

CHALLENGES IN THE ADMINISTRATION OF VALUE ADDED TAX IN RESPECT OF TAXATION OF DIGITAL ECONOMY IN TANZANIA

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ABSTRACT

Generally, the value added tax law Tanzania mainly focuses on the traditional way of doing business and with less focus on taxation of digital economy. The challenges in respect of taxation of digital economy are centered on determination of value of supply of goods and services, permanent establishment and place of supply of goods and services and also payment services in digital economy. Failure of the value added tax law to address these challenges contributes to loss of Government revenue.

Further, collection of value added tax from digital economy faces challenges which includes problem in defining digital economy, lack of unilateral approaches for taxation of digital economy, challenges in respect of place where the value is created and payment of taxes, lack of physical presence of some activities and also the nature of assets involved are intangible assets, which are difficult to value and measure. There is also problem of taxing rights which affects among other things profits allocation especially for countries where Tanzania does not have tax agreements with the respective countries. All these challenges which have not well been articulated by the value added tax law in Tanzania makes the Government to lose revenue from taxation of digital economy.

Therefore, the value added tax Act should be amended to have specific provisions governing taxation of digital economy. The provisions among other things should provide for the meaning of digital economy, how to determine the value of supply of goods and services taking place in digital form. It should also provide unilateral approaches for taxation of digital economy. It should cover also where the value is created and payment of taxes. It should recognize taxation

of digital activities without necessarily having physical presence or place of the business in Tanzania. The law also should articulate well the issue of taxation of intangible assets, payment services and generally the mode of operation and taxation of digital economy. These amendments help in taxation of digital transaction and increase Government revenue collection especially in respect of value added tax.

BRIEF HISTORY OF VALUE ADDED TAX IN TANZANIA

Value added tax was introduced in Tanzania following the study and recommendations made by the Commission of Enquiry into Public Revenues, Taxation and Expenditure that was appointed in October 1989 to study and review the central and local tax systems and its administration, and make recommendations.ⁱ The Commission's submitted its report to the Government in 1991. Specifically, it was to recommend changes to the existing tax system to widen the tax base; enhance revenue collections; and promote greater efficiency of production in the economy.ⁱⁱ

The recommendation made by the Commission in respect of indirect taxation was that there was a need to introduce value added tax to replace sales tax since it was considered as a major component of Tanzania's future revenue system and extensions to a wider tax base.

The potential benefits of replacing the existing sales taxⁱⁱⁱ by value added tax were expected to be fivefold as indicated in the Commission's Report^{iv}:-

- (i) The flexibility of setting the value added tax rates was expected to give scope for generating increased revenue. The increased revenue productivity required the valued added tax base to be broad, covering as many goods and services as possible.
- (ii) The invoice-credit method of value added tax was expected to minimize unintended distortions by avoiding the tax cascading of the existing sales tax system.
- (iii) By applying the destination principle the value added tax should ensure that commodities were taxed in the country where they were consumed (not in the country where they were produced) as required under the provisions of the General Agreement on Tariffs and Trade (GATT). This was assumed to be achieved by:-

- (a) Levying the same tax on imported goods and on goods domestically produced and
- (b) Freeing exports from tax.
- (iv) Simplicity was expected to be achieved by limiting the number of value added tax rates as well as the number of exemptions.
- (v) It was anticipated that once the traders became used to filling in the value added tax forms, evasion would decline due to the self-policing nature of value added tax. In this respect, it was also expected that value added tax would encourage traders and manufacturers to keep proper records, and encourage purchasing and recording inputs on which tax had been paid. As the practice of keeping proper records spread, one expected that the tax base for value added tax would grow to a wider coverage than sales tax and revenue would increase. Further, value added tax was favored because it was assumed that it had a relatively high tax elasticity and buoyancy compared to sales tax.^v

The Government announced in the 1992 (June) Budget Speech its intention to introduce VAT in January 1994, however it was not introduced as indicated since substantial amount of time was required to make VAT fully operational^{vi}. It is clear that the International Monetary Fund (IMF) to some degree supported, if they did not actually initiate, this policy objective of introducing value added tax in Tanzania.^{vii}

