

**ANNUAL REPORT**

**JANUARY - DECEMBER 2010**



**PREPARED BY**

**MONITORING, RESEARCH & PLANNING DEPARTMENT**

**NATIONAL REVENUE AUTHORITY**

**April, 2011**

## ***1.0 Introduction***

The central government of every nation has a tradition and primary responsibility to their citizenry to provide basic necessities, such as hospitals, schools, good road network and services such as defense, electricity (power supply), maintenance of law and order, finance development agenda etc. All these hinge on the ability of government to generate and or raise revenue to support and finance its development agenda. The sources of government revenue\income are taxes, fines, fees charges, grants, loan, donation etc.

Of the above sources, taxes are the most reliable source of government revenue to finance its domestic expenditures. The tax rate needs to be reduced and expand its base to increase domestic revenue mobilization through an effective, and efficient direct taxation system. Also, as Donors are becoming fatigue, there is need for government to strengthen domestic tax systems of the country to help finance and support their development agenda rather than their donor.

On the basis of the above, the government of Sierra Leone decided to establish the National Revenue Authority (NRA) with the mandate to assess and collect tax and non tax revenues on behalf of the government; administer and enforce laws relating to the national revenue and to make consequential amendments to certain laws relating to revenue and other relating matters. The Authority was also established to minimize revenue leakages, protects the importation of harmful and contraband products in the country and increase tax base to support government development programmes in an investment friendly environment. (National Revenue Authority (NRA) Act 2002). The NRA Act, 2002 (Act No.11) mandated the NRA to collect both direct and indirect tax revenues, and subsequently, to take over the responsibility for the collection of non-tax revenues and the operations of the Gold and Diamond Department<sup>1</sup>. Given this mandate, the Authority considered this best practice to aim at maximizing revenue mobilization.

Sierra Leone's tax system and administration have undergone significant changes since 2003 to date. Specifically, the Authority has undertaken series of tax reforms ranging from the

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<sup>1</sup> *The Gold and Diamond Department has been taken over again by the central Government in 2007. It's no longer under NRA*

formation of the Non Tax Department (NTR), launching of the Automated System for Customs Data (ASYCUDA++), implementation of the Goods and Services Tax (GST) and the recently established Domestic Taxes Department (DTD); all aim at maximizing revenue collection objective of the Authority.

As part of the Modernization Programme, the Domestic Taxes Department (DTD) when fully integrated in June, 2011 will be responsible for the administration of taxes on incomes, local consumptions and production. Taxes to be administered under DTD include GST/VAT, Corporation Tax, PAYE, Local Excise and Withholding taxes. The department will be also responsible for the collection of motor vehicle fees, stamp duties and the non tax revenues that are currently collected by the Non Tax Revenue (NTR) Department of the Authority.

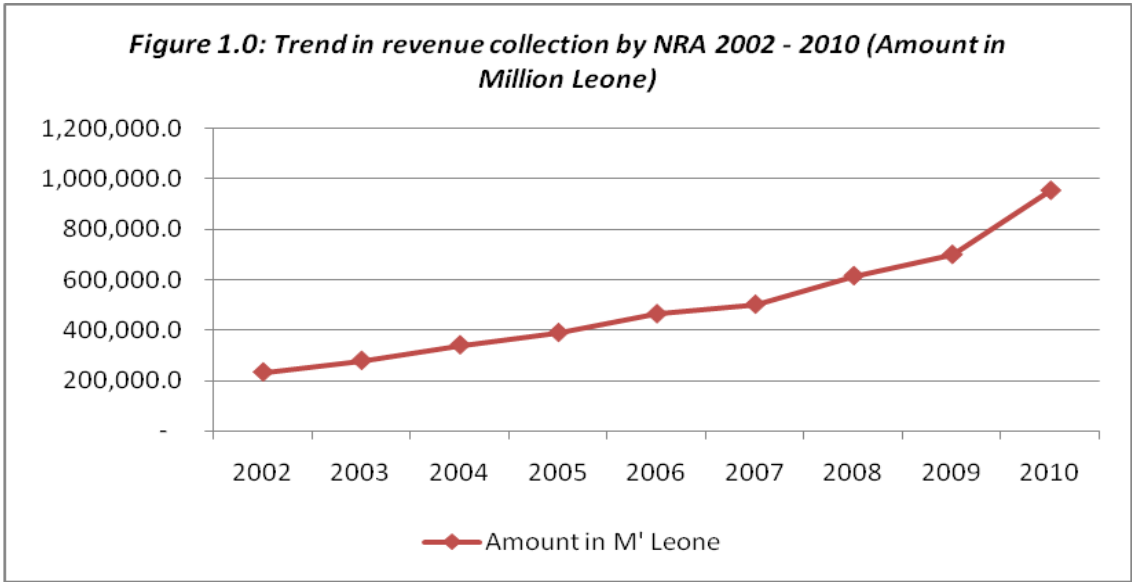
## ***1.2 Overview of 2010 Macroeconomic Performance***

