

Navigating the complex landscape of taxation in Zanzibar: Customary and Digital Taxation Dispute Settlement in Zanzibar

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DOI: 10.55662/ITLR.2024.3302

Abstract

The codified of traditional tax practices per modern digital solutions offerings exclusive dispute settlement issues in Zanzibar, as it progresses its economic policies. This article will offer an outline of Zanzibar's taxation structure, emphasizing the twofold nature of customary and digital taxation methods. It will also discourse the rise of digital taxation in reform tax compliance and revenue collection, the complexities and challenges within the jurisdiction, taxpayer rights, compliance, and enforcement mechanisms. Additionally, it will shield dispute settlement mechanisms associated to taxation in Zanzibar and present real-life case studies to establish the practical implications of these complexities and the outcomes of various dispute resolution efforts. The article will also offer recommendations for policymakers and tax authorities on how to streamline dispute resolution processes and adaptive cooperation between customary and digital tax systems, highlighting the importance of adapting to the emerging tax landscape to ensure, compliance, fairness, and revenue effectiveness collection in Zanzibar.

Keywords: *Framework of Taxation, Complexity, Dispute Resolution Mechanism.*

1. Introduction

Zanzibar, an island of Tanzania, has a distinctive taxation system that is partial by both its government and the comprehensive Tanzanian tax structure.¹ The Zanzibar Revenue Authority (ZRA) is accountable for tax assembly and administration on the islands². It functions freely but in line with the traditional laws of the Zanzibar's Government.³. The move towards digital taxation indicates a advanced stage on the road to improving tax compliance and efficiency, although there leftovers a necessity for continuing struggles to effectively appliance the new system⁴.

2. Overview of Zanzibar's Taxation System

2.1. Regular Taxation Methods

Zanzibar has a diversity of native taxes that are charged by the government. They comprises land tax, driver license, tourism tax, property tax and business licenses that are frequently calculated based on traditional valuation methods.⁵

Indirect Taxes: An indirect tax is collected by one entity in the supply chain, such as a manufacturer or retailer, and then paid to the government.⁶ However, the tax is passed on to the consumer by the manufacturer or retailer as part of the purchase price of a good or service. Ultimately, the consumer ends up paying the tax by paying more for the product. These are taxes including Import Duty, Excise Duty, and Value Added Tax (VAT).⁷ Taxes such as Value Added Tax (VAT) and excise duties are also portion of the regular system. These are composed on goods and services at diverse phases of production and supply. Zanzibar

¹ <https://www.worldbank.org/en/country/tanzania/overview> visited on 8/12/2024

² Zanzibar Revenue Authority Act no. 11 of 2022

³ <https://www.worldbank.org/en/country/tanzania/overview> visited on 8/12/2024

⁴ Ibid

⁵ first Schedule. Zanzibar Revenue Authority Act no. 11 of 2022.

⁶ Younger, S. (2016). The impact of reforming energy subsidies, cash transfers, and taxes on inequality and poverty in Ghana and Tanzania (No. 55). Tulane University, Department of Economics.

<https://www.investopedia.com/terms/i/indirecttax.asp> 27/06/2024

⁷ Ibid

applied 18% VAT at a rate⁸ same to the mainland. Some assured goods and services are exempt or zero-rated.⁹

Income Tax: The income tax is a type of tax governments impose on the income that businesses and individuals generate.¹⁰ According to National Board of Accountants and Auditors (NBAA),¹¹ Tanzania financial Accounting Standards (TFAs) No.13; defines income as increase in economic benefits during the accounting period in the form of inflows or enhancements of assets or decrease of liabilities that result in increase in equity, other than those relating to contributions from equity participants. Income encompasses both revenues and gains. Zanzibar has an individual income tax¹² system that replicates mainland Tanzania to some extent. It typically encompasses taxation on grossed income, comprising salaries from employment and incomes from businesses. Income Tax Levied on individuals and corporations, with rates generally in line with those on the mainland. However 30% rate is for cooperate tax rate.¹³

Capital Gains Tax: Is the tax that Charged on profits from the sale of assets.

