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Analysis of Tax Administration Reform through Tax Performance and Quasi-voluntary Compliance:

A Comparative Analysis of Tanzania and Uganda

조세성과와 준자발적 조세순응을 통한 조세행정 개혁 분석: 탄자니아와 우간다의 사례 비교를 중심으로

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Abstract

This study attempts to analyze how two decades of tax administration reforms in Tanzania and Uganda have contributed to tax performance and quasi-voluntary tax compliance. The study compares the political economic backgrounds and processes of tax administration reform in the two countries, with a special focus on semi-autonomous revenue authorities, and their outcomes in terms of tax performance and compliance by using qualitative research methods. The primary goal of tax administration reform is to increase tax revenue and compliance, which further contribute to state-building by strengthening state capacity and the state-society relationship. Tax administrations attempt to increase quasi-voluntary compliance by changing strategic and normative factors that affect taxpayers, as they need certain levels of quasi-voluntary compliance to maximize net revenue.

Revenue authorities in Tanzania and Uganda set to improve tax revenue and voluntary compliance as their major objectives. Tanzania and Uganda make significant cases for comparative research on the outcome of tax administration reform because of the similarity of their political economic backgrounds, initial successes in tax administration reforms, and the fact that elements of their reforms mirror the situations of other sub-Saharan African countries that also have urgent needs for tax administration reform. However, there has been a lack of research that closely analyzes tax administration reforms in terms of tax performance and quasi-voluntary compliance outcomes in Tanzania and Uganda. This study provides a detailed comparison of the outcomes of tax administration reforms of these two countries to complement existing literature.

The study finds out that the tax administrations of Tanzania and Uganda have

different outcomes for tax performance and compliance, despite the introduction of similar tax administration reforms. Tanzania generally achieved better outcomes in terms of both tax performance and quasi-voluntary compliance in comparison to Uganda. This is because Tanzania's tax administration was more effective in changing the strategic and normative factors that influence taxpayers in comparison to Uganda. As a result, significant increases in tax revenue and administrative performance in Tanzania have contributed to the strengthening of its state capacity. Improvement in quasi-voluntary compliance has a positive effect on the state-society relationship in Tanzania. Therefore, the different outcomes of tax administration reform in Tanzania and Uganda have the potential to contribute to state-building differently through the development of state capacity and the state-society relationship.

Keyword: tax administration, tax reform, tax performance, compliance, state capacity, state-society relationship, state-building, Tanzania, Uganda

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I. Introduction

This study examines how tax administration reform, with a special focus on semi-autonomous revenue authorities (ARAs), has contributed to tax performance and quasi-voluntary tax compliance in Tanzania and Uganda. Compliance is defined as "meeting legal obligations imposed by the tax system" (IMF 2015, 7). Quasi-voluntary tax compliance implies that tax compliance is a mixed set of taxpayers who comply with taxes voluntarily or unwillingly due to the disadvantage of non-compliance. Quasi-voluntary compliance is greatly influenced by tax performance including effectiveness, efficiency and fairness of taxation. In reverse, compliance strongly affects tax performance. These effects interact (IMF 2015). The tax administration reform to establish semi-autonomous revenue authorities in Tanzania and Uganda show mixed outcomes, both with similar and different patterns compared to each other. One of the major initial goals for establishing autonomous revenue authority in these two countries is to improve low administration effectiveness and poor compliance (Kidd and Crandall 2006). Therefore, it is important to examine the performance of tax administration and tax compliance outcomes from the tax reforms in these two countries and analyze what led the differences between them. Furthermore, this study attempts to provide further implications on how tax administration reform has influence on state-building by changing state capacity and state-society relationship in Tanzania and Uganda.

The importance of tax as a means of domestic resource mobilization for development has gotten a lot of attention around the world. In addition, tax is considered closely related to state formation and capacity building in developing countries, and can provide an important mechanism for taxpayers to hold their

governments accountable for public service provision. The centrality of a tax system in wider state-building has received considerable attention from academia in recent years (IMF 2015). Improving quasi-voluntary compliance is vital in enhancing tax revenue and building strong and trusted public institutions. Assuring strong compliance to generate more revenue becomes a major priority in countries with intensified revenue needs. When the taxation lacks quasi-voluntary compliance, tax performance is likely to suffer (Lieberman 2002). Quasi-voluntary compliance among taxpayers also strengthens the state-society relationship. A wide variety of tax compliance levels reflects not only the effectiveness of the tax administration of a country, but also taxpayer attitudes toward taxation and government in general, and the value attached to government activities (Bird 1992). Thus, facilitating compliance is the first primary task of any tax administration. Tax administration makes sure that appropriate taxpayers are in the system and comply with taxation (Bird 2016). Improvement in compliance through tax administration reform can contribute to state-building.

Sub-Saharan African countries are known to suffer from the lowest tax performance in the world. Low tax revenue and compliance, ineffective and corrupt tax administrations, and other challenges in taxation contribute to severe fiscal stresses in sub-Saharan African countries, where the need for resource mobilization for development is the most urgent. The domestic desire for a better tax system combined with support from international donors such as the International Monetary Fund (IMF), the World Bank, and the Department for International Development (DFID) in the UK have led 20 years of tax reform in East African Community (EAC) since 1990. During the last two decades, reforms covered transforming tax structures, decreasing tax exemptions, and improving tax administration to enhance administrative efficiency and ensure better taxpayer compliance. Reform on tax administration for increasing tax revenue and compliance was especially stressed in the region (Fjeldstad et al. 2003).

In spite of various analysis on tax administration reform in Tanzania and Uganda, there has been a lack of attempts to compare how tax administration reforms influenced tax performance and compliance in the two countries. Tanzania and Uganda make significant cases for tax administration reform in sub-Saharan Africa. Both countries were evaluated as models for revenue authority in sub-Saharan Africa due to their initial successes in tax performance, and the key elements of their tax administration reforms mirror the other sub-Saharan African countries' reforms.

When the performance of tax administration is evaluated, the most frequently used measurement is tax to GDP ratio. However, this study also adopts compliant attitudes of taxpayers to examine the outcome of the reform because voluntary tax compliance is a critical aspect on tax administration reform. The improvement of compliance is clearly mentioned as one of the major goals of tax revenue authority in Tanzania and Uganda. It is because tax compliance contributes to sustainable revenue increase and building government-taxpayer relation (Kidd and Crandall 2006). Lack of literature on the subject of voluntary taxpayer compliance in Africa and the predominance of writing that examines the subject form a developed country perspective trigger this study.

In order to study how tax administration reform affected administrative performance and compliance in Tanzania and Uganda, a comparative examination of the reforms in two countries is given. Then, the features appearing in each tax administration affecting performance of tax administration and tax compliant attitudes and in the two countries are highlighted. Some of the features in tax administration, such as corruption in tax administration, are somewhat similar in both countries in different levels, but independence from outright political interference, effective and efficient functioning of revenue authority, and arena for negotiating on taxation provide an explanation on why Tanzania generally shows a higher voluntary tax compliance

level than Uganda.

This study is structured as follows. In the next chapter, a literature review on the subject of taxation, the urgent need for tax administration, and current reform efforts are discussed. Based on these previous findings, the study suggests the purpose of research and justifies the case selection. In chapter three, analytic framework to examine tax administration reform is given and then the main research questions of the study and research methods are presented. In chapter four, the study provides political economic context of the selected countries. In the next chapter, the tax administration reforms in the selected countries are explained in detail. Then, tax performance outcome from reform are compared. In the following chapters, this study identifies different levels of tax compliance in the two selected countries and explains what aspects of tax administration in each country could have contributed to the different tax compliance levels. The final chapter concludes the study by highlighting main findings and further implication.

II. Literature review

Taxation is defined as a form of government revenue which is different in terms of obligations and administrative requirements from debt, entrepreneurial income, and user fees (Lieberman 2002). It is referred to as "unrequited compulsory payments collected primarily by the central government" (World Bank 1988, 79). In this chapter, the importance of taxation for state-building in terms of state capacity and the state-society relationship is discussed. Then, various theoretical perspectives on taxation such as political economy theories of taxation and tax compliance are given. Lastly, current challenges related to taxation and tax reforms in developing countries, especially countries in sub-Saharan Africa, are examined.

2.1. Taxation and state-building

2.1.1. State capacity

Taxation has been highlighted as one way of mobilizing domestic resources for development in developing countries. There is an urgent and clear need for more resources for governments of developing countries to provide and maintain basic public goods and services. Governments need to raise enormous amounts of public revenue to finance their national development plans. The importance of domestic resource mobilization for development is emphasized in the Monterrey Consensus of 2002 and the Doha Declaration of 2008. Furthermore, countries came to an agreement on the Addis Ababa Action Agenda and pledged to improve domestic revenue mobilization by widening the tax base, strengthening tax collection, and fighting tax evasion. The Addis Tax Initiative is set to implement the Agenda by 2020. It aims to add substantial amounts of resources for capacity building as well as ownership and

commitment for establishing transparent, fair, and efficient tax systems. These efforts are necessary to generate financing for new Sustainable Development Goals (SDGs) (UN 2015).

Among various means of revenue mobilization, taxation is the most closely related to questions of state formation and capacity (Jonathan 2010). State capacity usually refers to a state with an effective bureaucracy. Modern and rational-legal bureaucracy is structured along impersonal, technocratic and hierarchical lines (Strauss 2008). Under strong institutional stability, bureaucrats follow standard operating procedures and rules based on knowledge, and answer to supervisors who also follow the impersonal and technocratic standard (Brautigam et al. 2008).

Dependence on taxes demands that states develop a sophisticated bureaucratic apparatus for tax collection. The development of a functioning tax administration could promote broader improvement in state capacity (Brautigam 2008; Prichard and Leonard 2010). The factors that can bring broader improvement to the public sector include administrative innovations, such as the adoption of meritocracy or internal monitoring, demand to improve other tax associated agencies, like agencies for business registration or foreign investment, expansion of government's' presence in remote areas, and the provision of data and information for other government activities such as economic planning (OECD 2010).

In her examination of state capacity, Brautigam (2008) suggests three aspects that affect state capacity: a ruler's incentive to build tax capacity, which is associated with war, threat, and natural resources; historical legacy and critical juncture that influence tax capacity and associated institutions; and the impact of international context on taxation and state-building in contemporary developing countries. War and threat of war make primary incentives for the long process of state-building by stimulating demand for public revenue including taxes. Tilly (1985) famously

described this by saying “war made the state”. Research on the role of war and threat in building tax capacity is based on western European experience and has spread to Africa, Asia and Latin America. For instance, Herbest (2000) argues that the underdevelopment of institutions in Africa is in part attributed to the lack of external threat that made rulers in Europe countries make effort in taxation. Natural resources also affect state capacity for taxation, as heavy dependence on those resources discourages the incentive for states to develop effective tax capacity. It is noteworthy that a government’s incentives to set up effective tax bureaucracies and achieve institutional development form the basis of an effective state.

Regarding the historical aspect, a number of scholars note that historical legacies construct taxation and state capacity in some ways. Colonial legacies are salient in particular for developing countries, although there are other critical junctures that can lead to the foundations of new institutions and pinpoint the beginning of different paths (Brautigam et al. 2008).

Lastly, international factors such as foreign aid and conditionality on loans imposed by international organizations such as the International Monetary Fund shape the current pattern of tax reform and institutions in developing countries. The dominant ideas of international monetary organizations have heavily affected the pattern of tax reform in developing countries, such as prevailing liberalization measures in tax reform. Meanwhile, developing countries with a long history of high dependence on aid face difficulties in developing the capacity for taxation (Moore 1998). In sum, taxation has significantly affected formation and maintenance of state capacity through the rulers’ incentives, historical experience and international context (Brautigam et al. 2008).

2.1.2. State-society relationship

Another important aspect of taxation in state-building rests on the promotion of

the state-society relationship. The centrality of the tax system in wider state-building has received considerable attention from academia in recent years (IMF 2015). Some political scientists study deep into the area of "fiscal sociology", where taxation provides a useful lens into the relationship between state and society (Lieberman 2002). In an early study on the subject, Schumpeter (1991, 101) explained that "the public finances are one of the best starting points for an investigation of society, especially though not exclusively of its political life."

Taxation provides an important mechanism for taxpayers to hold their government accountable for public service provision. Governments relying on taxation tend to change their incentives by putting more effort into national development and providing taxpayers with public goods and services in order to ensure tax compliance. Furthermore, taxation provides an incentive for "tax bargain" or "fiscal contract" between the government and taxpayers, which can enhance the responsiveness and accountability of the government. Through this process, taxpayers reach an agreement with the government to pay taxes in exchange for the provision of benefits provided by government (Moore 2008). Fiscal contracts are mutually beneficial, as taxpayers enjoy the improved provision of public goods and services while the government enjoys larger, more predictable, and more easily collected tax revenues (Levi 1988). Governments might consider this process a painful political compromise, but in fact few governments are able to operate highly effective tax systems without a certain degree of consent from taxpayers (Tilly 1990). This dialogue between government and taxpayers is politically challenging in the short term and requires the government to make changes, but is mutually-beneficial strategy in the long term (OECD 2010). In brief, a well-functioning tax system based on reciprocity has a positive influence on state-building by improving the state-society relationship. Ultimately, effective tax systems are a necessary perquisite for strong, sustainable, and inclusive development

(Carnahan 2015).

2.2. Theoretical perspectives in taxation

2.2.1. Political economy theories of taxation

Scholars in economics, political science, sociology, and history have formed five major approaches to the political economy of taxation. Brautigam (2008) suggests a framework that summarizes the five approaches on how the political economy influences the taxation of a country. This framework is explained in detail in chapter three on analytic framework in order to analyze the political economic background of tax reform in Tanzania and Uganda.

The first approach focuses on the levels of economic development and economic structure, and their determinant influences on tax revenue. The second approach is related to societal factors such as culture, trust, and tax morale. Tax morale is defined as "citizens' motivation to pay their taxes other than their legal obligation to do so" (Daude et al. 2012, 9). The third approach emphasizes the role of threat. The modernization of tax administration and the rise of bureaucracy were a response to threats such as wars. The fourth approach is related to political institutions and tax systems. The variation of tax systems across countries is partly explained by the variation of political institutions. The last approach focuses on the fiscal contract between the government and taxpayers, which is based on reciprocity. Different interests of the government and taxpayers provide incentives for the government to offer benefits in exchange for tax payment.

The historical origin of fiscal contracts comes from European monarchies, where monarchs had to bargain with the propertied class and merchants over taxation in order to finance war. However, in most of developing countries where democracy either does

not exist or is new, unstable, and temporary, it is difficult to achieve representation from tax bargaining (Moore 2004; Brautigam et al. 2008; AfDB 2011). There are two main approaches to the idea of fiscal contract. One approach focuses on a broad range of societal and economic factors that determine tax bargaining. The other approach primarily pays attention to micro-level analysis and framework emphasizing the rational choice of individuals, which is well demonstrated in the work of Levi (1988). Levi argues that taxpayers' compliance has quasi-voluntary characteristics. The term "quasi-voluntary" is used because "it is voluntary because taxpayers choose to pay. It is quasi-voluntary because the noncompliant are subject to coercion- if they are caught" (Levi 1988, 52). Some of Levi's ideas on quasi-voluntary compliance are adopted in the analytic framework of this study and are explained in the following chapter.

2.2.2 Theoretic framework of tax compliance

Extant literature on tax compliance has shown that taxpayers' decisions to comply with taxation or not are influenced by a variety of factors. Ever since 1978, when the Internal Revenue Service made a list of 64 factors that influence taxpayers' decisions, the number of factors has continued to increase (Alm et al. 1999). Over decades, a wide range of research on tax compliance has incorporated diverse disciplines. However, scholars have not come to achieve a consensus on the general factors that affect compliance behavior (McKerchar and Evans 2009). As a result, a "cobweb" of factors that are considered to affect taxpayers' compliance exists today (Bello and Danjuma 2014).

Prominent theories or models on tax compliance are referred to as "schools of thought". They have been used to explain tax compliance through certain factors (McKerchar and Evans 2009; Devos 2012; Fjeldstad et al. 2012). The main concern of tax compliance is to find why people comply with taxes (Alm et al. 1992). The five

factors of each theory or model are economic deterrence, fiscal exchange, social influences, comparative treatment, political legitimacy, and trust in government (Fjeldstad et al. 2012; Ali et al. 2014). It is impossible to explain tax compliance with one model that fits all because individual taxpayer's decisions are affected by both economic and noneconomic factors. These factors are to some extent interconnected and sometimes represent the development of other factors.

The first theory explains the compliant attitudes of taxpayers via economic deterrence. A rational taxpayer is assumed to make the decision whether or not to comply with tax laws based on rational cost-benefit calculation. In order to maximize the expected utility, it is necessary to calculate the benefits of evasion and the cost of detection and punishment. The benefits of evasion are determined by factors such as the tax rate. The costs are determined by the probability of detection and the severity of penalty (Becker 1968; Allingham and Sandmo 1972; Srinivasan 1973). If an audit is anticipated and the penalty is harsh, few taxpayers try to evade taxes because the cost of tax evasion is high, even if the expected return on evasion is high. Therefore, taxpayers are more likely to comply with taxation under a strict and harsh tax system.

The second theory of fiscal exchange suggests that the efficient and accessible provision of goods and services by the government promotes compliance among taxpayers (Cowell and Gordon 1988; Levi 1988; Tilly 1992; Moore 1998, 2004). Alm et al. (1992) note that tax compliance tends to increase with the positive perception on the availability of public goods and services. This implies that people who pay taxes expect or try to form an implicit fiscal contract where their government returns to them the benefits of tax payment in the form of goods and services (Moore 2004). Although most of taxpayers do not receive the exact value of what they pay as taxes, it is argued that taxpayers' behavior is influenced by their general impression about their own and others' terms of trade with the government.