### ***2.0 Trends in NRA Revenue Performance 2002 – 2010***

Over the years, the NRA has made tremendous efforts to improve on its effectiveness and efficiency in collecting revenue to meet government fiscal target. From 2002-2010, domestic revenues (excluding road user charges) have grown considerably from a low base of Le231.7 billion in 2002 to Le955.6 billion in 2010 (i.e. by 312.3%). In constant US dollar terms revenue since 2002 had been steadily grown and continued in 2010. Between 2002 and 2003, revenue increased from US\$110.4 million to US\$118.4 million. Having collected US\$134.7 million in 2005 and US\$156.6 million in 2006, revenue collection of the NRA recorded an increase of US\$21.9 million or 16.3% within these two years. Revenue collection of the Authority improved from US\$168.2 million in 2007 to US\$206.5 million (i.e. by 22.8 %) in 2008, slightly increased to US\$206.9 million (by 0.2 %) in 2009 and moderately increased to US\$242.6 million in 2010. As noticed the highest and the least revenue growth rate in US dollar terms was recorded in 2008 and 2009 respectively.

In 2010, despite the fact that the Authority’s 2010 revenue target was set and revised three times in the year, NRA moderately surpassed its revised target of Le930.5 billion by Le25.2 billion (or 2.7%). See Annex 1 attached. This collection represents 12.6% of the annual GDP exceeding the target GDP percentage of 12.4% by 0.2%. The revenue GDP ratio achieved in 2010 slightly exceeded that in 2009 (10.7%) by 1.9%. The Authority’s outstanding revenue performance in 2010 was as a result of key revenue reform measures and strategies undertaken to revitalise and sustain collection.

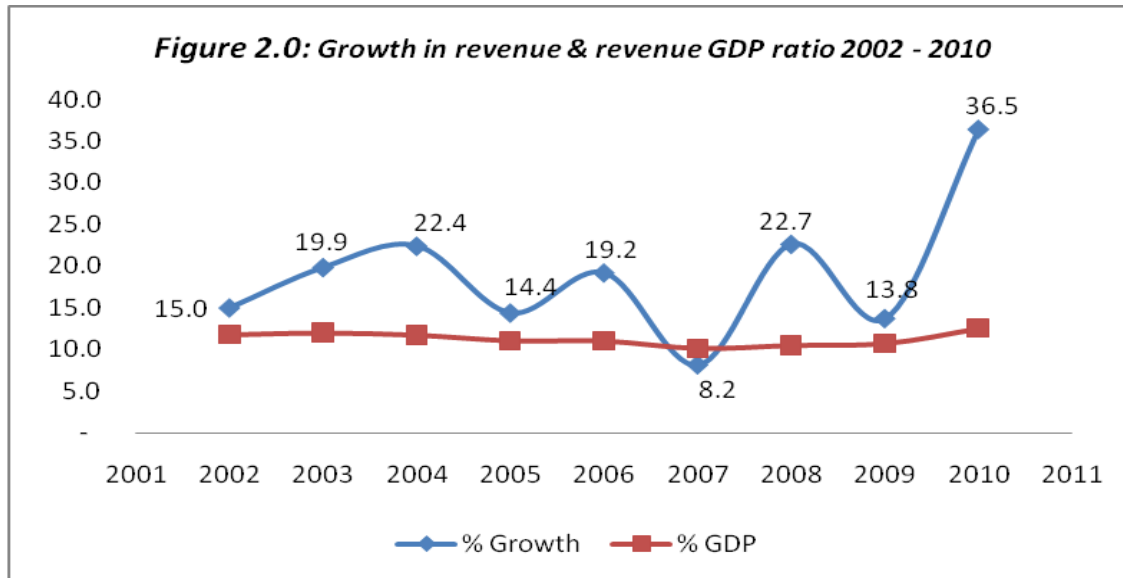
**Figure 1.0** below depicts trends in revenue collection by the Authority from 2002 to 2010.



**2.1 Growth in Revenue Performance: 2002 -2010**

The National Revenue Authority’s actual revenue collection (excluding road user charges) grows significantly from a low base of Le231.7 billion in 2002 to Le955.6 billion in 2010 (112.3%). Growth in domestic revenue performance by the Authority recorded highest growth in 2010 as revenue grows by 36.5% compared to a 13.8% growth reported in 2009. Second and third highest revenue growth were reported in 2008 (22.7%) and 2004 (22.4%). However, the least revenue growth was experienced between 2006 and 2007 in which the Authority’s revenue grew by a single digit of 8.2%.

Figure 2.0 below provides a comprehensive revenue growth and revenue GDP ratio analysis of the Authority’s actual revenue performance from 2002 to 2010.



NRA tax revenue performance with respect to GDP has been impressive over the years. Total tax revenue GDP ratio increased from 11.8% in 2002 to 12.0% in 2003 stagnated at an average of 11.3% between 2004 and 2006, declined to 10.1% in 2007, slightly increased to 10.7% in 2009 and harshly improved to 12.6% in 2010.

