

# VAT ON TOURISM SECTOR: LEGALITY vs. LEGITIMACY

**Dr. Damas Daniel Ndumbaro<sup>1</sup>**

## **Abstract**

*Tourism sector is one of the very vital economic pillars of Tanzania contributing more than 12% of GDP and create employment to 1.2 million people. Undeniably, this is an important economic sector which needs not only to be protected jealously but also promoted highly so that the country realizes its full economic potential. Through the 2016/17 Budget Speech, the Government has changed the Value Added Tax (VAT) rate for tourism sector from Zero to 18%. The amendment has attracted lots of criticisms on the legitimacy of scrapping the VAT exemption on tourism sector. This paper discusses the constitutional and statutory authority of the parliament action against the legitimacy of such an action. The discussion is guided by the arguments from the government supporting the move and counter arguments from the stakeholders challenging removal of VAT exemption from tourism and hospitality sector.*

**Key words:** VAT, Tourism, Law, legitimacy, Tanzania.

## **Introduction**

Tourism sector contributes to more than 17% of the GDP of Tanzania, with the number of tourists steadily and constantly increasing. It is estimated that projected earnings from tourism will reach US\$ 2 billion by 2017. The realization of the projections seem to be in cross road cause of unprecedented complaints from tourism stakeholders, particularly, Tanzania

---

<sup>1</sup>. LL.B, LL.M,(UDSM) PhD (OUT), Dean Faculty of Law, Open University of Tanzania, Advocate, Notary Public & Commissioner for Oaths.

Association of Tour Operators (TATO), who express their concerns over the government plans to impose 18% Value Added Tax on Tourism services<sup>2</sup>. The stakeholders argue that the move will be suicidal to the growth and development of the sector which currently leads in foreign exchange earnings<sup>3</sup>. The criticisms are directed to the parliament for amending the Value Added Tax Act and allowing tourism services to be subjected to 18% VAT.

The question to ponder in this discussion is whether the parliament was legally rights to enact the law or rather amend the law introducing 18% VAT rate into various service fees, particularly tourism service fee. Further, is there legitimacy of the parliament doing that or does the parliament action saved under the constitution. It is vital to discuss and ponder the issues herein poised not only because it is the constitutional rights but also, and more important, because the tourism stakeholders are up in arms challenging the 18% VAT rate on tourism service fee, citing far reaching consequences to economic growth of Tanzania in one of the very key sector of economy which contribute largely to the foreign earnings.

### **Theoretical Base**

The theoretical foundation of scrapping the Value Added Tax on tourism and allied services is presumed to be for the purpose of widening tax base and improving, at the end of the day, the support to tourism services by protecting natural resources from poachers, building capacity, improving other tourism support services. Further, there is a need for the tax regime and laws to be in conformity to the international standard. The criticism to the scrapping of VAT on tourism and allied services calls for the need of critical assessment of the legality and legitimacy of scrapping the VAT exemption.

### **Methodology**

Legality and Legitimacy of scrapping the Value Added Tax on tourism sector is the main issue of focus into this paper which at the end of the day need to be not only discussed but also analyzed and recommendation given. To achieve the goal, this paper has adopted the traditional legal doctrinal research methodology on which legal analysis of the principal and subsidiary legislations, in order to align the same with international standards and practice in respective areas, was the focal point. The approach necessitated the inevitable review of various literatures containing pro-arguments from the supporters and counter from the opposers, both through print and online libraries, in a bid to qualitatively assess through a legal reasoning mechanism. The

---

<sup>2</sup> . This was made vide the Financial Act, No. 9 of 2016, which amended the VAT Act, plus other 15 laws

<sup>3</sup> . Tanzania Association of Tour Operators (TATO) Executive Secretary, Sirili Akko, said in a statement that the VAT plans for tourism industry would be counterproductive and will hamper growth of the sector which contributes to more than 17 per cent of the total economic output. "

Open University of Tanzania Head Office library offered more opportunity to this end plus various online libraries which the researcher managed to access. The comparative approach to the international standards formed an integral part of the methodology.

