

CENTRAL BANK OF LESOTHO

PERSONAL INCOME TAX IN LESOTHO:  
ITS IMPACT ON THE ECONOMY

BY F.L. SELIALIA

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## INTRODUCTION

Since the Government of Lesotho has responsibility for managing the economy, it is particularly interested in the levels of the gross domestic product (GDP), gross national product (GNP), aggregate demand and gross savings. More precisely, the government has certain economic objectives that it would wish to achieve. These objectives are affected in some way by the levels of the above economic aggregates. The aims and objectives of government are contained in the Fourth Five Year Plan (The Fifth Plan which is still in preparation stage is already overdue) and the Enhanced Structural Adjustment Programme (ESAP) policy framework papers. The Government has relied traditionally upon fiscal policy, i.e. variation in government expenditure and taxation, as the primary weapon to achieve its objectives. However, during the SAP period which started in 1988/89 (now ESAP) emphasis is also placed on monetary policy in order to fine tune the economy.

In order to achieve its stated objectives through fiscal policy, the Government has, since independence in 1966, made decisions to either increase or decrease government expenditure and/or rates of taxation or to introduce new taxes or abolish existing ones. The examples of abolished taxes are graded tax, basic or poll tax, and the education levy. The decisions to change government expenditure and/or tax rates overtime are very crucial because they affect the levels of the economic aggregates mentioned earlier. In changing its fiscal policy, the Government should consider the gains and costs associated with the proposed changes in the policy. This is explicitly explained in the following principle of maximum social gain.

"The public sector, in undertaking any activity, should choose that alternative for which the gains to society exceed the costs by the greatest amount and should refrain from any activity if its benefits do not exceed the costs".<sup>1</sup>

Therefore, before any changes are made in the policy, the authorities have to outline the proposed changes and consider the effects of these changes on GDP, GNP, aggregate demand and gross savings. The authorities should also explain to the

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<sup>1</sup> Haveman, Robert H., *The Economics of the Public Sector*, Second Edition, 1976

general public why changes in fiscal policy are appropriate at the time in question in order to win the confidence of the public

#### **THE PURPOSE OF THE PAPER**

The paper has two broad objectives. The first one is to make an analysis of the present income tax structure in Lesotho. In pursuing this objective, the present income tax structure will be compared with the previous one and the changes will be analyzed.

The second broad objective of this paper, is to make an assessment of how the recent changes that were made in the personal income tax structure in Lesotho will affect the level of economic activity in the country. This is in view of the fact that the government made some changes in the structure of personal income tax with effect from April, 1992. An attempt will be made to assess how those changes in the structure of personal income tax will influence national income through aggregate demand. This will be done within the framework of the multiplier effect. The multiplier is defined as "the amount by which equilibrium output changes when autonomous aggregate demand increases by one unit".<sup>2</sup> At this point, however, it is useful if we explain briefly the concepts of income and personal income tax.

There is as yet no international standard concept and definitions of income for purposes of income and expenditure surveys. However, according to the 1986/87 household budget survey (HBS) conducted by the Lesotho Bureau of Statistics (BOS), household cash income comprises personal incomes of all the members and is derived from the following: (i) Compensation of employees (e.g. salaries, wages, bonuses, overtime pay and other related receipts from employers); (ii) Net earnings from self employment; (iii) Business profits; (iv) Investment and property income (e.g. rent, interest, dividends, royalties, etc.) (v) Migrant workers remittances and current transfers such as pension, annuities, social security cash benefits, sick pay, scholarship, etc. are also regarded as cash income.

The concept of income in kind is more difficult to define, however, in practice it takes various forms including the following:

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<sup>2</sup> Dornbusch, Rudiger, and Fischer, Stanley, Macro-economics, south African adaptation by Philip Mohr and Colin Rogers, 1987.

- (i) the cost to the employers of food and beverages provided free or at markedly reduced prices to their employees;
- (ii) the cost to the employers of free or subsidized transport and other services provided to their employees;
- (iii) the cost to the employers of clothing and/or uniform which they provide free of charge or at a reduced cost to their employees;
- (iv) the cost to the employers of housing or accommodation provided free or at subsidized rents to their employees;
- (v) agricultural products produced by farming households for own consumption.

The main sources of cash income and income in kind returned by the 1986/87 HBS are illustrated in table (i) below.

**Table (i)**

**NUMBER OF HOUSEHOLDS BY MAIN SOURCE OF INCOME**  
(Percent)

Source of Income	Maseru Urban	Other Urban	Rural	Lesotho
Subsistence Farming	2.7	0.4	27.9	24.3
Cash Crop & Livestock	1.6	1.2	11.5	10.1
Business Income	9.7	13.6	1.9	3.2
Cash Wages & Salaries	64.0	42.6	10.0	16.3
Migrant Workers Remittances	14.7	27.4	39.3	36.6
Other Sources of Income	7.3	14.8	9.4	9.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

**Source: Bureau of Statistics**

As seen from the above table the main source of livelihood for households in the country was migrant workers remittances which accounted for 36.6 per cent of the total number of households. The second main source of household income for the country as a whole was subsistence farming, representing 24.3 per cent of the total number of households. Cash wages and salaries constituted the third main source of household income. In the urban areas, the main source of household income was wages and salaries representing 64.0 percent and

42.6 percent of the total number of households in Maseru urban and other urban areas, respectively. In rural areas, the main source of income reported by the HBS was migrant workers remittances, accounting for 39.3 per cent of the total number of rural households. The second largest source of rural household income was subsistence farming at 27.9 per cent. The proportion of rural households whose main source of livelihood was cash wages and salaries amounted to only 10.0 per cent.

Taxes on incomes of individuals in Lesotho are primarily based on compensation of employees, net earnings from self-employment, business profits, investment and property incomes. Other sources of cash income like migrant workers remittances and current transfers are not taxed for one reason or another. Income in kind is also not taxed primarily due to the problem of evaluation of income in kind, especially subsistence agricultural production. Thus, it is clear that the income tax base in Lesotho is extremely limited.

It is also important to note that one of the main constraints limiting the choice of taxes and the effective rate at which a particular tax is collected is the administrative capacity of the tax authorities. This capacity is quite small in Lesotho and hence taxation has, until recently, focused on relatively few sectors of the economy and small population segments, especially urban wage and salary earners. The structure of tax comprises mainly commodity taxes applied at the retail stage, higher commodity tax rates on certain luxury items such as alcohol and tobacco and income tax on individuals and companies. The tax on individual incomes constitutes the main source of income tax revenue but the contribution of corporate tax increased significantly in 1991/92. Since tax on individual incomes or personal income tax constitutes the main source of income tax revenue, emphasis on the analysis of the economic effects of government decisions to either raise or reduce tax rates will be focused, in this paper, on personal income tax.

#### **ORGANISATION OF THE PAPER**

In pursuing the objectives outlined above, the paper will be divided into five sections. In Section One, the importance of macro-economic policy will be discussed with emphasis on fiscal policy. Section Two gives a brief analysis of income tax structure in Lesotho and implications of recent changes made in the personal income tax structure. Part (a) of Section Three discusses theoretical analysis of income tax and its impact on the private sector. An assessment of the impact

of recent changes made in the personal income tax structure in Lesotho is made Part (b) of the Section. Section Four outlines some main findings and Section Five gives conclusion and recommendations.

