Understanding Tanzania's 2015/2016 National Budget

PwC insight and analysis

The Economy

Highlights based on speeches by the Minister of Finance and Economic Affairs on 11 June 2015

Past Performance 2014/15

Actual GDP growth of 7.0% in 2014 compared to projected 7.3% for 2015

The economy of Tanzania is estimated to have attained real GDP growth of 7.0% in 2014 and projects a 7.3% growth rate in 2015.

Domestic revenue collection for 2014/15 had been budgeted at TZS 12,638.5 billion but it is now anticipated that by the end of June 2015 tax revenue collection will only reach 91% of the target. Equally non-tax revenues which had been budgeted at TZS 859.9 billion, is only expected to meet 74%.

By March, 2015, total national debt stood at USD 19.5 billion compared to USD 18.7 billion as at March 2014. This increase is brought about by increased interest charges and new loans to finance infrastructure projects.

Average inflation rate in 2014 was 6.1% but had declined to 4.5% by April 2015

As at the end of April 2015 receipts from General Budget Support, and Projects Loans/Grants were 44% and 74% of the annual estimates. Overall percentage of concessional loans and development grants is estimated to be 70% of the target.

By April 2015, TZS 1,767.9 billion (non-concessional) has been borrowed domestically and was used for rollover payments. The amount is approximately 60% of the target which was set at 2,955.2 billion shillings.

The average inflation rate was 6.1% in 2014 compared to 7.9% in 2013. As of April 2015, the inflation rate had declined to 4.5%.

The fastest growing sub-activities in 2014 included construction (14.1%); transport and storage (12.5); financial services and insurance (10.8%); and trade and retail (10.0%).

Challenges ahead

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

- Tax evasion committed by dishonest traders;
- Cumbersome procedures leading to delay in accessing commercial loans;
- Major public institutions such as TANESCO, ATCL, TRL and TAZARA continue to depend on Government grants to finance their operations;
- Significant financial requirements for improving infrastructure;
- Global financial crisis continues to affect investment, tourism and

credit access in the financial markets;
- Climate change has had affected food availability, power generation and caused damage to transport infrastructure.
- Appreciation of the US dollar; and
- Unstable energy prices leading to rising production costs.

The Budget for 2015/16

The Budget for 2015/16 shall focus on the following: funding the general election; completion of development projects as identified in Annual Development Plan and Big Results Now, National Strategy for Growth and Poverty Reduction phase II (MKUKUTA II); and the implementation of water and electricity supply projects (in rural areas) as well as capacity building in the above mentioned sectors. MKUKUTA II completion date shall be June 2016 instead of June 2015, in line with the Development Plan Phase I (2011/12 – 2015/16). The change will allow both programmes to be assessed before the launch of phase II of the Development Plan.

The 2015/16 Budget Targets

The 2015/16 budget sets out the following targets:

- To achieve real GDP growth of 7.3% in 2015;
- Continue to control inflation to single digit level;
- Increasing tax revenue to 13.1% of the GDP with overall domestic revenue (including LGA revenue) to reach 14.8%;
- Government expenditure is projected to be 20.6% of the GDP;
- Reduce the budget deficit to (including grants) at 4.2% of GDP;
- Contain the increase of broad money supply (M3) at the base of 16% for the year ending June, 2016;
- Have foreign exchange to meet good and services import demand levels for the minimum of 4 months;
- Completion of contracts between the Government and rating agencies before the end July, 2015;
- Sustain favourable investment environment; and
- Stabilise the value of the Tanzanian Shilling.

Revenue

The revenue policies for the 2015/16 budget target to collect tax revenue of TZS 12,363 billion and non-tax revenue of TZS 1,113 billion, amounting to an overall total of TZS 13,475.6 billion. This compares to a 2014/15 target of TZS 12,178.0 billion.

Initiatives to improve revenue collection will include eliminating discretionary tax exemptions (with exception of strategic investors) and enhanced transparency in relation to exemptions; and enhancing the efficiency in tax administration.

Below is a summary of budget revenues:

Revenue	**TZS bn**
Domestic Revenue	13,476
Domestic Borrowing	4,033
Non-Concessional borrowing	2,142
Foreign Loans and Grants including MCA (T)	1,662
General Budget Support/Concessional Loans	660
LGA Own Source	522
Total Revenue	**22,495**

Expenditure

The Government is budgeting to spend TZS 22,495 billion in 2015/16 as follows:

Expenditure	**TZS bn**
Recurrent	16,576
Development	5,919
Total Expenditure	**22,495**

Recurrent Government expenditure in 2015/16 will focus on:

- Financing the payments of wages and salaries TZS 6,466.5 billion
- Government Institutions and Agencies, Consolidated Funds Service (CFS) TZS 6,396.6 billion; and
- TZS 3,713.0 billion for other charges (OC).

