AFRICAN TAX ADMINISTRATION FORUM
FORUM SUR L'ADMINISTRATION FISCALE AFRICAINE

ICTD

ATAF-ICTD POLICY PAPER

TAXING INFORMAL ECONOMIES: PRACTICES, CHALLENGES & WAYS FORWARD

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TABLE OF CONTENTS

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ABOUT ATAF

The African Tax Administration Forum (ATAF) is an organisation which was established by African revenue authorities in 2009, in order to improve the performance of tax administrations in Africa. The tax administrations of forty-four (44) countries in Africa are members of ATAF, i.e., 80 percent of tax administrations on the continent, making it the premier body on tax matters on the continent. ATAF believes that better tax administration will enhance economic growth, increase accountability of the state to its citizens, and more effectively mobilise domestic resources. This is evident in ATAF's impactful positioning since its 15 years of existence. Its presence is established through being Africa's voice on the continent on international and domestic tax matters, fostering homegrown solutions and advocating on the role of domestic resource mobilization in state-building.

ABOUT ICTD

The International Centre for Tax and Development (ICTD) is an independent research centre focused on improving tax policy and administration in lower-income countries. The ICTD is based at the Institute of Development Studies. It was founded in 2010 and is funded by the UK Foreign, Commonwealth and Development Office (FCDO), the Bill & Melinda Gates Foundation and the Norwegian Agency for Development Cooperation (Norad).

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LIST OF ACRONYMS AND ABBREVIATIONS

ATAF	African Tax Administration Forum
ATO	African Tax Outlook
ATRN	African Tax Research Network
BMS	Block Management System
DRM	Domestic Resource Mobilisation
GDP	Gross Domestic Product
GRA	Ghana Revenue Authority
ICTD	International Centre for Tax and Development
KRA	Kenya Revenue Authority
KRA	Kenya Revenue Authority
NRA	National Revenue Authority of Sierra Leone
SME	Small and medium-sized enterprises
TOT	Turnover Tax
TRA	Tanzania Revenue Authority
WHT	Withholding Tax
ZIMRA	Zimbabwe Revenue Authority

ABSTRACT

This policy brief reviews the challenges and potential of taxing Africa's informal economies, drawing on recent research by the African Tax Administration Forum and the International Centre for Tax and Development. It finds that many currently used strategies place disproportionate burdens on low-income operators, yield limited revenue, and risk weakening taxpayer trust in revenue authorities. The paper advocates for a more evidence-driven and targeted engagement with informal economies. Key recommendations include focusing tax efforts on higher-income earners within informal economies, developing sector-specific tax strategies, improving coordination between state agencies, prioritizing poverty-sensitive policies, and engaging informal sector representatives to foster trust. It highlights the importance of research in partnership with revenue authorities in order to design and evaluate effective and inclusive policies on taxing informal economies.

1 INTRODUCTION

In the past few years, the methods, potential and future of taxing informal economies has become increasingly central in tax policy conversations in Africa. There are multiple reasons for this, including mounting pressures to collect additional revenues and broaden the tax base, and the recognition, furthered by the Covid-19 pandemic, that administrative links between African states and large parts of their working population are often too limited. Perhaps most importantly, many policymakers have noted the limitations of existing approaches to tax informal economies.

Informal economies[1] remain sizable across Africa – they contain over 75% of the continent's labour force,[2] and produce a substantial proportion of its GDP. Informal economies are also central to a range of tax administration and policy challenges, including how to tax more effectively and equitably, appropriately tax small businesses, and improve the legibility and utility of taxpayer registers. Improving the ways in which tax administrations interact with informal economies consequently can have effects beyond revenue: on trust, equity and data quality. Considering the goals of both revenue generation, equity, and improving relationships with taxpayers, what are the most effective ways for revenue authorities to tax the informal economy?

This conversation clearly benefits from evidence-driven policy recommendations. These have often been lacking, in part because of the challenges of doing research in this area, impacted by limited data, the heterogeneity of informal economic contexts, and the different ways in which informality has been understood and conceptualised.[3] However, recent years have seen a substantial growth of research on tax and informality in Africa, including a range of studies conducted by the African Tax Administration Forum and the International Centre for Tax and Development.[4]

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[1]For the purposes of our discussion, we define the informal economy in line with the ILO (2015:4) as including "all economic activities by workers and economic units that are —in law or practice—not covered or insufficiently covered by formal arrangements". Given our focus on taxation and tax authorities' relationships with informal economy operators, we focus in particular on the formality of arrangements (i.e., registration status) with the tax authority (and national registrar, where applicable) and consider formalisation to mean registration with revenue authorities.

[2]ILO, 'Women and Men in the Informal Economy: A Statistical Picture. Third Edition', Report, 30 April 2018, http://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.

[3]Gallien, Max, and Vanessa van den Boogaard. 'Formalization and Its Discontents: Conceptual Fallacies and Ways Forward'. Development and Change 54, no. 3 (2023): 490–513. https://doi.org/10.1111/dech.12768. ; Max Gallien, Measurement and Mirage: The Informal Sector Revisited (Institute of Development Studies, 2024), https://doi.org/10.19088/IDS.2024.005.

[4]See e.g., ATAF, The Efficient Taxation of the Informal Sector in Africa: ATAF Guidebook (African Tax Administration Forum, 2021); Max Gallien and Vanessa van den Boogaard, 'Formalization and Its Discontents: Conceptual Fallacies and Ways Forward', Development and Change 54, no. 3 (2023): 490–513, https://doi.org/10.1111/dech.12768; Anyidoho, N.A.; Gallien, M.; Rogan, M. and van den Boogaard, V. (2024) The Price of Simplicity: Skewed and Regressive Taxation in Accra's Informal Sector, ICTD Working Paper 195 Brighton: Institute of Development Studies, DOI: 10.19088/ICTD.2024.044]; Max Gallien, Mick Moore, and Vanessa Van den Boogaard, 'Taxing the Informal Economy Is Not a Silver Bullet for Financing Development – or the Covid-19 Recovery', ICTD Summary Brief (Brighton, UK: International Centre for Tax and Development, 2021).

This policy paper draws on the major findings of this growing body of work, providing an overview of current policy approaches to taxing informal economies, challenges associated with them, and practical ways forward for revenue authorities. As discussed in detail below, existing evidence suggests that common approaches to taxing informal economies are often disappointing in revenue outcomes, while having additional negative impacts on equity and trust between taxpayers and tax authorities. Overall, therefore, this paper argues that many current approaches to taxing informal economies do not truly work for anyone: they are raising limited revenue while imposing substantial costs on some of the poorest workers on the continent. They are taking up substantial time and resources of revenue authorities without creating the foundation for more efficient and equitable ways of taxing informal economies.

