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

FINAL REPORT ON RATIONALIZING SALES, CUSTOMS, AND EXCISE TAXES

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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EXECUTIVE SUMMARY

Introduction

The Government of The Gambia (GOTG) has committed itself to creating an economic environment conducive to long-term growth and investment. Tax policy reform is an essential part of this effort. An integral part of the reform process is comparing and contrasting the current tax system with alternatives. Towards this goal, the Tax Reform Committee recommended a study of the current customs, sales, and excise taxes.

In April, 1994, the Policy Economics Group (PEG) of KPMG Peat Marwick was asked to examine four issues relating to possible indirect tax reform in The Gambia. These issues are:

- Determining the feasibility of developing a revenue neutral, simplified customs duty structure.
- Reviewing the feasibility of expanding the sales tax base and streamlining its procedures.
- Identifying the goods to be subject to excise taxes.
- Examining discretion in the indirect tax laws and reviewing the adequacy of the penalties for indirect tax defaulters.

During the course of a three-week in-country visit, the PEG Consultancy Team (the Team)[1] met with over three dozen individuals representing the Ministry of Finance and Economic Affairs; the Customs and Excise Department; the Ministry of Trade, Industry, and Employment; the National Investment Board; the Central Bank of The Gambia; and the private sector. The Team also reviewed previous reports written by other consultants and by the AMEX/FAPE resident advisors.

In order to quantify the impact of our recommendations, an extensive economic database of international and domestic transactions was compiled. This data was processed in the Indirect Tax Model for The Gambia (the Model), a static input-output based economic model developed specifically for this study.

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[1] The Team members included Mr. Howard Nester, Dr. Steven Galginaitis, and Dr. Lorris Mizrahi. They are, respectively, Senior Manager, Senior Manager, and Manager with the Policy Economics Group of KPMG Peat Marwick.

Customs Taxes

The current study analyzes the feasibility of moving towards a uniform tariff structure. The analysis emphasizes not only the theoretical advantages and disadvantages of such a policy, but also quantifies its revenue implications.

We recommend moving towards a more uniform tariff structure that maintains the current level of duty tax revenues. The precise tariff structure depends upon how the GOTG and the Tax Reform Committee weigh several policy alternatives, including: whether to have one uniform rate or a few tariff bands; whether or not to change the tariff rate on those goods that are currently zero-rated; whether tariff rates on re-exports should be changed; and whether or not to change the manner in which petroleum is currently taxed.

Consequently, we present four alternative tariff structures, each of which achieves the goal of moving towards a more uniform tariff structure while maintaining the current level of tax collections.

1. Tax all imports at a uniform 14.7 percent rate, including goods currently zero-rated. The method by which petroleum is taxed is unchanged.

2. Tax all imports, except those that are currently zero-rated, at a uniform 19.0 percent rate. Goods that are currently zero-rated remain zero-rated. The method by which petroleum is taxed is unchanged.

3. Tax imports according to two tariff bands, including goods currently zero-rated: 11.7 percent for most goods and 40.0 percent for vehicles, manufactured tobacco, alcohol, and soft drinks. The method by which petroleum is taxed is unchanged.

4. Tax imports according to three tariff bands: zero percent for goods currently zero-rated, 15.6 percent for most other goods and 40.0 percent for vehicles, manufactured tobacco, alcohol, and soft drinks. The method by which petroleum is taxed is unchanged.

We also recommend that Development Certificate waivers and discretionary duty waivers be eliminated because the benefit derived from promoting domestic industry in this way is outweighed by the cost of abuse and the loss of transparency in the tax system. The data does not allow the loss of revenue from these two sources to be distinguished from total leakages (all waivers -- including diplomatic, government agreements, ministries, and NGOs -- plus other, unexplained duty-free imports). However, we estimate that in total, 41 percent of potential duty revenues are foregone through duty waivers and other leakages. Elimination of half of the leakages, for example, would increase duty revenue by as much as 34 percent.

Sales Taxes

The current study reviews the feasibility of expanding the sales tax base and streamlining its procedures. As with the custom taxes, we view this as both a theoretical and a quantitative exercise.

We recommend the institution of a rebate system to eliminate cascading. The rebate system should apply to all registered traders above a minimum level of sales and both imported and domestically produced capital goods and intermediate inputs. Once the system is in place, extending the rebates to domestically produced exports may be considered.

Using the Indirect Tax Model, we estimate the revenue loss from removing all intermediate good cascading to be 9.6 million dalasis (3.8 percent of total sales tax revenues). Extending the relief to capital goods purchased by registered firms increases the revenue loss to 13.5 million dalasis (5.4 percent of total sales tax revenues). The elimination of one-eighth of all sales tax leakages would be sufficient to offset this revenue loss.

We recommend that the sales tax apply only to sales exceeding a minimum level required for registration. The revenue neutral registration level could be determined using information from the Customs and Excise Department on domestic sales tax, however, this data was not available for the current study.

We also recommend that Development Certificate waivers and discretionary sales tax waivers be eliminated because these waivers reduce the transparency of the tax system and result in a substantial loss in revenue. The data does not allow the loss of revenue from these two sources to be distinguished from total leakages (all waivers -- including diplomatic, government agreements, ministries, and NGOs -- plus other, unexplained sales tax-free transactions). However, we estimate that in total 37 percent of potential sales tax revenues are foregone through waivers and other leakages. Elimination of half of the leakages, for example, would increase sales tax revenue by as much as 30 percent.

We recommend that the penalty for late payment of sales tax be increased from one-half of one percent of the tax due to the 5 to 10 percent range, and that the interest on the overdue tax be calculated at the prevailing lending rate charged by private banks. We also recommend that businesses be allowed a sales tax credit for audited bad debts and returned merchandise. Although this latter recommendation was proposed in the 1993/1994 Budget Speech, the belief in the private sector is that the relief is not yet effective and needs to be written into the law.

Excise Taxes

The current study identifies the types of excise taxes that could be instituted. These include "sin taxes" on such goods as alcohol and tobacco, luxury taxes, user charges, and taxes

designed to increase economic efficiency. Any reform of the excise taxes in The Gambia must be closely coordinated with customs and sales tax reform. For example, tax rate differentiation could be maintained under a uniform tariff structure by imposing an excise tax on certain goods.

OVERVIEW

Introduction

The Government of The Gambia (GOTG) has committed itself to creating an economic environment conducive to private initiative and long-term growth and investment, increasing the degree of equity and transparency in the economy and the tax system, rationalizing the revenue system, and increasing the revenue base. Tax policy reform is an essential part of this effort. An integral part of the reform process is the comparing and contrasting of the current tax system with alternatives. Towards this goal, the Tax Reform Committee recommended a study of the current customs, sales, and excise taxes.

In April, 1994, the Policy Economics Group (PEG) of KPMG Peat Marwick was asked to examine four issues relating to possible indirect tax reform in The Gambia. These issues are:

- Determining the feasibility of developing a revenue neutral, simplified customs duty structure.
- Reviewing the feasibility of expanding the sales tax base and streamlining its procedures.
- Identifying the goods to be subject to excise taxes.
- Examining discretion in the indirect tax laws and reviewing the adequacy of the penalties for indirect tax defaulters.

