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THE EFFECTS OF TAX REVENUES ON NATIONAL CONSUMPTIONS PRIORITIES IN TANZANIA

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ABSTRACT

This paper examines the effects of tax revenues on national consumption priorities (NCP) in Tanzania against the background of increasing government demand for sustainable financing of consumption-oriented public expenditure amid fiscal constraints. Despite continuous tax reforms, empirical evidence on how different tax components influence national consumption priorities remains limited, creating uncertainty for effective fiscal policy formulation. The main objective of the paper was to assess the effect of income tax (IT), corporation tax (CT), individual tax (INT), and value added tax (VAT) and excise duty (ED) on national consumption priorities in Tanzania. The study adopted a quantitative research design and used secondary annual time-series data covering the period 1991–2024, with Tanzania as the unit of analysis. Data were analyzed using Ordinary Least Squares (OLS) regression techniques implemented in EViews, following standard econometric diagnostic procedures. Ethical considerations were observed through the use of publicly available secondary data from credible national and international sources, ensuring data integrity and transparency. The OLS results reveal that corporation tax and value added tax have a positive and statistically significant effect on national consumption priorities, indicating that these taxes are reliable sources of financing consumption-related government expenditure. Conversely, individual tax exhibits a statistically significant negative effect, while income tax and excise duty are found to be statistically insignificant. Based on these findings, the study recommends strengthening VAT and corporate tax administration while reforming individual tax structures to enhance their contribution to national consumption priorities in Tanzania.

Keywords: Tax revenues, income tax, corporation tax, VAT, individual tax, exercise duty and national consumptions priorities.

1. INTRODUCTION

The relationship between tax revenues and national consumption priorities has been a critical area of concern across the world, especially for countries striving to balance fiscal sustainability and socio-economic development. Globally, tax revenue is recognized as the backbone of public finance, enabling governments to invest in infrastructure, health, education, and social protection systems (Martin & Mwenda, 2025). According to the International Monetary Fund (2023), efficient tax systems contribute significantly to achieving the Sustainable Development Goals (SDGs), particularly those linked to poverty eradication, quality education, and reduced inequalities. However, many countries, especially developing economies, grapple with the challenge of aligning tax collection with prudent national consumption priorities, leading to fiscal deficits and underperformance in critical sectors. Regionally, within Sub-Saharan Africa, weak tax administration, narrow tax bases and illicit financial flows have compounded the problem of inadequate revenue mobilization (Kachumita, 2022; African Tax Administration Forum, 2022). Evidence from the African Development Bank (2023) indicates that the tax-to-GDP ratio in many African countries, including members of the East African Community, remains below 18%, far below the OECD average of 34%. Consequently, this affects the ability of countries to prioritize essential public consumption needs such as healthcare, education and infrastructure. In the EAC bloc, studies conducted by Ndulu and O'Connell (2022) suggest that despite progressive tax reforms, resource allocation towards productive sectors remains misaligned with regional development blueprints like the African Union Agenda 2063.

At the national level, Tanzania faces similar challenges (Mpfubhusa & Devotha, 2024). Although tax revenue collection has improved over the past decade due to reforms by the Tanzania Revenue Authority, the alignment between tax mobilization and national consumption priorities still shows gaps (URT, 2023a). The World Bank (2024) reports that Tanzania's tax-to-GDP ratio stood at approximately 11.7% in 2023, lower than the target of 15% envisioned in national strategic plans. Despite increased revenue, allocations towards sectors like health, education and rural development have not fully met the ambitions set in the Tanzania Development Vision 2025 and the Third Five-Year Development Plan (FYDP III) 2021/22–2025/26 (URT, 2021). This disconnect raises questions about the efficiency and effectiveness of resource use in fostering sustainable national growth. Understanding the genesis of this problem involves recognizing the historical dependence on narrow tax bases dominated by a few sectors, such as mining and telecommunications, while large informal economies remain largely untaxed (Mkenda, 2022). Additionally, institutional weaknesses, limited taxpayer education and political economy factors often influence how tax revenues are prioritized and spent. The target group for this study includes policymakers, tax administrators, civil society organizations and Tanzanian citizens, whose consumption needs should inform national budget priorities. Despite efforts to widen the tax net, public trust in the tax system remains low, partly due to perceptions of poor public spending and weak accountability (Afrobarometer, 2023).

