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Public Private Dialogue – Dodoma

Tax Presentation

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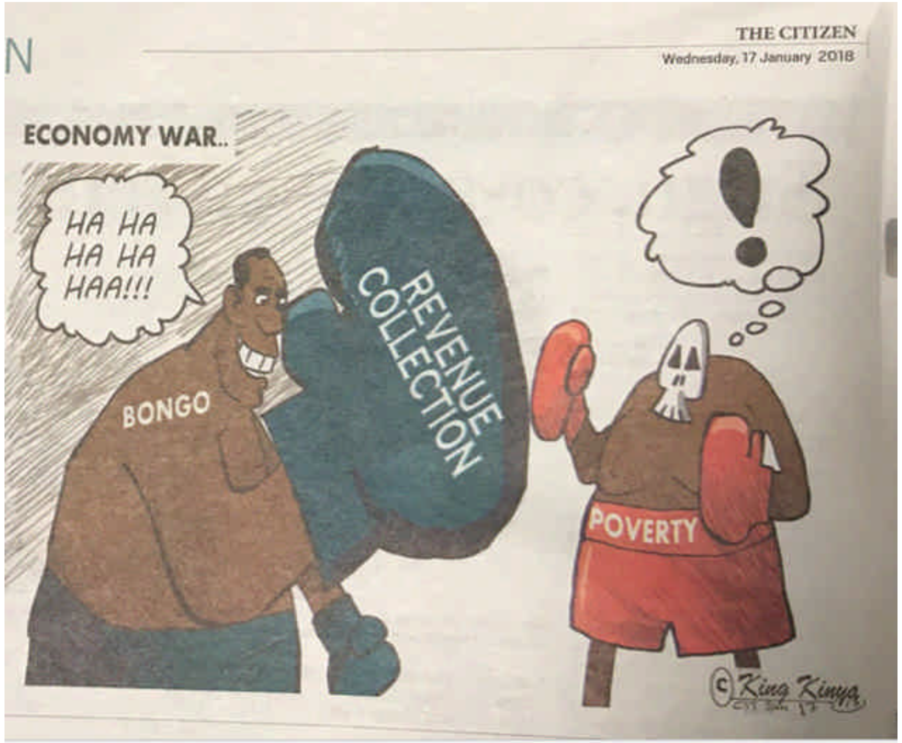
Agenda

Background:

- MoF feedback at Dec 2017 meeting
- Policy Issues
- Revenue Collections

Industrialisation – key fiscal issues

Measures to increase revenue collections – what cross cutting and industry fiscal issues do we need to address?



December 2017 meeting – MoF feedback

- Ready to listen to proposals on taxes and tax administration

- When providing requests, bear in mind:
    - Aid continuing to decline
    - Tax collection still not what it could be
    - Limited capacity on PPPs

- Focus of next year's budget – industrialisation

- Would like to see fiscal framework that can unleash private sector competitiveness without comprising revenue goals

Policy issues - General

- Timing of publication of proposed legislative amendments:
    - Can we adopt the Uganda approach (3 month time frame)?
- Global trend – reduce direct taxes, focus more on indirect taxes
- Indirect tax changes - consider demand elasticity
- Encourage employment, investment, formalisation
- Broaden tax base
- Administrative efficiency (minimise number of taxes)

Revenue Collections

Revenue Collections – by Department
6 months to Dec 2017

Collections by Department	Total	Total	Total	Variance	Variance	Proportion of collections
6 months to 31 DECEMBER 2017	2016/17	2017/18	2017/18	2017/18	2017/18	
	Actual	Budget	Actual	Prior Yr	Budget	
	TZS bn	TZS bn	TZS bn	%	%	
Taxes on fuel	993	1,279	1,133	14%	-11%	
Other taxes on imports	1,964	2,412	2,002	2%	-17%	
Customs & Excise	2,957	3,691	3,135	6%	-15%	40.7%
Large Taxpayer Dept	2,756	3,313	2,981	8%	-10%	38.7%
Domestic Revenue Dept	1,445	1,775	1,594	10%	-10%	20.7%
Gross collections before refunds, treasury vouchers, VETA transfers	**7,158**	**8,780**	**7,710**	**8%**	**-12%**	