The paper argues for new policy approaches toward taxing informal economies that are rooted in five principles:

- The purposeful targeting of higher income earners within informal economies and relief of lower-income operators,
- the value of developing sector-specific strategies, in recognition of the heterogeneity of the informal economy,
- the importance of developing strategies that are based on coordination between different state institutions and actors and a full picture of the various payments made to different state institutions,
- the value of dialogue with representatives of informal business organisations in order to build more trusting relationships with informal operators, and
- the critical role of data and accompanying research in order to support, tailor and evaluate emerging policies to tax informal economies.

We explore these promising ways forward in detail below, relying on recent case examples from ATAF member countries. This paper outlines the need for evidence-based, innovative policy approaches that prioritize equity, trust, and strategic coordination, offering actionable solutions for revenue authorities that want to more effectively and fairly engage with the informal economy.

2 OVERVIEW: TAXING AFRICA'S INFORMAL ECONOMIES: EXISTING REGIMES AND THEIR SHORTCOMINGS

Africa's informal economies encompass both informal enterprises and informal employment within formal firms. From a revenue perspective, much of the conversation has focused on the former. The majority of these are own-account workers and very small-scale operators.[5] Nonetheless, common conceptions of the informal economy also include some higher-income operators that have not registered their activities. These include for example professionals such as lawyers, doctors, accountants, advisory firms or lucrative businesses like construction companies operating fully or somewhat informally.

[5] ILO, 'Women and Men in the Informal Economy'.

While informal economies are sizable, it is unclear how much tax revenue potential they hold. While they contain a large number of people, many of them operate at the lower end of the income spectrum. Meanwhile, measurements of their proportion of GDP, which have been used to estimate large unclaimed tax potential, are highly unreliable.[6]

While it is sometimes assumed that informal economic operators don't make any direct contributions to public revenue, many make some payments, as a consequence of a range of structures set up by revenue authorities across Africa to engage with and tax informal economies.[7]

Based on the studies conducted by both ATAF and ICTD, the following are the regimes and strategies of taxing the informal economies that are currently practiced in many African countries:

PRESUMPTIVE TAXES

Governments often use simplified business tax systems, such as presumptive tax regimes, to register and tax small and microenterprises.[8] To ascertain tax due, the presumptive taxation regime uses indirect means as opposed to meticulous financial records. For operators in the informal economies and small firms, who might lack the resources to keep thorough accounting records, this method is very helpful. ATAF's African Tax Outlook (ATO) publication[9] shows that the number of ATO member countries that have adopted the presumptive tax regime has increased over time, from 11 in 2011 to 20 in 2021. This is a testimony to the fact that many African economies have adopted the presumptive tax regime. Based on ATAF's Guidebook on Taxation of the informal sector, examples of countries that have implemented the presumptive tax regime include:

- Togo through the Unique Professional Tax for taxpayers with a turnover of less than or equal to 30 million CFA Franc, which is approximately equal to US$50 000.
- Uganda, where a presumptive tax is used for small taxpayers with a turnover between 10 and 150 million shilling.
- Zimbabwe, has a presumptive tax regime that is applicable for the following businesses: transport operators; hairdressing saloons; restaurant or bottle store operators; cottage industries operators; commercial waterborne vessels; and informal traders. The rates are different for each category and even within the same category. For instance, for the transport sectors the rates are varied across the different operators which include omnibuses, taxi cabs, driving school, and goods vehicles.[10]

[6] Max Gallien, Measurement and Mirage: The Informal Sector Revisited (Institute of Development Studies, 2024), https://doi.org/10.19088/IDS.2024.005.

[7] As other work has highlighted, they make both formal and informal payments to different actors – in line with the focus and scope of this brief, we focus here on formal payments.

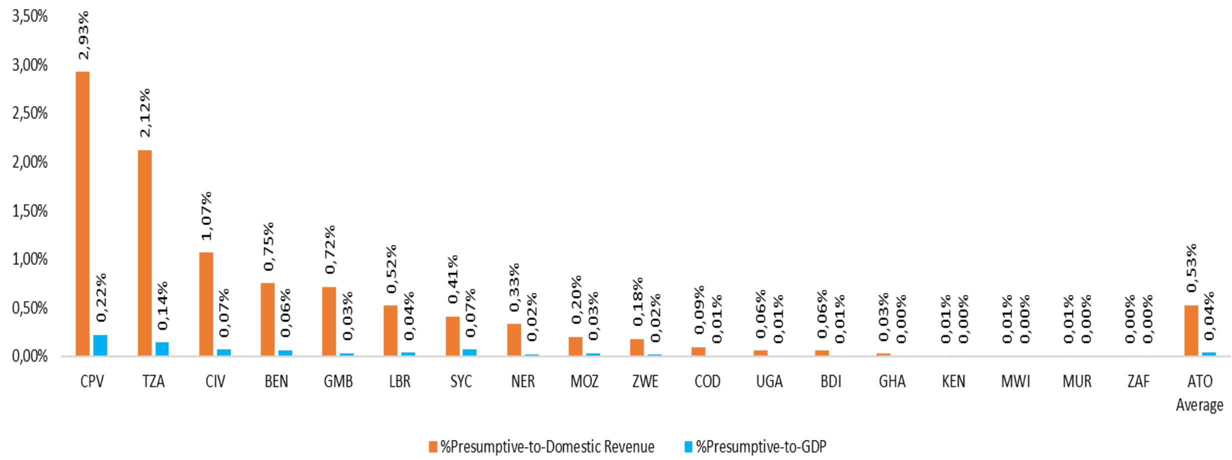
[8] Hoy, Christopher, Thiago Scot, Alex Oguso, Anna Custers, Daniel Zalo, Ruggero Doino, Jonathan Karver, and Nicolas Orgeira Pillai. Trade-Offs in the Design of Simplified Tax Regimes: Evidence from Sub-Saharan Africa. Washington, DC: World Bank, 2024. https://doi.org/10.1596/1813-9450-10909; Komatsu, Hitomi. Presumptive Tax on Small and Microenterprises with a Gender Lens in Ethiopia (English). Policy Research working paper ; no. WPS 10707; RRR; PROSPERITY; LSMS Washington, D.C. : World Bank Group. http://documents.worldbank.org/curated/en/099610502202466295/IDU1a10001d614c4e1487c188fd1577ebc8aadf7; Hoy et al. 2024

[9] ATAF (2023), The 2022 Arican Tax Outlook Publication, Pretoria, South Africa https://events.atafax.org/index.php?page=documents&func=view&document_id=243

[10] ATAF, The Efficient Taxation of the Informal Sector in Africa: ATAF Guidebook (African Tax Administration Forum, 2021)

According to ATAF's 2022 ATO publication, there are a total of 20 African tax administrations that reported administering presumptive regimes. The revenue contribution of presumptive taxes to total taxes was however still paltry in many African countries. Only Cape Verde (at 2.93%) Tanzania (2,12%) and Côte d'Ivoire (1.06%) exceeded 1% contribution of presumptive taxes to domestic taxes revenues, while the rest of the ATO member countries whose data were analysed were below 1%. The ATO average contribution ratio was recorded at 0.53% in 2022. These statistics are presented in the figure below:

Figure 1: Contribution of Presumptive Taxes to Domestic Taxes



Source: ATAF-African Tax Outlook, 2024

It is worth noting however that in many countries the goal of the presumptive tax regime goes beyond targeting short-term tax revenue mobilisation, seeking also to bring the informal economy into the tax net by encouraging them to formalise their businesses. The assumption here is that firms in the presumptive tax regime will eventually graduate into the formal economy, though there is not a lot of empirical work on this dynamic.

