Deloitte.

# Tanzania Budget Insight 2016

## The Story Behind the Numbers

**Disclaimer**
This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or its and their affiliates are, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your finances or your business. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

None of Deloitte Touche Tohmatsu Limited, its member firms, or its and their respective affiliates shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

# Introduction

It is perhaps right to applaud Hon. Dr Philip Mpango, the Minister for Finance and Planning, for his maiden Budget Speech and giving a glimpse of how the Government intends to meet the pledges that were made during last year's campaigns. With TZS 29,540 billion budget for the coming fiscal year, listening to the Minister's Budget Speech it is possible for decipher that Government is looking a target approach to growing the economy and lying the foundation for the next five years.

Through focusing on infrastructure, managing both internal and external borrowing and putting in place measures aimed at enabling specific sectors of the economy, the Government is looking to achieve a 7.2% GDP growth in 2016/2017 (compared to 7.0% in 2015/2016) and containing inflation to between 5% and 8% for the coming year.

How will the Government finance this? Well, for starters it looks like the Government will finally start weaning its off financial aid which Hon. Dr. Mpango indicated has been toxic to the country. Thus revenue from domestic sources (including LGAs) is projected to stand at 16.9% of GDP in 2016/2017 (up from 14.8% in 2015/2016). With TRA meeting average monthly collection hitting the TZS 1 trillion mark since President Magufuli's Government came into office, tax revenue is projected at 13.8% of GDP 2016/2017, up from 12.6% GDP in 2015/2016.

Borrowing from the austerity measures that President Magufuli's has become popular for, the Government will also seek to manage its recurrent direct more of its expenditure towards development. We should therefore see the TRA putting in place more stringent tax administrative measures, curbing of unnecessary expenditure and streamlining procurement by the central government and government agencies.

In his speech and from looking at the sectors that Hon. Dr. Mpango mentioned, one can infer that the Government will focus on easing farm-products-route-to-market and also encouraging local-value-addition starting with agribusiness. The amounts that have been allocated towards repairing and building new roads (TZS 2.18 trillion), a standard gauge railway (TZS 2.49 trillion) and rehabilitation of the central railway line and procurement of locomotive (TZS 161.4 billion) is perhaps testimony to this.

# Tax Measures

# Income Tax

## PAYE

Removal of income tax exemption on final gratuity to Members of Parliament.

### The measure

Income tax exemption on the final gratuity paid to Members of Parliament at the end of their 5 years term has been removed.

### Who will be affected

Members of Parliament.

### When

1 July 2016

**Our view**

Promoting equity and fairness in taxation to all individuals (including the lawmakers) is a welcome measure, and will be well received by the public.

## PAYE

Decrease of the minimum tax rate chargeable on individual employment income.

### The measure

The minimum tax rate for the lowest income band for individuals has been reduced from 11% to 9%

### Who will be affected

Those earning employment income at the lower income band

### When

1 July 2016

**Our view**

This is in line with the promise that the President made during this year's Labour Day celebration. Whilst the intention is to provide relief to employees, the TZS 3,800 (approximately USD 1.74) relief is unlikely to have a significant impact considering the rate of inflation.

## Corporate Income Tax

Imposition of withholding tax on payments to approved retirement funds arising from their investments

### The measure

Exemption from withholding tax on payments made to retirement funds for their investment income has been removed

### Who will be affected

Approved retirement funds

### When

1 July 2016

### Our view

Though this measure is aimed at promoting fairness and equity, there is a risk that the pension funds will be in a tax refund position because of the advance tax. Investment income of pension funds is subject to normal corporate income tax rate of 30%. For these funds to fully utilise / absorb the withholding tax deducted on their investment income, the profit margin on rent and interest should be at least 33%, which may not be the case. The funds will need to apply for refund of unutilised tax, and any delay will have a cash flow impact.

## Corporate Income Tax

Grant of specific power to the Commissioner General of the Tanzania Revenue Authority.

### The measure

The Minister has proposed to grant the Commissioner General powers to determine the minimum market value for the purposes of withholding tax on rental income.

