Reimagine the possible
Budget
2018/2019

Welcome

PwC Tanzania's Budget Bulletin provides insight and analysis on the 2018/19 budget speech and other relevant materials.

We hope that you will find it insightful, and look forward to your comments.

In this bulletin

Commentary

"To build an industrial economy that will stimulate employment and sustainable welfare" was the theme for the budgets of all East African countries - consistent with the previous year. This theme also aligns with Tanzania's Vision 2025 (of being a semi-industrialized middle-income country) and the 2016/17 to 2020/21 National Five Year Development Plan (whose theme is "Nurturing Industrialization for Economic Transformation and Human Development").

In his budget speech the Minister for Finance highlighted numerous economic and social challenges, as well as opportunities and achievements. Amongst the challenges highlighted were: high levels of poverty; limited employment opportunities; continued slow growth of the agricultural sector; and a narrow tax base (with a low domestic revenue to GDP ratio (almost 15%) as compared with the Sub-Saharan African country average (17%).

Explicit acknowledgment was made of the difficult environment for business – particularly as regards multiple taxes and regulatory levies, high tax rates and unnecessary bureaucracy – and an update was given in relation to analysis undertaken by the Government during the year to identify the relevant challenges, and in particular the "Blueprint for Regulatory Reform to Improve Business Environment for Tanzania". The recommendations of this Blueprint are expected to be implemented in the financial year 2018/19.

The Minister remains bullish on both the prospects for growth, and for revenue collection. On growth, the Budget assumes real GDP growth of 7.2% for 2018 as compared to recent forecasts from the African Development Bank[1] and IMF[2] of 6.6% and 6.4% respectively. The tax revenue collection budget for 2018/19 (TZS 18,000 bn) is only a 5% increase on the 2017/18 budget (TZS 17,106 bn); however, tax revenue collections for the 10 months to April 2018 are 12% behind budget, and if one extrapolates the likely outturn for the year it appears that the 2018/19 budget will represent at least 17% growth on the 2017/18 actual outturn.

Recently, there has been significant debate in the media in relation to levels of Government debt; and more debate might be triggered given a 2018/19 target for an increased budget deficit (3.2% of GDP) as compared to 2017/18 (2.1% likely outturn) and 2016/17 (1.5% actual outturn). Whilst acknowledging that government debt has been increasing, the Minister emphasized that a debt sustainability analysis was conducted in November 2017, which confirmed the sustainability of the debt in the medium and long term.

[1] 2018 African Economic Outlook
[2] Regional Economic Outlook – April 2018

In a recent lecture in Dar es Salaam, Professor Joseph Stiglitz of Columbia University (and formerly chief economist with the World Bank) suggested that Tanzania adopt export-led manufacturing as one of a multi-pronged path towards industrialization, with a focus on improving agricultural productivity and linking manufacturing with services.

However, a necessary consequence of exports (zero-rated for VAT purposes) is that the exporter will be in a permanent VAT refund situation. The IMF and World Bank have in recent reports highlighted the importance of improving the functioning of the VAT refund system. An indication of the challenge is that collection statistics for the ten month period to April 2018 and April 2017 show transfers to refund account of only TZS 41bn and TZS 66bn respectively, as compared to TZS 501bn and TZS 439bn in the periods to April 2016 and April 2015 respectively.

A number of measures were announced that sought to assist domestic manufacturers. Importantly, in an environment of tight liquidity and a constrained consumer pocket, there was no increase in taxes on non-petroleum products the demand for which has proved particularly elastic in recent years. Petroleum taxes are a significant component of overall tax revenues (approximately 14%), but there was no change in these tax rates, which in real terms remain significantly lower than they were a decade ago.

A particularly commendable move by the Minister was the announcement of a tax amnesty (for a six month window to December 2018). Such initiatives have proved successful in a number of other jurisdictions in bringing recalcitrant taxpayers in from the cold – creating a win-win for the taxpayer, now able to formalize and correct past errors or omissions without a cost of penalties, and for the taxman, with additional revenue and potentially a wider tax base in cases of previously unregistered taxpayers. So this is certainly an opportunity to wipe the slate clean, and start afresh.

Businesses will also welcome the first steps on rationalization of regulatory levies in terms of sweeping amendments with regard to OSHA costs. However, this is just the start of the process, and expectations are high that the recommendations in the "Blueprint for Regulatory Reform to Improve Business Environment for Tanzania" will be promptly implemented and result in positive change in the business environment.

