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INFLUENCE OF TAX REVENUE ON SELECTED ECONOMIC PERFORMANCE INDICATORS IN TANZANIA

Heriel E. Nguvava (PhD)^{1} and Leonard Mchau²*

¹*Institute of Tax Administration (ITA), Tanzania,
+255 713 810 352: hnguvava@yahoo.com*

²*Dar es salaam, Tanzania: mchauleonard15@gmail.com*

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Abstract

This study assessed influence of tax revenue on selected economic performance indicators in Tanzania, explicitly focused on inflation, unemployment and Nominal Gross Domestic Product. It employed a quantitative descriptive design where secondary data was used. Time series data for a period covering 2010 to 2022 was gathered from the Tanzania Revenue Authority (TRA), Bank of Tanzania (BOT), the National Bureau of Statistics (NBS), IMF and World Bank data bases. Data was analyzed quantitatively through descriptive statistics and linear regression model. Study findings revealed a strong positive and significant relationship of tax revenue and country's GDP where $R^2 = 0.9972$ and increase in 1 unit of tax revenue collected led to increase in 0.67 unit of GDP. Further findings revealed a significant positive relationship between tax revenue and inflation where $R^2 = 0.9762$ and increase in 1 unit of tax revenue collected led to increase in 0.61 unit of inflation. It was revealed that tax revenue and unemployment have negative but statistically significant relationship ($R^2 = 0.9835$; $p = 0.0000$) where increase in 1 unit of tax revenue collected led to 0.5unit decrease in unemployment. This study recommends to the government of Tanzania to design and institute best and feasible mechanisms such as digital transformation through its tax revenue authority to ensure efficacy of collections and stimulate positive multiplier effect on economic performance indicators which accelerate country's economic growth and employment generation. It is further recommended that, Investment in socio-economic services such as generation of cheap power, subsidization of key economic sectors including agriculture, technical education and infrastructure development will greatly suppress both production and transaction costs that ultimately suppress cost-push inflation from taxation.

Key words: Tax Revenue, Economic Performance Indicators, Inflation, Unemployment, Nominal GDP

INTRODUCTION

Economic development of any nation is largely driven by collections from tax revenue. Taxation enable governments to collect revenue that finances administrative functions, social and infrastructure development as well as economic stabilization (Arvin et al, 2021). Key indicators of economic performance of a country such as unemployment, inflation and gross domestic product are significantly influenced by the efficacy of tax revenue collection and its allocation (OECD, 2019). Investment growth, job creation and price stability might be a result of a well-structured tax system that fosters economic growth. Never the less, poorly designed tax system may discourage business activities, increase unemployment and lead to inflationary pressures (Kahoho,2020).

Globally, tax revenues have been recognized for their vital role in shaping countries' economies. The Organization for Economic Corporation and Development (OECD, 2024) suggested that, tax revenues have increased significantly in developing economies during past decades. Despite that, challenges like tax evasion, inefficient tax administration and the impact of global economic pandemic like COVID-19 still exist (OECD, 2019). Covid-19 led to inflationary pressures and disruption of the global supply chain. It negatively affects tax collection efforts (Kahoho, 2020). Governments worldwide have continuously reformed tax policies as a response to address effects of Covid-19 pandemic and other related challenges like climate change, demographic shifts and digitalization (Kahoho,2020).

Africa's economic growth lags behind other continents with numerous challenges on countries' revenue collection efforts. The tax to GDP ratio of Africa is around 17% below the recommended 20% suitable for sustainable development (OECD, 2024). Inadequacies in Tax administration policies and collection mechanisms deter optimal revenue mobilization capacity despite immense efforts to improve tax governance and accountability (OECD 2019). The adoption of modern tools like TADAT (Tax administration diagnosis and assessment tool) and digital tools in tax administrations has shown promise in enhancing compliance (Kachumita, 2022). Since tax revenue is the primary source of income for governments, it highly affects the key economic performance indicators for a country such as GDP, inflation and employment (OECD, 2024).

Over recent years, tax revenue mobilization in Sub-Saharan Africa has evolved with gradual increase in tax to GDP ratios from approximately 12% in 2000 to 17% by 2024 reflecting shifts in tax structures and administration reforms (Salifu et al, 2024). Despite these improvements, most African countries continues to face challenges of persistent inflation, high unemployment and fluctuating economic growth which emphasize the practical significance of understanding tax revenue macroeconomic effects (Ayana et al., 2024).

