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# Nil Filing in Eswatini: Should the Revenue Authority be Bothered?

Summary of ATAP Working Paper 6 by Fabrizio Santoro and Winnie Mdluli

For many reasons, the tax to GDP ratio in developing countries is still remarkably low. One of the key factors behind poor tax collection refers to low tax compliance. In this paper, we look at compliance with income tax in Eswatini. Eswatini shares the same tax performance of other sub-Saharan African countries: the tax to GDP ratio is about 15%. However, Eswatini collects proportionally more income tax, for around half of its total revenue. In this setting, we focus on a particular dimension of compliance: filing of nil returns by companies. We make use of anonymous administrative data provided by the Eswatini Revenue Authority (SRA) and map the extent of nil filing in the country. The main goal of this study is to shed light on an often un-explored topic in the literature. This exercise also represents the first robust and comprehensive analysis of nil returns within the SRA. To the best of our knowledge, this is the first work of this type in any low-income country.

## Who are the nil filers?

We refer to a nil filer as a taxpayer who files a return, thus abiding by the law, but reporting zero business income and zero income tax. They are not in a loss position but they file nil, often for many years. A large number of nil filers implies that no revenue is raised. It is then important to understand the rationale behind this behavior. Descriptive evidence from other African countries, such as Uganda, Rwanda and Ethiopia, shows that nil filing is not a negligible issue. We identify at least three reasons explaining this behavior:

- Tax evasion: the taxpayer avoids the penalties for failing to file and submits a return, but still he avoids paying taxes thus reporting zero income.
- Not operational yet: the business is newly registered and not active as for example, it may be waiting for a public tender. Moreover, quite often authorities encourage mass registrations without ascertaining whether the taxpayers will actually be operative. These taxpayers, once in the tax base, file nil to avoid penalties.
- Not operational anymore: the business has ceased operations but continues filing to avoid penalties. It does not de-register due to the bureaucratic complexity of de-registering from the authority, especially in Eswatini.

## Data

This study relies on anonymous administrative data provided by the SRA. These are:

i) Corporate income tax (CIT) returns for the period 2013-2017

ii) VAT returns for the same period

iii) PAYE reconciliation data for the period 2015–2017

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The idea of using sources (ii) and (iii) is to merge them with the sample of nil filers from (i). In this way, we would be able to see whether a nil filer is also filing nil in their VAT and PAYE returns, or whether they are declaring divergent information in different returns, a possible indication of misreporting or evasion.

## What is the anatomy of nil filers?

The first key figure produced in this exercise is the share of nil returns per year. Overall, across the 5-year period 2013-2017, the share of nil filing is as high as 29%. That means that about a third of CIT returns submitted are nil. We also translate the share of nil returns in terms of actual taxpayers. A taxpayer could be nil filing in more than one year. Indeed, the share of nil filing taxpayers over the total number of taxpayers filing a return is higher than the 29% reported above. As many as 4,212 uniquely identified taxpayers nil filed in at least one year over the period 2013-2017, or 45% of the total. More importantly, two thirds of them are perpetually nil filing, i.e. filing nil in any given year in which they submit a return.

We also look at nil filing across several firms' dimensions, namely:

- Location: nil filing is more common in urban districts (Hhohho and Manzini) than rural ones.
- Sector: nil filing rises to 40% per year in some specific sectors, such as construction, ICT and services, while it falls to about 20% in public administration.
- Size: nil filing is much more common for SMEs (30%) than large firms (5-7%). This is not surprising, since large firms are less likely to be inactive and are more closely monitored by the authority. A nil return from a large firm would automatically trigger an audit.
- Business' life length: nil filing is much more frequent for younger firms (46%), i.e. firms in their first year after registration, than those less young (26%). This could be related to the fact that newly registered firms are less likely to be operational as they could be applying for a tender.

## Cross-matching with alternative returns

Checking for what nil filers report in other returns is a useful tool to detect evasion. After identifying the nil filers, we monitor their reporting with VAT and PAYE. Concerning VAT, we find that just 6% of the 4,212 nil filers are declaring positive sales in the VAT returns and thus reporting divergent information to the authority. The remaining are either not declaring VAT at all (89%) or declaring a nil VAT return (5%). Likewise, with PAYE only 3% of nil filers are openly reporting discordant information. This exercise is informative in the way it detects taxpayers who could be blatantly evading. At the same time, the other CIT nil filers reporting nil VAT/PAYE data could still be evading but being more accurate in reporting the same (nil) information to the SRA.

## Conclusions and recommendations

With the evidence produced in this study, it is crucial to ponder on the title-question: what could the authority do with nil filing? A number of recommendations can be formulated.

First, the SRA could put more effort into establishing a dedicated intelligence unit with the role of tracking patterns of nil filing. Second, a proper monitoring system could be created to automatically cross-check returns, spot discrepancies and trigger audits. Third, on a broader level, it is encouraged to put more focus on what can be learned from the vast bulk of administrative data the SRA routinely produce. For example, that could encompass pushing forward the data cleansing process. Fourth, from a research perspective, the authors are currently working on an innovative, countrywide, "nudging" strategy to target nil filers in particular, and non-compliant taxpayers more generally. This field experiment will provide robust evidence on the drivers of compliance and what could explain the nil filing behavior.

## Further reading

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## Credits

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