

CASE STUDY: TAX POLICY AND REVENUE ADMINISTRATIONS REFORMS IN MALI

This brief is designed to guide a class discussion of options for tax policy reforms in Mali as of end-2014. Course participants are expected to read this and other supplementary material before the discussion.¹

Mali is a member of the Western Africa Economic and Monetary Union (WAEMU) and of the Economic Community of West African States (ECOWAS). ECOWAS encompasses 15 African countries: Benin, Burkina Faso, Cabo Verde, Côte d'Ivoire, the Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo. ECOWAS and WAEMU are customs unions. Both Commissions produced a Common External Tariff and some tax Directives, which have to be respected by member countries. WAEMU is a sub-set of ECOWAS countries with 8 members, which share the same currency (FCFA):² Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal, and Togo. Consequently, several issues raised in this workshop on Mali are also relevant for the other WAEMU countries and, to a lesser extent, for ECOWAS members.

The crisis that has afflicted Mali since 2012 has had an adverse economic impact, reflected in a 25 percent decline in government resources and negative growth of -1.2 percent. Despite the difficult context, the combination of reduced investment expenditure, improved tax collection, reduced subsidies, and increased taxes on petroleum products served to contain the budget deficit at 1.3 percent of GDP.

Since 2002, the tax-to-GDP ratio in Mali has fluctuated between 14 percent and 15 percent of GDP; a jump to 15.5 percent occurred in 2004-05, but a drop to 13.3 percent followed in 2008. The evolution of the revenue structure in Mali is similar to that of other low-income countries, especially in Africa: declining customs revenues, a stagnant VAT with relatively low yields and high rates, and a direct tax system that does not fully serve its purpose in the mobilization of revenue. Mining sector revenues benefited partially from the recent upsurge in gold prices (2010-2012), which has since faded. The yield of direct taxes on individuals and corporations, property taxes, and other similar taxes and levies, remains low. Finally, tax expenditures, which have been estimated since 2012, appear to be steadily rising and represent at least 4 percent of GDP (correction included).

¹ Several tax policy and revenue administration technical assistance reports done by the International Monetary Fund are available online.

² The WAEMU countries share the same currency, the CFA franc, which is pegged to the euro.

I. REVENUE PERFORMANCE AND TAX STRUCTURE

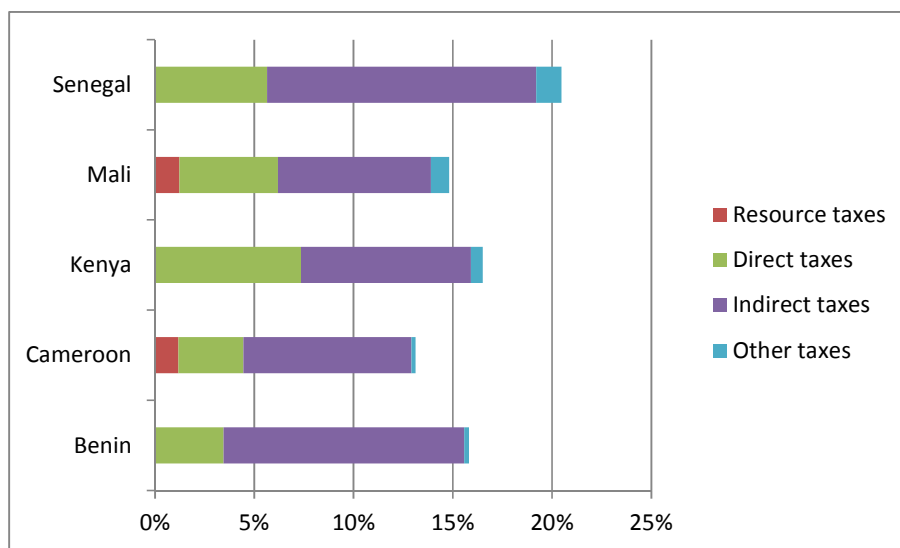
Mali's revenue-to-GDP ratio was 15.4 percent in 2013. Mali has large gaps in the infrastructure and social sectors that need to be addressed to support inclusive long-run economic growth and reduce poverty. To help finance these needs while maintaining healthy public finances, the authorities plan to continue raising the tax revenue ratio to reach 18 percent of GDP by 2017. The WAEMU Commission had among others convergence criteria a tax-revenue-to-GDP-ratio target at 17 percent in 2014.³

Table 1 : Mali Tax revenue

<i>Billion FCFA</i>	2010	2011	2012	2013
Tax revenue and grants	940	1,057	926	1,163
Tax revenue	692	765	786	824
<i>In percent of GDP</i>	15.10%	15.19%	14.81%	15.37%
Tax revenue excl. nat. res.	650	717	720	769
<i>In percent of GDP excl. nat. res.</i>	14.88%	15.34%	14.72%	15.09%
Direct Taxes	205	221	263	258
Indirect Taxes	310	325	307	339
Tariffs (International trade)	95	112	101	115
Other taxes	41	59	49	57
<i>GDP</i>	4,582	5,038	5,303	5,364
<i>GDP excl. nat. res.</i>	4,368	4,673	4,890	5,098

Source : Tax Administration and Customs.

Figure 1. Revenue Comparisons in Selected African Countries (2012)



Source: IMF, ICTD-WIDER.

³ This target has been raised to 20 percent in 2015.

II. DIRECT TAXES

A. Tax on Profit: Corporate Income Tax and Tax on Industrial and Commercial Profits

Mali taxes profits through the Corporate Income Tax (CIT) or the Tax on Industrial and Commercial Profits depending on the legal status of the firm: corporation or physical person. The rate is 30 percent respecting the WAEMU Directive 08/2008/CM/UEMOA, which specifies a range for a single rate of 25 to 30 percent. A minimum flat tax of 1 percent is applied on firms' turnover. A simplified tax regime exists for firms with turnover between FCFA 50 million and FCFA 250 million. Enterprises in the agricultural sector are subject to a particular profit tax: Tax on Agricultural Profits, at a 10 percent rate. Actually, no tax is levied on this sector since the implementing decree was never enacted.

Mali has a synthetic tax for small businesses (with a turnover below 50 million FCFA). The amount of this tax depends on the economic activity, the geographical location of this activity, and some other conditions. There are 288 different rates (lump sum), which vary from FCFA 14,700 to FCFA 2,400,000.

In accordance with Directive 01/2008/CM/UEMOA, capital gains on sales of assets are exempted from CIT if the taxpayer agrees to reinvest this income within the three years following the sale in a firm located in a WAEMU member state (Article 55 of the Tax Code). Interests are deductible from taxable profit as long as interest rate is no more than three points above the BCEAO discount rate. A withholding tax of 15 percent for CIT purposes is collected on services provided by individuals having no permanent professional premises in Mali. The rate of 15 percent is based on the IS rate (30 percent) reduced by half in recognition of the expenses incurred in providing such services. This withholding applies to the provision of services; to the use or concession of the right to use a copyright, patent, formula, or process; to equipment leasing, and to any service provided or used in Mali, such as research, technical assistance, financial or accounting, and prospecting services.

B. Taxes on wages

Mali's tax on wages and salaries (ITS) applies to all amounts paid during the year to wage earners by public and private employers. The scope of this tax covers employment income, commissions, premiums, tips, and all other compensation or fees received as income from employment. The rates applicable to taxable income are set as follows for each (monthly) income bracket:

Table 2: Income brackets

Income brackets (FCFA)		Euro	Rate
-	175,000	267	0
175,000	600,000	915	5
600,000	1,200,000	1829	13
1,200,000	1,800,000	2744	20
1,800,000	2,400,000	3659	28
2,400,000	3,500,000	5336	34
More than	3,500,000	5336	40

The gross tax obtained using the above schedule is reduced based on the size of the taxpayer's family. The reduction is 10 percent of the gross tax for a married person with no dependent children, 2.5 percent per dependent child up to and including the tenth, and 10 percent per disabled adult dependent. The payroll tax is withheld directly at source each month by the employer.