The third theory is about social influences. Taxpayers consider the behavior and social norms of their reference group in their decisions over compliance (Snavely 1990). An individual's reference group is usually composed of their relatives, neighbors and friends. If a taxpayer knows many people who evade taxes, he or she is less likely to voluntarily comply with taxes. On the other hand, social relationships also play a role in deterring taxpayers from engaging in tax evasion, because taxpayers might fear social sanctions in the case of public revelation.

The fourth theory focuses on the comparative treatment by the government in explaining tax compliance. Taxpayers pay attention to the relative treatment of the government to their fellow taxpayers. When the government shows preferential treatment to a certain group, it can damage the relationship between the government and other groups left out of preferential treatment. When taxpayers feel that they are treated unfairly, they become less willing to comply with taxation (D'Arcy 2011). This theory stands on equity theory and implies that addressing inequities in the relationship between the government and taxpayers improves tax compliance (McKerchar and Evans 2009).

The last theory is centered on political legitimacy, which is closely related to trust toward the government. Legitimacy is described as the trust of citizens in authorities, institutions, and social arrangements. This is associated with whether they are appropriate, just, and work for the common good (Ali et al. 2014). According to political legitimacy theory, the level of trust that taxpayers have for their government influences compliance (Fauvelle-Aymar 1999; Tayler 2006; Kirchler et al. 2008).

2.3. Tax reform in developing countries

2.3.1. Donor countries' support on tax reform

There has been a growing interest among aid donor countries on taxation in developing countries in recent years. This reflects attention to domestic resource mobilization for financing public goods and services, as well as the realization of "the centrality of taxation in development" (Fjeldstad 2014, 182). Today, Official Development Assistance (ODA) budgets are under greater pressure because of the global economic downturn and heavy fiscal burdens on many major donor countries. Aid budgets of donor countries declined due to the previous economic crisis. They are likely to continue to bottom out for a while, and might never return to their original levels (Roodman 2008; Dang et al. 2009). Most donor countries failed to keep the commitment to deliver 0.7% of Gross National Income (GNI) as aid and the Gleneagles pledges of 2005 to double volume of aid to Africa by 2010. A number of donors have experienced aid fatigue, doubting the actual impact of aid in development (Bhushan and Samy 2010). Most of all, the ODA alone would still fall short of the resources needed for the next set of development goals.

The decline in foreign aid inflow as well as the limitations of taking private loans makes domestic taxation more valuable in the resource mobilization of developing countries. Even if governments have access to alternative sources of funding, raising tax revenue is an unavoidable mission for almost all the governments, except for a few extremely resource rich countries (World Bank 2013). Even for resource rich countries, tax revenue can provide more stable and predictable revenue for the government. Revenue from the natural resources severely fluctuates with changes in global prices. This explains why developing countries must improve their tax performances. Therefore, there has been continuous support for developing countries to pursue their own revenue-raising efforts (Fjeldstad 2013). The global trend in tax reform supported by various donors consists of three primary substantive elements. They are the introduction of broad-based consumption taxes such as the Value Added Tax (VAT),

simplification of tax design, and the improvement of tax administration (Fjeldstad and Moore 2008).

2.3.2. Tax administration reform

There has been a significant emphasis on tax administration reform, often under the slogan "tax administration is tax policy" (Jantscher 1990, 197). Elements of administrative reform in each country mostly rely on the previous or existing form of administration (Bird et al. 2004; Owens and Hamilton 2004). However, there are components commonly introduced in tax administration reform: the change of tax collection agencies into semi-autonomous revenue authorities; the use of new information and communication technologies; the provision of unique identification numbers for taxpayers; the establishment of different systems for large taxpayers; the revision of collection progress to be more "user-friendly"; and the use of selective and strategic tax audits (Fjeldstad and Moore 2009). Tax administration is required to identify taxpayers, determine tax liabilities based on existing tax legislation, collect due taxes, provide adequate taxpayer services, and install prosecution and penalties in order to facilitate compliance (Fjeldstad et al. 2003; Bird 2014).

Effective tax administration is important in the same way as taxation matters to the state-building process in two respects. First, the improvement of tax administration can increase tax revenue. Second, effective tax administration can contribute to bettering the relationship between the state and citizens. A weak and corrupt tax administration is a fundamental barrier in many developing countries to implementing effective and fair taxation and building trust between the government and its citizens. In addition, problems with tax administration are often a more prescient concern than problems of upper tax policy making levels in low income countries (Lieberman 2002). Therefore, tax administration reforms are of prime importance for strengthening state

capacity and governance relations in developing countries. African countries, especially the ones in the sub-Saharan region, are particularly deficient in this respect (Fjeldstad et al. 2009).

2.3.3. Tax administration reform in sub-Saharan Africa

Sub-Saharan African countries are known to suffer from the lowest tax performance in the world. Low tax revenue and compliance, ineffective and corrupt tax administrations, and other challenges in taxation contribute to severe fiscal stress in sub-Saharan African countries, where the need for resource mobilization for development is the most urgent. In particular, difficulties in taxation such as tax evasion, low level of compliance, and inefficient tax administration have been common features in East Africa. The domestic desires for better tax systems combined with support from international donors such as the IMF, World Bank, and DFID have led to 20 years of tax reforms in the EAC since 1990. Over the last two decades, reforms covered transforming tax structures, reducing tax exemptions, and improving tax administrations. Reforms of tax administrations in order to increase tax revenue and compliance were especially stressed in the region (Fjeldstad et al. 2003; OECD 2010; Ali et al. 2014).

The most outstanding feature of tax administration reform in sub-Saharan Africa during the 1990s was the establishment of semi-autonomous revenue authorities (ARAs). ARAs are defined as tax administrations with a larger autonomy in terms of organizational design. Countries with ARAs separated traditional line departments from the ministry of finance and provided revenue authorities with the legal status of semi-autonomous authorities. ARAs are distinguished from ordinary governmental organizations by their legal character, corporate governance, mechanism for financing and budgeting, personnel management, procurement, and accountability relations

(Taliercio 2004). Key characteristics of ARAs in principle are autonomy from the central government, independence from public sector rules such as personnel management and payment, and operation as single-purpose agencies. The main functions of ARAs are to promote voluntary tax compliance, to enhance the quality of tax services, to prevent fraud and tax evasion, and to produce revenue and statistics.

The political and economic circumstances that resulted in the formation of ARAs are generally shared between sub-Saharan African countries (Devas et al. 2001; Taliercio 2004; Kidd and Crandall 2006). These governments were greatly dissatisfied with existing tax collection and the deep-rooted inefficiencies of their tax administrations, especially in the face of fiscal deficits and the expanding needs for public expenditure (Mann 2004). Second, widespread corruption and tax evasion, accompanied with high compliance costs called for comprehensive tax administration reform (Ghura 1998; Barbone et al. 1999; Fjeldstad and Tungodden 2003; Fjeldstad 2003, 2006). Third, international donors were fond of the concept of semi-autonomous revenue authorities because they could lead to further reforms for administrative procedures (Therkildsen 2004). The introduction of semi-autonomous revenue authorities aimed in part to free tax administration from the constraints of the public sector, make them professional and competent, and limit direct political interference (Fjeldstad et al. 2009). Semi-autonomous revenue authorities were believed to be able to attain the intended goal of the establishment of competent, effective, and fair tax administration with enhanced autonomy (Taliercio 2004). The Tanzania Revenue Authority (TRA) and the Uganda Revenue Authority (URA) were the outcomes of the push for administrative reforms.

2.4. Purpose of research

This study attempts to show how tax administration reform resulted in different tax performance and compliance when similar reform was applied to a specific country's context. In spite of various analysis on tax administration and tax compliance in Tanzania and Uganda, there has been lack of attempt to examine how this tax administration reform could influence tax compliance as well as tax performance in these two countries. For the evaluation of the performance of the tax administration, the most frequently used measurement is tax to GDP ratio. However, this study especially focuses on compliance results from the tax administration reform because compliance is a critical aspect of the reforms in these two countries. The improvement of tax compliance is clearly mentioned as one of the major goals of the ARA in Tanzania and Uganda, and tax compliance contributes to sustainable revenue increase and building the government-taxpayer relation (Kidd and Crandall 2006). In addition, there is lack of literature on the subject of voluntary taxpayer compliance in Africa where the writings that examine the subject from a developed country viewpoint is predominant (Kibuta 2011). In addition, the literature on taxpayer compliance is heavily weighted toward measures and mechanisms for compelling compliance instead of understanding various aspects of voluntary compliance despite its importance.

Improving quasi-voluntary compliance is vital in enhancing tax revenue and building strong and trusted public institutions. A wide variety of tax compliance levels represent the effectiveness of a tax administration of a country as well as taxpayer's perception on taxation, the government, and the value of government activities (Bird 1992). Coercive taxation methods might yield higher taxes per capita, but harsh tax enforcement combined with poor service delivery can undermine the legitimacy of the tax administration and increase tax resistance, resulting in low revenue. Therefore, the

ultimate purpose of this study is to show how tax administration reform affected quasi-voluntary tax compliance differently in two countries.

2.5. Significance of case selection: Tanzania and Uganda

It is important to examine Tanzania and Uganda because they were once considered by donors as models for revenue authority in sub-Saharan Africa (Kefela 2009). This was because of a fast and remarkable increase in revenue collected by their tax authority, namely the TRA and URA, in their initial reform periods. Furthermore, the main contents of tax reform in Tanzania - the establishment of ARAs, tax rate reduction, simplification of the tax structure, and the introduction of VAT - which are shared by Uganda, generally mirror tax reforms in other countries in sub-Saharan Africa (Fjeldstad et al. 2003; Ayoki et al. 2008). In addition, URA is the oldest integrated ARA in the region (Fjeldstad 2005). Therefore, these two countries provide significant cases for tax administration reform in sub-Saharan Africa. Tanzania and Uganda provide good cases for comparative studies since they share similar initial conditions at the time reforms were implemented in terms of political contexts, economies, and societal features. General information on the initial conditions of the two countries is summarized in Table 1. Furthermore, Tanzania and Uganda have shared challenges in taxation such as low tax to GDP ratio, narrow tax bases, low tax compliance, and corrupt tax administrations. Thus, they adopted similar tax administration reform processes, revolving around the establishment of ARAs with similar mandates, priorities, and structures. However, despite the introduction of similar reform processes in their tax systems since 1990s, Tanzania and Uganda implemented their tax administration reforms differently, which resulted in different outcomes in tax performance and compliance among taxpayers.

Table 1. Country overview of Tanzania and Uganda, 1990

Country	Tanzania	Uganda
Politics		
Official name	United Republic of Tanzania	Republic of Uganda
Capital	Dar es Salaam	Kampala
Type	Republic	Republic
Independence	Tanganyika in 1961 (from UN trusteeship under British administration); Zanzibar in 1963 (from UK)[1]	In 1962 (from UK)
Executive branch	President and prime minister of the union, second vice president and president of Zanzibar, Cabinet	President, prime minister, three deputy prime ministers, Cabinet
Legislative branch	Unicameral National Assembly	Unicameral National Resistance Council
Judicial branch	Court of Appeal, High Court	Court of Appeal, High Court
Political parties	Only party Chama Cha Mapinduzi (CCM or Revolutionary Party)	Only party National Resistance Movement (NRM)
Economy		
GDP (billion, current US$)	4.259	4.304
GDP per capita (current US$)	200	320
GDP annual growth rate (%)	7.05	6.47
Inflation rate (annual %, consumer prices)	5.29	33.12
Exports (million, US$)	394 (FY89)	272 (FY 88)
Imports (million, US$)	1300 (FY89);	626 (FY 88)

[1] Tanganyika united with Zanzibar in 1964.

Sector composition (value added, % of GDP)	Agriculture 46; Industry 17.7; Service 36.4	Agriculture 56.6; Industry 11.1; Service 32.4
Net ODA received (billion, current US$)	1.163	0.66328
Net ODA received (% of GNI)	28.56	15.69
Society		
Total population	25,258,208	17,384,369
Population growth rate (%)	3.4	3.5
Life expectancy at birth (years)	49.98	45.06
Infant mortality rate (deaths/live births)	107/1,000	107/1,000
Total fertility rate (children born/woman)	7.1	7.4
Gross enrollment ratio, primary school (%)	69.58	70.55

(Source: CIA 1990; World Bank 2015)

III. Analytical framework

This study analyzes how tax administration reform affected tax performance and compliance in Tanzania and Uganda based on various economic, political and social aspects. The analytic framework of this study is based on the ideas of Brautigam (2008) and Levi (1988). Framework suggested by Brautigam is used to analyze the political economic backgrounds that underpin taxation in Tanzania and Uganda. However, this macro level framework does not cover the micro level aspects of the study, such as compliant attitudes of taxpayers that affect quasi-voluntary compliance. Thus, some of the ideas suggested by Levi are used to analyze the individual motivations behind taxpayers' compliance.

3.1. Framework for political economic background

Analytical framework by Brautigam (2008) suggests how the political economy influences the domestic revenue mobilization of a country. The following five aspects compose this framework. The first focus is on economic development and structural improvement. It explains how tax revenue increases with higher income level, additional tax handles such as expansion of foreign trade or discovery of oil wells, and new technology for collecting taxes. It is a standard economic approach to understanding taxation as an evolutionary process. As Burgess and Stern (1993, 774–5) say, "ability to tax is closely associated with administrative capability and this is likely to improve with economic development."

The second aspect is concerned with societal factors such as culture, trust, and tax morale. Government's ability to generate tax revenue relies on taxpayers' willingness to pay taxes. The willingness of taxpayers are not only affected by

detection and punishment, but also by other social factors such as sense of moral obligation, perceived fairness and trustworthiness of tax system, and potential benefit from paying taxes (Allingham and Sandmo 1972; Andreoni, Erard and Feinstein 1998; Frey and Feld 2002).

The third aspect emphasizes the role of threat. Modernization of tax administration and the rise of bureaucracy were response to threats such as wars. This approach is based on the historical experience of European countries, where strong military competition among the countries increasingly demanded for additional revenue generation by states. As steady and reliable revenue sources became more and more important, rulers started to professionalize tax administration, which further lead to professionalism in civil services. In other words, war stimulated the development of durable and competent bureaucracy (Tilly 1985).

The fourth aspect is about state capacity and the tax system, which are related to the political institutions of a country. Even in countries with similar levels of economic development, the structure, objectives, and effectiveness of tax systems vary. This variation can be explained by differences in political institutions. For instance, democratic institutions in Sweden, the United States, and Britain affected the relative bargaining power of interested parties for tax outcomes, the amount of information available to them, and their attention to certain kinds of taxes, thereby resulting in different tax systems (Steinmo 1996).

The last aspect focuses on the fiscal contract between the government and taxpayers, which is based on reciprocity. There is a conflict of interests between the government and taxpayers since the government wants to maximize revenue while taxpayers want to minimize their payment. These two distinguished preferences of the government and taxpayers provide incentives for the government to offer something in an exchange, such as representation or public goods and services. It is important to

note that these approaches are not excluded and are often employed simultaneously (Brautigam et al. 2008).

3.2. Rational choice of actors

Given the political economic background analyzed in the framework by Brautigam, governments seek for ways to reform tax administration in order to maximize net tax revenue. The study adopts some of Levi's ideas to analyze how the motivations for tax reform are formed and affect the compliance outcome. Levi begins the analysis with the assumption that all actors in the polity, including the policy makers and taxpayers, are rational and self-interested. These actors are assumed to have their own interests, which arise from and are backed by the power of institutions. While predatory rulers try to maximize the tax revenue, their ability is confined by their relative power, transaction costs, and the discount rates of each particular ruler. They invent and formalize revenue generation policies and institutions to maximize their interest while changing constraint conditions. Their interest might, but not necessarily, overlap with the general welfare of the public. Rulers try to create revenue system which maximizes the revenue collection of the state.

Meanwhile, most of taxpayers are assumed to be opportunistic, and will avoid tax payment if possible. It is costly to collect information about their activities and possessions. Therefore, the ruler has to devise policies to lower their transaction costs, including costs to measure, monitor, create, and enforce compliance. The cost to monitor the taxpayers' compliance and enforce compliance is not negligible. Rulers could depend on a repressive apparatus, but they are very expensive and often cause huge amounts of resentment. Therefore, rulers look for a way to create and maintain norms or ideologies on compliance that promote quasi-voluntary compliance. Levi

(1988, 69) points out that "to minimize the costs of enforcement and to maximize the output that can be taxed, rulers have to create quasi-voluntary compliance." Frohlich and Oppenheimer (1974, 59) argue that "even when the taxer is only interested in maximizing the profit of a tax operation, they will not specialize in either coercion or the supply of positively valued goods. They will supply some mixture of the two for each level of expenditure." Rulers pursue the "optimal mix" of threats and offers. The types and amounts of positive goods provided also have influence on compliance.

3.3. Factors affecting compliance

Compliance is in nature an "ever-present mix of norms, incentives, and sanctions" (Brautigam et al. 2008, 13). It implies that compliance comes not only from detection and punishment, but also from social norms and potential benefits for tax payments. Tax compliance is a strategic interaction between rulers and taxpayers. The measures to improve compliance generally include punishment to the non-compliant, providing incentives for the compliant, fair enforcement of taxation, delivery of public goods and services, and security and protection from external threats in return for tax payment. Tax administration reforms in developing countries have a significant influence on these four factors. These are closely related with factors affecting compliance suggested by a wide range of literature (OECD 2010; Fjeldstad et al. 2012; Ali et al. 2014). Taxpayers make decisions whether to comply with paying taxes based on a combination of strategic and normative considerations. They strategically consider the calculated probability of detection and punishment, and can be induced to cooperate by the provisions of certain incentives. Taxpayers also normatively consider social norms related to tax payment and potential benefits in return (Levi 1988; Brautigam et al. 2008). Table 2 summarizes the factors affecting compliance outcome.

