Commentary

Overall review of the Finance Minister's speech

Prioritisation of control of inflation and employment generation

As with so many other countries around the world, Tanzania is struggling to manage with the impact of high oil prices. According to the Bank of Tanzania, oil imports in the year to March 2011 were $1,928.4m, 24% up on a year earlier. As the country's major import, the impact is to worsen the continuing current account deficit – indeed, were it not for increased gold exports and improved gold prices, the position would be even worse.

Some measures to ease fuel costs

The Minister made clear the Government's concern as to the high cost of living for Tanzanians and outlined strategies to mitigate this focusing on control of inflation as well as employment generation. Three primary factors were identified as contributing to inflation, namely oil prices, power shortages and the impact of drought on food prices. Although there was reference to measures to increase power generation capacity, timelines for such capacity to come on stream were not clear. Government will seek to enhance the role of the National Grain Reserve in mitigating the impact of drought.

2011/12 revenue target of 22% above expected 2010/11 outturn

Industry's fuel costs will reduce as a consequence of a halving of the excise duty charged on heavy fuel oil (HFO). Although there was no other reduction in fuel taxes (excise duty, fuel levy), the Minister did give a commitment to review other levies on fuel costs (for example, EWURA, SUMATRA, TBS, TIPER, TPA etc) to identify how these can be reduced. Another measure announced was the intention for all fuel to be imported under a bulk fuel importation system. There is a question as to whether this will deliver the savings anticipated and to possible logistical challenges.

Government borrowing from the banking system to continue to increase

For the resource sectors, there was also some positive news on fuel taxes. Mining companies will be able to import fuel free of road and fuel toll ("fuel levy") provided that money is set aside in an escrow account equivalent to the value of fuel levy on one month's fuel supply for the relevant mine. This should help mitigate the risk of excessive refunds due from the Government that would otherwise build up. For oil and gas exploration there will also be a fuel levy exemption subject to the need for TPDC pre-approval and subsequent Ministry of Finance approval. For both mining and oil and gas, the speech referred to fuel levy but not excise duty on fuel; logically one would expect the relief to also extend to excise duty.

Key to employment creation were initiatives in terms of: development of the Southern Agricultural Growth

Corridor of Tanzania (as part of the "Kilimo Kwanza" ("Agriculture First") vision); continued implementation of agricultural sector reforms; encouragement of agro-processing industries; accelerated implementation of the Property and Business Formalisation Programme (MKURABITA); accelerated implementation of financial sector reforms including establishment of the credit reference bureau; and implementation of the national identity project.

Business will welcome the halving of the destination inspection fee levied on imports to 0.6% FOB (from the current 1.2%). Given the pressure on consumer pockets, manufacturers of excisable goods and consumers will be relieved that excise duty increase on alcohol, soft drinks and tobacco was limited to 10%.

For agriculture there were as usual a number of tax reliefs introduced in terms of VAT exemptions.

Controversially, an exemption is introduced for allowances paid to employees of Government and Government funded institutions. It is difficult to understand the justification for this exemption, albeit it may be practical recognition that in practice no tax is deducted on these allowances. Of particular concern to employees (especially those in the private sector not benefitting from untaxed allowances) will be that notwithstanding the inflation challenges recognized by the Minister, there was no reference to any increase in personal tax bands so as to adjust for inflation.

Certain exemptions have been removed from NGOs but excluding religious organizations. Overall there was little structural change to the tax regime to encourage a widening of the tax base. Consideration could perhaps be given in future to the possible impact of significantly increasing the VAT registration threshold, as well as reducing income tax rates (perhaps funded by an increased VAT rate).

Overall, the revenue target looks attainable albeit challenging. For 2010/11 the expectation is that revenues will be 18% up on prior year and 7% down on what was a very aggressive target. Given the challenges of 2010/11, the projected increase for 2011/12 (22% up on the 2010/11 forecast) does not seem unreasonable. However, as intimated in the Minister's speech, the future direction of the oil price is a "sword of Damacles" that hangs over the economy.

The Minister mentioned that donor dependence has reduced to 17% of the budget in 2010/11 compared to 28% in 2007/08, and articulated an intention to reduce this to no more than 10% by 2015. However, the flip side of this is increased recourse to borrowing, continuing the trend of the last year; according to the Bank of Tanzania, Government borrowing from the banking system on a net basis was TZS 883.5bn at 31 March 2011 (compared to TZS 535.2bn a year earlier). For 2011/12 the Government intends to borrow TZS 1,204.3bn from domestic financial markets, of which TZS 810.9bn is for roll over and the remaining TZS 393.4bn is to cover revenue shortfalls.

Drama preceded Wednesday's Budget speech with the share prices of mining companies with significant interests in Tanzania dropping dramatically in global stock markets. This followed a news report of a Planning Commission plan to introduce what it described as a "super-profit tax on the windfall profits of the mining sector". No mention of such a change was made in the Budget speech. The incident was however a salutary reminder of the importance of careful formulation of

policy – any sense of an unstable policy environment could easily act as a deterrent to foreign investment.

Priorities aligned

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The Economy

Highlights based on speeches by the Minister of Finance and Economic Affairs on 8 June 2011.

Economic growth of 7% as compared to 6% in 2009.

Annual inflation rate was 8.5%

By March 2011, Total Domestic Revenue collected was Tshs 4,256 billion, 2011/12 projections for Domestic Revenue is Tsh 6,776 billion.

