"Progressive Tax System to Pay for a Just Future"

Fighting inequality through progressive taxation: Tanzania Context

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Abstract

This paper focuses on the status and trends of inequality and the progressive tax system to pay for a just future in Tanzania across some selected taxable sources. It is typically desk research study dwelled on analyzing and synthesizing secondary data/information and literature concerning the issue of under resource mobilization in Tanzania. Findings of the study show that, in Tanzania, the country's tax-to-GDP ratio increased from 10% in 2004/05 to 11.8% in 2022/23, with a peak of 13.3% in 2015/16. This means in every 100 items which passes/was supposed to pass in the market, it is only 13 items which are taxed. Further, it is found that there is little wealth-related taxation in Tanzania. Thus, the poor and the working population bear the main burden, and in search for justice, this is unfair. The study recommends, that taxes on wealth are a policy instrument to address wealth inequality and could raise substantial revenue while shoring up structural weaknesses in the current income tax system. It is an additional way to raise revenues and address wealth inequality through budget justice.

Key words: *Progressive taxation, Wealth tax, inequality, Property tax, Domestic resource mobilization, Tax-GDP ratio*

1. Introduction

It is the fact that, the problem of inequality is one of the economic problems that developing countries still face including Tanzania (world Bank 2023, J. Ntile, 2021, International journal of development issues, 2023). The sustainable development goals that are to be attained by 2030 does give attention to the problem of inequality with its goal number 10 being "Reduced Inequalities" with organizations such as UNDP advocating to address challenges of equity in order to ensure that the SDG's are attained identifying regressive taxes as one of the causes of inequality (UNDP Income Inequality trends in Sub-Saharan Africa, 2017). Just and resilient societies depend on an adequate public funding base through progressive taxation system to provide important public goods, such as health care and education. It is generally believed that a progressive personal income tax is an effective

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instrument for enhancing income redistribution and, hence, reducing income inequality.

Since 1990s, domestic resource mobilization in Tanzania has been relying upon two common taxes, namely income tax (direct tax) and value added tax (an indirect tax). Indirect taxes account for about 60 per cent of tax revenues, which is almost twice the amount of direct taxes. Direct taxes usually target higher incomes and this is relevant in Tanzania since most people are informal workers

The standard rate of VAT is 18% in Mainland Tanzania and 15% in Tanzania Zanzibar**.** When measuring value added tax (VAT) as a percentage of income, VAT is regressive, meaning that people with lower income pay a higher share of their income in VAT than higher income individuals. Measuring VAT relative to expenditures, VAT appears to be roughly proportional, or even slightly progressive. It is worth noting that Few reduced VAT rates or exemptions can produce a small degree of regressivity –Tanzania have no reduced VAT. Morocco and Madagascar had the highest value-added tax (VAT) rate on goods and services in Africa in 2022, each standing at 20 percent. Cameroon followed with the VAT rate set at 19.25 percent. On the other hand, goods and services in Nigeria were taxed at 7.5 percent, the lowest rate on the African continent[1]. The highest standard VAT (Value Added Tax) rate in the world is 27% in Hungary. Some other countries, such as Sweden, have a standard VAT rate of 25%. Andorra has the lowest VAT rate in the world with a standard VAT rate of 4,5% [2]

Apart from taxes applied to everyone (such as income tax and VAT), there are no specific net wealth/worth taxes in Tanzania. Rather property/wealth owners are charged a flat levy on their property such as housing and land observably, there no a personal exemption for low income earners. As per the Income Tax Act, 2004, gain or profit from property is chargeable to income tax, for example rented houses by National Housing Corporation (NHC) or National Social Security Fund (NSSF) buildings for commercial business are supposed to pay income tax. Gain or profits for use or occupation of any property includes any royalties, rent, and premium or like consideration received for the use or occupation of property example rent from property owned by any person. Private renters pay rent to the NHC and despite NHC rent the houses to the government owned institutions, who pays the rent has remained unclear because most of these public institutions don't pay it. This rent is taxable in both cases. This means the tax base in Tanzania covers buildings only, not like in other countries where the property tax base may

[1] https://www.globalvatcompliance.com/globalvatnews/world-countries-vat-rates-2020/

[2] https://www.statista.com/statistics/1248622/vat-rate-on-goods-and-services-in-africa-by-country/

include the land and the building or other assets. The Finance Act, of 2023, for example, permitted the Local Government Tax Authority (LGTAs) to increase the property tax – from TZS 12, 000 (4.65 USD) to TZS 18, 000 (6.97 USD) for normal buildings and TZS 60,000 (23.25 USD) to TZS 90,000 (34.88 USD) for each storey building per month. Charging a uniform rate for buildings irrespective of their valuation or revenue productivity is unprogressive. In addition, the single, uniform system of taxation of property and the fact that wealth/**property taxes** lack a mark-to-market accounting or valuation of all assets such as capital value of land and/or buildings fuels tax avoidance opportunities. This suggest that property tax is not fully collected and property tax revenue falls short of its potential, irrespective of being recognized as the major source of revenue for the government.

