



# **40th CATA ANNUAL TECHNICAL CONFERENCE 2019**

## **Shadow Economy and Taxes**

### **Issues & Challenges**

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**Syndicate Group 4**



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- Shadow Economy (SE) comprises both legal & illegal economic activities which are not captured in the tax net but for which taxes should be paid.
- Present in both developed & developing economies.
- Degree/impact on revenue vary from country to country.
- Largely prevalent in a number of Sectors: SME sector, trade & services, cash-driven economies & affecting VAT, custom duties, stamp duties, income tax, etc.

- Positive correlation with corruption index
- Thrives more under environment
  - inadequate taxpayer database
  - weak taxpayers identification system
  - Disparate taxpayer identification databases – Multiple registration systems
- Impacting tax base negatively & significantly (tax gap)
- Shadow economy has a significant contribution to GDP in most member

# SOME MAJOR CAUSES



- Tax policies & tax rates
- Weak legal framework and in some cases over-regulation which can be counter productive
- Poor public governance/social contract failure
- Lack of appropriate technology infrastructure and in some cases technical capacity (to automate full tax cycle processes)
- Corruption (creates conducive hiding place for taxpayers)
- Insufficient tax education
- Weak/compromised institutions/agencies
- Digitalisation of the economy \*
- Absence/inadequate compelling conditions/motivation
- Inadequate detection systems, e.g. robust data warehouse and BI solutions

- Inadequate fund to finance capacity building to cope with SE
  - Technology infrastructure
  - Skills & knowledge
- Complex/inadequate tax policy measures
- Lack of political will and lack of uniformity in the application of the law
- Corruption
- Transfer pricing issues
- Unemployment
- Paucity of information/data
- Low level of financial inclusion
- Downside risk of digitalisation

# Conclusion

It is not possible to fully eradicate this problem, however continuous and targeted disruptive strategies, supportive policy changes, guided taxpayer awareness and goodwill from employees are all key.





**THANK YOU**