



# Malawi

## Summary and Conclusion

- With strong economy growth, Malawi increased revenue collections during 2005-2011 by 3.8% of GDP. Although revenues dipped in 2012 by 1.4% of GDP in fiscal 2012, a recovery is expected in 2013.
- Malawi's recent reform focus has been on increases in taxes on fuel and improved VAT and customs control.
- Malawi's revenue effort from personal income taxes and VAT is better than that of regional and income group comparator countries on average. Malawi's revenue effort from corporate income taxes is about the same as that of comparator countries.
- Malawi's tax structure is similar to comparator countries and the rest of the world. Income tax rates are slightly lower than those of comparator countries, but slightly higher than the world average. The VAT rate is slightly higher than both the average rate of comparator countries and the world.
- Malawi's revenue productivity from the personal income tax is well above the regional average and is higher than that of the rest of the world. The productivity from the VAT is slightly higher than the corresponding regional and world averages. The productivity of the corporate income tax is in line with regional and world averages.

## Major Developments and Features of Current Tax System

### Evolution of Revenue

Over the period from 2005 to 2011, Malawi increased tax revenue by 3.8% of GDP. Improvements in revenue were largely due to increases in personal income tax and VAT collections due to strong economic performance. Following strong economic growth in the four years ending in 2011, Malawi's economy experienced a slowdown in fiscal 2012 with a respective decline in revenues by -1.4% of GDP, but with a projected recovery in 2013.

**Malawi: Government Budget Current Revenue (% GDP)**

|                              | 2005  | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013<br>proj. |
|------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|---------------|
| Total tax revenue            | 15.3% | 14.8% | 16.3% | 17.5% | 17.5% | 18.1% | 19.1% | 17.7% | 18.8%         |
| Personal income tax          | 3.9%  |       | 2.0%  | 4.1%  | 4.2%  | 4.5%  | 5.2%  | 4.8%  | 4.8%          |
| Corporate income tax         | 2.0%  |       | 0.8%  | 2.1%  | 2.5%  | 3.1%  | 2.5%  | 2.8%  | 2.8%          |
| Value added tax              |       |       |       |       | 5.9%  | 5.8%  | 6.4%  | 6.1%  | 6.1%          |
| Excise taxes                 |       |       |       |       | 2.9%  | 2.6%  | 3.0%  | 2.2%  | 2.5%          |
| Taxes on international trade | 2.1%  | 1.8%  | 2.0%  | 2.0%  | 2.0%  | 2.1%  | 2.0%  | 1.8%  | 2.6%          |

Malawi's economy is largely agriculture based. It has weathered well the post financial crisis with continued growth and moderate inflation but, given high dependence on fuel and fertilizer imports and tobacco exports, is vulnerable to external shocks.

## Summary of Reforms

Malawi's recent reform focus has been on:

- The removal of implicit subsidies on fuel and an associated increase in fuel tax revenues.
- The strengthening of the revenue administration through increased audits, adoption and use of electronic fiscal devices in the enforcement of VAT, and the use of computerized cargo scanners. The 2013 revenue projections above include the estimated impact of these reforms.
- The introduction of mandatory pension contribution for companies in 2011. Section 13 of Malawi's Pension Act of 2011 allows the tax deductibility of pension contributions, although the implementation of this section was initially suspended, pending a review of the tax laws, likely to impose limits on deductibility.

Key IMF recommendations for future reform include the need to broaden the tax base to allow the value added tax rate to be reduced to regional norms and to offset the impact of further tariff reforms that Malawi is committed to as part of regional integration.

## Tax System Profile (2011-12)

The discussion below provides a high-level profile of Malawi's tax system and compares Malawi with other low income countries in Sub-Saharan Africa and the rest of the world.

### Revenue Performance

- Malawi's revenue effort from corporate income taxes is in line with the tax effort of Sub-Saharan Africa comparator countries and somewhat lower than the world average.
- The revenue effort from the personal income tax is above that of comparator countries in the region and the world average.
- The revenue effort from the VAT is above that of comparator countries and slightly higher than the world average.

### Tax Structure

- Malawi's corporate income tax rate, at 30 percent, is similar to that of comparator (low income) countries in Sub-Saharan Africa (31.7 percent on average) and somewhat higher than the world average (25.7 percent).
- The maximum personal income tax rate, at 30 percent, is somewhat lower than that of comparator countries in the region (35.4 percent), but the high rate kicks in at a relatively low threshold.
- The VAT rate is 16.5 percent, slightly higher than that of comparator countries in the region and the world average (15.7 and 15.5 percent respectively).

