEMU not to grant domestic tax incentives but limited external protection to local producers.

In both zones, the VAT is assessed based on the destination principle in order to protect government revenue. The assessed value of import VAT in the two zones is the same, for it includes all fees, taxes and customs duties (Articles 15 and 17 of Directive 1/99/CEMAC-028-CM-03) in the CEMAC and Articles 27 and 28 of Directive 02/98/CM/UEMOA in the WAEMU). To stem revenue loss, the CEMAC directive (Article 19), unlike the WAEMU statute, authorizes explicitly the taxation of foreign-financed projects.

Threshold

Reflecting partly weaknesses in tax administration of the countries,[11] the VAT laws set limits below which potential taxpayers are not required to file tax returns.

Exemptions

The VAT directives of the two zones set guidelines on tax exemptions. Countries are to refrain from granting exemptions that are not explicitly authorized by the VAT laws. Another common feature of the two legislations is that countries may not levy VAT on purchases of investment goods undertaken by mining, petroleum and forestry sectors, a reflection of liquidity considerations rather than a deficiency in the design of the VAT.[12] Indeed, enterprises in these sectors are generally capital intensive and large users of imported inputs. The bulk of their output is also exported so that, on balance, they are likely to be large VAT creditors vis-à-vis the government. In the absence of an effective refund mechanism, the companies concerned are likely to be faced with accumulated excess credits that will

[11] The revenue administration argument is only partly valid because industrialized countries also apply thresholds to prevent burdening their tax agencies with numerous low-yield tax returns.

[12] Diplomatic missions are also exempted from VAT.

severely reduce their cash flow and eventually threaten their financial viability. The tax exemptions are granted in order to reduce this risk.

To contain the revenue loss, the VAT laws of both zones explicitly barred using exemptions from VAT as tax incentives for attracting investment (Articles 6 for the CEMAC and 19 for the WAEMU). Nonetheless, the CEMAC grants exemptions from VAT to oil, forestry and mining companies during the phases of exploration, prospecting, and research. Except for the special treatment of these three sectors, the list of exemptions from VAT in the two zones is similar.[13]

Rates

The parallel between the two zones applies here as well: a zero rate for exports and a single rate for other taxable goods and services. The tax regimes of the two zones preserve rate neutrality. The nonzero rate is to be set within a bracket of 15–18 percent for the CEMAC and 15–20 percent for WAEMU. Some sort of offsetting mechanism was built into the rate structure of the two zones. Thus, in the CEMAC, a lower upper limit rate for VAT (18 percent) is charged alongside with a higher upper level of customs duty (30 percent). This compares with the combination of a higher maximum VAT rate of 20 percent and a lower maximum external tariff of 20 percent in the WAEMU.

Deduction and excess tax credit reimbursement

The two legislations authorize qualified taxpayers to deduct the VAT paid upstream (i.e., at earlier stages of transaction) on inputs from their VAT liability. They both contain explicit and virtually the same list of items that cannot be subject to deduction (representation expenses, dual-purpose vehicles for personal and business use, etc.). In both groups, deductions can be undertaken in proportion to eligible activities if all these activities do not qualify for deductions. Reimbursements of tax credits are subject to restrictions in both zones.

Differences

Base

While the directives of the two zones give the same broad definition of the base, the CEMAC VAT base is potentially larger than that of the WAEMU because only the CEMAC law includes all goods and services in the base by default (Article 2.11). By giving a specific list of exempted goods, the CEMAC law implies that all other goods are subject to VAT. Based on this provision, output in the agricultural and transportation sectors can be taxed. In contrast, due to differences in collection costs among countries, the taxation of these two

[13] The list of exemptions includes food, meat and fish products, financial services, health services, school fees, pensions, and social portions of water and electricity consumption.

sectors is optional in WAEMU (Article 4).[14] This dichotomy in treatment of the agricultural and transportation sectors reflects differences in their relative importance in economic activity and policy choices. Several countries in the CEMAC (Cameroon, Central African Republic, the Republic of Congo, Equatorial Guinea, and Gabon) would lose significant revenue, had the agricultural sector (including forestry) been exempted from VAT. Cameroon has a relatively diversified agricultural sector, producing not only traditional export crops (coffee, cotton, banana, pineapple, rubber, cocoa, etc.), but also food products that are exported widely in the sub region. Chad is also a significant regional producer of cotton. Forestry operators constitute a significant component of the road transportation market in the CEMAC. Air transportation is also common in the Central African region, because of the high cost of road construction and maintenance in thick rain forests. Therefore, agricultural and transportation activities are potentially important in the CEMAC and it is essential to capture the value added of these sectors in the tax net.

Agricultural production and exports are also major economic activities in several Western African countries: cocoa, coffee, pineapple in Côte d'Ivoire, fruits and vegetables in Burkina Faso and Mali, palm nuts in Benin, groundnuts in Senegal, and cotton in all WAEMU countries, especially in Mali. Yet, agricultural activity is not taxed because of tax administration problems, including the tracking of the operations of large peasant populations. While the marketing of cash crops is organized in several countries, it is largely illiterate farmers who cannot meet the bookkeeping requirement[15] of VAT that produce these crops on small scale farms. As regards food crop producers, both production and distribution are small scale and are not amenable to easy record keeping. The issue of scale and ability to keep records for tax purposes is relevant for operators in the transportation sector as well. To avoid overburdening weak revenue administration, the WAEMU gave member countries the option of levying VAT on agriculture and transportation.[16]

Threshold

There is a key difference in the threshold provisions of the two zones: limited flexibility in the WAEMU versus total flexibility in the CEMAC. In WAEMU, the harmonized bands were set at CFAF 30–50 million for enterprises that produce goods and CFAF 15–25 million for service providers. In contrast, the CEMAC did not set bands, and authorize member countries to set freely their own levels. This difference in options reflects several factors.

