Budget Brief

Tanzania 2016
Economic Highlights

Economic Growth

The Tanzanian economy has continued to perform well, with the country expected to post a GDP growth rate of 7.2% in the fiscal year 2015/2016. During this period, the government has focussed expenditure on industrialization and infrastructure development.

The 2016/2017 budget aims to further increase funding for development projects while addressing the need for fiscal consolidation. If fully implemented, the budget promises to support growth and promote macroeconomic stability.

The main drivers of the growth have been communications, transport, financial intermediation, construction, agriculture and manufacturing. In the medium term, growth will be driven by investments in infrastructure, expansion in agriculture supported by good weather conditions, exploitation of the country's large gas reserves and low inflation which the country expects to remain between 5 and 8% in 2016.

Despite the indicated high rate of economic growth, Tanzania's faces the following challenges:

- High levels of poverty, with up to 28% of the population living below the poverty line; and
- Reliance on agricultural sector, which is majorly subsistence and dependent on rainfall.

Fiscal Policy

The 2015/2016 fiscal policy aimed at maintaining fiscal consolidation through strengthening tax administration. It also focused on improving expenditure and debt management.

The 2016/17 estimated expenditure is set to increase from 23.2% to 27% of GDP with a budget deficit of 4.5% of GDP.

To cover the shortfall, the government has secured relatively expensive commercial loans on the domestic and foreign markets which is likely to increase the debt servicing costs. Tanzania's debt stock increased by about 6.34%, with external debt accounting for 85.6% of the debt. This large component of external debt exposes the country to external foreign exchange risk with depreciation of the currency resulting in higher debt costs.

Monetary Policy

The Government has successfully controlled the inflation rate over the past two years, through the implementation of a prudent monetary policy. The inflation rate has significantly reduced from 7.9% in 2013 to 4.5% in the first quarter of 2015.

The government intends to maintain the low inflation rates on the back of low international petroleum prices and favourable weather conditions.

Tanzania has used monetary policy to control inflation

The positive trend is illustrated below:

Growth in	2013	2014	2015
Real GDP (%)	7.0	7.2	7.0
Real GDP per capita (%)	3.9	4.2	4.1

Income Tax

A fulfilled promise?

The Minister has proposed to reduce the lowest tax rate applicable to individuals/employees from the current rate of 11% to 9%. This was in line with the promise by President John Pombe Magufuli during the Workers' Day celebrations. The decrease of 2% effectively translates to a tax relief of TZS 3,800 to individuals/employees under this bracket.

A taxed send off!

The government has proposed to remove tax exemptions on the final gratuity paid to Members of Parliament. This is an effort to promote equity and fairness in taxation, allowing MPs to make their rightful contribution to the exchequer.

Removal of tax exemption on investment assets (shares)!

The government has proposed to remove the tax exemptions on dividends earned from the following classes of shares:

- DSE shares held by a resident person;
- Shares held by a non - resident whose controlling interest is less than 25%.

Previously these dividends were subjected to WHT at the rate of 5%, which has now been increased to 10%.

Old age in bliss...not really

The Minister has proposed to impose withholding tax on investment income payments made to approved retirement funds. The withholding tax will impact leasing and interest payments to the funds.

Landlords have no place to hide.

The Minister has proposed to grant the Commissioner General of TRA powers to determine rental income subject to WHT on rental income, based on the minimum market rental value of the property. Tanzania now joins the ranks of EAC countries that impose WHT on rental income.

Landlords are becoming a popular tax target

Value Added Tax

Healthy nation

The Minister has proposed exemption on:

- raw soya beans;
- all un-processed vegetables and unprocessed edible animal products which are classified under EAC Common External Tariff, 2012;
- vitamins and food supplements (micronutrient compound) which have been approved by the Minister for Health Community Development, Gender, Elderly and Children; and water treatment chemicals which have been approved by the Minister responsible for Health.

The government intends to exempt from VAT unprocessed foodstuff as one way of improving nutritional content of food to protect the community from epidemic diseases.

Reaping from tourism

The tourism industry will feel the pinch following the imposition of VAT on services such as tour guiding, game driving, water safaris, animal or bird watching, park fees and ground transport services. While this aims to increase the tax base, it will make the Tanzania tourism package more expensive.

Flying into the future

The Minister has proposed VAT exemption on aviation insurance charges. This proposal aims to reduce costs and promote the fledging aviation industry. The cost reduction will positively impact other industries such as tourism.

