

**IMPACT OF TAX EXEMPTION AND TAX RELIEF FOR
FOREIGN INVESTORS TOWARDS GOVERNMENT REVENUE
CASE OF TANZANIA REVENUE AUTHORITY (TRA)**

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FOREIGN INVESTORS TOWARDS GOVERNMENT REVENUE
CASE OF TANZANIA REVENUE AUTHORITY (TRA)**

By

Noel Peter Makere

**Dissertation submitted in partial/fulfilment of the requirements for the
award of Degree of Masters of Business Administration (MBA) of
Mzumbe University**

2013

CERTIFICATION

We, undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled **“Impact of Tax Exemption and Tax Relief for Foreign Investors towards Government Revenue, Case of Tanzania Revenue Authority (TRA)”**, in partial fulfilment of the requirement for Masters Degree in Business Administration of Mzumbe University.

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DEDICATION

I dedicate this work to my sweet wife Lyidia Chocha who came to be during my studies and final touch on preparation of this dissertation.

LIST OF ABBREVIATIONS

ATAF	:	African Tax Administration Forum
BWGPF	:	Budget Working Group of Policy Forum
CHADEMA	:	Chama Cha Demokrasia na Maendeleo
CRI	:	Certificados de Recebiveis Imobiliarios
EPZ	:	Export Processing Zones
EPZA	:	Export Processing Zones Authority
FDI	:	Foreign Direct Investment
GDP	:	1Gross Domestic Product
PAYE	:	Pay As You Earn
TEC	:	Tanzania Episcopal Conference
TIC	:	Tanzania Investment Center
UDSM	:	University of Dar es salaam
URT	:	United Republic of Tanzania
VAT	:	Value Added Tax
ZIPA	:	Zanzibar Investment Promotion Authority

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ABSTRACT

The purpose of this study has been to find out the impact of tax exemption and tax relief for foreign investors towards government revenue, having intent to look for better solutions to raising government revenue. The study relied heavily on the practitioners and documents to collect necessary information regarding tax relief and exemption from the stakeholders, TRA being the major target area of study. It looked at positive and negative sides of the issues.

The study employed a case approach where TRA was the major area of study. It involved such department as Customs and Excise, Finance and Administration/Management. Both primary and secondary data were collected. The results were presented using frequency distribution tables and graphs using such programs as excel and the sort.

The results from the analysis revealed that the prevalent tax exemption and tax relief situation does not on its own attract foreign investments into Tanzania. Moreover, exemption and relief on tax does not contribute to the improved revenue collection, rather, they deter and get the country into unnecessary losses of revenue and resources as disadvantages have outweighed the advantages of the said exemption and relief. However, if well implemented, tax relief and exemption may be a drive for investment and may lead to increased revenue.

It was concluded that there are yet lessons to be learned out of the study current tax policies on exemption and relief, that they do not work for the benefit of the citizens of Tanzania, as they are not based on a win-win situation, rather they favour foreigners leaving the country dependent of aids.

It has been recommended that tax administrators and managers put their hands together to review the current tax regime, especially on exemption and relief so that revenue collection is enhanced.

CHAPTER ONE

PROBLEM SETTING

1.1 Overview of the study

This chapter introduced what and how this study is organised and conducted. It provides brief background information of the study, the context of the study, with its related challenges. It has also mention the statement of the problem, highlighting both specific and general objectives and research questions, importance, scope limitation and delimitations of this study.

1.2 Context of the study

Tax exemptions and tax relief have become increasingly contentious in Tanzania, with politicians and economists criticizing it as occasioning losses amounting to billions of shillings in government revenue.

In an analysis of Tanzania's budget revenue projections (2009/2010), the Budget Working Group of Policy Forum (BWGPF) stated that the Country is losing massive revenue in tax exemptions and tax breaks granted to government departments, donor supported projects, private businesses, NGOs and Mining Companies. According to the Tanzania Revenue Authority (TRA), the Government lost Tshs 587 billion in tax exemptions made between July 2008 and April 2009. Projects under the Tanzania Investment Centre (TIC) accounted for the largest percentage of the total exemption. Other beneficiaries included state owned institutions, the government of Zanzibar, religious and non-religious non-governmental organisations. In 2008 alone the government had foregone Tshs 1.8 trillion in exemptions. More revenue was lost to mining companies operating in Tanzania. None of the mining companies have sought exemptions from royalties or corporate income taxes in any of the contracts. (BWGPF, 2009/2010)

However, they have sought significant exemptions from local government taxes, withholding taxes, and fuel levies. The mining agreements stipulate that companies

will not pay local government tax in excess of \$200,000 a year (Tshs 260 million), even though this is much lower than the 0.3% of the value of company turnover, which the law requires they should pay in local government taxes (TEC, 2011)

The Bomani Commission had estimated that the government foregone Tsh 39.8bn in 2006/7 and Tsh59bn in 2007/8 in revenue as a result of fuel levy exemptions granted to the six large mining companies. In addition, the mining contracts have set stamp duties at 0.3%, a tenth of the rate of 4% stipulated in the substantive law. (Budget Frame, 2008/09-2009/10)

Tanzania's national debt increased during the period ending March 2012 according to a report read to parliament. A report entitled; One B Dollar Question: How Can Tanzania Stop Losing So Much Tax Revenue availed to East African Business Week in Dar es Salaam showed that Tanzania loses revenues between Tsh1.35 trillion (\$847 m) – Tsh2.05 trillion (\$1.29 b) a year (URT Parliamentary Reports, 2012). Presenting the State of The Economy for 2011 and National Development Plan for 2012/13 to Parliament in Dodoma recently, Minister for State, President's Office, Social Relations and Coordinator, Stephen Wasira said the national debt increased by 15.4%, the report stated.

The report said Tanzania provides an array of tax incentives and exemptions, especially to mining companies and firms operating in the Export Processing Zones (EPZs). "Many of these exemptions may represent an unnecessary loss of revenue.

Exemptions given to corporations have deprived Tanzania of an average of Tsh458.6b (\$288m) a year in the three years 2008/09 – 2010/11, it added.

This has just been "noise of an empty tin" where nothing is being done to date to ensure that whatever has been put in plan is put into action. The cost of unfulfilled promises and plans is remarkable, the country's progress deterred. There have been leaders 'on' and 'off' to their office as flocks come and go to graze yard, only to fill their stomachs without considering the tomorrow of the field.

1.3 The Emerging Challenge

The impact of tax exemption and tax relief has not been studied properly, only short term and focusing on a few Tanzanians employed in these foreign investments, as most of experts, well paid personnel come from their home countries. No proper and transparent means of managing and administering tax exemptions and relief to the foreign investing is put in place. There has been an increasing at an increasing rate of the tax exemption, while those exempted tricks the government to gain more exemption over and over. Tricks such as changing ownership, names and the sort have been common in the country to gain tax holidays, which may impact to the loss of revenue.

1.4 The Statement of the Problem

Despite the fact that most of tax administrators and managers comment so positively about exemption and relief, a few comments from those other than tax administrators speaking against the practices have been observed. Do these comments have any significance towards this practice? What is more into this that is not yet uncovered? Is the government gaining or losing, as it takes the course of exempting and relieving more and more foreign companies investing in Tanzania, considering positive comments of those involved in the said course, in the name of creation of investments and more opportunities in the country. Or maybe they have their own and probably personal reward into this. The study tried to answer these questions and came up with solutions.

The study titled “Impact of tax exemption and tax relief for foreign investors towards government revenue” is interested to provide answers and solutions to these controversies, whether tax relief has a positive effect to the nation, thus provide detailed information on the said exemption and relief of tax granted to the foreign investors towards the progress of the country. Thus the study attempted to find out the positives and the negatives of tax relief and exemption, thus weigh the two and eventually come up with the best practices in order to foster and improve government revenues.

1.5 The Research Question

1.5.1 General Research Question

What is the impact of tax exemption and tax relief to the government revenue?

1.5.2 Specific Research Question

- (a) Does the government of Tanzania benefit from tax exemption and tax relief from foreign investors?
- (b) Do tax relief and exemption have any negative effect to revenue collection and administration in Tanzania?
- (c) Is there any satisfactory substitute to tax exemption and relief as a means to attracting foreign investors?
- (d) What are the best practices in administration and management of tax relief and tax exemption?

1.6 The Research Objectives

1.6.1 General Research Objective

To find out the impacts of tax exemption and tax relief to the government revenue in Tanzania

1.6.2 Specific Research Objectives

- (a) To identify benefits accrue from tax exemption and tax relief if any, to the government revenues.
- (b) To find out negative effect of tax exemption and tax relief to revenue collection and administration in Tanzania
- (c) To identify any other mechanism the government may impose if any, to attract foreign investors into the country
- (d) To identify best practices in administration and management of tax relief and tax exemption

1.7 Significance of the Study

The study has the following significance:

It is an integral part of the academic fulfillment for the Master's degree in Business Administration - Corporate Management for the researcher

The study is expected to provide the government with necessary information on tax administration and management for effective and efficient revenue collection

It will also awaken the public of the challenges facing collection of revenues in Tanzania with intention to make it better.

It will provide Tanzania Revenue Authority with techniques and strategies necessary to increase government revenues in the present and future.

1.8 Limitations of the Study

As a result of insufficient time and funds for this research, the study limited to Tanzania Revenue Authority (Customs and Excise Headquarters) in Dar es Salaam. However, limited information from government revenues and tax administration due to the so called secrecy and confidentialities stumbled block for this study, as the study involved a very sensitive area of the government.

1.9 Delimitation of the study

Concentrating on the TRA headquarters alone was purposeful activity and a stepping stone towards a successful research report, overcoming fund and time constraints. Nevertheless, the use of internet, past research papers, government published journals and publications found in the TRA was a solution to unavailability of information, and hence gaining access to most of the facts and data useful for the purpose of this study.

1.10 Scope of the study

The study covered government institutions particularly the TRA located in Ilala Dar es Salaam, and a bit of private investors, particularly foreign investors involved or

have once been beneficiaries of tax exemption and relief, for the purpose of this study. However, other offices related to TRA headquarters were involved where necessary, for data collection and other correspondences.

CHAPTER TWO

LITERATURE REVIEW

2.1 Overview

Literature review is a critical and in depth evaluation of previous research. It is a summary and synopsis of a particular area of research, allowing anybody reading the paper to establish why someone is pursuing a particular research. Therefore, in this study, there are five parts of the chapter; the first one was definition of key terms used in the research, the second part was analysis of the underlying theories or models identifying some relevant models; the third part is analysis of the empirical studies; fourth part dealt with conceptual framework with its related analysis, while the last part looked at the statement of hypothesis.

2.2 Definition of Terms

2.2.1 Tax

The legal definition and the economic definition of taxes differ in that economists do not consider many transfers to governments to be taxes. For example, some transfers to the public sector are comparable to prices. Examples include tuition at public universities and fees for utilities provided by local governments. Governments also obtain resources by creating money (e.g., printing bills and minting coins), through voluntary gifts (e.g., contributions to public universities and museums), by imposing penalties (e.g., traffic fines), by borrowing, and by confiscating wealth. From the view of economists, a tax is a non-penal, yet compulsory transfer of resources from the private to the Public sector levied on a basis of predetermined criteria and without reference to specific benefit received.

A tax (from the Latin *taxo*; "I estimate") is a financial charge or other levy imposed upon a taxpayer (an individual or legal entity) by a state or the functional equivalent of a state such that failure to pay is punishable by law. Taxes are also imposed by

many administrative divisions. Taxes consist of direct or indirect taxes and may be paid in money or as its labour equivalent.

According to Black's Law Dictionary, a tax is a "pecuniary burden lay upon individuals or property owners to support the government; a payment exacted by legislative authority." It "is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority" and is "any contribution imposed by government, whether under the name of toll, tribute, tallage, gabel, impost, duty, custom, excise, subsidy, aid, supply, or other name."

The investoword.com defines tax as a fee charged ("levied") by a government on a product, income, or activity. If tax is levied directly on personal or corporate income, then it is a direct tax. If tax is levied on the price of a good or service, then it is called an indirect tax. The purpose of taxation is to finance government expenditure. One of the most important uses of taxes is to finance public goods and services, such as street lighting and street cleaning. Since public goods and services do not allow a non-payer to be excluded, or allow exclusion by a consumer, there cannot be a market in the good or service, and so they need to be provided by the government or a quasi-government agency, which tend to finance themselves largely through taxes.

2.2.2 Tax Exemption

Mwambwa, (2012), defines tax exemption as derogations or exclusion from a tax liability for the purposes of encouraging investments or other economic activities/objectives. This is a definition based on the positive side of exemption. Tax exemption may also refer to a personal allowance or specific monetary exemption which may be claimed by an individual to reduce taxable income under some systems. Tax exempt status may provide a potential taxpayer complete relief from tax, tax at a reduced rate, or tax on only a portion of the items subject to tax.

Examples include exemption of charitable organisations from property taxes and income taxes, exemptions provided to veterans, and exemptions under cross-border

or multi-jurisdictional principles. Tax exemption generally refers to a statutory exception to a general rule rather than the mere absence of taxation in particular circumstances (i.e., exclusion). Tax exemption also generally refers to removal from taxation of a particular item or class rather than a reduction of taxable items by way of deduction of other items (i.e., a deduction). Tax exemptions may theoretically be granted at any governmental level that imposes taxation, though in some broader systems restraints are imposed on such exemptions by lower tier governmental unit.

2.2.3 Tax Relief

Investopedia explains 'Tax Relief' as intended to reduce the tax liability of an individual or business entity. Often, the tax relief is targeted at providing aid for a certain event or cause. For example, hurricane victims may be allotted some form of tax relief when a hard-hit area is declared a disaster area. Tax relief is also available periodically to support environmental causes, as seen with tax credits for the purchase of energy-efficient appliances or the installation of energy-efficient windows.

