FACTORS UNDERMINING TAX REFORMS IN TANZANIA:
A CASE OF LARGE TAXPAYERS
FACTORS UNDERMINING TAX REFORMS IN TANZANIA:
A CASE OF LARGE TAXPAYERS

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CHAPTER ONE
INTRODUCTION

1.1 Background Information

Tax reform is the process of changing the way taxes are collected or managed by the government. The reform and modernization of government institutions has been a constant theme over the last three decades in both developed and developing economies. Governments have faced a series of pressures that include the need to deliver services more effectively and at a lower cost to citizens, as expenditure budgets decline, the need to address deficiencies in traditional procedures and structures that have come to be seen as too rigid to respond to the rapidly changing needs of the public and the challenges confronted by government in modern society and the pressure to adapt current business or private sector management practice to public sector institutions.

As a result, there has been a tendency for governments to increase the autonomy of its departments and agencies. The basic principle is that such autonomy can lead to better performance by removing impediments to effective and efficient management while maintaining appropriate accountability and transparency. During the past decade or so diverse countries have introduced radical reforms in the way their fiscal bureaucracies conduct one of the most pressing national tasks: the collection of taxes (Jenkins, 1994; Taliercio, 2000).

The reform, an early version of which originated in the developing world in Bolivia and Ghana in the late 1980s, has now been adapted by more than fifteen countries, including Malaysia, New Zealand, Singapore, Ghana, Kenya, Malawi, Rwanda, South Africa, Tanzania, Uganda, Zambia, Bolivia, Ecuador, Guatemala, Guyana, Mexico, Peru, and Venezuela (osoro, 1993).

More precisely, there is a pattern in each of these countries in that the traditional line departments (sometimes including customs) are being separated from the ministry of
finance (MOF) and granted the legal status of semi-autonomous authorities. These semi-autonomous revenue authorities (ARAs) are designed with a number of autonomy-enhancing features, including self-financing mechanisms, boards of directors with high ranking public and private sector representatives, and sui generis personnel systems.

Tanzania is among the developing countries which have adopted various tax reforms. Among the important reforms in the tax administration was the introduction of the Large Taxpayers Department, Tanzania introduced a directorate of Large Taxpayers on 1st October 2001 after nine months of preparations. The decision to form the large taxpayers in Tanzania was made by the Government in the year 2000. The Directorate, which was later changed on to a full department – the Large Taxpayers Department (LTD), was formed as part of the reform strategies Tanzania Revenue Authority (TRA) embarked on with a view to improve and modernize tax administration in the country.

The formation of Large Taxpayers Units (LTUs) has become a common feature in many tax reforms. Many countries have already introduced these units and others are in the process of introducing them. The reasons for implementing LTUs are more or less the same for all administrations though there may be minor variances in terms of ranking and emphasis. The most common reasons are: to provide consistent and quality services to large taxpayers, to secure revenues, to improve audit programs, to improve collections and management of tax debts, and also to act as models or pilots for testing new processes, procedures, structures and systems. The achievements associated with introduction of LTUs have motivated other countries, which are yet to introduce such units to consider setting the same in their authorities.

Despite of the achievements of the LTUs many African countries including Tanzania still face persistent budget deficits arising from annual expenditures exceeding collected revenues, this led to continued dependency on internal and external borrowings from various donor communities.
Therefore the study was intended to determine the factors that undermine Tax reforms in Tanzania picking up Large Taxpayers Department (LTD) as a specific case.

1.2 Statement of the Problem
Although Tanzania has already undergone gradual reforms to improve tax administration with respect to underlying political and economic conditions including the establishment of the Large Taxpayers Department, the government has been greatly dissatisfied with the level and efficiency of revenue collections, especially in the face of fiscal deficits and expanding public expenditure needs. Additionally high taxpayer compliance costs, tax evasion and generalized corruption by private sector have led to calls for wholesale reform of tax administrations. It is generally the perception that reforms and/or restructuring of revenue collection functions within the existing finance ministries had not generated any notable and sustainable improvements, with this in hand; the study was motivated to determine factors undermining reforms in Tanzania, Large Taxpayers Department being specific case under study.

1.3 Research Objectives
The main objective of the study was to assess factors undermining tax reforms in Tanzania Large Taxpayers Department in TRA was taken as a case study.

1.3. 1 Specific objectives
The specific objectives include were:

i. To determine whether all tax payers in Tanzania are identified.
ii. To examine the contribution of each category of tax payers in Tanzania.
iii. To establish any incentives given to large taxpayers in Tanzania.
iv. To find out if tax collectors have right skills in tax collection.

1.4 Research Questions
The study was guided by the following research questions:
i. How tax payers in Tanzania are identified?

ii. What is the contribution of each category of tax payers in revenue collection?

iii. Are there any incentives given to large taxpayers in Tanzania?

iv. Do tax collectors have appropriate skills and knowledge of collecting tax?

1.5 Justification of the Study

This study was motivated by unattainable targets in revenue collections which lead to budget deficit and persistent dependency on borrowings and grants in curbing national expenditures. Formation of Large Taxpayers Department (LTD) was among the revenue contributory factors that were aimed at reducing the deficiencies in country’s budget, but being the case still the country remained in the same situation. Therefore this study was motivated to scrutinize the fore set strategies and reasons of not attaining the stetted goals and came up with findings and positive suggestions that would help the Government to attain the goals and rise its revenues through Large Taxpayers Department.

1.6 Significance of the Study

The study will enable to obtain the following significances;

1. The study will draw decision and recommendation for remedial action of improving the existing situations in TRA on tax reforms.

2. The study will enable the expansion of the body of knowledge to professional, academicians and public in large.

3. The study will be significant to the researcher since it will be a partial fulfillment for the award of degree of Master of Science in Finance and Accounting at Mzumbe University.

1.7 Limitations of the Study

I. Limited access to information,

Some information have not been accessible due to the organization confidentiality, and also not all of respondents were cooperative enough to provide some of the information hence lead to difficulties in collecting data in time.
II. Time constraints,

Time allocated was very short, the study needed more time for effective and efficient study in all procedures and policies to produce the required report. The study tried to utilize the little time allocated to come up with some findings and recommendations that would positively contribute to change and improvement in taxation and reforms as a whole.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
The main aim of this chapter is to review related literature, make further references from what have already been done and summarize those ideas presented by different sources on Tax reforms in the of Large Taxpayers.

2.2 Background of Tax Reforms in Tanzania and Tax Reforms in Sub-Saharan Africa
2.2.1 Tax Reform in Tanzania-Background
Tax reform in Tanzania dates back to the late 1960s. However, major tax reforms started in the 1970s. Motivations for tax reform in Tanzania have been due to apparent failure of the tax system to generate adequate revenue required to meet growing expenditure needs. Rapid growth of expenditure has been caused by socio-economic and political developments since the Arusha Declaration of 1967. The major objective behind tax reform in the 1960s was revenue and equity. This objective was implemented by introduction of a new sales tax in 1969 (Sales Tax Act, 1969). Sales tax was introduced partly to offset decline in import duty revenue caused by growth in import substitution industries, and partly to reduce rural taxation (Osoro, 1993). But above all the basic objective was revenue. The objectives of tax reform in the 1970s remained revenue and equity, but protection became increasingly an important objective.

The major tax reform in this decade was the introduction of a progressive income tax in 1973 (see the Income Tax Act, 1973), the repealing of the 1969 Sales Tax Act, replacing it with a new Sales Tax Act of 1976, and raising import duty rates and abolition of excise duty in the late 1970s. The objective of the first two reforms was to broaden the tax base with a view to raising revenue, and achieving equity.

The abolition of excise tax resulted in substantial rise in sales tax rates to compensate for the resulting revenue loss, and complicated sales tax structure.
Tax reform in the 1980s was a result of economic crises of that decade. Prior to 1985, most tax changes were made on indirect taxation. The rates of import duty and sales tax were raised virtually annually, the result of which was an extremely high tax rates and a very complicated indirect tax system. Following 1985, the country's policies assumed a new dimension. Trade liberalization was put in place. Negotiation with the IMF was concluded in 1986, paving way for inflow of foreign sources of finance. In 1985, all export taxes were abolished in order to reduce the tax burden on producers and at the same time giving them incentive to produce. Thus, the measure was expected to enable the country to sell exports at competitive prices (Osoro, 1993).

In the same year, the Sales Tax Act, 1976 was amended to provide for a "ring" system of sales taxation. A road toll was also introduced. From 1985 import duty and sales tax rates were gradually reduced each year. Nevertheless, significant rate reductions occurred after 1987. Another tax reform was the introduction of previously abolished excise duty in 1989 to facilitate rationalization and simplification of sales tax structure and administration. Nevertheless, this tax had multiple and high rates which was self defeating.

In the area of income taxation, marginal tax rates were reduced from a range of 25 to 95% in 1986/87 to 10-50% in 1989. These rate reductions had dual objectives: to reduce the tax burden on a wage earner and to enhance the take home pay of a worker. However, the achievement of the second objective was far fetched since the basic pay of a worker has been extremely low. The tax reforms in the 1990s comprised further reduction of individual income tax rates from 10-50% to 7.5-35% in 1992. Further, in 1990 the Investment Promotion Act was passed by Parliament to establish the Investment Promotion Center (IPC). The Act provided for tax incentives with a view to attracting foreign investments.

The tax incentives included among other things, a tax holiday and exemption of taxes on imported inputs. If anything, the act has eroded the tax base rather than
achieving significant attraction of foreign investment. The final tax change in the 1990s was the reduction of tax rates across the board in 1992. Also most tax exemptions were reduced to enhance compliance in the same year. Finally, import duties on imported inputs were removed. Due to weak tax administration and corruption, revenue performance was poor. Accordingly, exemptions and taxes on inputs which were formally removed were restored after six months. As the revenue performance further worsened in 1994 the government raised indirect tax rates.

In summary, the major objectives of tax reform in Tanzania have been revenue, equity, and protection. The revenue objective was to be achieved through raising tax rates, equity objective by progressive income taxation and high indirect tax rates on luxuries, and high import duty rates on imported goods. Nevertheless, apart from making efforts to simplify the tax system, the tax reform paid little or no attention to efficiency objective, and reform of tax administration. By and large, tax reform in Tanzania has been used as an instrument of raising revenue productivity of the tax system. Despite all the reforms described above, Tanzania is still experiencing massive revenue shortage leading to large fiscal deficits. Thus tax reforms have not yet succeeded in raising revenue productivity of the tax system. Several factors have accounted for the failure of tax reform to generate adequate revenue: 1) complicated tax structure that has prevailed since the 1970s; 2) the granting of generous tax exemptions: statutory and discretionary (by the Minister of Finance and through IPC); 3) high tax rates which encourage tax evasion and thereby reducing compliance; and 4) lack of or failure to undertake reform in tax administration.

