African Development Bank Group

Domestic Resource Mobilization for Poverty Reduction in East Africa:

Tanzania Case Study

Regional Department East A (OREA)

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<tr>
<td>AfDB</td>
<td>African Development Bank</td>
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<tr>
<td>AMT</td>
<td>Alternative Minimum Tax</td>
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<td>ARA</td>
<td>Autonomous Revenue Authority</td>
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<td>BMS</td>
<td>Block Management System</td>
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<td>BSC</td>
<td>Balanced Score Card</td>
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<td>CET</td>
<td>Common External Tariff</td>
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<td>CIT</td>
<td>Corporate Income Tax</td>
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<td>CITPROD</td>
<td>Corporate Income Tax Revenue Productivity</td>
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<td>CMVRS</td>
<td>Central Motor Vehicle Registration System</td>
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<td>CTS</td>
<td>Compliant Trader Scheme</td>
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<td>DFID</td>
<td>Department for International Development</td>
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<td>DRD</td>
<td>Domestic Revenue Department</td>
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<td>DRM</td>
<td>Domestic Resource Mobilization</td>
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<td>EAC</td>
<td>East African Community</td>
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<td>EASSy</td>
<td>Eastern Africa Submarine Cable System</td>
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<td>eFiling</td>
<td>Electronic Filing</td>
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<td>ERP</td>
<td>Economic Reform Programme</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GoT</td>
<td>Government of the United Republic of Tanzania</td>
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<td>HIPC</td>
<td>Heavily Indebted Poor Countries</td>
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<td>ICT</td>
<td>Information and Communication Technology</td>
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<tr>
<td>ID</td>
<td>Identification</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>ISO</td>
<td>International Standards Organisation</td>
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<td>ITA</td>
<td>Institute of Tax Administration</td>
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<td>ITU</td>
<td>International Telecommunications Union</td>
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<td>LTD</td>
<td>Large Taxpayer Department</td>
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<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
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<td>MDRI</td>
<td>Multilateral Debt Reduction Initiative</td>
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<td>MTEF</td>
<td>Medium Term Expenditure Framework</td>
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<td>NESP</td>
<td>National Economic Survival Programme</td>
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<td>ODA</td>
<td>Official Development Assistance</td>
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<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<td>PAYE</td>
<td>Pay As You Earn</td>
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<td>PIT</td>
<td>Personal Income Tax</td>
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<td>PITPROD</td>
<td>Personal Income Tax Revenue Productivity</td>
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<td>PwC</td>
<td>PricewaterhouseCoopers</td>
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<td>RADDEX</td>
<td>Revenue Authority Digital Data Exchange</td>
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<td>SADC</td>
<td>Southern Africa Development Cooperation</td>
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<td>SSA</td>
<td>Sub-Saharan Africa</td>
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<td>TAXSTAFF</td>
<td>Ratio of Tax Staff per Population</td>
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<td>TIN</td>
<td>Taxpayer Identification Number</td>
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<td>TRA</td>
<td>Tanzania Revenue Authority</td>
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<td>TRAMED</td>
<td>Tanzania Revenue Authority Monitoring and Evaluation Database</td>
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<tr>
<td>Abbreviation</td>
<td>Description</td>
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<td>--------------------------------------------</td>
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<tr>
<td>UK</td>
<td>United Kingdom of Great Britain and Northern Ireland</td>
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<td>VAT</td>
<td>Value Added Tax</td>
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<td>VATGCR</td>
<td>VAT Gross Compliance Ratio</td>
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<td>WTO</td>
<td>World Trade Organisation</td>
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Preface

The African Development Bank (AfDB) has partnered with the African Tax Administration Forum (ATAF) and the East African Secretariat on a project aimed at sharing lessons of experience from Domestic Resource Mobilization (DRM) though case studies for the East African Community partner states (EAC), South Africa and South Korea. For the purposes of this work, DRM is defined to include only tax policy and administration and excludes other possible components of DRM such as domestic financial markets.

The overall objective of this project is to make recommendations, for the participating countries of the EAC, on the priority reforms and ways to sequence and implement them, in order to significantly enhance DRM. As such, the primary beneficiaries of the project are both the Ministries of Finance and the Revenue Administrations of the EAC.

This paper seeks to respond to the following question: What key factors have contributed to or inhibited DRM in Tanzania? This case study has been prepared following an extensive review of available literature, interviews with key informants in Tanzania, the collection of quantitative data, and the analysis of both primary and secondary data. Its development has also been informed by a methodological framework designed by the AfDB. The core principle of the methodological framework is to analyse tax performance as a result of tax systems, reforms and the political economy. The study adopts an explanatory case study approach to match patterns from our analysis of the literature and key informant interviews.

The achievements and lessons of experience contained in this and other country papers will provide primary inputs for a policy note. The policy note will seek to address the following questions: What are the priority reforms for EAC countries and the EAC? How should reforms be sequenced and implemented?

Chapter 1 of this case study begins with an examination of Tanzania’s political economy and fiscal legacies. Thereafter, Chapters 2 and 3 explain and analyse the trends in the tax system and their impact on domestic revenue performance respectively. The final chapters highlight the challenges and issues currently faced by government (Chapter 4), and lessons of experience for consideration by the EAC member states (Chapter 5).
Acknowledgements

The Tanzania Case Study was prepared under the overall supervision of Mrs. Diarietou Gaye (Regional Director, Department East A, OREA) and Catherine Baumont-Keita (Lead Economist, OREA). Core team members were Edward Sennoga (Macro Economist, UGFO and Task Manager, Richard Walker (Country Economist, KEFO) and Christian Lim (Private Sector Specialist, OSGE). The external consultants were led by Elizabeth Kariuki and Kithingi Kiragu (PricewaterhouseCoopers).

Mr. Aloysius Ordu (Vice President, Country and Regional Programs), Mr. Steve Kayizzi-Mugerwa (Director, Operational Resources and Policies), and Ms. Radhika Bharat (Investment Officer) initiated the project and were involved in the early design of the study.

The production of this case study was made possible by the generous financial support from the Korea-Africa Fund for Economic Cooperation. We also thank the African Tax Administration Forum, East African Community Secretariat, senior management and staff of the Tanzania Revenue Authority and Ministry of Finance and Economic Affairs for the extremely productive exchanges and valuable insights provided to us during the preparation of this case study. Similar appreciation also goes to representatives of regional organizations, private sector organisations, think tanks and multilateral and bilateral development partners in Tanzania.

The case study also benefitted from valuable feedback provided by staff in different departments of the ADB both at headquarters and in the field offices (Kenya, Tanzania, Uganda and Rwanda). External reviewers were Bohela Lunogela, Economic Research and Social Foundation, and Ms. Mary Ngelela Maganga, Planning and Modernization Program Manager, Tanzania Revenue Authority, who provided very constructive comments.

There is not enough space here to name each and every one of those who have contributed immensely to the successful completion of this case study; however, Annex A lists some of the key contributors to this report. In addition, we seek the indulgence of all the contributors in accepting this blanket acknowledgement and appreciation of their efforts and contribution. We are indeed very thankful.

Executive summary
1. **Context-Political economy and fiscal legacies**

After independence in 1961, the government embarked on transforming the economy through industrialisation and rural development schemes. Several years later, in 1967, government adopted socialism (‘Ujamaa’) as its development ideology. Initially, "social indicators improved, and Tanzania made important progress in building a nation-state" (IMF, 1999). However, the oil crisis in the 1970s and early 1980s, and other external shocks set the beginning of an economic downturn, which was not reversed on a sustained basis until late 1990s.

Economic liberalisation and other major policy measures implemented from the mid-1990s heralded sustained economic recovery. By the end of the 1990s, Tanzania’s performance across most indicators of public sector reform and economic growth had improved markedly. In particular, the real GDP growth rate consistently exceeded an annual rate of 5% during this period. At the same time, a significant transformation of the economy had been achieved, especially following high and growing investments in the mining sector. Still, Tanzania’s economy remains dominated by agriculture and a large informal sector.

While domestic tax revenues have considerably grown since the mid-1990’s, international development assistance has remained a significant fiscal driver in Tanzania. Except for the one and half decades beginning in the early 1980s, Tanzania has consistently been one of the largest recipients of development assistance in the EAC. It has been suggested both in the literature and by key study informants that this extensive external assistance may have undermined ‘tax morale’ among Tanzania’s elite. However, in recent times, Tanzania’s political leaders, in particular, Members of Parliament have become sensitive to the country’s high dependency on aid and the excessive influence of the donors.

Both the aggregate fiscal position and tax revenue generation for Tanzania appear to be in an exponential trajectory in the medium to long term. However, on the one hand, in the medium-term, tax effort will be constrained by two factors. First, the continued elite resistance to the abolition of the prevailing extensive tax exemptions, and second, the threat of increased high-level corruption in government agencies. On the other hand, there are two motivating forces that should sustain and possibly enhance the tax effort in Tanzania in future. First, the political economy fundamentals are in place to sustain the momentum for economic growth, diversification, and poverty reduction. The second factor in favour of raised tax effort in future is the combination of a developing national consciousness of loss of fiscal sovereignty and associated risks of high dependency on aid.

2. **Tax reforms: Sequencing, implementation and results**

Major tax policy changes to the tax system were initiated by the recommendations of the Presidential Commission on Taxation and Expenditure (1989-1991). These
changes included: the simplification of the customs tariff structure in 1992 as a means of curbing tax evasion; the establishment of TRA in 1996; and the introduction of the Value Added Tax (VAT) in 1998 to replace the sales tax. There were further changes in tax policy between 2000 and 2008, including, for example, the promulgation of a new Income Tax Act in 2004. Also, revisions to customs policies and administration have been driven by the East African Community Customs Management Act of 2004.

Since its establishment, TRA has undergone three waves of reforms centring on: (1) institution building; (2) improving services delivery; and (3) deepening the authority’s specialisation. Under wave 1, besides increased levels of revenue collection, TRA reports the following results: (1) both the Board of Directors and Management Team were appointed; (2) a taxpayer identification number (TIN) system was established; (3) ASYCUDA++ system was implemented; (4) the Large Taxpayers’ Department (LTD) was established in 2001; and (5) the tax appeals system was unified. Wave 2 reforms contributed to the following key results: (1) increased revenue collections; (2) a growth in the large taxpayer population to 370; (3) systems improvements; and (4) electronic tax payments and refunds.