WITHHOLDING (WHT) SCHEMES

Withholding tax regimes are essentially protection measures that governments have implemented to indirectly tax enterprises in the informal economy that are either unknown to the Tax Administrations or, in the case of those registered, do not comply with their filing and payment requirements. Some tax authorities have successfully imposed a withholding tax on some informal economy transactions. Examples of WHT schemes in ATAF member countries include:

- Advance income tax in Zambia. This is levied on non-compliant importers and is charged at the rate of 15% on commercial imports above US$2000. It is levied over and above the duty paid and if the importer proves that he/she is compliant with tax obligations, the amount payable can be claimed as a refund. This tax was originally targeted at importers of commercial goods above who were not registered for income taxes, but has now been expanded to cover registered taxpayers with invalid tax clearance certificates and turnover with turnover above K800 000,

- Presumptive tax on importation in Zimbabwe. This is paid by cross-border traders who import commercial consignments and who are not registered in the ZIMRA system. Currently, the rate is 10% of the value of imports and is levied over and above the duty payable.
- Tax on individuals not listed in the DGI's tax register in Benin; and
- Advance tax payment on the informal sector in Côte d'Ivoire.[11]

FLAT TAX RATES

Flat tax rates are meant to reduce complexity and compliance burden for small businesses and the informal economy. Usually, they are characterised by reduced administrative burdens, straightforward process, and flat tax rates, which are also commonly low. Examples of flat rate tax regimes implemented in some African countries include:

- Tanzania implemented a turnover tax for business with a turnover of below 100 million Tanzanian Shillings. Businesses pay a flat rate, which is a stipulated percentage of their turnover. This is a simplified process which encourages businesses to register.
- Zambia implemented a simplified tax regime for small and micro enterprises. Administrative costs are reduced as enterprises that qualify for this regime pay a fixed annual tax based on their industry and location. Turnover Tax is calculated at a flat rate of 4% .[12] Therefore, the tax payable will be calculated by applying 4% on total sales (turnover).
- Rwanda, like Zambia, implements a flat rate tax for small enterprises with low turnover. This has the advantage of minimizing the complexity of tax calculations for the small businesses. Taxpayers who are under flat tax regime are those whose annual turnover is from RWF 2million- 12 million Rwandan francs[13].
- Senegal implements a simplified tax regime for small businesses and informal workers, known as regime forfaitaire. The tax structure is flat rate in nature and small enterprises are allowed to remit a fixed annual tax based on estimated annual turnover, thereby simplifying tax calculation.
- Benin introduced a flat tax (impot fofaitaire) to target small traders and businesses that are not formalised. The tax is simple to calculate, and the tax rate is fixed, hence lessening the burden of complex computations by businesses in the informal economy.

TURNOVER TAXES

Turnover taxes are based on the percentage of revenue rather than profit, and they are widespread among many African countries. Their setback is that businesses with high turnover and low profit margins can be disadvantaged, although the regime is easier to administer. As discussed above, not all turnover taxes are based on flat rates.

- For instance, South Africa's Turnover Tax system is designed for micro businesses with an annual turnover of up to ZAR 1 million. Turnover tax is worked

[11]ATAF, The Efficient Taxation of the Informal Sector in Africa: ATAF Guidebook (African Tax Administration Forum, 2021), 26.

[12]Zambia Revenue Authority. "Turnover Tax." Accessed 07.11.2024. https://www.zra.org.zm/wp-content/uploads/2021/08/Turnover-tax.pdf.

[13]Rwanda Revenue Authority. "Income Tax Declaration." Accessed 07.11.2024. https://www.rra.gov.rw/en/public-information/news-updates/income-tax-declaration.

out by applying a tax rate to the taxable turnover of a micro business. The tax rates are structured as follows[14]:

0% on turnover up to ZAR 335,000
1% on turnover from ZAR 335,001 to ZAR 500,000
R1650 + 2% on turnover from ZAR 500,001 to ZAR 750,000
R6650 + 3% on turnover exceeding ZAR 750,000

Turnover taxes in South Africa apply to the following businesses: Individuals (sole proprietors); Partnerships; Close corporations; Companies; and Co-operatives.

- Uganda: In July 2020, Uganda revised its presumptive tax regime with the intention to both simplify and to incentivise record keeping among small and micro taxpayers whose annual turnover is below UGX 150 million. Those that do not keep records are charged fixed rates that range from UGX 80,000 for those whose annual turnover is between 10-30 million Uganda shillings to UGX 900,000 for those with turnover between 80-150 million while those that keep records rates ranging from 0.4% to 0.7% of the turnover. The fixed amount levied on firms without records leads to a higher payment when compared to those with the same turnover who do keep records. While this regime is said to have simplified the presumptive regime and to act as an incentive for record keeping It is also reported that the Uganda Revenue Authority does not have capacity to verify if indeed one has business records and thus taxpayers use this as a platform to even pay little in tax.[15]

Tax rates[16] for presumptive taxpayers in Uganda effective 1st July 2020

Turnover in UGX millions	If one does not keep records	If one keeps business records
10-30	80,000	0.4 % of annual turnover in excess of 10M
30-50	200,000	80,000 + 0.5 % of annual turnover in excess of 30M
50-80	400,000	180,000 + 0.6 % of annual turnover in excess of 50M
80-150	900,000	360,000 + 0.7 % of annual turnover in excess of 80M

Source: authors' interpretation of the Income Tax Act Amendment of 1 July 2020

[14]South African Revenue Service. "Turnover Tax." Accessed 7.11.2024. https://www.sars.gov.za/types-of-tax/turnover-tax/#:~:text=What%20is%20it%3F,R%201%20million%20or%20less.

[15]Waiswa, R. , Lastunen, J. , Wright, G. , Noble, M. , Ayo, J.O., Nalukwago, M.I., Barugahara, T.K., Kavuma, S. , Arinaitwe, I. , Mwesigye, M. , Asiimwe, W. , Rattenhuber, P. (2021) An assessment of presumptive tax in Uganda: Evaluating the 2020 reform and four alternative reform scenarios using UGAMOD, a tax-benefit microsimulation model for Uganda. WIDER Working Paper 2021/163. Helsinki: UNU-WIDER. https://doi.org/10.35188/UNU-WIDER/2021/103-7

[16]The average exchange rate is 1USD: 3700 UGX.

REGISTRATION DRIVES AND SIMPLIFIED TAX REGISTRATION

Some countries in Africa have opted for initiatives targeted at simplifying the registration and payment processes for informal businesses. Sometimes this is through Simplified Tax Registration, which may be accompanied with incentives for compliance.