During the course of a three-week in-country visit, the PEG Consultancy Team (the Team)[2] met with over three dozen individuals representing the Ministry of Finance and Economic Affairs; the Customs and Excise Department; the Ministry of Trade, Industry, and Employment; the National Investment Board; the Central Bank of The Gambia; and the private sector. The Team also reviewed previous reports written by other consultants and by the AMEX/FAPE resident advisors.

From the outset, the Team considered the current study primarily a quantitative exercise. Indirect tax policy cannot be properly addressed without considering its revenue implications. Expanding and streamlining the sales tax, moving towards a uniform tariff rate, and examining

[2] The Team members included Mr. Howard Nester, Dr. Steven Galginaitis, and Dr. Lorris Mizrahi. They are, respectively, Senior Manager, Senior Manager, and Manager with the Policy Economics Group of KPMG Peat Marwick.

discretion and penalties are all issues with revenue implications that must be quantified before policy makers can make informed decisions.

Therefore, the Team concentrated on understanding the current situation, gathering enough data to accurately examine alternatives, and quantifying the revenue implications of those alternatives. An Indirect Tax Model for The Gambia was developed to support the analysis.

General Findings and Recommendations

The indirect tax laws of The Gambia must be made more equitable. A tax system is horizontally equitable if two taxpayers with equal welfare before a tax is imposed have equal welfare after a tax is imposed. That is, taxpayers in similar situations pay similar tax. However, because of discretion and other leakages, the Gambian tax system does not adhere to this principle.

For example, take the case of two businesses with similar characteristics that produce the same good -- one has a Development Certificate (DC) and the other does not. The holder of the DC can import his goods duty free, while the other can not. This type of discretion can be defended on the grounds of promoting domestic industry or aiding infant industries. However, this type of policy should apply to entire industries, not individual firms, and in practice many DC holders are not functioning in infant industries.

Limited flexibility can be maintained, but only if it is transparent. The details of all discretionary actions should be debated publicly, with the results being published before any action is taken. Making the Gambian tax system less arbitrary would do much to "level the playing field" and attract potential investors.

The indirect tax laws of The Gambia should be more widely disseminated. There is extensive confusion about the indirect tax law and its application in both the government and the private sector. Some government officials claim there are little or no discretionary duty waivers -- other government officials claim that discretionary duty waivers are routinely issued. Some agricultural sector firms say they pay sales tax on air freight services -- others say they do not. Some private sector firms take a credit against sales tax on their output for sales tax on their inputs -- others claim a sales tax waiver on their inputs. There are different interpretations of the sales tax base in both government and the private sector. Although the law is clear, the sales tax should be applied to the CIF value plus any duty chargeable, some individuals interviewed by the Team thought the base was net of duty paid. Clarification of the law requires the dissemination of information through publications, regulations, and seminars. Once the tax law is clarified, it must be enforced.

The responsibility for data gathering and tax policy analysis must be clearly assigned. Although the Macroeconomic Policy Analysis Unit (MPAU) is nominally responsible for tax

policy analysis, it has limited resources and other wide-ranging responsibilities. Most of its efforts are concentrated on macroeconomic issues. If tax policy analysis is to be undertaken by the government, a fiscal analysis unit so dedicated must be established and sufficiently equipped and funded.

Effective computerization would greatly enhance data gathering and policy analysis. The current computerization efforts under SECAL will help, however, computers themselves are not the answer. Staff must be properly trained and the use of the computer must be institutionalized within the government.

CUSTOMS TAXES

Introduction

In fiscal year 1991/1992, import duties accounted for over 275 million dalasis in tax revenue for the central government, about 45 percent of all tax revenue.[3] Because taxes on international trade are such an important aspect of public finance in The Gambia, any proposed changes to the tariff structure must be viewed from a quantitative angle.

The Terms of Reference for the current study include:

Determine the feasibility of developing a revenue neutral, simplified customs duty structure:

- *Assess the advantages and disadvantages of the existing tariff structure.*
- *Assess the advantages and disadvantages of moving towards a simplified tariff structure (including the revenue implications).*
- *Propose revision of tariff bands and a time frame for and the desirability of moving towards a uniform tariff structure.*
- *Review the major areas of discretion under the Customs Act.*

In order to address these points in a quantitative as well as theoretical manner, it was necessary to collect data on international transactions. The data needed for the analysis are: the CIF value of imports by commodity; the duty paid by commodity; the statutory tariff rate by commodity; the CIF value of imports exempt from duty by type of duty waiver; national income accounts; and household consumption patterns.

Details on the data and its collection process are presented in Appendix A. To summarize, the primary sources of data were the Ministry of Finance and Economic Affairs (MFEA); the Central Statistics Department of the MFEA; the Ministry of Trade, Industry, and Employment; and the Customs and Excise Department. Two months of four-digit import data (January and February of 1994) including total CIF value, duty paid, sales tax paid, and CIF value of exempt imports was obtained from the ASYCUDA system at the Customs and Excise Department and used in the analysis. The four-digit import data was then combined with the

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

current duty and sales tax rates, which for most cases are uniform within the four-digit tariff headings. The analysis assumes the two month data is representative of an entire fiscal year. The following facts summarize the import data:

- Approximately 60 percent of all imports are subject to duty. The remaining 40 percent enter The Gambia duty free because of duty waivers and other leakages.

- The average statutory duty rate is 22.9 percent, weighted by CIF value. The average effective duty rate, defined as duty collections divided by CIF value, for all imports is 13.6 percent.

- Petroleum products account for over 40 percent of all duty collections. However, less than 70 percent of petroleum imports are subject to tax because of leakages.

- Approximately 20 percent of all imports are re-exported.

The import data, as well as the other data mentioned above, was processed in the Indirect Tax Model for The Gambia (the Model), a static input-output based economic model developed specifically for this study. The Model accounts for all imports and domestic production, domestic consumption, exports, and re-exports. All transactions are linked at the 20 sector level; however, all the import data is at the four digit commodity level and all policy options are analyzed at this level. The Model traces the amount of indirect taxes on inputs and outputs of domestic industries, as well as private consumption. Appendix A describes the Model in greater detail.

Advantages and Disadvantages of the Existing Tariff Structure

The existing tariff structure is characterized by multiple ad valorem tariff rates, ranging from zero to 87 percent. In addition, specific tariff rates exist for petroleum, cigarettes, beer, and soft drinks. These specific rates are equivalent to ad valorem rates of 195 percent, 93 percent, 127 percent, and 45 percent, respectively.[4]

There are several arguments used to justify differentiated tariff rates. These include the following:

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[4] The calculation of the effective tariff rate on petroleum in particular, and imports with specific duty rates in general, reflect (1) the prevailing world price in March 1994, and (2) the mix of various four-digit import classifications within the reported sectoral aggregates.

Protection of Domestic Industry. High tariff rates can serve as protection for domestic producers of the imported good. This is also the argument used to promote the development of "infant" industries that are not yet established and can not compete at world market prices.

Redistribution of Income. The redistribution of income from rich to poor can be aided by taxing luxury or high-priced imports such as automobiles and jewelry more heavily, and exempting or taxing basic commodities such as milk and rice at lower rates.

