Norad

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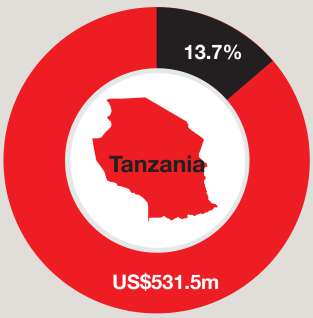
Make it Count for Girls:
Why Tanzania should re-invest amounts lost to tax incentives in girls' education

Policy Brief

TAX PAYS FOR EDUCATION



Tanzania loses an estimated **US$531.5 million** each year to tax incentives. Just **13.7%** of this could educate all 952,499 girls currently out of primary school.

Most children out of school in sub-Saharan Africa are girls.
PHOTO: EMANUELA COLOMBO/ ACTIONAID

Background

Tanzania is one of the world's poorest countries in terms of GDP per capita,[1] but the economy has been growing rapidly for the past few years and the annual GDP growth is now among the highest in the world.[2] Government revenue is at around 14-15% of GDP[3] and the projected annual budget deficit for 2017 is around 4%.[4] In fact in 2015, the World Bank implored Tanzania to take greater steps to raise more tax revenues, arguing that its revenue collections are among the lowest in the world.[5]

Meanwhile, 952,499 girls of primary school age are not in education,[6] and 27% of women are illiterate.[7] While education accounted for a healthy 17.3% of total government expenditure in 2014[8] (well within UNESCO's recommended benchmark of 15-20%[9]), because the government revenue-to-GDP ratio is so low in Tanzania, the sector still only receives 3.5% of total GDP,[10] which falls below the 4-6% range UNESCO recommends. In order to ensure that there is sufficient funding for quality education for all, including girls, the government of Tanzania must continue to prioritise education in its budgeting but also increase the overall revenue it collects. One key way of doing this will be to collect more tax, in particular by reviewing the various tax incentives it grants and the tax treaties it signs with other states.

This briefing will examine revenue losses due to tax incentives and tax treaties in Tanzania and what this potential revenue could have achieved if invested in girls' education. This will include looking at what the increased GDP growth resulting from more girls entering education is likely to be.

1. It ranks as the 191st country in terms of GDP per capita – see https://www.cia.gov/library/publications/the-world-factbook/rankorder/2004rank.html#tz
2. See https://www.cia.gov/library/publications/the-world-factbook/rankorder/2003rank.html#tz
3. See http://www.imf.org/external/pubs/ft/weo/2017/01/weodata/weorept.aspx?sy=2015&ey=2022&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=48&pr1.y=11&c=738&s=PCPIPCH%2CTM_RPCH%2CTX_RPCH%2CLP%2CGGR_NGDP%2CGGXCNL_NGDP%2CGGXWDG_NGDP&grp=0&a=#cs2
4. See http://www.imf.org/external/pubs/ft/weo/2017/01/weodata/weorept.aspx?sy=2015&ey=2022&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=48&pr1.y=11&c=738&s=PCPIPCH%2CTM_RPCH%2CTX_RPCH%2CLP%2CGGR_NGDP%2CGGXCNL_NGDP%2CGGXWDG_NGDP&grp=0&a=#cs2
5. See p. 10 http://www.taxjusticeafrica.net/wp-content/uploads/2017/08/Corporate-tax-incentives-in-east-africa-report.pdf
6. See http://datatopics.worldbank.org/education/country/tanzania
7. See http://datatopics.worldbank.org/education/country/tanzania
8. See http://datatopics.worldbank.org/education/country/tanzania
9. See http://en.unesco.org/news/key-milestones-reached-new-education-goals-0
10. See http://datatopics.worldbank.org/education/country/tanzania

