



UNIVERSITY OF
ILLINOIS LIBRARY
AT URBANA-CHAMPAIGN
BOOKSTACKS

Digitized by the Internet Archive
in 2011 with funding from
University of Illinois Urbana-Champaign

<http://www.archive.org/details/taxstructureofde420duej>

330

B385

No. 420

cop. 2

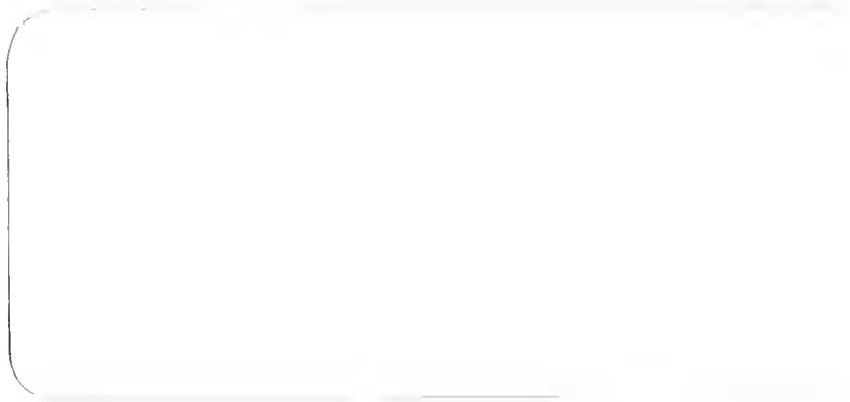
Faculty Working Papers

THE TAX STRUCTURE OF THE DEMOCRATIC REPUBLIC
OF SUDAN WITH EMPHASIS ON THE INDIRECT TAXES
AND POTENTIAL REFORMS. PART B

John F. Due

#420

College of Commerce and Business Administration
University of Illinois at Urbana-Champaign



FACULTY WORKING PAPERS

College of Commerce and Business Administration

University of Illinois at Urbana-Champaign

July 14, 1977

THE TAX STRUCTURE OF THE DEMOCRATIC REPUBLIC
OF SUDAN WITH EMPHASIS ON THE INDIRECT TAXES
AND POTENTIAL REFORMS. PART B

John F. Due

#420

... .. 41

... .. 42

... .. 43

... ..

... ..

... ..

... ..

... ..

PART III: EVALUATION OF THE TAX STRUCTURE
WITH EMPHASIS ON INDIRECT TAXES

Evaluation of taxes can be made only in terms of objectives. In the Six Year Plan, commencing July 1, 1977, the general objectives are stated to be accelerated growth accompanied by social and economic justice. These require, among others, major expansion of basic services and infrastructure, increased domestic production of inputs, restructuring of outputs in favor of goods for export, import substitution, investment, intermediate goods, and essential consumption. Elimination of foreign exchange deficits and increased financing of investment from domestic savings are other requirements. Top priority is to be given to agriculture and to obtain a better regional balance in the economy.

These objectives, in turn, establish requirements for the tax structure:

1. Avoid taxes, direct or hidden, on exports, unless they are specifically desired for purposes relating to the overall plan in certain circumstances.
2. Dampen luxury consumption, to encourage savings and, since many luxuries have high import content, to lessen the drain on foreign exchange.
3. Dampen imports generally, without encouraging import substitution of types that create little value added and are not consistent with the overall objectives of the plan.
4. Provide additional revenue for the financing of infrastructure and social services.
5. Minimize tax burden on the lowest income groups and ensure that the tax system as a whole is effectively progressive, in order to

1. The first part of the document discusses the importance of maintaining accurate records of all transactions and activities related to the business.

2. It is essential to ensure that all financial data is properly documented and stored in a secure and accessible manner.

3. Regular audits and reconciliations should be performed to identify any discrepancies or errors in the records.

4. The second part of the document outlines the various methods and techniques used to collect and analyze data for business performance.

5. These methods include surveys, interviews, focus groups, and data mining, among others.

6. Each method has its own strengths and weaknesses, and the choice of method depends on the specific needs and objectives of the business.

7. The third part of the document provides a detailed overview of the data analysis process, from data collection to interpretation.

8. This process involves identifying key variables, cleaning the data, and applying statistical techniques to draw meaningful conclusions.

