

# AFROBAROMETER *Briefing Paper*

## DO I HAVE TO PAY TAX? CITIZENS' AWARENESS OF THEIR TAX OBLIGATIONS IN TANZANIA

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JULY

2013

Are Tanzanians aware that they are required to pay value added tax (VAT) and income tax? Does this awareness vary by citizens' education and place of residence? Does access to tax information influence citizens' awareness of their obligation to pay these taxes? This briefing paper seeks to answer these important questions based on data from Round 5 of the Afrobarometer survey conducted in 2012.

The survey results indicate that more citizens are aware of their tax obligations when access to tax information is easy. Furthermore, citizen's educational attainment is associated with greater awareness of tax obligations, while urban residents are more often aware of their tax obligations than rural residents. Based on this evidence, the brief recommends improving access to tax information, increasing tax education and developing innovative tax outreach measures. It also encourages citizens to be more proactive in seeking tax information.

By Rose Aiko

### BACKGROUND

Citizens' access to information is a crucial foundation for public accountability. With respect to taxation, citizen's access to information helps nurture tax consciousness, and, in turn, holds the potential to improve tax compliance. Over the last two decades, Tanzania has been reforming its tax system in a drive to secure more reliable financing for development and reduce dependence on foreign

aid (URT, 2013; IMF, 2012). Tax education and outreach measures have been included in the government's reform efforts to enable citizens to better understand their obligation to pay taxes.

However, results from Round 5 of the Afrobarometer survey, conducted in 2012, found that almost three-quarters (72%) of the Tanzanians surveyed said

it was difficult to find out what fees and taxes one is required to pay to the government. Using value added tax and income tax as case studies, this brief – the second in a series of three policy briefs on citizens’ perceptions and attitudes towards taxation in Tanzania drawn from the Afrobarometer survey – examines citizens’ awareness of their tax obligations.

VALUE ADDED AND INCOME TAXATION IN TANZANIA

In Tanzania, the value added tax, an indirect consumption tax, is charged on taxable goods and services whenever value is added at each stage of production and at the final stage of sale. VAT is paid at a standard rate of 18% of the purchase price. For exceptional reasons, some commodities are zero rated, i.e., no VAT is charged on purchase/sale of goods and services. Examples of zero-rated commodities include unprocessed food products and all exported good and services.

Income tax is levied on earnings depending on the nature of employment. Salaried employees pay

a pay-as-you-earn (PAYE) tax which is deducted directly from their salaries by employers and paid to the Tanzania Revenue Authority (TRA). Self-employed people/business people are required to file tax returns on their own and pay a 30% tax on profits earned to the TRA. Where a tax payer in the latter case fails to keep complete records and/or is unable to file a proper tax return, the TRA levies a presumptive tax based on estimated sales turnover up to a threshold of TZS 20 million.<sup>1</sup>

KEY FINDINGS

A significant proportion of Tanzanians are misinformed about the taxes they need to pay

The Afrobarometer examined citizens’ awareness of their tax obligations by asking respondents, irrespective of their ability to pay them, whether they were required to pay value added and income taxes. Interestingly, 55% of respondents said they were not required to pay VAT even though in reality everyone pays VAT on the purchase of goods and services (Figure 1). Another 8% said they did not