Key figures

Number of girls not in primary education	952,499
Percentage of GDP spent on education	3.5%
Estimated revenue lost to tax incentives and tax treaties	US$531.5m
Annual cost per pupil to government	US$44.50
Annual cost per pupil to family	US$31.78
Total annual cost per pupil – government and family contributions combined	US$76.28
Percentage of total cost per pupil paid by parents	41.7%
Total annual cost of educating all girls currently not in education	US$72.62m
Total cost of putting all girls of the relevant age not currently in school through the six years of primary school	US$435.71m
Additional GDP per year, per girl who has completed (as opposed to not completed) primary education	US$185.76
Total additional GDP per year if all girls currently not in primary education had completed primary education	US$176,843,520
Total additional GDP over a 45 year working life (at current prices, not adjusted for inflation) if all girls currently in primary education had completed primary education	US$7.96bn

Tax incentives

A tax incentive (also known as a tax break) is, in essence, a special tax deal given to a company to encourage it to invest. There are many kinds of tax incentives, but they can broadly be placed into two categories: ***statutory***[11] tax incentives that are open to all companies that meet certain criteria; and ***discretionary***[12] tax incentives that are bespoke deals for an individual company.

Tax exemptions in Tanzania: STATUTORY

General statutory tax incentives

- A lowering of the Corporate Income Tax (CIT) from 30% to 25% during the first three years that a company is listed on the Dar es Salaam stock exchange, provided at least 35% of the shares are issued to the public.[13]
- A 50% allowance is granted on expenditure of plant and machinery that is used in manufacturing and installed in a factory or providing services to tourists. Other rates for capital allowances range from 37.5% for items like computers and earthmoving equipment to 5% for buildings dams, water reservoirs etc.[14]

Sector specific tax incentives

- Oil and gas investors enjoy some VAT incentives, the new VAT Act notwithstanding. Existing oil and gas investors will continue to enjoy the same VAT relief as under the old VAT Act. Their imports will continue to be VAT exempt. New oil and gas investors will also be largely exempt from paying VAT during exploration and prospecting phases but not in the development phase.[15]
- A 100% capital allowance in agriculture on expenditure incurred on plant and machinery, including windmills, electric generators and distribution equipment used solely in agriculture.[16]
- An exemption of withholding tax chargeable by foreign banks on interests payable to strategic investors as defined by Tanzania Investment Act.[17]
- A 100% deduction for expenditure incurred in mining operations for the year (both capital and revenue expenditure).[18]

Export Processing Zone (EPZ)[19,20] and Special Economic Zone (SEZ)[21] tax exemptions

- Income derived from investment or business conducted within the Export Processing Zone (EPZ) and Special Economic Zone (SEZ) is exempt from tax during the first ten years.
- Payment of withholding tax on foreign loans granted to an investor licensed under in the EPZ and SEZ during the first ten years.
- Payment of withholding tax on dividends arising from investment in the EPZ and SEZ during the first ten years.
- Payment of withholding tax on rent payable by an investor licensed under the EPZ and SEZ during the first ten years.

11. **Statutory tax incentives -** These apply to companies that meet certain criteria, generally because they are operating in a sector that the government wants to encourage, are producing for export, or are located in a particular area, particularly special economic zones. In addition to reductions or exemptions from corporation tax, companies are sometimes exempt from withholding taxes on payments abroad; trade taxes on imports and exports; VAT on imports etc.
12. **Discretionary tax incentives -** These are specific to a particular investor, and are negotiated between the company and the government, and generally only available to large multinational investors, putting domestic businesses at a distinct disadvantage. Many of the most unfair examples are found in the contracts negotiated between governments and investors in the extractive industries (oil, gas and mining).
13. http://www.tra.go.tz/index.php/tax-incentives/169-what-tax-incentives-are-granted-under-the-income-tax-act-2004
14. http://www.tra.go.tz/index.php/tax-incentives/169-what-tax-incentives-are-granted-under-the-income-tax-act-2004
15. Tanzania Episcopal Conference (TEC), National Muslim Council of Tanzania (BAKWATA) and Christian Council of Tanzania (CCT); The One Billion Dollar Question 'Revisited 5 years later' How Much is Tanzania Now Losing in Potential Tax Revenues?
16. http://www.tra.go.tz/index.php/tax-incentives/169-what-tax-incentives-are-granted-under-the-income-tax-act-2004
17. See Tanzania Investment Act, http://tanzania.eregulations.org/media/INVESTMENT%20ACT.pdf
18. See Tanzania Income Tax Act, https://www.tra.go.tz/tax%20laws/Income%20Tax%20Act%20Revised%20Edition%202008.pdf
19. http://www.tra.go.tz/index.php/tax-incentives/169-what-tax-incentives-are-granted-under-the-income-tax-act-2004
20. The EPZ program in Tanzania was established in 2002 following the enactment of the Export Processing Zones Act in the same year. The scheme provides for the establishment of export oriented investments within the designated zones with the views of creating international competitiveness for export led economic growth.
21. The Government established SEZs in 2006 as strategy to achieve Mini-Tiger Plan 2020. The objective is to promote quick and significant progress in economic growth, export earnings and employment creation. It also aims at attracting private investment in the form of both Foreign Direct Investments (FDI) and Domestic Direct Investment (DDI).

