THE SALES TAX SYSTEM IN TANZANIA 1978-1994: REVENUE PERFORMANCE

By
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Abstract

Sales tax was introduced in Tanzania in 1969 with the main object of increasing revenue and reduce reliance on income taxation which was then the major source of tax revenue. Being a single stage sales tax it has a narrow tax base which forced the system to have a unique and complex rate structure until 1989 when it was changed. The notable effect of such rate structure is rampant tax evasion. The revenue performance of sales tax, however, has proved to be satisfactory compared to other taxes. Preparations for the introduction of value added tax (VAT) are continuing with the aim of broadening the tax base and collect more revenue. We suggest that in order to have a successful and efficient VAT system publicity is essential.

1. Introduction

Like many developing countries, one important characteristic of the tax structure in Tanzania is heavy dependence on indirect taxes with lesser reliance on income taxes[1]. In particular, sales tax has been a major revenue source throughout most of these countries and Tanzania is no exception, (see Due 1972 and 1975 for a detailed discussion). The type of sales tax, however, varies from one country to another depending upon the objective of governmental policy. These forms of sales tax include turnover taxes; single manufacturer, wholesale and retail sales taxes; and value added tax.

Tanzania adopted a single stage sales tax which includes in its coverage manufacturers and importers of scheduled articles; and suppliers of scheduled services. The tax has demonstrated a narrow base with a complex rate structure. Nevertheless, some reforms were effected since the adoption of the tax up to late 1980s, but these were practically dominated by revenue objective. Equity and efficiency criteria were neglected. These reforms involved a continuous increase in sales tax rates until mid 1989 when the government started to rationalize the rate structure. In spite of rates reduction, an important

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reform involving base broadening and abolition of exemptions was not considered. This essentially resulted in less sales tax revenue collection in 1990. Evidence shows that the sales tax contribution in real terms towards GDP fell from 6.3% in 1989 to 4.5% in 1990 (see Table 5.1), despite the fact that national economy grew in real terms from 3.3% in 1989 to 3.6% in 1990 (The economic survey 1991, p.15). As a measure to overcome such revenue shortfall the government in 1992 abolished tax exemptions and in 1994 the tax base was broadened by including more services in the tax net. (see Appendix A).

Although sales tax has demonstrated a satisfactory revenue performance, the government is badly in need of more revenue for recurrent expenditure. This can be achieved by broadening the tax base further and improving the tax administration machinery.

The purpose of this paper is to analyze the sales tax system and evaluate its revenue performance since 1978 to 1994.

In Part 2 we briefly discuss the historical background to sales tax in Tanzania and illustrate how a single stage sales tax operate. We analyze in Part 3 the tax base and the rate structure; while in Part 4 we discuss the merits and demerits of a single stage sales tax. Part 5 contains the general evaluation of revenue performance of sales tax in Tanzania; measures to be taken in order to broaden the tax base and raise more tax revenue are also discussed. Concluding remarks are contained in Part 6.

2. The Historical Background to Sales Tax in Tanzania

Sales tax was first introduced in Tanzania in 1969 by the Sales Tax Act No. 30 (STA), and the Regulations made under section 66 of that Act. Tanzania was the second country to introduce sales tax in East Africa, following Uganda which introduced sales tax for the first time in 1968 with the assistance of an Israel advisor. The main object of introducing sales tax was to increase revenue and reduce reliance on income taxation which was the only major source of tax revenue. In November, 1976 the 1969 Act was, however, repealed and replaced by the Sales Tax Act 1976. The Act has retained all the regulations made under the repealed law, that is, the Sales Tax Regulations 1969.

2.1. A Single Stage Manufacturers Sales Tax System.

The 1969 as well as the 1976 Sales Tax Act originally imposed Sales Tax on both domestic manufactured and imported scheduled articles. Section

2(1) of STA defines the term "scheduled article" to mean any article, that is, commodity upon which sales tax is payable under the Act. The First schedule to STA contains a list of articles which are liable to sales tax together with their respective sales tax rates.

In 1983 and 1987 sales tax was introduced in respect of telephone, and catering services in designated hotels and restaurants respectively. These are specified under the second schedule to the Act. It should be noted that electricity is also service which has been chargeable to sales tax since the adoption of the tax, but it was categorized as a scheduled article under the first schedule.

