TICGL Economic Case Studies (TECS)

The Impact of Tax Reforms and Policy Planning on the Business Environment and Economic Growth in Tanzania. Current Insights (2024)

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Key Research Areas

- **Empowering Tanzania's Growth through Public-Private Partnerships for Sustainable Development**
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- **Pathways to Formal and Informal Employment in Tanzania: Current Insights (2024)**
- **The Role of Tax Reforms and Policy Planning**
- **Doing Business in Tanzania**
- **Enhancing the MFI Business Landscape for SMEs in Tanzania**

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Abstract

This research explores the intricate relationship between tax reforms, policy planning, and their combined effect on Tanzania's economic landscape. By analyzing data spanning 2024, the study emphasizes significant strides in tax revenue growth and highlights ongoing challenges in compliance, regulatory barriers, and sectoral contributions.

Key Findings:

1. **Tax Revenue Trends**: In the fiscal year 2023/2024, Tanzania reported a 14.47% increase in tax revenue to TZS 27.64 trillion, driven by robust performance in the services (28.2%), trade (23.6%), and manufacturing (17.7%) sectors. Despite this growth, the target of TZS 28.3 trillion remained unmet, reflecting areas for enhanced efficiency.
2. **Compliance Costs**: Businesses face average compliance costs of 2% of annual revenues, disproportionately impacting SMEs and sustaining a significant informal economy, which accounts for 60% of employment.
3. **Policy Impacts**: The Ease of Doing Business Index score of 59 in 2022 underscores moderate barriers, with regulatory unpredictability and complex compliance frameworks deterring investment.
4. **Investment Dynamics**: FDI inflows in 2024 stood at USD 1.5 billion, concentrated in agriculture, mining, and energy. Projections indicate a potential 10% annual growth, contingent upon regulatory improvements.
5. **Future Outlook**: With sustained reforms, tax revenues could double to TZS 40 trillion by 2030, accompanied by an 8% growth in the agricultural sector and a 7% rise in manufacturing.

Figures:

- **Tax Revenue Growth**: A consistent upward trajectory, with a notable 23.98% year-over-year increase in Q4 of 2023/2024.
- **Sector Contributions**: Services (28.2%), trade (23.6%), and manufacturing (17.7%) dominate the tax revenue landscape.
- **Projected Indicators for 2030**:
  - Total Tax Revenue: TZS 40 trillion.
  - FDI Inflows: USD 2.8 billion.
  - Compliance Costs: Reduced to 1.5% of annual revenues.

Conclusion:

The findings advocate for streamlined tax policies, enhanced regulatory clarity, and targeted support for underserved communities to maximize economic potential. By addressing systemic barriers and fostering inclusivity, Tanzania is poised for a transformative economic trajectory, emphasizing sustainable growth and equitable resource distribution.

Introduction

Tanzania's recent tax reforms and policy planning efforts are driving significant growth in the economy, with total tax revenue reaching TZS 27.64 trillion in the 2023/2024 fiscal year—a 14.47% increase from the previous year's TZS 24.14 trillion. Despite falling slightly below the target of TZS 28.3 trillion, this growth underscores improved tax collection and economic expansion. Key sectors like services, trade, and manufacturing collectively contributed over 69% to this revenue, with services alone accounting for 28.2%. However, challenges such as high compliance costs, averaging 2% of annual revenues for businesses, and a high corporate tax rate of 30% highlight the need for further reform. With projections indicating that tax revenue could reach TZS 40 trillion by 2030, Tanzania stands to benefit from streamlined compliance processes and better support for SMEs and underserved sectors, setting the stage for sustainable, inclusive growth.

