Economic Forum Seminar Report on

Taxation Reforms in Malawi: Impacts on the Economy

Crossroads Hotel - Lilongwe

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LIST OF ACRONYMS

CEO	Chief Executive Officer
COMESA	Common Market for Eastern and Southern Africa
CCIA	COMESA Common Investment
CPCs	Customs Procedure Codes
ECAMA	Economics Association of Malawi
EPZs	Export Processing Zones
FTA	Free Trade Area
FOREX	Foreign Exchange
GDP	Growth Domestic Product
KAS	Konrad Adenauer Stiftung
MCCCI	Malawi Confederation of Chambers of Commerce and Industry
MEJN	Malawi Economic Justice Network
MGDS	Malawi Growth and Development Strategy
MK	Malawi Kwachas
MoIT	Ministry of Industry and Trade
PAYE	Pay As You Earn
PSI	Pre-Shipment Inspection
SMEs	Small and Medium Enterprises
SADC	Southern African Development Cooperation
US$	United States Dollar
USA	United States of America
VAT	Value Added Tax

SECTION I: INTRODUCTION

Quotable Quotes:

"There is an optimal level of taxation. This is a level where tax revenues are at their maximum level. If people are taxed beyond such a level, tax revenues start reducing due to tax evasion and avoidance.

Malawi's tax revenue as a percentage of the Growth Domestic Product (GDP) has been higher than the recommended level whereby the value is not supposed to be in excess of 20 percent.

In 2004 the figure stood at 22 percent and has been registering an increasing trend through the years. This value is higher than that of most countries in the Southern African Development Cooperation (SADC) region.

This is repressive for the economy considering the narrow tax base and narrow corporate base in Malawi which is also dominated by primary economic activities…" — **Prof. Ben Kaluwa, 1st March 2012.**

1.1 Forum Framework

In an effort to contribute towards the country's development efforts through structured policy dialogue on issues relating to development and socio-economic policies in Malawi, the Malawi Economic Justice Network (MEJN) and Economics Association of Malawi (ECAMA) in collaboration with Konrad Adenauer Stiftung (KAS) organize quarterly public seminars on pertinent issues affecting the country. The first public economic seminar for 2012 was held on 1st March 2012 at Crossroads Hotel in Lilongwe. The topic of discussion was **'Taxation Reforms in Malawi – Impacts on the Economy'.**

The main presenter at the seminar was Ben Kaluwa, a Professor of Economics in the Department of Economics at Chancellor College, University of Malawi. Complementing and reacting to Professor Kaluwa's paper were two discussants namely, Mr. Chancellor Kaferapanjira, the Chief Executive Officer (CEO) of Malawi Confederation of Chambers of Commerce and Industry (MCCCI), and Mr. Gresium Kandio, the Assistant Director of Revenue Department in the Ministry of Finance and Development Cooperation . Mr. Kaferapanjira presented the effects of the tax reforms from the perspective of the private sector while Mr. Kandio was respondent to Prof. Kaluwa's presentation from the perspective of Government as the policy marker.

The seminar was attended by about 105 participants ranging from policy makers, scholars, expert analysts, representatives of the development partners, private sector representatives, representatives of civil society groups, and the media among others.

1.2 Preamble

The moderator of the seminar MEJN's Executive Director Mr. Dalitso Kubalasa, welcomed participants to the first round of economic seminar series for 2012. He elaborated that such fora present individuals with a platform to discuss and reflect on issues pertinent to Malawi's economic development. He therefore called upon all members present to feel free to take part in the meeting discussions. The meeting started at 18.10 hours and commenced with an opening prayer.

1.3 Welcome Remarks

Dr. Naomi Ngwira, ECAMA's President offered the welcoming remarks for the meeting and in her remarks, she noted that issues of taxation affect everyone as every person pays tax, whether directly or indirectly. She further said that tax issues are very important for Malawi's economic performance as they have huge impacts on all sectors of the economy.

The ECAMA president further extended a special welcome to members from government and also thanked the presenter and discussants for agreeing to be part of the seminar discussion. Additionally, she informed participants that ECAMA has been in existence since 1999. She further called upon participants present to become registered members of the association, emphasizing that an association like ECAMA can only be as strong as its membership, thus the need for active registered members. She also indicated that seminars like the one at hand are important in that they help people understand what is happening in the economy as well as help people influence policies for the betterment of the country. She also communicated on scheduled topics for such seminars in the following months and indicated that topics for discussion would touch on mining and tourism sectors, among others.

