5 TANZANIA

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5.1 Introduction

Tanzania is one of the countries making up the sub-region known as Eastern Africa. It comprises two formerly distinct sovereign territories one of which is Tanganyika and the other being the small islands of Zanzibar situated only 22 miles off the Tanganyikan Indian Ocean coast. The two merged to form what is now officially referred to, as the United Republic of Tanzania on 26th April 1964. A vast country covering an area of square kilometers 945,090 (World Bank, 1996), Tanzania was, in 1994, estimated to have a population of about 28.5 million people (World Bank, 1994). The following countries share common borders with Tanzania: Kenya, Uganda, Burundi, Rwanda, Zambia, Zaire, Malawi and Mozambique. On the eastern side, Tanzania borders the Indian Ocean.

Presently, the country maintains a rather unique government structure. There are two central governments namely, the Union Government and the Revolutionary Government of Zanzibar. The former is responsible for all union matters in the whole of Tanzania, as well as non-union matters on the mainland (i.e.Tanganyika). The latter caters for non-union matters in the Zanzibar Islands. In other words, the two sides of the union were each supposed to have an internal government of its own, and leave only those union matters to be dealt with by the Union Government. Zanzibar exercised this right and retained its own government i.e. the Revolutionary Government of Zanzibar. The mainland (Tanganyika) on its part, for reasons not easily explainable, decided to disband her own internal government. Under such circumstances, the Union Government had to also function as an internal government for Tanganyika, in addition to its role as the Union Government. The seat of the Tanzania Government (i.e. the Union Government) is situated in Dar Es Salaam, a modern coastal city with a population of about three million people. However, there are plans to move the seat of government to the more centrally placed small inland town of Dodoma. The country is a republic with an elected executive president as head of state and commander in chief of the armed forces. A vice president who is also elected together with the president as a running mate (US-style) deputizes the head of state. The president may appoint a Prime Minister and other ministers from among members of parliament and assign each one a specific portfolio of government business.

In the 19th century, Germany colonized Tanganyika while Zanzibar had for a long time been under Arab dominion. After the First World War, Britain governed the two territories as protectorates until 9th December 1961 when Tanganyika regained her own self-rule. As for Zanzibar, the British handed self-rule to a minority Arab clique in Zanzibar in 1963 necessitating the majority Africans to achieve independence through violence in 1964.

5.2 Macroeconomic Activities

5.2.1 International Environment

A. External Debt and Borrowing

For the past five years ended in 1995, Tanzania consistently experienced huge deficits on both her trade account and current account balances. Consequently, the total external debt was on a steady increase throughout this period as it is evident in Table 5A.7 According to the 1997 first quarter issue of the Economist Intelligence Unit (EIU), Tanzania's total external debt rose to US dollar 7,875 million by the end of 1996, from US dollar 6,781 million in 1992. This is an increase of about 16 % in a period of only five years! Tanzania's major creditors are members of the notorious Paris Club. The notable ones, in descending order of importance include Japan, Italy, United Kingdom, Belgium and France. In 1996 for example, Tanzania owed the amounts shown in Table 5.1 (below) to Paris Club members. In fact the World Bank (1997) estimates that by 1995, the present value of Tanzania's external debt was 148 times her GNP!

B. Foreign Trade

The external debt has been so rapidly increasing due to the consistent current account deficit. A glance at the relationship between exports and imports (which are the most significant components of the current account) of Tanzania shows that during the period between 1992 to 96, exports have persistently remained below half of the value of imports (see Table 5.2 below). To be exact, for the period in question the value of exports in total amounted to only 36.8 % of the value of imports!

The most important items in the export basket have been primary agricultural produce as is the case with most third world countries. The leading ones in Tanzania are coffee and cotton, which have accounted for an average of 41 % of total export earnings during the period 1991 to 1994. Other items exported by Tanzania are minerals, cashew- nuts and manufactured goods. As for imports, the major items are machinery and transport equipment, consumer goods and petroleum products. The three categories of imports accounted for an average of 71 % of the

Table 5.1 Major Creditors in 1996

(in million US$)

Country	Amount	Country	Amount
Japan	416	Germany	62
Italy	214	Canada	44
UK	195	US	38
Belgium	120	Austria	35
France	95	The Netherlands	25

Source: European Network on Debt and Development, World Credit Tables, 1996.

Table 5.2 Volume of Foreign Trade

(in million US$)

Year	Exports	Imports
1992	416	1510
1993	447	1520
1994	520	1503
1995	679	1686
1996	775	1500
Total	2,837	7,719

Source: Adapted from the Economist Intelligence Unit, 1993-1997.

import bill during 1991 to 1994 (see Table 5A.8).

Tanzania's trading partners are many. The principal Tanzania's export destination countries are Germany, Japan, India, Belgium-Luxembourg, and the United Kingdom, in that order. For example in 1995, about 40 % of Tanzania's total export earnings came from the above-mentioned countries. In the same year Tanzania purchased about 40 % of its imports from the United Kingdom, Kenya, Japan, Saudi Arabia and China in that order (refer to Table 5A.9 for the major categories of imports).

C. Foreign Direct Investment

As for foreign direct investment into Tanzania, the country has not been so successful to attract international capital flows. Despite the enactment of a special law for this purpose, the National Investment (Promotion and Protection) Act, 1990, foreign direct investment in Tanzania is still quite insignificantly low. For example in 1994, out of the total US dollars 2.2 billion of foreign direct investment into sub-Saharan Africa, only a paltry sum of US dollars 50 million went to Tanzania (EIU, 1996). The April 1997 New African reported on the international investment forum recently-held in Dar Es Salaam and explained the inability of Tanzania to attract investments in the following terms:

> *"Businessmen complained that bureaucracy, high taxation and power problems were already stalling various projects... the former Trade and Industries Minister, Abdallah Kigoda said taxes could not be lowered until the government had widened its tax base... last July the government hiked taxes on imports in an attempt to protect local industries. This made the situation worse because most local industries depend on imported raw materials and spare parts." (p.31)*

D. Exchange Rate

The national currency i.e. the Tanzanian shilling (shortened as Tshs.); has suffered rapid deterioration from Tshs. 219.16 to US dollar in 1991; to Tshs. 574.76 to the dollar in 1995, a hefty 262.3 % depreciation in only four years (see IMF, 1996). The currency devaluation is one of the results of economic reforms introduced since the late 1980s for the purpose of steering the country away from her former socialist-oriented policies. Contrary to the period prior to the reforms, the foreign exchange regime has now been allowed to float enabling open market forces to determine the value of the Tanzanian shilling vis-à-vis major foreign currencies.

