

## Evaluating an Optimal Corporate Income Tax System for Harmonization in the African Union

Samuel John Chiromo<sup>1</sup>, Danie Schutte<sup>2</sup>

<sup>1,2</sup>North-West University, South Africa

Correspondent: [echirosj@unisa.ac.za](mailto:echirosj@unisa.ac.za)<sup>1</sup>

Received : April 2, 2024

Accepted : July 20, 2024

Published : July 31, 2024

Citation: Chiromo, S. J., & Schutte, D. (2024). Evaluating an optimal Corporate Income Tax for Harmonization in the African Union. *Ijomata International Journal of Tax and Accounting*, 5(3), 952 – 969.

<https://doi.org/10.61194/ijtc.v5i3.1522>

**ABSTRACT:** Harmonizing corporate income tax (CIT) is spotlighted in economic integration debates. These debates have reached no consensus regarding the best CIT system to be adopted in various economic integrations, including the African Union (AU). This study aimed to determine the best tax system for CIT harmonisation in the AU. The study adopted a qualitative research method by collecting data through interviews. The study used purposive sampling to identify 30 participants drawn from the African Tax Administration Forum (ATAF) and large international accounting firms, namely KPMG, PWC and Deloitte. The study revealed that a new system called the Africa hybrid tax system or the Africa blended tax system should be implemented for effective and efficient CIT harmonisation in the AU. This system should address the shortcomings of both the classical and the imputation tax systems. The study recommended that technology and adequate resources are crucial for successfully implementing the African hybrid tax system. Therefore, member states should jointly invest in technology and resources to facilitate the implementation of the African hybrid tax system for CIT harmonisation in the AU.

**Keywords:** Corporate Income Tax, Tax Harmonisation, Classical Tax System, Imputation Tax System, African Union.



This is an open-access article under the CC-BY 4.0 license.

## INTRODUCTION

CIT harmonisation is under the spotlight in economic integration debates. There is no consensus regarding the CIT system that may promote CIT harmonisation ([Stojkova & Kjoseva, 2024](#); [Garbarino, 2020](#); [Conconi, Perroni & Riezman, 2008](#); [Osterloh, Heinemann, 2013](#); [Dharmapala, 2016](#)). Some scholars ([Bett, 2016](#); [Madyo, 2008](#); [Garbarino, 2020](#); [Quak, 2018](#); [Banderlipe, 2015](#)) agree that harmonised CIT systems may benefit the member states in regional economic integration. These benefits include, among others, the reduction of competition, the reduction of financial distortions, the reduction of tax evasion, the minimisation of tax avoidance and the reduction of administrative and compliance costs ([Igbinenikaro & Adewusi, 2024](#); [Bruce-Twum, Schutte & Nicholas, 2022](#); [Banderlipe, 2015](#)).

Nonetheless, CIT harmonisation has not been achieved in the AU due to economic, structural, political and institutional constraints ([Uyioghosa & Igbinoso, 2023](#)). The AU is an emerging

economic integration formed to increase the cooperation and integration of African states to drive Africa's growth and economic development. To make this a success, Africa must address structural issues such as tax loopholes in the member states. During the 4th high-level tax policy dialogue, consisting of representatives from the United Arab Emirates and the Africa Tax Administration Forum (ATAF), it was stressed that there is a need for harmonisation of tax policies of the AU that address challenges such as taxation of cross-border transactions of multinational enterprises, granting wasteful tax incentives, and the formulation of policies on taxation of digital transactions ([ATAF, 2020](#)).

Sting (2014) asserted that the harmonisation of CIT benefits the Economic and Monetary Union (EMU) as it increases economic cohesion in the internal market, improves fiscal policies, provides better control of tax fraud, and strengthens the financial power of the member states within the union. However, Kireyev (2016) believes that CIT harmonisation faces complex political and economic challenges in the economic integrations of developed and developing countries. These challenges include the lack of commitment of member states to coordinate their tax policies effectively and the failure to establish, maintain and finance the necessary institutions ([Quak, 2018](#); [Nembe & Idemudia, 2024](#)).

In the European Union (EU), CIT harmonisation grew considerably with attempts to foster more significant regional trade and investment ([Kireyev, 2016](#); [Adelakun et al., 2024](#)). The European model of CIT harmonisation offers a discernible example, involving a multidecade process that began with policy harmonisation concerning trade, followed by harmonisation of standards and the creation of institutional and legal structures, as well as a long period of policy coordination ([Quak, 2018](#); [Christensen, 2024](#)). This model may not be effective in the AU, given the varying heterogeneous conditions between the AU and the EU ([Uyioghosa & Igbinsosa, 2023](#)). Therefore, the AU must implement its tax system that enhances CIT harmonisation among its member states ([Uyioghosa & Igbinsosa, 2023](#); [Scherleitner & Traversa, 2024](#)).

Uyioghosa and Igbinsosa (2023) noted that to determine the optimal tax system that promotes CIT harmonisation in the AU, it is critical to determine whether existing studies exist on this phenomenon. Gastanaga, Nugent and Pashamova (1998) hypothesised that a reasonable level of harmonisation of tax policies can influence FDI in the host economies. Moreover, Sudsawasd and Mongsawad (2011) observed that FDI and total share of investment inflows are positively influenced by CIT harmonisation. This study further stated that an economy with less differentiation in tax policy attracts more FDI net inflows than an economy with more differentiation in tax policy. In 2010, Hansson and Olofsdotter investigated the effects of tax harmonisation on FDI in the EU. This study's results revealed that increased tax harmonisation levels enhance economic activities in an integrated region. These findings generally align with the findings of Asiedu (2002) and Tax Justice Network-Africa and ActionAid International (2012) studies. These studies found that effective harmonisation of tax policies is a key determinant of FDI in African regional integrations. Based on various scholars ([Uyioghosa & Igbinsosa, 2023](#); [Gastanaga et al., 1998](#); [Sudsawasd & Mongsawad, 2011](#); [Asiedu, 2002](#)), it is, therefore, conclusive that the implementation of CIT harmonisation may play a significant role in the economic development of the AU.