## **SECTION ONE;**

### **Fiscal Policy and its Relevance in Stabilising the Economy**

The need for macroeconomic policy arises because the economic system does not adjust appropriately to the shocks to which it is constantly subjected. Macroeconomic policies are therefore concerned with the attempts of policy-makers to influence the behaviour of broad economic aggregates in order to improve the performance of the economy. Macroeconomic policies can be grouped into the following broad categories, namely, monetary, external, income and fiscal policies. These policies complement each other because of the interrelationships between economic aggregates. In this paper, emphasis will be put on fiscal policy. Fiscal policy may be defined as "any measure that alters the level, timing or composition of government spending, and/or the level, timing or structure of tax payments"<sup>3</sup> It is designed to steer aggregate demand in some desired direction. In principle, fiscal policy can move the economy in the desired direction equally by either changing government spending or by changing taxes or changing transfers. These changes will however have different multiplier effects. For instance, because of the difference in the multiplier effects, a balanced increase in government expenditure matched by an equivalent increase in taxation will still increase aggregate demand.

It has to be emphasised however, that fiscal policy instruments are strongly interrelated with many other economic policy instruments such as monetary instruments. Thus, these instruments should be used in coordination with fiscal policy instruments and in a proper sequence to achieve desired goals. The role of fiscal policy cannot be discussed meaningfully in isolation. The linkages between fiscal, monetary and external sector policies are all important. The role of fiscal policy differs depending on the economic circumstances in which it is undertaken, on the additional policy instruments used and on the specific objectives it is designed to achieve. It is therefore very important that the objective of any change in

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<sup>3</sup> Vane, Howard R., and Thompson, John L. *An Introduction to Macro-economic Policy*, 1982.

the policy should be specified and policy changes must be coordinated with policy objectives.

Views concerning the role of fiscal policy have changed over the years. Prior to the Keynesian Revolution, the traditional roles assigned to fiscal policy within the confines of a balanced budget were to allocate resources between the public and private sectors and to determine the distribution of income. Fiscal policy today means all those measures taken by the government with a view to influencing aggregate demand. This view contrasts sharply with the traditional view of the Old Classical School of the 19<sup>th</sup> Century which cited that the role of government was to maintain law and order and provide other necessary services that could not be provided in any other way. The Classical view was that the economy would come to equilibrium automatically, that is, the level of government expenditure should not exceed its revenue; that is, the budget had to balance showing neither surplus nor deficit. The Classical viewpoint was that a surplus would mean that the government was taking more than was necessary out of the pockets of the people while a deficit would be a sign of overspending and hence fiscal irresponsibility.

In discussing the role of fiscal policy, among others, three possible changes in fiscal variables can be distinguished. These are changes in government expenditure, changes in transfer payments and tax changes. In this paper, an attempt will be made to assess the effects of a reduction in the rate of personal income tax on national income. This is in relation to recent changes made in the income tax structure which on average decreased the income tax rate by 2 percentage points. This will be discussed in Section Two of this paper.

An expansionary fiscal policy, among other things, consists of an increase in government expenditure or in transfers, or a reduction in taxes. The general effect of these policies is to increase aggregate demand. Changes in tax rates have been the main instruments of fiscal short-run stabilisation policies.

This is primarily because tax rates can be varied quickly within a short time. Manipulation of government expenditure in such a way to fine-tune the economy, on the other hand, is not easy and cannot be done within a short time. One reason for this is that it is difficult to bring about changes in expenditure quickly as many government expenditure programmes such as road and hospital building take a long time to plan and complete and are very costly. Moreover, a reduction in government expenditure will have undesirable social and

political consequences. For these reasons, it is not easy to alter the quantity of government expenditure quickly enough to stabilize the economy in the short-run. Variations in government expenditure are therefore undertaken in the context of medium to long-term stabilisation policies while changes in taxation are often used as the main instruments of fiscal short-run stabilization policies. Thus, while there are many things it can do to alter consumer spending, the government's principal weapon has been the personal income tax.

In Lesotho, the role of fiscal policy has changed over the years. Before the adoption of the Structural Adjustment Programme, that is, during the early eighties, fiscal policy in Lesotho was fairly relaxed and was supported by an expansionary monetary policy. Table 1 gives a summary presentation of selected financial and economic indicators in Lesotho. The table shows the economic situation in the country since the early eighties. As shown in the table, before the adoption of the Structural Adjustment programme, the economic situation in the country was deteriorating. On the fiscal side, government was running fiscal deficits year after year. Revenues generated were inadequate to cover expenditure and therefore the public sector ran sizeable deficits forcing Government to resort to domestic bank financing. Because of the inter-linkages between economic and financial variables, the whole economy was not performing well. For example, as fiscal deficit rose, both domestic bank lending (domestic borrowing) and external borrowing rose to finance the deficit. Imports rose as a result of credit expansion because the marginal propensity to import remains high in Lesotho (0.61).<sup>3</sup> The rise in imports then worsened the current account of the balance of payments and foreign reserves were running down rapidly as a result. In an attempt to remedy the situation, the Government adopted a Structural Adjustment Programme (SAP) in 1988/89 with the assistance of the International Monetary Fund (IMF) and the World Bank. It ended in 1990/91 and was succeeded by the Enhanced Structural Adjustment Programme (ESAP).

During the programme period (1988/89 Fiscal Year onwards), fiscal policy in Lesotho was tightened and was supported by a tight monetary policy. On the fiscal side, the Government

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<sup>3</sup> Foulou T., *Effects of the 1990 Increase in the price of Crude Oil on Lesotho's Balance of Payments Position*, Staff Occasional Paper No. 5, Central Bank Lesotho, January, 1991.

aimed at reducing its overall fiscal deficit by means of a combination of revenue-raising and expenditure restraining measures. On the expenditure side, emphasis was on containing recurrent expenditure while encouraging well planned capital expenditure. On the revenue side, fiscal policy aimed at improvement of the tax system and strengthening of the revenue collection machinery by cutting off from the budget dispensable items and instituting tighter controls. In an attempt to increase tax revenue, changes were made in the income tax law. Major changes with regard to personal income tax were made in 1990. As mentioned above, the main objective was to collect more revenue and to reduce tax evasion and avoidance. With effect from April, 1990, all the abatements relating to dependants were abolished and the medical allowance was also terminated. As shown in Table 1, the results were positive because revenue from income tax registered increases in 1989/90 and 1990/91 following a decline in 1988/89.

On the monetary sphere, a tight monetary policy was pursued with a view to supporting fiscal policy. Interest rates and domestic credit ceilings were preferred instruments. Credit to Government was contained and more credit was channeled towards the productive sectors of the economy. In order to support fiscal and monetary policies, incomes policy included orderly upward revision of wages and salaries. This analysis shows how in a nutshell different macroeconomic policies were used to support each other with a view to achieving a broad objective of sustainable and stable economic growth.