Development Government expenditure in 2015/16 will focus on existing and agreed upon projects:

- Infrastructure: -transportation (JNIA airport expansion, central railway, port at Mbegani);
- Land:- Integrated Land Management Information System;
- Energy and Minerals:- Kinyerezi II power plant;
- Agriculture: - food storage facilities in Mbozi and Songea Mjini Districts;
- Water:- Expansion of Upper and Lower Ruvu water plants;
- Communication:- National Communication Infrastructure Backbone Network Phase II;
- Good Governance:-Voter registration and national ID

Balance of Trade

The value of goods and services exported increased by 2.8% from USD 8,459.7 million in 2013 to USD 8,769.3 million in 2014. Furthermore, the value of goods and services imported increased slightly to USD 13,623.2 in 2014 compared to USD 13,517.6 million in 2013. Overall the balance of trade had a deficit of USD 4,853.9 million.

Sector policies and programmes to support budget initiatives

Agriculture

TZS 1,001.4 billion, equivalent to 6.2% total budget, has been allocated for strengthening irrigation infrastructure, construction of warehouses and markets.

Energy and Minerals

TZS 916.7 billion has been allocated for the sector, of which TZS 447.1 billion is set aside for rural electrification supply projects. This allocation makes 5.7% of the total budget.

Infrastructure

TZS 2,428.8 billion has been allocated for the construction industry which is equivalent to 15.1% of the total budget. Out of this, TZS 322.4 billion has been allocated for transport infrastructure; TZS 1,608.5 billion for the construction and rehabilitation of roads and bridges; and TZS 9.5 billion to build and upgrade ports.

Water Supply

A total of TZS 573.5 billion, equivalent to 3.6% of the total budget would include has been set aside for strengthening the infrastructure of urban and rural water.

Services

Education

TZS 3,870.2 billion which makes 24% of the total budget has been allocated to improve the quality of education and strengthening education infrastructure. Of the amount, TZS 348.3 billion shall cover higher education loans.

Health

TZS 1,821.1 billion, equivalent to 11.3% of the total budget, has been allocated for the improvement of health services including medicine purchases, children vaccination, HIV and Malaria prevention, and construction of clinics.

Control of Public Expenditure

The Government will continue to use the bulk procurement system to source goods and services directly from manufacturers.

Another measure for managing the use of public funds is through the thorough review of claims before payments are made; enforcing the use of Electronic Fiscal Devices (EFDs) by the government and all its entities and encouraging the use of electronic bank payments/transfers through expansion on TISS network to reach all LGAs.

Payment of National Debt

During the period from July 2014 to April 2015, payment towards internal debt amounted to TZS 1,878 billion of which interest was TZS 921.2 billion.

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

Conclusion

In order to implement the budget, the Government will take the following factors into considerations:

- Ensure MPs monitor the performance of public agencies effectively by implementing the recommendations by CAG;
- The Government will pay its utility bills and avoid going into arrears; and
- The Government shall pay its outstanding debts to social security funds.

Increase in fuel taxes (road toll, petroleum levy)

The lowest PAYE marginal tax rate reduced to 11%

No increase on excise duties

New 1.5% levy on all imports

A number of tax increases in the gaming business

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 12% to 11% 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	11% on excess of TZS 170,000
360,001 to 540,000	TZS 20,900 + 20% on excess of TZS 360,000
540,001 to 720,000	TZS 56,900 + 25% on excess of TZS 540,000
Over 720,000	TZS 101,900 + 30% on excess of TZS 720,000

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

Decrease in Presumptive Income Tax rates

Presumptive income tax rates on small business have decreased by 25% for businesses with turnover in excess of TZS 4m but not more than TZS 20m. This follows last year's 100% increase in tax for small business.

Introduction of tax on gaming prize winners

Gaming prize winners to be taxed at 18% of the prize offered.

Other Income Tax Changes

Income arising from bonds issued by East African Development Bank now tax exempt

Income earned by holders of bonds issued by the East African Development Bank in the Tanzania domestic market and listed on the Dar es Salaam stock exchange is now exempted from tax. The move is aimed at enhancing the Bank's ability to offer low cost loans for investment projects

Removal of tax exemption on Government project financed by non-concessional loan

Interest on commercial loans for projects with Government will no longer enjoy tax exemption effective 1 July 2015. This change however will not affect agreements entered into by the Government before 1 July 2015.

Skills and Development Levy (SDL)

Exemption in SDL

SDL exemption on employment in farms has been “reinstated” following removal of such exemption in the Finance Act 2013.

However we have always believed that the exemption existed under a GN that was not revoked.

Tanzania Investment Act

Proposal to remove some items from the list of deemed capital goods under TIC.

