



Budget Brief

Tanzania 2017





Economic Overview

Tanzania Economic Overview: A shifting Economic Landscape

Tanzania's economic performance continues to rank among the highest in the region, with the real GDP growth rate consistently outpacing that of its peers in the East African Community (EAC). The country's macroeconomic environment remained stable in 2016, scoring strongly on a number of indicators such as low inflation, improved current account position, stable currency and availability of adequate foreign exchange reserves to cover 4 months of imports.

The GDP and Inflation trend is illustrated below:

Growth in	2014	2015	2016	2017
Real GDP (%)	7.2	7.0	7.0	7.1*
Inflation (%)	6.4	5.6	5.2	6.4**

*Projection of GDP growth for 2017

**Inflation April 2017

This is the second budget under the government of Dr. John Pombe Magufuli which is anchored on the National Development Vision 2025. The government priorities include accelerating economic growth to attain middle income status, curbing revenue leakage and resource wastage, improving infrastructure and reforming government bureaucracy to enhance service delivery.

Overall for 2017, Tanzania's economy expects Real GDP growth of 7.1%, an increase from 7.0% in 2016. Despite the impressive growth, the Minister conceded that the economy faced a number of challenges including liquidity squeeze, business shutdowns and loss of private sector confidence. Some of these issues are reflected in the performance of the banking sector where the level of non-performing loans rose from 8.3% in 2016 to 10.9% in March 2017. Credit to the private sector was subdued,

growing at 3.7% compared to 23.6% in 2016 while three banks were put under statutory administration after experiencing liquidity problems.

The agricultural, mining and service sectors performed well but the construction sector contribution declined during the year. Economic growth was supported by low petroleum product prices, stable domestic food prices and tight fiscal and monetary policies. On the business front, the Minister addressed the increased business shutdowns which he attributed to high transportation costs and taxes and levies. The government committed to dialogue with the private sector to address the loss of private sector confidence.

By April 2017, the government had collected about 70% of the TZS 29,540B projected for the year. During

the same period, the government spent TZS 15,481B on recurrent expenditure, equivalent to 87.4% of the proposed recurrent expenditure for the year. The development expenditure at the end of April 2017 was TZS 4,556 amounting to 38.5% of the TZS 11,821B allocated to development expenditure for the year. A big portion of the development expenditure was incurred on construction of roads, electricity projects, advance payments for the construction of standard gauge railway from Dar es Salaam to Morogoro and payments for the acquisition of aircraft. The low absorption of development expenditure remains a challenge to economic growth while the recurrent expenditure projections remain largely above budget.

The government has set ambitious targets for 2017/2018 anchored on maintaining inflation between 5% and 8%, increasing tax revenues to 14.2% of GDP, and narrowing the budget deficit to 3.8% of GDP. These measures will require significant improvements in revenue collections which the government intends to achieve through deployment of electronic monitoring to reduce tax leakage, bringing the informal sector into the tax net, increasing contribution of property taxes and formalising land ownership to facilitate taxation.

The government priority areas include interventions for fostering economic growth, fostering human development, and creating a conducive business environment. The government will also implement flagship projects including a new standard gauge railway, revamping the national carrier, development of coal and steel industries, establishment of a special economic zone, construction of a liquefied natural gas (LNG) plant and development of specialised skills.

Tax changes

A) Income Tax changes

Alternative Minimum Tax (AMT) – No more controversies!

The Minister has proposed to amend the First Schedule to the Income Tax Act, CAP 332 to align it with the number of years from five to three years, in line with the imposition section (section 4 of the Act) for persons with perpetual unrelieved loss for Alternative Minimum Tax (AMT) purposes. Previously, the imposition section provided for three consecutive years of perpetual unrelieved loss for AMT to apply, while the First Schedule to the Act, provided for five consecutive years of perpetual loss for AMT to apply. This measure is intended to ensure consistency and clarity in application of the law.

More tax relief to be enjoyed on non-commercial motor vehicles

The Minister has proposed to increase the value of non-commercial motor vehicles qualifying for capital allowances from the current TZS 15 million to TZS 30



million. Previously, the value of non-commercial vehicles that was eligible for capital allowances was limited to TZS 15 million. This measure will compensate businesses for inflation.

A bright future for new assemblers of vehicles, tractors and fishing boats

The government has proposed to reduce Corporate Income Tax from 30% to 10% for the first five years from commencement of operations, for new assemblers of vehicles, tractors and fishing boats.

With the current government's slogan of "Tanzania ya vivanda – Industrializing Tanzania", this move intends to promote the industrial sector in Tanzania.

