**ESSENTIALS OF TAXATION AS A TOOL FOR SOCIO-ECONOMIC DEVELOPMENT**

Being a Paper presented by

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At the

SOCIETY OF WOMEN IN TAXATION SEMINAR,

NAF CONVENTION CENTRE, ABUJA

April 23rd 2019

1. **INTRODUCTION**

A simple encyclopedia search defines Taxation as an “imposition of compulsory levies on individuals or entities by governments,… primarily to raise revenue for government expenditures”. Taxes differ from other sources of revenue in that they are compulsory levies and are unrequited. This means that they are not paid in exchange for any specific public service or sale of public [property](https://www.britannica.com/topic/property-legal-concept), or the issuance of [public debt](https://www.britannica.com/topic/public-debt). While taxes are presumably collected for the welfare of taxpayers as a whole, the individual taxpayer’s liability is independent of any specific benefit received. Taxes are the most important source of [governmental revenue](https://www.britannica.com/topic/government-revenue). However, aside from the raising of revenue with which to finance government expenditure, it will be seen in this paper that taxes serve other purposes as well which include income distribution and the fostering of growth and development of the economy of the nation.

Economic Development is traditionally defined in terms of the ***Gross Domestic Product*** and ***aggregate income*** of a nation. The nexus between taxation and development has long been established both in theoretical and empirical terms with modern tax policy moving away from traditional theories of taxation to now take into cognizance the socio economic realities of the society in question. The objective as postulated by Burgess and Stern is to ‘design a tax system that will raise these resources in a way that is administratively and politically feasible and which promotes equity and efficiency as much as possible”. And as Bird, 2013 put it, “Tax policy decisions are not made in a vacuum. Nor are tax systems implemented in one” As such the best tax system for any country is one that reflects its economic structure, its capacity to administer taxes, its public service needs, and its access to such other sources of revenue as aid or oilwhilst also taking into consideration such issues as ‘tax morale’, ‘tax culture’, etc. Thus the political aspect of a tax system is important such that the system is broadly acceptable to taxpayers and perceived as fair and equitable.

This paper proceeds by setting out some basic tenets of taxation in section 2.0. The link between taxation and development is discussed in section 3.0 and in section 4.0 to 4. 4 the paper considers the use of taxation tools for socio economic development. Section 5.0 gives some empirical examples across countries and a general conclusion is given at section 6.0

**2.0** **SOME BASIC TENETS OF TAXATION**

Adam Smith it was who set out 4 cardinal cannons of taxation as follows:

* Fairness
* Certainty
* Convenience; and
* Efficiency.

Also, Stiglitz (2000) identifies five desirable characteristics of a tax system as:

* Economic efficiency
* Administrative simplicity
* Flexibility
* Political Responsibility
* Fairness.

There are two distinct concepts of fairness. These are to achieve horizontal equity and vertical equity. Horizontal equity suggests that similar circumstances are treated in a similar manner. As such two individuals that are the same in all relevant respects should be treated the same. Of course the problem then is what determines that the two individuals are identical and what constitutes same treatment.

Vertical equity suggests that individuals that are in a position to pay a higher tax are required to do so. The basis of assessment of ability to pay is the income. However the challenge then is determining how much more is to be paid. The use of a percentage addresses this issue because that way those with a higher income end up paying more in absolute terms**.** However, some believe that in order to be fair, higher percentages should be applied to higher levels of income. This helps to achieve a redistributive effect which is one of the goals of government in the administering of a tax system. Also in this regard consumption taxes are considered to be ‘fairer’ in that it is measured based on what one takes out of society rather than what one contributes as reflected by his income.

Furthermore, a good tax system must help economic efficiency of the country. This means that it must not interfere with the efficient allocation of resources within the economy. Distortionary effects of taxes must be minimized or else the goals of government in introducing the tax would be offset by changes in behaviours and decisions of tax payers.

Also a flexible tax system is one which allows for easy adaptation to changed circumstances (Stigltz, 2000). For instance, in a recession, it may be desirable to reduce tax rates. For some tax structures, the needed adjustments are easily achieved however others would require long and difficult procedures and political debates.

