ANALYSIS OF THE VALUE ADDED TAX ADMINISTRATION IN TANZANIA WITH THE MAJOR FOCUS ON THE SET THRESHOLD FOR REGISTRATION

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ABSTRACT

Despite the introduction of the value added tax in Tanzania there are legal challenges affecting the effective administration of value added tax and hence contribute to loss of Government revenue. The legal challenges in respect value added tax administration are centered on the threshold issue, power of the Commissioner General in respect VAT registration, taxation of digital economy, VAT offences and penalties imposed, refund of VAT claims. This article focuses only on the issue of threshold.

Generally, different tax jurisdictions have set registration threshold for a person to be legible to be registered for the purposes of value added tax. The set threshold varies from one tax jurisdiction to another. In Tanzania specifically the set threshold for value added tax registration is causing the loss of Government revenue from value added tax since it excludes a large number of taxpayers as a result the government is losing a lot of revenue. This affect the realization of the objectives of the introduction of value added tax in Tanzania. Further, the threshold set likely to encourage tax evasion and tax Avoidance. The threshold and value added tax rate set may encourage voluntary tax compliance or may encourage tax evasion since people will feel that the tax system is not fair as a result, they resort in designing mechanism for tax evasion and avoidance. Not only that but also, there is a challenge regarding setting the threshold in an informal economy. In general, the large part of the economy in Tanzania is in the informal sector as indicated in the TRA report statistics. The threshold has been set which

mainly focuses on the formalized business as a result large number of taxpayers are not taken on board as a consequence the Government is losing a lot of revenue out of the informal sector.

Therefore, the Value Added Tax Act should be amended by providing provisions on the registration threshold which takes into account different categories or classes of business depending on the type and turnover of the business. Besides, the provisions governing powers of the Commissioner General in respect of registration of persons where he has good reason to do so including protection of Government revenue should be amended. Also, the Authority should concentrate on how to bring more taxpayers on board instead of focusing only on the few registered taxpayers. It should also come up with new ideas on how to widen the tax base and realize the objectives for introduction of value added tax. TRA should take charge and facilitate through relevant authorities the registration of businesses which are operating in an informal sector.

Keywords: *Value Added Tax Threshold, Threshold issues, Threshold Registration*

INTRODUCTION

Tanzania joined other countries of the world in introducing valued added tax in the tax system in 1997. Different countries introduced VAT system in their tax system because of its stability, neutrality, flexibility and a need to widen their tax bases.[i] Value Added Tax (VAT) is among the taxes imposed on goods and services introduced in Tanzania with a view of widening the tax base. This type of tax replaced the sales tax[ii] which was imposed only at the final stage of sale.[iii] There was no imposition of VAT in the chain of production and distribution as it is currently administered.

VAT was introduced in Tanzania through the Value Added Tax Act.[iv] This Act provides general administration of VAT in Tanzania Mainland.[v] In order to have a proper administration of VAT, it is important to have a good law which provides for effective management, imposition, collection, simplified registration process, adequate penalties and a well-organized refunds process. Accordingly, the national laws need to reflect international standards in respect of VAT law for the purpose of effective management and collection of enough revenue for the government. Any law which lacks these components result into poor administration of VAT law as a result it may contribute to loss of government revenue.

Despite the introduction of the value added tax in Tanzania there are legal challenges affecting the effective administration of value added tax and hence contribute to loss of Government revenue. The legal challenges identified in the VAT law necessitated a need to have this study. The legal challenges are centered on the threshold issue, powers of the Commissioner General in respect VAT registration, taxation of digital economy, VAT offences and penalties imposed, refund of VAT claims. Although Tanzania is having VAT law seems not to have realized its full objective. The existing VAT law is not well articulated, lacks clarity and do not reflect well the principles governing taxation policy which are international standards. Those principles are principle of neutrality, efficiency, certainty and simplicity, effectiveness and flexibility. This Article focuses only on one legal challenge of threshold registration issue.

VALUE ADDED TAX ADMINISTRATION

The Tax Administration Act, Cap 438 R.E 2019 and the Tax Administration (General) Regulation, GN No.101 of 2016 give powers to Tanzania Revenue Authority (TRA) to administer all revenue laws including the Value Added Tax Act. Section 15 of the Tax Administration Act provides that the Authority i.e TRA shall be responsible for administering and giving effect to the tax laws in accordance with the provisions of the Tanzania Revenue Authority Act, Cap 399 R.E 2019. Administration of tax in Tanzania is done by Tanzania Revenue Authority as provided under the First Schedule to the Tanzania Revenue Authority Act, Cap 399 R.E 2019.[vi] The amendment of 2016 designated all the statutes found under the First Schedule to the TRA Act as Part A and adds Part B immediately after part A. This implies that the First Schedule now to the TRA Act is divided into Part A[vii] and Part B.[viii]

Conclusively, the Value added Tax Act is found under Part A of the First Schedule to the TRA Act and it is administered by Tanzania Revenue Authority. This means that the provisions of the VAT Act are implemented and enforced by TRA for the purpose of making sure that the objective of enacting this law is realized by the Government. Besides, there are also other institutions or machinery responsible in implementation and enforcement of revenue laws such as the Tax Revenue Appeals Tribunal (TRAT), Tax Revenue Appeal Board (TRAB) and the office of Tax Ombudsman Service.