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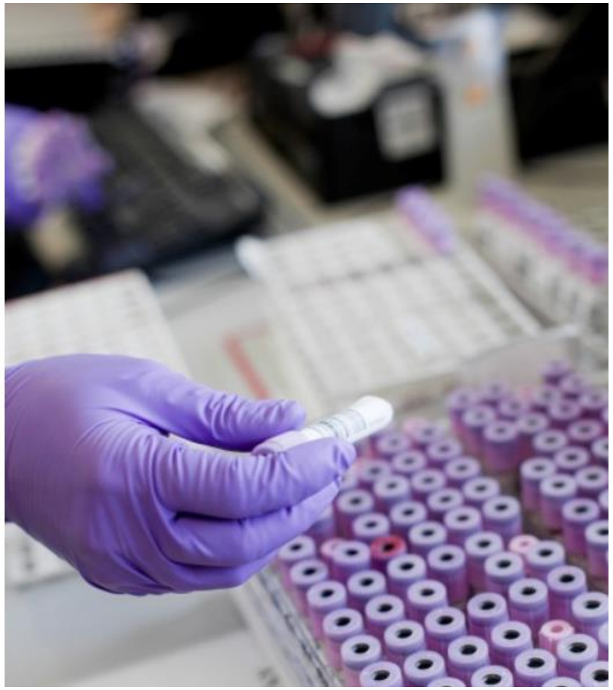
Tax Amnesty – December 2018 deadline

The Minister announced a tax full amnesty that will run for a six month period from July to December 2018. Taxes declared under the amnesty will have full remission of interest and penalties. This proposal is aimed at improving both the tax compliance and the collection of the principal tax by the Government.



Direct and payroll taxes

Income tax – Companies

Reduced Corporate Income Tax ("CIT" rate for new investors in Pharmaceutical and Leather industries)

Reduction of the CIT rate for new investors in the Pharmaceutical and Leather industries from 30% to 20% for the five (5) years from 2018/19 to 2022/23 to encourage manufacturers, increase Government revenue and foreign exchange (currently being used for importation of the products in question) and create local employment opportunities.

However, it is unclear whether the intention is to apply a reduced rate for a period of 5 years to 2022/23 or apply the reduced rate for new entrants investing between 2018/19 and 2022/23 for an indefinite period.

Whilst this is a welcome initiative, the question arises as to whether the reduced rate should not apply for a longer period – not least because of the likelihood that the manufacturers might make tax losses during the initial years particularly once tax depreciation on initial capital expenditure is considered. An alternative approach might be to apply the reduced rate to the first five years of taxable profits.

Income Tax – Exemptions

Ministerial powers to exempt Government projects financed by non-concessional loans

The Income Tax Act will be amended to empower the Minister for Finance to exempt from income tax Government projects financed by non-concessional loans.

Withholding tax exemption on interest on loans financing Government projects

Currently, withholding tax exemption applies where payment of interest is made to a resident financial institution. The Government now proposes that such an exemption be extended to non-resident financial institutions, but only in the case where the payer of interest (the borrower) is the Government.

Income Tax – Personal; Payroll Taxes

Taxation of individuals

There is no change to tax bands, tax rates or tax thresholds. The threshold for the top marginal rate of tax (TZS 720,000 per month) was last increased in 2008.

Skills and Development Levy (SDL)

Two years ago the SDL rate was reduced from 5% to 4.5%. Last year and again this year, there was an expectation that this will reduce by at least a further 1%. However, this is not the case and SDL remains at 4.5%.

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Indirect taxes

Petroleum Taxes – no change

Excise duty, Road Toll and Petroleum levy remain unchanged.

Excise Duty

5% increase on imported non-petroleum products

Fixed tariffs on locally produced non-petroleum excisable products including alcohol, soft drinks and tobacco remain unchanged. However, excise duty rates relating to imported non-petroleum products will be subject to an increase of 5% as indicated on Appendix 1.

Electronic Tax Stamp

An Electronic Tax Stamp will replace the Paper Tax Stamp effective from 1 September 2018. The objective is to enable the Government obtain production data from the manufacturers in real time. However, manufacturers have expressed concerns over the cost implications.

Value Added Tax (VAT)

Extension of Minister's powers to approve VAT exemption on supplies made to Government projects

Changes proposed include:

- Extension of Ministerial powers to grant VAT exemption on Government projects that are funded by non-concessional loans.
- Grant of powers to Minister to grant VAT exemption when there is an agreement signed between the Government and a Financial institution or bank that is representing another Government.

Our observation

Originally, the Minister had powers to grant VAT exemptions on the imports by the Government entity or supply to a Government entity of goods or services to be used solely for relief of natural calamity or disaster. Then an amendment was made in September 2017 through the Written Laws Miscellaneous amendment (No. 3) Act of 2017 to extend the powers to grant exemptions relating to Government projects funded by concessional loans.

In the spirit of reducing cost to the Government, both the September 2017 amendments and the current proposed amendments are giving additional powers to the Minister to grant exemptions on imports by a Government entity or supply to a Government entity of goods or services to be used solely for implementation of Government projects regardless of how the said project is funded (i.e. whether by the Government; or by a concessional loan; or by a non – concessional loan; or by a bank or a financial institution representing another Government)

The intention of these amendments is to reduce costs on the Government projects and ensure timely completion of projects. Whilst the mechanics of exemption are straightforward on imports, the position is more complicated for local supplies. This is because the law restricts any input VAT incurred in making exempt supplies, the objective may not be achieved in the case of local supplies as the cost to these projects may not necessarily go down, unless the supply is zero-rated (instead of exempt) or the "special relief" concept is reintroduced.

