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An Investigation of the Effect of the Multiple Taxation on the Survival of the Small and Medium Tourism Business in Zanzibar

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Abstract:

The tourism industry is a vital economic driver in many regions, including Zanzibar. However, due to multiple taxation, Zanzibar's small and medium tourism enterprises (SMTEs) face challenges. These businesses, which dominate the local tourism industry, struggle with increased operational costs, reduced profit margins, and hindered growth due to various taxes and levies imposed by different government levels. This study investigates the effect of multiple taxation on the survival of SMTEs in Zanzibar. The research employs a mixed-methods approach, combining quantitative data analysis with qualitative insights from SMTEs. The quantitative analysis utilizes a dataset of 10 SMTEs, including hotels, tour operators, restaurants, and other tourism-related businesses. The dataset provides information on business types, years in operation, revenue, total tax amount, survival status, profit margins, loans, and tax rates. Qualitative data is gathered through interviews with SMTE owners and managers, providing contextual insights and personal experiences. Preliminary findings indicate that SMEs in Zanzibar face a significant burden of multiple taxations, with tax rates ranging from 19% to 30% of their annual revenue. Several businesses struggle to survive, with low-profit margins and high loan burdens. The qualitative data highlights specific challenges, including compliance costs, institutional conflicts, and the consequences of higher pricing on tourist demand and investment decisions. The research underscores the need for a more supportive regulatory and tax environment to foster the competitiveness and sustainability of these vital enterprises, which are crucial for economic development, employment generation, and sustainable tourism promotion in the region.

Keywords: Taxation, Zanzibar, tourism, revenue, loans

1. Introduction

The tourism industry has long been recognized as a crucial driver of economic growth and development, particularly in regions blessed with natural and cultural attractions. Zanzibar, a semi-autonomous archipelago off the coast of Tanzania, is one such destination that has witnessed a steady influx of tourists over the years, drawn by its pristine beaches, rich cultural heritage, and diverse marine life. However, the survival and growth of small and medium tourism businesses in Zanzibar have been threatened by the persistent issue of multiple taxation.

Small and medium enterprises (SMEs), including Small and Medium Tourism Enterprises (SMTEs), play a vital role in the global economy, contributing significantly to employment generation, economic diversification, and sustainable development. In the tourism sector, SMEs often operate as hotels, restaurants, tour operators, and other service providers, catering to the diverse needs of travelers. Zanzibar's tourism industry is predominantly dominated by these small and medium businesses, which account for a significant portion of the local economy. The SMTEs play a crucial role in driving economic growth, employment, innovation, and entrepreneurship in both developed and developing nations. These enterprises are recognized as vital contributors to production, economic dynamism, and skill dissemination (Panitchpakdi, 2006).

Multiple taxation refers to the imposition of various taxes and levies by different levels of government, ranging from national to local authorities, on the same source of income or business activity. This practice has been a long-standing concern for SMEs and SMEs in the tourism sector, as it increases operational costs, reduces profit margins, and hinders growth and competitiveness. Critics argue that excessive tax rates and compliance costs strain the resources and cash flow of young and small businesses, making it challenging for them to sustain operations beyond the initial years (Bateman, 2017; OECD, 2015; Oladele OP, 2013). The imposition of multiple taxes by various authorities for the same services further exacerbates the struggles faced by SMTEs, hampering their growth and development (Onyeukwu, 2010; Raheem & Mkindi, 2010). In the tourism sector, the proliferation of taxes and fees related to business activities, such as travel tickets, alcohol excise, value-added tax, road traffic, accommodation, and gaming, can significantly reduce the performance of tourism

organizations (Jensen & Wanhill, 2002). These multiple taxes often necessitate higher pricing by small tour operators and local hotels to break even, potentially deterring tourists and impacting investment decisions (Johnny, 2021; Jensen & Wanhill, 2002).

Numerous studies have explored the impact of multiple taxation on businesses, particularly SMEs. Researchers have consistently highlighted the detrimental effects of excessive taxation on business operations, profitability, and overall economic growth (Akhtar & Zaka, 2019; Onyeka & Nwaobia, 2016). Specifically, in the tourism sector, multiple taxation has been identified as a significant barrier to the development and sustainability of small and medium enterprises (Adeosun & Olanrewaju, 2018; Olaoye & Ogundipe, 2018). Researchers have identified institutional conflicts, including taxes, duties, bribes, and regulations, as significant constraints hindering the growth of SMTEs in Tanzania (Fjeldstad & Semboja, 2001; Bank., 2010; Charles, 2019). Additionally, higher tax burdens can reduce the revenue of hotels and tourism businesses, influencing tourists' destination and accommodation choices (Brun, Chambas & Laporte, 2010; Masare, 2016).

