

Challenges in Taxation and the Effect on National Revenue: A Case Study on India and Liberia

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Abstract

Taxation is crucial in every economy, serving as the primary source of government revenue to finance public services, infrastructure development, and social welfare programs. It is also a key instrument for promoting economic growth, reducing income inequality, and managing economic stability. Taxes provide the necessary funds for the government to operate and carry out its essential functions, including national defense, law enforcement, and public administration. Tax revenue is invested in critical infrastructure projects like roads and railways, which are essential for overall economic activity and growth. The government uses taxes to fund essential services such as healthcare (government hospitals and medical research) and education (government-funded schools and universities). The overall goal of taxation in economic development has not been achieved over time due to weak administrative capacity, a large informal economy, political constraints like corruption and politically motivated exemptions, and the negative economic effects of high or complex tax systems that can discourage investment and compliance. Developing countries also struggle with identifying taxable surpluses, a lack of reliable data, and resistance to tax reforms. Coupled with these is the existence of complicated tax structures wherein tax laws are often extensive and complex with numerous sections, amendments, and exemptions, making compliance difficult and costly for both individuals and businesses. This complexity creates loopholes and opportunities for avoidance. Another significant factor contributing to the ineffectiveness of taxation is the inability to achieve a balance between revenue generation, economic efficiency, and social equity in a complex, globalized world. Multinational corporations (MNCs) use complex strategies to artificially shift profits from higher-tax to lower-tax jurisdictions, eroding the tax base of many countries.

Keywords: Inflation, Employment, Taxation, National Revenue, Tariff, Income Inequality, Investment.

Introduction

In the context of taxation and its effectiveness in economic development, key countries would be India and Liberia. India is a country on the subcontinent of Asia with over 1.46 billion people and has a mixed economy, which combines elements of both capitalism and socialism by allowing private enterprise to operate alongside government control. This system involves the coexistence of both the public and private sectors, with the government playing a role in economic activities to achieve social goals. Similarly, Liberia is a small country along the west coast of Africa with Little over 5.6 million people and has a mixed economy like India; it combines market-based principles with a significant role for the government.

It is a presidential republic with a mixed economic system, but the country faces challenges with government operations and is still recovering from post-conflict issues.

Both countries' economic policies are related through a cooperative framework that emphasizes trade promotion. India invests in Liberia's key sectors and provides developmental assistance. India's policies are largely driven by a broader engagement with Africa, while Liberia's policies focus on attracting foreign investment for its infrastructure and resource development. Both nations have signed a trade agreement to enhance commercial cooperation based on the principle of equality and mutual benefit, which includes each other's Most Favored Nation (MFN) treatment. Liberia also benefit from India's Duty- Free Tariff Preference (DFTP) scheme for least developed countries (LDCs), which provides zero duty and preferential market access for over 98% of India's tariff lines to boost Liberian exports such as rubber, timber, and vegetable oil. Indian companies have a significant presence in Liberia, particularly in the mining, pharmaceuticals, construction materials, and automotive sectors. Major investors include recolor metal (mining), Vedanta resources (iron ore project), and the Sethi Brothers Inc. (cement and steel manufacturing plants). Liberia encourages such foreign direct investment to achieve its national development goals. India has provided grants for infrastructure projects, such as the construction of the 14th Military hospital, and has supplied buses and fire trucks. India contributes to Liberia's debt relief and provides assistance during the Ebola crisis.

Bilateral trade between India and Liberia has seen steady growth, with India being one of Liberia's key trading partners¹. Bilateral trade stood at US\$256 million in 2023-2024, largely driven by India's export to Liberia. During 2022-2023, the bilateral trade figure was US\$284 million. There is a potential for a significant increase in the bilateral trade².

The main items of export from India are foodstuffs, particularly rice, engineering goods, pharmaceutical products, ceramic products, two and three-wheeler transport equipment, articles of steel, iron, and aluminum, and plastic and rubber products. Imports from Liberia mainly include animals and vegetable fats and oils, metal scrap, wood, and articles of wood and natural rubber. India is a preferred destination for higher education and medical treatment among the Liberian³.

Both the Indian and Liberian tax systems face significant challenges, with common issues including high complexity, substantial tax evasion, a large informal economy, and administrative inefficiencies. However, the scope and specific manifestation of these problems differ due to their respective economic and political contexts.