Control the Use of Foreign Exchange. Some imported commodities contribute more to economic growth and development than others. By taxing non-productive commodities more heavily, foreign exchange is freed-up for the importation of machinery and equipment, materials, and other commodities essential for growth.

The Balance of Payments. To the extent that developing countries tend to have balance of payment deficits, taxing imports helps to bring the balance of payments into equilibrium.

There are also several arguments against differentiated tariff rates. These include the following:

Protection Tends to be Long-Term. Ideally, protection of a domestic industry would be short-term. As an industry grows it can take advantage of economies of scale, and can eventually compete at world market prices. However, short-term protective often becomes long-term, tacitly encouraging the protected industry to remain inefficient and uncompetitive at world market prices.

Administration Difficulties. Application of differentiated tariff rates makes it more difficult to properly classified imports. This provides an added incentive to importers to inaccurately identify goods.

Economic Inefficiency. Including the zero percent band, there are two dozen statutory ad valorem tariff rates. High tariff rates are often used to protect domestic industries, however, the small differentiation *among* current rates seems somewhat arbitrary. For example, the economic justification for the small spread between taxing apparel at 28 percent, meat and eggs at 29 percent, and candy at 30 percent is unclear. This arbitrary differentiation, without regard to the demand elasticities of the goods, contributes to inefficient allocation of resources and changes in production processes and consumption patterns.

Advantages and Disadvantages of a Simplified Tariff Structure

A uniform tariff, or a tariff structure with fewer, less differentiated bands, has several advantages.

Administration. Administration of a uniform tariff is easier because there is less need to devote scarce resources to properly ascertain the exact nature of imported goods.

Simplicity. A uniform tariff is consistent with the global trend towards tax simplification. This simplicity also helps reduce discretion in the system. If the same tariff rate applies to all commodities, there is less room for negotiation for preferential rates.

Transparency. A uniform tariff is predictable and non-arbitrary. This aids businesses in their decisions regarding tax planning and investment.

Simplified tariff structures also have their disadvantages, but some of these disadvantages can be alleviated through a comprehensive tax policy involving tariff, sales, excise, and income taxes.

Differentiation can Lessen Economic Inefficiencies. If the demand elasticities are known, tariff rates can be adjusted to minimize the welfare loss of the tax. The loss of economic efficiency can be minimized if higher tariff rates are applied to commodities with low demand elasticity. However, such precise adjustment of tariff rates is unrealistic because demand elasticities are not generally known and are difficult to estimate even in developed economies.

Socio-economic Goals. As was discussed above, differentiated tariff rates can aid in the redistribution of income and the reinforcement of social goals. However, combining a uniform tariff structure with excise taxes (excise tax on luxuries to redistribute income, excise tax on petroleum to encourage conservation) can accomplish these goals more effectively and transparently.

Protectionism. Differentiated tariff rates are a means of protecting domestic industries. However, this also can be accomplished with a uniform tariff in conjunction with income tax breaks or direct subsidies for the target industry.

Proposed Revision of Tariff Bands

We recommend moving towards a more uniform tariff structure that maintains the current level of duty tax revenues. The precise tariff structure depends upon how the GOTG and the Tax Reform Committee weigh several policy alternatives, including: whether to have one uniform rate or a few tariff bands; whether or not to change the tariff rate on those goods that are currently zero-rated; whether tariff rates on re-exports should be changed; and whether or not to change the manner in which petroleum is currently taxed.

Consequently, we present four alternative tariff structures, each of which achieves the goal of moving towards a more uniform tariff structure while maintaining the current level of tax collections. In each alternative, the method by which petroleum is taxed is unchanged because

the issues surrounding this complicated and important revenue source are beyond the scope of the present study. The Model was used to quantify the impact of the following four alternative tariff structures:

1. Tax all imports at a uniform 14.7 percent rate, including goods currently zero-rated. The method by which petroleum is taxed is unchanged.

2. Tax all imports, except those that are currently zero-rated, at a uniform 19.0 percent rate. Goods that are currently zero-rated remain zero-rated. The method by which petroleum is taxed is unchanged.

3. Tax imports according to two tariff bands, including goods currently zero-rated: 11.7 percent for most goods and 40.0 percent for vehicles, manufactured tobacco, alcohol, and soft drinks. The method by which petroleum is taxed is unchanged.

4. Tax imports according to three tariff bands: zero percent for goods currently zero-rated, 15.6 percent for most other goods and 40.0 percent for vehicles, manufactured tobacco, alcohol, and soft drinks. The method by which petroleum is taxed is unchanged.

Table 1 and Table 2 summarize current law and the four alternative tariff structures. In each alternative, we assume a demand elasticity equal to one.[5]

Current law and the alternative tariff structures are compared using weighted statutory and effective duty rates for several categories of imports. The statutory duty rate is the duty rate prescribed by law (the H.S. Tariff Book). For each import category, the weighted statutory duty rate is calculated as a CIF-weighted average rate for all goods in that category. The weighted effective duty rate is the ratio of actual duty collections to CIF value. Because of leakages in the tax system -- primarily duty waivers -- the weighted effective duty rate is generally less than the weighted statutory duty rate .

[5] The uniform tariff rate is not very sensitive to elasticity assumptions between 0 and -2.0. The revenue neutral uniform rate changes by less than one percentage point within that elasticity range.

TABLE 1
DUTY RATES BY IMPORT CATEGORY
FOR ALTERNATIVE TARIFF RATE STRUCTURES

IMPORT CATEGORY	ALTERNATIVE TARIFF STRUCTURES *				
	Current Law	1	2	3	4
Weighted Statutory Duty Rate:					
All Imports	22.9	22.9	22.7	22.7	22.5
Agriculture & Food	14.6	14.7	14.4	13.6	13.5
Petroleum Prods.	168.4	171.7	168.4	170.9	168.3
Nondurables	11.6	14.7	14.9	11.7	12.3
Durables	20.1	14.7	14.3	20.7	19.4
Consumer Basket	31.4	29.8	29.3	28.1	27.9
Re-Exports	13.9	14.7	15.5	13.3	14.1
Weighted Effective Duty Rate:					
All Imports	13.6	13.6	13.6	13.6	13.6
Agriculture & Food	7.9	8.7	8.1	8.2	7.7
Petroleum Prods.	111.3	113.4	111.2	112.9	111.1
Nondurables	6.6	7.3	8.3	5.8	6.9
Durables	10.9	7.4	8.0	11.2	11.0

* Alternative Tariff Structures:

1. Tax all imports, except petroleum, at a 14.7 percent rate. Tax petroleum as it is currently taxed.
2. Tax all imports, except petroleum and currently zero-rated goods, at a 19.0 percent rate. Tax petroleum as it is currently taxed. Goods currently zero-rated remain untaxed.
3. Tax all imports -- except petroleum, vehicles, manufactured tobacco, alcohol, and soft drinks -- at a 11.7 percent rate. Tax petroleum as it is currently taxed. Tax vehicles, manufactured tobacco, alcohol, and soft drinks at a 40.0 percent rate.
4. Tax all imports -- except petroleum, currently zero-rated goods, vehicles, manufactured tobacco, alcohol, and soft drinks -- at a 15.6 percent rate. Tax petroleum as it is currently taxed. Goods currently zero-rated remain untaxed. Tax vehicles, manufactured tobacco, alcohol, and soft drinks at a 40.0 percent rate.

