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Tax Reform, Tax Compliance and State-building in Tanzania and Uganda

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Abstract

This article sets out to provide a comparative analysis of the effect of tax administration reform on tax performance and quasi-voluntary compliance in Tanzania and Uganda. It aims to reveal two findings via the comparison. Empirically, it is claimed that Tanzania achieved better outcomes in terms of both tax performance and quasi-voluntary compliance in general compared to Uganda. Despite the introduction of similar tax administration reform, the tax administrations of Tanzania and Uganda have developed quite differently. Tanzania's tax administration effectively changed the strategic and normative factors that enhance quasi-voluntary compliance, whereas Uganda's tax reforms have been stuck in a muddle. Theoretically, it is proposed that tax performance and quasi-voluntary compliance are interconnected. Quasi-voluntary compliance is necessary for achieving high tax performance in an efficient and sustainable manner. High tax performance from competent and fair tax administration improves taxpayers' willingness to comply voluntarily. Tanzania's success in tax administration reform led to positive prospects for directing and cementing the processes of state-building with the maturity of state capacity and the concomitant advancement of state–society relations.

Résumé

Cet article tente de fournir une analyse comparative de l'effet de la réforme de l'administration fiscale sur la performance fiscale et le respect quasi volontaire des obligations fiscales en Tanzanie et en Ouganda. Il révèle deux résultats de comparaison. De manière empirique, il est vrai que la Tanzanie a obtenu de meilleurs résultats en termes de performance fiscale et de conformité

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quasi volontaire en général par rapport à l'Ouganda. Malgré l'introduction d'une réforme de l'administration fiscale similaire, les administrations fiscales de la Tanzanie et de l'Ouganda ont connu une évolution assez différente. L'administration fiscale de la Tanzanie a efficacement modifié les facteurs stratégiques et normatifs qui renforcent le respect quasi volontaire, tandis que les réformes fiscales en Ouganda restaient embrouillées. Théoriquement, il s'agit d'associer performance fiscale et conformité quasi volontaire. La conformité quasi volontaire est nécessaire pour un rendement fiscal élevé, efficace et durable. Les grandes recettes fiscales obtenues par une administration fiscale compétente et équitable renforcent la volonté des contribuables de se conformer volontairement. Le succès de la Tanzanie dans la réforme de l'administration fiscale a ouvert de bonnes perspectives pour orienter et consolider les processus de construction de l'État, avec la maturité de ses capacités et la progression concomitante des relations entre l'État et la société.

Introduction

The centrality of taxation in wider state-building processes for developing countries has received considerable attention from various academic circles in recent years (IMF 2015; Bräutigam, Moore and Fjeldstad 2008). Taxation is a strategic asset for the state to carry out state formation and capacity building, whereas it also provides a vital mechanism for taxpayers to hold their governments accountable for public goods provision. Seeing taxation as a prerequisite of state-building requires taxpayers' compliance which is defined as 'meeting legal obligations imposed by the tax system' (IMF 2015: 7). Furthermore, quasi-voluntary compliance (QVC) implies that compliance comes from a mixed set of taxpayers who comply with taxes voluntarily or unwillingly due to the disadvantage of non-compliance. A wide range of compliance levels represents both the effectiveness of the government's tax administration and taxpayers' perception of taxation and the government's responsibility for public expenditure. Accordingly, facilitating compliance is the primary task of any tax administration along the lines of effectiveness and accountability (Bird and de Jantscher 1992). Indeed, tax administration reform directly and indirectly affects tax performance and compliance, thereby aiming to improve the tax authority's capacity to detect and punish the non-compliant, enforce fair and equitable taxation, and provide benefits in return for tax payment. The achievement of tax administration reform, therefore, crafts a positive trajectory of state-building by enhancing state capacity and improving state–society relations (Chazan 1988).

In the Global South, sub-Saharan African countries record seriously impaired taxation systems, which are caused by the lowest level of tax performance and compliance (Fjeldstad, Kolstad and Lange 2003). Low tax outcomes and corrupt tax administrations aggravate severe fiscal stresses in sub-Saharan Africa where domestic resource mobilisation is the most urgent and achievable solution to tackle the lack of development financing. Particularly, the domestic desire for a better tax system combined with financial support from international donors – mainly, the International Monetary Fund (IMF) and the United Kingdom – has led over 20 years of tax reforms in East Africa since 1990. Reform of tax administration was classically stressed in this region, often under the slogan, 'tax administration is tax policy' (de Jantscher 1990: 197). More precisely, this meant that launching the Tanzania Revenue Authority (TRA) and the Uganda Revenue Authority (URA) was the logical outgrowth of such a combined push for administrative reforms in East Africa.

Among sub-Saharan African countries, Tanzania and Uganda demonstrate significant variation in tax administration reform and its associated results, thereby having high validity for comparison. At the initial stage of tax reform, both countries were seen as good models for tax administration reform in this region, due to their initial successes under similar conditions such as political systems, economy and societal features (Ayoki 2008).[1] While they commonly faced challenges in taxation and adopted similar policies for tax administration reform which revolved around the establishment of semi-autonomous revenue authorities (ARAs), the two countries interestingly achieved different outcomes of their government's extractive capacity in the end. Less scholarly attention has been paid to comparative perspectives on tax administration reforms in Tanzania and Uganda, allowing the plethora of existing analyses to focus on advanced economies in developed countries (Levi 1988; Bergman 2002). The predominance of writing that examines them from an advanced country's perspective also trigged this study to be embarked (Cheibub 1998; Ongwamuhana 2011).

This study examines how differently tax administration reform, with a special focus on ARAs, has contributed to tax performance and quasi-voluntary tax compliance in Tanzania and Uganda. Tax administration reforms in Tanzania and Uganda show mixed outcomes, both with similar and different patterns compared to each other, whereas one of the initial goals for establishing ARAs was commonly aimed at improving poor tax performance and compliance. Accordingly, this comparative analysis is carried out with the following focal points: (1) attempting to detect how tax administration reforms resulted in different tax performance and compliance although similar reforms were applied respectively; and (2) providing further implications of the positive effect of tax reform for state-building via strengthening state capability and state–society relations. In so doing, this study proceeds in three steps. First, it presents an analytic framework whose components are blended between the political-economic contexts and structural motivations behind tax compliance. Second, it provides the political-economic contexts and tax administration reforms of the selected countries – Tanzania and Uganda. Third, tax performance, compliance outcomes via reformative measures and different aspects of tax administration, all of which contribute to the different outcomes in each country, are examined.

Framing QVC in the Political Economy Contexts of Developing Countries

It has been long argued that bargaining between taxpayers and governments over the collection of tax revenue can provide a foundation for the development of responsive and accountable governance and its entailing positive shape of state-society relations (D'Arcy 2011; Bräutigam 2008). Such a model of these relationships in contemporary developing countries, however, remains fairly limited. Linking taxation, responsiveness and accountability in the developing world, therefore, calls for the minimum level of tax reforms – how to induce tax compliance from citizens – as the first step to forging accountable governance between the state and society. It is not an exaggeration to contend that any single success of a government's tax reform in developing countries relies upon the degree of taxpayers' compliance which can be perceived as a basic platform of the whole reformative processes. It is also worthwhile to take it into stronger consideration that such tax compliance is variedly constructed by its embeddedness in political economic contexts. Thus, framing tax compliance within a particular set of political economic contexts in developing countries is required as the principal kernel of the analytical framework designed for this study.

