TAX EQUITY AND GENDER IN TANZANIA:
HOW NATIONAL TAX LAWS AND LOCAL REVENUE SYSTEMS AFFECT SMALLHOLDER FARMERS IN MOROGORO DISTRICT

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LIST OF ABBREVIATIONS

ADPs	Agricultural Development Programmes
ASDP II	Agricultural Sector Development Programme II
BBT	Building a Better Tomorrow (Programme)
CIT	Corporate Income Tax
CSOs	Civil Society Organizations
DC	District Council (e.g., Morogoro District Council)
FYDP III	Third Five-Year Development Plan
GDP	Gross Domestic Product
GN No.	Government Notice Number
IBP	International Budget Partnership
ITA	Income Tax Act
LGAs	Local Government Authorities
NFRA	National Food Reserve Agency
PELUM	Participatory Ecological Land Use Management
PIT	Personal Income Tax
R.E.	Revised Edition (used in legislative references)
SHFs	Smallholder Farmers
SMEs	Small and Medium-sized Enterprises
TFS	Tanzania Forest Service Agency
TINs	Taxpayer Identification Numbers
TRA	Tanzania Revenue Authority
UN	United Nations
VAT	Value Added Tax
WHT	Withholding Tax

EXECUTIVE SUMMARY

This report provides a comprehensive analysis of how Tanzania's national tax laws and local government revenue systems shape tax equity, agricultural productivity, and the livelihoods of smallholder farmers in Morogoro District. Undertaken under the Tax Equity Project implemented by the International Budget Partnership (IBP) and PELUM Tanzania, the study places special emphasis on gender dynamics and the lived experiences of women and youth farmers who form the backbone of agricultural production in the district. Using a mixed-methods approach including legal and policy reviews, interviews with national and district officials, and focus group discussions with farmers the assessment documents the structural, administrative, and equity challenges within Tanzania's tax regime and provides actionable recommendations for a fairer and more inclusive system.

The findings show that national tax laws, including the Income Tax Act and VAT Act, impose a disproportionate burden on smallholder farmers. Uniform tax rates, limited scope for deductions, and restrictive access to incentives mean that the lowest-earning producers pay a relatively higher share of their income compared to larger commercial actors. While several tax incentives exist on paper, they are more accessible to large, formally registered agribusinesses. Women and youth farmers who often operate informally, lack financial records, and have limited tax literacy remain largely excluded from these benefits.

At the local government level, smallholder farmers face multiple levies, including produce cess, market fees, livestock charges, and forestry-related fees established through district by-laws. These cumulative charges significantly reduce farm gate earnings and limit the ability of farmers to reinvest in inputs and technology. Farmers consistently reported that they do not see tangible benefits from the taxes they pay, citing poor feeder roads, inadequate market infrastructure, weak extension services, and limited transparency in revenue utilization. The study also finds that by-law development processes often lack meaningful participation, especially from women and youth, resulting in tax measures that fail to reflect the realities of small-scale producers.

The assessment concludes that the current tax system both national and local is not fully aligned with the needs and capacities of smallholder farmers and risks reinforcing rural poverty and gender inequality. To address these gaps, the report proposes a set of targeted recommendations aimed at fostering a more equitable, efficient, and gender-responsive tax environment.

Key Recommendations

Ministry of Finance

1. Introduce differentiated withholding tax rates that apply lower rates to smallholder farmers and higher rates to large commercial producers, ensuring fairness in the tax burden.
2. Reform the presumptive tax regime to allow deductions for essential agricultural inputs such as seeds, fertilizer, pesticides, irrigation, and labour so that taxation reflects actual income.
3. Expand VAT exemptions to include agricultural packaging materials and basic processing equipment, especially for women and youth involved in value addition.
4. Integrate gender impact assessments into all agricultural tax reforms to address gender-blind provisions in the current framework.
5. Extend the single-installment tax payment arrangement to smallholder farmers to reflect the seasonal and irregular nature of farm income.

Ministry of Agriculture

1. Strengthen agricultural extension services by increasing the number of trained officers and ensuring they reach remote areas, especially women and youth farmers.
2. Support the formalization and capacity-building of farmer cooperatives to enhance their governance, financial management, and ability to access tax incentives.
3. Collaborate with TRA and CSOs to integrate tax literacy and incentive awareness into agricultural training and farmer support programs.

Tanzania Revenue Authority (TRA)

1. Implement targeted tax education programs through mobile platforms, radio, cooperatives, and extension officers, focusing on women and youth with limited access to tax information.
2. Establish Farmer Support Desks in all regional offices to provide assistance on tax registration, filing, incentive access, and compliance.
3. Support CSOs to raise awareness among smallholder farmers about available tax incentives and how to access them effectively.

Morogoro District Council

1. Amend Government Notice No. 13 of 2015 to align all district fees and levies with the Local Government Finances Act and eliminate inconsistencies that lead to unlawful or excessive charges.
2. Install CCTV cameras at farm-gates and collection points to reduce corruption and improve transparency and accountability in revenue collection.
3. Conduct meaningful stakeholder consultations, including structured participation of women and youth at village and ward levels before approving any by-law.
4. Publish an annual public report outlining agricultural revenues collected and how these funds are utilized to improve transparency and rebuild trust with farmers.
5. Collaborate with CSOs to build the capacity of district officials, women, and youth farmers on fair by-law development and the importance of public participation.

Civil Society Organizations (CSOs)

1. Conduct capacity-building training for smallholder farmers, especially women and youth, on available tax incentives and how to utilize them to improve productivity and income.
2. Produce evidence-based advocacy reports and policy briefs on the impact of national and local tax policies on smallholder farmers, and use these findings to influence reforms.
3. Support the District Council to build the capacity of officials on developing equitable, farmer-friendly, and gender-responsive by-laws.

CHAPTER 1

ABOUT THE STUDY

This chapter introduces the study, outlining its background, rationale, objectives, scope, and methodology. It establishes why tax equity is a critical issue for Tanzania's rural development and how taxation policies affect gender dynamics, smallholder productivity, and livelihoods in Morogoro District Council.

1.1 Background of the Study

Tax equity is a cornerstone of any fair and sustainable tax system. It ensures that the burden of taxation is shared fairly among individuals and businesses according to their ability to pay. In Tanzania, achieving tax equity is particularly crucial because the country continues to grapple with high income inequality, widespread poverty, and limited access to basic social services.

Recognizing this, the International Budget Partnership (IBP), in collaboration with Participatory Ecological Land Use Management (PELUM) Tanzania, initiated the Tax Equity Project to analyze how Tanzania's tax policies influence fairness and livelihoods. The project specifically examines how these policies and local government revenue practices impact smallholder farmers' productivity, income, and well-being while also integrating gender considerations that highlight the unique experiences of women and youth in the agricultural sector.

A fair and equitable tax system does more than raise government revenue it also promotes social justice, supports productive investment, and empowers marginalized communities. When designed well, taxation can be a tool for reducing inequality and stimulating local development. But when designed poorly, it can deepen poverty, limit access to opportunities, and weaken the resilience of small-scale producers who are already struggling to survive.

1.2 Why Morogoro District Council

Morogoro District Council (DC), one of the nine administrative districts of the Morogoro Region in Tanzania, was selected as the focal area for the Tax Equity Project. The district covers approximately 19,056 square kilometres and borders Pwani Region to the north and east, Kilombero District Council to the northwest, Kilosa District Council to the southwest, and both Mvomero District Council and Morogoro Municipal Council to the west. According to the 2022 Population and Housing Census, it has a population of 387,736 residents. Its fertile soils and favorable climate make agriculture the backbone of the local economy, employing the majority of its population.

Smallholder farmers (SHFs) and small and medium-sized enterprises (SMEs) dominate agricultural production, processing, and marketing across the value chain. Women and youth play a particularly central role, forming the majority of the agricultural workforce and driving community-based farming and rural entrepreneurship. Their contribution sustains local economies and household welfare, yet they often face systemic disadvantages such as limited access to credit, land, and market opportunities.

Despite Morogoro's vast agricultural potential, many smallholders operate on thin margins and remain highly vulnerable to taxation practices, fluctuating input costs, and administrative inefficiencies. This makes the district a strategic case study for examining how national tax policies and local government non-tax revenues influence productivity, equity, and rural livelihoods in Tanzania. Morogoro District is also one of the areas where the **Tax Equity for Farmers** Project is being implemented. The project implemented in four villages: Kikundi, Kungwe, Lukonde, and Vuleni, providing a practical context for assessing how tax systems impact smallholder farmers at the community level.

1.3 Rationale for the Study

The rationale for this study stems from the growing recognition that equitable taxation is both a revenue tool and a mechanism for inclusive development. According to the United Nations (2019), fair taxation promotes equality and empowers marginalized groups by redistributing resources and financing public goods.[1]

However, in Tanzania, the design and enforcement of both national tax policies (such as income tax, VAT, and excise duty) and local government non-tax revenues (such as levies and cess) have uneven impacts. These measures often disproportionately burden smallholder farmers especially women and youth who form the backbone of rural economies.

In Morogoro District, most small-scale farmers operate informally and depend almost entirely on agriculture for survival. When levies and tax obligations are applied uniformly without regard to income level, production scale, or gendered constraints, they can erode smallholders' income and reinforce existing inequalities.

This assessment was therefore undertaken to examine how Tanzania's tax system influences smallholder farmers' income, productivity, and access to economic opportunities; to identify the gendered implications of existing fiscal measures on women and youth in the agricultural sector; and to explore practical policy options for creating a more equitable and inclusive tax environment that supports rural development and strengthens livelihoods.

1.4 Objectives of the Study

The study was guided by four key objectives:

i. To analyse the existing Tanzania's tax laws and assess how they affect tax equity, gender dynamics, and smallholder farmers' productivity, income, and livelihoods in Morogoro District Council.
ii. To assess the burden and impact of local government revenue/fiscal laws on smallholder farmers' productivity, income, and livelihoods in Morogoro District Council.
iii. To identify best practices from other countries that Tanzania could adopt to enhance tax equity in the agriculture sector, strengthen local government revenue collection, and improve smallholder farmers' livelihoods.
iv. To develop actionable recommendations that will inform policy reforms and aid effective advocacy by policymakers and civil society organizations aimed at enhancing tax equity and improving smallholder farmers' productivity, income, and livelihoods.

1.5 Scope of the Study

The study focuses on both national tax frameworks, including the Income Tax Act, Value Added

1 UNDP. (2024). Sustainable Development Goals | United Nations Development Programme. UNDP. https://www.undp.org/sustainable-development-goals/reduced-inequalities.

Tax (VAT) Act, and local government revenue laws, particularly the Local Government (District Authorities) Act, Local Government Finances Act, and Morogoro District by-laws. It also applies a gender-sensitive lens to assess how taxation influences women's and youth farmers' economic participation, access to productive resources, and overall livelihoods in Morogoro District.

1.6 Methodology and Approach

This study employed a mixed-methods approach, combining qualitative and quantitative techniques to assess how Tanzania's tax policies and local government non-tax revenue laws affect tax equity, gender dynamics, and smallholder farmers' productivity, income, and livelihoods in Morogoro District.

- Secondary data were collected through a systematic review of government tax laws, policies, official reports, Morogoro District by-laws, and publications from civil society organizations. This review provided a detailed understanding of the legal and institutional framework, revenue instruments, and policy context affecting smallholder farmers.

- Primary data were collected through semi-structured interviews with central and local government officials, tax authorities, and CSO representatives, as well as focus group discussions with women and youth smallholder farmers in Morogoro District.

- Qualitative data were analysed thematically to identify key patterns, perceptions, and gendered impacts, while quantitative data from official reports and participant responses were summarised using descriptive statistics. Findings from both data sources were triangulated to strengthen validity and ensure a comprehensive understanding of the burdens and impacts of taxation and local revenue laws on smallholder farmers' livelihoods.