In addition to the payroll tax, other mandatory levies are raised on wages at a single rate. They are: fixed employer contribution (CFE, 3.5 percent), vocational training levy (TFP, 2 percent), youth employment levy (TEJ, 2 percent), and housing tax (TL, 1 percent). Finally, employer and employee have to pay for the National Social Security Institute (INPS) and Health Insurance (AMO), which average rate is on average at 25 percent: 8 percent for family allowances, 7 percent for retirement, 1 to 4 percent for work-related accidents and illness, etc.

C. Other direct taxes

The tax on property income (IRF) (CGI, Articles 14-22) is due on any income from properties received by individuals and legal entities if the properties are not included in their assets. Its rate is 12 percent for permanent or semi-permanent building and 8 percent for the other properties. Exempted from this tax are rented agricultural land, properties occupied by the owner and/or members of his/her family, properties occupied by employees of the owner on condition that they provide guard or security services for the properties, and public railways. The basis of calculation of the tax is the gross amount of rent and other property income received during the year, regardless of the period to which it pertains, plus expenses and charges normally borne by the owner but paid by the tenant, minus those paid by the owner.

Capital gains on the sale of real property are not taxed for individuals. However, these capital gains are taxable when the properties sold are included in the balance sheet assets of an enterprise subject to CIT.

A land tax (TF) (CGI, Articles 185E -185L) exists also, which is based on the rental value of properties, building sites, and land owned for at least 3 years. Buildings and land used in the agricultural sector, places of worship, sports fields, etc., are exempt. The determination of rental value is based either on leases concluded verbally or in writing, an assessment of leases for equivalent buildings or land, or direct appraisal if neither of the two lease-based methods can be used. The rate of the land tax is 3 percent, reduced to 1 percent for vacant buildings. Land tax is collected for the benefit of local governments.

The Capital Income Tax (IRVM) is levied on interest and dividends paid by legal entities or individuals residing or considered to be residing in Mali under the Tax Code. Several exemptions are provided for in this code, including the following: interest on savings accounts (up to the limits set in the banking regulation), current accounts of industrial, commercial, or agricultural operations and all accounts opened in a cooperative by its members; interest on securities issued by the government or low-cost housing companies; and interest on certain mortgage-backed securities. In accordance with Directive 02/2010/CM/UEMOA, income distributed by mutual funds (OPCVM) and other forms of collective investment approved by the Regional Public Savings and Financial Markets Council are exempt. The tax rates are 10 percent for dividends; 7 percent for dividends distributed by companies listed on an approved securities exchange; 6 percent for bond income; 3 percent for government bonds with a maturity of five to ten years; 0 percent for bonds issued by the government with a maturity of more than ten years; 9 percent for interest on sight or fixed-term deposits and current accounts; 15 percent for bonuses paid to bond creditors and holders; and 18 percent on all other income.

III. INDIRECT TAXES

A. Value-Added Tax (VAT)

The Malian VAT has a standard rate of 18 percent respecting the WAEMU bracket of 15 to 20 percent. A reduced rate of 5 percent, introduced in 2012, is applied on computers and renewable energy equipment.⁴ The registration threshold was 30 million FCFA in 2013.⁵ The Malian VAT is levied on each transaction (sales of goods or services) done by firms, which turnover is over the threshold. However, VAT on fuels is not deductible.

The Malian Tax Code (Article 195) grants more VAT exemptions than are authorized by the WAEMU Directives. The exemptions apply to agricultural inputs and equipment, staple, breads (but not flour), baby bottles and nipples. The WAEMU Directives provide a list of mandatory VAT exemptions, including: health services and medications; education services, books, newspapers, magazines, and other periodicals; banking, insurance and re-insurance services if they are subject to a specific tax; social tranches for household consumption of water and electricity; raw (unaltered) foods; real estate (both residential and commercial) if it is subject to registration fees or other specific taxes; and residential rent.

Following a decline in 2012, mainly attributable to circumstances, VAT revenues improved in 2013. They represented 4.8 percent of GDP in 2013, down from the level observed in 2010 (5.6 percent). Although it represents more than 30 percent of tax revenue, the productivity of the VAT appears average compared with several neighboring countries. The efficiency indicator of one percentage point of VAT based on final consumption, which allows for

⁴ However, this reduced rate has a very limited effect since the collection of import duties and taxes on renewable energy equipment has been suspended in 2009 for 5 years and the 4 percent rate was not officially effective in the ASYVUDA (customs) software until October 2013.

⁵ It has been raised to 50 million FCFA in 2014.

international comparisons, is 0.40 in Mali, which is below the level in Benin, Burkina Faso, Senegal, and Togo, but above that of Niger (see Table 3). VAT efficiency in Mali is estimated to be slightly above the average observed in low-income countries, estimated at 0.38.

Table 3: VAT revenue (details) and VAT Performance in Selected African countries.

	2010	2011	2012	2013
VAT	256.0	271.4	225.8	259.7
Percent of tax revenue	35.93%	34.40%	27.56%	30.53%
Percent of GDP	5.59%	5.39%	4.26%	4.84%
VAT collected by the tax admin.	2.16%	2.27%	1.92%	2.04%
VAT collected by the customs	3.55%	3.68%	3.23%	3.69%
VAT refunds	-0.12%	-0.56%	-0.90%	-0.89%
	Standard rate	Percent of household consumption	Percent of GDP	C-Efficiency
Benin	18%	9.13	6.21	0.51
Burkina Faso	18%	9.48	4.65	0.53
Ivory Coast	18%	2.34	1.52	0.13
Mali	18%	7.22	4.84	0.40
Niger	19%	5.97	3.98	0.31
Sénégal	18%	9.45	7.33	0.52
Togo	18%	10.93	8.86	0.61

Source: IMF and authorities.

B. The Tax on Financial Activities (TAF)

The TAF (CGI, Articles 244-249) is levied on financial operations, operations associated with banking or financial activities and, in general, the trading of securities and currency, exclusive of interest and commissions earned on the money market. Banks, financial institutions, exchange dealers, discounters, and intermediate brokers are subject to the TAF. Leasing operations are not subject to the TAF. The rate of the TAF is 15 percent and it is collected following the same rules, with the same guarantees, and subject to the same penalties than VAT.

The TAF was introduced to compensate forgone revenue from the VAT exemption of operations of banks and financial institutions. In 2013, the TAF brought FCFA 27.3 billion into the Treasury. By comparison, the same sector generated approximately three times less CIT revenue (FCFA 7.7 billion).

C. Excises

Excises levied in Mali are imposed on some domestically produced and imported goods, such as oil products, gold, tobacco products, alcoholic and non-alcoholic beverages, cars, etc. They are ad valorem tax and respect the relevant WAEMU Directives and the ECOWAS one (see Table 4). As provided for in the WAEMU Directive, all the member states impose an excise tax on beverages and tobacco. Beer is more heavily taxed in Mali than in Benin, Niger, Senegal, and Togo. Excise rate applied to cigarettes, however, is the lowest: 15 percent, 20

percent, or 25 percent, depending on the product line, with luxury cigarettes being the most heavily taxed.

Although excise revenues improved between 2009 and 2013, from 0.09 percent to 0.22 percent of GDP, they still account for less than 2 percent of tax revenue. Excise revenues are of lesser importance in sub-Saharan Africa, especially francophone Africa, than they are in Asia or Latin America. In Mali, as in all the WAEMU countries, excises represent a revenue potential that should be exploited.

Excluding excise on gold nearly all (close to 99 percent) the revenue is generated by the excise on beverages and cigarettes. Other products subject to an excise tax are: kola nuts, plastic bags, ammunition, marble, and cars.

