1. CHAPTER ONE

1.0 INTRODUCTION, REVIEW OF LITERATURE AND THE NATURE OF THE TANZANIAN ECONOMY

1.1 BACKGROUND OF THE STUDY

The tax regime in the United Republic of Tanzania consists of a number of direct and indirect taxes like income tax, Value Added Tax, import duty, excise duty and stamp duty.[1] This implies that, the tax system of Tanzania consists of both direct and indirect taxes which form a general taxation system in Tanzania.

Direct taxes consist of taxes on income such as individual or personal income tax, taxes on payroll and workforce i.e. Pay as You Earn, taxes on profits (corporate tax), basic skills and development levy, withholding taxes, rental tax, gaming tax, etc. Differently, indirect taxes include V.A.T, specific consumption taxes, international trade taxes, stamp tax, motor vehicle tax, communication tax, other domestic taxes and charges.[2] The Tanzania tax system relies on taxation of goods, services and income.[3]

V.A.T system was introduced in 1996 and is chargeable on the taxable supplies of goods and services. The rates are 18 percent for standard rated supplies of taxable goods and services, and importation of taxable goods and services; and zero percent for exports of goods and services.[4] This means that, V.A.T in Tanzania is charged to both locally produced goods and services and on imports, and is charged only by persons officially registered for V.A.T.[5]

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[1] B. Celia, *Tanzania tax system in a nutshell*, TAX ENSIGHT, (2014), *available at* https://www.ensafrica.com/news/Tanzania-tax-system-in-a nutshell?Id=1523&STitle=tax%20ENSight (Last visited on Feb 09, 2017).
[2] *Id.*
[3] *Id.*
[4] Tanzania Revenue Authority, *What is the scope of VAT*, (2017), *available at* http://www.tra.go.tz/index.php/value-added-tax-vat (Last visited on Feb 09, 2017).
[5] *Id.*

Both direct and indirect taxes play a dominant role in the tax system of the United. Table 1.0[6] displays collection of direct and indirect taxes in Tanzania Mainland from Financial or Fiscal Year 2005-06 to financial year 2017-18.

Table 1.0: Collection of Direct and Indirect Taxes (Tanzanian Shilling T.Z.S Billion), Tanzania Mainland, 2005-06 – 2017-18.

Year	Direct Taxes		Indirect Taxes		Total Taxes	Changes in Taxes Between Years	
	Amount	Percent	Amount	Percent		Amount	Percent
2005/06	637.8	31.6	1,380.10	68.4	2,017.90		
2006/07	853.5	32.6	1,764.40	67.4	2,617.90	600	29.7
2007/08	1,105.70	31.9	2,357.90	68.1	3,463.60	845.7	32.3
2008/09	1,349.80	32.4	2,811.80	67.6	4,161.60	698	20.2
2009/10	1,498.00	32.8	3,072.50	67.2	4,570.50	408.9	9.8
2010/11	1,839.90	33.7	3,620.20	66.3	5,460.10	889.6	19.5
2011/12	2,471.50	37.1	4,197.10	62.9	6,668.60	1,208.50	22.1
2012/13	3,149.40	39.2	4,881.70	60.8	8,031.10	1,362.50	20.4
2013/14	3,968.30	40.2	5,911.80	59.8	9,880.10	1,849.00	23
2014/15	3,940.80	37.0	6,724.30	63	10,665.10	785	7.9
2015/16	4,865.10	36.7	8,381.00	63.3	13,246.10	2,581.00	24.2
2016/17	5,121.00	36.0	9,100.90	64	14,221.90	975.8	7.4
2017/18	5,437.00	35.7	9,812.50	64.3	15,249.50	1,027.6	7.2
Total	**36,237.8**	**36.2**	**64,016.2**	**63.8**	**100,254.0**		

Source: Tanzania Revenue Authority, 2017.

Table 1.0 show that, the indirect taxes play a dominant role in Tanzania tax system, since from 2005-06 to 2012-13 the collection was about twice the amount of direct taxes. Meanwhile, the minimum growth of 7.2 is shown by the table as the percent increase of revenue collection from Tanzanian Shilling 14,221.9 billion in 2016-17 to Tanzanian Shilling 15,249.5 billion in 2017-18.[7]

The direct tax contributed to 5,437.00 in Tanzanian Shilling Billion which equivalent to 35.7 percent for the year 2017-18, compared to 5,121.00 Tanzanian Shilling millions equivalent to 36.0 percent for the year 2016-17 of the government finance aggregates.[8]

[6] National Bureau of Statistics **(2018),** ***Collection of Direct and Indirect Taxes in TZS Billion, Tanzania Mainland, 2005-06 – 2017-18*** **(Table 2.1)** *available at* https://www.nbs.go.tz/ **(Last visited on** July **18, 2019).**

[7] National Bureau of Statistics, *TAX STATISTICS REPORT 2017-18 TANZANIA MAINLAND,* (2017-18) *available at* https://www.nbs.go.tz/ **(Last visited on** July **18, 2019).**

[8] *Id,* at 6.

Table 1.0 also reveals that, the highest percentage increase of 32.3 percent in revenue collection was attained in 2007-08 where tax collection increased by Tanzanian Shilling 845.7 billion; while the lowest growth was 7.2 percent reported in 2017-18, where changes in tax collection was Tanzanian Shilling 1,027.6 billion.[9] Further, it confirms that, indirect taxes increasing at a decreasing rate of marginal return while the direct taxes trend is increasing gradually. However, for the fiscal year 2017-18, the direct taxes were decreased to 35.7 percent compared with 36.0 percent of the fiscal year 2016-17 (Table 1.0).

Also, the total revenue including revenue by Local Government Authorities of United Republic of Tanzania Government Finance Statistics from the year 2010-11 to 2018-19 in Millions of Tanzanian Shilling were 5,736,266.1, 7,221,408.6, 8,442,611.2, 10,182,454.7, 10,957,765.3, 13,906,993.4, 16,639,831.5, 17,944,887.0, and 18,527,293.2, respectively. However, the total expenditure of the same period were Millions of Tanzanian Shilling 9,439,407.2, 10,764,528.4, 12,714,236.4, 13,958,161.9, 14,603,714.4, 17,759,598.0, 18,889,969.1, 20,468,072.3, and 22,265,372.0, respectively.[10]

The figures imply that, the total expenditure of Local Government Authorities in Tanzanian exceed the total revenue of the same for the year 2010-11 to 2018-19. Also, the statistics reveal that, the Tanzanian fiscal budget is running under deficit situation; which is the problem to the nation.

The focus of this research is to investigate and analyse the major and potential determinants of tax revenue performance which influence the domestic tax revenue performance and collections in Tanzania, where the country should focus on internal factors to run recurrent and development expenditures within the country rather than

[9] *Id*.

[10] Bank of Tanzania, *ANNUAL REPORT 2018-19,* (2018-19) *available at* https://www.bot.go.tz/Publications/EconomicAndOperationsAnnualReports/ANNUAL%20REPORT%202018-19%20SIGNED.pdf pg. 211 (Last visited on February 22, 2020).

depending from external factors and finances like loans, aids, and grants. Therefore, avoiding deficit by achieving a surplus in the recurrent budget, development budget and ensuring the country's fiscal self-reliance.

In the meantime, the tax revenue of the Revolutionary Government of Zanzibar for 2017-18 was 620,813.7 Million of Tanzanian Shilling compared with tax revenues in Millions of Tanzanian Shilling of 164,295.5, 195,528.8, 254,379.4, 316,098.1, 342,002.0, 386,738.7, 465,749.8, 606,932.7 and 653,729.7 from the year 2010 to 2019, respectively. On the other hand, the total expenditure of the Revolutionary Government of Zanzibar in Millions of Tanzanian Shilling from the year 2010 to 2019 were 347,976.9, 375,391.2, 514,348.6, 469,006.0, 483,800.0, 484,375.8, 591,246.6, 924,442.3 and 1,131,520.6, respectively.[11]

The above figures reflect the truth that, Tanzanian public finance authorities are relying on indirect taxation, which is a relatively easy tax component to collect; the taxation which is somewhat painless to solve the fiscal needs regardless of their unjust effects on income distribution.[12]

In this regard, the target of this study is to investigate and analyse the major and potential determinants of tax revenue performance in Tanzania. The area of the study consists of Tanzania Revenue Authority[13], Zanzibar Revenue Board[14], private sectors and others government institutions.

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[11] *Id,* at 244.
[12] *Id.*
[13] "*The TRA is a government agency of Tanzania, charged with the responsibility of managing the assessment, collection and accounting of all central government revenue. It is a semi-autonomous body that operates in conjunction with the Ministry of Finance and Economic Affairs*". *Available at* https://en.wikipedia.org/wiki/Tanzania_Revenue_Authority (Last visited on October 12, 2018).
[14] *"The ZRB was established under the ZRB Act No. 7 of 1996 as the prime agency of the Government of Zanzibar for collection and administration of all taxes from Inland Revenue sources other than customs, excise and income taxes that are administered by the Tanzania Revenue Authority. ZRB became operational since July 1998." Available at* https://www.zanrevenue.org/about/category/overview (Last visited on October 12, 2018).

1.2 THE CONTRIBUTIONS OR RELEVANCE OF TAX REVENUE ON TANZANIAN SOCIAL AND ECONOMIC WELFARE: THE JUSTIFICATION

For the fiscal year 2017-18, the Tanzanian fiscal operations were targeted in reducing poverty by implementing the priority projects and transforming the land into an industrial economy.[15] In this regard, the government implemented strategies to strengthen tax administration, tax compliance, enhancement of expenditure management and issuance of the Blueprint for Regulatory Reforms to improve the business environment such that legal and regulatory framework.[16] Meanwhile, the government sustained to align expenditures with the available national resources, while observing the key priority programs in support of both poverty reduction and economic growth in the territory.[17]

Example, the on-going implementation of various development projects such as, construction of Stigler large gauge that is capable of producing more than Megawatt 2100 for power supply stability; free education in public schools from standard one up to secondary level; construction of infrastructures like roads, flyovers e.g. Mfugale and the ongoing Ubungo flyovers[18] etc.

Also, water projects constructions, e.g. from the Lake Victoria, water projects in Dar es Salaam and Mbeya regions. The expansion of the Dar es Salaam Port, initiation of the Tanzania new state-of-the-art terminal at the Julius Nyerere International Airport in Dar es Salaam which opened in June 2019.[19]

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[15] Bank of Tanzania, *ANNUAL REPORT 2017-18,* (2017-18) *available at* https://www.bot.go.tz/Publications/EconomicAndOperationsAnnualReports/BOT%20ANNUAL%20REPORT%2017-18.pdf pg. 19 (Last visited on April 24, 2019).

[16] *Id.*

[17] *Id.*

[18] About MFUGALE FLYOVER *available at https://www.google.co.in/search?ei=b03AXJO4O4jfkgX_kZrYCQ&q=mfugale+flyover&oq=Mfugale+&gs_l=psy-ab.1.0.0l3j0i30l2j0i5i30l5.4039.5135..13685...0.0..0.405.790.3-1j1.....0....2j1..gws-wiz.ZRULjGqzm2A* (Last visited on April 24, 2019).

[19] Tanzania's new airport terminal at the Julius Nyerere International Airport JNIA in Dar es Salaam expected to be open in June 2019, *available at* http://www.xinhuanet.com/english/2018-03/24/c_137061230.htm (Last visited on April 24, 2019).

Also, the construction of the Tanzania Standard Gauge Railway[20] linking the country to the neighbouring countries of Rwanda and Uganda, connecting with Burundi and the Democratic Republic of the Congo. Enhancement of worker's retirement fund and on time salary, the ongoing construction of the new Airports and the new Radar for the national air security.

Moreover, increase in national health budget in line with hospitals and dispensaries or health centres ongoing constructions, the ongoing improvements of the mother's and elder's services in the country, availability of medicines in the hospitals, dispensaries and health centres. The construction of petroleum tank from Uganda to Tanga region in Tanzania, the ongoing constructions of industries in the nation, etc.[21] All of the above examples justify how tax revenue in Tanzania promote the social and economic welfare of Tanzanians.

1.3 MOTIVATION FOR THE RESEARCH

Greater fiscal deficit has been a common problem which demoralize development prospects of Tanzania.[22] The greater reliance on indirect taxation by Tanzania's public finance authorities (Table 1.0)[23], the uncertainty of the national debt resulted from foreign aids, loans and grants for her recurrent and development expenditures[24], have also contributed to the fiscal imbalances in Tanzania.

In addition to that, both the government of United Republic of Tanzania and that of the Revolutionary Government of Zanzibar must play supportive roles by investing in physical capital, human capital and institutional framework and infrastructures for the purpose of

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[20] About Tanzania Standard Gauge Railway *available at https://www.google.co.in/search?source=hp&ei=tTnAXL6TPImRkwWXg4XABQ&q=tanzania+sgr&oq=tanzania+sgr&gs_l=psy-ab.1.0.0l10.8888.12727..15524...0.0..1.585.4975.2-1j5j3j3.....0....1..gws-wiz.....0..0i131.mBEHEa3Dx_s* (Last visited on April 24, 2019).

[21] Paul Makonda. #UJUMBEWAMAKONDA MAKONDA Amwandikia LISSU Waraka Mzito!. Global TV Online Video Clip., *available at* https://www.youtube.com/watch?v=vfGezVCh23Y, Published on Jan 19, 2019., Global TV., (Last visited on April 24, 2019).

[22] ***Supra* note 10.**

[23] ***Supra* note 6.**

[24] Bank of Tanzania, *ANNUAL REPORT 2018-19,* (2018-19) *available at* https://www.bot.go.tz/Publications/EconomicAndOperationsAnnualReports/ANNUAL%20REPORT%202018-19%20SIGNED.pdf pg. 16-17 (Last visited on January 28, 2020).

improving the environment of private sector development and sustainable economic growth. In this regard, both, the crowding out of the private sector and inflationary financing have to be avoided in order to generate more tax revenue collection to finance investments in physical capital, human capital, institutional framework and infrastructures.[25]

Literally, it is believed that the tax revenue performance within the country is mostly driven by internal factors rather than external factors like foreign loans, aids and grants.[26] It is assumed that, the higher the innovation of the new reliable sources of domestic government revenue, the higher the significance of the tax revenue performance within the country.[27] In this regard, the focus of this research is to mobilize domestic tax revenue performance and collections by enhancing internal factors rather than external factors, which is the prerequisite policy objectives in Tanzania.

Therefore, Tanzania can utilize several determinants such as tax rate, ratio of trade to Gross Domestic Product, population, tax base, G.D.P per capita, inflation, Foreign Direct Investment, Domestic Investment, government policies, corruption, tax institutions, tax compliance, political situation and tax regime to enhance domestic tax revenue performance both in the short-run and in the long-run.

1.4 THE ROLE OF PRIVATE SECTORS IN TANZANIAN TAX PAYMENT SYSTEM

A good tax system should not only generate enough public revenues but also help to promote private sector and private businesses development for their great contributions, role and duties in tax payments, contribute to reduce inequalities among the peoples and ensuring the efficient allocation of resources.[28]

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[25] Dhaneshwar Ghura, *Tax Revenue in Sub-Saharan Africa: Effects of Economic Policies and Corruption,* 3 (Working Paper No. WP/98/135, International Monetary Fund-African Department, 1998).
[26] Interview with Masoud M. Albiman Ph.D., Economist and Researcher, Ph.D. ZRB, Mazizini, Zanzibar (November 17, 2014).
[27] *Id.*
[28] Musgrave, Richard A, 'The Theory of Public Finance: A Study in Public Economy', Publisher: McGraw-Hill, 1959.

In the meantime, the reduced aid inflows to the country, the limited availability of loans and borrowing from the private sector finance, and the lower tax revenue vs. expectations have forced the government to cut its unnecessary spending plans.[29] Meanwhile, the payment of a large accumulated amount of country's arrears through bonds, ultimately in the years to come would rise the government's debt service in the nation.[30]

To deal with these issues, the only solution for the government is to raise domestic revenues. Hence, the Tanzanian fiscal authorities must collect more taxes due to increased demand for public services resulting huge population growth.

By doing so, they would be in a great chance to undertake their productive investments, attaining their financial responsibilities and succeeding in addressing the Tanzanians needs.[31] Hence, for Tanzanian fiscal authorities to achieve high domestic tax collection, the private sectors and businesses are the key actors in tax payment issues.

Apart from the duty of paying taxes, private sectors in Tanzania offer services like education, health, communications, transports, etc. It is found that, apart from Bank of Tanzania (the Central Bank); the private sector institutions and private businesses are the chief contributors in production and distribution of food. Hence, they can help to solve or to prevent inflation problem in Tanzania. Refer to question No. 9 Annexure II and III (pg. 5 and 4), on inflation rate section respectively, and Annexure XVI, SB_9 for findings.

In addition, the study findings indicate that, domestic investment by private sectors and businesses contribute towards the tax revenue collections of Tanzania. Therefore, there is significant positive influence or relationship between domestic investment and tax revenue collections or base in Tanzania.

Hence, it is one of the important major factors that influence or enhance tax revenue collections or base in Tanzania. Therefore, domestic investment do have positive impact

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[29] *Tanzania Economic update: Why Should Tanzanians Pay Taxes? The unavoidable need to finance economic development* 97720 (7) THE WORLD BANK GROUP: GLOBAL PRACTICE AFRICA REGION MACROECONOMICS AND FISCAL MANAGEMENT V, 22 (July, 2015) *available at* http://www.worldbank.org/tanzania/economicupdate (Last visited on June 14, 2019).

[30] *Id.*

[31] *Id.*

on tax revenue performance in Tanzania. For the questions refer to Annexure II and III (pg. 9-10 & 8-9), on F.D.I & D.I section respectively, and Annexure XIX (SE_5 & SE_11), (SE_6 & SE_12), (SE_1 & SE_7), (SE_2 & SE_8), (SE_4 & SE_10), SE_13, SE_14, SE_15, (SE_16 & SE_17), simultaneously, for findings. .

Again, apart from others tax influencing institutions, the tax stakeholders had commented on the role of tax collecting agents, example are clearing and forwarding agents and other private sectors and businesses, are the important stakeholders that have a great positive influence on tax revenue collections or performance at 98.8 percent (66.7% plus 32.1%) in Tanzania. Refer to Table 23.0 and Annexure II and III (pg. 21 & 19-20) respectively for more information about the institutions.

Further, it is founded that, ratio of trade to G.D.P that involves private sectors and businesses, had a strong long-run positive impact with tax revenue in Tanzania from 1992 to 2018. The implication is that, in the long-run, the increase in the ratio of trade to G.D.P especially for major commodity groups in Tanzania, will lead to increase the performance of tax revenue in the country (Table 10.0).

Similarly, increase in trade to G.D.P in short time will influence an increase in tax rate in Tanzania. Since, it is shown that, there is short-run positive impact between tax rate and the ratio of trade to G.D.P in the country (Table 26.0 and Annexure XXV, D(LTAXRA)).

However they play a great role of financing the country's development, the private sector approach of providing social services have not yet satisfactorily in meeting the Tanzanians daily needs. This is because millions of Tanzanians poorest population cannot afford the costs of services offered by the private sectors. Nevertheless, in Tanzania many public services do not produce the revenue streams that can make the services commercially viable.[32]

Again, apart from the existence of strong resistance related to ideology and political factors, establishing of Public-Private Partnerships to finance the country's development on a large scale will take a long time as there are many remaining deficiencies in the legal

[32] *Id*, at V.

and regulatory framework.[33] In this regard, for the provisions for the affordable public services in the present environment of the country, the best approach is for the government to efficiently tax private sectors and businesses, then offering the same services by using the revenue collected from them.

From the above role, contributions and the duties of private sectors, businesses and the general public towards tax payment in Tanzania. Numbers of private sector's stakeholders, businesses and private individuals have been involved in this research.

Such that, the Tanzanite Logistics Company Limited[34]; Zanzibar Freight Forwarders Bureau[35]; Interfreight East Africa Limited[36]; The Tanzania Chamber of Commerce, Industry and Agriculture[37]; Zanzibar Petroleum Limited[38]; United Petroleum Limited.[39] The Zanzibar National Chamber of Commerce, Industry and Agriculture[40]; Khan's Clearing & Forwarders Company Limited[41] and Zanzibar Association of Tourism Investors[42].

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[33] *Id*.

[34] T.L.C.L is a custom clearing agent, offering the effective and reliable customer services right from brokerage, to inspection, to documentation, and final to a clearance and delivery, approved and licensed by IATA. *Available At* https://www.japanesecartrade.com/tanzanite/about-us.html (Last visited on July 13, 2019).

[35] Z.F.B deals with promoting trade facilitation in Zanzibar through advocacy and advancing best practices in the professionalism on customs (Export-Import) clearance among the public and private stakeholders.

[36] I.F.E.A.L provides warehousing, distribution, and road transportation services to the oil and gas industry in Tanzania and other east African countries. *Available at* https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=140118150 (Last visited on July 13, 2019).