Thus, tax relief is any program or incentive that reduces the amount of tax owed by an individual or business entity. Examples of tax relief include the allowable deduction for pension contributions, and temporary incentives such as tax credits for the purchase of new high-efficiency heating and cooling equipment

Wisegeek states that the term 'tax relief' refers to tax breaks and write-offs that reduce the amount of tax due or otherwise provide concessions for taxpayers. Tax relief can be granted on a local, state, or federal level. In the United States, however, the term is most often used in conjunction with federal taxes. The government provides tax relief to foreign investors. Generally, tax deductions and write-offs are targeted towards individuals or businesses in need of financial breaks. Such concessions are usually not intended for multi-million dollar corporations or billionaires according to wiseGeek.com, (2013).

There are many reasons why a foreign investor or an individual might need or desire tax relief. For personal reasons, a person may be unable to pay all the taxes imposed

on him or her. A person with a lower income may find paying taxes in their entirety or by a certain deadline a hardship. There are a wide variety of tax breaks and deductions available. To take advantage of a particular tax relief program, an individual must meet the specific social and financial requirements of that program.

Often, tax relief is granted to individuals who have been victims of a disaster. For example, a taxpayer who has lost a home, business, job, or something else of value as the result of a hurricane or tropical storm may be eligible for tax relief. In the United States for instance, the President must declare the area hit by such a storm a disaster area before the person can claim such tax relief.

2.2.4 Tax Haven

Dharmapala et al (2006) define tax haven as a state, country or territory where certain taxes are levied at a low rate or not at all. Individuals and/or corporate entities can find it attractive to establish shell subsidiaries or move themselves to areas with reduced or nil taxation levels. This creates a situation of tax competition among governments. Different jurisdictions tend to be havens for different types of taxes, and for different categories of people and/or companies (Moran et al, 2012). States that are sovereign or self-governing under international law have theoretically unlimited powers to enact tax laws affecting their territories, unless limited by previous international treaties.

There are several definitions of tax haven; the Economist has tentatively adopted the description by Geoffrey Colin Powell (former economic adviser to Jersey): "What identifies an area as a tax haven is the existence of a composite tax structure established deliberately to take advantage of, and exploit, a worldwide demand for opportunities to engage in tax avoidance." The Economist points out that this definition would still exclude a number of jurisdictions traditionally thought of as tax havens (Doggart, C. 2002). Similarly, others have suggested that any country which modifies its tax laws to attract foreign capital could be considered a tax haven (Davidson, 2007).

According to other definitions, the central feature of a haven is that its laws and other measures can be used to evade or avoid the tax laws or regulations of other jurisdictions. In its December 2008 report on the use of tax havens by American corporations, the U.S. Government Accountability Office was unable to find a satisfactory definition of a tax haven but regarded the following characteristics as indicative of it.

2.2.5 Government Revenue

The US constitution defines Government Revenue is revenue received by a government. Its opposite is government spending. Yet, governments coin money. Government revenue is an important part of fiscal policy. Revenue may be from taxation or non-tax revenue, such as revenue from government-owned corporations or sovereign wealth funds.

The European Commission terms ‘Government revenue’ as a sum of: (1) sales, which consist of- market output, output for own final use, payments for the other non-market output, (2) taxes on production and imports, (3) other subsidies on production, (4) property income, (5) current taxes on income and wealth etc., (6) social contributions, (7) other current transfers, and (8) capital transfers.

2.2.6 Foreign Investors

Foreign investors are those who put money into enterprises outside of their home country. Growing businesses often look for foreign investors to boost their finances while expanding into new markets. Wisegeek.com states that these investments range in complexity from simple stock acquisitions to complex agreements outside of stock exchanges. Foreign investments can originate from individual investors, businesses, and governments headquartered worldwide. An investor may place money into a business to capitalise on an innovative product, existing research, or a company’s reputation. These investments may have hidden benefits including the creation of strategic partnerships and exposure of new products to foreign consumers.

The simplest action taken by a foreign investor according to wisegeek.com is to purchase stock for a publicly traded company. These purchases can be sold in the future for profit or used to gain a controlling interest in a company. Foreign investors often work out private investments with businesses not listed on stock exchanges. These investments can include cash, lines of credit, and equipment to help a business during expansion. An agreement between foreign investor and business may include a predetermined rate of return on the initial investment.

The investopedia.com defines 'Foreign Investment' as the flow of capital from one nation to another in exchange for significant ownership stakes in domestic companies or other domestic assets. Typically, foreign investment denotes that foreigners take a somewhat active role in management as a part of their investment. Foreign investment typically works both ways, especially between countries of relatively equal economic stature. Investopedia.com explains further that 'Foreign Investment' currently is a trend toward globalisation whereby large, multinational firms often have investments in a great variety of countries. Many see foreign investment in a country as a positive sign and as a source for future economic growth. The U.S. Commerce Department encourages foreign investment through its "Invest in America" initiative. In Tanzania, foreign investors find it attractive as the policy favours them.

2.3 Analysis of underlying Theories

2.3.1 Processing of Tax Exemption

To receive tax exemption, one is required to follow the normal customs procedure of clearing goods through a registered Customs Clearing and Forwarding Agent. The agent or investor will apply for the tax exemption to the Commissioner for Customs & Excise if exemption for such goods or investment is provided for in the tax laws. The Commissioner will issue an assessment of the taxes and duties involved and submit it to the Treasury which will in turn issue a cheque for the exempted taxes. As soon as the Commissioner receives the cheque for the exempted tax / duty from the

Treasury, he will release the goods to the owner in a case of goods, or release a go ahead for tax exempted investment.

For goods, the clearance process is fast done under the Custom's automated system of ASYCUDA++/ASYSCAN where data related to import transactions are electronically keyed in and submitted to the system for processing. Under this automated system, import documents can be lodged even ten days before the arrival of goods and this speeds up the process of documentation and finally examination of goods as soon as they land.

Mwambwa, (2012) states examples of Tax exemptions offered in the mining sector in Zambia as:- Guaranteed Input claim for 5 years on pre-production expenditures for exploration companies in the mining sector; any mining company holding a large scale mining license carrying on mining of base metals is taxed at 30%; dividend paid by a mining company holding a large scale mining license and carrying on the mining of base metals is taxed 0%; 100% deduction on capital expenditure on buildings, railway lines, equipment, shaft sinking or any similar works; the debt equity ratio has been reduced from 2:1 to 3:1 to encourage further investments in the mining sector.

This policy brief does not take a position on these questions. Instead, by providing nine key facts about tax exemptions in Tanzania, it aims to contribute to a debate on whether the current practice is desirable. The analysis is based on information contained in Revenue Reports obtained from the Tanzania Revenue Authority (TRA, 1997/98-2009/10). It shows that: (1) the size of tax exemptions increased substantially in the second part of 2001-2010 decade (2006- 2010). (2) If tax exemptions were harmonised with what is practice in Kenya (1 percent of GDP) the result could probably be different. (3) TRA grants twice as much in tax exemptions in Zanzibar as it does on Mainland. This is indeed a weakness in the tax administration system, as it brings confusion in the same country, with inequalities for mainland and islands. However, it is crucial to find out whether it is worth it to have these inequalities. (4) Tax exemptions benefit mainly multinational investors

with certificates of incentives from the Tanzania Investment Centre (TIC) and Zanzibar Investment Promotion Authority (ZIPA).

2.3.2 Reasons for Tax Exemption

Tax exemptions are granted for a variety of reasons. In Tanzania, exemptions may be given for the following reasons according to Ministry of Finance (<http://www.mof.go.tz>):

- (a) Where the foreign or official nature of the item in question doesn't warrant a tax – for example, consumption on internationally bound aircraft or goods consumed by the armed forces and diplomatic missions.
- (b) Where activities of certain organisations do not earn them a profit but have a direct benefit to society which the Government may not be able to otherwise procure. This basis is used to grant exemptions to charities including religious organisations.
- (c) Where consumption of certain goods are deemed to have direct benefit to society. For example, certain human and veterinary medicines are exempt from VAT, as are fire fighting vehicles. Exempting such goods from taxes increases their consumption, which in return brings greater benefits due to their positive effects on society.
- (d) Another reason exemptions are granted is to stimulate economic growth. These exemptions should normally lead to increased investment, employment, output growth and thus lead to more tax revenues in the long run. Groups of companies granted wide-ranging exemptions such as favourable corporation taxes on profits and reduced import duties fall under this category. Most notable among these are companies established under the Export Processing Zones Authority (EPZA) Act, mining companies and other companies which hold certificates of incentives from TIC and ZIPA.

There is no evidence that these exemptions have got any significance to the economy of the country. For example, religious institutions are earning significant profit that is not taxed, the profit that benefits a few, who are top leaders of the respective church. Some of the religious institutions own large investments in the name of the church or helping. In one scenario in Rwanda, the government of Rwanda could not register the church and some of its programs till proved that they are actually operating for the benefit of the country and its general citizens. It was at this time when the government could not permit or register the operations of a certain church which claimed to have been charitable organisation.

It is a high time that the government of Tanzania satisfy itself that these charitable organisations indeed work for the benefit of the whole society and not just a few. What are the best ways of dealing with this? Is not that the government is losing a significant sum from tax. Is exempting these institutions of great importance to revenues or not. This is a good question that tax administrators should ask themselves and get the answer as soon as possible.

In his recommendation, Mwambwa (2012) said that Tax exemption among African Countries is doing more harm than Good, though he could not conclude which harm specifically is brought by exempting tax. However the statement is too general to conclude that in Africa, tax exemption has brought harm and not made the continent better. Thus there is a need to find out more what harm is brought by tax exemption to the African continent.

Again, he (Mwambwa, 2012) stated the effects of tax exemption and relief as (1) tax Competition: Race to the bottom; (2) Causes damage to the wider tax system; (3) Creates room for Bribery and Corruption; (4) Increases loopholes for tax evasion (e.g. transfer pricing) (5) Reduces tax base (6) no incentive for long term investment decisions and (7) Can signal corrupt regime. But no further estimates on the effects as to what extent and how was made. In general, Mwambwa brought these as highlights without full description on how when and to whom these effects may be realised.

2.4 Analysis of Empirical Studies

2.4.1 Studies from Abroad

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 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 (African Tax Administration Forum presentation (ATAF)).

This however, is too general to comment on Tanzania's situation. There is a need indeed to find out more on the impact of tax relief and exemption within the country, as each country is unique.

Brazil, a South American country, whose economy is springing up, having had a similar economic background with most of African countries, has been so keen in this area of administering tax exemption and incentive. It granted a tax exemption to foreigners who buy mortgage-backed securities or invest in funds that purchase them after sales of new debt supported by real estate loans, fell almost 50 percent last year. The tax break only applies if proceeds of the debt are used on "investment projects" and the bonds have an average maturity of at least four years, Pablo Fonseca Pereira dos Santos, deputy secretary of economic policy at the Ministry of Finance, said in an interview from Brasilia.

"The concept of investment is purposely very broad just to give market players flexibility," Pereira dos Santos said. "A new building is for sure an investment, and so is a house expansion or a new factory." The tax incentives are designed to

develop local debt markets and help raise about 1 trillion reais (\$493 billion) for roads, factories and airports. Local long-term funding is provided mainly by the nation's development bank, known as BNDES in Brazil. The government is seeking to develop the real estate and construction industries to boost employment as economic growth slows. Sales of Brazilian mortgage-backed securities, known as *Certificados de Recebiveis Imobiliarios*, or CRIs, dropped 48 percent last year through September to 5.5 billion reais, according to Anbima, Brazil's capital-markets association. Outstanding debt jumped almost 51 percent as of Oct. 17, to 29.8 billion reais from 19.7 billion Reais on Jan. 31, 2011, according to Cetip SA (CTIP3) - Mercados Organizados, Brazil's biggest securities clearinghouse.

Qatar is exempting non-Qatari investors from paying taxes on their share of profits in the joint stock companies listed on the Qatar Exchange , a move that is ought to augur well not only for those overseas investors but also for the domestic entities. The country, which is keen to attract more foreign capital into the market, is also extending the benefits of tax exemptions enjoyed by stocks to other investment instruments. This was regarded as a 'tax –less demanding system' as it provides a lot of loopholes to the tax averters.

At a recent Cabinet meeting, presided over by Deputy Prime Minister and Minister of State for Cabinet Affairs HE Ahmed bin Abdullah al-Mahmoud, an approval was accorded to a draft law amending some provisions of the Law No 20 of 2008. The move also comes on the backdrop of a recent report by the World Bank, International Finance Corporation and PriceWaterhouseCoopers, which ranked Qatar second in the world for its "less demanding" tax system. The share of non-Qatari investors in the profits of some Qatari holding companies, whose shares have been put in Qatar Security Market (Qatar Exchange), shall be exempted from income tax law, according to Article I of the original Law No 20 of 2008.

"The move is certainly beneficial. From the amendment, we are to believe that the exemption will now be extended to all companies listed rather than only holding companies as per the original law," one of the sources told Gulf Times. On January

1, 2010 a new tax law came into effect, imposing a flat 10% rate for all non-Qatari companies and foreign partners in Qatari companies, except for the energy sector where there is at least a 35% tax, unless exempted by Emiri decree.

