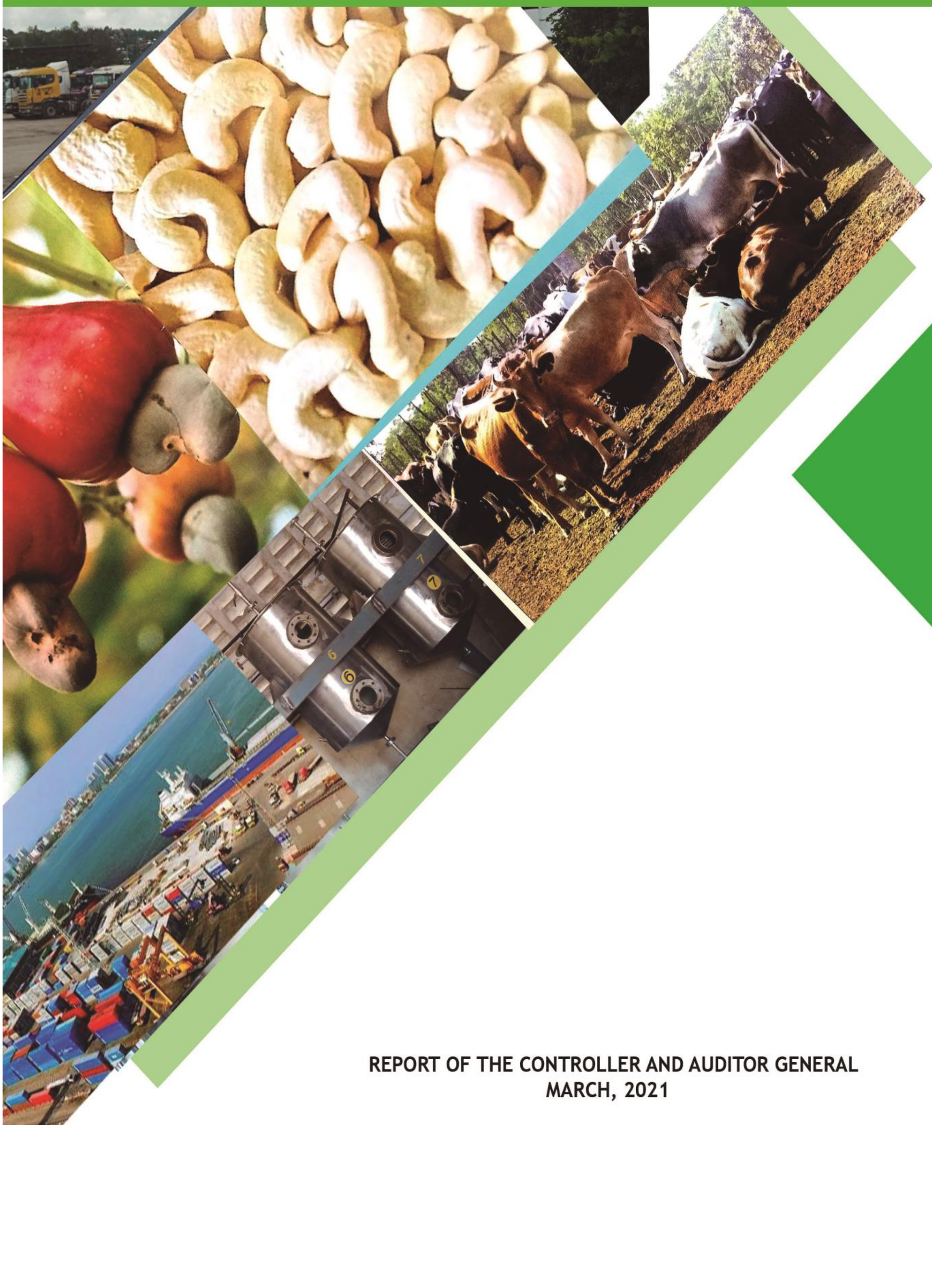
THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE

PERFORMANCE AUDIT REPORT ON THE MANAGEMENT OF TAX EXEMPTIONS ON INVESTMENT PROJECTS

THE MINISTRY OF FINANCE AND PLANNING, TANZANIA REVENUE AUTHORITY AND TANZANIA INVESTMENT CENTRE



REPORT OF THE CONTROLLER AND AUDITOR GENERAL

MARCH, 2021

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE

Vision
To be a highly regarded institution that excels in Public Sector Auditing

Mission
To provide high quality audit services that improve public sector performance, accountability, and transparency in the management of public resources

Core Values
In providing quality service, NAO shall be guided by the following Core Values:

Objectivity
We are an impartial public institution, offering audit services to our clients in unbiased manner

Excellence
We are professionals providing high quality audit services based on standards and best practices

Integrity
We observe and maintain high standards of ethical behaviour, rule of law and a strong sense of purpose

Peoples' Focus
We value, respect, and recognize interest of our stakeholders

Innovation
We are a learning and creative public institution that promotes value added ideas within and outside the institution

Results Oriented
We are an organization that focuses on achievement based on performance targets

Teamwork Spirit
We work together as a team, interact professionally, and share knowledge, ideas, and experiences

TABLE OF CONTENT

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

ACPC	Additional Customs Procedure Code
EPZA	Export Processing Zones Authority
FDI	Foreign Direct Investment
GN	Government Notice
ISCEJIC	Interfaith Standing Committee on Economic Justice and the Integrity Creation
LGAs	Local Government Authorities
MDAs	Ministries, Departments, and Agencies
MoFP	Ministry of Finance and Planning
NEMC	National Environment Management Council
NIDA	National Identity Authority
NISC	National Investment Steering Committee
OSHA	Occupation and Safety Health Authority
PMO	Prime Minister's Office
TANCIS	Tanzania Customs Information Systems
TBS	Tanzania Bureau of Standards
TIA	Tanzania Investment Act
TIC	Tanzania Investment Centre
TMDA	Tanzania Medicines and Medical Devices Authority
TRA	Tanzania Revenue Authority
USD	United States of America Dollars
ZIPA	Zanzibar Investment Promotion Authority

PREFACE

The Public Audit Act No. 11 of 2008, Section 28 authorizes the Controller and Auditor General to carry out Performance Audit (Value-for-Money Audit) for the purposes of establishing the economy, efficiency and effectiveness of any public expenditure or use of public resources in the MDAs, LGAs and Public Authorities and other Bodies which involves enquiring, examining, investigating and reporting, as deemed necessary under the circumstances.

I have the honour to submit a Performance Audit Report on the Management of Tax Exemptions on Investment Projects to Her Excellency, the President of the United Republic of Tanzania, Hon. Samia Suluhu Hassan and through her to the Parliament.

The report contains findings, conclusions and recommendations that directly concern the Ministry of Finance and Planning (MoFP), Tanzania Revenue Authority (TRA) and the Tanzania Investment Centre (TIC).

MoFP, TRA and TIC were given opportunities to scrutinize the factual contents and comment on the draft report. I wish to acknowledge that the discussions with the three audited entities have been very useful and constructive.

My office intends to carry out a follow-up at an appropriate time regarding actions taken by MoFP, TRA and TIC in relation to the recommendations in this report.

In completion of the assignment, the office subjected the report to the critical reviews of two experts namely, Garase Mugisha Kamugisha and Salvius J. Mbano who came up with useful inputs in improving this report.

This report has been prepared by Mr. Denis Andrea Charle and Mr. Hiram Jackson Kisamo under the supervision and guidance of Ms. Mariam Francis Chikwindo – Ag. Chief External Auditor, Mr. James G. Pilly – Assistant Auditor General and Mr. Jasper N. Mero – Deputy Auditor General.

I would like to acknowledge the commitment of the CAG staff and cooperation accorded to my Audit Team by the respective Accounting Officers and their staff which has facilitated timely completion of this audit report.

Charles E. Kichere
Controller and Auditor General
Dodoma, United Republic of Tanzania
March, 2021

EXECUTIVE SUMMARY

Background to the Audit

Tax exemptions are reductions or eliminations of the taxes normally imposed on individuals and organizations by the Government as provided by Laws[1].

According to National Investment Policy of 1996, tax exemption has become an important tool to attract investment in the country. It is important to provide incentives to investors, given the otherwise poor investment climate such as dilapidated infrastructure, the high cost of doing business, the macroeconomic instability, corruption and inefficient judiciary.

The audit intended generally to determine whether the Ministry of Finance and Planning (MoFP) in collaboration with the Tanzania Revenue Authority (TRA), the Tanzania Investment Centre (TIC) efficiently manage the tax exemption regimes to optimise the benefits thereof to the nation.

Specifically, it intended to establish whether these institutions administer effectively the processes for granting tax exemptions to enhance their benefits; have mechanism(s) in place to conduct monitoring and verification of tax exemption activities; and ensure effective coordination among tax exemption stakeholders.

The main audited entities were MoFP, TRA, and TIC. The audit focused generally on activities related to granting of tax exemptions, specifically, monitoring, and verification of tax exemptions and coordination among the stakeholders. The focus was mainly on tax exemption granted to normal, strategic, and special strategic investors registered by the TIC.

The Audit team visited six (6) regions: Kilimanjaro, Dar es Salaam, Mtwara, Kigoma, Mwanza and Songwe and covered the financial years 2018/2019 to December, 2020 that enabled auditors to assess adherence to tax laws and regulations and its impact on tax exemption activities.

[1] TRA Annual Report 2014-2015 and Section 6 of the Value Added Tax Act, Cap. 148.

Main findings

The Audit Team noted some weaknesses in administering processes for granting tax exemptions; especially in monitoring and verification of tax exemptions and coordination of stakeholders involved in the issuance of tax exemptions.

1. **Inadequate Processing and Issuance of Tax Exemption to Normal, Strategic and Special Strategic Investors by TIC, TRA and MoFP**

The Audit Team noted weaknesses in the processing and issuance of tax exemption by MoFP, TIC and TRA as described below:

a) Failure to Grant Tax Exemption to Strategic and Special Strategic Investors by MoFP

Review of Report on the implementation status of 19 strategic projects showed that strategic and special strategic investors were not provided with additional incentives including tax exemption as required under Section 20 (8) of Tanzania Investment Act (TIA) of 1997.

The interviewed officials of MoFP showed that, the Minister of Finance and Planning did not grant tax exemption to strategic and special strategic investors since the Minister for Finance did not issue Government Notices (GN) from 2017 up to the time of this audit. Issuance of GN is necessary to facilitate application and provision of tax exemption to strategic and special strategic investors.

The interviewed officials further stated that, the Minister for Finance did not issue Government Notice (GN) to grant tax exemptions to investors[2] because of limitations of mandate from tax administration laws. Despite the interpretation[3] given by the Attorney General (AG) to advise the Minister for Finance to issue GN using Section 20 (8) of the TIA of 1997, still the Minister for Finance did not issue GN because the Minister grants tax exemption and issue GN based on tax laws, and not Investment Acts.

Failure to issue Government Notices had impact on the implementation of such projects as up to the time when this audit was being conducted,

[2] Section 20 (8) of the TIA of 1997

[3] Letter dated 28th August, 2015 with Reference number AGCC/I 60/7/54 from AG to the Permanent Secretary of the Prime Minister's Office.

signed performance contracts between the Government and investors had not been implemented.

b) Not All Requested Tax Exemptions by Investors were Processed and Issued by TIC and TRA

Review of Project Register of TIC (2018/19 to 2019/20) and interview with officials from TIC showed that, TIC facilitated issuance of tax exemption by involving various institutions under One Stop Facilitation Centre as per section 16 of the TIA of 1997. The register further showed that, not all investors who initially got TIC Certificate of Incentives and applied for tax exemption to TRA through TIC were issued with tax exemption. From financial year 2018/19 to December, 2020, 200 normal investors applied for tax exemption to TIC and were submitted to TRA for approval. Out of the 200 normal investors, 171 which is equivalent to 86% were granted tax exemptions.

It was further noted that, all received applications were from normal investors, while there were no requests from strategic and special strategic investors. This was caused by failure to issue Government Notices by the Minister for Finance. This prevented implementation of the signed performance contracts[4].

Further analysis on the trend of tax exemptions granting showed that, there was a decrease in the number of investors who received tax exemptions from 82% to 25% from financial year 2018/19 to December, 2020.

The Audit Team identified various reasons for the decline in processing and issuance of tax exemptions by TRA. These include: requesting for exemptions on items that did not belong to the respective investor's sector; rejection of some requested items; and discretional approval of list of items for tax exemption

(c) Delay in Processing and Issuance of Tax Exemption by TIC and TRA

The Audit Team assessed the timeliness in processing the issuance of tax exemption at TIC and TRA and found that, tax exemption applications were not timely processed.

[4] Performance Contracts are agreement between investors and government on the additional specific incentives that government offers to investors in the execution of projects

Review of Registration files for investors (2018/19-2020/21) at TIC showed there were delays of up to 7 days in processing requests for tax exemption at TIC. While for the case of TRA it was noted that, 87% of the delayed applications (13 out of 15) had a delay of up to five months.

It was noted that, TRA managed to timely process the issuance of tax exemption to only 2 out of 14 investors who were M/s Victoria Perch Ltd where 12 days were used and M/s Bonite Bottlers Ltd where 10 days were used by TRA to process and grant the exemptions, while to other investors, for example, M/s Oldean Ngorongoro Mountain Lodge Ltd, TRA used more than the standard time of 14 days to process the issuance of tax exemptions.

This magnitude of delay to M/s Oldean Ngorongoro Mountain Lodge Ltd was caused by investor's delay in submitting the requested evidences such as bank cash flow showing investor's capacity for investing in the project. Review of correspondences between TRA and M/s Oldean Ngorongoro Mountain Lodge Ltd showed that, the requested evidences were submitted to TRA on 28th May, 2020. This means that processing of tax exemption for this investor was delayed for 29 days.

The above scenario reveals communication failure between TRA and TIC. Under normal circumstance, TRA could get the requested information from TIC, instead of requesting it from the investor, bearing in mind that the investor had already submitted the evidence to TIC and was awarded a certificate of incentives earlier during the registration of the project.

The TRA officials further explained that, delays by investors to submit the requested information was a common factor for delays in processing tax exemptions f to all applications. The other common factors were: insufficient, irrelevant and mismatching attachments (such as proof of land ownership or lease, financial ability, business plan, Bill of Quantity (BoQ), etc.) and; imbalance between the financial capability (proof) by the investor against list of goods to which the exemption is applied.

Delay by TRA to grant tax exemption to the investor were cause of inconveniences to the investor such as delay in clearing the imported items, and cost overruns in implementing the project. For instance, M/s Oldean Ngorongoro Mountain Lodge was charged TZS 44.16 Million by TRA as TRA Warehouse rent and other charges[5], and TZS 29.32 Million as Port Charges[6] which were paid to Tanzania Port Authority (TPA).

Similarly, review of Letters from Kilimanjaro Biochem Limited to TRA revealed the delay in processing and issuance of tax exemption necessitated the investor to pay TZS 230 Million as demurrage[7] and storage charges.

(d) Misclassification of Items and Wrong Application of ACPC[8] 431[9], 435[10] and 476[11] during Processing and Issuance of Tax Exemption

Review of the Post Clearance Audit Report (2019) for M/S CRJE Estate Limited showed that, there was improper verification of transactions declared under ACPC 431 Code. This situation led TRA to incorrectly grant tax exemption to the investor on both import and excise. It was noted that, items Door Cover, Foot Line, Foot Line (Skirting), Foot Liner, Wooden Door for the import duty and items on Bench, Adjustable Bench, Crunch Bench, Base Board, Pool Table and Rack for the excise duty were misclassified as they were not compatible with the list of items provided by the law.

This resulted into wrong verification of transactions (import and excise duty) for tax exemption. For instance, it was noted that, the import duty that would be charged if proper verification were conducted was TZS 37,574,858, while the excise duty that would be charged if proper verification were conducted was TZS 4,955,921.73.

2. Inadequate Monitoring and Verification of Tax Exemptions

Review of tax exemption correspondences and interviews with the respective officials showed weaknesses in monitoring and verification of tax exemptions as further elaborated hereunder:

---

[5] Payment charges made to TRA (2020)

[6] Payment charges made to TPA (2020)

[7] Demurrage is a charge payable to the owner of a chattered ship on failure to load or discharge the ship within the agreed time.

[8] Additional Customs Procedures Code.

[9] ACPC 431 is used for importation of goods where import duty is exempted, but VAT is payable where no any other CPC provides description.

[10] ACPC 435 Gives full exemption to TIC registered companies. It is no longer used

[11] ACPC 476 Is used for importation of capital goods for new TIC investors who are now get exemption of 75% of import duty, VAT deferred.

a) Inadequate Monitoring of the Granted Tax Exemptions by TRA

Interviewed officials from TRA showed that, TRA did not adequately conduct monitoring of tax exemptions in regions which resulted on failure to report on revenue lost through them. A review of the Tax Exemptions Unit's Verification Reports for financial years 2019/20 to 2020/21 showed that, despite TRA's plans for physical visits to beneficiaries of tax exemptions, the visits were not adequately conducted. The audit team found that for the period of two years (2019/20 to 2020/21), TRA conducted only two out of eight planned monitoring/verification activities.

The main reasons for the failure to adequately conduct the planned monitoring activities was shortage of staff in the Tax Exemptions Unit. Since the projects that were to be monitored were scattered across the country, it was not easy for TRA to monitor them effectively with the limited number of staff that it had. It was noted that TRA had only 4 out of 13 staff required to work in the tax exemption unit. These staff were mostly occupied by normal daily responsibilities, thus did not have enough time to deal with tax exemption activities.

Failure to have effective monitoring system, is likely to cause a high possibility of abuse of the granted Tax Exemptions. Review of Tax Exemption Verification Reports for the period of financial year 2019/20 and 2020/21 showed there was miss-use of tax exemptions granted to investors. For the period of two financial years of 2019/20 to 2020/21, the Tax Exemption Unit identified 8 out of the 18 investors who abused tax exemption. The audit revealed that, the abused tax exemptions would have generated the import duty tax of TZS 1.99 Billion.

b) Inadequate Monitoring/Verification of Tax Exemptions by TIC

Review of Annual Work Plan and Annual Performance Reports for the financial year 2018/19 and 2019/20 showed that, TIC conducted physical verification visit to projects in order to monitor and evaluate their performance. However, the Audit Team noted that, the number of projects covered during verification was low ranging from one to 18 projects. In four Zones namely, Southern, Lake, Northern, and Central. Three zones of Eastern, Western and Southern Highland exceeded the planned number of projects. In the Southern Zone, projects which were not covered during verification were 15 which is equivalent to 60% of the planned projects. This was caused by financial constraints and low capacity of the Zonal Office in terms of human resources as this office had only two staff.

