

# **TANZANIA**

## **Doing Business Guide January 2008**

# TANZANIA DOING BUSINESS GUIDE

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## 1 INTRODUCTION

### 1.1 Business Guide

For the investing company, doing business in a foreign environment requires local knowledge and expertise to guide it through the financial reporting and tax requirements in order to operate successfully. This business guide, which draws on our extensive knowledge and experience of the critical issues faced by first time investors to Tanzania, provides an overview on Tanzanian's economic climate, business opportunities and legal and tax environment.

This guide has been prepared as an introductory summary to the laws, regulations and practices in Tanzania. It is therefore not a substitute for professional advice, and action should there not be taken on the strength of the information contained herein. We would however be delighted to provide advice and assistance tailored for the specific needs of your company.

#### 1.1.1 International Presence

PricewaterhouseCoopers ([www.pwc.com](http://www.pwc.com)) provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 146,000 people in 150 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

"PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers Limited, each of which is a separate and independent legal entity.

#### 1.1.2 Local Presence

The Tanzanian firm of PricewaterhouseCoopers (and its legacy firms) has operated in Tanzania for more than 50 years and has 9 partners and more than 130 professional staff based in Tanzania.

#### 1.1.3 We offer a full range of services including:

- Assurance and regulatory reporting;
- Tax compliance and tax advisory;
- Corporate support, including company formation / registration, company secretarial;
- Corporate finance;
- Transaction services;
- Business recovery;
- Forensic services;

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- Financial management and accounting;
- Human resource services;
- Policy and management;
- Process improvement.

#### 1.1.4 Our contact details

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## **2 OVERVIEW**

### **2.1 Geography**

Tanzania is located on the eastern part of Africa, bordering the Indian Ocean between Kenya and Mozambique. The country also shares borders with, and acts as a gateway to, Uganda, Rwanda, Burundi, the Democratic Republic of Congo ("DRC"), Zambia and Malawi. The country occupies a total area of 945,090 sq. km. of which 886,040 sq. km is land and 59,509 sq. km is water.

### **2.2 Climate**

Climatic conditions vary from tropical along the coastal regions to temperate in the highlands. The coastal area consists of plains while the hinterland has a central plateau, the northern and southern highlands, and Lake Victoria basin. Tanzania's highest point is found on Mount Kilimanjaro (5,895 m).

### **2.3 Population**

The population of mainland Tanzania and Zanzibar was estimated at 34.5 million and 1 million respectively on the basis of the last census that was carried out in 2002. The population is estimated to be growing at about 2.9% per annum, which would imply a population in excess of 40 million by 2008. Indigenous Tanzanians make up the largest ethnic group on mainland Tanzania (99%) and there are over 120 tribes, each with its own dialect. Other ethnic groups include Asians, Europeans and Arabs, who make up 1% of the total population. The official languages are Kiswahili and English.

### **2.4 Political System**

On 1st July 1992, Tanzania formally ceased to be a one-party state. The country's constitution aims at building a democratic society founded on the principles of freedom, justice, fraternity and concord, in which the executive is accountable to a legislature composed of elected members and representatives of the people. The constitution also provides for a judiciary that is independent ensuring that all human rights are preserved and protected.

### **2.5 Legal Reform**

The Government has in recent years initiated a number of reforms including in the foreign exchange regime, investment and trade policy, the agricultural and the financial and public sectors. Steps have also been taken to complement the constitutional and legal reforms by upgrading and revitalizing the institutions underpinning the legal system. Parts of the reforms in the legal sector have included the formation of a commercial court in order to speed up commercial cases. Action has also been taken to reform laws that impede on business activity or add to the cost of doing business.

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Reforms in the recent past include new company legislation (Companies Act 2002 (which became operational in 2006)), new tax legislation (Income Tax Act 2004, Tax Revenue Appeals Act 2000, VAT Act 1997, new mining tax legislation in 1997, Tanzania Revenue Authority Act 1995), amended investor legislation (Business Activities Registration Act 2006, Special Economic Zones Act 2006, Export Processing Zones Act 2002, Mining Act 1998 and Tanzania Investment Act 1997), new land legislation (Land Act 1999) and new employment legislation (Employment and Labour Relations Act 2004, Labour Institutions Act 2004).

## **2.6 Private Sector Development**

Tanzania Investment Centre (TIC) is an established "one stop shop" for investment advice and facilitation, and is the primary agency of government to co-ordinate, encourage, promote and facilitate investment in Tanzania, and to advise the Government on investment policy related matters.

The Government has given priority to creating continuous dialogue with the private businesses. This has led to the formation of the Tanzania National Business Council (TNBC), which was officially launched in Dar es Salaam in April 2001, under the chairmanship of the President. The 40-member council is, among other things, aimed at providing a forum for public-private sector dialogue with a view to reaching consensus or mutual understanding on strategic issues relating to the efficient management of development resources. The council is made up of 20 members from the Government and 20 others from the private sector. Private sector representation includes amongst others the Confederation of Tanzania Industries (CTI), the Tanzania Association of Oil Marketing Companies, the Tanzania Bankers Association (TBA), Tanzania Chamber of Commerce Industry and Agriculture (TCCIA), the Tanzania Chamber of Minerals & Energy, the Tourism Confederation of Tanzania and the Tanzania Private Sector Foundation (TPSF).

The BEST (Business Environment Strengthening Tanzania) programme launched in December 2003 aims to improve the business environment for the private sector by improving administrative, legal and regulatory policies. The programme seeks to achieve its objectives through five interlinked components, namely: achieving better regulation; improving commercial dispute resolution; strengthening the Tanzania Investment Centre; changing the culture of Government; and empowering private sector advocacy.

## **2.7 Economy**

The Tanzanian economy has performed reasonably well in the recent past, with GDP annual growth rates averaging above 6%. Tanzania still relies heavily on agriculture for the bulk of its GDP and the promotion of agriculture and the agro-processing remain a prime focus of the Government. Nevertheless, other sectors have increasingly come to the forefront as investment possibilities including energy and mining, financial services, telecommunications, and tourism.

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## 2.8 Regional Trade

Membership of the East African Community (comprising Kenya, Tanzania, Uganda as well as Rwanda and Burundi since 1 July 2007) gives Tanzania access to a market of more than 120 million people. Tanzania is also a member of the Southern African Development Community (SADC).

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### 3 THE ECONOMY

Following a severe economic crisis in the 1980s, several economic adjustment measures were implemented to restore macro-economic stability. The improvement brought on by sustained appropriate economic policies has resulted in the grant of substantial debt relief including in 2001 under the Enhanced Highly Indebted Poor Countries (“HIPC”) Initiative and in 2006 under the Multilateral Debt Relief Initiative (MDRI). The reductions in debt service payments have freed up resources available for use in poverty reduction programmes.

#### 3.1 The National Strategy for Growth and Poverty Reduction

The original Poverty Reduction Strategy identified primary education, roads, water and sanitation, judiciary, health and agriculture as priority sectors for poverty reduction, and listed the environment, gender, good governance, HIV/Aids and employments as relevant cross cutting issues.

Subsequently the National Strategy for Growth and Reduction of Poverty (“NSGRP”) (popularly known by its Kiswahili acronym “MKUKUTA”) has expanded interactions to a wider set of cross cutting issues. The NSGRP is geared towards the aspirations of Tanzania’s Development Vision (“Vision 2025”) for high and shared growth, high quality livelihood, peace, stability & unity, good governance, high quality education and international competitiveness. The NSGRP is committed to the Millennium Development Goals (“MDGs”) as internationally agreed targets for: (i) reducing by half people living under the yoke of extreme poverty & hunger; (ii) achievement of universal primary education; (iii) promotion of gender equality & empower women and other disadvantaged groups; (iv) reducing child mortality; (v) improving maternal health; (vi) combat HIV/AIDS, Malaria and other diseases; (vii) ensuring environmental sustainability; and (viii) developing global partnerships for development by 2015.

The NSGRP strives to widen the space for country ownership and effective participation of civil society, private sector development and fruitful local and external partnerships in development and commitment to regional and other international initiatives for social and economic development. The strategy requires increased commitment and resources from domestic stakeholders and development partners in the medium term.