2.2.2 TRA and Reforms

The Tanzania Revenue Authority (TRA) being a semi-autonomous Revenue Authority was established under the TRA Act No. 11 of 1995. Since the Authority became operational in July 1996, it has strived to implement its statutory functions as stipulated in the Act, the core functions being assessing, collecting and accounting for Government revenue and administering effectively and efficiently all the revenue laws of the Central Government.
In ensuring that focus is on implementing these functions, TRA prepared the first Corporate Plan for the period 1998/99 – 2002/03, which centered on institutional as well as capacity building and the Second Corporate Plan (2003/04 -2007/08) which emphasized implementation of the Second Generation reforms of making the Authority an Investor and Taxpayer friendly by strengthening operational efficiency, so as to boost revenue collection to capacity levels. Since its inception, TRA has evolved from a Tax Administration that focuses only on revenue collection to an organization that gives special attention to the type of services provided to its customers by rationalizing the tax system and administration to make them simpler and more transparent so as to increase voluntary compliance and increase Government revenue. Various initiatives have been implemented through reforms and modernization efforts in the course of implementing both the first and second Corporate Plans.

Tax Reform in Tanzania had been adopted to increase the revenue from tax but without raising the tax rates.

2.2.3 Reasons behind Tax Reform

- From 1992, Tanzania had been suffering from several fiscal problems due to a big difference between the government's huge expenditure and stagnant revenue.
- In spite of the formation of the Tax Revenue Authority in Tanzania (1996) the revenue generation from tax was not up to the mark.
- In the year of 1997- 98 Tanzania's revenue from tax was only 12.4% of the gross domestic product which was the worst figure among the region.
- The tendency to avoid tax was increasing due to the institutional weaknesses, that is, old fashioned business processes and poor infrastructure of the Tax Revenue Authority.

2.2.4 Tax Reform in Tanzania with the Help of the IDA

In 1999, the International Development Association (IDA) came to help Tanzania in the areas of tax reform. The IDA financed Tanzania to increase the tax revenue
through the Tax Administration Project. The IDA paved the way to improve the legal framework and the tax administration. The tax base had been broadening. With the help of the International Development Association's technical assistance the Tanzanian the for tax reforms.

2.2.5 Effects of Tax Reform in Tanzania

- The amount of annual revenue generated in Tanzania was 1.7 billion US dollars in the year of 2005 - 06 whereas in 2002 - 03 it was 1.1 billion US dollars.
- The registered income tax payers raised in number from one lac ninety thousand in 2003 to two lac ninety thousand in 2006. Moreover, the number of designated large taxpayers also increased by 186 from 2003.
- The percentage amount of custom clearances that was made within a day time, increased by 65% compared to the year 2003.
- The amount of tax arrears had been increased by 66% in 2005 compared to the amount in 2003.
- The average time to identify the stop filers had been reduced. In 2003 it took 28 days to complete the counting whereas in 2005 the figure was 4.
- The Tanzanian tax authority was able to present a modern and as well as efficient management practices in the administration.
- Monthly revenue from Value Added Tax refund in 2006 increased by 26% from the year 2003.

Due to impressive results of tax reform in Tanzania, other countries, for example, Nigeria and Ghana got interested to replicate Tanzania's reform strategies.

2.2.6 Reforms in Sub Sahara

The tax systems in Africa have proved remarkably resistant to even major political changes - except widespread internal conflict. Colonial tax systems remained largely unchanged until recently. Malawi and Tanzania are examples of countries that inherited their tax structures from their colonial past and only made ad hoc and piecemeal changes to this structure until the fiscal crises of the 1980s. During the
1990s tax reforms became part of the larger structural adjustment programmes and incorporated in the economic restructuring agreements with the International Finance Institutions (Obwona & Muwonge, 2002b; Tanzi & Zee, 2000; Thirsk, 1993).

Another reason for the reforms was due to increased awareness of the extensive administrative problems and constraints connected with tax systems in many developing countries, resulting in widespread tax evasion and enforcement problems. Thus, developments brought the issues of simplification, tax administration and tax enforcement to the core of central government tax reforms. Until recently, these reforms have almost exclusively focused on the central government tax system. The Tanzanian reforms mirror the general characteristics of tax reforms in sub-Saharan Africa during the same period.

The tax policies now recommended for African countries are much the same as those which are advocated for developed countries. In most cases this involves the introduction of measures to broadening the tax base while simultaneously flattening the tax rates (Heady, 2002; Bebi, 2001).

Despite important differences in their economic and cultural background, developing countries have tended to modify their tax systems in roughly the same direction. The following trends in taxation can be clearly seen:

- introduction of the value-added tax;
- lower personal and corporate income taxes;
- simplification of the tax bands and broadening of the bases for personal and corporate income taxes;
- reduction of import duties and simplification of the rate structure;
- simplification of the excise duty structure; and
- Abolition of export taxes.

Administrative reforms are also increasingly stressed, and reflected in the establishment of semi-autonomous revenue authorities in a number of African countries. More recently, reforms of the local government tax system and
harmonization of local and central government taxes have also been addressed in some countries. In spite of recent reforms, the tax systems in many African countries are characterized by an excessive number of different taxes with different rate structures that are difficult for taxpayers to understand. The tax law is often written in a confusing way and manuals to consult absent, opening up for discretionary powers by tax enforcers. Tax officials may, for instance, have discretion over important decisions, such as those related to the provision of tax exemptions, determination of tax liabilities, selection of audits, litigation, etc. Many administrative procedures, including the procedures for reporting tax revenues, lack transparency and are poorly monitored both within the tax administration and by the Auditor General’s Office.

Moreover, the legal sanctions to enforce punishments on either taxpayers or collectors who do not comply with the law are often weak - if existent at all. Each of these factors contributes to a non-transparent and complicated tax system, where taxpayers’ are left to the discretionary power of tax officers. A system that also is costly to administrate.

2.3 Extent of Tax Reforms in Tanzania and TRA Modernization Efforts

2.3.1 Extent of Tax Reforms

The Tanzania Revenue Authority (TRA) was established in 1995 under parliamentary Act No.11 as a SARA responsible for the collection and administration of all central government taxes (as well as several non-tax revenues); it became operational in July, 1996. Prior to its establishment tax collection was a function of three revenue departments within the Ministry of Finance (MOF), and, as such, fell within the normal civil service framework. The rationale for its inception was similar to that of most SARAs: weaknesses in tax administration and tax policy formulation; widespread tax evasion; the desire to limit political interference (particularly from the MOF) and to free tax administration from civil service constraints; one of the lowest tax ratios in Sub-Saharan Africa (averaging 11.3% from 1990 to 1995); and a fiscal deficit (after grants) of 5% and 7.9% of GDP in FY
1994/95 and FY 1995/96 respectively. These budget shortfalls combined with a large quasi-fiscal deficit generated a money supply expansion of some 25% between 1994 and 1996, with subsequent high inflation rates and domestic debt growth.

Establishment of the TRA was accompanied (and, in some cases, preceded) by gradual tax reforms aimed at simplifying and broadening the tax base: a VAT became operational as of July, 1998, replacing a highly resource-distorting multi-rate (turnover) sales tax as well as part of the low-yield stamp and entertainment taxes; export taxes were abolished in the early 1990s, were later re-introduced in 1996, and again abolished on traditional export crops in 1999; trade liberalization policies led to lower across-the board import duty rates, and are currently subsumed in four above zero bands ranging from 5% to 25%; over the 1990s excises were simplified and rates lowered, as a base covering several hundred items was reduced to nine principal groups, with a mere five goods (beer, other alcoholic beverages, tobacco, petroleum products, and motor vehicles) generating some 90% of the excise total; the income tax structure (personal and corporate) was simplified and marginal rates reduced (the top marginal rate for both personal and corporate levies is 30%, and the taxable income threshold is currently TSh. 50,000 per month, effectively removing some 40-50% of taxpayers from the system); and over the past few years more than a dozen low-yield taxes, levies, and duties have been abolished, as observed by Mann (2004).

Among the important reforms in the tax administration was the introduction of the Large Taxpayers Department, Tanzania introduced a directorate of Large Taxpayers on 1st October 2001 after nine months of preparations. The decision to form the large taxpayers in Tanzania was made by the Government in the year 2000. The Directorate, which was later changed on to a full department – the Large Taxpayers Department (LTD), was formed as part of the reform strategies Tanzania Revenue Authority (TRA) embarked on with a view to improving and modernizing tax administration in the country.
The main selection criteria of a large taxpayer at the time of establishment of the Department were mainly the aggregate tax payment exceeding Tshs. 400 million (about US$400,000.00) for five consecutive years and also preferred specific sectors or trade industries like financial institutions (banks and insurance) and oil marketing companies. The selection criteria have since been changed and currently the turnover is the main factor followed by special sector preference, i.e. mining, oil marketing companies and financial institutions.

Currently there are three hundred and seventy (370) taxpayers under the control of LTD. There were initially 100 taxpayers at the time of introduction of LTD. The large taxpayers account for about 10% of all registered taxpayers in the country but contribute 70% of the domestic and total revenue collected by TRA respectively (gross of refunds) as explained by Kitillya, (2011)

To its credit, the TRA has introduced important administrative reforms: the introduction of a duty drawback system in 2000; the development and implementation of a unique taxpayer identification number (TIN) in 2001; the 2001 establishment of a large taxpayer department (covering 116 taxpayers in Dar es Salaam with plans to add 100 additional taxpayers during 2004); a unified taxpayer appeal mechanism; the computerization of a pay-as-you-earn (PAYE) system for income taxes; and a simplified income tax system for small businesses, as observed by Mann (2004).

2.3.2 TRA Modernization Efforts

TRA modernization efforts are benchmarked against the Principles of a Good Tax Administration as outlined by the Organization of Economic Cooperation and Development (OECD) countries. The OECD benchmark focuses on relations with taxpayers, relations with employees, legal characteristics, administrative characteristics and managing and adapting to changes. TRA is doing very well in all these areas as summarized hereunder:
a) Revenue Collection
TRA has made a tremendous improvement in its core function of collecting Government revenue. Monthly revenue collections have increased from a monthly average of Shs 42 billion during the 1st year of TRA operations to the current levels of Shs 278 billion. This is an increase of 555.6% for the entire period of 12 years of TRA operations.

b) Tax Laws
TRA has updated, amended, harmonized and consolidated all the tax laws in order to ensure that there is only one reference document when referring to the Tax Law. TRA has also adopted the new Income Tax Act, 2004 and East African Community Customs Management Act 2005. The simplification of tax laws has enabled taxpayers and tax officials to apply tax laws in a fair, equitable and transparent manner.

c) Integration of TRA Operations
The aim of integrating TRA operations is to improve efficiency and effectiveness by providing services from a single office for all type of taxes at a single visit by taxpayers. The hallmark of this goal was the integration of VAT and Income Tax Operations. This has been achieved through the establishment of the Large Taxpayers Department (LTD) and the Domestic Revenue Department (DRD).

i) Administration of Large Taxpayers
The LTD was formed with the view to providing consistent and quality services to large taxpayers. A functional based structure, which includes the four main functions of Audit, Debt Management and Compliance Monitoring, Examination of Returns and Data Processing as well as the Technical Unit was approved and implemented. The Department became operational in 2001 as a pilot for integrated operations inorder to improve efficiency within the LTD and enhance auditing skills, Auditors have received Standard Internal Training on Computer Supported auditing and other specialized training on taxation of multinational companies, application of computer
supported auditing and sectoral audits in mining, finance, banking and tourism industry. Training on Total Tax Person was conducted in order to ensure that tax officials have a broader understanding of all tax laws. The LTD has a total of 370 large taxpayers who contribute 70% of domestic revenue.

ii) Administration of Small and Medium Taxpayers
The success on the establishment of the LTD for large taxpayers and One Stop Centers at District level as pilot areas for integration, enabled TRA be in a position to administer the integration of operations at Regional as well as Headquarter level for small and medium taxpayers. The integration of VAT and Income Tax Departments was implemented in July 2005 whereby the DRD was formed. The integration of operations was preceded by development of workload programs and standards, manning levels and resource requirements and the function based structure implemented in the LTD was adopted both at Head Office and regional levels.

