

**FINAL COPY**

---

**CONFEDERATION  
OF TANZANIA  
INDUSTRIES**

**STANDING COMMITTEE ON TAXATION**

**PRE-BUDGET SUBMISSION TO THE  
MINISTER FOR FINANCE**

**FOR THE FISCAL YEAR 1995-96**

**CTI'S MISSION STATEMENT OR FUNDAMENTAL PREMISE FOR THE  
1995-96 PRE-BUDGET SUBMISSION**

If all Imports into Tanzania are properly assessed for appropriate duties and related taxes, and if the current astronomically high levels of tax evasion thereon is effectively arrested, then the fiscal crises of the economy resulting in steep budget deficits, rising inflation, excessive use of Treasury Bills, disproportionately higher taxes on local production year after year, and mini-budgets can be avoided. Hence, this pre-budget submission deliberately focuses on this crucial problem. If imports are properly taxed, if known loopholes are plugged, the resulting increased revenues could lead to additional dividends such as proper establishment of the tax-base and aggressive taxation of all commercial and Industrial activities regarding indirect and direct taxes.

For example, imports currently ranging at 1.7 billion U.S. dollars, properly taxed at an effective rate of 50% could yield on a minimum basis 850 million U.S. dollars as revenue per year as against a current dismal level of about 100 million U.S. dollars as import duties in 1993-94.

**"WE HAVE THE CAPACITY TO GENERATE  
SUFFICIENT REVENUES TO COVER AT LEAST  
OUR RECURRENT EXPENDITURE IF ALL  
FORMS OF TAX EVASION WERE ELIMINATED"**

**LATE. HON. STEVEN KIBONA, M.P.  
- Statement made on 13th June, 1991  
while presenting the Budget for  
1991-1992.**

## TABLE OF CONTENTS

### CHAPTER I

<i>Introduction</i>	1
<i>The Current Economic Environment</i>	2
<i>Outlook for 1994-95</i>	4

### CHAPTER II

<i>Union Budgets as Instruments of Economic Reforms</i>	7
<i>The Budget for 1991-92</i>	7
<i>The Budget for 1992-93</i>	10
<i>The Budget for 1993-94</i>	13
<i>Mini-Budget of 6th January, 1994</i>	15
<i>The Budget for 1994-95</i>	16

### CHAPTER III

<i>The Impact of the Budgets</i>	18
<i>Stable Industrial, Monetary and Fiscal Policies</i>	18
<i>CTI's Budget Proposals For 1995-96</i>	20

### CHAPTER IV

<i>CTIS Priority Areas for Immediate Action for 1995-96</i>	29
---	----

### CHAPTER V

<i>Recommendations on Areas Which Need Attention</i>	45
<i>Concluding Remarks</i>	53

### CHAPTER VI

<i>Assessment of the Impact of the Proposals on Revenues</i>	55
--	----

### CHAPTER VII

<i>Management of the Economy</i>	56
----------------------------------	----

### Annexures:

---

# ***Pre-Budget Submission for 1995-96***

**CHAPTER I**

**INTRODUCTION**

## **INTRODUCTION**

It is customary for the representatives of trade, industry and commerce in most economies to submit their views and proposals to their governments every year on the eve of the preparation of the national budget. The Government Budgets have become the most powerful socio-economic instruments to bring out radical changes in any national economy, and their sway extends to areas beyond the traditional frontiers of macro-economics. The entire society of any nation responds to its government budget proposals in all its significant aspects.

As the Tanzanian economy is now in transition from a mixed economy to a marketised economy, the national budgets are all the more important as a means to promulgate and implement monetary and fiscal as well as industrial policies oriented to structural reforms and financial market reforms. The donors and external financial institutions are also deeply interested in the national budgets as instruments for policy reforms.

In this context, the Confederation of Tanzania Industries (CTI) is keen to play a positive and pro-active role in assisting the Union Government in the economic transformation of Tanzania. It is with this specific objective in mind that CTI is usually submitting pre-budget presentations to the government with a special focus on matters related to direct and indirect taxes. The need to collect proper duties and taxes on imports is the key point stressed in this year's submission.

During the past eighteen months, CTI has been privileged to make the following significant submission to the government:

- a) 3rd March, 1994: A detailed presentation to the Planning Commission.
- b) 7th March, 1994: A report of the Standing Committee on Taxation submitted to the then Minister for Finance.
- c) 17th May, 1994: Pre-budget consultations with the then Minister for Finance.
- d) 5th January, 1995: Presentation of a Report on relevant issues to Hon. Col. J.H. Kikwete, M.P., in particular on problems and matters remaining unattended since the previous pre-budget submission.

CTI is indeed gratified to note that its approach to the analysis of national economic problems is much appreciated. In particular, we are thankful to the government for the courtesy extended to the Governing Council of CTI during our periodic submissions and discussions. *We sincerely believe that all economic problems can be solved, if such a spirit of partnership and co-operation is continued in our joint efforts.* It may also be noted the members of CTI find the interactions with the government mutually rewarding and indeed encouraging.

In order to prepare the Pre-budget submission for 1995-96, the Governing Council of CTI constituted a *Standing Committee on Taxation* composed of the following experienced people who have an abiding interest in tax policies and administration.

Mr. A.J. Shah	Chairman
Mr. G.T. Chande	Member
Mr. A. Kange	Member
Mr. E. Mndolwa	Member
Mr. J.G. Shah	Member
Mr. M. Arthanari	Member
Mrs. C. Kilindu	(CTI) Secretary
Dr. Kipokola	Advisory Participant

The members of the Taxation Committee have consulted as many members of CTI as they possibly can and members of the general public interested in assisting the Committee were invited through the newspapers to offer their views and suggestions to the Committee. The Committee met on several occasions and had carefully considered all the previous government pronouncements and major reports of Presidential Commissions as well as media reports of interest to it. In particular, the Union Budgets for previous years and the pre-budget submission of CTI had been very professionally scrutinised. Hence, this year's pre-budget submission to the Minister for Finance, like the earlier ones is a product of painstaking research and careful mobilization of ideas.

## **THE CURRENT ECONOMIC ENVIRONMENT**

*The current economic environment in the United Republic is indeed serious.*

The Governor of Bank of Tanzania, the custodian of the monetary policy of the country has said, "recent economic indicators ... point to the fact that our economy is on the verge of entering into yet another serious crisis".

"The current economic performance shows that the crisis has not abated and that we are in a more dangerous position than ever before".

"The budgetary performance up to the end of December, 1994 suggests that the situation may worsen again by the end of June, 1995".

The above extracts from the deeply pessimistic assessment of the economic position and outlook by the Governor cannot but be noted by CTL. This "extremely serious economic situation occasioned by the ... mismanagement of ... fiscal and monetary policies has given rise to serious concerns about the Tanzanian economy".

The Committee did make an attempt to look at the performance of the economy during the recent years, through the traditional macro-economic indicators and evolved the following broad picture:

**G.D.P. at 1976 prices:**

1991	:	3.9%
1992	:	3.0%
1993	:	4.1%

Target:	per year.	
1994-95	:	5.0%
1997	:	6.0%

**Population:**

- 2.8% rate of increase per year
- 50 million by 2020
- doubling every 25 years.

**Capital Formation:**

- 3.5% drop in 1992
- 3.1% drop in 1993
- consecutive decline in Capital Formation.

Target for 1994-95 : Not readily available.

**Inflation:**

1990	:	19%
1991	:	21%
1992	:	23%
1993	:	23.5%

Target		
1994-95	:	10.0%, (Current actual: 41%)
1997	:	5.0%

**Money Supply:**

1992-93	:	29%
1993-94	:	23.3%

## Target

1994-95	:	18.0%
---------	---	-------

**Government Borrowing from Bank:**

1990-91-92	:	Nil
1992-93	:	33,126 million
1993-94	:	Not readily available

Target for 1994-95:

The Government will aim to refrain from bank borrowing.

**OUTLOOK FOR 1994-95**

During 1994-95, the figures available regarding economic performance are indeed distressing:

**Inflation:**

- Estimate for January, 1995 is at 41% as against 29% in December, 1994.
- The current runaway inflation has been caused by expanded money supply, as against external factors in the past.
- Expectations for the fourth quarter of 1994-95 suggest that inflation may climb even higher surpassing the high levels reached in the 1980s.
- The purchasing power of the national currency is put at only 22 cents now.

**Money Supply:**

The inability of the Bank of Tanzania to control growth of money supply is already well reported in the media. As the Governor of Bank of Tanzania put it, "while the Central Bank institutes measures to mop up liquidity in the economy, the Government's spending returns the money into circulation as fast as it is mopped up, thus to a large extent counteracting the efficiency of the monetary policy".



**Treasury Bills Rates:**

The rates are so high that it would appear that even their regular publication is deliberately withheld.

**Bank Credit:**

Commercial banks have been advised to stop leading, but continue to honour existing overdrafts.

**Interest Rates:**

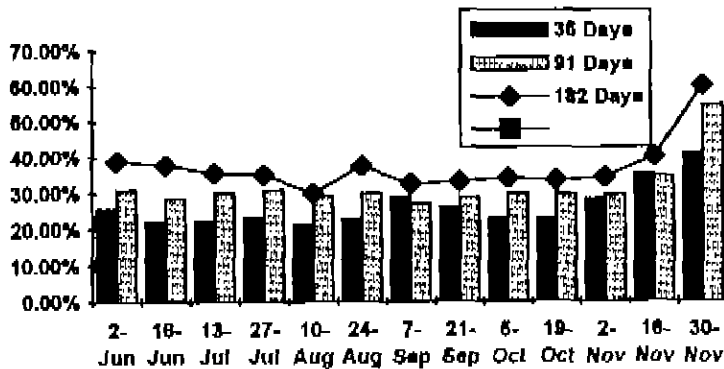
The following are indicative:-

Meridien Biao	:	45%
N.B.C.	:	33 to 39%
T.D.F.L.	:	29%
T.H.B.	:	33%
C.R.D.B.	:	40%

T-Bills (Over a 6 month period)  
June '94 - Nov '94

35 Days	:	25.87%
91 Days	:	30.69%
182 Days	:	36.21%

Treasury Bills Movement Over 8 Months



It is expected that the growth in G.D.P. for 1994-95 will be by and large negligible, if not negative. The factors such as power-shedding and closure of textile mills and lack of working capital from commercial banks, high rates of interest as well as unfair competition from imported consumer goods which bear lower than legitimate rates of taxes etc., have brought local industrial output to below average levels of capacity utilization.

*Unemployment has become an alarming problem. Texco, the holding company of parastatals in textile industry was placed under receivership in October, 1994 together with its 14 subsidiary companies throwing 25,000 people out of work. It is estimated that 40,000 jobs have been lost in textile industry alone. The government has also added to the unemployment figure because of planned retrenchments and parastatals going into liquidation. It is widely acknowledged that the present trade liberalization policy has had a serious effect on employment and its adverse impact is likely to get more pronounced.*

Arising from the above broad analysis, it is obvious that the current economic environment is not conducive to industrial development, in fact it has resulted in a chaotic situation that *period and project planning of any kind is difficult. An air of uncertainty seems to hang in the atmosphere and hence, the outlook for 1994-95 is rather predictably disappointing.*

---

# **Pre-Budget Submission for 1995-96**

**CHAPTER II**

**UNION BUDGETS AS INSTRUMENTS  
OF ECONOMIC REFORMS**

## **UNION BUDGETS AS INSTRUMENTS OF ECONOMIC REFORMS**

The Committee feels that since 1991-92, a commendable attempt has been made by the Government by availing of the opportunities for submitting Union Budgets geared to the implementation of structural reforms, financial market reforms and in sending the right signals to the economy. While the objectives of these reforms are to liberalize trade, marketise the economy and protect as well as promote local foreign investment, it is equally true that the unwelcome side-effects such as widening disparities in income distribution, mounting unemployment, spiralling inflation, closure of local industries, tax evasion at unprecedented levels as well as growing social unrest have become noticeable. It is therefore appropriate that the Committee looks broadly at the salient points of these recent reforms budgets as a prelude to attempt an analysis of the economic policies and scenarios relevant for the 1995-96 budget.

### **THE BUDGET FOR 1991-92**

The budget for 1991-92 presented by Late Hon. Steven Kibona, M.P. on 13th June, 1991, during the first Budget session of the National Assembly following the October, 1990 elections and at the beginning of the first year of the second term of the second phase, Union Government dealt with inter-alia.

- reduction of the budget deficit to 32.5% of total government expenditure,
- refraining from bank borrowing to control credit expansion thereby reducing money supply and inflation,
- gradual reduction of dependence on foreign loans and grants, particularly to finance the government budget, and especially recurrent expenditure,
- controlling government expenditure at sustainable levels,
- increasing efficiency in the public sector, and
- consolidating Economic Recovery Measures already in place.

Based on the appreciable realization that "a well-prepared budget supported with correct economic policies, is basic in ensuring the economic development of our country", and with a view to introducing underlying policies as instruments to manage economic development, Late Hon. Mr. Kibona had pointedly stressed, "we have the capacity to generate sufficient revenues to cover at least our recurrent expenditure *if all forms of tax evasion were eliminated*" (italics inserted by the Committee).

