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Budget 2017

PwC Insight and Analysis

June 2017

Agenda

- *BUSINESS ENVIRONMENT*
- *REVENUE PERFORMANCE / TARGET*
- *BUDGET TAX CHANGES*
- *EMERGING TAX ISSUES*
- *PANEL DISCUSSION*
- *END OF SESSION*

Business Environment

IMF country report – Dec 2016 – key issues

- **Overall strong macro-economic performance:**
 - Real GDP growth for 2016: 7% (projected)
 - Inflation decline to below 5% target
 - Downside risks to economic growth: current tight macro-economic policies; slow pace of public investment; private sector uncertainty about Government strategies
- **Ambitious development and reform agenda:**
 - Strong drive against corruption and tax evasion, leading to higher fiscal revenues
 - Implementation of second 5 year development plan which envisages significant structural transformation in relation to infrastructure gap and human development
- **Recommended a loosening of monetary policy to address tight liquidity situation and support credit to private sector**

IMF Country Report – December 2016

Positive long term projection on Tanzania

UNITED REPUBLIC OF TANZANIA

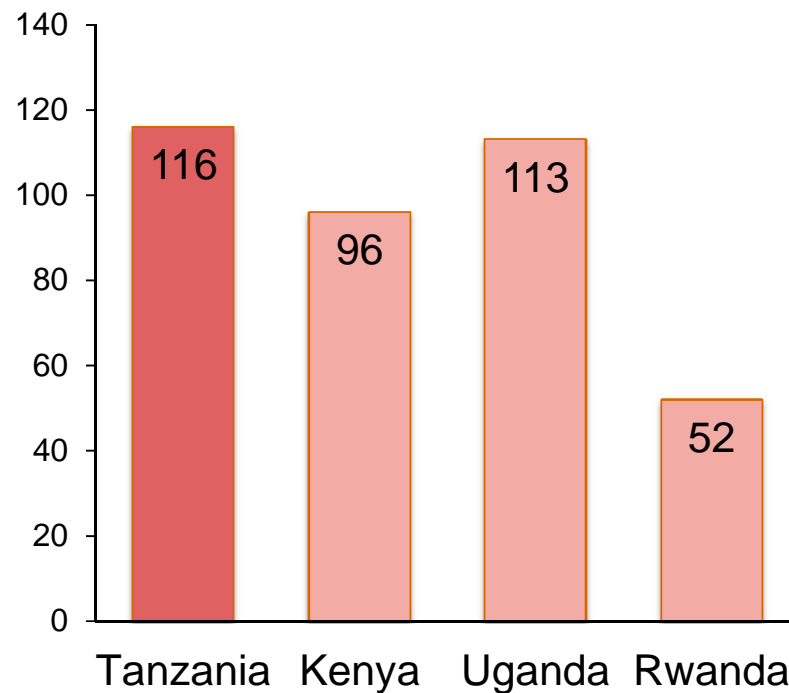
Text Table. Tanzania: Selected Economic Indicators

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Real GDP growth (%)	7.0	7.0	6.9	7.0	6.9	6.7	6.5
Inflation (yoy, %, end-period)	6.1	5.5	5.0	5.0	5.0	5.0	5.0
Overall fiscal balance (cash basis, % of GDP)	-3.3	-3.5	-4.6	-4.6	-4.5	-4.5	-3.7
Government capital spending (% of GDP)	4.4	4.5	9.7	8.8	8.7	8.9	8.1
External current account balance (% of GDP)	-9.8	-5.6	-7.5	-7.5	-7.4	-7.4	-6.8
Gross international reserves (months of next year's imports)	4.5	3.5	3.8	3.9	4.1	4.2	4.3

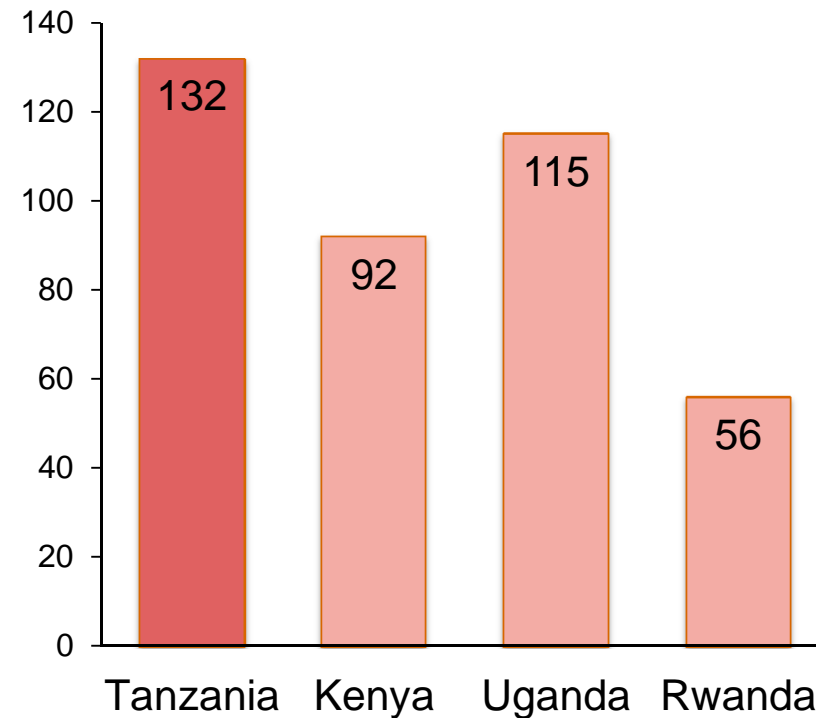
Sources: Tanzanian authorities and IMF staff projections.