Additional functions of registration of taxpayers as well as motor vehicles and drivers licenses are also carried out by the DRD. Currently the Department is collecting 30% of the Domestic revenue.

d) Implementation of the ICT Strategy
Another major achievement is the development and implementation of the ICT Strategy that ensures that TRA modernization efforts are properly and adequately supported by technology. The achievements include:

i) Integrated Tax Administration System (ITAX)
All integrated domestic tax operations are supported by an Integrated Tax Administration System (ITAX) which is a tool for assisting in carrying out the functions of audit, debt management, registration as well as collection and enforcement. The introduction of ITAX has accommodated the Taxpayer
Identification Number (TIN) which is the sole taxpayer identifier for all tax purposes. The TIN is system generated and is the registration module in the ITAX

ii) Tanzania Interbank settlement System (TISS)
This is an online system that facilitates real time and gross settlement of payment instructions between banks in Tanzania. As part of the Government efforts to modernize the payment system in the country, TRA introduced the system in the LTD in April 2004. With the introduction of TISS, tax payments are made by transferring electronically moneys from taxpayers’ accounts to the Authority’s account at the Bank of Tanzania (BoT). The new arrangement of tax collection through banks has enabled TRA to reduce operational costs by doing away with the importation of security printed receipts and at the same time improve efficiency in the payment system by eliminating the settlement time lag for high value and time sensitive payments and thereby be able to have daily reconciliation.

The system has also minimized settlement risks and eliminated floats between Commercial Banks and Bank of Tanzania. Additionally TRA has established Points of Sale (PoS) Tax Payment System at all major Customs border stations. Through the establishment of the PoS, TRA has realized reduced operational risk in terms of ferrying the revenue collected, and elimination of cost incurred on hiring special vehicles for transferring funds from border posts to the nearest bank. Since the introduction of the system of payment of taxes through banks, 97% of total revenue collection is settled under interbank arrangements.

iii) Central Motor Vehicle Registration System (CMVRS)
The objective of establishing the CMVRS was to modernize and facilitate improvement of revenue collection from the motor vehicles by replacing substandard documents with new and secure ones, enhance control on inter-border crossing vehicles, reducing the number of fraudulent registrations, and maintain reliable data for monitoring and administering road safety. The CMVRS commenced its operations in May 2003 and is operational in 19 centres throughout the country.
e) Customs Modernization

i) ASYCUDA Customs Processing Systems In an effort to improve Customs processes and procedures, TRA has modernized its Customs operations by migrating from ASYCUDA 2.7 to ASYCUDA++.

This is a software package for processing Customs Data which was developed and is supported by the United Nations Conference on Trade (UNCTAD). Concurrently, a Direct Trader Input (DTI) System has been established to allow traders to procure their own computer and telecommunication equipment with the ASYCUDA ++ modules that enables them to input their declarations directly into the ASYCUDA++. In view of these achievements, reduction of delays in Customs clearance has been recorded. The average time taken from lodgment to issuance of release across airports has decreased from 4 days to 9 hours and 7 days to 48 hours across sea ports.

ii) Implementation of Destination Inspection Scheme (DIS)

The Destination Inspection Scheme (DIS) replaced the Preshipment inspection scheme (PSI) in July 2004 whereby now goods are inspected at the country of destination. A Computerized Risk Management System (CRMS) has been introduced in order to profile importers, agents and commodities depending on the risk ratings associated with each consignment. Under this system goods are classified into green, yellow and red for direct release, scanning or cursory inspection and for full physical examination respectively. To complement the DIS, an X-ray container scanner was introduced for examining imported containerized cargo under the yellow category.

f) TRA Employees and Management Controls

i) TRA has introduced result based training which includes the Total Tax Person (TTP) on all tax laws as well as customer care to ensure that staff are skilled and competent in the provision of quality service.
iii) The Anti-Corruption Strategy is being enforced within TRA as part of the National Anti-Corruption Policy and Strategy.

**g) Reform on the Tax Refund System**
Under this reform all VAT repayment claims are classified into three categories namely gold, silver and non-gold silver depending on the degree of risk for traders who are engaged in zero rated supplies as well as those who supply to VAT relieved persons. This has enabled TRA refund an average of 75% of the claims within the statutory period of one month. The target is to ensure that 90% of all gold classified claims are handled within stipulated time.

**h) Stakeholders Forum**
TRA has established this forum with the aim of providing a dialogue between TRA and its major stakeholders. Also TRA has established Taxpayers Charter with the objective of enabling taxpayers to clearly understand their tax obligations on the one hand and for the TRA to offer transparent and consistent services on the other hand. Additionally TRA has established an annual Taxpayers’ Day whereby compliant taxpayers in different categories and other stakeholders are recognized for their outstanding contribution in revenue collection.

TRA is implementing a Quality Management System based on the ISO 9001:2000 Standard whereby in December 2006, the pilot Department of LTD became ISO certified.

**2.4 Managing Reforms**
The changes TRA is undergoing in order to achieve its Vision have cross departmental implications and hence require a cross-departmental management focus. The initiatives in the Modernization Program contribute to more than one Strategic Goal and offer improvements to more than one business function, process or department. To ensure a cross-departmental focus in implementing the initiatives,
an inclusive Program Implementation Structure was adopted. The structure has encompassed a Planning and Modernization Program (PMP) Unit under the Management Steering Committee. The Unit ensures that apart from the day to day activities within the revenue and support departments, the Corporate Plan initiatives are implemented accordingly. This arrangement was important to ensure that activities under the Corporate Plan are well coordinated, understood and reporting to different stakeholders is consistent.

2.5 Large Taxpayer Department - The Use of ICT and its Impacts

2.5.1 Large Taxpayers Department and Use of ICT
To gain an in-depth understanding of the department and its status in terms of ICT use, three key areas namely; the rationale of creating Large Taxpayer Department at Tanzania revenue Authority; the rationale of using ICT at Large Taxpayer Department; the availability and accessibility of ICT infrastructure and facilities together with the extent at which LTD staff and taxpayers make use of ICT at the department have been detailed.

i) Rationale of creating Large Taxpayer Department
According to ITD, (2010) Revenue patterns in most countries show that a small number of large enterprises account for the majority of tax revenue (60-70% of total tax revenue). Large taxpayers are enterprises which engage in large-scale, complex/specialized, and often global operations. Such enterprises are complex because of being characterized by; (1) multiple operating entities and/or diverse business interests; (2) high volume of transactions in day-to-day business activities; (3) large number of employees; (4) international dealings, often involving cross-border transactions with related parties; (5) operations in an industry that presents unique tax issues (e.g. banking and insurance); (6) wide spread in geographical terms; (7) dealings in complicated issues involving complex tax law and accounting principles; and (8) complex financing and tax planning arrangements (OECD 2009).
Apart from being complex, from the revenue bodies’ perspective, large taxpayers present major tax compliance risks due to various factors including: (1) significant offshore activities; (2) policies and strategies to minimize tax liabilities; (3) large portion of tax assessments result from audit activity of large taxpayers; and (4) growing/significant differences between financial accounting profits and the profits computed for tax purposes.

Furthermore, large taxpayers have a critical role in revenue collection due to size and the range of taxes they are responsible for, including their role as withholding agents for large numbers of employees (OECD 2009). In view of these characteristics, modern revenue administrations set up a Large Taxpayer Office to manage the tax affairs of the large taxpayers. For similar reasons, the Large Taxpayer Department of Tanzania Revenue Authority was created in 2001. The department has 370 (0.08%) large tax payers selected from a total of 487,984 taxpayers in Tanzania (ITD 2010).

ii) **Rationale of using ICT at Large Taxpayer Department**

Due to complexity of large taxpayers, they present a major tax compliance risk to revenue bodies, so considering their critical role in Revenue collection; it is the responsibility of tax administration to be ahead of large taxpayers in technology in order to curb cheating (Suluo, 2003). Evidence from Philippines shows that, the use of ICT for tax administration results into increased tax collection as well as modernization of administrative processes. For example, the new IT system in 11 pilot districts/cities revealed a gap of non-assessed tax liabilities of 3.2 Million Euro. It also used to take up to four hours to inform a (waiting) taxpayer about his tax bill. But with the new IT system, this waiting period was reduced to 3 minutes, including issuing a proper tax or payment receipt (Seelmann, 2011).

A good number of studies show that, the use of ICT is extremely beneficial to Large taxpayer Department. Victor-Nyambo, (2009) findings revealed that, ICT help to maintain consistent record keeping, timely access of such records, fast processing of return which together improved the performance of tax revenue. By reducing the
time taken to communicate with taxpayers and providing access to similar institutions around the world where lessons learned can improve the tax regime and tax administration; ICT assist to cut down postal delays and costs as well as plugging revenue loss at the Large Taxpayer Department.

Furthermore, the use of ICT facilitates taxpayers’ information to be stored at Large Taxpayer Department and quickly retrieve it from computer systems whenever needed as evidence of tax paid, return filed, or otherwise. This serves to improve taxpayer compliance knowing that the department has correct and up to date records of business/tax liabilities, correspondences and payments. Also, the use of ICT facilitates easy monitoring and evaluation, good planning and quick processing and accurate taxpayer return of income assessment.