The Minister has proposed to remove pipes (PVC and HDPE) – HS code 3917.31.00 from the list of deemed capital goods. This is based on the understanding that these pipes are now manufactured in a large quantity in Tanzania and therefore there is no need for such exemption.

The Minister also proposes the removal of exemption on the transport trailers from deemed capital goods under TIC in order to protect local manufacturers.

Introduction of a Special strategic investment under TIC

The Minister has proposed the introduction of “special” strategic investment criteria under the TIC. The minimum requirements for qualification include:

- A capital investment of US$ 300m that has to be brought in through a local financial institution;
- Should create employment for at least 1,500 Tanzanians including a satisfactory percentage in a managerial role in the company; and
- Be able to generate foreign exchange or produce alternative products to those imported.

Fuel Taxes

The Minister has proposed an increase in fuel taxes by changing the rates in both the Petroleum Act and the Road Toll Act as below:

	Old rate	New rate
Petroleum Levy - Petrol	50	100
Petroleum Levy - Diesel	50	100
Petroleum Levy - Kerosene	50	150
Fuel levy - Petrol	263	313
Fuel levy - Diesel	263	313

With these increases, we expect an immediate impact to be seen at the beginning of July on the prices of fuel.

Customs Duty

A council of Finance Ministers from the East African Countries who met in Arusha on 11 April 2015 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**).

Introduction of new tax under the EACCMA 2004

As part of the proposed infrastructure development agreed between the East African countries, a new tax called “Infrastructure levy” will be introduced. In Tanzania in particular, this will be referred to as “Railway Development Levy”.

The levy will apply at the rate of 1.5% of the value of the imported goods (CIF). This new levy will not be applicable to imported goods that have relief or exemption under the EACCMA 2004.

This is a significant change as it will affect most importers and consequently the values of imported goods. Expectations are that the collections will be directed to the investment in railway infrastructure.

Import taxes on Industrial Sugar to be paid in advance

The Minister has proposed an introduction of special procedures for paying import duty on importation of industrial sugar. Under the proposed procedures, importers will be required to pay 50% of the duty at the time of importation and will get a refund of 40% after the producing evidence to the satisfaction of TRA that the sugar has been used properly.

Currently the applied import duty rate on industrial sugar is at 10%. The Minister is of the view that this measure will prevent industrial sugar from illegally being diverted to the domestic market and therefore protect the local manufactures of sugar. Of interest however will be the controls to be put in place to monitor production and whether the refund of the residual 40% will come in time.

CET changes

1. Increase the special rate of import duty on sugar from US$ 200 per tonne or 100% of the value of such products (CIF) to US$ 460 per tonne or 100% of the value of goods after arriving at the port whichever is higher. The aim is to protect the local sugar producers from sugar imported from outside.

2. Increase the specific amount of import duty on rice from US$ 200 per tonne or 75% of the value (CIF) to US$ 345 per tonne or 75% of the value of the goods arriving at the port whichever is higher. The aim is to protect the local producers of rice from the rice imported from outside.

3. Continue to grant duty remission on hard wheat under HS Code 1001.99.10 and HS Code 1001.99.90. The aim is to provide relief to industries and manufacturers of products and foods that use this product and therefore strengthen the stability of the prices of products produced using the same wheat.

4. Increase of import duty rate from 10% to 25% on plastic tubes used for packing of toothpaste, cosmetics and similar products under HS Code 3923.90.20. This is intended to support the local production of plastic tubes in East African countries.

5. Reduction of import duty rate on wheat products used to manufacture groats and meals under HS Code 1103.11.00 from 25% to 0%. The aim is to increase the investment opportunities in the local production of raw materials from wheat.

6. 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.

7. Imposition of duty at 25% on steel products used in construction (bars, rods, angles, shapes and sections) under HS code 7213.10.00 and 7213.20.00. This is based on the understanding that the volume manufactured locally meets the demand. The change is aimed at protecting the local production of the steel products so that to be able to compete in the market.

8. Reducing import duty from 10% to 0% under duty remission on the sticks used to make match sticks under HS code 4421.90 for the period of one year. The aim is to reduce the production costs of matches and increase employment.

9. Reduction of duty from 10% to 0% on the glucose syrup products under HS code 1702.30.00 used to manufacture candy products since this product is not produced in the East African Community.

10. Reduction of the customs duty on the fibres used in making fishing nets under HS code 5402.61.00 from 10% to 0%. This will align with the duty rate of 0% that is already applicable on the final product (fishing nets) itself.

11. Reduce duty on buses under HS Code 8702.10.99 from 25% to 10% for Dar es Salaam bus project (Dar Rapid Transport – DRT) for one year.

EACCMA 2004 changes

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

- Exemptions granted to the Armed forces on the goods imported for office use only. This exemption now includes the Prison police force
- Continuing the granting of import duty exemption to Armed Forces Canteen Organisation for the period of one year.

