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# Tanzania Budget Insights 2019/20

Unravelling the Budget puzzle

# Introduction

The Finance Minister, Dr. Philip I. Mpango, tabled a TZS 33.11 trillion budget to Parliament on 13 June 2019. Themed ***"Building Industrial Economy for Stimulating Employment and Sustainable Social Welfare",*** this budget sought to build on the last three years where the government sought to intensify infrastructure development with a view of unlocking the industrial potential of Tanzania.

With the Tanzanian economy growing at a rate more than double the Sub-Saharan average, and higher than all the East African countries except Rwanda, the country has a lot to be bullish about. Inflation was largely tamed at way below 4%. The government took measures to increase the level of liquidity in the economy, including the reduction of the discount rate from 9% to 7% in August 2018. Among other things, this led to the moderate decrease in commercial bank lending rates from 17.93% in July 2018 to 17.15% in April 2019. A particularly positive note is that credit to the private sector has increased by about 10%, compared to around 1% in the previous period. The lion's share of the credit creation (28.2%) went into personal loans.

The Minister highlighted the challenges leading to the underperformance in tax collections to include difficulty in taxing the informal sector, continued smuggling and low levels of awareness among citizens to demand electronic receipts when purchasing goods. Tax revenues reached the equivalent of 87.4% of the target, which means that government will be looking to widen the tax base and increase the share of tax revenues as the percentage of GDP in the coming year.

Taxes will continue to be the main source of financing for the budget, with tax collection expected to account for about 59% of the budget. The TZS 19.1 trillion revenue target represents a 15.01% increase from the projected TZS 16.2 trillion revenue collection for 2018/19. With economic growth for FY19/20 projected at about 7%, this means that a lot of the growth in tax revenue is expected to come from enhanced administrative/enforcement measures by the revenue authority, besides the tax increases contained in the Budget and the yet to be finalized in the Finance Bill 2019.

**Introduction**

Economic Oulook

Income Tax

Customs Duties

Excise Duties

Value Added Tax

Miscellaneous

Contacts

**<< Previous | Next >>**

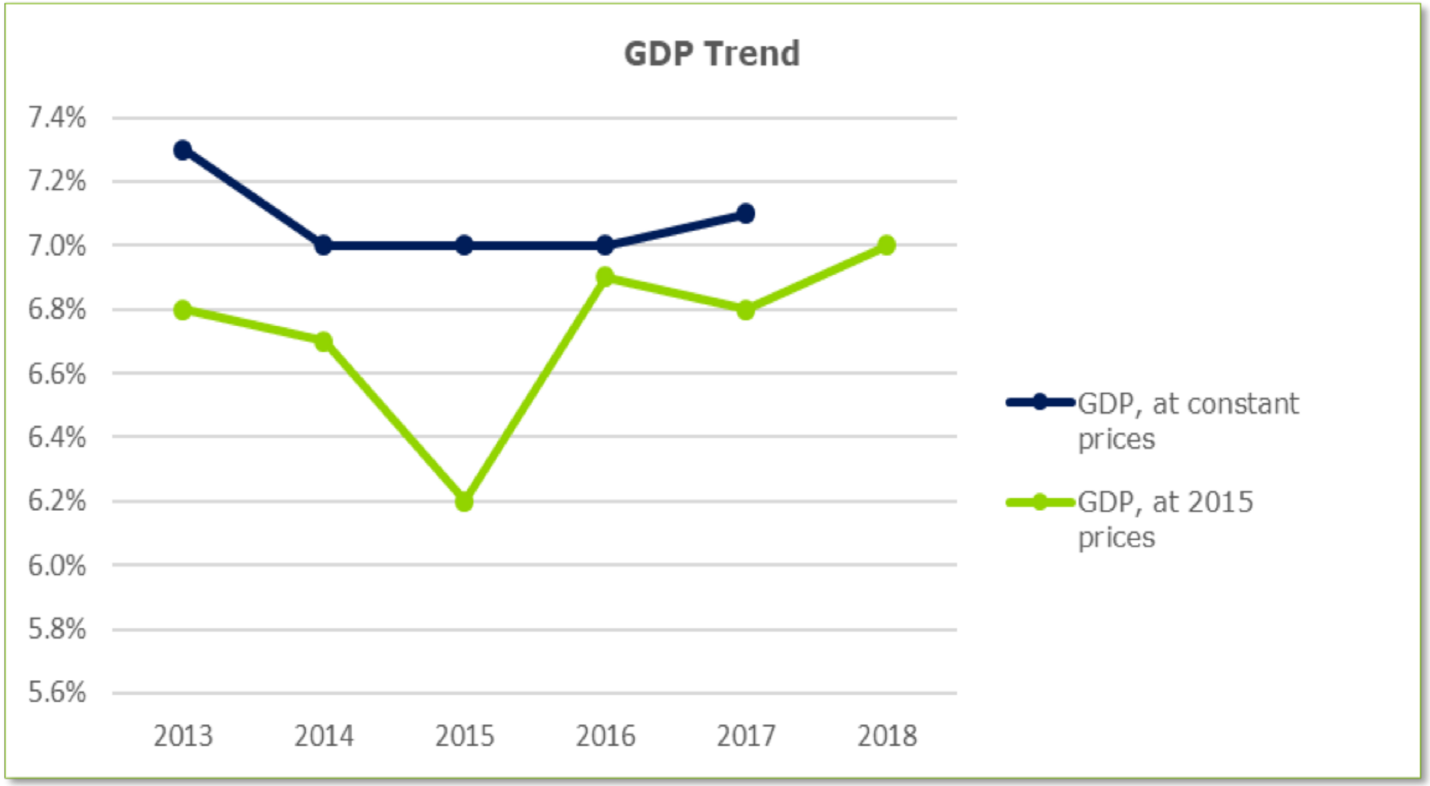
The government plans to spend TZS 20.86 trillion shillings for recurrent expenditures, equivalent to 63% percent of the total budget. The lion's share of the development expenditure (estimated at TZS 12.25 trillion, which is 37% of the budget) will go to the key strategic infrastructure projects. TZS 2.48 trillion is allocated for the construction of the Standard Gauge Railway, TZS 1.44 trillion shillings for Hydroelectric Power Project at Rufiji River and TZS 788.80 billion for Railway, Water and REA Funds. The government also intends to spend TZS 600 billion for payment of verified arrears for public servants, service providers and contractors for roads, water and electricity projects.

The business community was anxious to see this budget breathe life into the much talked about Blueprint for the Regulatory Reforms to improve the Business Environment. In this respect, the government responded resoundingly with an abolition of a record 54 fees and levies imposed on businesses across different sectors. Some of the levies relate to the entities such as Tanzania Food and Drugs Authority, Tanzania Bureau of Standards, Government Chemist Laboratory Authority (GCLA), The Ministry of Livestock and Fisheries, The Ministry of Natural Resources and Tourism and the Ministry of Water. The government has promised a continued review of various fees and levies and these will be implemented in the next phase.