[37] T.C.C.I.A was established in 1988. It was initiated with the support of the Tanzanian Government to strengthen the private sector. *Available at* http://www.tccia.com/tccia/about/ (Last visited on July 13, 2019).

[38] Is an oil company in Tanzania that constitutes one of the largest taxpayers in Tanzania.

[39] *"UP is a market leader in the petroleum industry in Zanzibar and pride ourselves in supplying quality products."* Is also one of the largest taxpayers in Tanzania. *Available at* http://bakhresa.com/services/petroleum/ (Last visited on October 12, 2018).

[40] *"Is a local organization of businesses and companies in Unguja, Zanzibar with the intention to develop and further the interests of local companies and businesses in Tanzania. Many businesses are international operating companies with offices in Tanzania." Available at* https://www.chamber-commerce.net/dir/4082/Zanzibar-National-Chamber-of-Commerce--Industry-and-Agriculture-in-Unguja--Zanzibar (Last visited on October 12, 2018).

[41] K.C.F.C.L is a private limited company in Tanzania that providing complete clients oriented reliable Freight Forwarding and Customs Clearing in the land. *Available at* https://www.khanlogisticsltd.com/about.php?page=profile (Last visited on July 13, 2019).

[42] *"ZATI was registered on 5th February 2003 and has since begun to show its value to both the private and public sectors. ZATI is already involved in several projects, some with the assistance of the European Union, all with the goal of improving the local economy, particularly the tourism sector." Available at*

The others individuals' stakeholders are Ms. Haula K. Issa[43], Ms. Zuleikha M. Nassor[44], Mr. Omar H. Mussa[45], Prof. Kayombo T. Kadenge PhD[46], Ms. Sia Shayo[47], Dr. Deogratias P. Macha PhD[48], Mr. Moh'd H. Khalfan PhD.[49] Mr. Malik A. Suleiman[50], Mr. Arif M. Said[51], Ms. Shuwekha S. Khalfan[52], Mr. Soud S. Soud[53], Mr. Haji A. Haji[54], Ms. Fatma A. Hassan[55], Dr. Masoud M. Albiman PhD[56], Mr. Iddi N. Iddi[57], Ms. Fatma J. Mabula[58], Ms. Najat N. Suleiman[59], Mr. Abdulrahman M. Pembe[60], Ms. Huda A. Yussuf [61], etc.

In this research, all of them constitute the representative's stakeholders for private sectors, businesses, private individuals and the public in general. They are the important stakeholders since they had either physically contacted, made discussions or be the respondents of the research questionnaires in their respective institutions.

https://www.bing.com/search?q=zanzibar+association+of+tourism+investors&form=EDGEAR&qs=PF&cvid=5e388d6278f449ed89be31439b372fcd&cc=US&setlang=en-US&DAF0=1&elv=AXK1c4IvZoNqPoPnS%21QRLOMewygu9%21uYueLz3%21OZjUZ3LYZkJIBx3gW2c4nw87bgWWENDMLhpOi**0avZSPhm3FjeEVypqx97SQ1NgIlzBu3 (Last visited on October 12, 2018).

[43] Manager Human Resource and Administration, working at the Tanzania Revenue Authority, Zanzibar office.

[44] A Custom officer, working at the Tanzania Revenue Authority, Zanzibar Office.

[45] The President of Zanzibar Freight Forwarders Bureau Z.F.B, and a Chairman of Alhikma Foundation Zanzibar.

[46] A Research officer working at the Zanzibar Revenue Board.

[47] Secretary Economics Department working at the Bank of Tanzania, Head Office, Dar es Salaam.

[48] Economist working at the Bank of Tanzania, Zanzibar Branch.

[49] Assistant Professor in International Economics.

[50] Senior Principal Accountant and Statistician, Economics Department, working at the Bank of Tanzania, Zanzibar Branch.

[51] A Senior Tax Officer working at the Tanzania Revenue Authority, Zanzibar Office.

[52] A Principal Taxpayer Services and Education Officer working at the Tanzania Revenue Authority, Zanzibar Office.

[53] A Senior Tax Officer working at the Tanzania Revenue Authority, Zanzibar Office.

[54] A Head of Natural Resources Unit in Oil and Gas, Department of Fiscal and Financial Policies DFFP, the Ministry of Finance and Planning Zanzibar (M.O.F.P- Zanzibar), Zanzibar.

[55] A Senior Legal Counsel working at the Tanzania Revenue Authority, Zanzibar Office.

[56] Economist and Researcher working at the Zanzibar Revenue Board.

[57] A Chief Officer working under Zanzibar Freight Forwarders Bureau, Zanzibar.

[58] A Senior Legal Counsel working at the Zanzibar Revenue Board, Zanzibar.

[59] Economist working at the Ministry of Trade, Industry and Marketing Zanzibar M.T.I.M.

[60] Mathematician and Statistician working at the Ministry of Trade, Industry and Marketing Zanzibar M.T.I.M.

[61] Student under the University Islam Malaysia U.I.M, Malaysia.

1.5 DEFINITIONS OF THE TERMS

i) Tax: *"(amount of) money paid to the government, usually a percentage of personal income or of the cost of goods or services bought*".[62]

ii) Tax: *"Taxes can be basically taking two different forms: direct and indirect. Direct taxation relates to taxes being levied on individuals' (or companies) earnings. It can be structured in such a way to be "progressive" – to be proportionally borne by higher earners more than by lower ones. Indirect taxation relates to taxes being levied directly as a price percentage of the good/service purchased (for example, VAT in the European Union and sales tax in the U.S)"*.[63]

iii) Tax rate: *"Tax liability stated as a percentage of the taxable income, or in terms of a unit of the tax base."* [64]

iv) Ad-valorem rate: "*If a tax is levied on the value of property it is known as ad valorem*."[65] *"An ad valorem tax (Latin for "according to value") is a tax whose amount is based on the value of a transaction or of property. It is typically imposed at the time of a transaction, as in the case of a sales tax or value-added tax (VAT).*[66]

Thus, these means that:

i) Tax might be imposed from an individual income, i.e. either on wages, salary or properties or can be levied on the prices of goods and services purchased by the citizens.

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[62] CAMBRIDGE INTERNATIONAL DICTIONARY of ENGLISH, 1493 (Low price edition, 1996) ISBN 0521 588359.

[63] ENCYCLOPEDIA OF SOCIAL SCIENCES: A READER'S GUIDE, Vol. 4, 1628-1629 (M. Jonathan. *et al* eds., 2001) ISBN 1-57958-091-2.

[64] Business Dictionary (BD), *Tax rate,* (2018), *available at* http://www.businessdictionary.com/definition/tax-rate.html (Last visited on December 15, 2018).

[65] B. Braham Prakash, PUBLIC FINANCE 196 (17th edn., 1988-89).

[66]The free legal dictionary, *Ad-valorem rate,* (2018), *available at* https://legal-dictionary.thefreedictionary.com/ad+valorem (Last visited on December 16, 2018).

ii) Direct tax implies the requirement of property or wealth and thus there is either evasion or avoidance. On the other hand, indirect taxation implies compulsory levy to all citizens and thus it is difficult to avoid.

iii) Tax rate means a percentage of an amount of money or an income that an individual or corporation has to be paid as tax upon owning income or property or consuming goods or services.

iv) *Ad-valorem* rate is the tax rate which based on percent of the total value, it's originated from the Latin word meaning according to value. The tax can be imposed at the time of transaction based from its amount of property or goods and services. Contrary from specific duties that expressed as definite sum to be paid for a definite measure or weight of the commodity. An *ad-valorem* duty is a duty expressed as percentage of the value of the commodity, e.g. an export or import duty may be levied at the rate of 2 paise per rupee or 2 percent on the value of goods.

1.6 THE TREND OF TANZANIAN TAX REVENUE

The revenue of government of United Republic of Tanzania comprises both tax and non-tax revenue collected from both internal as well as external sources. In the fiscal year of 2017-18 collection of tax revenue increased to Tanzanian Shilling 15,249.5 billion from Tanzanian Shilling 14,221.9 billion in 2016-17 which is an equivalent of annual growth of 7.2 percent.[67]

The years 2013-2014 and 2014-2015 there was a 7.9 percentage decrease of total government tax revenues in the land where total tax revenue was 9,880.1 Tanzanian Shilling billion and 10,665.1 Tanzanian Shilling billion, respectively. From 2007-2008 to 2008-2009 there was a highest change in tax collection since there was an increase of 32.3 percent from Tanzanian Shilling billion 3,463.6 to Tanzanian Shilling billion 4,161.6.[68]

[67] *Supra* note 6.
[68] *Id.*

Commonly, from fiscal year of 2002-2003 to 2013-2014, there was an increase in tax revenue collection where total tax revenue increased from Tanzanian Shilling 1,385.1 billion in 2002-2003 to Tanzanian Shilling 2,617.9 billion in 2006-2007 before reaching Tanzanian Shilling 9,880.1 billion in 2013-2014. During the period, it has been observed that, there was an increase in percentage variation from which in 2007-2008 there was 32.3 percent as the highest increase in total tax revenue compared to 2009-2010 which was registered the lower increase of 9.8 percent.[69]

During this period, from 2002-2003 the category of direct taxes increased from Tanzanian Shilling 312.4 billion to Tanzanian Shilling 853.5 billion in 2006-2007 while in 2013-2014 it reached Tanzanian Shilling 3,968.3 billion. Under this collection of direct taxes in 2013-2014, Pay As You Earn was Tanzanian Shilling 1,626.5 billion equivalent to 41.0 percent out of the total direct taxes. It is followed by corporate taxes and withholding taxes of Tanzanian Shilling 1,484.0 billion equivalent to 37.4 percent and Tanzanian Shilling 514.6 billion equivalent to 13.0 percent, respectively.[70]

On the other hand, Table 1.0 show that, the indirect taxes play a dominant role in Tanzania tax system, since from 2005-06 to 2017-18 the collection was about twice the amount of direct taxes. For example, in the fiscal year 2017-18 the amount of indirect taxes was Tanzanian Shilling Billion 9,812.50 compared with amount of direct taxes Tanzanian Shilling Billion 5,437.00. Specifically, for the fiscal year 2017-18, the direct taxes were decreased to 35.7 percent compared with 36.0 percent of the fiscal year 2016-17 (Table 1.0).[71] On the other side, the trend of total tax revenue of Zanzibar, the other side of the United Republic of Tanzania is illustrated in the Table 2.0.[72]

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[69] Tanzania National Bureau of Statistics, *2014-15 Tax* ***and Government Finance Statistics Report,*** *available at* http://www.nbs.go.tz/ (Last visited on April 09, 2017).

[70] *Id.*

[71] ***Supra*** **note 6.**

[72] Office of the Chief Government Statistician (2018), *Summary Statement of Revenue and Expenditure, 2013-14 – 2017-18* (Table 1.2.4) [unpublished, archieved at the Office of The Chief Government Statistician].

Table 2.0: Summary Statement of Revenue and Expenditure, 2013-14 – 2017-18 (Million Tanzanian Shilling)

DESCRIPTION	2013/14	2014/15	2015/16	2016/17	2017/18
TOTAL REVENUE	**583,281. 60**	**475,740. 8**	**562,854.60**	**644,374.50**	**908,808.90**
External Revenue	252,566.40	113,767.70	134,343.30	122,490.90	220,155.30
Grants	97,001.60	42,931.80	47,494.00	52,523.30	43,855.10
Loans	155,564.80	70,835.90	86,847.40	69,967.60	176,300.20
Domestic Revenue	330,715.20	361,973.10	428,511.20	521,883.60	688,653.70
Tax Revenue	314,292.40	336,808.50	400,362.30	478,124.50	624,653.20
Non-Tax Revenue	16,422.80	25,164.60	28,148.90	43,759.10	64,000.50
TOTAL EXPENDITURE	**541,232.70**	**478,075.70**	**520,287.20**	**590,113.70**	**899,605.50**
Recurrent Expenditure	328,791.60	348,374.00	402,446.40	476,574.90	610,281.20
Development Expenditure	212,441.00	129,701.70	117,840.80	113,538.80	289,324.30
Local	42,339.20	48,764.30	37,823.10	51,281.10	107,086.70
Foreign	170,101.80	80,937.40	80,017.70	62,257.60	182,237.60
Deficit/Surplus	**42,048.90**	**-2,334.90**	**42,567.40**	**54,260.80**	**9,193.10**
Deficit/Surplus Percentage	5.0	14.1	7.2	-0.5	16.1

Source: Ministry of Finance and Planning Zanzibar, 2018.

The Table 2.0 illustrates the descriptions of categories of total revenue for Zanzibar from the year 2013-2014 to the year 2017-2018. It illustrates the trends of total revenue which shows an increase in the revenue from the year 2015/2016 to the year 2017-2018 while

for the year 2014-2015; total revenue has decreased to Tanzanian Shilling 475,740.80 Million from Tanzanian Shilling 583,281.60 Million in the year 2013-2014.

Moreover, the tax revenue trends from Table 2.0 shows a persistent increase in both domestic revenue and tax revenue for the entire period from the year 2013-2014 to the year 2017-2018. In addition, except the total expenditure in the fiscal year of 2014-2015 which was Tanzanian Shilling 478,075.70 Million while total revenue of the same period was Tanzanian Shilling 475,740.80 Million.

That is, it reflecting the deficit of Tanzanian Shilling -2,334.9 Million, the remaining years show the surplus between the total revenue and total expenditure of the country (Table 2.0). This implying that, for the period 2013-2014 and from 2015-2016 to 2017-2018; the tax revenue in Zanzibar was higher compared with the total expenditures of the same period.

The trend illustrates that, the Tanzanian tax revenue system rely on indirect taxation, having play a big role in the country. In the other language, according to the trend, the collection of direct taxes is decreasing especially from the fiscal year 2005-06 to 2017-18 where the collections of the indirect taxes was about twice the amount of direct taxes (Table 1.0).

Also, this trend indicate the existence of deficit problem in the nation.[73] In this regard, this research is focusing on investigating and analysing the major and potential determinants of tax revenue performance which influences the domestic tax revenue performance and collections in Tanzania.

In order to attain this focus, based from the trend, it is recommended that, Tanzania must change its tax policies by preferring the direct taxes rather than relying on indirect taxes (Table 11.0, Annexure VB). The mobilizations of tax revenue by enhancing internal factors rather than external factors like loans, aids and grants must be the prerequisite policy

[73] *Supra* note 10.

short-run and long-run objectives for raising domestic revenue. Ultimately, helping the fight against the deficit situation in Tanzania.

1.7 STRUCTURE OF THE RESEARCH

Chapter I is introduction. Chapter II is theoretical framework. Chapter III is the legal and historical review of the tax system in Tanzania. Chapter IV deals with the legal regime affecting taxation in Tanzania. Chapter V is about tax reforms in Tanzania. Chapter VI comprise of empirical studies, findings and analysis of the research. Chapter VII consist of the major conclusions and recommendations.

The empirical analysis has been carried out considering numbers of additional control variables.[74] Control variables have been added with the basic purposes of evaluating their effect on tax revenue, to get into the insights of their impacts towards the performance of tax revenue and to strengthen the model through a strength check.

1.8 STATEMENT OF THE PROBLEM

It is extensively believed that, the domestic tax revenue performance in the country is mostly driven by internal factors rather than external factors like foreign loans, aids and grants.[75] That is, it is assumed that, the higher the innovations or inventions of the new reliable sources of domestic government revenue, the higher the significances of tax revenue performance within the country.[76]

It is widely believed that, the national debt will be highly grown when the country depends on foreign loans, aids and grants for her running of the day to day recurrent and

[74] Control variables are the variables that enter in a regression equation in the same way as the independent variables. They are related to the dependent variable i.e. (Tax Revenue Performance in Tanzania) in this research. They can strongly influence the results to the dependent variable in an experiment*:* (2019) *available at https://www.google.co.in/search?source=hp&ei=dsNyXNb0EcbB9QOWj43AAQ&q=what+is+control+variables+in+regression&oq=what+is+control+variables&gs_l=psy-ab.1.2.0l2j0i22i30l8.4587.36461..40644...2.0..0.111.2364.21j6.....0....1..gws-wiz.....0..0i131j0i22i10i30.2Jpk7EsPO9I* (Last visited on February 24, 2019).

[75] *Supra* note, 26.

[76] *Id.*

development expenditures.[77] Example, the Bank of Tanzania annual report 2018-19, had confirmed that, for the fiscal year 2018-19, the Tanzanians national debt had increased, the situation that contributed with many reasons, among them, it is the result of the country not to focusing on the internal revenues sources for the common purposes of Tanzanians citizens, and for her running of the day to day recurring and development expenditures within the country, rather it relies on foreign loans, aids and grants for the national expenditures.[78]

Also, the Table A2.1 which entitled the Central Government Operations illustrates that, the total revenue including revenue by Local Government Authorities of United Republic of Tanzania, Government Finance Statistics from the year 2010-11 to 2018-19 in Millions of Tanzanian Shilling were 5,736,266.1, 7,221,408.6, 8,442,611.2, 10,182,454.7, 10,957,765.3, 13,906,993.4, 16,639,831.5, 17,944,887.0, and 18,527,293.2, respectively.[79]

Correspondingly, the total expenditure of the same period in Millions of Tanzanian Shilling were 9,439,407.2, 10,764,528.4, 12,714,236.4, 13,958,161.9, 14,603,714.4, 17,759,598.0, 18,889,969.1, 20,468,072.3, and 22,265,372.0, respectively.[80]

That is, for the fiscal year 2018-19, the total domestic revenue that comprising collections by both the central and local government was Tanzanian Shilling 18,527.3 billion,[81] compared from Tanzanian Shilling 17,944.9 billion[82] collected from the 2017-18. The report said that, from that total domestic revenue (2018-19), 86.1 percent of central government revenue collections which was equal to Tanzanian Shilling 15,387.3 billion,

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[77] *Id.*
[78] *Supra* note, 24.
[79] The Bank of Tanzania B.oT and Ministry of Finance and Planning, Bank of Tanzania (2018-19) Central Government Operations (table A2.1) *available at* https://www.bot.go.tz/Publications/EconomicAndOperationsAnnualReports/ANNUAL%20REPORT%202018-19%20SIGNED.pdf pg. 211 (Last visited on February 22, 2020).
[80] *Id.*
[81] *Id,* at 16.
[82] Bank of Tanzania, *ANNUAL REPORT 2017-18,* (2017-18) *available at* file:///C:/Users/Hussein/Desktop/BOT%20ANNUAL%20REPORT%2017-18.pdf pg. 19-20 (Last visited on January 28, 2020).

was collected from tax revenue only.[83] However, this figure is below the annual target by 13.9 percent and equivalent to 11.4 percent of the GDP.[84]

On the other hand, the amount of government expenditure for the fiscal year 2018-19 was Tanzanian Shilling 22,265.4 billion, of which Tanzanian Shilling 13,811.2 billion was recurrent expenditure and Tanzanian Shilling 8,454.2 billion was the expenditure for development projects. Whilst, the government expenditure was equivalent to 16.6 percent of GDP of the country.[85]

On the other hand, the total expenditure of the government for the fiscal year 2017-18 was Tanzanian Shilling 20,468.1 billion, which is equivalent to 17.2 percent of GDP. Whilst, the recurrent expenditure and development projects were Tanzanian Shilling 12,852.3 billion and Tanzanian Shilling 7,615.8 billion, respectively.[86]

These data illustrates that, there is underperformance in tax revenue collections in Tanzania. Thus, the Tanzanian finance budget run under deficit situation, since the data depicts that, there are larger government expenditures than government revenue for the entire fiscal years in the country.

This implies that, the Tanzanian finance budget gap depends on foreign donors and other development partners, since the country's expenditures have exceeded the domestic government revenue for the government to finance public services.

Although the assumptions have highly confirmed and cited in meetings and reports particularly regarding the National Budget Assembly of the developing country like Tanzania, there have been relatively little rigorous research regarding this issue in my country Tanzania.[87]

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[83] *Supra note* 24*,* at 16-17*.*
[84] *Id.*
[85] *Id,* at 17*.*
[86] *Supra note* 82*,* at 19*.*

[87] *Supra note* 26.

In this regard, the time has come for this research to investigate and analyse the major and potential determinants of tax revenue performance in Tanzania. This is for the sole target of filling the gaps of how the tax revenue collections or performance within the country will mostly motivated by internal factors rather than external factors like foreign loans, aids and grants.

In addition, various empirical studies have been conducted to investigate the determinants of tax revenues performance in the world. Since most of these studies relying largely on cross-sectional and panel data, while country-specific studies are reasonably scarce.

