Growing tomorrow's economy

National Budget 2012/2013

Commentary

In his maiden speech as Minister for Finance, the Honourable Dr William Mgimwa, set out the objectives and targets of this year's budget as including: an increased GDP growth rate (6.8% from 6.4%), improved economic infrastructure (in particular, electricity and transport infrastructure) and access to financial services, reduced inflation (targeting single digits), a stable exchange rate, increased credit to the private sector, adequate foreign exchange cover, strengthened public private partnership arrangements, and improved business environment for small and medium sized enterprises.

Also mentioned was the intention to increase domestic revenues to TZS 8,715bn representing 18% of GDP compared to an anticipated 16.9% for the year to June 2012. If one compares the budgeted 2012/13 revenues to a 12 month extrapolation of the 9 month results to March 2012, it does indicate an assumption that tax revenues will rise by around 27% (to TZS 8,070bn) and non-tax revenues by around 78% (to TZS 645bn). The target is a challenging one.

Where are these extra revenues expected to come from?

Surprisingly there were no increases in fuel taxes, which account for approximately 14% of tax collections. These taxes, which are specific tariffs (fixed shilling rates), have remained unchanged – so in inflation adjusted terms these have effectively reduced. A boost for industry is the removal of excise duty from heavy fuel oil (HFO).

The largest contributors in terms of VAT and excise collections are the telecommunication and alcohol industries. These industries together with the tobacco and carbonated soft drinks industries have been hit by significant excise duty increases.

Excise duty on airtime of 12% (up from 10%) is likely to mean a need for higher tariffs. This tax increase will add to an already significant tax burden as on top of excise duty, taxes on airtime include 18% VAT, 0.3% local taxes and 1% regulatory contributions.

Specific excise tariffs have been increased by 25% for beer and 20% for other goods (including spirits, wine, tobacco, soft drinks). The scope of excise duty is now also extended to cover fruit juices but with a higher rate to apply to imported fruit juices.

Although taxes on HFO have been removed, there is the introduction of excise duty on natural gas for industrial use – a move apparently at odds with the stated intention to control rising energy prices. On the other hand, in a move to encourage the use of gas a VAT exemption is

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introduced for certain equipment used for the storage, transportation and distribution of natural gas.

The personal income tax threshold for starting to pay tax has been increased by 26% and presumptive income tax has been removed for traders with an annual turnover less than TZS 3 million. In a move to curb food inflation, the stay of application of import duty otherwise applicable to wheat grain will continue for a further year.

For investors, areas that will be of particular focus include the reduction of reliefs for investors registered with the Tanzania Investment Centre (TIC) by way of a reduction of import duty relief on "deemed capital goods" from 100% exemption to 90%, as well as an unclear proposal to subject such goods to a 10% VAT on import (instead of the 0% special relief). The VAT proposal is unclear as for most VAT registered taxpayers the special relief is not an exemption per se but simply a mechanism to mitigate the risk of having VAT refund claims which take a significant time to process. There was reference to the removal of withholding tax on interest charged by foreign banks to "strategic investors" (typically very large scale investors registered with the TIC).

The East African Community Customs Management Act will now exempt machinery and spare parts used in mining.

The speech also included reference to the introduction of changes so as to deem a tax charge where gains arise on share transactions overseas which result in the change in effective control of local companies. This area has been one that has generated significant political debate recently – particularly, as regards the mining and energy sector. However, it is a change that has to be carefully managed and considered so as to ensure that it does not unintentionally make Tanzania an unattractive investor destination.

In many cases, the identity of the entity selling and / or the entity disposed of, and therefore the jurisdiction with taxing rights over the disposal, is driven not by tax considerations but by other factors – for example, where the ultimate parent was originally listed so as to raise funding, or where a group holding company is located if the sale is of a number of companies rather than just one.

The risk in terms of investment attractiveness arises in relation to the possibility of double taxation – as well as uncertainty (for example, how valuations will be arrived at where the underlying value of a transaction can be attributed to assets in a number of countries not just Tanzania). To understand the ramifications of this significant change, reference will need to be made to the detailed legislative wording (not yet available).