[14] In this section, unless otherwise specified, all the references to articles pertaining to the VAT in the CEMAC relate to the Directive 1/99/CEMAC-028-CM-03 and in the WAEMU to the Directive 02/98/CM/UEMOA.

[15] Terkper (2003) argues that a distinction should be made between formal and informal small and medium enterprises. According to him, the former keep accounting records and should be subject to standard (or slightly modified) tax laws whereas the latter, particularly taxpayers under presumptive tax regimes, are not structured and therefore cannot meet the record requirements.

[16] The problem of atomistic potential taxpayers with small taxable base and weak record-keeping capacity is not specific to VAT but is faced in the administration of other taxes as well (income tax, profit tax, etc.). The option of using thresholds can also be applied in the agriculture and transportation sectors.

First, several CEMAC countries derive a large share of government revenue from oil, wood and minerals, including diamonds. The only exception until recently was Chad, which has also become an oil producing country.[17] One consequence from the availability of revenue from these sources has been the relative neglect of domestic consumption taxes as an important revenue option. On the other hand, the dismantling of cash crop marketing boards in the 1980s and early 1990s in WAEMU brought into sharp focus the need to collect effectively tax revenue, in particular, domestic taxes. Consequently, the apparatus for collection of domestic revenue grew stronger and more homogenous in the WAEMU than in the CEMAC, except for Cameroon. Secondly, there are significant differences in the economic structure of the CEMAC countries, particularly between Cameroon and countries like the Central African Republic and Chad. There is also a risk of overburdening weak tax administrations if the lower limit of a harmonized band were set at a level low enough to bring into the VAT net a large number of small scale enterprises. The risk of exclusion will remain if the band accommodates strong revenue administrations to the detriment of the weak ones. In contrast, the broad homogeneity in tax administration in the WAEMU reduces the risk of excessive or insufficient roster of taxpayers under a common threshold regime. Thirdly, the CEMAC tends to be less centrally-inclined in its decisions than the WAEMU, which is more union-minded. The policy option chosen by each zone appears therefore consistent with its approach to harmonization.

Exemptions

In the CEMAC, some of the exemptions are granted in order to avoid double taxation of the same transaction. Interest payments fall in this category as they are subject to a specific tax. The WAEMU list of exemptions seems to be more precise in the definition of several items than the CEMAC list. For instance, the sale of books and original pieces of arts are not taxed in the CEMAC, if their purpose is educational or cultural (Article 6.3 of the CEMAC directive). The CEMAC makes also a distinction between fees paid for tuition, room and board on the one hand, and educational activities on the other hand; taxing the former and not the latter. But these distinctions are not easy to make and the WAEMU policy of excluding educational and cultural activities is easier to administer.[18] The more specific the exclusions are, the smaller the risk of confusion in interpretation and the easier the administration.

Refund of tax credit

In the CEMAC, three groups of value-added taxpayers can claim reimbursement of their tax credits: exporters, companies with investments in excess of a threshold set by each country, and enterprises that cease operations.[19] The requirements in WAEMU are: (i) to have

[17] The Central African Republic is not an oil producing country.

[18] The WAEMU exempts foreign-financed projects and programs (Article 2), while the CEMAC is silent on this subject.

[19] In both zones, the VAT paid on accommodation, food, and entertainment is not deductible.

transformed the items purchased; (ii) to have invested CFAF 40 million; and (iii) to be exporters.[20] In the CEMAC, the modalities for reimbursement are defined by national regulations, thereby opening the way to disparities. In addition, overly restrictive reimbursement conditions could deter foreign investment. To reduce demands for reimbursement, the WAEMU directive states that claims below a threshold would not be paid. However, it instructs tax administrations to complete reviews for refund within three months and make payments within 15 days.[21]

B. Excise Tax

Excise taxes are imposed primarily to raise revenue, and in a few cases for restraint on luxury goods, health, environmental and security reasons. Consequently, they tend to be levied on price inelastic goods and mass or harmful consumption products. The base, the rates, and the administration of excises in the CEMAC and the WAEMU have several common features, mirroring similarities of objectives and sources of advice. However, there are also striking differences, especially regarding the rates.

Common elements

Assessment value

In both zones, excise taxes are levied on products only and are neutral. In the CEMAC, the assessment value of goods that are subject to excises are the same as that of the VAT. This value is defined in both zones inclusive of other taxes in order to maximize revenue.

Rates

The CEMAC and the WAEMU authorize members to choose applicable rates within prescribed bands to achieve their revenue targets.

Differences

Base

Where the CEMAC has a single list of products, the WAEMU has two lists: one mandatory and one elective. In the Western zone, beverages (except water) and tobacco products are subject to excises in all countries. In addition, members have the option of selecting at most, four groups of products from a list of seven. This second list offers the flexibility of tailoring tax policy to revenue needs and consumption patterns. For instance, Côte d'Ivoire is a major producer of cola nuts while the Sahelien countries of Mali, Niger, and Senegal are large

[20] Exports are exempted in order to promote this activity, and more generally economic growth, by eliminating double taxation of goods in producing and consuming countries.

[21] In practice, this requirement is not respected.

consumers of this product. On the other hand, this product is less popular in Benin, both at the production and consumption levels. Hence, the revenue impact of levying an excise tax on cola nuts is more important in the sahelien region than in the costal countries.