Table 2. Factors affecting quasi-voluntary compliance

Type	Factors
Strategic	Coercion: monitoring, detection and punishment
	Incentives: tax exemptions and easy tax payment
Normative	Social factors: fairness and tax morale
	Commitment to providing benefits in return

(Source: Brautigam and Levi, modified by the author)

3.3.1. Coercion

Fear of coercion seems to enhance taxpayers' compliance. When the state does not have the power to enforce other's tax payments and punish the non-compliant, willingness to comply with taxes becomes weaker. Auditing and other monitoring devices make the threat of sanctions more effective. Auditing is the most important tool to monitor taxpayer compliance and deter evasion. However, the sole use of coercion is not that effective in enhancing quasi-voluntary compliance. Governments seek efficient levels of enforcement to deter law-breaking with low costs, while individual taxpayers calculate net utility from noncompliance. Rulers have to coordinate sanctions in a way in which the effectiveness of sanctions covers all people. Taxpayers are strategic actors who will cooperate only when they can expect that others will cooperate as well. In the end, "no one prefers to be a sucker" (Levi 1988, 53). However, the supply of economic deterrence alone is insufficient in explaining the sharp shift in noncompliance (Becker 1968; Stigler 1971; Posner 1983).

3.3.2. Incentives

Rulers can improve expected taxpayer compliance through the provision of selective incentives, the encouragement of conditional cooperation, and more general coordination. The most straightforward way to provide assurance that others will also

pay is to get them to pay. This solution to improve compliance includes the provision of selective incentives and the promotion of conditional or general coordination.

3.3.3. Social factors

Rulers can enhance compliance by affecting societal factors such as perceived fairness, trustworthiness of tax system, and sense of moral obligation. Demonstration of a fair tax system encourages compliance. All factors such as favoritism toward certain groups, public spending that taxpayers do not agree with, and failure to achieve comprehensive compliance can damage norms of fairness among taxpayers. This can result in a decline in compliance. The existence of people who successfully break the law discourages tax morale among taxpayers. In addition, taxpayers perceive the tax system as fair when they receive sufficient public goods and services in return for taxes, and when the burden of the tax payment is distributed in an equitable way.

3.3.4. Commitment to providing benefits

Without perceived gains, any rational actor will not even consider paying the potential cost of taxation. Throughout history, rulers have used events that demand cooperative action such as wars, the threat of war, massive poverty, and natural disasters to collect additional revenue. A more common cause for collecting tax revenue is to fund expensive and expansionary programs for national development. The existence of positive gains for taxpayers increases the probability of quasi-voluntary compliance without direct coercion. Rulers who want to enhance quasi-compliance have to provide public goods and services to the taxpayers.

3.4. Tax administration reform and state-building

Tax administration reform directly and indirectly affects performance and compliance. Tax administrations develop policies to maximize tax revenues within certain constraints, and the creation of quasi-voluntary compliance is required to make these policies into reality. The creation and maintenance of quasi-voluntary compliance is the key to the enforcement of law (Levi 1988). Tax revenue outcomes and voluntary compliance outcomes are interconnected in tax administration reform. Tax administration reform aims to improve the tax authority's capacity to enforce fair and equitable taxation, monitor compliance, detect and punish the non-compliant, and provide public goods and services in return for tax payment.

The outcome of tax administration reform directly relates to state-building. The broad hypothesis that “taxation builds states” is refined with the mechanisms that exist between the ruler’s need to generate the revenue, and creation and development of state institutions. In addition, an accountable relationship between the government and taxpayers can appear in part because accountability is useful for the government in reducing transaction costs, it makes the system look fairer, and it enhances the government’s connection with taxpayers. All of these factors contribute to the increase in tax revenue by the government. Quasi-voluntary tax compliance improves both the amount of tax revenue and the relationship between the government and taxpayers. These two factors support the process of state-building. Furthermore, as a country develops economically, the available resources to the government and taxpayers expand, and organizational structures of the governments improve over time. The governments choose to establish more sophisticated institutions to lower the cost of compliance and increase the revenue. These institutions include tax agencies and cover other parts of government related to a large array of public services. These institutions

form “the heart of governments’ bureaucratic evolution” (Brautigam et al. 2008, 13). They strengthen the state.

3.5. Adaptation in this study

The study adopts the ideas of Brautigam and Levi in order to examine tax administration reform and its outcomes in terms of tax performance and quasi-voluntary compliance in Tanzania and Uganda. Revenue outcomes and voluntary compliance outcomes are interconnected and are major parts of tax compliance outcomes (OECD 2014). Brautigam’s framework about the political economy that underpins taxation in a country is adopted in the study without significant modification. Meanwhile, Levi’s framework that explains the behavior of government and taxpayers in the reform process is introduced with modification.

Following Levi’s ideas, actors related to taxation such as policy makers, tax authorities, and taxpayers are assumed to be rational agents with their own independent interests. Since the focus of the study is tax administration reform, this study replaces “the ruler” in Levi’s model with tax administration in Tanzania and Uganda, mainly the revenue authorities TRA and URA. Levi explains that rulers act as the chief executives of the state whether they are principals or agents in polity. This predatory ruler does not have to be benevolent or democratically elected. Semi-autonomous revenue authorities like the TRA and URA share similarities with the concept of “ruler” as they both pursue the maximization of tax revenue under certain constraints such as monitoring and enforcement cost. They have incentives to promote compliance to maximize the net tax revenue. Compliance in this study refers to “quasi-voluntary compliance” that is affected by strategic and normative factors. Meanwhile, the concept of fiscal contract in taxation is not used in this study because it is hard to find explicit fiscal contract in

Tanzania and Uganda. However, the factors affecting compliance such as coercion, incentives, social factors, and provision of benefits are still relevant in these two countries even without explicit fiscal contracts.

3.6. Strength of the framework

The analytic framework adapted from the idea of Brautigam and Levi examines both political and economic aspect of tax reform. It demonstrates superiority to a solely economic model. Despite the importance of economic aspects in taxation, political-economic analysis solely relying on economics tends to simplify the sophisticated and wide aspects of revenue generation issues. Brautigam provides a comprehensive framework to examine the political economy's influence on taxation in Tanzania and Uganda. Levi suggests a useful model to combine structural constraints and individual behavior into one model. The model is more powerful than a purely macro or purely micro approach because understanding the complex reality of taxation requires an integrated approach that covers both the macro-state and the micro-taxpayer.

However, these approaches should be applied with caution because they are derived from specific historical experience and context from advanced capitalist countries in Europe and North America (Brewer 1989; North and Weingast 1989; Tilly 1990). Advanced capitalist countries from the past and developing countries in current times are different. Developed and developing countries significantly differ in their levels of development, dependence on resources, levels of inequality, and global pressures and influences (Brautigam et al. 2008). However, a growing number of researchers from developing countries point to the existence of similar processes that Brautigam suggests (Ross 2004; Hoffman and Gibson 2005; Timmons 2005; Gervasoni 2006; Brautigam 2008; OECD 2010; Prichard 2010; Prichard and Leonard 2010). In addition, even though Levi's case selection is from western history, the model can be

applied to non-western countries. For instance, a variant of this model was applied to explain state behavior in African countries by Bates (1987). Levi's cases, which cover a diverse set of cultures, norms, and institutions, affirm the generalizability and university of her argument.

3.7. Research questions

This study attempts to analyze tax administration reform in Tanzania and Uganda. The main questions that this study addresses are as follows.

(1) What are similarities and differences in tax administration reforms between Tanzania and Uganda?
(2) What were the outcome of tax administration reform in terms of tax performance and tax compliance and which aspects of the reforms led to different results in Tanzania and Uganda?
(3) How did the outcome of the reform contribute to the state-building of each country?

The purpose of the first question on tax administration reforms in Tanzania and Uganda is to figure out the different aspects of tax administration that were affected by the series of reforms applied over the past two decades. The second question addresses the outcome of tax administration reforms in terms of tax performance and quasi-voluntary compliance, based on the notion that one of the primary mandates of tax administration is to improve tax revenue and voluntary compliance. The third question further connects the outcome of tax administration reform with state-building. This study tries to figure out whether different outcome in tax administration reforms

contributed to the state-building of Tanzania and Uganda. Changes in tax performance and compliance from tax administration reform could have promoted the state-building processes in Tanzania and Uganda. The contribution of tax administration reform to state-building will be examined in terms of improvement in a state's capacity and the state-society relationship.

3.8. Research methodology

A qualitative method is used in this study to examine selected cases in depth and describe complex phenomena such as tax reform and tax compliance. It is important to describe the process and outcome of tax administration reform in terms of tax performance and compliance outcome in a rich, detailed way because they are situated and embedded in specific contexts. Another reason why qualitative analysis is used in this study is that data on the pre-reform periods of Tanzania and Uganda is not sufficient. Thus, it is hard to examine the direct changes caused by tax administration reform. In addition, it is difficult to precisely measure the quantitative impact of tax administration reform due to numerous exogenous factors exerting influence on taxation.

To analyze the outcome of tax administration reform in terms of tax performance and tax compliance, a comparative examination of tax administration reform in Tanzania and Uganda is given. Numerical indicators that describe the tax performance of each tax administration are demonstrated. These indicators are useful to understand the more direct outcomes of tax administration reform in these two countries. Then, the features of tax administration in each country are categorized by the factors that affected tax compliant attitudes in the two countries. Analytic framework adapted from Brautigam and Levi's model is used to categorize these factors. Some of the features in

tax administration, such as complex laws and regulations, are in common in both countries, while independence from outright interference and the stable functioning of revenue authority appear to be different. These different features explain why Tanzania shows higher tax compliance levels in general when compared to Uganda.

The overall assessment of tax compliance level is primarily based on the various attitudes of taxpayers toward taxation and the tax authority in Afrobarometer data. Compliant attitude towards taxation is used as an indicator for tax compliance in this study because the focus of the study is quasi-voluntary compliance, which is better reflected in compliant attitude than the mere data of tax collection per capita. With the support of previous research on the relevance of compliant attitude in measuring tax compliance, the study assumes that tax compliant attitude leads to actual tax compliance behavior. Researchers from social psychology also support that attitude can have a powerful influence on behavior (Ajzen and Fishbein 1977; Cochran and Mays 1993; Ali et al. 2014).

IV. Political economy of Tanzania and Uganda

4.1. Tanzania

4.1.1. Political economy and fiscal legacies

After independence from the UK in 1961, the United Republic of Tanzania was formed in 1964 by unifying mainland Tanganyika and isles of Zanzibar. The country has a history of political stability and a multiparty political system, even though one party, the Chama Cha Mapinduzi, has maintained dominance since the country gained independence (World Bank 2011). Tanzania embarked on an industrial transformation of its economy and rural development. During the initial ruling by socialist government 'Ujamaa' in the 1960s, social indicators in Tanzania improved, and significant advancement in building a nation-state was made (IMF 1999). However, oil shocks in the late 1970s and early 1980s initiated a serious economic downturn. The downturn of the Tanzanian economy was not fully recovered until the late 1990s. To overcome the downturn, a wide range of policy measures and economic liberalization processes were implemented in the mid 1990s. Tanzania also adopted a poverty reduction strategy supported by the Structural Adjustment Programmes of the IMF and the World Bank, and developed the Development Vision 2025, national plan for poverty reduction and human development as well as good governance and stability (AfDB 2011; World Bank 2011).

By the late 1990s, most of public sector reforms had performed well, and Tanzania's economy grew remarkably. Gross Domestic Product (GDP) of Tanzania grew remarkably between 2000 and 2008, averaging between 5% and 7%. The global economic crisis slowed down growth from 7.4% in 2008 to 6% in 2009. Tanzania went through significant structural change. The proportion of agriculture's contribution to

GDP became smaller as construction, mining, manufacturing, and services became the major sectors contributing to economic growth in Tanzania. In 2010, agriculture accounted for 26.6% of GDP while service accounted for 50% and industry accounted for 23% (CIA 2016). However, agriculture and a large informal sector dominated the economy, and the poverty rate still remained high in Tanzania (AfDB 2011; World Bank 2011).

4.1.2. Development financing mix

In development financing mix in Tanzania, the largest source of development financing, contributing an average of 19.4% of GDP, was exports of goods and services. The second largest source was private savings, contributing an average of 17.8% of GDP for the given period. The third largest source of development financing was domestic revenue including taxation. Foreign direct investment (FDI) also contributed at 3.4% of GDP on average. While domestic tax revenue has significantly increased since the mid-1990s, foreign aid has provided a critical resource for Tanzania's development. Except for a period in the 1980s and early 1900s, Tanzania was one of the biggest aid recipient countries in the East African Community (EAC). International development assistance amounted for 13.2% of the GDP between 1996 and 2007 and an estimated 34% of the entire budget. According to previous literature and key informants from the African Development Bank (2011), widespread external assistance could have hindered tax morale among Tanzanian elites. Fortunately, political leaders in Tanzania, especially Members of Parliament (MPs) have become more concerned about high aid dependency and excessive influence from external actors (AfDB 2011).

4.1.3. Political economy dynamics underpinning taxation

Analytical framework suggested by Brautigam (2008) presents how the political

economy influences the taxation of a country with five different focuses: economic development; societal factors; bureaucratic modernization; political institutions; the fiscal contract.

(1) Agrarian economic structure and high poverty level

The economy of Tanzania remains largely agrarian with high levels of poverty. However, expansion of industry and service sectors enhanced economic growth and led to increases in employment in the modern sectors and in urban areas. Moreover, the level of poverty moderately declined at the same time. As the Tanzanian economy grew, the scope of taxation considerably and steadily improved over the last 15 years, and this improvement is expected to be sustained in the future (AfDB 2011).

(2) An egalitarian culture with high trust but low tax morale[2]

Tanzania has a significantly egalitarian and camaraderie culture due to tradition and the remaining legacy of the socialist government 'Ujamaa' era. Members of Tanzanian society have high levels of trust. Due to this cultural background, corruption remained relatively low in the country. According to Transparency International, Tanzania scored 30 and ranked 117th out of 168 while Uganda scored 25 and ranked 139th out of 169 in the Corruption Perception Index. However, extensive foreign assistance caused the low level of tax morale among elites. A large majority of the elites in Tanzania often do not pay taxes on non-salary income. Moreover, growing reports of corruption of high-ranking government officials has undermined the tax morale (AfDB 2011).

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[2] Society with high "tax morale" has low levels of tax evasion and avoidance. Tax morale evolves only in a situation where most of people appreciate their obligation for sustaining state services and trust their leaders and government.

(3) State-building deviated from the normative

For a decade after independence, a robust revenue mobilization bureaucracy mutually set up by the defunct EAC (1967-1977) offered major benefits to Tanzania. However, the revenue administration system of Tanzania was severely disrupted by the collapse of the EAC in 1970s. Around that time, neither the development strategy nor the development financing mix of the Tanzania was exclusively based on the conventional ways of domestic resource mobilization.

In conventional terms, Tanzania went through only one war after its independence in 1961. However, Mwalimu Nyerere, the founding father of the country, actively attempted to place Tanzania on war footing after independence. Nyerere proclaimed total war against three development challenges: poverty, ignorance, and diseases (TDIP 2010). Successive governments in Tanzania also pursued a similar war footing. In mobilizing the resources for this war, Nyerere did not rely on Tanzanians. Rather, he sought for a unique and paradoxical overseas relationship. As a result, foreign countries, including traditional aid donor countries such Western European countries and emerging aid donor countries such as China, offered substantial resources for Tanzania's state-building. In this respect, Tanzania's state-building efforts appear to have been deviated from the normative. Instead of relying on its own citizens through domestic taxation, Tanzania's state-building was funded by external actors such as aid donor countries. High inflow of external resources tempts policymakers to make the easy choice not to develop effective taxation measures. The success of this strategy could underlie the low tax morale culture in Tanzania (AfDB 2011).

(4) Political support for a tax authority insulated from political interference

Establishment of the Tanzania Revenue Authority (TRA) in 1996 was "an early milestone event" for Tanzania's economic recovery. From the beginning, the TRA

provided technocratic instruments for tax mobilization, and the personnel management of the TRA was based on professionalism. After a few years, the TRA became a critical source for technocrats to spearhead in consolidating macroeconomic and fiscal reforms in Tanzania. The TRA provided fiscal policy advice and dispatched management experts to the Ministry of Finance. Therefore, a very close relationship was formed between the TRA and the Ministry of Finance at a technical level. More importantly, the TRA was designed to be a public organization, generally insulated from politics. The process of tax collection and allocation is "depoliticized" in Tanzania. Bureaucrats in tax agencies, donors, investors, and external consultants were basically given a free hand, while civil society and parliament were mostly excluded in these processes. Furthermore, executives controlled all of the "demand side" of the government institutions in Tanzania, which were not controlled by elected politicians. This reinforces the depoliticized aspect of TRA (Mukandala et al. 2005).

(5) No clear fiscal contract at present

Neither the state-building process nor the necessity of financing for development has so far contributed to creating an explicit and functioning fiscal contract in Tanzania. Over many years, the major source of tax revenue has been large taxpayers and international organizations. In 2010, 80% of tax revenue came from 400 large taxpayers, which account for 0.08% of total taxpayers (Fjeldstad and Heggstad 2011, 40). Large taxpayers mostly consist of privatized public companies and subsidiaries of international organizations. In addition, the IMF (2009) indicates that external development assistance accounted for 10% of GDP and almost 40% of total public expenditure in 2008/09. It implies that a large majority of citizens in Tanzania did not pay taxes and many of them were not coerced to do so. The government of Tanzania did not try to incorporate more taxpayers into the tax net, but instead chose to depend

on large taxpayers for collecting taxes. The way external donors measured the tax performance of developing countries underlies this behavior. Donor countries often emphasize tax revenue in GDP ratio in the measurement of tax performance. Therefore, widening the tax base was not a top priority of the government. Furthermore, the narrow tax base undermined the tax compliant attitudes in Tanzania (AfDB 2011). As a result, Fjeldstad et al. (2009) points out that there is no explicit fiscal contract between the government and taxpayers in place at present, even though a majority of Tanzanians are willing to engage in such contracts. Although public perception on taxation improved due to enhanced public services and less oppressive tax collection, the lack of fiscal contract could be a huge obstacle in increasing tax performance in Tanzania (AfDB 2011).

