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NATIONAL REVENUE AUTHORITY

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EXECUTIVE SUMMARY

The National Revenue Authority (NRA) is mandated by law to administer tax laws by collecting and accounting for domestic revenue as well as ensuring that tax compliance is maintained.

Domestic revenue collection since the inception of NRA has been impressive following the implementation of various reforms and strategies spanning from robust and responsive accounting and administrative supports, decentralization and physical restructuring of collection methods within revenue agencies to the recruitment of qualified and experienced workforce and public sensitization on the relevance of paying taxes. With assistance from development partners, the Authority reconstructed and rehabilitated most of the customs border posts. Customs border posts at Koindu, Buedu and Bailu were officially opened.

Over the years, the NRA has made tremendous efforts to improve on its effectiveness and efficiency in collecting revenue to meet government fiscal target. From 2002-2009, domestic revenues (excluding road user charges) have grown considerably from a low base of Le231.7 billion in 2002 to Le700.3 billion in 2009 (i.e. by 202.2%). In constant US dollar terms revenue has since 2002 steadily grown and continued in 2009. Between 2002 and 2003, revenue increased from US\$110.41 million to US\$118.45 million. Having collected US\$136 million in 2005 and US\$156.63 million in 2006, revenue collection of the NRA recorded an increase of US\$20.63 million or 15.2 % within these two years. Revenue collection of the Authority improved from US\$168.45 million in 2007 to US\$206.52 million (i.e. by 22.6 %) in 2008 and slightly increased to US\$206.85 million (by 0.1 % in 2009). Though revenue increased significantly in nominal and constant dollar terms, its percentage contribution to Gross Domestic Product declined from 11.8 % in 2002 to 10.9% in 2009.

In 2009 domestic revenue target was met by a solid margin due to a significant rise in imports. The Authority collected Le700.329 billion as revenue. This was above its programme target of Le671.390 billion by 4.3 %. In dollar terms, the actual collection increased from US\$206.52 million in 2008 to US\$206.85 million in 2009 or by US\$0.33million. Of this collection, the Income Tax Department (ITD) contributed Le213.043bnbillion (30.4%); the Customs and Excise Department (CED) accounted for Le419.195bnbillion (59.9%); the Non-Tax Revenue (NTR) Department contributed Le68.107bnbillion (9.7%). The Authority's outstanding revenue performance in 2009 was as a result of the reform measures and strategies undertaken to revitalize and sustain collection.

Government fiscal policy was targeted at improving revenue performance and containing spending pressures, while protecting social spending and expanding infrastructure outlays. The introduction of a goods and services tax (GST) in January 2010 is expected to contribute to revenue enhancement, which will help create fiscal space for spending for poverty reduction and investment. There is great prospect in revenue collection from the GST system compared to when collected under the previous tax administration. It is expected that the revenue to GDP target of 12% will be achieved at the end of 2010.

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1.0 INTRODUCTION

The primary objective of public policy and the fundamental expectation of the people is to maintain and improve their living standards. However, the socio-economic status of the average Sierra Leonean cannot improve without the much needed revenue required by the government. In this regard, the role of the National Revenue Authority (NRA) becomes very crucial in achieving this objective. As the primary revenue collecting agency in Sierra Leone, the NRA is mandated by law to administer tax laws by collecting and accounting for domestic revenue as well as ensuring that tax compliance is maintained.

Over the years, the NRA has made tremendous efforts to improve on its effectiveness and efficiency in collecting revenue to meet government fiscal target. From 2002-2009, domestic revenues (excluding road user charges) have grown considerably from a low base of Le231.7 billion in 2002 to Le700.3 billion in 2009 (i.e. by 202.2%). In constant US dollar terms revenue has since 2002 steadily grown and continued in 2009. Between 2002 and 2003, revenue increased from US\$110.41 million to US\$118.45 million. Having collected US\$136 million in 2005 and US\$156.63 million in 2006, revenue collection of the NRA recorded an increase of US\$20.63 million or 15.2 % within these two years. Revenue collection of the Authority improved from US\$168.45 million in 2007 to US\$206.52 million (i.e. by 22.6 %) in 2008 and slightly increased to US\$206.85 million (by 0.1 % in 2009). As noticed the highest revenue growth rate in US dollar terms was recorded in 2008. Though revenue increased significantly in nominal and constant dollar terms, its percentage contribution to Gross Domestic Product declined from 11.8 % in 2002 to 10.9% in 2009.

In 2009 domestic revenue target was met by a solid margin due to a significant rise in imports. The Authority collected Le700.329 billion as revenue. This was above its

programme target of Le671.390 billion by 4.3 %. In terms of expressing it as GDP ratio, revenue collection in 2009 represents 10.9% of GDP, which is higher than the 2008 revenue to GDP ratio of 10.6%. The Authority's outstanding revenue performance in 2009 was as a result of the reform measures and strategies undertaken to revitalise and sustain collection.

Sierra Leone's revenue effort, at just over 10.0% of GDP, is among the lowest in the world. To correct this, a number of tax policy reforms have been put in place at the NRA, including the introduction of Goods and Services Tax (GST), harmonized Customs laws: Customs Tariff Act 2009, Customs Regulations 2009, and Customs Act 2009, which are all geared towards stimulating businesses by reducing the burden of compliance and eliminating distorting effects in the economy. The GST, which replaced some taxes that were administered by the Customs and Excise Department (CED) and the Income Tax Department (ITD), is slated to be introduced on the 1st January 2010. The new Customs law has incorporated the World Customs Organisation's Revised Kyoto Convention to deliver benefits that include improving revenue generation; facilitating trade by ensuring prompt clearance of goods with minimal documentation; enhancing effective post-clearance audit; and bringing about intelligence analysis, information sharing as well as selective and effective risk management practices.

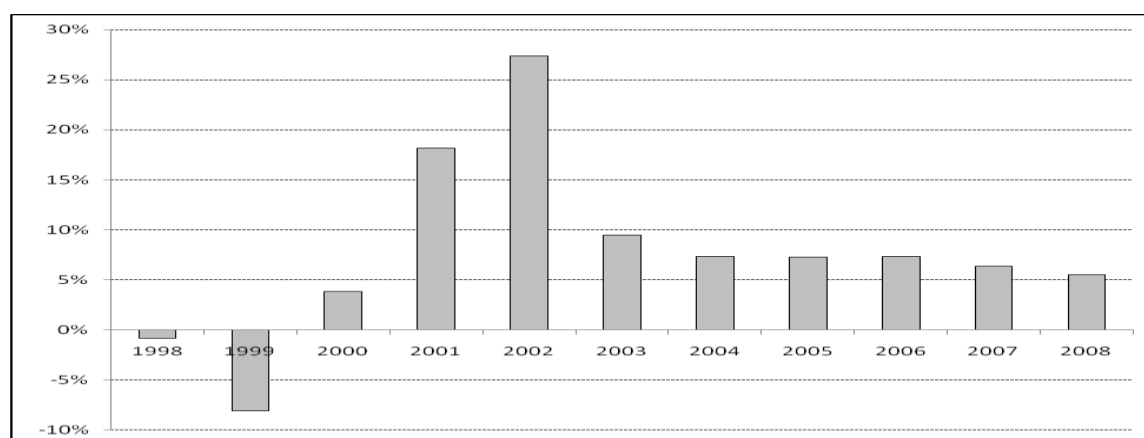
Other policy reforms include the introduction of Automated Systems for Customs Data (ASYCUDA++), the development of a Small Taxpayer Regime, and a framework for granting tax incentives. The ASYCUDA++ had its test runs in quarter four of 2009; along side the usual manual assessment operations at CED. In addition, there have been administrative changes, including the introduction of taxpayer identification numbers in 2009, improving taxpayer education and outreach, and building tax administration capacity in general. These efforts are being supported by a number of donors including DFID, FIAS, and the World Bank

The rest of the report presents among others, the macroeconomic status of the country, taking into consideration the activities in the real sector, external sector, and movement of the macroeconomic variables within the monetary and fiscal policy framework. At the micro/ institutional level, the report reviews the amount of revenue collected by the ITD, CED and the Non-Tax Revenue (NTR) Department. The report also looks at reasons for exceeding targets in 2009, duty free and tax concessions granted in 2009, achievements faced by the various departments in the Authority for the period under review. In addition, it points out some strategies and policy recommendations to enhance revenue collection in 2010.

