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Tax–benefit microsimulation modelling in Zanzibar

A feasibility study

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Abstract: This working paper explores the feasibility of developing a tax and benefit microsimulation model in Zanzibar using the EUROMOD microsimulation software. We review Zanzibar's tax and benefit arrangements and the potential household survey dataset that would underpin the model, and we conclude that such a model would be feasible for Zanzibar. It would complement the TAZMOD model for Tanzania Mainland, enabling harmonized analysis using a common platform across the United Republic of Tanzania as well as with other SOUTHMOD country models.

Key words: tax, benefits, microsimulation, Zanzibar

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Abbreviations, acronyms, and appendices at the end.

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1 Introduction

This working paper explores the feasibility of developing a tax and benefit microsimulation model in Zanzibar. We review Zanzibar's tax and benefit arrangements and the potential household survey dataset that would underpin the model, taking into account the data and information requirements of tax–benefit microsimulation software called EUROMOD (University of Essex 2019).

The rest of this section provides relevant high-level information about Zanzibar. Sections 2 and 3 then provide an account of the tax and social security arrangements in Zanzibar, respectively. Possible data sources are considered in Section 4. The paper concludes in Section 5 with an assessment of the feasibility of producing a tax–benefit microsimulation model for Zanzibar and its sustainability into the future. We conclude that such a model would be feasible for Zanzibar, and that it would complement the TAZMOD model for Tanzania Mainland (Leyaro et al. 2017). This would enable harmonized analysis using a common platform across the entirety of the United Republic of Tanzania (URT), as well as comparative analysis with other SOUTHMOD country models which also use the EUROMOD software (Decoster et al. 2019).

Zanzibar is a Tanzanian archipelago that is located in the Indian Ocean. It comprises the two main islands of Unguja and Pemba as well as several other islets.[1] Politically, Zanzibar is a semi-autonomous part of the URT with its own government—the executive, headed by the President of Zanzibar—its own judicial system, and as its own legislative assembly, known as the House of Representatives (OCGS 2019). Zanzibar is divided into five administrative regions (three in Unguja and two in Pemba), 11 districts (three in Urban West Region and two in each remaining region), 50 constituencies which represent Zanzibar in the Parliament of the URT, 54 constituencies for the House of Representatives in Zanzibar, and 387 *shehias* (Khalfan et al. 2009). Certain matters and policies fall under the auspices of the Government of United Republic of Tanzania, i.e. the union government, and some are under the auspices of the Revolutionary Government of Zanzibar (RGoZ).[2]

The most recent population and household census for the URT was carried out in 2012 (NBS and OCGS 2013) when Zanzibar's population was estimated to be 1.3 million. Over the 1967–2012 period, there was rapid growth of the population, mostly due to a high fertility rate. The population is young with nearly 50 per cent being 17 years old or younger and the fertility rate in 2018 was estimated at 4.6 (NBS and OCGS 2018).

Since the 1964 revolution, development aspects in Zanzibar have been administered by the RGoZ. The RGoZ has taken various measures to address the main development challenges faced by Zanzibar, namely: education, health, and poverty. Similar to Tanzania Mainland, the review of economic policies, reforms, and performance in Zanzibar can broadly be broken into three major

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[1] The islands have a total area of 2,654 square kilometres; of this, Unguja, which is the largest, has an area of 1,666 square kilometres, while Pemba has an area of 988 square kilometres.

[2] The article of 'Union' that was signed on 22 April 1964 formed a two-government structure: the Government of the United Republic of Tanzania, which has executive power for all 'Union'-related matters and all non-Union-related matters that concern Tanzania Mainland; and the Revolutionary Government of Zanzibar, which has executive power for all non-Union-related matters that concern Zanzibar. The 'Union' matters are: the constitution and government of the United Republic; external affairs; defence; police; emergency powers; citizenship; immigration; external trade and borrowing; public services for the people of the United Republic; income tax, corporation tax, customs and excise. Over time there have been some changes and more responsibilities have been added.

eras: 1964 to 1966, which was the post-revolution period with an open and private sector-led economy; 1967 to 1985, which saw a state-controlled economy with inward-looking policies; and the structural adjustment era, with a series of market economy reforms from 1986 onwards. Since the 1964 revolution, Zanzibar has implemented two major economic policies: socialist-oriented and open market-oriented development strategies. From 1964 to the 1980s, Zanzibar followed a centralized economy system. However, the emergence of debt and the economic crisis of the late 1970s and early 1980s forced the RGoZ to move away from a centralized to a liberalized system by pursuing a series of market economy reforms (RGoZ 2007).[3] The reforms were aimed at achieving stable macroeconomic conditions and a sustainable economic environment which would generate a higher economic growth rate and lower inflation rate, and ensure a stable currency and low-cost provision of services. These reforms coupled with public enterprise reforms were, and are, in line with efforts to achieve the 'Zanzibar Vision 2020'. The overall objective of the Zanzibar Vision 2020 is to eradicate absolute poverty in society and attain sustainable human development (RGoZ 2000).

As a result of the reforms, Zanzibar has achieved impressive macroeconomic performance with a reasonably high, though volatile, economic growth rate. The gross domestic product (GDP) growth rate rose from 3 per cent in 1986 to 6.3 per cent in 1996, before slowing down to 4.9 per cent in 2005 and then rising to 6.3 per cent in 2007 (OCGS 2007a). From 2013 to 2018, the growth rate was on average around 7 per cent (OCGS 2018a). Table 1 shows the contribution to Zanzibar's economic growth by sector for the period from 2014 to 2018. The service sector, which includes tourism, contributes significantly to the Zanzibar economy. The agriculture sector, which includes the crop and fishing subsectors, also contributes to Zanzibar's growth performance as clove plantation and fishing activities support tourism as well as foreign earnings to the country.

Table 1: Gross domestic product by economic activity 2014–18 (% share)

Description	2014	2015	2016	2017	2018
GDP at market price					
Agriculture, forestry, and fishing	22.2	22.0	21.9	21.5	21.3
Industries	17.8	18.4	19.2	19.6	17.8
Services	49.6	49.8	48.7	48.6	51.3
Taxes on products	10.5	9.8	10.1	10.3	9.7

Source: OCGS 2018b.

According to the 1991/92 Household Budget Survey (HBS), about 61 per cent of Zanzibaris were estimated to live below the basic needs poverty line and 22 per cent below the food poverty line. This fell to 49 per cent for the basic needs poverty line and 13 per cent for the food poverty line in the 2004/05 HBS. It fell even further to 30.4 per cent for the basic needs poverty line and 10.8 per cent for the food poverty line in the 2014/15 HBS. The HBS 2014/15 food poverty line was TZS38,071 (per adult per month) and the basic needs poverty line was TZS53,377 (per adult per month). Inequality, as measured by the Gini coefficient, is generally low in Zanzibar relative to other economies in sub-Saharan Africa. The Gini index was estimated at 30.2 for the 2014/15 period (HBS 2014/15).

[3] The trade liberalization policy was followed by a number of other policy reforms including: the Economic Recovery Programmes of 1986 and 1988; the Zanzibar Investment Protection Act 1986; the Banking and Financial Institution Act 1991; the establishment of the Export Processing Zone in 1992; the establishment of free-port facilities in 1998; and the establishment of the Institution of Fiscal Policy Reform focusing on the transparency, comprehensiveness, and effectiveness of fiscal management (RGoZ 2007).

The unemployment rate in 2014 was 14.3 per cent, based on the Integrated Labour Force Survey (ILFS) (World Bank 2017). The working age in Zanzibar, as in Tanzania Mainland, is 18 years and above; work below that age is referred to as child labour. According to the ILFS Zanzibar 2006 data, 20.3 per cent of the total number of people employed outside agriculture worked in the formal sector and 79.7 per cent in the informal sector (ILO 2010). Despite the economic reforms that the islands have been pursuing since the mid-1980s, informality has remained high. However, there is some progress, as the proportion of informal sector employment dropped to 38 per cent in 2014 (OCGS 2019).

