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**The Economist Review  
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**Better Policies for Better Socio-Economic  
Development**

# TAX REFORM AND POLICY PLANNING

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## **What's next for Tanzania Economy?**

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# Introduction

This study focus on address efficiency and effectiveness of tax incentives from tax reform and its policy planning in Tanzania, Aim is to examine the causal relationship between tax incentives on attracting domestics and foreign investors, tax incentives on stimulating small business growth, tax incentives on sustainability of industrial development, magnitudes of tax burdens and its investment, magnitude of tax burden on small business levels of income, magnitudes of tax burden on macro-economic growth. A total number of 450 respondents were chosen both from public and private sectors.

The methodology adopted in this study is mixed approach where by both qualitative and quantitative data were collected, for a qualitative study, in depth interview with key informants were conducted. The results found from a qualitative suggested that there should be tax reform and its policy planning to allow economic growth general.

Furthermore, for the quantitative study a survey questionnaire was employed, and data analyzed by STATA and SPSS. The quantitative also found significant direct and positive effects on tax burden on attracting domestics and foreign investors and small business growth.

## **Tanzania is among of the top ten countries in Africa with highest corporate tax rates.**

Due to multiple expected development benefits, through tax reformation and policy planning to foreign investors will attracting foreign direct investment (FDI) which has been a key objective on sustainable industrial development and economy growth general although this is not the only factors, find out more on details below.

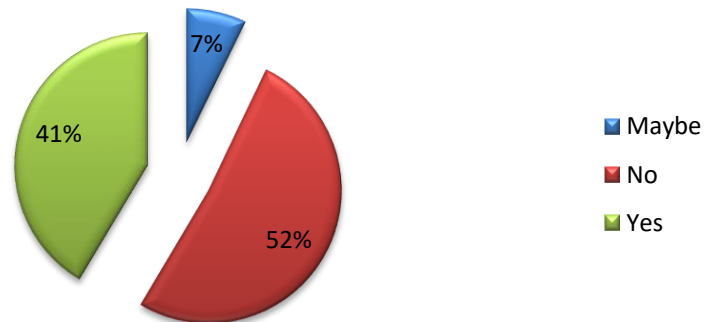
Therefore, in order to attract FDI which is very important on brings foreign currencies governments have to offer various incentives, including fiscal incentives such as reduced corporate tax rates, financial incentives such as grants and preferential loans, and monopoly rights with the possibility of neighboring countries engaging in harmful competition the so called race to the bottom.

Tax reform and policy planning prove to be positive affect economic growth and development, where by tax resources are much needed to finance investments in infrastructure, education or health. Currently our tax incentives are not effective in attracting which lead to poor investment climate in our country such as political instability, inadequate public infrastructure, or corruption. Moreover, revenue gained through tax reform and policy planning may be justified by the positive effects on economic growth but also will ultimately increase income tax base.

Inflation can be both beneficial to economic recovery and, in some cases, negative. If inflation becomes too high, the economy can suffer; conversely, if inflation is controlled and at reasonable levels, the economy may prosper. With controlled, lower inflation, employment increases. Consumers have more money to buy goods and services, and the economy benefits and grow. However, the impact of inflation on economic recovery cannot be assessed with complete accuracy. Hence the government should be doing market intervention to regulate economic stability.

## Results

### Government evaluate the level of tax burden.

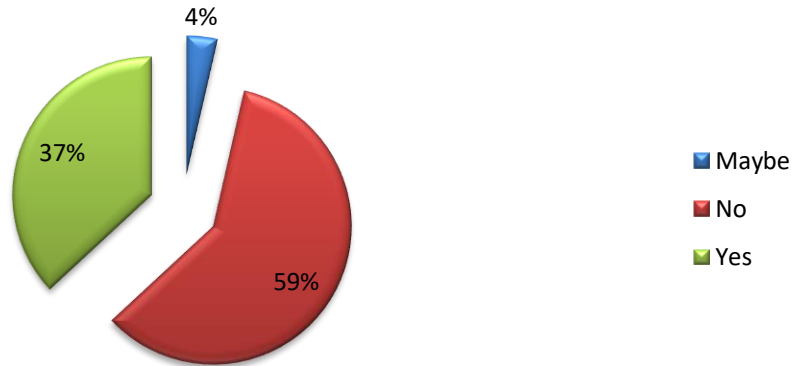


Source: TICGL Economic Research and Data Development Center-2022

Findings shows that 52% of the respondents respond to “NO” on government evaluation the level of tax burden, while 41% responds to “YES” the government evaluate the level of tax burden and 7% responds to “MAYBE”. Through government evaluation of tax burdens will help to improve small business sustainability and attracts investors for both domestics and foreign.

