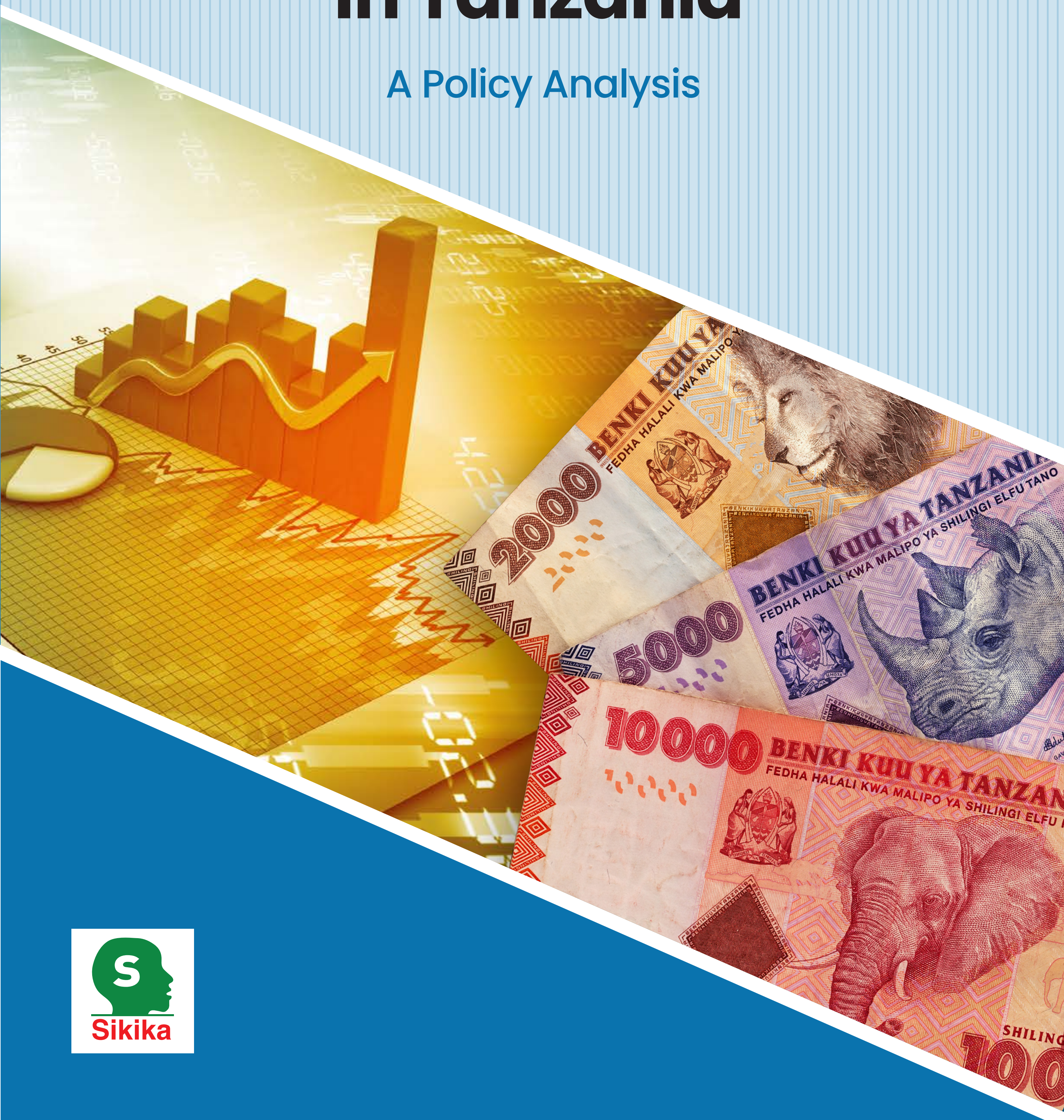
The Tax System in Tanzania

A Policy Analysis



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A Policy Analysis

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Abbreviations & Acronyms

CET	Common External Tariffs
CTI	Confederation of Tanzania Industries
EAC	East African Community
EACCM	East African Community Customs Management
EFD	Electronic Fiscal Devices
EMTA	Excise (Management & Tariff) Act
EPZ/SEZ	Export Process Zone/Special Economic Zone
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
HS	Harmonized System (for classification of goods for customs purposes)
IMF	International Monetary Fund
ISCEJIC	Interfaith Standing Committee on Economic Justice and the Integrity of Creation
ITA	Income Tax Act
JWT	*Jumuiya ya Wafanyabiashara Tanzania*
MSME	Micro, Small and Medium Enterprises
MDA	Mining Development Agreements
NBS	National Bureau of Statistics
SME	Small and Medium Enterprises
PAYE	Pay As You Earn
PER	Public Expenditure Review
TAA	Tax Administration Act
TAS	Taxpayers' Advocate Service
TCCIA	Tanzania Chamber of Commerce, Industry and Agriculture
TFTR	Task Force for Tax Reform
TIC	Tanzania Investment Centre
TNBC	Tanzania National Business Council
TPSF	Tanzania Private Sector Foundation
TRA	Tanzania Revenue Authority
TRAA	Tax Revenue Appeals Act
TRAB	Tax Revenue Appeals Board
TRAT	Tax Revenue Appeals Tribunal
VAT	Value Added Tax
WHT	Withholding Tax

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1. Executive Summary

The importance of taxation in relation to the sustainable, socio-economic development of a country is well documented. In Tanzania, although tax revenue has risen significantly during the fifth phase administration under President Magufuli, concerns remain that many issues of equity and efficiency remain to be addressed. Many stakeholders believe that it is now necessary to undertake a comprehensive review of tax laws and tax administration to provide guidance for reform of the system. Such a review should be an inclusive process aimed at the establishment of a system that is equitable, encourages compliance and fulfills the revenue needs of the state.

The objectives of the study are to take stock of Tanzania's tax policies, laws, guidelines and regulations in order to identify issues that may be inhibiting high levels of tax revenue collection; and to assess and identify existing gaps and opportunities for increasing the tax base and tax compliance in Tanzania. The objectives of the study are to answer the following questions:

a. What are the opportunities and potential gaps in the policies, laws and guidelines governing tax in the country? Is there a need for reviewing them?

b. What are the major reasons for a narrow tax base in Tanzania?

c. What are the reasons for the low tax compliance in Tanzania in general? From whom is there least tax compliance and what are the reasons behind this? What are possible ways to increase tax compliance?

d. What are the potential sources for increasing tax base/ of tax revenue that can increase national domestic revenue?

Various issues were considered in this review, including the tax base, tax rates, eligibility to pay tax, ease of paying tax, cost of tax compliance, fairness and equity, progressivity of tax, capacity of the tax administration, accessibility of taxpayers to the appeals procedure, and taxpayers' understanding of the tax laws, among others. Other issues considered are the uncertainty caused by frequent changes in the tax laws, inconsistency in the interpretation of tax laws by the tax authority, stiff penalties and the use of Electronic Fiscal Devices (EFDs).

It was observed that a significant body of literature exists on tax avoidance and evasion in the context of Foreign Direct Investments (FDI), tax incentives and exemptions. Less literature exists on aspects of equity and fairness in the tax laws and domestic tax administration - issues that may be causing poor tax compliance and restricting the growth of the local tax base.

Taxation, Tax Policy and The Budget Process

Taxation in Tanzania is a fiscal tool controlled by the executive branch of the government. A statutory budget process governs the preparation, discussion, enactment and execution of the national budget. The national development policies form the basis for budget formulation. Therefore, public expenditure requirements are the basis for determining levels of taxation. However, if revenue targets are based solely on expenditure needs and not on the ability of taxpayers to pay or on consensus among all the stakeholders, then difficulties arise in gaining their assent. At present, taxpayers and their elected representatives have limited levels of influence over the budget process. Although Parliament debates the budget, it may only enact or reject tax proposals presented to it by the government and its Ministries.

Tax Collections

The volume of tax revenue collected has increased by 137% in the last five years. Average monthly tax collections have increased by 41% in the two years (since November 2015) since the fifth-phase government came to power. Should this trend continue, there is a high probability that Tanzania will become financially self-sufficient in the short to medium term. This prediction is, of course, subject to effects of inflation and the assumption that there will be no significant additional expenditure demands.

However, 80% of domestic tax revenue is collected from 400 large taxpayers. The remaining bulk of taxpayers contribute just 20%. There is an urgent need to widen the tax revenue base. It is therefore necessary to review the tax laws to make them more suitable for compliance by the large number of local taxpayers who earn lower incomes, have low or no accounting skills and are located in geographically diverse and at times difficult-to-access areas.

There are difficulties associated with taxing the informal sector, especially the rural informal sector. One, the cost of collecting small amounts of tax from a wide section of the population may render the exercise futile. Two, taxing the lower strata of the informal sector could prove regressive. Three, small taxpayers, for example those in the rural informal sector, may find compliance too costly. Four, the language of the tax laws (English) is a big barrier to many taxpayers. The answer to increasing the tax take from the informal sector may lie in the introduction of carefully selected consumption taxes. VAT rates could be varied to reduce the burden of tax on low-income households. Non-essential items purchased by higher income households would attract a higher rate of VAT.

Tax Laws and Tax Compliance

This study indicates that the sheer number of tax laws and regulations stifles compliance by unnecessary complexity. Furthermore, taxes do not reflect the current socio-economic reality; tax payment procedures are complicated and cumbersome; the cost of compliance is high; the tax administration is not sufficiently transparent and fair and the tax appeals system is not easily accessible to most taxpayers. All these factors contribute to the narrow tax base and poor tax compliance. In the 'ease of paying taxes' category in the World Bank's Doing Business Report, Tanzania's rank dropped from 141st to 154th place out of 190 countries between 2014 and 2017. A report released by the Ministry of Finance and Planning in early 2017 found that a total of 1,872 businesses in Dar es Salaam and Arusha closed between July and December 2016. Taxation was cited as one of the probable reasons for this mass closure.

There is also a need to review the tax administration regime with a view to reducing the barriers that taxpayers encounter when complying with the tax laws. These include inconsistencies in the interpretation of tax laws by different officers and departments within the TRA, improving the accountability of officers who issue exaggerated and ambiguous assessments, corruption, improper capture of taxpayer data by the TRA's data collection system and the complicated and time-consuming procedures for payment of taxes or for claiming inputs taxes (for VAT), among others. Furthermore, the system of dispute resolution requires a thorough review. A simple, fair, efficient and easily accessible tax dispute resolution system should be available to all taxpayers in every part of the country.

Tax Avoidance and Evasion

In Tanzania, due to the complex knowhow required, it can be assumed that only multinationals and large local taxpayers who have access to expertise in this area practice tax avoidance. However, it is difficult to ascertain how widespread the practice is and the actual amount of tax lost. One of the most widely practiced tax evasion methods is trade mis-invoicing. Estimates indicate that in the period 2007 – 2011 USD 7.73bn drained out of the local economy because of trade mis-invoicing.