Source: Estimated using the Indirect Tax Model for The Gambia, Policy Economics Group, KPMG Peat Marwick.

Under current law, the weighted statutory duty rate is 22.9 percent for all imports, 14.6 percent for agricultural goods and food, 168.4 percent for petroleum products (on an ad valorem equivalent basis), 11.6 percent for nondurable goods, 20.1 percent for durable goods, 31.4 percent for a basket of typical consumer goods,[6] and 13.9 percent for re-export goods.[7] These latter two categories are comprised of goods found in the first five categories.

Under current law, the weighted effective duty rate is 13.6 percent for all imports, 7.9 percent for agricultural goods and food, 111.3 percent for petroleum products, 6.6 percent for nondurable goods, and 10.9 percent for durable goods.[8] The greater are the leakages and duty waivers in the tax system, the greater the difference between the statutory and effective duty rates.

Under the assumption that the percent of imports receiving duty waivers and other leakages is the same as under current law, all of the alternative tariff structures generate the same level of duties as is currently collected -- that is, the alternatives are "revenue neutral" when compared to current law. The burden of the alternative structures can be compared using the statutory and effective duty rates. The lower the duty rates, the less burdensome is the tariff structure on the consumers of that import category.

Petroleum is only one good of many classified as petroleum products. Therefore, the weighted statutory and effective duty rates for petroleum products changes under the four alternatives, despite the fact that the petroleum tax is unchanged, because the tax rate for certain goods classified as petroleum products is allowed to change. These goods include coal, tar, petroleum jelly, and asphalt.

In alternative tariff structures one and three, goods that are currently zero-rated become taxable. The duty rates that result under these alternatives are dependent on the leakages that

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[6] The basket of consumer goods is obtained from the *Preliminary Report on Survey of Household Expenditure in Greater Banjul 1992*, Central Statistics Department, Ministry of Finance and Economic Affairs, November 1993. The basket of consumer goods used in the current study excludes services and is composed of a variety of food items (61 percent), clothing and footwear (16 percent), and other non-food items (23 percent).

[7] Twenty commodities are classified as re-export goods. The major ones are: rice, flour, tomato paste, sugar, tea, tobacco, textiles, cement, garments and footwear, and batteries. Source: unpublished study by the Ministry of Trade, Industry, and Employment, October, 1993.

[8] Effective tax rates are not estimated for the consumer basket and re-export goods. This is because the import data does not allow the disaggregation of leakages by type of purchaser. For example, it is unknown how much duty free fuel is purchased by consumers, by other parties in The Gambia, or re-exported.

occur once these goods become taxable. In the current study, we assume that once goods that are currently zero-rated become taxable, there are leakages from the tax system equal to the current average leakages for that import category (see Table 3). For example, the current study assumes that leakages occur in the taxation of rice in the same proportion as the current leakages in the agriculture and food sector.

The constant effective duty rate on all imports across alternatives indicates that the different tariff structures are revenue neutral. Agricultural goods and food and petroleum products bear approximately the same burden under the alternative tariff structures as under current law. The burden on nondurable goods is greater under alternatives one and two, while the burden on durable goods is greater under alternatives three and four. This is because the last two tariff structures are banded, with most nondurable goods in the lower band and most durable goods in the higher band.

It would be possible to initially move to a banded tariff rate structure such as alternatives three and four, and then at a later date move to a uniform tariff structure such as alternatives one and two. This would phase-in the uniform tariff structure and allow a transition period for both the administrators of the tax and the importers. There are no set rules about the appropriate time-period for such a phase-in, but moving to the banded tariff structure at the beginning of a calendar or fiscal year, and then moving to the uniform tariff structure one or two years later would allow a reasonable period of adjustment.

Table 2 shows the statutory and effective duty rates for current law and the four alternative tariff structures for 33 categories of imported goods. As would be expected, the effective duty rates increase (decrease) for those goods with a current duty rate below (above) the proposed duty rate.

Discretion Under the Customs Act

Although many of the ministries have the authority, most duty waivers are issued by the Ministry of Finance. These waivers are classified by the Customs and Excise Department into five categories: (1) Development Certificate (DC) holders; (2) diplomatic missions; (3) government agreements, projects, and technical assistance; (4) others (including the ministries) and non-government organizations (NGOs, including charitable organizations); and (5) petroleum. In addition, there are price concessions granted to some users of fuel.

TABLE 2
DUTY RATES BY IMPORT CATEGORY
FOR ALTERNATIVE TARIFF RATE STRUCTURES

IMPORT CATEGORY	Current Law		Alternative One		Alternative Two		Alternative Three		Alternative Four	
	Statutory Tax Rate	Effective Tax Rate	Statutory Tax Rate	Effective Tax Rate	Statutory Tax Rate	Effective Tax Rate	Statutory Tax Rate	Effective Tax Rate	Statutory Tax Rate	Effective Tax Rate
Meat & meat prep	29	28	15	14	19	18	12	11	16	15
Milk & milk prod	2	2	15	14	2	2	12	11	2	2
Poultry & animal feed	0	0	15	0	0	0	12	0	0	0
Fruit & vegetables	16	9	15	9	19	12	12	7	16	10
Cocoa	30	29	15	14	19	19	12	11	16	15
Sugar, confections	10	6	15	9	19	12	12	7	16	10
Fish	19	0	15	0	19	0	12	0	16	0
Live animals	0	0	15	0	0	0	12	0	0	0
Other food	5	3	15	10	7	5	12	8	6	4
Beverages	65	44	15	11	19	14	40	28	40	28
Tobacco	71	45	15	10	19	13	34	22	35	23
Fuel	168	111	172	113	168	111	171	113	168	111
Other minerals	0	0	15	0	0	0	12	0	0	0
Animal & vegtbl fats	20	5	15	4	19	5	12	3	16	4
Dye & paint	17	14	15	12	19	16	12	10	15	13
Medicine	6	3	15	7	17	9	12	6	14	7
Cosmetics	36	23	15	11	19	14	12	9	16	12
Soap & wax	19	17	15	13	12	10	12	10	10	9
Fertilizers	0	0	15	0	0	0	12	6	0	0
Other chemical	11	6	15	8	13	8	12	7	11	6
Tyres & tubes	14	6	15	7	19	9	12	5	16	7
Paper products	15	5	15	5	12	4	12	4	10	4
Printed matter	2	2	15	13	2	2	12	10	2	1
Textiles	10	6	15	9	19	11	12	7	16	9
Garments	26	18	15	10	19	13	12	8	16	10
Footwear	19	10	15	8	19	10	12	6	16	9
Cement & bldg mat'ls	15	9	15	9	19	12	12	7	16	10
Glass	10	7	15	11	9	7	12	9	8	6
Other mfg goods	11	5	15	6	16	6	12	5	13	5
Non-electrical mach.	8	2	15	3	7	1	12	3	5	1
Electrical mach.	15	10	15	11	15	12	12	9	13	10
Vehicles & accessories	31	18	15	8	19	11	33	19	34	19
All other	14	4	15	5	9	3	12	4	8	3
TOTAL	23	14	23	14	23	14	23	14	22	14

Source: Estimated using the Indirect Tax Model for The Gambia, Policy Economics Group, KPMG Peat Marwick.