Rates

The rate regime in the CEMAC has two distinct features in comparison to WAEMU. First, the rate band is narrower than in the WAEMU: 0–25 percent compared with 0–45 percent. Second, the CEMAC countries may freely choose rates within the bracket of 0–25 percent. In contrast, WAEMU governments can select only one rate within the bracket prescribed for each category of goods. In this sense, the WAEMU rate policy is less flexible. Nevertheless, the implied objective of WAEMU to reduce the consumption of such goods, as alcoholic beverages and cigarettes, is more likely to be attained with WAEMU high rates than the CEMAC more moderate rates.

C. Petroleum Taxes in the WAEMU

Before harmonization, petroleum tax regimes in the WAEMU[22] were complex, nontransparent and, in some cases, inconsistent with macroeconomic policies. In addition to import duties and standard consumption taxes, several other levies were collected and used to finance off budget expenditure. All these levies increased production costs. To enhance transparency and eliminate disparities, thereby reducing price distortions in 2001, the WAEMU instituted a three-tier tax on petroleum products, composed of a single customs duty, the VAT, and an excise tax. In addition, the statistical tax and the 1 percent tax to finance community institutions were to be applied to these products. To reduce misuse of petroleum tax revenue, the WAEMU explicitly instructed that these receipts be appropriated through the budget.

IV. Implementation of Harmonized Domestic Consumption Taxes in Francophone Countries

The performance of each group is assessed relative to its target tax structure.

A. VAT

CEMAC

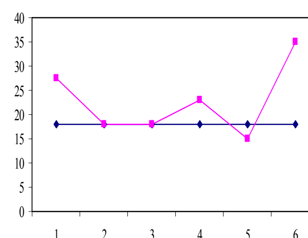
The VAT is implemented in all six countries (Appendix Table 4). However, there are significant disparities in the thresholds, a reflection of the flexibility granted in the CEMAC for fixing these limits. Owing to its stronger revenue administration capacity, Cameroon set a uniform and low threshold for both the production and the sale of goods and services. On the

[22] Only the WAEMU is covered because petroleum taxes are not yet harmonized in the CEMAC. The latter has started discussions aimed at this harmonization in 2003.

other hand, Gabon has a three-tier threshold, all fixed at rather high levels (the highest in the Central African zone). In Gabon, the threshold for forestry operators is 33 times the level required in Cameroon. Consequently, many such companies are not covered by VAT in Gabon. The same observation applies to the production of goods, as the taxable limit in Gabon is more than five times that of Cameroon.

Not all the CEMAC countries are in compliance with the rate structure: four countries (the Central African Republic, Cameroon, Chad, and the Republic of Congo) are applying the single rate provision. Equatorial Guinea and Gabon have opted for multiple rates, some of which are outside of the common CEMAC range of 15–18 percent.[23]

Figure 2. CEMAC: Actual Rate of VAT After Harmonization (including surcharge, in percent)



Source: Appendix Table 4.

1. Cameroon 2. Central African Republic 3. Chad 4. Congo, Rep. of 5. Equatorial Guinea 6. Gabon (applies to both series)

Another departure from the common framework is the imposition by some countries of surcharges. The 10 percent surcharge that Cameroon levies on all taxable transactions raised the total rate significantly beyond the 18 percent upper limit of the bracket. This limit is exceeded by 5 percentage points in the Republic of Congo due to a surcharge. Gabon imposes a 10 percent surcharge on selected imports,[24] thereby yielding a total upper rate (i.e., combined standard rate and surcharge of 35 percent), exceeding the prescribed upper limit for the VAT by 27 percentage points (Figure 2).

Compliance with the harmonized regime is further weakened by the use of the VAT for protection of selected products in violation of the neutrality principle (Equatorial Guinea and Gabon). The imposition of VAT surcharges creates notably price distortions that do not encourage efficiency and nor yield increased consumer welfare.

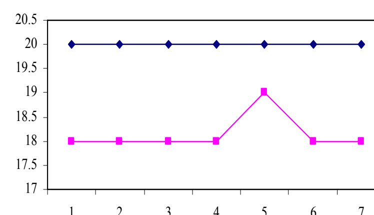
WAEMU

All the eight WAEMU countries have replaced their turnover and sales taxes with the VAT (except for Guinea-Bissau, which still has a cascading general sales tax, Appendix Table 5). The definition of the base also is quite uniform, respecting the neutrality principle.

[23] After completion of the paper, the government of the Central African Republic increased the rate of the VAT from 18 percent to 19 percent with effect from January 2006.

[24] Edible oil, soap, lubricants, poultry, and mineral water and cigarettes.

Figure 3. WAEMU: Actual Rate of VAT After Harmonization
(in percent)



Source: Appendix Table 5.

1. Benin 2. Burkina Faso 3. Côte d'Ivoire 4. Mali 5. Niger 6. Senegal 7. Togo (applies to bot

The WAEMU countries are in compliance with the single nonzero rate requirement and the rate bracket of 15–20 percent (Figure 3). Except for Niger, which applies a rate of 19 percent, all the other six countries have set their VAT rates at 18 percent.

There is harmony in the structure of the VAT (i.e., no country is applying a surcharge). There is also compliance with the common ranges of the thresholds, except for Côte d'Ivoire where the upper limit for service companies to file VAT returns is CFAF 30 million against the WAEMU ceiling of CFAF 25 million. The Ivoirien departure may reflect difficulties in managing effectively a large service sector.

Assessment

Overall, there appears to be the same level of compliance with the VAT directive in both zones in regard to the enactment of the law. However, in terms of effective implementation, deviations are more prevalent in the Central region than in the Western zone. All the seven complying WAEMU countries have effectively applied a single nonzero rate against four in the CEMAC. Furthermore, no WAEMU country has added a surcharge to the VAT. In contrast, all the CEMAC countries (except the Central African Republic and Chad) levy surcharges that yield combined rates that are significantly higher than the maximum harmonized rate. The multiplicity of rates in the CEMAC complicates the administration of this tax. The selective taxation of imports through surcharges does not promote cost reduction and external competitiveness.

