policy forum

Tanzania Tax Justice Coalition Position Statement on the 2019/20 National Budget

Preamble

Tanzania like many other developing countries has in the recent years realised and appreciated the importance of Domestic Resource Mobilisation (DRM) specifically the need to reduce reliance on foreign aid and sustain her development financing through own resources.

The role of tax systems in driving DRM for development, and the importance of developing genuine country voice and participation in setting the rules for international tax cooperation are themes that are on top of the global agenda for development financing.

Tax raises revenue that is essential for funding basic public services and national development goals and is at the heart of the social contract between citizens and state.

The tax system can directly reduce inequality by redistributing income from rich to poor, by taxing the rich more heavily and giving the government revenues to spend on public services.

We, the members of the Tanzania Tax Justice Coalition, a loose coalition of Civil Society Organizations interested in advocating for a reliable, just and transparent tax system in Tanzania, would like to share our views on the current trend in domestic revenue mobilization and suggest alternative options that could be adopted to further reduce donor dependency through effective mobilization of domestic resources.

We continue to boldly commend the fifth phase government's drive to mobilize adequate financial resources domestically and welcome its forward-looking in this area with the President's constant emphasis on taxpayers' compliance.

The recently introduced and ongoing exercise of identifying and registering of petty traders by providing them with special identity cards manifests this commitment by the government to both bring more people into the tax net and improving the business environment.

As Civil Society Organisations that have been advocating for fairness in taxation, we recommend the recent move by the government to terminate its bilateral investment treaty with the Netherlands. Several studies including a recent study on Double Taxation Agreements entered by Tanzania with India and South Africa conducted by Policy Forum indicate that in most cases our country does not benefit from these agreements as the terms in the agreements to a large extent favor capital exporting country over capital importing countries. We therefore call for review of the existing agreements and making sure that before signing any new agreement, a thorough analysis is done to determine the costs and benefits.

While appreciating the efforts invested in revenue collection, we would want to urge our revenue authority to invest more in measures that will strengthen mobilization of adequate resources.

According to the Report by the Controller and Auditor General for the year that ended June 2018, Tanzania ranks last in revenue collection in the East African region. In 2017/18 budget, Tanzania managed to collect 12.8% of the

Details	Financial years [All figures in TZS Million]				
	2013/14	2014/15	2015/16	2016/17	2017/18
Targeted Collections	10,957,001	12,078,015	13,220,252	15,293,899	17,365,052
Actual Collections	10,026,659	10,743,765	13,238,045	14,271,382	15,405,441
(under)/over collection	(930,342)	(1,334,250)	17,793	(1,022,517)	(1,959,611)
(under)/over collection in %	(8)	(11)	0.13	(6.69)	(11.28)
Tax-Yield (Tax/GDP)					
Tanzania	12.5%	11.6%	12.9%	13.2%	12.8%
Uganda	11.3%	12.3%	12.8%	14.0%	14.2%
Kenya	19.1%	18.7%	18.8%	19.3%	18.5%
Rwanda	14.9%	15.1%	16.1%	15.2%	15.8%
Burundi	13.6%	13.7%	13.0%	13.4%	13.0%

Table 1: Trend of revenue collection for Tanzania and other EAC countries from 2013/14 to 2017/18

We would want to reiterate the fact that the informal sector in Tanzania has for so many years posed a challenge when it comes to tax. The sector is quite large characterized by high level of under-regulation by the government, cash transactions and improper-record keeping, which has often gone untaxed hence subjecting a higher tax burden on the few within the formal sector. As a result of these problems, the informal sector has been very complex to tax.

Furthermore, the informal sector tax challenges entail that little or none of the income generated in the informal sector is transferred to the government in form of tax. Therefore, a very high percentage of potential tax revenue is unaccounted for.

This in a way contributes to inequality because the informal sector partly constitutes High Net worth Individuals (HNWIs) whose incomes are not often subjected to tax. Also, those subjected to presumptive tax may at times be taxed higher than what they earn and thus making the presumptive tax regime unfair, too.

Issues to consider in the 2019/20 Budget

With the discussions of the 2019/20 budget having started, it is important to keep in mind that the current Five-Year Development Plan (FYDP II 2016/17 to 2020/21) whose theme is 'Nurturing Industrialisation for Economic Transformation and Human Development' will be coming to an end in the next financial year (2020/21). Not long after this, the longer-term plan Vision 2025 whose aspiration is that of transforming the economy into middle income and semi-industrialised state, will as well be concluded.