4.1.4. Fiscal governance drivers, results, and trajectory

Historically, the main internal driver for fiscal governance in Tanzania has been its historical socio-political predisposition for egalitarianism. Compared to the expansion of social services and macroeconomic reforms, domestic tax performance remained relatively low. Hence, in order to fill the gap between resource and needs, Tanzania continued to seek massive external resources. Consequently, donors became a more dominant driver of fiscal governance (Hyden 2005). Foreign investors have also emerged as significant influencers on fiscal governance in Tanzania over the last ten years. It is concerning that incentives and exemptions for these investors would undermine the maximization of revenue in corporate income tax (AfDB 2011).

Tanzania appears to show exponential growth in aggregate fiscal position and tax revenue collection in the medium to long term. Nonetheless, there are two main factors that constrain the tax effort of Tanzania. One factor is the elites' persistent resistance to the abolition of widespread tax exemptions, and the other is the danger of increasing

corruption of high-level government officials, which could ultimately spread to the TRA as well. However, current increase in the vigilance of Parliament and other monitoring agencies is expected to effectively mitigate this negative prospect.

There are also two motivations to keep and possibly improve Tanzania's tax effort in the future. First, Tanzania is equipped with political economy fundamentals, which function to keep up the momentum for economic growth and poverty reduction. Second, political leaders in Tanzania have created a national awareness of the risk of losing fiscal sovereignty due to the high dependency on foreign aid. Political leaders, especially Members of Parliament (MPs), have been paying more attention to the risk of high aid dependency and excessive influence of donors as of late. Due to this, the Ministry of Finance pledged to promote growth of domestic resource collection. Donors' decision to withhold US$ 220 million budget support also affected this decision (AfDB 2011).

4.2. Uganda

4.2.1. Political economy and fiscal legacies

Political turmoil and war defined Uganda for nearly 30 years after its independence in 1962. Economic growth was either dismal or negative in the intervenient fiscal years. In 1986, President Museveni from the National Resistance Movement (NRM) embarked on political and economic renewals and continued social-economic development. The NRM regime also adopted economic liberalization and Structural Adjustment Programmes (SAPs). Throughout the 1990s these policies were extended in exchange for development assistance from the Bretton Woods Institutions such as the IMF and the World Bank, and western donor countries (AFRODAD 2007). This pattern of macro-economic recovery, fiscal stability, and steady growth via the

support of external donor countries in the 1990s is a common feature of both Tanzania and Uganda. Politically, Uganda has progressed towards multi-party democracy despite the presence of one of the longest serving presidents in Africa. The increase in political competition and voting power contributed to the abolition of an oppressive and highly unpopular poll tax (Fjeldstad and Therkildsen 2008).

Uganda has experienced prudent macroeconomic management and structural reform. In the late 1980s, Uganda began its economic recovery from prolonged economic crisis and wars (IMF 2009). In spite of various exogenous shocks, the country showed an average of 7% GDP growth in the 1990s. It accelerated to over 8% from 2001 to 2008 (IMF 2011). Structural change was another significant feature of Uganda's economy during this time. The service sector outpaced agriculture and become the largest contributor to GDP. In 2009, the sector composition of GDP was 22.2% of agriculture, 25.1% of industry and 52.8% of services. The structure of the economies in Tanzania and Uganda are still quite similar, where agriculture remains as an important contributor to the economy, but the proportion of industry is bigger in Tanzania. The Ugandan economy highly depends on the subsistence of agriculture. Furthermore, there has been less focus on high-productivity manufacturing and limited investment in economic infrastructure over the past few years. Contribution of industry in Uganda's economy could have been larger if more investment in infrastructure had been made (Selassie 2008). Nevertheless, economic growth in Uganda pulled its large population out of poverty. The poverty rate declined from 56% in 1992/93 to 31% in 2005/06 and finally fell to 19.5% in 2012 (CIA 2016).

4.2.2. Development financing mix

Development financing of Uganda between 1996 and 2008 mainly consists of three big contributors: gross private savings, exports, and domestic revenue. Gross

private savings grew considerably during the post-Monterrey period following 2002. The liberation of the economy facilitated the growth of exports in Uganda. Domestic revenue excluding grants has remained a significant source of financing development in Uganda. Given that tax revenue took up an average of 93.4% of total domestic revenue, taxation appears to be critical for Uganda's development financing. The ODA was also an important source for financing development during this time, which contributed to an average of 10.7% of the GDP. The Ugandan government has been proactive in cooperating with international development organizations. Most of the funds from donors were assigned to complement domestic resources and debt to finance public expenditure. Uganda's fiscal deficit from absolute expansion of government budget and consequential external borrowing was alleviated from debt reliefs. High dependency on development assistance is a shared characteristic between Tanzania and Uganda. In addition, foreign direct investment (FDI) contributed to the development financing of Uganda to a limited extent (AfDB 2011).

4.2.3. Political economy dynamics underpinning taxation

One significant problem of Uganda is that its taxation clearly failed to keep up with the economic growth and tax reform effort over the decades. The underlying reasons could be found in the political economy in Uganda. The analysis of the impact of the political economy on taxation is based on Brautigam's (2008) analytical framework.

(1) Predominantly agrarian economic structure

Uganda has a predominantly agrarian driven economic structure. Although Uganda's economy grew steadily over the past two decades, it still highly depends on subsistence agriculture and less on manufacturing with high-productivity. While over

70% of population is directly or indirectly working in the agriculture sector, the contribution of agriculture to GDP is merely a bit over 20%. Directors in the IMF and the authorities of Uganda agree that "infrastructure bottlenecks and dependence on subsistence agriculture represent important impediments to growth" (IMF 2009, 2). Moreover, the DFID (2008) points out that the agricultural sector has not made any significant contribution to government revenue so far as it by nature is difficult to tax.

One of the major problems of Uganda's economy is limited investment in economic infrastructure. Only a few big businesses have made a large investment in Uganda even after the liberalization of economy. Most of the investments in physical infrastructure were limited to sectors such as delivery of social services and rehabilitation, while basic economic infrastructure such as transportation, energy, and agro-processing facilities lagged behind for a long time. Only in the recent years were large investments in mining, energy, and roads made (AfDB 2011).

(2) A culture of conflict and distrust with low tax morale

Uganda's traditional values have resisted the inflow of western culture, including consumerism. As a result, a number of wealthy Ugandans refused to fully join the modern monetary economy. This implies that many people in Uganda still often rely on informal institutions for business transactions. In addition, a long history of civil war and ethnic conflicts has left Uganda with "a culture of conflict and distrust." What is worse, the government of Uganda lost the trust of its citizens due to numerous cases of public expenditure scandals and high levels of corruption among public services. As a consequence, taxpayers in Uganda have very low tax morale (AfDB 2011).

(3) Bureaucratic modernization as a response to threat

In the years after independence, strong revenue mobilization bureaucracy made

by the now defunct EAC was a great help to Uganda as to Tanzania. Following the collapse of the EAC in the late 1970s, Uganda had difficulty developing its revenue administration system. The civil war that followed maintained this disruption. To finance the wars against both Kenya and Tanzania, the Amin regime attempted to ally with rich Arab and Islamic countries, as well as the Soviet Union. His regime was not interested in developing an effective tax system and bureaucracy. As a result, the subsequent temporary regimes and the NRM could not inherit any functioning tax administration or bureaucracy. After the NRM came into power, the government gave a high priority to domestic resource mobilization to maintain its operation as a modern state. This was an important mission for the NRM, especially as they were not democratically elected. The NRM had to expand the basic social services for a growing population in order to achieve regime legitimacy. Thus, bureaucratic modernization of the tax administration became a high priority of the NRM. This explains why Uganda became a pioneer in adopting an autonomous revenue authority to increase the domestic tax revenue (AfDB 2011).

(4) Declined political support for URA's autonomy

Political leaders in Uganda, including President Museveni, strongly supported the establishment of the Uganda Revenue Authority (URA) in 1991 (Fjeldstad 2005). In the beginning, they enthusiastically cooperated with the Bretton Woods Institutions and DFID to receive substantial technical support. The leadership of Uganda agreed that the URA needed to be insulated from political interference and filled with competent expatriates to ensure expertise within the agency. However, strong political support from the President turned out to be short-lived. Fatal distrust and conflict arose over time between the URA and high level political elites such as those in the Ministry of Finance (Robinson 2007). This distrust and friction worsened with the introduction

of the VAT in the mid-1990s. The new VAT brought out strong resistance from people, and political leaders suspected that the URA encouraged public resistance against the VAT. As a result, the President explicitly signaled to the Ministry of Finance to limit the mandate and autonomy of the URA (Therkildsen 2004; Fjeldstad 2005; Robinson 2007). Since then, the URA has become subject to strict supervision and patronage of political leadership.

Another significant point is that Ugandan political leaders impaired taxation performance through ad hoc decision on important tax policies and administration. Therefore, URA was forced to implement numerous tax incentives and exemptions which were imposed by political leaders who are outside of the formal tax policy decision making and administration process (AfDB 2011). A number of exemptions based on ad hoc decision, without specific rules or criteria, lacked specific deadlines or details of applicable targets (IMF 2009). In particular, the Ministry of Finance has granted various tax exemptions to private firms and non-governmental organizations on an ad hoc basis via statutory instruments. Companies selected on a case-by-case base enjoy exemptions from a wide range of taxes including import duties, corporate income tax, and domestic sales tax (Gauthier and Reinikka 2006). These statutory exemptions significantly complicate the work of the URA and widen opportunities for abuse and tax evasion (IMF 2011).

(5) No semblance of a fiscal contract

The opportunities for establishing "even a semblance of a fiscal contract" between the government and taxpayers have been strictly curtailed in Uganda for the following three reasons. First, the tax base in Uganda is very narrow, and a small number of private sector enterprises comprise a large proportion of taxpayers. The absence of a fiscal contract is also reflected in the public opposition to the launch of the

VAT in 1996. Unfortunately, there has been no sign of any solid initiatives for developing this contract. The second reason is the high dependence on external resources for government expenditure. Over the past two decades, development assistance from donors has contributed to about 20% to 50% of the public expenditure budget. The third reason is the widespread belief among taxpayers and potential taxpayers that the government failed to deliver value for money with tax revenue due to their corruption and mismanagement. The Private Sector Foundation of Uganda (2009) indicates that 85% of both taxpayers and professionals answered that they feel quite pessimistic about the use of revenue, and low compliance is the main cause of disappointing tax mobilization. There is a strong perception among taxpayers that public goods and services are mainly provided by external aid donors, and that the government wastes tax revenue. This perception contributes to the narrow tax base and low tax morale (AfDB 2011).

4.2.4. Fiscal governance drivers, results, and trajectory

The legitimacy of the NRM regime depends on development outcomes, rather than the democratic process. Therefore, President Museveni has made every effort for economic development to expand access to public services and modernize the economy. The efforts to strengthen domestic resource mobilization to meet the need for public service delivery have continued for a long time. However, at the same time, the President personally intervened in the impromptu decision to give extensive tax incentives and exemptions to future investors (Sseppuya 2005; Mwenda and Atuhaire 2006). The gap between domestic revenue and public expenditure persisted and allowed international development agencies to have a big impact on Uganda's fiscal governance. Therkildsen (2004, 76) argues that "donors' fingerprints on tax policy and administration are obviously numerous and deep." Donors' involvement in setting

revenue targets pressured the URA into focusing on the larger and known taxpayers in order to meet the revenue target before their set deadline. The URA conducted semi military operations in order to curb smuggling and tax evasion through the Anti-Smuggling Unit (ASU). Public resentment against the misbehavior of these units was deep. This shows how the effort to meet short term revenue target undermines the long term process of creating quasi-voluntary compliance (Ball et al. 2006).

Ayoki et al. (2008) also point out that high levels of aid discourage the government to fully utilize domestic measures for revenue generation such as taxation. African Peer Review Mechanism (2009) reports that Uganda's excessive reliance on external resources infringes on its sovereignty and autonomy of budgetary choices. Members of the Parliament of Uganda raised concern on this issue, and the government was finally prompted to reduce aid dependency and increase domestic resources. Meanwhile, the commercial production of oil is expected to significantly change Uganda's fiscal governance trajectory in the medium to long run. It seems obvious that oil revenue would greatly increase Uganda's domestic resources barring the unfortunate tragedy of so called "resource curse".

V. Tax administration reforms in Tanzania and Uganda

5.1. Sequence of tax administration reform

5.1.1. Tanzania

The fiscal crisis of Tanzania motivated a series of tax reforms in the 1990s. Based on the 'Presidential Commission on Taxation and Expenditure', Tanzania started to put a lot of effort into increasing the tax base and making collection tax collection more efficient (Fjeldstad 1995). In the beginning of the 1990s, Tanzanian tax reforms centered on modernization of the tax system. Then, the focus expanded to building the essential managerial and technical capacity within the TRA in order to increase the efficiency and effectiveness of the tax system administration (IMF 2003). Since its establishment, the TRA went through three waves of reforms, which focused on building institutions, improving the delivery of public services, and strengthening the tax authority. These reforms are described in successive TRA corporate plans. The first corporate plan was run from 1998/99 to 2002/03. The second of the corporate plans were implemented from 2003/04 to 2006/07, and the third continued from 2008/09 to 2012/13 (AfDB 2011).

Under the first wave from 1998/99 to 2002/03, Tanzania received massive financial support from external development partners such as European countries, the U.S., and the World Bank. The purpose of this support was to increase tax revenue and the capacity of tax system in Tanzania. The TRA succeeded in raising tax revenue and upgrading the tax system. The improvement in the tax system included the appointment of the Board of Directors and Management Team, establishment of a taxpayer identification number (TIN) system, implementation of ASYCUDA++ system, installment of the Large Taxpayers Department (LTD) in 2001 and creation of unified

tax appeals system. The LTD was established to specifically manage the 100 largest taxpayers in Tanzania (BMZ 2003, 27; AfDB 2011).

The second wave of reforms from 2003/04 to 2006/07 was also supported by external aid donors. However, instead of a project based approach, a pooled funding arrangement controlled by the TRA was adopted this time. The primary goal of the second reform was to achieve cost-effective tax collection, integration of TRA operations, and the provision of high quality and responsive customer services for taxpayers. The TRA tried to enhance tax compliance by fair, equitable, and transparent enforcement of tax laws. Various efforts were made to strengthen competence, motivation, integrity and accountability of the tax authorities.

The second wave of reforms achieved several accomplishments. First, the TRA contributed to the increase of revenue collection and led to a significant increase in the number of large taxpayers, up to a total of 370. The overall tax system was improved with the introduction of electronic tax payments and refunds system. The TRA initiated consultation with stakeholders through forums every quarter in 2004 and adopted new risk-based VAT refund measures (Child 2008). The introduction of the Balanced Scorecard (BSC) performance management system in 2006 increased the effectiveness and efficiency of the TRA, and also contributed to the TRA's high achievements. The TRA added 13,300 more people to the taxpayer registration by adopting the Block Management System (BMS) for physical identification and mapping of taxpayers (TRA 2008). The BMS contributed to better administration of small and medium taxpayers (Fjeldstad and Heggstad 2011).

The primary objectives of the third corporate plan were similar to those in the second corporate plan. The main achievements from the wave three reforms from 2008/9 to 2012/13 include: institutionalization of risk based operations in tax administration such as specialist audit capacity in certain sectors like construction and

cash transfer; self-assessment by large taxpayers, and risk assessment research for sector with high risk such as petroleum, wholesale, and retail; acquisition of the International Standards Organization (ISO) 9001:2000 system certification in 2008; operation of a compliant trader scheme on imports; launch of seven Tax Centres in the capital for taxpayer registration, assessment and examination of returns, and collection of tax revenue; completion of a second time release study about tax clearance process in 2009/10 (AfDB 2011). The strengthening of the auditing capacity of the tax administration here is noteworthy. A Tax Investigations Department supported various revenue departments in enforcement of tax laws by regularly investigating tax cases where significant amount of revenue were at stake (Fjeldstad et al. 2003).

5.1.2. Uganda

Uganda commenced a series of administrative reforms with the establishment of the URA. The focus of the reforms in the early years was to get rid of the corruption in the administration by screening staff and building the capacity of the URA (Fjeldstad 2005). In 2004/05, the URA began two stages of reform. The first stage consisted of structural and institutional reforms, and the second stage consisted of reforms centered around modernization. Post 2005, reforms revolved around the improvement of structure and staff integrity. First, structural reforms were focused on streamlining the URA's structure, which was considered top-heavy and hierarchical. The URA then continued its effort to enhance staff integrity and modernize tax authority. The URA set up the Integrity Enhancement Programme (IEP) that included an internal process to investigate reported wrongdoings, retraining of staff on ethics, and instituted a code of conduct. In 2006, the URA began the development of Modernisation Plan. This plan covered the period between 2006 and 2010, and was supported by various development partners such as China, Japan, the UK, Sweden, the IMF and the World Bank. This

program attempted to achieve several objectives: simplified, cost-effective and transparent processes; open and responsive client service; a highly skilled and motivated workforce for high quality service delivery; application of the ICT and other productivity tools; a safe and healthy working environment; introduction of analytical tools and other modern management techniques to enhance compliance and minimize waste of resource; and a corporate culture within URA that values service excellence (URA 2009).