1. **THE LINK BETWEEN TAXATION AND DEVELOPMENT**

Governments world over need resources to provide public good in the areas of infrastructure, social security, education, health, pensions, environmental protection, law and order and defense. For these and other purposes, governments resort to various ways of raising revenue such as taxation, internal or external borrowing, sale of natural resources or even printing money. It has been concluded that in the long run, a healthy tax system must be at the heart of public finances.

Given that tax revenue involves collection costs and general resistance from the people, governments may be tempted or forced to resort to borrowing. But there is a limit to which government can rely on borrowing. When faced with unexpected shortfalls in revenues or emergencies such as flood, security issues (such as insurgencies), governments may seek to use domestic or external borrowing as against sharp or substantial increases in taxation which may prove difficult or costly to implement. However this has dire developmental consequences and will always come at a costly price as borrowing will involve greater taxation or reduced expenditure in the future. Over time, debt servicing and repayment will translate to a reverse transfer of resources abroad. So government must compare the costs of borrowing with taxation in the present. Simply put, there is no viable, long term and sustainable alternative to taxation as a means to financing government expenditure

Some school of thought argue that in the light of the scope and magnitude of ‘government failure’ in developing countries such as ours, there should be minimal state activity.

However, the link between taxation and development is highlighted by the European Commission (EC, 2010) and by the Organization for Economic Co-operation and Development (OECD) Development Assistance Committee (OECD, 2012). The importance of strengthening domestic revenue mobilization is also emphasized by the G20 leaders at recent summits. The renewed interest in taxation reﬂects a concern for domestic revenue mobilization to ﬁnance public spending, as well as recognition of the centrality of taxation to growth and redistribution. An effective tax system is considered central for sustainable development because it can mobilize the domestic revenue base as a key mechanism for developing countries to escape from aid or singular natural resource dependence (Fjeildstad, 2013)

The tax system may contribute to improved governance through three main channels (Moore, 2008). First, ﬁscal bargaining and negotiation between the state and citizens over taxes is central to the development of a social ﬁscal contract. Taxpayers have a legitimate right to expect something in return for taxes paid and are more likely to hold their government to account if it underperforms. Second, governments have stronger incentives to promote economic growth when they are dependent on taxes and therefore on the prosperity of taxpayers. Third, dependence on taxes requires states to develop a bureaucratic apparatus for tax collection. This is also expected to lead to broader improvements in public administration towards domestic revenue mobilization to ﬁnance public goods and services, as well as recognition of the centrality of taxation for growth and redistribution. The global ﬁnancial crisis has also led many donor countries to pay more attention to ensuring that they support rather than discourage developing countries’ own revenue-raising efforts.

It is clear that there are strong synergies between tax reforms and governance. If tax reform is undertaken in a way that promotes greater responsiveness and accountability, alongside improvements in the state’s institutional capacity, then tax reform can become a catalyst for improvements in government performance. Seen in this light, taxation is not just an administrative task for governments and citizens. It is also about politics and power, and development.

**4.0 OPTIMISING TAXATION FOR SOCIO-ECONOMIC DEVELOPEMENT**

There are two main types of taxes namely direct taxes and indirect taxes. In determining what a good tax is, the pros and cons of these two types of taxes should be considered. Direct taxes are taxes on income, earnings or profits, Capital, Assets, transfers and investments and savings, while indirect taxes include taxes on domestic goods and services (sales tax, excise duty and VAT), taxes on International trade, goods and services or trade and transit of persons, goods and services in a country.

Generally direct taxes on income and profits such as the Personal Income Tax (PIT) and the Corporate Income Tax (CIT) tend to be progressive in nature making diverse provisions for allowances, exemptions, exceptions etc . Also under income taxing, the rates are commonly varied such that with higher levels of income, higher rates are applied. **This is because it is believed that the marginal cost of the tax reduces as the income increases.**

Indirect taxes are basically consumption such as the VAT and excise duties etc. There is an argument that tax on consumption rather than income is a better approach to taxation. **This is because income corresponds to the individual’s contribution to society which is the value of his economic input and a good tax ought not be imputed on economic contribution** but rather what the individual takes out of society.