New Exemptions

- Packaging materials produced specifically for use by the local manufacturers of Pharmaceutical products. These materials must be printed or labelled with the name of the local pharmaceutical company in order to control abuse; This measure is aimed at reducing production costs and protecting local pharmaceutical industries.
- Imported animal and poultry feeds additives. This measure is intended to reduce costs incurred by livestock keepers and increase the contribution of the sector to the economy.
- Sanitary Pads (HS Code 9619.00.10). The aim is to ensure that this product is available and affordable to women and girls, particularly school girls and those in the village.

Customs Duty – CET changes

Decrease and remission of customs duty rates

1. Granting duty remission on papers used to manufacture exercise books and text books and apply a duty rate of 15% instead of 25%. This involves papers falling under Hs Codes 4804.11.00; 4804.21.00; 4804.31.00; and 4804.41.00. The measure will apply only to the manufacturers of exercise books and text books. The aim is for these final products to be made available at affordable prices particularly to school children.

2. Granting duty remission on papers used as raw materials for the manufacturing of Gypsum Board and apply a duty rate of 0% instead of 10% for one year. The paper falls under HS Code 4805.92.00. This measure is intended to promote local manufacturing of Gypsum Boards, employment and increase Government revenues.

3. Granting duty remission and apply a duty rate of 10% instead of 25% on Self Adhesive Label (HS Code 4821.10.90) for one year. The aim of this measure is to promote competitiveness of domestic industries by lowering their production costs and create employment.

4. Granting duty remission and apply a duty rate of 0% instead of 25% on Printed Aluminium Barrier Laminates (ABL) HS Code 3920.10.90 for one year. The objective of this measure is to reduce production costs and promote competiveness of domestic industries producing toothpaste. It is also intended to promote employment.

5. Reducing the duty rate of PolyVinyl Alcohol (HS Code 3905.30.00) from 10% to 0% in the EAC-CET. The product is a raw material for manufacturing of paints.

6. Granting duty remission at 0% on inputs used to manufacturer of pesticides, fungicides, insecticides, and caricides as approved by the relevant authorities. The measure will promote investment in the local production of these important inputs which are required for improvement of agricultural production.

7. Granting duty remission and apply a duty rate of 0% instead of 10% for one year on RBD Palm stearin (HS Code 1511.90.40). This measure is intended to ensure availability of RBD for stand alone soap industries. It also takes into account the Government decision to impose an import duty of 25% on crude palm oil.

8. Provision of duty remission on a selected list of raw materials and industrial inputs for the manufacturer of textiles and foot wear. This list has already been submitted to the Secretariat by the EAC Partner States to facilitate gazetting and implementation during the year 2018/19. This measure is aimed at accelerating the industrialisation process in the textile and leather sector and creating employment opportunities

Stay of duty

1. Continue to grant duty remission and apply an import duty of 10% instead of 35% on wheat grain falling under HS Code 1001.99.10 and 1001.99.90 for one year. The measure takes into account that there is no adequate capacity in the EAC region to produce wheat and satisfy the demand.

2. Continue to grant stay of application of EAC-CET on Electronic Fiscal Devices (EFD's) used to collect Government revenues (HS Code 8470.50.00) and apply duty rate of 0% instead of 10% for one year. The objective of this measure is to continue encouraging the taxpayers to use EFD Machines for accounting of VAT and efficient management control in areas of sales analysis and stock control.

3. Continue to grant stay of application of EAC-CET rate on Gypsum Powder falling under HS Code 2520.20.00 and apply a duty rate of 10% instead of 0% for one year. This measure is intended to protect local producers and promote production of Gypsum Powder by using locally available raw materials.

4. Grant stay of application of the EAC-CET rate of 0% and apply a duty rate of 25% on Crude Palm Oil (HS Code 1511.10.00) for one year. This measure is intended to promote local production of oil seeds and edible oil taking into account the available opportunities to increase its production. Furthermore, it is expected to increase employment both in the agricultural and industrial sector.

Customs Duty – CET changes

Stay of duty

5. Grant stay of application of EAC-CET rate of 0% or 10% and apply a duty rate of 25% on crude edible oils (for example sunflower oil, palm oil, groundnuts oil, olive oil, maize corn oil etc.) for one year. The objective of this measure is to promote the production of edible oils by using locally produced seeds. It is also intended to protect domestic producers and create both employment and income to the farmers.

6. Grant stay of application of EAC-CET rate of 25% and apply a duty rate of 35% for one year on Semi-refined and refined/double refined edible oil (for example sunflower oil, palm oil, groundnuts oil, olive oil, maize corn oil etc.). This measure is intended to promote the processing of edible oils in the country using locally grown seeds and save foreign exchange used in the importation of edible oil.

7. Grant stay of application of EAC-CET and instead apply a duty rate of 25% or USD 350 per metric ton whichever is higher for one year on nails, tacks, drawing pins, corrugated nails staples (HS Code 7317.00.00) other than those of heading 83.05 and similar articles of iron or steel, whether or not with heads of other materials. The objective of this measure is to protect local producers of these products against imported cheap products.