Inadequate physical verification visits to the projects resulted in the abuse of the granted tax exemption.

3. **Inadequate Coordination of Stakeholders Involved in the Issuance of Tax Exemption**

   (a) Inadequate sharing of Tax Exemption Information Between TRA and TIC

Review of responses from TRA to investors on the status of approval or requested tax exemption showed that, TRA shared tax exemption information with TIC on the response regarding status of approval/rejection of tax exemption applications.

However, it was noted that, TIC did not have access to TANCIS which could help to inform it on goods that investors have imported, beneficiaries (whether had valid certificate or not), and tax exemption amounts. Interviewed official at TIC indicated that, due to data security concerns TIC did not have access to the TANCIS handled by TRA. However, TRA officials who were interviewed on that matter indicated that the access will be granted upon official application by TIC. This is contrary to the Memorandum of Understanding (MoU) between TRA and TIC in which the two institutions agreed on exchange of data in the areas of tax administration, investors' information, data management, data analysis and data applications.

Failure of TIC to access information from TANCIS system has an impact on its capacity to monitor tax exemption activities to the registered investments. Furthermore, it was noted out that the Deemed Capital Goods Joint Committee by TIC and TRA, formed in 2009, and which is chaired by TRA, seems to be ineffective as it has not conducted any meeting since 2016. Also, it was noted that there was one stop shop desk that has two staff one from Customs and another from Domestic Revenue Department. Since TIC mostly deals with Deemed Capital Goods managed by Customs, having one Customs Officer was a challenge

Furthermore, it was noted that, there was no effective communication between TRA officials at TIC and counterparts at Customs as TRA officers were contacting investors directly to enquire for documents that were readily available at TIC. It was further noted that, once approval was granted by TRA, investors collected letters from TRA registry offices instead of collecting them from TIC where they submitted the application. As a result of being by-passed, TIC lacked correct data on which applications have been granted or pending.

General Conclusion

Generally, the Ministry of Finance, TRA and TIC have shown efforts in managing tax exemptions, however more efforts are still needed to improve the issuance of tax exemptions to ensure their benefits to investors, citizens and the Government. Improvements are required to address the noted inefficiencies in processing and issuance of tax exemptions such as inadequate monitoring and verification of tax exemptions during and after processing to control its abuse.

Audit Recommendations

1. **Issuance of Tax Exemptions**

(a) Tanzania Investment Centre and the Ministry of Finance and Planning

TIC in collaboration with MoFP needs to device a mechanism that will strengthen provision of Government Notices for tax exemptions to strategic and special strategic investors to promote benefits of tax exemptions to these investor's citizens and Government.

(b) Tanzania Investment Centre and Tanzania Revenue Authority

TIC in collaboration with TRA needs to:

i. Provide public education to ensure the public/investors are well informed on investment incentives, including tax exemptions and procedures for accessing them.

ii. Revive the joint committee and meet quarterly as per the terms of reference of the Memorandum of Understanding between them.

2. **Planning for Resources to Facilitate Management of Tax Exemption**

(a) Tanzania Investment Centre

The TIC needs to:

i. Ensure adequate planning for resources at the Headquarters and Regional Offices to improve efficiency on facilitation of tax exemption activities; and

ii. Ensure that, zonal budgeting systems are decentralized to enable each zonal office timely disbursement of funds to facilitate implementation of planned activities at TIC zonal offices.

(b) Tanzania Revenue Authority

The TRA needs to:

ii. Ensure allocation of adequate resources at the Headquarters and Regional Offices to improve efficiency on facilitation and monitoring of tax exemption activities;

3. Monitoring and Verification of Tax Exemption Activities

(a) Tanzania Investment Centre

TIC needs to:

i. Accord as much priority to investor monitoring and supervision (aftercare services) as it does investment promotion, in order to ensure that the incentives granted to investors are effectively used; and

(b) Tanzania Revenue Authority

TRA needs to:

i. Strengthen monitoring and verification mechanisms to facilitate adequate conducts of the same prior to issuance of tax exemptions and after granting the tax exemption to avoid abuse of tax exemption;

ii. Ensure that, it conducts thorough review of the recommendations from physical verifications conducted by TRA Regional offices before processing the issuance of tax exemptions for proper decisions;

(c) Tanzania Revenue Authority and Tanzania Investment Centre

TRA in collaboration with TIC needs to:

i. Device a mechanism that will clearly define the meaning of expansion projects so as to avoid contradictions facing investors when requesting for tax exemptions for initiations of other projects within the same location; and

ii. Plan and implement joint investor-monitoring operations to ensure full compliance with the laws while maintaining investor confidence in the investment promotion regime.

4. Coordination of Tax Exemption Activities among Stakeholders

(a) Ministry of Finance and Planning

The MoFP needs to:

i. Ensure that, there is effective coordination among key stakeholders regarding tax exemptions, this involve having a Joint Standing Committee with TIC and TRA to address investment promotion issues through regular consultations; and

ii. Strengthen the mechanism in place to allow sort out the issue of contradicting laws on administration of tax exemptions.

(b)Tanzania Revenue Authority

The TRA needs to:

i. Device a mechanism to ensure that, the department of taxpayer's services and education prepares specific programs for tax exemption to stakeholders including investors;

ii. Improve coordination of exemptions monitoring activities with other stakeholders, including joint verification/monitoring missions with TIC; and

iii. Strengthens its desk at TIC One Stop Shop in terms of Customs staffing levels, TANCIS installation and communication to and from investors be centralized at One Stop Shop Desk.

(c) TRA in collaboration with TIC needs to:

i. Improve sharing of information with to easy implementation of tax exemption activities from processing of tax exemption, verification and monitoring operations.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Audit

Tax exemptions are reductions or eliminations of the taxes normally imposed on individuals and organizations by the Government as provided by Laws[12]. Such exemptions are also referred to as Revenue Expenditures.

Pursuant to the National Investment Promotion Policy of 1996, tax incentives in the form of exemptions have become an important tool to attract investment in the country. The policy underscores the importance of providing competitive incentives to investors, given the poor investment climate such as dilapidated infrastructure, high cost of doing business, macroeconomic instability, corruption and inefficient judiciary.

Tax revenue losses are usually rationalized by arguing that the capital and jobs created through different projects will improve the welfare of citizens and expand the economy[13]. Furthermore, the quality of jobs offered to locals is an important element in gauging the potential for skills transfer, one of the important benefits of Foreign Direct Investment (FDI) to the host economy[14].

The Annual General Report of the Controller and Auditor General (CAG) of 2012 and 2013 indicated that "*tax exemptions are necessary tools for investment promotion and economic growth*[15]". The report further explained that, tax exemptions are granted for various reasons such as social and economic reasons or international agreements (bilateral or multilateral).

---

[12] TRA Annual Report 2014-2015 and Section 6 of the Value Added Tax Act, Cap. 148.

[13] Tax Justice Network-Africa & Action Aid International, "Tax Incentives and Revenue Losses in Tanzania", June 2012, p. 20.

[14] Tanzania Investment Report 2018 (TIC)

[15] Controller and Auditor General (CAG), "Annual General Report of the Controller and Auditor General on the Financial Statements of the Central Government for the Year Ended 30th June, 2012", National Audit Office, 2013, page 64.

The East African Community Customs Management Act of 2004[16] provides the conditions for tax exemptions that can be granted:

i) When the nature of the item in question does not warrant a tax (e.g., diplomatic missions);

ii) When activities of certain organizations do not earn them profit but have a direct benefit to the society which the Government may not be able to otherwise procure (e.g. charities, NGOs, etc.); and

iii) When consumption of certain goods is deemed to have direct benefit to the society (e.g. VAT exemptions on drugs, fire fighting vehicles, etc.).

1.2 Motivation of the Audit

The decision to conduct this audit was influenced by various factors, including:

i) Loss of Revenue caused by High Amount of Tax Exemptions. Tax exemptions in Tanzania have reached excessive heights and the Government recognises that they result in large loss of revenues that are highly needed for service delivery. It is worth noting that: tax exemptions reduced tax revenue by TZS 670bn during the financial year 2015/16. According to the Minister for Finance and Planning, Hon. Philip I. Mpango (MP), the Government's target was to increase the tax to GDP ratio to 13.5% in 2017/18 and to 14.4% by the year 2019/20[17]. As such, reducing the scope and magnitude of tax expenditures is one of the ways that may be explored by the Government as part of the effort to boost revenue collections.

ii) Poor Enforcement of the Tax Related Laws. There are many instances where exemptions are granted to meet a specific policy objective, but there are no follow ups to ensure that the intended results are actually achieved. In the few cases where monitoring was done, it was evident that the benefits did not accrue to the intended beneficiaries. For example, in the financial year 2019/20, the Government abolished Value Added Tax (VAT) exemption on

[16] Exemption regime is expressed under section 114 of the East Africa Community Customs Management Act of 2004 read together with fifth schedule.
[17] IMF Country Report 2016 p. 13.

sanitary pads due to the fact that such exemptions benefited the traders instead of the intended group of beneficiaries. This was caused by the failure of the Government to control price of the product[18].

iii) ***Low Pace of Government to reduce Tax Exemptions.*** It was reported by Interfaith Standing Committee on Economic Justice and the Integrity Creation (ISCEJIC), 2017 that, Government recognises that tax exemptions occupy a large revenue expenditure and is taking some steps to reduce them, but progress is slow and the extent of Government commitment is questionable[19].

In this regard, the Controller and Auditor General decided to carry out a performance audit on the Management of Tax Exemptions.

1.3 Design of the Audit

This part explains about the main audit objective; specific audit objectives; scope of the audit; methods for data collection and analysis; and assessment criteria.

1.3.1 Audit Objective

The main audit objective was to determine whether the Ministry of Finance and Planning (MoFP) in collaboration with the Tanzania Revenue Authority (TRA) and the Tanzania Investment Centre (TIC) efficiently manage the tax exemption regimes to optimise the benefits thereof to the nation.

The specific audit objectives were to establish whether:

a) MoFP, TIC, TRA and NISC administer processes for issuance of tax exemptions to enhance benefits of tax exemptions;

b) MoFP, TRA and TIC have mechanisms in place to conduct monitoring and verification of tax exemption activities; and

[18] **Budget Speech for FY 2019/2020 of the Minister for Finance**
[19] A report commissioned by Interfaith Standing Committee on Economic Justice and the Integrity Creation (ISCEJIC), 2017.

c) MoFP, TRA and TIC ensure effective coordination among tax exemption stakeholders.

In order to address these audit objectives, more specific audit questions and sub - questions were developed as provided in **Appendix 2.**

1.3.2 Scope of the Audit

Main audited entities were MoFP, TRA and TIC. This is because, MoFP has powers to grant VAT exemption while TRA has the main responsibility of processing and administering tax exemptions granted under tax or other laws. On the other hand, TIC has the main responsibility to promote and facilitate investment, by offering investment incentives including tax exemption under applicable laws.

The audit focused on activities related to issuance of tax exemptions, monitoring and verification of tax exemptions and coordination among the stakeholders. Specifically, the audit focused on tax exemption granted to normal, strategic and special strategic investors registered by TIC.

Furthermore, the National Investment Steering Committee (NISC) through information gathered from TIC was included for the purpose of assessing its efficacy in the performance of its roles of providing consultation to TIC in relation to tax exemptions for both strategic and special strategic investors; and approving additional specific fiscal incentives which include tax exemption to projects that are granted a status of special strategic investment as proposed by the Minister responsible for investments.

The audit team visited six (6) regions that are Kilimanjaro, Dar es Salaam, Mtwara, Kigoma, Mwanza and Songwe by taking into consideration some criteria as described under sampling in **Section 1.3.3** of this report.

The audit covered the financial years 2018/2019 to December, 2020 and enabled auditors to assess the extent of implementation of the tax laws[20] and regulations (enacted from 2014 to 2018) and its impact on tax exemption activities.

[20] Value Added Tax Act of 2014, Value Added Tax (General) Regulations, 2015, Value Added Tax General amendment Regulations, 2018 and Tanzania Investment Act (CAP 38, Revised Edition of 2015).

1.3.3 Sampling, Methods for Data Collection and Analysis

The audit team gathered audit evidences to address the audit questions in order to achieve the objective of the audit. Data were gathered from MoFP, TIC, TRA, and TIC Zonal Offices and TRA Regional Offices. Below are detailed explanations on sampling techniques, data collection methods used and method for data analysis:

(a) Sampling Techniques

The audit team used purposive sampling to select regions visited. TRA offices are located in all regions of Tanzania Mainland while TIC offices are located in seven geographical zones. Before the sample of regions was selected, the regions in Tanzania Mainland were grouped into seven geographical zones namely: Eastern Zone, Western Zone, Southern Zone, Southern Highlands Zone, Northern Zone, Lake Zone, and Central Zone.

The criteria used for selection of regions from each zone were geographical representation, proximity with TIC Zonal Offices, TRA Regional Offices with customs entry points and Regions with TIC-registered investors. Based on these four criteria, six regions were chosen as shown in Appendix 3 namely: Kilimanjaro, Dar es Salaam, Mtwara, Kigoma, Mwanza, and Songwe. Specifically the investors to be included in the audit were identified during interviews with respective officials at TIC Zonal Offices.

(b) Methods used for Data Collection

Both qualitative and quantitative data were collected using review of documents and interviews to obtain evidence regarding management of tax exemption.

(i) Documents Review

The audit team reviewed various documents obtained from the MoFP, TRA and TIC. It also reviewed the established database of investors entitled to tax exemptions and strategies for coordination of tax exemption activities. The review intended to obtain comprehensive and reliable information on the management of tax exemption. This was meant not only to identify the risks/impact and possible causes but also to gather evidences and come up with clear findings and recommendations.

Documents reviewed covered the financial years 2018/19 to December, 2020 and included Plans, Performance Reports, Verification and Monitoring and Evaluation Reports. The details on the reviewed documents and reasons for their review are provided in **Table 1.1.**

Table 1.1: Categories of Documents Reviewed and Reasons for Reviews

Entity	Name of Document	Reason
Ministry of Finance and Planning	Strategic Plans	To examine the set strategies at ministerial level and assess how they address issues relating to tax exemptions.
	Tanzania Second Five Year Development Plan (FYDP II) 2015/16 - 2020/21 Page 91	Assess to what extent the Government has planned to implement the identified activities regarding to tax exemption.
	Approved Medium Term Expenditure Frameworks from 2018/19 to December 2020	To assess the set budget to facilitate implementation of activities planned under Policy Analysis Division which include tax exemption activities as implemented by Fiscal Policy Section.
	Implementation and Performance Reports from 2018/19 to December 2020	To examine the extent at which investment development and tax exemption activities have been implemented by MoFP.
	Monitoring and Evaluation (M&E) Reports, Verification and Supervision (V&S)Reports	To examine the level of (M&E)and (V&S) implemented by MoFP with regard to trade facilitation and tax exemption.
	Internal Audit Reports	To identify the existing shortfalls regarding trade facilitation and tax exemption activities and corrective action taken.
TRA	TRA's Fourth Corporate Plan 2013/14 -2017/18.	To examine the level of processing and monitoring implemented regarding trade facilitation and tax exemption activities.
	TRA's Fifth Corporate Plan 2017/18 -2021/22	To examine the level of processing and monitoring implemented regarding trade facilitation and tax exemption activities.
	Performance Reports	To Examine the level of performance monitoring in tax exemptions. Assess the level and quality of services in relation to tax exemption offered at the visited TRA facilities.
	Monitoring, Verification and Supervision Reports	To examine the level of verification and monitoring implemented by the

Entity	Name of Document	Reason
		Ministry regarding to trade facilitation and tax exemption.
TIC	Strategic Plans	To examine the strategic goals/targets, performance indicators, milestones and interventions set by TIC in order to enhance registration and issuance of tax incentives
	Performance Reports	To assess whether the activities for issuance of incentives are implemented in accordance with standards and guidelines
	Annual Budgets and Budget Implementation Reports	To examine the effectiveness of budget allocation and trend of expenditure for issues relating to registration and issuance of investment incentives.
	Annual Plans	To examine and evaluate strategies and interventions put in place by TIC to enhance registration and issuance of investment incentives on a yearly basis.
	Annual Implementation Reports (2018/19 to December, 2020)	To evaluate the performance of TIC in implementing the planned activities relating to registration and issuance of investment incentives.

(ii) Interviews

Different officials from MoFP, TRA, TIC and selected Regional/Zonal Offices of TRA and TIC responsible for processing tax exemptions were interviewed to get more information and clarifications of the issues raised in reviewed documents. For more details on officials interviewed please refer to **Table 1.2**.

Table 1.2: List of Interviewees and Reasons for interviewing them

Entity	Officials interviewed	Reason (s)
Ministry of Finance and Planning	Commissioner for Policy Analysis and officers from this division.	To assess the extent to which the tax exemptions activities are executed at the Ministry of Finance and Planning level. The activities that were targeted include: • Coverage of tax

Entity	Officials interviewed	Reason (s)
		exemptions. • Monitoring and Evaluation; • Verification & Supervision.
	Director for Legal Services (DLS)	To assess administration of tax exemptions (particularly interpretation of the laws and contracts, etc.)
TIC	• Director of Investment Promotion. • Director of Investment Facilitation. • Other senior officials at the centre.	To assess execution of Investment matters and tax incentives offered by the Centre.
TRA	• Commissioner for Customs and Excise Department. • Commissioner for Domestic Revenue Department. • Manager for Trade Facilitation Unit. • Manager for Tax Exemption Unit. • Senior Officials from Domestic Revenue Department and Trade Facilitation Unit.	To assess the extent to which tax exemption matters from processing, offering to monitoring and verification are executed.

(c) Data Analysis

The audit team compiled the data gathered through documents' review and interviews, analysed them by using both qualitative and quantitative techniques depending on the nature of the data gathered in order to support the audit findings.

Quantitative data were analysed by organising, summarizing and compiling using various software for data analysis such as Excel Spreadsheets as well as different statistical methods of data computation. Qualitative data were described and compared so that they could be explained. The presented data were then explained to answer the 'what', 'how' and "why" questions.