Despite abundant studies on the harmonisation of CIT in various economic integrations, studies on determining the best-fit tax system for CIT harmonisation are incredibly scant. This has resulted in the lack of tax policy for CIT harmonisation in the AU. As an emerging economic integration, it is paramount for the AU to have a CIT system to enjoy the benefits of CIT harmonisation. Nonetheless, choosing the best CIT system that fits well in the AU remains challenging. Numerous CIT systems include, among others, classical systems, imputation systems, exemption systems, deduction systems, and cash flow systems (Teixeira, 2021; Schutte & Van der Zwan, 2019). However, previous studies have shown that only two systems merit consideration: the so-called 'classical' system, which preserves full economic double taxation of dividends, and the imputation system, which relieves this double taxation by granting a tax credit to the recipient of the dividends (De Mooij, Klemm & Perry, 2021; Richman, Richman, Richman, 2020; Bulgac, 2024). The rationale for choosing classical and imputation systems is that they are the central tax systems comprising features of other tax systems (Hakelberg, 2024; Garbarino, 2020; Conconi, Perroni & Riezman, 2008). Osterloh, Heinemann, 2013; Dharmapala, 2016. Hence, they are spotlighted in CIT harmonisation debates (Osterloh, Heinemann, 2013; Dharmapala, 2016). In harmony with these studies, this paper analyses classical and imputation CIT systems to determine the best fit for the AU. First, This paper analysed the central existing CIT systems: imputation and classical. Then, it analyses the empirical data derived from the interview responses; typically, the literature and the empirical data were used to determine the findings and the paper's recommendation.

According to De Mooij et al. (2021), the imputation CIT system is the system whereby a natural person is acknowledged as the owner of legal entities in an economy that bears the true incidence of taxes. The Davis Tax Committee (DTC, 2018) asserted that under the imputation system, an individual receiving a dividend becomes entitled to an income tax credit representing the corporation tax already paid by the company paying the dividend. Nevertheless, the extent to which the shareholder can access tax credits for rebate purposes varies from country to country, posing challenges for countries within the same economic integration.

Although the imputation system of CIT seems to make economic sense, De Mooij et al. (2021) noted that imputation credits are generally not provided for foreign corporate income tax paid on international transactions, which then causes distortions in global capital markets. As a result, the EU imputation systems have been abolished, as they impede international investors from investing in the Union (DTC, 2018). Richman et al. (2020) concur that the imputation system is complicated and commonly negatively impacts the revenue of corporations due to the dividend tax that corporations pay on behalf of shareholders.

In a nutshell, there is no consensus regarding the CIT system that may promote CIT harmonisation in the AU. Due to economic, structural, political and institutional constraints, CIT harmonisation has not been achieved in the AU. This has resulted in a lack of tax policies that may address challenges such as the taxation of cross-border transactions of multinational enterprises and the granting of wasteful tax incentives. Even adopting the EU model of tax harmonisation may not be practical due to varying heterogeneous conditions in the AU and EU. Therefore, choosing the best CIT system that fits well in the AU remains a challenge- whether to use the classical or imputation system of CIT in the AU is unclear, requiring further research, which prompts the current study. The current paper addresses this dilemma by proposing the best tax system for CIT

harmonisation in the AU member states. To address these gaps, the current paper analyses classical and imputation CIT systems to determine the best-fit tax system for the AU.

### METHOD

The study adopted a qualitative research approach, which is a process that assists the researcher in exploring individual or group behaviour and describing social problems (Sugiyono, 2019). The qualitative approach was appropriate for the current study because limited data is available on the subject matter as the AU is an emerging economic integration. As a result, perceptions and values of tax policy representatives from existing African economic integrations were used to determine the best tax system to be adopted in the AU. The research process starts with making research questions and procedures, collecting data from participants, analysing data inductively, constructing data and providing interpretations of the meaning of data (Kovacs & Spens, 2005). The type of research used is descriptive research, which presents a picture of the specific details of the situation, social setting, or relationship (Neuman, 2011). An interview and an electronic qualitative survey were used to collect participant data. These participants consist of 17 council members of the African Tax Administration Forum (ATAF) from selected African economic integration tax authorities and 13 cross-border tax specialists drawn from sizeable international accounting firms, namely KPMG, PWC and Deloitte. These participants were selected based on their ability to influence tax policies on various African economic integrations. Their choice was also based on the fact that they are regarded as front runners of tax harmonisation in their respective economic integrations. The study adopted purposive sampling, a non-probability sampling technique where the researcher identifies information-rich participants because they are possibly knowledgeable about the phenomena under study (McMillan & Schumacher, 2006). The purposive sampling allowed the researcher to identify and select knowledgeable tax experts to provide relevant opinions on the best tax system to be implemented in the AU.

Gary (2014) suggests that the logic and power of purposeful sampling lie in selecting information-rich cases for in-depth study. Information-rich cases are those from which one can learn a great deal about issues of central importance to the purpose of the research. Therefore, the researcher targeted known sources of rich information from the ATAF and sizeable international accounting firms with cross-border tax specialists in this study. The responses from the participants were coded using thematic analysis, a flexible qualitative data analysis method that seeks to "identify, analyse and describe patterns, or themes, across the data set" (Bryman & Bell, 2014). The study sought to find patterns by identifying themes that may emerge from the literature and participants' opinions regarding the best-fit tax system to be adopted in the AU that promotes CIT harmonisation. The themes of the study identified are indicated in Table 1 below. The codes were developed inductively from the responses of the participants and existing literature. Thus, the responses were read and reread, prevalent themes were highlighted, and then the participants' reactions were compared to find similarities that indicated shared perceptions about the best-fit tax system for the AU.