### Who will be affected

Landlords.

### When

1 July 2016

### Our view

Most of lease agreements are entered between unrelated parties, and therefore expected to reflect the market value. It is therefore unclear why this measure has been proposed. We trust the Commissioner will use his discretion judiciously, otherwise the determination by the Commissioner will be subject to numerous disputes by taxpayers.

## Corporate Income Tax

Imposition of income tax on the gain from disposal of shares by non-residents owning less than 25% of controlling shares in a resident entity

### The measure

Removal of exemption from income tax on disposal of shares owned by non-resident persons owning less than 25% of controlling shares in a resident entity. This means the gain on disposal of such shares will now be subject to tax at 30% and 20% for entities and individuals respectively.

### Who will be affected

Non-residents

### When

1 July 2016

**Our view**

This measure is aimed at taxing non-residents on income arising from disposal of shares in a resident entity. The aim is to promote fairness and equity because similar measure was taken for residents shareholders following an amendment introduced effective from July 2012. This means that both residents and non-residents will now be taxed on their gains arising from disposal of shares irrespective of the size of their shareholding in a resident entity.

It is however not clear whether the intention is to eliminate the exemption for shares and securities listed on the Dar es Salaam Stock Exchange as well since this is also included in the definition that the Minister said will be amended.

# Value Added Tax

## Agricultural Industry

Soya beans and unprocessed agricultural products are now exempt from VAT

### The measure

Amendment of item 3 of the Exempt Schedule to include raw soya beans and unprocessed agricultural products

### Who will be affected

Agriculture companies, Food Processing companies, farmers and final consumers

### When

1 July 2016

**Our view**

Since these are mostly used as inputs in the agribusiness value-chain, characterising these as exempt goes a long way towards reducing the cost of production. It is expected that the benefits will be passed down the chain to the ultimate consumer.

## Health Industry

Vitamins and food supplements to be exempt from VAT.

### The measure

Amendment of item 7 of the Exempt Schedule to include vitamins and food supplements in the list of exempted items which have been approved by the Minister for Health, Community Development, Gender, Elderly and Children.

### Who will be affected

General public.

### When

1 July 2016

**Our view**

18% VAT on these made vitamins and food supplements expensive. The exempt status should make these cheaper especially since they are used as nutrients in making foods. This change is therefore a positive move in promoting a healthier community.

## Water Industry

Water treatment chemicals are now exempt from VAT

### The measure

Amendment of the VAT Act has been made to include water treatment chemicals in the list of exempt items which have been approved by the Minister for Health, Community Development, Gender, Elderly and Children

### Who will be affected

General public.

### When

1 July 2016

**Our view**

Making water treatment chemical cheaper will lead to increased access to clean water and a healthier population.

## Construction Industry

Bitumen products are now exempt from VAT

### The measure

The exempt schedule has been amended to include bitumen products of HS Code 27.13, 27.14 and 27.15

### Who will be affected

The road construction companies and general public

### When

1 July 2016

**Our view**

This is in line with the Government's ambitious infrastructure development plan. The removal of 18% VAT on this product will reduce the overall cost of road construction.

## Aviation Industry

Aviation insurance is now exempt from VAT

### The measure

The exempt schedule will be amended to incude exemption of VAT on insurance for aviation industry

### Who will be affected

Aviation industry, insurance companies and insurance brokerage firms.

### When

1 July 2016

**Our view**

The measure intends to lower the cost of aircraft operations hence making tickets more affordable and spur growth of the industry.

## Tourism Industry

Tourist services are now subject to VAT at 18%.

### The measure

A VAT exemption moratorium on the tourism sector has been removed. Tour guide services, game drives, safaris and ground transport services will now be subject to 18% VAT

### Who will be affected

Tourism and Hospitality Industry

### When

1 July 2016

**Our view**

Even though this move is aimed at harmonising industry practice in the region, the move will impact the industry negatively. Introduction of VAT would mean that the tourists will have to pay 18% more for these services. Perhaps it might not have been the right time to effect the change given the negative press that the region as a whole has been receiving due to concerns about security. Making the services 18% more expensive might further discourage visits by tourists.