Customs Duties: Related to goods imported into Zanzibar, with depends on the type of goods. Local Taxes: Zanzibar also has local government taxation, including service levies and property taxes, which are collected by local governments authorities.¹⁴

Tourism Taxes: Upon tourism sector, there are particular taxes and levies levied such like hotel levies¹⁵ and tourist service fees. Hotel levy is imposed to any activity carried on with a view to profit or gain. This also includes Hotel, Guest House, Restaurant or establishment

⁸ S. 8 of Value Added Tax no 4 of 1998

⁹ Ibid

¹⁰ Income Tax Act, 2004 CAP 332

¹¹ National Board of Accountant and Auditing

¹² Tax individuals include sole traders and employees who are subject to progressive individual income tax rates, ranging from 14% to 30%. However, for a non-resident individual, the applicable rate is 20%, which is charged on the total income, Income Tax Act, 2004.

¹³ Ibid

¹⁴ Sec 10 of the Zanzibar Local Government Authority Act, 2014

¹⁵ The Hotel Levy Act No. 1 of 1995 R.E OF 2016

providing tour operating services by whatever name called, providing an accommodation, food and other services to a guest or visitor on consideration.¹⁶

2.2 Digital Taxation Methods

Electronic Tax Administration: with the spreads of technology, Zanzibar has started to apply digital taxation strategy to increase compliance and efficiency by online filing for tax returns and digital payment methods, building easily fulfillment for taxpayers obligations.¹⁷ However this approach is still within state boundary and not for internationally business oriented.

Data-Driven Taxation: The digital methodology also regularly comprises consuming data analytics to recognize tax bases and compliance patterns. This assist in steering tax enforcement and enlargement the tax base.¹⁸

3. History of traditional tax practices in Zanzibar

Historically, tax applies in Zanzibar can be posterior to the Sultanate period (up to the late 19th century). The economy was mostly founded on trade, agriculture, and slavery. The British colonial rule presented new taxation systems which affected local customs.

After independence in 1963 of Tanganyika (Post-Colonial Developments) and the succeeding revolution in 1964 for Zanzibar, Zanzibar's government alter the tax system although many traditional practices sustained together with newly introduced methods.¹⁹ Customary taxes acknowledged locally as "Zakat" or "Ushuru," were regularly tense to Islamic practices, replicating the community's values and religious beliefs.

Traditional taxes are normally gathered by the village or community, often overseen by local leaders or elders which is the Implementation of Tax Practices on Local Governance. ²⁰This

¹⁶ Ibid

¹⁷ Deborah E. Trade and tax in a digital world, 2021. Accessed from <https://www.hinrichfoundation.com/research/wp/digital/trade-and-tax-in-a-digital-> accessed on 8/12/2024

¹⁸ Ibid

¹⁹ https://en.wikipedia.org/wiki/History_of_Zanzibar accessed on 7/7/2024

²⁰ <https://www.land-links.org/country-profile/tanzania/> accessed on 13/08/2024

raises accountability and ensures that funds are used for local development projects. However, the types of taxes collected compose of Zakat, Farm Produce Tax and Fishing Licenses. However, challenges such as informal economies, tax evasion, and lack of awareness can deter the effective collection of these taxes.²¹

5. The Enlargement of Digital Taxation

Digital taxation has become an increasingly imperative subject as globalization and technological expansions continue to convert economies worldwide. The advent of digital taxation and how digital platforms and e-commerce are reforming tax compliance and revenue collection:²²

Globally, as businesses enlarge their operations across borders and consumers increasingly involve in cross-border e-commerce, traditional tax systems constructed on physical presence become less effective. This move has operated the rise of digital taxation laws intended at apprehending tax revenue from digital transactions.²³

Digital platforms and technologies advancement have generated innovative business models, such as software-as-a-service (SaaS) and platforms like Uber and Airbnb, which activate without a substantial physical footprint. This progress imposes new approaches to taxation that account for digital goods and services²⁴.

