

**GST POLICY PAPER TO THE
HONOURABLE MINISTER OF
FINANCE, DEVELOPMENT AND
ECONOMIC PLANNING**

(2)

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1.0 OVERVIEW OF THE PAPER

This paper is the second of three papers lined up to be forwarded to the Honourable Minister of Finance and Economic Development on GST policy issues before the end of the February 2008. The papers seek to present to the Minister an objective evaluation of policy options on the key issues in GST design and implementation. They also put forward the policy options recommended by the Project/GST Oversight Committee (PGOC) after series of working sessions and deliberations.

This second paper covers the following issues:

- Coverage
- Exemptions
- Zero rating
- Diplomatic and other Reliefs
- Outside the scope transactions
- Government

We look forward to the Minister's decisions that will be incorporated into the draft GST Bill to be forwarded to the Minister for onward submission to the Law Officers Department.

2.0 COVERAGE

As a general tax on consumption expenditure, GST should ideally be chargeable on all transactions that ultimately result in the production of goods or provision of service to the consumer. But in practice a range of transactions involving the supply of goods and services are exempt from the scope of GST either because the supplier is not registered to charge GST or the supply (i.e. the good or service) is exempt. In addition, a few institutions and bodies (e.g. diplomatic missions) may be relieved from payment of GST under certain conditions.

It is a common practice worldwide that GST is imposed on all goods and services (referred to as supplies) except those specifically listed in the exempt schedule to the parent legislation. Taxable supplies are generally subject to GST both at importation and when traded within the domestic economy. No GST is charged on exempt goods and services when bought or sold.

On the other hand, some supplies that are taxable under the GST law may be traded without GST being levied on the transaction merely because the supplier does not qualify to be registered to charge GST. For example businesses whose turnover fall below the registration threshold are not obliged to register for GST. Such traders would not be eligible to charge GST so long as they remain unregistered for GST

In short, a “taxable supply” is any sale of goods or provision of service which is subject to tax under the GST law.

It is obligatory for every GST-registered person to charge GST on all supplies of goods or services made in the course of or in furtherance of the business unless those goods and services are specifically listed in the law as exempt. The importation of goods and services, except those specifically exempt or relieved under the GST law, is liable to GST regardless of the registration status of the importer.

It bears emphasising that taxable supplies include the sale or delivery of taxable goods as well as the provision of taxable services. The sale or making of supply must also be understood in a broader context to include appropriation by a registered person of taxable goods for personal use or for the use of others

The two options available for defining coverage in GST legislation are:

- (i) Providing a detailed schedule of taxable supplies or
- (ii) Providing a list of exemptions and reliefs, making all other supplies taxable by default.

2.1 Recommendation:

It is recommended that in the GST legislation taxable supplies be defined as default to supplies listed in exemption and relief schedules.

2.2 Justification/Basis of Recommendation:

While the first option has the advantage of precision as to the specific supplies liable to tax, it limits the scope of taxable supplies to what is known and listed. Each time of technological progress or development creates new supplies that need to be brought into the scope of the tax, the schedule of taxable supplies will have to be amended.

The definition of taxable supplies as a default to the schedule of exempt supplies on the other hand, provides scope for automatic admission into the coverage of the tax new supplies that emerge from technological progress and other innovations.

3.0 EXEMPTIONS

The term “exemption” by what Tait (1987) refers to as a “linguistic quirk of GST”, applies to an exclusion regime of the GST system under which GST paid on taxable inputs that go into a supply is not recoverable. The business whose supplies are exempt pays GST on all taxable purchases without recourse to a claim of tax credit. The irrecoverable input tax is therefore built into the price of the exempt supply. In effect only the value added at the exempt stage is free of GST.

3.1 Exemptions at Different Stages of the Production-Distribution Chain

The impact of exemptions on the level of tax burden to the final consumer and the amount of tax revenue varies with the stage at which the exemption occurs in the production-distribution chain. Policy evaluation of the potential impact of exemption of any selected supply need to take account of the stage in the trade chain where the supply occurs.

3.1.1 Upstream Exemption

Exemption is said to occur upstream when the supply or the trader at the earlier stages of production (e.g. at the primary or manufacturing level) falls outside the scope of GST.

Generally, upstream exemption does not result in any diminution in tax burden on the final consumer nor tax revenue. For example if the raw material imported by a manufacturer and the manufactured product are exempt but the value added at those stages still enter the scope of the tax at the subsequent stages of the production-distribution chain, it will result in no loss of tax revenue. This illustrates the capacity of the GST mechanism to recapture downstream, tax evaded or waived at earlier

stages in the production-distribution chain. This however is predicated on there being no leakages in the chain from one stage to the next.

In the Sierra Leonean situation, however, little scope exists for recapturing at subsequent stages in the production chain, the revenue forgone from exemption of GST on agricultural produce for example since the bulk of such exempt produce does not normally undergo processing before it reaches the final consumer. The point still holds however, that the GST system effectively exacts tax from primary produce that undergo processing into finished manufactures, in spite of their being exempt as unprocessed food items or on account of their having been produced by non-registrable traders.

3.1.2 Midstream Exemption

Exemption at an intermediate level in the production-distribution chain prior to the final point of sale to the consumer could be referred to as a midstream exemption.

Midstream exemption results in GST at the manufacturing level being treated as cost and therefore being built into the price at the exempt stage, (i.e. wholesale stage). The non-recoverable input tax then becomes part of the value on which GST is levied at the retail level. In this case enhancement in revenue would occur as a result of double taxation of inputs and cascading of tax.

3.1.3 Downstream exemption

Downstream exemption occurring at the tail end of the production-distribution chain results in loss of revenue from the value added generated at that level. The price to the consumer could be lower by the extent of tax loss. On the other hand, the margin could be higher by that amount if the exempt retailer sets his price at the level of the registered trader.

3.2 Consequences/Effects of Exemption

Exemption has many effects, some of them quite complex. A notable point about exemption is that it does not provide complete relief from GST. All it does is to relieve the firm's value added from tax.

Exemptions could disturb the functioning of GST as a strictly neutral tax. If an exempt firm sells a product used for further production by a registered firm, the GST borne by the exempt firm on its inputs will be factored into the price of the product, but the purchasing firm cannot claim credit for it.

3.3 Cascading/Revenue Impact

Further, GST will thus be imposed on the tax element already concealed in the product of the registered firm. Generally, part of the value added will be taxed twice when an exempt firm's output is used as an input by a registered firm. Thus the evil of cascading which GST is designed to eliminate could sneak into the system via exemption.

