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**High-Quality Research Support (HQRS) Programme**

**Assessing Tax Administration by the Ministry of Finance: The Case of Somaliland**

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## Introduction

The concept of tax in general means the obligatory contribution of taxpayers to government with this tax is used by governments to finance their activities. Tax administration is one of the key responsibilities of government and involves the collection of the different taxes and implementation of different tax laws through its interaction with taxpayers. If tax administration is functioning well then the performance of tax administration is doing well and contributing significantly to the public budget of the government.

If the government attempts the modernization of tax administration in Somaliland it will contribute adequate and timely revenue collection through the enforcement of tax law; therefore the government gives a good service delivery to the citizens; and then the government intervenes and balances the public economics of the country. In developing countries improving tax administration is the matter of poor functioning of their government and every country needs to generate enough revenue. Most African countries have a revenue administration, but it is not functioning well to produce adequate revenue collection and to finance government expenditure.

“For developing countries to benefit from the opportunities afforded by globalisation or to rebound from the blows it may deal out - they must be able to mobilise adequate fiscal revenues. Money alone is not enough; but it is necessary for any state to function, and the most reliable way to get it is with an effective tax administration” (Richard M. Bird, 2015). There are several challenges of accountability and transparency within the tax system and tax policy through tax administration in Somaliland; therefore there are challenges in the implementation of tax laws; enforcement and the creation of public dialogue to satisfy their taxpayers.

This study paper assesses the effectiveness of tax administration by the Ministry of Finance of Somaliland and the problems currently in the tax system of the Ministry. The paper asks, how to influence new acts taken by the Ministry strategy; if government enforced these acts, what are the results of that system? And how is this applicable to achieving national goals of increased collection. This study gathered information through existing literature and primary data from respondents within the finance area.

***Keywords:*** Tax; Tax Administration, Revenue and Ministry of Finance

## **Background**

Somaliland gained its independence in 1991. The Ministry of Finance has been managing both revenue and expenditure of the government and the need to complete day to day government activities through revenue collection. Thus; the Ministry of Finance sustains government operation through the collection of different revenues; and similarly functions concerning the balancing of public finance of the government with economy activity. The Ministry of Finance has 1,500 employees. Within this the Inland Revenue Department has 600 employees. The “Ministry of Finance is based on the mandate of Articles 11, National Economy, and Article 14, Taxes and Duties” of the Somaliland constitution (2000).

Levi’s motivating premise is that the “history of state revenue production is the history of the evolution of the state” (Levi 1988: 1). “The capacity of a country to provide for the welfare and security of its citizens, as well as to develop and consolidate representative democracy, is determined by its ability to raise enough resources. Democracies are not only built on periodic elections, but also on a social contract between governments and citizenry regarding the collection and spending of public revenue”.

In the above introduction and background statements; this study assessed the tax administration of the Ministry of Finance in Somaliland; particularly the effectiveness of the tax system and tax policy existing in the institution. The objective of this study is as follows:

- ✓ To asses basic problems with tax administration by the Ministry of Finance
- ✓ To identify the tax administration system of the Ministry of Finance of Somaliland

## **A brief explanation of the project**

This study has gathered data from interview questions asked of ten interviewees who have concrete knowledge related to public finance and are experienced in this field. This allows the assessment of tax administration by the Ministry of Finance. These interviewees will be asked questions that are required for this study and their answers will be collected as responses for the data. Related information about the study and the data sources of the study are primary data from the questions of the interviewees and secondary data from other products.

The interview concerned different aspects of tax administration, including the general status of tax administration, allocation of budget, problems facing tax administration, the current status of legislation, accountability and new reforms.

This study interviewed participants from different organizations; four from the Inland Revenue department; two from the Ministry of Finance, one from the General Audit Office, two from the Good Governance Commission and Secretary of the Parliament Finance Committee. The study used secondary data as background for the study through different references related to the title of the study.

## **Data Analysis**

This section of the study analyses the data and presents the responses of the interviewees gathered through data collection at the different institutions.

