



Reorganisation of tax administration: The Tanzania Revenue Authority (TRA)

Background:

The **Tanzania Revenue Authority (TRA)** was established in 1996 as an alternative to the former inefficient customs and tax administration. The overall development objective of the Tanzanian government was to raise tax revenues without increasing tax rates by (i) improving the legal framework, (ii) broadening the tax base and (iii) establishing the TRA in order to enhance the efficiency and effectiveness of administration. The success of the TRA was of vital importance because in 1996 85% of Tanzanian government revenues were taxes and duties collected by the TRA.

GTZ/TRA project:

The GTZ supported the TRA in the period from 1998 to 2007. The main goal of the reform project was to collect income tax in particular efficiently, effectively and equitably. As the basic cause for malfunctioning in all other areas the management information system was a key element.

The objective was to orient the administration of the TRA towards the taxpayer and to develop the tools and instruments required to detect the various groups of non-complying taxpayers and analyse their attitudes.

Approach:

The GTZ/TRA project adopted a sustainable and holistic approach involving all internal stakeholders. To this end, it focused on the improvement of the TRA's organisational structure, the implementation of a modern and user-friendly taxation system, as well as the improvement of services to taxpayers.

One key component of the project was the development and implementation of **ITAX**, a computerised integrated system for taxation.

German contributions included:

- Legal advice on improving income tax legislation
- Change management advice on internal organisational processes
- Consultancy in the field of information and communications technology (ICT)
- Establishment of the ITAX Development Unit, including procurement of equipment
- Training of staff and users
- Software development and maintenance

Other contributions were the provision of support for the improvement of taxpayer services and education, strengthening the **Institute of Tax Administration (ITA)** and assistance in the drafting of a **Tax Administration Act**.

ITAX had a major impact on the way in which taxes are collected and on the organisational structure of the revenue authorities.

As **ITAX** functions as an all-in-one-application (see box) it is no longer necessary for taxpayers to go to different authorities for income tax, VAT, motor-vehicle registration etc.

Together with the introduction of the unique **Taxpayer Identification Number (TIN)** this was a big step towards more and better customer service as well as to enhanced transparency and equity: all individual taxpayers' issues could now be managed by a single tax officer. Thanks to the TIN, a taxpayer is now far easier to trace, especially after moving into another region. Computerised assessment makes it much easier to ensure equal taxation of persons with the same ability to pay as well as to uncover tax fraudsters and corrupt tax officials.

ITAX is an integrated application that can deal with all forms of taxes and levies. Using **ITAX** in conjunction with a personalised Taxpayer Identification Number (TIN) a tax authority can automate most of the levying process and minimise the scope for tax fraud and corruption.

Technically it is a completely integrated, modular system for taxation with an Oracle database that can handle all types of taxes.

Its integrated tools enable it to cope with more than just tax collection: it supports the revenue authority in registration, assessment, accounting, debt management, auditing, tax monitoring and reporting.

ITAX is a flexible system that can be expanded to handle new taxes and be applied in other countries and tax regimes.



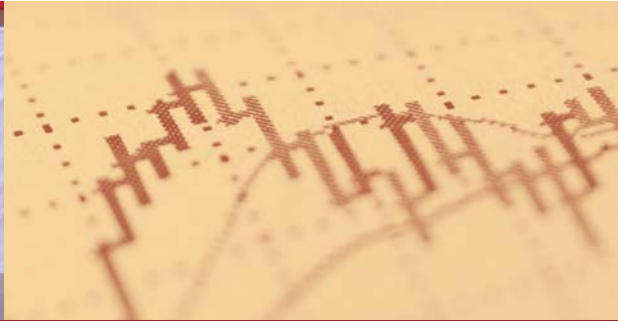
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Impact:

The GTZ provided support for the TRA in a complex multi-layered change management process. Following a complete organisational overhaul of TRA headquarters, the Income Tax Department and VAT Department were merged into a single Domestic Revenue Department. At the level of local tax offices, tax-type oriented tax offices were restructured and replaced by 'one-stop offices'. Internal efficiency and effectiveness were enhanced by assisting the TRA in its efforts to review internal processes and develop, implement and sustain its own software, ITAX.

The development impact of these reforms cannot be underestimated. The internal merger of the two departments resulted in internal efficiency gains, as well as an increase in the overall speed and accuracy of TRA communication with tax payers. Procedures were redesigned and data bases merged, which enabled the TRA to develop a more consistent approach to tax payers, reduce its routine work and assign increased capacities to non-routine functions, such as auditing. In short, new units were designed and new job descriptions issued.

As evidence of the impact on internal efficiency there was an increase in the number of processed returns for direct taxes in the Dar es Salaam tax regions, where ITAX was first introduced, from 40,749 in 2003 to 68,600 in 2006. During the same period, the amount of revenue collected increased even further from TZS 310.8 billions in the financial year 2003/04 to TZS 929 billions in 2005/06¹. This example illustrates not only the broadened tax base but also the more efficient taxation per tax case.

Formerly there was a very low level of voluntary tax compliance in Tanzania. Thanks to the TRA's efforts to enhance its credibility and to strengthen its position as an accountable institution, tax compliance has improved substantially in recent years.

Yet, to attribute improved tax compliance alone to enhanced legitimacy of the tax system would be an over-simplification. In conjunction with more targeted audits, the improved controlling functions of ITAX have had a strong deterrent effect. Taxpayers are now aware of the fact that the TRA has enforcement powers and thus pay their taxes more willingly than they did a few years ago. The new VAT 201a form in particular has contributed to "quasi-voluntary" tax compliance as taxpayers are informed of the TRA's ability to cross-check and to impose penalties in case of irregularities and fraud.

¹ Inflation in the same period stood at around 5% and can therefore not account for the increase in revenue.

Besides these immediate changes, the TRA's capacity to develop and implement its own tax administration software has had a positive long-term effect: the TRA has developed a brand which is requested by many administrations in the region and which provides them with the capacity to use and further develop their own IT systems in house thus increasing their independence from external providers.

Other organisational steps were the up-grading of the Institute of Tax Administration (ITA), a subsidiary of the TRA, which provides training for tax officers. The ITA has established an ICT training centre and introduced new curricula. Teaching equipment (e.g. computers) has been renewed or improved, thus strengthening the structure and capacity for training TRA staff as well.

Besides the above-mentioned direct effects on tax administration and partner structures, the project has also contributed to Good Financial Governance (GFG): the tax system is now more transparent and taxes are levied in a more efficient and effective manner. In addition, cooperation with tax payers has improved substantially and their voluntary tax compliance has improved significantly. GTZ cooperation with the TRA has thus contributed to changing attitudes between state and citizens (tax culture).

When taxes are levied citizen taxpayers have a vested interest in how their country is run and how their taxes are spent. In accordance with this well-established argument there will inevitably be an increased demand for accountability in return for tax payments.

Long-term consultancy was vital for the success of the project. This approach was necessary in order to analyse local conditions adequately, identify partner needs and provide time to become fully acquainted with the TRA's business and administrative culture.

In addition, the project engaged in cooperation and a regular exchange of ideas with other development partners supporting the TRA's modernisation process. Today ITAX is well-integrated in the Tanzanian tax administration. Reforms and innovations have been extended to the most important tax regions in the country and the vast majority of tax procedures in Tanzania are now governed by the new ITAX system. The system has acquired model character and found the interest of tax administrations in other countries. The Philippines, for example, have already implemented and further improved the system.

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