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Performance of Vat System in Tanzania Since Enactment of The Vat Act in 2014

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Abstract

The 2014 Value Added Tax (VAT) reforms focused on reduction of the base alterations and broadening the tax base and also dealt with several legal drafting issues to enhance the effectiveness of the new VAT law with hopes of enhancing revenue collection. The objective of this article is to assess the performance of VAT system in Tanzania in terms of tax payer's registration and collection efficiencies. This study adopted a quantitative paradigm whereby data were analysed quantitatively through descriptive statistics and ratio analysis for efficiency measurement. Only secondary data were used in this study. The sources of data were reports from the Tanzania Revenue Authority (TRA), the National Bureau of Statistics (NBS), the World Bank (WB), IMF and peer-reviewed journal articles on relevant subject matters. The study revealed a total of 4,575 taxpayers who were eligible to be registered for VAT but who were not captured by the VAT tax system by January 2022. As a result, the government is estimated to have lost about TZS 23,350.09 billion during that period. Furthermore, it was found that the contribution of VAT to GDP is 3.6 per cent which is below the country's expectation threshold of 6 per cent annually and is below the East African Community member states' average of 4.4 per cent. Both the VAT Efficiency and C-efficiency ratios were not performing well; their averages were 21.9 and 20.7 per cent respectively, below the EAC regional average of 25 per cent. It is recommended to the government to increase VAT registration threshold and reduce the VAT rate. TRA is urged to decentralize the registration of VAT taxpayers to regions so as to improve compliance and administrative efficiency. The study further recommends to TRA to audit the 4,575 taxpayers whose turnovers are above TZS 100 million but are not yet registered and captured within the VAT tax net.

Keywords: *Value Added Tax System, Value Added Tax Performance, Value Added Tax Act of 2014*

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1.0 Introduction

One of the most important developments in taxation in recent decades across the globe is Value Added Tax (VAT) (James, 2015). For the last two decades, VAT has been considered to be a potential tool for revenue collection in both developed and developing countries (OECD, 2020). VAT is a broad consumption tax designed for imposition on all commercial activities (OECD, 2020; Schenk & Oldman, 2007). It is charged at each stage of production and distribution processes of products, with provision of mechanisms that enable firms to offset the tax paid on their purchases of commodities against the tax charged on their sales (Koirala, 2010). VAT continues to be among tax instruments which are vital in mobilizing revenues for countries in both developed and developing worlds. Currently, Value added tax is applied in more than 170 countries including some developing countries that have modernized their tax (OECD, 2020; Gerard & Naritomi, 2018).

Despite the VAT system being an important tool for revenue collection in many countries, its performance especially in African countries is not satisfactory (African Tax Administration Forum -ATAF, 2018). For instance, a study conducted by Mohamed (2018) on the performance of VAT system in Morocco portrayed an evolution of the C-Efficiency ratio, with an average value of 35% between 1986 and 2004, and 56% between 2005 and 2017. Morocco was thus able to collect only about half of the revenue it could have collected through the VAT system if she had applied only the standard rate to all final consumption.

A study conducted by ATAF (2018) on VAT system performance of some selected African countries indicated that countries in the SADC region had better performance than other regions within the African Tax Outlook (ATO). This performance was largely driven by top performers; South Africa, Zimbabwe, Zambia and Botswana who form a significant composition of the SADC countries under review. Countries with a high C-efficiency of 40 per cent or higher were Botswana, Cape Verde, Mauritius, South Africa and Zambia over the period 2013 and 2017, showing broader VAT bases for these countries. A majority of African Tax Outlook countries have low C-efficiencies, indicating inefficiency in the VAT system. The average for all selected countries (Tanzania was not among them) during this study was 45 percent in 2017. C-efficiency ratios increased in most ATO countries from 2012 to 2017 except Botswana, DR. Congo, Ghana, Mauritius and Zimbabwe.