Modernization reforms for Uganda's tax administration resulted in the reengineering of business processes in customs and domestic tax, and the operation of ASYCUDA++, RADDEX, and eTax system. The URA's corporate services were partly modernized, and new procedures and staff retraining were introduced. The URA also revised the staff code of conduct, and developed a whistle blowing policy in 2009 as a means to enhance integrity. A taxpayers' charter that clearly states standards of service was disseminated, publications on tax issues in multiple languages were offered in order to improve access to tax information, and tax clinics were operated in order to get feedback from taxpayers (AfDB 2011).

However, it is noteworthy that tax reforms in Uganda centered on administration reform. In other words, significant policy innovation and prescriptions were omitted from the reform process of Uganda. This is mainly because Uganda lacked comprehensive and in-depth analysis on its tax system and policy environment. Moreover, tax reforms in the URA were neither focused nor directed by specific performance outcomes such as strengthening enforcement or widening the tax base. The URA was highly interested in meeting revenue targets rather than considering non-revenue performance goals as well (Cawley and Zake 2010).

5.2. Tax policy reform

5.2.1. Tanzania

Fundamental reforms in the 1990s

Over the past three decades, Tanzania went through significant tax reforms, which consisted of two major waves of reform. The first was in the late-1980s, and the more important of the two in the 1990s. The Tanzanian case demonstrates that well-designed fiscal policy on tax revenue collection and expenditure is critical in implementing government priorities with fiscal sustainability. However, major tax reforms did not take place until the 1990s (IMF 2015).

Reform of the tax system in Tanzania began in 1989. Major tax policy changes include the simplification of the customs tariff structure in 1992 to curb tax evasion. The Tanzania Revenue Authority (TRA) was established in 1996. The VAT was launched in 1998 as a means of replacing the sales tax. Basic supplies such as food, crops, and livestock are exempted from the VAT. From 1990, the personal income tax rate was lowered from 40% to 30%, and the top marginal corporate tax rate was lowered from 35% to 30% (Osoro 1993). In 1996, the government installed a Task Force on Tax Reform. The Task Force consists of a wide range of stakeholders from government, firms, other private sectors, research centers, and civil society. Recommendations made by the Task Force were reviewed by Think Tank for Tax Reform.[3] The proposals accepted by the Think Tank became a key source of policy measures in the government budget (AfDB 2011). Furthermore, large taxpayers were increasingly taken to the official system. Their demands were reflected in the revision of tax laws through organizations such as the Tanzania Chamber of Commerce,

[3] This Think Tank is composed of high level delegates from both public and private sector and chaired by the Minister for Finance.

Industry and Agriculture, and the Confederation of Tanzanian Industries (Rakner 2001; Luoga 2002).

Major reforms in the 2000s

Further tax policy changes were made between 2000 and 2008. One of them was the proclamation of a new Income Tax Act in 2004 to broaden the tax base. Major changes include the introduction of self-assessment and critical anti-avoidance measures. Heavy interest charges and penalties were imposed for compliance failures and offences. The Income Tax Act went through more amendments to widen the tax base and lower the tax burden. A concessionary corporate tax rate was introduced to encourage more firms to obtain public ownership in 2005/06, and the marginal personal income tax rate was lowered in 2006/07. Tanzania made various policy changes to the VAT regime. Overseas services were excluded from zero-rating to increase revenue, and the VAT registration threshold was increased to cut down on the compliance cost. The government also revised customs policies and administration (AfDB 2011).

5.2.2. Uganda

Fundamental reforms in the 1990s

After the legislation of the first Income Tax Decree in 1974, no major changes were made until the 1990s when the Ugandan government started major tax reform. One of the major changes to the tax system was the introduction of the VAT with the phasing out of the Sales Tax and Commercial Transaction Levy in 1996, despite popular resistance. Uganda was a forerunner among the EAC in terms of its introducing of the VAT (AfDB 2011). The new VAT system was introduced because it was easier to understand and interpret, and accordingly it would lead to improvement

in tax compliance and transparency. However, basic goods and services are exempted from the VAT (IMF 1999). Major changes to income tax were made with the promulgation of a new Income Tax Act in 1997. Its purpose was to levy a tax on a residence basis, ensure simplicity, and encourage a flat tax rate scale (Holmes 2006). Some of tax holidays and exemptions, especially those for public organizations and parastatals, were eliminated. Uganda also started to tax capital gains from certain business transactions and streamlined the withholding tax system (IMF 1999). Continuous requests from the business sector resulted in the establishment of a Tax Appeals Tribunal within the URA in 1998. However, it only accepted complaints and policy questions from businesses in written form (Rakner and Gloppen 2003). With the abolition of export taxes, tariff reform was implemented to foster trade (Cawley and Zake 2010). The main objective of the tax policy reform in customs duties was the simplification of the tax structure and the phasing out of numerous exemptions and deductions (Fjeldstad et al. 2003).

Major reforms in the 2000s

Critical policy changes in the 2000s were mainly related to the VAT and income tax. The following reforms were conducted under the VAT regime. Starting in 2002, it was required that the government makes a contract with suppliers which were registered for the VAT regime in order to lessen revenue loss from tax evasion. In 2005, the standard rate of the VAT was raised to 18% in accordance with the government's deliberate policy to increase the share of tax revenue in the national budget. In the following years, the government zero rated the VAT for necessary goods such as alternate energy sources and medical supplies in order to increase the accessibility of those goods. In 2007/08, the government provided non-compliant taxpayers with an amnesty on penalties and interest for principal taxes. These taxpayers were requested

to disclose voluntarily and pay the taxes by the end of 2007. From 2003, the government started to provide various incentives, such as duty exemptions on raw materials and inputs for manufacturing, and ten-year corporation tax holidays, to the companies running in export processing zones. In addition, the tax amnesty of 2007/08 was expanded to income tax. Uganda's policy and administrative changes in customs have been led by the EAC Customs Management Act of 2004, as is in Tanzania. This act supported the development of common external tariffs and the abolition of internal tariffs (AfDB 2011).

5.3. Institutional reform

5.3.1. Establishment of semi-autonomous revenue authority

Since the early 1990s, a number of sub-Saharan countries introduced semi-autonomous revenue authority (ARAs) as one of their major tax administration reforms. Key features of ARAs are summarized by autonomy from the central government. ARAs have an identity as a single-purpose agency for taxation and independence from public sector rules in terms of personnel and management. Autonomy of revenue authority in Tanzania and Uganda was mainly focused on managerial autonomy rather than political autonomy (Fjeldstad and Moore 2009). The objectives of the establishment of semi-autonomous revenue authority were to create an effective tax administration in order to increase tax revenue and promote tax compliance. Some claim that the establishment of ARAs contributed to better performance of tax administration in developing countries, while others argue that the reforms that built ARAs did not have a significant effect on revenue increase. However, there is a certain level of agreement that the arrival of ARAs contributed to the enhancement of the potential for government to increase tax revenue by facilitating reform in tax

administration and other parts of governments. Despite the diversity of revenue authorities, one of the main functions of revenue authorities is the promotion of quasi-voluntary tax compliance. Revenue authorities guide the taxpayers' perceptions of the tax administration by improving the quality of tax services, detecting noncompliance effectively, and treating taxpayers fairly (Fjeldstad 2003, 2007; Taliercio 2004; Kidd and Crandall 2006).

5.3.2. Tanzania

The Tanzania Revenue Authority (TRA) was established in 1996. Operation of the TRA is funded by annual budget allocations appropriated by Parliament. The TRA consists of the head, Commissioner General, Board of Directors, and two committees including a Standing Committee and an Audit Committee. The Commissioner General is directly appointed by the President of Tanzania, which provides leverage to operate the TRA independently from various political pressures (Fjeldstad et al. 2003). The TRA's functions are governed by a Commissioner, and its supporting functions are managed by Directors. Functional division of the TRA is demonstrated in Table 3. Overall responsibility of the TRA is given to the Minister of Finance and Economic Affairs. The TRA has a more favorable relationship with its principal, the Ministry of Finance, than that of the URA. The accountability relationship between the Board of TRA and the Ministry of Finance has functioned particularly effectively from the launch of the TRA in 1996 (Clarke and Wood 2001). The TRA is present in all of the 23 administrative districts and has a tax training center, the Institute of Tax Administration, which provides various courses on tax issues (AfDB 2011).

Table 3. Functional division of TRA

Revenue functions	Support functions
Domestic revenue Large taxpayers Customs and excise Tax investigations	Internal audit Legal services Taxpayer services and education ICT Finance and human resources and administration

(Source: AfDB 2011, made by the author)

Among its over 3000 staff members, more than half worked in the departments of domestic revenue (55%) and customs and excise (30%). Unlike typical governmental organizations, the TRA is allowed to pay its staff competitive salaries and has followed the recommendations of bi-annual independent salary surveys (TRA 2008). From the mid-2000s, the TRA guided its ICT-based modernization plans by developing an information systems policy and strategies. The TRA adopted the information systems for domestic revenue, customs and finances, and human resource management (AfDB 2011).

5.3.3. Uganda

The Uganda Revenue authority (URA) was one of the first revenue authorities in Africa. The establishment of the URA was an attempt to achieve better coordinated tax administration and increase tax revenue by integrating central government taxes under one management (Ayoki 2008). A commissioner General leads the URA and has to report to the Board of Directors. The Board of Directors is the policy making body of the URA which generally supervises the URA's responsibility. The board of Directors of the URA is held responsible by the Ministry of Finance, which determines annual revenue targets for the URA. Its financial management was required to be appropriated

by Parliament (URA 2016). The general institutional structure and functions of the TRA and URA appear quite similar.

After the restructuring exercise in 2004, the URA's daily operations were assigned to six departments: the Commissioner General's office in charge of executive control and management of research and planning, and corporate and public affairs; Board and legal affairs; registration, audit, assessment, domestic revenues collection and accounting; international trade taxes collection and accounting; the provision of various corporate services; and internal audit and tax investigations. The URA also runs a training school which provides technical and ICT related courses (AfDB 2011). As a semi-autonomous organization, the URA has freedom to pay its staff competitive salaries. During the initial years after its establishment, the URA offered substantial salary raise to its staff. The salary of the URA staff was higher compared to most public sector employees (Therkildsen 2004). However, substantial increase in payment to managerial staff has stopped starting from the mid-2000s. Moreover, the government intervened in the operation and recruitment process of the URA (Soest 2008).

'Tax modernization initiative' has directed the development of tax administration in the URA. Uganda introduced "A bespoke developed Integrated Tax Administration System (eTax)" in the Domestic Tax Revenue Department, which is charge of all taxes and non-tax revenues collected by the URA. The eTax system lately has widened to cover electronic filing and payments as well. The URA adopted technical tools for better management of tax data such as an automated system for customs data. The URA has also recently opened a call center to answer any questions regarding the URA's work (URA 2016).

VI. Tax performance in Tanzania and Uganda

This chapter describes the performance of the tax administrations of Tanzania and Uganda. Numerical indicators on tax revenue and administrative performance are given to demonstrate how tax administration reform has affected tax performance in Tanzania and Uganda. Tax performance outcomes show visible achievement of the tax administration reforms. Tax performance outcome and quasi-voluntary compliance are in fact interconnected. Both of them are major parts of tax reform outcomes. Hence, tax performance outcome is useful in understanding how tax administration reforms have contributed to different tax compliance levels in Tanzania and Uganda.

6.1. Tax revenue

Neither the TRA nor the URA sustained initial success by the mid-2000s. Even though the efficiency of taxation was generally improved due to more efficient administration and greater compliance from taxpayers in the formal sector, the amount of tax revenue in GDP demonstrates a mixed picture (Rakner and Gloppen 2003). In both countries, an increase in corruption contributed to the stagnation or decline in tax revenue. This corruption resulted from the erosion of the autonomy of the tax administration due to political interference, the distortion in incentive scheme for tax officers, and cultural connivance for corruption (Fjeldstad et al. 2003). The tax to GDP ratio in Tanzania increased from 9.7% in 1996 to 10.4% in 1997 after the establishment of the TRA, but this ratio soon stagnated. Uganda achieved a steady increase in tax collection for several years after the establishment of the URA in 1991. However, Uganda also showed stagnation in tax to GDP ratio in the late 1990s.

However, in the late 2000s, TRA started to revive revenue performance while the

URA was still in stagnation. Tanzania's tax to GDP ratio began to recover from 2002, and continued to increase after then. In 2008, the tax to GDP ratio reached 15% (IMF 2004). On the other hand, the tax to GDP ratio in Uganda went through ups and downs, ranging from 9.9% to 11.4% over the following ten years since 1996. In 2010, the tax to GDP ratio was only 11.8% in Uganda. It is concluded that the recovery of tax revenue in the 2000's did not occur in Uganda, unlike in Tanzania. Changes in tax revenue as a percentage of GDP in Tanzania and Uganda are presented in Table 4 and Figure 1. Although the exact figures vary across researchers and organizations, the figures provided by Mansour (2014) capture the general trend of the tax to GDP ratio well.

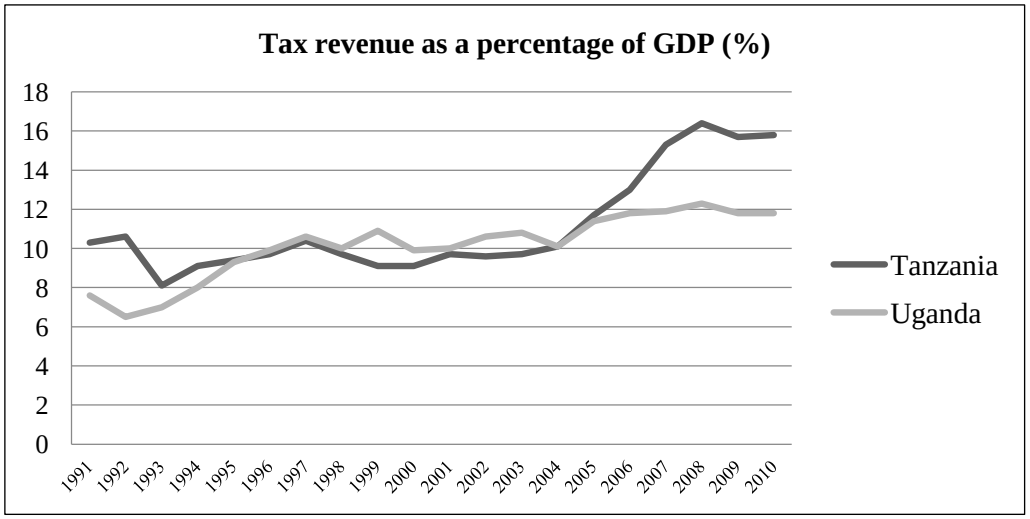
Table 4. Tax revenue as a percentage of GDP, 1991-2010

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Tanzania	10.3	10.6	8.1	9.1	9.4	9.7	10.4	9.7	9.1	9.1
Uganda	7.6	6.5	7.0	8.0	9.3	9.9	10.6	10.0	10.9	9.9
Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Tanzania	9.7	9.6	9.7	10.1	11.7	13.0	15.3	16.4	15.7	15.8
Uganda	10.0	10.6	10.8	10.1	11.4	11.8	11.9	12.3	11.8	11.8

(Source: Mansour 2014[4])

[4] The data is based on the IMF Government Finance Statistics and then completed and checked against various IMF staff reports and statistical appendices produced by IMF. The data source for the IMF staff reports is the Ministry of Finance of IMF member countries.

Figure 1. Tax revenue as a percentage of GDP, 1991-2010



(Source: Mansour 2014)

6.1.1. Tanzania

Since the establishment of the TRA in 1996, tax revenue in as a part of the GDP was hovering around 10% until the mid-2000s. However, tax revenue as a percentage of GDP rose to over 15% by 2007. This growth in tax revenue is attributed to extensive reforms to broaden the tax base from 2003/04 to 2006/07. The best performing tax in Tanzania over the 2000s was the VAT, with an annual growth rate of 22.9%. Lifting the threshold for VAT registration increased tax collection, as more traders declared their revenue to remain registered in the VAT. The second largest contributor to domestic tax collection was the income tax, which increased at an annual rate of 22.3%. With a booming macro-economic environment, both tax policy and administration reforms contributed to the improvement of tax performance. More efficient tax administration, increases in salary for public officials, and expanded coverage of large taxpayers made a key contribution to revenue growth (IMF 2004). Nonetheless, extensive tax

exemptions caused substantial revenue loss, which most likely explains the majority of the tax gap in Tanzania. Fiscal corruption is the main cause of this disappointing outcome (Ndulu et al. 2007; AfDB 2011).

Tanzania's efforts to find more reliable sources for national development other than foreign aid are reflected in the increase of domestic revenue in Tanzania. However, public spending grew faster than revenue growth, accounting for 31.2% of GDP in 2011/12 (IMF 2000; IMF 2012). Nevertheless, Tanzania's ongoing drive to achieve fiscal self-sufficiency holds many possibilities. The Tanzanian government is attempting to have more predictable and stable funds for development programs and projects. There is a chance that the government has more incentive to have conversations with the local electorate and enhance accountability. Taxpayers can try to increase their leverage in dialogue with the government based on their enhanced knowledge of taxes. These efforts could be helpful in improving tax revenue and the relationship between the government and taxpayers (Aiko 2013).

6.1.2. Uganda

Tax revenue as a percentage of GDP in Uganda was 7.6% in 1991 when the URA was established. Except in 1992, Uganda has achieved a steady improvement in the tax to GDP ratio since 1991. A series of tax reforms including administrative reform, the introduction of the VAT, and a new income tax were major contributors to the remarkable increases in tax revenue during the 1990s. Tax revenue grew from 7% of GDP in the early 1990s to 11% by 1999.[5] However, the ratio has remained stagnant since 1995. This implies that the tax performance of Uganda reached a plateau before achieving fiscal sustainability (Therkildsen 2002). Tax revenue reached merely 11.8%

[5] Ayoki et al. (2013) argues that Uganda's tax revenue in GDP in 1998/99 is 13%.

of GDP in 2010.

