

Study on Implementation of Goods and Service Tax: Lessons from Sierra Leone

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Abstract Sierra Leone is a small county in Africa in abundance with natural resource, even though substantial proportions of these resources have not been exploit due to lack sufficient investment and technical know-how. A part from the meagre revenue obtained from the deport proceeds, Sierra Leone rely on internally generated revenue through tax to finance most of its budget. In a 2009 new tax system called Goods and Service Tax (GST) was introduced, the replacement of seven cascading existing taxes. In history of Sierra Leone, average Sierra Leoneans dislike to pay taxes. The implementation of GST improves tax compliance in Sierra Leone. The objective of this paper is to evaluate the strategy used by National Revenue Authority (NRA) in implementation the Value Added Tax (GST) and how effective of these strategies executed to taxpayers and the public. The paper review historical Goods and Services Tax and the strategies used in implementing GST.

Key words Goods and service; Tax; Strategy; Taxpayers

1 Introduction

A GST is commonly described as an indirect, broad based consumption tax. It is indirect in the sense that it is levied on goods, services and related activities, rather than directly on personal income^[1]. It is broad based in that it applies generally to a wide range of transactions, with only limited exceptions. It can be contrasted with more specific taxes, such as a sales tax, which generally only applies to transactions in goods. In fact, despite its name, a GST is not limited to goods and services in the usual sense of these words. The fact that it includes real estate and the creation of rights is evidence of how wide-ranging the tax is.

It is a consumption tax as it applies generally to expenditure (amounts spent) rather than income (amounts earned or received). Ultimately, it is a tax that is finally borne by consumers, rather than producers or suppliers^[2]. Finally, a GST is similar to taxes known in other countries by its European title of Value Added Tax (VAT), reflecting the fact that the GST and VAT are terms that are generally interchangeable. GST New Zealand, Canada, Singapore South Africa and Australia us the term GST while France, Germany, the United Kingdom and other European Community Member Countries use the term VAT. In principle, the two systems are very similar. Perhaps two main differences between the two systems lies in the number of exemptions and percentage rate charged – European VAT tax is imposed on the valued-added by enterprises at each stage of production.

The Goods and Service Tax (GST) Bill was passed as an Act in Sierra Leone parliament on 4th June 2009. The final vote, which confirmed the passage of the enabling legislation, represents the culmination of a three year development process. Throughout this period, ‘Crown Agents’ consultants have worked closely with the National Revenue Authority to achieve this major landmark in the county’s overall fiscal development plan. The GST is designed to provide a broad based system which ensures that revenue responds positively to growth in all sectors of the economy. It is by no means an additional tax; rather it is a replacement for existing taxes initially collected by the Income Tax and Customs and Excise Department. Hence, it consolidates and administers in a uniform way existing domestic consumption taxes^[3]. One main factor was taken into consideration in designing the tax itself as it would now be replacing seven inefficient existing taxes (Restaurant and food Tax, Entertainment Tax, Hotel accommodation Tax, import sales Tax, Professional service Tax, Domestic Tax, and message Tax).

The GST will be charged at 15% of the sale price of certain goods and services and has fifteen (15) broad range exemptions (Animals, fish and birds imported for breeding purposes; Rice; Agricultural inputs; Pipe Borne Water; Textbooks and Newspapers; Educational Services; Medical Services and Essential Medicines; Transportation of passengers; Fuel; Pure Financial Services; Goods for the Disabled; Machinery; Export of Minerals; Land, Buildings and Public Works; and Funeral Services and Coffin. The objective of the implementation of Goods and Service Tax is a key to government’s program of reforming the tax system in the country in an effort create an efficient instrument for the mobilization of revenue to promote national development and to reduce the burden of cascade tax.

2 Data and Methodology

Data was collected through secondary sources and desk research for writing the paper. Most of the information has been collected from the official website of the National Revenue Authority as well as informal interaction with some of the workers and management while other published literature was also taken into account.

3 Results and Discussion

3.1 Strategies used by NRA and government of Sierra Leone in implementation of Goods and Service Tax (GST) in Sierra Leone

As Sierra Leone did not have any experience of the implementation of Goods and Service Tax, unlike other countries, initially it was thought to be more pragmatic to phase in GST of over a period of two years. However, no time schedule for GST implementation was fixed until the GST Bill was passed in parliament in 4th June, 2009. It was supposed to be enforced on 1st September, 2009 because the National Revenue Authority (NRA) needed more time to educate businesses and the public, it was however postponed to 1st January, 2010. After the implementation of GST, on the 5th January 2009, most of the businesses were closed, press paper was leased by the Awoko news paper a interview was done by traders and President of Sierra Leone Chamber of Commerce in City of Freetown they did not understand how GST works^[4]. These have shown, there should be more policy to put in place for good achievement of GST in Sierra Leone. There were strategies put in place by the National Revenue Authority (NRA) for the implementation.

3.2 Public education

The publicity was launched in June immediately after the GST bill was passed in parliament. The NRA launch a publicity programme for the general public the objective of which was to explain the rationale for introducing GST and to raise the public awareness of the new replacement tax (GST)^[5]. Though a lot of sensitization was done for the public, but NRA has not been widespread of publicity in the county. The government decided to postpone GST, due to demands from business people whom the NRA is still undertaking sensitization of as well as, training for the both the business people and staff of the GST operation unit so to ensure that the two sides understand how to go about the whole process of GST^[6]. It was targeted mainly at consumers and stakeholders, and was presented in various ways such as Media, presentations at seminars and stakeholders meetings.