### **Tourism Sector and the Economy**

The tourism sector is one of the key economic sectors which contribute to more than 17 per cent of the total Gross Domestic Product. The government plans and projections are to increase the tourists' numbers to 2 million in 2017. In 2015/16 the income from tourism sector reached US\$ 2.04 billion, compared to US\$ 1.9 billion the previous year. It is evident that there is not only meaningful contribution to the government revenue but also growth of the sector and the income there from. During the 2016/17 government budget the Finance and Planning Minister, reignited the question of imposition of Value Added tax on tourism services, including supplies of tourist guides, game driving, water safaris, animal and bird watching, park fee and ground transportation.

There is no doubt that tourism is a major sector of Tanzanian economy which contribute to economic development as well as job creation to the tune of 1.2 million jobs or about 11% of the total employment in the country. Such an industry should surely be properly looked at and developed in order to ensure its growth and continued contributions to the economy of the country. The tourism stakeholders argue that Value Added Exemption is vital to ensure its continued growth and contribution to the economic growth and that imposing Value Added Tax or scrapping the long enjoyed Value Added Tax exemption will do more harm and damage to the sector specifically and economy generally. "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 point view"<sup>4</sup>.

It has been further argued that Kenya had introduced 16% VAT on tourism in 2015/16 and failed and that Tanzania try as much as possible avoid the same mistake, otherwise Kenya and other neighbouring countries will take the advantage of tax exemption<sup>5</sup>. It has been further argued that the VAT would negatively impact the tourism industry because the July deadline did not allow time to implement the change and who would bear the extra cost. "We have sold our safaris well in advance, some have been paid in full or deposits received. We are dealing with international operators where brochures go out a year or two years in advance with rates."<sup>6</sup>

---

<sup>4</sup> . Tanzania Association of Tour Operators (TATO) Executive Secretary, Sirili Akko

<sup>5</sup> . Wilbard Chambulo, MD at Kibo Guides and Tanganyika Wilderness Camps.

<sup>6</sup> . Ibid

Though the tourism industry has been contributing much to the economy, there has been equally a noticeable loss of revenue from the sector due to some dishonest tour operators who conduct the business without either registration or paying the relevant tax. Commenting on this issue, Executive Secretary of TATO remarked:

*“honest tour operators and travel agents should not be punished for the many unregistered companies that operated and denied government the revenue. “TATO is open and willing to work with the government in widening the tax base and dealing with dishonest operators.”*

Widening the tax base, entails among other actions, removing tax exemptions which deny the government the much needed revenue earnings. Do the stakeholders have real motive of widening tax base while they insist of maintaining the long list of tax exemption? One of the responses to this is that the removal of the exemption affects the tourism marketing and image of the country. Perhaps there is a need to discuss further within a well defined framework on what is the image of the country. If imposing the tax affects negatively the image of the country, then the developed countries, which impose taxes on similar transactions, will have the most negative images than Tanzania who have long list of tax exemptions.

### **The Value Added Tax on Tourism Services**

The Value Added Tax was introduced in Tanzania in 1998 following the enactment of the law in 1997. The law was repealed and replaced with the new Value Added Act 2014 which was applicable with effect from 1<sup>st</sup> July 2015. The 2014 VAT Act which is currently in force and a subject of our discussion has two rates; 18% and 0% rates. Before the introduction of Value Added Tax in 1997, there was a Sales Tax which proved to be a challenge in terms of administration and application. VAT was mainly introduced to replace the Sales Tax, which was Unable to generate sufficient revenue as it was narrow based tax. Value Added Tax was introduced in order to: to broaden the tax base, to attain economic neutrality, to promote exports, and to attain its administrative advantages. VAT is more advantageous than Sales Tax as: it is charged on all goods and services except those which are specifically exempt or zero rated, it is economically neutral, it encourages exports and it is simple to administer.