**Table 1:** Themes of the study:

Themes of the study	Description
Classical tax system	<p>The literature indicates that the classical tax system is usually characterised by an approach that adopts dividend tax payments paid by the shareholder (Bond et al., 2000; Cnossen, 2017). In this system, profits earned by the company are taxed through corporate income taxes, and then, if the profits are paid out as dividends, they are taxed for the second time through personal income taxes (Auxiliar, 2005).</p> <p>Participants provided opposing views on whether the classical tax system suits the AU.</p>
Shareholders	<p>Some participants recognised shareholders as victims in the classical tax system. They criticised the system because the tax cost is transferred to shareholders who earn lower income than it would have been had corporate and shareholder levels of taxation been integrated into one tax process.</p>
Dividend tax	<p>Dividend tax was identified as one of the codes, as participants criticised the classical system for inviting dividend tax into the hands of shareholders. Nonetheless, other participants emphasised that by inviting dividend tax, tax revenue increases as the company and shareholders pay tax.</p>
Double taxation	<p>Some participants believed that the classical system promotes double taxation by taxing income at both the corporate and shareholder levels, which creates a disincentive to establishing corporations in member states with the classical system.</p>
Transparency	<p>The participants echoed that the AU requires a transparent tax system that may bring more tax revenues to the member states. They indicated that the African hybrid tax system needs a transparent administration system.</p>
Tax administration	<p>Participants who supported the classical tax system based their views on the fact that it simplifies administrative procedures, as tax administration for the company is conducted separately from that of the shareholder.</p> <p>Some responses supported the imputation system by indicating that it reduces the administrative burden on the taxpayer as the company is responsible for the administration of tax, not the individual. From a shareholder's perspective, some participants believe that the imputation system probably has less administration and limits shareholders' liability (on late payment) as companies handle the tax administration. Some participants thought that the AU tax system should be able to support tax administration for adequate controls and audits of both local and multinational companies.</p>
Imputation tax system	<p>The EU is the most significant economic integration and has been trying to solve the double taxation caused by the classical system by considering the imputation tax system (Auxiliar, 2005). In this system, corporations act as tax-withholding agents (Cnossen, 2017). De Mooij <i>et al.</i> (2021) stated that corporations are the most suitable tax collection agents for governments as these businesses have experience in withholding other taxes, such as value-added tax (VAT) and personal income tax (through pay-as-you-earn schemes).</p> <p>Some participants indicated that the imputation system does not recognise the distinction between the company and shareholders. It can be used for tax avoidance and does not prevent double taxation. The system is also not helpful for small companies as it requires a significant investment in resources and technology to be implemented.</p> <p>Some participants indicated that the imputation system brings benefits, such as integrating corporate and shareholder personal income taxes to alleviate double taxation of dividend income. It is also intended to create a level playing field by taxing the same activity in the same way, irrespective of the business structure used, namely, a company or trust.</p>

## Determination of Tax System for Corporate Income Tax Harmonisation of African Union

Chiromo and Schutte

Cross-border ownership of shares	Although the imputation system is known to be the remedy for double taxation, some participants stated that it harms cross-border share ownership as it is challenging to align corporate tax rates with investors' top personal tax rates, especially when investors come from different countries with different top individual tax rates. The participants also indicated that the new system requires the AU to prioritise tax harmonisation efforts and foster cooperation to promote cross-border trade and investment.
Tax avoidance	Participants echoed that the imputation system does not recognise the distinction between the company and shareholders, and it can be used for tax avoidance. The participants believe that the AU must develop its capacities to tackle tax evasion, reduce opportunities for tax avoidance, and recover stolen assets. The new system must establish well-equipped transfer pricing units that will assist in combating tax avoidance.
Small and Medium business (SMEs)	The participants emphasised that the AU tax system should have a separate income tax system/code for small to medium businesses (SMEs). The tax system should allow SMEs to conduct tax planning, avoiding specific tax categories. To sustain SMEs, the tax system should incorporate tax incentives for SMEs, such as tax holidays, exemptions, tax credits, investment allowances and depreciation schemes. Very important- the tax system should remain neutral and efficient for SMEs
Africa's blended tax system	The AU needs an African blended tax system or hybrid system whereby weaknesses in both imputation and classical systems are addressed carefully with the agreement of all member states. The participants indicated that the African hybrid or blended tax system should be implemented in the AU to facilitate CIT harmonisation.
Cross-border cooperation	The participants stated that the AU tax system should foster cross-border cooperation between African and global tax authorities to facilitate CIT harmonisation.
Automatic exchange of information	The responses also indicated that the new AU tax system should encourage the automatic exchange of information among African countries and globally.
Tax evasion	The participants believed that the AU must develop its capacities to tackle tax evasion, reduce opportunities for tax avoidance, and facilitate the recovery of stolen assets.
Transfer pricing	The new system must establish well-equipped transfer pricing units that will assist in combating tax avoidance and evasion.
Off-setting losses	The participants indicated that off-setting losses from the subsidiary in another state could address the AU's cross-border obstacles.
Tax planning	The AU tax system should be flexible enough to allow SMEs to plan their taxes and reduce their tax liability.
Tax incentives	The tax system should incorporate tax incentives for SMEs, such as tax holidays, to sustain SMEs in the AU.
Tax holidays	To sustain SMEs, the tax system should incorporate tax incentives for SMEs, such as tax holidays.
Exemptions	The tax system should incorporate tax incentives, such as exemptions, to sustain SMEs. The participants echoed that tax credits and exemptions should be incorporated in the new Africa hybrid tax system, whereby income taxed at the corporate level is exempted at the shareholder level.
Tax credits	Tax credits should be incorporated in the new African hybrid tax system, whereby income taxed at the corporate level is exempted at the shareholder level. This implies that the AU may use the credit method, whereby the tax paid in the member state of the subsidiary (or branch) is credited against the corporate income tax liability of the parent company.
Neutrality,	The AU tax system should be guided by the principle of neutrality to minimise interference in the allocation process.

