The Downside of Proposed Tax Measures in the 2016/2017 Budget

The Minister for Finance and Planning, Hon. Dr. Philip Mpango (MP), has tabled the first budget of the fifth phase government. Like in previous years, the budget proposes several changes with a view to increasing revenue and to widen the tax base. My comments are focused on four (4) areas namely reforms on the Value Added Tax (VAT) on general insurance, VAT on banking services, on tourism services and on excise duty on telecommunication services.

One of the expected reforms was a reform on VAT on general insurance, which includes insurance services other than health and life insurance or reinsurance. According to the VAT Regulations (2015) insurance companies must charge VAT on the net premium received by the companies in relation to general insurance. Examples of general insurance include insurance on aviation, motor vehicles, marine and landed properties. In effect, it now costs 18 percent more to insure property and as a result the insurance sector is seeing an undervaluing of properties leading to underinsurance as a way to compensate for the increase.

We are pleased that the Minister is proposing an exemption on aviation insurance but I wonder why he has ended there. An exemption of general insurance from VAT would be in line with the practice in Kenya and Uganda.

The extension of excise duty of 10 percent on charges or fees payable by a person to a telecommunication service provider in respect of money transfers to cover all commission received in the provision of mobile money services will make it more expensive for consumers who will now avoid the use of the services as it is likely that the service providers will pass on the cost to the consumers who will probably revert to the old ways of money transfer.

Likewise, the proposed VAT on fee based financial services will increase the cost of banking, which as it is the case with the proposed excise duty on telecommunications, is against the spirit of financial inclusion. It is also contradictory to efforts by the government to promote less use of cash as a measure of fighting crime such as robberies.

While the Hon. Dr. Mpango is proposing an imposition of VAT on tourism services to match other East African countries such as Kenya, the Cabinet Secretary for National Treasury in Kenya Mr. Henry K. Rotich tabled in Parliament on Wednesday a proposal to exempt from VAT national parks entry fees and commissions earned by tour operators. Mr. Rotich's proposal is a corrective measure which aims to boost the tourism sector and encourage local tourism; it can be found on paragraph 141 of the budget speech. If Tanzania's proposal to impose VAT passes, the country stands to lose a lot.

In summary, this year's budget is full of tax measures some of which are difficult to administer and some are already facing resistance from consumers and therefore will be difficult to yield the expected revenue. The government must be prepared to face this fact

It is my hope that the Parliament will debate the budget constructively to engender a revision or improvement in taxation on the three areas discussed above. After all, the goal is to widen the tax base and collect more taxes by creating a taxpayer friendly regime.

Mr. Godfrey Mramba is Managing Partner at Basil & Alred. The views expressed do not necessarily represent those of Basil & Alred. Email: gmramba@basilalred.com