Various developing countries including Tanzania Mainland are strengthening their social protection systems as a strategy to tackle extreme poverty and inequality. Therefore, it is possible for Zanzibar to reduce poverty further through the expansion of social protection, and it is in this context that having a tax–benefit microsimulation model for Zanzibar would be extremely useful. Tax–benefit microsimulation models, which combine representative household-level data on incomes and expenditures and detailed coding of tax and benefit legislation, can be used to examine the effects of different tax and social policy scenarios on poverty, inequality, and government revenues. In order to build an effective tax–benefit microsimulation model for Zanzibar, it is necessary to have detailed information about tax, social insurance, and benefit systems. It also requires detailed data on individuals' demographic profiles, incomes, expenditures, and household relationships. The Zanzibar HBS, a cross-sectional survey conducted by the Office of the Chief Government Statistician (OCGS) in 2018/2019, is a potential and suitable data source, as discussed further below.

As is the case in most countries in the region, social benefits in Zanzibar are composed of transfers in cash or kind covering the population for certain social shocks. These social benefits include both contributory systems (social insurance), to which very few people have access, and non-contributory systems such as the Productive Social Safety Net (PSSN) cash transfer programme, which is implemented by Tanzania Social Action Fund (TASAF) on behalf of the government, and the universal old age pension.

While there is no statutory indexing regime for taxes to take account of inflation in Zanzibar, there is an indexing regime for benefits. Indexation of benefits comprises an adjustment of pensions and other cash benefits to take account of price movements and protection against inflation for the beneficiaries. Indexes may include prevailing statutory minimum wages and yearly average earnings of the contributors.

The Public Service Retirement Benefits Act 1997 set the voluntary retirement age in Zanzibar at 55 years and the statutory retirement age at 60, which is when people become eligible for the state pension. Both primary and secondary education are free and compulsory for all children from seven years of age for primary education and from 14 years for secondary school education. Primary education lasts for seven years, with the minimum school leaving age in Tanzania being 14 years, and secondary school education lasts for four years. Dependent children are defined as those under 18, as they are expected to have finished ordinary secondary education at the age of 18.

2 Zanzibar's tax system

This section describes Zanzibar's direct and indirect taxes. When the Union between Tanzania Mainland and Zanzibar was formed in April 1964, some taxes including income tax, corporation tax, and customs and excise became the responsibility of the Union Government of the United

Republic of Tanzania, while the inland taxes remained the responsibility of the administration of the RGoZ. Therefore, in Zanzibar, three institutions are responsible for domestic tax administration and/or collection (MoFEA 2003): different taxes are paid separately to the Tanzania Revenue Authority (TRA), the Zanzibar Revenue Board (ZRB), and municipal authorities.

Firstly, the TRA is responsible for all taxes and related fees that are under the jurisdiction of the URT. These include income taxes and taxes on international trade (import duty, excise duty on imports, trade levy, suspended duty, and withholding tax). However, all revenue collected by the TRA is remitted to the Zanzibar Treasury, governed by the principle of retaining the revenue at source.

Secondly, the ZRB administers the Inland Revenue, which comprises over 15 different tax sources. The ZRB was established under ZRB Act No. 7 1996 as the prime agency of the Government of Zanzibar for the collection and administration of all taxes from Inland Revenue sources other than customs, excise, and income taxes. The main taxes collected by the ZRB include: local value added tax (VAT);[4] the petroleum product levy, which is charged per litre according to the world market price and local price build-up; airport service; parastatal contributions, mainly by the Zanzibar State Trading Corporation, which is the sole buyer and seller of cloves; and collections by ministries and autonomous government agencies such as the Zanzibar Investment Promotion Agency and the Zanzibar Tourism Commission. With the approval of the Ministry of Finance and Planning (MoFP), formerly the Ministry of Finance and Economic Affairs (MoFEA), various ministries, departments, and agencies (MDAs) are allowed to retain most of the collected revenue for their own use. However, the MDAs are required to report revenue collected to the ZRB. Other revenue sources for the ZRB include the hotel levy, restaurant and tour operator's levy, stamp duty, seaport service charges, business licences, and the entertainment tax (MoFEA 2003).

Thirdly, some revenue (referred to as 'non-tax revenue') is administered by the network of municipal and town/district councils. They are responsible for the administration and collection of local government revenue under the oversight of the minister responsible for regional administration, local government, and special departments. The principal sources of local government revenue include trade licence fees, production taxes, property rents, and fines and penalties.

Table 2 provides a breakdown of the tax revenue for the tax year 2017/18, by tax type.

[4] VAT on manufactured goods produced on the Mainland but destined for Zanzibar is collected by TRA-Mainland and is subsequently remitted to the Zanzibar Treasury.

Table 2: Tax revenue in Zanzibar 2017/18

Tax items	Revenue source	Actual (TZS million)
Import duty	Custom Dpt TRA	47,000.2
Sales tax import	Custom Dpt TRA	-
Infrastructure tax 3% (TRA)	Custom Dpt TRA	8,234.7
VAT – import	Custom Dpt TRA	59,393.8
Withholding tax	Custom Dpt TRA	-
Excise duty import	Custom Dpt TRA	10,292.5
Miscellaneous custom fee	Custom Dpt TRA	907.7
M/Vehicle Levy	Custom Dpt TRA	1,437.5
Suspended Duty	Custom Dpt TRA	-
Fine on import	Custom Dpt TRA	178.9
Export duty	Custom Dpt TRA	-
Auction sales	Custom Dpt TRA	-
Customs agency fee	Custom Dpt TRA	-
Customs w/rent	Custom Dpt TRA	-
Trade levy	Custom Dpt TRA	8,169.4
Import duty petrol	Custom Dpt TRA	-
Excise duty petrol	Custom Dpt TRA	7,182.9
Income tax	Domestic Rev. Dpt TRA	-
PAYE	Domestic Rev. Dpt TRA	51,256.5
PAYE (TRANSFER)	ACCGEN	21,000
Individual tax	Domestic Rev. Dpt TRA	10,303.5
Skill development levy	Domestic Rev. Dpt TRA	11,634.5
Shipping tax	Domestic Rev. Dpt TRA	-
Corporation tax	Domestic Rev. Dpt TRA	30,439.9
Goods & services	Domestic Rev. Dpt TRA	-
Capital gain	Domestic Rev. Dpt TRA	-
Insurance comm.	Domestic Rev. Dpt TRA	-
Rental tax	Domestic Rev. Dpt TRA	-
Bank interest	Domestic Rev. Dpt TRA	-
Transport tax	Domestic Rev. Dpt TRA	-
Withholding Tax-IRMD	Domestic Rev. Dpt TRA	9,517.4
Other income taxes	Domestic Rev. Dpt TRA	-
Sales tax local	ZRB	-
VAT– local	ZRB	140,684.1
Excise duty – local	ZRB	26,417.1
Hotel levy	ZRB	27,286.1
Restaurant levy	ZRB	5,343.7
Tour operation Levy	ZRB	1,740.3
Sea transport tax	ZRB	-
Stamp duty	ZRB	7,628.6
Airport service charge	ZRB	36,581.8
Infrastructure tax (ZRB)	ZRB	22,252.6
Motor vehicle registration fee	ZRB	1,900.1
Motor licensing fee/road licence	ZRB	4,422.4
Driving licence fees	ZRB	1,503.7
Airport safety fee	ZRB	8,330.3
Other earnings	ZRB	-

Seaport service charge	ZRB	5,775.7
Fuel sector dev. fund	ZRB	-
Road development fund	ZRB	11,808.6
Price stabilization fund	ZRB	-
Petroleum levy	ZRB	46,546.9
Price deference	ZRB	-
Sales tax (5% on sales of seats)	ZRB	-
Dividend from government parastatal	MDAs	-
BOP support	MDAs	-
Dividend from BOT	MDAs	-
Non-tax revenue/MDA's Collection	MDAs	63,083.5
Grand total		**688,254.8**

Notes: TRA: Tanzania Revenue Authority; ZRB: Zanzibar Revenue Board; MDAs: Ministries, Departments and Agencies; BOP: Balance of Payment; BOT: Bank of Tanzania. '-' No revenue collected for this year for these tax categories.

Source: provided on request by Ministry of Finance and Planning, RGoZ.

