

Budget Newsletter

2011/2012

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HIGHLIGHTS OF THE BUDGET 2011 – 2012

- ❖ **Shortfall in Revenue collections for 2010-11 to the extent of 7 %;**
- ❖ **Expenditure for 2010-11 less than budgeted due to shortfall in collections;**
- ❖ **General Budget Support during 2010-11 from Donors exceeded budget;**
- ❖ **Domestic Revenues expected to be realized during the year 2010 – 11 T Shs 5,553.70 billion;**
- ❖ **Fuel to continue as exempt supplies;**
- ❖ **Number of supplies to and by Agricultural sector to be VAT Exempt;**
- ❖ **VAT remains at 18 %;**
- ❖ **Non religious NGOs and institutions no more VAT relieved;**
- ❖ **Sale and leasing of residential houses by NHC to be Vatable;**
- ❖ **Vat refund for retail exports to be introduced from 1/1/2012;**
- ❖ **No major changes in Income Tax Act 2004;**
- ❖ **Usage of EFD machines to be closely monitored;**
- ❖ **Annual Business License fee reintroduced;**
- ❖ **Soft drink, beers, wines, Cigarettes to cost more (10% Increase in Excise duty);**
- ❖ **Change in modality for payment of fuel taxes by Mining Companies;**
- ❖ **Traffic Notification Fee increased to T Shs 300,000;**
- ❖ **Major changes in East Africa Community Common External Tariff and Customs Management Act, in line with the spirit of EAC;**
- ❖ **White oil used in Cosmetic Industry, Road tractors, Motor Cycle ambulance, Duplex Board, etc to have 0% CET;**
- ❖ **CET on galvanised wire increased to 10 %;**
- ❖ **Reduction of destination inspection fee from 1.2 % to 0.6 %.**

BUDGET NEWS LETTER 2011/2012

INTRODUCTION

The Minister for Finance Hon. Mustafa Haidi Mkulo introduced the estimates of Government revenue and expenditure for the financial year 2011/2012 in the National Assembly on 8th June 2011. Following are the highlights, which essentially are our interpretation extracted from Hon. Minister's speech and are given without any obligation or liability on our part.

REVIEW OF IMPLEMENTATION OF THE BUDGET FOR 2010-2011.

- Actual domestic revenue collection for the 9 months period up to March 2011, was T Shs 4,265.6 billion (4.26 trillion), which is 69 % of the budget estimate of T Shs 6,003.6 billion (6.003 trillion) for the year 2010-11. Actual collection for the year 2010-11 is estimated at T Shs 5,553.7 billion equivalent to 92.51 % of target of T Shs 6,003.6 billion.
- Collection target for 2011 – 12 – T Shs 6,775.952 billion for domestic revenue.
- Government projects to receive T Shs 3,923.4 billion (3.92 trillion) during 2011-12 from Development Partners in the form of grants. This amount is split into –
 - T Shs 869.4 billion for General Budget Support
 - T Shs 3,054.0 billion for development projects including basket funds.
- Government projects to receive T Shs 1,271.634 billion (1.27 trillion) as non concessional loans from Development Partners.
- Tax collections short of target as of 31st March 2011.
- External grants and concessional loans during the period July 2010 to March 2011 reached T Shs 2,273.30 billion. Out of this amount, general budget support (GBS) was T Shs 845.7 billion and Grants and loans received through development projects including Basket Funds reached T Shs 1,427.6 billion.
- Government Expenditure for the period July 2010 to March 2011 reached T Shs 7,169.3 billion.
- As per monetary policy issued by BOT, Tanzania's GDP growth rate for 2011 is estimated at 7.1 % compared to 7.0 % for 2010.
- Out of the overall expenditure, T Shs 5,226.9 billion was recurrent expenditure and T Shs 1,942.4 billion was development expenditure.