Public finance theory suggests that property tax is an ideal local tax. Arguably, it is also a 'data-hungry' tax, making it difficult and costly to administer properly-thereby denying the government much revenue that would have otherwise been used to improve social services delivery i.e. health, education, infrastructure etc. Given the available potential in property taxation, the wider use of more effective property tax systems is recommended to generate enough revenues to fund the provision of many public goods and services which are critically needed. Likewise, there are no inheritance, estate, or gift taxes in Tanzania[3]. In Tanzania, wealth is taxed only when it is changing hands of ownership.

That is, the realization of an investment asset (e.g. shares and securities, land, buildings) is a taxable event for income tax purposes. Where there is a disposal of an investment, then in arriving at the taxable 'net gains' a deduction can be claimed in relation to various costs i.e. those related to acquisition, improvement, and disposal. As such, the absence of taxation on an individual's net worth could suggest that "the current tax regime is thus over-taxing trade and under-taxing wealth, leading to a regressive impact.

Important factor to take into account when considering pros and cons of introducing progressive taxation of income and wealth is the level of informality in the economy. In some countries, the barrier for effective implementation of a progressive income tax lays in the fact that tax administrations cannot access some information on real / full income of the rich, and thus cannot tax them effectively. The wealthy taxpayers often enjoy multiple opportunities for tax avoidance and evasion, including disguising the real type of their income, transferring it to offshores, bank secrecy, etc. In some cases, such data becomes very difficult, or even impossible, to trace, and home tax administrations simply cannot access it to enforce relevant tax legislation effectively due to lack of technical capacity. Where a country is facing significant levels of informality, it might be a bigger problem, and a flat

[3] https://taxsummaries.pwc.com/tanzania/Individual?p=1

income tax rate might be preferable. Some factors might be specific to the country or the region in question, and understanding of the local context is critical for the impact assessment. Progressive taxation of income and wealth can be a powerful tool for nurturing more equitable and stable societies, but such policy decisions are very context-depending and must not be recommended automatically without proper consideration. It is against this background that this paper therefore focuses on presenting the status and trends on inequality and progressive tax system to pay for a just future in Tanzania across some selected taxable source. The aims to provide a decision maker with an overview of an issue or problem, targeted analysis, and, often, actionable recommendations in the area of under resource mobilization in Tanzania in a bid to articulating out and tackling problem of under resource mobilization in the country, which leads to poor service delivery and undermining government capacity to deal with poverty reduction efforts.

Content of the study includes- the analysis at the country level which contain elements such as (1) an analysis of economic inequality and the rich within which a description of the distribution of income and wealth, an analysis the typical sources of wealth and income of the rich, and profile(s) of the "typical" rich are described, (2) analysing taxation of the rich at present and in the past where issues for example- calculating the tax rate due for the "typical" rich, calculating the comparable tax rate 20 years ago or before the last major reforms, and providing an outlook on information concerning tax evasion (where available) are worked upon. The paper ends up with conclusion and actionable policy recommendations

2. Approaches and methodology

The methodology is based on analyzing and synthesizing the data gathered from published sources. Therefore, the study has been researched primarily through a desk review of a range of secondary data sources including reports, books, journals and government statistics. The study screened a range of documents to assess their relevance to the theme under study, selecting for inclusion a range of published research reports and studies covering issues related to taxation of wealth, as ways to increase revenue and financing Sustainable Development Goals (SDGs) in Tanzania. A range of documents authored and/or commissioned by IMF, World Bank and respected research institutes and organizations such as New World Wealth as a global wealth intelligence firm were considered reliable. In addition, a significant number of sources from the Government of Tanzania were referenced, including the Ministry of Finance (MoF), Tanzania Revenue Authority (TRA), the National Bureau of Statistics (NBS), and a range of Budget reports and Finance Act, which provided remarkably interesting and useful data.

