An overview of recent tax changes

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The last decade has seen the introduction of a number of key tax reforms in Tanzania, starting with the introduction of VAT in 1998, a new Income Tax Act in 2004, and the East African Customs Union in 2005. The latter provides for a Common External Tariff (CET), elimination of internal tariffs, rules of origin, anti-dumping measures, a common Customs law, and common export promotion schemes.

Under the CET, there is no customs duty on raw materials, capital goods, agricultural inputs, and medicines. Semi-finished goods are taxed at 10 per cent, and finished final consumer goods are subject to a 25 per cent tariff. The Customs Union has boosted trade within the East African Community, which has seen Tanzania's exports to the rest of the EAC more than double since 2004. In April 2010 the Tanzanian Parliament ratified the East Africa Common Market Protocol, due to come into effect in July 2010. The goal is to encourage greater economic integration and growth through freedom of movement not only for goods (as under the current Customs Union), but also for labour, services, capital, and the right of establishment. An East Africa double tax treaty is soon to be implemented, which would reduce withholding tax rates on intra-EAC payments.

Agriculture and mining are two sectors where the country has a comparative advantage and significant potential, and will be key if Tanzania is to achieve the growth targets of Vision 2025, which aims to make Tanzania a middle-income country over the next 15 years. Incentives for the agricultural sector include the immediate write-off of plant and machinery as well as agricultural improvement expenditure, along with a five year write-off period for buildings.

Measures have also been taken to alleviate the impact of local taxes by a reduction of the ceiling on agricultural produce 'cess' to 3 per cent from the current 5 per cent, to come into force as of the 2010-2011 tax year.

Mining companies are entitled to a 100 per cent capital deduction on prospecting and development capital expenditure, and can file income tax returns and accounts denominated in US dollars. No customs duty is payable on imports by mining companies up to the first anniversary of the commencement of production, with duties thereafter capped at a rate of 5 per cent. The standard royalty rate on most minerals is 3 per cent, however a new mining bill proposes to increase the standard rate to 4 per cent. The annual budget is read in June and the 2010 budget may see further changes to the tax regime for mining.

In 2006 the Special Economic Zones Act was passed, providing for SEZs in selected geographical areas. Activities that accelerate domestic production, promote exports, or generate employment are given preference.

A minimum capital of US$5 million is required for foreign companies to operate within an SEZ, and US$1 million for locally owned investments. Investment incentives are categorised into three groups of investors: those for developers of infrastructure; those for investors selling within the customs territory; and those for investors selling in export markets. The incentives for SEZ investors selling in export markets (and exporting at least 80 per cent of production) include a 10-year income tax and withholding tax holiday, as well as exemptions or relief from customs duty, VAT, local authority taxes, and stamp duty.

Companies listing at least 30 per cent of their shares on the Dar es Salaam stock exchange, benefit from a 25 per cent income tax rate for the first three years. Other incentives include a reduced dividend withholding tax rate of 5 per cent compared to the standard 10 per cent. With the imminent implementation of the East Africa Common Market, further measures are expected to achieve greater East African tax harmony. F

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Key points of Tanzania's tax regime

- Corporate income tax rate of 30 per cent and withholding tax on dividends of 10 per cent. Employers pay a 6 per cent skills and development levy on their payroll, and 20 per cent social security contributions, half of which is usually recovered from the employee.
- Top marginal personal income tax rate of 30 per cent.
- VAT rate of 18 per cent
- Customs duty at rates of 0 per cent, 10 per cent, 25 per cent.
- Stamp duty (typically at 1 per cent) on certain legal instruments, for example conveyances, leases, and share transfers.
- Local taxes, including property tax, based on the value of premises, and a service levy typically at a rate of 0.3 per cent of turnover.