

**AN EVALUATION OF THE CHALLENGES FACING TRA ON INCOME
TAX COLLECTION IN TANZANIA: A CASE OF KARIAKOO TAX
REGION**

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER OF LAWS (LL.M)
DEPARTMENT OF PRIVATE LAW
OF THE OPEN UNIVERSITY OF TANZANIA**

2024

CERTIFICATION

The undersigned certify that they have read and hereby recommend for acceptance by the Open University of Tanzania, a Dissertation titled “*An Evaluation of the Challenges Facing TRA on Income Tax Collection in Tanzania*” in partial fulfilment of the requirement for the award of the Degree of Master of Laws of the Open University of Tanzania.

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Signature

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Date

DEDICATION

I am thankful to God, who has given me the ability to live, knowledge and insight to effectively undertake and complete this endeavour.

Additionally, I would like to dedicate this Master's Dissertation to my lovely family because I am certain that I could not have finished it without their unwavering support.

For sure, I love you all.

ACKNOWLEDGEMENT

I am thankful to God, who has given me the ability, knowledge, and insight to effectively undertake and complete this study. The study involved several stages and could have not been possible without the massive support. For that motivation, I would not be a reasonable person if I didn't thank some of the various institutions, stakeholders, and individuals for their valuable contributions. It is with deep attraction that I extend honest thanks to all of them whose theoretical and practical contributions were supported to get confidence and later realize great success in producing this work.

Special appreciation should be given to Dr.Saphy Bullu and Dr. Noel Nkombe, who provided the best supervision. Their ability to think critically and creatively has exploded they support putting work forward in the best possible light. Without their great support, there is no doubt that I would have found myself at a dead end.

Additionally, I would like to express my appreciation to the entire Open University of Tanzania (OUT) Community in particular the staff at the Kinondoni Regional Centre, as well as several businesses and TRA staff in the Kariakoo Tax Region for their willingness to donate essential documents that comprehensive this work thinkable.

I am aware that I am unable to thank everyone who contributed to the success of my study work. Let it be enough to say thank you all.

ABSTRACT

This study has discussed an evaluation of the challenges facing the Tanzania Revenue Authority on income tax collection in Tanzania. In this work, the researcher has employed documentary and empirical legal research methodology. Simple random sampling was used to select 30 out of 45 respondents (TRA Staff and taxpayers). The data were collected through open and close-ended questionnaires. The findings of the research revealed that there are challenges facing TRA in income tax collection. Once the income tax collection becomes challenging, the government in hand fails to acquire enough revenue to actualize its financial plans and responsibilities. This study therefore concluded that political pressure, tax evasion, tax avoidance, tax assessment objection, corrupt acts, lack of essential tax documents, non-voluntary tax compliance, administrative inefficiencies, tax exemption, poor perception of income tax collection, resistance to the uses of EFDs Machines, frequent changes to tax laws and low tax base are among the key challenges facing Tanzania Revenue Authority on income taxes collection in Tanzania. The study recommends that the management of the Tanzania Revenue Authority should come up with more strict income tax legal framework to curtail the challenges. Tanzania Revenue Authority strategies should be based on the analysis of the performance of the existing strategies such as the adoption of automated systems, progressive policies implementation and Tanzania Revenue Authority staff ethics to increase tax compliance and revenue collection. Establishing the link between culture and voluntary tax compliance will likely require more study.

TABLE OF CONTENTS

CERTIFICATION	ii
COPYRIGHT	iii
DECLARATION.....	iv
DEDICATION.....	v
ACKNOWLEDGEMENT	vi
ABSTRACT	vii
LIST OF ACRONYMS	xiii
LIST OF LEGISLATIONS.....	xv
LIST OF CASES	xvi
CHAPTER ONE	1
GENERAL INTRODUCTION.....	1
1.1 Introduction.....	1
1.2 Statements of Research Problems.....	2
1.3 Literature Review	4
1.4 Research Objectives.....	8
1.4.1 General Objective	8
1.4.2 Specific Objectives	8
1.5 Significance of the Research Work	9
1.6 Research Questions.....	10
1.7 Research Methodology	10
1.7.1 Documentary Legal Research.....	10
1.7.2 Empirical Legal Research.....	10

1.8	Research Design	11
1.9	Method of Data Collection	11
1.9.1	Primary Data Collection	11
1.9.1.1	Field Research.....	11
1.9.1.2	Questionnaire	12
1.9.1.3	Interview	12
1.9.2	Secondary Data Collection	13
1.9.2.1	Documentation.....	13
1.9.2.2	Internet Source	13
1.11	Sample Size and Technique	14
1.12	Scope and Limitation of the Study	14
1.12.1	Scope of the Study	14
1.12.2	Limitations of this Study.....	15
	CHAPTER TWO	16
	CONCEPTUAL FRAMEWORKS ON INCOME TAX COLLECTION	16
2.1	Introduction.....	16
2.2	Tax	16
2.3	Taxpayer	17
2.4	Tax base	17
2.5	Tax rate	17
2.6	Income Tax	18
2.7	Taxable Income.....	19
2.7.1	Income Tax from Employment.....	19
2.7.2	Income Tax from Business	19

2.7.3	Income Tax from Investment.....	20
2.8	Tax Compliance.....	20
2.9	Tax Exemption.....	21
2.10	Tax Return	22
2.11	Tax assessment	22
2.11.1	Self-Assessment.....	23
2.11.2	Jeopardy Assessment	23
2.11.3	Adjusted Assessment	24
2.12	Assessment Objection.....	24
2.13	Withholding Tax	24
2.14	Capital Gain Tax.....	25
2.15	Tax Evasion	26
2.16	Tax Avoidance.....	27
2.17	Tax Losses	27
2.18	Conclusion	27
	CHAPTER THREE	29
	INCOME TAX LEGAL FRAMEWORK.....	29
3.1	Introduction.....	29
3.2	The Laws Governing Income Taxes.....	29
3.2.1	Tax Administration Act	30
3.2.2	The Tanzania Revenue Authority Act	32
3.2.3	Income Tax Act	32
3.3	The East Africa Community Protocol	34
3.3.1	The East Africa Community Protocol on Income Tax Collection.....	34

3.4	International Laws on Income Tax Collection	35
3.5	Conclusion	36
CHAPTER FOUR.....		37
POLICY AND PRACTICE OF INCOME TAX COLLECTION.....		37
4.1	Introduction.....	37
4.2	Tax Policy	37
4.3	Practice in Income Tax Collection.....	39
4.4	Income Tax Structure.....	41
4.5	Tax Administration	41
4.6	Tax Regime	42
4.7	Income Tax Payment Methods	43
4.7.1	Withholding Tax Payment	43
4.7.2	Instalment Tax Payment	44
4.7.3	Assessment Tax Payment	44
4.8	Tax Dispute.....	45
4.9	Limitations in the Tax Dispute Resolution System	46
4.10	Conclusion	49
CHAPTER FIVE.....		51
DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS ...		51
5.1	Introduction.....	51
5.2	Data Presentation	51
5.2.1	Income Tax Legal Framework in Tanzania.....	51
5.2.2	The Practice on Income Tax Collection	53
5.2.3	Challenges Facing TRA on Income Tax Collection in Tanzania	55

5.3	Data Analysis and Discussion of Findings	61
5.4	Conclusion	61
	CHAPTER SIX	63
	SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	63
6.1	Introduction.....	63
6.2	Summary of Findings.....	63
6.3	Conclusion	65
6.4	Recommendations.....	66
6.5	Suggestion for Further Research.....	67
	REFERENCES	69
	APPENDICES	79

LIST OF ACRONYMS

CG	Commissioner General
CGT	Capital Gain Tax
Co	Company
EAC	East Africa Community
EFDs	Electronic Fiscal Devices
GDP	Gross Domestic Product
GN	Government Notice
GST	Good and Service Tax
ICT	Information Communications Technology
IRA	Individual Retirement Account
ITA	Income Tax Act
JWT	Jumuiya yaWafanyabiashara Tanzania
LL.M	Master of Laws
Ltd	Limited
OUT	The Open University of Tanzania
MSMEs	Micro-Small and Medium-sized Enterprises
PAYE	Pay as You Earn
QN	Question Number
S	Section
SDL	Skill Development Levy
TAS	Taxpayer Advocate Service
TRA	Tanzania Revenue Authority

TRAB	Tax Revenue Appeal Board
TRAT	Tax Revenue Appeal Tribunal
TIN	Taxpayer's Identification Number
TZA	Tanzania Shillings
VAT	Value Added Tax
WHT	Withholding Tax

LIST OF LEGISLATIONS

The Constitution of the United Republic of Tanzania, Cap 2 of 1977 as amended from time to time.

The Tax Administration Act, Cap. 438 RE: 2019.

The Income Tax Act, Cap. 332 RE: 2019.

The Tanzania Revenue Authority Act, Cap. 399 RE: 2019.

The Tax Revenue Appeals Act, Cap. 408 RE: 2019.

LIST OF CASES

CASE FROM TANZANIA

Airtel Tanzania vs. TRA Appeal No. 14 of 2012.

M/S Grummet Reserves Ltd v The Commissioner General [2008] 2 T.T.L.R 1.

Shoprite Checkers (T) Limited v. the Commissioner General No. 309 of [2020].

Tanzania Breweries Limited Vs. The Commissioner General [2007] 1 T.T.L.R. 104.

TRA vs. African Barrack Gold Mine PLC Appeal no 128 of [2013].

TRA vs. Chevron Tanzania Ltd Appeal no. 78 of [2014]

CASE FROM OTHER JURISDICTION

Firestone tyre & Rubber co. Llewellyn of [1956].

McCulloch vs. Maryland, 17 U.S (4Wheat) 316 [1819].

CHAPTER ONE

GENERAL INTRODUCTION

1.1 Introduction

In the taxation arena, it is a common understanding that taxation is essential and unavoidable in any jurisdiction.¹ Over the years, taxation remained among the government's sources of funds. Taxation revenues fund public services, pay government obligations, and provide goods for citizens. Public services include developing infrastructure, extending healthcare facilities, and ensuring access to education for all children. To finance all of these expenditures, the government requires more funds, which it earns through various major sources, including but not limited to income tax from business, employment, and investment.

Tanzania's Revenue Authority (TRA) was established 29 years ago to offer several services, including collecting income tax from businesses. The government has given TRA all kinds of tools, including tax laws and regulations, to ensure successful income tax collection with the set goals in the government budget.

However, despite the government's efforts, income tax collection from businesses does not operate effectively. For many years, TRA has reported several challenges that hint at failure to meet the annual income tax collection target. For example, in 2020/2021, the domestic revenue was over 21.7 trillion Tanzanian shillings, of which

¹Simon O. S. (2016), Equality before the Law; Presidential Tax Liabilities; Effects of Exemptions on Voluntarily Compliance, the Open University of Tanzania Law Journal.

2.6, equal to 12%, was income from the business.² The sum is less than the number of business people in Tanzania.

Once income tax collections become challenging, the government will not acquire enough revenue to actualise its financial plans and responsibilities. As a result, the country depends on financial transfers to finance development projects. Accordingly, the researcher must emphasise that TRA does not fail to meet income tax from businesses for no reason. Against this background, the researcher decided to conduct a study on the subject matter.

1.2 Statements of Research Problems

Taxes are the main sources of income in various countries. Tanzania is no exception. The government uses taxes for various purposes: funding public infrastructure, development and welfare projects, and state salaries. Section 5(1) (a) of the Tanzania Revenue Authority Act³ empowers TRA to assess and collect the income tax collection in Tanzania. Also, 5(1) (f) of the Tanzania Revenue Authority Act⁴ was empowered TRA to take measures that may be necessary to improve the standard of service given to taxpayers to improve the income tax collection in Tanzania. Implementing measures to ensure that individuals and businesses pay adequate chargeable income taxes to fund the government development initiative is also empowering.⁵

² Tanzania Revenue Authority - tra.go.tz

³ Cap 399 R.E. 2019

⁴ Cap 399 R.E. 2019

⁵ Luoga, F. D. A. M. (2000). *A Source of Income tax law in Tanzania*. Dar es Salaam: Dar es Salaam University Press.

In addition, from 1995 to 2023, the government invented various measures, including, but not limited to, an amendment of tax laws, taxpayer education, and the introduction of EFD machines so as to improve the income tax collection. Despite these measures, TRA still does not operate successfully in terms of chargeable income taxes in Tanzania. Hereafter, this study intended to evaluate the challenges that makes TRA futile to meet the goal line of the income tax collection in Tanzania. Is there a challenges of existing income tax legal framework or an enforcement and/or practice of tax administration?