In normal circumstances, therefore, the tax is payable by the manufacturer at factory level, the importer at entry point, and the supplier of services, hence it is a single stage tax in nature.

2.2. Application of a Single Stage Manufacturers Sales Tax

A manufacturers tax, per se does not include services under the normal definition of the term manufacture[2]. In Tanzania, the tax is levied at manufacturers' and importers' level, and on certain few services (see section 2.1). There is no sales tax at subsequent stages in distribution channels such as wholesalers and retailers. With the use of an illustration, in this part we explain how a single stage sales tax system operate.

Let us consider a case where the Government imposes sales tax on a scheduled article (product) X at a rate of 30%. Assume that the manufacturer A sells the article X to a wholesaler B at shs. 500,000/= excluding sales tax. We assume further that the article X is not subject to excise duty. Being a single stage tax the manufacturer A must collect sales tax of Shs. 150,000/= from the wholesaler B. This means that the wholesaler B pays the manufacturer A a total of shs. 650,000/= which is the price of article X including sales tax. The manufacturer A is required to pay the tax to the Sales Tax and Inland Revenue Department on the date of sale (section 4(1) (b)). However, for administrative purposes the due date for payment of sales tax is normally on the last day of the month immediately following the month to which the tax relates (Regulation 10 (2)).

On the other hand, the wholesaler B is not required to collect sales tax from the retailer. The same applies to the retailer who cannot collect tax from the ultimate consumer of the taxable article. Obviously, in the course of his business, the wholesaler will include the sales tax paid as part of the cost of

acquisition of the article. In our illustration the wholesaler B will recover the sales tax of shs. 150,000/= when he sells the article to a retailer C, who will in turn recover the same from the final consumer D.

3. The Tax Base and the Rate Structure

As stated earlier the tax applies to the sale by the manufacturer of scheduled article; an importer of scheduled article, and the supplier of scheduled services, and that no tax applies at subsequent stages in distribution channels. The tax base is, indeed, very narrow, as a consequence in order to raise significant revenue the tax rate must be high. In this section we attempt to analyze and discuss the sales tax base and the rate structure in Tanzania.

3.1. The Tax Base

The tax base comprises of the locally manufactured and imported articles consumed in Tanzania, and selected services.

3.1.1 Calculation of sales tax is done by applying the tax rate on the ex-factory price plus excise duty in the case of domestic produced scheduled articles; on CIF value plus import duty plus excise duty[3] in the case of imported goods; and on the total bill in the case of scheduled services (Section 22 of STA). In certain cases the tax rate is applied on specific weight, liquid measurement or any other measurement such as square meter as the case may be.

There is no sales tax levied on raw materials because doing so, would result in cascading; in addition section 9 of STA prohibits double taxation on the same scheduled article. That is, if for example sales tax is levied on raw material R which is used to manufacture a scheduled article S and the latter is also subject to sales tax upon sale; there is double taxation on the raw material R.

In order to avoid double taxation and cascading of sales tax on raw materials, intermediate and capital goods the government introduced the suspension method or ring system (Cnossen, 1977) which enables registered dealers to purchase or import such goods free of sales tax[4]. In June 1992, however, this method was abolished and a system of granting total remission of sales tax on all raw materials used for the local production of scheduled articles was introduced (Budget Speech, 1992). Thus, with effect from June, 1992 all raw materials whether purchased within or imported from outside Tanzania were not subject to sales tax. This measure has an effect of reducing prices of raw materials and thus reduce the production costs. Definitely if production costs

are low taxpayers will sell their scheduled articles at lower prices, hence they will be able to effectively compete in both domestic and external markets.

On the basis of the above discussion the tax base is, certainly, comparatively narrow because distributors mainly wholesalers and retailers, and most of services are excluded from the tax coverage. However, in a move of widening the base and collecting more tax revenue, the Government included more services in the sales tax net since July, 1994. (See appendix A)

Definitely these services might yield a significant amount of sales tax revenue, however, cascading would be inevitable. This is the case because tax payers who render such services have many inputs on which sales tax has been charged, and their charges are borne as input costs by many clients who are also liable to pay sales tax. Thus, although the base has been broadened this shortfall should be considered in order to avoid double taxation. This would be proper when VAT is introduced or credit system is applied.