In this regard for example; instead of submitting tax return on income manually through hardcopy, one can submit it via ICT electronic filling followed by computer processing. This not only will speed up the process but will economize the department’s operational costs by sharing the costs with the taxpayer who will use own resources to key the information in the computer and send it via internet paid by him/her.

iii) Availability and use of ICT at Large Taxpayers Department

Based on responses from staff, Large taxpayers Department is in possession of necessary ICT infrastructure and facilities which are accessible to both staff and taxpayers. For example; it has computers in good working conditions which are connected to the internet; the computers are also networked via Local Area Network (LAN) and Wide Area Network (WAN); necessary software like Ms-Word & spreadsheet applications as well as ITAX/TIN system/database are installed; and storage devices like flash disk are available to staff as shown by Table 2.1
Table 2.1: Availability of ICT infrastructure / facilities at Large Taxpayer Department

<table>
<thead>
<tr>
<th>Questions set to ascertain availability of ICT infrastructure / facilities</th>
<th>LTD Staff Response (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are computers present within each LTD office?</td>
<td>Yes: 100, No: 0</td>
</tr>
<tr>
<td>Are these computers accessible to LTD staff?</td>
<td>Yes: 100, No: 0</td>
</tr>
<tr>
<td>Are these computers connected to the internet?</td>
<td>Yes: 94.4, No: 5.6</td>
</tr>
<tr>
<td>Are these computers networked via LAN and WAN intranet?</td>
<td>Yes: 100, No: 0</td>
</tr>
<tr>
<td>Are ITAX/TIN system/database installed to these computers?</td>
<td>Yes: 100, No: 0</td>
</tr>
<tr>
<td>Word &amp; spreadsheet applications installed to these computers?</td>
<td>Yes: 100, No: 0</td>
</tr>
<tr>
<td>Are Flash disk and other storage devices available for LTD staff?</td>
<td>Yes: 77.8, No: 22.2</td>
</tr>
</tbody>
</table>

Source: Victor-Nyambo (2009)

2.5.2 Impacts of ICT use to Large Taxpayer Department

Introduction of ICT has changed the way tax administration used to be handled at Large Taxpayer Department. ICT is known for its capability in speeding up processing time in business. Victor – Nyambo (2009) tested these conceptions via analyzing responses from both staff and taxpayers at the department. Her findings revealed that, 88.8% of staff agree that introduction of ICT at the LTD have shortened the lengthy cumbersome manual procedures. They were of the opinion that preparation of tax assessment would require a lot of work if they were done manually and that, ICT usage has minimized errors in return processing and in assessment. Also, 100% of Large Taxpayers agree that processing time and responding to taxpayers queries have been reasonably shortened. As a result, 100% of Taxpayer and Tax consultants (firms) prepare tax return using computer and 41.7% submit them via Internet.
On the other hand, Intranet is currently used by businesses as a tool to enable internal communication at minimum costs. Large Taxpayer Department is also struggling to minimize operational costs and maximize revenue collection. Although only 77.8% of staff agreed to have intranet connection in their computers; follow up interview revealed that all computers at Large Taxpayer Department are connected through Local Area Network. Further investigation revealed that, 72.2% of staff communicates with taxpayers and tax consultants via ICT network computers and 61.1% of them uses Intranet to communicate with fellow staff at the department.

Furthermore, the mode of payment at Tanzania Revenue Authority in general and at Large Taxpayer Department in particular has reasonably changed. No one is paying directly using cash, 91.7% of taxpayers and consultants pay through Tanzania Interbank Settlement System TISS, and the remaining 8.3% pay through Electronic Fund Transfer EFT. 83.3% of both staff and taxpayers agreed that, the use of ICT provide them with accurate and timely information needed for decision making. Appropriate decision making is a very useful ingredient in improving performance and efficiency in tax administration as was agreed by 94.4% of respondents. The improved performance was presumed to improve revenue collections as agreed by 77.8% of respondents. To validate such presumptions revenue collection performances and revenue contribution share of Large Taxpayer Department was analyzed.

i) **Revenue collection performances of Large Taxpayer Department**

As pointed out earlier, ICT provides access to similar institutions around the world where lessons learned can improve the tax regime and tax administration at the Department. Equally important is that, ICT help to maintain consistent record keeping; timely access of such records, fast processing of return which together cut down postal delays and costs; curb cheating as well as plugging revenue loss. That is to say, the use of ICT at Large Taxpayer Department proves to be a lethal tool in meeting and surpassing the Departmental set revenue targets. The question of how
efficient the department was performing its functions (in terms of revenue collection) was gained by analyzing Tax revenue reports from Tanzania Revenue Authority.

The statistical data revealed that, with the exception of one year, the department was meeting and surpassing the set revenue targets. This means, since the introduction of ICT, the revenue collection performance was in most cases more than 100% as shown by Table 2.2.

**Table 2.2: Revenue collection performances of Large Taxpayer Department (000)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Budget</th>
<th>Actual</th>
<th>Performance (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001 - 2002</td>
<td>204,387.5</td>
<td>204,387.5</td>
<td>100.0</td>
</tr>
<tr>
<td>2002 - 2003</td>
<td>260,637.8</td>
<td>311,948.2</td>
<td>115.8</td>
</tr>
<tr>
<td>2003 - 2004</td>
<td>344,877.2</td>
<td>370,636.9</td>
<td>107.5</td>
</tr>
<tr>
<td>2004 - 2005</td>
<td>536,780.8</td>
<td>537,122.9</td>
<td>100.1</td>
</tr>
<tr>
<td>2005 - 2006</td>
<td>698,112.4</td>
<td>731,036.2</td>
<td>104.7</td>
</tr>
<tr>
<td>2006 - 2007</td>
<td>823,444.6</td>
<td>1,042,115.1</td>
<td>112.9</td>
</tr>
<tr>
<td>2007 - 2008</td>
<td>1,255,701.5</td>
<td>1,324,040.7</td>
<td>106.0</td>
</tr>
<tr>
<td>2008 - 2009</td>
<td>1,848,699.3</td>
<td>1,605,751.2</td>
<td>88.0</td>
</tr>
</tbody>
</table>

**Source:** Tanzania Revenue Authority, Tax revenue reports (2002-2009)

Based on Tanzania Revenue Authority reports, the use of ICT did not only facilitate meeting and surpassing revenue collection targets, but it also enhanced an increase in actual revenue collection from TZS. 204,397.5 Millions in 2001/02 to TZS. 1,605,751.2 Millions in 2008/09 as shown in Table 2.2.
ii) **Revenue contribution share of Large Taxpayer Department**

The share of revenue contribution of Large Taxpayer Department kept increasing since 2001. For example; Tax revenue reports from Tanzania Revenue Authority (TRA) reveals that, the revenue contribution share from Large Tax payer Department LTD stood at 23% in financial year 2001 / 02 and increased to 41% in financial year 2008 / 09.

Some years recorded a very high percentage increase in revenue contribution while others recorded a mild or low percentage increase. For example; a remarkable increase of revenue contribution of 6% from 27% to 33% in 2003 / 04 as opposed to a 1% increase from 40% to 41% in 2008 / 09.

An increase of revenue contribution of 6% a remarkable increase for a span of only one year and could have been attributed by increased efficiency and improved performance which could be traced to the use of ICT. From statistics provided by the reports, the cumulative increase of revenue contribution of Large Taxpayer is 18%. This further could have been due to automation of operations. Table 2.3 presents; revenue contribution share; increase in revenue contribution share as well as cumulative increase in revenue contribution share of Large Taxpayer Department for financial years 2001 / 02 to 2008 / 09.
Table 2.3: Revenue contribution share of Large Taxpayer Department (2002 – 2009)

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Revenue Contribution Share (%)</th>
<th>Increase in Revenue Contribution Share (%)</th>
<th>Cumulative increase in Revenue Contribution Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001 - 2002</td>
<td>23</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2003 - 2004</td>
<td>27</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>2004 - 2005</td>
<td>33</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>2005 - 2006</td>
<td>37</td>
<td>4</td>
<td>14</td>
</tr>
<tr>
<td>2007 - 2008</td>
<td>40</td>
<td>3</td>
<td>17</td>
</tr>
<tr>
<td>2008 - 2009</td>
<td>41</td>
<td>1</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: Tanzania Revenue Authority, Tax revenue reports (2002-2009)

2.6 Description of Large Business Unit: Case of Other Countries

Identification criteria for large businesses vary from country to country as one or more measures are used. While the definition of large business or large taxpayer differs from one tax administration to another, all participating countries, with the exception of Norway, have clear and specific criteria for identifying large taxpayers. In Norway’s case, it’s the office of the Directorate of Taxes (national headquarters) that determines, based on several criteria and a holistic view, whether an entity is to be referred to the Central Tax Office for Large Enterprises for assessment and control.

The common identification criteria used to define taxpayers as large business or to place them under the responsibility of the large business unit include:

- Amount of turnover or gross sales;
- Value of assets;
- Amount of tax paid;
- Operating in certain business sectors (e.g. banking, insurance, oil, etc.);
- Engaged in international business activities; and
- Number of employees.

In that case for example Canada Revenue Agency defines large taxpayers as businesses with gross revenues in excess of $250 million.
France defines large taxpayers as businesses with either turnover or assets of greater than €400 million, also known as “key” large enterprises (“noyau dur”). In addition, the Large Taxpayer Unit, “Directions des Grandes Entreprises” (DGE), is also responsible for the following:

- Shareholder entities owning directly or indirectly more than 50% of the key large enterprises identified above;
- Subsidiaries controlled directly or indirectly by the key large enterprises having over 50% share ownership;
- Entities belonging to the same integrated group; and
- Entities part of a consolidated group.

### 2.6.1 Common characteristics of large taxpayers

Major characteristics of large business segment, based on the participants’ description of their large taxpayers, include:

a) Concentration of revenue – a small number of large taxpayers accounts for a disproportionately large amount of revenue and have a critical role in the administration of taxes. The amount of revenue results from the pure size of these taxpayers and the range of taxes for which they are responsible including their role as withholding agents.

b) Complexity of the business and tax dealings – several participants described large taxpayers as complex for a variety of reasons:

- multiple operating entities;
- diverse business interest;
• high volume of transactions in day-to-day business activities;
• large number of employees;
• international business dealings;
• cross border transactions with related parties;
• unique industry characteristics (such as banking);
• widely spread in geographical terms;
• complicated issues (involving complex tax law and accounting principles);
• polices and strategies to minimize tax liabilities; and
• Complex financing and business structures.
• Withholding agent or intermediary roles – the main taxes collected by the large taxpayers, as intermediaries, include:
  • personal or employee income tax withholdings and social contributions;
  • value added tax or good and services tax; and
• withholding tax on certain cross border payments such as dividends

2.7 Status and Reasons on the Level of Performance
Despite wholesale tax structure reform that either preceded or accompanied the TRA’s establishment and post-1996 macroeconomic stability (real GDP growth rates of almost 5% and consumer price inflation hovering in the 5% range since 1999), it is evident from the tax ratio changes that the (tax revenue) results have been relatively disappointing. On the heels of a tax ratio up-tick to 12.15% in FY 1996/97, it has been a struggle to return to the 12% level, much less attain the FY 2003/04 goal of a 13.3% ratio. Tax performance has trended upward since FY 1999/2000, and the tax ratio is estimated to have returned to the 12% mark in FY 2003/04.
Tax evasion in the petroleum sector has been curbed, and the abolition of 100% deductibility on capital assets owned by firms has also contributed to this rebound. Admittedly, part of this poor tax collection effort is due to factors outside the control of the TRA: an increased use (oft-times for political reasons) of tax incentives and exemptions, especially in the tourism and mining sectors (which account for over
one-tenth of GDP); the declining role of parastatals and the rise of informal sector activities; and the large GDP share of the hard-to-tax primary sector.

