The reform of the tax system in Swaziland

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Abstract

This paper documents the tax reforms implemented in Swaziland since the 1990s and how they have contributed to revenue collection. Reforms have had a major impact on collection of indirect taxes (especially VAT) but no clear impact on receipts of direct taxes and trade taxes. Despite efforts to broaden the tax base, tax collection is still heavily concentrated on very few sources, with SACU receipts alone accounting for more than one-half of total revenue. Growth in revenue collections from direct taxes on income and profits, and indirect taxes on goods and services remain substantially too low to compensate for the loss in import tariff revenues.

JEL Classification: H20, H24, H27.

Key words: Tax Reform, Tax System, Tax Administration and Policy, Swaziland.

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1 Introduction

Over the past one decade, the Government of Swaziland has undertaken a comprehensive reform of its tax system to enhance revenue collection including rationalizing the tax structure and rates, replacing the sales tax with value-added tax and modernization of tax administration system, among other measures. This paper documents the major tax reforms that have been implemented in Swaziland since the 1990s and the trends in tax revenues.

For over thirty years since independence in 1968, Swaziland maintained a tax system that can best be described as a simplified version of the colonial tax system as it existed around 1920s and 1950s. Since the major reforms of the income tax in 1975 and 2001, no major changes of the indirect taxes and tax administration system took place until recently. In terms of aggregate revenues raised, Swaziland did well until the late 1990s when the full effect of trade liberalization began to emerge. The recent reforms of the tax system have been triggered by five revolutionary events that have impacted the domestic economy—(i) a reduction in common external tariff rates due to trade liberalization; (ii) the fiscal crisis of 2010–11; (iii) the high volatility of the SACU revenue and the uncertain prospects for South African economy; (iv) rising budget deficit, aggravated by the collapse of the fiscal discipline; and (v) the increased pressure to maintain a prudent fiscal policy stance—and strengthen Swaziland's resilience to shocks.

Reforms implemented since 2001 aim at improving administrative efficiency and tax compliance; rationalizing the tax structure and rates, widening the tax base and simplifying tax procedures. The tax system is now much different from the one that existed in the 1990s. The income tax rate structure has been transformed, the taxation of savings has been adjusted, the indirect tax has been transformed (the sales tax replaced with VAT, and some excise duty rates have adjusted). The question that remains is the outcomes of these reforms, in terms of revenue collection. Evidence suggests that the record of tax reforms in improving tax effort in developing countries is mixed (Ayoki, 2007). In Uganda, Ayoki (2005) concludes that reform had a major impact on collection of direct taxes but no discernable effect on receipts of import duties and excise taxes. In Tanzania, the improvement in tax effort was modest. The tax-to-GDP ratio increased by about one percentage point in Tanzania, between 1995 and 1996, and less than 0.3 percentage point in Rwanda between

1997 and 1998, compared with 3 percentage points in Burundi between 2010 and 2011. While the tax-to-GDP ratio increased by less than five percentage point in Mexico between 1996 and 2005, it rose by 6 percentage point in Peru between 1987 and 1997 (i.e. from 9 percent in 1987 to 15 percent in 1997) with the establishment of the new revenue authority. Revenue collection also improved by 7 percentage point in the first 6 years of Uganda Revenue Authority (from 4 percent in 1990 to 11 percent in 1996) and by 9 percentage point in Ghana (from 7 percent in 1984 to 16 percent in 1996). In other countries such as Ethiopia, South Africa and Venezuela, the improvement in tax effort has been rather modest. In Ethiopia, for example, tax/GDP ratio increased from 9.5 percent in 2008 to 11.2 percent in 2010, while in South Africa, tax effort rose from 24 percent in 1996 to 26 percent in 1999. In Venezuela, the tax/GDP ratio went up from 14 percent in 1993 to 17 percent in 1997. Similarly, in Colombia, the ratio rose from 10 percent in 1990 to 13 percent in 1997.

This paper shows that the tax reforms have had a major impact on collection of indirect taxes especially, VAT but no discernable impact on receipts of direct taxes. Despite efforts to broaden the tax base, tax collection is still heavily concentrated on very few sources. We begin in Section 2 with a description of the major tax reforms in Swaziland. The structure of each of the main taxes: income tax; value added tax; excise taxes and other indirect taxes; and taxes on international trade are examined in Section 3, while Section 4 looks at the tax administration. Section 5 assesses the total amount of revenue raised by Swazi tax system and the contribution made by each tax to this total, and section 6 concludes.

2 Major tax reforms in Swaziland

Recent reform of the tax system in Swaziland has been driven by the need to improve the institutional capacity to collect taxes, and the realization that resource mobilization and development would be better served by a gradual shift from taxes on trade toward taxes on consumption and income. In addition, reforms have been motivated by the changes in South Africa's business taxation, and the need to remain competitive with South Africa.

Seen this way (and following the same template that many other African countries have used to reform their tax systems), three broad sets of reforms have been implemented: (i) reforms aimed at simplifying the tax structure and reducing the administrative burden of tax compliance; (ii) reforms aimed at strengthening tax administration and maximising efficiency of revenue collection, and broadening the tax base; and (iii) reforms aimed at removing inconsistencies between existing revenue laws and closing possible loopholes in the tax legislation that encourage tax avoidance.

In the first category, the tax laws have been amended, and some repealed, with the view to aligning them with the best practice. In the context of income tax, this process has been on a piece meal basis. The first income tax legislation was enacted in Swaziland in 1921—the Income Tax Proclamation of 1921—which introduced income tax. The Income Tax Legislation went through 12 amendments, between 1962 and 1975, with major amendment in 1975—giving rise to the current Income Tax Order 1975 as amended. From 1975 to date, the Income Tax Order 1975 has had several amendments, aimed at simplifying the administration of income taxes in Swaziland. One of the important features in these amendments is the introduction of the pay-as-you-earn (PAYE) system of withholding tax at source.

Since 1975, the income tax rate structure has been transformed. The corporate income tax system has been subject to numerous reforms. In 2001/02, government undertook wide-ranging reforms to broaden the income tax base while shifting the tax burden from direct to indirect taxes. It abolished the tax exemption of gratuities in employment contracts, and the tax-exempt status of public enterprises. In addition, the company income tax rate was reduced from 37.5 percent to 30 percent. In 2014, the rate was reduced further to 27.5 percent, to bring it in line with the rate in South Africa. Table 1 gives recent examples in Africa where similar changes in income tax rates have occurred.

*Table 1.C***ountries that lowered and raised their corporate income tax rates, 2012 - 17**

Country	Change	reason
Burundi	35% to 30%	to align with East African Community requirements)
Gambia	35% to 31%, 2012	
Swaziland	30% to 27.5%, 2014	
Togo	27% to 29%, 2013	
Senegal	from 25% to 30%, 2013	

Tax concessions for investors (such as a five-year tax holiday for new manufacturing enterprises) were replaced by a concessional flat rate of 10 percent for a ten-year period, applicable to new investors or new product lines in manufacturing for export, with criteria relating to capital employed and number of people to be employed also taken into account.

The taxation of savings (wealth) has been repeatedly adjusted. Government introduced a withholding tax at a rate of 15 percent on royalties and management fees and at a rate of 10 percent on interest payments to residents. It abolished tax deductions of mortgages interest payments and life insurance premiums, and rationalized deductions for contribution to pension funds, and tax gratuities paid on the termination of fixed term employment contracts. Other measures include, taxing employee benefits and allowances; removal of tax exempt status of insurance companies and public enterprises and streamlining the depreciation allowance for companies.

The income levels to which the various tax rates apply have changed significantly over the past few years. The top personal income tax rate was also reduced from 39 percent to 33 percent, and the number of personal income tax bands, reduced from eight to five, while the income threshold on which the minimum marginal rate applies has increased progressively from E60,000 a few years ago to the current E200,000.

As a way of strengthening tax administration, two important measures have been implemented, integration of revenue administration and automation of tax collection system. Government adopted a revenue authority model—integrating the activities of the revenue departments in the Ministry of Finance under a single roof—Swaziland Revenue Authority (SRA)—created by Act of Parliament. The SRA paved the way for the introduction of the value added tax (VAT) and sequence of measures aimed at enhancing efficiency of revenue collection, through promoting voluntary compliance from all taxpayers, increased tax audits of companies and efforts towards closing possible loopholes in the tax legislation that encourage tax avoidance.

Another important development has been the full automation of the Department of Customs and Excise through the introduction of the ASYCUDA programme, and later, replacement of ASYCUDA ++ with ASYCUDA World, intended to improve collections from imports by improving import procedures, reduction of clearance times, flexibility of working hours and; provision of real time statistics on cargo received and released. Reform has also been geared towards achieving an integrated revenue system, a single taxpayer identification number and the option to file tax returns electronically.

VAT adoption has been bolstered as trade tax revenues came under pressure in the wake of the recent global financial crisis and with deepening trade liberalization commitments. Prior to VAT, the base of sales taxes was widened to cover public utilities and the trade sector as a prelude to the eventual introduction of value added tax. On 1 April 2012, the Sales Tax was replaced by value added tax (VAT) at a standard rate of 14 percent.

VAT was seen to have higher revenue potential than sales tax. It was also seen to be a fairer tax than sales tax because of its ability to eliminate the cascading effect of sales tax since businesses only remit tax on the value addition they achieve in the supply chain. At the same time, the input credit mechanism gives registered businesses back much of the VAT they pay on purchases and expenses used for making taxable supplies. Unlike taxes on production, VAT does not "cascade" through the production process, and it enables producers to choose between factors according to their relative cost.

Tax effort has been augmented by revenues from carefully targeted domestic sales and excise taxes, and the consumption of public utility services such as electricity, and an extended use of fees on a selective basis for certain social services. Reforms were accompanied by increase in tax rates on a number of goods and services, to bring them in line with those in South Africa, and bringing into the tax net, items such as air time (Ayoki, 2011).

Over the years, the reforms have contributed to improving business environment as evidence in World Bank Ease of Doing Business Indicators and World Economic Forum, Global Competitiveness Reports. Swaziland is ranked 105th out of 189 countries on the ease of doing business in the World Bank's 2016 Doing Business Indicators (Table 2)—an improvement from the 110th position (out of 189 countries) it held in 2015 (Table 3).

Swaziland scores relatively well in the area of paying taxes and dealing with construction permits categories, but had low score in the control of corruption, regulatory quality and rule of law, ease of starting business, getting electricity, and contract enforcement categories, owing to lengthy procedures and in the control of corruption category.