VALUE ADDED TAX REGISTRATION THRESHOLD

Different tax jurisdictions have set registration threshold for a person to be legible to be registered for the purposes of value added tax. The set threshold varies from one tax jurisdiction to another. As pointed out the objectives for the introduction of value added tax in most developing countries including Tanzania was to widen the tax base. This will assist the increase in collection of revenue for provision of social services to the public and financing government expenditures. However, it is good to balance between the administrative costs and compliance costs in respect of the set threshold towards the realization of the objectives for the introduction of the value added tax. In Tanzania specifically the set threshold for value added tax registration is causing the loss of Government revenue from value added tax due to the following reasons:

Exclude large number of Taxpayers

The set criteria for value added tax registration under the law exclude a large number of taxpayers as a result the government is losing a lot of revenue and hence affect the realization of the objectives of the introduction of value added tax in Tanzania. Section 28 of the Value Added Tax Act provides that a person shall, in respect of any month, be registered for value added tax from the first day of that month, if there is reasonable ground to expect that the person's turnover in the twelve months period commencing at the beginning of the previous month will be equal to or greater than the registration threshold. The turnover must be equal to or greater that the registration threshold in the period of twelve months ending at the end of the previous month. This implies that the turnover[ix] can be 100 Million or more than in the period of twelve months ending at the end of the previous month.

Registration is also allowed in the situation where the turnover is equal or greater than half of threshold i.e 50 Million or greater than in the period of six month a person can register for value added tax. This means that a person is required, in respect of any month, to be registered for value added tax from the first day of that month if the person's turnover is equal to or greater than one half of the registration threshold in the period of six months ending at the end of the previous month. Besides, the VAT law requires any person who carries on an economic activity involving the supply of professional services and Government entity or institution which carries on economic activity to be registered for value added tax.

Here in below is the comparison between the total number of registered taxpayers and revenue collected versus the total number of registered VAT taxpayers and total number of revenues collected.

The Tax Statistics Report of 2017/2018 by National Bureau of Statistics of June, 2019 provides for the total number of registered taxpayers versus the total number of VAT Taxpayers and total amount of revenue collected. The report shows that the number of registered taxpayers increased by 9.5 percent from 2.5 million in 2016/17 to 2.7 million in the year 2017/18. The largest growth of registered taxpayers was 55.6 percent in 2012/13 which surpassed the average growth of 21.7 percent in the period from 2006/07 to 2017/18.[x]

The report further shows that collection of direct and indirect taxes in Tanzania Mainland from 2006/07 to 2011/12. The amount of indirect taxes collected was almost twice the amount of direct taxes. It is as well reveals that, revenue collection increased from TZS 14,221.9 billion in 2016/17 to TZS 15,249.5 billion in 2017/18 which is equivalent to 7.2 percent increase which also show to be a minimum growth. The highest percentage increase of 32.3 percent in revenue collection was attained in 2007/08 where tax collection increased by TZS 845.7 billion.[xi] Besides, revenue collected as direct taxes increased by 6.2 percent in 2017/18 compared to a growth of 5.3 percent in 2016/17. The highest growth was 34.3 percent in 2011/12 which was above the average growth of 17.3 percent in the period of 2006/07 to 2017/18. However, tax collection was unfavorable in 2014/15 when the growth declined to 0.7 percent. The reason might be attributed to drop of Corporate Taxes collections. [xii]

The report further shows that PAYE taxes dominated the share of all direct taxes though it has slightly decrease from 44.5 in 2016/17 to 43.1 percent in 2017/18. Revenue from gaming contributed the least 0.5 percent in 2016/17 and 1.4 percent in 2017/18. PAYE and corporate taxes have been contributing more than three quarters of total direct taxes. An average of 48.7 share of PAYE was recorded from 2006/07 to 2010/11 which was below the highest 50.5 percent share recorded in 2010/11. However, the average share dropped to 44.2 percent for the seven years after the highest peak observed in 2010/11. [xiii]

Indirect taxes increased by 7.8 percent from TZS 9,100.9 billion in 2016/17 to TZS 9,812.5 billion in 2017/18 which is an increase of TZS 711.6 billion. The highest growth rate was 33.6 percent recorded in 2007/08 while the current growth marks the lowest in the period under review. International trade taxes made the largest contribution to total indirect taxes during the period of 2006/07 to 2017/18. However, its share slightly increased to 62.7 percent in 2017/18 from 62.3 percent in 2016/17.[xiv]

The report further provides that the number of registered VAT taxpayers increased by 8.7 percent from 29,561 in 2016/17 to 32,141 in 2017/18. The trend also depicts that the number of VAT registers has been progressively increasing in the entire period. The trend however, showed fluctuations in the rate of annual growth increase registered VAT taxpayers from 2011/12 to 2017/18. [xv] Total Domestic VAT revenues collected increased by 12.4 percent from TZS 2,158.5 billion in 2016/17 to TZS 2,426.3 billion in 2017/18, which is less than the average annual growth of 17.5 percent recorded in the period under review. The highest rate of growth recorded during this period was 30.6 percent attained in 2007/08. This growth was higher than the average growth of 17.5 in the same period.[xvi] The revenue increased by 21.9 percent from TZS 459.9 billion in 2016/17 to TZS 560.6 billion in 2017/18 compared to a decrease of 0.2 percent in the preceding period. The largest growth of 25.9 percent was realized in 2011/12. In 2017/18, the total VAT on domestic goods has resulted from the contribution of beer by 28.7 percent followed by sugar (13.6%) and cigarettes (8.2%).[xvii] The trends show that there was an overall increase in revenue collected through VAT on domestic goods for the period of 2006/07 to 2017/18. However, slightly decrease was observed in 2012/13 and 2016/17. Revenue collection in absolute terms has been increasing at varying values from TZS 191.5 billion in 2006/07 up to a total of TZS 560.6 billion in 2017/18.[xviii]