More specifically, pre-retail exemptions have the following drawbacks:

- They cause double taxation of value added before the exempt stage and thus penalize purchases from exempt supplies.
- For the same reason, exemptions can become a tax on exporters because they preclude refunds of the tax paid on inputs;
- Exemption penalises outsourcing and provides an incentive for firms to integrate.
- It complicates GST administration through the need for tax allocation rules; i.e. attributing the GST on purchases to taxable turnover (with credit for the tax on purchases) and exempt turnover (without credit for tax on purchases).

Exemption breaks the GST chain. Whether this increases or decreases the net revenue raised by the GST depends on where in the chain of supply the break occurs. If the exemption occurs immediately prior to final sale, the consequence is a loss of revenue since value added at the final stage escapes tax.

If the exemption occurs at some intermediate stage, on the other hand, the consequence is actually an increase in net revenues: the cascading of tax on inputs means that, as the price charged by downstream firms using the exempt item rises in order to cover their increased costs so the tax on output down-stream increases. Thus value added prior to the exempt stage is effectively taxed more than once.

3.4 Distorted Input Choices

The exemption of an item used as inputs into production removes the key feature of the GST, of preserving undistorted the production choices that firms make. The irrecoverable taxation of some intermediate inputs incidental to exemption tends to induce producers to substitute away from those inputs. The distortion consequences of the initial exemption can even spread far beyond the sectors most directly affected.

3.5 Incentive to self-supply

By introducing cascading, exemption creates incentives for the avoidance of tax by vertical integration, commonly referred to as "self-supply". To elaborate, exempt traders have an incentive to supply taxable items to themselves rather than purchasing them and incurring irrecoverable GST. Banks producing exempt financial services, for example, may find it

worthwhile producing security services and stationery in-house rather than purchasing them from outside companies that must charge GST, which the bank cannot recover. While such self-supply mitigates the production efficiency problem associated with exemption, it evidently does so only at some revenue cost.

3.6 Partially Exempt Traders

A GST-registered trader may be supplying both taxable and exempt goods and/or services. Such a trader is known as a Partially Exempt trader. Complications arise in respect of such traders who sell both taxable and exempt outputs. For recovery purposes their input tax payments must be allocated between the two kinds of sales.

Rather than simplifying administration and enhancing compliance, exemptions could introduce complications into GST administration and impede compliance in more ways than one. For instance, a partially exempt trader cannot offset all his input tax against his output tax. He can only offset that amount of input tax which is attributable to his taxable supplies. Where a firm allocates a given input between taxable and exempt products the task of disentangling GST liabilities could be a difficult one.

Where a taxable person has made both taxable and exempt supplies, but cannot directly attribute the input tax to the taxable and exempt supplies, he may deduct as input tax an amount that bears the same ratio to total input tax as the taxable supplies bear to the total supplies. Deductible input tax is thus calculated as:

$$\frac{\textit{Total Value of Taxable supplies} \times \textit{Total Input Tax}}{\textit{Total Value of all Supplies}}$$

This is merely a rule of thumb for approximation of the input tax relating to taxable supply in a situation of mixed supplies and therefore not 100% accurate. It is a practical way of resolving the problem of input tax attribution created by exemption.

3.7 Exemption Creep

One of the key features of exemptions is the way in which they feed on one another; giving rise to a process that has been referred to as "Exemption Creep". In the first place, each exemption provides a general precedent for others. Beyond that each exemption creates direct pressures for further exemptions, both upstream and downstream:

- Creating one exemption in order to lighten the tax load on a particular item or group creates pressure for exemption (or zero-rating) of commodities used to produce that exempt item. Lobbyists for upstream suppliers

reasonably argue that if the government wishes to remove the burden on that item then surely it should remove the tax on its inputs that would otherwise be unrelieved. In Ghana, the exemption of pharmaceuticals provoked local manufacturers to press for the exemption of active ingredients that go into the manufacture of pharmaceutical products. The ink had hardly dried on the amendment Act which granted this request when lobbying started for the exemption of containers and packaging material for pharmaceutical products.

- Granting exemption at an intermediate level in the production-distribution chain increases the potential return to downstream users of that input from lobbying to secure their own exemption.

3.8 Rationale for Exemptions

Despite their many drawbacks, exemptions are a common phenomenon under GSTs. Indeed there is no known GST system that is completely free of exemption.

Grounds cited for exemption of selected supplies from the scope of GST are diverse.

- (i) **Administrative convenience:**
Administrative convenience is an overriding factor in the setting of turnover threshold to ensure that a manageable number of businesses are registered for GST, but the inevitable outcome of the threshold is exemption of the supplies of businesses below the threshold.
- (ii) **Cost Effectiveness:**
There is little point in bringing into the scope of GST, the class of traders whose contribution to tax revenue could be less than the cost of administering and supervising their compliance.
- (iii) **Record Keeping:**
Unstructured business units without the capacity to comply with the record-keeping requirements of GST are best excluded from the tax.
- (iv) **Social and Welfare considerations:**
A good number of goods and services are exempt on welfare grounds. Basic goods and services perceived to constitute important elements in the consumption basket of low income households are usually exempted from GST with the objective of granting relief to the poor. This is perceived to give the tax a human face and popular acceptance e.g rice in the case of Sierra Leone.

(v) **Technical grounds:**
Technical difficulties in defining what is taxable in some types of supply may necessitate exemption of the given supply. In the financial services sector the core financial intermediation is exempt in most GST systems mainly on account of the conceptual difficulties relating to identification of the taxable element in that supply. In this situation, exemption becomes a means of ensuring that taxation is not avoided altogether.

(vi) **A Compromise between Zero rate and Standard Rate**
Exemption is partway between, on the one hand, levying a positive GST rate in the usual way and, on the other, zero-rating. Where it seems impractical to apply the GST at the standard rate to a supply; revenue or practical considerations may make exemption preferable to the alternative of zero-rating.

A second key instance is where output is sold at prices below true market value. The most prominent examples arise in connection with outputs sold by the public sector in competition with private enterprises. State financed educational institutions, for instance, may supply education service at low prices, and in competition with private enterprises subject to GST. Complete parity between the two could be achieved by zero-rating these services, but may present opportunities for abuse. Though still placing the public sector at an advantage, exemption may be preferable.

(vii) **Exemption as a Less Costly and Administratively Convenient Substitute for a Reduced Rate.**

Exemption has the advantage of avoiding the administrative difficulties associated with the payment of refunds as a result of zero or reduced rating. It does not however obviate the rate differentiation drawbacks of encouraging definitional disputes and setting the stage for further base erosion. Not requiring the monitoring of either output tax or the recovery of input tax, administrative simplicity is perhaps the greatest attraction of exemption.

