The Gambia
Financial and Private Enterprise Development Project
Contract No. 635-2037-C-00-2381-00

A REPORT ON THE TAXATION OF FRINGE BENEFITS, WITHHOLDING AT SOURCE, AND BRACKET CREEP

Prepared by:

The Policy Economics Group of
KPMG Peat Marwick

For:

AMEX International, Inc.
Washington, D.C.

Submitted to:

USAID/BANJUL
Banjul, The Gambia

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Part I: Overview and Summary of Recommendations

A. Introduction

In April, 1994 the Policy Economics Group (PEG) of KPMG Peat Marwick was asked to examine three basic issues relating to possible income tax reform in The Gambia. These are: (a) the appropriate taxation of allowance income/fringe benefits, (b) options for withholding on interest income and certain other non-wage payments, and (c) the need for indexing tax brackets to adjust for bracket creep due to inflation.

The proposals that the Team studied developed out of the Tax Reform Committee's concern over two basic issues: (a) the ability of the Ministry of Finance and Economic Affairs (MFEA) to enforce the tax laws currently on the books and (b) the impact of the exemption of certain incomes from the tax base.

During the course of an extended in-country visit, the PEG Consultancy Team (The Team) met with approximately 20 individuals in the Ministry of Finance and Economic Affairs, in the parastatals and in the private sector (see Appendix A). The Team also reviewed several reports written by other consultants and by the AMEX/FAPE resident advisors.

Upon further discussion with the resident Chief-of-Party, it was the Team's understanding that the scope of work was sufficiently flexible to permit it to revisit the entire issue of the advisability and administrability of taxing interest and fringe benefits.

Part II of this Report discusses several general recommendations that relate to the ability of the Ministry of Finance and Economic Affairs to administer the current income tax and the modifications that are recommended in this report. Part III discusses fringe benefits; Part IV addresses withholding on interest and other non-wage incomes; and Part V covers indexing of exemptions and brackets.

B. Project Team Activities

From April 12 through May 7, 1994, Mr. Howard Nester and Dr. Steven Galginaitis met with government officials in the Ministry of Economics and Finance, the Central Statistics Department and the Labor Ministry and interviewed both businesses and private accountants in The Gambia. The purpose of these meetings and interviews was to (a) determine the extent to which fringe benefits are part of the overall compensation of employees and the nature of the benefits that are made available; (b) assess the levels of compliance with current tax laws governing the taxability of allowances/fringe benefits, interest, fees, etc.; (c) explore the likely success of administering alternative approaches to taxing such incomes; and (d) develop data for making estimates of the revenue impact of possible changes in the income tax law.

As part of its study, the Team reviewed minutes of meetings held by the Tax Reform Committee and previous studies prepared as part of the Financial and Private Enterprise Development Project.

C. Overview

In general, the income tax law in The Gambia establishes the principle that all employment-related income is taxable unless otherwise explicitly excluded from tax (See Appendix B). Specifically:

- Interest is taxable to the recipient.
- Fringe benefits are generally taxable to the beneficiary.
- Director's fees, consultancy fees, etc. are all taxable incomes.
- Wages and allowances are taxable incomes.
- Certain allowances are exempt from tax by statue or by Presidential decree.

There is a widespread perception within the MFEA and in the private sector that resources available to the Central Revenue Department are not sufficient to adequately monitor and collect tax on interest, fringe benefits and non-wage incomes. As a result, compliance is purportedly very low. In response, the Tax Reform Committee tentatively adopted measures designed to increase (force) compliance with the tax law by either (a) withholding tax at source or (b) by taxing the income at source under a separate tax schedule and requested additional study of these issues.

Global and Schedular Income Taxes. The Gambian income tax system may be characterized as fundamentally a global income tax (GIT), in which all taxable incomes are combined and taxed under a single schedule of tax rates. The advantages of a GIT are that it is generally more fair, neutral, simple and readily administered than a system consisting of separate schedular taxes on different income sources.

Under a GIT, taxes may or may not be withheld at source. Those that are withheld are credited against total liability and any difference paid to the Government (or refunded to the taxpayer in the case of overpayment).

Key to the effectiveness of a GIT is the ability of the revenue department to assess taxes quickly and accurately and receive payment promptly. Insufficient resources or inadequate administration of a GIT may make it necessary to introduce other measures designed to minimize non-compliance and to assure adequate revenue collection. Almost all governments, to a greater or lesser extent, make allowances for administrative necessity and introduce schedular taxes accompanied by withholding at point of payment (at source) into their income tax systems.

D. Summary of Recommendations.

In view of the concerns of the Tax Reform Committee and findings of other groups that have studied tax administration in The Gambia, a fundamental issue that the Team addressed was whether to recommend replacing current law with new schedular taxes collected at source or to recommend introduction (or enhancement) of withholding at source with final payment due upon assessment. After review of resources available to the Central Revenue Department (CRD) and current practices (described in detail in the report), the Team recommends the following:

- **A separate phased-in Fringe Benefits Tax be imposed on employers on selected non-cash fringe benefits (and related tax exempt cash allowances).**

- **A 15% withholding tax be imposed on interest paid on large deposits by commercial banks.**

- **A limited indexing of the exemption levels and tax brackets.**

- **No additional withholding on non-wage incomes at this time.**

- **The proposed tax on fringe benefits and withholding on interest paid by banks should be final taxes, determined at source and remitted directly to the Ministry.**

We recognize that businesses may argue that these recommendations place additional burdens on them and that it is the CRD's responsibility to collect taxes. (In fact the Team was told in two instances by financial officers that it was not their responsibility to inform the CRD of non-wage incomes paid to employees; it was the CRD's job to detect this income to the extent that it is not reported and to collect taxes on it.) The issue of who should pay for collecting taxes is a difficult one. The current recommendations reflect our judgement that they represent virtually no more of a reporting burden than is true under present law if it was fully and properly implemented. It should be noted that the proposals include de minimis rules designed to lessen the reporting burden of businesses.

Costs of Implementation. Implementing the proposed changes in the tax will require that the CRD design new reporting forms and put new procedures in place to collect the taxes and properly credit payment to the appropriate account. Additional monitoring for compliance will also be required. However, some simplification of current forms and procedures is possible and CRD resources will be freed to monitor the new taxes as the current assessment system is simplified.

Non-deposit of taxes. In discussions with officials in the MFEA the Team was advised that there are known instances where businesses have withheld taxes from employees and have not paid these amounts over to the Ministry. It must be recognized that whichever approach is adopted (tax at source or withholding at source), there will be increases in the extent to which businesses collect taxes from employees but do not remit the tax to the government. This will only be overcome with additional resources allocated to the CRD.

Computerization. Computerizing the operations of the CRD which is now underway will help to increase compliance but only after a lengthy period. The Team has been assured by developers of the computerization project that the software that is being developed for the CRD can readily be modified to include additional information.

A Cautionary Note. It should be noted that some of the findings of the Team are based only to a limited extent on reliable (statistical) information; many of the observations and conclusions are the result of consultations with knowledgeable persons within and without the GOG, public and private accountants, and individuals involved in the MFEA Tax Administration Project.

As is true in any developing country with limited data of questionable reliability, anecdotal evidence must be incorporated in the body of information used to assess the workings of the tax system. One has more confidence if such information is reinforced by several independent observers with different vantage points. An effort has been made to include only those conclusions which seem to the Team to meet this criteria.

Part II: General Recommendations

As a result of its review of current administrative practices, the Team has several general recommendations designed to both compliment specific recommendations in the areas that are the focus of its study and to improve on the overall ability of the Ministry to enforce and collect income taxes.

General Recommendation #1. **The Central Revenue Department should conduct periodic taxpayer compliance studies to institute norms for audit and establish areas of concern.**

Specifically, the Income Tax Division (the Division) currently imposes a presumptive fringe benefits tax on a limited number of individuals working in The Gambia. This presumptive tax is limited to two benefits, employer-provided transportation and housing. These are apparently the more widely offered fringe benefits for senior employees. However, if the Division succeeds in effectively identifying and taxing these benefits (possibly through the proposed direct Fringe Benefits Tax), employers can be expected to shift compensation to salaries and/or to other forms of benefits.

As the economy and the number of taxpayers grow, the Division cannot and should not depend on discovering new or increased usage of other forms of extending tax free benefits to employees through such informal means as word of mouth or advice of private sector accountants. The Division must have a program in place that is specifically geared towards assessing (and quantifying) the use of various fringe benefits. The role of the proposed Fringe Benefit Tax can then be reevaluated in light of changing conditions and either modified or replaced as needed.

More broadly, the Ministry should establish a group within the CRD whose primary role is to derive detailed statistics on sources of income and deductions and the extent of taxpayer compliance through an extensive audit of a sample of taxpayers. Such a taxpayer compliance measurement program will yield information that can be used to select and audit tax returns more effectively and to provide the basis for recommendations for changing the tax code or administrative procedures, thereby allowing the Division to more effectively impose and collect the proper amount of income tax.

General Recommendation #2. **The Government of The Gambia should seriously consider expanding the Central Revenue Department. Additional resources will bring in additional taxes that will be multiples of the additional employment costs.**

Arguably, the imposition of a new tax or additional withholding at source on selected incomes will have little effect on compliance or tax collections if poorly administered. The resource limitations of the current Division are well documented in other studies and it is reasonable to question the viability of new programs recommended in this study. In the case of the proposed fringe benefits tax, resources freed from the current presumptive tax can be utilized to help enforce the new tax. However, it is expected that the new tax will result in an increase in the number of payers and payees that the Division should monitor over time. Therefore, additional personnel will be needed to fully implement the study proposals. At a minimum, one additional tax officer should be assigned to the CRD to monitor the changes in tax law recommended in this study.

More generally, the Team is very concerned over the apparent gap in the non-government sector's knowledge of the tax laws, even by those entrusted with withholding taxes on employees in the companies they work for. The CRD is not sufficiently staffed to effectively put itself in front of the taxpaying community to provide the types of services that will lead to increased voluntary compliance with the law.

The budget for the Income Tax Division for fiscal year 1993/1994 of the CRD calls for 45 persons, of which 21 are tax inspectors/officers. The average annual salary for these 21 officers is D14,664. Income tax collections for the same year are estimated to be D117.8 million, or D5.6 million per tax inspector/officer. The Government receives D358 for every D 1 paid to these officers. It is almost inconceivable that new officers could not bring in multiples of their salary. (Of course, these gains would not accrue in the first year or so of employment due to the need for familiarization, on-the-job training, formal instruction, etc. Much of this training is provided by current staff, whose immediate productivity in terms of revenue may be somewhat adversely affected.)

Realistically, effective staffing will be best accomplished in conjunction with Civil Service reform and other reforms such as those recommended in The Gambia: Tax Policies, Institutional Reforms and Economic Growth.)[1]

> ***General Recommendation #3.*** **The use of tax collection targets to assess the operations of the CRD should be minimized as it leads to inefficient use of resources. Other measures should be developed for assessing Departmental efficiency.**

Revenue projections for the budget in The Gambia are based on establishing revenue needs (after assessing expenditure totals), and adding to prior year collections an increment

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[1] Document of USAID/AMEX/Government of The Gambia.

sufficient to meet these needs. These projections then become targets imposed on the CRD. Meeting targets then becomes the primary goal and revenue monitoring is limited to matching collections against the targets. Shortfalls are (typically) made up by redoubled collection efforts and overruns by an easing up of collection efforts.