Before calling upon the German Ambassador His Excellency Dr. Peter Woeste to officially open the function, the ECAMA President thanked KAS for the financial support towards the economic seminar series, as well as MEJN for partnering with ECAMA in organizing the seminar. She finally encouraged members from the development partner institutions to continue supporting such efforts.

1.4 Opening Remarks

The German Ambassador His Excellency Dr. Peter Woeste officially opened the seminar. In his opening statement, the Ambassador acknowledged that tax indeed affects everyone and that as citizens, our interest is to know if the taxes we are paying are correct and fair. He further stated that the topic at hand is very critical and congratulated the organizers for bringing in technical people from academia, the business community as well as the Government.

Dr. Woeste further informed participants that since independence in 1964, the tax system in Malawi has undergone a number of reforms in an effort to generate revenue for the well being of the whole society. He added that despite the reforms, the resultant generated tax revenue has not been enough to meet the needs of government. This he indicated is common for most developing countries due to the structure of the economy and also reflects the level of development of the country's business sector. He further explained that as most developing countries, Malawi has a very narrow tax base, which therefore requires stronger tax administration measures.

The Ambassador pointed out that since 2009, Malawi's tax generation has faced a number of challenges, notably the introduction of minimum tax based on turnover which is perceived to have negative effects in that it discourages new domestic investment and birth of others. He further pointed out that the dawn of 2009 also saw consumption taxes (Value Added Tax –VAT) being introduced for various products thereby increasing the cost of living in Malawi which is also reflected in rising inflation figures. He emphasized that the VAT is an important add-on to the rising cost of living in Malawi. The Ambassador also pointed out to the audience that the scarcity of Foreign Exchange (FOREX) in Malawi and the overvalued local currency against the United States Dollar (US$) have significant implications for Malawi's export sector in that with the overvalued currency, exporters are losing a lot of Malawi Kwachas (MK) per US$ for every export by earning less MK than they would have earned if the MK value reflected the fundamentals on the ground.

This loss is further compounded by additional taxes through the VAT. The interplay of these factors, he explained, are pertinent to Malawi's economic situation which emphasizes the importance of this economic seminar discussing tax issues.

SECTION II: KEY NOTE PRESENTATION AND DISCUSSANT PRESENTATIONS

2.1 Key Note Presentation: Taxation Reforms in Malawi: Impacts on the Economy - Prof. Kaluwa

2.1.1 Highlights of Presentation

2.1.1.1 Characteristics of Malawi Economy

- Malawi has high levels of poverty.
- Productive activities in Malawi are largely primary activities.
- Malawi has high import dependence. Of particular importance is the manufacturing sector which depends on imported raw materials for production.
- Malawi depends highly on aid support.
- The structure of the economy presents limited capacity to generate sufficient taxes.

2.1.1.2 Requirement of the economy

The characteristics of Malawi's economy require the following:-

- Greater economic diversification and integration across all the sectors of the economy.
- Need for more import substitution, which calls for policies and measures that facilitate internal production in order to discourage importation of products which can otherwise be produced locally.
- Economic diversification and poverty which are being addressed in the Malawi Growth and Development Strategy (MGDS) which identifies several priority areas.

2.1.1.3 The role of the State

- State intervention in an economy is necessary particularly because Governments provide services for services prone to free-ridership and thus not proving to be a good investment area for private sector operations, and if produced by the private sector, the supply may not be adequate for everyone. These are also known as merit goods.
- State intervention is also important for social protection as it provides services to the poor who otherwise cannot afford the privately produces services, e.g. health and education, even to those who do not want to pay – free ridership.
- Government expenditure is therefore necessary, and for Governments to spend, there is need for revenue collection. Thus taxation is necessary for an economy.

