ANNUAL REPORT

JANUARY – DECEMBER 2008

MONITORING, RESEARCH & PLANNING DEPARTMENT

NATIONAL REVENUE AUTHORITY

May, 2009

EXECUTIVE SUMMARY

The National Revenue Authority (NRA) is a government agency mandated to collect and account for all tax and non-tax revenues. The prime objective for its establishment in 2003 is to maximize revenue mobilization by minimizing leakages derived from inefficiencies in previous revenue administration system.

Domestic revenue collection since the inception of NRA has been impressive following the implementation of various reforms and strategies spanning from robust and responsive accounting and administrative supports, decentralization and physical restructuring of collection methods within revenue agencies to the recruitment of qualified and experienced workforce and public sensitization on the relevance of paying taxes. With assistance from development partners, the Authority reconstructed and rehabilitated most of the customs border posts.

Data and information for this report were obtained from the various revenue collecting agencies within the NRA, Support Departments, Accountant General's Office and the Bank of Sierra Leone. Like in the previous years, the Target-Actual approach is used to evaluate revenue performance, which is done on a year-on-year basis. The report is cognizance of the weaknesses of this methodology (i.e. possibility of targets been over ambitious or under ambitious). The analysis is extended to cover revenue performance by agencies and agency revenue sources/streams, revenue performance is compared to the pervious year, 2007.

Key issues worth noting in terms of revenue performance and policy implementation for the period under review include the following:

- The total NRA revenue collection for 2008 amounted to Le615.660bn or US$207.52 million[1] which is 10.5% of 2008 GDP[2]. This collection was below its annual target of Le638.868bn by Le23.208bn (or 3.6%).

[1] Using an average exchange rate of Le2,981.10/US$1 for 2008.

- Domestic revenue collection has always experienced growth since NRA took over in 2003. Total domestic revenue in 2002 was Le231.8bn, which increased by 19.8% to Le277.8bn in 2003. In 2004, the revenue growth rate was 22.4%. Growth in revenue collection was mixed from 2005 to date. Growth reduced to15.5% in 2005 from 2004; but increased to 18.1% in 2006. Growth in revenue dropped significantly to a single digit of 8.4% in 2007 before it eventually returned to a double digit growth path to 22.5% in 2008. The 2007 drop in revenue growth was mainly due to the two elections (Presidential and Parliamentary) that took place concurrently which affected the general business activities.

- At Agency levels, the Income Tax Department collected Le196.377bn contributing 31.9% to the total annual collection in 2008; Customs and Excise Department accounted for Le362.117bn while the Non Tax Revenue Department collected Le57.167bn contributing 58.8% and 9.3% respectively to the overall revenue collection for the period.

- All operational agencies failed to meet their annual targets of Le196.737bn for ITD; Le370.905bn for CED and Le71.226bn for NTR. Given their actual collections, NTR has the worst performance with a revenue shortfall of Le14.059bn (19.7%) of its target.

- The inability of the agencies to meet the targets is mainly due to the global economic downturn which affected every facet of the Sierra Leonean economy.

- Overhead cost on several industries soared up as a result of increase in electricity tariff by 50%. This caused most factories to result to the use of private generators which was also not cost effective due to the hiking in the price of petroleum products during the year.

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[2] The original GDP estimate for 2008 (Le5,873.4bn) was used. However, following a downward revision of the real GDP, this estimate will be revised downward. Hence tax effort would exceed the 10.5% already attained.

- Water supply was generally not adequate. This affected productivity and profitability, hence impinging the collection of both corporate and domestic sales taxes.

From the policy side,

- Revenue lost on bulk cargoes (rice, sugar, flour and wheat flour) was great due to policy changes in the import duty and import sales tax.
- Revenue was also lost on import and excise duties on petroleum products as rates were adjusted downwards several times before they were adjusted back to the original rates by end of 2008.
- The transfer of duty free concession back to MoFED left an increase of over Le18bn (by 46.1%) from Le39.983bn in 2007 to Le58.403 billion in 2008. This was caused by returning Diplomats, the speedy implementation of major developmental projects nationwide.
- Late settlement of payment of import duty for goods imported by the end of the year.
- Weak effective demand resulted in low sales and importation thereby depressing revenue collection for both Customs and Excise, and Income Tax.
- During the year, most MDAs collected and retained non-tax revenues that were supposed to be collected and paid into the CF by the NTR department.
- Sierra Rutile Ltd (Company mining rutile) could not resume full scale production since the collapse/submersion of one of their two mining dredges in July, 2008. This impeded their operations which ultimately affected royalties paid on the product.
- The operation of Koindu Holdings (Company mining diamonds) was suspended in April 2008 and never went into active mining until the end of the year. This company was the highest contributor (of over 75%) of royalties on diamonds.
- Again, during the year, the Ministry of Mineral Resources unilaterally suspended the payment of fees and licenses by both existing and new mineral rights holders in the face of a review of mining arrangements which commenced during the year.

- In an attempt to further maximize revenue collection, and reduce leakages and smuggling, the Authority continued to under take various reform measures through the operational Departments and the entity as a whole among which include:
  - Major among others are the automation of customs operation with the installation of ASTCUDA++ and the introduction of the Goods and Services Tax (GST) all by mid 2009
  - Establishment of an Enforcement and Debt Management Unit (EDMU) and is fully operational now.
  - The Finance Act, 2008 mandated the introduction of 10% tax on bed in hotel and guest houses; and 10% tax on bet winning of Le500,000 and above.
  - The Customs Department continues to operate the one-off valuation system for importers; adopted presumptive taxes and duties for cross-border trade and transaction that compare with effective rates at the Port. The department collaborated with, and provided support and technical back stopping to, key peripheral agencies.
  - The Authority continues to implement the modernisation programme which is geared towards restructuring the revenue administration and operations of the support Departments.
  - The support departments within the NRA contributed in diverse ways to ensuring the implementation of the policy reform programmes mandated by the policy framework paper. Though revenue figures relative to target in 2008 are unfavorable, there are indications of better performance in years to come given the prospects open to each collection agency in the modernization programme combined with the Government policies and commitment.
- Strategies have been discussed in detail as part of the recommendations to enhance revenue collection 2009.

On the policy front, the following are recommended as possible solutions that will lead to an improvement in the domestic revenue collection of the Authority:-

i. Implementation of Outstanding policies: there were certain policy measures that were approved in the Finance Act 2008 in order to bring all off budget revenues into the CF through the Non-Tax Revenue Department. This action will surely improve the revenue GDP ratio. It is also relevant to speedily process the Finance Bill 2009 which will correct all irregularities in the previous Finance Acts.

ii. Closely monitor duty free: Now that the responsibility of granting duty free and tax concession has been transferred back to the Ministry of Finance and Economic Development it is worthwhile to closely monitor the granting.

iii. Intensify audit: Is it recommended that Income Tax continues with the audit of Corporate and PAYE taxes, and also the taxes paid on local calls as the technology has changed from printed top-up cards to electronic credit transfer audits. Also, all audit reports should be disseminated to Heads of Department and be discussed in Management meetings.

iv. Follow-up on the registration of foreign commercial workers: NTR to prepare status report on the statistics of foreign workers registration which was planned to commence in 2008.

v. Control smuggling: the Customs Department of the National Revenue Authority has a unit (Preventive Services and Special Duties-PSSD) charged with the responsibility to curb smuggling.

vi. Suspend granting of duty-waiver to organizations on the basis of bilateral agreements until these agreements are enacted by parliament.

vii. Improve energy (electricity and water) supply to industries/firms in a bid to reduce their cost of production and hence improve profitability. However, the shortage of electricity supply will soon be a thing of the past as the Bumbuna Hydro Electric power is near completion.

viii. Ministry of Finance to consider recommendations (See reasons for 2008 NTR revenue shortfall) made on remittance of arrears from sale of visa stickers by Foreign Missions.

ix. Arrears list of tax liabilities and non-tax revenues should be prepared and regularly updated and forwarded with recommendations to the Commissioner-General for appropriate actions.

x. The Board Secretariat and Legal Affairs (BSLA) Department of the NRA to take legal actions against the various businesses and institutions owing NRA including parastatals whose arrears have still not been settled.

xi. Engagement of factories and industries owners.

xii. Engagement of importers of key commodities-rice, sugar, flour, building materials, among others in order to know the impact of global financial crisis on their businesses.