The TRA estimates that exemptions granted at customs (that affect collections from import duties, the VAT, and excises) amount to over a fifth of gross tax revenues. Some headway is being made in reducing this foregone revenue by elimination of VAT exemptions on petroleum and government purchases; these latter reforms generated much of the improvement in VAT efficiency indicators beginning in FY 2001/02. Nevertheless, the VAT’s relatively (by international standards) low productivity ratios continue to be affected by numerous exemptions and poor enforcement.

Another reason for Tanzania’s low tax ratio is its narrow tax base. Almost half of the country’s GDP (non-monetary GDP comprises almost 30% of the total GDP estimate) originates in the “hard-to-tax” agriculture sector, and the informal sector comprises a large portion of monetary GDP. According to a recently completed study (TRA, September, 2003), the tax gap (the difference between potential and actual tax collections) for Tanzania’s main taxes during FY 2000/01 amounted to 4.9% of GDP; the VAT gap was responsible for almost half of the total gap, and the VAT compliance rate was estimated at 63%. Thus, there is clearly a strong administrative dimension that must be addressed in order to augment the overall tax ratio.

Nevertheless, many basic problems have not been addressed, and they continue to affect the TRA’s ability to perform its functions efficiently. Customs regulations date from the 1950s, and are clearly out of date. There is a lack of regional consistency in applying and interpreting tax laws.

An especially critical flaw is that not all TRA systems talk to each other, although the second Five Year Corporate Plan has targeted this deficiency. This is a holdover from the TRA’s 1995 establishment, which was initiated without a corporate plan cum strategy. Moreover, the first Corporate Plan did not achieve the desired (and
required) integration. Of course, including systems integration in a plan and actually implementing such a strategy are two different phenomena.

Human resources constitute an additional problem. Although there are competent persons at the top of the TRA’s managerial hierarchy, a core group of mid-level managers is lacking. This may not be surprising, since at independence in 1961 there were only 16 university graduates in the entire country. It appears to be both a salary problem (see below) and a reflection of the absence of a deep pool of managerial talent in Tanzanian society.

Internal corruption and taxpayer fraud are also problematic. There is a cultural aversion both to instituting a zero tolerance policy within the TRA itself and to vigorously pursuing taxpayer fraud, as observed by Mann (2004).

2.8 Incentives Given to Large Taxpayers and its Impacts

2.8.1 Tax Incentives in Tanzania

Tanzania recognizes the importance of investment to stimulate economic growth and create a potential for sustainable future revenue generation. It offers tax incentives to investors as provided for in the various tax laws including: non-taxation of imports of capital goods and raw materials, deferment of VAT on capital goods and capital allowances on investment goods for income tax purposes.

Special attention in granting tax incentives is directed to lead and priority sectors

- **Lead Sectors:** agriculture, agro-based industries, mining, economic infrastructure, tourism, and petroleum and gas sector.
- **Priority Sectors:** manufacturing, natural resources such as fishing and forestry, aviation, commercial building, financial services, transport, broadcasting, human resource development and export-oriented projects.

Investors in these sectors enjoy zero import duty rate for importation of capital goods and deferment of VAT thereon.

Investors in export processing through the Free Economic Zones Authority and Export Processing Zones (EPZ) enjoy a wide range of exemptions.
Time may not be our best ally to mention them all, but the exemptions range from long term tax holidays to full tax remissions.

2.8.2 Tax Incentives in East Africa

Countries in East Africa provide a wide range of tax incentives, many of which are intended to attract foreign companies to invest. The most prominent ones are 10-year corporate income tax holidays, generous capital investment deductions, and exemptions from VAT payments, import duties and withholding taxes.

Tanzania’s “strategic investor status” accords various tax incentives to companies investing more than US$20 million. The Tanzania Investment Centre states: “For a big project of over US$20 million offering specific/great impact to the society or economy, investors can request for special incentives from the Government.” Thus some companies, notably foreign mining and agribusiness companies, have an individual fiscal agreement with the government, some of which offer special concessions to individual companies but which have never formally been made public.

In Kenya, various tax incentives are accorded under the Income Tax Act, the most significant of which in terms of current revenue losses are the wear and tear allowance and the investment deductions allowance (IDA).

The former is a form of capital allowance (or an allowable deduction) on the depreciation of goods such as tractors, computers and motor vehicles, while the IDA is an allowance on company expenditure on buildings and machinery.

Some governments are also offering a range of tax incentives to agricultural investors, some of which, including tax holidays, have been noted above. In Tanzania, agricultural investors are offered: zero-rated import duty on capital goods and all farm inputs; import duty drawback on raw materials for inputs used for exports; deferment of VAT payment on project capital goods; and zero-rated VAT on agricultural exports and for domestically produced agricultural inputs. VAT exemptions are widespread in Kenya and Uganda. In the latter, over 35 goods and services – including petrol, diesel, gas, computers and software – are VAT
exempt. Kenya, meanwhile, is the only East African state to have suspended (in 1985) capital gains tax, reportedly after lobbying by some politically-connected individuals who at the height of public land grabbing in the 1980s wanted to transfer these properties without paying tax. In Uganda, and Tanzania, capital gains tax is payable at the rate of 30%.

2.8.3 Winner and Losers from Tax Incentives

A lack of transparency has long prevented the public scrutinizing the extent of tax incentives in East Africa. Yet analysis suggests that the main beneficiaries are foreign investors, and that the principal losers – due to substantial revenue losses – are the general population and the country as a whole.

(i) The winners

In Tanzania, the principal beneficiaries of the incentives and exemptions provided by government are those holding certificates with the Tanzania Investment Centre and the Zanzibar Investment Promotion Authority, which together accounted for around 45% of the incentives and exemptions in 2008/09—2009/10. These are mainly transnational corporations. Mining companies accounted for a further 7.5% of the beneficiaries. Together these companies therefore account for around 52% of the incentives and exemptions provided.

In Rwanda, the main beneficiaries of tax incentives provided to investors are large companies, many of which are foreign owned. Most tax exemptions (84%) are given on import duties, with only a small amount (0.17%) provided for employing Rwandans, even though the latter is generally regarded as preferable since it rewards output.

In September 2010, the Uganda Investment Authority (UIA) released a list of 300 investors who had benefited from government tax holidays and incentives. Dr Maggie Kigozi, the UIA executive director, forwarded the list to Parliament’s Committee on Commissions, Statutory Authorities and State Enterprises as evidence
in investigations into the circumstances under which the Uganda Revenue Authority (URA) had rejected incentives given to some investors. Dr Kigozi noted that the companies were officially given tax holidays even after the tax incentives were formally abolished in 1997.

(ii) The losers
Tax exemptions and incentives entail very significant revenue losses in East Africa. Figures often vary, however, depending on different sources used, which are sometimes explained by whether the source is referring to all tax exemptions and incentives or certain categories of these, such as trade-related or FDI-related incentives. Based on our analysis of the available figures, we estimate the following losses:

In Tanzania, revenue losses from all tax exemptions and incentives may be as high as TShs 1.8 trillion (US$1.44 billion) in 2008 – amounting to 6% of GDP24 – while the minimum revenue loss from tax incentives granted to companies alone is around TShs 381 billion (US$266 million) a year (for the years 2008/09–2009/10).25

In Kenya, the government has recently estimated revenue losses from all tax exemptions and incentives at KShs 100 billion (US$1.1 billion) a year. This would amount to around 3.1% of GDP. Of these, trade-related tax incentives were at least KShs 12 billion (US$133 million) in 2007/08 and may have been as high as US$566.9 million.26

In Uganda, the AfDB estimates that losses from tax incentives and exemptions are “at least 2%” of GDP.27 This amounts to around UShs 690 billion (US$272 million) in 2009/10.28

In Rwanda, we estimate revenue losses from tax incentives as Rwf 94 billion (US$156 million) in 2008 and Rwf 141 billion (US$234 million) in 2009. These were the equivalent of 3.6% of GDP in 2008 and 4.7% of GDP in 2009.
2.8.4 Effectiveness of Tax incentives

Many developing countries offer tax incentives and exemptions to direct foreign investment particularly to areas which would otherwise be considered undesirable for investment.

The effectiveness of tax incentives in attracting Foreign Direct Investment (FDI) is widely debated among tax professionals amidst the rising demand for natural resources from emerging economies and increasing concerns about the 'resource curse' that plagues many resource-rich countries in Africa.

While certain types of incentives help reduce poverty and have been successfully implemented in less developed countries such as Malaysia and Mauritius, experience in Africa suggests that the costs of tax incentives far outweigh the benefits. Recent studies in Africa have found that they result in revenue losses, undermine governance processes and the efforts of developing countries to fight poverty.

According to Adolf Ndunguru from the Tanzania Revenue Authority, Tanzania tax incentives in that country have led to a loss of around 3% of GDP in tax revenues (Ndunguru's presentation on tax exemptions and incentives in Tanzania (PDF)).

Similarly, Tax Justice Network and ActionAid estimate Kenya's revenue loss at KES 100 billion (USD 1.1 billion) a year from all tax incentives and exemptions.

Some tax experts argue that tax incentives are not necessary for attracting investment, as investors will generally consider other factors that improve a country's investment climate as more important.

An investor survey conducted in Burundi, Rwanda, and Tanzania shows that the majority of investors were not highly motivated by tax incentives or exemptions when making investment decisions. Those decisions were largely based on market potential, access to finance, reliable electricity supply and good infrastructure.

Only 7.9% of all respondents in all three countries said they would not have invested without the tax and fiscal incentives they received. The quality of the mineral resource and favourable conditions for extracting and exporting them is more important than extensive tax incentives.
"If resources are good enough, companies will come", adds Olav Lundstol, a Country Economist at the Royal Norwegian Embassy in Tanzania. Despite insufficient evidence of their effectiveness, tax incentives are still an important part of the policy initiatives used by countries in Africa to increase their appeal to foreign investors.

Tax administrators and researchers highlighted the difficulty in measuring the effectiveness of tax incentives due to the absence of high quality firm level datasets on investment in most countries. Evidence-based case studies on the role of tax incentives in influencing FDI are also scant, resulting in weak policy analysis. Participants recognized the need for further research to increase knowledge that will help policymakers and administrators to develop appropriate analytical tools to monitor tax incentives and make informed decisions. The work of the ICTD becomes important in this regard as it fulfils the need to generate high quality research to build stronger tax systems that contribute to broader development goals.

Other challenges include corruption in some government institutions and lack of cooperation between policy makers and administrators at national and regional levels. Convincing governments to review tax incentive programmes is also a challenge due to lack of political will. Some of the recommendations from participants include a review of the policies governing incentive schemes, consistent monitoring of the impact of tax incentives and their effectiveness, as well as regional economic cooperation between policy makers and tax administrators.