Excises on vehicles with 13 horsepower or more⁶ is not applied. Customs' revenue is here zero and the customs administration cannot implement this tax into ASYCUNDA,⁷ since the harmonized system (HS) nomenclature does not distinguish vehicles on the basis of horsepower but rather according to the size of the engine (estimated in cubic centimeters). As Mali's tax code repeats strictly the WAEMU Directive, a request should be made at the regional level to amend the Directive. Moreover, significant tax exemptions are applied regarding the importation of vehicles.⁸ In 2013, the forgone revenue owing to exemptions granted for privately owned vehicles amounted to CFAF 216 billion, and for the special exemptions granted to individuals, CFAF 1.43 billion.

A tax on access to the public telecommunications network (TARTOP) is a 2 percent turnover tax levied on any person holding a network operating license issued by or on behalf of the government of Mali. This tax was introduced in the 2013 budget law. The following are exempt from the tax: (1) internet services and products; (2) the sale, leasing, and supply of equipment used to access the internet; (3) the sale and leasing of telephone equipment; (4) services related to inbound international traffic, with the exception of services involving the use of the public telecom network; and (5) services interconnecting the holders of operating licenses. The TARTOP brought in CFAF 5 billion in 2013, nearly equal to the amount of the excises collected on tobacco. Two enterprises are currently subject to this tax: Orange Mali and Sotelma Mali. A third license was recently granted to Alfa Télécom. The revenue generated in 2013, when the tax was first introduced, fell short of the results expected by the tax administration (CFAF 7 billion). One of the main reasons is the difficulty the tax administration experienced in trying to control the tax base, or, more precisely, the share of exempt turnover over which the administration has no control.

⁶ The aim of this excise was to raise revenue and protect the environment.

⁷ ASYCUNDA is the automated customs clearance system, which is used for any importation.

⁸ As a privilege, some government officials and members of parliament are allowed to import one car per year at without paying any tax.

Table 4. Excise Tax Rate in WAEMU and ECOWAS

Goods	Benin (2012)	Mali (2012)	Niger (2008)	Senegal (2010)	Togo (2012)	WAEMU		ECOWAS	
						Min.	Max	Min.	Max.
Beverages									
Non alcoholic beverages	5	10	12, 15 (2)	2.75	2	0	20	1	10
Alcoholic beverages								10	45
Beers	15	45	25		15	15	50		
Others	35, 40	45	45	40 (3)	35	15	50		
Tobacco	40	15, 20, 25	40	20, 45	40	15	45	15	100
Coffee	5		12	3.8	10	1	12	1	30
Kola nuts		20	15	30		10	30	5	30
Wheat flour	1				1	1	5	1	20
Oils and fats	1			5, 12, 15	1	1	15	1	15
Tea				3.8		1	12	1	30
Weapons and ammunition		40				15	40	20	50
Perfumery and cosmetic products	5		15	12.5	15	5	15	5	40
Plastic bags		5			5	5	10	1	10
Marble		5				5	15	5	15
Gold		5				3	15		
Precious stones, gems								3 (4)	50
Passenger vehicles of 13 HP or	7	5			10	5	10	1, 5 (5)	25, 150 (5)

Source : Finance Laws 2012, WAEMU and ECOWAS Directives.

1/ ECOWAS Directive on excise allows the taxation of other products such as caviar, leather, pleasure boats, art, and monosodium glutamate.

2/ 12 percent for fruit juices, 15 percent for mineral water.

3/ Senegal levies additional taxes on alcoholic beverages.

4/ The ECOWAS Directive taxes precious minerals (gold, platine) as the same rate than precious stones.

5/ The ECOWAS Directive distinguishes new cars (bracket 1 percent to 25 percent) and second-hand cars (5 percent to 150 percent).

IV. TAX EXPENDITURES

A. Definition

According to the OECD report on the subject, tax expenditures are transfers of public resources that are achieved by reducing tax liabilities relative to a benchmark tax, rather than by a direct expenditure. This definition establishes two characteristics for identifying tax expenditures: (1) a reduction in government revenue, and (2) a deviation from the benchmark tax (reference system) to be defined.

Defining the benchmark tax regime is a prerequisite for the identification of tax expenditures. It is possible to identify the exemptions that do not give rise to revenue losses and that cannot, therefore, be considered tax expenditures. However, it is impossible to go beyond this initial differentiation without referring to a validated benchmark tax. The definition of the latter and its validation are priority steps in the tax expenditure analysis approach.

Tax expenditures can be divided into two categories, based on the chosen objective. Investment tax expenditures aim to promote domestic or foreign investment (direct and indirect taxation, customs duties, etc.). Consumption tax expenditures promote household consumption by reducing the tax burden (essentially indirect taxation) and, normally, the price of the goods concerned,³⁰ or by increasing disposable income (direct taxation of individuals). The aim of the first category is efficiency, whereas the second focuses more on fairness by targeting goods that are more likely to be consumed by the poorest households (foodstuffs, for example) or by modifying the progressivity of the wage tax burden.

B. Investment Incentives

Firms under the Investment Code benefit from a range of exemptions from various taxes. There are 4 incentives regimes: Regime A for investments of between CFAF 12.5 million and CFAF 250 million; Regime B for investments valued at between CFAF 250 million and CFAF 1 billion; Regime C for investments of more than CFAF 1 billion; and Regime D for investments of more than CFAF 12.5 million, limited to enterprises with 80 percent of their output destined to exportation. There is also a separate regime for investments in the special economic zones established by Decree of the Council of Ministers. Table 5 summarizes the incentives granted by the Investment Code.

Table 5. The different tax regimes under the Investment Code

	Regime A	Regime B	Regime C	Regime D	Special Economic Area
Indirect taxes					
Tariff on equipment goods	Exemption 3 ou 2 years			Ex. 30 years	Ex. 10 years
VAT on domestic purchases	Exemption 3 ou 2 years			Ex. 30 years	Ex. 10 years
VAT on services	Exemption 3 ou 2 years			Ex. 30 years	Ex. 10 years
Direct taxes (only for new activities)					
CIT	Reduced rate at 25 percent for 7 to 15 years	Reduced rate at 25 percent for 10 to 18 years		Ex. 30 years	Ex. 10 years
Minimum Tax	Ex. 5 years	Ex. 8 years	Ex. 10 years	Ex. 30 years	Ex. 10 years

Source : Investment Code

C. Estimation and correction

A report on Malian tax expenditures is produced each year since 2012. All the estimates of revenue forgone as a result of exemptions reported by the tax administration and the customs are included in this document. The amount of tax expenditure for 2013 was estimated by the Committee of tax policy at FCFA 452.9 billion, or 8.4 percent of GDP.

Table 6. Tax expenditure computed and corrected for the fiscal year 2013

	Malian Committee		Correction	
	Billion FCFA	Percentage of GDP	Billion FCFA	Percentage of GDP
Tax Expenditures at the Tax admin. level				
Tax expenditures in the Tax Code	21.1	0.39	21.1	0.39
Tax expenditure under the Investment Code	54	1.01	4.7	0.09
Tax expenditure under the Mining Code	163.1	3.04	56	1.04
		VAT exemptions and Tax on financial activity		
Tax expenditures under ministerial decrees	78.9	1.47	78.9	1.47
Other tax expenditures	1.4	0.03	1.4	0.03
Total	318.5	5.94	162.1	3.02
Tax Expenditures at the Customs level	134.4	2.51	71.1	1.33
		VAT exemptions		
Total tax expenditures	452.9	8.44	233.2	4.35