The recent amendment is aimed at encouraging the foreign capital to invest into the Qatari market. "It is certainly a win-win situation for both foreign investors and domestic companies," they said, adding the amendment has twin benefits apart from bringing in more clarity. The domestic firms will not have to incur taxes on account of non-Qatari shareholders; which would in turn further enhance "distributable profits", a source said. The non-Qatari shareholders would now have clarity and certainty regarding their status on taxes on profits from their holdings. "Clarity on tax regime is as important as certainty in regulations and macroeconomic fundamentals for attracting foreign capital," he said. The amendment also clarified that there would be no capital gains tax (i.e. tax on profits realised from the trading of securities, including units of investment funds listed for trading on the stock exchange). The move appears to be beneficial considering the Qatar Exchange is now actively engaged in expanding the investment portfolio, which includes exchange traded funds. Moreover, efforts are on to allow domestic non-government entities to tap the debt market.

The mutual fund law (Law No 25/2002) allows expatriates to invest indirectly in the stock market. Now that the government has gone one step forward, it is also worthwhile to ponder over raising the cap on foreign holding limits in the listed companies, a move that could possibly upgrade the Qatari bourse's to "emerging" market from the current "frontier" status, a financial analyst said. It has been seen from the Qatar experience, that amendment of laws may be necessary to properly administer tax relief and exemption, though little is seen on the outcome of the law amendment, as no further claims have been made on the consequences of the said amendment.

In February, 2013, China announced cancellation of tax exemption for its foreign investors. China is abolishing tax exemptions for foreign individuals who obtain

dividends and bonuses from foreign-invested enterprises, under a new tax regime that aims to make the wealthy pay more and narrow the income gap. According to Caixin, a mainland business magazine, a tax rate of 20 percent currently applies to dividends and bonuses under the mainland's personal income tax law (CFO Innovation Asia Staff, 08 February 2013)

"Tax breaks are especially unwise given that many foreign investors in China shift profits overseas. The new plan is fairer as it ensures equal treatment of national and foreign investors," Liu Tianyong, a tax lawyer, told Caixin. "It was an outdated policy conceived during the planned economy period. It should have been abolished a long time ago." Tax incentives and special treatment to foreign enterprises and individuals were offered by China to attract overseas investment as it introduced economic liberalisation. The cancellation of tax exemptions for foreigners comes nearly 18 months after expatriate staff on the mainland was controversially required to join its pension system.

2.4.2 Studies from Tanzania

The Deputy Minister of Finance and Economic Affairs, Omar Yusuf Mzee in an interview with the Guardian newspaper (21st September 2010) speaking on tax exemption on mining sector explained that the tax exemptions on imported fuel "did not mean completely removing import taxes...there was a ceiling of tax exemption...they (mining companies) were only allowed to import set amounts of fuel without paying tax; if they brought in more than the agreed amounts, the excess was taxed," he clarified.

Current negotiations, the minister said, involve government experts and representatives from five mining companies which signed the agreement on tax exemptions on fuel imports by that time. He said other mining companies were obliged to pay import tax on fuel in accordance with the new Mining Act and policy. On its side, Tanzania Revenue Authority (TRA) has defended tax exemption as a strategic and best instrument for luring investors and fast-tracking the country's economic growth and development.

It also said it had in place mechanisms to monitor the incentive against abuse. TRA Director for Taxpayer Services and Education, Protas Mmanda says tax exemption on capital goods and raw materials have greatly contributed to the growth of large economic ventures in the manufacturing, tourism, mining and telecommunications sectors.

“The spill-over effect of this achievement is reflected in the creation of employment and value addition in the economy. The ultimate tangible result is the tax revenue collected from these investments,” Mmanda observed.

“If managed properly, tax exemption can be a good instrument for tax base expansion and for spurring the country’s economic growth and development,” he said. He said TRA had a mechanism in place to ensure proper utilisation of tax exemptions by investors.

“In fact, our (TRA) units are working hand in hand with the Tanzania Investment Centre (TIC) to ensure that investors are not misusing tax-exemption and relief packages,” he said.

He said the medium and long term benefits from such a strategy included economic growth, job creation and taxes such as PAYE.

He is supported by a finance and business consultant Fred Msemwa who said tax exemption was the best strategy for encouraging investors and expanding tax revenue base in developing countries such as Tanzania.

“In the short term, people may view tax exemption for investors as loss of government revenue, but in the long-term, investors would pay taxes, thus increase government revenue for financing development projects-roads, schools, and other related projects...the biggest problem is that some of the unethical leaders and investors are abusing tax exemptions,” said Msemwa.

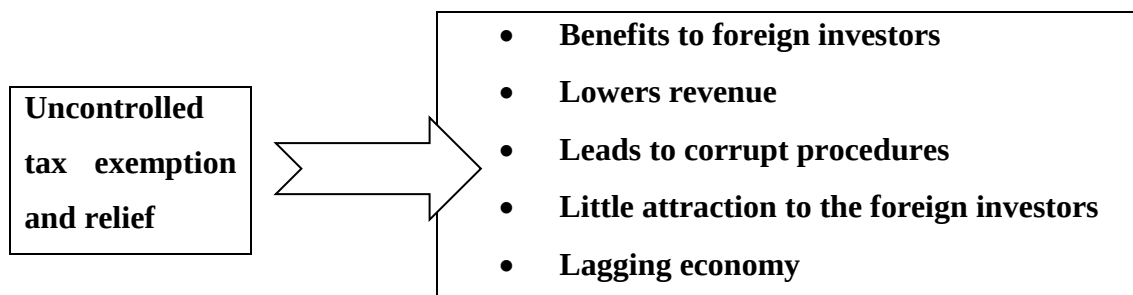
Local media have quoted some politicians in the on-going campaign rallies as criticizing tax exemptions as unsuitable mechanism for attracting investors to the country, as it causes huge loss to the government as it is poorly administered.

2.4.3 Knowledge gap

There have been speculations on this subjects that have not yet been proved. Some think that tax exemption and relief works for the benefit of the Tanzanians, while others think otherwise. The first looks at the positive side of the said tax administration, highlighting that indeed tax exemption and relief is of great benefit to the economy of Tanzania, while the later think of that tax administration as a loss of revenue the government of Tanzania. The real impact of tax exemption to revenue collection have not yet been established for the government to go ahead implement whatever seems to be beneficial to Tanzanian citizens. It is therefore at this point of view that this study stood as a mediating factor, to find out the real impact, and therefore provide the government and those involved in the decision making regarding best practices on tax administration be on the safe side.

2.5 Conceptual framework

Figure 2.1 The Conceptual Framework



Source: Researcher's Concept, (2013)

2.5.1 Description of the model

The model is centered on the effects tax exemption and relief brings to the government on revenue collection. While tax exemption and relief may become causative factor, benefits to the foreign investors; impact to lowered revenue; corrupt

procedures in tax administration system; lowered attraction to the investors towards the country; and economic lag becomes the effects of the said cause. The arrow on the other hand depicts the relationship between the cause and effect as it has been illustrated.

2.5.2 Underlying Assumptions

There is an assumption that poorly administered tax relief and exemption would lead to the lowered or slowed economic growth for the country, as it leads to the said impacts namely, benefits to the foreign investors; impact to lowered revenue; corrupt procedures in tax administration system; lowered attraction to the investors towards the country; and economic lag. Thus well administered tax exemption and relief would lead to improved revenue to the government, thus creation of benefits to not only investors. But also well administered tax exemption and relief would lead to fewer loopholes on corrupt acts to tax administrators, as well as attraction to more investors which will eventually lead the country into leading economy.

2.5.3 Description of the variables

This study consists of both dependent and independent variables as depicted in the conceptual framework. On the left hand side is the independent variable, that is, tax exemption and relief. How tax exemption and relief is administered have direct and indirect impact to the way the government personnel charged with responsibility to administer tax behave. Thus, poorly administered tax relief and exemption may yield to lowered revenue; corrupt procedures in tax administration system; lowered attraction to the investors towards the country; and economic lag, which are illustrated as dependent variables in the framework.

2.5.4 Relationship between the variables

In this illustration therefore, is vivid that there is a direct relationship between the independent variable and dependent ones. The illustration is depicted by an arrow from the independent variable (Uncontrolled Tax exemption and relief) directed towards dependent variables which are a result of poorly administered tax exemption and relief.

2.6 Statement of Hypothesis

Saunders et al. ((2007) define hypothesis Testable proposition about the relationship between two or more events or concepts. Silverman (1998) defines a hypothesis as ‘a testable proposition’. The appearance of an apparent relationship or connection between categories will need to be tested if you are to be able to conclude that there is an actual relationship. However, this is not the same as the statistical hypothesis or significance testing. Nonetheless, in this study, hypothesis testing is not expected to take place, objectives of the study and the research questions were used to test the relationship among variables, hence conclusions were drawn basing on the same, qualitatively.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Overview

Research methodology is a systematic approach through which research is undertaken. The research methodology consists of Research design (strategy); a case is described, which include location of the case, data type required, that is primary and secondary, measurement of variables, quality of data and measurement, methods of collecting data with its related instruments, sampling procedures, field work and actual field work; and data processing procedures.

3.2 Research strategy

Saunders et al. (2007) stated that Research strategies, research choices and time horizons are the three layers in his so called “research onion” that can be thought of as focusing on the process of research design, that is, turning research question into a research project (Robson, 2002). Saunders and others continue to state that research design is the general plan of how one goes about answering research question(s). This was the general plan of how the research was to be carried out on answering the research questions.

It contained clear objectives derived from research questions, specified the sources from which the study has collected and considered the constraints that have inevitably faced the study (Saunders, et al., 2009). Research strategy constituted conceptual structure within which research was conducted; it constituted the blue print for the collections measurement and analysis of data (Aker et al., 2002).

Based on the nature of the topic and the study area, a design suitable to this research was case study design. Mainly, the study was based on documentary collection, practioner’s view on the matter, both mid class employees within the TRA as well as senior management team. Observation was used to depict the existing environment on the current tax administration in Tanzania.

Documentary and questionnaires source of data was used as a major source of data supplemented by observations made on various aspects like organisation structure, financial performance and the like. Survey strategies have a considerable ability to generate answers to the question ‘why, what and how’ questions although ‘what’ and ‘how’ questions tend to be more the concern of the case strategy. For this reason the survey strategy was mostly used in explaining situations (explanatory) and exploring new ideas (exploratory research). Triangulate multiple sources of data was used where data collection techniques employed were various and they were used in combination, including but not limited to interviews, observations, documentary analysis and the like. Triangulation refers to the use of different data collection techniques within one study in order to ensure that the data are telling you what you think they are telling you (Saunders et al., 2009).

3.3 Description of the area studied

The area studied was Dar es Salaam, in the Customs and Excise department at TRA headquarters, but also selected foreign investments found in Dar es Salaam Tanzania for the purpose of this study.

3.4 Nature of data required

This study used both primary data and secondary data;

3.4.1 Primary Data

These are data which were collected through communication which involved interview conducted by the researcher and Questionnaires designed by the researcher, also data which were collected through observation. Primary data were used to gather information on variables such as attracting investors and corrupt procedures in this study.

3.4.1.1 Interviews

The researcher involved face-to-face discussion (interview) with the employee of an organisation and selected people from outside the organisation who tax stakeholder’s interviews.

3.4.1.2 Questionnaires

Selected questions (closed questions) which were designed and prepared by the researcher were used to collect relevant data and information from staff and management. As with the case of interviews, they were also used to obtain first hand information from the respondents.

3.4.1.3 Observation

Observation could not be ignored, due to a reason that sometimes, what is obtained from the response from respondents does not actually denote the routine activities. It is therefore, through observation one can see for himself/herself of the reality. In this case, the researcher concentrated also on observing on what is going on in these departments for valid information. Again this was necessary during this study in order to obtain first hand information for respondents as the case of questionnaires and interviews.

3.4.2 Secondary Data

Secondary data those which the researcher obtained from the documents either kept by the collecting centers or supportive societies, also what other researchers have written about the research being conducted. The data were collected through literature review, from journals reports and other documentation. Secondary data were used to obtain information on such variables as economic impact of tax exemption and relief, its effects on foreign investors and revenue collection effectiveness.

3.4.2.1 Documentary collection

The researcher pass through different documents which are found in the organisation such as reports, memos and letters and other files as found possible in order to gather relevant information. This is what can be called as second hand information or secondary data as stated in 3.4.2 above

3.5 Measurement of Variables

Table 3.1 Data Requirement Table

No	Variables	Measurement Indicators	Source
1	Benefits to foreign investors Lagging economy	Income, savings enjoyment on exemption and relief	Questionnaires, interview and literatures
2	Lowers revenue	Savings vs. loss to the government,	Government publications, TRA income statements
3	Leads to corrupt procedures	Ethical conduct of tax administrators, collusion loopholes, weaknesses of the system of tax	Questionnaires, interviews and documentary collection
4	Little attraction to the foreign investors	Reasons for foreign investment, relationship between investment and tax exemption and relief	Questionnaires, interviews and documentary collection
5	Lagging economy	Status of Tanzania's economy, history of income	Documentary collection

Source: researcher's plan, 2013

3.6 Reliability and Validity of Data

Validity and reliability of data were enhanced by the use of triangulation whereby multiple sources of data were employed to minimise biasness. Triangulation refers to the use of different data collection techniques within one study in order to ensure that the data are telling you what you think they are telling you. (Saunders et al., 2009)

3.6.1 Reliability of data

Reliability refers to the extent to which your data collection techniques or analysis procedures will yield consistent findings. It can be assessed by posing the following two questions (Easterby et al., 2002). Reliability is concerned with question such as 'will the measures yield the same results on other occasions?', 'Can similar observations be reached by other observers?' Robson (2002) highlighted threats to reliability as subject or participant error, subject or participant bias, observer error and observer bias. To minimise or avoid this, procedures were carefully explained, structured approach followed, interview guide and questionnaire designed to increase reliability of the data. The information of course were gathered from right sources which were both primary and secondary information

3.6.2 Validity of data

Validity was concerned with whether the findings were really about what they appeared to be about. This was based on the relationship between dependent and independent variables which has a casual relationship. In turn for this, Robson (2002) also stated the threats to validity that could be caused by such factors like: history, testing, instrumentation, mortality, maturation, and ambiguity about causal direction, logic leaps and false assumptions, identification of research population, data collection, data interpretation and development of conclusions. Concentration on small area, that is, TRA helped reduce the impact of invalidity of data

3.7 Sampling procedures

3.7.1 Target population

The research was limited to TRA and its related offices' personnel, particularly those involved in the tax administration. However, the study extended to a few of the foreign investment offices, for the purpose of interviews and questionnaire filling. A few selected personnel who were selected scientifically to represent the whole population. The study in these areas was necessary as the TRA offices consist of all if not the largest percent of information required for the purpose of this study.

