



# Budget brief

Tanzania 2020

June 2020

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## Economic Overview

Tanzania's GDP is projected to slightly decline to 5.5% in the financial year ending 30 June 2021 compared to 7.0% growth recorded in 2019/2020. The decline is attributed to among other things, Covid 19 pandemic.

The 2019/2020 GDP growth of 7.0% is attributed to increased investments in infrastructure such as construction of rails, roads and airport, the availability of reliable electricity, the improvement of transportation services, the increase in the extraction of minerals especially gold and coal, and the increase in production of agricultural produce.

Although GDP growth is projected to decline, the deceleration is not expected to be severe due to the government's strong measures against covid-19 including encouraging citizens to continue working while taking precautions as advised by health professionals as well as the anticipated recovery of the regional and world economy.

For the period ending April, 2020, total national debt reached at 55.43 trillion shillings, largely contributed by newly acquired concessional and non-concessional loans to finance development projects that will accelerate economic growth of the country at large.

## Budget Overview

In keeping with the regional ideals, the theme for the 2020/21 budget was "Stimulating the Economy to Safeguard Livelihoods, Jobs, Businesses and Industrial Recovery."

The theme speaks to the government's focus on

the fundamentals and foundations for economic take-off in light of the unprecedented economic environment.

With a budget allocation of TZS 34.88 trillion for both recurrent and development expenditure, the budget has prioritized the following strategic areas:

### **1. Industries to Foster Economic Growth and Industrialization:**

Under this priority, emphasis will be placed on the establishment of industries that will utilize the locally available raw materials. Specific projects in this area include industrial development, crops, livestock, fisheries and minerals.

### **2. Interventions for Human Development**

During 2020/21, the Government has allocated huge budget on education, health and water. The government believes that projects implemented under this priority, will have huge impact on its citizens.

### **3. Enabling Environment for Doing Business and Investment**

Projects implemented under this priority will focus on construction and rehabilitation of various infrastructure for easy of doing business and investment. The priority projects include; Julius Nyerere Hydropower Project – 2115 MW and upgrading of central railway line to standard gauge standard. Further, the Government will



continue with implementation of projects such as construction of roads and bridges, hydropower projects, ports and strengthening of Air Tanzania Company Limited by continuing improving airports including construction of a new Dodoma International Airport at Msalato.

#### **4. Strengthening of institution for Implementation of the Plan**

Interventions in this area will include strengthening of institutional frameworks for implementing the budget plan, increasing availability of financial resources to implement the budget plan and setting measurable indicators for monitoring implementation progress.

The priority projects in this area will include those for promoting good governance especially provision of justice and legal services, strengthening the judiciary, parliament and defense and security organs.



# Tax amendments

## Introduction

Tanzania's theme for the Financial Year 2020/21 budget is 'Stimulating the economy to safeguard livelihoods, jobs, businesses and industrial recovery'.

The stimulation of the economy and safeguarding of livelihoods, jobs and businesses is especially key following the negative economic effects imposed by the COVID-19 pandemic, which has since evolved from a medical pandemic to a disruptor of economic wellbeing of the country.

In tandem with the above, the budget speech contains proposals that seek to amend the current tax structure by amending tax rates, levies and fees imposed under the various laws as well as amending various administration procedures on Government revenue collection.

The key objectives that the Government of Tanzania seeks to achieve include the following:

We outline below the amendments proposed with respect to taxes and various levies:

Maintain a tax structure that is stable and predictable.



Promote economic growth and particularly in the industrial sector.



Increase employee's income.



Increase government revenue.



Increase the availability of medical equipment to assist in the fight against the COVID-19 pandemic.



Improve the business environment by abolishing or reducing some of the levies and fees charged by Ministries Departments, Agencies and Regulatory Authorities, in line with the Blueprint for Regulatory Reforms which was approved in 2017/18.



