

TANZANIA BUDGET ANALYSIS 2018/2019

The Minister of Finance unveiled the 2018/19 Budget on 14th June 2018.

Below are the 10 Key reform areas:

1. Tax Administration

A six months **Tax Amnesty** to start from 1st July 2018. 100% Interest and penalty to be waived if conditions are met.

- This is a very commendable move in the tax system. There are a lot of preparations that tax payers will need to make to be able to fully take advantage of the amnesty. The tax health checks services provided by tax consultants will, more than ever, be very useful tool for taxpayers.

2. **VAT Exemptions** - packaging materials for pharmaceuticals, animal and poultry feeds additives, and sanitary pads.

- Will this measure really lower the prices of medicines, and pads? The effectiveness of this measure is difficult to predict. Exemptions in the VAT system are generally not a good thing because of cascading effect.

3. **VAT (Ministerial Powers)** - extend the powers of the Minister of Finance to exempt materials procured for government projects or projects financed by non-concessional loans.

- This needs a careful relook. The recent trend has been to reduce/remove ministerial (political) discretionary powers from the tax systems. Exemptions generally create opportunities for tax planning/avoidance. An ideal VAT system is in rem, tax on things.

4. **Income Tax**- reduce corporate tax rate of 20% to apply for the first 5 years of operation to new investors in leather and pharmaceuticals industries. Subject to a performance agreement with the government.

- Exemption or reduced tax rate in the early years of production may not be an effective incentive. Most business will make losses in the first few years and may not be in a tax paying position anyway. Could there be better non-tax incentives?

5. **Income Tax**- no withholding tax to apply on interest paid by the government on non-concessional loans.

- It may be difficult to discern the rationale of this measure. Is this intended to reduce the borrowing cost to the government? Or reduce the compliance costs that come with withholding obligations?

6. **Excise duty**- no major changes on local excisable goods and services. Duty has increased for imports.

- This was unexpected move. A big relief to local producers and consumers of local beverages.

7. **Gaming tax** – sports betting now taxed at 10% of gross sales, each slot machine cost a tax of TZS 100,000 per month, casinos taxed at 18% of gross revenue, forty (40) machines sites now taxed at 20% of gross revenue.

- Given the apparent boom in this sub-sector, this is a good move, both economically and socially.

8. **Customs** - a number of changes to protect the local industries.

- Protecting local industries is important. But that should go hand in hand with tangible controls to ensure efficiency. Otherwise we may be protecting inefficiencies and penalize consumers.

9. **Nuisance taxes** – several levies and fees imposed by Ministries, Departments and Regions are going to be scrapped. Several fees/levies imposed by OSHA are being scrapped. Also scrapped are several levies and fees imposed on salt production.

- This is a good start in implementation of the spirit of the Blueprint. Multiple fees, levies and taxes are not conducive to business.

10. **Blueprint**

This move to reform regulatory framework to create a business enabling environment.

- The Blueprint has several reform proposals. The reforms proposed in the Budget speech partly reflect recommendations in the Blueprint. But there are still many more reform areas. The big question is to what extent the Blueprint proposals will be implemented?

Conclusion:

The proposed reforms as presented in the Budget speech clearly show the intention to create an industrial economy. We await to see how these reforms will be reflected in the tax laws (through the Finance Act, 2018 and the GNs).

We will share with you more insights and analysis in our website (www.auditaxinternational.co.tz)