2.0 OVERVIEW OF THE MACROECONOMIC PERFORMANCE - 2009

Sierra Leone's real GDP growth in recent years has been consistently impressive. The country's strong recovery began in 2000 and continued into 2008 when real GDP growth reached an estimated 5.5% despite the impact of the global economic downturn with rising food and fuel prices, and a drop in mining activities. Real growth which remained high throughout the period 2000-2006, declined with the increasing global volatility that followed in 2007. After the outbursts of 18.0% in 2001, 27.0% in 2002, and almost 10.0% in 2003 when hostilities ended¹, real growth remained at an average annual rate of 7.3% for the period 2004-2006. (See Figure 1). For the years that followed, real growth continued to slow down to 6.4% in 2007 and 5.5% in 2008, as the global crisis took effect on commodity prices, particularly for fuel² and food which swung sharply.

Figure 1: Real GDP Growth, 1998-2008



As in 2008, Sierra Leone's macroeconomic performance for fiscal year 2009 is not as impressive as the other years. Economic activity declined in the first half of 2009 as a result of falling global demand and declining foreign inflows from remittances. The real GDP growth projected at 5.5% for 2009 had to be adjusted at 4.4% due to changes in the underlying economic conditions, arising from the impact of the global crisis on the economy. In recent years the country's export base has broaden from narrowly concentrating on diamonds to include rutile, bauxite, and a growing volume of cash crops, export growth

¹ Such is the phenomenal growth is seen in many post-conflict countries (convergence criteria).

² The West Texas Intermediate (WTI) crude oil price percent change from 2008 to 2009 was recorded at a decline of 38.1 percent (from US \$99.57 per barrel in 2008 to US \$61.66 in 2009).

which was positive for all products in 2007 fell in 2008 and continued so in 2009 due to collapse in mining output following accidents in the mining industry, which is a major boost for our export³. Similarly, whilst expansion of activities in the agriculture and service sectors has continued to drive the growth of the economy, slow down in mining activities in 2009 significantly shrank output. Consumer price inflation, which slightly rose from 12.2% in 2007 to 13.1% in 2008 due to the pass-through effects of steady increases in oil prices in 2007 and 2008, combined with the spike in rice prices in 2008⁴, was contained in the single digit for most part of 2009⁵. The end-of-period inflation rate increased to 12.2%, which is lower than the end 2008 inflation of 13.2%. This decline inflation is reflective of the lower international prices in food and fuel, and the increased domestic food production. The official nominal exchange rate of the Leone to the US dollar which remained fairly stable through 2008 at just around 3,000 Leones per US dollar depreciated from 3,029.93 Leones per US dollar in December 2008 to 3,884.82 in December 2009 (by 25%) due to falling export receipts, and inward remittances, which led to a shortage of foreign exchange. However, there is evidence from market rates that the depreciation of the Leone against the US dollar slowed down in quarter four of 2009. This depreciation of the Leone against the US dollar has risks to inflation.

The 2009 budget is built upon a macroeconomic framework that was agreed with the IMF in the fall of 2008. Going forward, the framework targets accelerating real GDP growth from 5.5 % in 2008 to 6.5 % in 2012; keeping inflation in single digits (from 16.6% in 2008 to 8.5% in 2012; containing pressure on the exchange rate; and temporarily expanding fiscal deficit to 3.8% of GDP in 2010 and 2011.

³ While Koidu Holdings Ltd resumption was seen as a revamping of the sector, the fall in global demand for minerals and the collapsing of the rutile dredge (D2) was a major setback to the entire industry.

⁴ It is important to note that the Government mitigated some of these price increases in 2008 by reducing import tariffs on rice, flour, and petroleum products.

⁵ It remained in the single digit up to August 2009, with end period year-on-year inflation of 9.7 percent, comparing favourably to 14.8 percent in the corresponding period of 2008.

The external current account deficit (including official transfers) increased to a projected figure of 12.3 % of GDP in 2009 from 10.4 % of GDP in 2008. Official gross international reserves, which include the new Multilateral Debt Relief Initiative (MDRI) allocation from the IMF peaked US\$ 336.37 million or 6.5 months of import cover end 2009. The official gross reserves, excluding the new MDRI allocation amounted to US\$208.37 million or four months of import cover.

The shocks from the global recession to Sierra Leone have mainly been transmitted through the country's external trade. As world demand for primary products became depressed, exports of these products from many countries, including Sierra Leone began to fall sharply in the last quarter of 2008 and continued sliding in 2009. Consequently, as commodity prices also decreased, so too are exports proceed and imports such as fuel and food for Sierra Leone. The lowest value of diamond exports in two years was recorded in October 2008. The price fell by 27% between the peak price in June 2008 and March 2009. Owing to this, many alluvial diamond mining operations reduced or suspended their operations, while the bauxite mine suspended operations in March 2009 due to inadequate world prices. Remittances also fell by an estimated US\$11 million in 2008 and continued to fall in 2009. The falling export receipts, combined with falling remittances from abroad, reduced household incomes. Direct foreign investment especially for the mining sector slowed down, and this affected current and future real GDP growth.

Government fiscal policy was targeted at improving revenue performance and containing spending pressures, while protecting social spending and expanding infrastructure outlays. The introduction of a goods and services tax in January 2010 is expected to contribute to revenue enhancement, which will help create fiscal space for spending for poverty reduction and investment.

Table 1: Selected Macroeconomic Indicators, 2008-12

	Estimate	Macroeconomic Framework			
	2008	2009	2010	2011	2012
Real GDP Growth (%)	5.5	5.5	5.8	6.0	6.5
Consumer Price Inflation (% p.a.)	15.6	12.7	9.4	8.9	8.5
Investment (% GDP)	14.1	16.7	17.7	17.8	18.4
Government	4.4	7.3	7.4	7.5	7.5
Private	9.7	9.5	10.3	10.4	10.9
Revenue and Grants (% GDP)	15.9	18.6	18.2	18.3	18.9
Revenue	11.4	12.3	13.3	13.6	13.8
Grants	4.5	6.3	4.9	4.7	5.1
Expenditures (% GDP)	19.3	22.2	22.0	22.1	22.1
Recurrent	14.9	14.9	14.6	14.6	14.6
Consumption	12.8	12.8	12.7	12.8	..
Interest	2.1	2.1	1.9	1.9	..
Development	4.4	7.3	7.4	7.5	7.5
Overall Fiscal Balance (% GDP)	-3.4	-3.5	-3.8	-3.8	-3.1
Financing (% GDP)	3.4	3.5	3.8	3.8	3.1
Net External	0.7	2.2	2.6	2.7	2.3
Net Domestic	2.7	1.3	1.2	1.1	0.8

Sources: Ministry of Finance and Economic Development and World Bank staff calculations.