## Other

VAT between Mainland and Zanzibar will be charged based on the destination principle

**The measure**

VAT on goods manufactured in Tanzania Mainland and sold in Zanzibar will be collected by Zanzibar government and vice versa based on the destination principle

**Who will be affected**

Businesses with operations in both Mainland Tanzania and Zanzibar

**When**

1 July 2016

**Our view**

From the Budget Speech, the intention is to remove the current challenges with refund mechanism between the Mainland and Zanzibar. However it remains unclear how this mechanism will be implemented in practice and in the absence of clear guidelines of how this is intended to work, the businesses may fail to comply come 1 July 2016 as is the intention.

## Financial Services Industry

Financial services will now be subject to VAT with the exception of interest on loans

**The measure**

VAT has been introduced on financial services as currently defined in the VAT Act except for insurance for aviation industry and interest on loans

**Who will be affected**

Financial sector and general public

**When**

1 July 2016

**Our view**

From the Minister's Budget Speech it is unclear whether the intention is to make all financial services subject to VAT except the ones already listed as exempt. The position will be confirmed once the Finance Bill is published.

If indeed most of the financial services are now subject to VAT, it means that consumers will be forced to dig deeper into their pockets to pay for the services. For those providing these services it means that they will now have an opportunity to claim a portion of their input VAT as some of their supplies will move from being exempt to being taxable.

# Customs & Excise Duties

## Import duty changes on various building materials

### The measure

mport duty has been increased on various building/construction materials at different rates including:

- cement from 25% to 35%
- structures and part of structures of iron and steel under HS Heading 7308 from 10% to 25%
- pre-fabricated buildings under HS Code 9406.00.90 from 10% to 25%
- flat rolled products of iron or non-alloy steel under HS Heading 7208 from 0% to 10%

Import duty has also been reduced on some building materials such as iron and steel products under HS Code 7308.10.00 from 25% to 0% for 1 year.

### Who will be affected

Importers of building/construction materials and the construction industry

### When

1 July 2016

**Our view**

There has been a considerable increase in importation of materials for the construction industry in the region. These measures are aimed at encouraging the purchases of locally produced raw materials which should be cheaper than imports.

## Increase of import duty on second hand garments

### The measure

Specific import duty has been increased on second hand clothes and shoes from USD 0.2 to USD 0.4 per kilogram

### Who will be affected

Importers and general public especially the low-income community

### When

1 July 2016

**Our view**

According to the Minister for Finance, the intention is to ban importation of these goods in the next 3 years altogether across the EAC thereby encouraging local production. Indeed the other member states have introduced similar provisions. Though the EAC has good intentions, the unintended consequence of this is that low-income citizens who depended on these might struggle to afford clothes and footwear

## Import duty changes on automotive nuts, bolts and motor vehicle filters

### The measure

- The Government has increased import duty on oil and petrol filters under HS Code 8421.23.00, as well as intake air filters under HS Code 8421.31.00 from 10% to 25% and grant full duty remissions to local manufacturers of motor vehicle air filters
- Duty on automotive bolts and nuts under HS Code 7318.15.00 has been reduced from 25% to 10% for a period of 1 year

### Who will be affected

Importers, manufacturers and users of the products

### When

1 July 2016

**Our view**

The measure is aimed at protecting local manufacturers of the parts against cheaper imports and create more jobs. This will also encourage investment in this area and encourage the transfer of technology to local producers.

## Increase in import duty on fishing nets and some paper products

### The measure

The EAC Customs Management Act has been amended to increase import duty on fishing nets under HS Code 5608.11.00 from 10% to 25% as well as some paper products falling under HS Heading 4804 from 10% to 25%

### Who will be affected

The fishing industry as well as manufacturers of fishing nets and paper products.

### When

1 July 2016

**Our view**

Although the EAC's intention to promote industries is good and will pay off in the long run, we foresee an increased use of illegal fishing methods since the imported alternatives will now be much more expensive. As for paper products lack of quality paper and paper related products has been an issue however this calls for local producers to become more efficient and improve their processes.