Generally, VAT has been introduced in Tanzania through the Value Added Tax Act.^{viii} This Act provided generally the administration of VAT in Tanzania Mainland since Tanzania Zanzibar had its own VAT law which is more similar with that of Tanzania mainland.^{ix} Tanzania joined other countries of the world in introducing VAT in the tax system. Different countries introduced VAT in their tax system because of its stability, neutrality, flexibility and a need to widen their tax bases^x for raising revenue to finance government expenditure and provisions of social services. This type of tax replaced the sales tax^{xi} which was narrow based since it was imposed only at the final stage of sale. There was no imposition of VAT in the chain of production and distribution as it is currently administered.

The weaknesses or the shortcomings of the Value Added Tax Act, 1997 forced the government to enact a new VAT law. The new law is the Value Added Tax Act, Cap.148 of 2014. There are also regulations made under this Act among them include the Value Added Tax (General) Regulations 2015,^{xii} G.N 225 of 2015 as amended by the Value Added Tax (General) (Amendment) Regulations, GN No. 608 of 2018 and also other amendments.

The objectives of the new enactment was to broaden the tax base, to link the value added tax law with the international best practices, to reduce the powers of the Minister for Finance in the administration of VAT, to address intra union trade issues between Mainland and Zanzibar, simplify the imposition, collection, administration and management of VAT and other related matters.

BRIEF INTRODUCTION ABOUT DIGITAL ECONOMY

Digital economy involves the sale or purchase of goods or services, whether between businesses, households, individuals or private organizations, through electronic transactions conducted via the internet or other computer-mediated (online communication) networks.^{xiii} The concept of digital economy has three main components namely e-business, e-business infrastructure and e-commerce. There are no agreed definitions of digital sector, products or transactions, let alone the digital economy however digital economy is sometimes defined narrowly as online platforms, and activities that owe their existence to such platforms.^{xiv} In a broad sense, all activities that use digitized data are part of the digital economy and in modern economies, the entire economy.^{xv} If defined by use of digitized data, the digital economy could encompass an enormous, diffuse part of most economies, ranging from agriculture to Research and Development.^{xvi} For example in the Netherlands in 2015, businesses with an online presence accounted for 87 percent of turnover and 86 percent of employment in the business sector.^{xvii} However, when the Internet economy was defined more narrowly as online stores, online services and Internet-related ICT services, its turnover share was 7.7 percent, and its share of business employment was 4.4 percent.^{xviii} There are a number of features that are increasingly prominent in the digital economy and which are potentially relevant from a tax perspective.^{xix} While these features may not all be present at the same time in any particular business, they increasingly characterize the modern economy.

The features of digital economy include mobility, with respect to the intangibles on which the digital economy relies heavily, users. Another feature is that business functions as a consequence of the decreased need for local personnel to perform certain functions as well as the flexibility in many cases to choose the location of servers and other resources.^{xx} There is also reliance on data, including in particular the use of so-called big data. It also characterized by network effects and it is understood with reference to user participation, integration and synergies.^{xxi} Besides, there is use of multi-sided business models in which the two sides of the market may be in different jurisdictions. There is also a tendency toward monopoly or oligopoly in certain business models relying heavily on network effects and volatility due to low barriers to entry and rapidly evolving technology.^{xxii}

Under digital economy the internet facilitates transactions such as ordering goods and services.^{xxiii} In addition, the Internet has expanded the reach of smaller businesses, enabling them to reach markets that would not have been possible to reach without its existence. As a result, the number of firms carrying out business transactions over the internet has increased dramatically over the last decade. Besides, online payment service provides a secure way to enable payments online without requiring the parties to the transaction to share financial information with each other.^{xxiv}

Taxation of electronic transactions or digital economy in Tanzania has been negatively affected by the weaknesses of the value added tax law which has not well articulated taxation of digital economy as a result the country is losing a lot of revenue from the taxation of digital economy or digital transactions.