2.9 Contribution of Tax Payers Categories
Tanzania has a narrow tax base, which reduces potential revenues and makes the country more dependent than it could be on a small section of society. The TRA states that 400 large taxpayers (handled by the TRA’s Large Taxpayers Department) account for 70 per cent of domestic revenue collections (excluding trade-related
taxes) and that small and medium-sized taxpayers account for the remaining 30 per cent. The informal sector accounts for 40-60 per cent of GDP and around 70 per cent of the country’s workforce but is largely untaxed. The informal sector includes extremely poor small farmers and urban petty traders, who arguably should not be taxed at all. Yet it also includes wealthier people and businesses such as professionals and small manufacturers who often pay little or no tax. These individuals and small businesses should be captured in the tax net in order to increase government revenues.

Thus the number of individuals who pay tax in Tanzania is low: According to the TRA, only 1.6 million out of a potential 15 million people pay taxes. However, it is worth noting that there has been an increase in the number of registered taxpayers in recent years. By June 2011, there were around 846,000 Tax Identification Number (TIN) registered income taxpayers, compared to 289,000 in 2006, and 17,000 registered VAT taxpayers, compared to 6,000 in 2006. It is also worth noting; however, that being registered as a taxpayer does not always translate into actually paying tax. For example, the process of acquiring a new driving license requires drivers to be TIN-registered, but not all holders of driving licenses are actually paying tax.

2.10 Performance in Practise: The Case of Other Countries
This section analyzes the performance of the SARAs in three broad categories of indicators: revenue collection, compliance management, and taxpayer services. The focus on compliance and taxpayer services is important to round out the picture provided by looking at collection indicators, since collections are only partially determined by tax agencies.

2.10.1 Taxpayers Registration and Compliance Management
The foundation of compliance is the ability of the tax agency to keep a current registry of taxpayers to ensure that they are submitting their tax declarations and
making their tax payments according to schedule. Equally important is the ability of the agency to broaden the tax base to cover all the taxpayers who legally ought to be paying taxes. The cases show that Peru and South Africa have done well here, and that Kenya has made some strides in the area of taxpayer registration. The other cases demonstrate less progress.

Peru was one of the most successful in broadening the tax net, as the number of active registered taxpayers increased from 895,000 in 1993 to 1,766,000 in 1999. At the same time, the quality of information taxpayer registries is often a major problem. Peru, however, continually cleaned its registry, and, from 1995 to 1998 purged the registry of about 15% of inactive taxpayers per year. SUNAT has been able to increase in absolute terms the number of taxpayers filing declarations every year since the creation of the taxpayer registry in 1993, which is indeed impressive. At the same time only 35% of taxpayers have filed on average over the period, and SUNAT has not been able to increase the relative amount filing (as a percentage of those registered).

Another useful indicator of administrative performance is late payments by taxpayers (total late payments by taxpayers during the year). Data also showed that the number of large taxpayers in Venezuela making late payments increased since 1995, more than tripling by 1998, though the amount of taxes paid late as a percentage of total collections was quite small (about 1%).

In South Africa SARS steadily broadened the tax net with impressive year on year growth. From March 1996 to March 2001 the number of taxpayers with active status grew from 518,649 to 976,720 for corporate income taxpayers’; 1,929,274 to 3,187,072 for individual income taxpayers’; 388,454 to 450,630 for VAT taxpayers; and 188,841 to 211,425 for PAYE taxpayers. From 2000-2001 the percentage of active individual taxpayers grew by 13.9% while the growth of active corporate taxpayers reached 16.3%. Note that the growth of corporate taxpayers was due principally to compliance activities by SARS as company registrations did not grow
much over the same period. An analysis of the returns outstanding as a percentage of the population of active registered taxpayers showed that SARS has made progress in some areas, notably income tax, but not in others, notably pay as you earn (PAYE). SARS also continued its efforts to increase filing compliance though an ongoing clean up of the taxpayer registry. One of the difficulties faced by SARS was that there was no single taxpayer identification number (TIN). SARS initiated changes to improve taxpayer registration, including the establishment of an electronic link with the Registrar of Companies in 2000, such that firms registering with the Registrar were automatically registered with SARS.

SARS, like many other tax administrations, was less successful reducing the amount of taxpayers’ arrears. In fact, arrears grew over the SARS period, from 4.01 billion Rand in March 1996 to 13.24 billion in March 2001 for income tax, 2.70 billion to 11.86 for VAT, and 0.14 to 4.38 billion for PAYE. Moreover, more than two thirds (68%) of the arrears were over nine months of age.

SARS also made some progress with the establishment of a large taxpayers office (Corporate Tax Center, CTC), though the results were not wholly satisfactory. Overall implementation of the CTC reform was disappointing, in part because of SARS’ inability to attract and retain high quality staff.

The registration picture was clouded in Kenya due to a botched PIN implementation, and poor follow through thereafter, in the pre-KRA period. Over registration led to a low proportion of active taxpayers as a percentage of the total number registered. The problem was that it was difficult for the KRA to ascertain whether firms that did not file or pay taxes were legally or illegally inactive.

The KRA, however, was quite successful in increasing the number of VAT taxpayers in its registry, which grew from 17,106 to 26,591, an increase of more than 55% from 1997 to 2000. Yet, the KRA faced problems enforcing filing compliance among VAT taxpayers. The percentage of non-filers stood at 29% at the end of
2000. The major problem confronting the KRA in the area of registration and filing was the lack of integration of its databases, which required that staff carry out important work manually.

Management also failed to integrate the registration function, as separate identification numbers were required for different taxes (VAT and income) and separate offices were charged with the registration function (management argued that a new IT system was necessary to integrate the VAT and income tax databases, though that budgetary limitations prohibit the necessary investments).

KRA’s Large Taxpayer Office (LTO), established in 1998, was able to streamline and improve service quality. The establishment of the LTO was facilitated by the agency’s autonomy, which allowed the CG to make and implement the decision. The KRA pursued a policy of posting its best staff to the LTO, which, as a result, improved monitoring of taxpayer compliance. For example, on-time quarterly payment compliance improved from about 85% in 1998 to about 99% in 1999.

Two additional objectives on which KRA focused are issuing refunds in a timely manner and collecting tax arrears. KRA’s management of VAT refund claims improved considerably since 1997, most notably in the reduction of the refund backlog from approximately 6.2 billion Kshs in 1997 to about 400 million Kshs in 2001. Moreover, refund claim values represent a backlog of less than one month in 2001, which was relatively low in comparison to other developing countries. The KRA was less successful at arrears collection. As of 2001 the KRA was owed approximately Kshs 52.8 million, representing about 70% of income and domestic VAT collections in that year. The ability of the tax agency to collect arrears, however, was also subject to exogenous factors, including the judiciary, which has had a major impact on the KRA’s ability to enforce collections.

In the case of the URA taxpayer registration performance was disappointing overall. For example, the number of registered taxpayers in the LTO was only 317 in 2001.
Moreover, of these only 86% and 85% paid the corporate income and VAT, respectively. At the same time it was reported that LTO’s tax assessments have a high error rate. The Internal Revenue Department reported nearly 184,000 registered taxpayers in 2001, of which only 39,000 were active, and, of these, only 4,712 and 5,236 (13.4%) filed corporate income tax and VAT returns, respectively.47 Of those filing VAT returns, only 50.4% filed returns with payments in May 2001. The low active to registered ratio, as well as the high shares of non-filing and non-paying taxpayers, was partly a reflection of the inadequacy of the taxpayer registry and partly a reflection of low compliance rates.

The URA was clearly not able to validate its taxpayer registry. Nor was it able to strengthen its TIN system by purging it of inactive entries. Though not all of the blame should be attributed to the URA (problems, including alleged corruption, in the Registry of Companies have undermined URA’s taxpayer registry), the failure to expand the tax base (many small firms and informal traders have escaped the presumptive tax, which has proved costly to administer) and document taxpayer registration were two of the principal failures of the URA reform.

In terms of compliance management SUNAT, the KRA, and SARS made significant progress, while other ARAs have made only minor headway at best. It should be noted, however, that of all the performance indicators evaluated, the number and quality of audits seem to have fared the worst across the board (Taliercio, 2000).

2.10.2 Taxpayers Services
Several ARAs also made headway in the improvement of taxpayer services, an important yet oft-overlooked function of tax agencies. The cases demonstrate that the more autonomous revenue authorities have been the ones most concerned with improving taxpayer services.

Notably, the KRA and SUNAT made significant efforts to improve taxpayer services, though these efforts did not always translated into significantly improved
services. SARS initiatives were still too incipient to judge, but the focus on taxpayer services holds promise. SENIAT and the URA made only modest progress. Though the KRA attempted to make taxpayer service delivery a key element of its reform program, results to date have been less than satisfactory. For example, though the KRA introduced a Taxpayers’ Charter, which was intended to provide transparent standards of service for taxpayers and serve as a sign of the authority’s interest in making tax compliance easier, observers noted that the charter was not put into practice. As further evidence of its commitment, the KRA established a VAT customer care help desk in its headquarters office, yet services, especially technical advisory ones, were still regarded as weak. Even the LTO was regarded as having inferior quality taxpayer services. The LTO had difficulty responding promptly and accurately to inquiries. Some reported improvements in KRA forms (tax returns, etc.).

As a result it is probable that KRA’s autonomy did not led to reduced compliance costs for taxpayers through better services. In fact, tax professionals argued that because of the KRA’s more active, higher quality audit program, compliance costs actually increased as taxpayers saw fit to keep more records, and to do so more accurately. One professional from a major tax consulting firm noted that the LTO had been responsible for generating more demand from clients for his firm’s services.

The SARS introduced service desks in all larger customs offices and in some larger revenue offices. SARS focused more on taxpayer services by establishing a taxpayer services division under a general manager and regional managers and creating over forty new integrated service centers around the country. The URA, on the other hand, while it has not been radical in its approach to improving taxpayer services, noted some improvements. Seminars, pamphlets, and radio programs established more regular communication channels with taxpayers and the LTD established a taxpayer service desk. Taxpayers noted an improvement specifically with regard to communication about changes in tax policy and
regulations, though taxpayers also complained that the quality of service varied a great deal, depending on the specific tax official, and that it was difficult to get answers to specific questions, indicating a problem with the provision of specific as opposed to generic information. As a result, compliance costs remained high for Ugandan taxpayers. Taliercio, (2000).

2.11 Conceptual Framework

The level of budget deficit depends much on the level of efficiency of tax reforms in place. Figure 1 presents the conceptual relation between variables, Level of Tax reforms is independent variable and dependent variable is Level of Budget Deficits.

**Figure 1: Conceptualized relation between variables**

The level of budget deficits depends on the level of tax reforms. The arrows indicate the direction of the relationship.

**Source:** Author
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter discusses the methodology that will be used to undertake this study. According to Kothari (1999), Research methodology is a systematic way applied to solve the research problem; it includes various steps taken by a researcher in undertaking the study together with its logic behind. This chapter includes study area, research design, population and sampling technique, method of data collection, data collection procedure and data analysis.