The NSGRP envisages that average real GDP growth rates of 6-8 per cent per annum will be achieved, consistent with the aspirations of Vision 2025. The goals of the MKUKUTA are clustered into three broad categories:

- Growth of income and reduction poverty with particular focus on achievement of a broad based and equitable growth whose goals are clearly articulated;
- Improvement of quality of life & social well-being with particular focus on poverty for the poorest and most vulnerable groups and inequalities in outcomes

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- (e.g. education, survival, health) across geographic, income, age, gender and other groups is reduced; and
- Governance and accountability – good governance and the rule of law, accountability of leaders and public servants, democracy and political and social tolerance, peace, political stability, national unity and social cohesion is enhanced.

More recently the Government has launched the Mini-Tiger Plan 2020, which aims to transform the country into a semi-industrialised economy with a minimum per capita income of US\$2,000 by 2025. The object of the plan is to facilitate the creation of a favourable investment climate through an improved regulatory and legal framework as well as through the promotion of Special Economic Zones.

### 3.2 Economic indicators

In recent years the economic growth rate has consistently exceeded 5%. Agriculture continues to be the largest sector of the economy although other sectors such as mining, manufacturing and services are growing faster. Since 1999 the inflation rate has been in single digits. With the decline in inflation, there has been pressure from borrowers for greater reduction of interest rates which, although declining, remain relatively high. Whilst the economy has performed relatively well in the recent past, if Tanzania is to deliver significant gains in terms of per capita income, growth will have to increase at a much faster rate (in excess of 8%).

Indicator	2001	2002	2003	2004	2005	2006p
Real GDP growth rate	5.7%	6.2%	5.7%	6.7%	6.7%	6.2%
Inflation rate	5.2 %	4.5%	3.5%	4.1%	4.4%	6.2%
Foreign exchange reserves – months of imports	6.3	8.6	9.2	8.3	5.8%	5.3%
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Revenue collection to GDP ratio	11.8%	12.3%	12.1%	13.3%	13.3%	13.6%

Source: Bank of Tanzania p = Provisional

### 3.3 External Trade Developments

Tanzania's balance of trade is consistently negative, although there have been efforts to reduce the gap between exports and imports. Exports have increased significantly in recent years. Part of this increase is due to the recent diversification of export earnings into areas such as minerals and tourism, as well as non-traditional agricultural exports (for example, horticulture). Traditional export crops have performed poorly in recent years due to depressed world commodity prices and low and variable product quality. Notwithstanding the increase in exports, the balance of trade has remained consistently negative.

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	1999	2000	2001	2002	2003	2004	2005	2006p
Item	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Non-traditional: Gold	34.8	112.7	254.1	341.1	502.8	629.4	655.1	773.2
Non-traditional: Other	207.3	328.2	366.1	432.4	492.9	545.9	666.1	682.7
Non-traditional: Total	242.1	440.9	620.2	773.5	995.7	1,175.3	1,321.2	1,455.9
Traditional	301.2	292.8	231.1	206.1	220.5	297.8	354.5	267.1
Goods: Exports f.o.b.	543.3	733.7	851.3	979.6	1,216.2	1,473.1	1,675.7	1,723.0
Goods: Imports f.o.b.	(1,415.4)	(1,367.6)	(1,560.3)	(1,511.3)	(1,933.5)	(2,482.8)	(2,997.6)	(3,864.1)
<b>Balance on Goods</b>	<b>(872.1)</b>	<b>(633.9)</b>	<b>(709.0)</b>	<b>(531.8)</b>	<b>(717.3)</b>	<b>(1,009.8)</b>	<b>(1,321.8)</b>	<b>(2,141.1)</b>
Services: Credit	600.3	627.3	914.6	920.1	947.8	1,133.6	1,269.2	1,464.5
Services: Debit	(780.5)	(682.4)	(649.7)	(632.5)	(725.7)	(974.7)	(1,207.3)	(1,247.3)
<b>Balance on Services</b>	<b>(180.2)</b>	<b>(55.1)</b>	<b>264.9</b>	<b>287.6</b>	<b>222.1</b>	<b>158.9</b>	<b>61.8</b>	<b>217.2</b>
<b>Balance on Goods &amp; Services</b>	<b>(1,052.3)</b>	<b>(689.0)</b>	<b>(444.1)</b>	<b>(244.2)</b>	<b>(495.3)</b>	<b>(850.9)</b>	<b>(1,260.0)</b>	<b>(1,923.8)</b>

Source: Bank of Tanzania p = Provisional

### 3.4 Sectoral performance and investment potential

In the table below, we set out recent growth rates for a number of key economic sectors. It should be noted that whilst mining has had the fastest growth rate, this is off a very small base with mining still only representing less than 4% of GDP.

Sector	2001	2002	2003	2004	2005	2006
Agriculture	5.5%	5.0%	4.0%	5.8%	5.1%	4.1%
Construction	8.7%	11.0%	11.0%	10.8%	10.3%	10.0%
Financial and Business Services	3.3%	4.8%	4.4%	4.4%	5.3%	5.5%
Manufacturing	5.0%	8.0%	8.6%	8.6%	9.0%	8.6%
Mining	16.6%	15.0%	18.0%	15.4%	15.7%	16.4%
Tourism and Trade	6.7	7.0%	6.5%	7.8%	8.2%	8.4%
Transport and Communication	6.3%	6.4%	5.0%	6.0%	6.4%	7.5%
Utilities (Electricity, Water)	3.0%	3.1%	4.9%	4.5%	5.1%	(1.8%)

Source: 2007 budget speech of Minister for Planning

### Agriculture

Agriculture dominates the Tanzanian economy contributing over 40% to GDP. Nevertheless, much of the untapped investment potential in the economy is related to agriculture. There are significant opportunities for investment not only in traditional export crops (coffee, tea, sisal, tobacco, cashew nuts, and cotton), but also in animal husbandry, food crops, timber and horticulture.

The Government's agriculture strategy recognises the need to change the structure of agricultural production from subsistence agriculture to a more commercial farming system. Recent reforms have included the liberalization of crop marketing, of the supply of agricultural inputs and of prices. In addition, the co-operative unions have been restructured, and the role of crop boards has been changed to that of regulating.

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Formal agricultural producer associations have been revived in most of the cash crops and play a significant role in the Tanzania Chamber of Commerce Industry and Agriculture (TCCIA). Most of the key members also sit on the boards of the commodity regulatory bodies. The TCCIA has identified 40 products that can be exported to the United States under the Africa Growth Opportunity Act (AGOA). Tanzania is one of a number of countries in sub-Saharan Africa that qualifies under the Act.

The Tanzania Investment Centre is available to assist investors to secure land for agricultural development.

### **Manufacturing**

Tanzania's manufacturing industry, though relatively narrow, has seen good growth in recent years and since 2002 its share of GDP has been not less than 8%. Foreign investment has played a major role in this revival, following the privatisation of most of the state manufacturing companies. These include Tanga (Holcim), Mbeya (Lafarge) and Portland (Heidelberg) cement companies, Tanzania Breweries Limited (SABMiller), Tanzania Cigarette Company (JTI) and Kilombero Sugar Company (Illovo), just to mention a few.

### **Mining**

Tanzania is most well known for its deposits of gold, diamonds, rubies and (unique to Tanzania) tanzanite. However, it does also have deposits of other minerals including coal, copper, nickel, cobalt, gypsum, iron, lead, limestone, nickel, phosphate, tin, titanium, vanadium, uranium.

For years the mining sector in Tanzania had been virtually dormant as a consequence of policies, which discouraged private investment in the sector. However, fiscal measures introduced in 1997 and a new Mining Act in 1998 triggered a resurgence of the sector. Foreign direct investment in the sector since 1998 is in excess of US\$2.5 billion as a consequence of the development of several new large-scale gold mines with Barrick Gold and AngloGoldAshanti being the biggest investors in the sector. Having been an insignificant gold producer in the early 1990s, Tanzania is now the third largest gold producer in Africa after South Africa and Ghana with gold production now in excess of 50 tonnes per annum. By 2006 mining's share of GDP had risen to 3.8% and gold alone comprised approximately 45% of the total value of exports of goods.

Greater diversification from gold is likely in the near future. There are a number of promising prospects for nickel and / or platinum including Barrick Gold's and Xstrata's joint venture Kabanga Nickel project, and Goldstream Mining's Mibango and Luwumbu prospects in joint venture with Lonmin. There are also various uranium prospects including the Ruhuhu prospect of Uranium Hunter Corporation as well as a number of prospects being explored by Uranium Resources plc.

