Liberia Annual Tax Expenditure Report

(An Analysis of Revenue Forgone from Tax and Fiscal Incentives)



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Keywords and Definitions

1. **Benchmark Tax System** – The standard tax structure set out in the Liberia Revenue Code (LRC), including tax rates, bases, and calculation methods, used as a reference for identifying deviations classified as tax expenditures.

2. **BIT (Business Income Tax)** – Tax levied on profits earned by corporations, partnerships, and other business entities in Liberia.

3. **Concession Agreements** – Legal contracts between the Government of Liberia and private investors, often in mining, agriculture, or infrastructure, granting preferential tax treatments in exchange for long-term investments.

4. **Decentralization** – The process of transferring administrative and fiscal responsibilities, such as property tax collection, from the central government to local or municipal authorities.

5. **Executive Orders** – Directives issued by the President of Liberia that may grant temporary or permanent tax exemptions, tariff reductions, or other fiscal incentives.

6. **Excise Tax** – Tax imposed on specific goods such as alcohol, tobacco, petroleum products, and luxury items, usually to discourage consumption or raise targeted revenue.

7. **Fiscal Policy** – Government policy relating to taxation, spending, and borrowing to influence economic performance and ensure sustainable public finances.

8. **GST (Goods and Services Tax)** – A consumption-based tax on goods and services in Liberia, similar to VAT systems in other countries, and applied at the point of sale or importation.

9. **Import Duty** – Taxes charged on goods brought into Liberia, including customs tariffs, levies, and related border charges.

10. **International Tax Treaties** – Agreements between Liberia and other countries to avoid double taxation, facilitate trade, and encourage foreign investment.

11. **Investment Incentive Certificate** – An official document issued by the Ministry of Finance and Development Planning (MFDP) granting investors specific tax concessions, such as exemptions from GST, import duties, or income taxes.

12. **Liberia Revenue Authority (LRA)** – The government agency responsible for tax administration, enforcement, and revenue collection in Liberia.

13. **Liberia Revenue Code (LRC)** – The primary legislative framework governing tax laws, rates, and procedures in Liberia.

14. **PIT (Personal Income Tax)** – Progressive tax applied to the income of individuals, including wages, salaries, and other earnings of both residents and non-residents.

15. **Revenue Forgone**– Potential government income not collected due to tax exemptions, deductions, preferential rates, or other deviations from the benchmark tax system.

16. **Tax Expenditure** – The estimated value of revenue Forgonedue to deviations from the benchmark tax system, typically arising from exemptions, deductions, credits, or preferential tax rates.

17. **Tax Incentive Registry** – An official database managed by the MFDP recording entities that benefit from government-approved tax concessions or exemptions.

18. **VAT (Value Added Tax)** – A proposed replacement for GST in Liberia, applied at each stage of the production and distribution chain, with businesses able to claim credits for tax paid on inputs.

19. **Policy Instruments** – The legal and administrative mechanisms through which tax expenditures are granted, such as the LRC, executive orders, concession agreements, or investment incentive certificates.

20. **Sunset Clause** – A provision that sets an expiry date for a tax exemption or concession, requiring review or renewal before it continues.

21. **Cost–Benefit Analysis (CBA)** – An evaluation method comparing the economic benefits of a tax incentive to its fiscal cost.

Key Messages

1. Tax Expenditures Remain Substantial – In 2023, total tax expenditures were estimated at US$270.68 million (6.17 percent of GDP, 51 percent of total tax revenue), before falling to US$240.34 million in 2024 (5.06 percent of GDP, 43 percent of total tax revenue).

2. GST Is the Largest Driver – GST accounts for the largest share of tax expenditures (42 percent in 2023, 42 percent in 2024), followed by import duties and BIT.

3. BIT Increase Driven by Better Reporting – The sharp increase in BIT tax expenditure in 2023 was due mainly to improved filing compliance from major concession holders after the upgrade of the reporting system, not the introduction of new incentives.

4. High Concentration Among Few Beneficiaries – Both BIT and trade-related tax expenditures are heavily concentrated: a small fraction of beneficiaries (5–7 percent) accounts for at least 80 percent of total forgone revenue in their respective categories.

5. Policy Instruments Matter – Investment Incentive Certificates are now the leading channel for both GST and import duty deviations, followed by concession agreements and executive orders (notably for rice waivers). Their share increased markedly in 2024 as "Other" exemptions contracted sharply.

6. Unregistered Incentive Beneficiaries – LRA GST data analysis revealed that some beneficiaries who are not recorded in the MFDP's Investment Incentive Certificate registry nonetheless received GST waivers totaling US$7.76 million in 2023 and US$8.16 million in 2024, pointing to administrative tracking gaps and potential oversight challenges.

7. Data Gaps Limit Coverage – Tax expenditures for PIT, real property tax, excise duties, and administrative fees are excluded due to inadequate data—especially the inability to distinguish exempt from taxable bases in LRA records.

8. Policy Changes Ahead – While no major benchmark regime changes occurred in 2023–2024, upcoming reforms (GST rate increase to 12 percent in April 2025 and transition to VAT in 2026) will significantly affect future tax expenditure reporting.

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1. Introduction

Tax expenditures, the world over, function like government spending programs albeit through the tax system. Tax expenditures are financial benefits provided to taxpayers through the tax system instead of direct budgetary appropriation. Consequently, without systematic reporting, these fiscal costs can remain hidden thereby limiting public understanding of how much governments are spending. On the reverse, tax expenditure reporting enhances stakeholders' understanding of the full scope of government involvement in the economy and the relative size of the government's spending through the tax system. This, in turn, helps policy makers, including lawmakers, to ascertain the extent to which approved tax incentives are impacting revenue mobilization.

