

2.2.4 Effects on competitiveness

Cost Effects

Due to increased costs, Zanzibar factories will have more difficulty competing than the larger mainland producers such as Coca Cola, Azam, Pepsi, etc.

Effects on Product Profitability

The profit margin for any taxed product, coupled with the decline in demand for that taxed product will adversely impact the firm's profitability. Product reformulation is currently not possible as most of the factories are at a nurturing stage.

2.2.4 Legal Aspects

Article 4 of the URT recognizes TRA as the only institution with constitutional power to administer domestic excise taxes revenue in Tanzania including Zanzibar. Therefore, ZRB has no legal power to introduce excise duty in Zanzibar.

3. Proposed policy changes

1. Government to convene a stakeholders' forum with the private sector (non-alcoholic drink factories and ZNCCIA) to reconsider the matter:
 - (i) To grant exemptions on excise duty to non-alcoholic drink factories.

OR

- (ii) To lower excise duty rates on mineral water and soft drinks (partial exemptions).
- (iii) If (ii) comes into consensus, the excise taxes should be handled in line with URT and Zanzibar Constitutions: That is,
 - The excise duty to be collected by TRA,
 - The tax collection should start immediately after the Minister of Finance Zanzibar informs the House of Representatives.

OR

1. TRA should form legal opinion with ZRB to enable the later:
 - a. To administer domestic excise duty in Zanzibar on behalf of the former.
 - b. To be able to grant exemptions on domestic excise taxes to non-alcoholic drink factories.
 - c. To meet with the private sector to consider partial exemptions.

The impact of disproportionately taxing non-alcoholic drinks in Zanzibar



1. Preamble

This paper reviews the financial and economic impacts on non-alcoholic drink production in Zanzibar following the Government decision to impose excise duty on soft drinks, mineral water and juice. The review extends to legal aspects of administering excise duty by the Zanzibar Revenue Board (ZRB), which is unconstitutional according to Article 4 of the Constitution of the United Republic of Tanzania (URT) of 1977. Policy changes to ameliorate the situation for non-alcoholic drink producers and simultaneously adhere to URT law are proposed at the end. The findings from the Study of the Impact of Excise Duty on Production of Non-Alcoholic Drinks in Zanzibar provide justification as not the best policy option to fix a budget deficit.

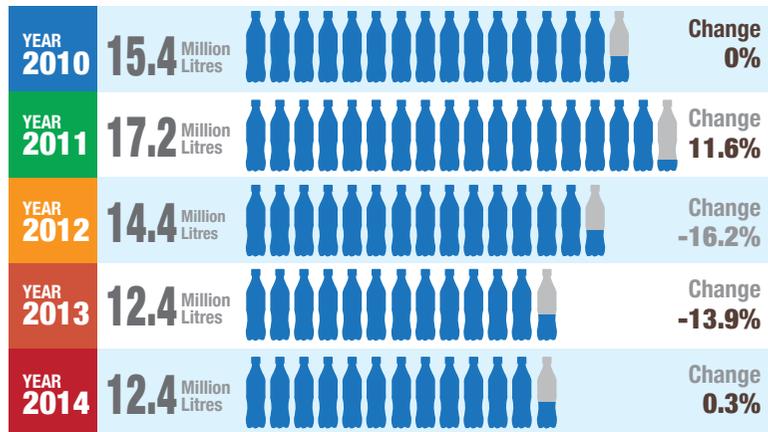


2. Macroeconomic facts

2.1 Yearly Production Trend

The production of non-alcoholic drinks (soft drinks, mineral water and juice) has steadily decreased as shown in Figure 1.

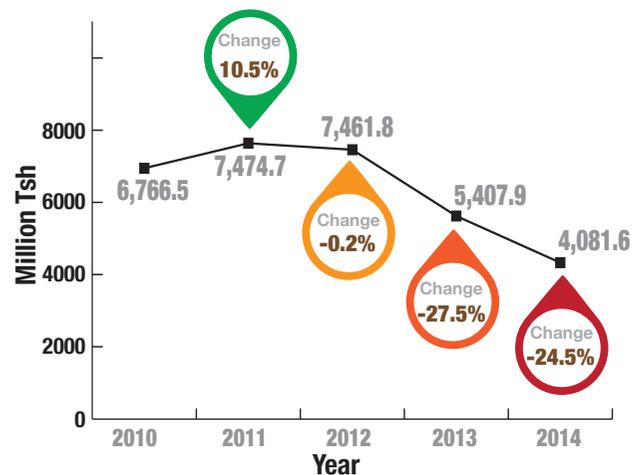
Figure 1: Non-Alcoholic Drinks Production (Million litres), 2010-2014



Source: Office of the Chief Government Statistician

With the exception of 2011, there has been a downward trend in production.

Figure 2: Value of Non-Alcoholic Drinks Produced, 2010- 2014 (Tsh million)



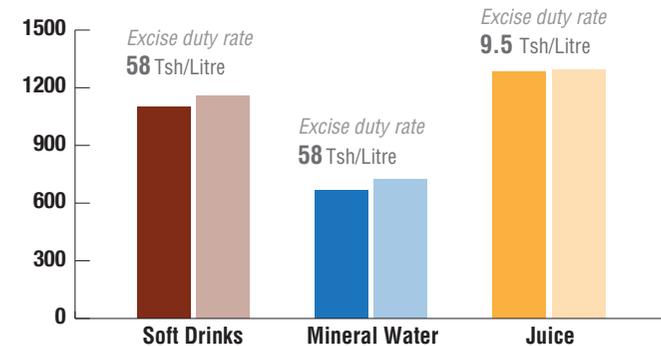
Source: Office of the Chief Government Statistician

2.2 Financial Facts

2.2.1 Effects of Price Increases due to Introduction of Excise duty

The excise duty rate for soft drinks and mineral water is Tsh 58.0 per litre while juice is Tsh 9.5 per litre. Product prices after taxes are summarized in Figure 3. The highest price increase was realized in mineral water followed by soft drinks.

Figure 3: Value of Non-Alcoholic Drinks Produced, 2010- 2014 (Tsh Mill)



Source: Office of the Chief Government Statistician

2.2.2 Financial Effects

Using current rates, the total fiscal impact (increase in tax) was estimated at Tsh 769.5 million per year; of which the soft drinks will contribute about Tsh 195.7 million (or 25.4%), mineral water Tsh 569.1 million (or 74.0%) and juice about Tsh 4.7 million (0.6%). The estimate of the total revenue impact is about 5.4% of the total excise duty collected by ZRB in 2014/15. This shows that the expected revenue is quite small.

2.2.3 Distribution of the Tax Burden

Mineral water bears 74% of the tax burden. With price increases, producers absorb more of the burden. Conversely, soft drinks have inelastic demand and their share of the burden, 25.4%, is often shared by the consumers as well.

2.2.4 Economic Effects

The annual volume of production after reforms in the fiscal year 2015/16 was estimated to decline to 13.7 million litres from 14.8 million litres in 2014/15; causing a demand decline of 1.1 million litres in a year, equivalent to 7.6%. With that production decline, the resultant sales decline (i.e. economic output) in 2015/16 was estimated at Tsh 900 million. Mineral water registered 75.3% of the total decline, followed by soft drinks which registered 24.2% decline. This underscores that the adverse economic impact is greater than tax revenue gained.