LEGAL CHALLENGES IN RESPECT OF TAXATION OF DIGITAL ECONOMY

Determination of Value of Supply of Goods and Services

This is one of the challenges which have not been well addressed in the law in Tanzania in respect of determination of the value of supply of goods and services in respect of digital economy. There are difficulties in measuring the digital economy and its value as well. This is caused by lack of a universally accepted definition of the meaning of digital economy which makes international comparisons difficult. The measurement of value in the digital economy

should cover all three levels i.e the digital sector, the digital economy and the digitalized economy.^{xxv} A country should be able to assess their implications in terms of different economic variables, such as value added, employment, wages, income, prices and trade, as well as for different agents, at these three levels.^{xxvi}

The use of the system of national accounts for the purpose of measuring the digital economy can present conceptual challenges associated with translating the new economic activities into statistical data. One challenge concerns the intangible nature of digital data and intelligence, which are major determinants of value creation in the digital economy.^{xxvii} In this context, accounting for related economic activities in the data-driven economy becomes problematic.^{xxviii} It is also difficult to capture statistically the ways in which digitalization is having an impact on activities outside the production boundaries of the pure digital sector.^{xxix} Moreover, some activities in the digital economy such as the creation of content or exchange of digital data may be monetized only indirectly for example by selling targeted advertising space online.^{xxx} This applies to many online platforms that provide free-for-use services for the right to use the data generated by users of online services.^{xxxi}

The transnational nature of major digital platforms also poses measurement challenges,^{xxxii} especially regarding where to locate an economic transaction. In the case of cloud computing,^{xxxiii} for example, the customer, data centre and address of the supplier may be in different countries. Similarly, online platforms based in one country can facilitate transactions between buyers and sellers located in other countries.^{xxxiv} Tax authorities may find it difficult to obtain statistical information about activities of digital platforms that are active in their countries but that lack a physical presence may be an issue.^{xxxv} Digital platforms rely heavily on intangible assets, which are difficult to value and measure. The reasons being the intangibles are easy to move around the world, they provide opportunities for aggressive tax planning. There is also lack of clarity on where value is produced a significant proportion of the value generated in the digital economy stems from users through the data they produce. All this allows global platforms to easily move profits from high-tax-rate jurisdictions to low ones, thereby reducing their effective tax rate.^{xxxvi}

Generally, it appears that there is an emerging consensus that the existing international corporate tax system is lagging behind the digital economy.^{xxxvii} Digitalization is increasingly spreading to all sectors and it is becoming impossible to ring-fence the digital economy. The

challenge is on how to reform the current tax regime in respect of taxation of the digital economy since there is not yet a common understanding of the concept of value creation for taxation purposes in the digital economy.^{xxxviii} Besides, there is challenge also between where value is created and where taxes are paid as a result public revenue is lower than it should be.^{xxxix}

The Value added Tax Act in Tanzania is the law which mainly focuses on the traditional way of doing business and with less focus on taxation of digital economy. It is difficult to determine the value of supply of goods and services taking place in digital form as a result it is also difficult to determine the threshold of the person as well as taxation of the transactions which are taking place in digital form. Ascertaining the volume of supply of goods and services has not been well articulated by the Value Added Tax Act in Tanzania. Besides there also other challenges in respect of collecting value added tax from digital economy which includes problem in defining digital economy, lack of unilateral approaches for taxation of digital economy, challenges in respect of place where the value is created and payment of taxes, lack of physical presence of some activities and also the nature of assets involved are intangible assets, which are difficult to value and measure. There is also problem of taxing rights which affects among other things profits allocation especially for countries where Tanzania does not have tax agreements with the respective countries. All these challenges which have not well been articulated by the value added tax law in Tanzania makes the Government to lose revenue from taxation of digital economy.