In the Liberian context, tax expenditure reporting is explicitly mandated by Section 57 of the Liberia Revenue Code (LRC). It has recently become an integral part of the revenue management and fiscal transparency framework with the publication of the first comprehensive tax expenditure report in 2021. By quantifying revenue losses link to tax incentives, policymakers can make better decisions about the fairness and efficacy of the tax system, thereby bolstering public confidence in fiscal management.

Building on the 2022 Tax Expenditure Report, this edition quantifies revenue forgone as a result of deviations from the benchmark tax system in 2023 and 2024. It also tracks changes to the benchmark tax system since the publication of the last report in 2022. In doing so the current report aims at identifying and analyzing new beneficiaries, modifications to existing incentives and trends in incentive administration or approval. This is done by recognizing amendments or changes to the LRC's tax bases, rates or units of taxation to ensure accurate reporting of tax expenditures against the appropriate benchmark.

The total forgone revenue from tax expenditures is estimated at US$270.68 million for 2023 and US$240.34 million for 2024. The 2023 numbers represent 58 percent increase over the 2022 number, while the 2024 estimate is 11 percent decrease over the 2023 numbers. The lead driver of the 2023 tax expenditure is GST, accounting for 42 percent of the total. GST is followed by import duty, which accounts for 34 percent of the total 2023 tax expenditure. With respect to the policy instruments or the means through which the incentives are effectuated incentive, certificate seems to be the lead driver in 2023. Similar pattern is observed in 2024.

The current report excludes estimates of tax expenditures on account of PIT, real property tax, excise tax, and administrative fees. This is primarily due to data inadequacies at the LRA. The available filing records do not contain the necessary disaggregated information to accurately quantify forgone revenue associated with exemptions, preferential rates, or non-standard treatments under these categories. For example, in the case of real property tax, the existing database does not distinguish between taxed and exempt properties (i.e., exempt properties are not recorded), making it impossible to assess the magnitude of any tax expenditure attributable to exemptions for specific property types or ownership categories.

Table 1: Tax Expenditure by Tax Types (2018 to 2024)

Tax Expenditure by Tax Types	2018	2019	2020	2021	2022	2023	2024
TE in US$ m	94.38	81.19	94.12	145.79	171.78	270.68	240.34
% of GDP	2.76	2.45	2.29	4.15	4.29	6.17	5.06
% of TR	23.82	22.86	23.89	30.07	34.72	51.39	42.91
GST in US$ m	50.21	43.09	49.79	74.19	87.02	114.13	101.51
% of GDP	1.47	1.3	1.57	2.11	2.17	2.60	2.14
% of TR	12.67	12.13	12.64	15.3	17.59	21.67	18.13
Import Duty in US$ m	41.73	34.47	40.89	61.16	71.41	91.85	84.71
% of GDP	1.22	1.04	1.29	1.74	1.78	2.09	1.78
% of TR	10.53	9.71	10.38	12.61	14.43	17.44	15.13
BIT in US$ m	2.44	3.63	3.44	10.44	13.35	64.7	54.12
% of GDP	0.07	0.11	0.11	0.30	0.33	1.47	1.139
% of TR	0.62	1.02	0.87	2.15	2.70	12.29	9.66

As it is, it remains uncertain whether these tax types entail any significant tax expenditure, or if exemptions and concessions granted under them are immaterial. The report thus acknowledges a data gap rather than drawing definitive conclusions on the fiscal impact of these revenue streams. Addressing this limitation will require future improvements in the taxpayer registration systems, filing compliance, and the granularity of data captured by the LRA. Improvement is particularly needed in areas such as property classification, fee-based revenue, and individual tax filings. These enhancements would enable more comprehensive reporting and inform evidence-based policy reforms aimed at increasing transparency and tax efficiency.

2. Deviations from the Benchmark Tax System

The benchmark tax system is the general provisions of the LRC specifying the tax rates, bases, units of taxation, and conditions for the various taxes and fees in effect. It is the reference point against which tax expenditures (deviations from the standard regime) are measured. Although several tax reforms were proposed and even enacted after 2024, the core benchmark tax regime remained unchanged between the publication of the 2022 Tax Expenditure Report and the end of the current reporting period (2024). In other words, there were no major amendments to the LRC affecting the benchmark tax system during the 2023 -2024 reporting period. For example, the GST rate was increased from 10 percent to 12 percent as part of the 2024 LRC amendments but only took effect in April 2025. Also, the shift from GST to the value added tax (VAT) is expected to come into effect in 2026 despite the passage of the Law in 2024. Consequently, this report uses the benchmark regime defined in the 2022 Report as reproduced below, while noting subsequent reforms that will become relevant in future reporting periods.

2.1 Taxes in Effects in Liberia

The principal taxes and fees recognized in the LRC include personal income tax (PIT), business income tax (BIT), goods and services tax (GST), excise tax, customs duties and related charges, real property tax (RPT), government-agency fees and obligatory payments. The sections below describe each component of the benchmark tax system and highlight any known changes since the publication of the 2022 Tax Expenditure Report.

2.1.1 Income Tax Regime

The income tax regime comprises two mainly PIT and BIT. These taxes are governed by the LRC and form the cornerstone of Liberia's direct taxation framework. PIT applies to individual taxpayers, including both residents and non-residents, and is levied on a progressive scale based on annual income. BIT, on the other hand, targets corporate entities, partnerships, and other business structures, with rates and provisions tailored to sectoral characteristics and investment thresholds.

2.1.1.1 Changes to the PIT since 2022

There were no notable legislative or administrative changes to the PIT regime during the 2023 and 2024 reporting periods. The benchmark PIT schedule, as defined under Section 200 of the LRC, remained unchanged.