8. Grant stay of application on EAC-CET and apply a duty rate of 25% or USD 1.35 per kilogram of safety matches whichever is higher for one year (HS Code 3605.00.00). The measure is aimed at protecting the local industries in the region.

9. Grant stay of application of EAC-CET on potatoes and apply a duty rate of 35% instead of 25% for one year (HS Code 0701.90.00). This measure is intended to protect Local production of potatoes.

10. Grant stay of application of EAC-CET on chewing gum (HS Code 1704.10.0) and apply a duty rate of 35% instead of 25% for one year. The objective of this measure is to protect local production of the products because there is sufficient capacity to produce in the region.

11. Grant stay of application of EAC-CET on other sugar confectionary (sweets), (HS Code 1704.90.00) and apply a duty rate of 35% instead of 25% for one year. The measure is intended to protect local producers of the product.

12. Grant stay of application of EAC-CET on chocolates (HS Code 18.06) and apply a duty rate of 35% instead of 25% for one year. The measure is taken because there is sufficient capacity to manufacture the product in the region.

13. Grant stay of application of EAC-CET on Biscuits (HS Code 19.05) and apply a duty rate of 35% instead of 25% for one year. This measure is also aimed at protecting local producers of the product since.

14. Grant stay of application of EAC-CET on tomato sauce (HS Code 2103.20.00) and apply a duty rate of 35% instead of 25% for one year. The measure is intended to protect local producers of the product as there is sufficient capacity to produce in the region.

15. Grant stay of application of EAC-CET on mineral water (HS Code 2201.10.00) and apply a duty rate of 60% instead of 25% for one year. There is sufficient capacity to produce this type of water in the country and therefore there is a need to protect the local industries.

16. Grant stay of application of EAC-CET on meat and edible offal under chapter 12 and apply a duty rate of 35% instead of 25% for one year. This measure is intended to promote local processing and value addition on meat. It is also expected that the measure will create employment opportunities in the Livestock and industrial sector.

17. Grant stay of application of EAC-CET on Sausages and similar products (HS Code 1601.00.00) and apply a duty rate of 35% instead of 25% for one year. This measure is also intended to protect domestic industries which produce similar products in the region.

Increase of duty

1. To impose import duty of 35% (instead of 25%) on sugar (consumption sugar) that is imported under specific arrangements to cover the shortage in the domestic market.

Customs Duty – EACCMA 2004 changes

Tourism and leisure

- Amendment of the schedule to provide import duty exemption on various types of motor vehicles for transportation of tourists. These include Motor Cars, Sight Seeing buses and overland trucks which are imported by licensed tour operators and must meet specific conditions. The objective of this measure is to promote investments in the tourism sector, improve services, create employment and increase Government revenue and;
- Amendment of item 9 of part A to the Schedule which provides import duty exemption on rally cars and include motorcycles for rally for them to also be granted exemption. This has an intention to promote motorcycles sports and tourism in the region.

Miscellaneous amendments

- Splitting Hs Code 8903.99.00 to provide for Common External Tariff of 0% for Motor Boat Ambulance under HS Code 8903.99.10. This measure is intended to reduce costs related to services provided by Motor Boat Ambulance.

Local Government Finance Act, CAP 290

The Minister is proposing to amend the Local Government Finance Act as below;

- Amend Section 37A to give powers to the Minister responsible for local Government to direct the Local Authorities to set aside 10% of all monies collected from their own sources of revenue for the purpose of funding registered Women and Youths groups within their jurisdiction. The money set aside should be shared equally (50% each) between women and youth groups as interest free loans.
- Introduce Section 16(7) to (a) Exempt from Produce Cess a Corporate entity that processes agricultural products by value adding; and (b) Require any Corporate entity which produces agricultural crops without processing them for the purpose of adding value to pay Produce Cess. The former Corporate entity will only pay service levy of 0.3%.
- Make an amendment in this Act together with the Public Finance Act and the Bank of Tanzania Act in order to introduce a Treasury Single Account to be used for collection and payment of Government funds. The aim is to ensure effective control and management of Government resources.

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Gaming tax

The Government has proposed changes in the gaming tax rates as summarised in the table below:

Tax base	Old Rate	New Rate
Sports betting operations	6% on stakes (sales)	10% on stakes (sales)
Tax per machine/ slot	TZS 32,000 per month	TZS 100,000 per month
For land based casinos	15% on gross gaming revenue	18% on gross gaming revenue
Forty machine sites	15% on gross gaming revenue	20% on gross gaming revenue

Removal of various fees and levies

Land rent

- Exemption of land rent to the Government agencies/ institutions.

OSHA fees and levies

In order to improve the business and investment environment, the following will be abolished:

- Fees imposed on application form for registration of working places;
- Levy imposed on the registration of working places;
- Fines related to fire and rescue equipment;
- OSHA compliance license of TZS 500,000; and
- Consultancy fees of TZS 450,000.

Salt sub-sector

The aim of the changes listed below is to reduce production costs and encourage investors in this sub-sector.