Furthermore, VAT registration is a primary concern and a vital element in VAT administration. However, many countries particularly developing countries are faced with the challenge of non-registration and, therefore, the design of VAT in

many countries tends to include a registration threshold, which exempts small businesses from the obligation of registering for and charging VAT at the point of sale (Schoeman et al., 2022; OECD, 2020; Ebril et al., 2001). The threshold is created in pursuit of administrative efficiency in terms of both the cost of administering VAT system on part of the tax authority and compliance cost burden on the part of taxpayers (OECD, 2020; Schenk et al., 2015). Furthermore, it is argued that VAT registration decisions can be influenced by many factors including magnitude change in the VAT rate (Schoeman et al., 2022). The efficiency of VAT system can be enhanced by reducing the VAT rate rather than by increasing it; lower rates promote consumption and lower tax evasion and avoidance (Matthews, 2003).

Tanzania has been administering VAT for over 20 years now. VAT was first introduced in 1998 through the VAT Act, 1997, replacing retail sales tax that was in force beforehand. The arguments put forward, at that time, in favour of VAT, were built around the objectives of broadening the tax base, promoting economic efficiency and increasing revenue collection. In pursuit of these objectives, the tax was designed as a destination-based and multi-staged tax on consumption, administered on a self-assessment basis under a dedicated department. In this way, Tanzania's VAT system could be considered to have been consistent with the model so-called standard advice of the International Monetary Fund (Maurus 2021).

During the time of its existence in Tanzania, VAT has undergone several reforms, culminating in the repeal of the VAT Act, 1997 and the enactment of the VAT Act, 2014. Observably, the ultimate effects of the base-altering reforms over time were the dilution of the basic design concept of value added tax as a broad-based tax on all consumption and limiting its revenue productivity for the country (Maurus 2021). Major reforms to the VAT system were introduced in 2014; the reforms mainly dealt with alterations at the base in the name of exemptions, zero-rating and special reliefs, a couple of changes in the registration threshold, and reduction of the tax rate from 20% to 18%. The major reform of 2014 can be seen as representing an effort toward treating the ailments caused by the past alterations from the base (Kim and Kim, 2019). The reform focused on reduction of the base alterations and broadening the tax base, while also dealing with several legal drafting issues to enhance the effectiveness of the new VAT law with hopes of enhanced revenue collection.

Following this latest reform, the necessary question becomes whether or not VAT is now performing better than in the pre-reform period. With concerns abound that VAT is not performing up to the reform expectations, the answer to the underlying question becomes uncertain, warranting further scrutiny of the problem. In a review

of VAT systems in developing and transition economies, James (2015) concluded that when a VAT system is better designed it always guarantees better administration. Reinforced by this view, this study attempted to assess performance of the VAT system in Tanzania, especially after the inception of the VAT Act of 2014.

2.0 Methodology

This study adopted a quantitative descriptive design. The study utilized quantitative and statistical aspects of data organization, presentation and analysis through figures, numbers and tables. Only secondary data were used in this study. The data were extracted from TRA and NBS (i.e., National GDP, Tax and consumption statistics) official reports and peer-reviewed journal articles on relevant subject matter. Data were analysed through the aid of SPSS software version 20.

2.1 Data collection

This study used only secondary data. Reports on VAT registration, de-registration status as well as tax revenue collections and other related data were obtained from TRA. Data related to GDP growth and consumption trends in Tanzania were obtained from the National Bureau of Statistics (NBS). Other relevant data related to GDP, consumption and VAT collections, particularly to East African Community member states were obtained through World Bank reports and peered review journal articles relevant to the current study subject matter.

2.2 Data Analysis

Data were analysed quantitatively through descriptive statistics and ratio analysis. Distribution tables, charts and percentages were used to present information. This study also used the VAT efficiency ratio/productivity ratio and the C-Efficiency Ratio for analysis, which are the common tools for analysing VAT collection and overall performance of the system (Cevik et al., 2019; ATAF, 2018; CIAT, 2017; Ueda, 2017).

2.2.1 The Efficiency Ratio

Efficiency ratio is defined as the ratio of VAT revenue to GDP divided by the standard rate. This is a standard indicator used to analyse the VAT performance of a country. This ratio shows the percentage of GDP that each percentage point of the standard VAT rate collects. Nevertheless, this measure may bring misleading outcomes since in principle VAT is on consumption and not the totality of GDP which would be closer to production (CIAT, 2017). Thus, the perfect efficiency ratio of 100% would only be attained in the case of application of the uniform rate

on production-type VAT which is not applicable in Tanzania. The following expression is used to define the efficiency ratio (or the Productivity ratio) of VAT:

$$ER = \frac{R}{Y.r}.100 \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots 1$$

Where: R denotes the actually collected VAT revenue, Y denotes nominal GDP, and r is standard VAT rate.

