# Liberia Tax Expenditure Report

## April 2024

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## Key Messages

This report was prepared in compliance with Section 57 of the Liberia Revenue Code as amended which requires the Commissioner General of the Liberia Revenue Authority, in consultation with the Minister of Finance and Development Planning to report on annual basis tax expenditures or information showing the revenue foregone as a result of concessions or investment incentives having a tax effect. It presents estimates of forgone revenue for the period 2018 to 2021 from business income tax (BIT), goods and services tax (GST), and import duty tax expenditures in Liberia. The Government of Liberia provides tax relief either for specific goods and services or for companies, thereby reducing the associated tax liability. The extent to which that tax liability is reduced constitutes a tax expenditure. The main findings of the report are:

1. The value of forgone revenue from Liberia's tax expenditures is estimated at US$145.79 million for 2021, equivalent to about 4.15 percent of 2021 GDP or 30.07 percent of total tax revenue.

2. The GST accounted for the largest share of forgone revenue at an estimated US$74.91 million or 2.11 percent of 2021 GDP.

3. The value of forgone revenue has increased across the three categories of tax expenditure covered in the report. BIT expenditures registered the largest increase, rising from US$3.438 million (0.11 percent of GDP) in 2020 to US$10.443 million (0.3 percent of GDP) in 2021.

4. Liberia's actual tax expenditures are higher than those estimated in this report, as data constraints did not permit the analysis to cover forgone revenue from personal income tax and excise duty tax expenditures.

5. The tax incentives that inform Liberia's tax expenditures are highly individualized in that they vary across beneficiaries and are effectuated through multiple policy instruments. For instance, businesses operating in the same sector or undertaking similar economic activities are often granted different tax incentives. Such degree of incentive targeting makes easy computation and timely reporting of Liberia's tax expenditures challenging.

## Introduction

**Tax expenditures broadly refer to any reductions in tax liability relative to a benchmark tax system.** Governments use tax expenditures to deliver financial support both to companies and individuals. Unlike traditional budgetary expenditures, tax expenditures appear as forgone revenue rather than explicit spending. Tax expenditures can be in the form of exemptions, reduced rates, credits, deferrals, and direct government interventions that pay taxes on behalf of businesses or individuals.

**The overarching goal of tax-expenditure reporting is to increase the transparency of fiscal policy.** Estimates of tax expenditures makes them directly comparable to other forms of public spending. While tax expenditures can encourage new investments and support the development of high-priority economic sectors or activities, they can also be costly and wasteful if they are not well targeted and monitored. Estimating the extent of forgone revenue from tax expenditures is therefore critical to determining their fiscal impact and cost-effectiveness. Moreover, tax expenditures can also have distortionary macroeconomic effects, such as creating unfair competition that hinders growth.

**Tax-expenditure estimates can play a crucial role in improving domestic revenue mobilization.** These estimates enable policymakers to: (a) understand the fiscal cost of tax incentives, exemptions, and other benefits; (b) assess the effectiveness of tax expenditures and evaluate whether they are achieving their intended objectives; (c) ensure transparency and accountability by allowing citizens, civil society organizations, and other stakeholders to determine whether tax expenditures serve the public interest and do not unduly benefit specific individuals or groups; and (d) identify inefficiencies, loopholes, and unintended consequences in the tax code. This inaugural tax-expenditure report for Liberia provides insights into the amount of forgone revenue resulting from the business income tax (BIT), goods and services tax (GST), and import tax expenditures granted by the government. In future iterations, the analysis will be expanded to cover other tax types as more data become available.

**The data that are currently available in Liberia allow for estimates of five categories of tax expenditure.** These include: (i) incentives, deductions, and special allowances for businesses operating in certain sectors or undertaking certain economic activities under Liberia Revenue Code (LRC) Section 204(d) and in individual concession contracts, often in the form of deductions from capital expenses; (ii) reduced rates for BIT, GST, and import duties; (iii) 100 percent exclusions from personal income tax (PIT), GST and import duties under an established threshold; (iv) time-limited exemptions and reduced rates (i.e., "tax holidays") established in individual concession contracts, which mainly pertain to import duties and GST; and (v) special tax regime or preferential tax treatment for specific goods, services, firms, and individuals that do not fall under the four categories listed above.

**In Liberia, the total forgone revenue from tax expenditures is estimated at US$145.79 million in 2021.** The amount of revenue forgone increased from just under 3 percent of GDP between 2018 and 2020 to about

4.15 percent in 2021 (Table 1). Most forgone revenue arises from GST, the cost of which is estimated at 2.11 percent of GDP in 2021, followed by import duties (1.74%) and BIT (0.3%). Liberia's incentive regime is heavily skewed toward the granting of exemptions from the payment of GST and import duties on imported capital equipment, raw materials, and other critical inputs. Forgone revenue from all three tax types has increased since 2018, which calls for close monitoring of the exclusions that are currently being granted and measures to minimize revenue leakages.

**Table 1: Summary of Forgone Revenue by Tax Type, 2018 – 2021**

| | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| Total tax expenditures (US$ millions) | **94.38** | **81.20** | **94.13** | **145.79** |
| %GDP | 2.76% | 2.45% | 2.96% | 4.15% |
| % Total tax revenue | 23.82% | 22.86% | 23.89% | 30.07% |
| *Goods and Services Tax (US$ millions)* | ***50.212*** | ***43.094*** | ***49.797*** | ***74.191*** |
| *%GDP* | 1.47% | 1.30% | 1.57% | 2.11% |
| *% Total tax revenue* | 12.67% | 12.13% | 12.64% | 15.30% |
| *Import duty (US$ millions)* | ***41.728*** | ***34.474*** | ***40.895*** | ***61.156*** |
| *%GDP* | 1.22% | 1.04% | 1.29% | 1.74% |
| *% Total tax revenue* | 10.53% | 9.71% | 10.38% | 12.61% |
| *Business Income Tax (US$ millions)* | ***2.440*** | ***3.628*** | ***3.438*** | ***10.443*** |
| *%GDP* | 0.07% | 0.11% | 0.11% | 0.30% |
| *% Total tax revenue* | 0.62% | 1.02% | 0.87% | 2.15% |

*Source: Author's analysis from LRA's ASYCUDA and BIT returns data*

**The actual amount of forgone revenue from Liberia's tax expenditures is higher than the estimate presented in this report.** Data limitations do not allow for estimates of forgone revenue from PIT and excise duty. Moreover, the previous reporting system for domestic revenue was largely manual and did not readily capture filing data, which prevents the comprehensive reporting of tax expenditure. The previous system also failed to record tax expenditure appropriately, as it treated tax expenditures as a liability or tax debt. Finally, most firms that benefitted from tax expenditures did not file electronic tax returns. Liberia is in the process of transitioning to a new system that will allow for the appropriate reporting of tax expenditures.

