UNITED REPUBLIC OF TANZANIA

President's Office Regional Administration and Local Government

Guidelines for the Improvement of Revenue Performance in Local Authorities

Contents

Introduction

The main purpose of this booklet is to raise awareness of residents and Local Authority leaders on the existing system of revenue generation in the Local Authorities and why such a system is being reformed.

The booklet also outlines the key objectives of local revenue system. The following section shows that generation of revenue by Local Authorities is a legal issue, while section three lists the main elements of a good local revenue generation system. This list is meant to assist Local Authorities in designing their revenue system. More detailed suggestions on how to improve revenue generation are presented in a table to ease reading. The last part shows the potential sources of revenue for Local Authorities ending up with suggestions on how revenue sharing between Central and Local Governments can be enhanced. The overall purpose of the suggestions on reforms in revenue generation is to make local revenue generation and tax administration become more effective and more yielding; in other words, improve and rationalise revenue collection in Local Government Authorities

Tax and Taxation/ Local Revenue

By definition tax is an obligatory payment to the Government. It could be assessed and paid on a person, entity such as business and assets such as buildings. When one pays for a specific service, that payment is called a user charge, such as the charge or fee payable for the use of certain facilities, for example, parking. The overriding purpose of any revenue/tax system is the financing of public services and not to meet administrative costs of the Local Authority.

Legal Basis of Local Revenue Generation

Powers for Local Authorities to raise their own revenue are provided by the Local Government Finances Act No. 9 of 1982. In utilising such legal provisions, Local Authorities have to enact by-laws on the basis of which they can levy taxes, licenses, fees and charges. On the other hand the Minister may impose rating rules or procedures limiting the Local Authority's powers of taxation. In principle no local revenue generation is allowed without referring to the Law.

Main Elements of a Good Tax System

In its efforts to support reforms in local revenue generation within Local Authorities, the Government has identified a number of factors which should be considered by different Local Authorities. As presented below, there are four categories of the suggestions. We start with the general elements.

General Elements

- It is the responsibility of all citizens to pay tax.
- Powers of exemption are with the relevant Local Authority.
- People of similar socio-economic positions should pay similar

amounts.

- People using or benefiting from more public services should also pay more. In other words, pay as you use or benefit. For example, flat rate fees for water supply service may undermine the principle of benefits. Efforts to introduce meters are therefore part of the reforms.
- Taxes should be related to the taxpayer's ability to pay. It is on the basis of this principle that Village Councils exempt very old and disabled persons in their villages from contributing labour in implementing village level projects.
- Taxes should not single out particular taxpayers or classes of taxpayers, for instance shop owners only. There are cases where businesses pay about 73% while the average citizen pays 14% of total taxes paid to the Local Authority.

Participation of taxpayers

- Local Authorities should treat taxpayers courteously, as customers.
- Local Authorities should ensure participation of taxpayers and business associations in the designing of a tax system and in creating a mechanism for enhancing taxpayers' rights.
- Taxes should be understandable to the public.
- Cost of administration and collection should amount to a small percentage of the amount collected. Situations where compliance is not more than 40% and the collection cost is in the tune of 33% should be discouraged. Tax reforms should address this problem.
- Outsourcing in tax collection is considered to be more effective in increasing the rate of compliance. When a contractor collects taxes, it becomes his or her daily activity and may develop skills on how to improve compliance. Outsourcing has increased tax performance for instance in Mwanza and Dar es Salaam cities as well as within the Municipality of Dodoma.

- Tax design and legislation process must be participatory and inclusive. Taxpayers should participate in the dialogue through which important decisions on taxation are made. It is advisable that decisions related to tax and tax administration are discussed and resolutions made in village assembly meetings. Statutory meetings are therefore an important part of the taxation process and experience shows that such meetings are on the increase.
- Taxpayers should be properly identified and proper records kept. This task may be done by an independent institution from the Local Authority.

Information dissemination

- Each Local Authority, Ward, Village and Mtaa should maintain an accurate and up to date tax register.
- With an effective system of records and records keeping at Mtaa and Village levels it is much easier for the District/Urban Council to up date its tax register continuously.
- A revenue collector who fails to maintain an accurate register should be punished.

Separation of revenue assessment from collection

- Revenue collection should be separated from revenue assessment. In order to reduce the chances of tax collectors to collude with taxpayers during assessment.
- The Local Authorities should put in place a system which allows frequent internal auditing of the tax collection process, and this should be used to monitor the performance of tax collectors.
- It is important that revenue collectors are periodically rotated.