This recommendation falls out of the immediate recognition that establishing revenue targets for assessing how well the CRD is working has two negative effects. First, once targets are met, there is often a tendency to relax vigilance with remaining taxpayers, which may result in sub-optimal audit efforts. This, in turn, may lead to further underreporting and increased non-compliance in general.

Second, during the period in which targets are still to be met, decisions as to the appropriate treatment of items on a tax return (such as fringe benefits) may be influenced by the need to collect revenues at the expense of tax principles and policies. Therefore, the effort to meet targets might lead to assessing additional taxes on presumptive fringe benefit income without sufficient attention to the specifics of the tax law.

We therefore recommend that forecasting income tax receipts for budget purposes be done in the context of an overall forecast of the economy and its associated tax base and that alternative methods for assessing the operations of the Department be developed. Additional revenue should then be anticipated from efficiency gains (particularly due to the computerization efforts now underway), selective auditing, additional staffing, training and a more neutral application of the tax laws.

> *General Recommendation #4.* **The Ministry must expend more resources to publicize the income tax: to assure that forms, instructions, interpretations and regulations are available in large quantities to the public; and to clarify the rules and regulations governing the tax.**

Effective implementation of the proposals in this report will require that the CRD disseminate new information (and forms) to employers and employees and interpret the law through examples and regulations.

As noted earlier, the Team was concerned over the apparent lack of information on tax issues, in general, in both the private and public sectors. In one instance the head of a finance department bluntly admitted to not knowing what types of allowances were taxable and stated that it was because the Government did not make it clear. In another instance, a finance officer admitted to not knowing which allowances (cash remuneration) are taxable and which are not and therefore reported only wage income paid to employees.

General Recommendation #5. **All tax forms should be redesigned and expanded to better assist the Department in determining tax liability and computerizing Departmental operations.**

As noted earlier, the proposals in this report will require that the CRD design new reporting forms or modify current forms for use by both taxpayers and the CRD. During its review of current practices the Team noted that many of the forms used by the Department are dated and were designed for an operating environment in which only limited information could be manually extracted for assessing tax liability and for performing audits. The forms are not adequate for more sophisticated audits or for best utilizing the computer resources that are being introduced into the Department.

A complete review and overhaul of the forms is necessary. The redesigned forms should meet the statistical and tax administrative needs of the Department, as well as the immediate need to assess and collect tax. That is, the forms should be redesigned with the full range of management information needs in mind.

Part III: The Taxation of Fringe Benefits

A. Introduction

In April, 1994, the Policy Economics Group (PEG) of KPMG Peat Marwick was asked to examine the issue of withholding of taxes on allowance income in The Gambia and determine which fringe benefits should be subject to a proposed Fringe Benefits Tax (FBT). Specifically, PEG was asked to:

- Present alternative proposals for establishing a fringe benefit tax.
- Recommend items to be included under the tax.

B. Tax Reform Committee Deliberations

On December 20, 1993, the Tax Reform Committee, after much discussion, agreed to accept "the recommendation that a FBT be introduced with the proviso that taxes paid on fringe benefits can not be deductible from company tax liabilities. It was further agreed that the determination of what benefits would be subject to taxes would be the subject of a study/consultancy."

C. Current Law

Under current law, with few exceptions, fringe benefits are fully includable in the taxable income of the recipient or beneficiary. The statutory exception is for the value of any quarters or residence that is: (a) provided by non-government employers to employees earning a salary of less than D1,000 per month, (b) provided by any Government or quasi-Government corporation or agency or (c) provided by non-profit institutions approved by the Minister (See Appendix B).

In addition, pursuant to his statutory authority, the President has exempted the following cash allowances from tax:

- Special Allowances paid to the Vice President, the Attorney General and the Minister of Justice;

- Rent allowances paid to cabinet ministers;

- Constituency allowances paid to members of Parliament;

- Certain special allowances paid to judges, magistrates and law officers.

In a serious omission, other than Subsidiary Legislation governing rental benefits (See Appendix B), no statutes or regulations establishing how to value fringe benefits have been issued by the Department.

D. The Definition of Fringe Benefits

The first issue in the taxation of fringe benefits is to define and distinguish those benefits which represent compensation from those which represent conditions of employment or excludable employee benefits or allowances.

For this study, and in our recommendations, we follow the widely accepted definition of fringe benefits as those forms of employee remuneration (a) that are made in kind, (b) that inherently have a large direct personal consumption element and (c) that do not serve significant social policy objectives that might otherwise fall to the Government of The Gambia.

The following are some of the major categories of benefits that have generally been recognized as fringe benefits by other countries:

- Employer contributions to pension and other plans
- Employer provided medical, dental and life insurance
- Canteen and meal facilities on employer premises
- Leisure facilities, on or off employer premises
- Housing (rent free, reduced rent)
- Below-market interest loans
- Staff discounts on employer goods and services
- Education expenses
- Transportation

E. Allowances

Although often closely related, bonuses, overtime pay, productivity awards, and many similar cash allowances are not fringe benefits as commonly understood. However, they may be (and in The Gambia frequently are) tax exempt. At the same time, many fringe benefits provided in kind by the private sector and parastatals in The Gambia are explicitly provided to the Civil Service and the Uniformed Services in the form of tax exempt cash allowances.

According to information provided to the Team, The Gambia has made the following Civil Service and Uniformed Services allowances tax exempt (recipients in parenthesis):[2]

- Professional allowances (Doctors, Lawyers, Accountants)
- Constituency allowances (elected members of Parliament)
- Responsibility allowances (Some Heads of Departments, Accountant General, Auditor General)
- Duty allowances (Drivers, Domestic servants at the State House)
- Allowance in lieu of private practice (Doctors, lawyers)
- "X" Factor allowances (Members of the Army and the Police)
  Proficiency pay allowances (Police Band Members)
- Basic car allowance (Senior Civil servants)
- Residential allowance (All Senior Servants)
- Acting allowance (All Junior Staff acting in a Senior Position)
- House Rent allowance (All civil servants)
- Provincial allowance (All staff posted to the provinces)
- Hardlying allowance[3] (Members of the Armed Forces)

F. Administration and Compliance

Despite the requirement of law, it is widely acknowledged that fringe benefits are not adequately reported in return-related information used to assess the income of taxpayers. There is a perception that private sector fringe benefits escape taxation altogether in the upper income brackets.

The PAYE system. Under the pay-as-you-earn (PAYE) system, employers are required to withhold taxes on wage and allowance incomes paid to employees in cash or in kind and remit this to the MFEA. Employers are also required to submit monthly and annual returns showing each employees income and the taxes withheld. Auditing of the records to verify that all

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[2] Other (presumably taxable) allowances include children's, education (and school fees), non-pensionable allowances to drivers, kit, bicycle, overseas, operators, overtime fees, superannuation contributions, infectious, honorarium to part-time lecturers, sitting, inducement, travelling, night-duty, gratuity for passing approved examinations, robing, telephone, and special allowances.

[3] Estimates of Recurrent Revenue and Expenditure 1993/94 with Estimates of Development Expenditure 1993/94, Republic of The Gambia, Page 28.

employees are included on the return or that the correct amounts are reported is almost non-existent.[4]

The Team was advised that employers do on occasion combine fringe benefits for higher salaried employees with salary income. However, the reported amounts are negligible and reporting is very infrequent.

Audits. Audits of employer books to determine the extent of fringe benefits paid to employees are virtually unknown. The Department has only recently initiated its first field audit of a business (and is apparently concerned over its legal authority to do so). Although the Department has the statutory authority to demand that businesses submit additional documents, we understand that this option is infrequently exercised and that such requests have been ignored in the past without penalty.

Presumptive Taxation. The Central Revenue Department is acutely aware of problems arising with the reporting and taxation of fringe benefits and, through the mechanism of a presumptive tax on high income taxpayers, employs aggregate "rules of thumb" to assess and collect a limited amount of tax on fringe benefits. The steps are as follows:

1. Identify top salaried employees in major businesses who are likely to receive fringe benefits using (a) gross salary/wages as reported on the monthly return by employer of income tax deducted (I.T. Form No. 26), the Employers Annual Return (Form 4) and other independently gathered information as a guide.

2. Apply two presumptive income ratios to reported salaries in the income tax declaration form (I.T. Form 2) and include the results in total income. The two are (a) 25% of salary for housing and (b) 10% of salary for transportation.

3. Send a Notice of Assessment Form II (ii) to taxpayers reflecting the total tax liability.

4. On occasion, the Department will also send I.T. Form No. 19, Authorization Under Section 63 ... for Deduction of Income Tax from Officer's Salaries, to employers to request that additional amounts be withheld each month to reflect the estimated fringe benefit total.

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[4] Taxes and Private Sector Activity in the Gambia, Overview and Recommendations for Change, The Harvard Institute for International Development for the Economic and Financial Policy Analysis Project, MFEA, The Gambia, February 1992, Appendix 1, Page 8.

The Guide: The two percentages that the Department uses to estimate fringe benefit income are taken directly from an Employer Guide to PAYE of Senior Employees prepared in 1988 by (then) Commissioner Jagne (see Appendix D).

The guide identifies six categories of fringe benefits and their taxability. The cost to the employer of housing is identified as taxable up to a maximum of 25% of salary. This is broadly consistent with the Income Tax (Rental Value of Housing) Rules enacted in 1989 (see Appendix C).

The categories "Free utilities", "domestic servants/watchmen, etc." and "Education allowance" are all listed as fully taxable elements of salary, valued at cost. This is also consistent with the law.

However, two categories in the Guide are troublesome in that they do not seem to conform directly with the law. The two are "Free cars", which are listed as includable at "actual cost up to a maximum of 10% of salary" and "Entertainment and Other Expense Accounts" are listed as 50% taxable. Neither of these limitations exist in present law (nor, as best could be determined, in regulations or other official pronouncements).

Although the Guide identifies the percentages for housing and free cars as maximums, the Department imposes the full percentage on reported salaries. It is our understanding that the Department does not believe that significant amounts of entertainment and other listed fringe benefits occur and therefore it does not impose any other presumptive income measures.

Assessments to Collections: No information exists on the extent to which offers-in-compromise reduce the assessed amounts. We are told that there are virtually no appeals from the assessment levels. This may be misleading in that the offers may be unofficial. The lack of appeals may also be an important indicator that the presumptive levels are below actual values or that taxpayers for other reasons do not wish to contest the assessment.

G. Findings and Conclusion

The findings of the Team, which are generally consistent with other studies of the tax treatment of fringe benefits in The Gambia, are as follows.

1. The issue of taxation of fringe benefits in The Gambia is not fundamentally one of tax policy per se, but instead one of weak compliance and limited enforcement of laws currently on the books.

2. Use of private and public sector fringe benefits is fairly extensive and, in the private sector and parastatals, fringe benefits are generally available only to higher paid employees.

3. The principal private sector fringe benefits at issue are: (a) employer provided transportation, (b) rent-free or reduced rental housing, (c) payment of utilities, and (d) maid/guard and similar services. It was also suggested to the Team that meals and entertainment expenditures deducted by businesses were growing in importance.

4. The vast majority of private sector employees in The Gambia do not benefit from fringe benefits to any appreciable extent and any associated understatement of income and revenue losses to the Government are small.

5. Significant amounts of public sector tax exempt allowances clearly have large personal consumption elements unrelated to the requirements of employment.