2.1.1.4 Tax performance and tax reforms

- There are two types of taxes, direct taxes and indirect taxes. Direct taxes are taxes levied directly on a person's income, while indirect taxes are taxes levied on purchases of consumer goods.
- **There is an optimal level of taxation. This is a level where tax revenues are at their maximum level. If people are taxed beyond such a level, tax revenues start reducing due to tax evasion and avoidance.**
- Malawi's tax revenue as a percentage of the Growth Domestic Product (GDP) has been higher than the recommended level whereby the value is not supposed to be in excess of 20 percent. In 2004 the

figure stood at 22 percent and has been registering an increasing trend through the years. This value is higher than that of most countries in the Southern African Development Cooperation (SADC) region. This is repressive for the economy considering the narrow tax base and narrow corporate base in Malawi which is also dominated by primary economic activities.

2.1.1.5 Recent tax reforms

- Tax Incentive - Removal of ministerial discretion in determination of certain tax incentives.
- Corporate Income Tax (CIT) - Re-alignment of the corporate income tax with regional levels (30%).
- VAT - Rationalisation and simplifying the Pay As You Earn (PAYE) (removal many brackets and lowering the top).
- Re-orienting of the revenue base from trade taxes towards the VAT.
- Capital Gains Tax – currently asset disposal for tax purposes is as if this amounts to income and liable for income tax and without regard to inflationary factors. In principal asset disposal is merely a transfer of asset in exchange for cash and does not constitute generation of new income. This presents a barrier to entry in the Malawi economy for potential investors as they forsee heavy tax if and when they want to exit.
- Tax Losses and Minimum Turnover Tax - The 2011/12 Budget stipulates five years continuous losses for businesses and simultaneous implementation of tax based on turnover of 1% for a turnover of less than MK50,000 and 2% for turnover of over MK50,000. This is in contrast of earlier suggestions of a time-limit for declared tax losses of six years. This has however proven to hurt business that have high overheads and low profit margins, such as retailers and value adding manufacturing firms.
- This tax works to expand the tax base by also capturing Small and Medium Enterprises (SMEs) which normally would not enjoy the investment allowances and thus raise barriers to new investments in the SME sector. There is a correlation between economic development and the numbers of SMEs, United States of America (USA) and China have a high number of SMEs while Malawi has very few SMEs (missing middle phenomenon). Tax measures should therefore be introduced so that they are favourable for SME activities.
- Customs Procedure Codes[1] – a number of CPCs have been removed since 2009 i.e. industrial rebates on import duty in manufacturing and other import related incentives in manufacturing, hospitality sector, the dairy industry and agriculture. VAT has been introduced on goods for the generation of electricity. In the present tariff-controls, this could potentially affect the willingness of the private sector to participate. Ironically, the areas affected by the removal of the CPCs are in areas that are also identified as priorities in the MGDS.
- Other Investment Incentives - Some investment incentives have regressed and will affect Malawi's achievement of the vision of the MGDS, to diversify economic activity and export revenue sources. These include:-
  - ✓ General investment allowances on new physical capital assets halved from 100% to 40%.
  - ✓ General investment allowance on qualifying used assets in agriculture, manufacturing and tourism halved from 40% to 20%. *This is regressive as these sectors have high potential for FOREX generation and the aspect of second hand assets have direct impact of growth of the SME sector as it is the SME sector that usually buys used assets.*

[1] Specific CPCs would be introduced in order to promote investment in particular sectors. The Minister of Finance would then easily use a specific CPC to grant duty free, import excise free and zero rated VAT status to imports of specialized equipment and materials. The CPC would be in existence for a number of years in a bid to promote economic activities in the sector.

- ✓ Raising of corporate income tax from zero to 30% and the abolishment of additional 15% investment allowance for Export Processing Zones (EPZs). *There is no logic. Priorities are not in line with tax measures.*
- Reforms that have amounted to improvement in tax compliance – removal of withholding tax for food supplies and supplies of other goods. *Exemptions are given, based on submission of tax returns, thereby giving businesses an incentive to register.*
- Tax Provisions for the poor – done through PAYE tax free threshold and VAT exemptions on certain food stuffs. There is however need for deeper analysis:-
  - ✓ PAYE minimum threshold stands at MK12,000.00. *However cost of living keeps on rising, and this measure would have impact on the poor if it was effected on annually.*
  - ✓ The poor spend almost all their income on basic necessities which are purchased through informal transactions and not supermarkets where basic necessities are VAT free. Furthermore, tax free exemptions of goods such as eggs, bread. On the other hand the poor's basic necessity purchases include salt, sugar, and meat offals among others. ***The tax exemption on bread and eggs is thus misplaced and further that the poor do not purchase in supermarkets.*** *Government is therefore exempting the wrong people. The list should therefore include basic necessities for the poor and the poor's economic activities.*