Annual per capita income increased by 11% from Tshs 628,258 in 2009 to 770,464.3 in 2010

Past Performance 2010/11

The economy of Tanzania is estimated to have attained real GDP growth of 7% during year 2010 compared with the growth rate of 6% attained in year 2009.

Annual per capita income increased by 11.1% to Tshs 770,464.3.

The growth momentum is based on increased economic activities in agriculture and livestock, trading and maintenance, communication, gas and electricity, industry and manufacturing, fishing and construction.

The annual inflation rate was at 8.5% in April 2011. In 2010/11, the Government planned to collect Tshs 6,004 billion in domestic revenue, equal to 17.3% of GDP. Total domestic revenue collected to end of March 2011 was Tshs 4,256.3 billion, which represents a shortfall of Tshs 1,920 billion, compared to the target for the period. For 2011/12 domestic revenue collection has been projected at Tshs 6,776 billion equivalent to 17.2% of GDP.

Challenges ahead

Despite some achievements in economic growth and revenue collection some challenges remain. These include:

- Economic growth was below the National Development Vision 2025 target;
- Sources of economic growth did not touch the majority of the citizens - the poor in the villages and in the peripheral areas, and did not generate sufficient employment opportunities;
- Poverty reduction was lower especially in the rural areas where families depend on Agriculture;
- Increases in the inflation rate and transport costs caused by variable weather and increase in oil prices on the world market.

Budget Objectives 2011/12

The 2011/12 budget takes into account the objectives of the National Development Vision 2025, MKUKUTA II, the Millennium Development Goals (MDGs), the ruling party (CCM) Election Manifesto for 2010-2015, the Joint Aid Strategy of Tanzania (JAST) and the National Debt Strategy as well as priorities outlined in the budget guidelines 2011/12.

The 2011/12 Budget Framework

The 2011/12 budget sets out the following targets:

- To achieve GDP growth rate of 6% and 7.2% for 2011 and 2012 respectively;
- To reduce inflation rate and to maintain it as a single digit;
- To maintain annual growth rate of M3 and M2 at 19 % in FY 2011/12 and 18.6% in FY years 2011/12;
- To increase domestic revenue by 17.2% (estimated) of GDP in 2011/12 and continue to increase at an average of 17.5% per year during the medium term;
- To maintain market-determined realistic exchange rates, with Bank of Tanzania's interventions exclusively limited to smoothing wide fluctuations and/or for liquidity management purposes;
- To reduce the interest rate gap;
- To maintain adequate official foreign reserves sufficient to cover a minimum estimate of five months worth of imports of tradable goods and non-factor services.

Revenue

The budget policy measures on revenue are focused on domestic revenue collection. For 2011/12 domestic revenue collection is projected at Tshs 6,776 billion representing an increase of 9.7% on the 2010/11 target. The specific details of the revenue enhancing measures are set out in our highlights of tax changes.

In total, the budget revenues will be as follows:

	Tshs bn
Domestic Revenue	6,776
Grants and Loans	3,924
Domestic borrowing	1,204
LGA collections	350
Dom Comm Borrowing*	1,2 72
Total Revenue	13,526

*Domestic Commercial Borrowing

Donor dependency is expected to increase marginally for the upcoming year with an increase in budget revenue from grants and loans to comprise 29% of the total annual budget of 2011/12 compared to 28% for the 2010/11 budget.

Expenditure

The Government is proposing to spend Tshs 13,525 billion in 2011/12 as follows:

	Tshs bn
Recurrent	8,600
Development	4,926
Total Expenditure	13,526

Government expenditure in 2011/2012 will focus on:

- Increasing energy generation and distribution capacities in collaboration with the private sector;
- Strengthening and developing water irrigation schemes;
- Protecting and sustaining achievements attained in the health and education sectors;
- Improving infrastructural facilities in water, rail, port and road transport including reducing traffic congestion in Dar Es Salaam;
- Increasing the employment rate for the citizens especially for the youth;
- Reducing the rate of inflation which was caused by increases in the average prices of food, oil, electricity and cost of production and transportation.

The expenditure budget has been allocated in the following manner for key areas:

- 16.9% on education;
- 20.56% on infrastructure;
- 8.9% on health;
- 6.8% on agriculture and irrigation;
- 4.6% on water;
- 3.98% on energy and minerals.

Credit and Money Supply

For the period ending December 2010, extended broad money supply (M3) registered an annual growth rate of 25.4% compared to only 25.1% in June 2010. It had been estimated to be held at 23.5%. Similarly, M2 registered a 21.8% annual growth in December 2010 compared to 26.3% in June 2010. However, this was greater than the estimated 20.8%. The rise in the money supply was attributed to an increase in foreign reserves from USD$ 1.657 billion in December 2009 to USD$ 2.04 billion in December 2010 and the appreciation of the US Dollar against the shilling. Private sector lending increased to 20% in December 2010 from 16.3% in June 2010. It was attributed to confidence of the Banker's in the private sector after economic recovery.

Balance of Trade

On an annual basis, imports of goods and services amounted to US$ 8,975 million in 2010 compared with US$ 7,543 million in the previous year. The value of exports rose to US$ 6,388 million in 2010 from US$ 5,150 million recorded during the previous year. This was largely attributed to increases in the value of commodities such as gold as well as increases in revenue from transport and tourism services.

Foreign reserves increased to US$ 3,948 million in December 2010, from US$ 3,552 million in December 2009. The reserves position was sufficient to cover 6.3 months of imports of goods and services.