TABLE OF CONTENT

LIST OF TABLES AND FIGURES

List of Tables

List of Charts

1.0 Introduction

For the past five years (2003- 2008) there has been a significant improvement in the overall revenue administration in Sierra Leone; with domestic revenue[3] collection since the inception of NRA in 2003 on the increase. Between 2002 and 2003 it increased from Le231.766bn to Le277.810bn. It further improved with the consolidation of the NRA's position and with the introduction of the Non-Tax Revenue (NTR) Department to Le340.116bn in 2004, Le392.939bn in 2005; Le463.920bn in 2006; Le502.751bn in 2007 and eventually Le615.661bn in 2008. The 2008 performance could be translated as been impressive which accounted for an increase by Le112.910bn (22.5%) over 2007 even in the midst of the global economic crisis that hit every country and changes in the domestic policies, which affected mainly NTR performance.

To anchor the revenue performance to the US Dollar (US$) over the last five years since 2003, there has been a steady growth in collection. Between 2002 and 2003 it increased from US$110.41mn to US$118.45mn. This growth rate continued in 2005 with a collection of US$136mn to US$156.63mn in 2006 (by 15.2%). Revenue collection improved from US$168.45mn in 2007 to US$206.52mn (22.6%) in 2008. The highest growth rate in US dollar term experienced since the inception of the Authority.

However, the Authority's performance in 2008 was below target and recorded the highest shortfall in five years of operations. During 2008, the revenue collection fell short of the annual target of Le638.868bn by Le23.207bn (or by 3.6%). This low performance could not be unconnected to the continuous reduction in duty rates of some essential commodities and the transfer of duty waiver to the Ministry of Finance and Economic Development (MoFED). This performance would have been worst than all the years had it not been the reform measures and strategies that were undertaken to revitalize and sustain collection. These reforms and strategies included the introduction and maintenance of a more robust and responsive accounting and administrative support system which ensures transparency in the receipt and use of funds; the re-deployment of staff to strengthen the workforce of other

[3] Domestic revenue analysis excludes Road User Charges (RUC) which is accounted for by SLRA/Accountant General's Department.

Departments (NTR staff to ITD and GST) to form an efficient workforce; regular training and development of staff; maintaining an efficient procurement, disbursement and recording of transactions; physical restructuring of revenue collection within the Income Tax and Customs and Excise Departments[4]; sensitization and education of the professional bodies such as Lawyers, Doctors and Accountants on the need to honour their tax obligations and continuous radio discussions combined with the erection of posters and board to education taxpayers of their national obligations.

Tremendous progress has been made for the replacement of some existing taxes currently administered by both the Income Tax and Customs & Excise Departments with Goods and Services Tax (GST); and the ASYCUDA++ for customs operations to become operational by mid 2009. The modernization programme with various projects for the management of the whole Authority has been restructured with major prospects for improved revenue performance.

This report evaluates among others, the macroeconomic environment of the country; taking into account the activities in the real sector, the external sector, and the movement in the macroeconomic variables within the monetary and fiscal policy framework. At the micro/ institutional level, the report reviews the amount of revenue collected by the three revenue collecting agencies of the NRA which include the Income Tax Department, Customs and Excise Department and the Non-Tax Revenue Department; reasons for not attaining targets in 2008; analysis of duty free and tax concession; achievement and constraints in 2008; and plans of each department for 2009. It furthermore stresses the strategies to enhance revenue collection in 2009 and above all, provide policy recommendations.

Finally, this report was due latest end quarter one 2009 but the delay in the production of this report was due mainly to late submission of contributions from some Departments/Units, and it could be noted that the Finance and Budget, Income Tax Department (ITD) and Corporate Secretariat with no report submitted up to the time of the producing this report.

[4] Drastically reduced the contact Customs official have with customs revenue paid by directing all payments to be made by customers into the bank.

2.0 Overview of the Macroeconomic Performance - 2008

Sierra Leone's macroeconomic performance for fiscal year 2008 was mixed. Real Gross Domestic Product (GDP) reached 5.5% despite the impact of the global economic downturn and a drop in mining activities but less than the projected 6% growth for the year. The restoration of peace and security combined with the peaceful elections in the previous year facilitated economic recovery though inflation still remains in double digits, and increased slightly to 13.1% (year-on-year) compared to 12.2% in 2007. This increase is attributed to the increase in global food and fuel prices. Crude oil reached record level of over US$147.27 per barrel in July, 2008, the highest for years. This action saw hiking in the pump price of fuel by over 38% from Le11,950 to Le16,500 per gallon before it was adjusted down to Le12,500 when the overall pricing formula was re-adjusted downwards by the end of the year. (The domestic pump price of Le16,500 per gallon being the highest was less than US$6 {for approximately 4 litres} was the cheapest in the West Africa sub region). Domestic food prices were even lower than in the neighbouring countries. This greatly encouraged smuggling of both petroleum products and food to neighbouring countries especially Guinea during the year.

Fiscal developments during the year indicate a continued process of consolidation of public finances on the path of deficit and domestic-debt reduction. The Central Government budgetary operations indicate that total revenue and grants for 2008 amounted to Le926.764bn (15.9% of GDP) compared to Le776.156bn in 2007 (15.6% of GDP). This performance was largely on account of an increase in domestic revenue and a relatively better inflow of donor funds.

For fiscal year 2008, total domestic revenue[5] reached Le662.132bn, equivalent to 11.4% of GDP compared to Le536.864bn (10.8% of GDP) in 2007. Total expenditure and lending minus repayments at the end of 2008 amounted to Le1, 223.247bn (21.0% of GDP) and exceeded the previous period amount of Le835.456bn (16.8% of GDP) by almost 50%. In

[5] Total domestic revenue including Road User Charges (RUC).

addition, dutiable imports experienced a growth rate of 40.3% from Le921.940bn in 2007 to Le1, 293.143bn in 2008 but this attracted mostly commodities of low import duties.

Performance in the real sector during the 2008 fiscal year was also mixed. There was considerable drop in agricultural sub- sector activities during the review period compared to the fiscal year 2007. Production of the two major cash crops – Cocoa and Coffee indicated mixed performance. There was a significant increase in coffee production from 2.1 thousand metric tons in 2007 to 8.2 thousand metric tons, while cocoa production dropped by over 62% from 13.5 thousand metric tons in 2007 to 8.3 thousand metric tons in 2008. However, export of Coffee and Cocoa reduced considerably by 19.8% and 35.9% respectively due to the drop in the demand for our exports combined with the low world market price.

Developments in the manufacturing sub-sector were also mixed. While production of drinks and food dropped, cement and other building materials increased but slightly. Production of soft drinks declined by 4.6%, confectionary by 7.9% and Beer, Stout and Maltina also recorded a drop by 4.7% when compared to 2007. This had a negative effect on overall domestic sales tax (DST) and excise duty collected in 2008. Nonetheless, production of other commodities such as cement, paint and common soap increased by 2.7%, 11.9% and 7.0% respectively. The increase in revenue from DST by a little over 8% relative to 2007 was not due to increase in domestic production of goods but due to the general price increase as experienced from the rate of inflation during the period.

In the mining industry, diamond export dropped significantly both in carats and value by 38% and 40% respectively, from 603.6 thousand carats (valued at US$141.566mn) in 2007 to 371.3 thousand carats (valued at US$98.801mn) in 2008. Rutile and Bauxite production indicate a total of 78.9 thousand metric tons and 954.2 thousand metric but only 73.7 thousand metric tons of Rutile and 779.7 thousand metric tons of Bauxite were exported with a value of US$36.7mn and US$28.1mn respectively.

