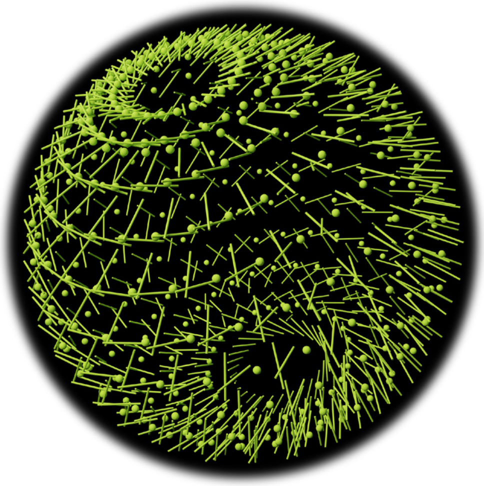
COVID Pandemic:
Supporting recovery through targeted tax measures



Experts say that the outbreak of the corona virus pandemic will bring the most severe economic shock since the latest global financial crisis of 2007-2008 and even since the great depression. While some countries are flattening the curve, many other countries especially those in sub-Saharan Africa are yet to hit their peaks according to the World Health Organization.

Many countries have introduced containment and mitigation measures to slow down the spread and cushion the economic impact of the outbreak. With the national budget upon us, both the government and other stakeholders should work together to figure out a viable plan for cushioning firms and households from the immediate impact of the sudden drop in economic activity, and to preserve the country's productive capacity.

Different countries have approached the situation differently. The measures taken in different economies range from broad based-stimulus packages involving the direct injection of funds into businesses and improving household consumption capacity, to targeted tax and fiscal support schemes. Therefore, it is important to be mindful of the lasting impacts of the outbreak and income levels while considering potential mitigation measures. With that in mind, we consider below some of the potential tax measures that may suit the Tanzanian setting.

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Bolstering liquidity through Value Added Tax

While changes in corporate and personal income taxes would take months to provide a change to the economy, VAT can become a key economic stimulant during the coronavirus emergency. The effect of temporarily lowered VAT rate on specific items, industries or business can have an immediate catalytic impact on boosting consumption. Lower VAT rates will specifically have more impact at the household level and businesses that are not registered for VAT since they cannot recover the VAT payable through VAT refunds. As a result, households and businesses will have increased disposable income which will boost the consumption capabilities even with limited income. While medicine and pharmaceutical products are VAT exempt, other essential supplies including electricity, financial services including mobile money transfer and telecommunication services should be considered for lower VAT.

Manufacturers and VAT registered businesses can recover their input VAT when filling monthly returns by offsetting it with output VAT resulting from their taxable supplies. Businesses with higher input VAT than output VAT can claim the difference through VAT refunds. However, in recent years VAT refunds have slowed down due to the Government's verification processes. This has reduced cashflows to numerous businesses. The adverse impact of the coronavirus pandemic means that businesses are in greater need of cash and therefore the need for the government to expedite settlement of VAT refunds to ensure businesses are more liquid to meet their critical obligations. This will help many businesses avoid lay-offs and still meet other obligations such as tax that must be settled.

With reduced travel and cross border trade due to measures taken by different countries to contain the spread of the disease, aviation, hospitality, and tourism have been significantly impacted. Businesses in these sectors are facing tough choices including laying off employees and seeking financial support to survive. In this regard, temporary and targeted sector-based approaches may be taken to rescue the sectors that have been significantly impacted. These may include the extension of tax deadline and deferral of tax payment without interest. Furthermore, the measures may aim at temporary elimination of burdensome taxes that business must pay regardless of profitability, this may include temporary waiver of employers' obligation to pay Skills and Development Levy (SDL) which is 4.5% of employer's wage bill, Workers Compensation Fund contributions, and social security contributions and other levies including City Service Levies, airport service charge and hotel levy.

The International Monetary Fund (IMF) in its recently published *World Economic Outlook Report, April 2020: The Great Lockdown* has projected that, as the result of the pandemic, the global economy will contract sharply by 3 percent in 2020, much worse than during the 2008-09 financial crisis. With uncertainty on the longevity of the pandemic, fiscal and tax measures that are to be taken should aim at the emergency response to the pandemic while being mindful of the country's ability to collect tax revenue for funding its activities.

Timely analysis of the potential economic effects of the coronavirus situation and regular monitoring of the evolving situation of the pandemic trends will ensure adaptability that would bolster both health and economic response without involving huge cost of policy reviews.

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