A Study on Taxation in the Extractive Industry, Governance and Poverty: The State of Tanzania

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A Study on Taxation in the Extractive Industry, Governance and Poverty: The State of Tanzania

A Study Carried Out

By

Inspire Consultants Limited

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EXECUTIVE SUMMARY

This study on extractive industry was intended to examine the role of extractive sector in contributing to DRM, the current growth of extractive sector in the country and how the sector is governed in both Tanzania Mainland and Zanzibar. The main focus was to: examine the current state (Institution and taxation structure inclusive) of the extractive sector in the country and its relation to governance and poverty; examine the linkage between taxation, governance and poverty reduction; examine the role and setbacks of taxation (progressive) and multilateral organizations in enhancing of income equality; examine tax reforms that led to expected development outcome from the extractive sector; and examine the challenges that Governments of the United Republic of Tanzania and Zanzibar are facing in committing to stable taxation policies.

During implementation, the team reviewed a number of literatures relating to extractive industry including policies, guidelines and statutes in order to familiarize and build a foundation on key research issues as were identified in the terms of reference. Also, the team deployed face to face interview with administrative officials especially from TRA, ZRB, as well as other stakeholders from the Ministry of Mineral, Ministry of Finance and Planning for both Tanzania Mainland and Zanzibar, as well as mining commission. The interrogations extended to non-governmental organisations and sector associations such as SWISSAID, and Haki Rasilimali.

The study has observed that the overall growth of the sector has recorded 17.7 percent in 2019. Also the sector has significant contribution to governance and poverty reduction as taxation improves the government revenue and hence ability to finance public spending which in turn reduces poverty. Majority of taxes in extractive sector, such as PAYE and production sharing of profit oil or profit gas are progressive; they usually enhance income equality. There is also a need to enhance the economic empowerment transfers to help the poor and other vulnerable groups.

Tax reforms that can lead to expected development outcome from the extractive sector includes ring-fencing of operations, exemption on liquefied petroleum and natural gases, review and re-negotiation of unconscionable terms, payment of mineral clearance fee and royalties, withholding tax on sales of industrial minerals, participation through government free carry interest, local content requirement, removal of WHT and VAT on artisan miners, and withholding regardless of source of payment and permanent establishment.

On the other hand, there are challenges that governments of the United Republic of Tanzania and Zanzibar are facing in committing to stable taxation policies. These challenges include: a need for fair share of tax revenue from extractive industry, failure to balance between revenue generated by the government and competitiveness in the extractive industries, institutional and administrative inefficiency and pressure from the public, civil societies and opposition political parties.

The Tanzanian extractive industry still grieve from existence of loopholes that exuberate the revenue losses. The loopholes includes Low government Involvement in extractive industry and Tax laws that are favourable to multinational companies (MNCs) characterized by unfavourable tax incentives and exemptions. Also, illicit Financial Flows (IFFs) usually result into low tax revenue from the resource sector. Moreover, the lesson learnt from the experience of the extractive industry's operation amid COVID 19 is that mining sector has not needed targeted relief as there has been no specific relief for mining sector. CAPEX is temporarily down, but M&A is likely to pick up as a result there is an expected change of control of ownership. There is an impetus for tax reforms: the time to rethink about the post COVID 19 fiscal regimes in the extractive industry is now.

Though a commendable job has been done by the 5th government in opening mining markets in almost every district/region where mining is taking place, there are some recommendations to bring further improvement. It is recommended that governments of the United Republic of Tanzania and Zanzibar should continue fighting and stop aggressive corporate tax avoidance and illicit financial flows practice by enhancing the capacity of the tax Audit and investigation units. Must also work hard to control transactions that erodes the tax base and which are designed to shift the profits to low tax rates or to no tax jurisdictions.

Likewise, the government must ensure compliance to transfer pricing policy and provide for disclosure of third party sales contracts and the use of quoted prices in related party transactions. Furthermore, TRA and ZRB must improve the institutional capacity especially the mineral audit units to enhance accountability, transparency, and integrity and provide for exchange of information. Where possible, the mining companies and governments can agree to prepay taxes and royalties. Also, the government should ensure that companies comply with tax laws by paying their fair share of taxes.

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ABBREVIATIONS AND ACRONYMS

BOT	Bank of Tanzania
BRELA	Business Registrations and Licensing Agency
CCM	Chama Cha Mapinduzi
COVID -19	Corona Virus Disease of 2019
CSR	Corporate Social Responsibilities
EAC	East African Community
EFD	Electronic Fiscal Devices
EIA	Environment Impact Assessment
EITI	Extractive Industries Transparency Initiative
FDC	Focal Development Colleges
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GGM	Geita Gold Mine
GoT	Government of Tanzania
GST	Geological Survey of Tanzania
GTL	Gas to Liquids
HESLB	Higher Education Students Loan Board
ICT	Information Communication Technologies
JV	Joint Venture
LNG	Liquefied Natural Gas
MDA	Mining Development Agreement
ML	Medium Scale Mining License
MNC's	Multi-National Corporations
NEMC	National Environment Management Council
NRGI	Natural Resources Governance Institute
OECD	Organisation for Economic Cooperation and Development
PAYE	Pay As You Earn
PL	Prospecting Mining License
PML	Primary Mining License
PPE	Personal Protective Equipment
PPP	Private Public Partnership
PSA	Profit Sharing Agreement
RGoZ	Revolutionary Government of Zanzibar
SDL	Skills and Development Levy
SME's	Small and Medium Enterprises
SPSN	Social Protection Safety Net
STAMICO	State Mining Corporation
TASAF	Tanzania Social Action Fund
TEITA	Tanzania Extractive Industry Transparency and Accountability

TIC	Tanzania Investment Centre
ToR	Terms of Reference
TRA	Tanzania Revenue Authority
VAT	Value Added Tax
WHT	Withholding Tax
ZPDC	Zanzibar Petroleum Development Company
ZRB	Zanzibar Revenue Board

1.0 GENERAL INTRODUCTION AND BACKGROUND OF THE STUDY

1.1 Background of the Study

In Tanzania since 2015, the government has taken a strong nationalist standpoint regarding the extractive industry. The legislature has reformed most of the rules especially by amending the mining act,[1] and new mining regulations were introduced by the government in 2018, 2019, and 2020. Some of the notable reforms entail the introduction of the local content in the legislations and the launch of a joint venture (JV) between Barrick Gold Corporation and the Government of Tanzania to oversee the company's future gold mining operations in the country. The JV is aimed at reshaping Barrick Gold's Tanzania operations that were consolidated through the takeover of Acacia Mining in a $1.2 billion buy-out deal in September 2019.[2] The JV would enable the Government to know what is going on and make decision for the North Mara, Bulyanhulu and Buzwagi mines.

However, there have been insecure circumstances in the country, just like many other countries due to Coronavirus Disease of 2019 (COVID-19).[3] The disease created insecurities for employees and business owners and increased the vulnerability of the poor. Particularly, it led to a decrease in price in some of the mining products, as well as disruption of traveling and logistic supplies chain affected some of stakeholders in the industry. [4] The government has announced some monetary policy reforms to retaliate against the social-economic impact of COVID 19. The measures include the reduction of statutory rate from 7 to 5 percent announced by the Bank of Tanzania (BOT) in May 2020 and consequently, there has been a reflection from commercial banks to reduce their lending interest rates, for instance CRDB Bank announced on 2 June 2020 to reduce the rate to 14 percent from 16 percent before the COVID 19 pandemic.[5] Besides, this fiscal measure is expected to impact the extractive industry as well. Likewise, there are also measures imposed in form of new operational rules geared to ensure safety and healthy working and business environment all over the country and has attracted fiscal measures be adopted to exempt VAT on imports of personal protective equipment (PPE) and other hygiene products.[6]

[1] The Mining Act, 2010.
[2] Barrick (2019); The Launch of Twiga Minerals Heralds Partnership Between Tanzanian Government and Barrick. News Release. Dar es Salaam, Tanzania.
[3] Coronavirus disease 2019 (COVID-19) is defined as illness caused by a novel coronavirus now called severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2; formerly called 2019-nCoV), which was first identified amid an outbreak of respiratory illness cases in Wuhan City, Hubei Province, China.
[4] Mieke Thierens, and Elard Mawala (2020) The impact of Covid-19 on artisanal mining communities in northern Tanzania available at: https://ipisresearch.be/publication/impact-covid-19-artisanal-mining-communities-northern-tanzania/
[5] Deloitte (2020); Economic impact of the COVID-19 pandemic on East African economies: Summary of government intervention measures and Deloitte insights. May 2020.
[6] Ibid.

Accordingly, based on that reality Policy Forum in partnership with 'Save the Children Tanzania' decided to engage a professional consultant firm to undertake consultancy services to undertake a study that broadly explores taxation in the extractive sector with a particular focus on its relation to governance and poverty reduction during and after the times of COVID-19. As expected, the findings of the study are meant to contribute to the existing ongoing discussions on tax and resource governance issues and the linkages to poverty alleviation contributed by the extractive industry in the country.

1.2 Resource Curse

Many studies have attributed availability of natural resource wealth to bad governance. This term is known as resource curses which is formerly defined as *"the adverse effect of a country's natural resource wealth on its economic, social, or political well-being."*[7] This negative effect affects countries largely depending on kind of natural resources wealth available. Notably, having oil and/or gas in a country can have three harmful effects: it prolongs authoritarian regime (able to buy weapons and opponents), increases corruption level, and provides ground for armed conflict.
Many countries for example Nigeria, Democratic Republic of Congo, Central Africa and South Sudan just to mention but a few with oil, natural gas, and minerals and metals have failed to use "their resource wealth to create prosperous, peaceful societies".[8] Instead, these countries have experienced symptoms of the "resource curse", where "natural resource abundance results in deepened poverty", non-democratic government, and intense clash. This is called the *"paradox of plenty."*[9]

Much of the ensuing scholars on the resource curse has focused on the economic, political and social effects of petroleum (oil and gas) and minerals. Of these, oil has dominated research. Research to date has identified a number of reasons why low-income countries that are heavily reliant on abundant, non-renewable resources fail.[10]

The "paradox of plenty" prevents state's economic and political institutions from total development and may be worsened by the presence of repressive leaders, corrupt governments, and the rent-seeking behaviour of political elites'[11] [12] Prudence and restraint, in the form of institutions, regulations, and

[7] Cockx, Lara & Francken, Nathalie. (2016). Natural Resources: A Curse on Education Spending?. Energy Policy. 92. 394-408. 10.1016/j.enpol.2016.02.027.
[8] Paul Stevens, P. (2015); The Resource Curse Revisited. Energy, Environment and Resources: August 2015.
[9] Odd-Helge Fjeldstad, Donald Mmari and Kendra Dupuy (2019); 'Petroleum resources, institutions and politics: An introduction to the book' in Fjeldstad O, Mmari D, Dupuy K, (eds). Governing Petroleum Resources Prospects and Challenges for Tanzania. Dar es Salaam: Jamana Printers Limited. P, 4-12.
[10] Odd-Helge Fjeldstad.., et.all (2019); Governing Petroleum Resources: Prospects and Challenges for Tanzania. REPOA.
[11] Gisa Weszkalnys (2011) Cursed resources, or articulations of economic theory in the Gulf of Guinea, Economy and Society, 40:3, 345-372, DOI: 10.1080/03085147.2011.580177
[12] Cited from the work of Melyoki (2017); The governance of the petroleum sector in Tanzania: Institutional arrangements and the role of the National Oil Company.

corporate and public sector ethics, are advocated as the remedy for the oil curse. [13]In this sense, institutions constitute both the problem and the solution. Weak institutions beget resources curse and strong institutions avert it.

Resource discoveries often result in expectations of rapid growth, but also major concerns for increasing corruption. The resource curse literature puts a strong emphasis on the need to build capable and robust institutions in anticipation of resource windfalls; an emphasis that has received much policy attention in the cases of Africa's new oil producers such as Chad and Ghana.[14]

1.3 Resource Governance

Odd-Helge and Johnsøn (2017)[15] discussed the resource governance in the context of Tanzania's recent offshore gas field discoveries. The study demonstrates that uncoordinated public policy and a lack of regulation on lobbyism are important challenges for petroleum governance. Citizens in generally felt bypassed in the process of developing the new petroleum laws, while local businesses and the local chapter of the Extractive Industries Transparency Initiative (EITI) came out ahead in the "lobbying game." Interestingly, multinational companies did not actively lobby at the legislative level, but exerted influence via their technical expertise within the government administration. Existing literature on the resource curse has so far not examined how policy coordination and lobbyism matter for petroleum governance.

1.4 Research Issues and Statement of the Problem

In Tanzania, there are legislations which are designed to provide a set of rules towards resource governance and regulate the practices in extractive industry. These are the Mining Act,[16] the Tanzania Extractive Industry (Transparency and Accountability) Act, (or TEITA Act, 2015),[17] and the Oil and Gas Revenue Management Act.[18]

On the other hand, the Revolutionary Government of Zanzibar (RGoZ) participates in the oil and gas sector through its national oil company, the Zanzibar Petroleum Development Company (ZPDC). The company (ZPDC) represents government interests in the various production arrangements and contracts in the oil and gas sector. Likewise, the enactment of the Oil and Gas (Upstream) Act, No.6 of 2016 and the Petroleum Agreement (Model Production

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13 Gisa Weszkalnys (2011) Cursed resources, or articulations of economic theory in the Gulf of Guinea, Economy and Society, 40:3, 345-372, DOI: 10.1080/03085147.2011.580177

14 Odd-Helge Fjeldstad and Jesper Johnsøn (2019); 'Shaping petroleum policies in Tanzania: The role of lobbyists' in Fjeldstad O, Mmari D, Dupuy K, (eds). Governing Petroleum Resources Prospects and Challenges for Tanzania. Dar es Salaam: Jamana Printers Limited. P, 114-121.