Table 2. Business Environment in Swaziland, Compared to Selected SADC Countries

	Botswana	Namibia	Lesotho	South Africa	Swaziland	Mozambique	Zimbabwe
Ease of doing business -Rank	72	101	114	73	105	133	155
Starting a business – Rank	143	164	112	120	156	124	182
Dealing with Construction Permits	97	66	172	90	80	31	184
Getting Electricity	122	76	147	168	155	164	161
Protecting Investors	81	66	99	14	134	99	81
Paying Taxes	71	93	109	20	79	120	145
Enforcing Contract	128	103	85	119	175	184	166

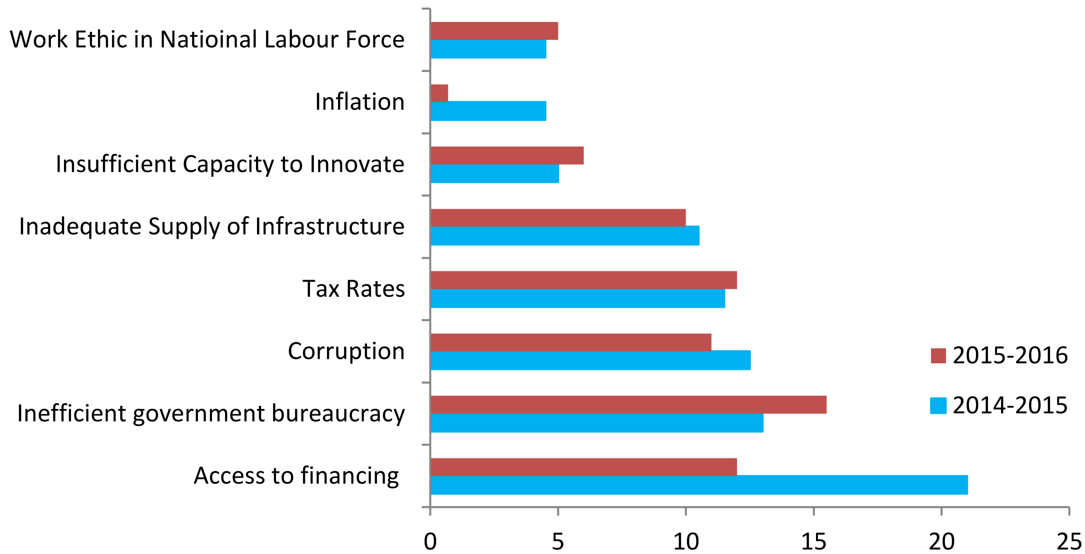
The country's private sector development faces various challenges including fostering the general enabling environment necessary to boost investment and increase competitiveness, particularly for small and medium-sized enterprises (SMEs). The World Economic Forum, Executive Opinion surveys show that investors view access to financing, inefficient government bureaucracy and corruption as major constraints to doing business in Swaziland (Figure 1).

Table 3. Business Environment in Swaziland, Compared to Other SACU Countries

	Ease of doing business 2008					Ease of doing business 2015				
	Namibia	Botswana	Lesotho	S. Africa	Swaziland	Namibia	Botswana	Lesotho	S. Africa	Swaziland
Ease of doing business -Rank[a]	43	51	124	35	95	88	74	128	35	110
Starting a business										
(1) - Rank[a]	101	99	126	53	142	156	149	108	61	145
(2) - Cost[b]	22.3	9.9	37.4	7.1	38.7	13.1	1.0	9.4	0.3	23.3
(3) Number of days	99	108	73	31	61	66	60	29	19	30
Trading across borders										
Rank[a]	144	145	129	134	146	136	157	147	100	127
Number of export documents	11	6	6	8	9	8	6	7	5	7
Time to export (days)	29	33	44	30	21	24	27	31	16	17
Cost to export[c]	1,539	2,328	1,188	1,087	1,798	1,650	3,145	1,795	1,830	1,980
No. of documents to import	9	9	8	9	11	7	6	7	6	6
Time to import (days)	24	43	49	35	34	20	35	33	21	23
Cost to import[c]	1,550	2,595	1,210	1,195	1,820	1,805	3,710	2,045	2,080	2,245
Getting credit	36	26	115	26	36	61	61	151	52	61
Registering property-rank	128	36	132	76	142	173	51	93	97	129
Procedures (number)	9	4	6	6	11	8	4	4	7	9

a The 2008 rankings are based on 178 countries and economies, and the 2015 rankings on 189 countries and economies.
b Percentage of income per capita. c US$ per container. d Percentage of property value.
Source: World Bank (2008); and World Bank (2015), "Doing Business". Viewed at: http://www.doingbusiness.org/reports/global-reports/doing-business-2015.

Figure 1. Key constraints to doing business (PERCENT OF RESPONSE)



Source: World Economic Forum, Global Competitiveness Report

3 Structure of domestic taxes

There are four main types of taxes in Swaziland: income tax, value added tax, excise tax and trade taxes. We look at each of the four taxes in turn, their coverage, base characteristics, rate structure, and contribution to revenue.

3.1 Income tax

The primary forms of taxable income are earnings from employment, income from self-employment and unincorporated businesses, income from property, and investment. The structure of income tax, therefore, consists of (i) taxes on personal income—including earning from gainful employment (Pay-As-You-Earn, PAYE) and self employed individual income Tax; and (ii) taxes on profit of corporation (corporate income tax), and (iii) taxes on payments made to a resident or non-resident person for investment (dividend and interest) and services rendered (withholding tax).

3.1.1 Personal income tax

There are two principal personal income taxes in Swaziland: Pay-As-You-Earn (PAYE) and Graded tax. Capital gains tax, which has existed as a tax separate from income tax, can also be thought of as a tax on personal income, but it supplies very little revenue compared with PAYE or Graded tax.

Pay-As-You-Earn (PAYE) system of withholding income tax from earning (at source from individuals in gainful employment) involves a non-cumulative deduction in which only income in the current month is deducted. The employer deducts the tax from the employee's salary or wages on each pay-day and remits the tax to Swaziland Revenue Authority by the 7th day of the month following the month of deduction, which is the same date in South Africa. In Uganda, the due date for these remittances is the 14 day of the following month. This means law on PAYE remittances is definitely stricter in Swaziland and South Africa than is in Uganda.

The most dramatic change to income tax has been the reform of the rate structure. Table 4 shows the structure of PAYE. Taxable income is subject to different tax rates depending upon the band within which it falls (Table 4). The first E100,000 of taxable income (i.e. income above 0) is subject to the basic rate of 20 percent.

Table 4 Rates of income tax for individuals, 2016

Taxable income (EMALANGENI)	Rates (of normal tax for individuals)
0 – 100, 000	E0 + 20% of the excess over E0
100, 001 – 150, 000	E20 000 + 25% of the excess over E100 000
150, 001–200, 000	E32 500 + 30% of the excess over E150 000
Above 200 000	E47500 + 33% of the excess over E200 000
	Concessionary tax rates for a redundant or retiring individual
0 –200 000	E0 + 25% of the excess over E0
200 001– 300 000	E50 000 + 30% of the excess over E200 000
Above E300 000	E80 500 + 33% of the excess over E300 000
	Rates for part-time employees
0 –8,333	20%
8,334 –12, 500	25%
12, 501–16, 666	30%
Above 16, 666	33%

Source: Swaziland Revenue Authority

Notes: Tax rebate in respect of retiring individuals is E2 700 in excess of the normal rebate.

A number of African countries e.g. Burundi, Lesotho, Rwanda Zimbabwe and Senegal apply bottom marginal income tax rate of 20 percent. It is 10%, in Uganda, from 5% in Gambia. The 33% top-marginal rate applies to income above E200,000 (i.e. E23,000 plus 33% of income above 100,000). The top marginal rate is 50% in Zimbabwe. PAYE is a convenient system for most people. It spares most individual taxpayers from the need to fill in a tax return.

Treatment of employment benefits

Employee benefits such as free and subsidized accommodation or housing and motor vehicle benefits are taxable. Other taxable benefits include domestic assistance (maid, gardeners, nannies), utilities (electricity, water, coal, gas), children's educational assistance benefit, Soft loans, Meals, refreshments and entertainment, Debt waivers, Property transfers, medical aid and allowances.[1]

Housing benefits are valued at the open market rate (rent of the accommodation) less any payment made by the employee for the benefit. Where an employer provides accommodation or housing to an employee on a sharing basis, the rental benefit value is apportioned accordingly. However, where the employer owns the accommodation or housing, the rental benefit value is determined, based on size and location as summarized in Table 5.

Table 5 Rental value of housing for tax assessment in Swaziland (Schedule A)

		Taxable Benefit / Month (E)		
Rental Category	Floor Area	Area A	Area B	Area C
Prime location				
3-5 bedrooms , 2-3 bathrooms, double garage, servant quarters, secure perimeter : **1 500 sq.m and above lot**	250 sq.m and above	4 607	3 915	2 740
As above, but smaller	200 sq.m and above	4 145	3 524	2 465
3 Bedrooms, 2 Bathrooms , A garage , Servants quarters , Secure perimeter: 700 sq.m and above lot	150 sq.m and above	3 686	3 133	2 193
Lesser than prime location				
3 Bedrooms, 1-2 Bathrooms: **700 sq.m and above lot**	120 sq.m and above	3 190	2 710	1 899
2-3 Bedrooms, 1 Bathroom or shower	100 sq.m and above	2 393	2 033	1 422
2-3 Bedrooms , 1 Bathrooms	70-100 sq.m	1 612	1 370	960
2-3 Bedrooms , 1 Bathrooms	40-70 sq.m	1 330	1 129	790
1 Bedroom	70 sq.m and above	910	773	542
1 Bedroom	Under 70 sq.m	761	648	452
Bedsitters	Under 70 sq.m	531	452	317
Quarters	Under 70 sq.m	213	180	110

Note: Category A is accommodation or housing situated in the residential areas of Mbabane Municipal area, Waterford, Pine Valley, Coates Valley, Extension 6, Madonsa Township, Thomasdale and within ten kilometres from the old Mbabane/Manzini road. Area B is accommodation or housing situated in the residential areas of Manzini and surrounds; except Coates Valley, Extension 6, Madonsa Township and Thomasdale. Area C is accommodation or housing situated in the major agricultural and industrial sectors and other towns.

Graded tax

Graded tax is an annual levy payable by adults in Swaziland. There are two rates: E18 per annum for all Swazi adults in receipt of income, and this is payable via the first PAYE remittance system and E4.20 per annum for an adult male person not in receipt of income. The Government is considering abolishing graded tax in the near future.

3.1.2 Corporate income tax

The structure of corporate income tax has been simplified. The corporate tax rate is 27.5 percent (having gone through several revisions from 39 and 37.5 percent prior to 2001 to 30 percent in July 2001 and to 27.5 percent in 2014).

Corporate income tax (corporation tax) is charged on the profits of Swaziland-resident companies, public corporations and unincorporated businesses. Firms not resident in Swaziland pay corporation tax only on their Swaziland profits. The profit on which corporate income tax is charged comprises income from trading, investment and capital gains, less various deductions (allowable costs), with loss carried over. Allowable deductions include all expenditures and losses incurred during the year of income in the production of gross income including research and development expenses, and depreciation allowance as well as losses brought forward, investment allowances (initial deduction of certain percentage of the cost of asset placed in service), and capital expenditure on industrial buildings, among others.

Trading losses may be carried back for one year to be set against profits earned in that period or carried forward indefinitely. Dividends are exempted from withholding tax for ten years, and 15 percent of human resource training costs can be offset against tax. Allowances with respect to depreciation of machinery, vehicles, and equipment vary according to the nature of the item.

Presumptive tax regime is used in many African countries—for small businesses (e.g. in the case of Uganda, of annual turnover of Shs.50 million: approx. US$14,000 and below), who may not have the capacity to file tax returns. They can avoid this administrative burden by making a certain lump-sum payment. Presumptive tax does not exist in Swaziland.

Swaziland, just like Lesotho and Mauritius, maintains the standard regime for all taxpayers with simplified income tax returns for self-employed taxpayers.

3.2 Withholding taxes

A third party such as banks are charged with the responsibility of deducting tax from payments made to taxpayers (e.g. interest on savings and dividend payment) and remitting the tax to SRA. It may either be a final payment or a payment on account. Table 6 gives a summary of the nature of payments considered under withholding tax and the prevailing rates by resident status of the taxpayer.