Tax incentives Tanzania: DISCRETIONARY

Tax incentives offered by the Tanzania Investment Centre (TIC) have their legal foundation in the TIC Act 1997. Incentives are granted to enterprises wholly owned by foreign investors or if a Joint Venture (JV) whose investment capital is more than 300,000 USD. If the enterprise is locally owned, the minimum capital is 100,000 USD. Incentives can be granted to new investments, for rehabilitation or expansion of existing investments or for equity investment shares or stock in an enterprise.[22]

Tax incentives Tanzania - total estimated losses

Estimating total tax losses from tax incentives granted by the government is inherently tricky. There are no public numbers on how much potential tax revenue is forfeited through discretionary incentives, and government agencies have also declined to give ActionAid information when it has been requested, citing provisions in Tanzanian law, which makes it illegal for the government to disclose the tax affairs of individual companies. That means that any estimate of losses to tax incentives will inherently be lower than the actual loss.

However, the total amount of tax revenue lost to statutory tax incentives is also difficult to fully estimate. The Tanzanian government does not provide full figures, but focuses rather on lost tax revenue due to exemptions on indirect tax such as VAT. This contrasts with the concerns of the International Monetary Fund which in 2016 stated that: *'it is difficult to assess the magnitude of revenue forgone from the income tax holidays since tax exemption data only include indirect taxes…[…]… There is a need to review these incentives and consider eliminating them.'*[23]

According to the government's own figures, statutory VAT tax exemptions[24] for 2015/16 stood at Tsh 927,444,036,490 - the equivalent of US$413m (using October 2017 exchange rates).[25] This figure does not include any of the discretionary tax exemptions given to individual companies, e.g. on corporate income tax, nor does it contain any of the foregone revenue resulting from the EPZs and SEZs.

The exact amount of foregone tax revenue in EPZs and SEZs is not public, but the government itself gives an example of a Chinese company benefitting from an annual tax exemption of around Tsh1.5bn – or roughly US$668,000 at October 2017 exchange rates.[26] During the same period the company had export revenues of on average Tsh3.8bn - or US$1.69m[27] - per year. That means tax revenue foregone equalled 39.5% of the export revenues. According to government claims, total export revenue from the EPZ is roughly US$300m per year.[28] If the Chinese company were representative, then tax foregone would be the equivalent of 39.5% of export revenue. If applied to total export revenues, this would leave an estimated total foregone tax revenue of US$118.5m per year. This calculation is obviously made based on a very small sample, but given the lack of official statistics on revenue foregone in EPZs, it is the best estimate that can be produced based on the data available.

The government's own VAT data combined with ActionAid's estimates for tax revenue foregone in EPZs gives us annual tax losses of US$531.5m per year. As this still does not include any of the long list of incentives detailed above apart from VAT and EPZ incentives, and is it does not include any revenue foregone due to discretionary tax incentives, this figure is likely to be an underestimation rather than an overestimation.