Tax Revenue and Sector Contributions

- **Total Tax Revenue (2023/2024)**: TZS 27.64 trillion, marking a 14.47% increase from TZS 24.14 trillion in the previous fiscal year, although slightly below the target of TZS 28.3 trillion.
- **Key Contributing Sectors**:
    - **Services (including tourism)**: TZS 7.8 trillion (28.2% of total revenue)
    - **Trade**: TZS 6.54 trillion (23.6%)
    - **Manufacturing**: TZS 4.9 trillion (17.7%)
    - **Agriculture**: TZS 1.55 trillion (5.6%)

Compliance Challenges and Costs

- **Compliance Costs**: Businesses incur costs averaging 2% of their annual revenues to meet tax compliance, which significantly affects small and medium-sized enterprises (SMEs) that lack resources for these expenses.
- **Ranking in Ease of Doing Business**: Tanzania scored 59 in the World Bank's 2022 index, indicating moderate regulatory barriers.

Investment Landscape

- **Foreign Direct Investment (FDI)**: Approximately USD 1.5 billion in 2024, mainly directed toward energy, mining, and agriculture.
- **Projected FDI Growth**: 10% per year, contingent on improved regulatory frameworks and tax reforms.
- **Corporate Tax Rate**: At 30%, this is higher than in neighboring countries like Kenya (25%), potentially deterring some investments.

Sectoral Growth Projections

- **Agriculture**: Expected to grow at 6% annually due to increased investment and supportive tax policies.
- **Manufacturing**: Projected to achieve 7% growth by 2030.

Taxation Landscape of Tanzania

This section examines the taxation landscape in Tanzania, highlighting trends in tax collection, contributions by various sectors, key players influencing tax compliance, and factors that affect growth within the tax system. Understanding these elements is crucial for assessing the effectiveness of tax reforms and their impact on the economy.

Tax Trends and Contributions by Sector

In fiscal year 2023/2024, Tanzania achieved a total tax revenue of **TZS 27.64 trillion**, a 14.47% increase over the previous year's **TZS 24.14 trillion**. While this was 2.33% below the target of **TZS 28.3 trillion**, the strong year-over-year growth reflects effective tax collection mechanisms and economic expansion. Notably, each quarter showed consistent growth, with the fourth quarter achieving a substantial 23.98% year-over-year increase. Key revenue sources continued to be from trade, manufacturing, and services sectors, contributing significantly to the overall collection (TRA, 2024).

This upward trend in revenue aligns with Tanzania's efforts to improve tax compliance and broaden the tax base. However, high compliance costs—averaging 2% of annual revenues—remain a hurdle for businesses, particularly for small and medium enterprises (SMEs). This burden contributes to a substantial informal economy, presenting challenges to the government in capturing the full tax potential. Despite these obstacles, the robust tax collection performance reflects improved economic policies, reinforcing confidence in Tanzania's economic stability and growth trajectory (TICGL,2024).

Table 1: Tax Contribution by Sector in Tanzania (2024)

Sector	Tax Contribution (TZS Billion)	Percentage of Total Tax Revenue (%)
Agriculture	1,550	5.6%
Manufacturing	4,900	17.7%
Services (incl. tourism)	7,800	28.2%
Mining	3,100	11.2%
Construction	1,750	6.3%
Trade (wholesale and retail)	6,538	23.6%
Total	**27,638**	**100%**

Source: TRA Annual Report 2024; Ministry of Finance 2024

From the table above, the services sector, which includes tourism, emerged as the largest contributor to tax revenue, reflecting the importance of tourism in Tanzania's economy. Manufacturing and trade also play critical roles, while agriculture, despite being a significant part of the economy, contributes a relatively small percentage to overall tax revenue.

Key Players in Tax Compliance

1. **Tanzania Revenue Authority (TRA)**: The primary institution responsible for tax collection and enforcement, the TRA has implemented various strategies to improve compliance, including taxpayer education and digitalization of tax processes (TRA, 2023).
2. **Business Associations**: Organizations such as the Tanzania Investment and Consultant Group Ltd (TICGL) and the Confederation of Tanzania Industries (CTI) advocate for better tax policies and support members in navigating compliance challenges. They play a crucial role in voicing business concerns regarding tax burdens and regulatory inefficiencies (TICGL, 2024).
3. **Government Policy Makers**: The Ministry of Finance and Planning is responsible for developing and implementing tax policies that aim to enhance revenue while encouraging investment. Their role is pivotal in establishing a balanced approach to taxation that supports economic growth (Ministry of Finance, 2023).

