

# Budget Newsletter 2009/10

## Tanzania, Kenya and Uganda

- ⇒ VAT rate reduced to 18 %.
- ⇒ Reduction of corporate tax rate to 25% for DSE Listed companies, the only change in Income Tax Act.
- ⇒ Shortfall in Revenue collections to the extent of 9 %.
- ⇒ 35.98 % of actual expenses funded from foreign aid.
- ⇒ Budgeted expenditure for 2009 – 10 pegged at 9,479.77 bn.
- ⇒ Air charter services will be Vatable at the prevailing rate.
- ⇒ Excise duty on beverages and cigarettes increased.
- ⇒ Produce cess to be reduced from 5% of the farm gate price to 3 % effective 2010/11.
- ⇒ Leasing of residential buildings (except by NHC & Registrar of Buildings) and service apartments to be VATABLE.

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## HIGHLIGHTS OF THE BUDGET 2009 – 2010

- ❖ **Shortfall in Revenue collections to the extent of 9 %**
- ❖ **Expenditure less than budgeted due to shortfall in collections.**
- ❖ **35.98 % of actual expenses funded from foreign aid**
- ❖ **Domestic Revenues expected to be realized during the year 2008 – 09 T Shs 4,248.86 billion**
- ❖ **Budgeted expenditure for 2008 – 09 pegged at 7,216.130 billion.**
- ❖ **VAT rate reduced to 18 %.**
- ❖ **Fuel to continue as exempt supplies.**
- ❖ **Exempt VAT on service of loading and unloading into local vessels of incoming cargo from outside the country, provided initial service of unloading was charged to VAT.**
- ❖ **Air charter services will be Vatable at the prevailing rate.**
- ❖ **Abolish VAT exemption on processed locally grown tea and coffee**
- ❖ **Abolish VAT Special Relief on supply of inputs, raw and packaging materials for manufacture of human medicines with effect from 1<sup>st</sup> January 2010.**
- ❖ **Leasing of residential buildings (except by NHC and Registrar of Buildings) and service apartments to be VATABLE.**
- ❖ **VAT to be charged on mobile services on face value of vouchers at source and not on discounted value sold to wholesalers.**
- ❖ **VAT Special Relief given to mining companies will be limited only to prospecting and exploration activities.**
- ❖ **Abolish VAT Special Relief on charitable community based or other non profit driven organisations or institutions and religious organisations. However tools of worship shall continue to enjoy the relief.**
- ❖ **Abolish the current practice of classifying goods intended for use in specific investment as deemed capital goods.**
- ❖ **Corporate Income Tax rate to be reduced to 25% for listed companies issuing at least 30% of its share capital to the public.**
- ❖ **Abolish excise duty exemption granted to mining companies.**

- ❖ **Charge excise duty on mobile phone services at the point of sale of scratch cards or air time at its full face value rather than at the point of actual use.**
- ❖ **Excise duty on beverages and cigarettes increased.**
- ❖ **The partial fuel levy exemption granted to mining companies is revoked for companies entering into Mining Development Agreement from 1<sup>st</sup> July 2009.**
- ❖ **Produce cess to be reduced from 5% of the farm gate price to 3 % effective 2010/11.**
- ❖ **405 GNs granting exemptions to private companies, non-governmental organisations, religious organisations international institutions and completed government sponsored projects issued between 1964 and 2005 to be revoked.**
- ❖ **Major changes in East Africa Community (Customs Management) Act which include amongst other –**
  - **Exempt import duty on four wheel drive vehicles designed and built for tourist purposes, subject to satisfying criteria set by the East African Community Secretariat**
  - **Reduce import duty on light trucks (atleast 5 tons carrying capacity) with HS Code 8704.22.90 from 25 % to 10 %**
  - **Remove import duty on heavy trucks with HS Code 8704.23.90 for one year**
  - **Remove import duty on synthetic yarn**
  - **Reduce import duty from 25 % to 0 % on television cameras, digital cameras, and video camera recorders of HS Code 8525.80.00.**
  - **Reduce import duty on worn clothing from 45 % (or 30 US Cents) to 35% (or 20 US Cents), whichever is higher per kilo.**
  - **Pharmaceutical Products will have 0 % duty.**
  - **10 % duty on crude palm oil to be removed.**
  - **Increase import duty on yoghurt and other butter milk with HS Code 0403.10.00 and 0403.90.00 from 25 % to 60%**

## **BUDGET NEWS LETTER 2009/2010**

### **INTRODUCTION**

The Minister for Finance Hon. Mustafa Haidi Mkulo introduced the estimates of the Government revenue and expenditure for the financial year 2009/2010 in the National Assembly on 11<sup>th</sup> June 2009. The following are the highlights, which essentially is our interpretation extracted from the Hon. Minister's speech and is given without any obligation or liability on our part.

