

A Progressive Tax System to Fund a Fair Future

*The Case for a Wealth Tax
in Tanzania*

Imprint

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December 2025

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1. Introduction

Just and resilient societies depend on adequate public funding through taxation to provide public goods and services, such as health care and education. When progressively conceived, taxes can be an effective instrument for income redistribution and reducing inequality. Though policy decisions are context-dependent, progressive income and wealth taxation can be a powerful tool for more equitable and stable societies.

When considering progressive taxation of income and wealth in Tanzania, an essential factor is informality in the economy. A barrier to the effective implementation of a progressive income tax is that tax administrations need access to all information about the actual or total income of high-net-worth individuals (HNWIs). The focus is typically on taxing wage income. Wealthy taxpayers often have ample opportunities to avoid or evade taxes, including disguising the nature of their income, transferring wealth offshore, or seeking financial secrecy. In some cases, data is difficult or even

impossible to collect, and home tax administrations cannot access reliable information to enforce relevant tax legislation.

This policy paper focuses on the state of and trends in inequality and the progressive tax system in Tanzania across selected taxable sources. The report's findings reveal significant concern about wealth-related taxation in Tanzania, which is alarmingly low due to entrenched avenues of tax avoidance. For example, land ownership or financial assets are hardly or not at all taxed, resulting in the poor and the working population bearing the main tax burden.¹

On the one hand, Tanzania is home to wealthy people, according to the New World Wealth report by Henley & Partners (2022). On the other hand, a large part of the population is affected by extreme poverty. In 2022, around 4 per cent of the world's population living in extreme poverty was in Tanzania, using a poverty threshold of 1.90 U.S. dollars a day.² As of 2016,

1 Chegere, Martin, Remidius D. Ruhinduka, Innocent Panaleo, and Genos Martin. Assessment of The Impact of Institutional Reforms on Mobilization of Property Tax Revenue. REPOA, 2020. <https://www.repoa.or.tz/wp-content/uploads/2021/01/Property-tax-revenue-final.pdf>. Accessed 10.06.2024.

2 "Poverty & Equity Brief. Sub-Saharan Africa. Tanzania." The World Bank, 2020. <https://databankfiles.worldbank>.

poor Tanzanians accounted for 3.6 per cent of the world's population, living on a maximum of 1.90 U.S. dollars per day.³ Such dramatic numbers raise the question of whether Tanzania's economic growth and wealth creation are reflected in the end of poverty and the advancement of well-being. According to the work of Kyara VC, Rahman MM, and Khanam R (2022)⁴, economic growth in Tanzania has only marginally combated poverty among rural and

agrarian households. Despite Tanzania's impressive economic growth rate, it is not pro-poor, and poverty is rising.⁵ What has gone wrong, what continues to go poorly, and what the way forward should be are critical questions. The status quo calls for a systematic investigation into the nature and relationship between growth and well-being in Tanzania and how wealth and income are earned and distributed.

[org/public/ddpext_download/poverty/33EF03BB-9722-4AE2-ABC7-AA2972D68AFE/Global_POVEQ_TZA.pdf](https://public/ddpext_download/poverty/33EF03BB-9722-4AE2-ABC7-AA2972D68AFE/Global_POVEQ_TZA.pdf)

3 Lars Kamer (2022). Employment in Agriculture in Africa. Statista. December, 2022.

4 Kyara VC, Rahman MM, Khanam R (2022) Is Tanzania's economic growth leaving the poor behind? A nonlinear autoregressive distributed lag assessment. PLoS ONE 17(7): e0270036. <https://doi.org/10.1371/journal.pone.0270036>.

5 Belghith, Nadia Belhaj Hassine, et al. Tanzania - Mainland Poverty Assessment 2019: Executive Summary (English). Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/431111575939381087/Executive-Summary>. (Accessed 29.05.2024).

2. An analysis of economic inequality and the rich

2.1 A description of the distribution of income and wealth

In the Africa Wealth Report (2022) published by Henley & Partners, Tanzania was ranked seventh in Africa in terms of those with a net worth of \$10 million (Sh23 billion) or more, with an estimated 2,400 U.S. dollar millionaires who have a net worth of over \$1 million (2.3 billion Tanzanian Shilling) or more. More than half of the dollar millionaires (1,300) reside in the commercial capital, Dar es Salaam. The city was ranked the 12th richest in Africa, with a total private citizens' wealth of \$24 billion (Sh55 trillion). Tanzania has 80 high-net-worth individuals (HNWIs), behind Ghana (120), Morocco (220), Kenya (340), Nigeria (510), Egypt (880), and South Africa (2,080). Tanzania ranks sixth among countries with the most centi-millionaires, individuals

with a net worth of at least \$100 million (Sh230 billion). There are eight such individuals compared to Kenya (15), Morocco (22), Nigeria (28), Egypt (57), and South Africa (94). According to the report, Tanzania is the only East African country with a dollar billionaire.⁶

