



# REPUBLIC OF SOMALILAND

Ministry of Finance Development

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## SOMALILAND NATIONAL TAX POLICY 2021-25

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MACROECONOMICS AND STATISTICS DEPARTMENT

# Foreword

*The Government of Somaliland is committed to improving and extending quality services to all citizens of Somaliland. This is firmly anchored in the National Development Plans. We are committed to investing in critical sectors in Somaliland (including water, energy and transport) and encouraging both domestic and foreign investment in Somaliland, which will lead to more jobs and higher levels of economic growth.*

*The Ministry of Finance Development (MOFD) recognizes that the government's revenues will need to increase for us to deliver on these commitments. This is why revenue mobilization is a core pillar of our efforts to reform systems for public financial management (PFM). The Revenue and Customs Acts, passed into law in 2016, and other PFM reforms are recent landmark achievements: We believe they will bring benefits to the mobilization and management of our Government resources.*

*It is my pleasure to present this National Tax Policy Strategy which maps out the means by which the Government intends to develop tax and customs systems that will significantly encourage compliance. This tax policy strategy is necessary to secure sustainable revenue especially from the Inland Revenue stream. It also provides a shared vision of financing Somaliland's public sector in the future.*

*This tax policy strategy and the reforms we will pursue are timely, as our Government undertakes a series of PFM reforms. Each of these reforms will help the Government of Somaliland move towards adopting internationally recognized standards and practices in tax and customs operations. The Ministry of Finance looks forward to working with its partners, nationally and internationally, to deliver on its commitments. This summary document provides information for readers to gain an understanding of Somaliland's National Tax Policy Strategy. The Annexes at the end of this document contain more detailed information about tax policy and tax administration action points and timeframes.*

  
**Dr. Saad Ali Shire**  
**Minister of Finance Development**



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## 1. Introduction

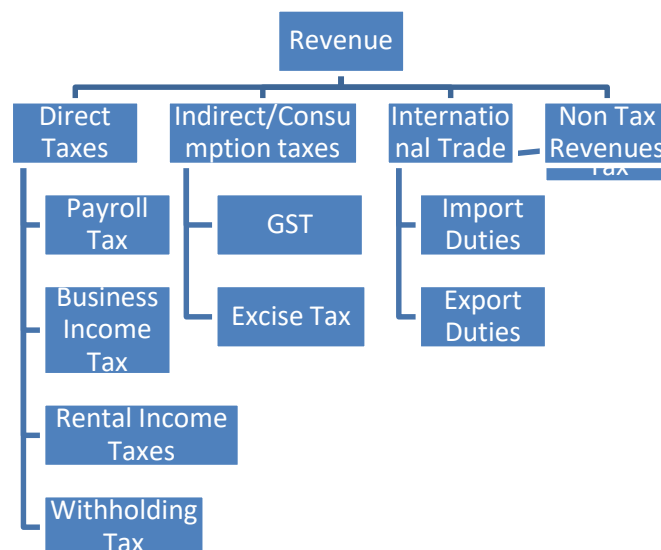
Tax policy is an administrative apparatus that is built to levy and collect taxes, applying different tariffs and taxation bases. It is the prerogative of the government to determine what taxes to levy, in what amounts, and on whom in order to achieve national security and socio-economic goals.

The Government of Somaliland approved a national framework for tax policy in 2018, which defined the long-term reform needs of the revenue system. The Ministry of Finance Development (MOFD) has since been implementing its various policy recommendations in phases. This document is intended to define new tax policy priorities for 2021-25, which will impact on government budget. It is part of the Government of Somaliland's PFM Reform Strategy, setting out the Government's goal for an "efficient, effective and accountable use of public resources as a basis for economic development and poverty eradication through improved service delivery. In this vein, efforts to reform the revenue system have commenced in the first semester of 2015. However, at this stage of the reform, it is fundamental to define the official tax policy framework that will guide the government actions related to the revenue system at a national level in the short-term.

## 2. Overview of Somaliland Tax System

In line with international norms, Somaliland's tax system comprises several tax instruments, including direct personal and corporate income taxes, and indirect taxes such as excise duties and goods and services tax (GST). The revenues that the system generates reflect a broad balance between taxes on consumption, income, and international trade.

