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# USAID: LEADERSHIP IN PUBLIC FINANCIAL MANAGEMENT

## SWAZILAND'S TAX SYSTEM FROM 30,000 FEET

**DRAFT FOR DISCUSSION**

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#### Overview

**Outlook:** Neutral

**Revenue Collection:** Weak income tax revenue collection offset by heavy reliance on consumption and trade taxes.

**Challenges:** Introduction of Revenue Authority; VAT implementation; Reliance on SACU customs and excise revenues

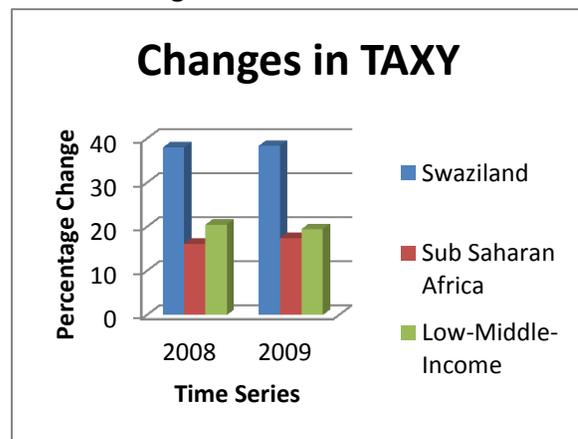
This document provides a high-level assessment of the structure and performance of Swaziland's tax system. Specifically, it examines tax system revenue effort, tax structure, and revenue performance based on a series of quantitative and qualitative indicators, and compares Swaziland with other countries in Sub-Saharan Africa, other low—middle—income economies, and the rest of the world.

The analysis is supplemented by several tables that provide information about the tax structure and revenue performance of the corporate income tax (CIT) and personal income tax (PIT). In addition, this document discusses Swaziland's general sales tax (GST) and the role of Southern Africa Customs Union (SACU) customs and excise duty revenue collections in revenue performance. All Swaziland tax data are from Fiscal Year (FY) 2008-2009. A comprehensive database of comparative data for nearly 200 countries can be found at [www.collectingtaxes.net](http://www.collectingtaxes.net).

#### Revenue Effort

"Revenue Effort" provides a comparative measure of the amount of revenue from income and general sales taxes (GST or VAT) that a government collects as a share of GDP. From this perspective, Swaziland's revenue effort (38.4 percent of GDP) is high compared to regional (17.5 percent of GDP), income group (19.5 percent of GDP), and world averages (19.8 percent of GDP). Also, Swaziland's revenue effort—as shown by chart 1—has remained consistent the last two years. This is largely explained by SACU collection of customs duties and excise taxes. SACU revenues account for 65 percent of total revenue collections (or 24.9 percent of GDP). Downward revisions to the estimated revenue pool for SACU revenues in 2008/09 will lead to recoveries of excess payments of revenue from SACU in 2009/10 and 2010/11.

Chart 1: Changes in Taxes as a share of GDP



Source: [www.collectingtaxes.net](http://www.collectingtaxes.net).

## **Tax Structure**

Swaziland's Corporate Income Tax (CIT) rate does not compare favorably with other countries. At 30 percent, Swaziland's CIT rate is comparable to regional average values (30.27 percent) but is above income group (24.68 percent) and world average rates (25.32 percent).

Personal Income Tax (PIT) in Swaziland is progressive with individual income taxed at progressive rates from 12 to 33 percent. This compares to regional rates taxed progressively from 10.11 to 35.21 but is high when compared to income-group and world average values taxed from 11.35 to 26.76 and 11.69 to 29.63 respectively.

The "tax wedge" or amount of tax imposed on labor at 14.20 percent is higher than regional comparator countries, but lower than the income group and global average of 19.98 and 20.61 percent respectively. A large tax wedge would encourage capital intensive investment and growth in employment would be less than with a smaller tax wedge.

Swaziland imposes a General Sales Tax (GST) on manufacturing activities and imports at a rate of 14 percent. The government is planning to replace the GST with a broad-based Value-added Tax in 2011/12. Although not strictly comparable, Swaziland's GST rate is similar to the average VAT rate in its income group, at 14.90 percent, and below the average VAT rate in Sub-Saharan Africa, at 16.01 percent, and international averages, at 15.7 percent.