In his meeting with the business community last week, the president promised to act on their grievances which were primarily around tax administration and overzealous revenue authority officials imposing unfair burdens. To this end, the government is proposing an establishment of the "the Office of Tax Ombudsman" within the Ministry of Finance which will be responsible for receiving and working on unbiased information and complaints from taxpayers with respect to tax administration, including corruption and unfair closures of businesses by tax officials. The government is also to set a dedicated desk in the TRA offices for dealing with all complaints and disputes by taxpayers. It is anticipated that the complaints will be dealt within 24 hours.

Overall, this is a positive budget for a country looking to unlock the potential of its private sector.

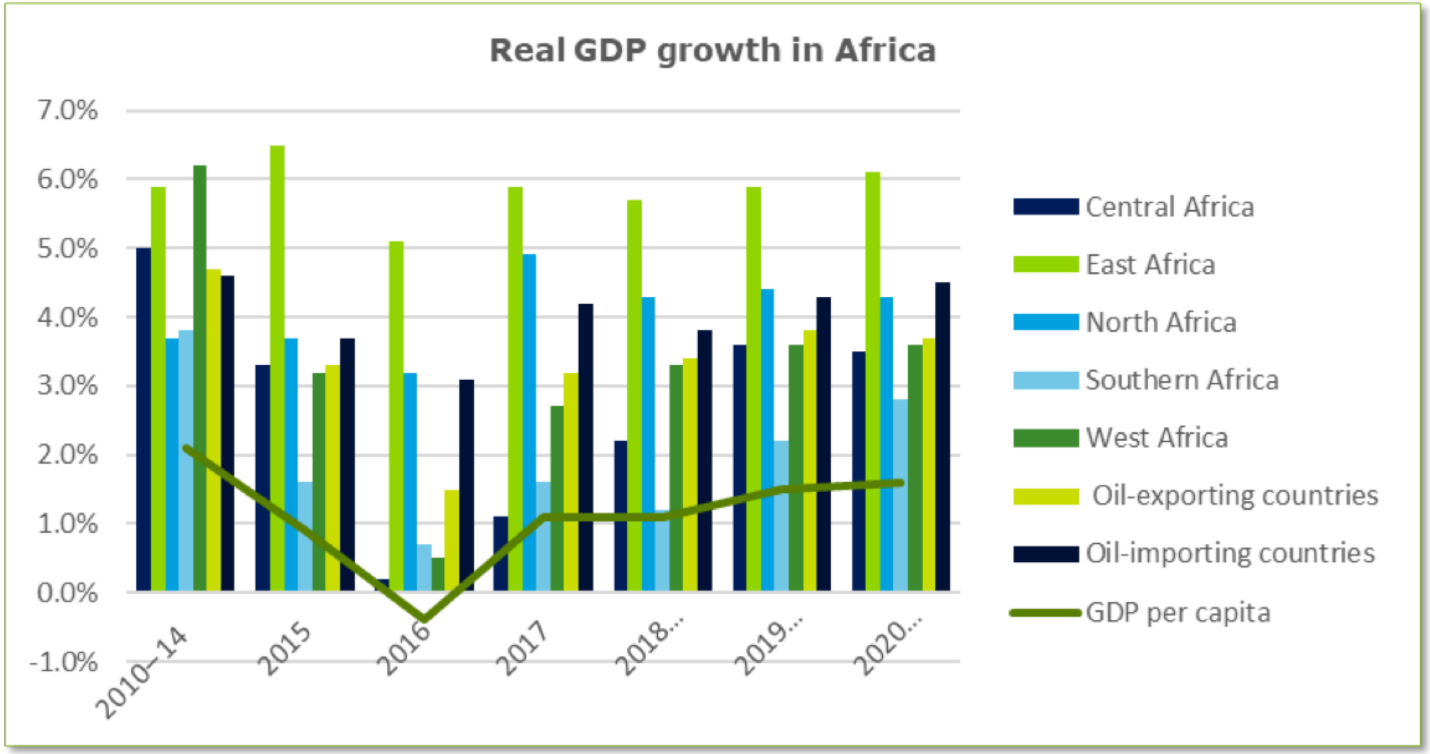
# Economic outlook




Source: BOT, MOF

- **The GDP growth is mainly driven by the growth of sectors like transport, construction, agriculture, trade, and manufacturing activities**

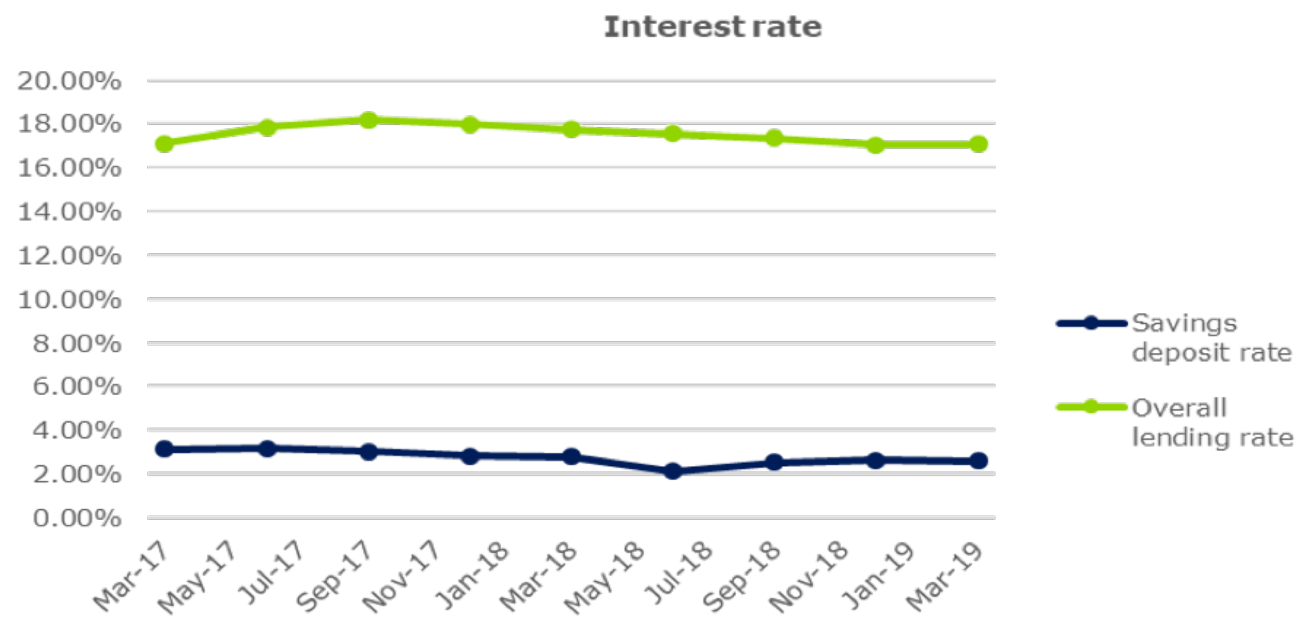
# Regional Outlook




Source: AfDB

- **East Africa is the continent's fastest growing region.**
- **Tanzania and Ethiopia continued to have the highest real GDP growth rate and above the region's average. Other countries have recorded growth except for South Sudan whose GDP shrank due to political and civil unrest.**

