

Budget Brief-Tanzania 08

Economic Review

Just recovering from the effects of an elongated drought that virtually crippled the electricity-generation capacity in the country, the 2007/08 fiscal year has seen many political upheavals and corruption scandals, which led to the dissolution of cabinet and the appointment of a new prime minister and cabinet. The new Government's main task was sustaining the macro economic stability attained in the last seven years.

Inflation at the end of April 2008 stood at 9.7% (against a target of 4.5%), driven by escalating oil and food prices in the world market. Gross Domestic Product (GDP) grew by 7.1% compared to a target of 7.3%, which places the country well on course to attain a mini-tiger status by 2020. For the first time ever, the budgeted domestic revenue in 2008/09 (TShs 4.728 trillion or 18.5% of GDP), will finance the expected recurrent expenditure (TShs 4.726 trillion).

The Tanzanian Shilling appreciated to TShs 1,132.1/ US\$ as at the end of December 2007 compared to TShs 1,261.6/ US\$ as at the end of December 2006. Foreign exchange reserves decreased from 5.3 to 4.6 months worth of imports while the 2008/09 target is a minimum of 5 months worth of imports.



The communications sector only contributed 2.3% to the GDP, despite the impressive growth. Economic growth in the land-locked Rwanda, Burundi and Eastern part of the Democratic Republic of Congo underpinned growth in the transport sector. The agricultural sector grew by 4.5% compared to 4% in 2006/07. Though positive, such minimal growth is not adequate to guarantee food security and increased exports of cash crops. Education, infrastructure, health, agriculture, energy and water will remain priority sectors.

Manufacturing and construction accounted for 21.2% of the GDP in 2007/08 compared to 20.8% in 2006/07, mainly due to increased reliable electricity supply in 2007/08.

The Minister for Finance projects a GDP growth rate of 7.8% in 2008 and 8.1% in 2009; an inflation rate contained below 7% by end of June 2009, which appears more realistic compared to the 4.5% target in 2007/08; and increase in domestic revenues to 18.5% of the GDP (18.6% in 2009/10 and 19% in 2010/11).

Aid and loans from Development Partners comprise approximately 12% of GDP or 34% of the budget. An increase in production of foodstuff in the country, investment in large-scale farming, better road infrastructure and network, and strengthening management of money supply to control the ever-rising inflation means the future is bright and the 2008/09 economic targets achievable.

The table below summarises the growth in key sectors of the economy

Sector	2007/08 %	2006/07 %
Communication	20.1	19.2
Transport	6.5	5.3
Manufacturing & Construction	9.5	8.5
Agriculture	4.5	4.0
Mining	10.7	15.6

Tax and other revenue measures

Income Tax

Individuals

Reason to celebrate?

It was all jubilation – even the Members of Parliament stamped their feet – when the Minister announced Budget changes that would see every individual remain with some additional shillings after tax. Thus, with effect from the July payroll, tax savings will be approximately 21% for incomes below TShs 720,000 and a maximum of TShs 30,000 for those earning more than TShs 720,000.

Proposed revised band TShs per month	Current bands TShs per month	Rate %
0 – 100,000	0 – 80,000	0
100,001 – 360,000	80,001 – 180,000	15
360,001 – 540,000	180,001 – 360,000	20
540,001 – 720,000	360,001 – 540,000	25
Above 720,000	Above 540,000	30

Could this be a pre-emptive cushioning in view of rising oil and food prices?

New wealth-creation avenue

Capital gains tax will no longer apply to any profits realised from sale of units in an approved Collective Investment Scheme (CIS).

Individuals are therefore encouraged to invest in such schemes, and actively trade in units. While increased investment in CIS's is foreseeable, the bed-rocks of a saving culture are also slowly being laid down in Tanzania.



A tax break for luxury car owners

Cars back on the road?

There was much hue and cry when the former Minister for Finance announced drastic increments in annual motor vehicle licence fees. As a result of the protestations, the new Minister revised the licence fees downwards, with the luxury vehicle owners being the largest beneficiaries. Maybe a few more of those 4x4s will get back on the road now.

Engine Capacity cc	Proposed TShs	Current TShs
Below 500	30,000	50,000
500 – 1500	50,000	80,000
1500 – 2500	120,000	150,000
2500 – 5000	140,000	330,000
Over 5000	150,000	175,000

Currently all vehicles of more than 2000cc attract duty at 10%. Prices for small vehicles will however go up with the introduction of excise duty for vehicles of between 1000cc and 2000cc engine capacity, as shown below.

Engine Capacity cc	Proposed TShs
Below 1000	0%
1000 – 2000	5%
Above 2000	10%

To make it slightly worse for those planning to acquire small run-around vehicles, the one off registration fee has increased from TShs 90,000 to TShs 120,000. For motorcycles the registration fee is up from TShs 27,000 to TShs 35,000.