It is well known that, cross-sectional analysis ignores the possible changes over time, while panel data set encompasses both cross-sectional and time-related information.[88] In panel data setting, however, it is not possible to distinguish the country-specific behaviour of the explanatory variables, whilst a country may have distinct features among the group of others.[89]

Specifically, there is no clear pattern of the significances of all the various potential determinants of tax performance in developing countries. Example, the variables examined by different researchers have found having different statistical significances that is, either having positive significant, negative significant, weak impacts, strong impacts, moderate impacts or no impact at all on domestic tax revenue performance among the countries, either in the short-run or long-run impact.

Example, it has observed by (Gupta, 2007) that, the G.D.P per capita has a weaker impact in both middle and low-income countries, while in high income countries, it has strong effect towards the tax revenue performance.[90] Apart from it, there is a strong and positive relationship or impact in trade openness to both low-and middle-income countries compare to the high-income countries for over the past 25 years.[91]

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[88] D. Gujarat, BASIC ECONOMETRICS, The McGraw-Hill Companies, New York (3rd edn., 1995).
[89] *Id.*
[90] Abhijit Sen Gupta, *Determinants of Tax Revenue Efforts in Developing Countries,* 7 (Working Paper No. WP/07/184, International Monetary Fund, 2007).
[91] *Id.*

The contrary results have found where foreign trade openness has no any significant impact on tax in Turkey, Kadir Karagoz, 2013.[92] The study conducted in Pakistan by I.S. Chaundhry and Farzana Munir (December, 2010) has suggested that, foreign aid, political stability, external debt, broad money and trade openness are among the large determinants of tax efforts in the country. In this regard, it has observed that, by having high literacy level, broadening the tax base, controlling tax evasion, income inequality, and tax exemptions, good political stability, and by boosting the openness, Pakistan will be in a good position of generating high tax to G.D.P.[93]

Another study by Dhaneshwar Ghura in the year 1998 for 39 Sub Saharan African Countries S.S.A.C during 1985 to 1996, have noted that, among the major historical sources of government revenue during the early stages of economic development is the trade taxes.[94] It is noted that, as far as the stages of economic development are concerned, indirect taxes were not the major and potential determinants of tax revenue performance in developing countries, instead the trade taxes were potential ones, while, currently the indirect taxes seem to be most potential determinants of tax base in developing countries.[95]

Hence, the findings are mixed and inconclusive. In fact, there are ambiguity as far as the statistical significances of the various potential determinants of tax revenue performance among the country's income groups on earth. Therefore, there is a need to do further research regarding the same. Besides, it is believed that, the tax system of Tanzania is not efficient, not only inefficient but also not optimal, whilst imports are greater than exports.[96]

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[92] Kadir Karagoz, *Determinants of Tax Revenue: Does Sectorial Composition Matter?* 4(2) JOURNALS OF FINANCE, ACCOUNTING AND MANAGEMENT, 58-59 (2013) *available at* http://www.gsmi-ijgb.com/Documents/JFAM%20V4%20N2%20P04%20-Kadir%20Karag%C3%B6z%20-Determinants%20of%20Tax%20Revenue.pdf (Last visited on April 21, 2017).

[93] I.S. Chaundhry and Farzana Munir, *Determinants of Low Tax Revenue in Pakistan* 30(2) PAKISTAN JOURNAL OF SOCIAL SCIENCES PJSS 439 (2010) *available at http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.699.9936&rep=rep1&type=pdf* (Last visited on April 21, 2017).

[94] *Supra* note 25, at 9.

[95] *Id.*

[96] Interview with Ms. Zuleikha M. Nassor, A Custom Officer, Tanzania Revenue Authority T.R.A (Zanzibar Office, July 11, 2016).

Thus, it is the time to use a single-country-level time series analysis so as to investigate and analyse the major and potential determinants of tax revenue performance in Tanzania. As highlighted by the various analyses of recent econometric studies which most of them have used local econometric methodology and poor data in analysing the major determinants of tax base in developing countries.

Therefore, the focus of this research is to investigate and analyse the major and potential determinants of tax revenue performance that influences the domestic tax revenue performance and collections in Tanzania.

Empirically this research investigates and analyses whether the independent variables of this research which are tax rate, ratio of trade to G.D.P, population POP, tax base TAXBA and other control variables which are G.D.P per capita, Inflation, F.D.I, Domestic Investment D.I, corruption, tax institutions, macro-economic policy, tax compliance, political situation and tax regime, influence the dependent variable which is the tax revenue performance in Tanzania TRGDP.

1.9 HYPOTHESES

Hypotheses of zero influence between the independent variables and dependent variable tax revenue performance in Tanzania had tested in this research. Hence, the hypotheses are as follows: **H_0: β_s = 0 -** The null hypotheses

H_1: $\beta_s \neq 0$ - The alternative hypotheses

Thus, from specific objectives:

1) **H_0:** There is no influence between the tax rate and the tax revenue in Tanzania.
   H_1: There is influence between the tax rate and the tax revenue in Tanzania.
2) **H_0:** There is no influence between the ratio of trade to G.D.P and the tax revenue in Tanzania.
   H_1: There is influence between the ratio of trade to G.D.P and the tax revenue in Tanzania.
3) **H_0:** There is no influence between population and the tax revenue in Tanzania.
   H_1: There is influence between population and the tax revenue in Tanzania.
4) **H_0:** There is no influence between the tax base and the tax revenue in Tanzania.
   H_1: There is influence between the tax base and the tax revenue in Tanzania.

5) **H_0:** There is no influence between the other control variables and the tax revenue performance in Tanzania.
H_1: There is influence between the other control variables and the tax revenue performance in Tanzania.

Statistical data have gathered and analysed using the *E-View* (Econometric Views)[97] and the Statistical Package for the Social Sciences S.P.S.S, statistical packages. The null hypotheses imply an indicative of non-existing of influence on the ratio of total tax revenue over G.D.P in Tanzania.

1.10 OBJECTIVES

Generally, the objective of this empirical research is to identify, investigate and analysing the major and potential determinants of tax revenue performance in Tanzania.

1.10.0 SPECIFIC OBJECTIVES

1) To investigate whether the tax rate is the potential determinant of the tax revenue in Tanzania.

2) To examine whether the ratio of trade to G.D.P[98] is the major determinant of the tax revenue in Tanzania.

3) To analyse whether population affect performance of tax revenue in Tanzania.

4) To test whether the tax base[99] impact performance of tax revenue in Tanzania.

5) To identify and analyse whether the other control variables are potential determinants of the tax revenue performance in Tanzania.

[97] E-View stand for Econometric Views. It is a type of econometrics statistical software which is used largely for time-series econometric analysis. It is developed by Quantitative Micro Software QMS currently a part of IHS Markit. Version 1.0 was free in March 1994, and exchanged Micro TSP. The TSP is programming and software language that had been formerly established by Robert Hall in 1965. Currently, there is a new E-Views Version 10, which released in June 2017.
[98] It implies total export-import ratio of trade to GDP. That is total export plus total import in Millions of TZS of Major Commodity Groups of Tanzania, divide by Total GDP at Market Prices, multiply by hundred percent, on annually. In economics, it's commonly known as Trade Openness.
[99] It implies total tax base VAT, which is equal to taxes on import plus taxes on local goods and services (Tax Base in millions TZS per year VAT), of Tanzania.

1.10.1 RESEARCH QUESTIONS

- Is the tax rate the potential determinant of the tax revenue in Tanzania?
- Is the ratio of trade to G.D.P the major determinant of the tax revenue in Tanzania?
- Do population affect performance of tax revenue in Tanzania?
- Do tax base impact performance of tax revenue in Tanzania?
- Do the control variables are potential determinants of the tax revenue performance in Tanzania?

1.11 UNIT ROOT TEST

The Unit root test is the test from which the series of data are tested for non-stationarity.[100] The logic behind this test is to transform the data collected from the field so as to satisfy the demand of the paper under the study. In this regard, we test for non-stationarity because of avoiding spurious regression results.[101] Hence, in this study the two tests for non-stationary have used, the Augmented Dickey Fuller test; and the Philips Perron Test.[102]

The Augmented Dickey Fuller test and Philips Perron (Verbeek, p. 273) test are known as unit root tests.[103] If the test leads to the acceptance of the null hypothesis, the series contain a unit root which actually is a problem of data trends not being stationary (Dickey & Fuller, 1981).[104] Hence, null hypothesis would be an indicative of existing of non-stationary (have a unit root).[105]

In order to perform the tests, the study involves several steps. The first step is to test for the order of integration for the variables. Secondly, after knowing the order of integration of the given variables, a test for co-integration has to be conducted, that is to test for the

[100] *Supra* note 88.
[101] *Id.*
[102] D. A. Dickey, and W. A. Fuller, DISTRIBUTION OF THE ESTIMATIONS FOR AUTOREGRESSIVE TIME SERIES WITH A UNIT ROOT, Vol. 74, 427-431 (1979, 1997).
[103] D. Dickey, and W. Fuller, LIKELIHOOD RATIO STATISTICS FOR AUTOREGRESSIVE TIME SERIES WITH A UNIT ROOT: ECONOMETRICA, 1057-1072 (1981).
[104] *Id.*
[105] *Id.*

long-run relationship between the variables to avoid unauthentic regression results (Johansen & Juselius, 1990).[106]

If they are co-integrated, an Error Correlation Model has to be used to express the relationship between the variables. If there is no co-integration, it implies that such variables have no long-run relationship and thus they can wander arbitrarily far away from each other (Dickey *et al,* 1997).[107] Thus, the Maximum-Likelihood M.L test will be followed.[108]

The decision criteria based on the two tests is to reject null hypothesis of unit root, *p-values* must be less than 1 percent, 5 percent or 10 percent significance levels for both Augmented Dickey Fuller; and Philips Perron Test respectively, refer to Table 8.0 B. Also, test statistics *t-tests* must be greater than the critical value 1.96 at the 1 percent, 5 percent or 10 percent significance levels, respectively (Table 8.0 B). Therefore, the series will be stationary (does not have a unit root), and accepting alternative hypothesis of stationary. Hence, the first hypothesis is: ***Ho 1a***): The series is non-stationary (have a unit root).

H_1 1): The series is stationary (does not have a unit root).

1.11.0 THE AUGMENTED DICKEY FULLER TEST

It is a test for non-stationary.[109] When performing this test, it's important to include sufficient lagged differences in the estimating equation to catch any possible serial correlation Dickey and Fuller, (1979, and 1997).[110] Then the test of: *Ho*: $y = 0$ against: H_1: $y < 0$ is performed as far the Dickey-Fuller test. In this test every variable is discussed under each of the following four levels:

[106] S. Johansen, and K. Juselius, MAXIMUM LIKELIHOOD ESTIMATION AND INFERENCE ON CO-INTEGRATION WITH THE APPLICATION TO THE DEMAND FOR MONEY: OXFORD BULLETIN OF ECONOMICS AND STATISTICS, Vol. 52, 169-210 (1990).
[107] *Supra* note 102.
[108] *Id.*
[109] *Supra* note 88.
[110] *Supra* note 102.

- Constant at level (At level constant A.D.F).
- Constant at first difference.
- Intercept and trend at level form (intercept and trend A.D.F level).
- Intercept and trend of first difference.[111]

1.11.1 PHILIPS PERRON TEST

It is a test for non-stationary (Phillips & Perron, 1998).[112] Similar to Augmented Dickey-Fuller test test, the null hypothesis would be an indicative of existing of non-stationary (have a unit root). Also, in this test every variable is discussed under each of the four levels.[113] The decisions to use both tests are for the purpose of seeing the best of their comparisons (Gujarat, 1995).[114]

1.12 CO-INTEGRATION TEST

Since the variables are in the A (1) first difference after knowing the order of integration of the given variables, a test for co-integration will be conducted, that is to test for the long-run relationship between the variables to avoid the spurious regression. If they are co-integrated, an Error Correlation Model has to be used to express the relationship between the variables.[115] If there is no co-integration it implies that such variables have no long-run relationship and thus they can wander arbitrarily far away from each other (Dickey et al. 1997).[116] Hence, the second hypothesis is as follows:

Ho 2): There are no co-integrating relationships (no long run relationship) between level series for the variables.

Thus, the decision criteria for the hypothesis: if *p-value* is less than 0.05 we reject the null hypothesis and accept the alternative hypothesis that, there is long-run relationship between variables (Table 9.0), otherwise no long-run relationship. In the other words, if

[111] *Supra* note 88.
[112] P. Phillips, and P. Perron, TESTING FOR A UNIT ROOT IN TIMES SERIES REGRESSION-BIOMETRIKA, Vol. 32, 301-318 (1998).

[113] *Supra* note 88.
[114] *Id.*
[115] *Supra* note 102.
[116] *Id.*

trace statistics and Max-Eigen statistics are greater than critical value; we reject the null hypothesis and accept the alternative hypothesis that, there is long-run relationship between variables (Table 9.0), otherwise no long-run relationship.[117]

The two tests for co-integration are used in this research, namely, Unrestricted Co-integration Rank Test (Trace) and Unrestricted Co integration Rank Test (Maximum Eigenvalue or Max-Eigen Statistic). The two tests will bear same null hypothesis of no long-run relationship between the level series of the variables.[118]

1.13 VECTOR ERROR CORRECTION MODEL

Since all variables illustrates co-integration (long-run relationship), we must test Vector Error Correction Model to find long-run causality among variables in the study, taking consideration the change or vice versa of their signs during interpretation.[119]

Engle and Granger (1987)[120] showed by the error-representation theorem that, co-integrated variables imply in effect an Error Correlation Model. They argued that, regression of the first difference of co-integrated variables would result in misspecification error.[121]

Accordingly, the Vector Autoregression has accordingly formulated in a Vector Error Correction Model to analyse the dynamics of the relationship. This involves the inclusion of the lagged errors of the co-integrating regression as one of the independent variables in the regression equation. Furthermore, the Error Correlation Model (Engle and Granger, 1987) then considered and estimated.[122]

The null hypotheses of non-existing of influence of the independent variables to the dependent variable: the ratio of total tax revenue over G.D.P in Tanzania, are the major

[117] *Supra* note 88.
[118] *Id.*
[119] *Id.*
[120] Ronald MacDonald and Colm Kearney, *on the specification of granger-causality tests using the co-integration methodology,* 25(2) ECONOMICS LETTERS 149-153 (1987) *available at* https://www.sciencedirect.com/science/article/pii/0165176587900528 (Last visited on January 23, 2019).
[121] *Id.*
[122] *Id.*

hypotheses to be proved or disproved in this sub-section, consider sub-section 1.9 of the major hypotheses under this research. The *t-statistics* and coefficients are the decision criteria of these hypotheses.[123]

That is, for an independent variable to have positive or negative significant influence or relationship on the dependent variable, *t-statistics* must be greater than alpha significance level at 1 percent, 5 percent or 10 percent. In this regard, the coefficients would depict whether a variable have a positive or negative influence or relationship with tax revenue collections or performance in Tanzania, taking consideration a change or vice versa of the coefficient's signs (Table 10.0).[124]

1.14 GRANGER CAUSALITY TEST (SHORT-RUN RELATIONSHIP)

The aim of this test is to test for the short-run relationship, since the research has already shown the long-run relationship. The decision criterion in this test is that, if *p-value* is less than 0.05, there is short-run relationship between dependent variable and independent variables (Granger, 1969).[125] In this research the researcher has shown the results of the significant influence of significant variables between dependent variable against each independent variable. Hence, the fourth hypotheses are:

Ho 4a): There is no directional causality (short-run relationship) between the level series of dependent variable the ratio of total tax revenue over G.D.P in Tanzania, and independent variables: tax rate, ratio of trade to G.D.P, population and tax base.

Ho 4b): There is no directional causality (short-run relationship) between the level series of dependent variable tax rate and independent variables: the ratio of total tax revenue over G.D.P, ratio of trade to G.D.P, population and tax base.

[123] *Supra* note 88.
[124] *Id.*
[125] C. Granger, INVESTIGATION CAUSAL RELATIONSHIP BY ECONOMETRIC MODELS AND CROSS SPECTRA METHODS: ECONOMETRICA, Vol. 37, 424-458 (1969).

Ho 4c): There is no directional causality (short-run relationship) between the level series of dependent variable ratio of trade to G.D.P, and independent variables: the ratio of total tax revenue over G.D.P, tax rate, population and tax base.

Ho 4d): There is no directional causality (short-run relationship) between the level series of dependent variable population, and independent variables: the ratio of total tax revenue over G.D.P, tax rate, ratio of trade to G.D.P and tax base.

Ho 4e): There is no directional causality (short-run relationship) between the level series of dependent variable tax base and independent variables: the ratio of total tax revenue over G.D.P, tax rate, ratio of trade to G.D.P and population.

1.15 RESEARCH METHODS AND METHODOLOGY

1.15.0 DATA SOURCES AND METHODS OF DATA COLLECTIONS

The research involves both primary and secondary data. The variables for secondary data are four: tax rate, ratio of trade to G.D.P, population and tax base while the variables for primary data are ten: inflation rate, G.D.P per capita, F.D.I, domestic investment, macro-economic policy, corruption, tax institutions, tax compliance, political situation and tax regime.

The secondary data have collected from the Bank of Tanzania[126], Ministry of Finance and Planning Tanzania[127], World Bank-World Development Indicators and Tanzania Revenue Authority ranging from 1992 to 2018. Finally, the structured questionnaires have constructed to capture some important information for all primary qualitative variables.

[126] *"The primary objective of the Bank shall be to formulate, define and implement monetary policy, directed to the economic objective of maintaining domestic price stability, conducive to a balanced and sustainable growth of the national economy of Tanzania". Available at* https://www.bot.go.tz/AboutBOT/BOTFunction.asp (Last visited on October 12, 2018).

[127] *"The Ministry of Finance and Economic Affairs manages the overall revenue, expenditure and financing of the Government of the United Republic of Tanzania and provides the Government with advice on the broad financial affairs of Tanzania in support of the Government's economic and social objectives". Available at* http://www.mof.go.tz/index.php/about-us/roles-and-values (Last visited on October 12, 2018).

1.15.1 RESEARCH DESIGN AND SAMPLING

The main objective of this research is to identify, investigate and analysing the major and potential determinants of tax revenue performance in Tanzania by using the annual data of the period from the year 1992 to 2018. The secondary data for this research had been extracted from the Bank of Tanzania, Ministry of Finance and Planning Tanzania, The World Bank-World Development Indicators and Tanzania Revenue Authority ranging from 1992 to 2018.

The primary data had been collected from the the Bank of Tanzania; Zanzibar Freight Forwarders Bureau; Tanzania Revenue Authority; Ministry of Finance and Planning Zanzibar[128]; Zanzibar Revenue Board; Zanzibar Investment Promotion Authority[129]; Zanzibar Petroleum Limited; United Petroleum Limited; Zanzibar National Chamber of Commerce, Industry and Agriculture; Zanzibar Association of Tourism Investors and Zanzibar Commission for Tourism.[130]

Whilst the structured questionnaires had constructed to capture some important information for the data. The data collected were on inflation rate, G.D.P per capita, F.D.I, domestic investment, macro-economic policy instruments, corruption, tax institutions, tax compliance, political situation and tax regime. The period covered for the empirical analysis is from 1992 to 2018.

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[128] "The Ministry of Finance is the government's money administrator/manager. The Ministry serves the public as the supervisor of collecting agency, public investment manager, chief accountant as well as provider of fiscal relations and budgetary expenditure management. The Primary responsibility of the Ministry specified on section (104) of Zanzibar Constitution of 1984, Public Finance Management Act 2016 and Public Procurement and Disposal Act of 2016, MKUZA III and other national development strategies." *Available at* http://www.mofeaznz.org/index.php/about-us/mission-vision (Last visited on January 18, 2019).

[129] It deals with establishing, administering, facilitating and simplified procedures of approving investment projects for both foreign and local investments. *Available At* http://www.zanzibarinvest.org/zipanew/keyfunction.html (Last visited on October 12, 2018).

[130] *"ZCT was established in 1992 as a public institution. Later in 1996, it got legal support when the Tourism Promotion Act. No.9 was enacted. Under the Act the responsibility of the ZCT is explicitly shown as the promotion of Zanzibar as a tourist destination."* It has a great influence in tax related with tourism in Zanzibar. *Available at* http://zanzibar.net/specials/zanzibar-commission-for-tourism/ (Last visited on October 12, 2018).

Meanwhile, the research work has used the Simple Random Sampling S.R.S as the Probability Sampling Method based on the four quantitative variables of tax rate, ratio of trade to G.D.P, population and tax base that used for secondary data in time series from the year 1992 to 2018.

Further, ten variables in dummy variables have used in collecting data based on 150 questionnaires targeted to the tax institutions, private sectors and government institutions as mentioned above, the variables are inflation rate, G.D.P per capita, F.D.I, domestic investment, macro-economic policy, corruption, tax institutions, tax compliance, political situation and tax regime. The 150 questionnaires are targeted to the mentioned institutions and had only be filled by tax staffs, private businesses and government staffs.

