

2021/2022 BUDGET - TANZANIA

FINANCE BILL, 2021



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Exempt Value added tax on crude oil under HS Code 2709.00.00

Gaming, Sports and Recreation

- Reducing gaming winning tax on all sports betting to 15%

Changes to Transfer pricing

VAT

- Limit Value Added Tax deferment on capital goods



THE TAX ADMINISTRATION ACT

Broader Scope Of Requesting For Remission Of Interest AND PENALTIES

- ▶ Proposed removal of powers granted to the Minister to issue Regulations on the procedure to access remission of interest and penalties.
- By way of background, the Finance Act 2018 introduced powers to the Minister for Finance to publish Regulations to prescribe eligibility, duration and procedure for remission of interest and penalties. These Regulations were issued in May 2020 and the scope was very narrow in its applicability
- ▶ Therefore, with the removal of section 70(2), the assumption is that the May 2020 Regulations become ineffective and the power to remit any interest and penalties reverts back to the discretion of the Commissioner General.

Removal Of The 100% Penalty For A Transfer Pricing ADJUSTMENT

- ▶ The removal of this penalty is a positive step as the penalty was unequal although rarely enforced. In precise
- This penalty was levied on the amount of the adjustment rather than the tax impact of the adjustment
- Transfer pricing is not an “exact” science.
- Transfer pricing adjustments are one component of corporate income tax adjustments and therefore already subject to the normal penalty provisions as for any other corporate income tax matter.

Court Of Law To Collect Fines And Penalties Relating To Tax Offences

- ▶ Proposal to give power to the Courts to collect the fines and penalties arising from tax offences instead of the Tanzania Revenue Authority.

DIRECT TAXES



Direct Taxes Income Tax Act

Widen The Scope Of Exemption From Income Tax On Interest Derived From Government Bonds To Cover All Bonds

- ▶ Currently, the exemption only strictly applied to Government bonds of the fiscal year 2002/03 with a maturity of more than 3 years although there was always a grey area whether the interest was subject to income tax as it was in practice exempted based on the Bank of Tanzania guidelines for treasury bonds
- ▶ The aim of this measure is to clear a grey area and to promote investment in treasury bonds to finance Government projects.



Widen The Scope Of Application Of A 2% Non-final Withholding Tax To Cover Suppliers Of Agro-products, Livestock And Fisheries

- ▶ Proposed introduction of a 2% withholding tax on agro- products, livestock and fisheries when supplied to processing industries, millers and Government agencies with an exception of small farmers and sales to Agriculture Marketing Cooperatives Societies (AMCOS).

Proposed Depreciation Rate Of 5% For Assets Under The East African Crude Oil Pipeline (EACOP)

- ▶ The Minister mentioned that the change was being made to harmonise the depreciation allowance with the expected lifetime of the pipeline and in accordance with the agreement signed between the two Governments



Proposal To Give Sole Powers To The Minister To Grant Income Tax Exemption On Specific Development Projects Funded By The Government I.E. Without Requirement Of Cabinet Approval

- ▶ This exemption is subject to a provision for income tax exemption being included in the agreement between the Government of Tanzania and donor (for grants) or lender (for concessional loans) and a Government Notice issued to that effect. This will condense the bureaucracy of the approval process and help fast track the completion of such projects

Employment Taxes

Reduction Of PAYE Rate To 8% (From 9%) For The Lowest Taxable Band

- ▶ The Minister mentioned that this was part of the measures by the Government to reduce the tax burden on employees (effectively going from 11% in 2015 to 8% now). This will result in a maximum tax saving of TZS 2,500 per month. The current income tax rates and the proposed rates are shown in the right-hand side.

