

Taxing manufactured drinks may not produce intended results

Last December I wrote about declining beer, spirits and wine sales during the first quarter of financial year 2016/17 i.e. July, August, and September, which was supported by data gathered from the TRA website. This was despite an increase of 5 per cent in excise tax per liter of alcohol that was introduced in July 2016. I made a guess that perhaps Christmas and New Year festivities would boost sales of the second quarter (October, Novem-

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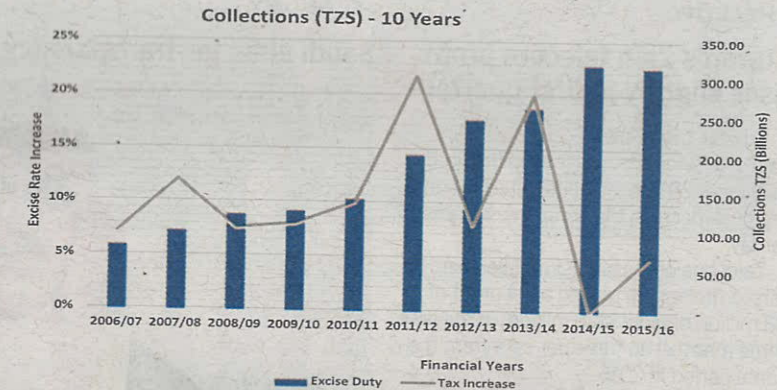
ber, December) and indeed based on TRA's data there was an increase of 4 per cent in excise duty collections during the second quarter. However, when comparing data of the nine months ended March 31, 2017 of the current financial year (2016/17) with the same nine months of the previous financial year (2015/16), we see a small decrease in overall excise

duty collections suggesting that the increase of 5 per cent did not yield additional taxes to the government.

Looking at the past 10 years, we also see either a drop in collections or collections that are not proportionate to increase of excise duty, suggesting that it would be wiser for the government to increase this tax gradually over a period of time.

Although my article is focused on excise duty, it can be concluded that overall increase in taxation doesn't always translate into increase in collections and in most cases, it has opposite results. It means that when an increase is necessary, it must be done gradually.

It would be advisable that the taxation of all drinks in general and beer and soft drinks in particular is tricky and needs in-depth discussion with manufacturers, marketers and independent tax professionals



NINE MONTHS OF FINANCIAL YEAR 2016/17 VERSUS 2015/16

Products	EXCISE DUTY			
	2016/17	2015/16	Change	Change
Beer	179,556	171,217	8,339	5%
Konyagi & Spirits	71,747	80,091	(8,344)	-10%
Wine & Liquor	180	229	(49)	-21%
Total	251,484	251,537	(54)	0%

*Figures in TZS Millions

before imposition, with the objective of win-win outcomes. The manufacturers, the drinkers and the taxman need to work together in such a way that the government can collect enough revenue without hurting the shareholders and the market. The psychology of drinkers is that if you cannot afford formal drinks such as beer, wine or spirits better sink down cheaper options such as traditional

brews and illicit drinks, which are outside the tax net.

I hope that this will be taken into consideration in future budget proposals.

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