Gaming Act Changes

Various changes are proposed in the Gaming Act as below:

- Imposition of principal licence fee of US$ 30,000 or TZS equivalent for the operation of lottery to predict the outcome of games (sports betting);
- Imposition of principal licence fee of US$ 10,000 or TZS equivalent on the operation of the games gambling machinery (Slot machines).
- An annual fee of TZS 1,000,000 will be payable to obtain a Certificate of Suitability

Export tax

The tax rate applied on export of raw hides will increase from 60% of the value of skin (FOB) or TZS 600 per Kg to 80% of the FOB or US$ 0.52 whichever is higher. This takes into account the agreement of the member states of the EAC to harmonize tax rates on raw skins and hides. The Minister also said the measure is aimed at preventing smuggling of raw hides and skins and encourage local processing zones of hides and skins within the community.

There is also a proposal to impose export tax at the rate of 10% of the FOB value of the skin on wet blue leather. The aim is to encourage value addition of these products and investment in the manufacturing of leather in the country.

Other Changes

Amendment of Treasury Registrar's Act (Powers and Function)

The Minister proposes to amend the Treasury Registrar's Act to put a ceiling on operating expenditure of various public institutions that are not funded by government subsidies. The proposal is to limit the expenditure to 60% of revenue collected by these institutions and 70% of the balance should be sent to the consolidated fund. In addition, the Minister proposes to increase the contribution to the consolidated fund by other institution from 10% to 15%.

Bank of Tanzania Act, 2006

The Minister is proposing to make a change under this Act to enable the Government to borrow one-eighth of prior year revenue instead of using the three years average.

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.

East Africa at a glance

Kenya

Continued investment in security, infrastructure and devolved Government

The Kenyan economy is projected to grow by between 6.5% and 7% in FY2014/15 compared to 5.3% in FY 2013/14, attributable to lower oil prices, increased investments by government and private entities, and renewed consumer confidence. This growth has been achieved despite continued insecurity which has adversely impacted tourism and other sectors.

Performance in the key sectors of the economy was as follows:

- The financial services sector grew by 8.3% in FY 2014/15 compared to 8.1% in FY 2013/14 driven by higher uptake of loans and advances with a decline in average lending rates and interest rate spreads;
- Information, communication and technology grew by 13.4% compared to 12.3% in FY 2013/14 attributed to mobile and internet penetration;
- Building and construction grew by 13.1% compared to 5.8% in FY 2013/14 attributed to increased government spending on the construction of roads and the standard gauge railway;
- Manufacturing sector grew at a lower rate of 3.4% in FY 2014/15 compared to 5.6% in FY 2013/14 due to modest inflation coupled with lower prices in the second half of the year;
- Agricultural sector recorded a reduced growth of 3.5% compared to 5.2% in the previous year. This was attributed to inadequate rainfall and suppressed global tea prices; and
- Tourism earnings declined by 7.3% impacted by insecurity.

Inflation increased from an annual average of 5.7% in FY 2013/14 to 6.9% in FY 2014/15 due to an increase in the prices of basic commodities which outweighed lower oil and electricity prices.

The Kenya shilling has depreciated against the US dollar in the year. However, it has held firm against the other East Africa currencies.

The priority areas highlighted in the FY 2015/16 budget include the following:

- Tackling insecurity to sustain growth momentum of the economy;

- Infrastructure development to facilitate faster and more inclusive growth;
- Agricultural and industrial transformation aimed at enhancing food security, industrialisation and job creation;
- Revamping the National Youth Service and investing in women;
- Enhancing the quality, relevance and accessibility of education, health care and social services; and
- Increasing support to devolved county governments through increased allocation of revenues.
- Health: water and good governance;
- Voter registration and national identity cards; and

Macro-economic objectives highlighted in the budget include the following:

- 7.3% GDP growth in 2015;
- Increase domestic revenue ratio to GDP to reach 14.8% by 2015/16;
- Continue to control inflation at a single digit level; and
- Ensure stability of exchange rate.

Tanzania

Tanzania's GDP grew by 7% in 2014 compared to 7.3% in 2013.

In 2014, the economy experienced a 10.8% growth in the financial services sector, 12.5% growth in transport and storage, 14.1% growth in construction, 10% growth in trade and retail and 3.4% growth in the agricultural sector.

Inflation averaged 6.1% in 2014 and had reduced to 4.5% by April 2015.

The priority areas for FY 2015/16 budget include:

- Infrastructure: transportation (roads, railway, airports and marine transport). Investment is aimed at reducing congestion in urban areas, costs of transport and transportation of goods and services and therefore curbing inflation;
- Energy and Minerals: power generation and rural electrification;
- Agriculture: including food and cash crops, irrigation, industrial raw materials, livestock, fisheries and forestry. The measures will enhance production of crops, food security and ensure availability of reliable markets;
- Education: infrastructure, study equipment;

Uganda

The economy is projected to grow at 5.3% in FY 2014/2015 compared to 4.5% in FY 2013/2014. This growth has been largely attributed to the recovery in private sector consumption as well as acceleration in both public and private investment.