Revenue Collections – VAT & Excise: Local Supplies 6 months to Dec 2017

VAT & Excise Duty on Local Supplies	Total	Total	Total	Variance	Variance		Proportion of collections
1 JULY TO 31 DECEMBER	2016/17	2017/18	2017/18	2017/18	2017/18		
	Actual	Budget	Actual	Prior Yr	Budget		
	TZS bn	TZS bn	TZS bn	%	%		
Beer	188	228	250	33%	9%		
Telecommunications	214	295	227	6%	-23%		
Cigarettes	96	117	100	4%	-14%		
Spirits & konyagi	79	114	59	-26%	-48%		
Electricity	35	46	52	48%	12%		
Soft Drinks	42	49	46	8%	-6%		
Sugar	28	56	39	39%	-30%		
Cement	5	8	12	152%	51%		
Sub-Total	688	913	784	14%	-14%		30%
Other	1,387	1,668	1,818	31%	9%		70%
Total before refunds	**2,075**	**2,581**	**2,602**	25%	1%		

A more detailed breakdown of Excise and VAT collections on major items subject to excise

Major Excisable Goods & Servi	Total	Total	Total	Variance	Variance
6 MONTHS TO 31 DECEMBER	2016/17	2017/18	2017/18	2017/18	2017/18
	Actual	Budget	Actual	Prior Yr	Budget
	Shs'm	Shs'm	Shs'm	%	%
Telecommunications					
Excise Duty	134,038	167,350	153,870	15%	-8%
Value Added Tax	80,107	127,852	72,739	-9%	-43%
	214,145	295,202	226,609	6%	-23%
Beer					
Beer - Excise Duty	118,756	148,673	160,156	35%	8%
Beer - VAT	69,286	79,658	89,566	29%	12%
	188,041	228,331	249,722	33%	9%
Cigarettes					
Cigarettes - Excise Duty	74,450	93,816	76,951	3%	-18%
Cigarettes - VAT	21,887	23,221	23,294	6%	0%
	96,337	117,037	100,245	4%	-14%
Soft Drinks					
Soft Drinks - Excise Duty	23,967	30,326	23,502	-2%	-22%
Soft Drinks - VAT	18,125	18,243	22,132	22%	21%
	42,092	48,569	45,635	8%	-6%

Industrialisation – key fiscal issues

Industrialisation – key fiscal issues

- Strategic Investors – challenge with recognition of tax incentives

- Issues for existing industrial investors:
  - Import duty
  - Excise duty
  - Administrative

- Employment costs

- VAT refunds

Special Strategic Investors – the conundrum

- Performance Contract:
  - Signed between Investor and Tanzania Investment Centre (TIC)
  - Commits to certain tax incentives
  - Not recognised by TRA in absence of legislative amendment or gazetted exemption
- Lines of communication between TIC and Ministry of Finance seem unclear
- Outcome – very frustrated investors

Manufacturing

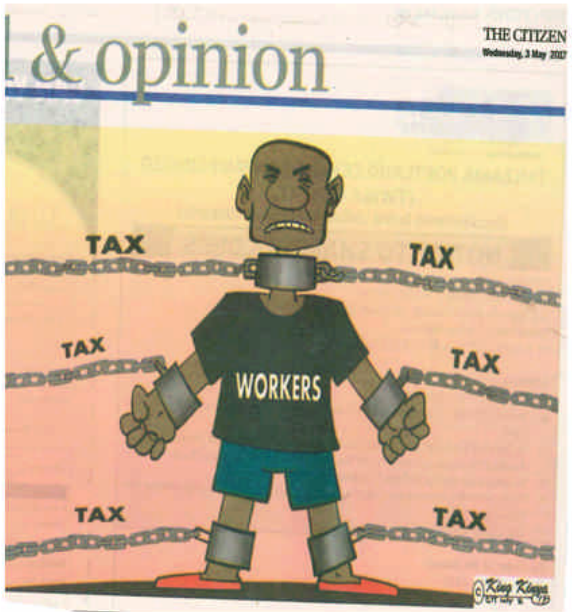
- **Excise duty – specific tariffs:**
  - No increase in tariffs for 2018/19 (tight consumer wallet)
  - Retain excise structure for cigarettes
  - Introduce USD3 / kg specific duty on imported textile garments