But there are business environment challenges:

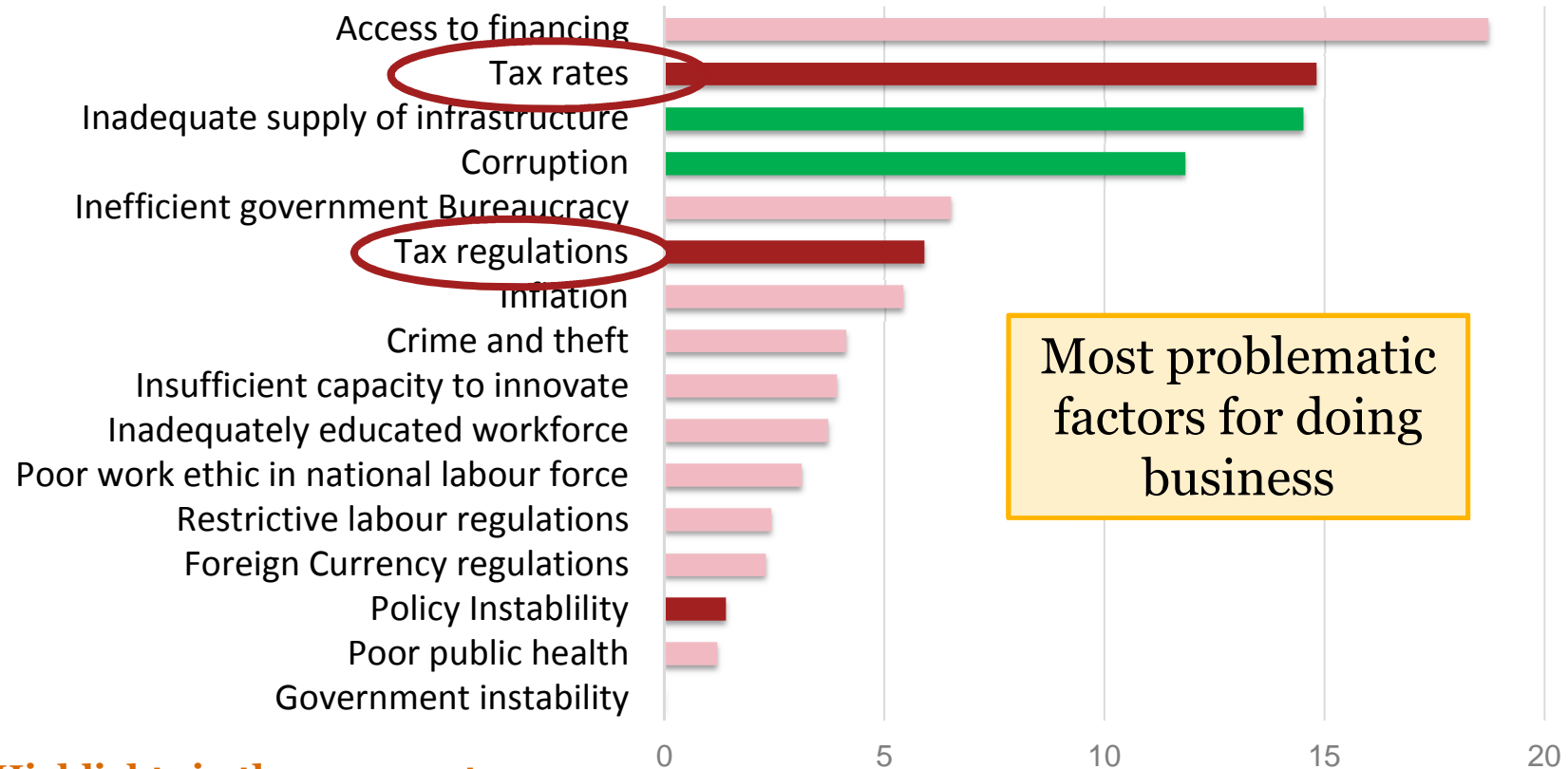
World Economic Forum (WEF)
Global Competitiveness Ranking
(116th out of 138)



