UNIVERSITY OF DAR ES SALAAM
DEPARTMENT OF ECONOMICS

ENHANCING TRANSPARENCY IN TAX ADMINISTRATION IN TANZANIA

EAGER/PSGE FINAL REPORT

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ABSTRACT

Fiscal reforms to address budget deficits in many countries in sub-Saharan Africa including Tanzania, have laid more emphasis on austerity measures on the expenditure side (across-the board cuts in government spending) and introduction of new taxes and recently, rationalization of the tax structure. Relatively little effort has been invested in addressing the problems of poor tax compliance and leakage in the revenue system. This report focuses on the chronic problem of tax evasion and the role of transparency in tax administration in enhancing tax-compliance in Tanzania. Transparency in this study is defined to encompass clear and unambiguous tax assessment or inspection criteria and collection methods, availability and access to tax related information (such as collections, compliance rates, duty exemptions, evaders and sanctions against culprits), taxpayer rights and obligations and appeal mechanism.

Two approaches were used to accomplish the objectives of the study. The first was the quantification of the magnitude of tax evasion by major tax categories from published secondary data and internal records of the Tanzania revenue authority (TRA) and other government institutions. This was done in the first phase of the study and involved deriving magnitudes of tax evasion using indirect measures. The second approach, which attempted to corroborate the findings derived in phase one, utilized survey data collected from questionnaires administered to taxpayers and tax administrators. The aim of this approach was to get a sense of the extent to which lack of transparency constrains tax compliance and whether enhanced transparency in tax administration can enhance tax compliance. Dar-es-Salaam tax region, which accounts for about 80 percent of all the tax revenue collections, was used as a sample area.

The study finds that tax evasion in Tanzania remains rampant. On average, the magnitude of tax evasion is found to be around 30 percent of the total tax liability. Tax evasion takes place both in form of malpractice by taxpayers and flouting of established procedures by tax officials. Taxable activities that are most prone to tax evasion include import trade, retail trade business, service delivery, small and medium scale industries and liberal professions. However, there are wide variations in the extent of evasion by and within tax categories and by type of taxable activity. Overall, this study indicates that the extent of tax evasion in Tanzania is very high in respect to tax categories that are typically subject to relatively higher rates or in sectors with too many taxes. In part, complex tax legislation, corruption and lack of transparency in tax administration generate this.

In conclusion, the study suggests ways to improve transparency in tax administration and tax compliance. Key suggestions include registration of property owners, sole proprietors and small enterprises; imposition of deterrent penalties against offenders – taxpayers and tax officials alike; computerization of tax administration; and introduction of a vetting mechanism for both tax officials and other senior politicians and Government officials. Others suggestions are: vigorous taxpayers education on correct or required tax procedures, tax legislation, self assessment, how tax money is spent, and importance of demanding receipts against purchase of goods or service; increased resources for frequent tax audits; inspection of duty exempted goods; strengthening and publicizing the system of tax informants; further rationalization of the tax structure; and improvement of tax administration.

EXECUTIVE SUMMARY

1. Motivation and Objectives of the study

Fiscal deficits have been the major cause of macroeconomic instability, which haunted Tanzania for almost two decades prior to the introduction of the cash budgeting system in 1996. Besides overzealous government expenditure, the fiscal deficits were mainly caused by the prevalence of revenue leakage in various forms and particularly through low tax compliance. Even after the introduction of the cash budgeting system, widespread under-funding of government operations remains a menacing phenomenon, basically reflecting inadequate revenue effort. Besides a serious attempt by Government to reform the tax system since 1988 through a number of measures, such as a reduction in tax rates, simplification of the tax system, and streamlining tax collection procedures, the tax-GDP ratio remains low (12.3% for 1997) compared to the average for the Sub-Saharan Africa region. Experiences elsewhere suggest that major strides in increasing the revenue effort (to address both problems of fiscal deficits and under-funding of government activities) can be achieved by addressing the chronic problem of lack of transparency in tax administration, which is a common phenomenon in most developing countries.

The main objective of this study has therefore been, to examine the extent to which tax compliance in Tanzania can be improved through enhancing transparency in tax administration. The concept of transparency in tax administration in this study is broadly defined to include: clear and unambiguous tax assessment and examination or inspection criteria as well as collection methods; availability to the general public of tax related information such as collections, sectoral compliance rates, big evaders

and penalties, exemptions, imports or sales volume, use of tax revenue, and similar aggregate taxpayer information.

2. Approach of the Study

This study was carried out in two phases. The first phase of the work focused on quantifying the magnitude of tax evasion by major tax categories from published secondary data and internal records of the Tanzania Revenue Authority (TRA), informed by a comprehensive review of both the theoretical and empirical literature. Other sources of information were various institutions, Government departments and Parastatals especially the Bank of Tanzania (BOT), Ministry of Finance, and National Bureau of Statistics (NBS). External data sources included the IMF Direction of Trade Statistics and data from the United Nations Statistical Division. This part also made use of estimates of the Business community on the value and volume of imports

The magnitudes of evasion derived in phase one of this study are in essence indirect measures. For example, evasion of indirect taxes was obtained by comparing lists and numbers of taxpayers as recorded by TRA vis-à-vis the list of companies kept by the Registrar of Companies, degree of under/over declaration from a sample of taxpayer returns and evasion as detected by the Controller and Auditor General (CAG). Similarly, in the case of indirect taxes, magnitudes of evasion were derived by examining differences between average scheduled tariffs and revenue-import ratios, residual of exports data of supplying countries over local import data after making the appropriate adjustments, and fraudulent exemptions. An attempt was subsequently made to put together the main causes of the problem.

The second phase of the study attempted to corroborate the findings derived in phase one with primary data obtained from a questionnaire survey of various categories of taxpayers and tax administrators to whom questionnaires were administered. Particular emphasis was put on the extent to which lack of transparency constrains tax compliance so as to infer the potential role of enhanced transparency in tax administration in improving tax compliance.

3. Summary of Major Findings

3.1. Forms and Magnitude of Tax Evasion

3.1.1. *Direct Taxes*

Evasion of direct taxes in Tanzania was found to take various forms. Activities where tax evasion is most rampant include retail trade business, service delivery, small and medium scale industries and liberal professions. More specifically, TRA records revealed that about 28 percent of all live corporate taxpayers in Dar es Salaam tax region do not pay taxes. Even more alarming, this study found that as much as 74 percent of all Dar es Salaam employers' files are dormant in the sense that they have either gone out of business or are still in business but default paying employment taxes. This finding tallies well with the findings from the survey of taxpayers where it was revealed that one common method of evading taxes is to re-register the same company under a different business name to evade paying their tax liabilities. This is also re-enforced by the significant estimated numbers of partnership companies and sole enterprises, which are not registered by TRA. It was clear in the course of this study that this problem persists mainly because of lack of information sharing among

TRA departments and also between TRA and other public agencies such as the Registrar of Companies.

From the sample of taxpayer returns that were surveyed it emerged that under-declaration of direct taxable incomes of between 30 to 45 percent is the norm while over-declarations is very rare. This estimate compares very well with the estimate shown by the taxpayer survey and revelations by the annual report of the Controller and Auditor General (CAG). Under-declaration is a common practice among all categories of taxpayers and in virtually all direct tax categories. Under-declaration was found to be widespread among individual income taxpayers, private limited companies and commercial farmers, withholding and rental income tax. The major reason expressed by most taxpayers for widespread evasion in these categories was the apparent absence of clear, objective, fair and unambiguous tax assessment criteria.

3.1.2. *Indirect Taxes*

As for indirect taxes, this study found that taxes on international trade transactions are most prone to evasion relative to domestic indirect taxes. The major evaders in this category are sole traders and small size enterprises. An analysis of import duty collection ratios shows consistently evidence of substantial leakage of government revenue from imports through both evasion and fraudulent exemptions. For example, while the average scheduled tariff rate was about 20 percent for the 1988 – 1995 period collection ratios ranged only between 6 to 12 percent. Import duty evasion is also revealed by estimates of aggregate under-invoicing of imports (about 34 percent annually). The forms in which import duty evasion takes place vary from under-

declaration of the c.i.f. value of imports by falsifying the type of imports and unit costs or quantities or both, quoting the wrong but low tariff rate, routing imports through illegal entry points or safe havens, misuse of customs bonded warehouses, and selling transit goods within the country. This study was also able to document some examples of street knowledge of tax evading imports from both the news media and individual informers. In regard to sales tax, the study observed discrepancy between sales value declared to TRA by the domestic manufacturer and the value of production reported to the Bureau of Statistics. Evidence of sales tax evasion is also abounding. The study observed under-declaration of sales in the case of beer, soft drinks, konyagi, sugar, cigarettes, cement, soaps and detergents. The understatement of sales ranged from 53 to 100 percent. Sales tax evasion is mainly carried out through under-declaration of sales and non-issuance of sales receipts or issuance of fake ones.

3.1.3. *Tax Exemptions*

The study also looked into the sizeable magnitudes of tax exemptions that were granted particularly prior to the establishment of the Tanzania Revenue Authority (TRA). Abuses of statutory exemptions can be inferred from the fact that the value of exemptions is found in the study to have exceeded import duty collections for the period from 1987 all through to the establishment of TRA in 1996. Most of the exemptions were awarded to non-government institutions, private companies, individuals, the IPC, parastatals, and charity and religious organizations.

3.2. Main Causes of Tax Evasion in Tanzania

3.2.1. *Evidence from TRA records and Other Secondary Data*

Evidence marshalled from both secondary sources and TRA files suggest that the main causes of tax evasion in Tanzania include corruption for personal gain; perception by taxpayers and the general public that tax administration is weak and corrupt; mild penalties on evaders; unclear and sometimes non-transparent assessment criteria; absence of a proper appeal mechanism; cumbersome procedures, dubious delays within the tax and other government departments such as licensing; high tax rates; too many taxes; and poor service delivery by the government. These factors are, mainly, a reflection of the lack of transparency in tax administration and government in general, which include inaccessibility by the majority of taxpayers to tax information such as tax acts and rate schedules; fair tax appeal mechanism; simple tax return forms, lack of a publicised list of hard core tax defaulters or evaders and actions taken against tax evaders and corrupt tax officials, transparent exemption rules and lists of beneficiaries of the tax exemptions; and lack of a reliable and valued communication channel between the taxpayers on one hand, and tax administrators on the other and credible accounting for the use of public revenue.

3.2.2. *Evidence From the Field Survey*

3.2.2.1. *Taxpayers*

Most taxpayers interviewed indicated that sole proprietors, followed by limited companies and partnerships, in that order mainly committed tax fraud. Likewise taxpayers rank small enterprises as highest tax evaders. The reasons given as the major causes of tax evasion are collusion with tax administrators and corruption, weak tax administration, high tax rates, too many taxes, and reaction against poor service

delivery by the government. Taxpayers also indicated that purchase and resale trade exhibited strongest tax evasion, followed by service delivery, small industries, liberal professions and large industries. It was further observed that although most limited companies are registered, a good proportion of partnerships and sole proprietors is not registered. Finally, the survey demonstrated that the major forms of tax evasion are sales without sales receipts, under-declaration and non-declaration of revenue by property owners, non-declaration of income by professionals, fraudulent imports that escape taxation, in that sequence.

3.2.2.2. *Transparency*

The survey indicated that most taxpayers interviewed felt that the tax system is not transparent. Less than half of the respondents have access to tax legislation, although they read them only occasionally. Around one-quarter of respondents does not read them at all. However, over 50% percent receive tax returns. Most taxpayers pay their taxes within the deadline. The small proportion which does not pay taxes within the deadline does not do so due to low profit margin, high tax rates, notification not received, high cost of living, lack of resources, in that order. Over 40 percent of taxpayers interviewed had no accountants at all, but about 50 percent had regular accounting system. Most taxpayers (about three-quarters) were very much in favor of publicizing all names of tax evaders. Most interestingly, a much larger proportion was in favour of publicizing amounts and all names of the beneficiaries of tax exemptions. Moreover, about 80% of taxpayers expressed opinion that discretionary exemptions were unnecessary drain to public revenue. Finally, most taxpayers were

not in favour of privatization of revenue collection as means to enhance revenue collection.

3.2.2.3. *Tax Administrators*

Most of the tax administrators indicated the presence of constrains as regards lack of facilities that would improve their work performance. Most of them estimated evasion of taxes to stand in the range of 40 – 45 percent. Tax administrators, like taxpayers ranked sole proprietors and small enterprises as the highest tax evaders. They also ranked import duty as the most evaded tax, followed by excise tax and VAT on imports. As to the causes of tax evasion, they ranked first lack of information and education on tax legislation, followed by incompetent tax agents, taxpayer mentality, high tax rates, and lack of administrative means. Further, they considered factors affecting tax compliance to include corruption, poor taxpayers' education, ambiguous legislation, political interference, poor working conditions and lack of skilled workers in that order. Accordingly, they suggested measures to reduce revenue leakage to include improving tax payers education, imposing deterrent penalty against evaders, providing attractive incentives to TRA workers and imposing lower tax rates. Similarly, they suggested measures to enhance tax compliance to include reduction of tax rates, enhancement of taxpayers education, improving social services, putting in place appropriate economic policies, rëduction of number of taxes, increasing transparency, improving working conditions, instituting a better mechanism for recruiting people in all political and administrative posts in government. Finally, like the taxpayers, they did not consider privatisation of revenue collection to be a viable

solution to enhance more revenue collection in Tanzania.

4. Conclusion and Policy implications

The major findings of this study as summarised in part three revolve around: (a) registration of taxpayers; (b) pattern of evasion; (c) corruption; (d) ambiguous tax legislation; and (e) collusion between tax payers and tax administration. Six main conclusions can therefore be drawn from this study:

4.1. *Registration of Sole Proprietors and Small Enterprises.*

This study indicated that among the causes of tax evasion and low tax compliance are non-registration of taxpayers and lack of information exchange between TRA departments and other institutions that keep taxpayers information such as the Registrar of Companies and pension funds like PPF and NSSF. Non registration of taxpayers could partly be attributable to lack of willingness on the part of these taxpayers to register in order to evade taxation. It may also be due to lack of administrative capacity on the side of tax administration to have those enterprises registered. Accordingly, to address the problem of registration what needs to be done is first, to educate the taxpayers involved on the importance of registering their business. Second, the tax administration must be improved to acquire the capacity to have the enterprises registered. But this can only be made possible if TRA can share information with other institutions to assist it in identifying sole proprietors and small enterprises. An important step in ensuring that all taxpayers are registered with the tax authority is to introduce the taxpayers identification numbers (TIN). By facilitating

follow-ups of taxpayers and information exchange between various tax departments within TRA, taxpayers identification numbers (TIN) ensure a maximum rate of tax compliance.

4.2. *Pattern of Evasion*

The study also revealed the pattern of tax evasion. Indirect taxes in general and VAT in particular are evaded through failure to issue receipts. In Tanzania the culture of issuing and demanding receipts is still non existent. Traders normally ask their customers if they want a receipt or not. If a customer demands a receipt he is given and if not he does not get it. To deal with this problem the government must educate taxpayers on the importance of demanding receipts against purchase of a good or service. Since the traders deliberately decide not to issue receipts, a strong penalty should be imposed against them to discourage potential defaulters.

4.3. *Corruption*

Corruption has been singled out in the study as one of the major problems in the tax system. Some of the respondents in the survey indicated that it is cheaper to bribe a tax official than to appeal to have his/her tax reduced. It is cheaper in terms of time and money. Solving this problem calls for the government to institute a transparent appeals mechanism: tax appeal courts, which are efficient and impartial. Such courts should not have TRA officials as members since their inclusion may bring unnecessary complications.

Corruption is a countrywide and sector-wide problem in this country that has

affected among other things, service delivery, tax collection, etc. President Mkapa's administration is all out to fight corruption. Nevertheless, it is questionable if much mileage has been achieved since the war against corruption was declared a few years back. Although poor pay to civil servants and other public sector workers may not be the key cause of corruption in Tanzania, it is among the major ones. Improvement of pay and guaranteed reasonable pension may reduce corruption to a greater extent. Accordingly, we recommend that the government should consider the possibilities of enhancing the pay of the civil servants and improving their pensions.

4.4. *Collusion of Taxpayers with Tax Officials*

The study has also revealed that taxpayers do collude with tax officials to evade tax. For example, VAT is evaded through collusion between tax officials and taxpayers. Such collusion is brought about by high tax rates, weak tax administrative, the prevailing bureaucracy in tax administration, complex tax structure, corruption, poor incentives to TRA staff, presence of discretionary exemptions, mild penalty, presence of less educated, unfaithful tax collectors, lack of frequent random audits. Thus to reduce the problem, the followings are recommended: reduction of tax rates, improvement of tax administration, streamlining bureaucracy in dealing with taxpayers, simplification of tax structure, fighting corruption, increasing incentives to TRA staff, reducing discretionary exemptions, abolishing unnecessary tax exemptions, employing educated, faithful and dedicated tax collectors, making tax rates uniform, and increasing frequencies of random auditing of taxpayers. In addition, this problem can be dealt with by imposing severe penalty against both

taxpayers and tax officials who collude. To date, the current practice has been to fire a tax official that is suspected to receive bribes or have been proved to receive the same. Even for those who have acquired massive wealth have not been prosecuted, neither have their properties been confiscated. Firing such people alone is not enough. To deal with this problem we recommend the government to confiscate those assets they acquired illegally. Such a measure will serve as deterrence to others.

4.5. *Unfair Tax System*

To date our tax system has elements of unfairness. One of the cannons of a good tax system is that a tax system should be fair. Taxpayers must be treated equally. In this spirit, the government should avoid employing unnecessary presumptive taxation, particularly in the area of indirect taxes. For example, import duty on imported used saloon car is 30% or Tshs. 1,000,000 whichever is higher. A fixed rate of Tshs. 1,000,000 duty presumes that any saloon car imported into the country cannot have a c.i.f. value of less than Tshs. 3,000,000 (or US$ 4,400). Many used cars are imported into the country at a value less than US$ 4,400). Presumptive taxation of imports, particularly of cars, which are not domestically manufactured, should be avoided to make the tax system fair. People cheat on the c.i.f. value of imports because of high tax rates and unfair tax system. Thus to avoid such problem the government should lower the tax rate and make the tax system fair.

4.6. *Transparency in Tax Administration*

At present there is clear absence of transparency in tax administration. This problem

features in ambiguous tax legislation, bureaucracy in tax administration, failure to publish names of tax evaders and tax exemption beneficiaries, lack of computerization of tax administration and low level of taxpayers education. Enhancing transparency in tax administration demands a more vigorous campaign to educate taxpayers and tax collectors through seminars, workshops and public news media on correct or required tax procedures, tax legislation, self tax assessment, how tax money has been spent, costs of evasion and so on. Other important measures include making public the list of hard core tax defaulters and dishonest tax officials, including actions taken against them and beneficiaries of and amounts of fraudulent tax exemptions; publishing and making tax rates readily available to the public. It is also important for the government to be more open on the rationale behind the various measures undertaken to enhance tax compliance. For example, the finding that over 80 percent of the tax administrators surveyed did not consider the privatisation of revenue collection to be a sustainable solution to enhance tax collection is likely to have a bearing on the operations of the PSIs as long as a significant number of tax administrators remain unconvinced of the need to have the PSIs in place. Finally, this study shows that political commitment is necessary for improved tax compliance and corruption record. This study suggests, among others that the vetting mechanism which currently applies to staff recruited by TRA should be extended to apply to all political and technical staff posts in the entire government establishment.

The study has demonstrated lack of transparency in tax administration in form of ambiguous tax legislation, resorting to arbitrary or ad hoc measures used to collect tax revenue as opposed to employing scientific and transparent techniques. In view of

these shortcomings, it is being recommended that the government should revisit/review the tax legislation with a view to making them unambiguous and more transparent.

4.7. *Frequency and Coverage of Tax Audits*

Since the rate of under-declaration of taxes in Tanzania is very high, it would seem important to suggest that the frequency and coverage of tax audits should be increased, and if possible deterrent penalties imposed for deliberate under-declaration. Frequent and random audits would increase the probability of a taxpayer being caught and penalised, thus, increasing the rate of tax compliance. Specifically, more resources need to be directed towards strengthening and increasing tax audits of the tax returns for individuals, private companies and commercial farmers where evasion was found to be very common. In the case of withholding taxes, more resources need to be directed to improve compliance by transport operators and in the areas of royalties and dividends.

4.8. *Phased Registration of Property owners*

Rental income is one of the highly evaded taxes, mainly because it has been difficult to track down both landlords and tenants. Registration of taxpayers and taxpayers information exchange between departments would help track down defaulters based on filed returns (e.g., the counterpart of expenditure on rent is receipt of income from rent, which has to be taxed). All property owners should suggestively be made liable to pay a proportional tax rate on rental income. The rate should be affordable by all

landlords. There should not be a threshold.

4.9. *Introduction of Performance Contracts between the Government and PSIs*

Despite the presence of pre-shipment inspection (PSI) companies, tax revenues have continued to be lost through under-declaration of import values and quantities at the Dar es Salaam port entry point. To deal with this problem, it would be pertinent for the TRA/government to enter into performance contracts with the PSIs and where possible, institute a mechanism that allows a random re-inspection of imports to ascertain the authenticity of the work done by the PSIs. Many other measures of overcoming revenue leakage through imports, sale or discharge of transit goods within the country, smuggling of goods, have been suggested and documented elsewhere (see., e.g. ESRF 1996) and need not be repeated here.