- Abolishment of:
  - produce cess;
  - 1% inspection and clearance fees;
  - mangrove levy (TZS 100/ hctr/ year);
  - fees for reviewing salt project concept paper charged by NEMC;
  - fees imposed on solar salt panel;
  - supervision fee on salt mining centres charged by TFSA;
  - registration fee for salt mining centre; and
  - environment impact assessment fee imposed by NEMC.
- Reduction of:
  - OSHA levy from TZS 2 million to TZS 1 million; and
  - application fee for export permit of minerals from USD 100 to TZS 20,000 per annum.

Appendix 1

New Excise Duty rates

Goods	Old Rate TZS		New Rate TZS	
	Imported	Locally produced	Imported	Locally produced
Soft drinks (non-alcoholic beverages, not including fruit or vegetable juices)	61 per ltr	61 per ltr	61 per ltr	61 per ltr
Water including mineral waters containing added sugar or other matter of flavor	61 per ltr	58 per ltr	64.05 per ltr	58 per ltr
Fruit juice	221 per ltr	9 per ltr	232 per ltr	9 per ltr
Beers	765 per ltr	450 per ltr	803.25 per ltr	450 per ltr
Non-alcoholic beer (including energy drinks and non-alcoholic beverages)	561 per ltr	561 per ltr	589.05 per ltr	561 per ltr
Wine produced with domestic fruits (such as banana, rozera, tomato, etc.) other than grapes with content exceeding 75 percent	-	-	-	200 per ltr
Wine produced with domestic grapes content exceeding 75 percent	-	200 per ltr	-	200 per ltr
Wine produced with more than 25 percent imported grapes	-	2,349 per ltr	-	2,466 per ltr
Spirits	3,481 per ltr	3,315 per ltr	3,655.05 per ltr	3,315 per ltr

New Excise Duty rates

Goods	Old Rate TZS		New Rate TZS	
	Imported	Locally produced	Imported	Locally produced
Cigarettes with filter tip and containing domestic tobacco more than 75 percent	-	12,447 per thousand cigarettes	-	12,447 per thousand cigarettes
Cigarettes with filter tip and containing domestic tobacco more than 75 percent	-	29,425 per thousand cigarettes	-	29,425 per thousand cigarettes
Cut rag or cut filler	26,888 per kilogram	-	28,232.4 per kilogram	-
Cigar	30%	30%	30%	30%
Other cigarettes	53,235 per thousand cigarettes	53,235 per thousand cigarettes	55,896.75 per thousand cigarettes	55,896.75 per thousand cigarettes

The Economy

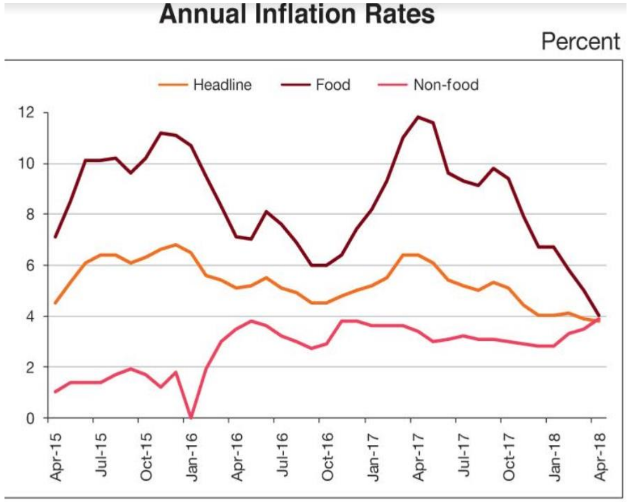
Real GDP – Tanzania

The economy of Tanzania has continued to register high economic growth with average real GDP growth rate in 2017 of 7.1%, compared to 7.0% in 2016 – driven by strong growth in information and technology; transportation and storage, mining and quarrying; and manufacturing.

Sector	Actual	Budget	Movement
Agriculture	2.1%	2.9%	↓
Trade and Maintenance	6.7%	7.8%	↓
Food and Accommodation	3.7%	8.0%	↓
Administrative services	2.1%	6.3%	↓
Information and Technology	13.0%	12.1%	↑
Transportation and Storage	11.8%	8.0%	↑
Mining and Quarrying	11.5%	9.2%	↑
Manufacturing	7.8%	6.7%	↑

Inflation – Tanzania

In 2017, the inflation trend was relatively stable, averaged 5.3% compared to 5.2% in 2016. The stability is largely attributed to: improved availability of food in the country, stable energy prices especially the fuel prices both in the domestic market and overseas and also effective implementation of fiscal and monetary policies. Furthermore, the inflation trend continued to drop in the final months of the fiscal year i.e. 5.2% in January 2017 down to 4.0% in December 2017. In addition, between January and April 2018, inflation steadily decreased from 4.0% to 3.8%.



Source: National Bureau of Statistics

Interest Rates – Tanzania

During 2017, annual interest rates increased with annual interest rates on loans reaching an average rate of 18.2%, up from an average rate of 15.66% in 2016 . Interest rates for time deposits increased to an average of 9.62% in 2017, up from an average of 8.78% in 2016. In addition, interest rates for one year deposits declined to an average of 10.86%, down from an average of 11.03% in 2016.

