



Assessing the impact of tax incentives on the
government revenue in Liberia's mining sector
Griffith College Dublin

ASSESSING THE IMPACT OF TAX INCENTIVES ON THE GOVERNMENT REVENUE IN LIBERIA'S MINING SECTOR

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for the degree of
MSc in Accounting and Finance Management

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Dissertation Supervisor: **Professor Stergios Leventis**

Student Name: Trixie Angel Greaves

September 6, 2024

Candidate Declaration

Candidate Name: Trixie Angel Greaves

I certify that the dissertation is entitled "Assessing the Impact of Tax Incentives on the Government Revenue in Liberia's Mining Sector."

Submitted for the degree of **MSc in Accounting and Finance Management** is the result of my own work, and where reference is made to the work of others, due acknowledgement is given.

Candidate signature: 

Date: September 6, 2024

Supervisor Name: Professor Stergios Leventis

Supervisor signature:

Date: September 6, 2024

Dedication

This dissertation is dedicated to my supervisor, whose guidance and support were invaluable throughout this research journey. To my research instructor, whose insights and encouragement inspired me to strive for excellence. To my family and friends, whose unwavering support and belief in me provided the strength I needed to persevere. And to the participants whose contributions and cooperation made this research possible. Thank you all for playing a significant role in making this research a success.

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Abstract

This dissertation examines the impact of tax incentives on government revenue in Liberia's mining sector. It assesses the effectiveness of these incentives in promoting investment, economic growth, and job creation while aiming for sustainable development and adequate revenue for public services. The study explores the various incentives and subsidies created by the Government of Liberia (GOL) through provisions in various incentive agreements in the mining sector. It aims to ensure that tax expenditures or conventional expenditures provide the most cost-effective approach to delivering policy goals rather than resulting in dwindling tax revenues and overall fiscal distortion.

The research sets out the objectives for structuring fiscal regimes in the mining sector and analyses the different forms in which special taxes may be imposed in concert with the Liberia Revenue Code (LRC) and the challenges faced in awarding concession agreements. The importance of the mining sector in the Liberian economy and the special taxation regimes imposed in some concession agreements are discussed as examples of the application of different fiscal regimes and their potential negative effects on Liberia's ability to mobilize revenue from the sector effectively.

The study concludes with recommendations for realigning tax policies in the mining sector to enhance economic growth, increase government revenue, attract investment, and ensure sustainable resource management. The research provides a comprehensive analysis of the current tax incentive framework and its implications for Liberia's development.

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LIST OF ABBREVIATIONS

FY	Fiscal Year
GOL	Government of Liberia
IGF	Intergovernmental Forum
IMF	International Monetary Fund
IWL	Integrity Watch Liberia
KP	Kimberly Process
LRA	Liberia Revenue Authority
LRC	Liberia Consolidated Revenue Code as Amended
MDA	Mineral Development Agreement
MFDP	Ministry of Finance and Development Planning
NIC	National Investment Commission
NR	Natural Resource
OECD	Organization for Economic Co-operation and Development
UN	United Nations
USD	United States Dollars
VAT	Value Added Tax

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CHAPTER ONE: TOPIC TITLE AND BACKGROUND

1.1 INTRODUCTION

This study investigates the impact of tax incentives on government revenue within Liberia's mining sector, evaluating their effectiveness in fostering investment, economic growth, and job creation, while also aiming for sustainable development and sufficient revenue for public services.

In an era characterized by mobile capital and profits, numerous developing countries employ tax incentives to attract both domestic and foreign investments. However, their effectiveness remains contentious, particularly in the mining sector, which involves the extraction of immovable resources. Tax incentives are often costly, resulting in significant revenue losses for many countries in exchange for benefits that may be elusive (OECD IGF, 2018).

Despite this, governments may find it advantageous to introduce tax incentives for the mining sector due to specific circumstances within their jurisdiction. For instance, altering tax arrangements might be perceived as more feasible than other investment-promoting measures, such as infrastructure development. In such scenarios, it is imperative that tax incentives are meticulously designed to ensure they are both effective (achieving their policy objectives) and efficient (attaining the policy goals at minimal cost to government revenue) (OECD IGF, 2018).

A critical area necessitating immediate attention from the Government of Liberia (GOL) is tax expenditures, defined as the estimated revenue forgone through the implementation of special tax regimes, including but not limited to exemptions, deductions, credits, rate reductions, and deferred payments. These tax provisions are intended to stimulate economic growth. This research aims to analyze the various incentives and subsidies established by the GOL through provisions in various incentive agreements within the mining sector. The objective is to ensure that, moving forward, a tax expenditure or conventional expenditure provides the most cost-effective approach to achieving policy goals, rather than resulting in reduced tax revenues and overall fiscal distortions.

Furthermore, the research report delineates the objectives for structuring fiscal regimes in the mining sector and examines the different forms in which special taxes may be imposed in collaboration with the LRC, along with the challenges encountered in awarding concession agreements. The significance of the mining sector in the Liberian economy and the special taxation regimes imposed in some concession agreements are also discussed as examples of the application

of different fiscal regimes and their potential adverse effects on Liberia's ability to effectively mobilize revenue from the sector.

1.2 BACKGROUND

1.2.1 The Extractive Industry in Liberia

Liberia possesses abundant mineral resources, with the extraction of minerals such as iron ore, gold, and diamonds serving as a primary source of added value and exports. Predominantly, these minerals are exported in their raw or semi-finished states. In addition to extensive iron ore deposits, Liberia also has significant deposits of diamonds and gold, as well as potential deposits of manganese, bauxite, uranium, zinc, and lead. Diamond deposits, primarily alluvial and artisanal in nature, are widespread throughout the country. The government adheres to the Kimberly Process (KP) of Origin Certification, which permits Liberia to legally trade rough diamonds with other KP member countries.

Liberia's iron ore reserves, with grades ranging from 30% to 70%, are among the largest in Africa, and there is renewed interest in exploiting these deposits. The country boasts over three billion tons of iron ore with an average iron content of 38.9%. Currently, Liberia ranks 22nd in global iron ore production, contributing 5.1 million tons or 0.2% of the world's production. Iron ore mining plays a crucial role in the national economy, accounting for nearly 30% of total export earnings in 2016 (World Bank, 2019).

The mineral industry in Liberia can be categorized into three main sectors: Iron Ore, Gold, and Diamond. Collectively, these sectors generated sales revenues of US\$ 870.5 million and US\$ 699.0 million from Iron Ore and Gold, respectively, between 2019 and 2021 (Central Bank of Liberia, 2021). In 2019, the extractive industries contributed 52% to the country's GDP and have been instrumental in achieving an economic growth rate of 3.7% for 2022, with an anticipated average growth rate of 5.2% over 2023-24 (LEITI, 2022).

1.3 PROBLEM STATEMENT

Research conducted by Action Aid in Ghana in 2014 highlights the potential constraints on the capacity of many developing countries to generate the necessary tax revenue for their development due to overly generous tax incentive regimes that have not been critically evaluated (ActionAid Ghana, 2014).

The Liberia Consolidated Revenue Code, as amended, provides a nuanced legal framework for the taxation of both renewable and non-renewable natural resource sectors and defines the fiscal

regimes for their administration (Liberia Revenue Code, 2020). Given the nature of the sector, including the functions performed, assets owned, and risks assumed, the Code incorporates preferential fiscal instruments for its administration. However, legislative enactments in the form of concession agreements have created separate fiscal regimes within these agreements through tax exemptions and other incentives, which reduce tax rates and other fiscal instruments, thereby leading to revenue loss.

1.4 RESEARCH QUESTION

The intent of the research is to answer the following basic question regarding the challenges and impact of tax incentives on the ability of the GOL to effectively mobilize national revenue:

How can a realignment of tax in the mining sector contribute to economic growth in Liberia?

The restructuring of the tax system within Liberia's mining sector holds significant potential to foster economic growth, augment government revenue, attract investment, and ensure the sustainable management of resources. This research aims to deliver a thorough analysis of the existing tax incentive framework and its implications for Liberia's development.

1.5 PURPOSE AND OBJECTIVES

1.5.1 Research Purpose

The objective is to ascertain suitable administrative mechanisms and transparent policies that influence the administration of tax incentives. As a developing nation requiring substantial public resources to meet its social and economic needs, it is crucial to comprehend the impact of investment-related tax incentives on the Government of Liberia's (GOL) revenue. Proper administration of tax incentives is essential, and it is imperative to identify and understand their costs and benefits.

1.5.2 Research Objectives

1. To evaluate the revenue forfeited by the Government of Liberia due to tax incentives granted to concessionaires in the extractive sector.

This objective entails a comprehensive analysis of the potential income that the Liberian government could have accrued in the absence of tax incentives provided to concessionaires in the extractive sector. These tax incentives, which are reductions in tax obligations, are designed to stimulate investment, job creation, and economic growth within the extractive sector and the

broader economy. This research will ascertain whether the intended benefits of these incentives have been realized or if they require reassessment.

2. To examine the impact of the legal framework on the administration of tax incentives.

This research objective seeks to understand how the legal framework affects the management and implementation of tax incentives. This understanding is crucial as it can inform policy decisions related to the formulation of tax laws and the administration of tax incentives.

3. To conduct a comparative analysis of the costs and benefits of tax incentives and concessions in the extractive sector.

This objective involves evaluating the advantages and disadvantages of tax incentives and concessions within the extractive sector. It includes an assessment of the financial implications and potential impacts on economic growth and investment in the sector. The goal is to provide a balanced perspective on the effectiveness and efficiency of these fiscal policies.

1.6 JUSTIFICATION AND SIGNIFICANCE

This study aims to identify the challenges faced by policymakers in designing fiscal regimes within the framework of tax incentives as outlined in the Liberia Revenue Code (LRC), in contrast to the provision of additional preferential tax incentives to the extractive industry in Liberia. It will elucidate the impact of such actions on domestic resource mobilization, particularly in terms of revenue loss, and propose reforms to align with best practices.

The research will delve into the dichotomy between adhering to the existing tax code and introducing further incentives. It will evaluate the potential trade-offs and the implications of these decisions on the nation's overall fiscal health. Additionally, the study will consider the broader economic and social ramifications, such as the potential for job creation and infrastructure development, in the context of revenue loss.

CHAPTER TWO: LITERATURE REVIEW

2.1 INTRODUCTION

This section provides an exhaustive review of both theoretical and empirical literature relevant to tax incentives. It explores the various theories that support the use of tax incentives as a mechanism for economic development and scrutinizes empirical studies that have evaluated their effectiveness. Additionally, the section delves deeply into the concept of tax incentives, discussing their diverse forms and applications.

2.2 THEORETICAL LITERATURE

2.2.1 DEFINITIONS AND CONCEPTS OF TAX INCENTIVES

Tax incentives are readily identifiable as they encompass specific exclusions, exemptions, or deductions that provide special credits, favorable tax rates, or the deferral of tax liabilities. These incentives can take various forms, such as temporary tax holidays, immediate deductibility for certain expenses, accelerated depreciation for capital assets, or reduced import tariffs or customs duties. However, distinguishing between provisions that are part of the standard tax framework and those that offer special treatment can be challenging (Zee *et al.*, 2002). This distinction will become increasingly significant as countries may face limitations in implementing specific tax incentives. For example, a country might offer a 10 percent corporate tax rate for mining income, particularly in the context of concession agreements. This reduced tax rate could be perceived either as an attractive feature of the overall tax structure applicable to all taxpayers (both domestic and foreign) or as a unique tax incentive confined to the mining sector within the entire tax system.

