

# Changes in Citizens' Perceptions of the Local Taxation System in Tanzania

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**This brief examines changes in citizens' perceptions of local taxation in six councils in Tanzania; investigating why residents do or do not pay local taxes, and their perceptions of misuse of tax revenue. The brief also provides recommendations on measures for improving residents' trust in the tax system and encouraging tax compliance.**

**The conclusion is that citizens' perceptions can valuably inform policy to improve the local taxation system in Tanzania. Most importantly, improved tax compliance is dependent upon citizens perceiving that their local government is trustworthy, and that taxes are appropriately collected and used to provide public services. Administrative and legal measures are needed to ensure transparency in the collection and disbursement of tax revenues at the local level, to enable citizens to confidently report official misuse of revenue, and to effectively address cases of corruption.**

## Background

In Tanzania local councils are responsible for delivering public services, including primary education and healthcare, local roads, water and sanitation, and agricultural extension services. The funds to supply services are largely sourced from grants made by the central government. However, councils also collect various taxes, fees and charges, and these locally-generated revenues are applied to the operational costs of councils and the allowances of elected councillors.

Until 2003, the local tax system was characterized by numerous and complex taxes. Taxes were seen as unfair, with little transparency in revenue collection or disbursement. The flat-rate development levy (a poll tax) was regressive, while other taxes, such as market fees and dues, were variable and distorted the relative prices of goods.

Collection costs were high, tax evasion was widespread, and persistent public resistance to pay taxes threatened to undermine the legitimacy of local authorities<sup>(i,ii)</sup>. Recognising these issues, the Tanzanian government rationalized the local tax system in 2003 and 2004. Principal reforms included abolition of the development levy and several 'nuisance taxes', as well removal of business licence fees for enterprises below a certain size. This brief examines changes in citizens' perceptions about local taxation following these reforms.

Data are drawn from two citizen surveys; the first was conducted in October 2003, the second in October/November 2006. A total of 1,260 residents from six councils - Bagamoyo District Council, Ilala Municipal Council, Iringa District Council, Kilosa District Council, Moshi District Council and Mwanza City Council - participated in each study.

## KEY FINDINGS FROM THE SURVEYS

### Why People Pay Local Taxes

Nearly half of respondents, 46%, in the 2003 survey, said that people paid taxes because they 'want to avoid disturbances' (harassment) but only 14% of the respondents cited this reason in 2006 (see table below).

#### Major Reasons Cited as to Why People Pay Local Taxes, 2003 and 2006 (% of Respondents)

Response Option	2003 %	2006 %
Want to avoid disturbances	45.6	14.1
Anticipate public services	22.6	50.4
No opportunity to evade	9.9	12.3
Feel obligations towards the Government	9.6	11.6
Don't know	8.4	8.1
Other reasons	3.9	3.5

This dramatic change in residents' perceptions is most likely due to the abolition of the development levy, a tax frequently connected with oppressive tax enforcement and harassment of taxpayers.

Substantial differences in perceptions were also recorded between councils in 2003. For example, 39% of residents in Ilala MC in 2003 said that people paid taxes because they wanted to 'avoid disturbances', compared with 57% of residents in Kilosa DC. Other research (e.g. Fjeldstad, 2001<sup>iii</sup>) confirmed that many residents in Kilosa DC considered that the revenue collection regime in that council before 2003 was harsh. In 2006, however, the variation between these councils was much smaller; 13% of respondents in Ilala MC compared with 18% in Kilosa DC cited this reason.

In addition, a much higher proportion of respondents in 2006 - 50% - felt that people paid taxes because they 'anticipate public services', as compared with only 23% citing this reason in 2003. Nevertheless, around half of all respondents in both 2003 and 2006 thought that

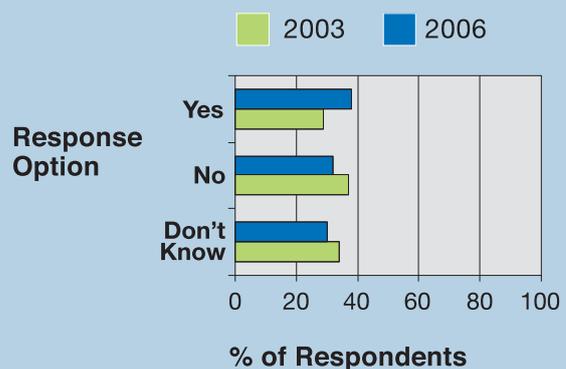
people would evade taxes if they could get away with it. This suggests that an efficient enforcement procedures will be needed to ensure compliance in addition to government's efforts to strengthen the link between tax payment and service delivery.

### Taxes and Public Services: Perceptions of Reciprocal Benefits

Although it is not possible for taxpayers to assess the exact value of services received in exchange for taxes paid, it can be argued that they form general impressions about their 'terms of trade' with the government, i.e. whether they perceive their taxation burden to be commensurate or reciprocal with service benefits. Therefore, tax compliance can be increased if citizens perceive that service delivery is improving. The majority of the respondents in both surveys - 88% in 2006 and 73% in 2003 - said that 'they would be willing to pay more taxes if public services were improved'.