However, macroeconomic developments such as rising inflation and sustained depreciation of the Liberian dollar against the US dollar have significantly eroded the real value of the PIT thresholds. This erosion has triggered widespread bracket creep, whereby taxpayers originally classified in the exempt bracket are now subject to PIT despite no real increase in their purchasing power. For instance, when the current PIT schedule was established in 2011, the exempt threshold of L$70,000 corresponded to approximately US$83 per month. However, due to currency depreciation, that same threshold now equates to less than US$30 in real terms. As a result, a growing number of low-income earners, whose incomes would have previously fallen below the taxable threshold, are now captured within the taxed brackets. This phenomenon raises equity concerns and calls into question the adequacy of the current design of the PIT schedule in protecting low-income earners.

While these dynamics do not constitute formal changes to the PIT regime, they have material implications for tax policy and expenditure analysis. The erosion of PIT thresholds may lead to increased revenue collection from PIT, but at the expense of fairness and progressivity. It may also artificially lower the tax expenditure to tax revenue ratio thereby distorting the policy interpretation of the tax expenditure numbers. Accordingly, there is a need to review and revise the PIT schedule to reflect current economic realities and restore the protective intent of the exempt bracket.

2.1.1.2 Changes to the BIT since 2022

Like the PIT, the BIT regime remained largely unchanged during the 2023 and 2024 reporting periods. However, a late 2024 amendment to the LRC introduced substantive changes to several provisions governing BIT. These amendments, while significant, do not affect the current reporting periods, as they only took legal effect in April 2025. Nevertheless, their

implications for future tax expenditure estimates and policy design warrant early consideration in the current report.

Table 2: Changes to the BIT Regime Since 2022

No.	LRC Provision	Nature of Changes
1	Section 203 – Interest Deduction Limits:	The amendment reduced the cap on interest deductions for non-resident lenders from 50 percent to 20 percent of EBITDA plus actual interest received. This is in alignment with international best practices aimed at curbing base erosion through excessive interest payments.
2	Section 204 – Clarification on Manufacturing Definition:	The amendment qualified the definition of "manufacture" by subjecting the inclusion of assembly of parts to the issuance of regulation by the Minister of Finance and Development Planning. This in turn allows the Minister to determine what assembling activities qualified as manufacturing and hence permitted the deductions under Section 204(d).
3	Section 211 – Transfer Pricing Enforcement:	The amendment, among other things, authorized the Commissioner-General to re-characterize related-party transactions, including the nature of income and expenditure allocations. This in turn strengthens Liberia's transfer pricing enforcement framework.
4	Sections 602, 702 and 741 – Agriculture, Mining and Petroleum Tax Rates:	The amendment introduced a dual-rate system for agriculture, mining and petroleum projects by adding a 2 percent tax on gross income to the 25 percent regular tax (for agriculture projects) and 30 percent (for mining and petroleum projects), whichever is greater.

2.1.2 Consumption Tax Regime

Consumption taxes constitute a major revenue stream, if not the largest. Taxes on consumption are mainly applied through GST, excise and customs charges. These are indirect taxes with the individual consumers being the unit taxation and base of the tax being the value of the goods or services consumed. Customs charges include import duties and other levies such as the customs user fees and ECOWAS levy. The GST and import duties are levied on general goods while the excise is imposed on select items.

2.1.2.1 Changes to the GST since 2022

No notable changes were made to the GST regime during the 2023–2024 reporting period that materially affect tax expenditure estimates. The benchmark GST rate remained unchanged at 10 percent for general goods and services and 15 percent for mobile telecommunications services. However, two significant changes to the benchmark GST regime that will shape future tax expenditure reporting occurred in 2024.

In December 2024, the Government of Liberia enacted an amendment to the LRC that increased the standard GST rate from 10 percent to 12 percent. Although the amendment was passed in late 2024, the revised rate is scheduled to take effect in April 2025. This change will not affect the current tax expenditure estimates but will alter the benchmark rate for subsequent reporting periods.

Similarly, Liberia is preparing to transition from its current single-stage GST regime to a multi-stage VAT system. The VAT law was passed in 2024 at the standard rate of 15 percent for all goods and services and is expected to be implemented in 2026. This means, for example, the US$0.20 per gallon on petroleum product importation will no longer apply. The new VAT regime, which will replace the GST, introduces key features such as input tax credits, broader tax coverage, and improved neutrality across sectors.

2.1.2.2 Changes to Excise since 2022

No changes were made to the excise tax regime during the 2023 and 2024 reporting periods that will materially affect the estimation of tax expenditures on account of excise tax. Accordingly, the benchmark excise rates remained unchanged throughout the period, and no new exemptions or preferential treatments were introduced.

However, in December 2024, the Legislature enacted amendments to the LRC that revised excise rates on select beverage categories under Harmonized System (HS) headings 2203, 2204, 2205, 2206, and 2208. These changes are scheduled to take effect in 2025 and therefore fall outside the scope of the current reporting period. Nonetheless, they have important implications for future tax expenditure analysis and fiscal planning.

Table 3: Changes to the Excise Regime

HS Code	Excisable Item Description	Excise Rate	
		Imported	Local
2203	Beer made from malt	US$0.80 per liter	US$0.30 per liter
2204	Wines	US$0.80 per liter	US$0.30 per liter
2205	Vermouth and other wines	US$0.80 per liter	US$0.30 per liter
2206	Other fermented beverages	US$0.80 per liter	US$0.30 per liter
2208	Undenatured ethyl alcohol	US$1.50 per liter	US$0.50 per liter

2.1.2.3 Changes to the Import Duty since 2022

There were no material changes to the customs charges regime during the 2023 and 2024 reporting periods that would affect the current tax expenditure estimates. The structure of import duties, customs user fees, ECOWAS Trade Levy, African Union Levy, and surcharges on selected locally produced commodities remained consistent with the provisions in place at the end of 2022.