2.1.2 Issues for redress

It is quite apparent that Government needs to clarify and explain the policies behind the following measures:-

- Applicability of the capital gains tax and its implications.
- Tax losses and the minimum turnover tax and its implications on SMEs sector and SME business activities.
- Removal of incentives that previously favoured priority sectors and activities of the MGDS.
- The economics, design and efficacy of extending social protection to the poor using indirect taxes.
- The role of the Ministry of Industry and Trade (MoIT) in Tax formulation as the Ministry of Trade is a very critical ministry especially with regard to the MGDS. ***Notably, in other developing countries, the profile of the MoIT is very high, while in Malawi the Ministry is highly under-resourced.***

2.2 Private Sector perspective

Mr. Chancellor Kaferapanjira, CEO for the MCCCI commented on the key note presentation, presenting the effects of the tax measures from a private sector perspective. Key issues of the reaction are as follows:-

2.2.1 Highlights of presentation

2.2.1.1 Private Sector expectations from (ideal) tax reforms

- Private sector players assess the impact of tax reforms from the perspective of the effect of the measures on business decisions, investment decisions, and business performance.
- *Tax reform measures should be efficient in minimising distortionary impact* on resource allocation and investment decision-making by the private sector.
- *Tax reform measures should be used to encourage local investment, and re-investment of business profits, and attract foreign direct investment* to identified economic activities
- Business competitiveness in Malawi is negatively affected such factors as electricity black-outs and transportation costs for internationally traded products.

- Malawi's exports suffer from price competitiveness especially due to the extremely large proportion of transportation costs.
- Tax incentives therefore, if targeted at electricity generation and transportation, would play a very significant role in reducing such costs and improving Malawi's competitiveness.
- ***There is currently no pattern to encourage a specific type of economic activity e.g. export oriented.***

2.2.1.2 Tax Reforms: 2005 to 2009

There were a number of positive tax reforms, which in turn boosted the performance of businesses. The reforms involved both changes in tax rates and administrative reforms and included:-

- Reduction of corporate tax rate from 38 percent to 30 percent.
- Reduction of VAT rate from 20 percent to 17.5 percent and further to 16.5 percent.
- Introduction of industry specific Customs Procedure Codes (CPCs) e.g. tourism and transport sectors.
- Removal of Pre-Shipment Inspection (PSI) by a designated body.
- Introduction Risk Assessment and
- Introduction of Tax Payers Office;
- Considerable improvement in the duration of tax refunds

In pre-2005 period, according to the World Bank various forms of taxes averaged about 56 percent of a business's turnover. But after the reforms it averaged between 43 – 44 percent and GDP growth rate averaged above 7 percent per annum signifying high level business activities.

2.2.1.3 Tax Reforms: 2009 to 2011/12

The reform process from 2009/10 Budget Statement has been counter-productive and measures that have been introduced have included:-

- *Removal of the 30 percent corporate tax exemption from EPZ based companies.* This has eroded the confidence and stability of Malawi's tax regime.
- *Introduction of minimum turnover tax, and its discretionary application;* while it is positive in widening the tax base by capturing informal sector players, and to discourage inefficiencies in businesses, the design was by all measure is poor, as its application is discretionary. This is tantamount to punishing a company for making loses. It should also be noted that different sectors have different profitability patterns in that companies may have high turnover but different profit margins e.g. financial services have high turnover and high profit margins while agriculture has high turnover and low profit margin.
- *Introduction of VAT on a number of products including machinery, banking services and some basic commodities;* (VAT on machinery is equivalent to taxing investment capital – taxing production and not consumption), all the VAT on banking services is definitely all passed on to the borrower, making borrowing even more expensive. These factors present a challenge in growing business by making business operations very expensive and access to finances even more expensive.
- *Introduction of VAT on inputs of VAT exempt products means that the VAT is built into the cost of production e.g. bread and milk;* This has led to increasing consumer costs. The result is a shrinking market because of lack of affordability by the consumers.
- *Reduction of additional tax allowance from 25 percent to 15 percent of the transportation costs of non-traditional exports to the border* is contrary to the objective of promoting non-traditional exports. The original idea was to reduce transportation costs for exports which range between 50 – 60 percent for Malawi exports.
- *Introduction of taxes on services* e.g. withholding tax on income from property ownership.