Permanent Establishment and place of supply of Goods and Services

One of the rules governing taxation is the establishment of permanent establishment and place of supply of goods and services for the purpose of imposing value added tax in a particular transaction. The imposition of value added tax to online sales constitutes a big challenge since in most cases there is no intermediary involved because digital economy can be carried out through emails, websites, distance selling and digital downloads.^{xi}

The collection of value added tax in digital economy causes a lot of challenges especially where there is no physical presence for example it is difficult to collect value added tax in Business to Consumer (B2C) transactions if the foreign online vendor has no physical presence and does not register for value added tax in the market country.^{xii} The value added tax law in Tanzania requires a person to register for value added tax and where a person has not registered it is not

possible to engage in collection of value added tax on behalf of Tanzania Revenue Authority (TRA). There is interplay between other revenue laws and value added tax. The Income Tax Act under section 3 and sections 70, 71 and 72 provides for permanent establishment and the rules governing the same. This implies that for a business to be taxed it must have a place of business in Tanzania i.e permanent establishment. After having a permanent establishment as provided by the Income Tax Act is where now a business can register for value added tax according to the threshold and other requirements provided by the Value Added Tax Act and the regulations made there under. In most cases operations of digital economy does not require permanent establishment for it to operate since everything is done online as a result most countries including Tanzania are losing a lot of revenue since their laws are offline focusing on traditional way of doing business without addressing legal challenges caused by mode of operation and taxation of digital economy.

Generally, the concept of permanent establishment is not relevant for digital companies since it does not necessitate a physical presence. Open markets, intangibles and the Internet make it possible for businesses to supply markets and to generate virtual profits without any need for legal or physical presence at the local level.^{xlii} The permanent establishment can be described as the country, where the source of income of a business is generated. The source of income is the jurisdiction, in which value creation occurs and therefore having taxing right in respect of the income.^{xliii} Besides, traditionally, companies have a physical presence or a nexus in a given jurisdiction, where they are obliged to pay their taxes. E-commerce eliminates the need for a physical presence or nexus of a company in order to have access to its customers.^{xliv} The main challenges relate to so-called nexus and profit-allocation rules under the existing system, taxation is based on physical presence or permanent establishment of companies in a country.^{xlv} This is also known as the nexus, or the connection between a business and the jurisdiction it would come under for taxation purposes.^{xlvi} However, with increasing digitalization, many economic activities are taking place online without the need of a physical presence. Moreover, user participation on the internet plays an important role in value creation. As this has significant implications for the concept of presence for taxation purposes, it is important to find ways to tax appropriately in jurisdictions where the value is created. A new approach is needed, which could look at digital presence in a given country based both on supply and demand (user) factors.^{xlvii}

Payment services in Digital Economy

Payment services in digital economy is another challenge in respect of collection of value added tax in digital transactions. Paying for online transactions traditionally required providing some amount of financial information, such as bank account or credit card information, to a vendor, which requires a high degree of trust that is not always present in the case of an unknown vendor, particularly in the case of a consumer to consumer transaction.^{xlvi} Online payment service providers help address this concern by providing a secure way to enable payments online without requiring the parties to the transaction to share financial information with each other.^{xli}

A payment service provider acts as an intermediary typically using a software as a service model between online purchasers and sellers, accepting payments from purchasers through a variety of payment methods, including credit card payments or bank-based payments like direct debit or real-time bank transfers.¹ The service provider processes those payments, and depositing the funds to the seller's account. Electronic payment systems offer a number of benefits for users, such as protection against fraud, since the seller and buyer do not exchange sensitive information.^{li} Besides, there is faster delivery of payment compared with traditional payment methods and also in many cases there is ability to transact in multiple currencies.^{lii} Payment service providers typically charge a fee for each transaction completed, which can be either a fixed charge or a percentage of the value of the transaction, though some payment service providers also charge monthly fees or setup fees for certain additional services.^{liii}

The digital economy has also given rise to virtual currencies that can be used to purchase goods and services from businesses that agree to accept them, acting as an alternative to payment services.^{liv} In some cases, exchanges have arisen to allow purchase and sale of these virtual currencies for real currency.^{lv}

The value added tax law in Tanzania has not well articulated the issue of payment service provider acts as an intermediary typically using software as a service model between online purchasers and sellers who are accepting payments from purchasers through a variety of payment methods. There are circumstances where there are even more than one payment service provider and this complicate the matter more since they can operate from different tax jurisdictions with different requirements concerning registration for value added tax. The VAT law in Tanzania requires a person to register for value added tax when is having a threshold of

one hundred million and above. The tracing of these payment service providers with different software model operating online from different tax jurisdiction is very difficult especially where Tanzania doesn't have tax agreements with the states where these payment service providers are based or operating their businesses. Besides, there is also the question of taxing rights which is governed by the principle of source and residence principle or principle of origin and destination principle. The way these principles are interpreted or applicable vary from one tax jurisdiction to another hence may cause double taxation or leave some of the transactions tax free.