The seriousness of the problem is evidenced by socio-economic indicators. For example, although Tanzania achieved lower-middle-income status in 2020, poverty reduction remains slow, with 27% of Tanzanians living below the national poverty line (World Bank, 2024). Budget allocation analysis shows that recurrent expenditures, such as government wages, often take precedence over development expenditures critical for poverty alleviation and human capital development (URT, 2023b). When tax revenues are not strategically directed toward national consumption priorities, inequality persists, infrastructure remains inadequate, and human development indices stagnate. This issue directly links to national development priorities. Tanzania's FYDP III emphasizes "Building a Competitive and Industrial Economy for Human Development, where effective domestic resource mobilization and prudent public spending are central pillars (Bolch et al., 2022). Misalignment between tax revenues and consumption priorities hinders the realization of flagship projects such as expanding quality education and universal healthcare coverage (Gallien et al., 2024). Regionally, this problem affects the realization of Agenda 2063's aspirations for inclusive growth and sustainable development (Dom et al., 2025). According to Mebratu (2023), globally, ineffective tax revenue use undermines Tanzania's ability to achieve SDGs like Goal 1 (No Poverty), Goal 8 (Decent Work and Economic Growth) and Goal 10 (Reduced Inequalities).

Existing literature like Friedman et al. (2021); Kemboi (2024) and Clive et al. (2024) addresses various aspects of taxation and public expenditure, but notable gaps remain. While studies have examined factors influencing tax revenue performance (Mollel & Mushi, 2022), there is limited research on how well these revenues are aligned with national consumption priorities in Tanzania's context. Moreover, few studies link tax mobilization outcomes to broader developmental frameworks like FYDP III and SDGs. Therefore, this study fills an important gap by investigating not just tax collection efficiency, but also how the collected revenues are utilized to meet the consumption priorities critical for inclusive development. In conclusion, addressing the misalignment between tax revenues and consumption priorities is vital for Tanzania's socio-economic transformation. Additional research is needed to develop policy recommendations that enhance strategic budgeting, improve transparency in public spending and ensure that tax policies are harmonized with citizens' needs and national development aspirations. Such insights will support government initiatives in building a more resilient, inclusive, and sustainable economy aligned with both regional and global development goals.

2. LITERATURE REVIEW

2.1 Theoretical, Empirical and Conceptual Framework

The study guided by Benefit Theory of Taxation, the theory traces its origins to classical economics, primarily attributed to the work of Erik Lindahl, a Swedish economist, in 1919. Lindahl introduced the theory in his publication "Just Taxation a Positive Solution" where he proposed that taxes should be levied on individuals according to the benefits they receive from public goods and services (Musgrave, 2022). Originating from Sweden, this theory posits that there exists a contractual relationship between the government and the citizens, where taxation is considered a payment for services rendered rather than an obligation enforced by authority (Seriah, 2024). Each taxpayer's share of the tax burden should ideally correspond to the level of benefit derive from government expenditures. The Benefit Theory is highly relevant to the study on Tax Revenues and National Consumption Priorities in Tanzania as it emphasizes aligning tax systems with citizens' needs and consumption patterns (Seriah, 2024). In the context of Tanzania, where tax revenues fund critical national priorities such as healthcare, education, and infrastructure under the Five-Year Development Plan III and the Sustainable Development Goals, the theory suggests that tax collection strategies should reflect the direct or indirect benefits citizens receive from such expenditures (Semboja et al., 2022). Variables derived from the theory include taxpayer contribution, benefit received, tax compliance, and public service delivery. This theoretical lens helps in analyzing whether the allocation of tax revenues in Tanzania matches national consumption priorities and if the perceived benefits influence citizens' willingness to comply with taxation.

