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**THE UNITED REPUBLIC OF TANZANIA**

**MINISTRY OF FINANCE**

**2023 TAX EXPENDITURE REPORT**

**October, 2024**

**TABLE OF** **CONTENTS**

[ACRONYMS 3](#_Toc179899274)

[LIST OF TABLES 4](#_Toc179899275)

[EXECUTIVE SUMMARY 5](#_Toc179899276)

[CHAPTER ONE: 6](#_Toc179899277)

[INTRODUCTION 6](#_Toc179899278)

[1.0 Background 6](#_Toc179899279)

[1.1 Benchmark Tax System 7](#_Toc179899280)

[1.2 Objectives of the report 8](#_Toc179899281)

[1.3 Scope of the report 8](#_Toc179899282)

[CHAPTER TWO: 9](#_Toc179899283)

[LEGAL FRAMEWORK GOVERNING TAX EXPENDITURE IN TANZANIA 9](#_Toc179899284)

[2.0 Overview 9](#_Toc179899285)

[2.1 Income Tax Act 9](#_Toc179899286)

[2.2 Value Added Tax Act 10](#_Toc179899287)

[2.3 The Excise (Management & Tariff) Act 11](#_Toc179899288)

[2.4 The East African Community Customs Management Act, 2004 (EACCMA) 12](#_Toc179899289)

[CHAPTER THREE: 13](#_Toc179899290)

[TAX EXPENDITURE ANALYSIS 13](#_Toc179899291)

[3.1 Overview 13](#_Toc179899292)

[3.2 Impact of Tax Expenditure 13](#_Toc179899293)

[3.2.1 Positive Impact 13](#_Toc179899294)

[3.2.2 Negative Impact 13](#_Toc179899295)

[3.3 Income Tax 13](#_Toc179899296)

[3.3.1 Corporate Income Tax Benchmark 14](#_Toc179899297)

[3.4 Value Added Tax (VAT) 15](#_Toc179899298)

[3.4.1 VAT Benchmark 15](#_Toc179899299)

[3.4.2 VAT Expenditure 15](#_Toc179899300)

[3.4.2.1 Analysis of VAT Expenditure by Beneficiaries 16](#_Toc179899301)

[3.4.2.2 Analysis of VAT Expenditure on Zero rating of Domestic Supplies 17](#_Toc179899302)

[3.5 Taxes on Imports 18](#_Toc179899303)

[3.5.1 Benchmarking Taxes on imports 18](#_Toc179899304)

[3.5.2 Tax Expenditure on Imports 19](#_Toc179899305)

[3.6 Total Tax Expenditure for the Year 2023 20](#_Toc179899306)

[4.0 Overview 21](#_Toc179899307)

[4.1 Conclusion 21](#_Toc179899308)

[4.2 Policy Recommendations 22](#_Toc179899309)

# ACRONYMS

BTS Benchmarking Tax System

CIT Corporate Income Tax

DSE Dar es Salaam Stock Exchange

EACCET East Africa Community Common External Tariff

EACCMA East African Community Customs Management Act

EPZA Export Processing Zone Authority

FDI Foreign Direct Investment

GDP Gross Domestic Product

MNEs Multinationals

MoF Ministry of Finance

NISC National Investment Steering Committee

OECD Organization for Economic Co-operation and Development

SADC Southern African Development Community

SEZ Special Economic Zone

TE Tax Expenditure

TIC Tanzania Investment Centre

TZS Tanzanian Shillings

USD United States Dollar

VAT Value Added Tax

# LIST OF TABLES

[**Table 1: Tanzania Benchmarking System** 7](#_Toc180511414)

[**Table 2: Corporate Income Tax Expenditure, 2023** 14](#_Toc180511415)

[**Table 3: Domestic VAT Expenditures, 2023** 16](#_Toc180511416)

[**Table 4: VAT Expenditures from Exempt Goods and Services** 17](#_Toc180511417)

[**Table 5: VAT Expenditures for Zero Rated Goods and Services** 17](#_Toc180511418)

[**Table 6: Tax Expenditures for Import Taxes, 2023** 19](#_Toc180511419)

[**Table 7: Tanzania Tax Expenditure in 2023 by Type** 20](#_Toc180511420)

[**Table 8: Tanzania Tax Expenditure in 2023 by Type (Detailed)** 20](#_Toc180511421)

[**Table 9: Total VAT Expenditures** 21](#_Toc180511422)

# EXECUTIVE SUMMARY

This report analyzes tax expenditure of Tanzania for the year 2023. The estimated tax expenditure in the report was derived using the revenue foregone approach that involved the revenue loss incurred as a result of deviation from the benchmarking tax system. The main motive of reporting tax expenditure is to improve transparency and assist the Government to realize its fiscal position and plan for the proper allocation of the tax incentives in the most productive sectors.