The Government took the bold step of lowering tax rates considerably with the hope that this would encourage tax-payers to voluntarily meet their tax obligations. Attainment of

economic growth and improving the living conditions of our people were the avowed aims of the then tax policy. The budget

- reduced to 12 months the period of retention of goods in bonded warehouses without paying duties,
- charged interest on duties paid in instalments,
- extended the due date of payment of monthly sales taxes,
- applied the hotel levy to all licensed restaurants,
- excluded beverages from sales tax on catering services,
- raised to U.S. \$500 the new import license goods,
- proposed pre-shipment inspection,
- exempted regional and district buses from customs duty and sales tax,
- permitted duty-free import of one motor vehicle by Tanzanians on their return from work or study overseas,
- waived security for taxes due on vehicles ex-PTA countries belonging to Tanzanians residing therein,
- reduced corporation taxes to 45% for resident companies and 50% for non-resident companies,
- *back-dated the period for allowable foreign exchange losses to 1st July, 1986,*
- abolished tax on interest income related to Government Bonds and Securities,
- increased Marriage and Children allowances to Shs. 100 and Shs. 50 per child per *month,*
- permitted Payroll Levy as an allowable expense,
- empowered Local Governments to collect Hotel Levy from Guest Houses,
- reduced Customs Duty on Sugar to 20% (However, the reduction did not follow with the collection of relevant revenues),
- removed sales tax of 30% on bread,

- abolished the tax on tractor tyres and coolers,
- adjusted tax rates on soft-drinks and beer
- implemented the advice of District Tax Advisory Committees and fixed flat rates of income tax on retail, milling, hulling, charcoal, timber and butchery businesses *located outside district headquarters and major trading centres,*
- applied the above concessional flat taxes to offset revenue gaps of District Councils,
- proposed new measures or higher tax rates regarding
  - Airport Service Charges,
  - Hotel Levy,
  - Stamp Duty,
  - Video Business Regulations, and
  - Satellite Dishes,
- levied a withholding tax of 7.5% on all insurance agents and 2% on building contractors and suppliers of goods and services to Central and Local Governments, which was targeted,
- changed to current year basis the taxation of profits of companies,
- introduced a new Car Benefits Tax at Shs. 80,000 per less than 2 ton vehicles of companies and parastatals, which would not be allowed as an expense,
- increased excise duty on petroleum products and import duties on textiles and garments,
- discontinued tax exemptions accorded to commercial parastatals, and

thus proposed a welcome balanced budget of Shs. 227,973 millions with Shs. 153,920 millions of recurrent revenue. When Late Hon. Kibona moved the budget -- a true master-piece in the art and practice of public finance, the nation together with the National Assembly confidently hoped for an early economic recovery.

### THE BUDGET FOR 1992-93

The budget for 1992-93 presented to the National Assembly on 18th June, 1992, by Prof. K. A. Malima, was addressed to the last session under the single-party constitution. It proved to be historic in many senses. Radical, political, economic and financial reforms were executed.

#### During 1991-92.

- the Public Corporations Act of 1992 redefined the "parastatal organization",
- the Parastatal Reform Commission was established,
- the Loans and Advances Realization Trust (LART) came into being,
- private banks were re-introduced with related financial institutions,
- foreign exchange ownership and transactions were liberalized and Bureau de Change were permitted, and
- trade liberalization, i.e., unrestricted imports of consumer goods and export of non-traditional items commenced.

The policy framework for the 1992-93 budget dealt with inter-alia.

- the Presidential Commission's Report on Government revenue and Expenditure (the Edwin Mtei Report),
- the Mtei Tax Reform Commission's Report,
- a transparent system to keep track of donor assistance directed to projects,
- the rationalization of development projects,
- the civil servant's emoluments and retrenchment, and
- the introduction of Stock Markets.

Prof. Malima stressed the need to protect local industries against undue competition as an additional objective of tax policies. The focus shifted to:

- reduction of tax rates,
- abolition and streamlining of tax remissions, and

- repealing of obsolete tax laws.

(Although the focus was legitimate, its implementation was ineffective)

Reduction of taxes led to:

- 0, 10, 20, and 30% rates regarding Customs Duties (the main purpose was simplification),
- 5% and 30% as marginal rates of income tax,
- exemption of pensions from tax,
- 35%(resident) and 40%(non-resident) corporation tax rates,
- abolition of all except the 20% rate for Excise Duty across-the-board and exempting sugar, soap, textiles, matches, mattresses and cement as well as mosquito nets from excise duty,
- total remission of taxes on all raw materials for local production,
- abolition of duty and sales tax on all trucks (i.e., new ones),
- reduction to 10% of duties and sales tax on used trucks and buses together with their spare parts, with larger trucks at 15% and smaller ones at 5%, respectively,
- abolition of tax and duty remissions granted to specific institutions, and
- removal of foreign travel levy and tax on share capital.

New sources of tax revenue introduced were:

- Airport Service Charges at U.S. \$20 for all,
- Port Service Charges at Shs. 300 for residents and U.S. \$5 for non-residents,
- Road Toll rates raised to Shs. 10,
- 20% Customs Duty on imported lubricants,
- Withholding tax on interest paid by banks at 10%(residents) and 15%(non-residents),
- Single point taxation of company dividends at 20%,



- Land rents raised by 20% and revision of land value in three brackets by 50 ,30 and 20, and
- Abolition of TX-ante motor vehicle registration.

Administration of taxes was rationalized by:

- Harmonized Commodity Description and Coding System, and
- Publication of PTA Tariffs.

*Prof. Malima's first Union Budget* was thus fixed at Shs. 353,605 millions, with recurrent revenues of Shs. 215,617 millions and a Negative Bank Borrowing or Deficit financing Refund of Shs. 10,000 millions.

### THE BUDGET FOR 1993-94

The budget for 1993-94 was presented to the nation on 17th June, 1993 by Prof. K. A. Malima, M.P., witnessed a deterioration of government revenues due to low water levels at the Mtera Dam really affecting industrial production, decreasing availability of foreign exchange and massive tax evasion by importers even when the pre-shipment inspection companies were setting up their procedures. Small lot goods, less than U.S. \$5,000 abounded to escape inspection and tax assessment. The Government had to plan to curb this loophole. Deficit Financing shot up to Shs. 30,570 million as against a saving of Shs. 10,000 million envisaged.

Obviously the 1993-94 budget aimed at reduction of bank borrowing and dependence on external aid, as well as broadening the tax base and strengthening or controlling collections.

Specific cost-saving steps included:

- retrenchment of civil servants,
- minimizing representation abroad costs,
- reducing expenses on utilities provided to Government
- reassuring provision of transport to employees,
- raising contribution for health care services, and
- auctioning of Treasury Bills and avoiding bank borrowing.

New revenue measures were:

- Expanding the local tax base,
- Improving revenue collection, and
- Establishing a Special Court for tax matters,
- Customs Duties; at 5, 20, 30, and 40%, and

- Sales Tax:

Reduced to 0, 25, and 30% (5% electricity, 15% telephone and hotels),

(Unfortunately, no concrete action was taken to make sure that the new revenue measures were effective)

- excise duty included in the Sales Tax base,
  - Preparing the foundation for introducing VAT in 1994-95,
  - Additional Road Toll of Shs. 5 levied on petroleum products,
  - Car Benefit Tax raised to Shs. 100,000,
  - A new Real Estate Tax on buildings in Cities, Municipalities, and Townships introduced at 1% if market value exceeds Shs. 20 million,
  - Removal of license fees on TVs and VTRs,
  - Increasing Satellite Dish Tax rates to Shs. 150,000,
  - Protection of local industries from goods imported pursuant to trade liberalization, namely:
    - bicycles,
    - sacks,
    - sugar,
    - tyres,
    - razor blades,
    - shoes,
    - cargo and passenger vehicles,
    - trailers,
    - water-pumps,
    - *corrugated iron sheets*,
    - paints,
    - cooking oil,
    - lubricating oil,
    - textiles,
    - liquor,
    - cigarettes, etc.,
- by
- (a) raising customs duties on similar/competitive imported goods,
  - (b) merging customs and excise duties in the computation of sales tax on imports,
- Subjecting all items imported in containers to pre-shipment inspection irrespective of value (this of course was implemented by mandating COTECNA and SGS), and,
  - Restricting exemptions of taxes on vehicles bought to government employees only.

The above measures culminated in a budget frame of Shs. 428,750 millions of which Shs. 235,591 millions were met by recurrent revenue and Shs. 39,392 millions by bank borrowing.

### **MINI-BUDGET OF 6th JANUARY, 1994**

The Mini-budget for 1994-1995 was presented on the 6th of January, 1994, as a solution to the grave Government Deficit problem realized in December, 1993. The Budget introduced new taxes, increased existing taxes and reduced exemptions.

Mini-budgets seem to have been the indicator for government hope for collecting quick revenues due to sudden short-falls and expanded recurrent expenditure. Some of the elements of the mini-budget were:

- re-introduction of import duty on raw materials at a rate of 10%,
- changed the basis for computation of sales tax.
- increase in Import Duty on the following items

<u>Item</u>	<u>Rate</u>	<u>New rate</u>
Bicycles spares	20%	40%
Pharmaceuticals	5%	20%
Fishing nets	5%	40%
Farm tools	5%	20%
Computers	20%	40%
Tractors	20%	40%
Pick-ups	20%	40%
Motorcycles	20%	40%

- Luxurious items did not see a drastic increase in duty. Items such as air-conditioners were taxed at 40% ; previously were taxed at 30%.
- *the mini-budget spared most food items and second-hand clothes, "mitumba".*

Although, the Mini-budget was supposed to have brought temporary relief to the Government, much of it did not materialize due to the short period within which the yearly budget was to be brought under for discussion. Besides, formulating mini-budgets was *probably not a very healthy indication to the economy to start behaving positively to help the Government.*

## **THE BUDGET FOR 1994-95**

The last budget, i.e., budget for the fiscal year 1994-95 presented by the Minister for Finance on 16th June, 1994 was mainly geared towards "**Revenue Collection**", although this expectation did not materialise. The Customs Department was directed to step up its surveillance activities with a view to netting illegal imports including those coming in through Zanzibar and curb tax evasion. The supplementary budget of January, 1994 was necessary to bridge the budget deficit through new taxes, raising of tax rates and reduction of exemptions. As against a targeted repayment of Shs. 39,392 million the bank borrowing rose to Shs. 43,473 million in December, 1993, signalling a grave situation. The objective for 1994-95 budget was therefore derived as a need to achieve a saving of not less than 1.5% in GDP in the recurrent budget and to reduce bank borrowing by Shs. 20,160 million.

The focus in the budget was:

- to broaden the sales tax,
- to adjust customs tariff and increase road toll rates, and
- to review tax exemptions with a view to abolishing and reducing some of them.

Accordingly, the following measures were introduced:-

- Sales tax on services of Building Contractors, Electrical Contractors, Engineers, Accountants, Lawyers, Auctioneers, Consultants, Clearing and Forwarding Agents and Garages, Tour Operators, Laundry, Dry Cleaning and Photographic/Video Services, Physical Fitness Service Centres, Barber Shops, Hair Saloons, tailors, Secretarial Services and TV/Radio advertisements,
- Maximum Customs Tariff at 50%,
- Import duty on industrial inputs was reduced to 5%, a single duty rate of 10% was applied on human medicines and 40% was applied on wheat, wheat four, maize, maize flour and rice,
- A 5% duty on import of crude petroleum products, Road Toll was raised to Shs. 35 per litre of petrol/diesel, - Road License Fees was abolished,
- Many exemptions were abolished, reviewed, and procedures were tightened (As such nothing was done in practice),
- The exemptions under the Investment Promotion Act were drastically revised (otherwise the whole purpose of IPC would have been disrupted),
- The list of industries eligible to get IPC approvals was shortened,

- A 10% withholding tax discount on Treasury Bills was introduced in addition to provision for 10% withholding tax on Bank Interest,
- **Bonded Warehouses:**  
Applicable storage period was reduced,  
Food, medicines, textiles and beverages were not allowed in Bonded Warehouses (Again like others much of this was only in theory but was put to practise just recently. This assists in diminishing the use of transit, hence limiting tax evasion through transit), and
- A Tax Payer's Identification Number was proposed to be introduced.

The above budget proposals led to an expenditure level of Shs. 514,284 million, with a recurrent revenue of Shs. 329,258 millions and a Bank Borrowing saving of Shs. 20,160 millions.

---

# **Pre-Budget Submission for 1995-96**

## **CHAPTER III**

### ***Need for Stable Industrial Monetary and Fiscal Policy***

#### **CTI's Budget Proposals for 1995-96**

#### **- Arresting Tax Evasion and Improving Tax Administration**

##### **Framework for Actions**

- [A]      Indirect Taxes**
- [B]      Approach For  
Collection of  
Income Taxes**
- [C]      Efficient Tax  
Collection**

### THE IMPACT OF THE BUDGETS

From the foregoing review of budgetary policies since 1991-92 through 1994-95, it is that:

- taxation was based on a crisis management as against a policy-based approach;
- the see-saw witnessed in tax rates and mini-budgets have, neither helped the government nor the industry; tax evasion did cut revenues, and
- bank borrowing as well as inflation rose inspite of a desire to contain them.

### NEED FOR STABLE INDUSTRIAL, MONETARY AND FISCAL POLICIES

It is the considered view of the Committee that Tanzania is now fast becoming a Supermarket, Flea Market or Machinga economy clothed in the majority by Miti. National self-reliance, human dignity, pride and native solutions to economic problems etc., seem to have been abandoned in favour of policies conceived and delivered elsewhere and thrust on us. Nobody doubts the relevance of structural reforms, marketisation, elimination of market barriers, liberalization, financial reforms, establishment of private commercial banks as well as a Stock Exchange market and investment promotion. These measures did help certain economies to recover dramatically and to improve their balance of payments position. However, as economic reforms are double-edged swords, negative impact on the economy such as tax evasion on imports, conspicuously wide disparities in income distribution, social unrest, mounting unemployment, retrenchment of staff, closure of fundamental industries and spiralling inflation as well as budget deficits are causing grave concern. The economy seems to be moving helplessly, like a ship without a rudder.