**The only problem is** **that indirect taxes are regarded as regressive because the rates apply across board regardless of income level of the taxpayer and general ability to pay**. Therefore, because the **amount paid represents a declining proportion of income as the income levels** **rise**, **this method of taxing does not address the redistribution of wealth which is one of the objectives that governments aim to achieve have through taxation.**

There exists a philosophical argument against redistribution. Slemrod in his treatise, ‘The economics of taxing the rich’ analyzes this argument which avers that individuals have a right to what they earn. However**, mainstream modern public finance economics accepts the right of government to redistribute wealth**. After all ‘in the absence of government, to what income would the people have a right? He concludes that there must therefore be a trade -off between income distribution and economic performance. **The tax should be able to raise total revenue which maximizes social welfare.**

Taxation therefore serves for the three pronged purpose of resource allocation, income redistribution, and economic stability. These objectives are necessary to be met if a nation is to achieve economic growth or development and international competitiveness. In the absence of a strong reason for interference, such as the need to reduce pollution, the first objective, resource allocation, is furthered if tax policy does not interfere with market-determined allocations. The second objective, income redistribution, is meant to lessen inequalities in the distribution of income and wealth. The objective of economic stabilization needed for maintaining high employment and [price](https://www.britannica.com/topic/price-economics) stability can be achieved using tax policy among other policies such as government expenditure policy, [monetary policy](https://www.britannica.com/topic/monetary-policy), and [debt](https://www.britannica.com/topic/debt) management policies.

Recognizing Taxation as an essential tool for socio economic development, International Financial bodies such as the International Monetary Fund (IMF) as recently as last week, pushed for Nigeria to use its tax policy to improve on the economic wellbeing of the country. The International Monetary Fund (IMF) has told Nigeria to cut down on its tax exemptions and incentives list. Nigeria was also advised to pursue aggressive tax reforms and that should include raising excise taxes and expanding its base to cover of more goods and also higher rates on excises. The IMF Fiscal Monitor report released in Washington DC, United States indicated that these tax reforms are critical if Nigeria must improve its non-oil revenue to GDP currently at about 3.4 percent, which is one of the lowest in the world. Comprehensive tax reforms have been recommended in light of the fact that Nigeria has one of the lowest ratios of non-oil revenue to GDP and the total tax revenue to GDP of around 8 percent is also abysmally low compared with her peers around the world.

Proposed tax reforms will be built around the “text book approach” usually recommended by International organizations as the IMF and The World Bank which revolve around the implementation of a “broad-based tax system, with lower rates for capital, corporations and individuals, with a value added tax on domestic consumption, and indirect taxes on specific consumption, and the removal of Customs tariffs”

It will be noted that Tax reforms for development during the last years of the twentieth century as supported by international organizations have always emphasized economic efficiency and collection, and tend to ignore the redistributive impact of the tax system as well as the political economy of the particular nations taxation system. The idea of “one size fits all” prevailed, and the tax systems of more advanced countries were reproduced, without consideration for the particularities of undeveloped countries, their institutional inadequacies, their problems of corruption and tax evasion(Das-Gupta and Mookherjee 1998;Bowles1998), nor the socio-economic and political costs of capital flight. Much of the work on tax reforms for developing countries has concentrated on finding procedures for improving administrative capacity of the revenue bodies and attaining more effective enforcement with a general focus on efficiency and simplification of the system. It is however equally important not to lose sight of economic objectives of equity and macroeconomic stability as well as economic efficiency. Thus, rather than using just the Normative Tax theory approach, it is advocated that ethical issues are incorporated along with balancing the economic criteria of efficiency, equity and revenue.