Table 6 Structure of withholding tax in Swaziland

	Rate (%)	Due date for remittance
Payments to non-residents:		
Interest	10	due 14 days after the date of accrual
Dividends for companies in Botswana, Lesotho, Namibia and South Africa	12.5	30days after the date on which the dividend is payable
Dividends – for other countries	15	30days after the date on which the dividend is payable
Sportsmen and entertainers	15	within 15 days from the date of payment
Contractors	15	within 15 days from the date of payment
Royalty and management fees	15	within 15 days from the date of payment
Repatriated branch profits to neighbouring countries (Botswana, Lesotho, Mozambique, Namibia, South Africa)	12.5	(not stipulated)
Repatriated branch profits (to other countries)	15	(not stipulated)
Payments to persons	15	within 15 days from the date of payment
Payments to residents:		
Interest	10	within 15 days from the end of the month in which interest was paid
Rental	10	within 15 days from the date of payment
Dividends	10	within 15 days from the date of payment
Trusts	33	within 15 days from the date of payment

Source: Swaziland Revenue Authority

3.3 Value added tax

VAT is levied at a standard rate of 14 percent (significantly below those of most African countries and the rates in OECD countries) —on domestic goods and services, excise duty inclusive ex-factory value of domestically manufactured goods, and the customs duty inclusive c.i.f value of imports. The Value-Added-Tax replaced Sales Tax on 1 April 2012.

VAT extends through the retail stage and includes goods and services in the tax base. Contrary to the expectation, the VAT is not harmonized within SACU. The tax bases and the rates are different: the rate is 14 percent in Lesotho, South Africa and Swaziland; 12 percent in Botswana; and 15 percent in Namibia.

Under the VAT Act, supply of most basic goods and services, which accounts for disproportionately high percentage of low-income household spending are exempted or zero-rated e.g. basic foodstuffs, education supplies and medicines.

Table 7. Key taxable services in Swaziland

		4. Estate Agents Commission	4.01 Property and estate management 4.02 Commercial property sales 4.03 Real Estate Appraisal
1. Photographic Service	1.01 Photographic Service 1.02 Development & Printing of photographic films 1.03 Photographic service		
2. Printing and Publishing	2.01 Printing Services 2.02 Advertisement Charges	5. Administration and Management Services	5.01 Management Consultancy 5.02 Administration and management fees
3. Auctioneering Commission	3.01 Receipt of Commission on selling of goods by public auction	6. Accounting and Audit	6.01 Accounting 6.02 Auditing 6.03 Book keeping 6.04 Data processing and tabulating services rendered as part of accounting of bookkeeping services 6.05 Taxation services
8. Legal Services	8.01 All legal services	7. Information Technology Services	7.01 Data processing 7.02 Computer installation, programming and Operations 7.03 Processing punch cards and tapes 7.04 Tabulating Service 7.05 Calculating Service
10. Secretarial Services	10.01 All secretarial and typing services	9. Construction Services	9.01 Preparation of plans and drawings 9.02 Supervision of construction 9.03 Surveying Services 9.04 Quantity surveying services
11. Advertising Services (Including charges payable to the Swaziland Broadcasting and Information Services and the Swaziland Television Broadcasting for the transmission of advertisements).		11.01 All charges made for advertisements intending for commercial or remunerative purposes	

Table 8 and Table 9 list the supplies that are exempted from VAT or for which the VAT zero-rate applies. VAT is not applied to goods that form part of a final product for resale; agricultural inputs (fertilizers, seeds, etc.); plant and machinery used for manufacturing; basic foodstuffs, such as dairy products, maize, bread, meat, vegetables, sugar, and salt; other foodstuffs imported by hotels and restaurants; scholastic materials; medical and surgical supplies; and electricity and water. There are also general exemptions to VAT for the diplomatic corps and for goods and services provided under technical assistance agreements; other exemptions may be provided as part of bilateral or multilateral agreements.

Table 8. Exempt supplies

A. The supply of postage stamps;
B. The supply of financial services;
C. The supply of insurance services;
D. The supply of land and buildings except for land and buildings used for commercial and industrial purposes;
E. A supply by way of lease or letting of immovable property, other than a -;
    i) lease or letting of commercial premises;
    ii) lease or letting of hotel or holiday accommodation;
    iii) lease or letting of residential accommodation for periods not exceeding 45 days; or;
    iv) lease or letting of space for parking or storing cars or other vehicles;
F. The supply of education services;
G. The supply of medical, dental, and nursing services;
H. The supply of social welfare services;
I. The supply of betting, lotteries, games of chance or casino gambling services;
J. The supply of goods as part of the transfer of a business as a going concern by one taxable person to another taxable person;
K. The supply of burial and cremation services;
L. The supply of precious metals and other valuables to the Central Bank of Swaziland for the Treasury of the Government of Swaziland;
M. The supply of passenger transportation services, other than services provided by registered tour operators;
N. The supply of tap water and sewage;
O. The supply of services and of goods closely linked to welfare and social security work, including those supplied by old people's homes, by bodies governed by public law or by other bodies recognized as being devoted to social wellbeing;
P. The supply by an amateur sporting organization of sporting activities, where such activities are deemed for purposes of the Act to be non-professional;
Q. The supply of nonprofit making cultural activities and services;
R. The supply of goods and services in a charity arrangement;
S. The supply of electricity.

Zero-rate applies to a range of foodstuffs similar to the treatment in many other countries in the region e.g. Kenya, Mauritius, Mozambique, Rwanda, South Africa, Tanzania, and Zambia. Agricultural sector enjoys the widest range of exempt and zero-rated supplies. The exemption and zero-rating give a greater tax relief to those engaged in agriculture including producers, traders and consumers. Fuel (petrol and diesel) and rice are zero-rated. The main beneficiaries of the tax relief in rice are the better off who spends more on rice.

Table 9. Zero rated supplies

1. The supply of goods or services where the goods or services are exported from Swaziland as part of the supply;
2. The supply of international transport of goods or passengers or goods or services in connection with the international transport of goods or passengers;
3. Maize meal (Tariff Heading 1102.20), where it is graded as super maize meal, special maize meal, sifted maize meal or un-sifted maize meal;
4. Maize (Tariff Heading 1005.00), where it is dried maize or dried seed of the plants zea mays indurate and zea mays inderata or any one or more crossings thereof of a mixture of the dried seed of such plants, but excluding pop-corn (zea mays everta) or green mealies for human consumption;
5. Beans (Tariff Heading 0713.00), provided that they are dried, whole split, or crushed, but not further prepared or processed, or where packaged as seed;
6. Agricultural input, viz. fertilizers (chapter 31) seeds, seedlings, excluding flower seeds, and pesticides (3808.00) zero rated; where fertilizers constitutes goods consisting of a substance in its final form which is intended or offered for use in order to improve or maintain the growth of plants or the productivity of the soil; where pesticides consists of goods consisting of any chemical substance or biological remedy, or any mixture or combination of any such substance or remedy, intended or offered for use -
   - in the destruction, control, repelling, attraction, disturbance or prevention of any undesired microbe, alga, bacterium, nematode, fungus, insect, plant, vertebrate or invertebrate; or;
   - as a plant growth regulator, defoliant, desiccant, adjuvant or legume inoculants, and anything else which the Minister of Agriculture has by notice in the Gazette declared to be a pesticide;
   - where seeds or seedlings are in form used for cultivation.
7. Paraffin (Tariff Heading 2710.11) intended for cooking, illuminating and heating is zero rated provided it is not mixed or blended with any other substance for any purpose other than cooking, illuminating or heating;
8. The supply of diary products, being milk of all kinds; fermented milk, emasi, buttermilk, fresh or UHT cream or sour cream; yoghurt, sip, buttermilk powder; condensed milk, powdered milk and milk substitutes (e.g. cremora etc); baby milk formulas, dessert, ice cream and other edible ice, mixtures and dairy blends; butter and margarine; whey cheese (cheddar, gouda or other) and curd; honey (natural or artificial) and animal products of animal origin not elsewhere specified or included in the Tariff Book.
9. Brown bread (tariff Heading 1905.10). For purposes of interpretation only brown bread made from brown wheaten meal and water that has been fermented by yeast and which has been baked in the standard form shall be zero rated;
10. Animal feeds (Tariff heading 2308.00) provided that they are goods which consist of any substance obtained by a process of crushing, gritting or grinding, or by addition to any substance or the removal there from any ingredient; orany condimental food, vitamin or mineral substance which possesses or is alleged to possess nutrive properties; or any bone product; or any maize product;
11. Samp (tariff heading 1005.90) not further prepared or processed;
12. Fresh fruit and vegetables (tariff headings 0701.10 – 0709.90 & 0801.11 – 0810.90) Vegetables, not cooked or treated in any manner except for the purpose of preserving such vegetables in their natural state, but excluding dehydrated, dried, canned or bottled vegetables. Fruit. not cooked or treated in any manner except for the purposes of preserving such fruit in its natural state. but excluding dehydrated, dried, canned or bottled fruit and nuts;

Table 9 contd.

13. Fresh eggs (tariff heading 0407.00) being raw eggs laid by hens of the species *gallus domesticus*, whether supplied in their shells or in the form of egg pulp being raw pulp consisting of the yolk and white which is obtained from such eggs after the shells have been removed;
14. Rice (tariff heading 1006.20) whether husked, milled, polished, glazed, parboiled or broken;
15. Vegetable oil except olive oil (tariff heading 1512.11 – 1512.21, marketed and supplied for use in the process of cooking food;
16. Medicines and drugs supplied -
    - for use in a qualified medical facility;
    - to the Government Medical Stores; or
    - to an individual, subject to submission by that individual, of a prescription issued by a registered medical practitioner within sixty (60) days prior to the supply and in such quantities as prescribed by the registered medical practitioner.
17. The supply of school text books; and
18. The supply of petrol, diesel and liquid gas.

VAT registration threshold

Registration for VAT is opened to businesses (manufacturers/producers and suppliers of taxable goods and services), with annual turnover above E 0.5 million (approx. USD 108,120). Registration threshold differs significantly from one country to another, and it seems to bear no relationship with income per capita or the level of development (Table 10).

Table 10. **VAT thresholds, 2014 (In national currencies, PPP USD and relative to GDP)**

	VAT Threshold		
Country	in millions of national currency	in US dollars (PPP conversion)	relative to GDP per capita
Burundi			
Cameroon	50	214,978	68.3
Gambia	1	89,627	53.9
Kenya	5	123,905	42.6
Lesotho	0.85	191,736	68.3
Mauritius	4	240,882	12.6
Rwanda	20	69,159	42.8
Senegal	30	131,088	53.8
Seychelles	3	398,740	16.2
South Africa	1	185,571	15.0
Swaziland	0.5	108,122	15.0
Tanzania	40	64,175	24.5
Togo	30	133,928	90.3
Uganda	50	53,582	26.8
Zimbabwe	0.06	119,078	64.1

Source: African Tax Outlook (2014)

3.4 Excise taxes

Excise duties are payable both at importation into Swaziland and on the domestically produced goods (alcoholic drinks, cigarettes and other tobacco products, as well as from motor vehicles, fuels, and some luxury goods e.g. cosmetics, phones, electrical goods: TVs, refrigerators, etc.). Generally, excise duties are harmonized within SACU. *Ad valorem* rates apply to perfumes and certain electronic apparatuses.

Table 11. Excisable goods and rates

Goods	Excise duty rate (%)
Cigarettes	6.34
Cigarette tobacco	8.00
Cigars	6.19
Other tobacco products	16.10
Spirits	8.90
Beer	8.20
Alcoholic fruit beverage	8.30
Wine	8.10

Excise duty is charged on the excisable value i.e. customs value + customs duty.