The implementation of wave 3 reforms is still underway. Some of the main achievements to date include the: (1) institutionalisation of risk management tax based operations; (2) attainment of the International Standards Organisation 9001:2000 certification in October 2008; (3) implementation of a compliant traders scheme for importers; (4) opening of seven Tax Centres to register taxpayers, assess and examine returns and collect revenue; and (5) completion of a second time release study in 2009/10.

3. Domestic revenue performance

From the establishment of TRA in 1995/96 to 2007/08, Tanzania achieved a 2.7 percentage point increase in domestic revenue collections. Tax revenue between 1996/97 and 2007/08 grew at an average annual rate of 15.7%. It is noteworthy, that the average annual public revenue growth rate between 2004/05 and 2007/08 was even higher, at 20.9%. This increase was as a result of extensive reforms undertaken between 2003/04 and 2006/07 to broaden the tax base. The VAT was the best performing tax throughout the period from 1998/99 to 2007/08, growing at an average annual rate of 22.9%.

Income tax revenues were the second largest contributor to domestic tax collections in the 11 years to 2007/08. Revenues grew at an average annual rate of 22.3% partly as a result of a buoyant macro-economic environment, increased coverage of large taxpayers, other efficiency gains in tax administration and pay rises

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1 During that period, Tanzania mainland collections constituted over 95% of total tax collections in the United Republic of Tanzania.
particularly for public servants (IMF, 2004). Also, considerable gains were made by establishing the LTD. However, the high levels of tax exemptions contributed to the substantial revenue loss, probably accounting for most of Tanzania’s tax gap.

4. Challenges and issues

Significant challenges will need to be overcome so as to attain and sustain the target tax to GDP ratio of at least 20% in the long term. These key challenges are listed below:

- **Ensuring the efficiency of tax incentives and exemptions**: The reduction of tax exemptions, could raise the tax effort by several percentage points;

- **Widening the tax base**: Binding constraints appear to evolve around: (1) the absence of systems and mechanisms to reach many taxpayers; and (2) the limited TRA knowledge about potential taxpayers in the informal sector economy;

- **Effectively exploiting ICT to enhance efficiency**: At present these systems are not being implemented using an integrated framework. Yet, in the absence of integration, the use of the systems will remain sub-optimal;

- **Building and sustaining managerial capacity**: The recruitment and retention of specialists in areas such as ICT, accounting and finance, audit, legal, among others, remains a challenge;

- **Minimising corruption in tax collection**: An independent external integrity and transparency review commissioned by TRA in 2007 concluded that there seemed to be an endemic tax avoidance culture in Tanzania;

- **Ensuring harmonised, systematic and policy led regional integration measures**: Tanzania’s multiple memberships to regional economic communities such as the EAC and SADC need to be harmonized. Further, import duty exemptions granted to promote the development of infant industries need to be monitored to minimize abuse and consequent revenue loss.

5. Lessons of experience

There are six key lessons that can be drawn from Tanzania DRM experience as follows:

- **Policy shifts can seriously disrupt revenue collection efforts**: It is critical to rigorously assess the implications of policy changes prior to their implementation;
Participatory tax forums can support effective policy formulation: The process of tax policy formulation is comparatively participatory and transparent;

The Block Management System (BMS) is highly potent for widening the tax base and tax net: The BMS initiative has been very successful in capturing new taxpayers and evaders;

Comprehensive and in-depth sector studies should inform risk management of tax based operations: In the absence of knowledge gained from comprehensive and in-depth sector studies, risk management can not be fully effective;

Risk based profiling of VAT payers for refunds enhances efficiency: TRA has exemplary performance in managing its VAT refunds, which has been enabled by the introduction of taxpayer profiling;

Tax incentives and exemptions can negate DRM results: Exemptions and incentives could account for up to 6% of GDP. Therefore, in targeting tax efforts, and the outcomes and impacts of tax reforms, it is appropriate to factor in the impact of tax incentives and exemptions.
1 Context – Political economy and fiscal legacies

1.1 The legacy of socialism and economic liberalisation

After independence in 1961, the government embarked on transforming the economy through industrialisation and rural development schemes. Several years later, in 1967, government announced a new approach to development, through what was popularly known as the Arusha Declaration. In this declaration, the state outlined, as a means of attaining "self-reliance", a shift in policy to centrally driven state-dominated interventions. In effect, government adopted socialism (‘Ujamaa’) as its ideology and called for major socio-political and economic adjustments consistent with the new dispensation including – public ownership.

Initially, "social indicators improved, and Tanzania made important progress in building a nation-state" (IMF, 1999). However, the oil crisis in the 1970s and early 1980s, and other external shocks marked the beginning of an economic downturn, demonstrated by large fiscal deficits, high inflation rates and low international foreign exchange reserves. Mismanagement and inefficiencies in public enterprises exacerbated this situation. “Between 1984/85 and 1994/95 there was a net transfer from the government to the parastatal sector. In real terms, the net transfers increased from TShs 6.3 billion in 1984/85 to TShs50.3 billion in 1993/94” (Moshi, 1998). These inappropriate policies and structural defects, and the 1979/80 war to dethrone the Idi Amin regime in Uganda precipitated a rapid decline and near collapse of Tanzania’s economy in the 1980s. Between 1980 and 1985, the real GDP growth rate averaged 1% per annum (p.a.) (World Bank, 2002). As GDP shrank, shortages of basic consumer goods appeared, and agricultural exports collapsed (Treichel, 2005). Furthermore, Tanzania experienced a serious shortage of foreign exchange.

In 1981, government launched a National Economic Survival Programme (NESP) which aimed to reduce Tanzania’s resource gap by boosting exports and curbing public expenditure. However, NESP’s targets were unrealistic (Havnevik, 1993). A successor structural adjustment programme of 1983 which aimed to “finance the fiscal deficit largely through domestic borrowing… did not address the fundamental issues of price distortions, including and in particular the exchange rate” (Muganda, 2004).

It was not until 1986 that the Government of the United Republic of Tanzania (GoT) with support from development partners initiated an Economic Reform Programme (ERP) geared towards achieving macro-economic stabilisation primarily through
improved fiscal management. The ERP was succeeded by the Economic and Social Action Programme (ESAP) which ran from 1989 to 1992. As part of these programmes, GoT focused on: reducing inflation by tightening monetary policies and controlling public sector expenditure; increasing domestic revenue collection through institutional reform; minimising budget deficits through the introduction of the cash budget system to ensure that resources are allocated on the basis of available revenue from tax and external sources (World Bank, 2002). From the early 1990s, there was extensive liberalisation of the economy which involved: the relaxation of price, exchange and external trade controls; government’s divestment from the parastatal sector, resulting in the successful divestiture of more than 400 parastatals; and the reform of the financial services sector.

1.2 Economic recovery and transformation since the mid-nineties

From the mid-1990s, the measures taken above heralded a major economic recovery, including: reduced inflation, a sustained moderate growth of the economy, and a vastly improved fiscal situation. By 1998, inflation had dropped to 12.9% from 32.3% in 1985. By the mid-nineties, economic growth ranged between 3 and 4% – “Private investment, domestic and foreign, fuelled economic growth, which in turn boosted tax revenues” (Nord et al, 2009). The fiscal deficit before grants fell from 8.9% of GDP in 1986 to 2.3% of GDP in 1995 (World Bank, 2002).

By the end of the 1990s, Tanzania’s performance across most indicators of public sector reform and economic growth had improved markedly. Then, also, Tanzania adopted the poverty reduction strategy backed by the World Bank and IMF structural adjustment programmes. Tanzania also developed a Development Vision 2025, as the overarching policy statement outlining the country’s long-term targets on poverty eradication and human development, as well as, on good governance and stability. Over the years, more focused poverty reduction strategy documents have set out government’s objectives and targets for reducing poverty within the medium-term macro-economic framework. However, poverty levels in Tanzania remain high.

In the last decade, construction, mining and services have been the main sectors of growth in Tanzania. As a result, agriculture makes a lesser but still significant contribution to GDP of 26.6% compared to services 50.8% and industry 22.6%\(^2\). Between 2006 and 2008, annual growth in agriculture, industry and services sectors was around 4%, 9% and 8% of GDP respectively. However, in spite of many years of comparatively moderate to high rates of economic growth (about 5% of GDP)

since the mid-1990s, and the heightened level of investments in the mining sector, a major part of Tanzania’s economy remains in the informal sector.

1.3 Development financing mix and challenges

Figure 1.1 presents the trends in the overall development financing mix for Tanzania between 1996 and 2008. Exports of goods and services are the largest type of development financing contributing 19.4% of GDP in the period. Tanzania’s exports include agricultural produce (e.g. cotton, coffee), and non-traditional items such as gold. Between 2002 and 2008, exports grew at an average annual rate of 16.3%.

Private savings are the next largest form of development financing. Between 2002 and 2008, private savings averaged at 17.8% of GDP which is higher than the levels for Kenya and Uganda for the same period at 13.6% and 14.6% respectively, but lower that the Africa benchmark for the post-Monterrey period of 22.1%. The growth in private savings was highest following liberalisation of the financial services sector.

Figure 1.1: Trends in Tanzania’s overall development financing mix (1996 to 2008)\textsuperscript{3}

Domestic revenue is the third largest source of development finance (see Section 3). However, domestic financing capacity is insufficient to meet Tanzania’s needs. Therefore, government remains heavily reliant on foreign aid which averaged at

\begin{itemize}
\item Total bilateral aid to all sectors
\item Exports of goods & services
\item Direct investment in reporting economy (FDI Inward)
\item Total revenue excl. grants
\item Gross private savings, current prices
\end{itemize}

Source: Africa Economic Outlook (AEO) 2010 data

\textsuperscript{3} Data on ODA for 2008 is not available.
13.2% of GDP between 1996 and 2007\textsuperscript{4}. About 34% of the budget is estimated to be financed by aid.