Under ESAP, the Government aimed at consolidating the gains made under SAP and improving the areas where performance had fallen short of targets. On the fiscal side, revenue measures aimed at diversifying and increasing non-customs revenue as a proportion of GNP. That among other things, entailed an improvement in enforcing existing taxes and introduction of additional taxes. Improvement in the enforcement of existing taxes concentrated mainly upon income tax applicable to self-employed persons, non-corporate business entities and companies. Revenue from income tax is thus estimated to be at M65.0 million in 1991/92 fiscal year (see table 1).

## **SECTION TWO:**

### **A Brief Analysis of the Income Tax Structure in Lesotho and Implications of Recent Changes**

As is the case in most developing countries, the main objective of the income tax in Lesotho is to collect more revenue in order to finance public expenditure and to reduce financial imbalances in the economy. It is desired that revenue should grow gradually in relation to Gross National Product (GNP). It should be noted, however, that one of the most important constraints limiting the choice of taxes and the effective rate at which a particular tax is collected in Lesotho, is administrative capacity of tax authorities and collection of income tax is no exception to this.

Although there are six main sources of income in Lesotho, it should be noted that income earned from some of those sources is not taxed. Even though migrant workers remittances is the main source of income in Lesotho, income from this source is not taxed. This is despite the fact that migrant mine workers are properly recorded and are the largest potential for an enlarged taxation and increased income tax revenue. Income from this source is not taxed basically because the 1973 labour agreement between Lesotho and the Republic of South Africa (RSA) did not allow mining industries in RSA to deduct income tax from migrant mine workers on behalf of Lesotho Government. Even in 1991 when a new labour agreement was completed, it became evident that the RSA would not be in a position to withhold such taxes on mining companies in the near future. Therefore, in an attempt to increase tax revenue, particularly income tax revenue from migrant mine workers, in 1991, the Government of Lesotho introduced a levy of M100 (one hundred Maloti) per contract from Basotho mine workers which is payable when the contract is signed. This new levy was estimated to raise government revenue by M6 million or about 0.2 per cent of GNP.<sup>4</sup> (Caution has to be exercised here in view of a high rate of retrenchment of mine workers).

The self-employed are presently also not taxed in Lesotho basically because the main part of the self-employed are farmers practising subsistence farming and the average household income in the agricultural sector is small. The aim is also to attain self-sufficiency in food production hence why income from agricultural activities is not taxed. As mentioned earlier in this paper taxation of small business

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<sup>4</sup> Peterson L., Lesotho's Structural Adjustment Programs and Economic Performance, October, 1991.

enterprises is also very difficult to administer. The income tax base in Lesotho is thus very small consisting largely of the wage bill and profits of large private sector companies. In this paper, emphasis will be on personal income tax.

The present income tax structure in Lesotho became effective in April, 1992. The tax changes that were made are contained in the Income Tax Circular No. 1 of 1992. Before April 1, 1992, the structure that was used was that of April, 1991. The table below illustrates some of the changes that were made since 1981. As shown in the table, changes were made in the abatements.

**ABATEMENTS** (In Thousands of Maloti per Annum)

<b>Dates of Change</b>	<b>Unmarried Person or a Married Person whose Spouse is also earning Income</b>	<b>Married Person whose Spouse is not earning any Income</b>
1981	600	1 200
Apr 1990	4 020	6 000
Apr 1991	5 088	7 068
Apr 1992	5 400	7 500

**Source: Department of Income Tax**

As mentioned in Section One of this paper, in 1990, other major changes that were made with a view to collecting more revenue and to reduce tax evasion and avoidance were to abolish abatements relating to dependents and to terminate medical allowance. Another improvement that was made in 1991 was to simplify income tax system through a reduction of the number of tax brackets.

It should be noted that another change that was effected from April 1, 1992 was a reduction in government compulsory savings from 10 per cent of gross salary to 5 per cent. This change increased taxable income quite significantly.

The changes that were made in the tax rates for the five main income groups can be seen from tables 2(a) and (b). As shown in the tables, the overall effect was the reduction in the income tax rate by 2 percentage points (on average) from 35 per cent to 33 per cent. It can be seen from the tables however, that rates have been reduced for the last two high

income groups and no reductions have been made for low income groups.

Tables 2(a) and (b) show the current rates of income tax on chargeable income in Lesotho. To arrive at chargeable income, standard abatement, compulsory savings and/or pension fund are deducted from gross income. The new abatements which became effective on 1 April, 1992 are as follows: (i) M5,400.00 per annum for unmarried person or married person whose spouse is also earning income; (ii) M7,500.00 per annum for married person whose spouse is not earning any income. Compulsory savings is calculated as 5 per cent of gross unadjusted salary while pension fund should not exceed M1,000.00 is deducted per annum. In situations where it exceeds M1,000.00, only M1,000.00 is deducted per annum for income tax purposes.

Tables 3 (a) and (b) which are derived from Tables 2 (a) and (b) are meant to give an insight of annual chargeable income and income tax paid. Examples of annual chargeable incomes for five income groups have been used to give a clear picture of the impact of income tax on taxpayers. Column 3 of tables 3 (a) and (b) shows average tax rate or effective rate of tax which is the amount of tax paid per period divided by income in that period.

From the point of view of economics, average tax rate measures the progressivity of the tax rates. The progressivity of the income tax system in Lesotho is shown very clearly by the way average tax rates rise as income rises.

Column 4 shows the marginal tax rate which is the rate of tax applied to the units of taxable income, that is, the fraction of an extra loti that taxes will take. It can also be seen from the table that marginal tax rates also rise with income and remain constant for chargeable incomes above M34,000.00 per annum. The last column shows disposable income, which is income that is left after paying taxes. It has to be noted, however, that the calculated disposable incomes do not include standard abatements and pension fund and/or compulsory savings.

To clearly show the changes that were made in the previous income tax structure, table 4 has been constructed from tables 3 (a) and (b). Examples of annual chargeable income are used. Annual income tax and disposable incomes are calculated for the previous and present income tax structures. Columns 4 and 7 show clearly how the changes affected annual income tax paid and annual disposable income. It can be seen from the tables that for the low income group (M0 - M5000) no changes have

been made in as far as income tax rate is concerned and hence the change in annual disposable income is zero. Column 4 shows the difference between the income tax that was paid before changes were made and that paid after the changes. It can be seen from the column that the present income tax paid is less than that which was paid before the changes were made. Column 7 shows the change in annual disposable income due to a reduction in the income tax rate. It can be seen from the column that the present income tax paid is less than that which was paid before the changes were made. Column 7 shows the change in annual disposable income due to a reduction in the income tax rate. It can be seen from the column that the increase in disposable income increases as chargeable income increases, that is, at higher income brackets.

It can be seen from the tables that at the prevailing tax rates, the income tax impinges heavily on the private sector and might be a disincentive to work. The marginal tax rates are rather too high as shown in Table 3 (b). Further reduction of the income tax rate will therefore most likely improve the well being of the taxpayers and might be an incentive to work and hence increase their productive effort.