Likewise, interest rates for loans of up to one year increased to an average of 18.24% from an average of 12.87% in 2016. This trend was driven by an increase in non-performing loans and contraction of credit expansion. Furthermore, in December 2017 interest rates in the interbank market exchange declined to an average of 3.26% compared to 13.49% in 2016. Interest rates on Government securities also fell to an average of 8.19% in December 2017 from 15.12% recorded during December 2016.

Regional Economic Performance

Real GDP – EAC

The East African Community (EAC) recorded an increase in economic growth of 1.9% with Tanzania recording the highest growth, followed by Rwanda which recorded growth of 6.1%. Kenya recorded economic growth of 4.8%, Uganda 4.5% and Burundi 0.0%. Additionally, South Sudan's economic growth declined by 11%. The economies of the EAC member states are expected to grow by an average of 3.8% in 2018.

The EAC member states have also resolved to implement massive strategic regional projects geared to improve regional infrastructure such as the construction of an oil pipeline from Uganda to Tanzania and construction of SGR that will connect Tanzania, Burundi, Rwanda, Uganda and Congo DRC.

Inflation – EAC

Inflation rates in EAC member countries have generally remained at single digit levels during 2017 with the exception of Burundi which averaged 13.1%. The average inflation rate for Uganda was 5.0%, 5.1% for Tanzania, 6.6% for Rwanda, and 7.3% for Kenya. This outcome was attributed to strong food supply and stable energy prices.

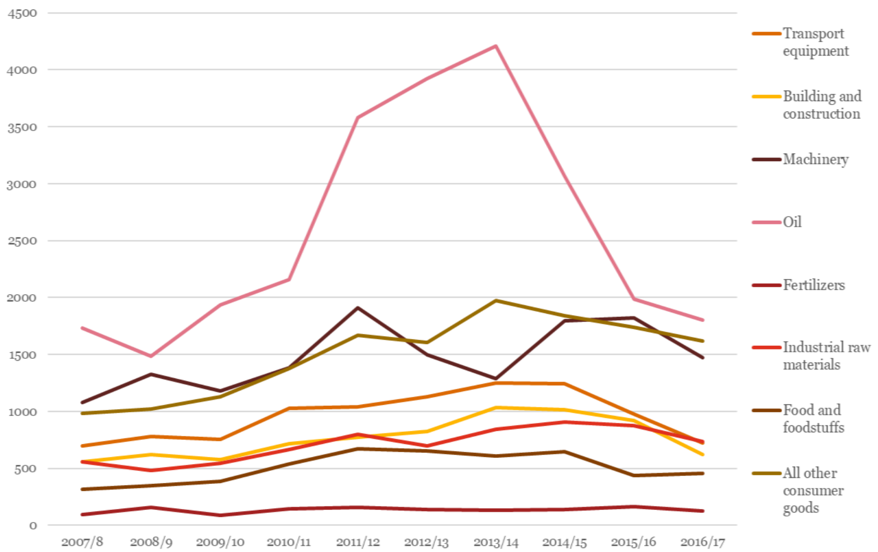
External Trade

The balance of services recorded a surplus of USD 1,909.7 million, equivalent to an increase of 38.8%. This increase was mainly attributed to increase in receipts from services such as transportation. Furthermore, receipts on services increased to USD 3,927.6 million from USD 3,607.5 million recorded in 2016.

The current account deficit which covers trade in goods, services, income and transfer payments narrowed by 43.8% in 2017, recording a deficit of USD 1,210.5 million compared to a deficit of USD 2,154.6 million recorded in 2016.

The overall balance of payments in 2017 recorded a surplus of USD 1,649.5 million compared to a surplus of USD 305.5 million in 2016. The increased surplus in balance of payments was mainly a result of a decrease in current account deficit and increase in the disbursements of loans and grants for development projects.

Trend of Imports by major categories (millions of USD)



Tanzania Exports by Commodity Types (in Millions of USD)