**In addition to data constraints, Liberia's benchmark GST and import duty rates are changing over time, which makes it difficult to establish a revenue counterfactual.** Liberia is moving from a single-point sales tax in the form of GST to a value-added tax (VAT), and it has partially implemented the ECOWAS common external tariff (CET). The full adoption of the VAT and the ECOWAS CET will alter the benchmark rates, and the change in the benchmark rates will affect the estimates of forgone revenue. This report should therefore be treated as a starting point for estimating forgone revenue that will be expanded and updated in subsequent iterations.

**This report focuses on the direct cost of forgone revenue from tax expenditures and is not intended to estimate the effectiveness of tax expenditures as a policy tool.** Estimating forgone revenue is the first

step toward improving the management of tax expenditures. The next steps involve conducting impact assessments to determine whether the costliest tax expenditures meet their intended objectives and to guide the process of rationalizing tax expenditures.

**The report is organized into five sections.** Section II presents the benchmark tax system. Section III describes the estimation methodology and data sources. Forgone revenue from tax expenditures is discussed in Section IV. A brief conclusion and recommendations are presented in Section V. Finally, an Annex provides a detailed description of Liberia's benchmark tax system.

## The Benchmark Tax System

**A benchmark tax system acts as a reference point against which tax expenditures or other deviations can be measured.** The benchmark tax system is usually country-specific, and most countries define their benchmark systems according to the relevant national tax legislation, which specifies the tax bases, tax rates, units of taxation, and other key features of revenue administration. Any special provisions in the tax legislation or government policies that provide preferential treatment to specific individuals, groups, firms, or economic sectors are identified as tax expenditures. This section discusses the key features of Liberia's benchmark tax system and deviations from that system.

### *Personal Income Tax (PIT)*

**The unit of taxation for the PIT is the individual or natural person.** The basis of taxation is the individual's gross income, which includes all economic benefits that the individual derives during the tax year. If the individual is a nonresident of Liberia, the benchmark PIT base is the portion of gross income that is sourced in Liberia. A natural person who derives income from trade with a turnover of less than L$200,000 is considered a petty trader, and this income is equally taxable. The benchmark PIT rates are specified in LRC Section 200(a)(3) and Section 200(c)(4) (Table 2).[2]

**Table 2: Liberia's Benchmark PIT Rates**

| Step | Annual taxable income (L$) | Rate and computation (L$) |
|---|---|---|
| 1 | 0 to 70,000 | Nil |
| 2 | 70,001 to 200,000 | 5% of the excess over 70,000 |
| 3 | 200.001 to 800,000 | 6,500 + 15% of the excess over 200,000 |
| 4 | 800.001 and above | 96,500 + 25% of the excess over 800,000 |

[2] Income of a natural person from interest in a partnership is taxed at the partnership level at the rate 25% but is creditable against PIT derived using the PIT table in section 200 of LRC.

| Rates for a natural person that derives income from trade with a turnover of less than L$200,000 | | |
|---|---|---|
| No. | Rate | Description |
| 1 | L$2,400 | if the petty trader conducts trade or business from a fixed structure with a roof and walls (including an office or workstation located within a personal residence) |
| 2 | L$1,200 | if the petty trader conducts trade or business from a fixed, open structure with a roof |
| 3 | L$480 | if the petty trader conducts trade or business other than as described in (1) or (2) |
| 4 | L$240 | if the trade or business is conducted exclusively outside Montserrado |

*Source: Liberia Revenue Code*

**An exemption threshold and a special tax regime cause deviations from the benchmark PIT.** The legal basis for the exemption is defined in the LRC, while the special regime is set forth in the Liberia-Germany Double Taxation Treaty.

Exemptions: Income below L$70,000 is exempt from PIT
The exemption threshold under Section 200(a) of the LRC excludes a share of individual income from taxation. This is considered a tax expenditure because it does not apply all to income levels but only to income below L$70,000[3].

Special regime: Income or payments in the form of dividends, interest, royalties, and directors' fees made by a Liberian resident (either a natural or legal person) to a resident German taxpayer are not subject to taxation in Liberia. This is considered a tax expenditure because excluding these transactions from taxation reduces the Liberian government's revenue potential, even though the same transactions may still be taxed by the German government.

## *Business Income Tax (BIT)*

**Firms and legal persons are subject to BIT.** The benchmark BIT rate is the business income tax rate of 25 percent for general businesses (LRC Section 200(b)) and 30 percent for agriculture (LRC chapter 6) and mining (LRC chapter 7) operators. Section 200(b) also levies a minimum tax of 2 percent of gross income in lieu of the regular 25 percent BIT. Partnerships and trusts are considered legal persons and are taxed accordingly, except that the amount paid in taxes is apportioned among the partners according to their shares and subsequently credited against each partner's PIT liability. Deviations from the benchmark BIT take the

[3] Section 8 of the LRC calls for inflation of adjustment of amount stated in Liberian dollar if the Liberian dollar depreciate more than 10 basis points against the US dollar. Applying same to the PIT table will significantly change the benchmark PIT table and hence the ensuing tax expenditures.

form of additional deductions, exemptions, reduced rates, tax holidays, and a special regime that offers preferential rates to specific firms.

### *Import Duties*

**The benchmark tax system for import duties is the existing tariff schedule, as Liberia has not yet fully transitioned to the ECOWAS Common External Tariff (CET).** As part of its regional integration agenda, Liberia is expected to adopt the ECOWAS CET as the standard reference tax system for import duties and other customs-related charges. Liberia is currently in year two of its four-year plan to fully implement the CET, which uses a phased approach to ensure a smooth transition. The CET will consolidate Liberia's 15 tariff bands into five bands (Table 3). When it is fully implemented, the CET will become the benchmark tax system for import duties. Deviations from the current benchmark for import duties include duty exemptions, reduced tariff rates, tax holidays, and special regimes. These deviations, which are established through various laws and policies, are considered tax expenditures because they reduce potential revenue and are granted to a select group of taxpayers.

**Table 3: ECOWAS CET Band Structure**

| CET Bands | Description | Rate (%) |
|---|---|---|
| 1 | Basic social goods | 0 |
| 2 | Basic goods, raw materials, capital goods and specific inputs | 5 |
| 3 | Intermediate goods and inputs | 10 |
| 4 | Finished goods | 20 |
| 5 | Finished goods with potential for industrialization | 35 |

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

**Liberia's GST regime is a single-stage sales tax with no refund mechanism.** The tax base is narrow because the tax code lists taxable goods and services instead of the exempt supplies. The design of the GST regime is suboptimal and warrants an overhaul. It lacks key features of a VAT or other standard consumption tax. Liberia is in the process of replacing the GST with a VAT, and a draft VAT bill has been submitted to the legislature for consideration. For now, however, the GST as defined in Chapter 10 of the LRC remains a key part of the benchmark tax system. The standard GST rate is 10 percent for most goods and services and 15 percent for mobile telecommunications services. Deviations from the benchmark GST include exemptions, tax holidays, reduced rates, and special regimes.