5.3 Macroeconomic Activities

5.3.1 Domestic Environment

A. Economic Growth

In 1994, Tanzania was estimated to have a population of about 28.5 million people growing at a rate of 3.0; and a per capital of US dollar 140 growing very slowly at the rate of 0.8 %. Life expectancy at birth was then estimated at 51 years and the literacy rate among adults was a mere 32 % (World Bank, 1996). Among all economies of the world in 1994, the World Bank ranked Tanzania the fourth poorest country after only Ethiopia, Mozambique and Rwanda, in that order! As matters stand currently, Tanzania has even dropped further to the third place above only Mozambique and Ethiopia (World Bank, 1997).

To put the Tanzanian economic situation in its proper context, we present in Table 5.3 below comparative socio-economic indicators with selected countries. Kenya and Uganda are Tanzania's closest geographical neighbors and they can be said to share a common history and similar environment both socially and economically. South Africa is brought into the comparison as probably the most developed economy in sub-Saharan Africa. Figures for the UK are also given in order to enable the reader appreciate the differences between developed economies from developing ones. As it can be observed from the Table, Tanzania lies at the bottom of the list in terms of GDP, and GDP per capita; second last in respect of the volume of exports. On the other hand foreign trade as a percentage of GDP is highest for Tanzania reflecting its heavy external dependence and hence highest vulnerability to international shocks.

In 1992 Tanzania's GDP grew in real terms by 3.5 %. Relevant figures for 1993, 1994 and 1995 are 4.2, 3.0 and 3.5 % respectively (EIU, 1993-97). A look at GDP figures show a decline in absolute terms from US dollars 5,705 million in 1980 to US dollars 3,602 in 1995 with the share of industry and manufacturing declining, while the agricultural sector managing to barely maintain its dominant share at 56 % to 57 % in 1980 and 1995 respectively, World Bank (1997 p. 236). The demand structure of the Tanzanian economy in 1995 was tilted towards an extremely high level of private consumption that accounted for as high as 97 % of GDP and a negative gross domestic saving (refer to Table 5A.2).

B. Inflation

In the fifteen year period covering 1980 to 1995, the average annual inflation as measured by

Table 5.3 Comparative Economic Indicators, 1994

	Tanzania	Kenya	Uganda	South Africa	UK
GDP $ bn	2.45	6.96	4.96	121.94	1024
GDP per head $	89	266	265	3,015	17,534
Inflation Rate	34.1	29.0	10.0	9.0	2.4
Exports (fob)	0.52	1.47	0.44	25.0	206.14
Foreign trade as %age of GDP	72.2	46.1	22.9	38.4	41.8

Source: All the above figures have been adapted from EIU (1996).

the GDP deflator was 32.3 % according to the World Bank (1997, p. 216). The trend in the Consumer Price Index according to the ILO (1996) had approached 350 in 1996, taking 1990 as the base year (see Table 5A.10). Most recent developments in this respect indicate that a better job is being undertaken to control inflation through sound macroeconomic policy measures. The 1997 First Quarter issue of the EIU reports that the inflation rate hit a 17-year low in 1996. The government has, in its 1997/98 fiscal budget, reiterated commitment to policies that will further reduce this down to about 15 % in one year (Budget Speech, 1997).

C. Money Supply

Much of the data relating to the supply of money in Tanzania is not available as most international statistical publications indicate. However, the World Bank (1997, p. 216) reports that the average outstanding money and quasi money, also referred to as M1, expressed as a percentage of GDP was 40.7 and 30.7 in 1980 and 1995 respectively. According to the Monthly Bulletin of Tanzania's central bank, the Bank of Tanzania hereinafter referred to as BOT, the annual expansion of the broad M3 money supply declined to about 12 % during both the third and fourth quarters of 1996. This, certainly is a commendable development taking into account the fact that comparative figures for the same quarters a year before were respectively 35.3 and 32.2 %. Over the period between 1980 and 1995 the nominal bank lending interest rate skyrocketed from an annual average of 11.5 % to 42.8 %. The same rates for deposit also rose from 4.0 to 24.6 %, the huge difference between lending and deposit interest rates signaling the inadequacy of macroeconomic policies of the time. Kenya and Uganda, Tanzania's neighbors considered to have adopted better macroeconomic policies, did not experience as big a gap between bank lending and depositing interest rates. In 1995, for example, the lending rate in Kenya was 28.8 % against the deposit rate of 13.6 %. Comparative figures for Uganda in the same year of 1995 were 20.2 and 7.6 % respectively.

D. Consumption and Investment

According to publications of the EIU dated 1992 to the first quarter of 1997, Tanzania's GDP was distributed on average as 85 % private consumption and a mere 25 % gross fixed capital formation during the period between 1992 and 1994. Comparative figures for the other demand items in the distribution of GDP for the same period averaged about: 20 % government consumption; 4 % increase in stocks and about 35 % excess of imports over exports (for actual annual figures see Table 5A.2).

E. Employment and Labor Force

Tanzania slightly managed to slow down its population growth rate to 2.9 % per annum on average in the period 1990 to 1995. In the 1980s the average population growth rate was at an alarming rate of 3.2 % per annum. Although the last census was held in 1988, the World Bank (1997, p. 220) put Tanzania's population at 30 million in 1996. About 15 million Tanzanians are aged between 16 and 64 years. In 1990, 5 % of this potentially working were employed in industry with the majority amounting to 84 % being engaged in agricultural activities. In the same year women comprised 49 % of the total Tanzanian work force.

As regards to the literacy ability of adult Tanzanians, the illiteracy rates among female and male were in 1995 estimated at 43 and 21 % respectively. There is a clearly disturbing negative trend in human capital investment in this struggling poor country. For example, while in 1980, 86 % and 99 % of eligible female children and male ones respectively were enrolled for primary school education. In 1993, these percentages had nose-dived to 69 for female and 71 for male children. Uganda, on its part for instance, managed in the same period to increase the percentage of enrollment for eligible female children from 43 to 83 %; and that for male ones from 56 to 99 %. These realities cannot certainly augur well with the challenges of quality human resource capital that will face businesses and production in the third world in the 21st century. Another problematic issue in respect with the Tanzanian population is the fact that, although only 5 % of the population could secure employment in industry, as many as 24 % live in urban areas where they are unlikely to engage themselves in agriculture. This implies that an increasing proportion of the population is either unemployed or under-employed. Matters are made worse by the high rural-to-urban migration rate, which is estimated at an annual average of 6.7 % during the period 1980 to 1995 (ILO, 1996). A country poor as Tanzania cannot afford to leave any of its God-given resources unemployed or under-employed!

5.4 Fiscal Position

5.4.1 Government Expenditure

Government budgeting in Tanzania has always been deficit-ridden. For example in the five-year period ending on 30th June 1995, the government budget deficit ranged from 17 to 34 % of total government expenditure (IMF, 1996, p. 740). The picture is actually much worse if the computation of the deficit excludes grants from government revenue, as according to BOT (1995), grants did account on average for 21 % of total government revenue (tax + non tax + grants) over the same specified period (for details of Tanzania Government finances turn to

Table 5A.3).

