Position Statement

Call for Improved Domestic Resource mobilization to fund quality public service delivery

Preamble

Tanzania's realization of the Sustainable Development Goals (SDGs) and Five Year Development Plan II (FYDP II 2016/17- 2020/21) largely depends on its ability to effectively mobilize sufficient, predictable, reliable and timely domestic financial resources. We, the members of the Tanzania Tax Justice Coalition, a loose coalition of Civil Society Organizations interested in advocating for a just and transparent tax system in Tanzania, would like to share our views on how the government can build on recent achievements to further raise domestic resources which in turn will help improve the quality of public service.

Cognizant of the fact that increased borrowing to finance development projects increases the fiscal deficit with reference to the Gross Domestic Product (GDP) of the country and tends to divert future revenues to non-prioritized areas such as servicing the ever-ballooning national debt including the inflated interest rate payments, this position statement comes at a critical moment when the Government is submitting its budget proposals at the National Assembly for scrutiny before they are approved.

BACKGROUND

According to the preliminary budget estimate projections for the year 2017/18 presented by the Minister of Finance and Planning, Hon. Philip Mpango, the national budget estimates stand at TZS 32,945.8 billion (TZS 32.9 Trillion), a nominal percentage increase of 10.3 from TZS 29.5 Trillion in the fiscal year 2016/17. The Government intends to spend TZS 19,782,291 Billion on recurrent costs which is equivalent to 60% of the overall budget and spend TZS 13,163,516 billion which is equivalent to 40% of the total budget on development expenditure.

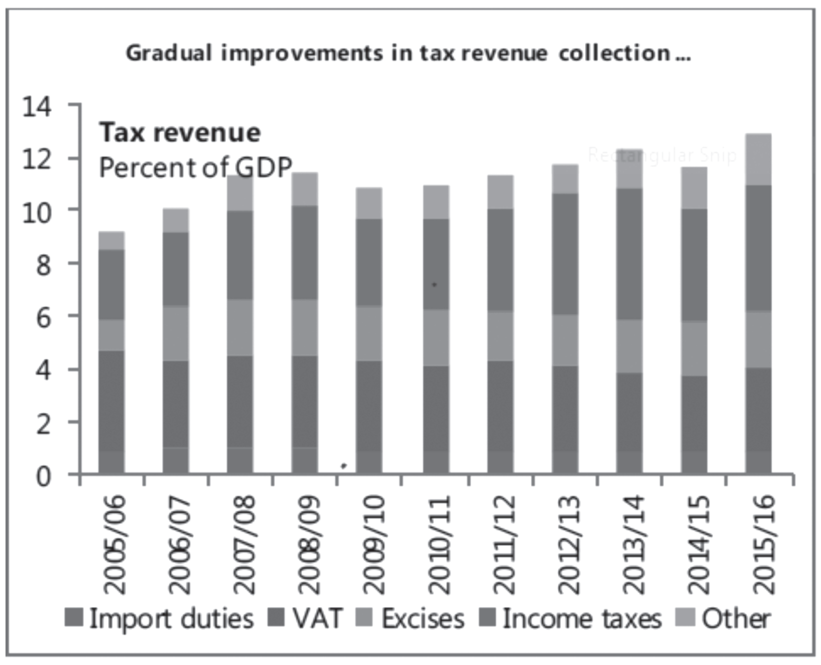
Although revenue collection during the first half of the year was promising, attributed mostly to a robust anti-corruption drive, an intense push to curb tax evasion and the collection of several debts from several entities and individuals, mobilization of external finances (which were mostly meant to contribute to the development budget) during this fiscal year has not been impressive mainly due to low and late donor disbursements resulting in development projects stalling. A report by the Minister of Finance and Planning released in March this year indicates that of the TZS 11.8 Trillion budgeted for development budget in 2016/17, only TZS 3,975.4 billion (about 4 trillion) was released as of February this year, representing a mere 34% of the development budget. The TTJC urges the government to endeavor addressing the financial shortfall if the FYDP II is to be attainable within the scheduled period as it massively relies on infrastructure investments.

Though the 2017/18 revenue projections are preliminary, TTJC members nonetheless continue to caution for more realistic targets given the experience of external financing shortfalls in the 2015/16 financial year. The fiscal period 2016/17 so far seems to manifest the same trend and the current outlook is one of uncertainty. These shortfalls have impacted budget execution and we would like to recommend that our decision makers carefully consider these and other long existing challenges as they discuss the 2017/18 national budget. Most important is realigning development expenditures with actual donor commitments and taking measures to firm up any pledges previously made.

Of the ambitious budget of TZS 32.9 trillion for 2017/18 fiscal year the government intends to collect TZS 20.8 trillion from domestic revenue sources which is equivalent to 61%. Tax revenues are expected to be TZS 18 Trillion while the non-tax revenues are estimated to be TZS 2 Trillion. This implies that our revenue authority should collect an average of about TZS 1.5 trillion per month to meet the 2017/18 revenue target. Figure 1 shows progress made in terms of tax revenue collection.