The Government needs a clear vision. The nation has to do some harsh rethinking, decide on where it wants to go and what kind of future it wants to build. Without a vision, the leadership would operate in a policy-vacuum environment and posterity will pardon us. The Committee believes that in the following areas clear policies are a paramount necessity:-

- Industrial policy,
- Transparency in Government,
- Monetary policy aimed at Balanced Budgets,
- Rational Fiscal policies, and
- Discipline in tax collection.

The CTI Report on Industrial Policy submitted to the Government in March, 1993 "State of Tanzania Industries - An Overview and Prescriptions" addresses the need to revisit industrial policy issues and evolve pragmatic approaches. It calls for improvement in tax compliance by importers so as to provide a fair, level-playing



for and proper protection to local industries. A policy which favours imports of all items without a negative list, is bound to kill all domestic industries. For every job lost in Tanzania, 2 to 3 jobs are created in other countries because the market absorbs all types of consumer goods as long as the prices are affordable.

We believe that Tanzania should emerge as an industries-driven as against an imports-driven economy. Employment opportunities for Tanzanians should be increased and competition on a reasonable basis should be encouraged. If the market-price difference between properly taxed imports and *moderately taxed local goods* is around 10% and if all imports bear a reasonable rate as aggregate duties, then the local industries may be enabled. Moreover, in keeping with the principle of competitive advantage of nations, Tanzania's industrial strengths are to be identified and supported. Protection to local industries should be effective and not theoretical; luxurious consumer goods not in keeping with our stage of development should be grouped in a negative list and should be charged higher tariffs. Modernization of industries, updating of technology, foreign participation and improvement of quality should be part and parcel of an integrated home-grown industrial policy that is least detrimental to the welfare of our people and yet falls within the ambit of the underlying philosophy of structural reforms, marketisation and responsible trade liberalization. *Meaningful incentives are to be afforded to exporters. There should be a deliberate thrust on policies to enhance employment opportunities.*

Transparency and objectivity in the evolution and implementation of Government policies should be deliberately cultivated. A meaningful practice of regular dialogues with industry and commerce can prevent *tragic detours in policy*. The fact that participants of the industrial sector have better knowledge of the needs and improvements of their respective sector, they are in a better position to advice on what policy would be rational, objective and transparent. A partnership for profits, progress and prosperity between the Government and industry would be healthy and would pave the way for *appropriate identification of economic priorities.*

The Monetary Policy should be geared to balanced budgets and steady and balanced increase in money supply to facilitate the growth in the volume and velocity of transactions. Confidence should be restored in the banking system and *fiscal discipline ought to be stressed*. Private commercial banks should be encouraged to offer various maturities and fix interest rates in tune with market situations and contingencies. There should be strict control over the foreign exchange management practices of private banks. Perpetual dependence on new-revenue sources, i.e., external funds to meet the recurrent budget should be avoided.

The Fiscal Policy should be industry and social productivity oriented and not budget-deficit oriented. As was noted during the earlier review of budgetary practises, fluctuating tax rates and changing priorities from year to year cause *economic instability and distrust of Government's intentions*. For example, every year the Government desires to reduce bank borrowing but ends with larger and larger levels of deficit financing. Short-falls in tax collection are covered by levying more and more new or higher rates of taxes on local

goods and the resulting short-falls are met by deficit financing. With interest rates increasing due to inflation, the cost of finance to industry rises and credit is curbed. These debilitating factors are compounded by power rationing. It is therefore of paramount importance that fiscal policy and instruments of fiscal policy are manipulated in relation to a stable policy basis as against a crisis management basis. Mini-budgets should be avoided. The Government collects what it budgets, but it must budget for what it can collect with reference to the actual level of imports or local production. Consistency in rationalization of tax rates, be they direct or indirect should be aimed at, coupled with vigilant tax administration. Discretion based exemptions should be replaced by a policy of objective, transparent and productivity oriented allowances.

### **CTI'S BUDGET PROPOSALS FOR 1995-96**

Before proceeding to deal with the submissions for 1995-96, the Committee is duty bound to draw the attention of the Ministry of Finance to the need to revisit the **REPORT OF THE PRESIDENTIAL COMMISSION OF ENQUIRY INTO PUBLIC REVENUES, TAXATION AND EXPENDITURE** submitted in December, 1991, and continue the process of selective implementation of its accepted recommendations. The Commission has covered a vast area both in terms of concepts and practices. CTI on its part restricts its attention in its Budget submission etc., to immediate and concurrent areas in the light of current economic developments and priorities.

As mentioned briefly in the preliminary paragraphs on this report, CTI had submitted several significant and topical recommendations to the Government on personal and corporate taxes, customs and excise duties and sales tax, withholding taxes, VAT, Excess Profit Tax, Industrial cess, Building Levy, etc. It is seen that only one or two recommendations have been dealt with in the Budgets and the bulk of the relevant submissions are yet to be considered.

While the situation and contingencies prevailing at the end of 1994-95 fiscal year are significantly different from the conditions of earlier years, and the political realities of the first multi-party elections cannot be ignored, it is important to prioritise the relevant recommendations of previous CTI submissions, revisit and fine-tune them to meet current needs and discuss them. In addition, the Government must earnestly consider elements of 1991-92-93 budgets rationally and correct the short comings. Accordingly, the following priorities and related recommendations are submitted to the Government. It is our earnest hope that these would be acted upon.

The need to arrest tax-evasion and to improve the administration of taxes, both indirect and direct, particularly the proper collection of taxes on all imports, has emerged as the issue of paramount national importance. Unlike the earlier budgets which have touched upon, but not seriously tackled these two urgent issues, the 1995-96 budget should squarely address this super-priority area. Almost all the recommendations in this CTI

---

Memorandum are directly and indirectly geared to improve revenue collection by curbing tax evasion and imposing sanctions where necessary.

A structured and systematic approach is very obviously necessary if the pit-falls of the past budgets are to be avoided and a fresh approach is to be evolved to tackle the twin questions of tax-evasion and tax administration. While there are several priority and immediate action areas regarding which the industrial sector expects firm decisions and solutions in the forthcoming budget, CTI believes that it has a professional obligation to assist the Government in its efforts to improve revenues from taxation. Accordingly, before presenting the priority areas for immediate action, CTI takes the liberty to submit in the following paragraphs a conceptual approach or framework specifically directed to an efficient taxation and tax administration system. It may be noted that the framework proposed extends from the profile of industrial, monetary and fiscal policies analysed in the earlier parts of this submission.

## **FRAMEWORK FOR ACTIONS**

Pursuant to the conceptual or policy background presented in the earlier parts of this report, the following framework should be of interest.

### **A. INDIRECT TAXES**

CTI would like to submit a proposed Indirect Taxes Framework that will primarily enable in ensuing the elimination of all forms of tax evasion. The **Indirect Taxes Framework rationalizes the 3 components of indirect taxes namely, Import Duty, Sales Tax and Excise Duty through the categorization of items, in the following manner:**

#### **IMPORT DUTY SCHEDULE**

<b><u>Rate</u></b>	<b><u>Applied To</u></b>
5%	Basic raw materials and capital goods
15%	Intermediate products for manufacturing locally and spare parts
25%	All other imports (Excluding raw materials & luxury goods)
40%	Luxury goods ( <i>Prepare a Positive List</i> ) (discourage consumption)

A certain Minimum Specific Rate (evaluated on the basis of some form of unit of measurement), or a certain T. shilling value per unit of measure, should be applied whichever possible. It must also be noted that where the *ad valorem* rate is being applied, the resulting tax should not be less than the Minimum Specified Rate. Therefore, if someone tries to evade taxes, the individual will fall within the specified limits and not beyond it as is the case now. For example, the rates could be reflected in the case of "mitumba" and new textiles as shown in the annexure for new textiles.

Each CCCN number with yearly imports of more than 1% of total yearly imports or T Shs. 10bn/- will have a Minimum Specific Import Duty. This has to be item specific (Especially, for sectors where there is significant domestic production).

### **EXCISE DUTY SCHEDULE**

While the two purposes of all indirect taxes are to generate revenues and to protect local industries, as far as excise duties are concerned and in the Tanzanian framework of indirect taxes, their role is mainly to generate revenues. Therefore, these levies are *relevant with respect to luxuries*. Hence, either in relation to imports or local goods, items such as

- beer
- wines
- spirits
- soft-drinks
- cigarettes
- fuel

would fall within the ambit of excise duty structure.

Excise duty should be item specific on the basis of Minimum Specific Rates based on volume, number or weight.

### **SALES TAX SCHEDULE**

<b><u>Rate</u></b>	<b><u>Applied To</u></b>
5%	Essential items such as Medicines
10%	Mass consumption items
20%	All other consumer items
30%	Luxuries

A token rate of 5% should be applied as Sales Tax regarding items which are necessities and which constitute large percentage of total local production. As pricing is indeed an indirect and market efficient means of allocating resources, a very low rate of sales tax should be applied to encourage local production, decrease prices and ensure poverty alleviation. This is on the argument that basic commodities should be so supplied that in lieu of inefficient and difficult to administer subsidy systems, indirect tax components of the necessities, be they locally produced or imported should be affordable and acceptable. In addition, capital goods, raw materials, etc., should be charged a lower rate.

A Sales Tax rate of 10% would be appropriate for all mass consumption items, be they imported or local. For example, in the 1991-92 Budget sales tax on bread, tyres, coolers, etc., were reduced for the above reason. The items in this regard would include

- soaps
- bicycles
- sacks
- sugar
- tyres
- razor blades
- shoes
- cargo and passenger vehicles
- trailers
- water-pumps
- corrugated iron sheets
- paints
- cooking oil
- lubricating oil
- roofing nails, etc.

A 20% Sales Tax rate would be relevant for all other consumer items which would be a reasonable part of middle class consumption budget. Newsprint, paper products, curtain materials, window glasses, detergents, electrical fittings, audio and video items, etc., would fall under this category.

### **ANTIDUMPING DUTY SCHEDULE**

As the local markets in developing countries and in particular third world countries such as Tanzania are being exposed or opened for all kinds of imports under a trade liberalization policy, there is an emerging reality that the established and experienced industrial countries in Asia Pacific Region and in particular South East Asia find it extremely rewarding to resort to dumping, the unreasonable reduction of selling prices with the support of their governments in the form of export incentives and export credit at concessional rates.

This constitutes a challenge for poor countries which on the one hand are being urged by international agencies to liberalize trade and dismantle market-barriers, while on the other, face tremendous local pressure to provide enhanced employment opportunities for their growing adult population through efficient management of their competitive advantages be they in agriculture, processing cash crops, mining, large, medium or small-scale industries or services sectors.

The response for this challenge, fairly demoralising as it is now, has to be in the shape of an **ANTI DUMPING** duty structure. Its policy components are

- preventing under-pricing or deliberate cutting of rates by duties based on accepted standard international prices of the basic product content of an item, excluding factors such as distance, brand name or franchise arrangements.
- equalising price of imported goods with local industries to operate in a level playing ground.
- reducing or minimising indirect tax burden on local industries, with the awareness that there is a deliberate trade-off between encouragement to local industries and fall in potential local tax revenues, in conjunction with the above two offensive or tactical responses to perceived and proven pressures in the market place.

The duty charged in this regard in relation to certain items would be equivalent to the concession given to exporters in the respective home countries of the dumped products, assuming that a floor price or an international standard price of the product content is at first established.

The triggering mechanism in this connection would be complaints from the affected local industries together with a supporting and established case based on costs, prices and duties as well as subsidies.

Needless to add, we must ensure that a judicial and effective arbitration arrangement should be implemented in these cases.

### **PTA TARIFFS**

These must follow applicable percentages based on the timetable of reduction already agreed, i.e., 30% of national tariffs.

It must be reciprocal in that it must apply to imports from countries which also give our country the *same treatment*.

Non-tariff barriers (NTBs) must be considered as a response to countries creating hurdles to our exports.

*Competitive Import Tariffs must be in place for industries regionally (particularly PTA countries).*

Anti-dumping duties also must apply as for imports from other sources, as discussed above.

### **REGISTERED DEALER CERTIFICATE (RDCs)**

Procedures need to be streamlined for automatic issue or renewal. To enable better control over this, concurrent audits and delink audits from issue of certificates is necessary. Therefore, we must have a system in place for the auditing function to be carried out. Any misuse and abuse of such a facility must call for penalties.

RDCs must be issued to bonafide industries only (Industrial License IPC Approval if applicable) with physical location and actual operations duly shown in the Certificates in a verifiable manner. While there is considerable scope to improve the RDC system so as to prevent its misuse, a proper Value Added Tax system would be a better arrangement. Hence, until such a comprehensive Value Added Tax Scheme is introduced RDCs may have to be employed.

### **B. APPROACH FOR COLLECTION OF INCOME TAXES**

Four approaches are recommended; all underlie the concept of having a tax file that will maintain records of every tax payer within the four categories specified:

#### **(a) Informal Business**

- These should pay a Business Licence Fee upon which,
- a tax file will be opened, and
- as a tax incentive, the business will be provided with modest, i.e., flat amounts of taxes and concessional credit.

#### **(b) Small Scale Service Business (businesses defined as having turnover of less than Shs. 50 million/year).**

- These should pay a Business License Fee upon which,
- a tax file will be opened, and should also pay
- fixed annual income tax payable in 4 instalments (March, June, Sept, Dec).

#### **(c) Organized Business (Large Service and Production oriented companies) *These organizations will be defined by their turnover.***

- These should pay a Business Licence Fee,
- open a tax file, make necessary returns and provisional assessments, and pay tax based on provisional returns in 4 instalments,
- yearly assessment of tax to derive a credit or debit balance of net dues.