Specific duties apply on prepared foodstuffs, alcohol beverages and spirits, tobacco, mineral products, and products of the chemical or allied industries. Excise formula duties are levied on motor vehicles and their components. The base for the imposition of *ad valorem* excise duties on locally produced goods is the ex-factory price, whereas the base for imported excisable products is the customs value plus the duties and taxes collected by customs.

3.5 International trade taxes

Swaziland, Lesotho, Botswana, Namibia, and the Republic of South Africa are members of the Southern African Customs Union (SACU). Imports into and exports from Swaziland are governed by the Customs Act, and duties apply uniformly to all member countries. Applied customs tariffs, excise duties, valuation methods, rules of origin, and contingency trade remedies are all harmonized throughout SACU. The 2015 tariff is based on the 2012 Harmonized System (HS). It contains 7,426 lines at the HS eight-digit level, of which 283

(3.8%) carry non-*ad valorem* duties, i.e. specific, mixed, and formula (variable) duties (Table 12). Specific duties apply mainly to agricultural products, coal, and some textiles. Mixed duties apply to agricultural products, coal, and textiles and footwear products.

Table 12. MFN tariff distribution by type of duty, 2009 and 2015

	2009		2015	
	No of Tariff lines	Percent	No of tariff lines	Percent
Ad valorem	6,483	96.8	7,143	96.2
Non-*ad valorem*	212	3.2	283	3.8
Specific	109	1.6	168	2.3
Mixed	98	1.5	110	1.5
Type 1 (e.g. 40% or 240c/kg)	65	1.0	72	1.0
Type 2 (e.g. 450c/kg with a maximum of 96%)	33	0.5	38	0.5
Formula	5	0.1	5	0.1
Total lines	6,695	100.0	7,426	100.0

Note: Tariff lines: HS eight-digit.
Source: WTO Secretariat calculations based on tariff information from the South African Revenue Service (SARS).

The simple average applied MFN tariff (SACU CET) rate is 8.3% in 2015, slightly up from 8.1% in 2009. The tariff remains complex, still comprising ad valorem, specific, mixed, formula (variable) duties, and their combination; non-*ad valorem* duties represent about 3.8% (up from 3.2% in 2009) of total tariff lines. Tariff rates display relatively high dispersion from zero to 624% (an *ad valorem* equivalent). The highest *ad valorem* rate (96%) applies to 14 tariff lines, including mainly dairy products; and the highest *ad valorem* equivalent (624%) applies to worn clothing and worn textile articles.

Differences exist among SACU members in import levies. The 2002 SACU Agreement calls for harmonization of agricultural and industrial policies, but it hasn't translated into actual implementation; sectoral policies remain country-specific. Swaziland imposes import levies on a number of agricultural products to protect local industries, e.g. fixed levies of between 40 cents and E 4.00 per litre or per kg of dairy products under the Dairy Act, 1968, and the related regulations most recently amended in 2000; and variable levies on other agricultural products, under the National Agricultural Marketing Board Act, 1985 (as amended). Petrol and diesel are subject to fuel levy, fuel oil levy, and fuel tax at rates of 16 cents, 5 cents and 40 cents per litre (a cumulative rate of 61 cents per litre); the fuel levy includes a contribution to motor vehicle accident insurance.

Imports into Swaziland from outside of the SACU territory are liable not only to customs duty, but for some classes of goods, also to excise duty and VAT. VAT is payable on imports originating both from SACU and outside SACU.

3.6 Other taxes

Transfer taxes are applied on a variable rate basis to property transfers based on the fair market value of the property being transferred. Swaziland has a provision for stamp taxes on various documents. The tax is determined either by way of a set fee or on a sliding scale percentage basis. User-fees are collected for certain services e.g. road levy (reviewed on regular basis by the Ministry of Public Works and Transport).

4 Organisation of tax administration operations

This section provides details of the institutional and organisational arrangements established to conduct national revenue administration operations; also highlighted is tax management processes.

4.1 Institutional arrangements

For nearly a century, until the establishment of Swaziland Revenue Authority in 2011, tax administration in Swaziland has gone through a serious of institutional changes from once separate units and departments in the civil service administration structure: the Sales Tax, and the Income Tax Department and the Department of Customs and Excise—headed by the Commissioner of Taxes and the Commissioner of Customs and Excise in the Ministry of Finance. Initially, it was the Treasury Department collecting taxes before moving the responsibility (in 1962) to a special unit created under the Treasury Department and run by the *Assistant Collector of Taxes*. The unit was later elevated to *Department of Taxes* under the Ministry of Finance, and with the coming into force of Income Tax Order 1975, the post of the *Collector of Taxes* was re-designated to *Commissioner of Taxes*. On 1 January 2011, the activities of the revenue departments in the Ministry of Finance were merged under a single administration—the Swaziland Revenue Authority (SRA). The Swaziland Revenue Authority (SRA) was established by the Revenue Authority Act No. 1 of 2008 as a semi-autonomous agency to administer government revenue. SRA became operational on the 1st January 2011, with Mr Dumsani E. Masilela as its first Commissioner General.

The Revenue Authority Act 2008 vests on Swaziland Revenue Authority (SRA) the responsibility for the assessment and collection of all revenue on behalf of the Government. Section 17 of the Revenue Authority Act transfers all powers and responsibilities previously held by the Commissioner of Taxes and the Commissioner of Customs and Excise in the Ministry of Finance to the SRA Commissioner General. The SRA administers and account for all revenues to which the following laws (or specific provisions of the laws) apply:

- the Income Tax Order, 1975 (As amended);
- the Value Added Tax Act 2011 (which repealed the Sales Tax Act, 1983);
- the Customs and Excise Act, 1971 (as amended);
- the Graded Tax Act, 1968.
- the Casino Act 1963;
- the Transfer Duty Act, 1902;
- the Companies Act,1912;
- the Customs and Excise Act, 1921;
- the Fuel Oil Levy Act, 1980;
- the Lotteries Act, 1943;
- the Registration of Dogs Act, 1953;
- the Road Transportation Act, 1963;
- the Liquor Licence Act 1964;
- the Cattle Export and Slaughter Tax Act, 1968;
- the Stamp Duties Act, 1970;
- the Trading Licences Order, 1975;
- the Sugar Export Levy Act, 1997.

The Swaziland Revenue Service (SRA) is a public sector organization outside the public service. The SRA is funded just like any ordinary government agency (i.e., through legislative appropriations). It operates outside of the traditional civil service structure and is guided by the same philosophy that drive established revenue authorities in Sub-Saharan Africa—to improve revenue collection through enhanced autonomy, acquisition of skilled staff, increased integrity and effective use of automated system; and adopting private sector-style management practices, with high caliber staff and competitive remuneration, and a code of conduct to guard against corruption.

The SRA is guided by relevant legislation and policies approved by its Governing Board, headed by a Chairman, appointed by Minister of Finance. These policies aimed at enhancing operational efficiency, professionalism and ethical behaviour in its workforce. The other Board members include the Principal Secretary in the Ministry of Finance; the Principal Secretary in the Ministry of Enterprise and Employment; the Governor of the Central Bank of Swaziland; and three other people appointed by the Minister of Finance (on the basis of their integrity, knowledge, qualification, and experience in commerce, economics, law, taxation or revenue matters); and the Commissioner-General, who is an *ex-officio* member of the Board.

SRA sees it mission as that “to provide an efficient and effective revenue and customs administration, driven by a high performance culture that promotes compliance through fair, transparent and equitable application of the law.” In its vision, SRA is striving to become a modern, credible and customer centric Revenue Authority.

Six key strategic themes guide SRA’s day-to-day operations, these are: increased revenue mobilization; minimizing the costs of collection, enforcement and compliance; promoting voluntary compliance; improving customer service; building a strong and sustainable organization; and encouraging staff professionalism and motivation.

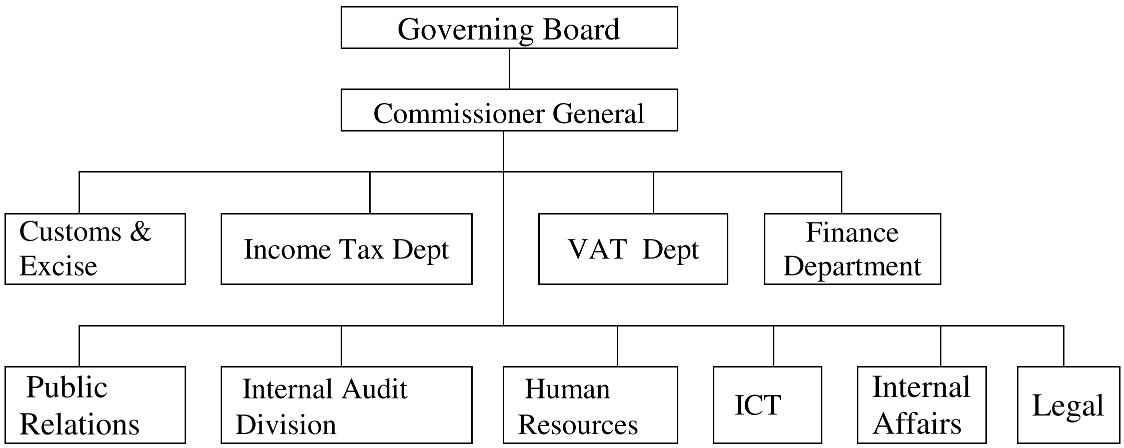
The SRA is a member of various international organizations that promote best practice such as the World Customs Organization; the Commonwealth Association of Tax Administrators and the African Tax Administration Forum. It has endeavoured to establish alliances with regional revenue agencies such as the South African Revenue Service (SARS), the Lesotho Revenue Authority (LRA) and the Zambia Revenue Authority (ZRA).

4.2 Organisational structure

Tax administration operations are organized partly on a ‘functional’ line (with three technical departments dedicated to customs, income tax and VAT collections and audit), and partly on a taxpayer basis; with a dedicated organisational unit responsible for ‘large’ taxpayers. The Customs and Excise, Income Tax and the VAT departments, are each headed by a commissioner; together with one Support Department (Finance department headed by the Chief Financial Officer)—all report directly to the Commissioner General. Apart from these, several Divisions and Units exist, and report directly to the Commissioner General. They are: Human Resources; Legal; Information and Communications Technology (ICT); Internal

Audit; Public Relations; and Internal Affairs (Figure 2), and an Anti-Smuggling Unit (to be set)

Figure 2. Organizational structure of SRA



The ratio of core workers to support staff is 1.15 in Swaziland Revenue Authority, compared with 0.93 in Lesotho, 1.23 in Burundi, 1.49 in the Gambia (1.49), 7.47 in Seychelles, 7.54 in Senegal, 7.82 in Mauritius, and 10.09 in Cameroon. A 10.09 ratio implies that for every employee in support functions, there are 10 in core functions. A high core-to-support staff ratio tends to be associated with high tax effort.[1]

Taxpayer service

Swaziland has a communication division that handles taxpayers' services and education. This helps to narrow the communication gap and improve relationships between taxpayers and the tax collection body. It also help identify issues that cut across different tax and customs revenue administration functions and brings these to attention of management.

Tax payer segmentation

SRA categorises taxpayers into Large-medium taxpayers and small taxpayer to cater for their specific needs. A number of countries in Africa (Table 13) apply similar approach.

Table 13. Taxpayers segments as at end of 2014

Taxpayers **Segment /Country**	Country	Taxpayers **Segment**

[1] The tax administration core worker to support staff ratio is the total number of employees in the core function divided by the number of support staff (ATO, 2016).