### **SECTION THREE: (a)**

#### **Personal Income Tax and its Impact on the Private Individuals**

Taxes are forced, compulsory payments to the government. They are meant to finance public expenditure. While taxes finance the activities of the government and are therefore used to finance public expenditure, they are also the instruments through which governments redistribute income and wealth and are, therefore, an integral part of the government's fiscal policy being used to stabilise aggregate demand. Aggregate demand being the total demand for goods and services in the economy. Whether or not the government activity improves social welfare will, to some extent, depend on whether or not the government has a good tax system. Through taxes, the government forcibly takes part of the money from the private sector which could have been used for other private purposes. When paying taxes, citizens cede some buying power, some control over resources and some means of increasing their satisfaction through market transactions. A levying of a new tax or an increase in an existing one means a decrease in disposable income while a reduction in the tax rate or an abolition of an existing tax increases disposable income of the taxpayers.

An assessment of the impact of either a reduction or an increase in the tax rate is of vital importance because it will guide policy-makers as to how national income will be affected by that decision. It is a well-known fact that collection of taxes clearly imposes costs on private citizens. By ceding some of their income, taxpayers forego benefits which they could have realized had they been able to spend their income freely. The social cost of taxes is, therefore, the loss of the opportunity to consume and enjoy some goods and services.

As mentioned earlier in this paper, governments on the other hand, use their revenues from taxes to buy goods and services which have value to the members of the society. These are commodities which private sector could not secure except through collective action. Therefore, the objective of either an increase or a decrease in the tax rate should be specified and the public should be informed about the manner in which tax revenue is meant to finance public expenditure and should eventually be informed whether the objective has been achieved or not. The same procedure should be followed in cases where there is a reduction in taxes. Therefore, in discussing the economic worth of public sector decisions, both the revenue and expenditure sides should be considered.

As mentioned earlier, in this paper, the emphasis will be on personal income tax. Personal income tax is a tax levied by the government on the incomes of private individuals. It relates to the amount of tax an individual pays to the level of income. It is a direct tax and its incidence is borne by the individual who is taxed and hence its burden cannot be shifted. An imposition or a reduction in income tax has an equity impact by directly altering the distribution of income. It should be noted however, that tax is levied on all of the income received. The basic income concept that is applied is adjusted gross income which excludes some kinds of income such as unemployment compensation benefits received by the people and many kinds of fringe benefits which are furnished to employees by employers. From the adjusted gross income, a number of allowable deductions are made before arriving at the figure to which tax is applied (taxable income).

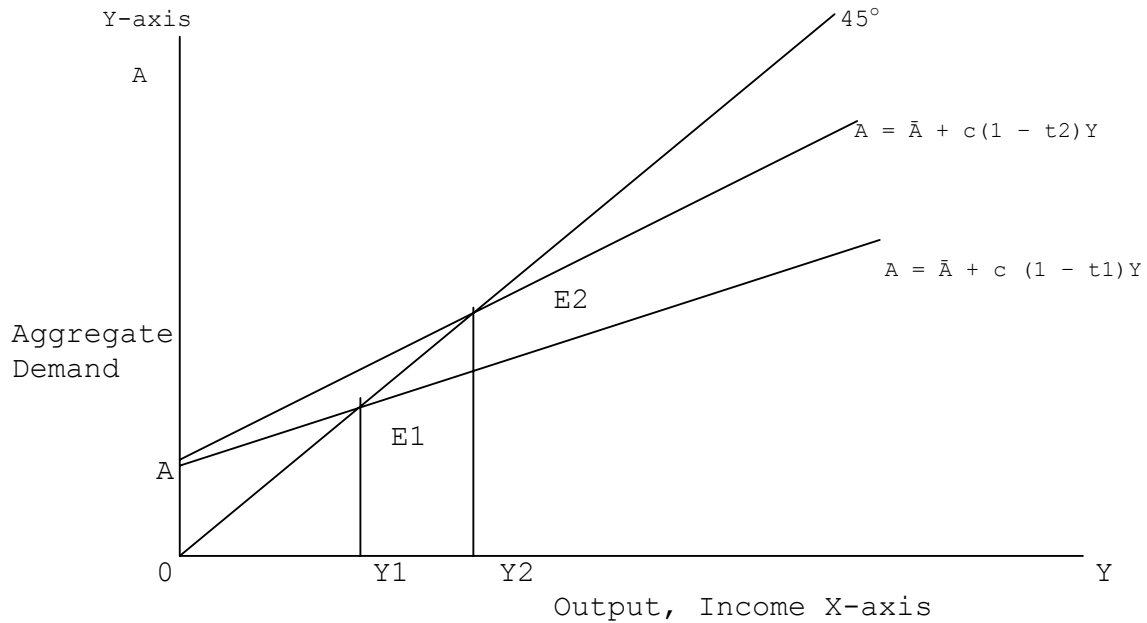
A decision to either increase or reduce the rate of income tax is of vital importance because that decision will have an impact on economic activity in the country. From economic theory, it is known that given a certain level of technology, gross domestic product (GDP) which is the value of all final goods and services produced in the economy during a given period, and is the basic measure of the total level of

economic activity and its growth, depend on both the productive effort which the people of a country expended and the resources which they channel towards the production or procurement of investment goods. Ceteris paribus, that is, holding everything constant, GDP and its growth depend on the productive effort and the level of investment. The level of investment, on the other hand, depends on the ability of the society to invest and their desire to invest while productive effort expended in a society depends on the ability of the people to expend effort and their desire and willingness to expend it. As such, an imposition or an increase in income tax is likely to affect the desire and willingness of the society to expend productive effort. This is likely to be the case because an increase in income tax reduces the welfare of the people by decreasing disposable income. By ceding some of their income, taxpayers forego benefits which they could have realized had they been able to spend their income freely. Other things being equal, the better a man's diet and the more congenial his surroundings, the more productive will his work be. Indeed poor people are often ineffective workers because they are ill-fed and ill-housed. A high income tax is likely to affect the ability of the society to invest because in order to undertake an investment, a society has to divert some of its spending from the purchase of consumption goods to provide for the purchase of investment goods. On the other hand, a reduction in income tax leaves more disposable income for both consumption and investment goods.

A reduction in income tax will affect aggregate demand indirectly through consumption. The extent to which a change in income tax will affect consumption will depend on the marginal propensity to consume (MPC), which is the increase in consumption per unit increase in income. This is in view of the fact that a reduction in income tax increases disposable income which stimulates consumption. Figure 1 below illustrates how a reduction in the rate of income tax influences aggregate demand and hence total output or income. An imposition or an increase in the income tax rate will have the same effect but in an opposite direction.