Exemptions and VAT special reliefs are narrowing the tax base and consequently affecting the revenue. The 1997 VAT Act contained 56 items which Value Added Tax was not applicable<sup>7</sup>, through zero rating, exemption or special relief. Tourism service was one of the items which were exempted from Value Added Tax. On December 2014, the 1997 VAT Act came to an end vide the new VAT Act of 2014. The objectives of the new enactment are to; broaden the tax base, align value added tax law with the international best practice; reduce power of the Minister

---

<sup>7</sup> . 20 exemptions on supplies, 11 Zero rated and 25 Special relief

for Finance in the administration of VAT, address intra union trade issues between Mainland and Zanzibar and simplify administration and management of VAT. The Act has been structured to capture VAT on other forms of trade which were not captured by the VAT Act 1997. The Act is to implement best practices as well as reduce exemptions and special relief in order to improve Government revenue collection. The Act also widens the tax base to cover most economic activities in the market to improve revenue collection and provides a platform for more scrutiny on various controversial issues and it has addressed the shortcomings of its predecessor.

In order to achieve its objectives of widening the tax base, the new VAT Act of 2014 Act has done away with the special relief schedule which over the years seemed to be exponentially and uncontrollably expanding. The removal of the special relief schedule has impacted various stakeholders such as; Tanzania Defence Forces and insurance<sup>8</sup> which for ages have been enjoying the exemption. The law has gone further and removes exemptions which were being enjoyed by sectors such as insurance<sup>9</sup> and currently tourism.

### **Law making sovereignty and Finance Act 2016**

The 2016/2017 government budget which was presented by the Finance and Planning Minister, Honourable Dr Phillip Mpango, there was introduction, among other matters, 18% VAT rate on tourism services, including; supplies of tourist guides, game driving, water safaris, animal or bird watching, park fees and ground transport services with effect from 2016/17 fiscal year. The decision did not pass unchallenged particularly from Tanzania Association of Tour Operators (TATO) and other stakeholders who were urging the government to reconsider the plan to remove VAT exemption on tourism services as that would risk the reputation of Tanzania as a reliable safari destination and cautioned that it would have long-term negative consequences which will not be easy to correct.

The decision was made by the parliament vide Finance Act<sup>10</sup> which amended, among other laws, the Value Added Tax Act,<sup>11</sup> by introducing section 61A (a). The said new section provides that:

*“s. 61A The supply of service shall be zero rated if;*

*(a) The customer is outside United Republic at the time of supply and effectively uses or enjoys the services outside United Republic “*

Tourism services are offered to tourists in United Republic and consumed, used or enjoyed within, thus as a general rule value added tax squarely applies to the tourism sector like any

---

<sup>8</sup> . VAT Regulations 2015) published in July 2015 an insurer must account for VAT on net premium amount received by him in relation to a contract of insurance, which is defined as the total of premium amount received in a given tax period less payment made for settlement of any claim arising from an insurance contract and reinsurance premiums paid for that period.

<sup>9</sup> . Ibid

<sup>10</sup> . No. 12 of 2016

<sup>11</sup> . No. 10 of 2014

other. The Value Added Act has two rates applicable, i.e. 18% rate and 0%. Goods and services which fall under 18% rates, may, subject to relevant applicable provision of the law, be exempted. Tourism sector has been enjoying the exemption for a long time until 2016 Finance Act waived the exemption and exposed the sector to the applicable 18% rate. Supporting the move, Honourable Minister had this to say<sup>12</sup>:

*“Part XV of the bill proposes to amend the Value Added Tax, Cap 148. This proposed amendment aim ....., to remove value added exemptions on tourism services, thus expand tax base .....”*