It has been narrated by Oyebola and Santoro in 2023 that, the East Africa region has demonstrated high flexibility in tax revenue collection with tax policies administration as key central point in regional integration and development. The region recorded a GDP growth rate of 5.4% from 2023 to 2024 marking one of the best economic performances on the continent. The unemployment rate in the region decreased by 0.2% from 2022 to 2023 with Kenya reporting the highest unemployment rate of 5.7%. The member states of East African Community including Tanzania, Kenya, Rwanda, Burundi and Uganda have taken steps to harmonize their tax policies (Oyebola &Santoro, 2023). The African Development Bank has reported a steady rise of tax to GDP ratio accelerated by the adoption and implementation of strategic tax collection measures (Kachumita, 2022). Despite that, challenges such as informal cross-border trade, tax evasion and political instability remain an obstacle towards optimal revenue collection (Kahoho, 2020).

Despite the fact that, tax revenue is an important variable for countries stability and economic growth, its actual effects on key variables of economic performance, specifically unemployment, Gross Domestic Product(GDP) and inflation remains a subject of debate among policymakers (OECD, 2024). While countries aim to increase their collection of tax revenue to finance public expenditures, the effect of taxation on countries economic growth, price stability and job creation is volatile (Kachumita, 2022). While tax revenue used to finance public investments can create jobs through infrastructure development and expansion of public services, high corporate and income taxes may discourage business from hiring thus leading to higher unemployment rate

(Kahoho,2020). Tax policies may influence GDP growth by either stimulating public sector investment or discouraging private sector expansion due to high tax burdens (Oyebola & Santoro,2023).

In the case of Tanzania, the economy has experience perpetual growth with a GDP growth rate of approximately 4% yearly since 2021. The growth witnessed in Tanzania has been significantly accredited by improved tax revenue collection. However, challenges such as inadequate rural infrastructure and tax compliance continue to hinder the optimal realization of economic potential (Kahoho, 2020). In addition to that, the relationship of tax revenue and inflation is still complex, increased tax collections may assist to control inflation by reducing excessive consumer spending. On the other hand, higher taxes on goods and services may contribute to cost-push inflation making basic commodities more expensive and negatively affects household purchasing power. In Tanzania where inflation has been relatively low, maintenance of price stability while ensuring sufficient tax revenue collection remains a critical challenge (Oyebola & Santoro, 2023). Recognizing the importance of tax revenue in economic performance, the Tanzanian government has implemented various strategies to enhance tax compliance, such as the introduction of Electronic Fiscal Devices (EFDs) and the Taxpayer Identification Number (TIN) (Kahoho, 2020). These efforts have contributed to increased tax revenue, which have been used to finance critical infrastructure projects and other public services (Kachumita, 2022). However, despite these efforts, challenges such as tax evasion, the informal economy, and limited enforcement mechanisms continue to affect revenue collection (Kahoho, 2020). Despite the crucial role of tax revenue in economic development, there is still limited empirical evidence on the extent to which tax revenue influences unemployment, GDP, and inflation, particularly in emerging economies like Tanzania (Kachumita, 2022). Even though some studies have reported a significant positive effect of tax revenue on economic performance, they often focus on either tax policies or economic growth in general, without analyzing the specific and direct interactions between tax revenue and these key indicators (Akanbi, 2020).

The specific problem addressed in this study concerns the ambiguous and sometimes contradictory evidence regarding how total tax revenue impacts key macroeconomic variables namely inflation, unemployment and nominal GDP in Tanzania. While some research report positive associations of tax revenue and economic growth, others find insignificant or even adverse effects on inflation and unemployment levels (Babatunde et al, 2017). The knowledge gap emanates from the limited comprehensive blend of empirical findings that integrate tax revenue dynamics with inflationary trends, labor market outcomes and productivity measures in Tanzania and Sub-Saharan Africa context (Bati, 2025). This gap is substantial as it limits designing and formulation of clear fiscal policies to balance revenue generation with macroeconomic stability (Olaoye et al., 2023). This study intends to bridge this gap by examining how country's tax revenue collection efforts affects inflation, unemployment and GDP. This paper provides significant insight into the effectiveness of taxation policies in promotion of economic stability and development. Study findings help policymakers design tax systems that balance revenue