2.1 Direct taxation

Income taxes in Zanzibar are the responsibility of the URT and hence are administered and collected by the TRA. In both Tanzania Mainland and Zanzibar, income taxes are levied on wages and salary income, business income, and capital income. The main contributors of income tax in Zanzibar are the personal income tax (PIT) and the corporate income tax, which account for the biggest share of total income taxes (TRA 2019a). There are three key PIT categories, namely presumptive income taxes, PIT for cases that are required to submit audited accounts, and 'pay as you earn' (PAYE).

PAYE, also referred to as the resident individuals' income tax, is a method for collecting the PIT for salary and wage income earners. It takes a withholding tax approach on the taxable incomes of employees. Under this system, an employer is required by law to deduct income tax from an employee's taxable salary or wages (see Appendix 1 for details about the tax-withholding approach and Appendix 2 for details of the gains or profits included and excluded in the calculation of income from employment).[5] Zanzibar's income tax is progressive, as can be seen in Table 3, which presents the tax bands and rates as they apply to residents of Zanzibar. Under the PAYE system, when an employee makes a donation to the education fund (based on Section 12 of the Education Fund Act 2001), the donation is tax exempted, although the exemption is granted only upon approval by the commissioner. The income tax rules are only very slightly different in Zanzibar to those in Tanzania Mainland; the main difference is that in Zanzibar tax is calculated on income above TZS180,000 whereas in Tanzania Mainland it is calculated on income above TZS170,000. In all other respects, the number of bands, upper and lower band limits, and tax rates are the same.

[5] For further details see TRA (2019c).

Table 3: Zanzibar resident individual income tax rates (2018/19)

Monthly income	Tax rate
Where total income does not exceed TZS180,000	NIL
Where total income exceeds TZS180,000/= but does not exceed TZS360,000	9% of the amount in excess of TZS180,000
Where total income exceeds TZS360,000/= but does not exceed TZS540,000	TZS16,200 plus 20% of the amount in excess of TZS360,000
Where total income exceeds TZS540,000 but does not exceed TZS720,000	TZS52,200 plus 25% of the amount in excess of TZS540,000
Where total income exceeds TZS720,000	TZS97,200 plus 30% of the amount in excess of TZS720,000

Note: threshold per annum: annual income of TZS2.16 million is not taxable.

Source: authors' compilation based on TRA (2019b).

Benefits in kind which are part of the taxable monthly income include housing benefit and motor vehicle benefit. Housing benefit is calculated based on the lower of the market value or rental of the premises, or the higher of the following: 15 per cent of the employee's total annual income and the expenditure claimed as a deduction by the employer in respect of the premises.[6] Second, the calculation of motor vehicle benefits is based on the engine size and vehicle age of the annual values, as presented in Table 4. Other taxable benefits in kind are calculated at the market value.

Table 4: Motor vehicle benefit tax rates (2018/19)

Engine size	Vehicle age up to 5 years TZS	Older than 5 years TZS
Not exceeding 1,000 cc	250,000	125,000
Above 1,000 cc not exceeding 2,000 cc	500,000	250,000
Above 2,000 cc not exceeding 3,000 cc	1,000,000	500,000
Above 3,000 cc	1,500,000	750,000

Source: authors' compilation based on TRA (2019a).

Presumptive Tax in Zanzibar is applied to residents with small businesses that have an annual turnover of less than TZS20 million and who are not required to submit audited accounts to the TRA. However, the small traders can choose to prepare audited accounts and pay tax based on profits instead of paying a presumptive tax. Table 5 presents the turnover bands and tax rates for 2018/2019.

[6] The information in this section is drawn from TRA (2015) unless specified otherwise.

Table 5: The individual presumptive tax assessment (2018/19)

Annual turnover	Tax payable when records are incomplete	Tax payable when records are complete
Where turnover does not exceed TZS4 million.	NIL	NIL
Where turnover exceeds TZS4 million but does not exceed TZS7 million.	TZS100,000	3% of the turnover in excess of TZS4 million
Where turnover exceeds TZS7 million but does not exceed TZS11 million.	TZS250,000	TZS90,000 + 3% of the turnover in excess of TZS7.5 million
Where turnover exceeds TZS11 million but does not exceed TZS14 million.	TZS450,000	TZS230,000 + 3% of the turnover in excess of TZS11million
Where turnover exceeds TZS14 million but does not exceed TZS100 million.	NOT APPLICABLE	TZS450,000 + 3.5% of the turnover in excess of TZS14 million

Source: authors' compilation based on TRA (2019b).

Personal Income Tax for Audited Accounts is a tax paid by medium-sized traders. In Zanzibar, medium-sized traders are taxed on their annual profit, which is determined from the audited accounts. Traders with an annual turnover above TZS20 million per annum are required by law to prepare audited accounts (financial statements) for their business, which are used to determine their tax obligation. The annual taxable income and tax rates for medium-sized traders are shown in Table 6.

Table 6: Personal income tax for individuals who are required to prepare audited accounts in Zanzibar (2018/19)

Annual taxable income	Tax rate
Where total income does not exceed TZS1.8 million.	NIL
Where total income exceeds TZS1.8 million but does not exceed TZS4.32 million.	13% of the amount in excess of TZS1.8 million
Where total income exceeds TZS4.32 million but does not exceed TZS6.48 million.	TZS327,600 plus 20% of the amount in excess of TZS4.32 million
Where total income exceeds TZS6.48 million but does not exceed TZS8.64 million.	TZS759,600 plus 25% of the amount in excess of TZS6.48 million
Where total income exceeds TZS8.64 million.	TZS1,299,600 plus 30% of the amount in excess of TZS8.64 million

Source: authors' compilation based on TRA (2019b).

Capital Gains Tax is charged on the realization of interest in land or buildings (see Appendix 3).

2.2 Indirect taxation

In Zanzibar, some indirect taxes are the responsibility of the Union government and therefore are administered by the TRA. These include import duty, VAT on imports, and excise duty on imports.[7] Since the customs duties are Union taxes, in theory, there are no differences in the tax rates between Tanzania Mainland and Zanzibar; however, in practice there may be slight differences due to different valuation methods.

Indirect taxes which are the responsibility of the ZRB, referred to as Inland Revenue sources, include: VAT for locally produced products in Zanzibar, infrastructure tax, excise tax, restaurant levy, tour operator levy, stamp duty, airport service charge, seaport service charge, petroleum levy, motor vehicle registration, driving licences, and airport safety fee. The main indirect taxes

[7] Imports are products from outside the URT territory.

(including those under the Union government) and duties in Zanzibar are as summarized in Table 7.

Table 7: Indirect tax rates and duties in Zanzibar

1.0	**Value Added Tax (VAT)**	
	VAT registration threshold: Taxable turnover exceeding TZS30 million per annum. Hotels: To be registered for VAT, they must charge at least US$100 for accommodation (BB) per person per night.	
	Description of goods/supplies and services:	*VAT rates:*
	Supply of taxable goods and services in Zanzibar.	18%
	Importation of taxable goods and services into Zanzibar.	18%
	Export of goods and certain services from Zanzibar.	0%
	Exempt supplies and imports: Provided under the Second Schedule of the VAT Act No. 4 of 1998. Special relief: Provided under the Third Schedule of the VAT Act No. 4 of 1998. Zero rated supplies: Provided under the First Schedule of the VAT Act No. 4 of 1998.	
2.0	**Stamp Duty**	
	(i) Any person in a business or profession in Zanzibar who receives TZS1,000 or more in consideration of receipt and sale of any goods or services in Zanzibar shall issue a duly stamped receipt for the sum so received, whether demanded or not. (ii) Any person selling goods or services on credit in Zanzibar shall issue a duly stamped bill of sale entering the particulars as specified whether demanded or not. (iii) List of instruments are charged (payments) at specific rates as specified and provided under stamp duty Act No. 7 of 2017 – see Appendix Table A and B.	
3.0.	**Import Duty**	
	Items:	*Duty rates:*
	(i) Raw materials, pharmaceuticals and capital goods, hand hoes, agricultural implements.	0%
	(ii) Semi-finished goods.	10%
	(iii) Final consumer goods or finished commercial goods.	25%
	Some sensitive items are charged at a rate above 25% with the intention of protecting local industries (e.g. yoghurt, milk and cream containing sweetening matter, cane or beet sugar and chemically pure sucrose in solid form, sacks and bags of a kind used for the packing of goods, worn clothing and other worn articles (*mitumba*)).	
4.0.	**Excise Duty**	
	Excise Duty is charged on specific goods and services manufactured locally at varying rates. It is charged at both specific and ad valorem rates.	
	A: (i) Specific rates are charged on: wine, spirits, beer, soft drinks, fruit juices, recorded DVDs, VCDs, CDs and audio tapes, cigarettes, tobacco, petroleum products, and natural gas. (ii) Ad valorem rates are on: money transfer services, electronic communication services, pay-to-view television services, imported furniture, motor vehicles, plastic bags, specified aircrafts, firearms, specified cases, cosmetics, and medicaments. Ad valorem rates are: 0%, 5%, 10%,15%,17%, 20%, 25%, 30%, and 50%.	
	B: Items:	*Applicable rate:*
	(i) Electronic communication services.	17% of dutiable value
	(ii) Pay-to-view television services.	5%of dutiable value
	(iii) Services provided by financial institutions.	10% on charges or fees payable
	(iv) Money transfer and payment services provided by telecommunication service provider.	10% on charges or fees payable
	(v) Excisable imported goods.	As specified in the First Schedule of the Act
	(vi) Excisable imported services.	As specified in the Second Schedule of the Act
	(vii) Other imported services.	12% of dutiable value

