Members of Tanzania People's Defence Forces admire cigarettes at TCC offices in Dar es Salaam. Consumers of cigarettes and other 'sin industry' products can only brace for increased process each time the Finance Minister presents the country's budget in parliament. PHOTO | FILE

Producers worried as taxes skyrocket

MANUFACTURING. The excise duty administration which is said to hurt manufacturing industries is among three key areas which have come to the concern of the Confederation of Tanzania Industries for reform in the next Budget

By Alawi Masare
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Dar es Salaam. When the Finance minister presents the Budget estimates to the National Assembly in June, consumers of manufacturing goods like beer, spirits and cigarettes are always worried by possible price jumps.

These products are the usual victims whenever the government considers raising revenue through increased excise duty on specific goods and services produced locally.

However, the excise duty administration which is said to hurt manufacturing industries is among three key areas which have come to the concern of the Confederation of Tanzania Industries (CTI) for reform in the next Budget.

Other issues are reducing tax exemptions and broadening the tax base by taxing the informal sector.

On March 26, 2015, CTI presented its 2015/16 tax proposals to the Task Force on Tax Reform which it says will not only reduce the tax burden on the local industries which are one of the main taxpayers but will also increase government revenue and enhance economic growth.

CTI says increase in excise duty on beers, spirits, and cigarettes for the past ten years has been above the current average annual inflation rates, a situation that has led to the declining of per capita consumption of these products, hence the reduction in the plant capacity utilisation, employment and project future demand.

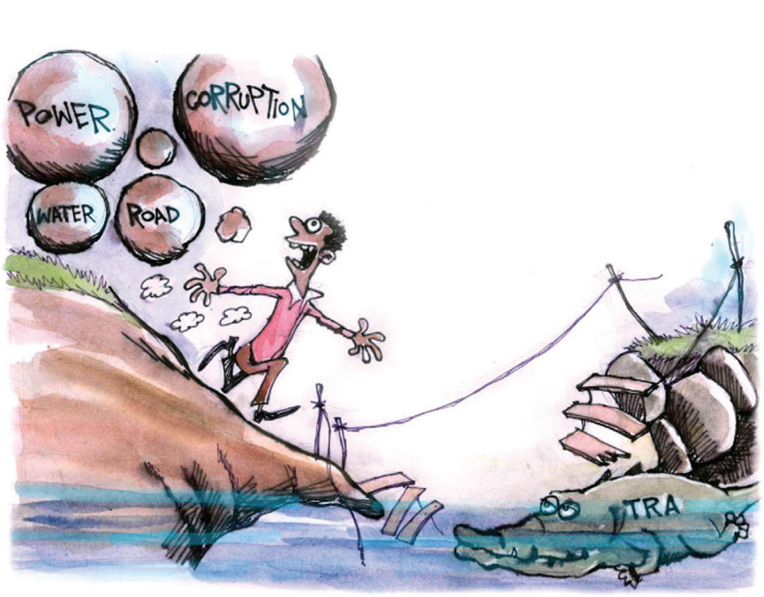
"Excise duty on imports is comparatively higher than domestic duty indicating dependence on tax revenue collected from imported commodities. The trend may provide a message as far as protection of local manufacturers is concerned, but the bad news is that since the country imports most of the raw materials local manufacturers are negatively affected by these excise duty on imports," says CTI in the proposals.

According to Prof Honest Ngowi of the Dar es Salaam-based Mzumbe University's Business School, the government opts to increase excise duty on the above goods because it is easy to collect, but also agrees that such trend reduces competitiveness among the industries.

"There are two sides in explaining this scenario. First, these products are elastic in consumption and that assures the government of reliable revenue," says the economics professor by phone.

"On the other hand, this tells us that the government is lacking creativity in identifying new sources of tax collection. This is not healthy to the manufacturing sector which normally carries this heavy burden. It actually worsens the business environment," he says.

CTI proposes that both import and domestic excise tax rates should remain the same until FY 2017/18 to maintain stability in the manufacturing and the industrial sector, the market demand for commodity and investments.



CTI also wants improvement in the Value Added Tax (VAT) refund system which is said to be delayed for up to nine months instead of one month required by the law.

According to Prof Ngowi, the government can even opt to exempt the specific goods entitled for refund to avoid such delays.

"This is also one of the areas that seem to increase business transaction costs in Tanzania. The delaying in refund for up to 9 months is contrary to the VAT law that requires refunds to be made in one month from the lodgment date. These delays have negatively impacted on businesses' cash flow by tiding up their working capital. CTI proposed for the improvement of the VAT refund system to increase tax payment compliance and government revenue, as well as ensuring stable cash flow for investments," the document reads.

Serengeti Breweries Limited (SBL) director of corporate relations Evans Mlelwa was quoted by the media in February as saying that sale of beer and spirits dropped by between 15 and 20 per cent between July and December 2014 following a 20 per cent increase of excise duty.

According to CTI, during the first half of 2014 the government lost Sh45 billion from TBL due to reduced sales of beer.

Reduce tax exemptions

CTI also proposes the government to reduce unproductive tax exemptions to the best practice level of 1 to 1.5 per cent of GDP for the next three financial years, a move that it says may increase revenue by Sh80 billion.

It is estimated that tax exemptions account for an average of 3.2 per cent of the Tanzania GDP from 2000/01 to 2011/12.

While the government offers tax incentives to attract FDIs to the country, CTI says a weak investment climate cannot be offset by offering lower tax rates or providing generous incentives to Foreign Direct Investors or Multinational companies.

"Recent studies also note that in countries where 'investment climate is good' the effect of lowering effective tax rates on FDI is positive, while countries with poor investment climate such as Tanzania, the effects of such generous tax incentives is almost not existent," says CTI.

Citing a study conducted in Tanzania, CTI says investors did not mention tax incentives in the top 10 reasons for investing in Tanzania and instead, they always look for a potential market, availability of reliable electricity, good roads, raw inputs, water infrastructure, access to finance and others.

Informal sector

It is estimated that about 48 per cent of Tanzania's economy is in the informal sector which mostly does not pay taxes.

CTI proposes that the government should reduce red tape that constrains the informal actors' registration to become formal businesses so that they generate revenue and reduce the tax burden on the formal sector.

It requires the government to tax ceremony halls and informal transporters such as Boda Boda and Bajaji which compete unfairly with the taxi cab drivers who comply with the government laws which include paying registration costs and income tax.

If the above measure is implemented, CTI says the sector can generate about Sh10 billion as additional revenue to the government.

Other informal sector actors potential for generating revenue include forestry, fisheries, tourism and mining.

What CTI wants in the next Budget

- Reduce unproductive tax exemptions to best practice level of 1 to 1.5 per cent of GDP for the next three years.
- Collect tax from informal activities, commercial buildings, entertainment halls, Boda Boda, Bajaji.
- Maintain current Excise Duty for beer and cigarettes for at least 2 years to help the industries grow.
- Remove Excise Duty on carbonated drinks and bottled drinking water for industries to maintain price.
- Reduce 25 per cent import duty on wire rods to zero as they are essential raw materials for production of iron nails and related products.
- Reduce import duty on malt from the current 10 per cent to zero for three more years to give Tanzania more time to become self-sufficient with local barley.
- Reduce Import Duty on Infant Formula/Specially prepared for infants from 25 per cent to 10 per cent.
- Reduce import duty on wheat grain from 10 per cent to zero.
- Reduce Import Duty on Formulated Supplementary Foods for Older Infants and Young Children from 25 per cent to 10 per cent.

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