Sustaining the Momentum
Rwanda’s 2019/20 National Budget Bulletin

June 2019
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"Transforming lives through industrialisation and job creation for shared prosperity" was the theme for the budgets of all East African Community countries - consistent with the previous year and the year before. This theme also aligns with Rwanda’s Vision 2050 (ensuring high standards of living for all Rwandans) and the seven year Government program (2017 to 2024)/National Strategy for Transformation 1 (which integrates far-sighted, long-range global and regional commitments that are geared towards transforming the well being of citizens). This is commendable as the budget talks to each of the three pillars of NST1.

In his budget speech, the Minister for Finance highlighted numerous economic and social achievements, opportunities and well as challenges. Amongst the challenges highlighted were, higher than expected inflation from imported products following increased transport costs due to an increase in oil prices.
Commentary

The Minister remains confident on both the prospects for growth, and for revenue collection. On growth, the Budget assumes real GDP growth of 7.8% for 2019/2020 which is consistent with the recent forecasts from the African Development Bank and the IMF.

The 2019/20 budget is FRW2,876.9 bn which is an 11% increase on the 2018/19 revised budget (FRW2,585.2 bn). The domestic revenue (including domestic financing) is assumed to contribute 68% of the budget which is still consistent with 2018/19 domestic revenue contribution to budget which is a good indication that in coming years the budget will soon be largely domestically funded.

Recently, there has been significant debate in the media in relation to levels of Government debt; and more debate might be triggered given a 2019/20 target for an increased budget deficit (3% of GDP) as compared to 2018/19.

Whilst acknowledging that government debt has been increasing, the Minister emphasized that the latest Debt Sustainability Analysis conducted in April 2019 confirmed the sustainability of the debt in the medium and long term. The focus should continue to be on having the debt ploughed in sectors that generate productive growth and ensure its not only sustainable but there is sufficient cash for repayment when it falls due.
Commentary

The Minister plans to spend about 50% on recurrent expenditure and 40% on development expenditure. Is this the right expenditure mix given the country’s growth ambition? This seems to be in line with the region’s mix of recurrent and capital expenditure.

This also seems to align with the ‘Asian tigers’ who undertook the journey before and embraced a disciplined and prudent approach of borrowing for infrastructure projects while funding recurrent spending through domestic resources.

A number of measures were announced that sought to assist domestic local grown solutions, importantly, in an environment of tight liquidity and a constrained consumer pocket, for example the minister stayed customs taxes on selected goods to facilitate local manufacturers and also ease inflationary pressures on some of the basic goods.

On the tax front, the Minister did not announce any major tax changes apart from reaffirming the government’s commitment to roll out the Electronic Billing Machines (EBM for all) to all persons engaged in commercial activities. This will require the affected businesses to reflect on how best to ready their processes for compliance.
Lastly we expected the Minister to announce a tax amnesty as part of the ongoing measures to improved tax compliance.

Such initiatives have proved successful in a number of other jurisdictions in bringing reluctant taxpayers in from the cold – creating a win-win for the taxpayer, to able the tax payer formalize and correct past errors or omissions without a cost of penalties.

For the taxman, the tax amnesty will provide additional revenue and potentially widen the tax base in cases of previously unregistered taxpayers.

This would certainly be an opportunity to wipe the slate clean, and start afresh. We hope the Minister can consider such a move in the near future...given the progress Rwanda has made in improving tax compliance a tax amnesty is worth considering.
The Economy

Global Economic Growth

According to the IMF’s April 2019 World Economic Outlook (WEO), global growth momentum slackened in 2018 to 3.6% from 3.8% in 2017, showing greater than expected weaker performance in some economies, notably Europe and Asia.

The global economy is projected to grow at an even a lower rate of 3.3% in 2019 compared to previous years. Global growth will start to level off in the second half of 2019 to achieve 3.6% in 2020 based on on-going build-up of policy stimulus in China, recent improvement in global financial market and, stabilization of conditions and declining pressures on growth in the euro area and emerging markets.

Beyond 2020, global growth is set to settle at about 3.6%.