On the issue of tax compliance, Margaret Levi (1988) developed her conceptual lexicon, 'quasi-voluntary compliance (QVC)', for the analysis of how the motivations for tax reform are formed and affect the outcome of the reform. QVC functions properly under the assumption that all actors in the polity, including policymakers and taxpayers, are rational and self-interested, and rulers try to maximise the collection of taxes whereas taxpayers try to avoid tax payment if possible. Rulers could depend on a repressive apparatus, but it is very expensive and often causes huge amounts of political resentment, undermining revenue collection as a result. Therefore, rulers look for a way to create and maintain QVC to minimise the costs of enforcement and to maximise tax revenue. Rulers provide an optimal mixture of coercion and positively valued goods instead of specialising in either one of them (Frohlich and Oppenheimer 1974).

QVC per se varies considerably in content and quality. It has no universal shape or principle of its application to varieties of local contexts; rather, it is requested to adapt itself to the moving frontiers of local contexts. Such an adaptive calibre of QVC in the context of developing countries can be further sophisticated by reflecting the five approaches that Deborah Bräutigam (2008) undertakes in order to understand how political economy influences a government's taxation in a multifaceted fashion. The five factors include: (1) economic development and structural improvement in the sense that tax revenue increases with higher income levels and additional tax enables the expansion of trade and new technology for collecting taxes; (2) societal factors, such as sense of moral obligation, perceived fairness and trustworthiness of the tax system, and potential benefit from paying taxes, affect willingness to pay taxes (Allingham and Sandmo 1972; Andreoni, Erard and Feinstein 1998); (3) the role of threat, based on the historical experience of European countries, in which the modernisation of tax administration was a response to threats such as wars (Tilly 1990); (4) political institutions that partly explain variation of tax systems among countries (Steinmo 1996); and (5) the reciprocal fiscal contract between the government and taxpayers, given that the government provides benefits in exchange for taxpayers' compliance.

Table 1: Factors affecting QVC

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

Sources: Bräutigam (2008); Levi (1988) (Modifications added by the authors)

Such possible variations of QVC make us see the notion of compliance as an 'ever-present mix of norms, incentives, and sanctions', embedded in its social and economic contexts (Bräutigam 2008: 13). Indeed, taxpayers decide whether to comply with taxes or not on the basis of a dual combination of strategic and normative considerations – the 'cobweb' of factors affecting taxpayers' compliance (see Table 1). First, taxpayers strategically consider the calculated probability of detection and punishment, and the provisions of incentives. Coercion is required to install some forcible apparatuses such as monitoring, detection and punishment. When rulers do not have the capacity to detect and punish the non-compliant, taxpayers' willingness to comply with taxes becomes weaker. Governments seek efficient levels of enforcement to deter law-breaking with low costs, while individual taxpayers calculate net utility from non-compliance. Nevertheless, the supply of economic deterrence alone is insufficient in explaining all non-compliance (Stigler 1971). Together with coercion, rulers can improve taxpayers' compliance by providing incentives and encouraging cooperation. As the most straightforward way to provide assurance that other taxpayers also pay is to get them to pay voluntarily; this solution includes the provision of selective incentives and the promotion of conditional or general coordination.

Second, taxpayers also normatively consider social factors related to tax payment and potential benefits in return (Levi 1988; Bräutigam 2008). Rulers can enhance compliance by affecting social factors such as perceived fairness, trustworthiness of tax systems and sense of moral obligation. Demonstrating a fair tax system encourages compliance by providing sufficient public goods and services in return for taxes and distributing the burden of the tax payment fairly (D'Arcy 2011). However, any rational individual, without perceived benefits in return, would not even consider paying taxes. The existence of positive gains for taxpayers, by contrast, increases the probability of QVC without direct coercion (Alm 1992). In this vein, it can be contended that a common cause for collecting tax revenue is to fund national development plans.

In a nutshell, the analytic framework, adapted as an integrated approach for the comparison of tax compliance in the local contexts of developing countries, covers not only political and economic aspects of tax administration reforms at both macro- and micro-levels, but also fathoms the complex reality of strategic and normative factors in forging QVC. This integrated framework further intends to link the outgrowth of tax administration reforms with state-building in the sense of how tax reforms can improve state capacity and state-society relations via tax revenue and voluntary compliance. Having said that, it should be undertaken with deep caution, given the fact that the framework per se is derived from advanced capitalist economies without the consideration of developing countries (Brewer 1990). Nonetheless, it should provide great momentum for heuristic experiments via a comparative perspective of Tanzania and Uganda, with particular reference to their political economic contexts, tax administration reforms and tax performance.

Political Economy of Tanzania and Uganda

Construing the political economy of Tanzania and Uganda as background for understanding the further impacts on tax reforms and compliance requires setting out each country's generic political economy context. Accordingly, each analytical sketch of the political economy of Tanzania and Uganda comprises two components: a short summary of general background; and political economy dynamics underpinning tax reforms, based upon the analytical framework with the five focuses of economic development, societal factors, bureaucratic modernisation, political institutions and the fiscal contract.

Tanzania: General Settings of Political Economy

It is important to note that the United Republic of Tanzania, founded in 1964, has been enjoying political stability since its independence from British colonial rule in 1961. On political stability, Tanzania successfully embarked on economic and social development during socialist government rule in the 1960s (IMF 1999a). However, the two oil crises in the 1970s ignited a serious economic downturn, and thereby a wide range of policy restructuring including economic liberalisation was implemented until the mid-1990s in order to overcome its continued recession. Tanzania adopted Structural Adjustment Programmes (SAPs), prescribed by the IMF and the World Bank, and set out the Development Vision 2025 as its future roadmap for economic development (African Development Bank 2011; World Bank 2011).

By the late 1990s, most of the public sector reforms that Tanzanian governments had been pushing turned out to be fruitful, thereby triggering Tanzania's economy to grow remarkably. As a result, the GDP growth rate of Tanzania between 2000 and 2008 averaged from 5 to 7 per cent. The economy also went through significant structural change: the proportion of agriculture's contribution to GDP became smaller as construction, mining, manufacturing and services grew significantly. In 2010, agriculture accounted for 26.6 per cent of GDP while industry and service respectively accounted for 23 and 50 per cent (African Development Bank 2011). However, it is fair to state that the agricultural sector still dominates Tanzanian economy and its dominance generates fiscal problems. In terms of Tanzania's sources for development financing in the 1990s and 2000s, exports were placed as the largest source, private savings were the second, and domestic revenue including taxation was the third. While tax revenue has significantly increased since the mid-1990s, foreign aid has still remained critical for Tanzania's development trajectories. Foreign aid amounted to 13.2 per cent of GDP and an estimated 34 per cent of the government budget between 1996 and 2007 (African Development Bank 2011).