Pinch to small miners

The Minister has proposed to introduce 5% final withholding tax, on the total market value of all the minerals that will be sold by small miners as defined under the Mining Act. This move is to ensure optimal collection of government revenue from the mineral sector.

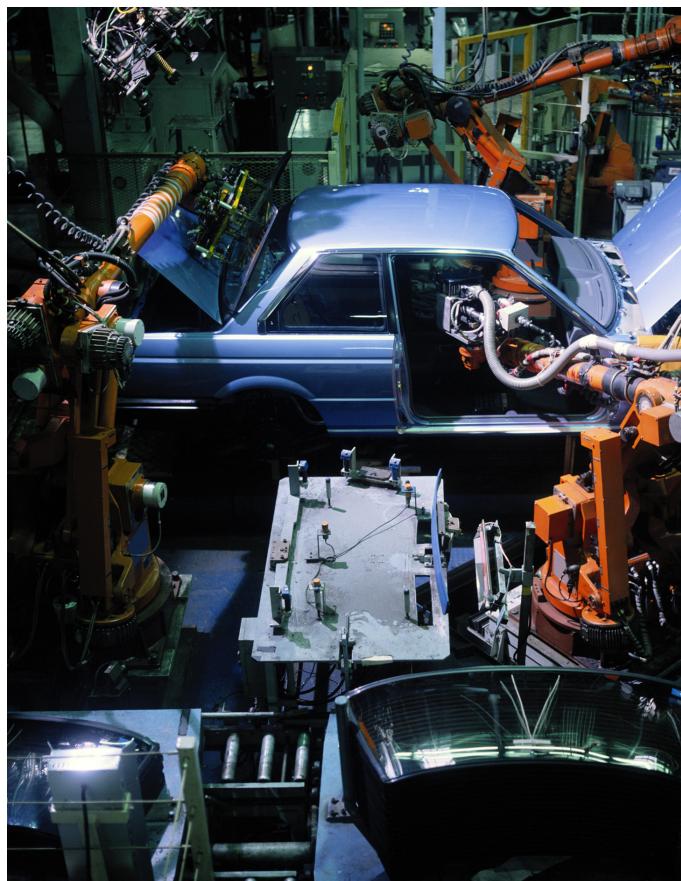
B) Value Added Tax

Industrialisation promoted for prosperity

The Minister has proposed VAT exemption on procurement and importation of capital goods, used in production of edible oil, textiles, leather and pharmaceutical (including veterinary) products. The exemption granted by the government, is to promote investments in small and medium scale industries. This will reduce the outlay on the purchase of machines and plant used in production. However the specific capital goods will be identified in the Finance Bill with the HS Code.

Logistic companies' cry is finally heard!

The minister has proposed to re-introduce zero rating of VAT on ancillary transport services, in relation to goods in transit. The VAT Act, 2014, that came into effect in July 2015, subjected ancillary transport services the standard rate of 18%. As a result, shipping goods through the Tanzania port became costly leading to loss of business as traffic was routed to other ports.



The government has at last heard the cry of logistic companies and zero-rated VAT on ancillary services to enhance the competitiveness of Tanzania ports.

Good news to livestock keepers

The minister has proposed to exempt from VAT locally produced compounded animal feeds, under HS Code 2309. The government aims to minimise costs incurred by livestock keepers on the purchase of such feeds to promote livestock production. This relief will promote consumption of locally produced animal products.



Chicken breeders to enjoy cheap incubation costs

The minister has proposed VAT exemption on fertilised eggs used for incubation. This measure intends to minimise costs related to incubation and promote growth of the poultry sub-sector.

C) Import duty changes

Aim towards protection of local industries!