15 Odd-Helge Fjeldstad and Jesper Johnsøn (2017); Governance challenges in Tanzania's natural gas sector: Unregulated lobbyism and uncoordinated policy.

16 The Mining Act, 2010

17 The Tanzania Extractive Industry (Transparency and Accountability) Act of 2015

18 The Oil and Gas Revenue Management Act, 2015

Sharing Agreement) of 2017 explains how the Oil and Gas resources are envisioned to be managed and accounted for, along with how the subsequent earnings are to be utilized in Zanzibar. Meanwhile, the Tanzania Extractive Industry (Transparency and Accountability) Act, (or TEITA Act, 2015, empowers the government to establish committee for purposes of ensuring transparency and accountability in extractive industries. At country level, the law supports the global movement for improved governance of natural resources through transparency and good governance.

The rationale for having the TEITA Act, 2015 is to promote transparency in the natural resource sector (extractive industry) by bringing national governments, companies, and civil society organisations to one table with open books. Others include the Oil and Gas Revenue Management Act[19] which governs the use of resources obtained from the petroleum sector and establishes the management of the Oil and Gas Fund. The act, has been designed to provide for the framework for fiscal rules and management of oil and gas revenues and to provide for other related matters. Accordingly, under the Petroleum Act, the Cabinet constitutes the main and highest decision-making organ on issues pertaining to the petroleum sector rather than the minister as it used to be under the repealed 1980 Act.[20]

However, it is undisputable fact that extractive industry is capital intensive characterised by high cost and dominated by multilateral companies which plays an important role to improve governance of both the resources and the revenue generated. Accordingly, with an outbreak of COVID 19 pandemic, the Tanzania Mainland and Zanzibar governments are likely to face big challenges that can slow down the pace to achieving both revenue and equitable income distribution objectives. This study is intended to examine the role of the extractive sector in contributing to DRM, the current growth of extractive sector in the country and how it is governed in Tanzania Mainland and Zanzibar.

1.5 Objective of the Study

1.5.1 General objective

This study is intended to examine role of extractive sector in contributing to DRM, the current growth of extractive sector in the country and how it is governed in Tanzania Mainland and Zanzibar.

1.5.2 Specific objectives

1. To examine the current state (Institution and taxation structure inclusive) of the extractive sector in the country and its relation to governance and poverty

[19] The Oil and Gas Revenue Management Act, 2015
[20] The Petroleum Exploration and Production Act of 1980

2. To examine the linkage between taxation, governance and poverty reduction
3. To examine the role and setbacks of taxation (progressive) and multilateral organizations in enhancing income equality
4. To examine tax reforms that led to expected development outcome from the extractive sector
5. To examine the challenges that Governments; Mainland and Zanzibar are facing in committing to stable taxation policies in extractive industry

1.5.3 Study Questions

The study seeks to answer the following questions:

1. What is the current state (Institution and taxation structure inclusive) of the extractive sector in the country and its relation to governance and poverty reduction?
2. What is the linkage between taxation and governance? And how does it contribute to poverty reduction?
3. What critical role and setbacks can taxation (progressive) and multilateral organizations play in the extractive sector to enhance income equality during and after the COVID-19 pandemic?
4. What are some key tax reforms that ought to be opted out by the government to reduce inequality in the Tanzanian society?
   The good idea is to come up with the "optimal tax systems" rather than "optimal taxes". In other words, how does good governance shape the tax reform policy?
   (1) Tax legislation, administration, and enforcement of compliance
   (2) The efficiency and integrity of the tax authorities
   (3) The "technology of tax collection" must be considered
5. What are the challenges that Governments; Tanzania Mainland and Zanzibar are facing in committing to stable taxation policies?
6. What are some key tax reforms that ought to be opted out by the government to reduce inequality in the Tanzanian society?
7. What are the key lessons that different actors should have learnt after COVID-19 pandemic?
8. What are the key policy and programme recommendations that the government should consider going forward?

1.5.4 Other related key questions

1. How good governance pushes governments to overcome some aspects of the resource curse especially the 'rentier politics', political economy challenges, etc.
2. What are the key lessons that different actors should have learned after the COVID-19 pandemic?

3. What are the existing loopholes in the extractive sector in Tanzania that contribute to revenue loss?
4. What are the key policy and program recommendations that the government should consider going forward?

1.6 Design of the Study

This research has been designed as a descriptive survey because of the nature of the information required and the expected deliverables. This enabled the researchers to collect a large quantity of in-depth information about the subject matter (extractive industry, good governance, taxation system, and income inequality). The study embraced a combination of inquiry within qualitative and quantitative approaches.

1.7 The General Approach and Methodology

The study used a holistic and integrative approach that involved desk research, as well as interviews and consultations with a range of mining stakeholders in order to collect quality data. The study area included Tanzania Mainland and Zanzibar.

- Survey and Interviews: The study employed face-to-face interview of 25 respondents. Respondents included TRA officials, officers from mining commission, and members from CSOs, officials from Ministry of Finance both in Zanzibar and URT.

- Desk research: Moreover, the study collected secondary data from the following government institutions: TRA, ZRB, as well as Ministry of Mining and Energy.

1.8 Data Analysis and Presentation

Simple descriptive statistics has been used to analyse data and then present the findings. In the other words, the study embraced a thematic analysis with qualitative data through context analyzation approach. This is where the researcher tried to comprehend and interpret the respondents' views. It involved putting in writing and then match the explanations with the literature and empirical findings from other studies.

2.0 FINDINGS AND DISCUSSION

The study findings from literature are based on the order of objectives as the given terms of reference. The focus of the discussion has been on how to achieve the objectives by way of what to do and how to do it. They are:-

2.1 The current state of the extractive sector in the country in relation to governance and poverty

The Tanzanian extractive industry governance framework is made up of twin wings; the Ministry of Energy and the Ministry of Minerals. The two sectors were formally under one ministry, called the Ministry of Energy and Minerals until when the two were separated into two ministries. The governance framework for the two sectors observes the guidelines from two policies; the Mineral Policy of 2009 and the Natural Gas Policy of 2013 which concurrently provides the state of the extractive sector in terms of policy frameworks as reflected in the pillars of policy statements.

2.1.1 The Mineral Policy of 2009

The mineral Policy of 2009 encourages value addition activities such as mineral beneficiation, gemstone cutting and polishing, jewellery making and stone carving. Such activities have been increasing in Tanzania and providing opportunities for investment. Notable developments in this area include the growth of gemstone cutting centres, copper smelter plants, rock cutting and polishing facilities (dimension stones).

The mining industry is a major consumer of goods and services; hence the developments of mining services match with the growth of mining industry. In the past two decades, mining support services have been developing progressively to cater for the needs of the mining industry. Such services include drilling, catering services, consulting services and supply of equipment, as well as tools and mining consumables. The sector linkage is constituted by various institutions designed to provide a number of services that smoothen the operations and business environment. These institutions includes: the Ministry of Minerals, the Ministry of Energy, as well as the National Environment Management Council (NEMC) which is an Agency under this Ministry responsible for the Environmental Impact Assessment (EIA) process. Others are the Tanzania Investment Centre (TIC) which is responsible for coordination, promotion and facilitation of investment in Tanzania; and the Business Registrations and Licensing Agency (BRELA) which is responsible for registration of business names, companies and intellectual property rights such as patents of inventions, industrial designs, trade and service marks.

BRELA also registers industries and grant licences for manufacturing industries. Moreover, the State Mining Corporation (STAMICO) is among the institutions that constitute this sector linkage. STAMICO is a Government parastatal responsible for developing mineral resources on behalf of the Government. It offers services to the mining industry such as contract drilling, resource assessment, as well as providing extension services to small scale miners and the Geological Survey of Tanzania (GST).

2.1.2 Legal Regime Applicable in Mining

The legal regime ensures rights of the investors and it is the one which is competitive in the world. The relevant applicable legislations in the mineral sector in Tanzania include:

1. The Mining Act, 2010;
2. The Environmental Management Act, 2004;
3. The Land Act, CAP 113;
4. The Village Land Act, CAP 114; and
5. The Explosives Act, 1963.

The Mining Act[21] sets out the legal framework governing mineral exploration, exploitation and marketing. Various mining regulations have been established under the Mining Act, 2010 to regulate mining activities. These regulations include: The Mining (Diamond Trading) Regulations of 2019; The Mining (Local Content Amendments) Regulations of 2019; The Mining (Mineral Beneficiation Amendments) Regulations 2019; The Mining (Mirerani Controlled Area) Regulations of 2019; The Mining (Mineral Rights Applications by Tender) Regulations, 2020; The Mining (Lapidary) Regulations, 2020; and the Natural Wealth and Resources (Permanent Sovereignty) Regulations of 2020.

2.1.3 Fiscal Regime Applicable in Mining Sector

Fiscal terms are governed by the Financial Laws (Miscellaneous Amendments) Act, 1997 and The Value Added Act, 2014, The Income Tax Act, 2004, The Vocational Education and Training Act, Cap 82, The East African Community Customs Management Act, 2004, Mining Development Agreement (MDA), and their subsequent amendments. In 2017, the government introduced the Natural Wealth and Resources Contract (review and re-negotiation of unconscionable terms) Act 2017 and the Written Laws (Miscellaneous Amendments).

Meanwhile, these laws introduced major changes to revenue collection and management of the extractive sector. The notable changes include the introduction of provisions for review of existing natural resource contracts, establishing a mining commission to oversee the mining sector, advancing local benefits to the country, limiting use of offshore banking accounts, and giving government an assured free-carried interest of no less than 16 percent

[21] The Mining Act, 2010

in mining companies and the right to acquire up to 50 percent of any mining asset commensurate with the total tax expenditure incurred by government in favour of the company. Also, the government made changes to the oil and gas sector aimed at increasing transparency and oversight. With these changes, it is possible that the revenue contributions from the extractive sector will be substantive in the future.

2.1.4 VAT Taxes, Import duties and local levy

(i) Standard rated Value Added Tax (VAT) on domestic sales and zero-rated on export
(ii) Fuel Taxes (Fuel Levy and Excise duty on fuel): US$200,000 per annum.
(iii) Local Levy of 0.3% of annual turnover
(iv) Import Duty exemption for operating mining equipment and supplies

2.1.5 Profit Taxe

(i) Corporate tax at 30% of the net income
(ii) There is a ring fencing around the mining sector
(iii) Depreciation is allowable to all mining capital expenditure and on exploration and production rights
(iv) Losses may be carried forward for recovery without limit, but the amount to be deducted as a loss tax credit is limited to 30 percent of the profit prior to the deduction of the loss
(v) Withholding tax on paid out dividends and tax on distribution of branch profits to non-residents is 10%
(vi) Withholding tax rates on loan interest or interest paid to related parties will be 10%, but shall not apply to interest paid to resident financial institutions
(vii) Holders of mineral rights are exempted from domestic withholding Tax on goods and services supplied by them. However, they shall be obliged to withholding tax on domestic goods or services purchased by them
(viii) Some withholding taxes

2.1.6 The Natural Gas Policy of 2013

The Natural Gas Policy of Tanzania aims at ensuring that the natural gas benefits the people of the United Republic of tanzania and its future generation. The Natural Gas Policy document only covers mid- and down-stream segments while the upstream activities are guided by separate Policy document. The Policy recognizes important linkages between activities in the entire gas value chain. The mid- and down-stream activities of the industry involve gas processing, liquefaction, transportation, storage, regasification, distribution and other auxiliary services.

Policy Statements for the Natural Gas Policy commit the government to; participate strategically through its National companies (i.e. through PPP) to develop and operate major infrastructure for natural gas; ensure all natural gas processing activities are undertaken in common facilities onshore in the most cost effective manner; establish a licensing regime for gas suppliers, distributors and marketers; and, ensure that transparent and non-discriminatory terms and conditions are developed and enforced to promote access to gas infrastructure service by third parties.

The policy urges the Government to; ensure that domestic market is given first priority over the export market in gas supply; establish a natural gas aggregator to facilitate efficiency and reliable supply of natural gas; facilitate efficient utilization and value addition to the country's natural gas resource; promote and facilitate the establishment and growth of industrial parks utilizing natural gas; strategically invest in the GTL and LNG value chain, efficient cross boarder trading of the natural gas products and other natural gas projects; and ensure that all LNG and other processing facilities are located onshore through common facilities.

2.1.7 Legal, Fiscal and Regulatory Framework

The discoveries of natural gas have resulted into a rapid growth of the natural gas sector in Tanzania. As a result, in the near future there will be tremendous increase of upstream activities, mid- and down-stream activities. This reality required strengthening of fiscal, legal and regulatory framework to comprehensively address the governance of the natural gas industry in the country. Apart from tax laws mentioned on mining sector, the Oil and Gas sector has Profit Sharing Agreement (PSA) instead of Mining Development Agreement (MDA).

2.1.8 Legal Regime Applicable in Natural Gas Sector

Therefore, in the recent past, there has been an enactment and amendment of specific legislations to address the situation which was considered a must and inevitable. The relevant legislations in the oil and gas sector include:

1. The Petroleum Act 2015
2. The Tanzania Extractive Industries (Transparency and Accountability) Act 2015
3. The Oil and Gas Revenues Management Act 2015
4. The Energy and Water Utilities Regulatory Authority Act (CAP 414)
5. The Public Corporations Act (CAP 358)
6. The Environmental Management Act 2004
7. The Income Tax Act 2004
8. The Occupational Safety and Health Act 2003

The Tanzania Extractive Industry (Transparency and Accountability) Act, (or TEITA Act, 2015,[22] empowers the government to establish committee for purposes of ensuring transparency and accountability in extractive industries. At country level, the law supports the global movement for improved governance of natural resources through transparency and good governance. This legislation institutionalises the role of the Multi-Stakeholder Working Group and legally enforces timely and accurate report by companies and government agencies covered by EITI Reports.