World Bank
Ease of Doing Business ranking
(132nd out of 190)



WEF Global Competitiveness Report 2016-17



Highlights in the commentary:

- Strong **Institutions** (83rd)
- **Infrastructure** underdeveloped (118th) with poor roads and ports and an unreliable electricity supply (113rd) although this is improving.
- **Education** - enrolment rates at the secondary and university levels (124th & 132nd place respectively)

Changes being made ... but with little consultation

Focus on corruption

- Already an improvement on the corruption perceptions index

Enforcing tax collection at borders - to protect local industry

- prevention of illegal imports of cement/sugar

Policy changes – lack of consultation or warning of changes

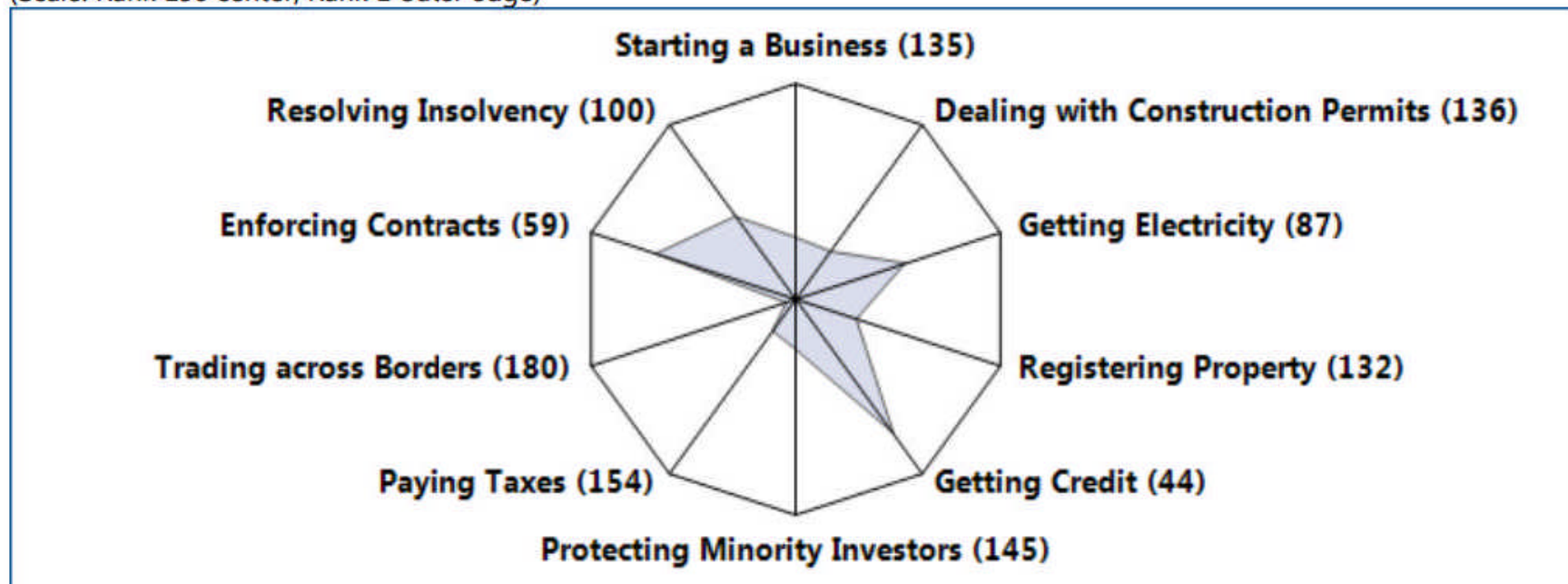
- Financial sector – Public sector deposits; tax changes
- Telecoms – Listing requirements; tax changes
- Mining - Listing requirements; Mineral export ban
- Manufacturing - Ban on plastic sachets
- Finance Act - timing

Deadline set for mining firms to go public as new law is enforced



Doing Business 2017 Ranking (132/190) is an improvement on prior year driven by better “getting credit” indicator, but indicators for “paying taxes” and “trading across borders” remain poor

Figure 1.3 Rankings on *Doing Business* topics - Tanzania
(Scale: Rank 190 center, Rank 1 outer edge)



“Paying Taxes” and “Trading Across Borders” indicators remain a challenge

Paying Taxes 2017 East Africa comparison:

- 1. Rwanda (59)***
- 2. Uganda (75)***
- 3. Kenya (125)***
- 4. Tanzania (154)***

Paying Taxes Indicator - Derived from the following three factors:

- 1. Time to Comply** (number of hours)
- 2. Total Tax Rate** (total taxes as % of commercial profit)
- 3. Tax Payments** (number of payments)
- 4. Post Filing Index** (time to comply/receive VAT refund; time to comply/complete tax audit)

Trading across borders measures time and costs (excluding tariffs) for following:– documentary compliance; border compliance and domestic transport

