

Why should the implementation of VAT between Zanzibar and Mainland require to be postponed.

The Finance and Planning Minister Hon. Dr. Philip Mpango's 2016/17 budget speech came and left, now is an opportunity time for the post-mortem. There will be a couple of analysts and experts share to express their take-outs of TZS. 29.5 trillion Budget till end of this month. Am delighted to participate in commenting on the Minister's proposal to resolve the issues of refund claim to Zanzibar Treasury since the new VAT Act, 2014 started to be enforced. However, even with the old VAT Act, there was a notorious VAT problem challenge between the Mainland Tanzania and Zanzibar in telecommunication industry.

It is excited that the budget has only two main economic objectives hence achievable, meaning to address challenges facing Tanzanians so as to bring new hope for better life of the people especially to low income earners and transform the economy into real middle income status through sustaining macroeconomic stability and developing industries.

It is evident that most if not all of the proposed fiscal/ tax reforms measures in the Minister's Budget were mirrored to the two economic objectives within 2016/17 fiscal year. One of VAT change proposed by Dr. Mpango is on VAT treatment between business establishments operating between Mainland and Zanzibar. As highlighted earlier, the key motive of this proposal is intended to resolve the issue of refund claims to Zanzibar Treasury considering the fact that the new VAT Act, 2014 (applicable in Mainland Tanzania) does not provide for refund. Basically, this arrangement is intended to impose VAT at the place of consumption which is proportion to the destination principle of VAT.

According to the budget speech, the Minister proposed that goods manufactured / supplied in Mainland Tanzania and supplied to Zanzibar will attract VAT in Zanzibar while those goods manufactured in Zanzibar and supplied to Mainland Tanzania will attract VAT in Mainland Tanzania. In absence of the Finance Act which will subsequent be issued and probably clear my doubts, I foresee quite number of challenges which will arise if this proposal is implemented specifically to taxman in both jurisdiction.

Despite the fact that the implementation of this proposal will only be possible if the counterpart i.e. Zanzibar will accommodate the same change in their respective VAT Act , it is my considered view that businesses operating within the two sides will definitely encounter fundamental challenges at the implementation stage.

In accordance to the Minister's speech, the proposed change will apply on goods manufactured/supplied in Zanzibar or Mainland Tanzania. It is not very clear whether the minister's speech deliberately excluded the supply of service and other goods manufactured/supplied in other jurisdictions apart from Zanzibar and Tanzania Mainland. Some of the issues which may complicate the enforcement of this proposal is whether, the application will only be limited to goods manufactured (as per the budget speech) within the two tax jurisdictions or to all Vatable supplies i.e goods and service. There will be a need to clarifying the tax point in which VAT will be charged for the said manufactured goods crossing between the two sides. Before the implementation of the change, I also believe that the two tax authorities will examine and determine how to treat goods manufactured in Mainland Tanzania, sold in Zanzibar and resold again in the Mainland Tanzania. In handling such situation there may be a

requirement of possessing a proof of origin which should specify where the goods were manufactured hence likely to increase the burden of doing business to the investors.

In addition, for the successful implementation of proposed change, it will be necessary to amend other Sections of the two Acts to eliminate any likely contradiction when it comes to the implementation/enforcement stage. One of such provisions is Section 68 of the Mainland's VAT Act, 2014 which governs the application of input credit. The Zanzibar VAT Act, 1998 should also be amended to accommodate the Minister's proposal on second and third schedule with regards to Exemption and Special relief supplies.

I believe that most of concerns regarding the application and possible implementation challenges will be taken into account before the Finance Act, 2016/17 is issued incorporating the change or postponed until a permanent solution is attained. As it has been said by Grover Norquist, an advocate and founder of Americans for Tax Reform, "*The important thing about tax reform is you make the tax code less complicated, easier for people to understand*"

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