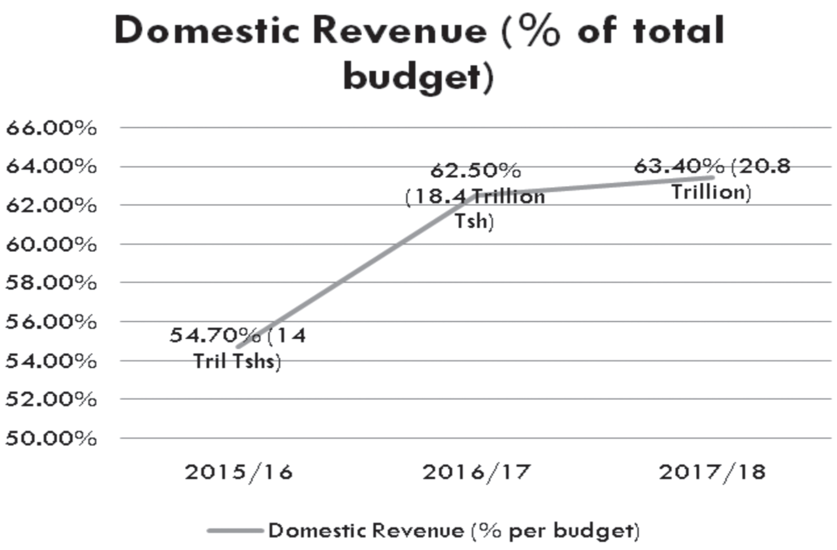
In furthering the collection of resources at the subnational levels, the Local Government Authorities (LGAs) intend to contribute only about TZS 0.8 Trillion from its own sources. The remaining 39% is to be collected from other sources such Domestic Borrowing, grants and non-concessional borrowing. It is important to note that such sources may not be sustainable in the longer term because they shift an obvious burden to the taxpayers.

Figure 1 Trend of Tax Revenue Collection



Source: Tanzanian Government and IMF calculations

Figure 2 Contribution of domestic revenue to the budget



Source: Statement by the Minister of Finance and Planning in the National Assembly.

Furthermore, we urge the government to seriously consider consistent and progressive mobilization of domestic resource to finance our National development projects.

In the fiscal year 2015/16, out of domestic debt services, TZS 3,005.8 billion Shillings were for rolling over maturing obligations and TZS 1,009.6 Billion Shillings were for interest payments.

Budget deliberations would also merit from focusing on other aspects such as the notable narrow tax base where taxes disproportionally rely on VAT increasing the burden on the consumers and that despite the new VAT and Tax Administration Laws, there exist implementation challenges and harmful incentives are still being granted especially through the Economic Processing Zones (EPZ) and Special Economic Zones (SEZ) without regular disclosures that report on their impact to the economy and contribution to poverty reduction.

While acknowledging the ongoing efforts by the government in terms of mobilizing domestic resources and spending the same in financing development projects most of which have been infrastructural, members of the coalition feel that social sectors including health and education are not receiving their deserved attention.

Members of the coalition have for a while noted that the government has been mostly investing in infrastructure, which is commendable, but we would urge our leaders on the need to intentionally fund social sectors like health and education as they ensure the most pressing and basic needs of ordinary citizens. There is evidence of shortage of staff and equipment in these sectors affecting the quality of services in health facilities and schools.

OUR KEY RECOMMENDATIONS

As a coalition, we are recommending the following to our government to:

i. strengthen its strategies to counteract techniques used to evade paying taxes such as transfer mispricing, illicit capital flight and signing of harmful Double Taxation Agreement (DTA).

ii. strengthen of the compliance enforcement. It is important to ensure maximum enforcement of tax payment in accordance with the law. Closing revenue leakages (i.e. controlling corruption at all levels) and setting reasonable affordable tax rates can be a good incentive to the tax payers to remit their due amounts to the government.

iii. strengthen the institutional capacity of Tanzania Revenue Authority in collecting taxes through modernization of its tax system, providing financial resources and technical support to the officers of TRA to implement their roles. Further, TRA together with the Government and other stakeholders should work together to establish and support taxpayer assistance and educational programs (the use of Electronic Fiscal Device [EFD] for the SMEs)

iv. strategically ensure that part of what is being collected is allocated to support improved delivery of social services including health and education.

v. widen the tax base by putting in place more improved and less stringent methods to tax the informal sector. This among others, may involve implementing the Integrated Domestic Revenue Administration System (IDRAS).

vi. continue to support African efforts towards establishment of an intergovernmental tax body that would be tasked with addressing global tax policy with the benefit of developing countries at its core, rather than the current Organisation for Economic Cooperation and Development (OECD) led process that does not equally include all developing countries.

vii. remain faithful in implementing the recommendations embedded in the Report of the High Level Panel on Illicit Financial Flows from Africa (Mbeki report).

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