## Estimation and Data

**The forgone-revenue approach is used to estimate the direct cost of tax expenditures in Liberia.** Tax expenditures are estimated by calculating the direct revenue loss arising from a specific provision in the tax law or government policy relative to the benchmark tax system. The methodology assumes that the presence or absence of tax expenditures does not induce any behavioral changes in firms or individuals, including changes in compliance rates. As a result, the estimated revenue impact may differ from the actual impact if tax expenditures induce taxpayers to alter their behavior. Moreover, the removal of one tax expenditure can affect the amount of forgone revenue from other tax expenditures due to interdependencies between tax provisions. While alternative methodologies exist, the forgone-revenue approach is the most straightforward way to estimate the cost of tax expenditures.

**The data for BIT expenditures are sourced from electronic business tax returns from 2018–2021.** The number of electronic returns more than doubled from 477 in 2018 to 1,035 in 2021, while the share of returns from firms that benefitted from at least one tax expenditure fell from 11.45 percent to 4.02 percent. The number of beneficiaries of BIT expenditures ranged from 40 to 53 firms per year over the period (Table 4). BIT expenditures include reduced rates, tax holidays, additional deductions for the purchase of assets for firms in the agriculture, services, and manufacturing sectors, and a special regime that allows exclusions from the 2 percent turnover or minimum tax that may be paid in lieu of the BIT.

**Table 4: BIT Expenditures**

| Tax period | Number of firms benefitting from a tax expenditure | | Total | Share of firms benefitting from a tax expenditure |
|---|---|---|---|---|
| | No | Yes | | |
| 2018 | 428 | 49 | 477 | 11.45% |
| 2019 | 521 | 48 | 569 | 9.21% |
| 2020 | 914 | 53 | 967 | 5.80% |
| 2021 | 995 | 40 | 1,035 | 4.02% |
| Total | **2,858** | **190** | **3,048** | |

*Source: Authors' analysis from Liberia Revenue Authority's Business Income returns' data*

**Large corporations that benefit from BIT expenditures may not be filling tax returns, as there is no electronic record in the available data.** For example, one company benefits from all forms of BIT expenditure except the tax holiday, yet there is no record of this company having filed a tax return during the period in question. The absence of comprehensive electronic returns undermines the estimates of forgone revenue. It appears that firms often misinterpret tax relief as eliminating the need to file a tax return, though no such provision is present in the legislation. The tax administration may also be reluctant to enforce compliance among these firms because tax relief reduces or eliminates the revenue they would provide. Moreover, the SIGTAS platform that preceded the current LITAS system automatically computed a bill for each taxpayer once the taxpayer filed a tax return, even if the taxpayer was exempt from payment under the incentive arrangement. As a result, firms that received tax benefits and the Liberia Revenue Authority (LRA)

were reluctant to file or enforce returns, respectively, to avoid incorrect bills or assessments in the system. Going forward, the authorities should strive to ensure that all firms file tax returns, even if they have no tax liability, as those returns are vital to accurately estimate the cost tax expenditures.

**The existing data do, however, show considerable evidence that certain tax benefits are wasteful.** For example, one company has enjoyed a CIT tax holiday since 1959 because it benefits from an incentive that lasts 70 years, and it continued to post losses in 2021. This element of the tax code is clearly suboptimal and likely encourages allocative inefficiency, as the lack of reported profits fails to justify such a lengthy tax holiday.

**Data from tax returns does not fully capture informal economic activity, which often goes untaxed.** It is unclear whether formal firms are representative of all taxable economic activity in Liberia, and the estimates presented here should be treated as a starting point for a more refined analysis of tax expenditures in the future. In addition, the available electronic returns may not adequately capture all formal economic activity.

**The team was able to access data for all payments made to the government, which include a unique identifier that was cross-referenced against the electronic BIT returns.** Most firms that filed returns had a corresponding payment in 2021, though about 18 percent of returns had no corresponding payment. Further investigation revealed that these firms' liabilities were recorded as debts to the tax authority. Under the current system, if a taxpayer files a return and no payment is made by the due date, a tax bill is issued and becomes enforceable after 30 days. The enforcement office then issues a 72-hour notice for the closure of business, after which the liability is forwarded to the tax authority's legal department for possible litigation and can be viewed as a tax in dispute. However, most formal firms file returns and make timely payments.

**Loss-making firms may have no BIT liability, but Liberia imposes a 2 percent turnover tax in lieu of the BIT.** Though it may appear low, the turnover tax is designed to have the same effect as the BIT. BIT liability as share of the gross income of taxpaying firms (i.e., the effective tax) averages about 2.3 percent (Table 5). As a result, loss-making firms still pay the rough equivalent of the BIT rate. Given the computational simplicity of the turnover tax, the design of the regime may encourage firms to remain in a loss-making position for tax purposes rather than bear the compliance burden of the BIT. Moreover, firms tend to negotiate for a reduced rate of 1 percent or an exemption from this tax, and these reduced rates and exemptions are estimated as BIT expenditures.

**Table 5: Average Effective BIT Rates, 2018-2021**

| Tax Period | Number of Firms | Average Effective Rate | Standard Deviation |
|---|---|---|---|
| 2018 | 179 | 2.15 | 0.03 |
| 2019 | 203 | 2.44 | 0.04 |
| 2020 | 326 | 2.38 | 0.04 |
| 2021 | 387 | 2.23 | 0.03 |

*Source: Authors' analysis from Liberia Revenue Authority's Business Income returns' data*

**BIT returns include data on additional deductions for capital investments by firms in the manufacturing, services, and agricultural sectors.** These expenses are deducted from taxable income before tax liability is computed. To estimate forgone revenue, these expenses are added back in before the tax liability is recalculated using the benchmark BIT rate. The difference between the initial and recalculated tax liability constitutes the amount of forgone revenue. These deductions are designed to allow firms to recover their investments in physical assets much earlier in the economic life of the asset than would otherwise be the case.