Poverty continues to decline⁷, but growth has become less propitious for the poor.⁸ In 2024, Tanzania ranked third among African countries for the share of the global population living in extreme poverty.⁹ Regarding economic development, poverty alleviation has been a critical challenge for Tanzania since its political independence in 1961. The history of the country's development strategies provides evidence of many policies engineered to spearhead growth and reduce poverty.¹⁰ The Tanzanian economy has en-

6 Africa Wealth Report 2022. Henley & Partners, 2022. https://cdn.henleyglobal.com/storage/app/media/Africa_Wealth_Report_220422_Digital_2.pdf. (Accessed 30.05.2024).

7 2020 Tanzania in Figures. National Bureau of Statistics, Ministry of Finance and Planning, https://www.nbs.go.tz/nbs/takwimu/references/2020_Tanzania_in_Figure_English.pdf. (Accessed 30.05.2024).

8 Swinkels, Rob. Poverty & Equity Brief. Sub-Saharan Africa, Tanzania. World Bank Group, April 2020. https://databankfiles.worldbank.org/public/ddpext_download/poverty/33EF03BB-9722-4AE2-ABC7-AA2972D68AFE/Glob-al_POVEQ_TZA.pdf. (Accessed 30.05.2024).

9 Galal, Saifaddin. Extreme poverty as share of global population in Africa 2024, by country. Statista, March 2024. <https://www.statista.com/statistics/1228553/extreme-poverty-as-share-of-global-population-in-africa-by-country/>. (Accessed 30.05.2024).

10 See: United Republic of Tanzania: Poverty Reduction Strategy Paper— Annual Implementation Report 2006/07. IMF, 2008. <https://www.imf.org/external/pubs/ft/scr/2008/cr0822.pdf>. (Accessed 30.05.2024).

joyed an upward growth trajectory, especially over the last three decades, following the 1990s economic reforms, which averted a near financial collapse in the 1980s.¹¹

A recent report on the Dimensions of Inequality in Tanzania by the Social Development Policy Division (SDPD) of the Economic Commission for Africa (ECA) and REPOA shows that with a Gini coefficient of 0.43, overall inequality in Africa remains high relative to other regions.

»However, Tanzania is one of the few countries in Africa where inequality has declined by nearly 8 per cent from 0.39 in 2001 to 0.36 in 2012«. ¹² This decline is attributed to, among other things, improvements in redistributive policies in the country, more specifically, public spending on health, education and social protection.

Nevertheless, income inequality has increased again in recent years, with a Gini coefficient of 0.41¹³, and this has been well above the level that the IMF deems detrimental to economic growth (0.27) since at least the early 1990s¹⁴. One factor contributing to wage inequality is a tax regime that lacks mechanisms to distinguish tax rates for high-income or wealthy earners from those for low-income earners, namely, property ownership and various allowances granted to highly paid workers. Income has become even more concentrated in the hands of a few. Between 2011 and 2017, the wealthiest 10% of Tanzanians increased their income share from 48.8% to 51.4%¹⁵. By contrast, the income shares of the poorest 50% have fallen since 2011, reaching just 13% in 2017¹⁶. Globally, Tanzania is listed among the countries with the highest wage inequality (especially in the private sector). Women are disproportionately af-

11 Kyara VC, Rahman MM, Khanam R. Is Tanzania's economic growth leaving the poor behind? A nonlinear autoregressive distributed lag assessment. *PLoS One*. 2022 Jul 8;17(7) doi: 10.1371/journal.pone.0270036. (Accessed 30.05.2024).

12 "New report on Tanzania shows income inequality declining as rural-urban disparities remain Economic Commission for Africa (2018)". Communications Section, Economic Commission for Africa. <https://archive.uneca.org/stories/new-report-tanzania-shows-income-inequality-declining-rural-urban-disparities-remain#:~:text=However%2C%20Tanzania%20is%20one%20of,redistributive%20policies%20in%20the%20country.> (Accessed 30.05.2024).

13 Socioeconomic indicators – Tanzania. Statista. <https://fr.statista.com/outlook/co/socioeconomic-indicators/tanzania#economic-inequality>. (Accessed 28.05.2024).

14 Gini index – Tanzania. The World Bank. https://data.worldbank.org/indicator/SI.POV.GINI?locations=TZ&most_recent_value_desc=true. (Accessed 25 May 2024).

15 "Top 10% national income share, Tanzania, 1980-2022." World Inequality Database. <https://wid.world/country/tanzania/>. (Accessed 28.05.2024).

16 *ibid*.

ected by a significant wage gap and the lack of equal opportunities¹⁷.