Money laundering, smuggling, and other forms of tax evasion are estimated to have cost TZS 3,400bn in lost tax revenues in the year 2015/16. In the past two years the government has taken very visible measures to control the levels of tax evasion occurring through money laundering, smuggling, illicit capital flight and corruption. Increasing numbers of informal sector operators are also being brought into the tax net

Tax Incentives and Exemptions

The tax laws provide for an array of exemptions available to certain categories of business in order to create investment incentives. Other exemptions are offered for political or social reasons. The incentives provide relief from paying certain taxes, usually income tax, WHT, VAT, customs and excise duties. For example, income tax exemption is provided to parliamentarians, charity organizations and to groups engaged in specific economic activities such as smallholder farming or education services. Incentives may also be provided under non-tax laws and through other methods such as government notices (GN) and ministerial discretion. Estimates show that tax incentives in Tanzania resulted in tax revenue foregone of TZS 670bn during 2015/16. This is 16% of the total revenue that was not received through exemptions, avoidance and evasions in 2015/16. In 2012, the estimated tax revenue foregone through exemptions was TZS 458bn. A thorough review of the entire tax exemption system is required.

Recommendations

The recommendations outlined below could form the basis for a discussion that can lead to the establishment of a more progressive, taxpayer centered and user-friendly system with the potential to widen the tax base and encourage widespread compliance.

Policy Makers

1. The taxation regime in the country should be subject to a review considering the principles and purpose of taxation, the suitability of current tax laws to the reality on the ground and the steps required to ensure that every eligible taxpayer in the country becomes compliant.
2. There is a need for a national tax policy that is responsive to tax payers' views and their ability to pay to complement the current policy which is based on government expenditure requirements.
3. The budget process should be transparent and inclusive. Public discussion and debate on taxation should be encouraged and facilitated.
4. Raise the minimum threshold for VAT registration from the present TZS 100m p.a. to remove many MSMEs from eligibility.
5. Review the present VAT rate of 18% applied to foodstuffs and household essentials.
6. Produce a simpler tax code for MSMEs and other entities, separate from the core Income Tax Act. This law should be written in Kiswahili. The aim should be to ensure that self-assessment and compliance are simple procedures for smaller companies and individuals.
7. Reduce the total number of taxes and the frequency of payments demanded by central and local governments and their agencies.

Tax Administrators

8. Publish an easy to understand tax bulletin in both English and Kiswahili each year incorporating all changes to taxation law made through annual Finance Acts, ministerial directives and government notices. The numbers of such changes should be kept to a minimum to reduce confusion.
9. Strengthen the capacity of the tax administration authority to correctly capture data, consistently interpret tax laws, avoid arbitrary and exaggerated assessments, and reduce unethical practices.
10. Improve the tax dispute resolution system by:
    a. Establishing an independent unit within TRA to undertake administrative review of objections to tax assessments from the taxpayers, which is different from the tax assessment department.
    b. Removing the requirement for a 1/3rd tax deposit as a pre-condition for accepting a taxpayers' objection for review.
    c. Improving access to the Tax Revenue Appeals Board for taxpayers in the regions by opening registries in the regions.
    d. Establishing a pre-judicial and independent review of disputes similar to the pilot TAS project.

2. Introduction and Background

Tanzania faces fiscal challenges arising from the gap between low domestic revenues and large public expenditures. Weaknesses in the revenue collection system, cumbersome tax laws, poor infrastructure and ICT facilities, inadequate technical skills and the poor geographic coverage of the tax authority have contributed to low levels of tax compliance and high instances of tax evasions and avoidance, which have led to low tax to GDP ratio.

According to the Minister of Finance and Planning, Hon. Philip I. Mpango (MP), the Government's target is to increase the tax to GDP ratio to 13.5% in 2017/18 and to 14.4 % by the year 2019/20. According to the International Monetary Fund (IMF), the tax to GDP ratio for 2015/16 was 13%. The IMF estimates the country's tax capacity to be 15 – 16% of GDP.[1]

Research[2] suggests that the first step in improving tax collection should be to reduce tax exemptions to the minimum, particularly exemptions of discretionary nature. The Budget Performance and Economic Review for the Fiscal Year 2014/2015, published by the Ministry of Finance, highlights an increase in tax exemptions. For example, exemptions related to VAT relief and Duty-Free Shops increased by 2% and 135% respectively.

Secondly, the tax base should be widened to bring in the informal sector and tax incomes not channeled through the payroll. As Tanzania's Development Vision 2025 aims to achieve a middle-income status, the full utilization of the potential to increase tax to GDP ratio will be one of the main objectives.

On the other hand, there are many challenges that hinder efficient tax collection. These include the high number of taxes, high rates of tax,[3] complicated tax procedures and high costs of compliance. According to the World Bank Report on Doing Business 2017, which considers all types of statutory payments to national government, local government and other public agencies including taxation, Tanzania ranked 154th out of 190 countries on ease of paying taxes. This rank has dropped from 141st out of 189 economies in 2014.

In light of this, SIKIKA and the Good Financial Governance in Tanzania (GFG) Programme are undertaking this assessment of the policies, laws and guidelines governing the tax system with a focus on how the issues of equity and efficiency are addressed with regard to tax revenue collection within the country. This will inform both policy and systemic changes to improve the way the Government and its agencies deal with revenue collection. The analysis results are expected to provide further recommendations for improving the tax base and tax compliance in Tanzania.

3. Objectives of the Study

The **objectives** of the study are:

1. Stocktaking of Tanzania's tax policies, laws, guidelines and regulations inhibiting high level of tax revenue collection.

2. Assessing and identifying existing gaps and opportunities for increasing the tax base and tax compliance in Tanzania.

    a. What are the opportunities and potential gaps in the policies, laws and guidelines governing tax in the country? Is there a need for reviewing them?

    b. What are the major reasons for a narrow tax base in Tanzania?

1 IMF Country Report 2016 p. 13.

2 Ngowi (June 2012), The Architecture of Tax System in Tanzania, Action Aid International Tanzania Office.

3 Chenge Report (2013) p. 122.

c. What are the reasons for the low tax compliance in Tanzania in general? From whom is there least tax compliance and what are the reasons behind that? What are possible ways to increase tax compliance?

d. What are the potential sources for increasing the tax base/ tax revenue that can increase national domestic revenue?

4. Methodology

The methodology for the study consisted of three parts. These were:

Literature Review

A wide range of literature was reviewed for this study, including the major tax laws and related policies, regulations and guidelines; reports by government and other stakeholders such as civil society and the private sector on taxation and government revenue; other relevant local and international research and academic reports; and reports in the media.

The main tax laws reviewed are the Income Tax Act 2004, the Value Added Tax Act 2014, the Tax Administration Act 2015 and the Tax Revenue Appeals Act 2000. In addition, brief reviews of the customs and excise laws, the East African Community Customs Management Act 2004 and the Excise (Management & Tariffs) Act 1954, were undertaken as well. It was decided to focus mainly on these tax laws because they govern the source of most domestic tax revenue. The administration and revenue appeals laws are important in that they govern the administration of taxes in the country and define how a taxpayer can seek justice if he/she is in dispute with the tax administrator.

It was observed that a significant body of literature exists on tax avoidance and evasion in the context of foreign direct investments (FDI), tax incentives and exemptions. Less literature exists on aspects of equity and fairness in the tax laws and domestic tax administration - issues that may be causing poor tax compliance and restricting the growth of the local tax base.

Interview And Consultations With Key Stakeholders

A sample of stakeholders was selected and interviewed using an open-ended questionnaire. The questionnaire was tested in the first interview and improved. The selection of stakeholders covered a wide spectrum including policy makers, government officials, tax administrators, tax consultants, taxpayers, tax experts in the academia and international observers.

A major challenge faced during this interview and consultation process was receiving appointments to interview key government officials and tax administrators. The timing of this process partly contributed to this scenario, which was during the two weeks before the holiday season in December 2017 and the first two weeks of January 2018.

Nevertheless, the information gathered from interviews and consultations with this relatively small number of stakeholders and from informal discussions with tax experts is significant and assists in bringing about a clearer understanding of the reasons for the narrowness of the local tax base and widespread poor compliance. This information also influenced this study to focus on tax administration issues, on levels of fairness and equity in application of the tax laws on small taxpayers and on the tax dispute resolution system.

Structure of Report

This report has eight sections. Sections 1 to 4 cover the executive summary, introduction and background, objectives and the methodology. Section 5 presents the findings of the study, and is further divided into parts: Taxation, Tax Policy and the Budget Process; Tax Collections; Tax Laws; Tax Compliance; Tax Avoidance; Tax Evasion; and Tax Incentives and Exemptions. Section 6 presents the concluding discussion and recommendations. There are six annexes to the report including references, a list of people interviewed and selected data from the findings.

5. Findings

5.1 Taxation, Tax Policy and The Budget Process

Taxation

The Constitution of the United Republic of Tanzania[4] gives exclusive authority to the Executive Branch of government to levy or alter a tax. The National Assembly may only enact or reject a tax law proposed by the government. However, it may conduct independent analyses of tax issues and make recommendations to the government. An example of one such an analysis is the Chenge Report of 2013 on 'Proposals for Government Revenue and Expenditure'.[5]

Tax Policy

Tanzania does not have a specific policy to guide the imposition and administration of taxation. The Constitution provides a single condition for taxation, Article 138 (1): "No tax of any kind shall be imposed save in accordance with a law enacted by Parliament or pursuant to a procedure lawfully prescribed and having the force of law by virtue of a law enacted by Parliament".[6]

Tax revenue policies are guided by government expenditure requirements. The revenue policy objectives are therefore drafted from the perspective of a government wishing to ensure that the required revenue is obtained for its planned expenditure each year. For example, for the financial year 2018/19, a major focus of the revenue policy is to 1) raise the capacity of the tax administration to reduce tax evasion and 2) to broaden the tax base through the formalization of a wider range of economic activities. The specific policy and administrative guidelines provided are:[7]

- Expand the tax base by enforcing the registration of new taxpayers for Income Tax and VAT.
- Implement an Automated Tax Stamp System to minimize the risk of tax evasion for excisable products such as soft drinks, beers and cigarettes.
- Effectively monitor EFD usage through surveillance programmes.
- Implementation of tax incentives with the aim of curtailing revenue losses.
- Continue to streamline the multiplicity of levies and fees imposed by various Government Agencies / Institutions.
- Enforce the use of the Government Electronic Payment Revenue Gateway System (GePGS) in non-tax revenue collection in order to enhance efficiency and control revenue losses.
- Continue to monitor public entities to ensure that appropriate dividends, contributions and surpluses are remitted to the Consolidated Fund.
- Continue with the mass valuation of ratable properties to increase revenue.
- Continue with the formalization of land ownership with a view to increasing revenue.
- Review fees and levies charged by Ministries, Regions and Independent Departments in order to rationalize with the current level of economic growth.

The objectives provide no guidance on the maximum amount of total taxation an individual should pay, the number of those taxes (including levies, duties and fees payable in addition to individual or corporate taxation) or the desired maximum cost of tax compliance. Revenue policies are also framed with little consideration of factors such as the prevalent socio-economic

4 URT Constitution 1977 (RE1984) Article 99(1) and 99(2)(a)(i).

5 The report was commissioned by the Speaker of the parliament through a Special Speaker's Committee chaired by Hon Andrew Chenge MP and published in 2013.