1.7 Limitations of the Study

i. The Morogoro District Council website was not active during the study period, limiting access to up-to-date official data on local revenue and taxation. However, the researcher relied on interviews with district officials and cross-checked information with other government reports, civil society publications, and field observations to ensure the data used were reliable.
ii. Some information obtained from interviews, official documents, and literature was inconsistent, making it challenging to reconcile figures and statements. However, multiple data sources were triangulated and key informants were consulted for clarification, ensuring that the final analysis reflected corroborated and accurate information.

> **Key Definition:** Small-scale farmers, as used in this report, are farmers operating on small plots of land less than five acres with limited capital, low levels of mechanization, and mainly informal agricultural activities, producing primarily for household use and selling small surpluses. They include women and youth farmers who face structural barriers in accessing resources, markets, and tax incentives.

CHAPTER TWO

OVERVIEW OF TAX EQUITY, THE AGRICULTURAL SECTOR, AND TANZANIA'S TAX SYSTEM

This chapter provides a general overview of tax equity, the agricultural sector, and Tanzania's tax system as a foundation for understanding the broader context in which this study is situated. It establishes the conceptual and policy basis necessary for analysing how existing tax policies and local government revenue laws influence smallholder farmers' productivity, income, and livelihoods in Morogoro District Council, as explored in the subsequent chapters.

2.1 The Concept of Tax Equity

Tax equity refers to fairness in the distribution of the tax burden among individuals and groups according to their ability to pay.[2] It includes two key aspects: **vertical equity** where those with higher incomes contribute more tax than those with lower incomes and **horizontal equity** where people with similar financial situations pay similar taxes. A fair tax system ensures that no group, especially marginalized ones, carries a disproportionate tax load.

Achieving tax equity requires a progressive tax structure, which balances raising government revenue while maintaining fairness.[3] Such a system ensures that those with greater financial capacity contribute more, thereby helping reduce income inequality, fund essential public services, and encourage voluntary tax compliance. The International Monetary Fund highlights that equitable tax systems are crucial for sustainable economic growth and social cohesion, as they generate public resources without unduly burdening vulnerable populations.[4]

In Tanzania, the concept of tax equity aligns with the principles of social justice and equality enshrined in national development frameworks such as the Tanzania Development Vision 2050, which aspires to build a strong, inclusive, and equitable economy. From an international perspective, institutions such as the International Monetary Fund (IMF), the African Tax Administration Forum (ATAF), and the United Nations emphasize tax equity as a key principle of good tax governance and sustainable development.

In the context of this study, tax equity is understood as ensuring that smallholder farmers, who are the backbone of Tanzania's agricultural economy, are not overburdened by taxes and levies that limit their productivity and income. A fair tax system should therefore support equitable growth by protecting vulnerable groups, especially women and youth farmers, while mobilizing sufficient resources for national and local development.

2.2 The Role of Agriculture in Tanzania's Economy

According to the Agriculture Sector Annual Report 2023/2024, agriculture remains a cornerstone of Tanzania's economy and national development, contributing over 25 percent to the national GDP, with the crop sub-sector alone accounting for 16.1 percent in the previous

2 Tax Equity. (2024, August 21). Wallstreetmojo.com; WallStreetMojo. https://www.wallstreetmojo.com/tax-equity/.
3 Ibid.
4 IMF 2021). Tax Policy for Developing Countries.

financial year. The sector is predominantly driven by smallholder farmers, who constitute more than 80 percent of all producers, cultivating both food and cash crops on plots of less than five hectares. [5]

Agriculture remains a cornerstone of Tanzania's economy not only for its contribution to GDP, but also as a major driver of employment, food security, and poverty reduction. The sector directly and indirectly supports millions of Tanzanians, making it central to the country's long-term socio-economic transformation. The Agriculture Transformation Master Plan (ATMP) 2050 reinforces this vision by positioning agriculture as a key pillar for achieving inclusive growth, industrialization, and resilience in the face of climate change.

Aligned with the priorities of Tanzania's Development Vision 2050 and the Third Five-Year Development Plan (FYDP III), ATMP 2050 emphasizes the need to enhance agricultural productivity, strengthen value addition, expand market access, and increase climate resilience. The plan promotes strategic interventions such as irrigation expansion, mechanization, agro-processing, and the adoption of climate-smart and innovative technologies to modernize the sector and uplift rural livelihoods.

Recognizing the critical role of youth and women in driving agricultural transformation, the Ministry of Agriculture has introduced flagship initiatives that complement ATMP 2050. A key initiative is the Building a Better Tomorrow (BBT) programme, which aims to establish 200,000 youth- and women-led agribusinesses. Through capacity-building, business development training, access to land, financing, and modern production technologies, the BBT programme positions young people and women as central actors in advancing agricultural modernization, rural job creation, and inclusive economic growth.[6]

In addition to its social and developmental importance, agriculture remains a major contributor to Tanzania's foreign exchange earnings. Export revenues rose sharply to USD 3.54 billion in 2023/2024, up from USD 2.33 billion the previous year. The leading contributors included tobacco (USD 453.8 million), cashew nuts (USD 230.7 million), coffee (USD 209 million), cotton (USD 183.3 million), and sisal (USD 46.6 million).[7]

However, despite these impressive gains, the sector continues to face structural challenges that disproportionately affect smallholder farmers. These include climate variability, limited access to quality inputs, low levels of mechanization, inadequate irrigation systems, poor extension services, and weak market linkages.[8] Addressing these constraints through targeted small scale farmers fair tax policies, investments in irrigation, mechanization, financing, and farmer capacity building is essential for achieving inclusive agricultural transformation and ensuring that the benefits of sectoral growth translate into improved productivity, income, and rural livelihoods across Tanzania.

2.3 Overview of Tanzania's Tax System

Tanzania's tax system is composed of both national taxes, administered by the Tanzania Revenue Authority (TRA), and local government taxes and non-tax revenues, administered by Local Government Authorities (LGAs), non-union taxes administered by Zanzibar Revenue Authority.

5 The Tanzania Agriculture Sector Annual Report 2023/2024.
6 The Tanzania Agriculture Sector Annual Report 2023/2024.
7 Ibid.
8 Ibid.

2.3.1 Governing Laws

The Tanzania Revenue Authority Act lists numerous laws that regulate the imposition, collection and administration of taxes in Tanzania[9][See the First Schedule of the Tanzania Revenue Authority Act, [Cap 399 R.E 399]]. However, the principal legislations which regulate direct and indirect taxes include;

i. **The Income Tax Act [Cap 332 R.E. 2023]:** This act governs the assessment, collection, and management of income tax on individuals and corporations, detailing tax rates, exemptions, and deductions.

ii. **The Value Added Tax Act [Cap 148 R.E. 2023]:** This legislation regulates the imposition and collection of VAT on goods and services, including the rates applicable and the procedures for VAT registration and compliance.

iii. **The Excise (Management and Tariff) Act [Cap 147 R.E. 2023]:** This act manages the imposition of excise duties on specific goods and services, establishing the rates and administrative procedures for collection.

iv. **The Tax Administration Act [Cap 438 R.E. 2023]:** This law regulates the administration and enforcement of tax laws in Tanzania, outlining the procedures for tax collection, compliance, and tax dispute resolution.

v. **The East African Customs Management Act, 2011:** This law provides a framework for the harmonization and management of customs procedures and regulations among East African Community member states, facilitating trade and ensuring compliance with customs duties.

All the above tax laws regulate agriculture sector in Tanzania.

2.3.2 Categories of Taxes

The tax structure in Tanzania comprises:

- Direct Taxes, which include income tax which cover Personal Income Tax(PIT), Corporate Income Tax(CIT), and withholding tax. These are based on income or profits and are progressive in nature.
- Indirect Taxes, which include VAT, excise duty, and customs duties. These are levied on goods and services and are generally considered regressive since they affect all consumers equally regardless of income level.

2.3.3 Tax Administration

The TRA, established under the Tanzania Revenue Authority Act,[10] is responsible for administering central government taxes. It also ensures compliance and enforcement of tax laws. Local governments, on the other hand, collect Property tax and non-tax revenues such as fees, levies, and licenses. Zanzibar Revenue Authority administer non-union taxes imposed by the Revolutionary government of Zanzibar.

2.3.4 Revenue Performance

Tanzania's tax-to-GDP ratio has averaged around 12.6 percent, which is below the Sub-Saharan African average. This indicates a need to broaden the tax base and improve compliance. Agriculture contributes to government revenue primarily through produce cess, export levies, and registration fees, yet smallholder farmers often face challenges due to uniform levies that do not account for differences in production capacity or income.

9 See the First Schedule of the Tanzania Revenue Authority Act, [Cap 399 R.E 2023]
10 [Cap 399 R.E 2023]

2.3.5 Agriculture Sector Revenue Performance

Revenue collection in Tanzania has continued to rise, showing steady progress in domestic resource mobilisation. In 2022/23, total tax revenue reached TZS 23.68 trillion a 13.1 percent increase from the previous year.[11] Despite this growth, the tax-to-GDP ratio was only 12.6 percent in 2023/24,[12] still below the World Bank's recommended minimum of 15 percent needed to support strong public services.[13] This shows that while the revenue base is expanding, Tanzania must continue broadening the tax net and improving compliance, especially in key sectors like agriculture.

In 2023/24, agriculture made a substantial contribution to government revenue. The sector generated TZS 214.4 billion in direct taxes, largely from export levies.[14] Its indirect contribution was even higher, including TZS 433.3 billion in simulated fuel taxes for agricultural transport, TZS 172.6 billion in produce cess collected by Local Government Authorities (2021/22), TZS 38 billion from agriculture-related services, and TZS 55.7 billion in regulatory fees across crop, livestock, fisheries, and aquaculture agencies.[15] In some agricultural LGAs, produce cess contributes up to 90 percent of local revenue, highlighting agriculture's importance in supporting fiscal decentralization and community development.[16] Overall, these figures show that agriculture is not only vital to economic growth and exports but is also central to Tanzania's national and local revenue systems.

Overall, the tax system plays a vital role in financing public services and development, but its design and administration can have unequal impacts across different social and economic groups.

Therefor this contextual chapter sets the foundation for Chapter Three, which provides a detailed analysis of how national tax laws particularly the Income Tax Act and VAT Act affect tax equity, gender inclusion, and smallholder welfare in Morogoro District.

11 Tax Statistic Report 2022/2023 Mainland Tanzania.
12 The Ministry of Finance and Planning (Tanzania)'s Budget Execution Report 2023/24.
13 World Bank (2023). Domestic Resource Mobilization and Tax Policy Benchmark for Developing Economies.
14 Agricultural Reforms to Enhance Competitiveness Report Key findings available at: https://kilimokwanza.org/a-new-study-reveals-tanzanias-agricultural-sector-contributes-significantly-more-to-revenue-than-previously-thought/#:~:text=While%20the%20sector%20directly%20generated%20TZS%20214.4%20billion,agriculture%E2%80%99s%20value%20to%20the%20national%20treasury%2C%E2%80%9D%20Chi-milla%20emphasized.
15 Ibid.
16 Ibid.

CHAPTER THREE

KEY FINDINGS: HOW TANZANIA'S NATIONAL TAX LAWS AFFECT SMALLHOLDER FARMERS

Although Tanzania's tax system is governed by a range of national tax laws, this chapter focuses on the impact of two key laws the Income Tax Act and the Value Added Tax (VAT) Act on tax equity, gender dynamics, and the livelihoods of smallholder farmers in the Morogoro District Council. It explores whether these laws are helping smallholder farmers to grow and thrive or making it harder for them to improve their productivity and incomes. Drawing on insights from field interviews and focus group discussions with farmers in Morogoro District, the chapter provides a law-by-law analysis to examine how these fiscal measures shape smallholders' productivity, income, and gender equity. The aim is to identify gaps between policy design and on-the-ground realities and to propose actionable reforms that can make Tanzania's tax system more equitable, inclusive, and responsive to the needs of smallholder farmers.