Conclusion. The current system for taxing fringe benefits at the employee level is not satisfactory. Assessment of the tax depends on the ability of the Department to identify probable recipients of fringe benefits and assess the tax. The resulting hit-and-miss nature of the tax that is applied, the absence of uniformity across taxpayers and the lack of transparency in the law all serve to reduce confidence in the Government's ability to be fair and to collect the proper tax. Although not quantifiable, all parties interviewed by the Team agree that compliance has suffered as a result.

In addition, the perception in the private sector that large amounts of Civil Service and Uniform Service incomes are exempt from tax leads to additional non-compliance by the former.

A change from taxing fringe benefits at the employee level to the employer level that takes into account the limited ability of the Department to closely monitor fringe benefits is appropriate and desirable. Employer level options are discussed in the following section.

H. Analysis of Alternatives

The basic (statutory) approaches to the taxation of fringe benefits at the employer level are well documented in prior studies and reports prepared for the Tax Reform Committee and are summarized below:

Taxation at the employer level may be accomplished either (i) through imposition of a fixed schedular tax on fringe benefits or (ii) by disallowing all (or a portion) of the deduction for the cost to the employer of providing the fringe benefit.

Both approaches ignore the value of the fringe to the employee and therefore may violate to some degree the principles of horizontal equity (to the extent that employees with similar incomes but different combinations of wage and fringe benefit incomes pay different tax totals) and vertical equity (to the extent that taxpayers facing higher marginal rates derive greater benefit from exempt benefits.) Given the limited availability of fringe benefits to lower income individuals in The Gambia, this is not an issue of consequence now or for the foreseeable future.

The two approaches are discussed separately below.

Direct Taxation. Direct taxation involves imposing a separate schedular tax on costs to the employer of providing the fringe benefit. Normally the tax rate is equilibrated with the top marginal individual income tax rate, thereby yielding to the Government the equivalent amount of tax as would have been paid by individuals if they were taxed directly on benefits received (under the assumption that most recipients face the top marginal rates).

The employer level tax is a surrogate for the employee level tax and is normally not considered a deductible cost in determining the taxable income of the employer (which would otherwise in the first instance reduce overall revenues).

This direct taxation approach has been adopted by many countries to a significant degree due to its administrative simplicity (for both taxpayers and tax administrators) in comparison with the alternative of imposing the tax at the recipient level. However, despite the apparent simplicity of the tax, it should be noted that it requires setting up new reporting and tax deposit requirements on employers and requires additional control and verification actions by the Income Tax Department. This is an important consideration given the current status of tax administration in The Gambia.

Indirect Taxation. Indirect taxation involves disallowing a deduction for all or part of the costs incurred by the employer and thereby indirectly raising the tax liability of all businesses providing such benefits over what they would otherwise have been. Given the single rate of tax applicable to corporations in The Gambia, this approach can (for profitable businesses) yield the same result as the direct taxation approach. For example, a direct tax of 35% per Dalasi is the same as disallowing a deduction for thirty percent of the cost of providing the benefit ($.35X = .50(X-.3X]$) at the current 50% corporate rate.

However, this approach has the drawback of limited immediate applicability where businesses are reporting operating losses or are otherwise tax exempt. Of course, in the longer run, loss carryovers claimed by these businesses still in operation would be smaller than would otherwise be the case (thereby increasing future revenues), but the amount in present value terms often amounts to close to a zero rate of tax.

By the same token, the cash flow of new start up businesses (or cyclical businesses) is often limited and, to the extent that it is the policy of The GOG to subsidize such formations, the indirect taxation method provides some immediate relief.

The Tax Base. There are four possible valuation methods for establishing the tax base. These are (1) value to the employee, (2) cost to the employer, (3) market value and (4) fixed values established by the Government. The first, although the most fair, is the most difficult to determine and is rarely used. The second, cost to the employer is the most easily determined from the employer's books and has been used by countries adopting a fringe benefits tax.

The third option, the fair market value, is often used for valuing fringe benefits, although many fringes do not have a readily determinable market value.[5] Finally, many countries avoid valuation controversies through the fourth option of establishing a set of standard values for many fringe benefits. However, in addition to being costly for the Government, and it is difficult to establish values for the wide range of benefits that businesses offer to employees.

Coverage of the Tax. Although in theory all fringe benefits should be taxed, in practice many benefits are either specifically not taxed, fall under de minimis rules or are simply allowed to continue untaxed. There are many reasons for this. The line between fringe benefits and conditions of employment is often difficult to determine. Key to determining which benefits would be made explicitly subject to the proposed FBT is the ability of the CRD to administer the tax. A tax that is neither administrable nor enforceable should not be enacted or retained in law.

I. Recommendations

After reviewing current law, possible statutory alternatives and administrability issues, we recommend that a limited and phased-in Fringe Benefit Tax (FBT) be imposed at the employer level on selected fringe benefits as follows.

> ***Fringe Benefit Recommendation #1.*** **A FBT should be imposed at the employer level. The tax rate should be phased in: 25% in Year 1, 30% in year 2 and 35% thereafter.**

Since the FBT at the employer level stands as a proxy for taxing the benefits at the recipient level, and most taxable benefits are received by individuals facing the top marginal rate,

[5] For example, the Team found that there is no established auto rental agency market in The Gambia that could be used to determine a daily rental value for use of company vehicles.

the fully phase-in rate should equal the top marginal individual income tax rate. The rate should be tied by statute to the top marginal rate. The proposed phase-in makes allowance for employers with fixed contracts while the initial 25% rate approximates the combined level now imposed by the Income Tax Department through its presumptive income approach.

Such a tax will yield administrative savings for both employers and employees and the CRD:

- The CRD needs only audit a relatively few taxpayers for maximum coverage.
- Employers can combine benefits for individual employees and apply the tax rate to the total.
- Individuals do not have to unexpectedly find cash to pay the tax when assessed.

Fringe Benefit Recommendation #2. **The tax should be imposed on all employers, both public and private, regardless of whether they are profitable or not.**

As noted above, disallowance of deductions at the business level is an option, but one that may not lead to any tax being paid (through higher taxable business incomes). For equity reasons the tax should be paid by all employers, profitable or non-profitable. The application of the tax to public employees will lead to better accounting for resources employed by the government and will help to allay public perceptions of unfair compensation of public employees.

Fringe Benefit Recommendation #3. **The tax should be initially limited to selected fringe benefits for both the public and private sector employers.**

For administrative reasons, the tax should be limited in its applicability to a specified list of fringe benefits (with the option for the Commissioner, with the approval of Minister of Finance and Economic Affairs to add further items to the list).

Items recommended to be taxed. The initial list of fringe benefits subject to the proposed FBT is as follows:

- 50% of the cost of the first company vehicle, 100 percent of each additional vehicle.
- 100% of free or reduced rate housing
- 100% of paid utility expenses
- 50% of meals
- 50% of entertainment expenses and membership dues

- 100% of Maid/guard expenses
- 100% of the cost of tuition (other than job related educational expenses)

The 50% inclusion rate for selected benefits recognizes that there is both a consumption and a condition of employment element in these benefits. The appropriate inclusion rates can, and should, be reviewed periodically by the CRD and recommendations for change made as necessary.

Examples of items excluded from the FBT for the present include:

- Additional "no cost" services provided to employees.
- Employer provided child care.
- Goods sold at cost to employees.

Fringe Benefit Recommendation #4. **In general, the taxable value of the fringe benefits should be established at the cost to the employer of providing the benefit.**

For simplification purposes the fringe benefits should be accumulated (pooled) for each employee and the tax imposed on amounts exceeding a de minimis amount. We recommend D2,500 per year. (This amount should be indexed for inflation to the same extent that the tax brackets are indexed.)

It should be noted that taxing fringe benefits on the basis of cost to the employer where the tax is not deductible by the employer and where the employer is not subject to an income tax (for whatever reason), will yield less revenue than would be the case if the employer is subject to the income tax. The reason is that employers not subject to the income tax find paying the non-deductible FBT is less costly (in cash flow) than paying the higher wage the employee would require. There is no income tax benefit (in the sense of a lower tax total) to be gained from paying the higher wage.

In The Gambia most major businesses with high salary employees receiving fringe benefits are subject to the 3% turnover tax and not the income tax. Therefore they are not likely to continue to offer fringe benefits and to pay the FBT. However, it was felt that the alternative (recently adopted in Australia) of requiring the employer to gross-up the fringe benefit by the amount of the tax and then allowing the FBT to be deductible leads to complexities that at the present moment are not desirable in The Gambian context.

Fringe Benefit Recommendation #5. **The tax should be paid monthly in the manner and on forms prescribed by the CRD.**

Form 26 should be revised to explicitly show amounts of fringe benefits attributed to each employee and the amount of tax withheld.

Fringe Benefit Recommendation #6. **Income Tax Chapter 81, Part III, section 7.(1)(c) exempting that value of quarters or residence should be repealed.**

This repeal is consistent with the proposal and its de minimum exemption.

Fringe Benefit Recommendation #7. **The CRD should develop a Tax Expenditure budget and periodically review exempt cash and non-cash incomes for possible inclusion in the list of explicitly taxed fringe benefits.**

Tax expenditures are measures of the revenues that are foregone by the government as a result of special provisions in the tax code that exempt, exclude or otherwise reduce taxable incomes and/or taxes from levels that would, but for the special provision(s), be included on the tax return. These expenditures are alternative ways the government pursues its objectives. They are, however, not normally subject to annual review and estimation. As part of its reform of fringe benefits taxation, and as a way to monitor the extent and revenue cost of exemptions, the CRD should develop tax expenditure estimates relating to fringe benefits and review the estimates periodically to establish the need for future changes in tax law.[6]

Fringe Benefit Recommendation #8. **The FBT tax should be imposed on those public sector allowances that are similar to taxable private sector fringe benefits. The CRD should publicize the taxable/non-taxable status of allowances.**

Our recommendation is that housing, transportation, and education allowances be included in the taxable income of government employees. The mechanism for this should be patterned after the proposals in the Tolley report to gross up employee income by the amount of the benefit and withhold tax, with the difference that the FBT tax rate is used rather than the tax rate of each employee.[7]

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[6] Of course, the tax expenditure concept can, and should be, extended to all special provisions in the income tax code of The Gambia and form one of the bases for reviewing the code each year for possible recommendations for changes in law or practices.

[7] Issues in Tax Policy Reform in The Gambia: Company Taxes, Fringe Benefits and Rental Income With Comments on Appropriate Mix of Tax Activities, Dr. George Tolley, University of Chicago, Submitted by Amex International, Inc., Washington, D.C., September 10, 1993.

The public sector allowances that could be included in the FBT are:

- Basic car allowances
- Residential allowances
- House Rent allowances
- Education allowances

The Government of The Gambia may wish to continue to provide compensation in tax exempt form despite public perception. Reasons for this may include the Government's perception of its ability to attract and hold key employees and the (apparent) reduction in overall budget employment expenditure as a result of paying lower, but tax exempt, incomes to employees. It must be noted however, that by paying tax-exempt incomes to employees, the total command over limited resources in The Gambia that are appropriated from the private sector by the GOG are higher than reflected in cash outlays and the relative size of the government sector is accordingly understated.

J. Treatment of Allowances

The issue of fringe benefits should not be considered in isolation from the issue of tax free cash allowances and discretion in the tax laws. The tax treatment of all cash allowances (paid by both the public and the private sector) should be reviewed. The Team found that the treatment of allowances is not clear both within the public and the private sectors.