Key Challenges in both Economies

Both Liberia and India face significant economic challenges centered around unemployment, poverty, infrastructure deficits, and corruption. However, the nature and scale of these issues differ, with India's challenges often related to managing a massive, rapidly growing economy and Liberia's tied more closely to post-conflict reconstruction and institutional fragility. India is one of the world's fastest-growing major

¹ Embassy of India, Monrovia, Liberia: January 12, 2026

<https://www.indianembassymonrovia.gov.in/bilateral-relation.php>

² Bilateral Brief on India-Liberia Relations; External Affairs Ministry, Government of India, March, 27, 2025

<https://www.mea.gov.in/Portal/ForeignRelation/Liberia-Bilateral-Brief-27-03-2025.pdf>

³ Bilateral Brief on India and Liberia Relations

Official Portal External Affairs Ministry Government of India, Media Briefing and latest updates of MEA Last Visited December 21, 2025

<https://www.mea.gov.in/Portal/ForeignRelation/Liberia-Bilateral-Brief-27-03-2025.pdf>

economies, but its challenges lie in ensuring inclusive growth and overcoming structural issues amidst its vast population. A key challenge is jobless growth, where the economy expands but does not create enough well-paying jobs to absorb the large and growing labor force. This leads to high youth unemployment and underemployment. Addressing India's employment challenge needs a multi-pronged strategy focusing on skill development and boosting labor-intensive sectors like manufacturing and agro-processing through PPPs and infrastructure, alongside diversified agriculture, for inclusive growth and social security. Tackling this problem requires key actions, including mass vocational training, wage subsidies, and rural employment schemes, simplifying regulations for business, and fostering entrepreneurship to move beyond 'jobless growth. Skill development and education wherein mass-scale vocational education and apprenticeships align skills with industry needs. Improve educational healthcare to build a stronger workforce and create social sector jobs, and empower MSMEs and Entrepreneurship for simplified access to credit and technology for Micro, Small, and Medium Enterprises (MSMEs), India's largest job creators, as well as regulatory ease to reduce compliance burdens and encourage formal hiring.

Micro, Small, and Medium Enterprise (MSME)

Micro covers investment in plant machinery or equipment that is not more than Rs. 2.5 crore and annual turnover not more than Rs. 10 crores. Small covers investment in plant and machinery or equipment that are not more than Rs 25 crore and annual turnover not more than Rs. 100 crores. Medium Covers investment in plant and machinery or equipment: Not more than Rs. 125 crore and annual turnover not more than Rs. 500 crores⁴.

Additionally, the state should revitalize manufacturing (e.g., made in India) to absorb semi-skilled and unskilled labor, diversify into horticulture, animal husbandry, and agro-processing for rural income and jobs, and invest in infrastructure projects to directly create employment. To formalizing the economy, there should be a flexible labor market, that is done when the government reform labor laws to incentivize formal hiring, introduce urban employment guarantees (like an urban MGNREGA), and strengthens social security, targeting underdeveloped districts and areas with tailored interventions, as well as investing in childcare/eldercare to boost female labor force participation⁵.

To Strengthen Policy and Investment, the National Employment Policy (NEP) should be implemented as a focused policy, separate from just GDP growth, to ensure job creation is a priority. Public-Private Partnerships should be leveraged for skill development and infrastructure. By implementing these integrated strategies, India can bridge the gap between economic growth and quality job creation, ensuring more equitable and sustainable development⁶.

Income Inequality and Poverty

Despite significant poverty reduction, a large gap between the rich and poor persists, and millions still live below the poverty line or rely on substantial food subsidies.

Solving income inequality and poverty involves a multi-pronged approach: investing heavily in quality, accessible education and skills training for upward mobility; implementing progressive taxation and

⁴ Ministry of Micro, Small and Medium Enterprises MSME

<https://msme.gov.in/know-about-msme>

⁵ MGNREGA Scheme at a Glance

https://nreganarep.nic.in/netnrega/nrega_ataglance/At_a_glance.aspx

⁶ Ministry of Labor and Employment

<https://labour.gov.in/sites/default/files/pib2176333.pdf>

stronger social safety nets (like universal basic income or better benefits); increasing minimum wages and strengthening worker rights/unions; ensuring far access to healthcare, housing, and financial services; promoting inclusive economic growth through fair trade and job creation; and targeted community investments in infrastructure and resources to uplift marginalized areas, all while tacking systemic discrimination.

Education and Skills

Government should provide universal access to education and ensure free, quality public education from early childhood (pre-k) through higher education, offer skill-based training and apprenticeships for in-demand jobs (e.g., tech, trades).

Economic and Policies

Economists should implement or strengthen progressive taxation by taxing higher incomes and wealth (like capital gains) at a higher rate and close loopholes, implement fair wages by raising minimum wages, promote collective bargaining through unions, and ensure financial oversight by strengthening regulations on financial markets and banks.