The analysis of tax expenditure focused on major tax items/heads including the Income Tax (Corporate Income Tax), Value Added Tax (VAT) on local supplies and imports, Excise Duty on imports and imports duty. Through the tax items, benchmarking tax system was established on each tax item to enable and facilitate estimation of revenue foregone (tax expenditures). Furthermore, tax analysis narrated percentage share of tax expenditure to total tax revenue collected and Gross Domestic Product (GDP).

The report indicates that, in 2023 total tax expenditure amounted to **TZS 3,081,312.86 million** which is **12.86 percent** of the total tax revenue collected and **1.63 percent** of GDP. This amount comprises tax expenditure on Income Tax (CIT) amounting to **TZS 1,934.94 million (0.06%)**; Excise Duty amounting to **TZS** **37,816.26 million (1.23%);** Import Duty total of **TZS 674,202.56 million (21.88%);** VAT on imports amounting to **TZS 1,001,746.55 million (32.51%);** VAT Deferment on imported capital goods at a tune of **TZS 256,854.39 million (8.34%);** and VAT on domestic supplies (exempt and zero-rated) amounting to **TZS 1,108,758.16 million** **(35.98%).**

Further, the total VAT expenditure on imports and domestic supplies contributed the huge share of all tax expenditures at the tune of **TZS 2,367,359.16 Million** equivalent to **77 percent** of total tax expenditures, **10 percent** of total tax revenue and **1.25 percent** of the GDP. This is mainly attributed to the exemptions granted to the government /or donor funded projects.

Therefore, to ensure fiscal sustainability of the country as a result of granting tax exemptions/reliefs, it is recommended for the Government to put in place a mechanism for scrutiny and close monitoring on the mushrooming VAT exemptions given its larger share of total tax expenditures; monitor and evaluate tax exemptions granted to ensure the intended objectives of granting exemptions are met; rationalize tax exemptions to the most productive sectors with high multiplier effect to the economy; maintain the threshold of the tax expenditure to GDP ratio of 1 percent ; and abolish zero-rated status currently granted to local supplies to align with the requirements of VAT principles since the zero rated local supplies list is expanding rapidly.

# CHAPTER ONE:

# INTRODUCTION

# Background

Tax revenue plays a vital role in financing government spending on both recurrent and development projects. It is a source of fund that facilitates investment in social and economic sectors, thus boosting economic growth. On the other side, the government provides various tax incentives that include tax relief and exemptions to various sectors or individuals in order to provide reliefs and attract investment. Basically, the incentives granted to various beneficiaries are government spending through the tax system and the revenue foregone is referred to as tax expenditure.

Tax expenditures are the revenue losses attributable to special provisions in tax legislations that reduce taxes for certain sources or uses of income or for certain groups of taxpayers. Tax expenditures are used instead of direct spending to deliver a Government subsidy to a class of taxpayers or encourage a desired activity. They can take many forms, including tax exemptions; zero rating (Value Added Tax); preferential rates; and defer a taxpayer’s tax liability.

In addition, tax expenditures are often aimed at policy goals similar to those of government spending programs. The revenue that the government foregoes from tax expenditure reduces revenue available to fund other Government activities and hence requires higher tax rates to raise any given amount of revenue and increases the budget deficit, or reduces any budget surplus.

Against this backdrop, it was seen important for the government of Tanzania to estimate and report the amount of tax expenditures that have been incurred during a period of time. The main objective of tax expenditure reporting is to improve transparency and assist the Government to comprehend its fiscal position and plan for the proper allocation of the tax incentives to the most productive sectors. Also, it is an international best practice to report tax expenditure in order to recognize the position of the country in terms of tax expenditures that deviates from the threshold mark of one percent of GDP (IMF Report (2023)).

In this regard, tax expenditure report will be produced annually to ensure timely availability of the Tanzania tax expenditure information. The information will be a key input before further fiscal decisions in the subsequent years. The estimated tax expenditure in this report was derived using the revenue foregone approach that involve the revenue loss from incurred due to the deviation from the benchmarking tax system.

# Benchmark Tax System

The key step in identifying the amount of tax expenditure in any country is the determination of the Benchmarking Tax System (BTS). BTS is a reference point against which revenue foregone is measured. Any provision which is not part (deviates) of the ‘benchmark system’ is thus costed as the tax expenditure (TE).

The Tax Expenditure Report thus follows the legal approach in defining the benchmark tax system where the existing tax law form the basis for defining the benchmark and identifying differential and preferential treatment. The major tax items/categories considered in the report include the following:

1. Corporate Income tax imposed under the Income Tax Act, CAP 332;
2. The Value Added Tax administered under the VAT Act, CAP 148;
3. The Excise Duty imposed under the The Excise (Management and Tariff) Act, CAP 147; and
4. The Import Duties imposed under the East Africa Community Common External Tariff (EAC CET) and The East Africa Community Customs Management Act, 2004 (EACCMA).