Empirically, the studies with positive and significant results such as Gomba (2025) investigated impact of excise duty on gross domestic product in Tanzania using annual time-series data from 2011/12 to 2023/24 and applied a log-linear OLS regression model. The study found a strong and statistically significant positive relationship between excise duty revenue and GDP where a 1% increase in excise duty corresponded to a 0.72% increase in GDP highlighting how excise revenue supports macroeconomic outcomes and national public spending priorities that likely influence consumption allocation in Tanzania. Nguyen et al. (2025) in tax structure and economic growth in Vietnam used Johansen cointegration and error-correction modeling with data from 1990 - 2022 to disaggregate tax types including corporate income tax. Results demonstrated a significant positive effect of corporate income tax on economic growth, implying that higher corporate tax mobilization contributes positively to national revenue capacity and thereby support priority government consumption programs in emerging economies. A study on VAT and GDP in Tanzania (Nguyen et al., 2021; African Journal of Economics and Sustainable Development, 2024) using simple linear regression over a 22-year period found a significant positive long-run relationship between VAT collections both domestic and import VAT and economic growth, indicating that VAT contributes to fiscal capacity and enabling government consumption priorities. Ayeni & Cordelia (2022) in the impact of taxation and inflation on consumption in Nigeria employed a Vector Error Correction Model with time-series data from 2000 -2021. The findings revealed that petroleum profit tax as a form of corporate tax and VAT have positive and significant effects on Nigeria's GDP.

On the side of the studies with negative and insignificant results are Nguyen et al. (2025) also reported that while corporate income tax and petroleum income tax were growth enhancing, personal income tax and customs, excise taxes had less favorable or mixed impacts on growth, indicating that certain direct and consumption taxes not significantly drive national economic outcomes that underpin consumption priority financing in transitional economies. William (2018, as cited in Murebere, 2025) examined Tanzanian tax systems from 1996–2016 and found no significant link between personal income tax, corporate income tax, and economic growth, suggesting that direct taxes alone may not strongly influence macro consumption priorities or broader economic outcomes in the Tanzanian context. Blanchard & Perotti (2002) and Alm & El-Ganainy (2013) in a panel study of 15 European countries, found that increases in VAT were associated with decreases in private consumption, with consumption on non-durables and services falling after tax hikes evidence that higher consumption taxes like VAT negatively affect household consumption decisions. Takentsi & Mah (2025) applied a NARDL model to annual South African data and found that positive changes in VAT significantly reduced household consumption in the long run, suggesting asymmetric and potentially contractionary effects of VAT on consumption behavior.

Smith (2022) conducted a study in the United States titled the Impact of Tax Structures on Public Consumption Patterns utilizing the Keynesian Consumption Theory as a framework, the study analyzed variables such as tax revenue, government expenditure on health, education, and infrastructure, and household consumption levels. Employing a panel data methodology across 50 states with a sample size of 5,000 households, Study found that higher tax revenues were significantly associated with increased government spending on essential public services, which in turn stimulated national consumption priorities towards healthcare and education. Mwangi and Odhiambo (2023) examined the relationship between tax revenues and government consumption in Kenya grounded in the Ricardian Equivalence Theory, the researchers explored the influence of tax revenues (independent variable) on government consumption expenditure (dependent variable). Using a time-series econometric approach and analyzing data from 1990 to 2022, the study adopted an autoregressive distributed lag (ARDL) model and utilized secondary data sourced from Kenya's National Treasury reports. The findings indicated that increases in tax revenue led to substantial reallocation of funds towards education, health, and security sectors. Hassan and Mbwana (2024) undertook a comprehensive study titled Tax Revenue Mobilization and Consumption Priority Setting in Tanzania guided by the Benefit Theory of Taxation, which posits that taxes should correspond to the benefits received by citizens from government expenditures.

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The study used variables such as total tax revenue, government expenditure allocations and national consumption indices. A mixed-methods approach was adopted, with quantitative analysis involving secondary data from the TRA and the Ministry of Finance spanning 2000 to 2023, and qualitative data gathered through interviews with 45 government officials and policy makers. The study's sample size for the quantitative part consisted of 24 fiscal years. Findings revealed that higher tax revenues allowed the Tanzanian government to prioritize expenditure on healthcare, education, and infrastructure development, although political and administrative inefficiencies sometimes diverted resources away from stated national priorities.

The study variables was explained in figure 1 of the conceptual framework of the study that explain relationship between variables.