LITERATURE REVIEW

Conceptual Clarification

Research on the influence of tax revenue collection on economic performance indicators has emerged an important area of inquiry due to its implications for economic stability and growth. The trend in this area reflects a growing recognition of taxation as an important fiscal policy tool

influencing macroeconomic variables in different economies (Fadillah et al.,2025). Early studies emphasized the role of tax structures in shaping economic growth and employment dynamics (Hakim et al., 2022) while more recent studies integrate complex interactions of tax revenue and inflationary pressure (Mkaddem et al., 2020). The practical relevance is highlighted by data showing that tax revenue is a substantial portion of governments income thus directly affect public expenditure and economic performance (Yossinomita et al., 2024). For instance, the tax-to-GDP ratio between developed and developing countries vary widely indicating huge differences of both fiscal capacity and macroeconomic outcomes (Bati, 2025).

Despite extensive empirical investigations on this study subject matter, knowledge gaps persist particularly in understanding the causal mechanisms and contextual factors that mediate these relationships (tax revenue collection impact on inflation, unemployment and nominal GDP) (Khalil et al., 2025). Some studies reported higher tax revenues suppress economic growth and increase un-employment (Fadillah et al., 2025) while others suggest positive effects on GDP and absence of direct effect on inflation and unemployment (Samara & Talalweh, 2024). Meanwhile, the role of tax policy in developing countries like Tanzania and developed economies remains contested with conflicting outcomes reported (Hakim et al., 2022). These gaps hinder effective policy formulation and potentially impairing macroeconomic stability and impeding sustainable development (Fadillah et al., 2025). The conceptual framework guiding this study defines tax revenue as government income from various taxes, influencing macroeconomic variables such as inflation (the general price level increase) and unemployment (the proportion of labor force without work) (Samarah & Talalweh,2024). The framework suggests that tax revenue affects inflation through cost-push mechanism, influences unemployment via labor market distortions and impacts nominal GDP by changing aggregate demand and investment (Alves, 2018).

Theoretical Framework

The Keynesian Taxation Theory rooted in the broader Keynesian economic framework that emphasizes the role of government fiscal policy in managing economic performance. According to this theory, taxation is a crucial tool for influencing aggregate demand in the economy (Asimakopulos, 2023). According to Keynesian during economic downturns governments should reduce taxes to stimulate consumer spending and investment, in turn, boost economic activities and reduces unemployment. Conversely, in times of economic expansion the theory suggests that governments may increase taxes to mitigate excessive inflationary pressures by curbing demand. The theory assumes that governments have the power to use taxation effectively to smoothen economic cycles and maintaining economic stability by influencing key economic indicators such as GDP, inflation and unemployment (Asimakopulos, 2023). This study assessed influence of tax revenue as a tool of fiscal policy on selected economic performance indicators (inflation, unemployment and Nominal GDP) in Tanzania, hence suitable to be guided by this theory.

METHODOLOGY

In line with this study's objectives, the study adopted an ontology paradigm, that emphasized on scientific solutions and real-world application. Therefore, a positivism ideology was opted so as to test hypotheses. In this study, the author employed a quantitative descriptive design where a quantitative approach and longitudinal strategy were opted. This design used quantitative and statistical traits of data organization, presentation and analysis. The author employed longitudinal strategy that involves collection of time series data of selected economic performance indicators. The study focused on Tanzania as the research area. Limited empirical

evidence in Tanzania on the subject of this study was among the push factors towards selecting Tanzania as a study area. Tanzania share similar characteristics with most East Africa Community (EAC) member states thus findings of this study might have an application to other EAC member states.

Secondary data was collected through documentary review and used in this study. Time series data from 2010 to 2022 on tax revenue collection, unemployment rate, inflation rate, value of importation of goods and services, GDP growth rate, government expenditure and nominal GDP for Tanzania was collected from reputable sources, including the Tanzania Revenue Authority (TRA), Bank of Tanzania (BOT), National Bureau of Statistics (NBS) and the World Bank (WB) database. The collected data was thoroughly reviewed and crosschecked for errors and missing values before analysis. The analysis of time series data was conducted using linear regression model in STATA, which included tax revenue as independent variables and nominal GDP, inflation and unemployment as dependent variables with presence of control variables as described in 2.6.