Notably, tax reforms from 2009 have been pro-cyclical, contradictory with development objectives, and not responsive to economic fundamentals. Negative reforms are being implemented in a period where positive reforms are needed to stimulate the economy for a quick recovery (contractionary policies applied in contrast to expansionary). Revenue collection also seems to have done down due to punitive measures that fuel default, as evidenced by government's failure to service debts.

2.2.1.4 Issues for redress

- *Development Objectives* – Proposal for the reforms to be aligned to the country's development objectives enshrined in the MGDS II.
- *Tax regime* – Proposal for a tax regime which offers graduated incentives to exporters to ensure the objectives of export diversification and foreign exchange generation are achieved.
- *Tax incentives* - Proposal for a regime that is focused on specific sectors and offering time specific incentives for the specified sectors.

2.3 Government perspective

The discussant from the Government Mr. Kandio responded to issues raised in Prof. Kaluwa's paper. He started by explaining the rationale behind the introduction of the tax measures of concern as highlighted in the presentation. These are presented in the sequel.

2.3.1 Highlights of Presentation

2.3.1.1 Government revenue requirements and responsibilities

- *Government finances its activities through taxes, borrowing, grants and printing money.* Tax revenues constitute a large proportion of Government Finances.
- Issues raised regarding the tax regime clearly indicate that Government and Malawi Revenue Authority have not been aggressive enough in disseminating clear information to the general public on certain seemingly controversial tax measures and their applicability.
- Since the 2010/11 fiscal year, Government's goal has been to broaden the tax base and removing distortions, and at the same time preventing erosion of tax revenues.
- *The introduction and elimination of tax measures is in line with Regional and international treaties and commitments in the Common Market for Eastern and Southern Africa (COMESA) and SADC regional groupings.* Government is essentially aligning Malawi's tax regime preparing Malawi for compliance to international treaties i.e. COMESA Common Investment Area (CCIA) Customs union and protocols to SADC Free Trade Area (FTA).
- The alignment to regional and international commitments which calls for a removal of trade taxes requires Government to reorient the tax regime away from trade taxes towards consumption taxes.

2.3.1.2 Tax Incentives for Business Operators

Business operators should refrain from relying on removal of taxes for a successful business. Investors usually conduct a cost/benefit analysis of project ventures considering all factors to determine viability of the business venture. The missing link is in Government's offer of tax incentives is the quantification of potential loss in revenue for each tax incentive.

2.3.1.3 Protecting the poor from high taxes: Current tax system hurting the poor more

Government appreciates that it is very difficult to give relief to the poor altogether because there will be free riders and the Government would lose a lot of revenues. Realizing this challenge, government has embarked on pro-poor expenditure such as cash transfer programs, food for work, and farm subsidy programs, among others.

2.3.1.4 Corporate tax for EPZ companies: Removal of exemption for EPZ Status Companies

The tax was introduced after noting the various anomalies with companies in EPZ. It was noted that various companies were granted the EPZ status when they produce largely for local market. Furthermore, other companies with EPZ status are not complete manufacturers while other companies were simply abusing the facility by importing goods duty free which were not meant for production of export goods.

Some companies were also selling products meant for export on the local market thereby creating unfair playing ground with other companies in similar line of business. Thus, the tax was introduced to level the playing field. The companies however still claim other incentives exclusively designed for EPZ companies including international transport allowance, export allowance and exemption of import duties for machinery and raw materials.

2.3.1.5 Minimum Tax Based on turnover: Punishment to companies for making Losses

The tax was introduced to ensure that all companies contribute to the government revenue. Issues of tax evasion are also of concern in the country and could be addressed through this tax measure as some companies have not paid corporate tax for quite a number of years and yet continue to be in operation. Key question to consider is how a business entity could continue operations while making losses. However, Government has consulted various stakeholders on this tax and its applicability and validated issues of concern are being rectified. There is also a three year grace period on payment of this tax for newly established companies.

There is a difference between 'minimum tax based on turnover' and 'minimum turnover tax'. Minimum tax based on turnover is for companies that are expected to declare corporate tax; while minimum turnover tax is tax that is paid by SMEs.