In terms of analyzing and synthesizing the data gathered, the study collated, summarized, aggregated, organized, and compared the evidence extracted from the included studies. This provided a coherent lens to make sense of the extant knowledge on the research objective through narrative analysis of the qualitative and quantitative evidences.

3. Results of the research

3.1 Analysis of economic inequality

3.1.1 A description of the distribution of income and wealth

In a 2022 report published by the New World Wealth and Henley & Partners[4], Tanzania is ranked 7th in Africa in terms of the number of High Net Worth Individuals (HNWIs), with an estimated 2,400-dollar millionaires with a net worth of over $1 million (Sh2.3 billion) or more. More than half of the dollar millionaires (1,300) reside in the commercial capital Dar es Salaam. The city was ranked 12th richest in Africa, with a total private citizens wealth of $24 billion (Sh55 trillion). Tanzania was also ranked seventh in terms of those with a net worth of $10 million (Sh23 billion) or more. Tanzania has 80 such individuals, behind Ghana (120) Morocco (220) Kenya (340) Nigeria (510), Egypt (880) and South Africa (2,080). Tanzania is ranked sixth in terms of the population of individuals with a net worth of at least $100 million (Sh230 billion), also known as centi-millionaires. There are eight such individuals behind Kenya (15) Morocco (22), Nigeria (28), Egypt (57) and South Africa (94). According to the report, Tanzania is the only East African country with a dollar billionaire.

On the other hand, despite a continuous decline in poverty[5], Tanzania ranked top among the African countries with the highest share of the global population in extreme poverty[6].In terms of economic development, poverty alleviation is one of the key development challenges facing Tanzania since its political independence in 1961. The history of the country's development strategies gives evidence of many, and rich policies formulated to spearhead growth for poverty reduction. Consequently, the Tanzanian economy has enjoyed an upward growth trajectory, especially over the last three decades, after the 1990s economic reforms which came at a near economic collapse in the 1980s. During the period 2009 - 2019, the economy has been growing at an average rate of 6.2% annually; where the highest growth was 7.67% in 2011 and the lowest rate of 4.5% was registered in 2012[7]

4 file:///C:/Users/Balozi/Desktop/AATZ%20workings/Current%20PPT%202022/Africa_Wealth_Report_ 220422_Digital_2.pdf

5 https://www.nbs.go.tz/nbs/takwimu/references/2020_Tanzania_in_Figure_English.pdf

6 https://www.statista.com/statistics/1228553/extreme-poverty-as-share-of-global-population-in-africa-by-country/

7 'WDI—Home'. https://datatopics.worldbank.org/world-development-indicators/ (accessed June. 11, 2022)

A recent report on the *Dimensions of Inequality in Tanzania* by the Social Development Policy Division (SDPD) of the Economic Commission for Africa (ECA) and REPOA, a Tanzanian independent research institution, shows that with a Gini coefficient of 0.43, overall inequality in Africa remains high relative to other regions. However, Tanzania is one of the few countries in Africa where inequality has declined by nearly 8 percent from 0.39 in 2001 to 0.36 in 2012[8]. This decline in inequality is attributed to, among other things, improvements in redistributive policies in the country, more specifically, public spending on health, education and social protection.

Nevertheless, income inequality has increased again in recent years – with a Gini coefficient of 0.41, and this has been well above the level that the IMF deems detrimental to economic growth (0.27)[9] since at least the early 1990s[10]. Income has also become further concentrated into the hands of the few wealthiest. Between 2014 and 2017 the richest 10% of Tanzanians increased their income share from 45.1% to 51.4%. By contrast, the income shares of the poorest 50% have been falling since 2011, reaching just 13% in 2017[11]. Tanzania is listed among the countries in the world with the highest wage inequality (especially so in the private sector) which indicates that the gap between highly paid and lowly paid is likely to grow year after year[12]. Women are even more affected by this inequality. They are paid 20 per cent of what male employees are paid. One factor that contributes to wage inequality is a tax regime that has no mechanism to distinguish the tax rate among high-income or wealth earners and low-income earners, more especially on property ownership and also numerous allowances granted to highly paid workers.