Tax incentives can be characterized as mechanisms that reduce the effective tax burden on specific projects. This approach involves comparing the tax burden on a project benefiting from a tax incentive with the tax burden it would encounter in the absence of such a provision. This comparative analysis aids in evaluating the efficacy of various tax incentives in diminishing the tax burden on a project (Zee *et al.*, 2002).

Tax incentives encompass unique exclusions, exemptions, or deductions that provide credits, favorable tax rates, or the deferral of tax liabilities. These incentives can take multiple forms, including tax holidays, immediate deductibility, accelerated depreciation, or reduced import tariffs. Distinguishing between the overall tax framework and specific treatments becomes increasingly vital as nations may face limitations in implementing targeted tax incentives (Klemm, 2001).

Tax incentives may be characterized by their impact on diminishing the effective tax burden for a particular project. This method evaluates the comparative tax burden on a project eligible for a tax incentive against the tax burden that would be incurred in the absence of such a provision. This comparative approach is instrumental in assessing the relative efficacy of various tax incentives in alleviating the tax burden associated with a project (Klemm, 2001).

2.2.2 OBJECTIVES OF TAX INCENTIVES

Countries have utilized tax incentives to achieve various objectives, although not all of these objectives are conceptually justified to the same extent. The primary goal is often to stimulate investment, particularly in developing nations, by attracting foreign direct investments (FDIs). Other frequently cited objectives include reducing unemployment, promoting specific economic sectors or activities for economic or social reasons, and addressing regional development needs (Zee *et al.*, 2002).

To ensure that a tax incentive benefits the host country, the reduction in government revenues due to the incentive must be more than offset by the increase in tax revenues from heightened foreign investment flows (Dereje, 2017). Typically, targeted tax incentives should aim to boost investment in the sector. If not, unintended consequences may arise, along with a loss in revenue (UNCTAD, 2000).

2.2.3 FORMS OF TAX INCENTIVES

The creation of tax incentives necessitates two critical decisions: firstly, the identification of eligible investment types; and secondly, the selection of the appropriate type of tax incentive to implement (Easson, 2001).

Tax incentives for investment purposes manifest in various forms, with the most commonly utilised being:

1. Reduced corporate income tax rates;

2. Tax holidays (i.e., reduction of or exemption from tax for a limited period);
3. Investments credits or allowances;
4. Tax credit accounts;
5. Accelerated depreciation of capital assets;
6. Deductions or credits for reinvested profits;
7. Reduced rates of withholding tax on remittances to home country;
8. Personal income tax or social security reductions for executives and employees;
9. Reduced import taxes and customs duties;
10. Creation of special trade zones

2.2.3.1 REDUCED CORPORATE INCOME TAX RATES

Countries may offer exemptions or reduced corporate income or profits tax rates for specific activities. Some nations provide lower tax rates for certain types of investments, while others offer reduced tax rates for investments in particular regions or locations, such as special economic zones and other designated areas (Zee *et al.*, 2002).

2.2.3.2 TAX HOLIDAYS

In developing countries, tax holidays represent a predominant form of tax incentive aimed at stimulating investment. These holidays may provide a complete exemption from profits tax (and occasionally other taxes), a reduced tax rate, or a combination of both (e.g., a four-year exemption followed by two years at a half-rate). This exemption or reduction is granted for a specified period.

The duration of tax holidays can vary from one year to twenty years. The length of the tax holiday must strike a balance between making it attractive to investors and the cost to the host country's treasury (Zee *et al.*, 2002). Research suggests that short tax holidays are generally not appealing to most investors and are ineffective in attracting long-term investments, often only drawing short-term projects. Significant investments typically require several years to become profitable, often extending beyond the tax holiday period. Short tax holidays are most advantageous for investments that yield quick profits and effectively attract export-oriented activities such as textile production. However, due to the mobility of this sector, it is common for companies to relocate to another country offering a new tax holiday once the initial one expires, thereby limiting the long-term benefits to the host country (Easson, 2001).

Tax holidays are frequently perceived as uncomplicated for both enterprises and tax authorities. It is a common belief that the absence of tax liabilities during this period negates the necessity for

formalities such as submitting information or tax returns, as well as compliance or administrative costs. Nevertheless, it is often essential and advantageous to file a tax return during the holiday period. This is particularly pertinent if the business can carry forward losses from the holiday period or claim depreciation allowances post-holiday for expenses incurred during it. In such scenarios, the business will need to file a return or at least maintain accurate records (Easson, 2001).

Furthermore, tax holidays are highly vulnerable to exploitation, potentially leading to tax evasion and misuse. Another significant drawback is the inability to accurately predict the revenue loss from tax holidays in advance, nor is it correlated with the investment amount or the potential benefits for the host country. Additionally, tax holidays exempt profits irrespective of the amount earned. For investments anticipated to yield above-average returns, tax holidays result in a loss of tax revenue without providing any benefits. Due to the high returns, investors would have undertaken these projects even in the absence of tax incentives.

2.2.3.3 INVESTMENT CREDITS OR ALLOWANCES

Several governments provide investment allowances or credits as alternatives to, or in conjunction with, tax holidays. These allowances are supplementary to the regular depreciation allowances, enabling investors to write off an amount exceeding the investment cost. While an investment allowance reduces taxable income, an investment tax credit is applied against the tax payable. For instance, with a corporate income tax rate of 40%, an investment allowance of 50% of the invested amount is equivalent to an investment credit of 20% (Easson, 2001).

Investment allowances or credits may be applicable to all types of capital investments or may be restricted to specific categories such as machinery, advanced technology, or investments in particular activities like research and development. In certain instances, countries limit eligibility to contributions to the firm's charter capital. This approach can incentivize investors to increase the proportion of equity capital relative to related-party debt capital in the firm's initial capital structure (Zee *et al.*, 2002).

Investment allowances and credits are typically more advantageous than tax holidays for several reasons. Firstly, they have a defined duration, and the cost to the revenue is directly proportional to the investment amount, thereby eliminating the need for a minimum eligibility threshold. Furthermore, their maximum cost is easier to estimate. However, a notable drawback is that they tend to favor capital-intensive investments, which might not be as beneficial for job creation compared to tax holidays. Additionally, they could influence the selection of capital assets, potentially leading to a preference for short-lived assets to claim further allowances or credits upon replacement (Zee *et al.*, 2002).

2.2.3.4 TAX CREDIT ACCOUNTS

Tanzi and Zee (2000) propose a novel approach to providing tax benefits to potential investors, enabling taxing authorities to accurately ascertain the revenue costs associated with the tax incentive program. This method allocates a specific amount of tax relief to each qualifying investor through a tax credit account, such as a potential exemption for \$100,000 of corporate income tax liability. Investors are required to file tax returns, maintain books, and keep records akin to any other taxpayer. If an investor determines a tax liability of \$60,000 in the first year, no tax would be paid, but the tax credit account would be reduced to \$40,000 for subsequent tax years.

The tax credit account offers transparency and certainty to both potential investors and the government. It can be considered a hybrid, combining elements of a tax holiday and an investment tax credit. Unlike a traditional tax holiday, where the tax exemption period is fixed, the tax credit account ties the exemption period to the amount of income earned, applying the exemption to the first dollar earned. This approach has two significant advantages: it allows the host government to know the cost of the incentive, and it avoids giving an undue advantage to investments that generate quick profits (Tanzi and Zee, 2000). Additionally, the tax credit account is similar to an investment tax credit in that the credit amount is fixed; however, it differs in that the amount is not based on the investment size. As a result, it does not favour capital-intensive investments (Tanzi and Zee, 2000).

2.2.3.5 ACCELERATED DEPRECIATION OF CAPITAL ASSETS

As previously mentioned, an investment credit or allowance is provided in addition to any depreciation that may be claimed. The term "accelerated depreciation" generally refers to any depreciation scheme that allows for the cost of an asset to be written off for tax purposes at a rate faster than the actual economic depreciation. Many countries employ a "declining balance" method of depreciation or other forms of accelerated depreciation as part of their benchmark tax system. However, for those countries that do not typically provide accelerated depreciation, a tax incentive can allow for the cost of acquisition to be deducted more quickly than would be permitted under the standard "benchmark" depreciation schedules (Wells *et al.*, 2001).

The cost of accelerated depreciation, in terms of tax revenue foregone, is usually less than that of tax holidays or investment allowances/credits, as it only affects the timing of the tax payable and not the amount of tax. This can still be a substantial benefit to established businesses planning to

increase their investment. However, in the case of most initial investments, where there may be no profit for several years, accelerated depreciation will be of no benefit (Wells *et al.*, 2001).

2.2.3.6 REINVESTMENT INCENTIVES

Several countries offer incentives for the reinvestment of profits, which can be implemented through two primary methods. Firstly, the enterprise's tax liability can be diminished by permitting a deduction for the reinvested amount (or a proportion thereof) from the otherwise taxable profits. Secondly, the shareholder or parent company may receive a refund of the tax paid by the local enterprise, up to a specified proportion of the reinvested amount, whether in the original profit-generating enterprise or another qualifying enterprise (Easson, 2001).

The effectiveness of reinvestment incentives remains debatable. Once an enterprise has made its initial investment, subsequent investment decisions are typically based on actual business needs, suggesting that the incentive may merely reward the enterprise for actions it would have undertaken regardless. Given that the host country provides a reasonably generous system of depreciation allowances, there appears to be minimal necessity for additional inducements to reinvest (Easson, 2001).

2.2.3.7 REDUCED WITHHOLDING TAXES

Countries frequently offer reduced or zero withholding tax rates as incentives for foreign investment, either broadly or to achieve specific objectives such as technology transfer. Exemptions from withholding tax are sometimes granted for interest on loans made at preferential rates or for royalties and technical assistance fees related to technology transfers. Additionally, it is common for dividends paid from exempt profits to be free from withholding tax (United Nations Conference on Trade and Development, 2004).

There is evidence suggesting that high withholding tax rates deter foreign direct investment (FDI). However, it is less evident that exemptions or reductions to rates below international norms significantly influence initial investment decisions. Another criticism is that this form of relief diminishes the incentive to reinvest profits by reducing the disincentive to repatriate them (United Nations Conference on Trade and Development, 2004).

2.2.3.8 PERSONAL INCOME TAX PAYROLL TAX AND SOCIAL SECURITY REDUCTIONS

Certain countries provide preferential tax treatment to expatriate executives and employees, including additional allowances for accommodation, children's education, home leave, and other benefits. Additionally, some countries exempt specific categories of expatriate employees from income or payroll taxes or impose lower tax rates than other resident individuals. Although such concessions are unlikely to influence investment decisions significantly, investors may regard them as contributing to a favourable investment environment. (United Nations Conference on Trade and Development, 2004).

Reductions in payroll taxes and social security contributions are occasionally employed as incentives to stimulate investment in regions with high unemployment rates or to encourage the employment of specific categories of workers, such as youths or individuals with disabilities. These incentives are likely to be moderately effective, particularly in countries where payroll taxes and social security contributions constitute a significant portion of employment costs. Additionally, they offer the advantage of being relatively straightforward to administer (United Nations Conference on Trade and Development, 2004).

2.2.3.9 REDUCED IMPORT TAXES AND CUSTOMS DUTIES

Customs duties frequently elevate the cost of imported raw materials, components, and capital goods. While taxes or duties on raw materials and components may be transferred to domestic consumers or refunded upon export, the taxes on capital goods are often less easily recuperated. These taxes can significantly increase the initial cost of an investment. Exemption from customs duties and import taxes can be crucial to investment decisions, with many investors considering this type of incentive the most valuable (Easson, 2001).

