Budget Brief

Tanzania 2018

June 2018

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Economic overview

Economic Overview

Tanzania Economic Overview:

Performance of the economy in the past five years (2012-2016) remained buoyant with real GDP growing at an annual average rate of 6.7%. This is mainly attributed to improvement in transportation infrastructure, growth in communication, construction and financial services sectors.

In 2016, the Tanzanian economy grew by 7%, marginally missing the set target of 7.2% mainly on account of underperformance in the agriculture sector, which accounts for 28.9% of the GDP.

Spending on public investment remained well below budgeted amounts. On the other hand, the 12-month rolling balance of payments surplus almost doubled in annual terms in March, benefiting from increasing project funds from development partners. In the first three quarters of 2017, the last period for which data is available, the economy expanded almost 7 percent, a solid, albeit slower, pace from the previous year due to weaker domestic demand.

The value of Tanzanian Shilling against the US dollar remained broadly stable throughout 2016/17, consistent with liquidity conditions in the economy and the improvement in the current account balance. Throughout the first half of 2017, headline inflation continued to be in the single digits supported by contractionary fiscal policy and a general slowdown in global commodity prices; specifically stagnant oil prices and a slowed increase in domestic food prices. However, compared to a similar period in 2016, inflation increased marginally.

The 2018/19 budget speech, pointed out that the Tanzania economy continues to flourish as the government focuses on industrialization and infrastructure development. The budget focused on maintaining macroeconomic stability, promoting economic and social development and improving internal revenue collection.

Further, the budget aims to expand the tax base, formalize the informal sector and foster a conducive investment environment through simplification of the tax collection process.

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Proposed Tax Changes

A) Income Tax

Reprieve for new investors in pharmaceutical and leather industries

The Minister has proposed to reduce the corporate income tax rate from 30% to 20% for new investors in the pharmaceutical and leather industries for five years from 2018/19 to 2022/23.

This is aimed at promoting investment in manufacturing of pharmaceutical and leather products. This measure will result in creation of employment opportunities, increase tax revenues and curb importation of pharmaceutical and leather products.

Tax exemption of government projects

The Minister can now approve extension of income tax exemption on government projects that are financed by non-concessional loans. The extension would only apply to government projects, where such exemptions are provided in the agreements.

Ease of financing government projects!

The Minister has proposed to exempt withholding tax on interest earned on government loans from banks and financial institutions to finance government projects. This will encourage lending to government projects from the banks and financial institution.

In addition, the move will reduce the current administrative burden on the government for collection of WHT on its own projects.

B) Value Added Tax (VAT)

Promoting local pharmaceutical companies

In a bid to enhance access to healthcare, the Minister has proposed to grant a VAT exemption on packaging materials produced specifically for use by local manufacturers of pharmaceutical products. To qualify and curb abuse, the packaging materials must be printed or labelled with the name of the local pharmaceutical company.

Relief to livestock and poultry keepers

The Minister has proposed VAT exemption on imported animal and poultry feeds additives.

This exemption is intended to reduce the cost of feeds for livestock and poultry farmers and improve productivity in the agricultural sector. However, zero rating these products would have been the better incentive as the manufacturers have to price in the unrecoverable input VAT.

VAT exemptions on government projects funded by non-concessional loans

Similar to the corporation tax, the Minister has proposed to amend the VAT Act, by granting himself the power to approve VAT exemption on government projects that are funded by non-concessional loans.

Currently, the VAT Act does not provide VAT exemption on such projects, causing delays in the implementation of government priority projects such as water and infrastructure projects.

This will reduce the lead-time for completion of government projects.

VAT exemption on government funded bilateral projects

The Minister has also proposed to amend the VAT Act so that he can grant VAT exemption to government projects when there is an agreement signed between the government and a Financial Institution or a Bank that is representing another government and has been given powers of attorney by the said government to execute the agreement.

