

CHALLENGES OF TAXATION IN THE TOURISM INDUSTRY: TANZANIA PERSPECTIVES

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ABSTRACT

This paper intends to serve as an early wake-up call for the need of reviewing and harmonizing taxes and levies imposed on the Tourism Industry in Tanzania. The research adopted qualitative method, involving 154 respondents who were drawn conveniently from over 1550 tourism stakeholders in the subsectors of accommodation, tour operations, tourism investors, travel operators, event organizers; tour guiding, arts and crafts, among others. Data were collected through focus group discussions (FGDs), Key Informant Interviews (KIIs) and field observations. The data gathered were processed and analysed qualitatively; the researcher first translated and categorized them into various themes and sub-themes basing on the research objectives and research questions in both FGDs and in-depth interviews guides. Data from the in-depth interviews were transcribed and analysed using thematic data analysis. Verbatim quotes were used to illustrate points of views during preparing this report. This study reveals that high tax rates coupled with multiplicity of these taxes within the government institutions hinder the development of sustainable conservation and tourism initiatives at the local and national level in Tanzania. Also, incoherent, lack of harmonisation of the taxes and multiplicity of taxes make Tanzania destination relatively expensive compared to other peer destinations in East and Southern Africa region. Over half of the tourism stakeholders, just pay taxes, levies and other charges ignorantly without awareness on the policies and laws associated to them. The tourism industry possesses stakeholders who largely not aware of the policy and legal aspects governing taxation. The lack of taxes compliance and tax avoidance in the tourism sector are attributed by multiple factors, which need to be mitigated. It was further observed that, despite the role played by various tourism associations and confederation in reforming the tourism business environment, a lot still needs to be done especially on the types of taxes and levies imposed on tourism industry in the country. This calls for a need of reviewing and harmonizing of all the taxes and levies imposed on the tourism services in the country for ensuring that Tanzania destination maintains its competitiveness.

Key words: Tourism, Destination, Competitiveness, Taxes and levies

INTRODUCTION

The tourism sector is one of the key sectors that contribute to the economy at the national and global levels. Before the COVID-19 pandemic, Tourism's contribution in terms of employment was 1 out of 4, and 10.3% (333 million) of the all the jobs, 10% (USD 9.6 trillion) of the global gross domestic product (GDP), and the expenditure for the international visitors stood at USD 1.8 trillion (6.8% of all total exports) globally (Batinoluho, 2022; Filep, King, & McKercher, 2022; Lim & To, 2022).

In Tanzania, the tourism sector's contribution stands at 17.6 percent of GDP, 25 percent of foreign exchange, 4.5 percent of total employment, and 10 percent of total investments (Batinoluho, 2022; Tryphone & Mkenda, 2022). Despite the Coronavirus Disease 2019 (COVID-19) global pandemic which severely affected the tourism industry in Tanzania, domestic tourism grew by 20.4 percent from 562,549 visitors in 2020 to 788,933 in 2021 with revenue increasing by 27.6 percent from TZS 9.7 billion in 2020 to TZS 12.4 billion in 2021 (Ministry of Natural Resources and Tourism [MNRT], 2022). Conversely, inbound tourism increased by 48.6 percent from 620,867 tourists in 2020 to 922,692 in 2021 with revenue increasing by 76 percent from US \$ 714.59 million in 2020 to US \$ 1,254.4 million in 2021 (MNRT, 2022).

Regulators have a key role to play in helping to maintain competitiveness in the tourism sector, and taxation is a core component of this. For example, a 2013 study which analysed the impact of a reduced VAT rate on tourism-related goods and services in Ireland showed that it significantly increased activity and employment across the industry.

Specifically, the reduction in the VAT rate applicable to tourism sectors from 13.5% to 9% increased activity in the industry by 16% (compared to the 12 months prior to the introduction of the reduce VAT rate) and increased employment by around 10,000 ((Skare & Kukurin, 2020). Of course, reducing the impact of taxes on the sector is only one side of the story, and this needs to be balanced with the desire to support the sector through suitable investments and expenditures, which are often facilitated by such taxes (Skare & Kukurin, 2020).

Price elasticity of demand for tourist services can be high and in these cases taxes and other levies may have a disproportionate impact on consumption patterns (J. L. Chen, Li, Liu, & MORGAN, 2021). Furthermore, the tourism sector is characterised by a large number of small and micro-sized businesses that often operate at low profit margins and lack significant capital buffers, meaning small changes in the tax system can mean the difference between viability and bankruptcy. These businesses may be particularly vulnerable to changes in their fixed cost base (for example, via increases in real estate taxes as opposed to profit taxes). Such businesses also face significant disruption through the rise of the sharing economy, which has introduced greater competition and in some cases may test the adequacy of the tax policies currently in place (J. L. Chen et al., 2021).

“MNRT has started to put in place a system where all categories of payments will be settled at one centre. The ministry was also going through laws and regulations with the aim to improve the Tourism Development Levy (TDL) payment system. The realignment of taxation in the

hospitality sector will also involve the local government authorities”. Said Hon. Dr Pindi Chana, the Minister for Natural Resources and Tourism at the 13th meeting of the Tanzania National Business Council (TNBC) in Dodoma.

The extent that tax increases are passed on to consumers, taxation of international tourism may lack the same degree of political accountability as other forms of domestic taxation (Büchs & Mattioli, 2022). This makes the tourism sector an attractive target for governments seeking to raise revenue, while also increasing the risk of policies being implemented that raise short-term revenues at the expense of long-term growth. It is in light of the tourism sector’s economic importance, and its unique sensitivities to regulation and taxation, the present study has been commissioned (Denstadli & Veisten, 2020). This paper intends to assess the taxes and levies ecosystem in the Tourism Industry in Tanzania.