B. Excises

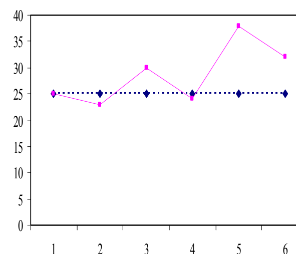
CEMAC

The CEMAC law prescribes the imposition of an excise tax on a limited number of goods chosen from a common list at rates selected freely by national authorities within a single common band. The base of this tax is the same as that of the VAT.

In practice, all the CEMAC countries levy an excise tax, including Equatorial Guinea where it is called a surcharge. Half of the countries apply a single rate (Cameroon, Central African Republic, and the Republic of Congo), whereas the others impose multiple rates ranging between 5 percent (Chad) and 38 percent (in Equatorial Guinea, a rate that is 13 percentage points above the CEMAC ceiling). Consistent with the revenue generating objective of this tax, the excise tax is primarily applied to goods that are relatively income inelastic (beverages, cigarettes, salt, eggs) and in a few cases to luxury or status products (cameras, precious stones, jewelry, vehicles). Tobacco products and alcoholic beverages also attract high rates (at least 23 percent), a reflection of health hazard considerations. Overall, Equatorial Guinea and Gabon apply the highest rates of excise tax (i.e., 38 percent and

32 percent, respectively), well above the upper limit of the harmonized range of 25 percent (Figure 4).

Figure 4. CEMAC: Maximum Rate of Excise Tax After Harmonization
(Highest rate, in percent)



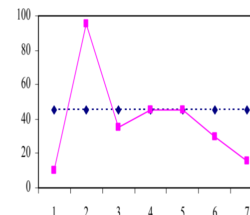
Source: Appendix Table 4.

1. Cameroon 2. Central African Republic 3. Chad 4. Congo, Rep. of 5. Equatorial Guinea 6. Gabon (applies to both series)

WAEMU

Like the VAT, all the WAEMU countries are applying the excise tax directive except for Guinea-Bissau. However, of the seven countries, only Benin has complied fully with the guidelines in reference to both, the list of excised goods, and the rate structure and levels. Of all the WAEMU countries, the lowest rate of excise tax is applied in Benin.[25] In contrast, Burkina Faso is the only WAEMU country that is not in compliance with the highest rate of 45 percent that can be imposed on any excisable commodity (Figure 5). Indeed, this country offers an additional protection to domestic manufacturers of cigarettes by applying rates of 95 percent and 13 percent to imported and domestically produced cigarettes, respectively. Mali applies a rate that is far above the prescribed level for arms and ammunitions (45 percent against a maximum of 12 percent). It also levies a 3 percent excise on gold transactions, a product that is not on the WAEMU list. Senegal makes a distinction between economical cigarettes and other tobacco products, taxing the former at 15 percent, and the latter at 30 percent. The same observation applies to edible oil and fats, which are differently taxed, depending on the degree of processing. Refined oil attracts a 15 percent excise against 5 percent for other oil and fats. Senegal imposes six more products than authorized by the common excise law.

Figure 5. WAEMU: Maximum Rate of Excise Tax After Harmonization
(Highest rate, in percent)



Source: Appendix Table 5.

1. Benin 2. Burkina Faso 3. Cote d'Ivoire 4. Mali 5. Niger 6. Senegal 7. Togo (applies to both series)

Evaluation

More countries are in compliance with the excise tax regulation in the CEMAC than WAEMU (three countries out of six compared to one out of eight). Furthermore, except for the multiple rate and disparities in the list of excised goods,[26] compliance in the CEMAC is overall satisfactory. On the other hand, there are several significant departures from the norm in WAEMU, notably the use of the excise as a protection tax (Burkina Faso), the expansion of the list of excisable goods (Mali, Senegal), and tax differentiation among consumers of

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[25] The highest rate is imposed on alcoholic beverages (in Benin, Guinea-Bissau, Niger, Senegal, and Togo), all tobacco products (in Benin and Senegal), imported tobacco products only (in Burkina Faso), arms and ammunitions (in Mali), and cola nuts in Senegal.

[26] In relation to the harmonized list.

alcoholic beverages (Côte d'Ivoire, Gabon, Niger and Togo). The flexibility granted to countries in both zones to select their excise tax rates within prescribed bands enables them to tailor their rate policy to their revenue needs and administrative capacity. The multiple band regime of WAEMU allows taking into consideration more tax policy objectives (revenue, income, health, ease of administration, etc.) than the single band regime of the CEMAC. However, the CEMAC regime is easier to administer.

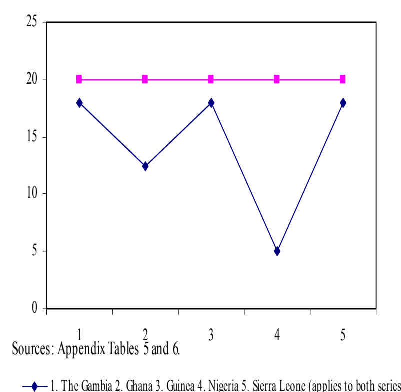
C. Taxes on Petroleum Products in the WAEMU

The harmonized regime of petroleum taxes took effect on January 1, 2003. However, as of December 2005, Benin was the only WAEMU country that complied with the common regime.