- The figures compare favourably with the previous year as depicted in the table below:

(Fig in T Shs. Billion)

PARTICULARS	2009/2010	2010/2011	VARIANCE
Actual Revenue (9 months)	3,490.263	4,265.60	+22.2 %
Actual Expenditure July to March	6,718.71	7,169.30	+6.70 %
Recurrent Expenditure	4,764.51	5,226.90	+ 9.70 %
% Of total Exp.	70.91 %	72.90 %	+1.99 %
Developmental Expenditure	1,954.20	1,942.40	- 0.60 %
% Of total Exp.	29.09 %	27.10 %	- 1.99 %

BASIS, POLICIES, INITIATIVES AND OBJECTIVES OF THE 2011/12 BUDGET

- ❖ To collect domestic revenue of at least 17.2 % of the Gross Domestic Product (GDP) compared to the 16.0 % of the GDP which is expected to be collected by the end of the FY 2010/2011.
- ❖ Government anticipates receiving grants and concessional loans amounting to T Shs 3,923.6 billion during 2011/12 as compared to T Shs 3,274.60 planned during 2010/11.
- ❖ Government intends to borrow T Shs 1,271.6 billion as Non Concessional Borrowing and T Shs 1,204.3 billion from Domestic Financial Markets.
- ❖ Collections from domestic revenue for 2011 – 12 T Shs 6,775.952 billion
- ❖ Government has budgeted revenue collections from Local Government Authority to the extent of T Shs 350.496 billion.
- ❖ Total collections – T Shs 13,525.895 billion
- ❖ Allocation of funds for recurrent expenditure in following proportion –
 - Education – T Shs 2,283.0 billion – 27.31 %
 - Infrastructure – T Shs 2,781.4 billion – 33.27 %
 - Health – T Shs 1,209.1 billion – 14.46 %
 - Agriculture – T Shs 926.2 billion – 11.08 %
 - Water – T Shs 621.6 billion – 7.43 %
 - Energy – T Shs 539.300 billion – 6.45 %

- ❖ As defined by Hon. Finance Minister in his budget speech, 2011/12 budget will consider following priorities –
 - Electricity;
 - Water;
 - Transport and transportation infrastructure (railways, ports, roads, airports, national optic fibre);
 - Agriculture and irrigations; and
 - Job creation in the private and public sectors.

- ❖ The government will also ensure that achievements attained under education and health sectors through the budget are protected and that they improve the quality of services delivered.

- ❖ Government will continue to broaden tax base by registering new taxpayers and maintain sustainable macroeconomic stability along with improving business environment to support growth of private sector.

- ❖ Government is in the process of procuring international consultant who will lead the government in the sovereign credit rating exercise. Credit rating will help investors and creditors by providing information on the economic situation, political and governance of the country and thus facilitate availability of soft external loans for the government and private sector.

- ❖ In recognition of the importance of National Identity Cards, the Government has finalized the procedure to secure a contractor and already signed a contract. The total cost of National Identity Card Project is estimated at T Shs 355 billion. Implementation for the financial year 2011/12 is estimated at T Shs 70 billion. The first phase of the production of national identities will be completed by the end of year 2011. The completion of the project will enable identification of citizens and hence facilitate, among other things, broadening of the tax base, facilitate access to different services including, the financial services as well as identification of illegal immigrants.

- ❖ The Government has created the post of Assistant Accountant General responsible for management of finances at the Local Government Authorities, thus enabling the implementation of the intended objective of these changes.

REFORM OF TAX STRUCTURE, FEES AND REVENUE MEASURES

The focus this year will be to further broaden the tax base and strengthen revenue collections to finance major portion of expenditure. The following measures are intended:

- Strengthening systems of revenue collection, using bank payment systems wherever possible;
- Improving services in the tourism industry by grading hotels in line with international standards with a view to increase revenue from fees collection;
- Continue to broaden tax base by registering new taxpayers;
- Continue close monitoring of the ongoing major reforms at the TRA;
- Take measures to increase non-tax revenue collections by Government Ministries, Departments and Agencies;
- Review procedures for tax exemptions to strengthen control over abuse; and
- Continue ensuring there is enhanced capacity to local authorities by allocating adequate skilled manpower with a view to increase efficiency in their revenue assessment and collections.

In order to ensure that substantial part of the domestic revenue expenditure is funded from the domestic collections, various amendments have been proposed as below. The proposed amendment covers:

- a) VAT Act
- b) Income Tax Act
- c) Excise (Management & Tariff) Act
- d) The Vocational Education and Training Act
- e) The Stamp Duty Act
- f) The Road and Fuels Tolls Act
- g) The Business Licensing Act
- h) The Local Government Finance Act
- i) The Road Traffic Act
- j) Minor Amendments in Various Tax Laws
- k) Amendment to the Fees and Levies Charged by Ministries, Regions and Independent Departments
- l) The East African Community Customs Management Act 2004

VALUE ADDED TAX ACT

The Main Sections and Sub sections of the VAT Act 1997 remains intact and the changes proposed are only in the Schedules to the VAT Act. Most of these changes whereby certain supplies are included under exempt supplies are in line with the Government's policy of **KILIMO KWANZA**.