Tanzania has also benefited from some foreign direct investment (FDI) which averaged at 3.4% of GDP between 1996 and 2007. It is noteworthy that South Africa is reported to have contributed to 35% of Tanzania’s FDI in the period from 1994 to 2003 (Page and de Velde, 2004). Still, Tanzania’s other major investors include: Australia, Canada, Ghana, Kenya, the United Kingdom (UK), and the United States of America (USA). On Tanzania mainland, “based on 2003 figures, FDI is relatively diversified in mining (39%), followed by manufacturing (22%), tourism (13%) and agriculture (7%)” (MIGA, 2007).

1.4 Political economy dynamics underpinning DRM

The synopsis of the political economy legacies that have impacted DRM, as presented in the subsections below, is based on Brautigam’s (2008) analytical framework\textsuperscript{5}, which consists of the following five facets: (1) level of economic development and economic structure; (2) societal factors: culture, values, trust and ‘tax morale’; (3) war and taxes: bureaucratic modernisation as a response to threat; (4) political institutions and tax systems; and (5) taxation and the fiscal contract.

1.4.1 The economic structure is largely agrarian with high levels of poverty

The Tanzanian economy remains agrarian with high poverty levels. However, in recent years, sectors associated with enhanced monetisation of the economy such as mining, construction, financial services and manufacturing etc. have recorded comparatively higher rates of economic growth. At the same time poverty levels have recorded a modest decline. GoT’s Poverty and Human Development Report of 2009, indicates than in the six year period to 2007 the household poverty rate in rural areas fell by 1.1 percentage points to 37.6%, compared with a 1.7 percentage points drop to 24.1% in other urban areas. Still, in the evolving economic structure, growth in employment in the modern sectors and in urban areas is comparatively rapid – “the number of Tanzanians employed grew by an average of 630,000 per year between 2001 and 2006” (GoT, 2009). Therefore, the scope for DRM has considerably and steadily improved over the past one and a half decades, and there are high prospects of this being sustained in future.

\textsuperscript{4} Tanzania also finances its development agenda with debt. However, the level of public debt has been on the decline since 1996.

\textsuperscript{5} Brautigam’s framework is adopted because compared to others that were examined; it is judged to be more comprehensive and elegant. However, like most others, its historical perspective derives too much from the emergence of the modern European state to be linearly applied to states that are legacies of colonial rule, such as Tanzania.
1.4.2 An egalitarian and camaraderie culture with high levels of trust but low tax morale

Tradition and the enduring impact of the Ujamaa era have left Tanzania society with a significantly egalitarian and camaraderie culture. Until recently, conspicuous affluence was generally frowned upon in the society. Trust among members of the society has been high. In that culture, corruption remained comparatively low and although a worsening trend is widely perceived, the latest Transparency International Corruption Perception Index suggests that among the five EAC countries, only Rwanda ranks better than Tanzania.

Except for the one and half decades beginning in the early 1980s, Tanzania has consistently been one of the largest recipients of development assistance in the EAC. This extensive external assistance has undermined ‘tax morale’ among Tanzania’s elite. The authors have, for example, been informed that most of the elite generally do not pay taxes on non-salary income. In recent years, the rising frequency of reported levels of high-level corruption has further eroded this morale.

1.4.3 Nation-building deviated from the normative

In the decade following independence, Tanzania benefited from a robust revenue mobilisation bureaucracy, jointly developed by the defunct EAC (1967-1977). The foundations of these structures were inherited from the colonial East African Common Services Organisation. The collapse of the EAC in the late 1990s was very disruptive to the development of the revenue administration system. By then, in any case, both the development strategy and development financing mix of the Nyerere regime were not exclusively dependent on the conventional domestic resources mobilisation bureaucracy.

In conventional terms Tanzania has only been to one war since independence. This was the war against Idi Amin. However, the founding father of the nation, the late Mwalimu Nyerere, actively sought with some degree of success, to place Tanzania on a war footing in two other contexts. Soon after independence, he declared a war against, hunger, disease and ignorance. Following the Arusha Declaration of 1967, the Ujamaa drive was also given a similar war footing. Indeed it was in a warring spirit that Nyerere eventually transformed the ruling party to a revolutionary one, Chama Cha Mapinduzi (‘the revolutionary party’), which still dominates Tanzania’s political scene.

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6 In a society where “tax morale” is high, there are low levels of tax evasion and avoidance. It is only in a social culture where citizens generally appreciate their responsibility for sustaining state services and where they have a trust in their state institutions and leaders that a “tax morale” evolves.
Mwalimu Nyerere did not fall back on poor Tanzanians to mobilise resources for his wars. Rather, he cultivated a unique and paradoxical relationship with the international community, which for two decades provided him with considerable resources for nation-building. While the developed countries of the West afforded him considerable aid, he could still persuade the Chinese to finance the Tanzania-Zambia railway line. In this regard, Mwalimu Nyerere’s nation-building effort deviated from the normative. At the same time, as observed above, Mwalimu Nyerere’s success probably underlies a low tax morale culture.

1.4.4 There was political support for establishing TRA as a professional institution insulated from political interference

The launch of Tanzania Revenue Authority (TRA) in 1996 was an early milestone event of the “Third Phase” Government of Tanzania (Mkapa regime), in heralding economic recovery. Thus from the outset, TRA was established as a semi-autonomous technocratic instrument for DRM. In this regard, the recruitment of management and staff was based on professionalism. A large proportion of staff from the former revenue departments who were considered inept or corrupt were retrenched while those who remained were transferred to TRA. At the same time there was a strong drive to recruit and develop new professionals.

A few years later, TRA was to be an important source of technocrats that former President Mkapa relied on to spearhead the consolidation of macro-economic and fiscal reforms in the Ministry of Finance. In particular, TRA provided the Ministry of Finance with fiscal policy and management experts. As a result, at the technical level, a very close working relationship grew between TRA and its parent ministry.

More significantly, since its inception, TRA is one public organisation that has generally been insulated from political interference. Others could argue that in Tanzania this absence of political intervention is not unique to TRA. According to Mukandala et al (2005), first, DRM and allocation processes are “depoliticised” in Tanzania, leaving a free hand to bureaucrats, donors, investors and external consultants. Civil society and parliamentary control of these processes is still very marginal. Second, all “demand side” state institutions in Tanzania are controlled by the executive and not politicians. This reinforces TRA’s insulation from political interference.

For macroeconomic management reasons, countries with high inflows of donor resources such as Tanzania are constrained to programme all external resource commitments/pledges. To the extent that high levels of external resources when combined with domestic resources can exceed the target aggregate expenditure levels, policy makers could be tempted to make the easy choice of not putting in place measures to enhance DRM.
1.4.5 There is no fiscal contract in place at present\textsuperscript{8}

Neither the process of state-building nor the exigencies of development financing have so far enabled a fiscal contracting process to effectively evolve in Tanzania. Over the years, government revenues have been derived from a few large taxpayers, and international development organisations. About 400 large taxpayers, who are mainly privatised public companies and subsidiaries of multi-national organisations, contribute 80% of domestic tax revenues. IMF (2009a) statistics show that external development financing at about 10% of GDP was nearly 40% of total public expenditure in 2008/09. In other words, the vast majority of Tanzanians, do not pay tax, and have not had to be coerced to do so.

Furthermore, according to Fjeldstad (2009), while there are indications that the majority of the population may be willing to engage in a fiscal contract with the state, no such contract is in place at present. This explains why surveys of citizens in 2003 and 2006 cited by the same author, feedback that for now, they are not ready to pay taxes and fees, and this may be a major obstacle to enhancing government revenues in Tanzania.

1.5 Fiscal governance drivers, results and trajectory

Historically, Tanzania socio-political predisposition for an egalitarian society has been the major internal driver of fiscal governance. In other words, as early as the 1960s Tanzania tried to launch a programme of education for all. Following the interlude era of economic liberalisation (second phase government), national programmes to rapidly extend social services to all sections of the society were re-launched under the third phase government. Yet the country’s DRM is comparatively low. Therefore the need for external resources to bridge the resource gap has been a permanent feature. It is in the latter context that there may be validity in Hyden’s (2005) assertion that donors are more proactive, and probably the dominant driver of fiscal governance.

In recent times, Tanzania’s political leaders, in particular, Members of Parliament have become sensitive to the country’s high dependency on aid and the excessive influence of the donors. In this regard, in the debate of the 2008/09 budget, partly in response to growing donor pressure for government to curb corruption in public expenditure, many Parliamentarians agitated for the goal of weaning Tanzania out

\textsuperscript{8} Fiscal contract has its genesis in agreements between European monarchies and the propertied class and merchants that the latter would contribute to state coffers especially to fund war in return for specific benefits. In modern times a fiscal contract would be characterised by government pledges of specific socio-economic benefits to justify taxation. This is a more realistic proposition in a democratic dispensation.
of its aid dependency. In response, government (the Minister of Finance) pledged to accelerate growth in domestic resources.

In addition, there is no doubt that foreign investors have been significant fiscal governance drivers in Tanzania, especially over the past decade. Wangwe (2005) suggests that while tax measures taken in the early 2000s were generally directed to stimulating investment and production, large-scale investors were given greater tax relief. Mining companies were predominant among these investors, and there have been concerns that the exemptions and incentives they received had the effect of reducing the potential to maximise revenues from corporate income tax.

Until aid dependency is significantly reduced, it is difficult to anticipate low international development organisations’ influence on Tanzania’s political economy space. Furthermore, according to Nord et al (2009), this is only a realistic prospect in the long term; because it is dependent on a stronger domestic revenue base, growing private FDI, and eventual access to sovereign bond markets and Tanzania’s capacity to manage debt.

Furthermore, the tax effort in the medium-term will be constrained by two factors. One factor is the continued elite resistance to the abolition of the prevailing extensive tax exemptions. The other factor is the threat of increases in high-level corruption, which could ultimately find its way into TRA. While the observed increasing vigilance of Parliament and other national watchdog institutions could be expected to effectively mitigate for the second factor, the national socio-culture may sustain the former well into the future.

