EABC TRADE AND POLICY UPDATE TO MEMBERS ON EAC INTEGRATION PROCESS

EAC Partner States' 2017/18 Budget Analysis on Tax Changes

On 8th June 2017, 3 EAC Partner States namely Tanzania, Uganda and Rwanda jointly unveiled their Budgets for the Fiscal Year 2017/2018. While Kenya budget was read on 30th March 2017 due to the preparation of *August General Election*, Burundi is yet to align its Fiscal Year with other EAC Partner States. Usually the 4-EAC countries (Kenya, Tanzania, Uganda and Rwanda) unveil their budgets on the same day in June every year.

In 2017/18, Kenya economy is projected to grow by 5.9%, Uganda by 5.0 % Rwanda by 6.8 % and Tanzania by 7.1%. In line with the projected economic growth each country has significantly increased their overall budgets compared with last year despite the fact they have significantly reduced external funding. The size of the budget is as follow, Kenya is KES 2.6 trillion (USD 26 bn), Tanzania is Tshs 31.7 trillion (USD14.3bn); Uganda is UShs29 trillion (USD 8.2bn) and Rwanda is Rwf 2,094 billion (USD 2.58bn)

In order to spur growth of industries, employment creation increased revenues and enhanced equity and fairness in tax administration, the Governments of the 4 EAC Partner States of Tanzania, Kenya, Uganda and Rwanda came up with various tax changes as follows:

Customs Duties

In line with the decisions of the *Pre-Budget Consultations* of the Ministers of Finance from the EAC Partner States who held their meeting in Arusha from 1st-5th May 2017, the Governments introduced the following changes with regard to EAC Common External (CET):

- *Motor vehicles & Motor cycle industry*

  Aiming at promoting local motor vehicle and cycle assemblers in the region, the EAC Partner States have granted duty remission on Completely Knocked Down (CKD) kits for motor cycle at duty rate of 10% instead of 25% for one year as the region is finalizing the development of a list of exclusions and inclusions in the CKDs for motorcycle assembly under duty remission and development of regulations. In principal EAC Partner States have extended the stay applications contained in the *Legal Notice No EAC/39/2013 of 30th June 2013.*

Partner States also continue to provide duty remission at a duty rate of 0% on inputs for manufacturers of air filters in the region. The measure is aimed at supporting the local manufacturers of the products in the region.

Tanzania granted duty remission on inputs falling under HS codes 7228.20.00 and applied duty rate of 0% instead of 25% or USD200/MT whichever is higher for manufacturers of leaf spring.

- *Iron and Steel Products*

Aiming at protecting domestic iron and steel manufacturers against cheap products from outside the region as well as promotion of further investments and to increase employment, some EAC Partner States introduced a specific duty rate of USD 200/MT or 25% whichever higher on steel rods and bars and hot-rolled angles, section. Tanzania for example continue stay application of EAC CET rate and instead applied a duty rate of 25% or USD 200/MT whichever is higher on the following items: HS Codes 7213.10.00; HS Codes 7213.20.00; HS Codes 7214.10.00; HS Codes 7214.20.00; HS Codes 7214.30.00; HS Codes 7214.91.00; HS Codes 7214.99.00; HS Codes 7216.10.00; HS Codes 7216.21.00; HS Codes 7216.22.00; and HS Codes 7216. 50.00. Additionally, Tanzania granted stay of application of EAC CET rate of 0% on aluminum structures of HS Codes 7610.90.00 and instead applied a duty rate of 25% for one year.

In the same move, Tanzania granted stay of application of EAC CET rate and instead applied a duty rate of 10% or USD 125/MT whichever is higher on flat-rolled products of iron or non-alloy steel, with a width of 600mm or more, cold rolled or cold reduced falling under HS codes 7209.15.00; HS Codes 7209.16.00; 7209.17.00; HS Codes 7209.18.00; HS Codes 7209.25.00; HS codes 7209.26.00; HS Codes 7209.27.00; HS codes 7209.27.00; HS Codes 7209.28.00; HS Codes 7209.90.00.