Political Economy Dynamics Underpinning Taxation

Against the historical backdrop, the potential of political economy dynamics for tax administration in Tanzania can be recapitulated as the following five factors. First, the economy of Tanzania remains largely agrarian. Despite its agrarian economic structure, the expansion of industry and service sectors enhanced economic growth and led to increases in employment in the modern sectors. As the Tanzanian economy grew, the scope of taxation has considerably and steadily improved over the last 15 years. Second, Tanzania has an egalitarian and camaraderie culture due to tradition and the remaining legacy of the socialist government. Such a high level of trust in Tanzanian society contributed to holding the corruption ratio relatively low. In reality, extensive foreign assistance and exemptions from paying non-salary income taxes have resulted in low tax morale and its associated high possibilities of tax evasion and avoidance among elites (African Development Bank 2011). Thirdly, after the collapse of the East African Community (EAC) in the 1970s, Tanzania no longer benefited from the robust revenue mobilisation bureaucracy mutually set up by the defunct EAC. Tanzania's state-building efforts were deviated from the normative track, and the government therefore sought overseas assistance instead of relying on its own citizens in mobilising resources for the total war against poverty (Tanzania Development Initiative Program 2010). High inflow of external resources tempted policymakers to make the easy choice not to develop an effective tax system, which also underlies the low tax morale in Tanzania. Fourth, given that the TRA was designed to be a semi-autonomous public organisation, generally insulated from politics, bureaucrats in the TRA and external consultants were basically given a free hand in the operation of tax administration (Mukandala *et al.* 2005). Fifth, neither the state-building process nor the necessity of taxation contributed to creating an explicit fiscal contract in Tanzania. We now know that the major source of tax revenue was large taxpayers, given the fact that 80 per cent of tax revenue in 2010 came from 400 large taxpayers, which accounted for 0.08 per cent of total taxpayers. This narrow tax base resulted in undermining tax compliance in Tanzania. Consequently, there is no explicit fiscal contract between the government and taxpayers in place at present, even though a majority of Tanzanians are willing to engage in such contracts (Fjeldstad, Katera and Ngalewa 2009).

Uganda: General Settings of Political Economy

In general, political turmoil and war defined Uganda for nearly 30 years after its independence in 1962. Economic growth was either dismal or negative during this period of time. In the late 1980s, Uganda began its recovery from prolonged economic crisis by adopting economic liberalisation policies and SAPs in exchange for international aid. In spite of various exogenous shocks, Uganda showed an average of 7 per cent GDP growth in the 1990s, which accelerated to over 8 per cent from 2001 to 2008 (IMF 2011). The structural reshuffling of economic reforms was another significant feature of Uganda's economy, particularly with the notion that the service sector outpaced agriculture and became the largest contributor to GDP. In consequence, the sector composition of GDP in 2009 was transformed into being 22.2 per cent from agriculture, 25.1 per cent from industry and 52.8 per cent from services (African Development Bank 2011). However, just like Tanzania, agriculture still remains important in the Ugandan economy. The overall pattern of macro-economic recovery and steady growth via the support of aid donor countries in the 1990s can be seen as a common feature across Tanzania and Uganda. Meanwhile, development financing of Uganda in the two decades 1990s–2000s mainly consisted of gross private savings, exports and domestic revenue in order of scale. Gross private savings grew considerably during the post-Monterrey period following 2002, whereas the liberation of the economy facilitated the growth of exports. While domestic taxes became one of the significant sources for national development, foreign aid still played a critical role as an important source for financing development, which contributed an average of 10.7 per cent of GDP (African Development Bank 2011).

Political Economy Dynamics Underpinning Taxation

Against the historical backdrop that Uganda has experienced, the analysis of political economy that underlies taxation involves the following five characteristics. First, Uganda's economy still highly depends on subsistence agriculture and less on sectors with high-productivity. Despite the fact that the contribution of agriculture to GDP is only a little over 20 per cent, 70 per cent of the population works in agriculture. What is even worse is that the agricultural sector has not made any significant contribution to government revenue as it is by nature difficult to tax (Department for International Development 2008). Second, Uganda, unlike Tanzania, has demonstrated a culture of conflict and distrust with low tax morale. Ugandans have resisted the in-flow of Western culture and modern monetary economy, thereby are relying still on informal institutions for economic transactions. A long history of civil war, ethnic conflicts and government scandals related to public expenditure also left Uganda with 'a culture of conflict and distrust' (African Development Bank 2011). Accordingly, the citizens lost trust in their government and showed very low tax morale. Third, Uganda had difficulty developing its tax administration system in the aftermath of the

EAC's collapse, akin to Tanzania. The following civil war exacerbated this disruption, in that the Amin regime relied on overseas countries to finance the war instead of developing its own tax system. After President Museveni came to power, however, the government gave a high priority to taxation to maintain its operation as a modern state and achieve regime legitimacy. This explains why Uganda became a pioneer in establishing the ARA. Fourth, the URA was strictly controlled by the supervision of political leadership (Fjeldstad 2005). At an inceptive stage, political leaders in Uganda strongly supported the autonomy of the URA, but fatal distrust and conflict arose over time between the URA and high level political elites (Robinson 2007). The political leaders significantly impaired the URA's performance through ad hoc decision on tax policies and administration (IMF 2011). Fifth, the opportunities for establishing 'even a semblance of a fiscal contract' have been strictly curtailed in Uganda. It is mainly because a small number of companies comprised a large proportion of taxpayers, thereby creating a very narrow tax base. Another reason is the high dependence on external resources, which have taken up 20 to 50 per cent of the public expenditure budget for the past two decades.

Tax Administration Reforms

Under the given conditions of political economy dynamics in Tanzania and Uganda, the two governments embarked respectively upon reformative planning for tax administration, tax policies and bureaucratic institutions to pursue them. Despite similar inceptions of tax reforms, each government's institutional efforts eventually boiled down to different results of success.

Tax Administration and Policy Reforms: Tanzania

In the field of tax administration reforms, the lasting fiscal crisis of Tanzania motivated a series of tax reforms in the 1990s, particularly putting huge efforts into increasing the tax base and making tax collection more efficient (Fjeldstad 2003). At the beginning of the 1990s, the Tanzanian government consecutively took actions on tax reforms: firstly, focusing on modernisation of the tax system; and then expanding the managerial and technical capacity within the TRA for more efficient and effective tax administration (IMF 2003). From the late 1990s and onwards, the main weight of tax reforms has been heavily placed on how to enhance the capacity of the TRA. At the first stage of TRA reform (from 1998/99 to 2002/03), Tanzania aimed to enhance the TRA's capacity for handling massive financial supports from aid donor countries to increase tax revenue and the capacity of tax administration. Accordingly, the TRA achieved the establishment of a taxpayer identification number (TIN), installment of the Large Taxpayers Department (LTD) and unified the tax appeals system (BMZ 2003: 27). At the second stage (from 2003/04 to 2006/07), the primary goal of tax reforms was to strengthen competence and accountability of the TRA. Such an internal reform enabled the TRA not only to significantly increase tax revenue and the number of large taxpayers up to 370, but also to initiate consultation with stakeholders through quarterly forums in 2004 and adopt new risk-based VAT refund measures (Child 2008). As a result, 13,300 more people were added to the taxpayer registration via the Block Management System (BMS) for physical identification and mapping of taxpayers (TRA 2008). The major goals of the third wave of reform were similar to those of the second one. Lastly, the main achievement of the third stage (from 2008/9 to 2012/13) can be marked by the successful institutionalisation of risk-based operations in tax administration such as specialist audit capacity in certain sectors with high risk. To this end the Seven Tax Centres were newly launched for the registration of taxpayers, the examination of returns and tax collection (African Development Bank 2011).