Uganda's inflation reduced to 3.1%, in FY 2014/2015 in comparison to 6.7% in FY 2013/2014.

The priority areas highlighted in the FY2015/2016 budget are:

- Maintenance of national security and defense;
- Facilitation of private sector enterprise development;
- Effective development and maintenance of infrastructure;
- Commercialization of production and productivity in primary growth sectors;
- Enhanced capacity for increased domestic revenue mobilization;
- Increased social service delivery; and
- Enhanced efficiency in

Government management.

Rwanda

Rwanda's real GDP growth rate increased to 7% in FY 2014/2015 compared to 4.7% achieved in FY 2013/14.

Performance highlights include 9% services sector growth, 6% industry sector growth and a 5% increase in the agricultural production sub sectors.

Rwanda continued to achieve low inflation; the inflation rate in December 2014 was 2.1%.

Exports and imports grew by 3% and 8%, respectively, in FY 2014/15.

The Rwanda Franc appreciated against all regional currencies except the Burundi Franc.

The allocation of resources in the 2015/16 fiscal year has been made taking into account the Economic Development and Poverty Reduction Strategy (EDPRS2) priorities. The main areas of focus under the EDPRS2 are:

- The economic transformation which has been allocated 23% of the total budget. This includes: accelerating growth in exports, timely completion of ongoing energy projects, accelerating transport projects to meet targets and ensuring roads connect productive uses and ICT focus on security and increasing country wide access;

- Rural development has been allocated 13% of the total budget. This includes: increasing access to inputs, increasing the number of priority crops and funding one-off investments; water and sanitation; and affordable housing, rural settlement and plot servicing;

- Productivity and youth employment has been allocated 8% of the total budget; and

- Accountable governance which has been allocated 5% of the total budget.

- ***Key highlights from the Kenya, Tanzania, Uganda and Rwanda***

	Kenya	Tanzania 2014(2013)	Uganda	Rwanda
Real GDP growth	6.5% (5.3%)	7% (7.3%)	5.3 (4.5%)	7.0% (4.7%)
Overall inflation	6.0% (6.9%)	6.1% (7.9%)	3.1% (6.7%)	2.1% (3.7%)
91 day treasury bill rates	8.6% (9.5%)	8.9% (12.47%)	14.1% (8.9%)	4.1% (5.3%)
	KShs	*TShs*	*UShs*	*RwF*
Exchange rate to the dollar (Local currency = US$1)	90.9 (87.9)	1,653 (1,598)	3,115 (2,580)	716 (680)
Budgeted spend (billions)	2,002 (1,757)	2015/16 22,495 (19,853)	18,133 (13,988)	1,636 (1,649)
Recurring (billions)	1,280 (1,248)	2015/16 16,576 (13,408)	8,716 (7,550)	889 (865)
Development (billions)	721 (509)	2015/16 5,919 (6,445)	6,802 (4,881)	747 (784)

Customs and Excise duty

Kenya

Customs Duty

- Reduction of customs duty on nylon yarn from 10% to 0% to encourage local manufacturers of fishing nets.

- An increase of import duty on ready-made fishing nets from 10% - 25% to protect local industries.

- An increase in the specific duty rate on imported sugar from USD 200 to USD 460 per metric tonne while maintaining the advalorem rate at 100% to cushion the sector from unfair competition and enable our local companies to break even.

- In October 2014, duty on paper and paper board was increased to 25%. Common External Tariff (CET) on these products has now been reduced to 10% to lower the cost of paper and paper board.

- To deter smuggling of raw hides and skin out of the country the export duty rates had been harmonised across EAC at 80% of Free On Board (FOB) value or USD 0.52 per kg whichever is higher.

- To protect local manufacturers the import duty rates on plastic tubes for packing toothpaste and cosmetics has been increased from 10% to 25%.

- To encourage investors to produce pasta locally, gazetted manufacturers of pasta will be entitled to full duty remission on Semolina (the raw materials used in making pasta).

- Import duty rate for gas cylinders has been increased from 0% to 25% to protect local manufacturers of gas cylinders.

- Prison authorities have been included in the duty exemption schedule. This will enable them import duty free goods, materials, equipment and other supplies for their official use.

Excise duty

- To counter the consumption of illicit brew, beer and wine made from local agricultural products excluding barley will be granted remission.

- To encourage the local production of aluminium milk cans, import duty has been increased from 10% to 25% on importation.

