EABC - The Voice of the Private Sector in East-Africa

EABC UPDATE: BUDGET HIGHLIGHTS, ANALYSIS AND TAX CHANGES FROM EAC PARTNER STATES' 2016/17

On 8th June 2016 the four EAC Partner States:- Kenya, Tanzania, Uganda and Rwanda jointly unveiled their Budgets for the Fiscal Year 2016/2017. The 2016/17 Budgets for the four countries have targeted following real GDP growth: 5.3% for Kenya, 7.2% for Tanzania, 5.3% for Uganda and 7.0 for Rwanda. (Burundi does not read their budgets at the same time as the other Partner States).

In order to spur growth of industries, employment creation increase revenue and enhance 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 Duty

In line with the decisions of the *Pre-Budget Consultations* of the Ministers responsible for Finance and Economic Affairs from the EAC Partner States which held their meeting in Arusha from 2nd -7th May 2016, the Governments introduced the following changes with regard to EAC Common External (CET):

- *Iron and Steel Products*

  Aiming at protecting domestic iron and steel mills against unfair competition from cheaper imported iron and steel products, the EAC Partner States introduced a specific duty rate of USD 200 or 25% import whichever is higher on wide range of iron and steel products. Tanzania for example introduced 25% or USD200/MT, whichever is higher, for one year on following products: 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; HS Codes 7212.30.00; and HS Codes 7212.40.00. 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; HS Codes 7216.50.00; HS Codes 7228.10.00; HS Codes 7228.20.00; HS Codes 7228.30.00; HS Codes 7228.40.00; HS Codes 7228.50.00; HS Codes 7228.60.00; HS Codes 7228.70.00; HS Codes 7228.80.00; HS Codes 7212.40.00; HS Codes 7215.10.00; HS Codes 7215.50.00; HS Codes 7215.90.00; HS Codes 7216.61.00; HS Codes 7216.69.00; HS Codes 7216.91.00; HS Codes 7216.99.00.

  Additionally,:-

(a) Tanzania increased CET rate on flat rolled products of iron or non-alloy steel from 0% to 10% on the following products: HS Code 7208.54.00; HS Code 7208.90.00; HS Code 7208.52.00; and, HS Code 7208.53.00
(b) Tanzania also increased the import duty rate on Bars and rods of iron and steel from 10 percent to 25 percent on the following HS Codes: `HS Code 7213.10.00; HS Code 7213.20.00; HS Code 7213.99.00; HS Code 7227.10.00; HS Code 7227.20.00; HS Code 7227.90.00; HS Code 7308.20.00; HS Code 7308.40.00; and HS Code 9406.00.90.

The above changes are in line with EABC Tax Proposals submitted to the EAC Secretariat following the CET Study Report on EA CET Review 2016 done by EABC and the Manufacturers associations. It's our hope the measures will cushion the domestic iron and steel mills against unfair competition from cheaper imports of the iron and steel products.

- *Portland Cement*
  In order to encourage and protect domestic production of cement in the country against stiff competition from imported cement, Tanzania has increased import duty rate on cement (HS Code 2523.29.00) for one year from 25% to 35%.

- *Textile and Leather Products*
  Tanzania, Kenya and Uganda increased the specific duty rate on worn clothes and shoes from 0.2 USD/KG to 0.4 USD/KG while Rwanda applied 2.5USD/KG for worn clothing and 5USD/KG for worn shoes. The measure is in line with EAC Summit directive requiring EAC Partner States to gradually phase-out importation of used clothes and footwear in the region. Meanwhile Uganda has proposed to increase the environment levy on used clothes, shoes and other articles from 15% to 20%.

  To ensure that Partner States procure their textile and footwear requirements from within the region the Sectoral Council on Trade, Industry, Finance and Investment (SCTIFI) meeting in Arusha on 27th May 2016 granted the request of Kenya and Rwanda a stay application of the Common External Tariff (CET) rate on garments and leather footwear manufactured in Export Processing Zones (EPZ) on the 20% of the annual production allowed in the EAC Customs Union Protocol to be sold with the two respective Partner States for one year. This implies that Kenya and Rwanda will charge 0% import duty on the purchases of made up garments and leather footwear from their respective EPZs.

- *Sugar and Confectionery*

  In order to encourage domestic production, discourage importation and fight abuse in the usage of sugar for industrial use (HS.1701.99.10), Tanzania has decided to reduce progressively import duty remission levels on sugar and sugar confectionery from the current rate of 10 percent to 15% in 2016/17, 20% in 2017/18, and 25% in 2018/19.