Still, there are two motivating forces that should sustain and possibly enhance the tax effort in Tanzania in future. First, the political economy fundamentals are in place to sustain the momentum for economic growth, diversification, and poverty reduction. In 2009, the IMF projected that Tanzania’s economic growth will return towards the 7% level in the medium-term. The benefits of recent and ongoing substantial investments in the mining sector, and a renewed focus on the agriculture sector should serve to promote growth, employment and poverty reduction. Also, the drive led by the President to improve the investment climate and rapidly raise Tanzania’s World Bank Doing Business ranking, will help to sustain the growth of FDI. The second factor in favour of raised tax effort in future, is the combination of a developing national consciousness of loss of fiscal sovereignty associated with the current high level of aid dependency, combined with the decision by development partners in May 2010 to withhold budget support worth US$220 million.
2 Trends in the tax system

2.1 Changes in tax policies over the years

Following independence, Tanzania depended on unified policies and an administrative system jointly operated by the founding member states of the EAC. However, in the early 1970s a decision was made to “place the responsibility of income tax in the hands of each national government” (Osoro, 1993). Thereafter, the government enacted the Income Tax Act of 1973, and expanded the base of the sales tax (first introduced in 1969) “to compensate for the abolition of the excise tax” (Levin, 2001). Thereafter, several studies were undertaken in the 1980s which recommended that the tax system be simplified and rationalised – leading to the abolition of export taxes and income tax rate changes\(^9\). The key tax policy changes, however, did not take place until the following two decades as elaborated below.

2.1.1 Key changes to tax policy in the 1990s

There were two key changes to the tax system from 1991 onwards that were informed by recommendations of the Presidential Commission on Taxation and Expenditure (1989-1991). First, in 1992 GoT simplified the customs tariff structure to five rates from over 50 in 1986, in anticipation that there would be a decline in evasion (Morrissey, 1995). Second, in 1998, the GoT modernised its tax system by introducing the VAT which replaced “the highly distortionary sales tax…, the hotel levy, and receipt-based stamp duty” (Nord et al, 2009). Two VAT rates were applicable a standard rate of 20% and 0% rate. In addition, there are several VAT exempt supplies including for example: food, crops and livestock; health services; pesticides and fertilisers, education materials; transport services etc\(^{10}\).

In addition from 1990, to enhance workers’ take-home pay which “had been declining throughout the decade”, GoT reduced the top personal income tax rate from 40% to 30% (Osoro, 1993). It also reduced the top marginal corporate tax rate to 30% from 35%. It is also noteworthy that in 1996, the Ministry of Finance established a Task Force on Tax Reform. The Task Force comprising stakeholders from government, companies, the private sector, research institutions and civil society, provides opinions on tax policy. The Task Force’s recommendations are reviewed by a Think Tank for Tax Reform chaired by the Minister of Finance.

\(^9\)“In the area of income taxation, marginal tax rates were reduced from a range of 20-95% to 15-75% in 1986/87…[and] further to a range of 10-50% in 1989” (Osoro, 1993).
\(^{10}\) [Accessed 20 March 2010].
In 1998, GoT promulgated the Mining Act. The Act subjected miners to mining royalties on a net back value at a: 3% standard rate (for gold and rough gemstones); rate of 5% for diamonds; and 0% rate on polished and cut stones. This legislation was replaced by the Mining Act of 2010, which levies royalties of 4% for precious and base metals, 5% to 6% for diamonds and gemstones, and 7% for uranium on a gross value basis.\(^{11}\)

### 2.1.2 Major tax policies from 2000 to 2008

In period 2000-2008, GoT introduced policy changes to the VAT regime as follows:

- To raise revenue, in 2003/04, an amendment was made to the VAT regime to exclude from zero-rating almost all services supplied to businesses/consumers overseas\(^{12}\);

- To reduce the compliance costs, regulatory burdens and red tape for small size enterprises, in 2004/05, government increased the VAT registration threshold from an annual taxable turnover of TShs 20 million to TShs 40 million;

- To reduce transportation costs and enable the public railways system to meet its regular maintenance needs, in 2005/06 GoT exempted locomotives, rolling stock, spare parts, and accessories from VAT. Government also gave relief to operators who were suffering from rising fuel costs by exempting Jet-A1 aviation fuel from VAT;

- To make them more affordable to the taxpayer, in 2006/07 government abolished VAT on petroleum products. It also reduced the time limit for lodging VAT refund claims from five to three years;

- To prevent exploration companies from incurring significant cash flow costs, in 2007/08 the government extended VAT special relief to cover entities involved in prospecting and exploration for petroleum and gas.

With regard to income taxes, in 2004, as a means of broadening the tax base, GoT promulgated a new Income Tax Act. Some of the major changes contained in the Act were also informed by the 1989-91 Presidential Commission’s recommendations, and included: the introduction of self-assessment; significant anti-avoidance measures; measures to match accounting and tax profits; the

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\(^{12}\) This policy measure is not in line with international practice.
removal of relief on housing allowance and gratuity for employees; hefty interest and penalties for compliance failure and offences\textsuperscript{13}. The new Act also provides for an upward adjustment of the presumptive tax applying to resident individuals with an annual business turnover not exceeding TShs 20 million from 1.1\% (on turnover up to TShs 3 million) to 3.3\% (on turnover from TShs 14 million to TShs 20 million). More recently, GoT has made various amendments to the Income Tax Act, including in:

\begin{itemize}
  \item 2005/06, to encourage companies to broaden their public ownership, government introduced a concessionary corporate tax rate of 25\% (compared to the standard 30\%) to apply for the first three years to companies that are newly listed on the Dar es Salaam stock exchange\textsuperscript{14};
  \item 2006/07, government reduced the marginal personal income tax rate for the lowest tax band from 18.5\% to 15\%.
\end{itemize}

Changes in customs policies and administration have been driven by the East African Community Customs Management Act of 2004, which underpins the establishment of common external tariffs (CETs) and elimination of internal tariffs. It also brought about the: harmonisation of customs principles and procedures; and removal of suspended duty.

Excise duties are regulated under the Excise (Management and Tariff) Act. In Tanzania apart from the traditional excisable goods [alcohol, tobacco and petroleum products,] soft drinks and motor vehicles are excisable for revenue generation purposes\textsuperscript{15}. In addition, government charges excise duty on mobile airtime. Excise duty rates are subject to regular increases, for example to adjust for inflation.

\textbf{2.2 Institutional changes}

The 1989-91 Presidential Commission of enquiry into public resources also recommended the establishment of an autonomous revenue administration to include the Department of Inland Revenue and Department of Customs and Excise in the Ministry of Finance. However, it was not until 1995, that the National Assembly enacted the TRA Act No. 11 of 1995. Since its establishment in 1996, 

\textsuperscript{13} In addition, under the new Act the withholding tax on dividends was reduced to 10\%, whereas previously the rate was 20\% for non-residents and 15\% for residents.
\textsuperscript{14} To qualify, the original threshold was that at least 35\% of the company’s equity had to be issued to the public. From 2009/2010 this threshold was reduced to 30\%.
\textsuperscript{15} http://www.tanzania.go.tz/tra.html [Accessed 20 March 2010].
TRA’s operations have been funded by annual allocations appropriated by Parliament.

TRA is headed by a Commissioner General who reports to a Board of Directors – however the Minister of Finance and Economic Affairs retains overall responsibility for TRA. The Board of Directors is required to meet on a monthly basis. It also has two committees: a Standing Committee which handles organisational and human resource issues; and an Audit Committee that tackles operational and control matters.

Each of TRA’s revenue functions (i.e. domestic revenue, large taxpayers, customs and excise and tax investigations) are headed by a Commissioner. Its support functions (internal audit, legal services, taxpayer services and education, ICT, finance and human resources and administration) are headed by Directors. TRA has a presence in all the 23 administrative regions of Tanzania mainland and in Zanzibar. TRA also has a tax training centre, the Institute of Tax Administration (ITA), which offers both short and long term courses. ITA operates as a semi-autonomous cost centre.

2.3 Changes in administrative systems

According to TRA’s 2007/08 annual report, as at 30th June 2008, it employed 3,413 staff. More than half of these staff were deployed in Customs and Excise (30%) and Domestic Revenue (55%). Under the act, TRA has freedom to pay its staff competitive salaries. To that end, it undertakes salary surveys every two years. In recent years, TRA has implemented the recommendations of independent salary surveys undertaken in 2004/05 and 2007/08 (TRA, 2008).

In 2004/05 TRA developed an information systems policy and strategy to guide its ICT-based modernisation plans. Since then, TRA has introduced the following information systems: the Automated System for Customs Data ++ (ASYCUDA++) and Revenue Authority Digital Data Exchange (RADDEX) system in customs; an automated Central Motor Vehicle Registration System (CMVRS); ITAX (a bespoke system) in domestic revenue; Epicor and PEODESY systems to support management of its finances and human resource function respectively; the TRA Monitoring and Evaluation Database (TRAMED); a data warehousing system; and an integrated data communication network (see Annex D).

2.4 Fiscal decentralisation and taxation by local governments

Since 1999, Tanzania has been pursuing a local government reform process based on the concept of decentralisation by devolution. There are 133 local government
authorities, which account for roughly 21% of public sector spending in Tanzania (PMO-RALG, 2007). Local authorities are responsible for the delivery of primary education, basic health services, agricultural extension, rural water supplies, local roads and public infrastructure, as well as typical local functions such as refuse collection, street cleaning, local markets, and so on.

Local governments in Tanzania receive the larger proportion of their resources through intergovernmental fiscal transfers (see Annex C: Table C7). Almost two-thirds of these transfers are provided in the form of formula-based sectoral block grants, whereas the remainder is provided in the form of subventions and development grants (PMO-RALG, 2007). In terms of own source revenues, local governments depend extensively on fees, permits and charges and other minor revenue sources (see Annex C: Table C8). In addition, however, local governments in Tanzania rely relatively heavily on taxes on local business activity, including produce cesses (turnover taxes on agricultural production of up to 5%) and the service levy (a turnover tax of 0.3% for firms with turnover in excess of TShs 20 million).

Tanzania has seen a considerable reduction in the relative importance of own source revenues as a local source of financing: whereas in 2002/03 almost one-fifth of local recurrent expenditures were funded from local revenues, by 2006/07 this percentage had declined to 9.3% (PMO-RALG, 2007). This sharp relative decline was caused in large part by the abolition of the development levy (a local poll tax) in 2003, and the introduction of sharp limitations on local authorities’ ability to collect local business licenses in 2004 (Boex and Martinez-Vazquez, 2006). In addition, as a result of the poor local revenue collection efforts, in June 2007 the Prime Minister instructed TRA to assist local government authorities in the collection of local property rates. This latter arrangement became effective in 2009.