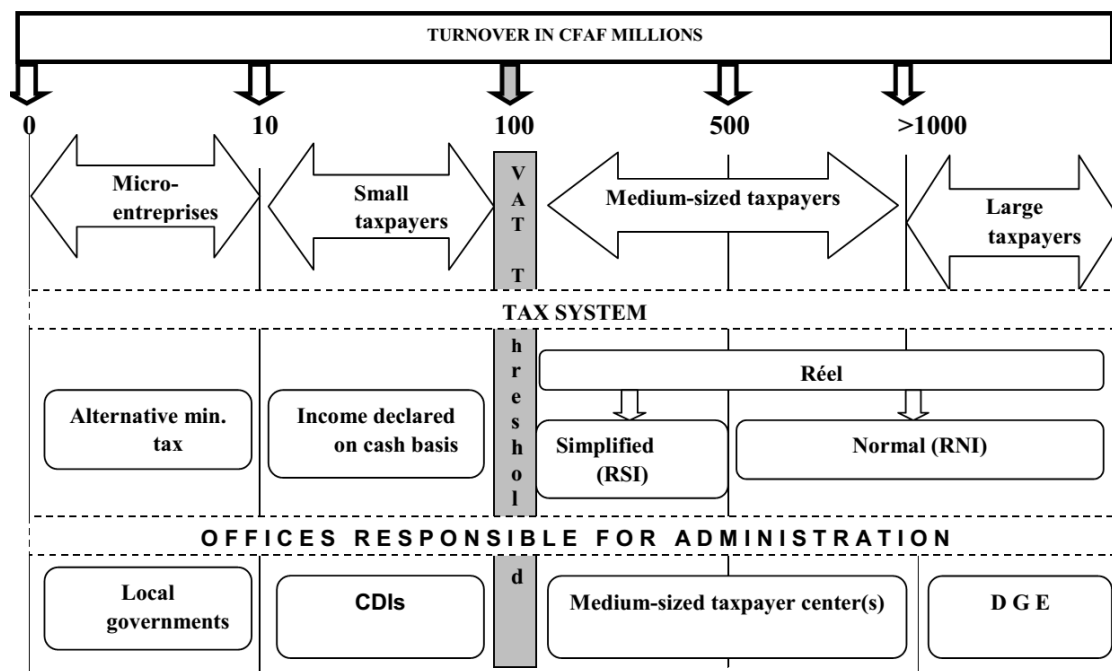
V. TAX AND CUSTOMS ADMINISTRATION

A. Tax administration

The continued strengthening of tax administration capacities faces a number of challenges, including: (1) effective monitoring of tax obligations: over 25 percent of medium-sized businesses and over 70 percent of the small businesses identified do not comply with their tax obligations, and only one in five businesses pays net VAT; (2) expansion of the tax base: the tax administration identified only 1,600 firms generating sales above CFAF 100 million; (3) reduction and control of outstanding tax liabilities, which have quadrupled since 2012; and (4) promotion of voluntary tax compliance, in particular through improved quality of the services delivered to taxpayers, simplified and modernized procedures, and professionalization of tax administration personnel.

The tax administration reorganization began in 1994 with the creation of the DGE. It continued in 2010 with the creation of the DME. As of January 2012, the DGE is responsible for businesses generating turnover of over CFAF 1 billion; the DME, for businesses with turnover between CFAF 100 million and CFAF 1 billion; and the CDIs, for businesses with turnover of less than CFAF 100 million.

Figure 2. Tax administration organization

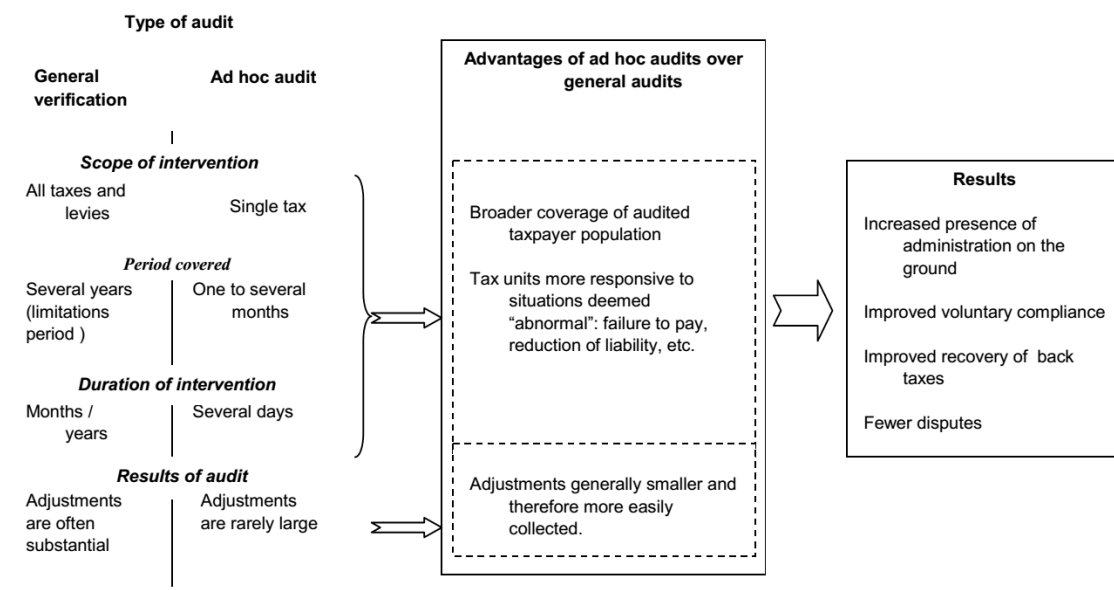


Tax audits are conducted by the Large Taxpayer Unit (DGE) for large businesses, the Medium Taxpayer Unit (DME) for medium-sized businesses, and the regional directorates for small businesses. The procedure used is based on a general verification (VG), which is an audit of all taxes, duties, and assessments payable by a taxpayer over a period of several years.

The staffing allocated to tax audits in Mali is less 10 percent of the total tax administration staff, while it generally represents between 20 percent and 30 percent in other countries. During the period January 2010 to December 2012, the financial results of tax audits were weak (less than 3 percent of DGI receipts). The coverage of tax audits remains limited. Currently, between 10 percent and 12 percent of large and medium-sized businesses are audited annually. Given the extent of the risk of fraud, which generally increases during periods of crisis, the proportion of businesses audited should be on the order of 25 percent for large businesses and 15-20 percent for medium-sized businesses. Also, as indicated above, a large number of businesses (of all categories) report the clearly irregular situation of continual VAT credits.

The tax administration generally triggers general verification, which consists in reviewing all the taxes due by a firm (see graphic 1). Ad hoc audits are mainly used for VAT. The following graphic presents the main advantages of ad hoc audits.

Figure 3. The main advantages of ad hoc tax audits



B. Customs administration

In a critical context following the looting of customs offices in March 2012 and reduced imports, the Customs took immediate measures to ensure continued operations and the collection of duties and taxes. Ultimately, customs receipts were only moderately affected by the situation.

The customs administration has implemented two innovative measures concerning bonded merchandise in transit, which is of great importance to Mali in light of its geographic isolation: (1) the introduction of a transit document covering regional routes; and (2) the creation of a transit control bureau (BCT) using a GPS-type system and mobile brigades.

In May 2013, the Malian customs office at the Dakar port began creating regional transit documents (TRIE) in ASYCUDA as soon as it receives a copy of the operator's transit declaration filed with the Senegalese customs authorities. The procedure facilitates entry to Mali and secures customs operations, since the Malian entry and destination bureaus are informed in advance.

Trade in the informal sector calls for tighter measures. Groupings of miscellaneous goods not identified or poorly identified by commercial documents originate primarily from Guinea. The Guinean border is a known smuggling route for highly taxed products, especially cigarettes. This smuggling should be countered by the combined action of mobile brigades and the customs inspection offices.

Goods declared to be of WAEMU origin and receiving preferential tariff treatment represents close to one-fourth of Mali's imports. The bureaus' verifications are based on anomalies observed in certificate, wrapping, and merchandise only. Certain goods obtained after processing in coastal countries are accompanied by certificates of preferential origin, although the common external tariff (CET) does not appear to have been applied to the input.