International Efforts and Agreements to an organizations like the Organization for Economic Co-operation and Development (OECD) have been working on establishing frameworks, such as the Base Erosion and Profit Shifting (BEPS) project, to address issues in taxing digital businesses and ensure fair taxation irrespective of physical location.²⁵ Where unilateral effort

²¹ Ibid

²² Dion k. Making digital tax work for Tanzania, Tanzania, 2023

²³ Ibid

²⁴ Ibid

²⁵ Krutikov, et.al, Using the Experience of digital transformation of tax authorities to harmonise customs activities. Inn IOP Conference, (2021). Pg. 776 – 783.

has been taken to some country to enact there law on digital taxation when multilateral consensus has not been approved which can delay the imposition and establishment of taxation system.

6. Complexities and Challenges

The integration of customary and digital taxation methods presents a range of complexities that need to be carefully considered in jurisdiction, taxpayer and dispute resolution.

6.1. Jurisdiction

Determining which jurisdiction has the right to tax can be complex. With digital businesses often operating across multiple borders. The concept of permanent establishment requirements reassessment in light of digital services that can create crucial revenue in a jurisdiction without a physical presence.²⁶ Also countries may differ having conflicting laws and regulations governing taxation, leading to potential double taxation or challenges in enforcing tax claims.

6.2. Taxpayer Rights

Transparency: The amalgamation of digital methods may create challenges in maintaining transparency concerning tax obligations, which can affect taxpayer rights. Taxpayers require clear information on how digital tools and taxation overlap.

Data Privacy: The usage of digital platforms for tax commitments elevate concerns about data privacy and the security of taxpayer information. However, on the part of certifying compliance with data protection laws is critical.

6.3 Dispute Resolution:

Digital taxation may obscure dispute resolution processes due to jurisdictional issues or divergent legal standards The dispute resolution mechanisms in Zanzibar consist of the

²⁶ Dion k. Making digital tax work for Tanzania, Tanzania, 2023

traditional court system, the Zanzibar Tax Appeal Board (ZTAB), and the Zanzibar Tax Appeal Tribunal (ZTAT).²⁷ The traditional court system includes the District Courts, High Court, and Court of Appeal, which have the authority to handle tax cases. On the other hand, ZTAT was established in 2017 as a specialized tribunal to address tax-related disputes.

In some areas of Zanzibar customary taxation, or a traditional taxation system, is still prevalent. Under this system, tax disputes are determined through the traditional court system. However, the effectiveness of this mechanism in addressing tax disputes is restricted. The traditional courts lack the technical skill to handle difficult tax matters, and their judgments are habitually influenced by local customs and traditions rather than tax laws and regulations. This can intimate taxpayers to unjust handling.

The intensification of digital taxation as an innovative source of revenue in Zanzibar, has demonstrated challenges specifically on dispute resolution where no provisions have been enacted to carter the digital evolution arguments leading to stays and suspends in determining digital tax disputes, which can mostly affect the customer. Zanzibar tax appeal board (ZTAB) is a specialized board that has the authority to hear appeals from judgements made by the Zanzibar Revenue Authority (ZRA) and Tanzania Revenue Authority (TRA) in Zanzibar and other tax-related disputes.²⁸ The chief benefit of ZTAB is that it has a session of technical specialists with understanding and expertise in tax matters, ensuring reliable, justly decisions and shorter period decision making which is lead to reduction of cost to the parties, although it much recommends taxpayers to represented by advocates due to the obstacle and technicalities which may arise. The board established after the traditional court seem to take more years in determine the dispute resolution on tax matters. However, it's also necessary to establish digital tax dispute expertise for digital tax dispute to advance the dispute resolution procedure in Zanzibar.

²⁷ The Zanzibar Tax Appeals Act No. 1 of 2006 R.E OF 2018

²⁸ Ibid

7. The dispute resolution efforts at Zanzibar.

Several case study occur within the practical implication of customary and digital taxation, raising complexity outcomes in dispute settlement in different manners, and they can be explained below:

7.1 Zanzibar's Traditional Taxation System: A Case Study of the Mwinyi Municipality

The Mwinyi Municipality in Zanzibar has a sole traditional taxation system that has been in domicile for centuries. The system is centered on a community-led approach, where community leaders collect taxes from residents based on their income, property, and businesses.²⁹ This system has been functioning in raising funds for community development projects, such as building schools and hospitals.