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## Oil and Gas

Tanzania has excellent opportunities for oil and gas exploration and development in its mostly unexplored but highly potential sedimentary basins.

The terms for potential investors are set out in the model Production Sharing Agreement (“PSA”) of 2004 and in the Petroleum (Exploration and Production) Act of 1980. PSAs are entered into with Tanzania Petroleum Development Corporation (“TPDC”), a public corporation. As of December 2007, there were 20 PSAs in place.

Major gas discoveries have been made at Songo Songo and at Mnazi Bay, and in 2007 at Mkuranga. Natural gas produced from Songo Songo is now being used for electricity generation, and the field at Mnazi Bay is also being developed for electricity generation.

## Tourism

After many years of neglect, Tanzania is gradually reversing the traditional image of being an unknown tourism destination. The country is now considered to be one of the best tourism destinations in Africa. With the recent efforts by Government and private sector in promoting the sector, tourism now contributes about 16% to total GDP and almost 25% of total export earnings. Looking forward, the Government is targeting to attract 1 million tourists by 2010.

### **Number of tourists**

Year	Total number of tourists	Revenue (Million US \$)
2001	525,000	725
2002	575,235	730
2003	576,198	731
2004	582,807	746
2005	612,754	823
2006	644,124	862

Source: Ministry of Natural Resources and Tourism  
Tanzania Tourism Statistical Bulletin 2006

Tanzania has significant tourism potential. In terms of its natural resources, Tanzania is blessed with extensive tracts of wilderness and rich diversity of scenery. It has 15 National Parks, including the famous Serengeti National Park, 34 Game Reserves and 38 Game Controlled Areas. The most developed tourism route in Tanzania is the Northern Circuit with many of the country’s famous National Parks (Serengeti, Ngorongoro and Lake Manyara). However, there are huge parks in the Tanzanian Southern Circuit (which include the Great Ruaha and the Selous), which are largely underdeveloped.

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Other prime tourist attractions include:

- Mount Kilimanjaro – highest mountain in Africa;
- Islands of Zanzibar (with the unique atmosphere of its historic Stone Town), Pemba and Mafia;
- The world's most famous archaeological site at Olduvai gorge;
- The 800-kilometre coastline on the Indian Ocean;
- A number of mountain ranges including the Usambara mountains ("the Switzerland of Africa")

Tanzania is among the top ten countries in the world that are rich in biodiversity and leads in wildlife conservation in Africa.

## **Transport and Communications**

### *Port facilities*

Tanzania has four main ports on its Indian Ocean coast:

- Dar es Salaam, run by Tanzania Ports Authority, with a container terminal leased to and operated by Tanzania International Container Terminal Services Company Ltd (a subsidiary of the Hutchison Port Holdings group owned by Hutchison Whampoa Limited)
- Tanga and Mtwara, both run by Tanzania Ports Authority (TPA), and
- Zanzibar port, which is being transferred to the new Zanzibar Port Corporation as part of a donor funded expansion and reorganization programme.

There are about eight deep-water berths for general cargo in Dar es Salaam, which is the main port and three berths for container vessels, eight anchorages, a grain terminal, an oil jetty and offshore mooring for supertankers. Dar es Salaam also serves as the coastal terminal for the Tanzania Railways Corporation and Tanzania Zambia Railways Authority. The Dar es Salaam port handles significant volumes of cargo transported by road and rail to and from Zambia, Burundi, Rwanda, Uganda and the DRC.

There are inland water ports on Lake Victoria, Lake Tanganyika and Lake Nyasa, which serve inland water transport. The Marines Services Company Ltd owns the major inland water ports and also owns and operates a number of vessels in the inland waters.

### *Railways*

Tanzania has two railway systems on the mainland, namely the Tanzania Railways Corporation (TRC) with 2,605 km and the Tanzania Zambia Railways Authority (TAZARA) with 1860 km. The two systems are linked at the Kidatu interface.

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The main TRC line is from Dar es Salaam to Tabora, with branches to Kigoma on Lake Tanganyika and Mwanza on Lake Victoria. Another line goes from Dar es Salaam to Moshi and branches to Tanga port. The TRC railway system has been a major route for cargo destined for the land locked countries of Uganda, Rwanda, Burundi and the DRC. The Government has recently concessioned the running of most of the TRC operations to Rites of India.

TAZARA runs from Dar es Salaam to New Kapiri-Mposhi in Zambia, and its cargo is mostly Zambian cargo. Recent changes have aimed at making the railway line more commercial to enable the line to compete with other railways in Southern Africa.

### *Air Transport*

In 1992, the government of Tanzania liberalised the domestic air transport industry, ending the monopoly of the national airline Air Tanzania Corporation ("ATC") on domestic services and thus opening the door to private sector entrants. Although the national airline was privatized in December 2002, by giving joint ownership to South African Airways, full ownership of the airline has subsequently reverted to the Government. Airfares and freight tariffs have also been left to market forces. These reforms have led to the growth of the number of licensed air operators - with 27 licensed by 2006 to provide air charter services including 8 air operators licensed to provide scheduled services in competition with ATC.

#### **Market share by domestic operators**

Operator	2004	2005	2006
	%	%	%
Precision Air	43.2	37.0	45.2
Air Tanzania	27.2	29.9	23.2
Coastal Travel	10.3	11.4	15.0
Others	19.3	21.7	16.6

**Source: Tanzania Civil Aviation Authority**

Tanzania has 3 international airports in Dar es Salaam, Kilimanjaro and Zanzibar, as well as several small airports and many landing strips. The Government through the Ministry of Communication and Transport (MCT) has prepared an Airport Management Privatisation strategy, the objectives of which are to identify the options for the privatisation of Airports in Tanzania in order to improve their operations, management and commercial viability.

### *Roads*

Tanzania has a road network length of 85,000 km consisting of 10,300 km of trunk roads and 24,700 km of regional roads and about 50,000 km of district, feeder and urban roads. Only a small proportion of the total network is paved and many roads, especially rural roads, are impassable during the wet season.

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Initiatives by the Government have raised the level of effort in maintaining the road network, through the formation the Tanzania National Roads Agency (TANROADS) and strengthening of Local Government Authorities (LGAs) roads departments. The Government has undertaken a major road development and reconstruction programme. The main aim is to increase connectivity access to markets. TANROADS is responsible for road maintenance, and acts as an executing agency to the Ministry of Works for road development projects for trunk and regional roads while President's Office Regional Administration and Local Government (PORALG) through LGAs caters for other roads.

The island of Zanzibar has 619 km of roads, of which 442 km are paved, while Pemba has 363 km of which 130 km are paved.

### *Telecommunications*

The Tanzanian communications sector is still in a nascent stage of development. Mobile phones have overtaken fixed line subscribers but teledensity still remains low.

The telecommunications sector has been progressively liberalised since 1993. The Tanzania Communications Commission was formed in 1994 to regulate the industry, and in 2003 merged with the Tanzania Broadcasting Commission to form the Tanzania Communications Regulatory Authority. Recent changes include the introduction in 2005 of a converged technology licensing framework, as well as the end of the incumbent operator Tanzania Telecommunications Company Limited's (TTCL) monopoly on landline services and international gateway services on the mainland. TTCL was originally part-privatised in 2001 but is now back under full Government ownership, and is currently being run by a private management group.

Mobile phone operators include MIC, operating under the Tigo brand name, (the first entrant in 1994), Vodacom Tanzania Limited (commenced 2000), Celtel (commenced 2001) and Zantel. The mobile market has shown dramatic growth since the entry of Vodacom into the market in August 2000 and Celtel in November 2001. By the end of September 2007, the total number of mobile phone subscribers had reached 7.5 million.

### ***Phone subscriber numbers***

Operator	Launch	2001	2002	2003	2004	2005	2006	Sept 2007
		'000	'000	'000	'000	'000	'000	'000
Celtel	2001	-	120	320	504	883	1,517	2,251
MIC	1994	89	160	210	303	423	761	992
Vodacom	2000	180	300	700	1,050	1,562	2,975	3,693
Zantel	2000	6	27	68	85	96	355	554
<b>Total (mobile)</b>		<b>275</b>	<b>607</b>	<b>1,298</b>	<b>1,942</b>	<b>2,964</b>	<b>5,609</b>	<b>7,490</b>
TTCL (landline)		178	161	147	148	154	157	233
<b>Total</b>		<b>453</b>	<b>768</b>	<b>1,445</b>	<b>2,090</b>	<b>3,118</b>	<b>5,766</b>	<b>7,723</b>

Source: Tanzania Communications Regulatory Authority

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As at December 2007 licenses granted under the Converged Licensing Framework (CLF) included 8 licenses for Network Facilities and for Network Services and 37 licenses for Application Services.