Social Safety Nets and Wealth Building

The State should strengthen social programs by maintaining and expanding benefits like EITC, SNAP, Medicaid, and Social Security, encourage savings with matches or automatic enrollment in retirement plans, support affordable homeownership, and provide direct cash assistance to families. It is important to consider job creation to foster inclusive growth that creates safe, well-paying jobs, and revitalize disadvantaged neighborhoods with better housing, transit, parks, and food systems, and support marginalized groups by investing in women and people with disabilities, fighting discrimination⁷.

Infrastructure Gaps

While progress has been made, India still faces significant gaps in the quality and reach of its infrastructure, including power, transportation, and sanitation, which affects business efficiency.

To close these infrastructure gaps, economies need a blend of public and private funding, robust planning focusing on resilience and sustainability, improved project preparation (bankability), and leveraging technology, all supported by policy reform that encourages private investment through PPPs, better regulation, and innovative financing like asset recycling, while prioritizing local needs and global collaboration.

Key Strategies to Close Infrastructure Gaps

Foster public-private partnerships (PPPs) government must partner with private firms, bringing capital and expertise, especially where public funds are limited, using models that work well for shared benefits. Create a well-structured, high-quality project pipeline through dedicated facilities (like project preparation facilities) to attract private investment by reducing risk, enhancing financial mechanisms by developing local currency financing for credit enhancements from development banks, and exploring asset recycling (selling old assets for new) to free up capital.

⁷ Earned Income Tax Credit (EITC)

<https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit-eitc>

Strategic planning and resilience by developing long-term national plans that integrate climate resilience, disaster risk reduction, and sustainability, preventing costly future stranded assets, governments should create enabling environments, potentially raising user charges where appropriate, capturing property value, and streamlining public sector delivery, to leverage technology and data, the State should utilize data for better planning and ensure infrastructure is digitally enabled, while also focusing on quality and sustainability. Whereas to boost local capacity, the government should focus on building skills within local institutions for project management, contract negotiation, and managing complex projects, ensuring investments cover underserved areas (like rural roads) and provide universal access, making infrastructure affordable and beneficial for all citizens.

Promoting Multilateral National Cooperation (MNCs) where international institutions and global platforms are crucial for coordinating efforts, sharing best practices, and providing technical assistance. Multilateral cooperation is under pressure due to a growing services market, rising competition, and better-informed customers. Thus, executives will gain from using value-added services to penetrate existing customer segments, add new customers, and retain value-conscious accounts. By combining these approaches, economies can unlock significant investment, improve service delivery, and build resilient, sustainable infrastructure to support long-term growth⁸.

Human Capital and Skill Shortages

There are shortages of skilled workers in key sectors due to a gap between the education system's output and industry needs, limiting the potential of its large youth population (the demographic dividend). Addressing distress in the agricultural sector requires a multifaceted approach focused on increasing farmer incomes, reducing risks, and improving infrastructure and rural life quality. Solution must balance immediate relief with long-term structural reforms to ensure sustainability.

Key Strategies to Address Agricultural Distress

Ensure remunerative prices by implementing and enforcing Minimum Support Prices (MSP) that are at least 50% above the cost of production, and expand their coverage to include more commodities and regions. Encourage farmers to engage in allied agricultural activities like animal husbandry and horticulture. Beekeeping and agro-processing, which are often less volatile and provide additional income streams, create opportunities for non-farm employment in rural areas through skill development and the establishment of micro, small, and medium enterprises to reduce over-dependency on agriculture.

Major Challenges in the Liberian Economy

Liberia's economy is still recovering from a protracted civil war and health crises like the Ebola outbreak, leading to deep structural and institutional challenges. High rates of poverty (more than half the population) and unemployment are major issues, especially for youth. Much of the workforce is in the informal sector or low-productivity agriculture. Addressing poverty and unemployment in Liberia requires a multi-pronged approach focusing on human capital (Skills education), economic diversification (agriculture, digital tech, SMEs) infrastructure (roads, energy, water) good government (anti-corruption), and targeted support (youth, rural populations, social protection) through robust public-private partnerships and community involvement to foster inclusive growth and create sustainable livelihoods.

⁸ Five Key Strategies for MNCs to Succeed in ASEAN, February 13, 2018
<https://frontierview.com/insights/five-key-strategies-mncs-succeed-asean/>

Key Strategies

Invest in Human Capital and Skills Development

Liberia can boost its economy by investing in human capital through stronger TVET (Technical and Vocational Education Training) for practical skills, improved STEM/digital literacy in education, enhanced healthcare training, and robust youth entrepreneurship programs, all supported by government focus on efficient resource allocation and private sector partnerships to create jobs and drive innovation in key sectors like agriculture and digital services. These investments create a skilled workforce, foster innovation, increase productivity, and drive sustainable economic growth, moving Liberia towards middle-income status by equipping citizens with valuable skills for modern industries.

