

Economy of Ghana Network  
Public Sector Economics Forum

**Topic: Improving Tax Revenue Targeting**

**The Revenue Target Paradox**

The ability of revenue-collecting agencies to exceed their targets year-in-year-out is raising questions about the extent to which the national tax effort could be improved. The process of setting revenue targets involves the revenue agencies, operating through the Revenue Agencies Governing Board (RAGB), and the Ministry of Finance and Economic Planning (MFEP). However, it appears the process is not entirely transparent.

Revenue targets are set during the fourth quarter for the ensuing year. Based on past trends, collections up to the end of the third quarter and the general economic environment, the RAGB makes proposals to the MFEP on targets for the following year. The MFEP puts forward a counter-proposal using variables that it might not disclose to the RAGB at that time. There is usually a negotiation between the RAGB and MFEP to establish targets that are acceptable to all. The approved targets are usually higher than those proposed by the RAGB but lower than or equal to the proposals from MFEP.

One aspect of the paradox is that revenue agencies are motivated to exceed the negotiated targets by a retention scheme that allows them to keep 3% of total collection for administrative costs. Thus, the revenue retention regime could be discouraging full disclosure of potential tax effort. Similarly, the possibility that the MFEP holds back information from the agencies with respect to prime factors in its own target-setting process may facilitate agreement on targets that are lower than potentially achievable. When these targets are met and exceeded, the MFEP can claim this as evidence of policy success.

What is unclear is whether or not the positive outcome is exploited to the advantage of the agencies and MFEP, or to the detriment of the state, or both. Some will argue that since the revenue targets are exceeded as a result of the current arrangement, the state has benefited from the arrangements. It is hoped that further studies will establish the extent to which managements of the revenue collection agencies, the RAGB and the MFEP do or do not withhold information from each other, and also clarify the advantages or disadvantages of the current arrangement.

The write up above is a box in ISSER's State of the Ghanaian Economy in 2004. A number of recent news items including the following point to the importance of tax revenue collection and some factors that may affect tax revenue targets:

- Commissioner of CEPS has been briefing the various collection points in the course of January. He indicated that CEPS has engaged its stakeholders,

- especially the private sector in an effort to improve revenue collection. The engagement with stakeholders is expected to yield a number of benefits including improvement in the level of tax compliance, access to information and technical advice, expansion of GCNet facilities, improved incentives for efficiency, and overall reduction in the cost of tax collection
- IRS staff embarked on industrial action to back their demand for among other things, a return to revenue retention scheme, which will guarantee their ability to provide logistics and improve conditions of service. It was estimated that government was losing ₦17.6 billion per day during the period of the strike.
  - Ashanti regional minister appealed to the VAT service to educate informal sector businesses that hit the VAT threshold to secure their co-operation. He observed that most of such companies in the Northern sector obtain their goods from the South where they are often not issued with VAT receipts.
  - GUTA and AGI called on government to abolish the operations of inspection companies, suggesting that their operations are counter productive.
  - Destination Inspection companies on their part argued that their operations had exposed importers who faked documents to avoid paying taxes to the state.
  - The government is to explore ways of providing tax incentives in order to attract companies to develop secondary market for gas from the West African Gas Pipeline project.

All the items listed have implication for the ability of Revenue Agencies to meet their revenue targets. Politicians have earlier on hinted about their intentions to wean the country off IMF budgetary support which makes improve revenue generation top on the agenda of MFEP. The question is how does the above observation affect revenue generation and the revenue targeting process in particular? How much more do we need to know about the revenue targets and how can the tax revenue target setting process be improved?