The nominal exchange rate for the period under review was quite stable for both official and Commercial Banks' rates. Records indicate that the official exchange rate (mid-rate) stood at Le2, 981.10 per US Dollar in 2008 compared to Le2, 984.51 in 2007. This shows a slight appreciation in the Leones against the US$ by 0.11%.

Broad money growth accelerated in 2008 (22.5% by year-end, up from Le1, 078.701bn in 2007 to Le1, 321.241bn in 2008). This reflects a substantial increase in public spending, and lending by specialised credit institutions. Reserve money also increased by 10.2% from Le423.758bn in 2007 to Le466.801bn in 2008. The increase in reserve money may be closely linked with the increase in bankers' deposits with the central Bank, private sector deposits and currency issued.

In spite of the global downturn, the economy experienced significant growth in the financial sector with the establishment of four (4) new commercial banks brining the total of commercial banks opened to the public to twelve (12). Sound monetary policies instituted by the central bank played a dynamic role in the establishment of these banks. The expansion in the installation of Automated Teller Machine (ATM) close to shopping and recreation centers and; internet and phone banking have made banking operations easy and user friendly.

The liberalisation of the mobile phone market made mobile phones to be affordable at lower prices and the high competition among service providers which induced reduction in cost of air time substantially increased the number of mobile phone users during the period.

The development and maintenance of essential public infrastructure is an important ingredient for sustained economic growth and poverty reduction. In 2008, major developmental projects were facilitated; among which include the Bumbuna Hydroelectric project (near completion stage); the Masiaka – Bo highway; the Lumley-Tokeh road; plans set for the reconstruction of the Freetown-Kambia road on the border with Guinea; the reconstruction of the Bo-Kenema highway; and the construction of a stadium in Bo. It is expected that the eventual completion of these projects would lift economic growth and support social objectives.

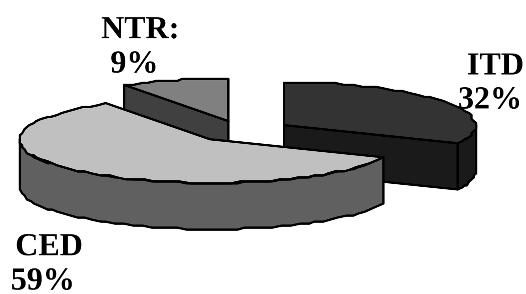
During the year, NRA implemented a range of policies that affected the overall revenue collection during the period, among which include the following:-

- On the customs front, import duty on petroleum products was adjusted from 5% ad valorem to specific US$20 per metric tones from January – April; and subsequently to 2% ad valorem from May – June 2008.
- Excise duty on petroleum products was also adjusted downwards by Le302.92 per imperial gallon and Le311.92 per imperial gallon for petrol and kerosene and diesel respectively. By end September, 2008, these rates (both the import duty and excises on petroleum products) were re-adjusted to the original rates of 5% import duty and excise duty of Le1,725.04, Le1,972.17 and Le1,656.35 for Kerosene, Petrol and Diesel respectively.
- Import duties of essential commodities (rice, sugar, flour and wheat flour) were adjust downwards in order to reduce the effect of the global price increase in the domestic market. These duties were adjusted as follows; rice from 15% at the end of quarter one of the year to 10%; sugar and flour from 20% to 10% each while wheat flour (raw material for Seaboard West Africa) from 5% to 2.5%. The import sale tax of 15% was maintained for sugar and flour, but reduced to 0% for wheat flour.

3.0 Revenue Performance in 2008

Domestic revenue collection by the National Revenue Authority for the year 2008 amounted to Le615.661bn. Of this collection, the Income Tax Department (ITD) contributed Le196.377bn (31.9%), the Customs and Excise Department (CED) accounted for Le362.118bn (58.8%), the Non-Tax Revenue (NTR) Department contributed Le18.022bn (2.9%) and Le39.145bn (6.4%) respectively. The Authority collected 96.4% of the annual target of Le638.868bn which implies a revenue shortfall of Le23.207bn (3.6%) (*See Annex 1 attached for detailed monthly revenue collection by the agencies and their revenue streams, including their annual percentage contributions to the total NRA collection for the year).* See Chart 1 below for percentage contribution of agencies to revenue collection in 2008.

Chart 1: Pie Chart showing Agency Percentage Contributions to NRA Revenue Collection-2008



3.1 Annual Agency Collection relative to target in 2008

Individual Agency's collections against targets as shown in Annex 1 are as following:

- ITD's annual collection of Le196.377bn was less than its annual target of Le196.737bn by Le0.360bn (0.2%);
- CED's annual collection of Le362.117bn was less than its target of Le370.905bn by Le8.788bn (2.4%);
- NTR overall annual collection of Le57.167bn was below its target of Le71.226bn by Le14.059bn (19.8%).

- Mines[6]annual collection of Le18.022bn was below its target of Le26.185bn by Le8.163bn (31.2%); and
- Revenue collected by the Other Departments amounted to Le39.145bn which was also less than its annual target of Le45.041bn by Le5.896bn (13.1%).

3.2 Annual Comparative Revenue Performance: 2007 and 2008

Total domestic revenue collected in 2008 amounted to Le615.661bn, exceeding the Le502.751bn collected in fiscal year 2007 by Le112.910bn (22.5%). In US dollar terms, revenue collection increased by 22.6% to US$206.52mn in 2008. This performance resulted from the fact that collection by all the agencies during 2008 was greater than revenue collected in 2007 with the exception of Mines Department in the NTR Department whose poor performance was due to some policy adjustments in the mining sector. As shown in Table1, the Income Tax Department's annual collection of Le196.377bn for 2008 exceeded its collection in 2007 by a little over Le50bn (34.2%); collection by Customs and Excise Department in 2008 increased to Le362.118bn from Le308.440bn 2007 collection by over Le53bn (17.4%); Mines and Other Departments of NTR collected Le18.022bn and Le39.144bn respectively in 2008, indicating a drop in the Mines revenue by Le0.532bn but a significant increase in revenue from the Other Departments of nearly Le10bn (32.9%). This shows that even though domestic revenue collection in 2008 was less than the annual target, the Authority performed reasonably better when compared to the previous year. (See Table 1 for detailed computations).

Table 1: Comparative Revenue Performance by Agency:2007-2008
(Amount in Leones million)

Dept/Rev Source	2007 Actual	2008 Actual	Variance	% growth in revenue
Total Domestic Revenue *(Excl. Road User Charges)*	**502,751**	**615,661**	**112,910**	**22.46**
Income Tax	146,296	196,377	50,081	34.23
Customs & Excise	308,440	362,118	53,678	17.40
NTR:	48,015	57,166	9,151	19.06
o/w Mines	*18,554*	*18,022*	*-532*	*-2.87*
Other Depts.	*29,461*	*39,144*	*9,683*	*32.87*

[6] Collections by both Mines and Other Departments constitute NTR Collection for the period.

4.0 Revenue Performance by Agency

4.1.0 Analysis of Revenue Performance by Agency: 2007-2008

As already discussed above, NRA total revenue collection of Le615.661bn in 2008 surpassed 2007 collection by Le112.910bn (22.5%) as the performances of the various collecting agencies. The detailed discussion by the individual agencies and by revenue streams are discussed in the sections below.