World Bank – Tanzania Economic Update

April 2017

*“..reforms are needed in the following areas:
predictability of policy making is central – without that, private sector actors will not have the confidence to invest and create jobs; **streamlining taxes and regulations** will unleash the ability of businesses, especially small businesses, to grow;”*

*“The negative business sentiment indicators point to the **need for the Government to promptly engage in public-private dialogue on investment climate**, and over the medium term, help restore confidence in the economy by hastening reforms and policy adjustments that would sustain higher private investment and growth”*

IMF Deputy Managing Director Tao Zhang

Extract from May 17, 2017 speech in Dar es Salaam

“Tanzania, like many other countries, has learned the limits on the statist impulse to lead development. Governments have a key role to play providing stable policy and regulatory frameworks for development. But it is ultimately the market that is the engine of growth — creating employment and opportunities. A strong market-based economy can foster economic diversification, expand trade and deepen Tanzania’s integration into global value chains. So, government policy is most effective when its objective is to support a market-based economy and cultivate a dynamic private sector.

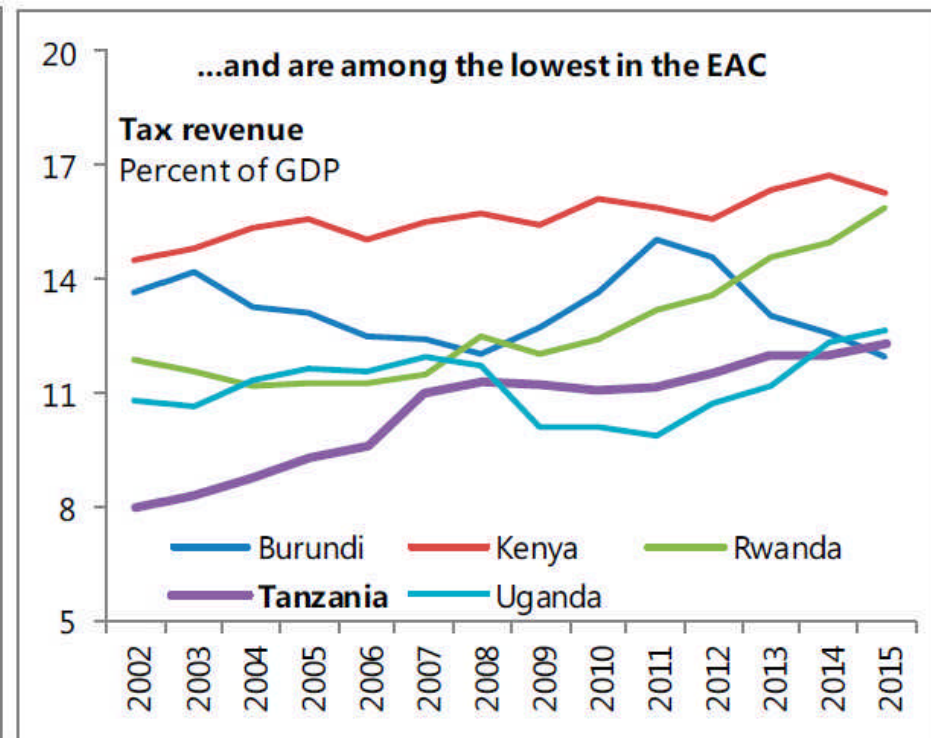
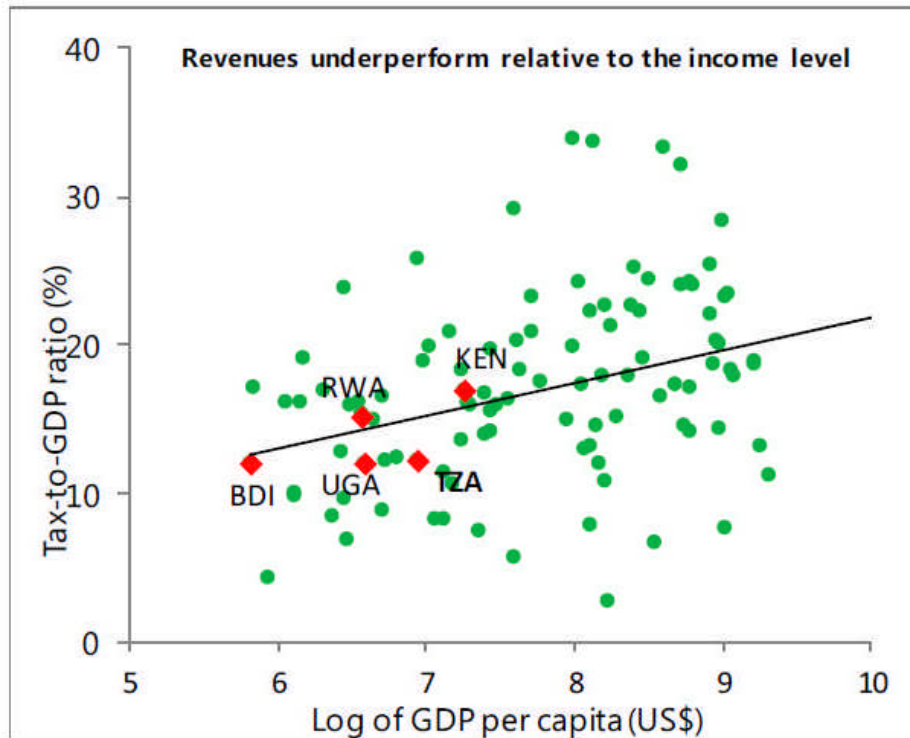
*Many African countries are addressing the same issue. And **our advice includes the following steps that we believe to be useful for Tanzania:***

