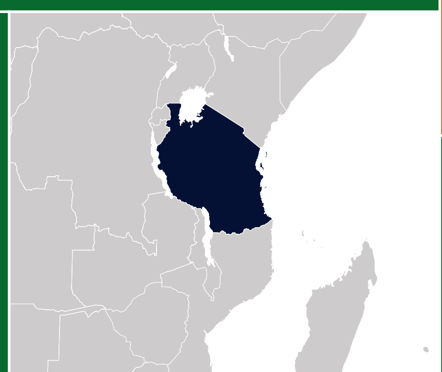
policy

April 2016

ANALYSIS OF TAXATION TO ENHANCE FISCAL SPACE FOR HEALTH AND HIV AND AIDS IN TANZANIA



This publication was prepared by Bryant Lee, Arin Dutta, and Beatus Idama of the Health Policy Project.

USAID FROM THE AMERICAN PEOPLE
PEPFAR U.S. President's Emergency Plan for AIDS Relief
HEALTH POLICY PROJECT

Suggested citation: Lee, B., A. Dutta, and B. Idama. 2015 *Analysis of Taxation to Enhance Fiscal Space for Health and HIV and AIDS in Tanzania.* Washington, DC: Futures Group, Health Policy Project.

ISBN: 978-1-59560-141-4

The Health Policy Project is a five-year cooperative agreement funded by the U.S. Agency for International Development under Agreement No. AID-OAA-A-10-00067, beginning September 30, 2010. The project's HIV activities are supported by the U.S. President's Emergency Plan for AIDS Relief (PEPFAR). It is implemented by Futures Group, in collaboration with Plan International USA, Avenir Health (formerly Futures Institute), Partners in Population and Development, Africa Regional Office (PPD ARO), Population Reference Bureau (PRB), RTI International, and the White Ribbon Alliance for Safe Motherhood (WRA).

Analysis of Taxation to Enhance Fiscal Space for Health and HIV and AIDS in Tanzania

April 2016

This publication was prepared by Bryant Lee,[1] Arin Dutta,[1] and Beatus Idama[2] of the Health Policy Project.

[1] Futures Group, [2] Consultant

CONTENTS

LIST OF FIGURES

LIST OF TABLES

ABBREVIATIONS

ART	antiretroviral therapy
ATF	AIDS Trust Fund
CIF	cost of insurance and freight
DRM	domestic resource mobilization
EAC	East African Community
EACMA	East Africa Customs Management Act
EFD	electronic fiscal device
FY	fiscal year
GDP	gross domestic product
GOT	Government of Tanzania
HFG	Health Finance and Governance Project
HFS	Health Financing Strategy
HPP	Health Policy Project
HSSP	Health Sector Strategic Plan
IMF	International Monetary Fund
LGA	local government authority
MOE	Ministry of Education
MOFP	Ministry of Finance and Planning
MOHCDGEC	Ministry of Health, Community Development, Gender, Elderly and Children
MOIC	Ministry of Infrastructure and Communication
MOL	Ministry of Labor
MTEF	Medium Term Expenditure Framework
NBS	National Bureau of Statistics
SDL	Skills and Development Levy
TACAIDS	Tanzania Commission for AIDS
TRA	Tanzania Revenue Authority
UHC	universal health coverage
VAT	value added tax
VETA	Vocational Education and Training Authority

1. BACKGROUND

The total resource needs to implement the Health Sector Strategic Plan (HSSP IV) in Tanzania from 2015/16 to 2019/20 is estimated to be TZS 21,945 billion, with available resources only projected to cover 59% of the cost if new financing mechanisms are not established (MOHCDGEC, 2015). Meanwhile, growth in the Government of Tanzania's (GOT) allocation to health as a percent of the overall government budget has been low over the past decade (MOFP, 2005-15). Current allocations are not sufficient to adequately fund critical functions, such as the delivery of essential medicines and commodities to health facilities, which has resulted in a substantial amount owed to the Medical Stores Department, estimated at TZS 140 billion (MOHCDGEC estimate, March 2016). Additionally, the GOT remains heavily reliant on donors – especially for HIV and AIDS, as 93% of program funding is from foreign sources (NHA, 2011/12). This reality highlights the need for new sustainable financing mechanisms as long-term solutions to aid the GOT in reaching its ambitious health and HIV and AIDS targets. The GOT has identified the establishment of a Single National Health Insurance and supporting it with reforms that will increase resource allocation to health (MOHCDGEC, 2015b) as the main pillar of its draft Health Financing Strategy (HFS).

In this brief, the USAID- and PEPFAR-funded Health Policy Project (HPP) offers analysis on the GOT's tax revenue collection prospects and explores tax reforms that the GOT may implement in the future. Growth in tax revenue has been linked with countries' progress on universal health coverage (UHC), especially in countries with low tax bases (Reeves et al., 2015). In Tanzania, the HSSP IV and HFS both identify tax reform as an important mechanism to raise the total allocation to health, and reduce the resource gap in the health sector. As has been experienced in other countries, earmarked tax revenues, from a growing overall tax base, can help secure financing for health. This brief also investigates the process by which Tanzania's Ministry of Labor (MOL) and the Ministry of Infrastructure and Communication (MOIC) were able establish tax "set-asides" for programs in their sectors, and whether it is feasible for something similar to be done for the MOHCDGEC that would pool tax revenue specifically for health and HIV and AIDS. For example, such a set-aside was accomplished in Zimbabwe with the AIDS Levy, introduced in 1999, which is charged on individuals, companies, and trusts at a rate of 3% of taxable income or profits. This revenue, estimated at US$157 million collected over 2009-2014 (Kutyauripo, 2015), is allocated to the National AIDS Trust Fund in Zimbabwe to be managed and disbursed for HIV programming, including 50% for antiretrovirals (ART).

Growth in tax revenue has been linked with countries' progress on universal health coverage (UHC), especially in countries with low tax bases (Reeves et al., 2015).

2. TAXATION IN TANZANIA

Tax Types, Sources, Shares, and Rates

The GOT oversees tax administration through its executive agency, the Tanzania Revenue Authority (TRA). These taxes include income tax, value added tax (VAT), import duty, and excise duty that are self-declared by taxpayers to the TRA (see Figure 1). Zanzibar has a separate tax revenue board that administers its own tax collection under Zanzibar tax laws. The only exception to this is for income tax, which is administered by the TRA and follows the Income Tax Act of mainland Tanzania.