9. The final part of the document discusses the importance of communicating the results of the analysis to the relevant stakeholders.

10. Clear and concise reporting is essential for ensuring that the findings are understood and acted upon.

11. The document concludes by emphasizing the need for ongoing monitoring and evaluation of business performance.

12. Regular reporting and analysis are crucial for identifying trends, opportunities, and areas for improvement.

13. The document also highlights the importance of data security and privacy in the context of business analytics.

14. Implementing robust security measures is essential to protect sensitive business information.

15. Finally, the document stresses the need for a data-driven culture within the organization.

16. Encouraging data literacy and providing training can help employees make better use of the available data.

17. The document provides a comprehensive overview of the business analytics process, from data collection to reporting.

18. It is a valuable resource for anyone looking to improve their understanding of business performance and data analysis.

19. The document is structured into several sections, each covering a different aspect of the business analytics process.

20. The first section discusses the importance of data and the various sources of data available to businesses.

21. The second section provides a detailed overview of the data analysis process, including data cleaning and transformation.

22. The third section discusses the various statistical techniques used in data analysis, such as regression analysis and hypothesis testing.

23. The fourth section provides a detailed overview of the data visualization process, including the use of charts and graphs.

24. The fifth section discusses the importance of data security and privacy in the context of business analytics.

25. The sixth section provides a detailed overview of the data reporting process, including the use of dashboards and reports.

26. The seventh section discusses the importance of data-driven decision making and the role of business analytics in this process.

27. The eighth section provides a detailed overview of the data-driven culture and the role of business analytics in this culture.

28. The document concludes by emphasizing the need for ongoing monitoring and evaluation of business performance.

improve the overall pattern of income distribution in light of equity objectives of the plan.

6. Avoid distortions in resource allocation that will reduce overall efficiency in production, thus checking exports and lessening domestic output for home consumption. Where distortions already exist and various considerations make it impossible to remove the underlying causes, use of taxes to counteract the misallocation of resources may be desirable.

7. In the interest of equity and governmental revenues, ensure that so far as possible all persons subject to the taxes pay the appropriate amounts.

8. Minimize both compliance and administrative costs, which drain resources from other uses. This rule requires, among other things, simplicity in the structures and ⁱⁿ compliance with taxes and effective use of personnel by tax administering agencies.

There are several consequences of these requirements -- rules of thumb that may greatly facilitate the attainment of the objectives:

1. Do not give concessions to particular groups of such nature that the gains to society are much less than the real costs. Too often such measures as tax holidays simply provide tax concessions to compensate firms for what they would have done anyway.

2. Do not try to accomplish multiple objectives with each type of tax, when particular objectives can be best attained by particular taxes. Thus customs duties provide the best means of protection; to seek to provide protection by other levies as well creates unnecessary complexity and confusion. In reverse, customs duties may be less satisfactory in reaching luxury consumption than other forms of taxes.

3. Keep the number of taxes to as small a number as possible, consistent with attainment of the objectives. Adding more and more taxes instead of making more effective use of existing ones leads to waste of resources and general confusion in operation.

4. Avoid minor levies that sabotage the effective operation of much more important taxes. Thus stamp taxes on receipts, by discouraging the issuance of receipts, make control of income and sales taxes more difficult.

It is now possible to proceed to the overall evaluation of the tax structure, with emphasis on the indirect tax portion.

A. Relative reliance on direct and indirect taxes. Sudan, receiving only about 18% of its tax revenues from direct taxes, ranks far below some of the other African countries -- Kenya and Zambia, for example.¹ Part of this reflects differences in economic environment; Sudan lacks the expatriate industrial sector of Kenya, the mines of Zambia. But in the interests of progressivity and equity among persons in similar circumstances, further effort to raise the direct share would appear to be warranted.

B. The income taxes. As noted, it is not the purpose of this paper to examine either the business profits or personal income tax in

¹One consequence of the dominance of indirect taxes and particularly customs duties is a relatively low income elasticity of total tax revenue, estimated by Sayed Nimeiri to be .9. The figure for indirect taxation as a whole was .77, for direct taxation, 3.1, in the 1959/60 -- 1968/69 period. See his "Commodity Taxation in the Sudan", Eastern Africa Economic Review. Vol. 7 (June 1975), pp. 65-77.

detail. Sudan was relatively late in moving into the income tax field, other than on business profits. At least a firm beginning has been made and the tax is increasingly productive. But several questions can be raised about it:

1. Complexity. The tax, with four distinct elements and provisions for merging to arrive at a global tax, is unnecessarily complicated. Merger into a single levy, or at the most two, one for individuals, one for companies, should be entirely feasible as the differences among the various / ^{elements} are not great. Question can be raised about the desirability of progressive rates on companies; the rationale behind this policy is questionable, and splitting of companies can easily result.

