



Liberia's "Big Fish" In Tax Evasion

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It is often argued that post-war Liberia remains on the breadline because war and UN sanctions have crippled the economy. Proponents of this line of thought often point, as proof, to the thousands of jobs they say are lost as the result of the shutting down of the timber industry and the prohibition placed on alluvial mining.

More than once, the international community and some Liberians came close to swallowing the explanation hook, line, and sinker; some actually called for the lifting of sanctions on Liberia so that the transitional government will cater for the basic needs of the Liberian people most of whom continue to subsist in squalid conditions and according to one UN finding, subsisting below the poverty line.

But is sanction and war the whole story about why there is yet to be regular payment of civil servants' salaries, why health and education continue to come to the bottom rung of the national budget, why prices of basic commodities remain high, and why basic social services are unavailable?

The recent report of the UN Panel of Experts on Liberia seems to suggest that Liberia's economic problem is deeper than sanctions and war put together. Part of the problem, it says, is that only the "volunteer self-identified firms" and few individuals amongst the big income earners actually pay corporate and personal income taxes.

Besides, it insists, the government was expending state funds without recourse to budgetary appropriations. The Analyst's Staff Writer looks at the report again.

Tax Evasion

"In its budget for 2004/05, the National Transitional Government of Liberia was expected to collect 22% (\$17.28 million) of total Government revenue from corporate and personal income taxes.

"In the first nine months (July 2004 to March 2005), it has already collected \$16.38 million from voluntary taxpayers.

"The Ministry of Finance created a Large Taxpayers Unit in March 2004, but corporations are not required to submit audited financial statements to the Unit or the Ministry of Finance, and thus the Government does not have any idea of the number of the corporations and the amount of taxes payable. The Large Taxpayers Unit simply consolidates the taxes paid by the "volunteer" self-identified firms.

"In one meeting, the Coordinator of the Unit told the Panel of enormous pressure put on it by superiors whenever it tried to touch a "big fish".

These are excerpts from a subsection of the UN Panel of Experts' June 13, 2005 report to the Security Council.

The Panel further quoted a recent financial report of the Ministry of Finance as indicating that between March 2004 and February 2005, only eight firms paid more than \$5,000 in corporate taxes and only four firms paid the current taxes due government.

The report did not say what became of the delinquents with regards to whether or not they will pay, but revealed that none of the major petroleum and rice importers paid corporate tax for the current year.

"The best hotel in the city, which charges \$120 per night and has an occupancy level of 75 per cent, does not appear on the list," the report said without calling names.

Currently, more than five new hotels equipped with bars that run 24 hours and Internet, DSTV, and catering services have been added to the traditional hotels in Monrovia.

These new hotels including Mandela, Chateau, Urban, and Millennium, etc. add to the tourist attractions of war-rundown Monrovia but it may not be clear whether or not they also add to NTGL's corporate and personal income taxes since their employees' earnings are expected to be above the ordinary.

It was this expectation that advised the argument of many Liberians against the docking of Hotel Ship on the shores of Liberia. The feelings then was that a hotel ship along the shores of Monrovia would undermine revenue generation of existing hotels, create job loss, and thereby exacerbate poverty further.

The argument perhaps got the better out of the hubbub as evidenced by the absence of the hotel ship along the coast of Liberia today.

"It is a loss and a betrayal," says one observer, "if what was seen as investment and support to the Liberianization Policy was a mirage. Now we lost the hotel ship and the revenue it would have brought to the economy." But can this be a fair position to take with regards to what is said to be happening?

The Panel's report thinks so: "The Ministry of Finance also reports that only 90 individuals in Liberia pay income tax exceeding \$1,000 annually. All 90 are employees of large corporations, none are self-employed businessmen and none are ministers, a few of whom are members of the boards of directors of Government parastatals and draw \$5,000 ever quarter."

The report says even though about 500 UN international staffs in Monrovia rent from landlords and landladies at prices that range from \$3,600 to \$15,00 per annum, none of those house owners appear on the large taxpayers list.

Incidentally, Willie Knuckle the man who threw in the towel from the presidential race recently before it actually got started, once argued that the coming of the Hotel Ship would undercut the income of house owners to whom UNMIL and other UN personnel were paying rent and that if that happened, it would have undermined government's income generation through massive tax loss.

It is not clear whether or not he knew that government was not benefiting from any direct taxation on real estates and chose to play on the ignorance of the general public on tax matters.

But there are those who are arguing that Knuckles should not be held for protecting his business interest.