Financial Inclusion

To drive economic development in Liberia through financial inclusion, key mechanisms involve expanding digital financial services (DFS), strengthening micro-financial and credit unions, reforming regulation for inclusive policies, improving financial literacy, formalizing informal systems like susu group, and investing in rural infrastructure to support SMEs, especially in agriculture, while addressing the significant gender gap in access, by implementing these interconnected mechanisms, Liberia can build a resilient financial sector, empower its citizens, and foster sustainable economic growth. Financial inclusion in Liberia needs to be improved, with indicators of financial inclusion, such as physical access to financial services, lower than the fragile country average and the regional average. These indicators are far from the middle-income country levels -the benchmark for the long-term Liberia Rising agenda. Improving financial inclusion could strengthen the resilience of the Liberian economy against shocks by supporting economic diversification through private sector development, and increasing credit options and risk sharing for enterprises and households. Liberia could promote financial inclusion by reforming financial sector laws and regulations and improving the business environment.

The country suffers from poor electricity supply, inadequate road conditions, and underdeveloped ports, which hinder business operations and economic development. Liberia can tackle its infrastructure deficit by strengthening governance for better public investment, attracting diverse financing (blending aid, FDI, local bonds), focusing on key sector like power/transport, leveraging regional integration (ECOWAS), and improving project planning/efficiency, moving from post-conflict reconstruction to sustainable, inclusive growth that connects rural areas to markets, as outlined in strategies like the Agenda for Transformation.

Key Strategies to Address Deficits:

Improve government efficiency by strengthening institutions to plan, execute, and monitor public investments effectively, and enhance transparency and accountability to combat corruption, which diverts funds. Foreign Direct Investment (FDI) that attracts investment in mining, agro-industry, and manufacturing. The government and investors should focus on diversifying beyond extractive industries, strengthening governance and institutions, enhancing infrastructure and energy, ensuring local community benefits and engagement, and streamlining regulations through agencies like the NIC, while addressing challenges like long concession negotiations and public expectations for social support. By implementing these strategies, Liberia can overcome the legacy of civil war damage, build resilience, and unlock its economic potential.

Weak legal and regulatory systems, along with widespread corruption and bureaucracy, deter foreign investment and lead to inefficient use of resources fixing Liberia's governance and corruption involves strengthening rule of law enhancing transparency in resource management (like mining/timber), empowering anti- corruption bodies with independent tenure, fostering civic engagement through education, and ensuring accountable application of rules with sanctions, addressing impunity, and promoting ethical conduct across government and private sectors.

Economic Concentration and Dependence

The economy is heavily dependent on the export of raw commodities like iron ore, gold, and rubber, making it vulnerable to global price fluctuations. There is also a high dependence on imports, including staple foods such as rice. For Liberia's economy, economic concentration (reliance on mining/exports) and development can work by diversifying into agriculture/services, improving governance/infrastructure (roads, energy), investing in human capital (education/skills, boosting local processing (value chains), fostering small businesses, and leveraging renewable energy to create inclusive, sustainable growth beyond resources extraction, addressing poverty and unemployment.

Diversification

The agriculture sector should shift from subsistence farming to market- oriented mechanized agriculture with better technology to boost rice/rubber production, reduce food insecurity, and create jobs, notes this World Bank article and this SCIRP publication. Small and Medium- sized Enterprises (SMEs) face difficulties accessing credit, and the banking system is generally weak, with no domestic stock market. Increasing finance in Liberia's economy requires a multi-pronged approach focused on enhancing financial inclusion, strengthening the regulatory environment, and mobilizing resources for key sectors like agriculture and infrastructure.

Target Key Economic Sectors

To finance agriculture, the government should develop specific financial products and initiatives, such as the agricultural stimulus initiative, to support farmers and cooperative, as agriculture employs the majority of the population and has significant growth potential, and investing in infrastructure where direct investment are directed towards improving poor infrastructure, including roads electricity supply, and internet access, which are critical barriers to business operations and financial service delivery.