According to the IMF, growth across emerging markets and developing economies is projected to stabilize slightly below 5%. For some regions, the outlook is convoluted by a combination of structural bottlenecks, slower advanced economy growth and, in some cases, high debt and tighter financial conditions. These factors, alongside subdued commodity prices and civil strife or conflict in some cases, contribute to unresponsive medium-term prospects for Latin America; the Middle East, North Africa, and Pakistan region; and parts of Sub-Saharan Africa.

Global GDP for World Economies

Source: IMF 2019 World Economic Outlook
The Economy

Africa

Sub Saharan Africa (SSA)

Sub-Saharan Africa’s (SSA) economic recovery is set to continue, but along two tracks, after the region faced a decline in global commodities price between 2015 and 2016, tighter financial conditions and a strong US dollar in 2018.

GDP growth in SSA was 3% in 2018 compared to 2.9% in 2017 and is set to pick up to 3.5% in 2019 and stabilize at slightly below 4% over the medium term. This is projected on diminished policy uncertainty and improved investment in large economies together with continued robust growth in non-resource intensive countries.

Some 21 countries are expected to sustain growth at 5% or more in 2019. The remaining countries, mostly other resource-dependent economies, including the largest - Nigeria and South Africa - are set to face slow growth in the near-term.

According to the IMF, addressing these growing challenges within these countries requires building fiscal space and enhancing resilience to shocks by stepping up actions to mobilize revenues, alongside policies to boost productivity and private investment.
The Economy

East Africa Community (EAC)

According to the African Development Bank’s 2019 African Economic Outlook, East Africa is the fastest growing region of the continent with a robust GDP forecast of 5.9% from an estimated 5.7% in 2018. However, the regional average is disguised by substantial variation across countries.

The countries with the highest economic growth are Rwanda, Tanzania and Kenya. The region however continues to face various downside risks that could undermine economic growth and development prospects. Major risks are agriculture’s susceptibility to the impulses of nature, heavy reliance on primary commodity exports, rising oil prices, persistent current account deficits and related increases in external indebtedness.

Further, international trade on the continent remains low averaging at about 14.5% and roughly unchanged over the past five years. Intra-EAC trade is the highest among all regional economic communities in Africa - above 20% of exports and significantly higher than the continental average.

The Continental Free Trade Area (CFTA), launched in Kigali in March 2018, is the latest regional integration initiative. The tripartite free trade area involving COMESA, EAC, and the Southern African Development Community was an important motivation for the CFTA, especially in East and Southern Africa.

These initiatives are believed to be advancing regional integration in East Africa and will accelerate inter-regional trade.
The Economy

Ease of doing business in the EAC

EAC countries have continued to push the frontiers of reforms more broadly. The World Bank’s 2019 Doing Business report showed the progress made by sub-Saharan Africa among reforming economies.

The 2019 report showed that the EAC has continued to excel, accounting for one-third of all business regulatory reforms. In fact, Rwanda and Kenya led the pack of reformers.

Despite these advancements though, several EAC countries continue to lag behind.
The Economy

Rwanda’s Economic Performance

Key Economic Indicators

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<tr>
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<th>FY18/19</th>
<th>(est)FY19/20</th>
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<tbody>
<tr>
<td>GDP growth</td>
<td>8.6%</td>
<td>7.8%</td>
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<tr>
<td>Total budget in FRW</td>
<td>FRW 2,585.2bn</td>
<td>FRW 2,876.9bn</td>
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<td>Domestic Revenue % of GDP</td>
<td>16%</td>
<td>16.2%</td>
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<td>Expenditure % of GDP</td>
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<td>Headline Inflation</td>
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<td>Est below 5%</td>
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<td>Public Debt in USD</td>
<td>USD41bn</td>
<td>?</td>
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<tr>
<td>Domestic borrowing % of GDP</td>
<td>0.7%</td>
<td>1.7%</td>
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<tr>
<td>Fiscal Deficit % of GDP (incl. grants)</td>
<td>-4.5%</td>
<td>-6.3%</td>
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GDP Growth and its drivers

Rwanda’s economy is estimated to grow by 8.6% by the end of the fiscal year FY18/19 which is 1.4% above the government’s initial projected target of 7.2%. Industry and services are the main contributors to this GDP growth.