- ***Make the government decision-making process more transparent and predictable across a range of rules and regulations.***
- *One area where cutting red tape can make a big difference is to **focus on simplifying the procedures for opening new businesses.***
- *Business thrives when the judicial system is seen as fair. So, **strengthening the framework for resolving legal disputes is key.***
- *Finally, **it is important for business to feel it has a say in policy. It is useful to broaden consultations with the private sector on planned reforms, including changes to legislation.***

These are measures that would be greatly supportive of economic growth. And they would expand the tax base and help fund development.”

Revenue Performance / Target

IMF Country Report (Dec 2016) highlights Tax to GDP ratio as a concern:



Source: Tanzanian authorities and IMF staff calculations.

Collections to Dec 2016 – below budget (even with minimal refunds), but strong growth in Domestic Revenue collections.....and what has happened to VAT refunds??

Collections by Department	Total	Total	Total	Variance	Variance	Proportion of collections
6 MONTHS TO 31 DEC 2016	2015/16	2016/17	2016/17	2016/17	2016/17	
	Actual	Budget	Actual	Prior Yr	Budget	
	TZS bn	TZS bn	TZS bn	%	%	
Taxes on fuel	869	1,003	993	14%	-1%	
Other taxes on imports	1,718	2,083	1,976	15%	-5%	
Customs & Excise	2,588	3,086	2,969	15%	-4%	41%
Large Taxpayer Dept	2,646	3,185	2,756	4%	-13%	38%
Domestic Revenue Dept	1,152	1,553	1,445	25%	-7%	20%
	6,386	7,823	7,170	12%	-8%	
Add: Treasury Vouchers	12	16	12	1%	-26%	
Less: Transfers to refunds A/C	(297)	(303)	(51)	-83%	-83%	
Less: VETA	(30)	-	-			
	6,071	7,536	7,131	17%	-5%	

Collections to Dec 2016 show a decline in revenue from traditional industries, but increase elsewhere

VAT & Excise Duty on Local Supplies	Total	Total	Total	Variance	Variance	Proportion of collections
6 months to 31 DEC 2016	2015/16	2016/17	2016/17	2016/17	2016/17	
	Actual	Budget	Actual	Prior Yr	Budget	
	TZSbn	TZSbn	TZSbn	%	%	
Telecommunications	235	281	214	-9%	-24%	
Beer	194	231	188	-3%	-18%	
Cigarettes	100	120	96	-4%	-20%	
Spirits & konyagi	77	106	67	-12%	-37%	
Soft Drinks	42	65	42	1%	-36%	
Electricity	55	77	35	-36%	-55%	
Sugar	19	35	28	46%	-18%	
Cement	12	14	5	-61%	-66%	
Sub-Total	735	929	676	-8%	-27%	43%
Other	598	900	880	47%	-2%	57%
Total before refunds	1,333	1,829	1,556	17%	-15%	
Transfers to refund a/c	(278)	(285)	(48)	-83%	-83%	
Total after refunds	1,055	1,544	1,509	43%	-2%	

Decline in VAT collections indicative of profitability challenges – have we hit “peak excise”?

6 months to 31 DEC 2016	2015/16	2016/17	2016/17	2016/17	2016/17
	Actual	Budget	Actual	Prior Yr	Budget
	TZS bn	TZS bn	TZS bn	%	%
Telecommunications					
Excise Duty	127	143	134	6%	-7%
Value Added Tax	108	138	80	-26%	-42%
	235	281	214	-9%	-24%
Beer					
Excise Duty	118	136	119	1%	-12%
Value Added Tax	77	95	69	-9%	-27%
	194	231	188	-3%	-18%
Cigarettes					
Excise Duty	72	87	74	4%	-14%
Value Added Tax	29	34	22	-24%	-35%
	100	120	96	-4%	-20%
Soft Drinks					
Excise Duty	20	41	24	20%	-42%
Value Added Tax	22	24	18	-17%	-25%
	42	65	42	1%	-36%

Collections for 9 months to March 2017 – 15% up on prior year, but only 10% increase once adjusted for lack of refunds