Overall, the main focus of the planned revenue increase in this year's Budget is on traditional areas of revenue generation. On the plus side, commitments were given to review VAT legislation with a view to changing it to conform to international best practice – in this regard it is understood that new VAT legislation is in the pipeline. A further commitment was also made to review the rationale and applicable rates of skills and development levy – a tax that the business sector has consistently criticised as a tax that discourages employment.

Notwithstanding the tax increases made, the major question that remains is whether the planned increase in revenues is achievable.

The Economy

Economic growth of 6.4% as compared to 7% in 2011.

Annual inflation rate was 18.7%

By March 2012, Total Domestic Revenue collected was TZS 5,180.6 billion, 2012/13 projections for Domestic Revenue is Tsh 8,714.7 billion.

Annual per capita income increased by 12.8% from TZS 770,464 in 2010 to TZS 869,436 in 2011

Highlights based on speeches by the Minister of Finance and Economic Affairs on 14th June 2012.

Past Performance 2011/12

The economy of Tanzania is estimated to have attained real GDP growth of 6.4% during year 2011 compared with the growth rate of 7% attained in year 2010.

Annual per capita income increased by 12.8% to TZS 869,436.3 compared to TZS 770,464.3 in 2010.

The slowdown in growth is largely attributed to drought conditions in some parts of the country which adversely affected agricultural production. Electricity outage contributed to low performance in manufacturing and other economic activities that rely on electricity. Despite the slowdown in overall growth, communication, financial intermediation, construction and the education sub-sector recorded higher growth rates ranging between 6% and 19%.

The annual inflation rate was 18.7% in April 2012 compared to 8.6% in April 2011. For 2011/12 domestic revenue collection was projected at TZS 6,776 billion equivalent to 17.2% of GDP. In 2011/12, the Government planned to collect TZS 5,217.2 billion in domestic revenue. Total domestic revenue collected to end of March 2012 was TZS 5,180.6 billion, which represents a shortfall of TZS 36.6 billion, compared to the target for the period. For 2012/13 domestic revenue collection has been projected at TZS 8,714.7 billion.

Challenges ahead

Despite some achievements in economic growth and revenue collection some challenges remain. These include:

- Availability of reliable electricity supply;
- Increase in world market oil prices;
- Food shortages in some parts of the country; and
- Increase in prices of goods and services.

Budget Objectives 2012/13

The 2012/13 budget takes into account the objectives of the National Development Vision 2025, MKUKUTA II, and the Millennium Development Goals (MDGs), as well as priorities outlined in the budget guidelines 2012/13.

The 2012/13 Budget Framework

The 2012/13 budget sets out the following targets:

- To achieve GDP growth rate of 6.8% in 2012 and continue to grow to 8.5% by 2016;
- To reduce the inflation rate and to maintain it as a single digit in the medium term;

- To maintain annual growth rate of M3 to the tune of 18% by June 2013 consistent with GDP growth and inflation targets;
- To increase domestic revenue as a ratio of GDP to 18.0% in 2012/13 from the likely outturn of 16.9% in June 2012;
- To maintain market-determined exchange rates;
- To reduce the interest rate spread;
- To increase the ratio of export of goods up to 24.3% of GDP in 2012/13 from the current figure of 23.1% of GDP projected for 2011/12;
- To increase the growth of credit to the private sector to 20% by June 2013; and
- To maintain adequate official foreign reserves sufficient to cover a minimum estimate of 4.5 months worth of imports of goods and non-factor services.

Revenue

The budget policy measures on revenue are focused on domestic revenue collection. For 2012/13 domestic revenue collection is projected at TZS 8,714.7 billion, equivalent to 18% of GDP. The specific details of the revenue enhancing measures are set out in our highlights of tax changes.

In total, the budget revenues will be as follows:

Revenue	TZS bn
Domestic Revenue	8,714.7
Grants and Loans	2,314.2
Domestic borrowing	1,632
LGA collections	362.2
General Budget Support	842.5
Non-Concessional borrowing	1,254.1
Total Revenue	**15,119.6**

The Government will undertake coping strategies including working to reduce dependency by improving revenue collection especially non-tax revenue, reducing unnecessary expenditure, continued formalization of the informal sector, fast-tracking the sovereign rating process and strengthening the disaster preparedness and surveillance system.