There are significant rural-urban, **wealth** and gender disparities, particularly in health outcomes. Although there are declining trends, the UNECA report[13] shows that individuals in the wealthiest quintiles still account for nearly half of the total income in Tanzania. The degree of inequality can be illustrated by the fact that individuals in the wealthiest quintiles appropriate 48 per cent of the total income, whereas individuals in the poorest quintiles only get 6.2 per cent[14] of the income being generated in

[8] Economic Commission for Africa (2018)
[9] F. Grigoli and A. Robles. (2017). Inequality Overhang. IMF working paper. https://www.imf.org/en/Publications/WP/Issues/2017/03/28/ Inequality-Overhang-44774
[10] World Bank Development Indicators. https://data.worldbank.org/indicator/SI.POV.GINI?locations=TZ&most_recent_value_desc=true Retrieved 23 Sept 2021
[11] World Inequality Database. https://wid.world/country/tanzania/ Retrieved 23 Sept 2021
[12] The Citizen, April 14, 2021
[13] https://archive.uneca.org/stories/new-report-tanzania-shows-income-inequality-declining-rural-urban-disparities-remain
[14] https://data.worldbank.org/indicator/SI.DST.FRST.20?locations=TZ

the country - illustrating a significant disparity in wealth dimensions[15], and that wealth inequality is more intense than income inequality. Tanzania is 12th as measured by the wealth of the average citizen. Wealth per capita in the country stands at slightly above US$940 (Sh2 million), something that underlines the gap between ordinary citizens and the super-rich.

In 2022, around four per cent of the world population in extreme poverty lived in Tanzania, considering that the poverty threshold was at 1.90 U.S. dollars a day. The share fluctuated in recent years, following a generally increasing trend. As of 2016, poor Tanzanians accounted for 3.6 percent of the world population living on a maximum of 1.90 U.S. dollars daily[16]. Such statistics pose a serious question on whether Tanzania's economic growth and wealth creation is reflected in poverty reduction and improved population well-being, which is leaving the poor behind. From the work of Kyara VC, Rahman MM, and Khanam R (2022)[17], economic growth in Tanzania has only marginally combated poverty among rural and agrarian households. While the economy achieved high growth over the last three decades, rapid growth has not elicited a commensurate level of poverty reduction and improved well-being. This calls for a systematic investigation into the nature and relationship not only between growth and well-being in Tanzania but also how wealth and income are earned and distributed in the country.

Due to the importance of tax revenue to fund most public social services, for example, this study assesses the progressivity of the tax system in Tanzania with a special focus on widening the tax base using potential sources which may yield additional tax revenues progressively. Key emphasis is put on the wealth tax (tax on high net worth individuals) which so far is not taxed in Tanzania[18].

3.1.2 Typical sources of wealth and income of the rich

The source of wealth-building and income of rich people in Tanzania varies widely. Some rich people earn their fortunes through traditional avenues like real estate syndication (land and property)[19], business ownership and entrepreneurship, investments (cash, bonds, real estate, commodities, stocks, infrastructure), or high-paying professions (lawyers, investment bankers, management consultants, entertainment such as music, sports, social media influencers, including YouTubers, TikTokers, and Instagram stars). Others

[15] The richest 20% of Tanzania's population accounts for 48% of total consumption, whereas the poorest 20% consume only 6.2%

[16] Lars Kamer, Jun 20, 2023

[17] Kyara VC, Rahman MM, Khanam R (2022) Is Tanzania's economic growth leaving the poor behind? A nonlinear autoregressive distributed lag assessment. PLoS ONE 17(7): e0270036. https://doi.org/10.1371/journal.pone.0270036

[18] World Bank (2020)

[19] A syndication is a group of investors that purchase a particular multi-family or commercial property and feature yearly returns.

may have built their wealth through inheritance, royalties and licensing[20], a one-time sale of a business or asset, leading to a capital gain, telecommunication, Fast Moving Consumer Goods (FMCG).

Real estate, as an asset class, has long been heralded as a critical pillar of wealth creation in Tanzania. Unlike other investment options, such as stocks or bonds, real estate offers tangible assets with the potential for both passive income and capital appreciation. The ability to generate rental income and benefit from property value appreciation over time makes real estate an attractive choice for investors looking to build long-term wealth. Tanzania's **real estate** is growing faster in recent years with statistics showing that an average of 1,153 new houses annually in the last 12 years. The Tanzanian housing sector's fast-growing demand is mainly driven by the fast-growing Tanzanian population[21] *(Tanzania Real Estate Sector Report, various).*

Some of Tanzania's most successful young entrepreneurs, who are now multimillionaires, became so through a diverse business conglomerate engaged in various industries, including general trading, transportation, logistics, media, manufacturing, real estate, retailing, and financial services, petroleum imports and trades refined petroleum products.

