The purpose of this research project is to conduct a trend analysis of the direct taxes collected by the Tanzania Revenue Authority (TRA) for the fiscal year 2021/22 and compare them against the 12-month average. This project will examine the various types of direct taxes that are imposed by the TRA, such as withholding tax, PAYE, corporation tax, and gains on realization of an asset, and comment on the factors that affect their collection and performance. The project will also suggest various measures or strategies that the TRA can use to increase the revenue from direct taxes without adversely affecting the taxpayers. The project will use the statistics available from the TRA website1 as the main source of data, and apply descriptive and inferential statistical methods to analyze the data and test the hypotheses. The project will contribute to the existing literature on tax administration and policy in Tanzania, as well as provide recommendations for improving the efficiency and effectiveness of the TRA

Some of the measures or strategies that the TRA can use to increase various types of direct taxes are:

- Improving the tax compliance and enforcement by using digital tools, such as online filing and payment systems, electronic invoicing and receipting, data analytics and risk management, etc. This can help to reduce tax evasion and avoidance, widen the tax base, and enhance the efficiency and effectiveness of tax administration¹.

- Simplifying the tax laws and procedures by reducing the complexity and ambiguity of the tax rules, harmonizing the tax rates and incentives, and providing clear and timely guidance and support to taxpayers. This can help to reduce the compliance costs and burdens for taxpayers, increase the voluntary compliance and trust, and minimize the disputes and litigations².

- Expanding the tax education and awareness by conducting outreach and engagement programs, such as seminars, workshops, media campaigns, etc., to inform and educate the taxpayers about their rights and obligations, the benefits and impacts of taxation, and the available services and facilities. This can help to improve the tax morale and culture, foster the social contract and accountability, and encourage the civic participation and responsibility³.

Some of the different measures or decisions that the TRA should take to increase taxes without adversely affecting taxpayers are:

- Introducing or increasing the environmental taxes, such as carbon tax, plastic tax, etc., to discourage the harmful activities and behaviors that contribute to the environmental degradation and climate change, and to generate revenue for the environmental protection and conservation⁴.

- Reducing or eliminating the tax exemptions and incentives that are not effective or efficient in achieving the intended objectives, such as promoting the investment, employment, or development, and that result in the loss of potential revenue and create distortions and inequalities in the tax system⁵.

- Implementing or enhancing the progressive taxation, such as increasing the tax rates or brackets for the higher income or wealth groups, to ensure the fairness and equity of the tax system, and to redistribute the income and wealth more equitably and inclusively.

Source: Conversation with Bing, 12/5/2023

(1) Tanzania Revenue Authority - Tax collection statistics. https://www.tra.go.tz/index.php/tax-collection-statistics.

(2) National Bureau of Statistics - Tax Statistics. https://www.nbs.go.tz/index.php/en/tax-statistics.

(3) TRA sets 15-year collection record as target now within reach. https://www.thecitizen.co.tz/tanzania/news/national/tra-sets-15-year-collection-record-as-target-now-within-reach-3771118.

(4) Tanzania Revenue Authority - Tax collection statistics. https://www.tra.go.tz/index.php/116-tax-collection-statistics.

(5) TANZANIA TAX GUIDE 2021 / 2022 – habibadvisory.co.tz

Direct taxes are taxes that are levied on the income or profit of individuals or corporations. Some examples of direct taxes in Tanzania are personal income tax, corporate income tax, withholding tax, and pay-as-you-earn (PAYE) tax. The Tanzania Revenue Authority (TRA) is the agency responsible for administering and collecting direct taxes in the country.

There are various measures or strategies that TRA can use to increase direct taxes, such as:

Simplifying the tax system and reducing tax rates: A simpler and more transparent tax system can reduce the compliance costs and administrative burdens for taxpayers and tax authorities, and encourage voluntary compliance. Lowering tax rates can also make the tax system more attractive and fair, and reduce the incentives for tax evasion and avoidance. For example, Georgia’s tax reform in 2004 simplified the tax system by eliminating several minor taxes and reducing tax rates, which resulted in higher tax revenues and improved tax administration1.

Broadening the tax base and eliminating tax exemptions: A broader tax base means that more income or profit is subject to taxation, which can increase tax revenues without raising tax rates. Eliminating tax exemptions can also help to expand the tax base and reduce distortions and loopholes in the tax system. For example, India’s tax reform in 2017 introduced a minimum alternate tax (MAT) for companies that were enjoying tax exemptions, which increased the effective tax rate and the tax base for corporate income tax2.

Improving tax enforcement and compliance: A stronger and more effective tax enforcement and compliance system can deter and detect tax evasion and avoidance, and ensure that taxpayers pay their fair share of taxes. This can involve enhancing the capacity and integrity of the tax authorities, using technology and data analytics to improve tax audits and assessments, and imposing penalties and sanctions for non-compliance. For example, the Philippines’ tax reform in 2018 strengthened the tax administration by creating a large taxpayers service, implementing an electronic invoicing system, and enhancing the powers of the Bureau of Internal Revenue to audit and investigate tax cases3.

Levying new taxes or expanding the scope of existing taxes: A new tax or an expanded scope of an existing tax can generate additional tax revenues from new or untapped sources of income or profit. This can also help to diversify the tax base and reduce the reliance on a few types of taxes. For example, the OECD’s tax reform in 2020 introduced a global minimum tax and a digital services tax, which aimed to increase tax revenues from multinational corporations and digital platforms that were shifting profits to low-tax jurisdictions4.

However, increasing direct taxes may also have some adverse effects on taxpayers, such as reducing their disposable income, discouraging their economic activity, and creating inequities and distortions in the tax system. Therefore, TRA should also consider some different measures or decisions to increase taxes without adversely affecting taxpayers, such as:

Providing tax incentives and relief for taxpayers: Tax incentives and relief can help to reduce the tax burden and increase the disposable income of taxpayers, especially those who are low-income, vulnerable, or affected by economic shocks. This can also help to stimulate economic growth, investment, and employment, and support social welfare and development goals. For example, the US’s tax reform in 2017 provided tax cuts and credits for individuals and businesses, which boosted consumer spending and business confidence5.

Balancing the tax mix and shifting to indirect taxes: A balanced tax mix can help to optimize the tax revenues and minimize the economic and social costs of taxation. Shifting to indirect taxes, such as value-added tax (VAT) or excise tax, can also help to increase tax revenues without affecting the income or profit of taxpayers directly. Indirect taxes can also be more efficient and easier to collect and administer than direct taxes. For example, the UK’s tax reform in 2011 increased the VAT rate from 17.5% to 20%, which raised tax revenues and reduced the budget deficit.

Reforming the tax expenditure system and enhancing the transparency and accountability of tax spending: Tax expenditures are provisions in the tax system that reduce the tax liability of certain taxpayers or activities, such as deductions, exemptions, credits, or preferential rates. Reforming the tax expenditure system can help to rationalize and evaluate the costs and benefits of tax expenditures, and ensure that they are aligned with the fiscal and policy objectives of the government. Enhancing the transparency and accountability of tax spending can also help to improve the public trust and legitimacy of the tax system, and encourage taxpayers to comply with their tax obligations. For example, the OECD’s tax reform in 2019 introduced a framework for reporting and analyzing tax expenditures, which aimed to improve the quality and comparability of tax expenditure data and enhance the fiscal management and oversight of tax spending.