Typically, exemptions apply solely to imported capital equipment. In some instances, all capital equipment qualifies; in other cases, only specific categories, such as machinery or technologically advanced equipment, are eligible. Occasionally, the exemption extends to imported components and raw materials used in production, although such exemptions are usually granted only temporarily. This type of exemption, particularly when selectively granted to specific investors, can severely distort competition and violate international trade rules (Easson, 2001).

2.2.3.10 CREATION OF SPECIAL TRADE ZONES

Countries employ two distinct types of special trade zones to attract investment: duty-free zones, which benefit from exemptions from customs duties and often from Value Added Tax (VAT), and special economic zones, where investors receive other tax privileges not available in other parts of the host country. In practice, the distinction between these two types of zones is not always clear. Investors in duty-free zones frequently receive additional tax privileges, particularly in export processing zones, while special economic zones sometimes enjoy customs privileges. (Kransdorff, 2010).

Duty-free and export processing zones (EPZs) are designed to facilitate the transshipment of goods and the processing of imported materials or components for export. Imported goods are exempt from VAT and customs duty, as these taxes would typically be refunded upon export. However, granting additional tax privileges, such as tax holidays, to these activities may be inappropriate and could violate the World Trade Organization's (WTO) prohibition on export subsidies.

In contrast, special economic zones aim to promote economic activity within a designated area and are not limited to exporting. Therefore, they should not receive favourable customs treatment (Kransdorff, 2010).

2.3 ADVANTAGES AND DISADVANTAGES OF TAX INCENTIVES

2.3.1 ADVANTAGES OF TAX INCENTIVES

When properly designed and implemented, tax incentives serve as an effective mechanism for attracting investments that would otherwise not occur in the absence of such benefits. These incentives are justified when they address market inefficiencies or generate positive externalities. Scholars consider such tax incentives desirable, as without government intervention, the level of Foreign Direct Investments (FDIs) would be suboptimal (Margalioth, 2003). It is unsurprising that governments frequently opt for tax incentives over other forms of intervention. Providing tax benefits is considerably easier than rectifying deficiencies in the legal system or significantly enhancing a country's communications infrastructure. Moreover, tax incentives do not necessitate government expenditure, unlike alternatives such as grants or cash subsidies to investors. Although tax incentives and cash grants may be economically equivalent in cost to governments, for political and other reasons, it is more feasible to offer tax benefits than direct financial support to investors (United Nations, 2018).

New FDIs can yield substantial benefits, some of which are not easily quantifiable. A well-targeted tax incentive program can effectively attract specific projects or types of investors at reasonable costs relative to the benefits received. The advantages commonly associated with FDIs include increased capital, knowledge and technology transfers, enhanced employment opportunities, and improvements in conditions in less developed areas (United Nations, 2018).

Foreign Direct Investments (FDIs) have the potential to generate significant spillover effects. Economic growth can enhance the spending power of a country's residents, subsequently increasing the demand for new goods and services. Additionally, increased investment may boost government tax revenue, either directly through taxes paid by investors after the expiration of tax holiday periods or indirectly through increased tax revenue from employees, suppliers, and consumers (United Nations, 2018).

However, the optimistic perspective on the benefits of FDIs has been recently contested by those who question whether tax incentives genuinely elevate the level of FDIs and whether FDIs foster economic growth that is advantageous for development (Brauner, 2013). According to this view, even if tax incentives succeed in attracting new investment, it remains uncertain whether the developing country benefits from many types of foreign investments.

While a general description of the potential benefits from additional investment resulting from tax incentives can be provided, quantifying these benefits with any degree of certainty is challenging. Moreover, at times, the benefits accrue to individuals other than the firm receiving the tax incentives.

2.3.2 DISADVANTAGES OF TAX INCENTIVES

Tax incentives result in the non-collection of potential tax revenues, leading to reduced funds in government coffers. These funds could otherwise be allocated to finance public goods and services within the development and recurrent expenditure budgets. Such goods and services encompass, but are not limited to, communication, infrastructure (e.g., roads and bridges), and social services (e.g., health, education, and water). Economically, these exemptions represent opportunity costs, as the exempted funds cannot be simultaneously utilized for development purposes. Consequently, it is imprudent to heavily rely on donor support while concurrently exempting taxes that should be collected to finance both development and recurrent budgets.

In evaluating the disadvantages of a tax incentive regime, it is crucial to consider four distinct types of costs: (a) revenue costs, (b) resource allocation costs, (c) enforcement and compliance costs, and (d) costs associated with corruption and lack of transparency (Zee *et al.*, 2002).

2.3.3 REVENUE COSTS

The losses in tax revenue resulting from tax incentives originate from two primary sources: the forgone revenue from projects that would have proceeded regardless of the tax incentives, and the lost revenue from investors and activities that improperly claim incentives or shift income from related taxable firms to those qualifying for favorable tax treatment (*Zee et al., 2002*).

Policymakers aim to target tax incentives to achieve the maximum possible benefits at the lowest cost. Ideally, tax incentives should be offered only to those marginal investors who would invest elsewhere in the absence of such incentives. Providing tax incentives to investors whose investment decisions are unaffected by the anticipated tax benefits merely results in a transfer of resources from the host government to the investor without any gain. It is challenging to determine on a project-by-project basis which investments were undertaken solely due to tax incentives, just as it is difficult to estimate the overall levels of investment in an economy with or without a tax incentive regime. For projects that would not have been undertaken without tax incentives, there is no actual loss of tax revenue from those firms. To the extent that these firms become regular taxpayers or that their operations generate other tax revenues, such as increased profits from suppliers or increased wage taxes from employees, there are revenue gains from these projects (*Zee et al., 2002*).

The erosion of the revenue base due to the abuse of tax incentive regimes by taxpayers results in an additional revenue cost of tax incentives (*Zee et al., 2002*). This phenomenon manifests in various forms. Revenue losses occur when taxpayers disguise their operations to qualify for tax benefits. For instance, if tax incentives are exclusively available to foreign investors, local firms or individuals may route their local investments through foreign corporations. Similarly, if tax benefits are restricted to new firms, taxpayers may reincorporate or establish multiple new related corporations to be recognized as new taxpayers under the tax incentive regime (*Zee et al., 2002*).

Furthermore, other leakages arise when taxpayers exploit tax incentives to reduce their tax liability from non-qualified activities. For example, when a firm qualifies for a tax holiday as a Class A Mining Producer (Liberia Revenue Code, 2020), it becomes challenging to monitor the firm's operations to ensure compliance with the qualifying activities. Even in cases where activities are separated, it remains exceedingly difficult to oversee related-party transactions to prevent the shifting of income from a taxable firm to a related entity that qualifies for a tax holiday.

2.3.4 RESOURCE ALLOCATION COSTS

If tax incentives prove effective, they will stimulate additional investment in sectors, regions, or countries that would not have otherwise experienced such growth. While this additional investment may occasionally rectify market failures, it may also lead to an inefficient allocation of resources, resulting in excessive investment in certain activities and insufficient investment in other non-tax-favoured areas.

Assessing the impact of tax provisions in countries with relatively developed markets is challenging. This task becomes even more complex in developing countries, where markets do not align with existing competitive models. Consequently, in imperfect markets, it remains uncertain whether tax incentives aimed at correcting market imperfections will enhance market competitiveness (Lipsey and Lancaster, 1956).

2.3.4.1 ENFORCEMENT AND COMPLIANCE COSTS

As with any tax provision, governments incur resource costs in enforcing tax rules, and taxpayers face compliance costs. The enforcement costs are associated with the initial granting of the incentive, monitoring compliance with qualification requirements, and enforcing recapture provisions upon termination or failure to continue qualifying. The complexity of the tax incentive regime directly correlates with higher enforcement and compliance costs. Tax incentive schemes with numerous beneficiaries are more challenging to enforce compared to narrowly targeted regimes (Joel, 1971).

Motivating revenue authorities to allocate resources for monitoring tax incentive schemes is challenging. Revenue authorities aim to optimize their limited administrative resources to enhance tax collection. Consequently, they tend to prioritize auditing fully taxable firms over those operating under tax holiday arrangements (Joel, 1971).

2.3.4.2 COSTS ASSOCIATED WITH CORRUPTION AND LACK OF TRANSPARENCY

A significant challenge to Foreign Direct Investment (FDI) is corruption; however, it may not necessarily deter foreign investors from exploiting a corrupt system. In recent years, scholars have concentrated on the corruption and other rent-seeking behaviors associated with the provision of tax incentives. Various policy approaches exist for establishing the qualification criteria for tax incentives. Policymakers can opt for automatic and objective methods codified in legislation or discretionary and subjective methods. The potential for corruption is significantly higher in tax

incentive regimes where officials possess considerable discretion in determining which investors or projects receive preferential treatment. The likelihood of abuse is also greater in scenarios where clear guidelines for qualification are absent (Joel, 1971).

The International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), and the World Bank have initiatives aimed at reducing corruption and assisting countries in implementing anti-corruption programs. A key component of such programs is the monitoring of foreign investment projects, particularly the allocation of investment incentives. If a tax incentive is found to have been improperly obtained, the associated privileges should be revoked, and any avoided tax should be repaid, in addition to any other legal sanctions (United Nations, 2018).

2.4 FISCAL REGIMES IN THE EXTRACTIVE SECTOR

Countries endowed with abundant resources exhibit significant variability, which influences the design of tax systems. Structural differences are crucial in selecting fiscal regimes, extending beyond the stark contrasts in their dependence (both current and prospective) on Extractive Industry (EI) revenues. Furthermore, conventional and likely acceptable tax practices vary for mining, oil, and gas sectors. In certain nations, such as Malawi with its niobium or uranium projects, there may be one or a few large projects, whereas in others, like Iraq, there may be numerous projects with plans for further expansion. Specific countries, including Guinea, Lao PDR, Sierra Leone, and Tanzania, have stringent agreements governing current initiatives, with changes occurring gradually and through mutual consent. However, most countries possess greater flexibility in establishing regimes for the future (International Monetary Fund, 2012).

Revenue serves as a primary benefit to host countries, with employment creation, community disruption, and environmental concerns being common priorities. The design of fiscal regimes should aim to maximize net government revenues from the Extractive Industry (EI), which is best achieved through taxes targeting rents (International Monetary Fund, 2012).

2.5 NATURAL RESOURCE TAXATION

Natural resources are subject to taxation under both income tax systems and specialized resource taxes. While income tax systems often provide favorable treatment to resource industries, specialized resource taxes are designed to capture resource rents that exceed general income taxes. This approach is justified on grounds of efficiency, as it is non-distorting, and equity, as resource

rents should benefit the public rather than private entities, given that they represent the bounty of nature rather than economic effort (Frank, 1993).

In practice, there are significant differences between resource taxes and rent taxes. Unlike general income tax systems that allow resource sectors to underreport capital income, resource taxes often overstate rents. This discrepancy arises from the lack of full deductions for all expenses, particularly capital costs. Some tax systems impose taxes on revenues without permitting any cost deductions, while others allow only current cost deductions. As a result, these practices discourage investment in resource sectors, favor the exploitation of high-grade resources over low-grade ones, and complicate the application of high tax rates due to the risk of exceeding a 100 percent marginal tax rate (Frank, 1993).

