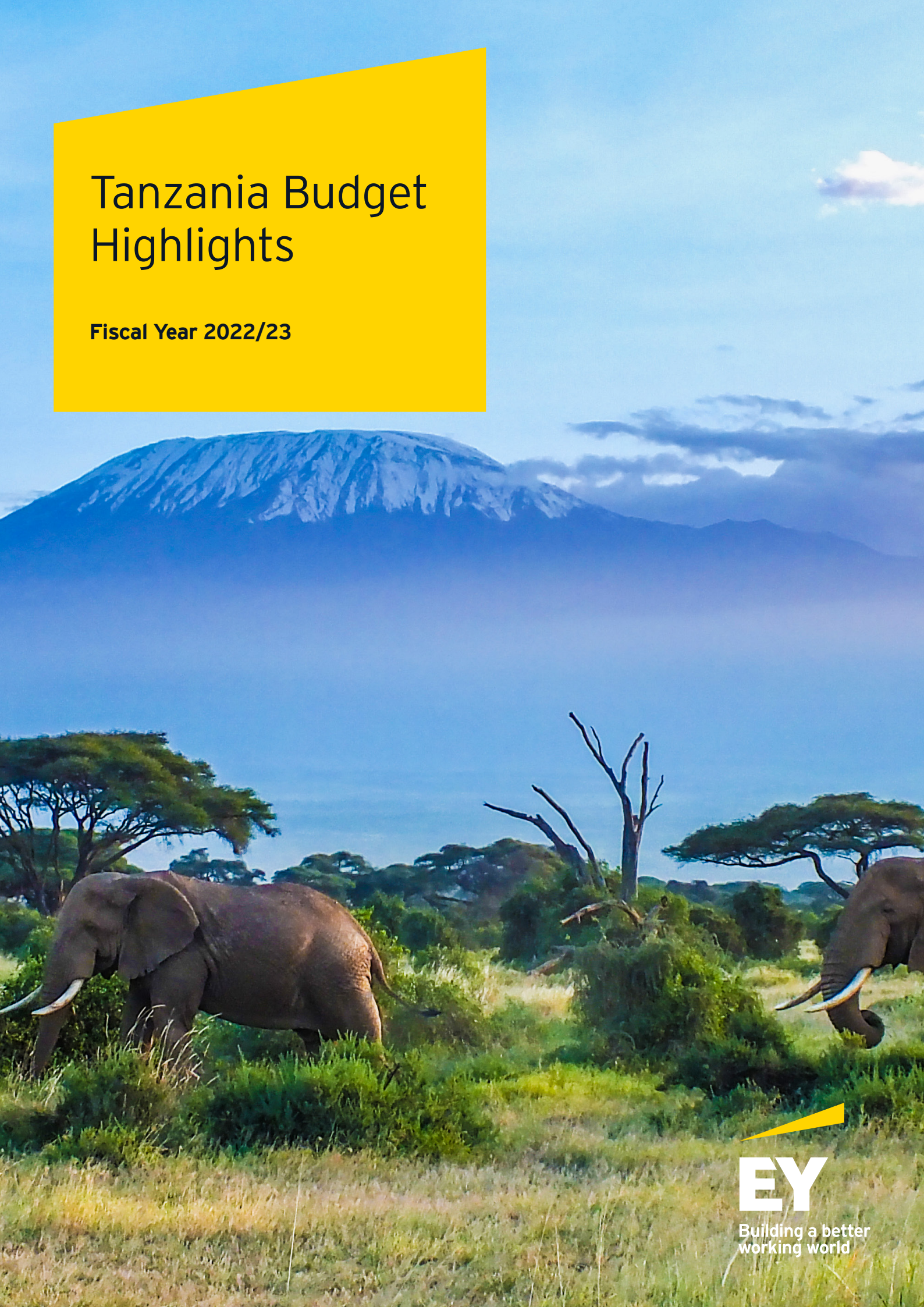


Tanzania Budget Highlights

Fiscal Year 2022/23



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S T Z E T Z O C

01 Economic outlook summary 04

02 Proposed tax changes 08

03 Changes in other duties and levies 12





Global economy

Global economic growth is expected to decelerate to 4.1 percent in 2022 as a result of COVID-19 flare-ups, diminished fiscal support, and lingering supply chain bottlenecks. Economic output and investment in advanced economies are projected to return to pre-pandemic trends in 2023 while emerging market and developing economies (EMDEs) will remain markedly below.