Sector policies and programmes to support budget initiatives

Agriculture, Livestock, Forestry and Hunting

Economic activities in the above areas grew by 4.2 % in 2010 compared to 3.2% in the previous year. The increase in crop production followed good weather during the 2009/10 and improvement in irrigation systems and Government efforts in improving Agricultural inputs and subsidies and implementation of the Agricultural Sector Development Programme (ASDP).

The contribution of Agriculture to GDP was 24.1% in 2010 compared to 24.6% in 2009.

Fishing

Fishing activities grew by 1.5 % in 2010 compared to 2.7 % in the previous year. The small growth was due to an increase in competition in the market for fish and its related products. It was also was attributed to reduction in fishing activities, continued use of crude fishing tools and illegal fishing activities. However, overall contribution of fishing to total GDP remained at 1.4 % in 2010 as it was in 2009.

Industry and construction

Industry and Manufacturing

In 2010, the industry sector grew at a rate of 7.9% compared to 8% in 2009. This decline was a result of an increase in cost of production. The sector's contribution to the national GDP in 2010 was 9 % compared to 8.6% in 2009.

Construction

In 2010, the construction sector grew at a rate of 10.2% compared to 7.5% in 2009. This was driven by the construction of roads and bridges, airports, residential and non-residential buildings and land developments as well as the development of the water systems. The sector's contribution to the national GDP in 2010 was 8.0 % compared to 7.9% in 2009.
Recognising the importance of infrastructure for economic growth, the Government has continued to place considerable focus on construction in the upcoming year.

Trade and Maintenance

In 2010, the sector registered a growth 0f 8.2% in 2010 compared with 7.9% in 2009. The sector's contribution to the GDP rose from 11.8% in 2009 and 12.1 % in 2010. This was mainly due to

the increase in demand for goods and services following improvements in the global economy.

Services

Communications

The communication sub-sector grew by 22.1% in 2010 compared to 21.9% in 2009, outpacing all other economic activities. This was due to increased investment in the sector and an overall increase in subscription rates particularly with respect to mobile phones. Despite the stated growth, the sub-sector's contribution to GDP for 2010 remained at 2.1% as it was in the previous year.

Electricity and gas

In 2010, the energy and gas sector grew by 10.2 % compared to 8.4 % in 2009. The increase was due to increased production of hydro electricity and Government efforts to install gas production turbines. The total contribution of this sub-sector to GDP increased to 1.8% in 2010 as compared to 1.7% in 2009.

Cross-cutting issues

Aside from sectoral activities, the Government also plans to undertake significant steps to address several cross-cutting issues that impact on the economy. These include:

- To implement the National Identity card project and create postal codes and implement the Property and Business Formalization Programme (MKURABITA);
- To address challenges emanating from the high cost of living;
- To continue improving domestic tax administration, improve the investment climate to attract local and foreign investors and develop private sector participation in economic activities to increase new sources of revenue;
- To ensure that non-tax revenue is collected as required and remitted to the Exchequer;
- To allocate resources for areas with the economic multiplier like infrastructure for electricity, water, roads, ports, agriculture, irrigation and Information and Communication Technology (ICT);
- To strengthen good governance and accountability;
- To continue implementing plans and strategies to hasten economic growth such as attracting investors in Export Processing Zones (EPZ) and establishing Special Economic Zones (SEZ);
- To finalise the preparation of the fourth phase of the Public Financial Management Reform Programmes (PFMRP)- IV;
- To strengthen the formulation and implementation of monetary policies to be aligned with fiscal policies in order to reduce inflation and interest rates and enhance the private sector's access to credit and to ensure public debt sustainability;
- To improve the balance of payments by processing products before exports especially agricultural products, minerals and other products;
- To mobilise concessional loans from banks to increase the government's capacity to finance development projects;
- To fast-track the implementation of the Public Private Partnership Act to increase the opportunities for implementation of development projects;
- To allocate funds for the 2012 population and human settlement census; and
- To protect and uphold achievements in education, water and health sector.

Conclusion

The implementation of the 2011/12 budget will require that the Government focuses on the following areas:

- To emphasize the implementation of the National Development Vision 2025;
- To invest in strategic areas such as Electricity, Port Services, Rail Networks and Food and Water;
- To promote involvement of the private sector in the strategic areas mentioned above;
- To effectively utilise the country's strategic position and aim at developing it as a landlord port in order to link the surrounding countries;
- To enhance the implementation of the "kilimo kwanza" agenda;
- To improve business conditions;
- To increase and manage the domestic revenues in order to strengthen and reduce dependency as well as improving management of public finance.

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Tax Changes

Highlights based on the Finance Minister's speech

Excise duty on HFO reduced to Tshs 40/litre

NHC residential houses now subject to 18% VAT

Destination Inspection fee reduced to 0.6%

Inflationary adjustment (10%) to excise duty on alcohol, beer and cigarettes

Reintroduction of annual business licence fees

Income Tax

Tax Exemption on allowances to employees of Government and Government funded institutions

Allowances paid to employees of Government and Government funded institutions are now exempted from income tax.

Tax bands unchanged

There is no change in the personal income tax bands.

No tax on fish transport

Although in his speech the Minister referred to this as withholding tax, it is actually single instalment tax. Currently, a non-resident person who receives a payment in conducting a business of land, sea or air transport operator or charterer is subject to single instalment tax at the rate of 5%. This has now been amended to exclude payments received in respect of transport of fish to foreign countries. This change intends to promote export of fish.