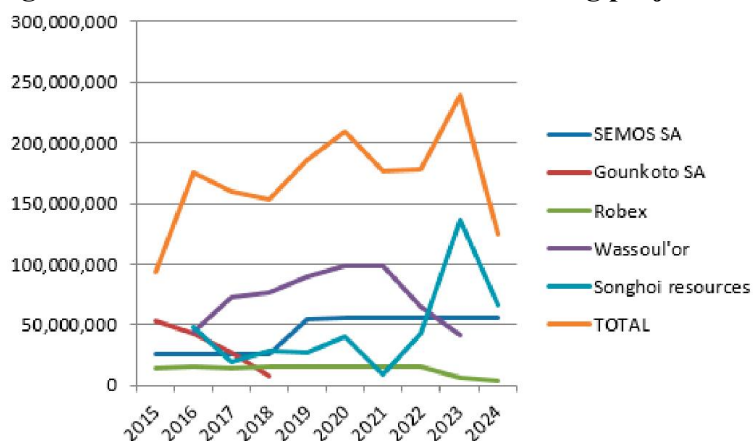
VI. THE TAXATION OF THE MINING SECTOR IN MALI

The mining sector directly and indirectly contributed 21.6 percent of the government's tax revenues in 2011 (3.28 percent of GDP), or 18.6 percent of total revenues (3.89 percent of GDP). Table 1 presents a detailed breakdown of the revenues from the mining sector. The petroleum sector is still at the exploration stage and is generating very little in the way of revenues (the surface tax, issuance fee, and training and promotion fund).

Mining taxation in Mali has a particularly important role to play in the mobilization of domestic revenues. The seven mining companies in operation and their subcontractors, or 72 of the 409 companies registered with the Large Enterprise Directorate (DGE), Mali's large taxpayer unit, in 2012, account for more than 45 percent of the corporate income tax (IS) collected. According to the most recent report of the Extractive Industries Transparency Initiative (EITI), covering the year 2011 and published in 2013, direct taxation is the primary source of revenues, accounting for 36 percent, which is higher than the figure for royalties (30 percent of revenues). Finally, mines in operation served as important tax collection agents in 2011, withholding CFAF 33 billion, or 20 percent of total revenues. However, the withholdings at source for the value-added tax (VAT) and for the tax on industrial and commercial profits (BIC) were expected to decline significantly from 2011 onward in accordance with the international best practices.

Mali's industrial mining sector predominantly consists of gold mining, with six industrial mines currently active. Most of the mines are old, but a number of them still have substantial reserves; extensions are planned for the Syama, Morila, Kalama, Tabakoto, Segela, and Loulo-Gounkoto mines. One mine, Robex, is expected to go into production soon, and a feasibility study has been submitted for the Fekola mine. Preparatory works for the Kodiéran mine, held by Wassoul'or, could resume during 2015 following the payment of over CFAF 7 billion to various creditors. Accordingly, Mali's declining gold production could be sustainably reversed in the coming years if international prices remain at current levels.

Figure 4. Annual revenue in USD at the mining project level.



The application of the 1999 or 2012 Mining Code increases the government's share of income in comparison with the 1991 code (see Figure 3 and Table 2). However, there are considerable differences between the projects, with the average effective tax rates (AETR)

ranging from 15.8 percent to 54.5 percent for the different projects and mining codes. The impact of the 2012 Mining Code relative to the 1999 code on the AETR is not uniform; which of the two has the greatest impact depends on the structure of the project costs. It increases the AETR for those with the highest unit costs of production and reduces it for those with the lowest unit costs. The regressive nature of the tax system is the result of developments in the area taxation: the 2012 Mining Code reduced the CIT rate by 10 points but reinstated the ad valorem tax of 3 percent of turnover. The internal rate of return (IRR) is greater than 26 percent in all cases, and may exceed 200 percent in certain cases.

Figure 5. Average Effective Tax Rate according to the Mining Code applied

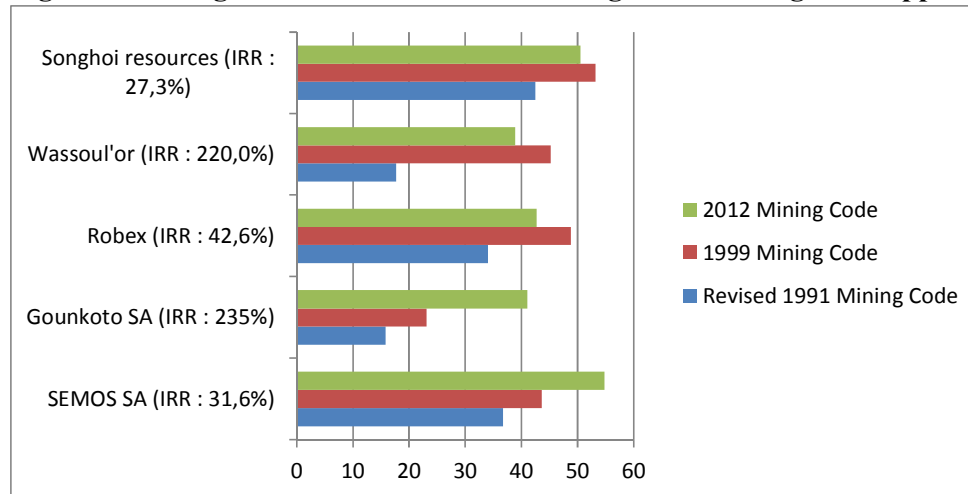


Table 7. Key tax and fiscal parameters for the computation of the AETR

	Revised 1991 Mining Code	1999 Mining Code	2012 Mining Code
Tax on selected products (ISCP)	3%	3%	3%
Ad valorem royalty	3%		3%
Corporate income tax (IS)	25%	35%	25%
Corporate income tax (IS) exemption	5 years	None	None
Preferred (special) dividends	no	10%	10%
		10%	10%
		on dividends paid to the government only	
Tax on investment income (IRVM) interest		9%	9%

The structure of government revenue under the 1999 Mining Code is quite different from revenue under the 2012 code (cf. Figure 4), and aptly illustrates the delicate tradeoffs between securing government receipts and being sufficiently attractive to private investors. Mining royalties (the ad valorem tax and the special tax on certain products (ISCP)) contribute the same amount to government revenue as when the 1991 Mining Code is

applied, roughly 41 percent. This "step backward" secures government revenue, almost 80 percent of which was traceable (under the 1999 Mining Code) to corporate income tax and the payment of priority dividends, the bases for which are particularly exposed to transfer pricing practices.⁴ While the 2012 Mining Code secures a greater share of mining revenue for the government, it is less neutral than the 1999 Mining Code. By relying more on fees that are equivalent to turnover taxes, the 2012 Mining Code gives lesser consideration to the mining project's returns or profitability, and could therefore reduce incentives to invest. Such a risk is limited, however, by the high IRRs.

The main taxes, duties, levies, and royalties under the Mining Codes are managed by four directorates in three different ministries: the Directorate General of Taxes (DGI) and the Directorate General of Customs (DGD) in the Ministry of Economy and Finance; the National Geology and Mines Directorate (DNGM) in the Ministry of Mines; the Property and Land Registry Directorate (DNDC) in the Ministry of State Property and Land Affairs. This list also includes the mandatory levies imposed by the National Social Security Institute (INPS), which is under the supervision of two ministries: the Ministry for Humanitarian Action, Solidarity and the Elderly and the Ministry of Economy and Finance.

VII. DISCUSSION QUESTIONS

Suppose you are defining the modalities of Domestic Revenue Mobilization conditions in a budget support contract for Mali. You consider the following issues (with help of the Appendices and other materials).