- ▶ The current income tax rates

	Band TZS	Old rate	New rate	Reduction in tax TZS
First	270,000	0	0	0
Next	250,000	9	8	2,500
Next	240,000	20	20	0
Next	240,000	25	25	0
Over	1,000,000	30	30	0
Total				2,500

Employment Taxes

- **Increase in the employee threshold for SDL to apply**
 - ▶ The Minister has proposed to increase the minimum number of employees required to account for SDL to 10 (from 4).
 - ▶ This change is in accordance with the Government's agenda of promoting business startups and encouraging employment but mostly relevant to small scale businesses
- **Exemption of SDL for religious health institutions**
 - ▶ This proposed change intends to increase the role of non- government institutions in the provision of health services to remote areas by reducing the operational costs of such institutions. The Finance Bill may provide further clarity as to what is covered under "religious health" institutions



Employment Taxes

- Reduction of rate for Workers Compensation Fund(WCF)
 - ▶ The Minister has proposed to decrease the contribution rate to the Workers Compensation Fund from 1% to 0.6% for the private sector
 - ▶ The aim of this change is to provide relief to the private sector employers by reducing the burden of their contributions to the Fund. Hence, improving the business environment in the country for existing and upcoming investors



Small Scale Mining

- ▶ There are a number of proposals with respect to taxation of small-scale mining operations applicable to individuals whose turnover does not exceed TZS 100m per annum. The proposed changes ensure that small scale miners pay taxes depending on the cash flow.
- **Introduction of a 3% income tax rate on the sale value of minerals**
- ▶ The time of payment of tax is at the time of sale of minerals and not regular instalment payments.



Small Scale Mining

Obligations of the Individual Employers

The following is applicable to individual employers:

- Payment of royalty as established by the Mining Commission.
- Payment of deemed PAYE (on behalf of the employees) at 0.6% of the sale value of minerals payable at the time of sale of minerals. Although this is stated as PAYE, it is an additional tax suffered by the employer.

Small Scale Mining

Obligations of the Individual Employers

Introduction of a 0.4% levy to employers

The time of payment of tax should be the time of sale of minerals.

- ▶ The effect of all these changes is payment of an upfront tax paid by the employers of small-scale mining at the rate of 4% on their turnover.



Gaming Tax

- ▶ The following changes have been made on gaming taxes in order to increase Government revenues and promote fairness within the gaming industry.
 - Introduction of 10% gaming tax on gross gaming revenue (GGR) from: (i) virtual games; and (ii) gaming products licensed under pilot study
 - Reduction of winning tax from all sports betting from 20% to 15%

Increase of gaming tax on sports betting from 25% of GGR to 30%. Additional 5% to be allocated to the sports development fund

INDIRECT TAXES

Value Added Tax

▶ New Exemptions

- The Minister has proposed the following new exemptions to the VAT Act 2014
- ▶ **Imports and local purchases to East African Crude Oil Pipeline (EACOP)** -
 - to reduce operational costs on the Uganda through Tanzania pipeline project
- ▶ **Crude oil of HS Code 2709.00.00** -
 - to relieve costs to final consumers and operational costs to EACOP
- **Specified data devices including smartphones (HS Code 8517.12.00), tablets (HS Code 8471.30.00 or 8517.12.00) and modems (8517.62.00 or 8517.69.00)** in order to increase data penetration from 46% currently to 80% by 2025
- **Imported precious metals and raw materials-** to boost imports for refining and smelting by local industries hence increasing employment and revenue



Value Added Tax

▶ New Exemptions

➤ Insurance of livestock farming.

- to afford livestock farming insurance same treatment as crop insurance and also promote livestock farming

➤ Specified cold rooms (HS Code 9406.10.10 and 9406.90.10)

- to reduce production costs and promote modern horticulture farming

➤ Specified importations by NIDA of contactless smart cards (HS Code 3921.11.90) and card consumables (HS Code 3921.11.90) -

- aimed at reducing the cost of production of the NIDA cards.



Value Added Tax

▶ New Exemptions

- **Artificial “football pitch” grass** (HS Code 5703.30.00 and 5703.20.00) of grass used for football pitches in city councils subject to approval by the Tanzania Football Federation (TFF) with the aim of promoting sport in the country
- **Broader exemption on milk cans.** The proposal is to abolish VAT exemption on cans intended for preserving milk with HS Code 7310.29.20 and broaden exemption to both aluminium and stainless-steel milk cans with HS Code 7310.29.90, 7310.10.00 and 7612.90.90. The intention is to reduce production costs and promote modern dairy milk industry.