The 2018/19 budget as has been with previous financial years, has seen challenges in revenue collection which in turn has affected disbursement levels and this ultimately has contributed to low level of budget execution. It is imperative that the 2019/20 budget takes some serious measures that will help in enhancing domestic revenue collection by improving the business climate that will attract and retain more investments.

Domestic Revenue

According to the report by the Controller and Auditor General for the year ending June 2018, the government managed to collect TZS 27,696 billion for its 2017/18 budget. This represents 87% revenue collection performance from both domestic and foreign sources.

This revenue collection was realised from tax revenue, non-tax revenue, domestic borrowing, grants, external concessional loans and external non concessional loans at the rate of 89%, 55%, 92%, 88% 89% and 109%, respectively.

While the government had planned to collect TZS 20,894.6 billion as domestic revenue in its 2018/19 budget, until January 2019 it had collected over 50% of the target (TZS 11,005.6 billion).

On the other hand, during the same period grants and concessional loans had been received to the tune of TZS 125.4 billion, which is only 5% of the target (TZS 2,676.6 billion).

Despite this low level of disbursement under loans and concessional loans, total donor contribution in the 2019/20 budget is expected to slightly increase by 3.8% from TZS 2,676.6 billion in 2018/19 to TZS 2,783.7 billion in 2019/20.

For the past three years, (2016/17 to 2018/19), tax revenue has remained the only source of funding that has been performing well compared to others.

External borrowing, assistance and General Budget Support have, on the other hand not been performing so well, calling for strategic measures of improving domestic resource mobilisation. In the 2016/17 budget of TZS 29.5 trillion, for instance, the government managed to collect TZS 25.3 trillion with tax revenue collecting over 90% of the target and external borrowing, assistance and General Budget Support contributing 53.5% of the target.

Tax revenue has over the years seen consistent growth in

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both as share in the budget and in collection. Generally, tax revenue constitutes over 50% of the funding. Other sources of funding (non-tax revenue, domestic and foreign borrowing and grants and concessional loans) to the budget show an inconsistent pattern. Table 1 shows the contribution of different sources to the budget over the period under review.

Year	Tax Revenue (bil)	Non tax Revenue (bil)	Domestic & External Borrowing	Grants and Concessional loans (bil)	Total Budget (bil)
2016/17	15,105.1	3,358.4	5,374.3	5,701.8	29,539.6
2017/18	17,106.3	2,870.7	7,763.9	3,967.1	31,708.0
2018/19	18,737.0	2,158.8	8,904.7	2,676.6	32,477.1
2019/20	19,866.4	3,178.9	7,276.4	2,783.7	33,105.4

Table 1: Sources of Funding from 2016/17 to 2019/20

Of much interest in this upcoming national budget is the government intention to source about 70% from domestic revenues in the form of tax and non-tax revenue. Domestic revenues are expected at TZS 23.0 trillion; with tax revenue, non-tax revenue and LGAs own sources contributing TZS 19.1 trillion, TZS 3.2 trillion and TZS 0.8 trillion, respectively.

Donor contribution in the 2019/20 budget in the form of grants and concessional loans is expected to be only TZS 2.8 trillion. External and internal borrowing is expected at TZS 7.3 trillion with TZS 2.3 trillion, TZS 1.5 trillion and TZS 3.5 trillion as external borrowing, internal borrowing and internal rollover loan, respectively. Total contribution by donors (including grants and concessional loans and external borrowing) is therefore expected at 15% of the total government's budget, a commendable and bold move by the government manifesting the political will and commitment to reduce dependence in financing development.

Attracting new investments

The government should invest more in other measures to attract Foreign Direct Investment FDI and winning investor confidence instead of heavily relying on double tax treaties as a tool for FDI attraction.

As suggested by Baker (2012) and Irish (1974) the absence of assurances which double taxation agreements provide to foreign investors can be overcome to a substantial extent by the government agreeing with individual investors to restrict their tax rates to particular levels and by providing non tax preferences to investors.

Such non tax preferences could take the form of government participation in an investment with guaranteed return to the investor prior to any return to government, preference in import permits or exchange controls and robust steps to insure absence of a double taxation agreement has no detrimental effect on foreign investment. Where Double Taxation Agreements are important, the government should ensure that she benefits first. This can be achieved through conducting cost benefit analysis of the agreements before signing them. This will also inform on whether the government should renegotiate or cancel the agreements, if possible.