Further, the report shows that VAT on domestic services which is charged on electricity, telephone, retail and wholesale businesses, transport, hotel and other services has increased by 9.8 percent from TZS 1,698.1 billion in 2016/17 to TZS 1,865.7 billion in 2017/18. The highest growth of 52.6 percent was recorded in 2007/8 as supported by revenue collected from telephones, electricity and transport services. In 2017/18, the largest share of VAT on domestic services was 5.3 percent of telephone followed by 3.9 percent of electricity and hotel services. From 2006/07 to 2017/18, the largest yearly share of VAT on domestic services contributed by VAT on telephone services.[xix]

The argument which can be made after comparing the total number of taxpayers which is 2.7 million in 2017/18 and the total amount of revenue collected versus the total number of registered VAT taxpayers which is 32,141 in 2017/18 is that TRA has registered a very low number of VAT taxpayers when comparison is made to the total number of taxpayers as a result the Government is losing a lot of revenue from Value added tax. It is raising a lot of concerns and not convincing that TRA registered only 32,141 VAT taxpayers out of 2.7 Million total numbers of taxpayers. Besides, there are also professional who are required to register irrespective of their threshold, hence if reference is made to the total number of professionals and the total population in Tanzania and persons who are required to register for VAT plus those who are required to register because of the threshold requirement, TRA has recorded a very low number of VAT taxpayers. The failure to register a good number of VAT taxpayers has caused the Government to lose revenue which could have been collected by the registered VAT traders.

Another argument which can be made is that despite the fact that there is a need to balance between the administrative costs and compliance costs there is a need to have VAT threshold in different levels or classes and having VAT in multiple rates so that a big number of VAT taxpayers can be registered for value added tax and charged VAT rates according to their classes or classification or categories of businesses. This is in conformity with the principle ability to pay tax. There is an argument that there will be an erosion of the threshold by the taxpayers but if TRA could put a well-organized system in terms of technology and also encourage voluntary tax compliance by provision of tax education, taxpayers will comply and there will be increased level of revenue collection. The rationale behind for the introduction of value added tax in Tanzania was to broaden the tax base. In this regard, TRA need to plan and design a good mechanism which accommodate a large number of tax payers. The mechanism designed should not cause high administrative costs and compliance costs to the taxpayers.

Generally, the threshold set by the law can be designed in a manner that it is divided into different categories of businesses and also turnover so that it covers different economic activities. This will ensure that a big number of people are registered for value added tax and hence collection of revenue for the Government. The most important thing is the mechanism of collection which doesn’t bring high administrative costs to TRA and high compliance costs to the taxpayers. Besides, apart from the present requirement that professionals and

Government entities are the only one required to register irrespective of their threshold for value added tax, the requirement should be expanded to cover other persons and economic activities to register irrespective of their threshold. This will increase the level of revenue and hence realization of the objectives for the introduction of value added tax in Tanzania.

OECD VAT/GST Guidelines 2017 provides for international standards in respect of value added tax as a guide to different tax jurisdictions. Rule 1.16 of the OECD VAT/GST Guidelines 2017 provides for principles of tax policy which are neutrality principle, efficiency principle, certainty and simplicity principle, effectiveness and fairness principle, flexibility principle. These principles are also applicable in value added tax. The Value Added Tax Act in Tanzania doesn't reflect well the international principles governing value added tax as a result it contributes to loss of Government revenue. The tax Authority responsible instead of concentrating on how to bring more taxpayers on board and also to come up with new ideas on how to widen the tax base and realize the objectives for introduction of value added tax; it is concentrating on increasing the threshold and the value added tax rate on the basis that they are managing or controlling the so called administrative costs and compliance costs. The most important thing is to design a well manageable mechanism which balances between the administrative costs and compliance costs with the aim to bring more taxpayers in the system. This will widen the tax base and ensure that enough revenue from value added tax is collected for the Government.

Further, the Value added Tax law in Tanzania in some areas is not certain and simple. The tax rules should be clear and simple to understand so that taxpayers can anticipate the tax consequences in advance of a transaction, including knowing when, where, and how the tax is to be accounted. A good example can be observed from the powers given to the Commissioner General as indicated by section 33(b) of the Value Added Tax Act. The section allows the Commissioner General where the Commissioner General is satisfied that there is good reason including protection of Government revenue to register the person for value added tax regardless of the person's turnover. The law just provides including protection of Government revenue but it doesn't define what amount to Government revenue and also what are other circumstances which the Commissioner General is mandated to register any person irrespective of the turnover of the person. All these are left to the wisdom of the Commissioner General to decide. The implications is that others can be registered and others can be left out since there is no proper guidance in respect of registration regarding the so called protection of Government revenue, hence uncertainty in respect of value added tax registration.