6 Constitution of the United Republic of Tanzania (1984) Article 138(1).

7 MoFP (2017), 'Guidelines for Preparation of Plans and Budget 2018/18', Nov 2017, p. 47.

environment, inflation, real wages and household living standards. Similarly, there is no policy addressing what ought to be the total maximum level of penalties and interest for those who contravene the tax laws, among other such issues.

The absence of such a tax policy has left the door open for government, local government authorities and other public agencies to introduce numerous tax and levies. The introduction of a multitude of taxes and levies has been shown to lead to unforeseen consequences in some cases. The Chenge Report (2013) found that increases in excise duties led to lower levels of consumption and, hence, lower tax collections in 2012/13. Similarly, an increase in the skills and development levy (SDL) led some employers to evade the levy or reduce employee numbers.[8] A report released by the Ministry of Finance and Planning in early 2017 found that a total of 1,872 businesses in Dar es Salaam and Arusha closed between July and December 2016.[9] Taxation was cited as one of the probable reasons for this mass closure.

The Budget Process

The national development plan forms the basis for the preparation of the national budget.[10] At present, the national development plan is the second Five Year Development Plan 2016/17-2020/21 (FYDP II).

The Finance Act, enacted annually in June, governs taxation for the following financial year. It is the culmination of a budget process that starts ten months before with the preparation of budgets at local government, departmental and ministerial level. These budgets are eventually consolidated into the national budget. In theory all stages of the process are informed by the FYDPII. The process provides two formal opportunities for non-government stakeholders to provide their inputs to the budget: The first of these is through Public Expenditure Review (PER), while the second is through the Tax Reform Task Force (TRTF). Another opportunity, though not structured, takes place during the parliamentary committee stage of the Finance Act, which takes place during April and May every year.[11]

Although the opportunity to contribute to or influence the determination of taxation is available, the prerogative to accept or reject proposals from stakeholders remains with the government. Every year, the TRTF Team publicly calls for tax policy proposals and meets once with stakeholders before the finalization of the annual national budget. The major private sector trade associations such as the Tanzania Private Sector Foundation (TPSF), Confederation of Tanzania Industries (CTI) and the Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA) are members of the team. Other stakeholders making tax proposals must rely on the discretionary invitation of the TRTF to be allowed to make their case.[12] The Chenge Report proposed that TRTF be made a legal entity as a tax policy dialogue platform.[13]

In practice, many stakeholders must rely on lobbying parliamentary committees to influence the government's tax decisions. At times, the statutory private-public dialogue platform, the Tanzania National Business Council (TNBC), is also used for lobbying the government on tax matters.[14] However, meetings of the TNBC are irregular and are only called when the President, who chairs the forum, is willing to attend. Under President Kikwete, the TNBC met only four times during his ten-year term. Under President Magufuli, it has met twice in the last two and a half years. According to its mandate, the TNBC is required to meet twice a year.

5.2 Tax Collections

Tax revenue in Tanzania has increased in recent years, largely due to the efforts of the fifth-phase administration under President Magufuli to clampdown on tax evasion and recover tax-

8 Chenge Report (2013) p. 149.

9 Ministry of Finance and Planning, State of the Country's Economy July – Dec 2016, as reported in the Daily News online on 6th January 2017: dailynews.co.tz/.../business/47728-traders-say-complex-taxes-petty-traders-ruin-business.

10 Budget Act 2015 Section 20.

11 Information on the budget process is available on the Ministry of Finance website, www.mof.go.tz.

12 Chenge Report (2013) p. 140.

13 ibid. p. 140.

14 During the 11th TNBC meeting on 19th March 2018 at the State House, Dar es Salaam, under the chairmanship of President Magufuli, many industrialists directly pleaded with the President to provide relief from many tax and other regulatory issues.

arrears. However, in 2016/17, there was a general slowdown in the increase of tax revenue due to slower economic growth and retrenchment of workers in the public and private sectors. Table 2 below provides a summary of the total collections over the last five years from the three major categories of tax revenue sources.

Table 2: Tax Collections per Year, 2013/14 – 2017/18 in TZS, 000s

Tax Collections per Year and Annual Growth in Collections					
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18***
Domestic Revenue	1,759,996	1,940,860	2,428,095	2,874,517	
Customs & Excise	3,626,740	4,138,462	5,351,078	5,647,945	
Large Taxpayers	4,491,990	4,585,817	5,441,227	5,679,508	
TOTAL	**9,878,726**	**10,665,139**	**13,220,400**	**14,201,970**	
% Annual Growth**		7%	19%	7%	7%

Source: TRA Website (*for 2017/18, collections figures are only for Q1 & Q2)

Total Government Revenue

Total government revenue includes total domestic tax revenues, non-tax revenues and revenue from external sources such as grants, loans and the Development Partners. In the last few years, as a result of increasing tax collections, the share of domestic revenue as a proportion of total government revenue has steadily increased. Table 3 below illustrates this trend.

Table 3: Share of Domestic Revenue and External Revenue to Total Government Revenue

In TZS bn	Domestic Revenue		External Revenue		Total Govt Revenue
Year	**Amount**	**%**	**Amount**	**%**	**Amount**
2010/11	5,578.0	66.4	2,819.2	33.6	8,397.2
2011/12	7,025.9	65.7	3,670.9	34.3	10,696.8
2012/13	8,292.3	70.2	3,528.4	29.8	11,820.7
2013/14	9,867.3	71.0	4,040.0	29.0	13,907.3
2014/15	10,569.3	76.4	3,257.5	23.6	13,826.8
2015/16	13,622.1	86.2	2,179.9	13.8	15,802.0

Source: NBS Tax Statistics Report 2015/16

In terms of absolute figures, domestic revenue has increased from TZS 5,578bn in 2010/11 to TZS 13,622bn in 2015/16. This represents an increase of 144% in a period of six years. Table 4 illustrates the performance of domestic tax revenue collections.

Table 4: Domestic Government Revenue by Type of Revenue, Mainland Tanzania

In TZS bn	Tax Revenue		Non-Tax Revenue		Total Govt Domestic Revenue
Year	**Amount**	**%**	**Amount**	**%**	**Amount**
2010/11	5,293.3	94.9	284.7	5.1	5,578.0
2011/12	6,480.5	92.2	545.4	7.8	7,025.9
2012/13	7,730.0	93.2	562.3	6.8	8,292.3
2013/14	9,294.4	94.2	572.8	5.8	9,867.3
2014/15	10,097.9	95.3	499.8	4.7	10,597.7
2015/16	12,525.4	91.9	1,096.8	8.1	13,622.2

Source: NBS Tax Statistic Report 2015/16

If the increasing trend in domestic tax revenue collections continues there is a high probability that Tanzania will become financially self-sufficient within a few years. This prediction is, of course, subject to inflation and the assumption that there will be no significant additional expenditure demands. The government is certainly upbeat about this. Average monthly tax collections have increased by 41% from TZS 850bn to TZS 1,200bn in the two years since the fifth-phase government has been in power.[15]

5.3 Tax Laws

A law is considered a tax law if it:

- Is listed in the First Schedule to the Tanzania Revenue Authority Act.
- Provides for administration of tax by the revenue authority.
- Is a regulation made under the tax law.
- Provides for the domestic enforcement of an international agreement providing reciprocal assistance for the administration of tax laws.
- Does not include the East African Community Customs Management Act (EACCMA).[16]

The First Schedule of the Tanzania Revenue Authority Act 1995 has two parts. Part A lists 15 laws governing domestic tax revenue, including EACCMA. Part B, which was added to the First Schedule in 2016, lists an additional 50 laws that require statutory payments for compliance, such as the Business Licensing Act 1972.

Most domestic tax revenues are raised from Income Tax, Value Added Tax, excise and customs duties. Each of these are administered by their own laws, namely the:

- Income Tax Act (ITA) 2004.
- Value Added Tax Act (VATA) 2014.
- Excise (Management and Tariffs) Act (EMTA) 1954 (Revised in 2008).

Each of these laws have subsidiary regulations that define the processes for their implementation.

The tax laws are written in English. However, in practice, Kiswahili is widely used in the budget process and in tax administration. For example, the budget speech in parliament is presented in Kiswahili, as is the ensuing parliamentary debate. The widespread popular media report and

15 Ministry of Finance Press Release on State of the Economy and Implementation of Budget 2017/18, 29 Dec 2017, p9 (translation from Kiswahili).

16 Section 3 of the Tax Administration Act 2015 – interpretation of tax law.

discuss budget and tax matters in Kiswahili. The proceedings at the Tax Revenue Appeals Board often happen in Kiswahili and taxpayers' education is usually conducted in Kiswahili as well. Many stakeholders, especially the MSME segment of the private sector and civil society present their positions on tax issues in Kiswahili. Yet, the tax laws remain written in English.

5.3.1 Tax Administration Act 2015

The Tax Administration Act 2015 governs the system of collection of domestic revenue. The Act consolidates common provisions provided under the different tax laws to simplify their administration by the tax authority. Issues such as taxpayer identification, maintenance of tax records, payment of tax, dispute resolution and offences that are common in all tax laws have been brought under the Act and the respective tax laws amended accordingly to recognize this.

Some key features of the law are the provisions for:

- The recognition of the Tanzania Revenue Authority as the tax authority.
- The issuance of taxpayer identification numbers to persons who are potentially liable for tax due to conducting a business or investment.
- The establishment of a currency points system in respect of penalties and fines prescribed under this and any other tax law.
- Providing the authority to conduct a tax audit or investigation of a taxpayer for contraventions of any single or multiple tax laws simultaneously.
- The registration of tax consultants who advice taxpayers.
- The requirements that taxpayers maintain relevant documents.
- Tax dispute resolution.
- The maintenance of funds in a separate bank account for the purpose of making tax refunds.

This harmonization provided by the Tax Administration Act is designed to make tax administration more cohesive and efficient. It represents the culmination of a long process of streamlining and coordinating national taxation that began two decades ago with introduction of the Tanzania Revenue Authority, the enactment of the VAT Act and the establishment of the independent tax revenue appeals system. While the Tax Administration Act harmonized tax administration, the VAT Act harmonized the administration of those taxpayers who contribute the largest share of tax revenues.

5.3.2 Income Tax Act 2004

Types of Income Tax and Rates

Income tax is the major direct tax in the country, comprising individual (personal) income tax and corporate income tax. This law also provides for Withholding Tax (WHT) and Capital Gains Tax (CGT).

Income Tax is a tax on the income of a person or an entity such as a company. Income can be in many forms, for example, wages from employment, profits from business, dividends from investments, royalties from intellectual property (songs, books, etc.), inheritance and gifts, among others.

Withholding Tax (WHT) is a tax collected in lieu of income tax at the time of delivery of service. It is designed to ensure that eligible taxpayers who may be otherwise difficult to account for pay their tax. WHT is withheld by the taxpayer paying for a service and then transferred to the tax authority on behalf of the service provider.

Capital Gains Tax (CGT) is a one-time tax payable on the realization of an asset or investment.