- *Crude Palm Oil*

  Tanzania decided to stay application of 0% import duty on crude oil (HS Code 1511.10.00) and apply 10% for one year. The crude oil is used to manufacture edible oil. Tanzania's measure is aimed at promotion of local production of oil seeds and growth of edible oil industries.

  However, this measure is likely to create trade distortion given the fact that the other EAC Partner States mainly Uganda and Kenya are not applying the same measure and the Revised EAC Rules of Origin, 2015 does not qualify edible oil produced from imported crude palm oil as EAC originating.

- *Fishing Nets*

  Tanzania, Kenya and Uganda have increased the import duty rate of made up fishing nets (HS Code 5608.11.00) from 10% to 25% with the aim of protecting fishing nets which are manufactured locally in the region.

- *Aluminium Milk Cans*

  Tanzania and Kenya have increased the import duty (CET) on Aluminium milk cans (HS Code 7612.90.90) from 10% to 25%. The measure is aimed at protecting local manufacturers who have sufficient capacity to manufacture these products in the region. In addition the two countries have grant duty remission to manufacturers of "Aluminium cans" on raw materials which are aluminium plates and sheets classified under HS Codes 7606.12.00 and HS Codes 7606.92.00 by charging a duty rate of 0%. Under EAC CET import duty of aluminium plates and sheets are 10%. This measure is aimed at encouraging production of "Aluminium cans" in the region.

- *Imposition of Import Duty on COMESA Goods by Uganda*

  Uganda has proposed to impose import duty on the various goods from COMESA. These include: lubricants, un-denatured alcohol, steel and steel products, electronics, paper & paper products and diapers.

  NB: Unlike Kenya and Tanzania whereas their Budgets have included changes on Custom Duty (Common External Tariff CET) Uganda's budget provided that the details of the adjustment of the CET rates will be gazetted by EAC Secretariat.

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.

- *Tourism Sector*

  In order to revive the ailing tourism industry in Kenya, make it more competitive and promote local tourism the Kenya Government has proposed VAT exemption on commission earned by tour operators as well as exemption of park entry fees to the National Parks from VAT. Meanwhile contradicting this objective Kenya has also proposed to increase Air Passenger Service Charges by 25% for external travellers from USD 40 to USD 50 and for internal travellers by 20% from KES 500 to KES 600.

  Tanzania however treated the tourism sector differently proposing to introduce 18% VAT on tourism services such as supplies tourist guiding, game driving, water safaris, animal or bird watching, park fees and ground transport services.

- *Financial Services*

  Tanzania proposed introduction of 18% VAT to all fee based financial services. Only interest paid on loans will be exempted from VAT. Meanwhile Tanzania proposed VAT exemption on Aviation insurance with the aim of promoting aviation industry which is considered to be still in infant stage and needs to be supported in order to be able to cover insurance risks without additional costs resulting from taxation.

- *Zero rate VAT between Tanzania mainland and Zanzibar for supplies of goods*

  Aiming at resolving the issue of VAT refund claims between Zanzibar and Tanzania Mainland the Government has propose to introduce VAT at 0% on the cross –union (Mainland Tanzania and Zanzibar) supplies of goods .This implies that goods manufactured in Mainland Tanzania and sold to Zanzibar will attract 18% VAT in Zanzibar but 0% VAT in Mainland Tanzania while those goods manufactured in Zanzibar and sold in Mainland Tanzania will attract 18 VAT in Mainland Tanzania and 0% in Zanzibar.

- *VAT exemptions on ranges of products*

  Both Tanzania and Kenya introduce new VAT exemptions. In Tanzania new products which were exempted from VAT include: all processed vegetable and unprocessed edible animal products including live fish, fruits, nuts, cereals, seeds and soya beans; vitamins and food supplements; water treatment chemicals, and bitumen .

In Kenya the products which were exempted from VAT include: supply of made-up garments and leather footwear supplied by Export Processing Zones (EPZ), all raw materials used in the manufacture of animal feeds, Liquefied Petroleum Gas (LPG) etc.

In Uganda exemption was proposed on solar and geothermal power projects; ranges of agricultural machinery, tools and implements such as hullers, oil presses, grain dryers, manure spreaders, fertiliser distributors, transplanters, juice presses and crushers, seed and grain sellers, silage chopper machines, colour sorter for coffee and coffee roasters.