States that are successful in their strategies of development have generated governmental capacities and built state-societal relationships that are mutually supportive. The point being made here is that capacity for development by the State depends on the political capacity in conjunction with the capacity to mobilize resources. This means that the proficiency of the States to generate resources must go along with legitimacy and capacity issues in the delivery of quality services to the citizenry whilst at the same time protecting the less privileged population. Herein lies the nexus between taxation and development seeing that the mobilization of domestic resources is key to achieving the objectives of service delivery and security, and it strengthens the links with citizens and establishes the political space. In this sense, it is about the revenue body and government going beyond market making institutions to institutions for development, and fostering equality of opportunities in the economy. Taxation is therefore crucial to development, because it creates a synergy between economic and social development and improves the distribution of income and assets in society whilst strengthening democracy and solidarity within the State.

Indeed tax reform becomes the principal financial strategy for development because tax is superior to foreign aid or other sources of Finance. It has been shown that dependence on aid or income derived from natural resources discourages institutionalized political activity, does not promote accountability and inhibits state capacity, discourages governments from taxation, and leads to a deterioration in the quality of government institutions (Bird and Das-Gupta,2012).

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Clearly, taxes play a key role in the capacity of the State and are an ‘objective indicator of its power and legitimacy to promote development’ (Bräutigam 2008a; Keen and Lockwood 2010). The relative backwardness in developing countries can be explained by the limitations to obtain the necessary resources needed to provide public services such as health, Education and Infrastructure that promote economic growth, and to implement social programs. The tax system determines the potential of the public sector to provide goods and services and to carry out redistributive programs.

However, a series of characteristics are rooted in the tax structures of developing countries which hinder the advancement of development policies: low tax collection, low progressiveness, high tax evasion, administrative weakness, low tax morale and bad governmental management (Attila et al.2008). For the developing world it is researchers have recommended that tax reform for should “focus on the increase of progressivity of the tax system with a tax on income of high redistributive capacity; on the simplification of rules and the expansion of the taxable bases, incorporating untaxed or inadequately taxed activities; on the strengthening of tax administrations and the establishment of a “compliance technology” which guarantees the application of the rules; and on the fostering of a culture of contribution that Increases tax “morale” (Fjeldstad et al.2012;BID2013). They go on to submit that in order to achieve this, “a fiscal pact needs to be established, that is, a political agreement, explicit or implicit, of the political and social participants on the origin, destination and composition of the resources necessary to finance the State. A basic pillar of the system must be to increase the “tax morale”, that is to say, the acceptance and buy in of the citizens into contribution to society through the payment of taxes

Over the past fifty years both academic researchers and international institutions- have issued many policy prescriptions with respect to how to improve economic growth and development in poor countries: increase capital investment; improve education; control population; liberalize trade and capital markets; reduce government controls on market activities; and so on, and on (Easterly 2002). Also canvassed are high marginal tax rates (MTRs), but this has been found to lead a variety of changes in the behaviour of taxpayers, with resulting economic costs (Bird,2013) as most rich people respond to quickly’. Capitalists shift their income to less-taxed forms such as capital gains, they move (locations), they work less, they take fewer entrepreneurial risks.

In further examining the evolving role of taxation in development, we examine three Development Tax models as described Richard Bird in his treatise on Taxation and Development: What We Have Learnt from Fifty years of Research

Development Tax Model 1.0

This basically sets out a progressive and comprehensive personal income tax as the ideal tax for developing, as for developed countries. Indirect consumption taxes were considered at best as a necessary evil, and both the international and sub-national aspects of taxation were generally neglected. Moreover, in line with the prevailing view of ‘government as leader’ most experts urged not just better (more progressive) but more taxes as necessary to development (Kaldor 1963). For twenty years or more such eminent foreign advisers as Kaldor, Shoup, Musgrave and their followers recommended packages based on this model to, more or less, all comers. The outcome of all this advice was not impressive

Development Tax Model 2.0

This entails more or less, the fiscal component of the so-called Washington consensus that ruled the development policy roost after the early 1980s. The main pillar of development tax policy in this model which is also referred to as the BBLR (broad base low rate) model (Bird 2011a)–was no longer the personal income tax but the VAT (value-added tax), which is imposed at a single rate and on a broad base (Ebrill et al. 2001). One reason for placing VAT at the fiscal center in many countries was the increasing emphasis on lower and more uniform import tariffs as part of trade liberalization. Under this model some attention was still paid to the importance of traditional excises duty payments but payroll taxes were de-emphasized and hardly taken into account at all in tax discussions. As with Model 1.0, the message to most developing countries with respect to tax levels continued to be that ‘more is better’–tax levels should be increased.