Value Added Tax

▶ Return of VAT Exemption to NGOs

- This was removed in 2017 and has been proposed to return and to apply on imports and local purchases solely used for implementation of projects where there is an agreement with the Government which provides for VAT exemption. This should relieve NGOs of an otherwise unrecoverable cost burden since they are usually not VAT registered.

▶ Zero-rating: transport of EACOP crude oil

- The Minister proposed to apply VAT at zero -rate on the EACOP crude oil transportation and related services- this will apply to the crude oil transported through EACOP pipeline to comply with the international best practice on transit.

▶ Removal of VAT exemption: solar lights

- The Minister has proposed to remove/abolish VAT exemption on the specified solar lights (HS Code 85.13 and 94.05). This is aimed to align to EACCMA exemption which is limited to generation of energy and not extended to transmission and distribution



Value Added Tax

- ▶ **VAT deferment to be limited to specific capital goods**
 - Proposal is to limit VAT deferment to capital goods under chapters 84, 85 and 90 of the EAC CET. This is intended to curb abuse of incentives due to lack of clarity.
- ▶ **Reciprocity of VAT refunds for transferred goods purchased in Tanzania Mainland or Zanzibar**
 - The proposal is to scrap the current zero-rating treatment of locally manufactured goods transferred to Zanzibar from Tanzania Mainland. Instead, to allow for reciprocal refunds of VAT incurred by Zanzibar registrants in Mainland and Mainland registrants in Zanzibar. This will be supported by an interface of VAT records between the two jurisdictions to allow for an efficient refund mechanism.

Excise Duty

- ▶ Due to various factors (including low inflation rate, government's objective of building an industrial economy, and the impact of COVID 19 Pandemic), the Minister has proposed not to make any adjustments for inflation on non petroleum excisable products except for spirits and local beer manufactured using locally grown malt barley as follows:
 - **Beer made from locally grown and malted barley:** reduction in excise duty rate to TZS 620/ltr (from TZS 765/ltr). The aim is to promote the use of locally grown barley in manufacturing of beer;
 - **Spirits:** 30% increase in excise duty on spirits (in order to balance the tax rates between spirits and beer i.e. correlation of tax with alcohol content
- In addition to the above, the Minister proposed to introduce excise duty at 10% on the following
 - Imported and locally produced synthetic (plastic) fibres (Heading 55.11 and 56.07) except fishing twine (HS Code 5607.50.00); and



Excise Duty

- Imported used motorcycles aged more than 3 years (HS Code 8711).
- ▶ The above proposed changes are aimed to promote local manufacturing of sisal products and protect the environment and discourage importation of used Motorcycle and controlling anti- dumping.

The Local Government Finance Act

- ▶ The Minister has provided clarity that corporate entities liable for service levy may not be liable to pay produce cess along the value chain of a products.
- ▶ The Minister has also proposed reduction of outdoor advertising fee in order to lower the advertisement cost and hence promote competitiveness in various businesses as below

Advertisement fee		
Advertisement item	Current fee (TZS)	Proposed fee (TZS)
Illuminated	18,000	13,000
Non Illuminated	15,000	10,000
Wall Sign	15,000	10,000
Electronic Sign	20,000	15,000
Vehicular	15,000	10,000
Short term (per day)	55,000	50,000
Poster promotion (bunch of 100 posters)	100,000	50,000

Stamp Duty

- ▶ The Minister is proposing to amend the Stamp Duty Act by updating the stamp duty rate inline with the current economy. The proposed amendments are summarized under

Stamp Duty		
Item	Current fee (TZS)	Proposed fee (TZS)
Nominal stamp duty	500	2,000
Memorandum & Articles of Association	5,000	10,000
Partnership instruments	2,000	5,000
Partnership with capital more than TZS 100,000	5,000	10,000
Instruments of dissolution of partnerships	1,000	10,000

Taxes on fuel

▶ Roads and Fuel Toll

- Increase road and fuel toll by 100 shillings per litre (of petrol and diesel).