4.10. *Inspection of Imports by NGOs and Charity Organisations*

The government needs to exercise care in issuing exemptions to some non-governmental organizations (NGOs), religious and charity organisations and contractors to the government since such exemptions have become a conduit for evading taxes. There is a need to ensure that imports of exemption beneficiaries are thoroughly inspected to verify the authenticity of exemption orders quoted, classification and type of goods imported, and the tariff charged.

4.11. *Evoking Business Licenses of Sales Tax Defaulters*

The taxpayer survey has revealed that most businesses do not issue receipts against

sales made. This practice is against sound business ethics and at best it facilitates evasion of domestic indirect taxes. Appropriate enforcement mechanisms including heavily penalising the defaulters, for example, by revoking their business licenses is in order. However, given the corrupt environment picture as painted out in the taxpayer survey, curbing corruption may be a necessary condition for the success of enforcement mechanisms.

4.12. *Further Reform of the tax Regime and Tax Administration*

Lack of transparency in tax administration as broadly defined in this study emerges clearly to be an important factor behind low tax compliance in Tanzania. However, no single policy instrument can alone serve to curb the problem of low tax compliance satisfactorily. It is imperative that the government deploys a comprehensive policy mix to address the problem. More specifically, the government and TRA should, at the turn of the century, continue with the reform of the tax system but focusing more on further rationalisation of the tax structure and tax administration. The former requires moving a step further down the road towards fewer taxes and bands and lower tax rates while simultaneously widening the tax net and also simplifying procedures to minimise delays. Measures to improve tax administration should aim to provide TRA with a well trained workforce recruited and promoted solely on merit; better and more modern working facilities; reasonably good remuneration to all TRA staff that rewards competency and good performance and punishes staff complacency; and strengthening the audit, inspection and investigation functions through proper training and adequate financing of these tasks.

4.13. *System of tax informants*

The tax administration is currently still weak but is in the process of being strengthened, and of course it will be strengthen eventually. The process takes time before completion. In the transition period we recommend one measure to assist the tax administration to fight tax evasion. We recommend the system of "tax informants". Under the proposed system a citizen is encouraged by the government to report a tax evader by providing concrete evidence. After reporting the case the tax administration carries out investigations to establish the reported allegations, the person who reported the case is paid a certain percentage of the total amount of the tax evaded, say 10%. However, administration of the proposed scheme may be problematic and can be subject to serious criticisms since a similar scheme was instituted in the Ministry of Home Affairs. But if properly managed it can work and consequently reduce evasion. The scheme has successfully worked in developed economies e.g. the United States, and experience has shown that it can work in Tanzania provided it is properly managed.

PART I

ESTIMATION OF TAX EVASION

1. Introduction

Since the 1970s most developing countries have experienced huge and persistent fiscal deficits. While public spending has been growing rapidly, revenue performance has been unsatisfactory, resulting into high fiscal deficits (Osoro, 1995). In recent years, fiscal deficits have been a major concern in African countries among academicians and policy makers. Most African governments consider the problem of fiscal deficit to be a serious one. Large fiscal deficits are the main cause of macroeconomic instability in most sub-Saharan Africa (SSA). To address this problem, African governments have focussed on both the revenue and expenditure instruments. Efforts to control expenditure have laid emphasis on cutting down the over-staffed and unproductive civil service, eliminating losses incurred by public parastatals, and minimising wasteful public investment, large amounts of which are derived for political advantage or personal enrichment (Wadhawan and Gray, 1996).

As regards the revenue side, which is the concern of this paper, emphasis has been directed towards designing new taxes, determining revenue maximising tax rates, and rationalisation of the tax structure. While these measures were being put in place, these countries have been bound to open up their economies to international trade. Opening up their economies has called for reduction in tariff rates. In reference to experiences of East Asia economies, growth suggests that maintaining a low overall tax burden is a precondition for rapid growth (Wadhawan and Gray, 1996).

These considerations draw attention to the question of tax compliance in Africa. As pointed out earlier, tax evasion is one of the major problems that tax administration in developing economies face. All governments in these countries are

out there to fight evasion. Efforts to reduce evasion might make it possible to ease the burden on economic agents who currently pay all or most of their taxes, consequently enhancing allocative efficiency in general, improving incentives for those agents to invest and produce, and promote growth and equity.

In Tanzania, for example, one of the most stubborn problems that faced the then tax departments and inherited by the Tanzania Revenue Authority (TRA), has been the prevalence of leakage of government revenue. According to the various reports of the Controller and Auditor General, the Report of the Presidential Commission of Inquiry Against Corruption – popularly known as The Warioba Commission Report (URT 1996) and Sanare (1997), among others, the leakage takes various forms, which can be broadly categorised into:

(a) Malpractices by taxpayers:

(i) Under-declaration of the value of imported goods

(ii) Under-statement of sales

(iii) Omission of transactions from books of accounts

(iv) Diversion of transit goods into the domestic market

(v) Over-statement of expenses

(vi) Misuse of bonded warehouses and duty free shops

(vii) Routing imports through Zanzibar (a safe haven)

(viii) Smuggling of goods into the country

(ix) Abuse of the Investment Promotion Centre (IPC) certificates.

(b) Flouting of established procedures by tax officials:

(i) Abuse of tax exemptions

(ii) Non-issuance of receipts for money received

(iii) Poor accounting and short banking of revenue collected

(iv) Use of fake revenue receipts and stamps

(v) Deliberate under assessment of dutiable income or sales

(vi) Wrong classification of tariff codes

(vii) Bogus tax collectors

(viii) Application of lower exchange rates

(ix) Non-registration of taxpayers

(x) Cumbersome procedures and documentation.

Definitely there are other many revenue leakage sources in Tanzania, which will be discussed in sections 2 and 3. It only suffices to mention here that few studies have been done in Tanzania to investigate sources of revenue leakage. However, one area where much work remains to be done is in the area of improving tax compliance through enhancing transparency in tax administration. This is the main objective of this study. Lack of transparency here connotes: (i) the absence of transparent tax assessment and examination or inspection criteria and collection methods; (ii) failure to publish or avail to the public tax collection information such as, collections, sectoral compliance rates, big evaders and penalties, exemptions, imports or sales volume, and aggregate taxpayer information; and (iii) lack of taxpayer education informing taxpayers of their obligations and rights.

This part of the report has five sections. Apart from the introduction, Section 2 presents the macroeconomic setting and motivation for tax evasion. Section 3 provides literature review focusing on tax evasion studies in Tanzania. Section 4 outlines the methodology, explains the data sources, describes estimation techniques, and presents the estimation results of tax evasion by tax categories (direct and indirect taxes). Section 5 concludes the study by highlighting the major findings and the emerging policy implications.

2. Macroeconomic Setting and Motivation for Tax Evasion

The problem of tax evasion in Tanzania is a result of many factors both socio-economic and political. However, to a greater extent it is economic factors based on taxpayers' economic decisions that dominate. In many cases taxpayers evade taxes so as to use the resources saved therefrom for other purposes, implying that there are direct economic benefits that are associated with successful tax evasion. The decision to evade is, however, compounded or reduced by other factors such as the degree of enforcement, the benefit derived from evading tax (the amount of money saved) the probability of detection, penalties associated with such detection, and level of tax rate. Others are benefits (public or otherwise) accruing from government projects funded by taxpayers' money, perception that everybody cheats/avoids paying taxes - especially the rich, etc. Most of these factors can be classified under socio-political-economic causes of tax evasion. Some can even be characterised as resulting from poor tax administration, which quite often, has been a result of an economic factor - *underfunding*. As it will be shown below, no study has, however, been

undertaken in Tanzania to ascertain which of these factors have prompted the evasion of *direct taxes* in Tanzania. Mpango (1996) investigated only import duty evasion.

Despite lack of many empirical studies in this field in Tanzania, it is now clear, based on general review of economic and macroeconomic performance, that almost all sorts of evasion are a result of economic crisis and imperfections characterised by a variety of government controls and restrictions - mainly international trade and exchange restrictions, domestic trade and market controls, and wage and price controls. In the 1970s and from early to mid 1980s, for example, these controls and restrictions led into widespread shortages of goods and services and foreign exchange, which in turn led into rationing of these items and consequently lower production and the emergence of parallel market for goods and foreign exchange (see, e.g. Maliyamkono and Bagachwa 1990; Mwinyimvua 1996). Coupled with declining wages, the emerging lucrative parallel market and rationing encouraged corruption, rent-seeking and other immoral practices in the parastatals, the civil service and other sectors of the economy.

Being lowly paid civil servants, tax administrators were not an exception in the emerging behaviour. Somehow they had to make their ends meet, either legally or through corrupt practices such as soliciting for bribes before rendering service or in exchange for lower tax liability to "corrupt" taxpayers.

Clearly, as the above brief discussion has tried to demonstrate, there is a link between macroeconomic/economic performance and tax evasion. Having instituted controls and restrictions especially in the periods mentioned earlier, and being faced with economic crisis like many other sub-Saharan African (SSA) countries, Tanzania

forms a good example of what other SSA countries might be going through.

Many other reasons have been put forward to explain what motivates poor tax compliance in Tanzania. The reasons include: (i) non-transparent or ambiguous tax laws which are subject to various interpretation (ii) problem of too many taxes and imposition of prohibitive tax rates on few taxpayers or commodities (iii) weak and cumbersome tax collection procedures (iv) shortage of skilled workers (v) poor work incentives and tools for the tax collectors (vi) lenient penalties for the tax evaders, and (vii) rampant corruption (Ndulu 1996, Sanare 1996, Warioba Commission Report 1996, Mpango 1996); and lack of transparency in tax administration (ESRF 1996).

Some measures to curb evasion have been introduced especially since the inauguration of the TRA on July 1, 1996. These are: (i) some extent of rationalisation, simplification and abolition of some taxes; (ii) the recruitment by the TRA of relatively better trained and well remunerated employees compared to the pre-TRA era; (iii) introduction of new security receipts and new TRA staff identity cards; (iv) strengthening the tax audit and investigation; (v) amendment of some tax laws to allow for deterrent penalties against tax evaders and corrupt tax collectors; and (vi) streamlining valuation and collection procedures. However, despite of all these measures tax revenues as percentage of GDP have not improved significantly due to the failure to effectively implement these measures.

3. Literature Review on Tax Evasion in Tanzania

This section reviews only tax evasion literature on Tanzania. Theoretical and empirical literature on other countries have been covered at length in Radhawan and

Gray (1996) such that they do not deserve any further treatment here.

Comprehensive studies on tax evasion in Tanzania are very scarce. The prevalence of tax evasion has however, been persistently pointed out in, *inter alia*, the annual reports of the Controller and Auditor general. A glimpse of tax evasion is also evident in some studies on various aspects of Tanzania's fiscal performance. For instance, income tax evasion was pointed out by Mtatifikolo (1990), who attributed the low buoyancy relative to elasticity as suggesting the existence of substantial tax evasion and avoidance. This claim was supported empirically by the low response of business income to its base considering that this base was the most responsive to national income. Tariff evasion was indicated in an import tariff study by Ndulu *et.al.* (1987). The study found, among others, that the structure of declared imports in Tanzania was responsive to the rate structure. High tariffs tended to be prohibitive or inducing under-declaration of imports. The study also observed that items with very high duty rates had very low collection rates and even the import value of such items was quite low and zero in a number of items.

Maliyamkono and Bagachwa (1990) attempt to answer the question of how Tanzanians live in a country where official indicators of economic performance paint a gloomy picture. They show that the second economy is part and parcel of the official economy. They also point out that the Tanzanian economy has drifted into distress as a result of imposing external events and conditions which were largely responsible for the protective internal economic policies introduced in response to nationalisation and indigenisation of the economy, various controls, and a seeming retreat from the country's long-term objectives.

Using both macro and micro approaches, Maliyamkono and Bagachwa estimated the size of the second economy in Tanzania for the period 1975-86, based on Gutmann (1977) approach. They found that the second economy has grown to as high as 30 percent of official GDP, as the official economy entered distress among others because of various controls and interventions into the economy. Since the second economy is largely characterised by secrecy and bypasses many official channels (licensing, marketing, etc.), it is clear that it easily facilitates tax evasion. Also using both estimations of the demand for currency equation as a proxy for the size of the second economy and trade data discrepancies the study indicated the growing tax evasion problem in Tanzania. Based on the UK-Tanzania trade statistics the study estimated that 18.7 percent of official imports were under-invoiced in 1985. The study also listed imports impounded by the Customs as evidence of smuggling and tax evasion.

Bagachwa and Naho (1995) is another study that attempted to estimate the magnitude and changes of the second economy in Tanzania. The aim was to establish the extent to which official national accounts understate actual or real production of goods and services. The study differs from Maliyamkono and Bagachwa (1990) in that it updates and extends the earlier period to cover the period 1986-90, which is marked by relaxation of various controls and continued decline in real wages. The study also uses an alternative econometric method based on a demand for currency equation and its modified versions.

One major observation made by Bagachwa and Naho is that the second economy in Tanzania seems to have grown from a low level of less than 10 percent of

official GDP during the late 1960s to sizeable proportion of over 20 percent after the mid-1980s. Although they did not estimate the extent of tax evasion, their observation suggests that controlling for activities that are impossible to tax, the amount of tax that the government has not been able to collect from the second economy because of evasion should be substantial.

Semboja *et.al.* (1991) attempted to estimate the rate of import duty tariff compliance by analysing the relationship between scheduled tariff rates, collection rates and imports (tax base) by comparing the data for 1986 and 1989. Contrary to a priori expectations, the study indicated that collection rates declined even for consumer goods and capital goods whose rates were reduced. However, collection rates for intermediate goods fell following an increase in scheduled tariffs.

Various associations of the Business Community have invariably pointed out ad hoc indications of the tax evasion syndrome. For instance, the Confederation of Tanzania Industries (CTI) estimated lost customs duty and sales tax revenue resulting from poor tax administration and wrong classification and valuation of imports to have been over 250 billion shillings for the period March 1993 to March 1994. The Textile Manufacturers Association of Tanzania (TEXMAT) suggested a very low rate of tax compliance in the textile imports sub-sector to have been only 1 percent in 1991. Other indications of evasion arose from casual observation, as when some imported textiles (khanga) were recorded in 1991 to be selling at prices 30 percent lower than the tax that was due on it.

Osoro (1995) estimates tax evasion in Tanzania by calculating the ratio of actual revenue to officially estimated nominal GDP, and assuming that underground

activity generates theoretical tax liability in the same ratio. Thus, evasion is assumed to bear the same ratio to actual revenue that the underground does to officially estimated GDP. With underground activity estimated at a zero in 1977, an assumption which is a questionable, Osoro's procedures show evasion varying between zero in that year, a 1967-77 maximum of 25 percent of revenue in 1972, and subsequent maxima of 31 percent in 1987 and 1990.

A study by Mpango (1996) focused exclusively on the measuring the magnitude of deliberate under-invoicing of imports in Tanzania and the motivating factors. The method used was to compare two data sets, that is local c.i.f import statistics and corresponding f.o.b exports data as reported by twelve trading-partner countries, which account for 60-70 percent of Tanzania's total imports. The magnitude of deliberate aggregate under-invoicing of imports was found to be about 20 percent. The main factors motivating evasion of import duties were found to include high scheduled tariff rates, vigorous exchange rate adjustment, low salaries and work incentives offered to the customs staff, and opportunities for evasion offered by commodity heterogeneity.

The issue of tax evasion as a factor that contributes to poor tax performance is also discussed in Mwinyimvua (1996), although not in detail. The study cites avenues of evasion of import duties and sales and excise taxes on imports to include under-invoicing and smuggling of imports to beat import controls, increasing use of tax exemptions (especially those issued without following laid down procedures), and laxity in evaluation of taxable imports due to complicated tax schedules, too much documentation, and corruption. For sales and excise taxes on local goods the major

means of evading taxes is under-declaration of output. Avenues used to evade company income tax include incomes escaping assessment, wrong assessment of profits due to incorrect (deliberate) deductions, omission (deliberate) of undistributed dividends, and wrong assessment of income due to inadequate examination of company accounts. Income escaping assessment has also become an important means of escaping individual tax as the difficult to tax informal sector expanded; while means used to evade PAYE have included non-delivery of PAYE collections to tax authorities by some employers and the payment of salaries and other allowances 'under the table'. Generally, poor administration capacity compounded by complexity and weaknesses in tax laws which have made it difficult to net or penalise tax defaulters have in a way encouraged and nurtured tax evasion in Tanzania. Mwinyimvua also did not attempt to estimate the extent of tax evasion in Tanzania.

The issue of tax evasion has also preoccupied businessmen as documented in ESRF (1996) report. The major causes of tax evasion as mentioned in ESRF (1996) report include prohibitive tax rates, a political and economic policy environment that is unfair and not perceived by business to be customer friendly, and lax tax administration coupled with cumbersome bureaucratic procedures. Others are perceived ability to escape punishment even if the tax evaders are caught, and corruption leading to collusion between poorly paid tax assessors and taxpayers. No rigorous attempt was made by ESRF to estimate the magnitude of tax evasion. However, the business community's estimates of both volumes of production and imports on the basis of their veteranship and subsequent knowledge of the size of the market in their line of operation as well as their relative shares, were invariably higher

compared to corresponding official statistics. For example, while the official imports volume was only US$ 1.5 billion for 1996 the Business Community estimate for the same year put it at US$ 2.6 billion.

4. Estimation of Tax Evasion

The introduction and literature review sections have shed some light, albeit briefly, on the nature of the Tanzania's socio-economic situation and causes of tax evasion. In this section an attempt is made to substantiate, and where possible, to estimate the magnitude of tax evasion in Tanzania, given data availability difficulties. Before estimations are done and results discussed, however, the methodology (data and model) that is used in this study is described.

4.1. Methodology

4.1.1. Data

Much of data that has been used in this study was collected from the Tanzania Revenue Authority (TRA), mainly from the Head Office and the five Dar es Salaam Regional Revenue Offices. The Dar es Salaam Regional revenue offices include those that correspond to Dar es Salaam District administrative set-up, that is, Temeke, Ilala and Kinondoni, and those that are function specific - Employment Taxes Region and Withholding Taxes Region at Ubungo. The TRA Head Office and the Treasury furnished us with countrywide data, where it was available, while the Dar es Salaam Regional Revenue Offices provided us data related to the Dar es Salaam region. Since about 80 percent of tax revenue in Tanzania are collected in Dar es Salaam, most of

the analysis below will be based on data that is more easily available from this region.

Other sources of information include the Registrar of Companies, National Social Security Fund (NSSF), Parastatal Pensions Fund (PPF), Registrar of Motor vehicles, National Housing Corporation (NHC), Dar es Salaam City Commission, United Nations Statistical Division, Investment Promotion Center (IPC), Bank of Tanzania (BOT), The IMF Direction of Trade Statistics, Revenue flash reports of the Ministry of Finance, Bureau of Statistics and the Planning Commission. The type of data or information that was collected relates to major taxes. These include: company tax, individual tax, PAYE, Payroll levy, withholding taxes (bank interest, insurance, goods and services, transport and rental income), import duty, sales and excise taxes on imports and domestic goods, hotel levy, and motor vehicle registration fees and licenses. Other data relates to tax exemptions. The study also makes use of estimates by the Business Community of the volume and value of imports.

4.1.2. Estimation Techniques

The methodology that this study adopts in substantiating the presence and extent of evasion involves what is described in sub-sections that follow.

4.1.2.1. *Direct taxes*

(i) A comparison of lists and numbers of taxpayers recorded by tax authorities with independent data on such economic actors as companies and commercial farmers, recorded in company registers, etc.

(ii) Comparison of totals of individual and company income declared and

undeclared plus declared (assessed).

(iii) A comparison of total of various withholding taxes with their corresponding amounts recovered through audits.

(iv) Aggregation of evasions, based on the Controller and Auditor General's reports.

4.1.2.2. *Indirect taxes*

Exploration of the extent of evasion of import duties involves studying five different indicators:

(i) A comparison of revenue-import ratios to the average scheduled tariff rates.

(ii) Measurement of evasion of import duties as the residual of exports data of supplying countries over local import data.

(iii) A comparison of vehicle registrations to the volume of imports of motor vehicles.

(iv) Street knowledge of transactions and imported goods that escape the tax net.

(v) Aggregation of evasions, based on the Controller and Auditor General's reports.

In the case of sales tax, the amount of evasion is estimated as the difference between the value of production in selected industries (published by the Bureau of Statistics) and the actual sales tax volume reported to the TRA. Aggregation of sales tax evasions, based on the Controller and Auditor General's reports, is also done.

4.1.2.3. *Exemptions*

(i) Aggregation of exemptions during certain years classified under authorising agent, tax category, commodities or services, category of beneficiaries (private/parastatals, etc), and individual beneficiaries.

(ii) Aggregation of doubtful exemptions based on Controller and Auditor General's reports.

(iii) Analysis of these exemptions to determine their conformity/nonconformity to social objectives.

