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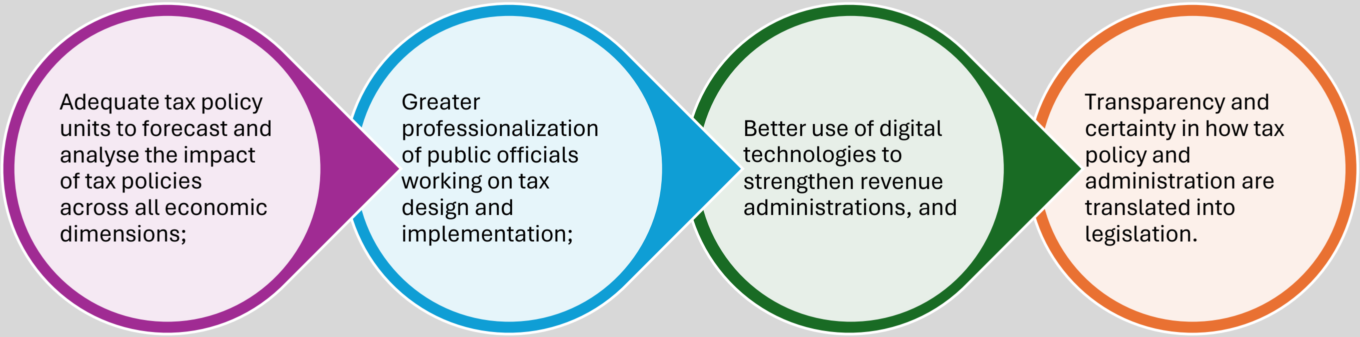
No.

BP 01/ 2024 April 2024

REPOA Blog Post

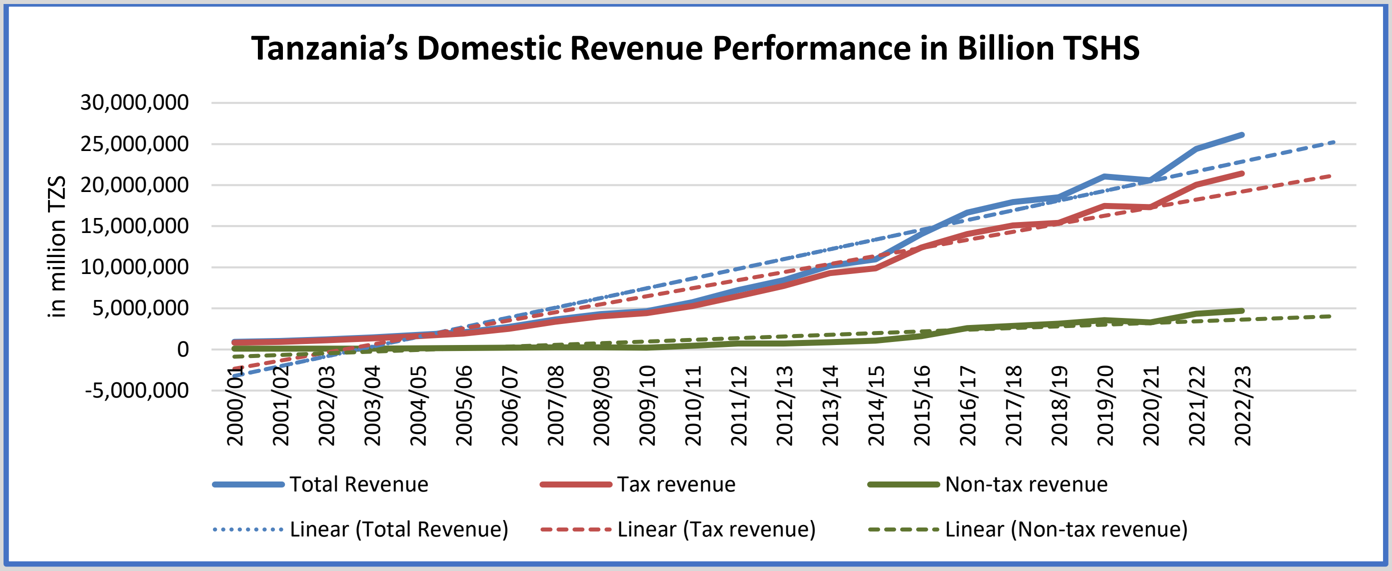
Leveraging Domestic Revenues for Sustainable Development