## Import duty remission on raw materials for the manufacture of match sticks and aluminium cans

### The measure

- Duty remission on splints which are raw materials used in the manufacture of matches under HS Code 4421.90.00
- Duty remission on raw materials for production of aluminium cans under HS Heading 7606
- Increase in CET rate on aluminium milk cans under HS Code 7612.90.90 from 10% to 25%.

### Who will be affected

Dairy industry and match stick makers.

### When

1 July 2016

**Our view**

Duty reduction on raw materials for production of alluminiun cans is aimed at encouraging local production by making their imported equivalents more expensive.
There has been a concern over the ability of the local market to satisfy the demand in raw marerials used by match stick manufacturers. The duty reduction is aimed at closing this gap to encourage local manufacturing as the government prepares to promote local production of quality raw materials for these products

## Removal of import duty remission on uniforms for hospital staff

### The measure
The EAC Customs Management Act 2004 has been amended to abolish duty remission on hospital staff uniforms

### Who will be affected
Importers and manufacturers of hospital uniforms

### When
1 July 2016

**Our view**
This is aimed at discouraging importation of these and encourage local production in line with the industrialization move that is the focus of the EAC. It is intended to promote local industrial growth and employment creation.

## Introduction of import duty remission on medical equipment

### The measure
The EAC Customs Management Act 2004 has been amended to introduce duty remission on refrigeration equipment for human dead bodies, blood collection tubes, incinerator's equipment and materials which are used in hospitals.

### Who will be affected
Health sector.

### When
1 July 2016

**Our view**
This is to enable hospitals and health centers to afford this equipment which can be prohibitively expensive. This will also encourage safe disposal of bio-hazardous medical waste.

## Introduction of 10% import duty on crude edible oil

### The measure

A 10% duty has been introduced on crude edible oil under HS Code 1511.10.00 which will apply for a period of one year.

### Who will be affected

Importers and manufacturers of edible oils.

### When

1 July 2016

**Our view**

This will discourage importation of this crucial raw material for manufacturing cooking oils. The measure is intended to encourage local production of edible oil seeds and local production of cooking oil in line with the industrialization initiative across East Africa which has been labelled "industrialization for job creation".

## Import duty remission on inputs for manufacture of deep cycle batteries and solar equipment

### The measure

Duty remission has been introduced on materials for use in the manufacture of deep cycle batteries and solar equipment.

### Who will be affected

Local manufacturers of the products.

### When

1 July 2016

**Our view**

The move is aimed at promoting local manufacturing of these products and increase job creation. It will also impact the importers of batteries.

## Introduction of progressive import duty increase on sugar and sugar confectionery

### The measure
The EAC Customs Management Act 2004 has been amended to progressively increase duty on sugar and sugar confectionery from the current 10% to 15% (2016-17), 20% (2017-18) and 25% (2018-19)

### Who will be affected
Importers and manufacturers of beverages and other confections (Bakers and sugar confections).

### When
1 July 2016.

**Our view**
The EAC's intention is to encourage production of these products and also cushion local manufacturers hence provide employment to a wider community i.e, in the sugar can farms and in the factories.

## Reduction of import duty on wheat grain

### The measure
Duty on wheat grain under HS heading 1001 has been decreased from 35% to 10% which will be applied for a period of 1 year.

### Who will be affected
Importers and manufacturers of wheat related products

### When
1 July 2016

**Our view**
Local producers of this important raw material for the production of food products have not been able to satisfy market demand therefore this is aimed at ensuring there is sufficient supply to ease burden on the citizens. There is a need for the governments to promote local production and encourage investment in this area considering there is plenty of arable land for this commodity.

## Excise duty rates increase on alcoholic beverages, cigarettes and other tobacco products

### The measure

A general 5% inflationary adjustment on items that are subject to specific excise duties, except for bottled water and petroleum products:

**Non-alcoholic beverages**

- Soft drinks from TZS 55 per litre to TZS 58 per litre;
- Locally produced fruit juices from TZS 10 per litre to TZS 11 per litre;
- Imported fruit juices from TZS 200 per litre to TZS 210 per litre.