### **The general current status of the tax system of Somaliland**

Four of the respondents are arguing that the current tax system of Somaliland is ineffective so that reform is needed to integrate all principles of taxation; including accountability, transparency, simplicity, fair taxpayer participation; application of tax laws effectively without any influence and to achieve full tax compliance of taxpayers. Another six respondents said there is no current effective tax system in the Ministry of Finance because of the lack of committed of ministers to build these departments or authority. Respondents clearly stated the current status of tax system is inefficient, because the Ministry of Finance isn't giving consideration to the principles and also is not putting input into functioning; therefore if the government abides by principles then the taxpayer is to pay more and enforce incomplete laws.

## **Allocation of Resources to the Tax Administration through Annual Budget**

Ten of the respondents answered this question. Eight of the respondents stated there is annual budget that allocated for all activities of tax Administration; therefore the respondents agree there is an insufficient annual budget in the operation of tax administration; while another two respondents say similarly that their budget isn't sufficient for the activities that are needed by tax administration.

According to the respondents answers the only way that tax administration can continue to exist is to allocate an independent budget from other departments to achieve the vision and the goals of the Ministry of Finance. If the ministry is not allocated its own budget, then the revenue department has not achieved full tax compliance and that is not giving full awareness through education of taxpayers.

## **Problems Faces Tax Administration of Somaliland**

All respondents tried to state the deepest problems facing tax administration; every respondent is different from one problem to another problem and the level of causes changes from one situation to another situation and the existence of tax administration too is problematic. Therefore, all respondents stated these below problems limit tax administration in the Ministry of Finance of Somaliland. Five of the respondents stated there is a "lack of a proper tax administration system which causes less revenue collection, lack of a hierarchical system that facilitates communication and disappointment of the employees". Three of the respondents said that there is an "absence of implementation of tax laws; no one respects the rule of law of the country". Two of the respondents stated that there is a "non-existence of an autonomous agency for revenue. This does not speed up revenue collection and also is not helping set up all the visions of the ministry to raise revenue mobilization".

## **Current Status of Legislation for Reform of Tax Administration**

This question concerned the current status of new legislation for public financial management reform in the Ministry of Finance. Six of the respondents said that the legislation for tax reforms that have been introduced into tax administration are a new achievement of the government; but these laws still lack enforcement amongst public citizens. In addition to that, four of the respondents said these laws would effectively replace the previous tax laws and create a broad based tax and effective tax rate, and also contribute to a modernized tax system including simplicity, fairness and efficiency; and to the building of capacity of the institution. This reform has been attended to by all related areas of public finance.

## **Implication of the Poor System of Tax Administration in Revenue Mobilization**

In generally seven of the respondents said there is a poor tax system and this has implications for revenue mobilization in terms of lack of taxpayer's awareness and through improper tax collection. Another three respondents said there is poor system, but the system needs commitment from political leaders to change it. According to them if the ministry published tax laws and educated taxpayers through different media such as TV, video and radio about taxpayers' duties and rights this could increase taxpayers' compliance with the taxation system.

## **Impacts of New Reform on Accountability in the Somaliland Revenue System**

Seven of the respondents say there is a relationship between the new public finance reforms and accountability in Somaliland revenue system. It promotes public dialogue and accountability. Another three respondents said that lack of transparency in the revenue collection system, the absence of proper feedback regarding revenue collection to citizens and the inappropriate application of tax laws decreased when new tax laws were enforced. In summary, low accountability causes between public institutions and citizens become non-existence. Taxpayers aren't willing to pay tax because of a lack of trust, even if the taxpayer should pay tax. Therefore we can improve through achieving more accountability through tax education, more awareness of the tax system, taxpayer participation and improvement of tax reform that leads to progress and achievement and feedback of taxes to citizens.

## **Is There an Independent Institution for Tax Administration?**

All respondents of this question answered that there are two departments that are responsible for tax collection, Customs and Inland Revenue, and also there is no full autonomy to administrate their responsibility and to implement duties. However; six of the respondents said Somaliland needs to create an institution that deals with tax administration through new public financial management acts. One of that acts concerning revenue act contains different chapters related to revenue enhancement; in the chapter eight explaining revenue authority and how to select their commissionaires, although this acts hasn't enforced as was approved. Four of the respondents indicate that at this time we did not need to establish a new authority of tax administration, instead the need is to improve the system, to enforce laws and to build capacity for staff.