1.3.4 Assessment Criteria

The assessment criteria used to assess the tax exemption activities were extracted from various sources such as legislations, policies, guidelines and best practices.

a) The tax exemption process start with the TIC. This entity is supposed to assist all investors to obtain all necessary permits, licenses approval consents, authorization and registration as required by the laws for a person to setup and operate an investment; (Section 6 (e) of TIA (CAP 38, Revised Edition 2015));

b) Under the provisions of the relevant tax laws (e.g. Income Tax Act, the Customs Tariffs Act, and the Value Added Tax) Investors are supposed to be entitled to the exemption benefits and such benefits cannot, during a period of five years from the date of issuance of such certificate, be amended or modified to the detriment of such investor (Section 19 (2) of TIA (CAP 38, Revised Edition 2015));

c) Furthermore, NISC/Minister responsible for Investment is empowered to assess and approve requests for additional benefits by strategic or major investors. The benefits so specified are in addition to any 'regular' incentives available to all investors under the applicable laws (Section 20 of TIA (CAP 38, Revised Edition 2015));

d) TIC is supposed to promote and facilitate investments and coordinate improvement of Tanzania's investment climate (Section 5 of the Tanzania Investment Act 1997; TIC Corporate Strategic Plan 2017/18 - 2021/22). Henceforth, proper documentation of tax incentives/exemptions has to be in place; and

e) MoFP, TRA and TIC are supposed to develop strategic and business plan to ensure proper allocation of resources for the management of tax exemptions (Tanzania Second Five Year Development Plan II 2015/16 – 2020/21 Page 91); and TRA's Fifth Annual Corporate Plan 2017/18 -2021/22).

1.3.5 Monitoring and Verification of Tax Exemption

(a) TRA is mandated, among others, to:

i) Administer and give effect to tax laws, and for that purpose, to assess, collect and account for all revenue to which those laws apply;

ii) Advise the Minister and other relevant organs (of Government) on all matters pertaining to fiscal policy, the implementation of the policy and the constant improvement of policy regarding revenue laws and administration;

iii) Counteract fraud and other forms of tax and other fiscal evasions;

iv) Study revenue laws and identify amendments needed for improving the administration of and compliance with revenue laws;

v) Collect and process the statistics needed to provide forecasts of revenue receipt and the effect on yield of any proposals for changes in revenue laws and advise the Minister accordingly

These functions indicate that TRA is supposed to ensure regular review of the tax exemptions regime in order to minimize their abuse and thus increase tax collection (Section 5 of the TRA Act, 1995 and Tanzania Second Five Year Development Plan II 2015/16 – 2020/21 Page 91);

(b) TRA is supposed to carry out systematic and routine verification of the granted exemptions through documentary checks and physical visits to the beneficiary's place of business (TRA's Fourth Corporate Plan);

(c) TIC is supposed to undertake projects visits for monitoring and aftercare services (Corporate Plan FY 2017/18 to 2021/22); and

(d) TIC and TRA are supposed to establish objectives and process necessary to deliver results. This includes having a mechanism for enforcing compliance with tax laws as applied to exemptions granted to investors (According to ISO 1900 (Plan-do-check-Act model).

(e) MoFP is supposed to monitor TRA by ensuring review of tax exemptions in order to minimize their abuse and thus increase tax collection (Tanzania Second Five Year Development Plan II 2015/16 – 2020/21 Page 91);

1.3.7 Coordination of Stakeholders involved in the Administration of Tax Exemptions

(a) The Ministry of Finance and Planning is supposed to resolve institutional coordination failures and address challenges among stakeholders (Tanzania Second Five Year Development Plan II 2015/16 – 2020/21 Page 91);

(b) MoFP is supposed to involve stakeholders, and ensure their views are taken into considerations in formulating proposals for new fiscal legislations or amendments (Section 10 (g) of the Guidelines on Cabinet papers of 2010 (Revised Edition of 2014) Circular on Recommendations on Legislation or Legislation Amendment); and

(c) TRA is supposed to co-operate fully with TIC in the performance of its functions including sharing of tax exemption information (Section 16 (1) of the Tanzania Investment Act 1997).

1.4 Data Validation Process

The Ministry of Finance and Planning, Tanzania Revenue Authority and Tanzania Investment Centre were given the opportunity to go through the draft report.

All included entities namely; MoFP, PMO, TRA and TIC confirmed the accuracy of the information presented in this report and their comments and responses are shown in **Appendix 1**.

1.5 Standards Used for the Audit

The audit was conducted in accordance with Performance Auditing Standards issued by the International Organization of Supreme Audit

Institutions (INTOSAI). The standards require the audit team to plan and perform the audit so as to obtain sufficient and appropriate evidence as well as, provide a reasonable basis for findings and conclusions based on the audit objective (s).

The audit team believes that the evidences obtained provide a reasonable basis for the findings and conclusions based on the audit objectives.

1.6 Structure of the Report

The remaining part of the report is structured as follows:

- Chapter Two presents the description of the system for managing processes involved in tax exemption;
- Chapter Three presents the audit findings;
- Chapter Four provides overall conclusion and specific conclusions for the audit; and
- Chapter Five outlines the audit recommendations that can be implemented by the Ministry of Finance, TRA and TIC.

CHAPTER TWO

SYSTEM FOR THE MANAGEMENT OF TAX EXEMPTIONS IN TANZANIA

2.1 Introduction

This chapter describes the system for managing tax exemptions in the country. It covers the legal and administrative frameworks, processes, key stakeholders involved and their main responsibilities in managing tax exemptions in the country.

2.2 Governing Policies, Laws and Regulations on Management of Tax Exemptions

2.2.1 National Investment Promotion Policy of 1996

The policy provides for investment incentives such as fiscal (tax) and non-fiscal incentives by granting certificates of incentives in facilitating the mobilization and increasing magnitudes of appropriate local and foreign investments.

According to the policy, fiscal incentives include investment allowances on capital expenditure, infrastructure allowances on infrastructure expenditure, preferential tax rates for withholding tax on dividends, royalties and interests, etc. Non-fiscal incentives include access to land, access to utilities (water and power), transport and communication connections and service, expatriate employment, protection against expropriation and access to regional and sub-regional markets.

2.2.2 East African Community Customs Management Act ((EACCMA), 2004); (Revised Edition, 2017))

The Act provides for types of goods that qualify for tax exemptions in various sectors such as hotel, tourism, and industrial sectors including conditions required for such items to qualify for tax exemptions. Some of the exemptions under this law are generally available to the qualified public and not limited to investors. Changes to the EACCMA require approval of the EAC Council of Ministers.

2.2.3 Tanzania Investment Act (CAP 38, Revised Edition of 2015)

The Act provides for procedures and conditions required by investor in the course of seeking for tax exemption from TRA based on registration status of the investor which are normal, strategic and special strategic investors. The Act also shows the responsibilities of the National Investment Steering Committee (NISC) in reviewing and approving fiscal incentives including tax exemption to strategic and special strategic investors, as well as roles of the Minister for Finance in issuing Government Notice (GN) for tax exemptions.

2.2.4 Income Tax Act (CAP. 332 R.E 2017)

The Act, in Section 10, empowers the Minister responsible for Finance to, by order published in the Gazette, provide for tax exemption to any income or class of incomes accrued in or derived from the United Republic to the extent specified in such order[21].

2.2.5 Investment Regulations (CAP 38, Revised 2002)

The Regulations provides for procedures for investor to follow in the process of requesting for tax exemption whereby TIC has to issue a Certificate of Incentives under the seal of the Centre, on the registration of the investment[22] by an investor.

The Regulations also requires a business enterprise in respect of which a certificate has been granted, to enjoy benefits obtained under the Act and applicable financial laws commencing on the date of issue of the Certificate and the benefits so enjoyed shall not be amended to the investor's detriment by any subsequent legislation[23]. The Regulations also require the investor to, at least once in every six months during the implementation period, provide a progress report to the Centre. No such report seems to be required once the project is fully implemented, up and running.

[21] Section 10 (1) of the Income Tax Act (CAP. 332 R.E 2017)
[22] Regulation 44 of Investment Regulations (CAP 38, Revised 2002)
[23] Regulation 45 pursuant to section 19 (2) of the Investment Act

2.3 Strategies and Guidelines for Managing Tax Exemption

The following are the strategies and guidelines adopted for managing tax exemptions:

2.3.1 TRA Fifth Corporate Plan 2017/18 to 2021/22

TRA's Fifth Corporate Plan (2017/18 to 2021/22) provides the main highlights of Five-Year Development Plan II (FYDPII) on taxation. It requires TRA to review tax exemptions and relief systems in order to minimize their abuse and thus increase tax collection.

2.3.2 TIC Five Year Corporate Strategic Plan 2017/18 - 2021/22

On the other hand, TIC's Five Year Corporate Strategic Plan (2017/18-2021/22) aims to guide the Centre towards achievement of its vision of making Tanzania the best investment destination in Africa. The plan further aims at setting out Tanzania's first comprehensive industrial economy direction on investment promotion and facilitation. Also, the plan outlines its transparent roadmap and consistent approaches with national/regional development plans to reach its overall goal, contributing to Tanzania's further development and integration into the regional community. This includes to promote and facilitate investment amounting to USD 28.6bn, to improve and sustain an attractive investment climate, and to promote development of 197,500 local SMEs. The relative cost of the effort (e.g. through tax expenditures per unit invested or job created) is not a factor considered or to be monitored under the Plan.

2.3.3 East African Community Common External Tariff 2017 Guidelines

The guidelines provide clarification on the import duty to be exempted based on the nature of the items to be imported. In addition, the guidelines provides classification of goods and Nomenclature (naming of items to be imported using HS Code) with reference to EACCMA of 2004.

2.4 Roles of Key Stakeholders on Management of Tax Exemptions

The system for managing tax exemption involves various stakeholders such as Tanzania Revenue Authority (TRA), Tanzania Investment Centre (TIC), the National Investment Steering Committee (NISC), and the Ministry of

Finance and Planning (MoFP). It also includes beneficiaries. Below are details of the main stakeholders' responsibilities:

2.4.1 Ministry of Finance and Planning

The Ministry of Finance is responsible for managing the overall revenues, expenditure and financing of the Government; advising the Government on broad financial and economic affairs; and overseeing budget preparations and execution.

The Ministry of Finance through the Minister responsible for Finance has powers to grant VAT exemption on imports by a Government entity or supply to a Government entity of goods or services.

The management of tax exemption at the Ministry of Finance and Planning is carried out by Fiscal Policy Section under the Division of Policy Analysis. The Fiscal Policy Section has the following roles regarding tax exemption[24].

i) Review and advice on implementation of various tax laws covering revenue collections, tax exemptions and investment incentives;

ii) To prepare revenue policies, tax reforms and secure enactment by whole of Government;

iii) To develop, monitor and evaluate implementation of revenue and fiscal policies and strategies of which tax exemptions is included; and

iv) To prepare legal framework for Fiscal Policies which include tax exemptions.

2.4.2 Tanzania Revenue Authority (TRA)

The Tanzania Revenue Authority (TRA) is a Government Agency established by the TRA Act Chapter 399 and became operational on 1st July, 1996. The structure and procedures governing tax exemptions at TRA, the management of tax exemption are administered primarily by the Revenue Departments which are the Customs and Excise Duty Department (CED), Large Taxpayers' Department, Tax Investigations Department and the Domestic Revenues Department (DRD).

---

[24] A letter dated 13th July, 2018 with Ref. CBA.109/248/01/A/14from PO-PSM to MoFP.

(a) Customs and Excise Department (CED)

This department is responsible for administration of taxes and levies on imports, including Import and Exercise Duty, Value Added Tax (VAT), Fuel Levy and other non-tax revenues charged on imports or related infrastructure. The management of tax exemption is carried out through the Trade Facilitation and Procedures Unit. In relation to tax exemption, the unit has the following roles.

i) To administer tax exemptions on imports which include among others the following categories:
   - Government Notices (GNs);
   - Treasury Vouchers Systems;
   - Tanzania Investment Centre (TIC);
   - Export Processing Zones (EPZ);
   - Special Economic Zones (SEZ);
   - Donor Funded Projects (DFPs);
   - Non-Government Organizations (NGOs);
   - Religious institutions;
   - Mining Companies;
   - Oil and gas companies; and
   - Public Officials.

ii) Administration of concessions policy, exemptions, duty drawback, refunds and rebate and customs auctions;

iii) Administration of tariff, valuation and preference policies; and

iv) Reviewing of tax laws and proposing amendments.

(b) Domestic Revenue Department (DRD):

This department is responsible for administering domestic Value Added Tax, Excise Duty, Income (including corporate) Tax and other domestic taxes like Stamp Duty, etc. The Department is responsible to administer exemptions on local purchases of goods and services to cover, among others, VAT special reliefs to explorers and prospectors of minerals, gas or oil, investors licensed under the EPZ or the SEZ, and Donor Funded Projects.

(c) Large Taxpayers' Department (LTD)

This department covers tax laws similar to those covered by the Domestic Revenue Department, but only for taxpayers classified as large.

(d) The Tax Investigations Department (TID)

This department is responsible for investigating suspected fraud for all taxes and laws administered by TRA, including laws related to tax exemptions.

2.4.3 Tanzania Investment Centre (TIC)

The Tanzania Investment Centre (TIC) is responsible for coordinating, encouraging, promoting and facilitating investment in Tanzania, and to advise the Government on investment policy and related matters[25]. The Centre, in liaison with relevant Ministries and other authorities, determines opportunities available in the country and the modalities of accessing them. The management of tax exemption at TIC involves two divisions as shown in **Table 2.1**.

Table 2.1: Divisions/Section involved in Managing Tax Exemptions at TIC and their Roles

S/N	Name of Division/Section	Roles
1	Directorate of Investment Facilitation	To manage application for tax exemptions and to facilitate Normal investors to get fiscal incentives including tax exemption by recommending investors to TRA for the importation of goods.
2	Directorate of Corporate Affairs	To manage application for tax exemptions and to facilitate Strategic and Special Strategic investors to get fiscal incentives including tax exemption by recommending and processing investors' applications for approval of investment status to the National Investment Steering Committee (NISC), prior requesting for tax exemption from the Ministry of Finance and Planning through GN.

***Source:** Organization Structure of TIC*

[25] Section 5 of Tanzania Investment Act of 1997 (Cap 38, Revised Edition)

2.4.4 National Investment Steering Committee (NISC)

This is the committee to ensure effective promotion, facilitation and implementation of investment projects in Tanzania and is chaired by the Prime Minister. The committee, among other functions[26], is also responsible for:

i) Ensuring development and maintenance of favourable climate for private sector investment including public private partnership projects;

ii) Providing leadership in investment policy and direction for clear consensus on a National Investment Programme; and

iii) Providing oversight for approved public private partnership projects and large projects of significant national impact in terms of size, capital, technological benefits and employment effects.

2.4.5 NISC Technical Committee

This is the committee to ensure effective promotion, facilitation and implementation of investment projects in Tanzania and is chaired by the Deputy Permanent Secretary of the Ministry of Finance and Planning. The committee, among other functions, is also responsible for:

i) Review applications of tax exemptions of strategic and special strategic investors and recommend to NISC which exemptions should be granted.

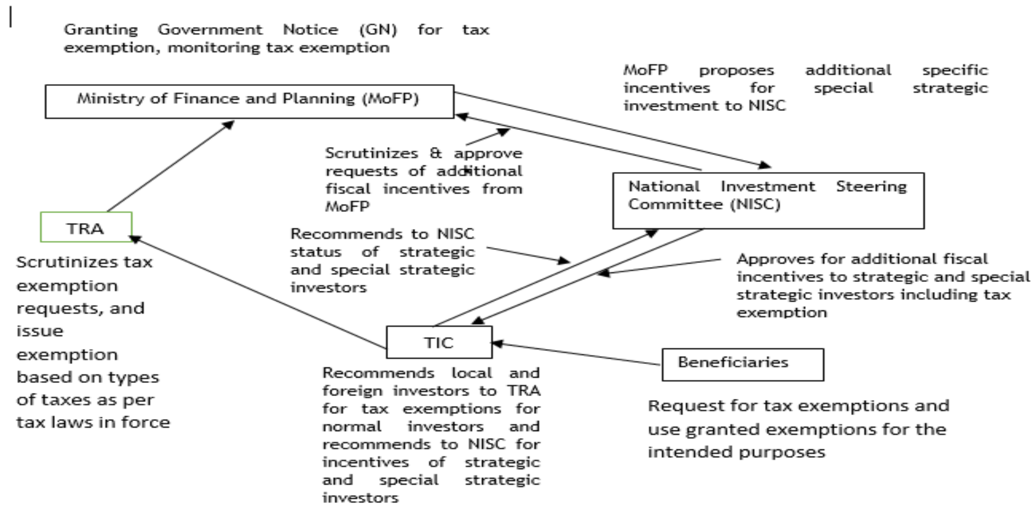
2.4.6 Beneficiaries

Beneficiaries of tax exemptions are investor's including Tanzanians and foreigners who receive tax exemptions through implementation of various projects or importation of goods and services. Their role is to request for tax exemption and use granted tax exemptions exclusively for the intended purposes.

The stakeholders involved and their roles in managing tax exemptions are summarized in **Figure 2.1.**

[26] Section 5(3)(a-c) of the Tanzania Investment Act of 1997 (CAP 38 R.E 2015)

Figure 2.1: Stakeholders and their Roles in Managing Tax Exemptions



2.5 Processes for Managing Tax Exemptions granted as Investment Incentives

Managing tax exemptions starts with registration of the project at the Tanzania Investment Centre (TIC) depending on the category of the investors, which are normal investors, strategic investors and special strategic investors. The details of these categories and their requirements are presented in **Appendix 4**.

After registering a project at TIC, the investor is entitled to benefits/incentives on tax exemptions (see Appendix 5). These incentives are provided by Section 19 (1) of the Tanzania Investment Act (Cap 38, Revised Edition of 2015) for normal investors, Section 19 (2) for strategic or major investments, and Section 20 (98) for special strategic investments.

The process of managing tax exemptions for normal investors differs from that of strategic and special strategic investors. For normal investors the process is as follows:

a) Request/Submission of Application of Tax Exemptions

Based on the mentioned categories, normal investor (s) may request for tax exemption to Tanzania Revenue Authority through Tanzania Investment

Centre. TIC presents strategic investors' application to NISC technical committee that discusses it and makes recommendations to NISC. The committee is chaired by the deputy permanent secretary MoFP (Policy analysis). A Certificate of Incentives is sufficient evidence of a right to access legislated tax exemptions.

b) Processing and review of Tax Exemption Request

After receiving the request for tax exemption from a normal investor, TRA through the Trade Facilitation and Procedures Unit starts the processes. The processes involve, among others, vetting of the applications (i.e. checking eligibility of the requested exemptions in line with the governing laws and procedures); and thereafter approval and granting the requested exemptions. The process also involves reviewing the incentives recommended by TIC for the investor based on the nature of the project/investment. The Strategic investor's applications are reviewed by NISC technical committee and recommend which exemption should be granted by NISC.

