

Sudan Experience on Modernizing Tax System

Experience , Vision and Future Outlook

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Introduction

The COVID-19 pandemic and the successive economic crises have had a profound impact on the world, particularly in significantly weakening the economies of African countries.

The situation in Sudan has worsened due to the internal conflict that erupted on the 15th of April 2023, leading to a severe economic contraction and widespread institutional collapse. This resulted in a significant decline in tax revenues, which fell to about 1% of the GDP, due to the destruction of tax infrastructure, a decrease in tax compliance levels, and the contraction of the formal sector. Mobilizing tax revenues has thus become one of the most prominent challenges facing Sudan in achieving economic recovery and stability.

Current Tax Revenue Situation During the Conflicts

1- Impact of Conflict (April 2023–2025)

- War has severely disrupted tax collection across many states.
- States like Khartoum, Gezira, Darfur, and Kordofan — previously key revenue zones — now face institutional collapse.
- Reduced trade, displacement, and damage to infrastructure have cut state-level revenues.
- Informal and cross-border trade increased, but with low or no taxation.

2. Key Challenges

- Weak tax administration capacity at state level.
- Lack of uniform systems and digitalization.
- Poor coordination between federal and state tax authorities.
- Erosion of tax morale and compliance due to instability.
- Overlapping mandates and unclear revenue assignment.

Objectives of Modernization and shortcomings of the conflicts

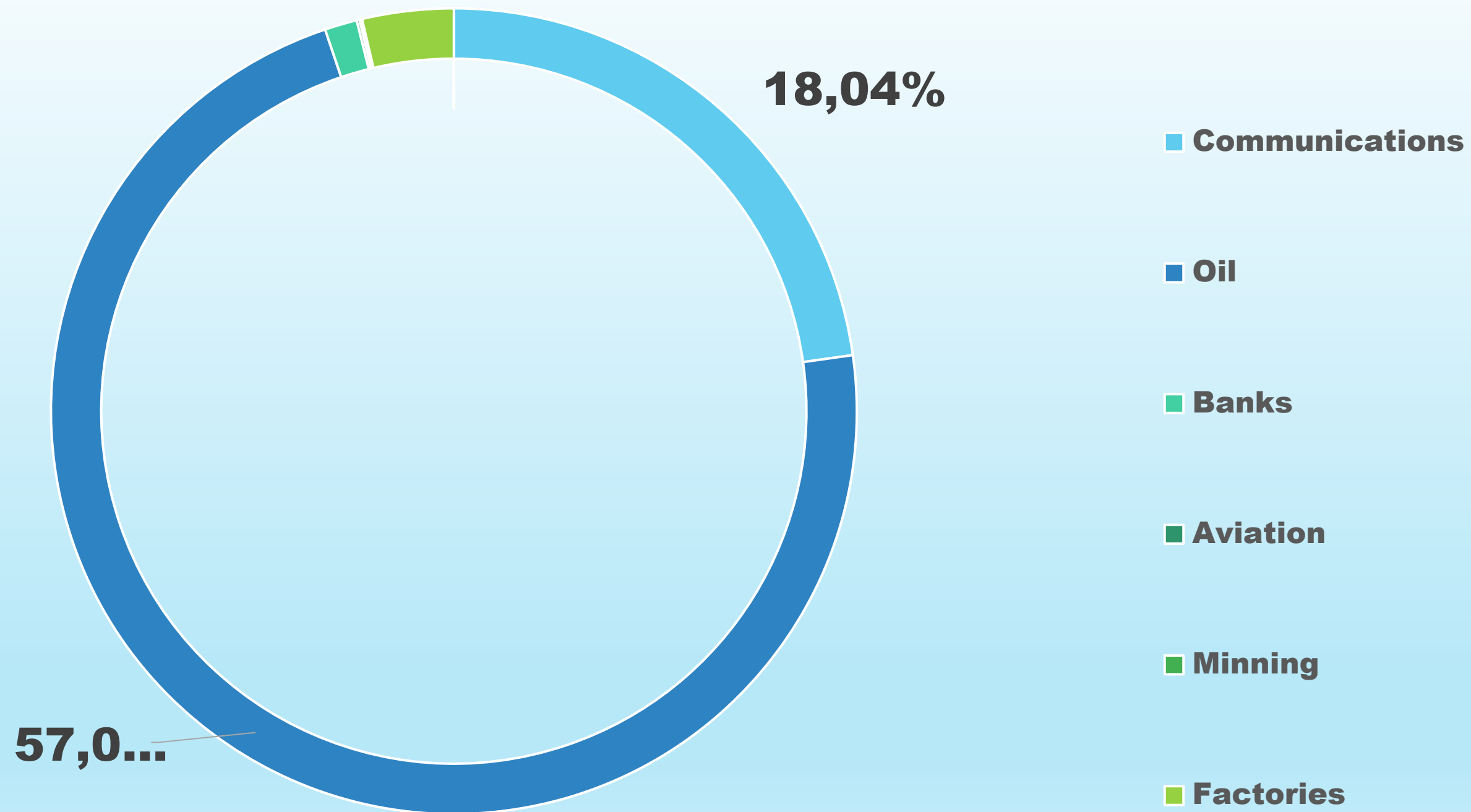
Sudan's tax system aims to improve **efficiency, transparency, and revenue collection** to support sustainable economic development. Here are the main objectives summarized:

1. Enhance Revenue Mobilization by broadening tax base and reducing dependence on oil and improving domestic resource mobilization.
 - Simplify and automate tax processes to reduce administrative costs and taxpayer burdens.
 - Strengthen enforcement and compliance through digital systems (e.g., e-filing, e-payment).
 - Reduce opportunities for corruption and discretionary decision-making.
 - Build public trust by making tax administration more open and rule-based.
 - . Overcome fragmentation between federal and state tax bodies.
 - Establish unified taxpayer registration and information systems.
 - Create a predictable, fair, and business-friendly tax environment.
 - Encourage formalization of businesses and attract private investment

The state's tax and non-tax revenues have fallen substantially. Tax revenue as a share of GDP dropped from around 5-6% (pre- or early conflict periods) to about 2.0% of GDP in 2023. The following chart reflects clearly the main sources of tax revenue during the ongoing conflicts;

Main sources of tax revenue during conflicts

For Jan.2025



Source: Large Taxpayer Office(LTO)

Challenges

- . * Narrow tax base and weak voluntary compliance.
- . * Fragmented and Manual Tax Administration
- . * Heavy reliance on manual processes.
- . * Shortage of skilled staff in auditing, IT, and risk management.
- . * Limited resources for modernization and enforcement.
- . * Large informal sector .
- . * Tax laws not fully aligned with modern international standards.
- . * Lack of coordination between tax and customs bodies.
- . * Slow adoption of digital tools for taxpayer registration, filing, and payment.
- . * Weak data-sharing between STC and other local and international partners.
- . * Lack of transparency and accountability in some tax operations.
- . * Pensioners challenge ,lots of skilled officials are now on pension .

Achievements

- . Gradual move toward **integrated tax management systems (ITMS)** for improved data accuracy.
- . Revision of tax laws and regulations to **broaden the tax base and reduce exemptions.**
- . **Ongoing** training for tax officers and auditors to strengthen technical and analytical skills.
- . Collaboration with international partners (e.g., **ATAF, EEU, ADB, IMF, TADAT, ECA, OECD**) for institutional capacity enhancement.
- . Gradual increase in domestic revenue collection despite economic challenges

Key Reform Area

1. Policy Reforms

- * Reduce **exemptions**, integrate the **informal sector**.
- * **Streamline** multiple taxes (income, VAT, excise, customs) to make the system more efficient and predictable.
- * Ensure **progressive taxation** where higher incomes contribute more.
- * Update **outdated tax laws** and align them with **international standards** (e.g., BEPS framework).

2. Administrative Reforms

- * Introduce e-filing, e-payment, and integrated taxpayer databases to reduce manual handling.
- * Merge fragmented tax bodies (e.g., Customs, VAT, Income Tax) for unified operations.
- * Train staff in audit, risk management, and IT systems..
- * Promote a tax-paying culture through education and communication campaigns.
- * Use analytics and performance indicators to guide reforms and policy adjustments.
- * Adopt Global Tax Standards:
 - * Align with OECD/ATAF frameworks such as Transfer Pricing, BEPS, and Amount B.
- * Strengthen Exchange of Information:
 - * Cooperate regionally and globally to tackle tax evasion and illicit financial flows

ECA Support to the Sudan Taxation Chamber (STC) July 2021 to Feb.2023

The experts from the United Nations Economic Commission for Africa (UNECA) worked closely with the Sudanese Tax Authority (STC) over a period of 20 months (from July 2021 to February 2023), during which they held numerous **meetings** and **interviews** with various departments within the Sudanese Tax Authority, including:

- * **Inspection and Audit** Department
- * Advance Payments Management (responsible for the withholding tax system)
- * Tax Evasion Prevention Department
- * Tax Research and Policy Department
- * Legal Affairs Department
- * Tax Risk Management
- * Tax refund management
- * Collection Management

The mission aimed to identify the fundamental challenges in tax administration and to develop and implement reform strategies to address them.

In collaboration with the **Egyptian Tax Authority (ETA)**, UNECA worked alongside the Sudanese Tax Administration to improve tax audit methods and compliance levels, and to update tax administration systems, contributing to increased local revenues and enhancing the state's financial capabilities.

The most Important Challenges ECA Identified

1

Weak Implementation of the
withholding tax

2

The presence of many tax
exemptions approved by the
investment law and other special
laws

3

Government entities are required to
withhold 1% from all purchases of
goods and services, and submit a
detailed monthly declaration with all
relevant data to the Sudanese Tax
Authority for the implementation of
the withholding tax system.