Conclusively, by concentrating on increasing the threshold and value added tax rate it is against the principles of effectiveness and fairness principle and neutrality principle since it will affect business competition and also increase compliance costs to the taxpayers and also burden to the final consumers. The value added tax system should be balanced by bringing more taxpayers on board by having the multiple value added tax rates and also different categories or classes of registration threshold.[xx] This is possible if the tax authority design a mechanism which can minimize the administrative costs and compliance costs. The mechanism should focus on the mode of collection and user-friendly system which provides incentives to value added tax traders who are collecting substantive amount of revenue for the Authority. This will motivate and encourage the taxpayers to collect more revenue for the Government.

Encourage Tax Evasion and Tax Avoidance

Tax evasion refers to illegal means or ways of evading or escaping the payment of taxes and tax avoidance is defined as an act of dodging tax without breaking the law. [xxi] Under tax evasion the taxpayer employs various illegal ways which are contrary to the revenue laws for the purpose of evading the tax liability. Examples of illegal means include concealing the income, claiming excessive expenditure, falsification of accounts, wilful violation of rules. The threshold and value added tax rate set[xxii] in any particular tax jurisdiction in most cases may encourage voluntary tax compliance or may encourage tax evasion since people will feel that the tax system is not fair as a result they resort in designing mechanism for tax evasion and avoidance.[xxiii] Tax Evasion and Avoidance contribute to loss of Government revenue. High threshold and high value added tax rate discourage people from registering as value added tax traders. The threshold set plus the rate of value added tax affect the individual saving opportunities and investment as a result many opt to use available loopholes in the law to avoid the payment of taxes. This can be sorted out by having the threshold and value added tax rate which is fair and also which bring more taxpayers on board for distribution of the tax liability to a large number of people. The balance should be on the administrative costs and compliance costs versus realization of the objectives for introduction of the value added tax in Tanzania. Therefore, where the threshold is high and the value added tax rate is high it is likely that there will be no voluntary compliance of tax laws, as a result loss of revenue by the Government.

The threshold and value added tax rate should be put into categories or classes so that it accommodates more taxpayers and also reduce the tax burden to the few people. This will motivate or encourage voluntary tax compliance as a result realization of the objectives for introduction of the value added tax in Tanzania.

Registration Threshold versus Informal Sector

Generally, one of the notable features of informal economy in all developing countries is the great composition of self-employment as compared to wage employment in the informal employment statistics.[xxiv] Two in five of all Tanzanian households engage in informal sector activities, which account for 40-60 per cent of GDP.[xxv] TRA report indicate that just over half those operating in the informal sector have small scale, wholesale or retail businesses or repair motor vehicles, around a quarter are in service sectors such as education, health and transport and around a fifth are in manufacturing and 88 per cent are sole traders and 69 per cent have capital funds below TSHS 1.6 million.[xxvi]

TRA report estimates that around 40 per cent of firms in the informal sector do not pay taxes which imply that the Authority is missing over 40 per cent of presumptive income tax revenue.[xxvii] The conclusion which can be drawn is that there are extremely revenue losses from the failure to collect all taxes from the informal sector.

The report further indicates that:

"The social, economic and political realities of the informal sector translate to a complicated operational reality for business formalization and the tax administration. The taxable workforce is usually quite small and the domestic labor market often does not have an ample supply of the education and experience needed by tax administrations. In terms of taxation of the sector, the views appear to be widespread that evasion is deliberate and systematic, but there are other definitive reasons for supposing that a variety of barriers deter tax payment. These include heavy costs of compliance resulting from their varieties and sizes. Other constraints include insufficient working premises and limited access to finance. In addition, institutional business development services, namely services related to entrepreneurship, business training, marketing, technology development and information are underdeveloped and not readily available. On the other hand, SME operators lack knowledge and information as well as appreciation for such services and can hardly afford to pay for the services. As a result, operators of the sector have rather low skills. It is also argued that there is huge revenue potential available from the sector. These facts allude to the growth potential existing in the sector and hence potential capacity to contribute meaningfully to the public revenue. It is clear that the informal sector is of great importance to the national economy in many developing economies as opposed to what is taken."[xxviii]

Tanzania recognizes that substantial amount of economic activities taking place in the small and medium businesses are not well recognized and regulated.[xxix] Under the poverty reduction programs, Tanzania plans to increase the level of government expenditure and transfer payments to take care of the poorer sections of the population.[xxx] Thus, government revenue may need to grow at a rate that exceeds the growth of national income.[xxxi] With the limited revenue generated from the formal sector unable to cope with expenditure requirements, the extension of the tax net becomes a necessity.[xxxii] Initiatives are being put in place to ensure gradual transition of economic activities from informal to formal.[xxxiii] This implies that for informal sector operators to be afforded opportunity to expand, they have first and foremost to be formal. This will help the sector finances be channelled to the sector to bridge the savings-investment gap in the sector.[xxxiv] The Government through Property and Business Formalization Programme (PBFP) recognizes the importance of the informal sector and has taken different measures towards formalization of the informal sector businesses.[xxxv]

TRA has decided to pull small and medium enterprises into the tax net by introducing presumptive taxation scheme. The scheme has managed to simplify the taxation for operators in the informal sector to enter in the tax net; however, the significant number of the operators in the informal sector still operates outside the net.[xxxvi] The informal sector therefore remains a key to future economic growth. It is an economic reserve and provide as kind of small-scale training for budding entrepreneurs.[xxxvii] It also provides a kind of economic lubricant which keeps local economies functioning. Its growth holds out the promise of greater employment, greater local manufacturing, greater service provision, and eventually, more tax payments and more tax revenue.[xxxviii]

In order to address the challenges caused by the taxation of informal sector TRA has designed a mechanism to tax individuals. The individuals are categorized in two groups, small individual traders who are not required to maintain audited accounts and the medium individual traders who are required to maintain audited accounts.[xxxix] Small traders are taxed by presumptive tax system, whereas medium are taxed based on the annual profit determined from the audited accounts. [xl] The presumptive tax system is a tax system where individuals are taxed based on their annual turnover. This implies that the taxpayers are not obligated to prepare and submit audited accounts to the TRA.[xli] The law allows a person to opt not to apply the presumptive system and prepare audited accounts and pay tax based on profits.

