REFORMS OF THE TAX STRUCTURE, FEES, LEVIES AND REVENUE MEASURES – BUDGET SPEECH -2016/2017

EVITY

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PART I : BUDGET STRUCTURE FOR THE YEAR 2016/17

		Shillings Million
	Revenue	**2016/17**
A.	**Government Domestic Revenue**	**17,798,118**
	(i)Tax Revenue (TRA)	*15,105,100*
	(ii) Non Tax Revenue	*2,693,018*
B.	**LGAs own source**	**665,415**
C.	**External Loans and Grants**	**3,600,807**
	(i) General Budget support	*483,002*
	(ii)Projects Loans and Grants	*2,745,659*
	(iii)Basket Loans and Grants	*372,147*
D.	**Domestic & External Non Concessinal Borrowing**	**7,475,264**
	(i)External Non Concessional Borrowing	*2,100,995*
	(ii)Domestic Non Concessional Borrowing (1.5 of GDP)	*1,597,157*
	(iii) Domestic Non Concessional Borrowing (Rollover)	*3,777,112*
	TOTAL REVENUE (A+B+C+D)	**29,539,603**
	Expenditure	
E.	**Recurrent Expenditure**	**17,719,100**
	o/w (i) National Debt Service	**8,000,000**
	-Domestic Interest	*1,089,150*
	-Domestic Amortization (Rollover)	*3,777,112*
	- External Interest and Amortization	*1,586,640*
	- Government Contribution to Pension Funds	*1,141,144*
	-Other Expedniture under CFS	*405,954*
	(ii) Wages and Salaries	***6,600,000***
	(iii)Other Charges	***3,119,100***
	- Protected expenditure	*2,492,934*
	- LGAs expenditure	*266,166*
	- MDAs operational costs	*360,000*
F.	**Development Expenditure**	**11,820,503**
	(i) Domestic Financing	*8,702,697*
	o/w LGAs Expenditure	*399,249*
	(ii)Foreign Financing	*3,117,805*
	TOTAL EXPENDITURE (E+F)	**29,539,603**
	BUDGET DEFICIT	**4.5 % of GDP**

Errors noted on the budget schedule 2016/2017:

The total of development expenditure is **Tshs.12,219,751,000,000** instead of **Tshs.11,820,503,000,000** trillion as presented in the schedule. The changes will make the total expenditure by the government to **Tshs.29,938,851,000,000** instead of **Tshs.29,539,603,000,000** . The changes will cause the make the deficit of **Tshs.399,248,000,000.**

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Email us: Info@evity.co.tz
Website: www.evity.co.tz

PART II : REFORMS OF THE TAX STRUCTURE, FEES, LEVIES AND REVENUE MEASURES

The proposed measures are addressed through the following laws:

(a) The Value Added Tax, CAP 148;

(b) The Excise (Management and Tariff) Act, CAP 147;

(c) The Income Tax Act, CAP 332;

(d) The Vocational Education and Training Act, CAP 82;

(e) The Motor Vehicles (Tax on Registration and Transfer) Tax Act, CAP 124;

(f) The Tanzania Revenue Authority Act, CAP 399 (*in conjunction with, The Urban Authorities (Rating) Act 289, The Local Government Finance Act, CAP 290; The Tax Administration Act, 2015; and The Tax Appeals Act, CAP 408*);

(g) The Treasury Registrar (Powers and Functions) Act, CAP 370;

(h) The East African Community Customs Management Act, 2004;

The Value Added Tax, CAP 148

Proposed amendments of the Value Added Tax Act, CAP 148 as follows:

i) To exempt VAT on Raw Soya Beans. It was noted that this commodity was erroneously omitted under the exemption schedule in item 3, which comprises livestock, basic unprocessed agricultural products and foods for human consumption;

ii) To exempt VAT on all un-processed vegetables and unprocessed edible animal products which are classified under EAC Common External Tariff, 2012, Chapter 2 and 3 (Un-processed edible animal products including Live Fish), Chapter 7 (fruits and nuts), Chapter 8 (Cereals), Chapter 10 (Cereal flour) and Chapter 11 (seeds). This measure is intended to provide exemption to all unprocessed foodstuff and ensure availability of basic nutritional necessities at affordable prices.

