

# New tourism tax bad, Zati tells govt

**TAXATION.** The new tax – whose implementation is set to start in July – acts as a deterrent to the development of tourism in Zanzibar. It adds issues on the poor tax regime list which stakeholders have been complaining about for a couple of years

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Dar es Salaam. Zanzibar Finance minister Omar Yussuf Mzee's pre-budget speech did not impress tourist stakeholders as he proposed to introduce an infrastructure tax of \$1 per person per night for every guest staying in a hotel in Zanzibar.

The new tax – whose implementation is set to start in July – acts as a deterrent to the development of tourism in the semi-autonomous Indian Ocean archipelago.

It adds issues on the poor tax regime list which stakeholders have been complaining about for a couple of years.

The Zanzibar Association of Tourism Investors (Zati) said that the newly introduced tax will significantly affect the tourism industry.

"Zati understands that taxes are vital to ensure the provision of essential services that help communities and businesses to develop, but high tax rates and a complex business environment represent a major barrier to the ease of doing business and discourages investment," Zati chairman Omar Said Shaaban told *BusinessWeek*.

According to a recent pre-budget speech given by the minister of Finance, the government is planning to introduce a 'special tax' for the purpose of enhancing infrastructure.

The proposed taxes include the chaeg-



A tourist relaxes at a beach hotel in Zanzibar. An infrastructure tax has angered investors in the tourism industry. PHOTO | FILE

ing of \$1 dollar per person per night for every guest staying in a hotel in Zanzibar.

Other taxes that fall under this proposal include Sh2,000 for every passenger embarking at a port in Zanzibar for a port outside Zanzibar but within Tanzania, whereas Sh1,000 is paid by a passenger embarking at a port in Zanzibar for another port within Zanzibar.

To charge Sh2,000 for every passenger departing from an airport in Zanzibar to another airport within the United Republic of Tanzania.

To charge 3 per cent of all imports, to impose a charge of 2 per cent on electricity purchases, to charge Sh100 per litre of petrol or diesel on importation.

According to Zati all these will have a significant impact on the tourism industry.

"This proposal follows the opposed introduction of the VAT Amendment which Zati has been fighting to amend over the last year, and also the shortening of deadlines for submission of tax returns and payments. Despite considerable efforts to have a dialogue with the ministry of Finance, and the mutual agreement of a regular forum to discuss taxation issues, these key issues remain unresolved as the promise of a pre-budget meeting did not materialise," said Mr Shaaban.

According to Mr Shaaban, Zati is

about to start a public consultation to fully review the tourism tax regime but the BEST-Dialogue funded project is in its infancy "and it is felt that this matter cannot wait until the project is fully underway - and that Zati members must meet to raise their objections to this proposed tax as soon as possible."

There has been no consultation with the private sector, which completely ignores the Public Private Partnership Policy agreement, and we recommend that stakeholder consultation takes place before any changes to taxes/fees/levies are introduced.

The government, according to Zati must carefully consider whether it is committed to attracting investors when it considers raising costs, especially when it does so without consulting the private sector.

The Doing Business in Zanzibar 2010 report by The World Bank and International Finance Corporation position Zanzibar at 155 out of 183 countries in terms of ease of doing business... small island economies average at 91.

Doing Business in Zanzibar 2010 reports that: "In Zanzibar Town, a typical medium size company makes 48 payments, pays 40.8 per cent of its commercial profit in taxes, and spends 158 hours per year on tax compliance - including 26 hours for corporate income taxes, 60 hours for labour taxes and 72 hours for the value added tax (VAT).

"The Maldives are the global leader... with the lowest tax administration burden. Maldivian companies make one single property-transfer tax payment per year, which amounts to just 9.1 per cent of a company's commercial profit."

According to Zati, the government is regularly over burdening tourism investors with excessive fees and making it increasingly difficult to do business – "and it is important to note that many investors are not able to absorb excessive additional costs (particularly when introduced in such an unstrategic manner), and those that do survive will need to pass costs to tourists in their rates, making Zanzibar increasingly less competitive compared to other tourist destinations, and less attractive to investors," says Mr Shaaban.

Mr Shaaban is of the view that Zanzibar is at risk of pricing itself out of the market, resulting in a decline of investors and visitors - and inviting an economic downturn. It is already a common view that Zanzibar is an overly expensive destination, offering very little to justify this, other than its natural resources.

Last month Zati received funding totaling \$52,500 from BEST-Dialogue to research the tourism tax regime and develop a raft of proposals for the government aimed at improving the ease of doing business in Zanzibar.

According to Zati, simplifying the process of paying taxes will improve the ease of doing business, encourage compliance, stimulate economic growth and boost employment.