	C: In relation to use of mobile phones: Amount payable for any electronic communication in relation to the use of a mobile phone, fixed or wireless: (i) In relation to pre-paid electronic communication: face value of the voucher at a sale. (ii) In relation to pay-to-view television service: the amount payable for the service supplied. (iii) In relation to financial service: amount of charges/fees.	
	D: Liability to pay excise duty – excise duty shall become due and payable in respect of: (i) Any scheduled article imported, by the importer thereof at the time immediately before the article ceases to be subject to customs control or at such other time as may be directed by the Minister in the Gazette. (ii) Any scheduled article manufactured in the United Republic of Tanzania, by the manufacturer: • upon sale of the article by them, or • upon the article ceasing to be subject to customs control, or • upon removal of the article from the premises where it was manufactured, whichever first. occurs. (iii) Any scheduled article manufactured or imported by any person free of duty and which is subsequently sold to any other person by the purchaser at the time of the sale of the article by them. (iv) Any electronic communication service supplied by electronic communication service provider at the time when such mobile, fixed or wireless phone is in use or when payment is received for the service, whichever time is the earliest. (v) Any pay-to-view satellite television service provider when the service is supplied.	
5.0	**Infrastructure Tax**	
	Infrastructure tax means a tax to be collected and allocated to be infrastructure services in Zanzibar, which was enacted by the Finance (Public Revenue Management) Act 2015. For the purpose of this act, the sources of infrastructure tax are:	
	Items:	*Rate:*
	(i) Guests staying in hotels in Zanzibar.	US$1 or equivalent in Tanzania Shillings per person per day
	(ii) Passengers embarking from seaport in Zanzibar to another seaport in Zanzibar.	TZS1,000 per person
	(iii) Passenger embarking from seaport in Zanzibar to another seaport in Tanzania.	TZS2,000 per person
	(iv) Passengers embarking from airports to destination in United Republic of Tanzania.	TZS2,000 per person
	(v) Petroleum products: (a) diesel (b) petrol.	TZS100 per litre
	(vi) Any person purchasing electricity supply.	2% of the supply net value
	(vii) Collection of trade levy.	60% of the total collection
6.0	**Petroleum Levy**	
	These are charged on marketing of petroleum products in Zanzibar under Petroleum Levy Act No. 7 OF 2001: (i) Petroleum levy. (ii) Road development fund. (iii) Road licence fees.	TZS350/=per litre TZS100/=per litre TZS38/=per litre
7.0	**Tour Operator Levy**	
	To be submitted along with monthly payment by all tours and other establishments providing tourist services.	18% of tour operator levy
8.0	**Restaurant Levy**	
	This is levied on the hotels and restaurant providing and/or selling products and services to tourists/guests other than accommodation and breakfast. These include the sale of food, beverages, alcohol, cigarettes, and laundry services.	18% of total sales.
9.0	**Hotel Levy**	
	The hotel levy is imposed on any activity carried out with a view to profit or gain. This includes hotels, guest houses, restaurants or establishments providing any tour operating services, accommodation, food and other services to guests or visitors. They are as provided under Hotel Levy Act No. 1 OF 1995.	
	(i) Hotels/guest houses/other establishments charging no more than US$25 equivalent in TZS per person per night.	US$5 per person per night
	(ii) Hotels/guest houses/other establishment charging between US$25 and US$45 equivalent in TZS per person per night.	US$8 per person per night

	(iii) Hotels/guest houses/other establishment charging above US$45 but below US$100 or equivalent in TZS per person per night. (iv) Tour operator levy and restaurant levy.	18% of gross sales 18% or specific rate
10.0	**Port Service Charges**	
	Port service charge is imposed on any activity at the airport, on passengers embarking on aircraft or ships, aircraft landing and ships loading or unloading on ports. Subject to these provisions and any exemption granted, there is a charge specified in the schedules to the port charges, payable by: (i) Any passenger embarking on an aircraft or a ship at any port in Zanzibar. (ii) Owner of sea transport in respect of all passengers and cargo carried by such owner in any voyage. (iii) Aircraft landing at an airport in Zanzibar whether in transit or otherwise.	
	Airport Service Charges	
	Items: (i) Passengers travelling outside Tanzania. (ii) Passengers travelling within Tanzania.	*Charges:* US$40 TZS10,000
	Airport Safety Fees	
	Items: (i) Passengers travelling outside United Republic of Tanzania. (ii) Passengers travelling within the United Republic of Tanzania.	*Charges:* US$9 TZS3,000
	Seaport Service Charges	
	Items: (i) Passengers embarking from seaport in Zanzibar to another port in Zanzibar. (ii) Passengers travelling to destination in Tanzania Mainland. (iii) Passenger travelling outside the country.	Charges: TZS1,000 TZS2,000/- US$10
	Sea Transport Charges	
	Items: (i) Passenger tickets. (ii) Cargo.	*Charges:* 8% of total receipts 8% of total receipts or 800/= per tonne of the total tonnage capacity for every voyage whichever is the greater (if taxpayer not registered under
11.0	**Motor Vehicle Registration**	**Registration Fee**
	Motor vehicle registration.	TZS8,420/–for cars TZS61,950 for Vespa TZS56,020/– for other motorcycles
	Driving licence.	Two years – TZS35,000/= Three years –TZS45,000/= Five years –TZS60,000/=
	Change of ownership.	TZS50,000/–for cars TZS25,000/–for Vespa & Honda TZS10,000/–for other motorcycles
	Exemptions: The fee is applicable to all vehicles except for the following exemptions: • Those first registered and licensed in the disabled exempt taxation class. • Imported vehicles previously registered under the personal export scheme and new means of transport scheme. • Visiting forces vehicles. • Vehicles registered under the direct export scheme. • TIC exempt vehicles.	

12.0	**Export Tax**	
	Raw hides and skins are charged based on freight on board (FOB) Value or per kg whichever is greater.	80% FOB or US$0.52/Kg
	Wet blue leather.	10% of FOB value
13.0	**Export Levy**	
	Raw cashew nuts are charged based on FOB value or per metric tonne (MT), whichever is greater.	15% FOB or US$160/MT
14.0	**Prohibited goods**	
	Narcotic drugs, tear gas substances, seditious, obscene materials or literature. Used tyres for light commercial vehicles and passenger cars and other goods as provided in the law.	
15.0	**Restricted goods**	
	Live animals, plants, firearms, ammunitions, ivory powder waste etc. These require a permit from the relevant authorities.	
16.0	**Restriction on exportation or domestic use of minerals**	
	No person shall remove or cause to be removed minerals or minerals from a mine for the purpose of export or domestic use unless that person fulfils the conditions specified in the Mining Act.	
17.0	**Imports from East African Community (EAC) member states**	
	Goods produced within member states are charged at the rate of zero provided that the rules of origin criteria are adhered to, with the exception of goods manufactured under Export Processing Zones and industries with concessions. EAC Member states are Burundi, Kenya, Rwanda, Uganda, and Tanzania. NOTE: EAC has started operation of Single Customs Territory, which centres around the removal of trade restrictions including minimization of internal border controls on goods moving within Partner States.	