Uganda is still heavily dependent on revenue from trade taxes such as import and excise taxes. Even though the share of revenue from customs and excise of total domestic revenue dropped to 36% in 2007/08, they are still the largest contributors to domestic revenue. Inland revenue such as income taxes are the second biggest contributor to the total revenue. The VAT revenue is growing due to administrative improvement and the entry of large taxpayers such as international telecommunications into the market. However, the expansion of exempt or zero rating items are undermining the effort to widen the VAT tax base (Cawley and Zake 2010). The government also provided tax amnesty in 2007/08. This encouraged the registration of new taxpayers and some revenue gain from voluntary disclosures. In 2008/09, the Ugandan government proposed to write off arrears of duty and tax to encourage taxpayers to restart with a clean slate and increase voluntary compliance. Most of the arrears could not be recovered anyway because the government either failed to find the taxpayers or the supporting documents (The Republic of Uganda 2008).

The disappointing growth of tax revenue as a percentage of GDP in Uganda has several explanations. First, prevailing tax evasion in Uganda seriously constrained the URA's ability to collect taxes. Uganda's average annual revenue loss from the evasion caused by trade mis-invoicing between 2002 and 2011 is around US$ 243 million, accounting for 12.7% of total government revenue. Meanwhile, Tanzania's average annual revenue loss from the mis-invoicing is around US$ 248 million, accounting for 7.4% of total revenue (Baker et al. 2014). Second, the erosion of the URA's autonomy and defects in its governance slowed the growth of tax revenue. Since the mid-1990s, the URA became increasingly vulnerable to political interference. Criticism toward the URA by high level political figures undermined the credibility of the tax administration (Therkildsen 2002). The growth rate of tax revenue flattened while corruption in the

URA sharply increased (Robinson 2007). Uganda lacked comprehensive and in-depth analysis on its tax system and policy environment. Lastly, a large proportion of the population of the informal sector remained outside of the tax net. The tax exemptions given to business owners increased over time. Widespread smuggling also causes leakage in tax collection (Cawley and Zake 2010).

6.2. Administrative performance

Tax administration reforms in Tanzania and Uganda have affected the effectiveness and efficiency of their tax administrations. Effectiveness is related to how predictable, transparent, and fair the tax systems are. Efficiency is related to administrative costs for collecting different kinds of taxes, enforcing tax laws, and the costs of taxpayers in complying with taxes (Lledo et al. 2004). This chapter provides a comparative analysis of performance effectiveness, performance productivity, performance efficiency, performance equity, and allocative efficiency in Tanzania and Uganda. These indicators are referred to as benchmarks for tax administration.

6.2.1. Performance effectiveness

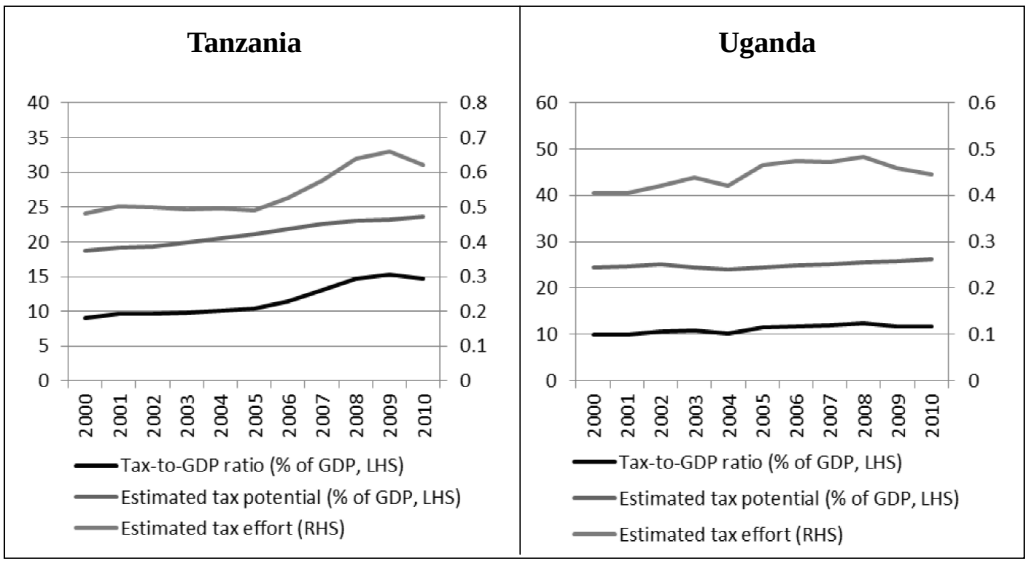
Estimates of the tax effort and tax gap can be used to understand performance effectiveness. The tax effort of Tanzania showed a remarkable improvement from a 46.5% in 2001 to 71.6% in 2008. The tax gap was narrowed down to 5.9% of the GDP (AfDB 2011, 37). The TRA was quite successful in closing the gap between the official tax ratio and the realized ratio in the 2000s. The gap was around 5% of the GDP in the late 1990s, but it declined to 2.4% in the early 2000s (Levin 2005, 29). The URA's tax effort and tax gap also gradually improved. Between 2001 and 2005, Uganda raised tax effort by 6 percentage points and narrowed the tax gap to 7.8% of the GDP. In 2005,

the URA scored 60.3% in tax effort, which is higher than in Tanzania (54.4%). The URA has collected feedback on its performance to enhance the effectiveness of tax administration, especially regarding service delivery and staff integrity. However, the misbehavior of URA staff and tax evasion still remain major problems in tax collection (AfDB 2011; RDC 2009).

Langford and Ohlenburg (2016) provide an interesting comparison between Tanzania and Uganda's tax potential and tax efforts throughout the 2000s. Tax effort is defined as "the extent to which actual tax revenue reaches estimated capacity" (Langford and Ohlenburg 2016, 6). Policy choices and inefficiencies in collection affect the tax effort of a country. Tanzania achieved a significant improvement in tax to GDP ratio over the 2000s. This increase is attributed to the increase in tax potential and tax effort of Tanzania. These two factors contributed to the increase in tax revenue almost equally. On the other hand, the tax to GDP ratio of Uganda increased only marginally over the 2000s. This is due to a flat trend in tax potential and only a small increase in tax effort. In 2010, with the headline specification, the tax effort of Tanzania was 0.62 while in Uganda it was 0.45. With Mundlak specification, the tax effort of Tanzania is 0.67 while that of Uganda is 0.51. Regardless of specifications, Tanzania shows higher tax effort than Uganda. Figure 2 describes the trends in the tax performances of Tanzania and Uganda from 2000 to 2010. The lines from the top indicate the tax effort, tax potential and tax to GDP ratio of each country in that order.[6]

[6] Estimates are from the headline specification (I). Data on tax to GDP is from the ICTD GRD and exclude revenues from natural resources.

Figure 2. Tax to GDP ratio, estimated tax potential and effort in Tanzania and Uganda, 2000-2010



(Source: Langford and Ohlenburg 2016)

6.2.2. Performance productivity

Performance productivity is composed of Value Added Tax Gross Compliance Ratio (VATGCR), Corporate Income Tax Productivity (CITPROD), and Personal Income Tax Productivity (PITPTOD). These indicators measure tax revenue performance. They represent how well a certain tax produces revenue, given the tax rate structure. In 2008/09, Tanzania and Uganda both show a low level of Value Added Tax Gross Compliance Ratio (VATGCR) of 27.0 and 26.5 respectively. These scores are lower than their previous scores in 2007/2008 due to various tax exemptions (AfDB 2011). However, it is observed that Tanzania's VATGCR grew significantly over time and remained higher than that of Uganda at all times. The VATGCR of Tanzania in 2010/2011 is 35.2 while that of Uganda is 16.4. Although the gap of

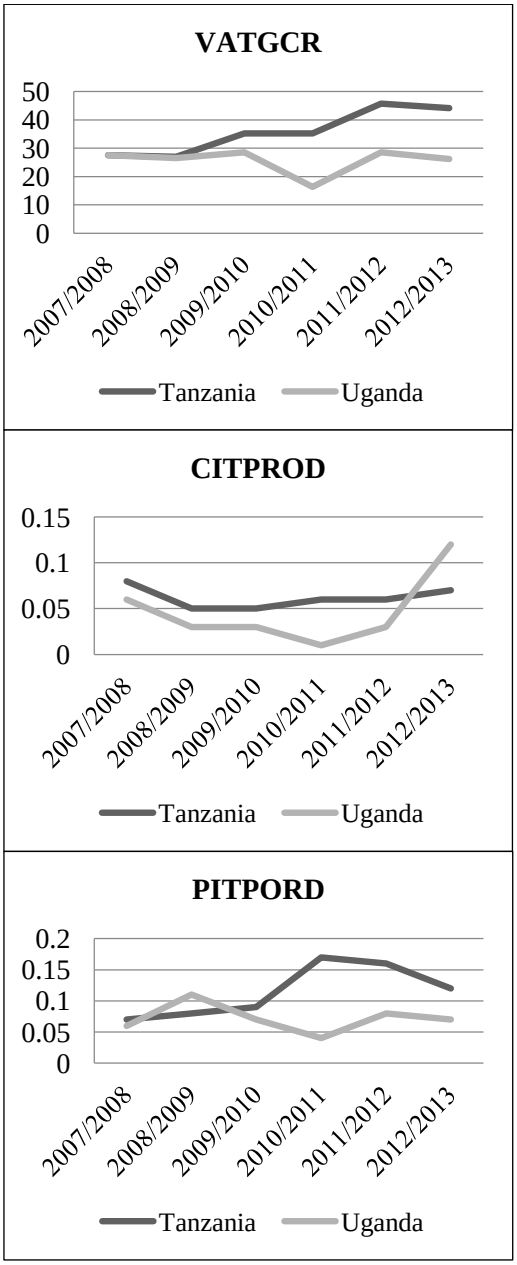
Corporate Income Tax Productivity (CITPROD) between the two countries is not large, Tanzania's score continued to be slightly higher, except in 2012/2013. In 2010/2011, Tanzania's CITPROD was 0.06 while Uganda's CITPROD was 0.01. However, it is noteworthy that the CITPROD of Uganda doubled over five years. In terms of Personal Income Tax Productivity (PITPTOD), the gap between Tanzania and Uganda grew larger over time. By 2010/11, the PITPORD of Tanzania soared up to 0.17 while that of Uganda dropped to 0.04. The PITPORD of Tanzania stayed at almost twice the level of Uganda over the following years. Table 5 and Figure 3 on VATGCR, CITPROD, and PITPTOD suggest that the taxation was more efficient in generating revenue in Tanzania than Uganda from 2007/08 to 2012/13. This at least partly reflects a higher level of voluntary compliance among taxpayers in Tanzania (AfDB 2011; USAID 2013).

Table 5. Comparison of VATGCR, CITPROD, and PITPROD in Tanzania and Uganda, 2007/08-2012/2013

Year	Country	VATGCR	CITPROD	PITPROD
2012/2013	Tanzania	44.2	0.07	0.12
	Uganda	26.2	0.12	0.07
2011/2012	Tanzania	45.7	0.06	0.16
	Uganda	28.6	0.03	0.08
2010/2011	Tanzania	35.2	0.06	0.17
	Uganda	16.4	0.01	0.04
2009/2010	Tanzania	35.2	0.06	0.09
	Uganda	28.6	0.03	0.07
2008/2009	Tanzania	27.0	0.05	0.08
	Uganda	26.5	0.03	0.11
2007/2008	Tanzania	38.25	0.08	0.07
	Uganda	27.53	0.06	0.06

(Source: USAID Collecting Taxes Data base 2013)

Figure 3. Comparison of VATGCR, CITPROD, and PITPROD in Tanzania and Uganda, 2007/08-2012/2013



(Source: USAID Collecting Taxes Data base 2013)

6.2.3 Performance efficiency

Performance efficiency consists of the cost of collection, the ease of paying taxes, and the management of tax arrears. In Tanzania, the average cost of tax collection as a percentage of total revenue was 3% from 2003/04 to 2007/08. Over the years, these administrative costs have declined. The largest proportion of the expenditure is personnel remuneration, but the number of tax staff in the population ratio is still lower than the sub-Saharan average. In Uganda, the average cost of tax collection as a percentage of tax revenue was 3.4% between 1995/96 and 2007/08, which was quite similar to Tanzania. The share of costs declined quite gradually since 1995/96, except in 2003/04, while the absolute cost grew at 15.1% on average every year. Regarding the ease of paying taxes, Tanzania was ranked 131st in 'ease of doing business' and 120th in 'paying taxes' out of 183 countries in 2010. 48 tax payments are required for a company every year in Tanzania, which is higher than the sub-Saharan average of 37.7. In terms of the ease of paying taxes, Uganda was ranked 61st out of 183 countries in 2010. In 2010, a firm was made to make 32 payments a year in Uganda (IFC and World Bank 2009; World Bank and PwC 2009). The TRA has a fairly proactive attitude in collecting tax debt. The Large Taxpayer Department and Domestic Revenue Department of the TRA collected 100% and 68% respectively of the total tax arrears in 2008. According to the URA, tax arrears increased by 439.8% between 2006 and 2007. In 2006/07, the government wrote off UShs 120 billion worth of tax arrears. Still, tax arrears accrued up to 4.8% of total revenue by the end of 2007/08 (AfDB 2011).

6.2.4. Performance equity

Performance equity represents the fairness of taxation. Tanzania has more progressive income tax rates for personal income tax (PIT) compared to other countries in the region. PIT rates range between 14% and 30%. Tanzania increased the lowest

PIT threshold and cut down on the lowest marginal tax rate. However, low income earners are obligated to pay the VAT and excise duty for tobacco and alcohol. Taxation in Uganda appears to be less progressive when compared to Tanzania. Pay-as-you-earn tax (PAYE), a relatively progressive tax, is mostly imposed on households in the capital. PAYE rates did not fully reflect inflationary effect on wages. Stagnation of these rates is unfavorable to low income earners (Matovu et al. 2009; Sennoga et al. 2009). Furthermore, the progressivity of income tax is limited in Uganda. This is because the tax rates are set up progressively at a relatively low threshold, and have a flat rate of 30% after the threshold. Low income earners are also burdened with the VAT and excise duties.

The total tax rate on profit is 45.2% in Tanzania and 35.7% in Uganda. It is significantly lower than the overall average of sub-Saharan African countries (67.5%) and the average of OECD countries (44.5%). Another indicator that shows the tax burden for companies is the time taken to comply with primary taxes. In 2010, the time taken for companies to comply with taxes in Tanzania is 172 hours while that of Uganda is 161 hours. This is a lot lower than the average of sub-Saharan countries, which is 306 hours. These indicators demonstrate that corporate taxpayers in Uganda have a relatively lower tax burden than in Tanzania (World Bank 2010).

6.2.5. Allocative efficiency

Allocative efficiency is defined as an economic efficiency, where the economy has an optimal distribution of goods and services[7] (Pettinger 2012; Boundless 2016). Tax incentives and exemptions are closely related to the allocative efficiency of tax

[7] Allocative efficiency is more precisely defined as an output level where the price equals the Marginal Cost (MC) of production. It is also known as a deadweight loss or excess burden.

administration. A moderate tax rate with a broad tax base and few exemptions is always better in terms of efficiency than a high tax rate with numerous exemptions (Brondolo et al. 2008). According to the TRA, the tax effort in Tanzania could have been significantly improved if widespread exemptions, accounting for about 20% of the entire tax revenue, had been eliminated. It is estimated that Tanzania lost US$ 1.23 billion, or 6% of its GDP due to tax exemptions in 2008. Under the Tanzania Investment Act, the Tanzania Investment Centre provides investors various exemptions and incentives on import duty and the VAT. However, these incentives turned out to be less effective in attracting foreign investment, but instead became a source of distortion and a cause for decline in tax revenue (IMF 2008). In Uganda, corporate tax collection declined in the 1990s as the investment code was abandoned with the depreciation of currency and tax allowances. In addition, various exemptions such as tax holidays were granted over the years. Main informants from AfDB (2011) indicated that Uganda might be losing at least 2% of its GDP from such tax incentives and exemptions.

VII. Tax compliance in Tanzania and Uganda

Improvement in tax administration is positively related to a higher level of tax compliance. Effective, efficient, and fair taxation encourages taxpayers to comply with taxes voluntarily. Further, the extent of compliance has a large influence on tax performance. Tax performance and compliance have a mutually beneficial effect (OECD 2014; IMF 2015). The following chapters compare the different quasi-voluntary compliance outcomes of Tanzania and Uganda and examine how tax administration reform in each country resulted in those outcomes.

7.1. Measurement of tax compliance

To identify the overall outcomes of tax compliance in Tanzania and Uganda, the results from Afrobarometer[8] survey are used in this study. As a measure of tax compliance, various survey questions on tax compliant attitudes, support for the mandate of tax authorities, paying taxes for national development, perceived non-compliance, transparency and accessibility of the tax system, enforcement capacity, and integrity of tax authority are examined. Although this measurement of tax compliance is new to cross-country studies on Africa, similar measures have been applied in studies of other geographic regions (Ali et al. 2014). In brief, a combination of these survey results on public attitudes toward tax payment, tax authorities' mandate and functions provides great insight into understanding tax compliance and its underlying motivations. The following section examines the overall trend of

[8] The Afrobarometer is a collaborative production by social scientists from more than 30 African countries. It provides a comparative a series of public attitude survey throughout various countries in Africa (Aiko 2013).

compliance in Africa, and a detailed look into compliance in Tanzania and Uganda.