Expenditure

The Government is proposing to spend TZS 15,119.6 billion in 2012/13 as follows:

Expenditure	TZS bn
Recurrent	10,592
Development	4,528
Total Expenditure	**15,119.6**

Recurrent Government expenditure in 2012/2013 will focus on:

- Financing the payments of: salaries, domestic and external debts services; higher education students loans; primary and secondary schools examinations; procurement and distribution of medicines; requirements of the Constitution Review Commission; maintenance of Government assets; purchase of food for national reserve.
- Setting aside TZS 30 billion for the Tanzania Investment Bank; TZS 40 billion for the Agricultural Development Bank thereby increasing its capital to TZS 7.5 billion. This has been allocated to revive the compulsory National Service, whereby in the first phase 5,00be recruited. In addition, to youths are expected to he Government has allocated a total of TZS 70.7 billion for recurrent and development expenditure for newly established Regions, Districts and Councils.

Development Government expenditure in 2012/2013 will focus on:

- Strengthening and developing agriculture, fisheries and livestock;
- Improving infrastructural facilities in electricity, clean and safe water, ICT and transportation;
- Industrial development;
- Human resources and social services development;
- Tourism; and
- Financial services.

Credit and Money Supply

During the year ending March 2012, the growth of M3 increased by Tsh. 1,767.6 billion, equivalent to 15.7%. The growth of M3 was below the target of 21.3% by December 2011 and 23.8% by March 2012. Extended broad money supply (M2) grew by 15% equivalent to an increase of TZS 1,205.8 billion in December 2011, compared to the increase of TZS 1,438.7 billion in December 2010. The growth of M2 was 14.8% in March 2012 equivalent to an increase of TZS 1,211.8 billion. The slowdown in the growth of the money supply contributed to the slowdown in Net Foreign Assets (NFA) of the banking system compared to the growth of credit to the private sector.

Balance of Trade

On an annual basis, imports of goods and services amounted to US$ 11,992.3 million in 2011 compared with US$ 9,017.9 million in the previous year. The value of exports rose to US$ 6,796.3 million in 2011 from US$5,805 million recorded during the previous year. This increase resulted from an increase in traditional exports (coffee, tobacco, cloves and cashew nuts) and non-traditional exports particularly minerals and higher income from tourism and transportation services. The value of goods and services imported increased by 33% from USD 9,017.9 million in 2010 to USD 11,992.3 million in 2011. This was due to the increase in imports of oil and machinery for generating electricity.

At the end of December 2011, foreign currency reserves stood at USD 3,761.2 million compared to USD 3,948.0 million during the same period in 2010, equivalent to a decrease of 4.7%. This amount of foreign reserves in 2011 was sufficient to cover 3.8 months of import of goods and services compared with 5.3 months in 2010.

Sector policies and programmes to support budget initiatives

Agriculture, Livestock, Forestry and Hunting

The agriculture sector grew by 3.6% in 2011 compared to 4.2% in 2010. The decrease in growth rate was due to inadequate rains during the 2009/10 agricultural seasons which affected crop production. The contribution of agricultural economic activities to GDP was 23.7 % compared to 24.1 % in 2010.

Fishing

Fishing grew by 1.2% in 2011 compared to 1.5% in 2010. The decrease in growth in the fishing sub-sector was due to use of poor fishing gear, destruction of fish hatcheries and increased competition in the world market. The contribution of fishing activities to GDP was 1.4%, the same as it was in 2010.

Industry and construction

The industry and construction sector includes manufacturing, electricity and gas, water supply, mining and quarrying and construction. Industry and construction economic activities grew by 6.9% in 2011 compared to 8.2% in 2010. The decrease was due to the slowdown in growth rates of all sub-sectors. The share of industry and construction sector in GDP was 22.7% in 2011 compared to 22.4% in 2010.

Construction

The construction sub-sector grew by 9.0 % in 2011 compared to 10.2 % in 2010. This growth was driven by the increase in the construction of roads and bridges, residential and non-residential buildings and expansion of water and roads infrastructure. The share of construction activities in GDP was 8.0 % in 2011, the same as it was in 2010.