2. Progressivity. The tax is rather steeply progressive, and effectively so, against salary incomes, reaching a substantial figure at a relatively low income level. Since so many of the persons involved are employed by the government and parastatals, the net effect may be primarily to push up government salaries in these ranges. On the other hand, the exclusion of interest and dividends of domestic corporations results in a relatively light burden on various forms of capital income. The overall progressivity warrants review. Proposals made to include imputed rental income of owner occupied houses, however, appear to be premature, from an operational standpoint. Developing countries are scarcely capable of handling such a provision.

3. Enforcement. It is rather evident that the effectiveness of administration leaves much to be desired. The PAYE system should be reasonably satisfactory (but computerization is highly desirable); the

problem comes with professional men, traders, and rental income. No African country has licked this area yet -- but a systematic attempt should, over the next decade, bring significant results. Improved training programs for personnel, allocation of areas to particular inspectors to track down all potential taxpayers and arrive at a reasonable estimate of their income, increased use of sources of information -- can contribute to improved efficiency. These observations are not based on an in-depth study of actual operation; they are offered as suggestions warranting further investigation.

C. The indirect tax structure. The indirect tax structure is yielding substantial revenue; it does provide high rates on imported luxury goods; it does minimize tax burden on the lowest income groups. Administration appears to be satisfactory. But there are several features that are inconsistent with the attainment of the objectives:

1. Excessive relative reliance upon customs duties. As noted, customs duty rates are relatively high in the Sudan compared to most African countries, and the relative reliance for government revenue upon them is one of the highest. This is partly a result of high rates, partly the relatively late development of the industrial sector of the economy.

There are several undesirable consequences. First, the high basic rate of 40% and the luxury rates, on many goods 100% and 150%, are undoubtedly leading to unwanted import substitution, that is, to the development of inefficient domestic industry behind tariff walls that were not designed to provide protection but to gain revenue. Efficient use of resources requires that protection be extended only to those industries offering economies -- ones consistent with the overall

development plan. The appropriate aim of industrial development policy is not merely to get more industry -- but to expand those industrial sectors in which the economy has real advantages. To do otherwise involves poor utilization of resources and lower overall real incomes. Accordingly, the basic level of customs duties should be substantially lower than at present, and high customs duty rates, per se, should not be applied to luxury goods, which would be reached by high levies applying to both imported and domestically produced goods. High customs rates should be used for protective purposes only.

A second difficulty with the present system is that revenue and protective duties are mixed together; it is difficult to tell what the objective is with particular rates. Changes in duty rates have potentially both revenue and protective implications and both are not always taken into consideration.

Thirdly, customs revenues are markedly affected by availability of foreign exchange and thus fluctuations in world market prices and domestic production of export crops, availability of foreign loans and grants, and tariff changes negotiated with other countries. All tax revenues are affected by these changes, but duties are particularly vulnerable.

Finally, customs duties contain a self-destruct mechanism as a revenue source. As duties are raised for protective purposes their yield falls -- if they are truly protective. As development continues, imports fall as a percentage of national product and their composition changes, with an increasing percentage of materials and capital goods and a diminishing percentage of consumer goods regarded as suitable for high revenue duties. This has been the path encountered over the last

century by virtually every country in the world, and there is no reason to believe that Sudan will be an exception.¹ Thus a system built heavily upon customs duties, per se, will not provide the high elasticity of revenue relative to increases in national income supplied by direct taxes and domestic indirect taxes.

2. The large number of customs duty rates. While a high percentage of all imports falls into a few rate classes, there is a very large number of rates -- 25, exclusive of the reduced rates for imports from Egypt and the specific rates. As noted, there can be no scientific basis for so many rates, and the system creates unnecessary complications. Such a pattern is found in many other countries also -- but is not made more justifiable by this fact.