Both India's and Liberia's economic systems have intricate tax laws and frequent changes, leading to confusion and high compliance costs for businesses and individuals. The significant time, cost, and resources businesses and individuals must spend to understand and follow extensive, often changing, laws and regulations, leading to high operational strain, potential for errors (like missed filings or data gaps), and significant financial outlays for staff, technology, and avoiding penalties, all while diverting focus from core growth. This burden stems from intricate tax codes, numerous data reporting formats, frequent updates, and fragmented systems, creating an "intention-action gap" between wanting to comply and effectively doing so. These complexities create a resource drain that requires substantial investment in trained personnel, new technology, audits, and documentation.

Corruption and Its Chilling Effect on the Economy

Corruption and weak enforcement have a profoundly negative impact on the Liberian economy, acting as

the primary constraint to national development and fostering widespread poverty, inequality, and instability. The lack of accountability creates a culture of impunity that erodes public trust and discourages both domestic economic activity and foreign investment. Corruption leads to the theft and misappropriation of public funds, particularly in the natural resource sectors like mining and forestry. This results in significant fiscal losses that deprive the government of revenue needed for vital public services and infrastructure projects, such as healthcare, education, and road maintenance.

Stifled Economic Activity and Investment

Corruption acts as a “tax” on businesses, increasing operating costs and creating an unpredictable regulatory environment that deters legitimate foreign and domestic investment.

It can hinder local production as studies have shown that corruption at the local level can reduce income-generating activities, such as rice planting and trade, by as much as 50%. The challenges within the formal regulatory system drive many people into illicit or informal trade (e.g., smuggling of gold, diamonds, and timber) as a means of survival, further reducing state revenue and oversight.

Corruption also weakens institutions and contributes to poor governance; the lack of effective law enforcement and judicial independence means corrupt officials are rarely prosecuted, which perpetuates the cycle of corruption. This systemic dysfunction results in a culture of impunity, where individuals in power believe they are above the law. It erodes the rule of law, making it difficult to enforce contracts and property rights. It creates incompetent leadership, as positions are often filled through nepotism and cronyism rather than merit, leading to poor policy implementation and mismanagement. Furthermore, it increases poverty and inequality, wherein the burden of corruption falls disproportionately on the poor, who often have to pay bribes for basic public services like healthcare and education. This deepens existing poverty and inequality, as resources meant for development are siphoned off by the elite. In essence, the combination of pervasive corruption and a weak enforcement system has prevented Liberia from translating its niche natural resources into sustainable economic growth and improved living standards for citizens. Similarly, in India, corruption is fundamentally linked to enforcement mechanisms; such mechanism is both a major cause and a key consequence of pervasive corruption. Corruption thrives in an environment where laws and regulations are inconsistently applied or ignored with impunity.

Tax Evasion and the Informal Economy

A significant portion of economic activity in both countries occurs in the informal sector, making it difficult to tax, resulting in widespread tax evasion and a parallel economy. Tax evasion fuels the informal economy by allowing undeclared income, creating a parallel system that undermines formal businesses, reduces government revenue for public services, distorts markets, and hinders overall economic growth, leading to unfair competition where compliant taxpayers are disadvantaged. The informal sector, in turn, thrives on these evasion tactics, with both independent, often driven by high taxes, corruption, and complex regulations, creating a cycle of informality and hidden transactions. Although avoiding taxes makes operating informally more profitable and attracts more participants, informal businesses can gain an edge over formal businesses by paying full taxes and pushing them more into the shadows. In essence, tax evasion and the informal economy form a self-reinforcing cycle, creating significant economic challenges, particularly in developing nations. Businesses in India and Liberia evade taxes through methods such as hiding income, using false financial statements, and leveraging offshore accounts, which

significantly harm their respective economic developments by reducing government revenue and increasing inequality.

Methods of Tax Evasion Employed by Businesses

Businesses in both nations use a range of illegal methods, often exploiting legal loopholes or weak enforcement. Underreporting/concealing income is also used wherein businesses deliberately declare less income, profits, or gains than actually earned to lower their tax liability. This often involves not reporting cash transactions, which are harder to trace. Additionally, falsifying financial statements involves creating fake invoices to overstate expenses or overvalue deductions, which artificially lowers the taxable profit. Using offshore Accounts and Shell Companies are additional means wherein companies, especially multinational corporations (MNCs), establish shell companies in tax havens to funnel income and hides wealth from domestic tax authorities. MNCs manipulate the prices of goods /services transferred between their affiliated companies in different countries to shift profit. From high-tax jurisdictions (like India or Liberia) to low-tax ones. In Liberia, smuggling is a method used to avoid paying customs duties and other import export taxes on goods transported across borders illegally. Interestingly, in both countries, instances of bribery among tax officials can facilitate tax evasion, as officials may accept bribes to ignore non-compliance alter tax records.