Factors Influencing Growth and Tax Compliance

1. **Regulatory Environment**: Frequent changes in tax policies can create uncertainty, affecting businesses' ability to plan and invest. The complexity of the tax system often leads to compliance challenges, particularly for small and medium enterprises (SMEs) (TICGL, 2024).
2. **Informal Economy**: A significant portion of Tanzania's economy remains informal, with estimates suggesting that about 60% of the workforce operates outside the formal tax system (International Labour Organization, 2023). This limits the tax base and complicates efforts to enhance revenue collection.
3. **Technology Adoption**: The TRA has increasingly relied on technology to improve tax compliance, implementing systems such as Electronic Fiscal Devices (EFDs) to track sales and revenue in real-time. However, access to technology remains uneven, particularly in rural areas (TICGL, 2024).
4. **Public Awareness and Education**: The level of awareness among taxpayers regarding their obligations significantly influences compliance rates. Efforts to educate businesses about tax policies and benefits are critical for improving compliance (HakiElimu, 2023).

Conclusion

The taxation landscape in Tanzania is characterized by significant contributions from the services, manufacturing, and trade sectors. Key players such as the TRA and business associations are instrumental in fostering a conducive environment for tax compliance. However, challenges such as regulatory uncertainty, the size of the informal economy, and varying levels of technology access continue to hinder growth and revenue collection.

Forecasting for 2030

Using the above current figures and trends, we can project how tax reforms and policy planning might affect Tanzania's business environment and economy by 2030:

Projected Economic Impact by 2030

Table 2: Projected Economic Indicators for Tanzania by 2030

Indicator	Current Value (2024)	Projected Value (2030)	Growth Rate
Total Tax Revenue (TZS trillion)	27	40	8%
FDI Inflows (USD billion)	1.5	2.8	10%
Tax Compliance Costs (% of revenue)	2	1.5	Decrease
Ease of Doing Business Index Score	59	70	Increase
Agricultural Sector Growth Rate (%)	6	8	Increase
Manufacturing Sector Growth Rate (%)	5	7	Increase

Source: *TICGL, 2024.*

Policy and Regulatory Frameworks

This section provides insights into the current policies and regulatory frameworks affecting businesses in Tanzania, focusing on their compliance challenges, economic impacts, and areas that require reform. Understanding these frameworks is essential for evaluating their effectiveness in promoting a conducive business environment.

Current Policies Affecting Businesses

Tanzania's tax policy landscape comprises several key legislations, including the Income Tax Act, the Value Added Tax Act, and the Tax Administration Act. These laws govern how businesses are taxed, outlining compliance requirements and enforcement mechanisms. The following table summarizes the major tax policies and their implications for businesses (TICGL,2024).

Table 3: Key Tax Policies Affecting Businesses in Tanzania

Policy	Description	Compliance Challenges
Income Tax Act (2004)	Governs taxation of corporate income and personal income, with rates of 30% for corporate entities and progressive rates for individuals.	Complexity in calculating taxable income, lack of clarity on allowable deductions.
Value Added Tax Act (2014)	Introduced VAT at a standard rate of 18%, applicable to goods and services, aiming to broaden the tax base.	High compliance costs for small businesses, especially in record-keeping and invoicing.

Tax Administration Act (2015)	Establishes procedures for tax collection and dispute resolution, aiming to streamline tax administration.	Lengthy dispute resolution processes, leading to uncertainties in tax liabilities.
Excise Duty Act	Regulates the taxation of specific goods, including alcohol and fuel, with variable rates based on product types.	Frequent changes in rates can disrupt pricing strategies and profitability for affected businesses.
Local Government Finance Act	Allows local authorities to levy taxes, which may include property and service taxes, impacting local businesses.	Variability in local tax regulations can lead to confusion and increased compliance costs.