**Alcoholic beverages (Beers, Wines and Spirits)**

- Beers made from local un-malted cereals e.g. Kibuku, from TZS 409 per litre to TZS 430 per litre;
- Other beers from TZS 694 per litre to TZS 729 per litre;
- Other non-alcoholic beer (including energy drinks and non-alcoholic beverages), from TZS 508 per litre to TZS 534 per litre;
- Wine produced with domestic grapes content exceeding 75%, from TZS 192 per litre to TZS 202 per litre;
- Wine produced with more than 25% imported grapes from TZS 2,130 per litre to TZS 2,237 per litre;
- Spirits from TZS 3,157 per litre to TZS 3,315 per litre;

**Tobacco and tobacco products**

- Cigarettes without filter tip and containing domestic tobacco more than 75% from TZS 11,289 to TZS 11,854 per mille
- Cigarettes with filter tip and containing domestic tobacco more than 75% from TZS 26,689 to TZS 28,024 per mille
- Other cigarettes not mentioned above from TZS 48,285 to TZS 50,700 per mille
- Cut rag or cut filler from TZS 24,388 per kg to TZS 25,608 per kg
- The excise duty rate on “cigar” remains at 30%.

**Hydrocarbons**

- Lubricating oils from TZS 665.50 per litre to TZS 699 per litre;
- Lubricating greases from cent 75 per kg to cent 79 per kg;
- Natural Gas from US$ 0.43 per cubic feet to US$ 0.45 per cubic feet..

### Who will be affected

Importers, manufacturers, final consumers.

### When

1 July 2016

**Our view**

This move will result in price increases for these products since the manufacturers and importers will be forced to adjust their prices to reflect the higher excise duty rates. Consumers will therefore be required to dig deeper into their pockets in order to continue purchasing these products.

## Excise duty on mobile money transactions

### The measure

The current excise duty which stands at the rate of 10% on mobile money transactions has been extended to cover commissions that telecommunication charge on sending and withdraw of mobile money.

### Who will be affected

Telecommunication service providers, general public.

### When

1 July 2016

**Our view**

Excise duty is a form of indirect tax meaning that its cost is borne by the consumer. Therefore, it would normally follow that the prices of these services would go up, with the consumer bearing the burden of the tax. This will negatively impact the operation of mobile money services since the cost of the transactions will rise by 10%. This is also against the Government's efforts to increase financial inclusion and access to financial services. Tanzania has one of the highest incidences of tax in this sector across the continent and this measure will simply excaberate the position.

# Miscellaneous

# Miscellaneous

## Reduction of Skills and Development Levy (“SDL”)

### The measure
Amendment of the Vocational Education and Training Act cap 82 to reduce Skills and Development Levy from 5% to 4.5%

### Who will be affected
All employers except in respect of sectors with exemptions e.g. employment in farms etc.

### When
1 July 2016

**Our view**
The move is aimed at encouraging investment as it will result in a reduction in costs of employment and should see employers creating more employment opportunities. We hope that the reduction will continue even if gradually until SDL is completely abolished.

## Increase in motor vehicle registration fee and personalized registration number fee

### The measure
Increase of registration fee from the current rate of TZS 150,000 to TZS 250,000 for motor vehicles and from TZS 45,000 to TZS 95,000 for motor cycles and tricycles
Increase of personalized registration number fee from TZS 5,000,000 to TZS 10,000,000 for every three years.

### Who will be affected
Owners of vehicles, motor cycles and 3-wheeled motor vehicles

### When
1 July 2016

**Our view**
The move is aimed at increasing government revenue and the hope is that the additional revenue will be directed towards financing road infrastructure projects.

## Property tax to be collected by the Tanzania Revenue Authority

### The measure

The mandate to collect property tax has been moved from the Local Government Authorities to the Tanzania Revenue Authority.

### Who will be affected

Local government authorities

### When

1 July 2016

**Our view**

This move will create a centralized system for collection of property tax as well as resolving administrative disputes arising from collection. The move is likely to impact local authorities by affecting their cash position by reducing their revenue streams.  However, the use of TRA for all types of revenue collection may well go a long way to easing the cost of doing business in Tanzania.