Failure of the VAT law to articulate well the issue of payment service provider is causing the Government to lose a lot of revenue from digital transaction in respect of value added tax and it is a wakeup call to the Government to take unilateral measures and also where necessary to enter into tax agreements with other tax jurisdictions for the purpose of sharing information and also resolving the issue of taxing rights over different digital transactions taking place in the respective countries. The government is losing revenue for failure to address well the issue of registration of online payment service providers in the law which in turn affects the realization of actual supply chargeable with VAT especially when there are several intermediary services involved such as delivery fees, transport fees and storage fees.

Generally, the trend of collection of revenue in Tanzania has been affected among other things by various challenges including challenges related to taxation of digital economy which affected also the collection of value added tax. For example, during the financial year 2018/2019, TRA collected a total of TZS 15,744,608,757,106 against the set target of TZS 18,297,537,353,745 reflecting an under collection of TZS. 2,552,928,596,639 equivalent to 14 per cent of total revenue targets.^{lvi} These total revenue figures exclude collection from Treasury Vouchers with respect to payments for tax exemptions and refunds which amounted to TZS 20,052,472,109.^{lvii} Besides, the trend of revenue collection over the past five years it was generally below the approved estimates with the exception of the year 2015/16 where actual collections exceeded the target by 0.13 percent. Further, in the financial year 2018/19 the performance of TRA recorded a downward movement in terms of the tax yield (tax to GDP ratio) of 11.4 percent as opposed to a 12.8 percent in 2017/2018.^{lviii} This decline in tax yield calls for Government to continue exerting more efforts in increasing revenue collection.^{lix} Apart from the fact that the collection of revenue by TRA has been affected by other factors

not reaching the set target but also challenges in taxation of digital transactions have also contributed not reaching the set target by the Government in collection of revenue.

Furthermore in 2011- 2013 there was low VAT collection. VAT revenue in Tanzania amounted to 3.3 percent of GDP that is a full percentage point of GDP below the average of EAC countries (4.4 percent of GDP). This is almost equivalent to the entire gap between the overall tax revenue to GDP in Tanzania (11.9 percent of GDP) and the corresponding EAC average (13.1 percent of GDP).^{lx} TRA should consider how best to collect revenues from new, emerging industries, such as the digital economy by addressing the legal challenges affecting the collection of revenue.^{lxi}

CONCLUSIVE REMARKS

First, the Value added Tax Act in Tanzania is the law which mainly focuses on the traditional way of doing business and with less focus on taxation of digital economy. The law has not articulated well how to determine the value of supply of goods and services taking place in digital form as a result it becomes difficult to establish the threshold of the person as well as taxation of the transactions which are taking place in digital form. Besides, there is also problem of taxing rights which affects among other things profits allocation especially for countries where Tanzania does not have tax agreements with the respective countries. All these challenges which have not well been articulated by the value added tax law in Tanzania makes the Government to lose revenue from taxation of digital economy.

Second, the law doesn't define digital economy and also it doesn't provide well for unilateral approaches for taxation of digital economy. Besides, there are also challenges in respect of place where the value is created and payment of taxes, lack of physical presence of some activities and also the nature of assets involved are intangible assets, which are difficult to value and measure. These challenges negatively affect taxation of digital economy and hence loss of Government revenue.

Third, the value added tax law in Tanzania requires a person to register for value added tax and where a person has not registered it is not possible to engage in collection of value added tax on behalf of TRA. There is interplay between other revenue laws and value added tax. The Income Tax Act under section 3 and sections 70, 71 and 72 provides for permanent

establishment and the rules governing the same. This implies that for a business to be taxed it must have a place of business in Tanzania i.e permanent establishment. In most cases operations of digital economy does not require permanent establishment for it to operate since everything is done online as a result most countries including Tanzania are losing a lot of revenue since their laws are offline focusing on traditional way of doing business without addressing legal challenges caused by mode of operation and taxation of digital economy.

