Pre-Budget Briefing 1

Tourism – May 2023

In Brief

- Tourism sector activity is back to pre-pandemic levels
- FYDP III articulates a target of 5 million tourists by 2025/26
- Resolution of various fiscal and regulatory challenges facing the sector would help optimise growth prospects
- As regards fiscal matters, consideration could be given to sector specific changes for:
  - VAT (including rate, scope, and treatment of deposits) and
  - Tax and regulatory costs related to employees (for example, SDL)

Economic overview

"Transforming Tourism - Toward a Sustainable, Resilient, and Inclusive Sector" was the title of a World Bank Tanzania Economic Update[1] ("WB TEU") (July 2021 - issue 16[2]) issued during the pandemic and which included a separate section on tourism. In referencing tourism's major role in the economy, it highlighted the following:

- The World Economic Forum's ("WEF") 2019 Travel and Tourism Competitiveness Index[3] ranked Tanzania as 1st in Africa and 12th worldwide for the quality of its nature-based tourism resources, and 32nd in Africa and 112th in the world for its cultural resources.
- Only a small fraction of Tanzania's natural and cultural endowments have been put to economic use through tourism development.
- A well-managed tourism sector can protect and preserve a country's natural and cultural assets while generating fiscal revenue through taxes, licenses, and fees; creating high-quality jobs; and forming backward linkages with other economic sectors.
- Despite its relative underdevelopment, by 2019 Tanzania's tourism sector contributed an estimated 17 percent of its GDP and directly employed over 850,000 workers,making it the country's second-largest component of GDP and third-largest source of employment.
- Tourism had been Tanzania's largest foreign exchange earner since 2012, and in 2019 it accounted for over one-quarter of the country's foreign-exchange earnings.
- Moreover, as the tourism value chain is linked to numerous other economic sectors, it plays an outsized role in growth, employment, and poverty reduction. However, the sector's risk vulnerability is high.

Noting that Tanzania's abundant nature and rich cultural resources are a considerable economic opportunity, it highlighted the following five priorities for a sustainable and inclusive recovery to lays the foundation for the long-term transformation of the tourism sector:

- Creating an efficient, reliable, and transparent business environment.
- Establishing an information-management system that consolidates data from tourists and firms, enabling policy makers to improve sectoral planning and create viable investment opportunities
- Ensuring that firms across the sector, as well as those in downstream value chains, have access to affordable transitional finance

1 https://www.worldbank.org/en/country/tanzania/publication/tanzania-economic-update-teu
2 https://documents.worldbank.org/en/publication/documents-reports/documentdetail/794611627497650414/teu-16-transforming-tourism-toward-a-sustainable-resilient-and-inclusive-sector
3 https://www.weforum.org/reports/the-travel-tourism-competitiveness-report-2019/;

- Consistently promoting, monitoring, and reporting on adherence to health and safety protocols
- Developing co-investment and partnership arrangements to support nature-based landscape and seascape management

Tanzania's third Five Year Development Plan[4] (FYDP III of 2020/2021 to 2025/2026), issued in June 2021, sets out various targets for the tourism sub sector including an increase in tourist arrivals to 5 million by 2025/26.

Targets and Indicators for Tourism Sub-sector	FYDP III Targets	
	2020/21	2025/26
Contribution to GDP (%), current prices	17.5%	11%
Real growth rate (%)	1.5%	2.0%
Number of tourists	1,527,230	5,000,000
Average number of nights spent by tourist	13	14
Average expenditure per tourist per day (non-package/package) (US$)	216/379	326/455
Employment (number)	1,500,000	1,750,000
Share of foreign exchange earnings (%)	25%	27%
Earnings from tourists (USD billion)	USD 2.6bn	USD 6.0bn

Key interventions listed as required to achieve these FYDP III targets include to:

