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Global Tax Alert

Tanzania's Parliament passes Finance Bill, 2020

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Executive summary

On 11 June 2020, Tanzania's Minister for Finance and Economic Planning presented the 2020/21 budget.

On 12 June 2020, the Tanzanian Parliament passed the Finance Bill, 2020. The proposed *Finance Act, 2020* is subject to the President's assent.

This Alert highlights certain key changes proposed by the Finance Bill, 2020.

Once the *Finance Act, 2020* has been assented to by the President, a comprehensive Alert covering all the changes in the tax laws will be issued.

Detailed discussion

Income Tax Act, CAP 332

The following changes will be made to the Act:

- Amendment of Paragraph 2(2) of the First Schedule to the Act to increase the threshold of employment income not liable to tax from TZS2,040,000 to TZS3,240,000 and adjustment of income brackets as follows:

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Current rates

Annual total income (TZS)	Income Tax
Where total income does not exceed TZS2,040,000	NIL
Where total income exceeds TZS2,040,000 but does not exceed TZS4,320,000	9% of the amount in excess of TZS2,040,000
Where total income exceeds TZS4,320,000 but does not exceed TZS6,480,000	TZS205,200 plus 20% of the amount in excess of TZS4,320,000
Where total income exceeds TZS6,480,000 but does not exceed TZS8,640,000	TZS637,200 plus 25% of the amount in excess of TZS6,480,000
Where total income exceeds TZS8,640,000	TZS1,177,200 plus 30% of the amount in excess of TZS8,640,000

Proposed rates

Annual total income	Income Tax
Where the total income does not exceed TZS3,240,000	NIL
Where the total income exceeds TZS3,240,000 but does not exceed TZS6,240,000	9% of the amount in excess of TZS3,240,000
Where the total income exceeds TZS6,240,000 but does not exceed TZS9,120,000	TZS270,000 plus 20% of the amount in excess of TZS6,240,000
Where the total income exceeds TZS9,120,000 but does not exceed TZS12,000,000	TZS846,000 plus 25% of the amount in excess of TZS9,120,000
Where the total income exceeds TZS12,000,000	TZS1,566,000 plus 30% of the amount in excess of TZS12,000,000

- Amendment of Section 3 to introduce new definitions of the words "beneficial owner;" "representative assessee;" "business connection;" and "agent of a nonresident person or of a beneficial owner."
- Amendment of Section 4(1) to impose income tax for each year of income on each representative assessee from or through whom a nonresident person is in receipt of any income, whether directly or indirectly.
- Amendment of Section 6(1) for the chargeable income of a resident assessee for a year of income from any business or investment considered to be the income of a nonresident or beneficial owner from a business or investment for the year of income deemed to accrue or arise in Tanzania.
- Amendment of Section 10 to grant powers to the Minister for Finance to provide an income tax exemption on strategic projects with an income tax liability of up to TZS1 billion without seeking approval from the Cabinet.
- Amendment of Section 12 to limit the allowable deduction of a realized foreign exchange loss on an interest-free debt obligation to 70% of such debt obligation.
- Amendment of Section 16 to allow a deduction of contributions made to the AIDS Trust Fund established under the *Tanzania Commission for Aids Act*.
- Amendment of Section 16 to allow a deduction of contributions made to the Government in the fight against COVID-19. The Minister for Finance shall publish a notice in the government Gazette stating the date when the deduction shall cease.
- Amendment of Section 19 to limit the chargeable income for the fifth tax year where a person has had unrelieved tax losses for the four previous consecutive tax years to not be reduced below 30% of the chargeable income before deduction of the carried forward tax loss.

- Amendment of Section 59(2) by including distributions of a trust or unit trust in the income of beneficiaries.
- Amendment of Section 69(i) to treat payments, including service fees, as sourced in Tanzania if the services are consumed in Tanzania irrespective of the place of performance and irrespective of the place of payment.
- Introduction of Section 69A to include income accruing or arising in Tanzania, whether directly or indirectly, through or from any business connection, property, asset, source of income under the source rule, or transfer of an asset situated in Tanzania to be deemed to accrue or arise in Tanzania and shall be taxed through a representative assessee of a nonresident person or a beneficial owner.
- Amendment of Section 83(1) to impose a 10% withholding tax on fees, commissions or any other charge paid to a commercial bank or a digital payment agent. Currently, withholding tax is only applicable on commissions paid to mobile money agents.
- Amendment of Section 90(1) to impose income tax payable by way of a single installment at the rate of 10% for residents and 20% for nonresidents on gains from the realization of a license or concessional right on reserved land.
- Introduction of Section 90(1A) to oblige taxpayers to report to the Commissioner General (CG) within 14 days from the date of realization of an interest in land, petroleum rights, mineral rights, buildings situated in Tanzania, shares or securities held in a resident entity, a license or concessional right on reserved land.
- Introduction of the definition of the phrase date of realization of an interest to mean the earlier of the date of:
  - Execution of contract for sale
  - Parting with possession, use or control of the realized asset
  - Payment of part or whole of the consideration for the realized asset
- Amendment of the Second Schedule to increase the maximum annual turnover of primary cooperative societies exempt to income tax from TZS50 million to TZS100 million per annum.
- Amendment of the Second Schedule to the Act to remove the exemption to income tax granted to "Class B" Special Economic Zone (SEZ) operators who produce for 100% local supply.