V. Domestic Consumption Tax Policy in the WAMZ

The differences between the WAEMU/CEMAC and the WAMZ are less striking for consumption taxes than external tariffs. Indeed, of the five WAMZ countries, three have in place the VAT (Ghana, Guinea, and Nigeria, Appendix Table 6). The Gambia applies a two-tier turnover and sales taxes, though at rates that are generally lower than the VAT rates in the WAEMU. One of the three WAMZ countries that implement the VAT applies a rate that is significantly lower than the minimum rate of WAEMU: 5 percent in Nigeria versus a minimum of 15 percent in WAEMU. Overall, the highest rate of domestic consumption taxes (i.e., VAT, turnover tax, and sales tax) in the WAMZ is lower than the upper limit of the rate range for the VAT in WAEMU (Figure 6). It is more likely that the rate gap between the WAMZ and WAEMU would be closed by the former raising its rates than the latter lowering them because of the high risk for revenue loss. The increase in the VAT rate in Nigeria may be concomitant to a reduction in external tariffs.

Figure 6. WAMZ: Rate Differential from WAEMU VAT
(in percent)



All the WAMZ countries levy excises on selected goods. Disparities are significant in rate structure (specific versus ad valorem, single versus multiple), rate levels (for instance, 5 percent on tobacco products in Guinea versus 140 percent in Nigeria), and list of goods. The harmonization of excise taxes could entail a revenue loss in high rate countries in the short run.

None of the WAMZ countries has adopted a tax regime on petroleum products that is similar to the WAEMU model (i.e., customs duty, VAT and excise tax). The effects of changes in oil prices on production costs and the widespread smuggling of petroleum products into neighboring countries could complicate the adoption of a common tax policy by the WAEMU and the WAMZ.

VI. Unfinished Agenda

A. Need for Progress in the CEMAC and the WAEMU

The harmonized domestic taxes in these two zones is consistent with international practices, such as the consolidation of the many domestic taxes into only two (VAT and excises), the preservation of the neutrality of these taxes, and the adoption of moderate rates. The uniform definition of the tax bases is consistent with the need to ensure homogeneity and to reduce price distortions. The adoption of rate bands provides flexibility to countries to set rates that meet their revenue needs and is consistent with their respective administrative capacities. The streamlined domestic taxes (including petroleum taxes in the WAEMU) are easier to administer and more conducive to compliance. Therefore, overall, the tax reforms undertaken so far by the two currency unions have paved the way for the creation of a more stable tax policy environment.

Almost all the WAEMU countries are in compliance with the main features of the VAT law except on exemptions. Deviations from the VAT directive are significant in the CEMAC. The opposite applies with respect to excise tax laws. Benin is the only WAEMU country that complies fully with the excise directive. No country in the two zones has curtailed the exemptions significantly enough to improve tax revenue in a sustained manner, thereby facilitating observance of the first-order convergence criteria.[27] The deviations from targets are larger in some countries than in others. Highly unsustainable fiscal policies create negative externalities for the more prudent countries. In particular, the financing requirements of these deficits exert upward pressures on interest rates and adversely affect investment and growth in the entire monetary zone. Besides, defaults on government bonds could disrupt financial intermediation and weaken confidence or even burden the more fiscally disciplined countries if they are called upon to bail out the imprudent governments. Fiscal prudence and policy cohesiveness are therefore essential in order to sustain the common currency.

Fiscal discipline is also essential for achieving sustainable economic growth and enabling equitable income distribution (Article 14 of the WAEMU Treaty and Article 1 of the CEMAC Economic Union Act). In recognition of this role, policymakers in both unions gave prominence to fiscal convergence in the context of the surveillance frameworks of their economies: 80 percent of the macroeconomic convergence criteria are fiscally related in the CEMAC, and the ratio is about the same in the WAEMU (78 percent).

Tax revenue, a key determinant of governments' ability to meet the fiscal convergence criteria, is affected by changes in policy (i.e., tax rate and base), economic activity, and tax administration. The formulation of tax policy at the regional level is a stabilizing factor in economic decision making because no individual country can unilaterally change the tax rate or base. However, the effective implementation of the harmonized tax policy is also a

[27] The surveillance of macroeconomic performance using convergence criteria (Doe, 2006) assumes that countries implement fiscal policies that do not yield unsustainable budget deficits, debts, and high interest rates.

national responsibility. The strong collection of tax revenue will pave the way for complying with the convergence criteria. It is therefore essential for both the CEMAC and the WAEMU countries to improve significantly their revenue collection in order to create the basis for a sustainable fiscal policy.

B. Future Actions

Design reforms

One of the main shortcomings of the reformed taxes is the lack of lists of well-defined exemptions. The present lists contain generic definitions of products that are open to interpretation. Each union should therefore agree on a list of products identified by the same customs code in order to eliminate confusion and arbitrariness.[28] To this end, clear criteria for exemptions should be set, including the nature of goods and/or services (books, tuition, drugs, consultations, etc.), the types of beneficiaries (well-established religious and/or humanitarian institutions), and the level of exemptions. Regarding the latter point, past experience could be the best guide. Data on exemptions from the relevant tax, broken down by the criteria retained, should be collected and compared with the tax base in order to determine the effective share of the base that was tax-exempt. These data could be used to determine applicable regional ranges within which countries might grant such exemptions.[29] As for any other tax, beneficiaries would need to provide documentation (including tax returns) in support of their demands.

To enhance transparency and accountability, and promote fiscal discipline, all government budgetary expenditures should be projected and implemented including tax expenditures.

Subject to threshold limits, the VAT should be imposed on all goods and services that have borne VAT upstream, rather than being exempted from this tax.[30] The share of the gross VAT receipts earmarked for reimbursement of VAT credits could be deposited in an escrow account opened at the central bank.