However, with the initiation of the digital taxation system by the Zanzibar Revenue Board (ZRB) which is formerly known as Zanzibar Revenue Authority (ZRA), arguments started to arise. Many community members were not conscious with the new system and felt that their traditional system was being relieved without their agreement. This commanded to protests and resistance, resulting in a stand-off between the ZRA and the community.³⁰ To resolve the argument, a series of meetings were taken between the ZRB and community leaders. Through these meeting, it was agreed that the traditional taxation system would persist to activate alongside the digital system. This negotiation was reached by acknowledging the significance of the traditional system to the community and finding methods to incorporate it into the modern tax system.³¹ This case study acmes the necessity for a balanced and inclusive methodology to taxation, identifying the complexities and cultural significance of traditional systems.

²⁹ Zanzibar Statistical Abstract 2018 accessed on ocgs.go.tz14/8/2024

³⁰ The World bank in Tanzania accessed on <https://www.worldbank.org/en/country/tanzania/overview>16/8/2024

³¹ Ibid

7.2 The Impact of Digital Taxation on Small Businesses in Zanzibar: A Case Study of the Spice Industry.

The basic coverage of digital taxation in Zanzibar had a noteworthy influence on the spice industry,³² which is a central source of income for many small businesses on the island. The digital system obligatory all businesses to register and pay taxes digitally, which was a important change for many small-scale spice traders who were used to paying taxes in cash. The transition to the digital system produced confusion and disturbances in the spice industry. Many small businesses were not alert of the new requirements, resulting in penalties and fines from the ZRB.³³ The lack of awareness of the new system also led to delays in tax payments, affecting cash flow and business operations.

To address these challenges, the ZRB joined with local business associations to deliver training on the digital tax system. They also present a helpdesk to assist small business holders in registering and considerate their tax responsibilities. The strength helps to drop the dispute rate and growth compliance among small businesses in the spice industry. This case study unveils the challenges of applying digital taxation in an industry liberated by small businesses and the significance of providing aid and supervision to ensure a smooth alteration.

8. Recommendations

Rise awareness: Educating taxpayer as well as make good cooperation with tax authorities and arrange of simplifies use of system can enhance tax compliance.

Dispute resolution Unit: Zanzibar could better establish dispute resolution Unit that comprise of experts in determine digital tax disputes. The unit can exercise with both the customary and digital tax systems to determine disputes in a short period timely and fairly manner. However, inspire incentive for tax payers can reduce penalties and interest if alternative dispute mediation method will be used. The board can also among its rule provide

³² Spice farm Tour Zanzibar accessed on <https://zanzibarworld.com/half-day-tours-zanzibar/spice-farms-15/08/2024>

³³ The ZRB Laws

a time frame for strict deadline for each stage of the determining of a case and propose penalties in case of delay.

Embrace technology and automation: The custom usage of technology and computerization can streamline the tax dispute resolution procedure and decrease the problem on taxpayers and tax authorities. This could comprise online gateways for filing and tracking disputes, digital record-keeping, and automated communication systems.

modernize and Review tax laws and regulations: Constant reviews and updates of tax laws and regulations can assist to acknowledge problems and challenges between customary and digital tax systems and discourse them. This will also ensure that the tax laws are keeping up with the technological advancements.

9. Conclusion

Generally, Navigating the complex landscape of taxation in Zanzibar involves understanding both customary taxation practices and the emerging digital taxation frameworks. Traditionally, Zanzibar has based on customary systems of taxation that may hinder bring into line with modern financial practices which can lead to disputes due to differing interpretations and practices among societies to international world trade economy. Zanzibar facades the challenge of incorporating digital taxation approaches. They comprises collecting taxes from online businesses and warranting compliance with national and international tax regulations. The loophole between traditional laws and digital inventions produces the possible for disputes and discrepancies in tax collection.

Additionally, Employing clear guidelines and reachable channels for resolving tax disputes can care and raise trust and compliance among taxpayers Furthermore, as the world economy shifts to digital transactions, Zanzibar must adjust its tax policies to ensure they remain appropriate. This includes review of tax laws and training tax administrators on the modern technologies and compliance methods. Securing equity in taxation is vital for maintaining public trust and ensuring compliance.

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