

Analysis of factors affecting the value added tax collections in Tanzania

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This study investigates the factors that affect the value added tax (VAT) collection in Tanzania. It analyses the performance of VAT and the causal effects of GDP, import, per capita income, exchange rate, inflation, black economy, and agriculture share as factors affecting VAT collection. It also examines the effects of the values added tax reforms such as VAT rate, VAT threshold rate, VAT Act amendments and Sections and Schedules amendments in Tanzania by applying the bounds testing (ARDL) approach to cointegration for 2002 – 2017 periods. The findings of the study established that domestic and total value added tax have long run level relationship with independents, while value added tax on import does not. The findings indicate further that gross domestic product has positive long-run relationships with domestic and total VAT, whereas per capita income has negative relationships with domestic VAT. In addition, the collection of total VAT performed well in the long-run. Also, in the short-run the lagged differenced GDP and VAT performance affect negatively and positively domestic VAT respectively. Moreover, GDP and the underground economy affect positively total VAT, while agriculture share has negative effects on the total VAT. The study findings demonstrate that the reforms of VAT rate from 20 to 18 percent have a positive effect on the domestic and total VAT. A threshold rate increase from TZS 20 million to TZS 40 million in 2004/05 to TZS 100 million in 2015 affect the total VAT positively, whereas the amendments of section and schedules affect domestic VAT negatively.