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Towards Sustainable ICT Systems in Tax Administrations



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TAXATION OF SMES IN AFRICA GOOD PRACTICES AND LESSONS LEARNED

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PREFACE

The African Tax Administration Forum (ATAF) is committed to improve the functioning of African tax administrations. This can be done, for example, through improving the tax administrations' capacity and skill base as well as through addressing the specific challenges they face by learning from the experiences of their co-members. ATAF's strategic agenda for the three-year period from 2013 to 2015 is challenging and exciting, and brings us many opportunities. Two of these opportunities are to promote responsible tax citizenry and to ensure good financial governance through sharing ATAF's research, especially by analysing good practices and lessons learnt to empower and educate the state, tax administration and society; which could help deter the culture of tax avoidance, tax evasion and tax resistance.

The African Tax Administration Forum is delighted to present the study on good practices and lessons learned in the taxation of small and medium enterprises (SMEs) in Africa. The commissioning of this study has been well-informed by the need to tackle major issues and challenges regarding the informal sector and the requirement to design effective tax systems. This need has been identified as one of the fundamental challenges faced by tax administrations, as stated by the 2012 *ATAF Regional Studies on Reform Priorities of African Tax Administrations*. To tackle the issues and challenges around the taxation of the informal sector, ATAF initiated this research by focusing on SMEs which are a significant part of the informal sector. The study is intended to provide tax administrations with a solid theoretical overview of SME taxation as well as a list of options of potential reforms for the taxation of SMEs that includes a description of success factors and lessons learnt for each of these reforms.

The African revenue authorities have the responsibility to ensure that more revenue is mobilised to enable their respective governments to meet their fiscal obligations. Revenue authorities, *via* the taxation of SMEs, strive to continually improve their functions to broaden the tax base, reduce tax gaps, improve fairness in the tax systems and enhance the overall rate of voluntary compliance. Through this research, ATAF attempts to provide a valuable and practical input with the intention to improve the capacities of African tax administrations to effectively tax SMEs.

The potential of SMEs to increase tax revenue and thus improve the economy is the central conviction of this study. This research provides information about good practices, which should not be seen as 'an absolute' tax system design but rather as options that can assist countries in guiding their reform strategies and can be adapted to any country. This research analyses the importance, definition and characteristics of SMEs, provides a brief synopsis of the economic and tax environment of each country, describes the project activity of each reform measure, provides the description of the overall outcomes and benefits and emphasises the risks and the success factors during or after implementation. The reform measures discussed in this study are the segmentation of taxpayers and designing of special tax regimes for different-sized enterprises, the block management system, the use of specialised taxpayer training schemes for SMEs and the vehicle registration reform..

The research makes a very significant contribution to the overall tax literature. Six countries in Africa were selected for field visits, namely Burundi, Ghana, Rwanda, Tanzania, Senegal and Zambia. The study is complemented by full country reports for each of the countries mentioned above. The findings of this study have been enhanced by direct comments from various tax officials and other stakeholders from the respective countries that were included in the study. ATAF is confident that the value added from this study is beneficial to tax administrators in Africa, relevant stakeholders and other users of the information. All errors and comments are those of the researchers and editors, and these do not represent the views of the institutions to which they are affiliated.

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