3.9 RECOMMENDED LIST OF EXEMPT SUPPLIES

Efficiency in production and tax collection is best served if GST is imposed on the widest possible range of goods and services that are used or consumed by businesses and individuals. Exemptions violate the logic and functionality of GST. It is widely agreed, therefore, that exemptions

should be limited to those dictated by strict administrative cost-benefit considerations.

After careful deliberations on the impact of exemptions of the range of supplies commonly exempt under GST regimes in Africa, the Project GST Oversight Committee (PGOC) recommends that the under listed supplies be considered for exemption.

The Policy analysis forms attached as **Appendix 1** provide further details of the basis for the recommendation of exempt tax-treatment for each supply considered.

3.8.1 Supply: Animals, fish and birds imported for breeding and rearing purposes; and seeds, bulb rooting imported for propagation

Description:

Live asses, mules and hinnies, live marine mammals, live fish and aquatic invertebrates (excluding ornamental fish and pets), edible fruits, seeds, bulbs, roots, nuts and vegetables.

Current Tax Treatment: Exempt under the current Sales Tax.

Justification/Basis of Exemption:

The few medium and large scale agricultural establishments that have been spearheading modernisation of agriculture in Sierra Leone and providing employment in the rural areas, have been importing day-old chicks, improved seeds etc free of Sales Tax. Requiring them to pay GST on the inception of the tax could make the tax unpopular, especially as most developed countries continue to subsidise agriculture.

3.8.2 Supply: Rice in its raw state

Description:

Rice is considered to be in its raw state even if it has undergone stripping or polishing.

Current Tax Treatment: Exempt under the current Sales Tax.

Justification/Basis of Exemption:

Rice is the staple food on which the majority of the population depends. Its price is so sensitive that bringing rice within the coverage of GST at the standard rate could cause a price hike that could put GST in poor light.

On the other hand, there is no assurance that suppliers will pass on to consumers the benefit of zero-rating, if rice is zero-rated. In the face of the complications that come with zero-rating domestic supplies, and the fact that there is hardly any local rice producer that has a turnover above the proposed threshold of Le200,000 per annum, exemption could be the best tax-treatment for rice.

Implications for other agricultural food items:

The isolation of rice for exemption means that all other agricultural food items in the raw state e.g. beef; chicken, fish, etc will continue to be taxable under GST as they currently are under Sales Tax. Given the revenue importance of the massive quantities of frozen chicken, beef and fish imported into the country and the competitive advantage they enjoy over domestic producers, the least that can be done is to continue taxing them at importation at the inception of GST.

The point needs to be made however that the other agricultural food items in the raw state will be liable to GST not only at importation but also at the domestic front. In practice however the tax will hardly apply to locally produced agricultural food items. No more than 8 supermarkets will charge GST on locally produced beef etc.

3.8.3 Supply: Agricultural inputs

Description:

Chemicals, including all forms of fertilizers, acaricides, fungicides, rematicides, growth regulators pesticides, veterinary drugs and vaccine and feed

Current Tax Treatment: Exempt under the current Sales Tax.

Justification/Basis of Exemption:

In line with the government's policy of ensuring that farmers obtain agricultural inputs at lowest cost.

Farmers can improve their production levels if they are able to buy inputs at cheaper rates.

Isolating these basic agricultural inputs for exemption permits taxation of agricultural produce without too high a risk of social outcry particularly as taxation of agricultural produce will affect mainly imports in view of the fairly high threshold recommended.

3.8.4Supply: Water

Description:

Supply of water excluding bottled or other packaged and distilled waters

Current Tax Treatment: Exempt.

Justification/Basis of Exemption:

Water is perceived as life; its exemption will further enhance pro-poor policy included in the PRSP.

High prospects for social backlash against the tax will be avoided. Sierra Leone has a history of social interest provoked by an attempt by the Water Company to install meters. Exemption of water is not only prudent for the avoidance of social backlash but also practical in the face of the absence of meters that monitor water consumption of households.

3.8.5 Supply: Printed matter (books and newspapers)

Description:

Fully printed or produced by any duplicating process, including newspapers and academic publications, but excluding imported newspapers, plans & drawings, scientific and technical works, periodicals, magazines, trade catalogues, almanacs, price lists, greeting cards, calendars and stationery.

Current Tax Treatment: Books are exempt but magazines are taxable.

Justification/Basis of Exemption:

Exempting books is consistent with the government policy of subsidising education for all.

Promotes social need for basic education

Avoids social backlash

3.8.6 Supply: Education

Description:

The supply of formal education service at any establishment in the list of educational establishments approved by the Ministry of Education, Science and Technology and published in a gazette

Current Tax Treatment: Exempt

Justification/Basis of Exemption:

Exempting education is consistent with the government policy of subsidising education for all.

For all practical purposes the exemption is limited to school fees and other charges made by schools/educational institutions on students.

Promotes social need for basic education

Avoids social backlash

3.8.7 Supply: Medical Services and Pharmaceuticals

Description:

Medical Services; Mosquito Nets; and a list of drugs approved and published in a gazette by the Ministry of Health and Sanitation (MOHS) for treatment of malaria, HIV-AIDS, leprosy, tuberculosis, snake bites, rabies and laser fever; and condoms

Current Tax Treatment: This is the scope of exemptions under the current Sales Tax.

Justification/Basis of Exemption:

Currently only pharmaceuticals for the treatment of malaria, HIV-AIDS, leprosy, tuberculosis, snake bite, rabies and laser fever are exempt under the Sales Tax.

Apart for this narrow range, pharmaceuticals and drugs are currently liable to sales tax at 15%. The revenue importance of pharmaceuticals is said to be significant and the MRP of NRA is in the process of compiling data to establish this. Widening the scope of pharmaceuticals and drugs that are exempt will broaden the range of pharmaceutical products that will be put at competitive disadvantage when produced locally.

While exempt pharmaceuticals would be admitted 100% free of GST at importation, local manufacturers will confront irrecoverable input taxes (e.g. on electricity, packaging material etc) that will drive up their cost (relative to imports) and render them uncompetitive. This point holds true for all manufactured products that are given exempt tax treatment under GST. But the case of the pharmaceuticals deserve special attention as the technology for the manufacture of a good range of pharmaceuticals is so basic that without a competitive bias against local production, the pharmaceutical industry could easily become a starting point for a local manufacturing industry that could easily burgeon into an important growth driver.

3.8.8 Supply: Transportation of Passengers

Description:

Transportation of persons by bikes, buses and similar vehicles, ferry, train and air excluding internal air travel, boat and hovercraft services

Current Tax Treatment: Exemption of all forms of transport services.