An evaluation of the challenge facing TRA on income tax collection in Tanzania is a researched phenomenon. Many authors have written about income taxes. All previous literature reviewed discussed the operational strength of tax administration for tax performance and dispute resolution and did not focus directly on the challenges of income tax collection.

Although the literature addresses income taxes, the methodology and jurisdiction is differ from what this research will focus on. This research employed empirical legal research and a case of the Kariakoo Tax Region-Dar es Salaam, the essence of business in Tanzania.

In addition, the literature needs to be more successful in evaluating the challenges facing TRA in income tax collection, which is the general objective of this work. This research is intended to fill the gap left by other literature, and the issues raised will form a source upon which further research will be carried out.

1.3 Literature Review

Evaluating the challenges facing the Tanzania Revenue Authority on income tax collection in Tanzania is a research phenomenon that has been around for a while. There is much literature focusing on the evaluation of the challenges facing TRA in income tax collection.⁶ However, only some studies have evaluated the challenges facing TRA in income tax collection. Regardless of the facts, the literature evaluates the challenges facing TRA in income tax collection.⁷ The jurisdiction of the previous studies differs from what this study work involved. This particular study involved evaluating the challenges facing TRA on income tax collection, a case study of the Kariakoo Tax Region.

In addition, several papers have examined different areas of income tax collection. These papers used dissimilar approaches and means, even if this study has accepted some. These papers could have been more successful in demonstrating the practical aspects of income tax collection and its challenges, which is the general objective of this work. Also, some papers used doctrinal legal research methodology only, which did not allow authors to get actual data from the field.⁸ Nevertheless, this paper need to show the connection between the Tanzania Revenue Authority and taxpayers, which is necessary when one evaluates the challenges facing TRA in income tax collection.

⁶Mmasi, J. (2018). *Impact of mobile system on improving tax revenue and compliance in Tanzania*, Master's thesis. Mzumbe University, Dar es Salaam

⁷Luoga, F. D. A. M. (2000). *A Source of Income tax law in Tanzania*. Dar es Salaam: Dar es Salaam University Press.

⁸Luoga, F. D. A. M. (2000). *A Source of Income tax law in Tanzania*. Dar es Salaam: Dar es Salaam University Press.

According to Aristides,⁹the author researched the factors affecting Tanzanian taxpayers' Intentional obedience to the tax arrangement. The study's general objective was to identify factors that affect taxpayers' will to obey Tanzania's tax laws voluntarily. The study revealed that most taxpayers firmly agreed that the main challenges facing TRA in revenue collection include a variety of tax laws, tax evasion, unjust tax assessment, low-quality service in exchange for taxes, and tax avoidance. The analysis also revealed that the TRA needed help to reach its goals for domestic tax collection but failed due to those challenges. However, the author needs to address more about the challenges facing TRA on income tax collection in Tanzania, which the research tries to explore.

Kibuta¹⁰the author gave the reasons for tax assessment objections in Tanzania. The paper points out that the grounds for tax assessment objections include essential issues like improper application of laws and procedures, delivery of the assessment outside of the legal window, errors in the calculation of the tax due, improper support for the assessment, and the assessment's omission of tax already paid concerning the same liability.

Further, the paper revealed that the reasons for objection could include technical points such as the tax assessment needing to be served upon the respondent properly or the tax assessment through the wrong taxpayer or entity. Therefore, according to the research, all of those are among the challenges TRA faces in accomplishing their

⁹Alistides, C. (2019). Factors affecting taxpayers' willingness to comply with Tanzania's tax laws: the revenue authority's experience in the Kariakoo tax zone, MPA thesis, Mzumbe University Dar es Salaam.

¹⁰Kibuta, O. (2015). Tax Dispute Resolution, Mkukina Nyota Publishers Ltd, Dar es Salaam, p.37 &38.

responsibility. However, the author needs to address the challenges TRA faces in income tax collection in Tanzania; thus, the researcher intends to use this research to fill the gap.

According to Kapera,¹¹ this paper will examine traders' approaches to the effects, significance, and challenges facing using EFD machines on revenue collection. The research's primary data used purposive methods only, while the secondary data was from Tanzania Revenue Authority reports. In addition, the paper used descriptive approaches to analyse the data collected. The researcher's paper findings revealed a reduced value-added tax after introducing the EFD machine. The high price of buying the EFD caused a lower perception among taxpayers and the tax authorities regarding their convenience. The paper results revealed that network breakdown and the need for knowledge among taxpayers and revenue authorities are among the challenges facing EFD in Tanzania. Nevertheless, the paper's realistic purposive sampling techniques limited the analysis in establishing the relationship between the variables of the paper. Henceforth, they needed to identify the reasons behind the decrease in revenue collection after the introduction of EFD machines.

Germino,¹² The person who studied tax avoidance. He claimed that tax avoidance is one of the challenges facing TRA in revenue collection. He added that Tanzania is one of the active regions where tax evasion has been frequently recorded. He asserts

¹¹Kapera, M. (2017). *Assessment of effectiveness of electronic fiscal devices in tax collection in Tanzania. A case of Arusha City council*, Master's thesis, the open university of Tanzania, Kinondoni centre Dar es Salaam.

¹² Germino, S. (2014) 'Assessment of Tax Evasion Practice in Tanzania: The case Temeke Municipal, MSc. PSCM dissertation, Mzumbe University. Tanzania.

that the government has been concentrating on managing and earning money from various scarce resources, such as taxes on fuel, cigarettes, and buildings.

Exact research was needed to evaluate the accountability for revenue collection. He concluded that tax evasion in Tanzania was caused by corruption's impact on tax revenue collection and by staff ethics' disparate impact on education. The study was carried out in the Temeke Tax Region; hereafter, there is a need to conduct a study from the Kariakoo Tax Region, which is the core of the business activities in Tanzania.

According to Bofah¹³ in his research, he disproved the claim that Tanzania's low literacy rate is the most critical element influencing the country's ability to collect taxes and that an efficient taxation system is the mark of a healthy economy. The evidence originates from a literate tax base. Furthermore, knowledge of evidence technology and how to use it are both considered essential components of literacy in modern society. Taxation brings in less money in societies with lower literacy rates. Political stability brings about reliable application and implementation, which is necessary for tax collection. The law, the tax and the current state of law are indirectly related. Better assets and more jobs would be created under a stable rule and instruction environment, giving consumers who, in reality, pay taxes more purchasing power. Awareness of those whose development in tax confidence should be conveyed as a long-running rule inference and who stand to benefit from paying taxes.

¹³Bofah, K., 'The effect of tax on business and investment decisions' www.ehow.com, (accessed 2004)

Fuest and Nadine,¹⁴ the study's primary goal was to review quantitative research that calculates lost tax revenue from tax evasion in developing nations. The authors sought to differentiate between tax evasion and avoidance in their research. Along with descriptive and hypothesis-testing approaches, the study used a survey research design. While descriptive statistics describe a phenomenon and hypothesis testing utilises inferential statistics to evaluate a proposition, survey design involves choosing a small sample of respondents from a population to generalise the results to the total population. However, many developing nations use unique tax breaks, allowances for investments, free enterprise zones, and tax-sparing clauses. Again, some mathematical proof regarding the magnitude of current asset inducements and their expansion over time is attainable.

1.4 Research Objectives

1.4.1 General Objective

The study's general objective is to evaluate the challenges facing the Tanzania Revenue Authority regarding the income tax collection in Tanzania as Kariakoo Tax Regiona case study.

1.4.2 Specific Objectives

Specifically, the research intends:

- i. To identify the income tax collection legal framework in Tanzania
- ii. To explore Policy and TRA practice on income tax collection in Tanzania

¹⁴Fuest, C, and Nadine, R., Report prepared for the U.K. tax evasion, tax avoidance, and tax expenditure in less developed countries: Department for International Development, Oxford, U.K., 2015, p. 54.

iii. To ascertain the challenges facing TRA on income tax collection in Tanzania

1.5 Significance of the Research Work

The following are significant results expected from this research.

The first significant results expected from this research are to give the income tax collection managerial officers theoretical knowledge of their responsibilities. This is because, this research will explain the duties and responsibilities of TRA staffs according to their laws.

The second significant results expected from this research is to delivers practical, theoretical knowledge of the motives behind the challenges facing the Tanzania Revenue Authority on income tax collection. TRA facing the challenges of income collection due to some of the reasons or factors. Hereafter, this study will explain the various factors that cause the existence of the challenges facing TRA on income tax collection in Tanzania.

The third significant results expected from this research are to helping TRA officers and taxpayers comprehend the terrible side of corruption and tax evasion. That, researcher has tried to explain the effect of corruption and tax evasion to the country.

The fourth significant results expected from this research are advantageous to other researchers and the general public. That, this research can help other researchers to develop the research.

Finally, this work is imperative for the researcher to fulfil the Master's degree in law as the requirement of the Open University of Tanzania. That, in order to complete a

Master's degree, you requisite to do research and that research must be certify by the supervisor(s).

1.6 Research Questions

This study is based on questions and tries to propose answers to them.

- i. What is the legal framework for income tax collection in Tanzania?
- ii. What are tax policy and how revenue collection is done practically by TRA?
- iii. What are the challenges facing the Tanzania Revenue Authority regarding income tax collection in Tanzania?

1.7 Research Methodology

The methodology for the study consisted of two parts. These are:

1.7.1 Documentary Legal Research

This research employed documentary legal research. The researcher shall use the documentary review of the primary sources, such as Acts of Parliament, case laws and subsidiary legislation, and secondary sources, such as legal commentaries. The purpose of documentary legal research was to support and provide evidence of the data collected from a field.

1.7.2 Empirical Legal Research

This research employed empirical legal research. It involves the collection of facts and laws and a critical analysis of the laws and practices on the challenges facing TRA on income tax collection in Tanzania. Under the field research, the research

shall employ focus group discussion and questionnaires to gather relevant information on the research aspects.

1.8 Research Design

This research employed a qualitative method and a case study approach. A case study systematically collects information about a particular person, social setting, or group and understands how it operates. It involves data collection techniques like interviews, observation, and documentation.

1.9 Method of Data Collection

This study involves qualitative and quantitative information from primary and secondary sources, questionnaires, and interviews. Secondary information has been obtained through documentary review for triangulation for data validations, crosschecking and accuracy.

1.9.1 Primary Data Collection

The essence of the primary data was to acquire first-hand information by administering questionnaires to the respondents. The use of data was to test the hypotheses of the study. Primary data played an essential role since it has allowed researchers to explore the reality in a particular context concerning the challenges facing TRA on income tax collection. This data was acquired in the following ways:

1.9.1.1 Field Research

The research employed field research to obtain primary data from the community

experience concerning the challenges facing TRA on income tax collection in Tanzania. It impacts the profession in terms of the benefit of Tanzania's revenue collection. The researcher conducted a community-based study to get the best from the TRA staff, lawyers, students, and stakeholders' experience because the present law is challenging.

1.9.1.2 Questionnaire

To gain a richer understanding of the challenges TRA faces in income tax collection in Tanzania, the researcher used questionnaires to collect data. A set of structured questionnaires intended to collect primary data from the respondents, such as taxpayers, TRA staff, and tax experts, based on the conceptual framework developed using a set of questions prepared. This instrument is picked on the basis that, it has managed to capture relevant data to the research objectives. The questionnaire has been drafted in such a way that has been able to be employed objectively to collect data proportional to the project variable.

1.9.1.3 Interview

The interview method involved presenting oral questions and replies by verbal responses from people from several organisations and institutions. Face-to-face interviews were used as the method of data collection, involving respondents such as TRA staff and taxpayers of different categories in terms of their occupation. The main reasons for using this method were to help get step information in greater depth, reach a broader spectrum of information, and gain greater control of respondents.

Man-to-man oral interviews have another advantage: flexibility and adjustability. Since confidence was established during the discussion, this method is the proper one to collect their views.

1.9.2 Secondary Data Collection

Secondary data collection was used by reviewing literature on the subject and testing it through questionnaires. The researcher collected data from TRA reports, reports and journals prepared by other researchers in related fields, books, and other publications relating to the title. Secondary data collection is the information the researcher gets from various sources, such as field research, books, journals, the Internet, etc.

1.9.2.1 Documentation

The purpose of documentary methods was to support and provide evidence of the data collected from a field. Review of reports from TRA, journals prepared by other researchers in related fields, textbooks, and other publications relating to income taxes in Tanzania have contributed fully to the secondary source of data collection in the study. The method saves time in the sense that instead of moving to conduct an interview, a researcher sits and reviews the documents.

1.9.2.2 Internet Source

The internet source to obtain secondary data from the computer internet.