Direct taxes that are paid directly to the TRA by the person on whom the tax is imposed made up 35.4% of total taxes collected in fiscal year (FY) 2014/15 (see Table 1). 52.5% were indirect taxes (NBS, 2015) such as VAT collected by an intermediary – such as a retailer – from the consumer who bears the economic burden of the tax. Individual income tax (30% maximum) is collected through a pay as you earn (PAYE) scheme where an employer is obliged to withhold and remit income tax. Other direct taxes include corporate taxes on business income (30%) and capital gains taxes on investment income. Indirect taxes such as VAT are a consumption tax that are collected by registered VAT traders at every stage of production and distribution and subsequently paid for by the end-consumer over and above the price of purchased goods and services. Import duty is collected on clearance of goods by customs authorities during importation. Lastly, excise duty is collected upon the manufacturing or sale of locally produced goods and services. Tax rates in Tanzania are comparable to other countries in the East African Community (EAC) (see Table 2). Efforts to harmonize tax administration within the EAC have resulted in a customs union being formed and there is a proposal to standardize income tax across the EAC, but this reform is still being debated.

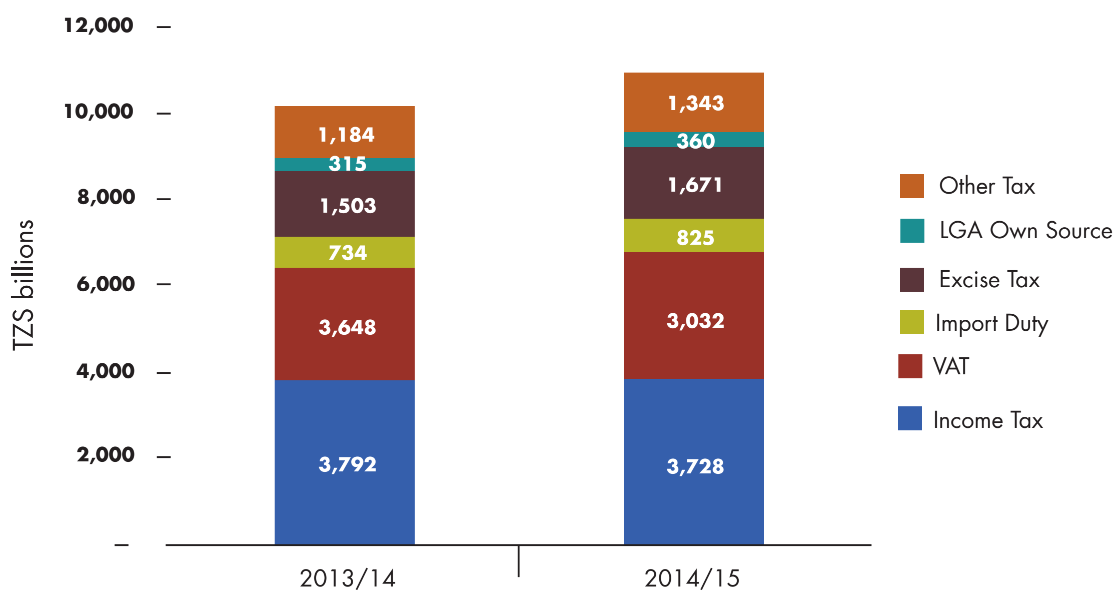
At the local government authority (LGA) level, municipal, district, city, and town councils have the authority under the Tanzanian constitution to collect duties and levies from formal and informal businesses and from individuals in order to raise revenue to be allocated to fund the provision of public services for its citizens. Typical sources of income include property taxes, registration fees, maintenance fees, and licensing fees. The tax rates are determined by the councils' own individual bylaws and the amounts collected are not administered by TRA. In FY 2013/14, TZS 353.67 billion was collected at the LGA level as own-source revenue across 163 districts (CAG, 2014).

It is important to note that a large portion of the economy in Tanzania is informal, making collection of direct taxes challenging. Out of the estimated 19.9 million workers in Tanzania, only 2.3 million, or 12% of the work force, work in the formal sector in either private or public institutions (NBS, 2014). The remaining 17.6 million are informal sector workers (22% of the total) or work in the agricultural sector (67%). Including agricultural workers, the total non-formal sector in Tanzania was 89% of workers, compared to 83% in Kenya (NBS, 2015). It has proved difficult for the TRA to collect tax revenue from goods or services produced or sold in the informal sector or to collect income taxes from informal sector workers and from farmers. This implies that a currently limited number of individuals, institutions, and corporations form the direct tax base. Formalization of firms has been increasing in Tanzania, and the total number of workers associated with the health sector increased at an average of 19% per year over 2012-2014.

Current Tax Reform Processes

In 2014, the GOT administered tax reform in the form of a new VAT Act (2014). The law came into effect on July 1, 2015, repealing the VAT Act of 1997 and introducing fundamental changes to widen the scope of VAT, reduce exemptions, adopt best international VAT practices, and simplify administration (TRA, 2014/15). Additionally, in 2015, the Tax Administration Act (2015) went into effect. The Act consolidates all provisions related to tax administration and its relationship with customs law and international agreements and is intended to create modern, effective, and transparent tax administration by simplifying and harmonizing tax procedures to ease enforcement of tax laws by the TRA. Lastly, in 2015, the GOT passed policies which led to the

Figure 1: Tax Revenue by Source in Tanzania



Source: MOFP, 2015

Table 1: Tax Types and Rates in Tanzania, FY 2014/15

DIRECT TAXES		% SHARE OF TAX REVENUE	RATE
Income Tax	PAYE	16.7%	30% max
	Corporate and Parastatal	11.2%	30%
	Individuals	1.0%	20% max
	Withholding Tax	5.5%	15% max
	Rental Tax	0.6%	20% max
	Other Income	0.3%	Variable
	TOTAL	**35.4%**	
INDIRECT TAXES			
Import Duty	Import Duty	7.8%	25% max
	Excise Duty Petroleum	5.5%	TZS 50 per Liter
	Excise Duty (non-Petroleum)	2.5%	50% max
	VAT (non-Petroleum)	14.4%	18%
	TOTAL	30.3%	
Domestic Sales	Excise Duty	7.8%	50% max
	VAT	14.4%	18%
	TOTAL	**22.2%**	
OTHER TAXES			
	SDL	2.3%	5% of Employee Cost
	Fuel Levy and Transit Fee	6.1%	TZS 313 per Liter/TZS 10,000
	Stamp Duty	0.1%	TZS 1,000 or 1% max
	Departure Services Charge	0.5%	TZS 5,000
	Motor Vehicles Tax	1.7%	TZS 150,000 max
	Treasury Voucher Cheque	0.1%	Multiple
	Transfer to Rural Energy Authority	1.3%	5% max
	TOTAL	**12.1%**	

Source: MOFP, 2015 and TAR, 2015

introduction of the Railway Development Levy which is 1.5 % of the cost of insurance and freight (CIF) of all imported goods for home consumption in mainland Tanzania, except for exempted goods under the East Africa Customs Management Act (EACMA), and a Fuel Levy that charges TZS 313 per liter of petroleum or diesel. Together, these tax policy measures are expected to increase the tax revenue to gross domestic product (GDP) ratio by about one percent point (IMF, 2016).