"It was left with the government to know where it stands on tax matters rather than allowing itself to be caught in the web of a gimmick that was intended for the consumption of the public," said J. William Barclay who said he supported Mr. Knuckles' view on the Hotel Ship issue because he considered him not only a big Liberian businessman, but also one that was a large taxpayer.

Extra-Budgetary Expending

In other news regarding financial impropriety, the report has revealed that even though tax revenue has suffered major cutback due to non-payment or withholding of taxes, even the little that is trickling in is being expended outside budgetary appropriation sometimes with the acquiescence or full participation of Chairman Bryant.

This, it says, makes matters worst for the Liberian economy thereby making recovery difficult if not impossible.

"The Panel came across several cases where top functionaries of the NTGL instructed their subordinates to misutilise/divert/misappropriate the Government funds without obtaining the approval of the budgetary process," the report noted.

It said in January, the Minister of Commerce and Industry, Samuel Wlue, requested BIVAC to purchase two buses and two jeeps worth \$162,000 using the government share of the pre-inspection fees for January-May 2004.

In January 2004, the report further revealed, suspended Speaker George Dweh requested one unnamed public corporation to make payment of \$9,265 for the purchase of household furniture from a company named J-Mart.

The report said it is not clear whether or not the household furniture were passed over to the successor of the speaker upon his suspension from the NTLA, but noted that Dweh and Minister Wlue are not alone in spending public funds without budgetary appropriates.

"In August-September 2004 the Chairman of the NTGL directly requested one of the parastatals to give \$205,983.65 to a person to organize the 157th anniversary celebration. In April 2004, the Chairman, directed, by telephone, one of the parastatals to give \$100,000 to the University of Liberia. In May and November 2004, the Chairman again requested, by telephone, the Managing Director of the same parastatal to give \$20,000 for national security purposes, even though nearly one-fifth of the total NTGL budget was meant for Security Services Sector. In November 2004, he requested the same parastatal to give \$100,000 to the Permanent Mission in New York to meet his expenses. These telephonic directives were not confirmed in writing," the report claimed.

Besides, Vice Chairman Wesley M. Johnson, in March 2004, made a request to one of the parastatals to purchase a vehicle for \$9500 from Traffic Enterprise although there was a provision of \$23,400 in the budget of the Vice Chairman for the purchase of cars.

"In May 2004, he requested the same parastatal to give him \$10,000 for meeting his expenses for travel to the USA. In July 2004, by telephone, he requested the same parastatal to give \$20,000 to a person to accompany him to Seoul," the report said of Vice Chairman Johnson.

These reports of extra-budgetary spending could not be independently verified by The Analyst, but observers say with the difficult performance of public revenue generation amidst so much commercial activities ongoing in the country, indications of misappropriate within the NTGL cannot possibly be farfetched.

Extra-Legislative Re-appropriations?

This is so especially when it is considered that government expenditure for 2004/2005 did not match budgetary appropriates and that several re-appropriations in budget were made presumably without recourse to the NTLA.

"Large re-appropriations were made in March 2005 shifting major budget amounts to presidential affairs, finance and the General Service Agency. The re-appropriations have come at the expense of important social and economic services sectors such as education, health, public works, rural development, agriculture, gender development, and so on, even though these sectors need maximum attention as a result of long years of conflict," the report revealed.

According to the report, the Judiciary's budgetary appropriation was cut from \$4.0 million to \$3.0 million while that for salary arrears was cut by 79% from \$9.0 million to \$1.9 million.

Gender Development was cut by 58% from \$1.2 million to \$0.5 million while health, education, and the Legislature were cut by 23, 16, and 14 per cents in that order.

Finance was beefed up by 277% from \$1.3 million to \$4.5 million while General Services was also up by 686% from \$0.7 million to \$5.5 million, according to the report.

The report said by March 2005, \$5.2 of the amount re-appropriated for the General Services had been used, leaving only \$0.3 million.

"It is not clear whether the re-appropriations were made by the Budget Bureau itself or with the approval of the National Transitional Legislative Assembly. In addition, the figures exclude amounts received outside the budget process such as the fuel delivered to the mansion and paid through reduction of taxes," the report noted.

Meanwhile the UN Panel of Experts' report has concluded thus: "The financial administration of the National Transitional Government of Liberia is weak, with non-existent internal control systems and ineffective external oversight systems."

Therefore, it recommends amongst six other points that, "No Government revenue be traded or adjusted against dues or debt outside the budgetary process. All revenues should be deposited in a consolidated fund of the Republic of Liberia and the payment of any expenses from it should be done through budgetary appropriation after due approval of the Legislative Assembly."