Development Tax Model 3.0

This Tax reform model which is the most current is one that is essentially “built-to-order” in accordance with the customer’s needs and specifications: the key pillars (VAT, income taxes) as well as the ancillary components and connections (e.g. VAT links to trade and excise taxes, and the linkages between personal and corporate income taxes and payroll taxes)–can then be specifically designed for the particular policy context, drawing of course on prior experience and, to the extent desired and feasible, factoring in such critical matters as the relationship between taxes, transfers, and regulations, between central and sub-central governments, and between the domestic and the international economy”. In this approach what is more important than the precise configuration of the tax policy for the economic reform package--is to ensure that the entire process through which it is conceived, designed, assembled and implemented, are in line with the real needs and capacities of the country in question. Governments are now advised to concentrate on establishing simple and predictable tax systems that will not discourage private enterprise and minimize interference with market signals. Speciﬁc tax policy changes associated with these reforms have included the following: (a) simpliﬁcation of tax structures and procedures; (b) the elimination of export taxes; (c) reduced tariffs and less reliance on trade taxes; (d)a dual-income tax system with a simpliﬁed progressive tax on labour and a simple, often ﬂat, and fairly low corporate tax; and (e) expanded reliance on goods and services taxes, in particular the VAT.(Fjeldstad)

Four areas of emphasis germane to developing countries keen on transforming their economies through taxation are presented in this paper.

* The idea of flat taxes,
* Taxing agriculture,
* Paying attention to Local Government taxation and
* Broadening the tax base.

**4.1 FLAT TAXES**

The search for a ‘good’ tax system, viewed as one able to balance the various attributes of taxation and which is not detrimental to economic growth and development has led to many countries experimenting with Flat Taxes.

This is a system whereby all incomes are subjected to a single (usually low) flat rate of tax across board. One disadvantage of the so called progressive tax system where higher incomes are taxed at higher rates is the tendency to discourage hard work and productivity. This has a detrimental effect on general economic efficiency as people may not be encouraged to work harder seeing that the higher you earn or produce the less of that additional income you will be able to keep. On the other hand, the flat rate produces an increased incentive to work and save and thus raise the general growth potential of the economy.

Many countries, particularly in Russia and Eastern Europe since the mid-nineties, have adopted the system of a flat rate tax. Forbes concludes that the flat tax is an idea whose time has come and the global economy will benefit enormously from it. Advantages of the single rate flat tax have been identified as a simplified System, Reduced Cost , increased Compliance and greater incentive to work and productivity

It is necessary to note that the flat rate system in many of the countries actually led to a reduction in tax revenues derivable from income taxes such as the personal income tax and corporate income tax. However this is usually compensated for by a corresponding increase in the consumption taxes such as the VAT. Herein lies a further distributive effect of the system in that while higher income earners may have retained a higher portion of their income than is possible in a graduated rate system, their higher expendable income can still be taxed as consumption tax. As happened in Slovakia, whereas revenues from PIT and CIT declined as share of GDP (from 3.3% to 2.6% of GDP) with the introduction of the flat rate tax, revenues from VAT increased (from 6.7% to 7.9% of GDP). Thus the total share of taxes in GDP remained practically constant at about 18% (Brook and Leibfritz,2005).

Furthermore, according to Steve Forbes (2006), the flat tax is a powerful generator of economic growth. He explains further that the ‘critical principle to understanding why the flat tax is so potent in fueling economic growth is that taxes are not just a means of raising revenue for the government. They are also a price and a burden’ and so tend to be avoided at all cost. However, apart from generally lowering the tax rate on PIT and CIT, a simple fat rate system also abolishes all ‘loopholes that the rich are so good at exploiting’.