Despite the government of Tanzania imposing different tax reforms strategies to favor and increase accountability of tax payers both local and foreign, still the systems lacks proper management and neutrality on implementation. As a government Tax reforms should not only be made aiming on collection of high revenues from the society but imposing a sense of self awareness and willingness of tax payers to cooperate and be happy with environment of business, Not just implementing new tax bases, new tax rates, high import duties, and more government charges. Therefore the Government should consider Tax reforms that will enable Tax payers to willingly participate and contribute without holding on loopholes to avoid tax, rather than simplifying the tax system and providing fiscal incentives to both the government and all taxpayers.

**Tax burden on business income differs by firm size, age , industrial sector or location.**

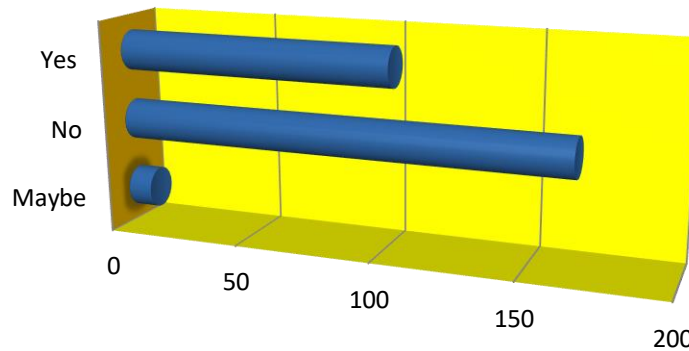


Source: TICGL Economic Research and Data Development Center-2022

Finding shows that 59% of the respondents responds on “NO” to tax burden on business income differ by firm size, age of the business, industrial sectors and location of the business or investment, while 37% responds to “YES” and 4% responds to “MAYBE”. Our previously study was about challenges and opportunities confronting small business and one of our findings was about most of the business die within a year of starting business, actually half of the business dies below age of five years. And one of the main challenges was a tax burdens, our currently tax burdens does not show to differ based on business income, locations or age of the business.

Government is used to ensure economic and financial stability in an economy. Economic stability is the absence of excessive fluctuations in the economy, whereas financial stability can be achieved by efficient allocation of resources by appropriate policy making. For example, an increase in direct taxes will reduce the money available with the people to purchase goods and services and will, in turn, help to reduce inflation. On the other hand, increase in public expenditure during depression helps to increase demand for goods and services, which is otherwise very low during periods of depression

**Tax system treat foreign and domestic investors neutral**



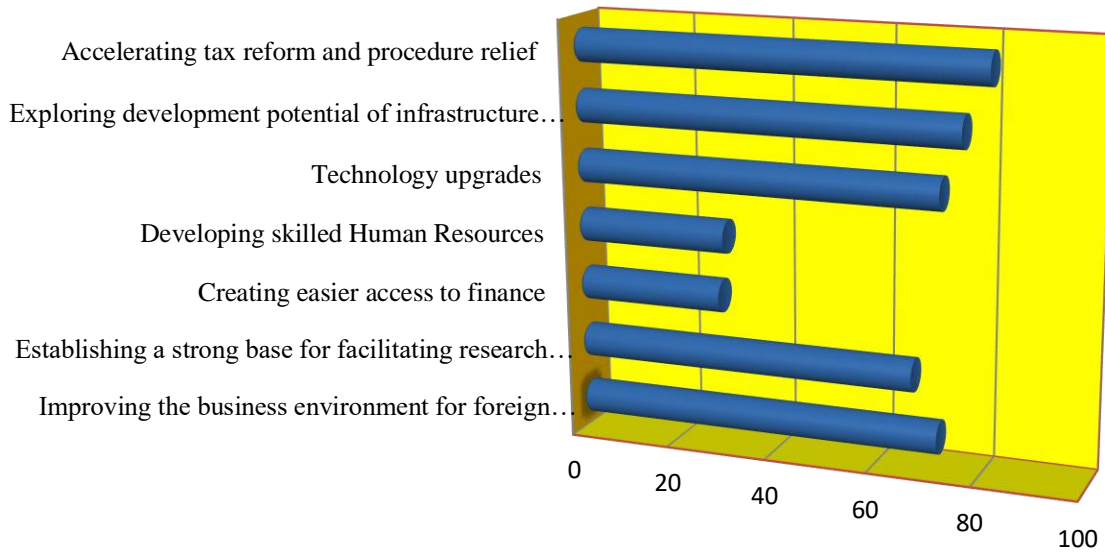
■ Tax system treat foreign and domestic investors neutral