***Domestic Revenue Performance: January – December, 2010***

Despite the fact that the Authority’s 2010 revenue target was set and revised three times in the year, NRA surpassed its revised annual target of Le930.5 billion by Le25.2 billion (or 2.7%) as total revenue collected and banked by the revenue collection agencies of NRA in 2010 amounted to Le955.7 billion or US\$242.6 million<sup>2</sup>. This revenue represents 102.7% of the Authority’s revised annual target and, 12.6% of the annual projected GDP of Le7,605.3 billion. Of the period’s collection, Customs and Excise Department (CED) collected Le322.8 billion (33.8%), Income Tax Department (ITD) collected a total of Le303.0 billion (31.7%), Goods and Services Tax (GST) department Le246.4 billion (25.8%), and Non-Tax Revenue (NTR) Department reported Le83.5billion (8.7%). Detailed analysis is shown in Table 1.0 below.

<sup>2</sup> The average official exchange rate of Le3,938.55 per USA\$ is used.

**Table 1: Revenue Performance: January – December, 2010 (Amount in Million Leones)**

	Actual (Jan - Dec)	Revised Annual Target	Surplus	% of target collected	% Cont. to Total Collection	Revenue as % of GDP
<b>Total NRA Revenue</b>	<b>955,663</b>	<b>930,494</b>	<b>25,169</b>	<b>102.7%</b>		<b>12.6%</b>
Income Tax Revenue (ITD)	303,026	236,434	66,592	128.2%	31.7%	4.0%
Goods and Services Tax (GST) O/w:	246,362	249,992	3,630	98.5%	25.8%	3.2%
Import GST	136,705	170,753	(34,048)	80.1%		
Domestic GST	109,657	79,239	30,418	138.4%		
Customs & Excise Revenue (CED) O/w:	322,819	341,349	(18,530)	94.6%	33.8%	4.2%
Non-Tax Revenue (NTR) O/w	83,456	102,719	(19,263)	81.2%	8.7%	1.1%
Mines Revenue	24,190	31,152	(6,962)	77.7%		
Other Departments	59,266	71,567	(12,301)	82.8%		
<b>Nominal GDP</b>						<b>7,605,300</b>

### **3.0 Domestic Revenue Performance: 2010 Target Vs Actual Collection**

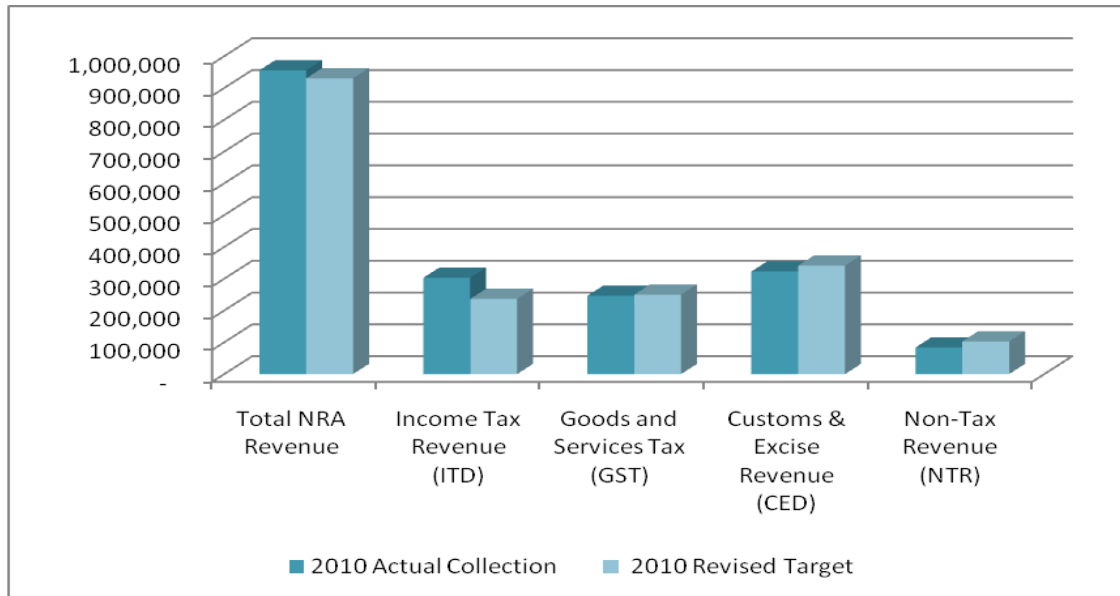
As depicted in Table 1.0 above, domestic revenue collection exceeded its revised annual target of Le930.5 billion<sup>3</sup> by Le25.2 billion (or by 2.7%). The individual Agency's revenue performances relative to their respective annual targets indicate that only Income Tax Department (ITD) out the current four (4) operational departments surpassed its targets during the period. ITD actual collection surpassed its annual target of Le236.4 billion by Le66.6 billion (28.2%). NTR, CED and GST fell short of their respective annual targets of Le Le102.7 billion, Le341.3 billion and Le250.0 billion by 18.8%, 5.4%, and 1.5% respectively.

From the above analysis, it's no doubt that the overall revenue over performance reported by the Authority for the period is as a result of the impressive performance by the ITD.