Manufacturing

The growth in manufacturing activities slowed down to 7.8% in 2011 from 7.9% in 2010. This was due to the rise in the cost of production caused by power shortage and imported raw materials (mostly fuel). The share of manufacturing in GDP increased to 9.3% in 2011 from 9% in 2010.

Electricity and gas

Growth in the electricity and gas sub-sector was 1.5% in 2011 compared to 10.2% in 2010. The fall in growth was

due to the fall in water levels in hydro-dams of Mtera and Kihansi, worn-out power plants and temporary shutdown of power generation plants (servicing of Songas turbines). The share of electricity and gas activities in GDP was 1.8% in 2011, the same as it was in 2010.

Water Supply

The water supply sub-sector grew by 4% in 2011 compared to 6.3% in 2010. The slowdown in growth was due to drought in many parts of the country and worn-out water infrastructure. The share of water supply in GDP was 0.3% in 2011 compared to 0.4% in 2010.

Services

Communications

The communication sub-sector continued to have the highest growth rate in 2011 compared to other economic activities. The growth rate in communication services was 19.0 % in 2011 compared to 22.1 % in 2010. This was mainly due to the increased number of mobile phone subscribers. The share of communication in GDP was 2.2 % in 2011 compared to 2.1 % 2010.

Trade and Maintenance

Trade and repair sub-sector grew by 8.1 % in 2011 compared to 8.2 % in 2010 mainly due to the stability of regional trade activities. The shortage of power supply adversely affected these activities. The share of trade and repair activities in GDP was 12.2 % in 2011 compared to 12.1% 2010.

Education and health

The growth rates in education and health services grew by 7.4 % and 5.4 % in 2011 compared to 7.3 % and 6.9 % in 2010 respectively. The growth of education services is attributed to continued implementation of Primary Education Development Programme II (PEDP II) and Secondary Education Development Programme (SEDP) and an increase in recruitment of teachers. The growth in health services was caused by the implementation of various programmes including immunization, malaria, tuberculosis and HIV- AIDS. The share of education in GDP has been 1.4 % for the past three years consecutively while the share of health services in GDP was 1.7 % in 2011 compared to 1.6 % in 2010.

Cross-cutting issues

Aside from sectoral activities, the Government also plans to undertake significant steps to address several cross-cutting issues that impact on the economy. These include:

Population

- Based on the Population and Housing Census of 2002, the population of Tanzania in 2011 was estimated at 44.5 million as compared to 43.2 million in 2010.

HIV/AIDS

In the year 2011, 14.9 million people received counselling and HIV voluntary testing services compared to 8.9 million people who received these services in 2010. This increase was attributed to an increased number of counsellors and centres for counselling and HIV testing country wide.

Environment

Adherence to the environmental regulations continues to be a challenge.
During the period under review, a total of 467 development projects were registered for EIA. Out of these, 163 projects were issued EIA certificates after fulfilling the requirements compared to 220 projects in 2010.

Climate Change

In addressing the challenges of climatic change, the Government prepared the National Strategy for Climate Change. This five-year strategy puts in place short, medium and long term strategies for addressing climate change and reducing greenhouse gas emissions.

Conclusion

The implementation of the 2012/13 budget will require that the Government focuses on the

implementing National Strategic Investment projects to reduce costs of living by:

- Reducing food inflation;
- Increasing access to reliable electricity supply;
- Improving transport infrastructure; and
- Creating employment.

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Tax Changes

Introduction of capital gains tax on overseas share transactions

Slight increase in tax free employment income threshold

Additional lower rate of VAT at 10%

Excise duty on beer up by 25% and on spirits, wine, soft drinks and cigarettes by 20%

Excise duty on airtime increased from 10% to 12%

Introduction of Excise duty on juice

Interest and dividend payments to be taxed more

Highlights based on the Finance Minister's speech

Income Tax

Taxation of capital gains

Capital gains on the sale of shares relating to a Tanzanian company by its parent or offshore holding company will be subject to tax. This is apparently aimed at capturing so-called 'indirect disposals' of Tanzanian companies and probably is a reaction to the recent passionate public discussion on the topic.

The consequence may be that the standard 30% corporate income tax rate will apply to deemed gains on indirect disposals where the disposal results in a change in effective control of local companies.