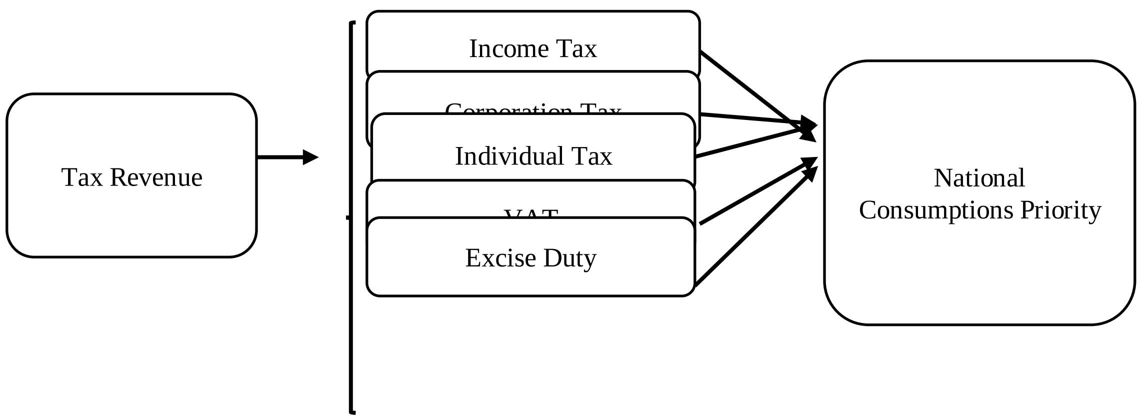

Figure 1. Conceptual Framework

3. METHODOLOGY

3.1 Regression Model

The study adopts a quantitative research design using annual time-series secondary data from 1991 to 2024 to examine the effects of tax revenues on national consumption priorities in Tanzania, because quantitative time-series methods are most appropriate for identifying long-run and short-run relationships, trends and causal dynamics among macroeconomic variables over time (Gujarati & Porter, 2020). The participants of the study are institutional data sources rather than human respondents, specifically aggregated national data obtained from the website of Tanzania Revenue Authority, Bank of Tanzania, National Bureau of Statistics and the World Bank, which ensures objectivity, reliability and consistency of measurements across years (Enders, 2015). Data analysis conducted using EViews 10, chosen for its robustness in handling macroeconomic time-series analysis, efficiency in estimation and wide acceptance in empirical fiscal and consumption studies. The analysis techniques include unit root tests (ADF) to assess stationarity, Johansen cointegration tests to examine long-run relationships between tax revenue components (income tax, corporate tax, VAT, individual tax, and excise duty) and national consumption priorities and Vector Error Correction Model (VECM) models to capture both long-run equilibrium and short-run dynamics based on the order of integration. These techniques are selected because macroeconomic fiscal variables often exhibit non-stationarity and long-run equilibrium behavior and failure to account for this lead to spurious results. Overall, the chosen design, data sources and analytical program enhance the empirical rigor, replicability and policy relevance of the study's findings for Tanzania's fiscal and consumption planning framework (Wooldridge, 2020). The following regression model was used in the analysis of data.

$$NCP_t = \beta_t + \beta_1 IT_t + \beta_2 CT_{2t} + \beta_3 INT_{3t} + \beta_4 VAT_{4t} + \beta_5 ED_{5t} + \varepsilon_t \text{.....................................} (eq)\ 1$$

ε_t It is typically assumed to be IID $(0,\delta^2_{u,t})$. This represents the error term for the assumption of normally distribution with 0 mean value and constant of variance. NCPt is the National Consumptions Priority at time t.

NCP	National Consumptions Priority
β_t	Constant
β1, 2, 3, 4, 5	Coefficients
Ɛ	Error term
IT	Income Tax
CT	Corporation Tax
INT	Individual Tax
VAT	Value Added Tax
ED	Excise Duty

The tax revenue was measured by income tax, corporation tax, VAT, individual tax, exercise duty. While national consumptions priorities was measured by government final consumption expenditure for the values in TZS.

4. FINDINGS AND DISCUSSION

The Augmented Dickey–Fuller (ADF) unit root test results at level for table 4.1.1 to 4.1.6 indicate that all variables income tax (IT), corporation tax (CT), individual tax (INT), value added tax (VAT), excise duty (ED), and national consumption priorities (NCP) are non-stationary at their levels, as evidenced by ADF test statistics that are less than the corresponding critical values and probability values exceeding the 5 percent significance level. This result implies that the time series exhibit trends and stochastic movements over time, reflecting the evolving nature of Tanzania's tax structure and government consumption priorities influenced by macroeconomic reforms, population growth, and fiscal policy adjustments. Econometrically, non-stationarity at level suggests that regression using level data would produce spurious results, thereby justifying further differencing. Empirically, this finding is consistent with studies in developing economies which report that fiscal variables such as tax revenues and government expenditure tend to follow non-stationary paths due to structural changes and policy reforms (Narayan & Narayan, 2020; Afonso & Jalles, 2022). The result indicates that tax revenues and national consumption priorities in Tanzania evolve together over time rather than fluctuating around a constant mean.

