Understanding Tanzania's 2014/2015 National Budget

PwC insight and analysis

Commentary

Tax collections 10% behind budget

This year's Budget speech by Honourable Saada Mkuya Salum came against a challenging backdrop of revenue collections for the current year. In particular, although collections for the nine months to March were 20% up on the preceding year, they were still approximately 10% behind the ambitious budget that had been set.

Removal of 0.15% excise duty on money transfer

Last year's budget had included a number of controversial new taxes – including the 0.15% excise duty on money transfer, the significant increase in taxes on telecommunications, and the 5% resident withholding tax on services.

Specific excise duty rate increases in excess of inflation

A very commendable move in this year's Budget is the removal of the 0.15% excise duty on money transfer. This is now replaced with a 10% excise duty on bank charges – mirroring the basis of excise taxation of the financial sector as introduced last year in Kenya and Uganda. Nevertheless, this matter may require further review later in the year prior to the introduction of the new VAT Act (anticipated to come into force in January) which amongst other things will bring bank charges within the scope of VAT.

No increase on fuel taxes

For telecommunications, last year's increase of the excise rate (to 17%) had effectively taken total taxes on turnover for this sector to an incredible 40% once other taxes and regulatory levies are considered. Collection statistics indicate that this change has created a "lose lose" situation (i.e. with both the telecoms sector and the Government worse off) – in particular, whilst excise duty collected has increased as a result of the change, this has been more than offset by reduced VAT collections resulting in an overall reduction of taxes collected. This is an indication that the telecoms operators have been unable to pass on the increased taxes to the consumer and as a consequence are suffering reduced profitability, and against this background there was a strong case for the Minister to have considered an excise duty decrease.

Domestic borrowing to increase

Tax collections for both the cement industry and the sugar industry are significantly below budget and in the case of the cement industry 25% down on a year ago – indicative of the devastating effect of what has been seen to be unfair competition from imports. Of particular importance to the local cement industry is a move to exclude cement from the list of goods eligible for tax exemption as "deemed capital goods".

A further move to limit the scope of investment incentives is the increase in the investment threshold to qualify as a "strategic investor" – with the threshold now increased to $50m for foreign investors (but to remain at $20m for Tanzanian investors).

Excise duty rates on various non-petroleum products (including alcohol, tobacco, soft drinks) are calculated on a specific basis (i.e. stated TZ shilling amounts), and are normally subject to an adjustment to cater for inflation. Rates for alcohol and soft drinks have been increased by 10% - a very high increase against a background of inflation in April at 6.3% and targeted to drop to 5% by June 2015, and in the case of beer against a backdrop of tax collections being only modestly up on prior year and significantly behind budget (indicating little room to pass on further taxes to the consumer).

The greatest surprise however is a planned 25% increase in excise duties on tobacco products. Whilst the justification is given as commitments in relation to the World Health Organisation's Framework Convention on Tobacco Control, it is difficult to see this having anything other than an adverse impact on the health of revenue collections bearing in mind that revenue collections for cigarettes for the nine months to March 2014 were broadly static in comparison with the prior year, and significantly behind budget.

Measures announced with regard to fuel taxes include an acceleration of the due date for payment of such taxes as well as a removal of the right of the Minister for Finance to grant fuel tax exemptions other than in cases where there is a contractual commitment with development partners. However, it is of some surprise that there is no increase in the specific taxes on fuel (excise duty, road toll, petroleum levy). These amounts are calculated in TZ shillings and any lack of increase for inflation results in an effective tax decrease in real terms. Fuel is also a necessity and therefore its demand is not as elastic as other consumer products – so in principle such tax rises will normally generate additional revenue. Certainly this has been the case with the road toll increase introduced in last year's Budget which has resulted in a significant increase in revenue.

Other changes of relevance to the transport sector include a change to the age limit for the application of excise duty on old vehicle – reduced from a threshold of 10 years to 8 years for non-utility vehicles and non-passenger utility vehicles, and to 5 years for passenger carrying vehicles.