Suggestions on How to Improve Tax Administration in Local Authoritiesa

Table 1 below lists the main sources of revenue for Local Authorities and for each source tries to make suggestions with respect to the way the rates can be worked out to favour increased compliance. For example under income tax, it is being suggested that the rate should be based on the concept of pay as you earn and the amount should not exceed 5 per cent of the taxpayer's income. On a more broad level, it is suggested that the highest rate be set at 5 per cent. Again as shown in the table, it is suggested for property tax to yield more, the property valuation should be carried out more frequently and where possible based at the market value.

As part of the tax reform team, it has been decided to do away with trade or movement taxes, administration fees, regulatory fees as these are a nuisance. Rent of Council assets is also not favourable on the basis of the policy that Government should not be involved directly in economic activities.

Table 1: Suggested Improvements in different types of local revenue sources

Type of Tax	**Suggested Reforms**
Income or Poll Tax	• Rates should be graduated (higher for richer persons). • All sources of income should be included (not only wage income). • Suggested rate is 1-5% of income.
Sales Tax	• A broad based sales tax is generally favored, where all sales are treated equally. • Typical rate. 1-5% of value

Property Tax	• Assets are frequently and independently valued (usually at their market value). • Typical rates: $<1\%$ of the asset's value.
Licensing/ Permits	• This involves both regulatory and revenue generating aspects. • When used in a regulatory fashion, the number of licenses might be limited. • Licensing rates are usually negligible, except when auctioned (for example, taxi cabs or liquor licenses).
User Charges	• This should be on a cost recovery basis, including the cost of capital. However the relevant Local Authority should handle questions of equity.
Fines and Penalties	• These should be high enough to deter the activity in question • These should consider the ability to pay
Trade or Movement Taxes	• These should be eliminated, since they deter free trade
Administrative Fees	• These are largely nuisance taxes and should be avoided
Regulatory Fees	• These are largely nuisance taxes and should be avoided
Rent of council Assets	• Current government policy is to divest economic assets and for government not to be involved in economic activities.

Suggested Number of Taxes to Be Considered By Local Authorities

As a principle, councils should not handle more than 20 sources and administers more than 75 rates. In most councils the following sources are likely to generate some 80 – 90% of all revenue. As part of the reforms in local revenue generation, each Local Authority should work out her local revenue structure taking into account the following potential sources.

1. Business licences, which should also serve as a local government tax on income
2. Liquor licenses
3. Property tax
4. General markets
5. Cattle markets
6. Fish markets
7. Abattoirs
8. Bus Stand fees
9. Service levy
10. Crop cess
11. Fishing,
12. Advertisement signs boards
13. Tourist hunting fees – shared revenue with Central Government
14. Forestry licences

Sharing Of Revenue between Central Government and Local Government

In this section the booklet outlines the key issues with respect to how should central government and Local governments share revenue sources. It is worth pointing out that the spirit of this sharing is not only to enhance Local Authority revenues but also to ease the collection on the side of the central government.

- Only Central Government can impose import or export duties, income taxes and sales taxes. A sharing or surcharge arrangement should be explicitly made (for example, Local Governments receive 2% of all VAT and Income Taxes paid in their jurisdictions, as an "unconditional" grant).
- Renewable resources (forests, fisheries), are managed by Local Governments and non-renewable resources (minerals, oil, some National Parks) by Central Government. It is proposed that some Central Government revenues for non-renewable resource payments should be shared with Local Governments.
- Whoever manages a resources or facility should collect its user charges. This applies to Protected Areas (Forest reserves and Game reserves) as well as schools, hospitals, and markets.
- Property taxes, including land rent are essentially Local Government taxes. Refuse, sewerage and other charges should be based on property valuations and made as surcharges.
- Since Vehicle registration and commercial usage are congestion-related (and thus a local issues) they are Local Government taxes. While air pollution taxes are Local Government taxes, water pollution taxes are Central Government taxes.

Conclusion

Some of the suggestions presented in this booklet require significant legal changes before they can be fully implemented.

In light of this, these suggestions outlined in this booklet should take a practical, temporary approach to Local Authorities optimising their tax structure within the existing legal framework.

Those reforms, which do not require changes in the law, are being tried and have shown some significant success. It is therefore important for the LGRP to continue disseminating the good practices to the Local Authorities as a way of enhancing local revenue generation

However a fully rationalised system of local revenue generation must await a thorough national debate with due attention being paid to all civic objectives and the multiplicity of interests. We hope this booklet contributes towards that national debate.

Reference

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