2.2.2 C-Efficiency Ratio

The problem of the efficiency ratio can easily be resolved through the C-Efficiency Ratio that substitutes consumption for GDP (Ebril, 2001). In assessing the efficiency and effectiveness of VAT system, C- Efficiency ratio is cited as the common indicator of the VAT performance and overall efficiency of VAT system due to the fact that it quantifies the percentage level of VAT collection (Cevik et al., 2019; ATAF, 2018). Observably, it measures the difference of actually collected VAT revenue and revenue that could theoretically be collected in case where the VAT tax base was levied at a uniform tax rate. The difference between a unit value and the computed C-Efficiency represents the policy and compliance gaps within the VAT System (ATAF, 2018). The formula for the estimation of the C-Efficiency Ratio is expressed as:

$$CER = \frac{R}{FC.r}.100 \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots 2$$

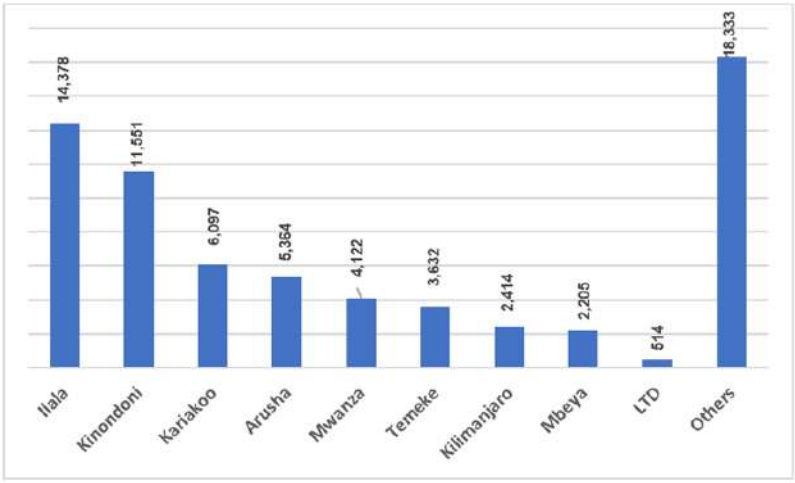
Where: R represents actually collected VAT revenue, FC is final consumption expenditure, and r is standard VAT rate.

3.0 Results and Discussion

3.1 VAT Registration Performance in Tanzania

This study revealed that since its inception in 1997, TRA has managed to register a total of 68,610 VAT taxpayers. The study noted that 21.0 per cent of these taxpayers were registered in the Ilala tax region, followed by Kinondoni (16.8 per cent), Kariakoo (8.9 per cent) and Arusha (7.8 per cent). Surprisingly, the number of VAT taxpayers registered under the LTD amount to 0.7 per cent only of the entire registered taxpayers (Figure 3.1). Moreover, the analysis of VAT registration by Economic activity has revealed that most of the VAT registered taxpayers are found within the activities of wholesale and Retail trade, repairs of motor vehicles and motor cycles (35.6 per cent), followed by Administrative and Support Service Activities (19.2 per cent) and finally manufacturing (8.9 per cent) and Construction (7.3 per cent).

Figure 3. 1: VAT Registration by Region/ Department



Source: Researcher (2022)

Furthermore, the study revealed that since the introduction of the VAT Act 2014, TRA, on average registers 3,719 new VAT taxpayers each year which made a total of 29,750 new VAT registered taxpayers by 2021 as compared to 38,858 VAT taxpayers registered before the inception of 2014 VAT Act (TRA, 2022). Most of these new taxpayers were registered in the regions of Kinondoni, Ilala, Kariakoo, Arusha, Mwanza and Temeke (Table 3.1). The slow pace of VAT tax payers' registration might be attributed to the fact that registration of VAT is done centrally at the Domestic Revenue Department in TRA headquarters, thus taking longer time and bureaucracy to register new taxpayers as a result of the verification process.