In addition, Tanzania stayed application of EAC CET rate and instead applied a duty rate of 25% or USD 250/MT whichever higher on flat-rolled products of iron or non-alloy steel falling under HS codes 7210.41.00; HS codes 7210.49.00; HS Codes 7210.61.00; HS Codes 7210.69.00; HS Codes 7210.70.00; HS Codes 7210.90.00; 7212.30.00 HS Codes 7212.40.00; HS codes 7212.50.00 and HS codes 7212.60.00.

In the EABC Policy Advocacy Agenda 2017/18, EABC in collaboration with the Association of Flat Steel Products Manufacturers of East recommended such measures to protect regional industries against cheap import from outside the region mainly Asian countries. Its EABC's expectation that during the Comprehensive review of EAC CET, EAC Partner States will review the whole chapter of iron and steel products in order to do away with stay of applications and EAC Partner States will henceforth uniformly apply agreed EAC import duty across the region.

- ***Sugar and Confectionery***

Given the fact that domestic production of both brown sugar and refined sugar cannot meet regional demand EAC Partners have uniformly granted stay of application on reduction of remission level on sugar for industrial use under *HS Codes 1701.99.00* and applied a duty rate of 10% instead of 100% . During pre-budget consultations EABC recommended EAC Partner States to reconsider their decision to reduce the remitted levels of duty on sugar for industrial use and continue to uniformly maintain a duty rate of 10% to all approved manufacturers across the region.

- ***Edible Oil***

Just as in the last financial year, Tanzania has extended stay of application of EAC CET rate of 25% on Crude Palm Oil *(HS Codes 1511.10.00*) and applied a duty rate of 10% for one year. This move is aimed at continuing supporting the production of oil seeds and growth of edible oil industries in the country. However the measures to achieve intended intention EAC Partner State needs tariff structure of the whole *chapter15 pertaining to vegetable fats and oils* with the aim of having an appropriate import duty which will protect regional edible oil manufacturers and make them competitive.

- ***Wheat Grain***

In line with agreed decision of the EAC Ministers of Finance during the pre-budget consultative meeting with regard to addressing the challenges related to wheat grain, the EAC Partner States decided to provide duty remission at a duty rate of 10% instead of 35% for wheat grain falling under *HS Codes 1001.99.00* and *1001.99.90*. This measure was taken given the fact that the EAC region has no adequate capacity to produce enough wheat to meet the demand.

- ***White Maize***
  Kenya introduced duty exemption of white maize for a period of four months.

- *Paper and paper products*
  In order to balance between competitiveness of paper converters and protection of paper millers in the region, EAC Partner States applied a variegated approach in terms of providing duty remission for paper converters and stay of application in order to protect domestic paper producers. For example Tanzania extended the stay of application of EAC CET rate and applied a duty rate of 25% instead of 0% on paper products falling under HS Codes 4804.11.00; HS Codes 4804.19.90; HS Codes 4804.21.00; HS Codes 4804.29.00; HS Codes 4804.31.00; HS Codes 4804.39.00 HS Codes 4804.41.00; HS Codes 4804.51.00; HS

Codes 4804.59.00; HS Codes 4805.11.00; HS Codes 4805.12.00; HS Codes 4805.19.00; HS Codes 4805.24.00; HS Codes 4805.25.00; HS Codes 4805.30.00; HS Codes 4805.91.00; Hs Code 4805.92.00. The measure is intended to protect local paper millers.

In addition, Tanzania extended application of the rate of 0% to examination answer sheets by changing the wording of tariff code 4911.99.00 to include these items.

Value Added Tax (VAT)

Value Added Tax (VAT) being one of domestic taxes which are still under control of each country mandate, each Government made different changes to suit their budget objectives.