4.1. Unit Root Test at Level for IT

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	0.040140	0.9539

Test critical values:	1% level	-3.724070	
	5% level	-2.986225	
	10% level	-2.632604	

*MacKinnon (1996) one-sided p-values.

4.2 Unit Root Test at Level for CT

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-0.635406	0.8479
Test critical values:	1% level	-3.670170	
	5% level	-2.963972	
	10% level	-2.621007	

*MacKinnon (1996) one-sided p-values.

4.3 Unit Root Test at Level for INT

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		3.754051	0.6500
Test critical values:	1% level	-3.724070	
	5% level	-2.986225	
	10% level	-2.632604	

*MacKinnon (1996) one-sided p-values.

4.4 Unit Root Test at Level for VAT

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		6.140731	0.8100
Test critical values:	1% level	-3.653730	
	5% level	-2.957110	
	10% level	-2.617434	

*MacKinnon (1996) one-sided p-values.

4.5 Unit Root Test at Level for ED

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		2.663134	0.7400
Test critical values:	1% level	-3.646342	
	5% level	-2.954021	

	10% level	-2.615817	

*MacKinnon (1996) one-sided p-values.

4.6 Unit Root Test at Level for NCP

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		6.265088	0.6300
Test critical values:	1% level	-3.646342	
	5% level	-2.954021	
	10% level	-2.615817	

*MacKinnon (1996) one-sided p-values.

4.6 Unit Root Test at First Difference

After first differencing for table 4.2.1 to 4.2.6, all variables (IT, CT, INT, VAT, ED, and NCP) become stationary, as indicated by statistically significant ADF probability values below 5 percent. This confirms that the series are integrated of order one, I (1), implying that shocks to tax revenues and national consumption priorities have temporary effects that dissipate over time. The stationarity at first difference validates the appropriateness of applying cointegration techniques to examine long-run relationships among the variables. Substantively, this result suggests that year-to-year changes in tax revenues directly influence adjustments in national consumption priorities rather than absolute tax levels alone. Similar findings are documented in empirical fiscal studies across Sub-Saharan Africa, where differenced tax variables exhibit stable statistical properties suitable for long-run modeling (Takentsi & Mah, 2025; Asogwa et al., 2019; Szymanska & Busse, 2021). This outcome reinforces the view that fiscal policy transmission in Tanzania operates through changes in revenue flows rather than static revenue levels.

4.6.1 Unit Root Test at First Difference for IT

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-0.774301	0.0084
Test critical values:	1% level	-3.737853	
	5% level	-2.991878	
	10% level	-2.635542	

*MacKinnon (1996) one-sided p-values.

4.6.2 Unit Root Test at First Difference for CT

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-2.879629	0.0059
Test critical values:	1% level	-3.653730	
	5% level	-2.957110	

	10% level	-2.617434	

*MacKinnon (1996) one-sided p-values.

4.2.3 Unit Root Test at First Difference for INT

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-1.336754	0.0380
Test critical values:	1% level	-3.737853	
	5% level	-2.991878	
	10% level	-2.635542	

*MacKinnon (1996) one-sided p-values.

4.6.4 Unit Root Test at First Difference for VAT

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		1.873718	0.0296
Test critical values:	1% level	-3.711457	
	5% level	-2.981038	
	10% level	-2.629906	

*MacKinnon (1996) one-sided p-values.

4.6.5 Unit Root Test at First Difference for ED

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-1.042001	0.0210
Test critical values:	1% level	-3.737853	
	5% level	-2.991878	
	10% level	-2.635542	

*MacKinnon (1996) one-sided p-values.

4.6.6 Unit Root Test at First Difference for NCP

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-1.462798	0.0387
Test critical values:	1% level	-3.661661	
	5% level	-2.960411	

10% level	-2.619160

*MacKinnon (1996) one-sided p-values.