3. Excessive extension of excise taxes, rather than greater reliance on a sales tax. As domestic production developed and caused a loss in customs revenue, following the usual pattern of other countries, Sudan has progressively introduced excise taxes, until the number has now reached 32. The use of a small number of excises on commodities that were major sources of customs revenue and are traditionally subjected to high levies in all countries -- cigarettes, beer, other alcoholic drinks, motor fuel -- is justified under usual standards, although cigarette taxes tend to be regressive. Because of typical high rates, use of more drastic control methods than those necessary on other commodities may be warranted.

But extension of excises to more and more commodities as domestic production increases, rather than prime reliance on a general

¹There is already evidence; see Nimeiri, "Commodity Taxation", op. cit., p. 68.

sales tax, is objectionable for several reasons:

1. The system becomes increasingly complex as more and more are added. Each excise is separate; rates differ; some firms will be subject to several. Application of a single general levy becomes simpler once domestic production has reached the extent that it has in Sudan.
2. As each excise is introduced separately, the tendency is to use a number of different rates, often dictated by the level of the customs duty rather than the merits of the particular figure as related to consumption of the commodity. Some of the differences in rates are minor -- adding to the complexity without any advantages: 42% on lubricating oil, 40% on white spirit; 30% on household utensils, 20% on perfumes, etc. Any rate differences alter relative consumption and therefore resource allocation; this is clearly contrary to development objectives except when it is in conformity with a particular goal, as for example, lessening luxury consumption.

3. The excise system as it stands, as is typical but not necessary, uses a number of specific rates, in addition to those on the traditional commodities. With these rates, attainment of uniformity of relative to consumer spending rates/on different goods or a deliberate pattern of differences is impossible; if uniformity is attained temporarily, it will not be maintained. Consumers of the cheaper varieties of the product are discriminated against and these tend to be the poorer persons. Perhaps most seriously, the yield of the taxes does not rise automatically with increases in the price level, and thus tax revenues are less elastic relative to national income than with ad valorem rates.

There is merit in even shifting the traditional excises to an ad valorem basis in order to keep yields rising with prices. Since

prices of the commodities are set by the government, use of an ad valorem basis would not add serious complications.

4. Inevitably in an excise system there are gaps -- commodities, especially new ones, are not subject to tax because they are not specifically mentioned in the law.

5. The excises apply only to domestic production, not to imports, although several of them have counterparts, called consumption duties, on imports. As a result, any change in either excise or customs necessitates a change in the other or the degree of protection will be affected. In practice it is difficult to maintain the desired balance, particularly since the motives leading to a change in one are often quite different from the motives leading to a change in the other. The excises could, of course, be applied to both domestic and imported goods.

4. Inadequacies of the development tax. The portion of the development tax on imports, exports, and domestic production is

a form of manufacturers sales tax; its establishment represented a sort of back-door entrance into the sales tax field. This was a highly desirable step, but the levy was not carefully planned and urgently needs revision. In time it should become the most significant element in the indirect tax structure and perhaps in the entire tax structure. Therefore it is extremely important that the defects be recognized and eliminated before they become firmly imbedded in the tax system and difficult to change:

(1) There are significant cascade elements in the tax, which will lead to serious distortions in production and loss of efficiency.

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

41

42

43

44

45

While the tax is confined to the manufacturing and foreign trade sectors, it applies to importation of materials as well as to sales of the final product, and of sale by one manufacturer to another of goods to be incorporated into the final product. Even with the excises there is a limited element of cascading; cement is taxed as well as cement pipe; and vegetable oils as well as the soap made from it. But cascading is widespread with the development tax; for example, imports of fiber are taxed, sale of yarn is taxed, as well as the sale of the fabric made with the yarn and the clothing made from the fabric. This cascading -- which led Europe and Latin American countries to abandon the turnover tax -- results in very unequal burdens on different final products since the number of intermediate stages varies; it favors integration to lessen tax (a firm will acquire the firm using the materials it produces to eliminate one application of tax); it results in additional tax elements in exports, the exact amounts of which are not known, and it tends to favor imported goods over domestically produced ones since tax will apply at fewer stages.

(2) The tax applies to all exports, in addition to the export taxes. This is a practice most countries are now seeking to avoid, except on a few basic petroleum, mineral, and agricultural products, and there is a tendency even to move away from taxes on these. Increasing exports is an important element in the Plan; products of the Sudan are rendered more costly by an overvalued exchange rate and to compound the difficulties by application of the development tax to exports is most unfortunate.