Model Specification

The following model estimation equations were used to analyze effect of explanatory variable on dependent variable with presence of control variables:

For Inflation Rate

$$\log IR = \delta_0 + \log TTC + \log GDPGR + \log GEP + \log IMPORT + \varepsilon \dots \dots \dots (i)$$

For Unemployment Rate

$$\log UR = \gamma_0 + \log TTC + \log GDP + \log GEP + \log IMPORT + \varepsilon \dots \dots \dots (ii)$$

For Gross Domestic Product (GDP)

$$\log GDP = \alpha_0 + \log TTC + \log IR + \log GEP + \log IMPORT + \varepsilon \dots \dots \dots (iii)$$

Where:

- α_0 , γ_0 and δ_0 are the intercept terms for each regression equation,
- log TTC (Total Tax Revenue collected),
- log IR (Inflation Rate),
- log GDP (Nominal Gross Domestic Product),
- log GEP (Government Expenditure),
- log GDPGR (GDP Growth Rate),
- log IMPORT (Value of country’s import of goods and services),
- log UR (Unemployment rate)
- ε , is the error term of the model

Table 1: Measurement of Variables

S/N	Variable Name	Measurement Criteria
1	Total tax collection	Millions Tzs
2	Nominal GDP	Millions Tzs
3	Inflation rate	Percentage
4	Unemployment rate	Percentage
5	Value of Import	Billions Tzs
6	GDP growth rate	Percentage
7	Government Expenditure	Billions Tzs

Source: Author, 2025

The measurement criteria for all variables differ, if used as is during analysis might have impaired the study results. Therefore, all variables were transformed into logarithm to ensure uniformity,

data reliability and confidence for further statistical analysis (linear regression). For uniformity and consistency of data, all variable data were transformed into logarithm. In addition, stationarity test of time-series data was conducted to eliminate non-consistency behavior in the data thus avoiding possibility of spurious results in statistical analysis, ensuring robustness and reliability of results. The Augmented Dickey Fuller (ADF) test was used. Also, Cronbach’s Alpha test was used to measure internal consistency.

RESULTS AND DISCUSSION

Descriptive Statistics

Characteristics of variables used in this study are described in table 2 below. Generally, the data is normally distributed since the skewness and kurtosis of all variables approaches zero. This is further evidenced by the standard deviation of all variables which also approaches zero, most variable data was around the mean. The difference between the maximum and minimum values for all variables was very small. The data was consistent and thus reliable for further statistical analysis.

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std.Dev	Min	Max	Pr(Skewness)	Pr(Kurtoisis)
Log_TTC	13	16.37406	0.4525475	15.52687	16.999932	0.3720	0.6934
Log_IR	13	1.73163	0.4905222	1.190976	2.772657	0.0983	0.5390
Log_UR	13	0.9678771	0.1563375	0.7537718	1.244155	0.6894	0.3630
Log_GDP	13	18.39107	0.4313918	17.59597	18.95281	0.3699	0.4961
Log_Import	13	9.355437	0.1789222	9.086782	9.777715	0.1657	0.1690
Log_GDPGR	13	2.118047	0.3136616	1.60543	2.71668	0.2000	0.4343
Log_GEP	13	10.1006	0.4171658	9.359588	10.63298	0.3578	0.2895

Source: Author (2025)

Reliability measurement: Cronbach's Alpha Test

This is a reliability measurement that test the internal consistency of variables. When the scale reliability coefficient is greater or equal to 0.65, it implies the data is consistent and can be dependable for further analysis.

Table 3: Cronbach Alpha Test

Test scale = mean (unstandardized items)	
Average interitem covariance	0.0892634
Number of items in the scale	7
Scale reliability coefficient	0.9282

Source: Author 2025

In table 3 above, the Cronbach’s Alpha coefficient of 0.9282 presents a high level of internal consistency and reliability of the data used. With a value greater than 0.7, confirms dependability of the data used in analysis and thus suggesting measurement tools for the variables were consistent and trustworthy.