Others include the Oil and Gas Revenue Management Act[23] which governs the use of resources obtained from the petroleum sector and it establishes the management of the Oil and Gas Fund. The act has been designed to provide for the framework for fiscal rules and management of oil and gas revenues and to provide for other related matters. Accordingly, under the Petroleum Act,[24] the Cabinet constitutes the main and highest decision-making organ on issues pertaining to the petroleum sector rather than the minister as it used to be under the repealed 1980 Act.[25]

2.1.9 Fiscal Regime Applicable in Natural Gas Sector

The Fiscal regime for mid-stream and downstream operations in Tanzania is treated as general business entities or industrial project and will be subject to standard income taxation as well as indirect taxation such as VAT, Excise taxes and Import duties. On the other hand, the upstream production activities are treated as separate commercial entities with fiscal terms including royalties, production sharing, indirect taxes, windfall profit taxes as well as corporate and other income taxes.

The upstream fiscal regime provisions are well covered in the Petroleum Policy. In general terms, tax treatment of any natural gas project has been in accordance with prevailing tax laws. The Policy and tax laws support the priorities of reducing the fiscal deficit and promoting productivity and the competitiveness of other sectors in the economy. It also recognises the need to enhance fiscal discipline in managing the revenues generated from natural gas activities and directing them to the areas that support a broad-based economy.

The natural gas fiscal regime for mid-stream and down-stream consists of the income taxes, such as employment taxes, withholding taxes and corporate income tax typically with some restrictions on consolidation with income and tax deductions across different activities such as processing, liquefaction, transportation, storage, re-gasification, distribution, and other auxiliary

22 The Tanzania Extractive Industries (Transparency and Accountability) Act 2015
23 The Oil and Gas Revenue Management Act, 2015
24 The Petroleum Act 2015
25 The Petroleum Exploration and Production Act of 1980

services. It also includes application of transfer pricing rules and taxation of sales of shares overseas (change of control of a business entity). The treatment is as provided for under the prevailing Income Tax Act.[26]

Further, indirect taxes such as Excise Duty as per the Excise (Management and Tariff) Act;[27] VAT as per the VAT Act, Cap 148;[28] import/Export duties as per EAC Customs Management Act,[29] and other indirect taxes such as stamp duties, fees and other imposts as per the applicable Laws in Tanzania. There is also regulatory and Local Government Authorities' levies, fees and compulsory social obligations such as corporate social responsibilities.

2.1.10 Tanzania's Natural Resources Discovery and the Resource Curse

The massive discoveries of high value natural resources, minerals and natural gas usually result into negative economic, political, and social effects in most developing rich resource countries. Discovery of Tanzania's natural gas deposits was announced in 2012, at which point the country entered into the pre-production phase, the window of time during which a pre-source curse can occur.[30]

Tanzania has already experienced some tensions around the country's mineral and gas discoveries, but it has generally avoided experiencing economic and political problems because of the discovery. This early success has continued to shelter an immunity to the pre-source curse, and eventually to avoid the resource curse. However, to maintain the harmonious situation that has been happening, it will require ongoing, sound political decision-making about how to react to the promise of potentially large future resource revenues.[31]

2.1.11 Governance and Poverty Linkages

To govern is to exercise power and authority over a territory, system or organization. This applies to both government and governance. The exercise of authority is uppermost in government and remains significance in governance but it is no longer the single focus when it comes to resource governance, especially in extractive industry.

In the views of Odd-Helge Fjeldstad (2018),[32] perspectives on tax governance

26 The Income Tax Act, Cap 332, [R.E. 2019].
27 The Excise (Management and Tariff) Act, Cap 147, [R.E.2019].
28 The Value Added Tax (VAT) Act, Cap 148, [R.E.2019].
29 The East African Community (Customs Management) Act, 2004.
30 Kendra Dupuy and Lucas Katera (2019); Cursed before production? CMI BRIEF 01. REPOA BRIEF NO. 1 OF 2019
31 Kendra Dupuy and Lucas Katera (2019); Cursed before production? CMI BRIEF 01. REPOA BRIEF NO. 1 OF 2019
32 Odd-Helge Fjeldstad (2018); Taxation, Governance and State-Building: Concepts and Issues: the paper for NORAD seminar on Taxation and Governance.

areusually related to taxation and state-building. The scope and context of tax governance is examined through the historical institutionalism perspective in which political domestic institutions and historical development of tax systems are analysed. The second perspective is the political economy perspective in which taxation and accountability both 'unearned' and 'earned' revenues are considered. Of recently, another perspective has emerged, which is called the institutionalism perspective whereby the fiscal contract and quasi-voluntary compliance are taken into account. By reflecting to the fundamental resource theories, resource governance, and poverty linkages, the study provides the insight of the social economic benefits of extractive industry (mineral and natural gas resource discoveries) in Tanzania.

However, tax revenue governance issues are critical especially when looking at new regulations under the Tax Administration Act 2015. Under the Mining Company Exemption regulation issued on 28 February 2020 through the Tax Administration (General) (Amendment) Regulations, 2020; the Agency Notice cannot be served on the Tanzanian bank accounts of mining companies in which the Government has shares and has concluded an agreement with the mining company (ies). Usually, the Tanzania Revenue Authority (TRA) can recover a taxpayer's tax payments by issuing an Agency Notice on third party debtors of the taxpayer to compel that third party debtor to pay the debt to the TRA. Under the Tax Administration (General) (Amendment) Regulations, 2020, TRA can only compel the third party debtor to pay the debt when there is a court decree issued to the TRA after final completion of judicial proceedings.

2.1.12 Tax Revenue and Role of Extractive Industry in the Economy

The contribution of revenue from extractive industry has been increasing. For instance, the efforts of the Government has tremendously increased from an average of TZS 850 billion in 2015 to TZS 1.3 trillion in 2020[33]; the remarkable collection was recorded in December 2019 when TRA collected TZS 1.987 trillion. Of the tax revenue collected, the total revenue collected from extractive industry (mining sector) for the period of five years has increased ranging from TZS 194 billion in 2016/17 to TZS 346 billion in 2018/19[34]. The overall revenue collection from mining sector has increased; records for 2018/2019 indicates that the collection was TZS 346 billion as compared to TZS 194 billion collected in 2016/2017. The revenue collection estimate for 2019/2020 financial year was TZS 470 billion and on April 2020, regardless of the existence of the COVID 19 pandemic, the government managed to collect TZS 58 billion. Collection up to May 2020, the government collected the total of TZS 479 billion equivalent to 102 percent of collection target.

Thus, the overall growth of the sector has recorded 17.7 percent in 2019; the

33 https://uptymes.com/tz/habari-mpya-za-leo/newsnow/government-spokesperson-government-revenue-has-increased-from-tzs-850-billion-in-2015-to-1-9-tr-in-2020-video-bongo5-com/

34 https://www.thecitizen.co.tz/tanzania/news/-state-revenues-in-mineral-sector-up-by-52-6-percent-2714560

main reason for the growth is due to government effort to introduce mineral markets and centers in mainland Tanzania[35]. There are currently 28 mineral markets and 28 small centers in the country. Besides, the government has put stringent measures to limit exportation of raw minerals and constructed a wall to fence the tanzanite mining sites at Mirerani in Manyara region. The introduction of these market places are associated with decrease in poverty and increase in government revenues.

"In addition to this, the system of establishing mining markets in various areas contributes to the growth of the sector because now miners are confident of the market to sell their products differently than before… so that has also helped in increasing government revenue through "royalties" apart from other sources…" a respondent.

The increase in revenue is associated with decrease in smuggling as alleged by one respondent:

"Another major is the establishment of markets and official mining centers especially in the regions with mining activities, where we have now made great strides to reach Markets and Stations in mainland Tanzania, where in detail you will see mineral smuggling reduced but not completed and efforts continue to be done…"

Meanwhile, the success story of the Mirerani wall is the story of Saniniu Laizer "Billionea Laizer" who succeeded to get a total of 14.37 kilogram of tanzanite that was worth TZS 7,744,152,703.82 of which the government was able to get TZS 464,649,200.00 as royalty and TZS 77,441,550.0 as inspection fee. The summary of tax revenue collected from tanzanite at Mirerani in Manyara region was TZS 238 million from sales volume of 4.2 billion before the construction of 24.5 kilometers wall and the revenue recorded TZS 2.15 billion in 2019 from sales volume of 30.075 billion largely due to introduction of One Stop center market.[36] The government has put initiatives such as establishment of special inspection desks at Airports e.g. Dar es Salaam, Kilimanjaro, Mwanza, Songwe and Arusha; Harbors e.g. Dar es Salaam; and Boarders e.g. Holili, Namanga and Rusumo in collaboration with the other security departments. The inspection has registered 189 different mineral smuggling cases as of March 2020 with the value of US$ 19.95 Million and TZS 4.53 Billion (Pg. 7-Madini News).

35 Madini & Uchumi Online Bulletin. Toleo Namba 1 AGOSTI 2020
36 Madini & Uchumi Online Bulletin. Toleo Namba 1 AGOSTI 2020.

Table 1: Summary of Tanzanite production and Revenue generated

Period	Production	Market Value	Revenue
Before (2016 &2017)	321.3 KG	4.2 Billion	238 Million
After 2018	781.204 KG	20.1 Billion	1.437 Billion
2019	2772.17 KG	30.075 Billion	2.15 Billion
2020 (Jan – March)	207.1 KG	*Not mentioned*	85.23 Million

Source: Madini News, 4th edition, May 2020.

Furthermore, the non-tax revenues have likewise been increasing, for example there was TZS 688.7 billion collected in 2014/2015, and such source recorded TZS 2.4 trillion in 2018/2019. Besides, the revenues from own sources for local government authorities have increased from TZS 402.66 billion as recorded as collection for financial year 2015/2016 to TZS 661 billion in the financial year 2018/2019. This revenue collection records indicate that the government revenues from its own domestic sources have generally increased from TZS 11.0 trillion in the financial year of 2014/2015 to TZS 18.5 trillion for the financial year of 2018/2019.[37]

2.1.13 Social and Economic Contribution

The extractive industry contribution in 2016 and 2017 was 4.8 percent to total GDP. It is estimated that the extractive informal sector accounted 1.4 percent of the country's GDP. The Tanzania EITI 2016/2017 report provided that the overall contribution of the extractive sector was about 1.4 percent of the formal employment in Tanzania. In 2016, the extractive sector employed 35,900 people. Accordingly, contribution of the sector in terms of Corporate Social Responsibility (CSR) to host community (ies) has increased. For example, the Geita Gold Mine managed to implement projects which are worth TZS 9.2 billion in 2018 and TZS 9.5 billion in 2019 to host community. The projects managed to enhance growth of agriculture and business through construction of markets for SMEs, Mineral markets, and for projects which involve growing of paddy and sunflowers at Salagurwa and Katundu villages in Geita.[38] The CSR is increasingly being viewed as necessary contribution to the societies and should be targeted as one of the respondents argued:

"The CSR and local content plan is not only mandatory but also mandatory that the Miners must follow the priorities of the community and let the relevant councils work even though it will be implemented in partnership. Because, for example, the Geita community members have their own challenges and concerns about water or classrooms and that is where the CSR will support itself and not send sports that are okay but not a priority for the community."

[37] Hotuba Ya Mhe. Dkt. John Pombe Joseph Magufuli, Rais wa Jamhuri Ya Muungano wa Tanzania Wakati wa Kulihutubia kwa Mara ya Mwisho Bunge La Kumi Na Moja La Jamhuri Ya Muungano Wa Tanzania, Ukumbi Wa Bunge, Dodoma, Tarehe 16 Juni, 2020.

[38] Madini & Uchumi Online Bulletin. Toleo Namba 1 AGOSTI 2020.

Also, one respondent argued that the CSR being made a legal requirement, miners when applying for a license must submit a CSR along with a Local Content Plan that aims to benefit the communities surrounding the mining sites in effort to reduce poverty.

2.2 The Linkage between Taxation, Governance and Poverty Reduction

Normally, studies on taxations have focused on how governments may raise more revenues to fund public goods and services and redistribution of income.[39] But recently, interest has also shifted to exploring how taxation can indirectly improve governance.[40][41]According to these studies, taxation can improve governance through three ways: *Common interest*: in order for governments to increase tax revenues, it has to increase economic growth too; *State apparatus*: it is difficult to increase revenue requiring strengthening tax administration authority which in turn the reform can strengthen other government organs; and finally, *accountability and responsiveness*: taxation provides room for state-citizen engagement over tax payments, tax compliance and uses of the money with motive governments depending on tax revenues to be more responsive and accountable.

