

Book exposes how tax evasion, incentives underdevelop Africa

By Correspondent Daniel Semberya

TANZANIA'S economy is among the fastest growing economies in the world. However, tax incentives, tax evasion, tax avoidance and capital outflows to tax havens have been pinpointed as some of the factors limiting the benefits of economic growth for the common man.

It is estimated that African countries, relative to the size of their economies, lose more in corporate tax evasion than countries anywhere else in the world.

The book titled, 'Lifting the Veil of Secrecy: International Taxation and Capital Flight from Africa,' was launched on Friday in Dar es Salaam by Prof. Honest Prosper Ngowi, who is one of its editors.

Speaking at a breakfast meeting in Dar es Salaam organised by the Policy Forum (PF), Prof Ngowi said tax literacy in Africa was low as a large proportion of economically active citizens belonged to the informal sector, and the technicality of paying taxes was too complicated for them to understand.

The book, which lectures at Mzumbe University, said African countries, including Tanzania, lose huge amounts of money in tax evasion. He said most countries where tax evaders open accounts have been benefiting from their businesses and thus posing a big challenge in resolving the problem.

"It is very challenging because some of the countries benefit from this illegal business. Therefore, there is a need for countries to come together for a lasting solution," he said, adding:

"There is a need for the public and other key stakeholders to understand all issues regarding international taxation and illicit capital flight, and find ways to address them because there is a huge risky we can face in our economy," he urged.

According to him, the aim of the book which comprised 167 pages, was to expose issues relating to tax evasion and the importance of paying tax. The book also gives an overview of how tax evasion undermines the domestic tax bases in most African countries.

He further noted that although revenue administrations in some countries, including Rwanda, South Africa and Tanzania, have undertaken vigorous taxpayer education interventions, they still had a limited outreach as they have mainly concentrated in urban centres.

Commenting on the fight against tax evasion and capital flight from Africa to tax havens, Prof. Ngowi said joint efforts were needed from all key stakeholders including the media, civil societies and the international community to raise alarm.

The lecturer of economics said various studies showed that at least 30 per cent of all financial wealth held by Africans was illegally stashed in offshore tax havens across the world.

He therefore called on individual countries to play their role in this

matter. He however warned that this issue had to be addressed internationally.

Prof. Ngowi also called upon all key stakeholders and individual countries to ensure the money generated from commercial tax evasion, trade misinvoicing and abusive transfer pricing was not ending in sponsoring criminal activities, including drug trade, human trafficking, illegal arms dealing, smuggling of contraband, bribery and theft by corrupt government officials.

For his part, Professor Haji Semboja from the University of Dar es Salaam said that tax incentives per se were not bad and were recognized globally. For instance, he said large taxpayers who enjoyed tax incentives were paying 40 per cent of government revenue while another 40 per cent of the government revenue was collected from imported goods.

"You see, 80 per cent of the total revenue is not collected from indigenous Tanzanians. Indigenous Tanzanians pay only 3 per cent," he revealed.

For Prof. Semboja, tax incentives were beneficial to the government because they were well articulated in Tanzanian tax laws. He said tax incentives were attracting larger foreign and local investors in the country, who in turn encouraged production, employment, and paid revenues to the government, among other benefits.

He however warned that in order to curb the challenges faced in tax

incentives and other taxes and at the end for the government to generate its revenues efficiently, there should be a serious and an effective tax administration.

Commenting on illicit capital flight, Prof. Semboja said that there was nothing like that in the country. The problem to him was "the failure by the Tanzanian business community to invest in local and global economies efficiently."

Other findings in the book were that some African countries were among the fastest growing economies in the world. However, capital flows to tax havens were one factor limiting the benefits of economic growth for ordinary Africans. It was estimated that African countries, relative to the size of their economies, lost more in corporate tax evasion than countries anywhere else in the world.

Until recently, there had been little firm evidence on how the use of tax havens affected tax compliance, how it influenced lobbying activities towards the domestic tax system, and how tax havens shaped state-citizen relations.

Effective collection of property taxes requires constructive working relations between the central government revenue authority and the municipalities, independent of the mode of administration. Clear division of function and responsibility between the local and central governments was critical for effective policy implementation.

The administration of property taxes in Tanzania has seen major

changes in the last decade, oscillating between decentralised and centralised collection regimes.

"It is obvious now that many rich people escape from paying tax or they pay little contrary to the set principles and legal frameworks. They also stash financial wealth offshore," he said.

"Some big companies pay little tax because they shift profit from the country," he added.

Last year, the Bank of Tanzania (BoT) welcomed investigations on business tycoons and government officials alleged to have stashed away billions of shillings in offshore accounts, calling for cautious inquiries.

A report by the Swiss Central Bank released in June 2012 and the International Consortium of Investigative Journalists (ICIJ)'s investigation on leaked files published in February 2015 exposed some corrupt Tanzanians, including prominent tycoons and some top government officials, who had secretly stashed away a whopping Sh315.5bn and Sh205bn in Swiss banks, respectively.

The book project started in 2014 and it has been developed as a part of a research project on Taxation, Institution and Participation (TIP) led by Chr. Michelsen Institute, Norway, in collaboration with Mzumbe University Dar es Salaam campus college, Institute for Finance and Economics Zambia, and Tax Justice Network of Norway, among others.



Prof Honest Ngowi (L) stresses a point on taxation during a breakfast meeting that was organised by Policy Forum in Dar es Salaam on Friday. Right is Silas Olan'g. PHOTO: Policy Forum.