Book exposes how tax evasion, incentives underdevelop Africa

By Correspondent Daniel Sembeya

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, have 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 Hon. Prosper Ngowi, who was one of its editors.

Speaking at a breakfast meeting in Dar es Salaam organized 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 techniciens of paying taxes was too complicated for them to understand.

The don, who lectures at Mbarara University, said African countries, including Tanzania, have large amounts of money in tax havens. He said most countries where tax evaders open accounts have been beneficiary from their businesses and thus posing a big challenge in realizing the potential.

"It is very challenging because some of the countries benefit from this illegal business. Therefore, there is 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 risk we can face in our economy," he argued.

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 gave an overview of how tax evations undermine the domestic tax bases in most African countries.

He further noted that although revenue administrations in some countries, including Nigeria, 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, the civil society 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 foreign tax havens across the world.

He therefore called on individual countries to play their role in this matter. 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 Sebabou 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 also, 50 per cent of the total revenue is not collected from indigenous Tanzanians. Indigenous Tanzanians pay only 3 per cent," he revealed.

For Prof. Sebabou, 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 revenues efficiently, there should be a serious and an effective tax administration.

Commenting on illicit capital flight, Prof. Sebabou said that there was nothing like that in the country. The problem, he said, 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 rate 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, independence 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, with a shrinking number of decentralized and contracted collection regions.

"It is obvious now that many rich people escape paying tax or they pay little complicity in the nolle 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 dollars in offshore accounts, calling for caution in tax affairs.

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 2013 exposed more corrupt tax havens, including prominent tycoons and some top government officials, who had secretly stashed away a whopping Sh135.5tn and Sh265bn in Switzerland, respectively.

The book project started in 2014 and it has been developed as a part of a research project on Taxation, Institutions and Participation (TIP) led by Chr. Infeltore Institute, Norway, in collaboration with Mbarara University, the University of Dar es Salaam, the University of Cape Town, the Institute for Finance and Economics Zambian, and the Tax Justice Network of Nigeria, among others.

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