2.3.1.6 Capital Gain Tax: Sales of capital goods merely exchange of assets and not taxable

Certain asset transfers result in capital gain if asset is sold at a higher price than the original acquisition price, thus making the gain like any other profit and liable to tax. All investors should pay tax on their profits. However, the extent of this tax as a barrier to exit and thus entry is food for thought for Government.

2.3.1.7 VAT on machinery: Introduction of VAT on machinery discouraging investment

The operationalization of VAT in Malawi requires that an operator offsets their input VAT from their output VAT. Thus although there is VAT on machinery, the net effect of the tax to the business is zero since only the VAT on sale of outputs of a company to consumers is paid while the input VAT is claimed as a refund.

2.3.2 Government Efforts towards improving the tax regime

- Government has noted inefficiencies in the system particularly in delays in the VAT refund system as this might lock in investors' capital and is working on measures to improve the refund system.
- Government is aware that some VAT operators sale exempt products, in which case, they cannot claim the input VAT.
- Government endeavors to make prices affordable to all Malawians. Consequently, the Ministry of Finance is analyzing the operation of VAT on machinery and strategizing on how the VAT on machinery can best be administered

- All efforts will be made to improve the tax system and Government appreciates all suggestions made by the private sector and cooperating partners on how to improve the tax system.
- Government will continue considering all proposals made and proper adjustment will be made to ensure that there is a balance between revenue needs of the Government and investor's needs for their company and businesses.

SECTION III: PLENARY DISCUSSIONS AND WAYFORWARD

3.1 Plenary Discussions

3.1.1 Value Added Tax

There is need for Government to clarify tax measures and their applicability to the general public. One area is VAT on banking services whereby government and tax officials are dwelling on informing the general public the services that will be tax exempt and do not explain the services that will not attract VAT.

- ✓ It is difficult for government to explain what is exactly taxable with respect to the VAT on banking services for the reason that the VAT is only applicable on services that banks define as not being Bank Hall Services.
- ✓ *The problem comes in that different banks define what constitutes bank hall services differently, thereby making it difficult for Government to have a uniform categorization of the bank services that attract VAT for Malawi as a whole.*

3.1.2 Pay as You Earn Tax

There appears to be a discrepancy between the over-performance by MK4 Billion in PAYE collections reported in the 2011/12 National Budget Mid-year review and economic fundamentals. In light of the current economic crisis it is expected that companies would be downsizing and retrenching staff and not increasing employment as would be directly explained in the PAYE over-performance.

- ✓ The biggest factor in the over performance of PAYE tax returns is Government's increased enforcement in companies to remit PAYE.
- ✓ The increased enforcement measures have also led to payment of PAYE arrears thereby contributing to the over performance in revenue collection against PAYE.

PAYE tax should be aligned to poverty line and in order to ensure that the PAYE tax free band serves the needs if the poor, Government should not focus on the revenue loss of increasing the tax free band in line with rising costs of living but focus on meeting the requirements of the poor.

3.1.3 Capital Gains Tax

Chapter 41 of the Taxation Act states that the use of an asset for economic gain results in loss of value of the asset through depreciation. The sale of the asset at a higher value than the depreciated value is a capital gain and should therefore be taxable, thus justifying the use of the capital gains tax.

- ✓ Assets normally have a higher nominal price due to inflationary pressures and their sale at a higher price does not entail capital gain but high price due to inflation.
- ✓ There was previously a provision that sell of an asset and use of the proceeds to replace a similar asset qualifies for exemption from the capital gains tax. Continued existence of this provision is however unclear.

3.1.4 Withholding Tax

Introduction of withholding tax on property owners for lease has arisen from expansion of scope of schedule 7 of the Taxation Act in that it is now capturing properly owners who previously were not registered. The tax is an incentive rather than a cost as all expenses in maintenance of the premises are tax deductable.

3.1.5 Turnover Tax

There is need for clear definition of the turnover tax for revenue collection purposes for the reason that not everything that goes into sales account is profit as businesses sometimes sell products at cost to avoid loss that may arise from the goods reaching their expiry date.