4.7 Cointegration Test Results

The Johansen cointegration test results reveal the existence of multiple cointegrating equations among NCP, IT, CT, INT, VAT, and ED, as confirmed by both Trace and Maximum Eigenvalue statistics at the 5 percent level. This finding provides strong evidence of a long-run equilibrium relationship between tax revenues and national consumption priorities in Tanzania, indicating that despite short-run fluctuations, these variables move together over time. The presence of cointegration implies that government consumption priorities are structurally linked to tax revenue performance, reflecting fiscal dependency and revenue-driven budgeting practices. This result aligns with fiscal sustainability theory, which posits that government expenditure decisions are constrained by long-run revenue capacity. Empirical studies in emerging economies similarly report long-run cointegration between tax structures and public expenditure patterns (Babatunde, 2018; Bleaney et al., 2021). For Tanzania, the result indicates that tax reforms and revenue mobilization strategies have lasting implications for consumption-oriented public spending.

Included observations: 32 after adjustments
Trend assumption: Linear deterministic trend
Series: NCP IT CT INT VAT ED
Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.954131	210.9172	95.75366	0.0000
At most 1 *	0.730581	112.2941	69.81889	0.0000
At most 2 *	0.577323	70.32651	47.85613	0.0001
At most 3 *	0.537125	42.76981	29.79707	0.0010
At most 4 *	0.316517	18.12029	15.49471	0.0197
At most 5 *	0.169481	5.942556	3.841466	0.0148

Trace test indicates 6 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.954131	98.62306	40.07757	0.0000
At most 1 *	0.730581	41.96762	33.87687	0.0044

At most 2	0.577323	27.55669	27.58434	0.0504
At most 3 *	0.537125	24.64952	21.13162	0.0153
At most 4	0.316517	12.17773	14.26460	0.1041
At most 5 *	0.169481	5.942556	3.841466	0.0148

Max-eigenvalue test indicates 2 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

4.8 Vector Error Correction Model (VECM) Results

The Vector Error Correction Model (VECM) results demonstrate statistically significant long-run relationships among tax revenue components and national consumption priorities, with corporation tax (CT), individual tax (INT), and VAT exerting strong long-run effects, while excise duty (ED) shows a relatively weak influence. The signs of the long-run coefficients suggest that CT and VAT positively contribute to sustaining national consumption priorities, whereas INT exerts a negative long-run effect, possibly reflecting inefficiencies in individual tax collection or the regressive burden on disposable income that constrains consumption-focused expenditure. The error correction mechanism indicates a relatively high speed of adjustment toward long-run equilibrium following short-run disequilibria, confirming fiscal responsiveness in Tanzania's public finance system. These findings are consistent with empirical evidence from developing economies where indirect taxes and corporate taxes are more stable sources of financing public consumption compared to personal income taxes (Nguyen et al. 2021; Gupta & Liu, 2020; Nguyen & Darsono, 2023). The VECM results imply that strengthening corporate and consumption-based tax systems enhances the sustainability of national consumption priorities.

Vector Error Correction Estimates
Included observations: 31 after adjustments
Standard errors in ( ) & t-statistics in [ ]

Cointegrating Eq:	CointEq1
IT(-1)	1.000000
CT(-1)	-1.312255
	(0.06081)
	[-21.5789]
INT(-1)	-2.746921
	(0.39521)
	[-6.95048]
VAT(-1)	0.935478
	(0.10337)
	[9.04950]

ED(-1)	0.024819 (0.07996) [0.31039]				
C	-906715.1				
R-squared	0.770187	0.805578	0.922170	0.895616	0.913739
Adj. R-squared	0.616978	0.675963	0.870283	0.826026	0.856232
Sum sq. resids	4.43E+11	3.19E+10	8.11E+08	7.84E+10	4.20E+10
S.E. equation	156957.1	42114.34	6713.379	65994.25	48302.63
F-statistic	5.027044	6.215158	17.77271	12.86995	15.88907
Log likelihood	-406.4366	-365.6535	-308.7286	-379.5781	-369.9035
Akaike AIC	27.06043	24.42926	20.75669	25.32762	24.70345
Schwarz SC	27.66178	25.03061	21.35804	25.92897	25.30480
Mean dependent	103125.8	54261.49	10896.14	138555.6	72211.84
S.D. dependent	253611.6	73983.08	18639.85	158220.9	127391.1

