

REPOA Brief



The time and monetary costs of regulatory compliance: The experience from the hotel industry

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Key messages

A hotel spends 45 hours a year staying compliant to 26 different regulatory requirements. The time is equivalent to more than one working month in a year or the time it takes for 30 football matches to be played.

The time cost sums up to 191,764 hours per year for all the hotels in Mainland Tanzania to stay compliant. The time is equivalent to nearly 1,200 full-time workers only working on meeting regulatory demands in a month.

The annual monetary value of the time spent by the hotel industry to stay compliant is TZS 1.4 billion. The cost rises to TZS 3.1 billion annually when other costs (paper cost, transport etc.) are added.

Such cost of compliance is equivalent to 13% of the Gross Domestic Product (GDP) of region such as Songwe. These costs are likely to be significantly higher for small hotels due to high fixed costs of compliance that do not vary with firm size. Such differences give larger hotels more competitive advantage relative to small hotels, resulting into less efficient outcomes.

Using revenue per worker as a proxy for productivity, the annual loss in productivity due to time spent in meeting regulatory requirement for the entire hotel industry stands at TZS 1.6 billion.

Introduction

Amongst the long-standing outcries from tourism businesses is the cost of complying with more than 25 different taxes, fees, and charges. The taxes, fees, and fees range from the Tourism Development Levy (TDL), annual tourism license, and bedding levy; to other types of taxes and charges that cut across other sectors (skills development levy, stamp duty on rent, land rent, property tax, Value Added Tax (VAT) etc.).

This Regulatory Impact Assessment (RIA) quantifies time cost and the equivalent monetary value of the time being spent by hotel businesses when complying with different regulatory regimes. The RIA conceptualises compliance costs to include both the financial and time costs that businesses incur (besides the actual tax, charges, and levies liability) in the process of becoming and remaining compliant (see Chattopadhyay and Das-Gupta 2002).

Data for this RIA were collected from 160 hotels across the 8 geographical zones in Tanzania. Regions representing each of the geographical zones include Arusha (Northern zone), Iringa (Southern highland zone), Dodoma (central zone), Kigoma (Western zone),

Mbeya (Southwest Highlands zone), Mwanza (Lake zone), Mtwara (Southern zone), and Dar es Salaam (Eastern zone). The RIA applied the standard cost model that uses several criteria to quantify and aggregate the costs businesses incur to stay compliant.



Findings

The time cost of staying compliant

On average an individual hotel spends 45 hours a year to comply with the 26 different regulatory regimes. It is an average of four hours a year to comply to each of the 26 regulatory regimes, from as high as 14 hours to prepare and submit Value Added Tax (VAT) returns, to as low as 1 hour to access entertainment permits from municipalities. The 45 hours are equivalent to more than one working month in a year or the time it takes 30 football matches to be played in a single football season. The total time cost it takes all the hotels in Mainland Tanzania to meet all the 26 regulatory regimes in a year is 191,764 hours. This is the amount of time taken away from other business tasks. That amount of time is equivalent to nearly 1,200 full-time workers doing nothing but meeting regulatory demands in a month.

Based on the assumption that an hour spent to stay compliant has the economic cost of an hour of work, the annual monetary value of the time being spent by all hotels to be compliant comes to TZS 1.4 billion. The cost rises to TZS 3.1 billion when adding other costs (paper cost, transport etc.). That figure equates to 13% of the Gross Domestic Product (GDP) of a region such as Songwe.

As discussed by Bickerdyke and Lattimore (1997), such costs of compliance will be significantly higher for small hotels due to high fixed costs of compliance that do not vary with firm size. In the presence of such differences, larger hotels will be gaining more competitive advantage relative to small hotels, resulting into less efficient outcomes (Bickerdyke and Lattimore 1997). These statistics reflect only the time spent on compliance by internal staff excluding costs of external service providers (tax consultants, accountants, payroll service providers, etc.) which some businesses acquire to assist in complying with the regulations.