### **REVIEW OF IMPLEMENTATION OF THE BUDGET FOR 2008-2009.**

- Actual domestic revenue collection for the 9 months period up to March 2009, was T Shs 3,199,134 Million (3.2 trillion), which is 91 % of the budget estimate for the period.
- Domestic Revenue is expected to be T Shs 4,248,858 Million (4.2 trillion) equivalent to 90 % of planned target of T Shs 4,728,595 million (4.7 trillion).
- Collection target for 2009 – 10 – T Shs 5,096,016 million for domestic revenue
- Government projects to receive T Shs 3,181,948 million (3.18 trillion) during 2009-10 from Development Partners in the form of grants and concessional loans. This amount is split into –
  - ✓ T Shs 1,193,909 million for General Budget Support
  - ✓ T Shs 572,927 million for Basket Funds
  - ✓ T Shs 1,415,112 million for projects and programs in various sectors.
- TRA collections have been effected due to impact of global crisis on Tanzanian business.
- VAT collections exceeded the target, collections for rest of the taxes below targets.
- External grants and concessional loans during the period July 2008 to March 2009 reached T Shs 1,787,610 million. Out of this amount, general budget support (GBS) was T Shs 869,563 million (115 % of budget estimates – excess due to devaluation of Tanzanian Shilling) and Grants and loans received through development projects including Basket Funds reached T Shs 867,564 million. In addition, a total of T Shs 6,677 million was received from the United States of America through Millennium Challenge Corporation and T Shs 43,806 million as Debt Relief under the Multilateral Debt Relief Initiative (MDRI).

- Government Expenditure for the period July 2008 to March 2009 reached T Shs 4,657,903 million equivalent to 87 % of 2008 / 09 budget of T Shs 5,364,868 million.
- Out of the overall expenditure, T Shs 3,142,301 million was recurrent expenditure and T Shs 1,515,592 million was development expenditure
- Key economic indicators like Wholesale price index, inflation rates and revised GDP estimates as a percentage of estimated GDP till 31<sup>st</sup> March 2009, forex reserves as of 31<sup>st</sup> March 2009 etc have not been announced by the Hon. Minister of Finance and Economic Affairs in his budget speech. We assume these figures will be deliberated in the parliament sessions when these budget estimates are being deliberated.

For the period ending March 2009, Government reserves at the Bank of Tanzania increased to shillings 186,854 million.

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

(Fig in T Shs. Billion)

PARTICULARS	2007/2008	2008/2009	VARIANCE
Revenue Estimate (9 months)	2,633.90	3,529.21	+ 33.99 %
Actual Revenue	2,656.20	3,199.13	+20.44 %
% Of estimate	100.80 %	90.65%	-10.15%
Expenditure Estimate (9 months)	4,836.92	5,634.87	+10.92 %
Actual Expenditure July to March	4,147.42	4,657.90	+ 12.31 %
Recurrent Expenditure	2,451.93	3,142.30	+ 28.15 %
% Of total Exp.	59.12%	67.46%	-8.34 %
Developmental Expenditure	1,695.49	1,515.60	- 10.61 %
% Of total Exp.	40.88%	32.54%	- 8.34 %

#### **BASIS, POLICIES, INITIATIVES AND OBJECTIVES OF THE 2009/10 BUDGET**

- ❖ To collect domestic revenue of at least 16.4 % of the Gross Domestic Product (GDP) compared to the 15.9 % of the GDP which is expected to be collected by the end of the FY 2008/2009.
- ❖ Considering 2009-10 as an exception to the earlier policy initiative to discourage borrowing of funds from domestic market, Government intends to borrow T Shs 506,193 million from domestic financial market.
- ❖ Funds to the tune of T Shs 576,476 million will be raised for repayment of maturing bonds.
- ❖ Collections from domestic revenue for 2009 – 10 T Shs 5,096,016 million
- ❖ Grants and concessional financing for 2009 – 10 T Shs 3,181,948 million ; Total collections – T Shs 8,277,964 million

- ❖ For the first time, Government has budgeted revenue collections from Local Government Authority.
  