**Import data are used to estimate forgone revenue both for import duty and GST.** About 12.7 percent of Liberia's total imports are exempt from import duty and GST, either under legislation such as Sections 9 and 16 of Liberia's Revenue Code and Schedule 2 of Liberia's Customs Code or at the discretion of the Minister of Finance and Development Planning. Liberia currently implements a 15-band tariff structure, which the government plans to consolidate into ECOWAS's five tariff bands. The current tariff structure, referred to as the "common regime," applied to about 87.3 percent of total imports in 2021. About 8.6 percent of total imports are covered under Section 16 of the LRC, which waives all import duties on capital equipment, raw materials, and supplies for firms operating in qualifying sectors with investment outlay of less than US$10 million (Table 6). These incentives were initially granted for a maximum period of five years but have been extended for another three years. Imports by contractors working on government-funded or donor-funded projects are exempt from import duties, as are imports purchased directly by the government. These exemptions are granted under LRC Section 9 and accounted for 1.9 percent of total imports in 2021. An exemption for rice, which accounts for about 0.1 percent of total imports, is granted through an executive order that has been reissued by the head of state each year since the 2000s.

**Table 6: Imports by Tax Regime (million US$)**

| Tax Treatment | 2018 | 2019 | 2020 | 2021 | Share of total imports in 2021 |
|---|---|---|---|---|---|
| Special Exemptions by Ministry of Finance | 10,180 | 10,898 | 11,186 | 12,367 | 8.6% |
| Special regime | 4,209 | 2,107 | 1,307 | 1,189 | 0.8% |
| Imports by or on behalf of the government | 2,517 | 2,404 | 2,375 | 2,730 | 1.9% |
| Exemption for rice | 141 | 143 | 170 | 139 | 0.1% |
| Common regime | 108,285 | 107,265 | 102,827 | 125,601 | 87.3% |
| Other | 1,714 | 1,973 | 1,497 | 1,802 | 1.3% |
| Total | **127,046** | **124,790** | **119,362** | **143,828** | **1.00** |

*Source: Authors' analysis from Liberia Revenue Authority's ASYCUDA data*

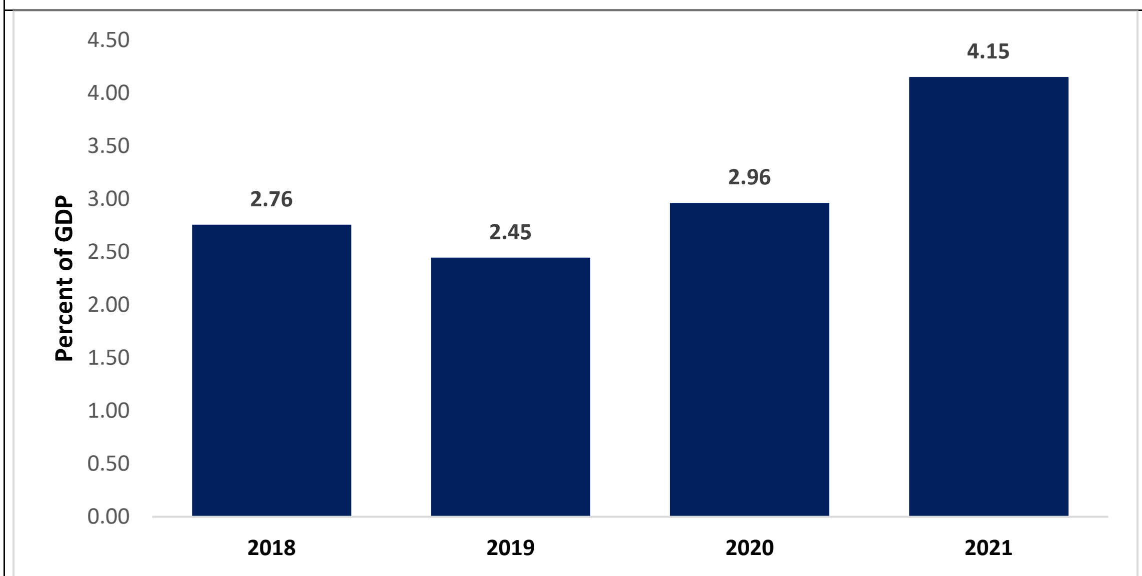
**Beneficiaries of import-duty exemptions enjoy broadly similar treatment under the GST, exemptions from which are granted either by Section 16 of the LRC or through a concession agreement.** Liberia's GST regime is a single-stage sales tax with no refund mechanism, so all exempt imports are treated as imports for final consumption. The government is in the process of replacing the GST with a VAT, which should enable it to provide specific tax credits for intermediate goods.

**Data limitations precluded the team from estimating the forgone revenue resulting from tax expenditures arising from the double-taxation agreement with Germany.** The agreement exempts income or payments to resident German taxpayers from taxation in Liberia. This potential source of revenue leakage warrants further study, and the tax authorities should begin collecting the necessary data to enable an estimate of forgone revenue from the agreement.

## Forgone Revenue from Tax Expenditures

**The amount of forgone tax revenue due to Liberia's tax expenditures is estimated at US$145.79 million in 2021, equivalent to 4.15 percent of GDP and about 30.7 percent of total tax revenue.** The estimated amount of forgone revenue increased by 1.39 percentage points of GDP between 2018 and 2021, rising from 2.76 percent to 4.15 percent (Figure 1). The largest annual increases in forgone revenue, 0.54 and 0.45 percentage points of GDP, were observed in 2020 and 2021, respectively.

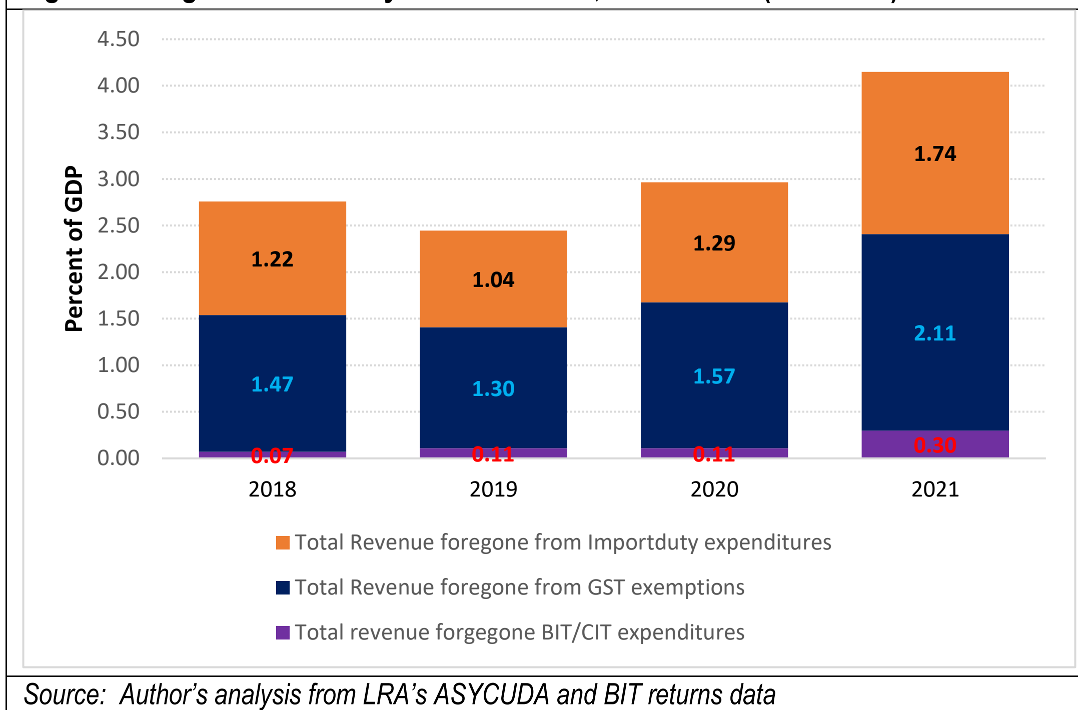
**Figure 1: Forgone Revenue from Tax Expenditures, 2018 – 2021 (% of GDP)**