There are significant rural-urban, wealth, and gender disparities in Tanzania. A 2018 UNECA report shows that individuals in the wealthiest quintiles still account for nearly half of the total income in Tanzania¹⁸. The significant economic inequality can be illustrated by the fact that individuals in the wealthiest quintiles account for 48 per cent of the total revenue¹⁹. In contrast, individuals in the poorest quintile receive only 6.9 per cent of the income generated in the country.²⁰ The wealth inequality is even more intense than income inequality. Tanzania ranks 12th in terms of average citizen wealth in Africa. Wealth per capita in the country stands slightly above \$940 (2,4 million Tanzanian Shillings), underlining the gap between ordinary citizens and the rich.²¹

2.2 An analysis the typical sources of wealth and income of the rich

The source of the richest people's wealth-building in Tanzania is diverse. It typically stems from income from real estate (land and property), business ownership and entrepreneurship, investments (cash, bonds, real estate, commodities, stocks, infrastructure), or high-paying professions (lawyers, investment bankers, management consultants, entertainment such as music, sports, social media influencers, including YouTubers, TikTokers, and Instagram stars).²² Other HNWIs may have built their wealth through inheritance, royalties, licensing, a one-time business or asset sale resulting in a capital gain, telecommunications, or fast-moving consumer goods (FMCG). Some of Tanzania's most successful young entrepreneurs, now multimillionaires, own diverse business con-

¹⁷ Tanzania Economic Update: Addressing Women's Economic Constraints Could Accelerate Tanzania's Economic Development and Poverty Reduction. The World Bank, March 2022, <https://www.worldbank.org/en/country/tanzania/publication/tanzania-economic-update-addressing-women-s-economic-constraints-could-accelerate-tanzania-s-economic-development-and-po>. (Accessed 26.05.2024).

¹⁸ "New report on Tanzania shows income inequality declining as rural-urban disparities remain", Communications Section, Economic Commission for Africa, <https://archive.uneca.org/stories/new-report-tanzania-shows-income-inequality-declining-rural-urban-disparities-remain>. (Accessed 02.06.2024).

¹⁹ Income share held by lowest 20% - Tanzania. The World Bank, <https://data.worldbank.org/indicator/SI.FRST.20?locations=TZ>. (Accessed 02.06.2024).

²⁰ Income share held by highest 20% - Tanzania. The World Bank, <https://data.worldbank.org/indicator/SI.DST.05TH.20?locations=TZ>. Accessed 02.06.2024.

²¹ Africa Wealth Report 2022. Henley & Partners, 2022.

²² Ayub, Simon. "12 richest people in Tanzania in 2024 and their net worth." TUKO, March 2023, <https://www.tuko.co.ke/334777-richest-people-tanzania-net-worth.html>. (Accessed 02.06.2024).

glomerates engaged in various industries, including general trading, transportation, logistics, media, manufacturing, real estate, retailing, financial services, petroleum imports, and the trade of refined petroleum products.²³

As an asset class, real estate has long been heralded as a critical pillar of wealth creation in Tanzania. Unlike other investment options, such as stocks or bonds, real estate offers tangible assets with the potential for passive income and capital appreciation. Generating rental income and benefits from property value appreciation over time makes real estate attractive for investors looking to build long-term wealth. Tanzania's real estate sector has grown fast in recent years, with statistics showing an average of 1,153 new houses annually in the last 12 years.²⁴ The fast-growing Tanzanian population is driving strong demand in the housing sector.²⁵ Affordable housing demand is estimated at 200,000 housing units per annum, with an existing housing deficit of 3 million housing units.²⁶

2.3 Profile(s) of the “typical” rich

Tanzania, a nation rich in resources (such as minerals, marine and fishing resources, fertile soil, forests, and wildlife), has seen its wealth transformed into lucrative industries by its wealthiest individuals. Some have served as Members of Parliament for the country's ruling party, leveraging their political connections to further their business interests.²⁷

A high-net-worth individual in Tanzania is recognized by possessing attributes such as:

- High income from assets.
- Buys assets that create income, such as stocks, businesses, and real estate.
- Has multiple income streams.
- Lives from capital income produced by their wealth, mainly in rent and interest payments, dividends, and

²³ Ibid.

²⁴ Letea, Halili. “Issues affecting real estate sector in Tanzania.” The Citizen, 04.09.2022, <https://www.thecitizen.co.tz/tanzania/news/business/issues-affecting-real-estate-sector-in-tanzania-3936568>. (Accessed 02.06.2024).

²⁵ Christopher, Josephine. “Meeting housing demand proved an uphill struggle.” The Citizen, 28.12.2024, <https://www.thecitizen.co.tz/tanzania/news/national/meeting-housing-demand-proved-an-uphill-struggle--4068226>. (Accessed 02.06.2024).

²⁶ Ibid.