Taxation of individuals

Small businesses

Individuals with annual business income not exceeding TZS 3m are now exempt from presumptive income tax on turnover. New turnover bands have been introduced and tax rates for all bands of turnover over TZS 3m have been increased.

The upper threshold of TZS 20m, last increased in 2004, remains unchanged.

Employees

Tax free monthly threshold for employees has been increased from TZS 135,000 to TZS 170,000. It however appears that the upper threshold of TZS 720,000 remains unchanged.

Exemptions

Despite the Government's intention to minimise the number of exemptions, it has been proposed that the Dar es Salaam Stock Exchange (DSE) be exempt from income tax. Also, holders of gaming licences will be exempt from income tax on their income but will pay a higher turnover tax under the Gaming Act.

Withholding tax

Interest

Local banks will be required to remit 10% withholding tax from payments of interest earned on deposits held by non-residents. At the moment, such interest payments are exempt from tax.

Interest paid by 'strategic investors' to foreign banks will be exempt from the normal 10% withholding tax otherwise applicable.

Dividends

Exemption from withholding tax on dividends between resident corporations (assuming at least 25% ownership and control) is now abolished and 5% withholding tax now applies.

Other changes

No other specific income tax changes have been announced. However the Minister proposed during his speech to make minor amendments in various tax laws. An area of particular concern for a number of taxpayers is whether changes will be made to bring further clarity to the thin capitalisation provisions introduced in the 2010 Finance Act.

Skills and Development Levy (SDL)

No reduction in SDL

Despite several calls by business to reduce the rate, SDL remains at 6%.

However the speech has outlined that there will be a review carried out on the applicable rates of SDL with a view of reducing tax burden on employers and expanding employment opportunities in the country. The hope therefore is that there will be some reduction in the near future.

Value Added Tax

New VAT rate of 10%

The Minister has proposed to introduce a new VAT rate of 10% (in addition to the current rate of 18%). This new rate will apply to selected VAT relieved beneficiaries who are currently enjoying special relief under the Third Schedule of the Value Added Tax Act. The exception will be those enjoying exemptions under the existing agreements.

This change is also going to affect Non Governmental Organizations except those which are providing donations such as food supplies and medicaments to children and orphanage care centres and schools.

This proposed change is not without its challenges. The first challenge to consider is increased VAT refund claims by companies that either are mainly exporting their products or at investment stage thus not having sufficient output tax to offset against input tax charged to them at both 18% and 10%.

Although the VAT law provides that refunds should be made within 30 days, the reality is different and refunds take significant time to be processed – in some cases over a year. Anecdotal evidence indicates that frequently the reason for the delay is the lack of sufficient funds and that the TRA have to wait until funds are released from the treasury for the VAT refunds to be made. The new restriction on special relief is likely to exacerbate the problem of delayed refunds.

Another challenge might be the operational side of this change. If this has to be applicable from 1 July then some companies will need to change their accounting systems to recognise the new VAT rate of 10%. Needless to say, the TRA will also have to change the current VAT return and bring in new software to be fixed internally and also integrate with Electronic Fiscal Devices (EFD) so that these machines can print receipts and invoices at multiple-rates.

Overall we struggle to see how the removal of special relief will generate revenue (other than a temporary cash flow advantage) as companies will simply pay the VAT first and then claim it later as a refund.

New exemptions

The following new exemptions have been introduced:

- EFDs will now be exempt from VAT. This is a measure intended to make the EFDs affordable to the business community and encourage its use for improved tax compliance.

- Various equipment that will be used for the storage, transportation, and distribution of compressed natural gas and piped natural gas. This measure is intended to promote the usage of natural gas in various sectors of the economy including motor vehicles, domestic and industrial use. It is also expected to preserve forests, reduce environmental degradation and encourage production of gas cookers in the country.

Possible new VAT Act?

The Minister has outlined that the VAT regime will soon be reviewed to conform to international best practice. This is possibly an indication that we may soon be getting a new VAT Act.

Excise Duty

Reduction of Excise duty on Heavy Furnace Oil (HFO)

Excise duty on HFO has now been abolished (previously TZS 40 per litre). This measure is intended to reduce the cost of production and promote industrial growth.