3.1 The Income Tax Act and Its Impact on Smallholder Farmers

To understand how the Income Tax Act affects smallholder farmers, it is important to begin by examining who falls within the tax system. The first subsection therefore reviews the scope of the law and identifies which farmers are included or excluded from taxation.

3.1.1 Tax Scope: Who Is Covered and Who Is Left Out?

The Income Tax Act, Cap. 332 R.E. 2023, is the principal legal framework governing income taxation in Tanzania. Under Section 4, every individual and entity earning income from employment, business, or investment within a given year of income is required to pay income tax. As a result, the law also extends to farmers, including small-scale commercial farmers, through various provisions on tax imposition, exemptions, deductions, and withholding taxes.

During an interview, a Tanzania Revenue Authority (TRA) official clarified that subsistence farmers are generally excluded from the scope of the Act, as they operate informally and produce mainly for household consumption. In contrast, the Act primarily affects agribusiness companies and small agricultural entrepreneurs who are formally registered and engage in semi-commercial or commercial farming activities.

Building on this context, the subsequent analysis examines key provisions of the Income Tax Act and their implications for tax equity, agricultural productivity, and rural livelihoods. The discussion highlights the extent to which current tax policies advance or constrain fairness and inclusivity within Tanzania's agricultural sector.

3.1.2 Tax Rates: How Fair and Proportionate Are the Charges?

To understand the fairness of Tanzania's tax system, it is important to assess how tax rates are applied to different categories of taxpayers within the agricultural sector. The following subsections analyse key rate-based provisions, beginning with the presumptive tax regime for small businesses.

3.1.2.1 Presumptive Tax Regime for Small Businesses

The Presumptive Tax Regime, introduced under Paragraph 2 of the First Schedule of the Income Tax Act, Cap. 332 R.E. 2023, establishes a simplified taxation framework for individuals earning business income not exceeding TZS 100 million annually. Under this regime, individuals whose annual turnover is below TZS4 million are not subjected to income tax; their tax liability is nil. This provision serves as a social protection mechanism, shielding very low-income earners such as subsistence farmers and small traders from taxation

The interviewed Ministry of Finance official stated that; ''*The presumptive tax system is designed to simplify tax compliance and broaden the tax base by easing administrative burdens on small taxpayers, including small-scale commercial farmers. The system removes the requirement for detailed bookkeeping and audited accounts, making compliance easier for micro-entrepreneurs*'', the official added.

Impact to Smallholder Farmers:

While the presumptive system promotes administrative simplicity, it introduces significant inequities in how agricultural entrepreneurs especially smallholder farmers are taxed. Under the presumptive regime, farmers are not entitled to deduct expenses incurred in key farm operations such as purchasing fertilizers, seeds, pesticides, or hiring labour. They also cannot claim deductions allowed under Section 15 of the Income Tax Act, which include expenditures on agricultural improvement, land clearing, irrigation construction, perennial crop planting, soil conservation, or environmental and research activities.

This concern was strongly emphasized during the focus group discussion with youth small-scale agri-entrepreneurs, where one respondent explained:
"As small-scale agri-entrepreneurs, we face an unfair tax burden under the presumptive tax system, which ignores our actual costs and profits. Tax is based only on turnover, making it difficult for young small farmers like us to sustain and grow our agribusinesses. This approach fails to reflect our true financial capacity and discourages small agricultural entrepreneurs."

The respondent further emphasized that such a system discourages innovation and growth among young people who are striving to make agriculture a viable business venture.

3.1.2.2 Withholding of Income Tax for Goods

Section 107 of the Income Tax Act, Cap. 332 R.E. 2023 establishes the legal framework for Withholding Tax (WHT), requiring any resident corporation whose budget is wholly or substantially financed through Government budget subvention to withhold 2% of payments made for goods or services supplied by residents. In the agricultural sector, this provision applies when public entities such as the National Food Reserve Agency (NFRA) purchase crops directly from farmers or cooperatives.

During an interview, a Tanzania Revenue Authority (TRA) official stated that:

"When government institutions or parastatals such as the National Food Reserve Agency (NFRA) purchase crops from farmers, they are obliged by law to withhold 2% of the payment as tax and remit it to the Tanzania Revenue Authority (TRA). This mechanism is designed to ensure early and efficient tax collection and to enhance compliance within the agricultural supply chain."

Impact to Smallholder Farmers:

The interviewed CSO representatives highlighted that although the WHT system strengthens revenue administration, it also creates significant equity and income challenges for smallholder farmers. One participant explained that:
"The same withholding tax rate of 2% is applied uniformly to both large commercial farms and smallholder farmers, despite significant differences in their income levels, profitability, and access to tax recovery mechanisms."

This concern was reinforced by a TRA official, who stated that:
"Large registered farmers can reclaim the withheld tax as a credit against their annual income tax liability, but small and informal farmers, who lack Taxpayer Identification Numbers (TINs) and do not file returns, cannot recover it. For them, WHT becomes a permanent loss of income, rather than an advance payment, effectively transforming the system into a regressive tax that undermines tax equity."

The uniform withholding rate disproportionately affects the income and livelihoods of smallholder farmers. For instance, when the National Food Reserve Agency (NFRA) purchases maize worth TZS 10 million from a smallholder farmer and withholds 2%, the farmer loses TZS 200,000 - money that could have been reinvested in fertilizer, seeds, or school fees. This loss of working capital diminishes the farmer's ability to reinvest in the next production cycle, thereby limiting productivity and overall growth.

This concern was reaffirmed during the focus group discussion with small-scale agro-entrepreneurs, where one respondent emphasized:
"Withholding tax discourages participation in formal value chains, as many small farmers see the formal market as punitive rather than rewarding."
Over time, this dynamic deepens rural inequality and hinders inclusive economic participation in agricultural trade.

3.1.2.3 Single-Installment Tax on Forestry Produce

A notable recent amendment to the Income Tax Act is the introduction of a single-installment tax applicable to resident persons receiving payments from the sale of forestry produce. This tax will be levied at a rate of 2% of the gross payment, effective 1 January 2026.[17]

Under this provision, gross payment is broadly defined as the farm gate price, purchasing price, or the value determined by the Tanzania Forest Service Agency (TFS), whichever is greater.[18] The interviewed Ministry of Finance official stated that; ''*the amendment aims to the government seeks to enhance revenue collection*

17 The Finance Act 2025.
18 Ibid.

and compliance from an area that has historically remained under the informal economy."

Impact to Smallholder Farmers:

During the focus group discussion with small-scale forestry entrepreneurs in Morogoro District, respondents expressed strong concerns about the newly introduced single-installment tax. One participant explained that;"*the flat rate of 2% on gross payment fails to account for variations in production costs, scale, or profitability. For small-scale producers whose earnings from forestry produce are often marginal and seasonal, taxing gross income rather than profit imposes a disproportionate burden*" According to the respondent, this makes the tax regressive, as it takes a higher share of income from low-income producers compared to larger commercial operators.

The discussion further revealed that many rural households engage in forestry activities such as charcoal burning or timber sales as a supplementary income source. As one respondent noted this tax will reduce their r already limited earnings, undermining their ability to meet basic needs such as food, education, and farm reinvestment. Over time, this could widen the income gap between small-scale and large commercial operators. During the discussion a key respondent emphasized the unique challenges faced by youth farmers, stating:

"Many of us youth farmers engage in small-scale forestry agribusiness during the dry season to sustain our families while waiting to harvest our food crops. We only do this seasonal business to meet basic needs. This new tax seems designed to oppress us and could leave our families destitute. The government should consider exempting small-scale farmers like us from this tax."

These voices highlight the need for equitable tax measures that recognize the realities of rural livelihoods and protect the most vulnerable producers from undue financial strain.

3.1.3 Tax Incentives: Who Really Benefits?

Given the vital role of agriculture sector in Tanzania's economy, the government has introduced a range of tax incentives under the Income Tax Act, Cap. 332 R.E. 2023.

3.1.3.1 Deductions for Agricultural Improvements

Section 15 of ITA provides deductions for agricultural improvement, research, and environmental expenditure such as clearing land, constructing irrigation systems, or planting perennial crops. The deduction for agricultural improvement allows farmers to reduce their taxable income by claiming expenses incurred for land clearing, irrigation construction, soil conservation, planting perennial crops, and other environmental or research-related investments. The intention of this incentive is to promote modernization, sustainability, and climate-smart farming practices across the agricultural sector. In principle, this provision supports long-term productivity by encouraging investment in modern infrastructure and environmental protection.

Impact to Smallholder Farmers:

The Interview with official from the Tanzania Revenue Authority (TRA) revealed that the deductions provided under Section 15 of the Income Tax Act (ITA) are largely accessed by large-scale investors and formal agribusinesses that meet registration and compliance requirements. Smallholder farmers' entrepreneurs, who often operate informally without Tax Identification Numbers (TINs) or proper financial records, are effectively excluded from benefiting.

This finding was reinforced during focus group discussions with small scale agro-entrepreneur farmers in Morogoro District, where farmers acknowledged being unaware of the incentives provided under the ITA. One participant stated:
"We do not receive tax education, so we are not aware of these incentives. This is my first time hearing about them. We need proper tax education to understand and access the benefits provided under the Income Tax Act."

Similarly, civil society organization (CSO) representatives confirmed that Section 15 primarily benefits commercial farmers who are registered taxpayers and maintain proper financial records. In contrast, small-scale farmers lack the capital, record-keeping systems, and tax literacy required to claim these deductions. As a result, the provision disproportionately favors large commercial farms, widening the income and productivity gap between large and small producers in the agricultural sector.

3.1.3.2 Tax Exemption for Primary Agricultural Cooperatives

Primary cooperative societies that are formally registered and work together to grow, market, or sell agricultural produce are allowed to operate without paying income tax, as long as their total annual earnings do not exceed TZS 100 million.[19]

The interviewed Ministry of Finance official stated that this; *''exemption is intended to support smallholder farmers by reducing their tax burden and allowing their cooperatives to keep more money for important needs such as buying seeds, fertilizer, transport, and storage. It also helps strengthen farmer groups so they can negotiate better prices and improve their market power.''*

According to the law, a cooperative qualifies for this tax exemption only if it is formally registered under the Co-operative Societies Act[20], is exclusively engaged in agricultural activities including the marketing and distribution of farm produce, and has an annual turnover not exceeding TSh 100 million.[21] These conditions mean that only fully compliant and relatively small cooperatives can access the exemption, while those operating informally or earning above the threshold remain outside the scope of this relief.

Impact to Smallholder Farmers:

Despite its potential, the effectiveness of this exemption is undermined by weak cooperative governance, limited financial management capacity, and limited accountability mechanisms within many farmer organizations.[22] Some cooperatives lack the skills or structures needed to comply with financial reporting and regulatory

19 See, Paragraph (g) of the Second Schedule of the Income Tax Act [Cap 332 R.E 2023].
20 [CAP. 211 R.E. 2023]
21 Ibid.
22 Lugeye, S., & Ngetti, M. (2020). Analysis of trend and challenges of cooperatives in agriculture, livestock and fisheries in Tanzania: Final report submitted to ANSAF. Agricultural Non-State Actors Forum (ANSAF), available at, https://ansaf.or.tz/wp-content/uploads/2023/07/ANSAF-Analysis-on-Cooperatives-Final-Report.pdf.

standards required to maintain tax-exempt status. In other cases, mismanagement and corruption at the leadership level erode trust among members and reduce the economic benefits of the exemption.[23]

During the focus group discussion with small scale farmers in Morogoro District the respondent affirmed that many smallholder groups operate informally and are not registered under the Co-operative Societies Act, making them ineligible for the exemption. To justify as to why they are not registered one key respondent stated that;
''The registration and compliance requirements are too bureaucratic and costly," which discourages many small rural cooperatives from formalizing and accessing the exemption. The respondent further added, *"We were not aware that this exemption even exists. Thank you for making us aware. We really need more tax education so we can access these tax benefits."*

While these exemptions demonstrate recognition of agriculture's economic importance, they largely benefit registered cooperatives and institutional arrangements, not individual smallholder farmers. The eligibility conditions, such as formal registration and turnover limits, exclude many informal groups and unregistered farmer associations that dominate Tanzania's rural economy.

