



Lessons Learnt From Implementation Of Simplified Tax For Small Taxpayers In Mozambique

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ABSTRACT

This study was conducted to assess the strengths and weaknesses of the Simplified Tax for Small Taxpayers (ISPC). This study also tries to analyses to what extent after 13 years the political reasons that lead to the establishment of ISPC regime were accomplished or not since its entry into force. The study adopted Desk Review Study method conducted at Mozambique Revenue Authority. The paper has identified problems caused by taxpayers shift from others tax to the ISPC that tax erosion, fragility in monitoring the taxpayer's compliance, difficulties to calculate the trimestral volume of sales and related tax due. The study has used both primary and secondary sources of data. Using random sampling method 30 top and lower managers of the ISPC were selected from a total population of 120 officers, to share their expertise and experience with 96% return rate. The major findings are: The ISPC need to revised and improved in order to target the real segment of small taxpayers, lower the threshold limit, allow monthly payment of the tax, fixed amount of tax irrespective of the volume of sales, timely filling of the monthly volume of sales.

KEY WORDS: Mozambique Revenue Authority, Simplified Tax for Small Taxpayers, (ISPC)

1. INTRODUCTION

Developing countries face extensive political, economic, and administrative challenges in closing tax gaps. Tax reform is often difficult due to interest groups who benefit from the current system. Meanwhile, tax authorities suffer from weak capacity due to a shortage of skilled staff and the lack of modern infrastructure such as IT systems and property registers. Developing country economies are also challenging to tax given the large size of their agriculture sectors, small tax bases, and their high degree of informality. MASCAGNI et al (2014)

Since 1998, all of the main tax instruments have undergone deep reform. Principal features of the system are now well aligned with best practices for developing countries, including primary reliance on a broad-based value-added tax and a modern income tax, supplemented by excise duties on selected products and moderate import duties. The government has made notable progress, too, in improving tax administration since establishing the Revenue Authority (AT) in 2006. As a result, most of the PARPA II tax objectives have been realized, including the central aim of boosting revenue from 14.0 percent of GDP in 2005 to 16.2 percent by 2009. The actual figure for 2009 will fall short of this mark due to weak economic conditions, but AT data show

that the ratio reached 16.4 percent in 2008. Other achievements include enacting a new General Tax Law clarifying rules for tax collection and taxpayer rights; rationalizing fiscal benefits, in particular ending the special regime for large projects; passing a new Municipal Finance Act; easing the burden on small businesses by increasing tax thresholds and enacting a Simplified Tax for Small Contributors (ISPC); and strengthening the tax regime for the mining and petroleum sectors. Several objectives, however, are still works in progress. These include integrating tax and customs information systems; tax collection via the banks; improving audit revenues relative to total revenue; modernizing tax administration; and implementing tax courts. BULNICK et al. (2009)

1.1 BACKGROUND

Autoridade Tributária de Moçambique¹ (AT) is established in 2006 as a result of the merger of the Domestic Tax Administration (DGI) and the Customs Department (DGA). The organization employs a total of 4,000 officers out of which approximately 2,500 works in DGI and the remainder works in DGA. As a follow-up of the reorganization, a strategic plan for AT was developed, which triggered the decision to replace the IT systems as part of a reform. This was initiated in order to increase the tax revenue, which was one of the top priorities of the organization. AT has approximately registered 2,600,000 citizens and companies as taxpayers. Less than 10% of them actually file or pay taxes. The reason for this huge gap can be found in the fact that a citizen needs a tax registration number to open a bank account or to get access to telecom facilities, via a communication provider. KFW (2015)

Taxpayers are managed through 32 regional offices, Direção de Área Fiscal (DAFs), across Mozambique. In addition, there are 39 collection posts (Postos de Cobrança), which are accommodated in an office and 33 mobile collection posts. Taxpayers can receive only limited services in a collection post. At this moment, 55 of the offices and all the regional and main headquarters, are part of the rollout of the new system. The remaining locations, including the mobile collection posts, will for the time being maintain a fully manual process, due to a lack of infrastructure (specifically power supply and networking issues). In these situations, the declarations will be transported to a computerized DAF, where they will be processed in the ITAS. Ibid (2015)

1.2 RESEARCH PROBLEM

Mozambique State updated its taxes in 2008 and 2009. In this context, the law that approves a Simplified Tax for Small Contributors aiming at reducing the costs of tax obligations for these contributors is relevant. This same law will make it possible to reduce the inspection and control costs for small and medium contributors by the Tax Administration, through simplifying the declarative and accountancy obligations. Another objective of this law is to promote a switch to the formal sector by those taxpayers operating in the informal sector (buffing the unfair competition) and, therefore, broadening the tax base. Directorate of Tax Policy (2008: 21-23)