K. Revenue Projections

There are no reliable data on the extent of fringe benefits paid by employers in the private sector in The Gambia. Tax return documents filed by businesses with the Income Tax Department do not separately identify allowances paid or fringe benefits extended to employees. The Department (apparently) does not make it a practice of requesting additional documents that could be used to determine fringe benefit levels. Therefore, the revenue consequences of the FBT can only be estimated indirectly.

As part of the study, summary details from 29 Income Tax Form 2 returns on which fringe benefits were assessed by the Income Tax Division for tax year 1993 were collected and analyzed. Totals are shown in the following table. These returns reported D5.2 million in income, of which D708 thousand was assessed for real estate fringe benefits and D228 thousand for other fringe benefits (transportation). Tax on these fringe benefits amounted to D313 thousand.

Table 1 29 Returns With Fringe Benefit Assessments IT Form 2: Tax Year 1993 (Self Only Column)	
Item	Dalasi
Line 3(c)(i): Wage or salary	3976163
Line 3(c)(ii): Commissions	0
Line 3(c)(iii): Bonus	207916
Line 3(c)(iv): Allowances	228401
Line 3(c)(v): Concessional or free rent	708599
Line 3(c)(vi): Other Income	25380
Line 4: Pension	0
Line 5: Interest, Dividends	9000
Line 6: Rents, Premiums, and Other Income from Property	25000
Line 7: Income from Any Other Source	12000
TOTAL INCOME (Calculated)	5192459
TOTAL TAX (Calculated)	1565121
Calculation of Tax on Fringe Benefits	
Total Income Less Fringe benefits	4255459
Tax on Income Less Fringe Benefits	1252205
Change in Income	937000
Change in Tax	312915
Marginal Rate on Fringe Benefits	33.4

According to information received by the Team, fringe benefits paid to high income individuals in The Gambia are generally around 30% to 40% of wages. The Income Tax Department is now presumptively assessing fringe benefits at a rate of around 23% of wages on those individuals that the Department identifies as receiving taxable benefits. Assuming that fringes are 35% of wages for each person on the file, this suggests that the tax gain under the FBT will be around 50% of current tax collections (after accounting for some slippage and for the non-taxability of certain fringes). For the 29 returns on the file the increase (at 1993 levels) would amount to approximately D35 thousand in the first year, D100 thousand in the second year, and D175 thousand per year thereafter. If total fringes are assumed to be 30% of wages, the revenues estimates are -D15 thousand in the first year, D45 thousand in the second year and D105 thousand per year thereafter.

More realistically, if the revenue gain is limited to those individuals assessed both the auto and the house fringe benefits by the Income Tax Department (16 of the 29 returns), and assuming that benefits are 35% of wages, the revenue gains are D11 thousand in the first year, D70 thousand in the second year, and D130 thousand per year thereafter.

The returns transcribed for the data set were selected by the Income Tax Department from the approximately 150 individual private sector returns that were assessed additional tax by the Department in fiscal year 1993. The Department estimates that no more than 200 to 300 individuals in The Gambia receive large amounts of fringe benefits. If the selection process was random, simple blow-up of the 29 returns (using the 35% estimate and the revenues for the 16 returns only) suggests that an effectively administered fully phased in FBT could raise as much as D1.3 million per year in additional revenue.

However, for several reasons, the actual FBT yield will less than indicated by the data set. First, it is likely that the Department actively seeks the larger wage returns for assessment and therefore any sample drawn from the 150 assessed returns is biased upward. Second, the staff made a conscientious effort in transcribing the 29 returns for this study to locate large returns with significant amounts of assessed fringe benefits. Accordingly, there is no objective way to extrapolate from the data set to potential totals.

The third reason is that the FBT may induce businesses to shift from fringe benefits to taxable wages. High income employees will, of course, require that the wage replacement be sufficient to cover the additional taxes they incur on the wage income so that they are left in the same after-tax position as before. These higher wage costs are deductible by the business in computing taxable profits and therefore, all other things equal, will reduce business tax liability. However, as noted earlier, In The Gambia few businesses pay income tax; most are subject to the 3% turnover tax. Therefore this offset is not likely to be significant.

A conservative judgment is that the phased-in revenue gain would be about D650 thousand.

L. Incentives

The Tax Reform Committee has raised the issue of the fringe benefit tax representing a potential disincentive for investors considering investing in The Gambia. Arguably, the proposed tax is no more of a disincentive than current law. In fact, one may argue that the certainty given to tax law evidenced by strengthening the tax on fringe benefits, makes it easier for investors to plan compensation packages without the uncertainty of the ultimate cost that results from the current hit or miss application of the law.

M. Option: Strengthen the Current System.

The option of strengthening the presumptive income approach could be considered. However, the presumptive approach is not optimal as a long run policy for administering a tax. It is intended to force taxpayers to keep proper books and records and report income correctly.

If the current practice is continued and strengthened, the tax base should be extended to include the other benefits listed below and the costs of providing these benefits established by independent study. These estimates should be reviewed and updated on a regular basis.

Income Tax Bulletin 31: On January 2, 1994, (former) Commissioner Jagne released Income Tax Bulletin 31, Monthly Tax Deduction From Salaries and/or Wages under Section 71(2) of the Income Tax Act (see Appendix E). This guide and the accompanying withholding tables were made necessary by the changes in the income tax, in particular, the increase in the exclusion from D5,000 to D7,500 in 1993. Unfortunately, the bulletin makes specific reference to cash payments and allowances (e.g. salary, over time pay, children's allowances, duty allowances) and non-wage earned income (e.g. bonus, commission, rent, taxi earnings) but does not also specify taxable fringe benefits. If this option is chosen, or if no changes are enacted into the law, the Bulletin should be modified to explicitly restate the taxability of fringe benefits.

Part IV: Withholding at Source: Interest, Fees and Other Incomes

A. Introduction

The Policy Economics Group (PEG) of KPMG Peat Marwick was asked to examine the implications of creating a program for withholding on interest paid by banks and on selected other incomes. Specifically, PEG was asked to:

- Determine the threshold for interest withholding.
- [Examine] the appropriate tax rate on interest withholding.
- Recommend a feasible mechanism for the payment of taxes on interest income.
- Identify other areas for withholding, e.g. Directors fees, consultant fees, etc.

B. Current Law

As noted earlier, income tax law in The Gambia establishes the principle that all income is taxable unless otherwise explicitly excluded from tax (See Appendix B). Interest income, director's fees, consultancy fees, etc. are all taxable incomes.

C. Analysis

Interest Paid by Banks. The Team was only able to obtain limited information on interest flows and taxation. It was able to ascertain that a very limited amount of income tax is now paid on bank interest. Parastatals pay a royalty tax of 3% on gross income which includes interest received, corporations subject to the turnover tax also pay tax on gross income including interest received, and some higher income individuals report interest income.[8]

Compliance with the law is very low. Banks do not report amounts of interest paid to the CRD. There is virtually no auditing of individual returns or of bank records to determine if amount are properly reported.

The Team was advised by bank officials that there would be a great reluctance on the part of the banks to withhold tax on interest income and report the amounts withheld to the

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[8] There is an issue of the taxability of T bills. Apparently the Commissioner is now asserting that these are taxable while holders of the bills argue that they have not been, nor legally should be, taxable.

Government. This is reinforced by the current controversy over the use by banks of taxpayer identification numbers and reporting by banks of interest income to the CRD.

Fees and Other Incomes. The Team was unable to find any usable data on fee and other non-wage taxable incomes in The Gambia. Surveys of personal income do not include such amounts and the national income and product accounts do not include a breakdown of personal income by type. Corporate returns filed with the CRD by businesses do not include sufficient detail to estimate the amounts paid by corporations.

Officials in two parastatals who were interviewed by the Team reported that their use of consultants is fundamentally limited to technical assistance (e.g. IMF consultants) who are tax exempt by treaty.

D. Recommendations

Interest Income. After review of current law and administration of the tax, and in light of the limited information available to the CRD, the Team recommends the following:

> ***Interest Withholding Recommendation #1.*** **Impose a 15% schedular tax on bank interest paid to individuals.**

The Gambia taxes investment (capital) incomes (e.g. corporate profits) and it is appropriate that it continues to tax interest income. This will lessen the burden on other incomes. For administrative and equity reasons, we recommend that the tax be withheld at source and be a final tax. Thus, no information reporting to individuals or to the CRD will be required.

As a final tax, the withholding rate should ideally be a weighted average of marginal rates on depositors. However, this rate cannot be determined from data made available to the Team and the proposed rate is a judgmental compromise.[9]

Capital Flight. As interest is made more subject to taxation, capital flight is a concern. The Team was advised by banking officials that a 10 percent to 15 percent tax rate would not be overly burdensome to banks and would only result in a relatively small savings outflow. (There should be no effect on deposits to the extent that the proposed rate is lower than the marginal rate faced by depositors currently paying tax.) It should also be noted that several countries introducing interest taxation have found a significant reduction in various tax avoidance schemes involving simultaneous loans and borrowing, where businesses borrow from a financial

[9] It also approximates the average rate on the first D55,000 of taxable income (14.09%).

institution (deductible) and redeposit with another financial institution (non-taxable). Although The Gambia nominally taxes interest, the effective tightening of the taxation of interest through withholding can be viewed as similar to introducing a tax on interest.

Interest Withholding Recommendation #2. **Exempt small individual savers from the withholding tax.**

We recommend that smaller deposits be exempted from the tax. Table 2 shows the distribution of deposits by type of deposit by size of deposit. A threshold of D25,000 or less will exempt over 90% of the accounts from the tax, thereby alleviating reporting burdens on the banks.

Any fixed exemption level will induce some taxpayers to break deposits down into smaller units eligible for exemption. However, the transaction and record keeping requirements that this imposes on taxpayers will offset this somewhat. The relatively low proposed tax rate is another factor that will minimize deposit outflows.

Interest Withholding Recommendation #3. **Impose a 15% withholding tax on interest paid to corporations, parastatels and partnerships.**

Interest received by corporations, parastatels, and partnerships in The Gambia would continue to be fully taxable as business income and reported on their tax returns. The amount reported would be grossed up for the withheld tax and the tax claimed as a credit on the return. This treatment would enforce consistency between interest paid, which is fully deductible as a business expense, and interest received.

The amounts withheld and deposited by the banks should be reported quarterly on special information returns to the CRD and to the business depositor.

Interest Withholding Recommendation #4. **The withheld tax should be deposited monthly.**

The tax withheld by the banks should be paid to the Government within 5 working days after the close of each month. This period will allow banks to cover some of their additional expenses by earning a modest return on the withheld taxes before they are deposited in the Government's accounts.