The World Bank (1995) shows that in the twelve-year period from 1980 to 1991, an average of 12 % of total government expenditure related to education and health. Defense matters were allocated an average of 10 % where as general administration and economic services each got 20 % of total government expenditure. Public order received 7 % and the remainder was spent for other government functions.

5.4.2 Public Borrowing

In the five-year period to 1995, the Tanzania Government was able to finance public expenditure only by 60 % through domestic non-borrowing sources i.e. both tax and non-tax revenue sources. According to BOT (1995), an average of 15 % of Tanzania's public expenditure in the above-mentioned five-year period came from external grants. The remaining 25 % of public expenditure is the only part that represents public borrowing in the same period. Of the total of this public borrowing, an average of 72 % annually was borrowed domestically, with only 28 % representing foreign borrowing. This reflects the increasing difficulty with which the country is faced in attracting financing from international sources. In absolute terms, for example, whereas the government could borrow externally Tshs. 45,353 million in 1992 which was equivalent to almost 83 % of the total government deficit, in 1995, it managed to obtain from abroad a mere

Tshs. 2,956 million amounting to less than 4 % of the deficit.

5.4.3 Aggregate Tax Revenue

That aggregate tax revenues have been increasing in Tanzania, is a matter of fact. According to Tanzania's central bank in 1991 tax revenue was Tshs. 118,258 million (BOT, 1995). But, come 1994, the government managed to collect tax revenues amounting to Tshs. 220,378 million, this representing an 86 % increase. The problem however is the fact that this rate of increase in tax revenue falls short of the rate of increase in public expenditure. Over the same period public expenditure rose by about 134 % from Tshs. 207,292 million to Tshs. 485, 216 million! The implication here is that the proportion of public expenditure financed through tax revenue for the period in question did actually fall significantly from 57 to 45 %. No wonder the Tanzania Government has realized the inadequacy of the prevailing state of government finances and is now implementing spectacular fiscal measures to increase the proportion of public spending that is financed by tax revenues. These include on one hand, the revamping of tax administration and improving the tax structure in order to boost the tax yield, and on the other putting into place measures to enhance government financial discipline in order to control unwarranted increase in public expenditure.

5.5 Tax System

5.5.1 Overview

Currently, taxes levied in Tanzania can broadly be categorized as sales tax and others; income taxes; and custom duties. After the abolition of capital gains taxes and estate duties about two years ago, taxes on wealth in Tanzania are virtually non-existent. According to the BOT (1995) indirect taxes are more significant as they comprise above 70 % of total tax revenue in general. The single most important tax is the sales tax, which is a single-stage turnover tax chargeable on specified goods and services, at the manufacturer and importer levels only.

Figures for the total amount of sales tax revenue could not be obtained because sales tax on imported goods is calculated and collected together with import duties by the Customs department, whereas that on locally manufactured goods is collected by a separate department known as the Sales Tax and Inland Revenue. The explanation for this otherwise illogical separation of the same function is administrative efficiency and effectiveness. It would be administratively close to impossible, and also inconvenient, if the importer were to pay import duties and sales tax on the same imported items to different authorities and at different times!

The present tax system in Tanzania is characterized by a little bit too many taxes as well as too complicated a multiple rate structure. There are over 30 central government taxes administered by three separate tax departments. In addition each of the more than 120 local government is free to institute its own taxes and tax rates subject to ratification by the minister responsible for local governments, currently, the Prime Minister. As for the tax rate structure, almost each major tax is riddled with a lot too many rates. For example, individual income tax has eight different tax brackets; there are also distinct rates for withholding tax for residents and non-residents for rental income, interest, dividend, royalties and management or professional fees (details are given in Table 5A.5). There have always existed multiple rates for sales tax and import duties depending on the description of the goods (and services in case of sales tax). It is during this fiscal year, 1997/98, that these have been reduced from seven to four for import duty ranging from 5 % to 30 %. In the case of sales tax on commodities, the hitherto six rates have been trimmed down to four ranging from 5 to 25 %; whereas rates for sales tax on services have been increased from three to four in the range of 5 to 20 %. A list of selected taxes together with essential information thereof, is provided as Table 5A.4.

5.5.2 Tax Administration

Prior to July 1996, tax administration in Tanzania was the direct responsibility of the Ministry of Finance. This was accomplished through three distinct government revenue departments in the normal civil service framework. Since the coming into effect of the Tanzania Revenue Authority Act of 1995, tax collection was made legally and administratively the responsibility of an autonomous body, separate and distinct from the civil service machinery. This is the Tanzania Revenue Authority widely known in Tanzania by its acronym, TRA. It operates independently of the civil service in respect to appointment of its staff, terms and conditions of service and remuneration. However it is still subject to some government control as the president appoints the TRA’s board chairman and its chief executive officer, the Commissioner-General. In addition, the Minister of Finance appoints members of the board as well as the three revenue commissioners.

TRA continues with the three-revenue department-structure inherited from the civil service. These are the Sales Tax and Inland Revenue Department, Customs and Excise Department and the Income Tax Department, each of which is headed by a Revenue Commissioner. Table 5A.4 referred to above gives some of the taxes administered by TRA.

5.5.3 Tax Revenue Collection

Due to the existence of a multitude of taxes as noted above, we limit our discussion on this issue to only two major taxes. These are the income tax, and sales tax. The ensuing discussion covers taxpayer identification and registration; tax returns; and assessment and examination. We also focus on penalties for non-payment or late payment of taxes; resolution of disputes; tax audit and investigation; tax revenue recovery measures and tax-related offenses. The basic principles and applicable rates for sales tax and income tax are given in Appendices 5A.4 to 5A.6, at the end of this essay.

5.5.4 Income Tax: Legislative Framework

The Income Tax Act of 1973, is the legal basis for the taxation of both individual income and corporate income in Tanzania. Section 3 of this legislation defines income liable for this form of tax by listing the sources of income that attracts income tax. These are:

- any gains or profits from business.
- any gains or profits from employment or services rendered.
- any gains received in respect of use or occupation of property

- dividend and interest income, but in the case of interest only the amount over and above a specified minimum in case it is received in respect of bank savings.
- pension or annuity, excluding pension paid in respect of services rendered to the government or any other public institution.
- alimony or allowance under certain conditions.
- any amount deemed by any provision of the act as being income.

In general the aggregation principle is implied in the law. This means, in order to determine the income tax liability of any taxpayer, all such taxpayer's income must be taken into consideration. However there are certain specified cases where a schedular system is applied. This is especially the case in most of the instances where the law prescribes the withholding of income tax by the payer of the income, to settle the tax liability of the payee. Examples include notably, the so-called pay as you earn system (PAYE), in the case of an employee whose only source of income is employment. Others include withholding tax on dividend, interest, rent, royalties, professional or management fees when paid to a non-resident taxpayer. Note that although the tax is withheld even when paid to a resident taxpayer, in this case it does not amount to a final tax. It is only an advance tax, which is set off against the final tax liability when the final return of income is filed after the end of the tax year, technically known as the year of income.