3.2 Study Area
The study was conducted in Dar es Salaam at TRA – Mapato House, Large Tax Payers Department.

3.3 Research Design
Research design is the logic that links the data to be collected (and the conclusion to be drawn) to the initial questions of the study. There are three common kinds of the research design; Case study, Survey and experimental design. The purpose of this study, the researcher chose the Case Study which was conducted At TRA – Mapato House, Large Taxpayers Department. The case study was adopted for this study due to the following merits outlined by (Kothari, 2002);

i) It is a fairly exhaustive method, which enables the researcher to study deeply, and thoroughly, different aspects of the phenomenon;
ii) It has flexibility in respect to data collection method; and
iii) It saves both time and cost.

3.4 Study Population
Mugenda and Mugenda (1999) defined population as “a complete set of individuals, case or objects with common observable characteristics”
The population for the study included respondents from management, Audit, Technical unit, Examination, Desk management and other LTD staffs and individuals in public.

3.5 Sample size and Sampling Procedures
In this study both simple random and purposive sampling techniques were used in selecting a sample from the population mentioned, but due to time and financial resources constraint, it involved 50 respondents, 30 of whom were selected among members of staff of TRA large taxpayers department and 20 respondents were selected among tax payers in the public.

3.5.1 Purposive Sampling Technique
Purposive sampling was used to select a sample from the management in order to meet the aim of the study. In this procedure members of the management were selected due to the relevance of their knowledge to the study area. White (2000) argues that purposive sampling technique has the belief of respondents to deliver the best and unique information in order to satisfy the research objectives.

3.5.2 Simple Random Sampling
According to Kothari (2004), the result obtained from random sampling can be assured in terms of probability. This fact brings out the superiority of random sampling design to ensure the law of statistical regularity, which states “If the sample is randomly selected, the sample had the same composition and characteristics as the universe”. This is a reason why random sampling is considered as the best technique of selecting a representative sample.

Simple random sampling was used in selecting other staff members basing on their positions and some individuals from public. As an advantage to this sampling technique, each element in the population was given equal chance or opportunity of being selected.
3.6 Data Collection Methods and Instruments

The term “Data collection” refers to gathering specific information aimed at proving some facts. Data Collection is an important aspect of any type of research, the study must have a clear understanding of what he/she hopes to obtain because inaccurate data collection can impact the results of study and ultimately lead to invalid results. According to Kombo & Tromp (2006) Data collection helps to clarify facts.

In this study, both primary data and secondary data were used. Interviews, Questionnaires and observation were used as instruments in collecting primary data. Questionnaires are attached as Appendix 1 and Interview guide used is attached as Appendix 2. Whereas the study used Documentary sources such as relevant books, journals, articles, official publications and reports for collecting secondary data.

3.7 Reliability and Validity issue

i) Data Reliability

Reliability is the ability to obtain similar results by measuring an object, trait or construct with independent but comparable measures (Bryden, 1995; Katande, 2004) further points out that reliability as an error-free measurement technique. Generally reliability refers to consistence of research procedures or instruments. The study used relevant procedures that lead to relevant findings.

ii) Data Validity

Validity refers to the quality that a procedure or an instrument (tool) used in the research is accurate, correct, true, meaningful and right. The study had to be so keen to ensure that no wrong conclusions were observed, also ensured in accuracy of research tools and procedures to validity of findings.

3.8 Data Processing and Analysis

Data analysis is an important step towards finding solution of a problem understudy. It is a systematic process involving working with data, organizing them and dividing them into small manageable parts. Guba and Lincoln (1994) continue to explain that data are further synthesized in order to discover what is important and what has been learned so as to decide what to tell others.
With regards to this study both qualitative and quantitative data analysis were involved; in this case data were simply analyzed using tables and simple statistics. The study converted figures into percentage in calculating totals and sub totals to simplify data analysis. The analysis also based on the evaluation of quality of responses to the questionnaires so as to provide consistence with the objectives of the research.
CHAPTER FOUR
FINDINGS AND DISCUSSION

4.1 Introduction
The first part of this chapter provides background characteristics of respondents in terms of age, sex and education. Second part determines taxpayers’ identification while the third part examines the contribution of taxpayer categories. The forth part establishes incentives to large taxpayers and the last part discusses skills and knowledge of tax collectors.

4.2 Background Characteristics of Respondents
4.2.1 Age
Age is an important demographic variable in this study as it enables the study to find out whether age influences TRA staff and taxpayers behaviors negatively or positively. The study analyses the age of respondents and feedback has been presented as shown in Table 4.1 and Figure 2.

Table 4.1: Age of Respondents

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Frequency</th>
<th>TRA Staff</th>
<th>Tax Payers</th>
<th>TRA Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxpayers</td>
<td>3</td>
<td>4</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>17</td>
<td>14</td>
<td>34</td>
</tr>
<tr>
<td>35-39</td>
<td>10</td>
<td>10</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>40-44</td>
<td>10</td>
<td>7</td>
<td>20</td>
<td>14</td>
</tr>
<tr>
<td>45-49</td>
<td>11</td>
<td>9</td>
<td>22</td>
<td>18</td>
</tr>
<tr>
<td>50 above</td>
<td>9</td>
<td>3</td>
<td>18</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>50</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Study Findings, 2014
The same information is shown using bar chart as shown in Figure 2.

**Figure 2: Age of Respondents**

![Bar chart showing age distribution of taxpayers and TRA staffs](chart.png)

**Source:** Study Findings, 2014

Findings of the study show the 25-29 age groups of respondents’ holds 6% of taxpayers and 8% of TRA staff. In the 30-34 age group 14% is for taxpayers and 34% staff, 35-40 age group shows 20% both to taxpayers and staff. In the 40-44 age groups, 20% is on taxpayers while 14% is on staff. 45-49 age group has 22% on taxpayers with 18% on staff while under 50 and above age group stands with 18% on taxpayers and 6% on staffs. Therefore according to the findings majority of taxpayers are in a age group of 45-49 holding 22% while majority of the TRA staff lies in the age group of 30-34 with a percentage of 34.

### 4.2.2 Sex

Sex is an important demographic variable in this study because it shows the contribution and influence that sex might have to tax reforms efficiency, Table 4.2 and Figure 3; shows the sex distribution of the sample size and its percentages.
Table 4.2: Sex

<table>
<thead>
<tr>
<th>Sex</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Taxpayers</td>
<td>TRA Staff</td>
</tr>
<tr>
<td>Male</td>
<td>29</td>
<td>25</td>
</tr>
<tr>
<td>Females</td>
<td>21</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: Study Findings, 2014

From the Table 4.2 Male had greater percent than women on taxpayers side, this implies men pay more tax than women as they are the ones involved mostly in businesses and on the side of TRA staff there was an equal gender distribution. Using bar chart the same information is presented in Figure 3.

Figure 3: Sex of Respondents

Source: Study Findings, 2014

Findings of the study show that 58% and 50% of the sample were males who were taxpayers and staff. Also 42% and 50% of sample size were females who comprised of taxpayers and staff.
4.2.3 Education Level of Respondents

The study was interested to know the education level of tax payers and tax collectors because this information would lead to the discovery of whether the performance of tax collectors in tax collection and voluntary tax payment are influenced by their level of education and also if levels of education could help respondents to understand different questions asked by the study. Table 4.3 shows the education level of tax payers and tax collectors,

Table 4.3: Level of Education of Respondents

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Taxpayers</td>
<td>Tax collectors</td>
</tr>
<tr>
<td>Primary</td>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td>Secondary</td>
<td>18</td>
<td>36</td>
</tr>
<tr>
<td>Certificate</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>Diploma</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Degree</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>Postgraduate Diploma</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Masters</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Study Findings, 2014

According to the findings as shown in Table 4.3 the majority of taxpayers involved who were 36% had a secondary level education and for the case of tax collectors 42% of them had a degree level education. This same information is presented by a bar chart as shown in Figure 4.
Findings show that the majority of taxpayers have normal secondary level of education. This probably is so because secondary education in Tanzania has been subsidized by the government and fees have been lowered so that the majority can afford for it and for the case of tax collectors the majority of them have a degree level of education. This implies that education is considered mostly as a key factor for any tax collector to have.

4.3 Taxpayers Identification

In Tanzania tax payers are identified through a Tax Identification Number (TIN) which is provided by TRA. TIN is an automated taxpayer registration system, which issues a unique number to each taxpayer on first registration. It became operational in July 2002 as a unique identifier used in all tax system; linked to the central server thus enabling all the regions, including Zanzibar to print and issue TIN certificates and update taxpayer information. There are two types of TIN namely – Business and Non- business.
Under provisions of the Income Tax Act 2004 (Cap 332 RE 2006) requires every resident person carrying on a business anywhere and non-resident person carrying on a business in the United Republic of Tanzania to be issued with TIN.

The last survey report conducted by TRA shows that until September 2013, there were around 1,659,145 registered taxpayers across the country whereby 419,103 out of them are non-business TIN registered and the remaining 1,240,042 are business registered taxpayers.

The study analyzed feedback from respondents on Taxpayers Identification; Findings are as shown in Table 4.4.

**Table 4.4: Identification of Taxpayers**

<table>
<thead>
<tr>
<th>Identification</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All taxpayers identified</td>
<td>42</td>
<td>84</td>
</tr>
<tr>
<td>Not all taxpayers identified</td>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Study Findings, 2014*
The same information is also presented in a bar chart as shown in Figure 4.

**Figure 4: Identification of Taxpayers**

Source: Study Findings, 2014

Findings show that 84% of the respondents said all taxpayers in Tanzania are identified while 16% of them were of the view that not all of the taxpayers are identified. This implies that still there are taxpayers who have not been registered and the Government is missing revenue because of that.

### 4.4 Contribution of each Category of Taxpayer in Revenue Collection

Tax Identification Number enables categorization of tax payers by providing them with a noticeable identity to the taxpayers but other factors that contribute to this are categorization, capital and structure. Categorically taxpayers are termed as large, medium and small. Large taxpayers in Tanzania, according to the recent studies are more than 370 in number and they are the category that contributes the most as they cover 70% of the revenue collected and the remaining is contributed by small and medium taxpayers. The study findings for this have been analyzed and tabulated as shown in Table 4.5
Table 4.5: Contribution of Taxpayers’ Categories in Revenue Collection

<table>
<thead>
<tr>
<th>Taxpayer category</th>
<th>Contribution percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large taxpayers</td>
<td>70</td>
</tr>
<tr>
<td>Medium taxpayers</td>
<td>Less than 30, greater than 14</td>
</tr>
<tr>
<td>Small taxpayers</td>
<td>Less than 14</td>
</tr>
</tbody>
</table>

**Source**: Study Findings, 2014

Table 4.5 shows that 70% comprised of large taxpayers contribution in the total revenue while medium taxpayers contribution was between 30%-14% and small taxpayers contribution range below 14% but altogether contributed 30% in the total revenue collection. This information is shown in Figure 5.

