POLICY BRIEF

Tax Equity for Smallholder Farmers: Enabling Women and Youth-Led Agricultural Transformation in Tanzania

1. INTRODUCTION

Tax equity is fundamental in promoting inclusive economic growth. It refers to fairness in how tax burdens are shared, based on taxpayers' ability to pay. It includes vertical equity, where higher-income earners contribute more and horizontal equity, wherein which higher-income earners contribute more, and horizontal equity, in which taxpayers with similar circumstances are treated equally. In practice, an equitable tax system protects vulnerable groups such as women, youth, and smallholder farmers from bearing disproportionate tax burdens relative to their productive capacity. Tanzania's commitment to equity and social justice is reflected in the Tanzania Development Vision 2050, which aims to build an inclusive and prosperous economy.

Agriculture remains a key pillar of Tanzania's economy: in 2024, the agricultural sector - including crops, livestock, forestry, and fishing - accounted for roughly 26.3% of the country's Gross Domestic Product (GDP). Smallholder farmers more than 80% of the farming community face structural, financial, gender, and climate-related constraints that limit their productivity. Despite of the government efforts to promote agriculture sector, still the current tax policies such as the Income Tax Act and the Value Added Tax (VAT) Act apply uniform tax rules that do not reflect the realities of small-scale farmers, especially women and youth.

In Morogoro District, multiple local levies with uniform rates further increase the burden on smallholder farmers, reducing their productivity, shrinking their incomes, and undermining their livelihoods

2. NATIONAL TAX POLICIES EXACERBATE BARRIERS FOR SMALLHOLDER FARMERS

2.1 Income Tax Act

(a) Presumptive Tax Regime

- Taxes small agri-businesses based on gross turnover, not actual profit.
- Does not allow deductions for essential farm inputs such as seeds, fertilizers, pesticides, and irrigation.
- Penalizes youth and women agri-entrepreneurs by limiting reinvestment and enterprise growth.

(b) Withholding Tax

- National Food Reserve Agency (NFRA) and other public entities deduct 2% withholding tax on crop purchases from all farmers.
- Large, registered farmers can recover withholding tax as a tax credit; smallholders cannot due to lack of knowledge in preparing and maintaining tax records.
- For smallholders, withholding tax becomes a permanent loss of income, reducing working capital needed for farm inputs.

(c) Tax incentives

- Incentives benefit large, fully compliant agribusinesses.
- Small-scale farmers lack documentation, finances, and tax literacy required to access these incentives.
- Widening productivity and income gaps between small and large producers.

(d) Exemptions for Registered Cooperatives

- Cooperatives must be formally registered and fully compliant to qualify.
- Many smallholder groups remain informal due to high registration costs and governance barriers.
- Most smallholders are excluded from benefiting from cooperative tax exemptions.

e) Gender and Youth Blindness

- The Income Tax Act assumes equal access to documentation, land, and finance.
- No targeted incentives for women- or youth-led agricultural enterprises.
- Women and youth face a heavier effective tax burden and limited reinvestment ability.

2.2 Value Added Tax Act

(a) Standard VAT Rate (18%)

- Smallholders are not VAT-registered and cannot reclaim VAT input credits.
- They absorb full VAT costs on packaging, services, and non-exempt inputs.
- Female agro-entrepreneurs in value addition are disproportionately affected.

(b) VAT inputs and Implements Exemptions

- Seeds, fertilizers, and tractors are exempted, but unaffordable for most smallholders.
- Exemptions mainly benefit commercial farmers rather than small producers.

3. LOCAL GOVERNMENT REVENUE SYSTEMS DEEPEN INEQUALITY

(a) Multiple Local Charges Reduce Margins

- Produce cess, forest fees, market fees, business licenses, and meat inspection charges cumulatively reduce farmers' already thin margins.
- Women and youth farmers are disproportionately affected.

(b) No Exemptions for Smallholder Farmers

- Smallholder farmers are not exempted

under the Local Government Finance Act despite being economically vulnerable.

(c) Regressive Flat Rates

- Flat-rate fees require smallholders to pay the same amounts as large traders, making the system regressive.
- Reduces disposable income and increases instability.

(d) Illegal and Non-Transparent Administration

- Farmers are charged cess when they transport produce from farm to home for storage and home consumption, contrary to Local Government Finance Act.
- Morogoro by-laws set the cess rate at 5%, which exceeds the 3% maximum allowed under the Local Government Finance Act.
- These inconsistencies reduce income and damage trust between farmers and authorities.

4. CONCLUSION

Tax equity is not merely an economic theory; it is a vital mechanism for improving agricultural productivity, strengthening climate resilience, and supporting the livelihoods of the majority of Tanzanian citizens. Tanzania's current tax system does not support smallholder-led agricultural transformation. Instead, it reinforces inequality, reduces productivity, and limits rural economic participation.

5. RECOMMENDATIONS

Ministry of Finance

The Ministry of Finance should consider to;

1. Reform the presumptive tax system by allowing small-scale agro-businesses to deduct verifiable essential farming costs such as seeds, fertilizers, and irrigation;
2. Adjust the withholding tax by introducing a lower rate or increasing the exemption threshold to prevent permanent income loss for smallholder farmers;
3. Broaden VAT exemptions to include essential agricultural packaging materials and basic processing tools used by small-scale farmers;
4. Make gender and youth impact analysis mandatory in all future agricultural tax reforms.

Ministry of Agriculture

The Ministry of Agriculture should consider to;

1. Strengthen extension services by increasing and equipping extension officers, with a specific focus on women, youth, and climate-smart agricultural knowledge;
2. Formalize and strengthen primary farmer cooperatives through governance, compliance, and financial-management training.

Tanzania Revenue Authority (TRA)

The Tanzania Revenue Authority (TRA) should consider to;

1. Provide simple and accessible tax education through radio, mobile platforms, and extension officers, specifically targeting women and youth;
2. Establish dedicated Farmer Support Desks in regional offices to assist farmers with tax registration, filing, and access to incentives.

Local Government Authorities (LGAs)

The Local Government Authorities (LGAs) should consider to;

1. Update district by-laws to comply with the statutory 3% produce-cess limit set under the Local Government Finance Act;
2. Enhance transparency by installing CCTV at revenue collection points to enhance transparency in revenue collection and rebuild farmers' trust.
3. Conduct meaningful and inclusive stakeholder consultations especially with women and youth farmers at village and ward levels, ensuring all inputs are documented and used before by-laws are approved.

4. Collaborate with Civil Society Organizations to strengthen the capacity of local government officials to develop fair and equitable by-laws that support farmers' productivity and livelihoods.

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