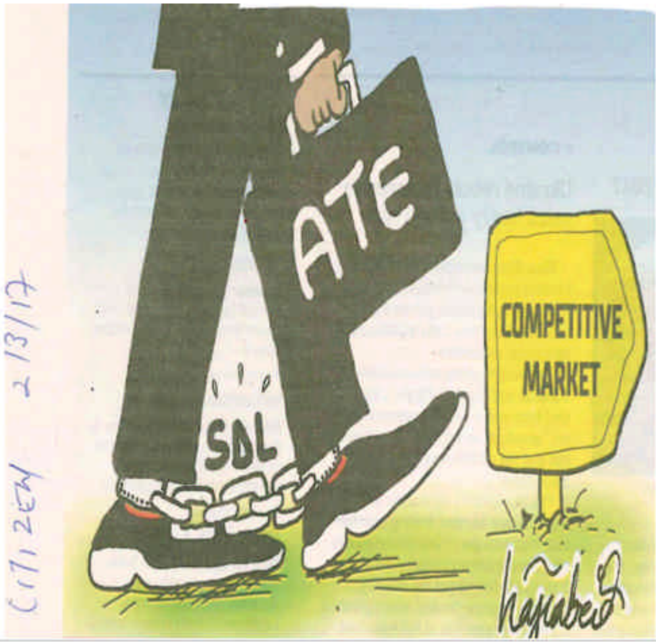
- **Additional 15% import duty on sugar:**
  - Refund backlog (as at December meeting only TZS 12bn refunded out of TZS 38 bn)
  - Remove going forward

- **Electronic tax stamps:**
  - Refrain from introduction
  - If not possible, have meeting with stakeholders to discuss

Employment Taxes – why the concern?

PAYE & SDL 1 JULY TO 31 DECEMBER 2017	Total 2016/17 Actual TZS bn	Total 2017/18 Budget TZS bn	Total 2017/18 Actual TZS bn	Variance 2017/18 Prior Yr %	Variance 2017/18 Budget %
PAYE	1,112	1,305	1,162	4%	-11%
Skills & Dev.Levy	137	158	142	4%	-10%
Total	1,249	1,463	1,305	4%	-11%





Employment taxes: a good starting point for minimisation of number of tax payments, filings and tax rates

	Tanzania	Kenya	Uganda	Rwanda
Taxes on employer				
Social security - employer contribution	10%	5%	10%	5%
Skills and Development Levy	4.5%	n/a	n/a	n/a
Workers Compensation Fund	1%	n/a	n/a	n/a
	15.5%	5%	10%	5%
Taxes on employee				
Income Tax - top marginal rate	30%	30%	30%*	30%
Social security contribution - employee	10%	5%	5%	3%
	40%	35%	35%	33%
Total social security contribution	20%	10%	15%	8%

* 10% additional tax on amounts in excess of USH 10m per month

Employment taxes: proposals

Payments:

- Accelerate initiatives to move towards electronic payment
- Streamlining payments by merging payment process for various payroll based taxes
- Align payment and filing dates

Tax rates:

- **SDL**: Reduce rate to 2%
- **WCF**: Removal
- **Social security**: Have progressive reduction of contribution rates so that over 5 year time frame move in line with levels in the region

Overall objective:

- Encourage employment
- Encourage businesses to operate formally
- Ensure that competitive with rest of the region

VAT refunds – why such a concern for industrialisation?

- Export oriented investment - Whilst large domestic market will be a target of certain industrialisation projects, many projects will primarily target an export market

- EPZ / SEZ legislation – threshold of 80% exports so as to access major tax incentives

- Current approach on VAT refunds:
  - Discriminates against exporters (as compared to domestic suppliers) in recognition of VAT input tax credits
  - Cripples cash flows of exporters
  - Ultimately may discourage export oriented investment business

VAT refunds – 89% decline in 2016/17!

2016/17:

Collections by Department	Total	Total	Total	Variance	Variance	Proportion of collections
12 months to 30 JUNE 2017	2015/16	2016/17	2016/17	2016/17	2016/17	
	Actual	Budget	Actual	Prior Yr	Budget	
	TZS bn	TZS bn	TZS bn	%	%	
Taxes on fuel	1,720	2,026	1,885	10%	-7%	
Other taxes on imports	3,631	4,182	3,757	3%	-10%	
Customs & Excise	5,351	6,207	5,641	5%	-9%	40%
Large Taxpayer Dept	5,441	6,539	5,680	4%	-13%	40%
Domestic Revenue Dept	2,429	3,102	2,875	18%	-7%	20%
	13,221	15,849	14,195	7%	-10%	
Add: Treasury Vouchers	26	32	26	3%	-18%	
Less: Transfers to refunds A/C	(591)	(607)	(66)	-89%	-89%	
Less: VETA	(30)	-	-			
	12,626	**15,275**	**14,156**	12%	-7%	