Under such an arrangement, it becomes necessary to ensure that IPC companies are automatically exempted. Companies with tax losses get write off until tax losses are covered. This framework assumes that proper books of accounts are maintained, and



audited. Also, contractors and consultants implementing projects financed by donors and international agencies should be required to pay proper local taxes on their receipts in Tanzania.

**(d) Government Revenues, Non-Bank Borrowing and Budget Deficits**

The application of the framework and the implementation of the suggested approach would improve total revenue collection in the next 6 months. It is evident that the revenue collected will be applied towards Government expenditure. However, due to lack of revenues collected the Government obviously resorts to bank borrowing leading to an exhaustion of borrowed funds. In order to finance the borrowing, Bank of Tanzania either prints more money (increasing inflation) or sells T-Bills to the public at rates that incapacitate the Bank from actually being able to return the amount on time if a group of investors were to ask for it. Instead of going through this vicious cycle, CTI submits that it is appropriate first to collect due tax revenues and then look for options in the banking environment. What has happened is a parallel deterioration of the banking and the revenue collection systems. The framework will provide a rational distribution of taxes and if applied and implemented properly, will aid the Government in collecting higher revenues. With eventual use of the Framework, the Government's dependence on bank borrowing will diminish as revenues will be sufficient to cover recurrent expenditures. With bank borrowing declining on the part of the Government, interest rates will automatically drop thus paving the road to a manageable situation.

Regarding the excessive use of Treasury Bills carrying steep rates of interest, CTI feels that a liberal use of such a measure would result in piping back money supply into the economy at enhanced volumes precipitating inflation and further problems. The Government should take proper advice from experts in this field and possibly substitute these with long term instruments with inflation adjusted interest rates and capital values, -- designated in stable currency terms.

**C. EFFICIENT TAX COLLECTION**

An important aspect of the framework and the above approach comprises the existence of a good collection mechanism with strict penalties for compliance to increase. The above framework will be better enhanced through penalties as described :

**STRICT IMPOSITION OF PENALTIES & APPEAL PROCEDURES**

Any attempt at evasion must result in immediate 100% tax collection and 100% penalty by the Commissioner. All culprits caught must thereafter be taken to court and prosecuted.

A second offence must result in withdrawal of business license and imprisonment. Directors and shareholders of companies with a record of continuing offences must also be barred from starting new businesses.

Strict imposition of sanctions must go hand-in-hand with the rationalization of taxes. Instead of many tax laws and tax rates, the objective should be to have few taxes, define their basis and implementation without ambiguity, eliminate the scope for subjective decisions and make room for objective, transparent administration coupled with the levy of equally well-defined penalties and penal procedures. A Special Court should be established as proposed by the Government earlier, in addition to proper appeal procedures to handle tax disputes expeditiously.

---

# **Pre-Budget Submission for 1995-96**

## **CHAPTER IV**

### **PRIORITY AREAS FOR IMMEDIATE ACTION**

- 1. Duties and Taxes on Imports and Revenue Collection from Imports**
- 2. Controlling Tax Evasion on Imports**
- 3. Controlling Tax Evasion Through the Zanzibar Route**
- 4. Control of Own Funds Imports**
- 5. PTA Tariffs**
- 6. Withholding Tax on Payments for Goods and Services**
- 7. The Specified Buildings Tax**
- 8. National Investment Promotion and Protection Act (NIPPA)**
- 9. Power Shedding - Need for Tangible Actions**
- 10. Industrial Cess**
- 11. Employment of Expatriates**
- 12. The Duty Drawback Scheme**

**PRIORITY AREA FOR IMMEDIATE ACTION      No. 1****DUTIES AND TAXES ON IMPORTS AND REVENUE COLLECTION FROM IMPORTS**

The Committee has highlighted in the earlier parts of this paper the "tinkering" approach made by the Government to reduce Customs Duty, Excise Duty and Sales Tax on selected items during some years, only to reimpose the same at higher rates in subsequent years or through mini-budgets. The net result is an amorphous set of taxes, structures and levies which is neither clear nor objective. It is felt that the historic rates geared to restrict imports, penalize imports and encourage all local industries, have to be restructured pursuant to trade liberalization and in the light of a rational industrial policy.

As discussed earlier under the suggested Framework, the objectives must be sharpened and defined regarding industries, trade, imports and exports. As Tanzania cannot march alone in the African Continent, the objective in these areas must be balanced with those in the PTA or COMESA group of nations. Lastly, the international trade and tariff arrangements and quota systems must also be taken into account. We believe, that once the import policy on the above lines is well defined, then the corollaries of taxation policies regarding taxation of imports, i.e.,

- protection of local industries,
- raising revenues for the Government, and
- preventing excessive consumption of imported luxurious goods that are not in conformity with the cultural and developmental needs of the present day society,

will be readily grasped and beaten to shape. On the other hand, if every year, the Government defines its expenditure budget, realizes its limiting factors such as bank borrowing and external funds and then endeavours to tax imports and local output just to bridge the gap, then that will indeed tantamount to putting the cart before the horse. Besides, an economy cannot be run on a trial and error basis. It requires sustainable policies that are followed objectively and rationally.

Hence, it is wise to approach the taxation of imports and arresting tax evasion regarding imports in a fairly integrated and rational manner. The following paragraphs are expected to be viewed in the above light or premises.

Revenues collected by the Government are automatically related to three factors, namely:

- a. **tax base i.e., - level of imports and level of local industrial output as well as taxable incomes**
- b. **rates of taxation: indirect - import duties and sales tax, and**
- c. **tax collection efficiency/tax paying behaviour.**

Regarding the tax-base, the volume of imports into Tanzania have increased substantially since trade liberalization. The current level of imports is estimated at U.S. Dollars 1.7 billion, though reliable statistics on a year to year basis are not readily available. A broad survey would suggest that about 80 to 85% of the taxable goods in the market are imported ones as against 15 to 20% of local goods.

Looking at the rates of indirect taxes on imports, it is submitted that while compliance rate is less than 5 to 7.5%, the rates of taxes levied are extremely high.

For example the rates of taxes on selected consumer goods are as follows:-

<u>ITEM</u>	<u>MARCH 1993</u>	<u>MARCH 1994</u>
Khanga	110%	136%
Sugar	21%	75%
Cooking oil	44%	82%
Television	114%	136%
Beer	114%	136%
Wheat flour	44%	69%
Soap	92%	82%
Tyres	32%	75%
Radios	92%	82%
Garments	110%	136%
Footwear	44%	82%

(1 Sh. 105/Ltr)

*It is to be noted with concern that these theoretical rates of taxes which are high are themselves leading to tax evasion, corruption, inflation, and poor discipline in the market regarding taxation policies of the government. As local industries cannot compete with imported goods because of high sales tax levied on them and tax evasion on imports, no practical purpose is served by the aforesaid high tariffs.*

**It is therefore recommended that a proper rationalization of taxes on imports is of great importance.**

Furthermore, the three components of indirect taxes on imports, namely, import duties, sales tax, and excise duty need to be reviewed and rationalized in keeping with the

objective of encouraging better tax compliance and ease of tax assessment and collections. The review must lead to a concrete framework as discussed earlier that will be sustained through time. It is believed that rationalized review of reduced taxes and conducive implementation of collection procedures will increase compliance and revenues. The higher the taxes the greater the temptation to turn to illegitimate imports such as smuggling, the Zanzibar Route and misuse of transit exemptions. The land borders with neighbouring countries being so vast, policing to prevent smuggling is almost an impossible task.

- As long as the duties are high, there will be direct or indirect tax evasion, because the current market prices cannot bear such high taxes.
- Furthermore, the failure to collect any taxes because of tax evasion prevents fair competition with local goods which bear high taxes.
- A level playing ground is to be created if local textile industry is to survive.
- Tax compliance should be improved and a rationalized tariff should be implemented.

A balance is required between rationalized tax imposition, its implication on local industries and the collection of due revenue.

In order to implement or apply the above concepts and suggested broad guidelines regarding certain specific items, the Committee prepared separate proposals for duties and taxes. The items are listed below. The details of rates (eg:- for textiles), etc., incorporated in the annexures:-

- a) Textiles
- b) Sugar
- c) Cooking oil
- d) Wheat
- e) Beer
- f) Paints
- g) Soaps
- h) Building materials
- i) G.C.I. sheets
- j) Batteries
- k) Motor vehicles
- l) Computers

It is hoped that this case-by-case analysis will lead to pointed discussions and improvements.

**PRIORITY AREA FOR IMMEDIATE ACTION**      **No. 2****CONTROLLING TAX EVASION ON IMPORTS**  
**PRE-SHIPMENT INSPECTION AND DUTY & TAXES ASSESSMENT**

The Government has already taken steps to collect taxes due on imports but not collected earlier. Together with this action, a campaign has been launched to improve tax collection. As the Honourable Minister has recently announced, these measures are seen to be taking effect. *CTI had over the years repeatedly pointed out that if tax compliance regarding imports is ensured, then balancing the Budget should be fairly easy.* There would be no need to resort to mini-budgets and charge more taxes on the dwindling local production.

**Routes/Channels of Tax Evasion**

The traditional loopholes for tax-evasion in this regard are:

- Bonded Warehouses,
- Transit goods,
- Under valuation and applying deliberately lower rates of duty,
- Lack of Minimum Specified Rates, and
- The Zanzibar Route

**Under Valuation and Assessments**

Regarding the arrangements to curb under-valuation and duty assessment as well as collection, Dr. Rashidi, the Honourable Governor of Bank of Tanzania has asked representatives of industry and commerce to submit their views about the desirable procedures and controls.

**Minimum Specific Rates**

CTI has responded by requesting the reintroduction of the Minimum Specific Rate concept, the use of which was terminated in 1992. The concept would help to standardise dutiable values or value based on some unit of measure, whichever is higher. As a result, better duty assessment and under-valuation will be possible and minimized, respectively. The Committee would like to comment that irrespective of whether contracted firms like COTECNA or SGS, or the Customs Department itself carries out the tasks involved, what is important is that pre-shipment and post-shipment inspections and assessment must be foolproof and transparent. At the moment only 40% of all goods entering the port are undergoing inspection while the other 60% find their way through the loopholes such as the Zanzibar Route. SGS or any contracted PSI firm must be given full mandate without the interference of Customs Department to plug the problem of loopholes. All containers whether of "Own Funds" or not, should be checked and charged appropriately. As highlighted earlier, transparency must be ensured by applying relevant rates, publishing up-to-date tariffs annually, and applying Minimum Specified Rates wherever possible. Rates

in neighbouring countries should be used as a model for benchmarking. Statistics pertaining to values of imports under various categories and taxes collected therein should be published. All discretionary exemptions ought to be abolished.

### **Procedures for Inspection and Assessment**

In addition, to enhance the functions of the PSI companies like SGS (and COTECNA earlier), the procedural aspect needs to be streamlined and better understood by players who interact with these companies. Unfortunately, the procedures have been quite cumbersome due to some incompetencies which require rectification. Due to the delays caused through these inefficiencies, it is very possible that importers try to avoid the procedures through foul play with Customs and as a result get away with tax evasion. However, those with good intentions are unnecessarily penalised for the inefficiencies mentioned above.

## **PRIORITY AREA FOR IMMEDIATE ACTION**      **No. 3**

### **CONTROLLING TAX EVASION THROUGH THE ZANZIBAR ROUTE**

The Zanzibar Route is still the biggest loophole. On account of ambiguities, within the Union, two different rates are applied in the two different territories of the Union. Certainly, if equal rights are to be enjoyed by all the People, then there must be equal or uniform tax rates and policies throughout the Union. The Honourable Members of the National Assembly in the session at Dodoma (February, 1995) have raised serious concerns that this loophole is depriving the Treasury of substantial tax revenue per day. The correctness of their estimates of tax evasion apart, the Committee is bound to submit that this issue has been deliberately neglected due to its sensitive implications. Nevertheless, its political sensitivity is now an apparent economic reality in the sense that it hurts honest tax-payers and industries who are made to carry the cross for others. It is our sincere hope that in the 1995-96 Budget, the Government will deal with this loophole firmly.

- (a) Entry points for Zanzibar goods should be gazetted and records kept clearly showing the value of Zanzibar Route goods and appropriate taxes collected on them.
- (b) All Zanzibar Route goods - re-export goods reaching Mainland should be assessed for full Union Government import duties and taxes and credit should be given for any import duties and taxes assessed and collected at the Zanzibar Ports.
- (c) Rigorous pre-shipment inspection of the above goods must be enforced similar to all other goods destined for the Mainland in accordance with the Union Government pre-shipment inspection requirement.



**PRIORITY AREA FOR IMMEDIATE ACTION      No. 4****CONTROL OF OWN FUNDS IMPORTS (OFI)**

The imports under the "Own Funds" scheme should be (a) streamlined, (b) paid for through official channels and (c) taxed properly.

*This scheme was first introduced in 1984 for the sole purpose of providing for acute shortages of consumer goods in the country. It was intended as a short term measure to allow Tanzanians with funds abroad to utilise them to bring consumer goods into the country without any questions being asked. However, the intention being good, procedures with respect to collection of relevant revenues from the importation of these goods were temporarily overlooked. Also, the concessional approach to such imports has outlived its purpose. The Presidential Pardon as it were extended to such imports should now be withdrawn. The Authorities and the Bureau de Change should be entitled to ask for the source of funds if any import is marked as being financed by "Own Funds".*

In order to incorporate a penalty or disincentive applicable to such "Own Funds Imports", because of the chances of tax evasion thereon, the Government should impose an ad hoc or special purpose 10% (Own Funds) tax thereon. Such a tax would apply over and above import duties and taxes. It may be noted that the cost to the economy arising out of such a tax measure in terms of either smuggling or reduced flow of goods would be well worth the while from the point of long-term impact on revenue collection.