Source: authors' illustration based on data from TRA (2019b) and ZRB (2019).

3 Zanzibar social security

The social protection system in Zanzibar, as in most parts of the world, is a mix of contributory schemes, including the Zanzibar Social Security Fund (ZSSF) and non-contributory tax-financed benefits system such as the Zanzibar Universal Pension Scheme (ZUPS) and Tanzania's PSSN. Social Security is a basic right for every citizen in Zanzibar wherever they reside, in accordance with the United Nations Human Rights Declaration of 1948, established through the ILO Social Security No. 102 Declaration of 1952. The RGoZ acknowledged the importance of social security through the establishment of Act No.15 of 1986, The Workers' Compensation Act; Act No. 4 of 1988, The Retirement Benefit Act, which was amended by Establishment Act No.1 of 1990, The Pensions (Political Appointees); and Act No.2 of 1990, The Pension Establishment Act No.2 of 1995—The Zanzibar Trading and Consumer Protection Act. As a result of these acts, both contributory and non-contributory schemes have been established in Zanzibar.

3.1 Description of social contributions

Zanzibar Social Security Fund (ZSSF) schemes

The ZSSF was established under the Zanzibar Security Fund Act No. 2 of 1998, subsequently amended by the Zanzibar Social Security Fund Act No. 9 of 2002 and re-enacted by Act No. 2 of 2005. Prior to the enactment of the Act and establishment of the ZSSF, there was neither a formal social security scheme nor an effective private sector/occupational pension scheme sector. Before the inception of the ZSSF, public service employees in Zanzibar were covered and received pension benefits under the Pensions Act No. 2 of 1990, where all benefits of the retired employees were available through the MoFP.

Currently, ZSSF is the only public pension scheme and it operates two schemes: the main (mandatory) scheme and the supplementary (voluntary) scheme. Each of the schemes has its own conditions.[8] The ZSSF schemes offer both short- and long-term benefits. The various short-term benefits comprise employment injury, health/medical care, maternity, death gratuity and funeral benefit, education, and withdrawals. The long-term benefits provided by the scheme include old age pension, invalidity benefits, and survivors' benefits.

(a) The Zanzibar Social Security Fund Mandatory Scheme

This scheme provides various benefits to members subject to their work record in the formal sector or the contributions they paid during their formal sector employment. For the purposes of a model, only the contributions, not the benefits, would be simulated, as there is insufficient information on contribution history. The employee is required to contribute 7 per cent of their monthly salary as the ZSSF member's contribution and the employer contributes 13 per cent of the employee's salary (RGoZ 2016). Under this scheme, the benefits are paid on a flat-rate or earnings-related basis, or by a combination of the two: 'this would be determined when employer and employed are completely registered by ZSSF'[9] (ZSSF 2019). Old age (retirement) benefit is one of the long-term benefits offered by the ZSSF and is paid to members who attain retirement age and have retired. The voluntary retirement age is 55 years and compulsory retirement age is 60 years for both male and female members. As shown in Table 8, the benefits offered under the ZSSF mandatory scheme are old age benefits, invalidity (disability) benefits, survivor's pension, maternity benefits, education loan, start-up life loan, and pensioner's loan.

Table 8: Qualifying conditions for receiving benefits

Type of benefit	Description	Eligibility conditions
1.1 Old age pension	These are benefits paid to a member at the end of each month after retirement until they die.	Beneficiary must be a registered member and contributor to the fund. Members should have attained the age of voluntary (age 55–59) or mandatory (age 60) retirement and have retired. Members should have contributed for not fewer than 60 months before retirement.
1.2 Old age gratuity	This is a lump-sum amount paid to a retired person.	A retired person who has attained the voluntary retirement age (55 to 59) years or compulsory retirement age (60) years and has also contributed to the fund for a minimum period of 156 months.

[8] The information in this section is drawn from ZSSF (2019) unless specified otherwise.

[9] The information in this section is drawn from ZSSF (2019), unless specified otherwise. See also RGoZ (2016).

2.1 Invalidity pension	This is a monthly payment to the member upon ceasing employment for the rest of their life on Medical Board's recommendations.	Beneficiary must be a registered member and contributor to the fund. Member should have contributed for not fewer than 60 months before developing the relevant disability. Member has not necessarily reached 55 or 60 years.
2.2 Invalidity gratuity	Invalidity gratuity is a lump-sum amount paid to a member who loses the ability to work due to physical or mental disability after being so certified by the Board of Physicians.	A member who has contributed for not fewer than 60 months and has lost their earning capacity due to physical and/or mental disability.
3. Maternity benefits	Paid to a female member who goes on maternity leave (child delivery and soon after giving birth).	Beneficiary must be a registered member and contributor to the fund. Member should have contributed for not fewer than 36 months, of which contributions should have been made for 6 consecutive months before pregnancy or giving birth.

Source: authors' illustration based on ZSSF (2019) and RGoZ (2016).

(b) The Zanzibar Voluntary Social Security Scheme (ZVSSS)

The ZVSSS is a voluntary contributory pension scheme under ZSSF. This scheme draws members from both the formal and informal sectors who voluntarily choose to join the scheme. The aim of this scheme is to provide social security services to all irrespective of the sector in which they operate and to provide benefits that are based exclusively on members' contributions. Tanzanians living in and outside the country (diasporas) are eligible to be members of the ZVSSS. Members of any mandatory scheme (such as the ZSSF mandatory scheme) who are willing to make additional savings in addition to those from the compulsory scheme are allowed to join the ZVSSS.

Tanzania National Health Insurance Fund (NHIF)

In Zanzibar, health services are free for all Zanzibaris. However, the contributory NHIF is a social health insurance scheme that was established to ensure accessibility of health care services to all Tanzanians, and NHIF offices have been established in Zanzibar as well as in all Tanzania Mainland regions.

The usual NHIF contribution rates in Zanzibar are the same as in Tanzania Mainland, i.e. 3 per cent of salary is paid by the employer and 3 per cent by the employee. The scheme covers workers who come from Tanzanian Mainland and who work in certain organizations. It includes employees of the URT who work in Zanzibar but excludes employees of the RGoZ. Given its attraction, some public employees have opted into the scheme and contribute the full 6 per cent individually. In certain parastatal organizations, the employer pays the full 6 per cent for their employees. Private sector employees can also choose to join the scheme.

The National Social Security Fund (NSSF)

The NSSF was established by Act of Parliament No. 28 of 1997 to replace the defunct National Provident Fund. The NSSF is a compulsory scheme providing a wide range of benefits, which are based on internationally accepted standards. This social security covers all Tanzania Mainland, whereas for Zanzibaris only those working for a department or institution of the URT in Zanzibar or working in Tanzania Mainland are covered. This means, in practice, that Zanzibaris working in the private sector in Tanzania Mainland are covered, but not if they are working in the private sector in Zanzibar. The NSSF covers the following categories of employers and employees: 1) the private sector, which includes companies, non-governmental organizations, embassies employing Tanzanians, international organizations, and organized groups in the informal sector; 2) the government ministries and departments that employ non-pensionable employees; 3) parastatal organizations; 4) the self-employed or any other employed person not covered by any other scheme; and 5) any other category as declared by the Minister of Labour.

The scheme is financed through contributions at the rate of 20 per cent of an employee's salary. The employer is required to deduct contributions from an employee's gross salary not exceeding 10 per cent of the employee's salary, and the employer contributes the difference to make the required contribution rate of 20 per cent. The scheme provides seven benefits, which are categorized as long-term benefits and short-term benefits. Long-term benefits include retirement pension, invalidity pension, and survivor's pension. Short-term benefits include: funeral grant, maternity benefit, employment injury benefit, and health insurance benefit.

In this context, the term 'pension' refers to all long-term benefits offered by the scheme as well as the funeral grant. It defines the periodical payments given to retired members, invalids, and survivors of deceased members to replace the loss of income resulting from old age, disability, or death. Important issues under the NSSF benefits are as follows:

- NSSF pension benefits are a member's right.
- The benefits are paid directly to the beneficiaries without going through the employer.
- The initial lump-sum payment to pensioners does not form part of normal periodic pensions. In some schemes this amount is normally deducted from the regular pension.
- The benefits are offered to both indigenous and non-indigenous members.
- The pension is not affected as a result of changing occupation.
- Short-term benefits payable to members during their working period, such as maternity, employment injury, and health insurance, do not affect retirement benefits.

