

Tax Administrative Burdens in Zanzibar is High for Tourism Industry: What Should be Done?

- Introduction
- Need for Changes
- Proposed Changes
- Advantages of the Proposed Changes

Policy Reform Recommendations

- A taxpayer spends TZS 1,428,000 annually in complying with tax laws in Zanzibar.
- Prompt actions are needed to reduce this tax administration burden.
- The government should consolidate taxes and fees; introduce an electronic tax system; eliminate duplication of information to government agencies; make business owners aware of new regulations and create call centres to reduce tax administrative burdens.

Introduction

The main complaint raised by Zanzibar tourism taxpayers concerns the level of complexity and uncertainty of tax regulations and the attendant administrative burden. Indeed, taxpayers spend time and money on a myriad of tax-related activities. These activities include dealing with information retrieval, requests for information to meet different requirements, keeping information, and form completion. Moreover, they have to travel to and from tax authorities, file tax returns, pay taxes, seek clarifications and register for tax purposes, seek professional advice and understand new tax laws.

The causes of these burdens include the prevailing weak payment and filing system, and unco-ordinated taxes, levies, and fees; too much paper work; and uncertainty of tax laws caused by frequent and untimely change of tax laws. In numerical terms, the costs of this tax administrative burden of ‘red tape’ for taxpayers is estimated to stand at Tshs 7.14 billion (See Box 1). Moreover, these bottlenecks threaten business growth and entry, innovation, efficiency, and even tax compliance.

BOX 1: Estimated Costs of Tax Administrative Burden in Zanzibar

The current tax compliance system costs TZS 1,428,000 per annum in terms of printing/photocopying, travelling to and from tax authorities, processing information, consultants’ costs and costs associated with dealing with disputes. As Zanzibar has an estimated 5,000 registered taxpayers, when this cost is extrapolated the impact of tax administrative costs amounts to Tshs 7,140,000,000. These costs are computed using unit costs found in the Doing Business in Zanzibar (2010) report and Zaki and Alex (2010) in the Tanzania tourism sector. Improving the current regulations and simplifying the tax administration process would return resources worth Tshs 3,570,000,000 annually to the Zanzibar economy. This amount could create around 30,000 transitory jobs in the labour intensive tourism sector.

NEED FOR CHANGE

The Zanzibar government in an effort to reduce the unnecessary tax administrative burden has been making necessary adjustments, including amending and consolidating tax laws, establishing taxpayer education departments, and introducing 'one-stop shops' by having a bank branch next to a tax office. Regardless of these efforts, the Zanzibar taxation system remains too complex: taxpayers waste a lot of time in queues of bank halls and on visits to the Tanzania Revenue Authority (TRA)-Zanzibar, Zanzibar Revenue Board (ZRB), Local Government Authorities (LGAs) and bank branches. The Doing Business Report (2010) illustrates that a typical medium-sized company in Zanzibar makes 48 payments annually and on average a taxpayer visits a bank 48 times. In addition, taxpayers have to physically submit their tax returns to TRA, ZRB, LGAs and other regulatory agencies. Moreover, when paying by cheque, tax payers have to visit the agencies for cheque endorsements before they were deposited in the bank. Above all, taxpayers have two different tax identification numbers for TRA-Zanzibar, and ZRB which makes the exercise of filling tax returns cumbersome to business. It is this regard that the Zanzibar government has to adopt critical reforms to ease tax administrative burdens.

PROPOSED CHANGES

Proposals to reduce tax administrative burdens:

- Consolidating taxes and fees;
- Introducing an electronic tax system;
- Elimination of duplication of information submitted to the government;
- Making business owners become aware of new regulations; and creating a call centre. These reforms could be implemented with support from the Investment Climate Facility for Africa, UNIDO and development partners interested in reducing barriers to doing business in developing countries.
- Introducing electronic tax (e-tax) system

Consolidating Taxes and Fees

Currently, on average medium-sized businesses make 48 payments annually to government agencies (**See Figure 1**). These payments include Pay As You Earn (PAYE), social security contribution, value-added tax, corporate tax and other fees. There should be a single payment and reporting of PAYE, Pension Funds, and Health Contributions because all of them are payable fifteen (15) days after the end of the month. Such a payment and reporting process would reduce the number of payments to 1 rather than three payments each time of payment. For instance, there is no need to have infrastructure taxes on petroleum levy of Tshs 1,000 per litre and excise duty of Tshs 1,000 per litre. Without reducing government revenue and increasing tax evasion, excise duty taxes could have been pegged at Tshs 2,000 to reduce tax administrative costs. However, the process requires a strong public-private partnership to establish feasible modality of harmonising their receipts.