Table 2

Republic of The Gambia

Withholding on Interest

(D'000)

Commercial Banks: Deposits by Type and by Size of Deposit

September 1993		Number	Dalasi	Average	Number	Dalasi	Average	Number	Dalasi	Average
Size of Deposit:		Demand Deposits			Savings Deposits			Time		
From:	To:									
0	250	4726	780	0.17	8698	1289	0.15	17	6	0.35
251	500	1685	473	0.28	3431	1302	0.38	2	1	0.50
501	2500	3589	3989	1.11	13393	18813	1.40	28	31	1.11
2501	5000	1605	5458	3.40	4709	15273	3.24	38	74	1.95
5001	25000	2058	24805	12.05	7409	64304	8.68	446	4860	10.90
25001	50000	586	21560	36.79	1922	55029	28.63	89	3452	38.79
50001	100000	606	37439	61.78	625	36872	59.00	94	6977	74.22
100001	500000	289	72114	249.53	161	28377	176.25	83	20388	245.64
over 500000		32	39520	1235.00	13	11041	849.31	25	69158	2766.32
Total		15176	206138	13.58	40361	232300	5.76	822	104947	127.67

Cumulative totals

Size of Deposit:		Demand Deposits			Savings Deposits			Time		
From:	To:									
0	250	4726	780	0.17	8698	1289	0.15	17	6	0.35
251	500	6411	1253	0.20	12129	2591	0.21	19	7	0.37
501	2500	10000	5242	0.52	25522	21404	0.84	47	38	0.81
2501	5000	11605	10700	0.92	30231	36677	1.21	85	112	1.32
5001	25000	13663	35505	2.60	37640	100981	2.68	531	4972	9.36
25001	50000	14249	57065	4.00	39562	156010	3.94	620	8424	13.59
50001	100000	14855	94504	6.36	40187	192882	4.80	714	15401	21.57
100001	500000	15144	166618	11.00	40348	221259	5.48	797	35789	44.90
over 500000		15176	206138	13.58	40361	232300	5.76	822	104947	127.67

Cumulative totals		All Deposits	
Size of Deposit:		Number	Percent
From:	To:	13441	23.85%
0	250	18559	32.93%
251	500	35569	63.11%
501	2500	41921	74.38%
2501	5000	51834	91.97%
5001	25000	54431	96.58%
25001	50000	55756	98.93%
50001	100000	56289	99.88%
100001	500000	56359	100.00%
over 500000			

Other Incomes.

***Other Withholding Recommendation #1.* Do not impose additional withholding requirements on the payment of consulting fees or other incomes at this time.**

The CRD does not at this time have adequate resources to monitor additional withholding requirements on taxpayers. Imposing new taxes or withholding in this circumstance is likely to lead to additional non-compliance and further deterioration of the public's perception of tax administration. Once the CRD has additional resources and adequate computer support, this issue should be revisited.

E. Revenue Implications

Total interest paid on deposits by the four banks in The Gambia in Fiscal Year 1993 was D39.4 million. A 15% withholding rate on this total would yield D5.9 million. Table 3 shows the distribution of interest paid by type of deposit by various interest rates. The D25,000 exemption eliminates 94% of demand deposits, 98% of savings deposits and 75% of time deposits from the proposed withholding tax. If we assume that this accords roughly with exempting:

- All demand deposits,
- All savings deposits earning under 10%,
- 75% of savings deposits earning between 12% and 13%, and
- All time deposits earning less than 12%,

The remaining total interest subject to withholding is D13,759 million. A 15% withholding rate on this total yields about D2.0 million per year. As noted earlier, some tax is currently paid on interest. A conservative estimate of the net impact of the withholding proposal is D750 thousand at Fiscal Year 1993 levels.

Table 3
Republic of the Gambia
Withholding on Interest
(D'000)
Commercial Banks: Interest Paid on Deposits by Type by Rate of Interest

September 1993	Number	Dalasi	Average	Number	Dalasi	Average	Number	Dalasi	Average
	Demand Deposits			Savings Deposits			3 Month Time		
Without interest	17499	238702	14	-	-	-	-	-	-
Under 10 Percent	288	15609	54	7134	56756	8	-	-	-
From 10 to 11 Percent	-	-	-	-	-		74	5580	75
From 11 to 12 Percent	-	-	-	-	-	-	108	3595	33
From 12 to 13 Percent	111	142	1	29343	167439	6	94	25866	275
From 13 to 14 Percent	-	-	-	-	-	-	21	468	22
From 14 to 15 Percent	-	-	-	-	-	-	-	-	-
Over 15 Percent	-	-	-	-	-	-	-	-	-
Total	17898	254453	14	36477	224195	6	297	35509	120
	6 Month Time			9 Month Time			12 Month Time		
Without interest	-	-	-	-	-	-	-	-	-
Under 10 Percent	107	14320	134	-	-	-	-	-	-
From 10 to 11 Percent	-	-	-	-	-	-	-	-	-
From 11 to 12 Percent	103	13411	130	-	-	-	-	-	-
From 12 to 13 Percent	-	-	-	62	11757	190	-	-	-
From 13 to 14 Percent	11	245	22	-	-	-	219	26351	120
From 14 to 15 Percent	-	-	-	-	-	-	-	-	-
Over 15 Percent	-	-	-	-	-	-	1	1000	1000
Total	221	27976	127	62	11757	190	220	27351	124

CHECK ON TOTALS

Estimated Interest Paid	Rate	Demand	Savings	3 Month	6 Month	9 Month	12 Month
Without interest	0.00%	0	0	0	0	0	0
Under 10 Percent	5.00%	780	2838	0	716	0	0
From 10 to 11 Percent	10.50%	0	0	586	0	0	0
From 11 to 12 Percent	11.50%	0	0	413	1542	0	0
From 12 to 13 Percent	12.50%	18	20930	3233	0	1470	0
From 13 to 14 Percent	13.50%	0	0	63	33	0	3557
From 14 to 15 Percent	14.50%	0	0	0	0	0	0
Over 15 Percent	17.00%	0	0	0	0	0	170
Total		798	23768	4296	2291	1470	3727
	Annualized Total		36350				
	Actual Paid in 1993		39400				
	Actual Paid in 1992		26500				

Part V: Indexing and Bracket Creep

A. Introduction

The Policy Economics Group (PEG) of KPMG Peat Marwick was asked to examine bracket compression and the need for indexation of income taxes. Specifically, PEG was asked to examine:

- The issue of bracket compression.
- The appropriate level for the setting of the personal deduction (tax threshold).
- The appropriate mechanism for the indexation of personal taxes.

The original recommendation to review indexing and bracket creep was made before the current exemption ("zero Bracket") level was enacted into law in 1993.

B. Tax Reform Committee Deliberations

On December 20, 1993, the Chairman of the Tax Reform Committee stated that principles and guides need to be established on changing the threshold and the issue of bracket decompression and indexation for inflation and that these issues should be studied.

C. Current Law

The following rate brackets and schedule currently apply:

Table 4 Income Tax Schedule			
Income From: (Dalasi)	Income To: (Dalasi)	Bracket Width (Dalasi)	Tax Rate: (Percent)
0	7,500	7,500	0
7,500	17,500	10,000	10%
17,500	27,500	10,000	15%
27,500	37,500	10,000	20%
37,500	47,500	10,000	25%
47,500	and over	-	35%

There is no provision for indexing the bracket boundaries.

D. Analysis

Bracket compression, or as it is more commonly known, bracket creep, is the distortion that occurs when inflation increases the real tax burden of individuals due to the fact that exemption levels and bracket boundaries are fixed in nominal terms. Even if a wage earner's income increases at the same rate as price levels over time, his real tax burden increases due to the decreased value of the exemption levels and bracket boundaries. This can be illustrated in the following table, which shows the tax before and after inflation for five different income levels, assuming that each taxpayer's income increased with inflation.

Table 5 Illustrations of the Impact of Inflation on Tax Liability					
Income (Dalasi)	Tax Before Inflation	Tax: 7% Inflation		Tax: 15% Inflation	
		Tax	Percent Increase	Tax	Percent Increase
(Dalasi)	(Dalasi)	(Dalasi)	(Percent)	(Dalasi)	(Percent)
10,000.00	250.00	320.00	28.00	400.00	60.00
25,000.00	2125.00	2387.50	12.35	2750.00	29.41
40,000.00	5125.00	5825.00	13.66	6625.00	29.27
60,000.00	11375.00	12845.00	12.92	14525.00	27.69
100,000.00	25375.00	27825.00	9.66	30625.00	20.69

Note that each taxpayer incurs an increase in tax liability in excess of the assumed increase in inflation-induced income. The higher the rate of inflation, the greater the increase in real tax burdens. Note also that taxpayers in the lower income brackets fare worse than in the higher brackets at any given rate of inflation.[10]

E. Indexing Pros and Cons

The major arguments for indexing are, first, that indexing eliminates unlegislated tax increases that are the unintended result of inflation. The inflation-related increases are dependent on the rate of inflation and the progressivity of the income tax. The second argument is that indexing holds down receipts from levels that would otherwise occur and therefore helps hold down a government's tendency to spend.

Arguments against indexing include that it impairs, in part, the government's flexibility in determining its budget. It is also argued that indexing may weaken the ability of the tax code to stabilize the economy and may itself be inflationary.

F. Choice of Index

If the Government chooses to index the tax brackets, the basic issue is to decide the nature of the index to use to measure inflation. This choice involves, among other things, the availability of the index, its reliability, its familiarity to taxpayers and the Government's goal in indexing the tax code. With regard to the latter, there are two possible goals for indexing:

(a) Prevent taxes as a percentage of total personal income from rising due to inflation; or

(b) Offset the impact of higher prices on taxpayer incomes.

If preventing taxes from rising as a percentage of total income due to inflation is the primary goal, then a measure of the effect of inflation on incomes, such as the GDP implicit price deflator, is appropriate. If the goal is to offset the impact of higher prices on taxpayer incomes, then a price related index, such as the Consumer Price Index, is more appropriate.

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10 Inflation induced distortions in an income tax are not only those associated with bracket creep, but also those that are due to the misstatement of real income from capital.

The following table compares the percentage changes in the CPI and in the GDP Implicit Price Deflators for The Gambia.

Table (
Consumer Price Index and GDP Implicit Price Deflators

	Fiscal Year Index		Annual Percent Change	
Year	CPI	GDP Implicit Price Deflator	CPI	GDP Implicit Price Deflator
1986/87	440.9	316.2	-	-
1987/88	496.3	342.2	1.13	1.08
1988/89	550.2	389.6	1.11	1.14
1989/90	607.8	449.1	1.10	1.15
1990/91	663.1	488.1	1.09	1.09
1991/92	742.9	524.3	1.12	1.07
1992/93				

G. The Exemption Level

The 1993 exemption of D7,500 is roughly equivalent to the real level in 1988; the percent change in the Index of Consumer prices for the low income population of Banjul and Kombo St. Mary is 52.7% and the change in the exemption level over the same period is 50%.

The 1993 level is also close to the average (annualized) wage for February 1993 for all employees in the formal private sector (D8,172)[11]

[11] Central Statistics Department, Survey on Employment and Remuneration, February 1993, Table 7 p. 14.

Table 7 Exemption (Zero Bracket) Level				
Year	Index of Consumer Prices: Low Income Population[12]		Exemption Level	
	Level	Percent Change	Level (Dalasi)	Percent Change
1988	829.0	-	5,000	-
1993	1,257.6	51.70	7,500	50.00

H. Findings

The findings of the Team are as follows.

1. The Team was advised that many taxpayers are not aware of the impact of the new exemption on their taxes.

2. Many of the Government's tax forms (other than revised withholding tables which have been made available to employers) have not been revised to reflect the new level.

3. The CPI is based on a very dated (1974) base year with expenditure weights drawn from a 1968/69 family budget survey. However, it is in the process of being updated, based on a new sample survey taken in 1992 in Banjul and Kombo St. Mary.

4. The Team was not able to delve into the statistical accuracy of The Gambia's national income and product accounts to determine if the GDP implicit price deflators were of sufficient quality to use as the basis for indexing. Regardless, the data sources for the accounts are such that the most recent two years are preliminary and subject to revision.

I. Recommendations

***Indexing Recommendation #1.* The Government should require by statue that the exemption level and brackets be indexed when inflation has cumulatively reached a certain level, e.g. 15%.**

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[12] Central Statistics Department, Consumer Price Index of The Gambia, 1992, May 1993, Table No.3, p. 7 (updated).