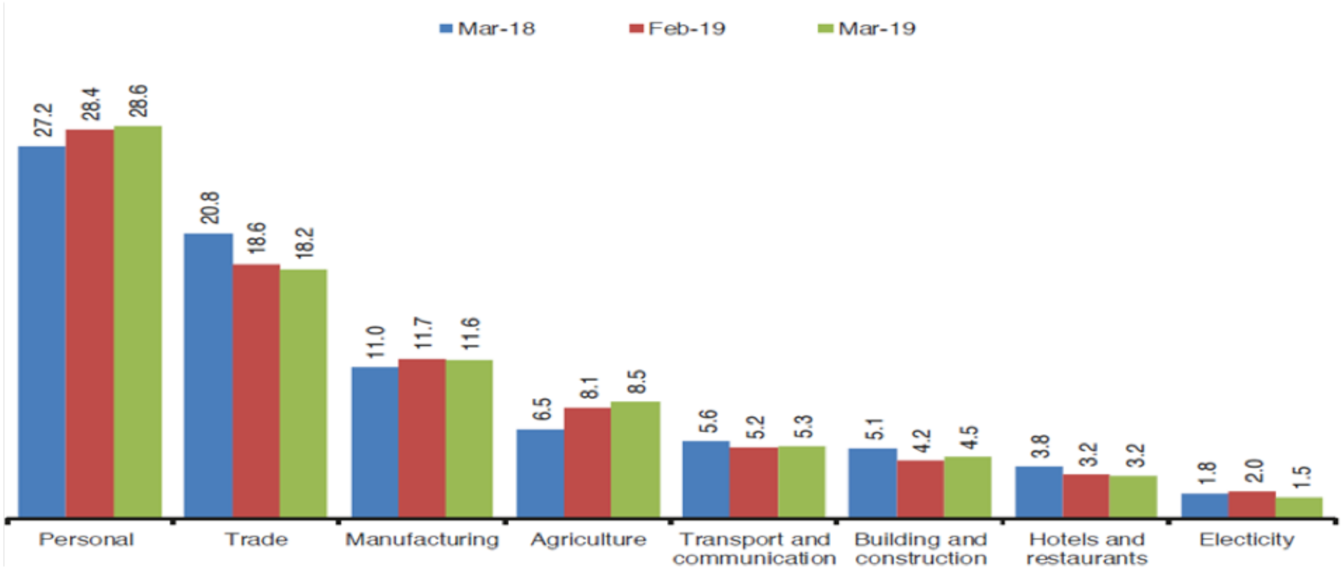
# Interest rates & exchange rates




Source: BOT

- **In December 2018 the interest rates charged by banks on loans had reached its lowest at 17.01% in the last three years since 2016.**
- **The saving deposit rate has flattened in the last 24 months. The exchange rate has largely flattened in the last year.**

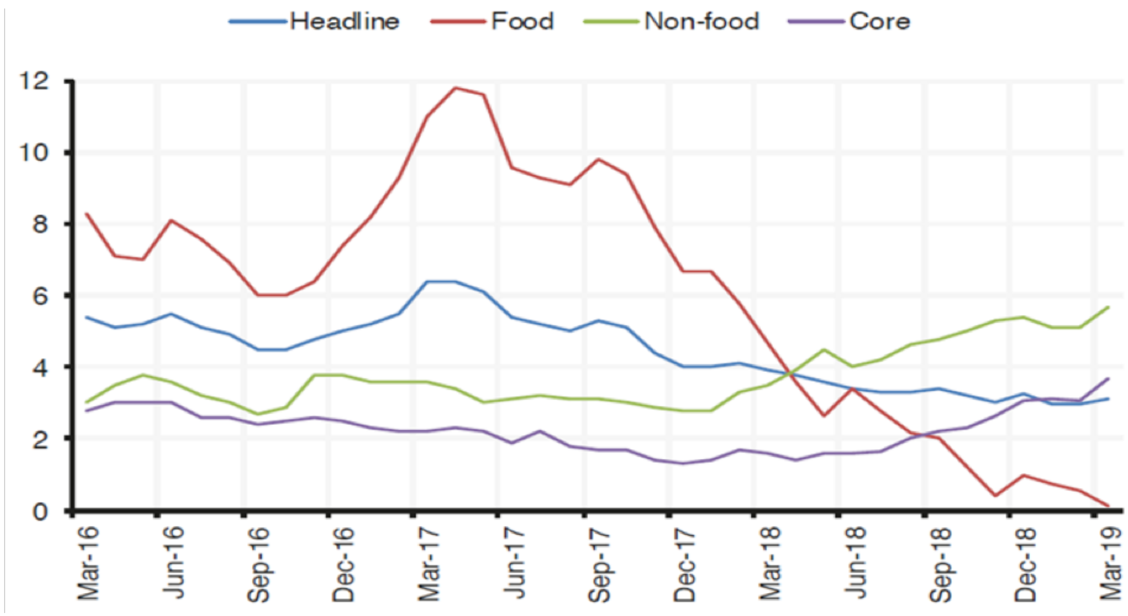
**Composition of Banks' Outstanding Credit by Major Economic Activities**




Source: BOT

- **Credit extended by banks to the private sector grew significantly by 9.6% in the year ending March 2019 compared with 1.2% in the corresponding period of 2018.**
- **Personal loans has continued to account for the largest share of the outstanding credit, holding 28.6 percent.**

# Inflation



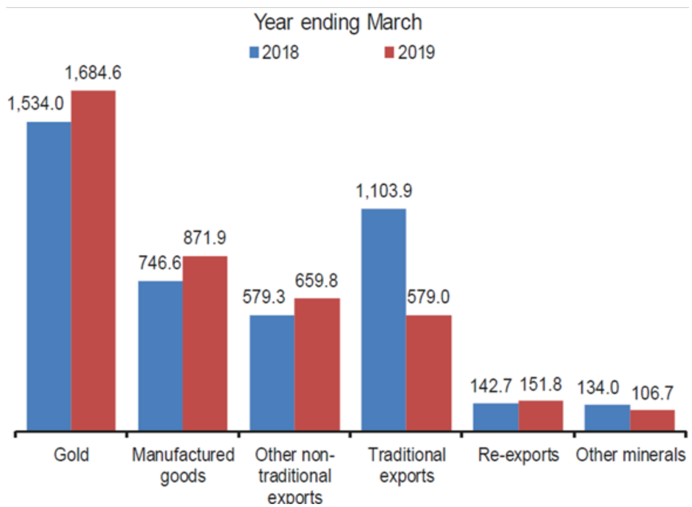

Source: National Bureau of Statistics and Bank of Tanzania

- **On average prices have risen by 3.2%, with the highest being 11.4% on the basket containing housing, water, electricity, and fuels.**
- **The lowest was on communication, which noted a deflation of 1.1%.**
- **The inflation rate is expected to remain tamed in the year.**

# Balance of Payments

As at end of March 2019, the gross official reserves amounted to USD 4,681.7million which is sufficient to cover for critical imports of 4.6 months.