3.1.6 Misalignment of MGDS Priorities against Tax Regime

Malawi's tax structure provides tax incentives on an adhoc basis and tax incentives have not been aligned to priority sectors. There is need to streamline the structure of incentives to specific sector and introduce automatically qualify for incentives based on their area of operations.

The design of tax measures should be a collective responsibility by all stakeholders collectively and not government alone to streamline our economy in order to stimulate economic growth. The current set-up gives all the powers of designing tax measures in the executive arm of government instead of technocrats. There is therefore need to put in place legislation that would ensure that tax measures are in line with national development strategies.

3.1.7 Holistic Approach to tax regime

Taxes need to be considered together with other sectors of the economy as a complete package and not in isolation. The latter approach has compromised on the country's development goals especially through measures that have led to downsizing of private sector activities, reduced PAYE, and contracting CIT revenues. There is need to critically scrutinize what is stipulated in theory versus actual practice.

3.2 Key messages and way forward

1) Align incentives with development priorities outlined in the MGDS.
2) Government is focusing more on tax generation without looking at the effects of the tax measures on other sectors of the economy.
3) Government to consult widely on tax regime and put to use stakeholders input.
4) Ministry of Finance has too much power in making tax laws and policy. Ministry of Industry and Trade needs to be highly involved in the design of tax measures as a key stakeholder and policy holder befitting its roles and responsibilities.
5) Tax reform processes to be complemented by expenditure reforms on the part of government.
6) Government to be efficient in service provision just as much as it is striving to be improving efficiency in revenue collection.
7) There is need to integrate economic policies by harnessing the needs of both the private as well as the public sectors.
8) There is need to detach politics from the design of economic policies. This requires substantive and consistent lobbying on the part of civil society and all stakeholders in order to achieve independence of key policy design.

------------The meeting ended at 21.15 hours and closed with a closing prayer and cocktail--------------

APPENDIX 1: LIST OF PARTICIPANTS

No.	Full Name	Institution & Address
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63.	Absolom Brian Ndhlovu	Mondwe Civil engineering
64.	Enedy Malumbo	Capital Hotel, P. O Box 30018, LL
65.	Angella Banda	Radio Islam
66.	Levi Chirwa	Min of Finance and Development Planning
67.	Joab Frank Chakhaza	Zodiac Broadcasting Station
68.	Francis Kalawe	Chancellor College
69.	Dr Nomsa Kafumba	Kamuzu Central Hospital
70.	Limbani Msiska	Catholic University
71.	Sam Madimbo	Freelance
72.	Kingdom Kwapata	Bunda college, P.O box 219 LL
73.	Mariam Mapira	IFPRI, Lilongwe
74.	Alex Nkosi	Centre for Social Concern
75.	McEwen Champiti	Reserve Bank of Malawi
76.	Russell Tembo	ECAMA
77.	K. Chaweza	NCST
78.	Thomas Munthali	ECAMA
79.	Chiza Jere	Alliance One Tobacco
80.	Matilda Palamuleni	MEJN
81.	Mathews Namakhwa	LAUDO Insurance Services
82.	Justus Mpama	LAUDO Insurance Services
83.	Pililani kamange	LAUDO Insurance Services
84.	Alfred Kalumbi	INDEBANK, P/Bag 100
85.	Dr. Peter Ngoma	Malawi Institute of Management, P.O Box 30801, LL
86.	Fazilla tembo	African Press Agency

87.	Kisu Simwaka	Reserve Bank of Malawi
88.	Juba Kafumba	Chancellor College
89.	Dr C. Masangalawe	Kamuzu Central Hospital
90.	K. F Chikadza	IPRSE
91.	Gerald Mmelo	MEJN
92.	Yananga Phiri	Reserve Bank of Malawi,Blantyre
93.	Felix Mongola	MEJN
94.	Francis Zhuwao	Catholic University
95.	Fenwick Kamanga	African Development Bank
96.	James Nkhata	NICO General insurance
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98.	Kenasi Kasinje	KAS
99.	Chakupa Milanzi	KAS
100.	Juliette Chibowa	KAS
101.	Prof. Ben Kaluwa	Chancellor College
102.	Kaferapanjira Chancellor	MCCCI
103.	Dalitso Kubalasa	MEJN
104.	Gresham Kandio	Ministry of Finance and Development Planning
105.	Dr Naomi Ngwira	ECAMA