4.2. Estimation Results

As already pointed out, measuring tax evasion is a very difficult task to undertake. This arises from the problem inherent in having access to relevant information/data on the amount of tax evaded. In view of this problem, only rough estimates of tax evasion can be made at this stage.

4.2.1. Direct taxes

4.2.1.1. *Comparison of lists and numbers of taxpayers recorded by tax authority with independent data.*

The number and list of various taxpayers was made available to us by the TRA. The list contained mainly taxpayers that were active (according to TRA) and formed a good basis for comparison with independent sources, mainly the Registrar of Companies, from which we noticed substantial discrepancies between the two lists. This observation points to the fact that some businesses were registered by the

Registrar of Companies, but not registered by the tax authorities. Save for these businesses that were out of business genuinely but their names were still in the Registrars books, other businesses did not, for taxation purposes, deliberately register with the tax authorities. Some of the businesses were still in business but had changed names (to avoid tax liabilities) thus making the list of the Registrar of Companies to look longer than that of the tax authorities. Table 1, which is based on the TRA's taxpayers list, summarises the number of various taxpayers located in Dar es Salaam.

Table 1: Number of Various Taxpayers, Dar es Salaam Region 1996/97

Sector	*Ilala**	*Kinondoni*	*Temeke*	*Corporate***
Limited Companies	3818	1006	95	
Bars	106	208	97	
Restaurants	282	69	82	
Guest Houses	234	287	92	
Groceries	291	227	74	
Hair Salons	322	273	97	
Taxis	988	49	-	
Daladala (Private town buses)	3872	-	-	
Parastatals	-	-	-	149
Multinationals	-	-	-	523
Manufacturing and Finance	-	-	-	548
Construction and Real Estate	-	-	-	202
Import and Export Wholesale	-	-	-	397
Transport, Clearing and Forwarding	-	-	-	201
Landlords	-	-	-	574
Others				755

*Based on Individual (except Limited Companies) Tax Business License Clearance Certificates issued.
** As at July 1997.

The summary of number of taxpayers in the Employment Taxes Region also makes an interesting observation. Table 2 shows this number for limited companies, broken down according to tax regions. This summary is interesting because it comes from TRA and shows the number of taxpayers, 'live but not paying,' who are actually "legally" evading paying taxes. These constitute, for the case of Corporate and Ilala,

28 percent of all 'live' ('live and paying' and 'live and not paying') taxpayers. The number of dormant files also raises suspicion. For example, dormant files are 72 percent of total files of Corporate and Ilala, 92 percent of total files of Kinondoni, and 91 percent of total files of Temeke. Overall, 74 percent of all Dar es Salaam employers' files are dormant. Definitely, not all dormant files are really dormant, and employment tax administrators concur with this view. While some of the employers have gone out of business, others are still in business but do not remit employment taxes to TRA.

Table 2: Employment Taxes Region: Report of Number of Files - Limited Companies

Region	Employers Live Files	Live Files but Not Paying	Dormant	TOTAL
CORPORATE and ILALA	2611	1039	9350	13,000
KINONDONI	78	Cannot be Identified	864	942
TEMEKE	29	Cannot be Identified	289	318
TOTAL	2718	1039	10503	14260

Source: Employment Taxes Regional Office - Ubungo, Dar es Salaam.
NB: This report excludes series 11000 and 14000 that need clarification from respective regions, i.e., Corporate and Ilala. The distinction in the number of files between Corporate Tax region and Ilala region is blurred because there is duplication of files in series 10000, 11000 and 14000.

However, it has been difficult to detect these defaulters mainly because of the problem of lack of information sharing among TRA departments and also between TRA with other bodies such as the Registrar of Companies. Our quick comparison of the two lists showed that some of the "dormant" taxpayers were actually not dormant as thought by the tax authorities.

4.2.1.2. *Comparison of Declared and Undeclared plus Declared (Assessed) Total Individual and Company Incomes.*

In comparing declared and undeclared total individual and company incomes, we asked from TRA for a sample of 50 taxpayers' tax declarations for each tax, corporate/company tax and individual/personal income tax. The samples, covering the same taxpayers, were for three consecutive years 1993-95. Table 3 shows the number of samples that were made available to researchers (column 2) and those that were ultimately used in the analysis (columns 3 to 5). There are fluctuations in the number of useful sample because some companies/individuals either did not submit returns in certain year(s), or submitted returns but were not assessed, or went out of business. Temeke's samples are small because standard assessment overrides self-assessment.

Table 3: Evaluation of Taxpayers' Returns: Number of Sampled Returns, Dar es Salaam.

Sector	Sample of Taxpayers' Returns	Sample of Useful Taxpayers' Returns		
		1993	*1994*	*1995*
Parastatals and Multinational Co.	13	11	12	7
Other Companies (Private)	39	26	35	35
Commercial Farmers	12	5	5	5
Limited Companies (Ilala)	48	48	48	48
Individuals (Ilala)	50	50	50	50
Limited Companies (Kinondoni)	48	33	35	28
Individuals (Kinondoni)	28	27	24	24
Limited Companies (Temeke)	19	12	13	9
Individuals (Temeke)	8	5	7	6
Total Companies	***179***	***135***	***148***	***132***
Total Individuals	***86***	***82***	***81***	***80***
GRAND TOTAL (Companies + Individuals)	**265**	**217**	**229**	**212**

The results of comparison of declared (or returned) and 'undeclared plus declared' (or assessed) total individual and company incomes are summarised in Table 4. Several observations emerge from the table:

Table 4: Evaluation of Tax Returns (Dar es Salaam Region) 1993-95.

	1993			1994			1995		
	RT. Income	*As. Income*	*Variation(%)*	*RT. Income*	*As. Income*	*Variation(%)*	*RT. Income*	*As. Income*	*Vari*
Ctax: PMC	10,556,735,676	17,510,107,004	*39.71*	16,539,595,426	23,617,479,312	*29.97*	13,194,695,643	18,809,977,782	
Ctax: OP	332,579,505	463,169,457	*28.19*	399,411,160	486,119,787	*17.84*	146,202,881	506,217,211	
Ctax: CF	1,215,904	10,281,011	*88.17*	2,401,458	8,375,975	*71.33*	3,324,468	12,646,828	
Ctax: Ilala	72,446,749	117,490,636	*38.34*	77,241,436	170,761,566	*54.77*	93,773,345	217,105,058	
Itax: Ilala	33,207,201	47,951,381	*30.75*	51,970,884	74,229,685	*29.99*	61,553,658	101,842,155	
Ctax: Kinondoni	43,493,803	125,740,724	*65.41*	27,480,189	135,294,098	*79.69*	-96,481,390	125,793,947	
Itax: Kinondoni	15,603,226	36,075,818	*56.75*	26,281,157	55,176,891	*52.37*	34,312,958	75,048,166	
Ctax: Temeke	14,148,422	26,119,645	*45.83*	30,084,236	56,251,390	*46.52*	18,832,815	35,313,666	
Itax: Temeke	2,684,229	4,312,969	*37.76*	4,427,033	7,998,949	*44.65*	7,300,687	11,025,561	
GRAND TOTAL	**11,072,114,715**	**18,341,248,645**	**39.63**	**17,158,892,979**	**24,611,687,653**	**30.28**	**13,463,515,065**	**19,894,970,374**	
Total Companies	**11,020,620,059**	**18,252,908,477**	**39.62**	**17,076,213,905**	**24,474,282,128**	**30.23**	**13,360,347,762**	**19,707,054,492**	
Total Individuals	**51,494,656**	**88,340,168**	**41.71**	**82,679,074**	**137,405,525**	**39.83**	**103,167,303**	**187,915,882**	

3-yr. avg.
34.1%
34.0%
42.2%

Abbreviations:

Ctax = Corporate/Company tax
Itax = Individual/Personal tax
PMC = Parastatals and Multinationals Companies
OP = Others Private
CF = Commercial Farmers
Av. = Average
Rt. Income = Returned or declared income
As. Income = Assessed income

There were under-declarations of taxable incomes by all categories of taxpayers at aggregate level, as shown by the percentage of variation columns of the table. Positive percentage variation implies that assessed income was higher than declared income (i.e., taxable income was under-declared) by specified percentage, while negative percentage variation implies the opposite (i.e., taxable income was over-declared). At disaggregated level (not shown in the table but available on request), only 10 out of a total number of 658 (or 1.5 percent) useful returns recorded over-declaration of taxable income. According to TRA officials, over-declaration is very rare because, first, many taxpayers use qualified accountants and former tax officials in filing their returns, and second, it occurs only accidentally when the taxpayer uses a lower depreciation rate than that specified in the Income Tax Act.

(ii) The potential for evasion in Dar es Salaam Income Tax Region over the 1993-95 period was high. Assuming that the taxpayers in question, in Dar es Salaam were not audited, over Tshs. 18 billion, Tshs. 25 billion, and about Tshs. 20 billion could have been evaded in 1993, 1994, and 1995, respectively (see variations columns). This implies that on average there were under-declarations of income by taxpayers of about 40 percent, 30 percent and 32 percent in 1993, 1994, and 1995, respectively. In total, during the three years period, if the Dar es Salaam taxpayers had not been audited, the government could have lost about Tshs. 63 billion.

Isn't total one of declared income

(iii) The trend for under-declaration of taxable income has been fluctuating but more on the declining direction. The average under-declaration of taxable income in the 1993-95 period was about 34 percent, implying that on average one-third of

directly taxable income is under-declared by taxpayers in Tanzania.

(iv) At tax category level, estimation results show that under-declaration has been higher for the individual income tax than for the company tax. On average during the 1993-95 period individuals under-declared their taxable incomes by about 42 percent while companies under-declared by about 34 percent. Possible explanation for this difference may be that individual face less probability of being audited and hence penalised compared to companies. Amongst individual taxpayers, Kinondoni ranked highest as an under-declaration tax region.

(v) Among companies, limited companies located in Kinondoni and commercial farmers have had high incidence of under-declaration of taxable income. Kinondoni had an average of around 107 percent under-declaration, while commercial farmers had an average of about 78 percent under-declaration during 1993-95 period. In the commercial farmers sector, for example, the percentage of under-declaration of income stood at 88, 71, and about 74 percent in 1993, 1994, and 1995, respectively. However, the worst under-declaration of about 177 percent was registered by limited companies in Kinondoni Income tax region. The lowest under-declaration among companies was registered by Parastatals and Multinationals at about 40 percent, 30 percent, and 30 percent in 1993, 1994, and 1995, respectively, exhibiting a rather declining trend. This may be explained by the fact that parastatals being public enterprises had conceivably high compliance relative to private limited companies. Otherwise, in general all other eight sectors had

under-declaration percentages growing over the three-year period (1993-1995).

4.2.1.3. *Evasion of Withholding tax*

Withholding tax is another direct taxes category that is a victim of substantial evasion. This is analysed in Tables 5 and 6. Table 5 shows the number of defaulters during the last 1/3 of the sample year 1996/97, while Table 6 shows selected audited cases and the amount of tax recovered in 12 months of 1996/97.

Table 5: Withholding Tax: Number of Defaulters, March - June 1997

Year	Month	No. of Defaulters	Live	Dormant
1997	March	239	113	126
	April	232	115	117
	May	230	117	113
	June	226	104	122
	Total	**927**	**449**	**478**

It is clear from Table 5 that withholding tax is one of the taxes that have suffered evasion. The number of tax defaulters is very high. Like in the case of employment taxes, tax authorities know some defaulters, but given the number of all defaulters it makes it difficult to audit all of them. Moreover, like in the case of employment taxes, dormant cases are again just too many to rule out deliberate evaders among these cases. Lack of co-ordination and information exchange between various TRA departments and between TRA and other bodies such as licensing authorities makes detection of evaders difficult.

Table 6: Withholding Tax: Audited Cases 1996/1997

Year	Month	No. of Cases	Tax Recovered (Tshs.)	Sectors Involved
1996	July	7	249,905,438	(i) Training Levy (ii) Goods & Services (Private Companies)
	August	17	83,080,131	(i) Transport (iii) Goods & Services (Private Companies)
	September	30	589,794,887	(i) Goods & Services (Private Companies) (ii) Goods & Services (Parastatals) (iv) Transport (v) IRMD (vi) Training Levy
	October	51	77,974,071	(i) Goods & Services (Private Companies) (ii) Goods & Services (Parastatals) (iii) Transport
	November	49	44,039,175	(i) Goods & Services (Private Companies)
	December	25	1,239,782,954	(i) Goods & Services (Private Companies) (ii) Goods & Services (Parastatals) (iii) Transport (iv) IRMD
1997	January	17	21,649,489	(i) Goods & Services (Private Companies)
	February	19	34,253,714	(i) Goods & Services (Private Companies) (ii) Goods & Services (Parastatals) (iii) Transport
	March	28	518,899,376	(i) Goods & Services (Private Companies) (ii) Goods & Services (Parastatals)
	April	39	35,123,853	(i) Goods & Services (Private Companies) (ii) Transport
	May	65	67,648,276	(i) Goods & Services (Private Companies)
	June	65	89,961,599	(i) Goods & Services (Private Companies) (ii) Transport
	Total	**412**	**3,052,112,963**	

Likewise, it is clear from Table 6 that the amounts that were recovered through audit are substantial. During the sample year 1996/97, for example, a total of a little over Tshs. 3 billion was potentially evaded but recovered through audit on only 412

selected cases. According to TRA officials, audit cases are selected based on trend of withholding tax remittances by taxpayers, defaulting habit, and information gathered through tip, informers and newspapers. Too many variations in withholding tax remittances and habitual defaulters are key variables in deciding cases for audit.

Withholding tax on goods and services is the most evaded tax (Table 6). The major evaders of this tax are private companies. Every month in 1996/97 had cases of audit involving private companies, while parastatals appear in five months only.

Withholding taxes on transport, training levy and IMRD (interest, management fees, royalties and dividends) are also commonly evaded in Tanzania. Although few cases involve IMRD, the amount of tax money recovered through its audits is substantial. Disaggregated data (not shown in the table) show that out of about Tshs. 0.6 billion and over Tshs. 1.2 billion recovered in September and December, 87 percent and 40 percent, respectively, were recovered from IRMD alone.

4.2.1.3. *Evasion of Rental Income tax*

Rental income tax is another tax that can be withheld at the source or can be subjected to normal income tax assessment in conjunction with other taxpayer's incomes. Experience shows that taxes from rental income are among the highly evaded taxes in Tanzania, but data to substantiate this are difficult to obtain. Real estate is one of the big income earning sectors with many landlords but only few of them (574 landlords, see Table 1) are registered with the TRA. The officials of TRA admit that it is difficult and costly to track down both landlords and rent payers.

Evasion of taxes on rental income is further compounded by the fact that only

few of rent payers report these payments to the tax authorities. Resident foreign agencies, paying among the highest rentals in the market, are apparently not cooperative in reporting these payments to the tax authorities. Donors hound African governments to improve their tax performance, yet when asked about their rental transactions they claim diplomatic privilege or (reputedly) understate payments to their landlords to avoid possible rent increase by the latter.

Evasion of taxes through diplomatic and donor agencies extends to non-payment of personal income taxes by their Tanzanian employees. This occurs despite the fact that no section in the Income Tax Act 1973 extends diplomatic privilege for non-payment of income taxes to Tanzanians working with these agencies. According to Employment Region tax officials, Tanzanians working with these agencies are by legislation required to file returns for income tax (since diplomatic and donor agencies are not obliged to withhold their Tanzanian employees' taxes) but they rarely implement the law. Worse still, the employers (diplomatic and donor agencies) do not submit lists of their Tanzanian employees to TRA.

4.2.1.4. *Evasion of Direct Taxes: Evidence from Controller and Auditor General's Reports.*

This study substantiates further the extent of evasion of various direct taxes by examining various audit queries that are raised by the Controller and Auditor General (hereinafter CAG) each financial year. In the present case, CAG's 1995/96 report is used as a sample. Different items that connote various evasion scenarios and amount of revenue involved are looked into. These are summarised in Table 7.

Table 7: Tax Revenue Evasion Attempts Uncovered by CAG's 1995/96 Report

	Year(s)	Item	Revenue (Tshs.)
1.	1994/95	Income tax revenue recovered through audit queries since 1994/94 CAG's report	684,909,038
2.	1995/96	Under-collection of revenue due to laxity in collection of tax assessments due on individuals and companies	14,751,597,711
3.	1993/96	Outstanding dishonoured cheques	88,128,271
4.	1995/96	Unpaid cheques not recorded in the dishonoured cheques register (Dar es salaam)	54,560,164
5.	1995/96	Uncollected PAYE tax lumpsum payments	25,423,734
6.	1994 - 95	Unrecovered penalties due on late payments - Housing levy	2,925,031
7.	1983 - 95	Unverified collection of assessed tax	2,676,483,547
8.	1983 - 96	Outstanding tax	2,068,972,916
9.	1992 -94	Under-declaration of income on hotel accommodation	150,213,328
10.	1993 - 94	Income tax due on Tshs. 49,417,638 undisclosed sales	17,296,173
11.	1994	Under-statement of tender income in profit and loss account	34,510,727
12.	1991 - 95	Income not declared	1,698,152,067
13.	1991 - 95	Final accounts not submitted by taxpayers	N/A
14.	Jul-Sept. '95	Unverified payment of shipping tax	124,722,677

The amount of income tax that would have been evaded were audit not carried out by CAG is substantial. From 28 queries that were replied to after the 1994/95 CAG report, for example, a sum of about Tshs. 685 million was recovered (Table 7). CAG made many queries between 1991/92 and 1995/96 of which 65 were still outstanding by 1995/96.

Under-collection of revenue to the tune of about Tshs. 15 billion (or 11.9 percent of the approved estimates for 1995/96), also shows how laxity in collection of tax assessments on individuals and companies can legalise tax evasion. Even worse is the fact that actual collections during 1995/96 were only 47 percent of the amount due, leaving a balance of 53 percent uncollected and carried forward to 1996/97.

As items 3 and 4 in Table 7 show, payment of taxes (by taxpayers) using cheques that end up being dishonoured amounts to cheating and hence to evasion, if no follow-up is made by the tax authority. During 1993/96 period, a total of about Tshs. 143 million of revenue was outstanding because of dishonoured cheques.

Non-collection of PAYE tax on lump-sum tax payments and non-collection penalties due on late payments (after 7 days from the end of the month) of housing levy are other forms of evasion of direct taxes. In the years 1994, 1995 and 1995/96, for example, a sum of over Tshs. 25 million and about Tshs. 3 million seem to have been evaded from these sources of revenue, respectively, since according to CAG no details were available to ascertain that the tax due was collected and penalties recovered (Table 7, items 5 and 6).

Other forms of late payment and recoveries of penalties were also observed by CAG, although he did not cite the amount involved, on interest on late payments of PAYE tax amounting to over Tshs. 8 million by 20 employers. Irregularities that were discovered by CAG on Company and Individual income taxes, with amounts evaded or about to be evaded in bracket include:

(i) Unverified collection of assessed tax from 96 taxpayers, 1983-95 (about Tshs. 2.7 billion).

(ii) Outstanding tax from 23 taxpayers, 1983-96 (about Tshs. 2.1 billion).

(iii) Under-declaration of income on hotel accommodation in final accounts submitted for tax purposes by 4 taxpayers, 1992-94 (over Tshs. 150 million).

(iv) Under-declaration of sales by 2 manufacturers in their final accounts in 1993 and 1994 (over Tshs. 17 million).

(v) Under-statement of tender incomes in the profit and loss accounts in 1994 (Tshs. 34.5 million). This revelation was made through scrutiny of withholding tax returns on goods and services of 4 suppliers.

(vi) Income not declared by 23 taxpayers during 1991-95 period, as revealed through scrutiny of returns on sales tax and withholding tax on goods and services (about Tshs. 1.7 billion).

(vii) Non-submission of final accounts by 127 taxpayers during the 1991-95 period.

(viii) Unverified payments of shipping tax in Dar es Salaam, July – September 1995 (Tshs. 124.7 billion). Relevant records were not available at the Income Tax Office to support payments of the due tax on goods valued at about Tshs. 4.8 billion, which were exported between July and September 1995.

4.2.2. Indirect Taxes

4.2.2.1. *Evasion of Import Duties*

Table 8 presents revenue-import ratios (collection ratios) in the case of customs duties for the period 1987/88 – 1995/96. We find that the collection ratios remained around 11 percent from 1987/88 to 1991/92 but fell markedly to 6.5 percent for 1992/93 –1993/94 but picked up again to about 11.5 percent thereafter. When these ratios are compared to the average tariff rate of 20 percent over the same period, as well as the increase in imports volume following trade liberalisation, one is led to draw the conclusion that there is substantial leakage of government revenue from imports through both import duty exemptions and tax evasion.