We outline below the amendments proposed with respect to taxes and various levies:

# More disposable income for employees!

The Minister has proposed to increase the minimum threshold of employment income not liable to tax from TZS 170,000 to TZS 270,000 per month. The Minister has also proposed amendments to the annual employment income brackets for the year of income as tabulated below:

Current annual tax brackets	Proposed annual tax brackets	Rate payable based on the proposed total income brackets
TZS 0 to TZS 2,040,000	TZS 0 to TZS 3,240,000	NIL
TZS 2,040,001 to TZS 4,320,000	TZS 3,240,001 to TZS 6,240,000	9% of the amount in excess of TZS 3,240,000
TZS 4,320,001 to TZS 6,480,000	TZS 6,240,001 to TZS 9,120,000	TZS 270,000 plus 20% of the amount in excess of TZS 6,240,000
TZS 6,480,001 to TZS 8,640,000	TZS 9,120,001 to TZS 12,000,000	TZS 846,000 plus 25% of the amount in excess of TZS 9,120,000
Above TZS 8,640,001	Above TZS 12,000,001	TZS 1,566,000 plus 30% of the amount in excess of TZS 12,000,000

The expansion of the income tax bands is a welcome change and increases disposable income available to households.

## Increase of income threshold exempt from tax for primary co-operative societies

The Minister has proposed to increase the threshold of income exempt from tax for primary co-operative societies from TZS 50,000,000 to TZS 100,000,000.

This proposal is a welcome move as primary co-operative societies will have more headroom to provide more services to its members.

## Levelling the playing field?

The Minister has proposed to subject to tax, income earned by special economic zones operators, who produce 100 percent for local supply.

This move seeks to enforce the principle of equity where companies outside the special economic zones who produce items for local supply are subject to tax in Tanzania.

## Together, we fight AIDS and the COVID-19 pandemic!

The Minister has proposed to allow a 100% tax deduction on donations made towards the AIDS Trust Fund and COVID-19 relief fund.

Further, the Minister has proposed to allow donations towards COVID-19 as tax deductible until such time when the government declares Tanzania to be COVID-19 free. This move is aimed to encourage contributions towards the fight against AIDS and the COVID-19 pandemic.



It is not clear from the speech as to whether the deductibility of such donations will apply retrospectively to benefit those whose years of income will end in June 2020 (prior to the effective date of the Finance Act 2020).

### **Fast tracking the implementation of strategic projects**

The government has proposed to grant the Finance Minister powers to approve income tax exemption on strategic projects with total income tax not exceeding TZS 1 billion without seeking for cabinet approval. However, before granting the exemption, the Minister will be required to consult Tanzania Revenue Authority.

The aim of granting Minister of Finance powers to approve projects within the above threshold is to reduce bureaucracy, effectively fast tracking the implementation of such projects.

### **Introduction of capital gains tax on changes to concessional right of reserved land**

The Minister has proposed to charge capital gains tax on net gains on realization of licence or concessional right of reserved land leased to a new investor.

Therefore, the gain resulting from the disposal of such rights will be subject to capital gains tax and this will increase tax base for the Government.

### **Introducing withholding tax on commission paid to agents by commercial banks**

The Minister has proposed to subject to withholding tax at a rate of 10% commissions paid to bank and digital payment agents.

The aim of this proposal is to bring equity to all bank operators, digital payment and mobile money agents as currently this withholding tax is only imposed on commissions paid to money transfer agents.

The withholding tax is an advance tax and therefore companies can claim a credit on the same.

### **Global alignment of Transfer Pricing rules**

The Minister has proposed to introduce clear definitions of "beneficial owner", "representative assesses" and "business connection". This measure aims to increase collaborative efforts in fulfilling the requirements of the country to join the global forum for exchanging tax information in order to combat tax avoidance and evasion of multinational companies and address transfer pricing between affiliated companies.

# Value Added Tax

“ The Minister has proposed to exempt Value Added Tax on agricultural crop insurance.

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## Planning for the rainy day

The Minister has proposed to exempt Value Added Tax on agricultural crop insurance.

This proposal is aimed at:

- a. Reducing the cost of crop insurance; and
- b. Incentivise farmers to take up agricultural insurance and protect their income that may be jeopardised by unforeseen disasters such as droughts and floods.

In the long run, the Government also proposes to make such insurance schemes a competitive contributor to the national economy and in return grow the agricultural sector.