2.6 EMPIRICAL LITERATURE

The Ministry of Mines and Energy (MME) serves as the Government of Liberia's agency responsible for overseeing the administration of the mineral and mining sector, including the issuance of mining licenses. Additionally, it holds statutory oversight over the energy, minerals, and water sectors. The regulation of the minerals and mining sector is governed by the Mining and Minerals Law of 2000 and the Exploration Regulations (MME 2010). In March 2010, Liberia's Minerals Policy was established to complement the Mining and Minerals Law. These documents delineate the Government's expectations regarding the contributions of all stakeholders towards the sustainable development of Liberia's mineral resources. Although the Mineral Mining Law is currently under review, it outlines five types of mining licenses. Furthermore, the Mineral Development Agreement (MDA) specifies the criteria for acquiring a class A mining license. The MDA elaborates on the operational and fiscal terms for both exploration and mining, ensuring a seamless transition from the exploration phase to the mining phase, provided that the operator adheres to the general provisions of the law. During the negotiation of an MDA, the Minerals Technical Committee possesses discretionary authority over matters subject to the regulations, which, in conjunction with the law, stipulate the principal terms and conditions (Wilson *et al.*, 2017).

In conclusion, the Ministry of Mines and Energy (MME) holds a central role in the governance of Liberia's mineral and mining sector. The legal framework, which includes the Mining and Minerals Law and Liberia's Minerals Policy, establishes the foundation for sustainable development and stakeholder engagement. The Mineral Development Agreement (MDA) serves as a crucial instrument that outlines the terms for exploration and mining, ensuring a smooth transition from exploration to mining operations. This framework, currently under review, is

essential for my research as it influences the effectiveness and efficiency of tax incentives on government revenue within Liberia's mining sector. The discretionary authority of the Minerals Technical Committee in MDA negotiations further highlights the importance of comprehending the intricacies of these fiscal terms and their implications for the sector's contribution to national development.

2.6.1 CONTEXTUAL LITERATURE

In an effort to attract both local and international investment, numerous developing nations offer tax incentives despite the contentious debate over their efficacy, particularly in the mining industry where resources are fixed in location. These incentives can be costly, causing countries to forgo crucial income for questionable gains. However, some governments may find tax incentives beneficial due to unique local factors. For instance, modifying tax policies may be simpler than enhancing infrastructure to boost investment. Therefore, when implementing tax incentives, it is essential that they are meticulously crafted to be both effective in meeting policy objectives and efficient in achieving these goals with minimal fiscal impact (OECD IGF, 2018).

While the deployment of tax incentives by developing countries, including Liberia, is a strategic move to attract investment, their actual benefit, particularly in the immovable mining sector, remains a topic of debate. The cost of these incentives, often in the form of lost revenue, must be weighed against the potential for economic growth and development. For Liberia, the challenge lies in designing tax incentives that are effective in achieving the desired policy outcomes and efficient in preserving government revenue. This delicate balance is crucial for ensuring the mining sector contributes optimally to the nation's sustainable development goals.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 INTRODUCTION

This study aims to assess the impact of tax incentives on the government's revenue in Liberia's mining sector. Tax incentives are policy measures that reduce or eliminate the tax liability of certain taxpayers or activities, with the intention of encouraging investment, employment, or other socio-economic objectives. However, tax incentives can also entail significant costs and risks for the government, such as revenue losses, tax avoidance, erosion of the tax base, distortion of resource allocation, and reduced accountability and transparency (Holland and Vann, 1998). Therefore,

evaluating the effectiveness and efficiency of tax incentives and comparing their benefits and costs is important to determine whether they are justified and optimal.

To achieve this objective, the study adopted a mixed-methods approach that combines quantitative and qualitative data and analysis. A mixed-methods approach is a research strategy that integrates different data types and methods, such as numerical and textual, statistical and interpretive, deductive and inductive, to address a research problem from multiple perspectives and dimensions. A mixed-methods approach can enhance the validity, reliability, and generalizability of the research findings and can also provide a deeper and richer understanding of the research context and phenomenon (Creswell and Clark, 2017).

3.2 STUDY LOCATION AND CONTEXT

The study focused on the Republic of Liberia for the following reasons. Firstly, Liberia is a West African country with a population of about 5 million and a GDP per capita of about US\$799.5 in 2023 (World Bank Group, 2023). The country has experienced a long history of political instability, civil wars, and humanitarian crises, which have severely affected its economic and social development. The country is ranked 176 out of 189 in the Human Development Index and faces high poverty levels, inequality, unemployment, and corruption (UNDP, 2020). These factors affect the government's revenue and the effectiveness of tax incentives in the mining sector (OECD IGF, 2018).

Secondly, Liberia has a rich endowment of natural resources, especially in the mining sector, which accounts for about 15% of its GDP and 20% of its exports (Plaza-Toledo, 2019). The country has deposits of iron ore, gold, diamonds, bauxite, manganese, and other minerals that attract domestic and foreign investors. The government considers the mining sector a strategic sector for economic growth and development and has adopted various policies and laws to regulate and promote it. One of the main policy instruments that the government uses is tax incentives. Tax incentives are granted to mining companies through different channels, such as the Revenue Code of Liberia (2011), the Investment Act (2010), the Public Procurement and Concession Act (2010), and the Mineral Development Agreements (MDAs) between the government and the companies. The government claims that tax incentives are necessary to attract and retain foreign direct investment (FDI), create employment, enhance technology transfer, and foster linkages with other sectors of the economy. However, careful thought must be given to how investors will likely respond to incentives and whether unintended revenue losses may ensue (OECD IGF, 2018).

3.3 DATA SOURCES AND STUDY PARTICIPANTS

The study used primary and secondary data sources and employed various techniques, such as descriptive statistics, content analysis, and case studies. Primary data sources were collected directly by the researcher from the original sources, such as surveys and interviews. Secondary data sources were obtained directly from the Liberia Revenue Authority (LRA) (Yin, 2018).

My data collection method involved gathering information from semi-structured interviews with stakeholders of government institutions and administering a survey. Combining these two methods has gathered rich and diverse data, providing a more holistic understanding of my research topic. The insights gained from the stakeholders' interviews were complemented by the concrete details obtained from the survey, resulting in a robust and comprehensive data set for further analysis and interpretation. Interviews with stakeholders from government institutions (like the Liberia Revenue Authority, National Investment Commission, Ministry of Mines and Energy and the Ministry of Finance and Development Planning) involved in implementing tax incentives for the mining sector. The interviewees were selected based on their roles and responsibilities, as well as their experience and knowledge of tax incentives. The interview also sought to elicit the perspectives and opinions of the stakeholders on the current state and prospects of tax incentives for the mining sector. Documents related to tax incentives for the mining sector were collected from various sources, such as government websites and used as secondary data.

The rationale for choosing this approach and these techniques was to provide a comprehensive and balanced assessment of the research problem, and to address its complexity and diversity. The study acknowledges that the impact of tax incentives on the government's revenue in Liberia's mining sector is not a simple or linear phenomenon but rather a multifaceted and dynamic one that involves various actors, factors, mechanisms, and outcomes, and the historical, political, economic, and social context of the country influences that. Therefore, the study uses a mixed methods approach to combine the strengths, overcome the limitations of different data sources and methods, and capture the quantitative and qualitative aspects of the research problem. The study also employs various techniques to analyse the data from different angles and levels and to provide descriptive, explanatory, and evaluative answers to the research questions.

3.4 STUDY DESIGN: MIXED METHODOLOGY

In addition to document analysis, the study used a mixed method of qualitative and quantitative data collection and analysis to gain more insights and perspectives from the key stakeholders of the research problem. The qualitative data consisted of semi-structured interviews with selected participants from the government ministries and agencies responsible for granting, monitoring,

and evaluating tax incentives for the mining sector and the heads of companies that have received or applied for tax incentives in the sector. The interviews explored the participants' views, experiences, perceptions, motivations, challenges, and suggestions regarding the tax incentives and their impact on the government's revenue. The interviews also helped the researcher understand the context, dynamics, and complexities of the tax incentive regime and its implementation in Liberia (Creswell and Clark, 2017)

The quantitative data consisted of a survey questionnaire administered online or by phone to a larger sample of participants from the same categories as the interviewees. The survey collected data on the participants' demographics, characteristics, preferences, attitudes, satisfaction, and opinions regarding the tax incentives and their impact on the government's revenue. The survey also measured the extent to which the participants agreed or disagreed with various statements related to the research problem. The survey complemented the interviews by providing more generalisable and measurable results that could be statistically analysed and compared across different groups of participants (Brannen, 2017).

The mixed method approach allowed the researcher to triangulate the data from different sources and methods and enhanced the validity, reliability, and credibility of the findings. The mixed method approach also enabled the researcher to address the research questions from different angles and levels and provided a holistic and comprehensive understanding of the research problem (Johnson *et al.*, 2007).

3.5 DATA COLLECTION PROCEDURES AND SAMPLING

3.5.1 Qualitative Study

The qualitative data collection procedures involved semi-structured interviews with 10 participants involved in or affected by the research problem. The interviews were conducted via online platforms, depending on the availability and preference of the participants. The interviews lasted 45 minutes to an hour and were audio-recorded with the consent of the participants. The interview questions were designed based on the research objectives and literature review and pilot-tested before the data collection. The open-ended and flexible interview questions allowed the participants to express their views, experiences, and opinions freely and in depth. The interviews also allowed the researcher to probe and follow up on any interesting or relevant topics that emerged during the conversation.

The sampling method for the qualitative study is purposive sampling, a type of non-probability sampling that involves selecting participants based on specific criteria and characteristics relevant

to the research problem and questions (Palinkas *et al.*, 2015). Purposive sampling enabled the researcher to choose participants with rich and diverse information and insights about the research topic who could provide different perspectives and experiences. The sampling criteria include the participants' role, position, background, involvement, and interest in the research problem. The sample size of 10 participants was determined by the principle of saturation, which means the data collection continued until no new or significant information was obtained from the interviews (Saunders *et al.*, 2018).

3.5.2 Quantitative Study

The quantitative data collection procedures involved obtaining secondary data from the revenue authority and other ministries and agencies related to the research problem. The secondary data includes year-on-year tax and non-tax revenue and other relevant indicators. The data was sourced from official reports, publications, databases, and respective institutions' websites. The data covered 4 years, from 2020 to 2023, to allow for a longitudinal analysis of the trends and patterns of revenue performance and its influencing factors. The data was verified for accuracy, validity, reliability, and consistency before being used for the analysis.

3.6 DATA ANALYSIS

The study implemented a data analysis and processing strategy suitable for mixed methodology, utilising qualitative and quantitative data analysis methods.

3.6.1 Thematic and Statistical Analysis

The data analysis method for the quantitative study is SPSS. This statistical software enabled the researcher to perform descriptive and inferential analysis of the data using various techniques and tests (Saunders *et al.*, 2018). SPSS enabled the researcher to examine the relationships, patterns, and trends among the variables and tested the study's hypotheses. The data analysis method for the qualitative study is Nvivo, a qualitative data analysis software that allows the researcher to organise, code, and interpret the data using thematic analysis (Braun and Clarke, 2019). Nvivo enabled the researcher to identify and analyse the themes, concepts, and patterns that emerged from the interviews and relate them to the research problem and questions.

3.7 ETHICAL CONSIDERATIONS

The data related to tax incentives for the mining sector is characterized by its sensitivity and confidentiality. Certain documents or information were not publicly accessible and required authorization or permission for access. Additionally, some interviewees were reluctant or unwilling to share their views or experiences on the topic, requesting anonymity or non-disclosure

agreements. Consequently, I adhered to the principles of privacy and security for both the data and the participants, obtaining informed consent and clearance from the relevant authorities prior to data collection. I was also committed to maintaining objectivity and neutrality throughout the research process, avoiding the imposition of my own agenda or expectations on the data or the participants, and striving to understand and represent their perspectives and experiences as accurately and faithfully as possible.