Source: TICGL Economic Research and Data Development Center-2022

The findings shows that with an average of more than 150 of the respondents respond NO, this disagreement based on tax management system on treatment for both foreign and domestic’s investors equally on the issues concerned about tax evaluation and estimations. While more than 85 of the respondents respond to YES on tax management systems treat both foreign and domestics equally. Fear treatment for both foreign and domestic investors concerned on tax management will help to attract more investors, especial foreign investment bring more foreign currencies which are good on balance of payments and economic development general.

The government has endorsement on such foreseen events like wars which cause distortion of economic structure thus on such matters the government instead of focusing on imposing more tariffs and constantly forcing the tax payers to keep on paying same amount of tax is such a bad move. Yes the government has a budget which need to be covered from Tax revenues but abolishing some taxes which are charged on same production or good or service can motivate the Tax payers to collaborate in paying taxes. i.e On one product a government impose many charges which at the end transfer the burden to final consumers so instead of government to charge constant taxes it can reduce the rate or abolish some of the charges. On such unforeseen events we all must be affected not just the final consumers but the government should also be willingly to lose some revenues until proper means are inserted.

**Strategies Tanzania needs to promote and accelerate for inclusive and sustainable industrial development**



Source: TICGL Economic Research and Data Development Center-2022

The finding shows that with the average of more than 80 of the respondents respond on through accelerating tax reform and procedures relief will accelerate inclusive and sustainable industrial development, tax reform will be both include well evaluated and complies with industrial income, industrial size, age of the industrial, nature of the products produced and location of the industrial. But also with average of more than 70 of the respondents respond on exploring development potential of infrastructure for industrial use, this will include roads and market places. More than 65 of the respondents respond on technology upgrades and establishment of strong base for facilitating research, development and innovation.

It's true that taxation help in economic growth of our country, but the existing tax laws does not measure the weight of tax burden between people with low income and those with high income which led to massive suffering to the people with low income. Therefore, the government should make reform on the existing tax laws to reduce the existing problem of tax burden and set friendly environment to the taxpayers through meeting with the revenue authority so they can address challenges faced by them in conduct of their activities instead of the authorities to use force in tax collection process.

# Face of Facts

## Why tax reform and planning

- Government needs to reform their taxes and policies for his Economic to ensure people can pursue new ideas and business ventures, create new opportunities for workers, realize upward mobility, and work toward greater financial security. Further, the tax reforms would simplify the tax code, create resilience against uncertainty and higher inflation, and increase the global competitiveness of the Tanzania by attracting investment. Prioritizing economic growth and opportunity will lead to an environment where many of today's challenges from inflation and the national debt to the need for clean energy and affordable housing can be addressed.
- Business Tax Reforms, better cost recovery for capital investment, implementing full expensing for short-lived capital investments and indexing the depreciation schedules for buildings and factories would remove tax and inflation penalties from investments in physical assets, encouraging more investment to benefit workers and businesses.
- Research & Development expenses, reversing the penalties and simplifying the R&D tax credit so smaller businesses, start-ups, and entrepreneurs can effectively use the credit, will incentivize continued innovation.
- Maintain a competitive corporate tax system, the Tanzania corporate tax rate of 30 percent ranks slightly above the OECD average of 22.7 percent. As country continues to compete for international investment, the Tanzania should strive to maintain a competitive corporate tax rate. Similarly, the Tanzania should reduce and simplify international tax rules to be consistent with rules found in other industrialized countries.
- Remove the double taxation of corporate income, shareholder taxes on capital gains and dividends are layered on top of corporate taxes. Many countries have reduced the double taxation of corporate income by more fully integrating the individual and corporate tax codes, which reduces distortions, lowers the cost of capital and encourages investment.