For income derived from employment or business, the 2017/18 rate of individual income tax varies from 9% to 30%. There are four income level bands, each with its own rate. Table 5 below shows the bands and the rates:

Table 5: Income Tax Bands and Rate

Income per Month (TZS)	Rate
Up to 170,000	0%
170,000 to 360,000	9%
360,000 to 540,000	20%
540,000 to 720,000	25%
Above 720,000	30%

Source: Finance Act 2017

Income derived from formal employment is taxed every month through PAYE (pay as you earn) at the rates stated in Table 5 above. PAYE is deducted by the employer when paying the salary every month and later transferred to the tax authority on behalf of the employee.

For self-employed taxpayers, an individual's tax is based on annual income. In order to assess the annual income, taxpayers in this category are required to prepare audited accounts so that the actual income tax can be determined. Table 6 below shows the income bands and rates applicable in Tanzania Mainland. Zanzibar has a slightly different income bands and rates for individuals in this category.

Table 6: Income Bands and Tax Rates for Individuals Who Prepare Annual Audited Accounts for Tanzania Mainland

Annual Taxable Income (TZS)	Tax Rate
Up to 2,040,000	Nil
2,040,000 - 4,320,000	9% of the amount in excess of 2,040,000
4,320,000 - 6,480,000	205,200 plus 20% of the amount in excess of 4,320,000
6,480,000 - 8,640,000	637,200 plus 25% of the amount in excess of 6,480,000
More than 8,640,000	1,177,200 plus 30% of the amount in excess of 8,640,000

Source: TRA

In recognition that there are some self-employed persons or small businesses whose work environment is not conducive to proper record keeping, a provision for Presumptive Income Tax is made, based on the annual turnover (revenue) of the person/business. The persons/businesses eligible for this category must have an annual turnover of less than TZS 20m. Taxpayers in this category are not required to keep accounting records. Those who do keep records, however, are rewarded by a slightly lower tax level. (See Table 7 below).

Table 7: Presumptive Income Tax Bands and Rates for Individual Taxpayer

Annual Turnover (TZS)	Incomplete Records (TZS)	Complete Records (TZS)
Up to 4,000,000	Nil	Nil
4,000,000- 7,500,000	150,000	3% of the turnover in excess of 4,000,000
7,500,000 - 11,500,000	318,000	135,000 + 3.8% of the turnover in excess of 7,500,000
11,500,000 - 16,000,000	546,000	285,000 + 4.5% of the turnover in excess of 11,500,000
16,000,000 - 20,000,000	862,500	487,000 + 5.3% of the turnover in excess of 16,000,000

Source: TRA

However, there is an issue with presumptive income tax (PIT). An individual taxpayer on PIT may pay less than a third of the tax paid by a PAYE employee for the same amount of income. For example, a PAYE employee earning TZS 500,000 per month will pay a total of TZS 541,200 during the year. A self-employed person on PIT, earning a similar income, will pay a TZS 150,000 where no records are kept, or TZS 60,000 where records are complete.

Going further, a self-employed person with a turnover of more than TZS 20m will be required to pay tax at PAYE rates only on their net income. This means that they may deduct eligible expenses such as vehicle fuel, parking charges and depreciation on a vehicle. They may also offset the costs of business-related goods and services against tax. This facility is not available to PAYE employees, even for genuine expenses such as transport costs to and from place of work. In the words of one tax consultant, "the most taxed persons with no deductions are employees in private sector".[17]

Tax Base

The tax base is the total number of persons/entities registered as taxpayers with TRA. These include employees, self-employed persons (individuals) and businesses (corporates). Tables 8 and 9 below give a breakdown of the sources and amounts of tax revenues for the year 2016/17. Table 8 shows that, during 2016/17, 40% of domestic tax revenue[18] was collected from large taxpayers (multinationals and large local companies). The total number of large taxpayers registered with TRA is 400,[19] most of who are based in Dar es Salaam. Another 40% of domestic revenue derives from customs and excise duties. Large taxpayers also pay most of these duties, as they are the largest importers (such as petroleum products importers) and manufacturers. The remaining companies and individual taxpayers contributed 20% of domestic tax revenue. Fifty percent of total domestic tax revenue is collected from only 60 large taxpayers, thus demonstrating the narrowness of the tax base.[20]

Table 8: TRA Departmental Actual Revenue Collections for 2016/17

Department	Amount (TZS)	% Share of Total*
Individual & Other Taxpayers	2,874,518.44	20%
Customs & Excise	5,647,947.10	40%
Large Taxpayers	5,679,510.11	40%
TOTAL	**14,201,975.65**	

Source: TRA website, 2016/17 Quarterly Collections
*Analyses of % share done by author

17 Comparisons and calculations of PAYE vis a vis PIT were compiled with assistance from a tax consultant interviewed for this assignment.
18 TRA Quarterly Tax Revenue Collections Data 2016/17.
19 Information on total number of registered large taxpayers provided by TRA Taxpayers Education Department.
20 Information provided by a tax expert during the interviews, but not verified.

Table 9 below shows that individual taxes make up only about 1% of total direct taxes and that this proportion has not changed significantly in the last five years. PAYE and corporate tax contributed 28.6% of the total in 2011/12 and 26.2% in 2016/17. This decrease in PAYE and corporate taxes is attributed to the removal of unqualified workers from the civil service, retrenchments by large taxpayers in the private sector and to a general slowdown of economic activity in the country.[21]

Table 9: Direct Taxes as Share of Total Taxes in 2011/12 and 2016/17

Type of Tax	2011/12*	2016/17**
PAYE	16.9%	16.02%
Corporate Tax	11.7%	10.2%
Individuals Tax	1%	1.26%
Skills & Development Levy	2.1%	1.97%
WHT & Other	5.4%	6.56%
Direct Taxes as % of Total Taxes	37.1%	36.01%

* Source: CRC Segoma 2013 study Table 3, p22

The estimated number of micro, small and medium enterprises in Tanzania is about 2,750,000.[22] The majority of these operate in the informal sector. The number of registered business enterprises is just over 100,000 (3.9% of the total enterprises).[23] Of these, most are individual enterprises (sole-proprietorships). The total number of registered taxpayers was 2.2 million in 2015.[24] (this includes employees, individuals and entities).

Deducing from Table 9 above, it can be stated that a large majority of MSME taxpayers in the country do not pay taxes. The small cohort of MSMEs that do pay contribute only 1% of the total tax take. Therefore, most eligible taxpayers (individuals) contribute very little or nothing to domestic tax revenue. These eligible taxpayers are either too small, are not easily visible, are able to disguise their true income to remain outside the tax net or are otherwise able to evade tax.

The economic output of the informal sector in Tanzania is estimated to be equal to or greater than 40% of GDP and employs 70% of the workforce. According to TRA, there are potentially 15 million taxpayers in the sector. The tax revenue lost from not taxing the informal sector is estimated to be 35 – 55% of total tax revenues.[25] The ISCEJIC (2017) Report assumes that the government could realistically collect at least a quarter of this amount, which for the year 2016/17 was estimated to be about TZS 1,700bn, equivalent to about 11% of the projected total tax revenue for the year.[26]

5.3.3 Value Added Tax Act 2014

Value Added Tax is a consumption or indirect tax. It is applied to all transactions of goods and services along the production and distribution chain until the item is finally consumed. The producer, distributor, trader or service provider in the chain act as the withholding agent of the tax authority, tasked with collecting the VAT and submitting it to the tax authority. At present, the VAT rate is 18% of the price of a good or service.[27] In other EAC partner states, the rate is the same except in Kenya where it is 16%.

There are concerns that the rate of VAT is too high given the fact that the majority in the country are in the lower income bracket. Basic household and livelihood expenditures account for most consumption. High VAT rates in this environment make taxation regressive as the burden of

21 Ministry of Finance of Planning, Guidelines for the Preparation of Plans and Budget 2018/19, Dar es Salaam Nov 2017, p. 28.

22 FSDT MSME National Baseline Survey Report for Ministry of Industry and Trade, Dec 2012, p27 (table 5.1).

23 ibid p. 16.

24 NBS Tax Statistics report 2015/16, Table 3.5, p. 24.

25 ISCEJIC (2017), p. 20.

26 ibid.

27 VAT Act 2014 Section 5(1).

tax on lower income earners becomes greater. Many countries use differentiated VAT rates for specific groups of products such as foodstuffs. This method could be applied in Tanzania to ease the burden of tax on lower income groups.

A person or entity is required to register for VAT when they achieve an annual turnover of TZS 100m.[28] This threshold applies to entities that deal in goods. However, this threshold is posing a problem at present. Due to the effects of price inflation, many small kiosks, shops and food vendors, especially in urban areas, easily cross this annual threshold. However, the capacity of these types of businesses to comply with VAT procedures is very low. Also, TRA's capacity to administer increasing numbers of VAT registered traders is limited. There is a need to review the threshold to make the administration of VAT more practical and to put in place a mechanism that can periodically adjust the VAT threshold to take account of the changing economic reality on the ground.

Other entities that are required to register for VAT, regardless of their annual turnover, are those who supply professional services in Mainland Tanzania, either individually or through a business entity; and a government entity or institution.[29]

VAT is submitted to the tax authority on monthly basis. The VAT registered person/entity must submit his monthly VAT returns by the 20th day of the following month. The registered VAT person or entity offsets the VAT paid for goods and services against the VAT received for supply of goods and services. The balance, if positive, must be remitted to the tax authority. If negative, it is claimed back via a VAT refund from the tax authority. However, in practice, receiving such refunds is difficult due to the existence of cumbersome procedural requirements.

Monthly VAT returns serve to inform the tax authority of the identity of all the other entities that do business with the entity submitting the returns. In this way the VAT system links different taxpayers and enables the tax authority to keep track of a larger number of taxpayers simultaneously. VAT returns also provide information useful to the tax authority in its determination of the size of a business and its likely income tax obligation.

5.3.4 Excise (Management and Tariff) Act 1954

The Excise (Management and Tariff) Act (EMTA) imposes duties on specified manufactured goods[30] such as alcoholic beverages, soft drinks, bottled water, tobacco, motor vehicles and petroleum products. Excise duties may be imposed to control the use of specific products as well as to generate domestic revenue. The list of excisable goods and their respective rates are amended under the Finance Act each year to take account of inflation.[31]

5.3.5 The East Africa Community Customs Management Act (EACCM) 2004

EACCMA is a law under the East African Community (EAC) that provides for the Common Customs Protocol among all EAC member states.[32] This protocol established the Common External Tariffs (CET) system. CET is the common rate of import tariffs (customs duties) that are applicable on the importation of goods into any of the EAC member state. Customs duties are a major source of domestic revenue and are administered by TRA.

Goods are classified according to the international HS coding system.[33] The CET determines the import duty payable for each type of product as identified by its HS code. These import duty rates are the same for all the partner states. However, any member state may impose additional suspended duties on any product that it sees fit but must do so with the agreement of the other member states. Suspended duties may be imposed to, for example, protect a local industrial sector from international competition. Tanzania recently imposed suspended duty on imported cement in order to protect the local cement industry.

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28 VAT Act 2014 Section 28(4) read together with VAT (General) Regulations 2015 Section 14.

