POLICY FORUM'S TAX JUSTICE WORKING GROUP PROPOSALS FOR FINANCIAL YEAR 2022/23

policy forum

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Proposed Base Broadening Tax Reforms in light of the Preparation of 2022/23 National Budget

In developing countries like Tanzania, and mostly due to rapid population increases, there is an increased urgency to improve on mobilisation of domestic resources for vital service delivery. Improved mobilisation of domestic resources is core towards realisation of the Sustainable Development Goals and is recognised as crucial in enabling developing countries to graduate from aid. The need to raise more tax and strengthen revenue mobilisation in most countries, especially developing ones like Tanzania is therefore an important component in the process of realising the SDGs.

Taxes are used to fund various government activities including social goods and service delivery to secure livelihoods of citizens and mitigate inequalities. With Tanzania's tax-to-GDP ratio standing at a mere 12% not only is this well below the sub-Saharan average, but it is also well below the minimum threshold of 15% considered necessary to finance even the most basic of state functions such as health and education. Thus, increasing tax-to-GDP ratios by 5% in the medium-term (around five years) would be an ambitious, yet realistic way forward.

While we commend the existing efforts including digitalization of the tax systems, enhancing the capacity of tax administrators and improved taxpayers' education In Tanzania, we also believe that much more can be done to increase the tax base and bring in more taxpayers and at the same time put in place strategies that prevent loss of revenues from the existing sources. This submission calls for the Government to consider addressing the issues raised in this document to help increasing revenues from domestic sources and improve State's ability to implement its development projects.

Proposed Base Broadening Tax reforms in light of the Preparations of 2022/23 National Budget

No.	Issue	Proposed Changes & Affected Stakeholders	Rationale	Impact on Economy	Alternatives in Case of Revenue Loss
1.	Narrow tax base which places a burden on few taxpayers.	Hardly 10% of Tanzanians are registered taxpayers and as such Tanzania has a narrow tax base. Consider expanding the tax base; 1. TRA should target to identify and register about 7.5 million taxpayers which is equivalent to 50% of the potential taxpayers. 2. Equip our revenue authority/administrations with appropriate knowledge and tools to raise revenues in hard-to-tax sectors and keep reducing the size of the informal sector/economy. 3. TRA should consider registering all informal businesses worth to be registered 4. Minimum threshold of employment income not liable to tax per month should now be marginally taxed rather than not taxing them completely. This will also give them proper mandate to demand accountability over the use of their money.	Tanzania is currently estimated to have a population of 60 million people. According to the Tax Statistics Report of Tanzania Mainland of 2017/18 by the National Bureau of Statistics, only 2.7 million people are registered taxpayers by 2017/18, representing less than 2% of the population. While corporate taxes contributed about 30% of all direct taxes, Pay As You Earn (PAYE) contributed to over	This is expected to bring in more revenue while also reducing the burden on those who are heavily taxed and thus ensuring fairness in taxation.	N/A

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		5. Introducing a fee for Special Phone Number or call.	44% of all direct taxes in 2017/18. It is widely known that the taxes have been a burden to workers in the country as they are high and the number of those taxed is small carrying a burden of the many that are outside the formal structures. All this is because, not all businesses that operate in the country are taxed. As a result, those that are in the tax net are heavily taxed.		
2.	Low level of Voluntary Compliance	1. Tax education should also be reformed within government tax bodies to emphasize that we are trying to tax the informal sector to help them grow, not just to eat away from their profits. 2. Increase taxpayers' voluntary compliance with tax laws through outreach and education	Field observations have confirmed that most Tanzanians are ignorant about what and why paying tax and what are their rights in paying tax. There are claims that, penalties have been	Broadened tax base/increased number of entities/enterprises/individuals paying tax. Promote voluntary compliance among taxpayers.	

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		to increase collection and address informality. 3. Tax knowledge should be a cultural shift – this means introducing the importance of paying tax into our education system (from primary school national curriculum). 4. There should be a department within Tanzania Revenue Authority (TRA) that deals specifically with Taxing SMEs and the informal sector. 5. There needs to be a compliance department at the local government level that links with this SMEs department at TRA. This compliance department will serve as a certification method for SMEs.	imposed to taxpayers for what is unknown to them and thus creating an antagonistic kind of relationship between tax authorities and taxpayers. Had they been taught before, such claims would have not been there. Online education should not be relied upon as an effective way of educating masses of taxpayers about tax matters. Currently, the online revenue system is not yet fully user friendly and accessible to some taxpayers, thus making it difficult to pay taxes.		
3.	Harmful Double Taxation	EITHER; The existing 9 active DTAs should be renegotiated.	Our DTAs are long overdue for review, renegotiating and or	• Narrow treaty network that leads to loss of tax	

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	Agreements (DTAs)	Some tax treaties should be reviewed and exited. DTAs are made up of a list of articles. Articles that deal with general/specific definitions on PERMANENT ESTABLISHMENT need to be reviewed and amended. Currently the existing DTAs define permanent establishment that: An enterprise of a Contracting State shall not be deemed to have a permanent establishment in the other Contracting State merely because it carries on business in that other State through a broker, general commission agent or any other agent of an independent status, where such persons are acting in the ordinary course of their business. However, when the activities of such an agent are devoted wholly or almost wholly on behalf of that enterprise, he would not be considered an agent of an independent status within the meaning of this paragraph. This is equivalent to saying "Don't tax me	termination for the benefit of the country in boosting revenue collection. All are based on tax laws which developed in an era very different from our own benefitting residence countries at the expense of source countries.	revenue through tax planning by various MNCs. • Boost in tax revenue because if renegotiated, these treaties will have the potential to include particular types of income earned in the source country (Tanzania) by residents of the other signatories from taxation there.	