**Figure 1: Structure of Taxes**

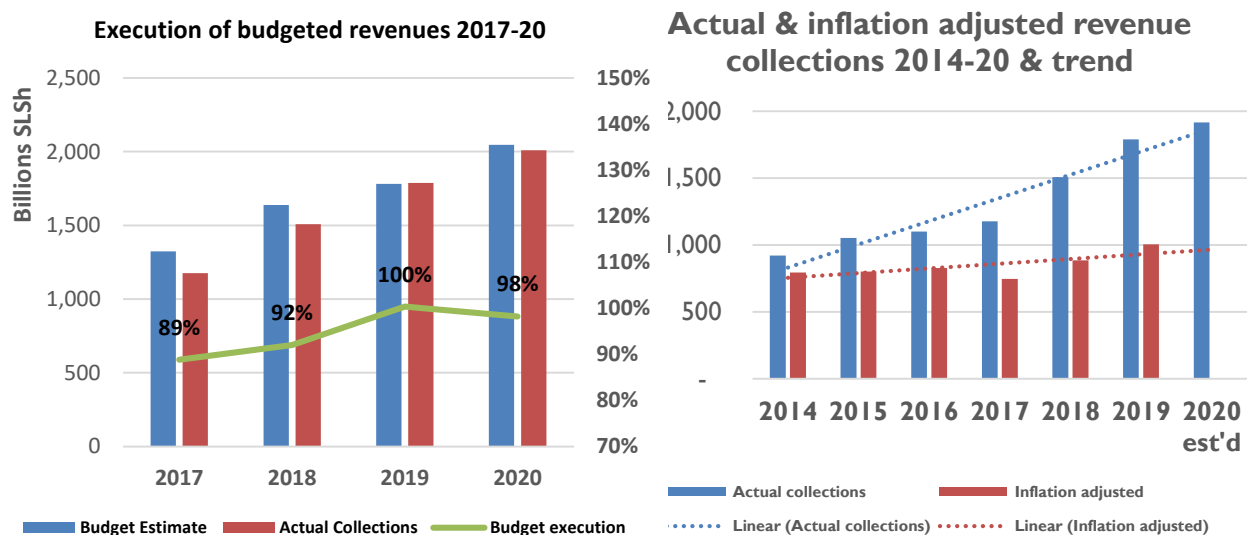


## 2.1. Revenue Performance

The Government of Somaliland has in recent years seen steady improvement in the collection of revenues. As demonstrated in Figure 2, actual collections have increased consistently year-on-year. Collections in real terms (corrected for inflation) were slightly lower in 2017, due to the droughts and export ban, but have otherwise seen an upwards trend. Year-on-year real revenue growth since 2014 has on average been 6%. Due to these increases, Government has consistently come closer to meeting its budgeted revenue collections target.

In relation to meeting revenue targets, overall revenue collections—excluding grants—were 2.010 trillion SLSh in 2020, or 30 billion SLSh (-1.5%) below target. Inland Revenue collections were 10% higher than the target while Customs collections were 5% below target primarily due to the various trade and associated COVID-19 restrictions. In 2019 on the other hand, overall revenue collection—excluding grants—was 5 billion SLSh (0.3%) higher than the budget target. Customs collections were 13% higher than the target, while Inland Revenue collections were collected 24% less than targeted. Targets for Inland Revenue collections for 2019 were set too high for specific taxes, notably for payroll tax.

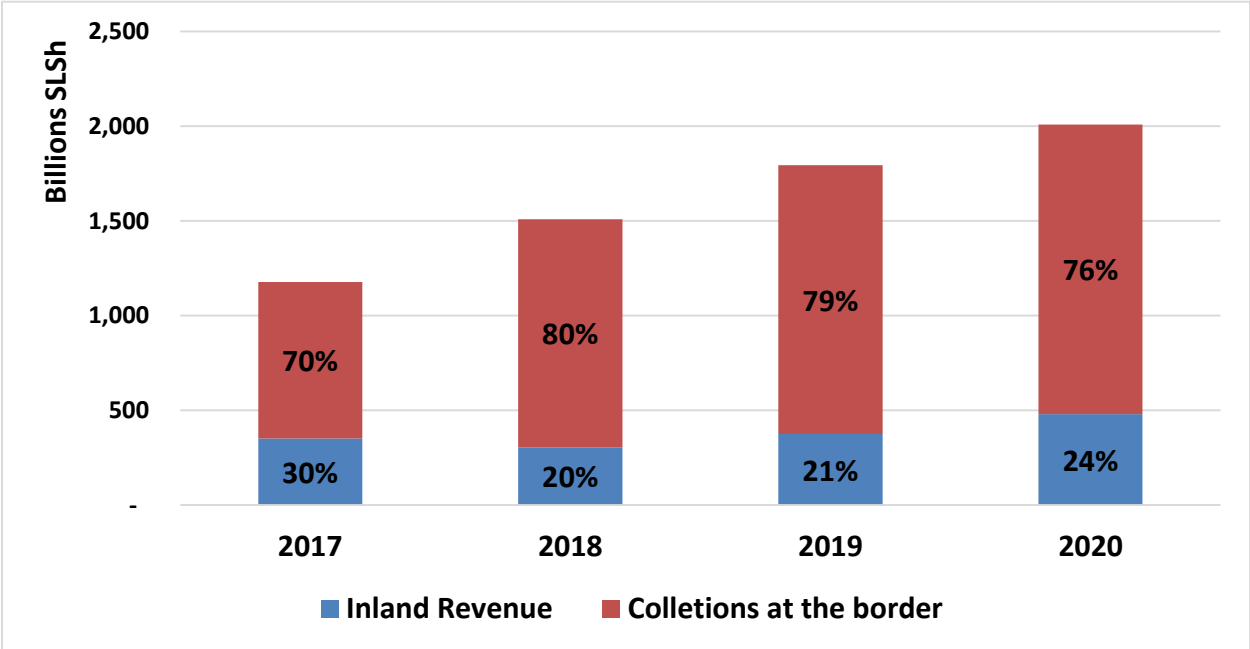
**Figure 2: Revenue Performance 2014-20 – Budget Execution and Trend**



In spite of the global pandemic, total revenue collection in 2020 was 12.4% higher than 2019 collections, primarily due to strong performance on import tax revenues (collecting an additional 86 billion SLSh in 2020) and tax on business incomes which grew by 190% (or an additional 24 billion SLSh). Key revenue items for 2020 included taxes on imports and sales taxes, making up over 54% of total revenue between them.