Of alarm to the airline industry will be the proposal to abolish the withholding tax exemption on aircraft leased from non-residents. Typically such contracts will provide for any such withholding tax cost to be for the account of the local lessee – in other words, the result will be significant additional costs for the local airline sector. This proposal was also made in last year's Budget speech but eventually reversed. Looking forward the airline sector will also be concerned that the new VAT bill does not keep the exemption currently in place for aircraft – particularly so, bearing in mind that last year saw the introduction of a 20% excise duty on importation of aircraft.

Last but not least, professional service providers will be disappointed with the absence of any mention of amendments to the 5% withholding tax on services, which ideally would be limited to transactions at risk of not being reported to TRA (for example, where not supported by an electronic fiscal receipt).

With consumer pockets clearly stretched, the Minister had relatively little room to pass on significant tax increases and so the relatively limited nature of tax changes in this Budget is not a surprise. Nevertheless, it appears that so as to balance the books there will be significantly greater resort to borrowing – particularly domestic borrowing – something that will be a concern.

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The Economy

Highlights based on speeches by the Minister of Finance and Economic Affairs on 12 June 2014

Actual GDP growth of 7.0% in 2013 compared to 6.9% in 2012

Past Performance 2013/14

The economy of Tanzania is estimated to have attained real GDP growth of 7% in 2013 compared with 6.9% in 2012.

Domestic revenue collection for 2013/14 had been budgeted at TZS 11,154.07 billion equivalent to 18.3% of GDP – but it is now anticipated that by the end of June 2014 tax revenue collection will only reach 93% of the target. Equally non-tax revenues as well as Local Government Authority collections, which had been budgeted at TZS 425.5 billion and TZS 252.5 billion respectively, are only expected to meet 65% and 66% of the target.

Annual inflation rate in 2013 was 7.9% but had declined to 6.3% by April 2014

As at the end of April receipts from General Budget Support, Basket Funds, and Projects Loans and Grants were 63%, 74% and 55% of the annual estimates.

TZS 1,803.9 billion has been borrowed domestically in the period to April 2014 of which TZS 1,113.3 billion was for rollover, and TZS 690.6 billion was for development projects.

Non-concessional borrowing has included the following:

	$'m
Credit Suisse - for roads	176.9
Citibank - water and roads	83.0
HSBC - JN Int Airport	148.0
Sub-total (disbursed)	**407.9**
Sumitomo - Kinyerezi II	292.0
Expected total for year	**699.9**

The annual inflation rate was 7.9% in 2013 compared to 16.0% in 2012. This decrease was largely attributed to the decrease in food prices especially for rice following improved supplies in the market as a result of good harvests. As of April 2014, the inflation rate had declined to 6.3%.

The fastest growing sub-activities included communication (22.8%); financial intermediation services (12.2%); construction (8.6%); wholesale and retail trade (8.3%); and hotel and restaurants (6.3%).

Challenges ahead

Despite some achievements in economic growth and revenue collection, a number of challenges were cited including:

- Delay in accessing commercial loans;
- Mismatch between government requirements and revenue collection;

- Underperformance in non-tax revenue collection;
- Increased cost of producing emergency power;
- Accumulation of arrears from contractors, service providers and employees;
- Low pace in the use of electronic fiscal devices.

The Budget for 2014/15

The Budget for 2014/15 will continue to take into account the priority areas identified in Annual Development Plan and Big Results Now, National Strategy for Growth and Poverty Reduction phase II (MKUKUTA II), the CCM Election Manifesto 2010, Public Sector Reform Programmes; and the Millennium Development Goals (MDGs) 2015. The main goal is to realise the objectives of the Tanzania Development Vision 2025.

The 2014/15 Budget Targets

The 2014/15 budget sets out the following targets:

- To achieve real GDP growth of 7.2% in 2014, 7.4% in 2015;
- Continue to control inflation to single digit level and eventually to 5.0% by June 2015;
- To enhance domestic revenue ratio to GDP to reach 18.8% by 2014/15; and
- Accumulate gross official reserves adequate to cover at least 4 months imports of goods and services by June 2015
- Maintain a stable and market determined exchange rate.

Revenue

The revenue policies for 2014/15 budget target to collect tax revenue of TZS 11,318.2 billion and non-tax revenue of TZS 859.8 billion, amounting to an overall total of TZS 12,178.0 billion.

The domestic revenue collection target of TZS 12,178.0 billion compares to a 2013/14 target of TZS 11,154.0 billion.