3.1.2. Furthermore, the tax base is eroded by substantial generous exemptions which are, of course, augmented by the illegal ones owing to tax evasion. Exemptions are divided into two categories namely statutory and discretionary exemptions granted by the Minister for Finance in the form of remission of tax (Section 28(1) of STA).

Statutory exemptions are specifically provided under section 36 (1) of STA. These may further be subdivided into specific exemptions being those listed under Part A of the Third schedule and general exemptions being those listed under Part B of the same schedule to STA[5]. Discretionary exemptions provided by the Minister are controversial due to the powers given to him under STA. Subject to certain conditions, the Minister has the power to remit wholly or in part the tax payable in respect of any scheduled articles or service or class of scheduled articles or services; or the tax payable by any person or category of persons by issuing an order in the Gazette if it is in the interest of the public (S.28(1) of STA).

In executing this statutory mandate, the Minister will, of course, be expected to grant as many exemptions as possible not only for public interest, but also in the interest of some individuals. Further more, the Minister may be biased because he is virtually the one who decides what class of scheduled articles or services; or category of persons should be exempted from tax. The danger which arises is that:

"A minister or committee that is given wide discretion, is likely to lack the technical and business expertise to make the best choices. A discretionary system is subject to corruption or to charges of corruption even when none is present" (Goode, p.250).

The most pressing problem facing Tanzania like many other developing countries is widespread and overt corruption and tax evasion. It is clear that the problem originates from the taxpayers who are not willing to comply with the law voluntarily and pay their sales tax liabilities accordingly. Certainly, such taxpayers would ask for some favours from the Minister who will in turn have to use his statutory mandate and grant exemptions to them.

This is the case even where the scheduled article is one which, if exemption is granted will not be in the interest of the public. The taxpayer is, of course, expected to pay for such a favour in a form of a financial reward to the Minister. Taxpayers, indeed, use the system in general as a means of evading sales tax liabilities. For example, the taxpayers may declare to have imported human medicine which in the first sight is in the interest of public, while in actual fact he has imported, say, TV sets for sale. If a thorough and careful investigation is not done, the Minister will use his powers and grant exemption in a form of remission of tax in the "interest of the public". This kind of transaction would, definitely, result in a loss of government tax revenue on TV sets. Evidence shows that during the years 1992/93 to 1994/95 the government lost a total of shs. 59.763 bn/= (in absolute terms) sales tax by way of exemptions on imported scheduled articles[6].

We can thus, conclude that the coverage and numerous exemptions have a significant influence on the narrow tax base which attributed to substantial high tax rates in order for the government to generate more revenue. In the next part we briefly analyze the sales tax rate structure since the adoption of the tax in Tanzania.

3.2. The Rate Structure

When the sales tax was a adopted in 1969, there were five ad valorem rates and equivalent number of specific rates (Due et al; 1990). An ad valorem rate is a particular tax rate which is applied on the value of the scheduled article to determine the amount of tax payable. For example 25% of the ex-factory price of the article. On the other hand a specific rate is the tax rate which is applied on a specific measurement such as weight, liquid measurement or

square meter. For example a rate of Shs. 200/= per litre of beer or Shs. 415/= per 1,000 cigarettes.

The rates were imposed separately by BTN (Brussels Tariff Nomenclature) which is the tariff classification number.

Substantial revisions were made in 1976 when a new approach was introduced under which the rates were imposed by customs cooperation council nomenclature (CNNN) tariff classification number. By 1980, there were about 25 different ad valorem rates and 25 specific rates. The basic rate of 12% was imposed on many foods and necessities, 24% on a wide range of goods regarded as luxuries, 25% to 50% on motor vehicles, 50% on cigarettes and liquor, and high rates on various imported textile products. The multiplicity and complex rate structure was a result of the abolition of excise duty and that, the rates of this tax were merged with those of sales tax. By January 1989, the rates multiplied substantially exhibiting a wide range from 0 (zero) to 300 percent (Finance Act 1978-1988).