3.1.3 Profile of a typical rich in Tanzania

A high-net-worth individual in Tanzania is recognized by possessing attributes such as:

- High income from assets.
- Buys assets that create income, such as stocks, businesses, and real estate.
- Has multiple income streams.
- Lives from **capital income** produced by their wealth, mostly in the form of rent and interest payments, dividends and capital gains.
- Converts profits and capital gains from cash flow to invest in more assets.
- Assets have value and create income, ensuring they always have money coming in.

Tanzania is a nation with immense resources (such as minerals, marine or fishing, fertile soil, forest and wildlife resources), which wealthy individuals wisely have managed to capitalize on and build their wealth.

The richest people in Tanzania have built multi-billion industries in diverse sectors and some have served as a Member of Parliament for the country's

[20] If you have the opportunity to create a product, idea or process, you can sometimes license it out and collect a fee every time they use it.

[21] https://www.tanzaniainvest.com/construction/realestate/tanzania-real-estate-sector-report

ruling party and this allowed them to familiarize themselves with the political environment that would be of great benefit to their business interests[22].

It is well-documented that the ownership of assets improves the lives of the women and men who own and control them, Doss, et al (2017). Wealth distribution in Tanzania's Mainland is widespread and both rural men and women face deficits in the quantity and quality of asset ownership, employment and income-generating opportunities (Sawo (2020) and rural women are often more disadvantaged than their male counterparts. Most women in some regions such as coastal zones and pastoralists have limited chances and opportunities to access income and to live a better life compared to men. Their chances and opportunities to get quality education, decent and high-paying jobs, ownership and inheritance of material resources and leadership positions are very minimal due to gender inequality which is embedded in the culture of their society (Adili. A. H, 2018).

3.2 Analysis of the taxation of the rich – present and past

Tanzania has been undertaken various reforms in tax and non-tax system over time, for example:

- Base-broadening, i.e. introducing new sources of taxes, charges, fee,
- Rate-increasing,
- Rate-reducing,
- Abolishing certain taxes,
- Simplifying the tax system,
- Providing fiscal incentives and non-tax revenue.

Yet the budget deficit has chronically remained roughly at 3% of GDP[23]. After achieving the status of a lower middle-income country, the proportion of non-concessional debts has been rising over time (MoFP, 2021). External grants have dropped (BoT 2011- 2019). Moreover, the global uncertainty (COVID-19, Ukraine war, etc.) led to an expansion of the fiscal deficit. In such an environment **it** is important to identify alternative fiscal policy options and strengthen the mobilization of domestic resources to achieve the Tanzania Development Vision 2025, the SDGs and the Agenda 2030 for Sustainable Development. Financing for Tanzania's Development Vision 2025, the Agenda 2030 for Sustainable Development and the Sustainable Development Goals (SDGs) call for a need for increased Domestic Resource Mobilization**.** Based on provisional estimates, Tanzania's SDGs financing need amounts to about 44.5% of the gross domestic product (GDP). However, the Government's Five-Year Development Plan (FYDP) III projects public revenues of only 18.1% of GDP in 2025/2026, leading to an estimated SDG financing gap of

[22] https://www.tuko.co.ke/334777-richest-people-tanzania-net-worth.html
[23] Ministry of Finance and Planning (2021), Medium Term Debt Management Strategy.

26.4% of GDP. Tanzania's greatest resource mobilization potential is tax revenues.

One way to assess the amount of additional taxes that a country can potentially collect is to compare its tax-to-GDP ratio with that of other countries with similar characteristics, including the level of economic and institutional development. With a GDP of 75.71 billion USD[24] (GDP per capita is 1056.87 USD), the tax-to-GDP ratio is low with respect to Tanzania's state of development. According to IMF (2018), Tanzania's **tax capacity** was estimated at 18.3% of GDP in 2015 while the **actual tax** collection stood and has been stagnant roughly at 12% for years now. This implies; That tax administration gaps and tax policy gaps cost more than 6% of GDP in tax revenue annually (World Bank, 2020). The tax gap is also among the largest in Sub-Saharan Africa.

The "Sealing the Gaps" report by ActionAid (2021)[25] finds that, between 2013 and 2020, the cumulative effect of internal inefficiencies, tax evasion, harmful tax incentives, double taxation agreements and illicit financial flows has resulted in estimated losses of around TZS 17.4 trillion (around US$ 7.6 billion) per annum in Tanzania. This amount, which is almost equal to the country's entire annual tax collection for 2020/21[26], would be enough to raise the tax-to-GDP ratio to 28.5%, close to that of Switzerland[27]. It would be enough to cover the country's annual budget deficit of TZS 3.4 trillion five times over.