It is important to note that the macroeconomic environment and the level of revenue generation affect each other. Sometimes, while tax reforms may be necessarily instituted to correct an economic imbalance, economic boom may also foster additional revenue generation through improvement in the existing taxes or broadening of the base.

3.0 GROWTH IN REVENUE PERFORMANCE: 2002 -2009

Domestic revenues (excluding road user charges) have grown considerably over the past years from a low base of Le231.7billion in 2002 to Le700.3billion in 2009 (202.2%). Even though revenue increased significantly in nominal terms, its percentage contribution to GDP declined from 11.8% in 2002 to 10.9% in 2009 (see Table 2 for details).

Table 2: Revenue Productivity: 2002-2009

(Amounts in Le'million)

	2002	2003	2004	2005	2006	2007	2008	2009
Nominal GDP	1,964,627	2,310,767	2,894,123	3,518,200	4,206,600	4,966,200	5,826,100	6,442,000
Tax Revenue (A)	223,470	267,960	319,267	351,515	419,515	454,736	558,495	632,234
Non-Tax Revenue (B)	8,296	9,851	20,846	41,424	44,041	48,015	57,167	68,094
Total Domestic Revenue (C=A+B)	231,766	277,811	340,113	392,939	463,556	502,751	615,661	700,329
Tax Revenue/GDP	11.4%	11.6%	11.0%	10.0%	10.0%	9.2%	9.6%	9.8%
Non-Tax Revenue/GDP	0.4%	0.4%	0.7%	1.2%	1.0%	1.0%	1.0%	1.1%
*Domestic Revenue/GDP	11.8%	12.0%	11.8%	11.2%	11.0%	10.1%	10.6%	10.9%
Growth in Domestic Revenue (%)	15	19.9	22.4	15.5	18.0	8.5	22.5	13.7
Growth in Tax Revenue (%)	16	19.9	19.1	10.1	19.3	8.4	22.8	13.2
Growth in Non-Tax Revenue (%)	(7.2)	18.7	111.6	98.7	6.3	9.0	19.1	19.1
Growth in Nominal GDP (%)	22.8	17.6	25.2	21.6	19.6	18.1	17.3	10.6

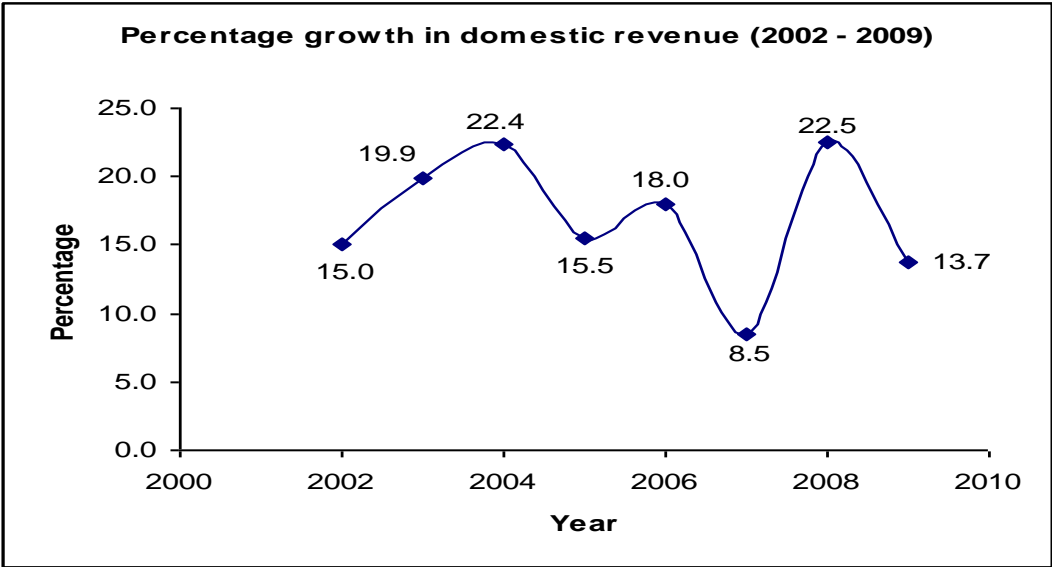
* Excludes Road User Charges

Tax revenue⁶ to GDP ratio increased from 11.4% in 2002 to 11.6% in 2003 stagnated at 10.0% between 2005 and 2006, declined to 9.2% in 2007 and slightly improved to 9.8% in 2009. This indicates that from 2002 to 2009, the Authority recorded 1.6 percentage

⁶ Excluding Non-Tax Revenue

point decrease in its tax revenue to GDP ratio. The transfer of revenue collection from MDA’s to the Authority in 2005 improved NTR’s performance as its contribution to GDP increased from 0.4% in 2002 to 1.1% in 2009. With regard to growth in domestic revenue, the Authority recorded highest growth in 2008 as revenue increased by 22.5% compared to the previous period (see figure 2). In 2009, while Tax Revenues recorded a 9.6 percentage point decline in growth, the percentage point growth for Non-Tax Revenues remain the same compared to the previous period.

Figure 2: Percentage growth in Domestic Revenue



3.1 Sierra Leone Revenue - GDP vs. Sub-Sahara Africa

In the first few years after the creation of the NRA in 2002, domestic revenue Collection (excluding road user charges) increased from 11.8% of Gross Domestic Product (GDP) in 2002 to 12.0% in 2003, and subsequently declined to 10.9% in 2009. This situation reflects a similar trend to that experienced in other countries that have implemented Tax Administration Reforms similar to those introduced in Sierra Leone in 2002.

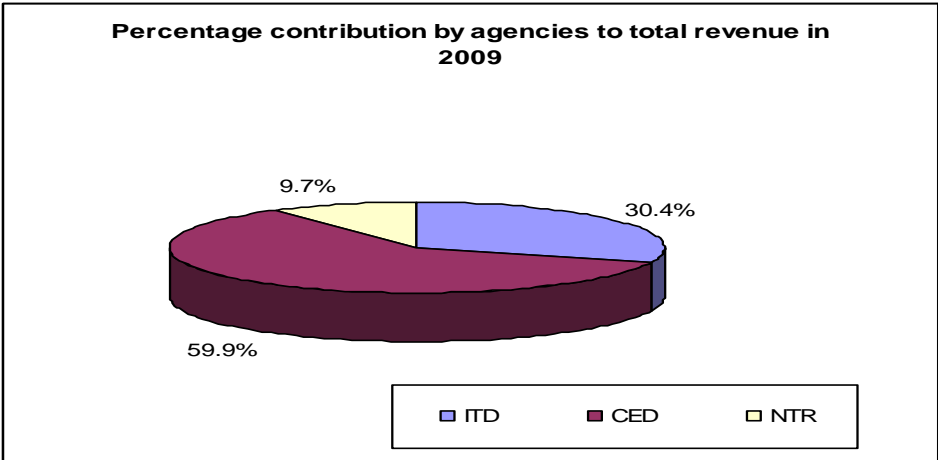
The Authority recognizes the fact that current Revenue/GDP ratio is too low to support government expenditure requirements; and among the lowest in Sub-Sahara Africa. Hence, there is a need for further efforts to continuously improve Tax and Customs

Administration. The earlier successes need to be consolidated and built upon and further expansions in the Revenue Base are required together with the modernisation of the operations of the NRA. To reverse this awful trend, the authority has drawn a five year Modernization Plan which is guided by expert advice and the strategic requirements for implementing and sustaining the changes to be introduced. We expect that at the end of the 5 year period the Revenue/GDP ratio will increase to, and stabilize at, or above 15%.