Justification/Basis of Exemption:

The recommended exemption narrows the scope of exemption of transport services under the current Sales and Service taxes. The recommendation brings into the consumption tax net for the first time, helicopter service, boat and hovercraft services which are patronised by consumers in the middle and high income bracket; while exempting ferry, passenger transport to the provinces etc. In addition, the recommendation brings haulage into the tax net under GST. Given the homogeneous nature of the passenger transport industry where large and small firms could be operating the same brand and type of buses along the same route, taxing passenger transport services and using the threshold to select a few firms (only one as two in the Sierra Leonean situation) that will charge the tax would be discriminatory and punitive.

Besides, the structure and established procedures for payment of passenger transport fares are informal and not easily amenable to documentation. This holds true even for the one or two known passenger transport companies that are likely to make it into the GST register on the basis of turnover. Passenger fares are normally collected at the point of boarding or after boarding of vehicle without any documentation or ticket. Without exempting passenger transport, the only way the one or two GST-registrable companies could survive would be to split up as the introduction of tickets and slots on their busses will put off a good percentage of the illiterate peasants who patronise their services to and from the provinces.

Claim of Input tax by international airlines would be difficult to administer

3.8.9 Supply: Crude Oil and Hydrocarbon Products

Description: Petrol, diesel, liquefied petroleum gas, kerosene and residual fuel oil, bitumen but excluding lubricating oils.

Current Tax Treatment: Exempt

Justification/Basis of Exemption:

It avoids the difficulty of controlling false claims. Drawing a line between the use of diesel and petrol for taxable businesses on which GST is

recoverable and that for private consumption on which GST cannot be claimed as input tax will be tough in an environment where issue of invoice at gas stations is hardly controlled.

It would also avoid social backlash against GST, as the rippling effect of any increase in the price of petroleum products tends to be far reaching in the economy.

Excise duty is a more efficient way of taxing this supply than GST

The overwhelming majority of GST systems in Africa exempt crude oil and hydro-carbon products for the above reasons. Zambia tried taxing petroleum products and reverted to exemption, as was the case under the sales Tax, after a year.

3.8.10 Supply: Financial Services

Description: Provision of insurance; dealing in money (including foreign exchange) provision of credit; operation of any bank but excluding fees and similar charges for non intermediation services including transfers, professional advice such as accountancy, investment and legal; and safe keeping services

Current Tax Treatment: All supplies of financial services are exempt from Sales/Service Taxes.

Justification/Basis of Exemption

Practical and conceptual difficulties associated with the imposition of GST on financial services are the main grounds on which this supply has been recommended for exemption under the GST law. The conceptual problem relates to determining what element in financial service is a consumption item that must be effectively taxed. The interest on bank deposit, for example, includes an element paid to preserve the real value of the deposit against inflation, and a return on the real saving. Neither of these qualifies to be brought into the scope of a consumption tax. For this and other reasons, PGOC recommends the world-wide practice of exempting core financial services from GST.

In short, exemption of financial services in the manner recommended in the description above would

- Avoid a complex GST system
- Avoid the technical difficulties arising from the identification of value added in financial intermediation
- Permit taxation of non financial Intermediation services e.g. sale of cheque books, project evaluation and similar services rendered by banks in competition with non financial firms.

3.8.11 Supply: Goods for the disabled

Description:

Articles designed exclusively for use by the disabled

Current Tax Treatment: Sales Tax Exempt

Justification/Basis of Exemption

Consistent with current policy on the disabled

Avoids social backlash

Revenue implication is minimal as very few items are designed exclusively for the use of the disabled i.e. are not meant for use by the able-bodied

It gives the tax a human face at minimal revenue cost.

3.8.12 Supply: Land, Buildings & Civil Engineering Public Works

Description:

(a) Land & Buildings; the granting of assignment or surrender of an interest in land/buildings: the rights to occupy land/buildings;

(b) Civil engineering public works

Current Tax Treatment: Sale of land buildings etc and public civil engineering works are exempt from Sales Tax; inputs are not.

Comments

In principle, civil engineering public (government) works need not be given any special treatment that would discriminate between liability to government and private firms.

Subjecting the supply of engineering public works to GST makes for transparency and obviates the many difficulties associated with exemption. Equal treatment of civil engineering works carried out for the government in much the same way as private contracts, also makes for a level playing field and engenders confidence in the tax system.

Justification/Basis of Exemption:

For buildings in West Africa, there are considerable difficulties in identifying when construction is complete and GST will be due

Ownership title to land and buildings is difficult to establish in many situations.

The predominance of construction by direct labour means that taxing land and buildings will come with it the difficulty of assessing the value of a building and identifying the GST registered business/firm that must charge and account for the tax and claim input tax.

The magnitude of the GST on public civil engineering contracts is often so huge that requiring contractors for bridges, roads etc to charge the government output tax on the value of the contract and claim input tax, does not only create cash flow problems for civil engineering contractors for public works, but also heightens the potential for delays in project where the government is not in a position to pay in good time the GST involved.

The problem is exacerbated often by a well known clause in donor funding agreements which forbids the use of donor funds for payment of local taxes. The prospects for project delays occasioned by failure of Government to raise funds for payment of GST are minimized when supply of civil engineering public works, is exempt and contractors required to bid at values inclusive of GST on inputs

4.0 ZERO RATING

Zero-rating involves relieving the GST on the sale of the supply by applying a tax rate of zero while at the same time allowing a reclaim of GST paid on its inputs. A transaction is zero-rated when though the product is taxable, the rate of tax is 0%, resulting in no tax being charged; the GST paid on inputs is recovered. Since zero-rated goods and/or services are taxable, input taxes incurred on them are deductible.

Thus the zero-rated commodity or activity is wholly within the GST system and the registered trader dealing in it is required to make returns to the GST authorities. From the zero tax liability on sales the trader selling only zero-rated items deducts the GST liability on inputs, ending up with a claim equal to the GST paid on inputs. In this way the zero-rated product is completely and entirely relieved of GST including any that must have been paid at earlier stages of its production.

Zero-rating at the final stage of the production-distribution chain need not be confused with exemption at that stage. Whereas the retailer in the later cannot claim a credit, the zero-rated trader claims a credit though he charges GST at a rate of zero which in effect amounts to no GST being collected on output.

Zero rating would require NRA to make physical refund by way of issuing cheques to the zero-rated trader.

4.1 Recommendation:

It is the recommendation of the PGOOC that the following supplies destined for consumption outside the territorial boundaries of Sierra Leone should be zero-rated in order to enhance the competitiveness of exports:

1. Exports
2. Goods shipped as stores on vessels and aircrafts leaving the territories of Sierra Leone.

4.2 Justification/Basis of Recommendation:

Zero rating is perhaps the softest point of GST when it comes to fraud. Many GST jurisdictions, including the developed world are known to have suffered frauds associated with zero-rating. The risk is high with zero-rating for exports and particularly high if anything else apart from exports is zero-rated.