4.1.1 Performance of the Income Tax Department (ITD)

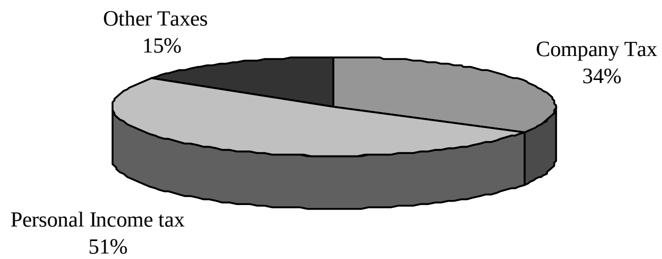
ITD revenue of Le196.736bn was a little less than its target of Le196.736bn by Le0.359bn for the year. Performances by the three tax categories was mixed while corporate and personal income taxes exceeded their targets by 2.5% and 11.2% respectively, other taxes dropped by 24.2%. Reasons for such poor performance in the other tax category are discussed in section 6.0. The department would have performed better had it not been the global economic threats and delays in implementing domestic policy adjustments during the year. (See Table 2 for revenue performance).

Table 2: ITD Revenue Performance in 2008

	Annual Actual	Annual Target	Variance	% Variance
ITD Total	**196,377**	**196,736**	**(359)**	**(0.2)**
Company Tax	65,936	59,289	6,647	11.2
Personal Income tax	100,649	98,169	2,481	2.5
Other Taxes	29,792	39,279	(9,487)	(24.2)

In terms of revenue streams contribution to the department collection, revenue from personal income tax accounted for over 50% of the total collection while corporate tax registered a little over 30% (See Chart 2 for the actual percentage contributions of the revenue streams).

Chart 2: Pie Chart showing Revenue Streams contribution to ITD in 2008



ITD revenue collection increased significantly by over Le50bn from Le146.296bn in 2007 to Le196.377bn in 2008 (or by 34.2%). This trend continued in the respective revenue streams with growth of over 28% in each of the revenue streams during the year. The highest growth occurred in revenue from other taxes which grew by over 40% when compared to 2007 collection. See Table 4 below for the comparison.

Table 3: ITD Revenue Performances: 2007-2008 (Amounts in Le'mn)

Tax Type	2007	2008	Variance	% Growth
ITD Total	**146,296**	**196,377**	**50,081**	**34.2%**
Company Tax	51,375	65,936	14,561	28.3%
Personal Income Tax	74,189	100,649	26,460	35.7%
Other Taxes	20,732	29,792	9,060	43.7%
Total	**146,296**	**196,377**	**50,081**	**34.2%**

4.1.2 Performance of the Customs & Excise Department (CED)

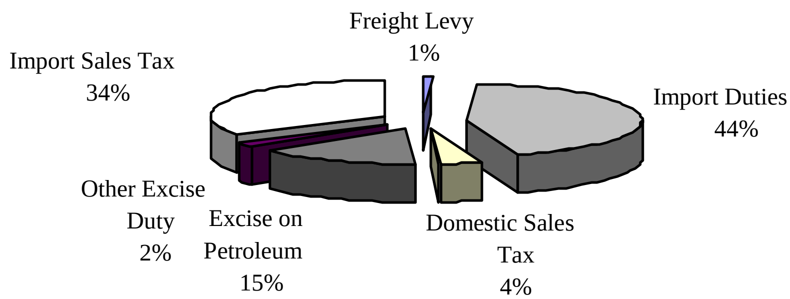
Like the ITD, CED collection was quite impressive but dropped relative to target by Le8.789bn (2.4%) during the year. The performance of the individual revenue streams was mixed. While Import duties and import sales tax both exceeded their individual target by over 6%, excise on petroleum, other excises, and domestic sales tax were each less than target by over 20%. This was due to reduction in the excise on petroleum during the year. Economic activities greatly affected domestic production which made some factories registered to pay DST fall below the threshold that qualifies the payment of DST. The Department could not continue with the collection of freight levy as the responsibility was transferred to the Sierra Leone Maritime Administration (SLMA). See Table 4 for details of collections relative to targets.

Table 4: CED Performance by Revenue Streams in 2008

	2008 Act.	2008 Target	Variance	% Variance
Total CED	**362,118**	**370,905**	**(8,787)**	**(2.4)**
Import Duties	161,196	151,653	9,544	6.3
Import Sales Tax	122,971	115,354	7,618	6.6
Excise on Petroleum	54,546	70,350	(15,804)	(22.5)
Other Excise Duty	6,450	11,540	(5,091)	(44.1)
Domestic Sales Tax	13,695	17,253	(3,558)	(20.6)
Freight Levy	3,260	4,755	(1,495)	(31.4)

In terms of revenue streams contribution to the department's total collection, revenue from import duties and import sales tax in total registered the highest with contribution over 75% of the total revenue collected; while freight levy accounted for less than 10% for the year. The Pie chart below depicts the percentage contribution by the revenue streams to the total revenue collected by the department.

Chart 3: Pie Chart Showing Percentage contribution to CED 2008



Comparing customs revenue collection in 2008 to that of the previous year, the department' revenue collection increased appreciably by over Le53bn (or by 17.4%) from Le308.440bn in 2007. The trends for the revenue streams were however mixed. While there were double digit growths of at least 20% in the Import duty and import sales tax over 2007, excise on petroleum products registered a drop of 14.2%; other excise duty also experienced a drop, while Domestic sales tax increased slightly by a little over 8% during the period.(See Table 5 below for the comparison).

Table 5: CED Revenue Performance: 2007-2008 (Le'mn)

	2007	2008	Variance	% Variance
Total CED	**308,440**	**362,118**	**53,678**	**17.4**
Import Duties	129,445	161,194	31,749	24.5
Import Sales Tax	96,146	122,972	26,826	27.9
Excise on Petroleum	63,554	54,546	- 9,008	-14.2
Other Excise Duty	6,723	6,450	- 273	-4.1
Domestic Sales Tax	12,572	13,695	1,123	8.9
Freight Levy/1	-	3,260	3,260	-

/1 in 2007, freight levy collected by SLMA then transferred to CED/NRA in 2008 before it was re-transferred to SLMA in August, 2008.

4.1.3 Performance of the Non-Tax Revenue Department (NTR)

The overall NTR revenue collection in 2008 was not quite impressive as it fell below target by over Le14bn (19.8%). Table 6 below provides the revenue-target analysis for the period. As indicated, none of the revenue streams met it target.

Relative to targets, Mines category in total registered a shortfall by 31.2% while revenue from 'Other Departments' fell by 13.1%. The highest shortfall in the mines category was royalty on rutile which dropped by 85.8%, royalty on bauxite reduced by 58.3%.

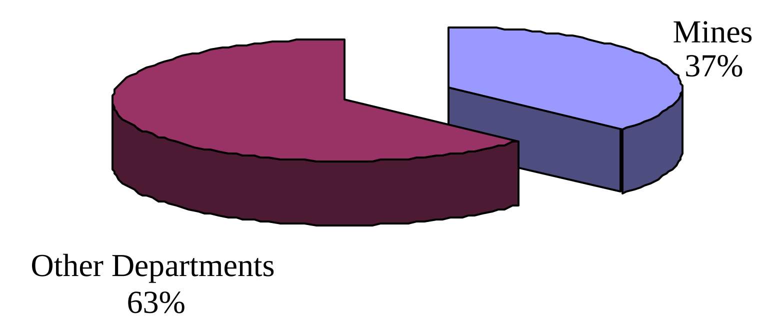
Royalties on fisheries was below target by 28.9% while other revenues stream was 10.2% down target. Table 6 below gives a breakdown of the NTR revenue performance relative to target in 2008.