3.2 Revenue Performance in 2009

In 2009, the revenue collection target for the NRA was Le671.390 billion, which is 9.0% over the actual 2008 collection of Le 615.645 billion⁷. Total domestic revenue collected by the Authority in 2009 amounted to Le700.329 billion, exceeding the target by 4.3 %. This collection represents 10.9 % of GDP for 2009, higher than 2008 revenue GDP ratio of 10.6 % by 0.3 percentage point. In dollar terms, the actual collection increased from US\$206.52 million in 2008 to US\$206.85 million in 2009 or by US\$0.33million. Of this collection, the Income Tax Department (ITD) contributed Le213.043billion (30.4 %); the Customs and Excise Department (CED) accounted for Le419.195billion (59.9 %); the Non-Tax Revenue (NTR) Department contributed Le68.107billion (9.7 %). Figure 3 shows the percentage contribution of individual agencies to total revenue in 2009.

Figure 3: Percentage contribution by Agencies to Total Revenue collection in 2009



⁷ This excludes road user charges.

In nominal terms, NTR recorded the highest revenue growth of 19.14% followed by CED at 15.76%, while ITD recorded a growth of 8.49%. Table 3 below shows revenue performance in 2009 as against 2008.

Table 3: Comparative Revenue Performance by Agency: 2008-2009

(Amount in millions of Leones)

Dept/Revenue Source⁸	2008 Actual	2009 Actual	Variance	Percentage growth in revenue
Total Domestic Revenue	615,645	700,329	84,684	13.76
Income Tax	196,374	213,043	16,669	8.49
Customs & Excise	362,117	419,192	57,075	15.76
NTR:	57,154	68,093	10,939	19.14
<i>o/w Mines</i>	<i>18,012</i>	<i>20,224</i>	<i>2,212</i>	<i>12.28</i>
<i>Other Depts.</i>	<i>39,142</i>	<i>47,869</i>	<i>8,727</i>	<i>22.31</i>

From Table 3, CED and NTR increased their revenue collection in 2009: CED from 58.8 % in 2008 to 59.9 % in 2009 and NTR from 9.3 % in 2008 to 9.7 % in 2009. ITD contributed 30.4 % in 2009, which is lower than its 2008 collection of 31.9 % by 1.5 percentage points. The above distribution indicates that CED still contributes the largest in revenue collection though revenue performance by NTR has significantly improved over the years.

3.3 Revenue Performance by Agency and by Revenue Handles

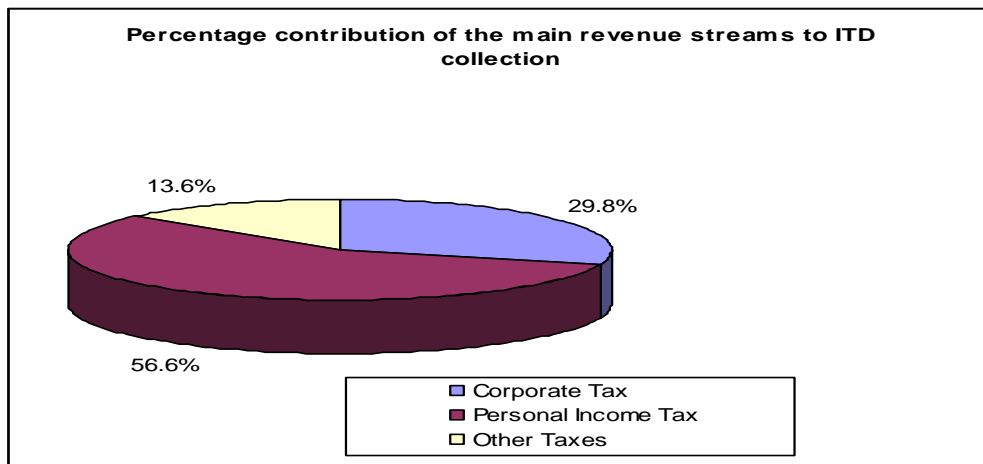
Below is an analysis of collecting agencies' revenue performance with respect to the various tax handles.

3.3.0 Income Tax Department (ITD)

Total revenue collected by ITD in 2009 amounted to Le213.043 billion which represents 30.4% of the total revenue collected by the Authority. This Department exceeded its annual target by 1.7%. As shown in the Figure 4 below, the highest revenue is recorded from the personal income tax accounting for 56.6%, followed by corporate tax (29.8%), and other taxes (13.6%).

⁸ All figures exclude road user charges.

Figure 4: Percentage contribution of main revenue sources to total ITD collection in 2009



Under personal income tax, PAYE for Non-Government workers accounted for 52.4%, Withholding Personal 25.5%, and PAYE for Government workers 16.7%. The least contributors in this tax category are 10.0% tax on rental income and payroll tax each contributing 3.7% and 1.8% respectively.

As regards corporate tax, the highest revenue was from withholding tax on Non-Government contracts contributing 52.2%, followed by company tax 39.5% whilst revenue from Government contracts accounted for only 8.3%.

In respect of revenue collected from ‘Other taxes’, revenue from local communications contributed 68.1%, Foreign Travel Tickets 15.7% and External Telecommunications 12.2%. Taxes from hotel accommodation (Withholding Bed fees), Restaurant Tax, Entertainment tax and fees from professional services contributed 1.9%, 1.7%, 0.2% and 0.1% respectively.

3.3.1 Customs & Excise Department (CED)

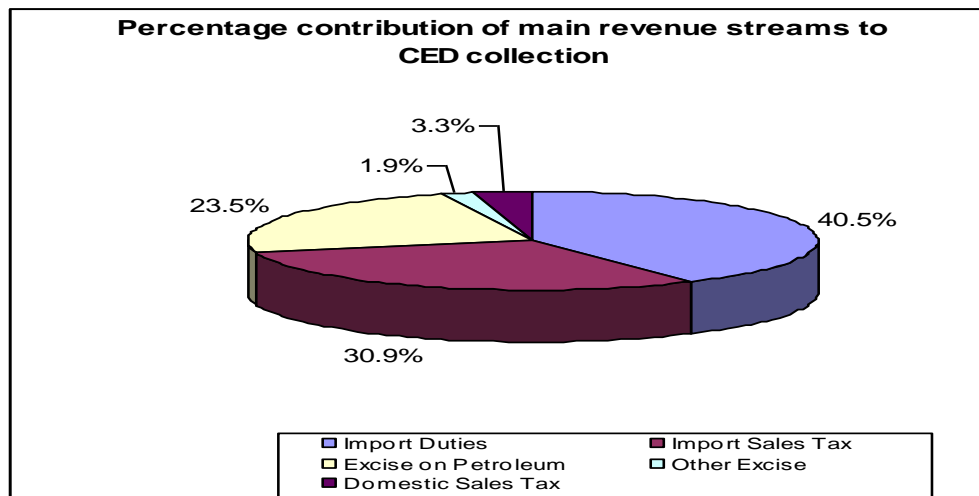
Customs & Excise Department collected Le419.194 billion or 59.9 % of the Authority’s total revenue collection in 2009. This department exceeded its annual target of Le404.998 billion by 3.5%. CED’s revenue over performance is attributed mainly to an increase in the number of dutiable vessels by 15.8% in 2009 compared to 2008 as shown in Table 4.