### Revenue Productivity

- The corporate income tax productivity is in line with comparator countries and world averages.
- The personal income tax productivity is well above that of comparator countries and higher than the world average.
- The VAT productivity is above that of comparator countries in the region, but slightly lower than the world average.

### **Taxpayer Burden and Corruption Evidence**

- Enterprise surveys by the World Bank indicate that the percentage of Malawi business taxpayers “expected to give gifts in meeting with tax officials” is 11.4 percent which is below the regional average of 18.2 percent and the world average of 14.2. (The latest survey in Malawi was in 2009).
- The World Bank Doing Business survey estimates that the average time required for Paying Taxes by a medium-sized company in Malawi amounted to 175 hours per year in 2013 – a significant improvement from 370 in 2008 and significantly lower than the average of 320 hours for other countries in Sub-Saharan Africa. Malawi's ranking in 2013, however, dropped from 30 to 58 – which is still a commendable ranking – due to an increase in the number of payments and a change in the World Bank's methodology in computing total tax rates.

**ANNEX: Malawi's Collecting Taxes Indicators**

| <b>Company Income Tax</b>               | <b>CITR<br/>Tax Rate</b> | <b>CITY<br/>Revenue as % GDP</b> | <b>CITPROD<br/>Revenue Productivity</b> |
|---|--------------------------|----------------------------------|---|
| Malawi                                  | 30.0                     | 2.9                              | 0.10                                    |
| Sub-Saharan Africa Low Income Economies | 31.7                     | 2.1                              | 0.07                                    |
| Sub-Saharan Africa                      | 31.5                     | 3.0                              | 0.10                                    |
| Low Income Economies                    | 29.0                     | 2.4                              | 0.09                                    |
| World                                   | 25.7                     | 3.3                              | 0.14                                    |

| <b>Income Taxes on People</b>           | <b>PITMINR<br/>Minimum Tax Rate</b> | <b>PITMINL<br/>Minimum Income Level (Multiples of GDP<sub>pc</sub>)</b> | <b>PITMAXR<br/>Maximum Tax Rate</b> | <b>PITMAXL<br/>Maximum Income Level (Multiples of GDP<sub>pc</sub>)</b> |
|---|-------------------------------------|---|-------------------------------------|---|
| Malawi                                  | 15.0                                | 2.09  | 30.0                                | 2.78  |
| Sub-Saharan Africa Low Income Economies | 9.7                                 | 2.63  | 35.4                                | 14.7  |
| Sub-Saharan Africa                      | 10.3                                | 2.02  | 34.0                                | 11.9  |
| Low Income Economies                    | 8.9                                 | 2.04  | 31.0                                | 26.8  |
| World                                   | 10.9                                | 0.87  | 27.8                                | 10.7  |

| <b>Income Taxes on People</b>           | <b>PITY<br/>Revenue as % GDP</b> | <b>PITPROD<br/>Revenue Productivity</b> |
|---|----------------------------------|---|
| Malawi                                  | 5.2                              | 0.22                                    |
| Sub-Saharan Africa Low Income Economies | 3.6                              | 0.12                                    |
| Sub-Saharan Africa                      | 4.1                              | 0.13                                    |
| Low Income Economies                    | 3.7                              | 0.14                                    |

|       |     |      |
|-------|-----|------|
| World | 4.5 | 0.17 |
|-------|-----|------|

| <b>Value Added Tax</b>                        | <b>VATR</b><br>VAT rate | <b>VATY</b><br>Revenue as<br>% GDP | <b>VATGGR</b><br>Gross<br>Compliance<br>Ratio | <b>VATPROD</b><br>Revenue<br>Productivity | <b>THRESHOLD</b><br>Mandatory<br>Registration/ Filing<br>(annual Turnover in<br>USD) |
|---|-------------------------|------------------------------------|---|---|--|
| Malawi  | 16.5                    | 6.4                                | 58.6  | 0.39                                      | 42,000   |
| Sub-Saharan Africa<br>Low Income<br>Economies | 15.7                    | 5.2                                | 42.5  | 0.31                                      | 45,040   |
| Sub-Saharan Africa                            | 15.4                    | 5.3                                | 48.8  | 0.34                                      | 47,367   |
| Low Income<br>Economies                       | 14.8                    | 5.1                                | 48.3  | 0.34                                      | 53,362   |
| World   | 15.5                    | 6.2                                | 63.1  | 0.41                                      | 59,265   |