Annual indexing of the brackets is not recommended at this time. Inflation (currently at 6% per annum) is not high enough to warrant the additional administrative expenses that would be incurred by both the private and public sector of annual changes in withholding tables. It is also possible that some of the increase in fixed-base prices may be offset by changes in consumption patterns. They may also reflect changes in the quality of products.

In addition to being a revenue loser, the current state of the administration of the tax, difficulty in dissemination of changes in tax law to the population as a whole, and the limited ability of many employers to easily revise withholding practices are all considerations in the recommendation against automatic annual indexing.

> *Indexing Recommendation #2.* **The bracket boundaries should then be indexed by the full annual change in the Fiscal year CPI (which is currently under revision) since the last indexing. To simplify calculations, the resulting brackets should be rounded to the nearest D1000.**

The Team recommends using the CPI since it is better known and is more current than the GDP implicit price deflator. If and when the CPI is revised, the change in the revised series should be used to determine if indexing is triggered for the next year. The CPI for the latest fiscal year should be used to determine if indexing is appropriate. For example, the CPI for the period ending June 30, 1994 should be used to determine if bracket boundaries should be indexed for tax year 1995.

> *Indexing Recommendation #3.* **Consideration should be given to raising the exemption level from D7,500 to D10,000.**

This increase of D2500 would allow for an automatic exemption of a limited amount of employer-provided allowances that are widely extended to employees in the private and public sector (e.g. transportation) and would help to minimize controversy with the CRD over the nature of these allowances. The increase in the exemption could then be tied to the proposed changes in the treatment of fringe benefits.

Of equal importance, the increase in the exemption level would remove a substantial number of low income taxpayers from the tax rolls, thus offering them a measure of protection against inflation since we do not recommend full annual inflation adjustments at this time.

The proposed tax schedule would be as follows:

Table 8
Proposed Income Tax Schedule

Income From: (Dalasi)	Income To: (Dalasi)	Bracket Width (Dalasi)	Tax Rate: (Percent)
0	10,000	10,000	0
10,000	20,000	10,000	10%
20,000	30,000	10,000	15%
30,000	40,000	10,000	20%
40,000	50,000	10,000	25%
50,000	and over	-	35%

Indexing Recommendation #4. **The interaction between the tax brackets and the turnover tax should be studied.**

The Team has been advised that partners and sole proprietors with wage income as well as business income are commonly subject to the 3% turnover tax on their total income (including wage income). These individuals would not be helped by indexation: indeed indexing of brackets may result in more taxpayers being made subject to the 3% tax. This issue should be addressed as part of a complete review of the turnover tax.

J. Revenue Implications

A sample of 86 IT Form 2 returns was drawn for this study from the approximately 8000 employees for which Form 2's are filed by employers in the private sector. Total taxable income for these returns is D1,872 thousand and total tax D198 thousand. If the exemption level is increased to D10,000, total tax decreases by about -14.5% to D170 thousand, a reduction of D28 thousand. The initial data set are shown in Appendix F. Total income and tax under the current law and under the proposal are shown in Appendix G.

The sample should be viewed as illustrative of possible overall totals only. An exact account of the universe is not available and the sample was drawn under difficult conditions. Assuming that the sample is 1% of the universe, the total revenue loss (at FY 1993 levels) from increasing the exemption level to D10,000 is D2.8 million. This represents a substantial revenue loss. One option for reducing the revenue loss is to limit the benefits of the increase in the exemption level by reducing first bracket width; i.e. apply the 10% rate to incomes between D10,000 and D17,500 and tax all other income as under current law. This option recognizes the need remove low income taxpayers from the tax rolls but limits the extent to which higher income taxpayers benefit from the increase. The revenue loss is reduced from D2.8 million to D1.8 million. The calculation on a return by return basis are shown in Appendix H. Note that this option caps the maximum revenue benefit for higher income taxpayers at D250 while continuing to remove many taxpayers from the rolls.

APPENDIX A
Interviews

The following individuals were interviewed for this study.

Honorable Minister BB Dabo, Ministry of Finance and Economic Affairs (MFEA)

Mr. Alieu Ngum, Permanent Secretary, MFEA

Mr. Samba E. Saye: Commissioner of Income Tax, MFEA

Mr. Harouna Savage: Acting Deputy Commissioner of Income Tax, MFEA

Mr. Mambury Njie: Head, Macroeconomic and Financial Analysis Unit, MFEA

Mr. Abdoulie Touray: Chief Executive, National Investment Board

Mr. Benjamin Carr: Private Consultant

Mr. Philip Burrow and Mr. Adrian Loughrey (KPMG Gambia)

Dr. Mahmoudou Ceesay: Director of Research, Central Bank of the Gambia

Mr. Boa Sanyang: Economist, Central Bank of the Gambia

Dr. Rahman: U.N. Volunteer, Central Statistics Department, MFEA

Mr. Hatib B. Semega Janneh: Jimpex International LTD.

Mr. Baba Marong: Chief Labor Economist, Ministry of Trade, Industry and Employment

Mr. Momodou B.A. Senghore: Managing Director, Shell Marketing Gambia

Mr. M.I. Secka: Auditor General, MFEA

Mr. Moure and Mr. Rubin Andrews: BICI

Mr. Ebrima HO Njie: National Investment Board, Division Chief

Mr. Ebou Tourey: Director General of Customs, MFEA

Mr. Alpha Amadou Barry: Director of Finance, Gambia Ports Authority

Mr. Bakary M. Houma: Director of Finance, Gambia Public Transport Corporation

APPENDIX B

Laws of the Gambia
Income Tax
Chapter 81.01

Income Tax - Chapter 81, Part III.-Imposition of the tax

7.(1) The tax shall, subject to the provisions of this Act, be payable ... in respect of - (c) gains or profits from any employment including any allowances paid or payable in money or kind to or on behalf of an employee but excluding any allowance made as reimbursement for expenses actually incurred. The value of any quarters or residence provided by the employer shall not be deemed to be part of the gains or profits from an employment, except to the extent of the value of any quarters or residence provided free of rent or at a confessional rent to an employee earning a salary of one thousand Dalasis per month or more by the employer not being the Government or any Government or quasi-Government corporation or agency or any educational, religious or charitable organization or such non-profit making institution as may be approved by the Minister.

9.(1) There shall be exempt from the tax -

(a) The official emoluments received by the President or acting president.

(k) lump sums received by way of retiring or death gratuities or as consolidated compensation for death or injuries or arising out of any compensation scheme referred to in The Gambia .. and any sums payable to any public officer in respect of service with the government pursuant to any contract or service agreement and described therein as a gratuity

APPENDIX C

Laws of the Gambia
Income Tax
Chapter 81.01

Subsidiary legislation:

Income tax (Rental Value of Housing Rules) made under Sections 5 and 7(b)

1. These rules may be cited as the Income Tax (Rental Value of Housing) Rules, and shall be deemed to have come into effect on the first day of January, 1988.

2. (1) For the purpose of the assessment of taxable income under the Act, the rental value of any accommodation provided by an employer to an employee without payment of rent shall -

(a) in respect of unfurnished accommodation, be twenty percentum of the monthly salary of such employer (sic) or of the full rental value of such accommodation; or

(b) in respect of furnished accommodation, be twenty five percentum of the monthly income of such employee or the full rental value of accommodation,

whichever is the less as may be determined by the commissioner.

(2) Where the accommodation provided is at a concessionary rent, and the actual rent paid by the employee is less than the retail value of such accommodation, the rental value to be taken for the purpose of assessment shall be the rental value calculated as specified under subparagraph (a) or subparagraph (b) of paragraph (1) of the rule, less the actual rent paid.

APPENDIX D

EMPLOYER GUIDE TO PAYE OF SENIOR EMPLOYEES

Emolument		Taxability
Salary	-	Fully Taxable
Free Housing	-	actual cost up to a maximum of 25% of salary
Free car	-	full cost of facility taxable up to a
maximum of 10% of% salary		
Entertainment and other expense accounts	-	50% taxable
Free Utilities	-	cost treated as element of salary
Domestic servants/watchmen, etc	-	cost treated as element of salary
Education allowance	-	treated as element of salary

Example

Mr. Davis is the Managing Director of Davis manufacturing Limited. He enjoys the following for the Calendar Year 1989.

(a) Salary of D 100,000 per annum;
(b) Rent free accommodation for which the annual rent is D 35,000;
(c) an allowance of D 1500 per month towards his G U C bill and domestics;
(d) an annual entertainment allowance of D 6000;
(e) a free company car;
(f) a children's education allowance of D 50,000 per year.

INCOME TAX COMPUTATION

Salary	D100,000		
Utilities	D18,000		
Education allowance	D50,000		
		D168,000	
Housing	35,000		
Entertainment		3,000	
Car		16,800	
		D222,800	
Tax on first D 5000 of income			0
" " next D 10,000 of income			1,000
" " " D 10,000 of income			1,500
" " " D 10,000 of income			2,000
" " " D 10,000 of income			2,500
" " " D 177,800 of income			62,230
			D69,230

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APPENDIX E

Central Revenue Department
Income Tax Division
The Quadrangle
BANJUL

(FOR ALL EMPLOYERS)

2 January 1994

FILE NO. IBT. 31 MONTHLY
INCOME TAX CIRCULAR NO ....
TO: ....
....
....
....

<u>MONTHLY TAX DEDUCTION FROM SALARIES AND/OR WAGES UNDER SECTION 71 (2) OF THE INCOME TAX ACT.</u>

Certain Sections of the Income Tax Act have bee amended recently to take effect as from 1st of January 1994. It is therefore necessary to bring to the notice of all employers some of the new changes. As before, it is still obligatory on the part of all employers to collect the tax payable by each employee by monthly deductions for each employee's emoluments and to promptly render accounts of a pay all such amounts deducted to the Commissioner of Income Tax.

2. As of 1st January 1994 as employee whose total emoluments for the year is D 7,500 (Seven thousand five hundred dalasis) and below is exempt from the payment of tax. Tax is deducted from those earning above D 7,500 (Seven thousand five hundred dalasis) per anum. You will find attached herewith the new monthly tax table which is a replacement of the old one.

3. Monthly emoluments include salary, active or charge allowance, overtime pay, children's allowance, responsibility allowance, duty allowance, etc. If you have in your employ a Mr X earning a monthly salary of D 500.00 (Five hundred dalasis) and plus acting or charge allowance of (d 150.00 (one hundred and fifty dalasis) and children allowance of D 100 (One hundred dalasis), those should be added to arrive and the monthly emoluments. N this case, Mr. X's totals emoluments for the month is D 750.00 (Seven hundred and fifty dalasis) and the tax to be deducted in accordance with the new tax table for that particular month is D 12.50 (Twelve dalasis fifty bututs).

4. The total monthly deduction when made should be promptly paid and accounted to me at the end of each month <u>at least not later than the 5th day of the following month on the prescribed form enclosed herewith.</u>

5. Where a taxpayer ceases to be employed by you, you are required to inform me if possible in advance it that is not possible within 7 days, with a statement of the amount of tax you have collected from him/her and his/her emoluments drawn from 1st January

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to date of cessation. Failure to do so will entail you liability to the tax due from the employee even is he/she has left.

6. There are some employees who in addition of their salaries may be receiving other income like bonus, commission, rent, taxi earning etc or may have arrears of tax to pay. For each such case you will be advised separately as to what tax to de deducted monthly. Until such advice is received please deduct according to the table.