Tax Collection Performance

Based on one source of data (IMF, 2016), Tanzania compares poorly with its region on overall tax ratio to GDP (Figure 2). Although improving, Tanzania has historically not compared favorably to other EAC countries, having one of the lowest ratios in the region along with Burundi, even though effective tax rates are comparable across the region (IMF, 2016). On other indicators, such as tax capacity – i.e., the maximum revenue that a country could achieve with its current rates – and tax effort (ratio of actual revenue to the tax capacity), Tanzania underperformed in 2011 compared to other African countries (Fenochietto and Pessino, 2013).

Tax revenue collection for FY 2014/15 was TZS 9,892 billion, which was 88 % of the targeted TZS 11,297 billion (see Figure 3). Actual collections grew by 6.4

% from the previous year (FY 2013/14) in nominal terms. Adjusting for inflation, which averaged 5.4% over FY 2014/15 (NBS, 2014/15), the real growth rate was 3.1%. In FY 2014/15, revenue collection growth tapered off significantly from previous years. Since FY 2006/07, actual tax revenue collection has grown by 291%, averaging around 19% growth per year in nominal terms.

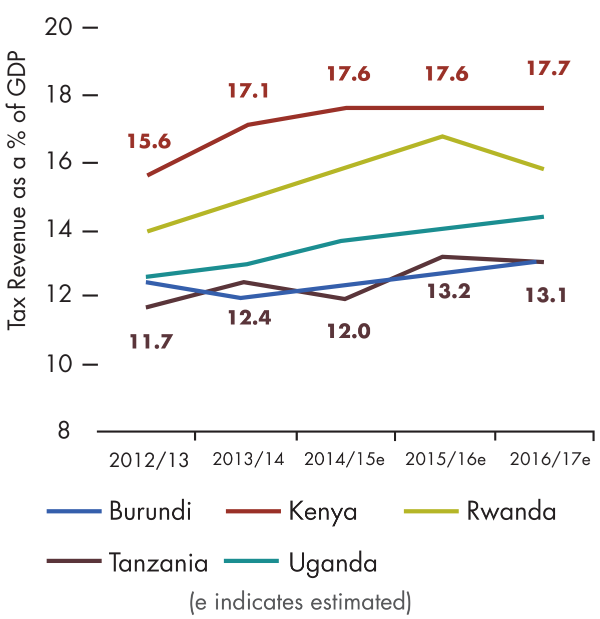
Typically, actual revenue collections in Tanzania fall short of the targets set. The process to set tax collection targets is coordinated by MOFP with input from other institutions, such as the TRA, the Bank of Tanzania, and National Bureau of Statistics. Macroeconomic indicators are analyzed in parallel with current tax reforms to determine the target. The 88% collection rate in FY 2014/15 was the lowest percentage in the last 10 years as performance usually achieves at least 90% of the target. The GOT does have initiatives to aid performance and help minimize tax evasion, such as the free issuance of electronic fiscal device (EFD) machines by the TRA to traders regardless of whether they were charging VAT on their goods and services or not. The EFDs enable increased effectiveness and accuracy of tax collection by subjecting traders to tax compliance through automatic issuance of receipts, storage of sales transactions on computer networks, and generation of unique signatures, which corresponds to personal computers that produce tax invoices. Overall collection growth has been bolstered by implementation of these types of measures to strengthen tax administration on existing sources as well as the identification of new revenue sources, such as the Railway Development Levy and Fuel Levy. Also,

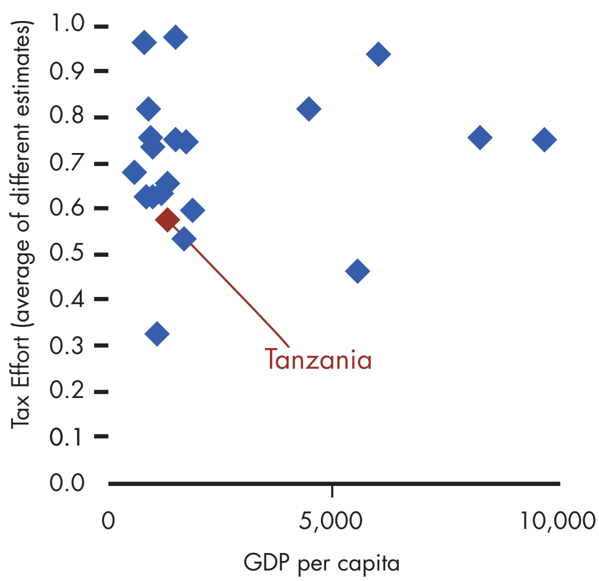
Table 2: Comparison of Tax Rates in the East African Community

	TANZANIA	KENYA	UGANDA	BURUNDI	RWANDA
Income Tax	30%	30%	30%	35%	30%
Value Added Tax	18%	16%	18%	18%	18%
Pay As You Earn	30%	30%	30%	30%	30%
Withholding Tax	15%	30%	15%	30%	15%

Source: Tanzania, Kenya, Uganda, Burundi, and Rwanda Tax Revenue Authorities

Figure 2: Tax Revenue as a Share of GDP and Tax Effort vs. GDP per capita (African Countries)





Source: Tax revenue as a percent of GDP: IMF, 2014a-d and IMF, 2016; Tax effort vs. GDP per capita: Fenochietto and Pessino, 2013 (compared to 21 other African countries) the rapid expansion and increased purchasing power of the informal sector has allowed the government to "widen" collection of consumption taxes on goods and services. This type of tax is more inclusive than direct, progressive taxation collected from the formal sector (corporations and salaried individuals).