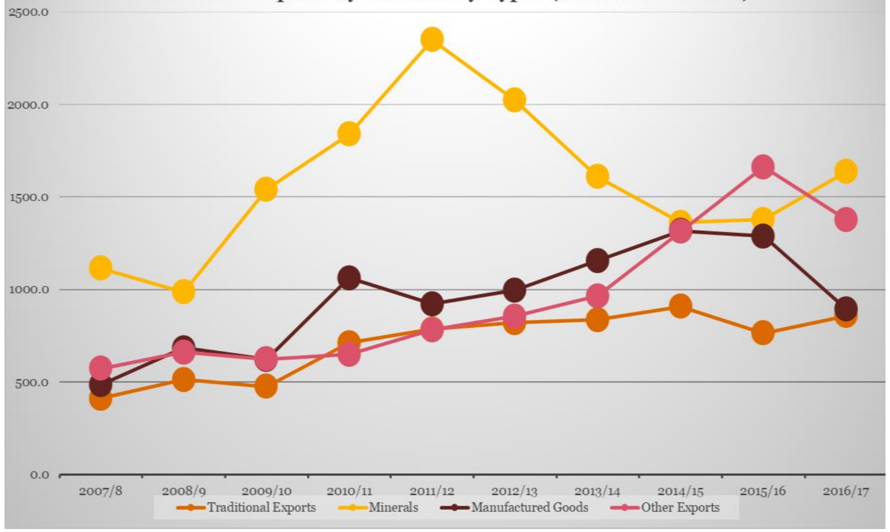
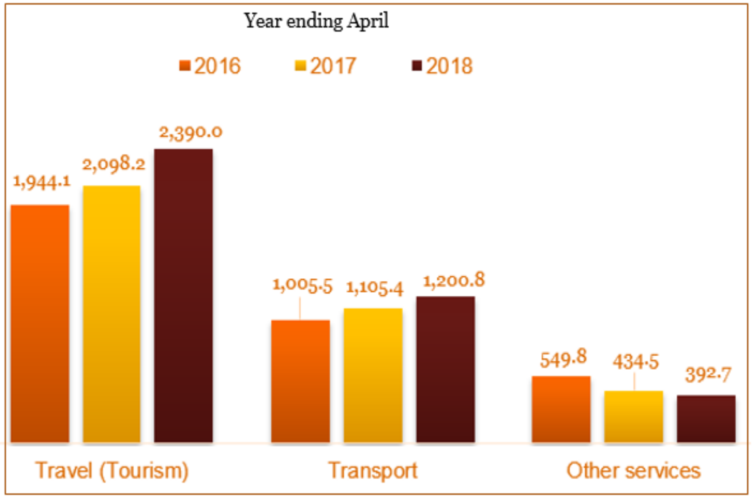


Chart 4.1: Services Receipts

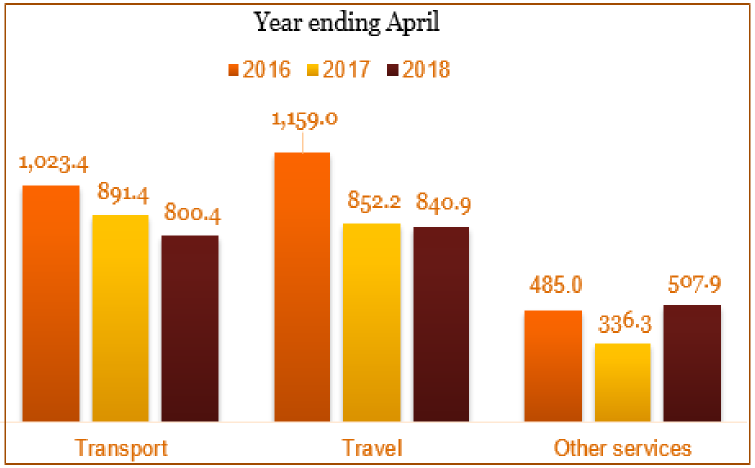
Millions of USD



Source: Bank of Tanzania and commercial banks

Chart 4.2: Services Payments

Millions of USD



Source: Bank of Tanzania and commercial banks

Past performance 2017/2018

Revenue/ Collections

Total resources mobilized during the period between July 2017 and April 2018 amounted to TZS 21.89 trillion, equivalent to 69.0% of annual target of TZS 31.71 trillion. These were mobilized from the following sources:

- Tax revenue amounted to TZS 12.61 trillion, equivalent to 73.7% of the annual target of TZS 17.11 trillion;
- Non tax amounted to TZS 1.79 trillion, equivalent to 82.1% of the annual target of TZS 2.18 trillion;
- LGAs own source was TZS 437.6 billion, equivalent to 63.7% of the annual target of collecting TZS 687 billion;
- Loans from domestic sources were TZS 4.96 trillion, equivalent to 80.4% of annual target of TZS 6.17 trillion;
- Non-concessional loans from external sources were TZS 1.35 trillion, equivalent to 84.4% of annual target of TZS 1.6 trillion; and
- Disbursement of grants and external concessional loans were TZS 1.87 trillion, equivalent to 47.1% of the annual Development Partners' commitment of TZS 3.97 trillion for the 2017/18 budget.

Additionally, in May 2018, the Government secured non-concessional loan of TZS 1.13 trillion

Expenditure

Development expenditure

During the period ending April 2018, the Government released TZS 21.68 trillion to Ministries, Independent Departments, Regional Secretariats, and Local Government Authorities equivalent to 68.4% of the annual target of TZS 31.71 trillion. Out of this, TZS 16.56 trillion was for recurrent expenditure, equivalent to 84.0% of the annual target of TZS 19.71 trillion while TZS 5.12 trillion was for development expenditure, equivalent to 42.7% of the annual target of TZS 12.0 trillion. The amount released for development projects includes TZS 4.35 trillion local funds and TZS 775.8 billion foreign funds. However, part of foreign funds earmarked for development were not captured in expenditure mainly due to a time lag in accounting for the actual value of the funds directly disbursed to projects since some of the Development Partners continue to operate this item outside the Government exchequer system.