#### *Postal services*

As at December 2006 the public postal operator (Tanzania Posts Corporation) had 421 post offices. In addition, there are 41 licensed courier service operators.

#### *Media*

The media was formerly a state controlled monopoly, with limited freedom of information and limited freedom of speech. In 1990, Tanzania had two state owned daily newspapers (one in English and one in Swahili), two state owned radio stations, and no television except for a limited service from Zanzibar. Following liberalization of the media Tanzania now has numerous independent newspapers, and several private radio stations and independent domestic television stations.

### **Utilities**

The main supplier of energy is the Tanzania Electric Supply Company (TANESCO), a state owned company. TANESCO's generation system consists of hydro and thermo (from oil and gas). The total capacity of hydropower generation is 561MW. The thermal power facilities are operated by private independent power projects, namely IPTL (Independent Power Tanzania Ltd) with 100MW installed capacity and Songas with installed capacity of 200MW. It is anticipated that the Mnazi Bay project run by Artumas will in the future add significant additional capacity to the national grid. TANESCO is connected to the Uganda grid via Masaka through which it imports about 10MW into the Kagera region in North Western Tanzania. TANESCO is also connected to the Zambian grid which supplies power to the Mbeya Region.

TANESCO has the following categories of tariffs:

- i) Domestic Low Charge (D1) (for users of below 50Kwh)
- ii) General Usage Tariff (T1) (for users with consumption average of 236Kwh per month)
- iii) Low Voltage usage (T2) (for users with consumption metered at 400v and consumption levels above 7,500Kwh per month)
- iv) High Voltage User Tariff (T3) applicable (for users where power is metered at 11Kv and above)

Water is supplied by various government-owned water authorities in the country. Each major town has its own water authority.

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## **4 MONEY, BANKING AND FINANCE**

### **4.1 Currency**

The Tanzania shilling (TZS), divided into 100 cents is the national currency. The currency is issued in denominations of 5, 10, 20, 50, 100 and 200 shillings coins. The other denominations are in notes of 500, 1,000, 5,000, and 10,000 shillings. The shilling's exchange rate is freely determined in the Inter-Bank Foreign Exchange Market (IFEM), even though the Bank of Tanzania intervenes in some cases in order to meet its monetary policy objectives.

Foreign currency may be changed at authorised banks, foreign exchange bureaux and designated hotels. Major tourist hotels around the country accept most of the widely used credit cards.

Foreign exchange controls have been liberalized to simplify international transactions. The liberalization of external trade and payments was effected when the Foreign Exchange Act, 1992 was enacted to provide an enabling environment for efficient allocation of foreign exchange resources and for market determined exchange rates. Profits, dividends and capital can be easily repatriated by foreign investors. However, certain foreign exchange transactions, including investments outside the country and foreign lending operations in favour of non-residents, require the approval of the Bank of Tanzania.

### **4.2 Banking**

Prior to 1991, the banking sector was a monopoly of the Government and highly regulated. Reforms in the banking sector including the Banking and Financial Institutions Act 1991 have led to substantial growth in banks and financial institutions. There are some 23 licensed commercial banks. In addition there are a number of licensed non-bank financial institutions offering banking related services. Banking and financial institutions are free to set their own interest rate policy. The Bank of Tanzania regulates the financial sector under the Banking and Financial Institutions Act 2006 (which recently superseded the 1991 Act) and the Bank of Tanzania Act 2006.

Liberalization of the financial sector and the consequent increase in the number of banks and financial institutions and deposits, has seen an increase in credit to the private sector, although a number of banks still build excess liquidity. The growth in credit is supported by the significant increase in deposits held by the banks.

Deposit rates have shown some improvement but have been just marginally above inflation rates. Although credit to the private sector has increased and interest rates fallen, interest rates are still considered to be high, albeit reasonable by regional standards. However, companies with a low risk rating are able to borrow at rates significantly below the average.

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### **Money Supply**

End of period	Demand Deposits	Time deposits	Savings deposits	FX deposits	Total deposits	Currency in circulation	Extended Broad Money (M3)
	Shs'bn	Shs'bn	Shs'bn	Shs'bn	Shs'bn	Shs'bn	Shs'bn
2000	302.60	170.05	228.55	304.08	1,005.28	392.40	1,397.69
2001	354.38	208.10	259.55	403.06	1,225.09	411.64	1,636.73
2002	463.34	223.90	324.70	540.30	1,552.24	495.45	2,047.68
2003	560.33	230.96	376.77	667.21	1,835.27	553.05	2,388.32
2004	651.59	276.40	458.75	797.23	2,183.97	664.15	2,848.12
2005	915.65	422.27	627.17	1,126.74	3,091.83	843.16	3,934.99
2006	952.77	469.60	792.24	1,619.28	3,833.89	973.41	4,807.30

Source: Bank of Tanzania

### **Inflation, deposit rates, lending rates**

	2001	2002	2003	2004	2005	2006
Inflation rate	5.2%	4.5%	3.5%	4.1%	4.4%	6.2%
Average deposit rate – 12 month	6.0%	5.7%	5.0%	5.8%	6.2%	8.3%
Weighted average Treasury Bill rate	3.9%	4.5%	7.7%	9.6%	10.8%	15.0%
Average Shilling lending rate (medium & long term)	15.8%	13.2%	12.5%	14.0%	15.5%	15.6%

Source: Bank of Tanzania

## **4.3 Insurance**

Prior to the enactment of the Insurance Act 1996 the insurance sector had been a monopoly of the state owned National Insurance Corporation (NIC). Subsequent to the 1996 liberalization, several international insurance companies have been established. Currently, there are some 14 insurance companies and many more insurance brokers.

## **4.4 Finance**

Financial markets in Tanzania are relatively underdeveloped. There are currently a limited number of financial instruments in the market. The main ones are Treasury bills and bonds and corporate bonds traded on the Dar es Salaam Stock Exchange.

### **Treasury bills and bonds**

The Bank of Tanzania auctions Treasury Bills on a bi-weekly basis and Treasury Bonds on a monthly basis. There are 91, 182 and 364 days Treasury bills, while Treasury bonds are for periods of two, five, seven and ten years. After the primary auction Treasury bills can be traded over the counter while Treasury Bonds may only be traded on the Dar es Salaam Stock Exchange.

### **Dar es Salaam Stock Exchange**

The Dar es Salaam Stock Exchange (DSE) was incorporated in September 1996 as a company limited by guarantee. This followed the formation of the Capital Markets and Securities Authority (CMSA) under the Capital Markets and Securities Act, 1994.

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CMSA is the industry regulatory body established with the initial mandate of promoting conditions for the development of capital markets in Tanzania. Trading operations of the DSE started on 15th April 1998. Listed companies include Swissport Tanzania Limited, Tanga Cement Company Limited, Tanzania Breweries Limited, Tanzania Cigarette Company Limited, Tanzania Portland Cement Company Limited, Tanzania Tea Packers Limited, TOL Gases Limited as well as cross border listings by way of East Africa Breweries Limited, Kenya Airways Limited and Jubilee Holdings Limited.

Debt traded on the exchange includes treasury bonds listed by the Government, as well as corporate debt including bonds issued by the East African Development Bank, the PTA Bank, Barclays Bank and Standard Chartered Bank. It is hoped that the trend towards listing of long term bond products by financial institutions will, to an extent, facilitate longer term lending.

Trading on the DSE is conducted through an Automated Trading System and settlement is through an electronic Central Depository System. Market capitalisation of the DSE in December 2006 was TZS 3,154.28 billion equivalent then to US\$ 2,786.25 million.

The Government has provided a number of fiscal incentives to list including exemption from income tax on certain share disposals and from stamp duty on transfer, as well as a reduced a rate of withholding tax on dividends. The 2006 Budget also saw the introduction of a reduced corporate tax rate of 25% for a three year period for companies listing not less than 35% of their share capital.

In 2003 restrictions on foreign participation on the stock exchange were relaxed. Foreigners can now participate in the secondary market for up to 60% of the issued share capital, thereby giving local firms access to international capital. Longer term, there are plans to integrate the capital markets in East Africa.