## **Is There a System of Internal Tax Audit in the Inland Revenue Department?**

Eight respondents said there is no tax audit that verifies financial statements of the companies, so that the system needs to adjust into the tax audit. Another two respondents said there is verification of the financial statements, but there is no office specifically for tax audit, because the concept of an internal audit of the revenue department is different from other normal internal audits; for that reason, after implementation of the new public financial management acts, that reform has resulted in an internal tax audit and it is important to improve tax administration through taxpayer registration, creation of tax returns and tax enforcement.

## **Summary of Findings**

The central point of the study is to assess tax administration: the functionality of tax administration is not working in a proper way and the tax system of the ministry is not growing as other developing countries raise their tax system. The public financial management reform is going to last eight years. Therefore; there no tangible substantive change will occur until the team of public financial management reforms itself and sets out a clear strategy to achieve a sustainable reform.

## **Conclusion**

This study assessed tax administration in the Ministry of Finance of Somaliland. The results from this study indicated that tax administration is not granted their annual budget autonomously, and these limitations cause an ineffective tax system; low enforcement of tax laws, inactive tax policy and lack of capacity building on the both sides of employee and institution. However there are a number of well trained staff in the Ministry that graduated from the Ethiopian Civil Service University that are equipped with knowledge of public reforms; in particular they have a concrete knowledge of public financial management and their related field.

Resistance to a given in tax policy is normally proportional to the perceived magnitude of change that the policy intends to drive; mismanagement of tax administration needs to be addressed extensively in order to improve government spending efficiently. The ministry must be declared responsible for tax administration to avoid inconsistency of enforcement, a cumbersome tax process, less optimal management of the tax environment and the development of an inefficient organizational structure.

## **Recommendations**

These recommendations are based on the findings of the study:

- ✓ Set up of strategies for tax policy at the national level, including central and local government; implement these strategies through new legislation and;
- ✓ Introduce enforcement of all public financial management acts, including Revenue Acts that assess how to develop revenue systems of the government. The coming government must enforce the new acts through consultations with the experts of this field of public financial management, especially revenue acts of 2017.
- ✓ Establish a Somaliland revenue authority that operates tax administration; it needs to be allocated an independent annual budget for the administration of its duties and to exercise chapter eight of the revenue act of the new legislation.
- ✓ Launch a new institution that builds the different capacities of employees of tax administration of the authority. This study suggests it should be named an Institute of Public Finance and Tax Administration and it should create well trained tax officers suitable to administer the tax environment of the ministry of finance.
- ✓ Creation of participation of all taxpayers when the government hosts new laws, and to make an office to submit their complaints and to facilitate all requests from taxpayers.

## **Limitation**

Limitations of the study are time constraints, because time is limited to produce a concrete solution of this study and availability of information allied to the field of taxation, particularly Somaliland taxation and the lack of more respondents that have experience in this topic and also capital resources related to the facilitation.

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## Appendix

Personal Information

Position Held: \_\_\_\_\_

Background of Education: \_\_\_\_\_

Year of Employment: \_\_\_\_\_

1. What does an efficient tax system look like in Somaliland?
2. How does that compare to the tax system of the current gov't in Somaliland
3. What is the annual budget of the tax administration? And what are the budget allocation procedures??
4. Is the tax administration given sufficient resources to ensure the efficiency implementations of its policies and performances on duties?
5. What are the problems faces tax administration of Inland Revenue of Ministry of Finance of Somaliland
6. What is the current status of the legislation to reform the Tax Administration of Somaliland?
7. What are the impacts of poor system of tax administration to the revenue mobilization in Somaliland?
8. What is the impact of new reforms on accountability in the Somaliland government revenue system?
9. Is there an independent institutions carrying out tax administration and its performance in the Somaliland government? If you say no Explain
10. What are the limitations for tax administration of Inland Revenue?
11. Is there a system of internal tax audit in the Inland Revenue department?
12. What are recommendations to suggest becoming effective in Tax Administration?