The Simple Random Sampling technique has used in this work because the variables chosen are the representative's sample from the whole population variables which are the determinants of tax revenue performance in Tanzania. Thus, the variables chosen have the common attributes, qualities and characteristics, and so they possess the common characteristics to be the representative of the whole.

Moreover, the specific tax institutions Tanzania Revenue Authority and Zanzibar Revenue Board, private businesses and government institutions had been chosen purposively as the targeted institutions in Tanzania from which tax, legal and economic related information's from questionnaires based on the ten variables have collected.

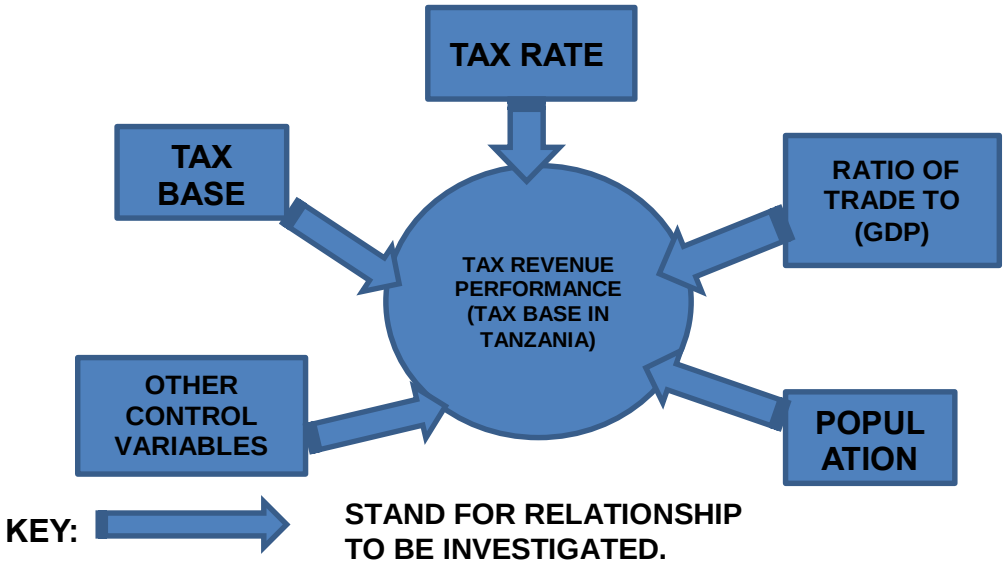
The criteria to opt these institutions are: they are the relevant data provider of the information in Tanzania (tax stakeholders). Secondly, it is the duty to the researcher to study the status of the institutions in the country. Thirdly, the institutions are the most suitable to ensure attainment of the research goal. Four is based on the variables where the time length of data available. Fifthly, using these stakeholders, it is convenience and simple to the researcher, since there had been a relief of costs to undertake the research work.

Finally, the findings of the research are useful to the governments of United Republic of Tanzania and the Revolutionary Government of Zanzibar, tax institutions, society and

other's stakeholders. The research has adopted the reporting method by considering the main or major themes, followed by the sub-themes throughout the work.

Conceptual Framework:

Figure 1.0: Determinants of Tax Revenue Performance in Tanzania



Source: Own Construction

Figure 1.0 illustrates that, the variables of tax rate, ratio of trade to G.D.P, population, tax base and other control variables are the only variables that have investigated and analysed in this research to determine their impacts towards the tax revenue performance in Tanzania.

1.15.2 VARIABLES

The dependent variable for an analysis is the ratio of total tax revenue over G.D.P, a measure of performance, annually. In opposition, the independent variables for regressions are tax rate, ratio of trade to G.D.P, population and tax base, all are on annual basis. Others are inflation rate, G.D.P per capita, F.D.I, domestic investment, macro-

economic policy, corruption, tax institutions, tax compliance, political situation and tax regime.

1.15.3 TOOLS OF DATA ANALYSIS

The *E-View* statistical package has used to analyse the secondary quantitative data while the Statistical Package for the Social Sciences has used to analyse the primary qualitative data. They allow for the in-depth data analysis, data access, preparation, interpretation and analytical reporting. The Vector Error Correction Model has used so as to find out the relationship between the variables, as well as to estimate the true coefficients are more accurately and gives unbiased linear estimates of the parameters (Gujarati, 1995).[131]

1.15.4 THE ESTIMATION MODEL AND ECONOMETRIC RESULTS

The model specification that have applied in this thesis are the Tax Collection Model[132] and Dummy Variables Model[133] that had utilised by (Dhaneshwar Ghura, *Sub Saharan African Countries*, 1998, J.B. Nnyanzi *et al,* 2016, and I.S. Chaundhry and Farzana Munir, 2010) in their works. In Tax Collection Model there are variables of tax rate, ratio of trade to G.D.P, population and tax base, under the model No. 1 where the regression results had been drawn from. The variables used for Dummy Variables Model are inflation rate, G.D.P per capita, F.D.I, domestic investment, macro-economic policy, corruption, tax institutions, tax compliance, political situation and tax regime, under the model No. 2.

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[131] *Supra* note 88.

[132] T.C.M is an analytical model of data to indicate the variations in tax revenue to G.D.P ratio of a particular country, institution or region. In this study, it indicates that, variations in tax revenue-GDP ratios in Tanzania are influenced by tax rate, ratio of trade to G.D.P, population, tax base, inflation rate, G.D.P per capita, F.D.I, D.I, government policy, corruption, tax institutions, tax compliance, political situation and tax regime. The ratio intends to measure the degree to which the government controls the economy's resources (revenue collection) in Tanzania. Thus, it might rise or fall with respect to above determinants.

[133] D.V.M is a model of variables that indicate the presence or absence of a “quality” or an attribute e.g. yes or no, acceptance or rejection, so they are defined on a nominal scale. Such variables can be quantified by artificially constructing the variables that take the values, e.g., 1 and 0 where “1” indicates usually the presence of attribute and “0” indicates usually the absence of attribute. Such variables classify the data into mutually exclusive categories. These variables are called indicator variables or dummy variables.

$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \beta_4 X_{4i} + \mu_i$…..…… (1).

$LnTRGDPt = \beta_0 + \beta_1 LnTAXRAt + \beta_2 LnTRAt + \beta_3 LnPOPt + \beta_4 LnTAXBAt$.

Where;

LnTRGDPt = Natural logarithm of the ratio of total tax revenue over G.D.P, annually.[134]

LnTAXRAt = Natural logarithm of tax rate measured in percent ad-valorem rate.

LnTRAt = Natural logarithm of total export-import ratio of trade to G.D.P measured from millions of Tanzanian Shilling, annually.

LnPOPt = Natural logarithm of total population in Tanzania, annually.

LnTAXBAt = Natural logarithm of tax base measured as turnover in million Tanzanian Shilling per year.

With respect to the model No. 1, it's expected that, ceteris peribus: tax rate has positive influence or relationship with tax revenue collections or performance in Tanzania. This means that, as tax rate increase by 1 percent, tax revenue in Tanzania increases by about β_1 (the slope of tax rate). Also, the ratio of trade to G.D.P expected to have positive relationship or influence with tax revenue in Tanzania which implies that, an increase in the ratio of trade to G.D.P by 1 Tanzanian Shilling would lead to an increase in the performance of tax revenue in Tanzania by β_2 (the slope of ratio of trade to G.D.P).

Furthermore, population is expected to have significant positive impact with tax revenue in Tanzania. This implies that, for every 1 percent increase in population, the tax revenue performance in Tanzania would increase by β_3 (the slope of population). Finally, tax base is expected to affect negatively with tax revenue in Tanzania. This means that for every 1 percent increase in tax base; the tax revenue in Tanzania would decrease by β_4 (the slope of tax base).

[134] See the Working Paper (WP/98/135) of the International Monetary Fund I.M.F, African Department prepared by Dhaneshwar Ghura for *Sub Saharan African Countries*, Authorized for distribution by Menachem Katz, September, 1998. Also refer to the I.M.F Working Paper AFR (WP/07/184) prepared by Abhijit Sen Gupta to examines Determinants of Tax Revenue Efforts in Developing Countries Authorized for distribution by Cyrille Briancon, July, 2007.

The data for quantitative variables are time series data. Time series data can be defined as a sequence of data points, measured typically at successive points in time spaced at uniform time intervals recorded on a regular basis e.g. a month, quarter or year.[135]

Apart from the model No. 1, the questionnaires had prepared for the all qualitative variables. In this regard, consider second equation, the model No. 2 that include only qualitative variables:

$Y_i = \beta_0 + \beta_1 D_{1i} + \beta_2 D_{2i} + \beta_3 D_{3i} + \beta_4 D_{4i} + \beta_5 D_{5i} + \beta_6 D_{6i} + \beta_7 D_{7i} + \beta_8 D_{8i} + \beta_9 D_{9i} + \beta_{10} D_{10i} + \mu_i$. ……………………………………………………………………………..(2).

Where:

Y_i = Ratio of total tax revenue over GDP, annually

D_{1i} = 1, if inflation rate is positive

0, otherwise

D_{2i} = 1, if G.D.P per capita is positive

0, otherwise

D_{3i} = 1, if F.D.I is positive

0, otherwise

D_{4i} = 1, if Domestic investment is positive

0, otherwise

D_{5i} = 1, if Macro-economic policy instruments are positive

0, otherwise

D_{6i} = 1, if corruption is positive

0, otherwise

D_{7i} = 1, Tax institutions are positive

0, otherwise

D_{8i} = 1, Tax compliance is positive

[135] Business Dictionary (BD), *time series data*, (2017), *available at* http://www.businessdictionary.com/definition/time-series-data.html (Last visited on March 4, 2017).

0, otherwise

D_{9i} = 1, Political situation is positive

0, otherwise

D_{10i} = 1, Tax regime is positive

0, otherwise

With respect to the model No. 2, the dummy variable model, it's expected that, ceteris peribus: having controlling tax rate, ratio of trade to G.D.P, population and tax base, their observation is that, the differential intercept coefficients are either significant or insignificant for either inflation rate, G.D.P per capita, F.D.I, domestic investment, macro-economic policy, corruption, tax institutions, tax compliance, political situation and tax regime.

1.16 SCOPE AND LIMITATIONS OF THE RESEARCH

The research has determined the impacts of tax rate, ratio of trade to G.D.P, population, tax base and other control variables on tax revenue performance in Tanzania from 1992 to 2018. It is conducted in Tanzania where revenue or tax system is the targeted sector and being analysed.

Thus, population area is United Republic of Tanzania. The sample size having tax staffs, private businesses and government staffs, from tax institutions Tanzania Revenue Authority and Zanzibar Revenue Board, private sectors: Zanzibar Freight Forwarders Bureau; Zanzibar Petroleum Limited; United Petroleum Limited; Zanzibar National Chamber of Commerce, Industry and Agriculture and Zanzibar Association of Tourism Investors which are larger taxpayers in the land, and government institutions: Bank of Tanzania; Ministry of Finance and Planning Tanzania; Tanzania Revenue Authority; Ministry of Finance and Planning Zanzibar; Zanzibar Revenue Board; Zanzibar Investment Promotion Authority and Zanzibar Commission for Tourism, respectively. They are the respondents of questionnaires.

The annually selected quantitative variables collected from Bank of Tanzania; Ministry of Finance and Planning Tanzania; The World Bank-World Development Indicators and

Tanzania Revenue Authority ranging from 1992 to 2018. Thus, the focus of the study is the determination of the major and potential determinants of tax revenue performance in Tanzania covering the years specified, plus legal regimes affecting taxation in Tanzania.

1.17 SIGNIFICANCE OF THE RESEARCH

The results of the research are useful to clarify whether Tanzania is unwilling to use the available tax capacity to fund public expenditures or Tanzania is limited her revenue collections by a low capacity to generate more tax revenues. Also, the research is essential by giving guidance on the proper mix of fiscal policy to be undertaken in case of budget deficit. For example, if Tanzania is facing a budget deficit imbalance were already making the maximum use of its taxable capacity, this would suggest that regaining budget balance would require expenditure rationing rather than tax increases.

Hence, the Income Tax Act, 2004 must be reviewed so as to help toward fighting against the deficit situation in Tanzania. Specifically, review of the Act must focus on changes of tax policies by giving priorities to the potential sector like mining sector and focusing the direct taxes rather than relying on indirect taxes (Table 11.0, Annexure VB). In this regard, the mobilizations of tax revenue by enhancing internal factors rather than external factors like loans, aids and grants must be the prerequisite policy short-run and long-run objectives for raising domestic revenue in Tanzania.

Furthermore, in order to solve the budget deficit problem in Tanzania, it is recommended on the reduction of the Required Reserve Ratio by the government from commercial banks, lowering the Discount Rate from the loans pursued by the banks, and finally buying more government bonds from the general public so as to release more funds to them for the enhancement of domestic Tanzanian economic activities (Table 30.0, Annexure VP).

To attain this target and enhance domestic revenue collection, the minister of finance and planning will enact and pass the financial bill to the Parliament focusing on expanding the economy of the land through expansionary financial policies by the central bank.

In the meantime, the results of the empirical analysis may serve as an input, not only for the academic debate but, hopefully, also for policy makers. The findings and

recommendations are important to the government of United Republic of Tanzania and Revolutionary Government of Zanzibar in identify the major and potential determinants of tax revenue in Tanzania. Hence, designing the respective measures, policies and strategies so as to overcome the challenges facing the revenue system in Tanzania by raising G.D.P per capita and maintaining price stability to avoid hyperinflation so as to boost the development of the nation.

For example, it is recommended on the establishment of the bar council[136], which expected to have capacity to overcome the challenges facing the tax revenue system in Tanzania. Specifically, the council will ensure accountability and transparency after tax collections and development expenditures to the citizens, convincing imposition of the lower rate of tax; and convincing government to provide quality social services to all citizens.[137]

1.18 MODE OF CITATION

The researcher has followed the National Law School of India University Guide to Uniform Legal Citation.

1.19 DETERMINANTS OF TAX REVENUE PERFORMANCE

1.19.0 TAX RATE

A study in Pakistan 1991 by (M. Aamir *et al* 2011) using V.A.T modified to General Sales Tax considered that the later proved to be progressive tax rather than regressive tax, it

[136] International Centre for Tax and Development, *Mining Sector Taxation in Tanzania ICTD Research Report 1,* (2012), *available at* https://opendocs.ids.ac.uk/opendocs/bitstream/handle/123456789/2311/ICTD%20Research%20Report%201_0.pdf?sequence=1&isAllowed=y (Last visited on February 19, 2017).

[137] *Id*.

also has positive income effect since it allows fairly excessive burden and distribution costs in an economy.[138]

Moreover, in United State of America, a journal published by E.K. Browning (March, 1989) concluded "*that tax revenue is likely to be less responsive to higher tax rates than previous estimates suggest"*, it argued that, "*no study has suggested that a general rate reduction for a broad-based tax like the federal income tax will increase tax revenue*", in this regard, a theoretical partial equilibrium framework had developed to make clear how the relationship between tax rates and tax revenue depends on various behavioural responses.[139]

Finally, it is concluded that, "*there is no conflict between this finding, however, and the conclusion that the revenue-maximizing tax rate is well above current levels for proportional changes in taxes applied to broader bases (as might be appropriate in evaluating proposals for a value-added tax)"*.[140]

Further, in United State, it is revealed that, there is a positive relationship between the expected tax rate and financial condition of the federal government between 1965 and 1994, measured by outstanding debt, budget deficits, and inflation (Sangkyun Park, March, 1997).[141]

In conclusion, the hypothesis from scholars supported the empirical results that, investors expect higher tax rates when the government faces financial difficulties.[142] In addition, the all four New York state cities (Buffalo, Rochester, Syracuse and Yonkers) over a 33-years

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[138] Muhammad Aamir *et al Determinants of Tax Revenue: A Comparative Study of Direct taxes and Indirect taxes of Pakistan and India,* 2(19) INTERNATIONAL JOURNALS OF BUSINESS AND SOCIAL SCIENCE, 177 (2011) *available at* http://ijbssnet.com/journals/Vol_2_No_19_Special_Issue_October_2011/21.pdf (Last visited on April 20, 2017).

[139] E.K. browning, *Elasticities, tax Rates, and tax Revenue,* Vol. No. 42(1) NATIONAL TAX ASSOCIATION 45 (45, 46) (March, 1989) *available at* https://www.jstor.org/stable/pdf/41788772.pdf?refreqid=search%3A7a8d2f83a176bc25a833bb10bc89b757 (Last visited on December 06, 2018).

[140] *Id,* at 56.

[141] Sangkyun Park, *The Relationship Between Government Financial Condition and Expected tax Rates Reflected in Municipal Bond Yields,* Vol. No. 50(1) NATIONAL TAX ASSOCIATION 23 (23,37) (March, 1997) *available at* https://www.jstor.org/stable/pdf/41789241.pdf?refreqid=search%3Afb72e774f77eb75df155908b891cda9b (Last visited on December 06, 2018).

[142] *Id,* at 37.

period, 1951-1983 were able to increase revenue by tax rate increases in the short-run, except Rochester was able to do so in the long-run (W.F. Stine Jul., 1988).[143]

The general assessment has illustrated that, so far many researchers and practitioners have undergone several exercises to determine the major and potential determinants of tax revenue performance in developing countries, (Abhijit Gupta, July, 2007) has concluded that, these determinations of the variables that influence the revenue performance of developing countries does not imply whether a country concerned could not use its capacity if it wanted to conquer the higher tax revenue performance.

Meaning that, the countries have dissimilar capabilities to raise their taxes revenue capacities in their countries. This means that, for a country to rise its level of tax revenue collection depend to what extent they appropriately locate and utilizes their inherently resources i.e. natural, human, physical and financial resources to attain the higher level of revenue collection in a country concerned.[144]

This is substantial knowledge, since, the intention in this research is to clarify whether Tanzania is unwilling to use the available tax capacity to fund public expenditures or Tanzania is limited her revenue collections by a low capacity to generate more tax revenues. Also, the research is essential for giving guidance of the proper mix of fiscal policy to be undertaken in the case of budget deficit.

Again, (Dhaneshwar Ghura, 1998) has concluded that, the chances of raising tax revenue performance would be higher if and only if the country would implement the structural reforms on a sustainable basis, and vice versa is true.[145] Moreover, it has been notified that, among the important public policy that will stimulates the domestic tax revenue base in developing countries is to increase the level of human capital, which must be accompanied by the good quality and reasonable social services to be provided by the government to the society. However, it is unfortunate that, the tax revenue base of

[143] W.F. Stine, *Estimating Property Tax Base Elasticity over Time: Evidence on the Revenue Maximizing Politician,* Vol. No. 58(1) PUBLIC CHOICE 42, (40, 42) (Jul., 1988) *available at* https://www.jstor.org/stable/pdf/30024813.pdf?refreqid=search%3A48418bd850db88a191aafeb8fc7dafaf (Last visited on December 07, 2018).
[144] *Supra* note 90.
[145] *Supra* note 25, at 17.

developing countries would shrink if the countries would depend from external aid, grants and loans.[146]

Since tax rate concerned with total revenue collection. Tanzania has used the V.A.T *ad-valorem* rate which based on percent of the total value from which 18 percent is the tax rate. However, for Pay As You Earn is progressive tax rate and not ad-valorem rate.[147]

In this regard, the contribution of this research on this variable is that, tax rate has strong significant long-run positive influence or impact on the tax revenue performance in Tanzania. Since, the coefficient of the tax rate suggesting that, as tax rate increase by one percent, tax revenue in Tanzania increases by 4.62 percent (Table 10.0).

Also, it indicate that, there is short-run positive relationship between dependent variable tax rate and the ratio of trade to G.D.P in Tanzania. In this regard, the tax rate is the potential determinant of tax revenue performance in Tanzania (Table 26.0 and Annexure XXV, D (LTAXRA)).

Despite the presence of strong significant long-run positive influence or impact of the tax rate on the tax revenue performance in Tanzania. It recommend that, the 18 percent V.A.T tax rate should not be increased, thus it should remain unchanged.

This is because, V.A.T is one type of an indirect consumption tax, such that it is charged upon purchasing of commodities by final consumers. In this regard, it will cost every one of the citizens if it will be increased, say from 18 percent to 20 percent, since it's regressive in nature.[148] Therefore, it is very good recommendation to remain as it is. Since, if it will be increased, it will add more inflation within the country, hence the rising of prices of goods and services will be reported in the land.

In this regard, it is suggested that, instead of further increasing the tax rate, the tax authorities should strengthen the whole tax system in the country. For example, capturing the whole taxpayers who are required to pay taxes (seizing shadow economic activities)

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[146] *Id.*
[147] *Supra* note 4.
[148] In Tanzania, V.A.T tax rate was changed in July 01, 2009 from "Twenty percent" and substituting for it the word "Eighteen percent". It is an amendment of the V.A.T Act, 1997, Section 8, CAP, 148.

example by looking the number of registered companies against those who comply with the country's taxes laws, rules and regulations. Doing so, will assist in increasing the country's tax revenue collections.