Impact on Economic Development

The consequences of widespread business tax evasion are detrimental to the economic development of India and Liberia. The primary impact is the significant loss of critical tax revenue needed to fund essential public services like infrastructure, healthcare, and education. Tax evasion disproportionately benefits the wealthy and large corporations, while placing a higher burden on honest, often middle-class, taxpayers. It exacerbates inequality and the gap between the rich and the poor. Businesses that evade taxes gain an unfair competitive advantage over compliant domestic companies, hindering the growth of local enterprises.

This also weakens financial stability and capital flight, wherein the outflow of funds to tax havens and the creation of an underground economy weaken the domestic financial system and stifle domestic investment and growth, with widespread corruption and non-compliance reducing public trust in government and tax administration, creating a vicious cycle of further evasion and a lack of civic duty.

Reliance on Indirect Taxes

Both countries rely heavily on indirect taxes (such as consumption taxes), which disproportionately affect low-income earners and contribute to inequality. Provides governments with stable revenue for spending, but raises concerns about regressivity, hitting the poor harder as they spend more on essentials. While easy to collect and good for controlling harmful consumption, heavy reliance can increase inequality, reduce disposable income for low-income families, and burden a few taxpayers, necessitating a balance with direct taxes (income tax) for fairness, though this can be complex. In the Indian economy as of 2025, indirect taxes primarily affect low-income earners through their regressive nature. Meaning the tax rate is uniform regardless of a person's income level.

Direct vs. Indirect Tax Imbalance and Its Impact on Low-Income Earners

Limited Direct Tax Base: Only about 2-3% of Indians pay direct income tax, meaning the government

relies heavily on indirect taxes to fund public services⁹. These places the “heavy lifting” of revenue generation on the masses through consumption. In the Liberian economy, indirect taxes, such as the Goods and Services Tax (GST) and customs duties in Liberia, disproportionately affect low-income earners because these taxes are regressive in nature. This means that low-income households spend a larger proportion of their total income on these taxes compared to high-income households, thus exacerbating economic inequality and poverty.

Indirect taxes are embedded in the price of goods and services, including essentials like food and energy. Since low-income individuals spend a larger share of their earnings on these basic necessities, a greater portion of their income is consumed by taxes, leaving less for saving or other needs. The increase in price due to indirect taxation reduces the overall purchasing power of low-income earners, potentially leading to decreased demand for goods and services across the economy, while richer individuals may pay more in absolute tax terms, the tax burden as a percentage of income is higher for the poor, working against social equity goals and potentially widening the income gap in Liberia. The eroded disposable income can limit the ability of poor workers to meet the economic needs of their families, potentially depriving them of the capacity to save and invest for the future.

Policy Context in Liberia and Its Enforcement and Effectiveness

The Liberian government has increasingly relied on indirect taxes for revenue generation, which has raised concerns about equity. Policy makers are encouraged to consider measures to mitigate the adverse effects, such as introducing exemptions for essential goods from consumption taxes or channeling tax revenue into targeted social welfare programs to support vulnerable populations. Liberia is currently transitioning from GST (which had a standard rate of 10% and is set to be replaced by a VAT with a proposed rate of 18%) to a value-added tax system, a change that will need careful management to avoid further negative impacts on the poor.

The Central Bank of Liberia (CBL) promotes development via its Development Finance section, Supporting real sector growth, digitalization, and financial inclusion, while modernizing monetary policy (interest-rate based) to control inflations, with broader national efforts focusing on tax reform (GST to VAT), enhanced administration via information communication technology, and SME tax relief to broaden the revenue base and fund public needs, despite challenges like corruption and weak institutions. In a context of growing complexities of development cooperation, Liberia’s journey in implementing its Domestic Revenue Mobilization (DRM) strategy, under the auspices of the Liberia Revenue Authority (LRA), represents a remarkable case of boosting the revenue base while reforming the underlying tax system¹⁰.

Central bank monetary policy supports economic development by managing money’ supply and credit to stabilize prices, encourage investment, and promote employment, primarily through adjusting interest rates (repo/discount rate) and bank reserve requirements, which influences borrowing cost for consumers and businesses, boosting spending, capital formation, and overall economic growth while maintaining

⁹ What is Taxed and Why; Direct and Indirect Taxes, Last Visited January 21, 2026

https://apps.irs.gov/app/understandingTaxes/student/whys_thm04_les04.jsp

¹⁰ Fruitful Cooperation in Domestic Revenue Mobilization Between ATI Members, Liberia’s Path to Enhanced Domestic Revenue: The Power of Strategic DRM Reform. Last Visited January 19,2026