Augmented Dickey-Fuller Test

The Augmented Dickey-Fuller test was applied to assess the presence of unit root in the time series of all seven variables (Independent, Dependent and Control variables). Below were the results:

Table 4: Augmented Dickey-Fuller Test

S/N	Variable Name	P-value for Z (t)
1	Tax Revenue Collection	0.0236
2	Inflation Rate	0.0302
3	Unemployment Rate	0.0108
4	Nominal GDP	0.0476
5	Import Value	0.04852
6	GDP growth Rate	0.0341
7	Government expenditure	0.0336

Source: Author, 2025

After variables transformation into logarithm to ensure consistency and reliability, the Augmented Dickey-Fuller test was conducted for stationarity of the time series and results were as shown in in table 4. All variables were stationary at lag (0), their P-values were below 0.05 thresh hold thus didn't exhibit unit root problem.

The Influence of Tax Revenue on Inflation Rate

A linear regression model was used, with inflation rate used as the dependent variable, tax revenue collection independent variable while GDP growth rate, government expenditure and value of country's import as control variables to increase precision of estimates and reduce the error term. The following are the results obtained from the regression analysis:

Table 5: Model Summary

Source	SS	df	MS	Number of Obs=13
Model	37.9802043	4	9.49505107	F(4,8)= 81.90
Residual	0.927531327	9	8.115941416	Prob >F =0.0000
Total	38.9077356	13	3.2423113	R-squared =0.9762 Adj R-squared =0.9642 Root MSE= 0.3405

Source: Author, 2025

The p-value for the model was 0.0000, which is below the 0.05 significance threshold, indicating that the model is statistically significant. This result suggest that tax revenue collection has a meaningful impact on the inflation rate. The R-squared is 0.9762 which means the model correctness is approximately 97.62%. About 97.62% of variance in the dependent variable is explained by both independent and control variables. While this demonstrates a high explanatory power, it also suggests that other factors not included in the model may contribute about 2.38% to changes on the inflation rate.

Table 6: Parameter Estimates

Log_IR	Coef	Std. Err	t	p>/t/	95% conf. Interval)
Log_TTC	0.6190841	1.845924	0.34	0.0446	-3.637625 4.875793
Log_GDPGR	0.3330592	0.4653216	0.72	0.494	-0.7399743 1.406093
Log_GEP	-1.786138	1.640122	-1.09	0.0308	-5.568266 1.99599
Log_Import	0.9560321	1.605175	0.60	0.0568	-2.745508 4.657572

Source: Author, 2025

The analysis reveals a significant positive relationship between tax revenue collection and inflation. For every unit increase in tax revenue, inflation increases by 0.61, suggesting that higher tax revenue without proper administrative mechanism increases inflationary pressures in the economy. These findings indicate the presence of cost push inflation in the country where

manufacturers and traders tend to quickly shift the burden of taxation to final consumers. The government must ensure good business operating environment in the country through effective investment and trade policies that leads to reasonable production costs and reduced transaction costs to control cost-push inflation. Findings further suggest presence of imported inflation where increase in 1 unit of importation value may lead to 0.96 units increase in inflation. Tanzania is highly affected by importation of goods that led to collapse of most local manufacturing industries. Currently, most prices of commodities are externally controlled. From the findings, government expenditures in Tanzania is an effective tool of reducing inflation, where increase in 1 unit leads to 1.7 units decrease in inflation. Government expenditure lead to better infrastructure, health services, social services, peace and security, therefore, ensure good business operating environment by reducing both production and transaction costs. GDP growth rate has no significant effect on inflation rate.

The Influence of Tax Revenue on Unemployment Rate

A linear regression model was utilized, where unemployment rate was used as the dependent variable, tax revenue as an independent variable while GDP, government expenditure and value of country's import were control variables. Below are results obtained from the regression analysis:

Table 7: Model Summary

Source	SS	df	MS	Number of Obs=13 F (4,9) = 133.84 Prob >F =0.0000 R-squared =0.9835 Adj R-squared =0.9761 Root MSE= 0.15136
Model	12.2653214	4	3.06633036	
Residual	0.206195705	9	0.022910934	
Total	12.4715171	13	0.959347471	

Source: Author, 2025

The p-value for the model is 0.0000, which is below the 0.05 significance threshold, indicating that the model is statistically significant. This result suggests that independent variables have a meaningful impact on the dependent variable. The R-squared is 0.9835 which means the model correctness is approximately 98.35%. About 98.35% of variance in the dependent variable is explained by both independent and control variables. While this demonstrates a high explanatory power, it also suggests that other factors not included in the model may contribute about 1.65% to changes on the country's unemployment rate.