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		when I do business with Tanzanians, but Tax me when I do business in Tanzania." Studies have suggested that such clauses/provisions: exclude particular types of income earned in the source country (Tanzania) by residents of the other signatory from taxation there. For instance, the lower rates in the treaty with Zambia potentially cause a loss of $34,560 a year due to this treaty provision. Source: Sealing the Gap (Action Aid TZ, 2021), Lifting the Veil: African Perspectives on International Taxation and Capital Flight (Tax Justice Network et al, 2017)			
4.	Limited transparency and accountability in the extractive sector including non-disclosure/publication of	Publication of Legal Agreements: We welcome improved transparency and accountability in the extractives industry brought by the Finance Act, 2020. The Act introduced commendable changes in the Companies Act, the Trustees Incorporations Act, the Anti-Money Laundering Act and the Income Tax Act by establishing Beneficial Ownership (BO) rules which came concurrently with the	The limited transparency in the mining sector has led to government's failure in effectively mobilising revenue from the extractives sector.	Increased revenue from the extractive sector.	

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	tax exemptions and contracts/agreements.	publication of Transfer Pricing guidelines issued by TRA aimed at issuing formal guidance on how to apply Regulation 16 of the Tax Administration (Transfer Pricing) Regulations 2018. However, we are of the view that the Government should place more emphasis to ensure that all legal agreements related to the mineral sector are publicly disclosed and made available online and Tax laws re- viewed to include Production Sharing Agreements (PSAs) and other taxes, duties, levies or other lawful impositions in the extractive sector. The Government should enhance Parliamentary scrutiny of all contracts and terms to promote transparency in the management of the mining sector. This will also promote public participation through MPs as representatives of the people.			
5.	Mobile Money Transfer Levy	Either, Remove mobile money transfer levy as it	The levy has proved to discourage the use of	The removal of the levy will encourage	N/A

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		poses double taxation and significantly discourages digital economy which ought to be our priority as technology advances. Or, The levy to be applied to only one party and not both parties.	mobile phones in transacting and thus reversing the progress made in discouraging cash system. Also, a good number of youths is engaging in this business and therefore its downfall will add up to the already existing problem of unemployment in the country.	usage of mobile money transactions and discourage cash system. Increase in the use of mobile money services also implies more revenue to mobile companies which in turn pay taxes and more income to those engaged in the business especially the youth. The government is therefore going to gain both directly and indirectly if it adopts this recommendation.	
6.	High cost of Licensing Fees & Levies	Licensing fees such as the Online Content Licensing Fees made under the Electronic and Postal Communications (Licensing) Regulations, G.N No. 57 of 2018 should be reduced in order to encourage more Tanzanians to engage in online broadcasting. Currently, Regulation 14 of	The rationale behind the proposed changes is to encourage more Tanzanian's, most notably the youth, to engage in online content production and	Lowering of the licensing fees will encourage more Tanzanians to engage in online content production. More production houses will	The reduction in the cost of licensing fees will bring about an increment in online content creators thus creating a wider

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		G.N No. 57/2018 provides that in order to provide online content to the public one must pay a license fee of 1,000,000 as well as an application fee of 100,000. This should be lowered to the bare minimum while other core commercial services such as VSAT link licenses could be raised as their users tend to be MNC's or tier one Tanzanian business.	as such make ends meet. More participants in the industry will eventually mean more taxpayers. The rest of the world has seen a surge in income earning content creators. Online platforms helped 17 million Americans earn a total of $6.8 billion in 2017. This industry has the prospect of exponential growth in states with a young populace such as Tanzania with a higher percentage of youth as compared to the United States of America.	mean more employment especially among the youth, and subsequently poverty alleviation.	tax base and, eventually, make a larger and more sustainable source of tax as these content creators will pay other relevant taxes such as income tax.
7.	Tax on Casinos, Gaming or Betting	Amend Gaming Tax Act, Cap 41 by increasing Winning Tax on all Sports Betting from 15% to 25%.	Betting is addictive. First-timers are confident in their ability to control betting spending.	This will enable the government to gain more revenue while at the same time discouraging young	

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			However, peer pressure and the get-rich-quick appeal are proven psychological ingredients to serious addiction. Africa is one of the rapidly growing online betting markets in the world. It's no surprise that top betting sites are now operating in African countries like Tanzania. About 30 betting sites now operate in Tanzania and many youths seem to be attracted to the business which is likely to turn the country a haven for gamblers and thereby putting many professional carriers at risk.	people from engaging in betting.	

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			The 15% charged on winnings is low and cannot effectively discourage young people from engaging in betting. (For example, in 2017, Kenya upped their tax percentage rate to 35% with hopes of helping young people pursue career choices other than gambling.)		

List of Organisations

We, the undersigned;

1. Policy Forum (PF)
2. Action Aid Tanzania (AATz)
3. Youth Partnership Countrywide (YPC)
4. Open Mind Tanzania (OMT)
5. Agenda Participation Initiative (API)
6. Interfaith Standing Committee on Economic Justice and Integrity of Creation (ISCEJIC)
7. Tanzania Education Network (TENMET)
8. Tanzania Youth Vision Association (TYVA)
9. Community Development For All (CODEFA)
10. Governance and Economic Policy Centre (GEPC)
11. Tanzania Coalition on Debt and Development (TCDD)
12. Friedrich Ebert Stiftung (FES)
13. Restless Development
14. ACTIVISTA