²⁷ Ayub, Simon. “12 richest people in Tanzania in 2024 and their net worth.” TUKO, March 2023, <https://www.tuko.co.ke/334777-richest-people-tanzania-net-worth.html>. (Accessed 02.06.2024).

capital gains.

- Converts profits and capital gains from cash flow to invest in more assets.
- Assets have value and create income, ensuring they always have money coming in.

It is well documented that asset ownership improves the lives of the women and men who own and control them.²⁸ »Inadequate wealth distribu-

tion in Tanzania's mainland is widespread, leading to both rural men and women facing deficits «.²⁹ Still, rural women are often more disadvantaged than their male counterparts; for example, in coastal zones and among pastoralist communities, they have limited opportunities to earn income. Their chances and opportunities to get quality education, decent and high-paying jobs, land ownership, and inheritance of material resources and leadership positions are minimal.³⁰

²⁸ Doss, C., Kieran, C., & Kilic, T. (2019). Measuring Ownership, Control, and Use of Assets. *Feminist Economics*, 26(3), 144–168. <https://doi.org/10.1080/13545701.2019.1681591>. (Accessed 03.06.2024).

²⁹ Yohana, Boniface Simpoli (2022). "IARIW-TNBS Conference on "Measuring Income, Wealth and Well-being in Africa" - Paper Prepared for the IARIW-TNBS Conference, Arusha, Tanzania, April 14-15, 2022". <https://iariw.org/wp-content/uploads/2021/04/P7.pdf>. (Accessed 30.05.2024).

³⁰ "Tanzania Gender Assessment." World Bank Group, 2017, <https://documents1.worldbank.org/curated/en/099155103312251069/pdf/P1760510ca289d0400a40e03f6408826f07.pdf>. (Accessed 30.05.2024).

3. An analysis of the taxation of the rich – present and past

After achieving the status of a lower-middle-income country in 2020³¹ The proportion of non-concessional debts has been rising over time.³² Global uncertainty (COVID-19, Ukraine war, etc.) led to an expansion of the fiscal deficit. It is, therefore, essential to identify budgetary policy options and strengthen the mobilization of domestic resources to achieve the Tanzania Development Vision 2025, the Sustainable Development Goals (SDGs), and Agenda 2030. Based on provisional estimates, Tanzania's SDG financing needs amount to about 44.5% of the gross domestic product (GDP).³³ However, the Government's Five-Year Development Plan (FYDP) III projects public revenues of only 18.1% of GDP

in 2025/2026, leading to an estimated SDG financing gap of 26.4% of GDP.³⁴

Tanzania's most significant potential for resource mobilization is tax revenues. One way to assess the additional taxes a country can collect is to compare its tax-to-GDP ratio with those of other countries with similar characteristics, including levels of economic and institutional development. With a GDP of 74.13 billion USD³⁵ (GDP per capita is 1056.87 USD), The tax-to-GDP ratio is low concerning Tanzania's state of development. The tax capacity was estimated at 18.3% of GDP in 2015, while the actual tax collection has been roughly 12% for years.³⁶ In 2017, tax administration and

31 "Maintaining Tanzania's Lower-Middle Income Status Post-COVID-19 Will Depend on Strengthening Resilience." The World Bank, 03.03.2021, <https://www.worldbank.org/en/news/press-release/2021/03/03/maintaining-tanzanias-lower-middle-income-status-post-covid-19-will-depend-on-strengthening-resilience>. (Accessed 30.05.2024).

32 "The third strategic plan. 2021/22 – 2025/26." Ministry of Finance and Planning, https://www.mof.go.tz/uploads/text-editor/files/en-1666938126-THE%20THIRD%20MoFP%20STRATEGIC%20PLAN%202021-25%20__%202025-26%20SIGNED%20BY%20MINISTER_1706794600.pdf. (Accessed 29.05.2024).

33 Ibid

34 "Domestic Resource Mobilisation and Debt Capacity for Public Investments in the Era of the COVID 19 Crisis. Strengthening Civil Society Advocacy on Monetary and Fiscal Policies." Sikika, 2022, https://sikika.or.tz/images/ourProgramme/finance/Tanzania_Resource_Mobilisation_Potential_Final_Report.pdf. Accessed 03.06.2024. [p.v]

35 "Tanzania: Gross domestic product (GDP) in current prices from 1989 to 2029." Statista, <https://www.statista.com/statistics/447604/gross-domestic-product-gdp-in-tanzania/>. Accessed 02.06.2024.