The imposition of restrictions on the reimbursement of VAT credit is contrary to the deductibility principle of this tax, because it is not consistent to authorize deductions and deny payments. The failure to reimburse creditors increases production costs and shifts the

[28] The adoption of, and compliance with, a common investment code will also help eliminate financially harmful intercountry competition.

[29] For instance, if the CEMAC's range for exemptions from VAT for school notebooks is between 5 and 15 percent of the tax base, a revenue scarce country may apply a rate of 5 or 6 percent while another country that wants to promote learning would set its exemption rate at 12 or 14 percent.

[30] When a producer pays VAT upstream but is not eligible to file a VAT return because the consumption of the good is exempted, he cannot recover the VAT paid. To enable him to do so, he should be allowed to file a return.

burden of the tax from consumers to producers who cannot raise prices to recover the tax paid. The elimination of the VAT reimbursement restrictions is advisable.

Compliance actions

In the WAEMU, compliance with the VAT is generally effective, but much less so with excises (except for Benin). All the CEMAC countries have violated the VAT law by either imposing surcharges or creating distortions through a multiplicity of rates. Significant deviations from the harmonized excise taxes also exist in Chad, Equatorial Guinea, and Gabon.

The specific measures to take in order to enhance compliance are indicated in Box 3.[31] The elimination of the surcharges and/or the reduction in rates, in compliance with the harmonized regimes, may result in revenue losses in the short run. These losses can be mitigated by increasing the base through cuts in exemptions, better tax administration, and lowering/delaying expenditures.

The WAMZ's members need to implement the harmonized tax regimes of the WAEMU to enhance regional integration and growth. Such a decision will entail (i) the implementation of the harmonized VAT in the Gambia and Sierra Lone; and (ii) the overhaul of the excise taxes in all WAMZ countries. These measures would create favorable conditions for a stable government revenue policy; promote compliance with tax laws; and encourage investment, employment, and growth.

None of the WAEMU countries, except Benin has complied with the harmonized petroleum taxes. Neither CEMAC nor WAMZ has harmonized these taxes.

Second generation of tax reforms

Because it reduces uncertainties in fiscal policy, the harmonization of the domestic indirect taxes constitutes a major step forward in creating favorable conditions for trade expansion and sustained growth. It also facilitates revenue administration, with fewer taxes, rates, and other peculiar tax features to monitor. This harmonization was preceded by the enactment of a common external tariff (CET), the liberalization of trade and the elimination of price controls. The CET brought about sharp reductions in tariffs and, therefore, in revenue that were to be offset by more buoyant domestic tax revenue. This expectation was not met and the tax-to-GDP ratios remain significantly below the convergence target of 17 percent in most WAEMU countries. The situation is very similar in the CEMAC.

Weak macroeconomic performance, distortions in tax structure, and weak tax administration have contributed to the unsatisfactory tax collections. Improvements in these areas could be

[31] The disparities are greatest in Chad, with a 25 percent surcharge on imported sugar; Gabon, with a 20 percent additional tax on imported edible fats and oil, soap, poultry products, cigarettes, and flour; and Senegal, with a 20 percent surcharge on imported onions, potatoes, bananas, rice, and cigarettes.

Box 3. CEMAC and WAEMU: Measures to Enhance Compliance with Harmonized Domestic Consumption Taxes

In order to bring their current tax regimes into full compliance with the harmonized domestic consumption taxes, the Francophone countries need to take specific measures as indicated below.

Cameroon

- eliminate the VAT surcharge of 10 percent.

Chad

- reduce the highest excise tax rate from 30 percent to the harmonized rate of 25 percent.

Congo, Republic of

- remove the 5 percent domestic consumption tax surcharge.

Equatorial Guinea

- replace the multiple rate of the VAT by the harmonized single rate; and
- reduce the highest excise tax rate from 38 percent to the harmonized rate of 25 percent.

Gabon

- replace the multiple rate VAT by a single rate VAT;
- eliminate the 20 percent surcharge (domestic consumption tax) levied on selected imports; and
- reduce the highest excise tax rate from 32 percent to the harmonized rate of 25 percent.

CEMAC

- adopt and implement a harmonized tax regime applicable to petroleum products.

Burkina Faso

- apply the excise tax to tobacco products in a neutral way.

Côte d'Ivoire

- apply a single rate of excise tax per category of products.

Guinea-Bissau

- implement the harmonized VAT and excise tax.

Mali

- reduce the number of excised goods to the maximum of six, and do not exceed the upper limit of the range set for arms and ammunitions; and
- eliminate the excise tax on gold because gold is not on the harmonized list.

Niger

- apply the same rate of excise tax to all alcoholic beverages.

Senegal

- apply the same rate of excise tax to tobacco products;
- apply the same rate of excise tax to oil, and fats;
- reduce the number of excised goods to the maximum of six; and
- apply the harmonized ad valorem rate to arms and ammunitions.

Togo

- apply the same rate of excise tax to all alcoholic beverages.

All WAEMU countries, except Benin

- implement the common tax regime applicable to petroleum products.

enhanced by further tax policy reforms (i.e., a second generation of tax reforms). Untapped tax nests include the informal sector, with the turnover of some of its operators surpassing by far that of established foreign companies. Other nests are agriculture, mining, and petroleum, with the latter two being among the largest beneficiaries of tax relief. Agriculture, the

dominant activity in all the countries under review, needs to be bought into sharp focus for purposes of taxation. Specific taxes can be designed for cash crops like cotton, cocoa, coffee, palm nuts, vegetables, fruits, and flowers. For equity purposes, all economic activities should contribute to the financing of government expenditure through tax collection. Also, the reform, notably the simplification, of direct taxes should be considered in order to enhance yield and facilitate tax administration.