Table 8: Customs Duty Collection Rates

Year	Imports[1] (Tshs. mill.)	Import Duty (Tshs. mill.)	Sales tax (Tshs. mill.)	Excises (Tshs. mill.)	Total Customs Duties	Collection Ratio (%)
1986/87	46,005	4,042	4,049	-	8,09	18
1987/88	106,126	5,573	4,952	-	10,525	10
1988/89	148,415	8,449	7,880	5	16,329	11
1989/90	172,984	11,673	8,783	N/A	20,456	12
1990/91	288,885	17,321	10,384	3,797	31,767	11
1991/92	381,634	21,103	13,817	3,697	38,617	10
1992/93	532,968	16,288	12,929	2,420	31,637	6
1993/94	690,206	28,404	19,525	2,301	50,230	7
1994/95	825,883	46,723	30,695	13,831	91,249	11
1995/96	846,628	61,271	33,829	26,142	121,243	14
1996/97	N/A	78,383	54,909	29,796	163,088	N/A

Sources: Treasury: Revenue Flash Reports; BOT, Economic Bulletins

[1] Average for the corresponding calendar years

Table 9 below presents some estimates of the magnitude of aggregate under-invoicing of imports in Tanzania. The broad picture which emerges is that under-invoicing of imports is significant. Between 1990 and 1995 the ratio of under-invoicing to the value of exports to Tanzania (as recorded by the exporting countries) amounted to an average of about 34 percent each year.

Table 9: Aggregate Under-invoicing of Imports in Tanzania

Year	Exports (c.i.f) to Tanzania (Million USD)	Imports (c.i.f) into Tanzania (Million USD)	Difference (Million USD)	Under-invoicing (Percent)
1985	1427.2	999.2	428.0	30
1986	1083.3	1047.5	35.8	3
1987	1168.3	1150.0	18.3	2
1988	1332.1	1185.0	147.1	11
1989	1219.6	1230.0	-10.4	-1
1990	1925.3	1443.5	481.8	25
1991	1866.8	1476.8	390.0	21
1992	2946.0	1509.9	1436.1	49
1993	2080.0	1465.4	614.6	30
1994	2506.0	1504.9	1001.0	40
1995	2467.0	1540.8	926.2	38

Sources: IMF Direction of Trade Statistics, Customs Department

Table 9 also shows that under-invoicing of imports was relatively higher during the 1990s compared to the period before. This was in spite of the introduction of pre-shipment inspection in October 1992. Furthermore the table indicates that import duties did not grow in tandem with the growth in the volume of imports following trade liberalisation in mid 1980s.

Evidence of import duty evasion can also be inferred by comparing different records of imported items. In particular, a comparison of motor vehicle registrations made by the Registrar of Motor Vehicles and import records of the Customs show wide divergence. Preliminary analysis suggests that for 1994 customs records did not capture 12 percent of all registered motor vehicles. However, this result should be interpreted with great caution because of genuine re-registrations of motor vehicles that we have not been able to take into account. Estimation of evasion of duty on illegally imported motor vehicles is quite illusive because of the clandestine nature of the practice. However, some of the illegally imported motor vehicles (from neighbouring countries especially South Africa, Botswana, Zimbabwe and Zambia) enter the country with the help of Customs officials at the various border posts, and get registered using numbers of currently obsolete motor vehicles claiming to have been revived.

4.2.2.2. *Evasion of Sales Tax*

In Table 10 an attempt is made to gauge the magnitude of under-statement of sales for tax purposes during 1995/96, drawing on a sample of eight products for which comparative data is available. This study finds that out of the eight products in

Table 10, the sales value declared to the Sales Tax and Inland Revenue Department for five products was much lower compared to the value of production reported to the Bureau of Statistics. The under-statement of sales ranges from 53 percent to 100 percent. The products include, sugar, beer, soft drinks, textiles and cement.

Table 10: Under-statement of Sales for Tax Purposes for Some Products in DSM

	Item	Unit	Volume 1995/96	Unit Price (March 1996)	Value (Tshs) - BOS	Sales Vol. (Tshs) 95/96 Dar - TRA	Difference	(%)
1	Sugar	000' tonnes	104.55	300000000	25092000000	4200000	25087800000	100.0
2	Konyagi	000' ltrs	1895.25	1800000	3411450000	4844657000	-1433207000	-42.0
3	Beer	000' ltrs	107187.35	416000	35671950080	1218213000	344537080	96.6
4	Soft drinks	mill. Ltrs	118	348000000	32851200000	15414238000	17436962000	53.1
5	Cigarettes	million pcs	3716.15	6839480	25416533602	31176882000	-5760348398	-22.7
6	Textiles	000' sq. mt.	32318 3	383472	9914530510	758626000	9155904510	92.3
7	Cement	000' tonnes	732.4	62370000	36543830400	7222420000	29321410400	80.2
8	Soap & detergents	000' tonnes	25	570000	11400000	6802328000	-6790928000	-59569.5

Notes on Table 8:

(i) The value of production is calculated on the assumption that industries located in Dar es Salaam account for 80% of the total national output except for konyagi, chibuku and cigarettes that are wholly produced in Dar es Salaam.

(ii) The volume of production for 1995/96 is calculated from annual data published by the Bureau of Statistics (BOS) as the average for 1995 and 1996

(iii) The unit prices used were obtained from the respective industries in March 1996. In the case of soap and cigarettes the unit price is calculated in each case as the average price of the different brands.

(iv) The selection of the commodities was limited by scarcity of comparative data.

However, Table 10 also shows that there was over-declaration of sales in the case of konyagi, cigarettes and soaps and detergents. This result is most probably perverse because, in computing the theoretical sales volume we used the average price for the different brands of these commodities without weighting their respective shares. This is likely to result in understatement of the theoretical sales volume.

Moreover, in the case of soap and detergents, it seems to be the case that the production data in the hands of the Bureau of Statistics is on the low side considering

the many brands of soap (produced by numerous small entrepreneurs) that have mushroomed in the last few years following liberalisation.

4.2.2.3. *Exemptions*

Prior to the establishment of the Tanzania Revenue Authority (TRA) the third schedule of the Customs Tariff Act and a number of Government Notices which allow for exemptions were probably the most abused section of tax legislation. These provisions are abused in a number of ways. One way is through erroneously granted exemptions. That is, exemptions granted to imports that simply do not deserve to be exempted from duty. For example, exemptions have been granted in respect of imports particularly saloon cars of diplomats and other nationals while still living abroad. This is contrary to the Act that allows for exemptions for nationals upon returning home. In many other cases the exemption orders quoted were not applicable or the exempted goods were not included in the exemption orders. Exemptions were also granted to motor vehicles registered by another company. In other cases exemptions were abused by classifying the imported items which do not qualify for exemptions under tariff headings which are liable to exemption. Such miss-classification was at times outrageous as when a boat is imported free of duty under the banner of 'passenger luggage'! (Report of the Controller and Auditor General, 1979/80).

Another method that was commonly used by contractors to the government was to include private and other goods for domestic use or otherwise, in the consignment of imports intended for the implementation of government projects. Government

project materials and goods imported under technical assistance are legally exempt from duty. However, goods that are not eligible for exemption were often claimed to be imported under such categories but surprisingly paid for by the importer. The Customs Department also did not periodically adjust records of exemptions granted to parastatals as government equity. Consequently, such exemptions continued to be granted even in excess of the government equity share.

According to the Reports of the Controller and Auditor General, there were many cases where even the exemption orders quoted were not applicable, or where the exempted goods were not included in the exemption order. During 1987/88, the Tanzania Railways Corporation (TRC), imported building materials, spares for metal working machinery and so on, which were exempted from duty under a wrong remission order of 1977 applicable for railway locomotives, rolling stock and ships of over 100 tons and accessories and allied spares. Exemptions were also extended to include articles that are not covered. For instance where the remission is valid for empty aerosol cans only even components were exempted.

The variants of abusing exemptions are endless and seem to have multiplied over the trade liberalisation period. Exemptions were 88 per cent more than the actual import duty and sales tax collections in 1986, compared to 1982/83 when they were 22 per cent less than actual collections. In general, government imports and those granted to UN agencies and diplomatic missions accounted for about 15 per cent of the total value of exemptions. A similar proportion was made up of exemptions to imports of charitable and non-governmental organisations. The remainder, 70 per cent constituted exemptions from duty granted to other imports (Report of the Controller

and Auditor General 1989/90).

Table 11: The Value of Import Duty Exemptions (Tshs. million)

Year	Exemptions (1)	Collection (2)	(1)/(2) Per Cent
1982	1014.7	724	140.2
1983	909.5	959	94.8
1984	1200.1	1532	78.3
1985	1393.5	1550	89.9
1986	2843.7	4042	70.4
1987	7533.8	5573	135.2
1988	n.a	8449	
1989	12289.1	11673	105.3
1990	27185.3	17467	155.6
1991	26075.7	20573	126.8

Sources: Vol. I Financial Statement and Revenue Estimates; Eriksson (1993)

avg - 129.2

Table 11 indicates the magnitude of import duty revenue forgone by way of exemptions prior to TRA being operational. It is clear from the table that on average, exemptions exceed the actual import duty collections annually by about 11 percent. Moreover, the ratio of exemptions to import duty collections turn out to have increased beginning 1987 with the liberalisation of trade.

Table 12 presents the structure of exemptions by beneficiaries for the years 1994/95 and 1995/96. It is clear from the table that tax exemptions still feature as an important source of leakage of government revenue. During the 1994/95 - 1995/96 period, total exemptions amounted to Tshs. 123 billion. Of this total, about 73 percent were awarded to non-government institutions, private companies, individuals and the Investment Promotion Centre (IPC). If one goes by tax category, the bulk of the exemptions (98 percent) are made up of sales tax and import duty. Considering that the actual tax collections from imports for the 1994/95 - 1995/96 period stood at Tshs. 212.5 billion. This implies that exemptions were equivalent to 58 percent of the actual

taxes collected from foreign trade. This is certainly not a small amount and substantial savings can be gained by reducing exemptions to the minimum.

Table 12: Exemptions by Beneficiaries for 1994/95 and 1995/96 (Tshs. billion)

Recipient	Import Duty	Sales Tax	Excise Duty	Total	%
Govt. Institutions	4.9	4.4	0.4	**9.7**	*7.9*
Non Govt. Institutions	8.1	24.7	0.8	**33.6**	*27.3*
Parastatals	9.6	9.3	0.04	**18.9**	*15.4*
Religious organisations	2.4	2.0	0.5	**4.9**	*4.0*
Private Co. & Individuals	9.4	20.3	0.6	**30.3**	*24.6*
IPC	14.1	11.3	0.2	**25.6**	*20.8*
Total	**48.5**	**72.0**	**2.5**	**123**	*100*
%	*39.4*	*58.5*	*2.0*	*100*	

Source: Tanzania Revenue Authority

Admittedly, abuses of statutory exemptions have been reduced since TRA began operating, but there is still room for further reductions. An important step in widening the tax base should therefore involve subjecting all imports and other purchases by government departments and agents to taxation to curb abuses of this avenue.

The major beneficiaries of exemptions apparently vary from year to year. For instance, in 1994/95, the major beneficiaries were private companies, individuals, government institutions, and those granted exemptions by the Investment Promotion Centre (IPC), recently renamed Tanzania Investment Centre (TIC). In 1995/96 the major beneficiaries included non-governmental institutions, private companies, individuals, and those granted exemptions by IPC. These account for more than 60 percent of the total value of exemptions in any given year.

4.2.2.4. *Street Knowledge of Tax Evading Imports*

(i) *Misuse of exemptions on imported motor vehicles*

Senior civil servants were formally entitled to exemptions from import duty and partial exemptions from sales tax on imported motor vehicles at the rate of 95 percent. Currently, because there are no VAT exemptions on imported motor vehicles, they are entitled only to exemptions on import duty. However, it has been a common practice for civil servants (e.g. secondary school teachers and nurses) who qualify for such exemptions but who cannot afford or do not want to import a motor vehicle to 'sell' their entitlement to import duty exemptions to other civil servants and businessmen. The price of exemptions range from Tshs. 300,00 to Tshs. 600,000. The common practice has been to use the name of the person who qualifies for the exemption (with his consent and proper inducement) on the importation documents and thereby benefit from the exemption. Later on (and conveniently when the due taxes have been evaded) transfer of ownership from the person who was entitled to exemption to the actual person who imported the vehicle is effected.

(ii) *Imports of textiles and motor vehicle spares*

Evasion of import duties is also known to be prevalent in the case of particular textile materials and wear. For instance, while retail shops in Dar es Salaam and other major towns are full of imported 'khanga' (made in Kenya, China) official import records of goods from these countries show very little or even zero imports from these countries for these products. The main route of such import duty

evasion is through unofficial cross-border trade. This practice is also common in the case of motor vehicle spares.

(iii) *Hawker activities*

A more recent phenomenon that followed trade liberalisation and restrictive monetary policy has been the growth of street hawkers' trade. Jobless young men in urban areas (*Machingas*) are supplied with various goods by relatively large retail traders (of Asian origin) to sell the items from door to door and drinking places in return for a commission. The goods involved are varied in type, and include clothes, shoes, bags, radios, video tapes, television antennas, bags, kitchen utensils, toys, sports goods and so on. The arrangements, including collateral, are informal and secret. The problem is that the delivery of these goods is not accompanied by issuance of receipts and thereby evades the tax net.

(iv) *The Zanzibar Route*

It is also common street knowledge that large importers continue to route their imports through Zanzibar where imports are not subjected to pre-shipping inspection and the imported goods are subject to relatively lower effective import duties. The goods then find their way into the Mainland by canoes and dhows at different locations (such as Bagamoyo) along the coast. The Zanzibar Route is also an important source of cheaper supplies for retail trade through the Dar es Salaam port.

(v) *Transit Goods*

Transit goods is one source of tax evasion. The goods involved include petroleum products, motor vehicles, textiles, etc. But the most commonly involved in tax evasion are petroleum products and motor vehicles. Between Dar es Salaam and Chalinze (a distance of 109 km) there are about 20 fuel stations. It is doubtful if there is high demand for fuel between the two points to warrant such a large number of fuel stations. What happens is that a truck carrying fuel destined to Rwanda or Burundi leaves Dar es Salaam and then discharges the fuel it is carrying (tax free) to one of the fuel stations between Dar es Salaam and Chalinze. After one or two days the driver of the truck travels to the border with the documents by either bus or train. Upon reaching the border, he presents the documents to the customs official say at Rusumo border post who stamps them as if the transit fuel was delivered to the other side of the border. After a week or so the truck driver returns to Dar and delivers the duly stamped documents to the customs officials in Dar es Salaam to certify that the transit goods were delivered in Burundi.

Regarding motor vehicles, a car that was supposed to be delivered in Burundi is sold within the country and as in the case of transit fuel, the documents are taken to the border for stamping and then returned to Dar es Salaam for approval. The car that was a transit good is registered in Tanzania without taxes being paid.

4.2.2.5. *Evasion of Indirect Taxes Uncovered by the CAG for 1995/96*

Table 13 and Table 14 below summarise the magnitude of evasion of indirect taxes as uncovered by the Controller and Auditor General (CAG) report for 1995/96. It is very clear from the tables that evasion of indirect taxes remains a big problem in Tanzania.

Table 13: Evasion of Import Duties as Per CAG's Report 1995/96

Period	Item	Revenue lost (Tshs. billion)
June 1994 - June 1996	Beer imports from Kenya not declared	2.4
1995/96	Fraudulent declaration of transit cargo	1.6
1996	Outstanding security bond allocations against suspended customs agents	8.9
1995/96	Doubtful exemptions of customs duties (under authority of Treasury letters or IPC)	2.2
1995/96	Short collection of import duty	0.8
1995/96	Non payment of customs duties on 87 imported motor vehicles cleared using false customs documents and counterfeit receipts	0.09

Table 14: Evasion of Sales Tax as Per CAG's Report 1995/96

Period	Item	Revenue lost (Tshs. billion)
1995/96	Non remittance of sales tax collected by manufacturers	5.9
1995/96	Underpayment of sales tax	3.6
1995/96	Undeclared sales	29.0
1995/96	Stamp duty on imported beer from Kenya	1.6
1995/96	Non remittance of stamp duty	0.02
1995/96	Outstanding hotel levy	0.04

PART II

SURVEY OF TAXPAYERS AND TAX ADMINISTRATORS

1. Introduction

Part one of this study attempted to substantiate, and where possible estimated the magnitude of tax evasion in Tanzania. Part one also tried to shed some light, albeit briefly, on the nature of Tanzania's socio-economic situation and causes of tax evasion as documented in various studies. In this second part of the study, the results of a survey conducted to collect the views of taxpayers and tax administrators on their perception of tax evasion and tax administration in general, are presented. The survey was important in that it made possible the comparison of findings from primary data collected and analysed in phase one, and findings from interviews with taxpayers and tax administrators in the second phase.

2. Methodology

This part of the study utilised information collected in the field using two types of questionnaires. Questionnaire 1 solicitated the views of taxpayers, while Questionnaire 2 was used to obtain the views of tax administrators (see Appendices 2 & 3). Five research assisants, drawn from select undergraduate and graduate students, were trained and hired to administer questionnaire 1. Questionnaire 2 was administered by the consultants themselves.

2.1. Sampling

For the purposes of obtaining the views of taxpayers, the study sample was divided into five different groups. These were: first, 50 limited companies subdivided into 25 public/parastatal and 25 private companies. These limited companies were randomnly selected from the list of corporate taxpayers provided by Tanzania Revenue Authority (TRA). The second group constituted of 50 un-incorporated (partnership) enterprises mostly private. The third group was that of 100 sole proprietors. The fourth group covered four different classes of professionals, including 20 lawyers, 20 doctors, 20 consultants, and 20 accountants. The fifth group was that of 150 workers, subdivided equally into civil servants, parastatal employees and those working in the private sector. For the second through to the fifth group, the taxpayers were chosen randomly directly in the field, and across the three tax regions of Dar es Salaam (excluding the corporate tax region). This was necessitated by the fact that there is no official register of taxpayers in those categories. Where the lists existed, it was difficult to trace their corresponding addresses/locations. However, most of the taxpayers surveyed were from Ilala and Kinondoni tax regions which have the highest concentration of taxpayers. Each of Ilala and Kinondoni tax regions were covered by two research assistants, while one research assistant covered Temeke tax region.

The survey of tax administrators was planned to cover 4 Commissioners [Customs, Value Added Tax (VAT), Income tax, and Investigation] as well as the VAT project manager at the TRA head office. Also, 5 revenue officials at the Treasury's Policy Analysis Department (PAD) were targeted. Other tax administrators were to include 10 regional revenue officers (drawn from income tax, VAT, customs,

corporate, withholding and employment) in the Dar es Salaam administrative region.

2.2. Response

Generally, the response was fairly good as summarised in Table 1 below. The observed deviation between the number of targeted interviewees and number of respondents especially for limited companies and sole proprietors was for two reasons. One, while interviewers had names of corporations/limited companies, no such list was available for the case of sole proprietors. As such, the interviews were done with whoever was found. It turned out, however, that some of these were limited companies. The other reason was that, a number of sole proprietors call themselves limited companies while they are not by definition.

The response from TRA top officials was discouraging. Questionnaires were distributed to all three TRA Commissioners, VAT Project Manager, and Acting Director of Research and Policy, but out of these only one questionnaire was completed. However, TRA officials below Commissioner gave excellent response, which we highly appreciate.

Table 1: Number of Targeted Interviewees vs Number of Respondents

Group	Targeted Interviewees	Respondents
Limited companies	50	70
Unincorporated/partnership	50	51
Sole proprietors	100	49
Professionals and workers	250	195
Sub-Total (Taxpayers)	***450***	***365***
Tax Authorities	20	14
GRAND TOTAL	**470**	**379**

3. Results

The main objectives of the survey were to find out the views of various categories of taxpayers (limited companies, unincorporated enterprises/partnerships, sole proprietors, and professionals and workers) on: (i) which groups of taxpayers, categorised by legal status of the entity and economic activity are considered to be notorious for tax evasion (ii) main reasons for tax evasion (iii) their knowledge of enterprises that are not registered for tax purposes as well as their estimates of the extent of tax evasion and level of compliance for different tax categories (iv) types of taxes which are more prone to evasion (v) main problems experienced when dealing with the tax authorities and (vi) suggestions to reduce tax evasion and enhance transparency in tax administration. From tax authorities, the survey was intended to find out: the constraints that tax administrators face in performing their work, their estimates of tax evasion, what they think are the causes of tax evasion and noncompliance, and suggestions as to what should be done to enhance compliance.

The presentation of survey results is in accordance with the major issues covered in the taxpayer survey. The survey of taxpayers covered: (a) general survey; (b) survey of direct taxes; (c) survey of indirect taxes; and (d) survey of transparency of tax administration. As mentioned earlier, the survey of tax authorities was confined to general issues that are related to tax administration. In order to avoid too much detail, this study has put in the appendix the presentations made and arranged in the context of taxpayer categories. Their inclusion is important for understanding individual group responses or as a counterchecking mechanism against biases, if any,

in responses that may arise due to unproportional representation of certain groups of taxpayers in the sample.