Expenditure from Tax Revenue

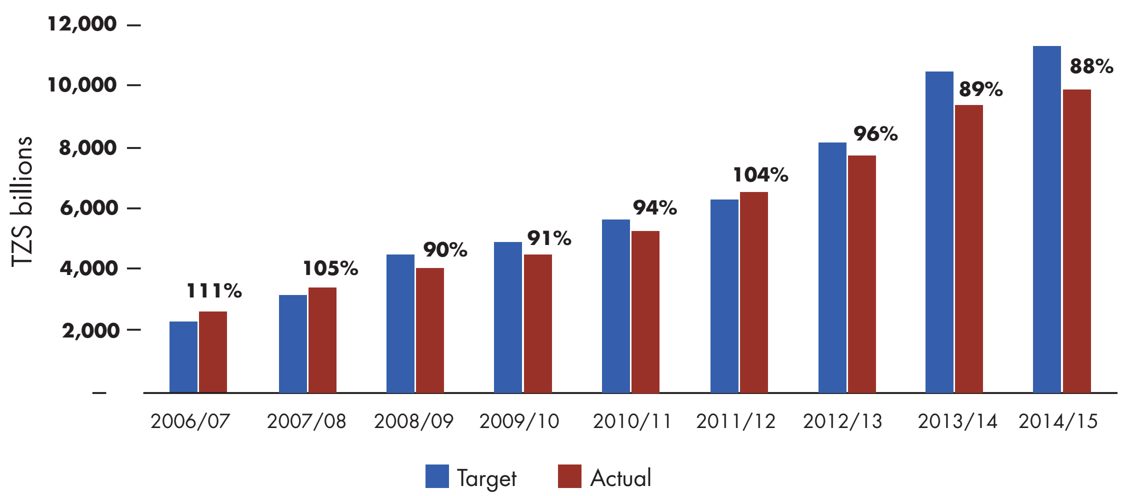
All tax revenue collected by the TRA is overseen by the Treasury of the GOT and is pooled into a general basket from which various ministerial sectors are allocated revenue according to their financial needs (see Figure 4), most of which is used to pay salaries and other recurrent expenditure for goods and services. Own source revenues collected at the LGA level are not pooled with TRA collections and are expended for use according to the budgets developed by the local councils. However, most of the local government budget is financed from central government allocations.

At the central level, there are a few exceptions where TRA collects earmarked revenues and disburses them directly to the related established institutions – for example, the Skills and Development Levy (SDL) and Fuel Levy that will be discussed in further detail in the case studies below. The GOT plans its expenditure based on available financial resources; however, meeting budget obligations has been a challenge in some years due to revenue shortfalls. To meet its financial obligations, the GOT solicits funds from external development partners and borrows on both the domestic and international debt markets. In FY 2014/15, the budget deficit was projected at TZS 4,432 billion of which TZS 1,075 billion was financed by grants and the remainder financed by borrowing (IMF, 2016). Revenue (including grants) and expenditure projections for the next two years continue to show a budget deficit (Table 3), highlighting the need to increase revenue collection by widening the tax base and reducing tax evasion to help maintain the fiscal deficit at sustainable levels.

Prospects for Increases in Tax Revenue

Given Tanzania's continued economic growth, prudent monetary and fiscal policy, and stable politics, it is reasonable to believe that increased domestic revenue mobilization is possible. The GDP of Tanzania has seen a positive growth for an extended period with real GDP growth of 7.2% in FY 2014/15 (IMF, 2016) and projected to remain strong for the next two years (see Table 3). This growth is attributed to the expansion of construction activities and increased access to credit in the private sector as well as increased investment in transport and communication infrastructure (IMF, 2016; see Table 3). Strong growth in these sectors and favorable macroeconomic conditions has the GOT well positioned to capitalize on the potential for increased tax collection as a result of the growing economy.

Figure 3: Tax Revenue Performance in Tanzania, FY 2006/07 to 2014/15



Source: MOFP, 2015

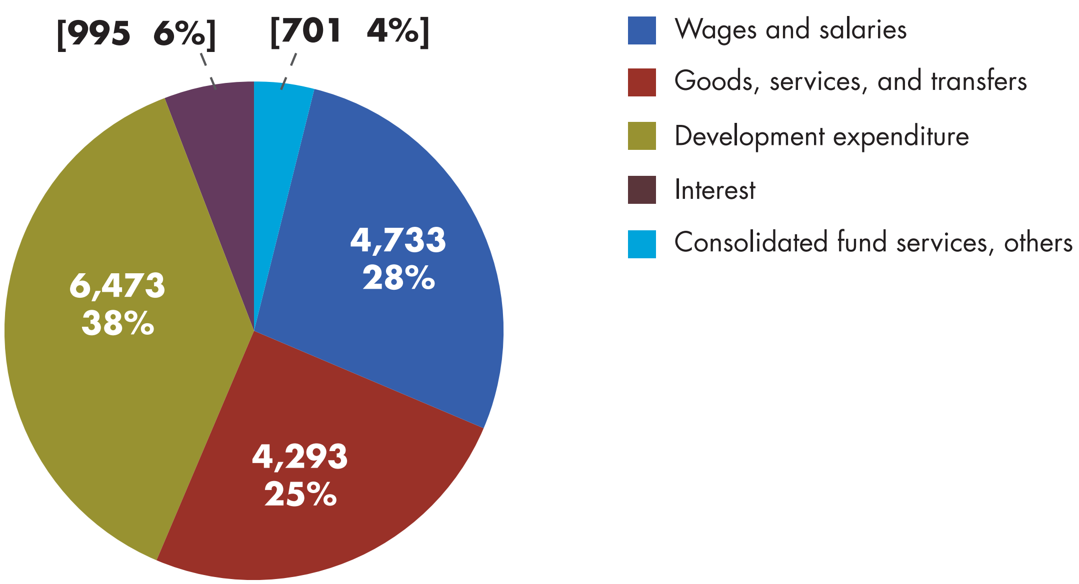
The GOT plans spending through the Medium Term Expenditure Framework (MTEF) over a three-year period as a budget management tool to improve sustainability. Through the MTEF, the GOT prioritizes expenditure objectives and allocations in line with national priorities based on the forecasted value of the budget that includes on budget donor financing. Projections for tax revenue collection in the coming years continue to increase (see Figure 5). Tax revenue as a percentage of GDP, another common indicator for tax performance, is forecasted to increase from 11.7% in 2014/15 to 15% by 2019/20 (MOFP, 2016). Additional measures to improve tax enforcement currently include increasing the frequency of tax audits and the application of more electronic payment systems to reduce cash transactions. Based on historic tax revenue growth trends, respectable collection rates versus planned targets, and increasing tax revenue projections, prospects for expanding the tax base look promising in Tanzania. The new government led by President Magufuli has made it a priority to strengthen revenue collections. Although no new reforms have been created under the new regime as of yet, President Magufuli has taken stringent measures to implement the existing tax reforms, including issuing a Presidential order to non-compliant businesses to pay previously evaded taxes or face prosecution. In November 2015, the President removed from duty top officials from