Meanwhile, the other suggestion are that, the tax payer education department must focus on giving knowledge to the citizens on the importance of paying taxes to the nation, since there are variety of taxes with different deadlines. Also, conducting periodical auditing schedule so as to make sure the proper declaration have been met. Likewise, high punishments to tax offenders so as to give lessons to other tax payers in the country. Similarly, making reminders upon reaching of deadline, if possible, etc. All these are part of the suggestions so as to enhance the domestic tax revenue collections and performance in the country.

1.19.1 RATIO OF TRADE TO G.D.P

Using annual data ranging from 2002 to 2006 of UK Essays on the Factors Determinant Tax Revenue in Malaysia (2013) observed that, the coefficient of the ratio of trade to G.D.P is positively related to the tax revenue in 27 developing countries.[149] Meanwhile, the studies by [Gupta (2007); Bird, *et al.* (2007) and Le, *et al* (2008); Leuthold (1991); Stotsky and Mariam (1997); Ghura (1998)] found that, there is a positive relationship between ratio of trade to G.D.P or trade openness and the revenue of the government.[150]

In the meantime, Morss and Lotz (1967) found that, trade share and per capita income are potential determinants of the tax share.[151] This has proved from the study by A.Y. Javid and Umaima Arif (Winter, 2012) in Pakistan whose compared fiscal capacity and fiscal effort among the developing countries of Asian region over longer period of time

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[149] UK Essays in THE FACTORS DETERMINANT TAX REVENUE IN MALAYSIA, Sec. 2.0 (2013) *available at* https://www.ukessays.com/dissertation/examples/economics/the-factors-determinant-tax-revenue-in-malaysia.php#citethis (Last visited on December 5, 2018) [Published: Tue, Feb 20, 2018].

[150] A.Y. Javid and Umaima Arif, *Analysis of Revenue Potential and Revenue Effort in Developing Asian Countries* (Working paper No. 51(4) PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS, ISLAMABAD 367 (367, 368, 369) (Winter 2012) *available at* https://www.jstor.org/stable/pdf/23734767.pdf?refreqid=search%3A3205388cf12f71d52adc7984a5963ab0 (Last visited on December 07, 2018).

[151] *Id.*

from 1984 to 2010, it is concluded that, a variable of ratio of trade to G.D.P is positive and significant determinant of revenue to G.D.P since the taxes in the trade sector are easier to impose.[152]

Similarly, the contribution of this research on this variable is that, the ratio of trade to G.D.P appears to have a strong long-run positive relationship with tax revenue in Tanzania. This is because, the coefficient of trade indicates that, as the ratio of trade to G.D.P increase by 1 percent, tax revenue in Tanzania increases by 47 percent (Table 10.0).

Meanwhile, it conclude that, no short-run relationship between dependent variable, the ratio of trade to G.D.P and independent variables: ratio of total tax revenue over G.D.P, tax rate, population and tax base for the years 1992 to 2018 in Tanzania, refer to Table 27.0 and Annexure XXV, D(LTRA). Hence, the ratio of trade to G.D.P is the major determinant of tax revenue in Tanzania.

Regarding these findings, it is recommended on more openness of exportation and importation of goods and services especially for the major commodity groups in Tanzania, with affordable trade terms, less bureaucracy and allowing trade liberalization in Tanzanian economy (Table 10.0).

1.19.2 POPULATION

It is reported that, the higher the population, the higher the revenue for fiscal equivalence and financing arrangements by government due to the high tax capacity between Tennessee's rural and urban (A.C. Jansen, 1991).[153]

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[152] *Id,* at 372-373.

[153] A.C. Jansen, *Can Sales Tax Revenue Equitably Finance Education?* Vol. No. 16(4) JOURNAL OF EDUCATION FINANCE: UNIVERSITY OF ILLINOIS PRESS 480 (480, 481, 492) (Spring, 1991) *available at* https://www.jstor.org/stable/pdf/40703795.pdf?refreqid=search%3Aa9c99b146247815027ac1175606468d3 (Last visited on December 08, 2018).

In all regression coefficients of the eight countries from all continents: Africa (Botswana, Ethiopia, Madagascar), America (Canada, Panama, Paraguay), Asia (Bangladesh), Europe (Iceland) have been positive in the study by Bunescu Liliana *et al* (2011) using the data from 1980-2010 in measuring the intensity of the relationship between three factors (government expenditures, population and money supply) with governments revenues , indicated that, the coefficients revealed a direct association between population and public revenues collected by state authorities.[154]

In United State of America it is reported that, there is a significant positive correlation between the percent of land in designated Wilderness and population, income and employment growth (Holmes & Hecox, 2004).[155]

The simulations conducted in Netherlands indicated that, because of population growth and a relatively older labour force to the year 2010, tax revenue would rise to a 27 percent where by 2030 revenue will falls as a results of declining population and rapidly rising share of the elderly (Atl Econ J *et al* (1994).[156]

Also, it is revealed in California State that, revenue from the state sales tax increased 24.7 percent whereas the increase in population was 2.1 percent from 1935 to 1936, where from 1936 to 1937, the yield of this tax rose 20.1 percent while population advanced only 1.8 percent (W.K. Schmelzle, 1948).[157]

During the period from 1946 to 1947 the yield of same tax rose 35.1 percent whereas population increased only 3 percent, in the meantime, between the fiscal year 1941-42

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[154] Bunescu Liliana *et al, Is There a Correlation Between Government Expenditures, Population, Money Supply and Government Revenues?,* Vol. No. 4(12) INTERNATIONAL JOURNAL OF ARTS & SCIENCES 243 (243, 248, 253, 254) (2011) ISSN: 1944-6934 *available at* http://www.doctorate-posdru.ulbsibiu.ro/media/phd/file_31b_bdi_journal_full_article_000092.pdf
(Last visited on December 08, 2018).

[155] Utah State University *the Correlation between Local Government Tax Revenues and the Existence of Federally Designated Wilderness Lands* (2011) ***available at*** **https://digitalcommons.usu.edu/cgi/viewcontent.cgi?article=1096&context=gradreports** (Last visited on December 09, 2018).

[156] Atl Econ J *et al*.; *The impact of demographic change on tax revenue* (1994) ***available at*** **https://www.ncbi.nlm.nih.gov/pubmed/12291805 (Last visited on December 10, 2018).**

[157] W.K. Schmelzle, *The Impact of Population Changes on Tax Revenues,* Vol. No. 41 NATIONAL TAX ASSOCIATION 406 (406, 407) (1948) *available at* https://www.jstor.org/stable/23407540 (Last visited on December 09, 2018).

and 1942-43, the yield of the state personal income tax increased 35.5 percent whereas the increase in population, which was large compared to earlier year-to-year increases, was 5 percent, and from 1940 to 1947, a rise of 58 percent in property tax receipts went together with an increase of 40 percent in population.[158]

Furthermore, monetization and impact of the public debt found to be positively effective in tax collection, while urbanization seems to increase contribution effort to tax collection in Turkey in 2013. For instance, from that period of 2013, it has been expected that, the increase in urban population will expand the tax base specifically in the form of income tax collected from profits and wages within the country. Monetization factor had contributed to that expansion (Karagoz, 2013).[159]

Likewise, the contribution of this research on this variable is that, in the long-run population would have strongly positive impact with tax revenue in Tanzania for the period of 1992 to 2018. Since, the coefficient of population indicating that, for every one percent increase in population, tax revenue performance in Tanzania will increase by 1.56 percent (Table 10.0).

Also, it conclude that, no short-run relationship between dependent variable population and independent variables ratio of total tax revenue over G.D.P, tax rate, ratio of trade to G.D.P and tax base for the years 1992 to 2018 in Tanzania (Table 28.0 and Annexure XXV, D(LPOP). In this regard, population affect performance of tax revenue in Tanzania.

Hence, it is recommended that, the Tanzanian population should increase during the coming decades so as to enhance the capacity to pay and collect taxes with the increasing the level of population in the country. However, the increasing the level of population in Tanzanian must be accompanied with the increasing individual's economic levels and their purchasing powers.[160]

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[158] *Id*.
[159] *Supra* note 92.
[160] Email from S.S. Soud, Senior Tax Officer, Tanzania Revenue Authority T.R.A to H.M. Nassor, author (July 11, 2019, 3:01 PM IST).

On the time being, in order to stimulate the domestic tax revenue base in developing countries, it is suggested on increasing the level of human capital, which must be accompanied by the good quality and reasonable social services to be provided by the government to the society. Since the level of human capital is among the important public policy for the development of the tax system in the country. Correspondingly, for the areas where its population is huge in Tanzania, its tax base should be highly diversified compared to the areas having lower population in the land (Figure 15.0).

1.19.3 TAX BASE

The estimates indicated that, the short-run elasticity estimates are less than 0 percent in each of the four New York State central cities (Buffalo, Rochester, Syracuse and Yonkers) and significant at the 5 percent level implying that, tax rate increases for high revenue target lead to a reduction in the property tax base in the short-run, meanwhile, short-run revenue maximization hypothesis for property tax rate changes resulted for substantial long-run erosion of the tax base (W.F. Stine, July, 1988).[161]

A. Oestreicher and R. Koch (March, 2011) had found that, the total tax revenue of the European Union has reduced by 4.56 percent under a compulsory Common Consolidated Corporate Tax Base and by 4.65 percent under an optional Common Consolidated Corporate Tax Base, whereby according to Fuest *et al*. (2007) implementation of a compulsory Common Consolidated Corporate Tax Base would reduce overall tax revenue by 22 percent in which the Netherlands, Ireland and Sweden are among the biggest losers from the reform by about 60 percent of their tax revenue on average, and an average revenue loss of only about 11 percent.[162]

In Germany, it has reported that, if governments at different levels co-occupy one and the same tax base, actually fiscal decisions are not independent from each other.[163] In this

[161] *Supra* note 143, at 35, 41, and 42.
[162] A. Oestreicher and R. Koch, *The Revenue Consequences of Using a Common Consolidated Corporate Tax Base to Determine Taxable Income in the EU Member States* Vol. No. 67(1) PUBLIC FINANCE ANALYSIS 64 (64, 65, 66, 88) (March, 2011) *available at* https://www.jstor.org/stable/pdf/41303579.pdf?refreqid=search%3A7e09886692c1619123ca9d0f902bb576 (Last visited on December 10, 2018).
[163] Matthias Wrede, *Vertical and Horizontal Tax Competition: Will Unco-ordinated Leviathans end up on the Wrong Side of the Laffer Curve* Bd. 53, H. 3/4 FINANZARCHIV / PUBLIC FINANCE ANALYSIS 461 (461,

scenario, vertical externalities are negative, since an increase in the state tax rate reduces the common tax base and therefore federal tax revenue, and vice versa is true (Matthias Wrede, 1996).[164]

All the three studies by Brill and Hassett (2007) using the data on 29 Organisation for Economic Co-operation and Development countries between 1980 and 2005, Clausing (2007) using the data on 29 Organisation for Economic Co-operation and Development countries from 1979 to 2002; and Devereux (2006) using the data for 20 Organisation for Economic Co-operation and Development countries from 1986 to 2004, have found a large negative response of the tax base to rate changes in their baseline model, implying a revenue-maximizing tax rate ranging from the mid-20s to mid-30s.[165]

The ration of the sum of exports and imports to G.D.P (trade openness) that found to have significant positive correlation with the ratio of total tax revenue performance over G.D.P. Since, the administrative costs of organizing and monetizing the international trade sector within the tax system could be lower than the others sectors, and the share of agriculture in G.D.P that proved to have negative significant relationship with the ratio of total tax revenue over G.D.P in developing countries (Dhaneshwar Ghura, 1998).[166]

Meanwhile, it observed that, if and only if mining sector could be well monitored and organized, it could be relatively easy to tax. Apart from above determinants, it has emphasized on the role of macroeconomic policy which normally captured by the percentage change in the real effective exchange rate and inflation rate so as to boost tax revenue performance in the country.[167]

It has found the pressure of external financing or what is called external environment is another determinant influencing tax revenue performance in Sub Saharan African

462) (1996) *available at* https://www.jstor.org/stable/pdf/40912738.pdf?refreqid=search%3A8fe5878e1a8d3997282597b8660ffb82 (Last visited on December 11, 2018).

[164] *Id*.

[165] Laura Kawano and Joel Slemrod, *THE EFFECT OF TAX RATES AND TAX BASES ON CORPORATE TAX REVENUES: ESTIMATES WITH NEW MEASURES OF THE CORPORATE TAX BASE* 4, 5, 7, 24 and 25 (Working Paper No. 18440, NATIONAL BUREAU OF ECONOMIC RESEARCH: 1050 Massachusetts Avenue-Cambridge, October, 2012).

[166] *Supra* note 25, at 9-10.

[167] *Id.*

Countries. According to researcher, the variable has been measured or captured by using two proxies' sub-variables.[168]

One is the change in the debt stock to G.D.P ratio and second is the ratio of external grant to ratio of G.D.P. In this regard, it has been found that, there are ambiguous in the terms of trade on the tax revenue to the ratio of G.D.P.[169]

This means that, provided there is a price inelastic in a large proportion of a country's import, there would be an increase in import prices which would improve the tax base of a country due to the deterioration in the trade terms in that particular country. However, there a mere caution in the matter of export taxes, that is, there would be minimization of tax base and hence tax revenue performance if the deterioration in the terms of trade would be caused by a decline in export prices.[170]

This would happen if the country depends her taxes revenue mostly from export taxes. Apart from that, a decline in the terms of trade is associated with the decline in income, ultimately would lead to reduce the tax base in a country. In this regard, this is potential substantial knowledge and gaps since there are varieties of environments where a determinant of tax base might influence tax revenue performance of a given country.[171] In this regard, this research, has analysed whether tax base is a potential determinant of tax revenue performance in Tanzania from 1992 to 2018.

It is indicated that, there were among the variables has captured the effects of both the tax base and income. For examples, the existence of an oil sector, the share of agriculture, the existence of an on-oil mining sector, the degree of openness which exerted the largest impacts on the ratio of total tax revenue to the G.D.P (Dhaneshwar Ghura, 1998).[172]

Meanwhile, based on the base regression, the main results relating to the elements of tax base and income have synonymous impacts. For example, there were an inverse

[168] *Id,* at 12.
[169] *Id.*
[170] *Id.*
[171] *Id.*
[172] *Id*, at 14.

correlation between per capita income, the share of the agriculture and the tax base. However, the degree of correlations was opposite between human capital with both the tax base and income level for Sub Saharan African Countries during 1985 to 1996 (Dhaneshwar Ghura, 1998).[173]

It has been observable that, for a given tax regime and tax rate, if the economic policies would promote the noninflationary environments via prudential financial standpoint and good implementation of structural reforms, the policies could expect to raise tax revenue base in developing countries.[174]

It is also suggested that, the strongest measures need to be taken in to considerations so as to combat corruption so that the tax revenue could increase among developing countries. Besides, others determinants are the degree of trade openness, income and the share of agriculture (Dhaneshwar Ghura, 1998).[175]

Furthermore, have notified that, countries with respect to their level of income and at the different stages of development illustrated different significant relationships between economic determinants and the tax revenue performance. In these regards, the researcher has formed separate revenue performance indices for low income, middle income and the high-income developing countries (Abhijit Gupta, July, 2007).[176]

Accordingly, it is noticed that, amongst low income countries, the tax revenue performance of Sub Saharan African Countries is somewhat varied. The examples of the countries are Zambia, Zimbabwe, Burundi and Ethiopia performed definitely and clearly better than predicted during the year of 2007. Further, Madagascar and Chad, chop down of their tax revenue potentiality.[177]

In addition to that, if the specification like G.D.P per capita was to be considered, the countries like Guine-Bissau, Niger and Togo performed relatively poor depending on the

[173] *Id.*
[174] *Id*, at 17.
[175] *Id.*
[176] *Supra* note 90, at 27.
[177] *Id.*

specification. However, the results might be quietly different than what was the prediction.[178]

For example, if agricultural sector is to be considered, then more than forty percent of these countries performed better than the prediction. Accordingly, the middle-income countries like Tunisia, Morocco, Egypt and Algeria performed well based on their economic structure.[179]

On the other side of the Latin American countries such as ElSalvador, Colombia, and Guatemala, as well as some countries from the former Soviet Union, as Kazakhstan and Georgia, they have shown below average performance. Lastly, the high income and resource rich countries like Botswana, Oman and Kuwait have performed close to their tax revenue potentiality. Countries in Latin America and Eastern Europe such as Costa Rica, Latvia, Lithuania, Slovak Republic and Argentina, have failed to recognize their tax revenue potentiality.[180]

Since, V.A.T has been adopted in recent years, the tax revenue response performance has been mixed. This means that, V.A.T has a larger potentiality in improving the tax revenue base in the countries compared to what is called, traditional commodity taxes, for several reasons. First, V.A.T includes service sector in its fold. Thus, it broadens the tax base and it eliminates the cascading belongings involved in turnover taxes and some sales tax systems. Second, V.A.T stimulate better compliance due to self-enforcing mechanism (Abhijit Gupta, July, 2007).[181]

The contribution of this research on this variable is that, in the long-run the tax revenue in Tanzania is negatively significantly affected by tax base for the years 1992 to 2018 since its sign is negative as expected (Table 10.0). Since, the coefficient of tax base pointing out that, for every 1 percent increase in tax base; tax revenue in Tanzania decrease by 25 percent.

[178] *Id.*
[179] *Id*.
[180] *Id*.
[181] *Id,* at 32.

Also, it conclude that, there is short-run relationship between dependent variable tax base and population for the years 1992 to 2018 in Tanzania, (Table 29.0 and Annexure XXV, D(LTAXBA). Hence, tax base impact performance of tax revenue in Tanzania.

Hence, it is recommended that, both taxes on import and on local goods and services, taxing subsistence agricultural activities, export taxes, and so on, must be reduced significantly in Tanzania, purposively to widen the tax base, hence boosting the tax revenue collection in the economy. Also, the terms of trade must be adjusted to associate with rising in income in the land.

Further, apart from income tax, VAT and others, there is a need for Tanzania government to create the extra new reliable sources of tax base, creations of new wealth and the fiscal policy measures so as to generate more revenue. For example, change in exchange rates, share of industrial sector, share of capital gains and profit, oil and mining sector, curbing of informal sector and underground economic activities, strengthening the service sector in G.D.P, secondary sector like manufacturing, reviewing and reducing the tax exemptions in the country, and so on (Table 12.0 Annexure VC and Table 22.0 Annexure VM).

Also, fighting against tax evasion and avoidance must be prioritized for Tanzania Revenue Authority and Zanzibar Revenue Board. Likewise, lowering the V.A.T base from 40 million Tanzanian Shilling of turnover to 20 million Tanzanian Shilling of turnover, so as to widening the tax base, thus increasing the domestic performance of the tax revenue in the country (Table 12.0, Annexure VC).

1.19.4 OTHER CONTROL VARIABLES

1.19.4.0 G.D.P Per Capita

Per capita G.D.P and the trade openness (import share) have statistically significant positive relationship with revenue performance, the share of agriculture in G.D.P has statistically significantly strong negative relationship with the same. Whilst, the aid from

foreign have significantly influences on the same to Sub Saharan African Countries developing economy and the Latin American countries (Abhijit Gupta in July, 2007).[182]

If the import ratio to G.D.P will be increased by one percent, will result into an increase of tax revenue performance up to by 0.15 percent. It is simpler to impose trade-related taxes due to the fact that, importation and exportation of commodities are done at a specific location.[183]

Also, it has observed that, the share of import, the share of agriculture and the per capita G.D.P are seems to be the major predictor of tax revenue performance in developing countries, but the impact of G.D.P per capita is very much smaller in the specification dynamic. While, both share of import and agricultural, there impacts are slightly smaller in the dynamic specification as far as the marginal concept is concerned.[184]

Besides, the G.D.P per capita has a weaker impact in both middle and low-income countries while, in high income countries, it has strong effect towards the tax revenue performance. Apart from that, there is a strong and positive relationship or impact in trade openness to both low-and middle-income countries compare to the high-income countries for the years specified.[185]

It was found that, all countries performed better than was what expected when GDP per capita was included to be a one among the independent variables Abhijit Gupta (July, 2007). But, when the variable of agricultural share was included in the predicted revenue performance, the number of countries drops marginally to forty-two.[186]

Accordingly, most of Sub Saharan African Countries have notable tax revenue performance rather than comparison with other countries, specifically most of the Latin America. Thus, among the countries in region that have shown a revenue performance

[182] *Id,* at 11.
[183] *Id.*
[184] *Id.*
[185] *Id.*
[186] *Id*, at 26-27.

index higher than 1.5 are Botswana, Burundi, Malawi and Zimbabwe, that was during the 2007.[187]

The countries were constrained by the several impediments such that of limited trade openness, dominant on agricultural sector and low level of G.D.P per capita. Thus, they decided to utilize their tax potential in large capacity. Differently, Brazil, Argentina, Peru, Panama, the United Arab Emirates and so on, their indexes of revenue performance were below 0.75, hence, there was suggestion that, they supposed to realize their full tax revenue potentiality (Abhijit Gupta, 2007).[188]

Meanwhile, it is observed that, in thirty-nine Sub Saharan African Countries, the variations in the tax revenue performance were broad during the years 1985 to 1996. For instance, while ten countries had the ratio of total tax revenue over G.D.P of about 20 percent, the others nine countries had the ratio of total tax revenue over G.D.P below ten percent (Dhaneshwar Ghura, 1998).[189]

However, on average, the total tax revenue to G.D.P ratio for all thirty nine Sub Saharan African Countries was about 17 percent from the years 1985 to 1996. Also, in the same period, a greater part of Sub Saharan African Countries during 1985 to 1996, had average of ratio of total tax revenue over G.D.P below fifteen percent.[190]

So, on average, the ratio of total tax revenue over G.D.P declined over time from 18.4 percent to 16.3 percent, respectively. The decline of the total tax revenue to G.D.P ratio practiced by the oil producers' countries like Nigeria, Gabon, Congo and Cameroon who's the average tax revenue ratio chop down from 25 V2 percent in 1985 to I8V2 percent in 1996, where the declining was largely reflected by oil price.[191]

On the other side, for the non-oil producers, the total tax revenue ratio over G.D.P declined from 17.3 percent to 16 percent.[192] In this regard, this is the substantial

[187] *Id.*
[188] *Id.*
[189] *Supra* note 25, at 5.
[190] *Id.*
[191] *Id.*
[192] *Id.*

knowledge that, the variation of the total tax revenue over G.D.P in developing countries varies in large extent. Hence, there is a need to undertake this research so as to distinguish the significances of all varieties of the major and potential determinants of tax revenue performance in Tanzania.

