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Global Tax Alert

Tanzania issues 2018/2019 budget

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Executive summary

On 14 June 2018, Tanzania's Minister for Finance and Economic Planning presented the 2018/19 budget (the budget). The *Finance Bill and Act* for the 2018/19 is yet to be released to the public. The theme of the budget (as it is for all East African Countries) is "to build an industrial economy that will stimulate employment and sustainable social welfare."

The budget has been prepared in accordance with the Tanzania Development Vision 2025 which is eradicating poverty, transforming Tanzania into an industrial economy and endeavoring to be a middle income country by 2025. In his speech, the Minister highlighted the major challenges facing the country including the high level of poverty, narrow tax base, tax evasion, difficulties in collecting tax/levy from the informal sector, unfriendly environment for tax payment and imposition of numerous taxes and levies, especially for services rendered by regulatory authorities, and underutilization of Electronic Fiscal Devices (EFD).

According to the budget framework, the Government domestic revenue estimated for 2018/19 amounts to TZS20.89 trillion of which TZS18 trillion is from tax revenue, TZS2.16 trillion represents non-tax revenue and TZS735.6 billion will be from the Local Government Authority (LGA).

Building a better working world

This Alert summarizes the key tax changes proposed by the Minister relating to the Income Tax, Value Added Tax (VAT), Tax Administration, Customs and Excise Duty, among other changes. The Minister proposed amendments to existing provisions with respect to the different tax laws.

Detailed discussion

Corporate Income Tax (CIT)

Amendment of the *Income Tax Act (ITA), 2004*

The following changes will be made to the Act:

- Reduction of the CIT rate for new investors in the Pharmaceutical and Leather industries from 30% to 20% for five years starting from year 2018/19 through 2022/23. The Government will sign a performance agreement with investors and the amendment aims at promoting investment, creating employment and saving foreign exchange currently used to import these products.
- Proposal to grant the Minister for Finance the authority to exempt Government projects financed by non-concessional loans.
- The Act is proposed to be amended to provide a withholding tax exemption on interest on government loans provided through banks and financial institutions to finance government projects.

Value Added Tax (VAT)

In relation to VAT, the Minister has proposed to amend *VAT Act* as follows:

- To grant powers to the Minister for Finance to provide a VAT exemption on government projects funded by non-concessional loans or exemption where there is an agreement signed between the Government and a financial institution or bank that is representing another government and has been given powers of attorney by the said government to execute the agreement. The Act currently does not permit the Minister to grant an exemption to government projects funded by non-concessional loans or the financial institutions/banks. The amendment will enable smooth operation of the projects.
- To provide a VAT exemption on packaging materials produced specifically for use by the local manufacturers of pharmaceutical products. The amendment aims to reduce production costs and to protect local pharmaceutical industries in Tanzania.
- To provide a VAT exemption on imported animal and poultry feeds additives. The amendment is intended to reduce the costs incurred by livestock keepers.
- To provide an exemption of VAT on sanitary pads (intended to make the product available and affordable to women and girls, particularly school girls and those in the village).

The Tax Administration Act, 2015

- *Tax Amnesty*. The Minister has proposed to amend the Act by giving 100% amnesty on interest and penalties for six months starting from 1 July 2018 through 31 December 2018. The amnesty is expected to improve tax compliance.

The East African Community Customs Management Act (EACCMA), 2004

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 2018/19 on a number of items including:

- To grant stay of application of 0% instead of 10% for one year on Electronic Fiscal Devices (EFD's) used to collect government revenues.
- To impose duty of 35% on sugar (consumption sugar) imported under specific arrangement to cover shortage in the domestic market. Currently the rate is 25%.
- To grant duty remission and apply an import duty of 10% instead of 35% on wheat grain. Measures taken as there is no adequate capacity in the East Africa Region.
- To reduce the duty of Poly Vinyl Alcohol from 10% to 0%, this is the raw material for the manufacturing of paints.
- To grant stay of application on mineral water and apply a duty rate of 60% instead of 25% for one year. There is sufficient capacity in the country.
- To extend duty exemption on rally cars including motorcycles for rally. This measure is intended to promote sports and tourism in the region.
- To provide import duty exemption on various types of motor vehicles for transportation of tourists e.g., motor vehicles, sight-seeing buses and overland trucks imported by licensed operators and meet specific conditions. This is to promote investment in the tourism sector, improve services and create employment.

Other taxes

- Introduction of a "Treasury Single Account" which will be used for collection and payment of government funds.
- Increase the gaming tax rate from 6% to 10% on gross sales in sports betting operations.
- Increase the gaming tax from TZS32,000 TO TZS100,000 per machine/month on slot machines.
- Increase the gaming tax from 15% to 18% on gross gaming revenue for land-based casino operators.
- Reduction of OSHA Levy from TZS2 million to TZS1 million imposed on Salt producers.

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