## **Revenue Performance and Productivity**

Tax revenue performance in Swaziland is strong (including SACU customs duties and excise tax

revenue) when compared to the regional and the worldwide averages. Within the Sub-Saharan Africa region, Swaziland has among the highest revenue effort ratios—the ratio of taxes collected to GDP—at 38.4 percent.

Revenues from CIT, at 2.20 percent of GDP, are at lower levels to regional, low-income, and world averages. Measured on a revenue productivity basis, Swaziland's revenue productivity of the CIT, at .07, is also lower than the regional, income group, and world average values, reflecting tax holidays and exemptions, and weak compliance.

Swaziland's PIT collection, at 4.10 percent of GDP, is stronger than regional, income group, and world average values. PIT revenue productivity, at .15, is above regional, income group, and world average values. The mandatory combined social contribution at 10 percent is higher than regional, and lower than income group, and world averages.

Collection of GST at 4.0 percent of GDP is equivalent to the regional average collection of VAT but lower than average VAT collection for the income group and world of 5.80 and 6.33 percent of GDP. In fact, the average VAT Gross Compliance Rate (GCR) in the world is 63.11 percent, but the GCR for the Swaziland GST is only 32.57 percent, reflecting a narrower tax base than a VAT as it doesn't apply to all stages of production and distribution. Swaziland's GCR is also below the regional average of 42.30 percent and well below the low income group average of 60.40 percent. Revenue productivity of Swaziland's GST as a share of GDP is similar to regional VAT values but lower than income group and world VAT values.

### Tax Administration Organization and Efficiency

There are no current year data for tax administration costs, number of tax officials per 1,000 national population, and number of

active taxpayers per tax official. Of note, the Swaziland Revenue Authority commenced operations in 2010.

## ANNEX Swaziland's Collecting Taxes Tables

Company Income Tax	CITR	CITY*	CITPROD*
	Tax Rate	Revenue as % GDP	Revenue Productivity
Swaziland	30.00	2.20	0.07
Sub-Saharan Africa	30.27	2.65	0.10
Low-Middle-Income Economies	24.68	3.42	0.14
World	25.32	3.33	0.14

Income Taxes on People	PITMINR	PITMINL	PITMAXR	PITMAXL
	Minimum Tax Rate	Minimum Income Level (Multiples of GDP <sub>pc</sub> )	Maximum Tax Rate	Maximum Income Level (Multiple of GDP <sub>pc</sub> )
Swaziland	12.00	0.61	33.00	1.57
Sub-Saharan Africa	10.11	2.55	35.21	19.11
Low-Middle-Income Economies	11.35	1.28	26.76	10.36
World	11.69	0.86	29.63	9.78

Income Taxes on People	PITY*	PITPROD*	SSR	WEDGE
	Revenue as % GDP	Revenue Productivity	Mandatory Combined Social Contribution Rates	Combined Rate of Personal and Labors Taxation
Swaziland	4.10	0.15	10.00	14.70
Sub-Saharan Africa	2.60	0.08	9.97	12.20
Low-Middle-Income Economies	2.48	0.11	16.87	19.98
World	3.36	0.13	16.16	20.61

Value Added Tax	VATR**	VATY*	VATGGR***	VATPROD*	THRESHOLD
	VAT rate	Revenue as % GDP	Gross Compliance Ratio	Revenue Productivity	Mandatory registration/ filing (annual turnover in USD)
Swaziland (GST)	14.00	4.00	32.57	.28	N/A
Sub-Saharan Africa	16.01	4.00	42.30	.27	41,656.88
Low-Middle-Income Economies	14.90	5.80	60.40	.39	35,144.00
World	15.77	6.37	65.48	.41	38,066.55

**Notes:** All data from [www.collectingtaxes.net](http://www.collectingtaxes.net) . Exceptions are listed here:

\* Swaziland information taken from the 2010/11 - 2011/ 12 Ministry of Finance Medium Term Budget Policy Framework.

\*\* Swaziland information taken from World Bank Doing Business project, available at:

<http://www.doingbusiness.org/data/exploreeconomies/swaziland/paying-taxes>.

\*\*\* Swaziland information calculated from OECD Africa Economic Outlook data, available at:

<http://www.africaneconomicoutlook.org/en/countries/southern-africa/swaziland/>