Skills and Development Levy (SDL)

No reduction in SDL

Despite several calls by business to reduce the rate, SDL remains at 6%.

The budget reallocates two thirds collection (4%) to the Higher Education Students Loans Board. This move is intended to enhance and ensure availability of resources for the provision of loans to higher education students.

Value Added Tax

VAT refund for retail exports

The Minister has proposed to introduce a new VAT refund system to retail exports purchased in the country by non-residents.

The proposal is to implement the refund system starting with non-residents departing from Mwalimu Julius Nyerere International Airport and Kilimanjaro International Airport.

For the non-residents to be entitled to a VAT refund, purchases exceeding Tshs 400,000 will have to be made.

The new system is expected to be effective from 1 January 2012.

New exemptions

The following new exemptions have been introduced:

- Spare parts for threshers, rice dyers and mills, planters and power tillers used in organised farming. This is a measure intended to promote agricultural mechanisation and attract investment in the agricultural sector.

- NASCOR Pellet Feed used for poultry. This is aimed at promoting poultry keeping.

- Raw materials used for making fish nets (Nylon Fishing Twines). Intended to reduce production cost and promote the fishing industry.

- Spare parts for sprayers harrows and grain conveyors.

Exemptions removed

- Abolishment of VAT exemption on sale and lease of residential buildings by the National Housing Corporation (NHC).

  This change has now brought NHC in line with the other landlords who were required to charge VAT on residential accommodation from July 2009.

  Unlike other jurisdictions where it is accepted that residential accommodation is a necessity and should therefore be exempt from VAT, the Government seems not to recognise this.

New special reliefs

Non-governmental organisations providing food supplies to children, orphanage care centres and schools will now enjoy VAT relief on their purchases.

Special reliefs removed

The Minister has proposed abolishment of special relief to charitable community based-organisations; or other non-profit driven organisations or institutions (NGOs).

Religious organisations have however been spared from this and will continue to enjoy special relief.

Road and fuel toll

Exemption for oil and gas exploration

The Minister proposed exemption of fuel levy charged on fuel for vessels, rigs and other equipment used in oil and gas exploration.

This is a commendable move given the increased activities in oil and gas exploration both on and off shore. Oil and gas exploration is expensive and the exemption will help reduce these costs.

Applications will have to be verified and approved by the Tanzanian Petroleum Development Corporation (TPDC) before being submitted to the Ministry of Finance.

Escrow account for mining companies

The Minister outlined plans to put in place a system to stop the escalation of fuel tax refunds for the mining sector.

Although the gold mining sector had exemptions from taxes on fuel, since 2002 these mining companies have been required to pay the taxes upfront and then claim a refund. In practice, the timely payment of such refunds has proved a challenge.

The system announced by the Minister will enable a mining company to import fuel free of road and fuel toll ("fuel levy") provided that it has put money aside in an escrow account equivalent to the value of fuel levy on one month's fuel supply for the relevant mine.

However, it appears that this system will not apply to excise duty on fuel.

Excise Duty

Reduction of Excise duty on Heavy Furnace Oil (HFO)

Excise duty on HFO has been decreased from Tshs 80 to Tshs 40 per litre. This measure is intended to reduce the cost of production and promote industrial growth.

We note that the Minister has kept his promise from last year's budget of reducing this progressively and ultimately eliminate this duty over a period of three years. The expectation is therefore that this duty will go down to NIL in next year's budget.

Plastic bags duty reduction

The excise duty rate for plastic bags of more than 30 microns of Polymers (HS Code: 3923.2900) has been decreased from 120% to 50%.

Beverages

A 10% inflationary adjustment in line with the requirement of the Excise law. The rate changes will be as follows:

Goods	Old Rate Tshs Per ltr	New Rate Tshs Per ltr
Carbonated soft drinks	63	69
Clear beer (unmalted barley)	226	249
Malt Beer	382	420
Wine with more than 25% imported grapes	1,223	1,345
Wine with domestic grapes content exceeding 75%	0	420
Spirits	1,812	1,993

Cigarettes

As for beverages the rates have been increased by 10%.

Goods	Old Rate Tshs	New Rate Tshs
Cigarettes without filter, containing more than 75% domestic tobacco	6,209 per thousand cigarettes	6,830 per thousand cigarettes
Cigarettes with filter, containing more than 75% domestic tobacco	14,649 per mil	16,114 per mil
Other cigarettes not mentioned above	26,604 per mil	29,264 per mil
Cut rag/filler	13,436 per kg	14,780 per kg

Excise duty on cigars remains at 30%.

Customs Duty

A council of Finance Ministers from the East African Countries who met in Kampala Uganda on 7th May 2011 agreed to pass various changes to the East African Community Common External Tariff (CET) and Customs Management Act 2004.

These have been outlined below.

1. *Increased import duty rate from 0% to 10% on the following items:*

   - Galvanised wire of HS Code 7217.20.00

2. *Grant duty remission on/to the following:*

   - Raw materials used to manufacture beauty soaps, toilets and medicated soaps (HS Code 1511.90.40) for one year. This is intended to reduce production costs and promote small and medium stand alone soap industries in the region.

   - Duplex boards (HS Code 4810.92.00) to 0%. The aim of this is to reduce the cost of

production and to protect domestic manufacturers from unfair competition caused by imported match boxes.