"***Ensuring that no one is left behind nor by the wayside***" has long been a rallying cry for inclusive growth and sustainable development in Tanzania and much of the developing world. While considerable progress has been made towards attainment of many of the sustainable development goals, development and infrastructure gaps have remained pervasive undermining efforts to developmental aspirations. Tanzania has historically relied on fiscal consolidation as a strategy for financing development ostensibly aimed at reducing debt vulnerabilities and boost resilience. Tanzania has employed fiscal rules, budgetary reforms, tax policy and administration measures, public-private partnerships, and other innovative financial instruments to raise additional finance for enhancing development expenditure, in particular infrastructure investment.[1] Consequently, revenue mobilization has remained a key policy priority. Support for enhancing domestic revenue mobilisation has come from among others, multilateral development banks (MDBs) that have provided both financial and technical support to institutionalise and strengthen domestic revenue system by focusing on:



Tanzania's domestic revenue mobilization (DRM) has grown consistently over the last two decades. Tax and non-tax revenues have increased 33-folds from TZS 0.8 to 26.1 trillion between 1999/00 and 2022/23; and are projected to rise to TZS 35.7 trillion in 2025/2026. Tanzania's improved DRM helped narrow the tax gap from 8 percent of GDP in 2000 to 11.8 percent of GDP in 2023.

[1] Teresa Ter-Minassian, Richard Hughes, and Alejandro Hajdenberg; Creating Sustainable Fiscal Space for Infrastructure: The Case of Tanzania; 2008 IMF Working Paper.



However, despite progress in DRM, a significant amount Tanzania's tax potential remains unexplored. It is estimated that Tanzania collects only a half of its total revenue potential due to inherent gaps and inefficiencies in tax design, administration, policy, poverty, informality as well as a weak business environment. Income taxes and value added taxes (VAT). Closing compliance gaps can help bolster revenues while establishing a fairer, more efficient tax system, thus improving the country's capability to sustainably finance its own development. Tanzania's improved DRM helped narrow the tax gap from 8 percent of GDP in 2000 to 11.8 percent of GDP in 2023. Nonetheless Tanzania needs sustained reforms to attain many of its medium to long term revenue targets including that of 15 percent of GDP set under the 20th replenishment cycle of the International Development Assistance (IDA 20). The government can further increase tax productivity by adjusting rates, rationalizing exemptions, expanding the tax base, leveraging digital technologies to enhance tax administration, and improving compliance management. Introducing a more rigorous system for taxing income from capital and immovable property could bolster the government's revenue position, while updating cross-border taxation policies could reduce the risks associated with base erosion and profit-shifting by multinational corporations.

Tanzania's large unexploited revenue potential can also be addressed by strengthening the tax administration at the top of the income distribution that would improve the tax system's equity while increasing revenue mobilization and reinforcing the social contract. Building the capacity of the tax authorities will be essential to expand tax collection efficiently and equitably and could lay the groundwork for further revenue reforms. The authorities can complement the ongoing e-filing rollout by enhancing the integrity of the taxpayer database, which will be necessary to expand registration. Improving data collection and data analytics, adopting a risk-based approach to compliance management, and hiring and training more auditors could further help ensure that all registered taxpayers report and pay their true tax liabilities.[2]

[2] **TANZANIA Economic Update--**The Efficiency and Effectiveness of Fiscal Policy in Tanzania. Issue 19, 2023; World Bank Group