In addition to the above, the crop cess (in Tanzania and elsewhere in the region) has long been identified as an inefficient local revenue source (see Hicks 1960; Bird 1974; Boex and Martinez-Vazquez 2006). Indeed, it would be easy to abolish this tax, and there have been voices advocating for this. However, the appropriate reform path would be to pursue a revenue-neutral reform and to identify and put in place an appropriate alternative local revenue instrument to tax rural agricultural production – for instance, a local tax on land used for commercial production – prior to eliminating the crop cess.
2.5 Reform sequencing, implementation and results

Tax reforms in the 1990s were motivated by Tanzania’s fiscal crisis (see Sections 1.1 and 1.2). It is against this rationale that the Presidential Commission on Taxation and Expenditure was established – specifically to propose ways in which GoT could increase its tax base and collection efficiency (Fjeldstad, 1995). The Commission’s recommendations with respect to tax policy and administration are presented earlier in this chapter.

2.5.1 Sequencing and implementation of reforms

The range of tax policy reforms initiated at the beginning of the 1990s heralded the modernisation of the tax system (IMF, 2003). The next critical reform was to build the necessary managerial and technical capacity within TRA to ensure efficient and effective tax system administration.

Since its establishment TRA has undergone three waves of reforms centring on: (1) institution building; (2) improving services delivery; and (3) deepening the authority’s specialisation. These reforms are contained in successive TRA corporate plans. The first corporate plan was implemented from 1998/99 and remained in force until 2002/03. The third corporate plan runs from 2008/09 to 2012/13.

The first wave of reform received extensive financial support from various development partners including the European Union, Germany, Sweden, the UK, the USA and World Bank. The thrust of the reform had to do with enhancing revenue and capacity. Under wave 1, besides increased levels of revenue collection, TRA reports the following results: (1) both the Board of Directors and Management Team were appointed; (2) buildings were rehabilitated and working tools upgraded; (3) a taxpayer identification number (TIN) system was established; (4) ASYCUDA++ was implemented; (5) the LTD was established in 2001 with an initial 100 taxpayers; and (6) the tax appeals system was unified.

Development partners continued to support the second wave of reform. However, pooled funding arrangements under the control of TRA were introduced instead of the project based approach use during the first wave. The second wave which ran from 2003/04 until 2006/07 sought to achieve five objectives: (1) to increase revenue collection in a cost effective way; (2) to integrate TRA operations; (3) to provide high quality and responsive customer services; (4) to promote tax compliance through a fair, equitable and transparent application of tax laws; and (5) to improve staff competence, motivation, integrity and accountability.
Wave 2 reforms contributed to the following key results: (1) increased revenue collections; (2) a growth in the large taxpayer population to 370; (3) systems improvements; (4) electronic tax payments and refunds through the Tanzania Inter Banking Settlement System; and (5) an enhanced tax refund system. In addition:

- In 2004, TRA started to consult stakeholders through a quarterly forum;
- In 2004, TRA introduced new risk based VAT refund arrangements “under which repayment claimants are separated into three categories (gold, silver and non-gold-silver)” which are subject to different checks (Child, 2008);
- A balanced scorecard (BSC) performance management system was introduced in 2006, aimed at “improving effectiveness and efficiency of the performance” at organisational and staff levels (TRA, 2008);
- Implementation of a Block Management System (BMS) which “focuses on the physical identification and mapping of taxpayers.” (TRA, 2008). As a result, in 2007/08, TRA registered an additional 13,300 new taxpayers.

The third corporate plan which is aligned to Tanzania’s development objectives underscores five goals during the third wave of reforms to run from 2008/09 to 2012/13. The goals under the third corporate plan are similar to those in wave 2 reforms. The implementation of wave 3 reforms is still underway. Some of the main achievements to date include the:

- Institutionalisation of risk management tax based operations such as: building specialist audit capacity in specific areas (e.g. construction, cash traders and tourism); self-assessment by large taxpayers; and risk assessment studies for risky sectors (e.g. petroleum, whole sale and retail);
- Attainment of the International Standards Organisation (ISO) 9001:2000 certification in October 2008. This certification will be valid until 2011;
- Implementation of a compliant traders scheme (CTS) for importers. As at 30 June 2008, around 60 traders had been registered under the CTS;
- Opening of seven Tax Centres in Dar Es Salaam to register taxpayers, assess and examine returns and collect revenue;
- Completion of a second time release study in 2009/10. The study was undertaken by various institutions involved in the tax clearance process.
Both tax and administrative reforms resulted in improved revenue performance in 1996/97, and from 2004/05 (see Section 3.1). However, revenue performance relative to GDP was not sustained throughout the period from TRA’s establishment (in 1995/96) up to 2007/08. Ndulu et al (2007) attribute this outcome to emanate “chiefly from fiscal corruption”. Excessive tax exemptions may also have significantly cancelled out the prospective impact of the reforms on tax revenue performance. The IMF (2003) concludes that government “overestimated the speed at which institutional capacities could be strengthened”. In addition, the same author suggests that “policy sequencing also contributed to the revenue decline…tariffs were lowered too quickly before compensatory tax broadening measures including a strengthened administration were in place”.

3 Domestic revenue performance

3.1 Domestic revenue performance trends

By fiscal year 1988/89, Tanzania’s domestic revenue as a percentage of GDP had declined to 9.9% (World Bank, 2002). Following the establishment of TRA, revenue performance did not meet expectations in the initial years. Even though between 1997/98 and 2002/03, actual collections against budget averaged 99%, tax revenue as a percentage of GDP hovered around 10.7% of GDP. Some of the reasons for this result are provided in Section 2.5.1. In addition, key informants to this study indicate that during this period GDP was revised upwards, lowering revenue to GDP ratios.

By 2007/08, Tanzania’s tax as a percentage of GDP had risen to 14.7%. However, non-tax revenues as a percentage of GDP remained consistently low from 1991/92 (1.6%) to 2007/08 (1.2%).

Figure 3.1: Tax and non-tax revenue as a percentage of GDP (1991/92 to 2007/08)

Source: Various IMF staff reports. Also see Annex C5: Table

Tax revenue between 1996/97 and 2007/08 grew at an average annual rate of 15.7%16. It is noteworthy, that the average annual revenue growth rate between 2004/05 and 2007/08 was even higher, at 20.9%. This increase was as a result of extensive reforms undertaken between 2003/04 and 2006/07 to broaden the tax base.

16 During that period, Tanzania mainland collections constituted over 95% of total tax collections in the United Republic of Tanzania.
The VAT was the best performing tax throughout the period from 1998/99 to 2007/08 (see Annex C: Table C6). It grew at an average annual rate of 22.9%. In 2007/08: VAT collection as a percentage of GDP was 4.6% (IMF, 2009a); and constituted 31.7% of total revenue collected on Tanzania mainland. It is noteworthy that raising the threshold for VAT registration from 2004/05, resulted in increase collection because: several traders actually increased their revenue declarations so as to be able to remain VAT registered (and thereby were able to reclaim VAT inputs); and there was the deregistration of traders below the threshold (where VAT input claims (were no longer reclaimable). However, there is a view that VAT’s contribution to tax effort would be much higher if there were fewer exemptions “and zero ratings since the original law was passed” (Nord et al, 2009).

Income tax revenues were the second largest contributor to domestic tax collections in the 11 years to 2007/08. Revenues grew at an average annual rate of 22.3% partly as a result of a buoyant macro-economic environment, increased coverage of large taxpayers, other efficiency gains in tax administration and pay rises particularly for public servants (IMF, 2004). In 2007/08: income tax revenue as a percentage of GDP was 4.3% (IMF, 2009a); and constituted 26.6% of total revenue collected on Tanzania mainland. By 2007/08, the best performing income tax was PAYE with a contribution of 14.8% of total revenue.

Tanzania is dependent on international trade taxes. In this regard, VAT on imports (19.0%), import (10.8%) and excise (7.8%) duties, and other import charges (4.0%) on average constituted 41.6% of total tax revenue collected on mainland Tanzania between 1996/97 and 2007/08. The combined average annual growth rate of import and excise duties and charges between 1996/97 and 2007/08 was 23.6%. However, the proportion of international trade revenue from import duty declined from 15.4% in 1996/97 to 8.8% in 2007/08 partly as a result of the reduction in trade tariffs.

3.2 Tax administration benchmarks

3.2.1 Performance efficiency

Cost of collection. Between 2003/04 and 2007/08, tax administration costs (excluding capital expenditure) as a percentage of revenue collected, averaged at around 3% a year (see Annex C: Table C2). During that period, tax administration costs as a percentage of tax revenue declined from 3.8% (2003/04) to 2.8% (2007/08), but grew at an average annual growth rate of 21.9%. The largest expenditure by far was on personnel emoluments, which on average consumed around 57% of the total budget. However, it is significant that the number of tax staff available for every 1,000 persons is 0.05. This ‘tax staff per population’ ratio is very
low compared to the World average of 0.82 but higher than the Sub-Saharan (SSA) average of 0.037\textsuperscript{17}.

**Organizational structure.** TRA is organised along functional lines. A Large Taxpayer Department (LTD) established in 2001, serves around 380 taxpayers (0.1\% of all taxpayers). The Domestic Revenue Department (DRD) provides services to all other domestic revenue taxpayers. DRD taxpayers are segmented into large\textsuperscript{18}, medium and small taxpayers. The 1,600 large taxpayers within the DRD are served by Large Taxpayer Units in 9 regions.

**Ease of paying taxes.** Going by the World Bank’s Doing Business Survey performance efficiency is quite low. The survey ranks Tanzania 131\textsuperscript{st} and 120\textsuperscript{th} out of 183 countries in terms of ease of doing business and paying taxes respectively\textsuperscript{19}. According to the World Bank’s 2010 Paying Taxes report, a company is required to make 48 payments a year which are much more than the SSA and OECD averages of 37.7 and 12.8 a year respectively.