LITERATURE REVIEW

Taxation System in Tanzania

The tax regime in Tanzania consists of a number of direct and indirect taxes including income tax, Value Added Tax, import duty, excise duty, and stamp duty. There are also taxes levied at the local government level. All central government taxes are administered by the Tanzania Revenue Authority (TRA) (Mrema, 2022).

Generally, Tanzania uses the self-assessment approach with a requirement to file a tax return at the end of the year (BARONGO, 2020). Tax payment is on a quarterly basis. Withholding tax arrangement applies to individuals deriving income solely from employment (PAYE)

and also to non-resident taxpayers with Tanzania source income. VAT is accounted for monthly (BARONGO, 2020).

Types of Taxes

There are four types of taxes in the tourism industry in Tanzania. These are direct taxes, indirect taxes, personal taxes, and miscellaneous taxes (Fjeldstad & Rakner, 2021; Mzindakaya, 2020).

Direct taxes are the taxes an individual pays directly to the government, such as income tax, poll tax, land tax, and personal property tax. Such direct taxes are computed based on the ability of the taxpayer to pay, which means that the higher their capability of paying is, the higher their taxes are. Corporate tax in Tanzania is 30 percent, with the exception of companies listed on the Dar es Salaam stock exchange which are charged at 25%. On top of this 30%, there is an additional 10 percent tax on repatriated income of branches of foreign companies. However, an *Alternative Minimum Tax* applies for corporations experiencing perpetual unrelieved loss for three consecutive years attributable to tax incentives at the rate of 0.3 percent of the turnover for the third year of perpetual unrelieved loss (Kyssima, Tesha, Lello, & Mtitu, 2020; Magoma, Mbwambo, & Dobogo, 2022; Mbogo, 2021).

Indirect taxes, are taxes collected by one entity in the supply chain, such as a manufacturer or retailer, and paid to the government; however, the tax is passed onto the consumer by the manufacturer or retailer as part of the purchase price of a good or service. The consumer is ultimately paying the tax by paying more for the product. These include value added tax (VAT), excise duty and Customs (import) duty. In Tanzania, VAT is charged at a standard rate of 18 percent. The threshold for registration is above TZS 40m

(approximately USD 25,000). There are two VAT regimes in the country; firstly for Mainland Tanzania; and secondly for Zanzibar archipelago. Taxable persons are required to file their VAT returns at the last working day of the following month. The VAT on importation is paid on importation together with customs duty. Excise duty is another indirect tax which is imposed on particular goods and services whether imported or locally produced. Services which are excisable include airtime from mobile phone operators and pay per view television. Goods subject to excise duty include fuel, beer, bottled water, cigarettes, spirits and wines and motor vehicles exceeding 1,000cc. Customs (import) duty rate for goods imported from countries outside the EAC are 0% for raw material, capital goods, agricultural inputs and pure bred animals; 5% to 10% for intermediate goods; and 25% for finished goods (Kornher & von Braun, 2020).

Individual taxes are taxes levied on the wages, salaries, dividends, interest, and other income a person earns throughout the year. The tax is generally imposed by the region in which the income is earned. These include things like domicile and residency requirements. Residency status is granted in Tanzania if one of the following conditions exists: (i) If the individual has a permanent home in Tanzania and is present in Tanzania during any part of the year of income; (ii) If the individual is present in Tanzania during the year of income for a period or periods amounting to aggregate 183 days or more; (iii) If the individual is present in Tanzania during the year of income and in each of the two preceding years of income for periods averaging more than 122 days in each such year of income; or (iv) The individual is an employee or an official of the Government of Tanzania posted abroad during the year of income (Haig, 2020; Saez & Zucman, 2020).

Miscellaneous taxes include; tax on payroll, taxes on property, and other taxes. Tax on payroll in Tanzania constitutes what is called Skills Development Levy (SDL) which is at 6 percent of the gross salary and contributions to social security funds (up to 10% of employee's basic salary). This is at the expense of the employer. SDL is used to promote skills development through vocational training. Tax on property is usually through land rates and is administered by local government authorities. Other taxes include levies charged by local government authorities on revenue generated from conducting business in the respective municipalities. This includes the City Service Levy which is 0.3 percent on revenue payable quarterly (Azende & Iorcher, 2020; Larrimore, Mortenson, & Splinter, 2021).

Types of Tourism Taxes in Tanzania

Due to the nature of tourism businesses in Tanzania, most taxes are likely to have an impact on at least some component of the industry (Mzindakaya, 2020). However, here the study focuses on the taxes that are anticipated to have the most direct impact, including:

Impact of Taxes at destination

Approaches used for tourists to directly pay taxes are such as visa fees, entrance supplements, car rental fees and so on. In an effort to shift some of the tax burden to non-residents, local governments have used lodging taxes; however, such a measure is strongly opposed by the hospitality industry and perceived as an unfair tool that harms companies' competitiveness (Dwyer, 2022; Scharff, 2020). However, taxes are used in order to justify the distribution of costs associated with tourism activity. In the accommodation subsector, a lodging tax, is the most common method applied by governments to collect tax (Durán-Román,

Cárdenas-García, & Pulido-Fernández, 2020; Marchenko, Marmul, Hranovska, Pylypenko, & Velychko, 2020).

The tourism industry collects taxes from the sale of products and services to tourists. The taxes collected include; the direct taxes, indirect taxes, personal taxes, and miscellaneous taxes; which in turn contribute to government fiscal budget through income tax. In 2021, the contribution of tourism to the global GDP was 6.1%, while at the African region level, tourism contributed an average of 8.2% of the regional GDP. Country-wise, Uganda had (4.2%), South Africa (3.2%), Rwanda (6.8%), Kenya (4.9%), Ethiopia (5.0%) and Tanzania (5.9%) (World Travel and Tourism Council, 2022).