The Trade Facilitation and Procedures Unit carries out an assessment to verify whether all the incentives that TIC recommended to an investor comply with the applicable laws, regulations, and Finance Acts as revised from time to time. Using the Finance Acts, TRA determines whether the exemptions recommended by TIC or requested by the investor on items to be imported fall under the agreed list of capital goods and qualify for exemption for the respective financial year under which the certificate of incentives was granted.

c) Issuance of Tax Exemption

TRA, through the Trade Facilitation and Procedures Unit, approves and grants exemptions after reviewing and processing tax exemptions subject to meet the eligibility of whether or not to grant incentives based on the governing laws and procedures.

d) Monitoring/Verification of Tax Exemption by TRA

After the exemptions have been approved, the Department of Customs and Excise to which Trade Facilitation and Procedures Unit belongs, communicates the approvals to the Legal Department for monitoring and controls of the exemptions.

The Tax Exemption Unit under the Legal Department conducts physical verification on exempted goods granted to beneficiaries by revenue departments; for the purpose of controlling and monitoring exemption. During monitoring/verification, the Unit assesses whether the projects for which exemptions have been granted do exist. It also assesses progress of projects and check whether there is any misuse of the project benefits. The Unit submits the verification reports to the Director of Board Secretariat and Legal Services (DBSLS), then DBSLS submits the verification reports to Revenue Departments for collection of taxes.

Also, TRA through Research and Policy Planning Department (RPPD) normally produces Tax Exemption reports which are usually submitted to the Ministry of Finance and Planning on Quarterly and Annual basis as ways to monitor exemptions. These reports comprise of Tax Exemption files for both Mainland and Zanzibar describing; name of beneficiary, HSCODE, descriptions of goods exempted, Customs Procedure Code (CPC Code), reasons for exemption, authority applied to approve exemption and the financial year.

The report informs the Ministry to enable it decide whether to continue to grant tax exemption or not. For the Ministry of Finance to decide discontinue the exemption, it may come up with amendments of the tax legislations.

Generally, the processes of tax exemption for strategic and special strategic investors are as follows:

a) Request of Tax Exemption

Section 20 (7) of Tanzania Investment Act (Cap 38, Revised Edition of 2015) requires the Minister responsible for investment to propose to the National Investment Steering Committee (NISC) for additional specific incentives when he considers it beneficial. Based on this, the strategic and special investors submit requests for special incentives to NISC through TIC based on the value (capital) of investment.

b) Processing and Review of Tax Exemption Request

(i) Review and approval of requests

After receiving requests for additional incentives (which may include tax exemptions) from an investor through TIC, NISC reviews the application and, if satisfied with the merit thereof, grants approval of the requests subject to signing of performance contract between the investor and TIC.

(c) Preparation of Performance Contract

TIC prepares a performance contract based on the nature of the incentives approved by NISC. The performance contract is then submitted to the Attorney General for vetting. The performance contract enables the strategic or special investors to be recommended for additional specific fiscal incentives for which the investor benefits subject to successful implementation of the investment plan that the investor submitted to TIC, TRA and the Ministry responsible for the sector under investment project. The Sector Ministry under investment project uses the investment plan to budget fund for implementation of non-fiscal incentives highlighted in the plan as far as performance contract is concerned.

(d) Review of Performance Contract

Attorney General reviews the performance contracts prepared by TIC, comments on the eligibility and propriety of the contracts and thereafter returns the draft performance contracts to TIC. After receiving performance contracts from the Attorney General, TIC and investor sign the performance contract, thereafter TIC submits the performance contracts to the Minister for Finance.

(e) Issuance of Government Notice (GN) by the Minister for Finance

The Minister for Finance, after receiving the signed performance contracts from TIC, reviews and issues a Government Notice (GN) that enables the investor to get the tax exemptions at TRA.

(f) Issuance of Tax Exemption

After the Minister for Finance has issued a GN, the strategic and special strategic investors are required to submit to TRA requests for the tax exemptions granted. Thereafter, TRA through the Trade Facilitation and Procedures Unit grants tax exemption based on the Government Notice.

(g) Performance Contracts Monitoring by Tax Exemption Stakeholders

The TIC, TRA, and the sector Ministry are responsible for monitoring implementation of the investment project on annual basis, and reviewing performance of the strategic and/or special investor to assess whether they implement the project based on the submitted investment plan. For monitoring purposes, GNs are valid for 1 year after which are renewed upon conducting M&E and recommendations are submitted to the Minister for Finance who issues the GN.

The summary of the detailed explanation on process flow is as shown in **Figure 2.2**.

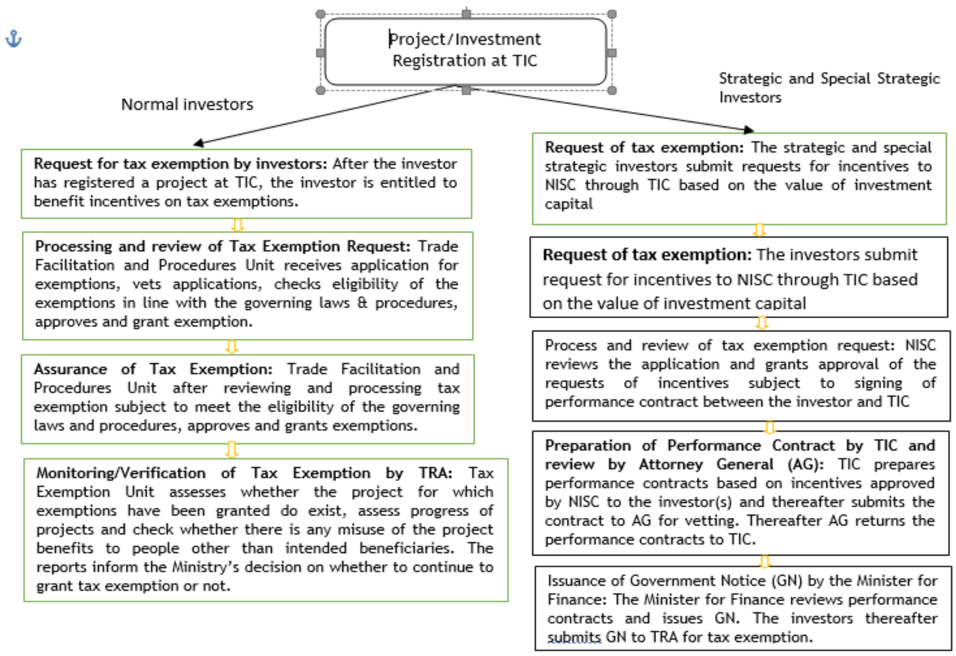


Figure 2.2: Summary of the Process Flow on Management of Tax Exemption

2.6 Allocated Resources for Managing Tax Exemptions

The Ministry of Finance and Planning, Tanzania Revenue Authority (TRA) and the Tanzania Investment Centre (TIC) require resources (both financial and human) for management of tax exemption. Details of the resources are as shown in the next sections.

2.6.1 Financial Resources for Management of Tax Exemptions at TRA

TRA receives financial resources for the management of tax exemption from the Central Government as part of the annual budget provided by Governments shown in **Table 2.2**.

Table 2.2: Budgeted Funds for Management of Tax Exemption at TRA (Trade Facilitation and Procedures Unit)

Financial Year	Budgeted Amount (TZS)	Amount Released (TZS)	Variation (TZS)	Variation (% of Budget)
	(a)	(b)	c= b-a	(c/a)*100
2018/19	386,574,782	335,074,621	(51,500,160)	(13)
2019/20	437,686,274	361,414,432	(76,271,842)	(17)
Total	**824,261,056**	**696,489,053**	**(127,772,002)**	**(16)**

Source: *Commitment Report from TRA (2020)*

Table 2.2 shows that, for the financial year from 2018/19 to 2019/20, the unit received less funds than budgeted amount ranging from 13 to 17%.

2.6.2 Human Resources for Management of Tax Exemptions at TRA

For the period of 2018/19 to December 2020, TRA was allocated with less number of staff compared to those who were required to facilitate the management of tax exemptions. Overall, TRA under this period required 7,068 staff, while available number of staff was 4,712. **Table 2.3** indicates allocated staff for the management of tax exemption in the three departments.

Table 2.3: Human Resources for Management of Tax Exemptions at TRA

S/N	Name of Department/section	Establishment as at 2020 (a)	Existing Staff (b)	Staff Needs C=a-b
1	Board Secretariat and Legal Services	36	39	-3
2	Customs and Excise	2,437	1,327	1,110
3	Domestic Revenue	2,673	1,784	889
	Total	**5,146**	**3,150**	**1,996**

Source: *Data Collected from TRA (2020)*

Table 2.3 shows that for the financial year from 2018/19 to December 2020, the unit allocated if 3,150 compared to the establishment (5,146) making a difference of 1,996 staff needed.

2.6.3 Financial Arrangement for the Management of Tax Exemptions at TIC

TIC receives financial resources for the implementation of its activities including management of tax exemption from internal sources as shown in **Table 2.4.**

Table 2.4: Budgeted Funds for Management of Tax Exemptions at TIC

Financial Year	Budgeted Amount (TZS)	Actual Amount Disbursed	Variation (TZS)	Percentage of Variation (%)
	(a)	(b)	C= b-a	(c/a)*100
2018/19	6,048,371,700	5,955,093,253	(93,278,447)	(2)
2019/20	5,393,534,530	6,523,505,735	1,129,971,205	21
Total	**11,441,906,230**	**12,478,598,988**	**1,036,692,758**	**9**

Source: Data collected from TIC (2020)

Table 2.4 shows that for the financial year 2018/19, there was a decrease of 2 percent in the amount disbursed for the management of tax exemptions while in the financial year 2019/20, the amount decreased by 21% of the budgeted amount.

2.6.4 Allocated Human Resources for Management of Tax Exemptions at TIC

TIC for the period of two years (2018/19 to 2019/20) was allocated with less number of staff compared to those who were required to implement activities including to facilitate the management of tax exemptions. In general, TIC had a staff requirement of 182, while the available number of staff is 64. **Table 2.5** indicates allocated staff for the management of tax exemption in the two responsible departments.

Table 2.5: Human Resources at TIC

Name of Division	Required number of Staff	Available Staff	Staff Gap
Investment Facilitation	24	6	18
Corporate Affairs	7	4	3
Total	**31**	**10**	**21**

Source: *Data Collected from TIC (2020)*

Table 2.6 shows that for the financial year from 2018/19 to December 2020, the centre was allocated with only 10staff compared to the 31 who were required making a difference (gap) of 21 staff.

2.6.5 Financial Arrangement for Tax Exemption Management at MoFP

The MoFP receives financial resources from internal sources for the implementation of activities of the Policy Analysis Division (PAD) including management of tax exemption as shown in **Table 2.6**.

Table 2.6: Budgeted Funds for Management of Tax Exemptions at MoFP (Policy Analysis Division)

Financial Year	Budgeted Fund (TZS-Million)	Disbursed Fund (TZS-Million)	Difference (TZS-Million)	% of Variation
2018/19	393.7	322.6	(71.1)	(18.1)
2019/20	437.9	365.0	(72.9)	(16.6)
Total	**831.6**	**687.6**	**(144)**	**(17.3)**

Source: Financial Flows from Policy Analysis Division (2018/19 - 2020/21)

From **Table 2.6**, it is shown that, the amount of fund disbursed decreased ranging from 16.6% to 18.1%.

2.6.6 Allocated Human Resources for Management of Tax Exemptions at MoFP

MoFP under the Policy Analysis Division (PAD) for the period of 2018/19 to December 2020, was allocated with less number of staff compared to those required to facilitate the management of tax exemptions.

In general, MoFP under this period had the requirement of 564 staff, while available number of staff is 453. **Table 2.7** indicates allocated staff for the management of tax exemption in Policy Analysis Division.

Table 2.7: Human Resources at MoFP (MoFP Staff Need Assessment)

Financial Year	Number of staff required	Actual number of staff available	Deficiency
2018/19	191	172	19
2019/20	269	212	57
2020/21	104	69	35

Source: *MoFP Staff Needs Assessment Report (2018/19 to 2020/21)*

Table 2.7 shows that for the financial year from 2018/19 to 2020/21, the deficiency (required number minus available/ actual number) of staff at the MoFP increased from 19 (2018/19) to 57 (2019/20) before falling again to 35 (2020/21).

CHAPTER THREE

FINDINGS

3.1 Introduction

This chapter presents audit findings on the performance of the Ministry of Finance and Planning (MoFP), Tanzania Revenue Authority (TRA) and Tanzania Investment Centre (TIC) in managing tax exemptions as they strive to enhance benefits accruing to the country from tax exemptions.

The findings address the three (3) specific audit objectives described in section 1.3.1 of this report which include:

i) Assessment of the processes for administering the issuance of tax exemptions to enhance benefits of tax exemptions by MoFP, TIC, TRA and NISC;

ii) Assessment of monitoring and verification of tax exemption activities by MoFP, PMO, TRA and TIC; and

iii) Assessment of coordination among stakeholders involved in issuance of tax exemptions by TRA and TIC.

The detailed findings for each specific objective are presented in the following sections:

3.2 Processes for Issuance of Tax Exemption

This section covers assessment of the registration and issuance of permit to investors; processing and issuance of tax exemption to normal, strategic and special strategic investors; database for registering investors entitled to tax exemptions; and planning activities for processing and issuance of tax exemption. With regard to tax exemption granting processes the following weaknesses were found:

3.2.1 Declining Project Registration and Permits Issuance to Investors by TIC resulted to less Requests made for Tax Exemption

TIC is supposed to assist investors to obtain registration and permit as required by the laws for a person to set up and operate an investment[27].

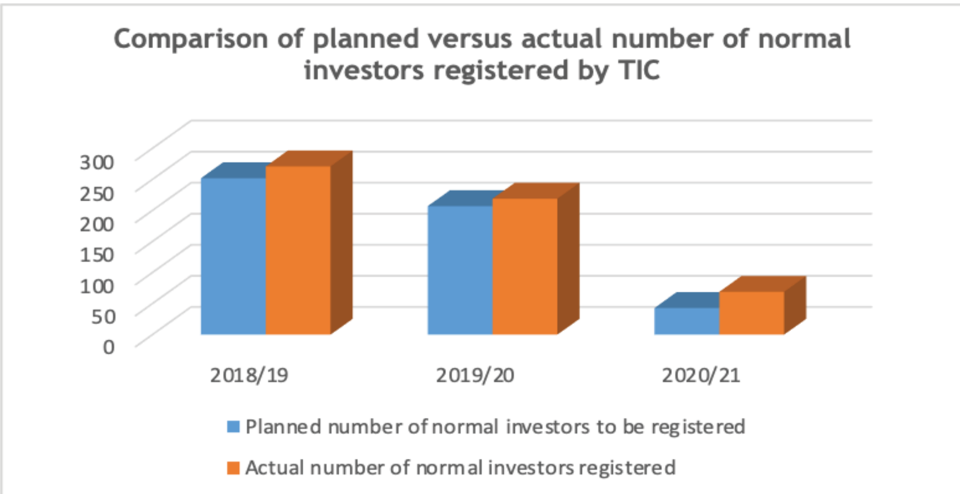
[27] Section 6 (e) of TIA of 1997 (CAP 38, Revised Edition 2015)

Review of the Corporate Strategic Plan of TIC (2017/18 to 2021/22) showed that, TIC planned to register investors in the categories of normal, strategic and special strategic investors. According to Section 19 (1), 20 (1), 20 (7-8) of the TIA of 1997, these investors upon their registration are entitled to apply for tax exemption.

Review of Annual Progress Reports for financial years 2018/19 to 2020/21 showed that, no strategic and special strategic investors were registered from financial year 2018/19 to December, 2020. However, the audit noted an increase in the number of registered normal investors, from 503 to 559 for the financial year 2018/19 to December, 2020. The audit noted variation in the number of investors registered that ranged from 12 to 26 investors for the period under review.

Despite, the noted increase in the number of registered normal investors, there was a decrease in the number of investors expected to be registered in each financial year. For instance, for the financial year 2018/19 the planned number was 253 but subsequently decreased to 207 in the financial year 2019/20, and decreased to 43 in the financial year 2020/21 (up to December, 2020). The audit further noted that, the planning for the investors to be registered did not take into consideration the achievement made in the previous year as planned number of investors to be registered decreased in the following years. Figure 3.1 provides detailed information for the above explanation.

Figure 3.1: Comparison of Planned versus Actual Number of Investors Registered by TIC



Source: *Annual Progress Reports and Register of investors (2018-2020)*

Based on Annual Performance Reports (2018/19 to 2020/21), it was noted that, none registration of strategic and special strategic investors was associated with failure to conduct NISC meetings since 2017 as NISC has a role of approving requests of strategic and special strategic investors..

Interviewed officials of TIC showed that failure to conduct NISC meetings was caused by lack of coordination for the meetings from the Prime Minister's office as a coordinator for NISC meetings. Consequently, it affected registration of strategic and special strategic investors.

On the other hand, review of Investor's Register showed that, for the financial years 2018/19 to December, 2020, the number of applications made to the necessary permit for investors were 15,408 out of which 13,660 were approved and 1,748 were rejected.

Decline in projects registration and issuance of permits to the investors resulted to decreased tax exemption applications; and decline in the number of strategic and special strategic investors in the country. Review of the List of Strategic and Special Strategic Investors shows that, at the time of the audit there were only 35 strategic investors and two special strategic investors.

3.2.2 Inadequate Processing and Issuance of Tax Exemption to Normal, Strategic and Special Strategic Investors by TIC, TRA and MoFP

Investors are entitled to the benefits which include tax exemption under the provisions of Income Tax Act, the Customs Tariffs Act, and the Value Added Tax Act. Such benefits are not supposed to be modified to the detriment of the investor during the period of five years from the date they have been granted (Section 19 (2) of TIA (CAP 38, Revised Edition 2015)).

The audit noted weaknesses in the processing and issuance of tax exemption by MoFP, TIC and TRA as described below:

a) Failure to Grant Tax Exemption to Strategic and Special Strategic Investors by MoFP

Review of Report on the implementation status of 19 strategic projects showed that strategic and special strategic investors were not provided with additional incentives including tax exemption as required in Section 20 (8) of TIA of 1997.

The interviewed officials of MoFP showed that, the Minister of Finance and Planning did not grant tax exemption to strategic and special strategic investors since the Minister for Finance did not issue Government Notices (GN) from 2017 up to the time of this audit. Issuance of GN is necessary to facilitate application and provision of tax exemption to strategic and special strategic investors.