Table 4: Yearly comparison of Imports (2008 & 2009)

	2008	2009	Percentage Growth
No. of Vessels	323	319	-1.2%
Dutiable Vessel	209	242	15.8%
Non Dutiable Vessel	114	77	-32.5%
Total Tonnage	2,083,169.80	1,962,785.11	-5.8%

Of the total CED collection, import duties accounted for 40.5%, import sales tax 30.9% and excise on petroleum 23.5%. However, other excise and domestic sales tax accounted for less than 10% of total collection by CED (see figure 5). The collection of freight levy still remains the responsibility of the Sierra Leone Maritime Administration (SLMA) and this revenue is yet to be reported to the NRA.

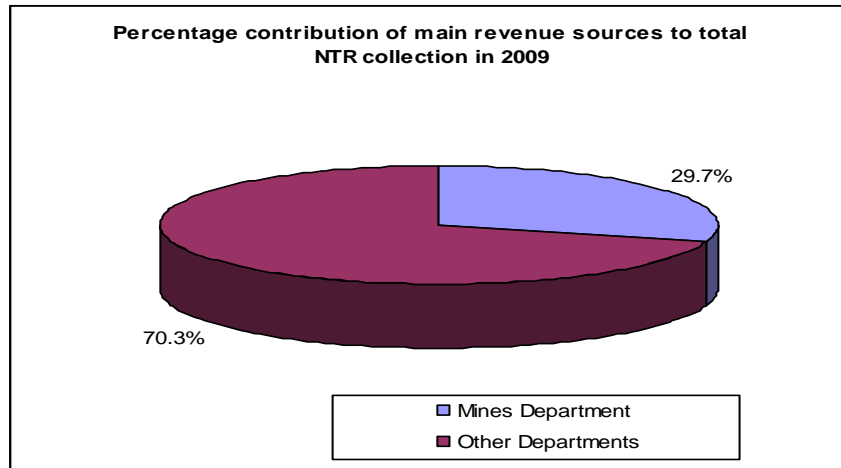
Figure 5: Percentage contribution of main revenue streams to total CED collection in 2009



3.3.2 Non-Tax Revenue Department (NTR)

Like other revenue collecting agencies in the Authority, NTR surpassed its annual target by Le11.199billion (19.7%). Revenue from 'Other Departments' accounted for 70.3% of total NTR collection whilst the Mines Department contributed 29.7% (see Figure 6).

Figure 6: Percentage contribution of main revenue sources to total NTR collection in 2009.



Of the total collection by the Mines Department, revenue from licenses recorded the highest (72.0%), followed by Royalties on Diamonds (9.4%); royalties on Gold recorded the least, contributing 1.3%.

There are twenty-one sub-revenue sources under Other Departments. The highest contributors are Ministry of Information (31.9%), Ministry of Agriculture (13.5%), and Immigration (11.9%) whilst the least collection is from Births and Deaths accounting for only 0.1% of revenue from that category.

4.0 TAX WAIVER AND DUTY FREE CONCESSION IN 2009

Table 5 below shows the breakdown of the beneficiaries of customs exemptions granted in 2009 totaling Le59.979bn. Of this, “Others” received 40.5%; Public International Organizations accounted for 27.5%; while Non-Governmental Organisation and Embassies recorded 11.0% and 10.8% respectively. Mineral exploration/mining companies recorded the lowest amount of beneficiaries of 10.3%.

Table 5: Beneficiaries of Duty Free Granted in 2009

(Amounts in Le'million)

Beneficiary	2009	% of Total
Total	59,979	100.0
Embassies	6,473	10.8
Public International Organisation	16,491	27.5
Non Governmental Organisation	6,598	11.0
Mineral Exploration/Mining Companies	6,152	10.3
Others ⁹	24,265	40.5

4.1 Yearly comparison of Duty free concession: 2008-2009

As shown in Table 6, the total amount of duty free granted in 2009 was slightly higher than that granted in 2008 by Le1.576bn (or by 2.7%). In other words, total duty free increased from Le58.403bn in 2008 to Le59.979bn in 2009.

Table 6: Comparative Analysis of Duty Free Concession by Beneficiary: 2008-2009

(Amounts in Le'million)

Beneficiary	2008	2009	Variance	% Change
Total duty free	58,403	59,979	1,576	2.7
Embassies	4,252	6,473	2,221	52.2
Public International Organizations.	17,138	16,491	(647)	-3.8
Non Governmental Organizations	9,609	6,598	(3,011)	-31.3
Mineral Exploration/Mining Companies	7,869	6,152	(1,717)	-21.8
Others	19,535	24,265	4,730	24.2

With the exception of Embassies with 52.2% increase in duty free, Public International Organisations, Non-Governmental Organizations, Mineral Exploration/Mining Companies and Others all recorded decreases in duty free by 3.8%, 31.3%, 21.8% and 24.2% respectively.

5.0 REASONS FOR REVENUE OUTTURN IN 2009

As already stated, all the revenue collecting agencies in the Authority surpassed their targets in 2009. The reasons for such outturn are explained for each agency.

⁹ Others include: office of the President, Hournables, Parliamentarians, Ministries implementing programs and projects, Bumbuna Hydroelectric project, Colleges/Universities, Road construction companies,

5.1 Customs and Excise Department

- CED's revenue over performance is attributed mainly to an increase in the number of dutiable vessels from 209 in 2008 to 242 in 2009 or by 15.8%. On quarterly basis, more vessels with higher tonnages berthed at the Queen' Elizabeth II quay during the third and fourth quarters of 2009. The successful implementation of the ASYCUDA++ and the pronouncement that import sales tax paid on remaining stocks as at the end of December 2009 can reclaim GST accounted for such an increased importation in the last two quarters of the year.
- Moreover, improvement in revenue administration reflected in the streamlining of processes and procedures and the robust anti-smuggling drive undertaken by the department helped reduce smuggling.
- In addition, continuous depreciation of the domestic currency against major currencies like the United States dollar explain the observed increased in revenue especially import duties.
- The target for excise duty on petroleum products was set using the restored excise duties per imperial gallon of Le1,972.17; Le1,656.35 and Le1,725.04 for petrol, diesel and kerosene respectively in October/November, 2008 but during the year further adjustment of Le2,459.21, Le3,448.37 and Le4,380.70 for petrol, diesel and kerosene respectively took place and increased revenue collection in 2009. The average adjusted excise duties per imperial gallon for petroleum products increased by 28.5% for petrol, 88.4% for diesel and over 100% for kerosene between October/November 2008 to June, 2009 and these duties applied throughout the remaining part of the year. (*See Table 7 below for the various adjustments that took place during the year*).