Large – Medium–Small. (Burundi)	South Africa	Business and employers:
Large – Medium –Small – Very small (Cameroon)		• Large business centre
Large – Medium and small – Informal (Gambia)		• Small business
Large – Medium and small: Kenya, Lesotho, Mauritius Rwanda, Senegal Seychelles, Swaziland Zimbabwe		• Tax-exempt organizations • Embassies • Individuals • Tax practitioners
Large – Medium – Small: Tanzania, Togo, Uganda		

Source: African Tax Outlook (2014)

Accountability mechanisms

In Kenya, the commissioner of the KRA audits the internal accounts of the revenue authority every three months and presents the findings to its board of directors, the minister of finance, and the auditor-general. Many of the semi-autonomous RAs in the other countries submit periodic reports to the minister of finance who then presents the report to the legislature (e.g., Malawi and South Africa).

4.3 Tax management processes

4.3.1 Registration of taxpayers

Registration is required for income tax; VAT; and for customs. Companies register for income tax purposes and for VAT, if their annual turnover exceeds (or is expected to exceed) E 0.5 million. They are also required to register as employers and obtain a PAYE Number that enables them to remit PAYE and Graded Tax for their employees. Registration by individuals for tax purposes include: (i) compulsory registration for Graded Tax, required for all Swazis, upon reaching the age of 18; and (ii) registration to operate business e.g. sole proprietor. Corporate business registered in Swaziland for the sole purpose of making profit is required to register for income tax purposes.

A unique Taxpayer Identification Number (TIN) is issued to every registered taxpayer and serves for all types of taxes in preparation. As such, taxpayers' registry constitutes one of the primary management tool and the first control level in tax administration operations. It is, in large measure, the backbone of a nation's tax management system. However, progress by

SRA to register more taxpayers remains low. Factors that have been sighted as challenging this process include poor taxpayers' registry, and the inability to identify potential taxpayers especially in the informal sector. Because of this, SRA, like many revenue authorities in Africa does not register individual taxpayers in the labour sector (employees); instead, it registers employers who withhold employees' income taxes as part of pay-as-you-earn.

Evidence (e.g. ATO, 2016) shows that the number of income taxpayers in relation to total labour force in most countries is still very low (Table 14) and that explains the low tax efforts in most countries.

Table 14. Ratios of taxpayers, by type, to the labour force, 2014

	Types of taxpayers and share of labour force		
Country	Income tax taxpayers (%)	VAT taxpayers (%)	Corporate tax taxpayer (%)
Burundi	0.03	0.03	0.03
Cameroon	0.24	0.23	0.13
Gambia		0.08	
Kenya	37.30	2.31	0.82
Lesotho	7.34	0.32	1.38
Mauritius	31.37	3.28	10.27
Rwanda	1.09	0.19	0.41
Senegal	0.30	0.63	0.12
Seychelles	27.31	1.75	12.05
South Africa	83.00	3.28	13.28
Swaziland	3.20	0.60	0.60
Tanzania	5.88	0.09	0.22
Togo	0.16	0.14	0.08
Uganda	0.09	0.10	3.27
Zimbabwe	0.03	0.33	0.85

Source: African Tax Outlook (2016)

4.3.2 Tax collection process

Assessment regime, filing of tax return and payment

Payment of taxes is a process that begins with filing a tax return, required for individuals taxpayers (including those who are self-employed) and companies; and in the case of income tax, no later than 31st October annually. The Income Tax year in Swaziland runs from 1st July to 30 June. Tax returns for companies which have an approved variation from the year ending 30 June are due 120 days after their approved financial year ends.

Under the modernization programme, E-filing and E-payments systems have been developed, including Integrated Financial Management System, and Revenue Management System (RMS). Modes of tax payment in Swaziland include (1) direct cash deposit; (2) payment by card at any Point of Sale machine (at major border posts); (3) on-line banking transfers; (4) in-branch transfer/ electronic fund transfer; (5) cheques deposit (for pre-approved clients). Table 15 identifies a few countries that have expanded payment options by providing mobile payment platforms.

Table 15. Modernising tax collection processes until the end of 2014

Examples of African countries that have modernised their tax collection processes	Return filing and payment system		
	Taxpayer file their returns electronically	Tax payments made electronically	Mobile payment systems
Burundi, Cameroon, Gambia, Kenya, Mauritius, Rwanda, Senegal Seychelles, South Africa, Swaziland Tanzania, Togo, Uganda and Zimbabwe.	Cameroon, Kenya, Mauritius, Rwanda, Seychelles, South Africa, Swaziland, Togo, Tanzania, Uganda and Zimbabwe	Kenya, Mauritius, Rwanda, Seychelles, South Africa, Swaziland, Tanzania and Uganda	Cameroon, Mauritius, Rwanda, South Africa and Tanzania

Source: African Tax Outlook (2016)

Swaziland Revenue Authority has rolled out integrated tax administration systems (ITAS) and tax management systems (ITMS) — Swaziland's eTax, which serve to simplify filing and payment, reduce the cost of paying taxes and excise and doing business, and enable taxpayers to check their tax status at all times. Similar system exists in Kenya—the Kenya Revenue Authority's iTax, and in a number of other African countries.

The Income Tax Acts in Swaziland provides a mechanism for self-assessment to tax. It is only after receipt and processing of the return that the SRA may make enquiries into its accuracy.

As for customs, SRA has ASYCUDA (Automated System for Customs Data Administration), with which taxpayers can register, file and lodge import and export documents as well as pay their taxes, duties and track their tax situation. Customs declarations are made through the ASYCUDA (by licensed agents on behalf importer/exporters). Declarations may be made by Remote Connection (also known as the Direct Trader Input -DTI) —which allows a trader to capture a declaration at his own premises and forward hard copies to customs at his/her convenience. With this, entries can be lodged prior to arrival of goods at the border. Trader can access any of his declarations passed through Customs at any time. Under the Customs Act, goods entering the SACU area may be declared at the first port of entry into the customs union. In essence, therefore, the Swaziland customs department is responsible for the clearance and levy of customs duty on goods arriving directly from Mozambique or by air, and for the levy of import VAT on goods originating in all sources, including South Africa.

Goods may be removed in bond from the port of entry to another SACU country, where they are cleared for domestic consumption or for transit to another SACU country.

Table 16. The 14 border posts/points of entry

Border Posts (daily)	Operating Hours	Border Posts (daily)	Operating Hours
Ngwenya	0700hrs to 2200hrs	Bulembu	0800hrs to 1600hrs
Lavumisa	0700hrs to 2200hrs	Lundzi	0800hrs to 1600hrs
Mahamba	0700hrs to 2200hrs	Gege	0800hrs to 1600hrs
Matsamo	0700hrs to 2000hrs	Inland Stations (except Saturdays, Sundays and Public Holidays)	
Mananga	0700hrs to 1800hrs	Matsapha ICD	0800hrs to 1700hrs
Sandlane	0800hrs to 1800hrs	Matsapha AGOA	0800hrs to 1700hrs
Mhlumeni	24 hours	Nhlangano AGOA	0800hrs to 1700hrs
Lomahasha	0700hrs to 2000hrs	Mbabane Clearance Office	0800hrs to 1700hrs
Sicunusa	0800hrs to 1800hrs	Matsapha Airport (daily)	0800hrs to 1700hrs
Nsalitje	0800hrs to 1800hrs		

Customs procedures have not yet been fully harmonized throughout SACU. Some differences remain in the regulations and administrative procedures; documentation requirements also differ. Swaziland does not conduct pre-shipment inspections for its imports. Customs clearance takes on average one day. As Swaziland does not have tax appeal tribunal, appeals against Customs decisions are made to the Minister of Finance and appeals against the Minister's decisions may be heard in the courts.

As for cargo management, SRA is yet to put in place Automated Cargo Management (ACM)/ electronic cargo tracking systems (ECT), which exists in a number of countries (e.g. Mauritius, Rwanda, South Africa, Tanzania and Uganda) to monitor cargo movement especially goods on transit. Also still lacking is Cargo and Risk Management Systems (which we find in Burundi, Mauritius, South Africa, Tanzania and Zimbabwe). Tanzania, for example, has established Import and Export Commodity Data Base (IECDB) / e valuation database system (Tanzania); while Burundi, Kenya, Mauritius, Rwanda, Tanzania, Uganda and Zimbabwe operate Integrated/coordinated border management (IBM/ CBM). As a young revenue authority, SRA has enormous room to improve tax collection efficiency by capitalizing on modern systems and new innovations (already experimented elsewhere), and learning from revenue bodies.

On tax payments, all businesses are required to make provisional tax payments twice annually; these advance payments are due on the 31st December and 30th June for each tax year. A third payment is due when there is a short-fall after the provisional taxpayer has submitted a tax return and has been assessed (and must be made on receipt of a notice of assessment which clearly states the actual tax liability). A business whose approved tax year is different from that which is legislated is required to make first payment within the first six months of the tax year and the second payment before the end of the tax year.

The *VAT deferment scheme* allows importers who have a bond in place to declare the goods at importation and pay tax on their imports later (within 30 days from the date of importation). Vendors of taxable goods and services are required to register for VAT and to submit returns and pay tax monthly (by the 7th day following the month end). Monthly interest of 2% is charged on late payments. A Tax Clearance Certificate is granted to taxpayers who are compliant in respect of all tax affairs (i.e. PAYE remittances up to date, tax fully paid from an assessment, all tax returns submitted; provisional tax fully paid, in the case of VAT vendors all returns and payments up to date).

4.3.3 Tax refund process

An Income Tax Refund is due when the taxes paid are above the tax due resulting from the raising of an assessment. The Income Tax Order 1975 (as amended) allows a tax rebate of up to E7 200 per tax year to be deductable from tax liability of an individual (income) taxpayer, for amount exceeding E36 000. The Commissioner General is required to authorise such a refund and only in cases where: (1) the amount has been properly charged; (2) the refund is claimed after 3 years following the end of that year of assessment; (3) The amount involves PAYE withheld during any year of assessment; (4) The natural person’s income consist of only remuneration; (5) The person is not required under any provision to render a tax returns and did not do so for the past 3 years; (6) Any other case, after the lapse of 3 years from the date of the official receipt acknowledging payment. The Commissioner General is allowed to offset an amount of refund which is due if the taxpayer has failed to pay other additional tax, levy, charge, interest or penalty imposed under the Income Tax Order. The tax rebate does not apply in the case of redundant or retiring individuals. In government decided to provide an additional tax rebate to reduce tax liability of pensioner's income.

4.3.4 Collection of non-tax revenue

A one-stop system for trading licences—the Trading Licence Computerisation Management System—is linked with the Ministries of Home Affairs and Commerce, Industry and Trade. The system requires all applicants to posses identification documents such as citizenship or work permits for non-Swazis, tax clearance certificates, evidence of payment of company fees, and so on. The system’s computer generated receipts being more difficult to manipulate, helps to reduce revenue losses through forgeries.

4.4 The cost of tax administration

The cost of tax administration is about 5 percent of net revenue collected, which is more than five times the OECD’s average of 0.9 percent, and three times the OECD’s single highest case; and more than ten times the cost ratio in Cameroon (0.3). The wide difference is explained by the differences in efficiency and effectiveness of revenue collection. Apart from Cameroon, Senegal and Togo are other examples in Africa where the cost of tax administration to net revenue is quite low (under 1 percent), reflecting in large part the positive impact of the huge investment in reform and modernisation initiatives implemented, including Integrated tax administration and management systems, E-filing systems, Mobile payments systems, Automated customs systems like ASYCUDA world/customs management, among other initiatives.