The interviewed officials further stated that, the Minister for Finance did not issue Government Notice (GN) to grant tax exemptions to investors[28] because of limitations of mandate from tax administration laws. Despite of the interpretation[29] given by the Attorney General (AG) to advise the Minister for Finance to issue GN using Section 20 (8) of the TIA of 1997, still the Minister for Finance did not issue GN because the Minister grants tax exemption and issue GN based on tax laws, and not investment acts.

Failure to issue Government Notices had impact on the implementation of such projects as up to the time when this audit was conducted, performance contracts between Government and investors had not been signed. Failure to grant tax exemption has caused lack of predictable investment climate.

b) Not All Requested Tax Exemptions Processed by Investors through TIC were Issued by TRA

Review of Project Register of TIC (2018/19 to 2019/20) and interview with TIC officials showed that, TIC facilitated issuance of tax exemption by involving various institutions under One Stop Facilitation Centre as per section 16 of the TIA of 1997. However, the register further showed that, not all investors who initially got TIC Certificate of Incentives and applied for tax exemption to TRA through TIC were issued with tax exemption as shown in **Table 3.1**.

Table 3.1: Processing and Issuance of Tax Exemptions by TIC and TRA

Financial Year	Number of investors applied for tax exemption			Number of investors received tax exemption		
	Normal	Strategic	Special Strategic	Normal	Strategic	Special Strategic
2018/19	61	0	0	50	0	0
2019/20	96	0	0	84	0	0
2020/21 (up to December, 2020)	43	0	0	37	0	0

[28] Section 20 (8) of the TIA Act of 1997
[29] Letter dated 28th August, 2015 with Reference number AGCC/I 60/7/54 from AG to the Permanent Secretary of the Prime Minister's Office.

Financial Year	Number of investors applied for tax exemption			Number of investors received tax exemption		
Total	200	0	0	171	0	0

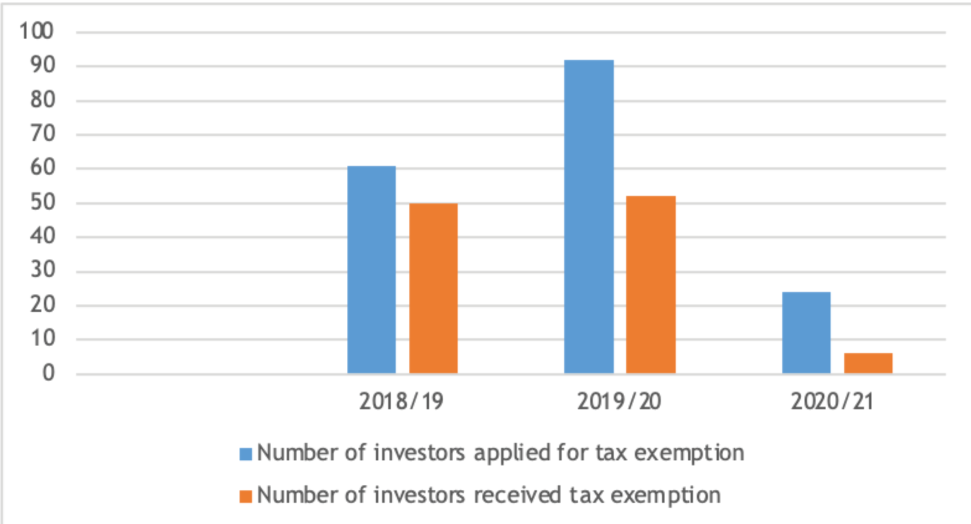
Source: *Investors Project Register from TIC (2018/19 -2020/21)*

Table 3.1 shows that, from financial year 2018/19 to December, 2020, 200 only normal investors applied for tax exemption to TIC and were submitted to TRA for approval. Out of the 200 normal investors, 171 which is equivalent to 86% were granted with the tax exemptions.

Furthermore, Table 3.1 shows that, all received applications were from normal investors, while there was no request from strategic and special strategic investors. This was because the last meeting of NISC was held in 2017 and since then no approval has been granted to strategic and special strategic investors whose approval is subject to NISC meetings.

Further analysis to establish the trend on issuance of tax exemption showed that, there was a decrease in number of investors who received tax exemptions from 82% to 25% from financial year 2018/19 to December, 2020 as shown in **Figure 3.2**.

Figure 3.2: Trend of Issuing Tax Exemption



Source: *Investors project register from TIC (2018/19-2020/21)*

The audit noted that, the reasons for decline in processing and issuance of tax exemptions by TRA are as follows:

i. Requesting for Exemptions on Items That Do Not Belong to the Respective Investor's Sector

According to Section 6(g) of TIA of 1997, TRA was supposed to make it known to investors in different sectors the lists of approved items for import duty relief or reduction on deemed capital goods in order for investors to be informed of the exemptions that are available in different sectors that they choose to invest. However, despite having the approved list of deemed capital goods for different sectors of the economy available at TIC, it has not been well communicated to the investors. Due to this it was noted that not all investors were well informed about kinds of taxes entitled for exemptions; as a result most investors prefer to use consultants who sometimes mislead investors.

For example, M/s Trolle Messle Tanzania IVS Ltd an investor based in Kigoma region faced difficulties that resulted from not being well informed in advance of the taxes that are not exempted so as to properly plan for the same before arrival of their imports. Due to this, the investor incurred extra costs amounted to TZS 9.9 Million to pay for Customs warehouse rent and other associated costs[30].

ii. Rejection of Some Requested Items

Review of Investors Project Register showed that, for the financial year 2018/19 to December, 2020, TRA rejected 14 applications from normal investors. Furthermore, there were no responses from TRA to 61 applications. The Audit Team visited Mwanza Huduma Ltd (a transporting company) and found that, among the items which he included in the request for tax exemption were 200 units of Tractor/Horse and 100 units of Heavy-Duty Truck. However, TRA granted exemption to 100 units of Tractor/Horse; and 50 units of Heavy-Duty Truck under discretional basis.

Review of the investor's request list showed that, majority of the items that were included in the request were rejected and there were no reasons for rejection explained to the investor[31]. The trucks that were denied to be exempted expected to have providing multiplier effect providing employment to the populations that would pay taxes and contribute to country revenues.

[30] Letter from dated 7th February, 2020 and payment receipts from M/s Trolle Meesle.
[31] Section 122 of the EACCMA of 2004 (Revised 2017)

iii. Discretional Approval of List of Items for Tax Exemption

As explained in (ii) above TRA did not make lists of approved items for import duty exemptions and deemed capital goods known to investors in different sectors. However, according to Section 6(g) of TIA of 1997, it was noted that, TRA was complying with the Public Finance Act of 2008 as amended from time to time. This situation left the decision solely in the hands of the tax authorities to approve or reject the tax exemptions, something that deteriorates the predictability of the investment climate.

(c) Delays in Processing and Issuance of Tax Exemption by TIC and TRA

According to Corporate Strategic Plan 2017/18 to 2021/22, the standard time for processing a request for tax exemption at TIC before submitting to TRA is three working days.

The audit assessed the timeliness in processing the issuance of tax exemption at TIC and TRA and found that, tax exemption applications were not timely processed.

Review of Registration files for investors (2018/19-2020/21) at TIC showed that there were delays of up to 7 days in processing requests for tax exemptions at TIC. This is further illustrated in **Table 3.2.**

Table 3.2: Timelines on Processing the Issuance of Tax Exemptions by TIC

Financial Year	Name of Investor	Date investor submitted request to TIC	Date Tax Exemption Request Submitted to TRA	Time used to process tax exemption (in days)	Delay (in days)
2018/19	M/s Victoria Perch Ltd	03-05-19	13-05-19	10	7
	Bannet (T) Company Ltd	25-03-19	01-04-19	7	4
	M/s Miracle Experience Tanzania Limited	03-04-19	11-04-19	8	5
	M/s Earthlife Expedition Company Ltd	18-03-19	26-03-19	8	5

Financial Year	Name of Investor	Date investor submitted request to TIC	Date Tax Exemption Request Submitted to TRA	Time used to process tax exemption (in days)	Delay (in days)
	Takims Holidays Tours and Safaris Ltd	17-05-19	22-05-19	5	2
2019/20	M/s HSSL-Lime Co. Ltd	10-01-20	20-01-20	10	7
	Trolle Meesle Tanzania IVS Ltd	26-03-20	31-03-20	5	2
	M/s Bonite Bottlers Ltd	11-04-19	18-04-19	7	4

Source: Registration files for investors (2018/19-2020/21)

Table 3.2, shows that the delays in processing of tax exemptions by TIC ranged from 2 to 7 days. According to TIC Annual Performance Reports (2018/19 to 2019/20), the delays were attributed to the shortage of staff and manual filling at registry as further explained in Section 3.2.4 (i).

Similarly, Section 16 (3) of TIA of 1997 requires TRA to issue approvals of tax exemption within 14 working days from when the request is received from TIC. However, review of Approval Correspondences for the period of financial years 2018/19 to 2020/21 from TRA to investors showed that, there were delays in processing the issuance of tax exemption by TRA as shown in **Table 3.3** hereunder.

Table 3.3: Timelines in Processing the Issuance of Tax Exemptions by TRA

Financial Year	Name of Investor	Date Tax Exemption Request Submitted	Date Tax exemption Approved/Issued	Time Used to process Tax exemption (days)	Standard time (days)	Delay (days)
2018/19	M/s Victoria Perch Ltd	15-04-19	30-04-19	12	14	No delay
	Bannet (T) Company Ltd	01-04-19	14-05-19	32	14	18

Financial Year	Name of Investor	Date Tax Exemption Request Submitted	Date Tax exemption Approved/Issued	Time Used to process Tax exemption (days)	Standard time (days)	Delay (days)
	Takims Holidays Tours and Safaris Ltd	22-05-19	20-06-19	21	14	7
	M/s Miracle Experience Tanzania Limited	11-04-19	07-10-19	126	14	112
	M/s Earthlife Expedition Company Ltd	26-03-19	01-07-19	69	14	55
	M/s Kilimanjaro Biochem Ltd	18-04-19	01-08-19	73	14	59
2019/20	M/s HSSL-Lime Co. Ltd	20-01-20	24-02-20	23	14	9
	Mwanza Huduma Company Ltd	17-07-19	30-10-19	74	14	60
	Trolle Meesle Tanzania IVS Ltd	31-03-20	22-05-20	36	14	22
	Mwanza 2020 Soap Industry Limited	25-03-20	03-06-20	50	14	36
	M/s Bonite Bottlers Ltd	05-08-19	20-08-19	10	14	No delay
	Oldean Ngorongoro Mountain Lodge Ltd	12-11-19	08-07-20	166	14	152
	M/s Heritage Camps &	26-06-20	25-08-20	41	14	27

Financial Year	Name of Investor	Date Tax Exemption Request Submitted	Date Tax exemption Approved/Issued	Time Used to process Tax exemption (days)	Standard time (days)	Delay (days)
	Lodges					
2020/21	Mwanza Gaz Limited	16-07-20	22-09-20	48	14	34

Source*: Approval Correspondences from TRA to investors (2018/19-2020/21)*

Based on **Table 3.3**, 87% of the delayed applications (13 out of 15) had a delay of up to five months; whereas 13% (2 out of 15) had no delay.

Furthermore, Table 3.3 shows that, the shortest delayed period was noted in the financial year 2018/19 for tax exemption approval of Takims Holidays Tours and Safaris Ltd, while the highest delay of 152 days was noted in the financial year 2019/20 for tax exemption approval of M/s Oldean Ngorongoro Mountain Lodge Ltd.

It was noted that, TRA managed to timely process the issuance of tax exemption to only 2 out of 14 investors which are M/s Victoria Perch Ltd where TRA used 12 days and M/s Bonite Bottlers Ltd where 10 days were used while to the other investors, TRA used more than the standard time of 14 days to process the issuance of tax exemption as elaborated above.

Interviewed official from TRA showed that, this magnitude of delay to M/s Oldean Ngorongoro Mountain Lodge Ltd was caused by investor's delay in submitting requested evidences such as bank cash flow showing investor’s capacity for investing in the project. Review of correspondences between TRA and M/s Oldean Ngorongoro Mountain Lodge Ltd showed that, the requested evidences were submitted to TRA on 28th May, 2020.

Basing on the above information on submission of the requested evidences to TRA, the delay was established to be 29 days. Furthermore, it was noted that, there was a communication failure because TRA could get the requested information from TIC instead of requesting from the investor since the requested evidence was submitted earlier by the investor to TIC during the registration of the project and the investor qualified for the award of the certificate of incentives.

Interviewed officials from TRA further explained that, other factors for noted delays which were common to all applications were: Insufficient attachment (such as proof of land ownership or lease, financial ability, business plan, Bill of Quantity (BoQ), etc.); delay by investor to submit requested information; imbalance between the financial capability (proof) by the investor against list of goods to which the exemption is applied; and Irrelevant and mismatch application attachments.

Delay of TRA to grant tax exemptions to the investors caused inconveniences such as delay in clearing the imported items, and cost overruns in implementing the project. For instance, M/s Oldean Ngorongoro Mountain Lodge was charged TZS 44.16 Million by TRA as TRA Warehouse rent and other charges[32], and he was charged TZS 29.32 Million as Port Charges[33] which were paid to Tanzania Port Authority (TPA).

Similarly, review of Letters from Kilimanjaro Biochem Limited to TRA indicated that, delay in processing and issuance of tax exemption to M/s Kilimanjaro Biochem Ltd necessitated the investor to pay TZS 230 Million as demurrage[34] and storage charges. The investor further showed that, Although Customs clearly approved list of machinery and other items, when container arrived at the Port, the approvals or the list was completely ignored and the documents were subjected to meetings and clarifications.

(d) Misclassification of Items and Wrong Application of ACPC[35] 431[36], 435[37] and 476[38] during Processing and Issuance of Tax Exemption

Review of the Post Clearance Audit report (2019) for M/S CRJE Estate Limited showed that, there was improper verification of the transactions declared under ACPC 431 code. This situation led TRA to incorrectly grant tax exemption to the investor on both import and excise duty. It was noted that, items Door Cover, Foot Line, Foot Line (Skirting), Foot Liner, Wooden Door for the import duty and items on Bench, Adjustable Bench, Crunch Bench, Base Board, Pool Table and Rack for the excise duty were misclassified as they were not compatible with the list of items provided by the law.

---

[32] Payment charges made to TRA (2020)

[33] Payment charges made to TPA (2020)

[34] Demurrage is a charge payable to the owner of a chattered ship on failure to load or discharge the ship within the agreed time.

[35] Additional Customs Procedures Code.

[36] ACPC 431 is used for importation of goods where import duty is exempted, but VAT is payable where no other CPC provides description.

[37] ACPC 435 Gives full exemption to TIC registered companies. It is no longer used

[38] ACPC 476 Is used for importation of capital goods for new TIC investors who are now get exemption of 75% of import duty, VAT deferred.

This resulted into wrong verification of transactions (import and excise duty) for tax exemption. For instance, it was noted that, the import duty that would be charged if proper verification were conducted is TZS 37,574,858, while the excise duty that would be charged if proper verification were conducted is TZS 4,955,921.73.

It was further revealed that, Finance Act 2013 made an amendment to section 19 (b) of the Tanzania Investment Act of 1997 which restricts import duty exemption to be granted to deemed capital goods to 75% of import duty. However, it was established that during the period under review, M/S CRJE Estate Limited applied ACPC 435 and enjoyed full exemption on import duty contrary to the requirement of the law.

The audit established a total tax liability and short levied import duty amounting to TZS 1,364,758,288.20 and TZS 1,322,227,508.50 respectively resulting from misclassification of furniture and wrong application of ACPC 431 and 435.

However, it was noted that, for the established liability and short levied import duty M/S CRJE Estate Limited was advised by TRA to pay. For the established liability TZS 42,530,779.73 as the difference of TZS 1,322,227,508.50 has already been paid; while for the short-levied import duty, the same was paid under protest (a legal procedure for which a taxpayer does not accept tax assessment by TRA hence paving way to an appeal to tax appellate board) vide letter with reference TRA/CE/C/I.10/3C dated 14th November 2018 which covered transactions from 2014 to 2018.

(e)Non-Approval of Requests from Strategic or Special Strategic Investors by NISC

The National Investment Steering Committee is authorised to approve status of investors (both strategic and special strategic investors) as per Section 20 of TIA (CAP 38, Revised Edition 2015)), and issue incentives that are more than what are provided for in the legislations as per Section 19 of the TIA of 1997.

As explained in Section 3.2.1 and 3.2.2 (ii) (a) and (c), the last NISC meeting was held in 2017 whereby six projects were approved. However, for the period from 2017 to date, there are no strategic and special strategic projects that have been approved by NISC, although there are various normal investors who have been requesting to upgrade their investment status to strategic and special strategic investors but, the requests are pending due to the fact that, there are no NISC meetings since the last meeting held in 2017.

Review of investment files from TIC showed that, for the investors approved by NISC for fiscal incentives that include tax exemption, there must be performance contracts that are prepared by TIC and vetted by Attorney General (AG). Thereafter, an investor may apply for investment incentives including tax exemption to the Ministry of Finance and Planning whereby the Minister for Finance is responsible to grant tax exemption by order in a Government Notice (GN)[39].

However, the audit revealed that tax exemptions were not granted to the Strategic and Special Strategic investors under NISC. For instance, strategic investors namely Kilombero Plantations Ltd, Mtibwa Sugar Estates Ltd, Kagera Sugar Estates Limited, Sumbawanga Agricultural and Animal Feeds Industries Ltd, and Tanzania Portland Cement Ltd were not granted tax exemption. This was because there were no GN issued by the Minister for Finance for the whole period under review because tax legislations do not recognize tax incentives that are provided in the TIA of 1997. Based on this, the Minister of Finance does not have a base for granting GN for the tax exemption to strategic and special strategic investors.

Failure to grant Government Notices to strategic and special strategic investors has resulted to the failure to implement the 19 performance contracts that were signed between the Government and the investors.

3.2.3 Failure for TIC to Access Tax Exemption Information Documented in the TANCIS Data Base

TIC is supposed to promote facilitation of investments by ensuring proper documentation of tax incentives/exemptions[40].

Similarly, TRA is supposed to produce trade statistics and publications which include tax exemption on quarterly basis[41].

Audit noted that, Tanzania Customs Information Systems (TANCIS) is the database for recording among other things tax exemption information. The database records information on utilization of tax exemption showing

[39] Tax Exemption for Strategic and Special Strategic investors is issued through Government Notice (GN)
[40] TIC Corporate Strategic Plan 2017/18 - 2021/22
[41] TRA's Fifth Corporate Plan 2017/18-2021/22

amount of items that have been imported by an investor. The system stores the recorded information and can produce customs reports.