Table 3.1: Registration of New VAT Taxpayers by Regions, 2014 -2021

S/No.	Year	2014	2015	2016	2017	2018	2019	2020	2021	Average
1	Kinondoni	620	736	450	694	603	636	842	940	690
2	Ilala	386	329	338	315	438	570	608	888	484
3	Kariakoo	165	132	174	455	497	253	592	321	324
4	Arusha	405	220	364	213	216	264	265	310	282
5	Mwanza	354	258	217	131	319	279	244	240	255
6	Temeke	125	135	139	143	379	203	260	252	205
7	Dodoma	34	40	87	102	280	109	195	264	139
8	Tegeta	99	75	93	120	126	165	201	231	139

9	Mbeya	51	36	55	74	71	209	240	226	120
10	Kilimanjaro	62	42	86	71	99	130	212	218	115
11	Morogoro	40	35	97	82	97	123	122	120	90
12	Iringa	32	27	89	44	44	142	131	99	76
13	Tanga	112	64	50	41	52	57	88	126	74
14	Pwani	21	45	36	39	43	78	132	117	64
15	Mara	18	44	51	48	65	55	100	109	61
16	Kahama	23	21	18	32	55	84	94	139	58
17	Geita	13	14	33	14	41	72	82	191	58
18	Njombe	20	12	25	33	34	116	102	115	57
19	Tabora	24	27	28	40	77	42	95	89	53
20	Mtwara	33	70	48	35	47	40	62	58	49
21	Kagera	55	38	26	35	67	46	53	51	46
22	Shinyanga	23	17	29	35	24	21	106	57	39
23	Kigoma	26	8	17	29	54	42	46	71	37
24	Ruvuma	18	31	28	15	22	20	66	41	30
25	Singida	23	22	43	30	45	21	34	21	30
26	Manyara	3	9	29	39	19	59	24	40	28
27	Lindi	15	23	17	11	62	11	25	43	26
28	Rukwa	3	9	10	6	17	24	35	81	23
29	Songwe	19	5	8	5	4	53	48	27	21
30	Katavi	10	16	9	5	21	12	38	41	19
31	Simiyu	5	8	6	11	1	18	42	28	15
32	LTD	13	21	19	7	6	6	1		10
33	Zanzibar	8	1	2	1	7	4	4	6	4
34	Pemba								1	1
Total		**2,858**	**2,570**	**2,721**	**2,955**	**3,932**	**3,964**	**5,189**	**5,561**	**3,719**
Grand Total									**29,750**	

Source: Researcher compilation (2022)

Just as is the case with registration of VAT taxpayers, de-registration is also crucial in the administration of VAT. The study noted that on average, 517 taxpayers were de-registered from the VAT after falling short of the requirements for registration between the year 2014 -2021 (Table 3.2).

Table 3.2: De-Registration of VAT Taxpayers by regions, 2014 -2021

S/No.	Region	2014	2015	2016	2017	2018	2019	2020	2021	Average
1	Arusha		810		1			4	1	204
2	Ilala	7	369	2	27	7	1	4	209	78
3	Mwanza	2	463	32		7	13	21	25	80
4	Kinondoni	1	199	4	103	12	2	17	27	46
5	Morogoro		284			3	1	2	3	59
6	Singida	2	93	28	8	11		1		24
7	Mbeya		117						15	66
8	Mtwara	5	96	1		4	1	1		18

9	Kariakoo	2	24	2	14	29	14	12	9	13
10	Tabora		91						6	49
11	Tegeta	2	32	3	2	6	7	5	31	11
12	Temeke	1	36	1	25	1	11	1	11	11
13	Shinyanga	4	3					78		28
14	Others	9	369	53	28	27	44	33	61	78
Total		**35**	**2,986**	**126**	**208**	**107**	**94**	**179**	**398**	**517**

Source: Researcher compilation (2022)

3.2 Potential performance on VAT Registration

This study estimated the VAT Registration Potential for each region in the country. The steps involved in the calculation of the potential were: First, a total number of taxpayers with sales of over TZS 100 million were extracted. Their number was then matched against the data of VAT registration, filling and payment to get the appropriate number. The study found that, in total, there were 4,575 taxpayers whose sales in a year exceeded the mandatory registration threshold but were not registered as VAT taxpayers. This caused TRA to lose over TZS 23,350.09 billion (Table 3.3). According to James (2015), when the VAT system is better designed, it always guarantees better administration and revenue collection. This study's findings are contrary to James's suggestions. Despite 2014 VAT reforms, many taxpayers (4,575) who should have been captured in the VAT tax net were not captured. As a result, the government lost massive revenue as shown in Table 3.3.