It is, however, worth noting that the late 2024 amendment to the LRC introduced adjustments to the import tariff rates for select commodities. While these changes were enacted during the reporting period, they are scheduled to take effect in April 2025 and therefore fall outside the scope of the current estimates. The adjustments include:

Table 4: Changes to the Import Duty Regime

No.	Description of Items	Nature of Change
1	Beer made from malt	From US$1.00 per liter to US$0.80 per liter.
2	Wine made from fresh grapes	From US$1.00 per liter to US$0.80 per liter
3	Fermented beverages	From US$1.00 per liter to US$0.80 per liter
4	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80% volume	From US$3.00 per liter to US$1.50 per liter

2.1.3 Property Tax Regime

The property tax regime is governed under Chapter 20 of the LRC and applies to all real property situated within the territorial boundaries of the Country, regardless of the nationality or residence of the owner. The tax is levied annually on the value of land and improvements (such as buildings and other permanent structures) based on the market value or assessed value as determined by the LRA. The unit of taxation is the individual property, and liability rests with the legal owner, lessee, or other person in lawful possession of the property. The regime applies equally to residential, commercial, industrial, and agricultural properties, with certain exemptions for government-owned property, diplomatic missions (in accordance with international conventions), and other categories specified under the LRC.

There were no legislative or regulatory changes to the property tax regime during the 2023 and 2024 reporting periods that would materially affect the current tax expenditure estimates. The provisions of Chapter 20 of the LRC governing the assessment, rates, exemptions, and payment procedures for real property tax have remained unchanged since the publication of the 2022 Tax Expenditure Report. Consequently, the benchmark rates and scope of coverage remain as previously defined.

However, it is important to note that the administration of real property taxation is expected to be fully devolved to local authorities as part of the ongoing decentralization program. This

reform, once implemented, will transfer responsibility for assessment, billing, and collection of property taxes from the LRA to municipal or county governments.

2.2 Means of Deviations from the Benchmark Systems

Deviations from the benchmark tax system arise through a variety of legal and policy instruments that authorize preferential tax treatment or exemptions for specific taxpayers, sectors, or transactions. These deviations are commonly introduced through select provisions of the LRC, concession contracts approved by the Legislature, investment incentive certificates issued by the MFDP, executive orders issued by the President, and international conventions, including bilateral and multilateral agreements to which Liberia is a party. Each of these instruments provides the legal basis for altering the standard tax rates, bases, or conditions established in the benchmark regime, and therefore represents a potential source of tax expenditure.

2.2.1 LRC Provisions

The LRC contains several provisions that, by design, grant preferential tax treatment or exemptions to certain taxpayers, activities, or goods and services. These statutory deviations from the benchmark tax system are an important source of tax expenditures, as they reduce government revenue relative to what would be collected under the standard regime.

Table 5: Nature of Deviations through the LRC Provisions

No.	LRC Provisions	Nature of Deviations
1	Section 9	General Exemptions: Provides broad exemptions from all taxes under the LRC for specified persons and entities, including the Government of Liberia, foreign governments, diplomatic missions, and certain international organizations, in line with international agreements and reciprocity principles.
2	Section 204(d)	Extra Deduction in Computing Taxable Income: Allows taxpayers engaged in manufacturing, processing, or other qualifying activities to claim an additional deduction from taxable income, thereby reducing their effective business income tax liability.
3	Section 2009	Exemptions from Real Property Tax: Grants exemptions from the payment of real property tax for specified classes of property, including those owned by government entities, certain nonprofit organizations, and properties used exclusively for charitable, educational, or religious purposes.
4	Section 1001	Exemption from Goods and Services Tax (GST): Lists goods and services that are exempt from GST, such as basic unprocessed food items, educational and health services, and certain transactions involving exempt persons.

No.	LRC Provisions	Nature of Deviations
5	Section 2202	Exemption from Import Duties: Provides import duty exemptions for certain goods, including those imported by exempt persons or for specified uses such as humanitarian aid, scientific research, or government projects.
6	Section 602	Reduced Income Tax Rate for Domestic Rice Producers: Grants domestic rice producers a reduced business income tax rate of 15 percent, compared to the benchmark corporate rate of 25 percent (or 30 percent for certain sectors).
7	Chapters 6 and 7	Exemption of Agriculture and Mining Concessions from Real Property Tax: Specifically exempt holders of agriculture and mining concessions from paying real property tax on concession-related land and improvements for the duration of the concession agreement, unless otherwise provided in the contract.

2.2.2 Concession Agreements

Concession contracts or agreements are vehicles through which deviations from the benchmark tax system are manifested. These agreements typically govern large-scale investments, generally those exceeding US$10 million, and are negotiated between the Government of Liberia and private investors. In accordance with the Public Procurement and Concessions Act (PPCA), concession contracts must be ratified by the National Legislature and approved by the President before taking legal effect.

Concession agreements often provide investors with preferential tax treatments that materially differ from the standard provisions of the LRC. These preferential terms include reduced business income tax rates, exemptions from certain indirect taxes such as GST and customs duties, extended loss carryforward periods, tax holidays, and exemptions from real property tax or withholding obligations. In some cases, the agreements also grant special customs treatment, such as expedited clearance procedures or the waiver of surcharges on imported goods.

2.2.3 Investment Incentive Certificates

Investment Incentive Certificates represent another formal channel for granting deviations from the benchmark tax system. The legal basis for these incentives is established under Section 16 of the LRC. Unlike the statutory exemptions, which apply automatically to qualifying persons or transactions, the benefits under Section 16 are not automatic. To qualify, a business or legal person must apply through the National Investment Commission (NIC) and demonstrate that they operate in a qualifying sector with an investment outlay below US$10 million.

