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Tanzania Budget Highlights 2017

Navigating headwinds

Preamble

FY 2016/2017 Performance

Tanzania continues to report enviable economic growth compared with its peers in the region and in Africa at large. With economic growth at 7.1%, IMF ranks Tanzania one of the top five countries in Africa and indeed the only country in the EAC with this growth rate. This has been achieved despite perceived challenges revolving around liquidity squeeze, business attrition and diminishing private sector confidence.

In FY 2016/2017 the average real GDP growth rate was 7% lower than projected 7.2% as economic activities in several sectors did not meet expectations: agricultural sector (2.1% against 2.9%), trade and maintenance (6.7% against 7.8%), food and accommodation services (3.7% against 8%) and administrative services (2.1% against 6.3%).

Inflation rate averaged at 5.2% compared to 5.6% in 2015 and this is attributed to downward trend of global petroleum prices, stability of domestic food prices and effective implementation of fiscal and monetary policies.

Up to December 2016, foreign reserves stood at USD 4,325.6 million compared to USD 4,093.7 million in December 2015, sufficient to provide a 4.2 month import cover. In March 2017, this figure stood at USD 4,482.6 million which was sufficient to cover 4.3 months.

The revenue performance to April paints an average performance picture but the Government is expecting to bridge the gap by end June. Total tax revenue stands at TZS 11,645 billion, Non-tax revenue at TZS 1,1611 billion, LGA collections at TZS 399 billion, Domestic Loans at TZS 4,716 billion and Grants and External Concession Loans at TZS 2,340 billion, a performance of 70% across.

FY 2017/2018 Objectives

Budget 2017/2018 is geared towards realising the goals laid down in the National Five Year Development Plan which emphasises nurturing industrialization with the following priority areas:

- Promoting growth and industrialization for economic transformation;
- Enhancement of human development;
- Improvement of enabling environment for business and investment; and
- Strengthening effective implementation of the Plan.

Strategic projects to be undertaken or to be commenced by the Government in FY 2017/2018 include the following:

- Construction of a standard gauge central railway line;
- Reviving of Air Tanzania;
- Realisation of Mchuchuma Coal Mining and Liganga Iron Ore Mining;
- Construction of the Hoima-Tanga crude oil pipeline;
- Improvement of transportation in the Great Lakes;
- Mkulazi sugarcane plantation and sugar factory;
- Construction of an LNG plant in Lindi; and
- Development of Special Economic Zones (SEZs).

Implementation of Budget 2017/2018 and the measures that the Minister introduced are aimed at the following:

- · Attaining a 7.1% GDP growth;
- · Grow tax revenue by 14.2% and LGA revenues by 16.5%;
- · Maintain single digit inflation of between 5% and 7% in the medium term;
- · Minimal 2.5% increase in total expenditure;
- · Narrow budget deficit to 3.8% of GDP; and
- · Maintain a four months import cover.

Tax Measures

Corporate Income Tax

- Corporations with unrelieved tax losses for three years consecutively will pay Alternative Minimum Tax (AMT) at the rate of 0.3% of the turnover in the third year. This amendment has been made in Paragraph 3(3) of the First Schedule by deleting five consecutive years and replacing it with three consecutive years to align with the three years provided in the charging section;
- Qualifying expenditure of a non-commercial vehicle for claiming wear and tear allowance has been increased from TZS 15 million to TZS 30 million. The Act defines commercial vehicle as road vehicle designed to carry loads of more than half a tonne or more than 13 passengers; or a vehicle used in a transportation or vehicle rental business;
- Reduction of corporate tax rate from 30% to 10% for new assemblers of vehicles, tractors and fishing boats for the initial 5 years from commencement of operation; and
- 5% final withholding tax on the total market value of minerals has been introduced to small miners.

VAT

- Locally sourced or imported plant and machinery to be used in manufacturing to enjoy VAT exemption;
- Zero-rating of ancillary transport services provided in relation to goods destined for export and transiting through Tanzania; and
- Locally produced animal feeds and fertilized eggs for incubation will be exempted from VAT.

Customs Duties

Introduction

- The EAC Member States, through a Pre-Budget Consultation of the respective Finance Ministers, met in Arusha, Tanzania on 6 May 2017 to agree to effect changes to the Common External Tariff (CET) and amend the EAC Customs Management Act, 2004.

Fiscal Measures

The proposed fiscal changes are as follows:

- Grant duty remission on:
  - Wheat grain [HS Code 1001.99.10 and 1001.99.90] from 35% to 10% for one year;
  - Soap manufacturers using LABSA raw materials [HS Code 3402.11.00; HS Code 3402.12.00 and HS Code 3402.19.00] from 10% to 0% for a period of one year;
  - Motorcycle assemblers using CKD kits for motorcycles from duty rate of 25% to 10% for one year;
  - Manufacturers of leaf springs using inputs under HS Code 7228.20.00 from duty rate of either 25% or US$200 per metric ton whichever is higher to 0%;
  - Continue to grant duty remission at duty rate of 0% on inputs for manufacturers of air filters;
  - Inputs used in the assembly of equipment specifically designed for use by disabled persons at 0%; and
  - Inputs used in the assembly and construction of ships at 0%.