The ISPC regime was introduced in 2009 (Law 5/2009) as a simplified tax that has been in force for almost 14 years. From the researcher's perspective the implementation of the ISPC has brought pros and cons, due to the free mobility of taxpayers registered as contributors in CIT, PIT, and VAT are allowed to shift to ISPC, taking also into consideration the weak or lack of enforcement action over ISPC taxpayers it became a house of tax evaders to easily manipulate the monthly volume of sales to remains in this class. Such is perceived as the cause of tax erosion. The lack of reliable statistics that bring up the technical pieces of evidence may contribute to negligent

¹ Autoridade Tributaria de Moçambique (AT), means Mozambique Revenue Authority (MRA), these will used as referring the same entity, the tax authority.

the problem. Despite a slow growth of the annual revenue collection, the total contribution of small taxpayers is less than 1% of the total revenue collection.

1.3 RESEARCH OBJECTIVES

1.3.1 General Objective:

- To assess the overall ISPC Regime

1.3.2 Specific Objectives:

- Identify the strengths and weakness of the ISPC regime;
- Assess the impact of the ISPC against tax policy objectives;
- Draw up the necessary tax policy reforms to the ISPC regime;

1.4 RESEARCH QUESTIONS

- What is ISPC?
- What are the strengths and weaknesses of ISPC?
- Did ISPC accomplished the tax policy objectives stated its legal framework?
- What are the lessons learnt from implementation of ISPC?
- How tax reforms can improve ISPC to meet efficiently tax policy objectives?

1.5 RESEARCH SCOPE

The current research paper aims to try to bring up the lessons learned from the implementation of the ISPC regime. To meet this objective the research used the SWOT ANALYSIS to identify strengths, weaknesses, threats, and opportunities around the ISPC regime covering a brief analysis of the legal framework taking into consideration the key tax policy objectives behind this policy initiative and implementation processes, focusing in key aspects such registration of small taxpayers, compliance (tax declarations and tax payment) and related matters.

2 LITERATURE REVIEW

Taxing Small Businesses.

Small businesses are extremely difficult to manage and have limited revenue potential. This is a highly heterogeneous group, from 'micro' businesses—street traders, subsistence farmers—with limited ability to pay (in both fairness and practical terms), through professionals and businesses with many employees. The highly skewed size distribution of firms—in all countries, but perhaps especially so in developing—means that such businesses are numerous, but have little revenue potential. In Egypt, the largest 4,000 companies account for about 90 percent of total turnover; even a massive proportional increase in receipts from the 5 million small enterprises would have relatively little impact on total receipts. It is not uncommon for developing country tax administrations to devote large resources to this segment in the hope of flushing out medium or large taxpayers by blanket enforcement operations, but results have been poor and costs of implementation high. COTTARELLI (2011:39)

Table 1.1: Overview ISPC Performance

OVERVIEW OF THE ISPC REGIME AND PERFORMANCE
<p>The ISPC regime was introduced in 2009 (Law 5/2009) as a simplified tax on gross business turnover, in replacement of CIT, PIT and VAT. Taxpayers with an annual business volume (ABV) below MT 2,500,000 in the previous calendar year may elect for the simplified ISPC, which taxes their business volume at a flat rate of 3 percent. Taxpayers with ABV lower than 36 times minimum wage (MW) on December 31 of the year preceding the relevant business year are exempt from tax.</p> <p>110. The ISPC should be viewed as part of a comprehensive approach to taxation of small and medium size taxpayers in Mozambique. Low compliance costs and proper segmentation of taxpayers should create incentives for formalization and ease the administrative cost. If coupled with enhanced tax administration services and non-tax incentives (e.g., easier access to financing, streamlined registration and licensing, state grants and procurement), the ISPC may contribute to increased registrations and higher tax compliance rates amongst those formalized. This, in turn, should help build the culture of paying taxes and change the current social norms in this regards, assuring greater participation of society in delivery of public goods.</p> <p>It should also help reduce inequalities between formalized and informal businesses, boost competitiveness and economic growth.</p> <p>111. Proper design of ISPC requires segmentation of taxpayers. A special tax regime is a combination of design features, including use of presumptive taxes, and compliance concessions with the underlying objective to lower compliance costs for taxpayers and ease the tax administration effort. Not all taxpayers require these to the same extent. Challenges faced and posed by micro businesses are different from those of medium ones. To properly target an array of tax measures a proper segmentation is required.</p> <p>112. The ISPC's eligibility criteria is based on turnover, which is the most commonly used yardstick for taxpayers' size. Even if not a perfect one it is a reliable proxy for taxpayer's size and their ability to comply with and pay taxes. Starting with turnover it is much easier to estimate potential profits rather than doing it based on number of employees, registered capital or value of assets. Of course, profits tend to differ depending on businesses' margins which vary by sector, location and other factors. Yet again, these are easier to estimate than labor or capital productivity. Whereas the value of assets or capital may be of interest for financial purposes (i.e., to better measure businesses' ability to take up and pay off debt), it is the level of profits that matters for taxation purposes. Turnover is just a proxy for profits and experience suggests that it is an appropriate measure to differentiate micro and small firms for taxation purposes.</p> <p>The ISPC has gained popularity among small taxpayers since its introduction (Figure 12). The number of ISPC taxpayers has increased substantially at an average growth rate in the number of ISPC taxpayers of around 34 percent between 2010 and 2015, as illustrated by the solid blue line in Figure 12. As of 2015 there are 9,046 taxpayers with positive tax payment under the ISPC regime,²³ representing close to 20 percent of total taxpayers with positive VAT and corporate income tax payment, and with personal income taxation for income outside category 1 (i.e., employment income). Moreover, about 1.6 percent of ISPC taxpayers have graduated into the normal CIT regime in 2015. Tax revenue collected under ISPC accounts for a minor share of total tax revenue in Mozambique (Figure 12). Despite the steady increase in the share of tax revenue collected through ISPC between 2010 and 2015, the amount of ISPC tax revenue remains below 0.14 percent of total tax revenue at the end of 2015. Given the nature of ISPC as a presumptive tax, it should not be used as a primary tool to increase revenue. Instead, the ISPC should be employed to simplify the tax code for small taxpayers (and to lower the administrative burden of auditing such taxpayers), and to encourage proper account keeping and entries into the formal sector.</p>
<p>Source: VARSANO et al (2010)</p>