**Tax arrears.** TRA has been fairly proactive in collecting tax debt. As at 30 June 2008, TRA reports that the Large Taxpayers’ Department and Domestic Revenue Department had collected 100\% and 68\% of the previous year’s debts as a percentage of the total amount of tax arrears at beginning of year respectively.

**VAT payment system.** Under TRA’s new VAT refund system 72\% of qualifying claims are paid within 30 days from the date of lodgement\textsuperscript{20}. However, Tanzania has a very low VAT gross compliance ratio of 27.0 in comparison with the World and SSA averages of 65.48 and 38.45 respectively (see Annex C: Table C10)\textsuperscript{21}. This low rate may be due to the significant number of exemptions. From an economic efficiency perspective, a moderate VAT rate with a broad consumption base and few exemptions is always preferred to a high rate with many exemptions. A low VATGCR is also associated with “weak compliance and enforcement” (Brondolo et al, 2008).

**Tax compliance.** Tanzania’s CIT revenue productivity (CITPROD) and personal income tax (PIT) productivity (PITPTOD) measures of 0.05 and 0.08 indicate that

\textsuperscript{17}  http://www.fiscalreform.net/index.php?option=com_wrapper&Itemid=132  [Accessed 2 February 2010].
\textsuperscript{18}  This is another segment of large taxpayers.
\textsuperscript{19}  http://www.doingbusiness.org/ExploreEconomies/?economyid=185  [Accessed 10 March 2010].
taxes are used less efficiently in generating revenue than World averages of 0.13 and 0.14 for CITPROD and PITPROD respectively. The Policy Forum (2009) attributes low productivity figures to ‘transfer pricing and trade mispricing’ especially by multinationals.

3.2.2 Allocative efficiency

Research and analysis undertaken by TRA suggests that the tax revenue effort could be considerably higher if: exemptions estimated at 20% of total tax revenue collections were eliminated. An analysis of the exemptions given between July 2008 and April 2009 indicates that a total of TShs 283.5 billion (US$ 180.7 million) or 48% of the total waivers was granted to Tanzania Investment Centre (TIC). Under the Tanzania Investment Act of 1997, TIC offers investors: import duty and VAT exemptions on project/capital goods; and refunds of duty charged on imported inputs used for producing goods for export and goods sold to foreign institutions under a duty draw back scheme. Similar incentives are offered in export processing and special economic zones. A 2008 assessment by the IMF (IMF, 2008) of this regime in Kenya and Tanzania asserts that investment incentives offered to firms in special economic zones “are not an important factor in attracting foreign investment”. Rather they create distortions and result in the loss of tax revenues.

Box 3.1: Quantifying the level of incentives and exemptions

Revenue loss arising from tax exemptions is estimated at TShs 587 billion (US$ 403 million) by the TRA between July 2008 and April 2009. Projects under the TIC accounted for the largest percentage of the total exemption. Other beneficiaries included state owned institutions, the Government of Zanzibar, religious and non-religious NGOs. In 2008 it is estimated that the government lost TShs 1.8 trillion (US$ 1.23 billion) or 6% of GDP through tax exemptions.

Source: Policy Forum (2009), TRA and author’s calculations

3.2.3 Performance equity

Tanzania has by regional comparisons progressive income tax rates for PIT ranging from 14% to 30% (effective 1 July 2010). Furthermore, government has steadily increased the lowest monthly personal income tax threshold from TShs 60,000 (about US$ 40) in 2005/06 to TShs 135,000 (about US$ 90) in 2009/10. GoT also reduced the lowest marginal tax rate from 18.5% in 2007/08 to 15% in 2008/09. In addition, in 2008/09, GoT widened the tax bands with the top tax rate of 30%

23 GoT has issued 29 licences to firms operating in such zones. In 2008 firms had exported products worth US$ 40 million, and employed around 6,522 people.
applying on income exceeding TShs 720,000 (about US$473) per month (previously TShs 540,000).

However, low income tax earners: are also compelled to pay excise duty for tobacco and alcohol to compensate for negative health externalities; and are subject to VAT which has some elements of regressivity. Specifically, whilst several goods and services are exempt from VAT, a study reports that as other inputs needed by farmers (e.g. transport) are not VAT exempt, this tax contributes to an increase in production costs of 10% to 20%. As a result “it has been claimed that the introduction of the VAT system is one of the main reasons why the realised economic growth has not benefited the poor” (OECD, 2007).

According to data from TRA’s Annual Report, as at 30 June 2008, 39 large taxpayers contributed 80% of tax revenues. However, the World Bank’s 2010 Paying Taxes report indicates that the ‘total tax rate’ as a percentage of profit of 45.2% compares to the OECD average of 44.5%, and is lower than the SSA average of 67.5% (see Annex C: Tables C11 and C12). Another indicator of the tax burden for corporate taxpayers has to do with the amount of time taken by taxpayers to comply with the major types of taxes. In this regard, the 2010 World Bank paying taxes survey indicates that the time taken by companies in Tanzania to comply with major taxes is 172 hours, which is much lower than the OECD and SSA averages of 194.1 hours and 306.0 hours respectively.

3.2.4 Performance effectiveness

In 2008 TRA’s tax effort of 71.6% improved considerably from 48.5% in 2001 (see Annex C: Table C14). In 2008, the tax gap also narrowed by 4.4 percentage points to 5.9% of GDP. Also, in 2008 Rwanda’s: tax effort of 61.4%was lower; and tax gap higher at 8.5% of GDP. However, significant scope remains to further reduce the tax gap and increase Tanzania’s tax effort.

3.3 Summary of overall trends

From the establishment of TRA in 1995/96 to 2007/08, Tanzania achieved a 2.7 percentage point increase in domestic revenue collections. Considerable gains were made by establishing the LTD. There has also been fairly rapid growth in revenues from VAT and income tax. However, the level of exemptions not only contributed to undermining efficiency and effectiveness of gains resulting from administrative reforms, but also to the substantial revenue loss, probably accounting for most of Tanzania’s tax gap.
4 Challenges and issues

Until the global economic crisis, Tanzania had made steady progress in DRM as reflected in its tax collections from to 2000/01 to 2007/08 (see Figure 3.1). The setback suffered in 2008/09 due to the impact of the global recession, is projected to be reversed in 2010/11. It is estimated that a tax to GDP ratio of at least 20% will be achieved by 2015. However, significant challenges will need to be overcome for this target to be attained and sustained in the long-term. The key challenges and issues are highlighted in the remainder of this chapter.

4.1 Ensuring the efficiency of tax incentives and exemptions

The evidence that that the study team gathered suggests that achieving efficiency in the tax system in Tanzania, especially through the reduction of tax exemptions, could raise the tax effort by several percentage points. However, as the reversal of the measures to remove tax exemptions announced by the Minister of Finance and Economic Affairs in his 2009/10 budget speech show, achieving efficiency may remain a major challenge in the foreseeable future. Some shift in socio-culture among the benefiting elite, political leaders and organisations will be necessary. Also, the strong will and commitment by the political leadership, is a pre-requisite to achieving this shift in culture.

4.2 Widening the tax base

Economic developments will take care of one aspect of widening the tax base. The more binding constraints appear to evolve around: (1) the absence of systems and mechanisms to reach many taxpayers because the Taxpayer Identification (TIN) system is not sufficiently robust and the national identification (ID) system is not yet in place; and (2) the limited knowledge of potential taxpayers who fall in the informal sector economy which in 2002/03 Schneider (2004) estimates contributed 60.2% of Tanzania’s GDP.

TRA and the government have initiated measures to address these challenges. For example, pending the implementation of an electronic based national ID card system, TRA is set to introduce a biometric system which will encompass automated finger printing identification to prevent the issue of more than one TIN to a taxpayer. Furthermore, TRA is due to commission a comprehensive study of the informal sector in Tanzania. These initiatives will serve to widen the tax base in the medium to long-term. Still, considerable and sustained efforts will be necessary before Tanzania’s tax base can be significantly broadened.
4.3 Effectively exploiting ICT to enhance efficiency

TRA has an array of initiatives to exploit ICT with a view to enhancing efficiency in tax administration. These include: the ASYCUDA++ for customs; ITAX and eFiling for domestic revenue; the computerised registration of motor vehicles and drivers; and the introduction of electronic cash registers for VAT, among others. These initiatives are at different stages of implementation. The effectiveness of these systems will however depend on building and maintaining the technical and professional capacity to operate and maintain the systems. Moreover, at present these systems are not being implemented using an integrated framework, because this approach poses technical and managerial challenges. Yet, in the absence of integration, the use of the systems will remain sub-optimal. In particular, it is difficult to have a single view of the taxpayer outside an integrated system.

4.4 Focusing reforms on strategic priorities

As with other autonomous revenue authorities (ARAs) in the region, TRA’s reform initiatives are strongly focussed on achieving state of the art electronically based systems. There is nothing inherently wrong with this orientation. However, in any organisation, it poses the challenge of ensuring that the reforms target strategic priorities. In this regard, for example, the Time Release Studies of 2005 and 2009 pointed out the need for reforms in customs clearance and a risk based approach to checking of documentation. But according to stakeholders, these reforms are yet to be given due attention. On a more general point of conjecture, it is not obvious that the correct balance has been struck between: the expansion of the tax base; compliance; and enforcement.

4.5 Building and sustaining management capacity

Some key informants to this study have shared the perspective that TRA is the paragon of excellence among Tanzania’s public sector institutions. There is no doubt that over its lifespan, TRA has achieved positive results in recruiting, developing and retaining particularly well qualified technical and professional personnel. Some of them have been seconded to key central government institutions, and in particular, the Ministry of Finance and Economic Affairs, and to good effect. Nonetheless, as the TRA’s management readily acknowledges, the challenge to recruit, retain and motivate high level professionals, lingers. This is the case because, although the TRA staff compensation system is delinked from that of the general public service, it is still sensitive to the evolving gap with the latter. Therefore the recruitment and retention of specialists in areas such as ICT, accounting and finance, audit, legal etc, which are critical for the effective implementation and maintenance of the new systems, remains a challenge.
4.6 Minimising corruption in tax collection
An independent external integrity and transparency review commissioned by TRA in 2007 concluded that the authority was well on its way to ensuring all the right building blocks are in place to enhance integrity in its organisation and curb unethical behaviour. However, the critical tasks for the authority are to ensure that the systems, policies, regulations and procedures are not only established but filter down throughout the organisation to be fully functional and effective (PwC, 2007). Nevertheless, the same review concluded that there seemed to be an endemic tax avoidance culture in Tanzania, and some of the TRA officials seem to encourage or fall victim to this culture. Therefore, continuous vigilance on the part of TRA’s leadership will be crucial in minimising corruption in tax collection.