Likewise, major tax policy reforms in Tanzania failed to be materialised until the 1990s (IMF 2015). The 1990s, however, witnessed a series of policy reforms on taxation: lowering both the personal income tax (PIT) and the top marginal corporate tax rate to 30 per cent in 1990; simplifying the customs tariff structure in 1992; and launching VAT in 1998 (Osoro 1993). In 1996, the government proactively established a Task Force on Tax Reform (TFTR), consisting of a wide range of stakeholders from public and private sectors and providing policy proposals which were employed as a key source of policy changes (African Development Bank 2011). What is more, large taxpayers' demands were increasingly reflected by revising tax laws and changing tax policies accordingly throughout the 2000s (Rakner 2001). In 2004, a new Income Tax Act was enacted to broaden the tax base and lower the tax burden. The government also introduced self-assessment and anti-avoidance measures, began to impose heavy interest charges and penalties for compliance failures and offences, implemented a concessionary corporate tax rate in 2005/06, and lowered further the marginal PIT rate in 2006/07. On the other hand, the oppressive and highly unpopular poll tax was abolished and the VAT registration threshold was further increased (Fjeldstad and Therkildsen 2008). All in all, Tanzania can be evaluated as a success case in pursuit of tax administration and policy reforms.

Tax Administration and Policy Reforms: Uganda

It is not surprising to note that Uganda, similar to Tanzania, commenced a series of administrative reforms via the establishment of the URA. It is, however, surprising to uncover the fact that the main target of Uganda's tax administration reforms, unlike Tanzania's, was limited to the eradication of administrative corruption only (Fjeldstad 2005). With this limited but clear direction, the URA activated modernisation efforts in order to streamline its top-heavy hierarchical structure and staff integrity in 2004/05. The Integrity Enhancement Programme, set up to investigate reported wrongdoings, retrained administrative staff on ethics, institutionalising a code of conduct. In 2006, the URA (2009) introduced the so-called 'Modernisation Plan' whose major objectives involved how to renovate internal capacities of the URA: simplified, cost-effective and transparent processes; open and responsive customer service; a highly skilled and motivated workforce; and modern management and analytical tools. Such a modernisation reform resulted in the reengineering of business processes in customs and domestic tax, and the introduction of ASYCUDA++, RADDEX and the eTax system. In 2009, the URA not only developed a whistle blowing policy for enhancing internal integrity, but also installed tax clinics to get feedback from taxpayers, disseminating the taxpayer charter on standards of service in multiple languages (African Development Bank 2011). Nevertheless, tax administrative reforms in Uganda continued to face inherent drawbacks which restrained its reform from going beyond the eradication of corruption. This fatal impediment severely hampered the URA to direct specific performance outcomes such as widening the tax base and conducting in-depth analysis on its tax system and policy environments (Cawley and Zake 2010).

In the 1990s, the Ugandan government joined other sub-Saharan African countries in carrying out major tax policy reforms (Mansour 2014). One of the major changes in Uganda's tax policies developed from the introduction of VAT in 1996, aimed to improve tax compliance, but this VAT-based renovation was stuck in an inner lapse of the exemption of basic goods and services from VAT (IMF 1999b). The government also steered a new income tax policy in 1997 by levying tax on a residence basis, ensuring simplicity, and encouraging a flat tax rate scale (Holmes 2006), whereas it phased out some tax holidays, exemptions and deductions, especially those for public organisations and parastatals (Fjeldstad, Kolstad and Lange 2003). Coming into the 2000s, Uganda's tax policy reforms expanded the purview of targets from VAT and income tax to tax compliance. The government allowed companies operating in export processing zones to receive various tax exemptions in 2003 and provided non-compliant taxpayers with an amnesty on penalties and interest for principal taxes, requesting voluntary disclosure and compliance in 2007/08 (Therkildsen 2004). In a nutshell, Uganda's tax reforms can be fairly assessed by stating that they achieved some degree of tax policy reforms, in spite of the internal obstruction embedded in the corruption-restrained administration reforms.

Institutional Reform

The most remarkable advancement of tax reforms in sub-Saharan Africa in the 1990s converged on the institutional establishment of ARAs. Institutionalising ARAs was a critical process which contributes to stabilising tax administration reforms not only by securing their autonomy from the central government but also by operating as single-purposed agencies for taxation and personnel management (Taliercio 2004). In this regard, the institutional reform with ARAs was viewed as a necessary condition to create effective tax administration working for reinforcing tax revenue and compliance, detecting non-compliance effectively, treating taxpayers fairly and improving tax services (Kidd and Crandall 2006; Fjeldstad 2003). Indeed, a comparative perspective on institutional reforms for the TRA and the URA is useful for us to understand the underlying cause of different results in tax reforms across Tanzania and Uganda.

In general, there are few dissimilarities between the TRA and the URA, and both ARAs share almost all institutional aspects of structure and management. The TRA, established in 1996, and the URA, launched earlier in 1991, are both financially funded by the parliament's annual budget allocations. Both institutions, commonly comprised of the Head, Commissioner General and the Board of Directors, are the logical outgrowth of governmental attempt to achieve better coordinated tax administration (Ayoki 2008). The Commissioner General, directly appointed by the President, provides institutional leverage to operate the TRA and the URA independently from political pressure and governs the major functions of the two ARAs (Fjeldstad, Kolstad and Lange 2003). The Board of Directors is held responsible commonly by the Ministry of Finance (MoF), in that the Minister of Finance and Economic Affairs has authoritative power to hold the TRA to be accountable and the MoF determines and supervises annual revenue targets for the URA.[2] Another commonality can be clearly confirmed by not only the TRA's tax training centre providing various courses on tax issues in parallel with the URA's school for technical training (African Development Bank 2011) but also in both of the ARAs' offer of higher salaries to staff in comparison to other public governmental organisations

(TRA 2008; Therkildsen 2008). Finally, the TRA and the URA commonly attempted to introduce new techniques for tax administration reforms, such as the TRA's ICT-based modernisation plans and the URA's eTax system for better data management under the 'Tax Modernization Initiative'.

Conversely, considering the differences in nuance between the TRA and the following contentions can be endorsed. First, it is contended that the TRA has more favourable and accountable relationships with its principal, the MoF, compared to the URA (Clarke and Wood 2001). The TRA is more responsive to the call of the MoF than the URA, given that the former is much more closely incorporated under the direct guideline of the MoF. Second, a Tax Appeals Tribunal (TAT), established within the URA in 1998 but nowhere found in the TRA, provides a legal opportunity and benefit for the private sector. It is simply because the Tribunal only accepts complaints and questions from businesses in written form, rather than from ordinary taxpayers (Rakner and Golpen 2003). Third, unlike the TRA, the URA lost ground on its sovereign offer of higher salaries to staff in the mid-2000s, in the face of government's strong intervention in the operation and recruitment processes of the URA (von Soest 2008). Albeit seemingly marginal, such small differences are able to reveal the diverging paths of tax reforms in Tanzania and Uganda.

Tax Performances

Whether government's efforts at tax administration reforms in the two countries are successful depends upon the corollary of tax performance whose components can be divided into tax revenue and administrative performance. For the visualisation of the comparison, numerical indicators on tax revenue and administrative performance are given to demonstrate how differently tax administration reforms have affected tax performance in Tanzania and Uganda.