Different groups of stakeholders such as host community, tourists, and the tourism industry in destinations have varying schools of thoughts regarding the impact of taxes generated from tourism (Geoffrey Deladem, Xiao, Siueia, Doku, & Tettey, 2021). Also, pro-tourist tax studies acknowledge the fact that funds collected through tourism activity should be spent in areas related specifically to tourism. The majority of destinations, as several scholars

have already established, some local governments regard taxes from tourism industry as free revenue (Aguilera, Artioli, & Colomb, 2021; P. Chen & Kong, 2021).

In practice, taxes collected in the tourism industry tend mostly to go to a central general fund, with expectation of a major share of such taxes to be spent on local tourism-related expenses (Durán-Román et al., 2020; Hudson et al., 2021). Expenditure could aim to promote the destination, improve tourism infrastructure and support measures at promote sustainable development while improving the quality of tourist experience. Therefore, taxes collected from tourism-related activity at a destination should be spent carefully, in a just and effective manner, in order to ensure long-term growth in revenues. The underlying logic behind the cycle is that spending on projects that directly or indirectly can serve to improve the tourism product (e.g., infrastructure, preservation, promotion, tourist experience, local tourism events) will have a positive effect on demand, which will increase tax revenues even further, creating a self-reinforcing cycle (Tambovceva, Atstaja, Tereshina, Uvarova, & Livina, 2020).

Table 1.1 List of Taxes, Levies, Fees, and Charges in the Tourism Industry in Tanzania

S/N	SPECIFIC TAX, LEVIES, FEES, AND CHARGES	INSTITUTION/AUTHORITY	RATE/AMOUNT	FREQUENCY OF PAYMENTS	ACT
TAXES					
1	Corporate Tax	Tanzania Revenue Authority (TRA)	30%	Annually	Income Tax Act, 2004
2	Skills and Development Levy	Tanzania Revenue Authority (TRA)	5%	Monthly	Vocational Education and Training Act
3	Staff Pensions	National Social Security Fund (NSSF)/Parastatal Pension Fund (PPF)	10% deducted from employee and matching 10% deducted from employer based on gross salary	Monthly	National Social Security Fund Act, 1997

4	Land Rent	Ministry of Land, Housing and Human Settlement	Based on the size and location of land	Annually	Land (Rent and Service Charge) Act
5	Property Tax and Land Rent	Municipal Council	As per rating schedule	Annually	Local Government Finance Act
6	City Service Levy	Municipal Council	0.3% of turnover	Quarterly	Local Government Finance Act
REGULATORY LICENSE, FEES, AND PERMITS					
7	Tourism Agency License (TTLB)	Ministry of Natural Resources and Tourism (MNRT)	Range from US \$ 200- 5,000	Annually	Tourism Act, 2008
8	Business License Category A - collected by National Government	Ministry of Industry and Trade (MIT)	Depending on type and size of business	Fixed	Business License Act
9	Business License Category B collected by local government	District Council	Depending on type and size of business and local authority	Annually	
10	Work Permits	Ministry of Home Affairs	Fixed fee depending on class of permit Class A US \$ 3,050 (Investor), Class B US \$ 2,050 (employee)	Every 24 months	The Immigration Act 1995
11	Fire Certificate	Fire and Rescue Department	Based on the number of floors that a hotel/cottage building has	Annually	Fire and Rescue Force Act 2007
12	Motor Vehicle Road License	Tanzania Revenue Authority (TRA)	Depends on CC of vehicle highest is TZS 250,000 per annum	Annually	Road Transport Act 2003
13	Vehicle Fire Safety sticker	Tanzania Revenue Authority (TRA)	Based on CC of vehicle highest is TZS 40,000	Annually	Fire and Rescue Force Act 2007
14	Vehicle Inspection	Police Department	Based on the number and type of vehicles	Annually	Traffic Act
15	Vehicle Safety Week Sticker	Police Department	TZS 3,000 per vehicle	Annually	
16	Firearms License	Police Department	Rate dependent on type/calibre of arms	Annually	Arms & Ammunition Act Cap 223 of 1991
17	OSHA	Occupational Health and Safety Authority (OSHA)	Based on the number of employees and size of faculty	Annually	Occupational Health and Safety Act 2003
18	Performance/ Entertainment License	National Arts Council			National Arts Council Act 23 of 1984
18	Frequency Radio License	Tanzania Communications Regulatory Authority(TCRA)	US \$ 75 per radio (US \$ 500 per radio for aircraft operators & minimum 2 radios required)	Annually	Tanzania Communication Regulatory Authority Act 2003

19	Base station license	Tanzania Communications Regulatory Authority (TCRA)	VHF Base station US \$ 80 per station; HF base station US \$ 120	Annually	Tanzania Communication Regulatory Authority Act, 2003
20	EWURA tax	TANESCO	2% of billed amount	Monthly	Energy & Water Utilities Regulatory Authority Act

CONCESSION FEES, USAGE RIGHTS, RENTS, AND ROYALTIES

21	REA Tax	TANESCO	3% of billed amount	Monthly	Rural Energy Act, 2005
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OTHER LEVIES, FEES, AND CHARGES

22	Certificate of Incorporation	Business Registration and Licensing Agency	Depends on nominal share capital maximum TZS 300,000	Annually	The Business Licensing Act
23	Business Registration name	Business Registration and Licensing Agency	TZS 6,000	Fixed	Business License Act
24	Stamp duty on rent	TRA	1% on value of lease	One-off	Stamp Duty Act
25	Airport tax	TRA/ZRB	Local flights TZS 10,000 international flights US \$ 40 Zanzibar flights TZS 10,000	Per passenger per flight	