Though VAT exemption measures are intended to lower prices of targeted products this is unlikely to happen because VAT exemptions in most of cases add up to the cost of production due to the fact that the non-recoverable VAT associated with exemption will finally be passed on to the consumers in the form of higher prices of goods and services as producers do not claim for refunds. For domestic producers the best option will be rather zero-rating of VAT than exemption as this will allow them to claim refunds for VAT paid for other inputs used to produced final product.

Excise Duty

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

- *Motor Vehicles*

  Kenya has proposed to amend the excise duty on motor vehicles from the specific duty rates of KES 150,000 and KES 200,000 dependent of the age of the vehicle to an ad-valorem rate of 20% based on the value of vehicle.

- *Illuminating kerosene*

  Kenya has proposed to introduce excise duty on illuminating kerosene at a rate of KES7,205 per 1000 litre. The measure is intended to fight adulteration of other petroleum products with kerosene which was considered to be cheaper due to the absence of excise duty.

- *Petroleum Product Fuel*

  While Tanzania and Kenya maintained the current excise taxes on fuel, Uganda has proposed to increase excise duty on motor spirit (gasoline) from Ush 1,000 per litre to Ush 1,100 per litre and gas oil from Ush680 per litre to Ush780 per litre. Uganda also proposed to increase excise duty rate of motor vehicle lubricants from 5% to 10%.

- *Cosmetics and beauty products*

  Aiming at harmonization of excise duty regime with other EAC Partner States, Kenya has proposed an introduction of excise duty at rate of 10% on cosmetics and beauty products.

- *Furniture*

  In order to promote local production of furniture using locally available timber Tanzania has proposed to increase excise duty rate of imported furniture Code 94.01 and HS Code 94.03) from 15% to 20% .In Uganda , the Government has proposed removal of excise duty on specialized hospital furniture from 10% to 0% while excise duty on other furniture remained unchanged at 10%.

- *Telecommunication services*

  Tanzania has proposed to introduce 10% excise duty to all charges or fees payable by a person to a telecommunication service provider in respect of money transfers to cover all commission received in the provision of mobile services. In Uganda, the Government has proposed removal of existing USh9 per minute excise duty on incoming international calls.

- *Plastic Bags*

  Tanzania has proposed to abolish the manufacturing, selling, buying and use of plastic bags of less than 50 microns. This measure is intended to improve the management and protection of environment against the effects of plastic bags.

- *Non-Petroleum Products*

  In Uganda the Government has proposed new excise duty of 80% on Ready To Drink (RTD) spirits and increased of excise duty rates on tobacco, cement which is Ush1,000 /50kg, cane or beet sugar and chemically pure sucrose in solid form which will be Ush100/kg, sugar confectioneries which will be 20% . In Tanzania the

Government has proposed to increase by 5% excise duty on non-petroleum excisable products (except bolted water) including alcohol, soft drinks, juice and tobacco. 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	55 per litre	58 per litre
2	Locally produced fruit juice	10 per litre	11 per litre
3	Imported fruit juice	200 per litre	210 per litre
4	Beer made from local un-malted cereals (eg Kibuku)	409 per litre	430 per litre
5	Other beer made from malt	694 per litre	729 per litre
6	Other Non-alcoholic beer (including energy drinks and non-alcoholic beverages)	508 per litre	534 per litre
7	Wine produced with domestic grapes content exceeding 75%	192 per litre	202 per litre
8	Wine produced with more than 25% imported grapes	2,130 per litre	2,237 per litre
9	Spirits	3,157 per litre	3,315 per litre
10	Cigarettes without filter tip and containing domestic tobacco more than 75%	11,289 per per thousand cigarettes	11,854 per thousand cigarettes
11	Cigarettes with filter tip and containing domestic tobacco more than 75%	26,689 per thousand cigarettes	28,024 per thousand cigarettes
12	Other cigarettes not mention in (10) and (11)	48,285 per thousand cigarettes	50,700 per thousand cigarettes
13	Cut rag or cut filler	24,388per kg	25,608 per kg
14	Cigar	30%	30%
15	Lubricating oil	665.50 per litre	699 per litre
16	Lubricating greases	Cent75 per kg	Cent 79 per kg
17	Natural gas	Cent 43 per cubic feet	Cent 45 per cubic feet

However, charging of excise duty based on local content as it contained fruit juices, wine and cigarettes is likely to create trade disputez between Tanzania and other EAC Partner States intending to transfer (export) similar product to Tanzania as this tax will create discrimination between locally produced products and same or like imported ones. Article 15 on *National Treatment* of EAC Customs Union Protocol prohibits Partner States from enacting legislation or applying administrative measures which directly or indirectly discriminate against the same or like products of other Partner States. Paragraph 2 of the same Article provides that "No Partner State shall impose, directly or indirectly , on the products of the other Partner States any internal taxation of any kind in excess of that imposed, directly or indirectly , on similar domestic products.