ISPC is a direct tax levied on a single and corporate person who is engaged in small agricultural, industrial or commercial activities, including rendering of services within the national territory. This entered into force on 2009. This law envisaged the reduction of costs for taxpayers to fulfil their tax obligations as well as those incurred by Tax Administration when exerting control and inspection actions, through simplification of procedures, thus broadening tax base. NOVELA (2008: 7-8)

According to Graça Fumo, Deputy Director of the Cabinet of Planning, Research and International Cooperation at MRA, the problems connected with a huge number of small taxpayers operating in the informal sector led various countries to adopt the minimal tax aside from the regular tax system. The adoption of this system of taxation is grounded not only by reasons connected to revenue collection but also by objectives of equity,

neutrality, and efficiency, curbing unfair competition and reducing administrative costs and compliance costs. FUMO (2008:65-66)

Table 1.2: Simplified Tax Model

<p>The simplified tax model for small taxpayers (ISPC) – an example of a successful tax</p> <p>Reform Julio Mazembe, ISPC Coordinator, Mozambique Revenue Authority (ATM) Mr. Mazembe introduced the discussion by presenting the simplified tax model for small taxpayers (ISPC) in Mozambique. The ISPC was introduced by ATM in 29 April 2009. The main objective is to enlarge the revenue base. It is a direct tax that is imposed on individuals or collective entities doing small-scale agricultural, industrial or commercial activity, including rendering of services. The ISPC was introduced to reduce the cost of paying taxes for small taxpayers, to reduce the cost for ATM to control small taxpayers and to promote a positive change towards increased compliance in the informal sector.</p> <p>Information about the ISPC has been disseminated in the form of lectures in local settlements, markets, and fairs; through brochures, music, and advertisements; and through training of officials and state agents. Furthermore, ATM has signed MoUs with three informal sector organizations.</p> <p>Translation of the legislation into six local languages has made the ISPC more accessible and understandable for informal sector operators.</p> <p>In total 33 130 taxpayers were registered in 2010 in the ISPC. The goal for 2011 is to register 50,000 new taxpayers. Furthermore, ATM aims in 2011 to improve the databases and records of taxpayers; to provide fiscal education to informal sector operators; to inform about the ISPC through community radios; and to strengthen the ISPC implementation at the district level.</p>

Source: CHI, NORAD & ICTD (2011)

according to the enacted ISPC Act, Law no. the simplified tax for small taxpayers applies to natural and legal persons who carry out small-scale agricultural, industrial or commercial activities in Mozambique, including the provision of services. For tax purposes, small-scale activities are those defined in the following articles, whose annual business value is equal to or less than 2,500,000.00MT. The ISPC is levied on the volume of business carried out during the tax year by the taxable persons referred to in the previous article provided that: a) in relation to the previous year, said turnover is equal to or less than 2,500,000.00 MT; b) they are not required to keep organized accounts for income tax purposes. (ISPC Act no. 5/2009 of 12 January) see also ISPC Regulation, Decree. no. 14/2009, of 14 April.