Initiatives to improve revenue collection will include minimising tax exemptions and enhanced transparency in relation to exemptions; enhancing the efficiency in tax administration.

In summary, the budget revenues will be as follows:

Revenue	TZS m
Domestic Revenue	12,178,034
Domestic borrowing	2,995,227
Non-Concessional borrowing	1,320,000
General Budget Support	922,168
Foreign Loans and Grants including MCA (T)	2,019,431
LGA Own Source	458,471
Total Revenue	**19,853,331**

Expenditure

The Government is budgeting to spend TZS 19,853.3 billion in 2014/15 as follows:

Expenditure	TZS m
Recurrent	13,408,218
Development	6,445,113
Total Expenditure	**19,853,331**

Recurrent Government expenditure in 2014/15 will focus on:

- Financing the payments of wages and salaries TZS 5,317.5 billion
- Government Institutions and Agencies, Consolidated Funds Service (CFS) TZS 4,354.7 billion, and
- TZS 3,735.9 billion for other charges (OC).

Development Government expenditure in 2014/15 will focus on:

- Infrastructure: -transportation (roads, railway, airports and marine transport);
- Energy and Minerals:- power generation, gas
- Agriculture: - including food and cash crops, irrigation, industrial raw materials, livestock, fisheries and forestry

- Education:-infrastructure, study equipment
- Health
- Water
- Good Governance

Credit and Money Supply

Extended broad money supply (M3) increased by 10% in 2013 to TZS 16,106.8 billion (compared to TZS 14,647.1 billion in 2012). The growth was below the set target of 15% in 2013. This trend was due to a decrease in net domestic assets which grew by 15.5% in 2013 compared to 22.3% in 2012. During the same period, the growth rate of credit to the private sector decreased from 18.2% in 2012 to 15.3% in 2013.

Balance of Trade

The value of goods and services exported decreased by 1.7% from USD 8,675.6 million in 2012 to USD 8,532.0 million in 2013. This was mainly due to a decrease in exports of gold and traditional exports including tobacco, coffee, cotton and sisal – reflecting both a the drop in domestic production as well as a fall in world commodity prices.

Furthermore, the value of goods and services imported increased by 6.6% to USD 13,517.6 in 2013 compared to USD 12,678.0 million in 2012. The increase was due to a 27.4% increase in the importation of fuel.

Sector policies and programmes to support budget initiatives

Agriculture, Livestock, Forestry and Hunting

The agriculture sector growth was 4.3% in2013 (the same as in 2012).

The government has set aside TZS 1,084.7 billion for the improvement irrigation infrastructure in different areas of the country; development of warehouses and markets; and availability of loans of promotion of food and cash crops production.

Fishing

Growth in the fishing sector has decreased from 2.9% in 2012 to 2.2% in 2013. This decline was attributed to reduced fish stocks following the use of unauthorised fishing gear and the destruction of fish breeding sites.

Transport

Transport sector growth declined from 7.1% in 2012 to 6.2% in 2013.The decline was due to decrease of transportation of air cargo.

For the 2014/15 budget, a total of TZS 2,109.0 billion has been set aside of which TZS 179.0 billion is for procurement of wagons and rehabilitation of the central railway line and TZS 1,414.8 billion for construction and rehabilitation of roads and bridges.

Construction

The construction sub-sector grew by 8.6% in 2013 compared to 7.8 % in 2012.

Manufacturing

Manufacturing activities declined 7.7% in 2013 from 8.2% in 2012.

Electricity and gas

The electricity and gas sub-sector grew by 4.4% in 2013 compared to 6.0% in 2012.

Water Supply

A total of TZS 665.1 billion has been set aside to improve urban and rural water infrastructure which include continuing with the construction of 10 water wells in every Local Authority and completion of the water pipeline from Lower Ruvu, Bagamoyo to Dar es Salaam.

Services

Communications

The communication sub-sector continued to have a high growth rate in 2013. The growth rate in communication services was 22.8% in 2013 compared to 20.6% in 2012.

Education and health

The education sector has been allocated a budget of TZS 3,465.1 billion of which TZS 307.3 billion has is for financing higher education loans. Moreover, the government is planning to continue to improve the quality of education including educational infrastructure.