***Source**: TICGL,2024.*

Challenges with Compliance

1. **Complexity of Tax Regulations**: The existing tax laws in Tanzania are often seen as complex and burdensome, particularly for small and medium enterprises (SMEs). The lack of clarity around regulations and the numerous compliance requirements can lead to confusion and inadvertent non-compliance, which may result in penalties (TICGL, 2024).
2. **High Compliance Costs**: Businesses face significant costs related to tax compliance, including expenses for accounting services, legal fees, and time spent on administrative tasks. A survey by the Tanzania Chamber of Commerce indicated that compliance costs can amount to as much as 30% of total operating costs for SMEs (TICGL, 2024).
3. **Frequent Changes in Tax Legislation**: Frequent amendments to tax policies create an unstable environment for businesses. Changes in tax rates or compliance requirements without adequate notice can disrupt financial planning and operational stability (TICGL, 2024).
4. **Informal Sector Challenges**: The large informal economy in Tanzania poses additional compliance challenges. Many businesses operate without formal registration, making it difficult for the government to enforce tax compliance effectively. Tanzania Investment and Consultant Group Ltd (2024) estimates that over 72% of the workforce is engaged in informal activities, which further limits tax revenue.

Economic Impact of Current Policies

The effectiveness of tax policies in fostering economic growth is mixed. While the intention behind these policies is to enhance revenue generation and support public services, several challenges hinder their success:

1. **Impact on Business Investment**: High tax rates and complex compliance requirements can deter foreign investment. According to the TICGL (2024), Tanzania ranks below the regional average in the ease of doing business, primarily due to tax-related challenges.
2. **Effects on Job Creation**: Burdensome tax policies can limit the growth of SMEs, which are crucial for job creation. A report by the TICGL (2024) indicated that a more streamlined tax system could significantly boost employment levels in the formal sector by enhancing the sustainability of small businesses.

3. **Revenue Generation vs. Economic Growth**: While tax reforms have increased revenue collection, the economic growth generated from these reforms has been suboptimal. Economic analysts argue that without addressing compliance burdens and simplifying tax procedures, the potential for sustainable growth will remain constrained (TICGL, 2024).

Areas Needing Reform

1. **Simplification of Tax Processes**: There is an urgent need to simplify tax laws and reduce compliance burdens, particularly for SMEs. Streamlining processes can enhance compliance rates and reduce costs for businesses (TICGL, 2024).
2. **Predictability and Stability**: Establishing a more predictable tax environment with fewer abrupt changes will foster greater confidence among businesses and investors, allowing them to plan effectively (TICGL, 2024).
3. **Support for the Informal Sector**: Initiatives aimed at integrating informal businesses into the formal tax system are necessary. This could involve providing incentives for registration and education about the benefits of formalization (TICGL, 2024).
4. **Enhanced Taxpayer Education**: Increasing awareness of tax obligations and the benefits of compliance through targeted education programs can help improve compliance rates across sectors (TICGL, 2024).

Investment Opportunities and Constraints

This section analyzes Tanzania's investment climate, examining the implications of tax policies on investment decisions and the country's competitive position within the region. Understanding these factors is essential for identifying potential areas for domestic and foreign investment.

Investment Climate in Tanzania

Tanzania has made strides in creating a conducive investment environment, particularly in sectors such as agriculture, tourism, and manufacturing. However, challenges remain, which can deter potential investors.

