At a glance:

Two decades of Employment Income Tax in Africa

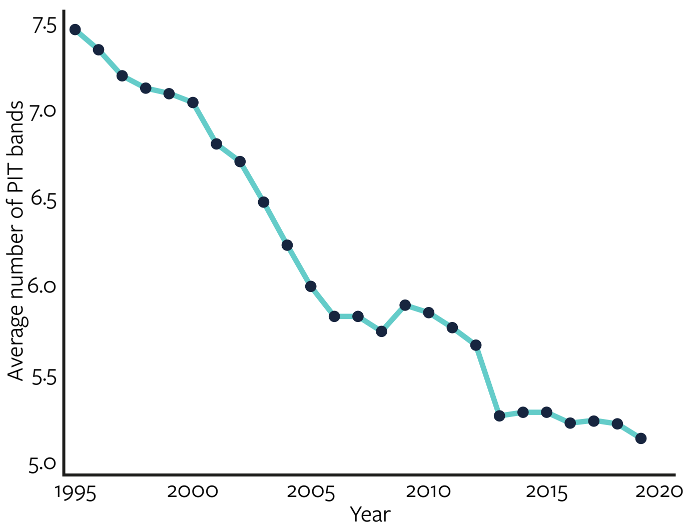
This is a snapshot of the first set of findings from the Centre for Tax Analysis in Developing Countries (TaxDev) Employment Income Taxes Dataset (EITD).

The EITD is a new, publicly available dataset comprising detailed information on the personal income taxes (PITs) as well as other mandatory taxes and social security contributions (SSCs) owed by employees on wage earnings in Africa over the period 1995–2020.

- **Employment income is taxed in all African countries.** EITs are progressive in all countries except Madagascar, which has a flat rate. The structure of PIT has simplified from an average of 7.5 tax bands in 1995 to five in 2020.

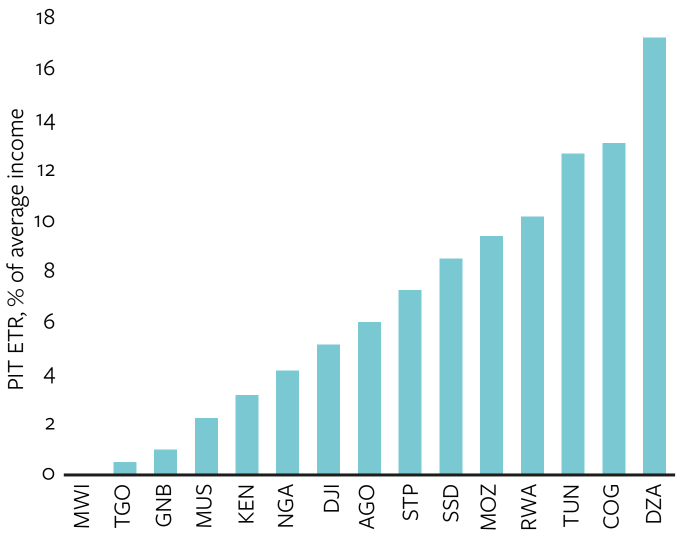
- An individual in Africa **earning an average income equal to gross domestic product (GDP) per capita is liable to an average Effective Tax Rate (ETR) of around 9.15%**, but this ranges from 0% in Malawi to 17.5% in Algeria.

Figure 1 Average number of PIT bands in African countries, 1995–2020



Source: EITD

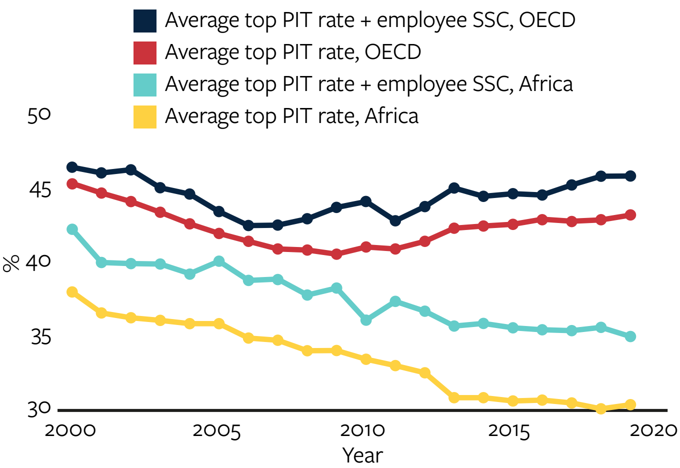
Figure 2 PIT ETR as a percentage of Y1 for an individual, 2019



Source: EITD

- **Top earners in Africa pay less tax than those in Organisation for Economic Co-operation and Development (OECD) countries**. The data suggests that average top marginal PIT rates have fallen in Africa over the period and remain, on average, lower than those in OECD countries by 13 percentage points in 2019.