Regarding the use of tax revenues, a higher proportion of residents in 2006 - approximately 40% - thought that taxes collected locally were used to supply public services, compared with less than one-third of respondents - 29%, in the 2003 survey (see figure below). This improvement is consistent with respondents' perceptions of

#### Are Tax Revenues Collected in Your Local Area Used to Provide Public Services?



service delivery by local government authorities. In 2006, 75% of respondents felt that service delivery had improved over the past two years, compared with 54% in 2003. In particular, respondents indicated high levels of satisfaction with primary and secondary education.

### **Perceptions of Misuse of Tax Revenues**

In 2003, over one-quarter (27%) of respondents considered that misuse of tax revenues was widespread. However, large variations were found among the six councils; for example, 11% of respondents in Iringa DC saw misuse as widespread, compared with 41% in Moshi DC. This data from Moshi may, in part, have reflected political tensions in the council at that time. In 2006, substantial improvements in this indicator were recorded. Less than 10% of respondents saw misuse of tax revenues widespread; less than 8% in Moshi DC.

In both surveys, respondents perceived that village authorities were least likely to misuse tax revenues, compared with ward offices and council authorities. This perception was relatively strong in the three rural councils - Iringa, Kilosa and Moshi DCs - where over 40% of respondents in 2006 held this view. Data show that *kitongoji* leaders and village/*mtaa* chairpersons were the officials considered least likely to misuse public funds. Trust in village authorities grew stronger over the period from 13% in 2003 to 43% in 2006.

Approximately 92% of respondents in 2006 (compared with 78% in 2003) felt that increasing transparency in local council operations would improve the use of tax revenues. However, public information on local government finances is not frequently available. Only 12% of the respondents in 2006 reported seeing information on council taxes and fees posted in a public place; this was up from 6% in 2003. Similarly, approximately 8% of respondents in 2006 reported seeing information on financial allocations to key sectors, compared with 4% in 2003.

### **Reporting Corruption within Local Taxation Systems**

In 2003, 45% of respondents considered that dishonest collectors were a major problem, compared with 40% in 2006. However, only 4% of respondents in 2003 and 2% in 2006 said they had reported misuse of tax revenues in the two years prior to the surveys. For the category of respondents who indicated to have not reported corruption cases, the main reason cited in both surveys was 'fear of repercussions'. Moreover, the figure for those who do not report corruption cases as a result of fearing of repercussions increased from 39% to 46% between the two surveys.

In addition, almost half of respondents in 2003 said it would not help to report misuse of revenues to council offices and the police. Most of these respondents considered that it wouldn't help because 'all civil servants are corrupt and they protect each other'. Positively, in 2006, the figure for respondents who believed that it would not help to report misuse of tax revenues to the council offices and the police had dramatically decreased to about a quarter.

This latter finding is consistent with data showing citizens' overall perceptions of law and order had improved. In 2006, 35% of respondents expressed satisfaction with law and order, up from 19% of respondents in 2003. Moreover, 44% of respondents in 2006 felt that law and order had improved in the last two years, compared with only 16% in 2003. This marked improvement may be explained by the major restructuring of the police force, which involved changes in heads of police at central, regional and district levels. The reorganization aimed to make the police force more effective in fighting crime so as to regain citizens' confidence in the police.

## POLICY IMPLICATIONS

One of the most serious problems undermining tax compliance is the perception among citizens that the taxes they pay are not spent on public services. Despite significant improvements in public service delivery in recent years, data show that citizens still feel they get little in return for taxes paid. This perception erodes residents' confidence in the capacity of local councils to supply essential services which, in turn, impacts their willingness to pay taxes. A major challenge, therefore, remains to enhance policy linkages between service delivery improvements and tax compliance.

Survey data also suggest that misuse of tax revenues by council staff - particularly revenue collectors - continues to be a major problem. It is not surprising, therefore, that the measures most favoured by citizens to improve the present tax system are stronger punishments for council staff and politicians found guilty of mismanagement. Since 1996, the government has run extensive anti-corruption campaigns and encouraged citizens to report officials who abuse their positions for personal gain. However, only a small proportion of citizens from the survey reported misuse of tax revenues. Therefore, more effective measures to encourage taxpayers to report irregularities - such as misappropriation of funds and failure to deliver services - are required. Clear guidelines on how to report corruption need to be widely available, and administrative and legal mechanisms to protect those who disclose the corruption (whistle-blowers) must be implemented. Otherwise cases of official misconduct will continue to go unreported.

Moreover, transparency in the operations of local government authorities is crucial to build trust between citizens and councils. Citizens' access to information on taxes collected and how revenues are spent is vital in achieving accountable and participatory governance and people-centred development. The surveys clearly showed that citizens' trust in *kitongoji*, village and *mtaa* leaders to properly use tax revenues is high. However, the capacity for collecting tax at these levels of local government is low. Therefore, capacity building is needed to facilitate efficient collection, including improved billing and accounting systems, more convenient tax payment facilities, and enhanced follow-up procedures for cases of non-payment.

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