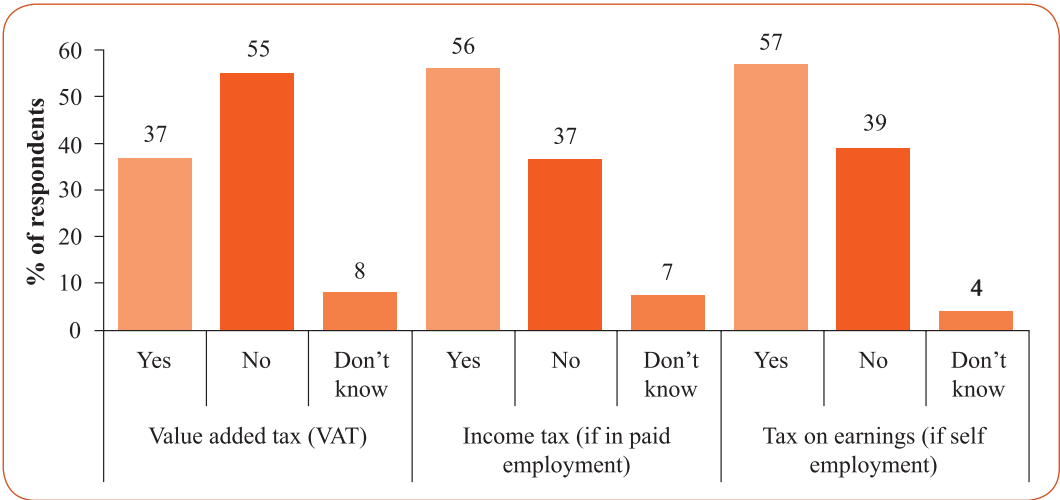


Figure 1: Citizens’ perceptions on whether they are required to pay VAT and income taxes

Source: Author’s calculations based on Afrobarometer survey, 2012

<sup>1</sup> Please see <http://www.tra.go.tz> for more information about income and value added tax policies.

know whether or not they were required to pay VAT. Misinformation also surrounds income tax. Among respondents in salaried employment, 37% said they were not required to pay income tax, and a further 7% said they did not know whether they had to pay income tax. Similarly, 39% of self-employed respondents said they were not required to pay tax on earnings, while another 4% said they didn't know they had to pay.

**When access to tax information is easy more people were aware of their tax obligations**

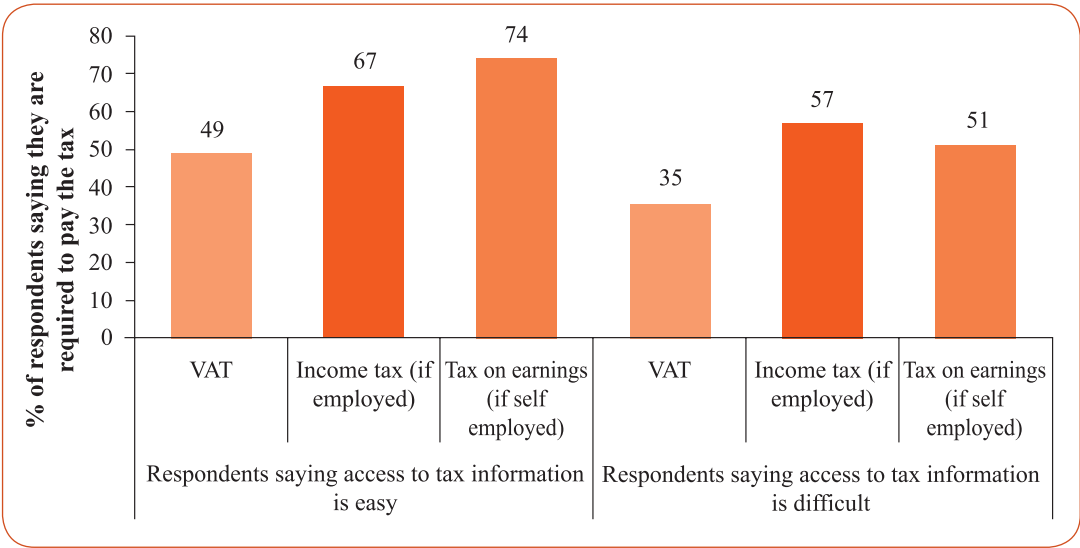
To clarify whether access to information affects citizens' understanding of their tax obligations, this brief examined respondents' perceptions of their access to tax information against their self-reported awareness of tax obligations. As Figure 2 shows, respondents who said access to tax information was easy were more likely to affirm that they were required to pay VAT and income taxes, compared to respondents who had difficulty accessing tax information. These results suggest that better access

to tax information helps citizens understand their tax obligations.