### ***Interbank Foreign Exchange Market***

The interbank foreign exchange market deals in foreign currency. The supply side of the IFEM is dominated by commercial banks, while the demand side is dominated by non-bank financial institutions.

#### ***Exchange rate***

		2001	2002	2003	2004	2005	2006	2007
Annual Average	TZS / US\$	876.4	966.6	1,038.6	1,089.2	1,128.8	1,251.9	1,246.6
End of Period	TZS / US\$	916.3	976.3	1,063.6	1,043.0	1,165.5	1,261.6	1,132.1

**Source: Bank of Tanzania**

### ***Umoja Unit Trust Scheme “UMOJA FUND”***

Following the passing of the Unit Trust Act 2003, the Unit Trust of Tanzania (UTT)

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was incorporated in June 2003 with the objective of acquiring and keeping in trust the shares of privatized state enterprises, ensuring that shares that are held in trust are distributed among Tanzanian citizens in a manner that would encourage and facilitate savings, and establishing and managing investment schemes so as to achieve the objectives of the Trust. The Umoja Unit Trust scheme otherwise known as UMOJA FUND is the first collective scheme to be established in Tanzania. It has been established as a pioneer empowerment collective investment scheme and is in compliance with Capital Market and Securities Act (Collective Investment Schemes, Regulations, 1997). The first sale of the Umoja Funds took place between May and July 2005 at a discount of 30% with a lock-in period of one year.

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## 5 BUSINESS ORGANISATIONS AND REPORTING REQUIREMENTS

### 5.1 Registration

#### *Private Limited Company*

To form a private limited company, the following documents must be filed with the Business Registration and Licensing Authority (BRELA):

- A copy of the Memorandum and Articles of Association printed in the English language and signed by at least two shareholders and witnessed;
- Details of the nominal share capital of the company. There is no statutory requirement for minimum capital. Registration fee, filing fee and stamp duty are payable when the company is incorporated;
- A statement in the prescribed form of the persons who will act as the first directors and secretary of the company together with their written consents, containing their names, nationalities, residential addresses and other directorships/occupation;
- The address of the company's registered office; and
- A statutory declaration that all the requirements of the Companies Act 2002 relating to registration have been complied with.

The above documents are usually prepared by an advocate or firm or person engaged in the promotion of the company. The statutory declaration can be made by the advocate, a director or the secretary named in the Articles.

Since the two shareholders who sign the Memorandum and Articles of Association can be nominee shareholders, the true proprietors do not have to be in Tanzania to sign the documents before witnesses. Wholly owned subsidiaries of another company must still have a minimum of two shareholders. To meet this condition a director or any other person can hold just one share as a nominee of the holding company. Foreign individuals or companies can be shareholders in a locally incorporated company. There is no statutory requirement to have a local shareholder or director.

Once BRELA is satisfied that the statutory requirements have been met, it issues a certificate of incorporation. The company has to then register itself with the various institutions including the Tanzania Revenue Authority and obtain a business license before it can commence trading.

All companies must display their name (including the word "Limited") outside every office or place of business. All business documents and stationery, and all publications and notices must include the company's name and address of the registered office and the names of its directors. A company need not have a common seal and documents requiring affixing of a common seal can be signed by a director and the secretary or by two directors of the company.

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### ***Public Limited Company***

In a public limited company, shares can be offered to the public only after the issue of an offer document approved by the Capital Markets and Securities Authority.

### ***Registered branch of an overseas company***

The preliminary registration requirements for registering a branch of an overseas company are:

- a certified copy of its Memorandum and Articles of Association or other constitution documents;
- a list of its directors and secretary, giving names, addresses, nationalities and other business occupations;
- a statement of all subsisting charges created by the company on its property;
- the name and address of a resident person or persons authorized i) to accept notices to be served on the company, and ii) to represent the company as its permanent representative and the extent of his authority;
- the full address of the registered or principal office of the company and the full address of the place of business in Tanzania;
- a statutory declaration by a director or secretary of the company declaring the establishment of the branch; and
- a copy of the most recent accounts and related reports of the company.

All documents submitted must be in English or accompanied by a certified English translation. No filing fee or capital duty is payable. However, a registration fee is payable. Once the Registrar is satisfied that the statutory requirements have been met a certificate of compliance is issued.

Every branch of an overseas company must display the company's name, country of incorporation, limited liability status (where applicable) and names and nationalities (if not Tanzanian) of its directors at every address at which the branch carries on business and on all its business documents and stationery, and all its publications and notices.

## **5.2 Accounting and Auditing**

### ***The Accounting Profession***

The accounting profession in Tanzania is regulated by The National Board of Accountants and Auditors (NBAA), a body established by statute and falling under the Ministry of Finance.

### ***Accounting and Auditing Requirements***

The NBAA has adopted International Financial Reporting Standards (IFRS) as the

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Generally Accepted Accounting Principles (GAAP) for Tanzania for financial periods beginning on or after 1 July 2004. It has also adopted International Standards on Auditing (ISA) as the Generally Accepted Auditing Standards (GAAS) for Tanzania with effect from 1 July 2004

The requirement for preparation of financial statements by companies is contained in the Companies Act 2002, which came into effect in 2006. The prime requirement of the Companies Act, 2002 is that financial statements should give a true and fair view of the company's state of affairs at the end of the accounting period and its profit or loss and cash flows for the accounting period then ended. The auditor is also required to report whether in his opinion the annual accounts have been properly prepared in accordance with the Companies Act. The requirements of the Companies Act, 2002 are supplemented by the IFRS accounting requirements referred to above.

In Tanzania, an auditor must be registered with the National Board of Accountants and Auditors as a "Certified Public Accountant in Public Practice" and must possess a Certificate of Practice issued by the said Board.

### ***Accounting records***

A company must keep proper accounting records that disclose with reasonable accuracy, at any time, the company's financial position; and enable the directors to ensure that any financial statements prepared from the records give a true and fair view of the company's state of affairs and its profit.

The accounting records shall be kept at the registered office of the company or at such other place in Tanzania as the directors think fit, and shall be at all times open to inspection by the directors. The Act provides for the records to be preserved for six years from the date on which they are made up. (Tax legislation by way of the Income Tax Act 2004 and VAT Act 1997 also imposes a minimum period of five years for retention of documentation. In addition, a Bank of Tanzania circular on money laundering requires every bank and financial institution to keep records for 10 years.)

Companies must also maintain the following statutory books:

- Register of members;
- Minute books of meetings of directors and shareholders;
- Registers of directors and secretaries;
- Register of directors' interests in shares and debentures;
- Register of charges such as mortgages or debentures, if any; and
- Register of debenture holders, if any.

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## ***Accounting period***

The company's first accounting period shall be a period of at least six months but not more than eighteen months, beginning with the date of its incorporation. Its subsequent accounting periods shall be successive periods of twelve months beginning immediately after the end of the previous accounting period.

It is the responsibility of the directors of every company to prepare individual accounts for each accounting period and lay them before the company in a general meeting.

Where a company is a parent company with subsidiaries, it is required to prepare and present consolidated accounts in addition to its own individual accounts. The exemption to this rule arises in two cases:

- Where the company is a wholly owned subsidiary of another company that prepares group accounts;
- Where the group is headed by a private company that has met the qualifying conditions for exemption from audit as a small company; however, the current threshold is so low as to be meaningless.

## ***Filing and Disclosure Requirements***

A copy of a company's annual financial statements, in respect of each accounting period, together with a copy of the director's report and auditor's report, shall, not less than twenty-one days before the date of the general meeting at which they are to be laid, be sent to every member of the company (whether he is or is not entitled to receive notices of general meeting of the company), every holder of debenture of the company (whether he is or is not so entitled) and all persons other than members or holders of debentures of the company, being persons so entitled.

A company is also required to submit to the Registrar a copy of the accounts, audit report and directors' report. Exemption from this requirement only applies to those companies exempted from audit as a small company.

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## 6 LABOUR

### 6.1 Labour Legislation

The Employment and Labour Relations Act, 2004, which came into force on 20 December 2006, repealed several laws (including the Employment Ordinance, the Regulation of Wages and Terms of Employment Ordinance, the Wages and Salaries (General Revision) Act, the Trade Unions Act, the Security of Employment Act, the Severance Allowances Act, and the Industrial Court of Tanzania Act).