4.5 Tax arrears inventory

The ratio of arrears to net revenue collected is about 30 percent in 2015, compared with about 27 percent in Mauritius, about 16 percent in Kenya, 13 percent in Rwanda, 7 percent in South Africa and less than 5 percent in Lesotho and Uganda. In Seychelles and Tanzania the arrears ratios are even much lower at less than 1 percent. In 2001/02, tax arrears were estimated at E 300 million (2.5 percent of GDP), in part reflecting the limited ability of the Tax Department to enforce the judicial collection of arrears. It was expected that with the SRA coming on board, the number would change dramatically. This change is yet to come.

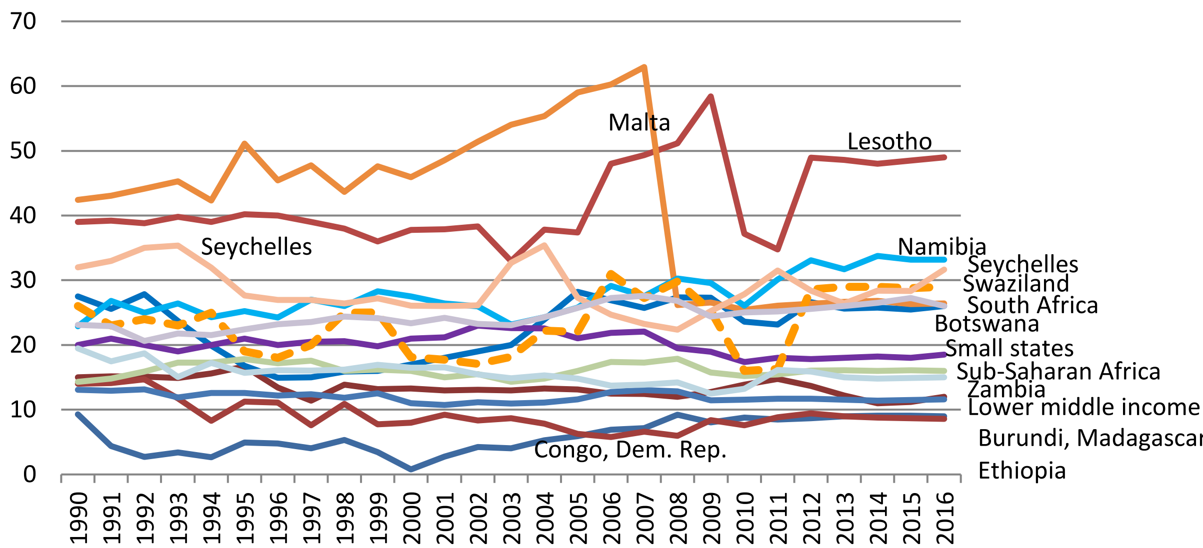
5 Revenue performance

Tax revenue accounts for over 97 percent of Swaziland government operating revenue every year for the last decade, with fees and charges and other receipts (3 percent) making up the remainder of what the government spends. The most significant of the various taxes imposed by the government, are customs taxes, income tax, and VAT. Other taxes include excise duties, withholding tax, gaming and lotteries tax.

5.1 Overall tax effort

Swaziland's tax effort, as measured by the ratio of tax revenue to GDP (over 25 percent) is above the average for Sub-Saharan Africa (16 percent), lower middle income countries (16 percent) and small states (20 percent). Swaziland has raised its tax effort to a level roughly matching those found today in OECD countries, emerging economies such as Singapore and regional economies such as Namibia, South Africa and Botswana. However, its revenue exhibits more volatility than the trends seen in most comparator countries. Part of the reason is that Swaziland has not apparently made an effort to increase its reliance on different taxes as a source of fiscal revenues, making it very vulnerable to external shocks.

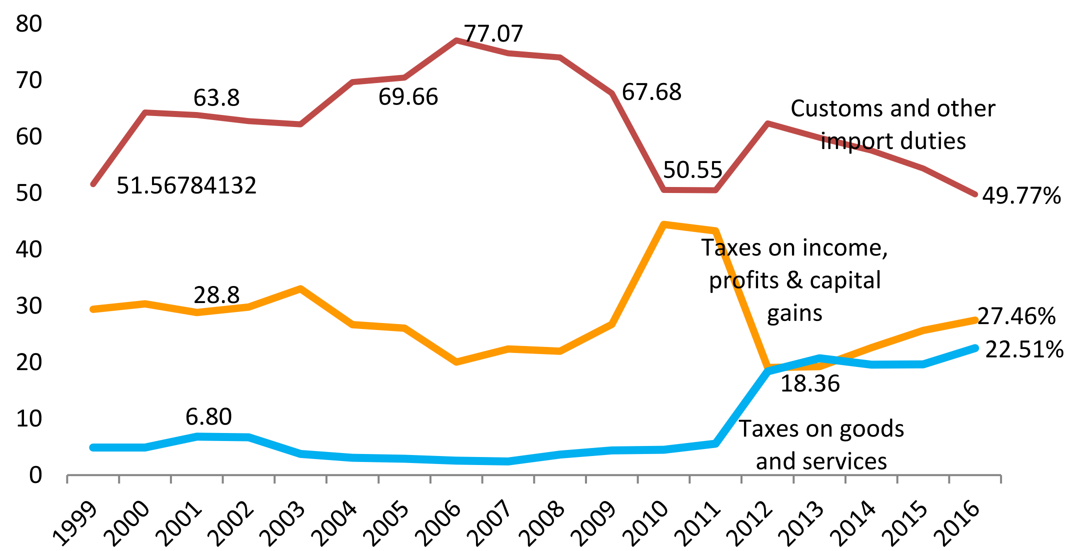
Figure 3. Swaziland's tax effort



Source: World Bank, World Development Indicators

Revenue concentration is high, with customs receipts based on SACU revenue sharing arrangement alone contributing more than one-half of total revenue, and company and personal income taxes accounting for some 30 percent of tax revenue and VAT receipts accounting for about 13 percent of tax revenue (Figure 4).

Figure 4. Contribution to overall tax revenue (PERCENT)



The amount of revenues collected from different tax heads and their contributions to total revenue are presented in Table A1. The shares of revenue provided by different taxes have been remarkably stable since the mid-1990s. The principal change has been in the contribution of corporation tax, which has risen, fallen and then risen again. This largely reflects the changing fortunes of financial companies, whose profits were strong in the late 1990s, weaker thereafter, but were then stronger again until the financial crisis that began in 2008–09. The share of revenue coming from indirect taxes has fallen since the late 1990s, mainly because fuel duties have been cut substantially in real terms.

Tax revenue fell to 24 percent of GDP in 2002, reflecting weaker SACU transfers and company tax receipts. The fall in company tax receipts (as a percent of GDP) resulted from a reduction in tax rates, announced in the budget for 2001/02, and to the closure of a number of manufacturing businesses, e.g. Fridgemaster in 2001. From that time, revenue collection remains relatively weak. However, from 2005 to 2008, SACU receipts in relation to GDP increased by close to 8 percentage points, mainly due to South Africa's growing economy and rise in international trade, translating into an enlarged customs revenue pool.

Revenue from capital taxes increased during the period of booming stock and property markets, helped by the introduction of higher rates of stamp duty on property, but still only accounted for 3% of total revenue in 2007–08 before falling again in the slump in stock and property markets that began in late 2007. There have been much bigger changes from 2011; the most dramatic shifts being almost a doubling of the share of revenue flowing from tax on goods and services (mainly VAT) and a substantial reduction in revenue from other indirect taxes.

Total tax revenue increased from E 5.5744 billion (40 percent of GDP) in 2011 to E13.9 billion in 2015/16. The tax of E13.9 billion collected in the 2015/16—translated into a 3.1 per cent growth over the previous year, 2014/15 and about 40 percent growth over the 2011 collection. The largest component of this growth is from SACU revenues, which peaked at 43% of GDP in 2006/07 from 33% in 2005/06 and remained high at almost 40% of GDP in 2008/09; it fell in 2011 and remained relatively weak for the next five years. In 2014/15, SACU receipts amounted to E7.491 billion and in 2015/16, it dropped to E6.996 billion (approx. 6.6 per cent decline during this period), from E7.491 billion in 2014/15 to E6.996 billion in 2015/16.

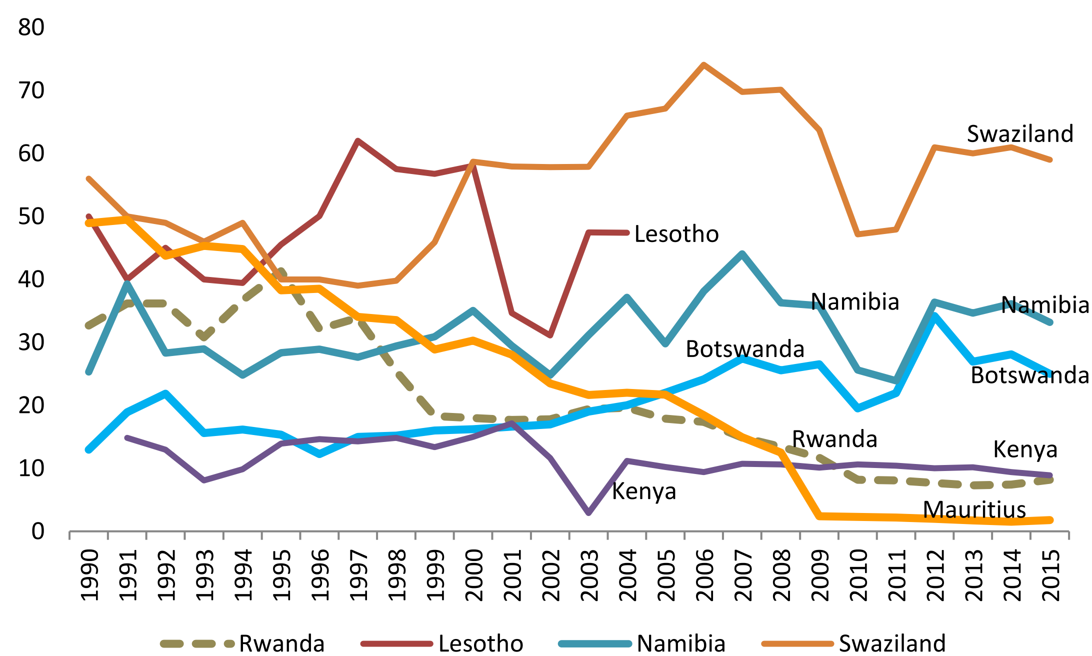
5.2 Taxes on international trade

The three accompanying figures compare the sources of government revenues from taxes on international trade (Figure 5), indirect taxes on goods and services (Figure 6), and direct taxes on income and profits (Figure 7) in Swaziland relative to selected African countries, during 1990 to 2017.

Among the trends revealed by the figures is the gradual decline in reliance on international trade taxes in all countries except Swaziland. While international trade taxes today generally account for less than 10 percent of government revenues in most countries (e.g. Mauritius, Rwanda), they remain much higher in Swaziland. This dependence has arisen because such taxes are easy to administer. Other countries where customs taxes still account for more than 10 percent of tax revenue include Cameroon, the Gambia, Kenya, Senegal, Tanzania, Togo, Uganda and Zimbabwe.

International trade taxes (import duties and excise/ VAT on imports) account for over 75 percent of Swaziland government revenue. Over 80 percent of this revenue (trade taxes) comes from SACU Customs Union receipts.