1.10 Data Sampling and Data Analysis

In this study, a researcher chose a limited number of representatives from a group of respondents using purposive and random sampling techniques. Purposive sampling refers to a group of non-probability sampling techniques for selecting units because they have the characteristics needed in the sample. In contrast, random sampling is a set of individuals chosen randomly from a more extensive set in which a subset of individuals all have the same probability. It is purposive and random sampling aiming to share specific characteristics and remove all hints of bias.

1.11 Sample Size and Technique

There were 30 respondents, including eight samples of respondents from various departments consulted on the Kariakoo Tax Region Staff, four tax experts, four advocates and 14 taxpayers registered for income tax purposes with TRA Kariakoo Tax Region. Purposive and random sampling was used in the study to determine sample size and technique. It is purposive, and random sampling aims to share specific characteristics and removes all hints of bias.

1.12 Scope and Limitation of the Study

1.12.1 Scope of the Study

This research paper evaluates the challenge facing TRA in income tax collection in Tanzania. The research area was in the Kariakoo Tax Region and included various people, such as lawyers, TRA staff, and stakeholders.

1.12.2 Limitations of this Study

Some employees in the organisation needed more time to be ready to answer the questions. They could have been more cooperative. Some officers avoid answering questions because they could see they give out essential secrets about the organisation and reveal its weaknesses a shortage of information due to the ineffective records management system. The researcher had to complete the study within a specific short time. Research ethics to get a permit to conduct or interview respondents, other respondents' denial of compliance is a challenge that respondents do not want, and findings are another limitation, especially on the issue of classified information.

CHAPTER TWO

CONCEPTUAL FRAMEWORKS ON INCOME TAX COLLECTION

2.1 Introduction

Generally, the primary purpose of taxation in a country is to raise revenue to fund public services, infrastructure, and other activities that will help the government achieve its policies and objectives for society. They pay taxes to increase government revenue so that, in return, society can have all the services from the government.

The challenges facing TRA in income tax collection are complex, multidimensional problems in Tanzania. These challenges lead to the effects of low-income collections. Before trying to evaluate these challenges, this chapter provides an overview of relevant terms and definitions as well as measures to assess the problem's relevance.

2.2 Tax

Taxes are charges, fees, tolls, rates, levies, duties, penalties, and interest imposed under any tax laws and any additional profit tax payable under any arrangement or agreement.¹⁵ Taxation in Tanzania consists of two types: direct and indirect taxes. The legal and practical incidence of the final payer determines each type.

The central or state tax authority is where deposits of all taxes are. The types of taxes include income tax, corporate tax, capital gains tax, and property tax.

¹⁵ Section 3 of the Tax Administration Act, Cap 438 R.E. 2019

2.3 Taxpayer

A taxpayer is any person who is liable to pay tax.¹⁶ A taxpayer may be an individual or corporation obligated to pay taxes to the government tax agency or local government. Taxes from individuals and businesses are the government's primary revenue source. Modern taxpayers may have an identification number, a reference number issued by a government to citizens or firms.

Taxes can exist in income taxes and property taxes imposed on real property owners. People may pay taxes when they pay for goods and services. The taxpayers' money becomes part of the public funds, which comprise all money spent or invested by the government to satisfy individual or collective needs or to generate future benefits.

2.4 Tax base

The tax base is the total amount of income, property, assets, consumption, transactions, or other economic activity subject to taxation by a tax authority. It is different from the tax rate, which is the fraction of the base collected by taxation.¹⁷

Thus, the total income tax liability is calculated by multiplying the tax rate by the tax base. Tanzania's tax base includes all types of income, such as wages, interest dividends, and capital gains.

2.5 Tax rate

A tax rate is a percentage at which the income tax of an individual or corporation is

¹⁶Section 3 of the Tax Administration Act, Cap 438 R.E. 2019

¹⁷Fjeldstad, O. H. & Semboja, J. (2001). Why people pay taxes: the case of the development levy in Tanzania. *World Development*, 29(12), 2059-2074.

chargeable either from employment, business or investment.¹⁸ Income tax is payable by an individual resident in Tanzania on their worldwide income. Both residents and non-residents are taxable on income from Tanzanian sources.

The total income of resident individuals for a year is 13%, 20%, 25%, or 30%.¹⁹ Taxation of non-residents is at a flat rate of 15% on employment income, a final tax in Tanzania.²⁰ For individuals whose business turnover does not exceed 100 million Tanzanian shillings per year, the presumptive income tax rate is 18%. Where the income from the investment represents a final withholding payment, the tax rate is 10% if disposed of by a resident and 30% if disposed of by a non-resident.

2.6 Income Tax

Income Tax is a tax on the income of a person or an entity, such as a company. Income can take many forms, such as wages from employment, profits from business, dividends from investments, royalties from intellectual property (songs, books, etc.), inheritance, and gifts.²¹ Income tax is the significant direct tax in the country, comprising individual (personal) and corporate income tax. By law, taxpayers must file income tax returns annually to determine their tax obligations.

Income taxes are a source of revenue for governments. They fund public services, pay government obligations, and provide goods for citizens. The power or authority

¹⁸Section 6 of The Income Tax Act, Cap 332 R.E. 2019

¹⁹The First Schedule of the Income Tax Act, Cap 332 R.E. 2019

²⁰The First Schedule of the Income Tax Act, Cap 332 R.E. 2019

²¹Section 4 of the Income Tax Act, Cap 332 R.E. 2019

of the Income Tax Act charges income taxes.²² The Tanzania Revenue Authority manages income tax, and entities and individuals are entitled to pay this tax.

2.7 Taxable Income

Taxable income is any gross income earned or the amount subject to taxation after deductions and exemptions. Common types of taxable income in Tanzania include income tax from employment, income tax from business and income tax from investment.²³

2.7.1 Income Tax from Employment

An individual income tax is also known as Personal income tax. The individual income is a profit from the individual's employment for the year of the income. It is the income tax levied on a separate payment of wages, salaries, bonuses, gratuity, and payment for individual agreements, retirement, redundancy and termination.²⁴

This tax is usually imposed by the government because of exemptions, deductions, and credits. Most individuals do not pay taxes on all of their income. The personal income tax that the government collects can help fund government programs and services such as social security, national security, schools, and roads.

2.7.2 Income Tax from Business

The business income taxes apply to corporations, partnerships, small businesses, and

²² Cap 332 R.E. 2029

²³Section 6 of the Income Tax Act, Cap 332 R.E. 2019

²⁴Davey, K. (1974). *Taxation of Peasant Economy. An example of a graduated tax is in East Africa.* London; Charles Knight and Co.

the self-employed. It is the income from the company for a year of business income, such as service fees, gain from the realisation of business, assets and gifts.²⁵

Businesses also pay income tax on their earnings.

The Tanzania Revenue Authority taxes income from corporations, partnerships, self-employed contractors, and small businesses. Depending on the business structure, the corporation, its owners, or shareholders report their income and then deduct their operating and capital expenses. Generally, the difference between their business income and operation and capital expenses is considered their taxable income.

2.7.3 Income Tax from Investment

An investment is an asset or item acquired to generate income in the future. The income tax from investment is the income from an investment for a year of income profit from conducting investment for the year of income.²⁶ The income from investment includes but is not limited to any dividend from investment, distribution of trust from investment, interest from investment and rent from investment.²⁷

2.8 Tax Compliance

Tax compliance, in the simplest form, refers to the degree to which taxpayers comply with the tax law.²⁸ The concept of tax compliance refers to taxpayers' decision to comply with tax laws and regulations by paying taxes timely and accurately. The state assumes that tax compliance is legally owned by taxpayers, but the taxpayers

²⁵Section 8 of the Income Tax Act, Cap 332 R.E. 2019

²⁶Section 9 of the Income Tax Act, Cap 332 R.E. 2019

²⁷Section 9 of the Income Tax Act, Cap 332 R.E. 2029

²⁸Peter, J. (2017). *The Impact of Tax Morale and Institutional Quality on the Shadow Economy*, Journal of Economic Psychology.

and the state do not necessarily share the same interpretation. Whether "compliance" refers to voluntary or compulsory behaviour is questioned.

There are two kinds of compliance requirements: filing returns and paying taxes. If taxpayers comply only because of threats, harassment, or both, this would be non-compliance. Instead, successful tax administration requires taxpayers to comply willingly without requiring enquiries, intrusive investigations, reminders, or applications of legal or administration sanctions.

Various issues affect tax compliance levels. Non-compliance may be explained by a taxpayer's unwillingness to pay taxes or by their lack of understanding of the tax laws and associated payment procedures.²⁹ In some cases, taxpayers may feel that certain taxes are unfair, and in others, they may be unable to pay taxes at the required deadline.

2.9 Tax Exemption

Tax exemption is the reduction or removal of a liability to make a compulsory payment that would otherwise be imposed by ruling power upon persons, property, income, or transactions.³⁰ Tax-exempt status may provide complete relief from taxes, reduced rates or tax on only a portion of items. Tax exemptions stimulate economic growth and create employment opportunities by inducing more investment.³¹

²⁹Mmasi, J. (2018). *Impact of mobile system on improving tax revenue and compliance in Tanzania*, Master's thesis. Mzumbe University, Dar es Salaam.

³⁰Gauthier, B. (2015). *Shifting Tax Burdens through Exemptions and Evasion an Empirical Investigation of Uganda: Policy Research Working*. Washington, DC, World Bank, Paper 2735.

³¹Gauthier, B. (2015). *Shifting Tax Burdens through Exemptions and Evasion an Empirical Investigation of Uganda: Policy Research Working*. Washington, DC, World Bank, Paper 2735.

However, since this is not happening, the government was supposed to conduct an impact assessment on the economic benefits of tax exemptions. Examples of tax exemptions include the exemption of charitable organisations from property and income taxes.

2.10 Tax Return

Tax return means the statement filed by the taxpayer to TRA, which declares the assessment of chargeable income and tax payable thereon or final income and is taxable for each year of income. Under the Income Tax Act, a company must submit a tax return without taxable income.³²

Every registered company and individual required to prepare the audited account shall file a statement to TRA that shows the assessment of tax payable in each year of income.

2.11 Tax assessment

Assessment means determining the amount of tax liability made under a tax law by the Commissioner General or by self-assessment.³³ An assessment involves calling income returns, determining income assessable to tax, computing the tax payable thereon, and imposing the tax charge on the income assessed. There are about three

³²Section 8 of the Income Tax Act, Cap 332 R.E. 2029

³³Section 3 of the Tax Administration Act, Cap 438 R.E. 2019

types of assessments that can be made: self-assessment, jeopardy assessment, and adjusted assessment.³⁴

2.11.1 Self-Assessment

Self-assessments of revenue are the balance tax that a taxpayer has to pay on the assessed income. They are assessments made under tax law by a person who is obligated to file a tax return.³⁵ The taxpayer makes upon their taxable income and discloses it to the income tax office on the annual return file.³⁶ The return filing deadline is also the deadline for paying tax per self-assessed final tax.

2.11.2 Jeopardy Assessment

A jeopardy assessment is a special tax liability for which the commissioner shall serve a written notice of the person's assessment. The commissioner general is empowered to make a jeopardy assessment where there is no filled tax return and the taxpayer is about to cease business, leave the country or become bankrupt.³⁷ A jeopardy assessment applies to a closed tax year or tax period where the due date for filing a return has expired.

³⁴Luoga, F. (2000) *A Sourcebook of Income Tax law in Tanzania*, Dar es salaam University Press, Dar es salaam p. 205

³⁵Section 3 of the Tax Administration Act, Cap 438 R.E. 2019

³⁶ Section 94 of the Income Tax Act, Cap 332, R.E. 2019

³⁷ Section 95 of the Income Tax Act, Cap. 332 R.E. 2019

2.11.3 Adjusted Assessment

An adjusted revenue assessment occurs when the revenue computed by the taxpayer in the self-assessment is unreliable, and an adjustment is required to arrive at the correct revenue.³⁸

2.12 Assessment Objection

Assessment objection is a formal review process for resolving disputes between taxpayers and Commissioner General about tax liability. Subject to the provisions set out in the tax laws, including but not limited to the Tax Administration Act, the taxpayer is permitted to object to the tax assessment.³⁹ The assessment objection intends to request the Commissioner General to review its decision before the matter proceeds to the tribunal. Accepting taxpayers' objections is when they have fulfilled the specified requirements.

2.13 Withholding Tax

Withholding Tax (WHT) is a tax collected instead of income tax at the time-of-service delivery. It is designed to ensure that eligible taxpayers who may otherwise need help account for paying their income tax. It is an income tax that is required to be withheld by a withholding agent for a payment.⁴⁰ WHT is withheld by the taxpayer when paying for a service and then transferred to the tax authority on behalf of the service provider.