Table 3: Macroeconomic Indicators for Tanzania

INDICATOR	2013/14	2014/15 (EST.*)	2015/16 (PROJ.**)	2016/17 (PROJ.)
Real GDP growth	7.1	7.2	7.2	7.0
GDP per capita (US$)	1,006	1,020	981	967
CPI inflation	6.4	4.8	5.0	5.0
Revenues & Grants % GDP	15.7	14.6	16.4	16.2
Expenditures % GDP	18.6	18.6	20.6	19.7

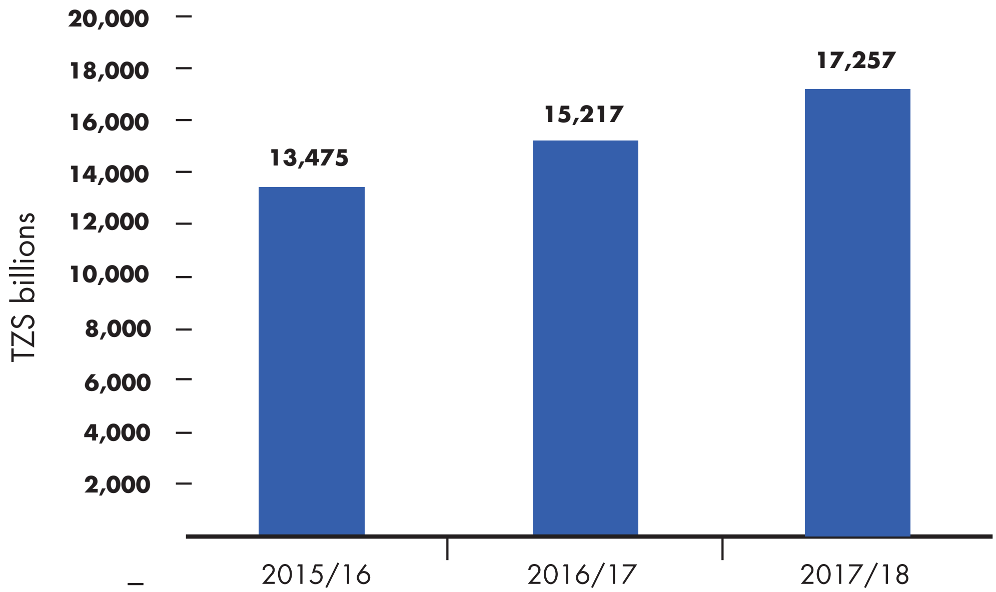
Source: IMF, 2016 * Est. - Estimated ** Proj. - Projected.

Figure 4: 2014/15 GOT Planned Expenditure in TZS Billions



Source: MOFP, 2015

Figure 5: Tax Revenue Projections



Source: MOFP, 2016

TRA for non-performance. With increased scrutiny of tax adherence from the new government, tax collection has reportedly improved dramatically since President Magufuli came into office. According to Dr. Philip Mpango, the Minister of Finance and Planning, TRA collected TZS 1,790 billion from domestic sources in the month of January 2016 alone and is poised to collect as much as TZS 2,000 billion per month in the near future (Kintundu, 2016). Official reporting is not yet available to confirm these claims; however, the most recent TRA quarterly *Tax Revenue Collection Report 2015-16* (*Tax Revenue Collection Report 2015-16* records monthly collections) did record a 68% increase in direct tax and VAT collected in December 2015 compared to November, the month when Magufuli was sworn into office. If current optimism on improved tax collection holds true and Minister Mpango's statements on future revenue collection are realized, the tax revenue projections from the MOFP *Budget Guidelines 2016-17* may be underestimated by not factoring in the supposed current trajectory of collections.

3. EARMARKED TAXES

The concept of earmarking funds is to set aside money collected from general tax revenue for a specific expenditure that will be used to help the government achieve a targeted objective (Cashin, 2016), such as improving access to quality health services. Ideally, the earmark will come from a stable and fiscally sustainable tax source, which will produce a steady stream of predictable domestic revenue for the targeted objective. As previously mentioned, there is a substantial resource gap for the health sector in Tanzania. The increasing fiscal space in Tanzania could provide opportunities for the health sector to mobilize financing from domestic sources to reduce reliance on foreign donors. Achievement of tax funds specifically for health could be a sustainable long-term solution to help meet the funding needs for the health sector. In Ghana, a 2.5% health insurance levy is collected as part of the VAT for selected goods and services and is used to help subsidize the National Health Insurance Scheme, which provides access to basic healthcare services available to all residents of Ghana.

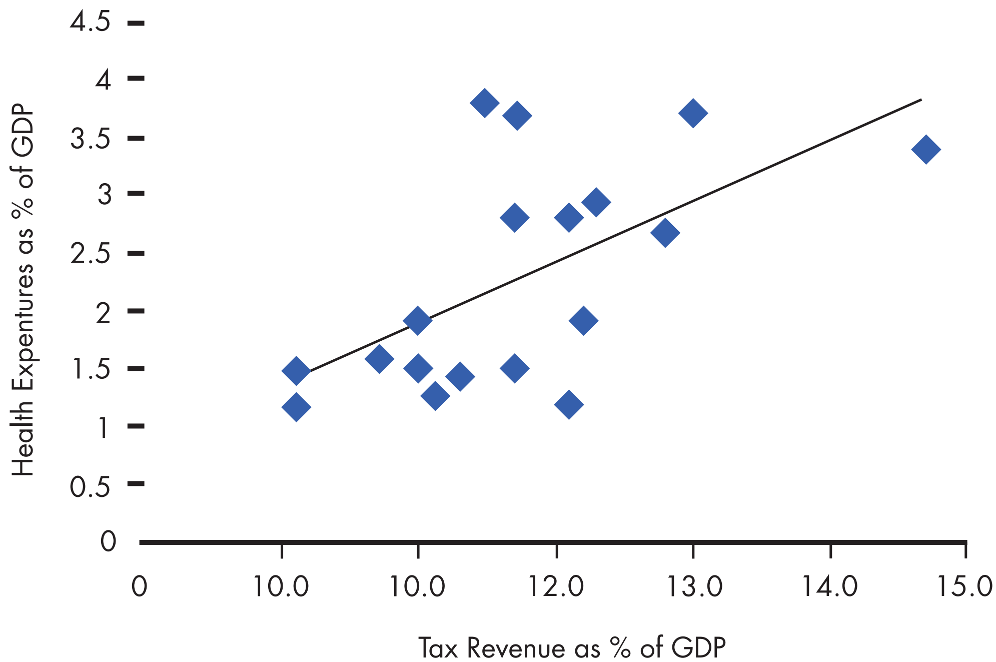
The importance of establishing tax earmarks for health was further emphasized in a recent study conducted by the USAID-funded Health Finance and Governance Project (HFG). Findings from the study showed that increases to tax revenue alone, relative to other sources of funding, do not lead to increased government health expenditure (Soe-Lin et al., 2015). The study claims that budget allocations are influenced by government priorities, so without generating national political priority for health spending, increased tax revenue will not necessarily translate into increased budget allocations to health relative to other sectors. (see Box 1 for alternative research). In Tanzania, there does appear to be a positive relationship between tax revenue and health expenditure from 1996-2013 (Figure 6); however, more research is needed to determine how the increase in health expenditure compares to other sectors.