3.7.2 Sample size

The size of the sample depended on the number of management and staff members. The actual number of sample size was twenty (20) staffs in the TRA and ten (10) from foreign investments; three foreign investments were sampled out of many for this purpose. Officers contacted at TRA were those performing the tax administration activities

3.7.3 Sampling techniques

According to Kothari (2004), Sample is the number of items to be selected from the universe to represent the entire population. The sampling techniques used was purposive and quota.

3.7.3.1 Quota sampling

Under this technique, individuals represented their respective groups and then were selected accordingly. These groups included higher level staff, tax administration staff and other supporting staff as deemed necessary. Quota sampling technique has been used in because respondents were to form groups thus ensuring that each group required in the study have been represented

3.7.3.2 Purposive Sampling

The researcher used his own judgment for a specific reason on the elements to be chosen. However, sample elements were chosen according to their criteria. Therefore, purposive sampling was applicable when it came to selection of elements to be examined (sampling unit). On the other hand, sampling unit included members of tax administration, head of departments in the tax area and the management at large, a rule of thumb was then used to come up with the sample size due to cost constraints, three foreign investors were examined. Thus purposive sampling was necessary for purposeful selection of those departments and sections dealing directly with tax administration

3.7.3.3 Simple Random Sampling

Simple random was also used in selection of respondents since it provided equal chance to all individuals in the departments to be selected and hence avoid biases. 20 individuals from all tax departments will be examined. The selection depended on the number of sampling units available in the department as a sampling frame.

3.8 Data processing and analysis

3.8.1 Data processing

Data may be characterised according to the source from which they were to be obtained. This may be nominal, ordinal, interval or ratio. Scaling or measurement implies assigning numbers to research variables using a hypothesis set of rules or research questions. This facilitates comparisons and interpretation of such variables. During this study data was captured in form of both nominal and ordinal. For nominal scales was basically identifying items only by assigning numerals to

variables. The variables were normally in the form of categories such as gender; position in the organisation etc. The numbers did not signify order of extent or size and could be interchanged at the establishment without affecting the results of the analysis. In this case both females and males were interviewed and questionnaires were distributed to them.

In case of ordinal scales, the use of data that exhibits order for example ascending order was applied. Numbers were assigned to variables so that they portray the order of magnitude but not size.

3.8.2 Analytical techniques used

Data analysis, whether qualitative or quantitative, requires a researcher to identify patterns and themes in the collected study data. This is an important task in research, especially with qualitative data, which are non-numeric, usually in a textual or narrative form. Making sense of a mass of qualitative data is a fascinating, but time-consuming, process. This smart research strategy helped the researcher bring order to the data without getting bogged down in the process.

With reference from E-how.com the researcher took the following course in data analysis;

- (i) The Researcher read and reviewed the data collected. This is an important first step in any data analysis, whether qualitative or quantitative. Qualitative data often consist of interview notes or transcripts, notes from field observation, or written documents and records.
- (ii) The researcher wrote notes and reviewed the field notes, transcripts or other data. The researcher made notes in the margins or highlight key passages. The data in a qualitative study is voluminous; the key is to make it manageable for the researcher. The researcher used file folders to organise the data in a useful way.
- (iii) The researcher coded the data. In qualitative studies, coding means identifying themes within the interview notes, documents, or field

observations that relate to the research questions in the study. Themes are common ideas and patterns that the researcher observed repeatedly as he read the data collected. He had to read through his data multiple times to identify all of the themes.

- (iv) Interpreted data by attaching significance to the themes and patterns he observed. Wrote lists of key themes and reviewed the data again. Then Considered alternative explanations by looking for differences in responses or observations that were recorded in data collection. Draft a report that detailed the findings. In qualitative work, writing the research report is an extension of data analysis because writing is another way of making sense of the data by synthesizing and summarizing them.

CHAPTER FOUR

PRESENTATION OF FINDINGS AND ANALYSIS

4.1 Overview

This chapter aims at presenting and analyzing the data which were obtained from the field. To fulfil the research study, a study used tables, charts and percentages in presenting and analyzing the same. To summarise and re-arrange the data several interrelated procedures are performed during the data analysis stage (Zikmund, 2000).

4.2 Profile Description of the Interviewees

The research was based on the case approach (TRA), thus TRA staff especially those in the custom and excise department were consulted and a few from FDIs.

4.2.1 Summary of the respondents

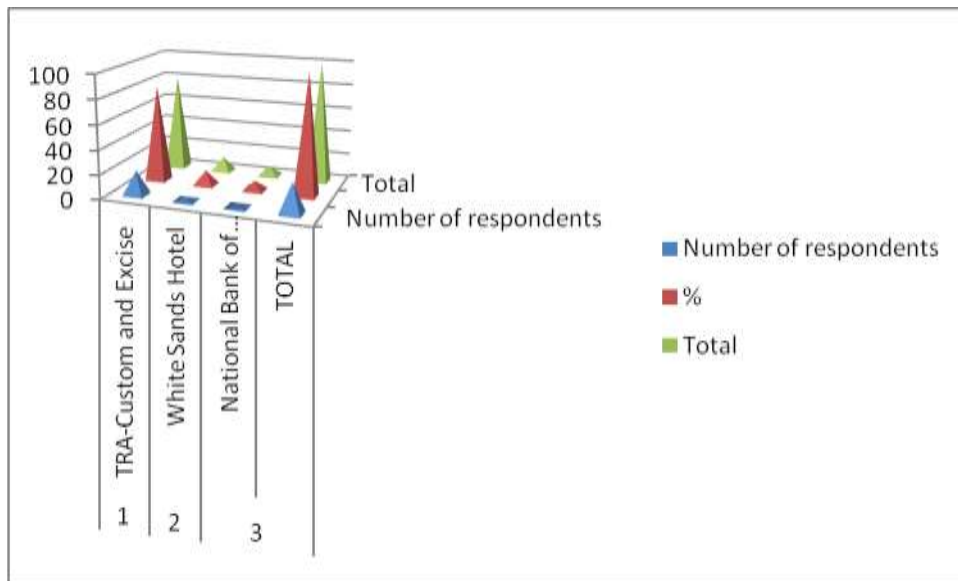
Table 4:1: Summary of respondents in both questionnaire and interviews.

S/N	Respondents& Departments	Number of respondents	%	Total
1	TRA-Custom and Excise	20	80	80
2	White Sands Hotel	3	12	12
3	National Bank of Commerce (NBC)	2	8	8
	TOTAL	25	100	100

Source: Field Data, 2013

Graphically, a summary of respondents has been presented hereunder (figure 4.1)

Figure 4.1 Summary of respondents in both questionnaire and interviews



Source: Field Data, 2013

4.2.2 Summary of questionnaires distribution

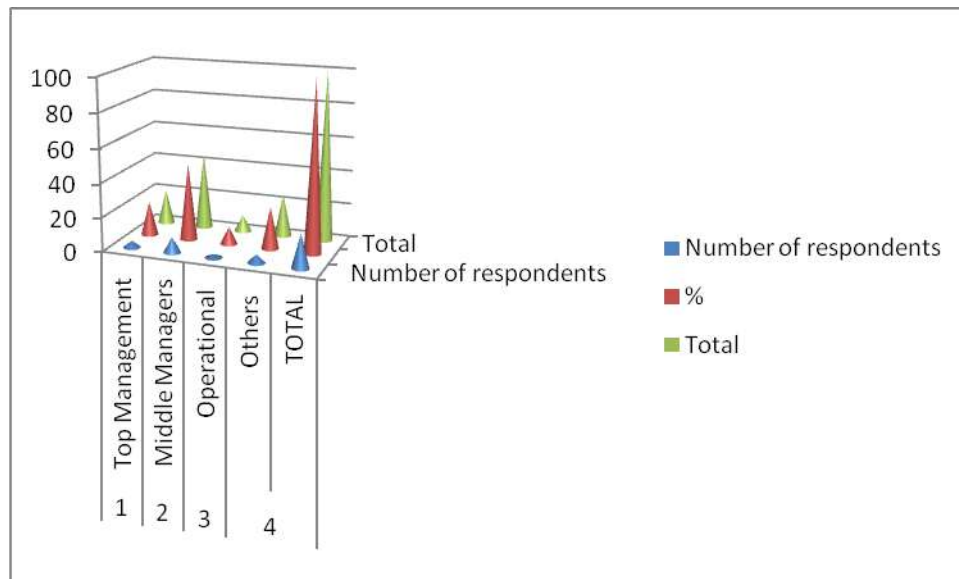
Table 4.2 Distribution of the Questionnaires in the TRA

S/N	Respondents& Departments	Number of respondents	%	Total
1	Top Management	4	20	20
2	Middle Managers	9	45	45
3	Operational	2	10	10
4	Others	5	25	25
	TOTAL	20	100	100

Source: Field Data, 2013

This data has also been represented graphically in figure 4.2 below.

Figure 4.2 Distribution of the Questionnaires in the TRA



Source: Field Data, 2013

Eighty percent (80%) of the respondents came from the TRA which of course was the major target of this study. Only twenty percent (20%) of all respondents came from the foreign investments to support the argument. The TRA staff originates from the Customs and excise division of the TRA which is directly involved with the tax relief and exemption.

However, 4 respondents out of 20 from TRA (Equivalent to 20%) of all respondents in the TRA were top managers who are involved in decision making for the organisation. Nine (9) respondents (45%) of the respondents in the TRA were middle managers who link the top and the operational. Two percent (2%) of the respondents in the TRA were from operation levels who are involved in the day to day activities of the organisation; they are the ones who link the tax payers and daily operations of the organisation. Twenty five percent (25%) of the respondents in the TRA included others staffs who are of TRA but not from the Custom and excise division (Ref: table 4.2 and figure 4.2)

4.2.3 Age group

Twenty four (24) respondents indicated their age as between 25 -60, which is 96% of all respondents, while only one respondent (4%) did not indicate the age. Among the 96%, 37.5% of all respondents indicated that they are of the age between 35 and 60; the rest fell under the age between 25 and 34. No one indicated that he/she was of the age between 15 and 24. It is therefore good to know that the age gap is very narrow in this company; therefore it is easy for the organisation to harmonise its policies that in one way or another leads to systematic and consistency performance in the company. Administratively, the age group signifies energetic and quick to adjust and adapt to changes required by both the management and the environment.

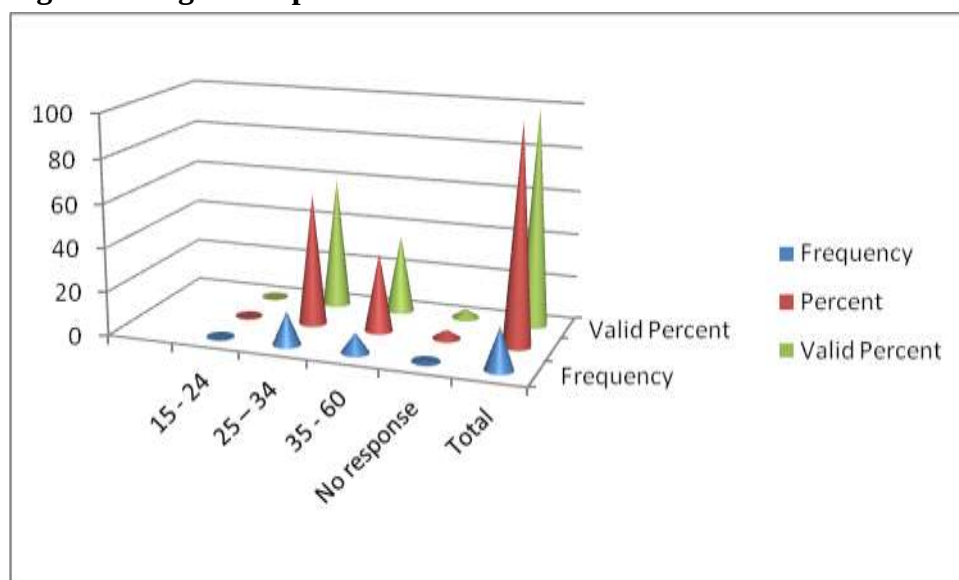
Table 4.3 Age of respondents

Valid Age	Frequency	Percent	Valid Percent	Cumulative Percent
15 - 24	0	0	0	0
25 – 34	15	60	60	60
35 - 60	9	36	36	96
No response	1	4	4	100
Total	19	100.0	100.0	100

Source: Field Data, 2013

This is also represented in figure 4.3 below

Figure 4.3 Age of respondents



Source: Field Data, 2013

4.2.4 Summary to show citizenship of the respondents

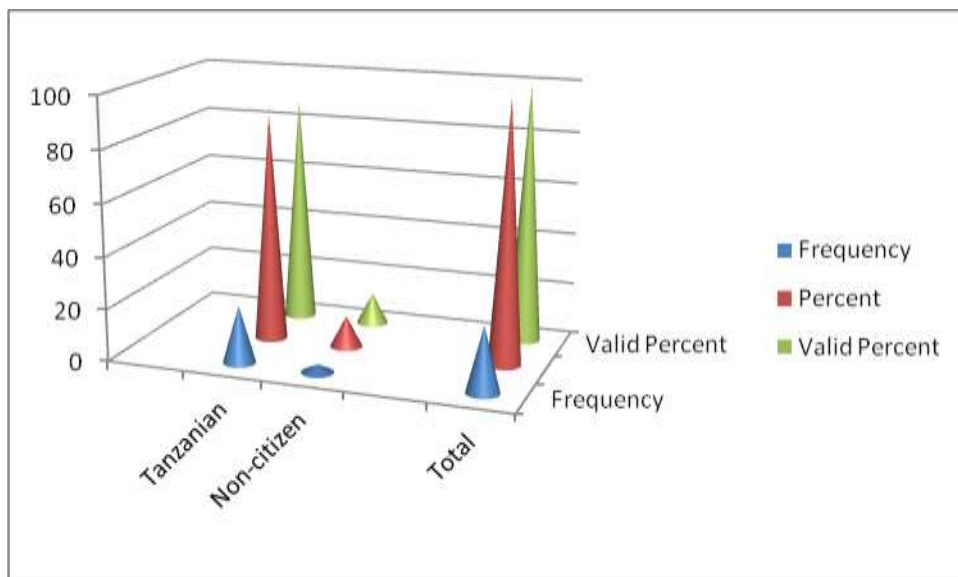
Table 4.4 Citizenship of the respondents

Citizenship	Frequency	Percent	Valid Percent	Cumulative Percent
Tanzanian	22	88	88	88
Non-citizen	3	12	12	100
Total	25	100.0	100.0	100.0

Source: Field Data, 2013

This is also represented hereunder in a graph (fig 4.4)

Figure 4.4 Citizenship of the respondents



Source: Field Data, 2013

From table 4.4, and figure 4.4, majority of the respondents are the citizens of Tanzania, as most of them came from the TRA, only 12 percent of the respondents are of the origin of other nationality other than Tanzania. However, it was expedient that other nationals be consulted to have their views on the study.