- A case in point is in Rwanda, where the registration process targeting small businesses has been simplified. In addition, for someone to participate in the public sector procurement, they need to have been registered for tax purposes. If not registered, there is a withholding tax of 15% withheld by the recipient of the service and remitted to the Rwanda Revenue Authority.
- Ghana also targeted informal businesses through a campaign encouraging tax registration, while incentivising them with tax exemptions for newly registered businesses. The Ghana Revenue Authority (GRA) has further streamlined the tax registration process to make it more accessible for small businesses.[17] For instance, online registration is allowed through the taxpayer portal, thus simplifying compliance and reducing administrative burdens.
- A UNU-WIDER study[18] analysed two tax administration interventions by Uganda Revenue Authority—a taxpayer register expansion and education programme, and a new electronic filing system for presumptive tax—on the number of small business taxpayers and presumptive tax revenues in Uganda. The study found that the number of small business taxpayers filing tax returns and presumptive tax revenues increased substantially after the interventions, indicating that the registration drive was successful.

SECTOR SPECIFIC TAXES

Typically, tax policy approaches toward informality consider the informal sector as a whole. However, a one-size-fits-all strategy such as the mass registration campaigns[19] can result into burdening one group and leaving others undertaxed. Therefore, taxing informal economies better requires an understanding of how different sub-sectors within the informal economy operate as well as the differences in how their value chains are structured. The aggressive registration campaigns implemented by many tax administrations through door-to-door registration of small businesses are more likely to target businesses with a physical presence such as operators of small shops, saloons, restaurants etc. Such strategies will not be effective for mobile businesses such as those in transport sector, agricultural players with seasonal income and those that operate in hard-to-reach areas, professionals that can operate without physical offices among others. Indeed, research evidence from Uganda suggests that the collaborative taxpayer register expansion project (TREP) that involved massive registration of taxpayers between the Uganda Revenue Authority, Kampala Capital City Authority, the Uganda Registration Services Bureau, and local governments

[17] Ghana Revenue Authority. “Tax Registration.” Accessed November 7, 2024. https://gra.gov.gh/domestic-tax/tax-registration/.

[18] United Nations University World Institute for Development Economics Research (UNU-WIDER). “Do Tax Administrative Interventions Targeted at Small Businesses Improve Tax Compliance?” Accessed November 7, 2024. https://www.wider.unu.edu/publication/do-tax-administrative-interventions-targeted-small-businesses-improve-tax-compliance.

[19] Moore, M. (2020) What is Wrong with African Tax Administration? ICTD Working Paper 111,Brighton: IDS

resulted into registration of more women taxpayers than men because women were more likely to operate businesses that required a physical presence.[20] Even in Sierra Leone, a mass registration campaign resulted into registration of mostly small retail traders that had physical presence (72%). Sectors with revenue potential such as finance or real estate were largely not captured during the campaign.[21]

MOBILE MONEY AND TRANSACTION TAXES

Many African countries have implemented taxes on mobile transactions in an attempt to capture revenue from the informal economy. Uganda, for instance, has introduced a levy of 0.5% on mobile money withdrawals, while Ghana has introduced an e-levy applying to digital payments. While more and more informal transactions are taking place on mobile money platforms, these taxes have been criticized for disproportionately burdening low-income users, as well as potentially discouraging financial inclusion.[22]

The 2023 ATO publication reported that the use of mobile payment solution adoption in ATO countries now stands at 75% in 2022, an increase of 7% from the previous years. The same publication reveals that the East Africa region comprising Uganda, Kenya, Tanzania, and Burundi recorded the highest adoption rate at 100%.

LOCAL TAXES AND LEVIES

In many African jurisdictions, local governments impose specific taxes and levies on informal business, usually related to license and permits. For instance, in Nigeria various local governments impose market levies and fees on traders operating in their areas. Uganda implements a sector-specific tax for informal businesses, for instance the Local Service Tax, which is based on the size and nature of the business. It is applied in agriculture, trade and services. Many African countries levy trading licenses and fees which are a type of taxes on their own. However, discussions on the taxation of the informal sector often ignore the fact that these small businesses are already burdened by these other financial requirements from local authorities.

[20]SEATINI (2021) The Gender Dimensions of Small Business Taxation. https://seatiniuganda.org/research-studies/?skw=gender+dimensions+of+small+business+taxation&orderby=date&order=desc; Kangave, J; Waiswa, R. and Sebaggala, N.(2021) Are Women More Tax Complaint than Men? How Would We Know? ATAP Working Paper 23, Brighton, Institute of Development Studies, DOI: 10.19088/ICTD.2021.006.

[21]Gallien, M. et al. (2023) Why Mass Tax Registration Campaigns Do Not Work, ICTD Policy Brief 2, Brighton: Institute of Development Studies, DOI: 10.19088/ICTD.2023.032

[22]Nana Akua Anyidoho, Max Gallien, Mike Rogan and Vanessa van den Boogaard (2023) Mobile money taxation and informal workers: Evidence from Ghana's E-levy, Development Policy Review 41, 5: e12704.

3 IMPACTS OF CURRENT POLICIES

Common approaches to taxing informal economies in Africa have faced significant challenges in practice, often yielding limited revenue while burdening the poorest and weakening trust between taxpayers and revenue authorities. This section analyzes the impacts of current policies, reviewing evidence of the impacts of outcomes on (a) revenue outcomes, (b) equity outcomes, and (c) trust and relationships with taxpayers.

REVENUE

The primary goal of expanding tax collection to informal economies is to increase government revenues by capturing businesses that are less visible to the state, with the assumption that there is substantial untapped revenue available to the state. Yet, evidence shows that attempts to tax informal economies frequently produce disappointing results in terms of revenue generation.

Both ICTD and ATAF research have highlighted that taxes collected from informal economy actors generally make up a small percentage of the overall tax collection in Africa. For example, the 2022 African Tax Outlook found that in the previous year, the total amount of presumptive taxes collected by African countries amounted to only 0.05% of GDP – or, on average, 0.51% of domestic tax revenues.[23] Notably, presumptive tax revenues as a proportion of overall tax revenues has dipped in the previous 5 years.

Research further shows that the limited revenue coming from current policy approaches is in part due to poor targeting, with revenue authorities often adopting "blanket" approaches to capture as many informal businesses as possible, rather than focusing on capturing the highest income earners. Studies indicate that mass tax registration campaigns, in particular, often fail to capture high-income taxpayers, and instead disproportionately register small businesses and low-income operators who generate little tax revenue.[24] For example, in Sierra Leone, an evaluation of a mass registration campaign found that 72% of newly registered businesses were retail traders, a sector that typically contributes little revenue, while only 1% were in higher-revenue sectors, like finance or real estate. Blanket approaches to taxing the informal economy fail to account for its heterogeneous nature and often result with tax registers being filled with small operators who either fall below tax thresholds or operate at a subsistence level, yielding minimal revenue, and often do not file any income.