Section 16 incentives are more targeted in scope and are limited to exemptions from GST and import duties on imported goods. Approved applicants receive an Investment Incentive

Certificate issued by the MFDP on the recommendation of the NIC. The certificate specifies the qualifying activities, the duration of the incentive, and the applicable tax exemptions.

2.2.4 Executive Orders

Executive Orders issued by the President constitute another instrument through which deviations from the benchmark tax system can be introduced. While their scope and duration vary, Executive Orders typically have the force of law for the period of their validity and are used to address urgent policy priorities, economic shocks, or special circumstances that require rapid fiscal intervention outside the regular legislative process.

In the tax context, Executive Orders have been employed to grant temporary tax relief or to adjust specific tax obligations for targeted sectors, activities, or transactions. Such measures may include suspending or reducing import duties or GST on selected goods, granting time-bound exemptions for specific investment projects, or providing tax relief on essential commodities during periods of inflationary pressure or supply disruption. In some instances, Executive Orders have also been used to waive penalties or interest on tax arrears as part of compliance improvement measures.

2.2.5 Conventions and Treaties

International conventions and treaties to which Liberia is a party constitute an important source of deviations from the benchmark tax system. These agreements, once ratified by the National Legislature, have the force of domestic law and override conflicting provisions of the LRC to the extent of their specific terms. Notable examples include:

- Agreements with Donors and Development Partners – Many bilateral and multilateral financing or technical assistance agreements include clauses granting tax exemptions to the donor or implementing agencies. These may cover customs duties, GST, and other taxes on goods and services procured in relation to the funded project.

- Regional Trade Agreements – Liberia participates in the ECOWAS Trade Liberalization Scheme (ETLS) and the Mano River Union (MRU) Trade Scheme, both of which provide for the duty-free importation of goods originating from member countries that meet agreed rules of origin. These exemptions aim to promote regional trade integration and economic cooperation but also result in forgone customs revenue.

- Exemptions for Diplomatic Missions – In accordance with the Vienna Convention on Diplomatic Relations and principles of reciprocity, diplomatic missions and accredited diplomats in Liberia are exempt from customs duties, GST, and in some cases, other taxes on goods and services procured for official or personal use.

- Tax Treaties – Liberia has entered into double taxation agreements (DTAs) aimed at avoiding the double taxation of income and preventing fiscal evasion. For instance, the Liberia–Germany Double Tax Agreement provides for reduced withholding tax rates or exemptions on certain cross-border payments such as dividends, interest, and royalties, thereby deviating from the standard LRC provisions.

3. Methodological Approach

The methodology adopted for this report draws on internationally recognized practices for tax expenditure estimation and is tailored to the institutional and data environment of the LRA. It covers clearly defined parameters for scope, a consistent application of the revenue forgone method, and a dual analytical framework that examines both tax types and policy instruments. The approach further incorporates the use of key administrative data sources, complemented by the tax incentive registry, to ensure accuracy and traceability of results. While grounded in established techniques, the methodology also acknowledges inherent data and coverage limitations, which are transparently outlined to guide interpretation of the estimates presented.

3.1 Scope

This report covers tax expenditures arising from deviations from the benchmark tax system during the 2023 and 2024 fiscal years. The analysis focuses on the principal national tax types under the jurisdiction of the LRA, including:

- GST
- Customs Duties and Related Charges
- BIT
- PIT
- Real Property Tax
- Excise Tax

Given persistent data limitations, particularly in respect of BIT, PIT, real property tax, excise duties, and administrative fees, the estimates presented for 2023 and 2024 exclude some categories where accurate quantification was not possible. The report therefore prioritizes those tax types for which the LRA maintains sufficiently detailed records to distinguish revenue collected under the benchmark regime from revenue forgone due to deviations.

The scope also extends to all policy instruments through which the deviations are granted, including statutory provisions in the LRC, concession contracts, investment incentive certificates, executive orders, and international agreements. Each instrument is examined in terms of its legal basis, beneficiaries, and fiscal cost.

3.2 Approach – Revenue Forgone Method

The Revenue Forgone Method is applied to quantify tax expenditures. Under this approach, the fiscal cost of a tax expenditure is calculated as the amount of tax that would have been payable under the benchmark tax system, minus the amount actually paid under the preferential provision. This method measures the immediate loss of government revenue in the year the concession is granted, without accounting for any potential behavioral or macroeconomic effects. In practice, this involves:

1. Identifying the benchmark provision for the relevant tax type as defined in the LRC.
2. Identifying the deviation (e.g., reduced rate, exemption, deduction, or credit) and the legal basis for its application.

3. Extracting relevant taxpayer data from LRA's filing and collection systems to determine the value of the tax base affected by the deviation.
4. Applying the benchmark rate or treatment to the affected base to estimate the amount of tax that would have been payable in the absence of the deviation.
5. Subtracting the actual tax paid under the preferential provision to determine the revenue foregone.

Where taxpayer-level data is incomplete or unavailable, the estimates are derived using sectoral averages, trade statistics, or administrative records from incentive management systems such as the tax incentive repository.

3.3 Analytical Framework

The analytical framework integrates both tax-type analysis and policy instrument analysis to provide a comprehensive view of Liberia's tax expenditures.

- By Tax Type – Measures the distribution of revenue forgone across GST, customs duties, BIT, and other applicable taxes.
- By Policy Instrument – Measures the fiscal cost attributable to statutory provisions, concession contracts, investment certificates, executive orders, and international agreements.

This dual classification enables policymakers to see not only which taxes are most affected, but also which legal or policy instruments drive the largest fiscal costs.

3.4 Tax Incentive Registry

This report builds on the 2022 tax incentive registry, which serves as a key source of information for identifying and tracking tax expenditure beneficiaries. The repository records the legal basis of each incentive, the beneficiary's sector, the type of tax affected, and the duration of the incentive.