- The CS has once again promised to table a new excise bill in parliament to simplify the current excise regime. Excise duty on alcoholic beverages will be adjusted upwards to cater for inflation. Cigarettes will be taxed on a specific regime. Duty on motor vehicle and motor cycles will be on a graduated scale based on age.

- Non-biodegradable plastics bags will be subject to duty at KES 120 per kg.

- All bottled water and other goods that have no harmful effect will not be taxable under the new excise law.

Tanzania
Customs Duty

- Increase in import duty on rice from USD 200 per tonne or 75% of the value to USD 345 per tonne or 75% of the value whichever is higher.

- Increase in import duty on sugar from USD 200 per metric tonne or 100% of the value to USD 460 per metric tonne or 100% of the value whichever is higher.

- A special procedure was also announced for industrial sugar which will be subject to 10% duty. The initial payment by importers will be 50% but a refund of 40% will be provided once the TRA has certified that the sugar has been used in the manufacturing process.

- Removal of some PVC pipes and HDPE from the list of deemed capital goods.

- Increases in duty on: plastic tubes for toothpaste to 25%; steel products used in constructions to 25%.

- Reduction in the duty rate to 0% on: semolina used as a raw material to make pasta; glucose used in producing candy products; fibres used in making fishing nets; solvent used for match sticks .

- Extension of duty at 0% for manufacturers using LABSA as a raw material for soap manufacture for a further year.

- Extension of import duty reduction to 10% on buses for transportation of more than 25 passengers for a further period of one year.

- Extension of stay of import duty rate of 10% on wheat grain.

- Extension of exemption for the Armed Forces Canteen Organisation for a period of one year.

- Amendment of the 5th Schedule to the East Africa Community Customs Management Act (EACCMA) to provide import duty exemption for goods imported for official use by the Armed Forces and Police Force Prisons.

Fuel taxes

- Increase in petroleum levy of TZS 50 per litre for diesel and petrol and TZS 100 per litre for kerosene.

- Increase in road toll of TZS 50 per litre for diesel and petrol.

Infrastructure levy

As part of the proposed infrastructure development agreed between the East African countries, a new tax called "Infrastructure levy" will be introduced. In Tanzania this will be referred to as "Railway Development Levy". The levy will apply at the rate of 1.5% of the value of the imported goods (CIF) but not to goods imported that have relief or exemption under the EACCMA 2004.

Excise duty

No increase announced on excise duties.

Uganda

Customs Duty

- Increase of the environmental levy on import of used motor vehicles from the current rate of 20% to -

i) 35% of CIF value for motor vehicles which are between five and ten years old, and

ii) 50% of CIF value for motor vehicles which are ten years old or more.

- Remission and in some cases, reduction of import duty on road tractors for semitrailers, goods vehicles for transporting varying tonnage of between five and 20 tonnes.
- Increase of passport fees from UGX 120,000 to UGX 150,000, with the exception of the East African passport that remains at UGX 80,000.
- Introduction of a non-refundable work permit fee of USD 500 per application.

Excise Duty

The proposed amendments to the Excise Duty Act include:

- The excise duty regime has been widened to cover furniture, motor vehicle lubricants and sweets. The applicable rates are 10%, 5% and 10% respectively.
- Removal of excise duty on incoming international calls from the Northern Corridor states (Kenya, Rwanda and South Sudan). This took effect on 1 January 2015.
- Reduction of duty on un-denatured spirits from UGX 4,000 per litre or 140%, whichever is higher to UGX 1,000 per litre or 100%. This is intended to encourage consumption of high quality un-denatured spirits.
- The excise duty changes also include increases of duty on the items below:

i) Beer whose local material content excluding water, is at least 75% by weight of its constituent from 20% to 30%;

ii) Gas oil (automotive, light, amber for high speed engine) from UGX 630/- per litre to UGX 680/- per litre;

iii) Motor spirit(gasoline) UGX 950/- per litre to UGX 1000/- per litre;

iv) Increase of duty on other wines from 70% to 80%;

v) Duty on soft cap increases from UGX 35,000 per 1000 sticks to UGX 45,000 per 1000 sticks;

vi) Duty on hinge lid increases from UGX 69,000 per 1000 sticks to UGX 75,000 per 1000 sticks.

Rwanda

Customs Duty

Import duty rates have been amended as follows for goods originating outside EAC;

- From 25% to 0% for Road Tractors/Semi Trailors;
- From 25% to 10% on motor vehicles weighing between five to 20 tonnes;
- From 10% to 0% for motor vehicles that weigh more than 20 tonnes.
- Motor vehicles which carry between 25 and 50 passengers will be taxed at 10% down from 25% while those carrying above 50

passengers will be taxed at 0%.

- Imported sugar which is below 70 tonnes will be taxed at 0%.
- From 35% to 0% on wheat;
- From 75% to 45% or USD 200 per tonne on rice in husks;
- Raw materials appearing on approved list will be taxed at 0%.
- Telecommunication equipment to be taxed at 0%.