Table 6: NTR Performance by Revenue Streams in 2008

	2008 Act.	2008 Target	Variance	% Variance
NTR	**57,156**	**71,225**	**(14,069)**	**(19.8)**
			-	
Mines	18,012	26,184	(8,172)	(31.2)
Royalty on Rutile	250	1,757	(1,507)	(85.8)
Royalty on Bauxite	1,115	2,675	(1,560)	(58.3)
Other Licenses	16,648	21,752	(5,104)	(23.5)
Other Departments	39,144	45,041	(5,897)	(13.1)
Royalties on Fisheries	4,881	6,867	(1,987)	(28.9)
Other Revenue	34,264	38,174	(3,910)	(10.2)

The contributions of the revenue streams are shown in the pie chart below: revenue from import duties and import sales tax in total registered the highest with contribution over 75% of the total revenue collected; while freight levy accounted for less than 10% for the year. The Pie chart below shows the contributions by the two revenue categories-Mines and other departments. Over 60% of NTR collection comes from Other Departments which comprises royalties on fisheries and seventeen (17) MDAs excluding Prisons Department (*See Annex 1 for 2008 monthly collections*) from whom no revenue has been generated since the NTR was established in 2004. Mines contribution is less than 40% for the year due to policy changes that affected the mining sector.

Chart 4 : Pie Chart of the main revenue streams to NTR in 2008



NTR revenue collection improved slightly by Le9.141bn (19%) over the 2007 collection. Much of this is from revenue from 'Other Departments' which increased by 32.9% during the period. The overall mines department dropped relative to 2007 by about 3%. This department would have performed better if certain policy measures in the mining industry were not undertaken and the collapsed of the Sierra Rutile mining dredge and suspension of Koindu Holding Companies during the year. Table 7 below compares NTR collections over the two years.

Table 7: NTR Revenue Performances: 2007-2008 (Amounts in Le'mn)

	2007 Act.	2008 Act.	Variance	% Variance
NTR	**48,016**	**57,156**	9,141	19.04
Mines	18,553	18,012	(541)	(2.92)
Royalty on Rutile	537	250	(287)	(53.40)
Royalty on Bauxite	2,604	1,115	(1,490)	(57.20)
Other Licenses	15,412	16,648	1,235	8.01
Other Departments	29,463	39,144	9,682	32.86
Royalties on Fisheries	4,352	4,881	528	12.14
Other Revenue	25,110	34,264	9,153	36.45

5.0 Growth in Revenue Performance: 2003-2008

Since the National Revenue Authority commenced revenue collection in 2003, there has been a steady increase in domestic revenue collection[7]. Statistics show that domestic revenue of US$125.91mn generated in 2004 was higher than domestic revenue collected in 2003 by US$7.46mn (i.e. 6.3%). With the consolidation of the Authority's position and taking over the collection of NTR collection from some of the MDAs, domestic revenue improved by US$10.08mn to US$135.98mn in 2005 (8%). This trend continued in the ensuing years during which the domestic revenue increased to US$156.63mn in 2006 and US$168.45mn in 2007. 2008 revenue collection was quite impressive which restored to the highest year-on-year increase and growth in revenue by US$38.07mn (22.6%). *See Table 8a below for the US Dollar component of NRA revenue performance: 2003-2008.*

Table 8a: Comparative Revenue Analysis: 2002-2008 (US$' Million)

Agency	2002	2003	2004	2005	2006	2007	2008
1	2	3	4	5	6	7	8
Domestic Revenue (Excl. Road User Charges)	110.41	118.45	125.91	135.98	156.63	168.45	206.52
Income Tax Dept.	29.95	32.23	36.16	39.72	46.91	49.02	65.87
Customs & Excise Dept	76.50	82.02	82.03	81.93	94.85	103.35	121.47
NTR	3.95	4.20	7.72	14.34	14.87	16.09	19.17
o/w Mines	*0.97*	*1.30*	*2.86*	*4.70*	*4.97*	*6.22*	*6.04*
Other Depts.	*2.98*	*2.90*	*4.86*	*9.64*	*9.90*	*9.87*	*13.13*
Exchange Rate (Le/US$)	*2,099.20*	*2,345.40*	*2,701.30*	*2,889.60*	*2,961.90*	*2,984.54*	*2,981.10*

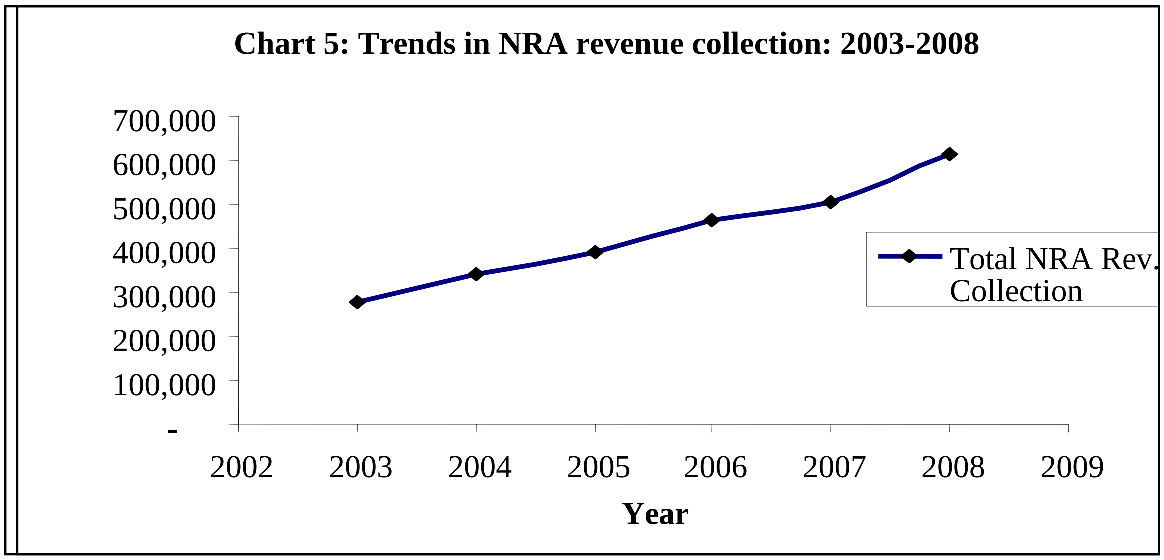
Table 8b below shows revenue collection performance in Leones term for the period 2003-2008. It is evident from the table that there has been a steady growth in NRA performance since 2003. All revenue departments improved significantly for 2008 when compared to 2007 except the Mines department that was greatly affected by the suspension of some mining activities.

[7] The domestic revenue has been standardized in US dollar terms in order to reflect the true value, which is devoid of inflation and other external shocks that may have affected the general price level.

Table 8b: Comparative Revenue Analysis: 2002-2008 (Le' million)

Agency	2002	2003	2004	2005	2006	2007	2008
1	2	3	4	5	6	7	8
Domestic Revenue (Excl. Road User Charges**)**	**231,766**	**277,810**	**340,116**	**392,939**	**463,920**	**502,751**	**615,661**
Income Tax Dept.	62,881	75,581	97,679	114,762	138,957	146,296	196,377
Customs & Excise Dept	160,589	192,378	221,591	236,753	280,932	308,440	362,118
NTR	8,296	9,851	20,846	41,424	44,031	48,015	57,166
o/w Mines	*2,034*	*3,040*	*7,721*	*13,569*	*14,712*	*18,554*	*18,022*
Other Depts.	*6,262*	*6,811*	*13,125*	*27,855*	*29,319*	*29,461*	*39,144*

The chart 5 below illustrates growth in domestic revenue since 2003 to date.



According to Table 9 below, Tax revenue GDP ratio increased stagnated between 2005 and 2006 at 10% and it dropped to 9.2% in 2007 but improved slightly to 9.6% in 2008. It is worth noting that this percentage would have been higher if the Authority had continued the collection of freight levy[8] during the year. Tax revenue to GDP ratio is projected to decrease to 9.0% in 2009 (on the revised target in April, 2008) excluding freight levy. Trend in Domestic revenue/GDP ratio[9] also maintained the same downwards movement but improved to 10.6% in 2008. The Domestic revenue/GDP ratio should not be expected to increase as expected if the global economic conditions do not improve in 2009.

[8] The responsibility of collecting freight levy revenue was transferred to the Sierra Leone Maritime Administration (SLMA) in September, 2008.