- **Industry**: The industry sector grew by 10%, much higher than its 5 years’ average and accounted for 16% of the total GDP. Growth in industry was boosted particularly by the recovery in the construction sector, which grew by 14%.

  The recovery in beverages & tobacco and continuing good performance in textile/clothing’s production also contributed to the positive growth of industry despite the poor performance of mining, especially in the last quarter of 2018.

- **Services**: The services sector grew by 9% mainly driven by a recovery in wholesale and retail trade and continuing expansion of the air transport segment.

- **Agriculture**: The agriculture sector grew by 6% following favorable weather conditions and various government measures to increase food and other agricultural production.
The Economy

Rwanda’s Economic Performance

Inflation

Rwanda’s annual headline inflation for FY18/19 is projected to be below the 5% medium term inflation benchmark. As rising inflation is generally associated with currency depreciation and exchange rate instability, the decline in headline inflation is a result of ease in exchange rate pressures and the slowdown in annual food crops inflation due to increased agricultural production during the year. The stability of FRW contributed to ease the imported inflation despite the increase recorded in transport costs.

Commercial bank lending and deposit rates

In FY18/19, commercial bank interest rates remained broadly stable and have been converging towards the CBR as a result of improved liquidity management. Commercial Banks’ lending rates and deposit rates slightly reduced, respectively standing at 16.96% (lending rates) and 7.51% (deposit rates) in 2018, from 17.17% (lending rates) and 7.72% recorded in 2017 (deposit rates).

5.5%

The main drivers of lending rates in Rwanda are operational costs, provisioning for loan losses, the cost of holding statutory reserves and the National Bank Rate, currently at 5.5%.
The main reason for this increase in the additional external debt (3.9% of GDP), which was meant to scale up public investment projects that support trade and tourism.

The majority of Rwanda’s debt is external (83.3%) and predominantly composed of concessional loans (projected to be at 61.6% of the total portfolio at June 2019) mostly provided by multilateral institutions.

Domestic debt is mainly composed of government securities especially Treasury bills together with Treasury bonds (more than 75 percent of total public domestic debt at end FY2018/19).

The country’s debt strategy is to maximize concessional borrowing while restricting commercial loans to the financing of infrastructure and self-financing projects.

Public debt stock

Rwanda’s external present value (PV) of debt-to-GDP stood at 32.9% as of end 2018, an increase of 5.2% from 27.7% PV of Debt to GDP as of end 2017.
The Government plans to increase spending by 11% in the 2019/20 fiscal year to FRW2,876bn. Donors will fund 14% of the budget (a 2% decrease in donor funding) with the rest coming from domestic revenue and debt. The total resources projected is made up of:

- FRW 1,726bn of domestic tax and non-tax revenues (60%);
- external grants and loans of FRW 409.8bn (14%) and FRW 497bn (17%), respectively and
- a total domestic financing of the budget deficit of FRW 237bn (8%).

Total domestic revenue collections have been projected to reach FRW 1,726.2bn in the fiscal year 2019/20. This is 9% above the estimated figure of FRW1,571.4bn to be achieved in the fiscal year 2018/19.

Tax revenue will contribute 89% (FRW1,535.8bn of the total domestic revenue [i.e. Indirect taxes (44%), Direct taxes (38%) and taxes on international trade (7%)], and the balance of 11% will be contributed by non-tax revenue.

The tax revenue of FRW1.535.8bn is expected to come from, among others, the continuing economic growth momentum of 7.8% projected for the FY19/20, and increase in the taxable base that will be supported by new tax administrative measures and policies.

As regards economic growth,
- the agriculture sector is expected to get good performance in food and export of crops.
- The industry is expected to be boosted by good performance in mining and construction activities.
- the services sector is likely to maintain it performance at the rate of 8%.
Total expenditure projected in the fiscal year 2019/20 is mainly made up of FRW 1,424.5bn as recurrent expenditure, FRW 1,152.1bn as capital/development spending and FRW 244.1bn as net lending outlays.