Prior to conducting the interviews, the researcher secured ethical approval from Griffith College Dublin and prepared an ethical consent form that outlined the purpose, procedures, benefits, and risks of the study. The ethical consent form also assured participants of their voluntary participation, confidentiality, anonymity, and right to withdraw at any time without consequences. The researcher emailed the ethical consent form to potential participants, requesting them to read, sign, and return it if they agreed to participate in the study. The researcher received signed consent forms from all participants before commencing the interviews.

CHAPTER FOUR: DATA ANALYSIS

4.1 INTRODUCTION

This chapter presents the results of the qualitative (interviews) and quantitative (survey) data to offer a detailed understanding of the research objectives. The mixed methodology strategy allowed a multifaceted exploration of the research objectives. The first section examines the key themes emerging from the qualitative data drawn from ten interviews, while the second section presents the findings of the quantitative analysis. Further, the section relies on secondary data analysis, revenue data (tax and non-tax) collected from taxpayers within the extractive sector who benefited from tax exemption privileges, using information extracted from the Liberia Revenue Authority (LRA). The dataset encompasses four years, from fiscal year (FY) 2019/2020 to FY 2023.

4.2 Qualitative Findings

This section analyses the results of the interviews with ten respondents to understand the impact of tax incentives on government revenue in the mining sector in Liberia. The demographics of the interviewees are documented in the table below. According to the ethics plain language statement, which highlights the principle of anonymity, only the initials of the interviewees are documented.

Table 1: Demographic Information of the Respondents

Respondents	Gender	Position	Entity
AK	Female	Assistant Commissioner Natural Resources Tax Division	Liberia Revenue Authority
OB	Male	CEO/Managing Partner Tax	Crowe Liberia LLC
DT	Male	Principal Program Officer Domestic Taxes	ECOWAS
MS	Male	Executive Director	National Investment Commission
KA	Male	Managing Partner	KFA-Consults
SS	Male	Commissioner for Customs	Liberia Revenue Authority
PN	Male	Director Direct Tax Policy Division	Ministry of Finance and Development Planning
TC	Male	Technical Focal Person/Manager Business Policy Unit	Liberia Revenue Authority
MD	Male	Manager International Tax	Liberia Revenue Authority
DJ	Male	Manager Post Clearance Audit - Customs	Liberia Revenue Authority

Source: Participants Interview

A thematic analysis of ten transcripts revealed three themes: economic tradeoffs and financial implications of tax incentives, balancing economic gains with other costs, and legal gaps and enforcement problems.

Table 2: Summary of the Themes

Research Objectives	Themes	Description
To assess the revenue the Government of Liberia forgone due to the tax incentives given to concessionaires in the extractive sector.	Economic Tradeoffs and Financial Implications of Tax Incentives	The theme examines the benefits and cost of offering tax incentives in Liberia's mining sector
Comparatively, analyse the costs and benefits of tax incentives and concessions in the extractive sector.	Balancing Economic Gains with other Costs	The theme examines economic growth and profitability versus social, environmental and other expenses due to mining
To examine the legal framework's effects on tax incentives administration	Legal Gaps and Enforcement Problems	This theme basically explores challenges with existing law

4.2.1 Economic Trade-offs and Financial Implications of Tax Incentives

Objective 1: To assess the revenue the Government of Liberia forgone due to the tax incentives given to concessionaires in the extractive sector

This theme shows the dual-edged nature of the tax incentives, balancing huge revenue losses with economic benefits and other financial implications. On the one hand, tax incentives attract investment and spur economic growth, but on the other hand, loss of potential revenue due to incentives raises serious concerns. The participants reiterated that the main aim of offering tax incentives is to attract foreign investment in the mining sector, which is crucial for Liberia's economic growth. The respondents note that the tax incentives have been crucial in attracting international companies and causing significant investment in the mining sector.

“So, from the beginning, we were giving them because we wanted some kind of investment in the country, especially in that sector”

“Yes, in the early days, 2011, 2016, between the period of 2011 and 2016, yes, a lot of foreign direct investments, especially in the mining sector, were attracted to Liberia because of these incentives that were granted.”

Investment due to tax incentives has assisted large companies in creating jobs for Liberia's citizens. Regardless of the tax incentives, large companies have led to revenue growth via foreign currency inflows and export earnings. The respondents also noted the social contributions of the corporations benefitting from the tax incentives.

“One of the benefits is employment. The government wants to employ more of its citizens.”

“The social contribution that the company brings has a strong impact on the economy and those within the region in which this company operates. So that's what I can say for now.”

“So basically, tax incentives are normally done to encourage investors into the country for investing reasons. One and two is to create jobs for its citizens because the government cannot employ everyone. And three, it is to stabilise the economy because as these people come in, we also have foreign currency that comes into the country.”

The respondents show revenue loss as the primary challenge of the tax incentives. Even though tax incentives intend to stimulate economic growth by attracting foreign investment, many participants show concerns about the revenue the government loses due to the undertaking.

“So some of the challenges we have with it is that over time, we have reduced eating up part of our revenue. “

“On a case-by-case basis, the government gives away its taxing rights to a company through a negotiated agreement (MDA), which reduces company taxes paid to the government.”

Reducing corporate tax from the companies in the mining sector is a recurring concern of the participants. If these concessions are granted, they pay very minimal tax, which has adverse implications on government revenue.

“And because of those costs of granting these incentives, the government almost never, from my experience, realised corporate income tax in the mining sector.”

Further, the loss of tax revenue owing to the incentives causes a shortfall in the national budget and the ability to fund basic social services. Some respondents questioned whether attracting investment truly outweighs the revenue losses and are sceptical about the government's long-term economic gains. Some respondents note that the current tax regime does not offer adequate economic benefits to justify the revenue losses, and often, the incentive fails to deliver the expected economic growth.

“tax incentives resulting in a reduction of tax payment from the sector, which leads to underperformance of the government budget and reduction in basic social services due to budget underperformance”

“I am not convinced that these benefits have outweighed the losses that we do get”

4.2.2 Balancing Economic Gains with Other Costs

Objective 2: Comparatively, analyse the costs and benefits of tax incentives and concessions in the extractive sector

This theme reflects the conflicting dynamics, highlighting the challenge of weighing the economic benefits against the broader environmental, social, and economic costs. Mining Companies have contributed to the physical and social environment of the Liberian communities due to the tax incentives. The respondents noted how some corporations assume responsibilities normally held by the government to provide crucial services such as roads, electricity, and water. These companies ease the government's burden of offering services in remote settings.

“in some instances, it has relieved the government of providing some social services because these companies that are located in these regions sometimes have to produce or procure water, electricity, and even sometimes assist with the development of the roads going to these places.”

Further, the respondents observe that the companies have constructed community facilities such as town halls and health and education infrastructure such as hospitals and schools, sometimes through agreements with the government.

“Some of them build what they call town hall meeting, the hall for the town hall meeting, called the Palawa Hall in Liberia.”

“So if that incentive is given to the concessionaire and the concession goes ahead and make the rules and do those schools and build hospitals, of course, that's the effectiveness. That's how we can look at the effectiveness from that angle.”

According to the respondents' observations, the government of Liberia derives imbalanced benefits from the tax incentives. Respondents say that the government does not engage in value addition for the raw materials from the mining sector, which are exported without processing, leading to significant revenue losses. Further, according to the respondents, the economic benefits of tax incentives are outweighed by political gains that often motivate these decisions.

“We're not manufacturing that raw material at any value chain level. We're shipping the raw material directly. Since there is no value chain, we are not getting what we're supposed to get.”

“The economics surrounding the granting of these incentives are far less than the political gains. “

Even though the objective of the tax incentives is to attract investment, the long-term financial gains to the government are questionable. The respondents observe that incentives significantly favour the investors while the government and Liberia community receive very little in return. Cooperation may promise to establish jobs as a part of tax incentive agreements; however, these promises are not always kept, hence a ripple effect on the economy. Even though tax incentives initially attract investment, the growing view is that over a period of time, there are significant revenue losses and unmet expectations.

“So, we think they bring investors, and they're going to give us huge investment and bring money, but I would say no from where I sit currently. Before, I would say yes. Right now, I would say no”

“Government will tell you, see, yeah, they've achieved this because some companies promise to employ 1,000 people, and some do employ, and some don't.”

The lack of capacity to monitor compliance with environmental policies in the extractive sector implies that companies operate without oversight, degrading the environment. Significant chemical spillage occurs in mining operations, with severe adverse implications for wildlife, natural

vegetation, and marine ecosystems. Some respondents observed that companies have had their tax incentives suspended due to environmental damage.

“governments cannot properly monitor these people with respect to compliance with the environmental protection requirements of the extractive sector.”

“some companies have had some of the most favourable incentives suspended or closed due to other factors like geology.”

Respondents submit a rampant misuse of tax incentives by concessionaries—for instance, the abuse of tax incentives on fuel, which results in revenue losses for the government. Companies also move the book value of assets across nations or within Liberia, where assets are revalued at historical costs even though they are new, avoiding tax rates and diminishing the taxable base. Corporations also use the tax exemption status to outcompete local businesses, leading to losses in revenue that could have been generated from local companies.

“concessionaries abuse tax incentives a lot. The granting of an exemption, especially on fuel that is used directly in the production of minerals, is completely abused.”

“And in that way, the revenue that we should have otherwise collected from local vendors is now going into exemption because companies are using the privilege to fight for others.”

4.2.3 Legal Gaps and Enforcement Problems

Objective 3: To examine the legal framework's effects on tax incentives administration

The theme shows the challenges of inconsistent, outdated, and inadequate legal frameworks regulating tax incentives in the mining sector. These concerns lead to widespread inefficiencies, corruption, and inequities, thus negating the intended benefits of tax incentives. There are concerns regarding the obsolescence and inadequacy of the regulatory frameworks in the mining sector. The respondents show concerns about outdated mining laws without comprehensive reforms. The current legal framework does not align with evolving needs in the mining sector. This lack of up-to-date legislation negates the government's ability to enforce tax obligations, and the absence of a systematic approach to revising policies and laws is a primary barrier to proper management in the mining sector.

“One of the difficulties is that we have not been able to review our mining law over a protracted period of time, that's one. Two, we also lack a lot of infrastructure.”

“The first and foremost thing is government must have a policy on what to give and what not to give. So, if that policy framework basically is set and then say, hey, there are no compromises on this one, but this one we can give”

“It becomes a huge challenge for us because a company have been granted these incentives for like 20 to 25 years, and these incentives are not being evaluated over time so that you see what you have given this concessionaire.”

Company exploitation of tax incentives is rampant in the mining sector. Some incentives are provided beyond their intended scope, for instance, consumables instead of capital equipment, hence diluting the purpose of the tax incentives. Further, the mining companies import goods that can be produced locally, thus undermining the local industries. The current tax regime lacks a nuanced approach, hence the blanket application of the incentives that are prone to abuse. Unchecked incentives cause significant revenue leakages, weakening the government's capacity to generate revenue effectively.

“From the customs standpoint, the incentives that should be given on imports should be related only to capital equipment, the plants and capital equipment, and not necessarily consumables as it is the case now.”

“these incentives live on year in and year out, and it's causing huge leakages to the revenue generation capacity of the country.”

“The mining companies bring in tissue, even if they're locally manufactured, they bring in almost everything they need to use, which undermines local production. And that's one. And number two, some companies trade these goods that are brought under duty-free privileges.”

There are perceived inequities and inconsistencies in applying tax incentives in the mining sector. For instance, the respondents expressed concerns about varied fiscal regimes in the mining sector, the discretionary characteristics of the tax incentives, and the continuation of incentives beyond their relevance (after 25 years). The respondents also expressed the need for streamlined tax incentives applied uniformly across sectors.