The ISPC Strategy for Revenue Mobilization (Estrategia para Alavancar Arrecadacao de Receitas em Sede de ISPC 2018, released by Unidade de Coordenacao do Cadastro e ISPC (UCCISPC), identified as low collection level as below 1.0% of total annual revenue collection. To mitigate this gap were identified two scenarios. the first scenario required building new tax post in the markets that represent high tax revenue potential such as Zimpeto, Goto, Faina, Bombeiro, Mercado 38, FAEZ, Mafureira, Chuachena, Limpopo among others under consideration of the MRA. The second scenario suggested acquisition of the software that support ISPC collection procedures which enable use by mobile brigades specifically for ISPC. UCCISPC (2018). The ultimate objective of these scenarios is to focus on key areas that represent potential of revenue collection and adopt an electronic platform that support tax collection mobile teams that move to the markets to collect taxes. This electronic platform will help to monitor the small taxpayers compliance. From the researcher's perspective these concerns will be definitely fulfilled through implementation of the VAT/ISPC Tax Electronic Devices (Maquinas Fiscais) under development within Mozambique Revenue Authority, according to Decree no. 29 /2014, 31 December.

The challenges for modernization at Mozambique Revenue Authority were guided by the need of dynamic improvement of quality services rendered to the taxpayers and general public since the establishment of organization in 2006, thus introduced in its Strategy Plan, strategic objectives inherent to the E-Government based on IT Development Plan (Plano de Desenvolvimento de Tecnologias de Informação - PDTI) from which we can highlight the establishment of Single Electronic Window which is a system that provide a platform for stakeholders involved in international trade and transport and prove access services related to foreign trade and compliance with legal requirements for importation, exportation, transit and others regimes. the

establishment of e-taxation which is an integrated system that goes beyond simplification of procedures, improvement of the process of tax declaration, calculation of taxes and payment, tax refund among others. it also include tax taxpayer account, submission of electronic declaration through the portal and e-payment of taxes through banks. The Maquinas Fiscais is expected to reinforce the capacity of revenue collection from VAT/ISPC, requiring the development and implementation of remaining taxes, including electronic submission of tax declaration and payment of internal taxes through banks. FAFETINE (2015:4)

Nelson Maximiano in his research paper "Eliminação dos Regimes de Tributação Simplificada face do ISPC em Moçambique (Elimination of Simplified Tax Regime as a consequence of ISPC). The aim of this study is to ascertain whether or not we should eliminate the simplified taxation regime (RTS) indirect taxes (IRPS, IRPC) and Value Added Tax (VAT), guaranteeing a positive impact on tax revenues and a possible reduction in administrative costs. The simplified taxation regime governed by the CIRPS, CIRPC and CIVA is the same and equivalent between these codes, and the choice of regime can be reverted to the normal regime in the case of VAT. The change to the simplified regime in force in the ISPC would be beneficial to the economy, especially in terms of increasing revenue and reducing the waiting time, payment and reimbursement of IRPC, IRPS and VAT, as well as reducing the costs of forms, collection costs and the submission of taxable income to the CUT (Single Treasury Account). MAXIMILIANO (2011)

The study itself is a policy assessment that tries to identify the strengths and weaknesses of the ISPC regime since its entry into force 14 years ago and such is motivated by the drastic reduction of the number of small taxpayers registered per year and also the reduced level of revenue collection which remains below of 1.0% of total revenue collection during last 14 years. These symptoms indicate the presence of some abnormalities that need to be diagnosed and properly addressed. This is what differs this study from others. Probably this study cannot provide all the necessary solutions but it sheds the lights to need for further research.

3 RESEARCH DESIGN AND METHODOLOGY

This research paper is an exploratory study that aims to gain more familiarity with the topic. The research adopted a desk review study that employed both quantitative and qualitative research methods to bring a comprehensive picture of the tax policy under the study. Using a purposive sampling method 30 top and lower managers of the ISPC were selected randomly from a total population of 120 officers, to share their expertise and experience with a 96% return rate. For this purpose, in order to obtain data from this sample the researcher used a structured questionnaire which was requested to return the questionnaires within two weeks. The questionnaires have been designed as open-ended and closed-ended types of questions aimed to identify the strengths, weaknesses, threats, and opportunities of the ISPC regime.

Qualitative data were collected from different sources of statistics and annual reports available at the Mozambique Revenue Authority such include (Anuario Estatistico, Boletim Estatistico and others).

This study relies on administrative data collected at MRA to provide the overall image of ISPC performance. Administrative data is incredibly valuable for research on taxation for several reasons. It is much more disaggregated than macroeconomic data on tax payments and income, it often represents the longest available time series of data, and tax records capture income more accurately than other sources of data. RRA, ATAF & ICTD (2016)

4 DATA ANALYSIS AND RESULTS DISCUSSION

4.1 DATA ANALYSIS OF THE QUALITATIVE DATA

Using purposive sampling method 30 top and lower managers of the ISPC were selected to share their expertise and experience with 96% return rate. The questionnaire helped to identify the strengths, weaknesses, threats and opportunities.