- Aseptic bags (HS Code 3923.29.00) by applying a duty rate of 10% instead of 25% for a period of one year. The objective is to reduce the cost of production for the fruit processing industry.

- Copper Cathodes (HS Code 7403.11.00) which are raw materials used to manufacture refined copper and copper alloy. Currently, Copper Cathodes attract 10% while Copper Alloy (refined copper) attracts 0%.

- Component parts and inputs for assemblers of refrigerators and freezers by applying a duty rate of 10% instead of 25%. The objective is to promote local production of these products and create employment opportunities particularly for the youth.

3. *Stay application of duty for the following items:*

- Buses under HS Code 8704.10.99 and 8702.90.99 and apply import duty rate at 0% instead of 25% for one year to cater for the Dar es Salaam Fast Truck Bus Project. Hopefully this year we will see a real use of this reduction.

- Extend the stay of application of CET rate of 35% on Wheat grain under HS Code 1001.90.20 and 1001.90.90 and apply a rate of 10% for one year. This aims at reducing importation costs of wheat to Tanzania thus making it available at a reasonable price.

- Extend for one year the application of a duty rate of 10% in respect of motor vehicles carrying more than 25 persons (HS Code 8702.10.99 and 8702.90.99).

- Extend the exemption regime granted to Armed forces canteen for one year.

- Extend for one year the application of duty at 10% on motor vehicles transporting goods with gross vehicle weight exceeding 5 tons but not exceeding 20 tons (HS Code 8704.22.90).

- Motor vehicles (HS Code 8704.23.90) with gross weight exceeding 20 tonnes, and apply import duty rate at 0% instead of 25% for one further year.

- Road tractor (HS Code 8701.20.90) and apply import duty rate at 0% for one year.

4. *Split the tariff for the following items:*

- Raw materials under HS Code 2710.19.59 to provide for white oil (technical grade) used in the cosmetic industry sector, to be subject to duty rate of 0%.

- Provide for 0% for premixes used in the manufacture of animal and poultry feeds (HS Code 2309.90.00). This is intended to promote the poultry keeping industry.

- Import duty exemption on motorcycles ambulances (HS Code 8703.90.10). This is aimed at addressing the problem of transport faced by patients particularly in the rural areas.

- Apply a reduced rate of 10% for food supplements so as to reduce nutritional deficiencies and improve the well being of the people.

- Apply a duty rate of 10% instead of 25% on raw materials used in the manufacture of sprays (Scent sprays and other similar toilet sprays (HS Code 9616.10.00 and)).

5. *The following new exemptions have been introduced to the Fifth Schedule:*

- Tsetse fly traps.
- Police Force. The measure is intended to enhance internal security.
- Security equipment (Hand held metal detectors, walk through metal detectors, CCTV, cameras, bomb detectors and undercarriage mirrors). This measure is intended to enhance internal security.
- Battery operated vehicles/golf carts for use in hotels, hospitals and airports. This measure is aimed at improving tourism and health services as the vehicles are used for transport of guests and patients including disabled people.
- Import duty exemption on Apron buses which are used to transfer passengers at the Airports. This measure is aimed at enhancing service provision for air passengers.
- Grant remission of import duty on inputs for the manufacture of solar panels. The imported solar panels are duty free while the imported raw materials for the manufacture of the same attract duty at 25% and 10%.

Lowering of the destination inspection fee

The destination inspection fee will be reduced from 1.2% to 0.6% of FOB of imported products.

The aim of this reduction is to reduce the costs of importation and customs clearance delays. It is also expected to lower the clearance time and the cost of importation.

Stamp duty

The Minister proposed an exemption to Stamp Duty on the transfer of the ownership of assets to Special Purpose Vehicles (SPVs) for the purpose of issuing asset backed securities.

According to the Minister the intention is to make easy the transfer of investment projects with substantial monetary investments such as road projects, water and electricity projects, etc.

Business Licensing Act

The Minister proposed to introduce the following annual business licence fees;

- Tshs 5o,000 for businesses (except hard drinks business) undertaken in town authorities (cities, municipals and towns);
- Tshs 30,000 for businesses undertaken within a district council; and
- Tshs 10,000 for businesses undertaken in village councils.

Local Government Finance Act

This will be amended in line with the proposed amendments in the Business Licensing Act to enable the local government authorities to impose the new business license fees.

The Roads Traffic Act

The Minister, in his verbal speech, proposed an increase in the traffic notification fee from Tshs 20,000 to Tshs 50,000. However initially in the written speech, the proposal was to increase this to Tshs 300,000.

Priorities aligned
East Africa Highlights

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East Africa economies at a glance

5.6% growth in the Kenyan economy driven by agriculture and construction.

Priorities are infrastructure, private sector growth and poverty reduction

Kenya

The Kenyan economy grew by 5.6% in 2010 compared to 2.6% growth in 2009. This growth was across all the sectors of the economy with a major boost from the agriculture and forestry sector which grew by 6.3 % in the year. The country has also continued to experience significant growth in the building and construction sector driven by both the private sector investments and the increased investments by the government in physical infrastructure in 2010.
The economy is projected to grow by 5.7%, 6.3% and 6.5% in the next 3 years respectively.
The priority areas highlighted in the 2011/2012 budget include the following:

- Facilitation of private sector for growth and development;
- Cushioning of the economy and the people against high commodity prices;
- Ensuring equity and fairness in tax system; and
- Enhancing fairness in tax administration.