Table 4: Overview of Tanzania's Investment Climate

Factor	Description	Rating/Score
Ease of Doing Business	Tanzania ranks 141st out of 190 countries in the World Bank's Doing Business Index (World Bank, 2023).	Low
Foreign Direct Investment	FDI inflows increased to USD 1.2 billion in 2022, primarily in mining and agriculture (Tanzania Investment Centre, 2023).	Moderate
Tax Incentives	Various tax incentives exist for investors in priority sectors, including zero-rated VAT for exports.	Moderate to High
Regulatory Environment	The investment regulatory framework is often criticized for being inconsistent and unclear, affecting investor confidence.	Low

Infrastructure Development	Ongoing improvements in infrastructure, such as roads and ports, support investment growth.	Moderate

Source: Tanzania Investment Centre, 2023; World Bank, 2023; various government publications.

Tax Implications on Investment Decisions

Taxation significantly influences investment decisions in Tanzania. While the government has introduced various incentives aimed at attracting foreign investors, several aspects of the tax system can be viewed as constraints.

1. **Corporate Tax Rates**: Tanzania imposes a corporate tax rate of 30%, which is higher than the regional average for East Africa (Tanzania Revenue Authority, 2023). This high rate can discourage potential investments, particularly when compared to neighboring countries like Uganda (30%) and Kenya (25%) (TICGL, 2024).
2. **Tax Incentives**: To mitigate the high corporate tax rate, the government offers incentives, including tax holidays and exemptions for investments in certain sectors. For example, investors in agriculture and tourism can benefit from reduced tax rates or exemptions for a defined period (Tanzania Investment Centre, 2023). However, the complexity of claiming these incentives can be a barrier for many businesses.
3. **Withholding Taxes**: Tanzania levies withholding taxes on various payments, including dividends, interest, and royalties, which can further increase the cost of doing business. The rates can range from 10% to 15%, depending on the nature of the payment (TRA, 2023). This adds an additional layer of cost for foreign investors who may be sending profits back to their home countries.
4. **Uncertainty in Tax Policies**: Frequent changes in tax policies create uncertainty for investors. The lack of clear guidelines and the potential for arbitrary enforcement can make businesses wary of committing substantial capital (World Bank, 2022).

Tanzania's Competitive Position

Tanzania's competitive position in attracting investment can be assessed by comparing it to its East African neighbors.

Table 5: Comparative Analysis of Investment Attractiveness in East Africa

Country	FDI Inflows (2022)	Corporate Tax Rate	Key Sectors for Investment	Ease of Doing Business Ranking
Tanzania	USD 1.2 billion	30%	Mining, Agriculture, Tourism	141
Kenya	USD 1.8 billion	25%	Manufacturing, ICT, Agriculture	56
Uganda	USD 1.0 billion	30%	Agriculture, Oil & Gas, Tourism	128

Rwanda	USD 1.5 billion	30%	ICT, Agriculture, Manufacturing	38

Source: UNCTAD, 2023; World Bank, 2023; various investment reports.

Analysis of Investment Opportunities

1. **Agriculture**: Agriculture remains a cornerstone of the Tanzanian economy, accounting for approximately 28% of GDP and employing around 65% of the workforce (Tanzania National Bureau of Statistics, 2023). There are opportunities for investment in value-added agricultural processes, organic farming, and agro-tourism.
2. **Tourism**: The tourism sector is another key area for investment, with Tanzania boasting rich natural resources, including national parks and wildlife reserves. The sector contributed USD 2.6 billion to the economy in 2022 and has the potential for significant growth as global travel recovers (Tanzania Tourist Board, 2023).
3. **Renewable Energy**: With increasing global emphasis on sustainability, there is a growing opportunity in renewable energy investments, particularly in solar and hydroelectric power. Tanzania has abundant natural resources that can be harnessed for renewable energy generation (Energy and Water Utilities Regulatory Authority, 2023).

Constraints to Investment

1. **Infrastructural Limitations**: Despite improvements, infrastructure challenges, particularly in transportation and energy supply, continue to be a significant constraint. Poor road networks and unreliable electricity supply can deter investors (TICGL, 2024).
2. **Regulatory Challenges**: As mentioned earlier, an inconsistent regulatory framework can create barriers to entry for investors. Lengthy processes for obtaining permits and licenses can lead to delays and increased costs (TICGL, 2024).
3. **Informal Economy**: The prevalence of the informal economy also presents a challenge. Businesses operating in the informal sector are often outside the regulatory framework, which can create unfair competition for formal businesses that adhere to tax regulations (TICGL, 2024).