1. How will you improve direct taxation of profit (tax policy and revenue administration)?
2. What are the main issue regarding the taxes on wages in Mali?
3. How do you plan to improve the equity of the Malian tax system?
4. Distinguish the roles of the major indirect taxes: (a) VAT; (b) excises; and (c) import duties. What are the main economic functions of each type of tax? What are their main advantages and disadvantages?
5. What are your specific recommendations to improve VAT performance?
6. What are your specific recommendations for changes in excises and other indirect taxes on domestic goods?
7. Is the investment code adequate to attract foreign investment? How to improve it?
8. Which tax expenditure will you recommend suppressing?
9. Can you explain the VAT correction in Table 6?
10. What are the main reforms in tax and customs administrations will you recommend under the EU budget support contract? What type of criteria will you use?
11. Does Mali get a fair share of the gold mining industry? Is there some room for any improvement?
12. Finally, what, will be your three main tax policy or revenue administration reforms that you will consider as DRM-specific condition of the EU budget support contract for Mali? What criteria, what term limit (take into account their feasibility in terms of implementation)?

VIII. APPENDICES

Timeline of the Mali crisis

March 2012: President Amadou Toumani Toure is ousted in coup by a previously unknown, US-trained captain, one month before planned elections. The main complaint is that the army is ill-equipped to fight rebels in the north. Tuareg rebels and Islamists seize north of country. African Union suspends Mali.

April 2012: Military hands over to a civilian interim government, led by President Dioncounda Traore.

May 2012: Alleged 'second' coup attempt by supporters of ousted President Toure in Bamako. Junta reasserts control. The Tuareg MNLA and Islamist Ansar Dine rebel groups merge and declare northern Mali to be an Islamic state. Ansar Dine begins to impose Islamic law in Timbuktu. Al-Qaeda in North Africa endorses the deal.

June-July 2012: Ansar Dine and its Al-Qaeda ally turn on the MNLA and capture the main northern cities of Timbuktu, Kidal and Gao. They begin to destroy Muslim shrines that offend their puritan views, including tombs in Timbuktu.

August 2012: In order to satisfy regional demands for a transition from military-dominated rule, Prime Minister Cheick Modibo Diarra forms a new government of national unity.

November 2012: The West African regional grouping, Ecowas, agrees a coordinated military expedition to recapture the north, with UN and African Union backing. Preparations are expected to take several months.

December 2012: Prime Minister Cheick Modibo Diarra resigns, allegedly under pressure from army leaders who oppose plans for Ecowas military intervention. President Traore appoints a presidential official, Django Sissoko, to succeed him. The UN and US threaten sanctions.

January 2013: President Traore asks France for help, after Islamist fighters captured the central town of Konna and planned to march on the capital. French troops rapidly capture Gao and Timbuktu and at the end of the month enter Kidal, the last major rebel-held town. The Malian national assembly endorses a Roadmap for Transition. European countries pledge in February to help retrain the Malian army (EU Training Mission).

April 2013: France begins withdrawal of troops. A regional African force helps the Malian army provide security.

May 2013: The international donor conference held in Brussels, co-presided by EU Commission President José Manuel Barroso and the Malian President Dioncounda Traoré, pledges €3.2bn to help rebuild Mali.

June 2013: Government signs peace deal with Tuareg nationalist rebels to pave way for elections. Rebels agree to hand over northern town of Kidal that they captured after French troops forced out Islamists in January.

July-August: Ibrahim Boubacar Keita wins presidential elections at the end of July, defeating Moussa Mara. France formally hands over responsibility for security in the north to the Minusma UN force. President Keita appoints banking specialist Oumar Tatam Ly as Prime Minister in September.

December 2013: Parliamentary elections give President Keita's RPM 115 out of 147 seats. France announces 60 % reduction in troops deployed in Mali to 1,000 by March 2014.

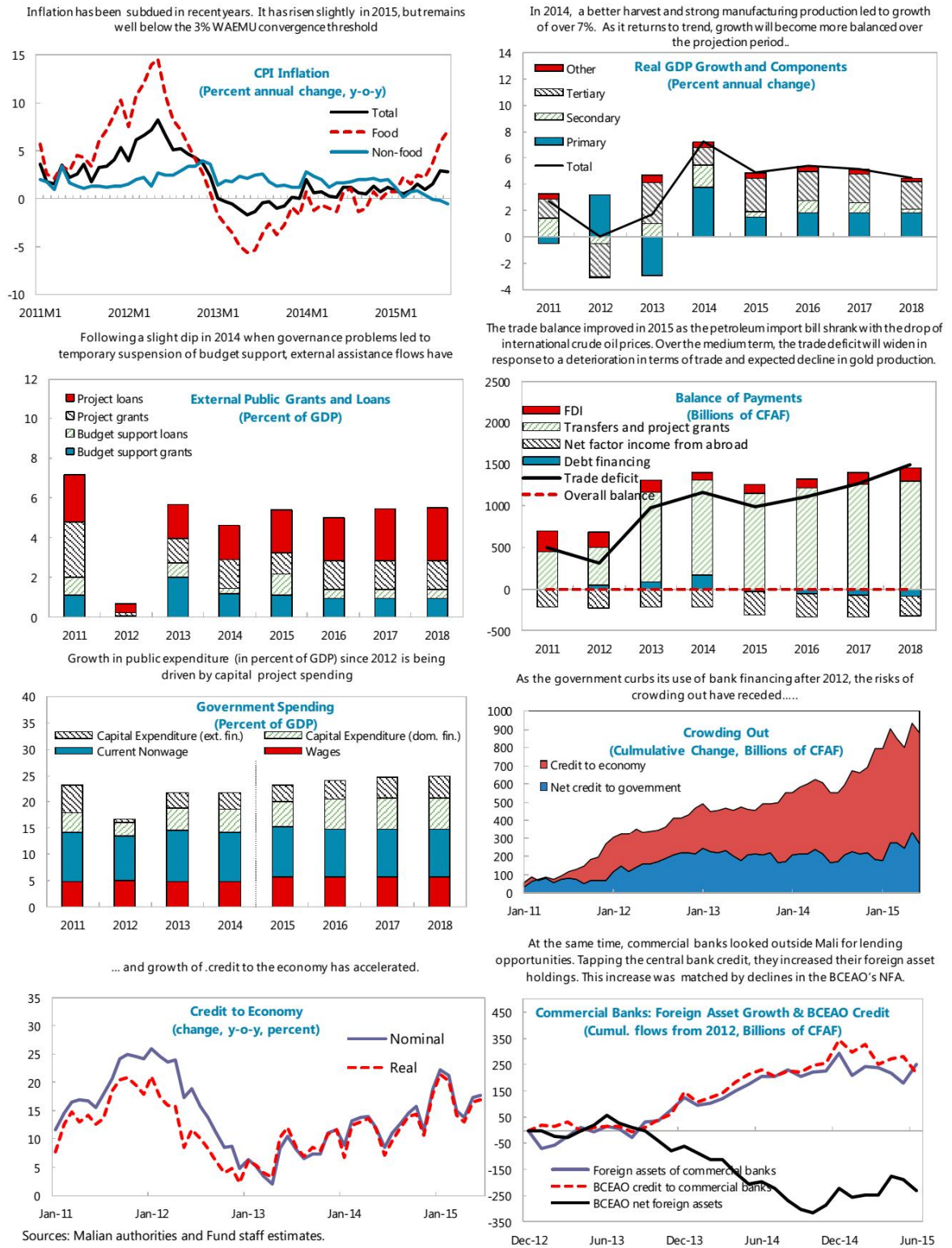
April 2014: President Keita appoints former rival Moussa Mara prime minister in a bid to curb instability in the north.

May 2014: Fragile truce with Tuareg MNLA separatists breaks down in north. Separatists seize control of Kidal city and the town of Menaka, Agelhok, Anefi and Tessalit.