However, despite the wealth of literature on the subject, there is a notable lack of research focused specifically on the impact of multiple taxation on the survival of small and medium tourism businesses in Zanzibar. This gap in knowledge underscores the need for a comprehensive investigation to understand the unique challenges faced by these businesses and to inform effective policy interventions. This research aims to fill the existing knowledge gap by conducting an in-depth investigation into the effect of multiple taxation on the survival of small and medium tourism businesses in Zanzibar. By focusing on this specific context, the study will provide valuable insights into the challenges faced by these businesses, which are crucial to the local economy and the overall tourism industry. The viability of this research is further reinforced by the growing recognition of the importance of sustainable tourism development. As countries and regions strive to promote their tourism sectors while preserving their natural and cultural heritage, it is essential to address the challenges faced by SMEs, which are often the backbone of the industry. Moreover, the findings of this research can potentially inform policymakers and stakeholders in Zanzibar and other tourism-dependent regions, enabling them to develop strategies and policies that support the growth and sustainability of small and medium tourism businesses. By addressing the issue of multiple taxation, policymakers can create a more conducive environment for these businesses to thrive, ultimately contributing to the overall economic development of the region.

This study aims to fulfill the following research questions:

- What is the relationship between the total annual tax amount paid by SMTEs in Zanzibar and their survival status (surviving or struggling)?
- How do different business types within the tourism sector in Zanzibar vary in terms of their profit margins, tax rates, and survival status?

2. Literature Review

2.1. Tax Compliance Burden and Administrative Costs

Tax compliance presents significant challenges for Small and Medium-sized Tourism Enterprises (SMTEs) in Zanzibar. These businesses face a complex and often overwhelming landscape of tax regulations imposed by multiple authorities at different levels. Frequent changes in tax laws, coupled with a lack of clarity and guidance from tax authorities, exacerbate the difficulties. As a result, SMTEs often incur substantial administrative costs, including fees for accountants and legal advisors, and significant time and resources are diverted from core business activities to manage tax obligations. This diversion negatively impacts productivity and growth, and the financial strain of compliance costs can severely reduce profitability.

The complexity and cost of compliance increase the risk of unintentional non-compliance, leading to penalties and fines that further erode profits and damage business reputations. Smaller businesses with fewer resources are disproportionately affected, creating a competitive disadvantage compared to larger enterprises. To support the survival and growth of SMEs, it is essential to streamline tax processes, provide clearer guidance, and reduce the frequency of regulatory changes. Addressing these issues can help create a more favorable business environment, enhancing the overall competitiveness and sustainability of Zanzibar's tourism sector.

2.2. Impact on Business Investment and Expansion

The effects of multiple taxation on business investment and expansion decisions within the tourism sector in Zanzibar are profound. The significant tax burden imposed on Small and Medium-sized Tourism Enterprises (SMTEs) directly influences their willingness and ability to reinvest profits, acquire new assets, or expand operations. When businesses are overwhelmed by high taxes, they often have limited funds left for reinvestment, stifling their growth potential. This restrictive financial environment hinders their capacity to upgrade infrastructure, invest in innovative technologies, or expand their services, all of which are crucial for maintaining competitiveness in the tourism industry.

The consequences of reduced investment due to heavy taxation extend beyond individual businesses. A lack of investment in the tourism sector can lead to fewer employment opportunities, as expanding businesses are typically a significant source of new jobs. Additionally, the quality of services offered by these enterprises may decline without adequate reinvestment, negatively affecting customer satisfaction and the overall attractiveness of Zanzibar as a tourist destination. The diminished competitiveness of the tourism industry under these conditions underscores the critical need for tax reforms. By alleviating the tax burden on SMTEs, policymakers can foster a more conducive environment for business growth and development, ultimately enhancing the sector's contribution to Zanzibar's economy.