This incremental revenue will be used for road maintenance in rural areas through Tanzania Rural and Urban Roads Agency (TARURA).

▶ Fuel levy

- Increase of fuel levy to TZS 250/ltr (from TZS 150/ltr) . This is also designed to mitigate contaminations of fuels due to increase of road and fuel tolls on petrol and diesel.

Telecommunications

▶ Mobile money transaction levy

- Proposed imposition of levy on mobile money transactions upon sending or withdrawing money. The amount of levy will vary depending on value of transaction

▶ Sim card levy

- Imposition of a levy of between 10 shillings to 200 shillings per day per SIM card depending on the ability of the user to recharge the balance. It is unclear how this levy will be determined and its potential effect on digital access

Property Tax

- ▶ For efficiency and effective collection of property tax, the Minister has proposed that the property rate is embedded in the electricity bill or prepaid meter.
- ▶ Rates proposed are as follows:
 - TZS 1,000/month on ordinary building with one meter;
 - TZS 5,000/month for every storey building/apartment with one meter.

Note that Government will make Regulations to clarify on properties with a shared meter or single properties with more than one meter

Other Changes

- ▶ **Amendments of Various Fees and Levies imposed by Ministries, Agencies, Regulatory Authorities, Regions and Independent Departments**

The Minister has proposed to amend rates of fees and levies charged by Ministries, Agencies, Regulatory Authorities, Regions and Independent Departments in order to review the rates to reflect the current values taking into account the inflation and value for money



Personal Number Plates

- ▶ Reduction of personalised Plate Number Registration fee from TZS 10,000,000 to TZS 5,000,000 for every three years (by amendments of the Motor Vehicle (Tax Registration and Transfer) Act, CAP 124).

- ▶ **The Road Traffic Act**

Reduction of the road fines for offences to motorcycles and three- wheelers motorcycles (bajaji) from TZS 30,000/= to TZS 10,000/= for each offence committed

- ▶ **Streamlining of various fees and Levies - Implementation of the Blueprint for Regulatory Reform**

- As a move to continue with the implementation of the Blueprint for Regulatory Reforms 2017 “the Blueprint”, the Government is proposing amendments to various fees and levies with in order to improve the business environment by abolishing nuisance ones, reduce rates or integrated payments charged by more than one organisation.



ADMINISTRATIVE AND OTHER CHANGES

Administrative And Other Changes

► Penalties for non-filing of monthly returns for Non-Citizens

- Proposed amendments under the Non Citizen (Employment Regulation) Act, 2015 include:
 - Imposition of a penalty of TZS 500,000 per month for failure to submit monthly returns to the Labour Commissioner
 - Imposition of 12 months imprisonment or a fine of TZS 10,000,000 as a sanction for failure to submit monthly return

► Immigration Department

- Proposed changes include:
 - Visa fees to be retained by the union party (Mainland Tanzania, or Zanzibar) which collected the fee (as opposed to the current practice where visa fees are collected by both parties).
 - Abolition of student visa/pass fee for higher learning institutions students in Tanzania- Mozambique exchange Programme (TAMOSE).

Initially only students coming from EAC countries were exempted from paying the student visa/pass fee.

The Land Rent Act, CAP 113

- ▶ In order to encourage land occupancy, The Minister has proposed the following revised premium rates;
 - Reduce premium rate from 2.5% to 0.5% for new land occupancy
 - Reduce premium rates from 1% to 0.5% on regularizing land
- ▶ **The Societies Act, CAP 337**
- ▶ Proposed amendment to several fees paid to the Registrar of Societies and includes;
 - Introduction of fees for application of new certificate of registration of societies when damaged, application for change of physical address etc
 - Increase of several existing fees such as application for registration of the Society, change of the constitution of the society and change of the name of the Society.

ABOUT THE PRESENTERS



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