³⁸ Section 96 of the Income Tax Act, Cap. 332 R.E. 2019

³⁹ Section 12(1) Tax Revenue Appeal Act, Cap 408 R.E. 2019

⁴⁰Section 3 of the Tax Administration Act, Cap 438 R.E. 2019

A withholder is a person receiving or entitled to receive a payment from which income tax is required to be withheld. In contrast, a person required to withhold income tax from a payment made to a withholder is referred to as a withholding agent. The law has divided withholding taxes into major categories, namely final withholding taxes and non-final withholding taxes.

Final withholding taxes are taxes in which the withholder cannot claim any tax credit when calculating the income tax payable for a year of income. In contrast, non-final withholding taxes are taxes in which the withholder is entitled to a tax credit equal to the tax treated as paid for the year of income in which the amount is derived.⁴¹

Withholding tax applies to specific payments, including payments that are to be included in calculating an employee's chargeable income from employment, investment returns, including dividends, interest, natural resource payments, rent, or royalty, and payments in respect of the supply of goods to the government and its institutions.

2.14 Capital Gain Tax

Capital Gains Tax (CGT) is a one-time tax payable on the realisation of an asset or investment. It results in capital gain when an asset's selling price exceeds its purchase price. The tax on capital gains only occurs when an asset is sold or realised. There is no separate capital gains tax in Tanzania. Instead, income tax is charged on the taxable profit arising from a gain arising from the realisation of an

⁴¹www.taxanalust.com/www/website.nsf

investment asset, including shares, interest in land and buildings and a beneficial interest.⁴²

The gain is determined as the difference between costs incurred and sale proceeds. The abolition of separate capital gains tax in Tanzania was in 2004.⁴³ A realised capital gain is now accounted for as part of the total income charged at the end of the year. However, there is what is called a single instalment tax on the realisation of interest in land, shares, and securities held in a resident entity or building situated in Tanzania. The applicable rates are 10 and 20 per cent of the gain for residents and non-residents, respectively.⁴⁴

2.15 Tax Evasion

This is the illegal evasion of taxes by individuals, corporations, and trusts.⁴⁵ It occurs as an isolated incident within otherwise legal activities. Those caught evading taxes are generally subject to criminal charges and substantial penalties. Thus, tax evasion applies to both the illegal non-payment and the illegal underpayment of taxes. A person is not considered guilty of tax evasion unless the failure to pay is deemed intentional. Tax evasion occurs when a person or business illegally avoids paying their tax liability, a criminal charge subject to penalties and fines.

⁴²Jayawardane, D. (2015). Psychological Factors Affect Tax Compliance review paper. *International Journal of Arts and Commerce*, Vol.4, No.6, 131-141

⁴³Peter, J. (2017). *The Impact of Tax Morale and Institutional Quality on the Shadow Economy*, Journal of Economic Psychology.

⁴⁴Peter, J. (2017). *The Impact of Tax Morale and Institutional Quality on the Shadow Economy*, Journal of Economic Psychology

⁴⁵ Kasokile, Y. (2018) Ibid Pg23

2.16 Tax Avoidance

Tax avoidance occurs within the legal context of the tax system. That is, individuals or firms take advantage of the tax code and exploit "loopholes," i.e., engage in legal activities that run counter to the purpose of the tax law.⁴⁶ Usually, tax avoidance encompasses special activities with the sole purpose of reducing tax liabilities.⁴⁷ An example of tax avoidance is strategic tax planning, where financial affairs are arranged to minimise tax liabilities by, e.g. using tax deductions and taking advantage of tax credits.

2.17 Tax Losses

Tax losses are deducted in the financial year they arise and any subsequent year. There is no time limit for claiming a deduction on tax losses. Foreign losses (from investment and business) are deducted from foreign income from investment and business, respectively.⁴⁸ Losses from other investment income are deducted from investment income, and losses from an agricultural business are deducted from income from conducting an agrarian business.

2.18 Conclusion

The chapter provides definitions of critical study concepts related to the study, such as tax, income tax, taxpayers, tax base, tax rate, taxable income, tax exemption, tax documents, tax assessment, assessment objection, withholding tax, capital gains tax,

⁴⁶Gauthier, B.(2015) *Shifting Tax Burdens through Exemptions and Evasion* and Empirical Investigation of Uganda, Policy Research Working Paper 2735, and Washington, DC, World Bank.

⁴⁷Fuest, C & Nadine, R. (2015). *Tax evasion, tax avoidance and tax expenditures in developing countries: A literature review, Report prepared for the U.K. Department for International Development*. Oxford University, U.K.

⁴⁸TRA. (2020). *Tax Collection Reports*. Dar es Salaam: Tanzania Revenue Authority.

tax evasion, tax avoidance, and tax losses. The purpose of providing the meaning of those words is to enable the reader to understand the use and sense of the work.

CHAPTER THREE

INCOME TAX LEGAL FRAMEWORK

3.1 Introduction

Tanzania, like other countries, is governed by the rule of law. The Constitution of the United Republic of Tanzania, 1977, as amended from time to time (from now on referred to as the Constitution), is the cornerstone upon which all laws of the country are made. Article 138 of the Constitution allows for the enactment of tax laws within our jurisdiction. The Constitution does not treat taxation as part of the principles of governance but provides a monetary tool.⁴⁹ That means the meaning of taxes, the taxation system, tax base, tax rate, tax assessment, and time for payment of taxes are never defined in the Constitution but in tax laws.

However, this chapter comprises various tax laws overseeing Tanzania's income tax process. It will not address the dozens of taxation laws in the country, but it will focus on the legal framework for income tax in Tanzania.

3.2 The Laws Governing Income Taxes

This section covers the various legal frameworks overseeing income taxes in Tanzania. It consists of the primary income tax laws in Tanzania. These are the fundamental laws to be read to oversee income tax, including, but not limited to, the Tax Administration Act, Cap 438 R.E. 2019, the Income Tax Act, Cap 332 R.E. 2019, and the Tanzania Revenue Authority Act, Cap 399 R.E. 2019.

⁴⁹Simon O. S. (2016), Equality before the Law: Presidential Tax Liabilities: Effects of Exemptions on Voluntarily Compliance, the Open University of Tanzania Law Journal.

3.2.1 Tax Administration Act

The Tax Administration Act⁵⁰ governs the system of collecting domestic revenue. The Act consolidates standard provisions provided under different tax laws to simplify their administration by the Tanzania Revenue Authority. Issues such as taxpayer identification, maintenance of tax records, and payment of income tax, dispute resolution, and offences common to all tax laws have been brought under the Act, and the respective tax laws have been amended accordingly to recognise this Act. Some key features of the law are the provisions for:

Part II of the Act empowers TRA to gather information for any tax law in the proper exercise of the duties under a particular tax law. Hence, TRA will force every individual liable to pay income tax in the United Republic of Tanzania to maintain all documents necessary to determine the tax payable accurately. To ensure better performance, under this Part, the Act empowered the Tanzania Revenue Authority to engage an expert in tax collection to assist in adequately performing its functions, including document recovery.

Under Part IIIA of the Act, established by the Office of the Tax Ombudsman, taxpayers shall be empowered to review and address any complaint regarding the income tax services, procedures, or administrative matters arising while administering tax law by TRA. The Tax Ombudsman shall be in charge of carrying out the functions of the Tax Ombudsman independently and impartially without interference from any institution, agency, or dependent of the government.

⁵⁰Cap 438 R.E 2019

Under Part VI of the Tax Administration Act⁵¹ the Act empowers TRA to make an adjusted or jeopardy assessment of the income tax that has become payable by a person under the respect of the laws. This is done when the taxpayer fails to file a self-assessment of the tax return. Also, under Part VII of this Act, the issue of dispute resolution was discussed. This section gives the Commissioner General (CG) of TRA the power to make any income tax decision, including assessment or other power or omission, on a matter left to the discretion, judgement, consent, opinion, approval, satisfaction, or determination of the commissioner general under a tax law that directly affects the decision.

Part VIII of the said Act empowered TRA staff to extend the time for income tax payment upon the taxpayer's good reason. It suggests taxpayers may, in writing, apply to the Commissioner General for an extension of time for payment of income tax under tax law, and the Commissioner General may grant the extension for good reasons.

Part X of the Act provides for interest, offences, and penalties. The Act authorises the Commissioner General of TRA to receive any interest or remaining unpaid income tax. In addition, the Commissioner General has the power to impose a penalty on taxpayers who fail to maintain documents, fail to file a tax return, make false or misleading statements, or aid and abet tax evasion or avoidance.

Lastly, the Act under Part XI gives power to TRA staff to search, with or without a warrant, seize, and arrest any person suspected of committing an offence related to tax laws.

⁵¹Cap, 438 R.E 2019

3.2.2 The Tanzania Revenue Authority Act

Tanzania Revenue Authority Act⁵² is an act to establish the Tanzania Revenue Authority as a central body for the assessment and collection of specified revenue, administering and enforcing the laws relating to such revenue, and providing for related matters. It is the law that authorises TRA to collect income tax in Tanzania.

Part II of the said Act provides the procedures and functions to be followed by TRA when assessing and collecting income taxes. Under this Part, the law authorises TRA to undertake, among other things, the assessment, collection, and accounting of all revenue to which those laws apply on behalf of the government.⁵³ According to the Act, other specific functions authorise the Tanzania Revenue Authority, including determining steps to counteract fraud and other forms of taxation and fiscal evasion.

In addition, the Tanzania Revenue Authority Act⁵⁴ authorise TRA to monitor and ensure the collection of fees, levies, charges, or other taxes collected by the ministry, department, or division of the government as revenue for the government. Taxes and charges empowered to be administered and collected by TRA are income taxes that include corporate tax, individual taxes, pay-as-you-earn (PAYE), skill development levy (SDL), and other withholding taxes.

3.2.3 Income Tax Act

Income Tax Act⁵⁵ makes provisions for the charge, assessment, and collection of

⁵²Cap 399 R.E 2019

⁵³ Section 5 of the Tanzania Revenue Authority Act, Cap 399 R.E 2019

⁵⁴Cap 399 R.E 2019

⁵⁵Cap 332 R.E 2019

income taxes to ascertain the chargeable income and the matter's incidental. The Act is among the legal frameworks that empower the Tanzania Revenue Authority to collect income tax in Tanzania. Income Tax Act⁵⁶ Empower TRA to enforce the rule that every individual liable to pay taxes in the United Republic of Tanzania must maintain all documents necessary to determine the tax payable. This law also provides for Withholding Tax (WHT) and Capital Gains Tax (CGT).

Part III of the Income Tax Act⁵⁷ it provides an income tax base whereby empowering and ruling on a person's total income shall be chargeable for the year of income. The taxable income includes employment income tax, business income tax, and investment income tax.

In addition, under this Part, the said law empowers TRA to exempt income from any income or class of income accrual in or desired from the United Republic of Tanzania.

Part VII of the Income Tax Act⁵⁸ it provides the tax payment procedures to be followed by Tanzania Revenue Authority staff once it performs its power and functions, such as making an assessment. Similarly, under this Part, the Act provides the types of tax income tax and payment methods. The types listed under this section are income taxed by employment, business and investment. On the other hand, the tax payment methods listed are withholding, assessment, or instalment.

⁵⁶Cap 332 R.E 2019

⁵⁷Cap 332 R.E 2019

⁵⁸Cap, 332 RE 2019

Furthermore, under this Part, the Act empowered the Tanzania Revenue Authority to control the time for payment of income tax. For income tax payable by withholding, the time for payment is seven days, and for income tax payable by instalment, the date of payment of the instalment is within the period of third, sixth, ninth, and twelve months.

Moreover, in the case of income tax payable as assessed on the date by which the return of income must be filed and paid within a year, the law empowered TRA to implement and enforce all of these duties.

3.3 The East Africa Community Protocol

3.3.1 The East Africa Community Protocol on Income Tax Collection

The East African Community (EAC) is the regional intergovernmental organisation of six partner states: the Republic of Burundi, Kenya, Rwanda, South Sudan, the United Republic of Tanzania and Uganda.⁵⁹ The East African Community member states are committed to integrating their economies by participating in various issues, including taxation (monetary union). The EAC countries have adopted a unitary system of government, with two levels of government, central and local, whereby all are authorised to levy income taxes within their jurisdiction.⁶⁰ All EAC member states levy income taxes such as income tax from business and income tax from investment at the national level.

In addition, the EAC member states have been trying to harmonise their tax systems to make tax policies similar within the EAC region. Their national tax system is

⁵⁹Rup, K., *The East African Tax System*, Mkuki na Nyota Publishers Ltd, Dar es Salaam, 2015

⁶⁰Rup, K., *The East African Tax System*, Mkuki na Nyota Publishers Ltd, Dar es Salaam, 2015

rationalised as these countries levy limited broad-based taxes, and there are no nuisance taxes, which is the central thrust of modern tax reform.