Tax Revenue

Neither the TRA nor the URA sustained initial success in tax administration reforms and transformed them into positive results of tax revenue by the mid-2000s when they split into two different trails. The tax to GDP ratio in Tanzania increased after the establishment of the TRA, but this ratio soon stagnated; likewise, Uganda achieved a steady increase in tax collection for several years after the establishment of the URA, but Uganda also showed stagnation in the tax to GDP ratio in the late 1990s. However, since the mid-2000s, the TRA has revived revenue performance while the URA has still been in stagnation. Tanzania's tax to GDP ratio began to recover from 2002, and continued to increase up to 16.4 per cent of GDP in 2008 (see Figure 1). By contrast, the tax to GDP ratio in Uganda went through ups and downs over the ten years from 1996, finally reaching only 11.8 per cent in 2010.

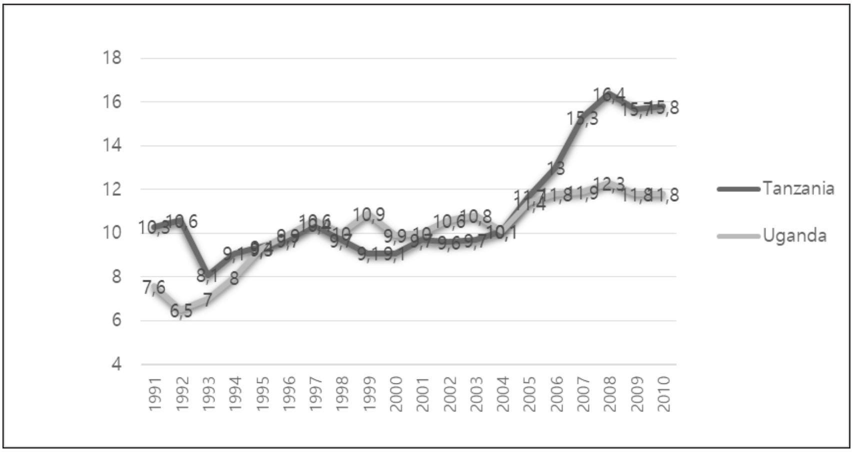

Figure 1: Tax revenue as a percentage of GDP, 1991–2010

Source: Mansour (2014)

In the case of Tanzania, apparently, establishing the TRA in 1996 triggered tax revenue as a proportion of GDP to stay around 10 per cent until the mid-2000s. Soaring over 15 per cent in the late 2000s resulted from further extensive reforms to broaden the tax base from 2003/04 to 2006/07. According to the IMF's evaluation, the best performing tax sources in Tanzania over the 2000s included VAT via the lifted threshold for its registration, income tax contributing to domestic tax collection and the expansion of large taxpayers through a booming macro-economic environment (IMF 2004). Nonetheless, extensive exemptions and fiscal corruption caused substantial revenue loss, which most likely explains the majority of the tax gap in Tanzania (Ndulu *et al.* 2007).

Uganda demonstrated a much worse departure of tax revenue as a proportion of GDP, 7.6 per cent, than Tanzania in 1991 when the URA was established. A series of tax reforms in the 1990s enabled Uganda to achieve a relatively steady improvement in the tax to GDP ratio, but the ratio remained stagnant again in the mid-1990s (Therkildsen 2004). Prevailing tax evasion contributed to this disappointing result, given that Uganda's average annual revenue loss from evasion caused by trade mis-invoicing between 2002 and 2011 accounted for 12.7 per cent of government revenue while the counterpart in Tanzania was only 7.4 per cent (Ayoki 2008). As discussed above, the erosion of the URA's autonomy and increase in corruption slackened the growth of tax revenue, and widespread smuggling also caused leakage in tax collection. Of its tax revenue, Uganda is still the most heavily dependent on import and excise taxes. Inland tax revenue was the second biggest contributor to total revenue. VAT revenue was growing due to administrative improvement and the entry of large taxpayers into the market. However, the expansion of exempt or zero rating items and tax amnesty undermined the effort to increase revenue (Crawley and Zake 2010).

Administrative Performance

Tax administration reforms in Tanzania and Uganda eventually induced a positive or negative triad of effectiveness, efficiency and accountability of their tax administrative performances. Characteristically, a comparative evaluation of the two governments' administrative performances can be attempted by using these five indicators: performance effectiveness, performance productivity, performance efficiency, performance equity and allocative efficiency.

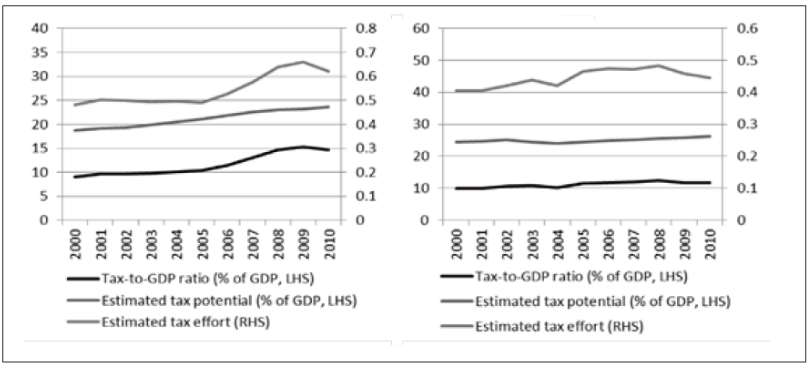

Figure 2: Tax to GDP ratio, estimated tax potential and effort in Tanzania and Uganda, 2000–10

Source: Langford and Ohlenburg (2016)

First, performance effectiveness can be identified as the estimates of tax effort and tax gap. As Tanzania significantly raised tax effort 25.1 percentage points between 2001 and 2008, the TRA successfully closed the gap between the official tax ratio and the realised ratio from 5 per cent of GDP in the late 1990s to 2.4 per cent in the early 2000s (Levin 2005: 29). Uganda's tax effort and tax gap also gradually improved, thereby raising tax effort by 6 percentage points and narrowing the tax gap up to 7.8 per cent of GDP between 2001 and 2005 (African Development Bank 2011). As shown in Figure 2, Langford and Ohlenburg (2016) provide an interesting comparison between Tanzania and Uganda's tax potential and tax efforts throughout the 2000s by observing that Tanzania performed a larger increase in tax potential and effort than Uganda. It is in this context that Tanzania achieved the significant improvement in its tax to GDP ratio, as opposed to Uganda's marginal increase.