iii) To include vitamins and food supplements (micronutrient compound) in the list of exempted items which have been approved by the Minister for Health Community Development, Gender, Elderly and

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Website: www.evity.co.tz

Children. The Minister has declared these micronutrient compounds in the list of essential drugs, medicines and equipment that will be used in the fortification to the food vehicle in order to improve nutritional content as an effective way to improve community health.

iv) To include water treatment chemicals in the list of exempted items which have been approved by the Minister responsible for Health. These are important for human health protection through provision of safe water.

v) To impose VAT on tourism services including supplies of tourist guiding, game driving, water safaris, animal or bird watching, park fees and ground transport services. This measure was put in abeyance during the inception of the new VAT Act in July 2015 in order to provide for the operators to conclude their contractual obligations entered with tourists in a year. The Value Added Tax is imposed on similar services in the neighbouring countries like Kenya, Rwanda and South Africa.

vi) The goods manufactured in Mainland Tanzania and sold to Zanzibar will attract VAT in Zanzibar while those goods manufactured in Zanzibar and sold to Mainland Tanzania will attract VAT in Mainland Tanzania. The measure intends to resolve the issues of refund claims to Zanzibar Treasury since the new VAT law does not provide for refund as it was the case in the repealled VAT Act. In this case, Value Added Tax will be imposed at the place of consumption in line with the destination principle. Under this arrangement the Government of Zanzibar will collect VAT on the supplies from Mainland Tanzania to Zanzibar, and Mainland Tanzania will collect VAT on the supplies from Zanzibar to Mainland Tanzania;

vii) Make corrections in the exemption list of petroleum products provided under item number 15 in the Exemption Schedule of the VAT Act, Cap 148 in order to include bitumen products under HS Code 27.13, 27.14 and 27.15;

viii) To provide for VAT exemption on Aviation insurance. This measure takes into consideration that aviation industry in the country is still

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at infant stage and needs to be supported in order to be able to cover insurance risks without additional costs due to taxation. There is a need to promote aviation industry and subsequently tourism industry. This measure will allow operators to acquire insurance covers from within the country instead of offshore market;

ix) To introduce VAT on fee based financial services. The measure is intended to widen the tax base and increase Government revenue. However, this measure will not apply on interest paid on loans.

The Excise (Management and Tariff) Act, CAP 147

Proposed amendments of the Excise (Management and Tariff) Act, CAP 147 as follows:

(i) To adjust for inflation rate of 5 percent the specific excise duty rates on non-petroleum products. The primary objective of this adjustment is to keep pace with inflation and thus preserve the real value of Government revenue from these sources. However, the adjustment will not include bottled water. The adjustment of specific excise duty rates are as follows:

(a) Excise duty on soft drinks from shillings 55 per litre to shillings 58 per litre;
(b) Excise duty on locally produced fruit juices from shillings 10 per litre to shillings 11 per litre;
(c) Excise duty on imported fruit juices from shillings 200 per litre to shillings 210 per litre;
(d) Excise duty on beers made from local un-malted cereals e.g Kibuku, from shillings 409 per litre to shillings 430 per litre;
(e) Excise duty on Other beers from shillings 694 per litre to shillings 729 per litre;
(f) Other Non-alcoholic beer (including energy drinks and non-alcoholic beverages), from shillings 508 per litre to shillings 534 per litre;
(g) Excise duty on Wine produced with domestic grapes content exceeding 75 percent, from shillings 192 per litre to shillings 202 per litre;
(h) Excise duty on Wine produced with more than 25 percent imported grapes from shillings 2,130 per litre to shillings 2,237 per litre;

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(i) Excise duty on Spirits from shillings 3,157 per litre to shillings 3,315 per litre;

(j) Excise duty on bottled water will not be affected by these adjustments;

(k) Cigarettes without filter tip and containing domestic tobacco more than 75 percent from shillings 11,289 to shillings 11,854 per thousand cigarettes;