A SWOT analysis evaluates the internal strengths and weaknesses, and the external opportunities and threats in an organization's environment. The internal analysis is used to identify resources, capabilities, core competences, and competitive advantages inherent to the organization. The external analysis identifies market opportunities and threats by looking at competitors' resources, the industry environment, and the general environment. Sammut-Bunnuci & Galea (2015)

The information obtained from the survey was analyzed through descriptive statistics. Armenta-Medina (2020). An adaptation of SWOT ANALYSIS is Weihrich's TOWS Matrix. The TOWS Matrix seeks to develop tactical strategies based on four different positions, namely:

- (1) Examines strategies that take advantages of opportunities to avoid weaknesses (WO);
- (2) Examines strategies that use strengths to make use of opportunities (SO);
- (3) Examines strategies that minimize the effect of weaknesses and overcome threats (WT);
- (4) Examines strategies that use strengths to overcome or avoid threats (ST); Sammut-Bunnuci & Galea (2015)

The objective is exploiting the strengths and opportunities in order to avoid the weaknesses the ISPC regime while use the weaknesses and threats as opportunities to take the necessary measures the minimize their impact over the ISPC regime.

The results of adaptation of analysis are technically referred as strategic issues that will be incorporated as strategic model that will guide MRA Tax Reforms Program toward ISPC review and update to meet key tax policy objectives, namely, enlargement of tax base, simplifying tax procedures and processes, automation of business process, improvement i

Table 1.3: ISPC Regime SWOT ANALYSIS

STRENGTHS	WEAKNESSES
<p>STRENGTHS</p> <ul style="list-style-type: none"> • ISPC legal framework is in force and easily applicable to the taxpayers; • ISPC introduced law tax rates when compared with other taxes (its tax 3% of the volume of sales during every 3 trimester or alternatively you can choose the fixed annual amount of 75,000.00MT); • The taxpayers in the first year of enrollment they are granted benefits that include reduction in 50% of the tax rate; • Small taxpayers are exempted from fiscal accountability requirements; • Small taxpayers are exempted from others taxes such as CIT,PIT, VAT; 	<p>WEAKNESSES</p> <ul style="list-style-type: none"> • The registration of small taxpayers relies on TIN (Tax Identification Number) and ID; • Small taxpayers are hard to register and monitor their compliance and location; • The mobility of small taxpayers makes difficult the notification by the tax post; • Small taxpayers' business are not aligned with need to travel to the tax post for payment of tax; • The majority of the small taxpayers are less skilled people and that reflect in difficulties in the calculation of taxes;

<ul style="list-style-type: none"> The small taxpayers they benefited from free of charge of sales registration books and invoices; ISPC regime enable to shift informal business operators to the formal business; The ISPC regime allow the small taxpayers to act as form business entity and benefit from equal rights; 	<ul style="list-style-type: none"> From ISPC managers point of view its waste of government resources when they compare the costs and benefits related to this regime (awareness campaigns and invoices and other materials versus the revenue collected from this taxpayers segment); The level of revenue collection from ISPC regime is very low; Lack of KPI to monitor the performance of ISPC regime;
OPPORTUNITIES <ul style="list-style-type: none"> Development of tax devices program may enable small taxpayers to use of smart phones as tax devices to issue invoices and payment of taxes; Good practices in taxation of informal sector helped to improve the ISPC regime; The National Tax Awareness Campaign helped to disseminate the ISPC regime; 	THREATS <ul style="list-style-type: none"> Lack the culture of payment of taxes by small taxpayers; Low skilled small taxpayers face difficulties in registration and calculation of the tax amount due; COVID-19 drastically affected the small taxpayers businesses;

Table 1.4: Analytical Approach/Strategic Issues

<ul style="list-style-type: none"> development of tax device program that enable small taxpayers to use smart phones to issue invoices and pay taxes and also improve their registration; good practices in taxation of informal sector should continuously help to monitor compliance and location of taxpayers; national awareness campaigns should disseminate ISPC, design proper strategy for revenue collection in the market where they operate and induce on how to calculate taxes; government need to conduct cost-benefit analysis of ISPC to assess the efficiency taking in consideration the low level of revenue collection; the ISPC legal framework should strategically used to mitigate the lack of culture of payment of taxes; the ISPC regime should be maximized to move small business from informal to formal sector; the ISPC regime enable small taxpayers to act as business entity in order to compete in equal foot to survive the COVID-19 impact; ISPC regime require development of specific KPI to monitor the compliance and accomplishment of tax policy objectives.
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Table 1.5: Strategic Model for Tax Reforms for ISPC