Table 7: Adjustment in Excise Duty on Petroleum Products: October/November, 2008-June, 2009 (Amounts in Leones)				
Month of Adjustment	Petrol (PMS)	Diesel (AGO)	Kerosene	MFO
Oct/Nov-08	1,972.17	1,656.35	1,725.04	238.98
May-09	2,607.59	2,791.59	4,055.08	238.98
Jun-09	2,459.21	3,448.37	4,380.70	238.98
	Petrol (PMS)	Diesel (AGO)	Kerosene	MFO
Oct/Nov-08	1,972.17	1,656.35	1,725.04	238.98
Jun-09	2,459.21	3,448.37	4,380.70	238.98
% Increase	24.70	108.19	153.95	-
<i>Average Percentage Increase in Excise of Petroleum products From Oct/Nov, 2008 – June, 2009</i>				
Petrol (PMS)	Diesel (AGO)	Kerosene	MFO	
28.46	88.36	144.51	-	

5.2 Income Tax Department

- Personal income tax accounted for over fifty percent (56.6 %) of income tax collection in 2009, of which PAYE-non government accounts for 52.4% of the total personal income tax collection. This good performance was due to the significant increase in the number of employees discovered from 1842 in 2008 to 19,489 in 2009 resulting from a data matching exercise carried out by NRA with NASSIT on employment data in 2009.
- Another reason for the revenue outturn in the Income Tax Department is attributed to the general improvement in tax administration with the increase in the number of field audits and enforcement of tax laws and regulations in 2009. More individual businesses paid their taxes in 2009 (3217) compared to 2811 businesses in 2008.

- The massive revenue collection drive of the Debt Management Unit of the ITD; in most instances threatening the closure of business premises of tax defaulters increased tax compliance.

5.3 Non-Tax Department

- Resumption of Koidu Holdings operation in February 2009 increased the production of diamonds by 3.7%. This activity led to an increase in royalty payment from diamonds. This company contributed US\$974,168 in 2009 as compared to US\$110,360 in 2008 (see Table 8 for detailed analysis). In addition, the mining sector attracted some investments in 2009 which culminated into the payment of lease rents of US\$500,000 for iron ore mining.
- Another reason for the over performance is the increase in the royalty payments by G.S.M operators in 2009. The Payments made by NATCOM into the ESCROW account as contributions from payments in respect of licenses and other charges amounted to Le5 billion.
- Similarly, the prior knowledge as regards the ban on the exportation of timber significantly increased revenue from timber exports by over 200% from Le1.4billion in November 2009 to Le5.3billion in December 2009.
- There was an improvement in Gold operations during the year so royalty increased tremendously from US\$12,930 in 2008 to US\$60,070 in 2009.

Table 8: Diamond & Gold Statistics: 2008-2009			
	2008	2009	Percentage Increase
Diamond Exports (Carats)	371,285.31	400,603.36	7.90
Diamond Export Value (US\$)	98,800,670.78	78,423,594.09	(20.62)
<i>Average price per Carat</i>	<i>266.10</i>	<i>195.76</i>	<i>(26.43)</i>
Gold Grams	105,637.24	166,741.79	57.84
Gold Export Value (US\$)	2,418,474.99	4,747,382.20	96.30
Royalties	131,736.11	1,084,601.57	723.31
Royalty on Diamond (US\$)	118,806.43	1,024,532.00	762.35
Royalty on Gold (US\$)	12,929.68	60,069.57	364.59
Major Contributor to Royalty on Diamond : Koidu Holdings S.A.			
Diamond Exports (Carats)	18,049.79	112,284.48	522.08
Diamond Export Value (US\$)	2,207,199.36	19,483,364.28	782.72
Royalty paid (US\$)	110,359.97	974,168.21	782.72
% contribution to Royalty on Diamond	92.9	95.1	

Despite an outstanding performance of the Authority, there are certain revenue handles that fell short of their targets.

- As regards ITD, the total revenue collected under ‘Other Taxes’ was Le28.9billion (77.7%) of its annual target of Le37.2billion. One of the main reasons is the less than expected revenue collection from Foreign Travel Tickets (FTT) as this revenue handle fell short of its annual target by 36.4%.
- With regard to CED collection, revenue collected from Domestic Sales Tax (DST) was below its target of Le14.9billion by 8.8%. The performance is largely

attributed to reduction in the production of beer and stout, cement, paint oxygen, common soap and flour. This had a negative effect on overall domestic sales tax (DST) and excise duty collected in 2009.

- National Registration Secretariat, Ministry of Works, Tourism and Courts all fell short of their targets by 41.3%, 30.8%, 24.0% & 23.0% respectively.
- Company (corporate) tax fell short of target due to the low returns of tax documents for proper verifications and also the low return of business profits as most businesses such as the financial and telecommunication industries continued to plough back their profits in order to capture a larger share of the market.
- Out of a total of five (5) parastatals (Sierra Leone Commercial Bank, Rokel Commercial Bank, Sierra Leone Port Authority, National Insurance Company and the Sierra Leone State Lottery) that usually pay dividend to Government, only the Rokel Commercial Bank paid dividend in 2008 and 2009. The remaining parastatals continued to either declare loss or ploughed back profits in their businesses.
- Revenue from the Lands Ministry was below expectation due to Government moratorium on the sale and lease of all Government (State) and private lands. Though the moratorium on private lands was lifted early 2009, the one on state lands is yet to be lifted.

6.0 ACTIVITIES UNDERTAKEN BY THE AUTHORITY IN 2009

The successful operation of the Authority was as a result of the concerted contributions of all the agencies, Departments and Units during the period. Below are the activities undertaken in 2009, their constraints and strategies to achieve the annual target.

6.1 Customs and Excise Department

To minimize revenue leakages, curb smuggling and institute systems controls, CED implemented a range of reform measures during the period under review; these included the following:

- i. The implementation of revenue enhancement programme under Short Term Revenue Improvement Programme (STRIP) as agreed upon with the IMF and the Sierra Leone Government. The main issues addressed under the STRIP include; reduction in discretionary duty-waivers, reduction in the issuance of dutiable permits and the downward review of administrative charges on imports by the Sierra Leone Ports Authority so as to attract competitiveness.
- ii. Adoption of presumptive taxes and duties for cross-border trade and transactions.
- iii. Maintained the practice of destination inspection (DI) in the absence of pre-shipment inspection.
- iv. Strengthened the Preventive Services & Special Duties (PSSD) unit with vehicles, motorbikes and communication gadgets.
- v. Training of staff as regards the implementation of the ASYCUDA++ programme.
- vi. The customs law revised/updated and submitted to Cabinet. Parliament is yet to ratify the draft.

6.2 Income Tax Department (ITD)

The following are the activities undertaken by ITD in 2009:

- i. Launched the Finance and Consolidated Income Tax Acts 2000
- ii. Introduced the Tax Compliance Stickers for commercial vehicles and motor bikes in all the offices of the Sierra Leone Road Transport Authority (SLRTA) in the country.
- iii. Extensive engagements with stakeholders through tax education and sensitization campaigns with the aim to increase revenue.
- iv. Enforced the debt management strategies where tax defaulters with outstanding alarming liabilities were named, shamed and their businesses sealed off.
- v. Setting up of a sub-unit at the office of the Administrator and registrar General's Office (OARG) to ensure a one-stop registration of new businesses and eliminate the pre-corporation tax.

- vi. With the support of the ICT department, established software to input and control the data processing of all 5% Withholding and Rental income taxes.

6.3 Goods and Services Tax Unit

The following activities were undertaken in 2009.

- i) Carried out education and sensitization campaigns to key stakeholders about the proposed introduction of GST. This was done through series of workshops, radio and television discussion programmes, street rallies and on advertisement boards.
- ii) Successful registration of over 1000 taxpayers nationwide.
- iii) New staff (external) recruitment and training process completed.
- iv) Installation of all IT programmes for the successful commencement of GST.
- v) Educational visits of all GST registered businesses to aid them in complying with the tax law.
- vi) Continued with the capacity building/training exercise of all GST staff.

