NATIONAL COMPETITIVENESS COMMISSION

Enhancing Zimbabwe's Global Competitiveness

ANALYSIS OF THE IMPACT OF INTERMEDIARY MONEY TRANSFER TAX (IMTT) ON BUSINESS AND NATIONAL COMPETITIVENESS

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1.0 Introduction

1.1 Intermediary Money Transfer Tax (IMTT) is a levy on electronic financial transactions, which was introduced by the Government in 2018, through Statutory Instrument (SI) 205 of 2018. Since then, the tax has been adjusted several times to balance revenue generation with the need to address economic dynamics and stakeholder concerns.

1.2 Currently, the IMTT rate is 2% for transactions in local currency and 1% for USD transactions, and this was effected through Section 4 of the Finance Act Number 13 of 2023.

1.3 However, for single transactions equivalent to or exceeding US$500,000, a flat IMTT of US$10,150 is applied, providing a ceiling to the tax burden on substantial transfers.

1.4 It is important to note that most countries that have implemented taxes on electronic money transfers, have a large informal sector and a large unbanked population.

1.5 To this end, the tax is meant to tap in into the informal sector, so that they contribute to Government revenues.

2.0 Regional Benchmarking of Intermediated Money Transfer Tax

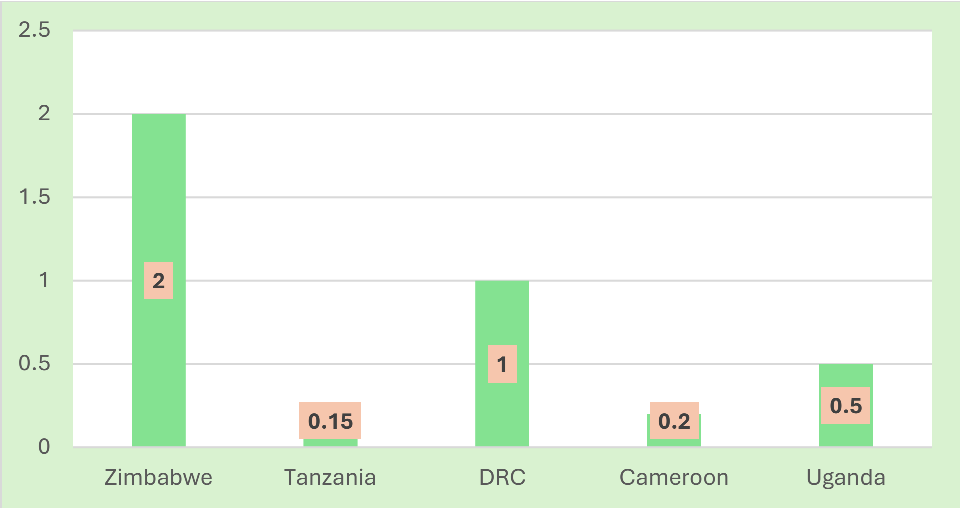
2.1 Several countries, particularly in Africa, have implemented taxes on mobile money transactions and these vary in structure and rate.

2.2 On the other hand, developed countries have not implemented specific transaction taxes on mobile money services akin to those seen in some developing nations.

2.3 However, developed countries have introduced regulatory measures and reporting requirements to monitor and manage digital financial transactions.

2.4 A comparison of IMTT with other countries in the region shows that Zimbabwean rates of 2% for transactions done in local currency is higher than those charged in the region as shown by. Figure 1 and Table 1 n.

Figure 1: Regional Comparison of Intermediated Money Transfer Tax



Source: Digital Financial Services (DFS)

2.5 The countries with taxes on transaction value, include Benin, Cameroon, Chad, Ghana, Nigeria, Tanzania, Uganda and Zimbabwe. Other countries such as Benin, Cameroon, Chad, and Tanzania tax both transfers and withdrawals. Uganda, on the other hand, taxes withdrawals but not transfers.