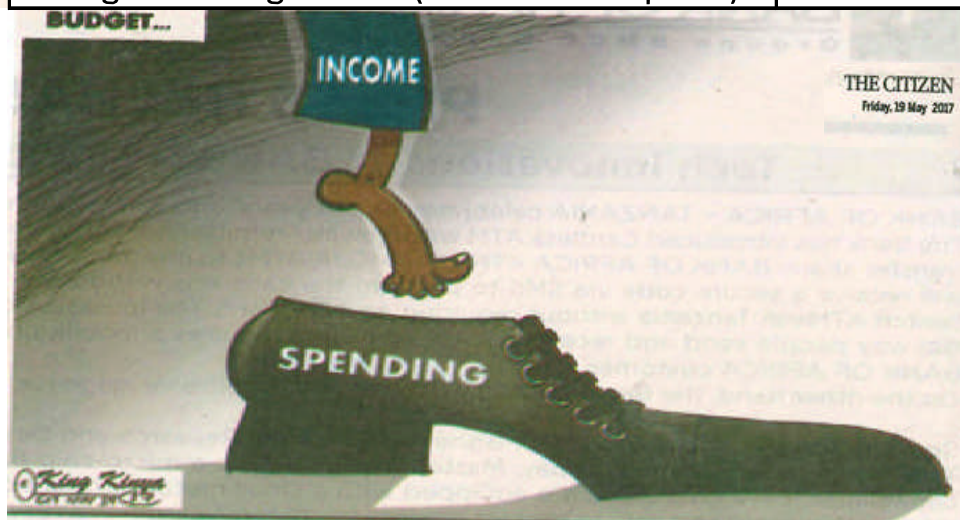
Collections by Department	Total	Total	Total	Variance	Variance
9 MONTHS TO 31 MAR 2017	2015/16	2016/17	2016/17	2016/17	2016/17
	Actual	Budget	Actual	Prior Yr	Budget
	TZS bn	TZS bn	TZS bn	%	%
Customs & Excise	3,944	4,635	4,382	11%	-5%
Large Taxpayer Dept	4,051	4,846	4,167	3%	-14%
Domestic Revenue Dept	1,786	2,321	2,172	22%	-6%
	9,781	11,802	10,721	10%	-9%
Less: Refunds and transfers	(530)	(575)	(95)	-82%	-83%
	9,252	11,227	10,626	15%	-5%

Source: MoF speech to Parliament in May

Budget targets for domestic revenue / GDP, and tax revenue / GDP of 14.5% and 14.2% respectively



Budget Targets	Budget	
	2017/18	2016/17
GDP growth	7.0%	7.2%
Inflation	single digit	5.0%-8.0%
Domestic revenue / GDP	14.5%	16.9%
Tax revenue / GDP	14.2%	13.8%
Government expenditure / GDP	24.9%	27.0%
Budget deficit / GDP	3.8%	4.5%
Foreign exchange cover (months of imports)	4 months	4 months



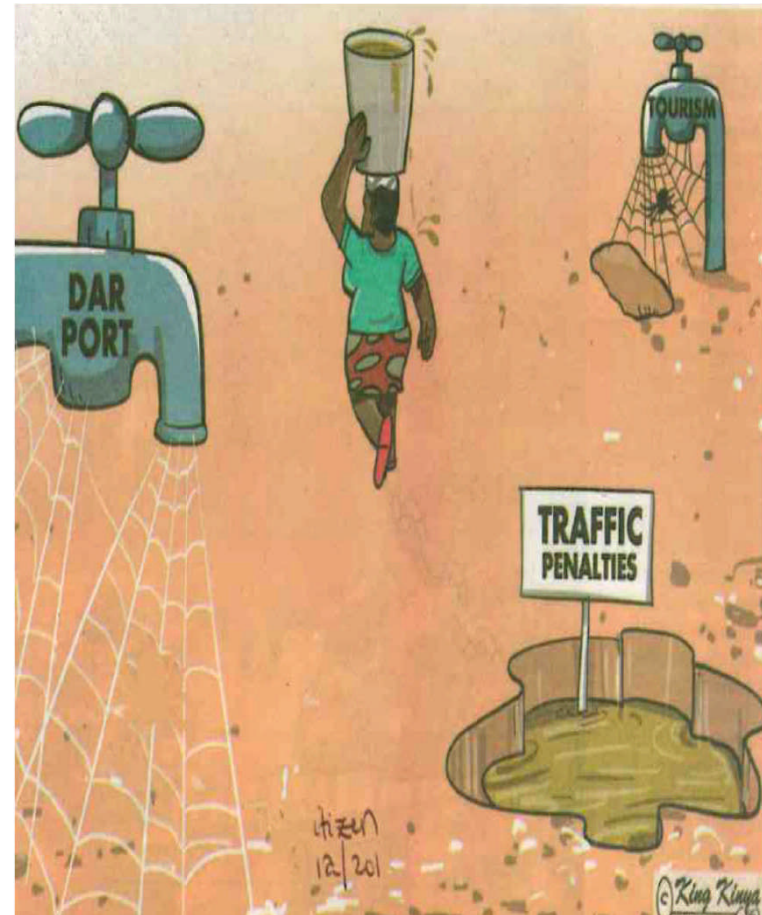
Tax revenue budgeted at 13% higher, and non-tax revenue 19% lower than 2016/17 budget