A wide range of goods were exempted from sales tax as zero rated. These include foods, medicines some building materials, various raw materials, farm and industrial machinery. The basic rate of 25% was applied to a wide range of food and other goods regarded as necessities. Other major tax rates in terms of goods covered were 50% and 75%. The tax rate of 50% was applied to some processed food, consumer durables, office machines etc; where as 75% and other higher rates were imposed on luxury goods such as private cars, TV sets, cosmetics, cigarettes, beer, spirits etc.

The main objectives of having such a unique rate structure compared with those of many other sales taxes of other developing countries were as follows:

To generate more revenue: As the tax base is narrow it was necessary to have multiple and higher rates in order to raise significant revenue.

Equity: Higher tax rates are imposed on luxury goods which can only be purchased by the high income bracket consumers. Sales tax in this case complements income tax in reducing a wide disparity between low and high income earners to enhance equality in income distribution.

Protective: Higher tax rates on imported goods have been used as a device to protect domestic produced goods.

Sumptuary: Tanzania like other countries imposes highest rates on tobacco, cigarettes, beer and spirits for the purposes of discouraging consumption of such goods regarded as harmful to health.

In July 1989 and 1990 the government of Tanzania endeavoured to rationalize the rate structure by making major reforms. These reforms involved re-introduction of excise duty on certain articles which were subject to a higher rate of sales tax; and reduction of both rate categories and the highest rate. Thus, in July 1989 the highest sales tax rate was reduced from 300% to 50% and rate categories from more than twenty five to eight only, including the zero rate. Likewise in July 1990 the highest rate was reduced to 40% and the rate categories to four (Finance Acts 1989 and 1990). In July 1992 the highest rate was further reduced to 30% while in July 1993 the rate categories were reduced to three, that is, zero, 25 percent and 30 percent (Finance Acts 1992 and 1993).

It should be noted that sales tax rates on services were 5 percent and 10 percent for electric current, and telephone and catering services respectively. The sales tax rate on telephone and catering services was, however, increased to 15% in July, 1993. In the case of other services the rate is 10 percent (see section 3.1.1 and Appendix A).

We have so far noted that there has been a tendency of reducing rate categories and highest tax rates since July, 1989. No doubt the main objective of such trend was to encourage taxpayers to pay their tax liabilities voluntarily rather than evading paying tax or even seeking exemptions; hence to enable the government earn more tax revenue.

4. Merits and Demerits of a Single Stage Sales Tax

Compared with other forms of sales tax such as turnover taxes; wholesale and retail sales taxes; and value added tax; a single stage sales tax has some merits and demerits. In this section, we briefly discuss the advantages and disadvantages of a single stage sales tax.

4.1. Merits

Simplicity and Certainty

The characteristic of a good tax is simplicity in design and certainty in operation (Cnossen, 1977). Single stage manufacturers sales tax appears to

meet the two requirements. We have earlier noted that the tax is charged on the basis of taxable value (price) which is easier to ascertain. As such, it is simple for both tax officials and taxpayers to determine the tax liability.

Minimum Administrative and Compliance Costs

The tax is less costly and easier to administer because the Sales Tax and Inland Revenue Department deals with a relatively small number of taxpayers. In 1976, for example, Tanzania had one registered taxpayers for every 12,000 persons compared to one for every 42 and 30 persons in Barbados and Iceland respectively, which adopted retail sales taxes (Due, 1976). Currently, Tanzania has one registered taxpayer for every 15,000 persons[7]. Compliance costs on part of taxpayers are less due to the fact that most of taxpayers are large firms; thus record keeping is easy and adequate.

4.2. Demerits

Non-Neutral Tax

It is clear that when sales tax is imposed upon manufacturers, the firms would increase their prices by an amount of tax. The tax is, therefore, transmitted forward into wholesale and retail prices under the normal markup method of pricing. As wholesalers and retailers would apply their mark up percentages to the purchase price which includes tax, there would be a possibility of pyramiding of the tax on the way to final consumers. The tax, thus, has an inflationary effect because the tax burden to the final consumer would result in price increases in excess of the tax payable to the government (See Due, 1951; 1957; and 1970).