3.1.3.3 Tax Exemption on Crop Funds Established by Farmers

Amounts derived by a crop fund established by farmers under a registered cooperative, union, or association to finance crop procurement from members are exempt from tax.[24] In this regard, any money kept in a crop fund, which is a pool of money created by farmers through their cooperative, union, or association to help buy crops from their members, is exempt from income tax. This means the government does not tax the money that farmers contribute to or use from this fund.

The interviewed Ministry of Finance official stated that; *''the exemption is meant to help cooperatives have enough cash to buy crops on time and support their members without facing extra tax costs.''* This means the government does not tax the money kept in or used by this fund.

Impact to Smallholder Farmers:

The interviewed official from the Morogoro District Council argued that; Only a small number of farmer organizations have the capacity or resources to create and manage formal crop funds. Most small cooperatives deficiency financial literacy and governance systems to administer such funds. Larger cooperatives or unions with stronger administrative systems are more likely to benefit, while smaller associations are excluded**.**

3.1.4 Administration and Compliance: How Easy Is It to Pay or Enforce Taxes?

A key administrative measure that shapes how farmers meet their tax obligations is the instalment payment exemption designed specifically for those engaged in seasonal crop production.

23 Ibid.
24 See, Paragraph (q) of the Second Schedule of the Income Tax Act [Cap 332 R.E 2023].

3.1.4.1 Instalment Payment Exemption for Seasonal Crops

Section 113(5) of the Income Tax Act (ITA) recognizes the seasonal nature of agricultural income and provides specific relief to farmers who depend entirely on crop harvests for their livelihoods. The provision exempts resident farmers engaged solely in seasonal crop production from making quarterly tax instalments during the year of income. Instead, they are required to pay tax after harvest, once income has been realized. This measure is intended to ease the financial burden on farmers whose earnings are irregular and tied to production cycles.

During an interview, an official from the Ministry of Finance noted that; ''*the exemption is designed to reduce cash flow pressure on farmers who experience long production periods before earning income.* 'The official illustrated this with an example of a maize farmer who harvests and sells produce once a year, explaining that such a farmer benefits from the exemption by avoiding premature tax payments during planting and growing seasons.

As the official further explained, *"this approach enhances horizontal equity by treating taxpayers differently based on their income patterns and economic circumstances, ensuring fairness between regular businesses and seasonal agricultural producers. It also supports vertical equity by providing relief to small-scale farmers who often face income volatility and limited access to finance."*
Overall, this exemption demonstrates a policy effort to balance tax compliance with fairness, aligning the tax system with the realities of Tanzania's agricultural economy.

Impact to Smallholder Farmers:

The interviewed CSO representative argued that despite its good intentions, the exemption is conditional and restrictive, as it applies only to commercial farmers who engage solely in crop production and excludes those who earn even a small amount of non-farm income. The responded argued further that, this poses a serious challenge to tax equity, as most smallholder farmers in Tanzania diversify their income sources through petty trade to survive between harvests and mitigate risks such as drought, pests, or fluctuating market prices. By denying such farmers access to the exemption, the law creates inequity between large-scale commercial farmers, who can afford to rely entirely on farming, and smallholders who must diversify to sustain their livelihoods.

The respondent proceeded to argue that, the exclusion also undermines farm productivity, as those who lose the exemption must pay quarterly instalments even before realizing any income. This reduces the cash available for critical production inputs like seeds, fertilizer, and labour, leading to lower yields and limited investment in modern technologies. Overall, the provision inadvertently penalizes livelihood diversification and weakens small farmers' ability to remain resilient in the face of agricultural and economic shocks.

The TRA official interviewed explained that the majority of small-scale farmer entrepreneurs fall under the presumptive tax system, which does not allow them to benefit from the single instalment payment arrangement provided for seasonal crops. This concern was echoed during discussions with small-scale farmer entrepreneurs, where one key informant stated:

"We are not aware of the existence of the single instalment payment for seasonal crops. We small-scale entrepreneurs pay our taxes through quarterly instalments. So this is new information to us. Most of us fall under the presumptive tax system, which does not allow us to benefit from the single instalment payment."

This finding suggests that while the provision aims to ease tax pressure on farmers with seasonal income, in practice, it excludes many small-scale agricultural entrepreneurs operating under the presumptive regime. Consequently, the measure inadvertently penalizes livelihood diversification and weakens small farmers' ability to remain resilient amid agricultural and economic shocks.

3.2 Equity and Gender Implications: Does the Income Tax Act consider gender issues?

The Income Tax Act (ITA) remains largely gender-blind, assuming equal access to formal documentation, land ownership, and financial resources among taxpayers. This legal and administrative design fails to reflect the realities of rural Tanzania, where women and youth farmers face systemic barriers in accessing productive assets, financial services, and registration systems required for tax compliance.

The absence of a gender-responsive lens in the ITA means that the law does not account for the unique economic challenges confronting small-scale women and youth engaged in agro-based enterprises. Many of these farmers operate informally, rely on seasonal income, and lack the capital and documentation necessary to qualify for allowable deductions or capital allowances.

Furthermore, the ITA provides no targeted tax incentives or reliefs specifically designed to empower women and youth entrepreneurs in the agricultural sector. As a result, small-scale farmer agro-entrepreneurs particularly women and young people are disproportionately affected by the law. They bear a higher effective tax burden relative to their economic capacity, are excluded from accessing existing fiscal incentives, and continue to face significant barriers to fully participating in the formal economy.

Overall, the current framework perpetuates structural inequities by overlooking gendered constraints in the agricultural economy. Without deliberate reform to incorporate gender-responsive tax provisions, the ITA risks reinforcing rather than reducing economic inequality between large-scale agribusinesses and smallholder women and youth farmers.

3.4 The Value Added Tax Act and Its Impact on Smallholder Farmers

3.4.1 Tax Scope: What Is Covered and What Is Left Out?

The Value Added Tax Act [Cap. 148 R.E. 2023] establishes the legal framework for imposing, collecting, and administering value added tax (VAT) in Tanzania. Under Section 3(1), VAT applies to all taxable supplies and to the importation of goods, services, and immovable property within Mainland Tanzania. According to Section 4, the obligation to account for VAT lies with the supplier, the importer, or under specific circumstances the purchaser of imported services. Ultimately, however, the economic burden of the tax is passed on to the final consumer, as VAT is embedded in the retail price at each stage of the supply chain.

VAT operates as a multi-stage consumption tax that shapes pricing, production costs, and market competitiveness across all levels of the value chain. Its intersection with the agricultural sector emerges through three principal channels:

- Farm inputs and equipment, such as fertilizers, seeds, pesticides, tractors, and irrigation technologies;
- Processing and marketing of agricultural produce, where VAT compliance applies to registered processors, traders, and exporters; and
- Sales to government agencies and parastatals, including the National Food Reserve Agency (NFRA) and crop boards, which must withhold tax on payments made to farmers.

Although VAT is critical for revenue collection, its design and implementation significantly influence tax equity, farmers' productivity, and household livelihoods. These impacts are especially pronounced among smallholder farmers, many of whom operate outside the formal VAT registration threshold and therefore face the tax in indirect and often inequitable ways.

The following section provides an analysis of how the VAT framework affects tax equity and the productivity, income, and livelihoods of smallholder farmers in Tanzania.

3.4.2 Tax Rates: How Fair and Proportionate Are the Charges?

The VAT framework establishes a tiered rate structure designed to balance revenue needs with economic efficiency. It applies three distinct tax rates, each targeting different categories of transactions:

- Standard rate of 18%, which applies broadly to most taxable goods and services and forms the core of VAT revenue generation;[25]
- Zero rate (0%), applied primarily to exports and a narrow list of essential goods to promote competitiveness and reduce the tax burden on basic consumption;[26] and
- Reduced rate of 16%, introduced under the Finance Act, 2025, applicable only where unregistered persons make electronic payments through systems approved by the Commissioner General. This rate is supplementary, does not displace the standard 18% rate, and has minimal impact on the agricultural sector.

While the multi-rate structure aims to promote fairness and efficiency, questions remain regarding whether the current distribution of rates proportionately reflects the economic capacity of different groups particularly smallholder farmers and low-income consumers.

Impact to Smallholder Farmers:

Focus group discussions with female small-scale entrepreneur farmers in Morogoro District revealed significant implementation gaps within the VAT system. Participants emphasized that the 18 percent VAT standard rate disproportionately affects small farmers because it is applied uniformly to both small and large producers, without regard to who ultimately bears the tax burden. The respondents explained that most smallholder farmers are not VAT-registered and therefore cannot claim input tax credits. As a result, they absorb the full cost of VAT embedded in the price of non-

25 Section 5 of the Value Added Tax Act [Cap 148 R.E 2023].
26 Ibid.

exempted agricultural packaging materials, making production more expensive for them than for commercial farmers.

In contrast, most large-scale and commercial farmers are VAT-registered and eligible for input tax credits, which significantly reduces the impact of VAT on their production costs. Consequently, the application of VAT on agricultural packaging materials places a heavier burden on small-scale entrepreneur farmers and further exacerbates inequality within the sector.

During the discussion, one key respondent explained that:
''The 18% VAT rate affects more small farmers especially we female entrepreneurs who rely solely on agriculture small entrepreneur to feed our families. we buy agriculture product packages at high price which affects our income and live hood because of the VAT attached to the price of the package materials. This affects our low income which we get from our agro-small business entrepreneurs. As the result we do not see the increase of our income and most of us we are living poor life because of the high VAT rate affects us more compare.''

The narrative above indicates that despite the notable steps made by the government to exempt VAT inputs and implements the high VAT rate attached to agriculture packaging products prices disapproprietely affect more the small agriculture entrepreneurs especially women who conduct their business by adding value on agriculture products. This affects tax equity and small farmers' agriculture entrepreneurs in Morogoro district.

3.4.3 VAT Exemptions: Who Really Benefits?

Section 6 of the VAT Act provides the legal basis for exempting specific goods and services from VAT. The detailed list of exempt supplies, including certain agricultural goods, is set out in the Schedule to the Act. The table below presents the goods that qualify for VAT exemption.

Table 1: List of VAT exemptions in the Agriculture Sector in Tanzania

VAT Exemption on Agricultural Implements and Inputs
VAT Exemption on Livestock and Basic Agricultural Products
VAT Exemption on basic agricultural products and food for Human Consumption e. g maize flour, sunflower seeds, unprocessed fruits, nuts, cereals, unprocessed fish, and unprocessed edible vegetables
VAT Exemption on Implements for Fisheries and Bee-Keeping
VAT Exemption on Dairy Equipment
Zero-Rating of Locally Manufactured Fertilizer and Cotton Garments (Temporary)
VAT Exemption on Specific Items for Poultry Farming (with Performance Agreement)
VAT Exemption on Grain Drying Equipment
VAT Exemption on Cold Rooms and Refrigerated Trucks (for Specific Agriculture)

The interviewed Ministry of Finance official argued that; *''the government has made commendable efforts to promote agriculture sector and improve farmers lives though tax policies.''* The official added further that the government exempted several goods which aim to improve farmers' productivity, income and live hood. VAT exemption on agriculture inputs aimed to help farmer especially small farmers to access quality fertilizers and seeds to improve productivity, income and live hood. This is the notable step made by the government and it should be celebrated by farmers, the official added.