To achieve the above goals, there are plans to grow the investment in infrastructure to Shs 221 billion from Shs 166 billion in 2010/2011 by scaling up of road construction to facilitate trade and commerce, investing more in the geothermal development and rural electrification programme and upgrading of the railway system in the country through construction of the standard gauge railway and upgrade of commuter rail for faster and affordable transport.

In addition, several financial sector reforms have been initiated with an objective of enhancing the access, efficiency and stability of the sector. The reforms include increased support and licensing of the microfinance institutions, agency banking and review and improvement of legal and regulatory frameworks.

The government has also expressed its commitment to the implementation of the provisions of the Common Market Protocol by supporting the ongoing negotiations of the East African Monetary Union Protocol. It is however noteworthy that unlike in Uganda there was no mention of the ratification of the East Africa Double Tax Treaty. It might therefore be a while before the treaty takes effect in the region.

7% growth in Tanzania attributed to agricultural sector

Tanzania

The 2011/2012 budget takes into account the key areas as the country gears up towards achieving the National Development Vision 2025. The budget comes at a time when the country is experiencing a rise in the cost of living.

Among the measures taken is the exemption of taxes on agricultural inputs in order to boost the sector.

In addition, the government has put in more resources to boost the country's infrastructure and energy sectors

The economy grew by 7% in the year compared to 6% in the previous year.

6.3% growth in Uganda fuelled by construction and trade activities

Uganda

The GDP of Uganda grew by 6.3% in 2010/2011 up from 5.5% in 2009/2010. This was fuelled by construction and trade activities.

Despite the increase of 80 basis points, Uganda's economy faces significant challenges such as inadequate infrastructure, high unemployment and inflationary pressures

With the 2011/2012 budget theme, "**Promoting Economic growth, Job Creation and Improving Service Delivery",** the Government seeks to promote rapid, broad based and sustainable growth consistent with transforming the country to a middle income status.

The 2011/2012 budget priorities include:

- Infrastructure development in roads, rail and energy
- Enhancing agricultural production – the performance of the agriculture sector generally declined in 2010/2011. In 2011/2012, the government has therefore committed more resources in the agriculture sector, namely, wheat, cotton, coffee & tea processing, farm machinery & equipment, milk processing and warehouse construction and storage;
- Employment creation – including creation of a Youth Entrepreneurship Venture Capital Fund;
- Human resource development; and
- Improving public service delivery – this includes 50% cut on ministerial advertising costs, cut of 30% of the budget for allowances and freezing government vehicle purchases

The macroeconomic objectives of the 2011/2012 budget are to attain the following in the next one year:

- 7% economic growth;
- Inflation rate of 5% down from the high inflation rate of 16.1% per annum in May 2011 ;
- Stable, competitive exchange rate; and
- Prioritizing investments and employment creation.

Other highlights affecting the economic outlook of the country in the 2011/2012 FY include:

- Private sector development – simplifying licensing procedures and elimination of redundant procedures;
- Oil sector management – legislation intended to ensure efficient utilisation of the oil resource, estimated at 2.5 billion barrels is being finalised for parliament presentation;
- Access to Affordable financial services – government to fully implement the National ID card to ensure identification of borrowers

7.5% growth in Rwanda linked to agriculture, manufacturing and services

Rwanda

The Real GDP recorded a modest growth of 7.5% from 6.1 recorded in 2009. The recovery was mainly fuelled by export of agricultural crops, growth in the manufacturing and construction industries and growth in services, and in particular, the finance and insurance sector.

A budget focused on the four pillars of expenditure.

Overall, total revenue and grants have been projected to rise by 15.5% (RWF 129.8 billion) from RWF 844.2 billion in the revised budget for 2010/2011 to RWF 974 billion in 2011/2012. Total expenditure and net lending is also projected to rise by 7.6% (RWF 74.7 billion) from RWF 988.1 billion in 2010/2011 to RWF 1,062.8 billion in 2011/2012. One is left to ask how the Minister intends to raise the deficit.

As in last years budget, the budget for 2011/2012 focuses on four pillars of expenditure namely - Infrastructure rollout; maintaining growth in productive sectors; development of human capital; and promotion of good governance.

The Rwanda budget has had no significant change and is in line with Rwanda's development strategies as laid out in the Economic Development and Poverty Reduction Strategy (EDPRS).

The major focus of the budget is to raise resources for completion of strategic investment projects that will stimulate growth of other sectors, promote the business environment and reduce the cost of doing business. The focus is on energy generation and distribution projects, road construction and rehabilitation and ICT development.

Key highlights from the Kenya, Tanzania, Uganda and Rwanda

Key indicators of the performance of the East Africa economies are set out below. Where applicable, prior year comparatives have been included in brackets.