The non-neutrality of single stage sales tax also exists because the factor components of the cost of the final commodity are not taxed. Since these do not form the same proportion of final costs the tax would distort relative prices unless the untaxed labor component in the final commodity price is the same percentage of final commodities prices in all cases (see Friedlander, 1967 for a detailed disussion). In normal circumstances it is not possible to attain this condition because different firms employ different means of production and they do not produce homogeneous goods.

Consumption and Production Distortions

Multiple and higher rates as a consequence of narrow tax base distort consumption patterns and producer resource allocation. Some of the rates differ only slightly and there is no scientific basis for classifying goods in one category or another, as a consequence consumers shift from heavily taxed goods and increase demand on less taxed goods. In the long run, this consumer behaviour would create distortions on producer resource allocation resulting in production of more goods which are less taxed.

Virtually a manufacturer charges different prices to wholesalers and retailers. The tax, therefore, cannot take into account such variations on prices to different trade levels giving rise to different consumer prices and this would result in consumer choice distortions.

Easy to Evade

Since the impact of the tax is at an early stage of production-distribution flow, taxpayers would easily evade tax by integrating their activities forward to undertake wholesaling and retailing activities, so that their value would not be included in the taxable price. This would result in discrimination against non-integrated firms which cannot shift their activities beyond the impact of the tax. Under the STA, however, this cannot be practiced because the manufacturer is required to pay the tax even when he merely removes the article from the manufacturing premises to another place, say a godown (Section 4(1) (b) (iii), without selling such article.

5. Revenue Performance

5.1 Sales tax plays a significant role in the economy and tax revenue system. In this section we analyze the performance of sales tax and compare with that of other major taxes in particular import duties and income tax. Table 5.1 shows revenue contribution of major taxes to GDP and Total Tax Revenue.

Table 5.1: Major Taxes as % of GDP and Total Tax Revenue: 1978 - 1994 (At Constant Prices of 1985)

Year	Sales Tax as % of GDP	Import Duties as % of GDP	Income Tax as % of GDP	Sales Tax as % of Tax Rev.	Import Duties as % of Tax Rev.	Income Tax as % of Tax Revenue
1978	6.2	3.0	5.5	33.8	16.3	30.2
1979	7.1	2.5	5.3	41.5	14.9	31.3
1980	7.8	2.2	6.4	43.0	11.9	35.3
1981	9.3	1.4	5.9	53.3	8.1	33.5
1982	9.1	1.2	5.7	55.2	7.3	35.0
1983	9.8	1.2	6.1	55.4	6.6	34.6
1984	10.6	1.3	5.5	57.7	7.0	29.9
1985	10.2	1.5	4.7	59.0	8.9	27.2
1986	8.2	1.2	4.9	53.9	7.9	32.3
1987	9.2	2.3	4.0	55.9	13.8	24.3
1988	7.1	1.7	3.7	50.6	12.4	26.3
1989	6.3	1.6	4.8	47.0	12.2	35.2
1990	4.5	1.7	3.4	36.1	14.2	27.4
1991	4.6	2.1	4.1	32.4	14.8	29.2
1992	4.3	2.0	4.2	29.2	13.4	28.3
1993	3.3	1.2	3.6	29.2	11.0	31.7
1994	7.3	5.5	3.7	33.2	25.1	16.8

Source: Appendix B.