**Recurrent expenditure**
The allocated amount of FRW 1,424.5bn in fiscal year 2019/20 is 9% higher than the allocated amount in the fiscal year 2018/19.

The increase in recurrent expenditure is mainly driven by increased allocations for both wage and non-wage related items arising from ongoing restructuring exercises including creation of new structures in the public sector.

Specifically, the increase in the allocated amount for wages will cater for restructuring of education and health sector salaries including new recruitments as well as increases in allowances of the security agencies.

**Capital expenditure**
Total capital spending in the fiscal year 2019/20 has been estimated at FRW 1,152.1bn. This figure is made up of FRW 694bn of domestically financed expenditure and FRW458.2bn of foreign financed expenditure.

With regard to the domestically financed portion, the allocated amount is to allow the implementation of priority projects that will increase access to electricity, water and sanitation as well as education and health.

In the case of the foreign financed portion, the allocated amount is to cover projects in the energy, roads and agriculture sectors.

**Net Lending**
Outlays under net lending in the fiscal year 2019/20 have increased by 28% from the previous year’s budget allocation. The increase in the allocated amount is mainly for two significant spending areas:

i. funds for the recapitalization of BRD – which is going to be done over a three year period and

ii. funds to Rwandair to support its expansion strategy

BRD has been recapitalized to promote accelerated private sector growth.
The Economy-Sector Allocation as per NST1

Resource allocation to NST1 Pillars

The National Strategy for Transformation (NST1) is a government strategy developed as an implementation instrument for the remainder of Vision 2020 and the first four years of the Vision 2050. The budget allocation to the three NST1 pillars is as follows.

Sector allocation to NST1 Pillars

Once again, Public Finance Management (PFM) has taken the biggest piece of the pie (it has also had the third largest increase in budget allocation when compared to the FY18/19) as the Government continues to ensure that both the external debt and project loans are within acceptable limits.

As priority area one under the social transformation pillar of the NST1, Education has taken the second biggest share of the pie. Priorities under the education sector are to focus on improvement of access to quality education ranging from construction of classrooms countrywide, to in-house text books production and distribution and promotion of STEM subjects in primary and secondary schools.
Water and Sanitation had the largest increase in the budget allocation to the tune of 47% when compared to the current year. The increase is to enable:

- The finalisation of the construction of two water treatment plants in Kanzenze (Bugesera) and Gihira (Rubavu).
- Connecting 109 productive use areas to water including industrial parks, commercial centres, schools and Health Centres.
- Undertake construction of Kigali Centralized Sewerage System phase 1.

Environment and Natural Resources had the second largest increase in budget allocation to the tune of 36% when compared to the current year. The increase is towards Rwanda’s continued effort to preserve Natural resources and the environment in order to promote the green economy, which presents multiple opportunities for the economy. Key interventions to be implemented in 2019/2020 include:

- Rehabilitation of urban wetlands in Kigali City;
- Re-afforestation and rehabilitation of the degraded area of Jali, Mount Kigali and Rebero with 30 ha of new forest planted and 420 has of forest maintained;
- Urban Forestry for Sustainable City through beatification, landscaping and greening in urban areas;
- Increase the area covered by forests focusing on agroforestry; and
- Implementation of flood control measures.
Tax Amendments

Tax reforms during FY18/19

During FY18/19, a number of tax administrative measures have been implemented. These include:

- Tax exempt entities (NGOs, Schools, Churches etc.) are now required to submit their financial statements using the online e-tax platform. We however note that generally taxpayers continue to experience frequent system outages which could be caused by a lot of traffic on the platform during filing deadlines. The RRA needs to quickly resolve these issues.