**Figure 3.0** below further depicts the extent to which the Agencies surpassed their 2011 Q1 targets.

<sup>3</sup> This target was set during IMF Mission visit to Sierra Leone in September, 2010

**Figure 3.0: Revenue Performance: 2010 Target Vs Actual (Amount in Million Leones)**



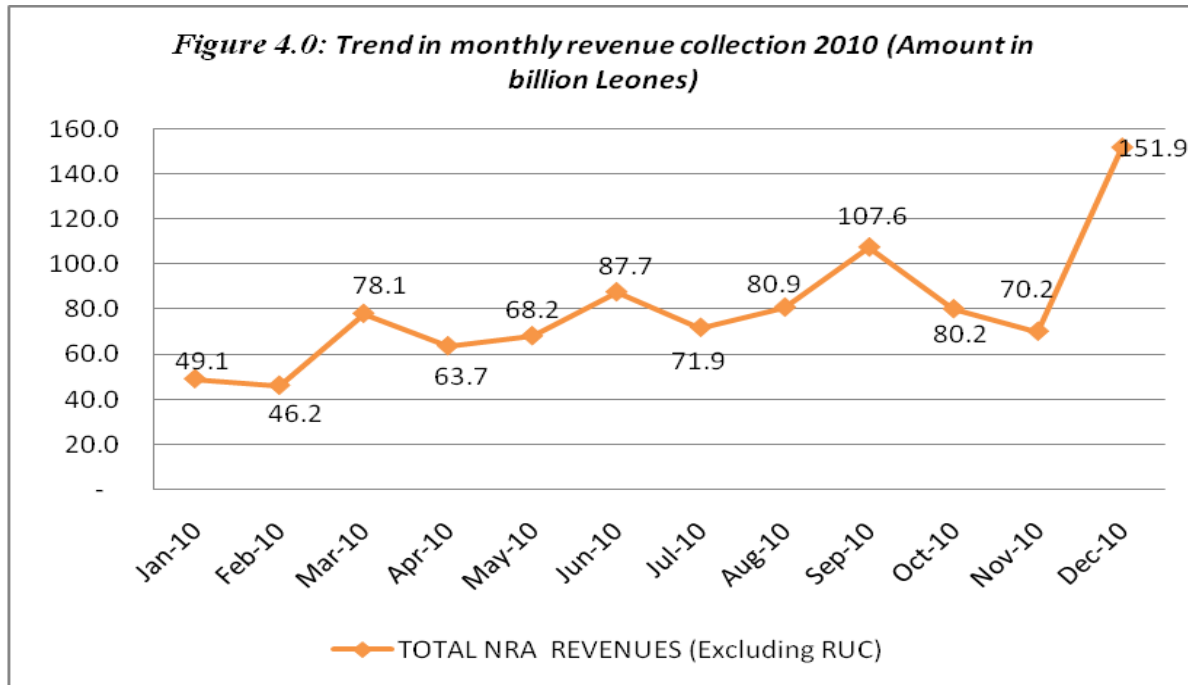
### **3.1 Trends in 2010 Revenue Performance**

Trend in the monthly revenue collection of the Authority for the period shows fluctuation in monthly revenue collection throughout the year in which the highest revenue (Le151.9 billion) was reported in December, second highest (Le107.6 billion) in September and the least (Le46.2 billion) in February.

On a quarterly basis, NRA quarter (Q1) revenue collection dropped from January to February and sharply increased over 100% in March. Compared to Q1 monthly revenue trend, quarter two and three (Q2 & Q3) monthly collection trend show a dissimilar pattern as collections steadily increase in each quarter. Quarter four (Q4) shares similar monthly revenue trend with Q1 in which collection falls in the second month of the quarter and drastically rise in the last month of the quarter.

However it must be noted that in all quarters, collection increases abnormally in the last month of each quarter. This in part may be due to the fact that collection agencies doubled up their collection efforts in the last month of each quarter in order to meet their targets.

**Figure 4.0** below shows trends in the monthly revenue collection by the Authority from January to 31<sup>st</sup> December, 2010.



**Source:** NRA Collection Departments

#### 4.0 Comparative Revenue Performance: 2010 vs. 2009

Comparing revenue performance in 2010 to that in 2009, the Authority's total revenue collection significantly increased by Le255.3 billion (36.5%). This overwhelming revenue performance in 2010 move revenue GDP ratio from 10.7% in 2009 to 12.6% in 2010; a 1.9 percentage point. With respect to the individual revenue agencies, ITD 2010 collection (Le303.0 billion) even when five (5) revenue streams (Restaurant tax, Message tax, Hotel accommodation tax, Entertainment tax and professional tax) were no longer collected by the department, still surpassed its collection in 2009 (Le213.0 billion) by Le90.0 billion or 42.2%.

Similarly, revenue collection from Mines and Other Departments of the Non Tax Revenue Department (NTR) increased from 2009 to 2010 by 19.6% and 23.8% respectively; hence NTR revenue intake improved over 2009 by 22.6%.

Even though CED collected the highest revenue for both periods, 2010 collection by this Department dropped by 23.0% compared to 2009. This underperformance however cannot be



over emphasized, since the department is no longer collecting and accounting for Import sales tax (IST) previously collected by the department. This tax (IST) is now collected and accounted for under the GST as imported GST. However, assuming that CED was still collecting and accounting for IST as in the case of 2009, the department's 2010 collection would have stood at Le459.5 billion which exceeded 2009 collection by Le40.3 billion or (9.6%). See **Table 2.0** for detailed analysis. Note that there was no GST in 2009.