Other Changes on Taxes and Levies

- *Tax on Employers*

Tanzania has proposed to reduce Skills Development Levy (SDL) from 5% to 4.5%. The measure is intended to provide employers with relief from tax burden and enhance compliance for revenue purposes. However, the measure is unlikely to meet the intended objective given the fact that in Tanzania taxes on employment are highest in the EAC region. Apart from 4.5% SDL, private sector employers are required to also pay 1% as Workers Compensation Fund (WCF) and contribute 10% as social security for the workers.

In Kenya the Government has proposed an additional tax deduction of 50% of the cost of the apprenticeship emoluments. However, for employers to enjoy this incentive they must engage at least 10 graduates from universities.

- *Other levies*

Kenya has proposed to abolish 4% Sugar Development Levy (SLD), 1% ad valorem levy on tea, and all levies charged by the National Environmental Management Authority (NEMA) and National Construction Authority (NCA). These measures are intended to reduce the cost of doing business and eliminate administrative hurdles in Kenya.

In Tanzania the Government has proposed to abolish a wide range of fess and levies charged by various regulatory authorities which are considered to be undermining the Government efforts to improve business environment. The measures are intended to provide relief to various economic activities.

The respective fees and levies proposed to be abolished included:

(i) *Tanzania Food and Drugs Authority (TFDA):*

(a) Export Permit for food – Tsh. 50,000;
(b) Retention fees for Human and Veterinary medicines from domestic manufacturers – Tsh. 100,000;
(c) Duplicate Certificate for Human and Veterinary medicines from domestic manufacturers – USD 50;
(d) Duplicate Certificate for Human and Veterinary medicines from foreign manufacturers – USD 100;
(e) Evaluation of product promotional materials – Domestic – USD 50;
(f) Abbreviated Advert – Domestic – USD 25;
(g) Duplicate certificate for foreign food, medicines medical devices – USD 100;
(h) Duplicate certificate for foreign Medical devices domestic – USD 30;
(i) Duplicate certificate for Medicines Domestic – USD 50;
(j) Retention fees for imported In Vitro Diagnostics (IVD) – USD 150;
(k) Retention fee for domestic manufactured cosmetic manufactured cosmetics – Tsh. 30,000;
(l) Pre-registration GMP inspection fees for domestic pharmaceutical manufacturing sites – USD 250;
(m) Medical representative foreign per company – USD 1,000;
(n) 1% FOB value for cosmetics raw materials;
(o) 0.5% FOB for importation of pharmaceutical raw materials;
(p) Hospital permit for Psychotropic and Narcotics – Tsh. 10,000;
(q) Import permit for Psychotropic and Narcotics – Tsh. 50,000;
(r) Export certificates for pharmaceuticals – Tsh. 50,000;
(s) Certificate of Pharmaceutical Product – Tsh. 50,000;
(t) Inspection of new food processing facilities – small – Tsh. 100,000;
(u) Disposal certificates;
(v) Health certificates – Tsh. 50,000; and
(w) Trade fair fees – Tsh. 200,000.

(ii) *Cotton Board:*
(a) Uhuru touch contribution – Tsh. 450,000; and
(b) Fee for District Council to deliberate on cotton buyers – Tsh. 250,000;

(iii) *Tea Board*:
Fire and rescue levy – Tsh. 800,000.

(iv) *Coffee Board:*
Cherry Processing License – USD 250

(v) *Cashewnut Board:*
(a) Cooperative Union levy – Tsh. 20/- per kg;
(b) Transportation Fee – Tsh. 50/- per kg;
(c) Task Force on Various Issues – Tsh. 10/- per kg**;**
(d) Storekeeper costs – Tsh. 10/- per kg.

It is the expectation of the business community that the Tanzanian Government will continue to review the fees and levies charged by all agencies; regulatory authorities and local government authorities in order to lower the cost of doing business and improve business environment.

Done by:

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