4.3 Benefits accrue from tax exemption and relief, to the government revenues.

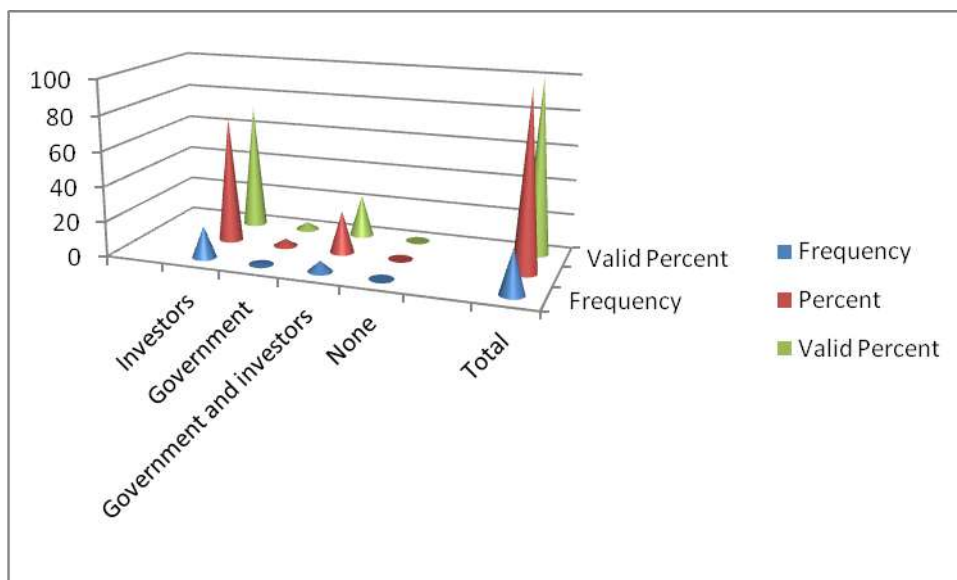
Table 4.5 Opinions on who are the beneficiaries of tax exemption and relief granted to the foreign investors

Beneficiary	Frequency	Percent	Valid Percent	Cumulative Percent
Investors	18	72	72	72
Government	1	4	4	76
Government and investors	6	24	24	100
None	0	0	0	100
Total	25	100.0	100.0	100.0

Source: Field Data, 2013

Seventy two (72%) of all respondents argued that the true beneficiary of tax exemption is the investors, while only one (4%) individual noted that the government is the true beneficiary of the tax exemption granted to investors. Six (6) respondents equivalent to 24% stated that both the government and the investors are the true beneficiaries of the exemption and relief to tax, while no one stated commented on the “none” beneficiary of the same. This signifies that the investors are the major beneficiary of the said tax relief and exemption granted to the investors by the government of Tanzania.

Figure 4.5 Opinions on beneficiaries of tax exemption and relief



Source: Field Data, 2013

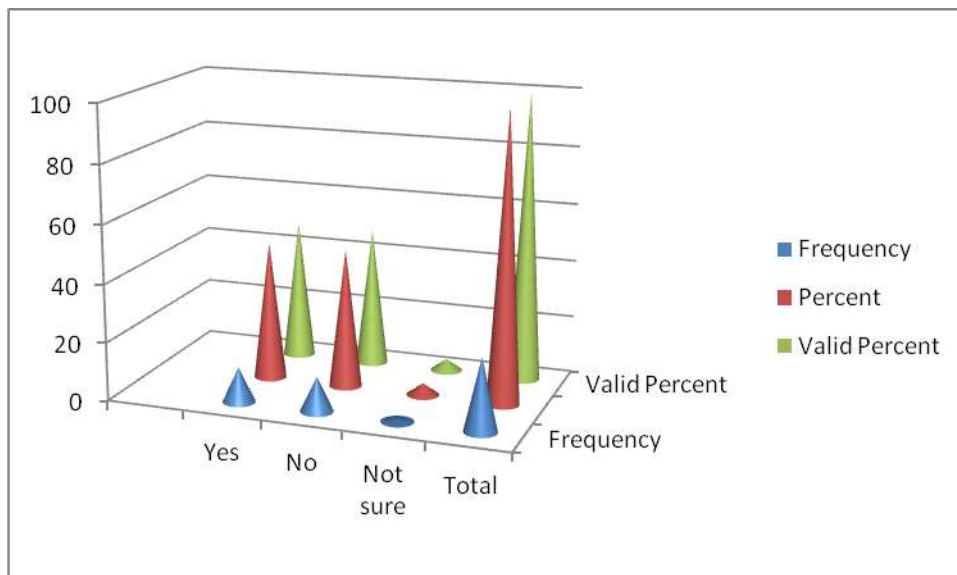
Table 4.6 Necessity of tax relief and exemption to attracting the foreign investment in Tanzania

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	12	48	48	48
No	12	48	48	96
Not sure	1	4	4	100
Total	25	100.0	100.0	100.0

Source: Field Data, 2013

Responses on whether it is necessary to grant tax relief and tax exemption to attracting foreign investments in Tanzania has been one of the pull and push all together. Table 4.6 above and figure 4.6 below shows this significant pull and push, where 12 responses (48%) has both been at par signifying that they may be necessary and sometimes may not be necessary.

Figure 4.6 Necessity of tax relief and exemption



Source: Field Data, 2013

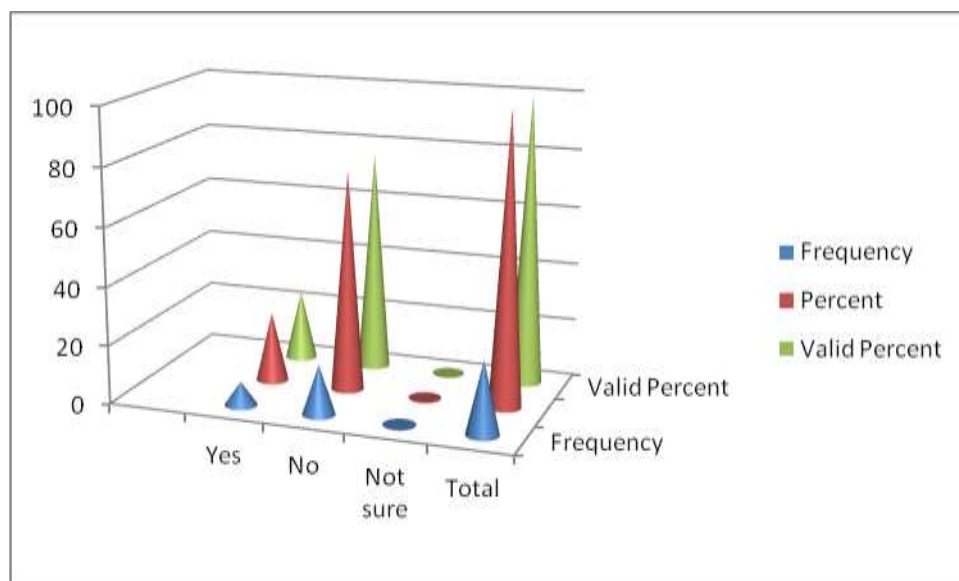
Most of these responses have come with arguments (reasons) for yes and no as a follow up questions to it. This will further be discussed in the following chapters, however, only four (4%) percent of the respondents suggested that they are not sure of the practice, if it is necessary or not for attracting the investors.

Table 4.7 Necessity of tax relief and exemption necessary to government revenue

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	8	24	24	24
No	17	76	76	100
Not sure	0	0	0	100
Total	25	100.0	100.0	100.0

Source: Field Data, 2013

Figure 4.7 Necessity of tax relief and exemption necessary to government revenue



Source: Field Data, 2013

Whether it is necessary to grant tax relief and exemption for raising government revenue in Tanzania has been question of concern. Table 4.7 above shows that 17 responses (equivalent to 68%) stated no to the question, signifying that relief and exemption are indeed not necessary to raising government revenue in the country. However, the responses have come with arguments as well for yes and no as a follow up questions to it. Likewise this has further been discussed in the next chapters. There haven't been respondents (0%) to suggest that they are not sure whether tax relief and exemption are necessary for raising government revenue in Tanzania.

4.4 Negative effect of tax exemption and tax relief to revenue collection and administration in Tanzania

Table 4.7 Negative effects of tax exemption and tax relief to government revenue

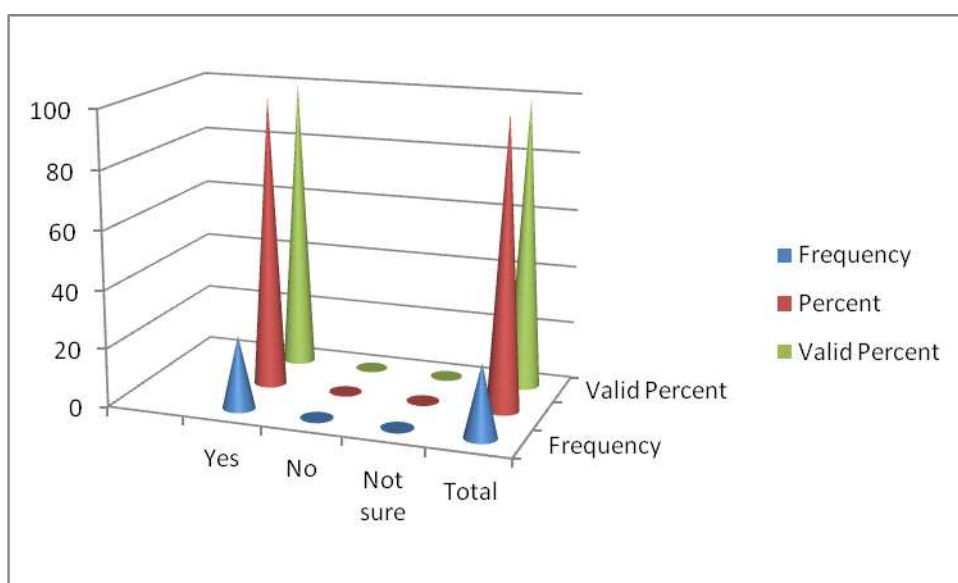
Response	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	25	100	100	100
No	0	0	0	100
Not sure	0	0	0	100
Total	25	100.0	100.0	100.0

Source: Field Data, 2013

Hundred percent (100%) indicated that there are negative effects of the tax exemption and relief to the government collections. It is therefore indicative that all respondents are aware of the side effects of the practice. However, each respondent tried to highlight a few measures that could help the government to overcome these effects. Though some have attempted to suggest suspension of the relief and

exemption, more details will be discussed in the proceeding chapters (Table 4.7 and figure 4.7)

Figure 4.7 Negative effects of tax exemption and tax relief to government revenue



Source: Field Data, 2013

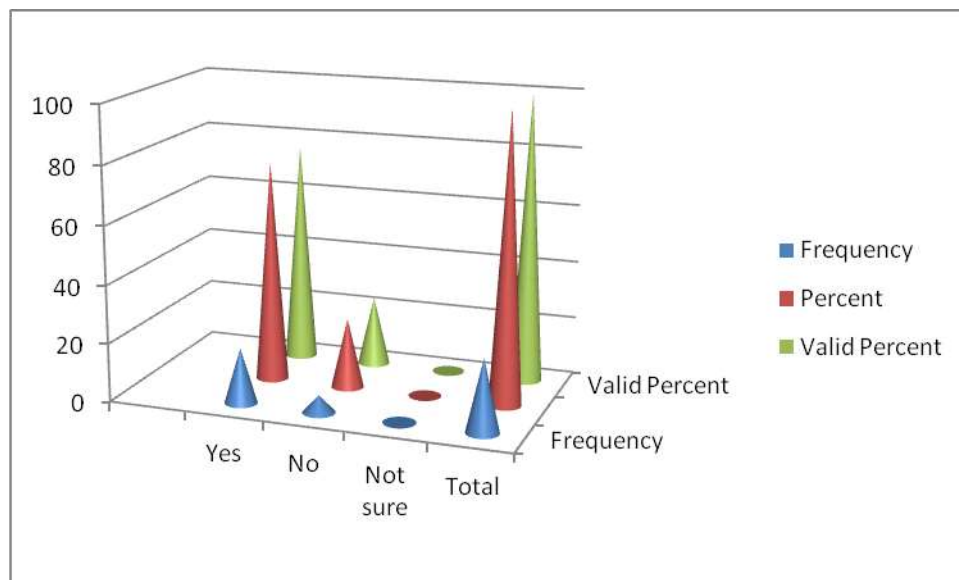
Table 4.8 Tax Exemption and tax relief in relation to temptation of corruption in the tax administration

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	19	76	76	76
No	6	24	24	100
Not sure	0	0	0	100
Total	25	100.0	100.0	100.0

Source: Field Data, 2013

Seventy six percent (76%) of all respondents indicated that tax exemption and tax relief attract tax administration personnel to go corrupt as they provide loopholes for them to collude. Six responses (equivalent to 24%) indicated that the practice does not by any means provide loopholes to corrupt procedures by tax officials, leaving no response to 'not sure' (0%), this signifies that tax relief and exemption leads to corruption in the tax administration in Tanzania (table 4.8 and figure 4.8 respectively).