HS Code	Item	Current Rate	Proposed Rate
1001.99.10	Wheat grain	35%	10% (for 1 year)
3402.11.00 3402.12.00 3402.19.00	Linear Alkyl Benzen Sulphuric Acid (LABSA) for soap production	10%	0% (for 1 year)
	CKD kits for motorcycles	25%	10%
1511.10.00	To extend stay of application of the EAC CET on Crude Palm Oil	0%	10% (for 1 year)
7210.41.00 7210.61.00 7210.72.00 7212.32.00 7212.50.00	Flat Rolled Products of Iron or non-alloy Steel	10%	25% or USD 250 per metric ton whichever is higher (for 1 year)
7213.10.00 7214.10.00 7214.30.00 7214.99.00 7216.21.00 7216.50.00	Steel rods and bars and hot road angles sections	10%	25% or USD 200 per metric ton whichever is higher (for 1 year)
7228.20.00	Manufacturers of leaf spring	25% or US\$ 200 per metric ton whichever is higher	0%
7209.15.00 7209.17.00 7209.25.00 7209.27.00 7209.90.00	Flat-rolled products of iron or non-alloy steel, with a width of 600 mm or more, cold rolled or cold reduced	10%	10% or USD 125 per metric ton whichever is higher
	Inputs for manufacturers of "air filters" in the region	0%	0%
2520.20.00	Gypsum Powder	0%	10% (for 1 year)
1701.99.10	Sugar for industrial use	10%	10%
8470.50.90	Electronic Fiscal Devices	10%	0%
4804.11.00 4804.21.00 4804.31.00 4804.41.00 4804.59.00 4805.12.00 4805.24.00 4805.30.00 4805.92.00 for one year	Paper products	10%	25%
	The assembly of equipment specifically designed for use by disabled persons	Various	0%
7610.90.00	Aluminium structures	0%	25%
4911.99.20	Examinations question papers and examination answer sheets		0%
	Inputs for use in the assembly and construction of ships	Various	0%



D) 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)	58	61
Imported water	58	61
Locally produced water	58	58
Locally produced fruit juices	9.5	9.0
Imported fruit juices	210	221
Beers made from local un-malted cereals	429	450
Other beers	729	765
Non-alcoholic beer (including energy drinks and non-alcoholic beverages)	534	561
Wine produced using more than 75% local grapes	202	200
Wine produced using more than 25% imported grapes	2,236	2,349
Spirits (imported)	3,315	3,481
Spirits (locally produced)	3,315	3,315
Cigarettes		
Local tobacco content of 75% cigarettes without filter tip	11.854/cigarette	12.447/cigarette
Local tobacco content of 75% cigarettes with filter tip	28.024/cigarette	29.425/cigarette
Imported cigarettes	50.7/cigarette	53.235/cigarette
Cut rag or cut filler	25,608/kg	26,888/kg
Cigar	30%	30%

E) Other Taxes

Property Tax

Introduction of property tax for unvalued properties.

Normal houses – Flat rate of TZS 10,000

Story houses – flat rate of TZS 50,000

The Motor Vehicles (The Road Traffic Act, Cap 168)

Abolishment of the Annual Motor Vehicle License Fee – paid once during the first registration. The fee to be paid through an increase of excise duty by shilling 40 per litre imposed on Petrol (PMS), Diesel (Gas AGO) and Kerosene (IK) as follows:

	Shilling per litre
Petrol (PMS)	339 to 379
Diesel (Gas AGO)	215 to 255
Kerosene (IK)	425 to 465

This is intended to compensate the loss of revenue resulting from abolition of annual Motor Vehicle License Fee

- Tax Amnesty for unpaid Annual Motor Vehicle License Fees.
- Increase of Motor Vehicle License Fee on first registration

Engine Capacity (cc)	Amount Tshs.	Percentage change
501 – 1,500	150,000 to 200,000	+ 50%
1,501 – 2,500	200,000 to 250,000	+ 50%
Above 2,501	250,000 to 300,000	+ 50%

The Local government Finance Act, CAP 290

- Reduce produce cess charged by Local government Authority

	Percentage Change
Cash crops	5% to 3%
Food crops	5% to 2%

- Produce cess should not be applied on transportation of crops less than one tonne from one local government Authority to another.

Amendments of various fees and levies imposed by Ministries, Regions and independent departments

- Abolishment of fees imposed on fertilizer
- Abolishment of standards inspection fee on cash crops such as cotton, tea, cashew nuts and coffee imposed by the Tanzania Bureau of Standards (TBS).
- Abolishment of Service Levy imposed on guest houses which are subject to Guest House Levy;
- Abolishment of levy imposed on posters that direct people to the places where public services.
- Introduction of collecting levy on posters intended for commercial purposes by Tanzania Revenue Authority.
- Abolishment of permit fees on charged on slaughter houses (does not affect slaughter and meat inspecting fees), on transportation of livestock
- Fees on establishment of pharmacies.
- Abolishment of fees imposed on livestock when they are in the market for auction; and
- Increase of the amount of fine for non-compliance with 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.

Refund of the duty on industrial sugar – The government will establish an escrow account so as to ensure timely refund of additional import duty. In the past, there has been delays in the refund of additional import duty.

The amendments are expected to improve the business environment and spur economic growth.

The changes shall be effective from 1st of July, 2017 unless otherwise stated.

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