Total estimated loss from tax incentives:
US$531.5m

22. See http://www.tccia.com/tccia/wp-content/uploads/legal/acts/Investment%20Act_1997.pdf
23. p. 28 https://www.imf.org/external/pubs/ft/scr/2016/cr16254.pdf
24. Note that these tax exemptions apply to domestic as well as international taxpayers.
25. See http://www.mof.go.tz/mofdocs/exemptions/Exemptions%20and%20Relief_From_JULY-2015_TO_JUNE-2016.pdf
26. See http://www.epza.go.tz/p_events.php?c=162
27. October 2017 exchange rates
28. See http://www.thecitizen.co.tz/magazine/businessweek/EPZ-exports-expected-to-hit--300m-this-year/1843772-2781098-format-xhtml-fyy3o/index.html

Tax treaties

Tax treaties determine how much, and even if, countries can tax multinational companies. They provide certainty to international businesses by indicating which taxes will be limited when making money overseas. This certainty is often provided through restrictions on the rights of the treaty signatories to tax different types of income. In the overwhelming majority of cases, these tax treaties override any national law. If a tax treaty rate is lower than the rate set in national law, companies that are able to use the tax treaty route will very often pay less tax than similar local companies. Tax treaties can also prevent double taxation.

Tax treaties can restrict the ability of a country like Tanzania to tax multinationals in a number of ways, including the way that capital gains are taxed and when Tanzania can tax the profits of a company – so-called permanent establishments rules. The tax loss attributable to these provisions in tax treaties can be difficult to quantify, so this briefing will concentrate on withholding taxes, i.e. the taxes applied to transactions out of Tanzania, such as interest payments, dividends, royalties and management/service fees paid out of Tanzania to a company in another country.

Tanzania has a relatively limited tax treaty network of nine treaties. Because the statutory withholding tax rates are lower than the treaty rates in many cases (see the table below), statutory rates apply rather than treaty rates. This means that it is effectively only the lower rates in the treaty with Zambia that potentially incur tax losses in Tanzania. Based on ActionAid's calculations[29] (see footnote) the losses to the provisions in the Tanzania-Zambia tax treaty are largely negligible and will therefore not be considered for the purposes of this briefing. It is worth noting however that Tanzania may well be losing substantial amounts of tax revenue from provisions that have not been considered in these calculations, such as the capital gains and permanent establishment provisions.

Table 1: Customs, Excise and Import Vat Tax Exemptions

Withholding Tax	Interest payments	Dividends	Royalties	Management/service fees
STATUTORY[30]	10	10	15	15
Sweden	15	25	20	20
Denmark	12.5	15	20	20
Norway	15	20	20	20
Finland	15	20	20	20
Italy	12.5	15	20	N/A
Canada	15	25	20	20
India	12.5	15	20	20
South Africa	10	20	10	N/A
Zambia	0	0	0	0

Source: http://taxsummaries.pwc.com/ID/Malawi-Corporate-Withholding-taxes

29. Looking specifically at losses due to the dividend provision in the Tanzania-Zambia treaty, FDI stock from Zambia to Tanzania was in 2013 (latest available data): US$12million. Meanwhile, the overall FDI stock was US$14, 872million, meaning Zambian investment represented 0.08% of total FDI stock. Total dividend payments abroad from Tanzania in 2013 were US$43,200,000. Provided the Zambia share of that was indeed 0.08%, the dividends paid from Tanzania to Zambia would have been US$345,600 in 2013. If normal withholding tax (10%) had applied to those transactions, Tanzania would have raised US$34,560 in tax revenue. As the treaty rate in the Tanzania-Zambia treaty is 0%, we can estimate that Tanzania may be losing around US$34,560 a year due to this treaty provision.
30. As per Tanzanian Income Act 2004 https://www.tra.go.tz/tax%20laws/The%20Income%20Tax%20Regulation.pdf

Education

Everyone has a right to education. This is a right enshrined in international human rights treaties from the Universal Declaration of Human Rights (article 26)[31] through to the International Covenant on Economic Social and Cultural Rights,[32] the Convention on the Rights of the Child[33] and many others. To be clear – countries should invest in girls' education because girls have a right to education.