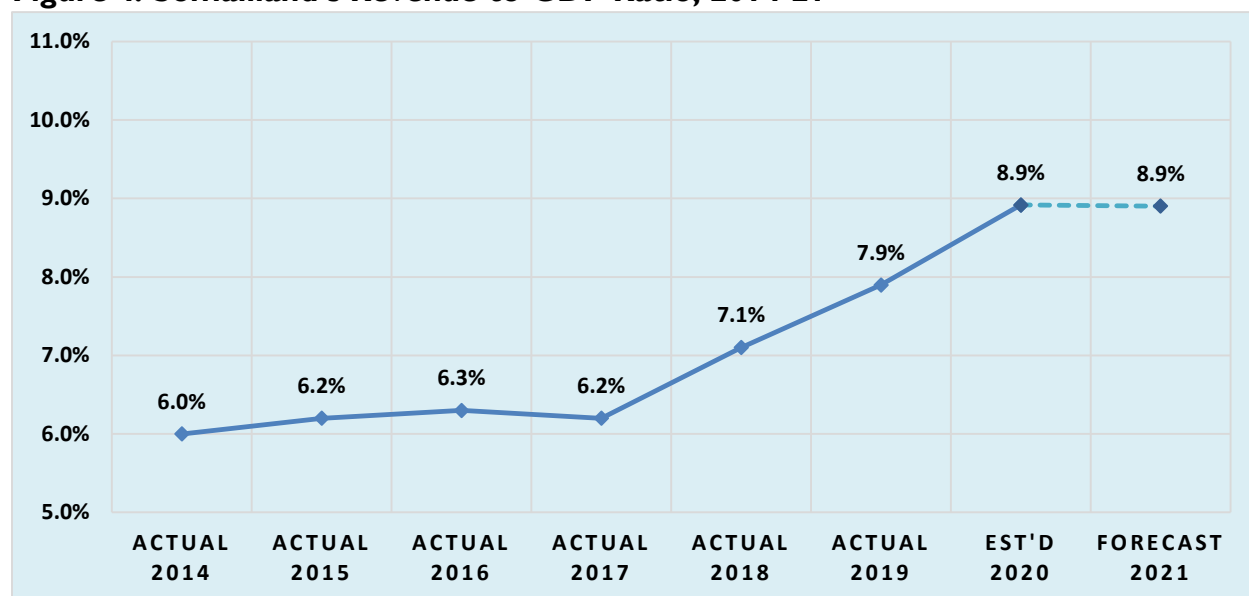
During this period of consistent revenue growth over the last decade, however, the profile of revenues has remained very steady (as shown in Figure 3). Revenue collections in Somaliland are largely from custom duties and a significant number of fees and levies that are collected by the Customs Department at the moment of importation – these on average comprise over 70% of revenue collections. The Inland Revenue Department collects a broad range of inland taxes and fees, which amount to 20-30% of revenue collections.

**Figure 3: Collections in SlsH Blns, Current Prices, Inland and At Border**



Somaliland’s tax base is broad: there are currently many taxes being imposed (over 60 different revenue classifications, at national level alone). Yet some goods and services are not yet taxed, and compliance levels are still relatively low. Government hence sees significant potential in further raising revenues from domestic sources. This is also required to sustainably fund services: although improvements in revenue collections have increased rapidly since 2018, faster indeed than neighboring countries. Government revenue collections are still below the recommended 15% threshold ratio to the Gross Domestic Product (GDP) for sustainably public finances, as shown in Figure 4 below.

**Figure 4: Somaliland's Revenue-to-GDP Ratio, 2014-21**



### **3. Objectives of the Tax Policy**

This Tax Policy Strategy outlines the Government's objectives for the tax system and tax policy, in the context of its economic and fiscal strategies. Underpinning our economic strategy is our commitment to responsible fiscal management within the Public Financial Management & Accountability and Revenue Acts, which include ensuring that Somaliland has a taxation system that is fair, balanced and which promotes the long-term sustainability and productivity of the economy. The Tax Policy Strategy is formulated in line with the Government's annual fiscal objectives, as defined in the budget process.

The tax policy objectives of the Ministry of Finance Development for 2021-25 are to:

1. Resource government functions adequately;
2. Ensure equity in the tax burden;
3. Encourage local production and import substitution;
4. Discourage harmful imports;
5. Protect the environment;
6. Minimize the cost of tax administration;
7. Encourage taxpayer compliance;
8. Be competitive in the region;
9. Attract foreign investment;
10. Encourage work and saving.

## 4. Strategic Targets

The core strategic targets of this Tax Policy statement are to improve revenue collection, and increase Somaliland's tax-to-GDP ratio from **10% to 15%** by 2025, which means increasing tax-to-GDP ratio by 1% every year in the next five years. This will bring Somaliland closer to reaching the target of a **15%** tax-to-GDP ratio as set out in the NDPII.

The most crucial targets which MOFD wants to achieve are to:-

- I. Reduce the dependency on customs revenue by decreasing the share of revenue from customs from 80% to 50% by 2030 through a credible and reliable reforms.
2. Increase the proportion of the Inland Revenue from 20% to 50% by 2030.

In addition to improving revenue collection, the MOFD targets the following, changing the way we raise revenue:

- I) Initiating tax policies that create a sound tax system that promotes industrialization and private sector development. This ensures that revenues are raised in a fairer and more balanced way as growth occurs and tax base expands.
- II) Enhancing the capacities of the revenue administration entities, ensuring that revenue is raised in an economically efficient way and reducing the compliance burden for individuals and businesses.
- III) Improving citizen perception of taxation, raising visibility, and creating a tax system that makes us all proud to be Somalilanders.
- IV) Enhancing transparency and accountability in the tax system, making it harder for anyone to engage in dishonesty and fraud.
- V) Enhancing taxpayer services, education, and information,
- VI) Encouraging local production and import substitution by providing tax incentives and easing doing business.
- VII) Protecting the environment by using tax policy measures.

## 5. Legal Framework of Somaliland Tax Policy

The Constitution of the Republic of Somaliland establishes that: “The imposition of taxes and other duties shall be based on the interests and well-being of the society. Therefore, no taxes or duties which have not been determined by law shall be collected” and “The levying, waiver and changes in taxes and other duties shall be determined by law” (Article 14).

In this light, clearly and appropriately, the power of taxation is delegated to Parliament; specifically, to the House of Representatives. Likewise, the financial relationship between the central government and local governments is determined by the Constitution: “The demarcation of the administrative and tax levying powers between the central government and the regions/districts shall be determined by law setting out the relationship between the central



government and the regions/districts”(Article 112). The revenue act and the customs act were passed by the Somaliland House of Representatives in 2016 repealing the previous laws and the law of regions and district administration was amended by parliament in 2019.

This tax policy is in line with that legal framework of the Somaliland constitution and revenue acts passed in 2016. Any issue in this tax policy which is not consistent with the legal framework of Somaliland is null and void.