At the same time, research shows that the often-high administrative costs of enforcing taxes on the informal economy further undermine the revenue potential. Research has highlighted that the costs of collection and limited revenues from strategies to tax the informal economy often make collection in this area inefficient.[25] More fundamentally, ICTD research has highlighted that

[23]ATAF African Tax Outlook 2022

[24]Gallien et al., Why Mass Tax Registration Campaigns Do Not Work

[25]Gallien, Moore, and Van den Boogaard, Taxing the Informal Economy 2021.

some of the data that has been used to project larger revenue potential in this sector, such as MIMIC models estimating the size of shadow economies as a proportion of GDPs, are likely a substantial overstatement and need to be treated with caution.[26] This highlights the ways in which revenue authorities may need to rethink the attention and efforts they pay to taxing the informal economy, given likely less revenue potential than expected. With revenues often being cited as one of the reasons for the existence and potential expansion of the taxation of informal economies, the low revenue collected in this area is a strong reason to reconsider existing strategies in this area.

EQUITY

Increasing research suggests that current approaches to taxing informal economies also present significant challenges in terms of equity. This relates in part to the aforementioned issue that common approaches do not adequately target higher income earners and businesses in the informal economy. In many cases, larger informal enterprises and higher income professionals, such as lawyers and consultants, are able to escape the tax net, while smaller businesses are subjected to disproportionate scrutiny, particularly through efforts such as mass registration drives. This again points to the need to better recognize the heterogeneity of the informal economy and the value of more targeted approaches. As further noted by ATAF, for instance, "Imposing a uniform tax rate on a certain category of activities often called "class" on the basis of the geographical location is detrimental to fairness[27]"

Importantly, relatively low absolute revenue collection is not necessarily an indication that the actual burdens on informal economies operators are low – many of them have very low incomes and are also often making a range of other payments, especially to sub-national actors. For example, Anyidoho et al. (2023) show that when capturing payments made at both the national and local level, fiscal burdens for informal economy operators are high relative to earnings and are regressive in their impact.[28] Meanwhile, further ICTD work at the subnational level has documented the ways in which informal economy operators already make a range of payments, both formal and informal, with impacts on both income and gender equity.[29] Many tax efforts disproportionately impact these smaller businesses, which often operate on narrow margins. The result is a skewed tax system that exacerbates inequality.

This reality can be exacerbated by presumptive tax regimes that are not designed to be sufficiently progressive, in terms of their rates or the threshold value - or even through taxes that are technically designed to be progressive but are not designed or administered in a way that achieves this goal. This can emerge if turnover thresholds are poorly designed or not proportional to changing costs and incomes, or through how technically progressive regimes are applied in practice. For example, as will be discussed further in the case studies

[26]Gallien, Measurement and Mirage.

[27]ATAF, The Efficient Taxation of the Informal Sector. 27.

[28]Anyidoho et al, The Price of Simplicity

[29]E.g. Anuradha Joshi, Jalia Kangave, and Vanessa van den Boogaard, Engendering Taxation: A Research and Policy Agenda, ICTD Working Paper 186 (2024); Vanessa van den Boogaard, Wilson Prichard, and Samuel Jibao, "Informal Taxation in Sierra Leone: Magnitudes, Perceptions and Implications," African Affairs 118, no. 471 (2019): 259-84.

below, while presumptive taxes in Ghana are designed to be progressive, ICTD research has found that they are not necessarily in practice.[30] Instead, presumptive tax burdens fall disproportionately on the lowest earning end of the income spectrum. Meanwhile, the ATAF Guidebook on Informal Sector Taxation notes that turnover-based taxation can be arbitrary and thus have inequitable outputs. The impact on equity suggests a need to rethink common approaches to taxing the informal economy and how policy and administrative approaches can lead to outcomes that are both fairer and more equitable.

TRUST

Trust between taxpayers and tax authorities is crucial for the success of any tax system. Unfortunately, current approaches to taxing informal economies often have negative consequences for trust and taxpayer relations. Often generating relatively limited revenue, methods to tax informal economies nevertheless impact the relationship between large numbers of citizens and the revenue authority. And evidence suggests that many policies aimed at taxing informal economies, including through registration campaigns, have led to increased mistrust between informal operators and tax authorities. Mass registration campaigns, which are frequently poorly communicated to taxpayers, often leave informal operators confused and frustrated. For example, a study in Freetown has highlighted the importance of registration drives in shaping the relationship with taxpayers and either building future taxpayers or increasing distrust of the tax system.[31] When taxpayers are not adequately sensitized to new tax policies or approaches, they may feel alienated, particularly if they perceive tax demands as burdensome or unclear.

A further point of distrust may arise in cases where formalisation is discussed as having positive benefits for firms, including access to credit or improved business services, and these benefits don't materialize. Summarizing existing literature and evidence, Gallien and van den Boogaard have highlighted that the administrative burdens and compliance costs of tax registration often outweigh any potential advantages, particularly for small businesses.[32] At least in part as a result, many informal operators see little value in engaging with the formal tax system, further eroding trust in tax authorities.

Underpinning these gaps in trust, both ICTD and ATAF research has highlighted the fact that informal workers are often not adequately included in the design and discussion of tax policies that are relevant to them. As described in the ATAF Guidebook: "Operators in the informal economy see themselves as excluded, despite representation (30%), from the design of the tax rules set to govern their activities… As a result, issues specific to their sector, in the absence of an inclusive approach, may not be considered in the development of the regimes in question, and that might negatively impact on their implementation."[33] Further engaging with informal economy actors in a dynamic and inclusive way will improve the relations with revenue authorities and help to shape more effective and efficient taxing approaches moving forward.

[30]Anyidoho et al, The Price of Simplicity

[31]Gallien, M.; Occhiali, G. van den Boogaard, V. (2023) Catch Them If You Can: the Politics and Practice of a Taxpayer Registration Exercise, ICTD Working Paper 160, Brighton: Institute of Development Studies, DOI: 10.19088/ICTD.2023.012

[32]Gallien and van den Boogaard, Formalization and its Discontents.

[33]ATAF, The Efficient Taxation of the Informal Sector. 28.

4 CASE STUDIES

Building on this evidence base, the following country case studies illustrate how revenue authorities have engaged with informal economy operators across different contexts. By analyzing these examples, we can better understand the practical impacts of different tax policies and administrative strategies on both revenue generation and taxpayer relations. Each case provides insights into the successes and challenges faced by tax authorities, offering valuable lessons on what works, what doesn't, and how policy approaches can be refined to address the unique dynamics of informal economies. From them, we can begin to ascertain how changes in policy design and administration can contribute to more effective and equitable outcomes in taxing informal economies. Overall, while the case studies highlight principles, discussed in detail in Section 5, upon which future policy approaches should be based, they also underscore the importance of tailoring tax strategies to the specific country context.

