



P. O. Box 6162, Arusha, Tanzania

**Tanzania Association of Tour Operators**  
CCM District Building, Fire Road  
E+-mail: [tato@cybernet.co.tz](mailto:tato@cybernet.co.tz) <http://www.tatotz.org>

Tel/Fax: 027-2506430  
Tel : 027-2504188

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## **STATEMENT ON THE IMPOSITION OF VALUE ADDED TAX ON TOURIST SERVICES:**

Following the recent budget proposal by Hon. Dr Philip Mpango (MP), Minister for Ministry of Finance, on among other things, imposition of the Value Added Tax (VAT) on tourist services, the Tanzania Association of Tour Operators (TATO) wishes to express serious concerns on the cross cutting negative consequences of the tax measures on the tourism industry which currently contributes more than 17 percent of the Gross Domestic Product (GDP), and in particular:

1. Tanzania country competitiveness is lowered against Kenya because in 2016-2017 Kenya's budget estimates, the tourism industry was one of the big winners. The Government of Kenya not only allocated Kshs. 4.5 billion (over 90 billion Tshs) but also provided a number of incentives to the tourism industry. Treasury Cabinet Secretary announced a number of tax measures to stimulate the industry. First, entry to national parks (park fees) is now VAT exempt as are commissions paid to tour operators.
2. Kenya learned a hard lesson in 2015 when it imposed VAT on tourist services, thanks to a quick rebound which seeks to restore their competitiveness and glory in the tourism sector. Tanzania should avoid the same mistake otherwise our neighbors will capitalize and have a free ride on our mistakes.
3. Charging VAT on tourist services will make them expensive and place the Tanzanian tourism industry in a disadvantaged position due to regional and international parities. This works against the Government goal of increasing tourist numbers to 2 million in 2017. It is also worth to note that so far Tanzania is still below the target in 2016 in comparison with the 2013/4 tourists' numbers.
4. The nature of tourism business does not allow risking the trust gained at the high cost of time and resources. It will be very difficult to rebuild the reputation as reliable safari destination after a year of trial if we allow this current move. We, wish to further explain that the impact will go down to the social cohesion as it will affect employment and entire value chain particularly from ordinary people's point view.
5. Tourism is an export, and like other export services, qualifies for VAT exemption or zero rating. Furthermore, tour operators and travel agencies are "intermediary" services which are normally not subject to VAT.

Tourist services have high demand elasticity as consumers have a wide choice of attractive destinations worldwide.

6. Tourism is customer controlled business and tourists are very fragile and sensitive to adverse changes and events in tourist destination territories.
7. It makes little sense to exempt transportation (regular and scheduled) services and charge VAT on tourist guiding, game driving, water safaris, animal or bird watching and park fees while the whole tourism business is about transporting people or tourists to the national parks. It is practically not possible to draw a line between transportation and other tourist services
8. Park fees are also a form of tax or levy and it makes no sense charging VAT (tax) on tax.
9. We do understand that loopholes in system allow many unregistered companies to operate and deny the highly needed revenue to the Government. Honest tour operators and travel agents should not be punished because of dishonest operators. TATO is open and willing to work with the Government in widening the tax base and dealing with dishonest operators.

Sirili Akko  
Executive Secretary  
Arusha, 10<sup>th</sup> June 2016