Further, the elements of the benchmark tax system include the unit of taxation, taxation period, tax base and tax rate structure. **Table 1** summarizes the benchmark tax system for Tanzania as used in this report.

**Table 1: Tanzania Benchmarking System**

| **S/N** | **Tax item** | **Category** | **Benchmark** | **Tax expenditure** |
| --- | --- | --- | --- | --- |
|  | Income Tax | Corporate income Tax (CIT) | Standard rate 30% | Tax holidays |
| Preferential rates (reduced rates) |
|  | Value Added Tax (VAT) | VAT domestic | Standard rate 18% | VAT exemptions |
| Zero rated export | Zero rated local supplies |
| VAT deferment |
|  | Import taxes | Import duty | East African Community Common External Tariffs (EAC CET) rates | Exemptions under the East African Community Customs Management Act (EAC CMA,2004), 5th Schedule |
| Exemptions under Investment schemes and others through the 6th Schedule of the Customs (Management and Tariff) Act, CAP 403. |
| Duty remission |
| Preferential treatments under Other regional blocks and international trade agreements |
| VAT on import | Standard rate 18% | VAT exemptions |
| Excise duty import | Various rates under 4th schedule of the Excise (Management and Tariff) Act. | Any exemptions and GNs |

**Source**: TRA

# Objectives of the report

The overall objective of the report is to estimate Tax Expenditure of Tanzania for the year 2023. Specifically, the report intended to:

1. Review the legal framework governing Tax Expenditure in Tanzania
2. Estimate Tax Expenditure of major tax heads/categories administered by TRA;
3. Estimate percentage of Tax Expenditure for each tax heads to tax revenue collected and Gross Domestic Product (GDP);
4. Identify share of Tax Expenditure based on the Sectors; and
5. Provide policy recommendations for further fiscal decisions.

# Scope of the report

This report covers the analysis of tax expenditure from tax incentives granted under the Income Tax (Corporate Income Tax), Value Added Tax (VAT) on Domestic supplies and taxes on imports (Import Duty, Excise Duty and VAT) for the year 2023. The analysis focused on the major tax categories to provide a deeper description of the Benchmarking tax system, estimates of the tax expenditure and its share to the total tax revenue collections and GDP. This introductory chapter covers the background of the report, Benchmarking Tax System and the objectives of the report. The subsequent part of the report is organized into chapters as well, with chapter two expounding the legal framework governing Tax Expenditure in Tanzania; chapter three providing analysis of tax expenditure under the major tax items mentioned earlier; and Chapter Four presents Conclusion and Recommendations.

# CHAPTER TWO:

# LEGAL FRAMEWORK GOVERNING TAX EXPENDITURE IN TANZANIA

# Overview

Tanzania’s tax system provides several tax reliefs and exemptions that aims at facilitating social and economic growth; creating a favourable environment for investment for both investors and export-oriented companies; and respond to regional and international obligations. The tax reliefs and exemptions sometimes referred as tax incentives are available and provided under different regimes such as players in the economic zones benefiting from tax holidays, reduced tax rates, and exemptions. Further, the government grant tax reliefs to projects funded by government/donors and to diplomats and diplomatic missions in order to meet international obligations and other humanitarian reasons. These tax incentives are mainly directed towards agriculture, manufacturing, tourism, extractive industries and infrastructure development. The key tax incentives offered in Tanzania are governed by the Value Added Tax Act, CAP 148, the Income Tax Act, CAP 332, the Excise (Management & Tariff) Act, CAP 147 and the EAC Customs Management Act (EAC CMA,2004). A detailed explanation of each tax law is provided below.

# Income Tax Act

The Income Tax Act, CAP 332 grant tax relief and exemptions in accordance to the specific provisions. Some of these provisions exempts part of the taxable income, whole rates or preferential rates. The amounts exempted from income tax are listed in the Second Schedule of the law as provided under section 10 of the Act.

Apart from exemptions, the Income Tax Act provides other tax incentives such as reduced corporate income tax rates for specific sectors. Paragraph 3(1) of the First Schedule lists offers the following reduced rates:

1. Newly listed companies on the Dar es Salaam Stock Exchange, with at least thirty percent of equity ownership issued to the public, are taxed at a reduced corporate rate of twenty-five percent for three consecutive years from the date of listing;
2. Corporations with newly established plants for assembling motor vehicles, tractors, fishing boats, or out boat engines, and having a performance agreement with the government, are taxed at a reduced corporate rate of ten percent for five consecutive years from the year of commencement of production; and
3. Newly established entities involved in the manufacture of pharmaceuticals or leather products, and having a performance agreement with the government, are taxed at a reduced corporate rate of twenty percent for five consecutive years from the year of commencement of production.

