



Unravelling the national budget puzzle

There is something special to the mystery surrounding national budgets. The minister of finance walks in with the briefcase, gives a speech and everyone looks to see what changes will come in, what will remain and what sectors will be affected by those changes. It is a puzzle of sorts, and this year's budget theme for Deloitte is 'Unravelling the puzzle'. I consider this a puzzle of execution, not so much a puzzle of direction. Let me explain.

Budgets are mysterious because business and citizens are always looking to see what they mean for their enterprises. However, there is nothing mysterious about the core aspirations of this government. One may argue that after four years into Magufuli's administration, it should no longer be a puzzle of what direction he wants the country to go to. The question is only how we get there.

However way you look at it, the last four years have been transformational in Tanzania. There are three clear priorities that the government has, in rhetoric and actions, tried to focus on. The first is the drive towards industrialisation, the second, is a push for infrastructure development and the third, for us interested in taxes, is the increase in tax collections. I suspect this will remain the predominant thinking of this year's budget. But what does that mean in terms of budgets, what do we expect to see? In other words, how will the budget help execute on these aspirations? For industrialisation to kick-off and take root. There are a few things that I would expect the minister to address. There needs to be incentives, not only fiscal but also regulatory, which should make it easy for industries to set up, operate and reinvest. Some previous budgets have tried to address specific industries such pharmaceuticals and leather industries whereas last year, the corporate tax rate was reduced to 20% for their first five years of operation. But more can be done to improve conditions for manufacturers, such as making progress on VAT refunds.

We should therefore expect similar incentives, both fiscal and regulatory, to shift towards those players who are supporting the industrialisation drive, e.g. local milk producers have seen their products being protected. Perhaps more importantly, this budget should breathe life into the recently crafted blueprint that aims to improve the business environment in Tanzania.

The blueprint recognises that a balance has to be struck between regulatory and revenue generation motives in such a way that businesses are not overly regulated to the extent that they fail to create the intended revenues. Indeed, the blueprint recognises that de-regulation does not mean the absence of regulations but a proactive approach that consolidates similar regulations and removes overlaps.

On the infrastructure side, it is clear that the two key projects, the Standard Gauge Railway and the Stiegler's Gorge will absorb the lion's share of the budget allocated. That is of course not to ignore the funding that will flow into construction of roads. The puzzle that needs unravelling here which slice of that budget pie will benefit local businesses. The budget also address this by providing specific exemptions or incentives to local business that provide services within these construction projects, with the view of building their capacities.



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With respect to the push towards additional tax revenues collection, it is clear that with tax collections sitting at 12% of GDP at the moment, there is a lot to do. The mantra here is to tax better, not necessarily more, especially the small and middle sized businesses that have formalised. The puzzle has always been widening the tax net in a way that does not distort the economy or is inflationary. That is easier said than done, but doing it is a must.

Let us forget that we had a good surprise by way of a tax amnesty last year. What I would like to learn is how many new tax payers have been registered as a result of the amnesty and how much was collected from them. Lessons can then be drawn on how we can better collect taxes. Not all measures have to do with rates and quantum of taxes collected. Some measures will simply have to be administrative, such as a reduction of time for filing, and the number of filings for taxes such as payroll taxes. Some measures that can be really positive are around dispute resolution, both the time it takes to do it and the smoothness of the process.

The real puzzle, as we can see, lies in execution. What we are all hoping is that the budget will help us unravel that puzzle by making it easy for businesses to operate and remain profitable, make it easier to pay tax and making it very attractive to invest, and reinvest in Tanzania.

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