7.2. Tax compliance outcome

7.2.1. Overall trend in Africa

The overall results from the Afrobarometer survey are obtained from the research by Aiko and Logan (2014) and the Afrobarometer website (2016).[9] The Afrobarometer survey Round 5 indicates that a wide range of citizens in Africa were committed to the principle of taxation and willing to pay taxes for national development. However, tax systems across Africa still remained opaque to most of their users. Perceptions on corrupt tax authorities promoted non-compliance among taxpayers. Domestic resource mobilization through taxation has been one of the top priorities of the development agendas of African countries. Tax reform has become more important as countries faced huge demand for improved public services and living conditions for their growing populations. The findings from Afrobarometer suggest that countries have to improve the transparency and accountability of tax administration if they want to build and strengthen tax systems for national development.

The key findings from Round 5 (2011/2013) are as follows. First, Africans believe that taxation is important to national development. Two thirds of the respondents (66%) answered that citizens must pay taxes for their countries' development. A majority of the respondents (52%) believed that it is better to pay more taxes in exchange for better public services, while only one in three respondents (35%) said that they would give up good services in order to pay less taxes. 70% of the

[9] The analysis of Afrobarometer survey round 5 (2011/2013) is largely based on Aiko and Logan (2014).

respondents answered that authorities have the right to levy taxes. Among 16 of the countries[10], this figure increased from 64% to 71% over the course of a decade. 49% of respondents said that it is "wrong and punishable" to avoid paying taxes while another 35% answered that it is "wrong but understandable". Taxpayers had a negative perception of tax officials in general. 35% of respondents believed that "most or all" of tax officials are corrupt, and another 39% said that "at least some" of them are. Distrust in tax officials increases tolerance for non-compliance. Opaque tax systems remained as a major challenge. 62% of the respondents said that it is hard to find what taxes they had to pay and 76% said that it is difficult to figure out where the tax revenue is used (Aiko and Logan 2014).

7.2.2. Tax complaint attitude

In Afrobarometer 5 (2011/2013), the respondents are asked whether they think avoiding income taxes is "not wrong at all", "wrong but understandable", or "wrong and punishable". Based on their responses, respondents are divided into either a group with tax compliant attitudes, or a second group with non-compliant attitudes (Ali et al. 2014). In other words, taxpayers with less tolerance for tax non-compliance are considered having compliant attitudes. The question is intentionally phrased as an indirect question to avoid the direct implication of "wrongdoing" by the respondents, and capture more accurate attitude toward taxation.[11]

Ali et al. (2014) found that the commitment to tax obligations in principle exist in Africa. However, East Africa showed the highest level of non-compliant attitudes

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[10] These countries include "Botswana, Cape Verde, Ghana, Kenya, Lesotho, Malawi, Mali, Mozambique, Namibia, Nigeria, Senegal, South Africa, Tanzania, Uganda, Zambia, and Zimbabwe". They participated in 2002 Afrobarometer survey.

[11] However, with this approach, tax compliance is likely to be overly reported in survey.

compared to other parts of the continent. 47% of Tanzanian respondents showed tax compliant attitude while 32% of Ugandan respondents did. The percentage of people who answered that not paying taxes on income is “wrong but understandable” was lower in Tanzania than in Uganda (33% and 46% respectively). The percentage of people who answered that not paying taxes on income is “wrong and punishable” is higher in Tanzania than in Uganda (45% and 32% respectively). However, about 20 percent of people said that not paying taxes is “not wrong at all” in both Tanzania (19%) and Uganda (18%).

In Afrobarometer Round 6 (2014/2015), the respondents were asked if they thought not paying the income taxes they owe is “not wrong at all”, “wrong but understandable”, or “wrong and punishable”. The percentage of people who said that it is “not wrong at all” was 8.4% in Tanzania and 15% in Uganda. The percentage of people who answered that it is “wrong but understandable” was 25% in Tanzania and 36% in Uganda. The percentage of people who said that it is “wrong and punishable” was 63% in Tanzania and 44% in Uganda. In other words, the proportion of respondents with tax compliant attitudes in Tanzania was 63%, while the outcome in Uganda was 44%. The respondents with non-tax compliant attitudes accounted for 33.4% in Tanzania and 51% in Uganda. It is concluded that taxpayers in Tanzania had much higher tax compliant attitudes compared to in Uganda in both the Round 5 and 6 surveys (Afrobarometer 2016).

7.2.3. Support for tax authorities’ mandate

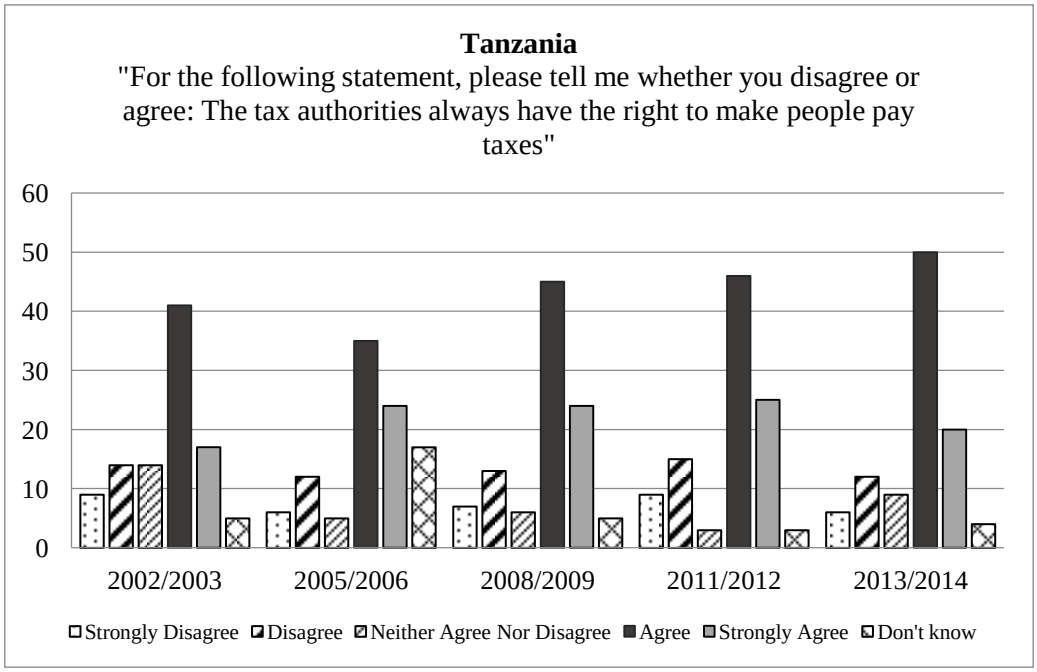
Africans’ support for the tax authorities’ mandate to collect taxes match their extensive recognition of the value of taxation. To find out the public attitudes on the legitimacy of tax authorities, respondents were asked whether or not they agreed with the statement “the tax authorities always have the right to make people pay taxes or

not." This question is useful to identify the change of tax compliance in Tanzania and Uganda over time, because this question was asked in five times surveys throughout the 2000s.[12] Earlier studies on tax compliance utilized this data as a measure of tax compliance (Levi et al. 2009; D'Arcy 2011; Sacks 2012). An average of 70% across 29 countries answered that tax authorities are entitled to collect taxes from people in 2011/2013. The endorsement of legitimacy of tax authorities increased gradually in 16 countries, from 64% in 2002 to 71% in 2012 (Aiko and Logan 2014).

In 2012/13, 71% of Tanzanians said that they "agree" or "strongly agree" with the statement that "tax agencies always have the right to make people pay taxes" while 66% of Ugandans did. The proportion of people who "disagree" or "strongly disagree" with the statement" is 24% in Tanzania and 26% in Uganda. This difference is not large, but Tanzanians in general show stronger support for the legitimacy of the tax authority to collect taxes. More importantly, this tendency became stronger over time. Figure 4 demonstrates that the percentage of the respondents in Tanzania who answered "agree" or "strongly agree" continued to increase from 57% in 2003 to 71% in 2012. The ratio of the respondents answering "disagree" or "strongly disagree" fluctuated, but was restored to 24% in 2012, which was similar to the level of 2003 (23%). According to Figure 5, the proportion of respondents in Uganda who answered "agree" or "strongly agree" with the legitimacy of the tax authority gradually declined from 87% in 2002/2003 to 71% in 2013/2014. During this time, the respondents who "disagree" or "strongly disagree" with legitimacy of tax authority increased from 9% to 21% (Afrobarometer 2016).

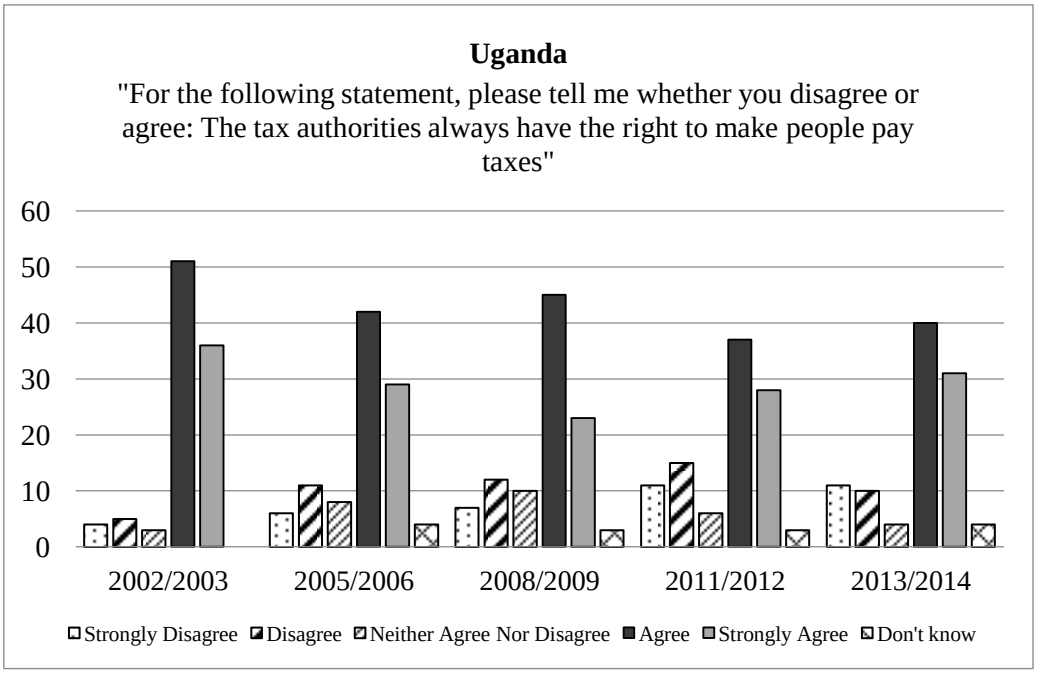
[12] This question was included in five rounds of surveys in 2003, 2005, 2008, 2012, and 2014.

Figure 4. Support for tax authorities' mandate in Tanzania, 2002/2003-2013/2014



(Source: Afrobarometer 2016)

Figure 5. Support for tax authorities' mandate in Uganda, 2002/2003-2013/2014



(Source: Afrobarometer 2016)

7.2.4. Taxes as development resources

In Afrobarometer round 5 (2011/2013), most Africans agreed that tax is an integral part of national development. However, the support for taxation in East Africa remains at the lowest level of 59%. Tanzania and Uganda show similar results in their answers about the importance of taxes as a resource for development. In Tanzania, 55% agreed that citizens should pay taxes for national development, while 43% wanted the government to find other resources. In Uganda, 51% agreed that citizens need to pay taxes for national development, while 47% said that the government should find other resources (Aiko and Logan 2014). In Afrobarometer Round 6 (2014/2015), the statement that citizens must pay their taxes to the government in order for their

countries to develop gained 62% agreement in Tanzania and 58% in Uganda. 22% of respondents in Tanzania agreed with the statement that the government could find other resources for national development without collecting taxes from the people, while 28% in Uganda agreed with it (Afrobarometer 2016).

A majority of Africans (52%), albeit slim, were committed to the principle of paying taxes to support national development. People were willing to pay more taxes as long as it would make the government provide better services to them. Tanzanians showed a higher preference for tax-for-service trade-off compared to Ugandans. In Tanzania, 64% of respondents said that they prefer higher taxes and more services, while in Uganda 41% said so. The percentage of respondents who favored lower taxes with fewer services is only 27% in Tanzania but is 48% in Uganda. In Afrobarometer 6 (2013/2014), 22% of respondents in Tanzania agreed with the statement that "government can find enough resources for development from other sources without having to tax the people" while 28% agreed with the statement in Uganda (Afrobarometer 2016).

7.2.5. Perception on non-compliance

In Afrobarometer round 5 (2011/2013), widespread belief in tax compliance is observed as a majority of Africans said that non-compliance "does not exist" or "is rare". East Africans have more confidence about fellow taxpayers' compliance (68%) compared to the other regions. In Tanzania, the perceived frequency of non-compliance is higher than in Uganda, although 67% and 66% of Tanzanians and Ugandans respectively answered that they "never" or "rarely" perceive non-compliance. On the other hand, 28% in Tanzania answered that they "often" or "always" perceive non-compliance while 22% in Uganda answered so. 6% of Tanzanians and 11% of Ugandans said that they do not know about this issue, implying that Tanzanians have

more tax knowledge than Ugandans.

The survey also asked respondents if they had personal experience in refusing to pay taxes or fees to the government in the past year. Most of respondents answered that they did not, but 8% said that they have done it at least once. With most countries showing the ratio lower than 10%, self-reported non-compliance was higher in Tanzania (22%) and Uganda (15%). Meanwhile, 78% of respondents in Tanzania and 79% in Uganda said that they never refused to pay a tax or fee to the government. Although self-reported non-compliance can be different from actual non-compliance, it is worthwhile to know that Tanzania and Uganda both have a high level of self-reported non-compliance, with Tanzania showing a higher ratio than Uganda.

7.2.6. Transparency and accessibility of tax system

According to Afrobarometer round 5 (2011/2013), popular support for taxation could be hindered by opacity and the inaccessibility of the tax system. 62% of the public believed that it is “difficult” or “very difficult” to find out what kind of taxes they are obliged to pay. 72% of Tanzanians and 73% of Ugandans answered that it is “difficult” or “very difficult” to get information about tax liabilities. Africans also found it difficult to find out how tax revenue was used. Nearly eight in ten respondents answered that it was “difficult” or “very difficult” to find out how government used tax revenue. East Africans expressed the highest level of frustration with the opaque tax system. 75% of East Africans answered that it is difficult to know about tax liabilities, and 86% of them find it hard to know about how the government spent tax revenue. In Tanzania and Uganda, a respective 86% and 84% of respondents said that there is an inaccessibility of information about how tax revenue is used. Overall, both Tanzania and Uganda show a similar level of difficulty with transparency and accessibility of their tax systems.

7.2.7. Enforcement capacity

Most African countries seem to have established a sincere threat of enforcement in Afrobarometer round 5 (2011/2013). About 70% of the respondents thought that it is "difficult" or "very difficult" to "avoid paying income or property taxes that they owe to government". Only 13% indicated that it was "easy" or "very easy". The public perception on effective enforcement of taxation has a considerable impact on tax compliance. Difficulty of tax avoidance appears quite similar in Tanzania and Uganda. The percentage of people who said that avoiding tax obligation is "easy" or "very easy" was 14% in Tanzania and 13% in Uganda. The percentage of people who said that it was "difficult" or "very difficult" was 77% in Tanzania and 76% in Uganda. The percentage of people who think that they do not owe taxes is only 5% in both countries.

7.2.8. Integrity of tax authorities

In Afrobarometer round 5 (2011/2013), Africans' trust in tax authorities and perceived level of corruption among tax officials exhibits fragmentation. In terms of the trustworthiness of tax officials, the public was roughly divided in half. 44% of the respondents reported that they trusted tax authorities "somewhat" or "a lot" while an equal 44% revealed they held the opposite sentiment, saying that they trust tax authorities "not at all" or "just a little". When asked about corruption in tax agencies, 35% of respondents said that "most" or "all" tax authorities are corrupt and 39% said that at least "some" of them are. Only 10% of citizens answered that they did not perceive any corruption among tax officials. The perceived level of corruption in tax agencies is substantially higher in East Africa (42%) compared to the other regions. In sixteen African countries, the perceived level of corruption has remained similar since 2005. This implies that tax reforms over the past decade were not very effective in improving the public image of tax authorities (Aiko and Logan 2014). The perceived

corruption of tax authorities is greater in Uganda than in Tanzania. 38% of Tanzanians reported that “most” or “all” tax officials are corrupt, while 45% of Ugandans said so. In addition, 8% of Tanzanians answered that “none of them” are corrupt while 3% of Ugandans said so. The percentage that said they “do not know” and “some of them” are similar (Afrobarometer 2016).