# Value Added Tax Act

The tax reliefs and exemptions under VAT Act, CAP 148 are provided for under Sections 6, 7, 11, 55 and 95. Section 6(1A) of the VAT Act grants exemptions on goods or services for the implementation of special strategic investments projects approved by the National Investment Steering Committee under the Tanzania Investment Act. Section 6(2) which provides for exemptions on the following:

1. Importation of raw materials to be used solely in the manufacture of long-lasting mosquito nets;
2. Importation by or supply to a government entity of goods or services to be used solely for the implementation of a project funded by:
3. The Government;
4. A concessional loan, non-concessional loan, or grant through an agreement between the Government of the United Republic and another government, donor, or lender; and
5. A grant agreement, approved by the Minister in accordance with the Government Loans, Grants and Guarantees Act, entered into between a local government authority and a donor, provided that such an agreement includes VAT exemption on goods or services.
6. Importation or supply of goods or services for the relief of natural calamities or disasters;
7. Importation by or supply of goods or services to an entity with a government agreement for operating or executing a strategic project, provided that such an agreement includes VAT exemption on goods or services; and
8. Importation by or supply of goods or services to a Non-Governmental Organization (NGO) with a government agreement solely for a project implemented by the NGO, provided that such an agreement includes VAT exemption on goods or services.
9. Importation or supply of water sanitation and treatment chemicals by a water supply and sanitation authority upon approval of the Minister responsible for water.
10. Importation or supply of equipment and machinery for processing and storing bee products.

Further, Section 7 of the VAT Act exempts international agencies listed under the Diplomatic and Consular Immunities and Privileges Act that have signed agreements with the Government, provided these agreements include provisions for tax exemption.

Moreover, incentives granted under Section 11 of the Value Added Tax Act, CAP 148, include the deferral of VAT on capital goods under specified conditions. The capital goods eligible for deferment are those classified under Chapters 84, 85, and 90 of Annex I to the Protocol on the establishment of the East African Community Customs Union.

Additionally, the Finance Act, 2023, amended Section 11 to include locally manufactured capital goods. However, the deferral for imported capital goods will cease to apply on June 30, 2026. According to the Value Added Tax General Regulations, the deferment period is ten years. Once this period lapses, the deferred VAT on capital goods does not become payable.

Furthermore, Section 55 of the VAT Act provides zero rating of the supply of goods initially focused on exports and later on local supplies as follows:

1. Section 55A; A supply of fertilizers by locally manufacturers shall be zero rated
2. Section 55B; A supply of locally manufactured garments made from locally grown cotton shall be zero rated
3. Section 55C; A supply of gold to the Bank of Tanzania shall be zero rated.
4. Section 55D; A supply of gold to a licensed refinery in Mainland Tanzania shall be zero rated.

In addition, Section 95(2) of the VAT Act provides special relief on the purchase of goods and services for investors engaged in the exploration and prospecting of minerals, gas, or oil, as well as for investors registered under the Export Processing Zone Act or the Special Economic Zone Act. Moreover, the VAT Act grants exemptions on items listed under Part I and II of the Exemption Schedules.

# The Excise (Management & Tariff) Act

The tax exemptions and/or relief in the Excise (Management & Tariff) Act, CAP 147 are provided under sections 128(2A&B) and 135A of the law. Section 128(2A) grants exemption on the purchase or importation of fuel for use in projects exempted by an agreement to which the United Republic is a party. In addition, section 128(2B) exempt excise duty on goods and services imported or purchased for the implementation of strategic and special strategic investments. Further, Section 135A provides exemptions for the importation by or supply of aircraft lubricants to a local operator of air transportation or a designated airline under a Bilateral Air Service Agreement between the Government of the United Republic and a foreign government.

# The East African Community Customs Management Act, 2004 (EACCMA)

The exemptions of import duty are provided for under Section 114 of the East African Community Customs Management Act, 2004 (EACCMA), read with the Fifth Schedule (Exemption Regime). The exempt schedule is divided into two parts; with Part A covering specific exemptions, and Part B providing general exemptions. In addition, the EACCMA, offers other tax incentives including duty remission scheme under Section 140 and the Export Processing Zone investment schemes incentives under Section 167, as outlined in Regulation 16 of Annex VII of the EAC Protocol on EPZ.

# CHAPTER THREE:

# TAX EXPENDITURE ANALYSIS

# Overview

This chapter gives a highlight on impact of tax expenditure to the economy. Furthermore, it provides an analysis of the tax expenditure under the Income Tax, VAT on domestic supplies and the taxes charged on imports including Import duty, VAT and Excise duty. In addition, the analysis of tax expenditure also determined the percentage contribution of the major tax items/categories into total revenue collected and GDP during the period under review.