The results were consistent among of the available resources of the empirical literatures. For examples, the findings indicated that, as income rises, the ratio of tax revenue to G.D.P grows, there were greater openness of the economy, and also there were existence of oil and mining sector and decline in the agricultural share to G.D.P (Abhijit Gupta, 2007).[193]

In addition to that, it is indicated that, there were among the variables captured the effects of both the tax base and income. For example, the existence of an oil sector, the share of agriculture, the existence of an on-oil mining sector, the degree of openness which exerted the largest impacts on the ratio of total tax revenue to the G.D.P. (A.Y. Javid and Umaima Arif, 2012) [194]

Also, it has been observed that, the G.D.P per capita has significantly positive impact in basic specification of revenue potential model. It is signifying that, the power to collect and pay revenue increases with the level of development of sample countries in South Asian Countries S.A.C in the years 1984 to 2010.[195]

Among structural factors, like that of per capita G.D.P, inflation, share of agriculture in G.D.P, rents received from natural resources, and degree of openness in Sub Saharan African Countries low income countries, are important determinants of tax revenue in the region. However, the major problem of the region is the sustainability of large increases in revenue ratios, particularly for fragile countries (Paulo Drummond *et al*. May, 2012).[196]

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[193] *Supra* note 90, at 11.
[194] *Supra* note 150.
[195] *Id.*
[196] Paulo Drummond *et al*, Mobilizing Revenue in Sub-Saharan Africa Low Income Countries: Empirical Norms and Key Determinants: African Department 1 (Working Paper No. WP/12/108, International Monetary Fund (I.M.F), 2012).

Also, it is reported by Nelson H. Were Wawire (2011) that, there was a reality of an underground economy in Kenya. This is because the growth elasticity's for V.A.T were all greater than one. In addition, the total G.D.P elasticity of V.A.T revenues is less than the elasticity's with respect to monetary G.D.P.[197]

Accordingly, V.A.T determinants in Kenya are G.D.P, structural features of the economy, demographic and institutional factor. In Kenya among the remarkable determinant having positive influences on V.A.T revenues are coffee and tea booms, introduction of sales tax on imports in the fiscal year 1984-85, introduction of sales tax in 1973, volume of international trade, favourable weather TMG, establishment of KRA in 1995, and budget rationalization.[198]

In addition, V.A.T revenues respond with lags to changes in their respective tax bases. This means that, the previous levels of tax bases like that of G.D.P, volume of imports and volume of trade have significant influence on the present levels of V.A.T revenues.[199] In its conclusion, it is confirmed that, V.A.T system of Kenya's is very responsive to changes in their determinants specifically in international trade. In this regard, there is big concern and challenge of creating a stable V.A.T system so as to ensure that, tax revenues should increase rapidly proportional with the growth of an economy in the nation.[200]

From the period of July, 2013, the major determinants affecting tax revenues in Turkey are industrial having positively relation and agricultural sector share in G.D.P having negative relation, urbanization rate, monetization rate of the economy and foreign debt stock. This is because; the share of industrial production and service sector in the G.D.P has increased while that of agricultural production has decreased recently in Turkey

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[197] Nelson H. Were Wawire (Ph.D), *Determinants of Value Added Tax Revenue in Kenya,* 2 A PAPER PRESENTED at the (C.S.A.E) CONFERENCE HELD FROM 20th to 22nd MARCH 2011, at St. CATHERINE'S COLLEGE (2011) *available at* http://etd-library.ku.ac.ke/bitstream/handle/123456789/10830/DETERMINANTS%20OF%20VALUE%20ADDED%20TAX%20REVENUE%20IN.pdf?sequence=3&isAllowed=y (Last visited on April 20, 2017).
[198] *Id,* at 32-33.
[199] *Id.*
[200] *Id,* at 2.

(Kadir Karagoz, 2013).[201] Also, it is easier to tax the secondary and tertiary sectors of industrial sector in the country. Moreover, foreign trade openness has no any significant impact on tax in Turkey (Kadir Karagoz, 2013).[202]

It is suggested that foreign aid, political stability, external debt, broad money and trade openness are among the large determinants of tax efforts in the country. In Pakistan the more dependence on agricultural sector, foreign aid, low level of literacy rates and narrow tax base are the low tax revenue determinants in the country. Hence, it has observed that, by having high literacy level, broadening the tax base, controlling tax evasion, income inequality, and tax exemptions, good political stability, and by boosting the openness, Pakistan will be in a good position of generating high tax to G.D.P (I.S. Chaundhry and Farzana Munir, December, 2010).[203]

Besides, it is noted that, provided the country depend more on tax receipts from importation of goods and services rather than export taxes, the exchange rate would have positive significant relationship with the ratio of total tax revenue over G.D.P in Sub Saharan African Countries (Dhaneshwar Ghura, 1998).[204]

In this regard, for the domestic tax revenue to be improved in developing countries, the imposition of tax receipts from import could be appreciated rather than export taxes. However, it has been notified by the researcher that, the country should not overvaluation of the real effective exchange rate by contractionary financial policies, since, by doing so, the expectation is to reduce tax revenue performance due from the adversely affect towards the overall economic activities.[205]

In addition to that, using the Sub Sample Analysis, the author has it is noted that, foreign aid for low income countries has a highly positive significant impact towards the tax

[201] *Supra* note 92.
[202] *Id.*
[203] *Supra* note 93.
[204] *Supra* note 25, at 10.
[205] *Id.*

revenue performance in all specifications. This means that, the tax revenue performance will increase by 0.11 percent if and only if the foreign aid will go up by 1 percent (Abhijit Gupta, July, 2007).[206] However, there is a contrary impact of this variable for both middle income and high-income countries. In the other words, there is no statistically significant of the foreign aid for the two countries.[207]

The findings have also found that, for the variable of foreign debt has no statistically significant with the tax revenue performance for either of the groups. This work has mentioned in the problem statement that, the tax revenue performance within the country is mostly driven by internal factors rather than external factors like foreign loans, aids and grants.[208]

The contribution of this research on this variable is that, from 1992 to 2018 the variable has positive impact on tax revenue performance in Tanzania. Refer Table 14.0 Annexure VE and for the results refer Annexure XVII, SC_1, SC_2, SC_3, SC_4 and SC_5.

Regarding this finding, it is recommended that, since, G.D.P is the best measure of the wealth of the nation, the minimum Per Capita real G.D.P in Tanzania (990,688.0 Million of Tanzanian Shilling)[209] must be raised up for the better tax collections performance in the country (Table 14.0, Annexure VE). This is because, the results indicate that, G.D.P Per Capita has positive impact on tax revenue performance in Tanzania (Table 14.0, Annexure VE).

1.19.4.1 Inflation Rate

It is observed in Sub Saharan African Countries that, inflation is among the economic policy related determinant that exerts the prime impact towards the ratio of total tax revenue over G.D.P, followed by the structural reforms implementation. This means that, economic policies that underline structural reforms and a practical financial stand

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[206] *Id.*
[207] *Id.*
[208] *Id.*
[209] **Bank of Tanzania, *ANNUAL REPORT 2017-18,* (2017-18)** *available at* https://www.bot.go.tz/Publications/EconomicAndOperationsAnnualReports/BOT%20ANNUAL%20REPORT%2017-18.pdf (Page No. 182) **(Last visited on** April **2, 2019).**

expected to increase the ratio of total tax revenue over G.D.P (Dhaneshwar Ghura, 1998).[210]

In addition, it is notified that, there are three channels through which inflation effects on tax revenue performance can be registered. Firstly, fall during an inflationary environment where by at the time of tax payments, the tax obligations are lower in real terms when the actual tax payments lag the transactions to be taxed.[211]

Secondly, in case of excise duties to be imposed at specific rates on a number of commodities e.g. gasoline, alcohol and tobacco which may not be necessary adjusted in line with inflation. Lastly, if inflation rates would be higher, the tax base would decline, the reason is that, economic actors and agents will make their portfolio adjustments by owning the wealth in the form of assets so as to escape domestic tax net of their properties like livestock, foreign capital, jewels and land.[212]

The contribution of this research on this variable is that, from 1992 to 2018 the variable has negative impact on tax revenue performance in Tanzania. Refer Table 13.0 Annexure VD and for the results refer Annexure XIV SB_3, XV SB_5, XVI SB_1, SB_4, SB_6, SB_7, and SB_11, respectively.

Regarding this finding, it is recommended on preventing high (double inflation) must be prioritized by Bank of Tanzania, so as to avoid the falling in Tanzanian Shilling purchasing power, hence solving inflation problem in Tanzania (Table 13.0, Annexure VD). Besides, the Agriculture Ministry and Food Security, Seaport and Airport must be strengthened, thus making more export.[213]

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[210] *Supra* note 25, at 17.
[211] *Id*.
[212] *Id*.
[213] Derived from the comments written in the questionnaire number 13 of Z.F.B stakeholder, about the institution/s that can best solve/prevent inflation problem in Tanzania, the comment was on question number 9 Section B (Refer to Appendix II & III (pg. 5 & 4)) respectively, 2018.

Finally, the combination of the responsible government institutions, private sectors and businessman must be involved in the production and distribution of goods and services in the country.[214] This is because inflation play an important role as it is indicated that, it has negative impact on tax revenue performance in Tanzania (Table 13.0, Annexure VD).

1.19.4.2 Corruption

The institutional variables like corruption, government stability, law and order have not found to have significant impact towards tax revenue performance in developing countries (Abhijit Gupta July, 2007). However, it has founded that, if economic and political variables are to be measured as the institutional factors have the significant impact towards the tax revenue performance in the countries.[215] Since, corruption is among the institutional variables which is the major determinants of tax revenue performance in developing countries.[216]

It has highly significant in its coefficient towards the tax revenue performance in the countries, it affect more to both low and middle income countries. This means that, a decrease in corruption which implies the increase in the corruption index would results into an increase of tax revenue performance for the countries.[217]

If the corruption index would increase by one unit, would improve tax revenue performance by 1.5 percent for the countries for the period of July, 2007, while at the same time, the effects in middle income countries is slightly greater than 0.5 percent.[218]

In addition, it is documented that, cautions should be taken under consideration in fighting corruption, because, it needs to be undertaken on several fronts, it is costly and takes time (Dhaneshwar Ghura, 1998).[219] Nonetheless, it has been observed that, due to the

[214] Derived from the comments written in the questionnaire number 74 of Z.N.C.C.I.A stakeholder, about the institution/s that can best solve/prevent inflation problem in Zanzibar, the comment was on question number 9 Section B (Refer to Appendix III (pg. 4)), 2018.
[215] *Supra* note 90, at 11-12.
[216] *Id,* at 22.
[217] *Id*.
[218] *Id*.
[219] *Supra* note 25, at 4.

existence of corruption and weaknesses especially in the expenditure management processes, the high percentage of the government budget in developing economies do not attain the planned final targets.[220]

This means that, there are strong positive significant correlations between declining in corruption, rising human capital and tax revenue performance in developing countries. Therefore, this is the substantial knowledge gained in this research work, since; it tested the significant influence or impact of corruption as the determinant of tax revenue performance in Tanzania from 1992 to 2018.[221] Besides that, it has been noted that, there are numbers of corruption acts like extortion, bribery, embezzlement, fraud, influence peddling and nepotisms.[222]

Moreover, others factors that support monetary corruption are like lower salaries in public sectors, lack of accountability and transparency in the tax administration, excessive discretionary power vested in tax administrators, complicated tax laws, weak legal and judicial systems and the necessity for frequent contacts between taxpayers and the tax officials.[223]

It has been observed that, a proportion of the working hours of the custom officials and corrupt tax are allocated in collecting bribes in exchange for alleviating tax burdens of taxpayers offering these bribes and in complicating procedures for taxpayers who refuse to participate in the bribery scheme, which would compel them to participates in underground economy of the informal activities or to force them to be outside of the business. All these are illegal activities effecting tax revenue performance in developing countries. In these regards, in presences of these actions, the investment and economic growth of the developing countries would be in worst situation; hence, weaken the countries' tax base.[224] Obviously, the ratio of total tax revenue over GDP would decrease significantly.

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[220] *Id*, at 11.
[221] *Id*.
[222] *Id*.
[223] *Id*.
[224] *Id.*

Thus, efforts to lower corruption are required since it would be expected to boost the performance of tax revenue among the developing countries.[225] Again, the appropriate measures have to be taken to reduce corruption so as to enhance the ratio of total tax revenue over G.D.P significantly.[226] Measures that would be taken to reduce corruption and promote economic reforms are expected to add to tax revenue performance in developing countries (Dhaneshwar Ghura, 1998).[227]

However, based on the researcher, it is not realistic and not expected during the short period of time that, through the measures to reduce corruption which consists reforms of tax administration and through macroeconomic policy reforms, that, the projections of large tax revenue gains would be entertained in short period of time.[228]

Fighting against corruption is surely connected with some important policies as well like that of foreign aid policy, political situation, etc. it is recommended that, in order to advance tax revenue performance to both low-and middle-income countries, the overall political stability regime must be improved in line with lessening in corruption (Abhijit Gupta, July 2007). Thus, the tax institutions in both income groups' countries have to actively struggling in reducing corruption and change the motivation structure for tax staffs.[229]

The contribution of this research on this variable is that, from 1992 to 2018, the variable has significant negative impact on tax revenue performance in Tanzania. Refer Table 21.0 Annexure VL and for the results refer Annexure XXIV, H_1, H_2, H_3, H_4, H_6, H_7, H_8, H_9, H_10 and H_11, respectively.

Thus, since corruption is the major obstacle to get services in Tanzania, the provisions of Tanzania's Constitution and laws, must assure openness, (equity and equality) and efficiency in offering government services. Refer question number 5, Annexure II and III (pg. 18 and 16), respectively.

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[225] *Id.*
[226] *Supra* note 25, at 5.
[227] *Id,* at 17-18.
[228] *Id*.
[229] *Supra* note 90, at 31-32.

Additionally, there is a need for Tanzania Revenue Authority and Zanzibar Revenue Board to offer incentives in tax system for protecting public servants and private citizens who, in good faith, reports the acts of corruption. Meanwhile, under the provisions of Tanzania's Constitution and laws, the mechanisms and measures for preventing, deterring and punishing the tax corrupted and bribery victims must be most effective (Table 21.0, Annexure VL).

There is further a need to encourage participation by civil society and Non-Governmental Organizations in efforts to prevent corruption in Tanzania. Also, currently there is a need for mechanisms and measures in place that will focus on the study from schools for further preventive measures to prevent corruption in tax and other institutions under Tanzania's National Laws (Table 21.0, Annexure VL).

Finally, members of Tanzania Revenue Authority and Zanzibar Revenue Board must prevent themselves from corrupt practices. This is because, it has been confirmed that, some Tanzania Revenue Authority staffs have been fired from their jobs because of involving in corruption practices.[230] Because, findings show that, corruption has negative impact on tax revenue performance in Tanzania (Table 21.0, Annexure VL).

1.19.4.3 Direct and Indirect Taxation

Furthermore, the paper of Abhijit Gupta, of July, 2007 have found that, greater reliance on indirect taxation of taxing goods and services as the major sources of revenue collections in developing countries may results into lower performance as far as tax execution is concerned. This is because, by very nature, taxation on goods and services is regressive taxation system. In this case when the tax collection on goods and services continues, there is a probability of interfering inequality in income distribution, which may result into lessening of revenue share in G.D.P.[231] Thus, indirect taxes have negative significant impacts on tax revenue performance in developing countries.

[230] Interview with Ms. Haula K. Issa, Manager Human Resource and Administration, working at the Tanzania Revenue Authority T.R.A, Zanzibar office (Mayugwani, Zanzibar) (March 07, 2018).
[231] *Id Supra* note 90*,* at 12.

Again, the direct tax has extra advantageous that, they condense income deviation or variation, and thus generate more revenue in the developing countries during the years specified.

As far as taxation of direct and indirect taxes among low, middle- and high-income developing countries. The results found that, if the imposition of taxes would rely in greater instance on taxing capital gains, income and profits, there would be an improvement in tax revenue performance to all income groups. However, if the taxes would be levied in greater instance on taxing goods and services as a source of tax revenue, there would be a good revenue performance in middle income countries but not in both low- and high-income countries.[232] However, direct taxes have positive significant impacts on tax revenue performance in developing countries. There is uncertainty among low, middle- and high-income developing countries.

Hence, both taxes on import and on local goods and services, taxing subsistence agricultural activities, export taxes, etc., must be reduced significantly in Tanzania, purposively to widen the tax base, hence boosting the tax revenue collection in the economy. Likewise, lowering the V.A.T base from 40 million Tanzanian Shilling of turnover to 20 million Tanzanian Shilling of turnover, so as to widening the tax base, thus increasing performance of tax revenue in the country (Table 12.0, Annexure VC).

Since, the Tanzania public finance authorities are relying on indirect taxation and running under deficit situation. The situation that rising the national debt, the time has come for the authorities to focus on taxing direct taxes which are progressive in nature, rather than indirect taxes that having unjust effects on income distribution,[233] this will ensure the greater domestic government revenue compared with expenditure.

[232] *Id,* at 22.
[233] *Supra* note 10, at 244.

1.19.4.4 Government Policies

It was found that, the determinant of law, order and government stability do not have any statistically significant on tax revenue performance for low income countries as well as middle income countries in that particular period of time (Abhijit Gupta, in July, 2007).[234]

In addition, the policy of better progress in implementing structural reforms, on average, the healthier the ratio of total tax revenue over G.D.P for those countries that implementing them well in advance comparisons with the counterpart. Besides that, when the level of human capital measured as a proxy for the extent of public services provided by the government increases, then, tax revenue collection will increase in the region (Dhaneshwar Ghura, 1998).[235]

Also, the changes in the macroeconomic policies environment plays an important role in determining the tax revenue base in Sub-Sahara African Countries, rather than, a wide fluctuation in tax ratios which observed in several countries over a short period of time cannot be satisfactorily be major and potential mechanism of improving the total tax revenue ratio over G.D.P.[236]

Furthermore, the provision of public services by the government which normally proved by an improvement in an index of Human Capital Development Index in the country concerned, corruption level, structural and macroeconomic policy environment matters. Example, it has been observed that, there is a significant positive relationship between an appreciation of the real exchange rate and tax revenue collection.[237] Besides, if inflation rate as a proxy for expansionary financial policies would be higher, the ratio of total tax revenue over G.D.P would be lowers, ceteris peribus condition.[238]

Therefore, for the tax revenue of the country to increases, the country concerned have to render quality public goods and services so as to motivate tax compliance and willingness

[234] *Supra* note 90, at 22.
[235] *Supra* note 25, at 3.
[236] *Id,* at 5.
[237] *Id,* at 5-7, 16.
[238] *Id*.

of the citizens who are the first beneficiaries of the national cake. In addition to that, the government has to design researchable and appropriates policies so as to provide good foundation and blue print for the tax collection in efficient and cost-effective mechanism.[239]

Also implementation of structural reforms play a crucial role in enhancing the excellent performance towards the ratio of total tax revenue performance over G.D.P in Sub Saharan African Countries. Hence, examples of the reforms are broadening the tax base, by enhancing the external competitiveness, improving economic efficiency and resources allocation.[240]

Also, by expanding the productive capacity of the economy, all of them will advance the tax revenue performance in developing countries. The successes of the implementing the structural reforms in the region, would come via the reforms. Such that, legal reforms, civil services reforms, tax reforms, retail and producer price decontrol, public enterprise restructuring and privatization, exchange and trade liberalization and financial sector reforms.[241]

It is believed that, by using several technical assistances that aimed at ever increasing of the voluntary tax compliance and self-assessment, reorganizing tax administration with functional lines, developing audit plans and procedures and improving procedures for tax collections, probably many countries would benefit by adopting the technical assistance and hence could sustain the tax revenue prospects in the country concerned.[242] One among the important policy to be adopted in developing countries is to emphasize their government expenditures towards the planned priorities. For instance, provided human capital development and another economic policy related variable that have a good proxy for the renders of the public services by the government. [243]

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[239] *Id*.
[240] *Id,* at 10.
[241] *Id*.
[242] *Id*.
[243] *Id,* at 11.