(l) Cigarettes with filter tip and containing domestic tobacco more than 75 percent from shillings 26,689 to shillings 28,024 per thousand cigarettes;

(m) Other cigarettes not mentioned in (k) and (l) from shillings 48,285 to shillings 50,700 per thousand cigarettes;

Cut rag or cut filler from shillings 24,388 per kilogram to shillings 25,608 per kilogram;

(o) The excise duty rate on “cigar” remains at 30 per cent;

(p) The excise duty rate on lubricating oils from shillings 665.50 per litre to shillings 699 per litre;

(q) The excise duty rate on lubricating greases from cent 75 per kilo to cent 79 per kilo;

(r) The excise duty rate on Natural Gas from cent 43 per cubic feet to cent 45 per cubic feet.

(ii) To increase excise duty rate of imported furniture from 15 percent to 20 percent under HS Code 94.01 and HS Code 94.03. This measure is intended to promote local production of furniture using locally available timber. It will also increase Government revenue, promote employment, and assimilate technology;

(iii) Due to the difficulties experienced in the management and protection of environment against the usage of plastic bags, the Government has decided to abolish the manufacturing, selling, buying and use of plastic bags of less than 50 microns.

(iv) To extend the excise duty of 10 percent on charges or fees payable by a person to a telecommunication service provider in respect of money transfers to cover all commission received in the provision of mobile money services. Under the current arrangement, the main component of fees received by any telecommunication service provider in the money-transfer-related service is outside the tax net; as it is contained in money withdraw service;

The Income Tax Act, CAP 332

Proposed amendments of the Income Tax Act, CAP 332 as follows:

(i) To remove the income tax exemptions on the final gratuity to members of parliament in order to promote equity and fairness in taxation to all individuals;

(ii) To remove exemption on non-investment assets (shares), hence increase the tax base as the same item which enjoy a reduced rate of 5 percent on dividend. This will be done by deleting paragraph (d) under section 3 in the definition of "investment asset" on shares or securities listed in the Dar es Salaam Stock Exchange that are owned by a resident person or a non resident person who either alone or with other associate controls less than 25 percent of the controlling shares of the issuer Company;

(iii) To reduce the minimum PAYE rate from 11 percent to 9 percent. The measure is taken to implement the Government intention to reduce the tax burden progressively by adjusting the PAYE rate to a single digit. In essence, the Government has been reducing PAYE rates from 18.5 percent in 2006/07 to 9 percent which is being proposed now. The government will continue making salary adjustments in line with economic performance without undue compromise of tax revenue for provision of social services. The proposed new rates and the proposed rates are as follows:

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The proposed PAYE rates for the year 2016/17;

Class	Monthly Income Threshold	Tax Rate
1.	Where total income does not exceed TShs. 170,000/=	NIL
2.	TShs. 170,001/= to 360,000/=	9% of the amount in excess of TShs. 170,000/=
3.	TShs. 360,001/= to 540,000/=	TShs. 17,100+ 20% of the amount in excess of TShs. 360,000/=
4.	TShs. 540,001/= to 720,000/=	TShs. 53,100+ 25% of the amount in excess of TShs. 540,000/=
5.	TShs. 720,001/= and above	TShs. 98,100+ 30% of the amount in excess of TShs. 720,000/=

(iv) To impose withholding tax on payments made to approved reteriment funds arising from investment incomes to be in line with the taxation principles of fairness and equity. This measure will enable the companies to impose withholding tax on payments made to the fund relating to leasing and lending;

(v) To grant the Commissioner General of TRA powers to determine rental income based on the minimum market value to charge withholding tax on rental income.

The Vocational Education and Training Act, Cap. 82;

Proposed amendments of the Vocational Education and Training Act, Cap. 82 by reducing the Skills and Development Levy from 5% to 4.5% in order to provide employers with relief from the tax burden and enhance compliance for more revenue.