# Impact of Tax Expenditure

While tax expenditures serve as a policy tool to stimulate investment by reducing cost of doing business through tax exemption, promote social goals, and drive economic growth, their impact on a country's economy and fiscal policy is multifaceted, with both positive and negative outcomes.

# Positive Impact

1. Promotion of investment, export and productivity; In 2023, Tanzania, through the Tanzania Investment Centre (TIC), was able to register 526 projects with a total value of USD 5720.38 million expected to provide 137,010 employment opportunities. In addition, for the year 2023, value of export was USD million 7696.9 compared to export value of USD million 7223.8 in 2022 equivalent to a growth of 6.5 percent.
2. Promotion of social services delivery; and
3. Fulfilling contractual and legal requirements of cooperation with International Organisations.

# Negative Impact

Decrease in government tax revenue.

# Income Tax

The analysis of tax expenditure under the income tax focused on the Corporate Income Tax (CIT). Corporate Income Tax is a tax charged to corporate entities such as limited liability companies and entities among others on their annual taxable income that is derived in Tanzania. The benchmark unit of taxation for the corporate income tax is the single company, cooperative society, public business, partnership or other entity established to realize profits from business activities within a calendar year.

Therefore, due to the core structural characteristics of the Tanzania’s Personal Income tax system, PIT is not the point of interest in establishing Benchmarking Tax System (BTS) and reporting tax expenditure under the income tax in Tanzania and the main focus is on Corporate Income Tax.

# Corporate Income Tax Benchmark

The benchmark for the CIT is the prevailing standard rate of 30 percent. The statutory general rate of 30% is applied to worldwide income of businesses minus allowable expenses incurred to earn that taxable income. This implies that, any deviation from the standard rate will be regarded as the Tax Expenditure during estimation of CIT tax expenditure.

* + 1. **Corporate Income Tax Expenditure**

The tax expenditure under the CIT is categorized into two forms; the tax holidays and preferential/reduced rates. Tax holiday is a tax incentive granted to investors under the economic zones in order to exempt them from paying corporate income tax for the period of ten years. The main objective of this measure is value creation and increase foreign earnings. On the other side, preferential/reduced income tax rates are provided to investors for the purpose of encouraging them to invest in priority sectors or going public by getting listed to the stock market.

The tax expenditures under the CIT was computed based on information extracted from the TRA systems for the taxpayers benefiting from tax holiday and those subject to preferential or reduced tax rates. During the year 2023, it was revealed that majority of the taxpayers enjoying tax holiday reported loss of their taxable income and based on this result the tax expenditure under the tax holiday regime amounted to **TZS 603.55 million.** In Addition, the analysis shows that the tax expenditure arising from taxpayers benefiting from preferential or reduced tax rates valued at **TZS 1,331.43 million** (***Table 2***).

Therefore, the total CIT tax expenditure arising from tax holidays and preferential rates schemes for the year 2023 amounted to **TZS 1,934.97 million**. This tax expenditure represents **0.063 percent** of the total CIT revenue collected during the year under review. (**Table 2*)***.

**Table 2: Corporate Income Tax Expenditure, 2023**

|  |  |  |
| --- | --- | --- |
| **Tax Item** | **Amount (TZS Millions)** | **Share**  **(%)** |
| Tax Holidays | 603.55 | 31.19 |
| Preferential (Reduced Rates) | 1,331.43 | 68.81 |
| **Total CIT TE** | **1,934.94** | **100.00** |
| Total Corporate Tax Revenue | 3,091,966.76 |  |
| Nominal GDP | 188,788,052 |  |
| Total TE % of CIT Revenue |  | 0.063 |
| Total TE % of GDP |  | 0.001 |

**Source:** TRA

# Value Added Tax (VAT)

The Tanzania VAT system is a credit invoice VAT based on destination principle, charging taxable supplies at each stage of production and distribution. Destination principle requires that VAT are collected at a point of consumption, with exports being zero-rated.

Registration for VAT is mandatory to every person upon attaining the annual registration threshold of TZS 200 million. This condition applies to all types of business except for professional service providers, Government entity or institution which carries on economic activity and an intending traders after fulfillment of sufficient evidence such as contracts, tenders, building plans, business plans and bank financing.

The VAT receives worldwide accolade on account of its broadness of base, neutrality, elimination of cascading effects and revenue productivity. However, the VAT law allows for limited necessary exemptions, mainly the standard ones. Exemptions are often justified on the grounds of economic growth, investment attraction, humanitarian reasons and integrational obligations. Exemptions granted in areas like agricultural and fuels seems to reflect distribution concerns, while that of investors and government or donor-funded projects in many cases reflect the need for economic growth and conditions imposed by donors.