Impact to Smallholder Farmers:

Focus group discussion with small farmers in Morogoro District reveals that the VAT exemptions offered in agriculture sector are not benefiting small scale farmers because they face financial and cultural constrains to access these incentives. During the discussion the one key respondent argued that:

''It's true that the government has made significant efforts to offer various VAT exemptions to farmers like VAT exemption on Agricultural Implements and Inputs like seeds, fertilizers, tractors for agriculture use but most of small farmers cannot access them due to financial constraints. As the result we small farmers are still using local fertilizers, seeds and hoes which affects productivity, income and live hood.''

This argument is also affirmed in the Agricultural Annual Report 2023/2024 which clearly uncovered that majority of small-scale farmers continue to face substantial barriers in accessing critical agricultural inputs, including subsidized fertilizers and seeds while commercial farmers are using improved subsidized fertilizer and seed.[27]

The above data reveals that despite the VAT Act offers several fiscal incentives intended to stimulate investment and lower production costs in agriculture these incentives play a crucial role in supporting productivity, however, their benefits are unevenly distributed and hence affects tax equity and famers' productivity, income and livelihood.

3.4.4 Administration and Compliance: How Easy Is It to Pay or Enforce Taxes?

The VAT Act establishes a structured administrative system that is designed to facilitate tax enforcement by requiring individuals and businesses engaged in economic activities to register once they meet or reasonably expect to meet the VAT registration threshold which currently is TZS 200 million.[28] The Act further strengthens enforcement by mandating registration for specific categories, such as professional service providers, government entities engaged in business activities,[29] and non-residents making taxable supplies,[30] while empowering the Commissioner General to compulsorily register persons to safeguard government revenue.[31] These provisions make enforcement relatively straightforward for TRA in formal sectors where record-keeping, invoicing systems, and business structures are already in place.

27 Agricultural Annual Report 2023/2024, Published by the Ministry of Agriculture, available at https://www.kilimo.go.tz/uploads/documents/sw-1747227277-Agriculture%20Annual%20Report%202023%20-%202024%20compressed.pdf?.
28 See Section 28 & 30 of the Value Added Tax Act [Cap 148 R.E 2023]
29 Section 29, ibid.
30 Section 68, ibid.
31 Section 33, ibid.

Impact to Smallholder Farmers:

However, compliance remains challenging for smallholder farmers and informal agricultural actors. Most farmers operate below the VAT registration threshold and are therefore not required to register or file monthly VAT returns. While this reduces the administrative burden and shields low-income farmers from complex tax procedures, it also means they lack access to input tax credits and formal VAT documentation.

Their exclusion from the VAT system limits their participation in formal supply chains and financial services that require tax compliance records. For TRA, enforcing VAT in the largely informal agricultural sector is difficult and inefficient, as farmers rarely maintain records, issue invoices, or use digital systems. Consequently, although VAT administration is relatively effective in formal sectors, it remains challenging to enforce in the smallholder agricultural economy, where ease of compliance is low and informality persists.

3.5 Equity and Gender Implications: Does the VAT Act Consider Gender Issues?

The Value Added Tax Act does not contain any explicit gender-responsive provisions, nor does it recognize the distinct economic realities of women operating within Tanzania's agriculture sector. The Act adopts a neutral, uniform approach to VAT registration, compliance, input tax credits, and exemptions, without considering the gendered disparities that shape participation in agricultural value chains. In this regard, the law does not explicitly consider gender in its policy design, it is applied equally to all entrepreneurs regardless of sex. As a result, while the law is written in gender-neutral language, it produces gender-unequal outcomes because women farmers and agro-entrepreneurs operate in more informal, lower-capital, and lower-profit segments of agriculture compared to their male counterparts.

Impact to Smallholder Farmers:

Despite its neutral wording, the law imposes a disproportionate burden on female entrepreneurs due to existing gender inequalities in the agriculture sector. Women often constitute the majority of smallholder and micro-scale agricultural businesses which typically operate informally, feature lower turnover, and lack the formal record-keeping necessary for VAT compliance. This was affirmed during the focus group discussion with female small scale agriculture entrepreneurs where they stated that ''*majority of female-led enterprises fall below the mandatory registration threshold*'', effectively excluding them from the system.

This exclusion prevents them from claiming input tax credits on their taxable business purchases,[32] raising their operational costs and hindering their capacity to scale up. If these entrepreneurs move into value-addition activities, such as processing or packaging, that fall outside the scope of basic exempt agricultural products, they face a higher effective tax cost compared to larger, VAT-registered firms, limiting their formal economic participation.

32 Section 72 of the Value Added Tax Act [Cap 148 R.E 2023]

CHAPTER FOUR

HOW LOCAL GOVERNMENT REVENUE LAWS AND BY-LAWS AFFECT SMALLHOLDER FARMERS IN MOROGORO DISTRICT.

This chapter examines how Tanzania's local government revenue framework, particularly the Local Government (District Authorities) Act and the Local Government Finances Act, together with Morogoro District By-Laws, shape the economic realities, productivity, and livelihoods of smallholder farmers in Morogoro District.

4.1 Overview of Local Government in Tanzania

Article 145 of the Constitution of the United Republic of Tanzania (1977) establishes the foundation for local government institutions: district, urban, and village authorities. Parliament is mandated under Article 145(2) to enact laws defining its structure, composition, responsibilities, functions, and sources of revenue.

Local government's core purpose is decentralisation, bringing governance closer to communities to enhance responsiveness, accountability, and participatory development.[33] To operationalise this constitutional mandate, Parliament enacted key laws, notably:

- The Local Government (District Authorities) Act [Cap. 287 R.E. 2023]
- The Local Government Finances Act [Cap. 290 R.E. 2023]

These laws give District Councils - including Morogoro District Council, the power to generate, administer, and utilise own-source revenues such as fees, levies, and produce cess.

The following sections analyse the two Acts and the Morogoro District revenue by-laws, assessing their impact on tax equity, smallholder farmers' productivity, income distribution, and livelihoods in Morogoro District Council.

4.2 Local Government (District Authorities) Act [Cap. 287 R.E. 2023]

To understand how local fiscal practices are shaped and implemented, it is important to begin with the legal framework that governs district authorities. The Local Government (District Authorities) Act [Cap. 287 R.E. 2023] sets out the foundation for how councils are established, how they operate, and the scope of their powers.

4.2.1 Scope of the Act

The Act serves as the foundational legal framework that defines the structure, powers, and fiscal responsibilities of district councils in Tanzania. Under this Act, the Minister responsible for local government, after consultation with the President, is empowered through an order published in the Government Gazette to establish district councils.[34] In this regard, the Morogoro District Council is a statutory entity, deriving its existence, powers, and functions entirely from the provisions of the Act.

33 Article 146(1) of the Constitution of the United Republic of Tanzania, 1977.
34 Section 5(1) of the Local Government (District Authorities) Act, CAP 287 R.E 2023.

It defines how district councils exercise fiscal authority, formulate by-laws, collect local revenues, and promote community welfare.[35] While the Act strengthens decentralization and local decision-making, its implementation has wide-ranging implications for tax equity, farmers' productivity, and rural livelihoods, particularly among smallholder farmers who constitute the majority of the population in Morogoro District.

4.2.2 The Fiscal Mandate of District Councils

Section 5 of the Act empowers the Minister responsible for local government to establish district councils as corporate bodies with perpetual succession and the capacity to sue and be sued. This corporate status grants councils' fiscal autonomy, enabling them to raise, administer, and manage local revenues, as well as oversee their own development plans.

Section 115 of the Act further outlines the core mandate of local government authorities, to promote the economic and social welfare of all people within their jurisdictions. This gives councils a dual responsibility: to deliver public services effectively and to design revenue systems that support, rather than disadvantage, community welfare.

Section 124 of the Act operationalises these obligations by assigning councils the duties to formulate, coordinate, and supervise economic, industrial, and social development initiatives, ensure efficient revenue collection and utilisation, and mobilise local resources to enhance productivity and rural living standards.

However, evidence from focus group discussions with smallholder farmers in Morogoro District revealed significant implementation gaps between the legal intent of these provisions and their actual practice. Farmers consistently emphasized that while the law promotes welfare-oriented governance, local fiscal practices often prioritize revenue collection over equitable development, leaving small producers with limited benefits from the charges, fees, cess and levies they contribute.

Impact to Smallholder Farmers:

Although the law envisions that revenue collection should contribute to community welfare, small farmers in Morogoro District perceive local taxation as a revenue-maximising exercise rather than a tool for development. During the focus group discussions, respondents expressed frustration that they see little to no return from the produce cess and market fees they pay due to poor drainage systems, inadequate sanitation in markets, and seasonal road inaccessibility continue to limit farmers' ability to transport and sell their produce efficiently.

One farmer remarked:

"Every time we sell our crops, cess and market fees are deducted, yet the roads from our farms to the markets are in terrible condition, and they get even worse when it rains. Transporting our produce becomes so expensive that we often have no choice but to sell to middlemen who come to the village and offer very low prices. It feels unfair because we never see any improvement or benefit from the money we pay."

35 Section 115 of the Local Government (District Authorities) Act, CAP 287 R.E 2023.

This sentiment reflects a deep disconnect between local revenue collection and the improvement of essential public services, highlighting how the council's focus on mobilising funds often overshadows its welfare mandate under Section 115 of the Act.

Furthermore, Section 124(e) of the Local Government (District Authorities) Act, Cap. 287 (R.E. 2023) assigns the District Council a duty to "enhance productivity" and "mobilize productive forces." In practice, however, bureaucratic inefficiencies and fragmented planning have limited the achievement of these goals in Morogoro District.

This concern was echoed during an interview with a Morogoro District official, who explained that the district faces serious revenue constraints:

"The District has few sources of revenue, and as a result, the funds collected are not sufficient to meet all farmers' expectations and needs. But we are trying to create a conducive environment for all farmers to ensure productivity," the official stated.

While this official position highlights the fiscal limitations faced by the council, findings from focus group discussions reveal a contrasting reality on the ground. Smallholder farmers consistently expressed dissatisfaction, stating that despite paying cess regularly, they rarely receive extension services, training, or input support from district authorities.

As one respondent remarked:

"They talk about enhancing productivity, but we remote rural small farmers are rarely visited by extension officers. Most of us have not received proper training on how to improve our seeds or adopt modern farming practices to increase productivity."

This divergence between policy intent and farmers' lived experiences illustrates a persistent implementation gap. Without adequate technical support and reinvestment of local revenues into agriculture, small farmers continue to rely on traditional methods, facing high input costs, low yields, and poor market access. Consequently, productivity remains stagnant, undermining the very goals that Section 124(e) seeks to achieve.

4.2.3. The Power to Make By-Laws and Local Tax Instruments

Section 155 of the Act,[36] empowers district councils, with the consent of the Minister responsible for local government, to make by-laws designed to promote good governance, maintain public order, and foster the health, safety, and wellbeing of the inhabitants within their jurisdiction. Importantly, the same section also allows councils to make by-laws "for carrying into effect and for the purposes of any of the functions conferred by or under this Act or any other written law." This provision is particularly significant because it links the general law-making powers of district councils to their specific statutory functions.

Since councils are legally mandated to collect and manage local revenues, this clause provides the legal foundation for revenue collection by-laws. It authorizes

36 The Local Government (District Authorities) Act, Cap. 287 [R.E. 2023]

district councils to impose and administer local levies such as produce cess, market fees, and business licenses as part of their fiscal and administrative responsibilities. In principle, these provisions were intended to ensure that local revenue systems support both community welfare and local economic development.

Impact to Smallholder Farmers:

Findings from the focus group discussions with youth smallholder farmers in Morogoro District reveal that, although the law requires public participation and ministerial oversight in the process of developing by-laws, in practice these processes often exclude the very groups most affected, which are small and remote rural farmers. The majority of respondents felt that their involvement is merely procedural rather than meaningful, explaining that while they are occasionally invited to meetings or asked to provide views, Majority of the people do not share their opinions and inputs;

As one key respondent explained:

''*Although the Morogoro District Council consults us through the Ward Executive Officers and Village Executive Officers, most of us are not aware of the procedures for making by-laws, nor do we understand the impact of these consultations. As a result, many people do not share their views because they are unsure whether their opinions will make any difference. In most cases, these procedures reach us only as information, and we simply receive them without providing additional input. The Therefore, before consultations take place, the community should first be educated on the importance and purpose of the consultation process.* The respondent added.

