



The United Republic of Tanzania
Ministry of Agriculture, Food Security and Cooperatives
Directorate of Policy and Planning

Agricultural Taxation in Tanzania:

With special reference to produce cess

Inception Report on Key Issues and Study Design

Michigan State University

Dar es Salaam, 30 January, 2014

Acknowledgement

- USAID for financial support
- Ministry of Agriculture for providing MSU a chance to contribute in promoting evidence based policy making
- PMO – RALG for making data available
- ACT and the World Bank for pioneering studies on produce cess
- All key stakeholders for raising key issues that help shaping the study design

Background

- Crop cess established under the 1982 Local Government Finance Act
 - With amendments in subsequent years
 - Part of the decentralization programme
- Has long sparked concern regarding impact on
 - Agriculture competitiveness
 - Market distortions
- In 2012, GoT committed to eliminate cess by July 2013
 - Under G8 New Alliance on Food Security and Nutrition

Background (2)

- But strong opposition from LGAs and PMO-RALG
 - Why the focus just on cess?
 - How will the foregone revenue be made-up?
 - What about decentralization?
- MSU requested by the Ministry of Agriculture to provide technical support
 - Fill information and analytical gaps from previous studies
- Much political economy in the issue, hence need for:
 - Evidence-based policy dialogue
 - Consensus building

Previous Analytical Studies

- World Bank, 2009 – Tanzania – A study of the burden of local taxes on the agricultural sector
- Agricultural Council of Tanzania, 2012 – A study on produce cess taxation system in Tanzania
- Analytical pieces by TAHA (2013) and USAID (MicroCLIR, 2011)

Issues of Concern in Produce Cess

- **Taxation rate**

- Affects competitiveness of value chains and levels of tax evasion

- **Effectiveness and efficiency of cess administration**

- Raises transactions costs of market participants, can increase uncertainty

- **Differences in practice across LGAs**

- E.g. differences in cess rate on same product in neighboring LGAs
- Distortions in market behavior?

Issues of Concern in Produce Cess (2)

- **Accountability** in tax administration and expenditure
 - How is the money used?
 - “Value for money”
- **Misinterpretation and lack of clarity** of the Produce Cess Act
 - Divergence between the Act and actual practice, e.g.
 - Should seed be taxed?
 - Double taxation (e.g. paddy vs. rice)
 - Implementation at “farm level” but “buyers” must pay
- **Statutory versus economic incidence**
 - Who really pays the tax after prices adjust?

Key Stakeholders and Divergent Opinions

- **LGAs** – Support produce cess as a key source of revenue; some is re-invested to support agriculture
- **Civil society** – Produce cess important for empowering LGAs to take leadership and define development agenda; have some reservations in tax administration
- **Tanzania Revenue Authority** – farmers need to contribute something for the development of their country; salaried workers pay up to 30% of income

Key Stakeholders and Divergent Opinions (2)

- **Agribusiness** – cess adds to already high tax burden, increases cost of doing business
- **Farmers** – regardless of who pays the tax, eventually the tax is passed to farmers in form of low producer price
- **GoT** – Claims by LGAs of importance of the tax are not supported by share of revenue as shown in the audit reports; leakages seen as major problem

The Essential Challenge

- Decentralization has little meaning without ability to raise and spend funds locally
- Society has right to expect that
 - Revenue collection be efficient, honest, and equitable
 - Expenditure be productive and equitable
 - The entire process be transparent
- Very difficult challenges in the physical, technological, and social setting of rural Tanzania/SSA

The Essential Challenge (2)

- So:
 - What kind of performance is reasonable to expect?
 - How can it be continuously improved?

Insights from recent interviews

- Abolition is problematical
 - Wide range of dependence on cess revenue
 - Need to understand patterns
 - Agriculture a huge portion of the economy
 - Can the country afford not to tax it?
 - Sense at local level that central government does not fully replace revenue from abolished taxes
 - E.g. development levy
 - What are the possibilities for incremental improvement?
 - Capacity building for responsible local governance
 - Technology to improve efficiency of collection, reduce leakages

Insights from recent interviews (2)

- Yet rates can be big expense for some
 - Export horticulture: cess calculated on export price, not farm price
 - Seed companies
 - Lack of clarity in Act
 - Other large companies, large-scale farmers
 - When prices decline, effective cess rate rises
 - See next slide
 - Higher effective rate on gross margins
 - Effectively a tax on input use

Insights from recent interviews (3)

- And varying practice leads to distortions
 - Traders favoring areas with lower cess
 - *Lumbesa*
- Wide range in difficulty of administration
 - Cash crops relatively easy
 - Maize, rice much more difficult because largely informal

Insights from recent interviews (4)

- Wide range in difficulty of administration (cont'd)
 - Typical practice: convert % cess into fixed rate
 - And apply same fixed rate to all crops
 - Results in highly variable % charges (rice example)
 - ***Driven by limited capacity and limited information***
 - How to reduce avoidance??