29 VAT Act 2014 Section 29 (1) & (2).

30 The excisable goods and their respective excise rates are listed in the Fourth Schedule of the Act.

31 This annual adjustment is provided under section 124(2) of the EMTA.

32 EAC partner states are Tanzania, Kenya, Uganda, Rwanda, Burundi and South Sudan.

33 HS is the international Harmonized Commodity Description and Coding System used for classification of products. This harmonized system allows participating countries to use a common code for traded products for customs purposes, and is developed by the World Customs Organization (WCO).

5.3.6 Tax Dispute Resolution

The laws governing the tax dispute resolution system in Tanzania are the Tax Revenue Appeals Act (TRAA) 2000 and the Tax Administration Act (TAA) 2015.

The Tax Revenue Appeals Act 2000 consolidated tax dispute resolution under a single law and removed the right of the tax administration to adjudicate tax disputes. It provides for a dispute resolution system entirely independent of the TRA. The main objective of this law was to raise the confidence of taxpayers in the tax administration system and to encourage voluntary tax compliance.

The Act formed the basis for the establishment of the Tax Revenue Appeals Board (TRAB) and the Tax Revenue Appeals Tribunal (TRAT), whose decisions have similar authority to that of a court of law. The law provides for the Board (TRAB) to be the sole adjudicator of all tax disputes of a civil nature. A decision of the Board is appealable only at the Tribunal (TRAT); and the Tribunal's decisions are appealable at the Court of Appeal. TRAB and TRAT are entities under the Ministry of Finance and are independent of the tax authority (TRA). Importantly, the Act prescribes a simple dispute hearings procedure and keeps legal technical requirements to a minimum. The intention of the law was to allow for the speedy hearing and resolution of tax disputes.

However, the Tax Administration Act 2015 introduced a requirement for a compulsory administrative review of taxpayers' objections by TRA before it can be appealed at TRAB. This change in the law has raised concerns among taxpayers that the autonomy of the tax dispute resolution system has been compromised, as taxpayers cannot now seek an independent judicial review without the approval of the taxation authority.

Limitations in the Tax Dispute Resolution System

The present tax appeals system has serious limitations. A taxpayer disputing a tax assessment must first pay 1/3rd of the tax in dispute before the objection is accepted by the TRA for the administrative review stage.[34] This provision is designed to prevent taxpayers from making an objection solely to delay their tax payment. However, the required payment is a major obstacle to taxpayers who have genuine objections to their assessments, especially when the amount in dispute is large. Taxpayers often find it difficult to pay the 1/3rd amount, and, if a waiver is not granted by TRA, must undergo a costly and time-consuming legal appeal at TRAB in order just to get a waiver.

Taxpayers are also concerned that their TRA administrative review may be conducted by the same person who issued the assessment in the first place rather than a different person or group within TRA.[35] Ideally, a separate department within TRA should process administrative reviews.

There are also time limits within which a taxpayer must lodge an objection to a tax assessment or a tax decision.[36] However, similar time limits are not imposed on the tax authority, which can sit on an objection for a long period without reaching a decision.[37] There have been instances where TRA has taken longer than six months to respond to an objection. Such delays can be frustrating, especially for a smaller taxpayer who has limited resources to follow-up on tax issues.

The proceedings at the Appeals Board and Tribunal are of a judicial nature. However, the proceedings are not bound by the rules of evidence and the Civil Procedure Code 1966. The TRAB or TRAT have the authority to seek and take account of any information they see fit in order to expedite determination of an appeal.[38]

However, despite the intentions of the Tax Revenue Appeals Act, proceedings at TRAB and TRAT have become mired in excessive legal technicalities. Legal technicalities present obstacles to taxpayers (especially small taxpayers) who may be forced to hire lawyers to assist in the resolution of their tax issue. There are many instances when a tax appeal at TRAB fails due to improper adherence to legal technical requirements rather than the substantive tax issue that gave rise to the appeal in the first place.

34 Within 30 days when objecting to the Commissioner General (the administrative review step) - Section 51(5) Tax Administration Act 2015; and when instituting an appeal at TRAB for the judicial review step, to issue a notice of appeal within 30 days and to lodge the appeal with TRAB within 45 days – Section 16 (3) (a) & (b) Tax Revenue Appeals Act 2000.

35 Beleko (2007) section 1.6.2 p13; Ongwamuhana (2011) ch5, p. 147.

36 Section 51(1) Tax Administration Act 2015.

37 Tax Administration Act 2015 is silent on the period within which the tax authority has to respond to an objection.

38 Section 22(6) Tax Revenue Appeals Act 2000; Rule 15(10) Tax Revenue Appeals Board and Tribunal (Amendment) Rules 2009.

The chairperson and panel members of TRAB and TRAT should be conversant with taxation, law, commercial and financial matters.[39] However, some key informants felt that there have been instances where the members have not been adequately knowledgeable on taxation and business matters. This poses difficulties for taxpayers seeking a fair hearing. The practice at present is for the chairperson and the vice-chairpersons to be appointed from the judiciary with at least a minimum rank of a resident magistrate, regardless of their level of business or taxation experience. In the past, panel members were appointed from the private sector through private sector trade associations such as the TCCIA. However, this is no longer the case. The Ministry of Finance now decides the panel membership.

Access to the TRAB, especially for small taxpayers, is difficult. The TRAB registry is based in Dar es Salaam and the Board conducts most of its hearings in Dar es Salaam. Although the TRAB has board members in every region of the country, tax appeals may only be registered in Dar es Salaam. Hearings in the regions are subject to the availability of funds and the availability of the chairperson or vice chairperson, who are based in Dar es Salaam. There have been many instances that tax appeals in the regions have been delayed as a result. Sometimes, taxpayers in the regions request their tax appeals to be heard in Dar es Salaam in order to expedite the process. But this implies additional cost to the taxpayer.

There is an urgent need to review the tax dispute resolution system to make it simple, efficient, fair and easy to access for all taxpayers in all parts of the country. TRA embarked on a pilot Taxpayers' Advocate Service (TAS) project in 2014 to test a simple tax dispute resolution system in Manyara region but, to date, no further information is available on the progress made.[40]

5.4 Tax Compliance

Levels of tax compliance are affected by a variety of issues. Non-compliance may be explained by a taxpayer's unwillingness to pay taxes or may be the result of their lack of understanding of the tax laws and associated payment procedures. In some cases, taxpayers may feel that certain taxes are unfair and in others they may be unable to afford to pay taxes at the required deadline

The following are the major causes of poor tax compliance.

Tax Bands, Rates and Thresholds

Taxpayers that were interviewed for this analysis found that tax rates, tax bands and the tax threshold for income tax and VAT are out of line with the economic reality on the ground. Salaried people find the highest tax band of above TZS 720,000 to be too low. Some have suggested that the highest tax band be increased. Similarly, the sentiment from some taxpayers was that the maximum tax rate of 30% may be too high.[41]

There is no policy or operating guideline that provides a basis for determining or adjusting tax rates, tax bands and income/turnover thresholds.

Tax Records and Documentation

Maintenance of documents for tax purposes is a serious challenge for many taxpayers. Many stakeholders in the informal and MSME sectors lack the skills and education to maintain proper records. Furthermore, the physical circumstances under which many MSMEs operate make it very difficult to produce and keep records.

On the other hand, many MSMEs and informal enterprises do not receive proper receipts from their suppliers. In the absence of proper purchase receipts, these enterprises are discouraged from keeping proper sales records for fear of being excessively taxed in the absence of proof of purchases.

Tax Payment Procedures and Payment Periods

Tax payment procedures are considered cumbersome by many taxpayers. The World Bank's Doing Business Report 2017 finds that Tanzanian businesses must make an average of 53 tax

39 Section 4(3) and 8(3), Tax Revenue Appeals Act.

40 Rafferty & Gillibrand (2014), "Taxpayers' Advocate Service for Tanzania, Implementation Proposal".

41 The sentiments on the income bands, income tax rates and VAT threshold were voiced by some of the interviewees for this analysis.

payments per year, an obligation requiring some 24 working days. These requirements include payments for provisional income tax, VAT, PAYE, Skills and Development Levy, Withholding Tax (for services, rent, etc.), and the many other fees and levies due to central government, local government and other public agencies. A taxpayer, depending on the type of business activity, may be required to fill forms and file returns for one kind of a statutory payment or another once every week. The Tanzania Association of Tour Operators (TATO), a membership trade association of over 300 tour operators, informs us that their members are subjected to 37 different taxes, requiring a total of 93 days of paperwork per year to ensure compliance. The average annual personnel cost of compliance to each tour operator is TZS 2.9m (approx. $1,300).[42] As a result of this difficult environment, the World Bank estimates that the actual tax rate to a business in Tanzania as a percentage of profit is 43.9%.[43]

Cumbersome record keeping requirements and payment procedures exact a high cost of compliance in terms of time, human resources and money. This is especially true in the case of micro enterprises, who may forego an entire day of earnings to make a single tax payment at the tax office.

During the fiscal year 2017/18, the government removed the requirement for vehicle owners to pay the annual motor vehicle road license fee to TRA. Instead the government added a small amount of tax to the fuel levy and ring-fenced it as the fee for the motor vehicle road license. The consequence was that the taxpayer had one less tax payment procedure to follow. The direct tax format of the motor vehicle road license fee was changed to an indirect format through consumption of fuel. As the collection system for the fuel levy was already in place and operating very well there was no added cost to re-direct the collection of the motor vehicle road license fee from a direct payment to TRA to an indirect payment procedure. As a result, the previous difficulties that taxpayers faced in paying the license fee were eliminated, while the government continued to receive the revenue.

Frequent Changes to Tax Laws / Inconsistent Interpretation of Tax Laws

In the last five years, there have been major changes in the major tax laws every year.[44] Although the authorities are often late to publish details of these revisions, it remains the responsibility of the taxpayer to be aware of any changes lest they get taken by surprise when payments are due.

There have also been instances of inconsistent interpretation of tax laws by different officers and departments of the TRA or by different regions of the TRA. Taxpayers often cannot be certain how TRA will interpret a given tax law.48 President Magufuli has publicly raised this issue, accusing some TRA officers of charging property tax in excess of established rates while harassing property owners in the process.[45]

In some cases, taxpayers have had to resort to expensive legal actions to rectify tax disputes caused by deficiencies in the interpretation of taxes within individual TRA departments. About three years ago, the regional TRA office in Tanga suddenly changed the HS classification of imported raw material inputs for the local cosmetics industry, which resulted in a large increase in the customs duty. Only a lengthy appeal by cosmetics manufacturers forced the TRA to revert to the actual classification.

Inconsistent Tax Assessments

Frequently changing assessments by tax officers present another challenge to taxpayers. It is common for a taxpayer to receive an exaggerated assessment, which, when queried by the taxpayer, is reduced by the same tax assessor to a smaller amount. Such reversals of assessments usually come without any explanations.[46] It is important to note that exaggerated assessments and their subsequent reversals commonly occur during tax audits but are not fully recorded in minutes of the audit. The tax audit process can be lengthy (taking even a few months), frustrating

42 Reported in the Daily News newspaper, Tanzania, 19th January 2018.

43 World Bank 'Doing Business 2017' Report, p. 244.

44 A new VAT Act was introduced in 2014 and the Tax Administration Act in 2015, and every year the Finance Acts make changes to most of the tax laws, including the Income Tax Act, the Excise (Management & Tariff) Act, and others.