GHANA: HIDDEN REGRESSIVITY IN THE DESIGN OF PRESUMPTIVE TAX REGIMES

The Ghana Revenue Authority (GRA) implements a presumptive tax regime, known until recently as the tax stamp, that aims to simplify taxation for small, informal businesses by requiring them to pay a fixed quarterly contribution based on the type and size of their business. The amount ranged from 3 Ghana cedis to 45 Ghana cedis under the Income Tax Regulation, 2016 (LI 2244). The system is currently being adjusted in a form of modified taxation under the Income Tax Act, 2015 (Act 896), although as of this year (2024), research found that while it is at least partially designed to be progressive, by requesting different fixed payments based on firm size, a recent study of taxation in the informal sector economy in Accra found that real-world outcomes of the tax stamp are highly regressive in its impact.[34]

Importantly, the presumptive tax regime in relation to the tax stamp regime, lacked a sufficiently progressive rate structure like the majority of presumptive taxes in Africa[35] and it did not include an income threshold for participation. However, since 2021 after the Covid 19, the tax stamp regime was changed to modified taxation under Act 896 which now has income threshold as summarized below:

ANNUAL TURNOVER	FIXED AMOUNT
15,001 – 20,000	GH₵45.00
10,001 – 15,000	GH₵35.00
5,881 – 10,000	GH₵25.00
0 – 5,880	0

[34] Anyidoho et al, The Price of Simplicity.

[35] Hoy et al., Trade-Offs in the Design of Simplified Tax Regimes.

Under the tax stamp regime, it meant the smallest businesses and those operating at subsistence levels were subject to tax payments, despite often earning well below the national minimum income tax threshold of 4,380 Ghana cedis annually (around 365 Ghana cedis per month). However, this will not be the case for the modified taxation. For context, the data from Accra shows that the lowest earning quintile of informal sector economy operators earn approximately 200 cedis per month, placing them significantly below any reasonable tax threshold. Despite this, many still find themselves liable for tax payments under the tax stamp regime, leading to disproportionately high tax burdens on these low-income operators. The fact that the income brackets have not been adjusted to reflect high levels of inflation in recent years suggests that the regime is not sufficiently attuned to real incomes and the realities faced by informal operators in Accra and across the country.

Ghana's modified taxation under Act 896 has been designed to be progressive in structure to reflect the income disparities within the informal economy and alleviates the disproportionate burden on the poorest operators. Together with the ICTD, the GRA is undertaking further research on the design and implementation of the tax stamp and modified taxation policy, also considering the cost of implementation and how this may affect the efficiency and effectiveness of the policy and cost-effectiveness of the policy. This research, to be published in 2025, will further inform policy design moving forward and represents a positive example of collaborative, grounded research informing reform. In summary, although the tax stamp policy was seen as regressive, it was to get these categories of taxpayers keep proper records so that they can be nurtured for future tax purposes.

KENYA: TRADE-OFFS BETWEEN REVENUE AND EQUITY IN PRESUMPTIVE TAX REGIMES

Kenya's Turnover Tax regime (TOT) has been designed to simplify tax administration and compliance for small firms, replacing income taxes which can be difficult to calculate especially for informal operators. It has seen repeated changes over the past decade, being briefly replaced by a subnational presumptive tax rate, and undergoing some rate changes around the Covid-19 pandemic. In March 2024, the turnover tax rate was reduced from 3 percent to 1.5 following the implementation of housing levy (1.5 percent) that applies also to small businesses. A recent study by the World Bank, which includes two surveys of TOT payers, sheds some rare light on the administrative challenges around the turnover tax.[36]

Their most remarkable finding is that approximately 70% of the taxpayers surveyed declare annual turnovers that lie below the TOT threshold and should be exempted from paying turnover tax. Notably, they estimate that approximately a quarter of the total turnover taxes are paid by businesses below the threshold. They hypothesise that these dynamics might be caused by a lack of knowledge, or by the costs of proving their exemption status. Their findings relate to other studies in recent years that have highlighted the difficulties in applying turnover thresholds in practice (see Sierra Leone case study). The turnover threshold for Kenya is Ksh 1 million per year, although the tax payment is based on the monthly turnover, which

[36]Hoy et al., Trade-Offs in the Design of Simplified Tax Regimes

translates to about Ksh 83,300 per month. However, due to the seasonality of the businesses such those dealing in school uniforms or stationery, there are months where they are below the thresholds and others when they are above the threshold, it is not clear how to determine the legibility of such businesses, i.e. whether they should pay turnover taxes or not.

The study also finds that the increase of the turnover tax rate from 1% to 3% led to a decrease in the declared turnover levels by filing firms. After increasing the rate to 3%, revenue was expected to triple but it less than tripled, implying that the taxpayers reduced their declared turnovers. The study also notes that while the number of businesses filing for the turnover tax has increased substantially in recent years, it is still low compared to estimates of the eligible business population. It suggests that more information about these businesses might be held at a subnational level, which suggests potential for more institutional collaboration.[37]

TANZANIA: BLOCK MANAGEMENT SYSTEMS FOR TAX COMPLIANCE AND REVENUE ENHANCEMENT

In 2005, Tanzania Revenue Authority (TRA) introduced the Block Management System (BMS) as an administrative measure with the main goals of improving tax compliance for small and medium-sized business (SME) and enhancing revenue collection. The Tanzania Revenue Authority (TRA) implemented this system as part of broader tax administration reforms. BMS was designed to effectively manage the tax affairs of taxpayers by demarcating the areas in which taxpayer conduct business into sizeable and manageable blocks. TRA defined blocks and conveyed guidance on how the blocks operate to ensure that there was consistency in the various tax regions (ATAF, 2012). BMS was conceived as a continuous and permanent program which covered corporate tax, personal income tax, withholding taxes, value added taxes, and employment taxes. The structure of the BMS is Tanzania is reflected in Figure 2. Over the years there have been some reviews on the efficiency of BMS and recommendations were provided on improving administration of the BMS in TRA.

Figure 2: BMS Management Structure in Tanzania

Source: TRA, 2023

[37]Ibid., 16.

Currently, BMS perform a number of activities such as monitoring taxpayers' registration, filling of tax returns, identifying unregistered businesses, maintaining and ensuring integrity of taxpayers' information, provision of taxpayers' services to enhance tax compliance, implementing departmental strategies and action plans and carrying out the Block's performance evaluation reports.

Despite all the initiatives, BMS is still facing a number of challenges which lead to non-compliance issues. Some of the observed challenges are taxpayer traceability, i.e., absence of residential or business address database, lack of staff to conduct physical survey, manual operation of BMS, inadequate use of technology and the huge informal sector (TRA, 2017). The other challenge is the lack of automated taxpayer information block-wise, hence making it difficult to obtain a complete list of taxpayers located in a respective block at a given point of time.[38]

It was realized that the administrative methods of enhancing BMS was inadequate, requiring new and robust technological techniques to improve its operationalization. These challenges call for the need to digitalize the BMS for tax administration efficiency, which is important within the current business environment. In an effort to address the challenges alluded to earlier, TRA embarked on a mission to automate BMS by using GIS which has been seen worldwide as an important infrastructure component for revenue enhancement with regard to property identification[39], verification, taxation and spatial development governance. The use of GIS is a viable strategy to enhance efficiency in managing SMEs and the rest of the informal economy. In addition, by implementing GIS, TRA can reap the benefits of simplifying the tax administration process and enhancing compliance using spatial data.