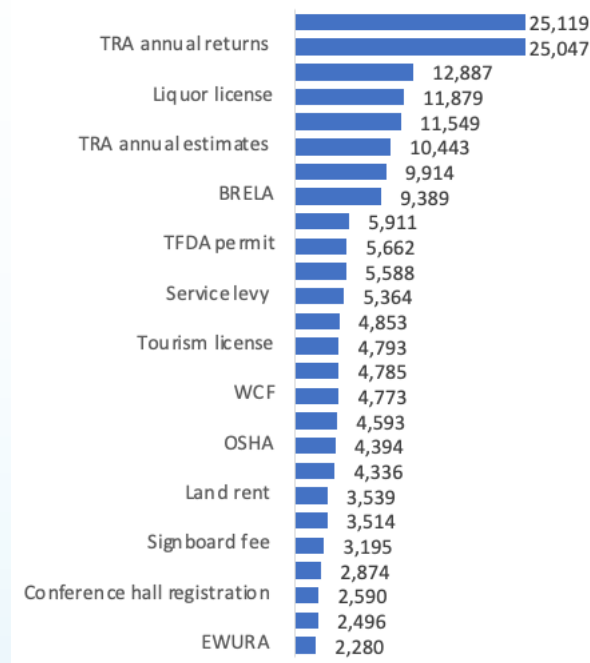
✖ Compliance costs across different regulatory regimes

Figure 1 presents the number of hours per year that the hotels in Mainland Tanzania take to meet each regulatory regime. VAT and annual income tax returns to the Tanzania Revenue Authority (TRA) are the most burdensome regulations. For the VAT returns, hotels in Tanzania spend in a total of 25,119 hours annually to meet reporting requirements. It is 25,047 hours for the annual income tax returns and 12,887 hours for meeting tax regulations on imports.

Four out of the five leading time-consuming regulatory regimes are under the TRA. It means by scaling down the time businesses interact with the TRA, a significant amount of time and monetary resources will be saved and diverted to important business activities.

It is necessary to highlight the most recent progress that TRA has made in minimizing the time spent by businesses when complying with VAT. First, since February 2023, the network downtime and outage when one processes e-filing through the TRA online portal has been significantly minimised. Second, the VAT system now directly captures details of EFD receipts (as far as the receipts include buyers' TIN). Thus, since February 2023, the VAT registered businesses do not need to upload details of EFD receipts when processing monthly VAT returns.

Figure 1: Annual total time (hrs) spent by all hotels to meet individual regulations



Source: Survey data and author own calculations

✖ Loss in productivity

Labour productivity is an important economic indicator of how efficiently goods and services are being produced in a country. To objectively estimate productivity loss, this RIA adopted revenue per worker as a proxy for productivity. Using data on the average number of hotel rooms, price per room, number of hotel employees, and the average occupancy rates, the annual loss in productivity due to time spent in meeting regulatory requirements for the entire hotel industry stands at TZS 1.6 billion.

As stated by IFC and World Bank (2012), if compliance costs are high in a country, policymakers need to know which regulatory regimes are causing most of the burden for businesses and should therefore pinpoint areas for reform. This RIA responds to that argument by explicitly identifying the magnitude of the compliance costs.

Policy recommendations to address the compliance cost challenge include:

1. The need for Government agencies to invest in online technologies that offer the most promise in reducing the time cost of being compliant.
2. Make mandatory the use of Compliance Cost Assessments (CCAs) and the Customer Satisfaction Measures (CSMs) in tracking trends on compliance costs.
3. Invest in cultural change in the Government that embraces business-minded approach to policy formulation.
4. Revisit all the hotel regulatory payments including the possibility of setting up one-stop-shop, including integrating some of the fees and levies into one.
5. Set a mechanism for coordinating inspections both among regulators and across units within regulatory agencies.

References

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