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The Motor Vehicles (Tax on Registration and Transfer) Act, CAP 124;

Proposed amendments in the Motor Vehicles (Tax on Registration and Transfer) Act, CAP 124 as follows:

(i) Adjust Motor Vehicle Registration fee upwards from the current rate of Shs. 150,000 to Shs. 250,000 per motor vehicles and from Shs. 45,000 to Shs. 95,000 per motor cycle and tricycles;

(ii) To increase the Personalized Registration Number fee from Shs. 5,000,000 to Shs. 10,000,000 for every three years to reflect the true value of money.

The Tanzania Revenue Authority Act, CAP 399; The Local Government Finance Act, CAP 290; The Urban Authorities (Rating) Act 289; The Tax Administration Act, 2015; and The Tax Appeals Act, CAP 408

Proposed amendments the Tanzania Revenue Authority Act, CAP 399; The Urban Authorities (Rating) Act 289; The Local Government Finance Act, CAP 290; The Tax Administration Act, 2015; and The Tax Appeals Act, CAP 408. The aim of this amendment is to facilitate transfer of mandate to collect property tax from Local Government Authorities to the Tanzania Revenue Authority. Furthermore, the amendment is intended to facilitate the following undertakings;

(i) To enable Tanzania Revenue Authority to estimate tax and make valuation of the properties;
(ii) Tanzania Revenue Authority to collect property tax under its laid down procedures by using the relevant tax laws;
(iii) To institute proper procedures for remittence of property tax collected by Tanzania Revenue Authority in the respective local governments;
(iv) To set procedure for dispute resolution arising from collection of property tax by using prevailing tax laws; and,
(v) To review property tax exemptions to ensure that more properties are brought into the tax structure.

The Treasury Registrar (Powers and Functions) Act, CAP 370;

Amendments of the Treasury Registrar (Powers and Functions) Act, Cap 370 to require all Agencies and Regulatory Authorities under the Treasury Registrar to remit 15 percent of their gross income to the consolidated fund. The institutions will be gazetted in the Government Notice. Furthermore, I also propose to remove AICC from the list of the public institutions that contribute 15 percent and instead, it will be required to provide dividends due from business operations.

The East African Community Customs Management Act, 2004

The Ministers responsible for Finance from the EAC partner states held their meeting "*Pre-Budget Consultations*" in Arusha, Tanzania from 2nd – 5th May, 2016. During the meeting, they agreed to effect changes in the Common External Tariff (CET) and amend the EAC Customs Management Act, 2004 for the Financial Year 2016/17 as follows:

The changes in the Common External Tariff (CET) which were recommended and agreed have to the great extent focused on economic growth through industrial development in the East African Community Region. The Ministers decided to undertake the following:-

(i) Tanzania to increase import duty rate on cement from the current rate of 25 percent to 35 percent which is classified under HS Code 2523.29.00 for one year. The proposed measure is aimed at encouraging and protecting local production of cement in the country against stiff competition from imported cement in the country;

(ii) Increase the CET rate on flat rolled products of iron or non-alloy steel from 0 percent to 10 percent under the following HS Codes: (HS Code 7208.54.00; HS Code 7208.90.00; HS Code 7208.52.00; and, HS Code 7208.53.00). This measure is intended to protect local production of the product and will increase Government revenue. The study conducted in the region revealed a substantial production to cater for demand. However, there has been unfair competition from inferior and subsidized products imported from outside the country;

(iii) Increase the import duty rate on Bars and rods of iron and steel from 10 percent to 25 percent on the following HS Codes: `HS Code 7213.10.00; HS Code 7213.20.00; HS Code 7213.99.00; HS Code 7227.10.00; HS Code 7227.20.00; HS Code 7227.90.00; HS Code 7308.20.00; HS Code 7308.40.00; and HS Code 9406.00.90. This measure is intended to protect domestic production of iron and steel against cheap and inferior iron products imported from outside the country;

(iv) Grant stay of application of CET rate of 25 percent on iron and steel products which are used in construction of bridges and bridge sections, classified under HS Code 7308.10.00 and instead apply duty rate of 0 percent for one year;