All have significant positive relationship with the tax performance in developing countries. Therefore, if the majority of the tax payers observes the benefits of their taxes donations, probably their willingness to voluntary tax compliance with their tax obligations would increase significantly.[244] Hence, it is crucial for the countries to focus their government spending on the targeted priority sectors such as investment in human capital, since it improves the index of human capital; this is because the index deliberately intended to measure the visible impacts of public spending on the national planned priorities.[245]

Yet, structural reforms also play important roles in attracting the tax revenue performance to the developing countries (Dhaneshwar Ghura, 1998). Because; it has been found that, there are highly positive significant effects between structural reforms and the ratio of total tax revenue over G.D.P.[246] This means that, if the country would made great efforts in the implementation progress of structural reforms, on average, the country would be capable to increase their average ratio of total tax revenue to G.D.P in greater instance, than the countries that do not have good progress in the structural reforms.[247]

Nevertheless, it is known that, since external grants is the substitution of tax revenue mobilization, the increase in external grants always lower the domestic tax revenue performance within the country concerned. This is because, the external grants reflect the reverse causality problem. For instance, if the country has lower tax revenue to G.D.P ratio, could be adversely subsequently the recipient of larger amount of grants.[248]

There are number of reasons that guide and contribute the flow of grants in the developing countries. The best examples are the level of corruption, the status of implementation of macroeconomic and structural policies, and level of development. This means that, on average, external grants tends to substitute for domestic tax revenue mobilizations.[249] In this regard, there is a need to emphasize on revolving of domestic sources of revenue

[244] *Id*.
[245] *Id*.
[246] *Id*.
[247] *Id.*
[248] *Id,* at 16-17.
[249] *Id*.

rather than relying on the aids, grants and loans from foreign donors that accompanying with slight or hard conditions and interests.

It is recommended that, there is a need to increase foreign aid to the low-income countries. Since, there is significant positive impact of aid on tax revenue performance in the countries over the past 25 years (Abhijit Gupta, July, 2007).[250]

In this regard, the rich donor countries have to guarantee their promise of assisting up to 0.7 percent target from their Gross National Product towards the international aid, by doing so; it will ensure the right direction. Apart from that, the donor countries are supposed to monitor the aid flow and make certain for their uses towards the reduction of poverty and infrastructures progresses, in this way will ensure the higher tax revenue generation and future prospect.[251]

In this study, an attempt has been made to investigate and analyse the significant influence or impact of macro-economic policies in Tanzania. Therefore, from 1992 to 2018 the variable of macro-economic policy have a great positive impact on the tax revenue performance in Tanzania, refer Table 15.0 and for the results refer Annexure XVIII, SD_1, SD_2, SD_3, SD_5, SD_7, SD_9, SD_11, SD_12, SD_13, SD_14 and SD_15, respectively.

Regarding these findings, it is recommended that, the Tanzanian government must invest in physical capital, human resources and institutional infrastructures, for the growth in both private sector and sustainable economic development. Also, it's very advisable to strengthen or use our maximum available capacity so as to fund or finance our own public expenditures. Because, the findings indicate that, Tanzania finances 60 percent of the budget, while the remaining 40 percent comes from the external finance, examples, aid, loans, grants, and so on, as our economics especially of developing countries still depend up to 40 percent of revenue from import taxes.[252]

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[250] *Supra* note 90, at 31.
[251] *Id*.
[252] The Bank of Tanzania B.o.T and Ministry of Finance and Planning, (2016-17) *available at* https://www.bot.go.tz/Publications/EconomicAndOperationsAnnualReports/BOT%20Annual%20Report%202016-17.pdf (Last visited on January 04, 2020).

Also, it is suggested to plan and concentrate on achievable projects at a time, at times projects should be planned for the implementation at a particular year even with full knowledge of level of resources in the same year.[253] Apart from the suggestions, the fighting against corruption must be prerequisite matter, since it makes things complicated.[254] Doing the same will enhance the domestic tax revenue collections and performance in Tanzania.

1.19.4.5 Political Stability

The tax revenue performance has a weak relationship with political stability for both low and middle-income countries. However, it has significant for high income countries (Abhijit Gupta, July, 2007).[255]

If there would be an increase in political stability index by one unit, would increase revenue performance by 0.08 percent for low income countries, while for the middle-income countries there would be the effect by 0.07 percent. However, for high income countries, there is negative relationship between political stability and tax revenue performance in developing countries. On the other hand, there is a weak impact between economic stability and tax revenue performance in low income countries only.[256]

Also, when there is strong political will and strong leadership style of management in Sub Saharan African Countries to adopt the necessary measures. Then, the country could achieve both tax reforms and tax mobilizations in the economy (Dhaneshwar Ghura, 1998).[257] It is documented that, so far, the country wants to join in economic integration like that of the East African Community the presence of good institutional quality would lead an economic integration to be conducive to tax revenue mobilization (J.B. Nnyanzi *et al,* 2016). However, the results are contrary from other findings of (Shinyekwa and

[253] Derived from the comments written in the questionnaires number 8 & 10 of the B.o.T staffs, the comments were on questions number 7 of Section D and Section G(c) about the influence of government policies on tax revenue collections/tax base and policies in Tanzania, (Refer to Appendix II & III (pg. 7, and (pg. 21-22 & 20)) respectively, 2018.
[254] Derived from the comments written in the questionnaire number 25 of Z.A.T.I stakeholder, the comment was on question number 13 Section D about the influence of government policies on tax revenue collections/tax base in Tanzania, (Refer to Appendix II & III (pg. 8)) respectively, 2018.
[255] *Supra* note 90, at 22.
[256] *Id*.
[257] *Supra* note 25, at 4.

Mawejje, 2013 and Malugu, 2014) documented the presence of inverse relationship between regional integration and partner's states' tax revenue.[258]

The same results have been agreed by A.Y. Javid and Umaima Arif, who suggested that, there is highly positive impact of institutional quality on revenue collection in South Asian Countries as expected in the years 1984 to 2010. These results support that the quality of institution and governance add to the revenue capacity and this is a direct channel for the impact of institutions on revenue collection. Hence, there is indirect impact that institutions have through shadow economic activity.[259]

From 1992 to 2018 the variable has negative impact on tax revenue performance in Tanzania. Refer Table 20.0 Annexure VK and Annexure XXIII, G_1, G_2, G_3, G_4, G_5 and G_6, respectively for the results.

Regarding this finding, since the Tanzania's political situation is important factor affecting tax revenue performance, stabilizing political will among Zanzibaris,[260] and the good political environment and stability are the prerequisites for the country's growth and must be indispensable objectives, for the enhancement of the tax collection performance in the country. Also, Tanzania Revenue Authority and Zanzibar Revenue Board must be free from the influences by large, medium or small taxpayers against tax revenue system in Tanzania.

[258] J.B. Nnyanzi *et al Regional Economic Integration and Tax Revenue: East African Community*, 31(4) JOURNALS OF ECONOMIC INTEGRATION, 952 (2016) *available at* http://www.jstor.org/stable/44028251 (Last visited on April 18, 2017).
[259] *Supra* note 150, at 373.
[260] Derived from the comments written in the questionnaire number 34 of the Z.I.P.A staff in his recommendations about the best recommended policies to be undertaken so as to raise tax revenue performance in Zanzibar, the comment was on Section G(h) (Refer to Appendix III (pg. 22-23) 2018.

1.19.4.6 Tax Regime

Tax regime is the tax system which comprise three things; tax policy, tax laws and tax jurisdiction or tax administrations.[261] Simply, tax regime consists of tax structure and tax administration.[262]

While tax structure consists of tax base and tax rate, the tax administration entails the whole system like tax policy which entails tax regime or tax system.[263] Hence, tax regime affects tax revenue since it consists of tax structure and tax administration for which failure of one of them affects tax revenue performance of the country.[264] Example, if tax base is lowered from 40 million of turnover to 20 million of turnover, tax revenue will expand. Hence, the performance of tax revenue collections will increase in the country (Table 12.0 Annexure VC, page No: 427-428).

In addition, tax regime affects tax revenue performance of the country when tax administration is not well efficient.[265] Example, if auditing system is not good and corruption is the daily food to the society, if these two things will not be administered well, will affect the tax revenue performance in Tanzania.[266] From 1992 to 2018 tax regime has positive impact on tax revenue performance in Tanzania. Refer Table 17.0 Annexure VH, and Annexure XX, D_1, D_2, D_3, D_4, D_5 and D_6, respectively for the results.

Regarding this finding, it is recommended that, the efficiency in Tanzanian tax administrations must be highly prioritized. Again, there are needs for tax reforms, for examples legal reforms and others taxes reforms to the tax regime of Tanzania.

Similarly, during the tax rate setup, all important parameters, e.g., tax regimes, taxes, tax jurisdictions, tax statuses, tax rates, etc., must be considered by Tanzania Revenue

[261] Interview with Mr. Haji A. Haji, Head of Natural Resources Unit in Oil and Gas, Department of Fiscal and Financial Policies DFFP, Ministry of Finance and Planning Zanzibar (M.O.F.P- Zanzibar) (Zanzibar, October 5, 2018).

[262] *Id.*
[263] *Id.*
[264] *Id.*
[265] *Supra* note 96.
[266] *Supra* note 261.

Authority and Zanzibar Revenue Board. Besides, so as to improve Tanzanian tax regime, they must revise their tax rates periodically (Table 17.0 Annexure VH, Annexure II & III).

1.20 THE NATURE OF THE TANZANIAN ECONOMY

1.20.1 GROSS DOMESTIC PRODUCT

Definitions:

i) G.D.P: "*Gross Domestic Product (GDP) is measured as the value of goods and services produced by resident producers during an accounting period".*[267] This means that: -

ii) G.D.P measure the total value of all products produced within the country for a particular government fiscal year. G.D.P used to measure the overall economy of the particular country either on a long period like yearly basis or on a short period like three months such as First Quarter (January–March), Second Quarter (April–June), Third Quarter (July–September) and Fourth Quarter (October–December).[268]

1.20.1.0 Output

In 2017 the Tanzanian economy has shown a steadily expanding in real GDP growth of 7.1 percent, compared with a strong constantly growth of 7.0 percent for 2014, 2015 and 2016 respectively (Chart 1.0).[269] In 2016 and 2015, G.D.P at constant prices (base year 2007) was Tanzanian Shilling 47.1 trillion and Tanzanian Shilling 44.1 trillion in absolute values, whereas, G.D.P at current market prices was Tanzanian Shilling 103.7 trillion and Tanzanian Shilling 90.8 trillion, respectively. Meanwhile, per capita nominal income had

[267] Tanzania National Bureau of Statistics: Ministry of Finance and Planning, ***Highlights for the Third Quarter (July – September) Gross Domestic Product, 2016,*** **(2016),** ***available at*** http://www.nbs.go.tz/nbs/takwimu/na/HIGHLIGHTS_FOR_THE_THIRD_QUARTER_GDP_2016.pdf **(Last visited on February 27, 2017).**

[268] *Id*, at 2.

[269] Bank of Tanzania, *ANNUAL REPORT 2017-18,* (2018), ***available at*** **https://www.bot.go.tz/Publications/EconomicAndOperationsAnnualReports/BOT%20ANNUAL%20REPORT%2017-18.pdf (Last visited on July 18, 2019).**

improved from Tanzanian Shilling 1.92 million in 2015 to Tanzanian Shilling 2.13 million in 2016.[270]

The per capita nominal income had improved to Tanzanian Shilling 2.27 million in 2017 from Tanzanian Shilling 2.13 million reported in 2016, where GDP in nominal terms, had increased to Tanzanian Shilling 116.1 trillion from Tanzanian Shilling 103.7 billion, respectively.[271] A stability in power supply, the trend of commodity prices in the world market, the ongoing implementation of infrastructure projects and the various others public investments together expected to sustain the GDP growth in the country.[272]

The major contributing sectors of the economy for the years are construction (22.7 (2017), 20.3 (2016)); transport and storage activities (15.6 (2017), 10.8 (2016)); and agriculture, forestry and fishing (10.5 (2017), 6.6 (2016)).[273] All of them had contributed almost the half of the total growth for the year 2017.[274]

Meanwhile, the major sector that contributed to the high growth for the year 2017 are mining and quarrying (17.5 (2017), 11.5 (2016)); water supply, sewerage and waste (16.7 (2017), 4.3 (2016)); transport and storage (16.6 (2017), 11.8 (2016)); information and communication (14.7 (2017), 13.0 (2016)); and construction activities (14.1 (2017), 13.0 (2016)).[275] On the other hand, the services sectors like financial insurance, public administration, transport and storage; and trade and repair had contributed to 37.5 percent of nominal GDP in the country.[276]

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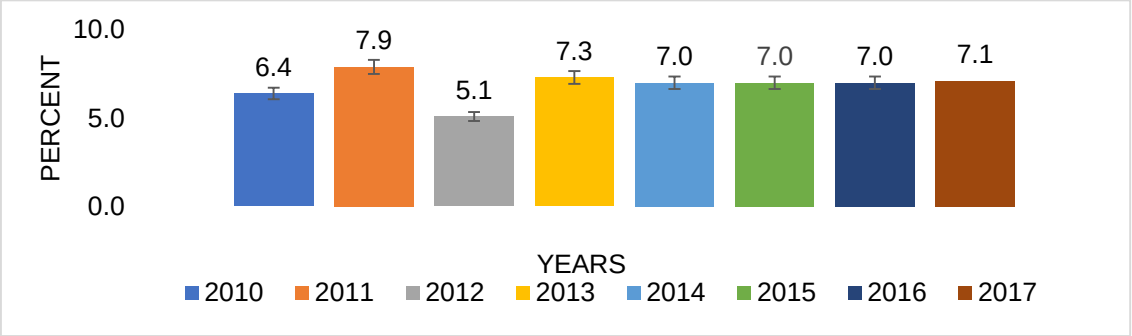
[270] Bank of Tanzania, *ANNUAL REPORT 2016-17,* (2017), ***available at*** **https://www.bot.go.tz/Publications/EconomicAndOperationsAnnualReports/BOT%20Annual%20Report%202016-17.pdf** at 9 **(Last visited on December 17, 2018).**
[271] *Id*, at 8.
[272] *Id.*
[273] *Id*.
[274] *Id.*
[275] *Id.*
[276] *Id*.

Chart 1.0: Tanzanian Real GDP Growth (2010-2017)



Source: (Own creation from (B.o.T), ANNUAL REPORT (2018)).

1.20.2 ZANZIBAR'S ECONOMIC DEVELOPMENTS

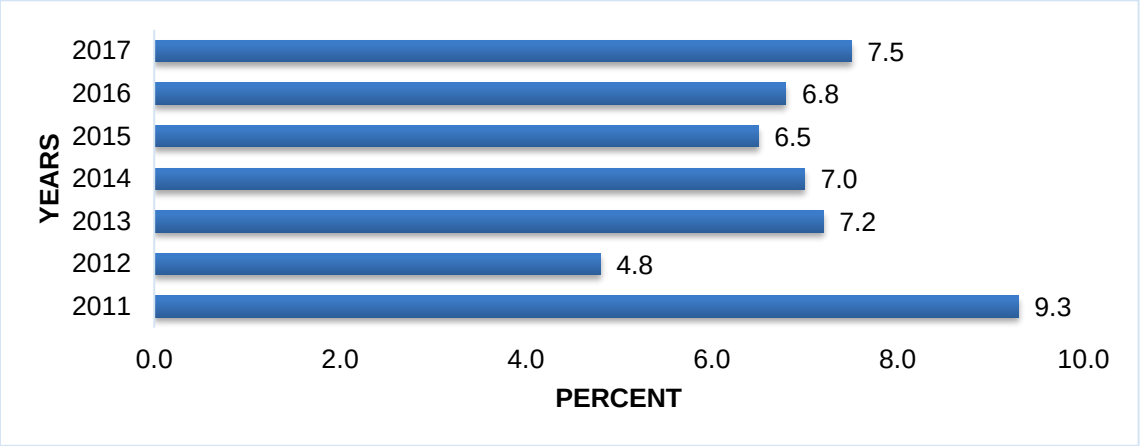
The Zanzibar economy grew up by 7.5 percent in 2017 relative with 6.8 percent in 2016 (Chart 2.0).[277] The economic performance was mainly contributed by accommodation and food services (36.1 (2017), 11.2 (2016)); crops (23.5 (2017), 12.6 (2016)); and manufacturing (13.5 (2017), 7.5 (2016)).[278]

The sectors that contributed to the high growth rates were mining and quarrying (5.9 (2017), 4.4 (2016)); arts, entertainment and recreation (1.8 (2017), 0.5 (2016)); accommodation and food services; crops activities; and administrative and support services.[279]

Again, GDP in nominal terms reported from Tanzanian Shilling 2,628.4 billion in 2016 to Tanzanian Shilling 3,099.3 billion in 2017 accounted by 45.7 percent; (27.9 percent); and 17.0 percent for services activities, agriculture, forestry and fishing; and industry, respectively.[280] In this regards, per capita nominal GDP grew up from Tanzanian Shilling 1.8 million in 2016 to Tanzanian Shilling 2.0 million in 2017.[281]

[277] *Id*, at 27.
[278] *Id.*
[279] *Id.*
[280] *Id.*
[281] *Id*.

Chart 2.0: Zanzibar Real GDP Growth Rate (2011-2017)



Source: (Own creation from O.C.G.S Zanzibar, 2017).

Regarding the above statistical analysis, the findings in this research indicate that, G.D.P Per Capita has positive impact on tax revenue performance in Tanzania (Table 14.0, Annexure VE). Hence, it is the potential determinant of tax revenue performance in Tanzania (Table 14.0, Annexure VE).

In this regard, since, G.D.P is the best measure of the wealth of the nation, it is recommended that, the minimum Per Capita real G.D.P in Tanzania (990,688.0 Million of Tanzanian Shilling)[282] must be raised up for the better tax collections performance in the country (Table 14.0, Annexure VE).

1.20.3 TAX RATE

Tanzania Revenue Authority is the body that monitor both direct and indirect taxes and duties at a glance 2017-2018 such as direct taxes and duties e.g. corporation tax, withholding tax, capital gains on disposal of investment asset, etc.[283] and indirect taxes and duties are VAT, stamp duty, import duty, excise duty, etc.[284]

Table 3.0[285]: Direct and Indirect Taxes and Rates.

[282] *Supra* note 209.
[283] TANZANIA REVENUE AUTHORITY: TAXES AND DUTIES AT A GLANCE 2017-2018, 2-22 (July, 2017).
[284] *Id*.
[285] TANZANIA REVENUE AUTHORITY: TAXES AND DUTIES AT A GLANCE 2017-2018, 2-22 (July, 2017) *DIRECT AND INDIRECT TAXES AND RATES* (table) 2018.