3.4 International Laws on Income Tax Collection

International taxation is the tax collection on a person or business subject to the tax laws of the different jurisdictions of an individual state's revenue legal framework, as the case may be.⁶¹ Usually, the states are limited to the scope of their taxation income in some jurisdictions or provide offsets to taxation relating to extraterritorial income. Generally, the limitation method is a territorial and residence base. Some countries have attempted to mitigate the different limitations of these broad systems by enacting a mixture system with characteristics of two or more.⁶²

Many governments tax individuals and enterprises on income. The taxation system varies widely, and there are no comprehensive general rules. The variation creates the potential for double taxation, which means that different states and no taxation tax some income, whereas many countries do not tax income.⁶³ With any taxation system, it is possible to characterise the income tax in a manner that reduces taxation. Jurisdictions often impose rules relating to shifting income among commonly controlled parties, often referred to as transfer pricing rules. The residency-based tax system is subject to taxpayer attempts to defer recognition of income through the use of related parties.⁶⁴ Agreements among the states often attempt to determine who

⁶¹www.incometaxindia.gov.in/pages/international-taxation.aspx accessed on 23/07/2017 at 12hrs

⁶²Penduka, G. (2015). *An Assessment of the Efficiency of Fiscalised Electronic Devices in Improving Revenue Collection in Selected Companies in Harare: The Case of Fiscal Electronic Registers*. Zimbabwe: Unpublished: Dissertation Submitted as Requirement of Master of Science Degree in Public Administration: University of Zimbabwe.

⁶³Davoodi, Hamid R., (2012), "The East Africa Community after Ten Years Deepening Integration".

⁶⁴Davoodi, Hamid R., (2012), "The East Africa Community after Ten Years Deepening Integration".

should be entitled to tax. Most tax treaties provide for at least a skeleton mechanism for resolving disputes between the parties.

3.5 Conclusion

One reason Tanzania has remained heavily dependent on aid for its development is its low domestic revenue collection. Various factors cause Tanzania to have low domestic revenue collection. The income tax laws are a small part of the reasons for the low domestic revenue collection. The challenge is in the practice of income tax collection. The laws are clear about what should be done, by whom and in which procedures.

The challenge that exists in the income tax legal framework is on the issue of language. The income tax laws are in English. However, using Kiswahili is Part of the budget process and tax administration. For example, the budget speech in parliament is presented in Kiswahili, as is the ensuing parliamentary debate. The widespread popular media report and discuss budget and tax matters in Kiswahili. The Tax Revenue Appeals Board proceedings are in Kiswahili and taxpayers' education. Many stakeholders, especially the private sector and civil society segment, present their positions on tax issues in Kiswahili. Nevertheless, the tax laws remain written in English.

CHAPTER FOUR

POLICY AND PRACTICE OF INCOME TAX COLLECTION

4.1 Introduction

The tax system is a broad term covering tax policy, practice of revenue collection and some other issues relating to income tax collection Tanzania. A sound tax system enables a country to strengthen domestic resource mobilisation, which raises adequate revenues. A properly designed tax system will promote inclusiveness, encourage investments (both foreign and domestic), encourage good governance, address income and wealth inequalities, and promote social justice. The lack of notable tax system challenges for most developing countries is due to the need for more straightforward, equitable, and transparent tax systems characterised by a narrow tax base.

4.2 Tax Policy

Usually, tax policy is developed by a country's Ministry for Finance and Economic Affairs.⁶⁵ As per the Tanzania Ministry of Finance and Economic Affairs, the government's tax policy is to increase domestic revenue collections faster than GDP growth to finance increased expenditure and reduce dependence on donor funding in the budget. The government is also committed to a taxation policy that does not hinder growth in business or investment. Also, have a taxation policy that is equitable and fair, has low compliance and administrative costs, and is as possible

⁶⁵Kitillya, H. M. (2011). *Tax administration reforms in Tanzania: experience and challenges*, presentation on the conference on revenue mobilisation in developing countries, IMF Fiscal Affairs Department, Washington, D.C., and April 17 – 19

simple.⁶⁶ Tanzania needs a specific policy to guide the imposition and administration of taxation. The Constitution provides a single condition for taxation, Article 138 (1).⁶⁷

"No tax of any kind shall be imposed save following a law enacted by Parliament or under a procedure lawfully prescribed and having the force of law under a law enacted by Parliament".

Government expenditure requirements guide tax revenue policies. Therefore, the revenue policy objectives are drafted from the perspective of a government wishing to ensure that the required revenue is obtained for its planned expenditure each year. For example, for the financial year 2022/23, a significant focus of the revenue policy is to raise the capacity of the tax administration to reduce tax evasion and to broaden the tax base through the formalization of a broader range of economic activities.⁶⁸

The objectives do not guide the maximum amount of total taxation an individual should pay, the number of those taxes (including income tax, levies, duties and fees payable in addition to individual or corporate taxation) or the desired maximum cost of tax compliance. Revenue policies are also framed with little consideration for the prevalent socio-economic environment, inflation, real wages, and household living standards. Similarly, there is no policy addressing what ought to be the total maximum level of penalties and interest for those who contravene the tax laws, among other such issues.

⁶⁶Kitillya, H. M. (2011). *Tax administration reforms in Tanzania: experience and challenges*, presentation on the conference on revenue mobilisation in developing countries, IMF Fiscal Affairs Department, Washington, D.C., and April 17 – 19

⁶⁷ Of the Constitution of the United Republic of Tanzania, 1977, as amended from time to time

⁶⁸ www.law.fsu.edu/faculty/publications/working-papers.phd

The absence of such a tax policy has left the door open for the government, local government authorities and other public agencies to introduce numerous taxes and levies. The introduction of many taxes and levies has been shown to lead to unforeseen consequences in some cases.

The Change Report (2013) found that increased excise duties led to lower consumption levels and, hence, lower tax collections in 2012/13.⁶⁹ Similarly, an increased skills and development levy (SDL) led some employers to evade or reduce employee numbers. A report released by the Ministry of Finance and Planning in early 2017 found that a total of 1,872 businesses in Dar es Salaam and Arusha closed between July and December 2016.⁷⁰ Taxation was cited as one of the probable reasons for this mass closure.

4.3 Practice in Income Tax Collection

Practically, in Tanzania, income tax liability begins with tax assessment. The power to issue assessments is given to the commissioner of income tax.⁷¹ In practice, however, tax officers issue tax assessments at much lower levels of seniority. In light of this general delegation, contesting a tax assessment only because it is signed by an officer other than the commissioner of income tax is pointless. In *Tanzania Breweries Limited vs The Commissioner General*,⁷² in this case, the counsel for the

⁶⁹ Alistides, C. (2019). Factors influencing taxpayers' voluntary compliance with the tax system in Tanzania's MBA Thesis. Mzumbe University, Dar es Salaam.

⁷⁰ [www.cambridge.org/no/academic/subjects/politics-international-relations/comparative-politics/taxation-and-state-building-developing-countries-capacity-and-consent?](http://www.cambridge.org/no/academic/subjects/politics-international-relations/comparative-politics/taxation-and-state-building-developing-countries-capacity-and-consent?Format) Format.

⁷¹ Section 3 and section 20 of the Tanzania Revenue Authority Act, Cap. 399 RE 2019

⁷² [2007]1TTLR104

taxpayer contested an assessment because it was not signed by the commissioner general as required by law. In deciding this point, the tax appeals board said that;

".....the said non-agreed assessment notice is also objected to by the appellant as having been signed by an unknown person, yet the law is unambiguous that it should be a competent person to do so. At this juncture, we have reviewed the law and found that the commissioner general should sign such a notice, as well as any other commissioners in TRA or another gazetted delegate of the commissioner general. On pursuing the said notice, we find that it was signed by the commissioner for a large taxpayers department, a person covered by the law."

When an assessment is issued, it must be served on the taxpayer, and this is done by hand delivery to the taxpayer's registered physical address or by mailing it to his postal address. More recently, TRA has started serving some assessments by email, especially when the entity assessed is non-resident or the entity address in Tanzania has yet to be discovered.

It is only when the assessment has been served on the taxpayer that the taxpayer is deemed to be informed of the tax liability confronting him. Therefore, there must be proof of service. How can TRA prove that the service is prescribed by law? An assessment is deemed to have been served if it is mailed to the taxpayer's address, if it is physically delivered to the taxpayer's address by being handed to the taxpayer, or if the taxpayer is an entity by being handed to an officer of the company or entity. When an income tax assessment is issued and served upon a taxpayer, the taxpayer must pay tax or a right to dispute the assessment.⁷³ The taxpayer who disputes any assessment made upon him may object to such assessment within 30 days from the day on which the assessment is made by notice in writing to the commissioner.

⁷³Section 12(1) of the Tax Revenue Appeals Act, Cap 408

4.4 Income Tax Structure

The income tax structure of a country refers to its income tax base and tax rates enforced through tax laws such as the Income Tax Act. A country's income tax structure depends mainly on its economic development, political establishment, macroeconomic, socio-economic, and fiscal and tax policies.⁷⁴ Some of the challenges facing Tanzania's tax system in terms of income tax structure include but are not limited to, a narrow tax base, corruption, political pressure, and overdependence on international trade taxes. The Tanzania mainland tax system is composed of four major categories of taxes: income taxes, Value-Added Tax, import duties, and excise duties.

4.5 Tax Administration

On the other hand, tax administration is geared towards overseeing the enforcement of established tax laws. In principle, the design of the tax system is usually impelled by the ability of tax administration to administer it. In Tanzania, Tax administration is done by the Tanzania Revenue Authority, which is a semi-autonomous executive agency under the Ministry of Finance that was established in July 1996. The authority must collect central taxes, including Income Tax, Value Added Tax, Import Duty and Excise Duty. Non-tax revenues are comprised of fees, levies, dividends, etc. and are collected by the Ministry of Finance and other Central Government Ministries.

⁷⁴Helen, B. K. (2021). *Watching the Watcher: Evaluating the Tanzania Revenue Authority in Its Administration of Tax*, Huria Journal, Vol 28(1), March 2021: 53-74

Countries with well-functioning tax administrations excel in mobilising domestic resources. The tax authority ensures that revenue collection targets are consistently met. It also ensures high-quality customer service to taxpayers with a focus on voluntary tax compliance and ensures tax laws are applied fairly. Thus, a weak tax administration is comprised of poorly trained and low-paid officials who are unfair and unable to consistently and objectively apply the income tax laws.⁷⁵ It also has structures that do not encourage an integrated approach to different taxes and are marked by poor service delivery, below-customer-expectation service, etc.

4.6 Tax Regime

Tanzania's tax regime includes several direct and indirect taxes, including income tax, Value-Added Tax, import duty, excise duty, and stamp duty.⁷⁶ There are also taxes levied at the local government level. The Tanzania Revenue Authority (TRA) administers all central government taxes.

The authority has three tax departments (Domestic Revenue, Customs and Excise, and Large Taxpayers) regarding all taxes). A Commissioner General heads TRA for tax collection and day-to-day administration. The Ministry of Finance oversees the tax policy.

Generally, Tanzania uses the self-assessment approach with a requirement to file a tax return at the end of the year. Tax payment is every quarter. The withholding tax arrangement applies to individuals deriving income solely from employment (PAYE)

⁷⁵Mzalendo, R., and Chimilila C, (2020) 'Tax administration, Taxpayer's Reciprocity and Compliance in Tanzania: Empirical Evidence from a Survey,' 8(2) African Journal of Economic Review, 276.

⁷⁶Kibuta, O. (2011). Tax Compliance in Tanzania: Analysis of Laws & Policy Affecting Voluntary Tax Payer Compliance, MkukinaNyota, Dar es Salaam.

and also to non-resident taxpayers with Tanzania source income.⁷⁷ VAT is accounted for monthly. Here are some of the taxes administered under the taxation system in Tanzania.

4.7 Income Tax Payment Methods

Tax payment methods include withholding, instalment, and assessment. Generally, every person must pay tax in instalments and assessments.

4.7.1 Withholding Tax Payment

Withholding tax payment is the amount of tax retained by one person when making payments to another person regarding goods supplied or services rendered by the payee—a person receiving or entitled to receive a payment from which income tax must be withheld a withholder. In contrast, a person required to withhold income in tax from a payment made to a withholder is referred to as the withholding agent.

Withholding tax payment applies to specific payments including payment that is to be included in calculating the chargeable income of an employee from the employment, payment of investment, return including dividend, interest, natural resource payment, rent or royalty, payment in respect to service fee and contract payments and payment in respect to supply of goods to the government and its institutions.