One significant problem with duty waivers is that they are not centrally monitored. For example, applications for Development Certificates, under which many duty waivers are issued, are initiated with the National Investment Board. The Ministry of Trade then reviews and administers the DC. The Ministry of Finance authorizes the duty waivers under the DC, and the Customs Department allows the importation of the goods duty free. Also, DCs are often vague with regard to the type and amount of goods that can be imported duty free, which can lead to abuse. Finally, and perhaps most revealing, is the fact that the amount of tax revenue foregone through duty waivers is not known.

There is general confusion about "discretionary" duty waivers. Government officials claim that duty waivers are issued only in accordance with published guidelines (the Customs Action Plan, Development Certificates, credit agreements, and protocol accords) and therefore there are no discretionary waivers. However, the perception, if not the practice, both within the government and in the private sector, is that duty waivers are granted on a discretionary basis. As discussed below, the data seem to bear this out.

Duty waivers are also transferable. For example, if a DC holder has a duty waiver for 500 bags of cement, he can go to a domestic supplier of cement to make his purchase. The cement supplier sells the 500 bags net of duty, acquires the duty waiver certificate, and on his next importation of cement, gets 500 bags duty free. This ability to "sell" duty waivers reduces the transparency of the tax system and invites abuse.

In sum, evidence indicates that duty waivers in The Gambia, although they can be defended on the grounds of promoting domestic industry by increasing effective rates of protection, are not transparent, are subject to potential abuse, and cost the government revenue. It is therefore our recommendation that all Development Certificate waivers and discretionary waivers, including those on petroleum, be eliminated. The data does not allow the loss of revenue for these two sources to be distinguished from total leakages. However, we estimate that all leakages, both explained and unexplained, reduce customs tax revenue by 41 percent.

We estimate the magnitude of the revenues foregone due to duty (and, in the next section, sales tax) exemptions using data obtained from the ASYCUDA system at the Customs and Excise Department. The data includes the CIF value of duty-free imports -- referred to as C130 in ASYCUDA. The C130 data should include all duty waivers granted for Development Certificates; diplomatic missions; government agreements, projects, and technical assistance; and other, including the ministries, and NGOs. Data on fuel imports was supplemented by data obtained from the Ministry of Finance and Economic Affairs.

The potential duty is estimated by multiplying the statutory duty rates times the CIF value of imports. The difference between this number and actual duty collections is duty foregone, or total leakage. For the first two months of 1994, the duty foregone is 41 percent of the potential duty liability, or about 70 percent of the actual collections. Part of the duty foregone (11

percent) is accounted for by the C130 imports. The ASYCUDA data suggest that the rest of the leakage (29 percent) is unexplained.[9]

Table 3 shows the import data aggregated to 33 import categories. The statutory tariff rate in column two is the CIF-weighed statutory tariff rates. The third column shows the share of CIF value of imports. The dutiable share of imports is shown in the next column. This share times the statutory tariff rate gives the effective duty rate, shown in column five. The sixth column shows the distribution of duty collections by import category. The two "Percent Exempt" columns give the percent of imports which are not subject to duty for recorded (C130) and unrecorded (Other) reasons. The last two columns are the percentage of imports subject to sales tax and an estimate of re-export shares of imports. The latter is based on an unpublished study completed by the Ministry of Trade, Industry, and Employment in October, 1993.

The duty foregone on fuel in the form of price concessions is shown under the "Percent Exempt (Other)" column. Transferring this amount to the C130 column will still leave the total unexplained duty leakage at about 28 percent. If this remaining unexplained leakage is eliminated, duty revenues would go up by about 47 percent.

[9] The accuracy of the ASYCUDA data was cross-checked against the Customs Act and other sources of data. The estimates of total duty leakages should be reliable. Estimates of the composition of duty leakages have a higher probability of error.

TABLE 3
DUTY AND EXEMPTION STRUCTURE OF IMPORTS BY GOOD

IMPORT CATEGORY	Statutory Tariff Rate	Import Share (Percent)	Percent Subject to Duty	Effective Duty Rate	Duty Share (Percent)	Percent Exempt (C130)	Percent Exempt (Other)	Percent Subject to Sales Tax	Re-Export Share (Percent)
Meat & meat prep.	28.81	0.49	96.94	27.93	1.00	3.03	0.03	96.96	0.00
Milk & milk products	2.37	2.12	95.37	2.26	0.35	0.58	4.06	99.07	55.00
Animal feed	0.00	0.69	0.00	0.00	0.00	0.00	0.00	2.21	0.00
Fruit and vegetables	16.49	4.46	55.64	9.18	3.01	0.64	43.72	53.06	38.67
Cocoa	29.75	0.02	97.67	29.06	0.04	0.00	2.33	99.40	0.00
Sugar	10.16	15.70	61.28	6.23	7.18	0.00	38.72	61.91	46.19
Fish	19.00	1.27	0.67	0.13	0.01	0.00	99.33	1.35	0.00
Other food	4.84	14.74	68.94	3.34	3.62	0.24	30.82	88.82	26.76
Beverages	65.23	0.75	67.56	44.07	2.43	2.68	29.76	71.44	49.00
Tobacco	71.48	2.69	62.83	44.91	8.90	0.00	37.17	67.87	29.47
Petroleum products	168.40	5.31	66.07	111.25	43.42	12.50	21.44	76.50	0.00
Other minerals	0.00	2.94	0.00	0.00	0.00	24.83	75.17	28.35	0.00
Animal & vegtbl fats	20.00	6.47	23.98	4.80	2.28	30.84	45.19	40.22	0.00
Dye and paint	17.35	0.34	82.74	14.35	0.36	15.89	1.37	82.62	0.00
Medicine	6.30	0.65	51.62	3.25	0.16	21.32	27.06	52.73	0.00
Cosmetics	35.52	0.44	63.40	22.52	0.72	0.83	35.77	72.71	0.00
Soap & wax	19.34	0.41	86.99	16.83	0.51	1.78	11.23	95.59	20.71
Fertilizers	0.00	0.20	0.00	0.00	0.00	30.10	69.90	6.05	0.00
Other chemical	11.24	2.76	52.72	5.92	1.20	17.61	29.67	63.31	0.00
Tyres & tubes	14.34	0.51	44.75	6.42	0.24	32.98	22.27	60.09	0.00
Paper products	14.70	1.04	35.44	5.21	0.40	34.50	30.06	26.28	0.00
Printed matter	2.46	0.31	87.30	2.14	0.05	1.43	11.27	42.09	0.00
Textiles	10.17	8.05	61.62	6.26	3.71	0.08	38.31	61.68	31.62
Garments	25.97	1.73	67.59	17.55	2.24	18.42	13.99	76.66	52.99
Footwear	19.00	1.67	55.17	10.48	1.29	3.87	40.96	81.90	44.24
Cement & other bldg mat'l	14.79	0.68	59.03	8.73	0.44	36.60	4.36	62.81	4.80
Glass	9.71	0.07	75.56	7.34	0.04	6.11	18.32	87.38	0.00
Other mfg goods	10.76	5.22	42.87	4.61	1.77	28.79	28.34	36.10	1.69
Non-electrical mach.	8.43	4.28	23.31	1.96	0.62	25.99	50.71	24.69	0.00
Electrical mach.	15.21	4.01	67.28	10.24	3.02	4.45	28.27	88.24	19.38
Vehicles & accessories	30.63	7.94	58.00	17.76	10.37	22.88	19.12	62.94	0.00
All other	13.54	2.05	31.49	4.26	0.64	64.22	4.28	20.95	1.78
TOTAL	22.94	100.00	59.28	13.60	100.00	11.35	29.37	62.80	20.47