Figure 4.8 Tax Exemption and tax relief in relation to temptation of corruption



Source: Field Data, 2013

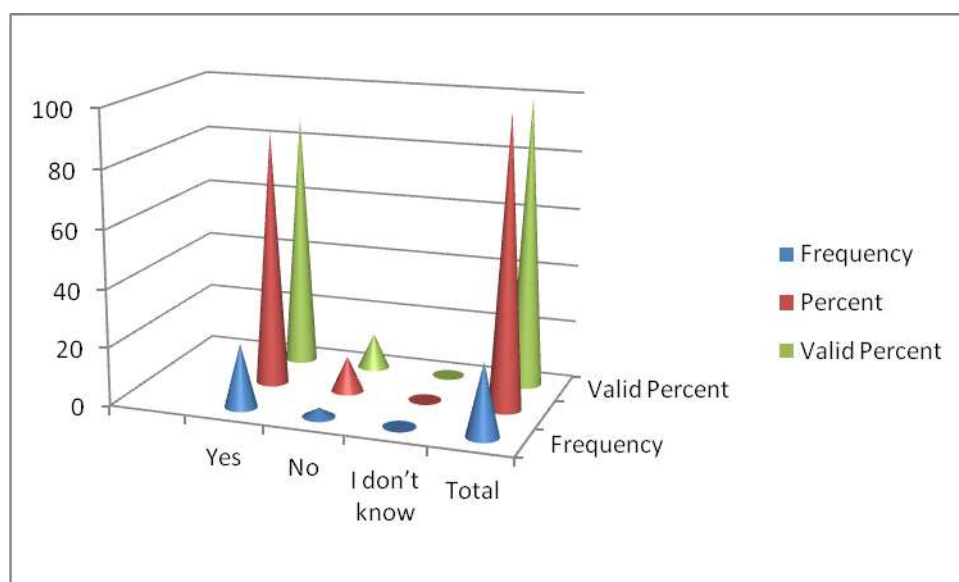
4.5 Mechanism the government may impose if any, to attract foreign investors into the country

Table 4.9 Tax relief and exemption in relation to attracting foreign investment

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	22	88	88	88
No	3	12	12	100
I don't know	0	0	0	100
Total	25	100.0	100.0	100.0

Source: Field Data, 2013

Figure 4.9 Tax relief and Exemption in Relation to attracting foreign investment



Source: Field Data, 2013

Table 4.9 and figure 4.9 is indicative that 88 percent responded 'yes' to question whether or not tax exemption and relief are necessary to attracting foreign investment in Tanzania. While 3 responses (12%) responded no to the same question and no one said 'I don't know' to the same. This is implicative that tax exemption

and relief attracts foreign investments for various reasons. Some suggestions respondents gave to attract foreign investment include: - review of the law on exemption; review of the political system; enhance transparency by tax officials and the government at large; and promotion of awareness on the resources available in the country, including human resources.

4.6 Best practices in administration and management of tax exemption and tax relief

Respondents have suggested a few best practices which are to be discussed in the coming chapters. However, to mention a few, respondents have mentioned among others, good and refined policies in tax administration; amended laws to suit the needs of Tanzanians, but to benefit both parties; integrity and strong supervision of exemption and relief; shortened relief (holiday) on taxes; assessment of exemption and relief before renewal of the same; revision of control measures; selfish less of the government leaders on various matters; skilled staff (training), clear verification of project proposals; appropriate investors should be given relief and exemption, not just any.

4.6 Testing the objectives

The objectives were tested from the data collected with the use of simple calculations and through the use of excel program in the computer application. The use of SPSS was not possible due to insufficient training of the researcher. Thus, the use of excel become a common tool to analyze information from various sources.

4.7 Summary of the Chapter

The chapter aimed at presenting information obtained from the field, with intention to finding out the impact of tax exemption and Tax relief toward government revenue.

The chapter described the type of respondents from various departments, their characteristics and age. It then analyzed the data according to the four objectives of

this study. It is however, worth noting that data testing has been conducted to check their relationship with the objectives. The study has observed that the data collected are relevant to the subject matter and objectives of the same. Thus they are further discussed in the following chapter (chapter 5)

CHAPTER FIVE

DISCUSSION OF THE FINDINGS

5.1 Introduction

This chapter discusses what was found in chapter four; it presents the arguments on the findings presented. It further tries to answer specific questions from the specific objectives of this study. It attempts to compare and contrast between the findings and literature review to see whether they correlated. Relationship of the findings discussed to the research problem has also been sought. A summary of what is discussed has then been drawn having focused on the major findings of the study.

5.2 Does the government of Tanzania benefit from tax exemption and tax relief to foreign investors?

From the seventy two percent (72%) of respondents argument that the true beneficiary of tax exemption is the investors, leaving only one individual (4%) who stated that the government is the true beneficiary of the tax exemption granted to investors, and the six (6) respondents (equivalent to 24%) who stated that both the government and the investors are the true beneficiaries of the exemption and relief to tax. Thus from this point of view one can simply conclude that it is very ‘black and white’ that the investors are the major beneficiary of the said tax relief and exemption granted to the investors by the government of Tanzania.

As stated by Bergsman (1999) that firms are motivated by various aspects to choose FDI as a mode of entry to foreign markets. These aspects are partly described in the much referred Dunning’s OLI-theory. Dunning (1993) presents three conditions that do motivate firms to choose FDI as a mode of entry to foreign markets. These are ownership advantages (O), location advantages (L) and internalisation advantages.

Also, the Investors’ Guide to Tanzania (1998), exclaimed that the investment law allows for enhanced incentives to the FDI in case of investments that are of strategic importance or are of significant impact on the economy.

The Tanzania Investor Roadmap, (TIC, 1999) goes further than the Investors' Guide to Tanzania 1998, by mentioning some more incentives available to TIC registered companies. These include entitlement to employ five expatriate employees automatically. No skills requirements are attached to these five employees.

Another incentive offered is profit repatriation. Companies enjoy unconditional transferability of net profits or dividends; payment in respect to loan servicing where a foreign loan has been obtained; royalties, fees, and charges related to a technology transfer agreement; the remittance of proceeds if a business is liquidated; and emoluments and other benefits paid to foreign personnel in Tanzania employed by the firm.

This has also been supported by Ngowi (2002) speaking of great advantages received by FDI that the mining sector enjoys 100% capital deductions for companies seeking specified minerals, including copper, coal, gold, lime, magnesium, bentonite, magnesite, meerschau, mica, tin, tungsten, vermiculate, nickel, cobalt, platinum, kaolin, and zink. Companies prospecting for other minerals receive a 40% capital deduction in the first year with a 10% deduction for the following six years. Qualifying activities include prospecting and testing deposits, purchasing the rights to deposits, acquiring machinery and buildings that would have little or no value on cessation of mining, and general administration and management prior to production. Tourism receives a capital deduction of 20% on hotels and installed machinery. A 6% deduction is allowed for buildings used as hotels.

However, the 24% cannot be left insignificantly; it is worth noting that both the government of Tanzania and the investors benefit from the said practice, though the benefit acquired by FDIs outweigh the benefits Tanzania has received so far. Thus looking at win-win situation of exemption and relief may yield to positive attitude toward the said relief and exemption.

It is therefore significant to look at the positives of the exemption and relief, to precede conclusion. From the follow up questions during an interview with

respondents, the following were noted as benefits the country may obtain from relief and exemption on foreign investments which have been criticised by Mwambwa (2012) who said that Tax exemption among African Countries is doing more harm than Good to the host countries:-

First; creation of employment: foreign investments require that natives be employed as a percentage rate in relation to the foreign employees. Thus a significant percent of the citizens of Tanzania is employment in the foreign investments. Employment of the natives in the Foreign Direct Investments (FDI) for example, provides Tanzania citizens with income to take care of their personal matters and their families likewise, thus raising their living standards in one way or another. As investors find relief on taxes, they will come in large numbers to invest in the country, thus more employments for the natives. This is however been criticised by Vamusse (2010) who stated that “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

Secondly; income tax: since the employees in the FDI's earn salaries, the government charges every employee the so called Pay as You Earn (PAYE) on a monthly basis, thus as FDIs increases in the country, income from PAYE will also increase to the government indirectly through tax exemption and relief. This has been supported by the Guardian paper (Sept, 21, 2010) that the medium and long term benefits from such a strategy included economic growth, job creation and taxes such a PAYE

Thirdly; Diplomatic Relations: This is due to the fact that as more FDIs show up into Tanzania, the country will have a good position regarding its international position, as more friendship is created due to high level of interaction for socio-cultural development. In today's world, globalisation has made this possible to interact one nation and the other as the world economy is liberalised. More chances for the personnel and resources mobility, thus easy for the Tanzanians to move from one

country to another for several reasons, such as studies; thus draining expertise from abroad and implement in Tanzania for socio-economic development. But more significantly; Tanzanians find jobs outside the country thus creating more foreign currency for economic development of the nation.

Besides having the above mentioned advantages, the government of Tanzania incurs the following disadvantages as it decides to offer tax exemption and relief to foreign investors:

Firstly; Filing for incorporation and tax-exemption takes time and money for organisations applying for exemption and relief. Fees for tax advisors (legal and accounting) can also be substantial. Thus most of the foreign investors shy away and hence losing income for the government.

Secondly; Incorporation and federal tax-exemption may limit certain lobbying and advocacy activities. For example, you cannot (as an organisation) support candidates for public office. The community may perceive creating another non-profit organisation as an additional level of bureaucracy. It has been observed several times that the tax exempt organisations participate in other functions other than what has been legally agreed during their incorporation. It should be clear to the government that tax-exempt organisations are taxable, to the extent that they participate in activities unrelated to the performance of tax-exempt functions. While this isn't exactly a disadvantage, it is something one should take into consideration.

Thirdly; investors take advantage of legal weaknesses, thus cheating on ownership change, name change and related issues for the sake of exemption and relief. This has resulted into significant loss of the revenue to the government of Tanzania.

Fourthly; it has been found out that the investors cannot invest at a disadvantage, neither do they seek win-win situation on their investments. There have been

significant amount of profit (super profit) made by the investors at a disadvantage of the government. In other words, investors take more than they give, thus exempting them from tax creates even more profit at the country's loss. Looking at the mining companies for example, the ratio of minerals drained by the foreign investors does not correlate with the gaining the country obtains from them. This renders the country dependent on the foreign aids instead of creating money from its own sources, particularly taxes.

Fifthly; unfair competition is resulted as tax relief is granted to the foreign investors, leaving most of the local companies on their toes. Foreign investors create a lot of income untaxed, thus making them wealthier than natives' and hence their ability to compete in the market is enhanced compared to the locals. The survival of the native companies is at stake, which results in the loss of confidence and ultimate death of the victim companies. This was also supported by what Forsyth (1972) who said that about 40 years ago, that the potential effectiveness of fiscal incentives is that they are able to make a difference between competing jurisdictions where the basic, more important conditions, in other words, the fixed location characteristics, are more or less equivalent.

These jurisdictions may be sub national or in different countries included in a supranational unified market (e.g. the European Union). Here, once a locational decision is narrowed down to a handful of alternative sites, incentives can play a decisive role in the final locational choice. Since tax policy seems to have a greater impact on the location decision within regional markets, the argument is that it can push governments to "race to the bottom" with competitive tax reductions. The main concern is that the various countries may end up in a bidding war that results in a "prisoner's dilemma" that benefits the foreign firms at the expense of the winning State and the welfare of its citizens.

Sixthly; collusion as a result of some tax administration officials having their own interests on tax exemption and relief. It is easy for the tax officials to collude with the investors in the name of exemption and relief, to favour the investors at a certain

percent. Tax officials may simply ask the investor to take a certain course for them to create a habitual exemption. It has been noted from the respondents that there are some of the tax administrators and politician, who are selfish and don't think of their duties as a part of country's development as a whole. This goes hand in hand with what Mwambwa (2012) stated, that exemption and relief on tax to foreign investors and others encourage 'bribery and corruption'.

5.3 How investors benefit from tax exemption and relief at the expense of the government?

The benefits Tanzania gets from tax exemption have been challenged by this study (ref table 4.3). This looks like these benefits have been outweighed by the disadvantages. Various reports are indicative. The Country is losing massive revenue in tax exemptions and tax breaks granted to government departments, donor supported projects, private businesses, NGOs and Mining Companies. According to the Tanzania Revenue Authority, the Government lost Tshs 587 billion in tax exemptions made between July 2008 and April 2009.