2017/18:

Feedback at December 2017 meeting: TZS 33bn & TZS 15bn paid in Oct and Nov respectively, and expecting to pay TZS 10bn in December

Measures to increase revenue collections

Focus in terms of revenue generation should be on (i) spreading the load, and (ii) focus on more inelastic goods and services

- **VAT rate**
  - **Reduction of rate is not a priority** as compared to reduction in other taxes (especially employment taxes);
  - If anything a case could be made (based on global tax policy trends) to increase VAT rate so as to enable reduction / removal of other taxes.

- **Fuel taxes – make a commitment to index (adjust for devaluation / inflation) every year (or every month) so as to maintain real value.** Recent history has however shown decreases in real value of fuel taxes.

Fuel taxes – recent history

					Revision	
	01/07/07 to 30/06/11	01/07/11 to 30/06/13	01/07/13 to 30/06/15	01/07/15 to 30/06/16	01/07/2017	Increase
	TZS / litre	TZS / litre	TZS / litre	TZS / litre	TZS / litre	TZS / litre
Excise - diesel	314	215	215	215	255	40
Excise - petrol	339	339	339	339	379	40
Road Toll	200	200	263	313	313	0
Petroleum Levy	0	0	50	100	100	0
Total taxes - diesel	**514**	**415**	**528**	**628**	**668**	**40**
Total taxes - petrol	**539**	**539**	**652**	**752**	**792**	**40**
Petrol - in US$	**0.42**			**0.38**	**0.36**	
Exchange Rate	1275			1970	2230	

Telecommunications – excise duty reduction might increase revenue!

Taxes on airtime – are almost 40% of turnover!

	2011/12			2012/13			2013/14			2014/15		
Gross charge before tax		100.0			100.0			100.0			100.0	
Excise Duty	10.0%	10.0	10.0	12.0%	12.0	12.0	14.5%	14.5	14.5	17.0%	17.0	17.0
		110.0			112.0			114.5			117.0	
VAT	18.0%	19.8	19.8	18.0%	20.2	20.2	18.0%	20.6	20.6	18.0%	21.1	21.1
		129.8	29.8		132.2	32.2		135.1	35.1		138.1	38.1
Local tax - service levy	0.3%		0.3	0.3%		0.3	0.3%		0.3	0.3%		0.3
TCRA, UCAF (0.8%, 0.3%)	1.1%		1.1	1.1%		1.1	1.1%		1.1	1.1%		1.1
Total tax and levies on gross income			31.2			33.6			36.5			39.5

Excise Duty - proposals

- Reduce excise duty (currently 17%) on telecommunication services to align with EAC rates (Rwanda 10%, Kenya 10%, Uganda 12%):
  - Immediate reduction to 14%
  - Then later to 12%
- Reduce excise duty on mobile money transfer to 7% (from 10%)

Rationalise taxes on SMEs

Proposed change	Rationale
• Increase VAT threshold to TZS 500m	• Likely to be a positive contribution to tax revenue as VAT no longer recoverable on inputs • Make the compliance process for such businesses much simpler
• Have reduced income tax rate (15%) for companies with annual turnover < TZS 500m, and increase flat rate basis of tax (say 3% of turnover) to companies with turnover up to TZS 100m	• Given the likely increased tax burden resulting from inability to reclaim VAT inputs, it is not unreasonable to reduce the income tax rate. • Encourage compliance
• No SDL for companies with turnover < TZS 500m, or with < 50 employees	• Reduce payroll tax burden • Encourage more compliance

Increased inbound FDI will increase revenue but tax treatment of transactions is a “burning platform”

Change of control rules:

- Amend scope of “change of control” rules which might be interpreted to deem a disposal in circumstances not intended by Parliament

Taxation of disposal of shares:

- Re-introduce indexation of cost (adjust for devaluation)
- Corporates to pay at 10% rate (same as resident individuals)
- Enable tax free re-organization of companies within same group