The law has divided withholding taxes into two significant categories: final withholding taxes and non-final withholding taxes. Final withholding taxes are taxes

⁷⁷ Section 83 of the Income Tax Act, Cap 332 R.E 2019

in which the withholder cannot claim a tax credit when calculating the income tax payable for a year of income. In contrast, non-final withholding taxes are taxes to which the withholder is entitled to a tax credit, equal to the tax treated as paid for the year of income in which the amount is derived.⁷⁸ Every withholding agent shall pay the commissioner any income tax that has been withheld within seven days after the end of each calendar month.

4.7.2 Instalment Tax Payment

Instalment tax is estimated income tax paid to TRA periodically in anticipation of the tax payable for a year of income. It is a form of advance tax administered under the Income Tax Act.⁷⁹ Instalment tax is paid in advance in four equal instalments. For example, for taxpayers whose accounting periods end on 30 December, the instalment is due by the end of March, June, September, and December.

4.7.3 Assessment Tax Payment

Assessment tax payment is either jeopardy assessed or adjusted assessed. Jeopardy assessed tax is payable on the date specified on the notice of assessment, while adjusted assessed tax is payable within 30 days from the assessment's service date.⁸⁰ Assessment tax payment occurs when the taxpayer needs to make a self-assessment or make an incorrect assessment.

⁷⁸Section 86 of the Income Tax Act, Cap 332 R.E 2019

⁷⁹Cap. 332 R.E 2019

⁸⁰<http://www.tra.go.tz>

4.8 Tax Dispute

The laws governing the tax dispute resolution system in Tanzania are the Tax Revenue Appeals Act⁸¹ and the Tax Administration Act.⁸²

The Tax Revenue Appeals Act consolidated tax dispute resolution under a single law and removed the right of the tax administration to adjudicate tax disputes. It provides for a dispute resolution system entirely independent of the TRA. This law's main objective was to raise taxpayers' confidence in the tax administration system and encourage voluntary tax compliance.

The Tax Revenue Appeals Act formed the basis for establishing the Tax Revenue Appeals Board (TRAB) and the Tax Revenue Appeals Tribunal (TRAT), whose decisions have similar authority to that of a court of law.⁸³ The law provides for the Board (TRAB) to be the sole adjudicator of all civil tax disputes. A decision of the Board is appealable only at the Tribunal (TRAT), and the Tribunal's decisions are appealable at the Court of Appeal. TRAB and TRAT are entities under the Ministry of Finance independent of the tax authority (TRA).⁸⁴ Notably, the Act prescribes a simple dispute hearings procedure and keeps legal technical requirements to a minimum. The law intended to allow for the speedy hearing and resolution of tax disputes.⁸⁵

⁸¹Cap, 408 R.E 2019

⁸²Cap, 438 R.E 2019

⁸³Kibuta, O. (2015). Tax Dispute Resolution, MkukinaNyota Publishers Ltd, Dar es Salaam.

⁸⁴Kibuta, O. (2015). Tax Dispute Resolution, MkukinaNyota Publishers Ltd, Dar es Salaam.

⁸⁵Kibuta, O. (2015). Tax Dispute Resolution, MkukinaNyota Publishers Ltd, Dar es Salaam.

However, the Tax Administration Act⁸⁶ introduced a requirement for a compulsory administrative review of taxpayers' objections by TRA before they can be appealed at TRAB. This change in the law has raised concerns among taxpayers that the autonomy of the tax dispute resolution system has been compromised, as taxpayers can only now seek an independent judicial review with the approval of the taxation authority.

4.9 Limitations in the Tax Dispute Resolution System

The present tax appeals system has severe limitations. A taxpayer disputing a tax assessment must first pay 1/3rd of the tax in dispute before the TRA accepts the objection for the administrative review stage.⁸⁷ This provision prevents taxpayers from objecting solely to delay their tax payments. However, the required payment is a significant obstacle to taxpayers with genuine objections to their assessments, especially when the amount in dispute is large. Taxpayers often find it difficult to pay the 1/3rd amount, and if TRA does not grant a waiver, they must undergo a costly and time-consuming legal appeal at TRAB to get a waiver.⁸⁸

Taxpayers are also concerned that their TRA administrative review may be conducted by the same person who issued the assessment rather than a different person or group within TRA. Ideally, a separate department within TRA should process administrative reviews.

⁸⁶Cap, 438 R.E 2019

⁸⁷Section 51(5) of the Tax Administration Act, R.E 2019

⁸⁸Kibuta, O. (2015). Tax Dispute Resolution, MkukinaNyota Publishers Ltd, Dar es Salaam.

There are also time limits within which a taxpayer must object to a tax assessment or decision. However, similar time limits are not imposed on the tax authority, which can sit on an objection long without reaching a decision. There have been instances where TRA has taken longer than six months to respond to an objection.⁸⁹ Such delays can be frustrating, especially for a smaller taxpayer with limited resources to follow up on tax issues. The proceedings at the Appeals Board and Tribunal are judicial. However, the proceedings are not bound by the rules of evidence and the Civil Procedure Code.⁹⁰ The TRAB or TRAT have the authority to seek and account for any information they see fit to expedite the determination of an appeal.

However, despite the intentions of the Tax Revenue Appeals Act, proceedings at TRAB and TRAT have become mired in excessive legal technicalities. Legal technicalities present obstacles to taxpayers (especially small taxpayers) who may be forced to hire lawyers to assist in resolving their tax issues. There are many instances when a tax appeal at TRAB fails due to improper adherence to legal and technical requirements rather than the substantive tax issue that gave rise to the appeal in the first place.⁹¹

The chairperson, TRAB, and TRAT panel members should be conversant in taxation, law, commercial, and financial matters.⁹² However, some key informants felt that there have been instances where the members have not been adequately knowledgeable on taxation and business matters. It poses difficulties for taxpayers seeking a fair hearing. The practice is for the chairperson and vice-chairpersons to

⁸⁹Kibuta, O. (2015). Tax Dispute Resolution, MkukinaNyota Publishers Ltd, Dar es Salaam.

⁹⁰ Cap, 33 R.E 2019

⁹¹Kibuta, O. (2015). Tax Dispute Resolution, MkukinaNyota Publishers Ltd, Dar es Salaam.

⁹²Kibuta, O. (2025). Tax Dispute Resolution, MkukinaNyota Publishers Ltd, Dar es Salaam.

be appointed from the judiciary with at least a minimum rank of a resident magistrate, regardless of their level of business or taxation experience. Previously, private-sector trade associations appointed panel members from the private sector. However, this is no longer the case. The Ministry of Finance now decides the panel membership.

Access to the TRAB, especially for small taxpayers, is difficult. The TRAB registry is based in Dar es Salaam, and the Board conducts most of its hearings there. Although the TRAB has board members in every region of the country, tax appeals may only be registered in Dar es Salaam. Hearings in the regions are subject to the availability of funds and the availability of the chairperson or vice chairperson based in Dar es Salaam. There have been many instances in which tax appeals in the regions have been delayed. Sometimes, taxpayers in the regions request their tax appeals to be heard in Dar es Salaam to expedite the process.⁹³ However, this implies additional costs to the taxpayer.

There is an urgent need to review the tax dispute resolution system to make it simple, efficient, fair, and easy to access for all taxpayers in all parts of the country. TRA embarked on a pilot Taxpayers' Advocate Service (TAS) project in 2014 to test a simple tax dispute resolution system in the Manyara region. However, more information is needed on the progress made to date.⁹⁴

⁹³Kibuta, O. (2015). *Tax Dispute Resolution*, MkukinaNyota Publishers Ltd, Dar es Salaam.

⁹⁴Mmasi, J. (2018). *Impact of mobile system on improving tax revenue and compliance in Tanzania*, Master's thesis. Mzumbe University, Dar es Salaam

4.10 Conclusion

Generally, the Tanzanian tax system requires review in some aspects, such as tax policy, practice on income tax collection, and dispute resolution. Tanzania needs a specific policy to guide the imposition and administration of taxation. Tax revenue policies are frequently changing and guided by government expenditure requirements. The revenue policy objectives are, therefore, drafted from the perspective of a government wishing to ensure that the required revenue is obtained for its planned expenditure each year. This is not nice for developing countries, including Tanzania. The lack of specific policy causes the amendment's changes and a tax base. On the other hand, income tax liability begins with a tax assessment. The law requires self-assessment. Nevertheless, in practice, the assessment was conducted by an authority in jeopardy or an adjusted assessment, which usually creates the conflict as a tax assessment objection.

The laws allow taxpayers aggrieved by a tax assessment made to be legally given an avenue to object to the tax assessment in question within 30 days from the date of service of the tax assessment vis-à-vis the requirement within.⁹⁵ A taxpayer disputing a tax assessment must first pay 1/3rd of the tax in dispute before the TRA accepts the objection for the administrative review stage. Where a taxpayer fails to pay the amount stated within the time, the assessed tax decision shall be confirmed as a final tax assessment. However, these requirements are considered a setback to the taxpayer's right to challenge a tax assessment. The in Tanzania should be amended to provide for factors which are to be considered by the commissioner in deciding on

⁹⁵ Section 51(1) of The Tax Administration Act Cap 438 [RE:2019]

requests for waiver of payment of one-third of the assessed tax. An amendment of the law led to further complexity and curtailment of access to justice on the part of taxpayers. It is high time for policy and legislative reforms to meet the ends of justice for taxpayers concerning the impugned principle of pay now argued later.

CHAPTER FIVE

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

5.1 Introduction

This chapter contains the research results and outcomes. The discussion relates to the work's title, objectives, and research questions. The analysis similarly draws on theoretical attitudes and experimental studies to review associated existing tax laws, practices, case laws, and data obtained.

5.2 Data Presentation

The data obtained during the study, mainly through interviews with respondents from TRA businesses, are the basis of this research's findings. The emphasis is on TRA staff and income taxpayers. The researcher examined the income tax legal framework and its practices, pointing out and critically examining the challenges facing TRA in income tax collection in Tanzania.

Then, the researcher goes further to find out the taxation system in Tanzania, finding that the researcher has to have the following views:

5.2.1 Income Tax Legal Framework in Tanzania

That, 22 out of 30 surveyed respondents reported about the availability of *tax exemptions under the income tax legal framework in Tanzania*, which does not benefit the country but those who authorise them, resulting in tax evasion among taxpayers. Respondents added that the main reason for the tax exemption provision is the need to attract investments, especially foreign direct investments. However,

the government recognises that this has resulted in a considerable loss of revenues severely needed for service delivery. According to the speech of the minister for finance during the 2013/14 budget speech, tax exemptions amounted to 4.3% of the GDP, and the target in the medium term is to reduce them to 1%.⁹⁶

However, 18 respondents argued for the availability of *multiple income tax laws* for income tax collection, which resulted into double taxation. For example, the company is taxed as a business entity and each shareholder's personal income is also taxed. Tanzania has more than 25 tax laws, which including but not limit the Income Tax Act,⁹⁷ the Value Added Tax Act,⁹⁸ the Port Service Charges Act,⁹⁹ the Road and Fuel Toll Act¹⁰⁰ which regarding income tax issues in Tanzania. Those laws lead double taxation as well as nuisances and inconveniences to the taxpayers.

Moreover, 27 out of 30 surveyed respondents discussed the *availability of the obstacle or requirement(s) for lodging tax assessment objections*. The respondents argued that the law requires taxpayers aggrieved by a tax assessment to pay one-third of the tax in dispute before the acceptance of an objection by the TRA for the administrative review stage. For example, from January, 2022 to March, 2022 a total of 164 tax assessment objections does not accepted by TRA for lack of paying one-third of the in dispute.¹⁰¹ Where he/she fails to pay the amount stated within the time frame, the confirmation of the assessed tax decision shall be a final assessment.

⁹⁶Speech by the minister for finance, William Mgemwa, during the 2013/14 budget speech while introducing to the national assembly the estimate of government revenue and expenditure for the fiscal year 2013/14

⁹⁷Cap, 332 R.E 2019

⁹⁸Cap, 148 R.E 2019

⁹⁹Cap, 263 R.E 2019

¹⁰⁰Cap, 220 R.E 2019

¹⁰¹ Manager of Kariakoo Tax Region interviewed on 08 March, 2022

Further, respondents added that this requirement is a setback on the part of taxpayers' right to challenge a tax assessment.

5.2.2 The Practice on Income Tax Collection

The manager of Kariakoo Tax Region providing a route of the entire procedure upon the income tax collection. That, the starting point of the income tax collection in Tanzania is tax assessment. Practically, it is starting by TRA to notify the taxpayer the amount of tax determined.¹⁰² An assessment being with the calling of returns of income, the determination of income assessable to tax, computation of the tax payable thereon and the imposition of the charge of tax on the income assessed.

