

## ABSTRACT

This study examined the effect of VAT on economic growth in Tanzania for the period of 1999 to 2019. Specifically, the study analyzed the trend of VAT and economic growth, the relationship between VAT and economic growth and challenges associated with VAT compliance. The study used an Ordinary Least Square Regression (OLS) through a time series data. The study focused on five variables influencing economic growth namely VAT, Inflation, interest rate, exchange rate and export. The unit root in the data was undertaken using Augmented Dickey fuller test which revealed that the time series data had unit root at 5% level of significance, and was removed with the first differencing. The empirical result shows that the value of VAT has a positive significant impact on economic growth (GDP) in Tanzania. Findings indicated that VAT is a significant variable that can help to predict the economic growth in Tanzania given the model  $Y_{(\log gdp)} = 3.312758 + 0.1635435 \log \text{VAT} + 0.2926583 \log \text{inflation} + 0.2029602 \log \text{exchangerate} + 0.2068242 \log \text{interestrate} + 0.2115309 \log \text{export} + \alpha$ . The results indicated that Shapiro Wilk W test, heteroscedasticity test and serial correlation was conducted to validate the model. Findings indicated that VAT is positively related with economic growth. This means that as VAT increases, economic growth also increases. The study indicates that  $R^2$  was 80.14% which is significant to explain the model. This means that the variation in economic growth can be influenced by VAT, inflation, exchange rate, interest rate and export. The results also found some challenges that were related to VAT compliance. Challenges which were VAT evasion, lack of awareness of VAT system, decreased number of taxpayers among others. It was concluded that the Tanzanian economic growth is not only influenced by Value Added Tax but by other factors which were also put into consideration in this study such as exchange rate, inflation, export. Based on the findings made in the course of this study, it was recommended VAT rate should be lowered from 18% to 8% in order to mitigate tax evasion and make competition with other countries in terms of VAT rate. In addition, VAT turnover should be lowered from TZS 100 million to TZS10 million in order to register a large number of VAT compliant.