Table 3.3: Taxpayers not Registered with VAT and the Amount of Tax Lost

S/No.	TZS Billion			
	Region	**Taxpayers**	**Sales**	**VAT Lost**
1	Arusha	457	437.77	78.8
2	Dodoma	159	8,671.18	1,560.81
3	Geita	52	2,142.37	385.63
4	Ilala	436	15,001.47	2,700.27
5	Iringa	92	91.85	16.53
6	Kagera	82	8,333.46	1,500.02
7	Kahama	45	33.14	5.97
8	Kariakoo	388	11,830.13	2,129.42
9	Katavi	21	30.76	5.54
10	Kigoma	64	37.23	6.7
11	Kilimanjaro	219	4,552.30	819.41
12	Kinondoni	764	21,969.17	3,954.45
13	LTD	3	2.5	0.45
14	Lindi	30	23.8	4.28
15	Manyara	63	277.53	49.96
16	Mara	71	76.27	13.73
17	Mbeya	133	9,656.02	1,738.08
18	Morogoro	158	3,603.09	648.56

19	Mtwara	53	67.05	12.07
20	Mwanza	245	237.07	42.67
21	Njombe	51	47.84	8.61
22	Pwani	127	101.1	18.2
23	Rukwa	22	15.32	2.76
24	Ruvuma	65	29.43	5.3
25	Shinyanga	41	37.58	6.76
26	Simiyu	31	25.21	4.54
27	Singida	33	35.22	6.34
28	Songwe	54	18,551.91	3,339.34
29	Tabora	55	70.42	12.68
30	Tanga	143	2,346.10	422.3
31	Tegeta	6	0.79	0.14
32	Temeke	405	21,371.44	3,846.86
33	Zanzibar	7	16.2	2.92
Total		**4,575**	**129,722.73**	**23,350.09**

Source: Researcher (2022)

3.3 VAT Collection Performance

This study revealed that generally VAT collection in Tanzania increased from TZS 3,054,852 million in 2014 to TZS 5,217,889 Million in 2020. Out of these collections, the largest shares originated from domestic VAT and VAT on imports with average contribution of 52.3% and 47.7% respectively for the period under review. Compared to the same period interval (2007 to 2013), the average contributions by Domestic VAT and VAT on imports were 49.2% and 50.8% respectively. The importance of Domestic VAT having a larger share signifies the strength and width of Tanzania's economy. Therefore, the 2014 reforms had a positive contribution towards the increase of VAT collections in Tanzania particularly domestic VAT. Despite that fact, the government lost over TZS 23,350.09 billion during that period, which indicates inefficiency in VAT administration and collections.

Table 3.4: VAT Collection Performance

Year	Millions TZS				
	Domestic VAT	**VAT on Imports**	**Total VAT**	**Domestic Share (%)**	**Imports Share (%)**
2007/08	547,855.4	550,066.0	1,097,921	49.9	50.1
2008/09	692,561.1	641,378.0	1,333,939	51.9	48.1
2009/10	727,797.4	759,396.5	1,487,194	48.9	51.1
2010/11	825,835.3	905,610.8	1,731,446	47.7	52.3
2011/12	979,796.2	1,082,917.7	2,062,714	47.5	52.5
2012/13	1,155,299.0	1,213,436.8	2,368,736	48.8	51.2
2013/14	1,316,820.7	1,329,477.4	2,646,298	49.8	50.2