## Relief to exporters of raw products

The Minister has proposed to amend the Value Added Tax Act to enable exporters of raw products to recover input tax. This proposal will increase the competitiveness of Tanzania's products in the international markets while complying with the VAT destination principle.

Prior to the change, exporters of raw minerals, raw forestry products, raw aquatic products and raw fauna products was not allowed an input tax credit on their purchases.

The above proposal may also be viewed as a means of alleviating the cashflow burden as such companies may be able to offset the input VAT against output VAT and therefore reduce the cost of business.

# Customs Duty

Over the recent past, the Tanzania Revenue Authority has noted that imported vitenges are undervalued therefore leading to reduced tax revenues.

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Following the pre-budget consultations of the Ministers and Cabinet Secretary of Finance of the EAC partner states held on 13 May 2020, a number of proposals were fronted with respect to the East African Community Customs Management Act, 2004 (EACCMA).

Some of the proposals introduce new items while others touch on existing amendments that were to lapse this year and whose period has now been extended by an additional year.

We highlight below, some of the changes proposed.

## Call to arms against COVID-19

The government, in a bid to fight the COVID-19 pandemic has granted duty remission of 0 percent for one year on raw materials used by domestic manufacturers of items used specifically for diagnosis, prevention, treatment and management of the COVID- 19 pandemic including Mask, sanitizer, ventilators, Personal Protective Equipment (PPE).

## Enhancing tax compliance and revenue collection

The government has proposed a 0% duty rate to apply for one year on the importation of cash registers, electronic fiscal devices and point of sales machines used in government revenue collection.

## Tunywe maziwa!

To reduce the cost of producing UHT milk, and to make the same affordable to consumers, the government has proposed a 0% duty on importation of packaging materials. This rate will apply for one year.

## Let's have some chardonnay

Grape farming has received a boost, together with the local manufacture of wine with the government proposal for 0% duty, to apply for one year on the importation of corks used by local manufacturers of wines.

## Protecting local industries

The government has also factored protection of local ceramic, tea and sisal industries in this year's budget. In the budget speech, the Minister proposed that the customs duty applicable on the importation of ceramic tiles, tea and sacks and bags made out of sisal will be subject to customs duty of 35% for one year.

## Vitenges tax

Over the recent past, the Tanzania Revenue Authority has noted that imported vitenges are undervalued therefore leading to reduced tax revenues.

To curb the above, the Minister has proposed to increase the value of imported kitenge from USD 0.4 per metre to USD 1 per metre.



### **Time to enjoy locally produced drinking chocolate**

The government has expressed its interest to promote cocoa farming and as a result create employment. In this regard, the Minister proposed that customs duty on importation of cocoa powder will be increased from 0% to 10% for one year.

### **Encouraging value addition and growth to coffee, cotton and cashew nuts sectors**

In order to encourage value addition to coffee and cashew nuts as well as reduce processing costs and create employment, the Minister proposed to reduce customs duty on packaging materials and sacks of polymer from 25% to 0% for a period of one year.

### **Cheap and sweet sugar deal**

The Minister has proposed to reduce the import levy on industrial sugar from the higher of 2% of CIF value or 2% of USD 460 to USD 7.5 per metric ton.

This move may be viewed as a means of reducing the cost of items where industrial sugar is used as a raw material.

### **Measures effected in 2019/20 that have been retained**

In the financial year 2019/20, a raft of custom duty measures were introduced and were expected to last for a period of one year. However, following the pre-budget consultations of the Ministers and Cabinet Secretary of Finance of the EAC partner states held on 13 May 2020, these rates have been retained for an additional one year.

The items affected include the following:

- Raw materials used in the manufacture of baby diapers.
- Equipment used in the polishing and heat treatment of gemstones.
- Papers used in the manufacture of packaging materials for export of horticulture products.
- Agricultural seeds packaging materials.
- Roasted coffee.



# Excise Duty

"Drinking beverages becomes an expensive affair!

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## Protecting the industrial sector

Ordinarily, The Excise Tax (Management and Tariff) Act, CAP 147 Section 124(2), provides for annual adjustments of the specific excise duty rates of non-petroleum products indexing to cater for inflation and other key macroeconomic indicators.

Taking into consideration the impact of COVID-19 pandemic, the adjustment of specific excise duty rates for these products may result in a price increase.

