

**HARMONISING EAC TAXATION REGIMES MUST PROVIDE MEASURES THAT  
FOSTER SMALL BUSINESS DEVELOPMENT**

**Introduction**

Tax administration is one of the few public sector organisations which touches the lives of a country's citizens and businesses on a daily basis and, arguably has the greatest impact on their livelihood. The more tax administration of a country is efficient and fair across all economic players, the better for its own sustainable development. Development of all economies should be primarily supported through promoting domestic investments, which means putting in place measures that support local entrepreneurship with comes more use of local content. Harmonisation of the East Africa Community (EAC) taxation regimes is important for scaling up private sector development and attraction of foreign private investment; however, it must be designed in a way that it also achieves the objective of fostering small business development and domestic investment and cross-border trade by small businesses. This is provided for by article 32 of the EAC Common Market Protocol, stipulating that harmonisation of tax regimes is expected to "facilitate the free movement of goods, services and capital, and the promotion of investments within the community" which would directly affect the people in East Africa.

After a comprehensive research coupled with numerous consultative meetings, workshops, public dialogues, under a project on "Building an Inclusive East African Community" (BIEAC) managed by CUTS Africa Resource Centre, Nairobi, we the civil society together with members of the private sector, media, government officials, academia, policy makers and practitioners came into agreement that the impeding harmonisation of EAC taxation regimes should target providing incentives for the development of small and medium enterprises and foster a climate for a culture of taxation. The following positions have emerged from this long interaction.

**The Positions**

1. We recognise that revenue collected from taxes along with customs collections represents the major funding source for governmental expenditures in all EAC countries and therefore an effective and efficient tax administration system is integral to the well being of EAC economies.
2. We affirm that by bringing the SMEs into the tax bracket, it would have positive effects to the government as well as to the SMEs. This should be facilitated through bringing the SMEs under the purview of the tax radar with taxation systems suitable for their various characteristics.
3. We state that formalising the small businesses would open new avenues for their growth and potential to operate as bigger firms, hence paying more revenue ultimately encouraging the culture of voluntary compliance.
4. We recognise that EAC Partner States are in different levels of economic development and they utilise domestic tax laws to achieve certain goals. In this regards, we advocate that the ongoing regional tax harmonisation process should work towards reaching a convergence on taxable goods and that tax rates as well as schedules within ranges that are not retaliatory to the small and medium enterprises (SMEs) but also that do not create distortions in regional trade and investment.

5. We assert that harmonisation of EAC tax regimes should bear the desired traits of a good tax system, which imply that it must be guided by these basic principles:
  - a. It must be designed to promote stable revenue collection in tandem with the overall growth of the economies of EAC countries, ensuring that stable tax bases are maintained which may only rise in unitary elasticity to the rest of the economy.
  - b. Ensuring that the overall tax burden remains within a reasonable range of incomes of the economic agents, compliance cost is kept as low as possible and government demonstrating to taxpayers a good use of their hard-earned money.
  - c. The system should be simple, transparent and fair so as to reduce the cost of administration and promote compliance with both active incentives to discourage non-compliance such as penalties, fines, asset seizures, frozen bank accounts, etc, as well as having positive incentives to comply is also important.
  - d. Ensuring the system is growth-promoting by not reducing the incentive of economic agents to work, save and invest and by not distorting their production decisions.
  - e. Ensuring equitability so that the tax burden is commensurate with ability to pay, hence targeting both “vertical” and “horizontal” equity whereby those in higher income levels pay higher taxes and those in broadly similar financial positions pay broadly the same amount of tax.
6. We affirm that EAC Partner States need reforms of the regulatory frameworks so that the process of SME formalisation is swift and affordable. This should be enhanced by creating one-stop-shops for SMEs to meet all their registration requirements for formalisation. Moreover, governments should include and involve the SMEs in decision making process in their communities thus help to increase the accountability and transparency of local government authorities.
7. We affirm that the EAC governments need to continue playing a major role in efficient provision of services such as infrastructure, health, education which will inculcate a culture of voluntary tax payment and goodwill by the citizens to achieve development targets.
8. We state that it is imperative for EAC government to boost the confidence of the informal sector by granting it access to productive resources including the recognition of title deeds and property rights, providing good business location, and assistance in improving linkages with the formal sector as these factors promote formalisation and tax compliance.
9. We affirm that there is need to strengthen the EAC Secretariat or create an EAC Commission with legal mandate and obligation to fully and effectively implement all the proposed policies and measures for tax harmonisation and supporting SME growth and development.

**Conclusion:**

In conclusion, we regard tax harmonization as a practicable project and point out that successful implementation of a common market will be effective in future. Therefore, all EAC partner states are winners in the integration process. If such a message is to be spread to the public, doubts and fears will be overcome and the perception of integration and harmonization become more optimistic.

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