Honourable Minister, during the 2016/17 budget speech submitted and argued that; “this measure was put in abeyance during inception of new VAT Act in July 2015 in order to provide for the operators to conclude their contractual obligations entered with tourists in a year before”<sup>13</sup>. Honourable Minister seems to counter attack and react to the accusation that the government is giving a short notice to stakeholders who have concluded their contracts well in advance. If one has to stand and bank on the Honourable Minister’s position, the question of non-involvement and timing seem to have little ground to be sustained. The battle to scrap value added tax on tourism services emerged during the 2015/16 budget speech but the government was forced to back paddle after intensive pressure from the industry. The Tourism Confederation of Tanzania (TCT) commended the government for allowing tourism services to continue being exempted from Value Added Tax during the 2015/16 parliamentary session<sup>14</sup>. Victory for the tourism stakeholder during 2015/16 but a defeat on the following year.

The move to remove the exemption on tourism sector as above highlighted, invite the application of section 12 (2) (c) of VAT Act as amended. The said provision provides that:

*“12.-(1) Anything capable of being supplied by any person other than money shall be the subject matter of a supply.*

*(2) For the purposes of this Act, every supply that is, or capable of being made shall be recognized as-*

*(a) .....*

*(b) .....*

*(c) a supply of services.”*

Therefore all services, including tourism services are subjected to Value Added Tax unless there are any provision of law providing to the contrary, i.e., either the law zero rates or exempt the specified services from Value Added Tax.

<sup>12</sup> . Finance and Planning Minister, Honourable Dr Phillip Mpango statement in the Objects and Reasons for the proposing amendment, p.93 of the Finance Bill 2016

<sup>13</sup> . [www.tax-news.com/news/Tanzania\\_Confirms\\_VAT\\_On\\_Financial\\_Tourist\\_Services\\_71659.html#sthash.ceIPVxSi.dpuf](http://www.tax-news.com/news/Tanzania_Confirms_VAT_On_Financial_Tourist_Services_71659.html#sthash.ceIPVxSi.dpuf) accessed on 20<sup>th</sup> July 2016.

<sup>14</sup> . TCT is an umbrella organization representing the private business sector involved in travel and tourism in the country. <https://apta.biz/blog/2015/01/07/6167/> accessed on 23<sup>rd</sup> July 2016/

Zero-rated services are normally the services used and enjoyed outside Tanzania, subject to exceptions for certain types of supply<sup>15</sup>. Zero rated include; international transport and certain related services, services supplied to a non- resident warrantor, services directly related to land outside Tanzania, certain services physically performed outside Tanzania, services connected with temporary imports, intellectual property rights for use outside Tanzania, supply of telecommunications services by a telecommunications service provider to a non-resident telecommunications service provider. Tourism services, therefore does not fall within the ambit of the zero rated services as per the Value Added Act, 2014.

Tourism sector, like other sectors such as insurance<sup>16</sup> etc has been enjoying exemption from VAT for a long time under the pretext that the said exemption is critically important for the growth of the sector. The point to discuss is whether there is reasonable grounds for tourism sector to continue enjoy the exemption. Is there legitimacy for locals to pay taxes and tourists not to pay? This is the fundamental issue to be discussed in this paper from both legal and legitimacy point of view. There are imminent needs to discuss this issue because the opportunity was denied such an opportunity when the 2016/17 budget speech was being discussed in the parliament due to UKAWA<sup>17</sup> walk out. Relevant to this paper and discussion is the fact that citizens cannot borrow conflicting arguments from the hansard.

### **Tax Exemption and its Contribution to the Economy**

International standards demands that tax exemptions should be as minimal as possible and its granting mechanisms should be as transparent as possible. The VAT Act 2014 empowers the Minister responsible for finance to grant exemptions only to government imports of goods and services that are to be used solely for relief of natural calamities or disasters. The law removes of the Minister's power to exempt any other person or persons from payment of the tax imposed under the VAT Act. Tourism sector, does not qualify for VAT exemption as it is not falling within relief of natural calamities and disasters and the minister is not mandated to exempt because that will be *ultra vires*. The remove of the powers of the minister to exempt do connotes that the said powers can only be exercise by the parliament through either amendment of the VAT Act or increase the list of zero rated items.

