tax justice network — Africa

actionaid

Tax incentives are draining Tanzania of needed revenue for essential public services

Every year Tanzania sacrifices TShs 381 billion ($141 million) to tax incentives given to companies. Worse still, research shows that these incentives are not necessary to attract investments to Tanzania. Government needs to remove excessive tax incentives, promote transparency on the tax incentives they give, and coordinate with the East African Community to avoid harmful tax competition.

A new report by Tax Justice Network-Africa and ActionAid International shows that tax incentives reduce revenues available to fight poverty. Tanzania's revenue losses from tax incentives given to companies –TShs 381 billion in 2008/09-2009/10 – could increase the national budget for education by a fifth and the health budget by two-fifths. **Removing these incentives could raise more revenue for essential public services**.

Tanzania's Export Processing Zone Authority has attracted investments worth $569 million during the past five years, creating 10,500 jobs, according to a senior EPZA official. This means that ***each job has cost US$ 54,000 (TShs 92 million) to create*** *– a large amount.*

Tax incentives are granted by the Government to businesses to attract Foreign Direct Investment (FDI). **The primary beneficiaries of Tanzania's tax exemptions and incentives are large domestic firms and foreign multinational companies**. The poor bear the burden of the incentives as they reduce the revenue available to fund essential public services.

What is worse, there is ample research documenting that **tax incentives are not needed to attract FDI** in countries such as Tanzania. The IMF, World Bank, OECD, UN, and African Development Bank are among the institutions that endorse this conclusion.

'investment incentives – particularly tax incentives – are not an important factor in attracting foreign investment'
- IMF

The Government has promised to review the tax incentives that they have granted, but very little has so far been done and lack of transparency around tax incentives is still the norm.

Tanzania's provision of tax incentives is part of the **tax competition among countries in the region**. Countries are being tempted to increase tax incentives in the belief that it will attract FDI, creating **'a race to the bottom'**.

Urgent action is needed to address the problem of excessive tax incentives and harmful tax competition. The Government should:

- Remove tax incentives granted to attract FDI, especially those provided to the mining sector, EPZs and SEZs..
- Promote transparency in the granting of tax incentives by:
    - Undertake a review of all tax incentives, which should be made public
    - During the annual budget process, provide a tax expenditure analysis with annual figures on the cost to the government of tax incentives and information on the beneficiaries of such tax expenditure. This information should be made freely available.
- Promote coordination in the EAC to address harmful tax competition.

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