Table 2: Comparison of VATGCR, CITPROD and PITPROD in Tanzania and Uganda, 2007/08–2012/13

Indicator	Year	Tanzania	Uganda
VATGCR	2007/08	38.3	27.5
	2008/09	27.0	26.5
	2009/10	35.2	28.6
	2010/11	35.2	16.4
	2011/12	45.7	28.6
	2012/13	44.2	26.2
CITPROD	2007/08	0.08	0.06
	2008/09	0.05	0.03
	2009/10	0.06	0.03
	2010/11	0.06	0.01
	2011/12	0.06	0.03
	2012/13	0.07	0.12
PITPROD	2007/08	0.07	0.06
	2008/09	0.08	0.11
	2009/10	0.09	0.07
	2010/11	0.17	0.04
	2011/12	0.16	0.08
	2012/13	0.12	0.07

Source: USAID Collecting Taxes Database 2013

Second, performance productivity typically contains the following three components for its assessment: VAT Gross Compliance Ratio (VATGCR), Corporate Income Tax Productivity (CITPROD) and Personal Income Tax Productivity (PITPTOD). All factors represent how well a certain tax produces revenue in a given tax structure.[3] Tanzania's VATGCR grew significantly over time and remained higher than that of Uganda at all times. As for CITPROD, Tanzania's score continued to be slightly higher than that of Uganda, except for the year 2012/13, but remarkably, Uganda's CITPROD doubled over five years. In terms of PITPTOD, the gap between two countries grew larger over time, leading Tanzania's PITPORD to stay at almost twice the level of Uganda's after 2010/11. Overall, it can be claimed that Tanzania outdid Uganda in the light of performance productivity from 2007/08 to 2012/13 (see Table 2).

Third, performance efficiency is used as a reliable indicator for comprehending the cost of collection, the ease of paying taxes and the management of tax arrears. The average cost of tax collection was estimated at 3 per cent of tax revenue throughout the 2000s in both countries. The share of costs declined quite gradually while the absolute cost grew. Regarding the ease of paying taxes in 2010, Uganda rather excelled Tanzania by reflecting the fact that Tanzania was ranked 120th while Uganda was ranked 61st out of 183 countries. However, the TRA pursued a fairly proactive approach to the collection of tax debt, empowering the Large Taxpayer Department and the Domestic Revenue Department to collect 100 and 68 per cent of tax arrears respectively in 2008. In stark contrast, the URA's tax arrears rather proliferated by 439.8 per cent between 2006 and 2007 despite the write-off of tax arrears in 2006 (African Development Bank 2011).

Fourth, performance equity representing the fairness of taxation diverged markedly between Tanzania and Uganda. Tanzania, which kept increasing the lowest PIT threshold and cut down the lowest marginal tax rate, planned and implemented more progressive income tax rates than Uganda. Such a rigid pay-as-you-earn tax in Uganda failed to reflect the fully inflationary effect on wages, thereby maintaining a flat rate after a low threshold, which was unfavourable to low income earners (Sennoga, Matovu and Twimukye 2009). Considering that the total tax rate on the profits of private firms was respectively 45.2 per cent in Tanzania and 35.7 per cent in Uganda, we can assume easily that corporate taxpayers in Uganda take a relatively lower burden than in Tanzania.[4]

Lastly, allocative efficiency is closely intertwined with tax incentives and exemptions as it relies on an optimal distribution of goods and services in an economy.[5] Undoubtedly, a moderate tax rate with a broad tax base and few exemptions is always more efficient than a high tax rate with numerous exemptions. In Tanzania, various tax exemptions given under the Tanzania Investment Act turned out to be ineffective in attracting investment and contributed to the loss of 6 per cent of GDP in 2008. Meanwhile, as the investment code was abandoned and various exemptions were granted in Uganda, corporate tax collection declined in the 1990s and Uganda finally lost at least 2 per cent of GDP from such tax incentives and exemptions (African Development Bank 2011).

In a nutshell, a clear-cut message from the comparison of both tax revenue and administrative performances described above tells us that Tanzania has been taking a relatively superior position to Uganda. This message leads us to take a deep look at how tax administrative performance could be linked with tax compliance.

Tax Compliance

It can be reasonably assumed that improving tax administration positively generates a higher level of tax compliance. Presumably, effective, efficient and fair taxation encourages taxpayers to comply with tax authorities voluntarily, thereby creating self-reinforcing effects for tax performance and compliance (OECD 2014; IMF 2015). It is critical to compare the varying degree of QVC between Tanzania and Uganda, and then examine how tax administration reform in each country led to those different outcomes.

To identify the overall outcomes of tax compliance in Tanzania and Uganda, various survey results on public attitudes toward tax payment, tax authorities' mandates and functions can be mobilised together. Although this multiple approach to measuring tax compliance has been preferably used in the previous studies of non-African regions, applying such measurement to a cross-country analysis on Africa is a fairly new attempt (Ali, Fjeldstad and Sjursen 2014). Indeed, varieties of survey results provide a combined insight for understanding tax compliance and its underlying motivations in Tanzania and Uganda. The overall survey results are mainly obtained from the research by Aiko and Logan (2014) and the Afrobarometer survey (particularly, Round 5 (2011/13) and Round 6 (2014/15)).[6]

Table 3: Variations of tax compliances between Tanzania and Uganda

<table>
<tr><th></th><th colspan="2">Tax compliances</th><th>Tanzania %</th><th>Uganda %</th></tr>
<tr><td rowspan="4">Afro-barometer Round 5 (2011/13)</td><td colspan="2">Tax compliant attitudes</td><td>47</td><td>32</td></tr>
<tr><td rowspan="3">Non-compliant attitudes</td><td>Wrong but understandable</td><td>33</td><td>46</td></tr>
<tr><td>Wrong and punishable</td><td>45</td><td>32</td></tr>
<tr><td>Not wrong at all</td><td>20</td><td>20</td></tr>
<tr><td rowspan="4">Afro-barometer Round 6 (2014/15)</td><td colspan="2">Tax compliant attitudes</td><td>63</td><td>44</td></tr>
<tr><td rowspan="3">Non-compliant attitudes</td><td>Wrong but understandable</td><td>25</td><td>36</td></tr>
<tr><td>Wrong and punishable</td><td>63</td><td>44</td></tr>
<tr><td>Not wrong at all</td><td>8.4</td><td>15</td></tr>
</table>

Sources: Afrobarometer Round 5 and Round 6

As shown in Table 3, the first comparison via survey results engages the tax complaint attitude by referring to the Afrobarometer Round 5 (Ali, Fjeldstad and Sjursen 2014). The respondents are asked whether they deem avoiding income taxes is 'not wrong at all', 'wrong but understandable' or 'wrong and punishable'. The results show that the respondents are divided into two groups: a group with tax compliant attitudes, and another group with non-compliant attitudes. The question is intentionally phrased as an indirect question to avoid the direct implication of 'wrongdoing' by the respondents and capture more accurate attitudes towards taxation. In general, 47 per cent of Tanzanian respondents supported a tax compliant attitude while 32 per cent of Ugandan respondents did. The fraction of people answering that not paying taxes on income is 'wrong but understandable' turned out to be lower in Tanzania than in Uganda (33 and 46 per cent respectively). The tendency for people to prefer the answer of 'wrong and punishable' was also higher in Tanzania than in Uganda (45 and 32 per cent respectively). On the other hand, both Tanzania and Uganda shared the parallel ratio (20 per cent) of people's choice for 'not wrong at all'. In the Afrobarometer Round 6, the proportion of respondents with tax compliant attitudes in Tanzania took a sweeping upturn to 63 per cent, which engaged in a bigger gap with 44 per cent of Ugandans (see Table 3). The ratio of non-compliant attitudes for the option of 'wrong and punishable' in the two countries was equivalent to that of tax compliant attitudes in direct proportion. In Round 6, Tanzania and Uganda both witnessed the decreasing tendency towards taxpayers' attitudes of regarding tax non-compliance as a 'wrong but understandable' behaviour, compared to in Round 5. Also, the Round 6 discloses that Tanzania's ratio of taxpayers' preference for 'not wrong at all' was much lower than that of Uganda, despite the fact that both countries positively experienced decline in their general trends. It is fair to conclude that taxpayers in Tanzania had much higher tax compliant attitudes compared to Uganda in both Round 5 and Round 6 of the Afrobarometer survey.