The proposed amendments are as below:

Schedule 1 – Zero rated

No changes are proposed in this schedule

Schedule 2 – Exemptions

The following are added to the Second Schedule (Exempt supplies)

- Spare parts for threshers, rice dryers and mills , planters, trailers and power tillers used in organised farming (for registered groups and co operative unions);
- NASCOR pellet feed used for poultry;
- Raw materials used for making fishing nets;
- Spare parts for sprayers, harrows and grain conveyors.

Exemption on sale and lease of residential buildings by NHC abolished.

Schedule 3- Special Relief

- NGOs while providing food supplies to children and orphanage care centres will have VAT Relief;
- Vat special relief on charitable community based organisations or other non-profit driven organisations or institutions abolished. However Religious organisations to continue to enjoy the benefit;
- Vat Refund systems to be effective at Dar es Salaam International Airport & Kilimanjaro International Airport, effective 1/1/2012 for retail exports exceeding T Shs 400,000.

The VAT measures together will increase Government revenue by Shs 71.519 billion.

INCOME TAX ACT

Only minor changes have been proposed as below:

- Exemption granted on allowance paid to employees of Government and institutions receiving subvention for their operations;
- Withholding tax abolished on fish transport for foreign freight.

The Income tax measures together will reduce Government revenues by Shs20.288 billion.

THE EXCISE (MANAGEMENT & TARIFF) ACT

- Reduce excise duty rate on HFO from T Shs 80 to T Shs 40 with a view to reducing industrial production costs. Last year the excise duty was reduced from T Shs 97 to T Shs 80. It is intended to reduce the duty in phases and subsequently eliminate the whole duty within the next two years;
- Excise Duty on Plastic bags of more than 30 microns of Polymers (HS Code 3923.29.00) reduced from 120% to 50 %
- Adjust the specific excise duty rates by 10 per cent (last year 8 %) on non-petroleum products. The current and proposed rates are as follows:-

PARTICULARS	CURRENT	PROPOSED
Carbonated Soft Drinks	63 per litre	69 per litre
Beer from local un malted cereals	226 per litre	249 per litre
Other Beers	382 per litre	420 per litre
Wine with more than 25 % imported grapes	1,223 per litre	1,345 per litre
Wine with domestic grapes exceeding 75 %		420 per litre
Spirits	1,812 per litre	1,993 per litre
Cigarettes without filter tips and having more than 75 % domestic tobacco	6,209 per thousand	6,830 per thousand
Cigarettes with filter tips and having more than 75 % domestic tobacco	14,649 per mil	16,114 Per mil
Other Cigarettes	26,604 per mil	29,264 per mil
Cut Rag or Cur Filler	13,436 per kg	14,780 per kg
Cigars	30%	30 %

The excise duty measures together are expected to increase Government revenue by Shs 99.52 billion.

VOCATIONAL EDUCATION AND TRAINING ACT

No change is proposed in the main Act. However the allocation of 6 % SDL paid is proposed to be changed as under:

Higher Education Student's Loans Board	– 4 %
Vocational Education and Training Authority	– 2 %

THE STAMP DUTY ACT

Stamp duty exempted on transfer of ownership of assets to the Special Purpose Vehicles (SPV) for the purpose of issuing asset- backed securities.

The Stamp Duty measure is not expected to reduce government revenue.

ROAD AND FUELS TOLLS ACT

- No fuel levy on fuel for vessels, rigs and other equipments used in oil and gas exploration. The exemption will be granted through a GN, once the application is verified and approved by TPDC and submitted to Ministry of Finance.
- An escrow account to be set up by TRA where mining companies will draw their estimated annual petroleum consumption and deposit money equal to the estimated taxes on petroleum products consumed in a given month. This measure is intended to remove the bottleneck faced by the mining companies due to delays in tax refunds.

The Road and Fuels Tolls measures together are expected to reduce Government revenue by Shs 2.008 billion.