**Performance of Goods Exports**




Source: National Bureau of Statistics and Bank of Tanzania

- **The value of exports have increased to USD 8,544.5 million from USD 8,488.2 million in the corresponding period of 2018.**
- **This is largely driven by increase in exports of non-traditional goods, mainly gold. Traditional exports have however decreased from USD 1,103m to USD 579m.**
- **Overall, Tanzania is still running a deficit its balance of payments of USD 654.8 million and its current account balance has worsened by 23.3%. This was mainly on account of increase in goods imports.**



<< Previous | Next >>

# Revenue Targets and Actual Collections

The government aimed at raising domestic revenue amounting to TZS 20.89 trillion. The target was to collect TZS 18 trillion from taxes, TZS 2.16 trillion from non-taxes and TZS 0.74 trillion from LGA sources.

| | | | | Comparisons | | % collections | |
|---|---|---|---|---|---|---|---|
| **Tax Category** | **2018 (Actual)** | **2019 (Budget)** | **2019 (Likely outturn)** | **PY(Actual)** | **CY(Budget)** | **2018** | **2019** |
| Import duty | 1,109,205 | 1,204,090 | 1,182,653 | 6.6% | -1.8% | 7.3% | 7.3% |
| Excise Duty | 2,199,900 | 2,541,287 | 2,423,792 | 10.2% | -4.6% | 14.5% | 14.9% |
| Value added tax | 4,425,968 | 5,463,990 | 4,927,037 | 11.3% | -9.8% | 29.1% | 30.4% |
| Income tax | 5,157,106 | 6,540,038 | 5,447,204 | 5.6% | -16.7% | 33.9% | 33.6% |
| Other taxes | 2,299,242 | 2,250,814 | 2,239,166 | -2.6% | -0.5% | 15.1% | 13.8% |
| **Total collection** | **15,191,421** | **18,000,219** | **16,219,852** | **6.2%** | **-6.7%** | **100%** | **100%** |

Source: MOF

Introduction

Economic Oulook

Income Tax

Customs Duties

Excise Duties

Value Added Tax

Miscellaneous

Contacts

<< Previous | Next >>

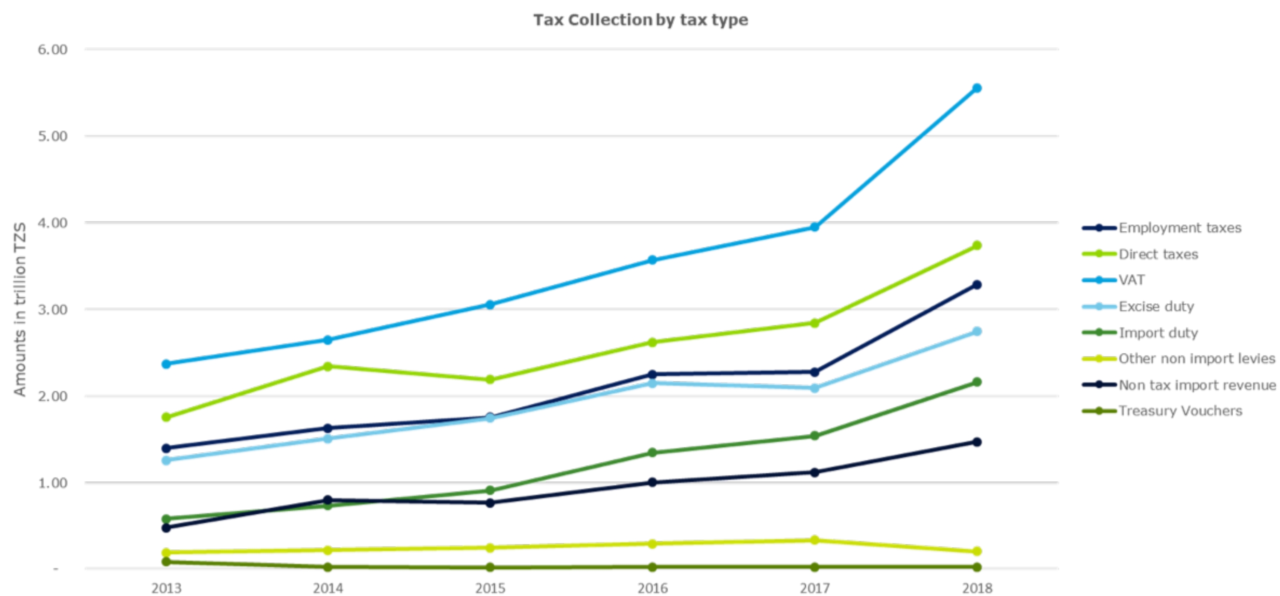
# Revenue Authority Performance

As at March 2019, the three TRA departments had collected both taxes and non taxes revenues amounting to TZS 11.72 trillion which is 1.5% improvement from the corresponding quarter in 2018.

| Department | March - 18 | March - 19 | Comparison |
|---|---|---|---|
| Domestic Revenue | 2,431,082 | 2,610,413 | 7.4% |
| Customs and Excise | 4,639,712 | 4,651,634 | 0.3% |
| Large Taxpayers | 4,509,748 | 4,479,746 | -0.7% |
| **Total (Gross)** | **11,580,541** | **11,741,793** | |
| Add: Treasury Voucher | 6,647 | 8,942 | 34.5% |
| Less: Transfer of Refunds | (38,403) | (26,454) | - 31.1% |
| Less: Transfer to ZRB | (1,896) | (2,780) | 46.6% |
| Less: Transfers to VETA | - | - | 0% |
| **Total Net** | **11,546,889** | **11,721,502** | |

# TRA Revenue Collection Statistics

| Fiscal year ended | June -18 | June - 17 | June - 16 | June - 15 | June - 14 |
|---|---|---|---|---|---|
| **Tax Category** | | | | | |
| Employment taxes | 3.29 | 2.28 | 2.25 | 1.75 | 1.63 |
| Direct taxes | 3.74 | 2.84 | 2.62 | 2.19 | 2.34 |
| VAT | 5.55 | 3.95 | 3.57 | 3.05 | 2.65 |
| Excise Duty | 2.74 | 2.09 | 2.14 | 1.74 | 1.51 |
| Import Duty | 2.16 | 1.54 | 1.34 | 0.91 | 0.73 |
| Other non import revenue | 0.21 | 0.34 | 0.29 | 0.25 | 0.22 |
| Non tax import revenue | 1.47 | 1.12 | 1.00 | 0.77 | 0.80 |
| Treasury Vouchers | 0.02 | 0.03 | 0.03 | 0.03 | 0.02 |
| Tax Refunds | (0.08) | (0.05) | (0.72) | (0.78) | (0.52) |
| **Total collection for the year** | **19.10** | **14.13** | **12.53** | **9.91** | **9.38** |




Introduction
Economic Oulook
Income Tax
Customs Duties
Excise Duties
Value Added Tax
Miscellaneous
Contacts

<< Previous | Next >>

# Income Tax

## Exemption from withholding tax on fees charged to the Government on loans from non-resident banks and international financial institutions

The Minister proposes to exempt from withholding tax ("WHT"), fees paid by the Government to non-resident banks and international financial institutions. The fees are commitment fees, insurance premium fees, insurance management fees, arrangement fees and any other fees which will be imposed as part of loans' cost.