Conclusion

Tanzania presents a mixed picture as an investment destination. While there are significant opportunities in key sectors like agriculture, tourism, and renewable energy, investors face considerable challenges, including high tax rates, compliance burdens, and regulatory inconsistencies. Addressing these constraints will be crucial for enhancing Tanzania's competitiveness in attracting both domestic and foreign investments.

Resource Accessibility and Policy Impact

This section analyzes the accessibility of tax incentives and regulatory support in Tanzania, focusing on their impact on various sectors, particularly underserved communities. Understanding resource accessibility is crucial for evaluating how tax policies can be structured to foster economic growth and support marginalized groups.

Accessibility of Tax Incentives

Tanzania has implemented various tax incentives aimed at attracting investment, particularly in priority sectors such as agriculture, manufacturing, and tourism. However, the effectiveness of these incentives often varies based on accessibility and awareness among potential beneficiaries.

Table 6: Overview of Tax Incentives Accessibility in Tanzania

Incentive Type	Description	Accessibility Score (1-5)	Impact on Underserved Communities
Investment Tax Holiday	Temporary tax exemption for investments in priority sectors.	3	Limited, often large firms benefit more.
VAT Exemptions	Exemption from VAT for exports and specific sectors (e.g., agriculture).	4	Positive impact, but awareness is low.
Reduced Corporate Tax	Lower tax rates for companies in targeted sectors.	2	Mostly accessible to large investors.
Training and Skills Development Grants	Financial support for employee training programs.	3	Some access for small enterprises, but underutilized.

Source: *TICGL,2024.*

Regulatory Support

The regulatory environment plays a critical role in resource accessibility. While the government has made efforts to streamline processes, challenges remain in regulatory support for businesses, especially for small and medium enterprises (SMEs) and informal businesses.

1. **Business Registration**: The registration process has been simplified, yet many small businesses still find it cumbersome due to high costs and bureaucratic delays. As a result, many remain in the informal sector (TICGL, 2024).
2. **Access to Finance**: Access to financial resources is one of the significant challenges faced by SMEs and underserved communities. Although there are various microfinance institutions and programs, the high-interest rates and collateral requirements limit accessibility (TICGL, 2024).
3. **Support Programs**: The government and various NGOs have introduced programs aimed at providing technical assistance and training for SMEs. However, awareness and uptake of these programs are low, particularly in rural areas (TICGL, 2024).

Impact on Different Sectors

The impact of tax incentives and regulatory support on different sectors, particularly underserved communities, varies significantly.

Table 7: Sectoral Impact of Resource Accessibility in Tanzania

Sector	Access to Tax Incentives	Regulatory Support	Impact on Underserved Communities
Agriculture	Moderate	Moderate	Positive; improved productivity but access remains a challenge.
Manufacturing	Low	Low	Limited growth due to high barriers.
Tourism	High	High	Positive; substantial investment opportunities but benefits unevenly distributed.
Informal Sector	Very Low	Very Low	Negatively affected; lack of support leads to persistent informality.
Technology Startups	Moderate	Moderate	Emerging growth but faces funding and support limitations.

Source: UNCTAD, 2023; Tanzania Investment Centre, 2023; various sector reports.

Challenges Faced by Underserved Communities

1. **Lack of Awareness**: Many entrepreneurs in underserved communities are unaware of available tax incentives and regulatory support programs, limiting their ability to leverage these resources effectively (TICGL, 2024).
2. **Informal Economy Dominance**: The prevalence of informal businesses often leads to a lack of engagement with the formal tax system, reducing their access to available incentives and support structures (TICGL, 2024).
3. **Geographical Barriers**: Rural and remote areas often lack the necessary infrastructure and support systems to facilitate business growth, leading to disparities in resource accessibility between urban and rural communities (Tanzania National Bureau of Statistics, 2023).
4. **Complex Application Processes**: The bureaucratic hurdles involved in applying for tax incentives and regulatory support can be daunting for small businesses, deterring them from seeking assistance (TICGL, 2024).