Downside risks to the global outlook include a synchronized pandemic resurgence, further supply disruptions, a de-anchoring of inflation expectations, unexpected financial stress, and possible climate-based disasters. EMDE policy makers face the challenge of heightened inflationary pressures and constrained fiscal space.

In the long run, EMDEs will need to pursue reforms that mitigate vulnerability to commodity shocks, reduce inequality, and enhance crisis preparedness. However, economic prospects vary across the emerging markets and developing economies given different country policy responses to the pandemic.

The projected recovery in advanced economies reflects the anticipated additional fiscal support in the second half of 2022 and broader vaccinations coverage across the group.

Sub-Saharan Africa Region

Growth in Sub-Saharan Africa is projected to firm to 3.6 percent in 2022 and 3.8 percent in 2023.

The near-term recovery is expected to persist supported by elevated commodity prices as activity continues to rebound in the region's main trading partners (China, the Europe area, and the United States), albeit at a slower pace than the previous year.

The outlook is also predicated on a gradual recovery in tourism, with vaccination in some tourism-reliant economies already proceeding at a much faster pace than in the rest of the region. In addition, the speed of recovery is likely to be constrained by elevated policy uncertainty in many countries, a high incidence of social unrest and conflict, rising poverty and food insecurity, and delays to investments in infrastructure and mining, as well as a slow implementation of structural reforms.

Tanzania economy

The Tanzanian economy grew at 4.9% compared to a growth of 4.8% in 2020. The increase was attributed to diverse efforts taken by the Government, including the implementation of the Tanzania Covid Socio-Economic Response Plan (TCRP) and strategic investment, especially in energy, water, health, education, roads, railway and airports infrastructure.

Tanzanian economy cont'd

The economic activities with the highest growth rate include:

- ▶ Arts and entertainment (19.4%);
- ▶ Electricity Supply (10.0%);
- ▶ Mining and Quarrying (9.6%); and
- ▶ Information and Communication (9.1%).

Selected macroeconomic indicators

GDP per capita: In 2021, the GDP at the current prices was TZS 161.5 trillion compared to TZS 151.2 trillion in 2020. Tanzania's Mainland population was estimated to be 57.7 million people in 2021 compared to 55.9 million people in 2020. Per capita GDP was TZS 2.79 million in 2021, compared to TZS 2.7 million in 2020.

Inflation: In 2021, the annual inflation rate increased to an average of 3.7%, compared to an average of 3.3% in 2020. Further, the inflation rate increased to an average of 3.8% in April 2022 compared to 3.3% in April 2021. The rise in inflation was a result of reasons beyond the Government's control including disruptions in the production and distribution chains of goods and services in the world market as a result of the Russia - Ukraine war.

Proposed Budget Estimates 2022/23

Proposed expenditure 2022/23

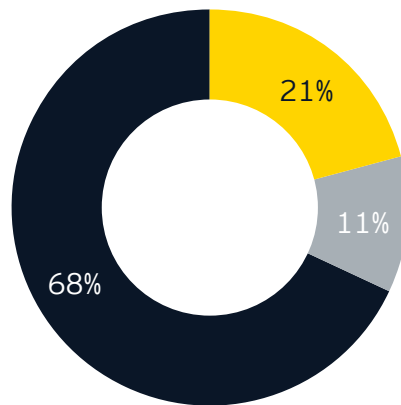
The total proposed expenditure in the 2022/23 budget is estimated to be TZS 41.48 trillion (USD 17.97 billion) for recurrent and development expenditure. Out of that amount, TZS 26.48 trillion (USD 11.47 billion) is allocated for recurring expenditure, equivalent to 63.8% of the total budget and TZS 15.0 trillion (USD 6.5 billion) for development expenditure.