In particular, taxation helps in improving governance in practice through demonstration effects. This occurs when a tax administration authority comes with new procedures/process e.g. leadership and its systems which is later on copied by other government organs. Secondly, spillover effects; increasing taxation requires supportive systems within the governments which may include judicial, business registration, land registration just to mention but a few. Thirdly, information sharing effects: data collected in the process of tax revenue collection are used in the economic and social planning; conversely tax authority uses data from other government authorities in enforcing tax collections. Also, taxation may influence accountability in different forms where governments and taxpayers bargain and tradeoff directly and indirectly[42][43]. Direct tax bargaining: this happens when governments openly agree to properly use the revenue and provides services, be accountable to taxpayers to entice tax compliance or to reply to prevalent fighting. Secondly, sustained tax resistance against nuance disliked taxes negatively affect tax collection of respective governments hence providing incentive for tax reform and changes

39 Joshi, A.; Prichard, W.; & Heady, C. (2014). Taxing the informal economy: The current state of knowledge and agendas for future research. Journal of Development Studies 50 (10), 1325- 47 http://www.tandfonline.com/doi/pdf/10.1080/00220388.2014.940910

40 Prichard, W., & van den Boogaard, V. (2017). Norms, Power and the Socially Embedded Realities of Market Taxation in Northern Ghana. International Centre for Tax and Development, Working Paper 30, 60(1), 171–194. https://doi.org/10.1017/asr.2017.3

41 Prichard, W. (2015). Taxation, Responsiveness and Accountability in Sub-Saharan Africa. Cambridge University Press.

42 Moore, M. (2015). Tax and the Governance Dividend. In A. M. Kjær, L. Buur, & L. Engberg-Pedersen (Eds.), Perspectives on Politics, Production and Public Administration in Africa. Copenhagen: Danish Institute of International Studies.

43 Sjursen, I. H. (2018). Essays on behavioural Development Economics. Norwegian School of Economics.

in government. Strengthened civil society: taxation bring taxpayer and business associations together and form organized platforms to engage the government in improving governance.

Empirical evidences show that governments relying more on natural resources i.e. oil, gas and others as those in the Middle East are not democratic and unaccountable to their citizens. [44]. This occurrence was named the rentier states which evade bargaining with their citizens resulting in weak governance. Meanwhile, a government relying on taxation is more likely to bargain with its citizens over payments and uses of taxes in turn. It might improve accountability, responsiveness and democratic governance. Moore's fiscal contract proposition describes the opposite scenario. Where states rely on broad-based taxation, bargaining is likely to occur, and account-able, responsive and democratic governance may follow. Compliant taxpayers are more likely to engage in political engagement in precedence of accountability demand.

In experimental surveys, citizens who were taxed are likely to demand accountability from government than those not taxed[45][46] and it was found in a Congolese state payment of property taxes increased payers engagement with a local council than those which arennot taxed.[47] Business associations interact with governments in Tanzania, Uganda and Zambia over tax reforms[48], and even individual taxpayers[49] likewise finds that taxpayers unite together to react to government's tax effort. However, there is consensus that the effect of taxation on governance is not automatic, but it depends on "the interests of economic elites, the strength of private sector associations and the presence of taxpayer organizations; all these are all significant for the societal actors' capacity for collective action and entering bargains with the state." Moreover, availability of representative institutions (e.g., the parliament, local government or representation of civil society or the private sector in policy committees) or public consultation facilitates revenue bargain between the governments and taxpayers. This process of bargaining results in building fiscal social contracts. Other conditions for necessary bargains are capacity for collective action[50],

44 Ross, M. L. (2015). What Have We Learned about the Resource Curse? Annual Review of Political Science, 18(1), 239–259. https://doi.org/10.1146/annurevpolisci-052213-040359

45 Paler, Laura, 2016, "Replication Data for: Laura Paler. 2013. "Keeping the Public Purse: An Experiment in Windfalls, Taxes, and the Incentives to Restrain Government." American Political Science Review 107(4): 706-725.", https://doi.org/10.7910/DVN/QWXPUA, Harvard Dataverse, V1, UNF:6:qY61buy9A30e3iQnIMA7Jw== [fileUNF]

46 Sjursen, I. H. (2018). Essays on behavioural Development Economics. Norwegian School of Economics.

47 Weigel, J. L. (2019). Building State and Citizen: How Tax Collection in Congo Engenders Citizen Engagement with the State. Retrieved from https://static1.squarespace.com/static/59832fbcf9a61eb15deffb3c/t/5c815f22a4222f711545d052/1551982372179/weigel_tax_participation.pdf

48 Rakner, L., & Gloppen, S. (2002). Tax reform and democratic accountability. The New Politics of Taxation and Accountability, IDS Bulletin, 33(3)

49 Prichard, W. (2015). Taxation, Responsiveness and Accountability in Sub-Saharan Africa. Cambridge University Press

50 Prichard, W., & van den Boogaard, V. (2017). Norms, Power and the Socially Embedded Realities of Market Taxation in Northern Ghana. International Centre for Tax and Development, Working Paper 30, 60(1), 171–194. https://doi.org/10.1017/asr.2017.3

method of tax collections i.e. directly or indirectly[51], and gender, ethnic identity and patronage ties[52]; and presence of community-provided services[53]; and conditions before and during colonial periods.

Correspondingly, the link between taxation and governance may not come because taxpayers fail to assemble together, governments not granting concessions to taxpayers or partly granting concessions to larger taxpayers whereas improvement of tax authority may not spread to other government's organs. [54][55] It is suggested that government agencies i.e. central, local government and others should have strong links, and data sharing for the relationship between governance and taxation to be strong.[56]

Taxation may contribute in improving governance and poverty reduction in many ways. One of the way is through redistribution of income, and creation of solid fiscal social contracts in Tanzania. This role income retribution is mentioned by a respondent from Zanzibar:

"We have also had strategies and priorities in the use of revenue generated by this sector in line with the National Plan by supporting the present and future generations unlike our peers who have invested in future generations. We build their capacity so that they can come and help the next generation. With this revenue collected from taxes and good management of the relevant sector, we believe we will succeed in reducing poverty to a large extent, for example now every old man who has reached the age of 50 no matter he used to be a servant or not, every month is given Tshs 20,000. We believe we can start taking advantage of this sector and the money we give to our elders will increase and it will be enough for them to reduce the challenges here and there"

Evidences of how taxation is linked with governance is plenty. In the last three centuries, rulers in Europe wanted income to pay for inter-state wars (Tilly, 1990, Fjeldstad and Moore, 2008).[57][58] Therefore, the rules nurtured economic

51 Fjeldstad, O.-H., & Semboja, J. (2001). Why people pay taxes: The case of the development levy in Tanzania. World Development, 29(12), 2059–2074. https://doi.org/10.1016/S0305-750X(01)00081-X

52 Meagher, K. (2018). Taxing Times: Taxation, Divided Societies and the Informal Economy in Northern Nigeria. Journal of Development Studies, 54(1), 1–17. https://doi.org/10.1080/00220388.2016.1262026

53 Bodea, C., & Lebas, A. (2014). The Origins of Social Contracts: Attitudes toward Taxation in Urban Nigeria. British Journal of Political Science, 1–24. https://doi.org/10.1017/S000712341400026X

54 Moore, M. (2015). Tax and the Governance Dividend. In A. M. Kjær, L. Buur, & L. Engberg-Pedersen (Eds.), Perspectives on Politics, Production and Public Administration in Africa. Copenhagen: Danish Institute of International Studies.

55 Prichard, W. (2015). Taxation, Responsiveness and Accountability in Sub-Saharan Africa. Cambridge University Press

56 Prichard, W. (2015). Taxation, Responsiveness and Accountability in Sub-Saharan Africa. Cambridge University Press.

57 Schwarz, Rolf (2012) War and State Building in the Middle East, University Press Florida, Gainesville Toledo, Hugo (2013) The Political Economy of Emiratization in the UAE in the Journal of Economic Studies, volume 40, issue no. 1, pg39-53.

58 D.A. BräutigamOdd-Helge FjeldstadOdd-Helge Fjeldstad M. Moore Taxation and state-building in developing countries: Capacity and consent DOI: 10.1017/CBO9780511490897 Publisher: Cambridge University

growth programs and established effective tax administrations. Then, state capacity increased and citizens participation on how the revenue should be raised resulting in increased accountability.

This bargaining over taxation created 'social contract' where nations pay taxes in return for clear taxation, deciding on public policy and scrutinizing public finance through representative institutions. Hence, fiscal social contract when improved will improve quality of governance and, ultimately, contribute to poverty reduction.

The debates on tax matters in political campaign is rare in Tanzania though the 2020 general election political parties manifesto for CCM and Chadema have provided for a need to: widen the tax base, increasing tax incentives to attract investment, review tax policy related to tourism to cushion COVID 19 effects, reduce PAYE rate to 8 percent, reduce SDL rate to 2 percent, and reduce the rate for statutory deductions to 12 percent, and work to seal tax avoidance and evasion. Chadema provide for the deduction of corporate tax rate from 30 percent to between 15 and 20 percent, reducing VAT rate to between 10 and 15 percent and scrapping the land premium cost, as well as reducing and harmonizing regulatory bodies. The Civic United Front provide for review of all taxes to make them friendly to taxpayers, and adopt preferential tax rate to priority sectors of the economy. They also promised to lower the VAT rate to 15 percent, give grace period of year to newly registered taxpayers, abolish all tax exemption unless designed for special strategic reasons, and all major investment contracts must be approved by parliament. Furthermore, much of debate is around on wasteful or inadequate public spending and systemic corruption. Consequently, creating awareness on the sources of government revenues is an opportunity for advocacy.

Also, the Government have initiated the construction of mineral refinery facility in Mwanza which began in March 2020 and is expected to be complete by December 2020, supervised by STAMICO. Other two refinery facilities for Gold have been opened up at Kantente in Bukombe and Lwamgasa in Geita, meanwhile construction of another facility is progressing in area of Itumbi in Chunya Mbeya (Pg. 15 – Madini Uchumi Online Bulletin). The rationale for establishing refineries is to add value through mineral processing before export and raise the number of employment.

Moreover, total number of licenses issued since July 2018 to March 2020 is 15,179, which include licences for categories of prospecting licence (PL) 647, medium scale mining licence (ML) 65, and primary mining licence (PML)14,467 licences (Pg. 10- Madini News). Also in 2019/20 there were 2,376 brokers Licenses and 601 dealers' licences issued (Pg. 10- Madini News).

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2.2.1 Key Tax Reforms to Reduce Inequality in the Tanzanian Society

Therborn[59] explained the term inequality as a violation of human dignity: it is a denial of the possibility for everybody's human capabilities to develop. It takes many forms, and it has many effects: premature death, ill health, humiliation, subjection, discrimination, exclusion from knowledge or from mainstream social life, poverty, powerlessness, stress, insecurity, anxiety, and lack of self-confidence and of pride in oneself, as well as exclusion from opportunities and life chances. Inequality, then, is not just about the size of wallets. It is a socio-cultural order, which (for most of us) reduces our capabilities to function as human beings, our health, our self-respect, our sense of self, as well as our resources to act and participate in this world.

If growth is to be sustained, there must be reforms in the Tanzanian tax regime to cater for inclusive development for all stakeholders. Also, greater stability in funding and a more flexible policy dialogue are needed in order to reduce inequality in the Tanzanian society. The following reforms can be adopted to aid achieve the goal to minimizing the inequalities:

(i) Maintain the monthly exempt income up to TSHS 300,000. The current monthly income deduction is TSHS 270,000, and above which the incomes become liable for taxation. The same should extend into reduction of income taxes and on progressive nature ranging from 5% up to 15% on employment while broadening the tax base and abolish tax incentives and exemptions on investment and instead lower the tax rate imposed on investment and business incomes to encourage and enhance voluntary compliance.

(ii) Adopt the low rate statutory payroll deductions. The 5th phase government under H.E. President John Joseph Pombe Magufuli has promised to cut off statutory deduction rate to a total of 12 percent in due time from the present 22 percent; statutory deductions include the 9 percent PAYE, 10 percent for NSSF and 3 percent for the National Health Insurance Fund.

(iii) Enhance the Economic empowerment Transfers. Such transfers that aim at enhancing the capacity in participation of development programs such as the ten percent (interest free loan) for women, youth and disabled should be integrated to accommodate more women and marginalized group and also, for such other transfer schemes like TASAF.

[59] Therborn, G. (2013); The Killing Fields of Inequality. Cambridge, MA: US Polity Press.

(iv) Invest in human capital through free and mandatory primary and secondary education. The tax revenue raised from extractive industry can specifically be delineated to finance education as to ensure the 20 percent or higher target of budget as suggested by the ActionAid's 4S framework [60] and Education 2030 Framework for Action [61] of least 4 – 6% of Gross Domestic Product and/or at least 15 – 20% of total public expenditure and be the leading priority sector as per the Tanzania development vision 2025 which is currently not achieved.

2.3 The Role and Setbacks of Progressive Taxation and Multilateral Organizations in Enhancing Income Equality

Taxation plays great roles in reducing income inequality. Authorities must embrace fiscal policies that can promote increase in government revenues and encourage investments. The over reliance on consumption taxes (imposed on goods and services) instead of relying on income and trade taxes hurt more poor people than the rich (individuals with high net worth). The main reason is regressive nurture of consumption taxes.[62]

However, it is argued that it is difficult to raise personal income taxes because it might complicate the system and it is very sensitive to political predicaments.[63] There have been interests among researchers and policy makers on critical roles and weakness of progressive taxation in enhancing income equality. Majority of researchers[64][65] who support progressive taxation system suggest that it has roles especially when the revenue from taxation are spent effectively rather than it being good in nature and structure. Individuals with high net worth are taxed more in progressive tax system, thus the system is better in redistributing income within the society. The tax amount collected from higher income earners reduces their level of income relative to low level income earners resulting to reduction of the gap between rich and poor, and the same have to be spent in such priority areas where the benefits goes directly to the poor[66].