The Economist magazine (Sept 2011) suggests that more revenue can be raised not necessarily by increasing the marginal tax rate but by making the tax code more efficient. It says that getting rid of deductions would simplify the code and raise as much as $1 trillion a year. (in the US). Finally, it concludes that it would be best to make rates on wages and capital more equal, eliminate deductions and since marginal rates would be untouched, such a reform would not discourage the wealthy from creating more wealth. Such a regime would result in a ‘larger overall tax take….without hurting the dynamism of the economy’. Clearly this is an idea whose time has come.

**4.2 Taxing Agriculture**

By far the largest sector in most developing countries is agriculture and this creates special problems for taxation and the structure and treatment of this sector can exert particular influence on the economy (Burgess and Stern). There are many reasons why taxation of agriculture deserves special mention in developing countries. Issues around Agriculture are of central importance in both employment and output of the economy of developing nations. In Nigeria, for instance this sector is said to contribute about 42% of the country’s GDP. The availability and distribution of food is a key aspect of the economy and governments need to take responsibility in its pricing, quality and security.

Needless to say, taxation of Agriculture is very problematic. There are strong limitations on tax tools available to the government to tax agriculture because the transactions are ‘within households’ or in the informal market also known as the shadow economy. Also government is often the main supplier of vital inputs like water, fertilizer, electricity. This creates a problem of the pricing policy which is to be integrated into the taxation of the agricultural products. Subsidies to consumers will act as taxes to farmers and vice versa. The very elastic nature of supplies and demand for agricultural products presents its own complexities. The rural labour market dominated by Agriculture interacts directly or indirectly with labour markets throughout the economy, as such changes in rural incomes may influence urban wages.

In some countries, there has been attempt to raise revenue through the establishment of Agricultural Marketing Boards. The government acts as monopolistic buyer and where farm-gate prices are set systematically below consumer prices plus margin to cover for transport, storage and distribution costs, government revenue is thus generated. This approach is often used as a device to maintain price stability and volatility is transferred into government revenue.

Taxing agriculture could be through taxing income from agriculture or through export duties. However the former raises severe administrative difficulties in measuring income while the latter can create considerable distortions given the high elasticity of supply. An obvious and important example of possible method of Agriculture tax is the land tax. The distribution of land in developing countries is often very unequal, as such equity is served. Also land is in inelastic supply. It is visible and immovable and serves as a good indicator of wealth. Effective land taxation requires careful land records. This is not a problem as land documentation is usually taken very seriously even in developing economies. From the viewpoint of equity, efficiency and administration, land seems a natural base for agriculture taxation. (Burgess and Stern, 1993)

The different possible methods show the potential of tax reforms using a combination of methods for taxing outputs, pricing and subsidization for improvement of revenue, efficiency and wealth redistribution.

**4.3 Local Government Tax Systems**

Local government tax systems in many low-income countries have remained largely unchanged since independence. The neglect of the sub-national tax system is problematic as local taxes often have broad and direct impacts on citizens. A widely found characteristic of local government revenue systems in Africa is the huge number of revenue instruments in use, mainly in the form of fees, charges and licences. They are often distortive, costly to administer, exacerbate inequity and have an inhibiting effect on the start-up of new enterprises and, thus, economic growth. Moreover, there is generally little or no co-ordination with respect to taxation between various levels of government. This has partly to do with lack of capacity at any level. (Burgess and Stern, 1993) These issues must be addressed in a bid to optimize the general tax system and improve revenue levels which will in turn lead to greater development.

**4.4 Broadening the Tax Base**

It is usually the preferred approach that greater tax revenues should be sought not through higher tax rates, but through expansion of taxable economic activity. Broadening the revenue base is vital to building the social ﬁscal contract. It is also central to creating an equitable tax regime. In this perspective, there are good public policy reasons for paying more attention to taxing informal urban economic activity, in terms of both broadening the tax net and exploring alternative ways of building the capacity to tax the sector more effectively in the long term. Finding better ways of taxing the informal sector is gaining increasing attention in many developing countries as Nigeria. For instance, the revenue authorities in Mozambique and Tanzania have recently made substantial efforts to broaden the tax base by incorporating informal sector operators (Fjeldstad and Heggstad, 2012). This has been achieved by a combination of measures, including simpliﬁed tax procedures for small and micro enterprises, taxpayer education and outreach programmes using local languages, engagement of informal sector/micro enterprise associations and closer collaboration and exchange of information with sub-national authorities.