The sector using this scheme has the potential to enhance tax revenues due to two aspects of the OFI cycle that have either been overlooked or simply avoided. The OFI cycle consisting of two aspects, import-side and export-side, have not been studied/analysed in detail so far.

The buyers purchase goods with either their own funds or borrowed funds and sell the goods in T. Shillings. The T. Shillings are then exchanged for U.S. Dollars in the parallel market. This is referred to as the import-side. The Dollars are purchased/supplied from smuggled/undeclared exports. The exporter collects U.S. Dollars externally and exchanges them for T. Shs with an importer of "own funds", thus making up the export-side. Therefore, the money remains outside of the banking system. In order to drive this heavy source of fund into the banking system, it is recommended that the Bureaus de Change be brought into the picture. The Bureau rates vary about 2% from the parallel market rate, hence making it possible for the following suggested scheme to work.

The scheme would involve, the importer of "Own Funds" to arrange for goods to be imported into the country using "Own Funds" or supplier's credit, but is officially required to pay through the Bureau. Thus, bringing all documentation through the banking system with records. Purchases become recorded and sales will comprise of full values and will also be recorded. At present "Own Funds" importers do not keep any records and escape all duties and taxes.

This scheme will work after all taxes are rationalized and the whole tax structure is additionally rationalized. The scheme also requires the streamlining of the "Own Funds Scheme". Although this will not reduce the smuggling of gems and gold, it will help to reduce capital flight. There might be fears that this would stop traders from importing altogether. Again this depends on the tax regime and the business environment, in that if positive signals are seen, then it will counter any fears felt by the importers. The proper tax assessment of "Own Funds" imports is absolutely necessary. Any concessions given to such imports would perpetuate massive tax evasion on imports and should be looked at in that light.

## **PRIORITY AREA FOR IMMEDIATE ACTION**

**No. 5**

### **PTA TARIFF**

**PTA tariffs should be applied as discussed regarding COMESA arrangements, i.e., 30% of national tariff must be gratified and applied universally. Delay in rationalization of tariffs leads to tax evasion as it is neither possible nor practicable to prevent illegal imports or smuggling in landlocked countries. High taxes on imports from countries with which Tanzania shares land borders are always more difficult to administer than taxes on goods from overseas countries.**

Unless PTA rates of import duty are applied, legal imports would not be able to compete with smuggled imports. Since Tanzania is already a PTA member state and it is virtually impossible to stop smuggling of consumer products from neighbouring countries with our large and porous borders, it is imperative that PTA tariffs are ratified on an immediate basis. This will open up a new era of business where overtime smuggling could be restricted to border areas only and major part of our imports from neighbouring PTA countries could be through formal channels involving payment of all due taxes.

If revenue concerns become critical factors in regard to the application of PTA tariffs immediately, the Government may proceed selectively and cautiously. Supply elasticities may also have to be considered.

**PRIORITY AREA FOR IMMEDIATE ACTION**      **No. 6****WITHHOLDING TAX ON PAYMENTS FOR GOODS AND SERVICES**

A withholding tax at 2% was introduced in the 1993-94 budget with the specific intention of applying it to all payments by Government Departments and parastatals including those parastatals incorporated as Limited Companies. From the facts available it is clear that the Government did not intend to extend this type of withholding tax to the payments made by all Limited Companies in the private sector. It has already been submitted to the Government through research based papers that this kind of tax was introduced in developing countries such as India mainly during the years of massive development plan expenditure by the respective governments purely because of their income to taxes. Extending such an improvised measure geared to a specific purpose to all payments by all Limited Companies is an unwarranted and ill-considered move with grave consequences on trade and industry.

For example, loss making companies and IPC approved enterprises need not pay taxes for certain years. Hence, compelling them to forego 2% of their gross revenue makes no sense. Similarly, all tax payers are required to pay Advance Taxes in instalments on their provisional income. How can a 2% withholding tax co-exist with an Advance Tax Collection scheme? It may be noted that a withholding tax cannot coexist with a system of quarterly advance tax collection method that is already in use, unless withholding taxes are adjusted against advance tax instalments. It is apparent that any attempt to levy a withholding tax and an advance tax is irrational and unjustifiable. Moreover, numerous administrative and practical problems arise when a 2% and across-the-board tax is deducted on gross revenue while sales tax is also assessed and collected on revenues of industry. Lastly, this type of problem pertaining to the unwarranted withholding tax cannot be dealt with on a discretionary or case by case analysis as the Commissioner of Income Tax is attempting to practice. By now, it has already been established that as a matter of principle all discretionary exemptions should be abolished.

Hence, it is submitted most earnestly that the best way out is for the Government to suspend the implementation of the withholding tax till the Revenue Board can consider the pros and cons of the matter, take professional advice and come with an appropriate alternative such as a comprehensive Value Added Tax (VAT).

In the meantime, CTI has done its best to seek professional advice on this issue both from the Attorney General's Chambers and also by approaching the Court through a case which is being taken up.

**PRIORITY AREA FOR IMMEDIATE ACTION      No. 7****THE SPECIFIED BUILDINGS TAX**

The Specified Buildings Tax was introduced by the Government under the Specified Buildings Tax Act, 1993, passed by the parliament during its budget session in June, 1993. The Act became effective from 1st January, 1994. The Act requires that owner of every property (other than those exempted under Section 12 of the Act) the value of which is over Shs. 20 million, to make a declaration and pay a tax called "**SPECIFIED BUILDINGS TAX**" at the rate of 1% of the value. In 1994, the Minister for Finance amended the Act by adding Factory buildings to the list of exemptions and setting a minimum threshold of Shs. 20 million as allowable minimum limit, meaning that tax would be liable to be paid calculated on the amount in excess of Shs. 20 million.

It is a known fact that with depreciation of the Tanzanian currency and the very high inflation rate that has existed over the last ten years, the value of most properties in Tanzania would be over Shs. 20 million. Buildings that have been built over many years, the cost of which may have been a few hundred thousand shillings may now be worth Shs. 20 million. Income earning buildings should be distinguished from residential buildings in any valuation.

There are legislations by virtue of which every property owner pays Land Rent and Service Charges. Over and above this, the Local Government Authorities also collect Property Tax of significant amounts. Local Government Authorities inspite of collecting Property Tax have failed to provide amenities and services. The state of the City of Dar es Salaam is a clear example.

Shelter is a very basic and essential need. People build houses for their own shelter and many owners may be retired persons or pensioners. Furthermore, earnings in Tanzania in relative terms have declined.

In view of the above, the Specified Buildings Tax is unjust and inhuman and is an additional burden to the tax payer. Recent statements by the Commissioner of Income Tax in the press mentioning valuation by experts under Urban Properties (Rating) Act of 1987, to be a base for valuation for the purpose of Specified Buildings Act are ultra-virus the proviso of the Specified Buildings Tax Act on the following grounds:

- a) Every owner of property worth over Shs. 20 million was required to make a declaration in January, 1994, and such a declaration is valid for 3 years as stipulated in the Act.

- b) Almost all valuation by experts on behalf of the City Council of Dar es Salaam are in dispute because of unjust and over valuation and the validity of valuation is only for the purpose of rating by Local Authorities.

In view of the above and to protect basic human rights, the Committee feels that the Act should be repealed with immediate effect and owners of property should be exempted from the Specified Buildings Tax. The Government must ensure that revenue collected from Land Rent and Property Tax should be made available to maintain the basic existing infrastructure for the benefit of the tax payers.

**PRIORITY AREA FOR IMMEDIATE ACTION**      **No. 8**

**NATIONAL INVESTMENT PROMOTION AND PROTECTION ACT (NIPPA)**

During the last Budget session, the then Hon. Finance Minister gave a rude shock to the community of industrialists, investors, and international agencies by watering down the incentives granted under the National Investment Promotion and Protection Act and radically disturbing the procedures to get exemptions. While part of the extensive damage was repaired by the Government, leaders stepping in at the behest of CTI to reassure the investors that exemptions granted will be honoured, it is still unclear whether the IPC and the Treasury have sorted out the procedures. Pursuant to the previous cold war of sorts between these arms of the Government, the prospective investors and those who are establishing approved projects need to know clearly who would do what, how and when. Lastly, it is the Minister for Planning who dealt with the Investment Promotion Policy and Procedures earlier, and not the Minister for Finance. We hope that there will be better coordination between these Ministries in the future. The Investment Promotion and Protection Policy should be revisited and instead of a straight five year tax holiday for all approved enterprises an appropriate formula such as either a five year tax holiday or tax exemption equivalent to 100% of investment plus market interest thereon, whichever is lesser should be applied.

As raw materials are already excluded from the IPC exemptions, if a meaningful duty of 5% only is applied on imported plant and machinery the investors would be satisfied. Transparency and efficiency are necessary in granting investment incentives. Capital goods which are locally purchased should be exempt from taxes, similar to capital goods imported by enterprises holding IPC certificates.

Many investors are unhappy about the manner in which IPC approved exemptions were disregarded because of the intervention of the Ministry of Finance. **The Investment Promotion Policy and Legislation must be honoured in their totality because they enshrine a national commitment. IPC must be fairly autonomous.**

Furthermore, now that the country has had some experience in promulgating and implementing Investment Promotion and Protection policies, a comprehensive review of the area of economic policy would be timely. In such a study, CTI should be involved and an attempt to consider the "promotional" aspect of IPC as an entity apart from its "administrative" and "regulatory" roles should perhaps be encouraged.

WITHHOLDING TAX ON INTEREST REGARDING FOREIGN LOANS/SUPPLIER'S CREDIT

Section 22 of the National Investment (Promotion and Protection) Act, Act No. 10 of 1990.

Section 22 exempts the whole of the withholding tax in respect of approved enterprises as "from the operative date" and within the initial period of five years. Accordingly, approved enterprises are not required to pay withholding tax on interest regarding foreign loans/supplier's credit during the initial five years, irrespective of how the credit facilities are designated.

However, the Income Tax Department is demanding withholding tax on interest regarding foreign loans/supplier's credit obtained prior to the date when the National Investment (Promotion and Protection) Act came into effect, and on all interest payable prior to that date.

This is indeed an anomalous situation in that entrepreneurs who took the initiative and risks to attract foreign investment in the United Republic as loan capital, loans/supplier's credit even without any investment incentives, and regarding loans which are still outstanding as of the date when the Act came into effect, are being rewarded and appropriately recognized. If the policy of the Government is to attract foreign loans and capital, as it obviously is, then those who achieved this on their own at a time when the Government was unable to offer the acceptable investment climate deserve the extension of the same type of incentives as are now granted under the Investment (Promotion and Protection) Act. Hence, Section 22 of the Act should be amended to exempt retrospectively for five years the whole of the withholding tax on interest regarding foreign loans/supplier's credit outstanding on the date when the entity became an approved enterprise, or when the Act took effect, or from the "operative date", whichever is earlier.

**PRIORITY AREA FOR IMMEDIATE ACTION      No. 9****POWER SHEDDING: NEED FOR TANGIBLE ACTIONS**

Power shedding and dislocations in power supply have destabilised the industrial operations and disrupted the life of society in all walks of life. Entrepreneurs are frustrated, planners are confused, and investors are having second thoughts about new projects and expansions. Excessive dependence on cheaper hydro-power sources has amounted to putting all eggs in one basket. While the Government is dealing with this issue very seriously, it is submitted that tangible encouragement should be given to private initiatives to alleviate power shortages through viable arrangements to supply power to the grid and withdraw power from the grid on sound commercial principles. Excessive bureaucracy can stifle initiative and delay meaningful solution of the problem.

Power supply is fundamental for industrial growth. Without such infrastructural improvement, economic policy by itself would not be of any avail. CTI awaits bold initiatives in this regard in the forthcoming Budget.

**PRIORITY AREA FOR IMMEDIATE ACTION      No. 10****INDUSTRIAL CESS**

The Industrial Cess (Industrial Product Levy By-Law, 1993) is another area where immediate action is required. Fortunately, the courts have stopped other cases and have started considering issues pertaining to industrial cess.

The rates of industrial cess levied by the Dar es Salaam City Council are as follows:

<b><u>PRODUCT</u></b>	<b><u>RATES IN T.SHS.</u></b>
1. Wines and Spirits - 650 ml and above	20
2.       - do	10
3. All bottled and tinned soft drinks (290 ml and above per bottle)	5
4. Beers (Local) per bottle	20
5. Beers (Imported) per bottle	30
6. Corrugated Iron Sheets per foot	5
7. Asbestos Roofing Sheets per foot	5
8. Roofing Nails per Sq. Ft.	1

It has already been submitted to the Government through several forums that the above levy should be immediately withdrawn. It is totally an unorthodox method of raising revenue. It will retard the momentum of industrial growth in the country. The law in this regard is ultra-virus ab-initio. It is arbitrary and discriminatory. It is difficult to administer. It is an unnecessary burden. It will encourage illegitimate imports to easily penetrate the market. It leads to double taxation as excise duty and sales tax are also being levied on products. It leads to profit taking at the retail level, leads to drop in consumer demand, will result in lower volumes of output and an ultimate decline in revenues to the Treasury. In the light of the current level of tax evasion on imports, it will lead to unfair competition with imported goods. Coupled with several problems such as inflation, high cost of bank borrowing and inadequate working capital, the industrial levy becomes a totally unwarranted and unwelcome imposition on industries. The Committee wishes to respectfully submit that this arbitrary levy must be withdrawn immediately and a Finance Commission duly appointed by the Government should deal with the ways and means of sharing revenues between the Central Ministries and Local Authorities.