Projects under the Tanzania Investment Center (TIC) accounted for the largest percentage of the total exemption. Other beneficiaries included state owned institutions, the government of Zanzibar, religious and non religious non-governmental organisations. In 2008 alone the government lost Tshs 1.8 trillion in exemptions. More revenue was lost to mining companies operating in Tanzania. None of the mining companies have sought exemptions from royalties or corporate income taxes in any of the contracts. However, they have sought significant exemptions from local government taxes, withholding taxes, and fuel levies. The mining agreements stipulate that companies will not pay local government tax in excess of \$200 000 a year (Tshs 260 million), even though this is much lower than the 0.3% of the value of company turnover, which the law requires they should pay in local government taxes.

The Bomani Commission has estimated that the government has foregone Tshs 39.8bn in 2006/7 and Tsh59bn in 2007/8 in revenue as a result of fuel levy exemptions granted to the six large mining companies. In addition, the mining contracts have set stamp duties at 0.3%, a tenth of the rate of 4% stipulated in the substantive law.

The mining companies have also engaged in aggressive tax evasion measures aimed at reducing their tax obligation. Tax evasion is an illegal practice, where companies knowingly under declare their profits to lower their tax bill. In 2003, an independent auditor contracted by the government to examine the account of four major Tanzanian gold mining companies alleged that two of them over declared their losses, reducing in turn their tax liabilities to the government. If the auditor's report is correct, this has cost the government \$132m equivalent to Tshs 171 billion in lost revenues between 1998 and 2003. The cumulative revenue loss from exemptions for last year and this year alone is approximately Tshs 2.3 trillion. This money would be enough to cover the financing gap of Tshs 2.2 trillion required to meet the MKUKUTA cluster requirements for the year 2009/10, as was reported by MKUKUTA. This money has all gone into the investors baskets at the expense of the government of Tanzania.

According to international trade statistics Tanzania lost approximately Tshs 53.93 billion in revenue due to illicit means and trade mispricing of Tanzanian products sold to foreign countries between 2005 and 2007. This is a crude figure because it only combines the cumulative revenue estimates lost to European Union, United States and the United Kingdom. The loss excludes revenue lost in trade with trading partner's countries like China, India and South Africa. It also excludes revenue lost due to bad contracts in the lucrative sectors like Mining, fishing, forestry and tourism.

Exempted organisations are freed from many taxes, and potential donors can make tax-deductible contributions. The latter is a powerful advantage for many groups who

survive mainly on contributions and grants. One can simply apply for grant funds directly. Almost all foundation or government grants require evidence of federal tax-exempt. If you don't have it, you will need some kind of fiscal conduit in order for your grant application to be considered. Your group now becomes more independent, free (or at least freer) from the potential control of fiscal agents or others who have helped you before, even if they have been generally sympathetic. The independence gained can be a psychological boost to the investment.

Among others, the benefits accrued from tax exemption and tax relief for investors includes the following:

- (1) Smaller risk than to begin a business from zero, and that even, that to acquire one already existing one; this having mainly to that when abrir a tax exemption, begins a business that already has demonstrated to be successful, and that it counts on a recognised mark.
- (2) Counting on manuals with procedures offered by the organisation (country) that grants the tax exemption, that they allow to create and to let grow the business quickly.
- (3) Counting on the qualification and technical attendance of the franquiciante (a Spanish word for franchiser) company, i.e. the investors and agents investing in the country.
- (4) In order to initiate and to administer a tax exemption, it is not required of much specialisation in some subjects of businesses, for example, in the creation and design of a new mark.
- (5) Not to have to spend time and money in designing and developing a new business is an advantage to the investors that makes them grow faster and make a lot of money within a short period of time.
- (6) Not to have to spend time and money in designing marketing strategies, and realizing the promotion and publicity.
- (7) Permanent support of a country or great organisation and with experience.

- (8) Tax constitutes a very large percent of reduced profit in a business. When the company (investor) is exempted, one will have a greater possibility of retaining most of the profit for its undertakings at the expense of the granter.

5.4 What is the necessity of tax relief and exemption to attracting foreign investments?

Forty eight percent (48%) of respondents seems agree and the sum percent decline that tax exemption and relief are necessary to attract foreign investment.

This is very significant that there is a need to attract FDIs in Tanzania under certain circumstances in a certain way, however there is no need to administer tax relief and exemption as a means to attracting FDIs. Those is favour of administering relief and exemption provided their responses on a follow up question as to why they thought that way.

The following include the responses that seemed to have covered most of the respondents. The arguments are based on what Mr. Mmari stated that “if managed properly, tax exemption can be a good investment for base expansion and economic growth and development” (the Guardian paper).

- (i) Most of the FDIs earn great deal of money in countries where there is no or less tax regimes. This is the line with what Devereux and Griffith (1998) stated that average effective tax rates seem to have greater impact on the FDIs location than the marginal tax rates.
- (ii) Well administer tax exemption and relief favours a win situation, thus investors would prefer that kind of situation hence invest in a country.
- (iii) Some service and or goods provided for by the FDIs tend to have direct benefits to the twenty of TZ, those it is necessary to administer relief and exemption to the services and good of that nature.

- (iv) They create employment to majority of Tanzanians thus raising living standard but also economic growth is realised.
- (v) Institutions such as religions that are imposed into Tanzania contribute greatly shaping Tanzanians behavior for good. Therefore taxing this institution may lead to division of the same way from Tanzania.

The above number iii-v responses are in line with what the ministry of finance of Tanzania stated as the reason as to why such exemption and relief of tax is granted. On the other hand, those who are not in favour of the argument namely whether it is necessary for the government to administration tax exemption and relief to attract FDI had the following as their reason for the argument. Their argument is very much rooted from what Mwambwa (2012) said that tax exemption among African countries is doing more harm to them than good.

The argument included the following:-

- (i) Creates a room for bribery and corruption as stated earlier in this study that some tax official may get involved in corrupt procedures as they look at the weaknesses of tax exemption and relief. Further there is needed a chance for collusion between investors and tax administrators as this is not made clear or not well monitored.
- (ii) Increases loopholes for tax evasion it is a nature of each individual to avoid paying more for the merchandise likewise, the investors would want to maximise profit by avoiding tax. Thus by administering tax exemption and relief, more room for tax evasion By investors is created

In recent years, the globalisation process has led to the emergence of new issues. Not only have companies tended to become more mobile, but also governments have to deal with this new dimension in the design of their national tax policy. The gradual elimination of barriers to capital movements have stimulated governments to compete for FDI in global markets as well as reinforced the role of tax policy in this

process. This recent competitive trend has to be offset by the increasing pressure that governments face to harmonise their tax policies within regional (or international) agreements. Thus attracting FDIs is not a question of whether the country should engage itself into. It is rather a question of how should the government of Tanzania should do it.

The table 4.6 has indicated it clearly that the responses on the question whether or not necessary for the country to administer tax exemption and relief to attract foreign investment.

5.5 Is Tax Relief and Exemption Necessary to raising Government Revenue?

Table 4.7 indicates Clearly that tax exemption and relief are still necessary to the economy of the country by 24%. This is in consideration of what has been stated as review in terms of administration of the said relief and exemption.

However the largest percent (76%) signified that those are no need of having exemption and relief in the country.

The key feature of this statement namely “not necessary” to have tax relief and exemption in the country have been as a result of consideration made by the respondents in this study. On that note considering that the largest percent of these respondents are those dealing with tax administration in one way or the other. They have necessary expertise, expedience and passion for the country. It is worth it to note that indeed there is a weakness here in this area. The advantages of exemption and relief have been outweighed by the negatives as it has been observed. Tax relief and exemption has been to benefit a few probably the foreign investors alone, leaving scars in the hands and hearts of Tanzanian majority.

Considering the 24 percent of the “yes it is necessary” response, these is a need for the government of Tanzania to reconsidered reviewing the policies if at all thus is what the government would prefer. Nevertheless, the idea of “not necessary will

prevail as one quote states that majority will always prevail, but minority must be listened.

The reasons for “not necessary” idea have been brought forward by respondents, which in its ideal mentioned the disadvantages of the relief and exemption the country. The reasons included that there is no proportionality between the shares earned by Tanzania with that claimed by the investors.

5.4.1 Negative effects of Tax exemption and Tax relief

From all respondents who responded on whether there is a negative effect of tax exemption and relief to the country, it can be argued that Tax exemption and relief have had impression to the revenue collection.

The study will now explore the negative impacts of the said exemption and relief:-

(i) Imbalance in trade (exchange)

It has been observed that, most of the FDIs are looking for means on how they can exploit not financial resource but also human resource to the maximum. It is very clear that investors pay less than what they obtain from this part of the vineyard.

They pay less to the working staff in relation to their expatriates; they drain more resources than what they more resources than what they pay to the country. Excluding them from tax payment renders them more chances to exploit and drain country's resources. For example, less control is made how much minerals are taken to the abroad by the miners as they export earth dug with minerals for processing into their countries, leaving unfilled holes of total exploitation by the FDIs in Tanzania, that has led to imbalances in trade, is what they take does not equal what they pay.

(ii) Loss of integrity

As it has been stated earlier in this study/that tax exemption and relief creates room for bribery and corruptions. It is therefore observable that the Tax administrators are losing their integrity little respect is given by the foreign investment to the country's tax official as they engage into corrupt procedures slowly the tax exemption and relief is taking away the integrity of Tax officials in Tanzania.

(iii) Increased dependency

Reliance on donor funds has been increasing day by day. It was observed from the budget report of 2012/2013 of the parliament of Tanzania that the budget for the financial year was depended at more than 60%. This is due to poor collection of taxes which involved unnecessary exemption and relief. The country may strengthen base on tax collection and thus reduce dependency on the foreign aids, which makes the country a slave, and a dumping ground.

(iv) Reduced FDIs

The government has invested a lot in tax cutting (including exemption and relief) for getting other ground that may have led to decreased FDIs in Tanzania (refer to the cost of fiscal incentives "tax areas effect")

Other areas the government has to look at included political stability environment conservation and science and technology which might work to attract investor's incidents such as those of bombings occurred in Arusha recently, shootings and torturing of several officials must be suppressed to attract FDIs into Tanzania.

5.4.2 Does Tax relief and exemption lead to tempting tax administrators on corruption?

Tax exemption and relief may lead to corruption especially when, if takes the form of tax evasion and or claiming of an improper tax exemption and relief.

From 76% of the respondents, (table 4.8) it is block and white that exemption and relief creates a room for corruption in the tax system. The follows up questions

suggested that as investors seek relief from tax they would work tirelessly to bribe tax administrators to cheat on or to find a means to accept tax exemption status for their organisation improperly. When exemption is granted the tax officials end up receiving a small amount at the expense of billions of money that would get into the government system for development system. This is what majority of respondent termed as selfishness among tax administrators.

Moreover, investors are working hard to ensure that they diverge from paying taxes. It is ridiculous to learn that some officials feel that the small amount of money may help them get a further step ahead of time. However, there has been suggestion from respondents that most of the FDIs are evading from tax payment. They tend to collude with some officers to seek legal justification on the tax holidays and breaks (exemption). Some of can be observed on the frequent if not periodic change of names and or ownership tax breaks and holiday.

The tax government is losing significant sums of money in thus illegal practice yet nothing or no step is taken to curb the said weakness.

5.5 What mechanism can be put in place for the government to attract foreign investors?

There has been a lot of weight during the course of this study that stresses a need to look at the different grounds to ensure that economic fundamentals, regulatory barriers, ease of doing business, regulatory quality, and the rule of law is doing well to attract investors. This is in line with the 2013 Global Opportunity Index titled 'Attracting Foreign Investment' (March 18, 2013) which ranked Hong Kong and Singapore at the top in creating the best environment for FDI, with Canada, Switzerland, Australia and five members of the European Union rounding out the top ten. Second from the bottom is Venezuela; as the report notes, the nationalisation of foreign firms pursued by the late President Hugo Chavez has made the country a "precarious location for FDI."

"The Global Opportunity Index helps identify opportunities for companies contemplating making investments of 'patient' capital," says Keith Savard, senior managing economist and one of the authors of the report. "For policy makers in the host countries, the Index helps illuminate policy changes that can be implemented quickly and often at low cost, in order to make their countries more attractive for FDI."

The findings reveal that some of the most important factors considered by investors as they decide on investment location include:

- (i) A predictable and non-discriminatory regulatory environment and an absence of undue administrative impediments to business more generally.
- (ii) A stable macroeconomic environment, including access to engaging in international trade.
- (iii) Sufficient and accessible resources, including the presence of relevant infrastructure and human capital

The conditions sought by foreign enterprises are largely equivalent to those that constitute a healthy business environment more generally. However, internationally mobile investors may be more rapidly responsive to changes in business conditions. The most effective action by host country authorities to meet investors' expectations is:

- (1) Safeguarding public sector transparency, including an impartial system of courts and law enforcement.
- (2) Ensuring that rules and their implementation rest on the principle of non-discrimination between foreign and domestic enterprises and are in accordance with international law.
- (3) Providing the right of free transfers related to an investment and protecting against arbitrary expropriation.
- (4) Putting in place adequate frameworks for a healthy competitive environment in the domestic business sector.
- (5) Removing obstacles to international trade.
- (6) Redress those aspects of the tax system that constitute barriers to FDI.

(7) Ensuring that public spending is adequate and relevant.

The usage of tax incentives, financial subsidies and regulatory exemptions directed at attracting foreign investors is no substitute for pursuing the appropriate general policy measures (and focusing on the broader objective of encouraging investment regardless of source). In some circumstances, incentives may serve either as a supplement to an already attractive enabling environment for investment or as a compensation for proven market imperfections that cannot be otherwise addressed. However, tax administrators engaging in incentive-based strategies face the important task of assessing these measures' relevance, appropriateness and economic benefits against their budgetary and other costs, including long-term impacts on domestic allocated efficiency.