Legally, the tax assessment should be made by the taxpayer himself by way of self-assessment, but in practice, the assessment is made by the commissioner general.¹⁰³ There are about three main types of assessments which can be made on income tax collection. These are self-assessment, jeopardy assessment and adjusted assessment.¹⁰⁴

Self-Assessment

Self-assessments of revenue are the balance tax that a taxpayer has to pay on the income that has been assessed himself. This is the first kind of assessment that should be done before jeopardy as well as adjusted assessment. Under this kind, permit any individual who liable to pay taxes to the government against any kind of income earned or any losses incurred by him for a particular assessment period. The

¹⁰²Kibuta, O. (2015) Tax Dispute Resolution, MkukinaNyota Publishers Ltd, Dar es salaam p. 27

¹⁰³ Manager of Kariakoo Tax Region interviewed on 08 March, 2022

¹⁰⁴Luoga, F. (2000) A Sourcebook of Income Tax law in Tanzania, Dar es salaam University Press, Dar es salaam p. 205

self-assessment system applies where a taxpayer determines his own tax liability and pays the tax on specified due dates.

The purpose of a self-assessment is to help an individual know the extent of their abilities and to improve upon them. The taxpayer makes upon his/her taxable income and discloses on the annual return file to the income tax office.¹⁰⁵ From January, 2022 to March 2022, a total of 892 taxpayers submitted their tax assessment to the Tanzania revenue authority at Kariakoo Tax Region.¹⁰⁶ The deadline for filing the return is also the deadline for paying tax in accordance with self-assessed final tax.

Jeopardy Assessment

A jeopardy assessment is a special tax liability that the commissioner general shall serve a written notice of the assessment of the person. The commissioner general empowers to make a jeopardy assessment where no tax return has been filed and the taxpayer is about to cease business, leave the country or become bankrupt.¹⁰⁷ January, 2022 to March 2022, a total of 8,370 TRA serve a written notice of the jeopardy assessment to a total of 78 taxpayers who cease the business.¹⁰⁸ Legally, this type of assessment should be used where no tax return has been filed, but in practice TRA serve a written notice of the jeopardy assessment without regarding the requirement. A jeopardy assessment applies to a closed tax year or tax period where the due date for filing a return has expired.

¹⁰⁵ Section 94 of the Income Tax Act, Cap 332, RE 2019.

¹⁰⁶ Manager of Kariakoo Tax Region interviewed on 08 March, 2022

¹⁰⁷ Section 95 of the Income Tax Act, Cap. 332, RE: 2019.

¹⁰⁸ Manager of Kariakoo Tax Region interviewed on 08 March, 2022

Adjusted Assessment

The commissioner has the authority to change a self-assessment or jeopardy assessment in order to alter the assessed person's tax liability. Adjusted assessment of revenue is made when the revenue computed by the taxpayer in the self-assessment is unreliable and an adjustment is required to arrive at the correct revenue.¹⁰⁹ Commissioner general have power to make adjustment on an assessment made under self-assessment or jeopardy assessment so as to adjust the taxpayers liability in such manner as according to the commissioner's best judgement and information reasonably available.¹¹⁰ That, January, 2022 to March 2022, a total of 243 adjusted assessments are issued by commissioner general of Tanzania revenue authority at Kariakoo Tax Region.¹¹¹

Generally, once the taxpayer identifies the tax liability, he/she must pay either by assessment for businessman, withholding for employee or instalment for investors. When he/she fails to pay within the time, he will have committed an offence.

5.2.3 Challenges Facing TRA on Income Tax Collection in Tanzania

However, 27 out of 30 surveyed respondents argued for the availability of *political pressure* on income tax collection, which results in tax evasion among taxpayers. There is political pressure to extract more unduly and illegally for the benefit of particular interests or purposes, such as beefing up the president's discretionary accounts or boosting the ruling party.

¹⁰⁹Section 96 of the Income Tax Act, Cap. 332 RE: 2019.

¹¹⁰Section 96 of the Income Tax Act, Cap. 332 RE: 2019

¹¹¹ Manager of Kariakoo Tax Region interviewed on 08 March, 2022

In 2021, the President of the United Republic of Tanzania, Dr Samia Suluhu Hassan, whereas swearing in some of new appointed Ministers in Dodoma, explained that the businessmen with a capital of less than five million should not be taxed.¹¹² The President's statement has given challenge to the revenue authorities in tax collection since every businessman declared his capital is less than five million.

Further, 29 surveyed respondents argued that *corruption* is among the challenges facing TRA in income tax collection. Tax and revenue collection is an area open to damaging corruption. Tax revenue opens up the opportunity to take bribes and embezzle funds. Private businesses and individual taxpayers may corruptly influence officials to evade tax obligations and save large sums of money. Collusion between tax collectors and taxpayers can be highly profitable for both parties. However, no matter who gains more, corruption in taxation always leads to reduced public services for most of the population.

On 10 June, 2019 three (3) assistant officer from Kariakoo Tax Region and two Police Officers were brought before the court (Kisutu Resident Magistrate Court) to answer the allegation of asking for a bribe of two million shillings to the businessman of Kariakoo Ramadhani Ntunzwe.¹¹³

On the other hand, 28 surveyed respondents argued for the obtain ability of *tax evasion and avoidance* in income tax collection in Tanzania. The taxpayers make an arrangement intended to reduce their tax liability, and although the arrangement could be strictly legal. The performance report of the PCCB for 2021–2022, issued

¹¹² Manager of Kariakoo Tax Region interviewed on 08 March, 2022

¹¹³ Legal officer of Kariakoo Tax Region interviewed on 04 March, 2022

on March 29, 2023, the PCCB indicated a saving of TSH 14.6 billion in 2021–2022. Out of those funds, TSH 8.4 billion resulted from tax evasion.

In addition, 12 surveyed respondents reported on the issue of the challenge of *tax assessment objections*. Nowadays, tax assessment objection is like a fashion; many taxpayers object to the assessment done by TRA for various grounds, which leads an authority to delay income collection. That, from January 2022 to March 2022 a total of 62 tax assessment objections were filed by taxpayer at Kariakoo Tax Region to challenge the assessed tax.¹¹⁴

However, 15 surveyed respondents argued that taxpayers face the challenge of *non-voluntary tax compliance*. Tax compliance is a significant problem for many tax authorities, and it is not easy to persuade taxpayers to comply with tax requirements, even though tax laws are only sometimes precise. Tax compliance could be better because people have low trust in government legitimacy, efficiency, and policies.

Generally, the results showed that 16 surveyed respondents reported the accessibility of *weak administrative capacity* to assess the income tax and then to enforce revenue laws and by-laws, something that necessitates competent human resources which could be enriched through tax management training and expediting tax decision making and rulings to enhance tax collection among taxpayers in order to eradicate low tax compliance and achieve higher revenue targets in comparison with the tax base. A good tax administration enables a country to strengthen domestic resource

¹¹⁴ Manager of Kariakoo Tax Region interviewed on 08 March, 2022

mobilization which in turn leads to raising adequate revenues.¹¹⁵ Further, a properly designed tax administration will promote inclusiveness, encourage investment, encourage good governance, address income and wealth inequalities as well as promote social justice.

On the other hand, the frequently changing assessments by tax officers present another challenge on the taxpayer's side. That, 12 a telephone businessmen in Kariakoo Tax Region, complained about being repeatedly defrauded of tax assessment by TRA officers to the Finance Minister Dr Mwigulu Mchemba when he visited to listen to the businessmen's concern. It is common for a taxpayer to receive an exaggerated assessment, which, when queried by the taxpayer, is reduced by the same tax assessor to a smaller amount. Such reversals of assessments usually come without any explanation. It is important to note that exaggerated assessments and subsequent reversals commonly occur during tax audits but must still be fully recorded in the audit minutes. The tax audit process can be lengthy (taking even a few months), frustrating for the taxpayer and may involve more than one revision to the exaggerated assessment. The law has no provisions regarding the maximum duration of a tax audit.

Moreover, 24 out of 30 surveyed respondents reported the availability of *tax exemptions* that do not benefit the country, compared to those who authorise them, resulting in tax evasion among taxpayers. The main reason for the tax exemption provision is the need to attract investments, especially foreign direct investments.

¹¹⁵Jayawardane, D. (2015). Psychological Factors Affect Tax Compliance review paper. *International Journal of Arts and Commerce*, Vol.4, No.6, 131-141.

Tax exemptions in Tanzania have reached exorbitant heights, and the government recognises that they result in significant losses of revenues that are severely needed for service delivery. According to the speech of the minister for finance during the 2013/14 budget speech, tax exemptions amounted to 4.3% of the GDP, and the target in the medium term is to reduce them to 1%.¹¹⁶ Thus, the respondents proposed to amend the tax exemption in Tanzania.

However, 8 respondents reported *a poor perception of income tax collection* as among the challenges facing TRA on income tax collection in Tanzania. That high expense of taxation is a worry for taxpayers. A number of individuals in Tanzania think that the expense of tax administration is excessive compared to revenue returns. Additionally, the public expresses dissatisfaction with the lifestyles of the tax officers and the Tanzania Revenue Authority as an institution, both of which are supported by tax-paying citizens.

The results mainly showed that 25 out of 30 surveyed respondents argued for the availability of *resistance to EFD machines*. Resistance to the use of EFD has been, in part, a widespread perception that the tax system is inflexible to the realities faced by smaller traders. The issue became public prominence in 2014 when a group of traders in Kariakoo, Dar es Salaam's main commercial area, protested their compulsory use. They claimed that while EFDs capture their sales records, the traders often need proper import documentation showing the actual cost of imported goods. Such documentation is necessary for traders to offset the costs of goods

¹¹⁶Speech by the Minister for Finance, William Mgemwa, during the 2013/14 budget speech whilst introducing to the National Assembly the estimate of government revenue and expenditure for the fiscal year 2013/14

against profit. Some large importers, from whom the traders purchase their goods, evade paying proper import (customs) taxes and do not provide proper documentation to traders. On May 22, 2023, Kariakoo businessmen while speaking to the Prime Minister Majaliwa Kassim Majaliwa explained that, the uses of EFD machines it is not the right way to control income tax collection, the right way is to ensure that the collected income tax goes to the government account.

Further, 28 respondents reported the challenge of *the narrow tax base* and suggested broadening the tax base to include the informal sector in the tax net, which has yet to be thoroughly researched and decided. Hence, it would address stakeholders' expectations by exercising various statutory powers fairly and following the law without political interference while delivering prompt and quality service to the public.

On the other hand, 80% of domestic tax revenue is collected from 400 large taxpayers. The remaining bulk of taxpayers contribute just 20%. There is an urgent need to widen the tax revenue base. Therefore, it is necessary to review the tax laws to make them more suitable for compliance by the large number of local taxpayers who earn lower incomes, have low or no accounting skills, and are located in geographically diverse and sometimes difficult-to-access areas.

Yet, 9 surveyed respondents reported *needing more essential tax documents*, among the challenges facing TRA on income tax collection. Maintenance of documents for tax purposes is a severe challenge to many taxpayers. Many stakeholders in the informal sector need more skills and education to maintain proper records. Furthermore, the physical circumstances under which many MSMEs operate make it

very difficult to produce and keep records. On the other hand, many MSMEs and informal enterprises need proper receipts from their suppliers. In the absence of proper purchase receipts, these enterprises are discouraged from keeping proper sales records for fear of being excessively taxed in the absence of proof of purchases.

5.3 Data Analysis and Discussion of Findings

The research findings are based on the questions the researcher posed to investigate the research problem in depth. It is from these research questionnaires that the various data collection tools were designed to collect the data in the field, the major ones in this research being the questionnaire and interview guide. The findings, apart from the primary data, also involved secondary data captured from different literature relevant to the problem depicted by the study. The following are the research findings and the data analysis of an evaluation of the challenges facing TRA in income tax collection in Tanzania. Here are the findings of this research:

5.4 Conclusion

The findings of this study demonstrate how widely spread the challenges facing TRA on income tax collection are. The summary of the findings signifies the achievement of the general objective and specific objectives. The study's general objective is to make an evaluation of the challenges facing the Tanzania Revenue Authority on income tax collection in Tanzania, a Kariakoo Tax Region case study. Specifically, the study effort is to identify the legal framework of income tax collection, practice on income tax collection and the challenges facing TRA on income tax collection in Tanzania. The research has reviewed income tax legal framework and found that the

laws is not a major part of the challenge facing TRA on income tax collection in Tanzania.

In addition, research has revealed that, TRA does not properly comply with the income tax legal framework in implementation of their duties and responsibilities especially on the issue of tax assessment. Several challenges, including narrow tax bases, tax evasion, corruption and political pressure, have significantly impacted Tanzania's ability to collect income taxes. The fact that there are many instances of corruption and tax evasion from taxpayers in Tanzania should worry the government and the tax administration.