CTI is given to understand that the Government is already considering ways and means to collect an equivalent amount of revenue from a broad-based all inclusive tax or levy and use such a collection to appropriately supplement the budgets of the local authorities. CTI welcomes such an approach.



---

**PRIORITY AREA FOR IMMEDIATE ACTION**      **No. 11****EMPLOYMENT OF EXPATRIATES**

Competent human resources are imperative for the establishment and management of industrial and commercial enterprises. Where such resources are not locally available, it is customary in most countries to import human skills in terms of expatriate manpower. Alongside such a process or practice, it is also customary in developing countries to accelerate the development and training of local manpower. When such local manpower is available at acceptable cost and with expected competence, over time, the employment of expatriates will diminish.

Instead of allowing this logical process to take its course, if the Government intervenes as the National Board of Accountants and Auditors is apparently attempting to do by preventing the employment of certain expatriate accountants and auditors, either because of their national background or unrealistic assessment of the local demand for the availability of Tanzanian professionals or due to other reasons, the industrial development would certainly be affected. Furthermore, the whole idea of industrial development through investment promotions and related incentives is to give as free hand to investors in obtaining relevant inputs within the framework of national priorities. Hence, if IPC approved and other enterprises are prevented from employment of expatriates in general or those expatriates who are hailing from countries in the Asian sub-continent, such enterprises would not be able to go ahead with the implementation of their projects.

It is indeed the entrepreneur or employer who is the appropriate judge of the professional competence of the human resources - a government body cannot and should not be involved in this matter. Its role is to develop professional standards and enhance the competence of its members to such competitive levels that employers would find it unnecessary or expensive to look for competent manpower outside of the country.

The Committee is constrained to include this as a priority area for 1995-96, as it believes that a serious attempt is being made to deny or delay work permits to expatriate accountants because of the interference by the National Board of Accountants and Auditors. Instead of levies such as the Training Levy which were never utilized properly, the Government should support and encourage the local accounting profession to emulate the professional training standards and practices in other countries and assist industries. CTI has already appealed to the Prime Minister and the First Vice-President in this regard and reiterates the matter herein because proper financial management and effective tax administration go hand in hand.

**PRIORITY AREA FOR IMMEDIATE ACTION      No. 12****THE DUTY DRAWBACK SCHEME**

The Duty Drawback Scheme should be rationalized and made more efficient.

The Duty Drawback Scheme is simply taking funds generated from Import Duty collection to subsidise exports of prime products. Depending on the products produced and their relative importance to net foreign exchange earning capacity, the Board of External Trade (BET) with the approval from the Ministry of Finance disburses funds to the respective party(ies) in need. Additionally, such a scheme is meant to make local industries more competitive in the world market.

From a system perspective, there are in all five entities participating -- The Ministry of Finance, The Board of External Trade (it acts as an agent for MoF), the Exporter/Manufacturer, the Importer (who pays the duty), and external entities such as shippers/suppliers.

The basis on which the duty drawback is calculated is dependent on the type of goods manufactured (as mentioned above). Also, the percentages allocated to those products are based on the FoB value of the respective imports. The percentages vary from industry to industry, again depending on the relative importance of the product, and are revised depending on government revenue.

The Scheme requires that involved parties submit claims to BET with all forms of relevant documents. These include all documents for exports along with proof of receipt of remittances, i.e., export proceeds (so as to gauge whether the funds disbursed will bring net benefit to the country). The BET studies them and disburses funds accordingly. The Scheme has been very inefficiently administered.

There are two major problems in this regard:

- (a) Delay in remittances of funds. For instance, for one textile mill alone there are funds worth Tshs. 76 million outstanding over a span of 3 years, 1993 - 21 m, 1994 - 40 m, 1995 - 15 m, respectively. An exporter has to virtually beg for the refund.
- (b) Nothing is clear on documentation and no one knows the rationale of the scheme.

The others are:

- (c) Bureaucracy: The Board of External Trade can blame the Treasury. The Treasury can cite lack of funds as the reason. As a result the exporter is victimised.
- (d) With interest rates rising at 36% per annum, any delay by the Government means that the Scheme is being used to finance government operations at the cost of industry.
- (e) Duty Drawback has ceased to be an effective incentive. In other countries, more practical concessions and benefits are provided.

### Suggestions

- (a) The Ministry of Finance needs to be faster in its disbursement of funds. A follow up audit by the Government will assist the Ministry and BET to perform better and will provide better feedback for future disbursements.
- (b) The Scheme should be rationalized.
- (c) As a viable alternative, a 20% tax credit on export revenues should be given as an incentive to all exporters. Such a tax credit should be adjusted by exporters on a concurrent basis against any tax payable to the Government, be it sales tax, income tax, excise or import duties.

---

# **Pre-Budget Submission for 1995-96**

## **CHAPTER V**

### **RECOMMENDATIONS ON AREAS WHICH NEED ATTENTION**

- **Amendment to the Car Benefit Tax Act**
- **Income Tax**
- **Estate Duty**
- **Corporation Tax**
- **Capital Gains Tax**
- **Withholding Tax on Interest**
- **Excess Profits Tax**
- **Sales Tax**
- **Stamp Duty**
- **Training Levy**
- **Industrial Buildings Allowance**
- **PAYE Deductions**
- **Assessment of Import Revenues**
- **Abolition of Discretionary Exemptions**
- **Revenue Board and Tax Authority Tax Courts**
- **CONCLUDING REMARKS**

**RECOMMENDATIONS ON AREAS WHICH NEED ATTENTION****AMENDMENT TO THE CAR BENEFIT TAX ACT, 1991**

Section 4(2) of the Act states that no road licence shall be issued to any vehicle belonging to a commercial company unless the tax due in relation to that vehicle has been paid. Now that Road Licenses are abolished with effect from 17th June, 1994, it would be difficult to control and monitor the payment of the Car Benefit Tax and the abuse of the provision may be greater. Moreover, the Car Benefits Tax was introduced mainly to discourage parastatals from acquiring too many vehicles.

Section 5 of the Act states that any tax payable under this Act shall not be an allowance for deduction under the Income Tax Act. This has been argued ever since the Act was passed, because the Car Benefit Tax is an expense incurred by a company to earn its income and certainly should qualify for allowance deduction. Alternatively, where the vehicle is used by an employee, particularly director or manager partly for purposes other than the business of the company, he is assessed to additional tax on benefits, therefore such a use should not be treated as a benefit since the Car Benefit Tax has been paid by the Company. In our opinion, therefore, in order to avoid double taxation either of the relief should be granted, which is just and fair. Moreover, we recommend that the Car Benefit Tax should be abolished. The Mtei Commission has also stated in this regard, "This tax may lead to reduction of other taxes and can easily be avoided and should therefore be abolished".

**INCOME TAX**

- The minimum chargeable income limit should be raised to Shs. 50,001 per month. Rate bands proposed are:

Upto Shs. 50,000	Nil
50,001 to 150,000	5%
150,001 to 250,000	10%
250,001 to 400,000	15%
400,001 to 500,000	20%
500,001 and above	25%

It is reliably learnt that the Treasury is already working on "monetising" all allowances together with the review of rate-bands.

- All reliefs such as:  
Married relief,  
Child relief,  
Insurance relief,  
Pension relief,  
NPF contribution relief, etc.,  
should be revised upwards in keeping with current rates of inflation.
- The old system of allowances may be introduced instead of reliefs. Allowances should give a reasonable life and restrict growth of family size. Presently, salaries are paid by allowances and in kind.
- Tax rates are reasonable but the thresholds are fixed at rates that defeat the purpose of no taxation. Therefore, the above framework on income taxes is recommended and the salary gradation is indicative of all allowances inclusive.
- Allowances for Life Insurance Premia and Pension Contribution should be inducements to savings.

### **ESTATE DUTY**

The passing of title to estates of deceased persons to dependents attracts Estate Duty. In an inflationary economy, values can cause hardship to inheritors of titles as they will have no funds to pay taxes. This levy may be abolished.

### **CORPORATION TAX**

- The tax rate can remain at 35% and reduce over time,
- A lower rate of tax should be applied to small companies, size being related to either income or turnover,
- Depreciation allowances should be realistic and based on replacement cost or current value,
- Tax clearance certificates should be abolished, as

### **CAPITAL GAINS TAX**

Capital Gains on sale of assets attract Capital Gains Tax. Till the economy settles down to a manageable level of inflation any tax on gains tantamounts to a tax on inflation, charged

on the victims of inflation itself. It would be better to abandon this tax at least for a few years. Further, a capital gains tax prevents or penalises formal or recorded transfer of assets. In keeping with the policy of economic reforms all capital assets should also be freely transferred with the minimum of bureaucratic intervention.

**WITHHOLDING TAX ON INTEREST PAID TO NON-RESIDENT PERSONS NOT HAVING A PERMANENT ESTABLISHMENT IN THE UNITED REPUBLIC.**

Section 34 (1) of the Income Tax Act, No. 33 of 1973. deduction of Tax on Certain Incomes.

Under Section 34 (1) (e), withholding tax is required to be deducted at the appropriate non-resident withholding tax rate on any interest paid to any non-resident person not having a permanent establishment in the United Republic.

In several cases, interest on foreign loans, namely supplier's credit was being paid without any deduction of tax. The Bank of Tanzania had approved payments of interest, gross i.e., without specifying any deduction of tax. Neither the approved loan agreements nor the guarantee agreements with the National Bank of Commerce dealt with the deduction of withholding tax on interest payments. In accordance with the usual commercial arrangements in such cases, Bills of Exchange were accepted by the borrowers in advance and the National Bank of Commerce was authorized to automatically debit the bank accounts of the borrowers and remit the interest on the due dates as specified in the respective Loan Agreements. Furthermore, such Loan Agreements are generally notarised outside Tanzania and the payments to suppliers are made in foreign currency units outside Tanzania. In addition, the interest payments are also designated in foreign currency units and clearly agreed as payable outside Tanzania.

Till recently, the Income Tax Department did not demand either the deduction or payment of any withholding tax in such cases on interest payments to non-residents, even though they were aware that payments were being made gross. During the regular audits by the Income Tax Departments this fact was observed and the borrowers had disclosed this information in the accounts and relevant financial statements. Tax was not being deducted on such interest payments because it was genuinely believed that withholding tax deductions would be applicable only regarding such payments as dividends on shares or interest on debentures and securities as is the generally accepted practice regarding the taxation of such payments to non-residents.

The Income Tax Act does provide under Section 34 (6) of the Act that the Minister may, by notice in the Gazette, exempt from the provisions of Section 34 (1) or (2) any payment or class of payments made by any person or class of persons resident or having a

permanent establishment in the United Republic. In several cases payments of interest to specific foreign financial institutions and private banks have been exempted under the above provision. Pursuant to the establishment of the Investment Promotion Centre, and by virtue of the provisions of Section 22 of the National Investment (Promotion and Protection) Act, Act No. 10 of 1990, the whole of the withholding tax on foreign loans is exempted for an initial period of five years as from the operative date. Thereafter, the withholding tax rate of twenty percent will be applicable even in such approved enterprises regarding interest payable on foreign loans.

It is submitted that only interest on debentures or securities payable to non-resident persons not having a permanent establishment in the United Republic should be subjected to the deduction of withholding taxes under Section 34 (1) of the Act. Interest payable on items or borrowings of a recurrent nature such as supplier's credit whether it is included in the cost of production or otherwise should not be subjected to withholding tax. Such a policy of taxation of payments to non-residents would not only be in keeping with the accepted international practises in this regard, but also be in tune with meaningful policies such as investment promotion, attraction of foreign loans to support imports and structural reforms as well as the removal of market distortions and reduction of barriers to competitive financing of business enterprises and viable projects. Hence, Section 34 (1) (e) of the Income Tax Act should be amended to read as "any interest on debentures or securities", instead of "any interest". In order to prevent any further problems, the above amendment should be made to take effect retrospectively from the time of the commencement of the Act. This has become necessary and urgent in view of the fact that the Income Tax Department has now started demanding withholding tax payments with prohibitive penal interest irrespective of the years of the loans or interest payments i.e., retrospectively without any limitation period such as seven years.

### **EXCESS PROFITS TAX**

The following conditions to apply before windfall profit tax is payable by the oil industry:

- (i) Import of petroleum and related products,
- (ii) Local sales of imported products,
- (iii) Local price to be pegged to the world market price,
- (iv) Windfall profit taxed at 100% would be the difference between the market price ruling on a specific date and market price on the date of importation.



## **SALES TAX**

- A Value Added Tax (VAT) should be introduced as recommended by the Mtei Commission on Taxation.
- The system should be discussed thoroughly with the representatives of industry and commerce before its introduction.

### **Taxes on imported raw materials**

On items such as Farm Implements, Radiators, Ginnery Spares, Hand Pumps, Watering Cans, etc., import of raw materials for manufacturing attract both duty and sales taxes; only sales tax in certain cases, **WHILE** the same ready made items are imported free of duty and sales tax. This is unfair to local industries.

### **Registered Dealer Certificates**

As discussed earlier regarding the proposal Framework, procedures for Application be stream-lined and the process be expedited so that all industries receive RDCs at the beginning for the new year. Renewal should be automatic each year on Jan 1, since it is monitored and audited monthly. Hopefully, the introduction of a Value Added System of Tax would be a proper time to do these improvements in RDC's system.

RDCs once approved to be valid indefinitely unless there are basic changes in the items covered, or if audits reveal discrepancies.

The bottleneck regarding the inability of purchasers holding RDCs to buy Packing Materials free of tax should be removed.

### **Tax on items listed under Schedule I** **(Free - rated)**

Manufacturers holding RDCs UNDER SECTION 10 of SALES TAX ACT, 1976, should not be harassed and forced to pay tax calculated at previous rate, if it was other than Free-rated or on raw material. (Eg. Mosquito Netting), (imports of similar items are imported without any taxes). A single neutral tax is proposed.