GENERAL TOURISM TAX AND LEVIES

	SPECIFIC TAX, LEVIES, FEES, AND CHARGES	INSTITUTION/AUTHORITY	RATE/AMOUNT	FREQUENCY OF PAYMENTS	ACT
26	Tourism Agency License (TTLB)	Ministry of Natural Resources and Tourism (MNRT)	Range from US \$ 200 - 5,000	Annually	Tourism Act, 2008
27	Walking Guide Fees	Ministry of Natural Resources and Tourism (MNRT)		Annually	Villages Act
28	Concession fees	Marine Park Authority			

HOTEL, LODGES AND CAMPSITES

	SPECIFIC TAX, LEVIES, FEES, AND CHARGES	INSTITUTION/AUTHORITY	RATE/AMOUNT	FREQUENCY OF PAYMENTS	ACT
29	Aerodrome Inspection	Tanzania Civil Aviation Authority (TCAA)	Depends with category of aerodrome stipulated in the Civil Aviation (Aerodrome) Regulations	Every 24 months	TCAA Act 2006 R.E – CAP 80
30	Certificate of Air worthiness	Tanzania Civil Aviation Authority (TCAA)	Various rates (TZS 225,000 - TZS 525,000) depending on weight of aircraft	Annually	TCAA Act
31	Certificate of registration of Aircraft	Tanzania Civil Aviation Authority (TCAA)	Various rates (TZS 450,000 - TZS 750,000) depending on weight of aircraft	Annually	TCAA Act

32	Air Service License application fee	Tanzania Civil Aviation Authority (TCAA)	US \$ 1,000	One-off	TCAA Act
33	Air Service License	Tanzania Civil Aviation Authority (TCAA)	US \$ 1,200	Annually	TCAA Act
34	Ground Handling License	Tanzania Civil Aviation Authority (TCAA)	US \$ 1,000	One-off	TCAA Act
35	Ground Handling License	Tanzania Civil Aviation Authority (TCAA)	US \$ 3,000	Annually	TCAA Act
36	Provisional Air service License	Tanzania Civil Aviation Authority (TCAA)	US \$ 500	One-off	
37	Short Term License fee for foreign registered aircraft	Tanzania Civil Aviation Authority (TCAA)	Various rates depending on weight on takeoff and whether aircraft operates beyond one designated entry point	One-off	TCAA Act
38	Air Operators certificate	Tanzania Civil Aviation Authority (TCAA)	TZS 1,800,000	Annually	TCAA Act
39	Aviation safety fee	TCAA	Local flights TZS 3,000 international flights US \$ 9 zanzibar flights 3,000	Monthly	
40	Air Navigation charges	TCAA	Various rates between \$60 - \$104 depending on aircraft weight and time of the	Monthly	
41	Approved maintenance organization certificate	TCAA	TZS 9,000,000	Annually	
42	Test Flight Fee	TCAA	TZS 135,000	One-off	
43	Permit to Fly fees - Emergency	TCAA	TZS 54,000	One-off	

TOUR OPERATORS TAXES

	SPECIFIC TAX, LEVIES, FEES, AND CHARGES	INSTITUTION/AUTHORITY	RATE/AMOUNT	FREQUENCY OF PAYMENTS	ACT
44	SUMATRA Vehicle Sticker	Surface and Marine Transport Regulatory Authority (SUMATRA)	Based on number of automobiles as per the schedule	Annually	Transport Licensing (Road Passenger Vehicle) Regulation, 2007

CONCESSION FEES, USAGE RIGHTS, RENTS, AND ROYALTIES

45	Motor Vehicle Guide Fees	TANAPA	Depends on park and vehicle tare weight	Annually	NCAA ACT 2002
46	NCAA Vehicle fee	Ngorongoro Conservation Area	TZS 50,000 per car	Annually	NCAA ACT 2002
47	Ngorongoro Crater Service Fees	TANAPA	US \$ 200 per vehicle		NCAA ACT 2002

ARTS & CRAFTS TAXES

	SPECIFIC TAX, LEVIES, FEES, AND CHARGES	INSTITUTION/AUTHORITY	RATE/AMOUNT	FREQUENCY OF	ACT
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				PAYMENTS	
48	Wood carving & Craft (Souvenirs)	Ministry of Natural Resources and Tourism (MNRT)	Dependent on number of carvings, type of wood and size	Paid on service and registration fee needed for those who do commercial export of wood carving and craft	Forest Act 2002

AVIATION TAXES

	SPECIFIC TAX, LEVIES, FEES, AND CHARGES	INSTITUTION/AUTHORITY	RATE/AMOUNT	FREQUENCY OF PAYMENTS	ACT
49	Aerodrome Inspection	Tanzania Civil Aviation Authority (TCAA)	Depends with category of aerodrome stipulated in the Civil Aviation (Aerodrome) Regulations	Every 24 months	TCAA Act 2006 R.E – CAP 80
50	Certificate of Air worthiness	Tanzania Civil Aviation Authority (TCAA)	Various rates (TZS 225,000 - TZS 525,000) depending on weight of aircraft	Annually	TCAA Act
51	Certificate of registration of Aircraft	Tanzania Civil Aviation Authority (TCAA)	Various rates (TZS 450,000 - TZS 750,000) depending on weight of aircraft	Annually	TCAA Act
52	Air Service License application fee	Tanzania Civil Aviation Authority (TCAA)	US \$ 1,000	One-off	TCAA Act
53	Air Service License	Tanzania Civil Aviation Authority (TCAA)	US \$ 1,200	Annually	TCAA Act
54	Ground Handling License	Tanzania Civil Aviation Authority (TCAA)	US \$ 1,000	One-off	TCAA Act
55	Ground Handling License	Tanzania Civil Aviation Authority (TCAA)	US \$ 3,000	Annually	TCAA Act
56	Provisional Air service License	Tanzania Civil Aviation Authority (TCAA)	US \$ 500	One-off	
57	Short Term License fee for foreign registered aircraft	Tanzania Civil Aviation Authority (TCAA)	Various rates depending on weight on takeoff and whether aircraft operates beyond one designated entry point	One-off	TCAA Act
58	Air Operators certificate	Tanzania Civil Aviation Authority (TCAA)	TZS 1,800,000	Annually	TCAA Act