## 6. Principles of Sound Tax Policy

There are four key principles of good taxation systems, which MOFD strives to attain and uphold:

- **Equity** – taxes are fair such that those with higher incomes, and who are more able to pay, pay a higher proportion of taxes.
- **Certainty** – taxpayers should know how much, when, where, how and why they have to pay taxes. This increases trust with the taxpayer and enables them to manage their income and expenditure.
- **Convenience** – tax authorities should make every effort to reduce the difficulties in paying taxes, taking into account locations, methods and times of tax declarations and payment.
- **Economy** – tax authorities should try to minimize the administrative costs of collecting taxes to ensure the greatest benefits to the government and taxpayers.

## 7. Tax Policy

This section covers a range of policy initiatives that the Ministry of Finance Development intends to implement in 2021-25. Each initiative will enable the achievement of the objectives and targets outlined above. The Government’s tax policy aims to establish a better balance between competing needs, notably:

- Raising additional revenues for social and public capital investment;
- Keeping tax rates low enough to encourage a healthy flow of investment and business competitiveness and
- Addressing issues of fairness and social welfare in the tax system.

### 7.1. Broadening the Tax Base

The Revenue Act of 2016 and other legislation in Somaliland provide for a substantial tax base. Nevertheless, not all taxes in the Revenue Act are collected and some sectors have low rates – this is particularly true for consumption-related taxes. Hence, there is scope for increasing revenue both by increasing coverage and raising rates. Extending taxes on consumption can

furthermore be a tool for discouraging the import or consumption of certain types of luxury items and potentially harmful goods.

The MOFD will implement the following initiatives to broaden the tax base. It will

- Install GST devices in medium and large business establishments to collect goods and services tax (GST) at the point of sale;
- Raise the GST rate on electricity services from 3% to 5%;
- Introduce excise taxes on imports of beverages and jewelry;
- Raise the excise tax rate on cigarettes and tobacco
- Introduce domestic excise taxes, on telecommunications services and certain manufactured items

These options do not require a change to revenue legislation, and can be introduced as and when Government wants to.

The MOFD has also the option to extend the scope of existing taxes by:

- Extending the tax base of the GST covering additional services which include:
  - Ship handling and loading/unloading services
  - Ship delivery order services (includes freight forwarders/clearance agents)
  - Printing and publishing services
  - Postal and courier services
  - Travel services including tickets for domestic travel by passengers (inter-city buses, not intra-city mini-buses)
  - TV receiver services
- Extending the tax base of the excise tax, by introducing excise taxes on the imports of khat (per unit) and petroleum, and by extending the definition of luxury goods.

The above changes will require amendments to the 2016 Revenue Act, or the introduction of a new set of acts.

## **7.2. Introducing More Progressive and Fair Taxes**

The Revenue Act 2016 includes few provisions that explicitly intend to make the tax system more progressive. Most taxes are applied at the same rate to all taxpayers covered within the scope of the taxes. The exception is the business income (profit) tax, which includes provisions for a simplified arrangement for small taxpayers. Policy measures to simplify or (comparatively) lower taxes for specific taxpayers – whether small businesses or in specific sectors – are useful for improving equity perceptions of the tax system, increasing taxpayer compliance and lowering the cost of tax administration. Such measures can also serve other policy objectives, such as promoting certain types of consumption, investment or employment. The MOFD will consider the following activities to raise the needed revenue and promote fairness or progressiveness in the country's tax system:

- **Implementing provisions for a ‘presumptive’ business income tax for small taxpayers:** as per the Revenue Act, taxpayers with annual gross income (turnover) between SLSH 5 and 250 million can file for income taxes at a rate of 5% (or 10% over half of said turnover) instead of the usual 10% rate over net profit, with lower filing requirements.
- **Introducing progressive tax brackets for the employment income (payroll) tax:** most countries’ payroll tax rates increase for those earning a higher income, to reflect that those employees are able to carry a higher share of the tax burden.
- **Introducing tax-free thresholds or credits/deductions for various taxes:** certain levels or values of economic activity can be considered too low to merit the cost of taxing, and therefore be exempted from core tax types. In this tax policy, the taxes that the MOFD will apply to the progressive system are, but not limited to *Employment income (payroll) tax, Rental income tax and Business income tax.*

In order to implement the progressive tax system, the MOFD will seek amendments to the Revenue Act 2016. New regulations will be also needed to achieve progressivity.

### **7.3. Modernizing the Tariff**

The current goods valuation book used by the customs is a central document to revenue collection in Somaliland. It is however based on outdated and inaccurate values, and a classification system of goods that is not in line with international practice. The Valuation Book therefore, distorts trade into and out of Somaliland, giving an inaccurate picture of the country’s imports and exports. This has serious implications for establishing the country’s balance of payments and GDP.

In this tax policy time line the MOFD (the Customs department) will align the current tariff with the WCO Harmonized System (HS) of classifications. It will collect and organize actual, comparative or indicative values in a valuation database. These activities will be the basis for a thorough review of Somaliland’s tariff. However, the new tariff will be introduced in phases in order to avoid a significant shock to revenues and the Somaliland economy. The Ministry will:

- Select a set of priority sectors to revalue in the short term, in consultation with key traders and business owners. Sectors should preferably be a mix of common imported commodities and very undervalued goods with lower import volumes, to emphasize that the Ministry wishes to minimize the risk of an economic shock,;
- Propose new rates for revalued goods that, in the short term, are lower if the real value is higher (and vice-versa). Proposed rate changes should be proportionate to the change of the value based on indicative or actual prices;
- Consult with and agree on a transition period with traders, during which rates on revalued goods will not be changed, in return for traders declaring the invoices for their goods.

Transitioning to real values (invoices) and updated rates will provide the Ministry an opportunity to take charge of a key trade facilitation tool and also the real value of all the imports which will rectify the real GDP measurement of the country.

#### **7.4. Increasing Efficiency of the Tax System**

The tax system currently includes over 60 individual lines of revenue at national level, administered by various parts of Government under the mandate of the Ministry. This is far more than the norm – compared to both countries in the region and world – and difficult to efficiently manage. To lower the cost of administering revenues, and free up resources to better administer core taxes, the Ministry will review yearly the taxes that:

- Consistently under-perform against their budgeted target, and
- Bring in too small amounts of revenues, measured according to how many civil servants<sup>1</sup> these taxes can keep on the Government payroll.