Efficiency	The participants emphasised that the AU tax system should remain efficient for SMEs. An efficient tax system raises revenue while minimising unintended consequences. An inefficient tax system imposes obligations on taxpayers in proportion to their resources.
------------	--

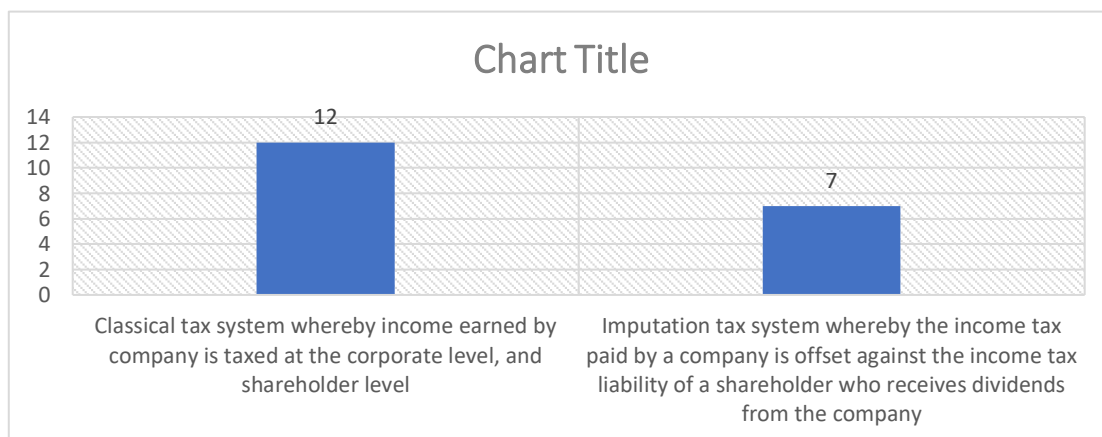
**Source:** Researcher’s compilation from the opinions of the participants and the literature

## RESULT AND DISCUSSION

The assumption that all scholars have supported no tax system for CIT harmonisation means that determining the tax system for the AU based entirely on literature will be inadequate. Therefore, literature and empirical evidence are required to recommend a tax system for CIT harmonisation in the AU. The following sub-section examines the empirical data for the best tax system for CIT harmonisation in the AU. This section provides the analysis of data collected from participants regarding their opinions on the tax systems that should be implemented for CIT harmonisation in the AU.

### Recommendations for the tax system to be implemented in the AU

Figure 1 presents the participants' recommendations for implementing tax systems in the AU.



**Figure 1.** The recommendations on the tax systems to be implemented in the AU.

This research is crucial to understanding the participant’s grasp and perception of the CIT system theme in the AU context. Whether to use CIT's classical or integration system in economic integrations is still unclear and requires more studies, prompting this research. No consensus has been reached on implementing the classical or integration system for effective CIT harmonisation (Chen & Schlagenhauf, 2018). Imputation and classical tax systems are commonly used for CIT harmonisation in regional integrations (De Mooij et al., 2021). Therefore, getting participants’ perceptions on which tax systems fit well to be implemented in the AU is crucial. The research uses these tax systems to design a CIT tax system appropriate for the AU.

Participants were asked to provide their recommendations on the best tax systems to be implemented in the AU. As indicated in Figure 1.1, most participants recommend a classical tax system by which income earned by the company is taxed at the corporate and shareholder levels.

However, the number of majority participants who supported the classical tax system is not far less than those who supported the imputation system. Therefore, concluding that a classical system should be implemented in the AU might be a misleading generalisation. This then triggers the need to ask the participants for the motivation to choose one tax system over the other.

The participants were asked to explain why they recommend the classical tax system. Table 2 below indicates the opinion statements of the participants:

**Table 2:** Opinion statements of participants for the classical tax system to be implemented in the AU:

---

***The company is separate from shareholders. Hence, the company tax should pay tax on its income, and Shareholders will also pay a distinct dividend tax if they receive the same.***

***RS2 - Double taxation provides an incentive to retain profits. The company only pays tax on its profit, not on the earnings of the shareholders.***

***RS7- Transparent and auditing is easy. It may also bring more revenue to the government. An audit can be conducted on a single tax at a time. The company's tax administration is undertaken separately from that of the shareholder.***

***RS6- ease of administration***

***RS7-Transparent and auditing is easy. It may also bring more revenue to the government.***

---

In contrast, participants were asked to provide motivations for not recommending the imputation system. Table 3 below indicates the opinion statements against its implementation in the AU.

**Table 3.** Opinion statements of participants against the implementation of the imputation system in the AU

---

***RS18: the imputation system harms cross-border ownership of shares as it is challenging to align corporate tax rates with the top personal tax rates, more especially when investors come from different countries with different top individual tax rates***

***RS20: The imputation system does not recognise the distinction between the company and shareholders, so it can be used for tax avoidance and does not prevent double taxation.***

***RS11: the system is not helpful for small companies as the system requires a significant investment in resources and technology to be implemented in a company***

---

The participants were then asked to motivate the implementation of the imputation system in the AU. Table 4 indicates the participants' opinions on implementing the imputation system in the AU.

**Table 4.** Opinion statements of participants for the implementation of the imputation system in the AU

*RS8: reduces the administrative burden on the taxpayer as the company is responsible for the administration of tax, not the individual*

*RS13: from a shareholder's perspective, there is probably less administration and limits shareholders' liability (on late payment). Companies are probably better positioned to handle the administration (accuracy and timeliness).*

*RS15: It is intended to create a level playing field by taxing the same activity in the same way, irrespective of the business structure being used, namely, a company or trust*

*RS20: Imputation systems integrate corporate and shareholder personal income taxes to alleviate double taxation of dividend income.*

These findings show that the participants' motivations in the imputation system revolve around reducing administrative burden, reduction in double taxation, horizontal and vertical equity, reduction of personal income tax charged on dividends, and reduction of high compliance costs.

In contrast, participants were asked to motivate and not recommend the classical system. Table 5 provides opinion statements against implementing a classical system in the AU.

**Table 5:** Opinion statements against the implementation of the classical system in the AU:

*RS 10 - This promotes double taxation.*

*RS 10 - This promotes double taxation.*

*RS 12 - Less 'centralised' process and unnecessary duplication of activities*

*RS5—There is double taxation, an administrative burden on the taxpayer. Individual taxpayers must complete the submission process themselves.*

*RS9 - Under a classical system, a corporation pays tax on its profits. When it distributes profits to its shareholders, this shareholder income is taxed a second time in the hands of the shareholders at their marginal tax rate.*

***RS15—This income (after tax) for the investors is taxed again when an investor files their taxes. Thus, the same dividend income is subject to taxation twice. Tax-paid income is again taxed, which discourages investment in economic integration.***

Most of these statements revolve around the fact that the classical system promotes double taxation. This is consistent with the findings of Tredoux and Van Der Linde (2021), which revealed that the classical system is criticised for its double taxation of dividends, whereby the cost of the tax is transferred to shareholders who earn lower income than it would have been had it been that corporate and shareholder levels of taxation were integrated into one tax process.