(v) Grant the stay of application of CET rate of 25 percent on "automotive bolts and nuts" classified under HS Code 7318.15.00 and apply duty rate of 10 percent for one year. The rationale for reducing the CET rate is that manufactures of these products use high tensile bars which are not manufactured in the region;

(vi) Grant duty remission to manufacturers of "bolts and nuts" classified under HS Code 7228.30.00 and 7228.50.00 by charging a duty rate of 0 percent instead of 10 percent. This measure will enable manufacturers to obtain raw materials at reasonable price since they are not manufactured in the region;

(vii) Increase the import duty rate from 10 percent to 25 percent on made up fishing nets of HS Code 5608.11.00. This proposal is taken because Fishing nets are manufactured locally and are therefore readily available in the region;

(viii) Increase the import duty rate from 10 percent to 25 percent on "oil and petrol filters" of HS Code 8421.23.00, and intake air filters of HS Code 8421.31.00. The measure is intended to protect production by local producers against cheap or subsidized imported products;

(ix) Grant duty remission of 0 percent to local manufacturers of motor vehicle “air filters”. The type of raw material for manufacturing air filters will be gazetted in the East African Community Gazette;

(x) Grant import duty remission of 0 percent on splints which are raw materials used in the manufacture of matches under Hs Code 4421.90.00. This measure takes into account that there is lack of adequate matured forests which can produce splints for production of matches in the region;

(xi) Reduce progressively import duty remission levels on sugar and sugar confectionery from the current rate of 10 percent. Reduction of import duty rate will be as follows: 2016/17 the rate will be 15 percent; 2017/18 the rate will be 20 percent, and 2018/19 the rate will be 25 percent. The current duty rate of 10 percent undermines local production and promotes importation of the product and abuse in the usage of the product;

(xii) Increase the CET rate on Aluminium milk cans under HS Code 7612.90.90 from 10 percent to 25 percent. Aluminium cans are finished products and therefore attract import duty at 25 percent. The measure is aimed at protecting local manufacturers who have sufficient capacity to manufacture these products in the region;

(xiii) Grant duty remission to manufacturers of “Aluminium cans” on raw materials classified under HS Codes 7606.12.00 and HS Codes 7606.92.00 by charging a duty rate of 0 percent. This measure is aimed at encouraging production of “Aluminium cans” in the region;

(xiv) Grant stay of application of EAC CET rate of 35 percent on Wheat (Wheat grain) under HS Code 1001.99.10 and HS Code 1001.99.90 and instead apply duty rate of 10 percent for one year. The stay of application is being done due to lack of capacity in the region to produce wheat to satisfy the demand;

(xv) Increase the specific duty rate on worn clothes and shoes from 0.2 USD/Kg to 0.4 USD/kg. The measure is intended to gradually phase-out importation of used clothes and footwear in the region. Moreover, the EAC Partner States have agreed to strategically focus on promotion of textile and shoe making industries to cater the demand in the Region. The Ministry of Industries, Trade and Investment of the United Republic of Tanzania has already prepared such a strategy;

(xvi) Continue application of import duty rate of 25 percent or charge specific duty rate of USD 200 per metric tons, whichever is higher, for one year on Flat-rolled products of iron or non-alloy steel under HS Codes: HS Codes 7210.41.00; HS Codes 7210.49.00; HS Codes 7210.61.00; HS Codes 7210.69.00; HS Codes 7210.70.00; HS Codes 7210.90.00; HS Codes 7212.30.00; and HS Codes 7212.40.00. The measure is aimed at protecting domestic industries against importation of inferior products from outside the region. The Study that was done by the EAC Partner States indicates that there has been an excessive production and supply of the product in the world market which led to the fall in prices, hence an influx of these products into the region. In this case, there is a need to protect iron and steel production in the region;

(xvii) Continue application of import duty rate of 25 percent or charge specific duty rate of USD 200 per metric tons, whichever is higher, for one year on Flat-rolled products of bars, rods, sections, angles, shapes, and related products under HS Codes: HS Codes 7214.10.00; HS Codes 7214.20.00; HS Codes 7214.30.00; HS Codes 7214.91.00; and HS Codes 7214.99.00. The antidumping measure on imports of this nature will protect our domestic industries against importation of inferior products from outside the region;