3.1. Taxpayer Survey

3.1.1. All Taxpayers

A. ***General observations.***

The percentage composition of taxpayers surveyed was as follows: 56% Ilala, 33% Kinondoni, and 11% Temeke. The survey revealed the following from the responses of *all taxpayers* as a group:

a) Out of all taxpayers that were covered in the survey, 8% are enagaged in manufacturing, 12% wholesale, 27% retail, and 53% deal with service delivery.

b) The taxpayers pay all or a combination of the following taxes: company tax, import duty, excise duty, VAT, stamp duty, rental income tax, Pay-As-You-Earn (PAYE), withholding tax, payroll tax, land rent, and a host of local government taxes including city service levy, development levy and property tax.

c) 57% of the taxpayers indicated that tax fraud was mainly committed by sole proprietors, followed by limited companies (23%) and partnerships (20%).

d) In ranking categories of enterprises in terms of the extent of tax evasion, taxpayers put small enterprises on top of the list, followed by medium enterprises, large enterprises, and religious and charity organisations, in that order.

e) The taxpayers consider (i) collusion and corruption (ii) weak tax administration (iii) high tax rates (iv) too many taxes and (v) reaction against poor service delivery by the Government, in that sequence, to be the most important factors

motivating tax evasion.

f) As regards category of activities, which exhibit strongest tax evasion, purchase and resale activities topped the list, followed by service delivery, small industries, lastly liberal professions, and large industries.

g) The survey also suggested that most corporations/limited companies are registered, but a good percentage of partnerships and a big percentage of sole proprietors are not registered. For example, 45 percent of respondents indicated that over 50% of sole proprietors are not registered. Comparable percentages for partnerships and limited companies (over 50% not registered) are 12% and 4%, respectively (see Table 2).

Table 2: Percentage estimates of limited companies, partnerships, and sole enterprises not registered by TRA.

% not registered→ Item↓	0% - 10%	11%-20%	21% - 30%	31% - 40%	41%-50%	Over 50%
Corporations	63%	14%	8%	5%	6%	4%
Partnerships	23%	19%	19%	15%	12%	12%
Sole	13%	5%	9%	10%	18%	45%

(h) The survey of all taxpayers further revealed that sales without sales receipts, under-declaration and non-declaration of revenue by property owners, non-declaration of income by professionals, fraudulent imports that escape taxation, in that sequence, were the major forms of evading taxes (Table 3). As shown in Table 3, about 55% of taxpayers estimated that over 50% of sales are done without issuance of sales receipts, 49% and 45% of taxpayers thought

that over 50% of property owners under-declare and do not declare their revenue, respectively, while 38% and 24% of taxpayers were of the opinion that professionals who do not declare their income and imports that escape taxes were over 50%.

Table 3: Percentage estimates of different forms of evasion.

% Evasion→ Item↓	0% - 10%	11% - 20%	21% - 30%	31% - 40%	41% - 50%	Over 50%
Imports that escape taxes	9%	13%	14%	17%	23%	24%
Sales without receipts	7%	2%	9%	8%	19%	55%
Property owners under declaring their revenue	15%	9%	6%	9%	12%	49%
Property owners not declaring their revenue	13%	10%	8%	9%	17%	43%
Professionals not declaring their incomes	19%	10%	11%	10%	12%	38%

(i) Regarding tax controls as currently enforced by tax authorities, 36% of the taxpayers interviewed believe that the controls are significant, 30% believe that they would penalise good taxpayers, 17% believe that the controls are insignificant, and 11% indicated that such controls favour fraudulent parties.

B. *Direct taxes*

a) The taxpayers ranked the *direct* taxes that are more prone to evasion as (i) rental income tax (ii) personal/individual tax (iii) withholding tax (iv) company tax, and

(v) PAYE, in that order.

b) The taxpayers considered sole proprietors to be most prone to evasion of direct taxes. These are followed by small enterprises, medium enterprises, and large enterprises, in that sequence.

c) Among the taxpayers surveyed, 61% accepted that they normally include the declarations regarding their property when they submit declaration forms for their activities, while 39% do not. Among the reasons why they do not include the declarations, are: first, to avoid high tax liability; second, even if one declares his/her activities, others do not do so; third, like many others one does not see the reason for doing it; fourth, fear of being taxed heavily; fifth, have not been required to do so; sixth, it is a common practice among taxpayers to hide what one owns; and finally, nobody bothers to follow up on declaration.

d) 74% of taxpayers estimated that 0%-30% additional tax revenue could be raised from informal sector incomes. 15% of them estimated that the sector could contribute 31%-50%, while 11% of them were of the view that the sector could add over 50% to total tax revenue.

C. *Indirect taxes*

a) The response from all taxpayers as a group suggested that indirect taxes that were prone to evasion could be ranked in the order: (i) import duty (ii) excise duty (iii) VAT, and (iv) stamp duty. More specifically, sales tax/VAT and excise duty on imports were the most evaded taxes relative to their domestic counterparts.

b) In general, sole traders followed by small enterprises were singled out by

b) In general, sole traders followed by small enterprises were singled out by taxpayers as the major evaders of indirect taxes. Next in the list were medium enterprises and lastly large enterprises.

D. *Transparency*

The survey on this aspect was aimed at finding out to what extent is the tax system transparent as regards taxpayers accessibility to tax acts, tax returns, publication of the names of tax evaders and beneficiaries of tax exemptions, etc.

a) It was noted that only 44% percent of respondents have access to information about tax legislation although they read them only occasionally. Few (only 19%) taxpayers read tax legislation regularly, while 26% do not read them at all. Most respondents said they don't have access to information about tax legislation because the tax authority does not place much emphasis on it; only a few copies are published; and the tax authority have had no tradition of educating taxpayers.

b) About 53% of taxpayers regularly receive tax return (notification) forms, while only 40% were aware of legal dispositions derived annually from the Finance Bill. Reasons given by taxpayers for not receiving tax returns regularly include that: they do not know why they are not sent forms; have to fetch them from TRA; not a common practice in Tanzania; there isn't anyone who feels responsible to supply them; and poor tax administration.

c) As regards payment of taxes, 85% of taxpayers pay their taxes within the deadline, 86% consistently have paid their tax due over the past four years, and 86% had none of their income tax returns rejected in the last four years. Reasons why some taxpayers did not pay taxes within the deadline include: low sales/business turnover;

turnover; low earnings; uncertainty in business; some inconveniences created by TRA; liquidity problems; temptation to use tax money to produce more; and low profit margin.

d) Those who responded that they have not paid their tax due over the past four years gave the following reasons: (i) low profit margin (ii) taxes contested (iii) high tax rates (iv) notification not received (v) high cost of living (vi) lack of resources and, (vii) fine required, in that order.

e) For those who had their returns rejected: 2% were rejected once, 3% rejected twice, 1% rejected thrice, 2% rejected four times and 0.2% rejected twenty times, in the last four years. According to these taxpayers, the rejection of their returns arose from: low assessment; when the figures do not tally; when assessors think underassessment has been done; and in order to negotiate for bribe. When TRA sets the amount of tax liability, taxpayers often double-check the figures and finally pay. The possibility of appeal exist but some taxpayers believe that appealing is a waste of time, they would rather pay a bribe. In addition, they also think that appeals are not effective.

f) It was also noted that among the taxpayers surveyed, 36% had permanent accountant, 22% occasional accountant, and 42% no accountant at all, to help with preparation of annual tax returns. Reasons for not hiring a permanent accountant are: to avoid unnecessary expenses and reduce operating costs; they cannot afford to hire one; find it not necessary; it is cheaper to use tax consultant than to hire a permanent one; and low earnings from daily operations.

g) 48% of taxpayers also had regular accounting system, while 26% said they had none and 26% did not respond. Among those that had no regular accounting system, 77% acknowledged having a registry of their purchases, which are subject to proper billing. The major reason given for not having regular accounting system was that it is costly to maintain one for one has to hire/employ an accountant.

h) Most taxpayers (about 74%) were very much in favour of publicising all names of tax evaders, and about 84% in favour of publicising amounts and all names of the beneficiaries of tax exemptions. Moreover, 78% of taxpayers expressed opinion that discretionary exemptions were the major unnecessary drain to public revenue, while 14% and 8% of them thought that NIPPA exemptions and statutory exemptions, respectively, were unnecessary drain to the government revenue collection. Those who are against publishing names of tax evaders and beneficiaries of exemptions responded so because they think that such a move would not help much due to corruption. In their view the issue is to punish and not to publish. Some taxpayers think that the government does not have the guts to do so even if it wanted, and in addition, it would embarrass some government officials who are tax evaders. It is neither a solution to tax evasion nor corruption. Similarly, most taxpayers are in favour of having amounts and all names of all taxpayers that benefit from exemptions published. However, some were against this idea because they think it is not important, it is of no use to taxpayers, and would have insignificant effect.

i) Regarding their estimate of degree of compliance in respect of different category of taxes, an interesting pattern was observed, as shown in Table 4. Except for the PAYE

PAYE all other taxes are perceived to be poor in terms of compliance. Whereas 65% of taxpayers place PAYE at above 50% compliance rate, none of other tax scores above 50%. The greater than 50% compliance scores for other taxes, with percentage of taxpayers (scores) in brackets are: individual tax (31%), rental income tax (10%), land rent (35%), stamp duty (35%), excise duty (32%) and import duty (31%).

Table 4: Taxpayers' estimates of degree of compliance with respect to various taxes, by percentage of respondents

Degree of compliance→ Tax↓	0%-10%	11%-20%	21%-30%	31%-40%	41%-50%	51%-60%	61%-70%	71%-80%	Over 80%
Individual tax	25%	11%	10%	9%	14%	9%	11%	8%	3%
Rental tax	37%	16%	15%	10%	12%	6%	2%	0%	2%
Land rent	32%	11%	8%	5%	9%	8%	9%	9%	9%
PAYE	17%	4%	4%	2%	8%	4%	8%	17%	36%
Stamp duty	25%	8%	9%	10%	13%	7%	6%	9%	13%
Excise duty	19%	8%	14%	12%	15%	13%	10%	6%	3%
Import duty	13%	7%	9%	14%	26%	13%	7%	9%	2%

(j) Finally the survey indicated that 70% of all taxpayers were not in favour of privatization of revenue collection as a means to enhance revenue collection. Reason for those not in favour of privatization include that: (i) revenue collected will benefit only few individuals; (ii) corruption may increase because of private entry and interests; (iii) its too big a lump-sum to be in private company; (iv) revenue collection is a sensitive area hence must remain a government responsibility; (v) private collectors will be too harsh; (vi) corruption is too rampant nothing will change; (vii) administration/enforcement needs use of state organs; (viii) revenue collection may

(I) Evasion of Direct and Indirect Taxes

These taxes are evaded through a number of ways:

Company taxes: are evaded by (i) not submitting returns to TRA; (ii) corrupting or colluding with tax officials; (iii) under-declaration of profits; (iv) deflating revenue or overstating expenses; (v) under-declaring actual output or reducing sales value; (vi) not registering with tax authorities; (vi) changing business name; and (vii) preparing two sets of books of accounts (genuine and fake).

Individual/personal income tax: is evaded through (i) non-declaration or under-declaration of income; (ii) collusion with tax officials; (iii) presenting false data about income (giving wrong information); (iv) deflating revenue or overstating expenses; (v) poor record keeping; (vi) maintaining two separate books of accounts; (vii) understating sales because of non-issuing of receipts against sales made; (viii) escaping (e.g. mobile shops) from tax collectors; (ix) non-remmitance of taxes after declaration of income; and (x) not registering with tax authorities.

Pay-As-You-Earn (PAYE): is evaded through (i) trickery in setting salaries to under-state basic salaries (by not including allowances or other benefits); (ii) not registering with tax authorities; maintaining two payroll systems or employment contracts (genuine and fake); (iii) non-deduction of PAYE from salaries; (iv) non-remittance of PAYE deducted to tax authorities; and (v) under-declaration of number of employees and paying salaries by slips.

Rental income tax: is evaded by (i) not declaring or under-declaring property income; (ii) not registering property with tax authorities; (iii) corrupting tax officials;

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(iv) not issuing or issuing tax receipts understating rent paid, as result of collusion between tenants and landlords.

Withholding tax: is evaded by (i) simply not remitting at all withholding tax money to TRA; (ii) not effecting remittances on regular basis; (iii) not issuing receipts; (iv) not keeping records of daily transactions; and (v) corrupting tax officials.

Sales tax/VAT: is evaded through (i) collusion between tax officials and taxpayers; (ii) not issuing sales receipts; (iii) not registering with tax authorities; (iv) giving wrong information about output and sales (including undervaluation/under-invoicing/under-declaration); and (v) avoiding common entry points or smuggling of imports to the country.

Import duty: is evaded though (i) customs officials colluding with taxpayers; (ii) granting of doubtful discretionary exemptions; (iii) avoiding common entry points or smuggling of imports to the country; (iv) under-invoicing/under-declaration of imports; (v) use of fake labels for goods; (vi) declaration of goods as transit but sale them locally; and (vii) using names of religious and charity organizations.

Excise duties: like sales tax/VAT exercise duties are evaded through (i) collusion between tax officials and taxpayers; (ii) not issuing sales receipts; (iii) not registering with tax authorities; (iv) giving wrong information about output and sales (including undervaluation/under-invoicing/under-declaration); and (v) avoiding common entry points or smuggling of imports to the country.

(II) Ways of reducing tax leakage

Taxpayers suggest numerous ways of reducing tax leakage:

Reduce tax rates and number of taxes

Improve tax administration

Streamline bureaucracy in dealing with taxpayers

Simplify the tax system

Fight corruption

Educate taxpayers and tax officials

Transparency in spending tax money and in other government operations

Business should be made to issue sales receipts

Increase incentives to TRA staff

Reduce discretionary exemption powers

Abolish unnecessary tax exemptions

Adhere strictly/implement properly the existing tax laws and legislations

Punish tax evaders

Change tax collection methods (issue and use taxpayers' ID numbers, and require remittances of taxes through banks to reduce bureaucracy in payment).

Have a disciplined government that spends prudently

Formulate and design anti-corruption policies

Employ educated, faithful, and dedicated tax collectors

Make tax rates uniform

Increase frequencies of random auditing of taxpayers

(III) Ways of enhancing transparency in tax administration

Various ways were suggested by the taxpayers in regard to enhancing transparency in tax administration. These include:

Educating taxpayers and tax collectors through seminars, workshops, and media (radio, newspapers, television, etc)

Collectors should be honest. Names of those sacked should be published.

Keep tax rates low and publish them for the benefit of taxpayers

Establish tax magazine and make various tax legislation and bills known

Reduce bureaucracy in tax administration

Simplify tax system by reducing rates and number of taxes

Use properly and in a transparent way revenue collected

Publish names of tax evaders and tax exemption beneficiaries

(IV) Ways of improving tax administration

The following were suggested as regards improving tax administration:

Provide working facilities

Pay attractive remuneration

Employ competent professionals

Recruit new clean personnel

Fight corruption

Reduce rates and number of taxes

Train the existing personnel

Design a simple but manageable tax system

Computerize tax operation

Government should be transparent in collection of revenue and spending

Carry out proper audit regularly

Give rewards according to performance

Register all taxpayers

(V) Reduction of tax related corruption

Several ways were suggested including:

Better pay and incentives to TRA staff

Reduction of tax rates and number of taxes

Prosecuting defaulters

Reducing bureaucracy and enforcing tax laws and legislation

Imposing severe penalty on defaulters

Creating a more transparent tax system

Punishing corrupt tax administrators (terminating their contracts etc.)

Computerization of tax administration

Improving tax administration

Creating a new culture of responsibility

Publish names of tax evaders and tax exemption beneficiaries

(VI) Ways of dealing with tax evaders

The taxpayers suggested the following as regards dealing with tax evaders:

Prosecute evaders

Government should enact strict law against tax evasion

Taxpayers (including evaders) should be educated on the importance of paying taxes. Education of taxpayers could be made more effective by organizing seminars and workshops and also through media (newspapers, radio and television. Taxation subject may also be taught in schools.

Publish their (evaders') names

Punish evaders strongly e.g. by revoking their licenses or confiscating their property or imposing high fines.

F. Attitude of Taxpayers Towards Tax Officials

Some interesting experiences were encountered in carrying out the survey. Some of the taxpayers interviewed, for example, were ignorant about tax issues; they claimed not to understand what was required of them even after being provided with adequate explanations. Some interviewees were knowledgeable but just did not want to co-operate. Others did not want to co-operate because they initially thought that the interviewers were disguised tax officials who had come to assess their tax liability. In one case, a research assistant had approached a small business to administer a questionnaire. At the business premises he found a young man whom he wanted to interview. He explained to the young man that he wanted to interview him. However, surprisingly the young man asked him to wait for him so that he could go and consult his elder brother, the owner of the shop, on how much they could give him. The research assistant told him that he was not a tax collector and he did not come for money but only wanted some information on taxation. This kind of behaviour

probably reflects the perception of small businessmen of tax officials. Once someone mentions tax he is conceived of as a tax collector that can be handled by giving a bribe to give room for negotiating tax liability.

3.1.2. Tax Administration

Tax administrators that were interviewed were composed of two main groups. The first group is that of Treasury officials whose main functions include giving advice on fiscal policy and Government financial management. The second group was that of Tanzania Revenue Authority (TRA) officials who deal mainly with the supervision of tax revenue collection and accounting for such revenue. Most of the TRA officials have been holding their current positions since 1996 when TRA was established. The responses of the tax administrators were as follows:

a) 77% of administrators indicated that there are generally constraints mainly in terms of lack of facilities that would help them and their subordinates efficiently perform their work.

b) Facilities that were not available or were in short supply include communication and transport equipment, computers, typewriters, and office accommodation.

c) As regards availability of necessary tax documents such as General Tax Acts, Official gazette, regulatory texts for enforcement, and internal TRA notes and bulletins, 36% of interviewees responded that the documents were available and provided by the administration. 74% said that shortage of these documents was a constraint to efficient performance of their work. Documents mentioned to be in shortage included: official gazette, case laws, and various amendments to tax laws.

d) Tax administrators surveyed indicated that they have operational plans/schedule to follow. The operational plans range from general operational plans to weekly based plans. There are also performance recording and revenue collection targets.

e) 33% of TRA officials who make field visits, inspections or controls indicated that they commonly reserve one day each week. 33% reserve two days, 17% three days, while another 17% reserve an average of six days. Those who do not make field trips indicated that inadequacy of budgets for the operational trips was the main constraint.

f) In 1996/97 20% of the respondents made 2 field visits, 20% made 23 visits and another 20% made 96 field visits. The remainder 40% made between 378 and 480 field inspection visits. The corresponding visits for 1997/98 were 20, 30, 64, and between 390 and 925.

g) Tax administrators believe that it is necessary to strengthen tax inspection activity in order to monitor work and ensure enforcement of tax rules to minimize evasion.

Table 5: Tax Evasion at TRA's Departments level

% of Respondents	Evasion (%)
14.3	5
14.3	10
14.3	15
28.6	30
14.3	40
14.3	45
Weighted average	***25***

h) TRA tax administrators assessed tax evasion in their tax departments, and their aggregated response was distributed as shown in Table 5. About 72% of respondents estimated the evasion of taxes in their departments to be at the range of 5%-30% of total tax revenue, while 28% estimated it to be 40%-45% of total tax revenue. This implies that, on average, the evasion of the taxes as estimated at the department level is 25% of total tax revenue.

i) The estimation by tax administrators of overall tax evasion (at the level of TRA) was as shown in Table 6. On average, overall evasion was estimated to be 36% of total tax revenue. Based on evasion averages in Tables 5 and 6 we can confidently say that tax evasion in Tanzania is about 30% of total tax revenue on average. This finding is consistent with estimates of tax evasion obtained in Part I of this study.

Table 6: Tax Evasion at TRA level

% of Respondents	Evasion (%)
40	20
20	40
40	50
Weighted average	***36***

j) Tax administrators ranked taxpayers more prone to evasion as (i) sole traders (ii) small enterprises (iii) medium enterprises and (iv) large enterprises. It is interesting to note here that this ranking is consistent with that of 'all taxpayers'.

k) Taxes which are more prone to evasion were indicated to be (i) import duty (ii) excise duty (imports) (iii) VAT (imports) (iv) excise duty (domestic) (v) stamp duty (vi) individual income tax (vii) company tax (viii) VAT (domestic), and

(ix) withholding tax.

l) Tax administrators ranked the causes of evasion as follows: (i) lack of information and education on tax legislation, (ii) incompetent tax agents/collectors, (iii) taxpayers' mentality/behaviour, (iv) high tax rates, and (v) lack of administration means.

m) Factors affecting tax compliance were expressed to be (i) corruption, (ii) taxpayer education, (iii) poor taxpayer, (iv) ambiguous tax legislation, (v) political intervention, (vi) working conditions, and (viii) lack of skilled workers, in that order.

n) Measures suggested to reduce revenue leakage, include: (i) enhance taxpayers' education; (ii) impose harsh penalties for evaders; (iii) give incentives to TRA workers; and (iv) lower tax rates.

o) Measures suggested to enhance compliance, are: (i) reduce tax rates; (ii) enhance taxpayers education; (iii) improve social services; (iv) put in place proper economic policies; (iv) reduce number of taxes; (v) increase transparency; (vi) improve working conditions; and (vii) institute a vetting mechanism for people aspiring/chosen to hold all political and administrative posts in Government.

p) 85% of tax administrators do not consider privatisation of revenue collection to be a viable solution to enhance more tax collection in Tanzania. Reasons given to support this response, include:

(i) TRA is capable of collecting revenue as has been the trend since 1996;

(ii) Public interest cannot be vested in the hands of a few individuals. It is hence unjustifiable to place collection of government revenue under private persons;

PART III

SUMMARY AND CONCLUSIONS

1. Motivation and Objectives of the study

Fiscal deficits have been the major cause of macroeconomic instability, which haunted Tanzania for almost two decades prior to the introduction of the cash budgeting system in 1996. Besides overzealous government expenditure, the fiscal deficits were mainly caused by the prevalence of revenue leakage in various forms and particularly through low tax compliance. Even after the introduction of the cash budgeting system, widespread under-funding of government operations remains a menacing phenomenon, basically reflecting inadequate revenue effort. Besides a serious attempt by Government to reform the tax system since 1988 through a number of measures, such as a reduction in tax rates, simplification of the tax system, and streamlining tax collection procedures, the tax-GDP ratio remains low (12.3% for 1997) compared to the average for the Sub-Saharan Africa region. Experiences elsewhere suggest that major strides in increasing the revenue effort (to address both problems of fiscal deficits and under-funding of government activities) can be achieved by addressing the chronic problem of lack of transparency in tax administration, which is a common phenomenon in most developing countries.