Strategic theme	Objective	Strategies
1. Enlargement of tax base of ISPC	Development of partnership with municipalities to facilitate taxpayers' registration and tax collection in markets	Increase the number of small taxpayers; increase the revenue collection from small taxpayers;
2. Reduction of Compliance Costs	Shift from paper to online registration of volume of sales	Develop software compatible with smart phone to register sales and calculate the taxes amount; Maintain and develop mobile teams for registration and tax collection; Launch the lottery system to promote tax compliance and issue of invoices;
3. Broad Tax Policy Objectives	ISPC Policy Review	ISPC require urgent review and update in order to meet the tax policy objectives;
4. Modernization of ISPC procedures and processes	Innovation practices for ISPC	Implement automated platform for electronic payment of ISPC; Simplification of sales registration books and invoices systems embedded in smart phones;
5. Capacity Building and Training/tax awareness	Conduct workshops and trainings covering management skills and enforcement/tax awareness	Conduct on job training and workshop on ISPC legal Framework; Develop adequate action plan for tax awareness;
6. Monitoring and Evaluation	Development of KPI	Randomly select and monitor the small taxpayer's acquisitions and volume of sales; Audit the sales declared; Development of KPI for efficient management of ISPC;

4.2 DATA ANALYSIS OF QUALITATIVE DATA

Table 1.6: ISPC Performance 2009-2022 unit: 10³ MT

YEAR	ISPC Registration of new taxpayers Target/planned	Annual registrations performed	Number of Taxpayers registered at the end of each year	ISPC Revenue Collection Targets	ISPC Annual Revenue Collection	MRA Total Revenue Collection	ISPC contribution in total revenue
2009		9,040	9,040		2,104.81	47,599,703.80	0.00%
2010	20,000	33,130	42,170	3,018.00	23,848.70	63,566,122.71	0.04%
2011	50,000	46,341	88,511	36,118.22	48,275.26	81,058,465.77	0.06%
2012	60,000	31,450	119,961	96,299.99	81,154.85	98,462,739.29	0.08%
2013	75,000	21,577	141,538	110,549.99	115,515.24	126,318,714.16	0.09%
2014	90,000	20,196	161,734	124,338.60	149,534.07	156,243,597.11	0.10%
2015	30,000	27,058	188,792	170,476.71	180,666.97	159,805,022.27	0.11%
2016	20,000	10,801	199,593	254,317.61	221,362.91	177,040,500.00	0.13%
2017	15,000	8,078	207,671	154,499.41	232,922.09	202,253,330.48	0.12%
2018	15,000	9,225	216,896	248,808.61	246,486.67	223,809,441.77	0.11%
2019	15,000	10,855	227,751	217,462.08	236,793.26	250,151,781.72	0.09%
2020	10,000	11,414	239,165	116,976.59	220,305.90	234,464,574.79	0.09%
2021	8,000	12,059	251,224	210,632.78	251,305.90		
2022	8,000		264,839		261,978.54		

Source: Elaborated by researcher based on UCCISPC Statistics and Anuário Estatístico. ATM (2014), ATM (2020)

Annual registration of new small taxpayers figures in table indicates that the high performance was accomplished in 2011, when 46,341 new small taxpayers were registered. Persistent declined was witnessed from 2012 (31,450) to 2017 (078), the worse performance ever achieved while from 2019, 2020 and 2021 considerable rebound was achieved reach to respectively, (10,855), (11,414) and (12,059).

In terms of revenue collection, the ISPC regime testified total revenue collection of 2,272,255.17 MT from 2009 to 2022, an equivalent to an average of 2,030,428.83 MT per year. While in terms of the contribution of ISPC to the total revenue collection it shifted from 0.04% in 2010 to 0.09% in 2021. The highest pick was achieved in

2016 (0.13%), 2017 (0.12), 2018 (0.11%) and 2015 (0.11%). The average of ISPC contribution of ISPC between 2009 to 2020 is around 0.084% per year. In 2020, the total number of 239,165 small taxpayers have paid 220,305.90 MT, an average each small taxpayer have paid 0,9211 MT. from the researchers perspective an annual average contribution to total tax revenue between 1.0% – 1.5% would be very crucial, in short term period.

This is critical point. In fact, many small taxpayers declare non-sales and the current picture reveal that non-compliance is substantial and necessary measures to curb the situation need to be taken including random audits that compare the acquisitions and the declared trimestral volume of sales against the tax paid.

4.2 LESSONS LEARNT AND RELATED MATTERS

4.2.1 WIDENING THE TAX BASE STRATEGY

To meet the objective of widening the tax base the MRA launched in 2010 the National Strategy for Tax Education and Popularization of Taxes.

Strategically MRA involved the informal sector from an early stage of the conception of the ISPC regime. According to MUKHERO'S Chairman, it is every citizen's duty to pay taxes. The Chairman of Mukhero (an association of the informal sector), Mr. Sudcar Novela, welcomes the introduction of Simplified Tax for Small Taxpayers (ISPC) because any citizen living in a country should pay a symbolic tax to help their country's development. Talking about "mukheristas", Sudcar Novela pointed out that 90% of these informal operators have no knowledge about the law due of a lack of information. For this situation to be sorted out Mr. Novela promised to hold talks with President of Mozambique Revenue Authority, Dr Rosario Fernandes, so as to arrange for the letter to provide some sort of assistance to both his organization and its associates. NOVELA (2008: 7-8). To mitigate the concerns of both MRA and MUKHERO a Memorandum of Understanding was signed in 2011 aiming fiscal education and technical assistance to Mukhero that benefited its 7,989 members.