Conditions which qualify to be in presumptive tax system[xlii] includes the taxpayer must be a resident individual; the annual turnover of the business does not exceed the threshold of TSHS 100 million, he must conduct business only for the year of income hence not be engaged in any other activities such as employment or investments. Besides, under the presumptive tax system, individual's income must be derived solely from business sources. If income is derived from other sources such as employment and/or investment the presumptive scheme cannot be used. The individual's income for any year must consist exclusively of income from business with sources in the United Republic of Tanzania.

Under the presumptive system, tax payable is established based annual turnover shown by taxpayer's records and in absence of complete records, annual turnover will be estimated based on the best judgment of the Commissioner General. The turnover bands and their tax rates are as stipulated below: -[xliii]

Annual turnover	**Tax payable when records are incomplete**	**Tax payable when records are complete**
Where turnovers do not exceed TSHS 4,000,000	NIL	NIL
Where turnover exceeds TSHS 4,000,000 but does not exceed TSHS 7,000,000	TSHS 100,000	3% of the turnover in excess of TSHS 4,000,000
Where turnover exceeds TSHS 7,000,000 but does not exceeds TSHS 11,000,000	TSHS 250,000	TSHS 90,000+3% of the turnover in excess of TSHS 7,500,000

Where turnovers exceed TSHS. 11,000,000 but does not exceed TSHS 14,000,000	TSHS 450,000	TSHS 230,000+3% of the turnover in excess of TSHS11,000,000
Where turnover exceeds TSHS 14,000,000 but does not exceed TSHS 100,000,000	NOT APPLICABLE	TSHS 450,000+3.5% of the turnover in excess of TSHS 14,000,000

The argument which can be made after giving all the details regarding the taxation of the informal sector and the initiatives taken by the government towards formalization of the informal sector is that the administration of the value added tax can be problematic when the economy has a large informal sector. Although there is an argument that the VAT also taxes the informal sector indirectly since VAT is levied on some of the inputs and imports they use but where the taxable persons are few because of the threshold set obvious the coverage and magnitude of collection will very low since there are areas or sectors which will be highly affected for not having enough taxable persons to collect value added tax on behalf of TRA.

Another argument is that if the large part of the economy in Tanzania is in the informal sector as indicated in the TRA report statistics and the threshold has been set which mainly focuses on the formalized business it is obvious that a large number of taxpayers are not taken on board as a result the Government is losing a lot of revenue out of the informal sector. The move could have been to put more efforts in making sure that businesses in the informal sector are formalized and hence registered for value added tax. Besides, the threshold set can be classified according to size of different businesses, thus, brings more taxpayers on board and hence increase collection of revenue which is the objective for the introduction of value added tax in Tanzania. The registered total number of value added taxpayers versus the total number of taxpayers is the evidence that only few have been registered by TRA for value added leaving out a big population(about 56% as indicated in CAG's report do not pay taxes) who are in the informal sector since their businesses are not formalized.

Generally, by continuing focusing on the few registered taxable persons and increasing the threshold on the argument that it is because of administrative costs and compliance costs in the midst of the economy which the large part of it is in the informal sector as indicated without taking appropriate measures to formalize the informal sector and also putting the threshold in classes according to the sizes of businesses to take more people on board contribute to a large extent loss of government revenue. Besides, a proper mechanism of revenue collection is required to balance between administrative and compliance costs in respect of collection of value added tax.

SUMMARY OF THE ANALYSIS IN RESPECT OF VAT THRESHOLD

First, the study found that the set criteria for value added tax registration under the Value Added Tax Act exclude a large number of taxpayers as a result the government is losing a lot of revenue and hence affect the realization of the objectives of the introduction of value added tax in Tanzania. Besides, the study compared the total number of taxpayers which is 2.7 million in 2017/18 and the total amount of revenue collected versus the total number of registered VAT taxpayers which is 32,141 in 2017/18 and found that TRA has registered a very low number of VAT taxpayers when comparison is made to the total number of taxpayers as a result the Government is losing a lot of revenue from Value added tax.

Second, the study found that Rule 1.16 of the OECD VAT/GST Guidelines 2017 provides for principles of tax policy which are neutrality principle, efficiency principle, certainty and simplicity principle, effectiveness and fairness principle, flexibility principle. The Value Added Tax Act in Tanzania doesn’t reflect well the international principles governing value added tax as a result it contributes to loss of Government revenue since the Value added Tax law Act in Tanzania in some areas is not certain and simple. A good example can be observed from the Powers given to the Commissioner General as indicated by section 33(b) of the Value Added Tax Act. The section allows the Commissioner General where the Commissioner General is satisfied that there is good reason including protection of Government revenue to register the person for value added tax regardless of the person’s turnover. The law just provides including protection of Government revenue but it doesn’t define what amount to Government revenue and also what are other circumstances which the Commissioner General is mandated to register any person irrespective of the turnover of the person. All these are left to the wisdom of the Commissioner General to decide.