The new law sets certain minimum employment standards and enshrines certain fundamental rights and protection (including: no child labour (below the age of 14) or forced labour; no discrimination (on the basis of race, sex, colour, disability, age, pregnancy, etc); freedom of association, including the right to form and join trade unions).

#### ***Working hours and leave***

Standards prescribed in relation to working hours and leave include:

- Maximum working period: working days (6 in a week), working hours (45 in a week, 12 in a day), overtime hours (50 in a 4 week cycle), continuous work hours without a break (5 hours)
- Leave entitlement: annual leave (28 consecutive days (including weekends and public holidays) for every 12 months of consecutive service), sick leave (up to 126 days in any leave cycle of 36 months, with 1<sup>st</sup> 63 at full pay and 2<sup>nd</sup> 63 at half pay), maternity leave (84 days or 100 days in the case of a multiple birth, in any leave cycle of 36 months), paternity leave (3 days in any leave cycle of 36 months to be taken within 7 days of the birth), compassionate leave (4 days in any leave cycle of 36 months for sickness or death of own child, death of spouse, parent, grandparent and grandchild or sibling).

#### ***Remuneration***

Standards in relation to remuneration include:

- Minimum wage rates as set by the Wage Boards
- Minimum overtime rate (not less than one and a half times the basic wage for work on normal working days and two times for work on rest days and public holidays)
- Entitlement to an extra allowance for night work

New minimum wage rates were prescribed with effect from 1 January 2008. These rates vary according to the nature of the business. In many cases, the applicable rate for small and medium enterprises is Shs 80,000 per month and for large businesses Shs 150,000 per month. However, in certain cases these rates are varied. For example, higher rates apply to certain specified sectors including for example aviation, mining, telecommunications. Labour intensive industries (employing 300 or more employees) and export oriented industries (exporting more than 25% of their

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products) may also apply to the Minister for relief from the prescribed rates.

### **Termination**

Employers are required to ensure that termination of employment is not “unfair termination” as defined in the legislation. The burden of proof in this respect is on the employer. For termination on operational grounds (retrenchment) a set procedure is required to be followed. Terminal benefits include notice pay, accrued pay and leave pay, severance pay and transport to the place of recruitment.

Minimum notice of termination is 4 days for daily workers and 28 days for monthly workers (but restricted to 7 days in the first month of employment).

Severance pay is calculated at seven days for every completed year of service for a maximum of 10 years. No severance pay is payable in case of termination for either misconduct or unreasonable refusal to accept alternative employment (in cases of capacity compatibility / operational requirements of the employer). Compensation payable on unfair termination and capped at 12 months’ wages.

## **6.2 Social Security**

There is a state social security scheme known as the National Social Security Fund (NSSF). The employer’s contribution is 20% of the employee’s remuneration, however the employer is entitled to recover up to half of this from the employee. An alternative fund to contribute to is the Parastatal Pensions Fund (PPF), under which the contributions by employer and employee are 15% and 5%, respectively.

## **6.3 Work permits**

There are three types of residence permits available in Tanzania, classes A, B and C.

### ***Residence permit fees in US\$ as at 1 January 2008***

Class	Type of Residents	Permit fee*	Renewal fee*
		\$	\$
A	Small scale businesses, self employed investors	1,600	800
B	Foreign employees	600	300
C	Missionaries, students, retired officers, researchers, etc	100	50

*\*In all cases, a re-entry fee of US\$ 20 is applicable. For Class B permit holders, this applies to each family member.*

The necessary application forms are obtained from the Immigration Department. Applications for work permits should be submitted while the applicant is outside the country.

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## ***Self employed individuals and investors***

Self-employed foreigners and investors are required to apply for a Class A permit. A class A permit is generally valid for two years and renewable for two years at a time. Documents to be submitted in duplicate are:

- Application in TIF 1 form;
- Certificate of Incorporation;
- Memorandum and Articles of Association;
- Tax Clearance Certificate;
- TIN certificate;
- Business Licence;
- VAT registration certificate (where applicable);
- Six passport size photographs;
- Curriculum Vitae;
- Educational certificates;
- Evidence of business premises;
- Sectoral approval from any relevant ministry;
- Share certificate or Share Transfer Form;
- Copy the relevant pages of passport;
- Marriage and birth certificates for dependents;
- Certificate of incentives issued by TIC (where applicable).

## ***Employees***

To employ a foreign citizen, the employer must apply for a Class B permit. Application for Class B permits should be forwarded to the Commissioner for Labour, who after processing will forward it to the Director of Immigration Services with his recommendation. The application should be accompanied with the following documents in triplicate:

- Covering letter justifying the employment of a non-citizen and details of any scheme for training local people to replace the non-citizen;
- Employer's registration documents (Certificate of incorporation/ compliance, Memorandum and Articles of Association, Taxpayer Identification Number ("TIN") certificate, etc) and Business Licence
- Passport size photographs – 7 if first time application, 4 if renewal;
- Curriculum vitae;
- Employment contract;
- Certificates/ testimonials in support of academic/ professional qualifications and experience;
- Job description;
- Organizational structure of the employer showing clearly the number of employees (citizen and non-citizen) at various levels and the position to be held by the non-citizen;

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- Professional membership certificates or clearances from local professional bodies for testing and monitoring the professional integrity of their members, eg, doctors, lawyers, nurses, engineers, pilots, surveyors, accountants, etc;
- Photocopy of the relevant pages of passport;
- Evidence to show that the employer has tried to fill the position with a Tanzanian by producing copies of advertisements announcing the vacancy as well as the curriculum vitae of the best Tanzanian applicant.

#### **Other**

Class C permits are issued to foreigners such as students, missionaries, researchers, teachers and volunteers. Applications for Class C permits should be forwarded directly to the Director of Immigration. Documents to be included are: TIF1 form, a covering letter from the host agency, CV, a copy of passport, academic certificates, and five passport size photographs.

#### **6.4 Exemptions from Labour Commissioner's Recommendations**

Foreigners intending to perform certain short-term assignments may be exempted from the requirement that they obtain recommendations from the Labour Commissioner. Examples include artists, entertainers, journalists, hunters, etc. The short-term permits are determined by the Director of Immigration Services. The period of validity for short-term permits ranges from one month to a year. Applications must include the following documents:

- Curriculum vitae;
- Contract or other documents regarding invitation or assignment;
- Covering letter;
- Clearance letter from the relevant ministry;
- Copies of passport pages to authenticate the nationality and validity of passport;
- Six photographs;
- Professional certificates;
- For hunters a hunting permit from the Ministry of Natural Resources and Tourism;  
**N.B.** For short-term assignments to non-governmental organisations, clearances from inviting organizations are essential.

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## 7 INVESTMENT INCENTIVES

### 7.1 Tanzania Investment Centre

The Tanzania Investment Centre (TIC) is an established "one stop shop" for investment advice and facilitation, and is the primary agency of government to co-ordinate, encourage, promote and facilitate investment in Tanzania, and to advise the government on investment policy related matters. From the investor's perspective, it offers a Certificate of Incentives for foreign or local investors who satisfy the minimum investment capital requirement of US\$ 300,000 or US\$ 100,000, respectively. The Certificate guarantees:

- Against expropriation;
- Fiscal stability for a period of five years i.e. protection against adverse changes in taxation legislation;
- The right to transfer outside the country 100% of foreign exchange earned, profits and capital;
- Automatic permission to employ 5 foreign nationals;
- Assistance in processing of registration, permits and licenses by various Government agencies and in resolving any areas of difference with such agencies; and
- Assistance with allocation of land and issue of derivative titles under the Land Act, 1999.

The TIC charges fees for its services, including US\$100 for an application form and US\$750 for a certificate of incentives.

In the past holders of a Certificate of Incentives were entitled to certain additional specific tax reliefs, however this is generally no longer the case as the tax regime has been harmonised for investors, whether holding a Certificate of Incentives or not. Tax incentives for investment are therefore not tied to holding a Certificate of Incentives. Further detail on such tax incentives, which are available to taxpayers generally, can be found in Section 7 of this guide. Such incentives include:

- For manufacturing, livestock / fish farming and tourist hotels the write-off for income tax purposes of 50% of expenditure on plant and machinery in the first year of use;
- The immediate write off of certain agricultural costs, and of expenditure on mining exploration and development;
- No customs duty on capital goods;
- No VAT on capital goods acquired by a VAT registered person; and
- The zero-rating for VAT purposes of exports.