- ***Zero Rating of VAT***

  Aiming at making Tanzania ports more competitive, Tanzania re-introduced Value Added Tax (VAT) at the rate of 0% on the ancillary transport services in relation to goods in transit through the Tanzania. These services include: stevedoring, lashing & securing, cargo inspection, preparations of customs documentation, container handling and storage of transit goods to be transported. In 2015/16 Tanzania introduced standard VAT rate of 18% to all ancillary services related to transit goods. This made Tanzania transport and port use uncompetitive to transit cargo services because VAT was charged to non-residents who are not VAT registered in Tanzania and could not claim input VAT hence it became an added cost to the owners of transit cargo.

  Kenya introduced zero rating of maize flour and ordinary bread and wheat flour which were VAT exempt. It also introduced zero rating of packing materials and other inputs intended to support primary, secondary and ancillary marine fisheries and fish processing.

- *VAT exemptions on ranges of products*

  EAC Partner States introduced new exemptions of VAT on ranges of products with the aim of promoting investment on the targeted sectors. Uganda has exempted following products from VAT : supply of animal feeds & premixes; supply of crop extension services; supply of irrigation works, sprinklers & ready to use drip lines; supply of deep cycle batteries and composite lanterns,; supply of menstrual cups ; supply of agriculture insurance premium or policy.

  Tanzania introduced VAT exemptions on locally produced compounded animal feed under HS code 2309; machinery and plants used in edible oil, textile, leather and pharmaceutical & veterinary industries.

Kenya introduced VAT exemptions on follow items: all inputs used in manufacturer of pesticide products; locally assembled tourist vehicles; medical equipment & apparatus for use in specialized hospitals, transactions related to transfer of asset into Real Estate Investment Trusts (REITs) and Asset Backed Securities (ABS).

Excise Duty

Given the fact that excise duty is among domestic taxes still not harmonized, each EAC Partner States had liberty to come up with their own changes.

- ***Petroleum Product Fuel***

  Tanzania increased excise duty on petrol, diesel and kerosene by Tshs 40 per litre to compensate the abolishment of annual motor vehicle road license. So the new excise duty on fuel will be as follow: Petrol (motor spirit & premium) increased from Tshs 339 to Tshs 379; diesel (gas oil) increased from Tshs 215 to Tshs 255 and Kerosene (IK) increased from Tshs 425 to Tshs 465.

- ***Non-Petroleum Products***

  Tanzania has introduced 5% excise duty increase on specific non-petroleum excisable products such as alcohol, soft drinks, juice and tobacco. The increase by 5% is intended to adjust for inflation. However, locally produced water, fruit juices and spirits are exempted from the increase. Instead duty has been decreased for locally produced fruit juices and wine produced with domestic grapes content exceeding 75 per cent.

  The new duties are as per below table:

Table 01: Tanzania New Excise Duty Rates on Non-Petroleum Products

S/N	Goods	Old Rate(TZS)	Proposed New Rate(TZS)
1	Soft drinks	58 per litre	61 per litre
2	Locally produced fruit juice	9.5 per litre	9 per litre
3	Imported fruit juice	210 per litre	221 per litre
4	Beer made from 100% local un-malted cereals	429 per litre	450 per litre
5	Other beer made from malt	729 per litre	765 per litre
6	Non-alcoholic beer (including energy drinks and non-alcoholic beverages)	534 per litre	561 per litre
7	Wine produced with domestic grapes content exceeding 75%	202 per litre	200 per litre
8	Wine produced with more than 25% imported grapes	2,237 per litre	2,349 per litre
9	Imported spirits	3,315 per litre	3,481 per litre
	Locally produced spirits	3,315 per litre	3,315 per litre