September 2014: Government, separatists begin new round of talks in Algeria to try end conflict over northern Mali, or Azawad as the secessionists call it. Separatist MNLA opens an 'Azawad embassy' in the Netherlands.

October 2014: Nine UN peacekeepers killed in the north-east - the deadliest attack so far on its mission in Mali.

Sources: New York Times, 2014; Guardian, 2013; BBC, 2014

Figure 1. Mali: Macroeconomic Developments, 2011–18

Source: IMF, Article IV, 2015

Table 1. Mali: Selected Economic and Financial Indicators, 2013–20

	2013	2014	2015	2016	2017	2018	2019	2020	
	Est.		Prog. ¹	Rev. prog.	Prog.	Projections			
(Annual Change in percentage)									
National income and prices									
Real GDP	5.8	7.2	5.0	4.9	5.4	5.1	4.5	4.5	4.5
GDP deflator	0.6	1.7	2.1	3.2	2.4	1.9	1.8	1.9	2.5
Consumer price inflation (average)	1.0	0.9	1.5	2.1	2.8	1.9	1.9	2.2	2.5
Consumer price inflation (end of period)	0.0	1.2	1.2	2.6	1.0	1.9	1.9	2.5	2.5
External sector (percent change)									
Terms of trade (deterioration -)	-0.7	5.3	7.9	15.2	-2.6	-0.5	-5.4	-3.6	-1.3
Real effective exchange rate (depreciation -)	...	1.8	...	...	...	...	...	...	...
Money and credit (contribution to broad money growth)									
Credit to the government	2.9	0.8	5.9	5.9	5.2	2.5	1.2	1.0	0.9
Credit to the economy	3.2	12.4	5.1	6.2	6.0	5.9	5.7	5.6	5.5
Broad money (M2)	13.0	7.1	14.0	13.4	12.2	9.5	8.4	7.8	7.7
(Percent of GDP, unless otherwise indicated)									
Investment and saving									
Gross domestic investment	24.5	24.1	34.1	31.1	34.6	35.9	38.4	40.1	41.1
Of which : government	11.7	7.7	10.0	8.1	9.1	9.9	10.1	10.2	10.4
Gross national savings	17.6	18.6	28.6	28.2	30.7	30.7	31.5	32.3	33.2
Of which : government	2.7	0.8	2.1	1.2	1.3	1.5	1.7	2.1	2.2
Gross domestic savings	2.1	4.7	15.1	15.8	18.7	19.0	19.7	20.7	22.0
Central government finance									
Revenue	18.2	17.7	19.1	18.8	19.8	20.6	21.1	21.5	21.7
Grants	5.4	2.6	4.4	2.9	2.4	2.4	2.4	2.4	2.4
Total expenditure and net lending	28.3	23.7	26.8	24.2	25.5	26.2	26.4	26.9	27.0
Overall balance (cash basis, including grants)	-5.5	-2.8	-5.0	-4.3	-3.6	-3.3	-3.0	-3.0	-3.0
Basic fiscal balance (WAEMU def.) ²	-0.9	-1.4	-0.8	-0.8	-0.9	-0.5	0.0	0.0	0.0
Domestic debt (end period) ³	3.9	7.4	8.1	8.6	8.1	8.4	8.4	8.4	8.4
External sector									
Current external balance, including official transfers	-7.0	-5.5	-5.5	-2.8	-3.9	-5.2	-6.9	-7.4	-7.4
Current external balance, excluding official transfers	-19.8	-16.4	-16.4	-12.9	-13.2	-13.9	-15.1	-15.2	-14.7
Exports of goods and services	25.4	26.6	25.5	26.5	24.7	23.5	21.0	19.7	18.9
Imports of goods and services	47.9	46.1	44.5	41.8	40.6	40.4	39.7	38.6	37.6
Debt service to exports of goods and services	3.8	3.5	6.7	6.3	4.3	4.2	4.8	5.3	5.9
External debt (end period)	28.4	28.0	28.5	27.5	27.7	28.2	28.5	29.2	30.1
Memorandum items:									
Nominal GDP (CFAF billions)	5,840	5,987	6,396	6,479	6,990	7,491	7,968	8,529	9,185.7
Overall balance of payments (US\$ millions)	53.9	-353.5	73.9	14.0	7.6	21.0	35.3	38.3	57.6
Money market interest rate (in percent, end of period)	...	3.0	...	...	...	...	...	...	...
Gross international reserves (US\$ millions)									
Central Bank of West African States (BCEAO)	...	13,221	...	...	...	...	...	...	...
in percent of broad money	...	40.5	...	...	...	...	...	...	...
in months of imports of g. and s.	...	4.6	...	...	...	...	...	...	...
BCEAO Mali (imputed)	1,353	874	905	832	840	888	930	990	1,039
in percent of broad money	31.8	23.5	23.3	21.9	21.9	20.4	19.4	18.8	18.3
US\$ exchange rate (end of period)	...	532.0	...	...	...	...	...	...	...
Gold Price (US\$/fine ounce London fix)	1,290	1,266	1,180	1,175	1,158	1,171	1,188	1,208	1,234
Petroleum price (crude spot)(US\$/bbl)	99	96	58	52	50	55	60	62	63

Sources: Ministry of Finance; and IMF staff estimates and projections.

¹ IMF Country Report No. 15/151, Mali: Third Review Under the Extended Credit Facility Arrangement.² Total revenue, plus general budgetary grants, plus revenue from HIPC debt relief, minus total expenditure and net lending excluding foreign-financed capital spending.³ Includes BCEAO statutory advances, government bonds, treasury bills, and other debts.

Source: IMF, Article IV, 2015

Table A2: Mali, Tax Revenue (details)

<i>Billion FCFA</i>	2010	2011	2012	2013
Tax revenue and grants	940.0	1057.1	925.8	1163.1
Tax revenue	691.9	765.1	785.6	824.4
<i>In percent of GDP</i>	<i>15.10%</i>	<i>15.19%</i>	<i>14.81%</i>	<i>15.37%</i>
Tax revenue excluding natural resources	650.1	717.1	720.0	769.1
<i>In percent of GDP excl. natural resource</i>	<i>14.88%</i>	<i>15.34%</i>	<i>14.72%</i>	<i>15.09%</i>
Direct Taxes	204.6	220.8	263.2	258.1
Corporate Income Tax	118.0	113.3	135.2	144.3
Payroll tax	48.6	57.6	67.9	65.4
Social contribution paid by employers	6.0	7.8	9.9	8.5
Capital income tax	13.5	18.8	16.9	16.4
Other direct taxes	18.4	23.3	33.3	23.6
Indirect Taxes	404.6	437.2	407.8	453.9
VAT	256.0	271.4	225.8	259.7
<i>VAT (Tax Admin.)</i>	<i>99.0</i>	<i>125.0</i>	<i>115.0</i>	<i>124.5</i>
<i>VAT (Customs)</i>	<i>162.8</i>	<i>185.4</i>	<i>171.5</i>	<i>198.1</i>
<i>VAT refunds</i>	<i>-5.7</i>	<i>-28.2</i>	<i>-47.5</i>	<i>-47.8</i>
Tax on banking services	19.6	21.0	26.1	27.3
Tariffs	94.6	112.1	100.5	115.3
Tax on petroleum products	25.5	4.7	25.3	24.3
Tax on mobile phone				5.0
Other indirect tax	8.9	28.0	30.0	22.2
Other taxes	41.0	59.1	49.0	57.1
Stamps and registration fees	17.8	18.4	15.9	21.4
Other	23.2	40.6	33.1	35.7
Natural resource revenue	41.7	48.0	65.6	55.3
Royalty	21.2	22.3	31.8	28.9
Excise on Gold	20.5	25.7	33.8	26.4
<i>GDP</i>	<i>4,582</i>	<i>5,038</i>	<i>5,303</i>	<i>5,364</i>
<i>GDP excl. natural resource sector</i>	<i>4,368</i>	<i>4,673</i>	<i>4,890</i>	<i>5,098</i>

Source : Tax Administration and Customs.