### Sales Tax on Excise Duty

The amendment requiring the inclusion of Excise Duty in computing the taxable value (charging sales tax on excise duty) should be repealed as it is a tax on tax. Only luxury items should be subjected to excise duty.

### Sales Tax on Local Goods

Rates of Sales Tax on locally manufactured goods are still high and should be reduced to compete with similar imported goods. The tax rates should be neutral for all products.

### VALUE ADDED TAX (VAT)

Excise duty and sales tax should be abolished when a single Value Added Tax system is introduced.

### STAMP DUTY

- It was stated in the last pre-budget submission that revenue collected on behalf of the government i.e., Sales Tax should not attract Stamp Duty as there is no consideration involved. This has now been corrected.
- Inter-company transactions involving temporary loans and advances should not attract Stamp Duty.
- The rate of 1% on turnover is high and is a burden for loss-making companies. Even if 1% may be acceptable, it is not rigorously collected from importers/dealers of "Own Funds" imports who do not keep proper records. Also, the way it is structured makes it difficult for collection purposes.
- CTI recommends that the idea of Stamp Duty should be scrapped due to the recommended framework suggested on the "APPROACH FOR COLLECTION OF INCOME TAXES".

### TRAINING LEVY

This levy should be repealed as revenue collected was never used for training. Further, the newly introduced Vocational Education Training Act of 1994 which levies a 2% charge on monthly payroll covers the scope for training adequately. Training Levy and VETA levy cannot coexist.

Recommendation is being made with respect to removing both the Training and VETA Levies and implementing the Payroll Levy at a rate of 5 to 10%. However, the allocation of the collections must go towards "human resource development".

### **INDUSTRIAL BUILDINGS ALLOWANCE**

- Fuel storage depots as well as storage godowns should also be treated as industrial buildings.

### **PAYE DEDUCTIONS**

- Allowances of a reimbursable nature such as meal allowances, transport allowances, housing allowances, should not be subject to PAYE. Many companies find it convenient to fix standard allowances every year in tune with increases in cost of living, and this system of payment should not be deemed to mean that the amounts are paid otherwise than as reimbursements.
- Responsibility Allowances paid at rates established according to corporate regulations in large enterprises on a year to year basis should be excluded from PAYE as these are not basic salaries. Thresholds need to be rationally defined so as to avoid rising problems with respect to the interpretation of such allowances.
- Daily allowances paid to technicians employed by suppliers of machinery should not be subjected to PAYE as these are in fact reimbursements of expenses. Also, companies holding IPC approval should not be compelled to deduct PAYE on such allowances.

### **ASSESSMENT OF COLLECTIBLE REVENUES ON IMPORTS**

There are 3 ways of suggested methods of going about assessing collectible revenues on imports - These are procedural suggestions to implement the Framework proposal discussed earlier in this document.

- (a) **Bank of Tanzania statistics for imports.** The current figure stands at U.S. \$1.7 billion in 1994. Taking the recommended framework for indirect taxes, a minimum effective tax rate would fall at about 37.5% and a maximum effective tax rate at about 82%. A mean of 50% would seem appropriate. Therefore, total import duty alone would be \$850 million or \$71 million per month or Shs. 40 billion per month. The Shs. 40 billion has a collection period of one month with respect to the applied framework as opposed to the estimated Shs. 40 billion over a 6 month period. Again this revenue only comprises import duty; take into account the others and it can safely be said that the Government has the source to

obtain the revenues, except the implementation of the framework needs to be pragmatic and rational. [Note: In the level of US \$ 1.7 billion of imports assumed, probably all statutory exempt imports are also included]

(b) **Use Standard consumption for basic commodities for Sub-Sahara.**

Obtain data on local production for same commodities as being produced in SAR countries. Arrive at an estimated value for imports and by applying the framework, the entity can arrive at an amount that needs to be collected from local and imported goods.

(c) **Obtain data of actual imports into Tanzania**

- *List every ship that called on Tanzania harbours which include, Dar es Salaam, Tanga, Mtwara, and Zanzibar. Also obtain information pertaining to ship's voyage with respect to the port of origin, ports called, and transhipments.*
- *Obtain manifest for each call, reconcile by NASACO*
- *Analyze the data to arrive for imports by categorizing them under break-bulk or containerised shipments and whether they are for domestic or transit shipment.*
- *Total up declared values. Such a system provides for a very firm basis for categorizing and evaluating values of import revenue. Also the gap between due taxes calculated from total goods imported and compiled from manifests and taxes collected will give the evasion factor.*
- *Statistics are available from BoT, Customs, NASACO, THA, SGS, and through compilation of the whole will enable a comprehensive database to be maintained. Through such a mechanism goods coming through transit whether through Zanzibar Route or other, will have to undergo the same procedure thus standardizing assessment and reducing the short-falls of revenue collection.*

### **ABOLITION OF POWERS TO GRANT DISCRETIONARY EXEMPTIONS, DEDUCTIONS, AND ALLOWANCES**

In order to promote transparency, objectivity and to minimize corruption, all discretionary powers to grant exemptions should be abolished. Section 15(1) and 15 1(a) are examples of such power as far as the Income Tax Act is concerned. At numerous places throughout such statutes, words such as where "so and so considers such and such as just and reasonable", etc., are incorporated. Such powers lead to a great deal of subjective assessments and harassment. As in Kenya, India, U.K., etc., all allowances, deductions and reliefs should be clearly laid down and specified in the statutes. **In our opinion as far as powers of tax authorities are concerned, it would be unnecessary to add more powers but reasonable to use existing powers to discharge their duties objectively.**

### **REVENUE BOARD**

It is submitted that the private sector should be appropriately represented in the newly constituted Revenue/Tax Board.

In addition, the representatives of Tax practitioners, lawyers and the Accounting Profession should be able to effectively participate in the Board. It need not be an all-government affair.

The legislation in this regard needs to be revised to correct conceptual and procedural problems. A proper **TAX AUTHORITY** should be established to manage revenue collection and tax matters. CTI understands that such a Tax or Revenue Authority would be a reality from 1-7-1995.

As the Government had itself proposed earlier, a Special Court should be established to deal with Tax cases. This step is overdue and would give lot of confidence to investors. At the moment, the appeals and dispute settlement system is practically inoperative under the Tax Laws.

### **CONCLUDING REMARKS**

- The opportunity of preparing the Government Budget for 1995-96 should be availed of to send the right signals to the country and to donors as well as international agencies. Obvious inconsistencies such as a widening government borrowing in the context of structural reforms and hasty introduction of taxes should be avoided. Fiscal corrections and policy changes should be done in a more transparent and acceptable manner. Changing of tax rates and Government priorities every year tends to portray negative intentions on the part of the

---

# **Pre-Budget Submission for 1995-96**

## **CHAPTER VI**

### **ASSESSMENT OF THE IMPACT OF THE PROPOSALS ON REVENUES**

- (1). Assessment of Impact on Revenues In General**
- (2). A Word on the Annexures and their purpose**

Government. Such indications usually lead to economic and social instability and to an overall distrust in the political system. There should be greater participation in policy making and implementation.

- The Committee is confident that this sincere attempt to solve national economic problems through research, dialogue and sharing of views would be appreciated by the Government.

By way of a concluding overview of the CTT's Pre-Budget Memorandum, it is to be noted that

- Improving Revenue Collection through a rationalized tax structure, a meaningful framework to streamline various taxes and a proper approach to tax assessment and collection are urgently needed.
- Tax evasion should be firmly dealt with by imposing the available sanctions in a disciplined manner.
- Priority areas warranting immediate actions need to be addressed in the Budget for 1995-96.
- Related areas such as repealing of obsolete tax laws, withdrawing certain levies which are inappropriate at this stage of development and honouring National Investment Promotion and Protection Policy are stressed for Government actions.

CTI looks forward to presenting these proposals at the earliest in a proper meeting with the Honourable Minister if an opportunity/occasion for appropriate dialogue would be available.

Chapter VI which follows, attempts to present an Assessment of Impact of the proposals on government revenues in general and is supported by annexures regarding specific products.

Chapter VII deals with the "Management of the Economy" and evolves a model and presents a sensitivity analysis so as to highlight the need to collect proper taxes on imports.

### Assessment of the Impact of the Proposals on Revenues

#### Assessment of Impact on Revenues in General

Obviously, the proof of the pudding is in the eating -- CTI believes that subject to the availability of reliable data on the tax bases, such as volume of imports, the classification of the volume of imports by origin, categories and quantitative contents, quantities and volume of local production, international prices for standard product contents, and end-use classifications such as Raw Materials, Intermediate Goods, Capital Goods and Consumer Goods, an attempt can be made to assess the impact of the various permutations and computations of the tax framework approach and rates proposed. CTI would need a high degree of cooperation and even technical assistance from international agencies to undertake and complete such an urgent exercise expeditiously. It is suggested that once the conceptual foundations and rationality of the proposals are accepted, as they have every chance to be, then the next step of assessment of import can be vigorously and rewardingly undertaken. On its part, CTI is deeply interested in assisting the Government in such a worthwhile exercise.

The assessment of impact would deal with:-

- Taxes on Imports
  - (a) Customs Duties
  - (b) Excise Duties
  - (c) Sales Taxes
- Taxes on Local Goods
- Direct Taxes and related levies

#### A Word on the Annexures and their purpose

The Annexures in the meantime, provide examples for the suggested approach as applied to specific products such as:-

- (a) Textiles
- (b) Sugar
- (c) Cooking Oil
- (d) Wheat
- (e) Beer
- (f) Paints
- (g) Soaps
- (h) Building Materials
- (i) g.c.i. sheets
- (j) Batteries
- (k) Motor vehicles
- (l) Computers



---

# **Pre-Budget Submission for 1995-96**

## **CHAPTER VII**

### **THE MANAGEMENT OF THE ECONOMY**

- (1) Introduction**
- (2) Mission revisited**
- (3) Policies, Concepts and Approaches Emphasised**
- (4) Budget as a Model of the Economy**
- (5) The Model for 1994/95**
- (6) Basic Assumptions to Develop a Model of the Economy for 1995-96**
- (7) Projected Model of the Economy in 1995-96**
- (8) Sensitivity Analysis at Various Levels of Efficiency in Collecting Import Taxes**
- (9) Impact on the Economy**
- (10) An Alternative Model of the Economy for 1995-96**
- (11) Conclusion**

### **Introduction**

A very logical question that has to be answered in this Pre-Budget Submission is, "what would be the impact on the Economy if import duties' collection, other things remaining the same, is improved as stressed in the report, at various possible levels of efficiency".

### **Mission Revisited**

It may be recollected that this year's submission commenced with the **mission statement** that "if all imports into Tanzania are properly assessed for appropriate duties and related taxes, and if the currently astronomically high levels of tax evasion thereon is effectively arrested, then the fiscal crises of the economy resulting in steep budget deficits, rising inflation, excessive use of Treasury Bills, disproportionately higher taxes on local production year after year, and mini-budgets can be avoided".

### **Policies, Concepts and Approaches Emphasised**

Having outlined the appropriate industrial policy, monetary policy, fiscal policy and a conceptual basis for taxation as well as an approach to implement rational tax policies through an efficient administrative mechanism, it is appropriate that this submission takes up in this Chapter the possible impact of "import duty collection" as a sensitivity factor on the management of the economy.

### **Budget as a Model of the Economy**

To accomplish the aforesaid exercise, valuable as it is, one needs to build a model of the economy so that it can be manipulated for various levels of improved efficiency in import duty collection. Just as the Income Statement coupled with the Statement of Financial Position of an entity in business would be useful as a financial model of its operations, so also the Budget of the Government is relevant as a working model of the economy's financial operations.

**The Model for 1994-95**

The Budget for 1994-95 may be taken as a starting point for this objective, and it was as follows:-

<b><u>ITEMS</u></b>	<b><u>BUDGET 1994-95</u></b> (Millions T.Shs)
<b><u>EXPENDITURE</u></b>	
Recurrent	362,797
Development	<u>151,487</u>
Total	<u>514,284</u>
<b><u>RESOURCES</u></b>	
Recurrent Revenue	329,288
External Grants and Loans	168,846
Non-Bank Borrowing	36,310
Bank Borrowing (Deficit)	<u>(20,160)</u>
Total	<u>514,284</u>

**Basic Assumptions to develop a Model of the Economy for 1995-96**

- (a) Inflation may be assumed at an average rate of 30%.
- (b) Recurrent Expenditure may be assumed to increase by 15%, though economic management in this regard is expected due to reduced size of government operations.
- (c) Development Expenditure, which should increase in the interest of better capital formation, may be assumed to increase at a modest level of 15% only.
- (d) Regarding External Grants and Loans, the same level of funding can be assumed for the sake of simplicity, with a rate of exchange of T.Shs 485 at the beginning of 1994-95 and a rate of about T.Shs 580 at the beginning of 1995-96.
- (e) Non-Bank borrowing which has proved to be very expensive, and ought to be sparingly resorted to as stressed in the earlier parts of this report, may be assumed to be restricted at 80% of the level in 1994-95. Such an assumption is reasonable for the limited purpose of this basic model.
- (f) Bank borrowing, i.e., deficit financing is a direct trigger for inflation and it is wise to assume that recourse to such an unhealthy source of meeting the budget would be avoided.

