

# Abolish skills development levy, employers urge govt

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BusinessWeek reporter

**Dar es Salaam.** The Association of Tanzania employers (ATE) has urged the government to reduce the Skills and Development Levy it charges employers from six to two per cent as it increases the cost of doing business in the country.

The Vocational Education and Training Levy Act (2001) makes it mandatory for every employer (with the exception of government departments and any public institution that is non-profit making and wholly financed by the government) to pay a Skills Development Levy of six per cent of their wage bills (payroll).

And employers are on it that the paid amount does not fully benefit the private sector and that only 2 per cent of the total goes to finance the intended purpose.

"The intention of the levy was not bad, as it aimed to improve skills which are mostly needed by the private sector, but it is painful to note that only two per cent of the money we pay finances the intended skills," said ATE director of policy and advocacy Justina Lyela.

She was of the view that the private sector does not fully benefit from the levy they pay because many employers still spend their own cash to train their employees.

A 2010 tourism report titled Competitiveness impacts of Business Environment Reform (CIBER) estimated that at least 20 per cent to 40 per cent of in-house training investment is directed toward basic skills.

The report estimates that a large, locally-owned Hotel with a staff of 135, invests a total of Sh31.25 million each year for skills training.



Association of Tanzania Employers policy and advocacy director Justina Lyela at a past event. PHOTO | FILE

At the same time they are supposed to pay Sh8 million as SDL to the government each year.

"This investment amounts to 100 per cent to 900 per cent more than what the business is paying in terms of SDL and 20 per cent to 60 per cent of total payroll," says the report.

According to the report a small, locally-owned tour operating firm with five full-time staff and 10 temporary staff invests Sh5.8 million annually in skills training, and they are supposed to pay Sh615,000 as SDL.

"Both small and large tourism businesses invest a great deal in in-house skills training," says the report. The ATE Position Paper for Reduction of Skills and Development Levy says that the amount remitted to VETA is not sufficient. This constrains the vocational training authority from providing skills that are needed in the labor market today. "This not only limits the benefits to the employers of having well skilled employees without additional training costs but also positions Tanzanian labor force at the disadvantaged position to compete locally and internationally," says the report.

According to the Position Paper, this (four per cent SDL) additional tax as stated above worsens the already big challenge of weak business environment which the private sector has been complaining of.

"It makes Tanzanian employers pay more in terms of payroll cost... This makes the country uncompetitive in regional and global market," it reads.

And according to Ms Lyela, the SDL is very high compared to other countries in the region and worldwide. "Kenya for example pays only one per cent and only limited companies are supposed to pay... Besides, the levy is not applicable to Rwanda, Uganda and Burundi so you can imagine where SDL is putting Tanzania in terms of competitiveness," she noted.

According to the report, although Tanzania may seem as a model in financing skills in the region, this six per cent is too high and acts as disincentives for many private firms (informal) to join the formal economy.

In its 2011/12 budget speech the government indicated that the four

per cent of the SDL levy would be allocated to higher education students loans board (HESLB).

But ATE maintains that the fund is inappropriately allocated because employers already contribute to it through general taxes like corporate taxes and income taxes.

"The payment by the Tanzania employers of four per cent for higher education on top of the two per cent for vocational education implies double taxation to employers since it is the duty of the government through other taxes to invest in general education including higher learning," the ATE Position Paper reads.

It urges that currently employers find it very exorbitant to pay six per cent of their gross pay roll as SDL.

"They also find that, the levy is inappropriately used as it was targeted to fund vocational education training which is supposed to provide hands on, action-based, and performance driven skills compared to theoretical academic education which is provided by general education including higher education," says the report.

Ms Lyela told *The Citizen* that ATE has submitted the position paper for reduction of the SDL to the government two times, but the government is yet to take any action.

"In March last year we submitted the proposal but the government didn't approve it, we have re-submitted again in February this year...the Task Force for the Tax Reforms at the Ministry of Finance is currently working on it...we are hopeful our grievances will be considered this time around," She said.

She noted that employers employ a minimum number of people so as to minimize paying this levy which

## AT A GLANCE: SKILLS DEVELOPMENT LEVY

14. -(1) Subject to the provisions of this Part, there shall be charged,

levied and payable to the Commissioner at the end of every month, from every employer who has in his employment four or more employees, a levy to be known as the skills and development levy.

(2) The levy shall be the sum of money equal to six per centum of the total gross monthly emoluments payable by the employer to all his employees in respect of that month.

(3) For the purposes of this section "gross monthly emoluments" in relation to any employee includes wages, salary, leave pay, sick pay, payment in lieu of leave, fee, commission, bonus, gratuity and any subsistence, travelling entertainment or other allowance paid to him by the employer in respect of his employment or service, and any amount so paid in respect of employment or services rendered by the employee in any month other than the month in which it is paid, shall be deemed to be emoluments in respect of the calendar month in which it is paid.

(4) Where in any case an employer pays emoluments to any employee at intervals of less than a month or at intervals of greater than a month, the provisions of this Act shall apply as if such employee was entitled to monthly payments and the monthly chargeable emoluments.

in turn increases unemployment in the country.

"SDL inhibits growth of employment, because before employing any employer thinks of the burden of this levy," said Ms Lyela.

According to the ATE report SDL collected is still low as not all private sector members do comply with the requirements of the existing legal framework to make them eligible for paying due to a number of reasons including high taxation.

"Our estimation indicates that when several suggested reforms are executed this revenue could increase by more than 300 per cent," says the report.

According to the report by paying such high SDL many private firms prefer to work informally without registration as a way of avoiding the tax.

"As a result few formal businesses bear the burden of funding skill development in the country, while many informally operating private firms enjoy the benefit of using skills from Vocational colleges freely."



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