Zero-rating entails the provision of refunds for persons making zero-rated supplies. In recent years, zero-rating fraud has cost tax authorities in the E.U. tens of millions of lost Euros and sterling pounds. The frauds have been perpetuated on the World's most sophisticated and computerised tax administrations.

The extent of computerisation and the long experience of these administrations enabled them to discover the extent of fraud and eventually they do manage to track down a percentage of the perpetrators. A jurisdiction such as Sierra Leone whose tax administration does not have access to decades of GST experience and sophisticated and comprehensive computer data bases, can hardly afford the potential losses from abuse of extensive zero-rating for supplies other than exports.

5.0 DIPLOMATIC AND OTHER RELIEFS

Institutional reliefs apply where the supply is ordinarily taxable but the status of the taxpayer makes the transaction effectively exempt from tax by law. It amounts to a tax waiver for selected institutions and bodies, but by law.

5.1 Current Reliefs:

Currently relief from Sales Tax covers, President of the Republic of Sierra Leone, Commonwealth, Foreign embassies and Missions and Other international agencies subject to agreement with the government of Sierra Leone.

5.2 Recommendation:

The PGOC recommends that in conformity with other tax laws, the GST Law should confer institutional reliefs on the following:

- a. President of the Republic of Sierra Leone.
- b. Commonwealth, Foreign embassies and Missions (Reciprocal only).
- c. Other international agencies subject to agreement with the Government of Sierra Leone, duly approved by Parliament and specifically providing for relief from payment of taxes.

5.3 Justification/Basis of Recommendation:

The PGOC recommendation limits the scope of reliefs in two significant ways - confinement to reciprocity for diplomatic missions and agreements *approved by Parliament* in the case of international agencies.

The Vienna Convention provides for diplomats, relief from duties and taxes levied at point of importation; but expressly underscores the liability of diplomats to pay local taxes that are charged as part of the price of goods and services.

Section 34(a) of the Convention states, “A diplomatic agent shall be exempt from all dues and taxes, personal or real, national or municipal **EXCEPT:**

(a) Indirect taxes of a kind that are normally incorporated in the price of goods or services. ...”

In the light of this, the basis on which governments grant relief from domestic indirect taxes to diplomats is reciprocity i.e. how any given government treats Sierra Leonean diplomats in their country. This calls for a case by case definition of tax treatment for diplomats of foreign missions in Sierra Leone. There is therefore no question of blanket tax treatment for all diplomats.

The requirement for international agencies to establish title to relief on the basis of an agreement with the government duly approved by Parliament is not only in consonance with the Constitution which vests in Parliament the sole prerogative to impose, vary and waive taxes, but would also render invalid all titles to relief based on agreements that have not had Parliamentary approval and thereby limit the scope of reliefs.

6.0 OUTSIDE THE SCOPE TRANSACTIONS

Some GST legislations provide for transfer of a going concern as being an “Outside the scope” transaction. The equipment, machinery, buildings and

work in progress etc constituting the value of a take-over transaction, would be taxable if each was supplied in isolation; but taken together as a going concern, their transfer to a buyer who will continue with the business renders unnecessary taxing the transfer transaction.

Putting the transfer of going concern outside the scope of GST ensures seamless transfer of ownership and continuity in tax compliance and is therefore recommended by PGOC.

7.0 GOVERNMENT

Under a pure approach to the taxation of public services activities, public sectors bodies should be registered for GST purposes. They would pay GST on their “sales”, i.e. the revenue that they receive in the form of fees, charges, grants, subsidies and, in the case of local governments, proceeds from local taxes. Furthermore, all GST-liable public sector bodies would receive a tax credit for the tax on purchases. This approach however raises a number of fundamental issues including the propriety of charging GST on government bodies’ subsidies part of which could have come from GST.

Recommendation:

Generally, the registration and payment of GST by public sector bodies increase the accountability and transparency of government operations; but a more pragmatic approach recommended is to subject ministries, departments and agencies of government to the same GST compliance requirements as private business. In other words, an entity making taxable supplies and making a turn charge the tax and account for it the normal way through filing of returns irrespective of the ownership – regardless of it being a private or public entity.

Similarly, MDAs that are not expressly relieved of payment of tax by law would have to pay GST on their taxable purchases.

Justification/Basis of Recommendation:

This obviates the complications that would arise from having to distinguish between activities which are taxable and activities that are not taxable, on the basis of whether they are performed by government or private bodies. It ensures a level playing field for all entities making taxable supplies in the market place without regard to ownership.

8.0 CONCLUSION

While effort has been made to cover the key issues considered important in arriving at decisions on the topics covered in this paper, it is not intended that the paper be a substitute for a meeting of MoFED with the technical team of the NRA for discussion to clarify issues touched on or not covered.

The next paper scheduled for submission to the Minister on 29th February 2008 will cover the following issues:

- Accounting Records
- Appeal Mechanism
- Bad debt relief
- Time of supply
- Transitional Arrangements
- Treatment of Discounts
- Treatment of Donations
- Offences
- Partial exemption rules
- Treatment of Second Hand Goods
- Non-deductible input tax
- Import of services
- Treatment of Supplies for Business Promotion
- Retail scheme
- Retail export scheme/Tourist purchases

APPENDIX 1 – EXEMPTIONS WORKSHEET

Policy Analysis Framework

A. Supply: Animals, fish and birds imported for breeding and rearing purposes; and seeds, bulb rooting imported for propagation

1.0 Description: Live asses, mules and hinnies, live marine mammals, live fish and aquatic invertebrates (excluding ornamental fish and pets), edible fruits, seeds, bulbs, roots, nuts and vegetables.	
2.0 <u>Treatment under current tax instruments:</u> Sales Tax: Exempt Import Duty: Exempt Excise Duty: Exempt	3.0 <u>Treatment in generic African GST systems:</u> Exempt
4.0 <u>IMF Recommendations (if any):</u> NONE	5.0 <u>The options are:</u> <ul style="list-style-type: none"> ▪ Make supply taxable ▪ Exempt
5.1 Option 1: Taxable	
5.1.1 <u>For:</u> <ul style="list-style-type: none"> ▪ Revenue gain 	5.1.2 <u>Against:</u> Hinders modernisation of local agricultural industry The possibility of a social backlash if GST becomes chargeable on these imports
5.2 Option 2 : Exempt	
5.2.1 <u>For:</u> <ul style="list-style-type: none"> ▪ Encourages growth and modernisation of local agric industry ▪ Avoid social backlash 	5.2.2 <u>Against:</u> <ul style="list-style-type: none"> ▪ Revenue forgone
6.0 <u>Recommendation:</u> EXEMPTION	
7.0 <u>Reasons for recommendations:</u> <ul style="list-style-type: none"> ▪ Encouragement for the introduction of superior breeds into local agric industry ▪ Avoids social backlash 	
8.0 Note/ <u>Further action needed (if any):</u> NONE	