Figure 5. Taxes on international trade as share of domestic revenue



Other countries have offset this decline by (gradually) increasing indirect taxes on goods and services (but, notably, not direct taxes on incomes and profits). In recent years, Swaziland seems to have also increased its reliance on indirect taxes on goods and services.

Import duties are levied on the c.i.f value of imports originating from outside of the Southern African Customs Union (SACU). The revenue collected from those duties is pooled and shared among SACU Members according to a revenue sharing formula (the current formulae came into force in 2005/06).

For over a decade, increased SACU revenue helped Swaziland government to realise huge fiscal surpluses and accumulate substantial international reserves. However, SACU receipts started going down soon after the effects of the 2008/09 global economic crisis began to emerge. The fall in value of imports particularly of motor vehicles, footwear and electrical equipment resulted into SACU's revenue pool of close to 17 percent i.e. E9.4billion below the revenue target of E53 billion, at the beginning of 2008/09, was not realised. As it happened, the SACU member states were obliged to pay the differential back into the pool, leaving Swaziland with a bill of E1.4 billion. The government reached an agreement to retain E 437 million which was to be paid to Swaziland as an adjustment generated out of excess collections in 2006/07 and 2007/08 to partially offset this obligation. The E 987 million that remained outstanding was to be offset from its 2010/11 revenue shares. This has a huge implication in the sense that E 4.8 billion Swaziland's projected SACU share for 2010/11 of SZL 4.8 billion had to be lowered by 21.2% or SZL 987 million to SZL 3.7 billion.

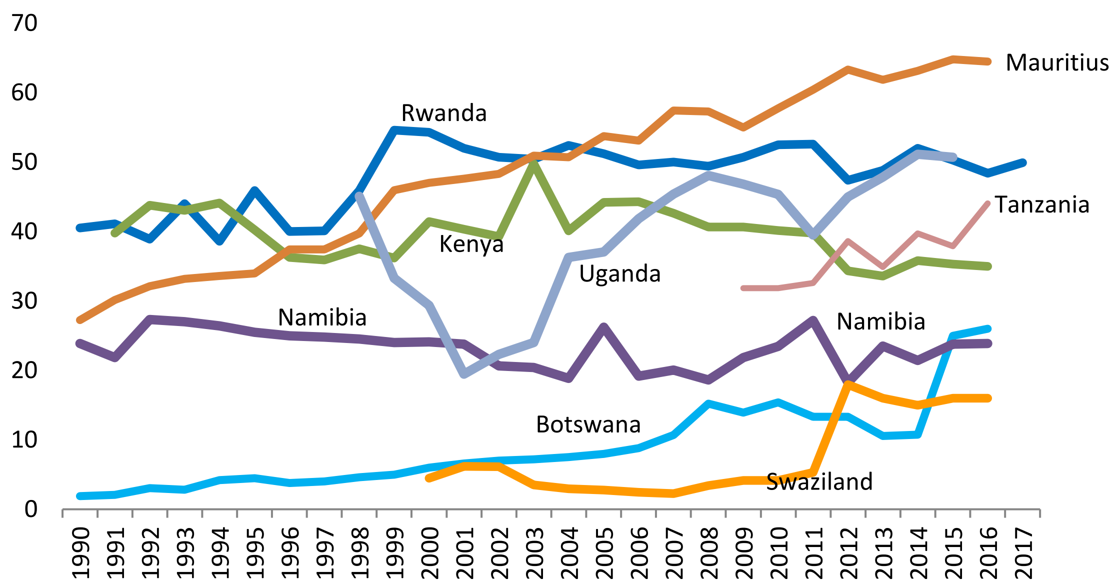
5.3 Indirect taxes on goods and services

The third important contributor to revenues is value added tax, accounting for about 10 percent of total revenue. In contrast, for a number of countries in Africa where consumption taxes (including VAT and excise duties) finance over 30 percent of total revenue and constitute the largest single source of tax revenue, e.g. Burundi, Cameroon, Mauritius, Rwanda, Senegal, Seychelles, Tanzania, Togo and Zimbabwe.

Swaziland shows less reliance on indirect domestic taxes as compared with many countries in Sub-Saharan Africa such as Mauritius and Rwanda that have substantially increased indirect domestic taxes on goods and services to compensate for the decline in international trade taxes (Table 4). The Gambia, Kenya, Lesotho, South Africa, and Uganda are other examples in Africa that remain less reliant on indirect taxes on goods and services. Again, this arises because indirect taxes are more difficult to administer than trade taxes.

VAT is the third single largest contributor to government revenue (12%) after income tax, and tallied E1.1727 billion in FY2010/11, compared with E0.5477 billion from sales tax in FY2003/04, and less than E1.0 billion collected in FY2009/2011.

Figure 6. Taxes on goods and services as share of total domestic revenue

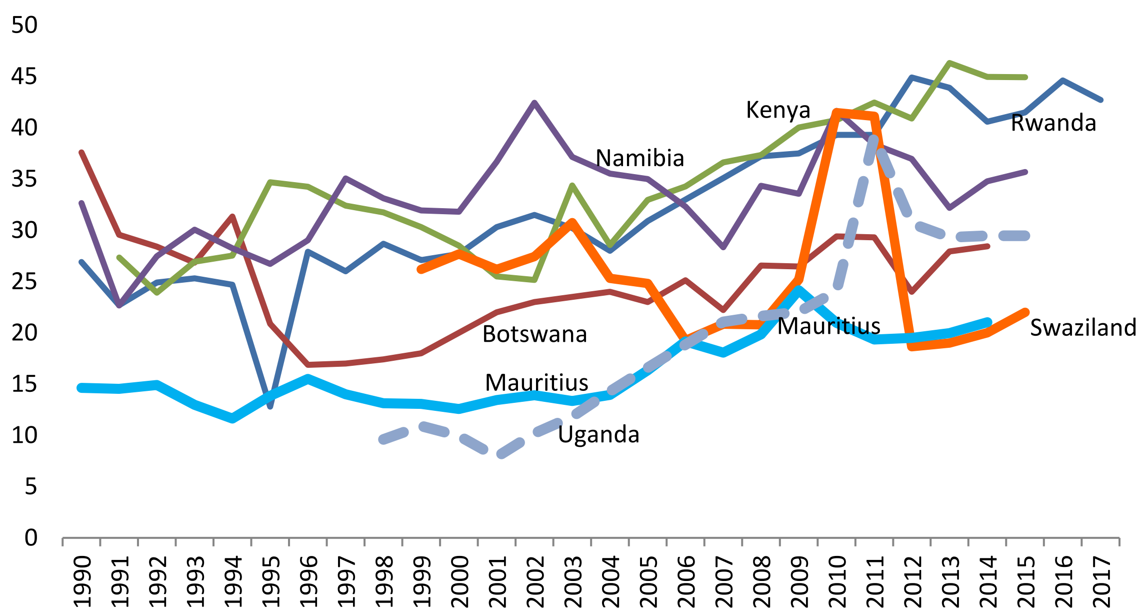


5.4 Direct domestic taxes

Swaziland's second most important source of tax revenues is income tax (it is the largest source of tax revenue in Lesotho). The income tax base consists of four tax groups companies, individuals, graded taxes and other taxes), which together account for about 20 percent of total revenue. Direct domestic taxes—personal income tax (PAYE), corporate income tax, graded taxes and other taxes—together account for about 20 percent of total revenue. Revenue of E2.1338 billion was collected from direct taxes in FY2009/10, a 93 percent increase over the 2003/04 collection of E1.1054 billion. It increased to E2.2 billion (i.e. E 2,271,064,441) in 2013; E2.8 billion (E 2,807,403,150) in 2014; E3.5 billion (E

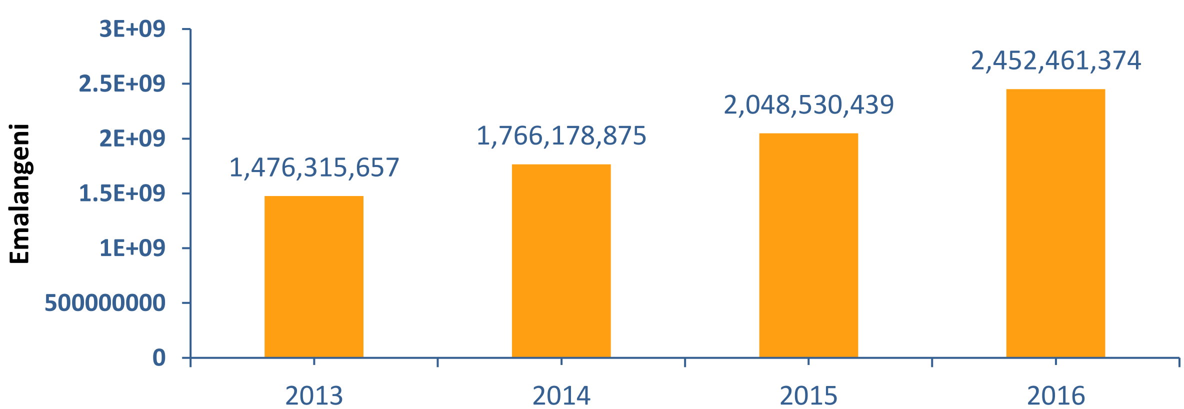
3,531,778,565) in 2015 and E3.8 billion (E 3,824,300,564) in 2016. These increases have been driven by personal income tax.

Figure 7. Direct taxes on income and profits



Personal income tax (largely PAYE) contributes about 11 percent of total revenue, while corporate income tax accounts for about 6 percent. Revenue from personal income tax rose from 1.4 billion in 2013 to 2.4 billion in 2016 (Figure 8).

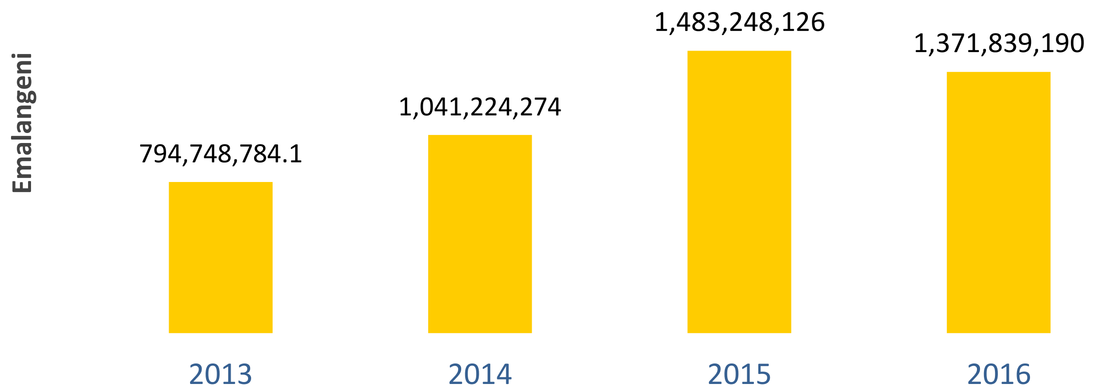
Figure 8. Swaziland: Personal income tax collection, 2013 – 2016



Source: Ministry of Finance

Revenue from corporate income tax increased from E0.8 billion (6.7% of total tax revenue) in 2013 to E1.3 billion (9.85% of total tax revenue) in 2016, a 0.92 percentage point decline in its share of tax revenue over the 2015 ratio of 10.8 percent (Figure 9).