7. Please note that failure to furnish the above Return on the due date is an offence under the Income Tax Act and may render, you liable on conviction, to a fine, and in certain cases also imprisonment, under Section 81 and 82 of the Income Tax Act.

8. It is also pertinent to mention that the Commissioner has been empowered under Section 74 of the Income Tax Act to seize and sell movable properties of any tax defaulter in settlement of the tax owing.

Yours faithfully

M.M. JAGNE
COMMISSIONER OF INCOME TAX

APPENDIX F

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(BRACKET1)
06/03/94

Indexing: Impact of Increasing Exemption to D10,000
Sample of IT Form 2: Tax Year 1993
Self Only

(Dalasi)

Sample Number	Form 26		Annual Income	IT Form 2										
	Decem. Salary	Tax Withheld	12	Line 2(d)	Line 3(c)(i)	Line 3(c)(ii)	Line 3(c)(iii)	Line 3(c)(iv)	Line 3(c)(vi)	Line 3(c)(vii)	Line 4	Line 5	Line 6	Line 7
(Col. 1)	(Col. 2)	(Col. 3)	(Col. 4)	(Col. 5)	(Col. 6)	(Col. 7)	(Col. 8)	(Col. 9)	(Col. 10)	(Col. 11)	(Col. 12)	(Col. 13)	(Col. 14)	(Col. 15)
1	0.00	0.00	0		0									
2	350.00	0.00	4200		4200									
3	350.00	0.00	4200		4200									
4	400.00	0.00	4800		4800									
5	480.00	0.00	5760		5760									
6	480.00	6.30	5760		5760									
7	520.00	11.27	6240		6240									
8	550.00	0.00	6600		6600									
9	600.00	0.00	7200		7200									
10	600.00	20.00	7200		7200									
11	655.00	3.00	7860		7860									
12	700.00	28.30	8400		8400									
13	704.76	8.00	8457		8457									
14	743.02	12.00	8916		8916									
15	770.00	14.50	9240		9240									
16	772.00	15.00	9264		9264									
17	801.61	18.00	9619		9619									
18	806.50	18.50	9678		9678									
19	810.00	18.50	9720		9720									
20	810.91	19.00	9731		9731									
21	823.00	20.00	9876		9876									
22	858.08	23.50	10297		10297									
23	887.87	26.50	10654		10654									
24	904.80	28.00	10858		10858									
25	914.00	29.00	10968		10968									
26	932.09	31.00	11184		11184									
27	986.90	36.50	11843		11843									
28	1000.00	37.50	12000		12000									
29	1000.00	58.30	12000		12000									

(BRACKET1)
06/03/94

Indexing: Impact of Increasing Exemption to D10,000
Sample of IT Form 2: Tax Year 1993
Self Only

(Dalasi)

Sample Number	Form 26		Annual Income	IT Form 2										
	Decem. Salary	Tax Withheld	12	Line 2(d)	Line 3(c)(i)	Line 3(c)(ii)	Line 3(c)(iii)	Line 3(c)(iv)	Line 3(c)(vi)	Line 3(c)(vii)	Line 4	Line 5	Line 6	Line 7
(Col. 1)	(Col. 2)	(Col. 3)	(Col. 4)	(Col. 5)	(Col. 6)	(Col. 7)	(Col. 8)	(Col. 9)	(Col. 10)	(Col. 11)	(Col. 12)	(Col. 13)	(Col. 14)	(Col. 15)
30	1038.46	41.50	12462		12462									
31	1054.57	43.00	12655		12655									
32	1075.98	45.10	12912		12912									
33	1076.70	45.50	12920		12920									
34	1080.00	45.50	12960		12960									
35	1088.45	46.50	13061		13061									
36	1091.66	47.00	13100		13100									
37	1133.00	51.00	13596		13596									
38	1144.00	52.00	13728		13728									
39	1202.50	58.00	14430		14430									
40	1300.00	67.50	15600		15600									
41	1310.00	68.50	15720		15720									
42	1395.00	77.00	16740		16740									
43	1460.00	84.08	17520		17520									
44	1500.00	90.08	18000		18000									
45	1500.00	89.33	18000		18000									
46	1500.00	90.08	18000		18000									
47	1583.00	102.08	18996		18996									
48	1600.00	105.00	19200		19200									
49	1633.56	110.41	19603		19603									
50	1638.00	110.33	19656		19656									
51	1660.00	114.08	19920		19920									
52	1700.00	120.08	20400		20400									
53	1837.20	140.33	22046		22046									
54	1848.89	142.58	22187		22187									
55	1860.00	144.08	22320		22320									
56	1977.60	161.33	23731		23731									
57	2000.00	165.08	24000		24000									
58	2000.00	165.08	24000		24000									
59	2000.00	165.08	24000		24000									

(BRACKET1)
06/03/94

Indexing: Impact of Increasing Exemption to D10,000
Sample of IT Form 2: Tax Year 1993
Self Only

(Dalasi)

Sample Number	Form 26		Annual Income	IT Form 2										
	Decem. Salary	Tax Withheld	12	Line 2(d)	Line 3(c)(i)	Line 3(c)(ii)	Line 3(c)(iii)	Line 3(c)(iv)	Line 3(c)(vi)	Line 3(c)(vii)	Line 4	Line 5	Line 6	Line 7
(Col. 1)	(Col. 2)	(Col. 3)	(Col. 4)	(Col. 5)	(Col. 6)	(Col. 7)	(Col. 8)	(Col. 9)	(Col. 10)	(Col. 11)	(Col. 12)	(Col. 13)	(Col. 14)	(Col. 15)
60	2000.00	165.08	24000		24000									
61	2000.00	195.80	24000		24000									
62	2001.00	165.08	24012		24012									
63	2183.00	192.08	26196		26196									
64	2251.00	202.58	27012		27012									
65	2263.20	204.83	27158		30000			3000	7500	2000				
66	2263.20	204.83	27158		27158									
67	2292.00	208.67	27504		27504									
68	2411.00	232.67	28932		28932									
69	2416.00	233.33	28992		28992									
70	2500.00	250.67	30000		30000									
71	2520.00	254.67	30240		30240									
72	2708.33	204.84	32500		32500									
73	2956.00	341.67	35472		35470		2895							
74	2956.00	411.56	35472		35472		2895							
75	3000.00	350.67	36000		36000									
76	3150.00	360.67	37800		37800									
77	3314.00	423.33	39768		39768									
78	3695.63	74.78	44348		44348									
79	4082.00	742.28	48984		48984									
80	4111.00	637.58	49332		49332									
81	4139.35	647.16	49672		49672									
82	5250.00	1036.58	63000		63000									
83	5663.30	810.00	67960		67960									
84	5663.30	810.00	67960		67960									
85	6000.00	1299.08	72000		72000									
86	6000.00	0.00	72000		72000									
TOTALS	154288	13930	1851460	0	1854300	0	5790	3000	7500	2000	0	0	0	0

APPENDIX G

Sample of IT Form 2: Tax Year 1993
Self Only

Sample Number	Taxable Income and Tax Exemption = 7500			Taxable Income and Tax Exemption = 10000			Change in Tax:	
	Income	Tax	Rate	Income	Tax	Rate	Dalasi	Percent Reduction
(Col. 1)	(Col. 2)	(Col. 3)	(Col. 4)	(Col. 5)	(Col. 6)	(Col. 7)	(Col. 8)	(Col. 9)
1	0	0	N/A	0	0	N/A	0	N/A
2	4200	0	0.00%	4200	0	0.00%	0	N/A
3	4200	0	0.00%	4200	0	0.00%	0	N/A
4	4800	0	0.00%	4800	0	0.00%	0	N/A
5	5760	0	0.00%	5760	0	0.00%	0	N/A
6	5760	0	0.00%	5760	0	0.00%	0	N/A
7	6240	0	0.00%	6240	0	0.00%	0	N/A
8	6600	0	0.00%	6600	0	0.00%	0	N/A
9	7200	0	0.00%	7200	0	0.00%	0	N/A
10	7200	0	0.00%	7200	0	0.00%	0	N/A
11	7860	36	0.46%	7860	0	0.00%	−36	100.00%
12	8400	90	1.07%	8400	0	0.00%	−90	100.00%
13	8457	96	1.13%	8457	0	0.00%	−96	100.00%
14	8916	142	1.59%	8916	0	0.00%	−142	100.00%
15	9240	174	1.88%	9240	0	0.00%	−174	100.00%
16	9264	176	1.90%	9264	0	0.00%	−176	100.00%
17	9619	212	2.20%	9619	0	0.00%	−212	100.00%
18	9678	218	2.25%	9678	0	0.00%	−218	100.00%
19	9720	222	2.28%	9720	0	0.00%	−222	100.00%
20	9731	223	2.29%	9731	0	0.00%	−223	100.00%
21	9876	238	2.41%	9876	0	0.00%	−238	100.00%
22	10297	280	2.72%	10297	30	0.29%	−250	89.38%
23	10654	315	2.96%	10654	65	0.61%	−250	79.25%
24	10858	336	3.09%	10858	86	0.79%	−250	74.46%
25	10968	347	3.16%	10968	97	0.88%	−250	72.09%
26	11184	368	3.29%	11184	118	1.06%	−250	67.86%
27	11843	434	3.67%	11843	184	1.56%	−250	57.57%
28	12000	450	3.75%	12000	200	1.67%	−250	55.56%
29	12000	450	3.75%	12000	200	1.67%	−250	55.56%

Sample of IT Form 2: Tax Year 1993
Self Only

Sample Number	Taxable Income and Tax Exemption = 7500			Taxable Income and Tax Exemption = 10000			Change in Tax: Dalasi	Percent Reduction
	Income	Tax	Rate	Income	Tax	Rate		
(Col. 1)	(Col. 2)	(Col. 3)	(Col. 4)	(Col. 5)	(Col. 6)	(Col. 7)	(Col. 8)	(Col. 9)
30	12462	496	3.98%	12462	246	1.98%	−250	50.39%
31	12655	515	4.07%	12655	265	2.10%	−250	48.50%
32	12912	541	4.19%	12912	291	2.26%	−250	46.20%
33	12920	542	4.20%	12920	292	2.26%	−250	46.12%
34	12960	546	4.21%	12960	296	2.28%	−250	45.79%
35	13061	556	4.26%	13061	306	2.34%	−250	44.95%
36	13100	560	4.27%	13100	310	2.37%	−250	44.64%
37	13596	610	4.48%	13596	360	2.64%	−250	41.01%
38	13728	623	4.54%	13728	373	2.72%	−250	40.14%
39	14430	693	4.80%	14430	443	3.07%	−250	36.08%
40	15600	810	5.19%	15600	560	3.59%	−250	30.86%
41	15720	822	5.23%	15720	572	3.64%	−250	30.41%
42	16740	924	5.52%	16740	674	4.03%	−250	27.06%
43	17520	1003	5.72%	17520	752	4.29%	−251	25.02%
44	18000	1075	5.97%	18000	800	4.44%	−275	25.58%
45	18000	1075	5.97%	18000	800	4.44%	−275	25.58%
46	18000	1075	5.97%	18000	800	4.44%	−275	25.58%
47	18996	1224	6.45%	18996	900	4.74%	−325	26.53%
48	19200	1255	6.54%	19200	920	4.79%	−335	26.69%
49	19603	1315	6.71%	19603	960	4.90%	−355	27.00%
50	19656	1323	6.73%	19656	965	4.91%	−358	27.04%
51	19920	1363	6.84%	19920	992	4.98%	−371	27.22%
52	20400	1435	7.03%	20400	1060	5.20%	−375	26.13%
53	22046	1682	7.63%	22046	1307	5.93%	−375	22.30%
54	22187	1703	7.68%	22187	1328	5.99%	−375	22.02%
55	22320	1723	7.72%	22320	1348	6.04%	−375	21.76%
56	23731	1935	8.15%	23731	1560	6.57%	−375	19.38%
57	24000	1975	8.23%	24000	1600	6.67%	−375	18.99%
58	24000	1975	8.23%	24000	1600	6.67%	−375	18.99%
59	24000	1975	8.23%	24000	1600	6.67%	−375	18.99%