4. CASE STUDY – THE MINISTRY OF LABOR (MOL)/MINISTRY OF EDUCATION (MOE)

The establishment of the Vocational Education and Training Authority (VETA) in 1974 under the Ministry of Labor aimed at ensuring the existence of an adequate supply of properly trained labor at all levels of industry. A subsequent VETA Act was enacted through which a Skills and Development Levy (SDL) was introduced. This levy is paid by employers with four or more employees, applying 5% (amended from 6% in 2015) on the total gross emoluments (wages, leave and sick pay, commissions, bonuses, gratuity, allowances, etc.) payable by the employer to its employees, and is earmarked for training activities falling within the domain of VETA. The levy is directly remitted by TRA to VETA and the program is designed to provide training to those who completed primary school, but did not receive a secondary school education (TRA, 1994). The VETA was initially established because the country had a large population of unskilled youth and the GOT prioritized this initiative as a way to spur socio-economic development and poverty reduction. The SDL program was moved under the authority of the Ministry of Education in 1994 for management and oversight.

SDL collections have been improving year after year due to the expansion of the country's economic growth (see Figure 7). The revenue from the SDL has increased substantially, with collections growing from TZS 53.7 billion in FY 2005/06 to TZS 216.1 billion in FY 2014/15 (TRA, 2005-2015), a nominal increase of 302%. Since SDL is an earmarked tax, there is no further budget allocation from the national revenue basket. The set-asides are utilized to fund various financial obligations of VETA that are stipulated in its budget. The VETA budget is the sole responsibility of the authority's

Figure 6: Relationship Between Tax Revenue and Health Expenditure in Tanzania 1996-2013



Source: IMF, 2014a-d; IMF, 2016; and World Bank, 2016

Box 1: Effects of Tax Structure on Public Health Systems

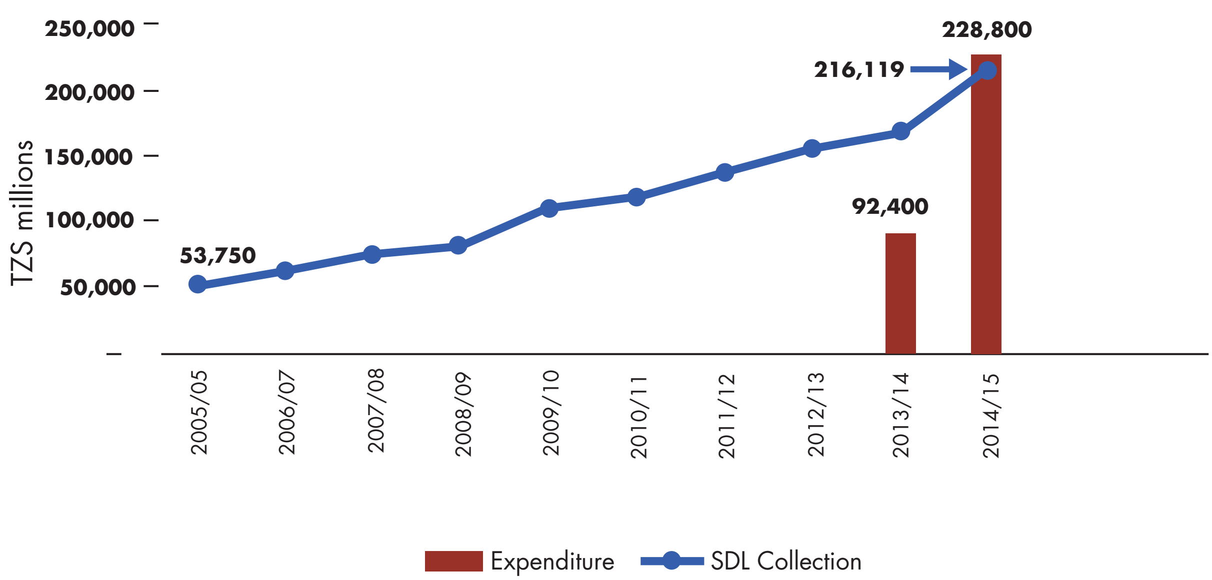
Research conducted by Oxford University found a positive correlation between additional tax revenue and increases in government health spending and progress towards UHC (Reeves et al., 2015) – each US$100 per capita per year of additional tax revenue corresponds to a yearly increase in government health spending of US$9.86. Findings also show that regressive taxes, such as consumption taxes, have a negative effect on health indicators, while direct taxes on income, profits, and capital gains do not.

institutions and not the MOE. SDL performance against planned expenditure has been uneven. In FY 2014/15, actual expenditure for SDL was TZS 228.8 compared to the estimate of TZS 122.1, while in FY 2013/14, actual expenditure was TZS 92.4 compared to the estimate of TZS 139.7 (see Figure 7).

5. CASE STUDY – THE MINISTRY OF INFRASTRUCTURE AND COMMUNICATION (MOIC)

The Ministry of Infrastructure and Communication plans, develops, and maintains good and tenable infrastructure systems for transportation and communication. The MOIC recently managed to achieve earmarked tax revenue from consumption taxes to be used for the maintenance and construction of railway infrastructure. A railway development levy of 1.5% is charged on the value of imported goods based on the CIF value (TRA Finance Act, 2015). Kenya has a similar 1.5 % Railway Development Levy on the value of imported goods from outside the EAC for domestic consumption. In Tanzania, MOIC also has an earmark from excise taxes charged to fuel in the amount of TZS 313 per liter of petroleum and diesel that is used for the maintenance of roads (TRA Finance Act, 2015. An additional petroleum levy of TZS 50 per liter is collected for the National Water Investment Fund, which finances water supply and sanitation services. Passed by Parliament in June 2015, these levies are too new to analyze performance thus far. But in 2012, Tanzania was estimated to consume 47,600 barrels per

Figure 7: SDL Collections and Expenditure



Source: TRA, 2016

day of petroleum (IES, 2015). Assuming 159 liters of petroleum per barrel, future yields from the petroleum levy alone could exceed TZS 864 billion per year.