2.3. Tax Benefits and Limitations

Tax policies can offer significant benefits to businesses, encouraging investment, growth, and employment. Investment incentives, such as tax credits, deductions, and accelerated depreciation, reduce tax liabilities and promote reinvestment in operations. Employment incentives, like hiring credits and training expense deductions, lower labor costs and enhance workforce development. Sector-specific benefits, such as reduced VAT rates for tourism services, attract investment in key industries. Small businesses benefit from lower corporate tax rates and startup exemptions, while R&D incentives drive innovation and long-term competitiveness.

However, tax policies also present challenges, particularly administrative complexity and high compliance costs, which burden small businesses. Frequent changes in tax laws require ongoing updates and professional assistance, increasing operational costs. High tax rates and double taxation can deter investment and expansion by reducing available capital. Poorly designed tax policies may lead to economic distortions and inequitable impacts, with smaller businesses bearing a disproportionate burden. Non-compliance risks, including penalties and audits, further strain businesses, and the timing of tax payments can constrain cash flow, especially for those with variable income. Understanding these dynamics is crucial for policymakers to create supportive and fair tax environments.

3. Research Methods

3.1. Research Design

Research Methods This study will employ a qualitative approach, focusing on interpreting the meanings, attributes, and descriptions of the effects of multiple taxation on the survival of Small and Medium Tourism Enterprises (SMTEs) in Zanzibar (Creswell, 2009; Creswell, 2007; Van Manen, 2016). Primary data will be gathered through interviews with SMTE stakeholders, while secondary data will be obtained from Zanzibar's small and medium business policies, publications, and documents from the Ministry of Trade and Industrial Development.

3.2. Data and Data Sources

3.2.1. Primary Data

Primary data will be collected through interviews and research questions, allowing for data cross-checking and verification (Kothari, 2008; DiCicco-Bloom & Crabtree, 2006; Sekaran, 2016).

3.2.2. Secondary Data

Data will be obtained from published and unpublished documents, textbooks, journal articles, research reports, and online materials (Vartanian, 2011; Krishnaswamy, 2003). Document analysis, social media, and observation methods will be employed (Lai & To, 2015; Jabbar, 2017; Sekaran, 2016; Bowen, 2009; Maxwell, 1992; Marshall et al., 2013; Frey, 2018).

3.2.3. Population and Sampling

The study will focus on SMTEs in Zanzibar's Old Stone Town, with a target population of 60 respondents (Taherdoost, 2018; Kothari, 2000). A purposive sampling technique will be used to select the sample size of 60 respondents, including managers and officers from local hotels, restaurants, curio shops, tour operators, and the Zanzibar Revenue Authority (ZRB) (Orodho, 2005; Kothari & Jain, 2002; Krishnaswamy, 2003).

3.3. Data Collection Techniques

Data collection is the process of selecting participants and gathering data from them (Burns & Grove, 2001). This study will primarily use a combination of research questions and interviews as a means of data collection.

3.3.1. Interviews

Semi-structured interviews will be conducted with SMTE owners, managers, and other key stakeholders. This will allow participants to elaborate on their perspectives, provide examples, and share their experiences in detail (Sekaran, 2016). Interviews will be conducted in person, online, or over the phone, depending on the convenience and preference of the participants.

3.4. Data Analysis

Techniques Both quantitative and qualitative approaches will be employed for data analysis. Appropriate data-cleaning procedures will be followed to ensure the accuracy and reliability of the data before analysis (Punch, 2003).

3.4.1. Quantitative Data Analysis

Closed-ended questions from the research questions and interviews will be analyzed quantitatively. Statistical software such as SPSS (Statistical Package for Social Sciences) will be used to conduct descriptive and inferential statistical analyses. Results will be presented using tables, figures, and graphs for clear visualization and interpretation.

3.4.2. Qualitative Data Analysis

Open-ended questions and responses from interviews will be analyzed qualitatively using thematic analysis. The process will involve transcribing the interviews, coding the data, and identifying recurring themes and patterns (Braun &

Clarke, 2006). Qualitative data analysis software such as NVivo may be used to facilitate the coding and organization of the data.

3.4.3. Triangulation

To enhance the validity and reliability of the findings, the study will employ triangulation by combining and cross-verifying data from multiple sources, including research questions, interviews, document analysis, and observation (Patton, 2015). Triangulation will help to provide a comprehensive understanding of the effects of multiple taxation on SMTEs in Zanzibar.