- ❖ Allocation of funds for recurrent expenditure in following proportion –
  - Education – T Shs 1,743,940 million – 34.17 %
  - Infrastructure – T Shs 1,096,600 million – 13.07 %
  - Health – T Shs 963,000 million – 21.49 %
  - Agriculture – T Shs 666,900 million – 18.87 %
  - Water – T Shs 347,300 million – 6.81 %
  - Energy – T Shs 285,500 million – 5.59 %
  
- ❖ Government will establish Fuel Bonded Warehouse using TIPER facilities to allow bulky importation of fuel with the overall objective of curbing tax evasion, having sustainable stock of fuel for a reasonable time, reduce operational costs and hence reduce hiking of fuel prices to end consumers.
  
- ❖ Revenue Authority will improve field and desk tax audits as well as reinforce supervision in collections of tax arrears
  
- ❖ **Unlike the other budgets, 2009/10 budget motto is AGRICULTURE FIRST. Measures will be taken to ensure agriculture is allocated more resources, including agro-inputs and farm equipments.**
  
- ❖ Government is in the process of establishing an independent Internal Auditor General's Department. The Internal Auditor General will have authority to oversee internal audits for Government accounts. The Internal Auditor General will be accountable directly to the Paymaster General.
  
- ❖ Government will allocate funds to cater for land survey in the remaining 1,500 villages.

## **REFORM OF TAX STRUCTURE, FEES AND REVENUE MEASURES**

Tanzania in 2007/08 had given tax exemption to mining sector, non-governmental organizations and religious organizations equivalent to 3.5 % of the GDP. This is the highest in East African Community Regions, and in Kenya it is only 1 % of GDP and Uganda it accounts for 0.4 % of GDP. With this in mind and 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 Road and Fuels Tolls Act
- e) Local Government Finance Act
- f) The East African Community Customs Management Act 2004
- g) Government Notices granting tax exemptions

## **VALUE ADDED TAX ACT**

Out of the 15 amendments proposed in the VAT Act, 14 of them are amendments to the three schedules to the VAT Act. The proposed amendments are as below:

- Exempt VAT on heat insulated milk cooling tanks and aluminium jerry cans used for storage and collection of milk in the dairy industry.
- Exempt VAT on farm services of land preparation, cultivation, planting and harvesting
- Exempt VAT on service of loading and unloading into local vessels of incoming cargo from outside the country, provided initial service of unloading was charged to VAT.
- Extend VAT Special Relief granted to Tanzania Defence Forces Duty Free Shops to include all armed forces.
- Limit VAT Special Relief provided to water and sewerage authorities to ONLY cover goods and services used for water and sewerage infrastructure development
- Abolish VAT exemption on air charter services; It will be Vatable at the prevailing rate.
- Abolish VAT exemption on processed locally grown tea and coffee
- Abolish VAT exemption on electronic cash registers
- Abolish VAT Special Relief on supply of inputs, raw and packaging materials for manufacture of human medicines with effect from 1<sup>st</sup> January 2010.
- Leasing of residential buildings (except by NHC and Registrar of Buildings) and service apartments to be Vatable.
- VAT to be charged on mobile services on face value of vouchers at source and not on discounted value sold to wholesalers.

- VAT Special Relief given to mining companies will be limited only to prospecting and exploration activities.
- Abolish VAT Special Relief on charitable community based or other non profit driven organisations or institutions and religious organisations. However tools of worship shall continue to enjoy the relief.
- Abolish the current practice of classifying goods intended for use in specific investment as capital goods in order to provide relief to investors.
- **Reduce VAT rate to 18 %**

The proposed Changes will reduce the Vat revenue by 45,078 Million.

### **INCOME TAX ACT**

- Corporate Income Tax rate to be reduced to 25% for listed companies issuing at least 30% of its share capital to the public.

### **THE EXCISE (MANAGEMENT & TARIFF) ACT**

- Abolish excise duty exemption granted to mining companies.
- Charge excise duty on mobile phone services at the point of sale of scratch cards or air time at its full face value rather than at the point of actual use.
- Adjust excise duty on non petroleum products as below:
  - a) Carbonated soft drink for 54 Shillings to 58 shillings per litre
  - b) Beer made from local un-malted cereals from 194 shillings to 209 shilling per litre
  - c) Other beers from 329 shillings to 354 shillings per litre
  - d) Wine with more than 25 % imported grapes from 1,053 shillings to 1,132 shillings per litre
  - e) Spirits from 1,561 shillings to 1,678 shillings per litre
- The excise duty on Cigarettes will be as follows:
  - a) Cigarettes without filter tips and containing more than 75% domestic tobacco from 5,348 shillings to 5,749 shillings per mil.
  - b) Cigarettes with filter tips and containing more than 75% domestic tobacco from 12,618 shillings to 13,564 shillings per mil.