**The measure**

Non-resident banks and international financial institutions will be exempt from paying WHT from lending fees they earn from the Government of Tanzania.

**Who will be affected**

Non-resident banks and international financial institutions providing loans to the Government which consequently mean a potential reduction in lending costs as lenders tend to factor in withholding taxes in their pricing of the loans and associated fees.

**Our view**

This measure aims at making it cheaper for the Government to attract more external finance on government projects and making the loans cheaper and ultimately reducing the cost of financing government projects.

## The turnover threshold for taxpayers to prepare and file audited financial statements is increased from TZS 20 Million to TZS 100 Million

The Minister proposes to amend Paragraph 2 of the first schedule of the Income Tax Act in respect of the presumptive income tax for individuals. The proposed amendment includes an increase in the threshold from TZS 20 Million to TZS 100 Million for taxpayers to start filing audited financial statements with the TRA.

**The measure**

Taxpayers with turnover of less than TZS 100 Million will not be required to file audited financial statements with the TRA.

**Who will be affected**

Taxpayers with turnover less than TZS 100 Million.

**Our view**

This measure aims at reducing the cost incurred by small businesses to pay a Certified Public Accountant for preparation of audited financial statements. The change may also improve voluntary compliance and increase Government revenue.

## Reduction of corporate income tax for new investors producing sanitary pads

The Minister proposes to reduce corporate income tax from 30% to 25% for new investors producing sanitary pads for two years starting from 2019/2020 to 2020/21

**The measure**
New entities producing sanitary pads will enjoy low corporate tax at a rate of 25% for two years (from 2019/2020 to 2020/2021).

**Who will be affected**
New investors producing sanitary pads.

**Our view**
The change may incentivize investment in local manufacturing industry, specifically manufacturers of sanitary pads with the likelihood of creating opportunity for employment and increasing government revenue. That being said, the first two years are not necessarily profitable for many new investors, the incentive might be better placed for years when the companies will become profitable.

## Amendment of the First Schedule of the ITA on presumptive income tax for taxpayers

The Minister proposes to amend the first schedule of the Income Tax Act to introduce a presumptive tax regime to taxpayers with an annual turnover of TZS 14 Million to TZS 100 Million who will not be required to submit financial statements to the TRA for determining income tax. The amendment will also include reduction on presumptive tax rates.

**The measure**
Taxpayers with annual turnover of less than TZS 100 Million will not be required to file audited financial statements.

**Who will be affected**
Taxpayers with turnover of TZS 14 Million to TZS 100 Million.

**Our view**
The objective of this change is to reduce tax compliance burden on small businesses by eliminating the requirement to prepare audited financial statements. It also aims at aligning the tax rates with the minimum amount of turnover required for businesses to use Electronic Fiscal Device (EFD) machine currently at TZS 14 Million. The change is also expected to increase the emphasis on compliance of using EFD machines.



<< Previous | Next >>

# Customs Duties

## Export levy

**The measure**

Imposition of 10% export levy on wet blue leather.

**Who will be affected**

Exporters of wet blue leather and local manufactures of leather products.

**Our view**

Due to increased government focus on industrialization, this measure is aimed at promoting leather processing by local tanneries in East Africa and discourage exportation of raw leather. Perhaps further incentives can be provided along the value chain to further encourage value addition.

## Import duty exemption

**The measure**

Grant import duty exemption on lubricants for aircrafts, uniforms, calendars, diaries, and pens used by airline operators.

**Who will be affected**

Players in the aviation sector.

**Our view**

Apart from reducing operational costs for airlines operators, the exemption will allow the government of Tanzania to sign Bilateral Air Service Agreements which the government could not sign due to misalignment with global practices. The move would be welcomed for Air Tanzania.

## Duty remission

| Description of the item | HS Code | Rate (%) (2018) | Rate (%) (2019) | Our views |
|---|---|---|---|---|
| **Raw materials used to manufacture baby diapers** | 3506.91.00, 3926.90.90, 3906.90.00, 4803.00.00, 5603.11.00, 5903.90.00, 5402.44.00, 4803.00.00 | 10% | 0% | This should encourage and protect local manufacturers of baby diapers |
| **Equipment and appurtenant used for polishing and heat treatment of gemstones** | 3606.90.00; 6804.10.00; 6813.20.00; 7018.90.00; 7020.00.99; 8202.20.00; 8202.99.00; 8203.20.00; 8205.10.00; 8423.89.90; 8513.10.90; 9002.19.00 | 25% | 0% | The measure is intended to promote value addition of gemstones locally which will also create employment |
| **Papers used as raw materials for manufacturing of packaging materials for export of horticulture products** | 4805.11.00, 4805.19.00 | 10% | 0% | This will reduce costs of exported products and increase the competitiveness of horticulture products exported from Tanzania and the rest of East Africa. |
| **Agricultural seeds packaging materials** | 3923.29.00; 6305.10.00; 4819.40.00; 7310.29.90; 6305.33.00; 6305.20.00; 6304.91.90; 7607.19.90 | 25% | 0% | This will reduce costs of exported products and increase the competitiveness of horticulture products exported from Tanzania and the rest of East Africa. |
| **Aluminum alloys** | 7606.92.00 | 25% | 0% | This will promote production of pots locally. |

## Grant stay application of EAC-CET rates

| Description of the item | HS Code | Rate (%) (2018) | Rate (%) (2019) | Our views |
|---|---|---|---|---|
| **Roasted coffee** | 09.01 | 25% | 35% | The measure aims at discouraging importation of coffee products and promotes domestic coffee production |
| **Reinforcement bars and hollow profiles** | 7213.10.00; 7213.20.00; 7213.99.00; 7214.10.00; 7214.20.00; 7214.30.00; 7214.90.00; 7214.99.00; 7215.10.00; 7215.50.00; 7215.90.00; 7225.90.00; 7225.92.00; 7225.99.00; 7306.30.00; 7306.50.00; 7306.61.00; 7306.69.00; and 7306.90.00 | 25% or USD 200, whichever is higher | 25% or USD 250, whichever is higher | Aimed at protecting local manufacturers of reinforcement bars and hollow profiles |
| **Horticultural products** | 603.11.00; 0603.12.00; 0603.13.00; 0603.14.00; 0603.19.00; 0604.20.00; 0604.90.00; 0701.90.00; 0702.00.00; 0703.10.00; 0703.20.00; 0706.10.00; 0710.10.00; 0710.21.00; 0710.22.00; 0710.30.00; 0714.10.00; 0714.20.00; 0804.30.00; 0804.40.00; 0804.50.00; 0805.10.00; 0805.40.00; 0805.50.00; 0806.10.00; 0807.11.00; 0807.20.00; 0808.10.00; and 0808.20.00 | 25% | 35% | The measure is purely intended to increase government revenue but also encourages local producers of the same products given Tanzania has a vast arable land |
| **Monofilament (PVC Profiles)** | 3916.10.00; 3916.20.00 and 3916.90.00 | 0% | 10% | A move to increase government revenue |