36 "Domestic Resource Mobilisation and Debt Capacity for Public Investments in the Era of the COVID 19 Crisis. Strengthening Civil Society Advocacy on Monetary and Fiscal Policies." Sikika, 2022, https://sikika.or.tz/images/ourProgramme/finance/Tanzania_Resource_Mobilisation_Potential_Final_Report.pdf. Accessed 03.06.2024.

policy gaps still cost 5.6% of GDP in lost tax revenue.³⁷

3.1. Calculating the tax rate due for the “typical” rich

Since the 1990s, Tanzania’s domestic resource mobilization has relied on two regressive taxes: income tax (a direct tax) and value-added tax (an indirect tax). Indirect taxes account for about 60 per cent of tax revenues, almost twice the amount of direct taxes.³⁸ The large number of informal workers in Tanzania further exacerbates the problem of tax non-collection.³⁹

»The standard VAT rate is 18% in Mainland Tanzania and 15% in Tanzania Zanzibar.«⁴⁰ When measuring value-added tax (VAT) as a percentage of income, VAT is regressive, meaning that people with lower income pay a

higher share of their income in VAT than higher-income individuals. Furthermore, when measuring VAT relative to expenditures, it appears roughly proportional, or even slightly progressive. It is worth noting that a few reduced VAT rates or exemptions can introduce a small degree of regressivity; Tanzania has none.⁴¹ According to a Statista poll, »Morocco and Madagascar had the highest value-added tax (VAT) rates on goods and services in Africa in 2022, each at 20 per cent.⁴² Cameroon followed with a VAT rate of 19.25 per cent. In comparison, goods and services in Nigeria were taxed at 7.5 per cent, the lowest rate on the African continent.⁴³ In comparison, the highest standard VAT rate in the world is 27% in Hungary. Andorra has the lowest VAT rate in the world, with a standard VAT rate of 4,5%.⁴⁴

Apart from taxes applied to everyone

37 “Tanzania Economic Update – The Efficiency and Effectiveness of Fiscal Policy in Tanzania.” The World Bank Group, Issue 19, 2023, <https://documents1.worldbank.org/curated/en/099091823115598061/pdf/P1796100836f74008096c60cb74977ab2f5.pdf>. Accessed 12.06.2024.

38 “Tax Statistics Report 2020/21 Tanzania Mainland.” National Bureau of Statistics, June 2022, https://www.nbs.go.tz/nbs/takwimu/Tax/Tax_Statistics_Report_2020_2021_Tanzania_Mainland.pdf. Accessed 10.06.2024.

39 George, Constance and Lulu Olan’g. Taxing the Informal sector: A case of Dar es Salaam street vendors. Repoa, Issue 6, 2020, <https://www.repoa.or.tz/wp-content/uploads/2021/07/Taxing-the-informal-sector.pdf>. Accessed 12.06.2024.

40 “Tanzania. Corporate – Other Taxes.” pwc, Jan. 2024, <https://taxsummaries.pwc.com/tanzania/corporate/other-taxes>. Accessed 10.06.2024.

41 Ibid.

42 “VAT rate on goods and services in Africa as of 2022, by country”. Statista, 2023. <https://www.statista.com/statistics/1248622/vat-rate-on-goods-and-services-in-africa-by-country/#:~:text=Morocco%20and%20Madagascar%20had%20the,rate%20on%20the%20African%20continent>. Accessed 12.06.2024.

43 Ibid.

44 “World: Vat rates per country – 2024”. Global VAT Compliance, <https://www.globalvatcompliance.com/globalvatnews/world-countries-vat-rates-2020/>. Accessed 12.06.2024.

(such as income tax and VAT), Tanzania has no specific net wealth/worth taxes. Instead, property and wealth owners are charged a flat levy on their property, such as housing and land.⁴⁵ Observably, there is no personal exemption for low-income earners. As per the Income Tax Act, gain or profit from property is chargeable to income tax, for example, rented houses by National Housing Corporation (NHC) or National Social Security Fund (NSSF) buildings for commercial business are supposed to pay income tax.⁴⁶ Private renters in Tanzania must pay their rent to the NHC.⁴⁷ However, the situation becomes unclear when it comes to government-owned institutions, as they often do not pay rent to the NHC.⁴⁸

This rent is taxable in both cases. This means the tax base in Tanzania covers buildings only, unlike in other countries, where the property tax base may

include land, buildings, or other assets.⁴⁹

The Finance Act of 2023, for example, permitted the Local Government Tax Authority to increase the property tax from TZS 12,000 (4.65 USD) to TZS 18,000 (6.97 USD) for regular buildings, and from TZS 60,000 (23.25 USD) to TZS 90,000 (34.88 USD) for each storey building, per month.⁵⁰ Charging a uniform rate for buildings irrespective of their valuation or revenue productivity is unprogressive.