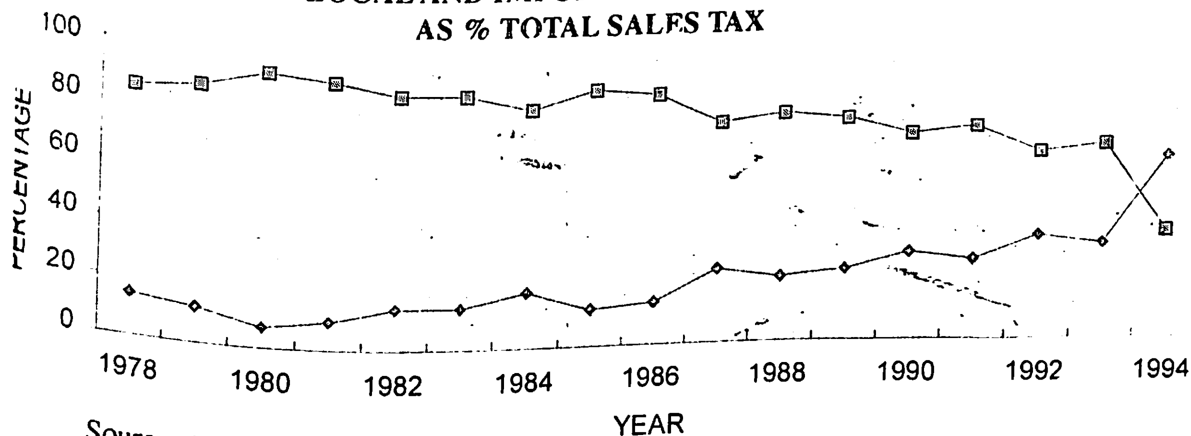
We can see from the table that throughout the period the contribution of sales tax to GDP was between 3% and 11%, whilst those of import duties and income tax were only between 1% and 6%, and between 3% and 6% respectively. Also, sales tax yielded between 32% and 59% of total tax revenue. The import duty and income tax shares were between 7% and 25%; and between 17% and 35% respectively. Table 5.1 also shows that between the period 1981 to 1988 sales tax yield was well over 50% of total tax revenue. Our analysis suggests that, this performance was attributable to high tax rates (See section 3.2). This is evidenced by the poor performance of the manufacturing sector between 1979 and 1986 which showed a sluggish trend, with an average decline of 12.6% per annum in real terms.

The poor performance of the manufacturing sector was attributed to shortage of raw materials which were mostly imported. On the other hand the volume of imports was curtailed by shortages of foreign exchange.

Furthermore, table 5.1 shows that between 1989 and 1993 sales tax contribution to total tax revenue showed a downward trend between 29% and 47%. This could be due partly to reductions in tax rates (see section 3.2) and partly to growth in volume of imports which resulted in substantial increases in import duties[8]. This is evidenced by the share of import duties to total tax revenue which rose from 12% in 1989 to 15% in 1991.

5.2 Of equal interest is the very high percentage of sales tax collected from locally manufactured articles compared to that collected from imported articles, particularly during the years 1978-1986. Graph 5.1 shows the sales tax collection on local and imported articles as a percentage of total sales tax.

Graph 5.1



Source: Appendix C

The above graph shows that during the period 1978 the share of sales tax on locally produced articles to total sales tax collection was between 81% and 93%, whilst that of imported articles was between 7% and 19% only. The high percentage of sales tax revenue from domestic produced articles was due to the fact that sales tax was not charged on raw materials which were mostly imported. More over, during that period there were drastic restrictions on imports due to foreign exchange shortages, this resulted in less collection at importation. Surprisingly, contrary to the above observation the sales tax collec-

tion at importation has increased from 14% in 1986 to 63% in 1994, whereas the collection from domestic produced articles has dropped drastically from 86% in 1986 to 37% in 1994. Our analysis suggests that the declining industrial production as a consequence of acute electricity problems during that period seriously affected the collection of sales tax on local scheduled articles. This was, of course, augmented by the reduction of rate categories and tax rates which by 1994 there were three categories and the highest rate being 30% (see section 3.2 above).

The other factor was the Government policy of imports and foreign exchange liberalization in 1988. This, it can be argued, has resulted in growth in volume of imports and substantial increase in collection at importation (See note 8).

As noted earlier, numerous exemptions resulted in loss of government tax revenue. Most of these exemptions were granted in respect of imported scheduled articles. For example, in 1989 a potential 55.6% of tax revenue on imports was exempt (Tax Reform Report, 1991, P. 13). The government in June 1992 abolished all types of tax and duty exemptions on imported and purchased articles by the Central Government, Local Governments, and all political parties and their affiliated organs; commercial enterprises, and religious institutions except for items directly used for worshipping purposes (Budget Speech 1992). This decision, obviously, resulted in increase in collection at importation.

Furthermore, there have been many recent forthright statements by the government that rampant tax evasion has been practised, condemning it and saying that firm steps will be taken to eliminate it. Somewhat this has been a challenge to taxpayers who, in order to avoid any legal consequences started to pay their taxes voluntarily.