Policy Analysis Framework

B. Supply: Rice in its raw state

1.0 Description: Rice is considered to be in its raw state even if it has undergone stripping or polishing.	
2.0 <u>Treatment under current tax instruments:</u> Sales Tax: Exempt Import Duty: 15% Excise Duty: Exempt	3.0 <u>Treatment in generic African GST systems:</u> Exempt
4.0 <u>IMF Recommendations (if any):</u> Exempt	5.0 <u>The options are:</u> <ul style="list-style-type: none"> ▪ Make supply taxable ▪ Exempt
5.1 Option 1 : Taxable at Standard Rate	
5.1.1 <u>For:</u> <ul style="list-style-type: none"> ▪ Revenue gain ▪ Simplicity for e.g. supermarkets (as they would avoid the complexities of partial exemption) 	5.1.2 <u>Against:</u> <ul style="list-style-type: none"> ▪ Social backlash as the price of rice will increase ▪ Inequitable because it is a main source of carbohydrates available to most Sierra Leoneans.
5.2 Option 2 : Exempt	
5.2.1 <u>For:</u> <ul style="list-style-type: none"> ▪ Staple food for Sierra Leoneans ▪ Good Public Relations ▪ Supply constitutes a significant part of the expenditure of poor households. 	5.2.2 <u>Against:</u> <ul style="list-style-type: none"> ▪ Revenue forgone
6.0 <u>Recommendation:</u> EXEMPTION	
7.0 <u>Reasons for recommendations:</u> <ul style="list-style-type: none"> ▪ Social backlash ▪ Supply constitutes a significant part of the expenditure of poor households 	
7.0 <u>Note/Further action needed (if any):</u> NONE	

Policy Analysis Framework

C. Supply: Agricultural inputs

1.0 Description: Chemicals, including all forms of fertilizers, acaricides, fungicides, rematicides, growth regulators pesticides, veterinary drugs and vaccine and feed	
2.0 <u>Treatment under current tax instruments:</u> Sales Tax: Exempt Import Duty: 5% Excise Duty: Exempt	3.0 <u>Treatment in generic African GST systems:</u> Exempt
4.0 <u>IMF Recommendations (if any):</u> Exempt	5.0 <u>The options are:</u> <ul style="list-style-type: none"> ▪ Make supply taxable ▪ Exempt supply
5.1 Option 1 : Taxable	
5.1.1 <u>For:</u> <ul style="list-style-type: none"> ▪ Revenue gain 	5.1.2 <u>Against:</u> <ul style="list-style-type: none"> ▪ Does not accord with government policy of giving special assistance to the agricultural industry
5.2 Option 2 : Exempt	
5.2.1 <u>For:</u> <ul style="list-style-type: none"> ▪ In line with the government policy of ensuring that farmers obtain agricultural inputs at lowest cost. ▪ Farmers can improve their production levels if they are able to buy inputs at cheaper rates 	5.2.2 <u>Against:</u> <ul style="list-style-type: none"> ▪ Revenue forgone
5.0 <u>Recommendation:</u> EXEMPT	
7.0 <u>Reasons for recommendations:</u> <ul style="list-style-type: none"> ▪ In line with the government policy of ensuring that farmers obtain agricultural inputs at lowest cost. ▪ Farmers can improve their production levels if they are able to buy inputs at cheaper rates. 	
8.0 <u>Further action needed (if any):</u> NONE	

Policy Analysis Framework

D. Supply: Water

1.0 Description: Supply of water excluding bottled or other packaged and distilled waters.	
2.0 <u>Treatment under current tax instruments:</u> Sales Tax: Exempt Import Duty: N/A Excise Duty: Exempt	3.0 <u>Treatment in generic African GST systems:</u> Exempt
4.0 <u>IMF Recommendations (if any):</u> Taxable as recommended by IMF FAD Mission (Feb 2004).	5.0 <u>The options are:</u> <ul style="list-style-type: none"> ▪ Make supply taxable ▪ Exempt supply
5.1 Option 1 : Taxable	
5.1.1 <u>For:</u> <ul style="list-style-type: none"> ▪ Revenue gain 	5.1.2 <u>Against:</u> <ul style="list-style-type: none"> ▪ Change in tariff or mode of collection of rates on water has traditionally been sensitive e.g. installation of meters provoked widespread protests that resulted in destruction of meters. ▪ The current application of fixed rates (unrelated to volume of consumption) by the state water company is likely to limit the potential for revenue from taxation of water.
5.2 Option 2 : Exempt	
5.2.1 <u>For:</u> <ul style="list-style-type: none"> ▪ History of public reaction to changes in tariff or mode of assessing water bills in Sierra Leone makes taxation of water under GST potentially explosive ▪ Pro-poor policy 	5.2.2 <u>Against:</u> <ul style="list-style-type: none"> ▪ Revenue forgone
6.0 <u>Recommendation:</u> EXEMPT	
7.0 <u>Reasons for recommendations:</u> <ul style="list-style-type: none"> ▪ Water is perceived as life; its exemption will avoid protests against the introduction of GST and further enhance pro-poor policy included in the PRSP. ▪ High prospects for social backlash against the tax will be avoided. 	
8.0 Note/ <u>Further action needed (if any):</u> Bottled water currently attracts sales tax of 15%	

Policy Analysis Framework

E. Supply: Printed matter (books and newspapers)

1.0 Description: Fully printed or produced by any duplicating process, including newspapers and academic publications, but excluding imported newspapers, plans & drawings, scientific and technical works, periodicals, magazines, trade catalogues, almanacs, price lists, greeting cards, calendars and stationery.	
2.0 <u>Treatment under current tax instruments:</u> Sales Tax: Exempt Import Duty: 5% Excise Duty: Exempt	3.0 <u>Treatment in generic African GST systems:</u> Generally exempt (although some African countries do tax all books and printed material)
4.0 <u>IMF Recommendations (if any):</u> NONE	5.0 <u>The options are:</u> <ul style="list-style-type: none"> ▪ Make supply taxable ▪ Exempt supply
5.1 Option 1 : Taxable	
5.1.1 <u>For:</u> <ul style="list-style-type: none"> ▪ Revenue gain 	5.1.2 <u>Against:</u> <ul style="list-style-type: none"> ▪ Taxing printed material especially school materials will contradict current government policy of subsidising education for all.
5.2 Option 2 : Exempt	
5.2.1 <u>For:</u> <ul style="list-style-type: none"> ▪ Promotes "subsidised education for all" policy ▪ Avoids social backlash and improves the chances of GST being introduced successfully. 	5.2.2 <u>Against:</u> <ul style="list-style-type: none"> ▪ Revenue forgone
6.0 <u>Recommendation:</u> EXEMPT	
7.0 <u>Reasons for recommendations:</u> <ul style="list-style-type: none"> ▪ Exempting these is consistent with the govt. policy of subsidising education for all. ▪ Promotes social need for basic education ▪ Avoids social backlash 	
8.0 <u>Further action needed (if any):</u> NONE	