In the context of revenue authority challenges of popularizing taxes. Statistics show that out of a universe of 10.5 million potential taxpayers, only 600,000 (or about six percent) are registered in the fiscal system. It is clear that most citizens are beyond the reach of the tax collection system in a country whose own revenues only support 45 percent of the expenditures. Furthermore, we are witnessing the rapid growth of a very dynamic informal sector that involves a vast number of human and financial resources. (...) Taxpayer attendance counters are being set up in all provincial capitals. The main purpose of these counters - the Taxpayer's Information Services is to explain to the taxpayers, all taxes and customs-related aspects making it easier for them to comply with their fiscal obligations. MRA (2008)

4.2.2 REDUCTION OF COMPLIANCE COSTS

AT also envisages restructuring its Tax Offices and creating more collecting posts and this, according to Tacarindua, will allow more access to taxpayers and to the tax administration, such include Inchope (in the centre) and Manhiça (in the south) live examples of the new offices to be inaugurated. Furthermore, tax awareness campaigns directed to communities should be pursued as "they lead to a better understanding of the taxpayer's fiscal obligations so that they understand the importance of tax payment for the country's development" – emphasized Tacarindua. TACARINDUA (2008:15-17)

The use of automated procedures and processes for tax declaration of volumes of sales and electronic payment of ISPC when integrated with smart phones used by small taxpayers to issues invoices on their sales can potentially reduce the compliance and administrative costs and also help to met efficient management of ISPC regime.

4.2.3 BROAD TAXPOLICY OBJECTIVES

Mozambique should build up a compressive presumptive tax regime for small taxpayers by improving the design of the ISPC regime. The eligibility threshold of the ISPC should be extended to MT 4 million and aligned with that of the VAT. The rate of turnover is overly generous and should be increased to at least 5 percent. At the same time, corporate taxpayers and professional service providers should be excluded from the ISPC regime. SWISTAK et al (2023)

The declining figures of the annual registration of ISPC taxpayers it's a signal that something is not running accordingly. It requires a diagnostic study to identify the causes behind that fragility.

In regard to free mobility from CIT, PIT and VAT regimes to ISPC without a correspondent increase of revenue collection in ISPC it suggests that such taxpayers should return to the original position. That can be done by forcing they move back to VAT regime and this proposed measure should be included in the new ISPC legal framework. From the researcher's perspective the ISPC threshold should be shifted from actual 2,500,000.00 MT to 750,000.00 MT, that means taxpayers with annual volume of sales exceeding the threshold should be reallocated to VAT or CIT, while the remaining taxpayers will be continue enjoy the small taxpayers segment paying the same tax rates.

The ISPC need to revised and improved in order to target the real segment of small taxpayers, lower the threshold limit, allow monthly payment of the tax, fixed amount of tax irrespective of the volume of sales, timely filling of the monthly volume of sales.

From the ISPC management perspective, this regime seeks to develop specific tax policy objectives, namely enlargement of tax base, simplification of taxpayer's procedures, reduction of compliance costs for this segment of taxpayers, and more importantly the establishment of minimal tax. These specific characteristics demand special and differential treatment that includes the definition of its key performance indicative measures in terms of the annual target of small taxpayers registration, revenue collection targets and annual growth rate of revenue collection including the compliance monitoring process. KPI identification needs to build a process of collecting data, assessing progress against them and evaluating KPI effectiveness in producing useful information and driving better performance. KPI can quickly become meaningless without strict governance policy for monitoring, analyzing and improving them. KPMG (2016)

Empirical studies highlight the value of tax experiments. The ICTD Working Paper 46: From the Lab to the field: A Review of Tax Experiments, says" The most reliable way for revenue authorities to discover how to improve tax compliance is to conduct large-scale research experiments. This is because it is difficult to get honest answers about dishonest behavior through surveys so although researchers have used surveys to better understand people's perceptions of tax compliance, these attitudes may not accurately reflect their actual behavior when faced with the real consequence of tax evasion and avoidance. MASCAGNI (2016)

From researcher's perspective, in this particular case of ISPC, tax experiments should be conduct in Mozambique in various such as to test the efficiency of retention of the ISPC rate of 3% from small taxpayers who run their businesses using the Mpesa facilities, however prior consent or mandatory instruction should

issued by the Minister of Economy and Finance for this purpose (on monthly basis). Tax experiments should also be conducted to test the shift from the trimestral payment of the ISPC tax to monthly payment that should consider the use of electronic platforms.