- VAT claims are now refunded within 30 to 90 days because of the enhanced capabilities of the EBM system and the tax filing portal. This is really commendable. However, despite this major progress in handling VAT refunds, a number of taxpayers still have their VAT refund claims rejected. This is mainly because of internal system configurations that are geared toward improving efficiency within the tax administration, but are becoming costly to taxpayers. Taxpayers would want to see automation that decreases their tax compliance costs and not increasing it. The RRA needs to find ways of minimising the tax cost to taxpayers as they continue to roll-out these much needed systems that are meant to reduce the time and cost of compliance.

- Taxpayers can now carry forward tax losses for a period of more than 5 years – on receiving approval from the Commissioner General. This amendment to the law is commendable as it will go a long way in incentivising capital intensive businesses to claw back their investments without the 5 year restriction.

- The threshold to have audited and certified financial statements was increased from Rwf400m to Rwf600m. This will reduce the tax compliance cost for a majority of small and medium sized businesses because they would no longer be required to engage auditors to certify their financial statements before filing them.
Tax Amendments

Proposed Tax Changes

The Minister did not propose any major tax changes apart from re-confirming that the increase in tax collection will be mainly supported by continued improvement in tax administrative measures and policies. Some of the measures to be undertaken include:

• Revision of the law on tax procedures requiring every person carrying out commercial activities to use the new “EBM for all” expanding coverage to non-VAT registered persons. It is not clear whether the “EBM for all” will also be rolled out to businesses with voluminous transactions such as Banks.

• Revision of the consumption tax law aimed at increasing tax collection but at the same time discouraging consumption of some unhealthy products.

As regards the new law on tax procedures, the draft law – which is yet to be gazetted - introduces a number of remarkable tax administrative measures.

Fines, penalties and interest payments

Currently, Rwanda has one of the most punitive tax penalty regimes in the region. Tax penalties for non-tax declaration/under-declaration and non payment of taxes can go as high as 70%.

The draft law on tax procedures provides for a reduction in fines and penalties for non-payment of taxes as follows;

• 10% if the tax due is paid within 30 days following the due date.

• 20% if the tax due is paid after 30 days but before 60 days - following the due date.

• 50% if the tax due is paid after 60 days following the due date.

The draft law also recommends that fines for non-payment and non-declaration would not apply on a taxpayer who is not registered with the RRA, but makes a self-disclosure. These revisions in the penalty regime are welcome as they will ease the tax burden taxpayers are currently facing.
Tax Amendments
Proposed Tax Changes

• **Payment in instalments**: Currently taxpayers - with justified reasons – are allowed to pay their tax liabilities over a period of 12 months. The draft law now gives mandate to the Commissioner General to extend this period by another period not exceeding 24 months. This is also a welcome measure as it will go a long way to ease the cash flow pressures on businesses.

• **Time limit for recovery of taxes**: The draft law now provides for a time limit of 10 years - from the date the taxpayer received the notice of assessment – beyond which the tax authority cannot recover the taxes assessed.

• **Ring-fencing of mining income and expenses**: A mining company that exploits more than one concession area will be required to declare and pay taxes separately on each concession. Losses incurred with respect to one mining concession cannot be used by another concession belonging to the same company.

• **Liability of shareholders**: The current law on tax procedures provides that shareholders who become involved in the management of the company and/or misuse company’s funds are liable for any tax liability if they led to the company’s inability to meet its tax obligations. A competent court would determine the liability of the shareholder. However, the draft law now provides that in case the property of a company is not separated from that of a shareholder or of his/her relative to the second degree, they are jointly liable for any tax liabilities incurred by the company without a court decision.
Tax Amendments
Proposed Tax Changes

Liability of shareholders

We find that this would be a challenging provision to implement and we recommend that the court decision in such matters should still be maintained.

The Minister also noted that fiscal incentives will continue be extended to some strategic sectors in a bid to support “Made in Rwanda” initiatives and the development of a cashless economy.

Stayed customs

The minister has stayed customs taxes on selected goods for another year.

The minister’s decision to stay the increase of import duty on these selected items is welcome as it will not only facilitate the “Made in Rwanda” initiative, but it will also address the issue of imported inflations on the selected basic goods.