The audit found out that TIC does not have access to TANCIS as customs database/system. Also, it was found out that, even the TRA's Resident Customs Officer located at TIC offices cannot access the system.

It was noted that, TANCIS is a Customs clearance system like other organization's internal systems and that other government departments could be accommodated and configured for their specific needs on request. So TIC had to send a request to TRA to get the access to TANCIS, but, interviewed officials from TRA revealed that, TRA did not receive any request from TIC.

The tendency by TRA to deny TIC access to TANCIS contravened the agreed terms in signed Memorandum of Understanding (MoU) of 2014, in which TRA and TIC agreed to share information on tax exemptions. Details of agreed issues are as shown in Appendix 7.

Interviewed TIC officials showed that, failure to access the system by TIC and TRA Resident Customs Officer at TIC offices affected implementation of some activities such as planning, physical verification visits (aftercare services) and monitoring the status of utilization of the imported items.

3.2.4 Inadequate Planning for Resources to Facilitate Processing and Issuance of Tax Exemptions

According to Tanzania Five Year Development Plan II 2015/16 – 2020/21 Page 91, and TRA's Fifth Annual Corporate Plan 2017/18 -2021/22; MoFP, TRA and TIC are supposed to develop strategic and business plan to ensure proper allocation of resources for tax exemption management.

Review of planning documents[42] and interviewed officials from MoFP, TIC and TRA and officials from visited regions[43] showed that despite of the planning for required resources weaknesses were noted in the allocation of resources as further described below:

[42] Tanzania Five Year Development Plan II 2015/16 – 2020/21 Page 91, and TRA's Fifth Annual Corporate Plan 2017/18 -2021/22

[43] Dar es Salaam, Mtwara, Kilimanjaro, Mwanza, Kigoma, Songwe and Mbeya.

a) **Shortage of Key Personnel to Facilitate Implementation of Tax Exemption Activities at TRA and TIC**

i. Shortage of Key Personnel at TRA

A review of Staff Needs Assessment by TRA for financial years 2018/19 to 2020/21 showed that there was a deficiency of staff for managing tax exemption activities that ranged from 29% to 47% of optimal staffing levels. This is as shown in **Figure 3.3.**

Figure 3.3: Deficiency of Staff at TRA (Trade Facilitation Unit)

Source: *TRA Staff Needs Assessment Report (2018/19 to 2020/21)*

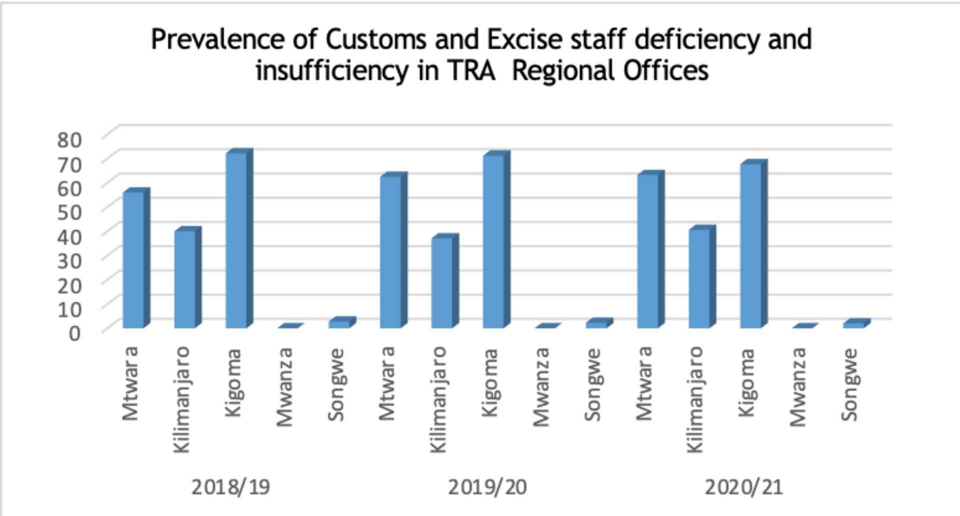
Figure 3.3 shows that there was a deficiency, albeit declining, of a number of staff responsible for management of tax exemptions at the Trade Facilitation Unit. The deficit ranged from 29% of the required number in the financial year 2020/21 to 47% in the financial year 2018/19. Also, for the three financial years under review (2018/19 to 2020/21), TRA had a constant requirement of staff (17 staff) for management of tax exemptions, however, the actual number of staff available has been increasing from financial year 2018/19 to financial year 2020/21, while the deficiency of staff has been decreasing from 47% to 29%.

Despite having a deficiency of staff responsible for managing tax exemptions at TRA, TRA did not consider filling the vacant positions in the Unit as a matter of priority. This was evidenced by a letter dated 24th

January, 2020 with reference number CGA.411/423/01/14 from TRA to the Permanent Secretary of the President's Office-Public Service Management and Good Governance asking for additional Staff in the fields of ICT and drivers only.

Furthermore, a review of reports for allocation of staff from the visited TRA regional offices for the financial years 2018/19 to 2020/21 revealed human resource shortages as shown in **Figure 3.4**.

Figure 3.4: Allocation of Staff for Customs and Excise Departments at TRA Regional Offices



Source: *Data collected from visited regions (2020)*

Figure 3.4 shows that there is a shortage of staff that ranged from 2% in the financial year 2020/21 in Songwe TRA regional office to 72.2% in the financial year 2018/19 in Kigoma TRA regional office. Furthermore, highest deficit for allocated human resources were noted at Kigoma TRA Regional office with a range of 67.7% to 72.2% followed by Mtwara TRA Regional Office with a range of 56% to 63.2%.

Review of Management Reports (2018/19 to 2020/21) revealed that, the shortage of staff was attributed by delay to replace the retired and transferred staff at respective TRA regional offices. For instance, in Kigoma region there were four retired staff and two transferred staff, however, there was a delay in filling the gaps for more than nine months.

These gaps affect the effective enforcement of conditions of tax exemption, because, these Officials are directly involved in monitoring tax exemptions activities by carrying out verification exercise to ascertain the usage of exempted goods by beneficiaries[44].

ii. Noted Shortage of Key Personnel at TIC

Review of Staff Needs Assessment of Tanzania Investment Centre for the period under review (2018/19 to December, 2020) and TIC Corporate Strategic Plan 2017-18 to 2021-22 showed that, Investment Facilitation and Investment Promotion Directorates under TIC had deficiency of staff for management of tax exemption activities. This is as shown in **Table 3.4.**

Table 3.4: Human Resources for Management of Tax Exemptions at TIC

Financial Year	Directorate of Investment Facilitation				Directorate of Corporate Affairs			
	Required number of staff	Available Staff	Deficiency	% of Deficiency	Required number of staff	Available Staff	Deficiency	% of Deficiency
2018/19	12	5	7	58	5	2	3	60
2019/20	12	6	6	50	6	2	4	67
2020/21	12	8	4	33	7	5	2	57
Total	36	19	17		18	9	9	

Source: *Data Collected from TIC (2020)*

As shown in **Table 3.4**, both Directorate of Investment Facilitation and Directorate of Corporate Affairs were under staffed. However, for the Investment Facilitation Directorate there is improvement in the number of allocated staff as the deficit decreased from 58% in the financial year 2018/19 to 33% in the financial year 2020/21. For the Directorate of Corporate Affairs, the situation is worse as the deficit is above 50% and it fluctuates as in the financial year 2018/19 the deficit was 60%, it increased to 67% in the financial year 2019/20 and decreased to 57% in the financial year 2020/21.

Further, the audit assessed allocation of staff at all seven (7) TIC Zonal Offices and found that, there was a constant requirement of 35 staff while available staff were 18 with a deficiency of 17 staff (equivalent to 48.6% of needs) for all three years under audit.

[44] Management Report for the Month of March, 2020 Kigoma Region.

Review of a letter with reference number TICC/S.10/2/363 from TIC Headquarters to the President' Office-Public Service Management and Good Governance (PO-PSM) dated 6th March, 2020 showed that, the reason for understaffing was non-employment of new staff by the government despite submission of the request for staff to Permanent Secretary (PO-PSM), the details of the requested staff are as shown in Appendix 6. However, until this audit was concluded, there was no evidences on the approval of the requested staff from PO-PSM to TIC.

Another factor for noted inadequate capacity of staff was unattractive salary scales as compared to other independent and similarly placed institutions; and nil salary increments for more than six years in a row which has demoralized the staff[45]. This adversely affect the Centre's ability to retain high-calibre employees hence resulting to Staff turnover[46].

Also, it was shown that, lack of effective performance management systems such as the Open Performance Review and Appraisal System (OPRAS) and Balanced Scorecard before July 2020 also contributed to the unsatisfactory performance of the staff.

The deficiency of staff at TIC affects to a large extent execution of roles and responsibilities of the Centre in promotion and facilitation of investment to investors[47]. For example it resulted into delays in processing and issuance of tax exemption, for TIC noted delay was 7 days while for TRA the noted delay reached 152 as further explained in Section 3.2.2 (iii) ; inadequate undertaking of monitoring/verification to beneficiaries of tax exemption during registration and after as further explained in Section 3.3[48].

b) Shortage of Financial Resources to Facilitate Implementation of Tax Exemption at TRA and TIC

i. Shortage of Financial Resources at TRA

Review of Annual Plans for the period of financial years 2018/19 to 2020/21 and interviews with officials of TRA showed that, TRA received funds from the Government to facilitate management of tax exemption activities. This includes processes for issuance of tax exemption, monitoring and verification of tax exemption, and coordination among stakeholders involved in the processes for issuance of tax exemption.

However, the review of Commitment Report from TRA for the financial years 2018/19 to 2020/21 showed that, from 2018/19 to September 2020, the

[45] TIC Corporate Strategic Plan 2017-18 to 2021-22
[46] TIC Corporate Strategic Plan 2017-18 to 2021-22
[47]A letter with reference number TICC/S.10/2/363 from TIC Headquarters to the President' Office-Public Service Management and Good Governance dated 6th March, 2020.
[48] TIC Annual Progress Report for financial year 2019/20.

Trade Facilitation and Procedure Unit received less funds than budgeted amount ranging between 13% and 17% as shown in **Table 3.5**.

Table 3.5: Funds for Management of Tax Exemptions by TRA (Trade Facilitation and Procedures Unit)

Financial Year	Budgeted amount (TZS Million)	Amount Released (TZS Million)	Variation (TZS Million)	% of Variation
	(a)	(b)	C= b-a	(c/a)*100
2018/19	386.57	335.074	(51.50)	13
2019/20	437.69	361.41	(76.27)	17
Total	**824.26**	**824.26**		

Source: *Commitment Report from TRA (2020)*

Further, the audit assessed whether the amount of funds disbursed to TRA regional offices with customs entry point were as per requests made. This assessment was made to five (5) visited regions of Mtwara, Kilimanjaro, Mwanza, Kigoma and Songwe as shown in **Table 3.6.**

Table 3.6: Funds Disbursement for Customs and Excise Departments in the visited TRA Regional Offices

TRA Regional Office	Financial Year	Budgeted amount (TZS Million)	Actual amount received (TZS Million)	Deficit (TZS Million)	% of deficit
Mtwara	2018/19	42.06	41.96	-0.1	0.2
	2019/20	68.11	67.53	-0.58	0.9
Kilimanjaro	2018/19	303.3	299.8	-3.50	1.2
	2019/20	587	586.99	-0.01	0.0
Mwanza	2018/19	52.45	50.30	-2.15	-4.1
	2019/20	176.69	77.45	-99.24	-56.2
Kigoma	2018/19	115.8	84.8	-31.00	-26.8
	2019/20	70.7	70.4	-0.30	-0.4
Songwe	2018/19	181.95	181.67	-0.28	-0.2
	2019/20	278.61	275.35	-3.26	-1.2

Source: *Data from Fund Expenditure Reports at visited TRA Regions (2020)*

Table 3.6 shows that the deficiency of funds ranged from 0.2% in the financial year 2018/19 in Mtwara and Songwe regions to 56.2% in the financial year 2019/20 in Mwanza region. As shown in Table 3.6, the highest deficits were noted in Kigoma region in the financial year 2018/19 and Mwanza region in the financial year 2019/20.

ii. Shortage of Financial Resources at TIC

Review of TIC Annual Plans of 2018/19 to 2020/21 and interviews with the officials showed that, the Centre received financial resources from internal sources (Registration fees, Certificate of Incentives fees, and facilitation fees). Other sources of income include fee and Donor support (project proposal); TIC properties management; and Personnel Emoluments (PE) as subvention from the Central Government for salaries.

However, the review of MTEF for financial years 2018/19 to 2020/21 and Annual Progress Reports (2018/19 and 2019/20) showed that, the amount of funds disbursed by the Government for all three years under review was less compared to planned budget as shown in **Table 3.7.**

Table 3.7: Budgeted Funds for Management of Tax Exemptions at TIC

Financial Year	Budgeted amount (TZS Billion)	Amount disbursed (TZS Billion)	Difference (TZS Billion)	Percentage of Difference
	(a)	(b)	C= b-a	
2018/19	9.29	5.04	-4.26	45.9
2019/20	10.02	5.18	-4.84	48.3
Total	19.31	10.22	-9.1	

***Source**: TIC Annual Progress Reports (2018/19 & 2019/20) and Data collected from TIC (2020)*

Table 3.7 shows that almost half of the requested funds were not disbursed to TIC as per the request made. It is also shown that in the financial year 2018/19, 45.9% of funds were not disbursed while in the financial year 2019/20 48.3% of funds were not disbursed.

This was caused by inadequate collection of revenue by TIC. Review of Annual Performance Report (2018/19) showed that, the underperformance of revenue collection was caused by failure to identify new sources of income and decrease in number of projects registered. In addition, collection of facilitation fee has not reached its targets because the majority of institutions operating at the One-Stop-Centre have not been able to remit the ten percent fee in lieu of services offered to TIC registered projects.

Furthermore, the audit assessed whether the amount of funds disbursed to zonal offices was as per requests made. This assessment was made to six (6) visited TIC zonal offices and it was noted that, there was inadequate improvement in the disbursement of funds. This is as shown in **Table 3.8**.

Table 3.8: Funds Disbursement in the visited TIC Zonal Offices

Zonal Office	Financial Year	Budgeted amount (TZS Million)	Actual disbursed amount (TZS Million)	Deficit (TZS Million)	% of deficit
Southern (Mtwara)	2018/19	80	20.64	-59.37	-74.2
	2019/20	81.23	23.48	-57.75	-71.1
Northern (Kilimanjaro)	2018/19	80	46.81	-33.19	-41.5
	2019/20	81.23	40.14	-41.09	-50.6
Lake Zone (Mwanza)	2018/19	80	45.52	-34.48	-43.1
	2019/20	81.23	42.59	-38.63	-47.6
Western Zone (Kigoma)	2018/19	80	27.58	-52.42	-65.5
	2019/20	81.23	26.90	-54.33	-66.9
Eastern Zone (Dsm)	2018/19	80	25.68	-54.32	-67.9
	2019/20	81.23	20.14	-61.09	-75.2
Southern Highland Zone (Mbeya)	2018/19	80	30.695	-49.30	-61.6
	2019/20	81.23	28.60	-52.63	-64.8

Source*: Data from Fund Expenditure Reports for visited zonal offices (2018/19 to 2020/21)*

Table 3.8 shows that there was inadequate disbursement of funds as it was noted that in all visited zonal offices, the amount of funds received was not as per requested amount. The deficit of fund ranged from 41.5% in Northern Zone (Kilimanjaro) in the financial year 2018/19 to 75.2% in Eastern Zone (Dar es Salaam) in the financial year 2019/20.

The reasons for disbursement of less funds compared to approve budget is a result of inadequate funding as per requested budget[49].

Disbursement of less funds is likely to have impact on achieving targets on execution of the planned activities of TIC Zonal offices.

Furthermore, it was noted that, there was no direct budget disbursement to TIC Zonal offices due to lack of provision of direct fund disbursement to Zonal offices (cost centres) in the Epicor Accounting Software. As a result, all Zonal offices budgets were distributed to other departments depending on the nature of activities such as promotion, facilitation, research,

[49]Financial Flow Records from TIC

administration etc. and all payments were done using departmental cost centers.

Interviewed officials from TIC showed that, centralization of budgets affected the timelines in execution of planned zonal activities because in whichever activity to be executed, Zonal Managers had to request for fund from TIC Headquarters.

3.3 Monitoring and Verification of Tax Exemptions

According to TIC Corporate Strategic Plan of 2017/18 to 2021/22 and, Tanzania Second Five Year Development Plan 2015/16 – 2020/21 monitoring and verification on tax exemption are responsibilities of TRA and TIC. This has to be done to minimize the abuse of approved tax exemption.

Review of tax exemption correspondences and interview with respective officials showed weaknesses as will further be elaborated in the coming sub-sections.

3.3.1: Insufficient Implementation of Mechanisms to Verify Fulfilment of Conditions for Issuance of Tax Exemption by TRA and TIC

TRA is supposed to review applications for tax exemptions in order to minimize abuse and thus increase tax collection[50].

Review of Tax Exemption Approval Correspondences from TRA showed that, TRA had a mechanism in place for verification of fulfilment of conditions for tax exemption before its issuance. This includes review of the submitted documents from investors and check whether the investor qualifies for the exemption requested; and site visit to the project for checking the existence and stage of development of the project, aiming at providing necessary information to the Commissioner of Customs and Excise for decision making prior to granting tax exemption.

However, the audit noted the following weaknesses with regards to implementation of existing mechanism:

[50] Tanzania Second Five Year Development Plan II 2015/16 – 2020/21 Page 91

a) Misclassification and Misunderstanding during Review of Tax Exemption Requests

Review of Tax Exemption correspondences from TRA showed mis-classification of investor's sector of the investment as noted in the request for tax exemption made by Busolwa Mining Ltd who was registered by TIC and given a Certificate of Incentives under manufacturing sector as he was involved with Elution Plant activities which gave him rights to request for the tax exemption. TRA rejected a request of tax exemption from Busolwa Mining Ltd on the basis that, the investor belonged to mining sector, hence the investor did not deserve exemption on chemicals, non-utility vehicles and consumables such as safety gears.

However, interview conducted with TRA officials it was noted that, manufacturing activities would be working on extracted minerals into commodities, and it was mis-understood by TIC to categorize the company as manufacturer.

Due to the above scenario it was established that, the manufacturing sector approved by TIC in the certificate differs with the one to which the exemption was applied, this is because mining sector is not covered as per section 2(1) of TIA rather the section covers manufacturing sector.