To cater for the expected increase in prices of such commodities due to the inflation adjustments, the Minister proposes not to amend the specific excise duty rates for all non-petroleum products. This is also attributable to government's objective of building an industrial economy by promoting investment in the industrial Sector and increase its contribution to the GDP.

## Drinking beverages becomes an expensive affair!

The Finance Minister has also proposed to amend the Excise Tax (Management and Tariff) Act by introducing Excise Duty on the following products:

Product	Proposed Excise Duty rate	Current Excise Duty rate
Imported powdered beer	TZS 844/kg	N/A
Imported powdered juice	TZS 232/kg	N/A



# Other Tax and Revenue Mobilising Measures

The Minister has proposed to amend the Treasury Register Act to enable the Treasury Register Office to collect 70% of the excess revenue from the Government Parastatals, Institutions and Agencies with surplus revenue.

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## Time bound..

The Minister has proposed to introduce a 30 days' timeline for taxpayers to provide documents requested by the Commissioner. The Minister has also proposed to introduce time limit of 6 months, for which the Commissioner has to determine the objection.

Previously, there was no deadline that was provided for when a taxpayer was required to provide documentation relating to an objection and when the Commissioner was required to respond to the same.

## Resolving telecommunication disputes?

The Minister has proposed to amend the Local Government Finance Act by granting powers to the Minister of Local Governments to collect the 0.3% service levy on behalf of local governments. This levy will thereafter be distributed to the respective local governments within 14 days of it being collected.

The proposed change may assist in resolving disputes between Local Government Authorities and telecommunication companies with regards to collection of this levy and fairly distribution of benefits derived from the service levy collected from the telecommunications operators.

## Tax concessions don't come for free

The Minister proposes to amend the Public Finance Act in order to ensure that Tanzania Investment Centre (TIC), Tanzania Fertilizer Regulatory Authority (TFRA), Government Procurement Services Agency (GPSA) and

National Identification Authority (NIDA) contribute 15% of their gross turnover as dividends to the Consolidated Fund.

This measure is viewed as a means of increasing the government revenue considering the proposed tax measures may lead to a decrease in revenue.

## Parastatals to contribute to Government revenue

The Minister has proposed to amend the Treasury Register Act to enable the Treasury Register Office to collect 70% of the excess revenue from the Government Parastatals, Institutions and Agencies with surplus revenue.

In our view, the aim of this proposal is to increase the revenue base for the government as well as enhance controls in public funds management.

## You can now choose your car number plate, but at a cost!

The Minister has proposed to amend the motor vehicle (Tax Registration and Transfer) Act by introducing a fee of TZS 500,000 for Special Registration Number for Motor Vehicle.

This measure is aimed at achieving two things:

- a. Customers are able to get their preferred car registration numbers.
- b. The government is able to get additional revenues.



## Enforcing tax compliance

The Minister proposes to amend the Mining Act to introduce a Tax Identification Number (TIN) and Tax Clearance from the Tanzania Revenue Authority (TRA) requirement in applications for new or renewal of a mining license.

The above proposal is aimed at ensuring that mining companies seeking to apply or renew for a mining license have met the requisite tax obligations.

## Reducing the cost of employment

The Minister has proposed to amend the Vocation Training and Education Act by reducing the Skills Development Levy from 4.5% to 4%.

The proposed change is aimed at reducing the cost of employment to employers.

## The government protects itself from share dilution

The Minister has proposed to amend the Electronic and Postal Communication Act to exclude companies in which the Government either wholly owns or owns at least 25% of the shares from being listed in a stock exchange.

The aim of this proposal is to ensure that the shares owned by the Government are not diluted once such companies are listed.