Nevertheless, progressive tax system is criticized of confiscating resources from the rich and hence it might encourage tax evasion, avoidance and fiscal "emigration" to avoid tax payments. The availability of tax avoidance loop holes

60 https://actionaid.org/stories/2020/financing-education
61 Education 2030: Incheon Declaration and Framework for Action for the implementation of Sustainable Development Goal 4 page 4
62 Marshall, Alfred (1920). "Book II Chapter IV". Principles of Economics.
63 Bird and Zolt, 2005 Redistribution Via Taxation: The Limited Role of the Personal Income Tax in Developing Countries August 2005 UCLA law review. University of California, Los Angeles. School of Law 52(6):1627-1695
64 Madalina Ecaterina Popescu, Eva Militaru , Larisa Stanila , Maria Denisa Vasilescu and Amalia Cristescu Flat-Rate versus Progressive Taxation? (2019), An Impact Evaluation Study for the Case of Romania
65 United Nations. Transforming our World: The 2030 Agenda for Sustainable Development; United Nations: New York, NY, USA, 2015.
66 Diamond, P.A.; Saez, E. The Case for a Progressive Tax: From Basic Research to Policy Recommendations. J. Econ. Perspect. 2011, 25, 165–190. [CrossRef]

in legislations especially tax laws might cost the government a lot more of its revenues. There is also high chances of increase in corruption and falsification practices when the progressive tax system is based on self-declaration to reduce tax liability. The Progressive taxation system requires multiple tax brackets and possible incentives and exemptions; with such difficult designing it becomes complicated to both taxpayers and authorities and hence it needs high administrative and compliance costs[67]. The complicated nature of progressive taxation is alleged to be punitive, abusive or fiscal inquisitive systems which may discourage investment and result into economic distortions. The tax regime recognizes the important and existence of progressive tax system as alleged:

We use this scheme which contains the Principle of Equity. That is, we impose taxes using Horizontal Equity and Vertical Equity. So for Horizontal taxpayers with the same income, same turnover will pay the same tax while for Horizontal equity depends on how your income increases. So, if there is income increase then the tax will go up also. And it is this same principle that we apply to big companies especially in mining, oil and natural gas.

Thus, study observed that progressive taxation in the extractive industry is mainly addressed based on differentiated rate structure which imposes tax based on level and type of tax base. The base includes income earned by employees and sole proprietors (PAYE), and additional profit tax within the petroleum sector. The government share of profit oils or gas depends on volume of units produced. The existing regime provides progressive tax rates in production sharing agreements (PSA) particularly in sharing profit gas or profit.

For the case of multinational corporations (MNCs), the regime has set up and provided for tax laws that cover aspects of control in the international transaction by way of controlling the transfer mispricing through requirement of transfer pricing documentation. Reforms have evolved from requirement for transaction between related parties to be in consistent with the arm's length principle set out in the Income Tax Act 2004, [R.E.2006]. Prior to 2014 Transfer Pricing issues were dealt with under S.33 of the Income Tax Act, especially regulation 6 of Income Tax regulations and TRA recognised OECD guidelines and precedence set by the region (Unilever Kenya case). Then, the Income Tax (Transfer Pricing) Regulations, 2014 came in and there afterwards followed by the Tax Administration (Transfer Pricing) Regulations, 2018 and of recently there are Transfer Pricing guidelines, 2020. Meanwhile, the government together with Barrick Corporation formed a joint venture (JV) called Twiga Minerals Corporation Limited between Barrick Gold Corporation and the Government of Tanzania. The Joint Venture entitles a 16 percent

[67] Bikas, E.; Subaciene, R.; Astrauskaite, I.; Keliuotyt ˙ e-Staniul ˙ enien ˙ e, G. Evaluation of the personal income ˙ progressive taxation and the size of tax-exempt amount in Lithuania. Ekonomika 2014, 93, 84–101. [CrossRef]

shares to Tanzania government and 84 percent for Barrick Corporation Ltd and would enable the Government to access information and participate in decision making for the North Mara, Bulyanhulu and Buzwagi mines. This arrangement of 16 percent shares being owned by government has been a government stand as it would apply to any other gold mines that would commence operation henceforth.

The dilemma of MNCs is escalated by their expertise in international business operations, being well advanced business institutions, use of very advanced and sophisticated technology in their operations, and most of them have related entities outside the host countries making it difficult to governments to follow-up their business arrangements[68]. This challenge of lack of quality and enough staff is well known by the government as pointed here:

"…Eh big challenge on progressive taxation especially in these big companies and we have a few experts to be able to deal with the systems of these relatives. We, as I said, are the first foreigners in this industry. Our best class has been Ghana, Nigeria, and Tanzania, so I can Say we haven't had a challenge yet because we haven't started harvesting oil itself and natural gas. So, the role we play so far is to have rules that will largely close or cover those gaps, and that's why we thought it is better to have a different Tax Administration which is under ZRB so that we can better manage this industry. Also in this sector, it is…as a Ministry we are mainly involved in managing financial terms in PSA, technical matters are being entered by the people of Zanzibar Petroleum Development Corporation and the relevant regulatory oil and natural gas." A respondent from Zanzibar.

Fighting tax evasion and avoidance is the goal of both governments as one government official said:

"The Government's goal is to see the resources benefit the people. So, we are fighting any loopholes that we see could lead to the loss of revenue from this sector. So, all the deliberate steps taken by the Government such as setting up a separate Tax office with ZRB, having a formal law to deal with EI revenue and educating our youth are quite deliberate steps in combating these issues but also to ensure the Government gets its due and to be able to develop other sectors for the benefit of present and future generations"

To minimize tax revenue loses, TRA and ZRB have been undertaking reforms to better its operation through enhancing fiscal transparency by deploying digital online gateways. Services are largely operated on online bases which include self-assessment, online filing platforms, and with a number of payment

[68] UN (2017) United Nations Handbook on Selected Issues for Taxation of the Extractive Industries by Developing Countries Available at: https://www.un.org/esa/ffd/wp-content/uploads/2018/05/Extractives-Handbook_2017.pdf

options. It has been providing training to its staff in various areas of expertise such as oil and gas, mining, ICT and forensic auditing, investigations and law enforcement, and international taxation. The government in general has been undertaking reforms in its tax statutes through amendments made by finance act in every financial year.

2.4 Tax Reforms that Led to Expected Development Outcome from the Extractive Sector

There are several fiscal reforms that have been introduced to improve and enhance the governments' take and to encourage investment into the extractive sector for the past five fiscal years since 2015/16 to 2020/21. These reforms intend to increase government revenue share and participation in the industry so they may not be attractive to investors. It appears mainly that tax reforms are done to curb loopholes in tax collection as argue by one of the respondent:

"Reforms mainly deal to curb loopholes that are in the Tax statutes. So after identifying them, we prepare a proposal to the Ministry of Finance who will draft a law and send it to parliament and if the same passed then we as Authority our role is to implement what the laws bring in"

From the interview and review of public documents reveal that major reforms that relate to extractive industry in terms of tax includes:

1. **Ring-Fencing of Operations**
   Ring-fencing is an isolation for tax purposes of certain type of activities, income and losses.[69] It refers to artificial restrictions created by the law with the intention of ensuring that capital expenditure incurred by a particular mine is only deducted against the income generated by that particular mine and the balance is carried forward for deductions in the following year.

   The rationale for adopting ring-fencing reform in mining operation is because it is a standard feature in mining regimes and facilitates the provision of mining specific fiscal treatment to accommodate the spatial characteristics of mining investment: high capital costs; high investment risk; long lead times; and, potential for generating resource rent.

   To governments, ring-fencing is an anti–avoidance measure in terms of which the expenditure incurred in conducting a mining operation is limited to the income of that specific mining operation. Any excess expenditure (loss) is then carried forward and is set off against any income derived from those operations in a subsequent year of assessment i.e. year of income.[70]

[69] Van Blerck, CM. 1992. Mining taxation in South Africa. Rivonia: Taxfax cc.
[70] Kismore Mangondo, 2006 The Economics of Gold Mining Taxation, Publisher University of South Africa, 2006

In Tanzania, under the Income Tax Act (ITA) No. 33 of 1973, the Ring-fencing was applied for deduction purpose only for any expenditure on the acquisition of the site of such deposits or of the site of any such buildings, work, or of right in or over any such site; and any expenditure on works constructed wholly or mainly for subjecting raw produce of such deposits to any process. It was later in 1997, the amendments were made via the Financial Laws (Miscellaneous Amendment) Act, No 27 of 1997 on Para 18 of Part III of the Second Schedule to the Income Tax Act, No 33 of 1973 which provided additional capital allowance on unredeemed qualifying capital expenditure which ring fenced deduction with prospecting capital expenditure or any interest or financing charges. The aim was to provide automatic exemption for the non-productive mines and to allow efficient allocation of resources in the long run and mostly to enhance investment capacity in mineral sector. In other words, the law intrinsically allowed unutilized tax losses of one mine to be transferred to and set off against the taxable income of another mine within the same corporate group.

The Ring-fencing in relation to the *mining operation* was adopted on 15th June 2010 through Finance Act, No 15 of 2010. The ITA, Cap 332 of 1973 was amended to limit the applicability of Ring-fencing to mining operation within a particular mining licence only. In other words, under section 11(5) (f)(2) of ITA Cap 332; whereby the ITA Cap 332 defines the term "Mining operations" that shall not include exploration activities conducted outside the mining license area. Meanwhile, of recent past, the Finance Act, 2016 introduced completed corporate income tax regime for mining and petroleum sectors. This fiscal regime changes aimed at accelerating payments of corporate income tax by introducing ring-fencing of operations, allowing depreciation allowance over five years instead of one year, limiting deduction of losses carried forward to maximum of 30% of income before any reduction for losses. It also allowed deduction rehabilitation expenditure only to the amount contributed to the rehabilitation fund. Finally, *"farm-in"* and *"farm-out"* arrangements are now treated as investment activities if realized prior starting production.

2. Exemption on Liquefied Petroleum and Natural Gases

Reforms in the Oils and Gas sector relates to rules made in 2018 as per the Petroleum (Liquefied Petroleum Gas Operations) Rules, of 2018.[71] The rationale for having provisions on exemption of Liquefied petroleum and natural gas is to allow for wider community be able to access gas products for home and business use. These Rules preserve the exemption provisions that were granted by the petroleum rules of 2012[72] and exemption on liquefied petroleum and future Liquefied, compressed and cylinders petroleum and natural gases which were introduced by the Finance Act, 2016.

71 The Petroleum (Liquefied Petroleum Gas Operations) Rules, of 2018 (GN. No. 376).
72 The Petroleum (Liquefied Petroleum Gas Operations) Rules, of 2012 (GN No. 420).

3. Review and Re-Negotiation of Unconscionable Terms

The National Assembly is empowered under the Natural Wealth and Resources Contracts (Review and Re-Negotiation of Unconscionable Terms) Act of 2017 to review all agreements and arrangements, whether before or after enactment of the Act. This review is pertaining to natural resources and where necessary, direct the Government to re-negotiate any unconscionable terms. The Act aims at proclaiming Tanzania to have permanent sovereignty over its natural resources and providing for exercising more control over such resources. It further requires miners to export semi-processed mines as an obligatory requirement instead of exporting raw resources by establishing beneficiation within Tanzania. Meanwhile, the Unconscionable Terms Regulations, among others, echo the principles that are used to guide all agreements and arrangements in natural wealth and resources. These principles include fair dealing, honesty and utmost good faith.

4. Formation of Mining Commission

After poor performance of the Tanzania Minerals Audit Agency, the Government of the United Republic of Tanzania abolished it and created Mining Commission to perform similar functions its predecessor. This was also noted by one of the Respondent:

"The mining sector has undergone structural changes where I can talk about the establishment of the Mining Commission itself which is in 2017 through Miscellaneous Amendments of The Mining Act of 2010 for 2017, established and given 22 executive responsibilities to oversee, inspect, examining and advising the government on this mining sector. In the beginning, there was TMAA which was broken…. " One respondent

5. Payment of Mineral Clearance Fee and Royalties

The government reformed the mining sector by introducing mineral clearance and upon issuance of a particular clearance there must be payment of a mineral clearance fee of one percent of the market value of the minerals for which the clearance is sought. The payment is mandatory and warrant the mining owner or holder a right to a peaceful procession and conduct of business including sale or transportation of that particular minerals.

The Minister is empowered to establish mineral clearance centres for the purposes of regulating the transportation or domestic use of mineral or minerals in such areas as within mining areas, ports, airports, border posts and any other areas as the Minister may prescribe. The mineral clearance is issued upon payment of fee, called clearance fee, which is payable to the Government by any person in possession of mineral or minerals prior to clearance for domestic use or export. The rate for clearance fee is one percentum of the gross value of mineral or minerals. In that regard, the term “gross value” means the market value of mineral or minerals at the point of refining or sale or, in the case of consumption within Tanzania, at the point of delivery within Tanzania.

Similarly, as provided for under section 87 (1) of the Mining Act,[73] “every authorized miner shall pay to the Government of the United Republic a royalty on the gross value of minerals produced under his licence” at the rate as provided in table below. This includes mandatory option to payment of one-third of the royalty payable to the government by depositing refined minerals equivalent to the ascertained royalty into the National Gold and Gemstone Reserve.

Nevertheless, for the purposes of calculating the amount of royalties’ payable, the Government shall be entitled to reject the valuation if such value is steeply low on account of deep negative volatility, unless the raw minerals are disposed of for beneficiation within the United Republic and has the option to buy the minerals at the low value ascertained.

Table 2: Mineral Types and Applicable tax rates

S/No:	Mineral Type	Applicable Rate (%)
1	Uranium	5
2	Gemstone and Diamond	6
3	Metallic minerals such as copper, gold, silver, and platinum group minerals	6
4	Gem	1
5	Other minerals, including building materials, salt, all minerals within the industrial minerals group	3

Source: Compiled from the Income Tax Act, Cap 332

6. Withholding Tax on Sale of Industrial Minerals

The Income Tax Act, Cap 332 of 2004 was reformed through Finance Act, 2017 by introducing withholding of income tax of 15 percent on sale of gold, metallic minerals, colored gemstones, coal and industrial minerals. The rationale was to bring into tax net such incomes earned or received from conducting mining business by a resident person. Imposing the obligation to the person who pays (in the form of withholding tax) is to ensure the income earner should not be allowed to walk away with government money without a system of tracking.