5.5.5 Income Tax: General Matters

The Income Tax Department, one of the three revenue departments of the mighty TRA, oversees the enforcement of the Income Tax Act of 1973. It has branches in all the twenty regional capitals of the country and in about half of the more than 110 district towns scattered throughout Tanzania. Each of these offices keeps a register of income taxpayers under its jurisdiction, after conducting a field survey to identify them. These field surveys are an ongoing exercise and therefore, the number of taxpayers is not static. For example, according to Mugoya (1997) while there were 287, 384 registered income taxpayers on 30th June in 1995, a year later on 30th June 1996 the number had risen to 320, 368. These figures did not include employees suffering tax under the PAYE system, instead the withholding agent i.e. employers, were counted as taxpayers since a file at the department is maintained for the employer only, not each employee. Taxpayers paying corporation tax amounted to less than 10 % of the total. The remaining pay individual income tax. Of the total Tshs. 108.6 billion income tax revenue collected in the fiscal year 1995/96, more than 55 % came from corporate income tax. PAYE revenues alone amounted to over 20 % of total income tax revenues in the same year according to the above-mentioned source.

5.5.6 Income Tax: Determination of Liability

The basis of assessment is the tax return. In effect the taxpayer, other than an employee, makes a self-assessment of himself. He completes his annual return and submits it to the local office of the Income Tax Department. In the return, the taxpayer actually goes as far as computing his tax liability. In practice however, the assessors normally find fault with the taxpayer's computations, and that is when arguments and discussions ensue before the final tax liability is determined. In case the taxpayer does not agree with amendments of his tax return by the tax officials, he has the right to appeal under certain conditions as discussed in a later part in this section.

Basically, there are two types of tax returns for income tax in Tanzania. One is furnished in advance of income generation and is known as a provisional return. This enables the taxpayer, to estimate his taxable income in the coming year and on the basis of this, determine his estimated tax. This tax is payable in four equal installments over the whole year, making it convenient for the taxpayer by spreading tax payments throughout a longer period. This is supposed, among others to help businesses in alleviating liquidity problems that would have been more likely to arise had the requirement been to pay all the tax assessed in one lot at the end of the year. The other type of tax return is the final return, which is prepared after the accounts have been prepared and audited, normally up to nine months after the end of the business year. It is on the basis of this final return that the final income tax liability is assessed. The tax paid based on the provisional return is offset against the final tax liability to determine over or under payment of tax. In the former case, the tax authority refunds the excess tax paid. In the latter case, which is usually the case in practice, the taxpayer has to make good the difference by effecting an additional payment.

5.5.7 Income Tax: Resolution of Disputes

This legislation provides for a mechanism for the resolution of disputes between the Income Tax Department and a taxpayer. Theoretically, an aggrieved income taxpayer is free to appeal to a specially established appeals board or tribunal. In practice however, the department's ruling has almost always prevailed due to a number of reasons. Among them is ignorance of taxpayers, nonexistence of the appeals boards or tribunals, bureaucratic procedures for appealing and unreasonable conditionalities to be fulfilled before an appeal is considered valid. Moreover, given the previous rampant corruption among tax collectors, an aggrieved taxpayer would surely get his way faster and more cheaply by bribing the tax assessor rather than by appealing!

5.5.8 Income Tax: Legal Sanctions

Income tax officers have been granted certain powers to enable them discharge effectively their very important functions for the public good. Such powers include those of searching persons and premises and even seizing documents, records, money or any other asset, provided a competent magistrate has granted a search warrant. The officers are also empowered to inspect records and documents, and to ask questions pertinent to their revenue functions. Under certain cases officers may compound offenses, which is a technical term referring to imposition of penalties against an offending income taxpayer.

Where, an income taxpayer fails to settle his or her tax liability by the due date specified in the law, there are provided in the same law measures which the tax authority may take. The tax amount owing may be recovered by legal suit, by distraint, seizure of property or even by recovering it from the taxpayer's guarantor if there is any. Please note that a payment of tax after the due date attracts penalty by way of interest at rates specified in the law.

Finally, the law lists down certain actions or omissions as offenses, which when committed, may attract punishment in any court of law once proven. They include non-submission of a tax return, non-payment of tax assessed, and submission of fraudulent return. Others include failure to comply with directives given by the tax authority and certifying tax returns without being legally competent so to do.

5.5.9 Sales Tax: Legislative Framework

Sales tax was introduced in Tanzania for the first time in 1969 with the coming into effect of the Sales Tax Act of 1969. Major reforms were carried out in the structure of this tax in 1976 with the passing of the Sales Tax Act, 1976, which is in force to date. The Tanzanian-style sales tax is levied on goods and services that are specified in the first two schedules to the act at the rates respectively provided thereof. The quantum of the tax is either *ad valorem* e.g. 10%; 15% etc.; or *specific* i.e. tax expressed according to some specific measurement of the taxable good such as a liter or kilogram. Mainly, sales taxpayers are manufacturers in Tanzania, any one importing into Tanzania any scheduled goods and those rendering scheduled services in Tanzania. Goods manufactured in Tanzania, and later on exported are exempted thus making the tax no different from consumption-based taxes charged under the destination principle. Basic rules and applicable rates are given in Appendices 5A.4 to 5A.6 at the end of this essay.

However, it differs from say the Japanese consumption tax and typical value added taxes in that it is imposed at one level only i.e. the manufacturer and importer level. In this way it is a single stage sales tax, whereas the latter are multistage. Additionally, the whole gross sales price suffers tax, not only the value added portion, as is normally the case with in value-added tax systems. Cascading effects are taken care of by providing for the exemption from sales tax on intermediate good or raw materials to be used in the manufacture of scheduled goods. However this is only applicable by observing bureaucratic and time-consuming procedures under the so-called registered dealer certificate (RDC) system.

5.5.10 Sales Tax: General Matters

Sales tax is, in theory, under the charge of another TRA department of Sales Tax and Inland Revenue. Practically however, the Customs and Excise Department, also of TRA, administers sales tax on imported goods, on grounds of administrative convenience. This leaves only sales tax on services and goods produced locally in the hands of the Sales Tax and Inland Revenue Department, the largest of all revenue departments in the TRA. The department has offices in, not only all the regions of Tanzania, but also in all the districts of the country. According to Mugoya (1997) sales tax is the largest single source of tax revenue in Tanzania. In fiscal years 1994/95 and 1995/96, sales tax on imports alone amounted to Tshs.31.5 billion and 33.8 billion respectively. Taking into consideration that an estimated Tshs. 205.4 billion was planned for collection by the Sales Tax and Inland Department during 1996/97 fiscal year, with more than 80 % being sales tax on locally-manufactured goods, one would certainly be safe to conclude that sales tax on services and locally manufactured goods was, during 1994-96 period, not below Tshs. 150 billion annually.