Road and infrastructure

The Minister has proposed exemption on bitumen products under HS Code 27.13, 27.14 and 27.15. This will reduce the material costs and hopefully make is cheaper for the government to finance road construction.

Is Mainland Tanzania and Zanzibar one country? Not for VAT purposes.

This budget has provided much needed clarification on the VAT treatment of goods manufactured in Mainland Tanzania and sold to Zanzibar and vice versa. Goods manufactured in Mainland Tanzania and sold to Zanzibar will attract VAT in Zanzibar while those goods manufactured in Zanzibar and sold to Mainland Tanzania will attract VAT in Mainland Tanzania ending the VAT refund debate.

An additional pinch

The Minister has imposed VAT on financial services based fees, excluding interest on loans. While this move will expand the tax base, it will increase the cost of banking services. However, banks will benefit since they will receive a deduction on a large portion of their input VAT reducing their VAT costs.

Import Duty

Import Duty Changes

The import duty changes aim to protect local industries from unfair foreign competition while reducing the cost of critical raw materials for use in infrastructure projects and critical industries.

Item	Current Rate	Proposed Rate
Cement 2523.29.00	25%	35%
Flat rolled products of iron or non-alloy steel HS Code: 7208.54.00, 7208.90.00, 7208.52.00, 7208.53.00	0%	10%
Bars and rods of iron and steel 7213.10.00, 7213.20.00, 7213.99.00, 7227.10.00, 7227.20.00, 7227.90.00 , 7308.20.00, 7308.40.00, 9406.00.90	10%	25%
Iron and steel products used in construction of bridges and bridge sections 7308.10.00	25%	0% (for 1 year)
Automotive bolts and nuts 7318.15.00	25%	10% (for 1 year)
Bolts and nuts 7228.30.00, 7228.50.00	10%	0%
Fishing nets 5608.11.00	10%	25%
Oil and petrol filters 8421.23.00, 8421.31.00	10%	25%
Aluminium milk cans 7612.90.90	10%	25%
Wheat (wheat grain) 1001.99.10, 1001.99.90	35%	10% (for 1 year)
Manufacturers of crude edible oil 1511.10.00	0%	10%
Paper products	10%	25%

Sugar and sugar confectionaries – Progressive rates		
2016/2017	10%	15%
2017/2018	15%	20%
2018/2019	20%	25%
Others		
Second-hand clothes and shoes	0.2$/kg	0.4$/kg

Other notable points

Grant of import duty remission on:

a. Raw materials for local manufacture of motor vehicle air filters

b. Splints used in manufacture of matches under HS Code 4421.90.00.