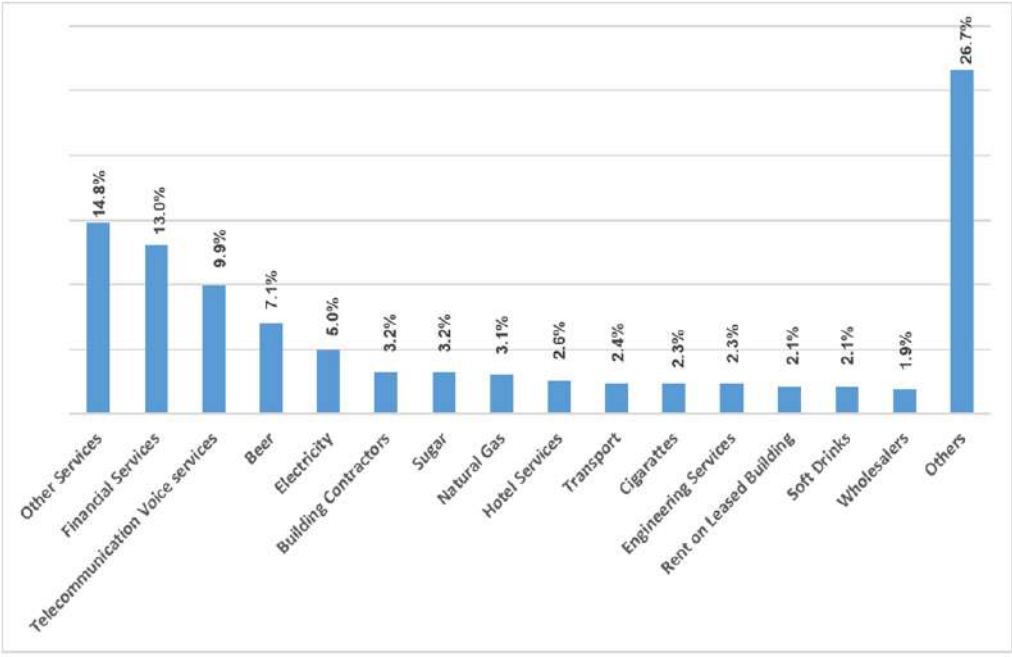
2014/15	1,511,889	1,542,963	3,054,852	49.5	50.5
2015/16	1,840,677	1,727,172	3,567,850	51.6	48.4
2016/17	2,158,526	1,803,667	3,962,193	54.5	45.5
2017/18	2,426,294	2,054,675	4,480,969	54.1	45.9
2018/19	2,505,440	2,259,827	4,765,267	52.6	47.4
2019/20	2,762,924	2,421,370	5,184,294	53.3	46.7
2020/21	2,633,436	2,584,454	5,217,889	50.5	49.5

Source: Researcher (2022)

3.3.1 Share of Goods and Services on Domestic VAT

Further analysis was conducted on the composition of the Domestic VAT based on its source. It was found that service activities on average contributed the most to the collection of Domestic VAT whereby Other Services had a share of 14.8 per cent on average, followed by Financial Services (13.0 per cent) and Telecommunication Services (9.9 per cent), as shown in Figure 3.2. Surprisingly, wholesale and retail trade contributed only 1.9 per cent, on average, to the Domestic VAT despite having registered the most VAT taxpayers, something that signifies difficulties in administering these activities.

Figure 3. 2: Share of Goods and Services on Domestic VAT ***Percent***



Source: Researcher (2022)

3.4 VAT Performance Ratios

This study estimated various ratios for assessing performance of VAT in Tanzania. It was revealed that VAT administration and collections are currently performing poorly below the expectation. The VAT to GDP ratio is below the expected threshold of 6 per cent annually. Not only that but also the study found that the VAT to GDP ratio was below the levels reached during the time before the introduction of the VAT Act, 2014 (Table 3.5). Furthermore, the average contribution of VAT to total revenue under the period of review was below (28.8%), the level reached during the same period interval (2007-2013) before the enactment of the new VAT Act 2014 (30.7%). This VAT is little compared to VAT in selected ATO countries where the average contribution of the VAT revenue to total tax revenue between 2014 and 2017 was 38.7% (ATAF, 2018), implying poor and unsatisfactory performance of the VAT system in Tanzania.