Identification of sales taxpayers is also in practice done through the department’s frequent physical surveys, as it is the case with income taxpayers. The Sales Tax Act, 1976 does however make it obligatory for a person who is legally liable for the tax to come forward on his own initiative and register himself or herself to the nearest sales tax office. There were only 2,388 registered sales taxpayers in Tanzania on 30th June 1996. About a quarter of them were in Dar Es Salaam only (Mugoya, 1997). This figure includes only manufacturers of scheduled goods and providers of scheduled services because importers need not register. An importer pays sales tax as and when he or she imports a scheduled item.

5.5.11 Sales Tax: Determination of Liability

Unlike income tax where the taxpayer files only two returns in a year, a sales taxpayer (manufacturer) is required to submit twelve returns in a year, i.e. one in each month. There is also in this case an element of self-assessment because the taxpayer fills in the return the quantum of goods manufactured, the taxable value and even the tax payable. Note that an importer need not furnish a return since his becoming a sales taxpayer is incidental to the action of importing. This is different from a manufacturer who must furnish the monthly return even during a month when no manufacturing took place. Rates applicable are given in Table 5A.6.

5.5.12 Sales Tax: Recovery Measures

Recovery measures for unpaid sales tax revenue include recovery by suit and the so-called method of recovery by 'filing a certificate'. The former presupposes that any tax liability legally imposed is a debt due to the government and thus recoverable under normal civil suit procedures. The latter, however, is a specially provided for government revenue collection enforcement measure.

In accordance with this latter collection method, the Commissioner for Sales Tax and Inland Revenue wields powers almost equivalent to those normally wielded by judicial authorities. Basically, where any sales tax amount remains unpaid after the due date, the commissioner or any other officer acting on his behalf may file a 'certificate' in a court of a resident magistrate with jurisdiction over the area in which the delinquent sales taxpayer ordinarily resides. In such 'certificate' the following must be clearly shown:

The name and address of the sales taxpayer.

The amount of tax revenue owing.

Once filed, the 'certificate' is '*primae facie*' evidence of the facts stated therein, and such 'certificate' is executed in the same way that a decree of the court is! With such arbitrary enforcement powers, one would have expected a very insignificant presence of sales tax defaulters in Tanzania. In reality however, outright non-payment of assessed sales tax revenue, has and continues to be rampant in this poor country that is starving from inadequate public finances.

5.6 Country Specific Issues

5.6.1 Public Debt

For the fiscal budget of the year 1997/98, the Tanzania Government has set aside 40 % of its total recurrent expenditure for debt servicing (Express, 1997a)! For a country like Tanzania, which lacks even the basic social and economic infrastructures necessary for any meaningful take off towards development, the long run implications of this state of affairs is rather serious indeed. International creditor institutions have made it a condition that Tanzania honor its debt servicing obligations before any sort of foreign assistance may be considered. The government of the day has towed this line, and as a result basic public services are now on the verge of collapse. Hospitals throughout the country have no medicines, schools suffer shortages of textbooks, desks, classrooms and even chalk, and civil servants go without salaries for long periods, despite the fact that they are already ridiculously underpaid. Given the extent of the public debt in Tanzania, i.e. more than 130 times the country's Gross National Product, it is foolhardy for the Tanzanian authorities to sing the song sung by the international creditor institutions. The government strategy is now to impress the creditors and win back credibility for assistance in the future! It is our considered opinion that by the time credibility is restored, serious long-term damages to the Tanzanian economy will have been done. Consider for example neglecting primary education for say five years only so that finances saved are used for debt servicing. By the time foreign assistance starts flowing, which is itself questionable, Tanzania will already have created an improperly educated generation of its youth! The foreign assistance that will follow can possibly do nothing to remedy their situation, as it is obvious that they cannot be enrolled again for primary education.

In principle, one cannot postpone certain activities to the future. There are functions that should be carried out only at a given time. Basic health and education, in our opinion, are among such functions, that if neglected now, they will have serious adverse effects on the social and economic development for a long time to come. The Tanzania Government has to work out a more feasible response to international pressures to honor debts.

5.6.2 Corruption And Tax Evasion

When the present government assumed power in late 1995, it took upon itself the task of controlling corruption and the then rampant tax evasion. A special Presidential Commission on corruption was appointed to study the problem in detail and come up with comprehensive recommendations to address it. When the Commission released its report in1996, tax administration was singled out as one of the public functions riddled with an intolerable level of corruption. Several factors were put forward to explain why taxpayers and tax officials collude to cheat the government for their mutual advantage.

In this connection, it is important to note that Tanzania's international donor community had in 1994 suspended their assistance in protest for tax maladministration and corruption. It is in this light that the subsequent formation of the above-mentioned Presidential Commission was formed. Measures have been undertaken to streamline tax administration since 1995. The Tanzania Revenue Authority, TRA started operating on first July of 1995. Stricter rules of conduct for revenue administrators have been put in place and their morale have been boosted by favorably higher pay relatively speaking. Policy measures are currently under consideration for the purpose of rationalizing the number of taxes, the tax base and the tax rates. For example, sales tax, hotel levy and receipt-based stamp duties are to be consolidated into one tax, the value-added tax, VAT, which is to be introduced in July 1998. As a result of all these steps, tax collection has been greatly enhanced to a monthly average of Tshs. 50 billion from less than 35 billion prior to 1996.

Much as we support the measures being undertaken to improve the tax system in Tanzania, we find fault, however with the concentration solely put on the tax system. It should be borne in mind that the tax system of a country can never work in isolation from other related systems. The judicial system, the police, licensing authorities, accounting system and many others, all do have a bearing on tax administration, hence the latter's success. In other words, the Tanzanian tax system is part and parcel of the Tanzanian social, economic and political set up. One should not expect a situation where only the tax system works well, and at the same time all other systems do not work well. Policy makers in Tanzania must take note of this fact, and formulate strategies that aim at addressing the country's problems from a comprehensive point of view. The streamlining of tax administration must go hand in hand with improvements in the environment in which tax administration is conducted. Merely paying a tax collection clerk more than what a resident magistrate earns cannot ensure sustainable effective tax administration, at least in the long run!

5.7 Concluding Remarks

5.7.1 Over-Ambitious Goals

In its budget proposals Tabled in parliament in June 1997, the Tanzania Government specified three important, but ambitious economic targets to be achieved this fiscal year, i.e.1997/98, that expires on June 30 1998. These are:

Achieving a GDP growth rate of 5 % in real terms.

Reducing inflation rate to 10 %.

Reducing the deficit balance on current account.

In order to achieve the set economic goals, the government has committed itself to the following fiscal measures:

To raise domestic revenue equivalent to 17.1 % of GDP.

To limit public expenditure to 16.4 % of GDP, thus realizing a surplus budget (before loan repayment) amounting to 1.9 % of GDP.