Surprisingly, the current repository is short on many fronts. For example, with respect to tax type, it captures on BIT, GST, import duty and PIT. There is currently no record on real property tax, administrative fees, and excise tax. In addition, it names only the beneficiaries under concession agreements and investment incentive certificate holders. Beneficiaries under provision of LRC and international treaties are not explicitly listed in the repository.

3.5 Data Sources

The estimation of tax expenditures in this report relies on three primary data sources maintained by the Liberia Revenue Authority (LRA) and other relevant agencies:

1. ASYCUDA World Data – The Automated System for Customs Data (ASYCUDA) serves as the principal source of information for trade-related tax expenditure estimates, including customs duties, GST on imports, and excise duties on imported goods. ASYCUDA provides transaction-level data on import and export declarations, including product classification (HS codes), customs value, applicable tariff rates, and exemptions applied. This level of detail allows for precise identification of deviations from the benchmark tariff schedule and the quantification of associated revenue foregone.

2. Liberia Integrated Tax Administration System (LITAS) – LITAS contains filing and payment records for domestic taxes, including business income tax (BIT) and personal income tax (PIT). For tax expenditure estimation, LITAS is used primarily for BIT-related deviations, enabling analysts to identify taxpayers benefiting from preferential rates, deductions, or exemptions, and to quantify the corresponding reduction in tax liabilities relative to the benchmark provisions of the Liberia Revenue Code (LRC).

3. Registry of Tax Incentives – This administrative database records all beneficiaries of tax incentives granted under various legal instruments, including concession agreements, investment incentive certificates, and statutory provisions of the LRC. The registry captures the legal basis, type of tax affected, sector classification, and duration of each incentive. It serves as a critical cross-reference tool for validating beneficiary status and ensuring that only eligible exemptions or concessions are included in the tax expenditure estimates.

3.6 Limitations of the Methodology

While the methodology applied in this report follows established international good practice for tax expenditure estimation—most notably the revenue forgone method—a number of limitations affect the precision and comprehensiveness of the results:

1. Incomplete Coverage of Tax Types – Due to data constraints, certain taxes administered by the LRA are not included in the estimates, including administrative fees, some categories of excise duties, and real property tax. For these taxes, either the necessary transaction-level data is unavailable, or beneficiary-level exemption data is incomplete.

2. Partial Beneficiary Identification – Although the tax incentive registry provides a consolidated list of known beneficiaries, it may not fully capture all recipients of preferential treatment, particularly in the case of exemptions arising from international agreements, ad hoc executive orders, or policy-based concessions that are not centrally recorded.

3. Lack of Counterfactual Data – The revenue forgone method assumes that, in the absence of the deviation, the same volume of taxable transactions or income would have occurred under the benchmark system. This means it does not account for potential behavioral responses or macroeconomic changes that could alter the tax base if the incentives were removed.

4. Customs Valuation and Misclassification – For trade-related tax expenditures, estimates depend heavily on the accuracy of customs declaration data in ASYCUDA. Errors in HS code classification, customs valuation, or the correct application of exemptions can affect the reliability of results.

5. Time Lags in Data Availability – Some tax types rely on annual filing cycles, meaning that data for the most recent fiscal year may be incomplete or subject to later adjustments. This is particularly relevant for BIT and PIT, where final assessments may differ from initial filings.

6. Aggregation and Estimation Methods – In cases where taxpayer-level data is incomplete, estimates are derived from sectoral averages or aggregate statistics, which may obscure variations in effective tax treatment between individual beneficiaries.

4. Estimated Revenue Forgone

The tax expenditure estimates presented in this section cover three major tax types—BIT, GST, and Import Duties. These tax types were selected for inclusion due to their relative importance in Liberia's tax incentive framework, as evidenced by the concentration of beneficiaries in the tax incentive registry and their significant contribution to total revenue collections. The exclusion of other tax types from the estimation is due to data limitations. In particular:

- Real Property Tax – Although the LRA maintains administrative records on property tax collections, these only cover taxable properties and do not include exempt properties. For example, properties owned by diplomatic missions are exempt from real property tax, but there is no complete and reliable record of their market value. As a result, the corresponding tax expenditure for such exemptions cannot be computed.
- PIT – While statutory exemptions are known and recorded, the absence of detailed taxpayer-level data linking these exemptions to taxable income makes it impossible to reliably quantify the associated revenue foregone.
- Excise Duties and Administrative Fees – Available data does not provide a clear separation between taxable and exempt transactions at a level that would allow for credible tax expenditure estimation.

4.1 Summary

The estimated total tax expenditure for 2023 is US$270.68 million and US$240.34 million in 2024. The 2023 estimate is approximately 6 percent of the period nominal GDP and 51 percent of the total tax revenue. Similarly, the 2024 tax expenditure to nominal GDP is 5 percent, a one percentage point reduction over the 2023 number.