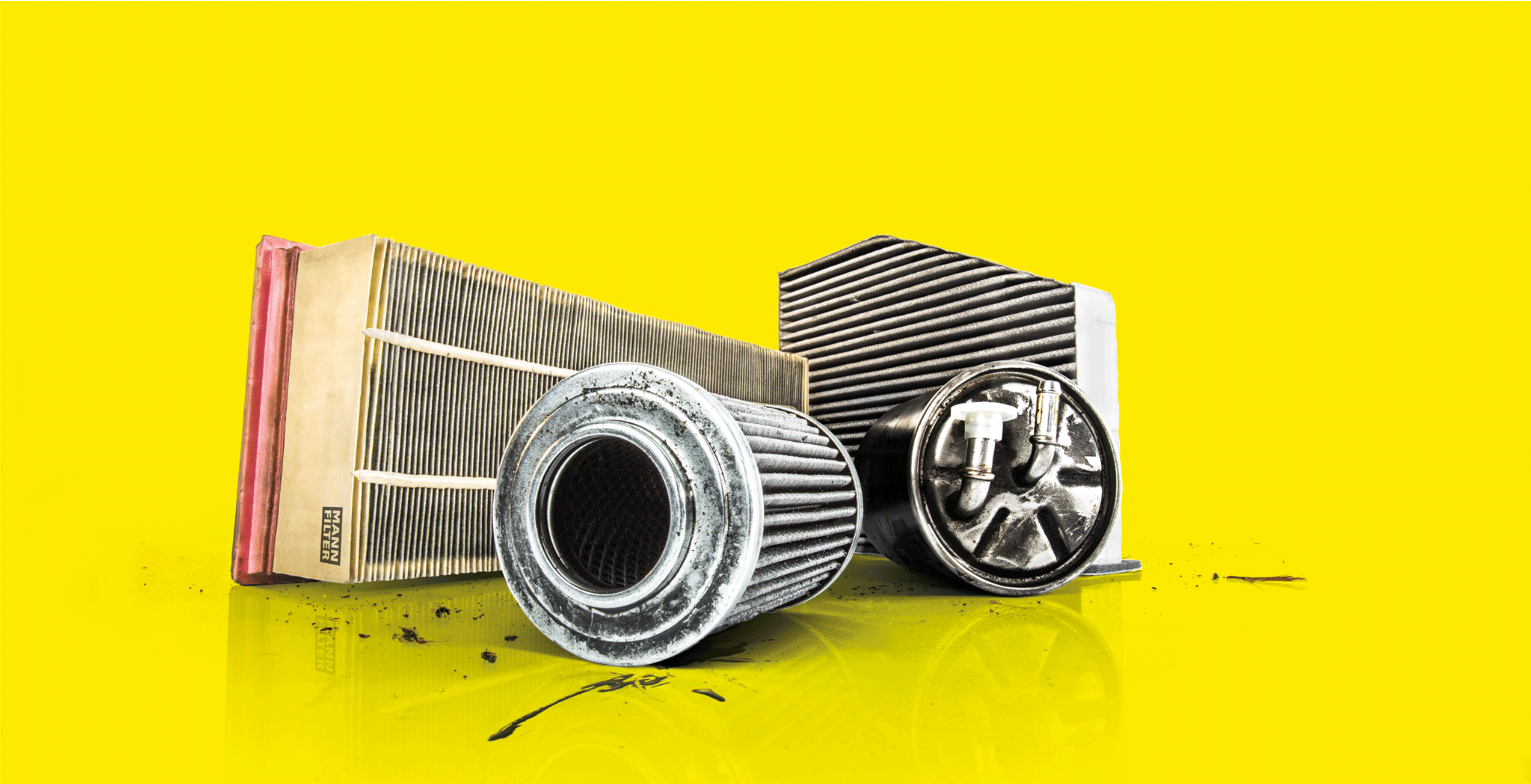
c. Raw materials for manufacture of Aluminum cans under HS Codes 7606.12.00 and 7606.92.00.

Continue applying the higher of 25% or $200 per metric tons for 1 year on:

a. Flat- rolled products of iron or non-alloy steel under HS Codes 7210.41.00,7210.49.00, 7210.61.00, 7210.69.00, 7210.70.00, 7210.90.00, 7212.30.00 and 7212.40.00

b. Bars and rods of iron or steel under HS Codes 7228.10.00, 7228.20.00, 7228.30.00, 7228.40.00, 7228.50.00, 7228.60.00, 7228.70.00 and 7228.80.00.

c. Iron and steel products under HS Codes 7212.40.00, 7215.10.00, 7215.50.00, 7215.90.00, 7216.61.00, 7216.69.00, 7216.91.00 and 7216.99.00.



Duty remission on motor vehicle filters

Excise Duty

Beverages, Cigarettes, Lubricating oils/ greases, natural gas & imported furniture to become more expensive!

Item	Current Rate (TZS per litre)	Proposed Rate (TZS per litre)
Beverages		
Carbonated Soft drinks (soda)	55	58
Locally produced fruit juices	10	11
Imported fruit juices	200	210
Beers made from local un-malted cereals	409	430
Other beers	694	729
Non-alcoholic beer (including energy drinks and non-alcoholic beverages)	508	534
Wine produced using more than 75% local grapes	192	202
Wine produced using more than 25% imported grapes	2,130	2,237
Spirits	3,157	3,315
Cigarettes		
Local tobacco content cigarettes without filter tip	11.289/cigarette	11.854/cigarette
Local tobacco content cigarettes with filter tip	26.689/cigarette	28.024/cigarette
Imported cigarettes	48.825/cigarette	50.7/cigarette
Cut rag or cut filler	24,388/kg	25,608/kg
Other items		
Lubricating oils	665.5/litre	699/litre
Lubricating greases	75 cents/kg	79 cents/kg
Natural gas	43 cents/cubic feet	45 cents/cubic feet
Imported furniture		
(HS Code 94.01 and 94.03)	15%	20%

Excise tax

Excise duty of 10% has been introduced on all charges or fees payable to telecommunications service providers in respect of money transfer services

Other Changes

Government employees insured!
The Government has proposed to start contributing 0.5% of the employees' gross salary to the Workers' Compensation Fund. The private sector started contributing the same from July 2015.