- Promote diversified tourism products such as MICE (Meeting, Incentives, Conference and Exhibitions) by interlinking them with wildlife tourism;
- Promote and strengthen tourist wildlife hunting, historical and archaeological sites, cultural, geological, ecological, apiary, and agricultural tourism;
- Develop and promote new tourism products;
- Strengthen regulation and management of historical and archaeological sites; and
- Strengthen institutional, policy, legal and regulatory frameworks and guidelines governing tourism industry in the country

The WEF's Travel & Tourism Development Index 2021 showed an improvement in Tanzania's overall rankings (as compared to 2019) moving up to 5th in Africa (from 6th) and 81st in the world (up from 86th). African countries ranking above Tanzania were Mauritius (62nd), South Africa (68th), Botswana (76th) and Kenya (78th), and ranking immediately after Tanzania were Cape Verde (82nd), Namibia (88th), Rwanda (89th) and Zambia (98th).

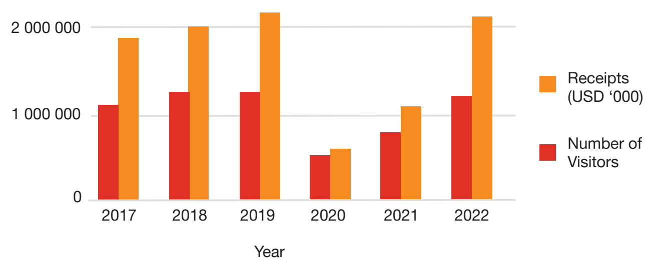
The most recent WB TEU (issue 18[5] - issued on 13 February 2023) when referencing tourism noted that:

- The number of tourist arrivals increased by 66% in the nine months to September 2022, approaching 95% of pre-pandemic levels.
- The increase in tourism arrivals in this nine month period appears to be driven by four countries (Kenya (11% of total arrivals), Burundi (7.4%), the United States (7.1%), and France (6.8%)) which together account for almost one-third of total arrivals.

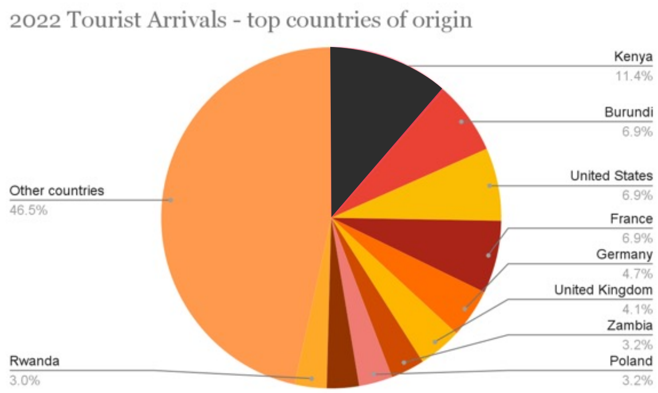
4 https://www.tro.go.tz/wp-content/uploads/2021/06/FYDP-III-English.pdf
5 https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099141002082366224

- The recovery in the tourism and hospitality sector has been supported by the relaxation of travel restrictions across much of the world and by a sharp increase in domestic COVID19 vaccination rates since the beginning of 2022
- Zanzibar economy remains heavily dependent on tourism, which contributes almost half of the archipelago's total GDP

Overall, the year 2022 witnessed a tremendous post pandemic rebound of the tourism sector with receipts of USD 2.561 bn broadly back in line with 2019 (USD 2.612 bn). This was on the back of a recovery in tourist arrival numbers with 1.45m arrivals in 2022 (as compared to 0.92m in 2021). The upward trend has continued with the year on year number of tourists as at February 2023 being 1.50m. A review of the source countries for the tourism numbers shows that the United States, France, Germany, United Kingdom and Poland were the most significant source of tourist arrivals from outside Africa. However, the numbers do also include a significant number of arrivals from neighbouring countries in particular Kenya, Burundi, Zambia, Malawi and Rwanda.