3.2.1. Calculating the tax rate for the 'typical' rich

For several years now, domestic resource mobilization in Tanzania has been relying upon two common taxes, namely income tax (direct tax) and value added tax (VAT), an indirect tax. Indirect taxes have been the main source of government revenues, accounting for about 60 per cent of tax revenues, which is almost twice the amount of direct taxes.

When measuring VAT as a percentage of income, VAT is regressive, meaning that people with lower income pay a higher share of their income in VAT than higher income individuals. Measuring VAT relative to expenditures, VAT appears to be roughly proportional, or even slightly progressive.

Apart from taxes applied to everyone in Tanzania (such as income tax and VAT), there are no specific net wealth/worth taxes in Tanzania so far, rather

[24] Official data from the World Bank (2022)
[25] Sealing the Gaps: An analysis of revenue forgone within the Tanzania tax system and how it could be used to fund public education, Actionaid Tanzania (2021)
[26] United Republic of Tanzania National Budget Speech and data from https://www.tra.go.tz/index.php/tax-collection-statistics
[27] OECD (2020) Revenue Statistics 2020. https://www.oecd.org/ctp/revenue-statistics-2522770x.htm#:~:text= Tax%20to %20GDP%20ratio%3A%20 New, of%20GDP%20relative%20to%202018

property/wealth owners are charged a flat levy on their property such as housing and land. This has raised consensus that inequality in the distribution of income is increasing and such inequality may be detrimental to economic development.

As per the Income Tax Act, 2004, gain or profit from property is chargeable to income tax, for example rented houses by National Housing Corporation (NHC) or National Social Security Fund (NSSF) buildings for commercial business are supposed to pay income tax. Gain or profits for use or occupation of any property includes any royalties, rent, and premium or like consideration received for the use or occupation of property example rent from property owned by any person. This rent is taxable in both cases. This means the tax base in Tanzania covers buildings only, not like in other countries where the property tax base may include the land and the building or other assets. Likewise, there are no inheritance, estate, or gift taxes in Tanzania[28]. As such, the absence of taxation on an individual's net worth could suggest that "the current tax regime is thus over-taxing trade and under-taxing wealth, leading to a regressive impact. This is well expounded in part (c) under section 2 of this report.

The Finance Act, of 2023, for example, permitted the Local Government Tax authority (LGAs) to increase the property tax – from TZS 12, 000 (circa 4.78 USD) to TZS 18, 000 (circa 7.18 USD) for normal buildings and TZS 60,000 to TZS 90,000 for each storey building per month. Charging a uniform rate for buildings irrespective of their valuation or revenue productivity is unprogressive Property Income Tax in Tanzania. The fact that wealth/property taxes lacked a mark-to-market accounting or valuation of all assets such as capital value of land and/or buildings is the sign of fueling tax avoidance opportunities resulting from a single, uniform system of taxation of property. All these suggest that property tax is not fully collected and property tax revenue falls short of its potential, irrespective of being recognized as the major source of revenue for the government.

Public finance theory suggests that property tax is an ideal local tax. Arguably, it is also a 'data-hungry' tax, making it difficult and costly to administer properly-thereby denying the government much revenue that would have otherwise been used to improve social services delivery i.e. health, education, infrastructure etc. Given the available potential in property taxation, we encourage the wider use of more effective property tax systems in the country to generate enough revenues to fund the provision of many public goods and services which are critically needed.

In Tanzania, wealth is taxed only when it is changing hands of ownership. That is, the realization of an investment asset (e.g. shares and securities,

[28] https://taxsummaries.pwc.com/tanzania/Individual?p=1

land, buildings) is a taxable event for income tax purposes. Where there is a disposal of an investment, then in arriving at the taxable 'net gains' a deduction can be claimed in relation to various costs i.e. those related to acquisition, improvement, and disposal.

3.2.2 Calculating the comparable tax rate for a rich 20 years ago and major changes since then

Since 2003/04, TRA has been implementing a 5-year Corporate Plan with the focus of making it an investor and taxpayer-friendly machinery that would collect revenue at a high capacity. TRA is continuing to carry out taxpayer education campaigns to uplift the level of public awareness on the importance of paying taxes and that tax evasion is criminal offence. There has been an increasing trend in revenue collection so far and is largely contributed by: decreased tax evasion; strengthening the relationship between the TRA and the taxpayers and the resolution of out-of-court tax disputes as well as the timely handling of taxpayer complaints. The tax collection performances have also been improved, thanks to the increase in productivity of domestic industries and international trade[29].