6.4 Non-Tax Revenue (NTR) Department

Like other departments, the NTR department also carried out the following activities:

- i) Maintained an efficient data base management system of all clients in some MDAs; e.g. Ministry of Lands, Immigration, Administrator and Registrar General and the Ministry of Mines.
- ii) Securitised documents used by the MDAs; e.g. Licences, work permits and certificates.
- iii) Supported some MDAs with the necessary logistics needed to carry out their operations; e.g. immigration.
- iv) The Department collaborated with the Customs & Excise Department to track down unregistered clearing and forwarding agencies.
- v) The Department held meetings with staff at the Revenue and Tax Policy of the Ministry of Finance and Economic Development (MOFED) to act on a proposal submitted by the Ministry of Employment and Social Security on the Review of fees and work permits.

- vi) Worked together with MOFED in the formulation of a cabinet paper on visa stickers. This document encompasses revenue from the sale of visa stickers issued to various Missions abroad.

7.0 CONSTRAINTS ENCOUNTERED BY REVENUE COLLECTION AGENCIES IN 2009

The constraints of the collection agencies during the year were as follows:

- i) Frequent adjustments in tax policy e.g. tax concession waivers and increase in the issuance of permits. This reduced revenue generated by the Authority.
- ii) Huge amount of mobile top-up cards are in the form of electronic transfer using disk plates. Custom officers usually find it difficult to estimate due to lack of expertise.
- iii) The Customs post in Bo relies on a volunteer to collect revenue at Gbangbatoke.
- iv) The Ministry of Information and Communications instructed NATCOM to collect fees and other charges such as spectrum fees, ISP fees etc; from the GSM operators against the provision of the Telecommunications Commission Act 2007.
- v) Non compliance of Sierra Leone Foreign Mission in remitting monies from the sale of visa stickers into the consolidated fund.
- vi) Lack of cooperation from some MDAs such as Marine Resources that retained revenue without any legal authority.
- vii) Some MDAs such as NATCOM, Marine Resources and Pharmacy Board were removed from the Authority's collection category after setting collection targets.
- viii) Unavailability of computers to NTR outstation staff for inputting of daily transactions.
- ix) Lack of vehicles especially in the rural areas to move personnel on operational issues and revenue collection drives.

- x) Lack of network facilities in accessing and retrieving data from the various tax districts.

8.0 SUPPORT SERVICE DEPARTMENTS

8.1 Policy and Legal Affairs (PLA)

This Department provides the legal advice to the Board and Management of the Authority and acts for the Authority on all legal matters.

The activities undertaken during the period were:

- Collated and forwarded draft proposals from various Departments for the 2010 Finance Bill.
- Prepared and vetted all contracts negotiated between the Authority and other Institutions.
- Sensitized the public on the provisions of the Finance Act 2009.
- Involved in writing correspondence to the Anti-Corruption Commission (ACC).
- Took active part in the Disciplinary committee meetings.

8.2 Internal Controls & Audit (ICA) Department

This Department has the responsibility of evaluating the efficacy of operations, the reliability of financial reporting, deterring and investigating fraud, safeguarding assets, and compliance with laws and regulations. In the pursuant of this function in 2009, the following audit assignments were completed.

- i. Undertook duty waiver and service charge audit.
- ii. Audit of cash and cash count.
- iii. Stores and Stock taking audit.
- iv. Participated in the preparation of strategic and annual plans for 2010-2012.
- v. Audit of accountable documents.

8.3 Finance Department

The following activities were reported by Finance Department for 2009

- i) Income realised to finance the overall operational activities of the Authority fell short of its budgeted income of Le25.2billion by 4.5%.
- ii) No income was realised from the development grant and investment income.
- iii) Total of Le0.4billion was transferred from the Government Diamond Department (GDD) unallocated float to the operating account. In addition, other transfers included Le0.65billion (US\$200,000) from the donor support account.
- iv) To avoid the risk encountered in cash collection and management, arrangements were made with the Union Trust Bank, First International Bank, Eco Bank and the Sierra Leone Commercial Bank to maintain transit accounts for CED and ITD.
- v) Expenditure for the Authority for 2010 was projected at Le26.6billion excluding the budget contingency provision of Le.0.4billion.

8.4 Monitoring, Research & Planning (MRP) Department

The Department has the responsibility to support all agencies and other Departments in the area of research, planning and coordination of programmes. In this regard, the following issues were addressed.

- i. Responded to all data, questionnaires and reports requested by IMF (various Review under the Poverty Reduction & Growth Facility Arrangement), World Bank and other development partners.
- ii. Undertook a '*Taxpayers Perception Survey*' which was completed and submitted to NRA management.
- iii. The annual report for 2008 was completed and submitted to management.
- iv. Submitted revenue (quarterly, Q1-Q4) reports to the Board and Management of the Authority.
- v. Collaborated with the Ministry of Finance and Economic Development in setting the domestic revenue targets for 2010.

- vi. Monitored the revenue performance against targets for all revenue collecting agencies during the year.
- vii. Represented the Authority in meetings (Net Domestic Finance Committee), seminars and workshops.
- viii. Visited various revenue collection posts in Bo, Kenema, Gbangbatoke, Lungi, Jendema, Gbalamuya, Port Loko, Dogolia, Makeni, Kono, Koindu, Customs water quay of the Customs; Income Tax and the Non-Tax Revenue Departments to assess their record keeping, monitor operations, and assess the general working environment.
- ix. Prepared monthly, quarterly and annual reports on duty waiver concessions.
- x. Continue to provide technical assistance by strictly monitoring the codes on which duty waiver requests are granted.
- xi. Responded to correspondences and attended meetings on duty waiver issues.

8.5 Modernisation Programme (MP)

The Modernisation Programme Office continues to monitor the programmes and processes of the five year modernisation programme of the Authority. Their activities move across the Authority through liaising with donors, consultants, and the individual departments and agencies of the Authority. The activities undertaken during the year are as follows:

- i. The successful implementation of the ASYCUDA++ programme and the test run in quarter four.
- ii. The successful implementation of a unique Taxpayer Identification Number (TIN) as part of the TRIPS 1 software.
- iii. GST sensitization campaign completed in four districts head quarter towns of Bo, Kenema, Kono and Makeni and the western area. GST operations will commence on January 1, 2010.

8.6 Administrative and Human Resource Department

The AHRM department is responsible for recruiting and training of employees, dismissal/termination and to ensure that employee benefits and compensation are paid in accordance with the policies established by the Authority. In 2009, the department undertook the following activities:

- i. The staff strength of the Authority as at end December 2009 was 661 of which 587 are permanent staff and 74 temporary staff.
- ii. A total of 113 people were recruited in 2009.
- iii. Four (4) staff were promoted during the year. One (1) staff of the Finance department was promoted from the rank of Senior Finance officer to Principal Finance Officer, and three (3) staff of the Income Tax department were promoted from the rank of Collector to Senior Collector.
- iv. The services of two (2) additional retainer doctors were hired.
- v. Twenty four (24) staff members were separated from the services of the Authority.
- vi. In the spirit of the Total Tax Man, seventeen (17) staff were redeployed/relocated or transferred from one department/unit to another within the Authority.
- vii. Two (2) staff were reinstated into the Authority following their acquittal and discharge by the Anti Corruption Commission.
- viii. A total of eighteen (18) staff were confirmed in their positions after serving a six month probationary period in the Authority.
- ix. With regard to capacity building eleven (11) professionals received external training and seventeen (17) benefited from training locally.
- x. Performances were evaluated based on set objectives and expected results and all personnel files updated.