Fourth, the value added tax law in Tanzania has not well articulated the issue of payment service provider acts as an intermediary typically using a software as a service model between online purchasers and sellers who are accepting payments from purchasers through a variety of payment methods. Besides, there are circumstances where there are even more than one payment service provider and this complicate the matter more since they can operate from different tax jurisdictions with different requirements concerning registration for value added tax. The tracing of these payment service providers with different software model operating online from different tax jurisdiction is very difficult especially where Tanzania doesn't have tax agreements with the states where these payment service providers are based or operating their businesses. There is also the question of taxing rights which is governed by the principle of source and residence principle or principle of origin and destination principle. The way these principles are interpreted or applicable vary from one tax jurisdiction to another hence may cause double taxation or leave some of the transactions tax free.

Lastly, failure of the Value Added Tax Act to articulate well the issue of payment service provider is causing the Government to lose a lot of revenue from digital transaction in respect of value added tax. Besides, the government is losing revenue for failure to address well the issue of registration of online payment service providers in the law which in turn affects the realization of actual supply chargeable with VAT especially when there are several intermediary services involved such as delivery fees, transport fees and storage fees.

Conclusively, the value added tax Act should have specific provisions governing taxation of digital economy. The provisions among other things should provide for the meaning of digital economy, how to determine the value of supply of goods and services taking place in digital form. It should also provide unilateral approaches for taxation of digital economy. It should cover also where the value is created and payment of taxes. It should recognize taxation of digital activities without necessarily having physical presence or place of the business in

Tanzania. The law also should articulate well the issue of taxation of intangible assets, payment services and generally the mode of operation and taxation of digital economy. These amendments help in taxation of digital transaction and increase Government revenue collection especially in respect of value added tax.

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- ^{vii} Basu, P, and Oliver M., The fiscal impact of adjustment in Tanzania in the 1980s, Nottingham, CREDIT/University of Nottingham, 1993, p.19.
- ^{viii} This Act may be cited as the Value Added Tax Act, 1997, and it came into operation on the 1st day of July, 1998, save that, for the provisions of part IV came into operation on the 1st day of January, 1998 and of Parts VII, VIII, IX, X and XI came into operation on the 1st day of March, 1998, except for the provisions of Section 71 which appears in Part XII of the Act.
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- ^x Gilis, M., *The V AT and financial services*, in Malcolm G, et al (eds.) Value added taxation in developing countries, Washington D.C, The World Bank, 1990, pp. 83-94.
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- ^{xiv} IMF, *Measuring the Digital Economy Report*, IMF, Washington, 2018, p.7.
- ^{xv} Ibid
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- ^{xvii} Ibid
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- ^{xix} OECD (2014), *Addressing the Tax Challenges of the Digital Economy*, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, 2014, p.84
- ^{xx} Ibid
- ^{xxi} Ibid
- ^{xxii} Ibid
- ^{xxiii} OECD (2014), *Addressing the Tax Challenges of the Digital Economy*, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, 2014, p.75

xxiv Ibid

xxv United Nations, Digital Economy Report, United Nations Publications, New York, 2019, p.49.

xxvi Ibid

xxvii Ibid

xxviii *ibid*

xxix Ibid

xxx United Nations, Digital Economy Report, United Nations Publications, New York, 2019, p.51.

xxxi Ibid

xxxii In the absence of an internationally agreed definition of the digital economy, and of standardized methodologies to measure it, assessments of value within that economy must be based on partial national and sectoral statistical data. The sparsity of statistical data is problematic for various reasons. Importantly, given the broad reach and scope of the digital economy, which affects all sectors of countries' economies, any assessment would require a systematic analysis of multiple and connected variables. The paucity of data also hampers international comparisons. Several initiatives to remedy this situation are under way at the international and regional levels. However, they remain insufficient, and are unable to cope with the rapid evolution and global implications of the digital economy; more needs to be done to enable better measurement of that economy. This should include dedicated support to low-income countries to improve their statistical capacities to produce relevant information. Reference is made to United Nations, Digital Economy Report, United Nations Publications, New York, 2019, p.69-70.