45 Reported on 15th March 2018 in the Daily News website: https://dailynews.co.tz/~dailynew/index.php/home-news/56519-jpm-taxation-must-not-be-burdensome.

46 Deduced from informal discussions with numerous taxpayers.

for the taxpayer and may involve more than one revision to the exaggerated assessment. There are no provisions in the law as to what should be the maximum duration of a tax audit.

Stiff Penalties and Interest for Delayed Payments

Stiff penalties and interest for delayed tax payments are considered a necessary tool to ensure taxpayers pay promptly. Failure to pay tax on time attracts a penalty of 5 currency points for each month delayed.[47] A currency point is equal to TZS 15,000.[48] Hence, a delay in payment of one month attracts a penalty of TZS 75,000. In addition to the penalty, interest charges are levied at the statutory rate compounded monthly.[49] There are many instances where the penalty and the interest on a delayed tax payment are a multiple of the actual payment. It is not uncommon for a taxpayer to face bankruptcy or for their livelihoods to be threatened when faced with such penalties. The objective of penalties ought not to be to cause irrecoverable harm to the taxpayer. The threat of large penalties is also a reason for tax defaulters to keep themselves hidden from the tax authority. A more reasonable scale of penalties may improve levels of compliance in the long run. During a recent TNBC meeting, President Magufuli called on the Minister of Finance and Planning and the TRA to reconsider past tax arrears with a view to reducing or waiving past taxes (including interest and penalties), as the objective of taxation was not to harm taxpayers.[50]

EFDs

Since early this decade, the government has required the use of Electronic Fiscal Devices (EFDs) by all business entities, including landlords. EFDs are linked to TRA's central data capturing facility, which maintains a record of all transactions undertaken by EFD-using entities. Special regulations governing the use of EFDs have been issued under VATA and ITA.[51] The Tax Administration Act also provides for EFDs.[52] However, some taxpayers have experienced problems with EFDs. There have been instances of incomplete or false data capturing. This has particularly affected those seeking VAT refunds who find that the wrong input and output tax invoices have been posted to their accounts.[53]

Case of JWT Vis a Vis Use of EFDs

Resistance to the use of EFDs has been, in part, due to a widespread perception that the tax system is inflexible to the realities faced by smaller traders. This issue came to public prominence in 2014 when a group of traders in Kariakoo, Dar es Salaam's main commercial area, protested their compulsory use. Their claim was that, while EFDs capture their sales records, the traders often do not have proper import documentation showing the actual cost of imported goods. In the absence of such documentation, it is impossible for traders to offset the costs of goods against profit. Some large importers, from whom the traders purchase their goods, evade paying proper import (customs) taxes and do not provide proper documentation to traders.

This issue was resolved when the traders' group, which was later established as Jumuiya ya Wafanya biashara Tanzania, JWT (Tanzania Business persons Union), negotiated with TRA to establish fixed import costs for the types of goods that the traders mainly dealt with, regardless of the existence of importation documents. This in turn was reflected in their cost of sales. After reaching this understanding with TRA, the traders began using of EFDs. JWT also negotiated a simplified minimum record-keeping requirement with TRA that reduces the time spent on administration.[54]

The JWT issue illustrates the inter-linkages between various major taxes and demonstrates the requirement that the system be simple, transparent and fair, so that all stakeholders in the trading chain can be certain of their tax obligations and be compliant. The eventual resolution of the problem demonstrated that it is possible to reach a practical arrangement that is outside normal procedures but that still serves to collect the statutory tax and make taxpayers compliant.

47 Tax Administration Act 2015 Section 78(1)(b).

48 Tax Administration Act 2015 Second Schedule.

49 Tax Administration Act 2015 Section 75 (1).

50 TNBC, 19th March 2018, State House, Dar es Salaam.

51 The VAT (Electronic Fiscal Devices) Regulations 2010, and The Income Tax (Electronic Fiscal Devices) Regulations 2012.

52 Tax Administration Act 2015 Section 36.

53 Deduced from informal discussions with taxpayers and tax consultants.

54 Deduced from interview with chairperson of JWT.

While the agreed solution encouraged many small and medium sized traders to become part of the formal tax net, a separate solution remains to be found to address the root cause of lacking tax compliance of the large importers.

5.5 Tax Avoidance

Tax avoidance involves the creative use of loopholes in existing national tax laws and international tax treaties to reduce a tax liability. This practice is against the spirit of the law but not the letter.[55] Across the globe, wealthy individuals move their assets to offshore jurisdictions with lower tax rates to avoid paying tax at home. These jurisdictions became known as 'tax havens'. Over time, multinational corporations began using the same methods to avoid tax.

In Tanzania, due to the complex knowhow required, it can be assumed that tax avoidance is only practiced by multinationals and large local taxpayers who have access to expertise in this area.[56] However, it is difficult to ascertain how widespread the practice is and the actual amount of tax that is lost. One of the tax avoidance methods practiced by multinational corporations is to over-invoice imported inputs and to offset these costs against profits made in Tanzania. This practice is especially lucrative when importing goods with duty exemptions, as is the case for imported fuel for use by mining companies and companies in Export Processing Zones (EPZs).[57] Estimates indicate that in the period 2007–11, USD7.73bn drained out of the local economy as a result of trade mis-invoicing (over and under-invoicing).[58]

When trade mis-invoicing and other avoidance methods such as thin capitalization[59] are practiced between associated companies (such as branches of a multinational corporation in different countries), they are referred to as transfer pricing practices. The income tax law provides measures to counter this practice.[60] However, in recognition that the law on its own is insufficient to tackle transfer pricing, specific regulations have been introduced to combat the practice.[61] A dedicated section of the TRA, the International Tax Unit (ITU), was established in 2011 to combat transfer pricing and other international tax avoidance issues.

There has been a sustained and widespread campaign against tax avoidance in Tanzania by civil society (Policy Forum, The Tanzania Tax Justice Network) and some parliamentarians.[62] The issue has gained global prominence in recent years. The Tax Justice Network, an NGO based in the UK, has widely campaigned against tax havens.[63]

A recent case involving Apple's use of tax haven is illustrative of tax avoidance. "In May 2013, Apple planned to borrow USD17bn, to partly fund a special dividend, instead of using its own cash pile estimated at USD145bn kept in 'tax haven'. This was a more tax-efficient way to satisfy the shareholders than to repatriate the profits that would be taxed; and the repayment on the loan would be tax-deductible".[64]

The importance of tax havens in the global financial system is significant. During Brexit talks between the European Union (EU) and the United Kingdom (UK), EU leaders have expressed

55 A recent book by Fjelstad & others, eds., (2017), 'Lifting the Veil of Secrecy', published by CMI, Norway, provides detailed information on tax avoidance and evasion from Africa.

56 Information deduced from discussions with tax consultants interviewed for this study.

57 Businesses registered under the Export Processing Zones receive various tax incentives that include a ten-year exemption from corporation tax; remission of import duties, excise duties, VAT and other taxes for goods used as raw materials, ma-chinery, etc.; and exemptions from withholding tax for ten years, among others.

58 ISCEJIC (2017) p13 (section 3.1), quoting a 2014 report, Hiding in Plain Sight, by a US based organization that analyses illicit financial flows, Global Financing Integrity (GFI). (www.gfintegrity.org).

59 Thin capitalization refers to a situation where a company's debt is substantially more than its equity. This arises especially with multinationals that show high levels of foreign loans for local investments, thereby increasing costs and reducing profits through interest payments and at the same time transferring capital overseas as loan repayments.

60 Section 33 – 35, Income Tax Act.

61 The Income Tax (Transfer Pricing) Regulations 2014.

62 Hon Zitto Kabwe MP, the leader of the ACT-Mzalendo party, and a previous shadow finance minister has been one of the more prominent MPs against tax avoidance and evasion..

63 Tax Havens are sovereign jurisdictions where taxation is low or even zero and which are secretive about information regarding the beneficial ownership of companies registered there. Popular tax havens include Bermuda, Switzerland, Netherlands, Luxembourg, Ireland, Singapore, Mauritius, Cayman Islands, Channels Islands, Bahamas and Monaco - as reported on fortune.com, 22 February 2017, The 12 most lucrative tax havens in the world, by Andrew DePietro.

64 ICTD Working Paper 13, p. 15.

concerns that the UK may become a tax haven on the border of the EU following its exit from the Union. UK leaders have exacerbated these concerns by hinting that the UK may become a low tax jurisdiction following Brexit. Their aim is to entice large companies, especially large financial multinationals based in the city of London, to maintain their bases in the UK rather than move to another EU country.

5.6 Tax Evasion

Tax evasion is an illegal activity. It includes activities such as money laundering, smuggling, and staying outside the tax base (informal sector). Tax evasion is estimated to have cost TZS 3,400bn in lost tax revenues in the 2015/16 financial year.[65]

It is difficult to determine how widespread evasion is, or who the main players are, due to the nature of the activity. Only when tax evaders are found out does a tax evasion activity become known.

It is estimated that only 1.6m of a total of 15m informal sector actors are in the tax net.[66] Informal sector operators involved in agriculture, construction and trade make very low tax contributions. There are also professional services, such as freelance consultants, that could be better monitored to ensure compliance. In 2017 the government attempted to rein in informal sector traders and service providers by introducing a register, for tax purposes, of small vendors and service providers such as hawkers, food vendors, event managers and masters of ceremonies.[67]

Smuggling of goods into the country is not uncommon and is often reported in the media. Smuggling happens in many ways, including:

- Goods smuggled into the country through what are popularly known as 'panya' (rat) routes. These are routes that are either overland across country borders or unregulated beach landing areas.
- Goods imported at the port of Dar es Salaam that are either wrongly declared or not declared at all and hidden/disguised among other goods.
- Goods declared as transit goods and hence not paying any customs duties, but once cleared from the port of entry (e.g. Dar es Salaam port), are off-loaded within the country for domestic consumption instead of transiting through the country.

Smuggling of this nature requires good organization and a network of colluders. There is a suspicion that customs officials either collude with the evaders or do not have the capacity to identify the tax evading activities. In the past two years, the government has introduced stronger measures to control smuggling as well as other means of tax evasion such as money laundering, illicit capital flight and corruption.

These measures include regular inspection of imported goods at the port and thorough verification of the prices of imported goods to reduce trade mis-invoicing and false declaration of goods. Improved controls at points of exit such as airports are being used to reduce flows of illicit capital (cash, gold and gemstones) out of the country.

5.7 Tax Incentives and Exemptions

Tax incentives in form of tax exemptions are provided for in the tax laws. The incentives provide relief from certain taxes or levies to certain taxpayers or industrial sectors. For example, income tax exemption is granted to parliamentarians, charity organizations and to those involved in specific economic activities such as smallholder farming or education services. Incentives may also be granted under non-tax laws and through other ad hoc methods such as government notices (GN) and ministerial discretion.[68]

65 ISCEJIC (2017) p. vi.

66 ISCEJIC (2017) p. 20.

67 Finance Act 2017 Section 49.

68 Non-tax laws are laws that are not listed under the First Schedule of the Tanzania Revenue Authority Act and which do not fit the interpretation provided under the Tax Administration Act. These laws do not deal with taxation directly but impact on taxation as a consequence of their provisions. For example, the Export Processing Zone law provides for a ten-year income tax break to investors, which in turn has consequences for income tax collections.