OTHER LEVIES, FEES, AND CHARGES

59	Aviation safety fee	TCAA	Local flights TZS 3,000 international flights US \$ 9	Monthly	
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			zanzibar flights 3,000		
60	Air Navigation charges	TCAA	Various rates between \$60 - \$104 depending on aircraft weight and time of the	Monthly	
61	Approved maintenance organization certificate	TCAA	TZS 9,000,000	Annually	
62	Test Flight Fee	TCAA	TZS 135,000	One-off	
63	Permit to Fly fees - Emergency	TCAA	TZS 54,000	One-off	

Source: https://www.maliasili.go.tz/services/category/fees_levies_and_taxes

Empirical review

Majority of researchers have studied on the impacts of tourist taxes to economy using different approaches. Price elasticity of tourism demand is the key measure used by most of the researchers to quantify the possible impacts of tourist tax. Although some researchers found the impact of tourist taxes to be insignificant on demand (Adedoyin, Seetaram, Disegna, & Filis, 2023), even insignificant changes bring an important burden for the hospitality industry considering the slim profit margins (Otuya, 2021). Accordingly, inadequate funding is also one of the biggest obstacles to destination development and promotion. The quality of tourism services is a significant factor affecting the tourist experience and positive behavioural intentions. Therefore, the allocation of funds created by tourism-related taxes should be spent wisely. The tax can also be used to decrease the adverse effects of tourism on local quality of life (Nopiyan & Wirawan, 2021). The aim of this study, hence, is to examine tourism taxes related challenges as a hindrance to tourism development in view of ensuring that Tanzania destination competitiveness momentum is sustained.

METHODOLOGY

The research adopted qualitative method, involving 154 respondents who were drawn conveniently from over 1550 tourism stakeholders in the subsectors of

accommodation, tour operations, tourism investors, travel operators, event organizers; tour guiding, arts and crafts, among others. Data were collected through focus group discussions (FGDs), Key Informant Interviews (KIIs) and field observations. The data gathered were processed and analyzed qualitatively; the researcher first translated and categorized them into various themes and sub-themes basing on the research objectives and research questions in both FGDs and in-depth interviews guides.

With regards to FGDs a variety of voices were heard in a short time. Participants were carefully recruited to involve only those who were likely to provide relevant information. The focus groups composed of similar types of entrepreneurs and each group had 8 participants. Group participants were organized in a manner that participants sat in circles during discussions. With in-depth interviews, key informants were interviewed individually face-to-face. One of the advantages of in-depth interviews is that participants have undivided attention of the interviewer and subjects can be explored in more detail. The role of the researcher was only to probe as much as possible on issues in order to gather rich information.

The data gathered were processed and analyzed qualitatively; the researcher first translated and categorized them into various themes and sub-themes basing on

the research objectives and research questions in both FGDs and in-depth interviews guides. Data from the in-depth interviews were transcribed and analyzed using thematic data analysis. Verbatim quotes were used to illustrate points of views during preparing this report.

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FINDINGS

Population of the study

The study population constituted TATO (27.4%), HAT (23.1%), TTGA (17.9%), ZATI (13.7%), research and academia (10.3%), TASOTA (6.8%), TACTO (6.0%), and CSOs (5.1%). Other stakeholders involved in the study were TAOA (4.3%), MICE (3.4%), THOA (2.6%), TPHA (1.7%) and others, such as taxi operators, food & drinks providers, e.t.c (0.9%).

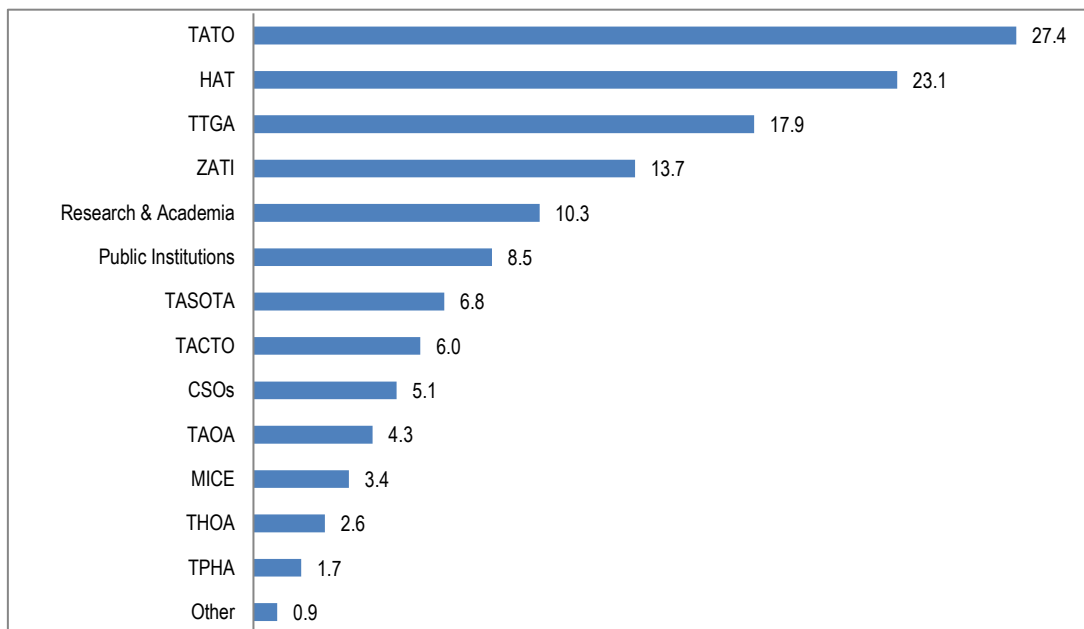


Figure 1.1 Population of the study

Awareness on the Taxation Policies and Laws

This study discovered that 46 percent of the tourism stakeholders in the country were aware of the laws governing taxation in the country. 33 percent of the operators were somehow aware, while 21 percent were completely unaware of the laws governing taxation in Tanzania. This implies that, over

half of the tourism stakeholders, just pay taxes, levies and other charges ignorantly without awareness on the policies and laws associated to them. This calls for a need of the taxes regimes in the country to ensure that the level of awareness on taxation issues among the tourism stakeholders increases.