This was also affirmed during an interview with the Morogoro District Official, who explained that although the council conducts consultations, the majority of community members do not respond, and some villages do not provide any inputs at all.

This sentiment highlights a clear gap between formal participation and genuine consultation, where farmers' involvement in the by-law-making process is treated as a procedural requirement rather than a genuine effort to incorporate their voices into local decision-making.

When by-laws are developed without the meaningful participation of rural small farmers especially youth and women, the resulting fiscal measures often fail to reflect their economic realities. Uniform cess rates, flat market fees, and business licence charges are imposed without considering their unique challenges or regard to differences to their, production scale, location, or capacity to pay. As a result, small and subsistence farmers bear the same burden as larger commercial producers, undermining the principle of vertical tax equity.

Moreover, by-laws formulated without farmers' input tend to prioritise revenue generation over productivity support. Because local authorities focus primarily on maximising collections, limited attention is given to how these revenues could be reinvested to address small farmers' practical challenge like limited access to extension services. Over time, this approach discourages production, weakens compliance, and erodes farmers' trust in local authorities, as they see no tangible benefits from the taxes and levies they contribute.

4.3 The Local Government Finances Act [Cap 290 R.E 2023]

Effective local governance depends on the financial rules that guide how councils raise, manage, and account for public resources. The Local Government Finances Act [Cap. 290 R.E. 2023] provides the key legal foundation for these fiscal processes.

4.3.1 Tax Scope: Who Is Covered and Who Is Left Out?

The Local Government Finances Act establishes the legal framework governing how local government authorities in Tanzania generate, manage, and utilize financial resources. It outlines the sources of revenue, including taxes, fees, levies, and grants, and provides guidelines for their collection, accountability, and expenditure. The Act aims to ensure sound financial management, promote transparency and efficiency in the use of public funds, and strengthen the capacity of local authorities to deliver essential services and support equitable local development.[37]

The scope of taxation covers individuals, businesses, corporate entities, and producers of agricultural and forestry products through mechanisms such as service levy, produce cess, property rates, business licence fees, and charges for local services. Local government authorities at all levels, urban councils, district councils, township authorities, and village councils are empowered to collect revenue from residents, traders, small enterprises, and owners of immovable property.

4.3.2 Revenue Sources: What Do Local Governments Collect?

Despite the central government providing various grants to local authorities, including Specific Grants, Development or Maintenance Grants, Block (General-Purpose) Grants, and Equalisation Grants to support both recurrent expenditures and development projects in key sectors such as agriculture, health, and education, local governments are also mandated to mobilise their own revenues. Section 7 of the Local Government Finances Act outlines the legally recognised sources of revenue for district councils in Tanzania, empowering them to impose fees, levies, and charges within their jurisdictions to finance development initiatives and deliver essential public services.

Accordingly, district councils, including the Morogoro District Council, rely on a combination of central government grants and locally generated revenues to sustain local governance and service delivery.

The table below presents the agriculture-related sources of revenue for District Councils, as stipulated under Section 7 of the Local Government Finances Act.

source	Affected Person
Cess payable at source on any agricultural or other produce produced in the area of the District Council, except for major export crops	Smallholder and commercial farmers producing agricultural crops.

37 The Local Government Finances Act [Cap 290 R.E 2023], the introduction of the Act.

Fees derived from forest produce and licenses under the Forests Act.	Farmers and individuals involved in forest produce activities.
Fees derived from meat inspection and abattoir use.	• Livestock keepers and small-scale farmers raising animals like cattle, goats, and poultry. • Person involved on animals slaughtered at district abattoirs.
All moneys derived from licences, permits, dues, charges or fees specified by any by-law made by the district council; This includes Fees paid by farmers and traders for market entry, stall rentals, and produce storage.	Farmers, traders, and market vendors.
Business License Fees	Large and Small-scale farmers are involved in trading and agro-business activities.

Despite the fact that the Local Government Finances Act clearly outlines the sources of revenue for district councils, the Act also grants councils broad powers to generate revenue from other sources within their jurisdictions, which are not stipulated in the law.[38]

Impact to Smallholder Farmers:

Although Section 7 of the Local Government Finances Act empowers District Councils to collect various revenues from agricultural activities, the implementation of these sources presents significant challenges for smallholder farmers in Morogoro District. These concerns were strongly echoed during the focus group discussion with small-scale farmers in Morogoro District, where small-scale farmers reported that the way these revenue sources are applied imposes a heavy and often disproportionate burden on their agricultural activities.

Farmers explained that *"every stage of selling produce comes with a new fee,"* referring to produce cess at source, market entry charges, stall and storage fees, as well as loading and offloading costs that collectively erode their already low incomes. Participants also highlighted that forest produce permits and meat inspection fees create additional barriers, noting that *"you pay at the village, you pay again at the market, and still again at the district gate."*

Women farmers further expressed frustration with inconsistent multiple charges, stating that *"With so many charges at every stage, by the time I bring my tomatoes to the market, there is almost nothing left for me."* These repeated and overlapping charges were identified as a key factor limiting smallholders' profitability and their ability to participate meaningfully in local agricultural markets.

38 Section 7 (2) of the Local Government Finances Act [Cap 290 R.E 2023]

4.3.3 Tax Rates: How Fair and Proportionate Are the Charges?

Section 17 of the Act gives local government authorities the power to create by-laws that set rates for services and activities in their communities. However, these by-laws must follow national guidelines issued by the Minister responsible for local government and the Minister for Finance. Importantly, councils are not allowed to introduce new taxes or fees on areas that are already taxed at the national level unless they are specifically given permission.

Section 18 also requires district and urban councils to set rates that can realistically meet their planned expenses, including any unexpected costs or gaps from previous budgets. In simple terms, these sections are meant to keep local revenue systems fair, transparent, and accountable, ensuring that councils raise money for essential services without overburdening communities or duplicating national taxes. However, Local government authorities are guided by the Local Government Finance Act in determining some rates as indicated in the table below.

Agriculture-Related Rates Under the Local Government Finances Act

Category	Allowed Rates, Charges, Levies, or Fees	Prohibited / Not Allowed
Crop Production	• Crop cess on cash crops (cap 3% of farm-gate price, buyers only) • Crop cess on food crops (cap 3% of farm-gate price, buyers only)	• Cess above 3% • Cess on sellers • Plying fee on transporting crops not exceeding 1 ton • Cess on seeds
Forest Products	• Forest produce cess (cap 3% of farm-gate price or by volume) on timber, charcoal, logs, miranda, firewood, poles, thieses	• Cess above 3% • Cess on timber sellers (furniture products)
Livestock Markets & Services	• Livestock market fee • Abattoir charges (slaughter, inspection, abattoir use) • Artificial insemination services by LGA • Livestock dipping services by LGA	• Fees on livestock outside auction mart • Fees on livestock not sold • Fees on livestock not in transit • Livestock movement permit fees • Slaughter charges in villages • AI by non-LGA staff • Dipping by village councils/ private persons
Agricultural Inputs & Support Services	• Sale of seedlings produced by LGA • Clean water services by LGA • Clearing blocked drains by LGA	• Sale of seedlings by private persons • Clean water by private providers • Clearing blocked drains by private operators

Fisheries & Aquaculture	• Commercial fishing licence fee • Fishing vessel licence fees • Fish landing/auction levy (where LGA provides facilities)	• Non-commercial/domestic fishing • Fish hawking • Small fish retailers • Fish not sold in auction mart
Forest & Natural Resource Use	• Forest produce licence fees (cap 20%)	• Fees above 20%
Market Access for Farmers	• Market stall and slab dues • Magulio • Auction marts (minada)	• Peasants selling produce on-and-off basis • Magulio managed by village councils • Small cooked food vendors
Livestock & Wildlife	• Hunting licence fees (LGA receives 20%) • Stray animal penalties	• Exceeding 20% of hunting fees

The rates and charges set under the Local Government Finances Act have a direct impact on the daily lives of small-scale farmers in Morogoro District. Although the law is intended to promote fairness and transparency, the reality on the ground is different. Farmers often face charges that feel heavy and difficult to manage, especially because most of them already work with very small profits and limited resources. As a result, these local taxes can deepen financial strain instead of supporting farmers' livelihoods.

This situation becomes even clearer when looking at how the Morogoro District Council applies these rates in practice. An interviewed official from the Council explained that Morogoro District uses the maximum allowable rates for all farmers, without differentiation. This approach, while legally permissible, does not reflect the varied economic realities of small-scale farmers.

Impact to Smallholder Farmers:

Focus group discussions with small-scale farmers in Morogoro highlighted concerns about the uniform rates applied to both large and small farmers, particularly under the produce cess. During the discussion, one farmer explained, *"The rates are the same for everyone, but my farm is small and my income is much lower than the larger farms. Paying the same fee reduces what I earn and makes it hard to buy seeds or fertilisers."*

These uniform rates disproportionately burden small-scale farmers, limiting their income, reducing their ability to invest in productive inputs, and ultimately threatening their livelihoods.

4.3.4 Exemptions: Who Benefits?

The Local Government Finances Act contains several provisions for exemptions and rate remissions; however, these measures do not extend to small-scale farmers. Under Section 24, Local Government Authorities may exempt or reduce rates for specific vulnerable groups, including persons dependent on others, elderly individuals, full-time students without income, persons with disabilities, and women who rely entirely on household supporters.

The Act also exempts institutions such as places of worship, cemeteries, charitable organisations, and educational facilities from assessment and rating, and it grants significant relief to large investors in Export Processing Zones and Special Economic Zones, whose products are exempt from all local taxes and levies for their first ten years of operation.[39]

Notably, none of these statutory exemptions target smallholder farmers, who remain fully subject to produce cess, market fees, livestock-related charges, forest produce fees, and multiple by-law-based payments. As a result, small-scale farmers, despite operating with very narrow profit margins, receive no preferential treatment or legal protection under the Act, leaving them disproportionately affected by the cumulative cost of local government revenue mechanisms.

Impact to Smallholder Farmers:

Although the Local Government Finances Act includes provisions for exemptions and rate remissions, its implementation reveals significant gaps that leave small-scale farmers without meaningful protection. The exemption framework is narrowly focused on vulnerable social groups and selected institutions, while large investors in Export Processing Zones and Special Economic Zones benefit from extensive tax relief.

This gap was clearly reflected during the focus group discussion with small-scale farmers, where one participant noted, *"There is no exemption for small farmers in our district; this is the first time we are even hearing that exemptions exist in the Local Government Finances Act."*

In practice, this means that smallholder farmers who consistently operate with low and unstable profit margins remain fully exposed to produce cess, market fees, forest produce charges, livestock-related fees, and a range of by-law-based payments.

Consequently, the implementation of the Act fails to address the realities of small farmers, leaving them disproportionately affected by cumulative charges and without any statutory pathway for exemption or rate reduction.

4.3.5 Administration and Compliance: How Easy Is It to Pay or Enforce Taxes?

The Local Government Finances Act establishes an extensive administrative framework intended to guide revenue collection, assessment, enforcement, and compliance. Section 19 empowers Local Government Authorities (LGAs) to adopt electronic revenue collection, payment, and management systems, enabling digitalisation of farm-gate and market-level collections to improve revenue control

39 See, section 24 and 72 of the Local Government Finance Act [Cap 290 R.E 2023]

and reduce leakages. The authorises the Minister, in consultation with the Minister for Finance, to issue rules governing electronic collection procedures.[40]

This digital shift was reaffirmed during interviews with Morogoro District Council officials, who noted that *"all farm-gate collection points are now managed using electronic system machines."*

Impact to Smallholder Farmers:

However, focus group discussions with small-scale farmers revealed persistent implementation gaps. The majority of respondents reported that some dishonest Morogoro District Council officials do not issue official receipts at the farm gates and occasionally declare inflated levies or fees, creating opportunities for corruption. During the discussion, one key respondent explained that,

"Sometimes they tell us the fee is higher than it should be, and if we want to pay less, we have to give a bribe."