Secondly, public support for tax authorities' mandate is another vital dimension to measure comparative variation regarding tax compliances between Tanzania and Uganda. The Afrobarometer survey and its associated research estimated the level of public supports for tax authorities by collecting answers to the question of whether respondents agreed that the tax authorities always have the right to make people pay taxes. Using the same question for the five rounds of surveys throughout the 2000s is of great help to identify and trace the change in tax compliance over time (D'Arcy 2011). In 2012/13, 71 per cent of Tanzanians responded that they 'agree' or 'strongly agree' with tax agencies' right to collect taxes while 66 per cent of Ugandans did so. Despite the small difference of 5 per cent, it is important to confirm that Tanzanians generally showed stronger support for the legitimacy of the tax authorities than Uganda, and it is more important to note that this tendency was a longstanding growth which has been continuously stronger over time: from 57 per cent in 2003 to 71 per cent in 2012. The ratio of the respondents who 'disagree' or 'strongly disagree' fluctuated, but was restored to 24 per cent in 2012, which was similar to the level of 2003 (23 per cent). In contrast, the proportion of respondents in Uganda who 'agree' or 'strongly agree' gradually declined from 87 per cent in 2003 to 66 per cent in 2012, whereas the respondents who 'disagree' or 'strongly disagree' increased from 9 per cent in 2003 to 21 per cent in 2012.

Additional feedback on tax compliances stems from public recognition of taxes as resources for development. In the Afrobarometer Round 5, Tanzania and Uganda presented similar results in their answers about the importance of taxes as development resources: in Tanzania, 55 per cent agreed that citizens should pay taxes for national development, while 43 per cent wanted the government to find other resources; and in Uganda, 51 per cent agreed with the need to pay taxes for development, while 47 per cent responded negatively (Aiko and Logan 2014). In Round 6, citizens' duty to pay taxes for national development gained 62 per cent assent in Tanzania and 58 per cent in Uganda. On the other hand, 22 per cent of those surveyed in Tanzania agreed that the government needs to find other resources for development without levying taxes while 28 per cent agreed in Uganda. In addition, 64 per cent of Tanzanian respondents preferred higher taxes and more services in return, while 41 per cent in Uganda responded so. The ratio of respondents favouring lower taxes with less services recorded 27 per cent in Tanzania but 48 per cent in Uganda. In short, it can be concluded that Tanzanians showed a higher preference for a tax-for-service trade-off, compared to Ugandans.

Lastly, generating tax compliance often requires the integrity of tax authorities, based on the transparency and accessibility of tax systems, as well as government corruption. The Afrobarometer Round 5 confirms that Tanzania and Uganda shared a similar level of difficulties with transparency and accessibility of tax systems: around 70 per cent of Tanzanians and Ugandans answered that it is 'difficult' or 'very difficult' to get information about tax liabilities. Even worse, 85 per cent of respondents in both countries responded that it is hard to know how the government spent tax revenue. Although there were no big gaps between the two countries, the perceived corruption of the tax authorities was greater in Uganda than in Tanzania: 38 per cent of Tanzanians and 45 per cent of Ugandans respectively reported that 'most' or 'all' tax officials are corrupt. In this vein, we now know that the most serious obstacle to enhance tax compliance in Tanzania and Uganda commonly develops from the lack of integrity of the tax authorities.

In general, a main finding from the four comparisons described above reconfirms that Tanzanians show a higher level of QVC than Ugandans in many aspects (see Figure 3). On top of this, our analytical journey would come to an end if the varying mechanisms for how to link administrative tax reforms with tax performance and tax compliance could be engendered by strategic and normative factors in the context of state-building in Tanzania and Uganda.

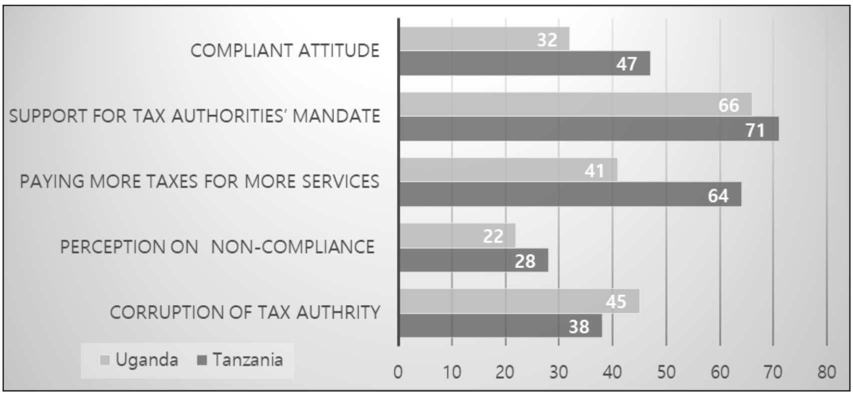

Figure 3: QVC in Tanzania and Uganda, 2011/13

Source: Afrobarometer Round 5 and Round 6

Tax Reform Factors Differentiating QVC

A missing link in identifying the associational relation between administrative tax reforms and QVC is to elaborate how differently the government's tax reforms affected the density and direction of QVC in the state-building process in Tanzania and Uganda. For this issue, tax reform factors described in Table 1 – coercion and incentives as strategic factors, social factors and benefits provisions as normative factors – need to be brought back into our discussion on how to translate their differentiated impacts on QVC between Tanzania and Uganda given the facts we have hitherto explored. A new version of Table 1, modified by adapting the key conditions of tax administration reforms in the context of state-building, can be transformed into Table 4.

Table 4: Factors in tax administration reforms affecting QVC

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

Strategic Factors

The coercion factor as part of the strategic factors mainly involves the tax authority's capacities in detection and punishment of non-compliant taxpayers. Obviously, the varying ability to detect tax evasion and enforce punishment between Tanzania and Uganda results in the different level of tax compliance. The TRA took proactive measures to collect tax debts and charged heavy interest rates and penalties for compliance failure and offences. As efficient detection and punishment underpinned tax administration strategies in Tanzania, audits and inspections have become the usual work of the tax administration (Ongwamuhana 2011). On the contrary, the URA's strategic moves towards detection and punishment often degenerated into extreme and inefficient public interventions. The militarisation of its tax collection to prevent smuggling and evasion brought forth strong public backlashes, thereby undermining enduring Ugandan efforts to build QVC. Even worse, the Ugandan government's rash provision of tax amnesty to non-compliant taxpayers motivated domestic corruption and weakened the enforcement capacity of the tax authorities (African Development Bank 2011).

Endowing proper incentives via high quality-based taxpayer services is also treated as a critical strategic factor for inducing QVC. Complicated legal regulations in tax payment, and the low quality of taxpayer services and education, ultimately undermine tax compliance. In fact, various efforts for simplifying the tax structure and payment systems in Tanzania enabled taxpayers to pay much more easily than in Uganda where there were no serious reformative actions that the government took. Another contributing factor for strategic incentives comes from taxpayer education in Tanzania, which equips taxpayers with more knowledge about their obligation and the use of tax revenue, whereas the URA failed to consolidate the positive educational effects for QVC.