- Clean up the structure of the business tax code, it is possible to raise large amounts of tax revenue while cleaning up the structure of the business tax code by eliminating unsound business tax expenditures. The additional revenue can offset the cost of other improvements to the business tax code while simplifying taxes for businesses.
- Return to competitive, free trade policies, removing the tariffs, which have created higher prices for Tanzania consumers and businesses, is another way to ensure industries remain competitive and consumers and businesses do not face disadvantages compared to others around the globe.
- Individual Income Tax Reforms. streamline social benefits: The complicated nature of today's tax credit system presents an opportunity for reforms to simplify the filing process for taxpayers and administrators by consolidating child-related benefits into one provision and work-related benefits into another.
- Remove tax barriers from personal saving, just as Tanzanian enjoys the benefits of saving for retirement, they should also be able to save for any purpose e.g. finance education, housing, a new business venture, or career transition without getting penalized for it. Savings accounts would apply the proper tax treatment to saving in general, with only one layer of taxation at the time of either contribution or withdrawal.
- Clean up the structure of the individual income tax code, it is also possible to raise large amounts of revenue while cleaning up the structure of the individual tax code, resulting in a simpler, more neutral tax system across households. The revenue raised can be used to offset the cost of individual tax reforms, including permanent reductions of marginal tax rates.
- Inflation index features of the tax code not indexed for inflation, several individual income tax parameters remain unindexed for inflation, meaning higher levels of inflation can artificially increase individual tax burdens. Better inflation indexing across the individual income tax code will ensure the tax code is structured to account for inflation, though the income tax system itself is inherently prone to inflation-related issues.

## **Ways to strengthen our tax management systems and how to increase the number of taxpayers in our current economy situation**

- Reducing and eliminating TRA bureaucracy procedures in making tax decisions. Tax laws and regulations clearly guides on the duties and rights of taxpayers and these ought to be smoothly granted as required. Refunds, remissions, exemptions and the related should be swiftly granted given all conditions and/or requirements are met.
- Formulate a system that will integrate tax payers and eventually put in place a system to provide tax incentives to taxpayers including employees with multiple business streams as an encouragement to improve their businesses.
- Ensuring convenience and transparency in collection process, this will eliminate loopholes used by both tax payers and those entrusted with collection to avoid paying taxes, evade taxes and steal by reducing the assessed tax amount in exchange for money.
- The government can widen its tax base by infusing capital and invest on potential sectors like mining's and agriculture activities which have potential to produce employment and stimulate businesses both of which will widen the tax base
- Emphasis on tax education through seminar and trainings so as to enable voluntary compliance.
- Revising tax laws and regulations so as to change those clauses that provide loopholes for tax evasion and tax avoidance.
- Encouraging digital changes likely on recent e-filing system so as to make tax administration much easier that result into compliance and more tax revenue.
- **Encourage establishment of new businesses**
- Formalization of informal sector and building external controls to ensure such individuals/entities stay within the system and contribute to public revenue through tax payments.
- More emphasize on use of electronic channels for simple transactions such as internet portals and mobile payment options and ATMs
- Reinforcing collections from large outstanding tax debts.
- Focus resources on improved auditing, processes and tools to curb tax frauds and corruptions.

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## **What should do to cope with the current economic downturn which led to rising cost of living:**

- Extension of tax credits and incentives, for instance removal or reduction of VAT charges and double taxation on transportation of petroleum products so as to curb down recent petroleum inflated prices.
- Encouraging rules permitting flexibility of the labor market this only can be done when the government reduce the amount of taxation from the business, this will brings more money to the business, and hence business grow, as a business grow will later hence increase employment opportunities
- Government should build friendly environment that will speed-up of administrative procedures regarding to company or business registration, public procurement, tendering rules and initiating construction works (including building permits for large infrastructures).
- Improving international and diplomacy relationship to enable easy flow of foreign direct investment (FDI).
- Reformation of fiscal policy through;
  - ✓ Expansionary fiscal policy that is cuts in payroll taxes such as PAYE and SDL
  - ✓ Increasing investment spending by raising after tax profits through cuts in business taxes
  - ✓ Increase government purchases through increased government expenditure on public investment.
- Central bank should regulate monetary policies by reducing amount of interest rates charged on financial institutions from borrowings so as to allow more supply money in a circulation.
- Maintaining the country currency in the financial markets of the world, Control Inflation by setting minimum charges of production and limit the producers on charging unnecessary higher costs for locally produced goods.

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