In summary, the empirical findings reveal that both classical and imputation systems have benefits and shortcomings, as summarised in Table 6 below:

**Table 6:** Benefits and weaknesses of both classical and imputation systems

<b>CLASSICAL SYSTEM</b>	
<b>Benefits</b>	<b>Shortcomings</b>
The company and the shareholders are separate taxpayers; hence, they have to pay taxes.	The classical system promotes double taxation, as the income is taxed twice at the company and shareholder levels.
Tax revenue is increased as both the company and shareholders pay tax.	Less 'centralised' process - and unnecessary duplication of activities.
Double taxation incentivises retaining profits, as the company only pays tax on its profit, not on shareholders' earnings.	Double taxation creates an administrative burden on the shareholders as they must submit themselves.
It brings administrative simplicity as tax administration for the company is conducted separately from that of the shareholders.	Investors' income (after tax) is taxed again when they file their personal taxes, which discourages investment in economic integration.
Transparent auditing is easy because an audit can be conducted on a single tax.	
<b>IMPUTATION SYSTEM</b>	
<b>Benefits</b>	<b>Shortcomings</b>
It reduces the administrative burden on the taxpayer, as the company is responsible for administering the tax, not the individual.	The imputation system negatively impacts cross-border share ownership. It is difficult to align corporate tax rates with investors' top personal tax rates, especially when investors come from different countries with different top personal tax rates.
From a shareholder's perspective, there is probably less administration, and shareholders' liability (on late payment) is limited. Companies are probably better positioned to handle the administration (accuracy and timeliness)	The imputation system does not recognise the distinction between the company and shareholders, so it can be used for tax avoidance and does not prevent double taxation.
It is intended to create a level playing field by taxing the same activity in the same way, irrespective of the business structure being used, namely a company or trust.	The system is not helpful for small companies as it requires significant investment in resources and technology to be implemented in a company.
Imputation systems integrate corporate and shareholder personal income taxes to alleviate double taxation of dividend income.	

**Source:** *Researcher's compilation from the empirical findings and literature*

It is, therefore, assumed that the Western tax systems may not fit well for CIT harmonisation in the AU. Etter-Phoya (2021) asserted that African countries inherited a tax system established by some old powers assembled today as the Organisation for Economic Cooperation and Development (OECD). According to Etter-Phoya (2021), this system is at play today based on its entire tax philosophy around mobilising taxable income, regardless of where it was sourced. This, by design, embedded inequality within the international tax regime in which African states have become vulnerable and open to the scramble for tax. Such vulnerability is expressed in the form of base erosion and profit shifting. This then triggers the need for the AU to have its tax system that promotes CIT harmonisation.

Considering the benefits and shortcomings of both the classical and imputation systems, the Western tax systems, the researcher asked the participants whether they had an opinion on an alternative corporate income tax system that the AU member states should adopt.

Table 7 provides opinion statements for implementing an alternative CIT system in the AU.

**Table 7:** Opinion statements for alternative CIT system to be implemented in the AU:

---

*RS1- The new system should foster cross-border cooperation between tax authorities and encourage automatic exchange of information among African countries and globally.....*

---

*RS5- The AU tax system should be able to support tax administration for adequate controls and audits of both local and multinational companies.....*

---

*RS3-I believe they must develop their capacities to tackle tax evasion, reduce opportunities for tax avoidance, and facilitate recovery of stolen assets.....*

---

*RS11-The new system must establish well-equipped transfer pricing units that will assist in combating tax avoidance and evasion .....*

---

*RS8- The system should have a separate income tax system/ code for small to medium businesses.....The system should include an income tax system/ code for small to medium businesses. SMEs are the AU's cornerstone, and it is necessary to incorporate them into the new tax system. Their cross-border obstacles need to be addressed in the new system, such as off-setting losses from the subsidiary in another state, double taxation, inefficient transfer pricing and high compliance costs. The tax system should allow SMEs to conduct tax planning, avoiding specific tax categories. To sustain SMEs, the tax system should incorporate tax incentives for SMEs such as tax holidays, exemptions, tax credits, investment allowances and depreciation schemes. Very important- the tax system should remain neutral and efficient to SMEs.*

---

*RS19—In this new system, tax credit should be granted to foreign shareholders and on dividends received from abroad. This system can be called an African hybrid tax system.*

---

The results demonstrate that the classical and the imputation systems are unsuitable for CIT harmonisation in the AU. The classical system is not suitable, as it promotes double taxation. The imputation system harms cross-border share ownership, as it is challenging to align corporate tax rates with the highest personal tax rates, especially when investors are from different countries with different top individual tax rates.

The findings reveal a new tax system called the African hybrid tax system or the African blended tax system to be adopted in the AU. Graham and Bamba (2020) support this finding, stating that a home-grown tax system is needed in Africa. Africa's current tax system has not and cannot deliver the required revenues. This is because African countries are applying a tax system borrowed from developed countries ill-suited to African economies. These tax systems do not fit in Africa due to differences in economic and social structures.

The current research findings suggest that there should be cross-border cooperation between AU tax authorities. This could be done by implementing single tax rules, tax agreement treaties, corporate tax base, and removal of withholding tax. Also, there should be an effective mechanism for exchanging information among the tax authorities of the member states of the AU. The cross-border provision of services should be free from discrimination to facilitate cooperation among the AU member states. Thus, the new system should foster cross-border cooperation between tax

authorities and encourage the automatic exchange of information among African countries and globally.

The reduction in compliance costs is paramount for the successful implementation of CIT harmonisation in the AU. In this new system, compliance costs should be reduced by having simplicity in the administration of corporate tax, promoting the administrative feasibility of a corporate tax, maintaining effective and efficient use of resources, and having a high degree of cooperation between tax authorities of the member states. The AU tax system should be able to support tax administration for adequate controls and audits of both local and multinational companies. The new system must establish well-equipped transfer pricing units that will assist in combating tax avoidance and evasion. The AU must develop its capacities to tackle tax evasion, reduce opportunities for tax avoidance, and facilitate the recovery of stolen assets.