- c) Other cigarettes from 22,915 shillings to 24,633 shillings per mil
- d) Cut rag or cut filter from 11,573 shillings to 12,441 shillings per kg.
- e) Excise duty on Cigars will remain at 30%

The above measures will increase the Government revenue by 72,691 Million.

#### **THE EAST AFRICAN CUSTOMS MANAGEMENT ACT**

- Exempt import duty on heat insulated milk cooling tanks for dairy industry.
- Wheat grain with HS Code 1001.90.20 and 1001.90.90 to continue to have duty at 10%
- Pharmaceutical Products will have 0 % duty.
- 10 % duty on crude palm oil to be removed.
- Import duty on Industrial spares to be exempt, subject to condition developed by the Secretariat of the East African Community in collaboration with partner states.
- Exempt import duty on four wheel drive vehicles designed and built for tourist purposes, subject to satisfying criteria set by the East African Community Secretariat
- Exempt import duty on equipments and inputs (except motor vehicles) imported by a licensed company for direct and exclusive use in oil, gas, or geothermal exploration.
- Exempt import duty on raw materials used for manufacture of sanitary towels and tampons.
- Reduce import duty from 25% to 0 % for asbestos fibers (HS Code 6812.80.00 and 6812.99.00) for manufacture of brake linings.
- Reduce import duty from 25 % to 0 % on television cameras, digital cameras, and video camera recorders of HS Code 8525.80.00.
- Reduce import duty on worn clothing from 45 % (or 30 US Cents) to 35% (or 20 US Cents), whichever is higher per kilo.
- Duty remission on raw materials for use by paper and paper board mills.
- Reduce import duty on light trucks (at least 5 tons carrying capacity) with HS Code 8704.22.90 from 25 % to 10 %
- Remove import duty on heavy trucks with HS Code 8704.23.90 for one year

- Remove import duty on synthetic yarn
- Increase import duty on yoghurt and other butter milk with HS Code 0403.10.00 and 0403.90.00 from 25 % to 60%

The above will reduce the Government revenue by T Shs 23,622 Million.

### **THE ROAD AND FUELS TOLLS ACT**

The partial fuel levy exemption granted to mining companies is revoked. The change will affect mining companies entering into Mining Development Agreement from 1<sup>st</sup> July 2009.

### **LOCAL GOVERNMENT FINANCE ACT**

Produce cess to be reduced from 5% of the farm gate price to 3 % effective 2010/11.

### **Government Notices (GNs) granting tax exemption**

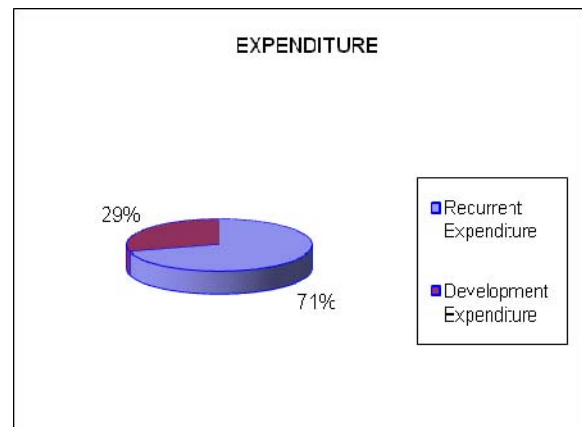
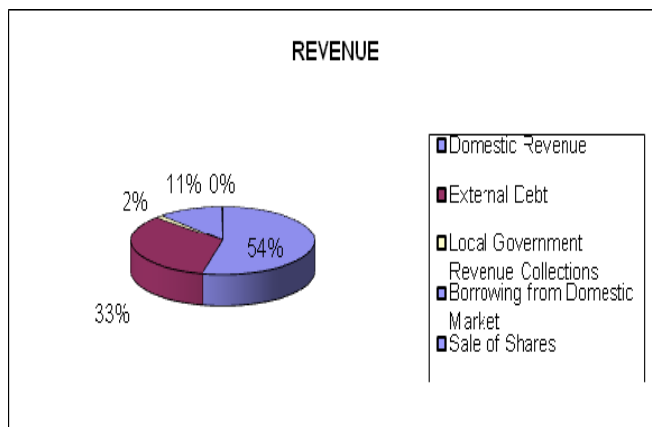
405 GNs granting exemptions to private companies, non-governmental organisations, religious organisations international institutions and completed government sponsored projects issued between 1964 and 2005 to be revoked. In the event that any of the revoked GNs is still required, the beneficiary would be required to re- apply in line with the existing laws and procedures.