[73] The Mining Act, [CAP. 123 R.E. 2019].

7. State Participation Through Government Free Carry Interest

Recent reforms guarantee for State participation in mining operation by way of government free carry interest. The Mining Act provides that in any mining operations under a mining licence (ML) or a special mining licence (SML), the Government of Tanzania shall have not less than 16% nondilutable free carried interest shares in the capital of a mining company depending on the type of minerals and the level of investment. Section 4 of the Mining Act provides for interpretation of "free carried interest" which means; the interest derived from holding shares of which the holder enjoys all the rights of a shareholder but has no obligation to subscribe or contribute equity capital for the shares.

Through Act No. 7 of 2017, section 9 of the Act, introduced "government free carry interest of between 16 to 50 percent of the shares of the mining company commensurate with the total tax expenditures incurred by the Government in favour of the mining company". This acquisition of shares by the Government in the company shall be determined by the total value of the tax expenditures enjoyed by the mining company. In the case of the Petroleum Sector, Model Production Sharing Agreement 2013 provides that the Government may at any time choose to get a participating interest of not less than 25% of the contract expenses yet not including exploration costs.

8. Local Content Requirement

The government reformed the operation in extractive industry by introducing local content requirement through GN. NO. 3 published on 10/01/2018. Under this new alignment, any person and as far as practicable, before carrying out any work or activity in the mining industry is required to set up a project office within the district where the project is located.

The rationale for having "Local content" guidelines is to ensure the substantial utilization of the locally produced services and goods in the mining industry value chain (exploration, development and production, transportation, processing and marketing) and which can be measured in monetary terms are generated or obtained in Tanzania. This reform intends to ensure benefits to the wider community of Tanzanians.

9. Removal of WHT and VAT on Artisan miners

The government removed withholding tax (WHT) of 5 percent and VAT of 18 percent on artisan miners to give relief on their business operation (Pg. 9-Madini News). As per VAT Act,[74] the supply of precious metals, gemstones and other precious stones by a small scale miner at buying stations or at Mineral and Gem Houses designated by the Mining Commission under the Mining Act is an exempt. This reform was made as way of poverty and it is attributed to growth of the industry.

[74] The Value Added Tax Act, [CAP.148 R.E. 2019]

"Basically this question I think is being answered by the relevant Ministry of Mines,… but I may be aware of some because it is something I am relatively aware of… from the beginning Changes have brought tax relief to small-scale miners, especially after the removal of some taxes which were complained about by stakeholders in the Presidential and business meeting which are Withholding Tax and Value Added Tax VAT. This has brought mobilization in the mining sector and its overall growth…" one respondent

Also it is said to have increased transparency among the stakeholders and enabled growth of the sector:

"Not to mention the tax changes, i.e. the taxes that were levied on small-scale miners which are WHT plus VAT without error, these have made the mining industry more transparent because there is no reason to work in the dark anymore and the results are reflected in GDP. … "

10. Withholding Regardless of Source of Payment and Permanent Establishment

The government made reform to capture such payments made in respect of dividends paid by a resident corporation. Also, the interest paid by a resident person or domestic permanent establishment and payments, including service fees for "service rendered or a forbearance from exercising employment or rendering service in the United Republic, regardless of the place of payment and in case the payer is the Government of the United Republic, withholding has to be paid irrespective of the place of exercise, rendering or forbearance".

11. Requirement to tax clearance

The Finance Act, 2020 amended the Mining Act, Cap 123 to insert requirement of attaching copies of certificate of taxpayer identification number (TIN) and tax clearance both from TRA while applying for either renewal or issue of mining license. This requirement is likely to increase tax compliance but may force many artisan miners out business when they will get huge tax bills because of lack of accounting records.

"Although the government has made efforts to move small-scale miners to markets for the purpose of reducing mineral emissions that contribute to the loss of revenue, there is still a challenge in sending more education to do voluntary compliance" one respondent

12. Use of ICT and change in way mining license are issued

Now mining licenses are issued and applied online.[75] Similarly, instead of allowing a minister of mining to revoke a license, the cabinet is now involved to making decision. This reform decreases corruption opportunities and increases governance and transparence as noted by one of the respondent:

[75] https://tumemadini.go.tz/pages/mining-licences-services

"The mining sector has experienced major policy and structural changes as well, as is the change in the period from 2015…. Transparency has increased in mining activities i.e. there is no hiding or secrecy as it was in the beginning… here I am talking more about for example the issuance of licenses… Now the licenses are being revoked the Cabinet also has that information than the period where only the ministry had information that … " One *respondent*

2.5 Challenges Faced by Governments in Committing Stable Taxation Policies

Taxation policies are instruments used for collecting revenue and play important roles in attaining a proper allocation of resources, distribution of wealth and income, and for ensuring economic stability. Taxation policies are therefore used to give reasons behind how much to pay, where tax should come from, ways of collecting tax and the uses of the tax revenue collected.

Taxation policy in mining sector has been a centre of critical debates in many developing countries. The main issue has been low contribution of the sector on solving economic challenges. On the face of many people, they consider mining taxation policies as being exploitative to host countries. In response to that, governments have been reforming fiscal policies to fit new demands and hence the changes resulted into many mining taxation policies being unstable.[76] Tanzania is also unstable when it comes to mining taxation policies. The study conducted by (Manley 2017)[77] and (Laporte, C de Quatrebarbes, and Bonterige 2019)[78] ranked African countries based on how frequently they have been changing their mining policies. The study involves 14 different countries which are rich in minerals and Tanzania ranked the fourth. A summary in table below shows reforms with stability in some tax and instability in others due to different factors which will be explained in the next paragraphs.

76 Kayaga, Lisa. 2007. "Tax Policy Challenges Facing Developing Countries: A Case of Uganda."

77 Manley, D. 2017. "Ninth Time Lucky: Is Zambia's Mining Tax the Best Approach to an Uncertain Future?', Natural Resource Governance Institute"." Https://Resourcegovernance.Org/Analysis-Tools/Publications/Ninth-Time-Lucky-Zambia%E2%80%99s-Mining-Tax-Best-Approach-Uncertain-Future-Tax-Kicks-In/.

78 Laporte, B., Y. C de Quatrebarbes, and Bonterige. 2019. "Mining Taxation in Africa: The Gold Mining Industries in 14 Countries from 1980 to 2015."

Table 3: Major mineral tax reforms in Tanzania from year 2015 to 2020

Mineral description	2015	2016	2017	2018	2019	2020
Royalties on Diamond and Gemstone	5%	5%	6%	6%	6%	6%
Royalties on Gold and other minerals	3%	4%	6%	6%	6%	6%
Corporate tax	30%	30%	30%	30%	30%	30%
Withholding tax	15%	15%	15%	15%	15%	15%
Ring fencing	No	No	Yes	Yes	Yes	Yes
Capital Allowance	100%	100%	20%	20%	20%	20%
VAT tax on export (Zero Rated)	Yes	Yes	No	No	No	Yes
Excise duty	No	Yes	No	No	No	No
Stamp duty	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
Withholding of income tax on sale of minerals	NA	NA	5%	5%	5%	5%
SDL	6%	5%	4.5%	4.5%	4.5%	4%
Alternative minimum tax	0.3%	0.3%	0.3%	0.1%	NA	NA
Withholding of income tax on sale of minerals on artisan miners	NA	NA	5%	NA	NA	NA
Loss carried forward	Indefinite			Loss deductible is limited to 30% of the profit before deduction of the loss.		

Source: Compiled from the Income Tax Act, Cap 332 and government Reports

2.5.1 Reasons for Fiscal Policy Instability

There has been different reasons behind tax policies changes in Tanzania. The reasons behind policy changes are very important than the policy change itself because they give the wider picture on the stability and instability of taxation policies. These reasons include the folllowing:-

1. **The need for fair share of tax revenue from extractive industry**
If the government considers that taxpayers do not pay their fair share of tax because of the existing policies, then the government will definitely change the policies to allow for fair tax payment. For example, the royalties on gold and other minerals. At first, the government imposed 3 percent rate on the net back value of the minerals and left all the remained 97 percent to the mining company. The government changed the policy to allow the 4 percent rate as royalty in 2010. Then afterwards, the base amount was changed in 2017 from net back value to gross value. Then, the rate increased again to 6 percent rate as royalty.

2. Failure to balance between revenue generated by the government and competitiveness in the extractive industries

Most of the resource-rich countries lack capital resources to invest in extractive industries, hence they compete by creating attractive environment for foreign investors. One of the areas which are very important in attracting investors is tax policies applied in the sector. When there is no balance (government seeks more revenue by harming the economic environment), tax policies are highly subjected to change under this circumstances. For example in 2017, the government of Tanzania removed VAT refund on export of raw minerals. This was intended to increase revenue collection, but on the other side, the investment environment was disturbed leading to policy changes three years later where by the policy was redefined again (Scurfield 2020)[79]. In an attempt to increase revenue collection, the government introduces excise duty on imported or domestic oil purchased for mining purposes in 2009, but in a period of one year this policy was abandoned because it was found to be a reason for obscuring investments (Finance Act, 2010).

3. Institutional and Administrative Inefficiency

Developing countries usually lack both institutional and human resources capacity on regulating and monitoring fiscal policy as well as revenue collection machinery and process in an efficient manner. The extractive industry does not only need experts in tax issues, but also personnel who are as well expert in mineral operations, oil, valuation, laws and negotiation. However, both Governments are improving their capacity as mentioned by one respondent from Zanzibar:

"We have succeeded to a great extent, I can say this, for example; in 2015, the President Dr. Shein approved our application as a ministry to send people training so that they can better manage this sector. So, we have been able to send Zanzibaris to long term training and short term training sources on oil and natural gas issues especially in the area of law, contracts, how to levy taxes, audit and how to prevent loopholes of any kind in this sector."

This is very important because once a policy is set, usually it is accompanied in an agreement/contract which is a long term instrument. For example, most of Mining Development Agreements (MDA`s) were entered before the Mining Act of 1998 which further adopted the Mining Act of 2010. This was taken to be a government position as a long-run strategy towards the mining sector, hence incorporations of the agreements and trying to find the neutral ground between the MDA`s

79 Scurfield, Thomas. 2020. "Tanzania Strikes a Better Balance with Its Mining Fiscal Regime." Natural Resources Government Institute Tanzania.

and the Mining Act, 2010 resulted into an instability in most tax policies due to regular reforms. There is a positive optimistic about amending the MDA as one of the respondent from larger taxpayer said:

"Another issue is MDA's where in the Income Tax Act 2004, section 143 states that compliance with the MDA's agreement, this was a challenge although the 2017 changes are clear to new Miners that MDA's are not being considered, but the question remains for those miners who already had MDA's, I think the efforts that are being made will be successful…"

Pressure from the Public, Civil Societies and Opposition Political Parties

The pressure for better fiscal policy in the extractive industry made the government to reconsider re-negotiation of Mining agreements and tax policies. Since 2017, Tanzania experienced major changes of taxation policies in extractive industries, different statutes and regulations were introduced which include the Natural Wealth and Resources (Permanent Sovereign) Act, 2017; the Natural Wealth and Resources (Review and Re-negotiation Unconscionable Terms) Act, 2017; and the Written laws (Miscellaneous Amendments) Act, 2017. Also the government formed twins committee (Professor Mruma and Professor Osoro`s Report 2017) which revisited the agreements and the tax policies applicable and then the changes were made there afterwards[80].

2.5.2 The Importance of Stable Fiscal Policies

Fiscal policy instability is bad[81], while stable and sustainable tax policy attracts foreign direct investment in extractive industry because it guarantees investors with stable operation plans and financing budget. Further, the economy has been hit by COVID 19; globally, many sectors have been affected including mining, oil and gas. The decline in price of minerals affects the revenue generated by the companies hence there might be need of re-looking of tax policies if they affects negatively the companies.

Also as the economy goes down there arise a need of still making the environment attractive for foreign direct investment (FDI), now since tax has been one of the key parameter when comes to economic environment (Scurfield 2020). Now since this issue of corona is ongoing internationally, there is a need of looking and analyzing primary data regarding the challenges on stable taxation policies after corona pandemic.

80 Sinda, Aisha Ally. 2019. "Legal Issues Arising from a Review of Mining Development Agreements in Tanzania." International Lawyers for Africa.

81 Siwale, Twivwe and Benjamin Chibuye. 2019. "Mining Taxation Policy in Zambia: The Tyranny of Indecision." International Growth Centre.

2.3.3 Existing Loopholes in the Extractive Sector That Contribute To Revenue Loss

The Tanzanian extractive industry still grieves from existence of loopholes that exuberate the revenue losses. The loopholes include:

(i) Low government Involvement in extractive industry. Tanzania has had been engaging in relatively low scale in operations such as mining activities. A few mining operations are or had operated on basis of joint venture. The practical cases include the Williamson Diamonds Ltd which operates as a joint venture between the De Beers of United Kingdom and the Government of Tanzania with 75% and 25% of shares respectively. The second company is the Twiga Minerals Corporation which has recently been formed to oversee the operation of three mining sites of Bulyanhulu and Buzwagi in Kahama district in Shinyanga region and North Mara in Tarime district in Mara region, Tanzania. The government of Tanzania (GoT) acquired a free carried shareholding of 16% in each of the mines and is entitled to receiving its half of the economic benefits from taxes, royalties, clearing fees and participation in all cash distributions made by the mines and Twiga. An annual true-up mechanism will ensure the maintenance of the 50/50 split.[82]

As indicated in Table 4 below, the Tanzanian government has had only a limited numbers of shares in the mining sector. The largest share owned by the government, 50%, was in the Buhemba Gold Mine. The majority of mines were or are still owned by foreign companies, with contractual powers granted to them by the government.

