

Profile—— The Federal Republic of Somalia (Somalia for short)

I. Jurisdiction Background

The Federal Republic of Somalia (Somalia for short) is located in the Somali Peninsula, the easternmost part of the African continent, with the longest coastline on the African continent. It is bounded by the Gulf of Aden to the north, the Indian Ocean to the east, Kenya and Ethiopia to the west, and Djibouti to the northwest. The vast majority of the population are Somali ethnic groups. It has Mogadishu as the capital, Somali and Arabic as official languages, and English and Italian also commonly used. Agriculture is the most important sector of the economy.

II. Organizational Structure

The Somalia Revenue Directorate (SRD) is the government agency responsible for the administration and collection of taxes in Somalia. SRD's functions include administering and enforcing tax laws and regulations, collecting taxes and other revenue due to the government, providing taxpayer education and assistance to promote voluntary compliance, conducting audits and investigations to ensure tax compliance and deter tax evasion, developing and implementing tax policies and strategies to enhance revenue collection and collaborating with other government agencies and international partners to combat tax fraud and evasion. The SRD is composed of the Office of the Director General, the Customs Department and the Inland Revenue Department. The Office of the Director General guides and directs the two departments to ensure the consolidation of activities and provides the annual work plan. The Customs Department is responsible for the collection of taxes and duties related to import and export and the Inland Revenue Department is charged with domestic tax administration.

III. Current Tax System

Somali tax system comprises direct taxes on both individual and corporates, and indirect taxes such as tax on goods and services and excise tax. In addition, Somalia also imposes a number of other taxes and duties such as stamp tax, road tax, motor vehicle tax and registration tax, etc.

IV. Overview of tax preference policies

◆ Export Processing Zone (EPZ) Incentives

Enterprises which undertake services, manufacturing, assembly, re-packaging and break-bulk operation and gear all or almost all of their production for export, earn foreign exchange and employ Somalis, will be eligible for EPZ status, which confers an attractive range of both tax and non-tax benefits.

◆ Foreign Investment

Somalia actively seeks foreign investment as a way to develop the economy, generate employment and boost foreign exchange earnings. Somalia's Foreign Investment Law of 2015 guarantees foreign investors treatment equal to that given to domestic investors fair compensation in the event of expropriation, international arbitration of disputes between the investors and the Government, the right to remit profits and access to foreign exchange. Investment incentives and special tax incentives to encourage FDI are in place.

V. Tax Collection and Administration

Somalia has made important improvement changes to the tax collection and administration system. For the purposes of identification of taxpayers, unique tax identification number (TIN) has been introduced. Revenue collections of various government agencies are centralized and the key operations are automated by adopting a new systematic way of doing business. The Somalia Financial Management Information System (SFMIS) was installed at most of the revenue collection points and preliminary systems were introduced to collect road taxes and registration taxes, while the customs system is connected to the SFMIS.

VI. Taxpayer Services

The Inland Revenue and the Customs Departments introduced taxpayer education programs, and cooperative ways of calculating and assessing the taxes and duties due, with taxpayers completing return forms and the offices concerned only invoicing them based on their declared statements. This has resulted in positive integration between the two sides. The tax payment system has been simplified including acceptance of modern forms of payment such as checks and mobile money payments, as well as with the licensed private banks in Mogadishu in a transparent manner, and tax assessment calculations through automated systems. In addition, the Large and Medium Taxpayers Office (LMTO) is established to better serve large and medium-scale business entities in Mogadishu.

VII. Tax Legislation Process

The Federal Government of Somalia, in particular the Ministry of Finance, has been making efforts to cover the legal gaps relating to revenue collection. It includes reimplementation of the existing tax laws which had been enacted previously, such as the Registration Tax Law of 1921, Customs Law of 1961, the Income Tax Law of 1966, and the Sales Tax Law of 1984. The cabinet started issuing ministerial orders and regulations with the aim of legalizing some taxable areas and adjusting a few of the tax rates applied to certain goods and services. In the meantime, the Ministry drafted new revenue administration and allocation bills, and altered customs laws.

VIII. Future Tax Reform Plan

Future tax reform in Somalia includes continued efforts in broadening the tax base and increasing the efficiency of the tax system. Further mobilization of domestic revenue may also require to expand reforms to federal member states, and build both the country's tax system in general and the capacity of subnational governments in particular.

IX. International tax cooperation

Somalia has been engaging with international tax frameworks and establishing cooperation with other countries and international organizations. It is a Council Member of the Belt and Road Initiative Tax Administration Cooperation Mechanism (BRITACOM) and a member of the Belt and Road Initiative Tax Administration Capacity Enhancement Group (BRITACEG). It is in the process of gradually establishing a network of tax treaties with other jurisdictions.

X. Others

None.