The numerical targets set by the Tanzania Government, though very sound in macroeconomics, are by all means very difficult to attain, if at all. We are quite skeptical of the realization of such an ambitious economic program on account of classical economic thinking, past history and the realities facing the economic and social environment prevailing in Tanzania today.

5.7.2 Theoretical Inconsistency

In order to control inflation it is argued in economic theory, that tightening both monetary and fiscal policies in a mix that takes into consideration the real conditions of the country in question, are the right measures. Judging from the tone and substance of the budget proposals, one may safely conclude that this is what the Tanzania Government economic planners believe in. On the other hand, tight fiscal and monetary policy measures cannot possibly be associated with such unprecedented economic growth. By and large, tight monetary and fiscal measures reduce government spending and freezes growth of money supply, in this way reducing also private spending. By implication, such measures are deflationary in nature, and it is indeed baffling that planners and policy makers in Tanzania can, by deflating the economy, come up with the highest economic growth rate that the country has ever experienced in recent years! These deflationary policies should have been understood as temporary adjustment measures to correct structural economic imbalances. It is only after some deflationary period, with a lower economic growth, that the economy can possibly pick up and grow at a higher rate.

5.7.3 Previous Experience

According to the World Bank (1997:p. 234) Tanzania's GDP grew on average by 3.2 % during the 1990-95 period. At this time period, non-deflationary policy measures were the order of the day as evidenced by the average inflation rate in the same period of 22.4 % according to the same source of data. At the same time the government was on an expenditure spree (easy macroeconomic policies) when public expenditure increased by more than a hefty 140 % from Tshs. 195,705.0 million in fiscal year 1991/92 to Tshs. 470,014.0 million in fiscal year 1995/96 (see Budget Speech: p. 98).

As for controlling inflation the Government pledge in the 1996/97 budget to reduce inflation from 23 % to 15 % by June 1997 was not realized though an impressive achievement was recorded as we have already indicated in a previous section. Additionally matters are not as good as planned in revenue collection either. In June, the government reported to parliament (see Budget Speech: p. 12) that actual revenue for fiscal year 1996/97 would fall below targeted revenue by 2.7 %.

5.7.4 Unforeseen Events

One of the excuses officially put forward by the government for not being able to achieve some macroeconomic numerical goals for fiscal year 1996/97 is the unfavorable climatic conditions that plagued the country for some time during 1996 (see Budget Speech: p. 12). Only four months after presenting its over ambitious economic recovery strategy, the country is facing a much more severe catastrophe. The Express (1997a) reports that due to lack of sufficient rain, there is a serious food shortage in the country presently. The Prime Minister has announced emergence measures to address the menace and he has declared a nine-month national famine disaster period. The emergence measures include the formation of famine disaster relief committees at regional, district and ward levels; and the remission of import duties and sales tax on imported food items in order to induce the private sector to import food into Tanzania (see Daily News).

As if to add insult to injury, the security situation on the border between Tanzania and Burundi has of recent deteriorated considerably. According to press reports, the military Government of Burundi has already stationed its troops very close to the Tanzanian border side (Express, 1997b). There are allegations that several Tanzanian civilians living near the border have actually been killed! Tanzania’s response has been to move its forces also close to the border. An endless exchange of accusations and counter accusations is gaining ground. It remains to be seen how this unfortunate phenomenon will be resolved. In any case it would be unrealistic to rule out completely the possibility of an actual war. If this occurs, it would be utterly impossible for Tanzania to adhere to its otherwise largely sound macroeconomic management policies. The point being made here is the fact that it is very improbable that the numerical targets stipulated in the 1997/98 fiscal year budget proposals will actually be achieved, given a realistic assessment of all the significant social, economic and political variables.

5.7.5 Ultimate Annotation

All said, the public finance situation of Tanzania is typical of any underdeveloped economy. Public expenditure is expected to cater for the services that in a developed country such as Japan, they are to a large extent born by private individuals: education, health, utilities and the like.

In addition, functions better carried out by the private sector, cannot be so carried out in Tanzania due to the absence of the necessary infrastructures. In the first place the infrastructures themselves have to be built now: roads, rail lines, bridges, communication facilities, energy sources, education system etc. All these require that the government raise huge amounts of finances. On the other hand, sources of public revenue are very limited. With such low per capita incomes, not much can be raised from income/direct-based taxes. Thus reliance is placed more heavily on expenditure or consumption-based taxes, which is also somehow affected by the low level of income. For this reason, external financing has to be sought, but again another dilemma is the repayment burden arising from the accruing interest. Default makes it difficult for the country to raise external finance in future, but honoring debt obligations limits severely the amounts to be spent on important social and economic functions, another dilemma!

In our viewpoint, the major public finance problem for Tanzania is not so much in determining the best way to finance public expenditure i.e. which taxes to impose and where to borrow. The major problem is the level and composition of government expenditure. Given the limited revenue yield and unlimited expenditure needs, an *optimal expenditure level and composition*, conducive to a high economic growth has to be worked out. It is this that should guide the determination of how much public finance to raise, not the other way round, as it seems to be the case among policy makers and planners in Tanzania. There have to be clearly identified priority economic expenditure areas, and public revenue must be raised to at least meet this level of expenditure on these priorities. It is in this way that Tanzania would be recognizing the crucial role played by public finance in the social and economic development of the country. Having a balanced budget in itself, all even a surplus budget for that matter, does not necessarily ensure economic and social development. What matters most is how the government budget interacts with the economy in general.

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Appendixes

Table 5A.1 Balance of Payments

(Millions of US$)

	1991	1992	1993	1994	1995
Trade balance	- 867.0	- 915.9	- 844.0	- 790.0	- 657.5
Services (net)	- 157.8	- 169.0	- 283.2	- 128.3	- 188.0
Income (net)	- 184.5	- 225.4	- 129.2	-122.5	- 137.2
Current transfers (net)	471.8	606.1	506.4	360.1	353.6
Current account	- 737.5	- 704.3	- 770.0	- 680.7	- 629.1

Source: Adapted from IMF (1996).

Income includes investment income paid abroad over and above investment receipts from abroad, whereas transfers relate to government transfers and workers' remittances.

Table 5A.2 Demand Structure of the Tanzanian Economy

(% of Total GDP)

	1991	**1992**	**1993**	**1994**	**Average**
Private Consumption	80.9	84.8	81.6	89.6	84.2
Public Consumption	25.3	37.8	8.5	7.7	19.8
Gross fixed Capital Formation	16.3	10.6	45.4	27.5	24.95
Increase in Stocks	2.9	4.6	5.2	3.2	4.0
Net Exports	(30.7)	(37.8)	(40.8)	(28.0)	(34.3)

Source: Adapted from IMF (1996).