(3) The coverage on domestic and imported goods is different; domestic goods not passing through a manufacturing stage (e.g., various agricultural products) are not subject to tax but similar goods are

taxable when imported. The effect is to add another element of protection in a somewhat concealed fashion and make more difficult the attainment of the desired degree of protection.

(4) The present tax is confined strictly to commodities; no services are included. While, as is well known, there are a number of reasons why a sales tax cannot appropriately be applied to all services, both revenue and equity can be improved by applying the tax to selected services of a type primarily rendered to individual consumers.

(5) The use of the term "development tax", which also applies as a 5% additional tax on incomes, is somewhat confusing. At least the income part and the commodity portion should be distinguished (in practice they are, the income part being collected by the Department of Taxation). Calling a sales tax by some other name is not unknown in other parts of the world; several Canadian provinces call their sales tax by the use of the funds (e.g., hospital tax, education tax). This is not a fundamental matter -- but it is confusing.

Administration of the development tax was grafted on to the excise controls -- quite appropriate as a stop gap measure. But as the tax becomes more important, greater organizational emphasis will be desirable.

Despite these weaknesses, the present development tax has several highly desirable features that should be retained: the extremely broad coverage and the relative simplicity. It stands in sharp contrast to the manufacturers sales taxes of such countries as Guyana, with a large number (over 20) different rates.

D. Administration -- Indirect Taxes. While no detailed investigation of the operation of the excises and development tax was possible, the general reaction was that the top level personnel are well qualified, that standards for selection and promotion of personnel are good, and that the system of operation and control is, for the excises and the early years of the sales tax, relatively good. The Customs and Excise service apparently enjoys a high level of prestige in the government service that it does not enjoy in some African countries.

As emphasis moves from customs duties to a sales tax, however, some reorganization and change in procedures will be desirable. The personnel receive only limited training in accounting and auditing, although more and more control will be through records. Control is still very much oriented toward physical methods -- checking incoming materials, production, and withdrawals. This becomes increasingly difficult, expensive, and unnecessary as domestic production increases, and control can be shifted to one via records and inspection of accounts.

(E.) Export Duties. The export taxes as well as the application of the development tax to exports are open to question. They appear to be designed in part to lessen scarcities in the domestic market; there may be superior methods to accomplish this objective.

(F.) Local Taxes. There is general agreement that a careful review of the local taxes is urgent, both to increase the revenue potential and to improve operations, and avoid adverse effects of the present levies. Probably no one tax is ideal for the entire country because conditions differ so much, but, in general, shift away from taxes on produce to taxes on land values should greatly improve the economic effects.

PART IV. RECOMMENDATIONS--INDIRECT TAXES

1. Restructure the development tax into a manufacturers sales tax of the usual pattern, adapted to the conditions of Sudan:

a. Eliminate the cascade elements, by providing that each manufacturer may deduct tax paid on the purchase or importation of materials and parts from the tax due on his sales.

It is probably not advisable to exclude industrial machinery, equipment, and building materials from the tax, since other measures tend to encourage excessive capital intensity and lessen the relative use of labor. In time exclusion of such equipment from tax may be advisable.

b. To lessen the impact of the tax on agriculture, exempt farm feed, seed, and fertilizer from the tax, but not farm equipment, for the same reasoning applying to industrial equipment.

c. Maintain a broad tax base, limiting exemptions to unprocessed meat, fish, fruit, vegetables, all milk, and medicines, but no other consumption goods.

d. Provide the same treatment of domestic goods and imports; thus the exemptions would apply to both.

e. Exempt exports from the tax.

f. Retain the tax at the import and manufacturing level, in the interests of simplicity of operation.

g. Add a limited number of services, particularly hotels and etc. larger restaurants, social clubs, to the tax, as is common in other African countries.

The changes would bring the tax into line, in general structure, with the sales taxes of Kenya, Uganda, Tanzania, and Zambia.

2. Increase the relative reliance on the sales tax and reduce that on excises and customs duties:

a. Eliminate all excises taxes except those on:

1. Beer

2. Wine

3. Liquor

4. Cigarettes and other tobacco products

5. Motor fuel (not other petroleum products).¹ These commodities plus the others now subject would of course be subject to sales tax.