Third, the study found that the tax Authority instead of concentrating on how to bring more taxpayers on board and also to come up with new ideas on how to widen the tax base and realize the objectives for introduction of value added tax it is concentrating on increasing the threshold and the value added tax rate on the basis that they are managing or controlling the so called administrative costs and compliance costs. The act of concentrating on increasing the threshold and value added tax rate it is against the principles of effectiveness and fairness principle and neutrality principle since it will affect business competition and also increase compliance costs to the taxpayers and also create the burden to the final consumers.

Fourth, the study found that the threshold set which is not in different categories or classes of business plus the absence multiple value added tax rates in imposition of value added tax in most cases has a negative effect in voluntary tax compliance. It encourages also tax evasion since people feel that the tax system is not fair. This makes them to design mechanism for tax evasion and avoidance. Tax Evasion and Avoidance contribute to loss of Government revenue. Besides, the threshold set plus the rate of value added tax affect the individual saving opportunities and investment as a result many opt to use available loopholes in the law to avoid the payment of taxes.

Fifth, the study further found that the large part of the economy in Tanzania is in the informal sector as indicated in the TRA report statistics and the threshold has been set which mainly focuses on the formalized business. The registered total number of value added taxpayers versus the total number of taxpayers is the evidence that only few have been registered by TRA for value added leaving out a big population(about 56% as indicated in CAG's report do not pay taxes) who are in the informal sector since their businesses are not formalized. This implies that with the set threshold it is obvious that a large number of taxpayers are not taken on board as a result the Government is losing a lot of revenue from value added tax in the informal sector.

Lastly, the study found that by continuing focusing on the few registered taxable persons and increasing the threshold on the argument that it is because of administrative costs and compliance costs in the midst of the economy which the large part of it is in the informal sector as indicated without taking appropriate measures to formalize the informal sector and also without putting the threshold in classes according to the sizes of businesses to take more people on board contribute to a large extent loss of Government revenue.

RECOMMENDATIONS AND THE WAY FORWARD

The recommendation is in respect of the amendment of the VAT law. The suggested amendment of the Value Added Tax Act in Tanzania should take in account the following aspects:

Firstly, the Value Added Tax Act should be amended by providing provisions on the registration threshold which takes into account different categories or classes of business depending on the type and turnover of the business. This help to accommodate more taxpayers on board and hence increase the collection of revenue. One of the objectives of introduction of value added tax in Tanzania was to widen the tax base, therefore, by having the threshold according to the type of business and turnover it will widen the tax base and also increase Government revenue collection hence realization of the objectives of introduction of value added tax in Tanzania.

Secondly, the provisions governing powers of the Commissioner General in respect of registration of persons where he has good reason to do so including protection of Government revenue should be amended. The amendment should provide clearly what amount to good reason and protection of Government revenue. It should also provide clearly the issue of threshold instead just giving mandate to the Commissioner General to register persons without taking into account the issue of turnover of the person. Lack of clear provisions in law makes the taxpayers to suffer the consequences of the decision of the Commissioner General which may result into unnecessary tax disputes with administrative costs and compliance costs. The law should provide clearly the procedure invoked by the Commissioner General in registration of persons for protection of government revenue. This helps the taxpayers to anticipate the tax consequences of the Commissioner General decision. Besides, where the procedures are very clear it will increase morale in payment of taxes and also voluntary compliance in payment of taxes and hence reduce loss of Government revenue. If the tax system is not fair to the taxpayers this will encourage tax evasion and tax avoidance as result loss of Government revenue.

Thirdly, the powers given to the Commissioner General to register any person if he has good reason including protection of government revenue without taking into account the issue of turnover of the person contradicts with the principles of certainty and simplicity. It contradicts also the principle of effectiveness and fairness as provided by the OECD VAT/GST Guidelines

2017. It is not clear to the taxpayers as to what amount to good reason and also what amount to protection of government revenue. The law should be amended to reflect these international recognized principles.

Lastly, the Value Added Tax Act should be amended to articulate well Rule 1.16 of the OECD VAT/GST Guidelines 2017. The Guidelines provides for principles of tax policy which are neutrality principle, efficiency principle, certainty and simplicity principle, effectiveness and fairness principle, flexibility principle. The Value Added Tax Act in Tanzania doesn't reflect well the international principles governing value added tax as a result it contributes to loss of Government revenue and hence call for amendment of the same.

Apart from the recommendations in respect of amendments of the Value Added Tax Act there are also recommendations to TRA. Herein below are the recommendations:

Firstly, the Authority should concentrate on how to bring more taxpayers on board. It should also come up with new ideas on how to widen the tax base and realize the objectives for introduction of value added tax. The Authority instead of concentrating on increasing the threshold and the value added tax rate on the basis that it is managing or controlling the so-called administrative costs and compliance costs should design a well manageable mechanism which balances between the administrative costs and compliance costs. This will widen the tax base and ensure that enough revenue from value added tax is collected for the Government.

Secondly, TRA should take charge and facilitate through relevant authorities the registration of businesses which are operating in an informal sector. This will bring the businesses into the tax net and also registration for value added tax and hence collection of revenue. Formalization of businesses will to a large extent address the problems associated to presumptive taxes and also will be easy to determine their threshold for value added tax registration and collection of other taxes.