3.2 Description of benefits system

Zanzibar Universal Pension Scheme (ZUPS)

In April 2016, Zanzibar became the first territory in East Africa to implement a universal pension financed fully by the government (Galvani and Knox-Vydmanov 2017). This is a non-contributory, universal scheme for individuals aged 70 years and above. This social benefit sits within Zanzibar's Vision 2020, which aims to eradicate absolute poverty in the society. The ZUPS is administered by the Department of the Elderly and Social Welfare, which is the Social Protection Unit of the ministry. In April 2016, each eligible person received a monthly pension of TZS20,000 and the pension has been pegged to the consumer price index since April 2016 (ILO 2016). The number of people aged 70 years and above who received the pension from ZUPS in August 2019 was 28,117 (HelpAge International 2019), and the pension continues to be paid at a rate of TZS20,000 per month. All individuals aged 70 and over, who have been Zanzibar residents for at least 10 years between the age of 18 and the age of retirement receive the universal pension regardless of whether or not they receive a pension from the ZSSF. However, it is important to note that the majority of the working population in Zanzibar have been in informal employment and do not receive any benefit from ZSSF (ILO 2016). Even though the law regarding the universal old age pension scheme has not been finalized, there are plans to reduce the eligible age progressively to the legal retirement age of 60, but this will depend on the economic performance of the islands.

Tanzania's Productive Social Safety Net (PSSN)

The PSSN is implemented by the TASAF, in close collaboration with sub-national authorities (World Bank et al. 2016). The PSSN is also implemented in Tanzania Mainland. A hybrid targeting system is used to determine the eligibility of extremely poor households for both the cash transfer and public works components. This is done by: 1) using a geographical mechanism to identify and select the poorest districts, wards, and communities; 2) using a community-based targeting approach to determine a preliminary list of the poor and vulnerable households within the selected communities; and 3) applying a proxy means test to households on the preliminary list to verify their eligibility. The PSSN has four interventions: cash transfers, the public works programme, the livelihood programme, and the infrastructure programme.

The PSSN provides up to three types of cash transfers, depending on household composition (Table 9):

- **A (fixed) basic monthly transfer to improve household consumption:** all selected households receive a basic unconditional transfer equivalent to US$6 per month to ensure that all extremely poor households are guaranteed some basic consumption support throughout the year.
- **A variable conditional transfer for households with children to serve as an incentive for households to invest in the human capital of their children.** Households with children are given a fixed child benefit of approximately US$2.5 plus an additional variable transfer up to a maximum of US$14.5 per month. The variable transfers are subject to meeting programme co-responsibilities and are intended to help reduce demand-side barriers to accessing schooling and health services and make other investments in children's human capital such as improved nutrition. The education transfers also vary based on the schooling level, a structure which is designed to acknowledge the higher opportunity costs and drop-out rates at higher schooling levels.
- **A seasonal transfer linked to participation in labour-intensive public works to increase and sustain household assets and smooth consumption during lean seasons.** Households with able-bodied adults are eligible to receive an additional transfer by participating in the public works component. The public works programme guarantees one person per household fifteen days of paid work per month at a daily rate of TZS2,500 (US$1.35) over a four-month period during the annual lean season. This access to seasonal income enables households to maintain consumption during the hungry season and provides opportunities for households to make small livelihood investments.

Table 9: Productive Social Safety Net benefit scheme

Cash transfer	Unit (for purposes of payment calculation)	Monthly amount payable per unit (TZS)	Maximum number of units that can be considered in payment calculation	Monthly payment cap (TZS)
Basic cash transfer	Household	10,000	1	10,000
	Household containing 1 or more children	4,000	1	4,000
Variable cash transfer	Household containing 1 or more children under 5	4,000	1	4,000
	Child in primary education	2,000	4	8,000
	Child in lower secondary education	4,000	3	12,000
	Child in upper secondary education	6,000	2	
Total				38,000

Note: no more than TZS12,000 is payable for children in secondary education. This means that a household could receive TZS12,000 for three children in lower secondary education (at TZS4,000 per child), or for two children in upper secondary education (at TZS6,000 per child), or for some combination of children across these education levels, but not exceeding TZS12,000.

Source: authors' compilation derived from World Bank et al. (2016: 16).

Considering the intervention as a package, in one year a household can receive a maximum benefit of about US$370 (World Bank et al. 2016). Households receive the cash benefits on a bi-monthly basis; however, compliance with co-responsibilities determines whether or not an eligible household will receive the benefit (health and education compliance are tracked at an individual level). Eligible households with children aged five and above who are enrolled in school and attend at least 80 per cent of school days are considered as having complied with education co-responsibilities and therefore can receive the benefit. However, health compliance is only required for children who are five years or under. In order to ensure compliance, penalties are linked to individuals; however, the penalty amount is differentiated by age. To monitor compliance, data is collected at health centres and schools within PSSN communities and then entered on a bi-monthly basis at the Project Area Authorities level into the PSSN's management information system. Wright et al. (2019) discuss some of the issues that arise when simulating this benefit.

4 Description of possible data sources

Microsimulation of the tax and benefit system in a particular country requires detailed data on individuals in terms of their demographic profiles, incomes, expenditures, and household relationships. Zanzibar has been conducting household surveys over a long period of time. First, the National Panel Survey (NPS) is inclusive of Tanzania Mainland and to date has been carried out in four survey waves: 2008/09, 2010/11, 2012/13, and 2014/15. The NPS is a nationally representative household panel survey that collects information on a wide range of topics including agricultural production, non-farm income-generating activities, consumption expenditures, and a wealth of other socio-economic characteristics. All four rounds of the NPS have been implemented by the Tanzania NBS with assistance from the World Bank through the Living Standards Measurement Study-Integrated Surveys on Agriculture (LSMS-ISA).

Second, the ILFS is conducted by the NBS in collaboration with the Ministry of Labour and Employment. The main objective of the survey is to obtain comprehensive data on the status of the labour market. The labour market data is disaggregated at national and regional levels as well as by gender and age. It includes information on the size of the economically active population; rate of unemployment and underemployment; amount and size of employment in the informal and formal sector; amount of cash income from agriculture and non-agricultural employment; and information on child labour. The data is used as part of the monitoring and evaluation for the Zanzibar Strategy for Growth and Reduction of Poverty, which is a plan for implementing the Zanzibar Development Vision 2020. The first ILFS was conducted in 1990/91 (though it was not comprehensive). The first comprehensive ILFS was conducted in 2006 (OCGS 2007b) and the second and most recent in 2014 (NBS 2015; OCGS 2016).

Third, the HBS is a cross-sectional survey carried out by the OCGS Zanzibar. The main objective of the survey is to gather information from private households on household income and expenditure, economic activities, and housing characteristics, as well as asset ownership for the purpose of poverty and welfare analysis. The HBS 2018/19 is the sixth post-revolutionary survey to be conducted in Zanzibar (OCGS, forthcoming). Previous surveys were conducted in 2014/15, 2009/10, 2004/05, 1991/92, and 1981/82. Like previous HBS, the 2018/19 survey forms the basis for tracking progress on the government's poverty-reduction initiatives for the previous five years. The 2018/19 HBS collected a wide range of food and non-food data as well as data on several new items. In addition, some questions that were asked in the HBS 2018/19 were the same as in the Tanzania Population and Housing Census (TPHC) 2012 (NBS and OCGS 2013). The 2018/19 HBS has six forms with the information set out in Table 10.

Table 10: 2018/19 HBS Available Information

Form I	Demography, education, labour status, migration, health, disability, time use, general literacy and computer literacy.
Form II	Dwellings, utilities, water, sanitation and household-level non-food expenditure.
Form III	Non-farm household businesses.
Form IV	Agriculture, livestock, food security, energy, water, sanitation and personal income of household members.
Form V	Household dairy: Household-level food expenditure and consumption.
Form VI	Individual dairy: Daily expenditure and consumption of food.