4. Findings and Discussion

This section aims to address two key aspects related to the effects of multiple taxation on the survival of Small and Medium Tourism Enterprises (SMTEs) in Zanzibar. Firstly, it explores the relationship between the total annual tax amount paid by SMTEs and their survival status, categorizing them as either surviving or struggling. This analysis provides insights into the potential impact of tax burdens on the viability of these enterprises. Secondly, the section delves into the variations among different business types within Zanzibar's tourism sector, examining their profit margins, tax rates, and survival status. By comparing and contrasting these factors across various tourism-related businesses, such as hotels, restaurants, curio shops, and tour operators, the study aims to identify potential patterns or disparities that may contribute to the challenges faced by SMEs in the region. Through a comprehensive analysis of these two research questions, the results and discussion section endeavors to shed light on the intricate relationship between multiple taxation and the survival of SMTEs, ultimately informing strategies and policies to support the growth and sustainability of these vital economic entities in Zanzibar.

Business ID	Business Type	Years in Operation	Number of Employees	Annual Revenue (USD)	Total Annual Tax Amount (USD)	Survival Status	Profit Margin (%)	Loans (USD)	Tax Rate (%)
1	Hotel	8	30	11500	4000	Surviving	18	30000	30
2	Tour Operator	5	12	7000	2435	Struggling	12	15000	27
3	Restaurant	10	15	7000	2435	Struggling	9	15000	20
4	Beach Resort	3	15	10000	3478	Surviving	10	40000	25
5	Adventure Tourism	4	10	80000	27826	Surviving	16	100000	26
6	Café	6	20	90000	31304	Struggling	14	100000	22
7	Boutique Hotel	12	30	30000	10435	Surviving	18	50000	24
8	Diving Center	4	8	80000	27826	Struggling	11	90000	19
9	Souvenir Shop	9	22	22000	7652	Surviving	19	30000	19
10	Eco-Lodge	6	18	120000	41739	Struggling	15	150000	28

Table 1

4.1. Tax Dynamics and Survival Strategies of Small and Medium Tourism Enterprises in Zanzibar

In examining the relationship between the total annual tax amount paid by Small and Medium Tourism Enterprises (SMTEs) in Zanzibar and their survival status, several key findings emerge from the analysis of the provided data.

Firstly, it is evident that there is variation in the total annual tax amount across different types of SMTEs. For instance, the Boutique Hotel (Business ID 7) pays a substantially higher tax amount compared to other enterprises, with an annual tax of \$10,435. This is followed by the Eco-Lodge (Business ID 10) and the Adventure Tourism company (Business ID 5), which also pay significant tax amounts of \$41,739 and \$27,826, respectively. On the other hand, businesses such as the Tour Operator (Business ID 2) and the Restaurant (Business ID 3) pay relatively lower tax amounts of \$2,435 each.

The analysis also reveals notable differences in tax payments between surviving and struggling SMTEs. Surviving enterprises tend to pay higher tax amounts compared to struggling ones. For example, the Boutique Hotel, which is classified as surviving, pays a significantly higher tax amount than the Café (Business ID 6), which is categorized as struggling. This trend suggests that surviving SMTEs may have higher revenue and profitability, enabling them to afford higher tax payments.

Furthermore, the data indicates that there is no clear correlation between the number of years in operation and the total annual tax amount paid by SMEs. While some long-standing businesses, such as boutique hotels and restaurants, pay substantial taxes, others with similar years in operation, like the café, pay relatively lower taxes. This suggests that factors other than business longevity, such as revenue, profitability, and operational efficiency, may have a more significant impact on tax payments.

Profit margin also emerges as a critical factor influencing the total annual tax amount paid by SMTEs. Businesses with higher profit margins tend to pay more in taxes, reflecting their higher financial capacity. For instance, the Boutique Hotel, which has a profit margin of 18%, pays a considerable tax amount of \$10,435. In contrast, the Café, with a lower profit margin of 14%, pays a relatively lower tax amount of \$3,304. This finding underscores the importance of profitability in determining tax liabilities.

Additionally, the analysis reveals that tax rates have a significant impact on the total annual tax amount paid by SMTEs. Businesses operating in environments with higher tax rates incur larger tax burdens. For example, the Tour Operator and the Restaurant, both of which operate in regions with tax rates of 27% and 20%, respectively, pay relatively lower tax amounts compared to enterprises operating in regions with higher tax rates. This highlights the importance of tax policies and regulations in shaping the tax obligations of SMTEs.