Excise Duty

The taxation of tobacco is to be amended to a hybrid tax system. Currently, tobacco is taxed through a purely advalorem excise tax system which is based on CIF value/ex-factory price base at the rate of 150%.

The proposed change is to tax tobacco at an advalorem excise of 36% of retail price plus a specific excise tax of Rwf 30 per pack of 20 rods. This change is expected to generate Rwf 5.0 billion to the tax collection. The proposed change is expected to take effect from 1 July 2015.

Direct and indirect taxes

Kenya

Income

- Proposal to introduce taxation at 12% for landlords whose gross rental income is below KES 10 million per year.
- Further, the CS proposed a tax amnesty for all landlords who have been non-compliant.
- Removal of the 5% capital gains tax arising from sale of shares and introduction of 0.3% withholding tax on the transaction value of the shares.
- Reduction of tonnage of ships qualifying for Investment Deduction (ID) from 495 tons to 125 tons. Further, an increase in the ID rate from 40% to 100% has been proposed.
- Proposal to extend the period to utilise tax losses to ten years without obtaining approval of The National Treasury for power producers, manufacturers and hotel operators.

Withholding Tax

- To promote the film industry, proposal to exempt payments made by a film producer to foreign actors and crew members. Previously, a withholding tax of 20% was applicable.
- To promote harmonisation in the extractive sector, withholding tax will be at the rate of 12.5% for training services and 5.6% for contractual services.

Value Added Tax

The CS has proposed to include the following items under the exemption schedule:

- Goods and services purchased for use in film making;
- Plastic bag biogas digesters for cooking and

lighting for rural households;

- Inputs imported or purchased locally for the assembly of ICT devices;

- Taxable goods and services for use in the construction of infrastructure works in industrial and recreational parks of 100 acres or more.

- Importation of duty free goods, materials, equipment and other supplies by prison authorities for their official use.

Proposal to zero rate services in respect of goods in transit.

Returning residents will now be allowed to import replacement of left hand motor vehicles subject to specific conditions.

Refund claims to be lodged within 12 months from the date the tax became due and payable.

Personal Taxes

- Proposed tax rebate for employers hiring and training at least ten fresh graduates for a period of between six to 12 months.

- Further proposal to consolidate all the training levies into a National Job Fund.

Tanzania

Income Tax

Proposed amendments to the Income Tax Act include:

- Income and gains arising from bonds issued by the East African Development Bank in the Tanzania domestic capital market will be exempt from tax.

- Gaming winnings subject to tax at 18% of the value of the prize.

- Special strategic investment status to be granted to investors who invest at least USD 300 million (in cash or assets) channeled through local financial institutions, employ at least 1,500 Tanzanians (including senior positions) and generate foreign exchange or reduce importation.

- Eliminate tax exemption on government projects financed by commercial loans.

- PAYE threshold to be adjusted from 12% to 11% to provide relief of tax burden to employees of TZS 1,900 per month.

- Confirmation of exemption of Skill and Development Levy for agricultural sector.

- Presumptive tax rate to be reduced by 25% on small businesses.

Value Added Tax

- No changes announced. New VAT Act expected to be enacted on 1 July 2015.

Uganda

Income Tax

The proposed amendments to the Income Tax Act include:

- Taxpayers will not be able to claim a deduction in their tax returns for any expenditure above UGX 5 million incurred on goods and services from a supplier who does not have a Tax Identification Number (TIN). This threshold applies on a transaction basis. It is a new measure aimed at bringing the informal sector into the tax bracket.

- All local authorities, government institutions and regulatory bodies will now require a person applying for a license or any form of authorisation to have a TIN.

- The types of reorganisations that are entitled to roll-over relief for capital gains tax purposes have been defined.

- The definition of a “Branch” of a non-resident company has been extended to include a place where a person furnishes services including consultancy services, if the services continue to be rendered for the same or to a connected project for more than ninety days in any twelve month period.

- The Income Tax Amendment Bill also introduces a definition of the term ‘immovable property’ for mining and petroleum operations. It includes a mining right, petroleum right, mining information, or petroleum information.

- There are changes to the thin capitalisation rules. The allowable debt to equity ratio for foreign controlled entities has been amended to 1.5:1 (from the current 1:1).

- Further, the thin capitalisation rules will now apply to all interest-bearing debt of a foreign-controlled resident company. Currently the restriction only applies in general to loans from a foreign related party (i.e. the foreign controller or an associate).

- Thin capitalisation rules have also been extended to branches of non-resident companies.

- The withholding tax on reinsurance premiums which was introduced in July 2014 has been reduced from 15% to 5%.

- The exemption of imported and locally procured plant and machinery, petroleum products and raw materials from 6% withholding tax has been removed.