# VAT Benchmark

The benchmarking tax system for VAT on domestic supplies is the standard rate of **18 percent** and **Zero percent** on exports. The benchmark unit of taxation is by final consumers typically households on all supplied goods or services while VAT base is consumption broadly defined and comprises all goods and services consumed in Tanzania.

# VAT Expenditure

The VAT expenditure include exemptions and zero rated local supplies as provided by the law.VAT exemption involves remission or waiver of VAT on vatable supplies of goods and services as provided under section 6 and the exemption schedule of the VAT act. This exemption includes VAT Deferment on locally manufactured capital goods. Additionally, zero rating local supplies also form part of the VAT expenditure on local supplies. Thus, the revenue foregone from the VAT exemptions and zero rated local supplies is referred as VAT expenditure.

The analysis of VAT expenditure was based on information extracted from the TRA systems for taxpayers benefiting from VAT exemptions, zero-rated local supplies, and VAT deferment domestic. The analysis indicates that, the total Domestic VAT expenditure during the period under review amounted to **TZS 1,108,758.16 million**. This includes exempt local supplies totalling **TZS 1,079,407.61 million** and zero-rated local supplies amounting to **TZS 29,350.55 million**. There was no amount recorded for domestic VAT deferment.

The analysis further reveals that, VAT Exemption on local supplies constituted the largest portion of VAT expenditure, accounting for **97.35 percent**. This is mainly attributed to the exemptions granted to government and/or donor funded projects, followed by zero-rated local supplies with the smallest portion of **2.65 percent** as shown in **Table 3**. Further, the VAT Tax Expenditure Domestic account **33.07 percent** of total VAT collected and **0.59 percent** of the GDP.

**Table 3: Domestic VAT Expenditures, 2023**

|  |  |  |
| --- | --- | --- |
| **Tax Item** | **Amount (TZS Millions)** | **Share (%)** |
| Exempt Local Supplies | 1,079,407.61 | 97.35 |
| Zero rated Local supplies | 29,350.55 | 2.65 |
| VAT Deferment | - | - |
| **Total TE on VAT Local Supplies** | **1,108,758.16** | **100.00** |
| Total Domestic VAT Revenue | 3,352,546.57 |  |
| Nominal GDP | 188,788,052 |  |
| Total TE of VAT Local % VAT Revenue |  | 33.07 |
| Total TE of VAT Local % GDP |  | 0.59 |

**Source:** TRA

# Analysis of VAT Expenditure by Beneficiaries

The analysis of VAT exemptions according to beneficiaries is divided into two main groups; the public and private sectors. The exemptions granted to the public sector categorized as government, were granted to projects financed by the government and/or donors. In the private sector, exemptions were categorized into three groups; the EPZA, Strategic Investors, and Extractive Industries (Mining, Oil, and Gas). The analysis of tax expenditure by beneficiaries covered 11,131 taxpayers who received exemptions during the period under review, out of which 10,856 were government institutions, 166 companies registered under EPZA, 22 Strategic Investors, and 107 Extractive Industries including Mining, Oil, and Gas.

The Government institutions were the major beneficiaries of VAT exemption granted during the period accounting for **99.22 percent of total VAT expenditure**. It was followed by EPZA with **0.55 percent**, and Strategic Investors accounted for **0.17 percent**. The smallest contributor was the Extractive Industry, which represented **0.07 percent** of the total VAT expenditure (**Table 4**).

**Table 4: VAT Expenditures from Exempt Goods and Services**

|  |  |  |
| --- | --- | --- |
| **Exemption category** | **Tax expenditure (TZS million)** | **Share in percent (%)** |
| Government | 1,070,941.90 | 99.22 |
| EPZA | 5,892.19 | 0.55 |
| Strategic investors | 1,795.31 | 0.17 |
| Extractive industry | 778.24 | 0.07 |
| **Total** | **1,079,407.61** | **100.00** |

**Source:** TRA

# Analysis of VAT Expenditure on Zero rating of Domestic Supplies

The analysis reveals that only 9 taxpayers benefited from zero-rated VAT on their local supplies. Among these, **7** **are textile manufacturers** and **2** **fertilizer producers**. The total tax expenditure on zero-rated local supplies amounted to **TZS 29,350.55 million.**

Further, the analysis showed that Minjingu Mines and Fertilizer Ltd received the largest share, accounting for **25.7 percent**. This was followed by Sunflag Tanzania Ltd at **24.1 percent**, Mazava Group of Industries Ltd at **14.7 percent**, NIDA Textile Tanzania Ltd at **13.1 percent**, and 21st Century Textile Ltd at **12.4 percent**. The least beneficiaries were A to Z Textile Mills Ltd with **7.0 percent**, Mwatex Textiles Mills Ltd with **3.1 percent**, and Namera Group of Industries Ltd with **0.02 percent**, as detailed in **Table 5**.