Although tax reliefs are in principle no longer tied to holding a Certificate of Incentives, nevertheless in very rare cases additional reliefs can be granted where the certificate holder's investment is viewed as a "strategic investment". In addition, a certificate holder can in certain circumstances agree an extended list of "capital goods" for the purposes of relief from customs duty and VAT.

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## 7.2 Export Processing Zones (“EPZs”)

The Export Processing Zones Act 2002 (as amended in 2006) identifies the National Development Corporation as the institution responsible for identifying areas for establishing EPZs, and as the regulating authority on behalf of the Government. Under the Act, a person licensed to carry on business in an EPZ (and exporting at least 80% of production) benefits from the following tax incentives:

- A 10 year tax holiday on income tax and withholding tax (dividends, interest, rent);
- No customs duty, VAT or other tax on raw materials and capital goods related to production in the EPZ, subject to exclusion for motor vehicles, spare parts and consumables; no VAT on utility and wharfage charges
- No local authority taxes for 10 years on products produced in the EPZ; and
- No stamp duty.

In addition there is exemption from foreign exchange control restrictions, exemption from the pre-shipment or destination inspection requirement, and entitlement to on site customs inspection.

## 7.3 Special Economic Zones (“SEZs”)

The Special Economic Zones Act, 2006 provides for SEZs to be established in “selected geographical areas”. The activities to be considered will be ones that accelerate domestic production, promote exports or generate employment. The sectors in focus are: agricultural, agro-industrial, industrial, tourism, commercial, forestry, information and communication technology, banking and financial centres, and other sectors as may be determined by the SEZ Authority.

To be licenced to operate within an SEZ new investments will require a minimum capital of \$5 million for foreign owned investments or the equivalent of \$1 million in case of locally owned investments.

Investment incentives are categorised into three groups of investors as follows:

- Incentives for developers of infrastructure
- Incentives for investors selling within the customs territory; and
- Incentives for investors selling in export markets.

The incentives for SEZ investors selling in export markets (and exporting at least 80% of production) mirror the incentives mentioned above for EPZs.

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## 8 Taxation in Tanzania

### 8.1 Introduction

#### ***General***

This section gives a general outline of the taxes applicable in Tanzania as at 1 July 2007, for quick initial reference. Action should not be taken on the strength of the information contained herein without obtaining specific professional advice. For a summary of tax rates, please also refer to our tax datacard at [www.pwc.com/tz](http://www.pwc.com/tz).

#### ***Main Taxes***

Income tax is charged at various rates, depending on the status of the recipient and the nature of the income. The two main rate categories are as follows:

- The rate of income tax for entities, such as corporations; and
- The rate of tax for resident individuals, which is charged on a graduated basis dependent on income.

Other significant taxes include: payroll taxes, Value Added Tax (VAT), customs and excise duties, fuel levy, stamp duty; and local government taxes.

#### ***Administration***

The main agency for the administration of the various taxes is the Tanzania Revenue Authority. Parliamentary statutes and case law govern tax law. Every year in June the annual Budget is read and subsequently a Finance Act is passed introducing new provisions to amend existing law. For a copy of our newsletter on the most recent Budget, please refer to [www.pwc.com/tz](http://www.pwc.com/tz).

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## 8.2 Income tax

Income tax is charged under the provisions of the Income Tax Act 2004, which came into effect on 1 July 2004.

### ***Income tax - Corporations***

Income tax is levied on the profits of Tanzanian resident companies and foreign companies trading in Tanzania through a branch or agency. A resident company in Tanzania is liable to pay tax on its worldwide income. A company incorporated in Tanzania is treated as resident. A foreign incorporated company is also treated as resident if the management and control of the affairs of the entity is exercised in Tanzania.

Whilst the year of income for tax purposes is the calendar year, an entity can apply to use its own accounting period rather than the calendar year.

Income tax is charged on resident companies and on permanent establishments of non-resident companies at the entity rate, currently 30%. Income tax is payable by corporations on a current year basis in four quarterly installments, with an installment tax return ("statement of estimated tax payable") being filed in the first quarter. Any final balance is payable six months after the year-end, which is also the due date for filing the final tax return.

There is a prescribed formula for calculating the "repatriated income" of a permanent establishment of a non-resident corporation. This repatriated income is subject to tax at 10%.

### ***Income tax - Individuals***

Income tax is payable by individuals resident in Tanzania (other than short-term residents) on their worldwide income and by short-term residents and non-residents on income from a Tanzanian source. Income received for services performed in Tanzania is Tanzania source income, irrespective of the source of payment.

An individual is regarded as a resident in Tanzania in any tax year if:

- He/she has a permanent home in Tanzania and visits Tanzania in the year; or
- He/she has no permanent home but is present in the country for:
  - either 183 days in the year, or
  - an average of 122 days per year in the relevant year and the preceding 2 years.

An individual is a short-term resident if during the whole of his life he has been resident in Tanzania for not more than two years in total.

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The personal (monthly) rates of tax for residents are set out in Appendix 1. The top marginal rate of personal income tax is 30%.

Income of a resident individual from the realization of certain Tanzania source investments is subject to a concessional rate of 10%.

Non-resident individuals are liable to tax either at the relevant non-resident withholding tax rate on payments subject to withholding tax or at a flat rate of 20% on the realization of certain Tanzania source investments.

### ***Quantification in Tanzanian Shillings***

Taxable income and deductible expenditure is to be quantified in Tanzanian shillings. The Commissioner does have the power by notice in writing to permit quantification in a foreign currency convertible to Tanzanian Shillings.

### ***Accounting basis***

Subject to any provision to the contrary in the Act, income is to be calculated in accordance with generally accepted accounting principles. Individuals' investment and employment income is calculated on a cash basis. Corporations must apply an accrual basis.

### ***Income from business***

In calculating taxable profit, deductions are allowed for revenue expenditure incurred wholly and exclusively in the production of income, with some statutory exceptions. For capital expenditure there are specific tax depreciation allowances.

There are special rules with regard to the valuation of trading stock and long term contracts and in relation to the treatment of instalment sales and finance leases. In certain circumstances there is a restriction on the amount of deductible interest for what are termed "exempt-controlled resident entities", whereby there is a deferral of relief for interest to the extent that the interest cost exceeds the sum of (a) interest income and (b) 70% of income before net interest income / expense.

Expenditure on buildings qualifies for a depreciation allowance of 5% straight-line. For intangible assets, the write off is over the useful life of the asset.

Expenditure on plant and machinery is generally written off on a reducing balance basis at rates of 37.5%, 25% or 12.5% depending on the category of the asset. Certain plant and machinery for manufacturing, fish farming and tourist hotels benefit from a 50% allowance in the first year, with the normal rates applying to the remaining balance in subsequent years. There is an immediate write-off of expenditure on plant and machinery used in agriculture.

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Apart from the immediate write-off of plant and machinery, agricultural companies also benefit from the immediate write off of agricultural improvement expenditure (including the costs of clearing land and excavating irrigation channels, and planting perennial crops or tree bearing crops). Buildings, structures and similar works of a permanent nature used in agriculture, livestock farming or fish farming are written off on a straight-line basis over 5 years. Dams, water reservoirs and fences are also included in the category of buildings depreciable at 5% straight-line.

Mining companies are entitled to a 100% capital deduction in respect of capital expenditure on exploration and development.

### ***Income from Investment***

The realisation of an investment asset (for example, shares and securities, land and buildings) is a taxable event for income tax purposes.

Exemptions include:

- Private residence, provided the gain is Shs 15m or less
- Agricultural land, provided the market value is Shs 10m or less
- Shares in the following circumstances: (i) shares listed on the Dar es Salaam stock exchange and held by a resident, (ii) shares held by a non-resident if the shareholding is less than 25% (iii) shares in a resident company held by another resident company with a shareholding and voting interest of 25% or more.

Registration of title in land and buildings situated in Tanzania requires a certificate from the Commissioner confirming that payment of tax equal to 10% or 20% of the gain ("single instalment tax") has been made. This single installment tax is a final tax for an individual and a credit towards the final tax liability of a company.

Certain investment income (for example, dividends, interest, and rent) is subject to withholding tax.

### ***Transactions between associates***

In relation to transactions between associates, there is an obligation to "quantify, apportion and allocate amounts" for income tax purposes on an arm's length basis. If the Commissioner considers a person has failed to comply with this requirement, he may make such adjustments as he thinks appropriate.