THE BUSINESS LICENSING ACT

It is proposed to introduce annual Business License fee as under:

Town Areas	- T Shs 50,000
District Councils	- T Shs 30,000
Village Councils	- T Shs 10,000

LOCAL GOVERNMENT FINANCE ACT, CAP 290

The Local Government Finance Act is proposed to be amended in order to enable them to impose business License fee as above.

ROAD TARIFF ACT

The cap of Traffic Notification Fee is proposed to be amended from T Shs 20,000 to T Shs 300,000

THE EAST AFRICAN COMMUNITY COMMON EXTERNAL TARIFF (CET) AND CUSTOMS MANAGEMENT ACT, 2004

The common decisions taken by the EAC members are as follows:

Common External Tariff (CET) amended as follows:

- **CET Remitted (0%) for the following items:**
 - 1) Raw materials used to manufacture beauty soaps, toilets and medical soaps under HS Code 1511.90.40 for one year.
 - 2) Split the tariff of raw materials under HS Code 2710.19.59 to provide for white oil (technical grade) used in the cosmetic industry sector.
 - 3) Duplex boards (HS Code 4810.92.00).

- 4) Copper Cathodes (HS Code 7403.11.00) which are raw materials used to manufacture refined copper and copper alloy.
- 5) Premixes used in the manufacture of animal and poultry feeds.
- 6) Motor vehicles (HS Code 8704.23.90) with gross weight exceeding 20 tonnes.
- 7) Motorcycles ambulances (HS Code 8703.90.10).
- 8) Road tractor (HS Code 8701.20.90)
- 9) Armed Forces Canteen for one year.

• **CET increased in the following cases**

- 1) Galvanized wire of HS Code 7217.20.00 from 0 to 10 percent.

• **CET Reduced in the following cases**

- 1) Wheat grains under HS Code 1001.90.20 and 1001.90.90 to have CET at 10 % for one year
- 2) Component parts and inputs for assemblers of refrigerators and freezers and apply a duty rate of 10 percent instead of 25 percent.
- 3) Apply a duty rate of 10 percent instead of 25 percent on raw materials used in the manufacture of sprays (Scent sprays and other similar toilet sprays).
- 4) Apply a duty rate of 10 percent instead of 25 percent on Aseptic bags (HS Code 3923.29.00) for a period of one year.

• **The following CET will continue**

- 1) For HS Code 8702.10.99 and HS Code 8702.90.99 apply a duty rate of 10 percent for one year in respect of motor vehicles carrying more than 25 persons,
- 2) For HS Code 8704.22.90 and apply import duty rate at 10 percent for one year for motor vehicles transporting goods with gross vehicle weight exceeding 5 tons but not exceeding 20 tons.
- 3) Import duty exemption on buses under HS 8704.10.99 and HS Code 8702.90.99 and apply import duty rate at 10 percent for one year to cater for the Dar es Salaam Fast Truck Bus Project.
- 4) For HS Code 2106.90.90, 10 percent for food supplements. The measure intends to reduce nutritional deficiencies and improve the well being of the people.

The Ministers for Finance of EAC Countries agreed to make changes in the EAC Customs Management Act, 2004 as follows:-

- (i) Amend paragraph 2 of the Fifth schedule Part A in order to provide import duty exemption to the Police Force.
- (ii) Amend the Fifth schedule of the EAC Customs Management Act, 2004 in order to implement the following: -
 - a. Provide import duty exemption on tsetse fly traps.
 - b. Provide for import duty exemption on Security equipments (Hand held metal detectors, walk through metal detectors, CCTV, cameras, bomb detectors)

- and undercarriage mirrors). The measure is intended to enhance internal security.
- c. Exempt import duty on battery operated vehicles/golf carts for use in hotels, hospitals and airports. This measure is aimed at improving tourism and health services as the vehicles are used for transport of guests and patients including disabled people.
 - d. Exempt import duty on Apron buses which are used to transfer passengers at the Airports.
 - e. Grant remission of import duty on inputs for the manufacture of solar panels.

Reduce the destination inspection fee from 1.2 percent to 0.6 percent of FOB of imported products in order to reduce the costs of importation and customs clearance delays.