Some of the areas accorded priority in the release of development funds during the period under review include:

Area	Priority Focus Areas that received development funds	Allocation TZS 'bn
Health	Construction and rehabilitation of district health centres and regional hospital	83.1
Health	Procurement of medicines, medical equipment and reagents	125.7
Water	Implementation of urban and rural water projects	156.1
Energy	Rural energy projects, geothermal power, generation of electricity from various sources and distribution of natural gas	409.9
Education	Fee-free basic education and granting loans to higher education students	618.0
Payment of arrears	Employees, suppliers, contractors and service providers	1,170
Infrastructure	Construction of rural and urban roads, railways, airports and ports	1,870

The 2018/2019 Budget Objectives and Targets

Macroeconomic policy

Based on macroeconomic objectives and targets, priority for 2018/19 will be on: flagship projects; interventions for fostering human development; and interventions to create conducive environment for investment and business as highlighted in the National Development Plan 2018/19. These projects are expected to deliver higher multiplier effects as envisaged in Tanzania Development Vision 2025 and the plan itself.

In this regard, the focus will be on the following priority areas:

- ***Agriculture:*** improving and strengthening irrigation infrastructure, warehouses and markets, supply of agricultural inputs, extension services, researches and dissemination of findings and development of livestock and fisheries sub sectors
- ***Industries:*** blueprint for regulatory reform to improve business environment for Tanzania
- ***Social services:*** clean water; fee-free basic education; improved health facilities and supplies; special group needs (women, youth, children disabled and the elderly)
- ***Supportive infrastructure:*** electricity generation; construction of new central railway line to standard gauge; improving regional and rural road connectivity; air and marine transport
- ***Others:*** land acquisition and ownership; communication services; finance; tourism; defence and security; good governance; and justice.

Revenue policies for 2018/19

The Government is committed to increase and strengthen domestic revenue collections by pursuing the following policies:

- Continue to widen the tax base including formalization of the informal sector to capture it into the tax net and improving investment environment to foster new sources of revenue;
- Enable conducive environment (supportive infrastructure, tax incentives, consistent and predictable policy, land accessibility, legal and regulatory frameworks) to attract business and investment;
- Implement “Blueprint for Regulatory Reform to Improve Business Environment for Tanzania” for simplification of payment of taxes and elimination of bureaucracies;
- Continue connecting MDAs with the Government Electronic Payment Gateway System (GePG) to improve revenue collection and contain revenue leakages;
- Improve relationship between TRA and taxpayers based on trust;
- Increase LGAs own sources of revenue through development of industries and markets.

Strengthening Cooperation with Development Partners

Grants and concessional loans have declined from an average of 26.3% in 2010/11 to 10.4% in 2016/17.

Implement the Framework for Development Cooperation endorsed by GoT in 2017 to improve sustainable development and disbursements of loans and grants.

Expenditure policies for 2018/19

In 2018/19, the Government will continue to allocate funds in priority areas to ensure effective implementation of the Annual Development Plan (ADP). The Government will sustain financial discipline in order to realize the value for money. In implementing this initiative, the Government will carry out the following:

- Ensure that the budget deficit does not exceed 3.2% of GDP;
- Allocated funds to priority areas and productivity in order to stimulate growth in agriculture and industries, widen job creation opportunities, construct and improve economic infrastructure, and strengthen the provision of quality social services;
- Ensured discipline in the use of public funds and continue to reduce unnecessary expenditure;
- Control accumulation of arrears.

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Summary of past performance

Collections by Department	Total			Variance	
10 months to April 2018	2016/17	2017/18	2017/18	2017/18	2017/18
	Actual	Budget	Actual	Prior Yr	Budget
	Shs'bn	Shs'bn	Shs'bn	%	%
Taxes on fuel	1,617	2,062	1,770	9%	-14%
Other taxes on imports	3,149	3,887	3,300	5%	-15%
Customs & Excise	4,766	5,949	5,070	6%	-15%
Large Taxpayer Dept	4,580	5,497	4,905	7%	-11%
Domestic Revenue Dept	2,374	2,916	2,658	12%	-9%
	11,720	14,363	12,634	8%	-12%
Add: Treasury Vouchers	20	49	20	0%	-60%
Less: Transfers to refunds A/C	(66)	(132)	(41)	-38%	-69%
Less: VETA	-	-	-	-	-
	11,674	**14,280**	**12,613**	8%	-12%

Summary of projected budget revenue

		2018/19 12 month Budget TZS 'bn	2017/2018 12 month Budget TZS 'bn	Increase
Domestic Revenue:				
	Tax Revenue - TRA	18,000	17,106	5%
	Non Tax Revenue	2,159	2,183	-1%
		20,159	19,289	5%
Local Government Authorities (LGA) own source		736	687	7%
Domestic Revenue + LGA		**20,895**	**19,976**	5%
General budget support		546	941	-42%
Foreign loans and grants (incl. MCA(T))		2,005	3,030	-34%
Domestic borrowings		126	6,169	-98%
Non-concessional borrowings		8,905	1,595	458%
Total revenue		**32,476**	**31,712**	2%

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