- (g) **Recurrent Revenue:** Based on the above assumptions the recurrent revenue figure can be derived as a balancing figure and the projected model of the economy for 1995-96 can be arrived at as shown below:-

**Projected Model of the Economy in 1995-96**

<b>Budget</b>	(Millions T.Shs)	<b>Projection</b>
<b><u>1994-95</u></b>	<b><u>Items</u></b>	<b><u>1995-96</u></b>
<b><u>EXPENDITURE</u></b>		
362,797	Recurrent	542,382
<u>151,487</u>	Development	<u>226,473</u>
<u>514,284</u>	<b>Total</b>	<u>768,855</u>
<b><u>RESOURCES</u></b>		
329,288	Recurrent Revenues (Balancing Figure) (i.e. Derived)	529,175
168,846	External Loans and Grants	201,918
36,310	Non-Bank Borrowing	37,762
<u>(20,160)</u>	Bank Borrowing	<u>-</u>
<u>514,284</u>	<b>Total</b>	<u>768,855</u>

The Recurrent Revenue figures arrived at as a balancing or derived amount in the above projected model includes Tax and Non-Tax Revenues. Hence, to arrive at tax revenues the estimated [ad hoc] figure of non-tax revenues should be deducted from it.

Total Recurrent Revenues	529,175
Less: Non-Tax Revenues (estimate)	29,175
[1993-94: 22,086]	
[1994-95: Not available]	

Hence, Target Tax-Revenues for 1995-96 500,000

As the focus in the analysis attempted herein is only on Revenues from taxes on Imports, it is necessary to deduct the figure of revenues related to taxes other than those on imports from the above figures.

	(Millions T. Shs)	
	1994-95 Estimated	1995-96 Projection
Taxes on Local Sales Production etc.	87,360	113,568
Income Tax	68,090	88,517
Other Taxes	<u>52,223</u>	<u>67,890</u>
Total "non-imports" tax	<u>207,673</u>	<u>269,975</u>

**Note:** Projected figures for 1995-96 are extrapolated on an assumed inflation level of 30% - all other factors being taken as they are in 1994-95.

The projected figures of Revenues from Taxes on Imports alone can therefore be derived as follows for 1995-96.

	(Millions T. Shs)
Target for aggregate tax-revenues (as arrived at earlier)	500,000
Projected "Non-Import" tax revenues (as above)	<u>269,975</u>
Target "Import-taxes" revenues for 1995-96	<u>230,025</u>

This can be compared with a realistic estimate of import-taxes collection in 1994-95 of T. Shs 93,828 million.

#### Sensitivity Analysis at Various Levels of Efficiency in Collecting Import Taxes

	(Millions T. Shs)
Level of import-taxes to be collected to balance the Budget in 1995-96	230,025
Estimated Actual for 1994-95	93,828
At an inflation level of 30%	
(a) Without any level of improvement	121,976
(b) With a 50% improvement	182,964
(c) With a 100% improvement	243,953
(d) With a 150% improvement	304,927
(e) With a 200% improvement	365,929
(f) With a 300% improvement	487,904

It may be noted from the above sensitivity analysis that with a little less than 75% improvement in tax collection on imports, all other taxes being at the same level or less, the economy can be fairly comfortably managed without resort to budget deficits, mini-budgets, additional taxes on local production, steep withholding taxes on all payments for goods and services, etc.

Can this be accomplished? Or is it just an academic exercise? As the rate of tax compliance on imports is less than 10%, and as the Government itself has realized the

magnitude of the tax evasion problem on imports, achieving a modest 300% improvement in tax collection efficiency on imports i.e., at a tax compliance rate of less than 50% is within the realm of possibility for the Treasury.

### **Impact on the Economy**

What would be the impact on the economy, if other resources of revenue remaining at the same level as in 1994-95, tax revenues from imports improve as analysed above? The following table portrays the impact vividly.

	(Millions T.Shs)				
	Base Case Scenario	At 50% Improvement on Import Taxes	At 100%	At 200%	At 300%
<b>Expenditure</b>	<u>768,855</u>	<u>768,855</u>	<u>768,855</u>	<u>768,855</u>	<u>768,855</u>
<b>Resources</b>					
External Grants and Loans	201,918				
Non-Bank Borrowing	37,762				
Non-import tax revenues	269,975				
Non-tax revenues	<u>29,175</u>				
<b>Sub-total</b>	538,830	<u>538,830</u>	538,830	<u>538,830</u>	<u>538,830</u>
<b>Tax Revenues</b>					
on imports	<u>121,976</u>	<u>182,964</u>	<u>243,953</u>	365,929	<u>487,904</u>
<b>Total</b>	660,806	721,794	782,783	904,759	1026,734
Deficit	108,049	47,061	-	-	-
Surplus	-	-	13,928	135,904	257,879
<b>Total</b>	<u>768,855</u>	<u>768,855</u>	<u>768,855</u>	<u>768,855</u>	<u>768,855</u>

It has thus been established that the key to the management of the economy, at least as far as revenues are concerned is to focus on fiscal discipline regarding the collection of proper taxes on imports at a "reasonable" level of efficiency. As a simple corollary from the above it is fairly obvious that all the recommendations made in this Pre-Budget Submission can be implemented without any loss of revenue to the exchequer if the question of tax collection on imports is aggressively handled.

**Note:** The figures used in the building of the model of the Economy are in the main those drawn from Government Budgets coupled with CTF's estimates.

**Note: An Alternative Model of the Economy for 1995-96**

<b><u>ITEMS</u></b>	<b><u>CASE A</u></b> (Conservative Scenario)	<b><u>CASE B</u></b> (Probable Scenario)
<b><u>EXPENDITURE</u></b>		
Recurrent	475,000	490,000
Development	<u>140,000</u>	<u>150,000</u>
<b>Total</b>	<u>615,000</u>	<u>640,000</u>
<b><u>RESOURCES</u></b>		
Recurrent Revenue	430,000	473,000
External Grants and Loans	210,000	210,000
Non-Bank Borrowing	<u>15,000</u>	<u>15,000</u>
	655,000	698,000
Bank Borrowing (Saving)	<u>(40,000)</u>	<u>(58,000)</u>
<b>Total</b>	<u>615,000</u>	<u>640,000</u>

It may therefore be noted from the above alternative model of the economy for 1995-96, that even at the envisaged level of revenue collection, the economy can be managed without deficit financing - in fact a surplus is expected. In addition, if revenues are improved as elaborated in the earlier parts of this Chapter the economy can be comfortably managed.

## **ANNEXURE**

**The Annexure on textiles is attached. CTI is now in the process of collecting data on other selected products, the annexures for these would follow in due course.**



## Annexure

### TEXTILES

There has not been any significant change in the local textile market over the past few years. Therefore, the current textile market is assumed to be broadly similar to 1990 World Bank study conducted by BTTG.

#### TANZANIA TEXTILE MARKET

	<u>Square Meters</u>	<u>Market Share</u>
Locally produced	40m	10%
Imported Textiles	100m	25%
Imported 'Second-Hand' Textile	260m	65%
	<hr/> 400m	<hr/> 100%

It makes good economic sense to continue importation of 'second hand' textiles because it is priced at under USD 1.00 per Kg as compared with price of cotton lint of more than USD 2.00 per Kg. No amount of tariff protection will enable new textiles produced locally to compete against second-hand clothing. Therefore, importation of 'second-hand clothing' is considered as essential supply of mass-produced consumer goods and should not be charged luxury tax rates.

On the other hand, the remaining market of 140 million square meter can be fulfilled by local textiles having a capacity of over 200 million square meters. The domestic textile industry has been unable to produce more than 40 million square meters because of unfair competition from importation of new textiles.

#### COMPARISON OF TAXES IN 1990

	<u>LOCAL TEXTILE INDUSTRY</u>	<u>TEXTILE IMPORTS</u>
Market Share	Less than 10%	More than 90%
Excise Duty	TShs 1971 m	TShs 272 m
Sales Tax Payment	TShs 4027 m	TShs 564 m
	<hr/> TShs 5998 m	<hr/> TShs 840 m

It is evident that there was 'negative protection' to the local production of textiles.

It is therefore proposed that importation of new textiles may continue but, they be classified as 'luxury import' and attract a higher tariff than 'second-hand' textiles.

The import duty of new textiles has all along been pegged at around 50% but this has not prevented tax evasion on account of

- a) under-valuation
- b) false classification

It is easy to see why. The Harmonised Customs, Excise, Sales Tax Hand Book has listed Textiles and Textile Articles under Section XI. This section covers chapters 50 through to Chapter 63 and spans over 60 pages. There are more than 1000 tariff-codes each with varying rates of Import Duty, Excise Duty and Sales Tax. This gives plenty of scope for the tax-evader to play with favourable product classification. **It is therefore proposed to apply a single uniform neutral tax rate.**

Also, in order to counter claims of stock-lots, seconds, substandard which are so numerous and complex to verify, it is proposed to introduce the minimum specific rate of import-duty. All the Khangas which are imported from India are predetermined to be 'Seconds' and a mark bearing 'Seconds' is printed on each Khanga. It is highly inconceivable that tens of millions of meters of Khanga are **planned to be manufactured sub-standard**. But such an arrangement allows the importer to grossly under-value the price of his imports in order to evade taxes.

A Minimum Specific Rate of Import Duty is derived from international price of cotton and cotton products at each stage of the production cycle.

#### **INTERNATIONAL PRICE OF COTTON AND COTTON PRODUCTS**

<u>Price per Kg in USD</u>		
<b>Stage 1</b>	<b>International Price of Cotton Lint</b>	<b>USD 2.00 to 2.50</b>
<b>Stage 2</b>	<b>International Price of Medium Count YARN</b>	<b>USD 3.00 to 4.00</b>
<b>Stage 3</b>	<b>International Price of Grey Fabric</b>	<b>USD 4.50 to 6.00</b>
<b>Stage 4</b>	<b>International Price of Finished Textiles even including Textile Products</b>	<b>USD 7.00 to 11.00</b>

These are absolute minimum cost price based on accepted norms of processing cost at each stage of textile production. Prices based on fashion articles which can be much higher are not considered.

The international price of Finished Textiles and Products ranges from USD 7.00 to USD 11.00, i.e., average of say USD 9.00 per Kg. If 40% Import Duty rate is applied, the Import Duty payable would be USD 3.60 which is equivalent to TShs 2000. This justifies the 'Minimum Specific Rate of Import Duty' on kilo basis. Similarly, the rate of TSh 200/- per square meter is derived from an average of ten square meter yield from one kilogram of textile fabric.

Based on the foregoing the following structure of tariff is recommended for immediate implementation.

## **NEW TEXTILE AND TEXTILE ARTICLES**

### **Chapters 50 to 63**

#### **Current Taxes**

<b>Import Duty</b>	Mostly 50% for importers 5% for industrial raw materials
<b>Excise Duty</b>	Zero to 30% for importers Zero for local industries
<b>Sales Tax</b>	Zero to 30% for importers Same for local industries

**1) PROPOSED TAXES**

**A) Import Duty**

**(i) For Importers**

<b><u>Unit</u></b>	<b><u>Rate</u></b>
<b>Number</b>	40% or TShs 2000 per Kg whichever is higher
<b>Kilograms</b>	40% or TShs 2000 per Kg whichever is higher
<b>Meters</b>	40% or TShs 200 per sq.mt. whichever is higher

**(ii) For Industrial Raw Materials** 5%

**B) Excise Duty**

**(i) Zero for imports**

**(ii) Zero for Local Industries**

**C) Sales Tax**

**(i) 20% for imports**

**(ii) 20% for Local Industries**

**SECOND-HAND CLOTHING**

**CURRENT TAXES FOR SECOND-HAND CLOTHING**

<b>Import Duty</b>	<b>50%</b>
<b>Excise Duty</b>	<b>Zero</b>
<b>Sales Tax</b>	<b>30%</b>

**PROPOSED TAXES**

**(i) Import Duty**

<b><u>Unit</u></b>	<b><u>Rate</u></b>
<b>Numbers</b>	<b>25% or TShs 250 per Kg whichever is higher</b>
<b>Kilograms</b>	<b>25% or TShs 250 per Kg whichever is higher</b>
<b>Meters</b>	<b>Not applicable</b>

**(ii) Excise Duty Zero**

**(iii) Sales Tax 20%**

**TEXTILE MATERIALS AND PRODUCTS****1994**

	<b>Jan-June Metric Tons</b>	<b>July-December Metric Tons</b>	<b>Total Metric Tons</b>
Imports into Tanzania :	23,370	12,881	36,251
In transit to other countries :	37,473	101,603	139,076

**Observation:**

- 1) 36,251 tons is equivalent to 36,251 million square meters approximately  
(1 Kg = 10 sq. meters)

cf. TEXMAT Estimate:

New Imported Textiles: 100m sq. meters

'Second-hand' Imported Textiles: 260m sq. meters

**Total Imported Annual: 360m sq. meters**

- 2) The July-December Import into Tanzania have shown a sharp decline but correspondingly there is an even sharper increase in 'transit Imports. The general tightening of imports into Tanzania may have diverted more goods into 'transit'.
- 3) Annual Revenues Potential from Imported Textiles

**A) Imported Textiles New****Import Duty:**

100m 200/= per sq.m → Shs. 20 Billion

or

10m Kg @ 2000/= per Kg → Shs. 20 Billion

**Sales Tax:**

20% of Shs. 40 Billion = Shs. 8 Billion

**Total Tax collected Minimum = Shs. 28 Billion**

(C&F value is assumed same as Minimum Specific Rate of Import

Duty to cater for undeclaration of C&I value)

**B) Imported Second-Hand Clothing**

Imports is 260 m sq. meter equivalent to 26 m Kgs.

Import Duty:

26 m Kg (@ 250/- per Kg = Shs. 6.50 Billion

**Sales Tax**

20% of Shs 13.0 Billion = Shs. 2.60 Billion

**Total Tax Collected** = Shs 9.10 Billion

(C&I value is assumed same as Minimum Specific Rate to cater for undeclaration of C&I value)