Introduction
Economic Oulook
Income Tax
**Customs Duties**
Excise Duties
Value Added Tax
Miscellaneous
Contacts

## Impose import duty rates

| Description of the item | HS Code | Rate (%) (2018) | Rate (%) (2019) | Our views |
|---|---|---|---|---|
| **Flat-rolled products of iron or non-alloy steel and Flat-rolled products of other alloy steel of width of 600mm or more** | 7209.16.00; 7209.17.00; 7209.18.00; 7209.26.00; 7209.27.00; 7209.28.00; 7209.90.00; 7211.23.00; 7211.90.00; 7225.50.00 and 7226.92.00 | | 10% or USD 125 per metric ton, whichever is higher for one year | Aimed at protecting domestic industries and as mitigation measure against invoice manipulation and valuation |
| **Flat-rolled products of iron or non-alloy steels** | 7212.30.00; 7212.40.00 and 7212.50.00 | | 25% or USD 200 per metric ton whichever is higher for one year | |
| **Flat-rolled products of iron or non-alloy steel** | 7212.60.00 | | 10% or USD 250 per metric ton whichever is higher for one year | |
| **Flat-rolled products** | 7210.41.00; 7210.49.00; 7210.61.00; 7210.69.00; 7210.70.00 and 7210.90.00 | | 25% or USD 250 per metric ton whichever is higher for one year | Move to protect domestic producers in East Africa region |

## Continue to grant duty remission

| Description of the item | HS Code | Rate (%) (2018) | Rate (%) (2019) | Our views |
|---|---|---|---|---|
| **Wheat grain** | 1001.99.10 and 1001.99.90 | 10% instead of 35% | 10% instead of 35% | Move to increase production of wheat in EAC region to satisfy demand and ensure food security |
| **Printed Aluminum Barrier Laminates (ABL)** | 3920.10.90 | 0% instead of 25% | 0% instead of 25% | Move to reduce production cost and competitive advantage of domestic toothpaste producers |
| **RBD Palm stearin** | 1511.90.40 | 0% instead of 10% | 0% instead of 10% | |
| **Selected list of raw materials and industrial inputs for the manufacturer of textiles and footwear** | | 0% | 0% | Promote textile and footwear manufacturers |

## Continue to grant stay application

| Papers used to manufacture exercise books and textbooks | HS Code | Rate (%) (2018) | Rate (%) (2019) | Our views |
|---|---|---|---|---|
| **Electronic Fiscal Devices (EFD's) used to collect Government revenues** | 4804.11.00; 4804.21.00; 4804.31.00; and 4804.41.00 | 25% instead of 0% | 10% instead of 35% | Intended to boost competitive advantage of Mufindi Paper Mills |
| **Printed Aluminum Barrier Laminates (ABL)** | 8470.50.00 | 0% instead of 10% | 0% instead of 10% | The measure will increase government revenue and encourage voluntary compliance by taxpayers on the use of EFDs |
| **Safety matches** | 3605.00.00 | 25% or USD 1.35 per kilogram | 25% or USD 1.35 per kilogram | The measure will discourage importation of safety matches and boost competitive advantage of local manufacturers of safety matches |
| **Nails, tacks, drawing pins, corrugated nails staples** | 7317.00.00 | 25% or USD 350 per metric ton whichever is higher | 25% or USD 350 per metric ton whichever is higher | The measure discourages importation of such construction products and aimed at boosting competitive advantage of local manufacturers |

| | | | | |
|---|---|---|---|---|
| **Other sugar confectionary (sweets), Biscuits, chocolates** | 1704.90.00;<br>19.05;<br>18.06; | 35% instead of 25% | 35% instead of 25% | The move will protect and boost local industries producing similar products through discouraging importation of similar products |
| **Tomato sauce** | 2103.20.0 | 35% instead of 25% | 35% instead of 25% | |
| **Meat and edible offal** | | 35% instead of 25% | 35% instead of 25% | |
| **Semi-refined and refined/ double refined edible oil (for example sunflower oil, palm oil, groundnuts oil, olive oil, maize corn oil etc.)** | 1507.90.00; 1508.90.00; 1509.90.00; 1510.00.00 1511.90.10; 1511.90.30; 1511.90.90; 1512.19.00; 1512.29.00; 1513.19.00; 1513.29.00; 1514.19.00; 1514.99.00; 1515.19.00; 1515.20.00; 1515.50.00; and 1515.90.00 | 35% instead of 25% | 35% instead of 25% | |
| **Mineral water** | 2201.10.00 | 60% instead of 25% | 60% instead of 25% | |
| **Gypsum Powder falling under** | 2520.20.00 | 10% instead of 0% | 10% instead of 0% | |
| **Worn clothes** | | 35% instead of 35% or USD 0.40/kg, whichever is higher | 35% instead of 35% or USD 0.40/kg, whichever is higher | |
| **Other sugar confectionary (sweets), Biscuits, chocolates** | 1704.90.00;<br>19.05;<br>18.06; | 35% instead of 25% | 35% instead of 25% | |
| **Tomato sauce** | 2103.20.00 | 35% instead of 25% | 35% instead of 25% | |

## Continue to impose import duty on

| Description of the item | HS Code | Rate (%) (2018) | Rate (%) (2019) | Our views |
|---|---|---|---|---|
| **Crude edible oils (for example sunflower oil, palm oil, groundnuts oil, olive oil, maize corn oil etc.)** | 1507.10.00; 1508.10.00; 1511.10.00; 1512.11.00; 1513.11.00; 1514.11.00; 1514.91.00; 1515.11.00; 1515.21.00; 1515.30.00; | 25% | 25% | The move will promote production of edible oils using locally produced seeds and protects local producers |
| **Consumption sugar imported under specific arrangements (to cover the shortage in the domestic market);** | | 35% instead of 100% | 35% instead of 100% | Protects domestic industries |

# Excise Duties

## Excise duty on imported and locally produced products

**The measure**

The Minister proposes not to amend the majority of the fourth schedule (made under section 124(2)) of Excise (Management and Tariff) Act for majority of non-petroleum products.

**Who will be affected**

Local manufacturers and importers.

**Our view**

On the back of tamed inflation, the Minister is of the view that no adjustments are necessary on non petroleum products. There is also the intention to reduce production costs on local producers and enhance consumption of households in order to achieve industrialization as well as increasing government revenue from consumption taxes.