4.2.4 MODERNIZATION OF ISPC PROCEDURES AND PROCESSES

The Tax Machines Regulation (Decree no. 92/2014 of 31 December, Regulamento das Maquinas Fiscais), targeted the VAT Taxpayers (Simplified Regime Segment) and the ISPC Taxpayers with annual volume of sales equal to 2,500,000.00MT and make mandatory the use of fiscal devices to issue invoice according to the applicable regulation.

According to the Public Tender documents regarding the supply, test, installation and operationalization of fiscal devices the platform provider should develop a system that allow connectivity with smart phones, tablet, computers, other tax devices available in the national market. The project is in early stage of implementation different software's and devices have been in testing process.

4.2.5 CAPACITY BUILDING, TRAINING AND TAX AWARENESS CAMPAIGNS

To improve the capacity of the ISPC managers it is strongly recommended to improve their skills regarding to key management areas that include harmonization of the legal procedures regarding to registration of small taxpayers, monitoring and evaluation of small taxpayers' compliance and revenue collection, including auditing the registration of the volume of sales.

Tax awareness and workshops are necessary to support small taxpayers to deepen their knowledge of taxpayer's obligations and on how to efficiently comply with. MRA should also consult and regularly communicate the tax policy reforms in pipeline in order to put the small taxpayers aware of the future procedures as part of taxpayer's inclusion.

4.2.6 MONITORING AND EVALUATION

Performance measurement is an ongoing process of ascertaining how well, or how poorly, an organization is achieving its goals and objectives. Performance indicators, or measures, are developed as standards for assessing the extent to which these objectives are achieved. The terms performance measurement and performance management are often used interchangeably. However, performance management is a broader term that includes not only performance measurement but also the determination of the appropriate level of performance, the development and reporting of performance information, and the use of that information to assess the actual level of performance against the desired level. It refers to the process of looking after the objectives, approaches, institutional arrangements and performance information systems put in place to measure performance. CRANDALL (2010:2)

CRANDALL among others KPIs suggest the Number of new registrants, taxpayers' services and education, average annual collection per person per year, number of audits performed by tax type, total number of appeals cases closed. Ibid (2010:6).

The administrative data available at ISPC Country Coordination Unit (Unidade de Coordenação do Cadastro e ISPC - UCCISPC), indicates that annual plan for ISPC include targets on small taxpayers registration and targets of revenue collection, records on performance regarding annual registration of small taxpayers and annual revenue collection exist but that is not given the necessary priority. However, the weaknesses identified in these registrations is signal that urgent measures are necessary to be carried out to solve the problem.

Therefore, qualitative analyze resulted in design of the strategic model to guide the necessary tax reforms to carry out for ISPC. While quantitative data indicate that the low performance in both small taxpayers registration and also in tax collection are symptoms of inefficiency that need a diagnostic to identify the source of the gaps.

5. CONCLUSIONS AND RECOMMENDATIONS

MRA adopted the ISPC regime in 2009 aiming to tax the segment of small taxpayers with ultimate objective to shift the small business from informal to formal sector. The ISPC legal framework was clearly defined and disseminated among the small taxpayers through tax awareness campaigns and technical assistance. However, the legal framework requires brief review of specific paragraphs, namely, the limit threshold of annual volume of sales main requirement to be registered in ISPC regime, the free mobility of taxpayers that allow the shift from other tax regimes (CIT, PIT and VAT) to ISPC, to consider shift from trimestral payment to monthly and also to consider retention of taxes, adoption of electronic payment and use of smart phones as fiscal machines.

Based on the results from data analysis and findings of the research, the researcher has reached to the following conclusions:

- a) The overall perception on the ISPC performance is not good. Inefficient performance has been identified in both registration of new small taxpayers and revenue collection. This means that there are vulnerabilities in the law compliance that affected the voluntary compliance probably caused by lack of enforcement measures. Random audits are strongly recommended to check the acquisition volume of sales and the amount of tax paid;
- b) The lack of efficiency may be resolved through the adoption of automated procedures and processes that allow electronic payment of ISPC and also the use of smartphones as tax devices that issue invoices these innovative approaches can improve compliance and reduce the compliance costs while widening the tax base and consequently increasing the revenue collection;
- c) Tax experiments need to be carried out in order to adjust the ISPC to the new context to better respond to the tax policy objectives. It's urgent to operationalize the modernization of ISPC in order to ensure the accomplishment of tax policy objectives. Capacity building and training focusing on both small taxpayer's management and monitoring and evaluation including audit skills are necessary to improve the level of compliance;
- d) In the field of monitoring and evaluation there is a need to adopt KPIs that include the number of new registrants, taxpayers' services and education, average annual collection per person per year, number of audits performed by tax type, total number of appeals cases closed.

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