We note that the Government has kept its promise from previous years of reducing progressively and ultimately eliminate this duty over a period of three years.

Inflationary excise duty changes

Excise duty on beer has been increased by 25%. The table below shows the increase in excise duty on various types of beer.

Type	Old Rate TZS Per ltr	New Rate TZS Per ltr	Increase per litre in TZS (and %)
Beer made from local un-malted cereal	248	310	62 (25%)
All Other Beers	420	525	105 (25%)

Once the effect of VAT on the excise duty is taken into account (as VAT is charged on the excise duty inclusive price), the increase will actually be just under 30%. Therefore effective 1 July we should expect to see a considerable increase in the price of beer.

Excise duty on soft drinks, wine and, spirits have also been increased, but by a lesser rate of 20%.

Goods	Old Rate TZS Per ltr	New Rate TZS Per ltr
Carbonated soft drinks	69	83
Wine with more than 25% imported grapes	1,345	1,614
Spirits	1,993	2,392

It is not clear whether excise duty on mineral and bottled water has been increased or not.

The excise duty rates on cigarettes and other tobacco products has also been increased by 20%.

Goods	Old Rate TZS	New Rate TZS
Cigarettes without filter, containing more than 75% domestic tobacco	6,820 per thousand cigarettes	8,210 per thousand cigarettes
Cigarettes with filter, containing more than 75% domestic tobacco	16,114 per mil	19,410 per mil
Other cigarettes not mentioned above	29,264 per mil	35,117 per mil
Cut rag/filler	14,780 per kg	17,736 per kg

Excise duty on cigars remains at 30%.

Whilst the Excise Management and Tariff Act caters for an inflationary adjustment to specific rates, the above increases of 25% and 20% appear inconsistent with the Government's commitment to reducing the rate of inflation to single digits before the end of this year. It is also not clear what basis has the Government applied to arrive at an adjustment of 20% and 25% given that the rate of inflation in April was 18.7% and is suppose to be on a reducing trend. Last year the increase in excise duty was a mere 10%.

Reduction of Excise duty on locally manufactured wine

Last year we saw the introduction of excise duty at TZS 420 per litre on locally manufactured wine containing more that 75% domestic grapes. This created an outcry by the manufacturers. The Minister has decided to act on the outcry and reduce the rate to TZS 145 per litre.

Introduction of excise duty on fruit juices

Last year we saw the introduction of excise duty on bottled and mineral water. Fruit juices will now also be subject to excise duty. This introduction has two rates being TZS 83 per litre on imported juices and TZS 8 per litre on locally produced fruit juices.

The difference in rates is a measure to protect local industries producing fruit juices against unfair competition from imported juices.

Increase of Excise Duty on airtime

The excise duty rate on mobile telephone air time has been increased from the current 10% to 12%.

This increase will be a bitter pill for both mobile users and operators, making calls more expensive and the business less profitable. The total indirect tax impost on mobile phone services in Tanzania will now increase to 32% (i.e. 12% excise duty plus 18% VAT on the duty-inclusive price) on every voucher you scratch. On this aspect, Tanzania is now similar to Uganda in relation to taxes on mobile phone airtime and the two are now the highest in the East African Community.

Such a tax level does not appear consistent with the country's need for modern communications technology bearing in mind the high taxes already existing in respect of purchasing the mobile phone devices. One also needs to bear in mind that apart from 12% excise duty and 18% VAT, other levies on turnover include 0.3% local taxes and 1.1% regulatory contributions.

Imposition of Excise Duty on Natural Gas for industrial use

The Minister proposed an introduction of excise duty on Natural Gas for industrial use at the rate of TZS 0.35 per cubic feet.

Introducing Excise duty on Music and Film Products

Excise Duty has been introduced on Music and Film Products (DVD, VCD, CD, Video Tape and Audio Tape etc). This measure is aimed at assisting operators in this subsector to formalise their business, prevent piracy of the artistic works and enable them to benefit from their works. The rate has not been mentioned in the budget speech.

The operationalisation of this change is left to the TRA who will issue stamps for the products.

This measure will become operational from 1st January, 2013.