[82] Barrick (2019); The Launch of Twiga Minerals Heralds Partnership Between Tanzanian Government and Barrick. News Release. Dar es Salaam, Tanzania.

Table 4: Ownership of mines in Tanzania

S/No.	Mine or operator	Minerals	Location	Ownership (country)	Status
1	Golden Pride	Gold	Nzega	Resolute Ltd (Canada)	Closed
2	Geita Gold Mine	Gold	Geita	AngloGold (South Africa)	In operation
3	Kahama Mining	Gold	Kahama	Barrick Gold Corporation (Canada), Acacia (UK), Twiga	In joint venture operation as "Twiga" with 84/16 percent shares between Barrick and GoT
4	Buzwagi mines	Gold	Kahama	Barrick Gold Corporation (Canada), Acacia (UK), Twiga	In joint venture operation as "Twiga" with 84/16 percent shares between Barrick and GoT
5	Corporation Afrika Mashariki	Gold	Tarime	Placer Dome Inc. Gold Mine (Canada), Barrick Gold Corporation (Canada), Acacia (UK), Twiga	In joint venture operation as "Twiga" with 84/16 percent shares between Barrick and GoT
6	Buhemba Gold Mine	Gold	Musoma	Government of Tanzania (50%); Meremeta Ltd (50%)	STAMICO (100%), but not in operation
7	Tulawaka Gold Mine	Gold	Biharamulo	Barrick Gold Corporation (70%); Explorations Minieres du Nord (30%) (Canada)	STAMIGOLD Co. LTD (100%), in operation
8	Williamson Diamonds Ltd	Diamonds	Shinyanga	De Beers (75%) (United Kingdom); Government of Tanzania (25%)	In operation; Petra Diamonds (75%) & Government of Tanzania (25%)
9	Mirerani Mining Ltd	Tanzanite	Simanjiro	Afgem (75%) (South Africa); Mr A. Mpungwe (25%)	In operation, STAMICO (50%) & Tanzania One Mining Ltd (50%)
10	SongoSongo Processing Plant	Natural Gas	Kilwa – Lindi	SONGAS	In operation
11	Mnazi Bay Processing plant	Natural Gas	Msimbati - Mtwara	E&P	In operation
12	TPDC SongoSongo Gas Processing Plant	Natural Gas	Kilwa – Lindi	Government of Tanzania	In operation
13	TPDC Madimba Gas Processing Plant	Natural Gas	Msimbati – Mtwara	Government of Tanzania	In operation

Source: Compiled from GoT official documents.

(ii) Tax laws that are favourable to multinational companies (MNCs) characterised by unfavourable tax incentives and exemptions.[83] For example it is provided by the Petroleum (Liquefied Petroleum Gas Operations) Rules, of 2018 (GN. No. 376) that all orders, exemptions or directives made or issued or deemed to have been made or issued under the Rules made in 2012 shall remain in force until revoked or otherwise expire or cease to have effect.[84]

The Tanzania Public Accounts Committee reported in 2007 to parliament that mining companies had declared US$ 1 billion in losses because of generous capital expenditure allowances and weak documentation.[85] The same occasion was reported in 2008[86] in which it was estimated that Tanzania had lost at least US$ 265.5 million for years as a result of an excessively low royalty rate and government tax concessions that allowed companies to avoid paying corporation tax and possibly even made possible for tax evasion by some companies. It was also found that 12 mining companies had over-declared their capital allowances and operating expenditures, in a bid to reduce their tax liability as reported in 2010 by the Tanzania Minerals Audit Agency (TMAA).[87]

(iii) Illicit Financial Flows (IFFs) usually result into low tax revenue from the resource sector. Business practices of most of multinational companies (MNCs) are designed to embrace tax avoidance through aggressive tax planning and tax avoidance. Tanzania experienced the greatest potential average annual tax loss from trade misinvoicing, averaging at a gross of US$ 1.87 billion during the period between 2002 and 2011.[88] As it was suggested by one of the respondent: "*The big challenge is Transfer pricing this has been a real challenge for us but by using the Finance Act we have been trying to deals with those loopholes whenever we discover them in administering tax*".

[83] Magai P.S, and Márquez-Velázquez A, (2011); Tanzania mining sector and its implications for the country's development. Working Paper No. 04/2011. Competence Centre: BWPMFTD.
[84] The Petroleum (Liquefied Petroleum Gas Operations) Rules, of 2018 (GN. No. 376).
[85] Curtis and Lissu (2008), 'A Golden Opportunity: How Tanzania is Failing to Benefit from Gold Mining'.
[86] Ibid.
[87] Curtis, Ngowi, and Warris (2012), 'The one billion dollar question: How can Tanzania stop losing so much tax revenue?'
[88] Baker et al. (2014), 'Hiding in Plain Sight: Trade Misinvoicing and the Impact of Revenue Loss in Ghana, Kenya, Mozambique, Tanzania, and Uganda: 2002–2011'.

Similarly, a respondent from TRA larger taxpayer alleged the same issues:

"Another thing is to know that there are no legal challenges, except in implementation, especially this challenge of Transfer Mispricing, which is mainly in Procurement, Financing and Service fees. The people involved make every effort to come up with new ideas as they have the resources to find more professionals…. We need to focus on Arms Strength Principle, but this principle does not provide regulations in implementation"

In 2017, the presidential committee commissioned to examine the economic and legal implications of the country's export of gold and mineral concentrates alleged that Acacia Gold Mining PLC, through activities including BEPS, trade misinvoicing, and transfer pricing had under-declared revenues and tax payments leading to a loss of up to US$ 84 billion between 1998 and 2017.[89] Such a figure was about 5.6 times more than the proposed national budget for 2017/2018 of US$ 15 billion.

On the other hand, several Tanzania mining companies have also been accused of using their subsidiaries or holding companies in tax havens to reduce their domestic taxes.[90]

2.6 The Search for Answers and Suggest Solutions on Other Related Study Questions

2.6.1 The Rentier State Perspectives and Rentier State Theory

A rentier state is a state which derives all or a substantial portion of its national revenues from the rent paid by foreign individuals, concerns or governments.[91]

The rentier states receive income without an increase in the productivity of the domestic economy or political development of the state, which is the ability to tax citizens. Thus, *the Rentier State* Theory (RST) argues that "*unearned revenue streams, external to a country and accruing mainly to the government, tend to shape that country's political and economic character"*.

Rentier states employ an "expenditure policy," with little interest in diversifying their economies or forming a coherent economic development programme (Gray, 2011:1).[92] Rentierism can then be seen as a hindrance on democracy and a boon for autocracy: the lack of taxation weakens the regime's accountability to society[93] (Herb, 2005:298) and a "rentier social contract" forms whereby the

89 'Tanzania: Acacia Disappointed By the Findings of the Second Presidential Committee', AllAfrica, 14 June 2017.

90 Curtis, Ngowi, and Warris (2012), 'The one billion dollar question: How can Tanzania stop losing so much tax revenue?'

91 Ulrichsen (2018). A dictionary of politics in the Middle East. ISBN 9780191835278.

92 Matthew Gray A Theory of "Late Rentierism" in the Arab States of the Gulf January 2011 SSRN Electronic Journal Follow journal DOI: 10.2139/ssrn.2825905

93 Herb, Michael (2005) No Representation Without Taxation? Rents, Development and Democracy in Comparative

state offers goods, services and other perks to society in return for substantial autonomy in decision-making.[94]

The unequal distribution of external income in rentier states has thus a negative effect on political liberalism and economic development. With virtually no taxes, citizens are less demanding and politically engaged and the income from rents negates the need for economic development. The usage of rentier states is based on the concept of 'rents'. Rents, as defined by Adam Smith, are different from wages which must be labored for. They are based on the ownership of land or resources.[95] David Ricardo defined 'rents' as a reward of the ownership of a resource.[96] When applied to natural resources, rents can be seen as "the income derived from the gift of nature".[97]

3.6.2 Institutional governance framework

It is critically important to understand the institutions and how they are set to operate as mechanisms that will influence outcomes in the country's development agenda. As pointed out, the aim of looking at institutional governance is to spearhead the need for good governance as a key factor to ensuring poverty reduction and equitable income distribution among the people.

Governance frameworks are the structure of a government and reflect the interrelated relationships, factors, and other influences upon the institution. These frameworks are shaped by the goals, strategic mandates, financial incentives, and established power structures and processes of the organization. Global efforts towards creating an enabling environment that allow natural resources to be exploited to realise socio-economic benefits for a country and avoid the resource curse phenomenon are on the rise. These initiatives include the Natural Resources Charter promoted by Natural Resource Governance Institute (NGRI), Extractive Industry Transparency Initiatives, OECD Due Diligence Guidelines and ICMM practice guidelines. These initiatives support a resource nationalistic approach, a concept that generally refers to the desire of the people of resource-rich countries to derive more economic benefits from their natural resources. Resource nationalism refers to the tendency for states to assert economic and political control over natural resources found within their sovereign territory.[98]

Politics, volume 37, issue no. 3, pg297-316

94 Wiktorowicz, Quintan (1999) The Limits of Democracy in the Middle East: the Case of Jordan in Middle East Journal, volume 53, issue no. 4, pg.606-620.

95 Smith, Adam (1776). "Chapter XI". The Wealth of Nations.

96 Ricardo, David (1817). "Chapter III". On the Principles of Political Economy and Taxation.

97 Marshall, Alfred (1920). "Book II Chapter IV". Principles of Economics.

98 Michael Solomon Southern African Institute of Mining and Metallurgy - The Rise of Resource Nationalism: A Resurgence of State Control in an Era of Free Markets or the Legitimate Search for a New Equilibrium? A Study to Inform Multi-stakeholder Dialogue on State-Participation Mininghttp://www.saimm.co.za/Conferences/ResourceNationalism/ResourceNationalism-20120601.pdf

Institutions play critical roles in realising resource nationalism. Robinson et al. (2006)[99] argue that Botswana has been successful in avoiding the infamous resource curse because of its institutional arrangements. The work of Lahn et al. (2007)[100] further reinforces this claim. However, using the case of Uganda, and inspired by the arguments of Poteete that "Behind policies, institutions, and state building lie political coalitions" (2009: 455–456), Hickey et al. (2015)[101] posit that institutions are a product of interactions between political actors operating within a particular socio-political setting.

In Tanzania, efforts aimed at constructing institutions for the governance of the petroleum sector governance promise with the broader initiative to avert a natural resource curse. In this sense, institutions constitute both the problem and the solution. Weak institutions cause resources curse and strong institutions help avert it. The recently enacted laws: the Petroleum Act,[102] the Tanzania Extractive Industry (Transparency and Accountability) Act,[103] and the Oil and Gas Revenue Management Fund Act,[104] they all define the institutional arrangements for the governance of petroleum sector in Tanzania. In particular, the Petroleum Act has both created new institutions and defined their roles in addition to assigning the existing institutions' roles in the sector encompassing policy setting, regulation and commercial activities (URT, 2015a).

3.6.3 Efficiency in Tax Administration

There is an increasing attention on improving the efficiency of tax authority in its core roles; registration, assessment, audit and investigation, collection, and enforcement of compliance and payment systems. The effort results into a significant increase of efficiency of the overall tax administrations in order to reduce costs while providing better services to citizens and businesses. Meanwhile, the efficiency of gains depend on how well the authorities (TRA and ZRB) design their internal organisational structures; how well they allocate budgeted funds to meet new or changed priorities; how they utilise ICTs and e-government initiatives to reduce costs; and how they determine the levels, remuneration and mix of their staff. Usually, the cost of collection ratio compares the annual costs of administration incurred by a revenue body with the total revenue collected over the cause of a fiscal year. Besides, indices as observed over time, they indicate a downward trend which can constitute an evidence of a reduction in relative costs (*i.e.* improved efficiency) and/or improved

99 Robinson, J. A. & Parsons, N. (2006) State Formation and Governance in Botswana. Journal of African Economies 15 (AERC Supplement 1), 100–140.

100 Lahn, G., Marcel, V., Mitchell, J., & Stevens, P. (2007). Good governance of the national petroleum sector.The Chatham House Document. Retrieved on December 4, 2014 from http://www.chathamhouse.org/sites/files/chathamhouse/public/Research/Energy,%20Environmen%20a nd%20Development/ggdoc0407.pdf

101 Hickey, Sam (Ed.); Sen, Kunal (Ed.); Bukenya, Badru (Ed.) (2015) : The Politics of Inclusive Development: Interrogating the Evidence, ISBN 978-0-19-878882-9, Oxford University Press, Oxford, http://dx.doi.org/10.1093/acprof:oso/9780198722564.001.0001

102 The Petroleum Act, 2015.

103 The Tanzania Extractive Industry (Transparency and Accountability) Act, 2015.

104 The Oil and Gas Revenue Management Fund Act, 2015 [CAP. 399 R.E 2019].

tax compliance (*i.e.* improved effectiveness). For instance, while TRA-larger taxpayers department audited on average almost 33% of its taxpayers, it raised addition taxes liability of TZS 6,064,648,427,789.02 from 2014/15 to 2018/19 (see Table 5). At the same time, the direct costs (travelling, extra pays) used in raising these tax liabilities continued to decrease over the same period as shown in the Table 6 below.

Table 5. The Ratio of Audited Taxpayers in Tanzania: (2014/2015-2018/2019)

Years	Number of Taxpayers		Number of Audited Taxpayers		Audited Taxpayers Ratio	
	TRA-Large taxpayers	ZRB-VAT only	TRA-Larger taxpayer	ZRB-VAT only	TRA-Larger taxpayer	ZRB-VAT only
2014/15	475	53,079	141	1,229	29.68%	2.32%
2015/16	475	55,872	143	1,967	30.11%	3.52%
2016/17	475	58,813	179	2,865	37.68%	4.87%
2017/18	475	61,908	181	3,715	38.11%	6.00%
2018/19	500	65,167	179	4,404	35.80%	6.76%

Source: Compiled from data obtained from TRA and ZRB.