The main objective of this study has therefore been, to examine the extent to which tax compliance in Tanzania can be improved through enhancing transparency in tax administration. The concept of transparency in tax administration in this study is broadly defined to include: clear and unambiguous tax assessment and examination

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or inspection criteria as well as collection methods; availability to the general public of tax related information such as collections, sectoral compliance rates, big evaders and penalties, exemptions, imports or sales volume, use of tax revenue, and similar aggregate taxpayer information.

2. Approach of the Study

This study was carried out in two phases. The first phase of the work focused on quantifying the magnitude of tax evasion by major tax categories from published secondary data and internal records of the Tanzania Revenue Authority (TRA), informed by a comprehensive review of both the theoretical and empirical literature. Other sources of information were various institutions, Government departments and Parastatals especially the Bank of Tanzania (BOT), Ministry of Finance, and National Bureau of Statistics (NBS). External data sources included the IMF Direction of Trade Statistics and data from the United Nations Statistical Division. This part also made use of estimates of the Business community on the value and volume of imports

The magnitudes of evasion derived in phase one of this study are in essence indirect measures. For example, evasion of indirect taxes was obtained by comparing lists and numbers of taxpayers as recorded by TRA vis-à-vis the list of companies kept by the Registrar of Companies, degree of under/over declaration from a sample of taxpayer returns and evasion as detected by the Controller and Auditor General (CAG). Similarly, in the case of indirect taxes, magnitudes of evasion were derived by examining differences between average scheduled tariffs and revenue-import ratios, residual of exports data of supplying countries over local import data after making the

appropriate adjustments, and fraudulent exemptions. An attempt was subsequently made to put together the main causes of the problem.

The second phase of the study attempted to corroborate the findings derived in phase one with primary data obtained from a questionnaire survey of various categories of taxpayers and tax administrators to whom questionnaires were administered. Particular emphasis was put on the extent to which lack of transparency constrains tax compliance so as to infer the potential role of enhanced transparency in tax administration in improving tax compliance.

3. Summary of Major Findings

3.1. Forms and Magnitude of Tax Evasion

3.1.1. *Direct Taxes*

Evasion of direct taxes in Tanzania was found to take various forms. Activities where tax evasion is most rampant include retail trade business, service delivery, small and medium scale industries and liberal professions. More specifically, TRA records revealed that about 28 percent of all live corporate taxpayers in Dar es Salaam tax region do not pay taxes. Even more alarming, this study found that as much as 74 percent of all Dar es Salaam employers' files are dormant in the sense that they have either gone out of business or are still in business but default paying employment taxes. This finding tallies well with the findings from the survey of taxpayers where it was revealed that one common method of evading taxes is to re-register the same company under a different business name to evade paying their tax liabilities. This is also re-enforced by the significant estimated numbers of partnership companies and

sole enterprises, which are not registered by TRA. It was clear in the course of this study that this problem persists mainly because of lack of information sharing among TRA departments and also between TRA and other public agencies such as the Registrar of Companies.

From the sample of taxpayer returns that were surveyed it emerged that under-declaration of direct taxable incomes of between 30 to 45 percent is the norm while over-declarations is very rare. This estimate compares very well with the estimate shown by the taxpayer survey and revelations by the annual report of the Controller and Auditor General (CAG). Under-declaration is a common practice among all categories of taxpayers and in virtually all direct tax categories. Under-declaration was found to be widespread among individual income taxpayers, private limited companies and commercial farmers, withholding and rental income tax. The major reason expressed by most taxpayers for widespread evasion in these categories was the apparent absence of clear, objective, fair and unambiguous tax assessment criteria.

3.1.2. *Indirect Taxes*

As for indirect taxes, this study found that taxes on international trade transactions are most prone to evasion relative to domestic indirect taxes. The major evaders in this category are sole traders and small size enterprises. An analysis of import duty collection ratios shows consistently evidence of substantial leakage of government revenue from imports through both evasion and fraudulent exemptions. For example, while the average scheduled tariff rate was about 20 percent for the 1988 – 1995 period collection ratios ranged only between 6 to 12 percent. Import duty evasion is

also revealed by estimates of aggregate under-invoicing of imports (about 34 percent annually). The forms in which import duty evasion takes place vary from under-declaration of the c.i.f. value of imports by falsifying the type of imports and unit costs or quantities or both, quoting the wrong but low tariff rate, routing imports through illegal entry points or safe havens, misuse of customs bonded warehouses, and selling transit goods within the country. This study was also able to document some examples of street knowledge of tax evading imports from both the news media and individual informers. In regard to sales tax, the study observed discrepancy between sales value declared to TRA by the domestic manufacturer and the value of production reported to the Bureau of Statistics. Evidence of sales tax evasion is also abounding. The study observed under-declaration of sales in the case of beer, soft drinks, konyagi, sugar, cigarettes, cement, soaps and detergents. The understatement of sales ranged from 53 to 100 percent. Sales tax evasion is mainly carried out through under-declaration of sales and non-issuance of sales receipts or issuance of fake ones.

3.1.3. *Tax Exemptions*

The study also looked into the sizeable magnitudes of tax exemptions that were granted particularly prior to the establishment of the Tanzania Revenue Authority (TRA). Abuses of statutory exemptions can be inferred from the fact that the value of exemptions is found in the study to have exceeded import duty collections for the period from 1987 all through to the establishment of TRA in 1996. Most of the exemptions were awarded to non-government institutions, private companies, individuals, the IPC, parastatals, and charity and religious organizations.

3.2. Main Causes of Tax Evasion in Tanzania

3.2.1. *Evidence from TRA records and Other Secondary Data*

Evidence marshalled from both secondary sources and TRA files suggest that the main causes of tax evasion in Tanzania include corruption for personal gain; perception by taxpayers and the general public that tax administration is weak and corrupt; mild penalties on evaders; unclear and sometimes non-transparent assessment criteria; absence of a proper appeal mechanism; cumbersome procedures, dubious delays within the tax and other government departments such as licensing; high tax rates; too many taxes; and poor service delivery by the government. These factors are, mainly, a reflection of the lack of transparency in tax administration and government in general, which include inaccessibility by the majority of taxpayers to tax information such as tax acts and rate schedules; fair tax appeal mechanism; simple tax return forms, lack of a publicised list of hard core tax defaulters or evaders and actions taken against tax evaders and corrupt tax officials, transparent exemption rules and lists of beneficiaries of the tax exemptions; and lack of a reliable and valued communication channel between the taxpayers on one hand, and tax administrators on the other and credible accounting for the use of public revenue.

3.2.2. *Evidence From the Field Survey*

3.2.2.1. *Taxpayers*

Most taxpayers interviewed indicated that sole proprietors, followed by limited companies and partnerships, in that order mainly committed tax fraud. Likewise taxpayers rank small enterprises as highest tax evaders. The reasons given as the

major causes of tax evasion are collusion with tax administrators and corruption, weak tax administration, high tax rates, too many taxes, and reaction against poor service delivery by the government. Taxpayers also indicated that purchase and resale trade exhibited strongest tax evasion, followed by service delivery, small industries, liberal professions and large industries. It was further observed that although most limited companies are registered, a good proportion of partnerships and sole proprietors is not registered. Finally, the survey demonstrated that the major forms of tax evasion are sales without sales receipts, under-declaration and non-declaration of revenue by property owners, non-declaration of income by professionals, fraudulent imports that escape taxation, in that sequence.

3.2.2.2. *Transparency*

The survey indicated that most taxpayers interviewed felt that the tax system is not transparent. Less than half of the respondents have access to tax legislation, although they read them only occasionally. Around one-quarter of respondents does not read them at all. However, over 50% percent receive tax returns. Most taxpayers pay their taxes within the deadline. The small proportion which does not pay taxes within the deadline does not do so due to low profit margin, high tax rates, notification not received, high cost of living, lack of resources, in that order. Over 40 percent of taxpayers interviewed had no accountants at all, but about 50 percent had regular accounting system. Most taxpayers (about three-quarters) were very much in favor of publicizing all names of tax evaders. Most interestingly, a much larger proportion was in favour of publicizing amounts and all names of the beneficiaries of tax

exemptions. Moreover, about 80% of taxpayers expressed opinion that discretionary exemptions were unnecessary drain to public revenue. Finally, most taxpayers were not in favour of privatization of revenue collection as means to enhance revenue collection.

3.2.2.3. *Tax Administrators*

Most of the tax administrators indicated the presence of constrains as regards lack of facilities that would improve their work performance. Most of them estimated evasion of taxes to stand in the range of 40 – 45 percent. Tax administrators, like taxpayers ranked sole proprietors and small enterprises as the highest tax evaders. They also ranked import duty as the most evaded tax, followed by excise tax and VAT on imports. As to the causes of tax evasion, they ranked first lack of information and education on tax legislation, followed by incompetent tax agents, taxpayer mentality, high tax rates, and lack of administrative means. Further, they considered factors affecting tax compliance to include corruption, poor taxpayers' education, ambiguous legislation, political interference, poor working conditions and lack of skilled workers in that order. Accordingly, they suggested measures to reduce revenue leakage to include improving tax payers education, imposing deterrent penalty against evaders, providing attractive incentives to TRA workers and imposing lower tax rates. Similarly, they suggested measures to enhance tax compliance to include reduction of tax rates, enhancement of taxpayers education, improving social services, putting in place appropriate economic policies, reduction of number of taxes, increasing transparency, improving working conditions, instituting a better mechanism for

recruiting people in all political and administrative posts in government. Finally, like the taxpayers, they did not consider privatisation of revenue collection to be a viable solution to enhance more revenue collection in Tanzania.

4. Conclusion and Policy implications

The major findings of this study as summarised in part three revolve around: (a) registration of taxpayers; (b) pattern of evasion; (c) corruption; (d) ambiguous tax legislation; and (e) collusion between tax payers and tax administration. Six main conclusions can therefore be drawn from this study:

4.1. *Registration of Sole Proprietors and Small Enterprises.*

This study indicated that among the causes of tax evasion and low tax compliance are non-registration of taxpayers and lack of information exchange between TRA departments and other institutions that keep taxpayers information such as the Registrar of Companies and pension funds like PPF and NSSF. Non registration of taxpayers could partly be attributable to lack of willingness on the part of these taxpayers to register in order to evade taxation. It may also be due to lack of administrative capacity on the side of tax administration to have those enterprises registered. Accordingly, to address the problem of registration what needs to be done is first, to educate the taxpayers involved on the importance of registering their business. Second, the tax administration must be improved to acquire the capacity to have the enterprises registered. But this can only be made possible if TRA can share information with other institutions to assist it in identifying sole proprietors and small

enterprises. An important step in ensuring that all taxpayers are registered with the tax authority is to introduce the taxpayers identification numbers (TIN). By facilitating follow-ups of taxpayers and information exchange between various tax departments within TRA, taxpayers identification numbers (TIN) ensure a maximum rate of tax compliance.

4.2. *Pattern of Evasion*

The study also revealed the pattern of tax evasion. Indirect taxes in general and VAT in particular are evaded through failure to issue receipts. In Tanzania the culture of issuing and demanding receipts is still non existent. Traders normally ask their customers if they want a receipt or not. If a customer demands a receipt he is given and if not he does not get it. To deal with this problem the government must educate taxpayers on the importance of demanding receipts against purchase of a good or service. Since the traders deliberately decide not to issue receipts, a strong penalty should be imposed against them to discourage potential defaulters.

4.3. *Corruption*

Corruption has been singled out in the study as one of the major problems in the tax system. Some of the respondents in the survey indicated that it is cheaper to bribe a tax official than to appeal to have his/her tax reduced. It is cheaper in terms of time and money. Solving this problem calls for the government to institute a transparent appeals mechanism: tax appeal courts, which are efficient and impartial. Such courts should not have TRA officials as members since their inclusion may bring

unnecessary complications.

Corruption is a countrywide and sector-wide problem in this country that has affected among other things, service delivery, tax collection, etc. President Mkapa's administration is all out to fight corruption. Nevertheless, it is questionable if much mileage has been achieved since the war against corruption was declared a few years back. Although poor pay to civil servants and other public sector workers may not be the key cause of corruption in Tanzania, it is among the major ones. Improvement of pay and guaranteed reasonable pension may reduce corruption to a greater extent. Accordingly, we recommend that the government should consider the possibilities of enhancing the pay of the civil servants and improving their pensions.

4.4. *Collusion of Taxpayers with Tax Officials*

The study has also revealed that taxpayers do collude with tax officials to evade tax. For example, VAT is evaded through collusion between tax officials and taxpayers. Such collusion is brought about by high tax rates, weak tax administrative, the prevailing bureaucracy in tax administration, complex tax structure, corruption, poor incentives to TRA staff, presence of discretionary exemptions, mild penalty, presence of less educated, unfaithful tax collectors, lack of frequent random audits. Thus to reduce the problem, the followings are recommended: reduction of tax rates, improvement of tax administration, streamlining bureaucracy in dealing with taxpayers, simplification of tax structure, fighting corruption, increasing incentives to TRA staff, reducing discretionary exemptions, abolishing unnecessary tax exemptions, employing educated, faithful and dedicated tax collectors, making tax

rates uniform, and increasing frequencies of random auditing of taxpayers. In addition, this problem can be dealt with by imposing severe penalty against both taxpayers and tax officials who collude. To date, the current practice has been to fire a tax official that is suspected to receive bribes or have been proved to receive the same. Even for those who have acquired massive wealth have not been prosecuted, neither have their properties been confiscated. Firing such people alone is not enough. To deal with this problem we recommend the government to confiscate those assets they acquired illegally. Such a measure will serve as deterrence to others.

4.5. *Unfair Tax System*

To date our tax system has elements of unfairness. One of the cannons of a good tax system is that a tax system should be fair. Taxpayers must be treated equally. In this spirit, the government should avoid employing unnecessary presumptive taxation, particularly in the area of indirect taxes. For example, import duty on imported used saloon car is 30% or Tshs. 1,000,000 whichever is higher. A fixed rate of Tshs. 1,000,000 duty presumes that any saloon car imported into the country cannot have a c.i.f. value of less than Tshs. 3,000,000 (or US$ 4,400). Many used cars are imported into the country at a value less than US$ 4,400). Presumptive taxation of imports, particularly of cars, which are not domestically manufactured, should be avoided to make the tax system fair. People cheat on the c.i.f. value of imports because of high tax rates and unfair tax system. Thus to avoid such problem the government should lower the tax rate and make the tax system fair.

4.6. *Transparency in Tax Administration*

At present there is clear absence of transparency in tax administration. This problem features in ambiguous tax legislation, bureaucracy in tax administration, failure to publish names of tax evaders and tax exemption beneficiaries, lack of computerization of tax administration and low level of taxpayers education. Enhancing transparency in tax administration demands a more vigorous campaign to educate taxpayers and tax collectors through seminars, workshops and public news media on correct or required tax procedures, tax legislation, self tax assessment, how tax money has been spent, costs of evasion and so on. Other important measures include making public the list of hard core tax defaulters and dishonest tax officials, including actions taken against them and beneficiaries of and amounts of fraudulent tax exemptions; publishing and making tax rates readily available to the public. It is also important for the government to be more open on the rationale behind the various measures undertaken to enhance tax compliance. For example, the finding that over 80 percent of the tax administrators surveyed did not consider the privatisation of revenue collection to be a sustainable solution to enhance tax collection is likely to have a bearing on the operations of the PSIs as long as a significant number of tax administrators remain unconvinced of the need to have the PSIs in place. Finally, this study shows that political commitment is necessary for improved tax compliance and corruption record. This study suggests, among others that the vetting mechanism which currently applies to staff recruited by TRA should be extended to apply to all political and technical staff posts in the entire government establishment.

The study has demonstrated lack of transparency in tax administration in form

of ambiguous tax legislation, resorting to arbitrary or ad hoc measures used to collect tax revenue as opposed to employing scientific and transparent techniques. In view of these shortcomings, it is being recommended that the government should revisit/review the tax legislation with a view to making them unambiguous and more transparent.

4.7. *Frequency and Coverage of Tax Audits*

Since the rate of under-declaration of taxes in Tanzania is very high, it would seem important to suggest that the frequency and coverage of tax audits should be increased, and if possible deterrent penalties imposed for deliberate under-declaration. Frequent and random audits would increase the probability of a taxpayer being caught and penalised, thus, increasing the rate of tax compliance. Specifically, more resources need to be directed towards strengthening and increasing tax audits of the tax returns for individuals, private companies and commercial farmers where evasion was found to be very common. In the case of withholding taxes, more resources need to be directed to improve compliance by transport operators and in the areas of royalties and dividends.

4.8. *Phased Registration of Property owners*

Rental income is one of the highly evaded taxes, mainly because it has been difficult to track down both landlords and tenants. Registration of taxpayers and taxpayers information exchange between departments would help track down defaulters based on filed returns (e.g., the counterpart of expenditure on rent is receipt of income from

rent, which has to be taxed). All property owners should suggestively be made liable to pay a proportional tax rate on rental income. The rate should be affordable by all landlords. There should not be a threshold.

4.9. *Introduction of Performance Contracts between the Government and PSIs*

Despite the presence of pre-shipment inspection (PSI) companies, tax revenues have continued to be lost through under-declaration of import values and quantities at the Dar es Salaam port entry point. To deal with this problem, it would be pertinent for the TRA/government to enter into performance contracts with the PSIs and where possible, institute a mechanism that allows a random re-inspection of imports to ascertain the authenticity of the work done by the PSIs. Many other measures of overcoming revenue leakage through imports, sale or discharge of transit goods within the country, smuggling of goods, have been suggested and documented elsewhere (see., e.g. ESRF 1996) and need not be repeated here.

4.10. *Inspection of Imports by NGOs and Charity Organisations*

The government needs to exercise care in issuing exemptions to some non-governmental organizations (NGOs), religious and charity organisations and contractors to the government since such exemptions have become a conduit for evading taxes. There is a need to ensure that imports of exemption beneficiaries are thoroughly inspected to verify the authenticity of exemption orders quoted, classification and type of goods imported, and the tariff charged.

4.11. *Evoking Business Licenses of Sales Tax Defaulters*

The taxpayer survey has revealed that most businesses do not issue receipts against sales made. This practice is against sound business ethics and at best it facilitates evasion of domestic indirect taxes. Appropriate enforcement mechanisms including heavily penalising the defaulters, for example, by evoking their business licenses is in order. However, given the corrupt environment picture as painted out in the taxpayer survey, curbing corruption may be a necessary condition for the success of enforcement mechanisms.

4.12. *Further Reform of the tax Regime and Tax Administration*

Lack of transparency in tax administration as broadly defined in this study emerges clearly to be an important factor behind low tax compliance in Tanzania. However, no single policy instrument can alone serve to curb the problem of low tax compliance satisfactorily. It is imperative that the government deploys a comprehensive policy mix to address the problem. More specifically, the government and TRA should, at the turn of the century, continue with the reform of the tax system but focusing more on further rationalisation of the tax structure and tax administration. The former requires moving a step further down the road towards fewer taxes and bands and lower tax rates while simultaneously widening the tax net and also simplifying procedures to minimise delays. Measures to improve tax administration should aim to provide TRA with a well trained workforce recruited and promoted solely on merit; better and more modern working facilities; reasonably good remuneration to all TRA staff that rewards competency and good performance and punishes staff complacency;

and strengthening the audit, inspection and investigation functions through proper training and adequate financing of these tasks.

4.13. *System of tax informants*

The tax administration is currently still weak but is in the process of being strengthened, and of course it will be strengthen eventually. The process takes time before completion. In the transition period we recommend one measure to assist the tax administration to fight tax evasion. We recommend the system of "tax informants". Under the proposed system a citizen is encouraged by the government to report a tax evader by providing concrete evidence. After reporting the case the tax administration carries out investigations to establish the reported allegations, the person who reported the case is paid a certain percentage of the total amount of the tax evaded, say 10%. However, administration of the proposed scheme may be problematic and can be subject to serious criticisms since a similar scheme was instituted in the Ministry of Home Affairs. But if properly managed it can work and consequently reduce evasion. The scheme has successfully worked in developed economies e.g. the United States, and experience has shown that it can work in Tanzania provided it is properly managed.