6. Sugar, possibly. A peculiarity of the Sudan is the very high consumption of sugar and the great contribution it makes to government revenue. The excise is probably unnecessary to maintain this contribution; the

¹The tax on motor fuel for automobiles is about 47 U.S. cents per gallon. This appears to be a reasonable figure. The tax on diesel fuel is about 18% less.

revenue can presumably be attained by a combination of monopoly profits and sales tax.

b. Commence to shift away from reliance on customs duties as a deliberate revenue source; and at the same time simplify the tariff structure. The necessary steps are as follows:

1. Determine those products for which protection is desired and the duty rate necessary to provide the desired degree of protection; these duties should be established as deliberately protective.¹ They will inevitably yield some revenue, but only incidentally if they are properly designed.
2. Establish a basic sales tax rate of 20%, applying of course equally to domestic and imported goods. While this is a high rate compared to those in many countries, it must be remembered that many of the articles subject to excises now bear this high rate; one tax will be substituted for another, but the change offers many advantages, as noted. A reduced rate of 10% should be applied to services, which are essentially retail in character.
3. Exempt from customs duties all goods now subject to duty rates of 30% or less. These will of course be subject to the 20% sales tax rate (except the few exemptions). Many of the goods now bearing duty rates of less than 20% are materials that will in effect be freed of sales tax under the sales tax as proposed. A few (e.g., fertilizer) will be exempted: some others will be no longer subject to excises (e.g., fuel oil). There will be a net ~~increase~~

¹Sugar distribution is a government monopoly.

in only a few items (e.g., aircraft).

4. Subject those commodities now subject to customs duties between 35% and 75% to the basic sales tax rate plus customs duty of 20%, with review of the list to see whether the classification is now appropriate. Most commodities in this range are now subject to the 40% customs rate; such goods still imported will experience the same combined rate. Such goods now produced domestically and not subject to excises will be brought within the coverage of the standard 20% sales tax rate.

Items which would appear to warrant consideration for exemption from customs duty (except where protection is desired) include iron and steel plate and similar articles of other metals; electric generators and motors; railway equipment; eyeglasses, medical, dental and surgical equipment and similar items. The tax treatment of such categories is very high in Sudan compared to many countries.

5. Subject those commodities now subject to customs duty non-protective rates from 80% to 100% to a sales tax rate of 50% and the basic customs duty rate of 20%. When this is done, the list should be reconsidered for rationality.
6. Subject those commodities now subject to customs duty rates over 100% that do not have a protection objective to a 100% sales tax plus a 20% customs duty. These are the goods regarded as particular luxuries. The net effect will be to reduce the rate on some goods but maintain a

- substantial relative burden compared to the widely used commodities.
7. Shift matches, coffee beans, and tea from specific to appropriate ad valorem customs duties plus sales tax.
 8. Apply a rate of 10% to services taxed, the lower rate proposed because services are rendered at the retail level.

The net effect of these changes, therefore, will be as follows:

1. The strictly protective tariffs will remain unchanged (Careful reconsideration of them is also warranted; many appear to be unreasonably high. But this requires a special study.)
2. Use, for the immediate future, of only one non-protective customs duty rate, at 20%. This should ultimately be eliminated, with appropriate increase in the sales tax rate, but is not proposed initially, to make the change less abrupt.
3. Use of a standard 20% sales tax rate, applying to a wide range of goods widely used, with basic foodstuffs excluded. Thus the tax, while having a broad base, will place little burden on the semi-subsistence farmers or the urban poor.
4. Use of only three other sales tax rates: 50% and 100% on goods regarded as luxuries, and a reduced rate of 10% on services made taxable.
5. Continued use of excises only on the traditional commodities and sugar.

The major advantages, in summary, are:

1. Great simplification of the tariff and excise systems.
2. Substantial shift from customs duties to levies applying equally to imported and domestic goods, thus avoiding the evils of excessive reliance on duties. Much of the revenue will be collected

at importation, in the same fashion as at present, but as sales tax rather than as customs duty. The self-destruct mechanism will be eliminated; as domestic production increases, more and more tax will be collected from domestic firms and less at import -- but without the need for constant revision of the duties and excises.