### **EFFECTIVE DATE**

- ❖ Effective date for implementation of new measures (unless otherwise stated)– 1<sup>st</sup> July 2009

**BUDGET FRAMEWORK 2009-2010**

<b>PARTICULARS</b>	<b>T SHS MILLIONS</b>	<b>T SHS MILLIONS</b>	<b>T SHS MILLIONS</b>
<b>REVENUE :</b>			
<b>A. Domestic Revenue</b>		<b>5,096,016</b>	
<b>B. Local Government Revenue Collection</b>		<b>138,052</b>	
<b>C. External concessional loans and grants (including debt relief)</b>		<b>3,181,948</b>	
<b>D. Borrowing from Domestic Market</b>		<b>1,082,669</b>	
<b>E. Privatization proceeds (NMB)</b>		<b>15,000</b>	
<b>TOTAL REVENUE</b>			<b>9,513,685</b>
<b>EXPENDITURE</b>			
<b>D. Recurrent Expenditure</b>			
(i) Public Debt	1,523,024		
(ii) Ministries	3,476,242		
(iii) Regions	123,013		
(IV) Local Government Authorities	1,565,973		
		<b>6,688,252</b>	
<b>E. Development Expenditure</b>		<b>2,791,521</b>	
<b>TOTAL EXPENDITURE</b>			<b>9,479,773</b>



## **KENYA BUDGET 2009-10 AT A GLANCE**

- ❖ Total Revenue Target for 2009-10 K Shs 569.6 billion (22.4% of GDP)
- ❖ Overall Fiscal Deficit of Kshs 168.2 billion
- ❖ Removal of Sugar Development Levy on refined industrial sugar imported by gazetted manufacturers under the duty remission scheme.
- ❖ Exemption of import duty on all industrial spare parts which will be managed through the duty remission scheme.
- ❖ Reduction in Import duty on all synthetic yarns, acrylic yarns, polyester yarn and high ferocity yarn from current rate of 10% to 0%.
- ❖ Zero rated VAT on Locally produced and ginned cotton.
- ❖ Exemption of import duty on all four wheel drive motor vehicles specially designed and build for tourist purposes (Same as done by Tanzanian Govt.)
- ❖ Removal of Import Duty of 25% and Vat of 16% on TV, Cameras, digital Cameras and video camera recorders.
- ❖ Zero rate for VAT taxable goods and services offered to film producers.
- ❖ 100% Investment deduction on capital expenditure incurred by a film producer on purchase of any filming equipment.
- ❖ Vat Exemption to all telephones for cellular networks or other wireless networks.
- ❖ 150% Investment allowance to any person who makes substantial investment in any satellite town around the major cities of Nairobi, Mombasa and Kisumu.
- ❖ Import duty exemption on equipments and inputs (excluding motor vehicles) imported by a licensed company for direct and exclusive use in oil, gas or geothermal exploration and development.
- ❖ Ban on exportation of scrap aluminium, steel and copper wires and cables.
- ❖ Zero rate VAT on power generators and generating sets.
- ❖ Import duty on wheat increased from current 10% or 50 per USD whichever is higher to a rate of 25%.
- ❖ Exemption of import duty and Zero rate for VAT for heat insulated milk tanks, to help dairy farmers in preserving their milk. (Same as done by Gov of TZ).

- ❖ Zero rate for VAT Taxable supplies for the construction of Grain silos.
- ❖ Zero rate for VAT for refrigerated trucks and parts for agricultural, horticultural and forestry machinery.
- ❖ VAT reduced from 16% to Zero rated on Bicycles.
- ❖ Reduction in Excise duty from 10% to 5% on cosmetics and skin care products, water and from 10% to 7% on carbonated soft drinks.
- ❖ Increase in Tax Exempt Limit for senior citizen pensioners from Kshs 15,000 per month to K Shs 25,000 per month.
- ❖ Zero rate taxable goods and taxable services supplied to the Kenya Red Cross.
- ❖ Amendment in Banking Act to allow for branchless banking.
- ❖ Amendment in Kenya Post Office Savings Bank Act to expressly allow Post bank to transact in foreign exchange business.
- ❖ Amendments in Capital Markets Regulations to increase the share capital for stockbrokers and investment banks from present KShs 5 million and 30 million to Ksh 50 Million and 250 million respectively. Reduction in with holding tax from 15% to 10% on interest arising from long term bonds of ten year maturity or above.
- ❖ Amendment in Insurance Act to restrict shareholding of insurance companies by a single person either directly or indirectly to 25%.
- ❖ Amendment on laws for registration of new owners of vehicles where a transfer has taken place as well as the law on registration of imported commercial vehicles.