**Table 2.0: Revenue Performance: 2010 vs. 2009 (Amount in Million Leones)**

	<b>2010 Actual</b>	<b>2009 Actual</b>	<b>Difference</b>	<b>% Growth</b>
<b>Total NRA Revenue</b>	<b>955,663</b>	<b>700,328</b>	<b>255,335</b>	<b>36.5</b>
<b>Income Tax Revenue (ITD)</b>	<b>303,026</b>	<b>213,043</b>	<b>89,983</b>	<b>42.2</b>
<b>Goods and Services Tax (GST) O/w:</b>	<b>246,362</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Import GST</i>	<i>136,705</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Domestic GST</i>	<i>109,657</i>	<i>-</i>	<i>-</i>	<i>-</i>
<b>Customs &amp; Excise Revenue (CED) O/w:</b>	<b>322,819</b>	<b>419,191</b>	<b>-96,372</b>	<b>-23.0</b>
<b>Non-Tax Revenue (NTR) O/w</b>	<b>83,456</b>	<b>68,094</b>	<b>15,362</b>	<b>22.6</b>
<i>Mines Revenue</i>	<i>24,190</i>	<i>20,224</i>	<i>3,966</i>	<i>19.6</i>
<i>Other Departments</i>	<i>59,266</i>	<i>47,870</i>	<i>11,396</i>	<i>23.8</i>
<b>Nominal GDP</b>	<b>7,605,300</b>	<b>6,537,051</b>	<b>1,068,249</b>	<b>16.3</b>
<b>Revenue as % GDP</b>	<b>12.6</b>	<b>10.7</b>	<b>1.9</b>	<b>17.3</b>

*Source: NRA Collection Departments*

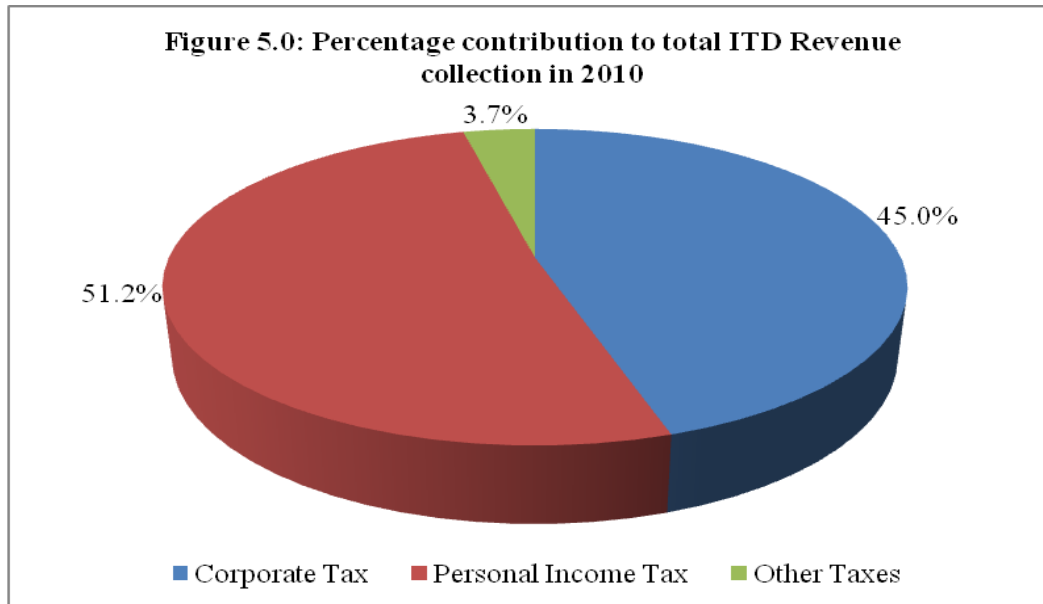
## **5.0 Revenue Performance by Agency and by Revenue Handles**

Analysis of collection Agencies' revenue performance with respect to the various tax handles are provide below:

### **5.1 Income Tax Department (ITD)**

Receipts from Income Tax Department (ITD) for this period amounted to Le303.0 billion which exceeded its annual target of Le236.4 billion, by Le66.6 billion (28.2%). This revenue represents 31.7% of total NRA revenue collection and 4.0% (second highest) of the year's Gross Domestic Product (GDP).

As shown in the Figure 5 below, the highest revenue is recorded from the personal income tax accounting for 51.2%, followed by corporate tax (45.0%) and other taxes (3.7%). **Figure 5.0** provides percentage contribution of main revenue sources to total ITD collection in 2010



Analysis of individual revenue streams under personal income tax revealed that, PAYE for Non-Government workers accounted for 50.6%, Withholding Personal 27.6%, and PAYE for Government workers 17.5%. The least contributors in this tax category are 10% withholding tax on rent and payroll tax, each contributing 3.4% and 0.9% respectively.

In the case corporate tax, Withholding 5% tax on Non-Government contracts contributed the highest (53.6%) followed by company tax and withholding 5% tax on Government contracts accounting for 40.2% and 6.2% respectively.