*Source: Author's analysis from LRA's ASYCUDA and BIT returns data*

**In 2021, the GST accounted for the largest share of forgone revenue at US$74.91 million or 2.11 percent of GDP.** The forgone revenue from GST expenditures increased from USD 50.21 Million in 2018 to about 74.19 million in 2021, which translates into an increase from 12.64 percent to 15.3 percent of total tax revenues. On the other hand, revenue forgone from import duty and BIT expenditures are estimated at USD 61.16 million (1.74% of GDP) and USD 10.44 million (0.33 % of GDP), respectively as of 2021 (See Figure 2). The revenue forgone on account of BIT expenditures were only USD 2.4 million (0.07% of GDP) in 2018, but as increased significantly over the four years of analysis, this might be explained by the increase in the revenue forgone from the additional expenses category in the BIT expenditures, which were estimated at USD 1.49 million in 2018, increased to USD 2.24 million in 2020 and then to USD. 8.68 million in 2021. Note that firms in 'qualifying sectors' are allowed an additional deduction when they invest in physical assets, which allows then to recover their investment quicker, this consequently reduces taxable income and increases the amount of revenue forgone. Import duty tax expenditures were about USD 41.73 million (1.22% of GDP) in 2018., decreased to USD 34.47 million (1.04% of GDP) in 2019, then increased to USD 40.89 million (1.29% of GDP) in 2020 and then USD 61.16 million (1.74 % of GDP) in 2021. Given the increase in revenue forgone in recent years, the Government of Liberia needs to closely monitor the trends and work towards minimizing revenue leakage from the various provisions that grant these tax expenditures.

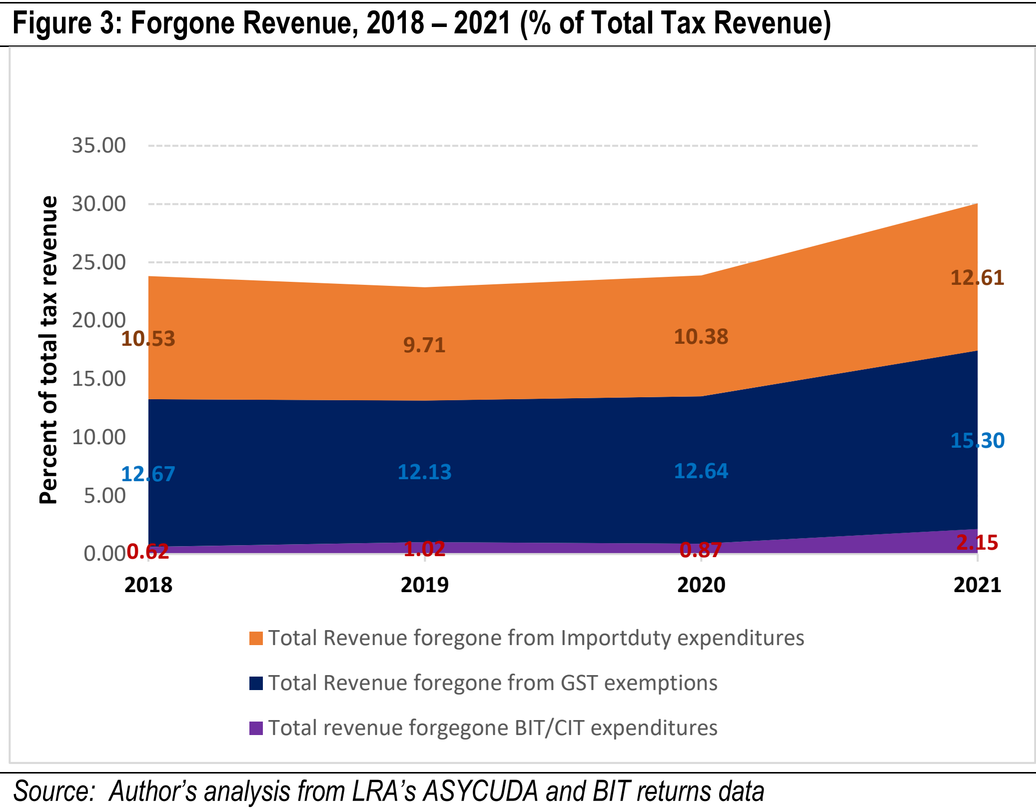
**Figure 2: Forgone Revenue by Tax Instrument, 2018 – 2021 (% of GDP)**




*Source: Author's analysis from LRA's ASYCUDA and BIT returns data*

**Liberia's forgone revenue from tax expenditures rose from 23.82 percent of total revenue in 2018 to 30.07 percent in 2021**. GST expenditures accounted for the largest share of forgone revenue at 15.3 percent, followed by import-duty expenditures at 12.61 percent and BIT expenditures at 2.15 percent (Figure 3). The increase in forgone revenue in recent years calls for close monitoring of tax expenditures and a thorough review of their alignment with the government's policy goals. The analysis also identified inactive incentives that can be eliminated from the tax code.

**Figure 3: Forgone Revenue, 2018 – 2021 (% of Total Tax Revenue)**




*Source: Author's analysis from LRA's ASYCUDA and BIT returns data*

**While forgone revenue increased across all tax-expenditure categories, BIT registered the greatest increase, rising from about US$3.438 million in 2020 to US$10.443 million in 2021.** The increase in forgone revenue from BIT expenditures was driven by an increase in deductions for investment in physical assets, which rose from US$2.242 million in 2020 to US$8.681 million in 2021 (Table 7). This increase in deductions may reflect firms in the manufacturing, services, and agricultural sectors investing more in physical assets in the wake of the pandemic.