Insights from recent interviews (5)

- Wide range in difficulty in administration (cont'd)
 - Outsourcing very common
 - Common to specify fixed pmt per month
 - Many incentive problems
 - Would mobile money payments address these?

Insights from recent interviews (6)

- Credibility / legitimacy of local governments
 - Perceived large leakages / corruption
 - What is the money spent on? (80/20)
 - CAG Audit Reports focus only on books
 - “Value for money” audits done only upon complaint
 - What about doing random value-for-money audits?
 - Can central government reward good behavior and performance with matching grants, awards, public recognition?
 - “The Annual 10 Best LGA Administrations in Tanzania”

Insights from recent interviews (7)

- Burden of paying the tax before sale is made
- Availability of data
 - Data from Council Financial Reports for every LGA available on the web
 - *Great transparency!*
 - Epicor does not always well reflect actual activities of LGAs – needs more tuning to capture reality at LGA level

Objectives

- Examine patterns in levels of, and reliance on, cess across LGAs using national LGA-level data
 - Capture and understand heterogeneity
- Document commonalities and differences in cess administration across a sample of LGAs
 - Compare practices to Produce Cess Act
 - Assess effectiveness and efficiency

Objectives (2)

- (If data allow) Estimate price distortions generated by differing practice across LGAs
- Estimate likely range of economic incidence of cess
 - Who pays how much after prices adjust?
- Clearly reflect opinions of a range of stakeholders
 - SHF
 - commercial SHF
 - large-scale commercial farmers
 - agribusiness firms (including seed firms)
 - LGAs, central government, civil society

Objectives (3)

- Assess pros and cons of several concrete options
- Actively engage stakeholders in discussion of results and options

Tax Reform Options for Appraisal

- Abolish in one step
 - Gradual phasing out
 - Reduce rate, broaden base, improve collection
 - Mobile money
 - “Item cards”
 - Improved incentives in contracts with private collectors
 - Institute tax differential between food- (rice and maize) and non-food crops
 - Complete removal in food crops
-

Timeline

- February 1 – 15 : Synthesis of previous studies, secondary data analysis and field survey logistics
 - Initial Policy Brief
 - February 16 – March 16: Field survey
 - March 17 – March 31: Draft report
 - April – Peer review and targeted stakeholder consultation
 - May – Stakeholders' workshop and final report
 - June – Support legislative process
 - July 2014 – July 2015 – Follow on studies
-

Study Team

- David Nyange, MSU Policy Advisor to MAFS – Lead researcher
- David Tschirley, MSU – Counterpart Lead Researcher
- Francis Gasper, Hussein Nassoro – Consultants
- Iddy Alfani, MAFS – Tax reforms task force
- Stella Steward, PMO-RALG – Data resource person
- MSU back up team (Mark Skidmore, David Mather, Eric Scorsone)
- MAFS/PRC back up team (Daktari Hango, Esther Mutatemwa)

Thank You!

Questions/Issues for Discussion

- Have we raised the right issues? Left out?
- Value chain and LGA selection (David Nyange)
- Any other data sources?
- Any left out stakeholder?
- Study timeline versus the legislative process
 - Key intervention points?
- Feasibility of electronic payment methods
 - Require or reward?
 - Practical issues of implementation

| ZONE | REGION (LGAs) | CROPS/Farming system |
|--------------------|---|-------------------------------------|
| Northern zone | Arusha (Arumeru) Kilimanjaro (Moshi rural) Tanga (Muheza) | Coffee , Horticulture |
| Central zone | Dodoma (Kongwa) Singida (Singida) | Sorghum, oil seed, maize |
| Southern highlands | Morogoro (Kilombero) Njombe (Njombe) Mbeya (Mbarali) | Rice, sugar cane, tea, livestock |
| Lake zone | Shinyanga (Kahama) Mwanza (Kwimba) | Cotton, livestock, rice |
| South cost | Lindi (Lindi rural) Mtwara (Masasi) | Cashew, cassava |
| Western zone | Tabora (Urambo) Rukwa (Sumbawanga) | Tobacco, maize, livestock |