Sources of funds:

- ▶ Government domestic revenue (including LGAs own sources) is estimated at TZS 28.02 trillion (USD 12.14 billion), equivalent to 67.5% of the total budget;

- ▶ External Grants and Concessional Loans are estimated at TZS 4.65 trillion (USD 2.01 million) equivalent to 11.2% of the total budget; and
- ▶ Domestic & External Non-Concessional Loans TZS 8.8 trillion (USD 3.81 million) equivalent to 21% of the total budget.

Sources of funds for 2022/23 budget



- Domestic and external borrowings
- Grants and concessional loan and from development partners
- Domestic revenue (including LGAs)

Macroeconomic Objectives and Targets for the 2022/23 Budget

The theme for the 2022/23 budget is "Realizing Competitiveness and Industrialization for Human Development". Priority sectors include agriculture, livestock, fisheries, energy, investment and trade.

The EAC Partner States, budget theme for 2022/23 is "Accelerating Economic Recovery and Enhancing Productive Sectors for Improved Livelihoods"

The budget aims to achieve the following macroeconomic policy targets:

- ▶ Real GDP growth rate of 4.7% in 2022 and 5.3% by 2023;
- ▶ Containing inflation at single digit between an average of 3.0% to 7.0% in the medium term;
- ▶ Domestic revenue collection is estimated at 14.9% of GDP in 2022/23;
- ▶ Tax revenue collection is projected at 11.7% of GDP in 2022/23; and
- ▶ Maintaining foreign reserves sufficient to cover at least four months (4) of imports of goods and services.

Policy and administrative measures:

To increase and strengthen domestic resources mobilization, revenue policies for the year 2022/23 the Government will focus on:

Revenue Policies

Under revenue policies the Government is aiming to strengthen revenue administration through implementation of the following measures:

- ▶ Strengthen use of ICT systems in tax estimation for small entrepreneurs who are not able to maintain records and preparing accounts, invest in the use of technology to facilitate electronic filing of tax returns and timely payment of taxes.
- ▶ Strengthen the Government electronic Payment Gateway (GePG) and emphasize on the use of control numbers and strengthen control systems in Government Agencies, Public Institutions and Corporations to increase efficiency and ensure appropriate dividends and contributions are timely paid.
- ▶ Improving the business environment and increase opportunities for the private sector.
- ▶ Continue establishing one stop centers to ensure all requirements for business services are easily accessible.

Expenditure Policies

The main objectives of expenditure policies are:

- ▶ Control the procurement and use of vehicles.

- ▶ To ensure public procurement is a strategic sourcing function that is linked with a prudent functional supply base.
- ▶ Enhance the public procurement system to ensure value for money objective is achieved by improving the Tanzania National e-Procurement System (TANePS) including setting price ceilings for goods and services to be acquired.
- ▶ Strengthen the use of information and communication technology in its operations in order to curb expenditures.
- ▶ Strengthen the Internal Audit Units by providing them with capacity building programmes and increasing human capital in diverse fields such as ICT, engineering, quantity surveying, laboratory technicians, lawyers, and other fields to eliminate the notion that audit is all about financial audit.

Priority Areas for 2022/23

Priority areas that will be considered are as follows:

- ▶ Enhancing the Competitive and Inclusive Economy
- ▶ Strengthening Industrial Productive Capacity and Service Provision
- ▶ Investment and trade
- ▶ Promoting Human Development
- ▶ Human Capital Development

Priority productive sectors

The following will be considered:

- ▶ Agricultural sector
- ▶ Livestock and fisheries sector
- ▶ Energy sector
- ▶ Investment and trade sector

Priority Projects for 2022/23

Priority projects for 2022/23 will continue to adhere to the five priority areas of the Third National Five-Year Development Plan 2021/2- 2025/26. The projects that will be implemented are a continuation of flagship projects that are expected to spur large multiplier effects in the economy, including:

- ▶ Construction of the Central Railway line - Standard Gauge Railway - SGR; Julius Nyerere Hydro-Power Project - 2115 MW
- ▶ Reviving of Air Tanzania Company Limited (ATCL)
- ▶ Construction of Liquefied Natural Gas Plant (LNG) - Lindi; Ruhudji (358 MW) and Rumakali (222 MW) Hydro-Power Projects- Njombe
- ▶ The JPM Bridge (Kigongo- Busisi)
- ▶ Construction of roads and large bridges
- ▶ Special Economic Zones including Bagamoyo SEZ
- ▶ Mass training in rare skills



Proposed tax changes

The Minister for Finance and Planning (MoF) proposed several changes in tax laws including the Income Tax Act, the Value Added Tax Act, the Tax Administration Act, the Excise (Management and Tariff) Act. The Minister proposed amendments to existing provisions as well as new provisions in tax laws.

Income Tax Act (ITA)

The Minister proposed the following amendments to the ITA, 2004;

- ▶ Introduction of a tax rate of 3.5% for taxpayers with turnover exceeding shillings 11million but not exceeding shillings 100 million in a year.
- ▶ Improvement of the Tanzania Revenue Authority payment systems, to enable payments of taxes through mobile wallets.
- ▶ Recognition of alternative financing as approved by the Bank of Tanzania to be the same as conventional borrowing to enhance financial inclusion and access to finance.
- ▶ Granting the Minister for Finance powers to waive income tax for strategic investors after approval by the National Investment Steering Committee (NISC), as indicated under the Tanzania Investment Act, and as subsequently approved by the Cabinet.
- ▶ Abolishment of withholding tax exemption on rent paid by individuals for residential houses, apartments, and commercial premises.
 - ▶ The Commissioner General for Tanzania Revenue Authority will enter into an Agency Memorandum of Understanding with the President's Office Regional Administration and Local Government on the administration and collection of this tax.
- ▶ Capital gain tax exemption on any transaction involved on the entry into force and implementation of agreements involving;
 - ▶ the transfer or surrender to a joint venture company of any project; or
 - ▶ the authorization, issue, distribution, or transfer to the Government of the free carried interest shares
- ▶ Capital gain tax exemption on equity shares freely surrendered to the Government through the Treasury Registrar.
- ▶ Withholding tax exemption on coupon for corporate and municipal bond.
- ▶ Reduction of the withholding tax on service fees paid to non-residents in the film industry from 15% to 10%.
- ▶ Introduction of 2% digital service tax on the turnover of non-resident service providers.
- ▶ Introduction of 2% final withholding tax on payments made to small scale miners.
- ▶ Introduction of an annual income tax of TZS 3.5 million per truck and passenger bus.
- ▶ Introduction of an advance income tax of TZS 20 per litre for retailers of petroleum products.

Value Added Tax Act (VAT)

In relation to VAT, the Minister has proposed VAT exemptions on various items including the following;

- ▶ Raw materials under (HS Code 2528.00.00; 2710.99.00; and 3505.20.00) and Machinery under Chapter 84 and 85 of the East African Community Common External Tariff solely and directly used in the manufacturing of fertilizers by an approved manufacturer. Exemption will be granted upon approval by the Minister for Agriculture;
- ▶ Unprocessed green vanilla pods (HS Code 0905.10.00) for equity purpose as treatment of other unprocessed agricultural products that are exempted from VAT;
- ▶ Locally manufactured sisal twine;
- ▶ Ultra-High Temperature (UHT) milk and yoghurt;
- ▶ Dairy packaging materials (HS Code 3923.30.00, 4819.10.00, 4819.20.00, 4819.20.90) (Boxes, bottles and plastic packaging satchels
- ▶ Pasture Seeds (pasture grass seeds) under (HS Code 1209.25.00); pasture legumes seeds under (HS Code 1209.21.00 and 1209.29.00);
- ▶ Machines and tools solely and directly used by the military and armed forces. The exemption will be granted upon approval of the goods by the Minister responsible for defense and security

The VAT exemption on following items is proposed to be abolished:-

- ▶ supply of air charter services; and

- ▶ smart phones with HS Code 8517.12.00, Tablets with HS Code 8471.30.00 or 8517.12.00 and Modems with HS Code 8517.62.00 or 8517.69.00 as the sought exemption didn't lead to reduction of prices to consumers but rather benefited traders.