Such practices not only reduce farmers' income and limit their ability to invest in essential inputs like seeds and fertilizers but also undermine local government revenue collection by diverting payments away from the formal system.

4.4 Morogoro District Council By- Laws

Under Section 5 of the Local Government (District Authorities) Act and Section 17 of the Local Government Finances Act, Morogoro District Council is empowered to make by-laws that support effective governance and service delivery. Using this mandate, the Council has enacted six by-laws that guide agriculture, environmental management, revenue collection, service levy administration, public health, and road maintenance. These by-laws are listed below:

The table below indicates the list of Morogoro District Council By-Laws

SN	ByLaw Code	Name of By Law in Swahili
1	GN No. 11 of 1/1/2016	Sheria Ndogo Za (Kilimo Na Usalama Wa Chakula) Za Halmashauri Ya Wilaya Ya Morogoro, 2015 *(The ByLaw on Agriculture and Food Security) of Morogoro District Council 2015)*
2	GN No. 12 of 1/1/2016	Sheria Ndogo za (Hifadhi ya Mazingira) za Halmashauri ya Wilaya ya Morogoro, 2015 *(The ByLaw on Environmental Conservation of Morogoro District Council 2015)*
3	GN No. 13 of 1/1/2015	Sheria Ndogo za (Ada na Ushuru) ya Halmashauri ya Wilaya ya Morogoro 2015 *(The ByLaw on Fees and Levies of Morogoro District Council 2015)*
4	GN No. 14 of 1/1/2016	Sheria Ndogo za Halmashauri ya Morogoro (Ushuru wa Huduma) za Mwaka 2015 *(The ByLaw on Service Levy of Morogoro District Council 2015)*

40 Section 19 (2) of the Local Government Finance Act, [Cap 290 R.E 2023]

5	GN No. 15 of 1/01/2016	Sheria Ndogo za (Afya na Usafi wa Mazingira) za Halmashauri ya Wilaya ya Morogoro, 2015 *(The By Law on Health and Environment Cleanliness of Morogoro District Council 2015)*
6	GN No. 16 of 1/01/2016	Sheria Ndogo za (Utunzaji wa Barabara) za Halmashauri ya Wilaya ya Morogoro, 2015 *(The ByLaw on Road Conservation of Morogoro District Council 2015)*

Although the Morogoro District Council has enacted several by-laws to support the effective performance of its functions, the primary instrument governing local revenue collection **is GN No. 13 of 1/1/2015** - **Sheria Ndogo za Ada na Ushuru za Halmashauri ya Wilaya ya Morogoro, 2015** (*The By-law on Fees and Levies of the Morogoro District Council, 2015*). The following section provides an analysis of this by-law and examines how its provisions influence farmers' productivity, income, and overall livelihoods."

4.4.1 GN No. 13 of 1/1/2015 Sheria Ndogo za (Ada na Ushuru) ya Halmashauri ya Wilaya ya Morogoro 2015 (The By-law on Fees and Levies of Morogoro District Council 2015)

The Morogoro District Council's 2015 By-law on Fees and Levies (GN No. 13 of 1/1/2015) serves as the principal regulatory framework guiding the Council's local revenue collection. It outlines the types of fees and levies chargeable for services, permits, and licences issued within the district, and establishes the administrative mechanisms for their enforcement. The analysis below examines the scope and implications of this by-law, beginning with an assessment of the categories of individuals and entities it covers, as well as those who fall outside its reach.

4.4.1.1 By-law Scope: Who Is Covered and Who Is Left Out?

These by-laws apply across the entire jurisdiction of the Morogoro District Council and cover all individuals and entities that seek services, permits, or licences issued by the Council. This includes district residents, businesses, traders, service providers, and developers who obtain services or conduct economic activities within the Council's jurisdiction. Non-residents who carry out business or transactions within the district are also subject to these provisions. Overall, the scope of the by-laws is primarily service-charge oriented, focusing on fees and levies tied to specific services rather than functioning as a broad-based taxation framework.

4.4.1.2 Rates: How Fair and Proportionate Are the rates?

Although the by-law includes schedules that prescribe specific fees and levies for various services, many of these charges are fixed amounts applied uniformly across categories, making them effectively flat-rate payments. Such flat fees tend to be regressive because large businesses pay a smaller proportion of their income compared to small operators.

In addition, the Morogoro District Council by-law stipulates rates that do not align with the statutory provisions of the Local Government Finances Act. For instance, the by-law sets a produce cess of 5% of the market value for both cash and food crops, a rate that exceeds the maximum 3% permitted under the Act. When asked about this inconsistency, an interviewed official from the Morogoro District Council acknowledged that the by-law is outdated and does not reflect the current statutory requirements.

The official stated: *"in practice, the Council charges the lawful rate of 3% as required by the Local Government Finances Act and the Morogoro District Council is currently in the process of amending the by-laws to ensure full compliance."*

Impact to Smallholder Farmers:
Despite the existence of the by-law and its detailed schedules, a significant implementation gap persists between what the law prescribes and what is applied in practice. The by-law's rates—particularly the 5% produce cess are inconsistent with the statutory ceiling of 3% established under the Local Government Finances Act. This misalignment creates legal and administrative uncertainty and exposes farmers to the risk of being overcharged where enforcement is not closely monitored.

The impact on small-scale farmers is significant: unpredictable and inflated charges reduce their already limited profit margins, increase their cost of doing business, and undermine their overall economic stability.

This concern was echoed during the focus group discussion with small-scale farmers, where respondents reported that *dishonest officials sometimes overcharge them to induce corruption*, taking advantage of the uncertainty created by the outdated by-laws. As a result, farmers face reduced household income, increased vulnerability, and diminished capacity to invest in productivity or meet basic livelihood needs.

4.4.1.3 Exemptions: Who Really Benefits?
The Morogoro District Council by-law is silent on exemptions, offering no specific relief for women, youth, or other vulnerable groups. During interviews, an official from the Morogoro District Council confirmed that the by-law does not contain any exemption clauses.

The official explained that, although the by-law itself does not outline exemptions, the Council applies it in alignment with the Local Government Finances Act meaning that where the Act specifies that a particular group or activity should not be taxed, the Council refrains from imposing charges. However, these statutory exemptions are not reflected within the by-law itself, creating uncertainty for taxpayers.

When asked whether any exemptions exist specifically for small-scale farmers, the official stated clearly that none are provided under the current by-law. The official explained that the Council applies levies on a non-discriminatory basis, charging cess only on crops that pass through designated collection gates, as well as market fees when small-scale farmer–entrepreneurs sell their produce. *''Crops stored at home for household food consumption are not charged,' the official added."*

However, findings from focus group discussions with small-scale farmers in Morogoro District contradict the official's statement. Farmers reported that the Council charges them even for a single bag of maize or other crops, even if they are simply transporting the produce home for household consumption. According to them, this practice places an additional burden on already struggling small-scale farmers, as officials "*do not consider whether the crops are for sale or for home use.*"

When this concern was raised with the Morogoro District official, the official clarified that *"many farmers claim to be transporting crops for home storage while, in reality, the crops are intended for sale."* Based on this reasoning, the Council has shifted its approach and now charges per bag rather than per tonne, which was the previous practice.

Impact to Smallholder Farmers:

A notable implementation gap emerges from the absence of explicit exemption provisions in the Morogoro District Council by-law. While the Local Government Finances Act provides certain statutory exemptions, these are not incorporated into the by-law, leaving the citizens, especially vulnerable groups, without clear guidance on their rights. This disconnect creates confusion and opens space for inconsistent interpretation by enforcement officers. This gap between statutory protections and the by-law's silence increases the risk of arbitrary enforcement, erodes trust in local authorities, and negatively affects farmers' income stability and overall livelihoods.

The Council's practice of applying levies on a non-discriminatory basis, charging cess on crops passing through designated collection gates and imposing market fees upon sale means that small-scale producers bear the same obligations as larger producers. In this regard, the by-law places a disproportionate burden on small-scale farmers, ultimately affecting their productivity, income, and overall livelihood outcomes.

4.5 Gender-Responsive Fiscal Measures and Empowerment under the Local Government Finances Act and

The Local Government Finances Act integrates a gender lens through its provisions on exemptions and the facilitation of interest-free loans targeting women and youth. Section 24 of the Act introduces an important social protection measure by empowering local authorities to exempt or reduce rates for vulnerable groups such as financially dependent women, the elderly, students, and persons with disabilities. This provision recognises the unequal economic realities that limit these groups' ability to meet tax obligations and seeks to ease their financial burden.

Building on this, Section 41 of the Act requires local government authorities to set aside ten per cent (10%) of their total own-source revenue derived from levies, fees, and charges across sectors like agriculture for the provision of interest-free loans to registered community groups. Of this allocation, 4% is directed to women's groups, 4% to youth groups, and 2% for people with disabilities. Through this mechanism, women and young people in Morogoro District have gained greater access to affordable capital for agribusiness ventures, value addition, and small-scale enterprises. These initiatives have contributed to increased productivity, enhanced income generation, and improved livelihoods, while promoting inclusive participation in local economic development.

Impact to Smallholder Farmers:

Despite the progressive provisions of the Local Government Finances Act, a key challenge persists in its uniform application of rates and levies, which are imposed equally on all inhabitants of Morogoro District without adequately incorporating gender-responsive considerations in revenue collection. During an interview, a Morogoro District Council official confirmed this gap, explaining that *"all agricultural levies and fees in Morogoro are applied equally to every farmer, regardless of gender or farm size."* The official further acknowledged that the district currently lacks a gender-responsive mechanism within its revenue collection framework, resulting in both men and women farmers being subjected to the same rates despite their unequal economic capacities, resource access, and production levels.

Another significant gap identified during the focus group discussions with youth and female farmers in Morogoro District relates to the complexity and cost of procedures for accessing the interest-free loans provided under Section 41 of the Local Government Finances Act. Participants argued that the process of forming and registering groups, preparing business plans, and meeting administrative requirements is often too complicated and costly, discouraging many small-scale farmers from applying. One young female farmer remarked, *"We hear about these loans, but the procedures to access and benefit from them are too complex; that's why we do not apply."*

Several participants also highlighted that when loans are disbursed in cash, they often fail to deliver meaningful benefits to individual small-scale farmers. As one respondent explained, *"I know many youths and women who received the money but misused it on things not related to farming. Some even ended up selling their assets to repay debts for loans that never helped them."* The respondents emphasised that the government should strengthen education, supervision, and follow-up mechanisms to ensure that the loans are used for productive purposes and achieve their intended goals.

The highlighted gaps significantly limit the ability of rural women and youth to benefit from funds intended to promote their economic empowerment. As a result, while the Local Government Finances Act aspires to advance equity through inclusive financial mechanisms, its implementation challenges, such as complex procedures, limited awareness, and weak monitoring, continue to reinforce gender disparities in access to financial opportunities. Ultimately, these barriers constrain the productivity, income growth, and overall livelihoods of women and youth in rural Morogoro, undermining the broader goal of achieving gender-responsive local economic development.

CHAPTER FIVE

LESSONS FROM PEER COUNTRIES FOR STRENGTHENING TANZANIA'S TAX EQUITY FRAMEWORK.

This chapter outlines practical lessons from selected African countries that have successfully implemented equitable, inclusive, and pro-poor tax and administrative reforms in the agricultural sector. Each example demonstrates how fiscal policies, when designed with smallholder realities in mind, can protect vulnerable farmers, promote fairness, reduce compliance burdens, and strengthen the livelihoods of women and youth. The practices documented here provide Tanzania with concrete options for improving national tax laws, revenue administration, and local governance systems to ensure they contribute meaningfully to agricultural productivity and rural development.