However, in addition to the rights perspective, there is also an economic argument for investing in girls' education. A more highly educated population is likely to be more productive and to generate higher economic growth.[34] Below are some calculations of what the growth dividend of investing some of the money lost to tax incentives and tax treaties in girls' education would be.

According to World Bank data, there are more than **952,000 girls of primary school age in Tanzania who are not in education.**[35,56] There are many reasons why girls might not attend school. For the purposes of this calculation, we will assume as a starting point that with the right financial support, all of these girls would complete their primary education.

We know that the government officially spends Tsh10,000 (around US$4.45 at October 2017 exchange rates) per month, per child in primary education. While there are several reports that not all of this sum reaches the relevant schools,[37] it will for the purposes of this briefing be assumed that Tsh10,000 is paid out every month for 10 months of the year (meaning the total cost to the government is US$4.45x10=**US$44.50**). However, research commissioned by ActionAid shows that parents contribute approximately Tsh71,835 per year (around **US$31.78** at November 2017 exchange rates) to their children's education to cover necessary items such as school uniforms, daytime food, books and pens. In total, between the government and parents combined an estimated **US$76.28** per primary school pupil, per year is currently spent in Tanzania.

A simple calculation (not accounting for the non-financial reasons why girls of primary school age may not be in education) would then conclude that paying for the 952,000 girls currently not in school would cost **US$72,618,560 a year.** As primary school in Tanzania lasts six years,[38] the cost of getting all girls of primary school age who are currently not in education in Tanzania through six years of school would be **US$435.71m.**

We will now calculate the growth dividend in investing in girls' education and compare this to the estimated cost of educating every girl of primary school age not currently in education in Tanzania. A working paper for the World Bank developed methods for estimating the growth dividend of investing in girls' education.[39] Amongst other things, the paper analysed what the productivity of those girls *with* primary school education as opposed to those without would be. In doing so, the paper factored in a number of variables such as the effect of productivity if there was an increase in labour supply as well as the fact that for girls currently not completing primary education there may be factors other than lack of education preventing them from reaching the same level of productivity as those girls who currently do complete primary school.

Using data from the IMF, the ILO, the World Bank and others, the study concludes that that girls who complete primary education in Tanzania contribute **18% more** annually to GDP than girls who don't. With current average

31. See http://www.ohchr.org/EN/UDHR/Documents/UDHR_Translations/eng.pdf
32. See http://www.ohchr.org/Documents/ProfessionalInterest/cescr.pdf
33. See http://www.ohchr.org/Documents/ProfessionalInterest/crc.pdf
34. Note however that increasing women's labour force participation must be accompanied by policy change to address the structural causes of women's economic inequality. As a result of the disproportionate amount of unpaid care and domestic work that women do globally, they already work longer days than men in most countries. Fiscal policy needs contribute to redressing this injustice. For more information, see e.g. "Women as 'underutilized assets'" [ActionAid, 2017) http://www.actionaid.org/sites/files/actionaid/actionaid_2017_-_women_as_underutilized_assets_-_a_critical_review_of_imf_advice.pdf
35. See http://datatopics.worldbank.org/education/country/tanzania
36. Note that a 2016 report from the Tanzanian President's Office has a different number, See table 2.8 http://www.tamisemi.go.tz/noticeboard/tangazo-1062-20170113-BEST-Regional-and-Pocket-Data-2016/BEST-2016-Pocket-Size-Final.pdf
37. See e.g. http://www.twaweza.org/go/sauti-brief-capitation
38. See e.g. report by the Tanzanian President's Office: http://www.tamisemi.go.tz/noticeboard/tangazo-1062-20170113-BEST-Regional-and-Pocket-Data-2016/BEST-2016-Pocket-Size-Final.pdf
39. See 'Measuring the Economic Gain of Investing in Girls: The Girl Effect Dividend' by Jad Chaaban Wendy Cunningham, 2011. Policy Research Working Paper 5753.