In addition, the single, uniform system of property taxation and the lack of mark-to-market accounting or valuation of all assets, such as land and buildings, create opportunities for fuel tax avoidance. This suggests that property tax is not fully collected and that property tax revenue falls short of its potential, despite being recognized as the government's primary source of

45 Chegere, Martin, Remidius D. Ruhinduka, Innocent Panaleo, and Genos Martin. Assessment of The Impact of Institutional Reforms on Mobilization of Property Tax Revenue. REPOA, 2020. <https://www.repoa.or.tz/wp-content/uploads/2021/01/Property-tax-revenue-final.pdf>. Accessed 10.06.2024.

46 "The Income Tax Act." The United Republic of Tanzania, 2008. <https://www.tra.go.tz/tax%20laws/Income%20Tax%20Act%20Revised%20Edition%202008.pdf>. Accessed 10.06.2024. "Gain or profits for the use or occupation of any property includes any royalties, rent, and premium or like consideration received for the use or occupation of the property, for example, rent from property owned by any person."

47 Odunga, Maureen. "Rent defaulters risk blacklist." The Citizen, August 2023. <https://dailynews.co.tz/rent-defaulters-risk-blacklist/>. Accessed 13.06.2024.

48 "Tanzania: State Institutions Must Pay Their Rent Promptly." The Citizen, via WallAfrica, 11. October 2011. <https://allafrica.com/stories/201110120119.html>. Accessed 10.06.2024

49 Chegere, Martin, Remidius D. Ruhinduka, Innocent Panaleo, and Genos Martin. Assessment of The Impact of Institutional Reforms on Mobilization of Property Tax Revenue. REPOA, 2020. <https://www.repoa.or.tz/wp-content/uploads/2021/01/Property-tax-revenue-final.pdf>. Accessed 10.06.2024.

50 "Tanzanian Finance Act, 2023 analysis." EY, 13. July 2023. <https://globaltaxnews.ey.com/news/2023-1225-tanzanian-finance-act-2023-analysis>. Accessed 09.06.2024.

revenue. Public finance theory suggests that the property tax is an ideal local tax. Arguably, it is also a 'data-hungry' tax, making it difficult and costly to administer correctly and thereby denying the government much revenue that would otherwise have been used to improve social service delivery, e.g., health, education, and infrastructure. Given the potential of property taxation, the broader adoption of more effective property tax systems is recommended to generate sufficient revenues to fund the provision of many critically needed public goods and services.

Likewise, Tanzania does not tax inheritances, estates, or gifts.⁵¹ In Tanzania, wealth is taxed only when ownership changes hands. That is, realising an investment asset (e.g., shares and securities, land, buildings) is taxable for income tax purposes.⁵² »Where there is a disposal of an investment, then in arriving at the taxable 'net gains,' a deduction can be claimed for various costs, i.e., those related to acquisition, improvement, and disposal.«⁵³ As such, the absence of taxation on an individual's net worth could suggest that the current tax regime is thus over-taxing trade and under-tax-

ing wealth, leading to a regressive impact.

3.2 Calculating the comparable tax rate for a rich person 20 years ago and significant changes since then

Since 2003/04, the Tanzania Revenue Authority has been implementing and reimplementing a 5-year Corporate Plan to make it an investor- and taxpayer-friendly machinery that would collect revenue at a high capacity. TRA continues to run taxpayer education campaigns to raise public awareness of the importance of paying taxes and that tax evasion is a criminal offence. There has been an increasing trend in revenue collection so far, primarily due to decreased tax evasion, strengthened relationships between the TRA and taxpayers, the resolution of out-of-court tax disputes, and the timely handling of taxpayer complaints.

The following income taxation schedule has been put in place to ensure tax progressivity among different income earners:

⁵¹ "Tanzania". PWC, 02. January 2024. <https://taxsummaries.pwc.com/tanzania/Individual?p=1>. Accessed 09.06.2024.

⁵² Ibid.

⁵³ Ibid.

Monthly Taxable Income	Tax Rate
Where total Income exceeds Tshs, 760,000/= but does not exceed Tshs. 1,000,000/=	Tshs. 68,000/= plus 25% of the amount above Tshs. 760,000/=
Where total Income exceeds Tshs. 1,000,000/=	Tshs. 128,000/= plus 30% of the amount above Tshs. 1,000,000/=

Source: "Monthly Income Tax Tables." TRA, 2023

3.3 Outlook concerning tax evasion

Since the early 1990s, Tanzania has implemented an investment policy to improve the investment climate and attract foreign direct investment (FDI). These reforms include investment promotion, fiscal incentives (such as tax breaks), non-fiscal incentives, trade agreements, and simplified regulations.⁵⁴ Several pieces of evidence indicate that this effort has not yielded the desired socio-economic outcomes, as briefly described here.