Exemptions are now, under the new law, strictly limited to; Diplomats, international bodies of diplomatic nature, non-profit organizations and essential services such as education, health, agriculture and residential houses on imports transactions concluded for the official purposes of

---

<sup>15</sup> . e.g. services related to land / immoveable property, essential services, telecommunications, radio and television, and electronic services, services will be zero-rated if performed in Tanzania for a person based outside Tanzania who effectively uses or enjoys the service outside Tanzania

<sup>16</sup> . VAT Regulations (2015) Published in July 2015.

<sup>17</sup> . Umoja wa Katiba ya Wananchi

the missions. Tourism is not one of the items listed as above cause it cannot be accommodated in diplomatic circles, non –profit organizations or essential services. This is in tandem with international best practice<sup>18</sup> because the law has introduced and applies; destination principle by imposition of tax on goods and services consumed in Tanzania. Tourism services are consumed in Tanzania, thus under international best practice<sup>19</sup>, it has to be charged VAT.

Though according to international best practice tourism services is sector suppose to pay VAT, the sector has all the way enjoying Value Added Tax exemption on the argument that exemption attracts Foreign Direct Investment (FDI) which is necessary for economic development. Proponents argue that exemptions compensate investors for otherwise poor investment climate and that capital and jobs created improve economic growth and people's wealth. To what extent exemptions contribute to economic development of any country has been widely studied and discussed<sup>20</sup>.

Tax expenditure is a transfer of public resources that is achieved by reducing tax obligation with respect to a benchmark tax, rather than by a direct expenditure<sup>21</sup>. Tax exemptions are one of five types of tax expenditures, the others being: tax deductions (allowances), tax deferrals, tax reliefs, and tax credits. The common language often uses “tax exemptions” to refer to the broader concept of tax expenditures. The value of tax exemptions differs from one country to another depending on the bench mark tax structure which varies considerably from one country to another<sup>22</sup>. The best way to understand and analyze tax exemption is to observe the national trends.

Tax exemptions aimed at FDI<sup>23</sup> are especially important form of tax expenditure in developing countries and, in many cases, significantly undermining the tax revenue base. The incentives for multinationals to negotiate tax breaks with developing countries frequently results in a “race to the bottom” in which poor and weaker countries are made worse off, to the benefit of the so called investors. Empirical evidence showed that weak investment climate cannot be offset by offering lower tax rates to corporations<sup>24</sup>. The argument may be true to the countries where investment climate is conducive but in countries where there is poor investment climate, like Tanzania<sup>25</sup>, there is no impacts at all. More efforts should be directed towards improving investment climate than granting exemption, which is tax expenditure. Legally, any provision of the law granting tax exemption must pass the five legal based criteria for exemption. The criteria

---

<sup>18</sup>. International VAT/GST Guidelines published by the Organization for Economic Cooperation and Development (OECD) Global Forum on VAT in 2014.

<sup>19</sup>. Ibid

<sup>20</sup>. Tanzania Per Tax Exemptions Study, October 2013

<sup>21</sup>. Ibid Chapter 1.

<sup>22</sup>. 4.5% of GDP in 2011-12.

<sup>23</sup>. largely to multinational enterprises domiciled in G-20 countries

<sup>24</sup>. Ibid chapter 2, (c.f., section 2.4).

<sup>25</sup>. The value of tax exemptions estimated by TRA has reached a record high of Shs1.8 trillion in 2011-12, a jump of 78% in nominal terms from the previous period.



are; consistency, simplicity, transparency, fairness and efficiency. Application of the five legal based criteria has resulted into enactment and amendment of various tax laws<sup>26</sup>, some of which has created debates and arguments from stakeholders.