Appendix Table 1. WAEMU: Structure of VAT Before Harmonization

Country	Date of Enactment	Base	Rate		Threshold (Millions of CFAF)	Number of Taxpayers in 1997	Substitute Levy Applied to Non-VAT Taxpayers	
			Structure	Level/Range (Percent)			Type	Rate (Percent)
Benin	May 1991	Broad-based	Single	18	40	800	Lump sum down payment on imports	3 or 5
Burkina Faso	January 1993	"	Single	18	50	1955	Lump sum levy	Multiple
Côte d'Ivoire	January 1960	"	Multiple	11–20	100	2500	Down payment on various taxes	2 or 5
Mali	January 1991	"	Multiple	10–15	50	2409	"	5
Niger	January 1986	"	Single	17	30	1500	"	4
Senegal	January 1980	"	Multiple	10–20	150	6896	Equalization tax	2, 3 or 5
Togo	July 1995	"	Single	18	30	1745	Import surcharge	5 and 20

Source: WAEMU Commission, October 1997.

Appendix Table 2. WAEMU: List of Goods Subjected to Excise Tax in 1996 1/
(In percent)

Products or Service	Benin	Burkina Faso	Côte d'Ivoire	Mali	Niger	Senegal	Togo
Alcoholic beverages	13	25	X	50	25 (L) 50 (I)	30	x
Water			X				
Bubbling water				x		x	
Flat bottled water				x			
Fermented grape juice				x			
Spirits				x			
Coffee		10	X			11	
Tea		10		x		4	
Salt				50			
Powdered milk				x			
Cola nuts		10		x			
Wheat flour	20					x	
Cooking oil						5, 12	x
Fatty food products							x
Insurance x			X		x		
Banking 5						7, 17	
Road toll	x	x			x		
Entertainments						x	x
Professional services				7, 15		x	
Advertising			X				
Cigarettes and tobacco	x	10 (L) 80 (I)	X	20	20	16 (L) 32 (I)	x
Cement 10							x
Petroleum oil	x	x	X	x	x	x	x
Guns		x		x	x	x	
Ammunitions			X	20			
Vehicles with engine	x	x	X	x	x	x	x
Soap 6		x					
Textiles 6							
Ethylic alcohol				x			
Alcoholic mixtures				x			

Source: WAEMU Commission, October 1997 (more recent and comprehensive data are not available).

1/ Notation: L = local production; I = imports; x = specific, as opposed to ad valorem, tax.

Appendix Table 3. CEMAC: Structure of Domestic Consumption Taxes

	Cameroon				**Central African Republic**				**Chad**			
	1993		**1996**		**1993**		**1996**		**1992**		**1996**	
	Number of rates	Rates bracket (%)	Number of rates	Rates bracket (%)	Number of rates	Rates bracket (%)	Number of rates	Rates bracket (%)	Number of rates	Rates bracket (%)	Number of rates	Rates bracket (%)
Domestic turnover tax	4	2.25-11	2 8,	17	5	5-16.5	1	18	3	3,10,15	1	15
Import turnover tax	1	10			1	10			1	10	1	10
Special production tax	Multiple	2-100										
Excise tax			1	25			1	30				

	Republic of Congo				**Equatorial Guinea**				**Gabon**			
	1993		**1996 1/**		**1993**		**1997**		**1993**		**1996**	
	Number of rates	Rates bracket (%)	Number of rates	Rates bracket (%)	Number of rates	Rates bracket (%)	Number of rates	Rates bracket (%)	Number of rates	Rates bracket (%)	Number of rates	Rates bracket (%)
Domestic turnover tax	1	13.636			3	5,7,25			3	5,12,14	1	18
Import turnover tax	1	10			1	10	2	5, 12	1	10	1	18
Excise tax	Multiple	Variable							Multiple	Variable	4	10,20,25,30

Source: Fund Article IV Consultation Reports.

1/ Data not available partly because of the civil war.

Appendix Table 4. CEMAC: Summary of Domestic Consumption Taxes

	Range (%)	Cameroon 2005	Central African Republic 2002	Chad 2001	Republic of Congo 2004	Equatorial Guinea 2003	Gabon 2003
Value-added tax (VAT)							
Turnover tax (TT)	**VAT**	**VAT**	**VAT**	**VAT**	**VAT**	**VAT**	**VAT**
Base		Imports, production of goods and services	Imports, production of goods and services	Imports, production of goods and services	Imports, production of goods and services	Imports, production of goods and services	Imports, production of goods and services
Threshold							
Goods		CFAF 15 million	CFAF 30 million	CFAF 30 million	CFAF 30 million	Not available	CFAF 80 million 1/
Services		CFAF 15 million	CFAF 7 million	CFAF 20 million	CFAF 10 million	Not available	CFAF 60 million
Rate							
Basic rate	15%-18%	0%, 17.5%	18%	0%, 18%	0%, 18% 2/	5%, 6% on basic necessities 3/	0%, 10%, 18%, 25%
		10% (surcharge)			5% (surcharge)	12%, 15% on luxury goods 3/	20% on selected imports 4/
Exemptions		yes	yes		yes	yes	yes
Excise tax						Surcharge	
Base		Imports, turnover, sales of selected goods 5/	Imports, turnover, sales of selected goods 6/	Imports, turnover, sales of selected goods 7/	Imports, turnover, sales of selected goods 8/	Imports, turnover, sales of selected goods 9/	Imports, turnover, sales of selected goods 10/
Rate							
Basic rate	0%-25%	25%	23%	5%-30%	24%	20%-38%	5% to 32%
Exemptions		no	yes		yes		

Source: Article IV Consultation Reports of the Fund (the year shown under the name of the country is that of the report).