Introducing Electronic Tax System (e-tax)

This system allows taxpayers to complete necessary documentation online and file returns faster; it is convenient and reduces interactions with tax authorities. Also, it speeds data processing up, improves data collection, reduces error rates, secures, access of 24 hours x 7 days a week and implicitly facilitates physical interactions of taxpayers and tax authorities. Besides, electronic filled returns are easily accessible, audited by tax authorities, and data entry activities are eliminated, which allow tax officials to focus on taxpayer support and compliance. A successful implementation of e-tax in Rwanda has reduced domestic tax process time from 23.5 days to only a few minutes (ICF, 2014). Now, no return, registration or payment is made electronically

Thus, Zanzibar government should introduce online tax registration, electronic issue of tax clearance; electronic filing of returns, and online payment to ease the tax administrative burden associated with filing and cut down on printing costs. The government should also work with banks linked to the tax revenue system to provide e-payment services to taxpayers.

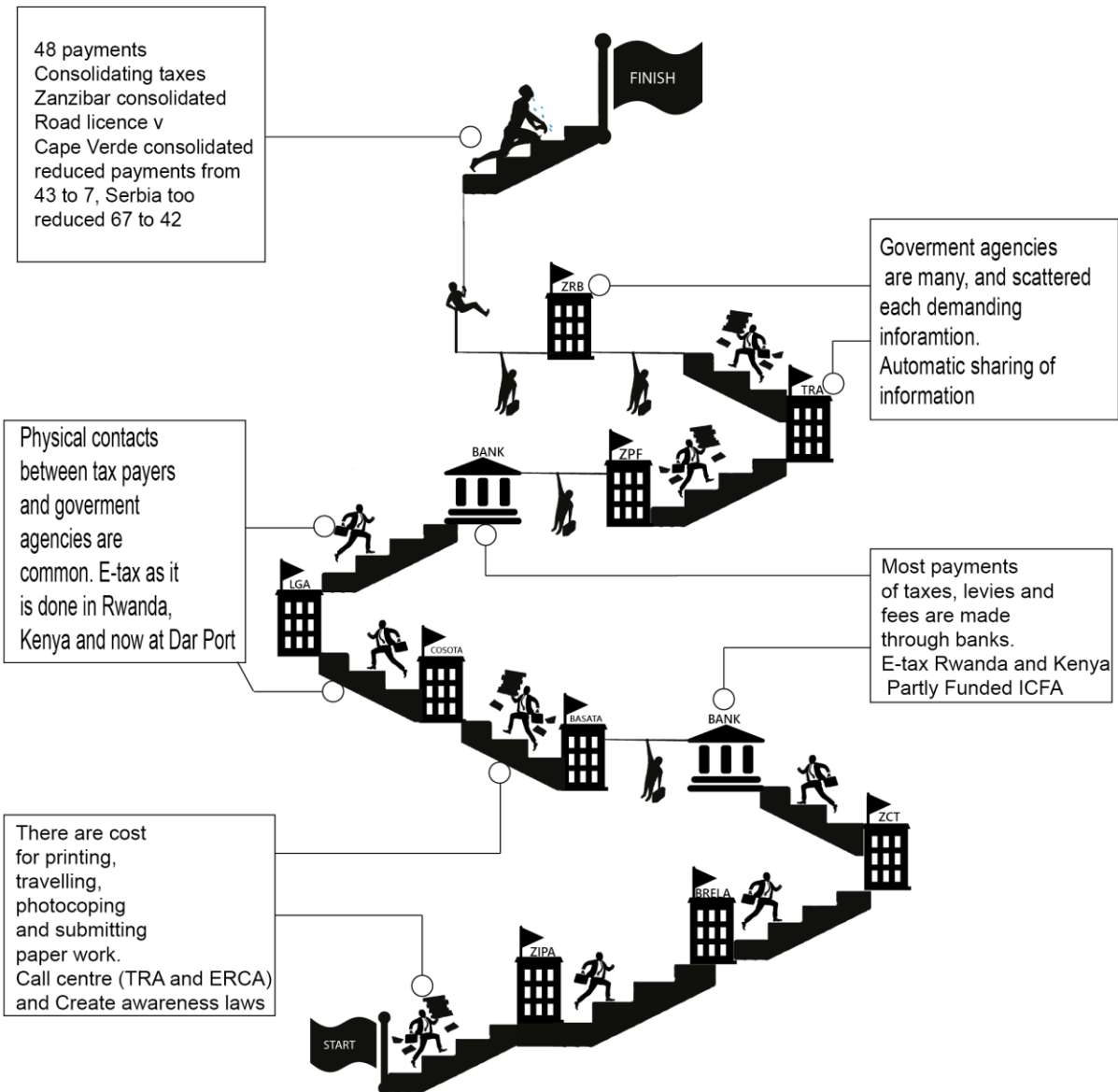


Figure 1: Zanzibar Tax Administrative Burdens

Furthermore, the e-tax system should not only be accessible through computers but also through mobile phones.