Inappropriate taxation of the informal sector leads to high inequality

Presumptive income tax system works better in attempting to collect revenue from the informal sector. However, it may infringe few who are small and are not in the position to pay the taxes or tax less some who are supposed to be in higher income category.

This leads to the rise of Inequality which has been viewed as the major policy issue in the country in many sectors. The existence of inequality among the informal sector in the country has been mainly contributed by taxes, size of the informal sector, and Income distribution.

The concern on the tax system particularly the presumptive tax system is that many presumptive regimes are deliberately designed to reduce the tax payments of smaller firms. Thus, this fuels the problem of firms not wishing to graduate onto the standard regime when they are able to, and large firms making themselves appear small, and hence leads to inequality. The increasing level of inequality in the society has direct influence in the increased level of poverty, increased level of classes, failure of other business as well as decline of the economy.

Maximizing efforts to curb revenue leakage

Efforts to enhance revenue mobilisation should include strategic measures that ensure no funds are leaving the country illegally. The African Union High Level Panel report on Illicit Financial Flows from Africa, estimated that Sub-Saharan Africa loses more than 50 billion dollars annually (average of 2001-2012). This is more than the combined total of Foreign Direct Investment (FDI) and net Official Development Assistance (ODA), which these economies received in the same year. Tanzania should commit to tackling international tax avoidance and evasion through implementing the recommendations set out in the report.

Among the various commitments are robust regulation for increased transparency, which includes disclosure of companies' annual financial statements and the establishment of a public beneficial ownership registry. In addition to these policy measures, we urge the Government to support the establishment of an intergovernmental tax body that is tasked with addressing global tax policy, rather than the current Organization for Economic Cooperation and Development (OECD) led process that does not equally include all countries, including Tanzania.

A cohesive global system will make it simpler for tax administrations across the world to communicate, cooperate and remove the existing complicated web of thousands of bilateral tax treaties in the international tax system and streamline the diverse parallel international systems.

Summary of our key policy recommendations:

1. Enhance capacities: There is a strong reason to sustain current government efforts to increase resources to the Tanzania Revenue Authority (TRA) to oversee and collect revenue from multinational companies. Multinational companies possess sophisticated skills that makes it easy for them to avoid and/or evade tax. It is therefore important that our revenue authority progressively increases the number of competent staff that can oversee and collect fair share of revenue from these companies. A particular area under this is the enhancement of transfer pricing expertise at TRA's International Taxation Unit (ITU) so that they are able to undertake audits. Although there is tremendous transfer pricing manpower and technical expertise improvements at the ITU, more needs to be done to bolster their industry-specific expertise (example specific training on mining, oil & gas, etc) and ability to access to information from across the extractive industries value chain. There is also a need to improve the technology and infrastructure to enhance their efficient work on curbing transfer mispricing.
2. Ending harmful tax treaties: The government should invest more in other measures to attract FDI and winning investors' confidence instead of heavily relying on double tax treaties as a tool for FDI attraction. There is a need to also review the existing treaties
3. Improve overall business environment: Much more than simplification of the tax paying system is needed to improve the business climate. Business operators still lament the excessive permits and licenses that increase their cost of doing business and hence need to be discarded.
4. Commit to tackling international tax avoidance and evasion: Keep implementing the recommendations set out in the African Union High Level Panel report on Illicit Financial Flows from Africa. Among the various commitments are robust regulation for increased transparency, which includes disclosure of companies' annual financial statements and the establishment of a public beneficial ownership registry.

In addition to these policy measures, we urge the Government to support the establishment of an intergovernmental tax body that is tasked with addressing global tax policy, rather than the current Organization for Economic Cooperation and Development (OECD) led process that does not equally include all countries, including Tanzania. A cohesive global system will make it simpler for tax administrations across the world to communicate and cooperate and remove the existing complicated web of thousands of bilateral tax treaties in the international tax system and streamline the diverse parallel international systems.

5. Optimal tax system to the informal sector: The existence of inequality among the informal sector in the country has been mainly contributed by taxes, size of the sector, and income distribution. This indicates that, there is high level of inequality in the country which should be minimized or eliminated through the following strategies:
   i. Enhance Research and Development on equity and equality on the informal sector.
   ii. Raise awareness on taxation matters, equity and equality of the informal sectors/SMEs in business operation.
   iii. Ensure the improvement of the informal sectors/SMEs tax systems.
   iv. Strengthening financial supports and business environment (infrastructure facilities and reliable market access) to the informal sectors.
   v. Establishment of specific business operating areas for the informal sectors.