Policy Analysis Framework

F. Supply: EDUCATION

1.0 Description: The supply of formal education at any establishment in the list of educational establishments approved by the Ministry of Education, Science and Technology and published in a gazette	
2.0 Treatment under current tax instruments: Sales Tax: Exempt Import Duty: N/A Excise Duty: Exempt	3.0 Treatment in generic African GST systems: Exempt (some countries discriminate between private and publicly funded education. taxing the former)
4.0 IMF Recommendations (if any): Exempt as recommended by the IMF FAD Mission report- Feb 2004	5.0 The options are: <ul style="list-style-type: none"> ▪ Make supply taxable ▪ Exempt supply
5.1 Option 1 : Taxable	
5.1.1 For: <ul style="list-style-type: none"> ▪ Revenue gain 	5.1.2 Against: <ul style="list-style-type: none"> ▪ Will contradict government policy of subsidising education for all.
5.2 Option 2 : Exempt	
5.2.1 For: <ul style="list-style-type: none"> ▪ It promotes the policy of subsidised "education for all". ▪ Avoids social backlash 	5.2.2 Against: <ul style="list-style-type: none"> ▪ Revenue forgone
6.0 Recommendation: EXEMPT	
7.0 Reasons for recommendations: <ul style="list-style-type: none"> ▪ Exempting education is consistent with the govt. policy of subsidising education for all. ▪ Promotes social need for basic education ▪ Avoids social backlash 	
8.0 Further action needed (if any): Request for the approved list of educational establishments from the Ministry of Education. The GST Administration should annually review this list.	

Policy Analysis Framework

G. Supply: Medical Services and Pharmaceuticals

<p>1.0 Description: Medical Services; Mosquito Nets; and a list of drugs approved and published in a gazette by the Ministry of Health and Sanitation (MOHS) for treatment of malaria, HIV-AIDS, leprosy, tuberculoses, snake bites, rabies and laser fever; and condoms.</p>	
<p>2.0 <u>Treatment under current tax instruments:</u> Sales Tax: 0% Import Duty: 0% Excise Duty: N/A</p>	<p>3.0 <u>Treatment in generic African GST systems:</u> The general practice is to exempt medical services but the range of pharmaceuticals exempted varies. Some countries tax all pharmaceuticals, some zero rate whilst others exempt only specific pharmaceuticals. The recommended treatment is less favourable than in some other countries.</p>
<p>4.0 <u>IMF Recommendations (if any):</u> Exempt : IMF FAD Mission Report – Feb '04</p>	<p>5.0 <u>The options are:</u></p> <ul style="list-style-type: none"> ▪ Make supply taxable ▪ Exempt supply
<p>5.1 Option 1: Taxable</p>	
<p>5.1.1 <u>For:</u></p> <ul style="list-style-type: none"> ▪ Revenue gain 	<p>5.1.2 <u>Against:</u></p> <ul style="list-style-type: none"> ▪ Not pro-poor
<p>5.2 Option 2 : Exempt</p>	
<p>5.2.1 <u>For:</u></p> <ul style="list-style-type: none"> ▪ Pro-poor policy ▪ Consistent with the current tax treatment under the Sales Tax 	<p>5.2.2 <u>Against:</u></p> <ul style="list-style-type: none"> ▪ Revenue forgone
<p>6.0 <u>Recommendation:</u> Exempt</p>	
<p>7.0 <u>Reasons for recommendations:</u></p> <ul style="list-style-type: none"> ▪ Pro-poor policy ▪ Consistent with the current tax treatment under the Sales Tax 	
<p>8.0 Note/<u>Further action needed (if any):</u></p> <ul style="list-style-type: none"> ▪ MOHS to produce and gazette a list of pharmaceuticals for the treatment of malaria, HIV-AIDS, leprosy, tuberculosis, snake bite, rabies and laser fever ▪ Currently pharmaceuticals attract 15% sales tax and 5% import duty except malaria, leprosy, tuberculosis and HIV-AIDS 	

Policy Analysis Framework

H. Supply: Transportation of Passengers

1.0 Description: Transportation of persons by bikes, buses and similar vehicles, ferry, train and air excluding internal air travel, boat and hovercraft services	
2.0 <u>Treatment under current tax instruments:</u> Sales Tax: Exempt Import Duty: N/A Excise Duty: N/A Int'l Travel subject to Foreign Travel Tax at 10%	3.0 <u>Treatment in generic African GST systems:</u> Exempt
4.0 <u>IMF Recommendations (if any):</u> NONE	5.0 <u>The options are:</u> <ul style="list-style-type: none"> ▪ Make supply taxable ▪ Exempt supply
5.1 Option 1 : Taxable	
5.1.1 <u>For:</u> <ul style="list-style-type: none"> ▪ Revenue gain 	5.1.2 <u>Against:</u> <ul style="list-style-type: none"> ▪ Difficult and costly to administer as there are huge no. of small scale operators in this industry that don't keep proper records. ▪ Claim of Input tax by airlines would be difficult to administer
5.2 Option 2 : Exempt	
5.2.1 <u>For:</u> <ul style="list-style-type: none"> ▪ Continues to promote trade ▪ Avoids high admin and compliance costs ▪ Continued application of FTT to international air travel without recourse to input tax recovery 	5.2.2 <u>Against:</u> <ul style="list-style-type: none"> ▪ Revenue forgone
6.0 <u>Recommendation:</u> Exempt	
7.0 <u>Reasons for recommendations:</u> <ul style="list-style-type: none"> ▪ Difficult and costly to administer as there is a huge no. of small scale operators in the domestic transport industry that don't keep proper records. ▪ Claim of Input tax by international airlines would be difficult to administer 	
8.0 <u>Further action needed (if any):</u> A closer study of the structure of the airline industry with the view to converting FTT into GST in the long-term is required	