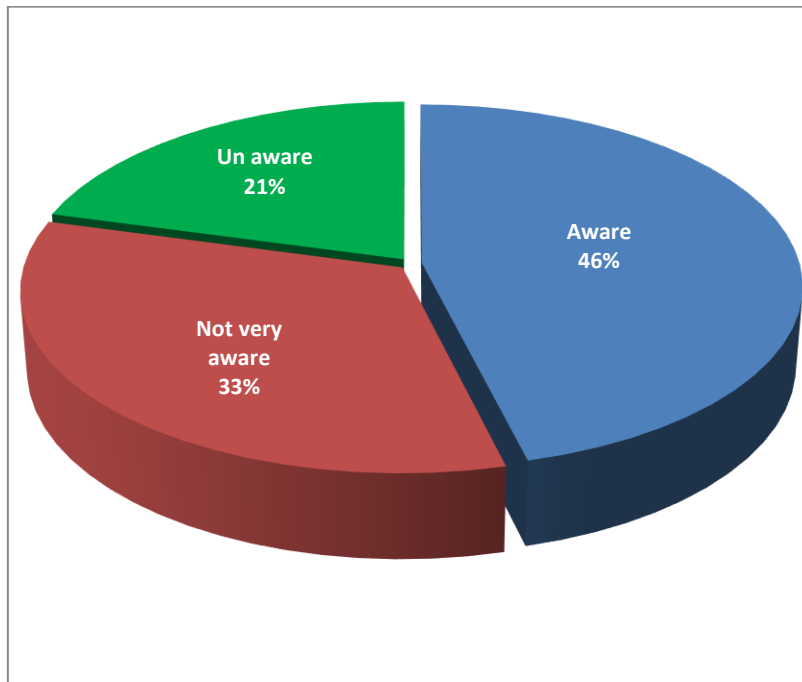


Figure 1.2 Level of Awareness on Tax issues among Tourism Stakeholders

Awareness on the Taxation Policies and Laws by Subsector

Analysis by the level of awareness on policy and legal issues regarding taxes in the tourism sector shows that TATO members (20.8%) are more aware followed by HAT (15.6%) and TTGA (11.0%). Other tourism stakeholders (1.3%), followed by THOA (1.9%) and TLTO (2.6%) are the least in being aware of the taxation issues. On the level of those tourism players who are somehow are, other members (16.9%) possess the majority, followed by HAT

(10.4%) and TATO (9.1%). Similarly, other members (20.8%) were the majority, followed by MICE (15.6%), and HAT (11.7%) in terms of the level of unawareness on the policy and legal issues regarding taxation. This shows that, the tourism industry possesses stakeholders who largely not aware of the policy and legal aspects governing taxation. The claims that the tourism industry is abscessed by multiple and high taxes may be are attributed by this fact.

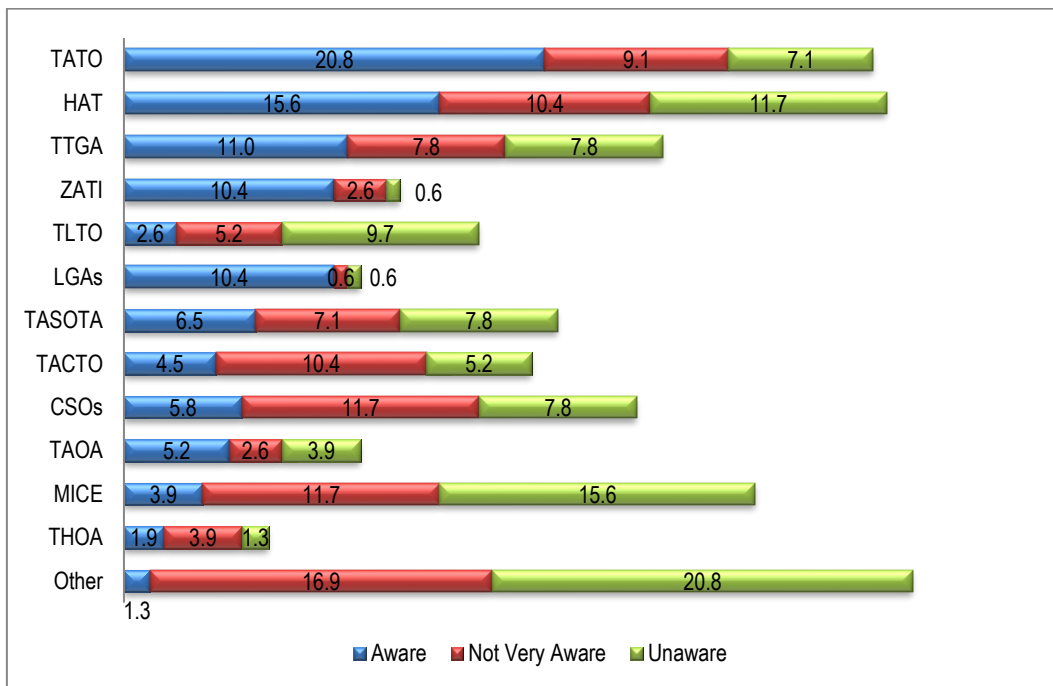


Figure 1.3 Level of Awareness on Tax Issues by Tourism Subsector

Taxation system

Accordingly, evidence from the ground shows that the Taxation system in Tanzania is quite daunting and difficult to navigate. This is calls for the services of strong law firms in Tanzania to assist in devising tax efficient structures for the businesses across the economic sectors, especially the tourism operations in the country.