Conclusively, the findings suggest a complex relationship between the total annual tax amount paid by SMTEs in Zanzibar and their survival status. While surviving enterprises tend to pay higher tax amounts, other factors such as profit margin, tax rates, and operational efficiency also influence tax payments. Policymakers and practitioners must consider these factors when designing interventions to support the sustainability of SMEs in the tourism sector, ensuring that tax policies are equitable and conducive to business growth and prosperity.

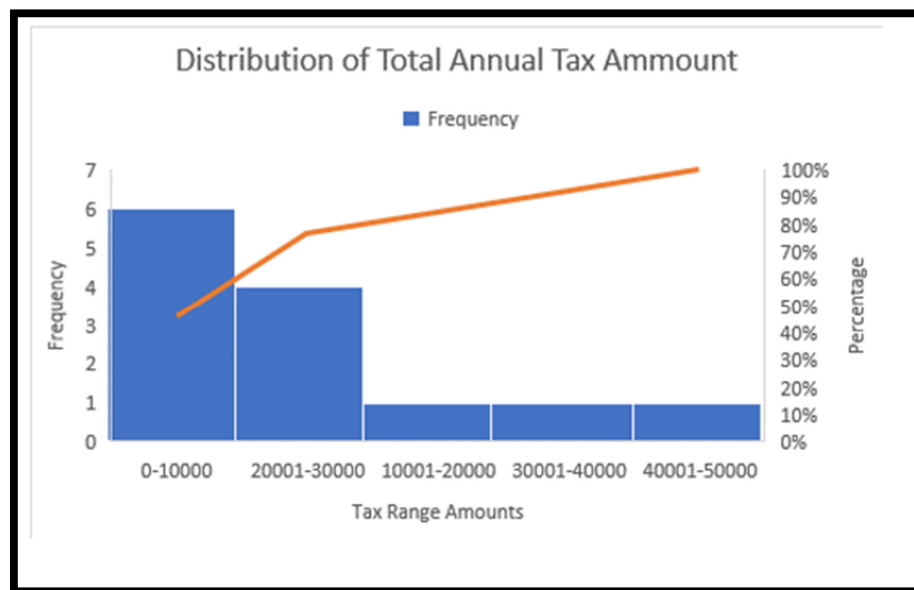


Figure 1: Distribution of the Annual Tax Amount

The dataset includes a diverse mix of tourism-related businesses, ranging from accommodation (hotels, boutique hotels, eco-lodges) to food and beverage (restaurants, cafes) to activity-based businesses (tour operators, diving centers, adventure tourism). Each business type possesses unique operational and financial characteristics that impact its ability to succeed. For instance, accommodation businesses benefit from steady demand and higher profit margins but face significant competition and operational costs. Conversely, food and beverage businesses encounter challenges such as fluctuating demand and rising costs of goods and labor, while activity-based businesses experience higher risk and seasonality but can potentially generate higher revenue per customer. Understanding the distribution of business types identifies the dominant industries in the region and assesses their relative strengths and vulnerabilities.

The number of employees serves as a proxy for the scale and complexity of a business operation. Smaller businesses (8-12 employees) exhibit greater flexibility and agility but are more vulnerable to unexpected shocks or resource constraints. Larger businesses (30 employees) leverage economies of scale, established processes, and access to more resources but face higher overhead and bureaucratic challenges. The distribution of businesses by employee count indicates the prevalence of small, medium, or large-scale operations in the region, with larger businesses possessing greater financial resources and operational resilience.

Examining the combination of business type and number of employees provides insights into the overall business landscape and identifies potential trends or patterns. A concentration of small-to-medium-sized accommodation or food/beverage businesses suggests a tourism market dominated by locally-owned, niche providers, while a larger proportion of larger, more capital-intensive businesses (e.g., adventure tourism, diving centers) indicates the presence of more established, corporate-backed enterprises. These insights help identify the strengths, vulnerabilities, and potential growth opportunities within the local business ecosystem.