Efforts to broaden the tax base are closely connected to the quality of government expenditure. In many developing countries, there is widespread resistance to paying taxes because citizens perceive they receive little in return for taxes paid. As such considerable and sustained efforts are required before the tax systems in most Sub-Saharan African countries will be signiﬁcantly broadened and perceived as legitimate by the majority of citizens. (Fjeldstad et al., 2012). If taxpayers feel that their tax payments are wasted or misdirected, then compliance will be low, and tax reforms will be far less effective. Programmes to improve public expenditure management and increase efﬁciency in the delivery of public services must therefore go hand in hand with tax reform and revenue enhancement for general growth and development.

**5.0. Empirical Examples of Tax Reforms for Economic Turnaround**

Usually tax reform is a logical complement to revisions in trade and industrial policies in the quest for national development and prosperity of a nation. For instance a desire for more open trade policies will lead to reduction in taxes to attract foreign investment just like we are witnessing in Trump’s America of today.

In countries like Turkey, Jamaica and Mexico, reports have it that tax cuts were used as incentives for payments and make needed adjustments for inflation. Other countries including developing economies like ours have used taxation along with other fiscal and trade measures to help solve their economic problems. Some are discussed below. The details are shown in Tables at Appendix A , B, C& D: (Source: Article on Taxation and Development by Burgess and Stern, Journal of Economic Literature, June 1993)

Country: **TURKEY**

Period: 1980 - 1988

Economic Challenges: High Inflation, Complex and irrational tax system, Untaxed Agriculture Sector, Structural trade deficits financed by foreign aid, persistent fiscal deficits and endemic inflation.

Tax Reform Measures: Reduction in Effective Income Tax rates and Increase in Corporate tax

Introduction of VAT (at 12%)

Expenditure rebate system introduced for equity.

Presumptive Tax for Agriculture introduced

Outcomes: VAT success led to slight revenue increase

However evasion of corporate tax persists.

Country: **Malawi**

Period: 1985 - 1990

Economic Challenges: Balance of payments and fiscal deficits. Strong dependence on foreign borrowing. Overreliance on customs duties for revenue. Complex system of loopholes in corporate and Income tax. Concentration on small base mostly urban waged workers leading to horizontal inequity.

Tax Reform Measures: Collection lags and exemptions reduced in corporate taxation. VAT was introduced. Elimination of export taxes

Outcomes: Total tax revenue increased. Indirect tax evasion reduced. Higher corporate tax lowered investment

Country: **Indonesia**

Period: 1983 – 1986

Economic Challenges: Over reliance on oil sector taxes (60%) and Public sector. Loopholes in corporate and Income Tax and multiple rates in indirect taxation. Enforcement and compliance problems.

Tax Reform Measures: Laws were simplified. Common rate for personal and corporate income tax. Loopholes closed. Self-assessment was introduced. VAT introduced with different luxury rate.

Outcomes: Share of oil revenue rate falls to 30%. Income tax base increased. VAT revenues increase. Overall revenue effect was however neutral but better equity achieved.

**6.0 CONCLUSION**

The challenge for many developing countries is not only to tax more (i.e. to increase the tax-to-GDP ratio) but also to tax a larger number of citizens and enterprises. What this complex and changing world needs is not some non-existent ‘universal fix’ but rather a sort of fiscal medicine kit containing a variety of remedies and treatments that may help us cope with the wide variety of fiscal problems and needs that arise at different times and often in different ways in different developing countries. (Bird, 2013). Increased domestic revenue generation will only lead to improved development outcomes if the revenue is translated into productive public expenditure. In more practical terms, if tax reform is undertaken in a way that promotes greater responsiveness and accountability, alongside improvements in the state’s institutional capacity, then tax reform can become a catalyst for improvements in government performance and development in general

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