Similarly, the government should provide free Electronic Fiscal Devices (EFDs) to encourage the culture of record-keeping, enhance the proposed e-tax system, and give the government real time access to taxpayers' information (See Figure 2).

Elimination of Duplication of Information to Government agencies, and Creation of One-Stop Shop

Currently, businesses have to file annual returns to TRA-Zanzibar, ZRB, Business Registration Licencing Agency (BRELA), Local Government Authorities, Zanzibar Investment Promotion Agency and Zanzibar Tourism Commission. As though that were not enough, they also have to inform each authority about significant changes in shareholders or directors and addresses in the company. Also, there is a need for a more effective and efficient information sharing procedure between TRA Zanzibar and other authorities to reduce duplication in data submission and trim administration costs.

Also reform is necessary to enhance internal communication among tax collection authorities to allow for information sharing.

Making Business Owners Aware of New Regulations

Deficiency in taxpayer's knowledge regarding their tax obligations may lead to unintentional tax non-compliance and probably subsequent penalties. In fact, a study that informed this policy brief established that some taxpayers were unaware that input tax paid on Mainland Tanzania is no longer deductible in Zanzibar. This lack of awareness adds to the tax administrative burden as taxpayers have to re-do their returns, which inevitably heightens complaints about ZRB and sometimes leads to tax penalties.

Therefore, Zanzibar tax regime should consult with business persons before any change to

regulation takes place not only when a new regulation is made.

Creation of Call Centre

TRA-Zanzibar and ZRB have taxpayer education departments dedicated to providing tax information to taxpayers. To improve such information delivery, TRA and ZRB should jointly form a toll-free call centre equipped with tax experts to provide free-of-charge professional services tailored to meet taxpayers' particular information needs.

The creation of such a call centre can eliminate unnecessary travelling to and from taxpayer education departments, and, hence, reduce costs for businesses as well as facilitate the two administration entities' sharing of the limited resources. If the proposals—which are part of the ZRB 2nd corporate strategic objectives—are implemented, tax laws enforcement and compliance will not only be guaranteed but also the implementation of tax-related plans will be ascertained. Finally, an increase in compliance and tax collection is likely to result when the Zanzibar tax authorities develop a culture of voluntary compliance by offering quality taxpayer services.

Monitoring Tax Compliance Costs

As the Zanzibar tax authorities are not assessing the tax administrative burden, the effect of the administrative burden, attendant costs and benefits of government policies intended to reduce tax administrative burden remain largely unknown. In consequence, the simplification policies cannot be verified and neither can the tax administration reduction strategies. As such, the government can consider adopting and using the complexity index developed by the Office of Tax Simplification (2005), and the MISTRAL methodology, which was developed and employed in the Netherlands as these are easy and cheap to implement.