**Most forgone revenue from GST and import-duty expenditures resulted from special exemptions granted by the Ministry of Finance.** The fiscal cost of these exemptions was estimated at US$33.827 million for GST and US$26.729 million for import duties in 2021, and these tax expenditures increased by 75 percent and 85 percent, respectively, relative to 2020. The forgone revenue from exempting rice imports from GST and import duty was estimated at US$23.5 million and US$21.4 million, respectively, in 2021, and the fiscal cost of these exemptions increased by 49.3 percent and 48.6 percent, respectively, relative to 2020. In 2021, the government's special tax regime for specific imports by specific companies resulted in about US$7.713 million in forgone GST revenue and US$7.067 million in forgone import-duty revenue. The across-the-board increase in forgone revenue from different tax-expenditure categories highlights the importance of closer scrutiny of beneficiaries and continuous monitoring to minimize the possibility of revenue leakages.

**Table 7: Forgone Revenue by Tax-Expenditure Category, 2018 – 2021**

| Tax Expenditure Category | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| Business Income Tax | **2.440** | **3.628** | **3.438** | **10.443** |
| *Extra ordinary Expense/Accelerated Depreciation* | *1.489* | *2.562* | *2.242* | *8.681* |
| *Reduced rate or exempt* | *0.031* | *0.037* | *0.055* | *0.531* |
| *Reduced or exempt presumptive rate* | *0.920* | *1.029* | *1.141* | *1.232* |
| Import Duty | **41.728** | **34.474** | **40.895** | **61.156** |
| *Special exemption granted by the Ministry of Finance* | *10.104* | *10.412* | *14.418* | *26.729* |
| *Rice exemption* | *13.538* | *12.840* | *14.399* | *21.400* |
| *Special regime* | *9.100* | *6.469* | *5.740* | *7.067* |
| *Imports by and on behalf of Government* | *8.560* | *4.753* | *6.339* | *5.960* |
| *Companies exempt 100% MF355* | *0.425* | | | |
| Goods and Services Tax | **50.212** | **43.094** | **49.797** | **74.191** |
| *Special exemption granted by the Ministry of Finance* | *13.495* | *13.814* | *19.324* | *33.827* |
| *Rice exemption* | *14.819* | *14.204* | *15.740* | *23.500* |
| *Imports by and on behalf of Government* | *9.788* | *7.728* | *8.643* | *9.151* |
| *Special regime* | *11.513* | *7.348* | *6.090* | *7.713* |
| *Companies exempt 100% MF355* | *0.597* | - | | |
| Total (US$ millions) | **94.380** | **81.196** | **94.130** | **145.790** |
| Total (% GDP) | **2.76%** | **2.45%** | **2.96%** | **4.15%** |

*Source: Authors' analysis from Liberia Revenue Authority's ASYCUDA data*

**This inaugural tax-expenditure report estimates the amount of forgone revenue due to exemptions, deductions, and other tax benefits pertaining to BIT, GST, and import duties.** Due to data limitations, the estimates do not include forgone revenue from the special regime or from PIT and excise-duty exemptions. The estimates could also be refined through disaggregation by level of economic activity and beneficiary sector, but the data do not allow for a more granular analysis.

## Conclusion and Recommendations

**The amount of forgone revenue resulting from Liberia's tax expenditures rose significantly over the four years analyzed in this report.** Increases were observed across all tax-expenditure categories and forgone revenue rose sharply in 2021. These trends were driven by: (a) increased BIT deductions for capital investment; (b) more extensive use of GST and import-duty exemptions granted by the Ministry of Finance; and (c) the rising fiscal cost of exempting rice from GST and import duties.

**This report focuses solely on estimating forgone revenue and does not evaluate the impact or effectiveness of Liberia's tax expenditures.** The report should be treated as the foundation for a broader analysis of tax expenditures in Liberia, and its scope and coverage can be expanded as more data become available. In addition, the estimates of the benchmark system will need to be updated when the pending VAT and ECOWAS CET reforms have been fully implemented. Nevertheless, this report provides a basis for the Government of Liberia to begin scrutinizing its tax expenditures and assessing whether their considerable cost is justified by any tangible economic benefits.

**The existing tax incentive regime is complex in design and varies from one taxpayer to the other.** For instance, taxpayers operating in the same sector and similar business undertakings are often given different tax incentives. This makes the concise and timely assessment of the ensuing tax expenditure difficult. It is therefore recommended that the entire tax incentive regime be reviewed with the aim of designing a more simplified tax incentive regime.

**Ensure firms or businesses that benefit from tax incentive file their returns and appropriately report value of the tax incentives they enjoyed.** For instance, making electronic filing and reporting of tax expenditures precondition for the continue utilization will complement the new electronic filing system.

**Strengthen the monitoring mechanisms of tax incentives that are being granted and put in place measures to minimize leakages.** Given the increase in revenue forgone in recent years, there is a need to closely monitor the trends and work towards minimizing revenue leakage from the various provisions that grant these tax expenditures.

## Annex: Benchmark in detail

In Liberia, the bases for taxation are set out in the Liberia Revenue Code (LRC). This establishes the general provisions of the LRC as Liberia's benchmark tax system against which the various deviations are measured to derive the tax expenditure.

Section 4 of the LRC recognizes the following as taxes and fees in effect in Liberia:

1. Personal income tax (PIT)
2. Business income tax (BIT)
3. Goods and services tax (GST)
4. Excise tax
5. Customs duties and related charges
6. Real property tax,
7. Government agency fees, and
8. Obligatory payments.

Definitions of these taxes, including the bases of taxation and rates, are set out in respective provisions of the LRC; while deviations from them are contained sections of the LRC and other policy instruments – including concession contracts approved by the legislature, executive orders issued by the President, and agreements with international organizations and development partners.