**Table 5: VAT Expenditures for Zero Rated Goods and Services**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Name** | **Product** | **Sector** | **Zero rated amount** | **Tax Expenditure (TZS mill.)** | |
| **TZS Mill** | **TZS Mill** | **%** |
| Mwatex Textile Mills Ltd | Textile | Manufacturing | 4,975.51 | 895.59 | 3.1 |
| A to Z Textiles Mills Ltd | Textile | Manufacturing | 11,393.62 | 2,050.85 | 7.0 |
| Sunflag Tanzania Ltd | Textile | Manufacturing | 39,314.44 | 7,076.60 | 24.1 |
| Nida Textile Mills (T) Ltd | Textile | Manufacturing | 21,307.22 | 3,835.30 | 13.1 |
| 21st Century Textile Ltd | Textile | Manufacturing | 20,195.62 | 3,635.21 | 12.4 |
| Namera Group of Industries Ltd | Textile | Manufacturing | 39.42 | 7.10 | 0.0 |
| Mazava Fabrics & Production E.A. Ltd | Textile | Manufacturing | 23,954.72 | 4,311.85 | 14.7 |
| Minjingu Mines & Fertilizer Ltd | Fertilizer | Manufacturing | 41,878.06 | 7,538.05 | 25.7 |
| Itracom Fertilizers Ltd | Fertilizer | Manufacturing | - | - | - |
| **Total** | | | **163,058.61** | **29,350.55** | **100.0** |

**Source:** TRA

# Taxes on Imports

The importation of goods is subject to the imposition of duties, taxes and other kinds of levies and charges. The duties and taxes applied vary based on nature of the goods, respective quantities, applicable rates and the customs value of the goods being imported. The import taxes include the import duty, excise duty and Value Added Tax (VAT).

# Benchmarking Taxes on imports

In estimating tax expenditure on imports, a well-established benchmarking is required;

1. **Import Duties**

There are four groups of import duty rates which depend on the nature of goods/services to be imported. The import duty rates are 0% for capital goods, 10% for intermediate goods and 25% & 35% for consumer goods as provided by the East Africa Community Common External Tariff (CET,2022). However, sensitive items attract a duty higher than the global rate mentioned above depending on the country’s current demand for that particular good/service. The sensitive items are listed in the schedule 2 of the EAC Common External Tariff (CET 2022).

Due to the need to protect local industries across the EAC Region, some goods are classified as sensitive and attract import duty at rates above 35 percent while goods emanating from the EAC region, SADC countries and goods traded under other trade agreements meeting the criteria set out in the agreements and rules of origin are accorded preferential Import Duty rates.

Thus, any deviation from the regionally agreed rates of Import Duty in form of duty remission exemption/reduced rates is considered as tax expenditure.

1. **VAT on Imports**

The VAT on import is a tax that is payable on goods that are imported into the Mainland Tanzania from another country. Import VAT is often payable in addition to import duty and other duties with a standard rate of 18%. The VAT Act, CAP 148 provides exemptions of some goods imported based on the policy behind the granting. Further, VAT payable with respect to specific capital goods may be deferred, subject to certain procedures being followed.

Therefore, all the exemptions under the Part I and Part II of the VAT Act schedule are regarded as the Tax Expenditures.

1. **Excise Duty on Imports**

Excise Duty is levied on excisable goods imported into the country. Laws and Regulations governing the imposition of Excise Duty are contained in the Excise (Management and Tariff) Act, CAP 147. The excisable taxable value for charging Excise Duty on imported products is the sum of customs value plus the applicable Import Duty.

Excisable goods are contained in the Fourth Schedule of the Act, while The same Schedules represent the benchmarks with exceptions of items which are considered as tax expenditures.

# Tax Expenditure on Imports

During the period under review, the analysis revealed that a total of **TZS 1,970,619 million** was granted as tax expenditure on imports. This comprises of **TZS 1,001,747 million, or 51 percent** as VAT; **TZS 674,202 million**, or **34 percent** Import Duty; **TZS 256,854 million**, or **13 percent** VAT Deferment; and **TZS 37,816 million, or 2 percent**, as Excise Duty (**Table 6**). The total Tax Expenditure on imports account for **20 percent** of total tax revenue on imports collected and **1.04 percent** of the GDP. This signifies that, the government foregoes nearly quarter of its revenue collected from importation through tax exemptions/reliefs.