Other matters included in TPSF & industry sector submissions

Financial Services

Income Tax

- Reinstate ability to claim relief for BoT provisions
- Consistent with the above, do not tax "interest in suspense"
- Exclude asset leasing companies from w/tax on interest/rent

VAT

- Exempt:
    - Financial services (nb excise duty already applied)
    - Insurance premiums (or make clear entitlement for input tax credit)
    - Credit guarantees related to financing to agriculture
    - Islamic banking products (profit arising from murabaha product)
    - Affordable housing (TZS 50m and below)
- Deem input tax on sale of commercial property of a debtor

Agriculture

- VAT – request for various exemptions
- Land rent – for agricultural land, reduce to TZS 400 per acre
- Abolish fire levy on farms
- Exports – simplify obtaining of permits; stop export bans
- Reduce multiple regulations

Extractive Sector - Mining

- Review impact of 2016 and 2017 changes on economics of projects

- VAT refunds – at December meeting, statement that TZS 463bn o/s for 4 major mining companies

- Legislative points:
  - Exclude application of section 56 ITA 2004 (“change of control”) to exploration projects
  - Ring-fencing not to apply to prospecting operations
  - Reverse input VAT disallowance for exporters of raw minerals (or have 60% threshold – like edible oil)
  - Revisit rules on fuel imports from neighbouring countries

Extractive Sector – Oil and Gas

- Recognition of tax clauses in Production Sharing agreements ("PSAs")

- Ring-fencing to apply to each PSA not each petroleum right

- Allow foreign currency tax return filing, assessment and payment

- Withholding tax – should not apply on services performed overseas

- A need for dialogue

Other

Tourism

- VAT on government fees
- Fast track "blue print" document
- December meeting quote: "Harassment" / "trust deficit"

Zanzibar

- Recognition of VAT on imports to Zanzibar through mainland Tanzania

Construction

- VAT - permit accounting on cash basis
- W/tax - Adjust deemed service component to 20% (from 40%)

Shipping Agents

- VAT zero-rating for supplies (stevedoring; commissions) charged to foreign ship owners

Gaming

- Increase gaming tax and remove tax on players

Income Tax

5% resident withholding tax on services

- Restrict scope of the withholding tax to original intention set out in Budget speech (briefcase consultants)
- Do not apply where fiscal invoice from VAT registered person

Tax credits

Reinstate previous practice (consistent with self assessment) of recognition of tax credits arising on filing of final tax return

Alternative minimum tax

Abolish

Non-resident withholding tax

- **History:** ITA 2004 introduced international best practice on source rules, but this has now been significantly reversed as follows:

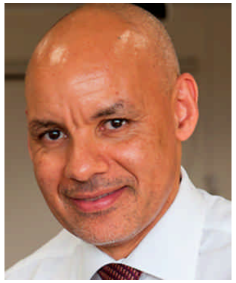
Finance Act	Nature of payment	Change made
2011	Payments for communication services	Introduction of words *"or outside"* → *"… transmission of messages by apparatus established in or outside the United Republic …"*
2016	Service fees	Change made that seeks to make the place of performance of services irrelevant for determining source of payments for services
2017	Insurance premium and proceeds	Source rules made extra territorial by extending their scope to risks insured in locations outside Tanzania

- **Implication:** the cost of doing business for Tanzanian businesses will increase as overseas businesses will simply gross up their charges for these additional costs which generally will not be creditable in their home jurisdiction.

- **Recommendation:** Revert to original ITA 2004 position. If not, then at least consider a reduction of the withholding tax rate e.g. 5% instead of 15%.

"Making the right decisions on tax policy is critical. But <u>a competitive tax system</u> is not only about the level of taxation and the policy choices that determine its incidence, it <u>is also about the quality of tax law and the way we make tax policy</u>": **David Gauke MP, Exchequer Secretary to the UK Treasury, in speech to the Centre for Business Taxation, Oxford University, 2 July 2010.**

PwC contacts on taxation matters



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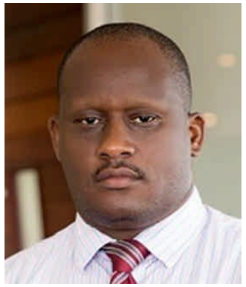

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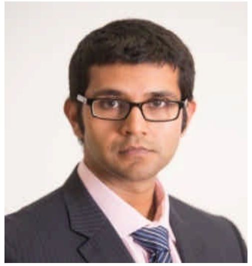

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