Positive macroeconomic indicators across the region

	Kenya	**Tanzania**	**Uganda**	**Rwanda**
Real GDP growth	5.6% (2.6%)	7% (6.0%)	6.3% (5.5%)	7.5% (6.0%)
Overall inflation	5.96% (3.9%)	5.5% (12.1%)	16% (9.4%)	4.7% (5.7%)
91 day TB rates	8.7% (3.9%)	3.77% (2.2%)	9.1% (8.4%)	6.85% (8.43%)
	Ksh	*Tsh*	*Ush*	*RwF*
Exchange rate to the dollar (Local currency = US$1)	87.70 (79.97)	1,533.2 (1,320)	2,388 (2,259)	600 (583)
Budgeted spend (billions)	1,155 (996.8)	13,526 (11,610)	9,325.7 (7,377)	1,062 (988.1)
Recurring	756.4 (675.6)	8,601 (7,791)	5,855.6 (3,566)	557.9 (514.9)
Development	398.6(321.2)	4,925 (3,819)	3,470.1(2,807)	503.3 (473.2)

Customs and Excise

A general decrease in duty on foods and raw materials across the region

East African Community (EAC)

Goods imported into the EAC are subject to Common External Tariffs (CET). The proposals made by the member states in respect of these tariffs in 2011/2012 are as follows:

- Remission of import duty on aseptic plastic bags used for storage of fruit extracts from CET rate of 25% to 10%;
- Reduction of import duty on food supplements from 25% to 10%;
- Reduction of import duty on premixes used in the manufacture of animal and poultry feeds from 10% to 0%;
- Reduction of import duty on heads used in the manufacture of sprays from 25% to 10%;
- Zero rating of import duty on white oil;
- Zero rating of import duty on motorcycle ambulances;
- Increase in the import duty on galvanized wire from 0% to 10%
- Import duty remission on inputs used for the production of solar panels;

Other products whose import duty has been exempted are:

- Battery operated vehicles;
- Apron buses used at airside;
- Security equipment such as metal detectors and CCTV cameras;
- Vehicles and equipment imported by Kenya police; and
- Tsetse fly traps.

The changes that are unique to the respective East Africa Community countries are as follows:

Kenya

- Remission of import duty on wheat grains imported by gazetted millers reducing the rate from 10% to 0% for one year;
- Remission and zero rating of import duty on Maize grain imported by gazetted millers for a period of 6 months compared to a CET rate of 50%.;
- Extension of a stay of CET application to have all types of rice imported at a rate of 35% instead if 75% for one year;
- Removal of excise duty on kerosene;
- Harmonisation of the excise duty on cigarettes at Ksh. 1,200 per mille or 35% of retail selling price (RSP); and
- Increase in the excise rates for beer to Ksh. 70 per litre or 40% of RSP and the rates for wines to Ksh. 80 per litre or 40% of RSP.

Tanzania

- Reduction of excise duty on Heavy Fuel Oil (HFO) from Tsh. 80 to Tsh. 40.
- Excise duty on plastic bags of more than 30 microns of polymers has been reduced from 120 percent to 50 percent.
- Rise of excise duty by 10 percent for carbonated soft drinks, Beer, Wine with more than 25percent imported grapes, Wines with domestic grapes exceeding 75 percent and Spirits.
- The excise duty on cigarettes has been revised as follows:

i) Cigarettes without filter tip and containing domestic tobacco more than 75 percent rise from Tsh. 6,209 to Tsh. 6,830 per mill;

ii) Cigarettes with filter tip and containing domestic tobacco more

than 75 percent rise from Tsh. 14,649 to Tsh. 16,114 per mill;

Increase in excise duty on alcoholic drinks and cigarettes.

iii) Cigarettes other than the ones mention above; rise from Tsh. 26,604 to Tsh. 29,264;

iv) Cut rag and cut filter rise from Tsh. 13,436 per Kg to Tsh 14,780 per Kg;

v) Duty on Cigars remains at 30%.

Uganda

Duty remission on Uganda's raw materials and industrial inputs has been extended for one year;

- Import duty remission on road trucks & semi-trailers of carrying capacity of over 20 tonnes has been extended for one year;
- Import taxes on components and inputs for assembly of refrigerators and freezers have been remitted from 25% to 10%;
- To encourage use of affordable technology, taxes have been waived on motor cycle ambulances;

Zero rating of Kerosene in Uganda

- Import duty on hoes was remitted from 10% to 0 to encourage food security;
- Sugar – excise duty reduced by 50%;
- Kerosene – like Kenya, excise has been reduced to zero to cushion the vulnerable members of society against the high cost of living;
- Hides & skins – the levy on exports and outward processing of raw hides and skins has been revised upwards from USD 0.4 per kilo to USD 0.8 per kilo; and
- Investment trader regulations – these regulations have been terminated in order to streamline and improve tax administration.

Rwanda

Regarding the application of the Common External Tariff (CET), it was agreed to stay application for Rwanda for a period of one year on the following products:

- Rice: CET of 30%;
- Tractors: CET of 0%;
- Trucks carrying capacity exceeding tonnes but not exceeding 20 tonnes: CET of 10%;
- Wheat grain: CET of 0%;
- Wheat flour: CET 35%;
- Construction materials for investors with projects of at least US$ 1.8 million: CET 5%; and
- Aluminium conductors and cables: CET 10%; and

Direct and indirect taxes

Kenya

Kenya abolishes filing of returns by employees who have no other income

Personal and withholding tax

Increase in withholding tax in respect of payments made to professionals from 5% to 10%

Employees will only qualify for one personal relief

Abolishment of filing of returns by employees who have no other income other than employment income and their PAYE is paid by their employers.

Value Added Tax (VAT)

A draft VAT legislation bill has been produced for public comments. A revised version of the bill is scheduled to be submitted for a stakeholders' workshop by end of August 2011. Thereafter, a final draft will be submitted to the cabinet for consideration.

Tanzania

Personal and withholding taxes

Allowances payable to employees of the Government and institutions that receive government aid to run their operations will be exempt of tax

The withholding tax on foreign freight costs incurred in transporting fish has been scrapped.