**Figure 1**

**THE EFFECTS OF A DECREASE IN THE RATE OF INCOME TAX**



Notes:

A = Aggregate Demand

Y = Total Income/Output

Total output or income is shown on the x-axis while aggregate demand is shown on the y-axis.  $A = \bar{A} + c(1 - t_1)Y$  is the first aggregate demand function before the reduction in income tax and the equilibrium is at point E1. That is, output is equal to aggregate demand. The slope of this function  $c(1 - t_1)$  is the marginal propensity to consume out of disposable income before a decrease was effected.  $Y_1$  is the equilibrium level of income and the 45 degree line shows the points at which aggregate demand is equal to output or income. A reduction in the tax rate is shown by an increase in the slope of aggregate demand curve to  $c(1 - t_2)$  and the new equilibrium is at E2 where equilibrium income is  $Y_2$ . The change in the marginal propensity to consume is effected by the increase in disposable income which is resulting from a reduction in the tax rate. Output will have to be increased to  $Y_2$  because at any point in the 45 degrees line before reaching E2, aggregate demand exceeds output and in order to have an equilibrium,

output will have to be increased. This analysis illustrates how the decrease in the rate of income tax affects aggregate demand and hence total output. This analysis is derived from the equilibrium condition in the goods market which stipulates that at equilibrium total output or income is equal to aggregate demand. Therefore, a change in aggregate demand is equal to a change in total output or income.

It should be noted however that it is not easy for economists to predict precisely how consumers will react to an increase or decrease in taxes because there are other factors that contribute to the decision of the taxpayers. The past trend of the changes in income tax rate plays a very important role in influencing the decision of the taxpayers. Thus, for a government which has a history of keeping taxes high or raising them after promising to keep them low, a reduction in income tax rate may have little or no effect on aggregate demand. Therefore, the effectiveness of any future tax policy move may well depend on the government's past track record.

The desired results may also not be realized quickly due to lags that are associated with stabilization policies. First of all, consumers must learn about the tax change. Then more time may elapse before many consumers become convinced that the change is permanent. Finally, there is simple force of habit. Consumers need time to adjust their spending habits when economic circumstances change. Therefore, publicity plays a major role.

Expectations about future incomes also affect current consumer expenditures substantially. In order to make forecast for future income, taxpayers should know whether the reduction in the tax rate is permanent or temporary. This became evident in the United States during the years 1964, 1968 and 1975. In 1964 personal taxes were reduced by 18 per cent with a view to stimulating private consumption. The results were quite positive and that objective was achieved. In 1968 a different problem was faced by the United States. There was too much demand rather than too little hence a different medicine was prescribed and economists quickly suggested an increase in personal income taxes to force consumers to spend less. A 10 percent increase was enacted but the desired results were not achieved. In 1975, as the United States neared the bottom of its worst post-war recession, a tax cut was effected in order to boost aggregate demand. However, this move met only with partial success. It became evident therefore that future income prospects play a major role in the decision-making process of the taxpayers. While the 1964 tax cut was permanent, the 1968 tax increase and the 1975 tax cut were

temporary and hence left future incomes unaffected. As a result, 1964 actions had stronger effects on spending than did the 1968 and 1975 actions. This analysis suggests that, in order to achieve the desired objective, the authorities should announce well in advance whether the proposed tax cuts or increases are permanent or temporary because that will influence the decision of the consumers.

**SECTION THREE (b) :**

**An Assessment of the Impact of the Recent Changes made in the Income Tax Structure in Lesotho**

To estimate the change in output/income due to the tax cut, the following formula was used.

$\Delta Y_e = -c Y_e \Delta t + c(1-t_2) \Delta Y_e$  which can also be written as:

$$Y_e = \frac{-1}{1-c(1-t_2)} c Y_e \Delta t \text{ where,}$$

- $\Delta$  = denotes a change
- $Y_e$  = equilibrium output or income
- $T$  = tax rate with  $t_2$  being the new tax rate
- $C$  = marginal propensity to consume (MPC)
- $-Y_e \Delta t$  = the change in disposable income at the initial level of income
- $c(1-t_2) \Delta Y_e$  = induced consumption spending.

The derivation of this formula can be obtained from the Technical Appendix.

To estimate  $Y_e$ , the projections for GDP at market prices at constant 1980 prices were used. This figure as projected by the Macroeconomic Analysis Division of the Central Bank was M373.2 million for 1992.

The previous and present tax rates ( $t_1$  and  $t_2$ ) were calculated from tables (2(a) and (b) and were found to be 0.35 and 0.33 per cent respectively.

MPC was estimated as 0.6 from household disposable income and households consumption. (see table 5 of the Statistical Tables).

Thus, the estimates were as follows:

$$\begin{aligned} Y_e &= \text{M}373.2 \text{ million} \\ t_1 &= 0.35 \\ t_2 &= 0.33 \\ MPC &= 0.6 \end{aligned}$$

Therefore, at the initial level of income ( $Y_e = \text{M}373.2$  million), disposable income rose by;

$$373.2 \times 0.02 = 7.464$$

Out of the increase in disposable income, only a fraction  $c$  which is estimated as 0.6, is spent on consumption such that aggregate demand will rise by

$$7.464 \times 0.6 = 4.478$$

As indicated earlier, the increase in aggregate demand will cause an expansion in output and income.

To estimate the change in equilibrium income, the estimates were substituted in the formula and the following results were obtained:

$$\begin{aligned} 373.2 &= \frac{-1}{1 - 0.6(1-0.33)} \times (0.6)(373.2)(-0.02) \\ &= \frac{-1}{0.598} \times (-4.478) \\ &= -1.672 \times -4.478 \\ &= 7.487 \end{aligned}$$

Thus, total output is estimated to expand by M7.487 million as a result of income tax changes that became effective on April 1, 1992.

It should be noted, however, that, although taxes are initially cut by M7.464 million, the government's total tax receipts fall by less than M7.464 million because it receives 33 percent of the induced increase in income or M2.463 million as taxes. Therefore, the final reduction in tax receipts by the government is not the initial M7.464 million but rather M5.001 million from M130.620 million to M125.626 million. (Figures have been rounded off).

It has to be noted however, that M125.626 million would be the amount of income tax collected assuming the equilibrium condition in the goods market. That is, if aggregate demand

is equal to total output, (excluding agricultural outputs, ownership of dwellings and other services) which is also equal to total income, if 33 percent total income is received by government as income taxes, then income tax receipts would be M125.626 million. Thus, one can argue that the tax collection machinery is not efficient. For instance, income tax revenue was estimated at M65.0 million for 1991/92 Fiscal Year.<sup>5</sup> This would mean that there is a substantial tax evasion. The Government should therefore intensify its efforts to strengthen the Department of Income Tax to increase tax revenue.

It should be borne in mind, however that there are other implications to be considered which are beyond the scope of this paper.

For instance, the rise in income will have an impact on imports and will therefore affect the current account of the balance of payments. This analysis also does not say anything about the rise in prices due to higher incomes. Therefore, other policy instruments should be considered also.

## **SECTION FOUR**

### **Some Main Findings**

1. Personal income tax seems to be biased towards revenue maximisation and does not consider the equity aspect of taxation and hence to some extent distorts the allocation of resources. This is evidenced by the fact that low income group (0 - M5000 per annum) did not benefit from the changes that were made in the personal income tax structure. Reductions in the tax rates were made for high income group only.
2. Changes made in the income tax policy with effect from April 1, 1992 effectively decreased the average income tax rate by about 2 percentage points from 35 percent to 33 percent.
3. Even though there was a reduction in the income tax rate (by 2 percentage points as mentioned above), it should be noted that for civil servants and some employees of the parastatals that reduction was partly eroded by a reduction in the compulsory savings from 10% to 5%. Government is the biggest employer in

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<sup>5</sup> Central Bank of Lesotho Annual Report for 1991.