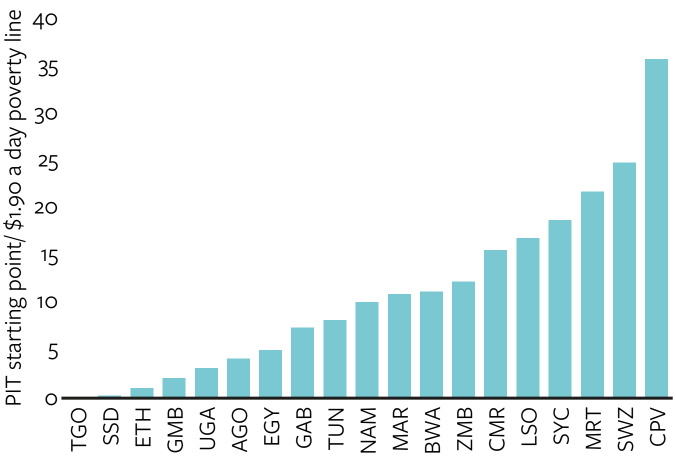
Figure 3 Top marginal PIT and employee SSC rates, 2000–2019, African and OECD countries



Source: EITD

- **Top earners face lower tax rates than in the past**, with the average top marginal PIT rate in Africa around 31% in 2019 compared with 39% in 1995. Top rates now range from 12% in Guinea-Bissau to 60% in Côte d'Ivoire. At the same time, the average mandatory employee SSC rate increased from 3.6% to around 5%. Taken together, the average combined EIT (top marginal PIT and employee SSC) rate has fallen from around 43% to 35% over the past 25 years.

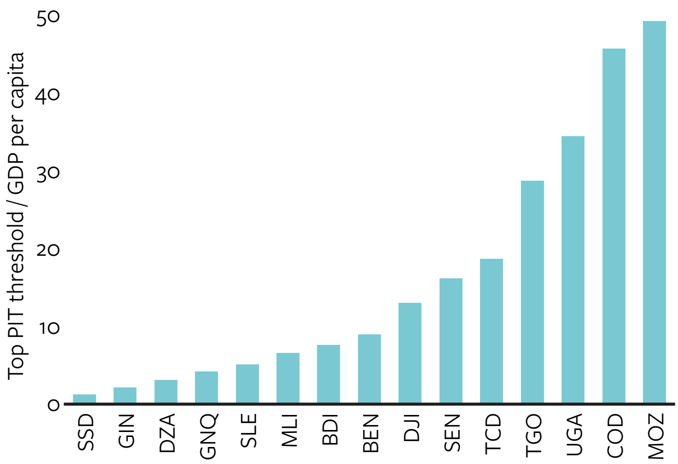
Figure 4 PIT threshold as a share of international poverty line (defined as Purchasing Power Parity [PPP] $1.90 a day), 2019



Source: EITD

- **At what level of income is EIT levied?** The income level at which individuals are liable to pay tax is relatively low in many African countries. In one in four countries, an individual is liable to pay EIT if their formal wage is less than or equal to the international poverty line of $1.90 a day. In the median country, PIT is levied on a wage of around six times the $1.90 per day poverty line.
- **At what level of income does the highest rate of tax apply?** The top marginal PIT rate kicks in at just over five times GDP per capita in the median country. This is slightly higher than in OECD member countries, where the equivalent value stands at 3.4 times GDP per capita.

Figure 5 Top marginal PIT threshold / GDP per capita, 2019

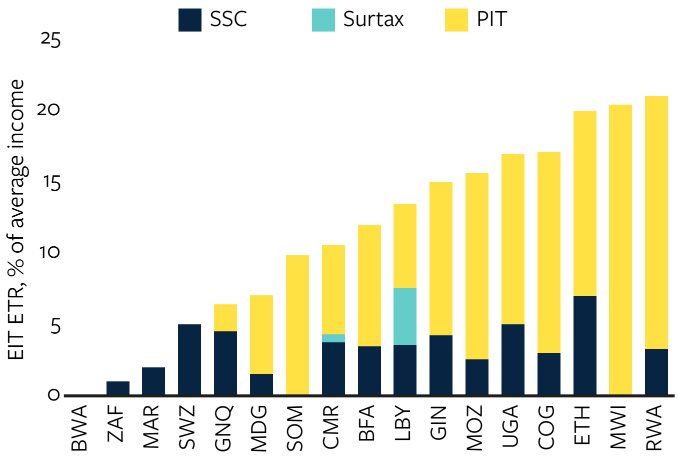


Source: EITD and IMF (2021)