According to Mr Shaaban, Zati will be holding consultations with the public and private sector tourism stakeholders to research and prepare a position paper to be shared with the government.

"The paper will report findings and proposals aimed at encouraging improvements in the tax regime and the ease of doing business - which will in turn aim to improve compliance, stimulate economic growth and employment, and increase the confidence of investors," says Mr Shaaban.

According to Mr Shaaban, since Zati met the President in 2013, tourism has outperformed all other sectors by a large margin.

Over the ten year period 2000 to 2012 tourism achieved an average growth rate of 6.8 per cent yearly.

"As a result, tourism has increased its share of GDP from a single digit in 2004 to just over 27 per cent in 2012."

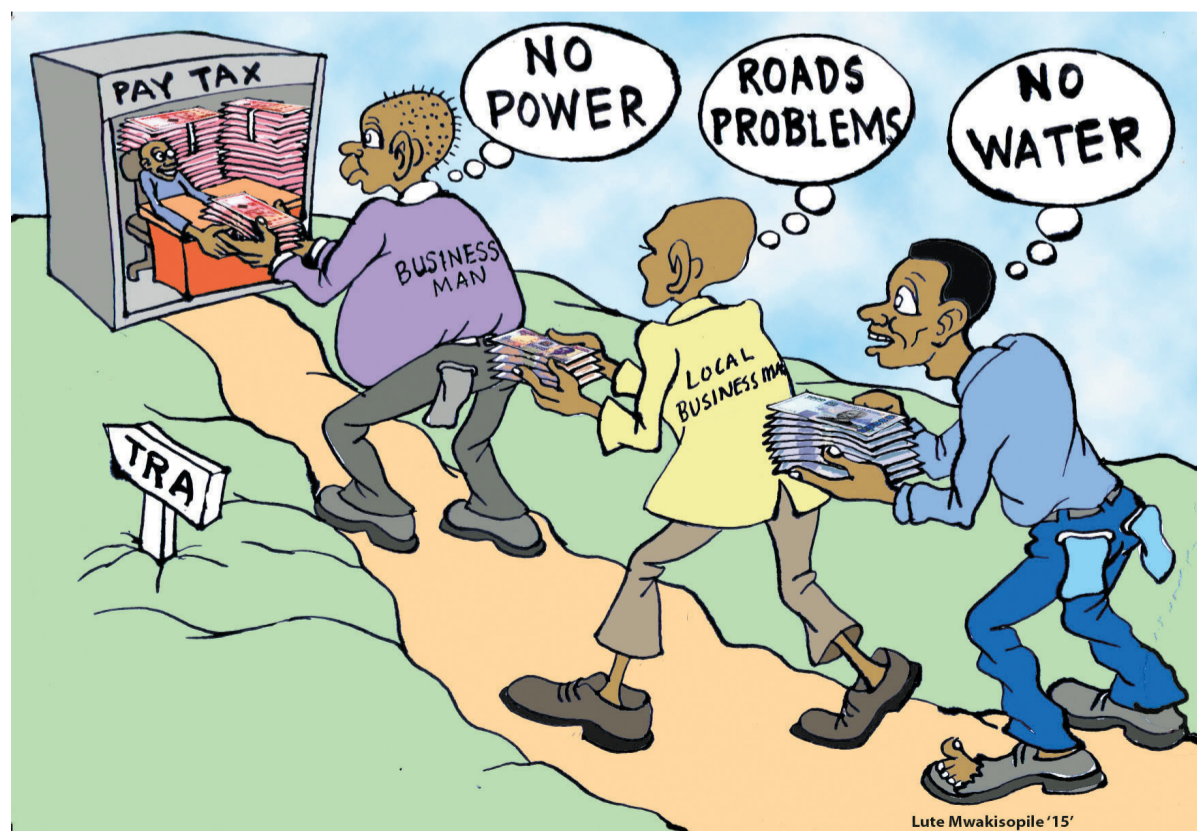
ZATI believes that improvements in the tax regime and the ease of doing business, will stimulate further economic growth – leading to increased contributions to GDP and Foreign Direct Investment, while boosting employment within the tourism sector and related industries.

Zati told *The Citizen* recently that from January to July 2014 Zanzibar received 13.96 per cent more tourists compared to the same period in 2013.

The island received a total of 106,390 tourist arrivals, higher than 93,351 that it received in the same period a year ago.

According to Zati, from January to July 2014 Zanzibar received 77,450 tourist arrivals via airport and 28,940 via sea port.

Zanzibar also received 49,929 domestic tourists in the same period - making a total of 156,319 tourists to date.



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