Lesotho). This reduction increased taxable income significantly.

4. At the initial level of income (373.2 million), disposable income is estimated to rise by M7.464 million. Using MPC of 0.6, M4.478 million of that is spent on consumption and hence aggregate demand is expected to expand and therefore increase total output by M7.487 million.
5. There is a potential to increase income tax revenue. Assuming the equilibrium condition in the goods market in 1992 about M61 million could be collected over and above the estimated figure of M65.0 million. This could be achieved by including other forms of income in the tax bracket.

## **SECTION FIVE**

### **Conclusion and Recommendations:**

As mentioned earlier, public decisions are very important as they affect economic activity of the country. Before making public decisions, the Principle of Maximum social Gain should be applied. Two most important aspects of this Principles which are also pertinent to this discussion are as follows:

- i) Minimum test which any public sector activity or decision must meet if it is to be in the public interest. This test requires that any proposed public decision should demonstrate prospective benefits which exceed anticipated costs before it is approved.
- ii) Maximum test which states that in order to attain maximum social gain, before a public decision is taken, a complete search of alternative ways to accomplish the objective must be made and the alternative which maximizes the excess of social gains over social costs should be chosen.

This Principle incorporates the fundamental economic criterion for appraising any decision whether public or private. It requires an estimation of the costs and gains of each alternative and a choice of the one which generates the largest net gain.

As shown in Table 4 of the Statistical tables, the changes that were made in the income tax structure resulted in the reduction in the rate of personal income tax.

This can also be seen by comparing tables 2(a) and (b). However, the low income group did not benefit much from those changes and therefore further considerations in the income tax policy for equitable distribution of income would most probably improve the well-being of the low income group. This is the vulnerable group and constitutes a larger proportion of the taxpayers.

An average tax rate of 33 percent is also on the high side and is likely to be a disincentive to work. Therefore, further reduction would act as an incentive to workers whose productivity would consequently improve. Their ability to invest, and hence contribute to GDP growth, would also be enhanced. However as indicated earlier, other macro-economic policy instruments should be incorporated and in a proper sequence to achieve the desired end.

The Government should consider the following options in an attempt to maximize its income tax revenue;

- i) Broaden income tax base by extending the collection of individual income tax on the self-employed both in the rural and urban areas rather than overtaxing the few that are caught in the net. This can be achieved by revising the legislation of income tax to incorporate serious penalties to those who dodge payment of income tax. The government should in particular consider levying income tax on property income especially rent. This is a potential source of income tax revenue in view of high migration from rural to urban areas in search for employment opportunities.
- ii) Improve income tax collection machinery by strengthening departmental capacity through recruitment of qualified personnel as tax inspectors. This will also reduce the number of claims for refunds from the Department of Income Tax.
- iii) Consider the implementation of annual increases in wages and salaries and other employment benefits for government employees. This will be an incentive to work and government employees will most likely increase their productive effort and perform their duties efficiently. In this way, the government will also be in a position to retain its qualified personnel.

Another option which the government has to consider seriously in order to maximize its revenues is to trace government of Lesotho sponsored university graduates and to make sure that they abide by the repayment conditions contained in the Bursary Agreement Form. The Government should, through National Manpower Development Secretariat, ascertain where such graduates are employed in Lesotho and ensure that loaned amounts are repaid. In the case of graduates who are employed in the RSA (including homelands), our Trade Representative in that country could be asked to seek the cooperation of the relevant authorities there in locating them so that they could be followed up. At present, only few civil servants and few of those who are employed by the private sector pay the loans. If this option could be pursued, more government revenue would be collected and would reduce the share that is given to the Ministry of Education for higher training substantially which would in turn be used for other purposes.

As indicated in the paper, the effectiveness of any future tax policy move may well depend on the government's past track record. Thus, governments which gave a tendency of keeping tax rates high after promising to keep them low are likely to have ineffective tax policies.

Before any change is made in the policy, the government has to outline the proposed change and explain how it is expected to affect the economic activity of the country. The objective(s) of the proposed change should be clearly specified and the public should be informed well in advance in order to adjust to changing economic circumstances. Thus, policy changes must be coordinated with policy objectives.

For tax policy to be effective, publicity is very important to consumers because they have to change their consumption patterns due to either an increase or a reduction in the tax rate. The authorities have to specify whether the change in the tax rate is permanent or temporary because a permanent change in the tax rate provides a greater stimulus to consumer spending. Thus, a permanent decrease in income taxes provides a greater stimulus to consumer spending than does a temporary decrease of equal magnitude. A permanent increase in income taxes causes greater reductions in consumer spending than a temporary increase of equal magnitude. This is primarily because a temporary change does not affect future income while a permanent change affects it. If a new tax is imposed or an increase in the existing tax is effected, taxpayers should be informed as to which public expenditure the additional revenue is intended to finance.

Improvements as a result of the new tax measure should also be obvious to taxpayers. In the same manner, a reduction in taxes should be made known to the public in order to achieve the desired end.

It has to be emphasized that the role of any policy differs depending on the economic circumstances in which it is undertaken, on the additional policy instruments used and on the specific objectives it is designed to achieve. Therefore, the role of fiscal policy cannot be discussed meaningfully in isolation. The linkages between fiscal, monetary and external sector policies are all important for a proper management of an economy.

## **TECHNICAL APPENDIX**

### **A. Derivation of the Multiplier**

To estimate the impact of recent changes that were made in the income tax structure in Lesotho, the simple multiplier framework is applied as a broad theoretical framework using simple Keynesian Models and basic Macro-economic identities.

As a starting point, the equilibrium condition in the goods market is assumed. This condition states that at equilibrium in the goods market, total output or income is equal to aggregate demand. Thus,

$$Y_e = A \text{ where;}$$

$$Y_e = \text{equilibrium output or income.}$$

$$A = \text{aggregate demand.}$$

Aggregate demand in turn is composed of consumption, investment and government expenditure. (Net exports are omitted for the purpose of this exercise). Thus,

$$A = C + I + G \text{ where;}$$

$$C = \text{consumption}$$

$$I = \text{Investment}$$

$$G = \text{Government expenditure}$$

Therefore,

$$Y_e = C + I + G$$

Consumption in turn consists of autonomous consumption which is consumption that does not depend on income and is also a function of income. Thus,

$$\begin{aligned}
 C &= C + cY \text{ where;} \\
 C &= \text{autonomous consumption} \\
 c &= \text{marginal propensity to consume (MPC)} \\
 Y &= \text{Income or Output}
 \end{aligned}$$

Since at equilibrium in the goods market income or output is equivalent to aggregate demand, it must be true that a change in equilibrium income or output should be equal to a change in aggregate demand. Thus,

$$\Delta Y_e = \Delta A \text{ where; } \Delta \text{ denotes a change.}$$

It is known from economic theory that consumption does not depend on income but rather on disposable income, which is the income left after subtracting taxes and adding transfer. Thus,

$$\begin{aligned}
 Y_d &= Y + R - T \text{ where;} \\
 Y_d &= \text{disposable income} \\
 Y &= \text{Income} \\
 R &= \text{Transfers} \\
 T &= \text{Taxes}
 \end{aligned}$$