[https://www.citethisforme.com/cite/website/autocite?q=https%3A%2F%2Fwww.imf.org%2Fexternal%2Fnp%2Fins%2Fenglis%2Fcapacity_countries_pf_liberia.htm%23%3A~%3Atext%3DWith%2520support%2520from%2520the%2520Revenue%2CLiberia%2520Revenue%2520Authority%2520\(LRA\).](https://www.citethisforme.com/cite/website/autocite?q=https%3A%2F%2Fwww.imf.org%2Fexternal%2Fnp%2Fins%2Fenglis%2Fcapacity_countries_pf_liberia.htm%23%3A~%3Atext%3DWith%2520support%2520from%2520the%2520Revenue%2CLiberia%2520Revenue%2520Authority%2520(LRA).)

financial stability. Tools like open market operations (buying/selling bonds) inject or withdraw liquidity, stimulating or cooling the economy as needed.

The Central Bank of Liberia (CBL) implements development. Finance policy for taxation by focusing on domestic resource mobilization (DRM) through broader tax bases (like VAT transition), financial sector deepening (digital finance), to boost revenue, reduce aid dependency, and fund national priorities, working with partners like the World Bank on plans like the Financial Sector Development Implementation Plan (FSDIP). With support from the Revenue Mobilization Trust Fund, the Liberian authorities developed an extensive reform program in consultation with the IMF to underpin revenue mobilization/ this program focuses on establishing a robust organizational structure, strengthening core functions such as audit and taxpayer services, building capacity through training and coaching, and laying the groundwork for the transition to a revenue authority. Strong leadership with a clear vision was crucial in designing and implementing the reform strategy. The IMF worked closely with multiple donors, including the African Development Bank, the World Bank, and the U. S¹¹. Treasury, to support Liberia with these reforms. The IMF's support continued during the Ebola crisis, via off-site capacity development missions and effective use of technology to improve capacity in sector audits, enhance the design and implementation of the computerized tax system, and complete the legal and institutional framework to establish the Liberia Revenue Authority (LRA)¹².

The Central Bank of Liberia (CBL) and the Liberia Revenue Authority (LRA) can collaborate on taxation by leveraging digital infrastructures for better data, modernizing payments, strengthening enforcement with digital IDs, and improving fiscal decentralization, ultimately boosting compliance and revenue mobilization through shared tech, improved financial inclusion, and coordinated policy. This involves using digital IDs for secure transactions, capabilities via data, and establishing county treasuries for better local financial management with CBL's help.

Context of Economic Policies Employed by the Indian Reserve Bank for the Enforcement and Implementation of Taxation

The Reserve Bank of India (RBI) uses monetary policy (interest rates, money supply tools like repo/reverse repo, CRR, SLR) to promote development (credit flow, investment, growth) and stability, while the government uses fiscal policy (taxes, spending) to manage revenue and development, with goals including broadening the tax base, simplifying GST, and fiscal consolidation, aiming to balance growth with controlling deficits, often coordinating with monetary policy.

The RBI supports economic development through monetary policy by managing money supply and credit primarily via the Monetary Policy Committee (MPC), using tools like Repo Rate, CRR, SLR and OMOs to balance growth (cheaper loans, more spending) with inflation control (costlier borrowing, stable prices while its role in tax challenges' is indirect, focusing on financial system health and development not direct tax setting.

The Reserve Bank of India (RBI) supports development finance by ensuring credit flow to key sectors (agriculture, MSMEs), building financial infrastructure (like creating institutions for rural/industrial

¹¹ IMF Capacity Development, Last Visited January 21, 2026

https://www.imf.org/external/np/ins/english/capacity_countries_pf_liberia.htm

¹² Capacity Development, International Development, Last Visited January 19, 2026

[https://www.imf.org/external/np/ins/english/capacity_countries_pf_liberia.htm#:~:text=With%20support%20from%20the%20Revenue,Liberia%20Revenue%20Authority%20\(LRA\).](https://www.imf.org/external/np/ins/english/capacity_countries_pf_liberia.htm#:~:text=With%20support%20from%20the%20Revenue,Liberia%20Revenue%20Authority%20(LRA).)

finance), promoting financial inclusion (PMJDY), managing monetary policy for stability, and stability through tools like interest rates, CRR, and developmental regulations.