		2017/2018	2016/2017	
		12 month	12 month	
		Budget	Budget	
		TZS' bn	TZS' bn	Increase
Domestic Revenue:				
	Tax Revenue - TRA	17,106	15,105	13%
	Non Tax Revenue	2,183	2,693	-19%
		19,290	17,798	8%
	Local Government Authorities (LGA) own source	687	665	3%
	Domestic Revenue + LGA	19,977	18,464	8%
	General budget support	941	483	95%
	Foreign loans and grants (incl. MCA (T))	3,030	3,118	-3%
	Domestic borrowings	6,169	5,374	15%
	Non-concessional borrowings	1,595	2,101	-24%
	Total revenue	31,712	29,540	7%

Tax changes

VAT

- **VAT zero-rating introduced on:**
 - Ancillary transport services relating to goods in transit
- **VAT exemption introduced on:**
 - Capital goods – discussed in next slide
 - Locally produced compounded animal feeds under HS code 2309
 - Fertilised eggs for incubation



VAT

- **Exemption of VAT on Capital goods**
 - ❑ Only on machines and plants used in production
 - ❑ The following industries will be eligible – edible oil, textile, leather and pharmaceutical (including veterinary)
 - ❑ Specific machines and plants will be identified under the respective HS codes

Income Tax

- **Reduced CIT rate of 10% for 5 years** for assemblers of vehicles, tractors and fishing boats
- The amount qualifying for **capital allowance for “non-commercial”** vehicles increased from TZS 15m to TZS 30m
- **Withholding Tax**
 - Final 5% withholding tax introduced on market value of minerals for all small scale miners
- **Alternate Minimum Tax (AMT)** – correction made to Schedule to Act (5 years to 3 years) to align to charging section

Personal Income Tax & SDL

- **Tax rates**
 - No change to tax rates
 - No increase in thresholds (threshold for top rate (TZS 720k / month) last increased in 2008!)
- **Skills & Development Levy (SDL)**
 - Contrary to expectation – No reduction this year



Excise Duty

Alcohol, Tobacco, Soft Drinks -
Generally increased by around 5%
(inflationary adjustment)

Bottled water - No increase on locally
produced bottled water

Locally produced juice – decrease
from TZS 9.5 to TZS 9.0 per litre

Wine made from 75% local grapes
– decrease from TZS 202 to TZS 200
per litre



Fuel Taxes – in real terms still a tax decrease!

					Revision	
	01/07/07 to 30/06/11	01/07/11 to 30/06/13	01/07/13 to 30/06/15	01/07/15 to 30/06/16	01/07/2017	Increase
	TZS / litre	TZS / litre	TZS / litre	TZS / litre	TZS / litre	
Excise - diesel	314	215	215	215	255	40
Excise - petrol	339	339	339	339	379	40
Road Toll	200	200	263	313	313	0
Petroleum Levy	0	0	50	100	100	0
Total taxes - diesel	514	415	528	628	668	40
Total taxes - petrol	539	539	652	752	792	40
Petrol - in US\$	0.42			0.38	0.36	
Exchange Rate	1275	(2007)		1970	2230	

Motor vehicle taxes

- **Annual Motor Vehicle Licence fee** – abolished
- **Annual Motor Vehicle Licence fee** – amnesty (old amounts + penalty)
- **Motor Vehicle Registration fee** – increased as follows:
 - ❑ From TZS 150,000 to TZS 200,000 per motor vehicle with an engine capacity between 501cc and 1,500cc
 - ❑ From TZS 200,000 to TZS 250,000 per motor vehicle with an engine capacity between 1,501cc and 2,500cc
 - ❑ From TZS 250,000 to TZS 300,000 per motor vehicle with an engine capacity above 2,500cc

Customs Duty – EAC

- **Reduction to 0%**
 - ❑ **Motor vehicle air filters.** The type of raw material for manufacturing of the air filters will be gazetted in the East African Community Gazette
- **Removal of Exemption**
 - ❑ **Compact Fluorescent Bulbs (CFL) and Light Emitting Bulbs (LED)**
- **Increase of fines**
 - ❑ US\$ 20K or 50% of the dutiable value (from US\$ 10K currently)
- **Extension of Exemption**
 - ❑ Amend para 30 of 5th schedule to include distribution of oil and gas