Table 8: Parameter Estimate

Log_UR	Coef	Std. Err	t	p>/t/	95% conf. Interval)
Log_GDP	0.5285068	0.6476755	0.82	0.4360	-0.9366371 1.993651
Log_TTC	-0.5006236	1.020787	-0.49	0.0360	-2.809804 1.808557
Log_GEP	-0.3063742	0.5375027	-0.57	0.0483	-1.52229 0.9095414
Log_Import	0.2714988	0.6468681	0.42	0.6850	-2.191818 1.734816

Source: Author, 2025

From the results in table 8 above, tax revenue collection and government expenditure have significant effect on unemployment rate in Tanzania. Increase in 1 unit of tax revenue collected and government expenditure leads to 0.5 units and 0.3units decline in unemployment rate respectively. Increase in tax revenue collections led to positive multiplier effect by increasing government revenue and government expenditure through improvement in social services, infrastructure development, health services and maintenance of peace and security. In turn provide and ensure good investment and business operating environment for both local and

foreign investments that eventually accelerated country’s employment level. When government fund vocational training, and entrepreneurship programs, ensuring that more people acquire the necessary skills for employment. Additionally, well-managed tax revenue helps stimulate business growth by supporting sectors like agriculture, manufacturing, and technology, which generate jobs. To improve the situation, tax collection systems should be strengthened by reducing tax evasion and expanding the tax base, ensuring fairness in taxation while encouraging business expansion. The government should also allocate tax revenue efficiently toward employment-generating sectors, including SMEs and industrial development, while ensuring transparency in public spending. Enhancing public-private partnerships can further drive job creation. With these measures, Tanzania can achieve higher employment rates, economic stability, and inclusive growth.

The influence of Tax Revenue on Gross Domestic Product (GDP)

Linear regression model was employed, with Nominal Gross Domestic Product as dependent variable, tax revenue collection as an independent variable and inflation rate, government expenditure and value of import as control variables. The following results were obtained from the analysis:

Table 9: Model Summary

Source	SS	df	MS	Number of Obs=13 F (4,8) = 707.62 Prob >F = 0.0000 R-squared =0.9972 Adj R-squared =0.9958 Root MSE= 0.2805
Model	2.22689221	4	0.556723053	
Residual	0.06294015	9	0.000786752	
Total	2.23318623	13	0.186098852	

Source: Author, 2025

The p-value for the model is 0.0000, which is substantially below the 0.05 significance threshold, indicating that the model is statistically significant. This suggests a strong and meaningful effect of independent variables on the dependent variable. The R-squared value of 0.9972 implies that 99.72% variations in GDP is explained by both independent and control variables used. Only 0.28% of variation in the dependent variable is explained by other factors not included in the model.

Table 10: Parameter estimates

Log_GDP	Coef	Std. Err	t	p>/t/	95% conf. Interval)	
Log_IR	-0.0078785	0.0283976	-0.28	0.788	-0.0733633	0.0576064
Log_TTC	0.6679572	0.13904	4.80	0.001	0.3473305	0.988584
Log_GEP	0.3588289	0.1312157	2.73	0.026	0.056245	0.6614129
Log_Import	-0.1411493	0.1262498	7.64	0.0296	3.605271	6.72206

Source: Author, 2025

From table 10 above, tax revenue is statistically significant. An increase in 1 unit of tax revenue collected relates to 0.67 units increase in Gross Domestic Product. The results indicate strong and statistically significant effect of tax revenue collection on Tanzania’s economic growth. These findings suggest that, effective and efficient tax revenue collection plays a crucial role in expanding economic activities that drive production and investment. This is an indication that a well-structured tax system strengthens public services, supports private sector growth, create job opportunities and ultimately fostering economic stability. Findings further revealed government expenditure to have a significant and notable effect on the GDP in Tanzania where a unit increase in government spending leads to 0.36units increase in GDP. This finding suggest a positive

multiplier economic effect when the government increases expenditure. Notably improvement in social services like health, education and investment in development projects like infrastructure is attained thus stimulate employment generation and further creates conducive business operating environment for both local and foreign investors. Multiple economic sectors in Tanzania including Agriculture which is the largest, are highly affected by Government expenditure. Results further suggests a negative relationship between the National output and country's importation where increase in one unit of importation value leads to decline in the GDP by 0.14 units. Due to low level of economic development and technological backwardness of Tanzania as compared to other developed countries, normally imported goods rivals locally manufactured thus discourages local production and economic growth. The relationship inflation and GDP is negative but not significant.