We expect the Finance Bill to have an inflationary duty adjustment on petroleum products.

## Reduction of excise duty on wine produced from domestic fruits other than grapes

**The measure**

Excise duty on goods with HS Code 2206.00.90 has been reduced from TZS 200 to TZS 61 per each litre. This group consists of wine produced locally with domestic products (such as banana, cashew, rosella, tomatoes etc.) except grapes with contents exceeding 75% in terms of local sourcing.

**Who will be affected**

Local manufacturers and consumers

**Our view**

The Government aims to protect local manufacturers of wine as well as promoting producers of domestic fruit.

## Imposition of excise duty on artificial hair

**The measure**

The Minister has proposed an amendment to the excise duty legislation by introducing duty on both locally made artificial hair as well as the imported ones at the rate of 10% and 25% respectively.

**Who will be affected**

Local manufacturers, importers and consumers of artificial hair.

**Our view**

The government has leveraged from increased demand of beauty products to widen its tax base and boost the government's revenue.

It will be curious to see how inelastic the product will be given the increase in price that will happen.



<< Previous | Next >>

## Exemption from duty on imported aircraft lubricants

**The measure**

The government has proposed amendments to the excise legislation by exempting duty on aircraft lubricants imported by domestic operators, National Air Force, or airlines corporations recognized in Bilateral Air Services Agreement.

**Who will be affected**

Domestic operators of Airlines, National Air Force, or airlines corporations recognized in Bilateral Air Services Agreements.

**Our view**

The intention is to enable the Tanzanian government to sign International Air Transportation Agreements that would allow Tanzania to rejoin IATA. This move aims at making it easy for Air Tanzania to take on international flights and ease of booking tickets through ticketing platforms for both domestic and overseas passengers but most importantly travel agents. This will also reduce operational costa, which may ease air travel.

## Imposition of duty on pipes and plastic materials

**The measure**

The fourth schedule (Made under section 124(2)) of Excise (Management and Tariff) Act has been amended to introduce duty on pipe and plastic materials (tubes, pipes and hoses and fittings i.e. joint, elbows flanges etc.) at 10%. This amendment will be under HS code 39.17.

**Who will be affected**

Importers of pipes and plastic materials.

**Our view**

Whilst the amendment has not stated clearly on whether the change is applicable to both imported and locally manufactured pipes/ plastics, the speech from the Minister appears to suggest that the duty will be imposed on importation only.

The aim of the government is to ensure that water projects infrastructure are expeditiously completed without facing any shortages of local supply. The government also noted that there is not a shortage of such manufacturers.

# Value Added Tax

## Zero rating of supply of electricity from Tanzania Mainland to Tanzania Zanzibar

**The measure**

The government proposes to apply zero rate on the supply of electricity from Tanzania Mainland to Zanzibar.

**Who will be affected**

People of Tanzania Zanzibar and TANESCO

**Our view**

Considering Zanzibar has limited ability to produce electricity within the islands, the measure will result in a reduction of the price of electricity to the people of Zanzibar and the burden on the government of Zanzibar.

## Elimination of restriction on input tax credit in respect of exportation of raw agricultural products

**The measure**

The government proposes to amend section 68 (3)(d) by eliminating the restriction that was introduced by the Finance Act 2017 but was supposed to take effect in July 2019.

The amendment will allow the exporters of raw agricultural products to claim input VAT on their purchases.

**Who will be affected**

Exporters of raw agricultural products

**Our view**

This measure will enable exporters of agricultural raw product to claim input tax credit in respect to their purchases.

This means the exporters will not be affected by the change which was meant to be effective in July 2019.

This move will be welcomed by the agriculture community and help spur exports in this industry.

## Abolition of VAT exemption on sanitary pads

**The measure**

The manufacturers of sanitary towels will now be required to charge VAT at a standard rate (18%) on the supply of sanitary towels.

**Who will be affected**

Girls and women, manufacturers, and suppliers of sanitary pads.

**Our view**

The Government introduced VAT exemption on the sanitary towels in 2017 in order to reduce costs to women, especially school girls. From the Minister's speech, the measure did not achieve its intended results.

We are of the view that, restoring VAT may not achieve the intended results. The alternative would be to zero rate the product. Zero-rating the products as opposed to exempting the same would enable the manufacturers and traders dealing with sanitary pads to claim input VAT hence lower costs.

## Exemption of imported refrigeration boxes

**The measure**

The government seeks to exempt importation of refrigeration boxes used in horticultural farming.

**Who will be affected**

Horticultural farmers.

**Our view**

The exemption will align with the exemption generally available for agriculture sector.

It will also promote modern horticultural farming in the country and make the horticultural products competitive in the domestic and international markets due to reduced costs.

Introduction

Economic Oulook

Income Tax

Customs Duties

Excise Duties

**Value Added Tax**

Miscellaneous

Contacts

## Exemption of grain drying equipment for agricultural products

**The measure**

The government proposes to exempt grain drying equipment which is used for agricultural products from VAT.

**Who will be affected**

Farmers and traders of grains.

**Our view**

Storage of grain has been a challenge resulting in high rates of spoilage.

This measure will result in costs reduction in the acquisition of grain drying equipment to facilitate grain storage conditions.

## Exemption on imported aircraft lubricants

**The measure**

The government seeks to exempt aircraft lubricants imported by domestic operators, National Air Force, or Airlines Corporations from VAT.

**Who will be affected**

Air Tanzania and other airline operators

**Our view**

The current government has made deliberate efforts to revamp the national carrier Air Tanzania Company Limited (ATCL) to boost tourism and is seeking to access international markers to make effective use of the recently bought planes.

According to the Minister, the measure is intended to strengthen the air transportation sector in Tanzania as it will enable the government to sign Bilateral Air Service Agreements, which it was unable to sign due to absence of such exemptions. This will also reduce operational costs for the airlines.

## Exemption on imported airline tickets, flyers, calendars, diaries, labels and employees uniforms

Airline tickets, flyers, calendars, diaries, labels and employees uniforms with the names of the Airline operator imported by airlines recognized under Bilateral Air Service Agreements are exempted from VAT.

**The measure**
The government intends to exempt imported airline tickets, flyers, calendars, diaries, labels and employees uniforms from VAT.

**Who will be affected**
Airline operators and the community in general.

**Our view**
The measure is intended to enable the government to sign Bilateral Air Service Agreements which it was unable to sign due to the absence of such exemptions.

In addition, this will reduce operational costs for local and international airlines who import the affected items.

# Miscellaneous

## Extension of tax amnesty period

**The measure**

The Minister is proposing to extend the period of tax payment under the tax amnesty to taxpayers who had applied for it following the Tax Amnesty Order brought by the Finance Act, 2018. The extension is for a six month period from 1 July 2019 to 31 December 2019.

**Who will be affected**

All tax payers applied for the tax amnesty.