Table A3: Tax and Nontax Revenue from the Mining Sector according to EITI

Year audited	2006	2007	2008	2009	2010	2011
Total revenues	115.7	136.0	125.9	176.2	168.6	196.2
	3.62%	3.97%	3.22%	4.16%	3.68%	3.89%
Tax revenues	90.7	112.5	105.3	149.6	132.6	165.0
	2.83%	3.29%	2.69%	3.54%	2.89%	3.28%
Direct tax revenues	31.8	60.2	56.5	73.8	56.4	60.0
IS (corporate income tax)	29.2	58.3	54.6	67.3	50.8	53.8
IRVM (tax on investment income) (1)		0.1	0.0	4.1	3.3	2.8
Payroll taxes (2)	2.6	1.7	1.9	2.4	2.3	3.4
<i>TL (housing tax)</i>	0.2	0.2	0.2	0.3	0.3	0.4
<i>TFP (vocational training tax)</i>	0.1	0.4	0.4	0.5	0.5	0.7
<i>CFE (fixed employer contribution)</i>	2.2	1.2	1.2	1.2	1.1	1.7
<i>TEJ (youth employment tax)</i>		0.0	0.1	0.4	0.4	0.6
Indirect tax revenues	8.1	10.8	8.5	19.4	16.0	20.4
VAT (3)		6.9	5.6	12.0	9.4	0.0
Customs duties	8.1	3.9	2.9	7.4	6.4	20.4
Other taxes	0.0	0.0	0.0	0.0	0.2	
Other tax revenues	1.1	1.2	1.2	1.8	2.1	2.6
Business license taxes	1.1	1.2	1.2	1.8	2.1	2.6
Tax revenues specific to the mining sector	32.1	26.2	28.7	38.3	41.1	49.0
Ad valorem tax	15.5	13.9	14.5	21.2	20.5	24.6
Excise tax on gold (CPS and ISCP)	16.5	12.3	14.1	16.8	20.4	24.1
<i>CPS (tax on services) (4)</i>	16.3	12.3	14.1	16.5	15.1	2.1
<i>ISCP (tax on selected products)</i>	0.2	0.0	0.0	0.2	5.3	22.1
Surface royalties	0.1	0.1	0.1	0.3	0.2	0.3
Withholdings at source (5)	17.5	14.0	10.3	16.3	17.0	33.0
Taxes on wages and salaries	4.8	4.6	4.2	8.0	8.0	10.0
BIC withholdings	5.0	0.7	1.9	2.5	5.6	7.4
VAT withholdings	6.0	8.7	4.2	5.9	3.4	15.6
Other withholdings	1.7	0.0	0.0	0.0	0.0	0.0
Nontax revenues	25.0	23.5	20.6	26.5	35.9	31.2
Dividends	20.4	18.5	15.7	20.3	29.6	22.8
Social security contributions (INPS)	4.6	5.0	5.0	6.3	6.3	8.4
<i>GDP</i>	<i>3,201</i>	<i>3,425</i>	<i>3,913</i>	<i>4,233</i>	<i>4,582</i>	<i>5,038</i>

1: The IRVM (tax on investment income) applies only to dividends paid to the government; those paid to other shareholders are exempt under the mining agreements.
2: Payroll taxes are payable by the employer.
3: Nondeductible VAT.
4: The CPS (tax on services) and ISCP (tax on selected products) are the same tax. The name varies depending on the mining code referenced.
5: Taxes not payable by the company itself, but which it collects.

Two Alternative Exemption Systems: Reverse Charge and Notional VAT Debt

VAT reverse charge mechanism

The reverse charge system works as follows:

1. The foreign operator issues an invoice exclusive of taxes to its Malian customer. This invoice clearly states that the VAT is payable by the customer and mentions the legal provision indicating that the VAT is not collected by the supplier.
2. The Malian importer pays the Malian VAT to the DGD under the reverse charge system and simultaneously recovers the VAT paid. It declares the amount of the operation exclusive of taxes by creating a “Purchases of goods or services from a taxpayer not established in Mali” account. The deductibility and collection of VAT are thus simultaneous, as in a self-supply system.

The problems generally encountered with the VAT reverse charge mechanism concern eligibility for this mechanism and the concept of a stable establishment in Mali. In the case of the CI, these problems can be largely avoided by limiting the eligible operations and the enterprises concerned.

Recognition of a notional VAT debt

The mechanism for recognizing a notional VAT debt (DN-TVA) would function as follows:

1. At the customs frontier, for imports mentioned in the CI, the DGD records a DN-TVA equal to the amount of VAT that would have been collected had the enterprise been subject to generally applicable provisions.
2. This DN-TVA is canceled when the importer obtains documentation from the DGD attesting that the conditions set out in the CI for obtaining a VAT exemption have been satisfied. More precisely, the promoter of the investment project obtains a certificate, possibly issued by the API, stating that the exempted fixed assets are in the installation or operational phase of the investment program. In the case of exemptions under the free zone regime, the importer can request cancellation of the DN-TVA or a portion thereof. It must then submit a certificate stating that the goods have been exported, that they are still in the free zone, or, if they have been cleared for consumption on the domestic market, that the import levies (including VAT) have been paid.

If importing enterprises cannot provide the required certificates one year at the latest after the date of importation (except in cases where a postponement authorization issued by the API attests that the program is in process of implementation), the authorities may undertake to collect the DN-TVA, which then becomes an outstanding debt.

Common elements of strategies for tax reform in developing countries⁹

- Establishing effective revenue administrations making proper use of withholding and third-party information, and capable of building on these to implement voluntary compliance and self-assessment—taxpayers calculating and remitting tax themselves, subject to audit and penalties—both as a prerequisite for expanding the tax base and to help address corruption.
- Assuring strong control of the largest taxpayers, in a dedicated office (and with specialized units for the most critical sectors), as a key step towards introducing risk assessment and fuller taxpayer segmentation.
- Implementing policies and procedures that limit opportunities for rent seeking and help identify and punish inappropriate behavior in the revenue administration.
- Designing and applying forceful and efficient strategies to deal with non-compliance.
- Ensuring that laws and regulations are reasonably simple, readily available, coherent across taxes, and provide good taxpayer protection (including effective appeals procedures).
- Replacing inefficient production or sales taxes, after adequate preparation of both the administration and taxpayers, by a simple VAT—including to catalyze administrative reforms.
- Levying a VAT on a broad base, with a high threshold (the level of turnover at which registering for the tax becomes compulsory) and avoiding multiple rates, to realize its potential as a reasonably efficient source of government finance.
- Coordinating any prospective loss of trade tax revenue with measures to replace it from domestic sources.
- Avoiding exemptions—under all taxes—that jeopardize revenue and good governance, are hard to reverse, and generate no clearly offsetting social benefit.
- Removing minor taxes and fees that are inordinately costly to comply with and administer.
- Building CITs that are simple (in their depreciation and carry forward provisions, for instance) and sufficiently broad-based to allow statutory rates competitive by international standards, with effective tax rates that are reasonably low and uniform across investments.
- Strengthening capacity to deal with profit-shifting by multinationals, while recognizing the extreme difficulty of doing so.
- Extending the coverage of the PIT (particularly through inclusion of smaller businesses and professionals) and establishing coherent taxation of capital income, with an effective rate structure consistent with the authorities' distributional preferences.
- Exploiting the potential for regional cooperation, in both policy and administration—particularly on business taxation and excises—to limit mutually damaging competition.
- Balancing royalties, auctioning and profit-related charges in taxing natural resources.

⁹ IMF, OECD, UN, and WB, 2016, Enhancing the effectiveness of external support in building tax capacity in developing countries, prepared for submission to G20 Finance Ministers.