4.7 Ensuring harmonised, systematic and policy led regional integration measures
Regional integration at both EAC Customs Union level and SADC are apparently predominantly politically driven initiatives. Evidently, many of the regional integration measures promulgated by regional political forums have been made before any rigorous assessment of both the feasibility of implementation, and DRM implications. Thus for example: (1) there is still a lot of haggling over common external tariffs (CETs) which were pronounced on the eve of the EAC Customs Union launch; (2) there is an absence of clarity on the appropriate classification of manufactured and semi-manufactured goods; (3) “the value of goods which [qualify] for exemptions and remissions has been growing” (Mugisa, 2009) ; and (4) weak and poorly coordinated controls over the rules of origin continue to pose major problems for all the ARAs in the EAC member states. Furthermore, in the case of Tanzania, there is the challenge of both policy and management of its membership in EAC and SADC. As Nord et al (2009) observe “overlapping memberships in… trade groupings will complicate harmonization; [and] common standards across different regional groupings”.

There is also the issue of exemptions. Although Tanzania is eligible under the EAC Customs Management Act to grant exemptions of import duty to promote the development of infant industries, the value of goods that qualified for exemptions increased in 2006 by 36% to US$1,225.9 million with an equivalent growth in revenue foregone of US$405.5 million. In this regard no monitoring mechanism is in place “to ensure that goods benefiting from exemptions are not exported” or that duty is paid in full (Mugisa et al, 2009).
5 Lessons of experience

The previous chapter highlighted the serious challenges that GoT and TRA will have to confront in order to sustain the performance of the past decade. The major lessons of experience that are outlined below must be read in that context.

5.1 Policy shifts can seriously disrupt revenue collection efforts

In the three years immediately following the introduction of the VAT and the abolition of the sales tax, revenue collections in Tanzania significantly declined. As previously observed, revenue as a percentage of GDP fell from about 13% in 1997 to about 8.5% in 2002 (see Figure 3.1). Therefore, it is critical to rigorously assess the implications of policy changes.

5.2 Participatory tax forums can support effective policy formulation

The GoT has adopted a comparatively participatory and transparent process of tax policy formulation. The Tax Forum and Tax Policy Think Tank, avail taxpayers a unique opportunity to effectively contribute to policy development. Independent policy think tanks, research institutions and tax advisory services firms are also active in this forum. Therefore, policy development is informed by a wide cross-section of resourceful players. In this regard, for example, civil society through these participatory forums contributed to the revision of the Income Tax Act of 2004 and VAT thresholds25.

5.3 The BMS is highly potent for widening the tax base and tax net

The pilot BMS initiative in Dar Es Salam by TRA was very successful in capturing new taxpayers and evaders (see Section 2.5.1). Hence the decision to roll-out the system across the whole country. This pioneering initiative has attracted the interest of other ARAs in the region.

5.4 Comprehensive and in-depth sector studies should inform risk management of tax based operations

TRA’s comprehensive and in-depth study of the construction, petroleum, wholesale and retail sectors have apparently yielded critical information and knowledge on how to go about risk management of tax based operations. In the absence of such knowledge, risk management is informed by guess work and therefore can not be

fully effective. For this reason, TRA plans to undertake such studies in other sectors including the informal sector.

5.5 Risk based profiling of VAT taxpayers for refunds enhances efficiency

TRA has exemplary performance in managing its VAT refunds, with a turnaround of payment within 30 days of lodgement of returns. This performance has been enabled by the introduction of taxpayer profiling in the categories of gold, silver and non-gold silver (see Section 2.5.1).

5.6 Tax incentives and exemptions can negate DRM results

TRA has made impressive progress in institutional capacity building and tax administration reforms. The impact of these reforms is not fully reflected in the outturns of tax effort and performance efficiency measures (see Sections 3.1 and 3.2.2). The main explanation for these shortfalls lies in tax exemptions and incentives. “Such incentives not only shrink the tax base but also complicate tax administration and are a major source of revenue resource leakage from the taxed economy” (Gupta and Tareq, 2008). As already pointed out in this paper, exemptions and incentives could account for up to 6% of GDP. Therefore, in targeting tax efforts, and the outcomes and impacts of tax reforms, it is appropriate to factor in the impact of tax incentives and exemptions.
Annex A: Key informants

Alan Kiula (Mr), Taxpayer Education, Tanzania Revenue Authority

Albert Birnbaum (Mr), First Secretary, Embassy of Denmark

Bohela Lunogelo (Dr), Executive Director, Economic and Social Research Foundation

Christian Karstensen (Mr), First Secretary-Governance/Political Issues, Embassy of Denmark

David Robinson (Mr), Senior Resident Representative, International Monetary Fund

Diana Masalla (Ms), Manager, Taxpayer Education, Tanzania Revenue Authority

Joannes Mally (Mr), Commissioner for Domestic Revenue Department, Tanzania Revenue Authority

Jos Verbeek (Mr), Lead Economist, The World Bank

Mary Ngelela Maganga (Ms), Planning and Modernisation Programme Manager, Tanzania Revenue Authority

Mugisha Kamugisha (Mr), Tanzania Revenue Authority

Otieno Igogo (Mr), Chairman, Tanzania Taxpayers Association

Steven Lee (Mr), Senior Economist, Department for International Development

Tonedeus Muganyizi (Mr), Director of Research and Policy, Tanzania Revenue Authority

Vitalis Mbilinyi (Mr), Assistant Research Fellow, Economic and Social Research Foundation
Annex B: Bibliography


Tanzania Revenue Authority (No date) *Annual Report for 1996/97*, TRA.

Tanzania Revenue Authority (No date) *Annual Report for 2004/05*, TRA.

Tanzania Revenue Authority (No date) *Annual Report for 2005/06*, TRA.

Tanzania Revenue Authority (No date) *Annual Report for 2007/08*, TRA.


Annex C: Select indicators

### Table C1: Tax policy – Maximum marginal tax rates (1999/00 to 2009/10)

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>PIT</th>
<th>CIT</th>
<th>VAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999/00</td>
<td>30%</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>2000/01</td>
<td>30%</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>2001/02</td>
<td>30%</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>2002/03</td>
<td>30%</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>2003/04</td>
<td>30%</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>2004/05</td>
<td>30%</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>2005/06</td>
<td>30%</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>2006/07</td>
<td>30%</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>2007/08</td>
<td>30%</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>2008/09</td>
<td>30%</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>2009/10</td>
<td>30%</td>
<td>30%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Source: TRA

### Table C2: Tax administration costs (2003/04 to 2007/08)

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Operating cost (TShs)</th>
<th>Operating cost as a % of tax revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003/04</td>
<td>48,125,283,052</td>
<td>3.8%</td>
</tr>
<tr>
<td>2004/05</td>
<td>49,678,317,135</td>
<td>2.9%</td>
</tr>
<tr>
<td>2005/06</td>
<td>66,515,154,779</td>
<td>3.3%</td>
</tr>
<tr>
<td>2006/07</td>
<td>85,859,315,095</td>
<td>3.2%</td>
</tr>
<tr>
<td>2007/08</td>
<td>95,554,407,260</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

Source: Various TRA annual reports

### Table C3: Ratio of tax staff per population (TAXSTAFF)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Tanzania’s measure</th>
<th>World’s measure</th>
<th>SSA’s measure</th>
<th>Low income economies’ measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAXSTAFF</td>
<td>0.05</td>
<td>0.82</td>
<td>0.37</td>
<td>0.20</td>
</tr>
</tbody>
</table>


### Table C4: National government revenue, debt and deficit as a percentage of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Budget deficit before grants</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991/92</td>
<td>14.1%</td>
<td>-1.7%</td>
</tr>
<tr>
<td>1992/93</td>
<td>10.6%</td>
<td>-9.1%</td>
</tr>
<tr>
<td>1993/94</td>
<td>12.0%</td>
<td>-5.8%</td>
</tr>
<tr>
<td>1994/96</td>
<td>12.5%</td>
<td>-5.9%</td>
</tr>
<tr>
<td>Year</td>
<td>Revenue</td>
<td>Budget deficit before grants</td>
</tr>
<tr>
<td>--------</td>
<td>---------</td>
<td>------------------------------</td>
</tr>
<tr>
<td>1995/96</td>
<td>13.2%</td>
<td>-4.4%</td>
</tr>
<tr>
<td>1996/97</td>
<td>13.5%</td>
<td>-1.6%</td>
</tr>
<tr>
<td>1997/98</td>
<td>12.2%</td>
<td>-2.9%</td>
</tr>
<tr>
<td>1998/99</td>
<td>11.3%</td>
<td>-3.4%</td>
</tr>
<tr>
<td>1999/00</td>
<td>11.3%</td>
<td>-7.8%</td>
</tr>
<tr>
<td>2000/01</td>
<td>12.0%</td>
<td>-5.3%</td>
</tr>
<tr>
<td>2001/02</td>
<td>11.8%</td>
<td>-5.4%</td>
</tr>
<tr>
<td>2002/03</td>
<td>12.1%</td>
<td>-7.8%</td>
</tr>
<tr>
<td>2003/04</td>
<td>12.9%</td>
<td>-9.1%</td>
</tr>
<tr>
<td>2004/05</td>
<td>13.3%</td>
<td>-11.1%</td>
</tr>
<tr>
<td>2005/06</td>
<td>12.5%</td>
<td>-10.3%</td>
</tr>
<tr>
<td>2006/07</td>
<td>14.1%</td>
<td>-8.9%</td>
</tr>
<tr>
<td>2007/08</td>
<td>15.9%</td>
<td>-6.9%</td>
</tr>
</tbody>
</table>

Sources: Various IMF staff reports

Table C5: Total budgeted tax and non-tax revenue as a percentage of GDP (1991/92 to 2007/08)