In respect of revenue collected from 'Other taxes', revenue from Foreign Travel Tickets contributed the highest (49.6%) followed by Arrears from taxes previously collected by ITD with percentage contribution of 49.5%. Gambling/betting/lotteries and Penalty payments insignificantly contribute to this tax handle as 0.5% and 0.4% are respectively reported as their donation to 'Other taxes' revenue for the period.

### 5.1.1 Reason for ITD Revenue Performance

ITD Revenue over performance in 2010 was as a result of the following reasons:

- **Lump-Sum Payments:** Two lump sum payments which were not anticipated at the time of setting the target were received; these include Le24.5 billion in respect of outstanding PAYE paid by the African Minerals and Le34.1 billion as capital gains tax on the sales of oil block paid by Woodside Energy.
- **Intensification of audit:** A total of 49 audit cases identified, 39 were investigated finalized, while 10 are currently being processed to be finalized. Additional revenue raised from the finalized cases amounted to Le16.8 billion; of which Le9.5 billion was mobilized through pilot risk-based audit programme recently set up by ITD.
- **Effective enforcement and debt collection:** Of total ITD debt stock of Le33.2 billion submitted to the Enforcement and Debt Management Unit (EDMU) for arrear collection, Le8.5 billion (25.7%) was collected leaving an outstanding debt of Le24.7 billion. See **Table 3.0** for specific categories of these arrears and **Annex 2** for detailed analysis

**Table 3.0: Summary of ITD arrears stock as at end 2010(Amounts in Millions of Leone)**

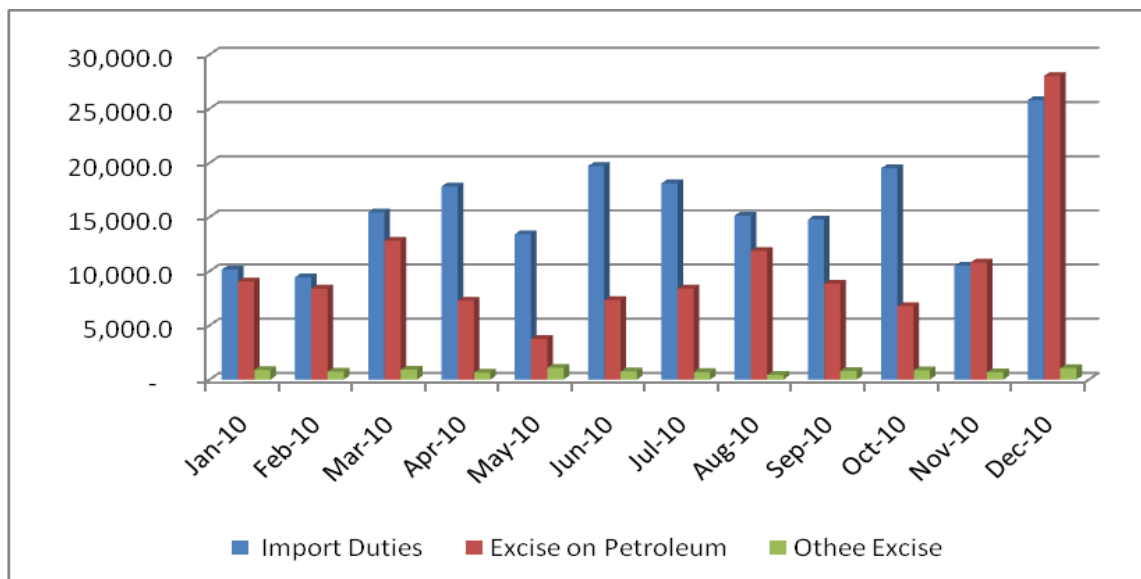
Category of Arrears	Total Liability	Debt paid (Le)	Debt Outstanding
Government Parastatals	26,409.0	3,566.5	22,842.4
Private Individuals	6,797.5	4,952.0	1,845.5
<b>Total</b>	<b>33,206.5</b>	<b>8,518.5</b>	<b>24,687.9</b>

- **Improved staff motivation and capacity building:** The department embarked on close collaboration between staff and supervisors, on-the-job training, mentoring and coaching. Additionally, a total of seventeen (17) Audit staff from ITD benefited from the risk – based audit mentoring support programme, 13 in field and 4 on risk profiling.
- **Intensification of robust outdoor collections:** Staff of the department regularly paid visits to some taxpayers so as to educate and remind them about their tax obligations.

## 5.2 Customs & Excise Department (CED)

Customs and Excise Department (CED) overall collection excluding freight levy<sup>4</sup> amounted to Le322.8 billion for the period in question. Comparing this performance to programme's annual target of Le341.3 billion, the Department recorded a shortfall of about Le18.5 billion (5.4%). The Le322.8 billion collected by CED represents 33.8% total NRA collection and 4.2% of GDP. Though the department did not meet its annual target, but in terms of individual contribution to the total revenue collected by the Authority, it ranks the highest.

**Figure 6.0: CED revenue performance by tax stream: January - December 2010 (Amount in Million Leones)**



Analysis of revenue streams under CED indicates Import duty as the highest (58.8%) contributor to the total CED collection, followed excise on petroleum 38.2%. However, other excise revenue stream of CED made a minimal contribution as low as 3.0%.