Figure 9. Swsaziland: Corporate income tax collection, 2013 – 2016



Source: Ministry of Finance

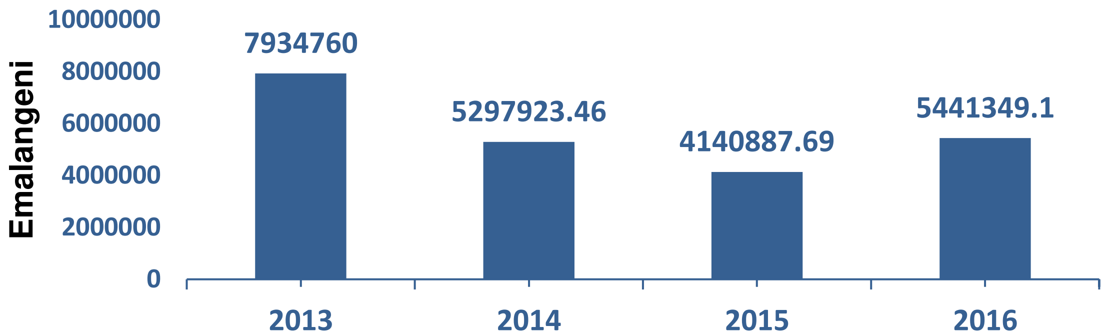
Swaziland has raised its reliance on direct taxes on income and profits to levels roughly matching those found today in OECD countries and Singapore. However, Swaziland has not apparently made an effort to increase its reliance on other taxes as a source of fiscal revenues.

5.5 Other domestic revenues

In addition to the above revenue streams, Swaziland has a series of other less significant taxes, including road tolls, taxes on lotteries and gaming, and a fuel tax. Until September 2009, the government also levied a sugar export tax. However, this ended owing to changes in the sugar regime in Europe and the government received the final payment on 31 October 2009. The other indirect taxes are a levy on sugar exports. Swaziland has been the fourth largest supplier of sugar to EU among the sugar protocol countries after Mauritius, Fiji and Guyana. Consequential to sugar reform in EU to comply with WTO requirements, the price of sugar paid by Europe was reduced gradually to approach world market prices leading to a reduction of income for Swaziland, which enjoyed a sizeable quota of raw sugar exports to the EU.

Gaming and hotel tax collection in FY2010/11 amounted to E24.6 million, a significant increase of 215 percent from the FY2005/06 collection of E7.8 million.

Figure 10. Taxes on specific services (lotteries and gaming)



Source: Ministry of Finance

Property Tax collection of E12.4 million in FY2010/11 made up 0.2 percent of SRA's collection, registering a 6.7 percent decrease over the E13.3 million collected in FY2005/06. Swaziland still levies a road toll which is collected on foreign registered vehicles and trucks as they enter through border posts. The road toll contributed E 23.8 million to government revenues in 2007/08, decreasing slightly to E 22.9 million in 2008/9. There has also been a growing receipt from lotteries and gaming over the past years with collections in 2008/09 amounting to E 19.7 million – a 45% increase over the 2007/08 collection of E 13.5 million. The key driver for the lotteries and gaming revenue has been the increased participation of South Africa-based interactive gamblers. With regards to fuel tax, the government collected E 62.8 million in 2007/08, which increased by 18% to E 73.9 million in 2008/09.

Swaziland's government also collects non-tax revenue, mostly from property income, loan repayments and fees and fines, all of which collectively contribute approximately 5% to government revenues.

6 Conclusions and implication for policy

The tax reforms implemented since the late-1990s has had a major impact on collection of indirect taxes (Value Added Tax) but no clear impact on receipts of direct taxes and trade taxes. Despite efforts to broaden the tax base, tax collection is still heavily concentrated on very few sources, with SACU receipts alone accounting for more than one-half of total revenue. Growth in revenue collections from direct taxes on income and profits, and indirect taxes on goods and services remain substantially too low to compensate for the loss in import tariff revenues. While further revenue growth is possible by pursuing the current reform efforts, substantial increases are likely to come with further reforms of the VAT system especially reducing VAT exemptions and raising the standard rate (from the current 14 %) to levels matching those found today in most counties in Eastern and Southern Africa region, strengthen VAT collections and by looking at undeveloped sources of domestic revenue such as property taxes.

Growth in revenue will also come from improving revenue administration, particularly in area of taxpayer registration and tax audit and investigation. The SRA should continue to expand taxpayer's registration, increase compliance by keeping the tax procedures simple and transparent and strengthening taxpayers' education; as well as enhancing self-assessment, effective use of automated systems especially in the clearing system and monitoring refund claims. Further to these, the cost of tax exemptions should be reassessed to eliminate those whose benefits are not commensurate to the cost and combating corruption and tax evasion.

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Appendix

Table A1. Swaziland: Tax Revenue (E' Million)

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10*	2010/11**
Taxes on Net Income and Profit	**1,105.4**	**1,164.0**	**1,270.4**	**1,534.8**	**1,646.0**	**1,820.0**	**2,133.8**	**2,226.7**
Companies	324.3	325.0	354.2	449.4	460.7	522.5	676.3	659.9
Individuals	650.5	708.6	734.3	838.1	947.7	1,079.2	1,237.0	1,329.8
Other	130.6	130.3	181.9	247.3	237.6	218.3	220.5	237.1
Taxes on Property	9.0	11.7	13.3	3.0	17.1	18.5	15.4	12.4
Consumption, Excise & Trade	**2,542.5**	**3,448.9**	**3,891.0**	**6,112.7**	**5,864.7**	**7,157.4**	**6,456.3**	**3,306.4**
Customs Union Receipts	**1,878.1**	**2,772.8**	**3,137.4**	**5,321.8**	**4,987.5**	**6,009.9**	**5,189.0**	**1,968.9**
Sugar Export Levy	12.1	21.7	21.1	33.1	32.1	27.0	17.6	-
Gaming & Hotel Taxes	4.3	5.4	7.8	9.6	13.5	19.7	22.9	24.6
Sales Tax	547.7	549.3	661.5	620.1	725.0	984.0	1,090.9	1,172.7
Other	100.2	99.7	63.2	128.0	106.6	116.9	136.0	140.2
Other Taxes	3.7	3.9	3.9	16.4	23.8	23.0	28.5	28.8
Total Tax Revenue	**3,660.5**	**4,628.4**	**5,178.7**	**7,666.8**	**7,551.6**	**9,018.9**	**8,634.0**	**5,574.4**
Non-Tax Revenue	**103.4**	**98.2**	**148.2**	**187.9**	**346.7**	**246.0**	**265.0**	**510.3**
Fees, Services & Fines	37.2	36.5	69.8	38.1	39.6	42.0	41.8	50.9
Property Income	56.7	54.2	62.4	98.7	217.0	83.8	116.4	344.5
Other	9.4	7.5	16.0	51.1	90.0	120.2	106.8	114.9
Total Revenue	**3,763.9**	**4,726.7**	**5,326.9**	**7,854.7**	**7,898.3**	**9,264.9**	**8,899.0**	**6,084.7**
Grants	126.9	115.6	172.2	165.6	187.3	145.0	246.7	499.4
Total Revenue and Grants	**3,890.7**	**4,842.3**	**5,499.1**	**8,020.4**	**8,085.5**	**9,409.9**	**9,145.7**	**6,584.1**

Source: Ministry of Finance
Note: * estimate, ** budget

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[1] Motor vehicle benefits comprise *private use of motor vehicle* including aircraft. It is valued according the formula: (20% x A x B/C) D, where A represents the market value of the motor vehicle at the time it was first provided for the private use of the employee, B is the number of days in the year of assessment on which the motor vehicle was used or available for use for private purposes by the employee for all or part of the day, C is the number of days in the year of assessment and D represents any payment made by the employee. Market value of the car is the cost to the employer at the time it was first provided to the employee.

Values of second-hand cars are obtained from the Auto Dealer's Guide. Where an employee is provided with more than one car, the taxable benefit is evaluated on an individual basis. The tax liability for employee using personal motor vehicle on employer's business is derived from the following formula:

$$A = .\frac{B-(C*D)}{E}$$

where A is the amount to be included in taxable income, B is the car allowance received (car allowance includes all cash allowances plus market value of any free benefit i.e. free fuel). C is the actual expenditure on fixed and running cost. D is the business mileage recorded in a log book or deemed total mileage of 6000 km where accurate records are lacking. E is the total mileage; or deemed total mileage of 24 000 km where accurate records are lacking. Cost of motor vehicle is the costs quoted by the manufacturer or what the purchaser paid including sales tax, air conditioners, radio tape, alarm, and excluding financial costs (bank loan). Deemed expenditure is determined based on the fixed cost of the motor vehicle and running costs.

Fixed Costs:	Engine capacity	Running costs per km:
25% of the original cost of the motor vehicle in each year	up to 1600cc	54c per km
	1600cc to 2000cc	76c per km
	Over 2000cc	85c per km

The rule does not apply where the employee in terms of the written employment contract is required to have such a motor vehicle for the performance of employee's duties. It also may does not apply if the employee uses the motor vehicle for the employer's business. The employee is required to keep a record of the millage in respect of business and private use. Where an employee is assisted with purchase of motor vehicle, or where an employee purchases a personal vehicle with the assistance from the employer as part of the benefit or advantage accruing by way of employment, the fixed allowance given toward the cost of the vehicle are taxable. Where the employee owns or leases a motor vehicle and rents it to the employer the rental paid in respect of the deal are deemed to be a taxable benefit to the employee.

The other benefits that are considered for tax purposes include domestic assistance (maid, gardeners, nannies), utilities (electricity, water, coal, gas), Children's educational assistance benefit, Soft loans, Meals, refreshments and entertainment, Debt waivers, Property transfers, medical aid and allowances. With respect to domestic assistance, the value of the benefit is the remuneration paid to the domestic assistant. In the case of utilities, the value of the benefit is the amount of reimbursement or discharge payable by employer for employee on utilities expenditure if separately metered. Where the utilities are not separately metered the benefit value is 10 percent of the housing benefit for each service. The value of the benefit from children's educational assistance is the cost to the employer for providing such educational assistance. If the educational assistance is provided through an approved bursary scheme, 50 percent of the total amount paid by the employer during each year of assessment is taxable.

If a loan is granted interest free or less than the official rate to an employee, either by the employer or a lending institution, the taxable benefit is the whole amount of interest or the difference between the official rate and the subsidised interest rate. The value of the benefit derived from meals, refreshments and entertainment is the cost to the employer of providing the meal, refreshment or entertainment, while the value of the benefit from debt waivers is the repaid amount where the employer undertakes on behalf of the employee to repay to a person or the employer an amount owed by the employee. The value of the benefit derived from property transfer is the market value reduced by any payment made by the employee for the benefit.

Also considered for income tax purposes are the value of free passages by road, rail, ship, or air that are paid for an employee. Such value is not taxable if the duration for the employment contract is two years or more. If the contract is less than two years the contract is not renewable. Where an employer‘s contribution towards employee medical aid scheme exceeds 66.67% - or 2/3, the excess thereof is taxable. Any amount of cash paid by an employer to an employee as an allowance is taxable in the hands of the employee. It is considered to be part of what the employee is paid for the services being rendered to the employer.

Re-imbursable allowances may be taxable as well. Where the employer pays an employee an allowance prior, in respect of expenses for travelling, entertainment or other service and is not expended for the official purpose, it is regarded as a taxable benefit to the employee. The taxable value is calculated as the difference between the actual amount paid and the justifiable official expense incurred by the employee. Where the employer reimburses the employee expenses whilst travelling, entertaining or other service on duty and the precise amount of such expenditure is paid, such amount is taxable.