Authorities (the government of Tanzania) need also to consider their commitments under international agreements. The relevance and appropriateness of FDI incentive strategies should be examined at regular intervals. Transparency and accountability at all levels of governments greatly increases the success of such evaluations. Investment incentives have effects beyond the jurisdiction that offers them, which need to be carefully considered. Some forms of competition among states for FDI may lead to sub-optimal results for all states, including waste of economic resources and social costs. OECD members and other countries adhering to the OECD Declaration on International Investment and Multinational Enterprises have undertaken commitments in this respect.

5.5 Best Practices in administration of tax exemption and relief

Since tax is one important factor through which, the government earns revenue for provision of its services to the public, it is therefore necessary that in administering exemption for foreign investors the following must carefully examine the following waste that may result from these incentives:

Ineffectiveness: This is the basic case of wastefulness: the usage of FDI incentives as relief and exemption on tax fails to produce benefits to the host economy that exceeds the budgetary costs. This situation may arise where authorities apply faulty cost-benefit analysis (or no cost-benefit analysis at all) to their incentive programmes or where promised benefits do not materialise and conditions applied do not prevent reduced or non-payment or recovery of incentives paid.

Inefficiency: This is the case where incentives produce benefits that outweigh the costs, but authorities fail to properly maximise the benefits of exemption and relief and minimise the costs. In other words, similar results might have been obtained at a lower cost, whereby the difference between the actual and the potential cost must be characterised as a waste. Careful examination of tax exemption and relief with its associated cost prior acceptance should be done

Opportunity costs: When the resources available to attract FDI are scarce, the issue of alternative usage of funds arises. Incentive schemes that are both effective and efficient may nevertheless be wasteful if the funds that are sunk into financing them could have been used more profitably.

Deadweight loss: This term refers to the situation when:

- (i) Authorities find themselves subsidizing investment projects that would, with the benefit of perception after the fact, have taken place in the absence of incentives as exemption and relief.
- (ii) Authorities fail to specify adequately the intended recipients and to circumscribe the application to the group of foreign investors only has resulted in spill over to non-target groups. This means that there are groups which have been overlooked, which might need more exemption and relief that does foreign investors.
- (iii) Authorities, in order to maintain a reasonably level playing field in their domestic business sector, feel obliged to match FDI incentives by offsetting subsidies to other enterprises.

- (iv) Authorities, by offering particularly generous FDI incentives i.e. relief and exemption to some projects, effectively “raise the bar”, creating a reference point that future investors will use to demand a similar degree of generosity.
- (v) Triggering competition: Long-term costs of an incentive scheme include the economic burden that arises if other jurisdictions put in place matching measures. This is of particular concern when putting in place new measures or significantly increasing the generosity of the ones already in place. Doing so without properly assessing the likely reactions of other jurisdictions can in many cases amount to a wasteful practice. Thus, exempting only foreign investors leaving local investors kicking against the pricks does not encourage competition.

Therefore the government and tax administrators may do the following to ensure best practices in administering tax exemption and relief:

Broadly-based FDI incentives: Authorities may develop a simple strategy aimed at employing FDI incentives to raise the attractiveness of their host economy beyond what can be achieved by improving the quality of the enabling environment. Two distinct categories present themselves:

- (i) Proactive policies aimed at attracting foreign investors in general. Such strategies may aim at topping up or compounding the general advantages of the host economy’s enabling environment, for instance by making relocation easier and less costly or by seeking to cover the initial loss making period of an investment.
- (ii) Defensive strategies with their scope generally limited to matching the generosity of investment incentives on offer elsewhere.

Targeted strategies: Most strategies for attracting FDI by means of incentives are limited in scope, in the sense that they focus on specific aspects of the host economy. The following four types of strategies appear to be commonplace:

- (i) Regionally oriented strategies aimed at attracting foreign enterprises to economically depressed areas or in response to the closure of another plant. National authorities may devise such strategies, or sub-national authorities may enjoy (or be granted) sufficient freedom to pursue them on their own.

- (ii) Developing prioritised activities. One of the main examples of such strategies is the setting up (and, in the case of FDI incentives, subsidisation) of export processing zones with the purpose of integrating the host economy close with international trade.
- (iii) Building on particular advantages. The classic example would be the attraction of labour-intensive industries to countries with an abundant workforce. Many countries have also successfully employed FDI for developing particular service activities such as tourism.
- (iv) Nurturing selected sectors. Some countries and regions attempt to use FDI as a tool for implanting whole new sectors where they have no history or of developing “priority industries” in sectors where they were not previously thought to have particular advantages. This strategy has for instance been applied to the high-tech industries and certain high value segments of the service sectors but also in high added value projects perceived as desirable (e.g. machine tool-making, precision engineering).

Improvisation: Not all FDI incentives are granted as part of concrete or targeted programmes. In fact, it has been observed that some of the most strongly publicised examples of FDI incentives relate to cases where – owing largely to the sheer magnitude of the investment projects – there is a need for high degree of improvisation on the part of the host area authorities.

5.6 Testing of objectives in relation to research problem

The tag of war between those that comment positively on tax exemption and relief and those with negative comment has been realised as of great significance. The study has been able to find out the real impact of tax exemption and relief to the economy of the country. In this case therefore, one can firmly state that there is a reason for tax exemption and relief in the country as long as it has been administered properly, with some recommendations. Likewise, those who tried to oppose it also have got a point, as the information conveyed could provide negative impacts of the current tax exemption and relief system.

5.7 Summary of the Chapter

The chapter discussed the data analyzed in chapter four (4). It focused on the major findings of the study and discussed them both quantitatively and later, qualitatively. The discussion was relied heavily on the data obtained from the field, through interviews, questionnaires and observation, but also publications on the subject matter. Consideration was also given to issues such as gender, age, and level of education which may affect or influence judgment and the way concepts have been put across, as each group or individuals may reacted differently on different issues. Finally, the researcher's judgment was also inevitable, his ability to think and react to circumstances was necessary to making decisions based on the findings and analysis.

Based on suggestions, comments from interviewees and literature review it was revealed that tax relief and exemption have got the positives and the negatives. Depending on the way tax administration is handled, tax relief and exemption may be good influence to attract foreign investors to come to Tanzania, however, it is not a self-sufficient single element for attracting investors, it requires other attributes such as political stability, environmental considerations as well as socio-cultural issues to mention a few.

CHAPTER SIX

CONCLUSION AND RECOMMENDATION OF THE STUDY

6.0 Introduction

This chapter summarises, concludes and recommends on the issues discussed in the whole study. It further presents lesson that are to be learnt out of the study.

6.1 Summary of the Study

This study aimed at finding the impact of tax exemption and tax relief toward government revenue. The subject matter was a result of contradiction stake holders had on whether tax exemption and tax relief is an important element to attracting foreign investors, and how it affects revenue collection in the country.

Literature review was carefully done to find out more on the subject matter. A lot has been found, one thing that was of interest to the researcher was to find out whether the argument each side has namely, those who supports the matter, and those that opposed it had significance attached to it.

Qualitative approach (methods) of conducting this study was adopted and they worked well for the purpose of this study. It was found out that both sides had a point, nevertheless, the benefits of tax relief and tax exemption were outweighed by the losses the government of Tanzania incurred in revenue collection. Mostly have been due to the policy weaknesses or corrupt practices among the tax administrators.

6.2 Conclusion

Exemption and relief on tax may seem significant to raising government revenue as Mmanda pointed out. In actual sense, the practice has become a burdensome to the citizens of Tanzania, as the opposite has been true. Policies of attracting internationally mobile investors have sometimes formally motivated targeted efforts

at improving host countries' enabling environments. Some countries have, for instance, employed particularly low corporate tax rates or exempted from tax to attract foreign corporate presence (and induce domestic enterprises to stay). FDI incentives, in the sense that they target or give preferential treatment to foreign investors, are by nature discriminatory (OECD 2002). This can therefore be concluded that:

- (1) Tax exemption and relief is a good device to attract investors when other issues have been incorporated into the procedures, alone, it cannot stand as a single factor. Current policies on tax exemption and relief do not favour the country on revenue collection.
- (2) Tax relief and exemption does not contribute to effective revenue collection, it rather impairs and impede tax collection process, thus making this country dependent on foreign aids.
- (3) Tax relief and exemption contribute to corrupt procedures, as FDI seek to evade from tax payment, thus making super profit that do not even benefit the country.
- (4) It is therefore worth nothing as Mwambwa (2012) stated that tax exemption and tax relief do more harm to the African countries than good, as it brings more negative to these countries than the positives.

6.3 Generalization

Whatever happens in Tanzania may happen to any other third world countries, it can therefore be assumed that the findings for this study will be to all other African countries

6.4 Policy Implication

It is a high time that selfless attitude garnish the thoughts of tax administrators, as this is a means through which this country will lessen dependency on foreign aids. Every country, just like any person that lives on the aids will always remain a slave. Tax administrators should start thinking of the generations and leave legacy for their posterity, a legacy that will make them not dependent, rather self-sufficient and abundance.

It has been a great lesson to have conducted this study, not just for the research, but for respondents who have contributed to the success of this study and the stakeholders on tax in Tanzania. That the current tax relief and exemption systems impact negatively to the collection of revenue in Tanzania, but if the same shall be administered on a fair grounds may be significantly important to the economy of this nation.

6.5 Suggestion for further Studies

The basic aim of a policy of FDI incentives (or any other strategy for attracting FDI) is to maximise the long-term benefits of foreign corporate presence. In doing so it must ensure that the benefits exceed the costs, and that the costs of achieving given goals are kept to their lowest feasible level. The economic benefits of attracting FDI are generally twofold. First, countries with domestic savings as low as Tanzania that they are insufficient to finance a strategy of economic expansion (or where weak financial intermediation has a similar effect) may harness FDI as a source of external finance. This is assumed to be particularly relevant in the case of developing and emerging economies. Second, foreign corporate presence is, as demonstrated by an ample body of economic literature, generally associated with positive externalities (“spill overs”) toward the host economy.

The channels through which the spillovers operate are at least fivefold. Foreign corporate presence may 1) act as a trigger for transfers of technology and know-how; 2) assist enterprise development and restructuring, not least in connection with privatisation; 3) contribute to fuller international (trade) integration; 4) bolster business sector competition; and 5) support human capital formation in the host country. More research can be done on the factors that may attract foreign investors into Tanzania, instead of thinking of tax exemption and relief alone.

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APPENDICES

(c) Questionnaires

This questionnaire is aimed at finding the impact of tax exemption and relief towards the government revenue collection in the Tanzania Revenue Authority (TRA). Kindly provide information by answering my few questions so that the data results which will be obtained can in fulfilling the purpose of this study. May I assure you that your identity will be concealed as much as possible. Your cooperation will be highly appreciated.

Name (optional)

Gender

Name of your organisation

Position /Occupation.....

Department (please specify)

Citizenship (insert a number in the bracket)

Citizen 1

Non-citizen.....2 ()

Age

15 - 24.....1

25 – 34.....2

35 – 60.....3 ()

Circle the letter of a correct answer where applicable or fill in the blank space provided

1. In your opinion, who is the beneficiary of tax exemption and relief granted to the foreign investors? (Circle the letter)
 - (a) Investors
 - (b) Government
 - (c) Government and investors
 - (d) None of the above
2. Do you feel that tax exemption and relief are necessary investors?

- (a) Yes
 - (b) No
 - (c) Not sure
3. If yes, state how
- (i)
 - (ii)
 - (iii)
 - (iv)
 - (v)
4. If the answer is no to question 2 above, give reasons
- (a)
 - (b)
 - (c)
 - (d)
 - (e)
5. Do you feel that tax exemption and relief are necessary in raising government revenue?
- (d) Yes
 - (e) No
 - (f) Not sure
6. If yes, state how
- (vi)
 - (vii)
 - (viii)
 - (ix)
 - (x)
7. If no to question 5 above, state why
- (a)
 - (b)
 - (c)
 - (d)
 - (e)

8. Are there any negative effects of tax exemption and relief to the government revenue?
 - (a) Yes
 - (b) No
 - (c) Not sure
9. If yes, state which ones are the negative effects
 - (a)
 - (b)
 - (c)
 - (d)
 - (e)
10. How can the negative effects (if any) be overcome? just provide opinions (optional)
 - (a)
 - (b)
 - (c)
 - (d)
 - (e)
11. Considering your opinion above, what should be done by tax administrators to ensure that best practices are adhered to raise government revenue?
 - (a)
 - (b)
 - (c)
 - (d)
 - (e)
 - (f)
 - (g)
 - (h)
12. On your opinion, do you feel that tax exemption and relief tempts workers in tax administration to be corrupt?
 - (1) Yes
 - (2) No

(3) I am not sure

13. If the answer to question 12 above is yes, state any reasons

- (a)
- (b)
- (c)

14. If the answer to 12 above is no, what other evils can be associated with tax exemption and relief?

- (a)
- (b)
- (c)
- (d)

15. Do you feel that tax exemption and relief attracts foreign investors into Tanzania?

- (1) Yes
- (2) No
- (3) I don't know

16. If the answer to 15 above is yes, state how

- (a)
- (b)
- (c)
- (d)

17. If the answer to 15 above is no, can you suggest the means through which foreign investors may be attracted?

- (a)
- (b)
- (c)
- (d)

18. In your opinion, what do you suggest as the best practices for administration of tax relief and exemption?

- (a)
- (b)

- (c)
- (d)
- (e)

19. Any other suggestions that may be useful to enrich this study

- (a)
- (b)
- (c)
- (d)

Thank you very much: I real appreciate your co- operation