Sources: ASYCUDA system, Customs and Excise Department; Ministry of Finance and Economic Affairs; Ministry of Trade, Industry, and Employment.

SALES TAXES

Introduction

In fiscal year 1991/1992, sales taxes accounted for over 235 million dalasis in tax revenue for the central government, about 39 percent of total tax revenue.[10] Approximately 80 percent of total sales tax revenue is derived from imports, and the remaining 20 percent from the domestic production of goods and services. As with the custom taxes, the current study quantifies alternative sales tax policy options.

The Terms of Reference for the current study include:

> *Review the feasibility of expanding the sales tax base and streamlining its procedures. Identify the major areas of discretion. Review the penalties for tax defaulters.*

As with the custom taxes, to address these issues quantitatively as well as theoretically, it was necessary to establish a database of sales tax transactions. The data requirements for the sales tax are broader than those for custom taxes because the sales tax is levied on imports and domestically produced goods and services.

Details on the sales tax data are presented in Appendix A. Many of the data sources for customs were also used for the imports portion of the sales tax. Data for the domestic portion of the sales tax was obtained from the Sales Tax Division of the Customs and Excise Department and from the Budget Advisor in the Ministry of Finance and Economic Affairs. This data was also analyzed using the Model described above and in Appendix A.

Our recommendations can be divided into two broad categories: (1) modify the structure of the sales tax and (2) eliminate Development Certificate and discretionary waivers. It is important to note that these recommendations must be viewed as a single package in order to maintain the current level of sales tax collections.

Expanding the Sales Tax Base and Streamlining its Procedures

Current Law.

Currently, the sales tax is levied on all goods manufactured in or imported into The Gambia, and the following domestic services: hotels; tour operations; telecommunications;

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[10] "Estimates of Recurrent Revenue and Expenditure 1993/94 with Estimates of Development Expenditure 1993/94," The Republic of The Gambia.

insurance; air services; restaurants and bars; cinematographs; night clubs; casinos; and gaming houses. There are some exempt goods, including: educational, technical, cultural, religious, or literary goods; domestically produced foodstuff, except alcohol, soft drinks, and candy; animal feed; production equipment and processing materials, except fuel; and medicines and health items.

For foreign goods, the sales tax is levied at import. For domestically produced goods, the tax is levied when the goods are delivered or when the possession of the good passes -- effectively at the wholesale level. The sales tax is payable by the supplier of taxable services when the services are sold. The tax rate is 10 percent.

All importers and domestic registered traders (domestic suppliers of taxable goods and services) are required to pay the sales tax. Domestic traders must register for the sales tax if their annual sales exceed 150,000 dalasis (12,500 dalasis per month). Traders may be asked by the government to register for monitoring purposes if their sales are somewhat below the threshold.

Once registered and with sales exceeding the threshold, a trader must pay sales tax on all taxable sales, not just those in excess of the threshold. This creates a disincentive to growth because the trader faces a substantial increase in tax expense as the firm increases sales beyond the threshold. For example, a trader with annual sales of 140,000 dalasis pays no sales tax. However, as sales increase to 160,000 dalasis, the trader is required to pay 16,000 dalasis in sales tax, a marginal tax rate of 80 percent (the 16,000 tax divided by the 20,000 increase in sales). Thus, besides the obvious reasons for understating sales, traders have an additional incentive to falsify sales records to remain under the threshold.

Statutorily, there are exempt transactions, including the sale of partly manufactured goods sold from manufacturer to manufacturer and imports of partly manufactured goods by a manufacturer. In practice, it is unclear if there is relief from cascading on these intermediate inputs, and if there is, what the proper credit procedure is.

In discussions with government officials and representatives of the private sector, at least two methods for eliminating cascading on intermediate inputs were found to be in operation. The first involves taking a credit, or rebate, against the sales tax on outputs for the sales tax paid on inputs. The second involves applying for a sales tax waiver on intermediate inputs. Both methods properly eliminate cascading, but in the interest of transparency, only one method should be practiced.

There are significant points of confusion in the application of the sales tax. The primary ones we discovered are:

- Do holders of duty waivers implicitly get sales tax waivers? Some government officials believe sales tax waivers are granted, others believe there should be no sales tax waivers in conjunction with duty waivers. DC holders say they routinely get sales tax waivers.[11] The ASYCUDA data indicates there are leakages in the sales tax system.

- The sales tax base is the sale price, including duty. If a firm has a duty waiver and must pay the sales tax, does the sales tax base include the duty foregone? Again, different government officials and members of the private sector answer this question differently.

The GOTG has advocated several base expansion proposals in past Budget speeches. The proposals are to expand the taxable services to include: accountants, lawyers, jewelers, construction, television services, video hire, hairdressers, laundry and dry cleaning, and gaming and amusement machines. Although not all of these have been legislated, some of these services are already "voluntarily" paying the sales tax. The proposal with the largest potential revenue implications is construction.

Recommendations.

The sales tax in the Gambia works as a turnover tax and therefore cascades through intermediate goods. Suppose that a firm buys 100 dalasis worth of imported goods and pays 20 dalasis duty and 12 dalasis import sales tax on them. Suppose, furthermore, that it contributes a value added of 68 dalasis -- which brings the producer's price to 200 dalasis and the sales tax inclusive of consumer's price to 220 dalasis. In this example, the imported intermediate goods are taxed twice under the sales tax, once in the original 100 dalasis and once in the 200 dalasis. If the output of this sector were used as an input by another sector, then the effect of cascading would further increase, creating a "tax-on-tax" effect via the input-output linkages. This double taxation distorts the producers' choices and is inefficient. The present system is also unfair because firms which can obtain duty waivers (which seem, in practice, to waive sales tax as well) escape the burden on sales taxes on intermediate goods while their competitors cannot.

Under current law, a partial relief is given to manufacturing firms for that part of sales tax they pay on inputs from other domestic manufacturing firms. This relief is a very small portion of the cascading that occurs in the system because it excludes all sales taxes on imported inputs, all domestic sales taxes paid by non-manufacturing firms, and domestic service sales taxes paid by manufacturing firms.

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[11] One firm with a DC told us that they never paid sales tax on imports. Another firm with a DC paid sales taxes on those imports with a statutory duty rate of zero and did not pay sales tax on imports with positive duty rates.