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APPENDIX 1

SURVEY RESULTS BY TAXPAYER CATEGORY

1. LIMITED COMPANIES

A. *General observations.*

a) Out of 70 limited companies that were covered in the survey, 13% are manufacturing units, 15% wholesale, 13% retail, and 59% deliver services.

b) Limited companies pay all or a combination of the following taxes: corporation/company tax, import duty, excise duty, VAT, stamp duty, rental income tax, PAYE, withholding tax, payroll tax, and a host of local government taxes including city service levy, development levy and property tax.

c) 60% of these enterprises indicated that tax fraud was mainly committed by sole proprietors, followed by partnerships (27%) and limited companies (13%).

d) In ranking categories of enterprises in terms of the extent of tax evasion, limited companies put small enterprises on top of the list, followed by medium enterprises, large enterprises, and religious and charity organisations, in that order.

e) Limited companies consider (i) collusion and corruption (ii) high tax rates (iii) weak tax administration (iv) too many taxes and (v) lack of transparency, in that sequence, to be the most important tax evasion factors.

f) As regards category of activities, which exhibit strongest tax evasion, purchase and resale activities topped the list, followed by service delivery, small industries, liberal professions, and lastly large industries.

g) The survey also suggested that most corporations are registered, but a good

percentage of partnerships and a big percentage of sole proprietors are not registered. For example, 59 percent of respondents indicated that over 50% of sole proprietors are not registrered. Comparable percentages for partnerships and limited companies (over 50% not registered) are 18% and 0%, respectively (see Table A1).

Table A1: Percentage estimates of limited companies, partnerships, and sole enterprises not registered by TRA.

% not registered→ Item↓	0% - 10%	11%-20%	21% - 30%	31% - 40%	41%-50%	Over 50%
Limited Companies	76%	9%	1%	11%	3%	0%
Partnerships	21%	19%	14%	19%	9%	18%
Sole	7%	3%	10%	14%	7%	59%

(h) The survey of limited companies further revealed that fraudulent imports that escape taxation, sales without sales receipts, under-declaration and non-declaration of revenue by property owners, and non-declaration of income by professionals was quite high (see Table A2).

Table A2: Percentage estimates of different forms of evasion.

% Evasion→ Item↓	0% - 10%	11% - 20%	21% - 30%	31% - 40%	41% - 50%	Over 50%
Imports that escape taxes	11%	16%	14%	20%	19%	20%
Sales without receipts	7%	7%	12%	11%	21%	42%
Property owners under declaring their revenue	13%	44%	12%	4%	11%	16%
Property owners not declaring their revenue	21%	9%	7%	16%	19%	28%
Professionals not declaring their incomes	20%	16%	11%	11%	13%	29%

(i) Finally, regards tax controls as currently enforced by tax authorities, 40% of

the limited companies interviewed believe that the controls are significant, 31% believe that they would penalise good taxpayers, 17% believe that the controls are insignificant, and 11% indicated that such controls favour fraudulent parties.

B. *Direct taxes*

a) Limited company taxpayers ranked the *direct* taxes that are more prone to evasion as (i) rental income (ii) personal/individual tax (iii) withholding tax (iv) company tax and, (v) PAYE, in that order.

b) The companies considered sole proprietors to be most prone to evasion of direct taxes. These are followed by small enterprises, medium enterprises, and large enterprises, in that sequence.

c) Among the limited companies surveyed, 65% accepted that they normally include the declarations regarding their property when they submit declaration forms for their activities, while 35% do not.

d) 68% of limited companies estimated that 0%-30% additional tax revenue could be raised from informal sector incomes. 20% of them estimated that the sector could contribute 31%-50%, while 12% of them were of the view that the sector could add over 50% to total tax revenue.

C. *Indirect taxes*

a) The response from limited companies suggested that indirect taxes that were prone to evasion could be ranked in the order: (i) import duty (ii) excise duty (iii) stamp duty and, (iv) VAT. More specifically, sales tax/VAT and excise duty on imports

were the most evaded taxes relative to their domestic counterparts.

b) In general, sole traders followed by small enterprises were singled out by limited company as the major evaders of indirect taxes. Next in the list were medium enterprises and lastly large enterprises.

D. *Transparency*

The survey on this aspect was aimed at finding out to what extent is the tax system transparent as regards taxpayers accessibility to tax acts, tax returns, publication of the names of tax evaders and beneficiaries of tax exemptions, etc.

a) It was noted that 63% of respondents 60% percent of respondents have access to information about tax legislation although they read them only occasionally.

b) Most of them (70%) regularly receive tax return (notification) forms while 70% were aware of legal dispositions derived annually from the Finance Bill.

c) As regards tax payment, 87% pay their taxes within the deadline, 82% have paid their tax due over the past four years, and 81% had none of their income tax returns rejected in the last four years.

d) For those who responded that they have not paid their tax due over the past four years the reasons were: (i) high tax rates (ii) lack of resources (iii) notification not received (iv) taxes contested (v) low profit margin (vi) high cost of living, and (vi) fine required, in that order.

e) For those who had their returns rejected: 1.4% were rejected once, 2.9% rejected twice, 4.3% rejected thrice, and 5.7% rejected four times, in the last four years.

f) It was also noted that among the limited companies surveyed, 63% had permanent

accountant, 27% occasional accountant, and 10% no accountant at all, to help with preparation of annual tax return.

g) 83% of limited companies also had regular accounting system, while 6% said they had none and 11% did not respond. Among those that had no regular accounting system, 76% acknowledged having a registry of their purchases, which are subject to proper billing.

h) Most limited companies were very much in favor of publicizing all names of tax evaders (66%), and amounts and all names of the beneficiaries of tax exemptions (81%). Moreover, 83% of limited companies expressed opinion that discretionary exemptions were the major unnecessary drain to public revenue, while 14% and 3% of them thought that NIPPA exemptions and statutory exemptions, respectively, were unnecessary drain to the government revenue collection.

i) Regarding their estimate of degree of compliance in respect of different category of taxes, interesting pattern was observed, as shown in Table A3. Except for PAYE all other taxes are perceived to be poor in terms of compliance. Whereas 72% of limited companies place PAYE at above 50% compliance rate, none of other tax scores above 50%. The greater than 50% compliance scores for other taxes, with percentage of taxpayers (scores) in brackets are: individual tax (32%), rental income tax (13%), land rent (30%), stamp duty (48%), excise duty (48%) and import duty (45%).

Table A3: Limited Companies' estimates of degree of compliance with respect to various taxes, by percentage of respondents

Degree of compliance→ Tax↓	0%-10%	11%-20%	21%-30%	31%-40%	41%-50%	51%-60%	61%-70%	71%-80%	Over 80%
Individual tax	16%	9%	11%	19%	13%	10%	9%	9%	4%
Rental tax	26%	24%	11%	13%	13%	3%	3%	6%	1%
Land rent	28%	11%	11%	7%	13%	6%	10%	9%	5%
PAYE	14%	3%	3%	4%	4%	6%	6%	17%	43%
Stamp duty	17%	7%	6%	6%	16%	13%	11%	7%	17%
Excise duty	13%	6%	13%	9%	11%	23%	7%	11%	7%
Import duty	10%	6%	6%	14%	19%	10%	10%	19%	6%

(j) Finally the survey indicated that 63% of limited companies were not in favour of privatization of revenue collection as a means to enhance revenue collection.

2. UNINCORPORATED (PARTNERSHIP) ENTERPRISES

A. *General observations.*

a) Out of 51 partnerships that were covered in the survey, 8% are manufacturing units, 22% wholesale, 23% retail, and 47% deal with service delivery.

b) Partnerships pay all or a combination of the following taxes: import duty, excise duty, VAT, stamp duty, rental income tax, PAYE, withholding tax, payroll tax, and a host of local government taxes including city service levy, development levy and property tax.

c) 74% of these enterprises indicated that tax fraud was mainly committed by sole proprietors, followed by limited companies (17%) and partnerships (9%).

d) In ranking categories of enterprises in terms of the extent of tax evasion,

partnerships put small enterprises on top of the list, followed by medium enterprises, large enterprises, and religious and charity organisations, in that order.

e) Partnerships consider (i) collusion and corruption (ii) high tax rates (iii) weak tax administration (iv) too many taxes, and (v) reaction against poor service delivery by the Government, in that sequence, to be the most important tax evasion factors.

f) As regards category of activities, which exhibit strongest tax evasion, purchase and resale activities topped the list, followed by large industries, service delivery, small industries, and lastly liberal professions.

g) The survey also suggested that most corporations are registered, but a good percentage of partnerships and a big percentage of sole proprietors are not registered. For example, 62 percent of respondents indicated that over 50% of sole proprietors are not registrered. Comparable percentages for partnerships and limited companies (over 50% not registered) are 8% and 0%, respectively (see Table A1).

Table A1: Percentage estimates of limited companies, partnerships, and sole enterprises not registered by TRA.

% not registered→ Item↓	0% - 10%	11%-20%	21% - 30%	31% - 40%	41%-50%	Over 50%
Limited Companies	69%	12%	2%	14%	3%	0%
Partnerships	22%	22%	16%	16%	16%	8%
Sole	12%	0%	8%	6%	12%	62%

(h) The survey of partnerships further revealed that fraudulent imports that escape taxation, sales without sales receipts, under-declaration and non-declaration of revenue by property owners, and non-declaration of income by professionals

was quite high (see Table A2).

Table A2: Percentage estimates of different forms of evasion.

% Evasion→ Item↓	0% - 10%	11% - 20%	21% - 30%	31% - 40%	41% - 50%	Over 50%
Imports that escape taxes	6%	16%	22%	12%	18%	26%
Sales without receipts	4%	2%	4%	12%	14%	64%
Property owners under declaring their revenue	8%	6%	2%	14%	12%	58%
Property owners not declaring their revenue	6%	8%	6%	12%	22%	46%
Professionals not declaring their incomes	12%	10%	18%	12%	4%	44%

(i) Finally, regards tax controls as currently enforced by tax authorities, 34% of the partnerships interviewed believe that the controls are significant, 26% believe that they would penalise good taxpayers, 22% believe that the controls are insignificant, and 18% indicated that such controls favour fraudulent parties.

B. *Direct taxes*

a) Partnerships ranked the *direct* taxes that are more prone to evasion as (i) rental income (ii) personal/individual tax (iii) withholding tax (iv) company tax and, (v) PAYE, in that order.

b) The partnerships considered sole proprietors to be most prone to evasion of direct taxes. These are followed by small enterprises, medium enterprises, and large

enterprises, in that sequence.

c) Among the partnerships surveyed, 61% accepted that they normally include the declarations regarding their property when they submit declaration forms for their activities, while 39% do not.

d) 77% of partnerships estimated that 0%-30% additional tax revenue could be raised from informal sector incomes. 16% of them estimated that the sector could contribute 31%-50%, while 7% of them were of the view that the sector could add over 50% to total tax revenue.

C. *Indirect taxes*

a) The response from partnerships suggested that indirect taxes that were prone to evasion could be ranked in the order: (i) import duty (ii) excise duty (iii) stamp duty and, (iv) VAT. More specifically, sales tax/VAT and excise duty on imports were the most evaded taxes relative to their domestic counterparts.

b) In general, sole traders followed by small enterprises were singled out by partnerships as the major evaders of indirect taxes. Next in the list were medium enterprises and lastly large enterprises.

D. *Transparency*

The survey on this aspect was aimed at finding out to what extent is the tax system transparent as regards taxpayers accessibility to tax acts, tax returns, publication of the names of tax evaders and beneficiaries of tax exemptions, etc.

a) It was noted that 68% respondents have access to information about tax legislation

although they read them only occasionally.

b) Most of them (59%) regularly receive tax return (notification) forms while only 40% were aware of legal dispositions derived annually from the Finance Bill.

c) As regards tax payment, 65% pay their taxes within the deadline, 88% have paid their tax due over the past four years, and 72% had none of their income tax returns rejected in the last four years.

d) For those who responded that they have not paid their tax due over the past four years the reasons were: (i) lack of resources (ii) high cost of living (iii) high tax rates (iv) taxes contested (v) low profit margin, and (v) notification not received, in that order.

e) For those who had their returns rejected: 6% were rejected twice, 2% rejected thrice, 4% rejected four times, 4% rejected five times, and 2% rejected ten times in the last four years.

f) It was also noted that among the partnerships surveyed, only 33% had permanent accountant, 37% occasional accountant, and 30% no accountant at all, to help with preparation of annual tax return.

g) 63% of partnerships also had regular accounting system, while 27% said they had none and 10% did not respond. Among those that had no regular accounting system, 81% acknowledged having a registry of their purchases, which are subject to proper billing.

h) Most limited companies were very much in favor of publicizing all names of tax evaders (52%), and amounts and all partnerships companies expressed opinion that discretionary exemptions were the major unnecessary drain to public revenue,

while 20% and 7% of them thought that NIPPA exemptions and statutory exemptions, respectively, were unnecessary drain to the government revenue collection.

i) Regarding their estimate of degree of compliance in respect of different category of taxes, interesting pattern was observed, as shown in Table A3. Except for PAYE all other taxes are perceived to be poor in terms of compliance. Whereas 76% of partnerships place PAYE at above 50% compliance rate, none of other tax scores above 50%. The greater than 50% compliance scores for other taxes, with percentage of taxpayers (scores) in brackets are: individual tax (33%), rental income tax (13%), land rent (27%), stamp duty (37%), excise duty (27%) and import duty (34%).

Table A3: **Partnerships' estimates of degree of compliance with respect to various taxes, by percentage of respondents**

Degree of compliance→ Tax↓	0%-10%	11%-20%	21%-30%	31%-40%	41%-50%	51%-60%	61%-70%	71%-80%	Over 80%
Individual tax	27%	4%	2%	12%	22%	12%	16%	5%	0%
Rental tax	35%	14%	12%	14%	12%	8%	2%	0%	3%
Land rent	33%	12%	8%	6%	14%	4%	8%	8%	7%
PAYE	18%	0%	0%	0%	6%	0%	12%	18%	46%
Stamp duty	23%	6%	6%	14%	14%	8%	14%	8%	7%
Excise duty	18%	8%	19%	8%	20%	12%	8%	6%	1%
Import duty	18%	0%	14%	12%	22%	18%	6%	10%	0%

(j) Finally the survey indicated that 75% partnerships were not in favour of privatization of revenue collection as a means to enhance revenue collection.

3. SOLE PROPRIETORSHIP

A. *General observations.*

a) Out of 49 sole proprietors that were covered in the survey, 4% are manufacturing units, 10% wholesale, 51% retail, and 35% deal with service delivery.

b) Sole proprietors pay all or a combination of the following taxes: import duty, excise duty, VAT, stamp duty, rental income tax, PAYE, and a host of local government taxes including city service levy, development levy and property tax.

c) 48% of these enterprises indicated that tax fraud was mainly committed by sole proprietors, followed by limited companies (33%) and partnerships (19%).

d) In ranking categories of enterprises in terms of the extent of tax evasion, sole proprietors put large enterprises on top of the list, followed by medium enterprises, small enterprises, and religious and charity organisations, in that order.

e) Sole proprietors consider (i) collusion and corruption (ii) high tax rates (iii) weak tax administration (iv) reaction against poor service delivery by the Government, and (v) too many taxes, in that sequence, to be the most important tax evasion factors.

f) As regards category of activities, which exhibit strongest tax evasion, purchase and resale activities topped the list, followed by liberal professions, small industries, service delivery, and lastly large industries.

g) The survey also suggested that most corporations are registered, but a good percentage of partnerships and a big percentage of sole proprietors are not registered. For example, 59 percent of respondents indicated that over 50% of sole

proprietors are not registrered. Comparable percentages for partnerships and limited companies (over 50% not registered) are 18% and 0%, respectively (see Table A1).

Table A1: Percentage estimates of limited companies, partnerships, and sole enterprises not registered by TRA.

% not registered→ Item↓	0% - 10%	11%-20%	21% - 30%	31% - 40%	41%-50%	Over 50%
Limited Companies	59%	14%	6%	0%	8%	13%
Partnerships	22%	18%	20%	14%	6%	20%
Sole	16%	12%	6%	8%	27%	31%

(h) The survey of sole proprietors further revealed that fraudulent imports that escape taxation, sales without sales receipts, under-declaration and non-declaration of revenue by property owners, and non-declaration of income by professionals was quite high (see Table A2).

Table A2: Percentage estimates of different forms of evasion.

% Evasion→ Item↓	0% - 10%	11% - 20%	21% - 30%	31% - 40%	41% - 50%	Over 50%
Imports that escape taxes	10%	14%	16%	8%	29%	23%
Sales without receipts	10%	4%	8%	2%	18%	58%
Property owners under declaring their revenue	22%	6%	4%	8%	8%	52%
Property owners not declaring their revenue	18%	10%	12%	0%	14%	46%
Professionals not declaring their incomes	20%	12%	12%	10%	10%	36%

(i) Finally, regards tax controls as currently enforced by tax authorities, 45% of sole proprietors interviewed believe that the controls are significant, 28% believe that they would penalise good taxpayers, 17% believe that the controls are insignificant, and 10% indicated that such controls favour fraudulent parties.

B. ***Direct taxes***

a) Sole proprietors ranked the *direct* taxes that are more prone to evasion as (i) rental income (ii) personal/individual tax (iii) withholding tax (iv) company tax and, (v) PAYE, in that order.

b) The sole proprietors considered large enterprises to be most prone to evasion of direct taxes. These are followed by sole proprietors, medium enterprises, and small enterprises, in that sequence.

c) Among sole proprietors surveyed, 43% accepted that they normally include the declarations regarding their property when they submit declaration forms for their activities, while 57% do not.

d) 64% of sole proprietors estimated that 0%-30% additional tax revenue could be raised from informal sector incomes. 14% of them estimated that the sector could contribute 31%-50%, while 12% of them were of the view that the sector could add over 50% to total tax revenue.

C. ***Indirect taxes***

a) The response from sole proprietors suggested that indirect taxes that were prone to

evasion could be ranked in the order: (i) import duty (ii) excise duty (iii) VAT and, (iv) stamp duty. More specifically, sales tax/VAT and excise duty on imports were the most evaded taxes relative to their domestic counterparts.

b) In general, large enterprises followed by medium enterprises were singled out by sole proprietors as the major evaders of indirect taxes. Next in the list were small enterprises and lastly sole proprietors.

D. *Transparency*

The survey on this aspect was aimed at finding out to what extent is the tax system transparent as regards taxpayers accessibility to tax acts, tax returns, publication of the names of tax evaders and beneficiaries of tax exemptions, etc.

a) It was noted that 46% of respondents have access to information about tax legislation although they read them only occasionally.

b) Most of them (54%) regularly receive tax return (notification) forms while only33% were aware of legal dispositions derived annually from the Finance Bill.

c) As regards tax payment, 81% pay their taxes within the deadline, 90% have paid their tax due over the past four years, and 76% had none of their income tax returns rejected in the last four years.

d) For those who responded that they have not paid their tax due over the past four years the reasons were: (i) high cost of living (ii) low profit margin (iii) high tax rates (iv) notification not received (v) taxes contested (vi) lack of resources, and (vi) fine required, in that order.

e) For those who had their returns rejected: 4% were rejected once and 2% rejected

twice, in the last four years.

f) It was also noted that among the sole proprietors surveyed, only 36% had permanent accountant, 11% occasional accountant, and 53% no accountant at all, to help with preparation of annual tax return.

g) 53% of sole proprietors also had regular accounting system, while 39% said they had none and 8% did not respond. Among those that had no regular accounting system, 76% acknowledged having a registry of their purchases, which are subject to proper billing.

h) Most sole proprietors were very much in favor of publicizing all names of tax evaders (70%), and amounts and all names of the beneficiaries of tax exemptions (76%). Moreover, 67% of sole proprietors expressed opinion that discretionary exemptions were the major unnecessary drain to public revenue, while 12% and 21% of them thought that NIPPA exemptions and statutory exemptions, respectively, were unnecessary drain to the government revenue collection.

i) Regarding their estimate of degree of compliance in respect of different category of taxes, interesting pattern was observed, as shown in Table A3. Except for PAYE and individual tax all other taxes are perceived to be poor in terms of compliance. Whereas 53% and 55% of sole proprietors place PAYE and individual tax, respectively, at above 50% compliance rate, none of other tax scores above 50%. The greater than 50% compliance scores for other taxes, with percentage of taxpayers (scores) in brackets are: rental income tax (13%), land rent (37), stamp duty (39%), excise duty (35%) and import duty (37%).

Table A3: Sole proprietors' estimates of degree of compliance with respect to various taxes, by percentage of respondents

Degree of compliance→ Tax↓	0%-10%	11%-20%	21%-30%	31%-40%	41%-50%	51%-60%	61%-70%	71%-80%	Over 80%
Individual tax	15%	10%	10%	6%	4%	10%	22%	10%	13%
Rental tax	41%	12%	16%	2%	16%	6%	4%	0%	3%
Land rent	33%	4%	12%	4%	10%	4%	12%	10%	11%
PAYE	27%	2%	8%	2%	8%	6%	8%	16%	23%
Stamp duty	33%	8%	8%	8%	4%	2%	6%	12%	19%
Excise duty	29%	6%	12%	12%	6%	8%	12%	10%	5%
Import duty	17%	6%	6%	10%	24%	10%	10%	10%	7%

(j) Finally the survey indicated that 63% of sole proprietors were not in favour of privatization of revenue collection as a means to enhance revenue collection.