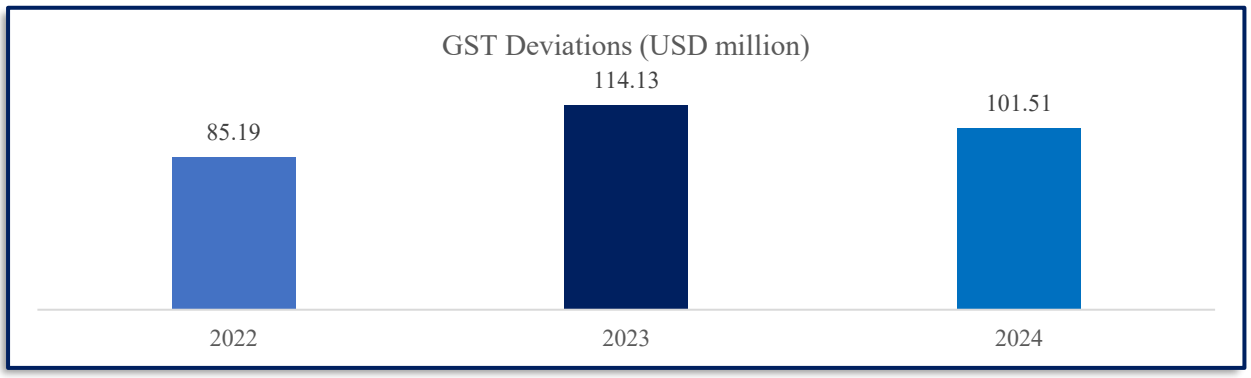
Table 6: Tax Expenditure Estimate by Tax Types (2022 to 2024)

Figure in USD million	2022	2023	2024
GDP Nominal	4,001.05	4,390.00	4,750.00
GDP Real	3,681.96	4,188.45	4,600.41
Tax Revenue	494.73	526.62	560.01
Tax Expenditure	171.78	270.68	240.34
% of Nominal GDP	4%	6%	5%
% of Real GDP	5%	6%	5%
% of Tax Revenue	35%	51%	43%
GST Expenditure	87.02	114.13	101.51
% of Nominal GDP	2.17%	2.60%	2.14%
% of Real GDP	2%	3%	2%
% of Tax Revenue	17.59%	21.67%	18.13%
Import Duty Expenditure	71.41	91.85	84.71
% of Nominal GDP	1.78%	2.09%	1.78%
% of Real GDP	1.94%	2.19%	1.84%
% of Tax Revenue	14.43%	17.44%	15.13%
BIT Expenditure	13.35	64.7	54.12
% of Nominal GDP	0.334%	1.474%	1.139%
% of Real GDP	0.363%	1.545%	1.176%
% of Tax Revenue	2.698%	12.286%	9.664%

4.2 GST

GST deviations remain the largest single source of measured tax expenditures over the reporting period, reflecting the broad scope of exemptions granted under Section 1001 of the LRC, concession agreements, and Investment Incentive Certificates. In 2023, GST-related tax expenditures increased to US$114.13 million, up from US$85.19 million in 2022, a 34 percent increase. This growth was driven several factors, including overall increase in the trade volume in 2023 – the CIF value of imports increase by 36 percent in 2023. The increase in the GST expenditure also reflects the increase in the number of beneficiaries. For instance, the number of incentive certificate holders increase from 53 in 2022 to 65 in 2023.

Figure 1: GST Expenditure Trends



In 2024, GST deviations declined to US$101.51 million, representing an 11 percent reduction from the previous year. This decrease was mainly due to the expiration of certain short-term incentive certificates and a moderation in capital imports by some high-value beneficiaries.

While the number of active beneficiaries remained relatively stable, the average value of GST exemptions per beneficiary decreased, reflecting smaller procurement volumes for certain investment projects that had completed their initial equipment installation phases. The decrease in the 2024 GST expenditure is also supported by the decrease in the CIF value of the imports in 2024 by six percent.

4.3 Import Duty

Import duty deviations represent the second-largest source of measured tax expenditures in 2023 and 2024, after GST. These deviations are concentrated in full exemptions granted under Investment Incentive Certificates (Section 16 of the LRC) and concession agreements, alongside exemptions arising from regional trade agreements such as the ECOWAS Trade Liberalization Scheme (ETLS) and the Mano River Union (MRU) Free Trade Scheme.

In 2023, import duty-related tax expenditures increased to US$91.85 million, up from US$68.96 million in 2022—a 33% rise. In 2024, import duty deviations fell to US$84.71 million, a 7.8% decline from the previous year. This reduction was primarily linked to a slowdown in capital imports for certain large projects that had completed major installation or expansion phases in 2023. Although the number of active beneficiaries under the incentive certificate program remained steady, the value of duty-free imports per beneficiary decreased for several key projects.

4.4 BIT

BIT-related tax expenditures increased sharply from US$13.35 million in 2022 to US$64.70 million in 2023, before moderating to US$54.12 million in 2024. The 2023 surge was primarily driven by uptake in BIT filing among major concession holders and other large taxpayers. In prior years, several high-value beneficiaries were not consistently filing due to technical limitations in the old reporting system, which hindered the capture of their tax expenditure data. With the operationalization of the improved system, these taxpayers' filings were incorporated into the records, resulting in a more enhanced measurement of BIT-related deviations.

It is however interesting to note that surge in BIT-related tax expenditures over the 2022 number largely driven by a small number of taxpayers. These taxpayers constitute a small percentage of BIT filers but account for the majority of the total revenue foregone. In 2023, for example, just 7 percent of BIT beneficiaries accounted for at least 80 percent of the total estimated BIT tax expenditure. In 2024, the concentration increased, with 5 percent of beneficiaries accounting for at least 80 percent of the total.

The high degree of concentration in BIT tax expenditures suggests that a small group of high-value incentive recipients drive the bulk of forgone revenue in this category. This underscores the importance of detailed monitoring and evaluation of large-scale incentives to ensure they deliver the intended economic benefits relative to their fiscal cost.

4.5 Analysis by Policy Instruments

As noted throughout this report, tax expenditures are effectuated through various legal and policy instruments, with their relative importance varying by tax type. For example, BIT-related tax expenditures are predominantly granted through provisions of the Liberia Revenue Code (LRC) and concession agreements, which provide for reduced rates, special regimes, or enhanced deductions. However, due to the lack of detailed BIT filing data—particularly the absence of consistently reported information in Schedule 6 of the filing forms—a reliable breakdown of BIT tax expenditures by policy instrument is not currently possible.