A total of TZS 1,588.2 billion has been set aside for procurement of medicines, prevention of epidemic diseases, amongst others.

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:

Establishment of regulations for better financial supervision

In 2013, several regulations were established to enable better financial supervision. These included Transfer Pricing Regulations, Public Procurement Regulations, The Insurance Ombudsman Regulation, the Insurance Appeals Tribunal Regulations and the Micro-Insurance Regulations.

Control of Public Expenditure

The Government will use a bulk procurement system to source goods and services directly from manufacturers instead of the current practice of procuring from agents.

Another measure for managing the use of public funds is through integrating expenditures of all Ministries, Government Departments, Regional Secretariats and Local Government Authorities into one system managed by the Paymaster General

Payment of National Debt

During the period from July 2013 to April 2014, payment towards internal debt amounted to 1,694.53 billion shillings of which interest was 581.20 billion shillings.

The government intends to sustain the national debt by implementing various strategies including borrowing from concessional resources and utilising the borrowed money on development projects.

The government has set a ceiling on non-concessional borrowing to ensure that it does not affect debt sustainability.

Conclusion

To implement the 2014/15 budget, the government will continue to focus on the initiatives in place and their respective priority areas in order to achieve the objectives of the Tanzania Development Vision 2015. On the basis of this, the Government will continue to focus on mainly on these key strategic areas:

- Resource mobilization
- Agriculture
- Water
- Education
- Energy, and
- Transport.

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The lowest PAYE marginal tax rate reduced to 12%

Reduction of withholding tax rate on payment of directors fees to 15%.

Removal of Excise duty on money transfer

Removal of cement from the list of capital goods

Increase of excise duty by 25% on cigarettes and 10% on alcohol and beverages

Tax Changes

Highlights based on Finance Minister's speech

Income Tax

Taxation of employees

Tax bands remain unchanged.

However, the marginal tax rate for individuals has been reduced by a single per centum from 13% to 12% on the lowest tax band (monthly income from TZS 170,000 to TZS 360,000). The change will result in a maximum tax saving of TZS 1,900 per month for an individual.

The new monthly tax table will be as follows:

Income TZS	Tax
Up to 170,000	Nil
170,001 to 360,000	12% on excess of TZS 170,000
360,001 to 540,000	TZS 22,800 + 20% on excess of TZS 360,000
540,001 to 720,000	TZS 58,800 + 25% on excess of TZS 540,000
Over 720,000	TZS 103,800 + 30% on excess of TZS 720,000

The upper threshold of TZS 720,000 has not been increased since July 2008.

Increase in Presumptive Income Tax rates

Presumptive Income Tax rates on small business has increased from 2% to 4% of turnover for business with turnover in excess of TZS 4m but not more than TZS 7.5m for those keeping records and from TZS 100,000 to TZS 200,000 for those with no records.

The new presumptive income tax table is expected to be as follows:

Turnover TZS	Tax payable where no record is kept	Tax payable where record is kept
Up to 4,000,000	Nil	Nil
4,000,000 to 7,500,000	200,000	4% of turnover in excess of 4m
7,500,000 to 11,500,000	212,000	140,000+ 2.5% of turnover in excess of 7.5m
11,500,000 to 16,000,000	364,000	240,000+ 3%of turnover in excess of 11.5m
16,000,000 to 20,000,000	575,000	375,000+ 3.5% of turnover in excess of 16m

Withholding Tax

(i) Directors Fees

Directors' fees will now be subject to a 15% withholding tax. The motivation for this change is unclear as it had been understood that such payments were already subject to a 30% withholding as tax on secondary employment income.

(ii) Aircraft lease rental

Withholding tax exemption on payments made by air transporters to non-resident persons in respect of aircraft lease rental has been abolished.

Last year's Finance Act reduced the withholding tax rate on rental of assets from a non-resident person to 10% (from 15%) and it is assumed that this will be the applicable rate.

Other Income Tax Changes

Bonds issued by African Development Bank

Income and gains earned by holders of bonds issued by the African Development Bank in the Tanzania domestic market are now exempted from tax. The move is aimed at enhancing the Bank's ability to offer low cost loans for investment projects.

Gaming income

Removal of the corporate tax exemption on income derived from gaming.

