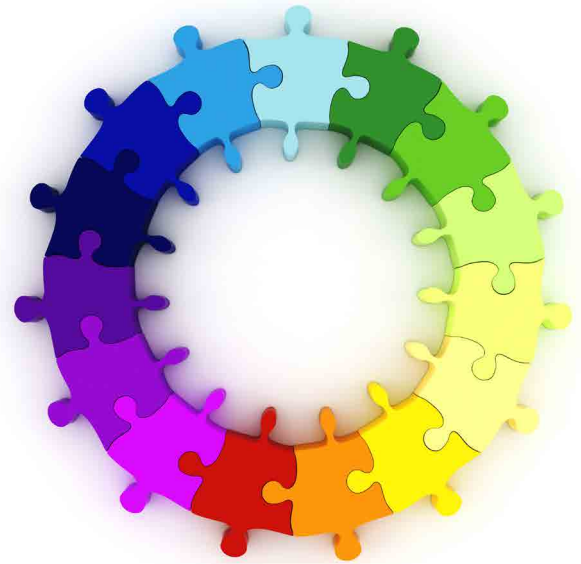


## Clarity – the overlooked characteristic of an effective taxation system



The history of taxation is often the history of a nation's economic evolution. Patterns of compliance rules, rates, exemptions, administrative policies and judgments all give heavy clues to the requirements of the society.

Since the age of tithes and levies starting with the Ancient Egyptians to present day with the convoluted and intertwined contemporary taxation environment, these levies, duties, tolls, excises, fees, charges, fines and penalties have been regarded as a bitter, but ultimately necessary, fact of life in any economy that wishes to prosper and thrive.

However, since time immemorial, the oft-quoted criticism from every quarter is that tax laws, regulations, assessments, computations and demands are all seen to be clouded and unclear, burdened with murky processes, ineffective decisions and biased conclusions based on subjective demands rather than the true objective, which is simply to raise revenue to fund public expenditure.

The reverse position must also be acknowledged. Blindly depending on people being willing and prompt in complying with their tax liabilities as citizens and residents of a country does not always go according to plan. Tax evasion, avoidance, deliberate non-compliance are part and parcel of life in a free economy.

Tax systems and implementation policies around the world can be vastly divergent and esoteric. The IRS tax code of the United States is widely reported to be a hefty 75,000 pages long. In Germany, "special expenses" or tax deductibles can be applied to almost every facet of personal and business life, from home roof repairs to your work briefcase. Vietnam has had to combat tax evasion with increasingly high levels of auditing and investigations, encumbering tax administration. India has a multi-layered, highly detailed structure of several competing states and territories administering taxes and rates. In contrast, the Eastern European states of Estonia and Latvia have been the focus of positive feedback from the international financial community for the simplicity of their tax legislation. Life might be expensive in New Zealand, but it has also received justifiable praise for its relatively clean and sharp taxation regulations.

Despite the differences in various tax systems, there is one area where all stakeholders come together and are usually in total agreement on. Tax laws are often not fit for purpose. Just like with cybercrime legislation, taxation statutes are sometimes slow to respond to the needs of modern societies and governments are always playing a game of catch-up with the new ways of earning, spending and investing tax money. Tax administration as a result is becoming a complicated mess of enticing, demanding and coercing tax payers to meet their obligations. Moreover, very often a genuine willingness to meet tax requirements is hampered due to the barriers of bureaucracy and overzealous demands for payments that are neither justified nor in some cases even properly documented.

Tanzania has been lauded and praised for its commitment to a transition to an industrialized and attractive place to work, visit, do business with and invest in. That commitment has not flagged or wavered and the achievements of the nation in the face of externally imposed odds and barriers should not be waved off or dismissed. The importance and value of the solid domestic tax base to



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avoid unsustainable resource dependency and ultimately replace external aid with steady tax revenues needs to be acknowledged by all.

Tanzanian tax law did not arrive fully formed and intact with the birth of the nation. It was not enacted all together or at once, but is the result of decades of short-term goals, political interests, lobbying efforts and the always thirsty demand for new infrastructure and incentives for the encouragement of new businesses in important sectors of economy along with subsidies for education, preservation of pastoral and cultural life and certain tax breaks to draw in new investments. These are not in and of themselves negative or damaging – we all understand that tax reform is a Herculean task, which will never end. However, tax legislation should be carefully crafted so that it does not lead to uncertainty, which usually discourages further investments into the economy.

The keystone of an effective and efficient tax framework must be clarity of law. It is the soil and bedrock from which the other features that we studied in school can thrive – adequacy, fairness, transparency. Clarity also involves embracing technology to inform the tax-payers in clear and simple terms of their rights and obligations. This information must be relevant, clear, timely and frequent. Tanzania should embrace the strong and growing rate of internet accessibility and work to increase the digitization of records and information. This can only lead to positive outcomes. Clear and easily accessible communications to the public will assist in educating the businesses and population and, as a result, broadening the tax base as well as hugely reduce opportunities for corruption and misinformation. This solution does not require re-inventing the wheel. Simply find what is already working in other developing nations and use it as a base. There is no trademark or intellectual ownership of good governance and administration.

Increased clarity of laws and open, honest and constant exchange of information between the stakeholders (taxpayer to authority, government to taxpayer etc.) should in an ideal world result in a creation of an attractive, fair and highly effective tax system – step by step, case by case, ruling by ruling. Honest mistakes should not be overly-penalized, nor should anyone be afraid to make a decision.

When people are unafraid of being truthful, when consequences for mistakes are not worse than the consequences for lack of action, this can only benefit everyone. A more welcoming and business-friendly tax authority will ultimately end with a significantly broader tax base which will take enormous pressure off the relatively narrow pool of corporate and individual taxpayers who are always a target for attack. These actions will consequently generate more revenue to flow in the virtuous circle between government and citizens. Recently, a cross-section of Tanzanian business owners met with President Magafuli to discuss barriers to success. It was a lively and honest meeting, the President clearly acknowledging the frustration felt by the domestic commercial community with misunderstood directives from tax authorities, overly intricate processes and sometimes bullish demands for compliance without proper guidance. The overall tone of the meeting was a desire on both “sides” to cast more light. Sunshine is after all, the best disinfectant.

It is not for the scope of this article to comment on or attempt to influence the policy decisions of a tax system. It is only to remind us that we must always return to the beginning. Tax legislation can and should be as clear as possible in order to avoid misinterpretations by any of the stakeholders. Only then can taxpayers be informed and educated in such a way as to reduce confusion and resentment, all leading to that most hated by a government – non-compliance. Coherency and clarity of the tax legislation and continuous communication of taxpayers’ rights and obligations to their society can only result in greater accountability and more sustainable revenue generation which will keep Tanzania on its road to wealth and economic independence.

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