– from which it may be inferred that Mauritius has more companies, greater coverage and a wider tax base than Cameroon. Mauritius and Seychelles have the highest VAT thresholds when expressed in PPP-converted US dollars. Yet both are at the lower end of the distribution when it comes to thresholds measured relative to GDP per capita. By contrast, the thresholds of countries such as Rwanda or Tanzania, which are low in absolute dollar terms are higher than those relative to GDP per capita, which points to low VAT participation.

Lowering VAT thresholds may actually lessen VAT revenue

Countries could elect to lower thresholds in order to broaden their tax bases as firms with smaller turnovers also become liable to VAT. However, although doing so would entail more revenue collection, the cost thereof may not be offset by the small amounts collected. From that point of view, the optimal VAT threshold should factor in the cost and efficiency of revenue collection.

Lowering the VAT threshold also comes at an administrative cost to VAT-taxable businesses and could, for example:

- increases costs for enterprises not previously liable to VAT;
- affect their profitability;
- force them to cease activity (a worst-case scenario), which would, in turn, diminish the tax base.

Consequently, many developing countries have raised their VAT thresholds in recent years both to lighten the administrative burden on small businesses and to improve the efficiency of VAT collection.

Excise duties

Excise duties are taxes levied on specific goods and commodities imported, produced or sold within the country. They are typically levied together with other indirect taxes such as VAT or the sales tax. Rates are per unit or ad valorem and vary widely according to product.

Box 3.3. Kenya increases excise duty compliance and revenue

In 2013, Kenya moved to strengthen the enforcement of excise duties on tobacco wines and spirits. Under the terms of a customs and excise regulation that came into effect in November 2013, the Kenyan Excise Authority makes it an offence to market any unstamped alcoholic beverages or tobacco product. All producers and importers must activate an excise stamp online.

Central to the KRA has been the roll-out of excisable goods management system (EGMS). The online EGMS enables the KRA to track and trace stamped and unstamped products the length of the supply chain. It is designed to detect counterfeit goods, prevent smuggling, and to stamp out the falsification of production volumes. The ultimate aim is to improve compliance. Indeed, the KRA states that the EGMS has increased excise tax compliance by 45% in 2014.

The KRA has extended online excise duty stamps – which initially targeted tobacco products, wines and spirits – to beer and plans to apply it to many more products.

The system enables KRA to manage stocks and home in on points of loss or theft of stamps. There are plans to use mobile phones to provide similar stamp scanning capacity in order to empower consumers in authentication of goods to eliminate falsification of production quantities as well as eliminate contraband goods from the market.

Source: Mwita M. (2015), Kenya: KRA Says Excise Duty Stamps Have Pushed Up Revenue, The Star, March, http://allafrica.com/stories/201503020772.html; Trade Watch (2015), Impact of the Excisable Goods Management System legislation on businesses in Kenya, p. 39, March, www.vergidegundem.com/c/document_library/get_file?uuid=c4c399ab-b203-4e94-9944-5ceb108e7e35&groupId=10156; Daily Nation (2014), Kenya Revenue Authority bets on technology to plug excise duty loopholes, 14 July, http://mobile.nation.co.ke/business/KRA-Electronic-Goods-Management-System-Fraud-Collection/-/1950106/2385210/-/format/xhtml/-/7h549jz/-/index.html.