[9] Domestic revenue includes Tax & Non-tax revenue while Road User Charges is excluded in NRA analysis.

Table 9: ***Revenue Productivity: 2002-2008 & Projection for 2009***
(Amount in Leones Million)

	2002	2003	2004	2005	2006	2007	2008	2009 (Revised Projection[10])
Nominal GDP	1,964,627	2,310,767	2,894,123	3,518,200	4,206,600	4,966,200	5,826,100	6,781,100
Tax Revenue (A)	223,470	267,960	319,267	351,515	419,515	454,736	558,495	613,570
Non-Tax Revenue (B)	8,296	9,851	20,846	41,424	44,041	48,015	57,167	55,019
Total Domestic Revenue (C=A+B)	231,766	277,811	340,113	392,939	463,556	502,751	615,661	668,589
Tax Revenue/GDP	11.4%	11.6%	11.0%	10.0%	10.0%	9.2%	9.6%	9.0%
Non-Tax Revenue/GDP	0.4%	0.4%	0.7%	1.2%	1.0%	1.0%	1.0%	0.8%
*Domestic Revenue/GDP	11.8%	12.0%	11.8%	11.2%	11.0%	10.1%	10.6%	9.9%
Growth in Domestic Revenue (%)	15	19.9	22.4	15.5	18.0	8.5	22.5	8.6
Growth in Tax Revenue (%)	16	19.9	19.1	10.1	19.3	8.4	22.8	9.9
Growth in Non-Tax Revenue (%)	(7.2)	18.7	111.6	98.7	6.3	9.0	19.1	(3.8)
Growth in Nominal GDP (%)	22.8	17.6	25.2	21.6	19.6	18.1	17.3	16.4

** Excludes Road User Charges*

[10] 2009 Revenue projection revised downwards during the IMF visit in March-April, 2009 on 2008 country assessment

6.0 Reasons for Domestic Revenue Shortfall in 2008

Although revenue generated in 2008 fell short of annual target by Le23.208bn (i.e. 3.6%), overall revenue performance in 2008 improved by a substantial proportion (22.5%) over that in 2007 and even registered the highest year-on-year revenue variance (over Le112bn) since the inception of the NRA in 2003.

Failure to make the set target was due to the global economic down turn that impacted negatively on the country's economic performance, changes in policies relevant to domestic revenue collection, and other factors extraneous to the Authority.

i. *The Global economic recession in 2008:* The impact of the global economic crisis measured in terms of the revenue loss can be dissected into revenue loss with respect to domestic taxes, non-tax revenues and international trade taxes. The effects of the global economic crisis on domestic revenue are through the following:

   - Decline in the importation of goods in general, with significant revenue loss on high dutiable commodities.
   - Weak effective demand for frequently imported luxury goods that attracted high import duties.
   - A drop in remittance from relatives abroad due to high unemployment caused by the global economic crisis.
   - High cost of crude oil that reached record level of over US$147 a barrel increased cost of production of businesses that pay corporate tax and other taxes. This has similar effect on the domestic prices which affected the real income of consumers.

   On the Domestic revenue front,

   - Most businesses lower their profit estimates in 2008 due to low turnover with relatively marginal cost increments, high production costs emanating from the increase in electricity tariff, anticipated demand for wage increases, etc.
   - The drop in demand for and prices of our exports like diamonds caused some businesses to adopt the system of wait and see while others went underground making tax assessment difficult. Growth in diamond exports

in 2008 relative to 2007 was negative both in carats and value by 38.5% and 30.2% respectively. The worse diamond exports for over five years.

- High unemployment rates especially in overseas and the unemployment threat domestically affected demand for goods and services produced by businesses that pay corporate as well as other taxes.

ii. *General poor economic performance:* While domestic revenue target for 2008 was set on the premise that macroeconomic performance would improve on a significant scale, this appeared not to have been the case following the actual performance of the economy within this period.

Manufacturing industries/factories are usually capital intensive using much of electricity and water. Electricity supply in Sierra Leone could not improve as predicted particularly with high hopes of completion of the Bumbuna Hydroelectric project during the year. Instead, electricity tariff increased by 50%.

Added to the above, the trajectory of activity in large businesses was not encouraging over the period as some of them drastically adjusted downwards their estimates of turnover. As at end July, 2008, about twenty (20) large taxpayers of which fourteen (14) are among the top largest businesses reduced their estimates. Out of a total provisional estimate of Le21.083bn, only Le7.423bn was firmed while awaiting audits. Also, reduction in the declaration of taxable profit due to expansion in investment in the financial industry affected 2008 corporate tax collection.

Again, local communication revenue stream which contributes over 60% to the 'Other taxes' category had the highest revenue shortfall of Le9.636bn in 2008. This is as a result of the change in technology during the year by GSM operators from printed top-up cards to electronic credit transfer which was difficult to track.

Added to the above was the poor performance of the diamond industry (which is one of the main sources of non-tax revenue in Sierra Leone) in 2008 relative to 2007.

Diamond exports dropped by (30.2%) from US$141.566mn in 2007 to US$98.801mn in 2008. Drop in the world market price of diamonds among other things, coupled with the drop in export volume from 603.6 thousand carats in 2007 to 371.3 thousand carats in 2008 (i.e. by 38.5%) partly explains the drop in foreign exchange earnings from diamond exports.

Given the above computable economic analysis, it is clear that even if the forecasted 2008 nominal GDP grew as expected, the sectors/indicators relevant to tax revenue generally declined relative to the previous year.

6.3 Changes in Policies and delay in Implementation

In addition to the aforementioned reason, the delay in and non-implementation of policies proposed to mobilize domestic revenue also accounted partly for the underperformance relative to target.

i. Out of the Le1.5bn projected for bed fees only Le0.073bn was collected leaving a huge revenue variance due to delays in policy harmonization with the Ministry of Tourism and Culture, and the business houses. Revenue collection from this tax stream commenced in October instead of January, 2008.

ii. Income tax of Le0.610bn on rice imported by one Trading company-Harmony in December, 2008 was only settled by MoFED after December 31, 2008.

iii. Revenue loss on bulk cargoes: - rice, sugar, flour and wheat flour amounted to Le3.642bn due to changes in the import duties and import sales tax on them.

iv. Le3.028bn was lost on import duty on petroleum products (Kerosene, Petrol and Diesel) as the rates were adjusted from 5% ad valorem to US$20 specific per metric ton and later to 2% ad valorem before it was adjusted back to the original 5% as at end September, 2008.

v. Le3.386bn was forgone on excise duty on petroleum products as a result of reduction in the excise rates. See Table10 below for the reduction in the rates.

Table 10: Adjustment in Excise Duty on Petroleum Products: January-October, 2008 (Amounts in Leones)

	Kerosene	Petrol	Diesel	Fuel Oil
Old rates/imperial gallon	1,725.04	1,972.17	1,656.35	238.98
New rates/imperial gallon-applied	1,415.12	1,662.25	1,346.43	238.98
Amount Deducted in the rates (% Reduction in the rates)	**309.92** (17.9%)	**309.92** (15.7%)	**309.92** (18.7%)	-

The reduction in the duty extended to October, 2008 before it was re-adjusted to the original (old) rates.

vi. Revenue from freight levy was projected to be Le4.755bn but only Le3.260bn was collected from January-August, 2008 after which the revenue collection responsibility was taken over by the Sierra Leone Maritime Administration. The difference of Le1.495bn was still included in the revenue shortfall for the Department.

vii. Late settlement of import duty of Le2.035bn on rice imported in December, 2008.

viii. During the year under review, 40 factories were registered to pay domestic sales tax and other excise but as at end 2008, only 29 remained active while the 11 were below taxable threshold due to high cost of raw materials and a 50% increase in the electricity tariff.