- While EITs are mostly progressive in African countries, **in a few they are regressive at very low levels of income. Progressivity declines as income increases**; this finding is in line with OECD studies. However, at the very lowest income levels (between 0.50 and 0.67 times GDP per capita), EITs are slightly less progressive. On average, a 33% increase in income leads to a PIT increase of 37.6%.

- **Comparing ETRs in real terms across countries (at PPP USD amounts) shows that at $5,000PPP, the average effective EIT rate is 5.7% in 2019** and ranges from 0% in 12 countries to just over 20% in Malawi. When mandatory employee SSCs are incorporated, the average effective EIT rate at $5,000PPP rises to 10.2% and is highest in Rwanda, at 20.9%.

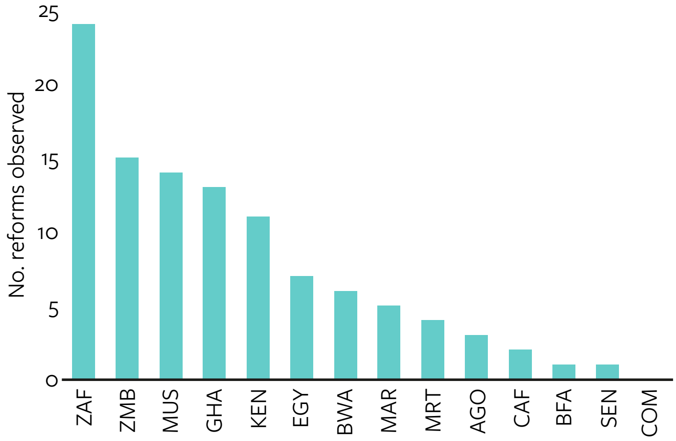
Figure 6 EIT ETR at $5,000 PPP for an individual, 2019



Source: Authors' calculations from EITD

- **PIT reform is infrequent in Africa, with countries implementing reforms once every five and a half years on average.** Similarly, an average of just one in five African countries changes rates or bands in any given year. Some systems are adjusted almost annually, while others remain unchanged across the whole 25 years of the reporting period.

Figure 7 Number of reforms observed



Source: EITD

- **Infrequent reform means bands are not adjusted for inflation and large 'corrections' are made periodically.** This means that ETRs can change dramatically following reform. For an individual earning a wage equal to per capita GDP, the ETR following PIT reform is, on average, 18% lower than before the reform. **The average PIT reform has a proportionately larger impact on those on the lowest incomes, with a progressively smaller effect on those on higher incomes.**

Algeria	**DZA**
Angola	**AGO**
Benin	**BEN**
Botswana	**BWA**
Burkina Faso	**BFA**
Burundi	**BDI**
Cabo Verde	**CPV**
Cameroon	**CMR**
Central African Republic	**CAF**
Chad	**TCD**
Comoros	**COM**
Congo, Rep.	**COG**
Democratic Republic of the Congo	**COD**
Djibouti	**DJI**
Egypt	**EGY**
Equatorial Guinea	**GNQ**
Eswatini	**SWZ**
Ethiopia	**ETH**
Gabon	**GAB**
Gambia	**GMB**
Ghana	**GHA**
Guinea	**GIN**
Guinea-Bissau	**GNB**
Kenya	**KEN**
Lesotho	**LSO**
Libya	**LBY**
Madagascar	**MDG**
Malawi	**MWI**
Mali	**MLI**
Mauritania	**MRT**
Mauritius	**MUS**
Morocco	**MAR**
Mozambique	**MOZ**
Namibia	**NAM**
Nigeria	**NGA**
Rwanda	**RWA**
São Tomé and Príncipe	**STP**
Senegal	**SEN**
Seychelles	**SYC**
Sierra Leone	**SLE**
Somalia	**SOM**
South Africa	**ZAF**
South Sudan	**SSD**
Togo	**TGO**
Tunisia	**TUN**
Uganda	**UGA**
Zambia	**ZMB**

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This summary has been prepared based on the findings of ODI Working Paper 619, '*Employment income tax in Africa: Findings from a new dataset*' by Kyle McNabb and Hazel Granger, January 2022.

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