8.7 Information and Communications Technology (ICT) Department

The ICT department provides a technology environment that is reliable and secure in order to support the Authority's mission, goals and strategic objectives. In 2009, the department undertook the following activities:

- i) Developed software solutions such as Assessment to Interest Database System, 3% Withholding Tax Database System and the Sole Proprietor Database System.
- ii) Supported and maintained the following business systems:
 - TIN System: It generates a unique taxpayer identification number (TIN) for every registered taxpayer.
 - VIPS System (The GST Information Processing System): captures and processes goods and services tax data.
 - 5% Withholding Tax database
 - 10% Withholding Tax database
 - 3% Withholding Tax database system.
 - Revenue Collection Management System (captures and processes all non tax revenue payments).
 - NRA's Fixed Asset Management System (This system was developed to be used by AHRM department).
 - Assessment to Interest database system (calculates interest on unpaid income tax).
 - Sole Proprietor database system (the ASYCUDA team uses it to match registered individual taxpayers and their businesses with their addresses).

8.8 Corporate Secretariat

The Corporate Secretariat is the administrative link between the Board of Directors (responsible for policy decisions) and the Management (responsible for implementing strategies and policy decisions of the Board).

The Corporate Secretariat assists in policy development and transmits Management decisions through *inter alia* record of meetings to managers and staff.

In 2009, the Corporate Secretariat undertook the following:

The Board held the following meetings:

- Monthly regular and extraordinary meetings.
- Meetings with H.E. the President at State House.
- Meetings with the Hon. Minister of Finance and Economic Development at the Treasury Building, George Street, Freetown.
- Interview meeting for the post of Deputy Commissioner-General
- Interview meeting for the post of Director, Internal Controls and Audit
- Meetings with DfID officials and Crown Agent Consultants
- Board sub-committee meetings
- In June/July 2009, Legal practitioner Mr. Suliaman K. Koroma's appointment as Board member was confirmed by Parliament.

In 2009, the Management held the following meetings:

- Regular and Emergency meetings
- Meetings with GSM Companies
- Meetings with the steering committee of the modernization programme
- Meetings with stakeholders such as: professional bodies including: Tax advisers, Accountants, Directors, Lawyers, Engineers, Private School Owners, and Traders
- Sub-committee meetings such as disciplinary committee, procurement committee, international visitors(IMF,WAMI and DfID).

In May 2009, the two Assistant Corporate Officers in the Corporate Secretariat went for training at IPAM in basic office skills and practices.

9.0 CONSTRAINTS ENCOUNTERED BY SUPPORT SERVICE DEPARTMENTS

The movement of technical staff from the MRP Department to operational areas within the Authority and replacing them with non-technical staff affected work in the Department.

- i) Motivation of staff as regards promoting committed and dedicated staff to the vacant senior positions in the MRP Department.
- ii) The slow response to request as regards materials needed to carry out daily routine jobs obstructed work at the MRP Department.
- iii) Very few personnel were adequately qualified to execute some functions hence the existence of competency and skills gaps especially at the middle level in the department to perform functions such as Stores Management, Logistics, Training and Human Resource Management and Estate management.
- iv) Inadequate logistics in the AHRM ranging from furniture to equipment and vehicles.
- v) Policy inconsistency due to execution discretion policies and procedures were frequently flouted or conducted in an arbitrary manner. This dampened staff morale and stifled initiative in the AHRM department.
- vi) Lack of sufficient working space at the AHRM was also noticeable.
- vii) The Corporate Secretariat had small inexperienced staff to carry out daily work.
- viii) Logistics: Transport was assigned to the Corporate Secretariat on a part –time basis.

10.0 STRATEGIES TO ENHANCE REVENUE COLLECTION IN 2010

The Authority plans to embark on a number of strategies by agency during the year among which includes the following:

10.1 Customs & Excise Department (CED)

- i) To embark on trade facilitation programmes so as to meet the growing international trading activities in order to be at pace with best international practice.
- ii) With the introduction of the ASYCUDA++ programme, some staff would be redeployed at potentially porous border crossings so as to minimize smuggling and thus improve on revenue performance.
- iii) Increase awareness with various stakeholders through tax education programmes and exchange of information and expertise with other customs administrations.
- iv) The setting up of an administrative backup to adopt and adapt to valuation systems that are consistent with current market prices. This is expected to improve revenue performance.

10.2 Income Tax Department (ITD)

- i) Widespread engagement with stakeholders through electronic and print media (radio programmes, television, e-mail, SMS text messages) on income tax returns compliance.
- ii) Robust tax fields audits, examination and finalization of accounts by Audit team and monitoring liabilities of taxpayers.
- iii) Continue to enforce the debt management strategies where tax defaulters with outstanding alarming liabilities will be named, shamed and their businesses sealed off.
- iv) Continue to facilitate tax clearance issuance and compliance with tax laws and regulations.

10.3 Non-Tax Revenue (NTR) Department

- i) To fully implement the work and residential permit policy effectively so that all foreign workers will be registered.
- ii) The Authority, Ministry of Finance and Economic Development and the Immigration Department will ensure that all Sierra Leone foreign missions comply with the implementation procedures for visa stickers by remitting monies from the sale of these stickers to the Bank of Sierra Leone treasury account.
- iii) To identify training programmes for staff in the Department so as to improve on their abilities.
- iv) To strengthen and provide the necessary logistics needed for the enforcement of debt collection from defaulting clients.

10.4 Goods and Services Tax (GST) Department

- i) A rapid response team set up to respond to complaints from taxpayers. The team will not only eliminate delays in responding to complaints but also address problems promptly.
- ii) To continue with public information programme to sought greater dialogue and co-operation with the business community through meetings and forums where various concerns will be discussed and addressed

11.0 RECOMMENDATIONS

For the Authority to improve on it revenue performance and achieve it expected revenue to GDP target of 12% in 2010, the following recommendations should be considered.

- i. Intensify audit on Corporate and PAYE taxes especially PAYE for Non-Government employees and disseminate the audit reports to management.
- ii. Fully implement the work and residential permit policy so that all foreign workers will be registered.

- iii. Arrears list of tax liabilities and non-tax revenues should be regularly updated and forwarded with recommendations to the Commissioner-General for appropriate actions.
- iv. The Policy and Legal Affairs (PLA) department of the NRA to take legal actions against various businesses and institutions owing NRA including parastatals whose arrears are yet to be paid.
- v. Intensify monitoring of duty free so as to reduce the amount of duty free granted to organizations and institutions.
- vi. Close monitoring of the ASYCUDA ++ programme as it is expected to increase revenue generated by the Authority.
- vii. The Debt Management Unit of the ITD to continue with the massive revenue collection drive so as to increase tax compliance thus generating more revenue.
- viii. The Ministry of Finance, Immigration and the NRA should ensure that Sierra Leone foreign missions comply with the implementation procedures for visa stickers by remitting all monies from the sale of these stickers to the Bank of Sierra Leone treasury account.
- ix. GST department to continue with public information programme to seek greater dialogue and co-operation with the business community through meetings and forums where various concerns will be discussed and addressed.