Consumption can thus be re-written as

$$\begin{aligned}
 C &= C + cY_d \\
 &= C + c(Y+R-T)
 \end{aligned}$$

Since income tax is a fraction of income,

$$T = t Y, \text{ where } t \text{ is the rate of tax}$$

Therefore,

$$\begin{aligned}
 C &= C + c(Y+R-tY) \\
 &= C + cY + cR = ctY \\
 &= (C+cR) + c(1-t)Y
 \end{aligned}$$

Aggregate demand can thus be re-written as

$$\begin{aligned}
A &= (C+cR+I+G) + c(1-t)Y \\
&= A + c(1-t)Y \quad \text{where } A = C + cR + I + G \\
&\quad \text{(autonomous spending)}
\end{aligned}$$

A change at equilibrium output or income which is equal to a change in aggregate demand can thus be re-written as;

$$\begin{aligned}
\Delta Y_e &= \Delta \bar{A} + c(1-t) \Delta Y_e \\
\implies Y_e - c(1-t) Y_e &= \Delta \bar{A}
\end{aligned}$$

$$\text{Therefore; } Y_e[1-c(1-t)] = \Delta \bar{A}$$

OR

$$Y_e = \frac{1}{1-c(1-t)} \Delta \bar{A}$$

This equation shows how equilibrium income changes due to a change in aggregate demand.

The term  $\frac{1}{1-c(1-t)}$  is termed the multiplier

in the presence of income tax.

The next step is then to estimate the effect of a change in the rate of income tax on aggregate demand and hence on total output or income. To do this, the change in income or output is equated to a change in aggregate demand. Aggregate demand is then split into its two components.

- (i) the change in spending at the initial level of income that arises from the tax cut which is equal to the marginal propensity to consume out of disposable income multiplied by the change in disposable income due to tax cut which is denoted by:

$$-c Y_e \Delta t \text{ where;}$$

the term  $Y_e \Delta t$  is the initial level of income multiplied by the change in the tax rate and  $\Delta t = (t_2 - t_1)$  and  $c$  is the marginal propensity to consume.

(ii) induced spending due to higher income which is evaluated at the new tax rate and has the value.

$C(1-t_2) Y_e$  where;

$T_2 =$  new tax rate.

Therefore, with a change in the rate of income tax, the change in equilibrium income or output can be written as;

$$\Delta Y_e = -cY_e \Delta t + C(1-t_2) \Delta Y_e$$

$$\Rightarrow \Delta Y_e - c(1-t_2) \Delta Y_e = cY_e \Delta t$$

$$\Rightarrow \Delta Y_e [(1-c(1-t_2))] = c Y_e \Delta t$$

Therefore;

$$\Delta Y_e = \frac{-1}{1-c(1-t_2)} c Y_e \Delta t$$

This last equation shows how total output or income will change at equilibrium due to a reduction in the rate of income tax.

#### B. Estimation of the Marginal Propensity to Consume (MPC)

To estimate MPC, households consumption and households disposable income have been computed for the past eleven years and MPC for each year has been worked out and the average for the eleven years has been used. (see table 5 of the Technical Appendix).

#### C. Calculation of the Tax Rates

To calculate the reduction in the tax rate average tax rate from income tax rates from each bracket, which is actually marginal tax rate, is calculated. To get the change in the tax rate, the previous average is subtracted from the present average. (see summary tables in the tables 2(a) and (b)).

#### D. Estimation of Equilibrium Output

To estimate equilibrium output or income, a projected figure for GDP at market prices at constant 1980 prices for 1992 was used. The figure was projected by the Macro-economic analysis Division of the Research Department of the Central Bank of

Lesotho. The figure for GDP excludes agricultural output, ownership of dwellings and other services basically because a large proportion of output from these sectors is not taxed.

**S T A T I S T I C A L   T A B L E S**

**TABLE 1: Selected Financial and Economic Indicators (in Million of Maloti)**

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Total Receipts	125.5	124.8	144.2	179.1	243.1	256.3	301.2	362	465
Revenue	104.3	111.1	134.8	169.9	219.7	246.5	274.1	299.4	368.5
Customs Revenue	71.4	70.8	76.7	109.9	151.5	161.1	145.2	157.4	193.2
Sales Tax	0	0	2.7	14.7	15.6	20.7	49.2	58.1	75.2
Income Tax	10.1	10.1	11.5	10.5	13	18.2	23.9	27.4	25.1
Company Tax	5	5	5.3	5.7	6	7.5	9.2	7.9	17
Non-tax Revenue	17.8	25.2	38.6	29.1	33.6	39.1	46.6	48.6	57.9
Grants	21.2	13.7	9.4	9.2	23.4	9.8	27.1	62.6	96.6
Total Expenditure	169.8	183.6	185	205.1	260.3	323.6	389	522.5	646.1
Recurrent Expenditure	107.2	116.5	121.9	141.5	167.8	222.7	275.9	302.9	384
Capital Expenditure	62.6	67	63.1	63.6	92.5	100.9	113.1	219.6	262.1
Government Savings**	-2.9	-5.5	12.9	28.4	51.9	23.8	-1.8	-3.5	-15.5
Fiscal Deficit	44.3	58.8	40.8	26	19	67.3	87.8	160.5	181.1
As % of GDP	14.7	15.3	10.6	6.4	4.2	11.8	13.5	19.5	16.6
As % of GNP	8.6	9.8	5.3	3.1	2	6.1	6.9	10.3	9.3
	1980	1981	1982	1983	1984	1985	1986	1987	1988
Money Supply (M2)	117.1	144.9	185.4	217	260.3	306	352.1	387.1	491.1
Domestic Credit	48.9	94.9	119.5	121.5	125.5	166.9	223.8	285.1	405.8
Net Claims on Government	22.8	51.1	65.5	68.1	52.9	76	132.2	174.3	245.7
Net Foreign Assets	71.2	54.1	78.7	128.8	179	216.6	206.4	188.2	191.9
Current Account Balance***	-8.7	-42.9	-41.8	-11.7	2.2	-16.4	-20.3	-18.8	-154.5

Source: Central Bank of Lesotho

Notes: \* 1991/92 figures are estimates  
 \*\* minus sign (-) denotes dissavings  
 \*\*\* minus sign (-) denotes current account deficit

**Table 2(a): RATES OF INCOME TAX ON CHARGEABLE INCOME IN LESOTHO (Effective From April 1, 1991)**

<b>Amount of Chargeable Income (In thousands of Maloti per annum)</b>	<b>Rate Charged (In percent)</b>
From M0 – M5 000	15%
Exceeding M 5 000, up to and Including M12 000	M750 + 25% of excess over M5 000
Exceeding M12 000, up to and Including M19 000	M2 500 + 35% of excess over M12 000
Exceeding M19 000, up to and Including M30 000	M4 950 + 45% of excess over M19 000
Exceeding M30 000	M9 900 + 53% of excess over M30 000