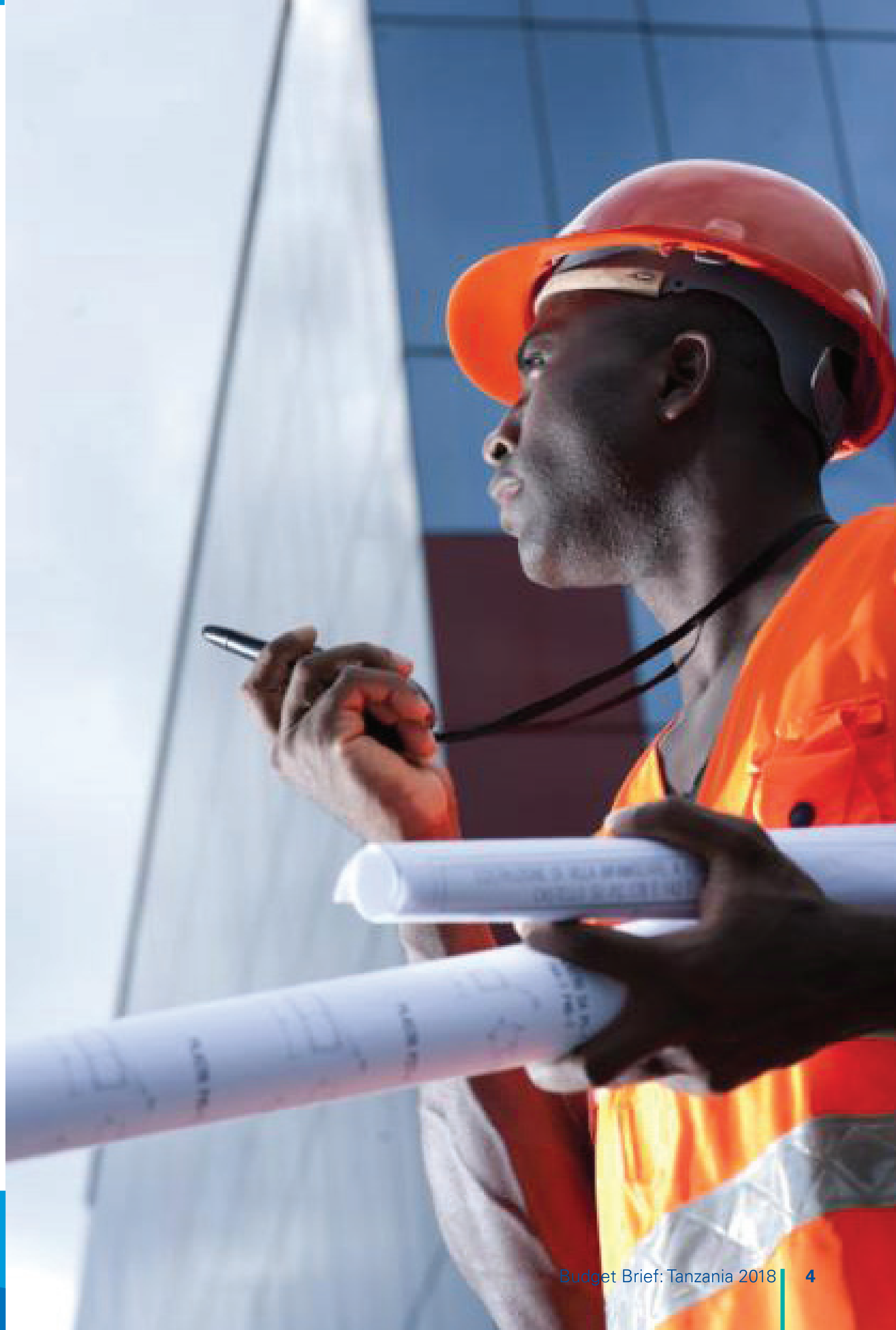
Currently, the VAT Act allows the Minister responsible for Finance to provide VAT exemption when there is a bilateral agreement. The VAT Act does not recognize financial institutions or banks. This has been affecting the implementation of government projects such as water and infrastructure projects.

This VAT exemption proposal will allow smooth implementation of these projects.

Affordable sanitary pads to women and girls

The Minister has proposed to exempt sanitary pads from VAT. This is aimed at subsiding the price of sanitary towels to increase accessibility to school going girls particularly those in the rural areas.

However, the proposed exemption may not achieve its intended goal as it may result to an increase in price due to the manufacturers' inability to offset their input VAT on raw materials used in the manufacture of the sanitary pads.