The use of the tax and duty exemptions in developing countries, though originally well intended<sup>27</sup>, have been harmful to the economy and the governments' treasury. The countries have continued to be poorer and poorer at the expense of the multi-national corporations. Improving investment and business climate is the best way for a developing country to boost growth, increase government revenue and fight poverty. To do so, countries should invest in improving government administration<sup>28</sup>, developing a simple and predictable tax regime, investing in public and social infrastructures, and working for a stable and safe political and social environment. Tax exemptions are not the best tools to efficiently achieve these results and therefore a reform of developing countries' exemptions regime, like the one the value Added Tax scrapping of exemption on tourism sector is strongly recommended.

### **Legality of Scrapping the Vat Exemption on Tourism**

The Constitution of any Country is a supreme body of authority which establishes the government and its organs, i.e., parliament, executive and judiciary. The parliament is, on the real sense, a creature of the Constitution<sup>29</sup> which is vested with powers of law making<sup>30</sup> and supervising government activities. The sovereignty of the parliament, an English constitutional law doctrine, vests power to the parliament to discharge its functions, including law making with total freedom, save for the limitations imposed by the constitution. When we discuss the constitutional limitations in law making in Tanzania, our attention is quickly drawn into human rights provisions<sup>31</sup> in the constitution itself, but we should go a mile further and clearly make sense the intention of the drafter of the constitution as far as limiting the parliamentary power in law making is concerned. Article 30 of the constitution of United Republic of Tanzania, clearly vests even more unfettered power to the parliament and other constitution organs to exercise its powers taking into consideration the needs and interests of society as opposed to individuals.

The parliament is sovereign as far as law making and supervising the government activities is concerned. One of the traditional functions of the parliament is to enact law for purpose of administration of justice and in compliance and conformity to human rights and international best practice and standards. To that end the parliament of United Republic of Tanzania amended

---

<sup>26</sup> . Tax Administration Act, VAT Act, Income Tax Act etc.

<sup>27</sup> . e.g., to attract investment, stimulate growth and fight poverty,

<sup>28</sup> . increase efficiency, increase transparency, eliminate corruption

<sup>29</sup> . Chapter III of the Constitution of United Republic of Tanzania, 1977

<sup>30</sup> . Art. 62, 63(3)(d), 64(1), 97 and 99 of the Constitution of United Republic of Tanzania, 1977

<sup>31</sup> . Art. 12-29 of the Constitution of United republic of Tanzania

the Value Added Act, 2014, through miscellaneous amendment Act of 2016, to impose, among other things, scrapping of VAT exemption on tourism and allied services. To that end, the amendment is legal as it was made by the body bestowed with constitutional power to deal with the enactment and amendment of the laws. One may wish to constitutionally challenge it before the law. That's not debatable at all because the court will receive any complain from anyone but what is highly debatable is the chance of success from the case cause the basis on which the exemption was being enjoyed do not pass the test of international best practice and opinion of various researches, studies and writing of scholars.

### **Legitimacy of Scrapping the Vat Exemption on Tourism**

Legitimacy can be measured through, not only stakeholders discontents, but also both procedural compliance to the process and the substantive conformity of the final outcome to the pillars such as the constitution and international practice standards. In terms of procedural aspects, the discussion to scrap VAT exemption on tourism sector was hotly debated in 2014 Value Added Tax Act making process where the government, in a bid to implement the advice and recommendations of the various studies<sup>32</sup> and compliance with international standards of VAT, initially scrapped the VAT exemption from tourism sector. The stakeholders were up in arms challenging not the substantive arguments for scrapping VAT exemption on tourism but the procedural aspects of the process. Their well founded arguments at that time were; one that non involvement of the stakeholders, two, the notice was too short to enable the stakeholders discharge their existing contractual liabilities which did not take into account the aspects of VAT when concluded with their customers. The government bowed out and extended the VAT exemption on tourism and hospitality sector for one year with effect from July 2015<sup>33</sup>. The one year notice was enough for the tourism stakeholders to adjust their house and comply with the new VAT Act requirements. The involvement of the stakeholders in discussion and one year extension which was granted provides more legitimacy than what anyone would have needed. Substantively and, leisure, tourism and hospitality industry are not suppose to be exempted from VAT. This is not only the statutory requirement as per the Value Added Act 2014 but also the mandatory ingredients of International practice standards<sup>34</sup> and the recommendation of various experts on how to reduce the list of tax exemptions in an effort to widen the tax base and increase revenue. It is better to critically analyze who benefit from the tourism sector tax