3. Confining the tax to the manufacturing level, so far as domestic firms are concerned, will permit efficient collection of the tax.

3. Recommendations -- Administration:

Some reorganization and changes in administrative procedures are proposed to facilitate operation of the proposed taxes:

1. Establish a separate sales tax unit. In view of the importance of the sales tax, a Sales Tax Unit should be created in Customs and Excise, on a coordinate level with Customs and Excise. A person with a thorough knowledge of accounting should be named director of the unit.

2. Most of the personnel recruited for the unit should have a good background in accounting, much more than that of the typical customs officer, and new personnel should be trained in sales tax control and audit work.

It should be noted that the number of professional personnel required is not great; with about 800 manufacturers, no more than 10 or 12 trained inspectors would be required.

3. The director and two or three other key persons in the unit should be sent for a few weeks to a country with comparable conditions and experience with the same form of tax, to study the operating procedures. Kenya is particularly recommended for this purpose.

4. Control of the tax should be shifted gradually from reliance on physical control to record and accounting control. This requires cooperative effort with the taxpaying firms, to improve their record and accounting systems.

5. Liaison and cooperation with the income tax department is highly desirable, to facilitate exchange of information.

PART V: GENERAL CONCLUSION

The overall national tax structure of the Sudan contains the basic elements necessary for an adequate, revenue elastic, equitable, and economically efficient system. Administrative standards appear to be higher than in most tropical African countries. But there are several major changes that are urgently required as quickly as possible; the longer the defective elements remain, the more resistance builds to change.

First, while the indirect taxes appropriately should remain as the dominant element in the tax structure for some years to come, efforts should be made to strengthen the operation of the direct tax system, but without drastic increases in rates. Greater simplicity should be possible.

On the indirect tax side, the basic required change is to lessen the revenue reliance on customs duties, increasing the revenue importance of the sales tax. Much revenue will still be collected at

importation, but from a tax applying equally to imports and domestic goods. As the sales tax is strengthened and the rate increased, most of the excises should be eliminated. The sales tax itself requires one major change: the elimination of most cascading elements, preferably by allowing manufacturers credit for tax paid on imports or domestic purchases against tax due on their sales. Exports should be excluded from the tax base. A basic sales tax rate of 20% is suggested, with a reduced rate of 10% on services made taxable, and luxury rates of 50% and 100%. The tax should be retained at the import and manufacturing level, plus a few services. Exemptions should be confined to a minimum.

The local (provincial and municipality) taxes are universally recognized as defective and careful review is required.

Appendix I

Development Tax Act of 1974

In the Name of Almighty and in the name of the people.

According to article 106 of the constitution, the President of the Republic is pleased to issue the following temporary Act.

The Name of the Provisional Act and the time it is put into effect.

1. This temporary Act is called the "Development Tax Act of 1974". It is to be applied as from the 18th of June 1974.

Explanation

2. According to this Act:

Minister: means the Minister of Finance and National Economy.

Specified

Authority: means the Director General of the Department of Customs and Excise or any other person appointed by the Minister to carry out the duties of the Specified Authority.

Tax: means the development tax levied according to this provisional law.

Tax Levy

3. (1) Tax is called the Development tax and it is to be levied on the following basis and to be collected by the authorised power.

- (a) At the rate of 2% on CIF price on all imports with the exception of:--

First: Wheat and wheat flour.

Second: Medicines

Third: Ajwa (compressed dates).

Fourth: Children's Milk

Five: Any other commodity the Minister may exempt.

(b) At the rate of 2% on FOB value on all exports. The Minister may change this rate from time to time

(c) At the rate of 2% on ex-factory prices of all locally produced products

(2) The tax is not to constitute a part of the cost for the purpose of the rate of profit.

General Provisions

4. (1) The Minister may exempt any commodity from the tax if he deems it necessary.

(2) The Minister has the right to issue any regulations he sees necessary or important to execute the provision of this Act.

Stamping, Publication and Execution of the provisional law.

5. This Act is issued under the Authority of the State & is to be published in the Official Gazette.

Issued on the 1st of June 1974

Jaafer Mohd. Numeiri

The President of the Republic.

Amendments in Rates

74 / 75 2 %

75 / 76 3 %

10 / 1 / 1977 5%



UNIVERSITY OF ILLINOIS-URBANA



3 0112 060296511