CHAPTER SIX

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This chapter presented summary of the research findings, conclusion and recommendation made from the findings and finally suggestion for further research. The summary of the findings was based on the specific objectives of the study.

6.2 Summary of Findings

The research was governed by three specific objectives. The first specific objective is to identify the income tax collection legal framework in Tanzania. The research finding demonstrated that the income tax legal framework in Tanzania is not the main challenges facing TRA on income tax collection in Tanzania. The income collection legal frameworks are sufficient in defining the duties and responsibilities of tax administration. The problem is for the tax administration failure to properly manage the implementation of relevant laws.

On other hand, the presence of a law that provides tax exemption for the criterion of attracting investors somehow has been found to be part of the challenge facing TRA on income tax collection in Tanzania. That, some of taxpayers give excuses that their products are exempts from tax.

The second specific objective is to explore TRA practice on income tax collection in Tanzania. The research finding demonstrated that the Tanzania revenue authority are the ones who start making tax assessment for taxpayers instead of taxpayers starting to make self-assessment as the law requires. This situation leads to the presence of

tax assessment objections claiming the assessment are not in line with the reality of their business. January, 2022 to March 2022, a total of 892 taxpayers submitted their tax assessment to the Tanzania revenue authority at Kariakoo Tax Region.¹¹⁷ The study further showed that, there is a tendency of some TRA staff to submit large assessment to the taxpayers in order to influence personal communication with the aim of accepting bribes. January, 2022 to March 2022 a total of 3 TRA staff they have been suspended from work to pass the investigation of suspicious of soliciting bribes.¹¹⁸

The third specific objective is to ascertain the challenges facing TRA on income tax collection in Tanzania. The research finding demonstrated that biggest challenges facing TRA on income tax collection in Tanzania are include corruption, tax assessment objection, and resistance on uses of EFD machines, tax evasion, tax avoidance, a narrow tax base, excessive tax exemption and political pressure.

The study further showed that, lack of essential tax documents, poor perception of income tax collection, weak administrative capacity and non-voluntary tax compliance are among the challenges facing TRA on income tax collection in Tanzania. That, most of these challenges are the product of the lack of morals and responsibility of the employees of the Tanzania revenue authority. The authority fails to manage the income tax laws properly, control the loopholes of corruption and tax evasion and hire honest employees.

¹¹⁷ Manager of Kariakoo Tax Region interviewed on 08 March, 2022

¹¹⁸ Legal officer of Kariakoo Tax Region interviewed on 04 March, 2022

6.3 Conclusion

This study evaluated the challenges facing TRA in income tax collection in Tanzania: the case of the Kariakoo Tax Region. To increase capital, which enabled the beginning of this study, the researcher made clear that income tax collection aims to increase the government's ability to fund public services, pay government obligations, and provide goods for citizens. However, things operate differently than provided in the budget or government goals. Against this background, the researcher conducted a study on the subject matter.

The results of this study demonstrate how widely dispersed the challenges confronting the Tanzania Revenue Authority's income tax collection are. The findings' summary signifies the achievement of the research's major and particular goals. The study's general objective is to evaluate the challenges facing the Tanzania Revenue Authority on income tax collection in Tanzania, Kariakoo Tax Region case study. Specifically, the study wanted to identify the legal framework for income tax collection, practice on income tax collection and the challenges facing income tax collection. Several challenges, including narrow tax bases, tax evasion, corruption and political pressure, have significantly impacted Tanzania's ability to collect income taxes. The fact that there are many instances of corruption and tax evasion from taxpayers in Tanzania should worry the government and the tax system.

The challenges faced by the Tanzania Revenue Authority (TRA) on income tax collection can be attributed to some tax factors, including a lack of employee motivation, skill and expertise in some of the tax areas, different means of determining tax bases, and tax payment sensitisation. There are better ways to solve

the problems than Tax payment sensitisation since some individuals would still try to avoid paying taxes even if they were aware of the benefits. As a result, the fundamental problem should entirely lie in just and comprehensive tax legislation. The three components, rooted in the taxation canons, must be reflected in a noble tax system.

First, income taxes aim to raise revenue for the public service, where the cost of collection and administration should not exceed 5% of the revenue collected. Second, people must pay according to their ability, and the last tax should not be discriminatory in any aspect, where all taxpayers bear a proportionally equal burden in taxes.¹¹⁹ The strongest means to advance income tax collection in Tanzania are accountability and transparency of public funds, heavy punishment, a sufficiency of the taxation system, and the quality of service in return for taxes.

Lastly, records for taxpayers and tax management at all stages of the rule would be punctually onscreen to ensure that the statistics storing processing and recovery scheme is well-organised.¹²⁰

6.4 Recommendations

Based on the findings the following recommendation were made; the study recommends that management of Kariakoo Tax Region should come up with effective stringent to ensure that they properly manage income tax collection laws in order to further curtail tax evasion, tax exemption, tax avoidance and corruption. Tax

¹¹⁹ Simon, O. (2016) Equality before the law; presidential tax liabilities; effects of exemptions on voluntary compliance, LLM Dissertation, The Open University of Tanzania, Dar es Salaam.

¹²⁰ Rup, K.,(2015), The East African Tax System, Mkukina Nyota Publishers Ltd., Dar es Salaam, p. 65.

administration strategies should be based on the analysis of the performance of the existing strategies such adoption of automated systems, progressive laws implementation and tax rates harmonization in order to increase tax compliance and income tax collection. TRA should enhance those enforcement rules that have worked and revise to compliance enforcement measured that are ineffective.

The study further recommended that the management of TRA to take strict action against the TRA Staffs and taxpayers who will be found to be involved in acts of violation of income tax legal framework. There is also a need for the government to send a bill to amend the tax law to remove the tax exemption that has been seen as a part of the obstacle for TRA and the country at all.

Lastly, it is recommended that the management of TRA continues its advocacy for inclusion of tax education in education institution to help nurture a generation that understand it is their mandate to pay taxes since government rely on these taxes to deliver service to the public. This will create early awareness on civil duty of paying taxes with in turn will improve income tax collection.

6.5 Suggestion for Further Research

The study focused on an evaluation of the challenges facing TRA on income tax collection in Tanzania. Therefore, further study should identify other aspects of tax administration and test their effect on tax revenue collection. The study suggests further research should assess the level of adoption of use of power systems of tax collection among taxpayers and influence on tax compliance. This will bridge the

knowledge gaps on the administration strategy to formulate strategies to address the area of concern of taxpayers hence increasing tax revenue collected.

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APPENDICES**APPENDICES I. QUESTIONNAIRE LETTER**

Dear Respondents,

RE: QUESTIONNAIRE AND INTERVIEW TO THE RESPONDENTS

Reference is made to the above-captioned matter.

This questionnaire intends to capture data concerning the complexities of income tax collection. This study was selected at the Kariakoo Tax Region.

The Open University of Tanzania at Kinondoni Centre student conducts research as part of his Master's Degree Dissertation. Relevant information obtained shall be used for academic purposes only. You are therefore requested to fill out the above questionnaire carefully to enable the student to reach the intended objective.

Please tick/circle for your choice or write on the provided black spaces.

APPENDICES II CLOSED QUESTIONNAIRES**A: Information of the Respondents****1. Gender of the taxpayers**Male Female **2. Oldness of respondents**20-40 41-50 51 and above **3. Respondent's Education**Primary School level Secondary School level Certificate Level Degree and above level **4. Business Category**Agricultural productions Automobile Building materials Domestic materials Electronics

- Pharmaceutical Co
- Telephones
- Textiles

5. Working Experience

- 0-2
- 3-6
- 7-11
- 12-16
- 17-21
- 22 and above

6. Respondent's Profession

- Auditor
- Chequer
- Tax skilled

Others; satisfy stipulate.....

7. Nature of Taxpayer's commercial

- Huge commercial
- Minor commercial
- Personal Commercial

Additional; please require.....

B: Respondents' awareness of revenue and its challenges

1. Are you conscious of the term income tax?

Sure

Not at all

I do not know about taxation

2. Have you ever paid income tax?

Not at all

Sure

3. Which kind of income tax do you pay?

Employment income tax

Businesses income tax

Investment income tax

4. You involuntarily pay income tax?

Yes

No

5. How frequent are the tax officer's visits to your business locations?

Frequently

Occasionally

6. Are corruption and political pressure the challenges facing TRA in income tax collection?

- Strongly approve
- I Decide
- I Disagree
- I Strongly Disagree

7. Are the absence of tax information and excessive application of exemption the challenges facing TRA on income tax collection?

- I strongly agree
- I agree
- I disagree
- I strongly disagree

8. Is a low level of tax compliance the challenge facing TRA on income tax collection?

- I strongly agree
- I agree
- I disagree
- I strongly disagree

9. Do you agree that tax evasion and the low number of registered taxpayers are the challenges facing TRA on income tax collection?

- I strongly agree
- I agree
- I disagree

I strongly disagree

I am not certain

10. Do you agree that the challenges facing TRA in income tax collection are due to a lack of competent revenue collection staff?

I strongly agree

I agree

I disagree

I strongly disagree

I am not certain

C: Tax system and policies

1. What do you think about the tax rates applied?

Decent

Rational

Very high

2. Are the staff actions working by TRA sufficient in managing income tax gathering in Country?

I do not know

Yes

No

3. Does the income tax legal framework in Tanzania, Regulations, Policies, and systems influence the challenges facing TRA in income tax collection?

Strongly agree

Agree

Disagree

Strongly disagree

Not certain

APPENDICES III: OPEN QUESTIONNAIRES

You are being requested to contribute your expertise and understanding of the subject as one of the respondents to the research. You can be sure that the data will be handled discreetly and used solely for scholarly reasons. This interview aims to gather data to evaluate the challenges facing the Tanzania Revenue Authority (TRA) in Tanzania.

1. Do you comprehend anything about the legal framework for income tax collection?

.....
.....

2. Clarify the tax system in Tanzania.

.....

3. What are the challenges facing TRA on income tax collection?

.....
.....

Thank you for your cooperation

Be blessed

Kinondoni Regional Centre
The Open University of
P.O. Box 13224,
Tel: 255-51-460971
Dar es Salaam, Tanzania



Kituo cha Kinondoni
Chuo Kikuu Huria cha Tanzania
S.L.P. 13224,
Simu: 255-51-460971
Dar es Salaam, Tanzania

Ref. No. OUT/KRC/CR/VOL.II

10th February, 2022

The Regional Manager,
Kariakoo Tax Regional Office,
P.O. Box 9921,
DAR ES SALAAM.



REF: PERMISSION TO CONDUCT RESEARCH

The Management of the Open University of Tanzania requesting you, to allow our student **MOHAMED, ROBSON** with Registration Number. **PG202086173** pursuing **MASTERS OF TAX LAW** at the Open University of Tanzania, to conduct a Research at your domain /area.

The Research will relate with the EVALUATION OF THE CHALLENGES FACING TRA ON INCOME TAX COLLECTION IN TANZANIA

Hopefully, permission will be granted.

Yours faithfully,
THE OPEN UNIVERSITY OF TANZANIA

Dr. Dionis J. Adolage
Director Kinondoni Regional Center

DIRECTOR
KINONDONI REGIONAL CENTRE
THE OPEN UNIVERSITY OF TANZANIA
P. O. Box 13224
DAR-ES-SALAAM



TANZANIA REVENUE AUTHORITY

Ref: TRA/RM/KTR/FIELD/VOL.II/2022

03rd March, 2022

Kinondoni Regional Centre,
The Open University of Dar es Salaam,
P. O. Box 13224,
DAR ES SALAAM.

Dear Sir/Madam,

RE: REQUEST FOR PERMISSION TO CONDUCT RESEARCH

Kindly refer your letters with reference No. OUT/KRC/CR/VOL.II dated on 10th February, 2022 requesting to allow your student **Mohamed Robson** with **Reg. No. PG202086173** to conduct research in our organization on his topic titled: **"AN EVALUATION OF THE CHALLENGES FACING TRA ON INCOME TAX COLLECTION IN TANZANIA"**

The Management of Kariakoo Tax Region wishes to inform you that, the above mentioned student has been accepted to conduct research at Kariakoo Tax Region effectively from **07th to 14th March, 2022.**

You are advised to insist the student to come with university identity card.

"Together we Build Our Nation"

Mandota F.A

**For: Regional Manager
Kariakoo Tax Region**

ISO 9001 : 2015 CERTIFIED
REGIONAL MANAGER

DOMESTIC REVENUE DEPARTMENT - KARIAKOO TAX REGION

P.O. Box 2024, Dar es Salaam