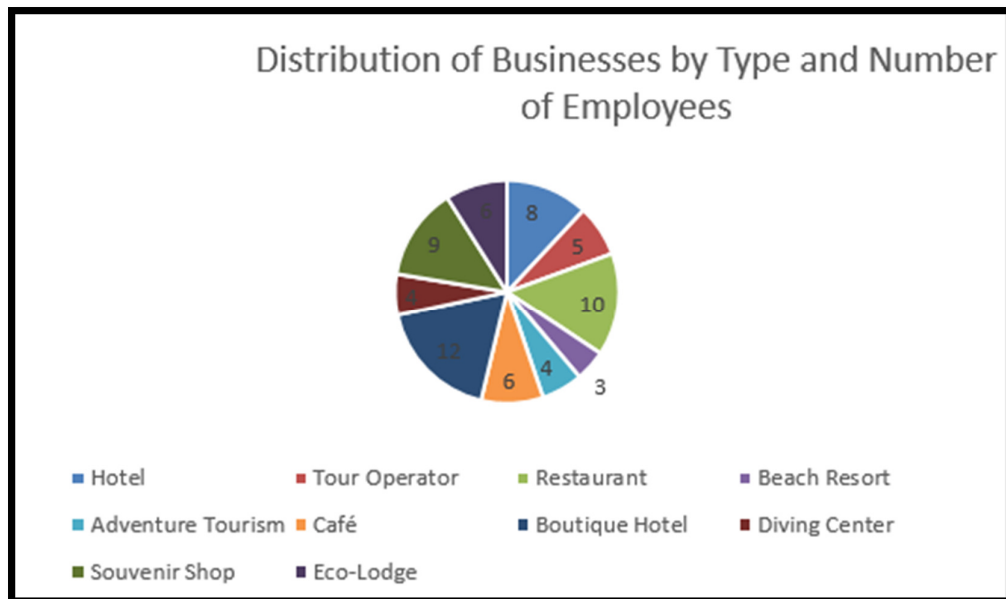


Figure 2: Distribution of Businesses by Type and Number of Employees

4.2. Profitability, Taxation and Survival Dynamics across Zanzibar's Tourism Business Landscape

The tourism sector in Zanzibar encompasses a diverse array of business types, each with its unique financial characteristics and survival prospects. By examining the profit margins, tax rates, and survival status of these businesses, we can gain a deeper understanding of the factors contributing to their performance and longevity.

One of the most striking observations is the significant variation in profit margins across the different business types. The souvenir shop, boutique hotel, and hotel businesses demonstrate the highest profit margins, ranging from 18% to 19%. These high-margin enterprises likely benefit from pricing power, economies of scale, and efficient operations. In contrast, the restaurant and diving center businesses exhibit lower profit margins of 9% and 11%, respectively, potentially facing intense competition, fluctuating demand, or higher input costs.

Interestingly, the tax rates applied to these businesses also vary considerably, ranging from 19% to 30%. The hotel sector appears to bear the highest tax burden, with a rate of 30%, while the souvenir shop and diving center businesses enjoy comparatively lower tax rates of 19%. This disparity in tax treatment may reflect government policies aimed at incentivizing certain business types or prioritizing specific sectors within the tourism industry.

The survival status of the businesses in the dataset also presents a nuanced picture. Half of the enterprises are classified as "Surviving," while the remaining 50% are deemed "Struggling." The surviving businesses tend to have higher profit margins and lower debt levels, suggesting a stronger financial footing and greater resilience to market fluctuations. In contrast, the struggling businesses, such as the tour operator, restaurant, and diving center, face slimmer profit margins and higher debt burdens, potentially limiting their ability to withstand economic shocks or invest in growth opportunities.

A closer examination of the data reveals that the longer-established businesses, such as the 12-year-old boutique hotel and the 10-year-old restaurant, are more likely to be classified as surviving. This suggests that longevity may be a key factor in weathering the challenges faced by tourism enterprises in Zanzibar. Newer entrants, like the 3-year-old beach resort and the 4-year-old adventure tourism business, demonstrate a mix of survival and struggling status, underscoring the importance of operational experience and market adaptation in the tourism sector.

Furthermore, the data indicates that the higher-revenue businesses, such as the eco-lodge (\$120,000 annual revenue) and the adventure tourism enterprise (\$80,000 annual revenue), are more likely to be classified as surviving. These larger-scale operations may benefit from economies of scale, access to resources, and diversified revenue streams, enabling them to navigate the dynamic tourism landscape more effectively than their smaller counterparts.

It is worth noting that the tourism sector in Zanzibar is subject to various external factors, such as global economic conditions, political stability, and environmental challenges, which can have a significant impact on the performance and survival of these businesses. Understanding the nuances of how different business types navigate these factors is crucial for policymakers, industry associations, and entrepreneurs looking to foster a thriving and resilient tourism ecosystem in the region.