SUMMARY TABLE

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<b>Amount of Chargeable Income (In thousands of Maloti per annum)</b>	<b>Rate Charged (In percent)</b>
First M5 000	15%
Next M7 000	25%
Next M7 000	35%
Next M11 000	45%
Over M30 000	53%

SOURCE: Department of Income Tax

Average:  $173/5 = 34.6 = 35\%$

**Table 2(b): RATES OF INCOME TAX ON CHARGEABLE INCOME IN LESOTHO (Effective From April 1, 1992)**

<b>Amount of Chargeable Income (In thousands of Maloti per annum)</b>	<b>Rate Charged (In percent)</b>
From M0 – M6 000	15%
Exceeding M 6 000, up to and Including M14 000	M900 + 25% of excess over M6 000
Exceeding M14 000, up to and Including M22 000	M2 900 + 35% of excess over M14 000
Exceeding M22 000, up to and Including M34 000	M5 700 + 42% of excess over M22 000
Exceeding M34 000	M10 740 + 48% of excess over M34 000

SUMMARY TABLE

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<b>Amount of Chargeable Income (In thousands of Maloti per annum)</b>	<b>Rate Charged (In percent)</b>
First M6 000	15%
Next M8 000	25%
Next M8 000	35%
Next M12 000	42%
Over M34 000	48%

SOURCE: Department of Income Tax

Average:  $165/5 = 33\%$

**Table 3 (a)****CHARGEABLE INCOME AND INCOME TAX PAID** (In thousands of maloti) = Effective from April 1, 1991

Annual Chargeable Income	Annual Income Tax	Average Tax Rate (Marginal Tax Rate (%))		Annual Disposable Income
1000	150	15	15	850
2000	300	15	15	1700
3000	450	15	15	2550
4000	600	15	15	3400
5000	750	15	15	4250
6000	1000	17	25	5000
7000	1250	18	25	5750
8000	1500	19	25	6500
9000	1750	19	25	7250
10000	2000	20	25	8000
11000	2250	20	25	8750
12000	2500	21	25	9500
13000	2850	22	35	10150
14000	3200	23	35	10800
15000	3550	24	35	11450
16000	3900	24	35	12100
17000	4250	25	35	12750
18000	4600	26	35	13400
19000	4950	26	35	14050
20000	5400	27	45	14600
21000	5850	28	45	15150
22000	6300	29	45	15700
23000	6750	29	45	16250
24000	7200	30	45	16800
25000	7650	31	45	17350
26000	8100	31	45	17900
27000	8550	32	45	18450
28000	9000	32	45	19000
29000	9450	33	45	19550
30000	9900	33	45	20100
31000	10430	34	53	20570
34000	12020	35	53	21980
40000	15200	38	53	24800
50000	20500	41	53	29500
60000	25800	43	53	34200
100000	47000	47	53	53000

**Table 3 (b)****CHARGEABLE INCOME AND INCOME TAX PAID** (In thousands of maloti) = Effective from April 1, 1992

Annual Chargeable Income	Annual Income Tax	Average Tax Rate (Marginal Tax Rate (%))	Annual Disposable Income
1000	150	15	850
2000	300	15	1700
3000	450	15	2550
4000	600	15	3400
5000	750	15	4250
6000	900	15	5100
7000	1150	16	5850
8000	1400	18	6600
9000	1650	18	7350
10000	1900	19	8100
11000	2150	20	8850
12000	2400	20	9600
13000	2650	20	10350
14000	2900	21	11100
15000	3250	23	10750
16000	3600	23	12400
17000	3950	23	13050
18000	4300	24	13700
19000	4650	24	14350
20000	5000	25	15000
21000	5350	25	15650
22000	5700	26	16300
23000	6120	27	16880
24000	6540	27	17460
25000	6960	28	18040
26000	7380	28	18620
27000	7800	29	19200
28000	8220	29	19780
29000	8640	30	20360
30000	9060	30	20940
31000	9480	31	21520
34000	10740	32	23260
40000	13620	34	26380
50000	18420	37	31580
60000	23220	39	36780
100000	42420	42	57580

SOURCE: Department of Income Tax

Table 4: Comparative Analysis of the Previous and Present Income Tax Structures in Lesotho

Annual Chargeable Income	Annual Income Tax			Annual Disposable Income		
	Previous	Present	Change*	Previous	Present	Change**
	150	150	0	850	850	0
1000	300	300	0	1700	1700	0
2000	450	450	0	2550	2550	0
3000	600	600	0	3400	3400	0
4000	750	750	0	4250	4250	0
5000	1000	900	100	5000	5100	-100
6000	1250	1150	100	5750	5850	-100
7000	1500	1400	100	6500	6600	-100
8000	1750	1650	100	7250	7350	-100
9000	2000	1900	100	8000	8100	-100
10000	2250	2150	100	8750	8850	-100
11000	2500	2400	100	9500	9600	-100
12000	2850	2650	200	10150	10350	-200
13000	3200	2900	300	10800	11100	-300
14000	3550	3250	300	11450	11750	-300
15000	3900	3600	300	12100	12400	-300
16000	4250	3950	300	12750	13050	-300
17000	4600	4300	300	13400	13700	-300
18000	4950	4650	300	14050	14350	-300
19000	5400	5000	400	14600	15000	-400
21000	5850	5350	500	15150	15650	-500
22000	6300	5700	600	15700	16300	-600
23000	6750	6120	630	16250	16880	-630
24000	7200	6540	660	16800	17460	-660
26000	7650	6960	690	17350	18040	-690
27000	8100	7380	720	17900	18620	-720
28000	8550	7800	750	18450	19200	-750
29000	9000	8220	780	19000	19780	-780
30000	9450	8640	810	19550	20360	-810
31000	9900	9060	840	20100	20940	-840
34000	10430	9480	950	20570	21520	-950
40000	12020	10740	1280	21980	23260	-1280
50000	15200	13620	1580	24800	26380	-1580
60000	20500	18420	2080	29500	31580	-2080
100000	25800	23220	2580	34200	36780	-2580
	47000	42420	4580	53000	57580	-4580

**SOURCE:** Department of Income Tax (computed from tax tables)

Notes: \* shows annual reduction in income tax paid

\*\* minus sign (-) shows annual increase in disposable income

**Table 5: National Disposable Income , Household Disposable Income, Consumption and Marginal Propensity to Consume (MPC)**

Period	National Disposable Income (In Millions of Maloti)	Households Disposable Income (M. Millions)	Households Consumption (In Millions of Maloti)	MPC
1980	570.5	452.9	355.0	-
1981	650.6	537.4	442.5	1.0
1982	789.2	681.6	527.6	0.6
1983	897.8	731.3	654.4	2.6
1984	1047.0	853.5	747.2	0.8
1985	1229.8	967.0	792.0	0.4
1986	1366.1	1062.7	884.7	1.0
1987	1603.7	1303.6	1056.0	0.7
1988	2062.3	1655.6	1426.6	1.1
1989	2661.6	1954.8	1589.5	0.5
1990	3170.9	2306.8	1659.2	0.2
1991	3736.9	2165.4	2058.6	-2.8

SOURCE: Bureau of Statistics

Average:  $6.1/11 = 0.6$

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