Table 1: Regional Comparison of Intermediated Money Transfer Tax

Country	Tax name	Tax base	Tax rate	Exemptions	Date introduced
Benin	Tax on electronic communication services	Electronic money transfers and money withdrawals	XOF 100–12,500 (USD 0.17–20.82)	None	January 2022
Cameroon	Electronic Money Transfers Tax	• Electronic money transfers • Cash withdrawals following money transfers through financial institutions or telecom companies	0.20%	Bank transfers and transfers for tax payments	January 2022
Chad	Electronic Money Transfers Tax	• Electronic money transfers • Cash withdrawal transactions related to transfers made by financial institutions and telecom companies	0.20% 5% for cash withdrawals from mobile phone communication credit from 1 April 2022	Bank transfers and transfers for tax payments	January 2022, with changes
Ghana	Electronic Transfer Levy	• Mobile money transfers • Transfers between bank accounts and mobile money accounts • Bank transfers on specific digital platforms	1%	• Cumulative and daily transfer of GHS 100 (USD 9.09) • Bank transfers under GHS 20,000 (USD 1,819) • Transfers between accounts owned by the same person, provided bank or mobile money accounts are linked with Ghana card • Payment of taxes, fees, and charges on Ghana-designated payment system • Specified merchant payments • Transfers between principal, agent and master-agent accounts • Electronic clearing of cheques	May 2022, with changes
Nigeria	Electronic Money Transfer Levy	Electronic receipts and electronic money transfers deposited in any money bank or financial institution	NGN 50 (USD 0.12)	Transactions below NGN 10,000 (USD 22.14)	January 2021, with changes
Tanzania	Electronic Money Transactions Levy	Electronic money transactions that enable a user to transfer or withdraw money electronically	TZS 10–2,000 (USD 0.0043–0.86)	• Merchant, business or government payment transactions • Announced: exemptions for bank-to-bank (interbank and intrabank) and mobile-to-bank (both sides) transactions	July 2021, with changes
Uganda	Mobile Money Levy	Mobile money withdrawals	0.50%	None	July 2018, with changes
Zimbabwe	Intermediated Money Transfer Tax	Non-cheque money transfers	2% Flat rate of ZWL 3,300,000 for transfers over ZWL 165,000,000 Flat rate of USD 20,000 for transfers over USD 500,000	• Transactions of less than ZWL 2,500 or USD 5 • Money transfers for the purchase or sale of marketable securities, or for the purchase or redemption of money market instruments • Transfers on remuneration payments • Payments to or from ZIMRA in respect of taxes, duties and other charges • Intra-corporate transfers • Certain transfers involving trust accounts, pension funds and licensed petroleum companies	October 2018, with changes

GHS – Ghanaian cedi; NGN – Nigerian naira; TZS – Tanzanian shilling; USD – United States dollar; XOF – West African CFA franc
ZIMRA – Zimbabwe Revenue Authority; ZWL – Zimbabwean dollar

2.6 Zimbabwean rates of 2% for transactions done in local currency is higher than comparator countries in the region, which hinder competitiveness of Zimbabwean goods and services.

2.7 Cote D'Ivoire's transaction tax of 7.2%, is the highest in the region. ***However, of note is that the transaction tax is ring-fenced to meet critical expenditure in the country, such as 2% goes towards developing rural digital infrastructure, 0.2% toward funding the arts, and 0.25% towards battling industry fraud. The remaining 4.75% is general taxation.***

2.8 Uganda's tax applies only to withdrawals of mobile money (transactions made via mobile phones, known as MM, standing for 'mobile money'), and thus targets only MM consumers, but not users of other non-digital financial services, such as cash withdrawals from banks.

2.9 Benin, Tanzania and Zimbabwe have a ceiling for the tax rate, whereby above a particular threshold, the tax rate no longer increases.

3.0 Exemptions from IMTT

3.1 In order to support key economic sectors, ensure the smooth operation of Government functions, and prevent the undue taxation of specific financial activities, certain transactions are exempt from IMTT. Table 2 indicates the various exemptions from IMTT across countries.

Table 2: Exemptions from IMTT By Country

Country	**Nature of Exemptions**
Zimbabwe	• transfers to farmers for the purchase of wheat, maize, and small grains by the Grain Marketing Board or approved commercial buyers, as prescribed by the Minister; • Remuneration (salaries and wages) to ensure that employees receive their full earnings without deductions related to transaction taxes; • Tax payments, refunds or other charges to or from the Zimbabwe Revenue Authority (ZIMRA); • Intra-Corporate Transfers, i.e. movement of funds between a company's own accounts, such as between a treasury account and a trading account held in the same company's name; • Specific trust accounts, particularly those administered by legal practitioners. • Transfers into and from Nostro FCAs are not subject to IMTT, encouraging the use of foreign currency accounts and facilitating international transactions; • Diaspora Remittances;

	• Transfers of funds by the government from the Consolidated Revenue Fund or other funds established under the Public Finance Management Act.
Cameroon	• Bank-to-bank transfers and tax payments
Chad	• Bank-to-bank transfers and tax payments
Ghana	• Tax payments and payments made to or from formal enterprises. • Transfers between accounts owned by the same person. • Transfers to pay taxes, fees and charges on government-designated platforms. • Specified merchant payments. • Transfers between master-agent, agent and principal accounts. • Electronic clearing of cheques. • Bank Account Transfers up to GHS 20,000 (approximately USD 1,819) are exempt from Electronic Transfer E-Levy.
Uganda	• Government grants, student allowances, and social security benefits
Rwanda	• Merchant payments for goods and services
Tanzania	• Bank-to-mobile, merchant, business and Government payment transactions
Zambia	• Agricultural cooperatives and rural savings groups

Table 3: IMTT Tax-Free Thresholds

Ghana	• Mobile Money (MM) Transactions: A daily cumulative tax-free threshold of GHS 100 (approximately USD 9.09) applies to MM transactions
Zimbabwe	• Transactions up to USD 10 are exempt from IMTT. For transactions exceeding USD 500,000, a maximum tax cap of USD 10,000 is applied.