Automation of Block Management System (BMS) is an innovative project which aims at enhancing taxpayers monitoring, compliance as well as revenue collection. The project commenced in 2023 and is coordinated by Research Planning Department with support from Ministry of Finance.

The automation ensures the alignment with TRA's strategic goals and objectives as specified in the Tanzania Revenue Act Chapter 6 Tanzania Revenue Authority, Corporate Plan 6 (TRA CP6). The automated BMS also defines the desired functionalities, user interfaces, data integration requirements, reporting capabilities, and any other essential aspects necessary for a streamlined and effective taxpayer registration and monitoring process. The efficiency and effectiveness of tax administration relies heavily on having systems in place that provide reliable information on taxpayers' database to enable effective management of taxpayers. The BMS plays a crucial role in facilitating the management of taxpayers through having a proper and uniform demarcation of blocks basing on administrative wards using postcodes as provided by Tanzania Communication Regulatory Authority (TCRA).

[38]When managing blocks, block officer needs to deal with all taxpayers only in their block boundaries. This system helps them do that efficiently, instead of going through the whole taxpayer database to search for their taxpayers.

[39]BMS deals with all taxes, property management is just one part of it. This is why the system is linked with all other Domestic revenue system and the interactive GIS Dashboard shows taxpayers compliance history in all taxes.

Currently, the TRA registration system recognizes taxpayer's location up to the level of Tax Region, District and Tax Centres. The essence of adopting BMS was to demarcate taxpayers into sizeable and manageable blocks[40]. Therefore, the digitization of BMS through GIS intends to address the challenges alluded to earlier.

TRA mainly uses physical address database from National Physical Address System (NAPA) which provides business addresses, building usage and coordinates which are integrated with shapefile maps from National Bureau of Standards (NBS). The system is expected to provide capabilities of managing blocks, assigning staff to blocks/sub block and Navigation Maps from one point to another to locate the taxpayer. Furthermore, taxpayer's physical address (road name and house number) is linked to geographical coordinates for easy navigation which enhance effective enforcement through physical survey. Above all, the system is envisaged to have a visualization dashboard which will show number of registered taxpayers per region/district/ward/block and sub block; registered taxpayers by tax type, Filling status and electronic fiscal devices (EFD).

Automating the BMS for tax administration using GIS that maps taxpayers by their exact locations, for both formal and informal businesses and gathering attribute information guarantees expansion of the tax base and ultimately enhancing tax administration efficiency[41]. The system will be part of the Internal Domestic Revenue Administration System (IDRAS) currently under development. The automation of the BMS necessitated the preparation of System Requirement Specifications that outlines the specific requirements for its automation and serve as a blueprint for the implementation of IDRAS.

SIERRA LEONE: THE NEED FOR BETTER TARGETING WITHIN REGISTRATION DRIVES

In 2021, the National Revenue Authority of Sierra Leone launched a tax registration drive in Freetown. Building on the Block Management System approach, it aimed to expand the tax base and taxpayer register by identifying and registering informal businesses. Reflecting a commitment to evidence-based learning and policy impact evaluations, the NRA collaborated with the ICTD to study the implementation of the pilot process and identify lessons to be learned when undertaking similar exercises in future or extending the pilot to other parts of the country. The research found that the initiative, while ambitious, faced numerous challenges.[42]

A central goal of the exercise was to register informal businesses by assigning them taxpayer identification numbers and integrating them into the formal tax system. However, the registration drive did not translate into immediate formalization. Despite identifying 5,858 previously unregistered businesses, most did not complete the registration process or receive a TIN, which would have allowed them to being filing taxes. The multi-step process required to obtain a TIN, including

[40]Under the new addressing system by NAPA, blocks are demarcated using government administrative wards/street (1 block = at least 1 ward, 1 sub-block = at least 1 street within specified block ward(s)). Automated BMS demarcates blocks, using government defined boundaries which are geo-fenced and further locates individual taxpayers in their business premises using addresses from NAPA which have coordinates.[41]The system developed has ten modules which encompasses current process of the Block management Currently 7 of these modules are completed, while the remaining 3 are envisaged to be done by January 2025.

[42]Gallien, Occhiali, and van den Boogaard, Catch Them If You Can.

registering with multiple agencies, was a significant barrier. The lack of coordination between agencies made it difficult for businesses to complete the registration process, meaning that while new businesses were identified by the NRA, they did not actually receive TINs and thus did not meaningfully contribute to an expansion of the taxpayer registry – highlighting the importance of coordination between relevant actors in registration exercises.

A further issue identified in the study was that the registration exercise disproportionately captured lower income operators, particularly informal retail traders, who comprised over 70% of newly identified businesses. Many of those operators captured fell under the income threshold necessary for tax liability, thus offering little revenue potential – and mirroring the Kenya case study discussed above. While the exercise aimed to identify higher income operators, including professionals and larger businesses, these groups were significantly underrepresented, in part because they were less visible and more challenging to capture by enumerators.

The exercise also did not actively work to address long standing distrust between informal economy operators and the NRA, in part because the BMS approach was not fully adopted. While it was originally intended for the registration drive to happen alongside the establishment of decentralized tax offices, which would have increased the presence of the NRA across Freetown and Western Area Rural, improved taxpayer services, made registration more accessible for small businesses, and fostered long-term relationships and dialogue. Interinstitutional challenges related to land authorization and timing and funding constraints meant that the BMS design was not fully realized, and thus that the relationship was not meaningfully improved. Notably, the inequities in implementation highlighted above have the potential to further engender distrust among informal operators.

The challenges experienced by the NRA’s tax registration drive are not unique to this initiative but highlight the importance and difficulty of designing tax interventions that are sensitive to the operational realities of informal businesses. Future efforts should focus more on identifying higher income earners and professionals in the informal economy, improving coordination between state institutions, and ensuring that taxpayer relations and services are at the heart of reform efforts.

5 RECOMMENDATIONS

Current approaches to taxing Africa's informal economies have largely failed to meet their revenue targets, while raising severe concerns around the burdens they are putting on the poorest citizens and on small firms, and their potential negative effects on trust between taxpayers and revenue authorities. A new, more nuanced approach to taxing informal economies is urgently needed—one that prioritizes effectiveness and equity by targeting higher-income earners within informal economies, recognises the need for context-specific and evidence-based strategies and fosters positive relationships between informal operators and the state. Based on recent studies in this area, we suggest six principles that should guide policymakers and revenue authorities in this area.

TARGETING

Informal economies are highly heterogeneous in terms of income and tax potential. Rather than conceptualising them as one sector to tax, taxing informal economies can more effectively be thought of as a targeting exercise – of designing measures that identify both growth-oriented higher-income firms and larger actors 'hiding' within an otherwise often largely survivalist sector. Building better models to segment between micro/small/medium enterprises within the informal economy is critical here, as is the need to be able to better identify and capture higher income earners. The success of new policies in this area should not be evaluated by their scope, but by the appropriateness of their targeted group from a revenue and equity perspective.