1/ The threshold is CFAF 500 million for forestry companies.
2/ In addition to exports and international transportation, this country applies the zero rate to eucalyptus sector. It also applies a reduced rate to essential imported goods.
3/ The lowest rates apply to imports.
4/ The items are edible oil, soap, poultry products, minerals, water, cigarettes and lubricants.
5/ Ad valorem tax levied on cigarettes and tobacco, alcoholic beverages, precious stones, and jewelry.
6/ Ad valorem tax levied on tobacco, tea, salt, eggs, cosmetics, cameras, selected vehicles, arms, explosives, and luxury goods.
7/ Ad valorem tax levied on alcoholic beverages (30%), beer, wine, and other fermented drinks (25%), cigarettes, tobacco, jewels, and precious stones, electrical, and electronic materials (20%), and minerals, and carbonated water (5%).
8/ Ad valorem tax levied on tobacco, alcoholic beverages, jewelry, passenger cars, and consumer electronics.
9/ Ad valorem tax levied on wine (38%), whisky, and tobacco (30%), and beer (20%).
10/ Ad valorem tax levied on mineral water (32%), wine (25%), beer (20%), other alcoholic beverages (32%), nonalcoholic beverages (5%), and cigarettes and tobacco products (30%).

Appendix Table 5. WAEMU: Main Domestic Consumption Taxes

	Range (%)	Benin 2002	Burkina Faso 2004	Côte d'Ivoire 2003	Guinea Bissau 2002	Mali 2003	Niger 2004	Senegal 2004	Togo 2003
Value-added tax (VAT) or general sales tax (GST)	**VAT**	**VAT**	**VAT**	**VAT**	**GST**	**VAT**	**VAT**	**VAT**	**VAT**
Base		Prod., imports & sale of goods & services	Prod., imports & sale of goods & services	Prod., imports & sale of goods & services	Imports & local prod. 15%	Prod., imports & sale of goods & services	Prod., imports & sale of goods & services	Prod., imports & sale of goods & services	Prod., imports & sale of goods & services
Threshold									
Goods	CFAF 30-50 mil.	CFAF 40 mil.	CFAF 30 mil.	CFAF 50 mil.	Not available	CFAF 30 mil.	CFAF 30 mil.	CFAF 50 mil.	CFAF 30 mil.
Services	CFAF 15-25 mil.	CFAF 15 mil.	CFAF 15 mil.	CFAF 30 mil.	Not available	CFAF 30 mil.	CFAF 15 mil.	CFAF 25 mil.	CFAF 30 mil.
Rate	15-20	18%	18%	18%	15%	18%	19%	18%	18%
Exemptions		yes	yes	yes		yes	yes	yes	yes
General sales tax									
Base					Imports & local prod.				
Rate					15%				
Excise tax									
Base		Imports & local prod.							
Rate									
Nonalcoholic beverages excl. water	0-20	3%	10%	7%		10%		3%	1%
Alcoholic beverages	10-45	10%	25%	8%-30%	5%, 30% 1/	5%	25%, 45% 2/	30%	10%,16% 3/
Tobacco products	10-40	10%	95% for imported, 13% for local prod.	20%-35%	10%	25%	30%	15%,30% 4/	15%
Coffee	1-12		10%					3.8%	10%
Cola nuts	10-30		10%			25%	15%	30%	
Wheat flour	1-5	1%							1%
Oil and fats	1-15	1%					15%	5%, 15% 5/	1%
Arms & ammunitions	15-40					45%		CFAF2,000-20,000	
Perfumes and cosmetics	5-15	5%				10%	15%	10%	15%
Tea	1-12		10%				12%	3.8%	
Gold						3%			
Exemptions		yes	yes	yes	yes	yes	yes	yes	yes

Source: Article IV Consultation Reports of the Fund (the year appearing under the country name is that of the report).

1/ The rate is 5% for beer, and 30% for rum.

2/ The rate is 25% for malt beer, and 45% for other alcoholic beverages.

3/ The rate is 10% for beer, and 15% for other alcoholic beverages.

4/ The rate 15 % for economical cigarettes, and 30% for tobacco.

5/ The rate is 15% for refined oils, and 5% for other fats.

Appendix Table 6. WAMZ: Regimes of Domestic Consumption Taxes 1/

	The Gambia 2003	**Ghana** 2002	**Guinea** 2003	**Nigeria** 2004	**Sierra Leone** 2004
Taxes on domestic consumption					
Turnover tax					
Audited accounts	2%				
Unaudited accounts	3%				
Sales tax					
Telecommunication services	18%				
Other products and services	10%, 15% 2/				18%
Value added tax					
Exports		0%	0%	0%	
Other goods and services		12.50%	18%	5%	
Excise tax					
General excise tax					30%
Tobacco products	D 50/kg	140%	5%	40%	
Alcoholic beverages	D 25/D 50/liter 3	20% - 50%	GF20-GF30/liter	20% - 40%	
Nonalcoholic beverages	D 5/liter 3/	5% - 25%	GF10-GF15/liter		
Vehicles	5%				
Petroleum products		C8-C230/liter	GF160-GF355/liter		LE239-LE1613/gallon
Other products					
Entertainments and restaurants					10%
Foreign travel					10%, 20%
Betting					30%
Telecommunications					10%

Sources: Article IV Consultation Reports of the Fund (the year appearing under the name of the country is that of the report).

1/ All the rates are ad valorem, unless specified otherwise. The currency abbreviations are: C = Cedi; D = Dalasi, GF = Guinean Franc; and LE = Leone.
2/ The rate is 10% for imports and 15% for domestically manufactured goods, and services.
3/ The rate is D 5/liter for water, and soft drinks, D 25/liter for beer, and D 50/liter for wine, and spirit.

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