- Common External Tariffs (CET) rates:
  - Extend stay of application of the CET rate on Crude Palm Oil [HS Code 1511.10.00] while at the same time increasing applicable CET rate from 0% to 10% for one year;
  - Extend stay of application of CET rate and increase a duty rate from 10% to 25% of on paper products for one year;
  - Grant stay of application of CET rate on flat-rolled products of iron or non-alloy steel and apply a duty rate of either 25% or USD 250 per metric tonne, whichever is higher for one year;
  - Continue stay of application of CET rate on steel rods and bars and hot-rolled angles & sections and apply a duty rate of either 25% or USD 200 per metric tonne, whichever is higher for one year;
  - Grant stay of application of CET rate on flat-rolled products of iron or non-alloy steel (with a width of 600 mm or more either cold rolled or cold reduced) and apply a duty rate of 10% or USD 125 per metric tonne, whichever is higher for one year;
  - Grant stay of application of CET rate on Gypsum Powder under HS Code 2520.20.00 and apply duty rate of 10% instead of 0% for one year;
  - Grant stay of application of CET rate on the reduction of remission level on sugar for industrial use [HS Code 1701.99.10] and apply duty rate of 10% for one year;
  - Grant stay of application of CET rates on EFD machines and reduce duty rate from 10% to 0% for one year; and
  - Grant stay of application of CET rate on aluminium structures [HS Code 7610.90.00] and increase duty rate from 0% to 25% for one year.
- Amendments of the EAC Customs Management Act, 2004 to:
  - Exempt examination answer sheets (HS Code 4911.99.20);
  - Amend 5th Schedule to remove import duty exemption-regime on Compact Fluorescent Bulbs (CFL) and Light Emitting Bulbs (LED);
  - Amend Fifth Schedule to exempt distribution of oil and gas;
  - Amend Section 203 to tighten punitive measures on exportation and importation of concealed goods. Penalty has been increased from USD 10,000 to USD 20,000 or 50% of the dutiable value of the goods, whichever is higher; and
  - Amend Section 218 to give the powers of the restoration of seized items to Commissioner of Customs instead of EAC Council of Ministers.
- Opening of an escrow account to ease the refund of additional 15% import duty paid by importers of sugar for industrial use.

Excise Duty

- A general 5% inflationary adjustment on non-petroleum items that are subject to specific excise duties. However, some locally produced products will not be adjusted e.g. water and spirits;
- Excise duty increased on both alcoholic beverages (beers, wines and imported spirits) and non-alcoholic beverages (i.e. carbonated soft drinks, and energy drinks);
- Cigarettes and other tobacco products will be subject to higher excise duty rates;
- A decrease in excise duty for some locally produced fruit juices and wine produced with domestic grapes with content exceeding 75%; and
- A general increase in excise duties on petroleum products (petrol, diesel and kerosene) by TZS 40 per liter.

Miscellaneous Provisions

Policy and administrative measures

- Issuing identity cards to informal sector i.e. petty traders such as food vendors ("mama lishe"), street vendors, second-hand clothes sellers, small-scale agricultural products (vegetables, banana and fruits) sellers etc. for strengthening and simplifying revenue collection;
- Introduction and emphasis on usage of electronic systems such as Electronic Revenue Collection System and the Government Electronic Payment Gateway System. The measure aims to prevent revenue leakages and simplify tax payment procedures;
- Prohibition of direct exportation of minerals from the mines. Clearing houses will be established at selected areas such as international airports and mining areas for verification and issuing of export permits; and
- The minerals will be subject to a clearing fee of 1% of the value of the mineral on exportation.

Property tax

- The Government through TRA will continue to collect property tax for valued and non-valued properties. For valued properties, the Ministry of Finance and Planning will determine a specific rate. For non-valued properties a flat rate of TZS 10,000 per single storey house and the rate of TZS 50,000 per floor of a storey house.

Motor vehicle license

- Abolishment of annual motor vehicle license fee. Instead, excise duty on fuel will be increased to compensate the loss on the abolishment'
- Provision of tax amnesty for accumulated unpaid motor vehicle license fees and penalties; and
- Increase of motor vehicle license fee on first registration as per table below:

Engine capacity	Previous amount TZS	New amount TZS
501cc-1500cc	150,000	200,000
1501cc-2500cc	200,000	250,000
Above 2501cc	250,000	300,000

Others

The following fees and levies have been abolished:

- Fees imposed on fertilizer by the Tanzania Bureau of Standards (TBS), Tanzania Atomic Energy Commission (TAEC) and Weight and Measures Authority (WMA) in order to increase agricultural productivity;
- Standards inspection fee on cash crops imposed by TBS to reduce production costs for the industry and increase farmers' income;
- Service levy imposed on guesthouses that are subject to Guest House Levy;
- Levy imposed on posters that direct people to places where public services are located;
- Permit fees issued by Local Government Authorities on various activities for example permit fees charged on slaughtering places (not including slaughtering and meat inspection fees), permit fees on transportation of livestock and on establishing pharmacies;
- Fees imposed on livestock when they are in the market for auction;
- Increase fine on failure to comply with the Local Government Finance Act from not more than TZS 50,000 and 12 months sentence to between TZS 200,000 and TZS 1,000,000 or between 12 months and 2 years sentence; and
- Reduction in produce cess charged by Local Government authorities from 5% to 3% for cash crops and from 5% to 2% for food crops. Additionally, transportation of crops of less than a ton from one local government authority to another would enjoy exemption from produce cess.

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