Table 5A.3 Government Finance

(Millions Tshs)

	1991	**1992**	**1993**	**1994**	**1995**	**Mean**	**%**
Domestic Revenue	137,093	173,566	164,110	242,444	331,239	209,690	**59**
Grants	22,875	32,798	58,313	106,790	58,505	55,856	**16**
Total Revenue	159,968	206,364	222,423	349,234	389,744	265,546	100
Expenditure	**207,292**	**261,051**	**336,015**	**485,216**	**469,660**	**351,847**	**100**
Deficit	(47,324)	(54,687)	(113,982)	(135,982)	(79,916)	(86,300)	25
Deficit Financing	47,324	54,687	113,982	135,982	79,916	86,300	100
Domestic Borrowing	29,608	9,335	84,156	112,581	76,960	62,528	**72**
Foreign Borrowing	17,716	45,353	29,436	23,401	2,956	23,772	**28**

Source: Adapted from IMF (1996) and BOT (1995).

Table 5A.4 Selected Major Taxes: Overview of Basic Rules

No.	TAX	TAXPAYER	TAX BASE
1	Sales tax	Importer or manufacturer of items specified in the law or renderer of specified services	In case of importer, the aggregate of CIF value, import duty and excise duty payable (if any)
2	Income tax	Recipient of income: both individual and non-individual	Income computed in accordance with the law (taxable income)
3	Import duty	Importer of specified item	CIF value determined in accordance with the law
4	Excise duty	Importer or manufacturer of specified item	Specified measurements e.g. weight, quantity etc.
5	Stamp duty	Recipient of income or maker of specified instrument/document	In case of recipient of income, the income received; and in case of maker, each type of instrument is liable for a specified duty amount
6	Excess profits tax	Dealer of petroleum in the domestic market	Profit resulting from the change in price of petroleum in respect of existing stock
7	Windfall tax	Dealer of petroleum on the world market	Profit resulting from fall in the world market prices at which domestic prices are pegged
8	Single trading transaction tax	Occasional importer	The aggregate of CIF value, sales tax and import duty payable on the imported items
9	Hotel levy	Hotel owner	Accommodation charges
10	Payroll levy	Employer	Gross payroll costs
11	Training levy	Employer	Gross payroll levy incurred in respect of expatriate employees
12	Road toll	User of road (by motor vehicle)	Quantity of petrol or diesel purchased
13	Video tax	Lender of video tapes	Gross income from lending the tapes

Table 5A.5 Income Tax Rates (as at 30th June 1997)

Individual Rates

Monthly income (in Tshs)	Rate applicable
Below 20,000	NIL
Above 20,000 but not over 50,000	7.5% of amount over 20,000
Above 50,000 but not over 80,000	2,250 plus 10% of amount over 50,000
Above 80,000 but not over 110,000	5,250 plus 12.5% of amount over 80,000
Above 110,000 but not over 140,000	9,000 plus 15% of amount over 110,000
Above 140,000 but not over 200,000	13,500 plus 17.5% of amount over 140,000
Above 200,000 but not over 300,000	24,000 plus 20% of amount over 200,000
Above 300,000 but not over 400,000	44,000 plus 22.5% of amount over 300,000
Above 400,000 but not over 500,000	66,500 plus 25% of amount over 400,000
Above 500,000 but not over 600,000	91,500 plus 27.5% of amount over 500,000
Above 600,000 but not over 700,000	119,000 plus 30% of amount over 600,000
Above 700,000	149,0000 plus 35% of amount over 700,000

Corporation Rates

The basic rate is **35%**

However in the case of a business of mining specified minerals, the rate is only **20%** in the first four years.

Withholding Rates

Nature of payment	Resident Rate	Non-resident rate
Management or professional fee	N/A	30%
Royalty	N/A	30%
Rent	15%	40%
Dividend	15%	20%
Interest	15%	15%
Pension	N/A	12% of amount over 5,000
Insurance commission	7.5%	N/A
Insurance business claim	30%	N/A

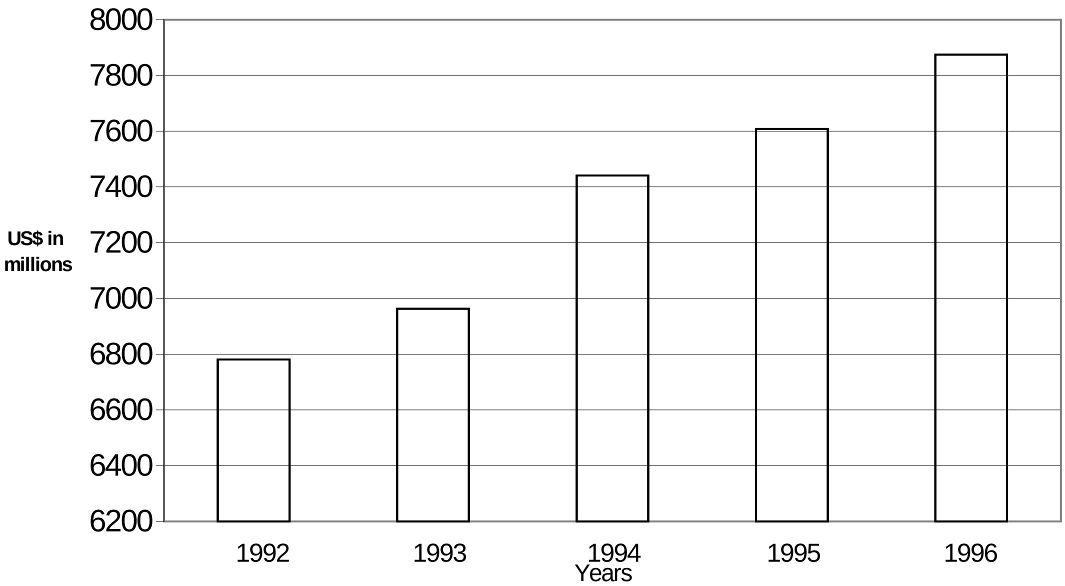
Note that these rates are applicable whenever any person makes such payments in Tanzania. The resident rates are applicable where the payee is a Tanzanian resident for income tax purposes or a non-resident who has a permanent establishment. The non-resident rates are used where the payee is both non-resident and has no permanent establishment in Tanzania.