Source: authors' compilation.

The 2018/19 HBS survey has an income reference period of 2018 (Table 11). The sample was designed to provide estimates for the whole of Zanzibar (urban, rural, and ten district domains), where a stratified two-stage sample design was used. The primary sampling units selected at the first stage were the enumeration areas (EAs), small operational areas defined on maps for enumeration of the 2012 Census. Following the selection of the sample EAs at the first sampling stage, a new listing of households was conducted in each sample EA. At the second sampling stage, households were selected from the listing for each sample EA. In addition, up to four replacement households were identified to be surveyed if the household refused to respond or it was not able to be contacted after several attempts.

Table 11: HBS Database description

Original name	Household Budget Survey
Provider	Office of the Chief Government Statistician Zanzibar
Year of collection	2018/19
Income reference period	2018
Sample size (households)	Not known at this stage
Response rate	Not known at this stage

Source: authors' compilation.

Having scrutinized the questionnaire for the 2018/19 HBS, and given that a tax–benefit microsimulation model requires detailed data on individuals in terms of their demographic profile, incomes, expenditures, and household relationships, the 2018/19 HBS was identified as the best dataset to underpin a tax–benefit microsimulation model in Zanzibar. This assessment is based on the fact that the HBS contains the most comprehensive information for the purposes of determining benefit eligibility and tax payment obligations. Although the 2018/19 HBS dataset is not yet available, it is due to be released imminently.

In contrast, the ILFS would be of limited use for the purpose of an underpinning dataset for a microsimulation model as it does not cover the whole population, and the NPS has a smaller sample size than the HBS and it does not contain the breadth of information needed as compared to the HBS.

5 Summary

Table 12 summarizes the feasibility of simulating selected taxes and some benefits in Zanzibar.

Table 12: Tax and benefit policies in Zanzibar 2018

Tax–benefit policy	Simulation feasibility (tbc)
Taxation	
Personal income tax: PAYE, presumptive tax, audited accounts	Yes
VAT	Yes
Excise duty	Yes, for alcohol and tobacco
Petroleum levy	Yes
Social Transfers	
Contributory Benefits	
Zanzibar Social Security Fund Mandatory Scheme	Yes (contributions only)
Zanzibar Social Security Fund Voluntary Scheme	Yes (contributions only, and to switch on/off)
National Health Insurance Fund	Yes (contributions only)
National Social Security Fund	Probably not, as only covers very small subset.
Non-Contributory Benefits	
Tanzania Social Action Fund's Productive Social Safety Net - Basic cash transfer and - Variable conditional cash transfer - Public works programmes	BCT – Yes *(same as TM)* VCT – Yes (assuming all compliant) *(same as TM)* PW – Flag of eligibility *(same as TM)*
Universal old age pension	Yes

Notes: BCT: Basic Cash Transfer; PW: Public Works; TM: Tanzania Mainland; VCT: Variable Cash Transfer.

Source: authors' compilation.

Regarding VAT, although it would be possible to simulate household VAT using the HBS, this will never capture the full VAT take, as VAT is not wholly sourced from households. An additional issue that would need to be resolved is whether it would be appropriate to assume that all VAT levied in Zanzibar would accrue to the ZRB, whereas, in practice, the ZRB and TRA undertake monthly reconciliations for funds disbursements. Advice would be sought from the ZRB as part of the external validation of the VAT simulations.

Developing a tax–benefit microsimulation model for Zanzibar (ZANMOD) will provide an opportunity for harmonized tax–benefit microsimulation analysis to be undertaken in Tanzania

Mainland and Zanzibar using a common platform for the first time. As well as the clear research and policy advantages of being able to conduct distributional analysis across the whole of the URT, it will also enable cross-country analysis to be undertaken using other country models that use the same EUROMOD software, especially those that have been developed as part of the SOUTHMOD activity, including in neighbouring Uganda.

For the new model to be sustainable, it is important that it is built in collaboration with members of the RGoZ and for progress on the model's development to be shared with stakeholders in RGoZ and Tanzania Mainland, followed by a public launch and training event for potential users.

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Abbreviations and Acronyms

EAC	East African Community
EAs	Enumeration Areas
EUROMOD	European Union Tax–Benefit Microsimulation Model
GDP	Gross Domestic Product
HBS	Household Budget Survey
ILFS	Integrated Labour Force Survey
ILO	International Labour Organization
MDAs	Ministry Department and Agencies
MoFEA	Ministry of Finance and Economic Affairs (now MoFP)
MoFP	Ministry of Finance and Planning
NBS	National Bureau of Statistics
NHIF	National Health Insurance Fund
NSSF	National Social Security Fund
OCGS	Office of the Chief Government Statistician
PAYE	Pay as You Earn
PIT	Personal Income Tax
PSSN	Productive Social Safety Net
PSU	Population Sampling Unit
RGoZ	Revolutionary Government of Zanzibar
SSA	sub-Saharan Africa
TASAF	Tanzania Social Action Fund
TRA	Tanzania Revenue Authority
TZS	Tanzanian Shilling
URT	United Republic of Tanzania
VAT	Value Added Tax
ZRB	Zanzibar Revenue Board
ZSSF	Zanzibar Social Security Fund
ZUPS	Zanzibar Universal Pension Scheme
ZVSS	Zanzibar Voluntary Social Security Scheme

Appendix 1: Withholding tax

Withholding tax is the amount of tax retained by one person when making payments to another person in respect of goods supplied or services rendered by the payee. A person receiving or entitled to receive a payment from which income tax is required to be withheld is a withholdee, while a person required to withhold income tax from a payment made to a withholdee is referred to as the wihholding agent.

Withholding tax applies to specific payments, including those to be included in calculating the chargeable income of an employee from employment, payment of investment return including dividend, interest, natural resource payment, rent or royalty, service fee and contract payments, and payment in respect of supply of goods to the government and its institutions.

The law has divided withholding taxes in to two major categories, namely (i) final withholding taxes, and (ii) non-final withholding taxes. The difference between the two is that with a final withholding tax, the withholdee cannot claim any tax credit when calculating the income tax payable for a year of income. Tax credits for non-final withholding taxes are an amount equal to the tax treated as paid for the year of income in which the amount is derived.

Table A1: Withholding tax rates

Description of payment	Rate for residents	Rate for non-residents
(i) Dividends from the Dar es Salaam Stock Exchange listed corporations	5%	5%
(ii) Dividends from a resident corporation to another resident corporation where the corporation receiving the dividend holds 25% or more of the shares in the corporation	5%	NA
Dividends from other corporations	10%	10%
Interest	10%	10%
Royalties	15%	15%
Other withholding payments from investment returns	15%	15%
Rental income	10%	15%
Technical services fees (mining)	5%	15%
Transport (non-resident operator/charterer without permanent establishment)	NA	5%
Insurance premium	0%	5%
Natural resources payment	15%	15%
Service fees	5%	15%
Directors’ fee (non-full-time directors)	15%	15%
Commission to agents by service providers on money transfer through mobile phones	10%	10%
Payments for goods supplied to government and its institutions by any person.	2% of gross payment	N/A
Other withholding payments	15%	15%

Source: authors’ compilation based on TRA (2019a).

When a person is employed in more than one employment position, then employment positions selected by an employee to be regarded as not being their main source of income are called secondary employments. All employers are supposed to withhold income tax, but secondary employers are required to withhold in a different manner to primary employers.

Responsibilities of an employee with secondary employment:[10]

(i) To select which employment position will be a primary employment and which will be a secondary employment; and
(ii) To timely notify a primary employer and secondary employers.

Responsibilities of the employer:

(i) To withhold tax at the highest rate of the individual income tax rates applicable; and
(ii) To enquire of all employees, at a minimum of six-monthly intervals, whether the employment is a secondary employment or not.

In general, high commissions, embassies, and diplomatic missions are not obliged to pay any tax, as covered by The Diplomatic and Consular Immunities and Privileges Act. In this regard, such bodies are not bound to operate PAYE schemes, although some choose to opt in in order to keep their records properly and help their employees avoid wasting time in complying with their tax affairs, so as to enable them to concentrate on their duties. If local employees are employed in these institutions and the institutions opt not to operate a PAYE system, they are obliged to:

(i) Register as taxpayers by acquiring a taxpayer identification number;
(ii) File a statement of estimated income at the beginning of the year based on monthly income; and
(iii) File final returns.