### Personal Income Tax

| Incentive Types | Incentive Description | Does this incentive apply to all category taxpayers? | Name of Beneficiaries | Legal basis of incentives | Is this a benchmark or tax expenditure? | Justifications |
|---|---|---|---|---|---|---|
| Exemption | Annual income less than or equal to LRD70,000 is exempt from personal income taxation | Yes | Resident natural person | Section 200(a) of the Liberia Revenue Law | Tax expenditure | The objective is to provide general relief for low-income earners. |
| Exemption | Payments received as sickness, disability or death benefits are excluded from personal income taxation | Yes | Resident natural person | Section 202(a) of the LRC | Benchmark | Part of the standard PIT provision |

| Incentive Types | Incentive Description | Does this incentive apply to all category taxpayers? | Name of Beneficiaries | Legal basis of incentives | Is this a benchmark or tax expenditure? | Justifications |
|---|---|---|---|---|---|---|
| Exemption | Property received in a donative transfer or transfer by death is excluded from the income of the recipient. | Yes | Resident natural person | Section 202(b) of the LRC | Benchmark | Part of the standard PIT provision |
| Exemption | Non-cash benefits with value below LRD100,000 are exempt from personal income taxation | Yes | Resident natural person | Section 202 (c) of the LRC | Benchmark | Part of the standard PIT provision |
| Deduction | Contributions to charity or charitable organization are deductible from taxable income | Yes | Resident natural person | Section 205(b) of the LRC | Benchmark | Part of the standard PIT provision |
| Special regime | Applies to individual taxpayers | No | German resident taxpayer | Article 10 of Liberia-Germany Double Tax Treaty | Tax expenditure | Objective is to attract German FDI |
| Special regime | Income received as interest payment by a Liberian resident taxpayer to a German resident taxpayer is exempt from income taxation in Liberia | No | German resident taxpayer | Article 11 of Liberia-Germany Double Tax Treaty | Tax expenditure | Objective is to attract German FDI |
| Special regime | Income received as royalty payment by a Liberian resident taxpayer to a German resident taxpayer is exempt from | No | German resident taxpayer | Article 12 of Liberia-Germany Double Tax Treaty | Tax expenditure | Objective is to attract German FDI |

| Incentive Types | Incentive Description | Does this incentive apply to all category taxpayers? | Name of Beneficiaries | Legal basis of incentives | Is this a benchmark or tax expenditure? | Justifications |
|---|---|---|---|---|---|---|
| | income taxation in Liberia | | | | | |
| Special regime | Income received as payment of director fees by a Liberian resident taxpayer to a German resident taxpayer is exempt from income taxation in Liberia | No | German resident taxpayer | Article 16 of Liberia-Germany Double Tax Treaty | Tax expenditure | Objective is to attract German FDI |

## Business/Corporate Income Tax

| Category of tax incentives | Description of the deviations |
|---|---|
| Additional incentive deductions | - An additional incentive deduction as percent (30 to 50) of the purchased price of an asset is allowed for manufacturing, service, and agriculture businesses when they are deriving their taxable income (LRC section 204(d). Said deduction is considered tax expenditure because, in addition to reducing potential revenue, is not available to all taxpayers.<br><br>- In addition to the additional incentive deductions allowed under Section 204(d), several businesses are allowed the following deductions under concessional contracts.<br>▪ 5% of capital expenses incurred in concession areas.<br>▪ 5% of capital cost for employing 100 Liberians.<br>▪ 30% of the purchases price of equipment and machinery.<br>▪ 10% of capital expenses as zonal incentive<br>▪ 10% of capital expenses for employing 1,000 Liberians<br>▪ 30% of purchased price of equipment and machinery.<br>▪ 5% of capital expenses for employing 1,000 Liberians.<br>▪ 5% of capital expenses for employing 200 Liberians. |
| Reduced rates | - Deviation from the standard BIT rate (25% general businesses and 30% for agriculture producers) is allowed for businesses involved in the cultivation of domestic rice at the rate of 15% (LRC Section 602). This is considered tax expenditure because, in addition to reducing the potential revenue, it is not available to taxpayers. |

| Category of tax incentives | Description of the deviations |
|---|---|
| | - Deviations in the form benchmark BIT in the form reduced rates also applied to some individual businesses in their concession contracts:<br>▪ 10% for the first 15 years and 15% for the next 15 years of the contract terms (the standard rate is 30%).<br>▪ 25% for the first 15 years after the effective date of the contract.<br>▪ 25% throughout the term of the agreement (the standard rate is 30%). |
| Tax holidays | - The only deviation from the standard BIT rate that comes in the form of tax holiday is in a form of a 14-year tax-free period starting from the date of planting the initial development area of the benefit firm. |
| Special regime | - Deviations from BIT in the form of a special regime largely applied to the 2% turnover or minimum tax that is paid in lieu of the regular BIT. These constitute tax expenditure given that they are contained in the concession contracts of individual businesses in addition to deviating from benchmark minimum tax rate. The deviations may include;<br>o 1% of gross income throughout the term of the contract.<br>o 0% percent until the sixth anniversary of the contract.<br>o 0% of gross income for the first five years from the effective date of the contract. |

## Import Duty

| Category of tax incentives | Description of the deviations |
|---|---|
| Exemptions | - Deviations under this category entail 100% percent exemption from the payment of import duties. They are granted to select group of importers under varying circumstances. These include:<br>1. Exemptions under LRC Sections 9(e) and 2202 and schedule 2 of the customs:<br>▪ Importation of goods for GOL ministries and agencies (including the Office of the President, Legislators, and judges of the Supreme Court)<br>▪ Importation of goods for religious, health and/or charitable organizations<br>▪ Importation of goods for diplomatic missions and/or int'l organizations<br>2. Exemptions under general GOL policy<br>▪ Importations of by Liberian returnees for noncommercial use.<br>▪ Importation of goods originating from ECOWAS and MRU member states.<br>3. Exemptions from the payment of import duties on goods imported under concession contracts approved by the Legislature and special investment incentive certificates issued by the Minister of Finance under Section 16 of the LRC[4]. |
| Reduced Rates | ▪ Deviations under in this category are partial waivers in the form of reduction in the benchmark tariff rate of select commodities. They normally applied to fuel and other consumables imported under concessionaire contracts approved by the Legislature. These include: |

[4] Business operating in qualified sectors with investment outlay of less than US$10 million are granted full import duties waiver capital equipment, raw materials, and supplies. These incentives were initially granted for a maximum period of five years but are now allowed for three years.