Based on the above criteria, if a tax cannot fund the cost of its own administration, it is not efficient for the Government to collect that revenues. This becomes more pertinent if such taxes underperform against their budgeted estimates. MOFD will regularly investigate and conduct researches such underperformed taxes.

#### **7.5. Improving Management of Tax Exemptions**

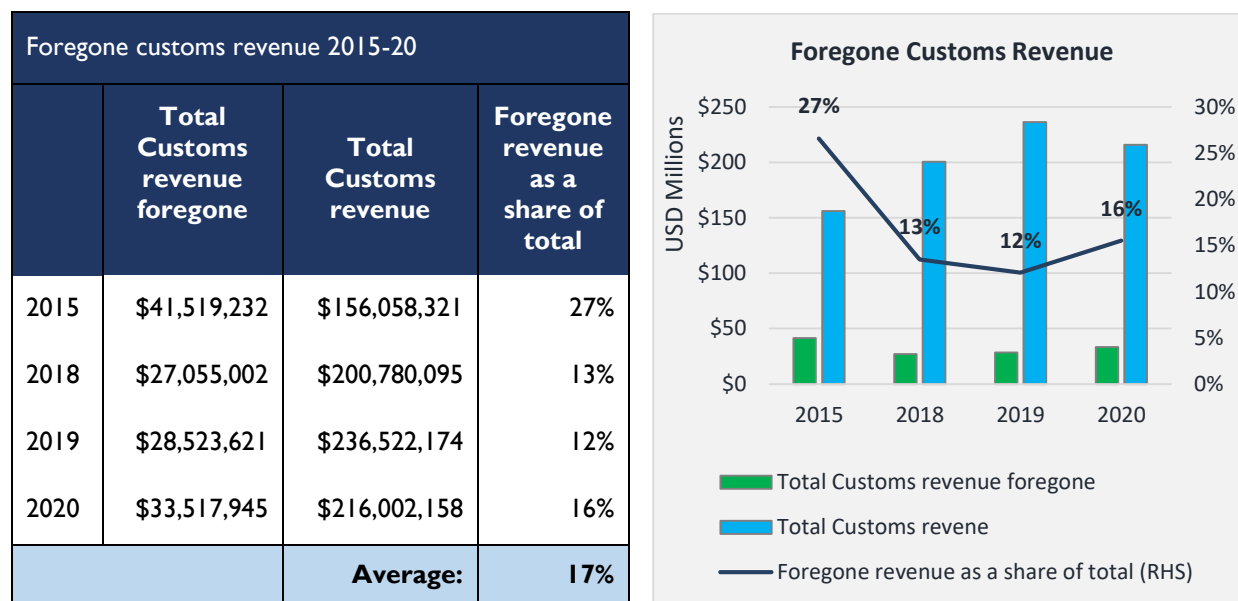
Tax exceptions, or subsidies that Government provides through reductions, waivers and preferences in tax, are typically one of the main sources of revenue leakage. The Government has foregone over USD 33 million in customs revenues in 2020 due to the broad range of exemptions offered by Government, particularly on imports – this is approximately 16% of total customs revenue for the year.

Whereas the trend of exemptions as a share of total customs revenues was decreasing in recent years (as seen in Figure 5), they remain a significant share of revenues collected. Moreover, the value of exemptions has risen considerably in 2020, in line with Government measures to limit the effects of the global COVID-19 pandemic on the price of essential imports.

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<sup>1</sup> The average cost of a civil servant is estimated at SL.Sh 28 million per year.

**Figure 5: Cost of Exemptions from Customs Revenue, 2015-20**



Based on the above information, the MOFD will:

- ✓ use the available approved set of Exemptions Rules;
- ✓ apply the previous Presidential decrees and the Revenue and Customs Acts;
- ✓ administer the tax exemptions by using clear guiding policy frameworks.

## 8. Tax Administration

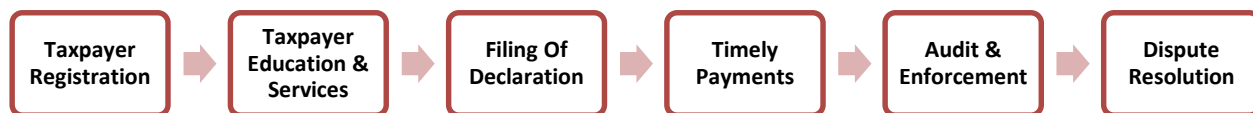
The MOFD will implement the following tax administration process to increase targeted revenues and enhance tax compliance.

### 8.1. Promote Tax Payment Compliance

The government’s ability to collect taxes depends highly on citizens’ willingness to pay them. Encouraging tax compliance depends on creating a predictable and consistent tax system, issuing technical interpretations in a timely fashion, helping taxpayers understand their obligations, ensuring that registration, filing, and payment are efficient, and promoting compliance and fairness through audit and collection enforcement.

Generating a culture of compliance also requires a careful examination of motivations to pay taxes, how taxpayers experience and perceive taxation, and the related costs and benefits of compliance. As Somaliland continues to struggle with widespread evasion and avoidance, strategies to tackle weaknesses across the entire compliance continuum are a key focus of MOFD.

**Figure 6: Tax Payment Procedures**



## **8.2. Taxpayer Registration**

The taxpayer registration is the cornerstone of any tax administration. Any lack of accuracy, reliability and credibility in the taxpayer register will in turn lead to deficiencies in collection and enforcement, increasing administrative and compliance costs. Identifying and registering taxpayers is thus vital for undertaking the full spectrum of compliance functions, such as detecting stop-filers (people who filed before but haven't done so this year) and managing tax arrears. MOFD is willing to register taxpayers across all tax types and the target is to register and give their Taxpayers Identification Number (**TIN**) in line with best practices.