VIII. Different compliance outcome from tax administration reform

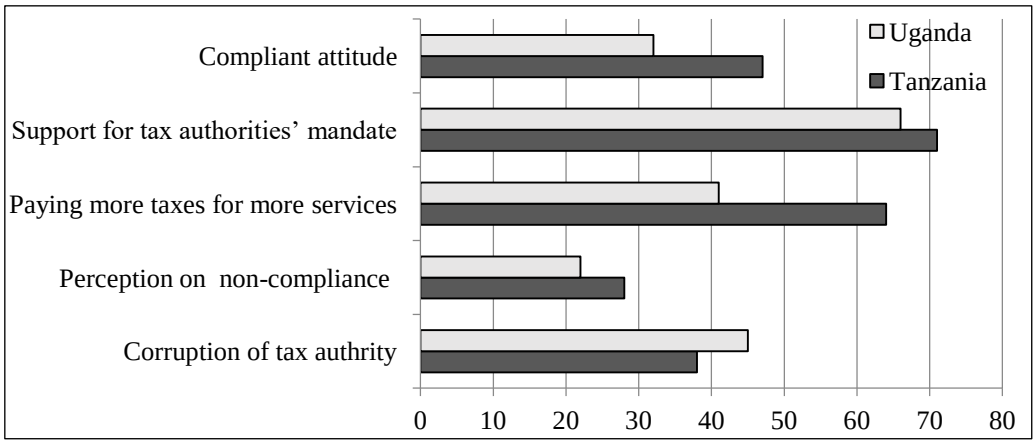
8.1. Difference in tax compliance outcome

Five major differences in tax compliance between Tanzania and Uganda are found in their tax compliant attitudes, support for tax authority's mandate to collect tax, willingness to pay more taxes for better public services, perceived frequency of non-compliance, and integrity of tax authorities. First, Tanzania has a higher proportion of people with compliant attitudes towards taxation compared to Uganda. Second, although the support for tax authority's mandate is quite similar in 2011/2013, this trend changes over time. The proportion of Tanzanians who answered that tax authorities always have the right to make people pay taxes increased over the 2000s while the correspondent in Uganda gradually declined. Third, the perceptions of taxes as development resources in Tanzania and Uganda are similar, but more Tanzanians responded in favor of increased taxation with more service, as opposed to lower taxation with lower service, in comparison to Uganda. Fourth, the perceived level of corruption of the tax authority is lower in Tanzania than in Uganda. Fifth, only in the perceived frequency of non-compliance did Tanzania show worse result than Uganda. This could be attributed to a higher chance of detection and punishment of non-compliance in Tanzania. In addition, even though the gap is not large, the percentage of people who answered "do not know" or "neither" is almost always lower in Tanzania than in Uganda. This implies that Tanzanians either have more tax knowledge or pay more attention to tax issues compared to Ugandans (Aiko and Logan 2013; Afrobarometer 2016). Figure 6 provides a comparison of Tanzania and Uganda in

compliant attitude, support for tax authority's mandate, willingness to pay more taxes for more services, and integrity of tax authority.

In conclusion, all these findings demonstrate that Tanzanians in general show higher tax compliance compared to Ugandans. This study then focuses on how tax administration reform affected this different outcome in Tanzania and Uganda. Distinguished features of tax administration reform in Tanzania and Uganda affected quasi-voluntary tax compliance through various strategic and normative factors.

Figure 6. Comparison of tax compliance in Tanzania and Uganda, 2011/2013



(Source: Afrobarometer round 5 2011/2013)

8.2. Different factors in tax administration affecting compliance

8.2.1. Coercion

Tax authority's capacity in detection and punishment

The difference in the ability to detect tax evasion and enforce punishment between Tanzania and Uganda could be connected to the difference in level of tax compliance. When tax authority does not have the capacity to detect and punish free

riders, taxpayers are less likely to comply with taxes voluntarily. Tanzania and Uganda show a very different approach in this aspect. TRA took proactive measures to collect tax debts and charged heavy interest rates and penalties for compliance failure and offences. TRA also institutionalized risk-based operations in tax administration in certain sectors such as construction, and introduced critical anti-avoidance measures and means to match accounting and tax profits. As efficient detection and punishment underpinned tax administration strategies in Tanzania, audits and inspections have become the usual work of the tax administration (Ongwamuhana 2011). Meanwhile, URA's approach for detection and punishment was often extreme and inefficient. Militarization of revenue collection to prevent smuggling and tax evasion brought out a strong public backlash, undermining the effort to build a culture of tax morale based on quasi-voluntary compliance (Ball et al. 2006). On the other hand, Uganda provided amnesty on penalties and interest to non-compliant taxpayers. URA's approach could have weakened the enforcement capacity of the tax authority even though tax amnesty partially contributed to the registration of new taxpayers (AfDB 2011).

8.2.2. Incentives

The quality of taxpayer services

Complicated laws and regulations in tax payment and low quality of taxpayer services and education negatively affect compliance of taxpayers. Tanzania's various efforts in simplification of the tax structure and payment enabled taxpayers to pay easily. Furthermore, taxpayer education in Tanzania equipped taxpayers with more knowledge and awareness about their tax obligation and how the tax revenue is collected and used. These efforts could have contributed to higher level of voluntary compliance compared to Uganda (Ali et al. 2014).

8.2.3. Social factors

Broadening the tax base

Tanzania's efforts to broaden the tax base have been effective. Broadening the tax base is important to boost revenue mobilization because imposing a moderate tax on broad base is usually more efficient (Bird and Zolt 2003). In particular, Block Management System (BMS) was effective in increasing the tax base through physical identification and mapping of taxpayers. Widening the tax base affects taxpayers' perception on the fairness of the tax system and gives confidence that others are paying taxes as well. Therefore, voluntary compliance could have increased through broadening the tax base in Tanzania. In contrast, tax reforms in URA were neither focused nor directed by specific performance outcomes, including widening the tax base. The huge gap between tax base to income elasticity in Uganda is a sign of potential revenue which is not currently taxed (Ayoki et al. 2008). URA was highly interested in meeting revenue targets rather than widening the tax base (Cawley and Zake 2010).

An opportunity for negotiation and feedback with taxpayers groups

Voice and organized response to taxation from the business community have an influence on taxpayers' compliance. Tanzania had a unique organization to consult with stakeholders, the Task Force on Tax Reform (Child 2008). The members of the Task Force consist of a wide range of stakeholders from the government, firms, research centers, and civil society. Moreover, large corporate taxpayers' complaints were increasingly channeled to the official legal system in Tanzania (Luoga 2002). In numerous cases, the demands from businesses led to actual changes in the existing tax laws (Rakner 2001). The government and businesses became more engaged in constructive conversation and more willing to make compromise with each other. It is a

remarkable change since the private sector in Tanzania had been completely shunned by the government until lately, and the use of illegal and personal connections was the prevailing method of conducting tax assessment (Fjeldstad and Moore 2008). The formation of collective taxpayer groups can improve the chance of creating fiscal contract through negotiation with the government. The consultation mechanism in Tanzania could have helped reinforce taxpayer's beliefs that the tax authorities have the right to make people pay taxes. It is claimed the Task Force in Tanzania, which is an oral forum, contributed to cultural change in taxation compared with Uganda's case. Even though the Uganda Tax Appeals Tribunal was established within the URA due to complaints from business community, it only allowed written complaints and questions from businesses (Rakner and Gloppen 2003).

8.2.4. Commitment to providing benefits

Political support toward revenue authority

Support for high level political leaders is clearly a crucial prerequisite for starting tax administration reform, but this simultaneously provides a significant source of vulnerability to political interference (Robinson 2006). Even though political interference is found both in Tanzania and Uganda, attitudes of political leaders are different between the two countries. In fact, neither the TRA nor the URA was given a substantive political autonomy from the central government. Hence, political support was essential for sound functioning of revenue authorities (Fjeldstad and Moore 2009). In Tanzania, the central government and major politicians supported effective functioning of the TRA in order to improve the tax performance of Tanzania. Political leadership in Tanzania was aware of the danger of high aid dependency and put a lot of effort into building effective tax administration for domestic revenue. In addition, the TRA often transferred its staff to the Ministry of Finance for cooperation on a technical

level. In Uganda, however, ad hoc decisions made by political leadership based on patronage significantly damaged effective operation of the URA. Numerous exemptions on a wide range of taxes including import duties, corporate income tax, and domestic sales tax were approved without a specific deadline or details for applicable targets, and given based only on a case-by-case selection. These exemptions vastly impeded the operation of the URA and provided additional room for tax evasion (Gauthier and Reinikka 2006; IMF 2010, 2011).

Additionally, there was serious distrust and conflict between the URA and the high level political elites, mostly regarding the high salary of the URA staff members (Mukandala et al. 2005; AfDB 2011). The erosion of high-level political support undermined URA's ability to endure political interference and the momentum to continue the reforms (Therkildsen 2004). Weak political support signals to taxpayers that the tax authority will not be able to keep their promises about benefits in return for tax payment. This discourages voluntary tax compliance. Stronger political support for effective tax administration in Tanzania could have led to a better tax compliance outcome compared with Uganda.

Competent staffs in tax administration

Autonomous revenue authorities are supposed to have a merit based recruitment and human resources system in order to increase administrative capacity. Public perception of high competency and semi-autonomy of the tax authorities increases the possibility that the tax authority succeeds in collecting taxes and returns the benefits to its taxpayers. Insulation from political interference and separation from public management rules were initially a common feature of the TRA and URA. Although both Tanzania and Uganda struggled in sustaining high salary for their staff, the TRA did a relatively better job in recovering its high salary level and maintaining

professional personnel in the organization. The TRA is recognized as a professional agency filled with experts in their relevant fields. In contrast, the URA failed to maintain specialized experts within the organization. This difference could have positively affected higher tax compliance in Tanzania (Therkildsen 2004; Fjeldstad 2005; Mukandala et al. 2005; AfDB 2011).

Corruption in tax administration

Widespread corruption in tax administration harms not only its legitimacy, but also the effectiveness and fairness of the tax administration. It negatively affects citizen's willingness to comply with taxes because they think the government officials just waste or steal their tax payments. Proper use of public funds strongly affects tax compliance (Adebisi and Gbegi 2013). Even though corruption in tax administration was a big problem for both the TRA and URA, this problem was handled less effectively in the case of Uganda. The institutions in charge of coordinating the government's anti-corruption efforts lacked sufficient resources and capacity. Therefore, corruption in the URA continued to sharply increase. Although the problem of corruption was already evident in the beginning of the reform, it became chronic, pervasive, and well organized by mid-2000s (Therkildsen 2004). The URA showed a 67.7 in the East African Bribery Index (EABI)[13] and was ranked as the 4th most corrupt organization out of 116 organizations in the East African region. The TRA showed a 37.8 in the EABI and was ranked as 32nd (Transparency International Kenya et al. 2010, 14-17). Erosion of political support toward the URA in part aggravated corruption and predatory behavior, which undermined the effectiveness of the reform (Robinson 2007). The URA's striking struggles to address corruption could provide an

[13] The scale ranges from 0 to 100 with 100 indicating the most severe corruption.

explanation for lower voluntary compliance in Uganda.

Different focus in tax administration reform

The focus of tax administration reform varies between Tanzania and Uganda. In Tanzania, tax reform started with the modernization of the tax system, and then expanded to the development of efficient and effective tax administration. Tanzania conducted various research and analysis to find the best policy prescription, and implemented comprehensive administration reform which included institutionalization. The government allocated a lot of resources to develop an effective tax system and strong bureaucracy. On the other hand, Uganda's focal point in tax administration reform was to curb prevailing corruption in tax administration even though relatively more attention was given to institutionalization and modernization after 2004/05. Uganda lacked comprehensive and in-depth analysis on its tax system and policy environment. Design flaws in reform created opportunities for patrimonial behaviors that hindered the prospect of tax administration reforms in Uganda (Robinson 2007). The overall limitation in tax administration reform could have promoted the public perception that tax administration would remain ineffective and corrupt. This could have significantly damaged the populace's' willingness to comply with taxes in Uganda (Cawley and Zake 2010). Table 6 summarizes the factors in tax administration reform affecting quasi-voluntary compliance, which are examined in the chapter.

Table 6. Factors in tax administration reform affecting quasi-voluntary compliance

Type	Contents	Tax administration reform
Strategic	Coercion	Tax authority's capacity in detection and punishment
	Incentives	The quality of taxpayer services
Normative	Social factors	Broadening the tax base An opportunity for negotiation and feedback
	Commitment to providing benefits	Political support toward tax authority Competent staffs in tax administration Corruption in tax administration Different focus in tax administration reform

(Source: Brautigam and Levi, modified by the author)

IX. Conclusion

Main findings

This study provides a comparative analysis on the effect of tax administration reform on tax performance and quasi-voluntary compliance in Tanzania and Uganda. Despite the introduction of similar tax administration reform, the tax administrations of Tanzania and Uganda have developed quite differently. Tanzania's tax administration effectively changed the strategic and normative factors that influence quasi-voluntary compliance. Consequently, Tanzania achieved generally better outcomes in terms of both tax performance and quasi-voluntary compliance compared to Uganda.

Tax performance and quasi-voluntary compliance are interconnected. Quasi-voluntary compliance is necessary in achieving tax performance in an efficient and sustainable manner. Noncompliance undermines the effective revenue collection of tax administration. On the other hand, high tax performance from competent, efficient, and fair tax administration improves the taxpayers' willingness to comply voluntarily. The different level of compliance between two countries shows not only a difference in the effectiveness of their tax administrations, but also the attitudes of taxpayers toward taxation and government.

Furthermore, this study suggests an implication for the state-building of Tanzania. Significant increases in tax revenue and administrative performance in Tanzania can contribute to strengthening state capacity. Improvement in quasi-voluntary compliance has positively affected the relationship between Tanzanian government and taxpayers. This can be expanded to the state-society relationship in Tanzania in the future, because the development and maintenance of quasi-voluntary compliance demands a tax system that supports the basic values that taxpayers cherish. In conclusion, tax

administration reform in Tanzania has a higher potential to contribute to state-building by improving state capacity and the state-society relationship when compared to Uganda.

Limitations

However, it is hard to conclude that one country is absolutely better off than the other in terms of tax administration reforms and its contribution to state-building. There is lack of consistent and credible data about tax administration performance and compliance levels in Tanzania and Uganda. In particular, there is a lack of data prior to the start of tax reform, which makes it difficult to examine the direct changes caused by the reform. Moreover, the diverging gap in tax revenue only started in the mid 2000s, and some indicators in performance such as the cost of collection in Tanzania are no better than in Uganda. After all, both countries still need to overcome common challenges in taxation, even after almost two decades of reforms. These challenges include low tax revenue in their GDP ratio, narrow tax bases, corrupt public officials, non-value adding incentives and exemptions, and low voluntary compliance.

Academic contribution

Nevertheless, it is worthwhile to compare the differences in tax administration reforms and their outcomes. Each country has developed its tax administration reforms differently, and each ended up with quite different tax compliance outcomes, despite the common struggles of taxation and similar reform prescriptions supported by international donors prior to implementation. Throughout this study, it is found that when similar tax reforms are applied to the specific context of an individual country, a mixture of various economic, political, and social factors affect overall tax performance and taxpayers' quasi-voluntary compliance. This is still relevant in

developing countries where a reciprocal relationship between the government and taxpayers does not yet appear as solid as the one in contemporary advanced countries.

It is obvious that both Tanzania and Uganda will require more domestic revenue in order to finance expanding demand for public goods and services. Rapid population growth and an increase in living standards have aggravated a burden for the government. Experience shows that tax reform can transform tax performance and the compliance of taxpayers. Therefore, Tanzania and Uganda must continue to make an effort in achieving effective, efficient, and fair tax administrations. Furthermore, the challenges and obstacles in taxation observed in Tanzania and Uganda are not limited to these two countries. Most of sub-Saharan African countries, and further, developing countries around the world have similar missions in tax administration and tax compliance. Therefore, examination on how tax administration reforms affected tax performance and tax compliance in Tanzania and Uganda could provide valuable lessons to developing countries for future reforms.

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논문 초록

본 연구는 탄자니아와 우간다의 지난 20년간의 조세행정 개혁이 조세성과와 준자발적 조세순응에 미친 영향을 분석한다. 이를 위해, 본 연구는 조세행정 개혁의 정치 · 경제적 배경, 반(半)자치적인 국세청의 설립을 중심으로 하는 개혁 과정, 그리고 이에 따른 조세성과와 조세순응 결과를 질적 연구 방법을 통해 면밀하게 비교한다. 조세행정 개혁의 주요 목표는 조세 수입과 조세순응의 제고이다. 이 목표들은 국가 역량 강화 및 국가-사회관계 형성을 통해 국가 건설에 기여한다. 정부는 순소득의 최대화를 위해서 일정한 수준의 준자발적 조세순응을 필요로 하기 때문에 조세행정 개혁을 통해 납세자들이 고려하는 전략 및 규범적 요인을 변화시켜 준자발적 조세순응을 높이고자 한다.

탄자니아와 우간다는 조세 수입과 자발적 조세순응의 제고를 조세행정 개혁의 주요 목표로 삼았다. 두 국가는 상당히 유사한 정치 · 경제적 배경을 가지고 있고 조세행정 개혁 초기에 성공 사례로서 많은 주목을 받았으며 조세 행정에 큰 어려움을 겪고 있는 사하라 이남 지역의 아프리카 국가들과 공통적인 조세 행정 개혁을 취했다. 따라서, 두 국가는 조세행정 개혁의 결과를 비교분석하기 위한 사례로서 중요한 가치를 가진다. 그러나 조세성과와 준자발적 조세순응에 중점을 두고 탄자니아와 우간다의 조세행정 개혁 결과를 분석한 기존의 연구는 상당히 부족하다. 따라서 본 연구는 두 국가의 조세성과와 준자발적 조세순응의 양상을 비교분석하여 기존 연구를 보완하고자 한다.

탄자니아와 우간다의 유사한 정치·경제적 배경과 개혁 양상에도 불구하고, 두 국가의 조세성과와 조세순응은 다른 결과를 나타낸다. 탄자니아는 우간다에 비해 상대적으로 높은 조세성과와 조세순응을 보인다. 이는 탄자니아가 우간다에 비해 조세행정 개혁을 통해 더욱 효과적으로 납세자의 전략 및 규범적 요인을 변화시켰기 때문이다. 이로 인한 조세 수입의 증진과 행정 역량의 강화는 탄자니아의 국가 역량에 기여한다. 또한, 준자발적 조세순응의 확대는 탄자니아의 국가-사회간의 관계에 긍정적인 영향을 미친다. 따라서, 서로 다른 조세행정 개혁의 결과는 국가 역량 및 국가-사회관계의 발전을 통해 탄자니아와 우간다의 국가 건설의 차이에 잠재적으로 기여할 가능성이 있다.