5.3. We can, therefore, conclude that although the tax base is narrow (see section 3.1) sales tax has demonstrated a significant role in the tax system as a major revenue source compared to other taxes. This implies that if the tax base is broadened and bring into the tax net a wide range of goods and services, indeed, a significant amount of sales tax would be collected. However, tax administration reform must also be carried out because without doing so the government will not be able to collect the expected revenue due to malpractices on part of both tax officials and taxpayers.

The experiences of other developing countries show that the narrow base of previous sales taxes and distortions inherent in them motivated these countries to adopt a broad based system of sales taxation. Tanzania is no exception because in 1993 it was officially announced for the first time that value added tax (VAT) would be adopted effective from 1st July, 1993 (Budget speech 1993). The effective date was, later, rescheduled to 1/1/1994 and the government formed a preparatory VAT Implementation Team. So far VAT has not yet been adopted and there is no indication that preparations for introducing VAT have reached an acceptable level. This implies that confidentiality of the tax is still maintained. This is quite clear because taxpayer education programs on VAT which is very crucial during the preparations are yet to be launched. The danger is that if the VAT is not well publicized before it is introduced it will lack public acceptance leading to non-compliance and tax evasion. In order to have a successful VAT, therefore, we must learn from the experience of other developing countries. This and other issues relating to VAT will be dealt with in a separate study.

6. Concluding Remarks

We have argued in this paper that a single stage sales tax has a narrow base due to the exclusion of wholesalers and retailers, and most of services from the tax coverage. The base was further eroded by numerous exemptions which were statutory under the STA and discretionary granted by the Minister for Finance. Discretionary exemptions have a danger of causing loss of government revenue. As a consequence of a narrow base, multiple and higher tax rates were inevitable since the adoption of the tax up to mid 1989 when the government rationalized the rate structure. By July 1993 the sales tax rates were 0,25 and 30 percent. In addition to the rate changes, the tax base was changed to include excise duty in the case of scheduled articles which are also liable to this duty. Moreover, in July 1994 the base was broadened by including more services (Appendix A).

We have also argued that a single stage sales tax has its merits and demerits compared to other forms of sales tax. It can be operated very easily with less administrative and compliance costs. The tax, however, has a pyramiding effect on the way to the final consumer of the taxable article because it is imposed at the initial stage of production-distribution flow only. Under the STA there is no possibility of evasion even when there is a room for integrating the activities of the manufacturer forward to undertake wholesaling or retailing which are not taxed. This is so because section 4(1) (b) (iii) of STA

requires the manufacturer to pay the tax when he removes the articles from the manufacturing premises to any other place without sale.

Throughout the period under consideration sales tax has proved to be a major source of revenue. Our message in this case is that if the tax base is broadened with the application of the current rate structure a significant amount of tax will be collected. This can be done by effecting a sales tax reform in which case Tanzania is preparing for the introduction of VAT. Experience of other countries show that, the introduction of a new tax should "go open" in order to have public acceptance. It is, therefore, high time for the VAT Implementation Team to institute taxpayer education campaigns and make adequate efforts to have training programs for tax officials. Such measures, indeed, can enhance voluntary compliance and taxpayers' cooperation and our dream of having an efficient VAT system will come true.

NOTES

1. For example in 1988, between 30% and 70% of total revenue of about 69 non-oil developing countries was from indirect taxes (Government Financial statistics year Book, 1989).

2. Section 2(1) of STA defines the term "Manufacture" as "to subject any physical matter to any process which materially changes such matter in substance, character or appearance..............."

3. Excise duty is levied on very few scheduled articles considered as luxury and harmful to health.

4. A registered dealer is any person who uses raw materials which are scheduled articles to manufacture other scheduled articles. This also includes a body corporate which is engaged in the export of scheduled articles. For more details on the registration of Registered Dealers see section 10 of STA and Regulation 8. See also, section 4(1) (d) of the same Act.

5. For a detailed discussion of exemptions see the Third schedule to the Sales Tax Act 1976. See also Luoga et al; 1993; p.p. 23 - 39.