**Table 6: Tax Expenditures for Import Taxes, 2023**

|  |  |  |
| --- | --- | --- |
| Tax Item | Amount (TZS Millions) | Share (%) |
| Import Duty | 674,202 | 34 |
| Excise Duty | 37,816 | 2 |
| VAT exempted | 1,001,747 | 51 |
| VAT Deferred | 256,854 | 13 |
| Total Tax Expenditure on imports | **1,970,619** | **100** |
| Total tax Collection on imports | 9,881,497 |  |
| Nominal GDP | 188,788,052 |  |
| TE % of Revenue Collection on imports |  | **20** |
| TE as % of GDP |  | **1.04** |

**Source:** TRA, 2024

In addition, the analysis shows that VAT exemptions were primarily granted on fertilizers, mineral fuels/oils (such as butanes, petroleum bitumen, and other petroleum gases), medicaments including vaccines for human medicine, chemical products, cereals like rice, and goods imported for government-funded projects.

Furthermore, import duty exemptions were granted for items including sugar for industrial use, cereals like rice, and road tractors for semi-trailers, motorcycles, prefabricated buildings, and steel structures. In Excise duty exemptions were mainly granted to motor vehicles, gas oil, furniture, and plastic products.

# Total Tax Expenditure for the Year 2023

During the period under review, the total tax expenditure amounted to **TZS 3,081,312.86 million**. Out of the total tax expenditure, Income Tax (CIT) contributed TZS **1,934.94 million, or 0.06 percent**; Excise Duty amounted to **TZS 37,816.26 million (1.23%);** Import Duty **TZS 674,202.56 million (21.88%)**; VAT on Imports of **TZS 1,001,746.55 million (32.51%)**; VAT Deferment on imported capital goods was **TZS 256,854.39 million (8.34%)**; and VAT on domestic supplies amounted to **TZS 1,108,758.16 million (35.98%).**

In addition, the analysis shows that the contribution of tax expenditure as a percentage of total tax revenue collection and GDP was **12.86 percent** and **1.63 percent**, respectively, as shown in **Table 7**.

**Table 7: Tanzania Tax Expenditure in 2023 by Type**

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**Source:** TRA, 2024

**Table 8: Tanzania Tax Expenditure in 2023 by Type (Detailed)**



Source: TRA

**CHAPTER FOUR:**

**CONCLUSION AND RECOMMENDATIONS**

# Overview

This chapter provides conclusions and recommendations of the report. It is divided into two sections, the summary of conclusions of the report and policy recommendations.

# Conclusion

This report has brought to the forefront the analysis of Tax Expenditure in Tanzania for the year 2023. The findings revealed that, the total tax expenditure recorded was **TZS 3,081,312.86 million** which is **1.63 percent of GDP and 12.86 percent** of total revenue collected in 2023. This amount comprises tax expenditure on Income Tax amounting to **TZS 1,934.94 million (0.06%)**; Excise Duty amounting to **TZS** **37,816.26 million (1.23%);** Import Duty total of **TZS 674,202.56 million (21.88%);** VAT on Imports amounting to **TZS 1,001,746.55 million (32.51%);** VAT Deferment on imported capital goods at a tune of **TZS 256,854.39 million (8.34%);** and VAT on domestic supplies (exempt and zero-rated) amounting to **TZS 1,108,758.16 million** **(35.98%).**

It is worth noting that, the Total VAT Expenditure (Domestic and Imported) dominated the huge share of all tax expenditures as it contributed to a total value of **TZS 2,367,359.16 Million** equivalent to **77 percent** of Total Tax Expenditures, **10 percent** of total tax collected and **1.25 percent** of the GDP (**Table 8**). This is mainly attributed to the exemptions granted to the government/or donor funded projects.

**Table 9: Total VAT Expenditures**

|  |  |  |
| --- | --- | --- |
| **Tax Item** | **Tax Expenditures ( TZS Million)** | **Share (%)** |
| Exempt (local supplies and imports) | 2,081,154.61 | 87.91 |
| Zero rated local supplies | 29,350.55 | 1.24 |
| VAT deferment | 256,854 | 10.85 |
| **Total VAT expenditures** | **2,367,359.16** | **100.00** |
| Total tax expenditure | 3,081,312.86 |  |
| Total tax revenue collected | 23,965,336.30 |  |
| Nominal GDP | 188,788,052 |  |
| Total VAT TE % of total TE |  | **77** |
| TE % of revenue |  | **10** |
| TE % of GDP |  | **1.25** |

**Source:** TRA, 2024

It was also discovered that, the contribution of total tax expenditure as a percentage of total tax revenue collection reached **12.86 percent** and the total share of Tax Expenditure to GDP recorded **1.63 percent** that is beyond international recommended threshold of **1 percent.**

# Policy Recommendations

To ensure intended objectives of granting tax incentives are met and to control abuse of tax incentives, it is recommended for the government to undertake a scrutiny and put a close monitoring on tax incentives. In addition, it is recommended for the Government to conduct a cost benefit analysis on tax incentives granted to assess its impact on the economy.