Discussion of Findings

Findings of this study align with and contrast against various empirical studies: Comparison with Kachumita (2022), their study findings suggest that tax policy has a significant effect on economic growth, with some taxes (e.g., income tax) positively influencing economic performance (as suggested by this study that tax increment raises country's GDP). The positive relationship observed in this study between tax revenue and inflation aligns with Kachumita's findings that some forms of taxation such as VAT and fuel levies if not properly administered can induce inflationary pressures. Kahoho (2020) found that taxation negatively affects economic growth, primarily by reducing innovation and investment, his findings differ with this study prepositions, as tax increment accelerate positive multiplier effect to other economic indicators in Tanzania.

Reflecting the complexity of the taxation-employment nexus. Kachumita (2022) found that taxes influence economic growth, with income tax having a positive and significant effect on economic expansion. However, VAT and other taxes had an inverse relationship with growth. This suggests that different tax structures may have varied impacts on employment, depending on their effects on business profitability and investment. This study proposes a positive relationship between increase in tax revenue and employment level, higher taxes lead to economic expansion and thus higher employment. Omar et al. (2021) in Kenya observed that while income tax and VAT positively influenced GDP, import duties negatively affected growth. This indicates that while some forms of taxation can support employment through economic expansion, others may deter business activity and job creation. Peter et al. (2021) examined the effect of tax revenue on unemployment in Nigeria and found that corporate taxes and VAT significantly increased unemployment, while customs and excise duties had the opposite effect. This aligns with the argument that direct taxes on businesses can reduce employment opportunities, while trade-related taxes might have employment-supporting effects due to their protectionism nature. This study finding suggest increase in country's level of tax revenue collection (both direct and indirect taxes) has a positive multiplier economic effect that improve employment level.

Further comparison was conducted with several empirical evidences that have examined the relationship of taxation and economic growth: Omar et al (2021) found that income tax and VAT positively contributed to economic growth in Kenya which aligns with this study findings, while import duties negatively affected GDP. This suggests that while direct taxation fosters growth, excessive reliance on trade taxes might hinder economic expansion. s (2019) examined Nigeria's tax structure and discovered that value added tax and custom duties positively influenced economic growth, which aligns with the findings of this study. However, petroleum profit tax

had a negative effect, thus indicates the sectorial variations of tax effects. Akanbi (2020) found a negative but insignificant relationship of tax revenue and economic growth in Nigeria, contrasting the strong positive relationship observed in Tanzania. The difference may be attributed to variations in tax administration efficiency and utilization of tax revenues.

CONCLUSION

This study examined the influence of tax revenue on key economic performance indicators in Tanzania, specifically inflation, unemployment and GDP. The findings provide significant insight into the role of taxation in shaping the country's macroeconomic environment. The results indicate a statistically significant positive relationship between tax revenue collection and inflation, suggesting that higher taxes without proper administrative mechanism increases inflationary pressures in the economy. This study also found a negative but statistically significant relationship between tax revenue and unemployment rate. Higher tax collections may attribute to significant rise in government spending on major productive economic sectors like agriculture thus accelerate job creation through increased government investment in infrastructure and social services. The relationship between tax revenue collection and GDP was found to be strongly positive and statistically significant. The high explanatory power of tax revenue in predicting GDP growth emphasizes an important role of taxation in fostering economic growth and development. From the results, it is recommended that, the government of Tanzania to prioritize developing a more efficient tax collection mechanisms and strategic utilization of tax revenues in productive sectors such as healthcare, education and infrastructure for acceleration of sustainable economic development and growth in employment rate within the country. Investment in socio-economic services such as generation of cheap power, subsidization of key economic sectors including agriculture, technical education and infrastructure development will greatly suppress both production and transaction costs that ultimately suppress cost-push inflation from tax increment.

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