In 2012, this exemption was introduced as a result of introduction of a gaming tax. It is not clear whether there will now be a reduction in the various rates applicable under the Gaming Act.

Skills and Development Levy (SDL)

Exemption in SDL

In order to provide exemption to institutions that were mistakenly left out by changes introduced in 2013, exemption on payment of SDL is now extended to (i) Diplomatic missions (ii) United Nations and its organisations and other foreign organisation that deals with aids and technical assistance (iii) Religious institutions whose employees are solely employed to administer place of worship, to give instructions or administer religious activities, (iv) Charitable organisations which do not perform any business activities (v) Local Government authorities and (vi) Education and Training institutions that offer free education.

There was however no reference to the treatment of employees in Agriculture.

Tanzania Investment Act

TIC certificates now restricted to new investments

The Minister of Finance will no longer have powers to grant exemptions on expansion and rehabilitation projects.

Currently such exemptions are granted through the TIC.

Reversal of proposed removal of exemptions for Telecommunication companies

The written speech had included a proposal to remove TIC exemptions on importation or purchase of deemed capital goods including any telecommunication tower and its fences, generators, motor vehicles, earthing equipment, base stations etc.

However during the reading of the speech, the Minister skipped this item and expressly requested that it be removed from the parliament records (Hansard). It is therefore understood that this proposal no longer stands.

Cement is no longer eligible to be classified as a deemed capital good

Imported cement is now added to the list of goods not eligible for categorisation as deemed capital goods under TIC exemptions. This is a move to protect local cement factories.

Increase in threshold of strategic investors

The threshold to qualify as a strategic investor has increased from USD 20m to USD 50m for non-residents but remains at USD 20m for Tanzanian investors.

Excise Duty

Removal of the 0.15% Excise duty on Money transfer

The Minister has proposed to remove the 0.15% excise duty on money transfer and replace this with a 10% excise duty on charges or service fees levied by banks and telecommunication companies.

This will be a welcome relief for the banks and telecommunication companies, as well as the business sector generally. The proposed change adopted by the Minister is now in line with other East African countries, e.g. Kenya and Uganda.

Powers of the Minister to grant exemptions on petroleum products is now limited

In a surprise move and one that was cheered by the parliamentarians, the Minister proposed to reduce her powers under the Excise Duty Act to grant exemptions of excise duty on petroleum products and only retain powers to grant such exemptions if they relate to agreements signed between the government and development partners to finance development projects such as roads and water supply infrastructures. The aim of this restriction of powers is said to be both to harmonise with the Government policies of fuel exemption and to limit abuse.

New thresholds for excise duty on old vehicles

The threshold for the application of excise duty on old vehicles is to be reduced from the current limit of 10 years from the year of manufacture to 8 years for non-utility vehicles (25% rate applies) and non-passenger utility vehicles (5% rate applies), and 5 years for passenger carrying vehicles (5% rate applies) .

The above proposals are with the aim of protecting the environment, reducing accidents and preventing the draining of foreign currencies arising from importation of spare parts.

Extension on application of excise duty on furniture

There is a proposal to extend application of excise duty of 15% on furniture that fall under the HS Code 94.01 (e.g. seats used in motor vehicles and aircraft). This now means excise duty of 15% applies to most imported furniture. The aim for this introduction is the same as the one mentioned last year i.e. to promote local production of furniture using locally available timber.

Excise duty changes above inflation

The following "inflationary" increase (at 10%) is proposed on the non-petroleum excisable products listed below (see table):

Goods	Old Rate TZS Per ltr	New Rate TZS Per ltr
Carbonated soft drinks	91	100
Juice (from locally grown fruit)	9	10
Juice (from fruit grown outside the country)	110	121
Clear beer (from 100% local unmalted	341	375
All Other Beer (Malted)	578	635
Wine with more than 75% locally grown grapes	160	176
Wine with more than 25% imported grapes	1,775	1,953
Spirits	2,631	2,894

However, the excise duty rates on cigarettes and other tobacco products have been increased by 25% as per the table below.