In conclusion, the tourism sector in Zanzibar exhibits a complex interplay of business types, each with its own unique financial characteristics and survival prospects. The data analysis reveals stark differences in profit margins, tax rates, and survival status, underscoring the need for tailored policies, support mechanisms, and strategic initiatives to address the specific challenges faced by different tourism enterprises. By gaining a deeper understanding of these dynamics, stakeholders can work towards creating an environment that nurtures the growth and sustainability of Zanzibar's diverse tourism offerings.

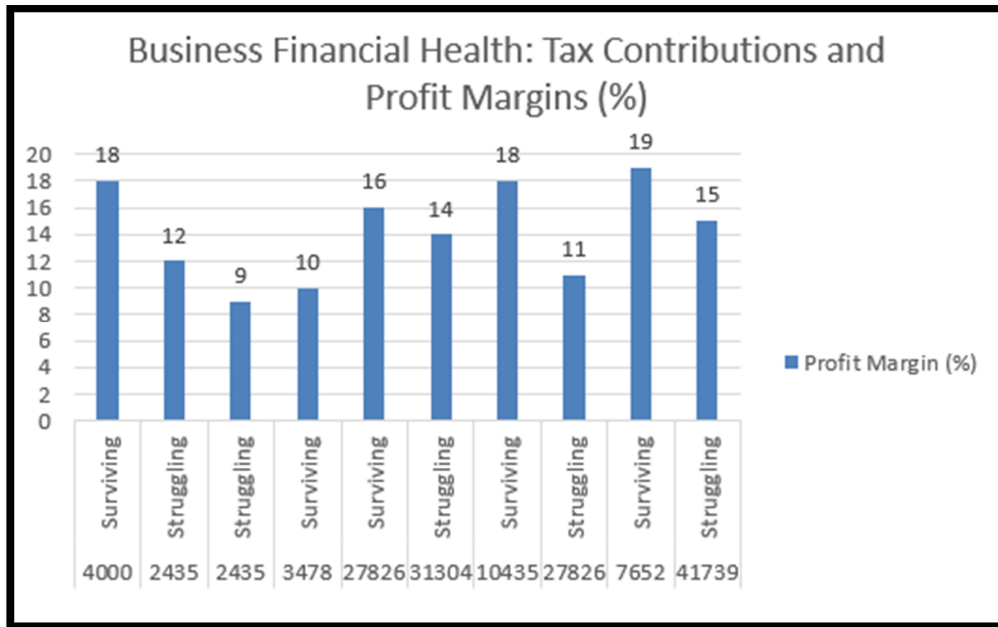


Figure 3: Business Financial Health: Tax Contributions and Profit Margins (%)

The tourism sector in Zanzibar exhibits a complex web of interconnected financial metrics that shape the performance and survival prospects of its diverse business landscape. By delving into the nuances of profit margins, loan burdens, and tax rates, we can gain valuable insights into the factors that enable some enterprises to thrive while others struggle to stay afloat.

Profit Margins: The analysis reveals a stark contrast in profit margins across the different business types. High-margin enterprises, such as boutique hotels and souvenir shops, enjoy profitability levels upwards of 18-19%, allowing them to weather market fluctuations and invest in growth opportunities. In contrast, restaurants and diving centers operate with slimmer margins of 9-11%, rendering them more vulnerable to cost pressures and intensifying competition. This disparity highlights the importance of operational efficiency, pricing power, and market positioning in determining a business's financial resilience.

The dataset also sheds light on the debt profiles of these tourism enterprises. Businesses classified as "Struggling" tend to carry higher debt loads, potentially limiting their ability to weather economic storms or seize new opportunities. Conversely, the "Surviving" businesses often exhibit lower debt ratios, suggesting that prudent financial management and access to capital play a crucial role in navigating the challenges of the tourism industry. The linkage between debt levels and survival status underscores the need for targeted financing solutions and risk management strategies tailored to the specific needs of tourism entrepreneurs.

The variation in tax rates across the business types is another critical factor influencing their financial performance. The hotel sector, for instance, faces a tax burden of 30%, significantly higher than the 19% rates applied to souvenir shops and diving centers. This disparity in tax treatment may reflect government policies aimed at incentivizing or prioritizing certain tourism activities, but it could also create uneven playing fields and distort market dynamics. Understanding the impact of the tax regime on the profitability and competitiveness of different business types is crucial for policymakers seeking to foster a thriving and equitable tourism ecosystem.