### **Targeted Challenges**

- i. The absence of taxpayer registration is very challenging. Significant challenges remain in ensuring that taxpayer information is accurate. Furthermore, the individuals, property and business registries are not fully updated, which is a serious barrier towards revenue mobilization.

### **Interventions**

- (i) Conducting taxpayer registration to improve operational certainty. Registering active taxpayers and enhancing real-time crosschecking of taxpayer information with other databases to facilitate this process.
- (ii) Taxpayer registration should remain online and should be interfaced with relevant external systems. Taxpayers can either download a registration form from the website (or get one from an IRD office) or can submit information using the taxpayer portal.
- (iii) Expand the use of the biometric National ID for registration. Requiring a unique number for registration avoids duplication. All of government shall be encouraged to require the National Identification Number to access government services, providing a full view of citizen interactions with government and facilitating cross-referencing of taxpayer data.

### **8.3. Taxpayer Services and Communication**

Facilitating full compliance requires improving both the efficiency and quality of taxpayer services. Recognizing the link between better tax services and tax compliance, MOFD shall develop taxpayer service strategies centered on:

- (i) Reducing taxpayer uncertainty by clarifying legal and procedural ambiguities;
- (ii) Limiting the frequency with which the tax system is changed;
- (iii) Tailoring taxpayer services and information based on the characteristics of different taxpayer segments and underlying factors motivating non-compliance; and
- (iv) Setting service delivery standards and measuring performance against these standards, such as average time to process taxpayer refunds or resolve disputes.

MOFD will prepare a strong program to promote access to information, through a range of user-friendly channels. The use and frequency of different methods to obtain performance feedback from taxpayers on the standard of services provided will be conducted yearly. MOFD will continue to conduct periodic independent taxpayer satisfaction and perception surveys to measure performance and perception over time, and survey results will be incorporated into future strategic plans.

MOFD will develop and implement a full taxpayer education and service strategy to promote transparency, information-sharing, partnership with stakeholders, and facilitating taxpayers through improved service provision.

#### **Targeted Challenges**

- i. MOFD has conducted expansive taxpayer awareness, however these have not been aligned to an overarching strategy. Ad hoc and isolated campaigns have had limited impact. Furthermore, tax education is not yet part of the school curriculum.

#### **Interventions**

- (i) The Inland Revenue Department and the Public Relations Department (IRD/PRD) will develop a taxpayer engagement strategy premised on research and survey analysis, which has a logical design, clear objectives, and is tested amongst taxpayers before full roll-out. This would improve the understanding of what is effective and solicits the desired response. The approach will be well-researched and systemically derived.

- (ii) With the approval of ministry of education, tax education will be added to the school curriculum and offered by universities. MOFD will distribute same tax modules in all Somaliland schools and universities.
- (iii) IRD/PRD will continue to regularly communicate with tax payers using SMS, emails, social media and WhatsApp groups.
- (iv) PRD will regularly highlight the availability of existing tax guides in English and Somali to the public and make more awareness programs. This will allow taxpayers to easily identify the relevant tax rates that apply to them, both personal and corporate.
- (v) Making online services more user-friendly. The layout of the website will be improved to make documents and resources easier to find, and all links should work.
- (vi) Regularly conducting taxpayer perception surveys and incorporating results into tax administration strategies.
- (vii) Establishing a taxpayer's day in the annual calendar to reward best tax payers.

#### **8.4. Timely and Accurate Filing**

The tax system relies heavily on timely, accurate and complete reporting by taxpayers in their tax declarations. To mitigate fraud and revenue losses, IRD will undertake a range of actions to ensure compliance. This includes verification activities (such as tax audits, investigations, and matching against third-party data) and proactive initiatives promoting cooperative compliance.

##### **Targeted Challenges**

- (i) On-time filing for taxes is limited and the taxpayers file their tax returns in late time.

##### **Interventions**

The MOFD will:

- (i) introduce measures to strengthen the effectiveness of self-assessment;
- (ii) raise awareness of the taxpayers to improve filing compliance;
- (iii) implement effectively the penalties in the revenue act 72/2016 for late taxpayers;
- (iv) Support to train private accountants on tax return and their certification as tax accountants by the Institute of Certified Public Accounts of Somaliland (ICPAS).



## **8.5. Dispute Resolution**

Independent, accessible, and efficient review mechanisms safeguard a taxpayer's right to challenge a tax assessment and receive a fair hearing in a timely manner. In Somaliland, this process is protected in the legal framework and taxpayers can dispute:

- (i) the accuracy of the facts used by the auditor,
- (ii) the correctness of interpretation of the tax law, and
- (iii) The penalties imposed by MOFD.

MOFD has adopted a tiered review mechanism, starting with submission to the internal Objections and Appeals Unit (OAU) for an administrative review. Where a taxpayer is dissatisfied with the outcome of an administrative review, the case will be raised to the Tax Tribunal Commission (TTC).

### **Targeted Challenges**

- (i) Limited public awareness of TTC operations and confidence in its independence from MOFD.

### **Interventions**

The MOFD will:

- (i) Facilitate familiarity with TTC and their efficiency in dealing with disputed cases.
- (ii) Assist the accessibility of TTC to the training opportunities available within MOFD and outside of the country.

## **9. Establishment of Somaliland Revenue Authority**

Since the beginning of the 1980s, several developing countries have introduced important reforms to their tax administrations that have included granting a certain degree of independence to their tax administrations. The main idea has been, in one way or another, to separate the line of command for tax administrations from their ministries of finance, and grant them the legal status of semi-autonomous revenue authorities.

Such authorities are designed with a number of autonomy-enhancing features, including self-financing mechanisms, boards of directors with high-ranking public and/or private sector representatives, and transparent personnel selection systems. Transitioning to revenue authorities was highly popular during the 1990s, but recent research among developing countries suggests that such authorities have no significant impact on tax-to-GDP ratio's, and as an institution have not significantly improved revenue volatility, tax effort or (perceptions of) corruption.

