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The impact of offering tax incentives to foreign direct investors on tax revenue in Tanzania

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The problem of and how to use tax incentives is one of the most important issues facing national and regional policy makers over the world. When a country offers tax incentives, it expects to attract more FDIs to flow into the country with the aim of increasing tax revenue, creating employment to local people and benefiting from technology transfer. This study was designed to examine the impact of offering tax incentives to FDIs on tax revenue in Tanzania. The study used both, primary and secondary data. Then primary data were collected mainly from a sample of 42 selected from FDIs that are based in Dar es Salaam and were analyzed using regression model (for testing relationship of variables). Friedman test (to determine if the average ranking differs across variables). In addition, interviews were also made with managers and officials from TRA, TIC, Bot and BRELA. The statistical results showed that offering tax incentives to FDIs successfully attracted the flow of FDIs in the country. The study further revealed that there is significant improvement of tax revenue as the number of FDIs increases to flow in the country. Also there is evidence that foreign investors continue to operate even beyond the incentive period. Conclusively, this study suggests that, in order to harmonize tax incentives to FDIs and at the same time to increase tax revenue in Tanzania, there has to be a continuous monitoring of both domestic and international developments established regulations that governs foreign operations. This should go hand in hand with the formulation of appropriate institutional framework that will facilitate the channeling of FDI into the intercultural sector through the process of privatization..