**Figure 6.0** above depicts revenue performance by CED revenue streams from January to December, 2010. From the figure CED monthly revenue collection in respect of Import Duty has being the highest except for the months of November and December in which monthly revenue in respect of Excise on petroleum exceeded that of Import duty. The figure also reveal

<sup>4</sup> Collection from freight levy amounting to Le7.1 billion is recorded in this report as a Non-tax revenue

fluctuation in monthly revenue collection for each of the tax streams but however shows highest collection in the month of December for import duty and Excise on petroleum. In the case of other excise, the highest revenue collection amounting to Le1.09 billion was recorded in the month of May. For more details, see figure 6.0.

### **5.2.1 Reason for CED Revenue Performance**

The Customs and Excise Department could not meet its revised annual target as a result of two main external factors as follows:

- Excessive granting of duty waivers – while CED revenue GDP ratio stood at 4.2%, import duty exemption to GDP stood was 3.5%. Of more concern is discretionary waiver which increased from Le1.6 billion in 2009 to Le19.5 billion in 2010. Specifically, the discretionary concession reported in 2010 represents 7.3% of the year's total duty free granted and 6.1% of the total revenue collected by CED for the same period.
- Available statistics show that as at end 31<sup>st</sup> December 2010, over two thousand containers were stock-piled at the port waiting to be cleared due to lack of equipment, especially forklift which is very crucial for the clearance of container.

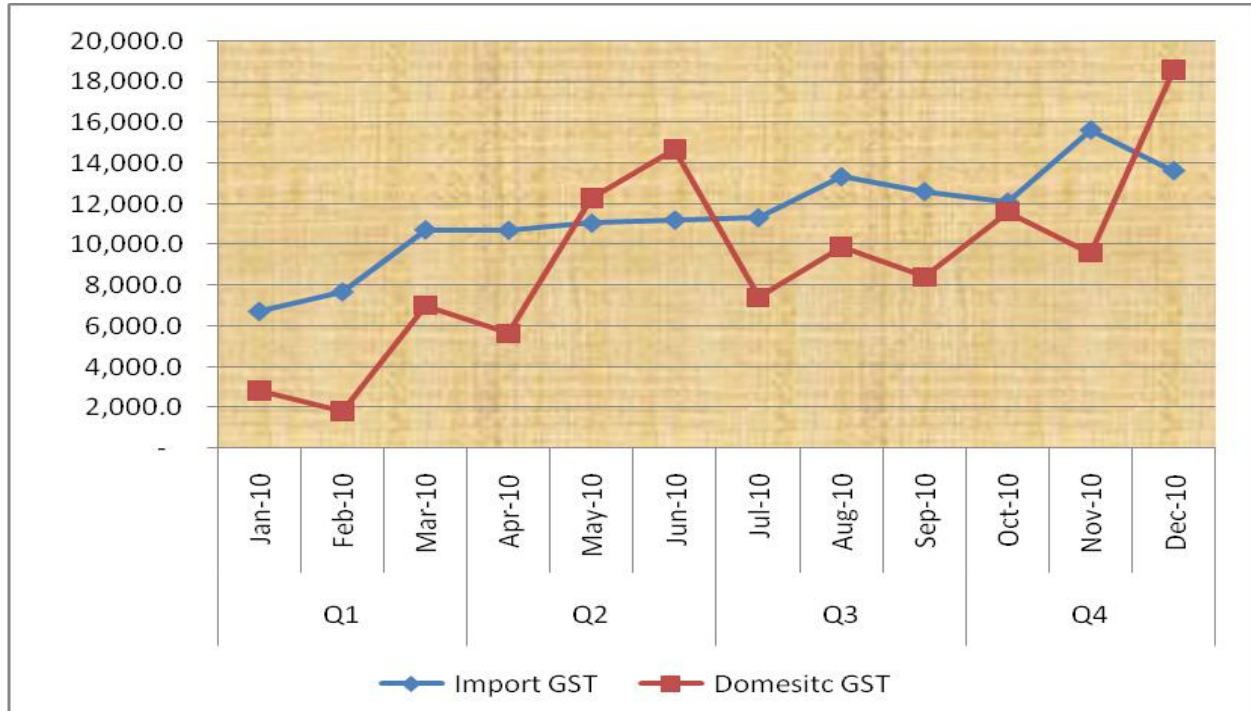
### **5.3 Goods and Services Tax (GST)**

Being relatively new, the GST Unit was able to collect a total of Le246.4 billion out of its yearly revised target of Le250.0 billion, recording a shortfall of Le3.6 billion (or 1.5%). The Unit's performance during the period represents 25.8% of NRA's overall revenue collection and 3.2% of national GDP. GST Unit would have exceeded its revised target by Le4.4 billion had the transit banks remitted monies collected and banked at the end of December, 2010 in to the Consolidated Revenue Fund (CRF).

Like other operational departments, GST has two (2) main categories of revenue streams – Namely the Import Goods and Services Tax (Import GST) and Domestic Goods and Services tax (Domestic GST). While the former is collected by CED on behalf of GST Unit, the later is exclusively collected by the Unit itself. Revenue from 'Imported GST' accounted for 55.5% of total GST collection whilst the Domestic GST contributed 45.5%. The behavior of these tax

handles in respect of their monthly revenue collection for the period is shown in **Figure 7.0** below.