ix. The business community continued to complain the unfair competition with factories like Guoji, Magbass Sugar Complant which have some duty free concessions and reduced duty on their raw materials and finished imported products as well as reduced sales tax on their finished products.

x. Higher-than-expected duty free concessions granted to a variety of beneficiaries during the review period which increased by Le18.420bn (46.1%) from Le39.983bn in 2007 to Le58.403bn in 2008.

xi. Weak effective domestic demand resulted in low sales and importation thereby depressing revenue collection for both Customs and Excise, and Income Tax.

xii. Revenues from royalties on rutile, bauxite and diamonds for the year declined throughout the year due to the following:

- Sierra Rutile Limited (the company mining rutile) could not resume full scale production after the collapse/submersion of one of their two mining dredges in July 2008.
- The operation of Koidu Holdings was suspended in April 2008 and never went into active mining until the end of the year. This implies that the projected royalties on diamonds of Le7.0bn for the year was not fully collected.

xiii. Early 2008, the Ministry of Mineral Resources unilaterally suspended the payment of fees and licenses by both existing and new mineral rights holders in the face of a review of existing mining arrangements. This affected the overall revenue collection from the Mines Department.

xiv. Payment of arrears from a Diamond Company (African Minerals Holdings) for the acquisition of mining plots (computed using the new rates) amounting to US$1.3mn (equivalent to Le3.956bn) was not paid.

xv. The losses declared by two major parastatals (Sierra Leone Ports Authority and Sierra Leone State Lottery) for their operations in 2007 affected dividend collected in 2008. Other parastatals ploughed back profits.

xvi. An amount of US$272,000 (equivalent of Le0.811bn) in respect of registration fees for foreign aircrafts and local airlines was to have been collected by NRA in 2008, but this responsibility was taken over by the Civil Aviation Authority of the Ministry of Transport and Aviation owing to misconception in the drafting of the Finance Act 2008.

xvii. It was projected that 2,000 foreign commercial employees engaged in mining, other businesses, and self employment will be captured by the Ministry of Employment, Labour and Social Security (MELSS) at the rate of Le3.0mn per employee but was not enforced by the Ministry on the premise that the work permit committee was not commissioned even though NRA provided logistical support to the MELSS in the form of computers and accessories, printer, photocopier, generator in order to facilitate the operations of the Work Permit Committee.This resulted in the non-collection of at least Le6.0bn (This committee was not formally launched until the end of the year).

xviii. Out of estimated revenue of US$1.7mn from the sale of visa stickers abroad, only US$0.1mn was remitted into the Consolidated Fund (CF) by the High Commissions/Embassies abroad. The sum of US$1.6mn (equivalent to Le4.770bn) is still outstanding for the year.

xix. Registration fee of US$2.0mn (equivalent to Le6.0bn) paid to the National Telecommunication Commission (NATCOM) by two new GSM operators was not paid into the CF. In addition, NATCOM continued to collect revenue for the following:-GSM application fees, Internet Service providers (ISP) fee, Spectrum fees, and Duplex channel fees. These services were estimated to have generated the sum of Le1.8bn in 2008. (The Finance Act 2008, however, provides that all off budget revenues should now be collected by NTR and with no changes in the rates/fees, the Department would have collected a similar amount in 2008).

xx. In 2007, Le0.733bn was collected by NTR for the registration of ships into Sierra Leone. A similar or higher amount collected by the Sierra Leone Maritime Administration in 2008 and never transferred to NRA.

(Summary of revenue loss due to policy changes during 2008 and presented in Tables 11 and 12 for Customs & Excise and the Non-Tax Revenue Departments respectively).

Customs & Excise Department (CED)

Table 11: **Revenue Loss due to Policy and Administrative Changes in 2008**

(Amount in Le'million)

	Jan-Jun, 2008	July-Dec, 2008	Jan-Dec, 2008
TOTAL (CED revenue loss)	**10,398**	**13,586**	**23,984**
Revenue loss due to changes in both import duties & Sales tax in March 2008 that affected revenue collection throughout the year	**797**	**3,642**	**4,439**
- Rice	*468*	*233*	*701*
- Sugar	*222*	*800*	*1,022*
- Flour	*-*	*580*	*580*
- Wheat Flour	*107*	*2,029*	*2,136*
Revenue loss due to reduction in the rate of import duty on petroleum products from 5% to US$20 specific then to 2% which applied before being restored to 5% in October, 2008	**3,635**	**3,028**	**6,663**
- Kerosene	*258*	*-*	*258*
- Petrol	*911*	*931*	*1,842*
- Diesel	*2,466*	*2,097*	*4,563*
Revenue loss due to reduction in excise duty on petroleum products: (Rate reduced by-Kerosene 21.9%; Petrol 18.6% and Diesel 23.2%) the rates were only re-stored to the old rates in October, 2008.	**5,966**	**3,386**	**9,352**
- Kerosene	*369*	*210*	*579*
- Petrol	*1,467*	*1,687*	*3,154*
- Diesel	*4,130*	*1,489*	*5,619*
The collection of revenue from Freight Levy continued only up to August, 2008 when it was taken over by the Sierra Leone Maritime Administration (during the year, Le3,260 million was collected out of Le4,755 million projected leaving a shortfall of Le1,495		**1,495**	**1,495**
Late settlement of import duty on rice imported by Harmony Trading Company in December, 2008.		**2,035**	**2,035**

Non-Tax Revenue (NTR) Department

Table 12: Revenue Loss due to Policy and Administrative Adjustment Changes in 2008.

(Amount in Le' millions)

	Amount Expected/projected 2008	Amount Collected in 2008	Arrears/Revenue Not collected as at end 2008
Total (NTR Revenue Loss)	**30,650**	**3,457**	**27,193**
Royalties on Diamonds: Koidu Holdings Ltd.	7,007	502	6,505
Parastatal Dividends (2-Companies declared losses while others ploughed back profits)	5,930	2,306	3,624
Work Permit was estimated for 2,000 foreign commercial employees- in mining, businesses, self employed estimated @ a rate of Le3 million	6,000	300	5,700
GSM application fees, Internet Service Provider, Spectrum fees, Duplex channel fees (Now being collected by NATCOM)	1,800	-	1,800
Registration of Ships (now being collected by the Sierra Leone Maritime Administration)	733	-	733
Acquisition of mining plot by African Minerals Holdings Ltd: Some amount was paid on the old rates but arrear from computation of the new rate not paid.	3,956	-	3,956
Visa Stickers to Foreign Missions	5,224	349	4,875

Expressing revenue loss due to policy changes and other administrative changes in terms of nominal GDP in tables 10 and 11 are as follows:

- For the customs & Excise Department a total of Le23.984bn was lost which is 0.41% of GDP.
- Non-Tax Revenue lost Le27.193bn (0.41% of GDP); while
- Duty free and tax concession increased from Le37.983 (0.81% of 2007 GDP) to Le58.403bn (1.0% of 2008 GDP).
- Income Tax revenue lost was due to the economic down turn in business activities and drop in world demand for our exports, which is reflected in the drop in exports of diamonds on which 0.75% of the 3% export duty is paid to CF through the Income Tax Department.

6.4 High cost of Freight and other import charges relative to Neighbouring Countries

As confirmed by the business community the costs of freight and other charges in Sierra Leone are still high relative to Guinea and this posed threat of smuggling through the porous land borders and other smuggling routes. In quarter four 2008, there were series of Government engagements with the business community on imports from especially Hong Kong, China, United Arab Emirate (UAE)-Dubai and Nigeria where most business people import assorted commodities in containers. It was against this backdrop that two teams of NRA and MoFED officials went on a fact finding mission about the tax systems in Guinea and Liberia in December, 2008. This visit revealed that our import duty rates are relatively not different from the import duty rates implemented by the other two countries it is just that the systems in the neighbouring countries do not fully implement the rates that are consistent with the ECOWAS Common External Tariff.