As a result, the analysis by policy instruments focuses on GST and Import Duties, for which detailed exemption records and transaction-level data allow for a clear attribution of forgone revenue to specific policy instruments.

Incentive certificates and concession agreements are the two main policy instruments through which GST expenditures are effectuated. Together, they account for 58 percent of total GST expenditure in 2023 expenditure and 71 percent in 2024. Incentive certificate and concessions are followed by Executive, which largely covers waiver of GST on imported – accounting for 19 percent in 2023 and 21 percent in 2024.

4.5.1 Incentive Certificate

Investment incentive certificate is the leading source if GST deviation, increasing from 29 percent of total GST expenditure in 2023 or US$33,32 to 43 percent in 2024 or US$44.07 million. It is however worth noting the analysis of GST data at the LRA revealed that a number of GST incentives holders are not captured in the incentive certificate registry at MFDP appeared to have benefitted GST waiver – totally US$7.76 million in 2023 and US$8.16 million in 2024.

Table 7: Distribution of GST Expenditure by Policy Instrument

GST Expenditure	2023 USD million	2024 USD Million	2023 Share	2024 Share
Incentive Certificate	33.32	44.07	29%	43%
w/o beneficiaries not in registry	7.76	8.16	7%	8%
Concession Agreement	32.70	28.18	29%	28%
Rice (Executive Order)	21.73	21.77	19%	21%
Others	26.37	7.48	23%	7%
Total	114.13	101.51	100%	89%

Similarly, incentive certificate is the largest driver of import duty deviations – accounting for 45 percent of total import duty expenditure in 2024. It increases from 31 percent of total import duty deviation in 2023 to 45 percent in 2024. The increase reflects higher import volumes for certificate holders and the continued presence of at least 65 active beneficiaries. Like the GST deviation, import duty beneficiaries not recorded in the investment incentive registry at MFDP

account for 7 percent of import duty expenditure effectuated through investment incentive in 2023 and 8 percent in 2024.

4.5.2 Concession Agreement

Concession agreements remain stable driver of both GST and import duty deviation over the reporting period – accounting for 29 percent of GST in 2023 and 28 percent in 2024; while with respect to import duty deviation, concession agreements account for 24 percent of total import duty expenditures in both years or US$21 million.

Table 8: Distribution of Import Duty Expenditure by Policy Instrument

Import Duty Expenditure	2023 USD million	2024 USD Million	2023 Share	2024 Share
Incentive Certificate	28.48	38.29	31%	45%
o/w beneficiary not in registry	6.86	6.85	7%	8%
Concession Agreement	21.87	20.44	24%	24%
Rice (Executive Order)	19.67	19.70	21%	23%
Others	21.83	6.28	24%	7%
Total	91.85	84.71	1.00	100%

5. Conclusion and Recommendations

Tax expenditures remain a significant fiscal cost to Liberia, absorbing a large share of potential revenue—comparable to nearly half of actual tax collections in 2023 and 2024. The structure of these expenditures is heavily skewed toward a few legal instruments and beneficiaries, with Investment Incentive Certificates emerging as the dominant channel for GST and import duty exemptions. Despite a moderate reduction in 2024, the scale of Forgone revenue highlights the need for careful policy review to ensure that such incentives deliver measurable economic benefits. Persistent data gaps, particularly for PIT, property tax, and other underreported categories, hinder the ability to produce a complete fiscal picture; thus, prompting the following recommendations for consideration:

1. Prioritize Draft Tax Expenditure Bill Passage– To improve oversight and the overall effectiveness of tax expenditure management, the passage of the Draft Tax Expenditure Bill by the National Legislature should be expedited. This legal framework will formalize monitoring, reporting, and evaluation mechanisms for all tax incentives.
2. Strengthen Data Systems – Upgrade LRA's taxpayer registration, filing, and reporting systems to capture detailed, disaggregated data on exempt transactions across all tax types. Prioritize inclusion of exempt properties, fee-based revenues, and PIT exemptions.
3. Enhance the Tax Incentive Registry – Expand coverage to include beneficiaries under all policy instruments, especially LRC provisions and international agreements, and ensure consistent cross-checking with LRA's operational data.

4. Review Incentive Effectiveness – Conduct periodic cost-benefit analyses of major incentives, especially those under Investment Incentive Certificates and concession agreements, to assess economic returns versus fiscal cost.
5. Tighten Oversight of Executive Orders – Introduce clear criteria, time limits, and reporting requirements through a tracker for tax waivers issued through executive orders to avoid indefinite or poorly targeted exemptions.
6. Address Concentration Risks – Given the dominance of a small group of beneficiaries, consider capping the fiscal exposure from any single taxpayer or introducing sunset clauses to ensure periodic review of large-scale incentives.
7. Prepare for Upcoming Reforms – Develop a transition plan for VAT implementation and GST rate changes to ensure smooth integration into the benchmark tax system and future expenditure measurement.
8. Coordinate Across Government Agencies – Strengthen inter-agency data sharing between the LRA, Ministry of Finance, Ministry of Commerce, and sector regulators to ensure all tax incentives—statutory and discretionary—are captured and evaluated consistently.
9. Engage in Regional and International Benchmarking – Conduct benchmarking initiatives within ECOWAS and other regions to compare Liberia's incentive policies with those of similar economies, identify best emerging practices, and avoid harmful tax competition.
10. Benchmarking of Future tax Expenditure Reporting Against ECOWAS CET- Future tax expenditure reporting should be benchmarked against the ECOWAS Common External Tariff (CET) system in anticipation of Liberia's full adoption of all ECOWAS CET directives. This alignment will support regional trade policy consistency, improve comparability across member states, and enhance the accuracy of revenue forgone estimates under the new tariff framework.

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