Conclusion

The accessibility of tax incentives and regulatory support in Tanzania has significant implications for resource allocation and economic growth, particularly for underserved communities. While there are positive developments, challenges persist that must be addressed to enhance the effectiveness of tax policies and support programs. Fostering awareness and simplifying application processes will be crucial for improving resource accessibility and ultimately supporting inclusive economic growth in Tanzania.

The effects of tax reforms and policy planning on Tanzania's business environment and economic growth.

1. Growth in Tax Revenue and Sector Contributions

- **Current Performance**: Tanzania's tax revenue reached TZS 27.64 trillion in 2023/2024, showing a robust growth rate of 14.47% from the previous year. However, it was still slightly below the target of TZS 28.3 trillion.

- **Key Contributors**: The services sector (including tourism) is the highest contributor at 28.2% of tax revenue, followed by trade (23.6%) and manufacturing (17.7%). Agriculture, while a major part of Tanzania's economy, contributes only 5.6% to total tax revenue, highlighting a discrepancy between economic importance and tax contribution.

2. Challenges in Compliance and Ease of Doing Business

- **Compliance Costs**: Tanzanian businesses face significant compliance costs, averaging 2% of annual revenues. This burden is particularly challenging for small and medium-sized enterprises (SMEs), who often lack the resources for complex tax compliance.

- **Regulatory Complexity**: Tanzania's score of 59 in the World Bank's Ease of Doing Business index reflects moderate barriers, with businesses struggling under complicated tax regulations, frequent changes, and high compliance costs.

3. Investment Climate and Foreign Direct Investment (FDI)

- **Current FDI Levels**: Tanzania attracted USD 1.5 billion in FDI in 2022, mainly in sectors like energy, mining, and agriculture.

- **Corporate Tax Rate**: With a corporate tax rate of 30%, Tanzania's rate is higher than regional averages (e.g., Kenya at 25%), which may deter some investors.

- **Constraints**: Investors face additional challenges like regulatory inconsistencies, infrastructural gaps, and the impact of a large informal economy, which represents about 60% of the workforce.

4. Projected Growth in Key Sectors

- **Agriculture**: Expected to grow at 6% annually, aided by tax incentives and increased investments.

- **Manufacturing**: Projected to see enhanced growth, reaching a 7% rate by 2030.

5. Recommendations for Improvement

- **Streamlining Compliance**: Simplifying tax processes to make compliance easier, especially for SMEs, could alleviate the compliance burden.

- **Increasing Awareness**: Educating businesses on tax incentives could help more companies benefit from available resources, improving overall compliance and economic engagement.

- **Support for Underserved Sectors**: Developing targeted programs for underserved communities and informal businesses can help integrate them into the formal tax system, broadening the tax base and driving growth.

6. Long-term Projections (2030)

- **Tax Revenue Potential**: The report projects that Tanzania's tax revenue could nearly double to TZS 40 trillion by 2030 if reforms continue.
- **Increased FDI**: With improved regulatory frameworks, annual FDI could reach USD 2.8 billion by 2030, doubling current levels.
- **Enhanced Ease of Doing Business**: Simplified tax processes and fewer regulatory changes could improve Tanzania's ease of doing business score, potentially reaching 70 by 2030.

Overall Implications

The research argues that without addressing the challenges in compliance, regulatory stability, and resource accessibility, Tanzania may struggle to fully realize its economic growth potential. Targeted tax reforms and improved policy planning are essential to fostering a more competitive and inclusive business environment, enabling greater contributions from both formal and informal sectors, attracting foreign investment, and supporting economic development across key sectors like agriculture, tourism, and manufacturing.