**Our view**

The measure reflects the fact that taxpayers responded to the amnesty. It will help to smoothen business operations of taxpayers who had financial constraints following the tight deadline of 30 June 2019 for instalment tax payments. It will also give additional time for the TRA to process other amnesty applications that were still under their review. On the other hand, the proposed measure will increase Government's revenues, as taxpayers will be able to smoothly make payments of outstanding taxes for a longer period and reduce chances of default. This trend suggests that the Government may want to consider other measures to encourage previously non-compliant taxpayers to regularize their affairs.

## Amendment of the Road Traffic Act

**The measure**

The Government is proposing to extend the period of driving license validity from 3 years to 5 years as well as increasing the driving license fees from TZS 40,000 to TZS 70,000. In addition, the Government proposes to increase the registration card fee; for all forms of motor vehicles from TZS 10,000 to TZS 50,000; for motorcycles from TZS 10,000 to TZS 30,000; and tricycles from TZS 10,000 to TZS 20,000.

**Who will be affected**

All motor vehicle owners.

**Our view**

The measure will help to reduce costs of production of drivers license, at the same time increasing the Government's revenue.

Whilst there is an effective increase in the driving license cost per year, the measure will also bring convenience to licensed drivers by extending the duration from 3 years to 5 years, which should be welcomed.

## Amendment to the Budget Act

**The measure**

The Government is proposing to amend the Budget Act in order to give powers to the Paymaster General to extend the period (initially limited to 3 months) granted to him to approve expenditures on funds remaining from the previous financial year.

Previously, when the government financial year came to an end, the remaining funds were allowed to be used to a maximum of only three months otherwise it had to be deposited back to Paymaster General Account.

**Who will be affected**

Government, suppliers and contractors involved in public projects.

**Our view**

This measure will ensure the continuation of Government projects even after the lapse of Government's financial year, the Government will be able to pay suppliers and contractors involved in public projects.

## Implementation of the Blueprint from Regulatory Reforms to improve Business Environment

**The measure**

The Government intends to improve the business environment by abolishing various fees and levies which were imposed by various regulatory authorities and institutions that will be effected through the Finance Bill 2019 and Government Notices. The total number of fees and levies that will be abolished amount to 54 for the first phase of the implementation.

Apart from the review of the fees and levies, the focus will also be on the elimination of the existing duplication of responsibilities among the ministries' regulatory authorities and institutions. Some of the notable institutions and regulators where the changes will be applicable include: Tanzania Food and Drugs Authority (TFDA), Tanzania Bureau of Standards (TBS), Government Chemist Laboratory Authority (GCLA), Ministry of Livestock and Fisheries, Ministry of Natural Resources and Tourism, Ministry of Water.

**Who will be affected**

Investors and businesses regulated by the mentioned authorities.

**Our view**

The measures will reduce the cost of doing business, especially for small and mid-sized companies, but also ease the doing business.

The proposed changes will reduce if not eliminate bureaucracy and spur small businesses in particular.

## Room for individuals to clear goods

**The measure**

The Government has proposed to introduce new clearance procedures allowing individuals to clear goods without assistance of a clearing and forwarding agent. However, this proposal is not applicable for importers of goods in transit.

**Who will be affected**

Individuals importing goods and clearing and forwarding agents.

**Our view**

This will reduce importation cost to individual importers given that they will now not need clearing and forwarding agent to clear their goods.

On the other hand, this means reduction of revenue on the side of the clearing and forwarding agents. Taxpayers' education in this regard is going to be crucial in order for the process not to be cumbersome as individuals may now seek to clear their goods.

## Establishment of "The Office of the Tax Ombudsman and a dedicated desk at TRA dealing with complaints

**The measure**

Establishment of "the Office of Tax Ombudsman" within the Ministry of Finance which will be responsible for receiving and working on unbiased information and complaints from taxpayers with respect to tax administration, including corruption and unfair closures of businesses by tax officials.

In addition to that, the Government will introduce a desk within TRA where taxpayers' complaints and disputes will be dealt within 24 hours.

**Who will be affected**

Tax payers and TRA officials.

**Our view**

The measure is intended to minimize corruption levels, establish fairness in tax administration, provide a forum for taxpayers to bring out their concerns and foster timely resolution of tax disputes.

Perhaps this is the first step towards the setting up of an alternative dispute resolution system in Tanzania. We are keen to see the implementation that will be proposed in the Finance Bill or other legislations.

The 24 hour target may be an ambitious one. One would be keen to see what measures TRA puts in place to make this a reality. If successful, this will undoubtedly be revolutionary.

Introduction

Economic Oulook

Income Tax

Customs Duties

Excise Duties

Value Added Tax

**Miscellaneous**

Contacts

<< Previous | Next >>

## Enhanced use of technology in tax collections

**The measure**
There will be enhancement in tax collection through the utilization of electronic systems in the collection of tax and non-tax revenues. In addition, finalization of integrating the domestic revenue collection systems through Electronic Fiscal Device Management System (EFDMS) for curbing revenue leakages in the processing of tax refunds, issuance of fake receipts and others.

**Who will be affected**
All taxpayers.

**Our view**
The measure will help to widen the tax base and improve tax revenues as well as eliminate the current loopholes in tax collection regime with the intention to increase transparency in tax collection.

Taxpayers would be keen to see how this is put in practice. The use of technology is welcomed, given the success with other measures of such kind such as the EFDs currently used.

## Regulation of gaming activities

**The measure**
Introduction of a system for regulating the gaming activities to ensure responsible gaming and that the government gets a fair share from the gaming industry.

**Who will be affected**
Gamers, particularly young people, and gaming operators.

**Our view**
This will improve revenue collection from gaming activities by making sure that the government is able to get its fair share of revenue by sealing potential revenue leakages.

The recognition that gaming may be adversely affecting young people is welcomed as it will perhaps help to improvement their productivity by ensuring this productive workforce does not engage in irresponsible gaming activities.

## Building capacity within TRA to deal with international tax and transfer pricing

**The measure**
The government will build capacity within TRA, with the view of curbing tax leakages by way of transfer mispricing potentially used by multinationals.

**Who will be affected**
Multinational corporations operating in Tanzania

**Our view**
Coming on the back of the Transfer Pricing Regulations published in November 2018, this move reflects the TRA's drive to make sure international taxation is not used as an avenue to evade taxes.

Taxpayers should expect increased scrutiny, with more information being required by the authorities and audits that will demand that they prove the validity and the arm's length nature of their related party transactions in their transfer pricing documentations.

## Six months tax relief to new investors or businessmen

**The measure**
The Government is proposing a six month tax relief to investors and businesspersons that have just obtained the Tax Identification Number ("TIN"). The proposal will depart from the past practice whereby a person is assessed for tax immediately after obtaining a TIN number.

**Who will be affected**
New investors or businesspersons.

**Our view**
The measure intends to incentivize and provide relief for business start-ups by reducing initial costs.

At the early stages of operation, sufficient incomes are not generated by businesses, thus making it unfair to the taxpayer if they are asked to pay tax upfront.

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