Thirdly, TRA should strengthen the capacity of their officers generally in interpretation and enforcement of tax laws. Where the officers are well acquainted with the law it becomes easy to interpret and enforce the same according to the spirit of the law. This assist to avoid unnecessary tax disputes between the tax Authority and tax payers. Tax disputes result into delay in payment of revenue to the Government and also create a burden to the Authority due to administrative costs and compliance costs on the side of the taxpayers.

Lastly, TRA should join different tax forums and also should advice the Ministry of Finance and Planning to enter into tax agreements with different countries. This will assist in exchange of information in tax matters and also resolve issues concerning taxing rights especially for cross border transactions. It will also assist in addressing problems of tax evasion and tax avoidance since the countries will be exchanging information in respect of tax matters concerning their jurisdictions.

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[ii] Sales Tax Act, 1976.
[iii] In December 1991 the Tax Commission, appointed by the Government of Tanzania, offered a proposal for reform of the Tanzanian tax system. The replacement of the current sa1es tax by a value-added tax (VAT) is the Tax Commission's central recommendation in the domain of indirect taxation. This proposal implies that VAT is regarded as the mainstay of Tanzania's future revenue system. The Government announced in the 1992 (June) Budget Speech its intention to introduce VAT in January 1994). It was introduced in 1997.See Working Paper by Chr. Michelsen, Institute Development Studies and Human Rights Value Added Taxation in Tanzania, Bergen Norway, 1995. p.1).
[iv] Cap 148 of 1998.
[v] Working Paper by Chr. Michelsen, Institute Development Studies and Human Rights Value Added Taxation in Tanzania, Bergen Norway, 1995. p.1.
[vi] It was amended by section 51 of the Finance Act, Act No. 2 of 2016 and Section 46A of the Finance Act, Act No.4 of 2017.
[vii] The laws found under Part A includes The Income Tax Act Cap 332, The Value Added Tax Act Cap 148,The East African Customs Management Act, (No.1 of 2005), The Excise (Management and Tariff) Act Cap 147,The Stamp Duty Act Cap 189, The Road and Fuel Tolls Act Cap 220,The Airport Services Charges Act Cap 365, The Motor Vehicle (Tax on Registration and Transfer) Act Cap 124, The Ports Service Charges Act Cap 264, The Cashewnut Board of Tanzania Act Cap 203, Vocational Education and Training Act Cap 82, The Foreign Vehicles Transit Charges Act Cap 84, The Gaming Act Cap 41,The Tax Administration Act Cap 438, The Road Traffic Act Cap 168. S. 105 of the Tax Administration Act amended the First Schedule of the TRA Act.
[viii] The laws under part B are the Local Government Finance Act Cap 290, The Oil and Gas Revenue Management Act Cap 328, The Rural Energy Act Cap 321, The Treasury Registrar (Powers and Functions) Act Cap 370, The Urban Authorities (Rating) Act Cap 289, The Petroleum Act Cap 392, The Immigration Act Cap 54, The Citizenship Act Cap 375, The Police Force and Auxiliary Services Act Cap 322, The Motor Vehicle Driving School Act Cap 163, The Firearms and Ammunition Control Act Cap 223, The Tanzania Passports and Travel Documents Act Cap 42, The Registration of Documents Act Cap 117, The Land Registration Act Cap 334, The Chattels Transfer Act Cap 210, The Units Titles Act Cap 416, The Land Act Cap 113, The Land Survey Act Cap 324, The Mining Act Cap 123, The Explosives Act Cap 45, The Electronic and Postal Communications Act Cap 302, The Tourism Act Cap 65, The Deep Sea Fishing Authority Act Cap 388, The Tourist Agents(Licensing) Act Cap 65,The Transport Licensing Act Cap 317, The Forest Act Cap 389,The Beekeeping Act Cap 224, The Antiquities Act Cap 333, The Civil Aviation Authority Act Cap 80, The Aerodromes Control and (Licensing) Act Cap 92, The Road Traffic Act Cap 168, The Airport Services Charges Act Cap 365, The Executive Agencies Act Cap 245, The Ferries Act Cap 173, The Land Disputes Courts Act Cap 216, The Surface and Marine Transport Regulatory Authority Act Cap 413, The Energy and Water Utilities Regulatory Authority Act Cap 414, The Tanzania Communications Regulatory Authority Act Cap 172, The Tanzania National Parks Act Cap 282, The Fire and Rescue Forces Act Cap 427, The Fair Competition Act Cap 285, The Business Activities Registration Act, No.1 of 2007, The Business Names(Registration) Act Cap 213, The Standards Act Cap 130, The Food, Drugs and Cosmetics Act Cap 219, Insurance Act Cap 394, The Ports Act Cap 166, Ngorongoro Conservation Area Act, Cap 284, The Wildlife Conservation (The Tanzania Wildlife Management Authority) Establishment Order, 2014. Make reference to s.47, s. 48, s.51 of the Finance Act 2016 and s. 66 of the Finance Act 2020 which amended the TRA Act.
[ix] S. 28(5) of the Value Added Tax provides that the turnover shall be the sum of total value of supplies made, or to be made, by the person in the course of an economic activity carried out during that period; and total value of supplies of imported services made, or to be made, to the person during the period that would be taxable supplies if the person was a taxable person during that period.
[x] National Bureau of Statistics, The Tax Statistics Report of 2017/ 2018, NBS, Tanzania, 2019, p.16.
[xi] National Bureau of Statistics, The Tax Statistics Report of 2017/ 2018, NBS, Tanzania, 2019, p.6.
[xii]National Bureau of Statistics, The Tax Statistics Report of 2017/ 2018, NBS, Tanzania, 2019,p.8.
[xiii]National Bureau of Statistics, The Tax Statistics Report of 2017/ 2018, NBS, Tanzania, 2019 p. 9.
[xiv] National Bureau of Statistics, The Tax Statistics Report of 2017/ 2018, NBS, Tanzania, 2019,p.10.
[xv] National Bureau of Statistics, The Tax Statistics Report of 2017/ 2018, NBS, Tanzania, 2019, p.16.