Source: Ministry of Natural Resources and Tourism, 2022



Source: National Bureau of Statistics, Tourists Arrivals from January – December 2022

Policy Reforms and Gender Gaps in the Tourism Sector in Tanzania - 13th meeting of TNBC - May 2022

The importance of the tourism sector was highlighted by its inclusion as a specific separate agenda item at the 13th meeting of the Tanzania National Business Council held on 7 June 2022. At this meeting a report titled "Policy Reforms and Gender Gaps in the Tourism Sector in Tanzania" was presented. The report was conducted by the International Finance Corporation (IFC) through the Business Enabling Environment Support (BEEs) project in collaboration with Tanzania Private Sector Foundation (TPSF) and Tanzania National Business Council (TNBC) and the aim of the study was to identify areas for policy/ regulatory reforms in the tourism sector in Tanzania. This followed resolutions and directives from the 12th TNBC meeting to come up with reform proposals for the tourism industry in Tanzania. The information was collected through interviews with all tourism associations in the mainland and Zanzibar.

The report identified 35 reforms categorized into the following five types:

- Tax reforms
- Administrative/ institutional/ process reforms;
- Fees, licenses and inspection reforms;
- Labour reforms; and
- Regulatory reform.

The report highlighted taxes, charges and regulatory costs by sub-sector including for tour operators, including charges on tour operators, charges by TCAA, charges paid by hunting operators, and by hotel owners. For hotel owners the list ran to 30 separately listed taxes, levies and charges.

Proposed tax reforms listed primarily revolved around indirect taxation, especially VAT (including a proposal to reduce the VAT rate, or consider removing the VAT from tourism services to enhance the competitiveness of the industry relative to its close competitors). Amongst the labour reforms was the proposal to revisit rigid labour laws that limit employers' flexibility to respond appropriately to changing business dynamics.

In terms of emerging priorities, the report highlighted the following four broad reform areas:

- Consolidate payment system to address the challenge of multiplicity of taxes, charges and fees by various agencies in the tourism business that cause high compliance cost to the industry;
- Review of the Tourism Act of 2008 with a view to make it more favorable to the growth and competitiveness of the tourism industry and updated to reflect current policy developments;
- Establish a One-Stop-Center for enhancing access to information and licensing on the tourism industry; and
- Review the administration of VAT to ensure consistency that VAT is charged net of expenses and for relevant VAT-able items only

Fiscal and regulatory challenges

Despite the recent improved performance and contribution of the sector, it is facing a number of challenges that call for policy reforms and government intervention including on the fiscal side.

VAT rate

Tanzania's VAT rate is higher compared to other popular tourist destinations in Africa. As noted in the table below (other than Tanzania Mainland) the VAT rate for the top seven African tourism destinations is either 14% or 15%. A change to a lower VAT rate for the tourism sector could be an option to consider - perhaps a rate of 15% so that the rate on Tanzania Mainland for certain supplies by the tourism sector is aligned with the VAT rate in Zanzibar.

VAT on deposits

Furthermore, the VAT treatment of deposits (advance payments) continues to pose a challenge - not least, the administrative burden on both taxpayers and the Tanzania Revenue Authority (TRA), including others the need for revenue reconciliations between the VAT returns, financial statements, EFDMS and bank records). A solution to this challenge could be to adopt the practice in South Africa, such that a deposit payment to a vendor to guarantee performance of an obligation neither forms part of the payment due nor triggers the time of supply for VAT purposes, unless it is applied as a consideration for a particular supply. To achieve this would require an appropriate amendment to the "time of supply" provision to make an exception for the tourism sector.

VAT on park fees

Park fees are a charge levied by a Government body and a non-tax revenue to Government. The practice of applying VAT on park fees - effectively resulting in a tax on tax - remains a concern to the sector. An amendment to the law to clarify that VAT does not apply to such fees would be a positive change as it would enhance the sector's competitiveness.

Multiplicity of taxes

As noted above, the sector is faced with a multiplicity of central and local government taxes as well as regulatory costs. These multiple charges do erode competitiveness as they do result in increased cost that must then be passed onto customers.