Customs Duty – Tanzania - Stay

- **Gypsum powder** classified under HS Code (10% instead of 0%)
- Grant stay of application on the reduction of remission level on **sugar for industrial use** under HS Code 1701.99.10 and apply a rate of 10%
- For one year on **wheat grain** under HS Codes 1001.99.10 and 1001.99.90 (10% instead of 35%)
- For one year on **flat-rolled products of iron, steel or non-alloy steel** - 25% or specific duty rate of US\$ 250 per metric tons on HS codes 7210 and 7212 and 10% or specific duty of US\$ 125 per metric tons on HS code 7209
- For one year on **steel bars, rods, sections, hot rolled angles** - 25% or specific duty rate of US\$ 200 per metric tons

Customs Duty – Tanzania - Stay

- 10% import duty rate instead of 0% for one year to manufacturers of **crude edible oil** under HS Code 1511.10.00
- For one year on electronic fiscal machines (EFD) under HS Codes 8470.50.90 (0% instead of 10%)
- **Paper products** falling under various HS Codes - 10% to 25% for one year
- For one year on aluminium structures under HS Codes 7610.90.00 (10% instead of 25%)

Customs Duty - EAC

Remission on:

- Linear Alkyl Benzen Sulfuric Acid (LABSA) (from 10% to 0%) - used by soap manufacturers
- CKD kits for motorcycles – from 25% to 10%
- Inputs falling under HS Code 7228.20.00 for manufacturers of leaf spring
- Inputs for use in the assembly of equipment specifically designed for use by disabled person (0%)
- Inputs for use in the assembly and construction of ships (0%)

Change:

- Wording of tariff code 4911.99.20 to include examination answer sheets (before 0% duty applied only on question sheets)

Other matters

- **Government Electronic Payment Gateway System** – has been introduced in Ministries, Government Department and Institutions to curb revenue leakage and simplify payment of taxes
- **Electronic Revenue Collection System (e-RCS)** – has been launched and will ensure proper assessment of taxes and provide assurance to the taxpayers on the amount of taxes they are supposed to pay
- **Property tax** – Will continue to be administered by TRA
 - Flat rate of TZS 10,000 per normal house that has not been valued; and
 - Flat rate of TZS 50,000 per each floor of a storey house
- **Identity cards** – to be issued for informal vendors

Other matters

- **Exportation of Minerals:**
 - no direct exportation of minerals from mines
 - Clearing houses to be established which will issue export permits
 - Clearing fee will be imposed at 1% of the value of the minerals
- **Produce Cess charged by Local Government Authorities:**
 - Reduced from 5% to 3% for cash crops
 - Reduced from 5% to 2% for food crops
 - Will not apply at all on transportation of crops of less than 1 ton from one Local Government Authority to another
- **Escrow account for industrial sugar importers** – to facilitate the refund of 15% import duty

Other matters

- **Amend various rates of fees and levies charged by Ministries, Regions and Independent Departments – “in order to rationalise with the current level of economic growth”**
 - *Abolish various fees imposed on fertiliser*
 - *Abolish standard inspection fee imposed by TBS on cash crops*
 - *Abolish Service levy imposed on guest houses (as already subject to Guest House levy)*
 - *Abolish levy on certain posters but TRA also start to collect levy on certain posters (intended for commercial purposes)*
 - *Abolish permit fees on various activities (e.g slaughter houses)*
 - *Abolish fees imposed on livestock auction*
 - *Increase fine for non compliance of Local Government Finance Act – from TZS 50k and 12 months sentence to between TZS 200k and TZS 1m or between 12 months and 2 years sentence*

Other matters

- **Legislative amendments** – reference to proposal to “*make minor amendments to various tax laws and other laws so as to ensure their smooth and effective implementation*”
- “*Government will continue with its efforts to review the fees and levies imposed by various institutions, agencies and regulatory authorities in order to create better business environment, attract more investments and provide relief to various economic activities. This will involve reviewing the amounts of imposed fees and levies and also abolishing the nuisance ones.*”

Emerging Tax Issues

Emerging Tax Issues

- **Mobile phone companies** – Electronic Revenue Collection System
- Waiver of tax deposit on objections mostly denied
- Waiver of interest and penalties generally denied
- Tax Appeal cases tripled in the last 6 months
- Taxation of offshore share transactions (50% change in underlying ownership deems realisation at local level)
- Transfer Pricing - now a major focus area
- Amendment to source rules on withholding tax on services

Tax Administration (General) Regulations, 2015

- 7 day minimum notice period for Taxpayer to request:
 - Change of proposed tax audit date, or
 - Extension of deadline for lodging an objection
- 14 day time limit to respond to TRA audit findings. Can be extended for a further 14 days by giving a reasonable cause
- Request for waiver of tax payment requirement on objection i.e. must be made within 15 days of the assessment
- Payment of any tax not in dispute or one third of the assessed tax to be made on or before the due date for lodging the objection i.e. within 30 days of assessment

For more information (including tax data card and publications / newsletters): go to www.pwc.com/tz

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