7.0 Tax Waiver and Duty Free Concession in 2008

Table 12 below shows that tax and customs exemptions granted in 2008 stood at Le58.403bn. Of this, Others received 33.4%; Public International Organizations accounted for 29.3%; while Non-Governmental Organisation and Mineral exploration/mining companies recorded 16.5% and 13.4% respectively. Embassies registered the lowest, 7.3%. Table 13 below provides that breakdown of the beneficiaries of the 2008 duty free.

Table 13: Beneficiary of Duty Free Granted in 2008

Beneficiary	2008	% of Total
Total	**58,403**	**100.0**
Embassies	4,252	7.3
Public Intl. Org.	17,138	29.3
Non Gov't Org.	9,609	16.5
Mineral Exploration/Mining Co.	7,869	13.5
Others[11]	19,535	33.4

7.1 Yearly comparison of Duty free concession: 2007-2008

The total amount granted in duty free in 2008 was higher than that in 2007 by Le18.420bn (or by 46.1%). Table 14 below compares duty free granted in 2007 and 2008. the record shows that duty free granted increased tremendously by Le18.420bn (46.1%) in 2008 from Le39.983bn in 2007. As percentage to GDP, duty free in 2008 is 1% of GDP while it was 0.8% in 2007.

Table 14 : Comparative Analysis of Duty Free Concession by Beneficiary: 2007-2008 (Le' Million)

Beneficiary	2007	2008	Variance	% Variance
Total	**39,983**	**58,403**	**18,420**	**46**
Embassies	4,400	4,252	(148)	(3)
Public Intl. Org.	6,673	17,138	10,465	157
Non Gov't Org.	7,363	9,609	2,246	31
Mineral Exploration/Mining Co.	6,622	7,869	1,247	19
Others	14,925	19,535	4,610	31

Duty free granted increased for all the beneficiaries except to the Embassies which decreased by 3%. Public International Organisation increased by over 100%, while Non-Governmental

[11] Others include: office of the President, Hournables, Parliamentarians, Ministries implementing programs and projects, Bumbuna Hydroelectric project, Colleges/Universities, Road construction companies,

organization and others both increased by 31% each. Table 14 showing detailed computation of customs exemptions granted on monthly basis, 2007-2008 is attached.

8.0 Activities of the Departments in 2008

8.1 Activities by Departments in 2008

8.2 Achievements in 2008

8.3 Constraints in 2008

8.4 Strategies for 2009

9.0 Strategies to Enhance Revenue collection in 2009

The NRA plans to embark on a number of strategies by agency during the year among which includes the following:

9.1 Income Tax Department (ITD)

The department shall embark on the following during the remaining months in 2009:-

- Intensify arrears collection and enforce penalties in order to improve compliance.
- Intensify audit of all tax categories, especially
    - i) Corporate
    - ii) PAYE
    - iii) Restaurant
    - iv) Foreign travel
    - v) Withholding rents
    - vi) Hotel and guest house bed tax
    - vii) Winning of lottery bet of Le500,000 and above

List of all companies/institutions slated to pay these taxes with the amount paid shall be closely monitored and made available to the Monitoring, Research and Planning (MRP) Department for further analysis at the end of each quarter.

In addition, the MRP shall continue the regular monitoring of performance vis-à-vis targets set for all outstations/tax districts.

9.2 Customs & Excise Department (CED)

i. Effort shall be made with assistance from the Ministry of Finance and Economic Development (MoFED) to ensure that the Sierra Leone Maritime Administration (SLMA) account for all revenues collected in respect of freight levy and that same is transferred to the CF through the CED (department).

ii. With the restoration of import and excise duties on petroleum products, the department shall closely monitor all petroleum sales (dutiable and non-dutiable) in order to minimize revenue leakage.

iii. The Authority will open the newly refurbished border posts of Koindu and Zimmi which shall be more effective in facilitating trade between Sierra Leone and Liberia.

iv. Revenue shall be enhanced with the elimination of the presumptive tax system by end April, 2009. The full impact of implementing this tax system for three months (February-April, 2009) will be ascertained at the end of April, 2009.

v. Discuss with the MoFED to facilitate up-front payment of customs duty for goods imported by all MDAs. Prompt entry of all transactions should be encouraged to reflect the period during which the transaction took place rather than settling it at a later date, if journal entry is to be encouraged.

vi. Enforce payment of tax arrears with application of interest and penalties for late payment. This is anticipated to improve prompt revenue collection of the department.

vii. Reduce annual turnover threshold from Le200 million to Le150 million for all manufacturing companies that pay domestic sales tax on locally manufactured goods. The expected revenue from this source is Le1 billion.

viii. The department will also intensify regular patrols of our borders through the Preventive Services and Special Duties (PSSD) in order to curb smuggling.

ix. The department shall strengthen post clearance audits of all importations.

9.3 Non-Tax Revenue (NTR) Department

Effort shall be made to strengthen relationship with MDAs on the following:

i. Work closely with the Ministry of Employment, Labour and Social Security (MELSS) to carry out a registration drive of all factories, so as to update our records.

ii. Set up a joint task force with the MELSS and the Immigration Department to enforce collection of both work and residential permits including arrears for 2008.

iii. In order to reverse the collection and retention of revenues by MDAs, the Government through the MoFED should issue a circular/policy pronouncement restraining officials of MDAs from collecting revenues on behalf of NRA, but rather to direct all such payments to NRA Collectors stationed in the MDAs.

In addition to the above, the Monitoring, Research & Planning (MRP) Department shall embark on:

i) Factory monitoring in order to determine their potential to meet the revenue challenges.

ii) Monitoring the compliance level of all factory operations

iii) Monitoring payments on permits in line with the agreed payment plans as already emphasized by the CED.

10.0 RECOMMENDATIONS

On the basis of the aforementioned reasons for the shortfall in the 2008 domestic revenue relative to target, the following are recommended as possible solutions for the immediate future:

i. Implementation of Outstanding policies: there were certain policies measures approved in the Finance Act 2008 to bring all off budget revenues into the CF through the Non-Tax Revenue Department. This action would have improved the revenue GDP ratio. It is also relevant to speedily process the Finance Bill 2009 which will correct all irregularity in the previous Finance Acts.

ii. Closely monitor duty free: Now that the responsibility of granting duty free and tax concession has been transferred back to the Ministry of Finance and Economic Development it is worthwhile to closely monitor the granting processes and that be followed by detailed analysis.

iii. Intensify audit on Corporate and PAYE taxes, and also the taxes paid on local calls as the technology has changed from printed top-up cards to electronic credit transfer audits. Also, all audit reports should be disseminated to Heads of Department and be discussed in Management meetings.

iv. Follow-up on the registration of foreign commercial workers: NTR to prepare status report on the statistics of foreign workers registration which was planned to commence in 2008.

v. Control Smuggling: the Preventive Services and Special Duties (PSSD) should intensify the border patrol and submit regular report.

vi. Suspend granting of duty-waiver to organizations on the basis of bilateral agreements until these agreements are enacted by parliament.

vii. Improve energy (electricity and water) supply to industries/firms in a bid to reduce their cost of production and hence promote profitability. However, the shortage of electricity supply will soon be a thing of the past with the completion of the Bumbuna Hydroelectric project.

viii. Ministry of Finance to consider recommendations (See reasons for 2008 NTR revenue shortfall) made on remittance of arrears from sale of visa stickers by Foreign Missions.

ix. Arrears list of tax liabilities and non-tax revenues should be prepared and regularly updated and forwarded with recommendations to the Commissioner-General for appropriate actions.

x. The Board Secretariat and Legal Affairs (BSLA) Department of the NRA to take legal actions against the various businesses and institutions owing NRA including parastatals whose arrears have still not been settled.

xi. Engagement of factories and industries owners to discuss problems affecting their businesses. This will act as one of the basis of discussing with our development partners the nature of business climate of the country.

xii. Also engagement of importers on similar grounds.