Paying for our 'sins'

Tanzanians are no longer alarmed when the Minister announces increments in excise duty on alcoholic beverages, cigarettes and carbonated soft drinks. In keeping with the trend, this year the increase was approximately 12%. Other than cigar smokers who were not affected by an increase in excise duty, other 'sinners' might need to drink and puff away in plenty, before 1 July 2008 when prices are expected to increase.

Item	Proposed (TShs per litre)	Current (TShs per litre)
Carbonated soft drinks (soda)	54	48
Beer made from local un-malted cereals	194	173
Other beers	329	294
Wine produced using more than 25% imported grapes	1,053	940
Spirits	1,561	1,394

	Proposed	Current
Local tobacco content cigarettes without filter tip	TShs 5,348/ mil	TShs 4,775/ mil
Local tobacco content cigarettes with filter tip	TShs 12,618/ mil	TShs 11,266/ mil
Imported tobacco content cigarettes	TShs 22,915/ mil	TShs 20,460/ mil
Cut rag or cut filter	TShs 11,573/ kg	TShs 10,333/ kg



Pay for our 'sins'



Excise duty on phone calls increased

Please call me, thank you!

It may soon be more expensive to talk as excise duty on mobile phone services has been increased from 7% to 10%. However, with the stiff competition in the industry, you may just avoid using that "please call me" service.

Corporations

The mood in the manufacturing industry is likely to be up-beat as Heavy Furnace Oil (HFO), which is a significant input in most manufacturing concerns, enjoys a reduction in excise duty from TShs 117 per litre to TShs 97 per litre. Only time will tell if this benefit finds its way to consumers through reduced prices of local products.

Agricultural concerns are no longer required to pay annual motor vehicle license fees on tractors for use in agriculture. Again, one can only hope that these changes will translate into reduced prices for agricultural products and food.

Report profits within three years, or else...

The government has proposed a new Alternative Minimum Tax (AMT) on gross turnover on companies that report tax losses for three consecutive

years, even where the losses arise due to utilising capital and investment allowances that have been put in place to encourage investment. Companies that invest exceedingly substantial amounts in capital items, whose return may not be realised within three years, and companies that have down times in three consecutive years will be subject to AMT.

No more avoiding tax if you sell to Government

Suppliers of goods and services to government bodies or institutions will suffer a final withholding tax of 2% if they (the suppliers) do not possess a Taxpayer Identification Number (TIN). Such suppliers may need to choose between registering for TIN (and pay 30% Corporate Tax on profits) or not registering for TIN (and suffer 2% final withholding tax on gross income).

Value Added Tax



CNG exempt from VAT

Exporting service-providers to charge 0% VAT?

The scope of zero rated exported services has been widened to capture services provided by consultants, engineers, lawyers, and accountants, telecommunication services, radio and television broadcasting services and ancillary transport services. However, it remains unclear how this proposal will be implemented in view of the restrictive wording of the VAT Act. The Act states that services carried out in Tanzania (though consumed by non-resident clients) are not exported services.

Moto Poa lights up Tanzanian homes

The government, in a bid to conform to global conservation of the environment and promote use of alternative energy sources, has introduced changes to the VAT status of the products which were subject to 20% VAT, as tabulated below.

The changes in VAT status:

Item	Proposed
Burning gel for domestic use	Exempt
Compressed Natural Gas (CNG) and CNG cylinders	Exempt
Moto Poa Ltd's inputs	Special Relief
Bitumen	Exempt
Locally produced sacks for packing imported bulk agricultural produce	Zero-rate

Administrative changes for NGOs

Charitable organisations (mostly NGOs) will no longer enjoy VAT special relief on household consumables. To avoid abuse of VAT special relief status, an NGO must:

- at the point of applying for VAT special relief, submit to the Tanzania Revenue Authority (TRA) annual work plans indicating how their projects expect to benefit society;
- possess a Tax Clearance Certificate (TCC) issued by TRA upon being satisfied of intended project benefits to society in order to continue enjoying VAT special relief; and
- certify that the goods and services for which VAT special relief is granted will only be used for the intended purposes.

EAC Proposals

The proposed changes to the East African Community (EAC) Common External Tariff rates, which are still subject to approval by the Sectoral Committee on Trade, Finance and Investment, are as below:

Item	Proposed Import Duty	Current Import Duty
Barley of up to 20,000 Metric Tonnes imported by brewery companies before 31 December 2009	0%	25%
Data processing machines	0%	10%
Crude palm oil	0%	10%
Inputs imported by Tanelec Ltd for manufacturing of transformers and switch gears	0%	Various
Sodium sulphate	10%	25%

Hand hoes, agricultural implements and garbage collection trucks imported by local authorities will also enjoy 0% import duty.

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