4.9 Ordinary Least Squares (OLS) Regression Results

The OLS regression results reveal that corporation tax (CT) and value added tax (VAT) have a positive and statistically significant effect on national consumption priorities (NCP), while individual tax (INT) has a significant negative effect, and income tax (IT) and excise duty (ED) are statistically insignificant. These results suggest that indirect taxes and corporate taxes are the most effective revenue sources for financing consumption-oriented public expenditure in Tanzania. The positive impact of VAT reflects its broad base and efficiency in revenue generation, while the strong influence of CT indicates the importance of corporate sector performance in supporting government consumption priorities. Conversely, the negative coefficient of INT implies that reliance on individual taxation may reduce fiscal space for consumption priorities due to compliance challenges and income constraints. These findings are consistent with prior empirical studies which show that indirect taxes are more reliable for financing public consumption in developing countries (Gomba, 2025; Nguyen et al. 2025; Ayeni & Cordelia, 2022; Takentsi & Mah, 2025; Smith, 2022; Mwangi and Odhiambo, 2023; Hassan and Mbwana, 2024; OECD, 2022; Keen & Slemrod, 2021). Policy-wise, the results imply that Tanzania should prioritize efficient VAT and corporate tax administration while reforming individual tax systems to minimize distortions and enhance their contribution to national consumption priorities.

Dependent Variable: NCP
Method: Least Squares
Included observations: 34

Variable	Coefficient	Std. Error	t-Statistic	Prob.
IT	0.282996	0.733183	0.385983	0.7023
CT	6.578725	1.116256	5.893561	0.0000

INT	-17.45611	7.930915	-2.201021	0.0358
VAT	6.490543	0.767489	8.456860	0.0000
ED	1.848069	1.163480	1.588397	0.1230

R-squared	0.996546	Mean dependent var	10964885
Adjusted R-squared	0.996069	S.D. dependent var	11714799
S.E. of regression	734469.9	Akaike info criterion	29.98674
Sum squared resid	1.56E+13	Schwarz criterion	30.21120
Log likelihood	-504.7746	Hannan-Quinn criter.	30.06329
Durbin-Watson stat	1.796096		

5. CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

Based on the VECM and OLS findings, the study concludes that tax revenues play a significant role in shaping national consumption priorities (NCP) in Tanzania both in the long run and short run. The VECM results confirm the existence of a stable long-run equilibrium relationship between tax revenue components and national consumption priorities, with corporation tax (CT) and value added tax (VAT) emerging as the most influential and sustainable sources of financing consumption-oriented public expenditure, while individual tax (INT) shows a negative long-run association, indicating potential inefficiencies or adverse income effects. The OLS results further reinforce this conclusion by showing that CT and VAT have positive and statistically significant effects on NCP, whereas INT has a significant negative effect, and income tax (IT) and excise duty (ED) are statistically insignificant. Overall, the findings suggest that Tanzania's national consumption priorities are largely driven by indirect and corporate taxation, reflecting the country's reliance on broad-based and relatively stable tax instruments to support government consumption spending.

5.2 Recommendations

In light of these findings, the study recommends that the Government of Tanzania strengthen policies and administrative mechanisms aimed at enhancing the efficiency and compliance of value added tax and corporation tax, as these taxes have proven to be the most effective in supporting national consumption priorities. Efforts should focus on widening the VAT base, reducing leakages, and improving corporate tax administration to ensure sustained revenue inflows. Additionally, reforms in the individual tax system are necessary to address its negative impact on national consumption priorities, including simplifying tax structures, improving taxpayer education, and enhancing enforcement to reduce avoidance and compliance costs. While income tax and excise duty were found to be insignificant, they should not be neglected; instead, they should be restructured to complement major revenue sources and improve overall fiscal balance and consumption-oriented expenditure planning.

5.3 Recommended Areas for Further Study

The study recommends that future research extend the analysis by incorporating additional fiscal variables such as government recurrent and development expenditure, public debt, and fiscal deficits to provide a more comprehensive understanding of how tax revenues influence national consumption priorities. Further studies may also adopt disaggregated measures of national consumption priorities, for example by examining sector-specific consumption such as health, education and social protection spending. Moreover, applying alternative econometric techniques such as ARDL or Structural VAR, as well as conducting comparative studies across East African countries, would help validate the robustness of these findings and offer broader regional policy insights.

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