“Instead of it being thorough and ensuring that the incentives are no longer relevant, they are removed, but they are further granted.”

“the major challenges are difficulty in different fiscal regime administration and low tax collection from the mining sector compared to other sectors.”

“government needs to avoid negotiating fiscal provisions in separate agreements for the benefit of the country and its people while creating fairness to companies in the sector.”

There are personal gain and unethical practices in the administration and continuation of the tax incentives in Liberia’s mining sector. Respondents noted that persons involved in tax incentives administration are motivated by personal gains rather than the broader economic interests of the nation. Further, the investors engage in corruption, manipulating contracts, and there is a convoluted and corrupt process via which the investors ensure the incentives remain in place.

“They go through a lot of conflated processes, the corrupted process, to ensure that those incentives remain because they are for their benefit.”

“So normally the investors will throw cash around to these various sectors, to the various ministries and agencies so that that which they want within their contract is placed therein at their benefit.”

4.3 Quantitative Findings

To assess the revenue the Government of Liberia forgone due to the tax incentives given to concessionaires in the extractive sector.

Table 3: How effective do you think the current tax regime for the mining sector in Liberia is in generating revenue for the government

	Frequency	Percentage	Cumulative Percentage
Ineffective	12	52%	52%
Effective	6	26%	78%
Neither Effective nor Ineffective	3	13%	91%
Very ineffective	1	4%	95%
Prefer not to Say	1	4%	100%
Total	23	100%	

Source: Research Survey Questionnaire

The survey revealed that 52% of participants believe the tax regime is ineffective in raising government revenue, highlighting concerns about the current system. About 26% see it as somewhat ineffective, 13% remain neutral, 4% consider it very ineffective, and another 4% have no opinion. The main reasons for dissatisfaction include lack of transparency, complexity, unfairness, and insufficient benefits.

Table 4: Analysis of Tax Expenditure 2021

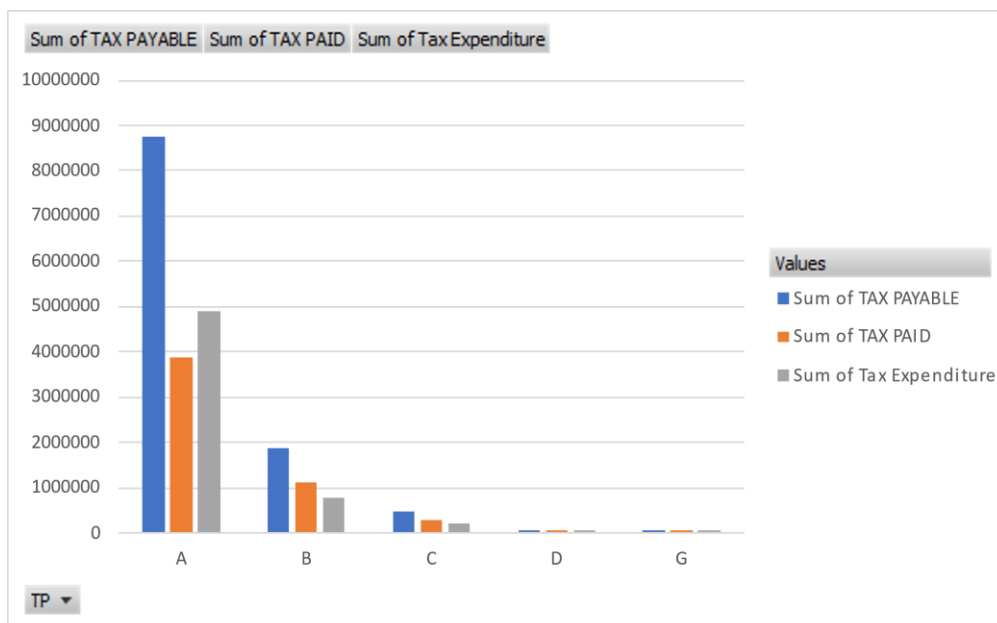
Company	Tax Payable	Tax Paid	Tax Expenditure
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A	8,750,769.23	3,866,608.83	4,884,160.40
B	1,882,057.08	1,107,393.88	774,663.19
C	458,296.20	264,905.61	193,390.60
D	28,639.89	17,183.94	11,455.96
G	21,120	11,616	9,504
Total	11,140,882.40	5,267,708.26	5,873,174.15

Source: Liberia Revenue Authority

For company A, the tax payable is substantially higher than the tax expenditure, indicating that although the company was obligated to pay a large sum in taxes, it was exempted due to the concession agreement they signed with the government of Liberia. In the case of company B, the taxes paid are significantly lower than the taxes payable, and the tax expenditure is less than the taxes paid, suggesting the use of tax reliefs. Company C has a smaller tax liability, yet it benefited from tax expenditures that decreased its final payment. Company D faced minimal tax liability, most of which was paid, and had limited tax expenditure, implying a restricted range of tax incentives for this company. Company G experienced the lowest tax payment and liability, with a negligible amount offset by incentives as indicated by the tax expenditure. Overall, the analysis reveals that the total tax payable for the five companies amounts to US\$11,140,882.4, which far exceeds the tax paid of US\$5,267,708.256, showing that approximately 50% of the tax liability went unpaid but was mitigated by tax expenditures totalling US\$5,873,174.149. This observation underscores the extensive use of tax incentives, subsequently reducing the government's tax revenue.

Figure 1: Analysis of Tax Expenditure 2021



Source: Liberia Revenue Authority

The graph clearly indicates that the sum of tax paid across companies B to G is higher than the sum of tax expenditure compared to those of company A. The reason is non-compliance. Even though company A is tax-exempt, receives a customs duty waiver, and has a concession agreement with the government, it is still not paying what it should be paying as per its agreement with the government. The tax expenditure should not be more than the tax paid

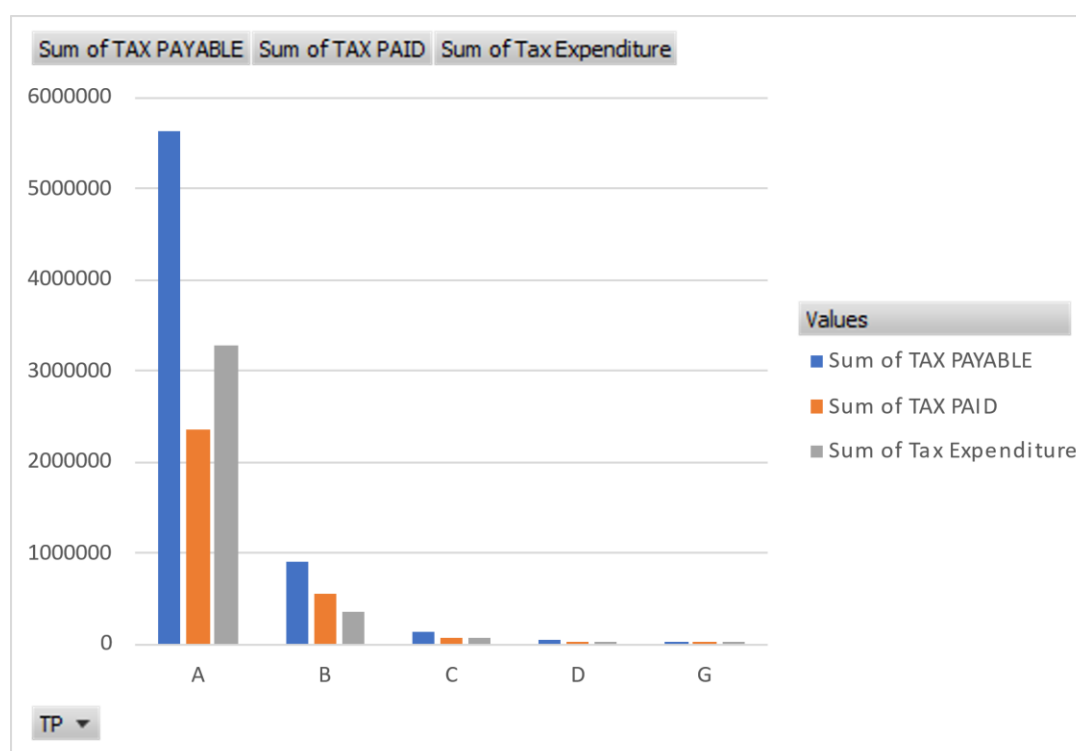
Table 5: Analysis of Tax Expenditure 2022

Company	Tax Payable	Tax Paid	Tax Expenditure
A	5,637,904.14	2,355,904.27	3,281,999.88
B	912,317.46	547,390.48	364,926.98
C	128,666.08	64,419.54	64,246.54
D	40,402.38	22,240.03	18,162.35
G	7,040	3,520	3,520
Total	6,726,330.06	2,993,474.31	3,732,855.75

Source: Liberia Revenue Authority

The aggregate tax liability for all five companies amounts to 6,726,330.064, while the cumulative tax paid stands at 2,993,474.312. The total tax expenditure, representing the difference between payable and tax paid, is 3,732,855.751. Company A is the largest contributor in the taxes paid and the tax expenditures, whereas company G has the least contribution.

Figure 2: Analysis of Tax Expenditure 2022



Source: Liberia Revenue Authority

Again in 2022 as shown in the graph, company A has a higher tax expenditure than the total taxes it pays, while the opposite is true for the other five companies. This implies that company A is not fulfilling its tax obligations despite having various tax benefits such as exemption, concession, and duty waiver. The tax paid should be greater than the tax expenditure.

Table 6: Customs Tax Expenditure on General Goods

	2020 Fiscal Year		2021 Fiscal Year		2022 Fiscal Year	
	CIF Value	Duty Waved	CIF Value	Duty Waved	CIF Value	Duty Waved
A	10,778,651	1,823,089	49,399,381	7,485,902	69,008,878	10,321,319
B	83,702,549	14,159,698	196,639,186	32,294,820	87,421,755	15,012,404
C	16,581,630	2,748,420	5,720,131	1,004,519	7,004,360	1,266,663
D					963,263	140,071
E	669,339	139,967	659,927	130,863		
Total	111,732,169	18,871,174	252,418,625	40,916,105	164,398,255	26,740,457

Source: Customs Department, Liberia Revenue Authority

Across the years, the cost, insurance, and freight (CIF) value has fluctuated, with some companies demonstrating significant increases, such as company B, from the fiscal year 2020 to the fiscal year 2021. From the analysis, the highest number of waivers were given during the fiscal year 2021; for instance, entity B received more than 32 million as duty waivers. The total duty was waived, and the CIF value significantly increased from the fiscal year 2020 to 2022, implying these entities' expansion of import operations. Entity B and A lead on this.