**Figure 7.0: GST revenue performance by tax stream: January - December 2010 (Amount in Million Leones)**



Trend in the monthly revenue collection by GST revenue streams for the period shows fluctuation throughout the year for both revenue stream but get worse in Domestic GST. In quarter one (Q1), Domestic GST started as low as Le2.8 billion, significantly

On a quarterly basis, NRA quarter (Q1) revenue collection dropped from January to February and sharply increased over 100% in March. Compared to Q1 monthly revenue trend, quarter two and three (Q2 & Q3) monthly collection trend show a dissimilar pattern as collections steadily increase in each quarter. Quarter four (Q4) shares similar monthly revenue trend with Q1 in which collection falls in the second month of the quarter and drastically rise in the

### **5.3.1 Reason for GST Revenue Performance**

With the reflection of Le8.0 billion paid on the 31<sup>st</sup> December 2010 into the Consolidated Revenue Fund (CRF) account, the GST Unit exceeded its revised target by Le4.4 billion. Below are reasons for this impressive performance:

- **Staff Training:** Having given over two months induction training GST staff remained proactive and robust in their revenue collection drive.
- **Intensified sensitization campaigns:** The unit embarked on sensitization programmes before, during and even after the introduction of the tax across the country. This brought more taxpayers in to GST tax net thereby maximizing collection by the unit. The unit currently has 2,017 taxpayers base as at end December, 2010 and over 60.5% of files were returned for the period.
- **Intensification of Audit:** The unit identified a total of 31 audit case, out of which 24 cases were finalized. 7 cases are currently in progress. Additional liability amounted to Le2.5 billion (including penalties) was established.
- **Enforcement and Debt Management:** Collection enforcements such as sealing-off of business premises of defaulters and imposition of penalties for late payment of GST and late filing of returns were used as key enforcement tools for the period. Upon the establishment of total GST debt stock of Le1.2 billion, 70 notices of intentions to seal off business premises were issued. Out of these, 52 (74%) responded by submitting

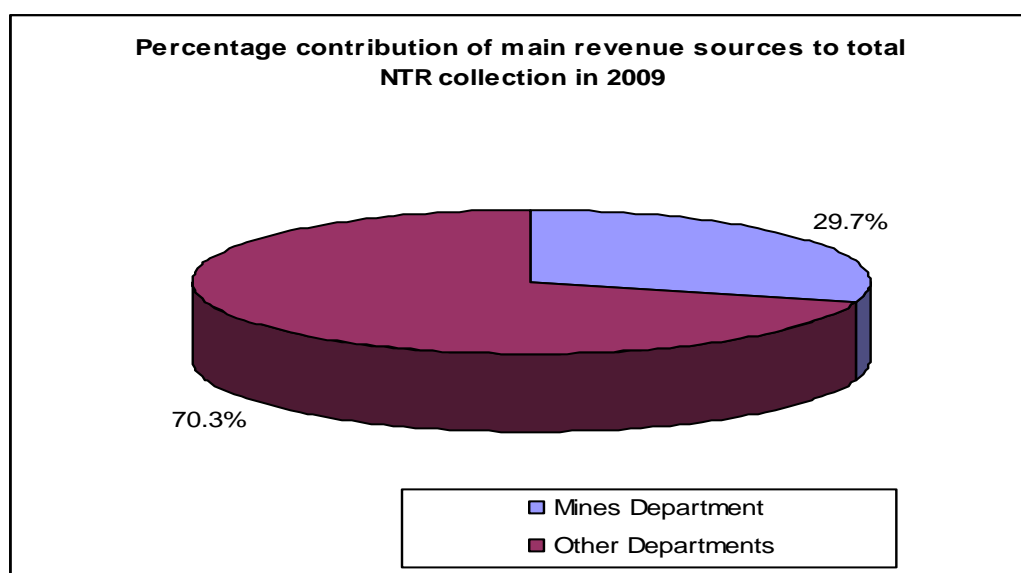
their GST returns. An amount of Le0.7 billion representing 58% of the total debt stock was recovered.

- **Physical Surveillance at the premises of taxpayers:** This act was initiated during the period and an amount of Le0.4 billion was recovered through this initiative

### 3.3.2 Non-Tax Revenue Department (NTR)

Like other revenue collecting agencies in the Authority, NTR surpassed its annual target by Le11.199billion (19.7%). Revenue from ‘Other Departments’ accounted for 70.3% of total NTR collection whilst the Mines Department contributed 29.7% (see Figure 6).

**Figure 6: Percentage contribution of main revenue sources to total NTR collection in 2009.**



Of the total collection by the Mines Department, revenue from licenses recorded the highest (72.0%), followed by Royalties on Diamonds (9.4%); royalties on Gold recorded the least, contributing 1.3%.

There are twenty-one sub-revenue sources under Other Departments. The highest contributors are Ministry of Information (31.9%), Ministry of Agriculture (13.5%), and Immigration (11.9%) whilst the least collection is from Births and Deaths accounting for only 0.1% of revenue from that category.