GDP per person[40] being US$1,032 according to the IMF,[41] an 18% increase in productivity per person would mean an increase in annual productivity of **US$185.76** per girl completing primary education (not allowing for differences in average GDP between girls without primary education and other parts of the population).

If all 952,000 girls currently out of education completed primary school and indeed contributed an additional US$185.76 per year to the Tanzanian economy, their total additional contribution would be **US$176,843,520 per year.** This is the equivalent of **0.345%** of current estimated Tanzania GDP of US$51.19bn.[42] Provided a working life of 45 years, at current prices (not taking into account inflation), the added value to the economy of investing in these girls' education would be **US$7.96bn.**

Meanwhile, the compound effect of the annual increase in GDP from investing in the education of out of schoolgirls over a 45-year working life would be **16.8%.**[43]

By continuously investing in new generations of girls' education, the overall figure for the compound impact over a working life would be much higher.

Good quality inclusive education is a fundamental right of all children.
PHOTO: MAKMENDE MEDIA/ACTIONAID

40. In current prices, not adjusted for PPP
41. See: https://www.imf.org/external/pubs/ft/weo/2017/01/weodata/weorept.aspx?sy=2015&ey=2022&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=72&pr1.y=6&c=738&s=NGDPDPC&grp=0&a=
42. See https://www.imf.org/external/pubs/ft/weo/2017/01/weodata/weorept.aspx?sy=2015&ey=2022&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=41&pr1.y=8&c=738&s=NGDPD%2CNGDPDPC&grp=0&a=
43. In the desirable but unlikely event that all of the girls currently out of school completed not just their primary education but also their secondary education – and using the World Bank paper's (Chaaban and Cunningham, see above) calculation that completing secondary education (as opposed to completing neither primary nor secondary education) leads to a productivity gain of **32%** per girl, which in turn – using the methodology described above – would lead to an estimated **US$314,553,269** or **0.6%** increase in GDP per year, or a compound **31%** over a 45 year working life.

Conclusions and recommendations

With government spending on education at a low 3.5% and 952,499 of school age girls out of education, the government of Tanzania needs to ensure that it raises more revenue that can in part be spent on girls' education. This paper has shown that as a result of tax revenue foregone through VAT exemptions and SEZs alone Tanzania is missing out on US$531.5m per year.

The real figure could be even higher as these calculations don't include losses resulting from income tax exemptions, discretionary tax exemptions or the revenue effects of certain tax treaty provisions such as permanent establishment and capital gains tax rules.