### ***Anti-avoidance***

The Commissioner has the power to make counteractive adjustments to a person's tax liability where he considers that an arrangement is a tax avoidance arrangement. Other anti-avoidance provisions include provisions in relation to:

- a change in the underlying control of an entity, particularly if there is also some change in the conduct of the business.
- controlled foreign trusts and corporations

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- income or dividend stripping arrangements
- income splitting

### ***Loss relief***

There is no limit on the carry forward of tax losses. However, there is ring-fencing of tax losses as follows:

- Losses from agricultural business can only be offset against profits derived from agricultural business
- Foreign source losses can only be offset against foreign source profits,
- Losses on investments can only be offset against investment income,
- Foreign source losses on investments can only be offset against foreign source investment income

### ***Foreign tax relief***

Credit is automatically given for foreign tax paid by a resident on foreign income, but such credit cannot exceed the Tanzanian tax rate applicable to that income. Any unrelieved amount of foreign tax credit can be carried forward (subject to the “change of control” provisions). An election can also be made to claim relief as an expense instead of as a credit.

Where the income arises in a country with which a double tax treaty is in force, the treaty governs relief. Double tax treaties are in force with Canada, Denmark, Finland, India, Italy, Norway, South Africa, Sweden, and Zambia.

### ***Deduction of tax at source – Withholding taxes***

Dividends paid by Tanzanian companies are paid net of withholding tax. However, no withholding tax applies where the shareholder is a Tanzanian resident company, which holds 25% or more of the shares, and controls (directly or indirectly) 25% or more of the voting power. Withholding tax on dividends is the final tax.

Payments of interest other than payments to a resident financial institution are subject to withholding tax. For resident individuals receiving interest from a deposit with a financial institution, the withholding tax is a final tax unless the interest is in the nature of business income to the individual.

Payments of rent are subject to withholding tax, but in the case of payments to residents the withholding obligation is limited to rent on land and buildings. This withholding tax is a final tax where the landlord is a resident individual and the rent is not received in the course of conducting a business.

Set out in Appendix 1 are the standard withholding tax rates for payments made to:

- Residents (including non-residents with a Tanzanian permanent establishment); and
- Non-residents with no Tanzanian permanent establishment.

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## ***Income from employment***

Taxable income includes salary and the value of benefits in kind arising from the individual's employment. Subject to certain exceptions, expenses incurred wholly and exclusively in the performance of employment duties are deductible. The taxable value of non-cash benefits is generally the market value. There are special rules for taxing the provision of residential accommodation, motor vehicles and preferential loans.

## ***Payroll***

An employer also has to account for the following levies on payroll costs:

- PAYE (Income tax) See personal rates listed above
- Skills & Development Levy 6% (see below)
- NSSF / PPF 20% (see below)

## ***Skills and Development Levy***

This is a levy payable by the employer on gross cash payroll costs. This does not apply to payments to employees working on farms

## ***Social Security Contributions***

See comments in paragraph 6.2 above in relation to social security contributions..

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### 8.3 Indirect taxes

#### ***Value Added Tax (VAT)***

The standard rate of VAT is 20% but the export of goods and certain services is eligible for zero rating. Businesses with an annual taxable turnover of more than Tsh 40 million must register for VAT. VAT is chargeable on all taxable goods and services supplied in, or imported into, mainland Tanzania. For imported goods, VAT is payable at the time of importation together with any customs and excise duties. For imported services, VAT is accounted for by registered businesses through a “reverse charge” mechanism. Zanzibar has its own VAT Act but it is similar to the Mainland Tanzania Act.

Most registered businesses can offset the input VAT paid on purchases and the VAT paid on imports against the output VAT charged on sales. The purchases on which VAT is being deducted must be wholly for the purposes of the business. Businesses with a mixture of exempt and standard rated sales can only deduct input tax to the extent that it relates to their sales of taxable goods and services. Input tax and import VAT may only be deducted if the appropriate documentation is held.

The Commissioner for VAT has the discretion to register as intending traders, investors whose projects have not commenced production, but who wish to be VAT registered in order to reclaim the tax they incur on start-up costs. VAT payable in respect of capital goods (as defined) which are imported or purchased in Tanzania may be permanently deferred, subject to certain procedures being followed.

Supplies of certain goods and services are exempt from VAT. A business, which makes only exempt supplies is unable to register for VAT and consequently unable to recover the VAT incurred on inputs. However, businesses in this category, which import taxable services with a value over the registration threshold must register for VAT to account for the VAT on such services.

Certain goods and services supplied to specified entities are eligible for “special relief” from VAT. The “special relief” provisions enable supplies, which would otherwise be chargeable with VAT, to be made VAT free provided certain administrative requirements are followed.

Registered businesses must submit VAT returns, with any tax due, on a monthly basis.

Businesses entitled to VAT refunds can claim any remaining credit six months after a refund first became due, subject to all intervening returns being rendered. Any claim for a VAT refund must be supported by an auditor’s certificate. Businesses in a consistent refund position (e.g. exporters) can apply for approval to lodge their refund claims on a monthly basis

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### **Customs duties**

The implementation of the East African Customs Union Protocol started on 1 January 2005. This protocol provides for the following: a Common External Tariff (CET), elimination of internal tariffs, rules of origin, anti-dumping measures, a common Customs law, and common export promotion schemes. The protocol has no effect on indirect taxes (eg Value Added Tax, Excise Duty and Fuel Levy).

The customs duty rates applicable under the CET are as follows:

<b>Category</b>	<b>Rate</b>
Raw materials, capital goods, agricultural inputs, pure-bred animals, medicines	0%
Semi-finished goods	10%
Finished final consumer goods	25%

Although “suspended duty” is no longer charged, certain “sensitive goods” (including most cereals, milk, jute bags cement sugar and second hand clothes (“mitumba”)) attract more than the 25% duty rate.

Where goods are currently subject to a lower rate of duty from the other trade blocs of COMESA and SADC, this will continue up to a time when the trading arrangements between the three trading blocs are harmonised.

From a Tanzanian perspective the implications can be summarised as follows;

- Exports of Tanzanian goods to Kenya and Uganda are free of import duty
- Imports of Ugandan goods into Tanzania are free of import duty
- Duty on imports of Kenyan goods into Tanzania will reduce to zero by steps over 5 years

Goods traded between the EAC countries will only qualify for preferential treatment if they meet the criteria of the rules of origin.

There are specific reliefs for the mining sector in relation to customs duties.

### **Excise duties**

Excise duties are charged on

- Petroleum products\*
- Beer
- Wines and spirits
- Carbonated soft drinks
- Tobacco goods
- Motor vehicles with engine size greater than 2000cc
- Mobile phone airtime
- Satellite television broadcasting
- Plastic bags.

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\*Rate per litre: motor spirit Shs 339, illuminating kerosene Shs 52, diesel Shs 314. Industrial diesel oil Shs 392, heavy furnace oil Shs 117.

### ***Fuel Levy***

“Fuel Levy” (formerly known as “Road Toll”) is charged on petroleum products at a rate of TZS 200 per litre.

### ***Stamp duty***

Examples of instruments giving rise to stamp duty obligations include conveyances, leases, share transfers, issue and transfer of debentures. Stamp duty on the registration of new share capital or an increase thereof is nominal.

### ***Local taxes***

Local government levies property tax based on the value of premises. The rates depend on the value and location of the property. Local government is also entitled to charge a 0.3% service levy based on turnover generated in the relevant district. For agricultural produce and livestock there is a cess tax, which cannot exceed 5% of the producer price.

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## Appendix 1

### **Personal rates of income tax (monthly)**

Monthly income (TZS)	Rate (%)
0-80,000	0%
80,001-180,000	15% over 80,000
180,001-360,000	15,000 + 20% over 180,000
360,001-540,000	51,000 + 25% over 360,000
540,001 +	96,000 + 30% over 540,000

### **Standard withholding taxes**

	Resident %	Non-resident %
Dividend		
- to company controlling 25% or more	0	10
- from DSE listed company	5	5
- otherwise	10	10
Repatriated income	0	10
Interest	10	10
Rent		
- land and buildings	10	15
- aircraft lease	0	0
- other	0	15
Royalty	15	15
Natural resource payment	15	15
Service fees	0	15
Technical services to mining companies	5	15
Insurance premium	0	5

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