To examine the legal framework's effects on tax incentives administration

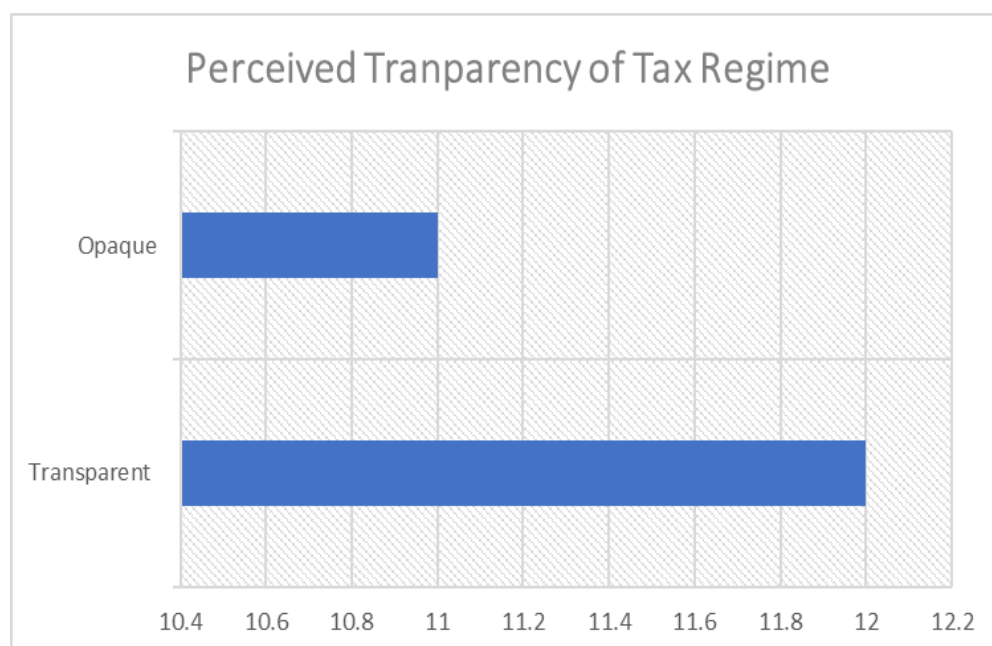
Table 7: How fair do you think the current tax regime for the mining sector in Liberia is?

	Frequency	Percentage	Cumulative Percentage
Unfair	9	39%	39%
Fair	7	30%	69%
Neither Fair nor Unfair	6	26%	95%
Prefer not to Say	1	4%	100%
Total	23	100	

Source: Research Survey Questionnaire

Most participants (39%) believe the current tax system is unfair, showing significant dissatisfaction. Meanwhile, 30% think it is fair, 26% have no opinion, and 4% did not disclose their views.

Figure 3: How transparent do you think the current tax regime for the mining sector in Liberia is in terms of disclosing mining companies' tax obligations and payments?



Source: Research Survey Questionnaire

Most of the survey respondents (12) believe that the existing tax system is transparent, indicating sufficient clarity and disclosure about mining companies' tax payments and obligations. However, a notable number of respondents (11) consider the current tax regime lacking transparency.

Table 8: How transparent do you think the tax incentives offered to the mining companies in Liberia are in terms of disclosing the criteria, eligibility, and duration of the incentives?

	Frequency	Percentage	Cumulative Percentage
Somewhat Opaque	5	22%	22%
Very Opaque	2	9%	31%
Somewhat Transparent	11	48%	79%
Neither Transparent nor Opaque	2	9%	88%
Very Transparent	1	4%	92%
Prefer Not to Say	2	9	101%
Total	23	100	

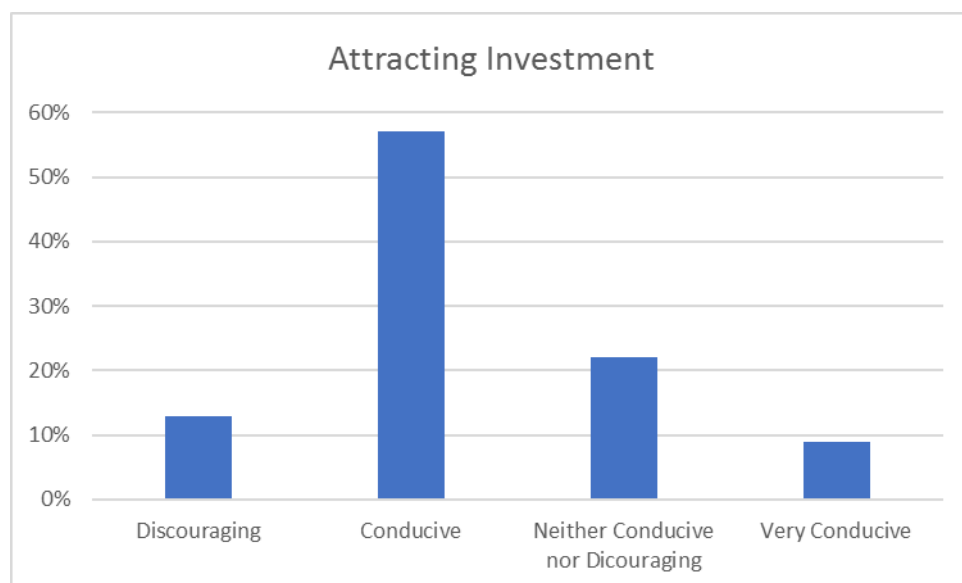
Source: Research Survey Questionnaire

About 48% of survey respondents find tax incentives somewhat transparent but unclear. 22% see them as somewhat opaque due to insufficient details. 9% believe they are opaque with poor

disclosure, while another 9% are neutral. Only 4% think tax incentives are very transparent, and 9% didn't disclose their views.

Comparatively, analyse the costs and benefits of tax incentives and concessions in the mining sector.

Figure 4: How conducive do you think the current tax regime for the mining sector in Liberia is to attracting and retaining foreign and domestic investment?



Source: Research Survey Questionnaire

A majority of survey respondents, 57%, see the current tax system as favorable for investment. Conversely, 22% of the participants perceive the tax system as neither encouraging nor discouraging investment, maintaining a neutral stance. A smaller group, comprising 13%, finds the tax regime to be a deterrent to investment, while a minority of 9% believes the tax system is highly conducive to attracting investment.

Table 9: How well do you think Liberia's current tax regime for the mining sector aligns with its national development goals and priorities?

	Frequency	Percentage	Cumulative Percentage
Somewhat poorly	4	17%	17%
Very Poorly	3	13%	30%
Somewhat well	12	52%	82%
Neither well nor poorly	4	17%	99%

Total	23	99%	
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Source: Research Survey Questionnaire

Most of the survey respondents, 52%, consider the tax regime somewhat aligned with national goals and priorities. 17% are neutral, while 17% believe the tax system aligns poorly with the national development priorities. A very small number, 13%, consider the current tax system poorly aligned with the national development goals.

Table 10: How effective do you think the tax incentives offered to the mining companies in Liberia are in stimulating the growth and competitiveness of the mining sector?

	Frequency	Percentage	Cumulative Percentage
Somewhat ineffective	8	35%	35%
Very ineffective	4	17%	52%
Somewhat effective	9	39%	91%
Very effective	1	4%	95%
Prefer not to Say	1	4%	99%
Total	23	99%	

Source: Research Survey Questionnaire

39% of respondents say tax incentives are somewhat effective in aiding mining sector growth, indicating moderate approval. 35% find them somewhat ineffective, suggesting concerns about their impact. Meanwhile, 17% believe they are very ineffective, and 4% think they are highly ineffective. Another 4% had no opinion.

Table 11: How beneficial do you think the tax incentives offered to the mining companies in Liberia are for the environmental and social impacts of the mining activities?

	Frequency	Percentage	Cumulative Percentage
Neither beneficial nor detrimental	2	9%	9%
Somewhat beneficial	8	35%	44%
Somewhat detrimental	11	48%	92%
Very beneficial	1	4%	96%
Very detrimental	1	4%	100%
Total	23	100%	

Source: Research Survey Questionnaire

The largest group of respondents, accounting for 48%, believe that tax incentives have somewhat negative effects on the environment and the communities affected by mining. Meanwhile, 35% of participants see these incentives as being beneficial to environmental and social impacts. A neutral stance is held by 9%, who view tax incentives as neither beneficial nor detrimental. Only a small fraction, 4%, consider tax incentives to be very beneficial, with an equal 4% perceiving them as very detrimental.

CHAPTER FIVE: DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

This study sought to assess the impact of tax incentives on government revenue in Liberia's mining sector. It adopted a mixed methodology design, with twenty-three participants taking part in the survey and ten respondents taking part in the interview. Thematic analysis and descriptive statistics were used to analyse the data from the interviews and the survey, respectively.

The analysis reveals that while tax incentives are intended to attract investment and promote economic growth, they often result in substantial revenue loss for the government. This is particularly evident in concession agreements that include tax exemptions and other preferential fiscal regimes.

The research further identifies the challenges faced by policymakers in balancing the need for investment with the goal of maximising government revenue. It suggests that realigning tax policies in the mining sector could enhance economic growth, increase government revenue, and ensure sustainable resource management. The findings underscore the need for a comprehensive and transparent approach to tax incentives in Liberia's mining sector to achieve the desired economic and fiscal outcomes.

5.2 Economic Trade-offs and Financial Implications of Tax Incentives

The results of the qualitative study demonstrate a complex interplay between the financial costs related to the tax incentives and the economic benefits in Liberia's mining sector. Noteworthy tax incentives have been crucial in attracting direct investments but at a very high cost to the government revenue. On one hand, tax incentives attract international corporations into the nations, hence promoting economic growth via, for instance, job creation, export earnings and foreign currency. Further, the incentives have also led to social development, hence reinforcing value beyond economic measure. Nevertheless, tax incentives have led to significant revenue losses by the government. Lower corporate taxes from the mining corporations has often contributed to

the national budget deficits negating the governments' ability to offer essential social services. Similarly, Zee et al (2002) submits that tax incentives could lead to revenue losses in projects that could have been operationalised without the incentives. Research respondents raise concerns about the long-term economic benefits of the tax incentives to justify the immediate revenue losses. Lipsey and Lancaster (1956) explore market imperfection via tax incentives, questioning the ability of the tax incentive measures to improve the situation, especially in developing nations. The double-edged characteristic of the tax incentives is properly demonstrated in the study. Despite attracting investment and spurring economic activities, incentives have undermined government finances, hence eliciting concerns about the efficacy and sustainability of the policies on which these incentives are based. As submitted by the study participants, the current tax system does not sufficiently balance the trade-offs; hence, re-examination is critical.

Quantitative findings show significant revenue losses by the government due to tax incentives given to companies in the mining sector. The survey findings show that most respondents (52%) perceived the current tax system as ineffective in revenue generation, while a mere (26%) perceived the tax system as effective. Across the literature, Easson and colleagues 2001 submit that tax holidays are not effective in attracting long-term investments, while the United Nations Conference on Trade and Development (2004) point out a potentially decreasing investment in profits and affecting the revenue stream. These sentiments are supported by empirical data demonstrating that a significant proportion of the tax liabilities are unpaid, mitigated via tax expenditures. Evaluation of tax expenditure across varied companies in 2021 and 2022 shows a trend of significant tax relief that substantially reduces the tax burden on these entities. For example, in 2021, the tax payable for five companies was about 11.1 million USD, but only about 5.3 million USD was paid, leading to a 50% revenue deficit. A similar pattern is seen in 2022, where tax payable was about 6.7 million USD. However, 2.9 USD was paid, with the remainder offset by tax incentives. Moreover, the customs tax expenditure on general commodities reveals an increasing trend in the CIF value and the corresponding duty waived from 2017 to 2022. For instance, in 2021, Company B received 32 million USD as a duty waiver, demonstrating a growing scale of imports and related revenue losses for the government (Lipsey & Lancaster, 1956).

