

Notice No. PN2024-009

Advisory notice on implementing Customs and Excise (Excise Tax Stamps) Regulations 2024

1. Background

The Institute of Chartered Accountants in Malawi (ICAM) would like to notify the public of the purpose and benefits of implementing Customs and Excise (Excise Tax Stamps) Regulations 2024, in enhancing tax compliance, promoting fair business practices, and ensuring the integrity of our market.

Overall, the Institute believes that the robust design of the Tax Stamp and overall system can make an important difference to the effectiveness of the program.

2. Benefits of Tax Stamps

Tax Stamps are used in the broader excise tax regime and are physical or digital indicators that are mandatorily affixed on all listed excisable goods in compliance with excise duty obligations. They serve as proof that excise duty has been paid and are part of wider systems used to “track and trace” various products from point of origin, distribution and consumption. As a result, the following are the benefits:

1. **Enhancing Tax Compliance and Improving Government revenues:** Which are crucial for funding public services and infrastructure development which benefits all Malawians.
2. **Promoting Fair Competition:** As compliant businesses no longer struggle to compete with those selling goods at lower prices due to evading taxes, thereby fostering a healthy business environment based on merit and compliance.
3. **Protecting Consumers:** Tax Stamps act as a mark of authenticity and quality assurance for consumers and assure consumers of the safety and legitimacy of the goods they purchase.
4. **Supporting Government Initiatives:** Tax Stamps align with government initiatives to improve tax collection and governance since they demonstrate a commitment to transparency and accountability, which are essential components of a robust public finance management system.
5. **Economic Growth and Development:** By ensuring that all businesses contribute their fair share of taxes, the government will generate the necessary resources to invest in economic development projects. This, in turn, will stimulate economic growth, create jobs, and improve the overall standard of living for Malawians. ICAM periodically advises Government of strategies to widen the tax base, of which Tax Stamps are a part of. The Institute expects that as the tax base broadens, tax rates generally follow a declining trend and will promote economic growth in Malawi. A stable and predictable tax environment is also attractive to foreign investors, further driving economic progress.

3. Other considerations

While there has been growing use of Tax Stamps globally, the Institute recommends that other factors be considered and properly navigated to ensure the effectiveness of the tax stamp system as follows:

1. **High Excise Tax Rates:** tend to inadvertently fuel illicit trade through supernormal gains from similar pricing of continued illicit activities and often make Tax Stamps and duties ineffective. Rates of taxes should therefore be managed so as not to incentivize the informal market.
2. **Investment In Track and Trace Systems:** Growing economic integration and removal of trade barriers may contribute to increased and easier mobility of counterfeit products making Tax Stamps

ineffective **“as a sole strategy”**. ICAM therefore recommends investment in relevant track and trace systems and technologies which will mitigate the impact of reduced trade barriers.

3. **Increased Collaboration with Other Authorities:** Track and trace systems require the Malawi Revenue Authority (MRA) to collaborate with authorities in other jurisdictions through relevant agreements to share information across borders hence improving enforcement, fostering compliance and curbing illicit trade.
4. **Implementation costs:** Tax Stamps may result in significant implementation costs if not properly procured, implemented or monitored. ICAM therefore recommends a robust mechanism for authenticating and validating all equipment installed to support the implementation of Tax Stamps.
5. **Ensuring that the excise duty system is well designed** is critical to ensure that Tax Stamps are not working in isolation. The Institute recommends that:

A simple, non-discriminatory system and with **rates not so high** as to incentivize a shift into the informal market while ensuring that the **“strategy to tackle fraud”** involves a robust **understanding of the various strategies** used in the illicit market both within and outside our borders, and this will require credible and comprehensive data.

We need a well-resourced monitoring and enforcement regime with sufficient penalties to deter illicit trade. Tax Stamps should be **difficult to counterfeit** and **not overly costly**, and procedures should be in place to prevent other potential abuses of the stamp system. In this regard, ICAM expects that implementation of Tax Stamps shall be fair and transparent to all traders in order to stimulate trade and create an equitable business environment. Therefore, **Integrity** of the public and enforcement agencies in the implementation of the Tax Stamp and Track and Trace System is key for its effectiveness.

Further, there needs to be proper **identification of excisable goods** for application of Tax Stamps because a **widespread approach may be impractical** due to related implementation costs. Rather, a phased approach is preferred. ICAM recommends such an approach, with a priority on harmful, counterfeit and illicit products including alcohol and medications in line with recent national developments.

Conclusion

ICAM **commends** the introduction of Tax Stamps as a progressive move in line with global trends and related global trade laws and **recommends** that **achieving the right balance between robustness and cost is important** so as to maximize the effectiveness of the program. Overall, we recommend Tax Stamps **to be part of a much wider system** of enforcement, and that the track and trace tax system **is well-designed**, and well-resourced with surveillance, interception and deterrence activities.

ICAM believes that the Excise Tax Stamps Regulation is a pivotal measure for reinforcing our tax system, promoting fair business practices, and safeguarding consumer interests. We therefore urge all stakeholders to support this initiative and work together towards a more transparent and prosperous Malawi.



CA. Moffat Ngalande
ICAM President
8th August 2024