The AU system should include a separate income tax system/code for small to medium businesses. In other words, this new AU tax system should be designed to promote SMEs in the AU. SMEs should be able to offset losses incurred in one member state from the income earned from a subsidiary in another. This tax system should be flexible enough to allow SMEs to do tax planning, thereby reducing their tax liability.

Tax credits and tax exemptions should be incorporated in the new African hybrid tax system, whereby income taxed at the corporate level is exempted at the shareholder level. This implies that the AU may use the credit method, whereby the tax paid in the member state of the subsidiary (or branch) is credited against the corporate income tax liability of the parent company. Income earned from foreign investment should also be exempted from tax at the personal level. Alternatively, the investor should receive tax credits for the income earned from foreign investment. The companies with activities in more than one member state should pay tax to a central tax authority (at the community level), which will distribute the revenue among the member states entitled to a share of that revenue. Thus, this new system should address weaknesses in both imputation and classical systems with the agreement of all member states.

Technology and resources remain critical to implementing the African hybrid tax system for CIT harmonisation in the AU. Hence, the governments of member states should jointly invest in technology and resources to facilitate this implementation.

## CONCLUSION

It can be concluded that both the classical and the imputation systems are unsuitable for CIT harmonisation in the AU. The classical system is unsuitable as it promotes double taxation, whereas the imputation system negatively impacts cross-border ownership of shares. These findings emphasise that the AU needs to have its tax system, which should be novel and unique enough to address the shortcomings of the existing tax systems. The participants believe the AU tax system can be called an African hybrid or blended tax system.

Table 8 below shows the shortcomings of both classical and imputation systems and how they can be addressed in the new African hybrid system:

**Table 8:** Incorporation of solutions into the new Africa hybrid tax system

Existing tax system	Shortcomings outlined by participants	Suggested way to be addressed in the new Africa hybrid tax system
<p>Classical system</p>	<p>The classical system promotes double taxation, as the income is taxed twice at the company and shareholder levels.</p> <p>Less 'centralised' process - and unnecessary duplication of activities.</p> <p>Double taxation creates an administrative burden on the shareholders as they must submit themselves.</p> <p>Investors' income (after tax) is taxed again when they file their personal taxes, which discourages investment in economic integration.</p>	<ul style="list-style-type: none"> <li>• Tax credits and exemptions should be incorporated in the new Africa hybrid tax system, whereby income taxed at the corporate level is exempted at the shareholder level. Alternatively, there should be tax credits for shareholders that allow them not to pay tax on their dividends received from corporations.</li> <li>• Similarly, foreign source income should be exempted for domestic corporate income tax purposes and not be subject to taxation. Or alternatively, the AU may use the credit method, whereby the tax paid in the member state of the subsidiary (or branch) is credited against the corporate income tax liability of the parent company.</li> </ul> <p>Companies with activities in more than one member state should pay tax to a central tax authority (at the community level), which will distribute the revenue among the member states entitled to a share of that revenue. All shared activities should be centralised.</p> <p>The shareholders should be exempted from tax or issued tax credits for income taxed at the corporate level. These tax exemptions and tax credits should be administered at the corporate level, and the shareholders should be exempted from such tax administration.</p> <p>Income earned from foreign investment should be exempted from tax at a personal level, or tax credits should be provided to the investor for the income earned from foreign investment.</p>
<p>Imputation tax system</p>	<p>The imputation system negatively impacts cross-border share ownership. It is difficult to align corporate tax rates with investors' top personal tax rates, especially when investors come from different countries with different top personal tax rates.</p> <p>The imputation system does not recognise the distinction between the company and</p>	<p>Income earned from foreign investment should be exempted from tax at a personal level, or tax credits should be provided to the investor for the income earned from foreign investment.</p> <p>The system should recognise the company and shareholders as different taxpayers and exempt tax on a personal level.</p>

shareholders, so it can be used for tax avoidance and does not prevent double taxation.

The system is not helpful for small companies as it requires significant investment in resources and technology to be implemented in a company.

The governments of member states should jointly invest in technology and resources to facilitate the implementation of an African hybrid tax system.

---

**Source:** Researcher's compilation from the empirical findings and literature

These deficiencies resulted in the need for the AU to implement a novel alternative tax system that addresses the shortcomings of both classical and imputation systems. Therefore, it is recommended that the African hybrid or blended tax system be implemented in the AU to facilitate CIT harmonisation. However, technology and adequate resources are crucial to make this a success. Therefore, the member states should jointly invest in technology and resources to facilitate the implementation of the African hybrid tax system for CIT harmonisation.

In combining the literature and the empirical findings of the study, it is postulated that the African blended tax system should be designed and implemented within the parameter of Adam Smith's principles on taxation, namely distribution of tax burdens, horizontal equity, ability to pay, benefit principle, economic efficiency and ease of administration, and compliance. Thus, it should be designed to be more progressive and equitable than the traditional tax systems while still being relatively simple to administer. It should combine elements of the flat tax and proportional tax systems, such as allowing corporations with higher incomes to pay a higher percentage of their income in taxes than those with lower incomes. It should also incorporate progressive features, such as deductions or credits for certain expenditures.

Based on the literature reviewed and empirical findings, the African hybrid tax system will require building an efficient and transparent tax administration system, leveraging technology and enhancing administrative capacity for the new system. The AU must also expand their tax bases beyond natural resources and incorporate the informal sector into the formal economy. Tax systems should promote fairness and equity, ensuring the burden is shared proportionally among individuals and businesses. The new system also requires the AU to prioritise tax harmonisation efforts and foster cooperation to promote cross-border trade and investment. The current research has contributed to the body of knowledge by suggesting a new tax system that may encourage tax harmonisation in the AU. A similar study may be conducted in other African economic integrations using a quantitative methodology to validate the current research findings.