Policy Analysis Framework

I. Supply: Crude Oil and Hydrocarbon Products

1.0 Description: Petrol, diesel, liquefied petroleum gas, kerosene and residual fuel oil, bitumen but excluding lubricating oils.	
2.0 <u>Treatment under current tax instruments:</u> Sales Tax = Exempt Import Duty = 5% Excise Duty = Specific rates applied on Petrol, Diesel and Kerosene	3.0 <u>Treatment in generic African GST systems:</u> Exempt although many countries (particularly in the EU) impose GST on fuels, and have made compensating reductions in Excise Duty (in order to reduce business costs)
4.0 <u>IMF Recommendations (if any):</u> Tax petrol, diesel, liquefied petroleum gas, kerosene but exempt marine fuel oil since it is used to generate electricity – IMF FAD Mission Report – Feb 2004	5.0 <u>The options are:</u> <ul style="list-style-type: none"> ▪ Make supply taxable ▪ Exempt supply
5.1 Option 1 : Taxable	
5.1.1 <u>For:</u> <ul style="list-style-type: none"> ▪ Revenue gain 	5.1.2 <u>Against:</u> <ul style="list-style-type: none"> ▪ Potential for social backlash against GST Difficulty of controlling false input tax claims as purchases of fuel for private use could be easily invoiced in the name of businesses for recovery
5.2 Option 2 : Exempt	
5.2.1 <u>For:</u> <ul style="list-style-type: none"> ▪ Avoids the difficulty of controlling false claims ▪ Avoids social backlash against GST ▪ Excise duty is a more efficient way of taxing this supply than GST 	5.2.2 <u>Against:</u> Revenue forgone
6.0 <u>Recommendation:</u> EXEMPT	
6.0 <u>Reasons for recommendations:</u> <ul style="list-style-type: none"> ▪ Avoids the difficulty of controlling false claims ▪ Avoids social backlash against GST ▪ Excise duty is a more efficient way of taxing this supply than GST 	
8.0 <u>Further action needed (if any):</u> NONE	

Policy Analysis Framework

J. Supply: Financial Services

1.0 Description: Provision of insurance; issue, receipt of, or dealing in money (including foreign exchange) or any note or order of payment of money; provision of credit; operation of any bank (or similar account) but excluding fees and similar charges for non intermediation services including transfers, professional advice such as accountancy, investment and legal; and safe keeping services	
2.0 <u>Treatment under current tax instruments:</u> Sales Tax = Exempt Import Duty = Exempt Excise Duty = NA	3.0 <u>Treatment in generic African GST systems:</u> Exempt
3.0 <u>IMF Recommendations (if any):</u> <u>Exempt:</u> IMF FAD Mission Report – Feb 2004	5.0 <u>The options are:</u> Make supply taxable Exempt supply
5.1 Option 1 : Taxable	
5.1.1 <u>For:</u> <ul style="list-style-type: none"> ▪ Revenue gain 	5.1.2 <u>Against:</u> <ul style="list-style-type: none"> ▪ Avoids technical difficulties arising from the identification of value added in financial intermediation that results in complex GST system and high compliance and administrative costs
5.2 Option 2 : Exempt	
5.2.1 <u>For:</u> <ul style="list-style-type: none"> ▪ Avoids high compliance and admin costs ▪ Avoids the technical difficulties involved in identifying what part of financial intermediation services is to be taxed 	5.2.2 <u>Against:</u> <ul style="list-style-type: none"> ▪ Revenue forgone
6.0 <u>Recommendation:</u> Exempt	
7.0 <u>Reasons for recommendations:</u> <ul style="list-style-type: none"> ▪ Reduce technical difficulties and avoids complex GST systems and low compliance and high administrative cost ▪ Avoids technical difficulties arising from the identification of value added in financial intermediation ▪ It permits the taxation of non Financial Intermediation Services e.g. sales of cheque books 	
8.0 <u>Further action needed (if any):</u> Further work to identify specific supplies that are liable to GST in the financial sector	

Policy Analysis Framework

K. Supply: Goods for the disabled

1.0 Description: Articles designed exclusively for use by the disabled.	
2.0 <u>Treatment under current tax instruments:</u> Sales Tax= Exempt Import Duty= 5% Excise Duty= 0%	3.0 <u>Treatment in generic African GST systems:</u> Exempt
3.0 <u>IMF Recommendations (if any):</u> Exempt	5.0 <u>The options are:</u> <ul style="list-style-type: none"> ▪ Make supply taxable ▪ Exempt supply
5.1 Option 1 : Taxable	
5.1.1 <u>For:</u> <ul style="list-style-type: none"> ▪ Revenue gain 	5.1.2 <u>Against:</u> <ul style="list-style-type: none"> ▪ Making the disabled more disadvantaged ▪ Lead to social backlash
5.2 Option 2 : Exempt	
5.2.1 <u>For:</u> <ul style="list-style-type: none"> ▪ Provides social safety net for the disabled and consistent with current policy on the disabled ▪ Avoids social backlash 	5.2.2 <u>Against:</u> <ul style="list-style-type: none"> ▪ Revenue forgone
6.0 <u>Recommendation:</u> EXEMPT	
7.0 <u>Reasons for recommendations:</u> <ul style="list-style-type: none"> ▪ Consistent with current policy on the disabled ▪ Avoids social backlash 	
8.0 <u>Further action needed (if any):</u> A list of eligible items needs to be drawn up	

Policy Analysis Framework

L. Supply: Land, Buildings & Civil Engineering Public Works

1.0 Description: (a) Land & Buildings; the granting of assignment or surrender of an interest in land/buildings: the rights to occupy land/buildings; (b) Civil engineering public works	
2.0 <u>Treatment under current tax instruments:</u> Sales Tax = Exempt Import Duty = N/A Excise Duty = N/A	3.0 <u>Treatment in generic African GST systems:</u> Exempt
4.0 <u>IMF Recommendations (if any):</u> Exempt	5.0 <u>The options are:</u> <ul style="list-style-type: none"> ▪ Make supply taxable ▪ Exempt supply
5.1 Option 1 : Taxable	
5.1.1 <u>For:</u> <ul style="list-style-type: none"> ▪ Revenue gain 	5.1.2 <u>Against:</u> <ul style="list-style-type: none"> ▪ Difficulty in identifying when construction is complete and GST will be due ▪ Ownership title difficult to define ▪ Predominance of construction by direct labour
5.2 Option 2 : Exempt	
5.2.1 <u>For:</u> <ul style="list-style-type: none"> ▪ Difficulty in identifying when construction is complete and GST will be due ▪ Ownership title difficult to define ▪ Predominance of construction by direct labour 	5.2.2 <u>Against:</u> Revenue forgone
6.0 <u>Recommendation:</u> Exempt	
7.0 <u>Reasons for recommendations:</u> <ul style="list-style-type: none"> ▪ Difficulty in identifying when construction is complete and GST will be due ▪ Ownership title difficult to define Predominance of construction by direct labour	
8.0 <u>Further action needed (if any):</u> Interpretation of civil works	