This connects closely to the second principle.

SECTOR-SPECIFIC STRATEGIES

To fairly tax all sectors in the economy requires tax administrations and tax policy makers to understand how different sectors operate and the differences in their value chains. As highlighted throughout this brief, it needs to be recognized that the informal sector represents a heterogeneous set of actors and sub-sectors. Some of these are hard to tax because most of the players are operating at a small scale such as small holder farmers and artisanal miners. However, larger players also operate in these sectors and often go unidentified. Similarly, the middlemen that buy the produce or minerals from the small players may also end up escaping the tax net. Other sectors are difficult to tax because they are mobile, such as those in the transport sector, while other sectors such as real estate, financial services, and professionals, even when they have more revenue potential, are often able to escape the tax net because they can operate either virtually or in hard to identify locations. Strategies that consider different sector value chains may therefore need to be crafted. At this point, there is limited empirical evidence on what strategy works for which sector. Our primary suggestions here is consequently further research, in close collaboration with practitioners.

Some ideas that have been discussed in this context include for instance (a) scoping whether there may be authorities that have more effective enforcement mechanisms to collect the tax instead of the national tax administration, (b) collaborating with sector specific regulatory bodies to ensure that operating licenses are only renewed after presenting a tax clearance certificate, or (c) implementing withholding tax regimes where proper tax identification details of the suppliers of goods, minerals and services can easily be identified,. One example that we are aware of is the 2018 reform to withholding tax regime on agricultural supplies that was implemented in Uganda at 1%. It is reported that this resulted in significant revenue collections from the sector: by the end of FY2018/19, about USh33 billion (USD 9.2 million) was collected compared to only Ush 4billion (USD 1.1 million) that had been collected as income tax the previous year.[43] Malawi introduced a similar provision in its Taxation Act amendment of 2024.[44] It is important to note, however, that more research may be needed to study the feasibility and effects of withholding tax regimes in context of high informality: while many countries have withholding regime the major gap is that there are no systems in place to collect proper tax identification details of the suppliers, complicating their enforcement for income taxes.

COORDINATION

Both ATAF and ICTD research has highlighted that informal operators often make payments to a variety of different actors, including not just national revenue authorities but also subnational actors and other regulatory actors. This multiplicity of payment is often not fully visible to policymakers themselves, making the design of effective tax systems difficult, and risks the multiple and over-taxation of some actors.[45] At the same time, useful information for targeting higher-income actors might not be shared across actors. We recommend the creation of comprehensive accounts and databases of the different payments made by informal operators to support better tax policy design and administration. Furthermore, given the challenges of taxation at multiple levels and the relative informational advantage of some subnational actors, there are likely many contexts in which it would be wise to review revenue assignments and transfer the management of taxing micro-enterprises to local authorities.

POVERTY-CONSCIOUS POLICY DESIGN

Recent research has raised major concerns about the equity implications of presumptive tax regimes. The majority of presumptive tax regimes in Africa today do not have minimum thresholds, meaning that taxes are being collected from people operating below the poverty line. When thresholds exist, it is not always clear that they are effective.[46] As a matter of priority, tax policy and administration with respect to informal economies should be evaluated for its impact on actors below the poverty line, not just through the introduction of minimum thresholds but also by ensuring that implementation incentives and a lack of knowledge or highly simplified income estimations do not undermine these thresholds.

DIALOGUE AND TAXPAYER ENGAGEMENT

Better relationships between revenue authorities and informal operators can assist the flow of information, especially on sector-specific and context-appropriate design and administration, and can address the often substantial mistrust in this context. A range of concrete interventions could improve these relationships, including

[43]Stewart-Wilson, Graeme; Waiswa, Ronald (2021). Taxing Agricultural Income in the Global South: Revisiting Uganda's National Debate. the Institute of Development Studies and partner organisations. Report. https://hdl.handle.net/20.500.12413/16626

[44]Malawi Taxation Amendment Act No 12 of 2024 published on 19th April 2024

[45]E.g. Vanessa van den Boogaard, Wilson Prichard, and Samuel Jibao, "Informal Taxation in Sierra Leone: Magnitudes, Perceptions and Implications," African Affairs 118, no. 471 (2019): 259-84; Vanessa van den Boogaard and Fabrizio Santoro, "Financing Governance Beyond the State: Informal Revenue Generation in South-Central Somalia," African Affairs 121, no. 485 (2022): 569-94.

[46]Hoy et al., Trade-Offs in the Design of Simplified Tax Regimes; Gallien, Occhiali, and van den Boogaard, Catch Them If You Can; Anyidoho et al, The Price of Simplicity.

regular dialogue with informal associations, informational interventions, taxpayer education, and improved taxpayer services (e.g. through the establishment of block management offices in the BMS model). This also includes fostering more accountable and transparent engagements, and providing better services to informal sector operators in order to demonstrate the benefits of paying taxes.

DATA

Better data is critical to improving strategies to tax informal economies. This includes data on the impact of existing strategies on operators below poverty lines, but also to support targeting of higher-value operations. An ATAF survey found that two thirds of revenue authorities in Africa have not assessed the impact of tax regimes targeted at operators in the informal economy.[47] The same study found that some of the most common strategies employed in this area, including tax amnesties and strengthening sanctions, have often been unsuccessful, highlighting the importance of re-thinking policy approaches in this area. Consequently, in order to facilitate the development of best practices and new policy approaches, better data is needed both on the impacts of current regimes and new innovations.

6 CONCLUSIONS AND NEXT STEPS

Drawing on recent research on the taxation of informal economies, this policy brief has highlighted that current strategies to tax informal economies are often limited from a revenue perspective, while often generating high burdens for lower income operators. A clear way forward lies in moving away from generalist strategies of taxing the informal economy in its entirety, toward targeted strategies that are both more efficient from a revenue perspective and more equitable. These insights emerge from a range of recent studies in this area and are grounded in empirical evidence, but also have highlighted the importance of further policy-oriented research to inform policy design and implementation moving forward.

The African Tax Administration Forum and the International Centre for Tax and Development are both committed to supporting and conducting further research and data collection in this area, alongside peer-to-peer learning and policy conversations that can lead to more effective and more equitable tax policy and administration in this area. We warmly invite interested institutions, governments and interested collaborators to continue these conversations with us.

[47]ATAF, The Efficient Taxation of the Informal Sector. 26.

AFRICAN TAX ADMINISTRATION FORUM

FORUM SUR L'ADMINISTRATION FISCALE AFRICAINE

POSTNET SUITE 430

PRIVATE BAG 15, MENLO PARK PRETORIA 0102

SOUTH AFRICA

TELEPHONE: +27 12 451 8800

E-MAIL: COMMUNICATION@ATAFTAX.ORG

WWW.ATAFTAX.ORG