The most common reason for transitioning to a revenue authority is therefore not about improvements in revenue collection, but to protect it by seeking greater independence from civil service regulation. In general, autonomy has been the response to inadequate central government civil service and public expenditure management systems, and has also been considered an antidote to the failure of the political system to build in effective accountability mechanisms that channel political influence around and through the public administration in appropriate ways. Autonomy could then be the vehicle by which the intended outcome (i.e. competent, effective, and fair tax administration) is supposed to be attained.

Since few governmental departments are as influential as the tax administration, which has authority to access and to monitor the economic activities of individuals and legal persons, political control of the tax administration could be dangerous. If the politicians are allowed to intervene in the tax department's daily work, the tax system could be vulnerable to favours such as tax exemptions to supporters.

In this light, probably the most important aspect of granting autonomy to the revenue authority is related to giving the tax administration sufficient management autonomy to be resistant to unjustified political influence, and the ability to attract and retain higher quality staff.

### **9.1. Roadmap to the Somaliland Revenue Authority**

After the GoSL decided to follow the semi-autonomous revenue administration model, it commenced to design a Roadmap for the establishment of the Somaliland Revenue Authority (SRLA). The purpose of the Roadmap is to identify the steps required to seamlessly transfer the powers of the MoFD for revenue administration to a new Somaliland Revenue Authority.

The work started before the legislation creating the SLRA was approved by Parliament and will continue until the SLRA is fully functional. Chapter 5 of the Revenue Act is devoted to the

establishment of the SLRA. It provides the framework for key SLRA design decisions, but also highlights the key decisions that the GoSL will have to make, as the transition unfolds, to make the initiative successful.

The initial stages of transition will require a Board of Directors to be formed. Chapter 5 of the Revenue Act indicates that the SLRA board is composed of five members, and meets every 3 months. The Board has a chairperson, and one member each representing the Ministry of Finance Development, Ministry of Trade, Industry and Tourism and the Somaliland Chamber of Commerce. The Director-General of the authority is also a member of the Board, and the Board is supported by a Secretary, and acts under instruction of the Minister of Finance Development.

Other key initial decisions and steps include:

- (i) Setting out Terms of Reference for the Board of Directors, specifically how the authority relates to the Ministry of Finance Development within the framework of the Revenue Act;
- (ii) The Minister of Finance Development to recommend appointment of the Board to the President;
- (iii) Recruiting and Presidential appointment of a competent Director-General, who will oversee the day-to-day operations, funds, property and staff of the authority;
- (iv) Assess and decide the staffing model, terms & conditions for the authority.

## Annexes

### Schedule I- Tax Policy

S/N	Proposed Interventions	Priority <sup>i</sup>	Timing (Year)	Consultation <sup>ii</sup>	Legislation <sup>iii</sup>
	<b>Tax Policy</b>				
	<b>Taxation of Income &amp; Wealth</b>				
1	Review the rate of the income taxes	H	2021	N <sup>iv</sup>	N
2	Introduce the progressive Personal Income Taxes	H	2022	Y	Y <sup>v</sup>
3	Improve the collections through broadening the base of taxpayers and Implementing the Withholding Tax	H	2021	N	N
	<b>Consumption Taxes</b>				
4	Strengthen the imposition of excise tax on the harmful imports (Kat, Tobacco etc.)	H	2021	Y	Y
5	Increase the rate on the Electricity up to 5% (the normal GST rate)	H	2021	Y	N
	<b>Acts and Regulations</b>				
6	Review the Revenue Act regularly	M	2021	Y	N
7	Enforce The tax laws fully	M	2021	N	N
	<b>Tax Exemptions</b>				
8	Draft and implement the tax exemption rules regularly	H	2021	Y	N
	<b>Non-Tax Revenue</b>				
9	Conduct a review of all non-tax revenue categories and evaluate: the actual collections and revenue potential of each category, the tax administration costs of each category, and their compliance costs.	M	2022	N	N
	<b>Donor Funded Projects</b>				
10	Review the taxation of the donor funded projects	H	2021	N	N
	<b>Digital Economy</b>				
11	Address the impact of digital economy on the tax base	M	2021	Y	N

## Schedule II -- Tax Administration

Proposed Interventions		Priorit y	Timing
<b>Tax Administration</b>			
<b>Taxpayer Education</b>			
1	Communicate regularly with tax payers using SMS, emails, social media and Whatsapp group.	H	2021
2	Sustain the taxpayer's day in the annual calendar to reward best tax payers;	H	2021
3	Promote tax payment compliance;	H	2021
4	Strive to move up the scale in the global index of ease of paying taxes;	H	2022
5	Train tax collectors on tax calculations, tax forms and tax return process;	H	2021
6	Train private accountants on tax return and certify them as tax accountants;	H	2021
7	Work with the universities to teach accounting students payable taxes, preparation and filing of tax returns;	M	2021
8	Conduct regular taxpayer perception surveys and incorporate results into tax administration strategies;	M	2021
<b>Timely Payment</b>			
9	Minimize the time and steps taken in preparing, filing and paying taxes;	H	2021
10	Establish ease of payment indicators;	H	2021
11	Investigate options for enhancing the use of electronic payment methods, including Mobile Money;	H	2021
12	Implement self-declaration forms;	H	2021
13	Administer the importers and exporters to provide invoices to get their goods cleared at customs for statistical purposes initially;	M	2021
<b>Taxpayer Registration</b>			
14	Register taxpayers online and interface IT systems;	H	2021
<b>Dispute Resolution</b>			
15	Facilitate Tax Tribunal Commission (TTC) to efficiently deal with cases by increasing staff numbers and training;	M	2021
16	Improve the perception of the TTC among the public;	M	2021

<sup>1</sup> L= Low M= Medium H= High

<sup>2</sup> Indicates whether external consultation is required to carry out the proposed intervention

<sup>3</sup> Indicates whether proposed intervention is requires legislative change