3.2 Only Zimbabwe taxes digital and traditional financial service delivery methods equally.

4.0 Other Taxes on Electronic Money Transfers

4.1 Whereas some countries have low or no electronic money taxes, of note is that these countries also impose VAT or excise duty on money transfers, as indicated in Table 4.

Table 4: Other Taxes on Electronic Money Transfers

TAXATION OF MM	TRANSACTION OF MM			TELECOM SERVICES	
	Taxation of MM *services* *charges*		Specific taxation of *actual value* of transfer of MM	Telephone services/ Electronic communications	
	VAT*	Excise duties		VAT	Excise duty
Burundi	–	–	–	18%	0% (18% mobile telephone tax via megabits)
DRC	–	–	–	16%	10%
Kenya	–	12%	–	16%	20%
Rwanda	18%	–	–	18%	10%
Tanzania	18%	10%	TZS 10 to ZS 4,000 (USD 0.0043–USD 1.72) on electronic money transfer and withdrawal	18%	17%
Uganda	–	15%	0.5% (on withdrawals)	18%	12%
South Sudan	–	–	–	18%	15%

4.2 Kenya imposed an excise duty on mobile money transfer fees in 2013, starting at 10% and increasing to 12% in 2018. Kenya's Excise Duty on mobile transactions does not apply to bank-to-bank transfers to promote formal banking. Uganda applies excise duties on fees for money transfers and withdrawals by telcos (15%).

4.3 As with other countries in the region, Cote D'Ivoire also has a sales tax on mobile money fees (18%). Tanzania levies 18% VAT on transfer fees payable to banking and non-banking institutions and excise duties of 10% on fees payable to telcos for money transfers and payments. Rwanda levies 18% VAT on fees for mobile banking when this service is provided by telcos.

4.4 In Zimbabwe, financial services, which include activities such as the transfer of money, operation of bank accounts, fees charged by financial institutions for electronic money transfers, and other related services, are exempt from VAT, which effectively makes money transfer cheaper in comparison with other countries.

5.0 Impact of IMTT on Business and National Competitiveness

5.1 While the IMTT has become a vital effective and inexpensive resource mobilization tool, thereby significantly bolstering Government revenues for funding essential public services and infrastructure projects, it has, however, contributed to undermining competitiveness.

Price Distortions

5.2 IMTT payments are made at various intermediary levels in a transaction chain, hence the effective tax burden is substantially greater, since the tax is not an allowable deduction. Resultantly, the tax significantly increases the cost of doing business with a pass-through effect on general prices and inflation. A relatively high-cost base undermines competitiveness of the economy across various sectors of the economy.

Informalization of the Economy

5.3 The IMTT, coupled with excessive charges on basic transactions, discourage the use of formal financial services and is pushing the economy towards a cash-based system. Products sold on cash basis especially in the informal sector become cheaper, while those of the formal sector become expensive and uncompetitive.

Loss of Competitiveness

5.4 Distorted absolute production costs induced by the IMTT makes Zimbabwean goods and services uncompetitive in domestic and international markets. The IMTT induced price distortions hinder competitiveness of Zimbabwean goods and services by negatively affecting resource allocation, discourage investment, innovation and productivity.

Reduce the Effectiveness of Monetary Policy

5.5 High IMTT on digital transactions discourage the use of plastic money and boost the holding of currency outside of banks. This practice will undermine the financial intermediation role of banks, thus local industry failing to access concessionary funding, which is critical for enhancement of national competitiveness.

Discourage Financial Inclusion

5.6 Financial inclusion is undermined as the use of digital financial services is discouraged by IMTT, with the population preferring traditional cash-based transactions. It is against this background that IMTT contribution to total revenue in Zimbabwe has been on a downward trajectory, plummeting from 27.6% in 2021 to a mere 4.6% in 2024.

5.7 Taxes on mobile money can disproportionately affect low-income individuals and those in rural areas, potentially reversing gains made in financial inclusion. In recent years, inclusiveness has become a global competitiveness pillar, and it is worrisome that in the 2024 Future of Growth Report, access to financial services as a driver of the inclusiveness pillar, Zimbabwe scored 36.8 out of 100. The low score is partly as a result of measures such as the IMTT.

6.0 Conclusion and Recommendations

6.1 Zimbabwe is the first country in the region to introduce IMTT and it varies on several dimensions, the tax rate, exempt payments and tax-free thresholds, across countries.

6.2 In the spirit of promoting the ease of doing business environment and also reducing the cost of doing business, the Commission proposes the following:

- Reduce the IMTT rate to align with regional standards;
- Make IMTT an allowable deduction, thereby effectively lowering the tax burden, encourage compliance and promote financial inclusion;
- Provide additional exemptions from IMTT, such as on bank-to-bank transfers by individuals, and transfers between accounts owned by the same person; and
- Development of incentives to promote financial inclusion through reduced digital transaction costs.

6.3 To this end, the Commission proposes further consultation between the Government and the Private sector to build a more competitive business environment. Government needs to come up with better models to raise revenue and ensure resource allocative efficiency without inducing price distortions and raising production costs.