Other proposed VAT amendments:-

- ▶ Treatment of alternative financing arrangement as conventional borrowing to enhance financial inclusion and accessibility of financial services;
- ▶ Zero rate for one year, locally manufactured double refined edible oil;
- ▶ Zero rate for one year, locally manufactured fertilizer;
- ▶ Grant power to the Minister for Finance to grant VAT exemption on strategic investments after approval by the National Investment Steering Committee (NISC) as indicated in Section 20(8) of the Tanzania Investment Act and subsequently the Cabinet;
- ▶ Expand the list of capital goods that qualify for VAT deferment to include goods falling under HS Code 87.16 (trailers and semi-trailers; other vehicles, not mechanically propelled; parts thereof) and HS Code 8701.20.90 (tractors)
- ▶ Amending the law to accommodate taxation of digital services without imposing the obligation under the Income Tax Act, CAP 332;

The Tax Administration Act (TAA)

The Minister has proposed amendments in the Tax Administration Act as follows:-

- ▶ Amend Section 70 (1) to reinstate the power of the Minister responsible for Finance and Planning to remit interest or penalties after being advised by the Commissioner General for Tanzania Revenue Authority. This measure will resolve the existing challenges and simplify the process of accessing remission. The Minister responsible for Finance and Planning will issue Regulations as to the procedures of accessing the remission.

The East African Community Customs Management Act (EACCMA)

The Ministers for Finance from the East African Community (EAC) Partner States agreed to effect changes in the Common External Tariff (CET) and EACCMA for the financial year 2022/23 on a number of items including:

- ▶ Measures effected during 2021/22 which continue to be implemented in 2022/23:

Grant duty remission on:

- ▶ Inputs for the manufacture of essential medical products and supplies for fighting COVID-19 including masks, sanitizers, coveralls, face shields and ventilators, at 0% instead of 25% for one year;
- ▶ Inputs used by domestic minerals processors, at 0% instead of 25% or 10% for one year: (HS Codes 3606.90.00; 804.10.00; 6813.20.00; 7018.90.00; 7020.00.99; 8202.20.00; 8202.99.00; 8203.20.00; 8205.10.00; 8423.89.90; 8513.10.90; 9002.19.00);

EACCMA, cont'd

Grant stay of application of EAC rate and:

- ▶ Apply duty rate of 0% instead of 10% for one year on cash registers and other Electronic Fiscal Device (EFD) Machines and Point of Sale (POS) of HS Codes 8470.50.00 and 8470.90.00;

Other proposed changes:

- ▶ Reverting to 0% instead of 25% on Crude Palm Oil (CPO) under HS Code 1511.10.00;
- ▶ To increase import duty from 25% to 35% on windows and doors made of aluminum iron and steel with HS Codes 7610.10.00 and 7308.30.00;
- ▶ To assign a duty rate of 10% instead of 25% on other petroleum oil products partly refined under HS Code 2710.19.10.
- ▶ To introduce new HS Codes of 8543.40.00 containing electronic cigarettes and assign a duty rate of 35% since it is a tobacco substitute.
- ▶ To amend the description of the HS Codes 7310.29.20 and 7612.90.10 to read "Cans and ends for beverages and food".
- ▶ To increase import duty from 25% to 35% on wigs, false beards, eyebrows and eyelashes, switches of human or animal hair or of textile materials under Heading 6704.
- ▶ Grant stay of application of EAC rate

and:

- apply a duty rate of 35% or USD 1.5 per square meter, whichever is higher for one year on ceramic tiles under HS Codes 6907.21.00; 6907.22.00; and 6907.23.00.
 - apply a duty rate of 10% or USD125/MT whichever is higher for one year on flat-rolled products under HS Codes 7212.20.00 and 7226.99.00
 - apply a duty rate of 10% for one year on crude vegetable oils of soya- beans, groundnuts, coconuts, mustard and linseed under HS Codes 1507.10.00; 1508.10.00; 1513.11.00; 1514.91.00; and 1515.11.00.
 - apply a duty rate of 35% for one year on baby diapers under HS Code 9619.00.90.
 - apply a duty rate of 25% for one year on cane sugar under HS Code 1701.14.90 imported under a permit issued by the Tanzania Sugar Board
- ▶ Grant duty remission for one year on:
- raw materials under HS Codes 1901.90.10; 3302.10.00; and 3505.10.00
 - prefabricated building under HS Code 9406.20.90

The Excise (Management And Tariff)

Act

Proposed amendments:

- ▶ Reduce the license fee from TZS 500,000 to TZS 300,000 for manufacturers and importers of excisable goods;
- ▶ Exempt excise duty on plastic sleeves puneeet, plastic cryovac bags, modified atmosphere packaging - MAP bags, plastic sleeves, perforated bags and poly packaging bags (HS 3923.29.00), Cling film (HS 3921.12.90), Plastic liners (HS 3902.90.00) for Horticultural export;
- ▶ Impose excise duty at the rate of shilling 500 per kilogram on locally manufactured sugar confectionery and shilling 700 per KG on imported sugar confectionery with (HS Code 1806.31, 1806.31,1806.31) (chocolate); 1905.31 (biscuits) and 1704 (chewing gum); and
- ▶ Impose excise duty at the rate of 5% on Lead-acid of a kind used for starting piston engines HS 8507.10.



Changes in other duties and levies

i. Local Government Finance Act

- ▶ Exempt crop cess on seeds to provide relief to farmers and enhance productivity
- ▶ Reduce forest produce cess from 5% to 3% to provide relief to forestry traders and support growth of forestry sector
- ▶ To specify that corporate entities paying a service levy in one Council are liable to pay produce cess in another Council from which they source agricultural or other produce. This will ensure every Council benefits from the economic activity and be able to serve the community

ii. The Workers' Compensation Fund Act

- ▶ Reduce the Workers' Compensation Fund contribution rate from 0.6% to 0.5%. This measure is intended to align the rate payable for private and public sector employees.

iii. The Mining Act

- ▶ Reduce the rate of royalty from 3% to 1% on coal used as energy raw material in factories. This will reduce production cost, increase employment and attract investments

iv. The Export Levy Act

- ▶ Introduce an export levy of 30 percent or USD 150 per metric tonne (whichever is higher) on copper waste and scrap metals HS Code 7204 and 7404. This will protect local manufacturers

v. The National Payment System Act

- ▶ Reducing mobile money transaction levy on sending and withdrawing charges from a maximum of 7,000 shillings currently in existence to a maximum of 4,000 shillings on each transaction
- ▶ Expand the base for mobile money transaction levy to include all electronic transactions.

vi. The Insurance Act

- ▶ Expand the scope for mandatory insurance to include public markets, commercial buildings, imported goods, marine vessels, ferries and pontoons.

vii. The Foreign Vehicle Transit Charges Act

- ▶ Reduce transit charges for vehicles exceeding 3 axles from USD 16/100 km to USD 10 or its equivalent in convertible currency for every 100 km.

viii. The Bank of Tanzania Act

- ▶ Setting a limit on Government borrowing to not exceed 18 percent of approved domestic revenue in the current fiscal year instead of the current rate of one-eighth of the domestic revenue collected in the preceding fiscal year.

Implementation of the Blueprint from Regulatory Reforms to improve the Business Environment.