Transportation sector

- Import duty rate of 0% instead of 10% or 25% for road tractors for semi trailers, motor vehicles for transport of goods with gross weight exceeding 20 tons and buses for transportation of 50 persons and above.
- Import duty of 10% instead of 25% for motor vehicles for transport of goods with gross weight exceeding 5 tons but not exceeding 20 tons.
- Import duty of 10% instead of 25% on buses for transportation of more than 25 persons.
Tax Amendments

Proposed Tax Changes

Promotion of “Made in Rwanda” initiative

• All capital machinery used in the textile and leather industry will continue attracting import duty of 0% instead of 25%.

• Certain raw materials used in industry will continue to be taxed at a rate of 0% instead of 10% or 25%.

• Import duty rates of US$ 4/Kg for second hand clothes and US$ 5/kg for second hand shoes.

Basic goods

• Rice will continue to be taxed at the rate of 45% or US$ 345/MT instead of 75% or US$ 345/MT.

• Sugar will continue to be taxed at a rate of 25% instead of 100% or US$ 460/MT whichever is higher.

• Goods imported for use by Armed Forces Shop (AFOS) will continue to attract duty at 0% instead of 10% and 25%.

Information Technology

• Telecommunication equipment will continue to attract import duty at a rate of 0% instead of 25%.

Financial Sector

• As support towards a cashless economy, electronic transaction devices (smart cards, ATM cards, Point of Sale cards and their operating machines) will continue to attract import duty at 0% instead of 25%.
East Africa highlights
Kenya

Summary of growth in 2019
Kenya registered economic growth of 6.3% in 2018 compared to 4.9% in 2017. This growth is the highest recorded for the past 8 years.

The growth was anchored on relatively stable macroeconomics and was attributable to increased agricultural production, accelerated manufacturing activities, sustained growth in transportation and vibrant service sector activities.

Inflation remained low at 4.8% in 2018 compared to 8% in 2017 majorly as a result of considerable decline in prices of food.

Growth of economy is projected to remain strong in 2019 at almost same level as in 2018, with 7% growth expected over the medium term.

Economic drivers in 2018
- Increased agro-processing activities during the year;
- Favorable weather conditions for both crops and livestock production due to long rains in 2018; and
- Stable political environment, withdrawal of travel advisories, improved security and investor confidence in the country.

Government priorities for the year
The government plans to prioritize its spending towards laying the foundation for the Big Four agenda.

The identified key initiatives to achieve the agenda and accelerate economic growth are:
- Creating an enabling environment for business;
- Prudent and efficient spending;
- Mobilization of domestic resources to fund priority projects/programmes;
- Stabilizing and reducing debt; and
- Implementing reforms that will enhance efficiency and competitive
East Africa highlights
Kenya

Key Tax Highlights

Income Tax

- Increase of Capital Gains Tax rate from 5% to 12.5%;
- Exemption of CGT on gains arising from group reorganizations;
- Expansion of the scope of services attracting withholding taxes other than management and professional fees;
- Reduced corporate tax rate to 15% in the first five years for companies engaged in recycling plastics;
- Tax exemption on the income earned from housing funds; and
- Tax exemption on income earned by individuals under the Ajira Digital program.

VAT

- Adjustment of the VAT refund formula to ensure that inputs relating to zero-rated supplies are factored in the refund process;
- Reduction of the Withholding VAT rate from 6% to 2%;
- Introduction of VAT exemption for locally manufactured motherboards and all inputs used in their manufacture;
- VAT exemption on all services offered to plastic recycling plants and supply of machinery and equipment used in the construction of the plants.

Customs

- Retention of the import duty rate on iron and steel products at 35% with the corresponding specific duty rate for the products produced in Kenya; and
- Reduction of import duty on raw timber from 10% to 0%.

Excise Duty

- Introduction of Excise duty on betting activities at a rate of 10% of the staked amount;
- Reduction of the excise duty rate on motor vehicles which are purely electric from 20% to 10%; and
- Increase of excise duty on tobacco products, wines and spirits by 15%.
East Africa highlights

Uganda

Summary of growth in 2019
The economy recovered in 2018, growing by 6%. The economy is projected to grow by 6.1% in 2019 and continues to bounce from the low growth of 3.9% in 2017, mainly driven by growth across all sectors.