Some categories of employees have special treatment:

a) **Non-residents:**
For non-resident employees (e.g. temporary employees from abroad), tax is withheld at a flat rate of 15 per cent of the gross income from employment. This is effectively a final withholding and the amount withheld satisfies the employees' income tax liability with respect to their employment.

b) **Directors other than full-time service directors:**
Tax is withheld at a rate of 15 per cent of fees paid to directors other than full-time service directors. The tax payable is a non-final withholding tax.

[10] If withholding at the highest personal income tax rate will cause hardship to the employee, they may apply to the Commissioner to allow a lower rate at which the secondary employer must withhold tax.

Appendix 2: Income from employment

Calculation of income from employment

The following gains or profits are *included* in the calculation of taxable income from employment:[11]

(i) Payment of wages or salary, payment in lieu of leave, fees, commissions, bonuses, gratuity or any subsistence, travelling, entertainment or other allowance received in respect of employment or service rendered;
(ii) Payments providing any discharge or reimbursement of expenditure incurred by the individual or an associate of the individual;
(iii) Payments for the individual's agreement to any conditions of employment;
(iv) Retirement contributions and retirement payments (see below);
(v) Payment for redundancy or loss or termination of employment (see below);
(vi) Other payment made in respect of employment, including benefits in kind quantified in accordance with the prescribed rules (see below);
(vii) Other amounts as may be required to be included; and
(viii) Annual directors' fees payable to a director other than a full-time service director.

The following gains or profits are excluded from the calculation of income from employment:

(i) Exempt amounts and final withholding payments;
(ii) On-premises cafeteria services that are available on a non-discriminatory basis;
(iii) Medical services, payment for medical services, and payments for insurance for medical services to the extent that the services or payments are:
    a) available with respect to medical treatment of the individual, spouse of the individual, and up to four of their children
    b) made available by the employer (and any associate of the employer conducting a similar or related business) on a non-discriminatory basis;
(iv) Any subsistence, travelling, entertainment, or other allowance that represents solely the reimbursement to the recipients of any amount expended by them wholly and exclusively in the production of their income from their employment or services rendered;
(v) Benefits derived from the use of a motor vehicle where the employer does not claim any deduction or relief in relation to the ownership, maintenance, or operation of the vehicle;
(vi) Benefits derived from the use of residential premises by an employee of the government or any institution whose budget is fully or substantially out of government budget subvention;
(vii) Payment providing passage of the individual, spouse of the individual, and up to four of their children to or from a place of employment, which corresponds to the actual travelling cost where the individual is domiciled more than 20 miles from the place of employment and is recruited or engaged for employment solely in the service of the employer at the place of employment;
(viii) Retirement contributions and retirement payments exempted under the Public Service Retirement Benefits Act;
(ix) Payment that it is unreasonable or administratively impracticable for the employer to account for or to allocate to their recipients;

[11] See URT (2008).

(x) Allowance payable to an employee who offers intramural private services to patients in a public hospital; and
(xi) Housing allowance, transport allowance, responsibility allowance, extra duty allowance, overtime allowance, hardship allowance, and honoraria payable to an employee of the government or an institution whose budget is fully or substantially paid out of government budget subvention.

Lump-sum payments and retirement fund contributions

Lump-sum payments to employees may take the form of gratuities, leave pay, compensations, bonus, commissions, etc., which may cover several months of the year or the whole of a year. Lump-sum payments other than terminal payments are included in the year of payment and are taxed on the basis of the adjusted monthly pay for the year.

Terminal lump-sum payments, which include redundancy and other payments for loss or termination of office, are spread over a period of six years or actual years of employment and are taxed as income for these years.

The amounts of contributions made by employees/employers to the approved retirement funds are deducted from the gross pay when calculating the PAYE. The amount of this reduction is equal to the *lower of*:

(i) The total of the employee or employer contributions where it is included in calculating the monthly payment made to approved retirement funds; and
(ii) The statutory amount of the fund.

1.1 Benefits in kind

Benefits in kind are non-cash benefits which an employee may enjoy from the employer. Benefits in kind are included in the taxable income of an employee and are quantified by the following rules:

a) *Provision of premises/housing to an employee:*

Benefit in kind related to premises/housing is taken as **the lower** of the market value rent of the premises and the higher of the following:

(i) 15 per cent of the employee's total annual income; or
(ii) The expenditure claimed as deduction by the employer in respect of the premises.

If an employee contributes to part of the rent paid on premises, the amount of quantified benefit will be reduced by the amount of rent paid by the employee.

b) *Provision of motor vehicle to an employee:*

The quantifications for benefits in kind from a motor vehicle are based on engine size and age of the vehicle provided. The following annual amounts are applied:

Table A2: Annual amount for motor vehicle tax

Engine size	Up to 5 years old (TZS)	Older than 5 years (TZS)
Not exceeding 1,000cc	250,000	125,000
Above 1,000cc not exceeding 2,000cc	500,000	250,000
Above 2,000cc not exceeding 3,000cc	1,000,000	500,000
Above 3,000cc	1,500,000/=	750,000

Source: authors Compilation based on TRA (2019a).

The motor vehicle benefit is not applicable where the employer does not claim deduction in respect of the ownership, maintenance, or operation of the vehicle

c) *Provision of loan to an employee:*

When an employer provides a loan to an employee and the loan is at the interest rate below statutory rate, the amount of benefit in kind is taken as **the difference** of the following:

(i) The amount of interest that would have been paid if the interest on the loan was charged at the statutory rate; and
(ii) The amount of interest paid on the loan at the rate provided.

The exception is where an employer provides a loan whose term is less than 12 months and the aggregate amount of the loan and similar loans outstanding at any time during the previous 12-month period does not exceed three months' basic salary of an employee, then the amount of benefit in kind is nil.

d) *Other benefits in kind:*

The market value will apply in determining other benefits in kind.

Appendix 3: Capital gains tax

The Income Tax Act 2008 requires a person who derives a gain from the realization of interest in land or buildings situated in the United Republic of Tanzania to pay income tax by way of a single instalment.[12] This is the amount of tax paid before the titles are transferred from one person to another. The rates are 10 per cent of the gain for residents and 20 per cent for non-residents. However, the Income Tax Act provides that an instalment payer will be entitled to tax credit for a year of income of an amount equal to the income tax paid by way of single instalment for the year of income. Exemptions apply in the following cases:

(i) If the residence has been owned continuously by the individual for three years or more and lived in by the individual continuously or intermittently for a total of three years or more, and the interest was realized for a gain of not more than TZS15 million; and
(ii) An interest in land held by an individual that has market value of less than TZS10 million at the time it is realized and has been used for agricultural purposes for at least two of the three years prior to realization.

Capital gains tax is calculated as follows:

> Value of consideration received or accruing as a result of the realization of the interest in land or buildings, less cost of acquisition, less expenditure incurred on any improvement to the asset, less expenditure incurred wholly and exclusively in connection with the realization. Realization expenditure is expenditure incurred wholly and exclusively in connection with the realization of interest in land and buildings, such as stamp duty, registration charges, legal fees and brokerage.

Capital gains tax on realization (sale) of securities

A **security** is a tradable financial asset (investment assets) of any kind. Securities are broadly categorized into:

(i) Equity securities (e.g. ordinary and preference shares);
(ii) Debt securities (e.g. bonds and debentures); and
(iii) Derivative securities (e.g. forwards, futures, options and swaps).

The net gains on sale of securities are treated as investment income to be included in determining the total income of the person during the year of income as provided by the Income Tax Act 2004.

Gains from the sale of securities are the excess of market value over the cost of the asset.
The net gain from the sale of securities is the sum of all gains from the sale of securities reduced by:

(i) Total of all losses from sale of investment assets;
(ii) Any unrelieved losses during the year; and
(iii) Any unrelieved losses for the previous year.

The cost of the **security** is the sum of expenditure incurred in acquiring the asset.

[12] See TRA (2019d).

E**xempted securities** are the shares listed on the Dar es Salaam Stock Exchange provided that the shares are owned by residents or non-residents who control less than 25 per cent of the controlling shares of the company.