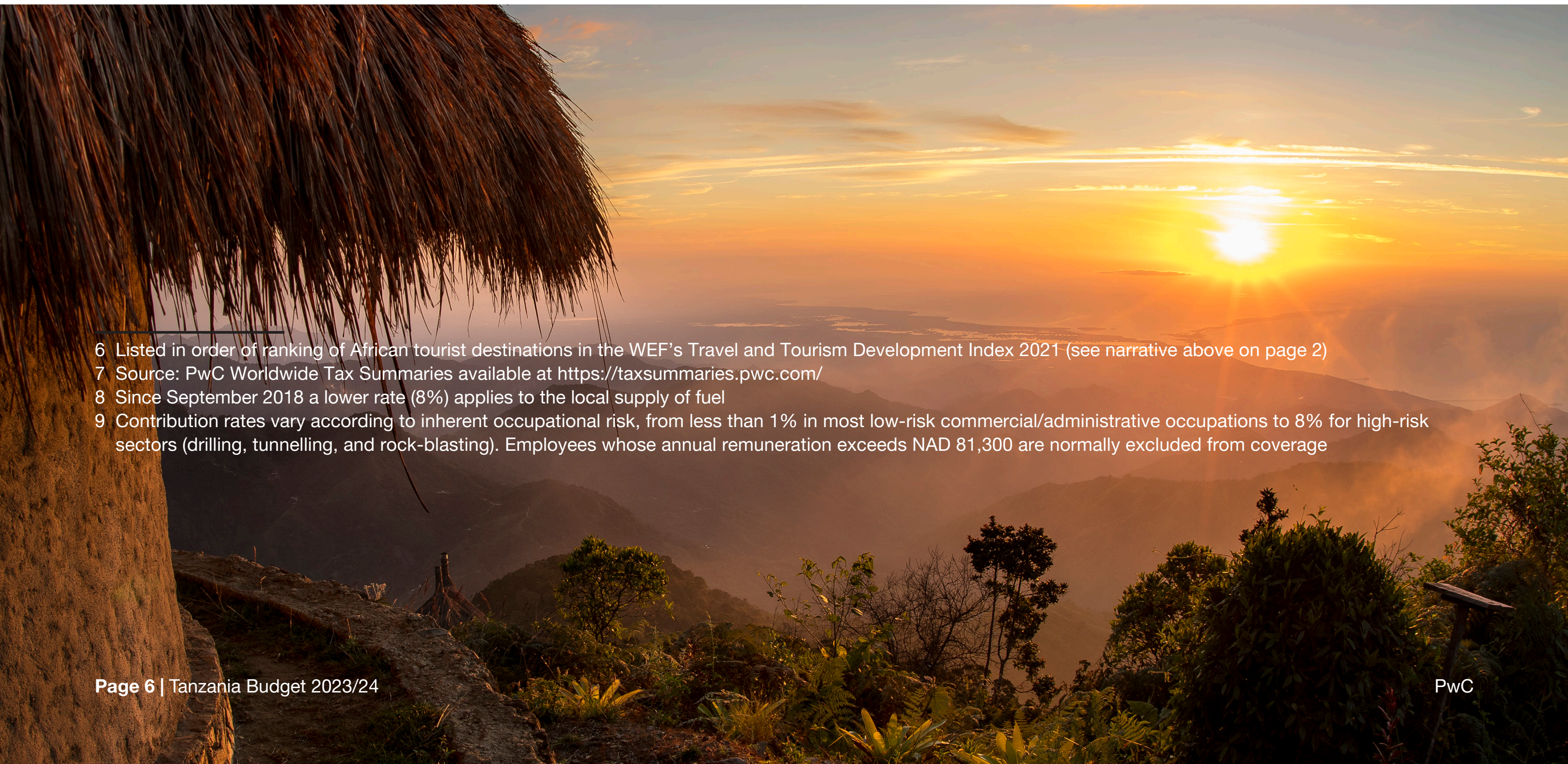
Employment taxes and imposts

One challenge - albeit not sector specific, but very pertinent to the tourism sector as a major employer - is the impact of taxes and other imposts on employment costs. The issue here does not relate to income tax but rather other statutory levies borne by the employer that are much higher than in other equivalent jurisdictions (see the table below), including 10% employer social security contribution (with a further 10% contributed by the employee), skills and development levy ("SDL") (4%) and workers compensation fund ("WCF") (0.5%).