- Taxpayers providing passenger or freight transport services using vehicles with a load capacity of more than two tonnes will now be required to pay an “advance tax” before renewal of their operational license.
- The threshold for presumptive tax has been increased from UGX 50

million to UGX 150 million. In addition, the presumptive tax rate has been reduced to 1.5% from 3%.

Value Added Tax

The proposed amendments to the VAT Act include:

- The VAT annual registration threshold has been increased from UGX 50 million to UGX 150 million.

- The zero-rating of cereals grown and milled in Uganda which was scrapped in July 2014 has been reinstated, effective 1 January 2015.

- The threshold for cash based accounting for VAT has been increased from UGX 200 million to UGX 500 million.

- The list of VAT exempt public international organisations was amended to include the Global Fund to fight AIDS, Malaria and Tuberculosis and the Uganda Red Cross Society.

VAT for petroleum sector

Mining and petroleum operators will now be allowed to register for VAT regardless of whether they are making taxable supplies or not. This is a welcome relief to the operators as they had been de-registered for VAT and as such were not able to claim the significant input VAT incurred in the pre-operating phase.

In addition, mining and petroleum licensees will now be allowed to claim a credit for input VAT charged under the reverse charge mechanism on imported services.

Rwanda

Rwanda is undergoing comprehensive tax reforms hence no changes were announced in this budget.

Miscellaneous

Kenya

Other taxes

- In order to tap into the gaming industry, the CS has re-introduced a simplified gaming tax, which will be a direct charge on the gross gaming revenue. The tax covers public lotteries which are to be taxed at 5% of the lottery turnover and bookmakers at 7.5% of the gross betting revenues.

- Also, all prize competitions where the costs of entry are premium shall be taxable at 15% of the total gross revenue.

- Tax Procedure Bill to be introduced. This will contain uniform procedures across the three tax legislations.

- The Road Maintenance Levy was increased by KES 3 per litre to be collected and paid into the Road Annuity Fund.

- The IDF rate has been reduced from 2.25% to 2%.

Tanzania

Others taxes and levies

Export Levy

Increase of export levies on raw hides and skins from 60% or TZS 600 per kilogram to 80% or USD 0.52 per kilogram whichever is higher and 10% for intermediate to intermediate level (wet blue leather).

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.

Uganda

Uganda enacted a Public Finance Management Act, 2015 which requires that the budget for the next financial year be presented before Parliament by 1 April. In addition, the Appropriation Bill and any other Bills that may be necessary to implement the annual budget are to be approved by Parliament by 31 May of each year.

This is change from the past where the budget was presented to Parliament together with the Tax Bills after the budget had been read.

International agreements

The Government has ratified the following international agreements:

- The EAC Double Taxation Agreement. This DTA will come into force when all the EAC partner states have ratified it. So far, only Rwanda and Uganda have ratified the DTA.
- The Agreement for the Establishment of the African Tax Administration Forum (ATAF) on Mutual Assistance in Tax Matters. The ATAF Agreement was adopted by members in 2010.
- The OECD Convention on Mutual Administrative Assistance.

These agreements have been laid before Parliament in accordance with Section 4 of the Ratification of Treaties Act Cap 204.

Tax Administration

As part of the strategy to enhance compliance and revenue collections, Uganda Revenue Authority will undertake the following measures:

- Implement the Joint Compliance Campaign involving the Uganda Registration Services Bureau and Kampala Capital City Authority aimed at widening the tax base and increasing revenue collection.
- Undertake taxpayer sensitization and education on tax policy changes.
- Strengthen the international taxation function with respect to audit capacity of international transactions and exchange of information with other tax

jurisdictions.

- Expand Taxpayer Registration and Expansion Program (TREP) outside greater Kampala, Maraca, Wakes, Mikonos, Aura and Lira.
- Automate the exchange of information and enforcement collaboration between the Ministries Departments and Agencies within greater Kampala.
- Expand the implementation of the Single Customs Clearance Process.
- Enhance information management systems to facilitate faster clearance of goods by rolling out the Electronic Cargo Tracking System (ECTS) to Mombasa, implementing centralized Document Processing and implementing a centralized automated valuation database.

Rwanda

Others taxes and levies

Road maintenance levy

The levy on petrol and gasoil has been increased from Rwf 62.37/litre to Rwf 82.37/litre. The funds collected are to be used to finance District Class 2 roads. The expected revenue impact of the increase will be Rwf 5.2 billion.

Infrastructure development levy

In order to finance infrastructure projects, such as railway and energy, a 1.5% infrastructure development levy has been introduced on all goods imported outside EAC. This is per the agreement by the EAC Ministers of Finance during their pre-budget consultative meeting. The Government expects to collect revenue amounting to Rwf 10.6 billion from this levy.