This caused the investor to pay import duty of TZS 6.5 Million while this cost was not supposed to be paid.

Further review of Tax Exemption Correspondences from Bonite Bottlers Ltd showed misunderstandings in classifying projects by TRA when investors submitted requests for tax exemptions that led to rejection of the submitted requests. For instance, M/s Bonite Bottlers Limited of Kilimanjaro submitted requests for tax exemption for the new project of producing bulk mineral water with capacity of producing different packages of 6, 12 and 20 litres. This project was to be implemented within the premises of the existing industry which produce mineral water with capacity 0.5, 1 and 1.5 litres.

Upon submission of the request to TIC, this project was approved under a new certificate of incentives. However, TRA rejected the request on the basis that, it was an expansion project and hence it did not qualify for tax exemption on import duty. According to TRA, it was established that, its approval would be in contradiction to item 48(d) of Part X to the Finance Act No. 2 of 2014 which restricts exemption to project rehabilitation or expansion.

Due to this, the investor decided to appeal against rejection of import duty exemption vide TIC No. 023393 dated 20th July, 2019 but until the time of this audit, the investor had not received any response on the appeal.

The same scenario was noted in relation to the request for tax exemption made by M/s Said Salim Bakhresa Ltd as shown in the letter dated 18th July, 2019 from TRA to M/s Said Salim Bakhresa Ltd.

b) Recommendations to Approve Issuance of Tax Exemption from TRA Regional Verification Teams Were Not All Implemented by the Trade Facilitation Unit

Review of Physical Verification Reports from TRA for the financial years 2018/19 to 2020/21 for selected projects showed that, TRA through Trade Facilitation Unit did not always implement recommendations from teams that conducted physical verification on projects.
It was found that, for the projects which were located out of Dar es Salaam, the Trade Facilitation Unit at the Headquarters of the Customs and Excise Department did not often conduct verification when investors submitted tax exemption requests. Instead, it relied on the results of the verification visits carried out by Customs and Exercise Department staff of respective TRA regional offices.

Review of the Physical Verification Reports for the period under this audit showed that there were cases when TRA, through the Trade Facilitation Unit, did not issue tax exemptions even though the same was recommended by a physical verification team from the respective regions. For example, investors namely Mwanza Huduma Company Ltd, Bonite Bottlers Ltd, and Said Salim Bakhresa Company Ltd were recommended for approval of tax exemption when TRA regional offices conducted physical verification, however, the Trade Facilitation Unit under Customs and Excise Department Headquarters rejected the requests.

Review of tax exemption requests from TRA to investors showed that, TRA had no specific reason for rejecting requested items for Mwanza Huduma Company Ltd, while for Bonite Bottlers and Said Salim Bakhresa the reason for rejection was that, the projects were considered to be expansion projects while in reality these were new projects.

Failure to grant tax exemption in these requests, caused investors to either incur more cost during importation of items, importation of few items such as transportation vehicles which limited number of drivers who could be employed to drive the vehicles, and failure of approval of new projects (a case of Bonite Bottlers Ltd, and Said Salim Bakhresa Company Ltd).

3.3.2 TRA and TIC In adequately Ensure the Granted Tax Exemptions were Used as per the Requirements of Tax Exemption Certificates

According to TRA's Fourth Corporate Plan, TRA is supposed to carry out systematic and routine verification of the granted exemptions through documentary checks and physical visits to the beneficiary place of business to ensure proper use of the granted exemptions as per the requirements of tax exemption certificates.

Similarly, according to the Corporate Strategic Plan for Financial Year 2017/18 to 2021/22, TIC is supposed to undertake projects visits for monitoring and aftercare services.

Generally, the audit noted some weaknesses in ensuring granted tax exemptions are used as per given requirements of tax exemptions certificates. Such weaknesses are discussed in details in the next section

a) Inadequate Monitoring of the Granted Tax Exemptions by TRA

According to Fourth Corporate Plan (CP4), TRA was required to enhance monitoring and reporting on revenue lost through granted exemptions. Tax Exemption Unit is required to conduct monitoring/verification to beneficiaries of tax exemption on quarterly basis to ensure proper use of the granted exemptions.

Interviews with officials from TRA showed that, TRA did not adequately conduct monitoring of tax exemptions in regions which resulted to failure to report on revenue lost through exemptions. A review of the Tax Exemptions Unit's Verification Reports for financial years 2019/20 and 2020/21 showed that, despite recognition by TRA of the importance of physical visits to the projects granted with the tax exemptions, the visits were not conducted as planned as **Table 3.9** indicates.

Table 3.9: Comparison of Planned Versus Conducted Monitoring Visits at TRA

Financial Year	Planned number of monitoring Visits	Actual number of monitoring Visits conducted	Difference/Gap
2019/20	4	1	3
2020/21	4	1	3
Total	8	2	6

Source: Tax Exemption Unit Verification Reports (2019/20 to 2020/21**)**

Table 3.9 shows that for the period of two years (2019/20 to 2020/21), TRA conducted only two out of eight planned physical monitoring/verification activities.

The reasons for the failure to conduct the planned monitoring activities was scattered projects across the country. Since TRA had shortage of staff in the Tax Exemptions Unit scattered projects affect conduct of monitoring activities. It was noted that required number of staff for this unit is 13 while available staff were four (4) and were mostly occupied by normal daily responsibilities.

Failure to adequately monitor tax exemption is likely to cause a high possibility of abuse of granted Tax Exemptions. Review of Tax Exemption Verification Reports for the period of financial year 2019/20 and 2020/21 showed that, there was miss-use of tax exemptions granted to investors as Table **3.10** indicates.

Table 3.10: Abuse of Tax Exemptions in Arusha and Dar es Salaam Regions for Financial Year 2019/20 and 2020/21

Financial Year	Region	Investors with vehicles exemption	Investors abused exemption	Investors complied with conditions of exemption	No. of vehicles exempted	No. of vehicles abused	Approximated Duty & Taxes abused (TZS Billion)
2019/20	Arusha	9	5	4	180	41	1.68
2020/21	Dar es Salaam	9	3	6	520	15	0.308
Total	**2**	**18**	**8**	**10**	**700**	**56**	**1.99**

Source*: Tax Exemption Verification Reports (2019/20-2020/21)*

Table 3.10 shows that for the two financial years of 2019/20 to 2020/21, the Tax Exemption Unit identified 8 out of the 18 investors who abused tax exemption conditions which would have generated the import duty tax of TZS 1.99 Billion.

Table 3.10 further shows that, in Arusha region, the number of investors who abused tax exemption and number of vehicles abused is higher compared to Dar es Salaam. Analysis of the information indicates that, the reasons for high rate of tax exemption abuse in Arusha region was the fact that Arusha Region is the hub of tourism industry in the country and majority of tourism investors are located in this region, and that tourism sector is entitled to tax exemptions in importation of tour vehicles.

b) Inadequate Monitoring/Verification of Tax Exemptions by TIC

Interviewed official from TIC and review of Corporate Plan for the financial years 2017/18 to 2021/22 showed that, TIC conducted visits to project for monitoring and aftercare services. They further pointed out that, investors are required to provide progress reports after every six months on the implementation status of their projects.

Review of Annual Work plan and Annual Performance Reports for the financial year 2018/19 and 2019/20 showed that, TIC conducted physical verification visit to projects in order to monitor and evaluate their performance. However, the audit noted that, number of projects covered during verification was low in four Zones namely, Southern, Lake, Northern, and Central. Three zones of Eastern, Western and Southern Highland exceeded the planned number of projects to be verified. This is further explained in **Table 3.11**.

Table 3.11: Systematic and Routine Verification of the Granted Exemptions by TIC

Zone	Financial year	Planned number of projects for monitoring/verification	Actual number of projects monitored/verified	Difference
Southern	2018/19	Zonal office was formed in this year	25	-15
	2019/20	40		
Lake	2018/19	No data	41	-7
	2019/20	48		
Northern	2018/19	No data	42	-18
	2019/20	60		

Zone	Financial year	Planned number of projects for monitoring/verification	Actual number of projects monitored/verified	Difference
Southern Highlands	2018/19	No data	31	31
	2019/20	No data		
Central	2018/19	No data	29	-1
	2019/20	30		
Eastern	2018/19	No data	107	107
	2019/20	No data		
Western	2018/19	Zonal office was formed in this year	18	8
	2019/20	10		

Source: *Annual Work plan (Zonal Offices) & Annul Performance Reports (2018/19 to 2019/20)*

Table 3.11 shows that from the financial year 2018/19 to 2019/20, there was few physical verification visits to the projects areas that ranged from one to 18 projects. In the Southern Zone, projects which were not covered during verification were 15 which is equivalent to 60% of planned projects. This was caused by financial constraints and low capacity of zonal office in terms of human resources as the zonal office had only two staff.

However, Eastern, Western and Southern Highland Zones exceeded the planned number of projects to be verified by 107, 8 and 31 projects respectively. The reason for high coverage of projects in Eastern Zone is the fact that, most of the projects registered by TIC were located in the Eastern zone especially Dar es Salaam and Coast Regions. This is associated with well-developed infrastructure and proximity to markets and major centres for communication facilities such as Harbours and Airports.

Table 3.11 further shows that, in all TIC Zonal offices, TIC did not identify number of projects to be verified in the financial year 2018/19. This was caused by formulation of zonal offices hence project verification visits were not in plan. Interviewed official showed that, visits were also conducted prior to establishment of zonal offices.

It was further noted that, the Physical Verification Visits (PVVs) conducted by TIC would be more meaningful in respect to tax exemption monitoring if TIC had an access to the TANCIS information for comparison of what was imported against what was on site.

Low coverage of projects for physical verification visits resulted to abuse of granted tax exemption as explained in Section 3.3.3.b

3.3.3 Inadequate Enforcement of the Conditions of Tax Exemptions by TIC

TIC and TRA are supposed to establish objectives and processes necessary to deliver results. This includes having a mechanism for identifying and enforcing the law against non - compliance with tax exemption prerequisites by investors (According to ISO 1900 (Plan-do-check-Act model)).

For the period under audit reviews, it was noted that TRA enforced some sanctions against the investors who violated the tax exemption rules, by ensuring that exempted taxes were remitted to TRA in case the investor (beneficiary of tax exemption) was found to have abused any granted tax exemption.

For example, a review of Tax Exemption Verification Reports for the financial years 2019/20 and 2020/21 indicated that all 8 identified investors who failed to comply with the tax exemption guidelines in the regions of Arusha and Dar es Salaam were required to pay TZS 1.99 Billion from previously exempted duties and taxes as were noted to have abused them.

On the other hand, interviewed officials from TIC showed that, TIC did not have powers to enforce non-compliance on conditions of tax exemptions, instead, it used sections of Acts for which investor has violated to take actions on granted tax exemption. However, the review of Physical Verification Visits Reports did not show whether TIC implemented this approach in any of the projects as there were no noted cases for non-compliance.

It was further noted that TIC did not have sufficient information on the exemptions utilized by the investors. As a result, TIC lacked a basis for such enforcement. This is because TIC did not have access to TANCIS
Inadequate enforcement of conditions of tax exemptions to investors by TIC is likely to have impact on prevention of loss of Government funds.

3.4 Coordination of Stakeholders Involved in the Issuance of Tax Exemptions

Interview with respective officials from TIC and TRA and reviews of documents revealed weaknesses regarding sharing of tax exemption information between TRA and TIC.

According to Section 16 (1) of the Tanzania Investment Act of 1997, TRA is supposed to co-operate fully with TIC in the performance of its functions including sharing of tax exemption information.

Review of responses from TRA to investors on the status of approval or requested tax exemption showed that, TRA shared tax exemption information with TIC on the response regarding status of approval/rejection of tax exemption applications.

However, the audit noted that, TIC could not access the TANCIS which could help to inform TIC on goods that investors have imported, beneficiaries (whether had valid certificate or not), and tax exemption amounts. Interviewed official at TIC indicated that, reasons for the failure by TIC to access the TANCIS handled by TRA was to TRA's data security concerns. When TRA was approached they responded that the access will be issued upon official application by TIC. This is contrary to the Memorandum of Understanding (MoU) between TRA and TIC as explained in Section 3.2.3 of this report. Through this MoU, the two institutions agreed on exchange of data in the areas of tax administration, investors' information, data management, data analysis and applications.

Failure of TIC to access information from TANCIS system has an impact on its monitoring of tax exemption activities on the registered investors. Details of issues that the two institutions agreed in MoU are as shown in Appendix 7.

Furthermore, it was found that TIC and TRA had Deemed Capital Goods Joint Committee formed in 2009 and it is chaired by TRA. However, audit team noted that, the committee was ineffective because since 2016 it has not conducted any meeting to deliberate on various issues. .

Also, the auditors noted that there was one stop shop desk that has two staff one from Customs and one from Domestic Revenue Department. Since TIC mostly deals with Deemed Capital Goods managed by Customs, having one Customs Officer was a challenge

Furthermore, it was noted that, there is no effective communication between TRA officials at TIC and counterparts at Customs as TRA officers are contacting investors directly to enquire for documents that were readily available at TIC as explained in section 3.2.2 (c) of this report. It was further noted that, once approval was granted by TRA, investors collected letters from TRA registry offices instead of collecting from TIC where they submitted the application, as a result TIC lacked correct data on which applications have been granted or pending.

CHAPTER FOUR

CONCLUSION

4.1 Introduction

This chapter provides general and specific conclusions in relation to the findings presented in Chapter Three. The conclusions are based on three areas of focus namely: Processes for issuance of tax exemptions; Monitoring and verification of tax exemption activities; and effectiveness of coordination among tax exemption stakeholders.

4.2 General Conclusion

Generally, the Ministry of Finance, TRA and TIC have shown efforts in managing tax exemptions, however more efforts are still needed to improve the issuance of tax exemptions to ensure they bring benefits to the government, investors and citizens in general. The improvements are important for addressing the noted inefficiencies in processing and issuance of tax exemptions and inadequate monitoring and verification of tax exemptions during and after processing to control its abuse.

4.3 Specific Conclusions

The following are the specific conclusions:

4.3.1 Inefficient Processing and Issuance of Tax Exemptions

Generally the audit concludes that MoFP, TRA and TIC have shown efforts in planning for required resources. However, more efforts are needed to strengthen the mechanism in place to ensure that the required resources both financial and human are effectively utilised to enhance processing and issuance of tax exemptions. Absence of sufficient financial and human resources resulted into inefficient administration of tax exemption activities.

Also, TRA and TIC have not ensured timely processing and issuance of tax exemptions. This is because, there were delays in processing and issuance of tax exemptions by TIC that takes up to 10 days, while standard period to process tax exemption at TIC is three days[51]. Similarly, TRA delayed to issue tax exemption up to 5 months.

[51] TIC Corporate Strategic Plan (2017/18 to 2021/22)

In addition, despite having TANCIS as a customs database in TRA, efforts were not adequately made to ensure all key stakeholders have access to the system. For instance, TIC cannot access information recorded in the TANCIS. Also, the TRA's Resident Customs Officer located at TIC offices cannot access the system. This has negative effects on implementation of some activities such as planning for physical verification visits (aftercare services) and Monitoring on status of utilization of tax exemption items.

4.3.2 Inadequate Monitoring and Verification of Tax Exemption Activities by MoFP, TRA and TIC

It is also concluded that despite having some plans for physical visits to the beneficiaries of tax exemptions, TRA has not managed to conduct the visits as planned. In the period from 2019/20 to 2020/21, TRA conducted monitoring to only two out of 26 regions of Tanzania Mainland.

Also, TIC is lacking crucial information from TRA on utilization of the tax exemptions by investors for the physical verification visits, as this information is not readily available to them. They have to follow the normal manual channels to have them rather than using the information from TRA captured by the TANCIS.

It is further concluded that, TIC does not adequately visit projects in order to monitor and evaluate their performance. The number of projects covered in TIC Zones namely, Southern, Lake, Northern, and Central was low compared to other zones. Furthermore, TIC does not have powers to enforce sanction non-compliance on conditions of tax exemptions as the same is not provided for in the Investment Act.

4.3.3 Inadequate Coordination among Stakeholders Involved in the Processes for Issuance of Tax Exemptions

It is concluded that, tax exemption information is not adequately shared between TIC and TRA since TIC cannot access the TANCIS system which could help to inform TIC on goods that investors have imported, beneficiaries (whether had valid certificate or not) and tax exemption amounts.

Furthermore, MoFP, TRA & TIC do not have specific program for tax exemption awareness provided to stakeholders. This denies the opportunity for stakeholders to participate effectively in tax reforms.

CHAPTER FIVE

RECOMMENDATIONS

5.1 Introduction

The audit findings and conclusions showed weaknesses in the management of tax exemptions. This chapter contains recommendations to TIC, TRA and the Ministry of Finance and Planning (MoFP).

The National Audit Office believes that these recommendations, if fully implemented, will improve the management of tax exemptions.

5.2 Issuance of Tax Exemption

5.2.1 Tanzania Investment Centre and the Ministry of Finance and Planning

1. TIC in collaboration with MoFP needs to device a mechanism that will strengthen provision of Government Notices for tax exemptions to strategic and special strategic investors to promote benefits of tax exemption to these categories, citizen and Government.

5.2.2 Tanzania Investment Centre and Tanzania Revenue Authority

TIC in collaboration with TRA needs to:

1. Provide public education to ensure the public/investors are well informed on investment incentives, including tax exemptions and procedures for accessing them.

2. Revive the joint committee and meet quarterly as per the terms of reference of the Memorandum of Understanding between them.

5.3 Planning for Resources to Facilitate Management of Tax Exemption

5.3.1 Tanzania Investment Centre

The TIC needs to:

1. Ensure adequate planning for resources at the Headquarters and Regional Offices to improve efficiency in facilitation of tax exemption activities; and

2. Ensure that, zonal budgeting systems are decentralized to enable timely disbursement of funds so as to facilitate implementation of planned activities at TIC zonal offices.

5.3.2 Tanzania Revenue Authority

The TRA needs to:

1. Ensure allocation of adequate resources at the Headquarters and Regional Offices to improve efficiency in facilitation and monitoring of tax exemption activities;

5.4 Monitoring and Verification of Tax Exemption Activities

5.4.1Tanzania Investment Centre

TIC needs to:

1. Accord as much priority to investor monitoring and supervision (aftercare services) as it does on investment promotion, in order to ensure that the incentives granted to investors are effectively used; and

5.4.2 Tanzania Revenue Authority

TRA needs to:

1. Strengthen monitoring and verification mechanisms to facilitate adequate conducts of the same prior to and after the issuance of tax exemptions to avoid exemption abuses; and

2. Ensure that, it conducts thorough review of the recommendations from physical verifications conducted by TRA Regional offices before processing the issuance of tax exemptions for proper decisions.