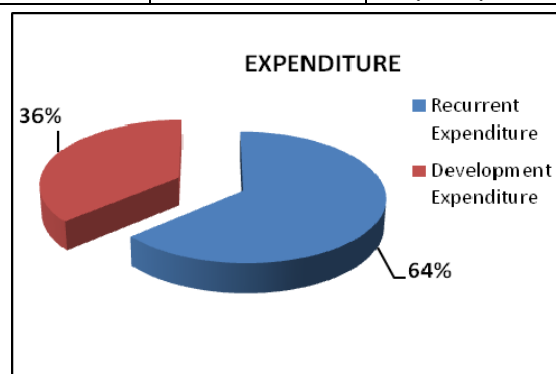
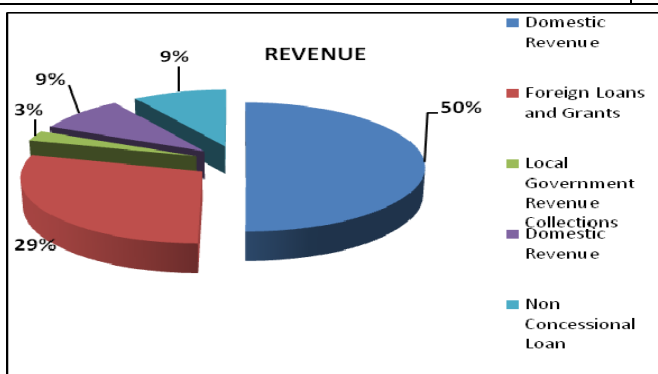
The import duty measures together will reduce Government revenue by T Shs. 4.67 billion.

EFFECTIVE DATES OF IMPLEMENTATION

The new revenue measures shall become effective on 1st July 2011, unless otherwise stated.

BUDGET FRAMEWORK 2011-2012

PARTICULARS	T SHS MILLIONS	T SHS MILLIONS	T SHS MILLIONS
REVENUE :			
A. Domestic Revenue		6,775,952	
Tax Revenue (TRA)	6,228,836		
Non Tax Revenue	547,116		
B. Local Government Revenue Collection		350,496	
C. Foreign Loans and Grants		3,923,551	
D. Domestic Revenue		1,204,262	
E. Non Concessional Loan		1,271,634	
TOTAL REVENUE			13,525,895
EXPENDITURE			
F. Recurrent Expenditure			
(i) Consolidated Financial Services	1,910,376		
(ii) Wages and Salaries	3,270,292		
(iii) Ministries	2,727,472		
(iv) Regions	49,981		
(v) Local Government Authorities	642,166		
		8,600,287	
G. Development Expenditure		4,925,608	
Local	1,871,471		
Foreign	3,054,137		
TOTAL EXPENDITURE			13,525,895



Highlights of Kenyan Budget 2011-2012

- For Fiscal Year 2011-12 Revenue target stands at Ksh 787.6 Billion (24.7% of GDP) and estimated expenditure stands at Ksh. 754.4 Billion.
- To promote fruit farmers and enhance their competitiveness, aseptic plastic bags used to store fruits shall be granted duty remission and imported at a rate of 10% instead of CET rate of 25%.
- Reduction of import duty from 10% to 0% on premixes used in manufacture of animal and poultry feeds.
- Remission of duty on inputs for production of solar panels in order to make local manufacturing attractive.
- Battery operated vehicles to be duty exempt.
- Exemption from payment of import duty on buses used at airside.
- Vehicles and equipment imported by Kenyan police to be exempted from import duty.
- Security equipment such as CCTV cameras, bomb detectors metal detectors will enjoy duty exemption.
- Microfinance Act to be amended to prohibit deposit taking business by unlicensed entities.
- Excise duty on kerosene to be completely removed.
- Allow the importation of wheat grain under the duty remission by gazetted millers at the rate of 0% instead of 10% for a period of 1 year.
- Allow the importation of maize grain foodstuff imported by gazette maize millers at a duty rate of 0% instead of 50% for a period of 6 months.
- Reduction of Import duty on food supplements from 25% to 10%.
- Removal of import duty on motor cycle ambulances.
- Employee working at multiple places to get only one personal relief under PAYE rules.