Taxes Payment Willingness

Assessment by willingness of paying the taxes, levies and other charges in the tourism sector, shows that TATO was more willing by 16.9 percent, followed by TAOA (14.3%), and HAT (13.6%). On the contrary, CSOs (15.6%), MICE (14.3%)

and CSOs (14.3%) demonstrated high level of unwillingness for paying the related taxes in the tourism industry. This is not surprising, because there were many noises regarding the issues of multiple taxes and lack of harmonization of the taxes, levies and other charges in the market as evidenced in the quote below.

“Tourist Agency Licensing Authority (TALA) licence is pegged at \$2,000 which, is prohibitive to local tour operators. There are multiple taxes in the tourism industry in this country. The most pressing issue was harmonisation of different levies and duties imposed on the industry” Commented Willibald Chambulo, the Chairman of TATO.

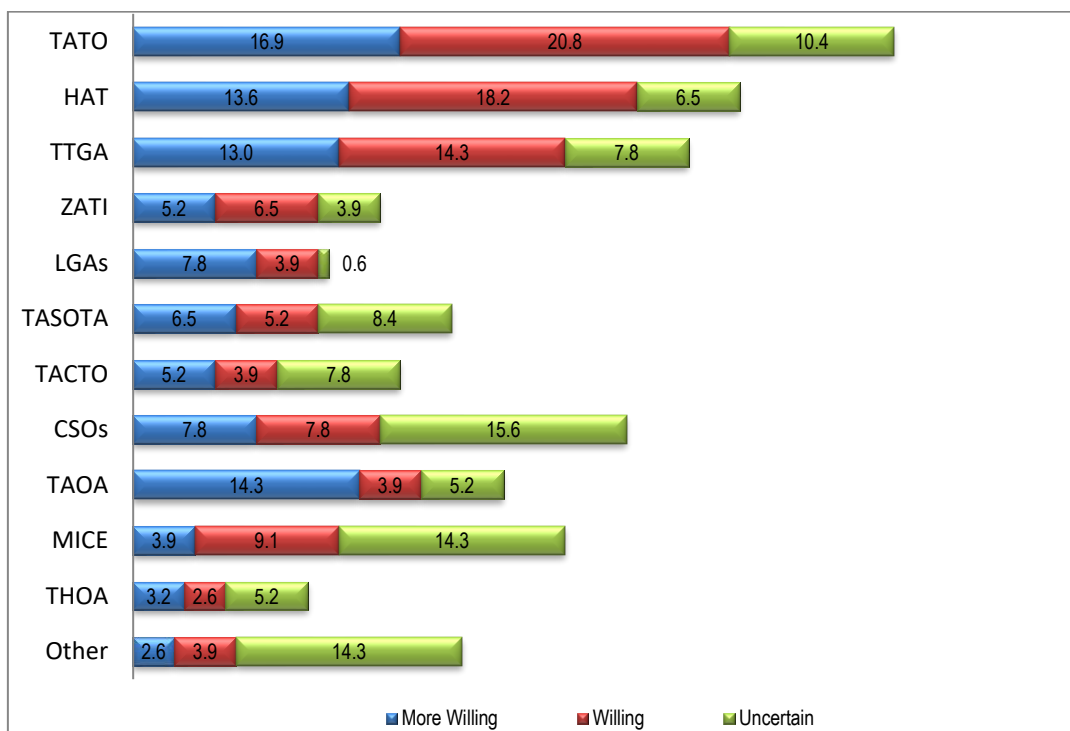


Figure 1.4 Level of Willingness for Tax Payment among Tourism Players

Customs (import) duty

The study reveals that equipment and supplies imported by mining operator are taxed at 0% up to production and 5% after one year into production. Equipment and supplies imported by gas and oil explorer are taxed at 0%. In order to promote tourism and hospitality, there is need for the customs (import) duty rates to apply to the tourism products and services imported to the country.

Free movement of goods and labour

The further shows that, in accordance to the East African Community Customs Management Act of 2004, all people of the EAC member states are not be subjected to import duty on goods moving within the region (provided they conform to the rules of origin adopted under the customs union treaty signed by the partner states). This Act, which came into force on 1 January 2010, intended to promote free movement of goods and labour along tourism businesses within the region.

Number of Taxes, Levies, Fees and Charges for Tourism Business in Tanzania

On average, there are over 60 different payments in form of *Taxes, Levies, Fees and Charges* subject to any typical tourism business in Tanzania. For example, each tour operator in Tanzania has a total of 64 taxes, levies, fees and charges. These include 32 charges, among which are, business registration fees; regulatory licence fees, entry fees, income taxes and annual duties for each tourist van among many others. On top of these charges, there are 12 levies related to business registration and regulatory licences as well as 11 duties for each tourist vehicle per annum and 9 others. Worse enough, these taxes, levies, fees and charges from the same tour operator are collected by over 20 different government institutions, each with its specific law that applies to it. All these taxes, levies, fees and charges are collected in different periods of the year. This implies that there is a burden of taxes, levies, fees and charges subjected to tourism businesses in Tanzania. Furthermore, given the

number of government authorities involved in the collection these taxes, levies, fees and charges, a question remains on the effectiveness, efficiency and accountability.