The interplay between these financial metrics – profit margins, loan burdens, and tax rates – paints a complex picture of the tourism sector in Zanzibar. Businesses that manage to strike a balance between high profitability, prudent debt levels, and favorable tax treatment are more likely to weather the storms and capitalize on growth opportunities. Conversely, those struggling with thin margins, heavy debt loads, and disproportionate tax burdens face an uphill battle to remain viable. Recognizing these patterns can inform targeted support mechanisms, financial assistance programs, and policy adjustments to create an environment that nurtures the success and sustainability of Zanzibar's diverse tourism enterprises.

Furthermore, the data suggests that larger-scale operations, such as the eco-lodge and adventure tourism business, tend to exhibit stronger financial resilience. These enterprises, with their higher annual revenues, likely benefit from economies of scale, diversified revenue streams, and access to resources that enable them to navigate the dynamic tourism landscape more effectively than their smaller counterparts. Understanding the advantages and challenges faced by businesses of different sizes can help guide the development of tailored support strategies and policies to foster a balanced and thriving tourism ecosystem in Zanzibar.

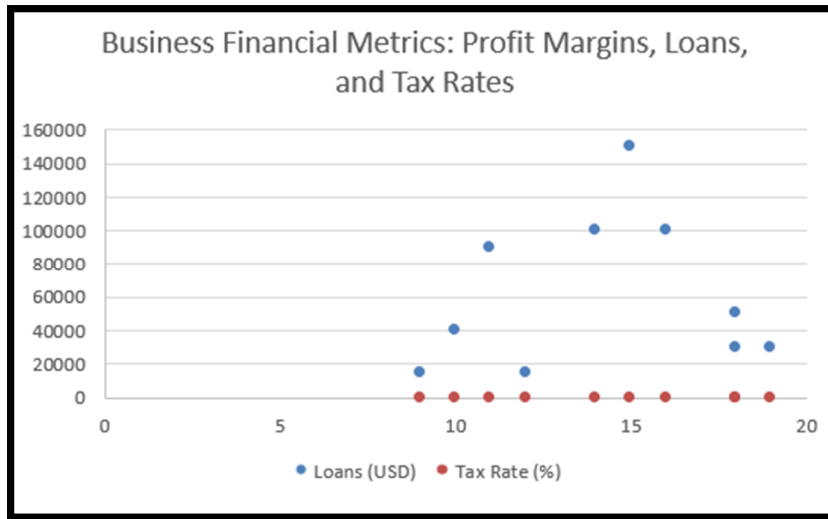


Figure 4: Business Financial Metrics: Profit Margins, Loans and Tax Rates

5. Conclusion

This study has shed light on the significant challenges faced by small and medium tourism enterprises (SMTEs) in Zanzibar due to the persistent issue of multiple taxations. The findings indicate that SMEs in the region are grappling with an excessive tax burden, with tax rates ranging from 19% to 30% of their annual revenue. This heavy tax load is negatively impacting the survival and growth of these vital businesses. The quantitative analysis revealed a clear relationship between the total annual tax amount paid by SMTEs and their survival status. Businesses with higher tax burdens were more likely to be struggling, with lower profit margins and higher loan obligations. This trend was observed across various SMTE types, including hotels, tour operators, restaurants, and other tourism-related enterprises. The qualitative insights from SMTE owners and managers provided further context, highlighting the specific challenges posed by multiple taxation. Compliance costs, institutional conflicts, and the consequences of higher pricing on tourist demand and investment decisions emerged as key issues hampering the competitiveness and sustainability of these businesses. The tourism industry in Zanzibar is heavily reliant on the contributions of SMTEs, which dominate the local market and play a crucial role in economic development, employment generation, and sustainable tourism promotion. However, the current tax environment poses a significant threat to the survival and growth of these enterprises, potentially undermining the long-term viability of the tourism sector in the region. To address this pressing issue, policymakers in Zanzibar must prioritize the development of a more supportive regulatory and tax framework that fosters the competitiveness and sustainability of SMEs. This may involve streamlining the tax system, reducing the overall tax burden, and addressing the institutional conflicts that contribute to the multiple taxation challenges faced by these businesses.

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