In addition, the Minister has also proposed to amend the Electronic and Postal Communication Act to exclude telecommunication tower leasing

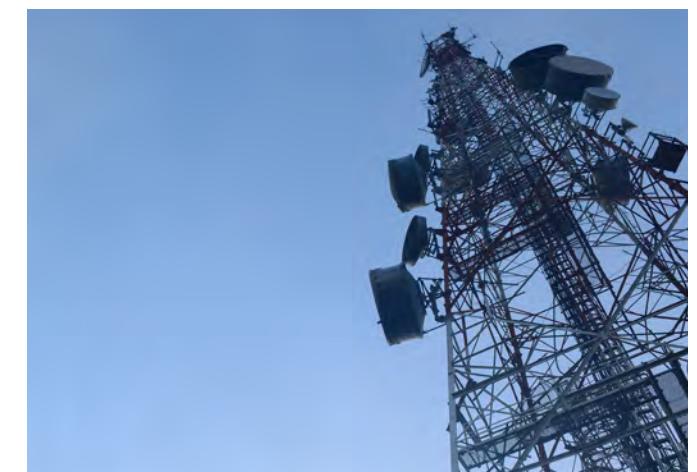
companies from compulsory listing in the stock exchange as they are not telecommunication operators.

This distinction comes as a relief to such companies since the cost of listing and meeting the compliance obligations for most companies is significant.

## Certificate of Occupancy becomes operational

The Minister has proposed to amend the Land Act by introducing a mandatory requirement whereby any person with a surveyed land and a plan approved by the Ministry of Land will be required to apply to the Commissioner for Lands for the right to occupy within 90 days from the date of approval.

This proposal seeks to discourage occupation of land without a valid Certificate of Occupancy.



# Regulatory Reforms To Improve Business Environment

## **Fair play in the business environment?**

The Minister proposes to amend the Fair Competition Act by limiting the penalties due as a result of failing to comply with competition rules to the gross revenue earned in Tanzania as opposed to global gross revenue.

This move seeks to level the playing field for both local companies and multinationals and can be construed to be part of the larger Blueprint for Regulatory Reforms which seeks to make it easier for business to carry out businesses in Tanzania.

## **Reducing bureaucracies relating to business registration and licensing**

The Minister has proposed to amend the Companies Act to remove the requirement of statutory endorsement from the Commissioner of Oaths to demonstrate compliance of registration or renewal of the company licensing.

This move seeks to reduce bureaucracy and reduce notary fee costs when it comes to registering a company or renewing a licence.

## **Reducing the cost of meeting safety standards**

The Minister proposes to abolish the following fees charged by the Occupational Safety and Health Authority (OSHA):

- Public training fees of TZS 250,000/= per person. This proposal is premised on the fact that it is the responsibility of OSHA to train the public.

– Inspection fees which was charged on 80 of its registration fees, since the registration fee was already removed so as to have consistency.

In addition to the above measures, the Minister seeks to reduce the accident investigation fee from TZS 500,000 per each investigation officer to TZS 120,000 per investigation officer but not more than 1,000,000/=

These measures are viewed as important contributors to implementing the government's blueprint in ensuring that Tanzania has a conducive business environment.





## Firefighting becomes affordable

In a bid to reduce the cost of doing business, the following amendments have been proposed by the Minister with respect to fire and rescue inspection fees:

Inspection fee type/Business type	Current fee (TZS)	Proposed fee (TZS)
Dealers of fire and rescue equipment	500,000	200,000
Mining areas of less than or equal to 2,000 square metres	6,000,000	100,000
Mining areas of between 2,001 and 4,000 square metres	6,000,000	150,000
Mining areas of between 4,001 and 9,000 square metres	6,000,000	200,000
Gas deposit with less than or equal to 10 tons	2,000,000	1,500,000
Gas deposit of between 11 to 20 tons	-	2,000,000
Gas cylinder shops with less than or equal to 100 square metres	100,000	40,000
Mini supermarkets, retail or wholesale shops	40,000	20,000
Mini hydro with less than 10 MW	6,000,000	200,000
Microlending institutions previously termed as financial institutions	40,000	50,000



## Contacts

### **David Gachewa**

Director  
Tax and Regulatory Services  
KPMG Tanzania  
**M:** +255 222 600 330  
**E:** [dgachewa@kpmg.co.tz](mailto:dgachewa@kpmg.co.tz)

### **Donald Nsyanyiwa**

Associate Director  
Tax and Regulatory Services  
KPMG Tanzania  
**T:** +255 222 600 330  
**E:** [ndonald@kpmg.co.tz](mailto:ndonald@kpmg.co.tz)

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