## Abolition of nuisance fees and levies

### The measure

The mandate to collect property tax has been moved from the Local Government Authorities to the Tanzania Revenue Authority.

The government has abolished various fees and levies imposed by Tanzania Foods and Drugs Authority ("TFDA"), Cotton Board, Tea Board, Coffee Board and Cashewnut Board. This includes:

**TFDA**

- Abolition of fees on: export permit, duplicate certificate for human and veterinary medicines, hospital and import permit for psychotropic and narcotics, export certificates for pharmaceuticals, certificate of pharmaceutical product, inspection of new food processing facilities, disposal certificates, health certificates and trade fair fees.

**Cotton Board**

- Abolition of uhuru touch contribution and fee for District Council to deliberate on cotton buyers.

**Tea and Coffee Board**

- Abolition of fire and rescue levy and cherry processing license

**Cashewnut Board**

- Abolition of cooperative union levy, transportation fee, task force on various issues, and storekeeper costs

### Who will be affected

Stakeholders in the agricultural and health sectors

### When

1 July 2016

**Our view**

The measure is aimed at creating a conducive business environment by removing unnecessary fees and levies and the administrative burden that comes with compliance. This will also reduce the costs of doing business for the relevant stakeholders and increase their competitiveness in the international arena. We see this as another measure designed to make it easier to do business in Tanzania and this must be applauded.

# Contacts


**CEO**

**Sammy Onyango**
sonyango@deloitte.co.ke

**Deputy CEO**
**Joe Eshun**
jeshun@deloitte.co.tz

**Ofiice leaders**
**Nobert Kagoro**
Burundi and Rwanda
Managing Partner
nkagoro@deloitte.com

**Solomon Gizaw**
Ethiopia
Managing Partner
sgizaw@deloitte.com

**Iqbal Karim**
Mombasa, Kenya
Managing Partner
ikarim@deloitte.co.ke

**Eshak Harunani**
Tanzania
Managing Partner
eharunani@deloitte.co.tz

**George Opiyo**
Uganda
Managing Partner
gopiyo@deloitte.co.ug

**Service line leaders**

**Joe Wangai**
Audit leader
jwangai@deloitte.co.ke

**Rodger George**
Advisory leader
rogeorge@deloitte.com

**Nikhil Hira**
Tax leader
nhira@deloitte.co.ke

**Tax leaders**

**Nikhil Hira**
nhira@deloitte.co.ke

**Dmitry Logunov**
dmlogunov@deloitte.co.tz

**Fred Omondi**
fomondi@deloitte.co.ke

**Getu Jemaneh**
gjemaneh@deloitte.com

**Lillian Kubebea**
lkubebea@deloitte.co.ke

**Offices**
**Burundi**
42 Boulevard de la Liberté
B.P 6444, Kinindo
**Bujumbura**
Tel: +257 76 443 000

**Ethiopia**
5th Floor, Mina Building
Ethio-China Friendship Avenue
**Addis Ababa**
Tel: +251 0 115 527666

**Kenya**
Deloitte Place
Waiyaki Way, Muthangari
**Nairobi**
Tel: +254 20 4230 000 or
+254 20 4441 344

10th Floor
Imaara Building, Kizingo
Opposite Pandya Memorial
Hospital
Off Nyerere Road
**Mombasa**
Tel: +254 41 222 5827 or
+254 41 2221 347

**Rwanda**
1st Floor, Umoja Building
KN3 Road
**Kigali**
Tel: +250 783 000 673

**Tanzania**
10th Floor, PPF Tower
Corner of Ohio Street & Garden
Avenue
**Dar es Salaam**
Tel: +255 22 211 6006 or
+255 22 2169000

**Uganda**
3rd Floor Rwenzori House
1 Lumumba Avenue
**Kampala**
Tel: +256 41 7 701000 or
+256 41 4 34385



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte has in the region of 200,000 professionals, all committed to becoming the standard of excellence.

© 2016 Deloitte & Touche