C) Import duty changes

Increased imported duty rates aimed at promoting local industries

Item	Current Rate	Proposed Rate
Wheat grain	35%	10%
Electronic Fiscal Devices	10%	0%
Papers used to manufacture exercise books and text books	25%	15%
Papers used as raw materials for the manufacturing of Gypsum Board	10%	0%
Consumption sugar imported under specific arrangements to cover shortage in the domestic market	25%	35%
Gypsum powder	0%	10%
Self-Adhesive Label	25%	10%
Printed Aluminum Barrier Laminates (ABL)	25%	0%
Crude Palm Oil	0%	25%
Crude edible oils (for example sunflower oil, palm oil, groundnuts oil, olive oil, maize corn oil etc.)	0% or 10%	25%
Semi-refined and refined/double refined edible oil (for example sunflower oil, palm oil, groundnuts oil, olive oil, maize corn oil etc.)	25%	35%
Nails, tacks, drawing pins, corrugated nails staples other than those of heading 83.05 and similar articles of iron or steel, whether or not with heads of other materials	-	The higher of 25% or USD 350 per metric ton
Safety matches	-	The higher of 25% or USD 1.35 per kg
PolyVinyl Alcohol	10%	0%
Inputs used to manufacture pesticides, fungicides, insecticides, and acaricides as approved by the relevant authorities		0%
RBD Palm stearin	10%	0%
Potatoes	25%	35%
Chewing gum	25%	35%
Sugar confectionary (sweets)	25%	35%
Chocolates	25%	35%
Biscuits	25%	35%
Tomato sauce	25%	35%
Mineral water	25%	60%
Meat and Edible offal	25%	35%
Sausages and similar products	25%	35%

Changes in EACCMA, 2004

Import duty exemptions

Import duty exemption on rally motorcycles to promote motorcycle sports and tourism in the region.

Provision of a common external tariff of 0% for motor boat ambulance under HS code 8903.10.

Exemption on various types of motor vehicles for transportation of tourists. These include motor cars, sight-seeing buses and overland trucks which are imported by licensed tour operators and must meet specific conditions.

Duty remission on a selected list of raw materials and industrial inputs for the manufacture of textiles and foot wear.

"Electronic tax stamp on excisable products has been introduced to replace paper tax stamp effective 1 September 2018."

D) Excise Duty

Imported goods to become more expensive!

Item	Current Rate (TZS per litre)	Proposed Rate (TZS per litre)
Beverages		
Imported water	61	64.05
Imported fruit juice	221	232
Imported beer	765	803.25
Imported non-alcoholic beer (including energy drinks and non-alcoholic beverages)	561	589.05
Wine produced using more than 75% domestic fruits other than grapes	N/A	200
Wine produced using more than 25% imported grapes	2,349	2,466
Imported Spirits	3,481	3,655.05
Cigarettes		
Other cigarette	53.235/cigarette	55.89675/cigarette
Cut rag or cut filler	26,888/kg	28,232.4/kg

Other notable points

Electronic tax stamp on excisable products has been introduced to replace paper tax stamp effective 1 September 2018.

This change will enable the government to obtain production data from manufacturers on a real time basis and hence curb revenue leakage. The system will also address challenges associated with the use of fake paper stamps. This electronic tax stamp will address the potential practical challenge of affixing the paper stamp cans.

E) The Tax Administration Act

100% Amnesty on interest and penalties

The minister proposes a 100% amnesty on penalties and interest for a six month period starting from 1st July 2018 up to 31st December 2018.

This move is aimed at improving tax compliance by 10% and enhancing the collection of outstanding principal tax.

F) Other Taxes

The Local Government Finance Act

Funding the marginalized groups

The Minister for Finance has proposed to give powers to the Minister responsible for local government to direct the Local Authorities to set aside 10% of all monies collected from their own source of revenue for the purpose of funding registered women and youth groups within their jurisdiction. The women and youth groups will each get 50% of these funds as interest free loans.

Harmonization of Service Levy and Produce Cess

The Minister for Finance has proposed exemption on produce cess for the companies and institutions which are subject to Service Levy.

Further any corporate entity which produces unprocessed agricultural crops will be subject to Produce Cess.

Single Account for Treasury

Introduction of a Treasury Single Account which will be used for collection and payment of government funds under agreement of the EAC.