5.3 Balancing Economic Gains with Other Costs

From the qualitative study, the mining corporations have taken government roles such as building hospitals, roads and schools and providing electricity. The contributions have lessened the government's burden to provide these services, especially in remote jurisdictions, hence promoting development in underserved regions. Nevertheless, the economic gains from the tax incentives are overruled by significant costs. Zee et al. (2002) emphasizes the need to strike a balance between

attracting investments and revenue costs. For instance, there is no value addition in the mining sector, leading to huge revenue losses; raw materials are exported without being processed. Moreover, the granting of tax incentives is motivated politically and often, these deals favour investors at the expense of the citizens of Liberia. Besides, the promise of job creation by the mining companies is sometimes unfulfilled; hence the long-term financial gains by the government are questionable. There is also environmental destruction that involves chemical spills harming vegetation, wildlife and the marine ecosystem. This study also reveals widespread misuse of tax incentives, such as asset reevaluation practices that minimise the government taxable base. Such practices undermine government revenue and kill the competitiveness of the local industries, further diminishing the economic gains that the government could have realised.

Survey findings demonstrate a complex picture of the costs and benefits associated with concessions and tax incentives. Even though there are perceived benefits in attracting investments and aligning with national goals and priorities, substantial concerns emerge on the overall impact and effectiveness of tax incentives in the mining sector. Dereje (2017) submits that decreasing government revenue owing to tax incentives should be outweighed by the tax revenues from foreign investments. Over half of the participants (57%) consider the current tax system as conducive to attracting investment, implying that tax incentives are important in attracting investors in Liberia. Additionally, 52% of respondents consider the tax system somewhat aligning with the national development priorities implying that the tax incentives can potentially contribute to broader economic goals. Nevertheless, the costs related to these incentives cannot be overlooked. A huge proportion of the respondents (35%) consider the tax incentives as somewhat ineffective, while more than 17% consider them very ineffective. This shows concern that incentives could not be meeting the expected economic benefits or sector growth. UNCTAD (2000) notes that tax incentives should increase investment without unintended inefficiencies or revenue losses. The social and environmental implications of tax incentives are more concerning. About half of the participants (48%) consider the tax incentives somewhat detrimental to social well-being and the surroundings. Eason (2001) stressed the significance of managing trade-offs between short-term gains and long-term costs. The negative perception underscores the potential of tax incentives to promote environmental degradation and social inequalities. Just 35% of the respondents consider tax incentives somewhat beneficial, whereas only 4% view them as beneficial, thus emphasizing the need for a more balanced strategy that weighs economic benefits against social and environmental costs.

5.4 Legal Gaps and Enforcement Problems

Results from the qualitative study reveal challenges with the administration of tax incentives owing to inconsistent and outdated legal frameworks. The legal pitfalls negate the government's ability to enforce and manage policies, hence rampant corruption, inefficiencies and inequities that erode the intended benefits of the tax incentives. From the literature, Wilson and colleagues (2007) submit that the discretionary authority of the Minerals Technical Committee to negotiate Mineral Development Agreements can create legal challenges in Liberia. The current legal system of tax incentives is punctuated by obsolescence and a lack of detailed reforms. Study participants show concerns about outdated mining policies that inadequately address the emerging needs in the mining sector, hence insufficient enforcement of the tax obligations. According to the International Monetary Fund (2012), flexible laws are needed to adapt to the changing needs. The above is critical in addressing the legal gaps for a fair and enforceable legal system. The lack of a systematic strategy for revising these laws is a primary hindrance to corporations exploiting loopholes within the system. There is widespread exploitation of the tax incentives. For example, the incentives originally intended for capital equipment are extended to consumables, resulting in significant revenue leakages. Additionally, corporations import goods that can be locally produced, hence weakening local industries and the revenue generation capacity of the government. Frank (1993) highlights the inadequacies in natural resource taxation, pointing to inadequate deductions, underreporting and enforcement concerns. The absence of a nuanced approach in the tax system, characterised by the blanket application of tax incentives, makes the system vulnerable to abuse. The application of tax incentives is inconsistent and inequitable. Discretionary incentives, different fiscal regimes, and the continuation of tax incentives beyond their expiry date create an uneven playing field. Participants call for the even application of tax incentives across all sectors for fairness and to prevent revenue losses. Unethical practices and corruption complicate the administration of tax incentives. Investors participate in corruption to continue getting favourable incentives, and personal gains motivate the decisions of those involved. Such a convoluted process negates the integrity of the tax regime whilst eroding public trust in the government's management of the mining sector.

The survey results show substantial concerns about transparency, fairness and general effectiveness of the legal framework on tax incentives. A significant proportion of the respondents view the current tax system as unfair, implying widespread dissatisfaction with the administration of the tax policies. Even though 30% of the respondents view the tax system as fair, the majority consider it unfair. Similarly, the United Nations (2018) stress the role of transparency in providing tax incentives. Transparency is a crucial characteristic of a tax system, and this appears to be a

contentious issue in this study. The survey findings demonstrate a split opinion concerning the transparency of the current tax system, with almost half of the participants perceiving it as somewhat transparent. Nevertheless, a significant proportion (48%) believe that even though there is some level of disclosure on tax payments and obligations, it is not wholly clear. Besides, 22% of the participants perceive the tax incentives as somewhat opaque, implying in accessing clear information concerning eligibility, criteria and the duration of tax incentives (Joel, 1971).

5.5 Meeting the Study Objectives

The study has met its objectives as evidenced in the following: To assess the revenue the Government of Liberia forgone due to the tax incentives given to concessionaires in the extractive sector. The study has shown that tax incentives are crucial for attracting investments, but points concern over potential revenue losses by the government; for instance, from the survey, 52% of the respondents perceive the current tax regime as ineffective in generating revenue. Tax expenditure analysis reveals revenue loss due to incentives, e.g., in 2021.

Comparatively analyse the costs and benefits of tax incentives and concessions in the extractive sector: The study points out imbalanced benefits, such as the lack of engagement in value addition, which leads to significant losses. According to the study, the economics of granting incentives are less than the political benefits, and by far, the costs exceed the benefits.

To examine the legal framework's effects on tax incentives administration: Respondents raise concerns about outdated legislation that does not match the current needs. Besides, there are widespread abuse incentives and inequities in its application.

CONCLUSION

5.6 Observation of Tax Expenditure Management in The Extractive Sector of Liberia

The management of tax exemptions currently falls under the jurisdiction of three primary governmental entities: the Ministry of Finance and Development Planning (MFDP), the National Investment Commission (NIC) and the Liberia Revenue Authority. Thus far, tax incentives/exemptions have been predominantly evaluated on a revenue-foregone basis, which significantly restricts our capacity to confirm whether the government's intended objectives for these incentives have been fulfilled. Definitive conclusions are elusive without regular monitoring and evaluating taxpayers benefiting from these incentives.

Another fundamental objective underpinning the granting of these incentives is to foster and attract investments and ensure seamless project operation for current and potential taxpayers,

given Liberia's constrained infrastructure and challenging business environment. The analysis reveals an enhancement in business operations, as evidenced by the increased revenue contributions from these companies. However, when it comes to attracting additional and larger investments, the data indicates a gradual decline in the number of companies operating in Liberia during this period due to a myriad of factors. This trend does not favourably align with the tax expenditure goal of drawing more investments into the country, a concern that we recommend warrants further investigation.

5.7 LIMITATIONS

The research encountered several limitations, primarily pertaining to data acquisition and the accuracy and sufficiency of the obtained data. The data used in this study could not include 2020 and 2023 for tax expenditure data from domestic revenue as well as customs data. The reason was that the monitoring of these expenditure data by the Tax Expenditure Unit was not done during those periods. Another limitation is time. There wasn't enough time to gather further data from participants especially quantitative survey data.

RECOMMENDATIONS

5.8 Amendment of Investment Act

The investment and tax laws should be revised to establish clear and economically reasonable conditions for granting incentives. This research advocates for amendments to Section 16 of the Liberia Consolidated Revenue Code, as amended, and suggests additional qualifications for incentive issuance by the Ministry of Finance and Development Planning and the Liberia Revenue Authority. The economic rationale for tax incentives must be assessed based on their ability to achieve clear objectives effectively and efficiently, compared to alternative policies, both tax-related and non-tax-related, that could accomplish the same goals. It is crucial to evaluate whether investments are beneficial to the country and necessary for its development, as this should be the primary criterion for granting incentives. The laws should also stipulate subsequent conditions; for instance, if an incentive is granted for three years, substantial developments must be demonstrated within that period.

5.9 Amendment of Section 5 of the National Investment Act Of 2010

Section 5 stipulates that, "An Enterprise shall be entitled to such fiscal incentives as are applicable under the Revenue Code of Liberia 2000 or amendments thereto, and such non-fiscal incentives

as are applicable in relevant legislation." When the Investment Act was amended in 2010, the provision of 'such non-fiscal incentives as are applicable in relevant legislation' was justifiable, as the country required investments to revitalize the economy after the Civil War. Without incentives and other means of attraction, the country could have faced significant losses. However, the current situation is different; the country is not in desperate need of investments, but rather, investors are eager for the natural resources that Liberia can offer. The research finds no justification for maintaining such provisions in the investment law, as investments are already attracted to the country's inherent value. Therefore, the Government of Liberia, through the Ministry of Finance and Development Planning, the National Investment Commission, and the Liberia Revenue Authority, should revisit and restrict incentives to those granted solely by the Liberia Consolidated Revenue Code, as amended from time to time, to meet the country's own demands.

5.10 Provide Measures to Curb Abuse and Misuse of Incentives

The authority of the Ministry of Finance and Development, along with the National Investment Commission, in coordination with the Liberia Revenue Authority, possesses the power to oversee and regulate the issuance of incentives. This authority should be further strengthened. Additionally, measures to address the issue should be implemented, such as conducting regular and unexpected audits of incentive holders' returns and establishing a special authority to oversee and balance power if the issuing authority is unable to manage the matter effectively.

5.11 Enhancing Taxation System Through Automation

A robust revenue system implements taxes that are straightforward, equitable, and efficient. However, tax incentives can undermine these principles by complicating the tax system, creating horizontal inequities, and distorting production efficiency. Additionally, they may result in the loss of revenue that could have been more productively utilized or might need to be replaced in other, potentially more harmful, ways. Recently, there has been a positive shift in the tax collection and payment systems. Therefore, the LRA should persist in automating its processes and procedures to ensure that convenience, simplicity, and efficiency remain integral to the tax administration landscape.

5.11 Reduction of Tax Incentives

It is imperative to reassess the over one hundred tax incentives issued by the Ministry of Finance and Development Planning to reduce revenue loss and ensure the involvement of relevant stakeholders in formulating proposed interventions. This can be accomplished through amendments to the legal framework and administrative practices that support these incentives. In

2021, during the annual Tax Appreciation Day Tax Symposium of the Liberia Revenue Authority, the Minister of Finance and Development Planning announced that the government had already initiated steps to review procedures for tax exemptions to enhance control over misuse. The government policy aims to review and harmonize various tax laws.

5.12 Transparency in Contracts Concerning Tax Incentives

All documents pertaining to tax incentives provided by the Government of Liberia to foreign and local investors, religious institutions, non-governmental organizations, and public institutions must be publicly disclosed with comprehensive details on the amounts paid and received in taxes to the Liberia Revenue Authority. This transparency will enable both the government and the general public to ascertain the total amount forgone due to tax concessions and the amount received.

5.13 Control of Fiscal Incentives

It has been asserted that investors, both domestic and international, are not benevolent entities; rather, they are businesspersons primarily driven by the potential for profit that exceeds what could be achieved through ordinary business transactions within their home countries. Consequently, they are inclined to exploit every loophole in the legal framework to minimize their investments, evade taxes, pay minimal wages within the limits of the law, and so forth. Therefore, it is imperative that the Ministry of Mines and Energy, the Ministry of Finance and Development Planning, and the Liberia Revenue Authority ensure that tax legislation, as well as other pertinent laws related to the mineral and mining sectors, are fortified to effectively combat these malpractices.

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