Refining of VAT regulations in Tanzania

Value Added Tax

Introduction of a VAT refund system for retail exports purchased in the country by non residents. The new system becomes effective from 1 January 2012.

In addition, there has been an introduction of a special VAT relief to Non Governmental Organisations (NGOs) that provide food supplies to Children and Orphanage care centres and schools.

VAT on the following products has been exempted:

- spares parts for threshers, rice dryers, and mills, planters, trailers and power tillers used in organised farming such as registered groups and cooperative unions;
- NASCOR pellet feed used for poultry;
- raw materials used in making fishing nets; and
- spare parts for sprayers, harrows, and grain conveyors.

VAT exemption on the sale and lease of residential buildings by the National Housing Corporation has been scrapped.

The special relief on charitable organisations and other NGOs has been scrapped. This measure does not apply to religious organisations.

Uganda

Income Tax

Royalty – payments made for internet broadcasting will now suffer WHT at 5% as they are now included in the definition of royalty

Transfer Pricing Regulations –these have now been finalised. These regulations are aimed at ensuring that prices charged between multinational associated entities for goods, services and intangible property are in line with the arms' length principle. The regulations, which take effect on 1 July 2011, are expected to be in line with the OECD guidelines and will be similar to those adopted in Kenya in 2006.

Value Added Tax

Imported services – Reverse VAT to be accounted for at the rate of 18% by the recipient of the service he is a taxable person

This amendment would favour VAT registered persons who would be able to claim back VAT incurred. However, partially exempt taxable persons will lose out as they can only claim a portion of the VAT incurred on imported services.

Supply of solar energy –together with the supply of solar panels is now exempted from tax

Solar panels exempted from tax

Supply of ambulances – VAT on supply of ambulances has been removed.

Stamp duty

There is now no stamp duty on securities given for procurement of small loans not exceeding Ush. 2 million (approximately USD 820).

Rwanda

Fuel levy

A total reduction in fuel taxes by RWF100 per litter for both petrol and gasoil for fiscal year 2011/2012 is to be carried out in two stages. RWF 50 per litre in the June-December 2011 and another RWF50 per litre on 1st January 2012. New petrol pump prices are to be announced. Total revenue loss expected of RWF 14.1 Billion in the year 2011/2012 from these measures.

Value Added Tax

Introduction of Electronic Transaction Devices to increase efficiency of VAT collections gradually from 1st July 2011. The first phase targets Large and Medium sized retailers. Expected increase of RWF 4.2 Billion from these measures.

Increase in VAT efficiency and the introduction of the gaming taxes provide an additional revenue of RWF 5.2 billion which reduces the fuel tax adjustment loss from RWF14.2 billion to about RWF9 billion.

It is proposed that VAT be deducted at source before payments of invoices by Government entities thereby ensuring prompt payment by tax payers and reduced cost of collection for the revenue authority.

Others

Introduction of gaming tax through the proposed passing of the Gaming law by parliament to levy a gaming special tax of 13% and a withholding tax of 15%. Expected collections of RWF186.3 million and RWF 859.9 respectively from the two taxes.

Commissioners have the power to register tax payers

Miscellaneous

Kenya

Tax administration

The government to enter into tax information exchange agreements with other tax jurisdictions to facilitate exchange of information aimed at reducing tax evasion.

Kenya Revenue Authority commissioners have the power to register taxpayers who refuse to apply for Personal Identification Number (PIN).

Others

Real Estate Investment Trusts will be exempt from corporate tax. The investors who receive dividend from these trusts will also be exempt from payment of withholding tax.

Pension schemes that invest all their funds in guaranteed funds will no longer be required to appoint fund managers.

Tanzania

Other taxes and levies

Exempt stamp duty on the transfer of ownership of assets to the Special Purpose Vehicles (SPV) for purposes of issuing asset backed securities.

Exemption of fuel levy charged on fuel for vessels, rigs and other equipment used in oil and gas exploration.

Imposition of a fee of Tsh. 50,000 by Town authorities for businesses operating in the area with the exception of those that deal in hard drink.

Imposition of a fee of Tsh. 30,000 by District Councils for businesses operating in the area.

Imposition of a fee of Tsh. 10,000 by Village councils on businesses operating in the area.

The traffic notification fee has been increased from Tsh. 20,000 to Tsh. 300,000

Uganda

Stamp duty

There is now no stamp duty on securities given for procurement of small loans not exceeding Ush. 2 million (approximately USD 820).

Others

The government is in the process of reviewing the Excise Law, stamp duty law, lotteries and gaming and pool betting laws. This is a welcome move considering that some of these laws date to the colonial era and have been unsuitable for the contemporary business environment.

In addition, the government has drafted a Tax Procedure Code to be introduced in Parliament in 2011/12.

Rwanda

Tax Administration

Commissioning of a study to identify potential areas to widen the tax base and estimate the tax gap

Introduction of e-filing and payment to improve on time spent, reduce burden to taxpayers and service delivery

Conducting of customer satisfaction survey to inform next areas of focus for strategic planning purposes

Implement electronic single window system at customs that will allow parties involved in trade & transport to lodge standardized information & documents using a single point

Establishment of a One-Stop-Border concept on Kagitumba and Rusumo border posts with 24 hours operations to facilitate cross border trade
Operation of an electronic cargo tracking equipment to ensure the protection of cargo from source to destination

Full automation of collection of pension funds and RAMA contributions and bringing those out of the PAYE net into the system