---

<sup>32</sup> . Tanzania Per Tax Exemptions Study, October 2013

<sup>33</sup> . Exemption from VAT for the Tourism sector in respect of tourist, game driving water safaris and ground transport services, park fees, animal or bird watching, will be limited to one year from the date of commencement of the new VAT Act. See <http://www.ey.com/GL/en/Services/Tax/International-Tax/Alert--Tanzanian-Parliament-approves-VAT-Bill-2014> accessed on 25<sup>th</sup> July 2016.

<sup>34</sup> . International VAT/GST Guidelines published by the Organization for Economic Cooperation and Development (OECD) Global Forum on VAT in 2014.

exemption. Is it the country economy or the tour operators who most of them are just agents of foreign giant tourism agents who receive and retain the huge part of the fee abroad? Public interests demands that tax should be paid widely to boost the country revenue.

## Findings

Having gone through this paper, it is inevitable to come into findings that: One, the parliament had mandate to amend the Value Added Tax Act 2014, thereby scrapping the VAT exemption on tourism sector and that the parliament acted *intra vires*. Two, in compliance with the law and international best practice, tourism sector is not suppose to be exempted from VAT. Three, VAT exemption which the tourism sector has been enjoying had no legal or economic justification. Four, the 18 months notice given the tourism stakeholders on the change of law (December 2014) does not support the short notice argument on implementation of the law.

## Conclusion

Since tax payment is the lifeline for the economy of any country, reducing or removing tax exemption, which is one of the type of tax expenditure, is inevitable for the development and welfare of the economy of the poor country. It has been established that tax exemption is not the factor which attracts Foreign Direct Investment but good and conducive investment climate does. What is needed in tourism sector is improving of infrastructure and other allied services such as reliable transport, good roads and airports infrastructure, peace and security, protection of animals especially endangered species from poachers, researches on how to improve the ecology, control destruction of natural assets, capacity building on tourism, improve visa processing time, quality branding of Tanzania tourism beyond Serengeti, Ngorongoro, Manyara, Kilimanjaro and Zanzibar, etc. To accomplish this, the government needs money from taxation not foreign aid. It is therefore concluded that the scrapping of the VAT exemption on tourism and hospitality sector is both substantively and procedurally lawfully and legitimate and in the long run will benefit the tourism sector through improvement of tourism support services.

## **BIBLIOGRAPHY**

Constitution of United Republic of Tanzania, 1977  
Financial Act, No. 9 of 2016  
Government Budget Speech, 2016/2017  
Income Tax Act  
International VAT/GST Guidelines published by the Organization for Economic Cooperation and Development (OECD) Global Forum on VAT in 2014.  
Kim Emmanuel, Tourism VAT threat hangs over Tanzania, 2016  
Miscellaneous Amendment Act, 2016  
Tanzania Association of Tour Operators (TATO) Press Statement June 2016  
Tanzania Per Tax Exemptions Study, October 2013  
Tax Administration Act, VAT Act,  
The Citizen Newspaper, Friday 15<sup>th</sup> July 2016  
The Daily News, 13<sup>th</sup> July 2016  
VAT Act 1997 Cap. 148 Repealed  
VAT Act No. 10 of 2014  
VAT Regulations (2015)  
[www.apta.biz](http://www.apta.biz)  
[www.ey.com](http://www.ey.com)  
[www.tax-news.com](http://www.tax-news.com)