## REFERENCE

Adelakun, B.O., Nembe, J.K., Oguejiofor, B.B., Akpuokwe, C.U., & Bakare, S.S. 2024. Legal frameworks and tax compliance in the digital economy: A finance perspective. *Engineering Science & Technology Journal*, 5 (3): 844-853.

- African Tax Administration Forum (ATAF). (2020). 4th high-level tax policy dialogue: a collaboration between the African tax administration forum and the African Union Commission. Taxing rights for Africa in the new world & effects of COVID-19: the role of tax policymakers & tax administrators. <https://www.ataftax.org/4th-high-level-tax-policy-dialogue-a-collaboration-between-the-african-tax-administration-forum-and-the-african-union-commission>.
- Alworth, J. (1998). Taxation and integrated financial markets: the challenges of derivatives and other financial innovations. *International Tax and Public Finance*, (5), 507–34.
- Asiedu, E. (2002). On the determinants of foreign direct investment to developing Countries: Is Africa different? *World Development*, 30 (1), 107-119.
- Auxiliar, F. (2005). Corporation Tax systems in the EU. *Instituto Superior de Genstao*. [https://www.isg.pt/wp-content/uploads/2021/02/2\\_5\\_Teixeira-Gloria-2000-Corporation-tax-systems-in-the-EU-ISG-Revista-Fiscalidade-no-2.pdf](https://www.isg.pt/wp-content/uploads/2021/02/2_5_Teixeira-Gloria-2000-Corporation-tax-systems-in-the-EU-ISG-Revista-Fiscalidade-no-2.pdf).
- Banderlipe, M.S. (2015). Towards a coordinated taxation policy in an integrated ASEAN Regime. *Asia-Pacific Social Science Review*, 15 (2), 176-186.
- Bett, J.K. (2016). Income tax in the East African Community: A case for harmonising and consolidating policy and law focusing on corporate income taxation. *University of Nairobi (PhD Thesis)*. Available at <https://erepository.uonbi.ac.ke/handle/11295/97629>
- Boadway, R., & Bruce, N. (1992). Problems with integrating corporate and personal income taxes in an open economy. *Journal of Public Economics*, 48, 39-66.
- Bond, S., Chennells, L., Michael, D., Malcolm, G., & Edward, T. (2000). Corporate tax harmonisation in Europe: A guide to the debate, IFS Report, No. R63, ISBN 978-1-87335-796-5. *Institute for Fiscal Studies (IFS), London*.  
<http://dx.doi.org/10.1920/re.ifs.2000.0063>.
- Bulgac, C. (2024). Investment income-regulations in national and international tax legislation. *ACROSS*, 3 (8): 5-18.
- Bruce-Twum, E., Schutte, D. & Nicholas, A. (2022). Determinants of tax compliance costs of small and medium enterprises in emerging economies: Evidence from Ghana. *Social Sciences & Humanities Open*, 6 (1): 1-8.
- Bryman, A., & Bell, E. (2014). *Research Methodology: Business and Management Contexts*. Cape Town: Oxford University Press Southern Africa (Pty) Ltd.
- Chen, D., Qi, S., & Schlagenhaut, D. (2018). Corporate income tax, legal form of organization, and employment. *American Economic Journal: Macroeconomics*, 10 (4), 270-304.
- Chiromo, S.J. (2020). A critical analysis of the South African turnover tax System. *Master's thesis-Rhode University*.  
[https://commons.ru.ac.za/vital/access/manager/Repository?view=null&f0=sm\\_identifier%3A%22http%3A%2F%2Fhdl.handle.net%2F10962%2F166103%22&sort=null](https://commons.ru.ac.za/vital/access/manager/Repository?view=null&f0=sm_identifier%3A%22http%3A%2F%2Fhdl.handle.net%2F10962%2F166103%22&sort=null)

- Christensen, R.C., 2024. Harnessing network power: Weaponised interdependence in global tax policy. *Global Policy*. DOI: 10.1111/1758-5899.13456.
- Cnossen, S. (2017). Corporation taxes in the European Union: Slowly moving toward comprehensive business income taxation? *International Tax and Public Finance*, 25 (3), 808-840.
- Conconi, P., Perroni, C., & Riezman, R. (2008). Is partial tax harmonisation desirable? *Journal of Public Economics*, (92), 254–267.
- Davis Tax Committee (DTC). (2018). Report on the efficiency of South Africa's corporate income tax system. <https://www.taxcom.org.za/docs/20180411%20Final%20DTC%20CIT%20Report%20-%20to%20Minister.pdf>.
- De Mooij, R., Klemm, A & Perry, V. (2021). Corporate Income Taxes under Pressure : Why reform Is needed and how it could be designed. Washington, DC: *International Monetary Fund*. <https://www.elibrary.imf.org/display/book/9781513511771/9781513511771.xml?code=imf.org>.
- Devereux, M. P., & Sørensen, P. B. (2006). The Corporate income tax: international trends and options for fundamental reform. *Economic paper*. [https://ec.europa.eu/economy\\_finance/publications/pages/publication530\\_en.pdf](https://ec.europa.eu/economy_finance/publications/pages/publication530_en.pdf).
- Dharmapala, D. (2016). The economics of corporate and business tax reform. Coase-Sandor. *Working Paper Series in Law and Economics*, No. 757. [https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=2478&context=law\\_and\\_economics](https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=2478&context=law_and_economics).
- Etter-Phoya, R., & Mukumba, C. (2021). Africa and the corrosive international tax system. *Tax Justice Network*. <https://taxjustice.net/2021/05/18/africa-and-the-corrosive-international-tax-system/>
- European Court of Justice (ECJ), 7 September 2004, Case C-319/02, Manninen, ECR I-7215.
- Garbarino, C. (2020). Harmonisation and coordination of corporate taxes in the EU. *Bocconi Legal Studies Research Paper No. 3713087*. <http://dx.doi.org/10.2139/ssrn.3713087>.
- Gastanaga, V., Nugent, J. B., & Pashamova, B. (1998). Host country reforms and FDI inflows: How much difference do they make? *World Development*, 26 (7), 1299-1314.
- Graham, E., & Bamba, M. (2020). 'Do Sub-Saharan African Countries Need a Home-Grown Tax System?'. *World Bank Blog*. <https://blogs.worldbank.org/african/do-sub-saharan-african-countries-need-home-grown-tax-system>.
- Gray, D. (2014). *Doing research in the real world*. Los Angeles, CA: Sage.
- Hakelberg, L. (2024). Forced exit from the joint-decision trap: US power and the harmonisation of company taxation in the EU. *Journal of European Public Policy*, 1-25.