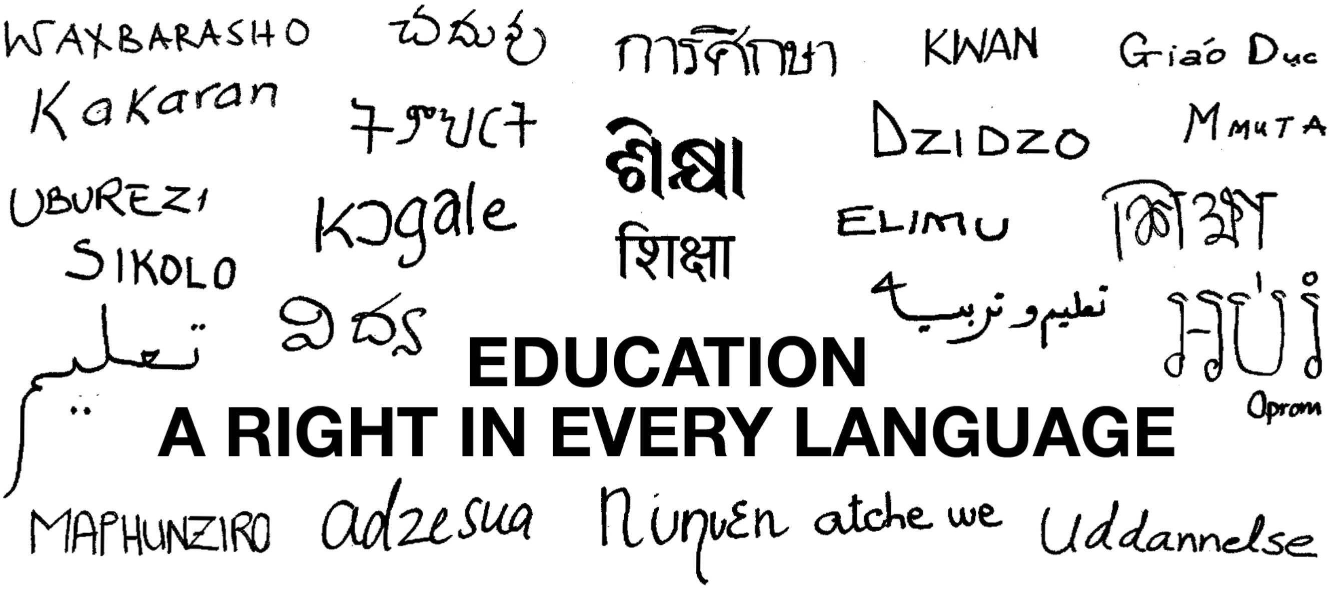
UNESCO recommends that all governments spend around 20% of their revenue on education. If 20% of the lost tax revenue was spent on education, that would mean an additional US$106.3m for education each year. Meanwhile, as this paper shows, the annual cost of putting the 952,000 out of school girls through primary school each year would be just over US$76.28m, an amount that could easily be covered by 20% of the forfeited tax revenues.

This paper also demonstrates that while investing in girls' education should be done primarily because it secures their right to education, it also makes economic sense, and that a girl that has completed primary education is statistically likely to contribute 18% more to Tanzania's GDP each year than a girl who has not.

If all girls currently out of school were to complete primary education they would collectively contribute an additional US$176m per year, and a US$7.96bn over a 45-year working life to the economy of Tanzania. While the primary reason ActionAid advocates for greater investment in girls' education is because it is a fundamental human right, this paper demonstrates that doing so is also beneficial to the economy as there is a long-term growth dividend to be had from investing in girls' education that far out-strips any costs involved.

With this in mind, ActionAid urges the government of Tanzania to:

1. **Act** swiftly to reduce the amount of tax revenue forfeited to tax incentives.
2. **Stop** offering harmful tax incentives and only other incentives selectively to facilitate development. All current tax incentives – including discretionary tax incentives and those applicable to special economic zones – should be reviewed to assess whether they are fit for purpose, including undertaking a cost-benefit analysis.
3. **Subject** all tax incentives – both statutory and discretionary – to public scrutiny, including by parliament, media, civil society and citizens. This should include publishing an annual overview of the costs of tax incentives as part of the annual budget, so the public can see the impact of corporate tax incentives.
4. **Review** tax treaty networks – as well as current withholding tax rates, e.g for dividend and interest payments abroad - to ensure that they do not result in tax losses and renegotiate those that do. Cancel or renegotiate disadvantageous tax treaties.
5. **Invest** 20% of the tax revenue raised by reducing tax incentives and tax treaty regimes in education, especially girls' education.
6. **Ensure** that public education is free, compulsory and of good quality and that there are no economic barriers that might prevent families sending their girls to school.
7. **Ensure** that education budgets are gender-sensitive and that adequate financing is available for measures proven to tackle persistent barriers to girls' education.



EDUCATION
A RIGHT IN EVERY LANGUAGE

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ActionAid is a global movement of people working together to achieve greater human rights for all and defeat poverty. We believe people in poverty have the power within them to create change for themselves, their families and communities. ActionAid is a catalyst for that change.

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