**Citizens' awareness of tax obligations is positively associated with their level of education**

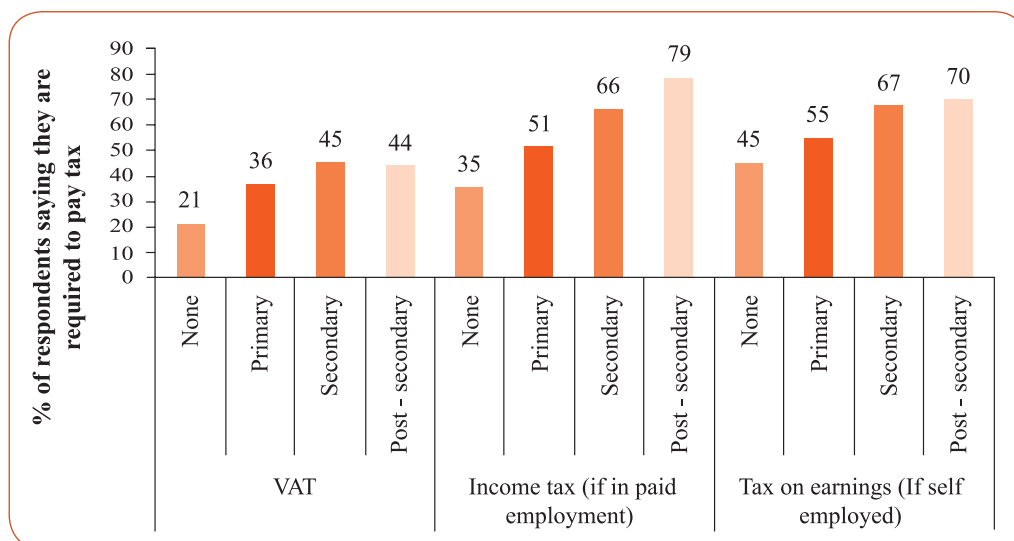
The higher the level of education of respondents, the more likely they were to be aware of their tax obligations (Figure 3). Even so, and possibly due to the fact that tax education is not currently taught as a general skill in all schools, higher educational attainment does not eliminate misinformation altogether. For example, only 44% of respondents with post-secondary education reported that they were required to pay VAT.

More respondents with post-secondary education in paid employment said they were required to pay income tax, but still about 21% said they were not required to pay. Incorporating tax education in school curricula may help to close this information gap.



**Figure 2: Association between citizens' awareness of tax obligations and their access to tax information**

**Source:** Author's calculations based on Afrobarometer survey, 2012



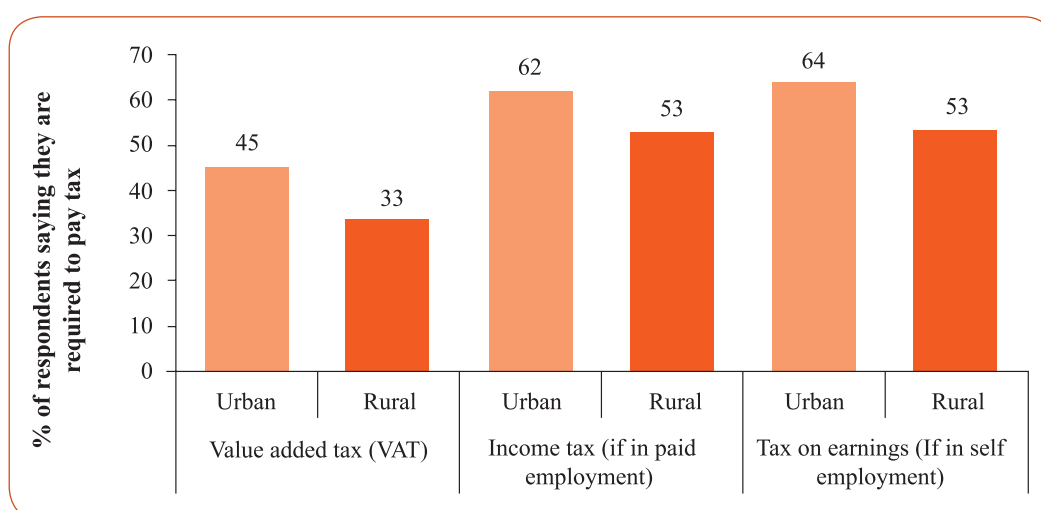
**Figure 3: Citizens' awareness of tax obligations, by level of education**