- Hansson, A., & Olofsdotter, K. (2010). Tax differences and foreign direct investment in the EU27. *Lund University Sweden*. <https://www.econstor.eu/bitstream/10419/259981/1/wp2010-003.pdf>.
- Igbinenikaro, E., & Adewusi, O.A. (2024). Tax havens reexamined: the impact of global digital tax reforms on international taxation. *World Journal of Advanced Science and Technology*, 5 (2), 1-12.
- Kari, S., & Ylä-Liedenpohja, J. (2002). Classical corporation tax as a global means of tax harmonization. <https://core.ac.uk/download/pdf/153491668.pdf>
- Kireyev, A.P. (2016). Building Integrated Economies in West Africa: Lessons in Managing Growth, Inclusiveness, and Volatility. IMF publications. [http://www.elibrary.imf.org/fileasset/misc/excerpts/waemu\\_integrated\\_excerpt.pdf](http://www.elibrary.imf.org/fileasset/misc/excerpts/waemu_integrated_excerpt.pdf)
- Kovacs, G., & Spens, K.M. (2005). Abductive reasoning in logistics research. *International Journal of Physical Distribution & Logistics Management*, 35 (2), 132-144.
- Lesage, D., Lips, W., Moskowitz, E.J., & Waris, A. 2024. Regional tax governance. In *Handbook of Regional Cooperation and Integration* (pp. 223-242). Edward Elgar Publishing.
- Madyo, M.R. (2008). The importance of regional economic integration in Africa. *University of South Africa (Master's degree dissertation)*. <https://uir.unisa.ac.za/bitstream/handle/10500/2075/dissertation.pdf>
- McMillan, J. H., & Schumacher, S. (2006). Education research: Evidence-based inquiry. 6th edition. Boston, MA: Allyn and Bacon.
- Navarro, A. (2024). The EU as a tax harmonisation catalyser – Triumphs and challenges within an Asymmetric Cooperation Model. *Working Paper no. 2024–04 of the Max Planck Institute for Tax Law and Public Finance*. Available at SSRN: <https://ssrn.com/abstract=4898403> or <http://dx.doi.org/10.2139/ssrn.4898403>.
- Nembe, J.K., & Idemudia, C. (2024). Designing effective policies to address the challenges of global digital tax reforms. *World Journal of Advanced Research and Reviews*, 22 (3):1171-1183.
- Neuman, W.L. (2011). Social research methods: Qualitative and Quantitative Approaches. 7th Edition, Pearson, Boston.
- Osterloh, S., & Heinemann, F. (2013). The political economy of corporate tax harmonisation — Why do European politicians (dis)like minimum tax rates? *European Journal of Political Economy*, (29), 18–37.
- Quak, E. (2018). Tax coordination and tax harmonisation within the regional economic communities in Africa. K4D Helpdesk Report. Brighton, UK: *Institute of Development Studies*. [https://assets.publishing.service.gov.uk/media/5b18f76c40f0b634cfb505ce/Tax\\_Coordination\\_within\\_Regional\\_Economic\\_Communities\\_Africa.pdf](https://assets.publishing.service.gov.uk/media/5b18f76c40f0b634cfb505ce/Tax_Coordination_within_Regional_Economic_Communities_Africa.pdf)

- Richman, R.L., Richman, J.T., & Richman, H.B. (2020). Corporate tax integration in light of falling corporate tax rates: Using the 1803 British System for Withholding Taxes on Corporate Income as a Model. *International Journal of Economics and Finance*, 12 (12), 36-46.
- Saavedra, F.R. (2020). Tax system: integrated or disintegrated? Inter American Center of Tax Administrations. <https://www.ciat.org/ciatblog-sistema-tributario-integrado-o-desintegrado/?lang=en>
- Scherleitner, M., & Traversa, E. (2024). Involving the corporate sector in EU financing—A Two-Tier Model for a corporate income tax based own resource. *European Law Review*.
- Schutte, D. & Van der Zwan, P. 2019. Turnover tax relief in South Africa: Evidence from the SARS-NT Panel. *Advances in Taxation*, 26: 135-148.
- Sting, A. (2014). Company tax integration in the European Union during economic crisis – Why and How? *Erasmus Law Review*, 1: 39-49.
- Stojkova, A.M., & Kjoseva, E.N. (2024). Macedonian tax legislation coping with the EU integration: reforming processes. *Iustinianus Primus Law Review*, 15 (1).
- Sudsawasd, S., & Mongsawad, P. (2011). Tax policy harmonisation and FDI: An empirical assessment. *International conference on applied economics, ICOAE 2011*. <http://dspace.wunu.edu.ua/bitstream/316497/31559/1/Sudsawasd.pdf>.
- Sugiyono. (2019). Metode Penelitian Kuantitatif, Kualitatif, dan R&D (2th Edition). CV. Alfabeta.
- Tax Justice Network-Africa & ActionAid International. (2012). Tax competition in East Africa: A race to the bottom? [Online]. <https://www.africabib.org/rec.php?RID=355338947>.
- Tredoux, L., & Van der Linde, K. (2021). The corporate tax structure in South Africa: an overview of alternative design options. *Tydskrif vir die Suid-Afrikaanse Reg*, (4), 656-687.
- Uyioghosa, O., & Igbinsosa, O.I. (2023). Comparative Analysis of Tax Harmonization in Economic Community of West African States (ECOWAS), African Union (AU) and European Union (EU). *African Development Finance Journal*, 5 (3), 19-41.
- Van Ganzen, B.N. (2024). Progressing regressively: conditional convergence and Europeanisation of tax mixes. *Journal of European Integration*, DOI: 10.1080/07036337.2024.2374575.
- Weichenrieder, A.J. (2005). Why do we need corporate taxation? *CESifo Working Paper*, 1495. [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=759486](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=759486).