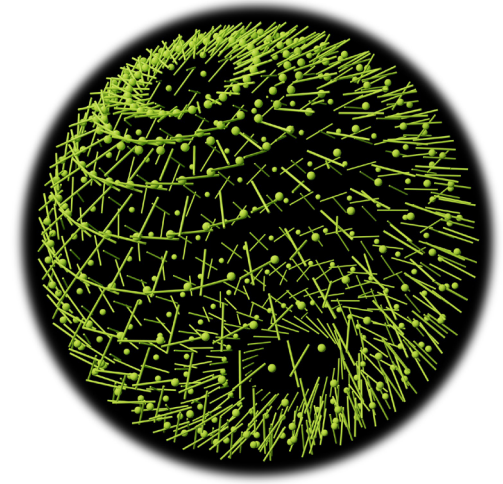


Tax resilience in the face of uncertainty



The adage that the truly certain things in life are only death and taxes continues to hold. Whatever plans we had for 2020 seem to have vanished. The world is experiencing an unprecedented time whose remotest comparison happened over a century ago in the form of the Spanish flu. The COVID-19 crisis has not only exposed the fragility of health systems around the world, but the financial fragility of firms, individuals and governments.

Everyone is talking about resilience, and for a good reason. Governments have to be resilient because they need to weather the health crisis whose global effects are yet to be measured. Firms have to be resilient as they deal with supply chain disruptions and drops or rises in demand of some of their products depending on the industries they operate in. Policy makers have to attempt to make financial systems resilient so that a health crisis does not morph into an economic crisis. Families and individuals have to be resilient as their lives are disrupted.

This is no time to prophesy, but I think there are a few things we are fairly certain of. Looking at those things, we can build resilience in terms of the tax paying ecosystem between taxpayers and revenue authorities. The first thing we are certain of is that nobody knows how this crisis will unfold both globally and locally. We can all postulate, theorise and extrapolate all we want, but there is no crystal ball for this situation. Some European countries, and here in our continent, South Africa, had lock downs and are slowly reopening, but that does not guarantee anything.

In the face of so many unknowns and certain disruptions, it is not prudent to assume that the tax system will not be affected. Taxes rise and fall as a product of economic activity. But resilience is not about being static. It is about collaborating, anticipating and adapting to the changes that will come. Some businesses are bound to have cash flow challenges which may strain their abilities to meet tax obligations, some businesses may have to revise their estimates.

Resilient businesses are the ones that will proactively engage with the revenue authority to align expectations and build good faith as we navigate the challenges of COVID-19. On the side of the revenue authority, it may be the case that as movement is restricted, business will shift to digital. Resilience will mean adapting quickly in order to tax those transactions. One thing is for certain, the surest way to mutual destruction is a lack of real time engagement and communication.

The second thing we know is that responses must be targeted and context specific if they are going to work. Some measures that have been taken by countries such as Kenya may need to be considered, but applied judiciously. For example, there are those that argue that broad-based cuts to personal and corporate income tax will disproportionately benefit larger businesses and wealthier individuals (given the fact the majority of the population is in the informal economy).

For Tanzania for example, an increase in the VAT threshold might benefit small firms from a compliance perspective. This has been a proposal by tax practitioners for a long time. Some targeted, temporary measures such as deadline extensions, payment deferrals or payments by smaller instalments as well as expediting VAT refunds can help ease cash flow issues while retaining the basic framework of the tax system. Other measures may be to allow tax deductibility of donations for companies that contribute to relief and COVID-19 fighting responses. Relief may also be targeted for those companies that can demonstrate good faith in retaining their staff during this period with a view of protecting employment.



Samwel Ndandala is a Senior Manager with Deloitte Consulting Limited. The views presented are his own and not necessarily those of Deloitte. He can be reached at sndandala@deloitte.co.tz

Other measures that may be useful are the suspension of interest and penalties during this period. The African Tax Administrators Forum has also recommended measures such as prioritizing key and essential services such that queries, clarifications and rulings involving essential goods such as food and medical supplies should be expedited while the processes and procedures relating to the importation of these goods should be streamlined and expedited to ensure that these goods reach those in need as soon as possible.

The last point I want to make was aptly summarized by Rahm Emmanuel, former mayor of Chicago and Barack Obama's chief of staff. He is credited with the quote, 'never waste a crisis'. I believe this unprecedented situation will concentrate minds and present opportunities we may have overlooked.

There is, I believe, no reason why employment taxes returns are still filed manually to date. There is also no reason why those returns must be filed separately. And when they are filed electronically, there would perhaps be no reason why there should be semi-annual returns in addition to the monthly returns. That is the power of technology. We have done it for VAT and withholding tax, and we have managed to set up a government electronic gateway system.

There is no reason we should not continue to leverage technology to make tax paying easier and predictable. That, to me is the clearest opportunity these uncertain times force us to consider, and we should not waste it.

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