5.1 Ethiopia – Capacity-Based and Differentiated Agricultural Taxation

Ethiopia demonstrates an effective model of equitable agricultural taxation by applying differentiated tax rates that reflect farmers' actual productive capacity. By linking the rural land use tax to the size of land cultivated, smallholders with limited output pay very low rates, while commercial farms with large holdings bear higher obligations.[41] This area-based system prevents the regressive effects of flat-rate taxation and ensures that poor farmers are not taxed at the same level as large agribusinesses. The approach promotes fairness, protects smallholder incomes, and still enables the state to mobilize revenue from those with greater capacity to contribute. This principle of capacity-sensitive taxation provides Tanzania with a practical model for reforming both the presumptive tax regime and local produce cess to ensure equity and sustainability.

5.2 Sierra Leone – In-Kind Matching Grants for Inputs and Small Equipment

Sierra Leone's Matching Grant Facility offers a compelling model for increasing smallholder access to essential agricultural inputs and equipment. Rather than providing cash loans, which are often misused, the program delivers in-kind assets such as processing machinery, quality seeds, irrigation tools, and fertilisers, matched with a farmer's contribution.[42] This ensures proper use of public funds, enhances ownership, and directly boosts productive capacity. Tanzania can amend Section 41 of the Local Government Finances Act, which offers free interest loans to women and youth funds, into a similar in-kind support mechanism that would remove financial barriers that make exemptions ineffective and ensure that farmers receive tools that genuinely improve productivity, income, and livelihoods.

5.3 Rwanda – Digital Compliance and Simplified Tax Administration

Rwanda offers a strong example of how technology can remove administrative barriers

41 Publication: Gender Implications of Rural Land Use Fee and , available at, https://openknowledge.worldbank.org/entities/publication/556ccca0-3f44-55f6-932b-bc970401b55e.
42 Ministers call for increased financing to boost African smallholder , available at, https://www.afdb.org/en/news-and-events/ministers-call-increased-financing-boost-african-smallholder-productivity-81889.

that exclude small farmers from benefiting fully from tax incentives. Through tools like the M-Declaration mobile system, Rwanda has simplified filing, reduced compliance costs, and expanded access to tax benefits for small and informal taxpayers.[43] This digital-first approach allows farmers to record expenses, submit returns, and access guidance without the need for accountants or travel to revenue offices. By integrating technology with taxpayer education, Rwanda ensures that even remote and low-income farmers can easily comply and claim available incentives. Tanzania can adopt this model to reduce compliance burdens, improve record-keeping, and increase smallholder access to exemptions such as deduction under Section 15 of the Income Tax Act on deductions and WHT credits.

5.4. Kenya – Revenue Earmarking for Visible Public Services

Kenya demonstrates how local tax systems can build trust and improve compliance when revenues are directly linked to visible public investments. Programs such as the Tea Roads initiative show that when agricultural levies are earmarked for rural road rehabilitation and market upgrades, farmers recognise the value of paying taxes and benefit from lower transport costs and better market access.[44] This transparent reinvestment strengthens the relationship between taxpayers and local authorities. Tanzania can apply this model by ring-fencing a significant portion of the produce cess for rural infrastructure improvements, publishing expenditure reports, and demonstrating tangible return on taxpayers' contributions to enhance compliance and fairness.

5.5. Nigeria – Strengthening Extension Services Through Local Revenue

Nigeria's Agricultural Development Programmes (ADPs) highlight the transformative impact of reinvesting public funds, especially local revenues, into farmer support systems. By directing resources toward robust research–extension–farmer linkages, Nigeria ensures that smallholders receive practical training, climate-smart advice, and technical support critical for improving productivity.[45] This approach demonstrates how fiscal policy can be paired with service delivery to achieve real agricultural transformation. Tanzania can adopt this model by allocating part of local revenue, especially produce cess, to strengthening extension services, ensuring that women and youth benefit from targeted, high-impact technical support.

43 Increasing Tax Collection in African Countries: The Role of Information Technology - Oxford Academic, available at, https://academic.oup.com/jae/article/32/Supplement_1/i57/7059990.

44 Rural Transportation Problems: A Case Study Of Tea Roads In The Southern Tea Growing Region Of Meru-Kenya - UoN Digital Repository, available at, https://erepository.uonbi.ac.ke/bitstream/handle/11295/19722/Rural%20transportation%20problems.pdf?sequence=3.

45 Agricultural Extension and Advisory Services in Nigeria, Malawi, South Africa, Uganda, and Kenya - Alliance for African Partnership, available at, https://aap.isp.msu.edu/files/2116/8383/7679/2._Agricultural_Extension_and_Advisory_Services_in_Sub-Saharan_Africa.pdf.

CHAPTER SIX

CONCLUSION AND RECOMMENDATIONS

This chapter synthesises the key findings of the study and presents actionable recommendations to strengthen tax equity for smallholder farmers in Tanzania. Drawing on field evidence from Morogoro District, analysis of national and local tax laws, and lessons from peer African countries, the chapter outlines reforms needed at national, local, and institutional levels. The aim is to guide policymakers, civil society organisations, and development partners in designing fairer, more transparent, and gender-responsive fiscal systems that support rural transformation and inclusive economic growth.

6.1 CONCLUSION

This assessment demonstrates that while Tanzania's national and local tax frameworks are designed to promote fairness, revenue mobilization, and agricultural development, their implementation often imposes disproportionate burdens on smallholder farmers particularly women and youth whose productivity and livelihoods depend almost entirely on agriculture. National tax laws such as the Income Tax Act and the Value Added Tax Act include progressive elements and important incentives, yet many of these benefits remain inaccessible to small-scale producers due to limited awareness, restrictive eligibility requirements, and structural barriers that favour larger commercial actors. Similarly, local government revenue laws and by-laws, although grounded in principles of decentralisation and community welfare, frequently rely on uniform rates and overlapping charges that erode already narrow profit margins and weaken farmers' capacity to invest in productivity-enhancing inputs.

Across all levels of the fiscal system, a consistent pattern emerges: the absence of differentiated tax measures, limited farmer participation in decision-making, weak reinvestment of local revenues, and gender-blind policy design collectively undermine tax equity and constrain the economic potential of Morogoro's smallholder farmers. Addressing these gaps requires deliberate policy reforms that align taxation with farmers' ability to pay, reduce compliance barriers, enhance transparency, and integrate gender-responsive approaches. Strengthening cooperative systems, simplifying tax procedures, improving access to incentives, and reinvesting local revenues into extension services and agricultural infrastructure will be essential for promoting inclusive growth.

Ultimately, a more equitable and farmer-centred tax system offers a powerful pathway for advancing rural development, improving household incomes, and contributing to national economic transformation. By adopting the recommended reforms, policymakers, local government authorities, and civil society partners can ensure that Tanzania's taxation framework supports, rather than hinders, the productivity, resilience, and livelihoods of the smallholder farmers who form the backbone of the country's agricultural sector.

6.2. RECOMMENDATIONS

6.2.1 Ministry of Finance:

The Ministry of Finance Should consider to;

1. Introduce differentiated withholding tax rates for agricultural produce, applying

lower rates to smallholder farmers and higher rates to large commercial producers to address the current uniform and inequitable tax burden.

2. Reform the presumptive tax regime to allow small-scale farmers to deduct essential agricultural expenses including seeds, fertilizer, pesticides, irrigation, and labour so that taxation reflects actual income rather than gross turnover.
3. Expand VAT exemptions to cover agricultural packaging materials and basic processing equipment, reducing the high cost burden on women and youth engaged in value addition activities.
4. Integrate gender impact assessments into all agricultural tax reforms to ensure that future policies address the gender-blindness found in the current tax framework.
5. Extend the single-installment tax payment arrangement to smallholder farmers under the presumptive tax system to accommodate the seasonal and irregular nature of agricultural income.
6. Amend Section 41 of the Local Government Finances Act to include in-kind loans for agricultural implements and inputs targeting small-scale farmers, in order to improve access to essential production tools while ensuring effective utilization of the loans and preventing the misuse commonly associated with cash-based lending.

6.2.2 The Ministry of Agriculture:

1. Strengthen agricultural extension services by increasing the number of extension officers and equipping them to reach remote smallholder farmers especially women and youth to improve productivity and access to essential information.
2. Support the formalization and capacity-building of farmer cooperatives through training on governance, financial management, and compliance to enable them to benefit from available tax incentives and improve market access.
3. Collaborate with TRA and CSOs to integrate tax literacy and incentive awareness into agricultural training programs so that smallholder farmers understand existing tax benefits and how to access them.

6.2.3 Tanzania Revenue Authority (TRA)

TRA should Consider to;

1. Implement targeted tax education programs through radio, mobile platforms, cooperatives, and agricultural extension officers, with a focus on women and youth farmers who have the least access to information on tax obligations and available incentives
2. Establish Farmer Support Desks in all TRA regional offices to offer direct assistance to farmers on tax registration, filing procedures, and accessing exemptions, deductions, and other tax incentives.
3. Support CSOs to raise awareness among smallholder farmers particularly youth and women on the tax incentives available in the agriculture sector and provide guidance on how they can effectively access these incentives.

6.2.4 . Morogoro District Council

The Morogoro District Council Should Consider to:

1. Amend Government Notice No. 13 of 1/1/2015 - Sheria Ndogo za Ada na

Ushuru za Halmashauri ya Wilaya ya Morogoro, 2015 (The Morogoro District Council Fees and Levies By-law) to ensure full alignment with the rates, ceilings, and provisions established under the Local Government Finances Act. This amendment will eliminate inconsistencies, prevent the application of unlawful or excessive charges, and promote fair and transparent revenue practices for smallholder farmers.

2. Install CCTV cameras at all farm-gate and revenue collection checkpoints to minimize opportunities for corruption, strengthen accountability, and enhance transparency in the collection of local government revenues.
3. Conduct meaningful stakeholder consultations including farmers, with strong participation from youth and women during the development and review of by-laws. These consultations should be structured at village and ward levels, with all stakeholder inputs properly documented and used as mandatory reference before any by-law is approved.
4. Prepare and publish an annual public report that clearly outlines the revenue collected from agricultural sources and how those funds are utilized, in order to enhance transparency and rebuild trust among farmers.
5. Cooperate with Civil Society Organizations to build the capacity of local government officials on how to develop fair and equitable by-laws that promote fairness and support farmers' productivity, income, and livelihoods.
6. Cooperate with CSOs to build the capacity of female and youth small-scale farmers in Morogoro District on the importance of participating in public consultations during by-law making, and raise awareness on how they can benefit from local revenues, including access to interest-free loans to improve their productivity, income, and livelihoods.

6.2.5 Civil Society Organizations

Civil Society Organizations Should Consider to;

1. Conduct capacity-building training for smallholder farmers in Morogoro District, particularly women and youth on the tax incentives available under national tax laws and guide them on how to access these incentives to improve their productivity, income, and livelihoods.
2. Generate evidence-based advocacy by producing annual reports and policy briefs on how national and local tax policies affect smallholder farmers, and use these findings to influence policy reforms.
3. Collaborate with the Morogoro District Council to build the capacity of district officials on how to develop by-laws that do not negatively affect small-scale farmers' productivity, income, and livelihoods.
4. Raise awareness among small-scale farmers on the importance of participating in public consultations during the development of by-laws and how their involvement can improve fairness in local taxation.
5. Monitor local revenue collection and expenditure using social accountability tools—such as community scorecards and expenditure tracking to ensure that a substantial portion of local revenues is reinvested into agricultural services.
6. Advocate for gender-responsive tax reforms that address the unique challenges faced by women and youth in agricultural value chains and ensure they benefit equitably from tax policies.

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