Table 5A.6 Rates for Sales Tax/Import Duty/Road Toll and Excise Duty

(as at 30th June 1997)

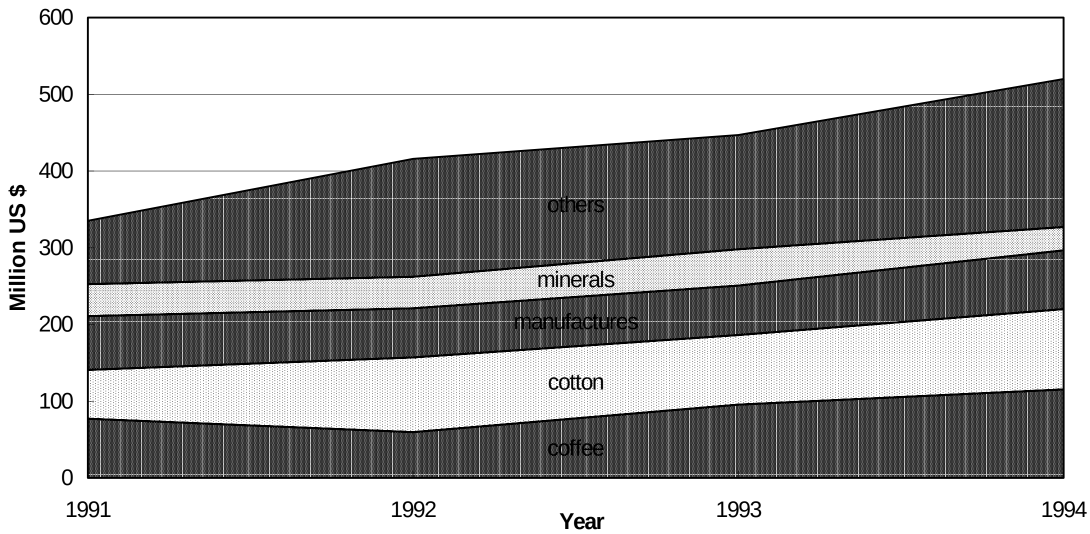
Tax	Type of item	Rates applicable
Sales tax	Goods	0; 5%; 10%; 20%; 25%; and 30%
	Services	5%; 10%; and 15%
Excise duty	Petroleum	Tshs/litre: 13.95, 15.78 and 15.85 for Regular Gasoil, JET – A1 and Super Gasoil respectively (as an example)
	Beer	From COMESA countries Tshs 350/litre; and local beer 290/litre
	Cigarettes	Tshs. 23,000 per 1000 pieces imported
Import duty	Goods	5%; 10%; 15%; 20%; 25%; 30%; 40%
Road toll	Petrol/diesel	Tshs. 60 per litre

Table 5A.7 Trends in External Debt



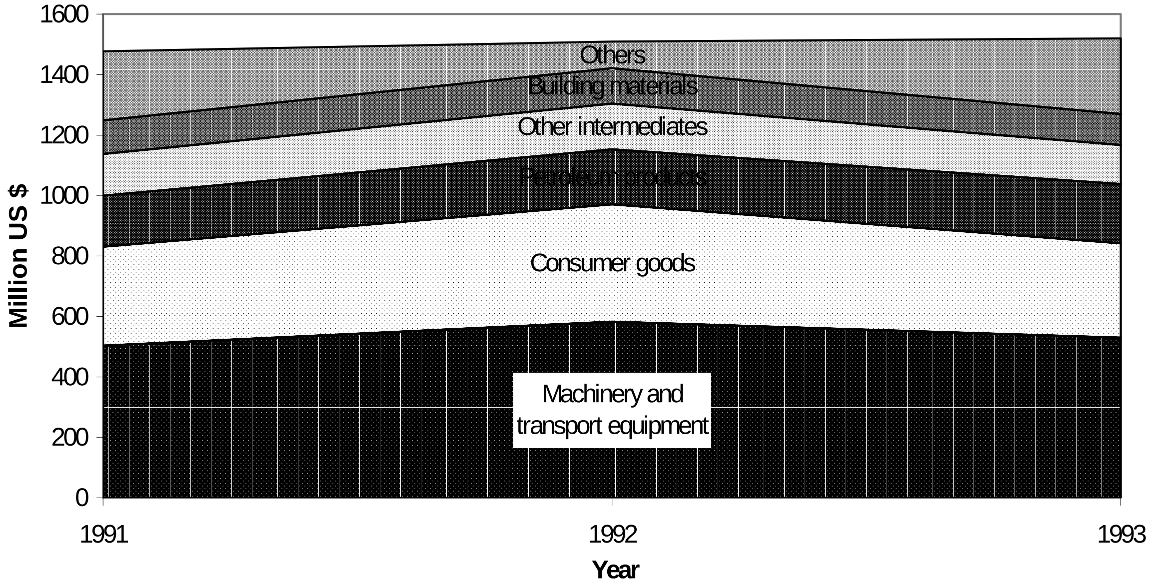
Source: Economist Intelligence Unit Reports for Tanzania (1993-97).

Table 5A.8 Major Export Items



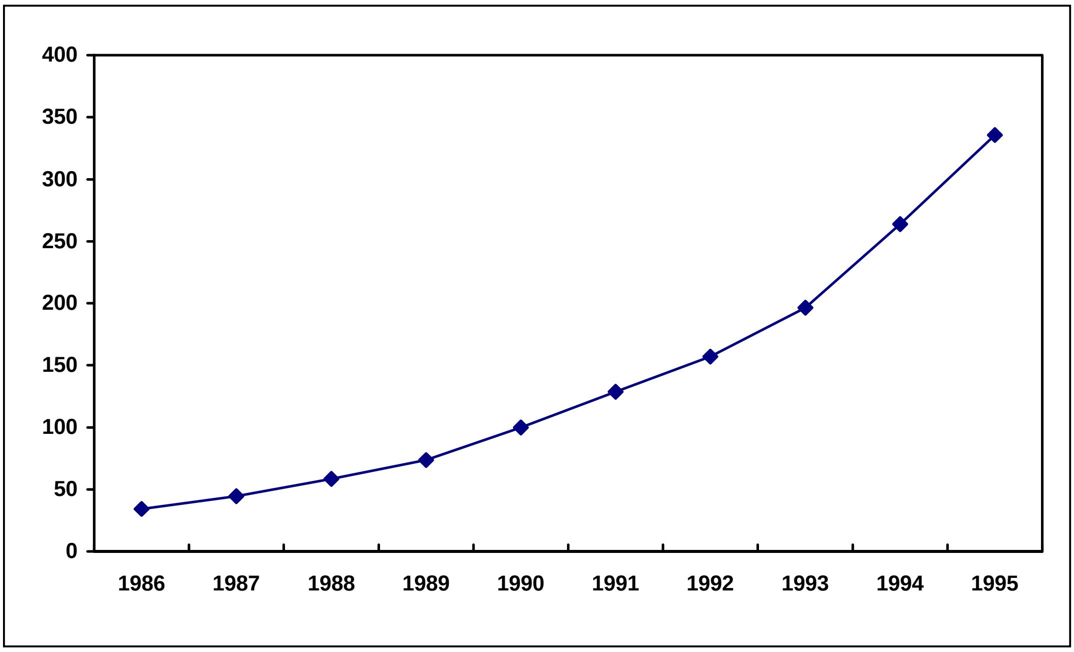
Source: Economist intelligence Unit reports for Tanzania (1992-95).

Table 5A.9 Major Import Items (cif)



Source: Economist Intelligence Unit Report on Tanzania (1992-94).

Table 5A.10 Consumer Price Index



Source: ILO (1996).