Normative Factors

First, social factors as normative ones normally encompass the expansion of the tax base and opportunities for negotiation and feedback with taxpayer groups. Such social factors entail the social construction of normative factors affecting positive mobilisation of QVC. The TRA's efforts to broaden the tax base via BMS have been so effective as to affect taxpayers' perception of the fairness of the tax system and give confidence that other taxpayers would comply as well. In contrast, the URA's tax reforms neither produced nor directed specific performance outcomes, including widening the tax base, as it had keen interests in the fulfilment of revenue only (Ayoki 2008). On the other hand, the second element of social factors is characterised by society's voices and organised responses to taxation, which lead to positive influences on QVC. Tanzania had a unique organisation, the TFTR, specialising in its mission to consult with various stakeholders (Child 2008). The TRA also endeavoured to embrace complaints of large corporate taxpayers by channelling them to the official legal system and leading to the eventual revision of laws. Particularly, the formation of constructive conversations between the government and private firms should be taken into consideration as a remarkable change, given that the Tanzanian government had protected the private sector so as to completely shun its taxation through the use of illegal and personal connections in tax assessment (Fjeldstad and Moore 2009). Tanzania's TFTR, which is an oral forum, contributed to social change in taxation more effectively than Uganda's TAT which only accepts written complaints and questions (Rakner and Goplen 2003). In contrast to Uganda, Tanzania's consultation mechanism was able to reinforce taxpayers' support for the tax authorities to levy taxes, increasing opportunities to create a fiscal contract between the government and taxpayers.

The second normative factor converges on the commitment to providing benefits, envisaged in political support for the tax authorities, competent administrative staff in taxation, control of corruption, and the variation of administrative tax reforms. First, proactive support from high-level political leaders is a crucial prerequisite for pursuing tax administration reforms, which otherwise would become a source of vulnerability to political interference. Although political interference has been a common phenomenon in both countries, political leaders took different approaches to enhance QVC. In Tanzania, political leaders espoused TRA's effective functioning, as Tanzanian politicians, with great concerns about the danger of high aid dependency, put lots of effort into building an effective tax administration. In Uganda, however, the political leadership's ad hoc decisions significantly damaged the effectiveness of the URA. Indeed, numerous tax exemptions were approved without a specific deadline or target, thereby impeding vastly the operation of the URA and allowing additional room for tax evasion (Gauthier and Reinikka 2006). Uganda's weak political support signalled to taxpayers that the tax authority would not keep their promises about benefits in return for tax payment, whereas stronger political support in Tanzania led to a better compliance outcome.

Second, high competency of the tax authority contributes to its public image that it collects taxes successfully and returns the benefits to taxpayers. Although both Tanzania and Uganda struggled in sustaining high salaries for their staff, the TRA did a relatively better job in recovering its high salary level and maintaining professional personnel in the organisation. The TRA is now recognised as a professional agency filled with experts in relevant fields; conversely, the URA failed to maintain specialised experts within the organisation. This difference also explains the higher level of tax compliance in Tanzania.

Third, widespread corruption in tax administration harms its public legitimacy and the fairness of tax administration reforms, because corrupt administration prompts taxpayers to view the taxation process as just a waste, stealing personal assets, thereby undermining QVC (Adebisi and Gbegi 2013). Corruption within the URA became chronic and pervasive by the mid-2000s as the government's anti-corruption efforts lacked sufficient resources and capacity. Accordingly, the URA was ranked the fourth most corrupt organisation among the East African agencies while the TRA was ranked the 32nd (Transparency International Kenya, Tanzania Transparency Forum and Transparency International Uganda 2009). Given the fact that the issue of corruption is seen as a political scandal, the erosion of political support towards the URA also aggravated the inner corruption and its predatory behaviour in dealing with taxation in Uganda (Robinson 2007).

Fourth, the different focus of tax administration reforms between Tanzania and Uganda shapes different levels of QVC. Tanzania conducted various research and analyses to find the best policy prescriptions, and implemented comprehensive administration reforms including institutionalisation. On the contrary, Uganda lacked comprehensive and in-depth analyses of its tax system and policy environment, rather concentrating on the issue of how to curb the URA's corruption. Uganda's wrong path of tax reform eventually hindered the prospect of tax administration reforms, ignited public anxiety that the tax authorities would remain ineffective and corrupt, and significantly damaged QVC in Uganda (Robinson 2007).

Conclusion: Tax Reforms for State-building

This article provides a comparative analysis of how differently the two decades of tax administration reforms in Tanzania and Uganda witnessed the enhancement of tax performance and QVC for their own state-building progression. Comparing the politico-economic processes of tax reform in Tanzania and Uganda involves a specific focus on semi-autonomous revenue authorities and their outcomes in comparative perspective. The study finds that tax administration of Tanzania generally achieved better outcomes in terms of both tax performance and QVC in comparison to Uganda, despite the fact that the latter introduced similar tax administration reforms. It is fair to state that Tanzania's tax administration, compared to Uganda's, was more effective and accountable in forging strategic-normative institutional assurance, which transformed taxpayers in a conforming manner.

Tanzania's success in tax administration reforms led to positive prospects for directing and cementing processes of state-building with the maturity of state capacity and the concomitant advancement of state–society relations. As Margaret Levi (1988: 1) declared, 'the history of state revenue production is the history of the evolution of the state'. Significant increases in tax revenue and administrative performance in Tanzania have increasingly contributed to strengthening state capacity and the improvement of QVC has positively affected the relationship between the Tanzanian government and taxpayers. This can be expanded to state–society relations in Tanzania, because the development and maintenance of QVC demand a well-designed tax system supporting the basic values that taxpayers cherish. In a nutshell, tax administration reform in Tanzania has a higher potential to consolidate a stable and accountable path for state-building by improving state capacity and state–society relations in comparison to Uganda.

Nevertheless, it is obvious that Tanzania, along with Uganda, requires more tax revenue in order to finance the expanding demand for public goods and services in the process of state-building. Main lessons from this study argue that tax reforms can transform tax performance and the compliance of taxpayers. Therefore, Tanzania and Uganda must not stop making an effort to achieve effective, transparent and accountable tax administrations. Challenges and obstacles of tax administration observed in Tanzania and Uganda are not limited to these two countries. Most sub-Saharan African countries and other developing countries around the world have similar missions in administrative tax reforms. As a task ahead, the examination of how tax administration reforms affected tax performance and QVC in Tanzania and Uganda needs to be comparatively extended to provide other valuable lessons from developing countries for future tax reforms.

Notes

1. Tanzania and Uganda, both of which were liberated from British rule in the early 1960s, are both presidential republics. Economically, the two countries share very similar extents of economic indicators such as GDP (US$4.23 billion for Tanzania, and US$4.3 billion for Uganda), and GDP annual growth (7.05 per cent for Tanzania and 6.47 for Uganda). Socially, they demonstrate almost identical routes of development, for instance in terms of the population growth rate (3.4 per cent in Tanzania and 3.5 per cent in Uganda), life expectancy at birth (49.9 years for Tanzania and 45.1 years for Uganda), and infant mortality rate (exactly same in both).
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