4

The large taxpayer center
collects 47%
Of the total tax revenues, which
is a small percentage compared
to the best global practice

5

The weakness of the tax evasion
management structure and the
lack of expertise in detecting tax
evaders

6

Tax brackets in the Sudan range
from zero to 35%

Strategies and Approaches Adopted by ECA to support the STC

1/ Strategies

* Given the paramount importance departments, Taxpayer Centers (LTO,MTO,STO) received a significant amount of focus during the mission's activities. The focus also included several key economic sectors such as telecommunications, industry, contracting, banking, mining, and the oil and gas sector, due to their pivotal role in increasing current and potential tax revenues and supporting efforts to mobilize local resources.

* ECA adopted a dual-track program: a **capacity-building** track aimed at developing the skills of tax personnel and enhancing their technical efficiency, and an **administrative track** focused on updating the systems and procedures in the Sudanese Tax Authority.

2/ Approaches

Regional partnership:

*Through cooperation with the Egyptian Tax Authority aimed at exchanging expertise and knowledge.

*Technical and advisory support: Providing guidance on aligning tax policies with international best practices.

***Capacity building:**

Enhancing analytical skills and policy evaluation capabilities to support the decision-making process.

The administrative track

- * Imposing strict penalties on taxpayers who violate tax laws.
- * Activating Article 65 of the Income Tax Law, which pertains to tax collection through intermediaries.
- * Activating Article 37(b) and subjecting loan interest to value-added tax.
- * Establishment of a special unit for the electronic accounts system .
- * Updating the criteria for selecting major taxpayers and reviewing them periodically (every three to five years).
- * Preparation and design of a specific tax declaration to high-risk economic sectors (oil and gas exploration).

Capacity building Track

- * Supporting the Sudanese Tax Authority in strengthening the tax policy team to review and evaluate current and future reforms.
- * Helping officials update and simplify tax administration procedures.
- * Providing technical expertise in examining complex tax returns at the LTO more efficiently and effectively.

The most notable achievements of ECA in providing support to the STC

The increase in the tax revenue to GDP ratio was 1%, reaching 4.4% in 2020, while in 2022 it reached 5.4%.

Improving the overall framework of tax policies

Enhancing the capabilities of tax personnel and strengthening their skills

Updating tax administration systems and simplifying their procedures

The mobilization of local revenues to support the general budget

Enhancing transparency and governance in the tax system

Improving the coordination between fiscal policy and national development goals

Lessons learned from tax reforms in STC's Tax Experiment

Strong political will is an important element to ensure the continuity and sustainability of tax reforms.

Institutional integration between different departments enhances operational efficiency and performance quality.

Digital transformation (such as electronic filing, electronic payment, and automated taxpayer databases) contributes to improving tax compliance and revenue tracking.

Continuous communication with stakeholders enhances trust and a shared commitment to the reform process.

Coordinating efforts among donors ensures consistent support and avoids duplication in programs.

The gradual implementation of reforms reduces resistance to change and enhances the sustainability of results.

Transparency increases the commitment of funders and enhances the credibility of tax administration.

International support from organizations such as ECA, ATAF, IMF and the OECD provides the technical guidance and resources necessary for reform.

Trends and future visions for updating the **tax system** in Sudan

Continuation of updates and digital transformation

- *Expanding the scope of electronic declaration services, electronic payment, and automated services for taxpayers at the national level.
- *Establishing a centralized tax data system to integrate and link the data.
- *Using data analytics and artificial intelligence tools to enhance compliance, expand the tax base, and manage tax audits.

Enhancing revenue mobilization

- *Increasing the ratio of tax revenues to gross domestic product by expanding the tax base.
- *Integrating the informal sector and enhancing the collection of value-added tax and consumption tax.
- *Focusing on mobilizing local resources to finance development plans and projects.

Legal and political reforms

- *Reviewing tax laws to align with international standards and best practices.
- *Introducing tax policies that are characterised by fairness, taking into account social justice and capabilities.
- *Enhancing the integration between tax policy and economic planning to ensure consistency in reforms.

Human resource development and institutional capacity building

- *Enhancing the capabilities of tax personnel through continuous training and building technical and administrative skills.
- *Updating the organizational structure to ensure efficiency, accountability, and good governance.
- *Using performance measurement indicators to monitor progress in implementing reforms and evaluating results

Trends and future visions for updating the tax system in Sudan (cont.)

Transparency,
governance, and
building public
culture

- *Enhancing integrity and anti-corruption systems within the tax administration to ensure transparency.
- *Expanding tax awareness programs and fostering a culture of compliance
- *Establishing the principle of a service-oriented institutional culture that focusses on transparency and the quality of service delivery to citizens.

Regional and
international
cooperation

- *Deepening partnerships with regional and international organisations such as ECA , ATAF, IMF , and the OECD .
- *Joining and actively participating in initiatives to combat BEPS and enhancing information exchange mechanisms.
- *Developing cross-border cooperation to reduce tax evasion and enhance tax administration efficiency.

Towards a fair
and sustainable
tax system

Building a modern tax system characterised by transparency, based on digital transformation, automation, and the use of modern technologies in tax collection and oversight.
Enhancing inclusive economic growth, achieving social justice, and expanding the tax base participating in development.
Ensuring the sustainability of public revenues through balanced tax policies that support investment and achieve justice and efficiency simultaneously.



Thank you