6. The breakdown of the sales tax exempted on imported scheduled article is as under:-

(At current prices)

1992/93.............Shs.	16,980bn/=
1993/94.............Shs.	23,155bn/=
1994/95.............Shs.	19,628bn/=
Total Shs.	59,763bn/=

Source: Customs Department

Efforts to get sales tax exemptions on locally manufactured articles failed due to non-availability of such records.

7. The population projection for 1994 is 26,710,000 and the total number of registered taxpayers is 1,767 in 1994. (Source: Bureau of Statistics, and Sales Tax and Inland Revenue Department)

8. See for example Trends in Developing Economies 1992.

APPENDIX A

Scheduled services Added by the Finance Act 1994

The following services are chargeable to sales tax where the monthly gross earnings are not less than shillings 400,000/=:- (w.e.f. 1st July 1994)

a) Building contractors
b) Electrical contractors
c) Engineers
d) Accountants
e) Advocates
f) Auctioneers
g) Consultants other than Medical Consultants
h) Clearing and forwarding Agents
i) Garages
j) Tour operators
k) Laundry and Dry Cleaning
l) Photo studios
m) Fitness centres
n) Hair saloon
o) Barber shops
p) Tailoring Marts
q) Secretarial Services
r) Commercial advertisements by radio and television.

Other scheduled services added by the Government Notice No. 307 of 9/6/1995 are:

- s) Security Guard Services
- t) Courier Services
- u) Architectural Services
- v) Fumigation Services
- w) Accounting and Auditing
- x) Workshop for maintenance of house hold appliances e.g. Radios and Televisions.

APPENDIX B

Major Taxes, GDP and Total Tax Revenue: 1978 - 1994

[At Constant Prices of 1985 (Billion TShs.)]

Year	Sales Tax	Import Duties	Income Tax	GDP	Total Tax Revenue
1978	10.154	4.906	9.059	163.905	30.039
1979	12.124	4.359	9.148	171.169	29.187
1980	10.966	3.035	9.008	140.584	25.505
1981	12.913	1.954	8.132	138.686	24.245
1982	11.760	1.559	7.447	129.931	21.296
1983	10.989	1.316	6.860	112.038	19.853
1984	10.512	1.278	5.448	99.497	18.220
1985	10.154	1.531	4.678	99.675	17.198
1986	7.991	1.171	4.792	97.822	14.817
1987	9.515	2.349	4.144	103.344	17.031
1988	10.072	2.469	5.232	142.224	19.902
1989	11.069	2.871	8.287	174.437	23.553
1990	7.397	2.918	5.619	165.955	20.495
1991	7.409	3.391	6.681	162.058	22.850
1992	7.125	3.276	6.907	164.167	24.432
1993	5.460	2.062	5.915	165.495	18.667
1994	11.469	8.652	5.801	157.518	34.517

Source: Compiled from Financial Statements and Revenue Estimates 1977-1995; and National Accounts of Tanzania 1976-1994.

APPENDIX C

Sales Tax collection on locally Produced and Imported Articles; and their Percentages of Total Sales Tax Revenue: 1978 to 1994.

(At Constant Prices of 1985) (Billion T.Shs.)

Year	Local Collection	Collection at Importation	Total Sales Tax Collection	Local Collection as % of Total	Collection at Importation as % of Total
1978	8.702	1.452	10.154	85.7	14.3
1979	10.653	1.471	12.124	87.9	12.1
1980	10.206	0.760	10.966	93.1	6.9
1981	11.692	1.221	12.913	90.5	9.5
1982	10.106	1.654	11.760	85.9	14.1
1983	9.433	1.556	10.989	85.8	14.2
1984	8.522	1.990	10.512	81.1	18.9
1985	8.878	1.276	10.154	87.4	12.6
1986	6.840	1.151	7.991	85.6	14.4
1987	7.162	2.353	9.515	75.3	24.7
1988	7.878	2.194	10.072	78.2	21.8
1989	8.391	2.678	11.069	75.8	24.2
1990	5.201	2.196	7.397	70.3	29.3
1991	5.395	2.014	7.409	72.8	27.2
1992	4.595	2.530	7.125	64.5	35.5
1993	3.680	1.780	5.460	67.4	32.6
1994	4.243	7.226	11.469	37.0	63.0

Source: Compiled from Financial Statements and Revenue Estimates 1977 - 1995

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