The reserve bank of India (RBI) addresses taxation challenges indirectly through monetary policy, promoting financial inclusion, and managing liquidity, while also coordinating with the government on tax reforms like GST; key actions include using interest rates to curb inflation (linked to tax impacts) demonetization to fight evasion (2016), and fostering digital payments to formalize the economy, making it harder to evade taxes, and supporting the government's goal of broadening the tax base for economic stability according to sources. The bank effected a demonetization of the Indian rupee (INR) in 2016, removing Rs. 500 and Rs. 1000 notes from circulation, eliminating nearly 86% of its money overnight. The move aimed to stop counterfeiting, hoarding, and terrorism-related activities. Another major motivation was to stop tax evasion in a country where only 1% of citizens reportedly paid income taxes in 2013. The central bank must also grapple with a slightly volatile inflation rate. The RBI Act of 1934 requires the bank and the federal government to consult with one another to come up with a suitable inflation target¹³. As of April 2021, the RBI reported a target rate of 4%, the highest level reaching 6%, while the lowest hung in around 2%. This target will remain for the five -year period from April 1, 2021, to March 31, 2026¹⁴.

Suggested Economic Advancement for Effective Implementation of Tax Laws and Regulation in India and Liberia

To advance Liberia's economy through effective tax law implementation, strategies should focus on strengthening the Liberia Revenue Authority (LRA) capacity, modernizing tax administration (like shifting to (VAT), broadening the tax base, leveraging technology (e-procurement, software), enhancing compliance through taxpayer education, and ensuring incentives drive productive investment, all while improving expenditure efficiency for sustainable growth. Key actions involve integrating digital systems, improving the audit function, fostering private sector understanding, and aligning with regional standards like ECOWAS. For effective tax law implementation in India, focus on simplification, digitalization, and fairness, achieved the rough clearer laws, leveraging AI/ tech for compliance (e-filing, data analytics), reducing exemptions, aligning globally (BEPS), ensuring taxpayer rights, and introducing modern frameworks for digital economies (gig, e-commerce) to broaden the base, boost voluntary compliance, and enhance economic efficiency, moving towards a technology-drive, trusted system. In terms of making clearer legislation, the government should move towards plain language, logical restructuring, and clearer definitions to reduce taxpayer confusion and litigation, as seen with the emerging Income Tax Act, 2025¹⁵.

Conclusions

In conclusion, both India and Liberia face a critical crossroads in 2026, where the modernization of the tax system is essential to securing national sovereignty and funding public services, while India deals with

¹³ Investigate Why the Reserve Bank of India is Key to Economic Growth, December 10, 2025
<https://www.investopedia.com/articles/investing/112614/increasing-importance-reserve-bank-india.asp>

¹⁴ How the Reserve bank of India Impact the Growth and Development of the Indian Economy
Dr. Samiya Mubeen, December 1, 2021
<https://www.iibs.edu.in/news/how-the-reserve-bank-of-india-impact-the-growth-and-development-of-the-indian-economy-mba-courses-in-bengaluru-513#:~:text=The%20bank%20affected%20a%20demonetization,bank%20set%20it%20at%206%25.>

¹⁵ Income Tax (Bill No. 2 of 2025) Act of Parliament

the complexities of a massive, digitalizing economy and Liberia works to build a formal tax foundation, both nations suffer from revenue leakage that prevents them from reaching their full economic potential. The primary challenge in both economies is the narrow tax base. In India, the policy focus remains on simplifying the direct tax code to reduce litigation and increase compliance among a small percentage of the population that carries the tax burden. In Liberia, the challenge is structural; the 2026 transition from a Goods and Services Tax (GST) to a Value Added Tax (VAT) is a necessary but difficult shift aimed at eliminating ‘tax cascading’ and capturing revenue from the informal sector.

The Income Tax Department of India and the Liberia Revenue Authority (LRA) serve as the frontline of national development. In India, the revenue house is increasingly reliant on AI and data and analytics to catch evasion, yet it must balance this with ‘taxpayer friendliness to avoid stifling investment. In Liberia, the LRA is focused on transparency and reducing exemptions, as nearly 30% of potential revenue is currently lost to tax breaks and concessions.

The Reserve Bank of India (RBI) and the Central Bank of Liberia (CBL) play a supportive but vital role in revenue stability. By managing inflation and stabilizing the national currency, these central banks ensure that the ‘real value’ of the taxes collected by the government does not evaporate. In 2026, the efforts to promote digital payments, such as India’s UPI and Liberia’s mobile money expansion, are directly helping revenue houses track transactions that were previously invisible to the tax collector.

Ultimately, the case studies of India and Liberia show that while technology and policy shifts are important, the greatest effect on national revenue comes from building trust. When taxpayers see that their contributions are managed transparently by the revenue house and protected from inflation by the central bank, compliance increases, fiscal deficits shrink, and the nation gains the financial independence required for sustainable growth.

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