Table 6: Tax Audit Results (tax assessed) in Regard to Types of Taxes (2014/2015 - 2018/2019)

Types of Taxes	2014/15	2015/16	2016/17	2017/18	2018/19
CORPORATE TAX	789,313,503,591	969,012,841,792	1,274,610,918,944	874,669,935,496	379,538,649,977
EXCISE DUTY		850,804,857	30,521,594,004	49,874,257,173	1,626,329,095
PAYE	49,254,458,763	80,542,138,808	78,579,835,278	23,190,002,600	31,817,731,124
SKILL AND DEVEL LEVY	12,640,633,974	19,671,095,698	22,259,284,994	6,416,729,549	8,774,646,160
STAMP DUTY	963,881,508	3,651,900,650	1,664,529,340	419,444,785	1,127,064,387
VAT	89,616,011,384	132,917,346,325	214,017,928,666	201,621,837,897	715,483,090,958
Grand total revenue	941,788,489,222	1,206,646,128,132	1,621,654,091,229	1,156,192,207,500	1,138,367,511,703
TRA-Larger taxpayers expenditures	517,269,828	583,899,117	675,651,854	460,657,240.62	418,083,477
Expenditures/Grand total revenues %	0.055	0.048	0.042	0.040	0.037

Source: Compiled from data obtained from TRA

It is therefore important to understand that differences in tax rates and the overall legislated tax burden; variations in the range and in the nature of taxes collected (including social contributions); macroeconomic conditions affecting tax receipts; and differences in the underlying cost structures are largely the results of the differences in institutional arrangements (e.g. multiple bodies involved in revenue collection).

3.6.4 Integrity and the Role of Personnel in Enhancing Efficiency of Revenue Authorities

Integrity implies compliance with a strict moral and ethical code or power of law while ethics are standards that guide human behavior in several situations. These standards regulate relationship between individuals, family, businesses, and public organizations. Having integrity in tax institutions is very important, as without it or with low integrity it reduces the trust of taxpayers. It enhances the resource costs both in terms of money and time, and reduces voluntary tax compliance.[105]

Furthermore, integrity on management and organization of tax administration is important not only in preventing corruption but also in preventing the violations of ethical values and regulations. In the context of tax administration, lack of integrity induces corruption and non-compliance and consequently, it results into an overall low revenue collection. Usually, the rationale for having emphasis on integrity is for the government to prevent power abuse or biased interpretation of law by powerful individuals or organizations.

The Tanzania Revenue Authority has a human resource policy designed to promote and encourage integrity and other ethical issues through a set of instruments and procedures. They are staff regulations which describe the expected behavior of each individual personnel and provide for sanction tools to help mandate the internal affairs as well as transparency in recruitment process which is implemented through advertising the vacant position in newspaper, television, and magazines among others while selection and appointment process is under the Public Service Recruitment Secretariat. Upon employment, the personnel are entitled with job descriptions which are aligned with the Individual working plan of the year. The TRA's organization structure is elaborate and transparent to enhance integrity for both the personnel and the authority. Each personnel is supposed to have smart goals.

The performance standards of teams and individuals differ from department to department based on the nature and key responsibilities. Usually, performance appraisal is done through both quantity and quality aspects. The Revenue officers are assessed against their planned targets of revenue collection which is different from the assessment used for the human resources department. Training Department is responsible for developing skills and technical know-how of the authority's personnel. The Internal Affairs Department has mandates to conduct investigation and report to the Commissioner General. Prosecution processes are left to the office of the Director of Public Prosecution while litigation and determination are until when taken to the judiciary. Integrity cases (non-corruption cases) are dealt within the Internal Affairs Department; whereas, cases related to corruption are handled to Prevention and Combating of Corruption Bureau (PCCB).

[105] Victor van Kommer (2009) Integrity and Ethics for Tax Administrations

Meanwhile, the policy provides guidance and mechanism for whistleblowing whereby the authority has provided phone number, email, website, and opinions box among others. All these channels are directly to the Commissioner General. Other elements which support the Integrity of the authority is automation of systems for providing services to the public. This has reduced the chances of physical contact between officers and taxpayers.

However, during the year 2017/18 to 2019/20, there were eighty five (85) cases reported through organized channels that enhance confidentiality and anonymity which included whistleblowers. Basically, only five (5) out of the total cases reported did not qualify for investigation because of misreporting and unclear information. The cases which qualified for investigation are shown in the table below.

Table 7: Number of cases relating to Integrity 2017/2018 – 2019/2020

Years	Number of Cases Reported	Number of Cases determined -TRA	Remarks
	TRA		
2017/18	28	25	3 were dropped
2018/19	31	29	2 were dropped
2019/20	26	26	

Source: Compiled from data obtained from TRA.

TRA has done much to protect integrity when assessing taxes and dealing with taxpayers. One of the respondents has these to say:

"….the main thing we do is to make sure we have a fiscal transparency for example we as TRA encourage self-assessment. We have a taxpayer forum here we discuss with taxpayers challenges they face and assist them on how they could comply with the tax laws. We have a free toll that the taxpayer can report if she/he is asked any bribe and as for the MNCs there is a big challenge. These people have great technology to deal with their stuff. So, we are trying to deal with them by training our people in auditing issues but recently we have been hiring experts in every sector. We have oil and gas experts, we have mining experts, we have ICT experts whom we are giving them special training based on the systems used in these MNCs"

These findings suggest that integrity in the tax authorities can be improved through cooperation with stakeholders. Integrity and ethics case involves both tax officials and tax payers and therefore, to deal with such cases, external cooperation is very vital. Another approach is to adopt and deploy more automation in almost all aspects of compliance chain. The automation reduces the chances of misconducts in the institution, thus improving efficiency.

Lastly, there must be political will and strong leadership that provide for strict adherence to integrity and ethical behaviours. In the recent period the reformation in government administration has been enhanced by the political will under the leadership of H.E. John Joseph Pombe Magufuli.

3.6.5 Tax Compliance and the Role of Information and Communication Technology

Tax compliance is defined by OECD to mean "a degree to which a taxpayer complies (or fails to comply) with the tax laws of a particular tax jurisdiction by declaring income, filing a return, and paying the tax due in a timely manner". An effective tax administration system is obliged to ensure it puts in place means and tools to support voluntary compliance at a reasonable cost. If the costs of compliance is costly, a taxpayer may not be willing to comply. The Tanzania Revenue Authority (TRA) has been undertaking sequences of reforms to cater for the need to easy the compliance processes. One of the initiatives has been investing in the use of online services through information and communications technology (ICT).

TRA has put in place a number of self-services which permit and facilitate taxpayers in serving oneself. They are common in accessing information, completing a transaction or purchasing products or services (EFD Machines). Self-services are also being used in taxpayers' identification and registration, filling the declaration, and payment of due taxes. Most of the services can be done over the phone, web or mobile application ("app").[106]

The study observed that TRA has a well-developed channel strategy and a wide service delivery network countywide which includes online channel, phone channel, paper channel and face to face channel. Currently, the focus is on delivery of services via digital online channels by promoting a digital approach in all compliance processes. With introduction of online filing of declaration together with the ongoing online identification and registration of taxpayers, linking information from the National Identification Authority is expected to be the priority for the interaction with taxpayers through TRA portal. With introduction of e-filing, number of taxpayers using the online identification and registration are increasing. The system does not separate taxpayers in terms of their economic sectors as it is open to all taxpayers. Taxpayers from the extractive industry who qualify to use EFD machine can obtain the equipment from authorized dealers. Identification and registration as well as filling of declaration have been through both face to face and online self-service platforms. Payment of tax due is done both through bank and online gateways.

[106] OECD (2014), Increasing Taxpayers' Use of Self-service Channels

2.6.6 The Fight against COVID-19 pandemic

Generally, the COVID-19 pandemic disrupted the success equation since the first case was reported in Tanzania on 16 March 2020. However, there is no restrictions on extractive operations in Tanzania as the Government has not introduced any restrictions concerning COVID 19. However, the global COVID 19 impact is largely impacting the sector in various ways. Firstly, increase in global gold price is benefiting Tanzania's four large scale gold mines.[107] Therefore, with Barrick, deal production and export of concentrate would increase. Secondly, because of decrease in diamond price, Williamson Mining is at care and maintenance status leading to some cash flow problem. Thirdly, despite having mineral trading centers, artisanal and small scale miners are facing decrease in price due to dealers having no access to export markets resulting from international travel restrictions[108]. Finally, it is expected that existing onshore production of gas will continue despite COVID 19 it supplies to domestic market not affected by the international market.

The overall impact of COVID-19 pandemic on the Mining sector have been minimal following the government decision to allow operation and no lockdown was adopted. The production and revenues have increased as the estimated revenue collection for 2019/20 was TZS 470 billion whereas in April 2020, the government managed to collect TZS 58 billion; and up to May 2020, the total tax revenue collected from mining sector was TZS 479 billion[109].

[107] https://resourcegovernance.org/analysis-tools/publications/tanzania-assessment-coronavirus-extractive

[108] Mieke Thierens, and Elard Mawala (2020) The impact of Covid-19 on artisanal mining communities in northern Tanzania available at: https://ipisresearch.be/publication/impact-covid-19-artisanal-mining-communities-northern-tanzania/

[109] Madini News, 4th edition, May 2020.

3.0 GENERAL CONCLUSION AND RECOMMENDATIONS

3.1 General Conclusion

The study has observed that the extractive sector has significant contribution to governance and poverty reduction as taxation improves the government revenue and hence ability to finance public spending which in turn reduces poverty. Majority of taxes in extractive sector, such as PAYE and production sharing of profit oil or profit gas are progressive; they usually enhance income equality. There is also a need to enhance the economic empowerment transfers to help the poor and other vulnerable groups. Tax reforms that can lead to expected development outcome from the extractive sector includes ring-fencing of operations, exemption on liquefied petroleum and natural gases, review and re-negotiation of unconscionable terms, payment of mineral clearance fee and royalties, withholding tax on sales of industrial minerals, participation through government free carry interest, local content requirement, removal of WHT and VAT on artisan miners, and withholding regardless of source of payment and permanent establishment.

On the other hand, there are challenges that governments of the United Republic of Tanzania and Zanzibar are facing in committing to stable taxation policies. These challenges are: the need for fair share of tax revenue from extractive industry, failure to balance between revenue generated by the government and competitiveness in the extractive industries, institutional and administrative inefficiency and pressure from the public, civil societies and opposition political parties. The Tanzanian extractive industry still grieves from existence of loopholes that exuberate the revenue losses. The loopholes includes: Low government Involvement in extractive industry; and Tax laws that are favorable to multinational companies (MNCs) characterized by unfavorable tax incentives and exemptions. Also, illicit Financial Flows (IFFs) usually result into low tax revenue from the resource sector.

Moreover, the Lesson obtained from the experience of the extractive industry's operation amid COVID 19 is that mining sector has not needed targeted relief as there has been no specify relief for mining sector. That is to say, COVID 19 has not uniformly affected the extractive industry in Tanzania. CAPEX is temporarily down, but M&A is likely to pick up as a result there is an expected change of control of ownership. The CAPEX will result into revenue from capital gain, the government must be vigilant with respect to M&A activities as can be structured to minimize tax burden. The government should therefore avoid tax incentives in extractive industry to attract investment and enhance revenues. There is an impetus for tax reforms andthe time to rethink fiscal regimes post COVID 19 in the extractive industry is now.

3.2 Policy Recommendations

The government of the United Republic of Tanzania and that of Zanzibar should consider the following:

(i) TRA should control transactions that erode the tax base and which are designed to shift the profits to low tax rates or to no tax jurisdictions in short term.

(ii) The Ministry of Finance and Planning and TRA should increase tax revenue by not depending too much on traditional taxes: the focus should be to embrace technological change, state equity participation, and production sharing Agreements.

(iii) The Ministry of Finance and Planning should adopt the progressive royalty instead of using the constant rate and consider for slide scale royalty for extractive commodities. Also, it should introduce effective rent taxes such as the excess profit tax. This is applicable when all expenses have been deducted and the resulting profit is in excess of a certain prescribed amount in medium term.

(iv) TRA should keep on improving the guidelines that provides mechanism for officers to deal with tax disputes. Moreover, trainings should be provided wherever necessary to equip the staff with the information and skills needed in short term.

(v) The Minister of Finance should speed up the creation of the office of the Tax Ombudsman to reduce tax dispute and improve integrity in tax collection in short term.

(vi) The Ministry of Finance should allow deduction/tax credit for health expenditure in addition to those already allowed in Finance Act, 2020 which are contribution to government for fighting COVID 19. All expenses incurred during treatment of COVID 19 must be deductible expenses in short term.

(vii) To reduce poverty, both the Ministry of Energy and Mineral and LGAs have to ensure MNCs comply with local content policy, mandatory Corporate Social Responsibility (CSR) and other self-agreed social obligation in order to enhance social equality during and after COVID 19 pandemic in short term.

(viii) The Ministry of Finance should introduce a final withholding tax from incomes earned by artisan miners after a sale of minerals at 10 percent of consideration in short term.

(ix) The Ministry of Finance should reform the dispute resolution for MDA's and provide for dispute settlement within the United Republic of Tanzania in short term.

(x) Artisan and small and medium enterprises should improve their tax compliance.

(xi) Civil Society Organizations (CSOs) together with TRA should train artisan as well as small and medium enterprises on tax issue and accounting records.

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