Estimates show that tax exemptions reduced tax revenue by TZS 670bn during 2015/16. This figure is equal to 16% of the total revenue that was not received through exemptions, avoidance and evasions in 2015/16.[69] In 2012, the estimated tax revenue foregone through exemptions was TZS 458bn.

Tax Incentives Provided Under Non-Tax Laws

The non-tax laws are laws that impact on tax revenues but are not technically regarded as tax laws. These may be laws and regulations that govern certain business investments or certain types of economic activity such as exports. For example, investors in the Special Economic Zones (SEZ) or the Export Processing Zones (EPZ) are entitled to many tax exemptions. In the case of the mining industry, Mining Development Agreements (MDAs) make specific provisions for such investments, including certain tax exemptions. The government's Kilimo Kwanza programme provided special tax incentives to large-scale investments in the agriculture sector. Other examples include periodic ministerial directives or government notices (GN) that provide exemptions for specific items, such as a tax exemption in imports of food grains during periods of food shortage. A more detailed list of examples of non-tax laws is provided in Annex 5.

The government has recently introduced greater transparency in its use of tax incentives. The Ministry of Finance now publishes tax exemptions reports on its website. However, this report only covers exemptions to import duty and VAT. It does not provide figures for corporate income tax and other exemptions, especially those provided under non-tax laws.

A report prepared for the Ministry of Finance in 2013 recommended the removal of all tax incentives.[70] An extract of the recommendations is provided in Annex 6 below. The report provides a comprehensive list of all available tax incentives, along with a recommendation to amend, remove or retain the provision. The report refers to Mauritius as a successful case study of a country that has adopted a similar strategy. In addition to eliminating tax incentives, Mauritius also streamlined its tax rates and tax administration system. The result was a simple and fair tax regime and increased domestic revenues for the Mauritius government.

2014 saw the enactment of a new VAT law aimed at limiting exemptions and introducing stricter controls for granting exemptions. The legislation replaced the VAT Act 1998, which had been revised many times to grant specific exemptions and had become difficult to administer as a result.[71] The new law introduced measures preventing the Ministry of Finance from granting arbitrary VAT exemptions to investors and other businesses. Parliament was also granted greater powers to scrutinize the incentive system. However, this was only partially achieved in the new law because of strong lobbying from the private sector.[72]

6. Concluding Discussion and Recommendations

Many facets of the tax system in Tanzania require review to improve tax compliance and ensure that revenue collection is conducted in a fair and equitable manner. Issues such as the basis of taxation, rights of the taxpayer, the relevance of the different types of taxation to the country, the level and affordability of taxes, the capacity of the tax authority to administer taxation throughout the country, the cost of compliance to the taxpayer, fairness, equity, and the form of an accessible tax dispute resolution system should be included in any review. We summarize the main issues below.

Malign Focus On Tax/GDP Ratios

Revenue targets are currently based on government expenditure needs and GDP ratio targets rather than the ability of the taxpayers to pay or on any consensus among stakeholders. Countries in the developing world with economies largely based on extraction of natural resources often record high economic growth rates. However, this growth does not necessarily translate into increased wealth and development across all sections of society. Determining tax revenue targets as percentage of a rapidly growing GDP may expose lower income taxpayers to a heavy tax burden if their ability to pay is not a concern during policy-making.

69 ISCEJIC (2017) p. vi.

70 CRC Sogema 2013 report.

71 Fjeldstad & others, eds., (2017), 'Lifting the Veil of Secrecy', p. 94.

72 ibid. p. 95.

Taxpayers' Interests and Public Engagement

There is no tax policy to specifically safeguard the interests of the taxpayers. This void has given rise to a situation where the national government, local governments and the public agencies can impose any number of taxes, duties, fees and levies on taxpayers. A taxpayer-centered tax policy could provide guidance on the burden of taxation to be borne by an individual, the tolerable cost of tax compliance. The CMI (2012:1) report addressed this issue in the African countries south of Sahara: "An important opportunity for building political support for reform lies in putting more emphasis on the 'demand side', i.e. in building broader citizen engagement around taxation. Public debates on taxation in Mozambique, Tanzania and Zambia are to a large extent limited to taxation of multinational companies. While this is important, a broader engagement about the tax and public expenditure system is missing. This is also reflected in Parliamentary debates on taxation".77 In order to encourage such an engagement, the annual budget process could be made more transparent and inclusive. Taxpayers and other stakeholders deserve a bigger role in contributing to and influencing the process.

Tax Avoidance and Evasion

Although the recent rising trend in tax collection is healthy and encouraging, strong concerns have been raised about certain aspects of domestic tax revenue. The ISCEJIC 2017 report estimates that the country is losing TZS 4,090bn a year in income due to granted tax incentives, illicit capital flight, failure to tax the informal sector and other forms of tax evasion.[73] This is equal to approximately 30% of total tax revenue per year. On the one hand, the country is foregoing or losing large amounts of tax revenue, and on the other, the demand for finances is steadily increasing, as evidenced by increasing government expenditure and the rising national debt. The national debt reached TZS 47,823bn[74] in 2017, an increase of TZS 5,000bn on the previous year.

Religious organizations under the ISCEJIC have called for removal of tax incentives such as VAT exemptions to the oil and gas sector and exemptions for EPZ/SEZ and also for a concerted effort to counter tax evasion.[75] Their 2017 report is a follow-up to a similar report in 2012 that published analysis of lost tax revenues and recommended the removal of tax incentives and interventions to counter tax avoidance and evasion. The 2017 report lists specific areas where the previous recommendations were adopted by the government and where action is still required. Under President Magufuli, there has been a renewed focus on tax collection, compliance enforcement and measures countering tax avoidance and evasion. The President himself has been following up these issues, paying frequent unannounced visits to the port of Dar es Salaam to investigate incidences of tax evasion.

Widening the Tax Base

The main targets of this tax collection drive are existing large taxpayers, FDIs and other ordinary taxpayers who are well known to the tax authority. This is not surprising considering that 80% of the domestic tax revenue is from this source. However, this excessive focus on existing large taxpayers has its limitations. There is only a certain amount of extra tax that can be obtained by removing incentives and closing tax loopholes. There is a need to widen the tax revenue base to include the majority of the population that currently contributes only 20% of domestic tax revenue. There is also a need to seriously address issues affecting tax compliance among smaller taxpayers and those in the informal sector. This is the fastest expanding segment of the population and a large potential source of increased domestic tax revenue in the medium to long-term.

It would be useful to review the tax laws and their associated administrative requirements to make them more user-friendly for taxpayers who earn lower incomes, have low or no accounting skills and who may live in geographically diverse and difficult-to-access areas. One of the options that could be considered is to separate the provisions for individuals and MSMEs in the Income Tax Act into a separate law, which could be attuned to the specific circumstances of MSMEs and lower income taxpayers. The main objective should be to enable these taxpayers to pay a clear and simple tax, in an easy and efficient manner, without complicated and cumbersome procedures

73 ISCEJIC (2017) p. v.

74 Ministry of Finance (9 Dec 207), op cit, p. 7.

75 ISCEJIC (2017) p. 37.

and administrative requirements. Each taxpayer should be certain of the total number of taxes to pay, the amounts involved and should know when and how to pay. In addition, penalties and interest for non-compliance or delayed payments ought to be reasonable and affordable. Such a tax law would bring in a larger number of people into the tax base and would be likely to increase tax compliance.

There is also a pressing need to review tax rates and bands to reflect income realities on the ground and to make taxation equitable among all classes of taxpayers, be they employees or self-employed persons. The possibility of reducing the total number of taxes and the total number of tax payments, including those to local government authorities and the public agencies, ought to be considered. The example of the change in payment procedure for the motor vehicle road license fee is a good lesson to learn. Similar changes can be made to other tax payments to further simplify tax payments and tax collections.

There are difficulties associated with taxing the informal sector, especially the rural informal sector. Firstly, the cost of collecting small amounts of tax from a wide section of the population may render the exercise futile, especially considering the vastness of the country and the poor state of the infrastructure. Secondly, taxing the lower strata of the informal sector could prove regressive, as the incidence of tax on low-income earners may be higher than that for the higher-income groups. Third, the small taxpayer may find compliance procedures costly and hence choose to remain outside the tax net.

It may be more efficient to increase the tax take across both the formal and informal sectors using carefully selected consumption taxes i.e. VAT. Different rates of VAT could be applied to different goods depending on their potential effects in low-income markets. VAT registered traders selling to informal retail traders would act as tax collecting agents in this instance.

Use of Kiswahili and Provision of Information

The language in the tax laws (English) is a big barrier to majority of the informal sector as well as other taxpayers whose understanding of the language is either very basic or none. This poses a challenge when it comes to understanding the tax laws and the taxpayers' obligations and rights. What is somewhat surprising is that Kiswahili is widely used during the preliminary stages when preparing the tax laws. It is also widely used during the budget process, as well as during parliamentary discussions. The annual budget speech presented in parliament is in Kiswahili. Hence, considering that the majority of taxpayers and eligible taxpayers comprehend better in Kiswahili; it is probably time to have the tax laws in Kiswahili as well.

In addition to being published in the national language of Tanzania, tax laws should also be consistent and predictable. Frequent changes to the tax laws make them difficult to adhere to and are costly to individuals and businesses. There is a need to limit such changes and, where possible, to provide a transitional period for the changes to come into force. There is also a need to publish up-to-date tax laws every year that incorporate all revisions in order to inform the taxpayers of the changes made and their applicability.

Reform of Tax Administration

There is also a need to review the tax administration regime with the intent to remove problems that taxpayers encounter when complying with the tax laws. These include inconsistencies in interpretation of tax laws by different officers/departments/offices of the TRA. In circumstances where there are chances of inconsistencies in interpretation, the tax authority ought to issue and publish its interpretation, which then becomes the guiding interpretation.

Other problems encountered by taxpayers in their dealings with the authority include the lack of accountability of officers who issue exaggerated or ambiguous assessments, corruption, improper capture of taxpayer data by the TRA data collection system and the complicated and time-consuming procedures for payment of taxes or for claiming inputs taxes (for VAT). There is lot of room for the TRA to improve its capacity, operations and relations with taxpayers. Many tax compliance issues are related to the requirements of the tax authority, and the poor relationship between the taxpayer and the tax authority. A review of the tax administration system may determine the causes of these tensions between the taxpayers and the authorities and find ways to resolve these.

Tax Dispute Resolution

Furthermore, a simpler, fairer, more efficient and easily accessible tax dispute resolution system should be available to taxpayers in every part of the country. This would strengthen confidence in the system and encourage voluntary compliance. A step in the right direction would be to revisit the Taxpayers' Advocate Service (TAS) project that TRA was piloting in Manyara region.81 This project was aimed at enabling easier and more efficient handling of taxpayers' grievances and objections without having to resort to more formal objection and appeals procedures. It appears the TRA has discontinued this pilot project, as no updates are available.