5.4.3 Tanzania Revenue Authority and Tanzania Investment Centre

TRA in collaboration with TIC needs to:

1. Device a mechanism that will clearly and define the meaning of expansion projects so as to avoid contradictions facing investors when requesting for tax exemptions for initiations of other projects within the same location; and

2. Plan and implement joint investor-monitoring operations to ensure full compliance with the laws while maintaining investor confidence in the investment promotion regime.

5.5 Coordination of Tax Exemption Activities among Stakeholders

5.5.1 Ministry of Finance and Planning

The MoFP needs to:

1. Ensure that, there is effective coordination among key stakeholders regarding tax exemptions, this involves having a Joint Standing Committee with TIC and TRA to address investment promotion issues through regular consultations; and

2. Strengthen the mechanism in place to allow sort out the contradicting laws on administering tax exemptions.

5.5.2 Tanzania Revenue Authority

The TRA needs to:

1. Device a mechanism to ensure that, the department of taxpayer's services and education prepares specific programs for tax exemption to stakeholders including investors;

2. Improve coordination of exemptions monitoring activities with other stakeholders, including joint verification/monitoring missions with TIC; and

3. Strengthen its desk at TIC One Stop Shop in terms of Customs staffing levels, TANCIS installation and communication to and from investors be centralized at One Stop Shop Desk.

5.5.3 Tanzania Revenue Authority and Tanzania Investment Centre

TRA in collaboration with TIC needs to:

i. Improve sharing of information with to easy implementation of tax exemption activities from processing of tax exemption, verification and monitoring operations.

Appendices

Appendix 1: Responses from the Audited Entities

Appendix 1 (a): Responses from TRA

General Comment

The recommendations issued by NAOT are accepted for TRA's timely implementation in collaboration with TIC to enhance management of tax exemptions on investment projects.

Specific Comments

No	Recommendation	Comments of TRA	Planned actions	Implementation Timelines
1	Collaborate with TIC to provide public education to ensure the public/investors are well informed on investment incentives, including tax exemptions and procedures for accessing them.	Recommendation accepted for implementation. TRA will conduct awareness training to the general stakeholders specifically Investors registered under TIC.	To organise training targeting Investors as follows; 1. Northern Zone: April-June, 2021 2. Eastern Zone: July-September, 2021 3. Central Zone: October-December, 2021 4. Southern Zone: January-March, 2022	• April-June, 2021 • July-September, 2021 • October-December, 2021 • January-March, 2022
2	Collaborate with TIC to revive the joint committee and meet quarterly as per the terms of reference of the Memorandum of Understanding between them.	Recommendation accepted for implementation.	1. Joint plan with TIC to ensure quarterly meetings are conducted as required.	Immediate and Continuous
3	Collaborate with TIC to strengthen mechanisms for sharing of tax exemption information to facilitate smooth implementation of tax exemption	Recommendation accepted for implementation.	1. To provide TRA's resident officers stationed at TIC with TANCIS access.	Immediate

No	Recommendation	Comments of TRA	Planned actions	Implementation Timelines
	activities.			
4	Ensure allocation of adequate resources at the Headquarters and Regional Offices to improve efficiency on facilitation and monitoring of tax exemption activities.	Recommendation accepted for implementation.	1. Once replacement permit will be sought the CED department will be considered.	Immediate and continuous
5	Strengthen monitoring and verification mechanisms to facilitate adequate conducts of the same prior to issuance of tax exemptions and after granting the tax exemption to avoid abuse of tax exemption.	Recommendation accepted for implementation. Tax Exemptions Unit and Risk Management Unit monitors and conducts verification of TIC exempted projects.	1. To inspect five (5) selected Investors who have enjoyed tax exemption under TIC to be inspected quarterly.	July, 2021 - June, 2022
6	Ensure that, it conducts thorough review of the recommendations from physical verifications conducted by TRA Regional offices before processing the issuance of tax exemptions for proper decisions.	Recommendation accepted for implementation. Regional Offices Inspect and report on physical verification, then Exemption Committee determines eligibility for proper decision.	1. Issuance of guidance to the Regional offices on their roles and the expected results.	Immediate and continuous
7	Improve sharing of information with TIC to enable verification and monitoring operations.	Recommendation accepted for implementation.	1. To provide TRA's resident officers stationed at TIC with TANCIS access. 2. Sharing retrieved information	Immediate and continuous

No	Recommendation	Comments of TRA	Planned actions	Implementation Timelines
			/data from TANCIS to TIC through TRA'S resident officer.	
8	Collaborate with TIC to device a mechanism that will clearly define the meaning of expansion projects so as to avoid contradictions facing investors when requesting for tax exemptions for initiations of other projects within the same location.	Recommendation accepted for implementation.	1. To discuss with TIC during quarterly meeting on the concept of EXPANSION and REHABILITATION for common understanding and application. 2. To request legal opinion as it may deem necessary for their guidance.	April-June, 2021
9	Collaborate with TIC to plan and implement joint investor-monitoring operations to ensure full compliance with the laws while maintaining investor confidence in the investment promotion regime.	Recommendation accepted for implementation.	1. To plan for TIC-TRA joint investor monitoring during quarterly meetings.	Immediate and continuous
10	Device a mechanism to ensure that, the department of taxpayer's services and education prepares specific	Recommendation accepted for implementation. Taxpayer's Services and Education Department	To organise programs targeting Investors as follows; • Each Regions to conduct 2	July, 2021-June, 2022

No	Recommendation	Comments of TRA	Planned actions	Implementation Timelines
	programs for tax exemption to stakeholders including investors.	will conduct specific educational programs for tax exemptions stakeholders for awareness of specific tax exemptions laws and procedures.	seminars on tax exemptions. • TSED HQ to conduct 2 seminars on tax exemptions. • 5 Radio and TV programs • Distribution of reviewed publications on tax incentives. • Website uploading of tax incentives information.	
11	Improve coordination of exemptions monitoring activities with other stakeholders, including joint verification/monitoring missions with TIC.	Recommendation accepted for implementation.	1. To plan for TIC-TRA joint investor monitoring during quarterly meetings	Immediate and continuous
12	Strengthen its desk at TIC One Stop Shop in terms of Customs staffing levels, TANCIS installation and communication to and from investors be centralized at One Stop Shop Desk.	Recommendation accepted for implementation.	2. To provide TRA's resident officers stationed at TIC with TANCIS access	Immediate

Appendix 1 (b): Responses from TIC

General Comment

This is a very detailed report which addressed most of the barriers affecting proper management of tax exemptions granted to investors. While TIC agrees with the recommendations provided by auditors to resolve the noted deficiencies, it is however, consider that the recommendations should focus on harmonizing activities and legislations governing tax exemptions among key stakeholders including TRA and the Ministry of Finance. This may include consideration of Tanzania Investment Act as key input during preparation of finance act to avoid contradiction of provisions provided in the two documents.

Specific Comments

No	Recommendation	Comments of TIC	Planned actions	Implementation Timelines
1	Collaborate with MoFP to device a mechanism that will strengthen provision of Government Notices for tax exemptions to strategic and special strategic investors to promote benefits of tax exemption to these categories, citizen and Government.	This is very important as will enhance transparent and assurance to investors on the provision on Tax exemptions	Clear guideline to be developed and approved by Both parties as well as the unit that recommend exemptions to be work on the same basis with the unit that stationed at TIC.	By July 1st the new approved guideline to be used.
2	Collaborate with TRA to provide public education to ensure the public/investors are well informed on investment incentives, including tax exemptions and procedures for accessing them.	This will enhance both local and foreign investors to know the types of incentives given. However public awareness on incentives given through TIC Vs others will be known.	Finalizing MoU between TIC and TRA Formation of Tax reform committee	It will depend on the signing MoU between TRA and TIC

No	Recommendation	Comments of TIC	Planned actions	Implementation Timelines
3	Collaborate with TRA to revive the joint committee and meet quarterly as per the terms of reference of the Memorandum of Understanding between them.	Official communication will established with TRA to share the background information of the JV committee and its roles towards facilitating investment	Meeting to be held at the end of 4th quarter FY 2020/2021	4th quarter FY 2020/2021
4	Collaborate with TRA to strengthen mechanisms for sharing of tax exemption information to facilitate smooth implementation of tax exemption activities.	Improve system integration can start by providing access to TRA station officer at TIC	End of 4th Quarter of 2020/2021	4th quarter FY 2020/2021
5	Ensure adequate planning for resources at the Headquarters and Regional Offices to improve efficiency on facilitation of tax exemption activities.	Overall human resources for the institution (TIC) is needed as seen in the request letters to President's Office-Public Service Management and Good Governance and those offices will be able to tackle all issues including facilitating the investors on getting incentives including tax exemption on daily basis.	Depends on the approval from President's Office-Public Service Management and Good Governance to recruit new staff.	Probably Financial Year 2021/2022
6	Ensure that, zonal budgeting systems are decentralized to enable each zonal office timely disbursement of funds to facilitate implementation of planned	Zones are accorded with enough petty cash which is managed by the Zonal manager to meet day to day activities. For activities which are not financed by the petty cash the use of e-office	To ensure replenishment of petty cash is done on time to ensure no hiccups in the zonal operational.	It is a continuous process.

No	Recommendation	Comments of TIC	Planned actions	Implementation Timelines
	activities at TIC zonal offices.	facilities will facilitate quickly requests for timely fund disbursement and planned activities can be achieved without delay.		
7	Accord as much priority to investor monitoring and supervision (aftercare services) as it does investment promotion, in order to ensure that the incentives granted to investors are effectively used.	The M&E and Aftercare program plan and Data collection tools for projects have been developed and all Relationship Managers (all officers will be designated relationship managers) will be designated to visit not less than 10 projects for 2020/2021 financial year. This activity will help also to capture incentives granted to investors	To visit not less than 10 projects for 2020/2021 financial year.	Reported quarterly basis
8	Collaborate with TRA to device a mechanism that will clearly define the meaning of expansion projects so as to avoid contradictions facing investors when requesting for tax exemptions for initiations of other projects within the same location.	The expansion happens and done by the same entity but expand in terms of area and capital. However the clear definition will be incorporated in the proposed new law.	The drafted bill is still in the ministerial level (PMO office) for further scrutiny.	Probably Financial Year 2021/2022
9	TIC in collaboration with TRA needs	It will be one of the Agenda to be discussed during the	Appoint members for a joint	End of the 4^{th} Quarter of 2020/2021

No	Recommendation	Comments of TIC	Planned actions	Implementation Timelines
	to plan and implement joint investor-monitoring operations to ensure full compliance with the laws while maintaining investor confidence in the investment promotion regime.	Joint committee of TRA/TIC, we expect to develop a resolution which will help to develop monitoring strategies.	committee of TRA/TIC, which is expected to develop a resolution which will help to develop monitoring strategies	

Appendix 2: Detailed Main Audit Questions with Sub-Questions

This part provides the list of four main audit questions and their respective sub-questions detailed:

Audit Question 1	**To what extent do MoFP, TIC, TRA and NISC administer processes for issuance of tax exemption to enhance benefits of tax exemption?**
Sub-Audit Question 1.1	Does TIC adequately register investors entitled to tax exemptions according to the requirements of the law?
Sub-Audit Question 1.2	Do MoFP, TIC, TRA and NISC adequately process and issue tax exemption to normal, strategic and special strategic investors?
Sub-Audit Question 1.3	To what extent do TRA and TIC document tax exemption activities?
Sub-Audit Question 1.4	Do MoFP, TIC and TRA plan for processing the issuance of tax exemption?
Audit Question 2	**Do MoFP, TRA and TIC have mechanism in place to conduct monitoring and verification of tax exemption activities?**
Sub-Audit Question 2.1	Does TRA have sufficient mechanisms in place for verification of fulfilment of conditions for tax exemption before its issuance?
Sub-Audit Question 2.2	Does TRA and TIC ensure that the granted tax exemptions are used as per the requirements of tax exemption certificate?
Sub-Audit Question 2.3	To what extent do TRA and TIC sanction non - compliance of conditions for tax exemption by investors after getting the certificate of tax exemption?
Sub-Audit Question 2.4	To what extent does MoFP monitor TRA to ensure that, tax exemptions are used as per the requirements of tax exemption certificate?
Audit Question 3	**Do MoFP, TRA and TIC ensure effective coordination among tax exemption stakeholders?**
Sub-Audit Question 3.1	To what extent does MoFP establish and implement coordination mechanism to ensure tax exemption activities are well coordinated?
Sub-Audit Question 3.2	To what extent does MoFP involve key stakeholders (e.g. TIC and Investors) in tax exemption when there are significance changes in fiscal policies?
Sub-Audit Question 3.3	To what extent does TRA and TIC share tax exemption information?

Appendix 3: Selected Regions to be visited with Selection Criteria

Name of Zone	Regions per Zone	Category of Investor	Region with TIC HQ	TRA Region with Custom Entry Point	Selected Region
Eastern Zone	Dar es salaam	Normal and Strategic	Dar es Salaam	Dar es Salaam	Dar es Salaam
	Pwani	Normal and Strategic			
	Morogoro	Normal and Strategic			
Northern Zone	Kilimanjaro	Normal	Kilimanjaro	Kilimanjaro	Kilimanjaro
	Arusha	Normal and Strategic		Arusha	
	Manyara	Normal			
	Tanga	Normal and Strategic		Tanga	
Southern Zone	Lindi	NA			
	Mtwara	Normal and Special Strategic	Mtwara	Mtwara	Mtwara
Southern highlands Zone	Mbeya	Normal and Strategic		Mbeya	
	Songwe	Normal	Songwe	Songwe	Songwe
	Njombe	Normal			
	Iringa	Normal, Strategic and Special Strategic			
	Ruvuma	Normal		Ruvuma	
Western Zone	Rukwa	Strategic		Rukwa	
	Tabora	Normal			
	Katavi	Normal		Katavi	
	Kigoma	Normal	Kigoma	Kigoma	Kigoma
Central	Singida	Normal			

Name of Zone	Regions per Zone	Category of Investor	Region with TIC HQ	TRA Region with Custom Entry Point	Selected Region
Zone	Dodoma	Normal	Dodoma		
Lake Zone	Geita	Normal			
	Kagera	Normal and Strategic		Kagera	
	Mara	Normal		Mara	
	Mwanza	Normal and Strategic	Mwanza	Mwanza	Mwanza
	Shinyanga	Normal			
	Simiyu	Normal			

Source: TIC and TRA Database, 2019

Appendix 4: Categories and Requirements for Investors Registration

SN	Category of Investment	Requirements
1	Registration as a Normal Investor	An investor qualifies to register as a normal investor if the value of capital investment is equivalent to USD 100,000 for local investor and USD 500,000 for foreigner[52].
2	Registration as a Strategic Investor	An investor qualifies to register as a strategic investor if the value of capital investment is equivalent to USD 20 Million for local investor[53] and USD 50 Million for foreigner[54].
3	Registration as a Special Strategic Investor	An investor qualifies to register as a special strategic investor if the project meets the following criteria: i. The value of the capital investment is equivalent to USD 300 Million; ii. At least 1,500 (one thousand five hundred) direct local employment is created with satisfactory number of senior positions in projects that does not require high sophisticated technology; and iii. The project has capability to significantly generate foreign exchange earnings, produce significant import substitution goods or supply of important facilities necessary for development in the social, economic or financial sector.

[52] Section 2 (1), 2 (2) of Tanzania Investment Act (Cap 38, Revised Edition of 2015)
[53] Section 20 (4a) of Tanzania Investment Act (Cap 38, Revised Edition of 2015)

[54] Section 20 (4b) of Tanzania Investment Act (Cap 38, Revised Edition of 2015)

Appendix 5: Incentives and benefits (tax and Non-tax) offered to investor of any category

Investor of any category, are entitled to the following incentives:

i) Access to various services related to permits, licenses and approvals in the TIC One Stop Facilitation Centre;

ii) The recognition of private property and protection against any non-commercial risks[55];

iii) Zero percent (0%) Import Duty on Project Capital Goods, Computers and Computer Accessories, Raw Materials and Replacement Parts for Agriculture, Animal Husbandry and Fishing, Human and Livestock Pharmaceuticals and Medicaments, Motor Vehicle in Completely Knocked down (CKD) form and inputs for Manufacturing Pharmaceutical Products;

iv) Ten percent (10%) - Import Duty for Semi-processed/semi-finished goods);

v) Introduction of pay and refund scheme for excise duty paid on fuel purchased by eligible companies;

vi) 100% capital expenditure to Mining & Agricultural sectors;

vii) The Income Tax Laws allows 50% Capital allowances in the first year of use for Plant and Machinery used in manufacturing processes and fixed in a factory, fish farming; or providing services to tourists and in a hotel; and

viii) VAT Deferment granted on project capital Goods such as Plant & Machinery.

---

[55] **Tanzania is an active member of the World Bank Foreign Investment Insurance wing, MIGA (Multilateral Investment Guarantees Agency). Likewise Tanzania is a member of The International Centre for Settlement of Investment Disputes (ICSID) also a body affiliated to the World Bank**

Appendix 6: Details of Staff Requested by TIC from PO-PSM

S/N	Cadre/Position	Number of required staff
1	Director of Investment Facilitation	1
2	Chief Internal Auditor	1
3	Head of Procurement Management Unit	1
4	Public Relations Manager	1
5	After Care Manager	1
6	Investment Promotion Manager-Domestic	1
7	Zonal Managers	3
	Total	**9**

Source: *Data collected from TIC (2020)*

Appendix 7: List of Issues agreed in MoU between TRA and TIC in Data Exchange and Information sharing

S/N	TIC	TRA
1	Company name	Taxes paid by company, projects name, sector and by location for TIC projects
2	Project name and economic sector	Taxes exempted (items, quantity and values) by type of tax, project name and sector
3	Project location (region, district, locality and plot number)	Total taxes paid by sectors both for TIC and non-TIC projects
4	Project shareholders and nationalities	Real time on investors exemptions information through TANCIS
5	TIC Certificate Number & Date issued	Number of employees of TIC registered projects by company name
6	Type of ownership (local/foreign/joint)	List and quantity of TRA approved goods to be exempted online
7	Type of project (new/expansion)	
8	Job creation status (expected number of jobs creation)	
9	Reported amount of project investment capital in USD by funding structure (equity/loan/combination)	
10	Recommended List and quantity of goods to be exempted by TIC online	

Source*: MoU on Data exchange & Information sharing (2014)*