Tanzania National Audit Office (NAOT) report of 2017/18 found that tax incentives and exemptions cost the government over 2.3 trillion Tanzanian shillings (\$1 billion) in revenue in that fiscal year. Equally, the 2019 TEITI re-

port indicates that Tanzania lost TSHs 108 billion (approximately USD 47 million) in revenue from the mining sector in the 2016/17 fiscal year due to tax exemptions and incentives granted to mining companies.⁵⁵

There are reported cases and disputes involving tax evasion and avoidance by mining companies, such as Acacia Mining (a subsidiary of Barrick Gold), in 2017 through false accounting, trade mispricing, and the illicit transfer of cash, amounting to \$190 billion in unpaid taxes. However, the case was resolved, with Barrick agreeing to pay \$300 million to establish a joint mining venture with the government. Thus, the government has initiated several measures to improve tax compliance, including updating tax-collection technology, enhancing the out-

54 "United Republic of Tanzania Standard Incentives for Investors". East African Community, 30. May 2022. <https://www.eac.int/press-releases/75-sector/investment-promotion-private-sector-development?layout=blog&start=20>. Accessed 10.06.2024.

55 "The 12th TEITI Report." Tanzania Extractive Industries Transparency Initiative (TEITI), March 2022. <https://eiti.org/sites/default/files/2022-07/Tanzania%202019-2020%20EITI%20Report.pdf>. Accessed 10.06.2024.

reach of tax services and education to the public, continuing to restructure the Tanzania Revenue Authority, and strengthening enforcement measures.⁵⁶

The government recently introduced a tax on mobile money transactions and a property tax payment system through electricity tokens. The levies met with stiff criticism from the majority of the population and confirmed the tax burden imposed on low-income earners. The poor are the majority of Tanzania's population and pay most of these taxes, since they spend a larger share of their incomes on goods and services in their daily lives.⁵⁷

Even when it comes to direct taxes, which are paid as taxes on payroll and workforce, taxes on profits (corporate tax), withholding taxes, rental tax, basic skills tax and development levy and other income taxes, workers through pay-as-you-earn, or PAYE, are the ones who pay more than other sources (such as corporate entities

that have a significant share in the country's economy).⁵⁸ Income tax contributes substantial direct tax revenues, significantly affecting a household's disposable income for covering livelihood necessities and savings. Tanzania's tax system should be progressive enough to enable high-profit makers in the economy, such as big corporations, to pay more taxes than low-income earners and start-ups, depending on their earnings.

For the sake of mobilizing enough resources to finance public services, the government should not only participate in the economy through taxation and regulation but also in production, especially in the extractive sector, which is why, in recent years, it has attempted to own shares in big Multinational Mining Companies operating in the country. The extractive industry is booming in Tanzania, especially in mineral resources, including metallic, gemstones, industrial and energy minerals, rare earths, and various types of building materials.⁵⁹ The country hosts a wide range of critical minerals,

56 Mhinda, Amani Mustafa. "Lessons from the Past. Managing Tanzania Mineral Resources for Socio-Economic Development and Progressive Public Service Investment." PSI, https://pop-umbrella.s3.amazonaws.com/uploads/df03ba2d-3152-425b-be04-7fabb797fcf6_PSI_Policy_Brief_-_Digital_230818_160309.pdf. Accessed 06.06.2024.

57 "Tanzania Mobile Money Levy Impact Analysis." GSMA, 2021. https://www.gsma.com/solutions-and-impact/connectivity-for-good/public-policy/wp-content/uploads/2021/12/spec_tanzania_mm_report_02_22-1.pdf. Accessed 08.06.2024.

58 "Tanzania". PWC, 02. January 2024. <https://taxsummaries.pwc.com/tanzania/Individual?p=1>. Accessed 09.06.2024.

59 "The 12th TEITI Report." Tanzania Extractive Industries Transparency Initiative (TEITI), March 2022. <https://eiti.org/sites/default/files/2022-07/Tanzania%202019-2020%20EITI%20Report.pdf>. Accessed 10.06.2024.

whose global demand is growing due to their use in applications such as smartphones, electric vehicles, and renewable energy technologies. However, there is limited state control over the mineral reserves (partly resolved in the Mining Act 2017) and limited fiscal regime controls on issues like hedging transactions/harmful tax practices such as excessive interest payments to

related entities, undervaluation of mineral exports and indirect transfer of mining assets. There are also disputes with the extractive industry over the correctness of their declarations on resource quantity and/or production volume/deposits, production cost, and sales.

4. Policy Recommendations

Essential public services such as social security schemes, education, and health make society resilient in the long term but require adequate funding. According to the 19th Tanzania Economic Update “Enhancing the Efficiency and Effectiveness of Fiscal Policy in Tanzania”, the country’s tax-to-GDP ratio increased from 10% in 2004/05 to 11.8% in 2022/23, with a peak of 13.3% in 2015/16.⁶⁰ In reality, this means that for every 100 items that pass through or are supposed to pass through the market, only 13 are taxed.