| Category of tax incentives | Description of the deviations |
|---|---|
| | ○ 25% of the benchmark tariff rates for goods (including fuel) imported by the concessionaire for a period of 10 years, starting from the effective date of the contract.<br>○ 50% of the benchmark tariff rates for goods imported by the concessionaire for a period of five years, starting from the effective date of the contract.<br>○ 50% of the benchmark tariff rate for fuel for the entire rehabilitation and extended rehabilitation period; and US$1.10 per 100 kg bag of rice imported by the concessionaire.<br>○ 50% of the benchmark tariff rate for fuel for the first 7 years following the effective date of the contract.<br>○ Reduced tariff rate for fuel as follow:<br>▪ 35% of the benchmark tariff rate for the first 10 years following the effective date of the contract.<br>▪ 50% of the benchmark tariff rate from year 10-15 of the contract implementation.<br><br>▪ 50% of the benchmark tariff rate for fuel is applied until such time cheaper power/electricity is provided by the Government.<br>▪ 10% of the benchmark tariff rates for goods other than fuel.<br><br>▪ 50% of the benchmark tariff for fuel for the first three years following the effective date of the second amendment of the contract.<br>▪ 40% of the benchmark tariff rates for goods listed in appendix 1 of the contract, starting from the 5th anniversary of the contract and beyond. |
| Special regime | - Deviations from the benchmark import duties in this category take on a more nuance forms and applied to holders of concession contracts.<br>▪ 100% exemption on goods imported in connection to the concession by affiliates of the concessionaire.<br>▪ 100% exemption on fuel importation until such time cheaper power is provided by the Government.<br>▪ Annual lump sum amount of US$600,000 (paid in two equal installments each year) in place of the import duties applicable on goods imported by the concessionaire for a period of five years following the effective date of the second amendment of the contract.<br>▪ 100% exemption on the importation of fuel, lubricants and HFO from the effective date of the contract until the 5th anniversary of the effective until such time cheaper power is provided by the Government.<br>▪ 100% exemption on the importation HFO until such time cheaper power is provided by the Government.<br>▪ 100% exemption on the importation HFO until such time cheaper power is provided by the Government. |

| Category of tax incentives | Description of the deviations |
|---|---|
| Tax holiday | - Deviations under this category are explicit time bound exemptions contained in concession contracts approved by the Legislature. They are distinguished from the general exemptions in that they do not apply throughout the term of the contacts.<br>o 10-year exemption from the payment of import duties on capital goods, capital spare parts and items used directly in production, starting from the effective date of the contract.<br>o 15-year (8 years for plantation cultivation and 7 years for the construction and operation of the mill) exemption from the payment import duties on capital good and consumables, starting from the effective date of the contract.<br>o 5-year exemption from the payment of import duties on items of agriculture, industrial machineries, capital spare parts, supplies and equipment, and raw materials, starting from the effective date of the contract.<br>o 5-year exemption from the payment of import duties on spare parts and consumables, starting from the effective date of the contract.<br>o 8-year exemption from the payment of import duties on fuel, starting from the effective date.<br>o Exemption from the payment on import duties on items of agriculture, industrial machinery, products, capital spare parts, supplies & equipment, and raw materials used, during the entire rehab period. |

## Goods and Services Tax

| Category of tax incentive | Description of the deviations |
|---|---|
| Exemptions | - Deviations from the benchmark GST under this category are 100% exemption from the payment GST. They are contained in Section 1001 of the LRC, concession contracts approved by the Legislature and incentive certificates issued by the Minister of Finance in keeping with Section 16 of the LRC.<br>▪ Exempt supply under LRC Section 1001(e) (1-6):<br>a. Supply of food stuff for human consumption (but not when served as meal or as cooked or prepared food).<br>b. A supply of goods for the relief of distressed persons in the case of natural disasters or other humanitarian emergencies.<br>c. A supply of a pharmaceutical or medicinal preparation shall be specified by regulation to be issued by the Minister.<br>d. A supply of a medical aids or appliances specifically designed for persons with an illness or disability shall be specified by regulation by the Minister. |

| Category of tax incentive | Description of the deviations |
|---|---|
| | e. A supply of textbooks or other instructional materials designed for use in schools or adult education programs, including items specified in regulations.<br><br>f. a supply made to a registered manufacturer; a renewable resource contractor subject to Part II, Chapter 6 and in the business of agriculture; a mining project producer or petroleum project producer subject to Part II, Chapter 7; or the holder of a Forestry Resource License engaged in the business of forestry.<br><br>▪ Exemptions established in provisions of individual concession contracts, which provide concession holders with 100 percent exemption from payment of the GST.<br><br>▪ Exemption granted through investment incentive certificates issued by the Minister of Finance in keeping with provisions of Section 16 of the LRC. Exemptions in this subcategory are given to investment outlay below US$10 million and last throughout the term of the investment incentive certificate, which ranges from 3 to 5 years. About 87 of incentive certificates have been issued by the Minister during the period 2018 to 2023. |
| Reduced rates | - Deviations as result of reduced rates are established in concession contracts. Approved by the Legislature. Concessions in this category include:<br><br>▪ 3.5% on all items other than those used for educational and medical purposes.<br>▪ 3.5% on all eligible items for the first 7 years of the contract term.<br>▪ 3.5% on all eligible items for the first 10 years of the contract term.<br>▪ 50% of the benchmark sales tax rate on gasoline for the period of 3 years. |
| Special regime | - Like deviations on account of reduced, incentives in this category are granted through concession contracts approved by the Legislature. Deviations in this this category are:<br><br>▪ Exempt on goods and materials supplied for social use.<br>▪ Exempt on payment to affiliates of the concessionaire for services provided to the concessionaire.<br>▪ Exempt on services tax on project management or project oversight or similar services to the extent such services do not include HR, accounting, legal, tax, engineering, architectural or consulting services.<br>▪ from the commencement date until the 5th anniversary of the commencement date, investor shall be assessed GST of US$4.00 per ton of finished products.<br>▪ 7-year exemption on sales of finished products. |

| Category of tax incentive | Description of the deviations |
|---|---|
| | ▪ throughout the term of the contract, the investor shall be exempted from the payment of GST on finished products.<br>▪ US$0.25 GST per 50kg bag of cement (finished products) |
| Tax holidays | - Deviations from the benchmark GST regime<br>▪ Exempt on capital goods, materials, supplies, and services for a period of 10 years.<br>▪ exempt from GST payment for the first 22 years of the Term, capital equipment and raw materials or other inputs for use directly in agriculture.<br>▪ During rehab period, exempt from payment of GST on capital goods or materials and supplies used directly in production or to meet social obligation.<br>▪ During first 33 years of Term, no services tax imposed on providers of technical or operating services to Investor that are not Affiliates, including engineering, surveying, land clearing,<br>▪ Exempt on capital equipment and raw materials used in the project for the first 15 years.<br>▪ For the first 5 years following the effective date of the Agreement, exempt on capital goods or materials and supplies used for production.<br>▪ From the effective date until the 6th anniversary of the effective date, exempt on capital equipment and raw materials.<br>▪ From the effective date until the 5th anniversary of the effective date, investor shall be exempt from the payment of GST on import of capital equipment and raw materials used in operations; and fuel, HFO and lubricants until such time when electricity is made available the gov't at cheap cost.<br>▪ During Rehab Term, no GST on the following: Capital goods or materials and supplies used directly for production.<br>▪ Exempt on approved machineries, equipment, packaging materials, petroleum products, spare parts, for 5 years. |