(xviii) Continue application of CET rate of 25 percent or charge specific duty rate of USD 200 per metric tons whichever is higher for one year on steel reinforcement bars, angles, sections under HS Codes: 7216.10.00; HS Codes 7216.21.00; HS Codes 7216.22.00; and HS Codes 7216.50.00. The antidumping measure on imports of this nature will protect our domestic industries against importation of inferior and cheap products from outside the region;

(xix) Grant stay of application of CET rate under HS Code 1511.10.00 to manufacturers of crude edible oil and apply 10 percent instead of 0 percent for one year. This measure is aimed at promotion of local production of oil seeds and growth of edible oil industries. The Ministry of Industry, Trade and Investment has also prepared a strategy to achieve the same objective;

(xx) Increase Import Duty rate from 10 percent to 25 percent for one year on paper products falling under the following HS Codes: HS Codes 4804.11.00; HS Codes 4804.19.10; HS Codes 4804.19.90; HS Codes 4804.21.00; HS Codes 4804.29.00; HS Codes 4804.31.00; HS Codes 4804.39.00; HS Codes 4804.41.00; HS Codes 4805.59.00; HS Codes 4805.11.00; HS Codes 4805.12.00; HS Codes 4805.19.00; HS Codes 4805.24.00; HS Codes 4805.25.00; HS Codes 4805.30.00; HS Codes 4805.91.00, and HS Codes 4805.92.00;

(xxi) Continue applying CET rate of 25 percent or charge specific duty rate of USD 200 per metric tons whichever is higher on bars and rods of iron or steel for one year on the following HS Codes: HS Codes 7228.10.00; HS Codes 7228.20.00; HS Codes 7228.30.00; HS Codes 7228.40.00; HS Codes 7228.50.00; HS Codes 7228.60.00; HS Codes 7228.70.00; HS Codes 7228.80.00. The aim of this measure is to protect domestic production in the region against unfair competition from imported products;

(xxii) To apply CET rate of 25 percent or specific duty rate of USD 200 per metric tons whichever is higher on products of iron and steel for one year on the following HS Codes: HS Codes 7212.40.00; HS Codes 7215.10.00; HS Codes 7215.50.00; HS Codes 7215.90.00; HS Codes 7216.61.00; HS Codes 7216.69.00; HS Codes 7216.91.00; HS Codes 7216.99.00.

The Ministers for Finance also agreed to make amendments in the EAC Customs Management Act, 2004 as follows: -

(i) Amend the 5th Schedule to EAC-CMA to include Refrigeration equipment for human dead bodies under HS Code 8418.69.90 for use in Hospitals, city councils or funeral homes;

(ii) Amend the 5th Schedule to EAC-CMA (Chapters 84 and 69) to include incinerator's equipments and materials used in hospitals to burn waste.

(iii) Amend the 5th Schedule to the EAC-CMA to remove import duty exemption on uniforms for hospital staff. The uniforms are not specialized products and can be acquired locally and therefore they should attract CET rate.

(iv) Grant duty remission to the manufacturers of Inputs for the manufacture of deep cycle batteries. This measure is intended to boost local industries since the imported deep cycle batteries are exempt under the 5th Schedule. This move will facilitate industries to set up shops in the region.

(v) Amend the 5th Schedule to the EAC-CMA to include blood collection tubes. This measure is in line with the products catered for under item 13 part B, for hygienic bags.

(vi) Grant duty remission for inputs or raw materials for use in the manufacture of solar equipments.

Contact Us:

For addition information and consultation you can either physically visit us at:

EZM House, 1nd Floor,

Along Sam Nujoma Road,

Mlalakuwa Street (Behind Calabash)

Call us: 0754-080521/0754 446899

Email us: Info@evity.co.tz

Website: www.evity.co.tz

Call us: 0754-080521/0754 446899
Email us: Info@evity.co.tz
Website: www.evity.co.tz