The proposal for the railway levy gained political momentum in Tanzania during the recent national election (2015), particularly in regions that had poor road accessibility. The railway system in Tanzania is currently in poor condition, resulting in significant wastage of agricultural produce because of lack of transportation to major markets, which in turn led to increasing food prices. The plan is to build a Central Corridor Line that will link the Dar es Salaam port to Rwanda and Burundi and two additional lines that will connect Dar es Salaam to mining areas in the south and northern parts of the country (Rogers, 2015). Improving the railway system is regarded by the GOT as an important initiative that would boost economic productivity by connecting markets from different regions both within and outside the country.

6. EARMARKS FOR THE HEALTH SECTOR IN TANZANIA

Both MOHCDGEC and the Tanzania Commission for AIDS (TACAIDS) have previously applied for funds from the Ministry of Finance and Policy (MOFP) in the form of tax set-asides. According to a key informant from MOHCDGEC, a previous proposal to earmark sin taxes on products deemed harmful, such as tobacco and alcohol, as a source of dedicated revenue for health was declined by the MOFP. The same proposal also unsuccessfully attempted to earmark taxes from motor vehicle licenses and petroleum sales. The sin tax proposal was not accepted because the MOFP argued that the implementation of these reforms would increase the retail sale price of related products and consequently impact sales volumes, which would in turn negatively impact future production. Such trends would impact overall GOT revenue adversely, i.e. lower government tax revenue from lower sales. It is not clear whether the rejection was based on an explicit analysis of the demand elasticity of these products. A suite of tax set-aside proposals from TACAIDS in FY 2013/14 and earlier were rejected as well (Issa, 2014).

According to TACIDS, coinciding with the recent establishment of the AIDS Trust Fund (ATF) via the amended TACAIDS Act (2014), another proposal to set aside funds for the ATF at a 3% rate to be imposed on gross collections of VAT was proposed in late 2015 to the GOT Cabinet. TACAIDS anticipates that related policies for this earmark instrument will be drafted by the MOHCDGEC and MOFP, with hopes that a bill specific to the ATF could be sent to Parliament in June 2016. The proposal for the establishment of ATF earmark based on allocating 3% allocation of VAT collections on sales of goods and services could potentially raise TZS 91 billion per year, assuming VAT collection remained at FY 2014/15 levels – which would be a significant source of revenue for HIV if approved.

However, to improve the likelihood that some proportion of tax revenue will be dedicated to health requires key actors to reprioritize health within the government's overall plans for expenditure. Based on MOFP's response to prior proposals by TACAIDS to establish sustainable financing sources, including for the ATF, MOFP was not previously prepared to prioritize HIV and AIDS over other social sector objectives.

For all such – and other subsequent – proposals, it is important for the MOHCDGEC and TACAIDS to sensitize the MOFP on the many health, economic, and social benefits of scaling up ART and HIV prevention services. MOHCDGEC must also make a strong presentation of the investment case for HIV programming in Tanzania and provide compelling evidence that shows health spending resulting in positive outcomes. Developing a strong track record in public financial management will also increase MOFP's confidence that increased funding to health will be used effectively and efficiently.

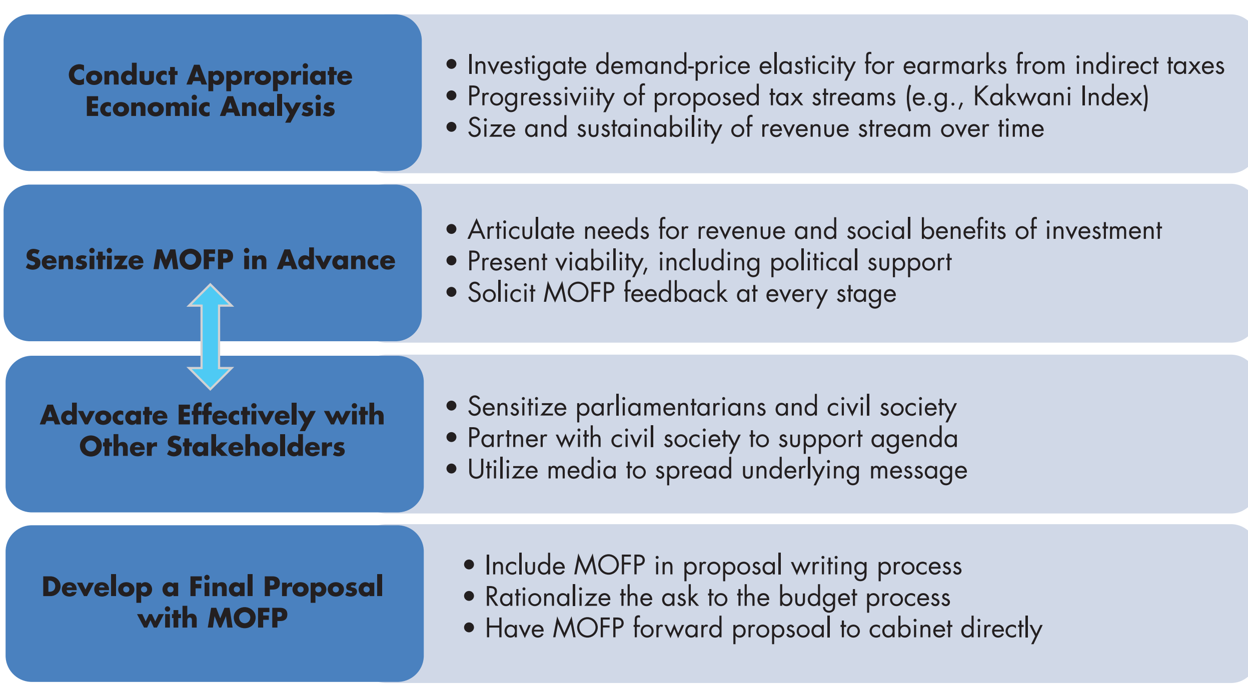
Procedurally, there is a need to establish an inter-ministerial tax policy formulation entity. This will ensure that proposals are a collaborative effort between ministries from inception and are satisfactorily thought-through with inputs provided by all stakeholders. Involving the MOFP in the actual design and writing of the proposal would likely increase the probability that the proposal will be accepted by the MOFP and sent to the cabinet.