To eliminate cascading, we recommend implementing a rebate system in which registered traders would be allowed to credit the sales tax paid on inputs, whether imported or domestically produced, against the sales tax payable on outputs. All businesses exceeding a minimum level of sales would continue to be required to register, but sales tax would be payable only on sales in excess of the minimum. No sales tax credit would be allowed on inputs attributable to sales below the minimum. Once the system is in place, the extension of the rebates to domestically produced exports may be considered. The revenue neutral registration level could be determined using information from the Customs and Excise Department on domestic sales tax, however, this data was not available for the current study.

Introducing a rebate system increases the taxpayers' bookkeeping responsibilities. It could be argued that imposing additional paper work on a taxpaying population with a low level of literacy and bookkeeping skills is onerous. However, most small businesses with less developed accounting skills would be eliminated from the taxpaying population by the minimum sales requirement. According to the Sales Tax Division of the Customs and Excise Department, under the current registration system there are less than 300 active sales tax payers, about evenly split between domestic traders and importers. These large taxpayers, with presumably well developed accounting records and bookkeeping practices, should be the primary focus of the tax.

Using the Indirect Tax Model, we estimate the revenue loss from removing all intermediate good cascading to be 9.6 million dalasis (3.8 percent of total sales tax revenues). Extending the relief to capital goods purchased by registered firms, the revenue loss becomes 13.5 million dalasis (5.4 percent of total sales tax revenues). The elimination of one-eighth of all sales tax leakages would be sufficient to offset this revenue loss.[12] In these two simulations, the sales tax relief is given to firms that are currently registered.

Finally, we use the Indirect Tax Model to simulate the effect of including builders under the sales tax and devising a full rebating scheme. We assume that half of the construction activity reported in the National Income Accounts would be large enough to be registered. The revenue loss of the combined simulation is merely 1.2 million dalasis, or 0.5 percent of total sales tax revenues.

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[12] We have arrived at this figure using the Indirect Tax Model, which takes into account the second-round effects of decreased leakages on intermediate good taxation and rebates.

Discretion and Penalties

We recommend that all Development Certificate and discretionary sales tax waivers be eliminated because they reduce the transparency of the tax system, invite abuse, and cost the government tax revenue. The data does not allow the loss of revenue from waivers to be distinguished from total leakages. However, we estimate that total sales tax leakages reduce potential sales tax revenue by 37 percent (see Table 3). The elimination of this leakage along with the unexplained duty leakage (excluding C130) discussed above would increase total customs (duty plus sales tax) revenues by over 50 percent.

The Sales Tax Act lists several offenses and their penalties. The offenses include: failure to register, failure to properly keep books or file returns, destroying or falsifying records, and evasion. The maximum penalties for these offenses are fines of three times the tax evaded or 5,000 dalasis and up to two years imprisonment.

The offense which is most strictly enforced is the failure to pay monthly taxes within the allotted time -- currently not later than the last day of the first succeeding month. The penalty for late payment is one-half of one percent of the tax due plus interest on the tax due at the Treasury bill rate determined by the Central Bank of The Gambia. For the period July 1993 through March 1994, penalties and interest were 240,000 dalasis on a domestic sales tax base of 27 million dalasis.

The penalty and interest for late payment should be increased. The one-half of one percent penalty could be increased to the 5 to 10 percent range. The interest should be calculated at the prevailing lending rate charged by private banks, which can be 5 to 10 percentage points higher than the Treasury bill rate. In conjunction, businesses should be allowed to take a sales tax credit for audited bad debts and returned merchandise. Although this latter recommendation was proposed in the 1993/1994 Budget Speech, the belief in the private sector is that the relief is not yet effective and needs to be written into the law.

EXCISE TAXES

In fiscal year 1991/1992, excise taxes accounted for only 250,000 dalasis in tax revenue for the central government, less than one percent of total tax revenue.[13] The current study considers excise taxes in the context of the Terms of Reference, which state:

> *Identify goods to be subject to excise taxes for the purpose of encouraging manufacturing, expanding the manufacturing base, and increasing domestic value added.*

Excise taxes are generally not used to promote domestic industries. A more appropriate policy tool for the promotion and protection of domestic industries, especially infant industries, is higher import duty rates on domestically produced goods.[14] The use of price subsidies is another alternative policy tool, although this would be costly to the budget and distort the allocation of resources more than the use of import duties. Excise taxes, on the other hand, are generally levied on only domestically produced goods or both imported and domestically produced goods. Therefore, excise taxes are not usually recommended for the purpose of promoting or protecting domestic industries.

However, general recommendations can be made concerning the types of excise taxes and the types of goods that should be subject to excise taxes. In so doing, it is important to point out that excise tax reform must be coordinated with other indirect tax reform. Changes to excise taxes are, to a certain degree, dependent on the changes that occur in customs and sales taxes.

Excise taxes can generally be distinguished from sales taxes in that they are usually limited to a few commodities. The Gambia currently makes limited use of excise taxes -- refined groundnut oil is taxed at 370.50 dalasis per ton and beer, ale, stout, and porter are taxed at 0.48 dalasis per liter. These taxes are levied on the production of the good and are incurred as the good leaves the factory.

Excise taxes are traditionally grouped into four categories:

- Sumptuary excises. These are taxes designed to regulate consumption and are usually associated with alcohol and tobacco. These "sin taxes" are often criticized for being regressive -- the tax is a greater burden on lower income households than higher income households.

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[13] "Estimates of Recurrent Revenue and Expenditure 1993/94 with Estimates of Development Expenditure 1993/94," The Republic of The Gambia.

[14] Another use of import duties would be to counter subsidized exports of trade partners.

- Luxury excises. These taxes are levied on expensive goods as a proxy for income. The assumption is that the purchase of the good indicates the ability of the taxpayer to pay tax. These taxes are usually associated with automobiles, recreational boats, and jewelry.

- User charges. These taxes are levied based on the benefits received principle -- that those benefitting from a government service should pay for it. These taxes are usually associated with fuel taxes and serve as a fee for road use.

- Excises designed to increase economic efficiency. To some degree, the excise taxes above can be justified as increasing economic efficiency. However, there are other excise taxes specifically designed to reduce certain behavior -- for example, a tax on industries or automobiles that significantly contribute to air pollution.

Any reform of the excise taxes in The Gambia must be closely coordinated with customs and sales tax reform. For example: (1) if a rebate system is introduced into the sales tax system, it may be possible to increase excise taxes on alcohol without discouraging production in that industry; (2) under a uniform tariff structure, an excise tax on automobiles would be equivalent to an additional tariff band; (3) any proposed excise tax on fuel would have to be coordinated with reform of that good's price and customs structure. In addition, any excise tax reform should conform to the four categories above.

APPENDIX A

THE DATABASE AND MODEL

The Database

The primary sources of data used in this study are:

- The ASYCUDA system at the Customs and Excise Department.
- A time-series database of imports, duty, and sales tax collections by 33 commodity categories maintained by the Ministry of Trade, Industry, and Employment.
- A database of the sales tax on domestic goods and services maintained by the Ministry of Finance and Economic Affairs (MFEA).
- A study of the re-export trade conducted by the Ministry of Trade, Industry, and Employment.
- National Income Account data maintained by the Central Statistics Department of MFEA.
- A survey of household expenditures conducted by the Central Statistics Department.