Goods	Old Rate TZS	New Rate TZS
Cigarettes without filter, containing more than 75% domestic tobacco	9,031 per thousand cigarettes	11,289 per thousand cigarettes
Cigarettes with filter, containing more than 75% domestic tobacco	21,351 per mil	26,689 per mil
Other cigarettes not mentioned above	38,628 per mil	48,285 per mil
Cut rag/filler	19,510 per kg	24,388 per kg

Excise duty on cigars remains at 30%.

The reason given by the Minister for the substantial increase in excise duty on tobacco products is because Tanzania is a signatory to the Framework Convention on Tobacco Control by the World health Organisation. However this is going to have significant consequences on tax collections as significant sales of cigarettes in Tanzania are via individual sticks; a substantial increase in price will definitely have a downward impact on demand. The March 2014 TRA collection statistics show that excise duty on tobacco increased only 3% compared to last year and is 23% below budget.

Fuel Levy

In the same spirit as outlined in the excise duty section above, the Minister proposes to remove her powers to grant fuel taxes relief i.e. road and fuel levy exemptions except in instances where there is contractual commitment between the Government and development partners.

Value Added Tax

No VAT changes have been proposed as there is a new VAT Bill in the pipeline that was tabled on 4 June 2014 and still waiting discussion in the parliament. This will in due course repeal and replace the current VAT Act 1997. It is anticipated that this new Bill will come into effect on 1 January 2015.

Customs Duty

A council of Finance Ministers from the East African Countries who met in Nairobi Kenya on 3rd May 2013 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**).

CET changes

1. Reduce duty on buses under HS Code 8702.10.99 from 25% to 10% for transportation of more than 25 people. This measure is to apply for only one year and is aimed at improving the transportation services and to reduce accidents.

2. Extend stay on the application of 10% duty on wheat grain under HS Code 1001.99.10 and 1001.99.90 for one year.

3. Continue to grant duty remission on soap manufacturers using LABSA as raw materials 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 encourage growth and production of soap manufacturing especially to small industries producing soaps in the country.

4. Increase of import duty rate from 10% to 25% on insecticides made from petrol under HS Code 3808.91.39. This is intended to support the local production of insecticides using pyrethrum.

5. Reduce of import duty rate on paper classified under HS Codes: 4805.11.00, 4805.12.00 and 4805.30.00 from 25% to 10%. The aim is to reduce cost of production for local producers of paper products.

6. Extend stay of application on the import duty rate applicable to unbleached papers under HS Codes: 4804.11.00, 4804.21.00 and

4804.31.00 and 4804.41.00 at 25%. The intent is to protect the Mufindi industry which is the only producer of such papers within the EAC.

EACCMA 2004 changes

The following exemptions under the 5th Schedule of the EACCMA 2004 have been affected

- Grant exempt importation of Electronic Fiscal Devices (EFDs) for Tanzania only and only for one year;
- Grant exemption of import duty on splints used in manufacturing of matches;
- Continuing the granting of import duty exemption to Armed Forces Canteen Organisation for the period of one year;
- Grant import duty exemption on inputs used for manufacturing of gas cylinders; and,
- Grant of import duty exemption on machinery spares and inputs used for the development and generation of wind and solar energy.

Other Changes

The Motor Vehicle Registration and Transfer Tax Act, CAP 124

The Minister proposes to differentiate the registration system of motor cycles from motor vehicles by changing the prefix from T to TZ. This change is not expected to contribute any revenue to the Government but is aimed at fighting crime practices associated with the use of motor cycles.

The Export Levy Act, CAP 196

The Minister is proposing to make a change under this Act by reducing export levy on raw hides and skins from 90 percent or TZS 900 per kilogram to 60 percent or TZS 600 per kilogram whichever is higher. This measure is intended to curb illegal exportation of raw hides and promote domestic processing value addition as well as creating employment.

The Business Licensing Act, No.25 of 1972

The minister has proposed the imposition of various rates of business licensing fees that were proposed by the Ministry of Industries and Trade through the Business Licensing Act, No. 25 of 1972. No indication was given in the speech of the new rates.

Fees and levies imposed by Ministries, Regions and Independent Departments

The rates of fees and various charges levied by Ministries, Regions and Independent Departments will be amended *"in order to rationalise with the current level of economic growth"*.

Legislative amendments

The Minister stated that minor amendments to various tax laws and other laws will also be made so as to ensure their smooth and effective implementation.