xxxiii Cloud computing is the provision of standardized, configurable, on-demand, online computer services, which can include computing, storage, software, and data management, using shared physical and virtual resources (including networks, servers, and applications). Because the service is provided online using the provider's hardware, users can typically access the service using various types of devices wherever they are located, provided they have a suitable Internet connection. The resources to which cloud computing customers are granted access are not stored on a single computer. Instead, they are on many networked computers that are available to everyone who has access to that "cloud" of computing resources (which, depending on the cloud, could be a single organization, a community of organizations, the general public, or some combination thereof). The system copies each user's data and software to other servers, which allows it to allocate requests for hardware resources to whatever physical location, is best able to satisfy the demand efficiently. Each user has access to a large amount of computer resources when needed, and only when needed. This redundancy ensures that the failure of one machine will not lead to loss of data or software. Cloud computing often provides customers with a cost effective alternative to purchasing and maintaining their own IT infrastructure, since the cost of the consumer resources is generally shared among a wide user base. The advantages of cloud computing are largely driven by economies of scale in setting up the infrastructure and maximizing server usage by sharing space among clients whose needs for space and processing power may vary on a flexible basis. Make reference to OECD (2014), "The digital economy, new business models and key features", in Addressing the Tax Challenges of the Digital Economy, OECD Publishing, Paris, 2014, p.80.

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xlii Eli,H., Tax Challenges in the Digital Economy, European Parliament Policy Department, 2016,p.23.

xliii Ibid

xliv Eli,H., Tax Challenges in the Digital Economy, European Parliament Policy Department, 2016,p.17.

xlvi The OECD is currently leading global efforts to reach an international consensus. In 2015, in the context of the OECD/G20 BEPS Project, it proposed 15 actions to respond to the problems of base erosion and profit shifting (BEPS) of which action 1 was Addressing the tax challenges of the digital economy (OECD, 2015). These were designed to close some of the loopholes that enable transfer pricing, in particular; but many of those loopholes still exist, and relatively little attention was given to a number of other problems involving the digital economy. While it has been recognized that the BEPS project represents significant progress, concerns have been raised that it has not really addressed the roots of the problem, as companies continue to be able to shift profits to low-tax jurisdictions using transfer pricing (ICRICT, 2019; BEPS Monitoring Group, 2017). Further efforts to address this issue have been in the works since then, but with little consensus to date. Make reference to the First draft of the UNCTAD Manual for the Production of Statistics on the Digital Economy 2020 Revised Edition.

^{xlvi} Eli,H., Tax Challenges in the Digital Economy, European Parliament Policy Department, 2016,p.142.

^{xlvii} Ibid.

^{xlviii} OECD (2014), “The digital economy, new business models and key features”, in Addressing the Tax Challenges of the Digital Economy, OECD Publishing, Paris.p.77.

^{xlix} Ibid

^l Ibid

^{li} Ibid

^{lii} Ibid

^{liii} Ibid

^{liv} OECD (2014), “The digital economy, new business models and key features”, in Addressing the Tax Challenges of the Digital Economy, OECD Publishing, Paris.p.78.

^{lv} Ibid

^{lvi} Controller and Auditor General, The Annual General Report Of The Controller And Auditor General On The Audit Of Financial Statements of The Central Government For The Financial Year 2018/2019, National Audit Office, Dar Es Salaam, 2019, p.77.

^{lvii} Ibid

^{lviii} Controller and Auditor General, The Annual General Report Of The Controller And Auditor General On The Audit Of Financial Statements of The Central Government For The Financial Year 2018/2019, National Audit Office, Dar Es Salaam, 2019, p.79.

^{lix} Ibid

^{lx} IMF, IMF Country Report No. 16/254: The United Republic of Tanzania Selected Issues, IMF, Washington, 2016, p.17.

^{lxi} World Bank Group, The World Bank Group Macroeconomics and Fiscal Management Global Practice Africa Region Report: Tanzania Economic Updates, Issue Number 7, 2015, p.41.