Inflation remained stable in 2018 at 3.4%, due to the increased food supplies in the markets, relatively stable exchange rate and effective co-ordination of monetary and fiscal policies.

Government priorities
• Expanding the industrial base of the economy;
• Exploiting Natural Resource Endowments with Environmental Protection in mind; and
• Providing affordable financing for production and business.

Economic drivers, 2019
The government has identified the economic drivers to include:
• Peace, security, good governance and an efficient judicial system;
• Reliable, efficient and affordable electronic supply;
• Water transport and communications infrastructure;
• A healthy, well educated and skilled workforce; and
• An effective government machinery.

Key tax highlights

Excise Duty
• Amendment to provide registration of manufacturers, importers and providers of excisable goods and services.

VAT
• Introduction of 6% withholding VAT; and
• VAT Exemption on agro-processing, rice mills and agricultural sprayers.

Income tax
• Exemption of income derived from leasing or letting facilities in industrial parks for 10 years;
• Reduced withholding tax rate on long term bonds from 20% to 10%.

Stamp duty
• Proposed amendment to provide for a uniform stamp duty payable on bank guarantees, insurance performance bonds, indemnity bond etc.

Customs duty
• Increase in import tariffs on products which are locally manufactured.
East Africa highlights

Tanzania

**Summary of growth**

Tanzania recorded real GDP growth rate in 2018 of 7.0% compared to 6.8% in 2017. The GDP growth was driven by increased investment especially in infrastructure, stable supply of electricity, improvement in transport services and favourable weather conditions that resulted in an increased food harvest and other crops.

**Government priorities**

The priority for 2018/19 will be on flagship infrastructure projects and in creating a conducive environment for investment and business by implementing the Blueprint for Regulatory Reforms to improve the business environment.

The focus will be on the following priority areas:

- Agriculture:
- Industries:
- Livestock and fisheries:
- Economic growth and human development
- Improvement of enabling business environment and investment climate

**Revenue policies**

The Government is committed to increasing and strengthening domestic revenue collections by pursuing the following policies:

- Increase efficiency in administration and collection of domestic revenue;
- Widen the tax base through identification and registration of new tax payers and formalization of the informal sector;
- Strengthen capacity for monitoring and controlling of transfer pricing;
- Enhance administration of tax exemptions; and
- Improve efficiency in domestic revenue collection;
East Africa highlights

Tanzania tax highlights

**Value added tax**
Exemptions proposed include:
- Imported refrigeration boxes, grain drying equipment, aircraft lubricants by domestic operators, National Air Force and Airlines recognised under bilateral air service agreement.

Zero rating proposed:
- Supply of electricity from Tanzania mainland to Zanzibar

Exemptions abolished: Sanitary pads

**Income tax**
- Reduction of the CIT rate for new investors in the production of sanitary pads from 30% to 25%.
- Increase in minimum turnover required for a taxpayer to prepare audited financial statements to TZS 100m.

**Withholding tax**
Proposed changes includes:
- Exemptions on fees charged to Government on loans received from non residential banks and other international financial institutions.

**Excise duty**
Proposed impositions:
- 10% on locally made artificial hair and 25% on imported ones.
- 10% on pipes and plastics materials
- Exemptions-Aircraft lubricants by domestic operators, National Air Force and airlines.

**Customs**
- To protect local industries, duties have been increased on the following imported products: roasted coffee, flat-rolled products of iron or non-alloy steel, flat-rolled products of iron or non-alloy steels, reinforcement bars and hollow profiles, horticultural products and monofilament.
- Duties have been decreased/remitted on the following products: baby diapers, equipment and appurtenant used for polishing and heat treatment of gemstones, papers used as raw materials for manufacturing of packaging materials for export of horticulture products, agricultural seeds packaging materials and aluminium alloys used as raw materials to manufacture aluminium pots.
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