- Real Estate Investment Trusts (REITs) to be exempted from corporation tax in addition to the exemption to the investors who receive dividends from REITs from payment of withholding tax.
- Withholding tax on payments to professionals to be increased from 5% to 10%.
- Excise duty on cigarettes to be levied at higher of Ksh 1,200 per mille or 35% of the retail selling price and on beer to be levied at higher Ksh. 70 per litre or 40% of the retail selling price (RSP)
- To amend tax laws to allow the Government to enter into Tax Information Exchange Agreement, which are faster to conclude with other tax jurisdictions in order to facilitate exchange of information that will assist in taming tax evasion and ensuring all potential taxpayers pay their tax dues.
- To abolish filing of returns by employees who have no other income and their PAYE has been paid to the exchequer by their employers.
- Draft VAT Legislation Bill to be uploaded on the treasury website for public to make comments and then a revised version to be submitted to a stakeholders workshop scheduled for the end of August 2011.
- Income Tax Act to be amended to give powers to the Commissioner to register such taxpayers who refuse to apply for Personal Identification Number (PIN).

UGANDA BUDGET 2011-12 AT A GLANCE

- ❖ The Budget Speech is delivered by Hon. Maria Kiwanuka, Minister of Finance, Planning and Economic Development.
- ❖ The Theme of the Budget is Promoting Economic Growth, Job Creation and improving Service Delivery.
- ❖ The Gross Domestic Product (GDP) is growing at 6.3 percent during the year, compared to 5.5 percent in Financial Year 2009 – 2010.
- ❖ Overall Fiscal Deficit of USH 951.40 billion
- ❖ National Output is projected to total Ugandan Shillings 38,300 Billion an increase from Ugandan Shilling 34,810 Billion in the Financial Year 2009 – 2010.
- ❖ Objective of the Tax system is twofold namely: -
 - Stability and predictability; and
 - Efficiency of the Tax System.
- ❖ Government plans to reform the tax laws to ensure consistence with the current economic reality, best practice, regional integration and provide a taxpayer friendly regime. Accordingly Government has drafted a Tax Procedure code which will be introduced into Parliament next financial year. Government is also in advanced stages of reviewing the Excise Law, Stamp Duty Law, Lotteries and Gaming and Pool Betting Laws.
- ❖ **Transfer Pricing Regulations:** The Ugandan economy is integrated in global economy therefore transfer pricing regulations have been finalized to ensure that prices charged between associated entities for the transfer of goods, services and intangible property are in line with the arm's length principle. The regulations will be gazetted and will be effective 1st July, 2011.
- ❖ **Value Added Tax(VAT):** VAT treatment on imported services VAT will apply to imported services where the recipient of the services is a taxable person.
- ❖ **VAT:** Supply of solar energy is VAT Exempt.
- ❖ **VAT:** Non applicability of VAT on ambulances to facilitate the transportation of patients to hospitals and other health facilities.
- ❖ **Stamps Act:** Non applicability of Stamp Duty on securities given in procuring small loans whose threshold shall not exceed 2 Million Ugandan Shillings.
- ❖ **Excise Duty on Sugar:** Sugar being a key welfare item in many households the excise duty on sugar is reduced by 50%, due to which there is an expected revenue loss of USH 8.5 Billion.

- ❖ **Excise Duty on Kerosene:** To provide relief to households from burden of kerosene prices, the excise duty on kerosene has been repealed. This will lead to a revenue loss of USH 12 Billion.
- ❖ **Levy on Hides and Skins:** The levy on exports and outward processing of raw hides and skin has been increased to US Dollars 0.8 per kilo from the existing US Dollar 0.4 per kilo.
- ❖ **Investment Trader Regulations:** As part of the effort to streamline and improve tax administration the investment trader facility has been terminated.
- ❖ Decisions made at the EAC Pre – Budget consultations by the Ministers of Finance: -
 - Granted extension of duty remission to Uganda’s list of raw materials and industrial inputs for another one year.
 - Extension of import duty remission for a period of one year for road tractors for semi – trailers and trucks of carrying capacity of over 20 tonnes.
 - Import taxes on components parts and inputs for assembly of refrigerators and freezers were remitted from 25 percent to 10 percent.
 - Import duty on hoes used in agriculture is remitted from 10 percent to 0 percent.
 - Reduction on food supplements from 25 percent to 10 percent.
 - Removal of import duty on premixes used in the manufacture of animal and poultry feeds.
 - Waiver of taxes on motor cycle ambulances.