Sample of IT Form 2: Tax Year 1993
Self Only

Sample Number	Taxable Income and Tax			Taxable Income and Tax			Change in Tax:	
	Exemption =		7500	Exemption =		10000	Dalasi	Percent Reduction
	Income	Tax	Rate	Income	Tax	Rate		
(Col. 1)	(Col. 2)	(Col. 3)	(Col. 4)	(Col. 5)	(Col. 6)	(Col. 7)	(Col. 8)	(Col. 9)
60	24000	1975	8.23%	24000	1600	6.67%	-375	18.99%
61	24000	1975	8.23%	24000	1600	6.67%	-375	18.99%
62	24012	1977	8.23%	24012	1602	6.67%	-375	18.97%
63	26196	2304	8.80%	26196	1929	7.37%	-375	16.27%
64	27012	2427	8.98%	27012	2052	7.60%	-375	15.45%
65	42500	5750	13.53%	42500	5125	12.06%	-625	10.87%
66	27158	2449	9.02%	27158	2074	7.64%	-375	15.31%
67	27504	2501	9.09%	27504	2126	7.73%	-375	15.00%
68	28932	2786	9.63%	28932	2340	8.09%	-447	16.03%
69	28992	2798	9.65%	28992	2349	8.10%	-450	16.07%
70	30000	3000	10.00%	30000	2500	8.33%	-500	16.67%
71	30240	3048	10.08%	30240	2548	8.43%	-500	16.40%
72	32500	3500	10.77%	32500	3000	9.23%	-500	14.29%
73	38365	4716	12.29%	38365	4173	10.88%	-543	11.52%
74	38367	4717	12.29%	38367	4173	10.88%	-543	11.52%
75	36000	4200	11.67%	36000	3700	10.28%	-500	11.90%
76	37800	4575	12.10%	37800	4060	10.74%	-515	11.26%
77	39768	5067	12.74%	39768	4454	11.20%	-613	12.11%
78	44348	6212	14.01%	44348	5587	12.60%	-625	10.06%
79	48984	7519	15.35%	48984	6746	13.77%	-773	10.29%
80	49332	7641	15.49%	49332	6833	13.85%	-808	10.58%
81	49672	7760	15.62%	49672	6918	13.93%	-842	10.85%
82	63000	12425	19.72%	63000	11550	18.33%	-875	7.04%
83	67960	14161	20.84%	67960	13286	19.55%	-875	6.18%
84	67960	14161	20.84%	67960	13286	19.55%	-875	6.18%
85	72000	15575	21.63%	72000	14700	20.42%	-875	5.62%
86	72000	15575	21.63%	72000	14700	20.42%	-875	5.62%
TOTALS	1872590	198952	10.62%	1872590	170270	9.09%	-28681	14.42%

N/A: Not Applicable

APPENDIX H

Sample of IT Form 2: Tax Year 1993
Self Only

Sample Number	Taxable Income and Tax			Taxable Income and Tax			Change in Tax:	
	Exemption = 7500			Exemption = 10000			Dalasi	Percent Reduction
	Income	Tax	Rate	Income	Tax	Rate		
(Col. 1)	(Col. 2)	(Col. 3)	(Col. 4)	(Col. 5)	(Col. 6)	(Col. 7)	(Col. 8)	(Col. 9)
1	0	0	ERR	0	0	ERR	0	
2	4200	0	0.00%	4200	0	0.00%	0	
3	4200	0	0.00%	4200	0	0.00%	0	
4	4800	0	0.00%	4800	0	0.00%	0	
5	5760	0	0.00%	5760	0	0.00%	0	
6	5760	0	0.00%	5760	0	0.00%	0	
7	6240	0	0.00%	6240	0	0.00%	0	
8	6600	0	0.00%	6600	0	0.00%	0	
9	7200	0	0.00%	7200	0	0.00%	0	
10	7200	0	0.00%	7200	0	0.00%	0	
11	7860	36	0.46%	7860	0	0.00%	−36	100.00%
12	8400	90	1.07%	8400	0	0.00%	−90	100.00%
13	8457	96	1.13%	8457	0	0.00%	−96	100.00%
14	8916	142	1.59%	8916	0	0.00%	−142	100.00%
15	9240	174	1.88%	9240	0	0.00%	−174	100.00%
16	9264	176	1.90%	9264	0	0.00%	−176	100.00%
17	9619	212	2.20%	9619	0	0.00%	−212	100.00%
18	9678	218	2.25%	9678	0	0.00%	−218	100.00%
19	9720	222	2.28%	9720	0	0.00%	−222	100.00%
20	9731	223	2.29%	9731	0	0.00%	−223	100.00%
21	9876	238	2.41%	9876	0	0.00%	−238	100.00%
22	10297	280	2.72%	10297	30	0.29%	−250	89.38%
23	10654	315	2.96%	10654	65	0.61%	−250	79.25%
24	10858	336	3.09%	10858	86	0.79%	−250	74.46%
25	10968	347	3.16%	10968	97	0.88%	−250	72.09%
26	11184	368	3.29%	11184	118	1.06%	−250	67.86%
27	11843	434	3.67%	11843	184	1.56%	−250	57.57%
28	12000	450	3.75%	12000	200	1.67%	−250	55.56%
29	12000	450	3.75%	12000	200	1.67%	−250	55.56%

Sample of IT Form 2: Tax Year 1993
Self Only

Sample Number	Taxable Income and Tax			Taxable income and Tax			Change in Tax:	
	Exemption =		7500	Exemption =		10000	Dalasi	Percent Reduction
	Income	Tax	Rate	Income	Tax	Rate		
(Col. 1)	(Col. 2)	(Col. 3)	(Col. 4)	(Col. 5)	(Col. 6)	(Col. 7)	(Col. 8)	(Col. 9)
30	12462	496	3.98%	12462	246	1.98%	−250	50.39%
31	12655	515	4.07%	12655	265	2.10%	−250	48.50%
32	12912	541	4.19%	12912	291	2.26%	−250	46.20%
33	12920	542	4.20%	12920	292	2.26%	−250	46.12%
34	12960	546	4.21%	12960	296	2.28%	−250	45.79%
35	13061	556	4.26%	13061	306	2.34%	−250	44.95%
36	13100	560	4.27%	13100	310	2.37%	−250	44.64%
37	13596	610	4.48%	13596	360	2.64%	−250	41.01%
38	13728	623	4.54%	13728	373	2.72%	−250	40.14%
39	14430	693	4.80%	14430	443	3.07%	−250	36.08%
40	15600	810	5.19%	15600	560	3.59%	−250	30.86%
41	15720	822	5.23%	15720	572	3.64%	−250	30.41%
42	16740	924	5.52%	16740	674	4.03%	−250	27.06%
43	17520	1003	5.72%	17520	753	4.30%	−250	24.93%
44	18000	1075	5.97%	18000	825	4.58%	−250	23.26%
45	18000	1075	5.97%	18000	825	4.58%	−250	23.26%
46	18000	1075	5.97%	18000	825	4.58%	−250	23.26%
47	18996	1224	6.45%	18996	974	5.13%	−250	20.42%
48	19200	1255	6.54%	19200	1005	5.23%	−250	19.92%
49	19603	1315	6.71%	19603	1065	5.44%	−250	19.01%
50	19656	1323	6.73%	19656	1073	5.46%	−250	18.89%
51	19920	1363	6.84%	19920	1113	5.59%	−250	18.34%
52	20400	1435	7.03%	20400	1185	5.81%	−250	17.42%
53	22046	1682	7.63%	22046	1432	6.50%	−250	14.86%
54	22187	1703	7.68%	22187	1453	6.55%	−250	14.68%
55	22320	1723	7.72%	22320	1473	6.60%	−250	14.51%
56	23731	1935	8.15%	23731	1685	7.10%	−250	12.92%
57	24000	1975	8.23%	24000	1725	7.19%	−250	12.66%
58	24000	1975	8.23%	24000	1725	7.19%	−250	12.66%
59	24000	1975	8.23%	24000	1725	7.19%	−250	12.66%

Sample of IT Form 2: Tax Year 1993
Self Only

Sample Number	Taxable Income and Tax Exemption = 7500			Taxable Income and Tax Exemption = 10000			Change in Tax:	
	Income	Tax	Rate	Income	Tax	Rate	Dalasi	Percent Reduction
(Col. 1)	(Col. 2)	(Col. 3)	(Col. 4)	(Col. 5)	(Col. 6)	(Col. 7)	(Col. 8)	(Col. 9)
60	24[illegible]	1975	8.23%	24000	1725	7.19%	−250	12.66%
61	24000	1975	8.23%	24000	1725	7.19%	−250	12.66%
62	24012	1977	8.23%	24012	1727	7.19%	−250	12.65%
63	26196	2304	8.80%	26196	2054	7.84%	−250	10.85%
64	27012	2427	8.98%	27012	2177	8.06%	−250	10.30%
65	42500	5750	13.53%	42500	5500	12.94%	−250	4.35%
66	27158	2449	9.02%	27158	2199	8.10%	−250	10.21%
67	27504	2501	9.09%	27504	2251	8.18%	−250	10.00%
68	28932	2786	9.63%	28932	2536	8.77%	−250	8.97%
69	28992	2798	9.65%	28992	2548	8.79%	−250	8.93%
70	30000	3000	10.00%	30000	2750	9.17%	−250	8.33%
71	30240	3048	10.08%	30240	2798	9.25%	−250	8.20%
72	32500	3500	10.77%	32500	3250	10.00%	−250	7.14%
73	38365	4716	12.29%	38365	4466	11.64%	−250	5.30%
74	38367	4717	12.29%	38367	4467	11.64%	−250	5.30%
75	36000	4200	11.67%	36000	3950	10.97%	−250	5.95%
76	37800	4575	12.10%	37800	4325	11.44%	−250	5.46%
77	39768	5067	12.74%	39768	4817	12.11%	−250	4.93%
78	44348	6212	14.01%	44348	5962	13.44%	−250	4.02%
79	48984	7519	15.35%	48984	7269	14.84%	−250	3.32%
80	49332	7641	15.49%	49332	7391	14.98%	−250	3.27%
81	49672	7760	15.62%	49672	7510	15.12%	−250	3.22%
82	63000	12425	19.72%	63000	12175	19.33%	−250	2.01%
83	67960	14161	20.84%	67960	13911	20.47%	−250	1.77%
84	67960	14161	20.84%	67960	13911	20.47%	−250	1.77%
85	72000	15575	21.63%	72000	15325	21.28%	−250	1.61%
86	72000	15575	21.63%	72000	15325	21.28%	−250	1.61%
TOTALS	1872590	198952	10.62%	1872590	180875	9.66%	−18076	