10	Cigarettes without filter tip and containing domestic tobacco more than 75%	11,854 per thousand cigarettes	12,447
11	Cigarettes with filter tip and containing domestic tobacco more than 75%	28,024 per thousand cigarettes	29,425 per thousand cigarettes
12	Cigarettes without filter tip and containing domestic tobacco more than 75%	11,854 per thousand cigarettes	12,447 per thousand cigarettes
13	Cut rag or cut filler	25,608 per kg	26,888 per kg
14	Cigar	30%	30%

Uganda on its part made various changes on excise taxes as summarized in the table below:

Uganda proposed excise taxes in 2017/18 budget

S/N	Goods	Old Rate (UGX)	Proposed Rate (UGX)
1	Cigarette: Soft Cup- Locally manufacture	Shs 50,000 per 1,000 sticks	Shs 55,000 per 1,000 sticks
2	Cigarette: Soft Cup -Imported	Shs 50,000 per 1,000 sticks	Shs. 75,000 per sticks
3	Cigarette: Hinge lid-Locally manufactured	Shs. 80,000 per 1,000 sticks	Shs 80,000 per sticks
4	Cigarettes: Hinge Lid-Imported	Shs.80,0000 per 1,000 sticks	Shs. 100,000 per sticks
5	Malt beer	60%	60% or Shs.1,860 per litre whichever is higher
6	Beer whose local raw material content, excluding water , is at least 75% by weight of its constituents	30%	30% or Shs. 650 per litre, whichever is higher
7	Beer produced from barley grown and malted in Uganda	30%	30% or Shs. 950 per litre, whichever is higher
8	Spirits made from locally produced raw materials	60%	60%
9	Un denatured spirits	100% or Shs. 2,500 per litre whichever is higher	100% or Shs. 2,500 per litre whichever is higher
10	Other spirits	80%	80%

11	Non –alcoholic beverages not including fruit or vegetable juice	13%	13% or Shs.240 per litre, whichever is higher
12	Fruit juice and vegetable juice, except juice made from at least 30% of pulp from fruit and vegetable grown in Uganda	13%	13% or Shsh.300 per litre , whichever is higher
13	Specialized hospital furniture	Nil	Nil
14	Furniture manufactured in Uganda using local materials but excluding furniture which is assembled in Uganda	10%	Nil
15	Other furniture	10%	20%

Kenya introduced various changes in the excise taxes which include: increased excise duty rates on spirits from KES175 to KES 200 per litre; amended excise duty on cigarettes from single rate to a two tier tax of KES2,500 per mille for cigarette with filter and KES 1,800 per mille for plain cigarettes. Other changes on excise taxes in Kenya are refund of excise duty on Illuminating Kerosene (IK) used in paint manufacturing; 80% remission of excise duty on locally manufactured beer made from sorghum, millet or cassava or any other agricultural products grown in Kenya excluding barley and exemption of motor vehicle purchased by returning residents in replacement of a left hand drive motor vehicle.

Other Changes on Taxes and Levies

- *Corporate Income Tax*
  Tanzania has proposed reduction of *Corporate Income Tax* (CIT) rate for new assemblers of vehicles, tractors and fishing boats from 30% to 10% for the first five years from commencement of operations to encourage manufacturers. Kenya on its part reduced Corporate Tax Rates on motor vehicle assemblers 30% to 15% for the first five years.
- *Clearance fee of 1% on export of Minerals*
  Tanzania has imposed a clearing fee 1% of the value of minerals for export.
- *Produce Cess charged by Local Government*

  Tanzania proposed reduction of produce Cess from 5% to 3% on cash crops and from 5% to 2% on food crops . Tanzania abolished the Cess on transportation of crops less than 1ton from one Local Government Authority to another.

- *Property Tax for un-valued properties*

Tanzania has introduced a flat rate of Tshs 10,00 for normal house and Tshs 50,000 per each floor of a story house for houses which have not been valued.

- Service Levy on Guest Houses

Tanzania removed service levy of 0.3% on turnover which used to be imposed on guest house operations given the fact that the operations are subjected to Hotel Levy of 10% on the charges payable by guests.

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