As for the rich in Tanzania, the following income taxation schedule has been in place to ensure tax progressivity among different income earners for tax rate

Monthly Taxable Income	Tax Rate
Where total Income exceeds Tshs. 760,000/= but does not exceed Tshs. 1,000,000/=	Tshs. **68,000/= plus 25% of the amount above Tshs**. 760,000/=
Where total Income exceeds Tshs. 1,000,000/=	Tshs. 128,000/= plus 30% of the amount above Tshs. 1,000,000/=

Source: TRA, 2023

3.2.3 Outlook concerning tax evasion[30]

Since the early 1990s up to now, Tanzania has implemented an investment policy aimed at improving the investment climate and attracting foreign direct investment (FDI) into the country. These reforms include investment promotion, fiscal (such as tax breaks) and non-fiscal incentives, trade agreements and simplified regulations. Several evidences have shown that

[29]

[30]-https://www.afrobarometer.org/publication/ad542-tanzanians-endorse-taxation-but-see-tax-evasion-as-widespread/
-https://www.tandfonline.com/doi/full/10.1080/00220388.2018.1448067

this effort has not yielded the desired socio-economic outcomes as briefly described hereunder using some few cases:

Tanzania National Audit Office (NAOT) report of 2017/2018 found that tax incentives and exemptions did cost the government over 2.3 trillion Tanzanian shillings ($1 billion) in revenue in that fiscal year. Equally, the TEITI report of 2019 indicates that Tanzania lost TShs 108 billion (approximately USD 47 million) in revenue from the mining sector in the 2016/17 fiscal year due to tax exemption and incentives granted to mining companies.

There are reported cases and disputes on tax evasion and avoidance from mining companies such as Acacia Mining (a subsidiary of Barrick Gold) in 2017 through false accounting, trade mispricing and mis-invoicing and illicit transfer of cash- all amounting to $190 billion as unpaid taxes. However, the case was then resolved with Barrick agreeing to pay $300 million with the establishment of a joint mining venture with the government. Thus, the government has initiated several measures to improve tax compliance, including updating tax-collection technology, enhancing outreach of tax services and education to the public, continuing the restructuring of the Tanzania Revenue Authority, and strengthening enforcement measures.

The government recently introduced a tax on mobile-money transactions and property tax payment system through electricity tokens as one of the measures to mitigate practices of tax evasion. There is no other way of describing the recently introduced mobile money transaction levies and property tax payment system through electricity tokens except as the final nail in the coffin of poor people's welfare in Tanzania. The levies, which met with stiff criticism from the majority of the population, confirmed the tax burden imposed on low-income earners. The low-income earners, or the poor are the majority of Tanzania population and are the ones who pay most of these types of taxes since they spend a greater share of their incomes on the consumption of various goods and services in their daily lives.

Even when it comes to direct taxes which are paid as taxes on payroll and workforce, taxes on profits (corporate tax), withholding taxes, rental tax, basic skills tax and development levy and other income taxes, workers through pay-as-you earn, or PAYE, are the ones who pay more than other sources such as corporate entities that have a significant share in the country's economy. Income tax contributes a huge amount of direct tax revenues which significantly affects household's disposable income to cover livelihood necessities and savings.

In the face of this distributional burden of tax, Tanzania's tax system should be progressive enough to enable high-profit makers in the economy such as big corporations, to pay more taxes than low-income earners and start-ups depending on their earnings. For the sake of mobilizing enough resources to finance social services delivery programs, the government should not only participate in the economy through taxation and regulation but also production activities, especially in the extractive sector as in the recent years it has attempted by owning shares in big Multinational Mining Companies operating in the country.

The extractive industry is booming in Tanzania especially in the area of mineral resources i.e. in categories of metallic, gemstones, industrial and energy minerals, rare earths, and various types of building materials (**TEITI**[31] report 2018). The country does host a wide range of critical minerals whose global demand is growing due to their use in applications, including smartphones, electric vehicles and renewable energy technologies. The mining sector is the 4th sector in terms of contribution to the GDP. In the financial year 2019/20, the contribution to GDP was 6.7% compared to a contribution of 5.1% and 4.8% in the financial years 2018/19 and 2017/18, respectively.