Recommendations

Policy Makers

1. The taxation regime in the country should be subject to a review considering the principles and purpose of taxation, the suitability of current tax laws to the reality on the ground and the steps required to ensure that every eligible taxpayer in the country becomes compliant.
2. There is a need for a national tax policy that is responsive to tax payers' views and their ability to pay to complement the current policy which is based on government expenditure requirements.
3. The budget process should be transparent and inclusive. Public discussion and debate on taxation should be encouraged and facilitated.
4. Raise the minimum threshold for VAT registration from the present TZS 100m p.a. to remove many MSMEs from eligibility.
5. Review the present VAT rate of 18% applied to foodstuffs and household essentials.
6. Produce a simpler tax code for MSMEs and other entities, separate from the core Income Tax Act. This law should be written in Kiswahili. The aim should be to ensure that self-assessment and compliance are simple procedures for smaller companies and individuals.
7. Reduce the total number of taxes and the frequency of payments demanded by central and local governments and their agencies.

Tax Administrators

8. Publish an easy to understand tax bulletin in both English and Kiswahili each year incorporating all changes to taxation law made through annual Finance Acts, ministerial directives and government notices. The numbers of such changes should be kept to a minimum to reduce confusion.
9. Strengthen the capacity of the tax administration authority to correctly capture data, consistently interpret tax laws, avoid arbitrary and exaggerated assessments, and reduce unethical practices.
10. Improve the tax dispute resolution system by:
    a. Establishing an independent unit within TRA to undertake administrative review of objections to tax assessments from the taxpayers, which is different from the tax assessment department.
    b. Removing the requirement for a 1/3rd tax deposit as a pre-condition for accepting a taxpayers' objection for review.
    c. Improving access to the Tax Revenue Appeals Board for taxpayers in the regions by opening registries in the regions.
    d. Establishing a pre-judicial and independent review of disputes similar to the pilot TAS project.

Annexes

Annex 1: References

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National Bureau of Statistics - nbs.go.tz

Annex 2: List of Persons Interviewed

No	Name	Organization/Position
1	Andre Castro	IGC: Country Economist
2	Dhirendra Pabari	TRAB: Board Member
3	Gabriel Mwangosi	TRA: Tax Payer Services &Education, Manager
4	Hirji Abdallah	Tax Consultant
5	Johnson Minja	Jumuiya ya Wafanyabiashara Tanzania (JWT): Chair
6	Joshua Chipman	IGC: Country Economist
7	Nicholas Lekule	Policy Forum: Manager, Policy Analysis
8	Respicius Mwijage, Hon	Tax Revenue Appeals Board: former Secretary; Resident Magistrate
9	Roland Fischer	Institute of Tax Administration: Head of Short Courses & Lecturer

Annex 3: Tax Collections per Quarter 2013/14 – 2017/18

Tax Collections per Quarter From 2013/14 - 2017/18

2013/14	Q1	Q2	Q3	Q4	Total
Domestic Revenue	389,600	420,446	482,142	467,808	1,759,996
Customs & Excise	908,355	968,922	896,637	852,826	3,626,740
Large Taxpayers	977,817	1,048,825	1,115,878	1,349,470	4,491,990
TOTAL	2,275,772	2,438,193	2,494,657	2,670,104	9,878,726

2014/15	Q1	Q2	Q3	Q4	Total
Domestic Revenue	461,436	512,419	477,332	489,673	1,940,860
Customs & Excise	1,009,522	1,062,768	984,962	1,081,210	4,138,462
Large Taxpayers	1,099,637	1,178,105	1,155,205	1,152,870	4,585,817
TOTAL	2,570,595	2,753,292	2,617,499	2,723,753	10,665,139

2015/16	Q1	Q2	Q3	Q4	Total
Domestic Revenue	515,368	635,970	634,369	642,388	2,428,095
Customs & Excise	1,230,964	1,345,390	1,352,198	1,422,526	5,351,078
Large Taxpayers	1,198,862	1,447,388	1,404,428	1,390,549	5,441,227
TOTAL	2,945,194	3,428,748	3,390,995	3,455,463	13,220,400

2016/17	Q1	Q2	Q3	Q4	Total
Domestic Revenue	708,048	736,561	727,453	702,455	2,874,517
Customs & Excise	1,454,196	1,509,253	1,407,736	1,276,760	5,647,945
Large Taxpayers	1,389,778	1,366,638	1,410,924	1,512,168	5,679,508
TOTAL	3,552,022	3,612,452	3,546,113	3,491,383	14,201,970
	Q1+Q2=	7,164,474			

2017/18	Q1	Q2	Q3	Q4	Total
Domestic Revenue	720,911	873,430			
Customs & Excise	1,445,763	1,693,520			
Large Taxpayers	1,420,286	1,560,530			
TOTAL	3,586,960	4,127,480			
	Q1+Q2=	7,714,440			

Source: TRA

Annex 4: Analyses of Sources and Share of Direct Tax Revenue 2016/17

Direct Taxes 2016/17*	(In million TZS)**						
	Q1	Q2	Q3	Q4	Total	% of Total Direct Tax	% of All Taxes
Ltd Coy & Parastatal	79,291	93,188	77,332	96,868	346,679	6.77%	
Corporation Tax (large taxpayer)	266,887	252,333	246,108	338,326	1,103,654	21.55%	
Sub-total (CIT)	**346,178**	**345,521**	**323,440**	**435,194**	**1,450,333**	**28.32%**	10.20%
PAYE	170,467	185,081	186,286	186,137	727,971	14.22%	
PAYE (large taxpayers)	381,742	375,028	401,025	392,340	1,550,135	30.27%	
Sub-total (PAYE)	**552,209**	**560,109**	**587,311**	**578,477**	**2,278,106**	**44.49%**	16.02%
Bus Skills & Dev Levy	28,175	30,040	30,264	30,115	118,594	2.32%	
Bus Skills & Dev Levy (large taxp.)	41,156	37,410	41,801	41,154	161,521	3.15%	
Sub-total (Bus Skill & Dev Levy)	**69,331**	**67,450**	**72,065**	**71,269**	**280,115**	**5.47%**	1.97%
WHT + other taxes	78,195	77,544	83,046	84,492	323,277	6.31%	
WHT + other taxes (large taxp.)	134,067	153,475	129,862	192,831	610,235	11.92%	
Sub-total (WHT + other)	**212,262**	**231,019**	**212,908**	**277,323**	**933,512**	**18.23%**	6.56%
Individuals	42,430	39,332	52,894	44,008	178,664	3.49%	1.26%
TOTAL (Direct Taxes)	**1,222,410**	**1,243,431**	**1,248,618**	**1,406,271**	**5,120,730**		**36.01%**
Total (Gross - All Taxes)	**3,552,023**	**3,617,945**	**3,551,462**	**3,500,448**	**14,221,878**		

* Author's own % analyses based on actual data from TRA website page: JUNETRAQuarterlyTax RevenueCollections2016_17

** Figures are rounded

Annex 5: List of Non-Tax Laws and Other Methods for Providing Tax Incentives

Examples of the Non-Tax Laws and other methods are:

1) **Law on Export Processing Zone and Special Economic Zone (EPZ/SEZ) that Provides For:**

- Tax incentives such as a ten-year income tax break and exemptions from customs, excise and VAT taxes are provided to firms investing in this sector.
- These types of incentives are considered necessary to attract certain types of foreign investors who shop around for tax incentives. From the host country perspective, these investments create local jobs and stimulate the local economy through the multiplier effect.
- The benefits of the EPZ/SEZ incentives are challenged by a segment of the civil society[76]. However, there is no available proper cost-benefit analysis of these incentives vis a vis actual investments and the accrued benefits to the local economy. In absence of such information, it is difficult to determine whether such incentives are beneficial or detrimental.

2) **Mining Development Agreement (MDA):**

- MDAs are agreements between the government and FDIs that provide tax reliefs, among other things, in the mining sector.
- MDA, among other issues, provide tax incentives to the investor. These investors tend to be large multi-national corporations with strong links to the advanced nations in the west and to other strong economies such as Russia and China.
- The government has recently introduced new laws to counter the negative effect of MDAs. It is currently negotiating with a major mining investor on revising the MDA.

3) **Tanzania Investment Centre (TIC):**

- TIC provides non-tax incentives to both domestic and foreign investors. In the past TIC provided tax incentives such as a five-year income tax break but these were later discontinued.
- There is a popular story doing rounds in Tanzania tax circles about a hotel that kept changing its name every five years. It was considered that the owners kept changing the name every five years in order to continue benefitting from the TIC five-year income tax break!

4) **Kilimo-Kwanza:**

- Kilimo-Kwanza initiative introduced by the government in 2009 provided tax exemptions aimed at encouraging formal investments in the agriculture sector.
- However, there is little evidence that these exemptions had any positive effect, especially on the large section of the rural farming population.
- A major criticism is that the exemptions provided can only be utilized by the organized large farm enterprises. They are pointless for the smallholder farmer who does not utilize a tractor, or does not transport his produce.[77]

76 ISJECIJ (2017).
77 Policy Forum (2010).

Annex 6: Recommendation on Tax Exemptions 2013

Extract From: 2013 Tanzania - PER Tax Exemptions Study[78] Recommendations on Tax Exemptions[79]

By CRC Segoma, Consultants.

Key Findings:

- The use of the tax and duty exemptions in developing countries [...] has been harmful.
- Improving investment and business climate is the best way for a developing country to boost growth. Tax exemptions are not the best tools.

Broad Guidelines for Reform of Tax Exemptions Regime:

Any reform of a tax and duty exemptions regime should be developed based on the following broad guidelines:

- All tax exemptions should be created or modified via legislation only (i.e., it has to obtain the Parliament's approval).
- Discretionary powers (to grant/modify exemptions) should not be permitted.
- The cost of each tax expenditure should be estimated, reviewed periodically, and a transparent reporting mechanism should be put in place.
- The reform should be implemented in a coordinated fashion with other state partners of a same economic union or zone, mostly to prevent multinationals to "shop around".

Summary of Recommendations Related To the Five Acts Reviewed in the Study[80]:

- Do not use Government Notices or other documents that did not get Parliament approval to announce or amend exemptions.
- Remove from legislation sections that provide the government with discretionary powers to grant or amend exemptions without the need to table legislative amendments to Parliament.
- In the legislation, clearly describe all duties and taxes for which an exemption is granted (i.e., avoid expressions like "exemptions on all taxes" or "exemptions on any other taxes" observed in current legislation)
- Remove exemptions:
    - To the President of Tanzania and other EAC Presidents
    - To Tanzanian MPs
    - To members of the Armed Forces
    - On corporate profits
    - On intermediate, capital and deemed capital goods
    - On final (consumption) goods and services that have no clear link with public policies or priorities announced by the government on energy products and alternative energies
    - To donor agencies
    - To duty-free shops (including shops for the Armed Forces) or any other shop that does not operate at the border or in a means of transportation transiting between Tanzania and a country outside EAC

78 CRC Segoma (2013) study for the Ministry of Finance.

79 ibid. Briefing Note p. 6.

80 Five Acts reviewed are: ITA 2004 (RE2006), VATA 1997 (RE2009), EACCMA 2004 (RE2009), EPZA 2002 (RE2006), SEZA 2006.

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