**Figure 5**: Contribution of Taxpayers’ Categories in Revenue Collection

**Source**: Study Findings, 2014

The study further analyzed departmental contribution on revenue collected as per TRA quarterly reports and the analysis was tabulated as seen in Table 4.6.
Table 4.6: Departmental actual Revenue collections in Quarterly for 2013/2014 (Million Tshs)

<table>
<thead>
<tr>
<th>Department</th>
<th>1st Quarter 2013/14</th>
<th></th>
<th>2nd Quarter 2013/14</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>July</td>
<td>Aug</td>
<td>Sept</td>
<td>Total</td>
</tr>
<tr>
<td>Domestic Revenue</td>
<td>120,70</td>
<td>114,35</td>
<td>154,54</td>
<td>389,600</td>
</tr>
<tr>
<td></td>
<td>3.6</td>
<td>2.4</td>
<td>4.1</td>
<td>.0</td>
</tr>
<tr>
<td>Customs and Excise</td>
<td>262,47</td>
<td>307,14</td>
<td>338,73</td>
<td>908,355</td>
</tr>
<tr>
<td></td>
<td>9.8</td>
<td>3.0</td>
<td>2.8</td>
<td>.7</td>
</tr>
<tr>
<td>Large Taxpayers</td>
<td>281,02</td>
<td>269,36</td>
<td>427,42</td>
<td>977,817</td>
</tr>
<tr>
<td></td>
<td>9.8</td>
<td>1.3</td>
<td>6.2</td>
<td>.4</td>
</tr>
<tr>
<td>TOTAL (GROSS)</td>
<td>664,21</td>
<td>690,85</td>
<td>920,70</td>
<td>2,275,7</td>
</tr>
<tr>
<td></td>
<td>3.2</td>
<td>6.7</td>
<td>3.1</td>
<td>73.1</td>
</tr>
</tbody>
</table>

Source: Study Findings, 2014

From the totals, it is clearly shown that large taxpayers contribute more than other departments.

4.5 Large Taxpayers’ Incentives

Tax incentives are granted to both local and foreign investors provided they are registered by Tanzania Investment Centre (TIC) and/or Tanzania Revenue Authority (TRA). Tax incentives are mainly in the form of enhanced capital deductions and allowances. They are structured as according to the lead and priority sectors
including Agriculture, agro-based industries, mining, tourism, petroleum and gas and economic infrastructure (Road, railways, air and sea transport, port facilities, telecommunication, banking & insurance). The government of Tanzania is providing a wide range of tax incentives to businesses to attract greater levels of Foreign Direct Investments (FDIs) into the country. Apart from the wide range of incentives provided by Tanzanian government, still there seem to be lack of awareness to some of the taxpayers concerning tax incentives provision. The study surveyed and came up with responses as the Table 4.7 shows;

Table 4.7: Large Taxpayers’ Incentives

<table>
<thead>
<tr>
<th>Awareness</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>27</td>
<td>54</td>
</tr>
<tr>
<td>No</td>
<td>18</td>
<td>36</td>
</tr>
<tr>
<td>I don’t know</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Study Findings, 2014

Table 4.7 show 27 respondents knew about the incentives offered, 18 did not know about them and 5 respondents had no idea if there was such a thing. This information is also presented in a bar Chart as Figure 6 shows;
Percentage wise as seen in Figure 6, 10% of taxpayers were unaware of the existence of incentives, 36% did not benefit from any of the incentives provided while 54% were the benefiting taxpayers.

4.6 Skills and Knowledge of Tax Collectors
Tax collectors knowledge and skills is very crucial in tax collection, once this is conducted efficiently it will ensure that proper service is being provided with no loop holes that would hinder the collection. TRA provides education to the public and its staff through publications and educational seminars that enhance knowledge of the public at large including tax collectors. The survey also revealed that skills and knowledge of execution are acquired through the working experience which is determined by the number of years in service by the staffs. Table 4.8 shows working experience of the tax collectors;
Table 4.8: Level of Work Experience

<table>
<thead>
<tr>
<th>Level of work experience</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-4 years</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>5-6 years</td>
<td>12</td>
<td>24</td>
</tr>
<tr>
<td>7 years or more</td>
<td>35</td>
<td>70</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Study Findings, 2014

Findings revealed that, most of the skilled tax collectors are the ones who served same field for many years, frequency from the table shows 7 years and above having the most numbers (35). This is clearly shown in a bar chat in Figure 7.

Figure 7: Level of Work Experience

Source: Study Findings, 2014

In order for tax collectors to be efficient in collecting taxes, they should be highly skilled and knowledgeable. That is why TRA is on the front row in providing tax education to the public by having the Taxpayers education counter at its head office and seminars to its staff so as to impart them with knowledge and skills in collecting tax. Level of skills and knowledge of tax collectors was analyzed and findings were documented as shown in Table 4.9.
Table 4.9: Level of Skills and Knowledge of Tax Collectors

<table>
<thead>
<tr>
<th>Level of skills and knowledge</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>26</td>
<td>52</td>
</tr>
<tr>
<td>Medium</td>
<td>18</td>
<td>36</td>
</tr>
<tr>
<td>Low</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Study Findings, 2014

The same information was presented in a pie chart for clarity as Figure 8 shows;

Figure 8: Level of skills and knowledge of tax collectors

Source: Study Findings, 2014

Pie chart shows the blue field with a greater percentage having 52% that stands for high level of skills and knowledge, while red being for medium with 36% and 12% on the green field for the low level.

Taking into consideration the previous Tables and Figures with the later, it implies that most skilled and knowledgeable tax collectors are those staffs who have served longer in the same field.
5.1 Conclusion

Basing on the objectives and findings the study concludes that; not all taxpayers in Tanzania are identified despite the act of being successful on one part. Still there are some people and businesses operating in an informal sector that are not identified, this leads the Government not to collect the whole revenues as it would have been supposed to and this eventually affects reforms efficiency in target attainment.

It is further concluded that large taxpayer’s category is the most contributory category among all. Categorically taxpayers are grouped in three groups namely-

Large taxpayers, medium and small taxpayers.

Based on findings large taxpayers were contributed by 70% and the rest was contributed by medium and small taxpayers (30%), this reflects to the sensitivity of large taxpayers’ category therefore slight changes on this category directly affect the total revenue collection.

Moreover, it is concluded that incentives given to large taxpayers are the major factors for draining potential revenues. It was found that most of developing countries use tax incentives as a way of attracting Foreign Direct Investment (FDI). Some incentives have been successfully implemented and positively helped in poverty reduction, but respondents on this matter think that tax incentives and exemptions should not be used as source of attracting FDIs as investors will generally consider other factors that improve a country's investment climate as more important. This has been a contributory factor to losses as once seen in Adolf Ndunguru’s report from Tanzania Revenue Authority, showing that Tanzania tax incentives have led to a loss of around 3% of GDP in tax revenues.

Also from Parliamentary Inquiry on the extent of tax evasion/avoidance, use of tax havens and illicit financial transfer; reports showed vivid examples given by TRA
from forensic investigation conducted on issues of transfer pricing done by multinational corporations. All sectors are affected but mostly agriculture, tourism and mining are the leading ones. An example of a mining company which was granted a 5 years tax haven was declaring losses during the period granted but was discovered to have been making profit to the tune of USD 330 million.

It is also concluded that skilled staff are those whom have served the sector for a longer period. Basing on findings, experience on the same field has proved to create the skillful minds out of staffs, age group that was seen to have high level of skills and knowledge was the age group of 30 years and above. For staffs with little skills and knowledge TRA assists in providing education to them in various ways for example seminars and Taxpayers charter for taxpayers. Also taxpayers are educated on tax and its importance to the national development at large; therefore this increases efficiency and effectiveness on tax collection and revenue boost.

5.2 Recommendation
Based on the findings of the study it is recommended that; there is a need for the government, staff and all stakeholders to continue to advice, support the practice, good corporate governance in the operations so as to increase the level of compliance, reduction of collection costs and hence increase the level of performance of the department to a higher level also practice of good governance should still be exercised in the operations and advice and monitoring should be provided to taxpayers with low levels of corporate governance so that more revenues are collected not only by widening the tax base but also proper monitoring of the existing base, also the continual of tax education, seminars, exercising enforcement may help to increase compliance to a higher level.

There is also a need for the LTD management and staff to maintain the level of performance currently experienced so as to stabilize achievements and hence stabilizing their contribution, monitoring the performance and device better strategies in order to enhance the level of performance in the future. Hence close monitoring of
the normal revenue flows, effective carrying out comprehensive and issued- audits, devising modified and new ways to best administer tax collections, timely and strict implementation of the departmental action plans as well as thorough education to the taxpayers will help to maintain and enhance the overall performance of the Department and its contribution in general.

The Large Taxpayers Department also, shouldn’t only stress the taxpayers on voluntary compliance but also to strengthen the administration too by monitoring the reforms and modify them if necessary so that activities are also done efficiently hence increasing the overall level of performance, rise in revenue collection for the betterment of the citizens and the fostering development at large.
REFERENCES


Ndunguru C. Philbert (2007) “Lecturer on research methodology for social sciences” Research information and publications department Mzumbe University.


APPENDICES

Appendix I: Questionnaires

All parts to be answered by the staff.

1. What is your position in this organization? ........................................?

2. How long have you been working with this organization? ...............?

3. What is your level of education/qualification? ................................?

4. Has the level of compliance among the Large Taxpayers raised or not? 
   Yes ( )
   No ( )
   I don’t know ( )
   If the answer above is Yes/No give reasons:
   ……………………………………………………………………………………………

5. Is there any contribution by the Large taxpayers Department to the total 
   collections?
   Yes ( )
   No ( )

   If yes give details on the level of contribution 
   ……………………………………………………………………………………………

6. What are the challenges associated with the performance of the Large taxpayers 
   Department?
   ……………………………………………………………………………………………

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7. Suggest ways to improve the LTD performance if any

THANK YOU FOR YOUR COOPERATION
Appendix II: Interview Questions

SECTION A. Interview questions formulated specifically for tax payers.

1. Age: ______________________________
2. Sex: ______________________________
3. What type of business are you dealing with?
4. Where is your business located?
5. For how long have been operating?
6. Are you registered with TRA?
7. Is tax system fair in Tanzania? If No, why?
8. Are you aware of the incentives provided by TRA to taxpayers?
9. Are incentives fairly provided to taxpayers?
10. Have you ever benefited any incentive from TRA?

SECTION B. Interview questions formulated specifically for TRA Staff.

1. Age: ______________________________
2. Sex; ______________________________
3. What is your position in this organization?
4. What is your Academic qualification?
5. How long have you been working for TRA?
6. Do staff members receive training regularly on tax collection?
7. Are there any challenges in tax collection?
8. If yes, what are the challenges?
9. Do these challenges affect directly tax collection?
10. What do you suggest to be done, to improve tax collection?