7. DISCUSSION AND CONCLUSIONS ON POTENTIAL TAX REFORMS

Fiscal space to expand domestic resource mobilization (DRM) is increasing due to Tanzania's strong economic growth and the GOT's recent efforts to strengthen tax collection, minimize unnecessary expenditure, and optimize financial procedures to safeguard public funds. The increase in tax collection over recent years is evidence of the opportunity to increase the budget for health through financing from tax revenue. Lessons learned from Zimbabwe, Ghana, and the performance of the SDL are that tax set-aside mechanisms are an effective option to sustainably fund a particular sector or cost item through revenue earmarking without depending on general budget allocations from the central government.

Tanzania's history has shown that reform has a stronger chance for acceptance if there is political interest in the targeted objective. The MOIC succeeded in achieving earmarked taxes because lobbyists made a compelling case for the economic benefits from building the Central Corridor Line. Practically, any successful sectoral or ministerial proposal identifies a real concern or issue, develops a strategy to mitigate the problem, and identifies resources that can be organized and utilized to solve the problem (see Figure 8). Analysis of the proposed collection of resources should consider the progressivity of the intervention in the context of the distribution of income within the country. Additionally, if the proposed tax will be charged to a specific good or service, research should be conducted to assess its effect on sales revenue and production volumes. Procedurally, once developed, the proposal is sent to the MOFP for assessment and if approved, will be forwarded to the Cabinet for further discussion and deliberation. Advocacy efforts in partnership with civil society organizations and through the media to sensitize parliamentarians and the general population on the merits of the proposal and how it will benefit citizens may generate national political attention to the issue and increase the likelihood that the proposal will be approved.

Figure 8: A Proposed Process to Coordinate Tax Earmarks or Special Provisions for Health



REFERENCES

Cashin, C. 2016. *Earmarking – A Safe Bet to Finance Health?* Washington, DC: Results for Development.

Controller and Auditor General. 2014. *Financial Statements of Local Government Authorities for FY ending 2014.* Dar es Salaam : GOT.

Fenochietto, R. and C.Pessino. 2013. *Understanding Countries' Tax Effort.* IMF Working Paper, November 2013. Washington, DC: International Monetary Fund.

International Energy Statistics. 2015. *Tanzania Dataset*. Washington, DC: Energy Information Administration.

International Monetary Fund (IMF). 2016. *Article IV Country Report*, Tanzania 2016 No. 16/29. Washington, DC: IMF.

IMF. 2014a. Article IV *Country Report, Burundi 2014* No. 14/293. Washington, DC: IMF.

IMF. 2014b. Article IV *Country Report, Kenya 2014* No. 14/302. Washington, DC: IMF.

IMF. 2014c. Article IV *Country Report, Rwanda* 2014 No. 14/343. Washington, DC: IMF.

IMF. 2014d. Article IV *Country Report, Uganda* 2015 No. 15/175. Washington, DC: IMF.

Issa, B. 2014. *Establishing AIDS Trust Fund: Tanzanian Experience*. TACAIDS. International AIDS Conference 2014: Melbourne, Australia (Satellite Session, 23rd July, 2014).

Kitundu, T. 2016. "Tanzania Near Tax Target." East African Business Week. Available at: http://www.busiweek.com/index1.php?Ctp=2&pI=4863&pLv=3&srI=49&spI=27.

Kutyauripo, L. 2015. "Aids Levy Raises Millions to Fund Zimbabwe's HIV Response: All Africa." Available at: http://allafrica.com/stories/201506011826.html.

Ministry of Finance & Planning (MOFP). 2016. *Budget Guidelines for the Preparation of Annual Plan and Budget for 2016/17*. Dar es Salaam: GOT.

MOFP. 2016. *Full Year Budget Performance and Economic Review*. Dar es Salaam: GOT.

MOFP. 2005-2015. *Budget Books 2005-2015*. Dar es Salaam: GOT.Ministry of Health, Community Development, Gender, Elderly and Children (MOHCDGEC). 2015. *Health Sector Strategic Plan July 2015 – June 2020*. Dar es Salaam: GOT.

MOHCDGEC. 2015b [Unpublished]. *(Draft) Tanzania Health Financing Strategy 2015-2025*. Dar es Salaam: GOT.

MOHCDGEC. 2015c [Unpublished]. *National Health Accounts 2011/12*. Dar es Salaam: GOT.

National Bureau of Statistics (NBS). 2015. *Tax and Government Finance Statistics Report (Mainland)*. Dar es Salaam: GOT.

NBS. 2014-15 . *Consumer Price Index 2014-2015*. Dar es Salaam: GOT

NBS. 2014. *The Integrated Labor Force Survey (ILFS)*. Dar es Salaam: GOT

Reeves, A., Y. Gourtsoyannis, S. Basu, D. McCoy, M. McKee, and D. Stucker. 2015. *Financing universal health coverage – effects of alternative tax structures on public health systems: cross-national modelling in 89 low-income and middle-income countries.* Oxford, UK: Department of Sociology, University of Oxford.

Rogers, D. 2015. "Tanzania to Build $14bn Standard Gauge Network Inside 5 Years:. Available at: http://www.globalconstructionreview.com/news/tanzania-build-14bn-standard-ga5u8g8e-n8e8t8w8o8rk.

Soe-Lin, S., S. Frankel, E. Heredia, and M. Makinen. 2015. *Tax Reform and Resource Mobilization for Health*. Bethesda, MD: Health Finance & Governance Project, Abt Associates Inc.

TRA. *2015. Taxes and Duties at a Glance* 2015/16. Dar es Salaam: GOT.

TRA . 2015. *The Finance Act 2015*. Dar es Salaam: GOT.

TRA . 2014-15. *Tax Laws*. Dar es Salaam:

TRA. 1994. *Tax Laws, The Vocational Education Training Authority Act*. Dar es Salaam: GOT.

World Bank. 2016. "World Bank Development Indicators." Available at: http://data.worldbank.org/indicator.

For more information, contact:

Health Policy Project
Futures Group
1331 Pennsylvania Ave NW, Suite 600
Washington, DC 20004
www.healthpolicyproject.com
policyinfo@futuresgroup.com