<sup>4</sup> N= No

<sup>5</sup> Y= Yes

### Schedule III- Tax Revenues Items

Tax Revenue Items		
S/NO	CODE	Description
1	1110105	Tax On Housing Rentals
2	1110201	Tax On Business Income
3	1110203	Withholding Tax (Corporations & Other Enterprises)
4	1120101	Taxes On Payroll Of Private Sector Workers
5	1120102	Taxes On Payroll Of Public Workers
6	1140301	Tax On Goods And Services (GST)
7	1140501	Excise Tax
8	1140816	Property Registration Tax
9	1140817	Ships And Boats Registration Tax
10	1140818	Contracts Registration Tax
11	1140821	Administration Tax
12	1140902	Stamp Duty
13	1140904	Road Tax
14	1140905	Road Development Tax
15	1140906	Fuel Tax (Levy)
16	1140907	Road Levy
17	1140910	Tax Arrears
18	1140911	Livestock Export Levy
19	1140912	Transport Licenses Tax

<b>20</b>	1150101	Tax On Imports
<b>21</b>	1150201	Tax On Exports
<b>22</b>	1150202	Livestock Export Tax
<b>23</b>	1150601	Port Tax
<b>24</b>	1160101	Miscellaneous Taxes
<b>25</b>	1160201	2% Tax For Eastern Regions
<b>26</b>	1420209	Transit Tax

## Schedule IV- Non-Tax Revenues Items

Non-Tax Revenue Items		
S/NO	CODE	Description
1	1140804	Landing Fees
2	1140805	Airport Service Charges
3	1140806	Advertisement Income
4	1140807	Other Income From Posts & Telecom.
5	1140808	Business Licenses & Permits
6	1140813	Agricultural Licenses
7	1140814	Fisheries Licences/Fees
8	1140815	Mining Licenses/Permits
9	1140819	Income Permits For Use Of Coastal Waters
10	1140820	Livestock Holding Ground Fees
11	1140822	Ports Royalty Fees/Income
12	1140903	Income From Stamps
13	1140908	Levy On Fuel (Entering The Country Overland)
14	1310101	Current Grants From Foreign Governments
15	1320101	Current Grants From International Institutions
16	1330201	Income From Local Government Supplement



<b>17</b>	1415001	Port Rental Fee
<b>18</b>	1415002	Income From Rent of Public Properties
<b>19</b>	1415004	Berbera Oil Terminal Rent
<b>20</b>	1420104	Income From Sales Of National Resources
<b>21</b>	1420105	Income From Sale Of Real Estate
<b>22</b>	1420201	Court Earnings
<b>23</b>	1420202	Income From Public Notaries
<b>24</b>	1420206	Passport Sales Fee
<b>25</b>	1420207	Entry Fee At Airport (Foreigners)
<b>26</b>	1420210	Income From Vehicles License Plate No.
<b>27</b>	1420211	Driving Licenses
<b>28</b>	1420213	Entrance/Exit Fee For National Passport
<b>29</b>	1420214	Visas For Foreign Passports
<b>30</b>	1420215	Airport Parking
<b>31</b>	1420216	Vehicle Registration
<b>32</b>	1420217	Embarkation Fees For Foreigners
<b>33</b>	1420218	Navigation Fee
<b>34</b>	1430101	Prison Sentences Buying
<b>35</b>	1430102	Penalties

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## **Schedule V- List of Tax Exemptions**

### **In Accordance with Tariff Law the Following Goods and Services shall be exempted from Import Duties:**

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1. All Diplomatic (Red Passport) and UN (Blue Passports) Passports
2. All imports of equipment and machinery for new factors
3. All imports of Raw Materials for factories for the First three Years.
4. Objects belonging to foreign sovereigns, Heads of State who come to stay in Somaliland on the basis of reciprocity.
5. Objects and motor vehicles belonging to diplomatic and consular agents accredited to the Somaliland Republic.
6. Objects and motor vehicles belonging to representatives, officials and experts of the United Nations Organizations, its specialized Agencies and other International Organizations in accordance with agreements ratified by Law.
7. Personal belongings of returnees such as furniture, radio receivers, sound recorders, cameras, Projectors, computers, mobiles, household items and etc.
8. Traveler's personal belongings, cameras, portable furniture, computers and etc.
9. Instruments and equipment which entertainers bring with them.
10. Objects for personal use or gifts which religious missions and communities bring out the country.
11. Publications and other objects donated directly to Cultural and Education Institutes and Orgs.
12. Samples of Goods provided they are not directly utilizable.
13. Stamps, stamped papers, banknotes and other instruments of credit.
14. Goods imported directly by the Government or purchased after their arrival but before they are cleared through customs.
15. Materials required by Organizations like the Desert Locust control organizations for use in the Anti-Locust Campaign and for the Malaria Eradication Campaigns.
16. Gifts and Aid in Kind for Populations struck by public Disasters.
17. Artificial Limbs and wheel chairs for disabled persons.
18. Vehicles especially designed for disabled people.

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19. Materials to be used exclusively by the blind, imported by Organizations for assistance to or re-education of the blind, or institutions attached to them.
  20. Motors and fiberglass materials for ships sailing under any flags.
  21. Selected Domestic animals, male and female for breeding and domestic animals to be used in agriculture.
  22. Live trees and other plants, slips, cuttings, tubers, selected seeds for fields and kitchen garden crops, fertilizers and pesticides to be used exclusively for Agriculture.
  23. Professional fishing equipment but not equipment for fishing as a sport.
  24. Coffins and urns containing remains of deceased persons transported to Somaliland and ornaments therefore. Exemption shall be granted by the Customs Authority on submission of an authorization by the relevant Authorities.
  25. Postal Parcels up to a value of Sh.SL. 250,000/-
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## **Documents Needed for Tax Exemptions**

- Bill of lading, Airway Bill and Consignment Note.
- Letter of Credit (If Possible).
- Invoices.
- Insurance Letter.
- Packing List.
- Request Letter from line Ministry.
- Valid License or Registration Certificate.
- Special Permit for restricted Goods.
- Special Agreements with Somaliland Government.