[xvi] National Bureau of Statistics, The Tax Statistics Report of 2017/ 2018, NBS, Tanzania, 2019,p.17.
[xvii] National Bureau of Statistics, The Tax Statistics Report of 2017/ 2018, NBS, Tanzania, 2019,p.19.
[xviii] National Bureau of Statistics, The Tax Statistics Report of 2017/ 2018, NBS, Tanzania, 2019,p.19.
[xix] National Bureau of Statistics, The Tax Statistics Report of 2017/ 2018, NBS, Tanzania, 2019,20.
[xx] I am of the view that the Tanzanian tax efficiency, both actual and target yields leave a room for improvement through increased efforts in the revenue mobilization by widening tax base, plugging of revenue leakages, improving voluntary tax compliance, tax efficiency and effectiveness. All these measures will eventually reduce country's fiscal deficit and debt financing gap. Make reference to 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.80.
[xxi] K.K.Agrawal., Direct Tax Planning and Management: Incorporating, Corporate Tax Planning, Business Tax Procedure and Management, (5th , Ed,) Atlantic Publishers and Distributors (P) LTD, New Delhi, 2006,p.8.
[xxii] Deutsche G., Addressing Tax Evasion and Tax Avoidance in Developing Countries, ITC, 2010,p.11.
[xxiii] This implies that a taxpayer arranges his financial activities in such a manner that they are within the four corners of the law but takes advantages of loopholes that exist in the tax law for reduction of tax liability. This implies that a tax payer has complied with the letter of law but not the spirit behind the law. Examples of tax avoidance modes includes transfer pricing(invoice values), tax deferral plan, tax deductions, tax credits, tax havens, payments in kind, etc. In Tanzania, tax avoidance was provided under section 35 of the Income Tax Act of 2004. This section has been repealed by section 116 of the Tax Administration Act. Tax avoidance is now covered by section 8 of the Tax Administration Act which covers among other things schemes for obtaining undue tax benefits. Section 8(1) of the Tax Administration Act provides that where the Commissioner General is satisfied that any scheme that has the effect of conferring tax benefits on any person was entered into or carried out solely or mainly for the purpose of obtaining that benefit by means or in a manner that would not normally be employed for bona fide business purpose or by means or in any manner of the creation of rights or obligation that would normally be created between persons dealing at arm's length the Commissioner General may determine the tax liability for any tax imposed by the law and its amount as if the scheme has not been entered into or carried out or in such manner as in the circumstances of the case, he considers appropriate for the prevention or diminution of the tax benefits sought to be obtained by the scheme. Section 3 of the Tax Administration Act define tax benefits in relation to a person to mean a benefit earned by avoiding, reducing or postponing liability of that person; increasing a claim of the person for a refund of tax; preventing or obstructing collection of tax from the person; any other act for which the Commissioner General is of the opinion that it might results into the reduction of a person's tax liability.
[xxiv] TRA, Review of Informal Sector for Taxation Purposes, January 2011,p.9.
[xxv] Mark C. et al., The One Billion Dollar Question: How can Tanzania Stop Losing so Much Tax Revenue, Tanzania Episcopal Conference (TEC), National Muslim Council of Tanzania (BAKWATA) and Christian Council of Tanzania (CCT), Dar es Salaam, 2012, p.24.
[xxvi] TRA, Review of Informal Sector for Taxation Purposes, January 2011, pp. Xii, 136, 138.
[xxvii] TRA, Review of Informal Sector for Taxation Purposes, January 2011,pp..xvii, 92.The CAG has estimated that around 56 per cent of people in the informal sector do not pay taxes, this is according to the article written by Aisia Rweyemamu, titled "56 pc in informal sector don't pay taxes – CAG' in The African on Saturday Newspaper, 3 March 2012.
[xxviii] TRA, Review of Informal Sector for Taxation Purposes, January 2011,p.2.
[xxix] Ibid
[xxx] Ibid
[xxxi] Ibid
[xxxii] Ibid
[xxxiii] Ibid
[xxxiv] Ibid
[xxxv] Ibid.
[xxxvi] TRA, Review of Informal Sector for Taxation Purposes, January 2011,p.3.
[xxxvii] Ibid
[xxxviii] Ibid
[xxxix] www.tra.go.tz (accessed 20/05/2020).
[xl] Ibid
[xli] Ibid
[xlii] Paragraph 2(2) to the First Schedule of the Income Tax Act, Cap 332 R.E 2019. Make reference also to https://www.tra.go.tz/index.php/income-tax-for-individual(accessed on 1/5/2020).

[xliii] Paragraph 2(3) to the First Schedule of the Income Tax Act, Cap 332 R.E 2019. Make reference also to https://www.tra.go.tz/index.php/income-tax-for-individual(accessed on 1/5/2020).