The Minister has proposed the introduction, increase, abolishment and reduction of various fees under different authorities. The proposed amendments of other laws are as follows;

- ▶ Increase export permit application fee for manufactured fertilizer from 0.2 to 0.5 USD per tonne.
- ▶ Introduce a fee of between TZS 1,000 to TZS 3,000 on television decoder subscriptions depending on the use.
- ▶ Introduce a levy of 1.5 percent on equipment used to produce, distribute, duplicate and preserve works of art, writing and other creative works such as music, films, books, photography and other forms of creative work.
- ▶ Reduce batch certification fee on imported sugar from shilling 6 per kilogram to 2.5 shilling per kilogram.
- ▶ Abolish peak expiratory of 10,000 shillings and flow test fee of 25,000 shillings.
- ▶ Reduce radiation test fee from 0.2 percent of FOB to 0.1 percent of FOB on exports of Food Chain Materials including fertilizers, tobacco and tobacco products, and imported relief food.
- ▶ Abolish student residence permit fee for higher learning institution students from Mozambique.

Amend various laws as part of the Government plans to improve the business environment by reducing legal interactions.

- ▶ Amend Section 23 of the Tourism Act to grant powers to the Director General of the Tourism Board to issue permits after approval by the Board;
- ▶ Amend Section 17 of the Occupational Safety and Health Act to urge OSHA to issue a license within 7 days after the applicant meets the criteria;
- ▶ Amend Sections 6, 7, and 8 of the Local Government Finance Act to reduce the hotel levy from 10 percent to 5 percent; and
- ▶ Amend Section 3 of the Hides, Skins and Leather Trade Act to provide clarity on skins of domesticated animals and wild animals.

Other East African countries

Kenya

Income Tax

- ▶ Tax deduction on cash donations extended to donations made to all charitable organizations and not necessarily those registered under Societies and NGO's Acts.
- ▶ Introduction of taxation of gains accruing to non-resident persons from transactions involving financial derivatives in Kenya.

- ▶ Microfinance institutions licensed under the Microfinance Act to be excluded from interest restrictions based on a ratio of Earnings Before Interest Tax Depreciation and Amortization (EBITDA) in determination of their taxable income. Interest expense deduction is currently capped at 30% of EBITDA.
- ▶ In accordance with the Convention on Mutual Administrative Assistance in Tax Matters, multinational enterprises with operations in Kenya to report their activities within Kenya and in other jurisdictions to the KRA. This is intended to promote tax transparency.

Value Added Tax (VAT)

- ▶ The Cabinet Secretary proposes to exempt the following items from VAT;
- ▶ Plant and machinery for use by manufacturers of pharmaceutical products.
- ▶ Medical oxygen supplied to registered hospitals, urine bags, adult diapers, artificial breasts, and colostomy or ileostomy bags for medical use.
- ▶ Inputs and raw materials used in the manufacture of passenger motor vehicles. Locally manufactured passenger motor vehicle

Uganda

Income Tax

- ▶ It is proposed that the income tax exemption for the Bujagali Hydro Power Project be extended from 30 June 2022 to 30 June 2027.
- ▶ The bill proposes to exempt from tax the income of manufacturers making a new or additional investment; who meet the minimum investment capital threshold of US\$35 million for foreigners and US\$5 million for citizens; have capacity to source at least 50% of their raw materials locally (subject to availability); have the capacity to employ at least 100 citizens and who operate in or outside industrial parks and free zones over a minimum period of 10 years.

- ▶ Introduction of 100% amortization for intangible assets in the oil and gas industry. The bill proposes that if the cost of acquiring an intangible asset is treated as petroleum exploration expenditure then that asset should be amortized at the rate of 100%.
- ▶ Clarification of due dates for payment of taxes arising from mining and petroleum returns. The bill clarifies that a taxpayer who files a tax return for mining or petroleum revenues will be required to pay the assessed tax by the due date of filing the return.

Value Added Tax

- ▶ Clarification on what constitutes an exempt import. The bill proposes to amend the definition of exempt import of services to exclude

“imported services which would be used in the provision of an exempt supply”. If enacted, VAT on imported services will become a cost on taxpayers who deal in exempt supplies and import services used to provide exempt supplies.

- ▶ Extension of the investment incentive (VAT exemption) for the supply of services to conduct a feasibility study, design and construction; the supply of locally produced materials for the construction of premises and other infrastructure, machinery and equipment or furnishings and fittings to a hospital facility developer whose investment capital is at least US\$5 million

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