Tourism Taxes and Fiscal Regime in Tanzania

There are four tax authorities in the tourism sector in Tanzania. The authorities include the Tanzania Revenue Authority (TRA), the Zanzibar Revenue Board (ZRB), and the Ministry of Natural Resources and Tourism (Directorate of Tourism), and the President's Office, Regional Administration and Local Government (local government authorities).

Complexity of the Tax Laws

Accordingly, there is a general feeling among private sector stakeholders that the

main challenges facing the tourism sector include having too many unpredictable taxes.

Capacity building on Taxation Issues

In terms of the tourism stakeholders who have had training on issues related to taxes, levies and other charges in the tourism industry, the findings indicate that TAOA (23.4%), TATO (20.1%), and LGAs (16.9%) were trained. Conversely, other tourism players (23.4%), especially taxi drivers, food and drinks providers, art and crafters in the market demonstrated that they lack training on taxation issues. This implies that, the lack of taxes compliance and tax avoidance in the tourism sector are attributed by multiple factors, which need to be mitigated



Figure 1.5 Capacity building on Taxation by Tourism subsector

Multiple Taxation in Tourism Sector

The study reveals that there is lack a system where all categories of payments could be settled in the Ministry. Also, the laws and regulations are in tandem with the Tourism Development Levy (TDL) payment system. There is a need for realignment of taxation in the hospitality sector that involves the local government authorities.

Accordingly, 96 percent of the tourism stakeholders, reported that the charges (taxes, fees and levies) were too high, and are bothered by the payment procedures.

Furthermore, the study found that the existing laws and regulations were not speaking to each other, thus impacting on the Tourism Development Levy (TDL) payment system. This calls for collaboration of MNRT and local government authorities in realignment of taxation in the hospitality sector in the country. In addition, the local government authorities in Tanzania have often been blamed for imposing levies on the tourists traversing through their districts to the tourist attractions. This requires concerted efforts of the stakeholders, especially the central government to remove levies charged on the transiting tourists have been futile because the local councils could not act. All these charges cause the Tanzania's tourism industry to remain high compared to her revivals in the region.

“TALA tax is a burden to us. Taxes have pushed the local tour operators in a tighter corner compared to large companies with roots outside the country. We have to pay back loans yet our businesses were heavily impacted by Covid-19”. Echoed Samuel Diah, the chairman of Tanzania Local Tour Operators (TLTO), a lobby for small scale operators in Tanzania.

Other tourism stakeholders added that *“high taxation has made Tanzania an expensive destination for tourists compared to the country's close competitors. The*

administrative burdens of completing the issuing of a licence, tax and levy paperwork alone impose a heavy cost on businesses in terms of time and money. These are largely manifested in the often disputed value added tax (VAT) and the concession fees”.

“Taxes and levies imposed on the industry were making the business environment unfriendly. We are looking for frequent discussions with the government to see how a tourist operator can clear the duties and levies at one stop centres. The industry needs the intervention of the Parliament of the United Republic of Tanzania now more than ever before”. Said Merwyn Nunes, TATO Trustee and founder chairman.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This manuscript examines the challenges of Taxation in the tourism industry, with the aim of proposing to the policy and decision makers to review them if Tanzania destination wants to maintain its competitiveness. By using both qualitative and quantitative approach, this study has established that high tax rates coupled with multiplicity of these taxes within the government institutions hinder the development of sustainable conservation and tourism initiatives at the local and national level in Tanzania. Also, incoherent, lack of harmonisation of the taxes and multiplicity of taxes make Tanzania destination relatively expensive compared to other peer destinations in East and Southern Africa region. Over half of the tourism stakeholders, just pay taxes, levies and other charges ignorantly without awareness on the policies and laws associated to them. The tourism industry possesses stakeholders who largely not aware of the policy and legal aspects governing taxation. The lack of taxes compliance and tax avoidance in the tourism sector are attributed by multiple factors, which need to be mitigated. It was

further observed that, despite the role played by various tourism associations and confederation in reforming the tourism business environment, a lot still needs to be done especially on the types of taxes and levies imposed on tourism industry in the country. In view of these findings, there is a need of reviewing and harmonizing of all the taxes, levies and other charges imposed on the tourism services in the country for ensuring that Tanzania destination maintains its competitiveness.

Recommendations

- i. In order to avoid multiplicity of the taxes, levies and other charges, the government especially MNRT should review its policy and laws to allow the establishment of one stop centre for taxation;
- ii. Also, MNRT should review its policy and laws to allow the establishment a tourism regulatory authority for overseeing and coordinating all tax issues that are being complained about by the tourism players across the country;
- iii. There are so many tax payers in the country who are not paying or if they are paying taxes, then are not paying the required taxes, levies and other charges due to the existing incoherence, lack of coordination and conflicting and colliding government institutions. This leads to in adequate collection of the taxes, levies and other charges by MNRT. The government institutions need to speak to each other;
- iv. In addition, the existing laws and regulations were not speaking to each other, thus impacting on the Tourism Development Levy (TDL) payment system. This calls for collaboration of

MNRT and local government authorities in realignment of taxation in the hospitality sector in the country. The local government authorities have often been blamed for imposing levies on the tourists traversing through their districts to the tourist attractions. Years' long efforts to remove levies charged on the transiting tourists have been futile because the local councils could not act.

- v. Furthermore, the majority of tourism players in the country are ignorant of the issues related to taxes, levies, and other charges. It is high time for the government to ensure that the tourism businesses in the country are familiarized with their respective taxes, levies and other charges.

Limitations and delimitations of the study

The study was conducted while Coronavirus (COVID-19) pandemic was still unfolding in the country and across the world. The scholar observed all safety and health guidance provided by the World Health Organization (WHO), and the Ministry of Health in Tanzania, to protect himself, respondents, and all the people he interacted with during the study. The measures included observing social distance, using sanitizers, washing hands with soap before and after every interview session, and wearing masks in some instances where it was deemed necessary.

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