4. PROFESSIONALS AND EMPLOYEES

A. *General observations.*

a) Out of 195 professionals and employees that were covered in the survey, 8% are engaged in manufacturing, 11% wholesale, 22% retail, and 59% deal with service delivery.

b) Professionals and employees pay all or a combination of the following taxes: corporation/company tax, import duty, excise duty, VAT, stamp duty, rental income tax, PAYE, payroll tax, and local government taxes such as, development levy and property tax.

c) 59% of these enterprises indicated that tax fraud was mainly committed by sole proprietors, followed by limited companies (26%) and partnerships (15%).

d) In ranking categories of enterprises in terms of the extent of tax evasion, professionals and employees put large enterprises on top of the list, followed by medium enterprises, small enterprises, and religious and charity organisations, in that order.

e) Professionals and employees consider (i) collusion and corruption (ii) weak tax administration (iii) high tax rates (iv) too many taxes and (v) lack of transparency, in that sequence, to be the most important tax evasion factors.

f) As regards category of activities, which exhibit strongest tax evasion, purchase and resale activities topped the list, followed by service delivery,small industries, large industries, and lastly liberal professions.

g) The survey also suggested that most corporations are registered, but a good percentage of partnerships and a big percentage of sole proprietors are not registered. For example, 45% of respondents indicated that over 50% of sole proprietors are not registrered. Comparable percentages for partnerships and limited companies (over 50% not registered) are 9% and 4%, respectively (see Table A1).

Table A1: Percentage estimates of limited companies, partnerships, and sole enterprises not registered by TRA.

% not registered→ Item↓	0% - 10%	11%-20%	21% - 30%	31% - 40%	41%-50%	Over 50%
Limited Companies	62%	17%	6%	5%	6%	4%
Partnerships	24%	20%	19%	15%	13%	9%
Sole	14%	5%	8%	10%	18%	45%

(h) The survey of professionals and workers revealed that fraudulent imports that escape taxation, sales without sales receipts, under-declaration and non-declaration of revenue by property owners, and non-declaration of income by professionals was quite high (see Table A2).

(i) Finally, regards tax controls as currently enforced by tax authorities, 39% of the limited companies interviewed believe that the controls are significant, 28% believe that they would penalise good taxpayers, 15% believe that the controls are insignificant, and 18% indicated that such controls favour fraudulent parties.

Table A2: Percentage estimates of different forms of evasion.

% Evasion→ Item↓	0% - 10%	11% - 20%	21% - 30%	31% - 40%	41% - 50%	Over 50%
Imports that escape taxes	12%	12%	12%	19%	23%	22%
Sales without receipts	8%	4%	8%	7%	22%	51%
Property owners under declaring their revenue	15%	9%	10%	11%	16%	39%
Property owners not declaring their revenue	12%	11%	9%	11%	19%	38%
Professionals not declaring their incomes	22%	9%	10%	9%	15%	35%

B. *Direct taxes*

a) Professionals and employees ranked the *direct* taxes that are more prone to evasion as (i) rental income (ii) personal/individual tax (iii) withholding tax (iv) company tax and, (v) PAYE, in that order.

b) The professionals and employees considered sole proprietors to be most prone to

evasion of direct taxes. These are followed by small enterprises, medium enterprises, and large enterprises, in that sequence.

c) Among the professionals and employees surveyed, 48 accepted that they normally include the declarations regarding their property when they submit declaration forms for their activities, while 52% do not.

d) 78% of limited companies estimated that 0%-30% additional tax revenue could be raised from informal sector incomes. 16% of them estimated that the sector could contribute 31%-50%, while 6% of them were of the view that the sector could add over 50% to total tax revenue.

C. *Indirect taxes*

a) The response from limited companies suggested that indirect taxes that were prone to evasion could be ranked in the order: (i) import duty (ii) excise duty (iii) VAT and, (iv) stamp duty. More specifically, sales tax/VAT and excise duty on imports were the most evaded taxes relative to their domestic counterparts.

b) In general, sole traders followed by small enterprises were singled out by professionals and employees as the major evaders of indirect taxes. Next in the list were medium enterprises and lastly large enterprises.

D. *Transparency*

The survey on this aspect was aimed at finding out to what extent is the tax system transparent as regards taxpayers accessibility to tax acts, tax returns, publication of the names of tax evaders and beneficiaries of tax exemptions, etc.

a) It was noted that only 60% percent of respondents have access to information about tax legislation although they read them only occasionally.

b) Only 45% regularly receive tax return (notification) forms while 39% were aware of legal dispositions derived annually from the Finance Bill.

c) As regards tax payment, 87% pay their taxes within the deadline, 86% have paid their tax due over the past four years, and 92% had none of their income tax returns rejected in the last four years.

d) For those who responded that they have not paid their tax due over the past four years the reasons were: (i) high tax rates (ii) notification not received (iii) taxes contested (iv) high cost of living (v) lack of resources, and (vi) fine required, in that order.

e) For those who had their returns rejected: 3% were rejected once, 2% rejected twice,and 1% four times, in the last four years.

f) It was also noted that among professionals and employees surveyed, only 27% had permanent accountant, 19% occasional accountant, and 54% no accountant at all, to help with preparation of annual tax return.

g) Only 33% of professionals and employees also had regular accounting system, while 26% said they had none and 41% did not respond. Among those that had no regular accounting system, 69% acknowledged having a registry of their purchases, which are subject to proper billing.

h) Most professionals and workers were very much in favor of publicizing all names of tax evaders (79%), and amounts and all names of the beneficiaries of tax exemptions (84%). Moreover, 73% of professionals and workers expressed

opinion that discretionary exemptions were the major unnecessary drain to public revenue, while 18% and 9% of them thought that NIPPA exemptions and statutory exemptions, respectively, were unnecessary drain to the government revenue collection.

i) Regarding their estimate of degree of compliance in respect of different category of taxes, interesting pattern was observed, as shown in Table A3. Except for PAYE all other taxes are perceived to be poor in terms of compliance. Whereas 64% of professionals and workers place PAYE at above 50% compliance rate, none of other tax scores above 50%. The greater than 50% compliance scores for other taxes, with percentage of taxpayers (scores) in brackets are: individual tax (26%), rental income tax (10%), land rent (33%), stamp duty (31%), excise duty (28%) and import duty (30%).

Table A3: Professionals and workers **estimates of degree of compliance with respect to various taxes, by percentage of respondents**

Degree of compliance→ Tax↓	0%-10%	11%-20%	21%-30%	31%-40%	41%-50%	51%-60%	61%-70%	71%-80%	Over 80%
Individual tax	31%	13%	11%	7%	12%	8%	7%	4%	7%
Rental tax	38%	18%	12%	11%	11%	4%	3%	1%	2%
Land rent	34%	13%	7%	6%	7%	9%	7%	6%	11%
PAYE	18%	4%	3%	2%	9%	4%	8%	19%	33%
Stamp duty	27%	7%	9%	11%	15%	11%	5%	8%	7%
Excise duty	22%	9%	11%	12%	18%	13%	12%	2%	1%
Import duty	16%	7%	8%	12%	27%	14%	7%	4%	5%

(j) Finally the survey indicated that 72% of professionals and workers were not in favour of privatization of revenue collection as a means to enhance revenue collection.

APPENDIX 2

QUESTIONNAIRE FOR TAXPAYERS

UNIVERSITY OF DAR ES SALAAM

DEPARTMENT OF ECONOMICS

RESEARCH ON ENHANCING TRANSPARENCY IN TAX ADMINISTRATION IN TANZANIA

QUESTIONNAIRE 1

TAXPAYERS

Date of Survey: .....
Time Started: .....
Time Ended: .....

Location (District):
1. Ilala
2. Kinondoni [ ]
3. Temeke

GENERAL SURVEY:

1. What is your profession or your personal status?
   .....

2. What is the legal status of your business?
   1. Limited company
   2. Unincorporated (Partnership) enterprise [ ]
   3. Sole proprietorship

3. What kind of output/service does your business produce?
   1. Manufactured
   2. Wholesale [ ]
   3. Retail
   4. Service delivery

4. What taxes do you pay?

4.1 From the performance of your activities

4.1.1	Individual/personal income tax	[ ]
4.1.2	Company/corporation tax	[ ]
4.1.3	Import duty	[ ]
4.1.4	Excise duty	[ ]
4.1.5	Value Added Tax (VAT)	[ ]
4.1.6	Stamp duty	[ ]
4.1.7	Withholding tax	[ ]
4.1.8	Pay As You Earn (PAYE)	[ ]
4.1.9	Other	[ ]

4.2 On the property you own

4.2.1	Rental income tax	[ ]
4.2.2	Land rent	[ ]

5. Do you believe that tax fraud is being committed mainly by:

1. Corporations
2. Unincorporated (Partnership) enterprises [ ]
3. Sole Proprietors (Owners)

6. According to your opinion, or as a result of your knowledge, rank the following categories of enterprises, according to the extent of their tax fraud:

6.1.1	Large enterprises	[ ]
6.1.2	Medium enterprises	[ ]
6.1.3	Small enterprises	[ ]
6.1.4	Religions and Charity organizations	[ ]

7. Choose, among the following, *five* most important tax evasion factors (rank them)

7.1.1	Weak tax administration	[ ]
7.1.2	Collusion (corruption, complicity) by tax collectors (agents)	[ ]
7.1.3	Political intervention	[ ]
7.1.4	Lack of feeling of tax obligation	[ ]
7.1.5	Lack of knowledge of tax legislation	[ ]
7.1.6	Reaction against poor service delivery	[ ]
7.1.7	Lack of transparency by the government and tax authorities	[ ]
7.1.8	High tax rates	[ ]
7.1.9	Too many taxes	[ ]
7.1.10	Mishandling of funds by some government authorities	[ ]

7.1.11 Exemptions Granted by NIPPA [ ]
7.1.12 Misuse of discretionary exemptions [ ]
7.1.13 Greed for high profits [ ]
7.1.14 Small probability of being netted by authorities [ ]
7.1.15 Too lenient penalties if prosecuted [ ]

8. According to you in which category of activities is the level of tax evasion strongest? (Rank them).
   8.1 Purchase and resale [ ]
   8.2 Service delivery [ ]
   8.3 Liberal professions [ ]
   8.4 Large industry [ ]
   8.5 Small industry [ ]

9. What number of enterprises (in %) do you estimate, are not registered by the tax authorities:
   9.1 Corporations .....%
   9.2 Unincorporated (Partnership) enterprises .....
   9.3 Sole proprietorship (Owners) .....

10. At how much do you estimate (in %):
   10.1 Fraudulent imports that escape taxes [ ]
   10.2 Sales without sales receipts [ ]
   10.3 Property owners who under declare their rent receipts [ ]
   10.4 Property owners who do not declare their revenue [ ]
   10.5 Professionals who do not declare their incomes [ ]

11. What do you think about tax controls currently performed by the tax authorities (TRA)?
   1. Insignificant
   2. Significant [ ]
   3. Would penalize the good tax payers
   4. They favour fraudulent parties

SURVEY OF DIRECT TAXES

12. Can you indicate in order, the *direct* taxes most subject (prone) to evasion?
   12.1 Company tax [ ]
   12.2 Individual/personal tax [ ]
   12.3 PAYE [ ]
   12.4 Rental Income tax [ ]
   12.5 Withholding taxes [ ]

13. Why, do you think, each of these direct taxes is evaded?

13.1 Company tax:

.....

.....

.....

13.2 Individual/personal tax:

.....

.....

.....

13.3 PAYE:

.....

.....

.....

13.4 Rental income tax:

.....

.....

.....

13.5 Withholding tax:

.....

.....

.....

14. How do you think these direct taxes are evaded?

14.1 Company tax:

.....

.....

.....

14.2 Individual/personal tax:

.....

.....

.....

14.3 PAYE:

.....

.....

.....

14.4 Rental income tax:

.....

.....

.....

14.1 Withholding tax:

.....

.....

.....

15. In your opinion, which category of enterprises evade *direct* taxes more than others (rank them)

15.1	Large enterprises	[ ]
15.2	Medium enterprises	[ ]
15.3	Small enterprises	[ ]
15.4	Sole traders	[ ]

16. Do you normally include the declarations regarding your property when you submit declarations for your activities.

1. YES [ ]

2. NO

If not, why?

.....

.....

17. Much is being said about the informal sector; according to you, how much could the tax on income from this informal sector increase revenue of the state? (%)

.....

SURVEY OF INDIRECT TAXES

18. Can you indicate in order, the *indirect* taxes most subject (prone) to evasion?
    - 18.1 Import duty [ ]
    - 18.2 VAT/sales tax [ ]
    - 18.3 Excise duty [ ]
    - 18.4 Stamp duty [ ]

19. Indicate in order, the *indirect taxes* (domestic vs. import) most prone to evasion
    - 19.1 Sales tax/VAT (imports) [ ]
    - 19.2 Sales tax/VAT (domestic) [ ]
    - 19.3 Excise duty (imports) [ ]
    - 19.4 Excise duty (domestic) [ ]

20. Why do you think each of these *indirect* taxes is evaded?

    20.1 Sales tax/VAT:

    .....

    .....

    .....

    20.2 Import duty:

    .....

    .....

    .....

    20.3 Excise duty:

    .....

    .....

    .....

21. How do you think each of these indirect taxes is evaded?

21.1 Sales tax/VAT (imports):

.....

.....

.....

21.2 Sales tax/VAT (domestic):

.....

.....

.....

21.3 Import duty:

.....

.....

.....

21.4 Excise duty (imports):

.....

.....

.....

21.5 Excise duty (domestic):

.....

.....

.....

22. In your opinion, which enterprises most evade *indirect* taxes (rank them)

22.1	Large enterprises	[ ]
22.2	Medium enterprises	[ ]
22.3	Small enterprises	[ ]
22.4	Sole traders	[ ]

SURVEY OF TRANSPARENCY OF TAX ADMINISTRATION

23. Do you get information about the tax legislation?

1. YES [ ]

2. NO

If Yes, from what source:

.....

If Not, why?

.....

24. As a taxpayer or enterprise subject to taxes, are you aware of legal dispositions derived annually from the Finance Bill and taxes adopted for their application?

1. YES [ ]
2. NO

If not, Why?

.....

.....

25. Do you have a permanent tax accountant or an occasional one or none to help with preparation of annual tax return?

1. Permanent
2. Occasional [ ]
3. None

If occasional or none, why?

.....

26. How often, do you read Tax Acts where the Laws are published?

1. Regularly
2. Occasionally [ ]
3. Not at all

27. Do you regularly receive tax return forms (notifications)?

1. YES [ ]
2. NO

If not, Why?

.....

.....

28. Do you pay taxes within the deadline?

1. YES [ ]
2. NO

If not, Why?

.....

.....

29. Have you paid *all* taxes due over the last four years?

1. YES [ ]
2. NO

If not, why do you owe back taxes? (Tick)

29.2.1 Lack or resources [ ]
29.2.2 Notification not received [ ]
29.2.3 High tax rates [ ]
29.2.4 Fine required [ ]
29.2.5 Taxes contested [ ]
29.2.6 High cost of living [ ]
29.2.7 Low profit margin [ ]
29.2.8 Other reason
.....
.....

30. How many times has the tax authority rejected your income tax returns in the last four years? ..... times.

If rejected, what was the reason for their rejection?
.....

31. Do you have a regular accounting system?
1. YES [ ]
2. NO
If not, Why?
.....

32. If you do not have a regular accounting system:
Do you have a registry of your purchases and your sales?
1. YES [ ]
2. NO

33. Are your purchases and sales always subject to proper billing (receipts)?
1. YES [ ]
2. NO

34. What do you do when TRA has set the amount of your tax liability?
.....
Are there possibilities of appeal?
.....

35. In your opinion, is it good if tax authorities were to publish all names of tax defaulters?

1. YES [ ]

2. NO

If no, why:

.....

36. In your opinion, is it good if tax authorities were to publish amounts and all names of all taxpayers that benefit from tax exemptions?

1. YES [ ]

2. NO

If no, why:

.....

37. In your opinion, what type of exemptions is an unnecessary drain to the government revenue collection?

1. NIPPA exemptions
2. Discretionary exemptions [ ]
3. Statutory exemptions

38. In your opinion, what are your estimates (in percentage) of degree of compliance in respect to the following taxes?

38.1	Individual income tax	..... %
38.2	Rental income tax	.....
38.3	Land rent	.....
38.4	PAYE	.....
38.5	Stamp duty	.....
38.6	Excise duty	.....
38.7	Import duty	.....

39. Could you suggest ways of reducing revenue leakage?

.....

.....

.....

40. Could you suggest ways of enhancing tax transparency in Tanzania?

.....

.....

.....

41. Could you suggest ways of improving tax administration in Tanzania?

.....

.....

.....

42. Could you suggest ways in which corruption in taxation could be reduced?

.....

.....

.....

43. Could you suggest the major ways in which tax evaders/defaulters could be dealt with?

.....

.....

.....

44. In your opinion, how could information dissemination and taxpayers' education be made more effective?

.....

.....

.....

45. Do you consider privatization of revenue collection to be a viable solution to enhancing more revenue collection in Tanzania?

1. YES [ ]

2. NO

Give reasons:

.....

.....

.....

APPENDIX 3

QUESTIONNAIRE FOR TAX ADMINISTRATORS

UNIVERSITY OF DAR ES SALAAM

DEPARTMENT OF ECONOMICS

RESEARCH ON ENHANCING TRANSPARENCY IN TAX ADMINISTRATION IN TANZANIA

QUESTIONNAIRE 2

TAX AUTHORITIES

Date of Survey: .....
Time Started: .....
Time Ended: .....

Location (District): 1. Ilala
2. Kinondoni [ ]
3. Temeke

SURVEY OF TAX ADMINISTRATION

For technical and strategic reasons, exclusively the researchers, with authorization of those in charge of the authority will perform the survey with TRA authorities.

1. Position of interviewee
.....

2. Since when have you been holding this position?

Year.....

3. What were your previous functions and responsibilities?

.....

.....

.....

4. What are your current major responsibilities?

.....

.....

.....

5. In performing your work do you and your sub-ordinates face any constraints or lack of facilities?

1. YES [ ]
2. NO

If YES, what facilities are not available which affect the efficient performance of work in your Department.

.....

.....

.....

6. Are necessary documents (on tax laws/rules, tax or tariff rates), for example, General Tax Acts, Official Gazette, Regulatory texts for enforcement, Internal TRA notes and bulleting, etc. always available when you or your subordinates need them?

1. YES [ ]
2. NO

If NO, which documents and why?

.....

.....

.....

If YES, indicate if they are personal OR provided by your Administration

1. Personal [ ]
2. Administration

7. Do you have an operational plan and a schedule to follow?
(To be described in detail and providing the different steps):

.....

.....

.....

8. If you do make field visit, inspections or controls, how many days per week do you reserve to that part of your activities? [.....days]

Any reasons why you do not make field visits/inspection/controls?

.....

.....

.....

9. How many field inspections have you performed over the last two years?

8.1. 1996/97 [ ] 8.2. 1997/98 [ ]

10. Do you believe that it is necessary to strengthen this inspection activity? Why?

.....

.....

.....

11. Do you have an assessment of tax evasion?

10.1 In your department ..... % of .....
10.2 From TRA, at national level ..... % of .....

12. According to you, which taxpayers evade taxes more than others? (Rank them)

11.1 Large enterprises [ ]
11.2 Medium enterprises [ ]
11.3 Small enterprises [ ]
11.4 Sole traders [ ]

13. According to you, which taxes are more prone to evasion? (Rank them)

12.1 Individual/personal income tax [ ]
12.2 Company/corporation tax [ ]
12.3 PAYE [ ]
12.4 Import duty [ ]
12.5 Excise duty (imports) [ ]
12.6 Excise duty (domestic) [ ]
12.7 Value Added Tax (VAT) (imports) [ ]
12.8 Value Added Tax (VAT) (domestic) [ ]
12.9 Stamp duty [ ]

12.10 Withholding tax [ ]

14. According to you, which are the *five* major causes of tax evasion? (Rank them)

13.1 Lack of information and education on the tax legislation [ ]
13.2 Tax payer mentality or behaviour [ ]
13.3 Lack of administration means [ ]
13.4 High tax rates [ ]
13.5 Incompetent agents (inspectors/collectors) [ ]
13.6 Corrupt agents [ ]
13.7 Poor incentives to agents [ ]
13.8 Lack of strong penalty [ ]
13.9 Political factors [ ]

15. In which order, would you place following factors affecting tax compliance?

14.1 Taxpayer's education [ ]
14.2 Political intervention [ ]
14.3 Working conditions [ ]
14.4 Lack of facilities [ ]
14.5 Lack of skilled workers [ ]
14.6 Poor taxpayers [ ]
14.7 Ambiguous tax legislation [ ]
14.8 Corruption [ ]

16. What measures should the government undertake to reduce revenue leakage through evasion?

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17. What measures should the government undertake to enhance compliance?

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18. Do you consider privatization of revenue collection to be a viable solution to enhancing more revenue collection in Tanzania?

1. YES [ ]
2. NO

Give reasons:

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