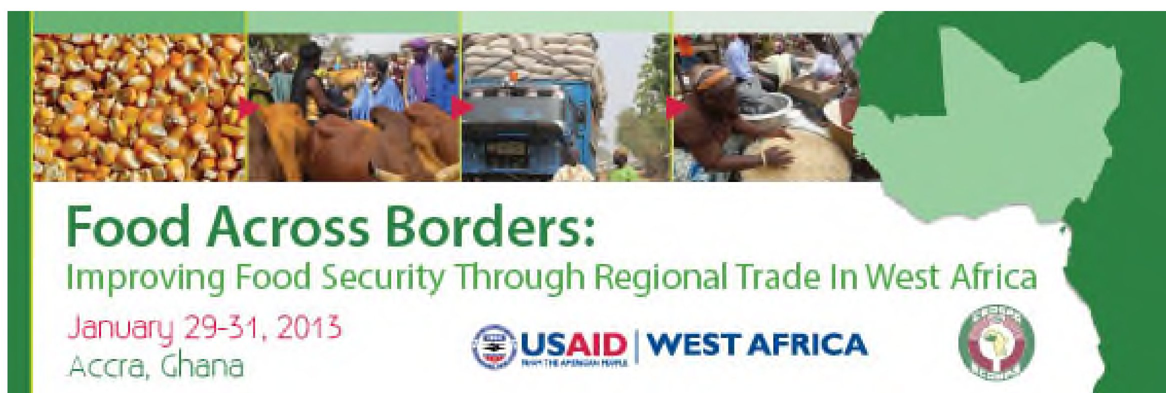

Brief #5: Value-Added Tax

What is the policy?

In principle, ECOWAS countries have agreed to exempt basic staple foods from VAT on intra-regional trade through the Additional Act on VAT in 2009, which exempts all agricultural and livestock staple foods (*produits du cru*) and inputs from VAT. However, the Act has not come into effect, as the countries have not yet agreed on the annex with the specific list of products.

The UEMOA countries have had a common VAT policy since 1998, with most countries applying an 18 percent rate (Niger at 19 percent), exempting most basic staple foods, but notably not live animals. Furthermore, UEMOA's "common policy" permits countries to apply VAT on agricultural products if the national government chooses, although the tax has to be applied uniformly on all commercial products, whether imported or domestically traded.

What is the gap between policy and reality?

Although ECOWAS countries have agreed to exempt basic staple foods from VAT on intra-regional trade, they have yet to implement that goal. For UEMOA countries, after the Common External Tariff reduced tariff collection, VAT collection became an important source of revenue. The result of these policies has been substantial confusion among traders, freight forwarders, truckers, and border officials regarding whether VAT should be applied on intra-regional trade in basic foodstuffs. VAT is collected in many cases, for example:

- Senegal has been collecting VAT on imports of livestock and cereals at the Diboli border crossing.
- Traders report having to pay VAT to import cereals into Burkina Faso and Mali.

In both these examples, while the VAT raises revenue for the country, it raises the cost of food products for citizens of that country and discourages trade.

In addition, application of VAT is not done correctly. For example, traders bringing livestock from Mali and Burkina Faso into Senegal must pay VAT at the border, yet no VAT is collected on sales in the Dakar market. This has the equivalent effect of a tariff, providing an unfair advantage to national producers. It is a *discriminatory application,* a violation of the UEMOA rules on the neutrality of VAT.

UEMOA's policy on VAT application is illogical in at least two respects. First, fresh meat—a value-added product—is exempted while the raw material (live animals) is not. Second, a high VAT rate is usually reserved for luxury items (such as jewelry). Here, an 18 percent rate may be applied on basic food staples.

What are the costs and who pays?

The present VAT system allows countries to apply a *disguised border tax*, which also increases the incentives for smuggling. Traders must pay if they do not know the rules or if customs agents force them to pay. For traders, paying 18 percent can mean the difference between turning a profit and losing money on a shipment. Eliminating VAT on intra-regional trade would increase the incentives for staple foods to flow across borders, lowering costs for end-consumers. Producers would benefit, as increased trade would expand aggregate demand for their products.