Abolishment of exemption of excise duty on non-utility vehicles

The Minister has proposed to abolish exemption of Excise Duty on imported non-utility motor vehicles for all beneficiaries. This however excludes those beneficiaries who are currently enjoying VAT relief like mining companies holding agreements with the Government that provide tax exemption, Diplomats and Diplomatic Missions, Religious organisations and Donor Funded Projects.

We note from this proposal that Government employees will no longer enjoy excise duty exemption on importation of their personal motor vehicles.

Excise duty exemption on fuel used for oil and gas exploration

The Minister proposed exemption of excise duty charged on fuel for vessels, rigs and other equipment used in oil and gas exploration. This is intended to be in line with the fuel levy

exemption that was introduced last year.

This is a commendable move given the increased activity in oil and gas exploration both on and off shore. Oil and gas exploration is expensive and the exemption will help reduce these costs.

We believe, as it is for fuel levy exemption, a similar procedure will need to be followed by each oil and gas exploration Company by getting their specific application verified and approved by the Tanzanian Petroleum Development Corporation (TPDC) before being submitted to the Ministry of Finance for approval and exemption.

Excise duty on dumping of motor vehicles now applicable to those older than 8 years

The Minister has proposed an amendment in the law to reduce the age of vehicle imported currently taxed at 20% from 10 years to 8 years from the date of manufacture. The rate remains at 20%.

The measure is intended to discourage importation of obsolete vehicles and preserve/protect environment.

Customs Duty

A council of Finance Ministers from the East African Countries who met in Kampala Uganda on 18th May 2012 agreed to pass various changes to the East African Community Common External Tariff (CET) and the East African Community Customs Management Act 2004 (EACCMA 2004).

These have been outlined below.

1. *Increased import duty rate from 0% to 10% on the following items:*

   - Galvanized wire of HS Code 7217.20.00 from 0% to 10%. The measure is intended to rationalize with the tariff structure which is based on the degree of processing because galvanized wire is a product of the hot rolled steel wire rods under HS Code 7213.20.00 which attracts the CET rate of 0%.

2. *Grant duty remission on/to the following:*

   - Soap manufacturers using Palm Stearin, RDB under HS Code 1511.90.40 by charging a duty rate of 0% instead of 10%. This measure is intended to promote growth stand-alone soap manufacturing industries by reducing cost relating to the importation of Palm Stearin RDB which is the main raw material in manufacturing of soap. The measure will also make soap more competitive in the local market.

   - Soap manufacturers using LABSA as raw materials from 10% to 0% under HS Code 3402.11.00; HS Code 3402.12.00; and HS Code 3402.19.00 for a period of one year. The measure is intended to encouraged growth and production of soap manufacturing especially to small industries producing soaps in the country.

   - Lubricants producers using castor oil and its fractions under HS Code 1515.30.00 as raw material from the CET rate of 10% to 0%.

3. *Reduce duty on the following:*

   - Set Top Boxes from 25% to 0% under the HS Code 8528.71.0. The measure is intended to facilitate the smooth transition of the EAC Partner States to move from analogue to digital technology by December 2015.

     We believe this news will be celebrated by the operators of cable TV such as Multichoice and Star TV just to mention a few.

   - Electricity under HS Code 2716.00.00 from 10% to 0%. The measure is intended to reduce the cost of importing electricity into the EAC Partner States.

- Inner glass flask used in thermos under HS Code 7020.00.90 from 25% to 0%. The measure is intended to encourage assembling of thermos in the region as these products are currently not manufactured in the region.

- From 10% to 0% on cathodes and selections of cathodes under HS Code 7403.11.00.

4. *Stay application of duty for the following items:*

- Extend the stay of application of CET rate of 35% on wheat grain under HS Code 1001.90.20 and HS Code 1001.90.90 and apply the CET rate of 0% for the period of one year. This measure is intended to reduce costs relating to the importation of wheat grain in the country as local production capacity does not satisfy the demand.

- Continue applying the CET rate of 25% instead of 35% on cement under HS Code 2523.90.00 for a period of one year.

5. *Split the tariff for the following items:*

- Under HS Code 2106.90.91 in order to grant exemption of import duty to food supplements and mineral premix used in fortification of food supplements for feeding infants. The measure is intended to encourage processing of these food products in the region, and make them affordable with a view to fight malnutrition.