However, there is limited state control over the mineral reserves (partly resolved in the Mining Act 2017); and limited fiscal regime controls on issues like hedging transactions/harmful tax practices such as excessive interest payments to related entities, undervaluation of mineral exports and indirect transfer of mining assets. Another challenge is the lack of expertise in the industry such as geologists, financial analysts etc. This has been a huge challenge and has affected the realization of profit in the extractive industry in Tanzania. There are also disputes with the extractive industry on the correctness of their declarations on Resource quantity and/or production volume/deposits, production cost and sales.

4. Conclusion

According to the just published 19th Tanzania Economic Update[32]: Enhancing the Efficiency and Effectiveness of Fiscal Policy in Tanzania, the country's tax-to-GDP ratio increased from 10% in 2004/05 to 11.8% in 2022/23, with a peak of 13.3% in 2015/16. This means in every 100 items which passes/was supposed to pass in the market, it is only 13 items which are taxed. From the study findings, it is clear that there is little wealth-related taxation in Tanzania. On the one hand, Tanzania is home to very rich people, on the other hand, a large part of the population is affected by extreme poverty. There are ways for higher earners to avoid taxes as assets such as land ownership or

[31] Tanzania Extractive Industry Transparency Initiatives.

[32] https://www.worldbank.org/en/news/press-release/2023/09/19/tanzania-afe-enhancing-the-efficiency-of-revenue-collection-and-spending-could-greatly-improve-human-capital-results#:~:text=The%2019th%20Tanzania%20Economic,11.8%20percent%20in%202022%2F23.

financial assets are hardly/not taxed. Thus, the poor and the working population bear the main burden, and in search for justice, this is unfair.

5. Policy Recommendations

Public services such as social security, education, etc. make society resilient in the long term, but need appropriate funding. The Tanzanian government needs enough revenue to sufficiently fund public goods and services, however, it is becoming clearer that the source of that revenue also matters. Given the situation, there is a great need to improve the tax collection with a focus on the existing tax base in Tanzania. Taxes on wealth are a policy instrument to address wealth inequality and could raise substantial revenue while shoring up structural weaknesses in the current income tax system. It is an additional way to raise revenues and address wealth inequality through budget justice. Nevertheless, it is clear that there is little wealth-related taxation in Tanzania. On the one hand, Tanzania is home to very rich people, on the other hand, a large part of the population is affected by extreme poverty. There are ways for higher earners to avoid taxes as assets such as land ownership or financial assets are hardly/not taxed. Thus, the poor and the working population bear the main burden, and this is unfair

The design of the tax system is decisive for how the burden of financing the common good is distributed across society. The tax system in Tanzania has so far been highly regressive: Income taxation and consumption taxes (VAT). The tax systems need to be made more progressive by adopting mark-to-market ***taxation on property tax*** to reduce the effectiveness of strategies used to avoid paying taxes, and ensure **equity** in the payment of wealth/property tax.

Moreover, creativity in seeking new sources of revenue instead of repeatedly focusing on the same areas that directly hurt ordinary Tanzanian citizens is critical. That is, innovate progressively new sources of taxes such as broad-based wealth and property taxation. Currently, there are no net wealth/worth taxes in Tanzania. Net wealth taxes are typically assessed on the net value of the taxpayer's taxable assets. Potential resistance to wealth taxes can be addressed through exemptions such as assets exempt from wealth tax (i.e. exempt assets: One house or part of a house or a plot of land ...). Families may pay the tax only if their wealth exceeds the exemption.

In addressing poor understanding of the of wealth and property taxation in the country, there is a strong need to widen the definition of property to capture digital economy, and betterment tax (i.e. quantify the land value increment resulting from infrastructure investment). In terms of the tax rate to High-Net-Worth Individuals (HNWIs), the capital gains rate should not be lower than the income tax on salaries and wages, the very rich should not pay lower rates than everyday earners

The prevalence of multinational investments makes the impact of tax treaties on mining revenue collection of critical importance. Therefore, the focus should be directed to fighting any loopholes that seem could lead to the loss of revenue from this sector. The government should obtain not only a bigger share of profits but also; stronger control over the natural reserves and, ensure connectivity of tax revenue from the mining industry versus poverty reduction via the provision of quality public services, be able to develop other sectors for the benefit of present and future generations. Continue to increase tax collection sharply by reviewing and ending tax exemptions and deductions for corporations and wealthy individuals, and clamping down on tax dodging. Governments have also vastly improved their ability to track offshore assets through the advent of more data-sharing protocols with other tax authorities.

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