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Tax revenue</th>
<th>Non-tax revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991/92</td>
<td>12.5%</td>
<td>1.6%</td>
</tr>
<tr>
<td>1992/93</td>
<td>9.5%</td>
<td>1.1%</td>
</tr>
<tr>
<td>1993/94</td>
<td>11.0%</td>
<td>1.1%</td>
</tr>
<tr>
<td>1994/96</td>
<td>11.3%</td>
<td>1.2%</td>
</tr>
<tr>
<td>1995/96</td>
<td>11.3%</td>
<td>1.9%</td>
</tr>
<tr>
<td>1996/97</td>
<td>12.1%</td>
<td>1.4%</td>
</tr>
<tr>
<td>1997/98</td>
<td>11.1%</td>
<td>1.0%</td>
</tr>
<tr>
<td>1998/99</td>
<td>10.1%</td>
<td>1.2%</td>
</tr>
<tr>
<td>1999/00</td>
<td>10.1%</td>
<td>1.2%</td>
</tr>
<tr>
<td>2000/01</td>
<td>10.7%</td>
<td>1.3%</td>
</tr>
<tr>
<td>2001/02</td>
<td>11.0%</td>
<td>1.2%</td>
</tr>
<tr>
<td>2002/03</td>
<td>11.0%</td>
<td>1.1%</td>
</tr>
<tr>
<td>2003/04</td>
<td>11.7%</td>
<td>1.1%</td>
</tr>
<tr>
<td>2004/05</td>
<td>12.2%</td>
<td>1.2%</td>
</tr>
<tr>
<td>2005/06</td>
<td>11.5%</td>
<td>1.2%</td>
</tr>
<tr>
<td>2006/07</td>
<td>13.0%</td>
<td>1.1%</td>
</tr>
<tr>
<td>2007/08</td>
<td>14.7%</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

Source: Various IMF staff reports

Table C6: Composition of national government tax revenues (1996/97 to 2007/08)
In 1996/97 and 1997/98 the sales tax was in force not VAT.
Here is the text representation of the document:

| Produce cess | 17,196,826,821 | 18,533,415,691 | 23.2 |
| Service levy | 15,710,711,169 | 19,049,030,343 | 23.9 |
| Guest house levy | 1,616,126,009 | 1,572,255,283 | 2.0 |
| Licenses | 5,669,251,339 | 5,400,312,870 | 6.8 |
| Fees, permits & charges | 13,235,667,166 | 13,250,323,825 | 16.6 |
| Other own revenues | 16,337,214,118 | 14,694,384,575 | 18.4 |
| **Total own revenues** | **80,136,598,991** | **79,770,210,999** | **100.0** |

As a percentage of central government tax revenues: 2.4%

**Table C9: Amount of previous year's arrears collected as a percentage of total amount of tax arrears at beginning of year**

<table>
<thead>
<tr>
<th></th>
<th>2002/03</th>
<th>2003/04</th>
<th>2004/05</th>
<th>2005/06</th>
<th>2006/07</th>
<th>2007/08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large taxpayers:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount of previous year's arrears collected/Total amount of tax arrears at beginning of year</td>
<td>49%</td>
<td>15%</td>
<td>33%</td>
<td>83%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: TRA Annual Reports

**Table C10: CIT and PIT revenue productivity and VAT gross compliance ratio (2008/09)**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Tanzania’s measure</th>
<th>World’s measure</th>
<th>SSA’s measure</th>
<th>Low income economies’ measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>CITPROD</td>
<td>0.05</td>
<td>0.13</td>
<td>0.09</td>
<td>0.08</td>
</tr>
<tr>
<td>PITPROD</td>
<td>0.08</td>
<td>0.14</td>
<td>0.08</td>
<td>0.07</td>
</tr>
<tr>
<td>VATGCR</td>
<td>27.00</td>
<td>65.48</td>
<td>42.3</td>
<td>38.45</td>
</tr>
</tbody>
</table>


**Table C11: World Bank Doing Business indicators on the tax burden (Tanzania only)**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>Tanzania’s global ranking</td>
<td>-</td>
</tr>
<tr>
<td>Number of tax payments a year</td>
<td>48</td>
</tr>
<tr>
<td>Time taken to comply with the major tax types</td>
<td>172</td>
</tr>
</tbody>
</table>


**Table C12: World Bank Doing Business indicators (2010) on the tax burden (Tanzania vis-à-vis the OECD and SSA)**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Region</th>
</tr>
</thead>
</table>

36
<table>
<thead>
<tr>
<th></th>
<th>Tanzania</th>
<th>OECD</th>
<th>SSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of tax payments a year</td>
<td>48</td>
<td>12.8</td>
<td>37.7</td>
</tr>
<tr>
<td>Time taken to comply with the major tax types</td>
<td>172</td>
<td>194.1</td>
<td>306.0</td>
</tr>
<tr>
<td>Total tax rate as % of profit</td>
<td>45.2%</td>
<td>44.5%</td>
<td>67.5%</td>
</tr>
</tbody>
</table>


### Table C13: Growth of registered taxpayers (2002/03 to 2007/08)

<table>
<thead>
<tr>
<th>Registered for</th>
<th>Total number</th>
<th>Percentage increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>TIN</td>
<td>190,000</td>
<td>259,794</td>
</tr>
<tr>
<td>VAT</td>
<td>13,634</td>
<td>15,320</td>
</tr>
</tbody>
</table>

Source: TRA Annual Reports

### Table C14: Tax gap and tax effort for select EAC countries and South Africa (select years)

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Tax revenue (A)</th>
<th>Estimated potential tax revenue (B)</th>
<th>Tax gap (B) – (A)</th>
<th>Tax effort (A)/(B) as a %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>As a % of GDP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kenya</td>
<td>2001</td>
<td>17.8</td>
<td>20.8</td>
<td>3.0</td>
<td>85.5</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>18.6</td>
<td>20.6</td>
<td>2.0</td>
<td>90.5</td>
</tr>
<tr>
<td>South Africa</td>
<td>2001</td>
<td>24.8</td>
<td>26.7</td>
<td>1.9</td>
<td>92.9</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>27.4</td>
<td>27.0</td>
<td>-0.4</td>
<td>101.4</td>
</tr>
<tr>
<td>Rwanda</td>
<td>2001</td>
<td>10.7</td>
<td>20.9</td>
<td>10.2</td>
<td>51.2</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>12.2</td>
<td>21.4</td>
<td>9.9</td>
<td>57.0</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>13.5</td>
<td>22.0</td>
<td>8.5</td>
<td>61.4</td>
</tr>
<tr>
<td>Tanzania</td>
<td>2001</td>
<td>9.7</td>
<td>20.0</td>
<td>10.3</td>
<td>48.5</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>11.2</td>
<td>20.5</td>
<td>9.3</td>
<td>54.4</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>15.0</td>
<td>20.9</td>
<td>5.9</td>
<td>71.6</td>
</tr>
<tr>
<td>Uganda</td>
<td>2001</td>
<td>10.4</td>
<td>19.2</td>
<td>8.8</td>
<td>54.3</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>11.8</td>
<td>19.5</td>
<td>7.8</td>
<td>60.3</td>
</tr>
</tbody>
</table>

Source: IMF (2009b)
Annex D: Changes to the administrative systems at TRA

In 2004/05 TRA developed an information systems policy and strategy to guide its modernisation effort. Since then, TRA has introduced the following information systems:

- The Automated System for Customs Data ++ (ASYCUDA++) in customs for direct trader input. In addition, to support the effective sharing of information and intelligence between the revenue authorities of the EAC, in 2007/08 TRA commenced with the implementation of the Revenue Authority Digital Data Exchange (RADDEX) system. RADDEX is operational in Kenya, Rwanda and Uganda, and being piloted in Burundi;

- An automated Central Motor Vehicle Registration System (CMVRS);

- ITAX (a bespoke system) in domestic revenue, which has been strengthened and enhanced over the years. ITAX is used for: revenue accounting and reporting; debt management; audit; electronic registration of taxpayers; and more recently electronic filing (eFiling)\(^{27}\). In its 2007/08 annual report, TRA reports that it received around 1,500 taxpayers’ VAT returns through the eFiling system. In 2008/09, the total number of electronic submissions rose to around 4,300;

- To support management of its finances and human resource function TRA uses Epicor and PEODESY systems respectively;

- To manage storage and retrieval of data collected for each of the measures, TRA has developed the TRA Monitoring and Evaluation Database (TRAMED);

- To inform policy analysis and research, a data warehousing system with data from ASYCUDA++, CMVRS, ITAX, Peodesy, and Epicor has been developed.

\(^{27}\) In its 2007/08 annual report, TRA reports that it received around 1,500 taxpayers’ VAT returns through the eFiling system. In 2008/09, the total number of electronic submissions rose to around 4,300.
- All regional offices are able to access systems through an integrated data communication network.

TRA has in place a five year corporate plan with clear goals, strategies and specific balanced scorecard measures of performance. To manage storage and retrieval of data collected for each of the measures, TRA has developed the TRA Monitoring and Evaluation Database (TRAMED). In addition, to inform policy analysis and research, a data warehousing system with data from ASYCUDA++, CMVRS, ITAX, Peodesy, and Epicor has been developed.
## Annex E: Glossary of definitions of select terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>CITPROD</td>
<td>CITPROD indicates how well CIT does in terms of producing revenue, given the prevailing tax rate. It is calculated by dividing total corporate income tax revenues by GDP and then dividing this by the general corporate income tax rate.</td>
</tr>
<tr>
<td>PITPROD</td>
<td>PITPROD attempts to provide an indication of how well the personal income tax in a country does in terms of producing revenue. It is calculated by taking the actual revenue collected as a percentage of GDP, divided by the weighted average PIT rate.</td>
</tr>
<tr>
<td>Tax effort</td>
<td>Actual tax revenue as a percentage of estimated potential tax revenue</td>
</tr>
<tr>
<td>Tax gap</td>
<td>The difference between estimated potential tax revenue and actual tax revenue</td>
</tr>
<tr>
<td>VATCGR</td>
<td>This is a measure of how well the VAT produces revenue for the government. It is computed by dividing VAT revenues by total private consumption in the economy and then dividing this by the VAT rate.</td>
</tr>
</tbody>
</table>