The “Sealing the Gaps” report by ActionAid (2021) finds that, between 2013 and 2020, the cumulative effect of internal inefficiencies, tax evasion, harmful tax incentives, double taxation agreements and illicit financial flows has resulted in estimated losses of around TZS 17.4 trillion (around US\$7.6 billion) per annum in Tanza-

nia.⁶¹ »This amount, almost equal to the country’s annual tax collection for 2020/21, would be enough to raise the tax-to-GDP ratio to 28.5%, close to that of Switzerland. It would cover the country’s annual budget deficit of TZS 3.4 trillion five times over.«⁶²

The design of the tax system is decisive for how the burden of financing the common good is distributed across society. **The tax system in Tanzania has so far been highly regressive: Income taxation and consumption taxes (VAT). The tax system needs to be made more progressive by adopting market-to-market property taxation.** This would reduce the effectiveness of strategies to avoid paying taxes and ensure equity in the payment of wealth and property taxes.

The prevalence of multinational investments makes the impact of tax treaties on **mining revenue collection**

60 “Tanzania: Enhancing the Efficiency of Revenue Collection and Spending Could Greatly Improve Human Capital Results.” The World Bank, 19.09.2023. <https://www.worldbank.org/en/news/press-release/2023/09/19/tanzania-afe-enhancing-the-efficiency-of-revenue-collection-and-spending-could-greatly-improve-human-capital-results#:~:text=The%2019th%20Tanzania%20Economic,11.8%20percent%20in%202022%2F23>. Accessed 10.06.2023.

61 “Sealing the Gap. An analysis of revenue forgone within the Tanzania tax system and how it could be used to fund public education.” ActionAid, November 2021.

62 “Sealing the Gap. An analysis of revenue forgone within the Tanzania tax system and how it could be used to fund public education.” ActionAid, November 2021. https://tanzania.actionaid.org/sites/tanzania/files/publications/Sealing_the_gaps%20report.pdf. Accessed 11.06.2024.

of critical importance. **Therefore, the focus should be on closing any loopholes that could lead to revenue loss in this sector.** The government should obtain a greater share of profits and better control over natural resources. This way, tax revenue from the mining industry can be used to provide quality public services and reduce extreme poverty. **The government should continue to increase tax collection by reviewing and ending tax exemptions and deductions for corporations and wealthy individuals, and clamping down on tax dodging.** Governments have also vastly improved their ability to track offshore assets through the advent of more data-sharing protocols with other tax authorities.⁶³

Moreover, creativity in seeking new sources of revenue instead of repeatedly focusing on the same areas that directly hurt ordinary Tanzanian citizens is critical. That is, new sources of tax revenue, such as broad-based wealth and property taxation, should be developed. Currently, there are no net wealth taxes in Tanzania. Net wealth taxes are typically assessed on the net value of the taxpayer's taxable assets. Potential resistance to wealth taxes can be addressed through exemptions, such as assets exempt from wealth tax (e.g., one house, part of a house, or a plot of land). Families may

pay the tax only if their wealth exceeds the exemption.

The Tanzanian government needs sufficient revenue to fund public goods and services. However, the source of that revenue also matters. **Given the situation, there is a pressing need to improve tax collection, focusing on Tanzania's existing tax base.** Taxes on wealth are a policy instrument to address wealth inequality and raise substantial revenue while shoring up structural weaknesses in the current income tax system. It is an additional way to increase revenues and address wealth inequality through budget justice. Nevertheless, there is little wealth-related taxation in Tanzania.

To address the poor understanding of wealth and property taxation in the country, there is a strong need to broaden the definition of property to capture the digital economy and betterment tax (i.e., quantify the land value increment resulting from infrastructure investment). Regarding the tax rate for High-Net-Worth Individuals (HNWIs), the capital gains rate should not be lower than the income tax on salaries and wages; the very rich should not pay lower rates than everyday earners.

⁶³ Yang, Yuang. "What happened to the Wealthtax?" FT, 21. September 2023. <https://www.ft.com/content/9a-d06ae8-5dd1-4067-93da-6ca12bedd7d9>. Accessed 18.06.2024.

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Progressive Tax System to Fund a Fair Future: The Case for a Wealth Tax in Tanzania

This paper advocates for Tanzania to adopt a progressive tax system, especially a wealth tax, to ensure fairness and sustainability. While taxes are crucial for public services, the current system remains regressive. Poverty persists, inequality grows, and low-income earners bear a disproportionate tax burden despite increasing wealth among a small elite. Wealth and income are concentrated among the top 10%, while the poorest 50% see a declining share. Women, rural communities, and informal workers are most affected. Without reforms targeting wealth, Tanzania cannot address structural inequality or achieve inclusive development.

Further information on this topic can be found here:

➔ tanzania.fes.de