Both the VAT Efficiency and C-efficiency ratios indicated the unsatisfactory performance of the VAT system in Tanzania, averaging 21.9 and 20.7 per cent respectively. These results indicate poor performance of the VAT system in Tanzania as compared to the selected African Tax Outlook countries. According to ATAF (2018), the average C-efficiency ratio between 2013 and 2017 of selected ATO countries was standing above 40%. Therefore, most SADC countries are performing better than Tanzania in their VAT collections since all selected African Tax Outlook countries were SADC member states. On top of that, a study which was conducted in Morocco by Mohamed (2018) showed the C-Effiency ratio of about 56% which indicates better performance than an average performance of SADC member states. The unsatisfactory performance of the VAT system in Tanzania could be attributed to combined effects of weak VAT administration, non-compliance as well as exemptions. The results suggest that there is potential for increasing VAT collections by improving the VAT system in Tanzania.

Table 3.5: VAT Performance Ratios, 2007/08 -2020/21

Year	VAT to GDP (%)	VAT TO Total Revenue (%)	Efficiency Ratio (%)	C-efficiency Ratio (%)
2007/08	4.%	31.7	21.4	18.5
2008/09	4.5	32.1	22.5	19.1
2009/10	4.4	32.5	24.2	20.8
2010/11	4.9	31.7	27.2	23.1
2011/12	5.0	30.9	27.9	22.2
2012/13	4.4	29.5	24.5	20.3
2013/14	4.0	26.8	22.1	17.2
2014/15	3.6	28.6	20.0	20.5

2015/16	3.7	27.0	20.5	21.5
2016/17	3.6	27.9	20.3	21.5
2017/18	3.7	29.4	20.8	22.2
2018/19	3.5	30.5	19.6	22.1
2019/20	3.6	29.0	20.0	23.4
2020/21	3.4	29.2	18.7	21.7

Source: Researcher (2022)

Further comparison of VAT performance measures with selected (EAC) partner states in the region, for the years 2014/15 -2020/21 was conducted. The VAT comparison in performance with other EAC countries is summarized in Table 3.6. The analysis revealed that in Tanzania, on average, the contribution of VAT to the economy had been far less (average VAT/GDP ratio = 3.6 per cent) below the regional average of 4.4 per cent when compared to other countries in the region. Tanzania VAT seems to perform lesser than could be expected in the region, despite the fact that it has been favoured with a lot of economic activities that attract VAT collection and that could yield to higher VAT productivity. This study's findings do not support James's (2015) arguments that with a better VAT system, the efficiency of VAT administration and collection are guaranteed. Despite the 2014 reforms of the VAT system in Tanzania, its performance is still unsatisfactory.

Table 3.6: Comparative Analysis of VAT Performance Measures in Selected EAC Countries, 2014/15 -2020/21

Country	VAT Rate	VAT to GDP	VAT Productivity ratio	C-efficiency ratio
Kenya	16	4.2	0.26	26.2
Rwanda	18	5.4	0.30	29.2
Tanzania	18	3.6	0.20	21.8
Uganda	18	4.3	0.24	23.2
Average	17.5	4.38	0.25	25.1

Source: Researcher (2022)

From Table 3.6 it is evident that the efficiency ratio remained low at 20 per cent on average below the regional average of 25 per cent but no EAC country had achieved at least 50 per cent as the high VAT effort. Technically, a VAT with no exemptions, a single rate and full compliance should result to efficiency ratio close to 100 per cent. The main reasons for underperformance recorded can be explained by VAT exemptions in the fiscal policy and administrative bottlenecks.

4.0 Conclusion and Recommendations

According to findings from this study, to enhance compliance, administrative efficiency and overall performance of VAT, the Government should increase the registration threshold from TZS 100 million. This measure will assist the government to concentrate its efforts on a small portion of taxpayers that contributes about 80% of the VAT collections and thus lead to revenue gain. Currently, the VAT system in Tanzania is unable to capture and handle all those eligible to VAT payment; about 4575 eligible tax payers were not captured by the tax net. Moreover, the Government needs to reduce the VAT rate to be able to attract and capture all eligible taxpayers to the VAT system and increase its collections. Reduction of the rate will encourage and motivate majority of taxpayers eligible to voluntarily register and pay tax. Furthermore, the government should consider widening the tax base and its revenue collections through reducing the list of exempt items from the VAT Act of 2014. TRA should de-centralized the registration process of VAT from the Head Quarters to respective regional tax offices hence reduce bureaucracy and enhance VAT compliance.

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