**Source:** Author's calculations based on Afrobarometer survey, 2012

### Urban residents are more often aware of the obligation to pay taxes compared with rural dwellers

A larger proportion of respondents (45%) in urban areas affirmed that they were required to pay VAT than respondents living in rural areas (33%)

(Figure 4). Likewise, a higher proportion of urban respondents understood they had an obligation to pay taxes on salary income and/or earnings from self-employment compared with respondents in rural areas.



**Figure 4: Citizens' awareness of tax obligations, by residence (urban/rural)**

**Source:** Author's calculations based on Afrobarometer survey 2012

## CONCLUSION

The results from the latest round of the Afrobarometer survey have shown that a significant proportion of Tanzanians are not aware of their obligation to pay value added and income taxes. However, when access to tax information is easy more citizens are likely to understand that they are required to pay these taxes. Survey data further indicate that higher educational attainment increases the proportion of people who understand tax obligations, but that it does not eliminate misinformation altogether, while rural residents tend to be less informed about tax obligations compared with urban residents.

Improving access to tax information and tax education can help to expand understanding

of tax policies and nurture a more tax-conscious society. Several options can be explored to achieve these twin goals: introducing tax education in school curricula, running year-long television and radio outreach broadcasts dedicated to tax education, and tax education forums including blogs. Printing and distribution of tax education flyers, for example, as inserts in other printed materials that reach communities, may be another effective tool. Civil society organisations and the media can help immensely with distribution of information given their proximity to and reach within communities. In addition, citizens on their part are encouraged to be more proactive in seeking tax information to enhance their individual understanding of tax policies.

## REFERENCES

United Republic of Tanzania, Ministry of Finance and Economic Affairs (2013). Speech by the Minister for Finance Hon. Dr. William Augustao Mgemwa (MP), Introducing to the National Assembly, the Estimates of Government Revenue and Expenditure for the Fiscal Year 2013/2014.

International Monetary Fund (2012). IMF Country Report No. 12/185. <http://www.imf.org/external/pubs/ft/scr/2012/cr12185.pdf>, accessed on 12 March, 2013.



## Map of Tanzania



Source: <http://www.nationsonline.org/maps/tanzania-administrative-map.jpg>

## ABOUT THE AFROBAROMETER

The Afrobarometer is a series of public attitude surveys, covering up to 35 African countries in Round 5 (2011-2013). The survey measures public attitudes on democracy, governance and economic performance, as well as citizens' views on important political and social issues in participating countries.

REPOA is the national implementing partner for the Afrobarometer in Tanzania. Five rounds of the survey have been completed in Tanzania since 1999. Field work for Round 5 of the survey was conducted by REPOA during May and June 2012. For this round, 2,400 adult Tanzanians were interviewed. A sample of this size yields results with a margin of error of +/-2% at the 95% confidence level.

For more information and further requests for analysis on Tanzania, please visit the Afrobarometer website, [www.afrobarometer.org](http://www.afrobarometer.org), or contact REPOA at [repoa@repoa.or.tz](mailto:repoa@repoa.or.tz) or by phone at +255 22 270-0083.

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