The Laws Governing the Operation of Crop Boards

All fees and levies imposed on the sales of crops should be deposited in the Paymaster General Account.

The objective of this measure is to ensure that the revenue collected is properly accounted, effectively managed and utilised for the intended purpose.

The Gaming Act

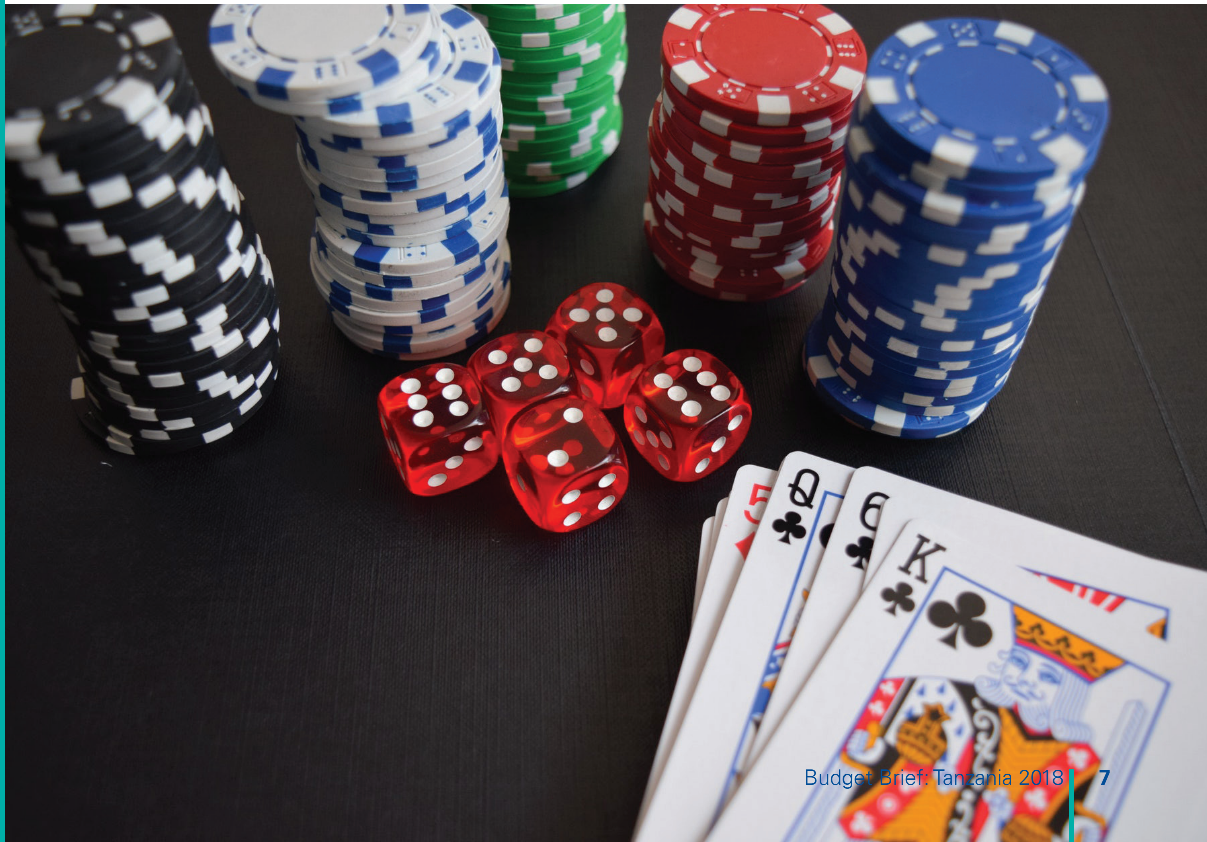
Cashing in on the betting frenzy!

	Current	Proposed
Gross sales on sport betting operations	6%	10%
Gaming tax on a slot machine per month	TZS 32,000	TZS 100,000
Gross gaming revenue for land based casino operators	15%	18%
Gaming tax on gross gaming revenue for forty machines	15%	20%

Amendments on various fee and levies

- Exempt payment of land rent for government agencies/institutions
- Abolish and reduce some levies and fees imposed on salt sub-sector
- Abolish some levies and changes in the OSHA fees and levies

These changes shall be effective from 1st of July, 2018.



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