Fiscal Stability

Fiscal stability and in particular the need for notice of significant changes is fundamental to the sector given the nature of advance bookings. For example, the announcement in the 2022 budget of the proposed removal of the VAT exemption on the supply of air charter services caused significant concern. Fortunately, in January 2023 the government issued a supplemental bill to extend this exemption up to 2026. Whilst the move is welcomed, the sector remains concerned as to a tendency for regulatory change with insufficient notice and or consultation.

Country[6]	VAT rate	Levies borne by employer on employee costs[7]	
		Social security (employer contribution)	Other
Mauritius	15%	6% (private sector); 9% (public sector). (Lower rates (3% private sector, 4.5% public sector) if monthly earnings do not exceed MUR50,000.)	Training levy 1%, National Savings Fund (NSF) 2.5%
South Africa	14%	-	SDL 1%, Unemployment Insurance Fund (UIF) 1%
Botswana	14%	N/A	N/A
Kenya	16%[8]	KES 200 per month	National Industrial Training Levy (NITA) KES 50
Tanzania	18% Mainland 15% Zanzibar	10%	SDL 4%, WCF 0.5%
Cape Verde	15%	16%	-
Namibia	15%	0.9%	WCF 1% (normal rate)[9]
Rwanda	18%	5%	Maternity leave benefits scheme 0.3%
Zambia	16%	5%	SDL 0.5%, National Health Insurance Scheme (NHIS) 1%



6 Listed in order of ranking of African tourist destinations in the WEF's Travel and Tourism Development Index 2021 (see narrative above on page 2)
7 Source: PwC Worldwide Tax Summaries available at https://taxsummaries.pwc.com/
8 Since September 2018 a lower rate (8%) applies to the local supply of fuel
9 Contribution rates vary according to inherent occupational risk, from less than 1% in most low-risk commercial/administrative occupations to 8% for high-risk sectors (drilling, tunnelling, and rock-blasting). Employees whose annual remuneration exceeds NAD 81,300 are normally excluded from coverage

Expectations from the Budget

As noted above, there are a number of recommendations that have been made so as to address the sector's challenges and promote its growth. Many of these are not related to taxation per se but other costs arising from regulatory matters (and so not necessarily matters that will be explicitly dealt with in the upcoming National Budget Speech 2023/2024), including the need to review the tourism industry's institutional framework and streamline the payment processes for the sector.

Nevertheless, there are taxation matters that remain of concern including:

- VAT: (i) the VAT rate applicable on tourism services, (ii) scope (eg park fees), (iii) treatment of deposits
- Taxes on employment: Tax and social security costs (NSSF, SDL, WCF) borne by employers in respect of employment costs

Our Tourism Sector Contacts

Zainab Msimbe
Partner/ Director – Assurance Services

T: +255 22 219 2327
M: +255 767 388 890
zainab.msimbe@tz.pwc.com

Rishit Shah
Partner/ Director – Tax Leader

T:+255 22 219 2601
M:+255 754 400 704
rishit.shah@pwc.com

Joseph Lyimo
Partner/ Director – Indirect Tax

T:+255 22 219 2613
M:+255 767 992 506
joseph.lyimo@pwc.com

Willie Kimaro
Manager – Assurance Services

T: +255 27 254 2816
M: +255 754 301 007
willie.w.kimaro@pwc.com

Ali Dawoodbhai
Associate Director –
Transfer Pricing and International Tax

T:+255 22 219 2620
M:+255 758 807 589
ali.dawoodbhai@pwc.com

Pamella Salehe
Senior Manager – Tax Services

T: +255 27 2548881
M: +255 754 233832
pamella.salehe@pwc.com

Chacha Winani
Associate Director – Advisory Services

T: +255 22 219 2000
M: +255 756 223 377
chacha.winani@pwc.com