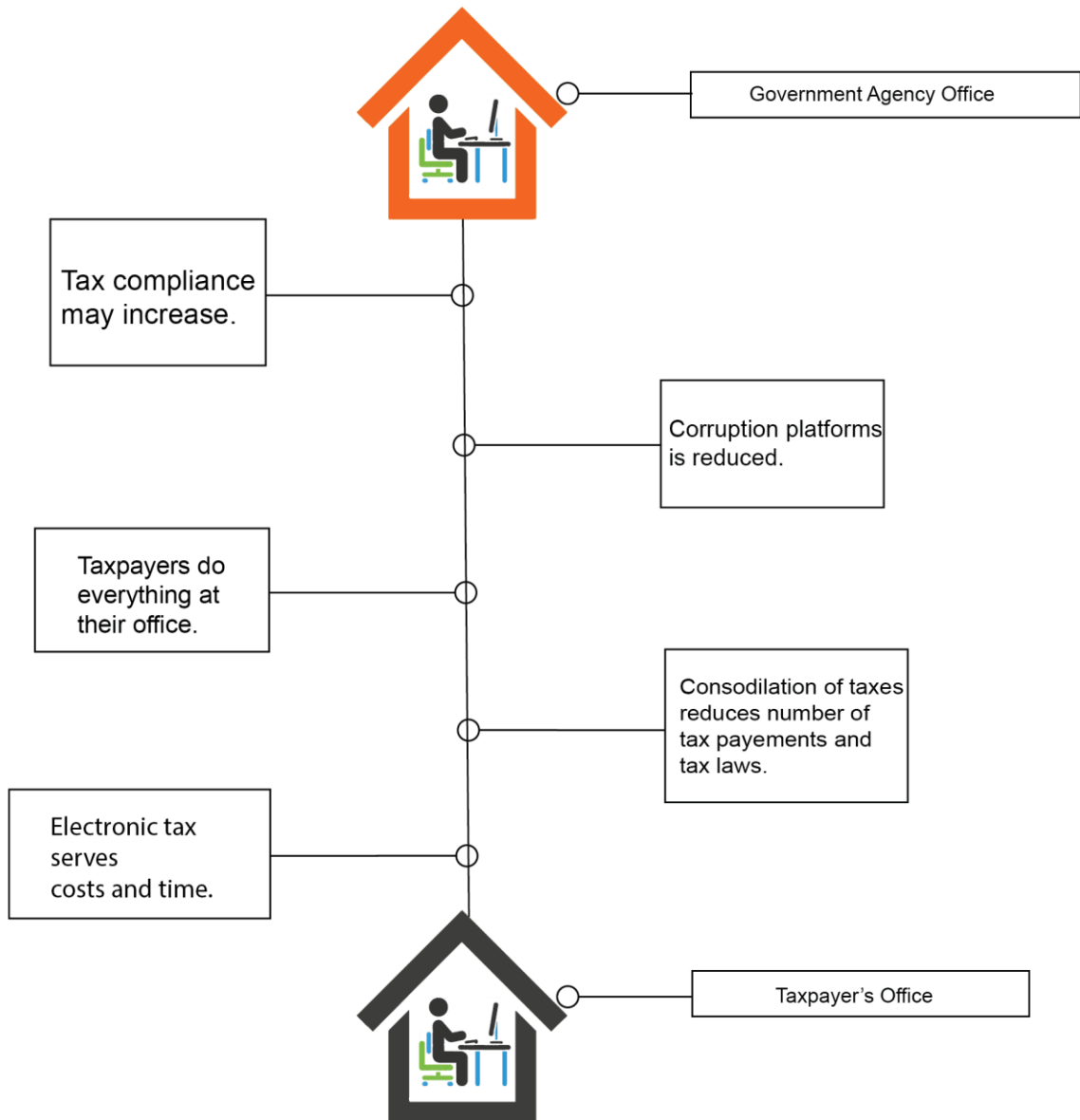


Figure 2: Electronic One-Stop-Shop and E-tax: Reducing Zanzibar Tax Administrative Burdens

Furthermore, the Zanzibar government should have specific targets, for instance, a 10% reduction in tax administration costs by 2017 to enable proper monitoring of progress.

ADVANTAGES OF PROPOSED CHANGES

The proposed changes should bring about a number of advantages, which include the following:

- Helping to meet the demands of the taxpayers for a simpler and payer-friendly tax system.
- Cutting the number of overlapping fees by half from the current ones.
- Increasing revenue substantially.
- Reducing the tax administration burden for both the businesses and the government
- Encouraging the establishment of new business venture through simplification of the systems and procedures.
- Modernisation of the Zanzibar tax system for TRA and ZRB to meet the objectives of their 4th and 3rd corporate strategies, respectively.
- Reduction of corruption due to enhanced transparency and simplified tax administrations.

REFERENCES

- <http://www.icf africa.org/news/electronic-tax-filing-and-payment-improves-business-climate-in-rwanda> (2014) [Date Retrieved 10 /11/2015]
- The World Bank (2010), Word Doing Business in Zanzibar 2010 Comparing Regulation in Zanzibar with 183 Economies Globally, Washington DC
- ZRB (2014), The ZRB third corporate plan (2014/2015-2018/2019)
- www.gov.uk/government/organisations/office-of-tax-simplification [Accessed on 7th September 2015]
- Zakie, R. and Alex. M (2010) Competitiveness Impacts of Business Environment Reform (CIBER) Regulatory constraints to the competitiveness of the tourism sector in Tanzania: platform for advocacy

Further Reading: This brief is an extract from a publication by ZATI, funded by BEST-Dialogue entitled ‘Assessment of Levied Taxes on Tourism Sector in Zanzibar: Implications for the Industry Growth 2016



Zanzibar Association of Tourism Investors
Post: P.O Box 2578, Zanzibar, Tanzania
Tel Mobile: +255 (0) 772 823234 | Email:
info@zati.org

Authors' contacts:

Dr. Deogratius Mahangila,
mahangiladeo@yahoo.com
Prof Wineaster, Anderson,
wineastera@gmail.com