- Under HS Code 8523.80.00 in order to apply the CET rate of 0% on software instead of 25%. The measure is intended to encourage development of ICT in the region and contribute to the economic growth.

- Split HS CODE 7308.90.90 to provide for road guards rails and to apply the CET rate of 10% instead of 25%. The measure is intended to supplement local demand as local production capacity is still insufficient to meet the demand the growing demand of the products.

6. *The following Amendments (including new exemptions) have been introduced to the Fifth Schedule:*

- Amend paragraph 30 (b) of the Fifth Schedule Part B in order to provide exemption of import duty to machinery and spare parts used in mining activities. The exemption shall however not include spare parts for motor vehicles that will be imported by the mining companies.

  This is a significant change to the mining sector as it will help to remove ambiguity on whether old legislation or new should be used.

- Amend paragraph 22 (a) of the Fifth Schedule Part B of the EACCMA to include “refrigerated trailer”. The intention of this change is to accord refrigerated trailers the same treatment as refrigerated trucks which are exempt from import duty so as to encourage distribution of fresh products like meat and milks.

- Grant duty remission to producers/manufactures of medical diagnostic kits. The inputs for use in the manufacture of medical diagnostic kits attract import duty while the finished kits are exempted from import duty under the 5th Schedule of EAC CMA 2004.

- Amend Part B of the 5th Schedule to add beekeeping equipment in order to grant exemption of import duty to honey refiners, honey strainers, honey pumps, hive tools, queen rearing equipment and protective gears. The measure is intended to encourage growth of beekeeping industry in the region.

- Continue granting exemption of import duty to Armed Forces

Canteen Organization for a period of one year.

- Amend the EACCMA 2004 to provide duty remission to producers of nutritious food/products for feeding infants facing malnutrition and persons suffering from HIV/AIDS in the country. The measure is intended to ensure availability of these products through encouraging local production.

Abolishment of exemption of import duty on non-utility vehicles

Similar to Excise duty, the Minister has proposed to abolish Import duty exemption on all non-utility motor vehicles with 3000cc and above. However, this measure will not affect Donor Funded Projects currently enjoying exemptions under the existing Agreements with the Government, Diplomats and Diplomatic Missions.

We note that this only applies to non-utility vehicles with capacity above 3000cc. This proposal will affect the Government employees who will no longer enjoy import duty exemption on importation of their personal motor vehicles.

Reduction of import duty exemption on "deemed capital goods"

The Minister has proposed to reduce tax exemptions originally granted to goods known as "deemed capital goods" from 100% to 90%.

This means an investor shall be obliged to pay 10% of the due tax. How this will be applied in practice will have to be seen.

Other tax changes

The Minister has also proposed various changes on other non-major taxing legislations as outlined below.

Export Levy

There is an increase in export duty on raw hides from 40% or TZS 400 per kilogram to 90% or TZS 900 per kilogram, whichever is greater.

This measure is intended to promote local processing of hides and skins as well as value addition to exports. The measure will also increase employment and earn revenue to the Government.

Gaming tax

The following changes are proposed in the Gaming Act.

(i) Increase Gaming Tax for Casino from 13% of gross gaming revenue to 15% of gross gaming revenue;

(ii) Introduce gaming tax on sports betting at a rate of 6% of the total stakes.

(iii) Introduce gaming tax on "SMS Lotteries" at a rate of 43%.

(iv) Introduce gaming tax of 15% on internet Casino.

(v) Establish clause in the Game of chance Act which will explicitly state that "Gaming Tax shall be a final tax".

These changes are more applicable to Casinos and organisers of the games of chances.

"Special" motor vehicle plates

The Minister came up with an interesting proposal under the Motor Vehicle Registration and Transfer Tax Act.

This is the introduction of personalised plate numbers for TZS 5m for a period of three years.

Increase of the Airport Services Charge

A proposal to amend the Airport Departure Service Charges Act, by increasing Airport Service Charges from the current rate of US$ 30 to US$ 40 for passengers travelling outside the country and from TZS 5,000 to TZS 10,000 for passengers travelling within Tanzania.