A. DIRECT TAXES		TAX RATES	
No.	TAX SOURCES	RESIDENT	NON-RESIDENT
1.	Corporation Tax:		
a)	Tax rate on total income of the corporation.	30%	30%
b)	Corporation with perpetual unrelieved losses for 3 consecutive years (excluding corporation of agricultural business, education or provision of health).	0.3% of annual turnover	N/A
c)	Newly listed corporation to the Dar es Salaam Stock Exchange DSE, with at least 30% of its equity ownership issued to public for 3 consecutive years from the date of listing.	25%	25%
d)	A corporation with a newly established plant for assembling motor vehicles, tractors, fishing boat or out boat engine and having a performance agreement with a government of URT for the five first years from commencement of production.	10%	N/A
e)	Total income of a Domestic Permanent Establishment.	N/A	30%
f)	Repatriated income of a branch owned by a non-resident person (Branch remittance).	N/A	10%
2.	Withholding tax on:		
a)	i) Dividends from DSE listed corporations.	5%	5%
	ii) Dividends from resident corporation to another resident corporation where the corporation receiving the dividend holds 25% or more of the shares in the corporation.	5%	N/A
b)	Dividends from other corporations.	10%	10%
c)	Commission on money transfer through mobile phones.	10%	N/A
d)	Interest.	10%	10%
e)	Royalties.	15%	15%
f)	Management and Technical services fees (mining, oil and gas).	5%	15%
g)	Transport (Non-resident operator/charterer without permanent establishment).	N/A	5%
h)	Rental Income: Land and building	10%	10%
	Aircraft lease	10%	15%
	Others assets	N/A	15%
i)	Transport across borders.	N/A	5%
j)	Insurance Premium.	N/A	5%
k)	Natural Resources Payment.	15%	15%
l)	Service Fees.	5%	15%
m)	Director's Fees (Non-full time Directors)	15%	15%
n)	Payment for goods supplied to Government and its institutions by any person.	2% of gross payment	N/A
o)	Withholding income tax on sale of minerals (Small miners).	5%	N/A
p)	Other withholding payments.	15%	15%
B:	**INDIRECT TAXES**		

3.	(VAT)	
	VAT registration threshold: . Taxable turnover exceeding TZS 100 million per annum. **Mandatory registration** . A registered professional is required to register regardless of taxable turnover. . A government entity or institution which carries on economic activity.	
	VAT Rates	
	Description of goods/supplies and services.	**VAT rates**
	Supply of taxable goods and services in Mainland Tanzania.	18%
	Importation of taxable goods and services into Mainland Tanzania.	18%
	Export of goods and certain services from the URT.	0%
	Exemptions Exempt supplies and imports are provided in the Schedule to the VAT Act, Cap 148. r/w. Finance Act, 2017. **Note: International Transport Services is zero rated.** A supply of ancillary transport services of goods in transit through Mainland Tanzania include: - i) An integral part of the supply of an international transport service. ii) In respect of goods stored at the port, airport or a declared customs area for not more than thirty days while awaiting onward transport.	
	VAT Returns and Payments:	
	Local Supplies: The 20th day of the month after a tax period. However, if the 20th day falls on Saturday, Sunday or Public holiday, VAT return shall be lodged on the first working day following a Saturday, Sunday or a Public holiday.	
	Imports: At the time import duty is due and payable in accordance with East African Community Customs Management Act, 2004.	
	Note: Every VAT registered person is required to use the Electronic Fiscal Device (EFD).	
4.	**Stamp Duty**	
	Items	**Rate**
	i) Conveyance	1% of consideration
	ii) Conveyance for agricultural land	TZS 500/=
	iii) Legal and commercial instruments are charged at specific rates as specified in the law.	
	Exemptions i) Receipts on sales of goods and services for business. ii) Transfer of ownership of assets to the Special Purpose Vehicles SPV for purpose of issuing asset-backed securities.	
	Note: Due dates is within 30 days from the date an instrument is executed.	

Source: (Tanzania Revenue Authority, July, 2017).

Table 3.0 depicts both direct and indirect taxes and rates in Tanzania, where 18 percent is the VAT rate for supply of taxable goods and services in Mainland Tanzania and

importation of taxable goods and services into Mainland Tanzania. Regarding the rate, the findings show that, tax rate appears to have a strong long-run positive influence or relationship with tax revenue performance in Tanzanian economy (Table 10.0).

Such that, the result indicating that, an increase in tax rate would increase in the ratio of total tax revenue over G.D.P. This implies that in the long-run, an increase in tax rate for V.A.T in Tanzania would increase the ratio of total tax revenue over G.D.P (Table 10.0). Therefore, the tax rate is the potential determinant of the tax revenue in Tanzania.

In this sense, it is recommended that, the 18 percent V.A.T tax rate should not be increased, thus it should remain unchanged. This is because, V.A.T is one type of an indirect consumption tax, such that, it is charged upon purchasing of commodities by final consumers.

In this regard, it will cost every one of the citizens if it will be increased, say from 18 percent to 20 percent, since it's regressive in nature.[286] Hence, it is very good recommendation to remain as it is. Since, if it will be increased, it will add more inflation within the country, hence the rising of prices of goods and services will be reported in the land.

1.20.4 TRADE IN TANZANIA

A surplus of United State Dollar 627.8 million reported during 2017-18 in the overall Balance of Payments[287] of Tanzania relative with a surplus of United State Dollar 1,202.5 million reported in 2016-17. For the year 2015-16, a deficit of United State Dollar 368.3 million was reported in the country.[288] The reason of declining in surplus performance is

[286] *Supra* note 148.

[287] B.O.P is the record of all international trade (import and export of goods and services) and financial transactions made by a country's residents (See: K.C. Gopalakrishnan and Ramdass, ECONOMICS FOR LAW STUDENTS: PRE-LAW EDUCATION SERIES 467 (N.R. Madhava Menon. *et al* eds., ISBN: 81-7012-426-3, EBC Publishing Pvt. Ltd. 34, Lalbagh, Lucknow, 1998), and Balance of Payment, (2019) *available at* https://www.thebalance.com/what-is-balance-of-payments-components-and-deficit-3306278, (Last visited on December 16, 2018).

[288] *Supra* note **270**, at 23.

the rising in imports relative to the export's growth.[289] Both were caused by an increase in payments under the primary income account, mostly driven by the interest payments.[290]

For the year 2017-18, the value of goods exports increased by 3.3 percent to United State Dollar 5,093.8 million headed by traditional goods exports.[291] On the other hand, the value of goods imports raised by 3.2 percent to United State Dollar 7,954.0 million in 2017-18, improved by all goods import categories, headed by consumer goods.[292] From 2016 to date the trade direction in Tanzania show that, more than 73 percent of Tanzania trade was focused in ten countries. For the year 2017-18, India and South Africa were the majors for Tanzania's exports constituted 40 percent of the same, while China and India constituted 34 percent of the Tanzanian imports.[293]

Around 44 percent of the country's exports were destined to Switzerland, India and South Africa whereas 39 percent of the imports originated from China and India. Consider Table 4.0[294] with a list of the top 10 country's trading partners and their shares in the total trade.

Table 4.0: Tanzanian's Trade Direction in 2017-18.

Imports-Major Origins		**Exports-Major Destinations**	
Country	**Percentage**	**Country**	**Percentage**
China	19.3	India	23.5
India	15	South Africa	16.7
UAE	7.6	Vietnam	7.5
Saudi Arabia	6	Kenya	7
South Africa	5.3	Switzerland	6.3
Japan	5.3	Belgium	4.6
Germany	3	DRC	3.7
Switzerland	2.6	China	3.4
United States	2.6	UAE	2.1
Kenya	2.6	Comoros	2.1
others	30.7	others	23.1

[289] *Id.*
[290] *Id.*
[291] *Id,* 23.
[292] *Id,* 24.
[293] *Id,* 25.
[294] **Bank of Tanzania and Tanzania Revenue Authority (2018), *Direction of Trade in 2017-18*** (table) ***available at*** **https://www.bot.go.tz/Publications/EconomicAndOperationsAnnualReports/BOT%20Annual%20Report%202017-18.pdf (Last visited on July 18, 2019).**

Source: (Own Creation From B.o.T and T.R.A (2018)).

Regarding the above analysis of the trade in Tanzania, in this study, the ratio of trade to G.D.P appears to have a strong long-run positive relationship with tax revenue in Tanzania. This implies that, the ratio of trade to G.D.P have had a strong long-run positive impact with tax revenue in Tanzania for the years 1992 to 2018.

The implication is that, in the long-run, the increase in the ratio of trade to G.D.P especially for major commodity groups in Tanzania will lead to increase the performance of tax revenue in the country (Table 10.0). Therefore, the ratio of trade to G.D.P is the major determinant of tax revenue in Tanzania.

In this regard, it is recommended on more openness of exportation and importation of goods and services especially for the major commodity groups in Tanzania, with affordable trade terms, less bureaucracy and allowing trade liberalization in Tanzanian economy (Table 10.0).

1.20.5 POPULATION IN TANZANIA

Since 1964, the fifth Population and Housing Census for United Republic of Tanzania was carried out on 26th August, 2012. The previous Censuses were conducted in 1967, 1978, 1988 and 2002.[295] The major target of these Censuses is to contribute in improvement of Tanzanian's quality of life by providing the current and reliable data for the development planning, policy formulation, services delivery as well as for Monitoring and Evaluation of the national and international development frameworks.[296] From Population and Housing Census of 1967 to that of 2012, the Tanzanian's population has grown from 12,313,469 persons to 44,928,923 persons, respectively (Figure 2.0).[297]

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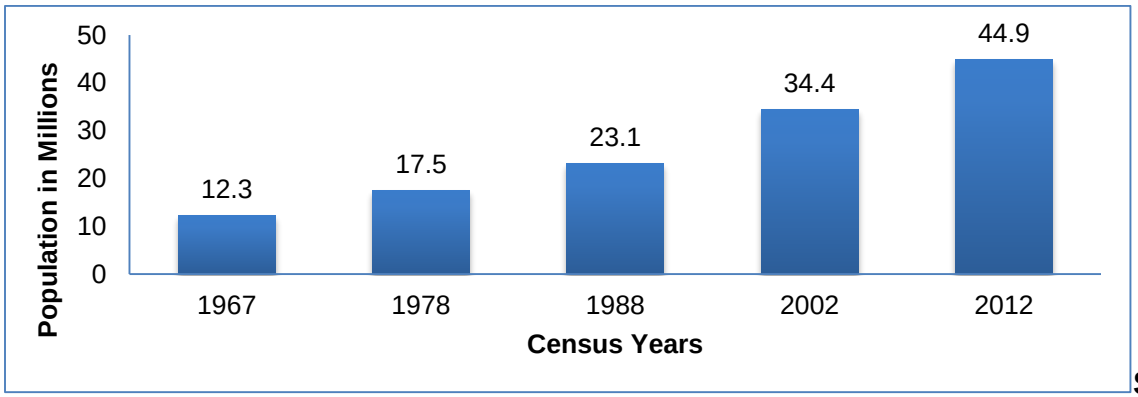
[295] National Bureau of Statistics; Ministry of Finance; Dar es Salaam and Office of Chief Government Statistician; President's Office, Finance, Economy and Development Planning Zanzibar, *Population Distribution by Administrative Areas,* (March, 2013), ***available at*** **https://www.nbs.go.tz/nbstz/index.php/english/about-us/cooparate-information/annual-reports/298-population-growth-size-and-distribution (Last visited on December 17, 2018).**

[296] *Id.*

[297] National Bureau of Statistics; Ministry of Finance; and Office of Chief Government Statistician; President's Office, Finance, Economy and Development Planning Zanzibar (March, 2013), *Population Trends in Tanzania, 1967 – 2012 Censuses* (Figure) ***available at*** **https://www.nbs.go.tz/nbstz/index.php/english/about-us/cooparate-information/annual-reports/298-population-growth-size-and-distribution (Last visited on December 18, 2018).**

Figure 2.0: Population Trends in Tanzania, 1967–2012 Censuses.



Source: ((N.B.S), (M.O.F.P), (O.C.G.S) & (P.O.F.E.D.P) Zanzibar, (March, 2013)).

Figure 2.0 illustrates the population trends in Tanzania from the Censuses of 1967 to 2012. It depicts clearly that; the Tanzanian's number of persons has grown up for 12.3 million in 1967 to 44.9 million in 2012 that considered to be more than triple than expected.[298] It's clearly depicts that, the ongoing population trends have potential impacts to the tax collection performance in the country, consider the results under Table 10.0 and Figure 15.0 for the same.

Regarding the above statistics, a third finding of this research indicates that, population in the long-run has strongly significantly positive relationship with tax revenue in Tanzania. This implies that, for the years 1992 to 2018 population had strongly long-run significantly positive impact with tax revenue in Tanzania. This implies that, in the long-run, the increase in population in Tanzania will boost tax revenue performance in the territory (Table 10.0).

Regarding this variable, it is recommended that, the Tanzanian population should increase during the coming decades so as to enhance the capacity to pay and collect taxes with the increasing the level of population in the country. However, the increasing the level of population in Tanzanian must be accompanied with the increasing individual's economic levels and their purchasing powers.[299]

[298] *Id,* at 1.
[299] *Supra* note 160.

1.20.6 TANZANIAN'S PUBLIC FINANCE

Towards attaining the middle-income status by 2025, poverty reduction and transforming Tanzania into an industrial economy. The budget year 2017-2018 a lot of measures have been undertaken by the government of Tanzania to ensure attainment of the goals.

Among the measure is to strengthen the tax administration, compliance, and enhancement of the expenditure management in line with the Budget Act, 2015.[300] Similarly, the Tanzanian government had issued the Blueprint for Regulatory Reforms to improve the Business Environment including the legal and regulatory framework.[301]

1.20.6.0 Government Revenue and Grants

In the fiscal year 2017-2018, there were a good and sustainable performance of Tanzania government revenue comprised from the collections by central and Local Government.[302] At about Tanzanian Shilling 17,944.9 billion, of the domestic government revenue and the Local Government own-sources have been collected which is equal to an increasing by 7.8 percent, compared about Tanzanian Shilling 16,639.8 billion reported in 2016-17.[303]

The tax revenue was equal to Tanzanian Shilling 15,091.8 billion equivalent to 12.7 percent of G.D.P, compare with the non-tax revenue that was equal to Tanzanian Shilling 2,311.6 billion, equivalent to 1.9 percent of GDP of the fiscal year 2017-2018 (Chart 3.0).[304] On the other hand, the external grants for the year reported to Tanzanian Shilling 930.6 billion, where by Tanzanian Shilling 566.2 billion was for project grants and Tanzanian Shilling 117.2 billion for basket funds.[305]

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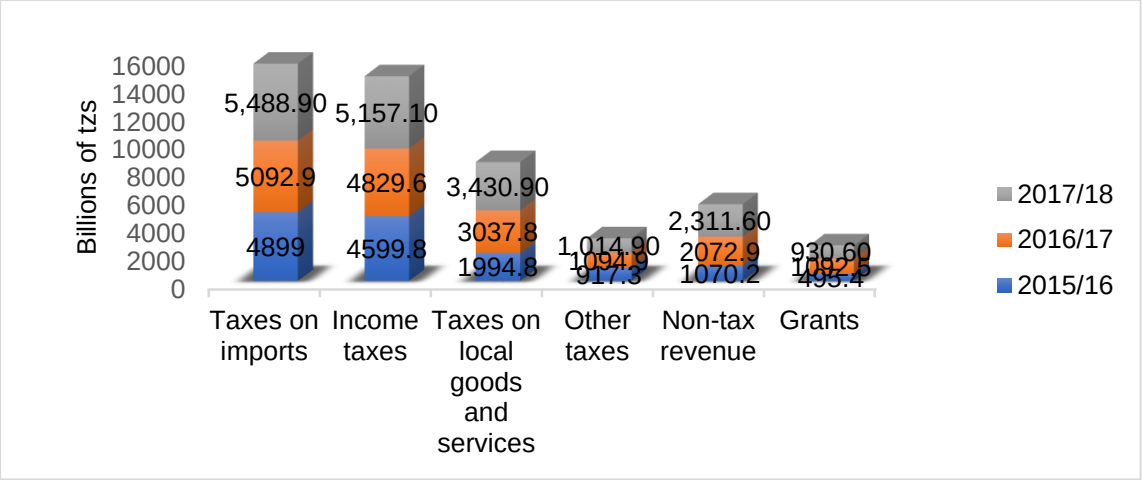
[300] *Supra* note **270**, at 19.
[301] *Id.*
[302] Bank of Tanzania and Ministry of Finance and Planning-Tanzania (2018), *Government Resources* (Chart 4.1) ***available at*** **https://www.bot.go.tz/Publications/EconomicAndOperationsAnnualReports/BOT%20Annual%20Report%202017-18.pdf (Last visited on July 18, 2019).**
[303] *Id.*
[304] *Id.*
[305] *Id.*

Chart 3.0: Government Resources (2015-2018).



Source: ((B.o.T) and Ministry of Finance and Planning-Tanzania, 2018).

1.20.6.1 Government Expenditure

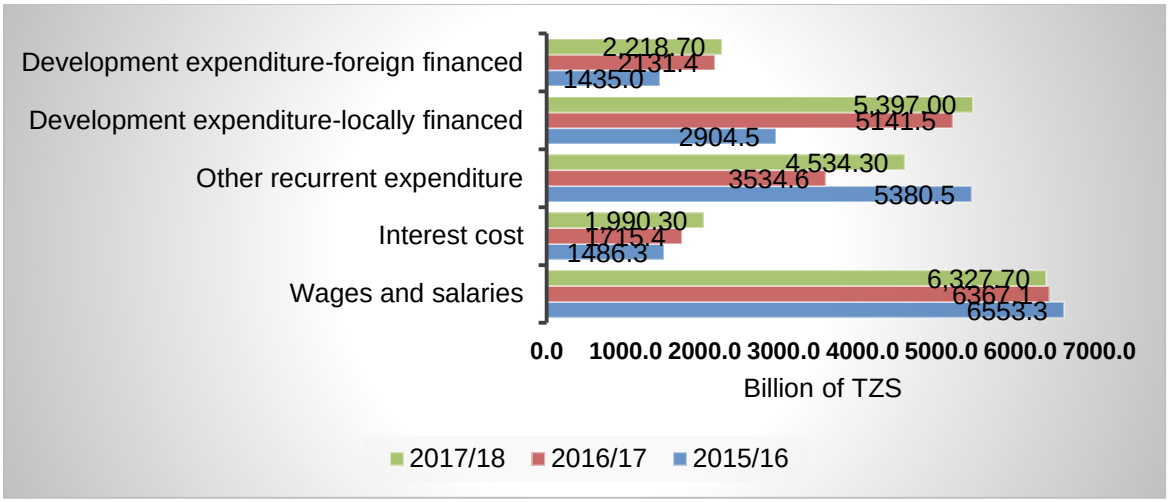
In support of economic growth and poverty reduction in Tanzania, the government has constantly aligned the expenditure with available resources. In 2017-2018, expenditure by government recorded to 17.2 percent of GDP equivalent to Tanzanian Shilling 20,468.1 billion, where by during 2016-2017, expenditure by government recorded to 18.4 percent of GDP equivalent to Tanzanian Shilling 19,657.4 billion.[306]

Recurrent expenditure and development expenditure were Tanzanian Shilling 12,852.3 billion and Tanzanian Shilling 7,615.8 billion respectively, where by 70.9 percent was funded by local sources (Chart 4.0).[307]

[306] Bank of Tanzania and Ministry of Finance and Planning-Tanzania (2018), *Government Expenditure* (Chart 4.2) ***available at*** **https://www.bot.go.tz/Publications/EconomicAndOperationsAnnualReports/BOT%20Annual%20Report%202017-18.pdf (Last visited on July 18, 2019).**

[307] *Id.*

Chart 4.0: Government Expenditure (2015-2018).



Source: ((B.o.T) and Ministry of Finance and Planning-Tanzania, 2018).

1.20.6.2 Financing

In the fiscal year 2017-2018, the government ran under a budget deficit of Tanzanian Shilling 2,300.7 billion, equivalent to 1.9 percent of GDP, relative with a budget deficit of Tanzanian Shilling 1,594.1 billion, equivalent to 1.5 percent of GDP of previous year.[308] The deficit was largely sponsored by both foreign and domestic borrowing of Tanzanian Shilling 1,702.1 and Tanzanian Shilling 598.6 billion, respectively.[309] During 2016-2017, the government made a net inland repayment of Tanzanian Shilling 110.9 billion.[310]

Regarding the existence of budget deficit problem in Tanzanian economy. This research recommend on the following: first, the government have to reduce the Required Reserves Ratio from commercial banks, lowering the Discount Rate from the loans pursued by the banks, and finally buying more government bonds from the general public so as to release more funds to them for the enhancement of domestic Tanzanian economic activities (Table 30.0, Annexure VP).

On the other hand, in order to solve the problem, the government is recommended to increasing government expenditures and lowering taxes using the instrument of

[308] *Id,* at 19.
[309] *Id.*
[310] *Id.*

expansionary fiscal policy. Doing the same, will enhance economic activities, create jobs among the citizens, increasing money and trade circulations, hence increasing capacity for population to pay and collect taxes within the economy (Table 30.0, Annexure VP).

Second, so far Tanzania depend more on tax receipts from importation of goods and services rather than export taxes, the exchange rate would have positive significant relationship with the ratio of total tax revenue. In this regard, for the domestic tax revenue to be improved in the country, the imposition of tax receipts from import should be appreciated rather than export taxes.

Therefore, the country should not overvaluation of the real effective exchange rate by contractionary financial policies, this is due to the fact that, by doing so, the expectation would be the reduction of the tax revenue performance because of the adversely affect towards the overall economic activities. For more information about the policies refer Annexure II and III (pg. 21-22 & 20), respectively. Doing the same would enhance the domestic tax revenue collections and performance and avoiding deficit in Tanzania.