3.3 Registration

The NAR prepared a list of potential GST-payers on the basis taxable supplies (i.e. goods and service that are taxed at the standard and / or zero rate), above a threshold of Le 200, 000, 000 in the preceding 12 months, or your taxable supplies in the previous four calendar months have exceed one third of the registration threshold (Le 66,666,666), must be registered for GST. Before the registration of the taxpayers, he most applies for taxpayer Identification Number (TIN) this can be use by the GST officers to identify your business and process your GST returns. Registration for GST began 1st January, 2010. The NRA sent letters to potential taxpayers informing them of registration, and also advertised the need to register in almost all major newspapers. It issued registration forms together with some more general brochures on the 1st January, 2010.

3.4 Policy of the GST Act 2009

Extensive literature has been developed on the GST policy for effective and compliance implementation of GST^[7].

3.4.1 Zero-rated supplies (First schedule in GST Act)

There are goods and service that are taxable but, for economic reasons, they are taxed at zero per cent (0%). Examples of zero- rated supplies are exports (except the exports of all minerals, including gold and diamonds), and goods shipped as stores on ships or aircraft leaving Sierra Leone. Zero-rating is important for exports, since it maintains Sierra Leone's competitiveness in world markets.

3.4.2 Exempt supplies (Second schedule in GST Act)

Are those supplies that, for social, economic or difficult-to-tax reasons, are not taxed. Examples of exempt supplies are rice, piped, water, fuel, textbooks, educational and medical services, specified pharmaceutical supplies and financial services and minerals for export, including gold and diamonds

3.4.3 Institutional reliefs (Third Schedule in GST Act)

- (1) President of the Republic of Sierra Leone.
- (2) Commonwealth, foreign embassies and Missions (Reciprocal only).

(3) Other international agencies subject to agreement with the Government of Sierra Leone, duly ratified by Parliament and specifically providing for relief from payment of local taxes on goods and services.

(4) An import of goods (including foodstuffs) for use in rehabilitations or relief following natural disaster, as approved by the Minister of Finance.

3.4.4 Transactions outside the scope (Fourth Schedule of GST Act)

Only one item is listed as 'outside the scope of GST' –namely the transfer of a going concern. There is also relief from GST for some institutions and in certain circumstances-for example for foreign embassies and goods imported from rehabilitations or relief following a natural disaster.

Note 3: A registered person making supplies to these institutions must charge GST in the normal way, unless an official GST Relief Purchase Order (GRPO), as issued by the Commissioner General, is presented by the person benefiting from the relief for the amount of tax involved. GRPOs must be retained by the supplier and the total GST-exclusive value of goods for which GRPO have been presented must be recorded in the GST Return for the tax period.

However, in fact, there is relatively little exclusion to GST charges in Sierra Leone. Note 4: In deciding whether your business qualifies as a GST-registered business, it is important that you should know which of the goods and services you make, or intend to make, fall into the categories described above. The NRA's public information leaflet "What will be taxed under GST?" provides more details. In addition, GST Act 2009 Part One, Section 6-13, deals with classification issues and Schedule 1-4 of the Act give a list of zero-rated and exempt supplies, institutional reliefs and transactions outside the scope of GST.

3.5 GST performance

The GST department collected 40 billion Leones within three months (January to March 2010) subsequent to the implementation of GST. The taxpayers are highly complying with their monthly returns in the GST processing unit. Where in some approach have been put in place for taxpayers to comply with their returns in supplicated time, also a dedicated taxpayer services unit was working effectively, automated system that improve the time dealing with taxpayers and the enforcement tools like interest on debts, distress action, pecuniary penalties, seal-offs, that will enforce taxpayers for high returns filing to accomplishment of GST achievement.

4 Conclusion

The introduction of GST is part of a larger tax restructuring exercise, to enable Sierra Leone to integrate with the globally accepted tax rationale and structure Sierra Leone part of the same to remove cascading impact of various indirect taxes. Some strategies have been put in place how efficient the policies are utilized to the public and business people to accept the GST in Sierra Leone.

Although the time frame for introducing the tax was extremely short, NRA worked with several agencies rigorously to prepare the business community as well as the general public and the performance of the short coming GST. Even though strategies have facilitated for the GST implementation by the National Revenue Authority and the government of Sierra Leone there is need to revisit and some policies need to put in place for high compliance for GST some suggestions are explained.

It is necessary for GST unit to keep the tax system up to date as new products, services, and methods of doing business are constantly being developed, often aided by new technology. An effective indirect tax system needs to evolve constantly if it is to keep up with the pace of commercial and technological change. The GST department should provide services available online for taxpayers for online payment through banks. The taxpayers can file e-returns. There are a number of other web-based should facilitate to taxpayers such as application status for forms and registration, finding out TIN, etc. Mobile-SMS based application and information services should implemented for taxpayers. The introduction of this vast array of web-based facilities for taxpayers will surely made their job of paying taxes and filing returns significantly easier. It is also recommended that government is a new strategy introduce new incentive for the people who made prompt settlement of their GST for three consecutive years to have an automatic waiver for the next fourth year. This will of course people to be highly comply with the new tax introduce by the government

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