The ASYCUDA (Automated System for Customs Data Acquisition) is a computer system designed by UNCTAD in Geneva to streamline the customs clearance procedures. The system is not yet fully functional, but it is being used to gather customs data. Data for January and February of 1994 was provided by the Customs and Excise Department for use in the current study. This data consists of the CIF value of imports, duty paid, sales tax paid, and CIF value of imports with duty exemptions by four-digit commodity code.

Table A-1 summarizes the following ASYCUDA data by tariff band: the number of statutory tariff headings (as found in the H.S. Tariff Book); the number of tariff headings with reported imports; the share of imports; the percent of imports subject to duty; the effective duty rate (defined as the actual duty collections divided by the CIF value); the import share of duty; the percent of imports exempt from duty because of explained waivers; the percent of imports exempt from duty for unexplained reasons; the share of imports subject to the sales tax; and the share of imports that are re-exported. This last column is derived from a study by the Ministry of Trade, Industry, and Employment (see below).

TABLE A-1
DUTY AND EXEMPTION STRUCTURE OF IMPORTS BY TARIFF BAND

Tariff Band (Percent) *	Number of Tariff Headings	Tariff Headings with Imports	Import Share (Percent)	Percent Subject to Duty	Effective Duty Rate	Duty Share (Percent)	Percent Exempt (C130)	Percent Exempt (Other)	Percent Subject to Sales Tax	Re-Export Share (Percent)
0	365	127	22.84	0.00	0.00	0.00	12.83	87.17	67.27	16.33
5	10	3	0.11	17.03	0.85	0.01	11.21	71.76	84.44	0.00
7	2	2	0.57	50.64	3.54	0.15	18.46	30.90	50.64	0.00
10	165	85	34.03	65.84	6.58	16.48	2.91	31.25	65.84	33.78
14	26	21	3.80	56.06	7.85	2.19	31.86	12.08	58.45	6.90
15	1	0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
18	21	14	0.64	14.25	2.57	0.12	33.75	52.00	14.62	0.90
19	320	176	11.24	46.69	8.87	7.33	7.40	45.91	47.85	24.08
20	29	16	6.78	27.14	5.43	2.70	29.67	43.19	42.66	0.80
21	15	13	0.36	92.51	19.43	0.51	6.16	1.33	92.54	19.20
23	182	92	2.79	39.39	9.06	1.86	22.91	37.71	46.35	15.85
25	1	0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
28	32	22	1.01	87.77	24.58	1.83	8.34	3.89	87.98	51.76
29	13	8	0.54	97.28	28.21	1.12	2.71	0.01	97.28	6.63
30	2	2	0.06	64.13	19.24	0.08	0.00	35.87	59.24	32.27
32	32	12	0.92	25.71	8.23	0.56	38.71	35.58	25.90	2.80
37	8	8	6.64	57.98	21.45	10.48	18.25	23.77	69.99	2.13
40	5	4	0.28	76.16	30.47	0.63	0.81	23.01	92.06	49.00
41	1	1	0.13	19.97	8.19	0.08	23.89	56.15	20.20	0.00
45	1	1	0.18	89.46	40.26	0.52	10.12	0.42	82.40	49.00
46	2	2	0.08	99.99	46.00	0.27	0.00	0.01	99.97	0.00
50	2	2	0.15	22.33	11.17	0.12	2.48	75.19	26.26	0.00
53	1	1	0.01	0.00	0.00	0.00	0.00	100.00	0.00	29.47
87	1	1	0.00	26.27	22.85	0.00	73.73	0.01	26.25	0.00
90	1	1	0.20	31.02	27.92	0.41	0.00	68.98	31.01	49.00
93	1	1	1.99	61.69	57.37	8.40	0.00	38.31	62.09	29.47
127	1	1	0.09	99.28	126.09	0.87	0.00	0.72	91.25	49.00
195	1	1	4.57	66.00	128.70	43.29	14.50	19.50	76.32	0.00
Total	1,241	617	100.00	59.97	13.60	100.00	11.35	29.37	62.80	20.47

* All the tariff rates are statutory ad valorem rates except those for goods taxed on a specific basis, which are reported on an ad valorem equivalent basis (45 percent soft drinks, 93 percent cigarettes, 127 percent beer, and 195 percent petroleum).

Sources: H.S. Tariff Book, ASYCUDA system, Customs and Excise Department; Ministry of Finance and Economic Affairs; Ministry of Trade, Industry, and Employment.

The MFEA maintains a detailed database on the sales tax on domestic goods and services. This data consists of the sales tax by month and fiscal year on domestically manufactured goods, and on the 10 services currently taxed. This data was provided for use in the current study. In addition, tax data on petroleum (customs taxes, sales taxes, price concessions, and waivers) was also provided.

The Ministry of Trade, Industry, and Employment completed a detailed study in October, 1993 on the re-export trade. The study, based on interviews with private sector importers, includes information on re-exports by good and by destination.

The Central Statistics Department is responsible for National Income Account data for The Gambia. This data includes sectoral information on output, final sales, personal consumption expenditures, purchases of intermediate inputs, investment, imports and exports, and gross national product. The Central Statistics Department also completed a *Preliminary Report on Survey of Household Expenditure in Greater Banjul 1992* in November, 1993. This survey contains information on household expenditures by type of good and income class.

The Indirect Tax Model for The Gambia

The indirect tax model for The Gambia is built around a Social Accounting Matrix (SAM) for the fiscal year 1992/1993. The SAM is an accounting framework which traces the sectoral supply and demand for goods and services. It is comprised of data on sectoral gross production, value added, imports, exports (both domestic and re-exports), intermediate demand, investment, government consumption, private consumption and sectoral indirect tax liabilities (duties and sales tax on imports and sales tax on domestic goods). National Accounts data is obtained from the Central Statistics Department of the Ministry of Trade, Industry, and Employment. Data on imports and exports as well as duty and sales tax collections and exemptions are obtained from the ASYCUDA system at the Customs and Excise Department. While there are only 18 domestic sectors (of which only 10 fall under the sales tax), there are more then 617 imported goods in the database which fall under 28 different tariff bands (see Table A-1 above and Table 3 in the main body of the report). This allows us to simulate detailed tariff policies.

The various indirect taxes effect the relative prices of goods and services. We have assumed an across the board price elasticity of one for all goods and services for all users. Consumers (including firms, re-exporters, as well as households) alter their demand patterns according to the relative prices. Prices of imported goods change as a function of duty and sales tax rates as well as a function of the pattern of user exemptions. The Model then applies the effective duty and sales tax rates to the new base.

The model traces the amount of sales tax registered domestic firms pay on their inputs through the sectoral intermediate cost ratios and sectoral gross capital formation. When simulating the revenue effects of rebating the sales tax paid on intermediate and capital inputs,

we first estimate the amount of (import and domestic) sales tax burden on all intermediate and capital goods and then compute (and refund) the share of this burden which falls on registered firms.