A marginal relief for employers
The Minister has proposed to reduce the Skills and Development Levy (SDL) rate on employees' gross emoluments from 5% to 4.5% to provide employers with a relief from the tax burden, enhance compliance and generate additional revenue.

TRA to now collect property tax!
Amendments proposed to the following Acts in order to transfer mandate to collect property tax from local government authorities to TRA.

- The Tanzania Revenue Authority Act, Cap 399,
- The Local Government Finance Act, Cap 290,
- The Urban Authorities (Rating) Act, Cap 289,
- The Tax Administration Act, 2015 and
- The Tax Appeals Act, Cap 408

The amendments are intended to enable TRA to:

- estimate tax and valuation of the properties,
- collect property tax,
- institute proper procedures for remittance of property tax,
- set procedure for dispute resolution arising from collection of property tax by prevailing tax laws and
- review property tax exemptions.

Agencies and Regulatory Authorities to now contribute to Consolidated Fund!
The minister has proposed amendments that:

- require Agencies and Regulatory Authorities under Treasury to remit 15% of Gross Income to Consolidated Fund; and
- remove Arusha International Conference Centre (AICC) from the list of public institutions that contribute 15%. AICC will instead be required to pay dividends from business operations.

Tax Exemptions granted to armed forces
The Minister has proposed to abolish tax exemptions on the supply of goods to the armed forces and proposes to provide the armed forces with allowances to allow them to procure the services without increasing the burden on the soldiers.

Owning a car to become more expensive!

Item	Old provision	New Change
MV- Registration fee	TZS. 150,000	TZS. 250,000
Motor cycle	TZS. 45,000	TZS. 90,000
Personalized Registration Numbers (Every three years)	TZS. 5 Million	TZS. 10 Million

Agricultural and health service levies abolished
The fees and levies which were charged by ministries, regions and independent departments have been abolished to improve the business environment.

The specific levies that have now been abolished include:

Tanzania Food and Drugs Authority (TFDA)		
A	Export Permit for food	TZS. 50,000
B	Retention fees for Human and Veterinary medicines from domestic manufacturers	TZS. 100,000
C	Duplicate Certificate for Human and Veterinary medicines from domestic manufacturers	USD 50
D	Duplicate Certificate for Human and Veterinary medicines from foreign manufacturers	USD 100
E	Evaluation of product promotional materials – Domestic	USD 50
F	Abbreviated Advert – Domestic	USD 25
G	Duplicate certificate for foreign food, medicines medical devices	USD 100
H	Duplicate certificate for foreign medical devices domestic	USD 30
I	Duplicate certificate for medicines domestic	USD 50
J	Retention fees for imported in Vitro Diagnostics (IVD)	USD 150
K	Retention fee for domestic manufactured cosmetic, manufactured cosmetics	TZS. 30,000
L	Pre-registration GMP inspection fees for domestic pharmaceutical manufacturing sites	USD 250
M	Medical representative foreign per company	USD 1,000
N	FOB value for cosmetics raw materials	1%
O	FOB for importation of pharmaceuticals raw materials	0.5%
P	Hospital permit for psychotropic and narcotics	TZS. 10,000
Q	Import permit for psychotropic and narcotics	TZS. 50,000
R	Export certificates for pharmaceutical	TZS. 50,000
S	Certificate of Pharmaceutical Product	TZS. 50,000
T	Inspection of new food processing facilities – small	TZS. 100,000
U	Disposal certificates	
V	Health certificates	TZS. 50,000
W	Trade fair fees	TZS. 200,000
Cotton Board		
A	Uhuru torch contribution	TZS. 450,000
B	Fee for District Council to deliberate on cotton buyers	TZS. 250,000
Tea Board		
A	Fire and rescue levy	TZS. 800,000
Coffee Board		
A	Cherry Processing License	USD 250
Cashewnut Board		
A	Cooperative Union Levy	TZS. 20 per kg
B	Transportation Fee	TZS. 50 per kg
C	Task Force on various issues	TZS. 10 per kg
D	Shopkeeper costs	TZS. 10 per kg

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