Value-Added Tax (VAT), CAP 148

- Amendment of the Schedule to the Act to provide exemption on agricultural crop insurance.
- Amendment of Section 68(3)(d) to remove restriction in claiming input tax credit on exportation of raw materials, raw forestry products, raw aquatic products and raw fauna products.
- Amendment of Section 59(3)(e) to include periods granted by the Commissioner for Customs for goods in transit to stay in Tanzania. Currently, goods in transit must leave the country within 30 days for ancillary transport services in relation to such goods to be zero-rated.

The Tax Administration Act, CAP 438

- Amendment of Section 44 to oblige a taxpayer to submit information to the CG within 14 days from the date of service of a request notice failure of which the taxpayer shall be precluded from using such information as evidence during the objection or appeal stages.
- Amendment of Section 51 to oblige an objector to submit all relevant information to be used as evidence at the time of filing a notice of objection.
- Amendment of Section 51 to require the whole amount of tax assessed to be paid before admission of an objection where the CG has reasonable cause to believe that the objector intends to permanently leave Tanzania.
- Amendment of Section 52 to oblige the CG to decide an objection within six months, failure of which the tax assessment or tax decision shall be treated as confirmed and the objector shall have the right to appeal to the Tax Revenue Appeals Board.

Vocational, Educational and Training Act (VETA), CAP 82

- Amendment of Section 14 to reduce the rate of Skills Development Levy (SDL) payable by employers with four or more employees from 4.5% to 4%.

The Excise (Management and Tariff) Act, CAP 147

- Amendment of the Fourth Schedule to introduce new excise rates to imported powdered beer and imported powdered juice.

Changes made in other laws

The following changes have been proposed:

- Amendment of the *Mining Act*, by introducing the requirement of applicants for new or renewal of mining license to have a taxpayer identification number (TIN) and tax clearance certificate from the Tanzania Revenue Authority (TRA) with the aim of promoting tax compliance.
- Amendment of the *Motor Vehicle (Tax Registration and Transfer) Act* to allow registration of special numbers for motor vehicles at a fee of TZS500,000.
- Amendment of the *Electronic and Postal Communication Act*, to exclude from the mandatory listing, telecommunication companies owned by the Government by 25% or more with the aim of preventing dilution of the Government interest in such companies.
- Amendment of the *Electronic and Postal Communication Act*, to exclude from the mandatory listing, telecommunication tower leasing companies.
- Amendment of the *Fair Competition Act*, to limit the non-compliance fine imposed by the Fair Competition Commission to 10% of the annual turnover that has a source in Mainland Tanzania. Currently, the maximum fine is 10% of global annual turnover.

The East African Community Customs Management Act (EACCMA), 2004[1]

The Ministers for Finance from the East African Community (EAC) Partner States agreed to effect changes in the Common External Tariff (CET) and EACCMA for the financial year 2020/21 on a number of items including:

- To grant duty remission and apply an import duty of 0% for one year on raw materials used by domestic manufacturers of items used specifically for diagnosis, prevention, treatment and management of the COVID-19 pandemic. Measures taken to support efforts of managing the pandemic.
- To grant duty remission and apply an import duty of 0% instead of 25% for one year on packaging materials used by domestic manufacturers of ultra-high temperature (UHT) milk. The aim is to reduce production costs and make the product affordable to consumers.
- To grant duty remission and apply an import duty of 0% instead of 10% for one year on corks used by local wine manufacturers. To grant duty remission and apply an import duty of 0% instead of 25% for one year on packaging materials used by local processors of coffee.
- To grant a stay of application of the EAC-CET rate of 10% and apply an import duty rate of 0% for one year on Cash Registers, Electronic Fiscal Devices (EFD's) and Point of Sale (POS) machines for use in Government revenue collection.
- To grant a stay of application of the EAC CET rate of 25% and apply an import duty rate of 35% for one year on the importation of Ceramic tiles. The aim is to protect local producers and increase employment.
- To grant a stay of application of the EAC CET rate of 25% and apply an import duty rate of 35% for one year on the importation of tea, whether or not it's flavored.
- To grant a duty remission and apply an import duty of 0% instead of 25% for one year on packaging materials used by local processors of cotton link.
- To grant a stay of application of the EAC CET rate of 0% and apply an import duty rate of 10% for one year on importation of cocoa powder.
- To continue to grant a duty remission and apply an import duty of 0% instead of 25% for one year on equipment and appurtenant used for polishing and heat treatment of gemstones.
- To continue to grant a duty remission and apply an import duty of 0% instead of 25% on raw materials used to manufacture baby diapers.
- To continue to grant a duty remission and apply an import duty of 0% instead of 25% for one year on packaging materials used by local producers of agricultural seeds.
- To continue to grant a stay of application of the EAC CET rate of 25% and apply an import duty rate of 35% for one year on roasted coffee.
- To continue to grant a stay of application of the EAC CET rate of 10% and apply an import duty rate of 10% or US$125/metric ton (MT), whichever is higher, for one year on flat-rolled products of iron or non-alloy steel and flat-rolled products of other alloy steel of width of 600mm or more.

- To provide an import duty exemption on supplies for diagnosis, prevention, treatment, and management of epidemics, pandemics and health hazards as recommended by the competent authority in the Ministry responsible for Health.
- To provide an import duty exemption on fertilized eggs for incubation imported by persons or entities engaged in poultry farming.
- To continue to grant a stay of application of the EAC CET rate of 25% or US$200/MT and apply an import duty rate of 25% or US$125/MT, whichever is higher, for one year on reinforcement bars and hollow profiles.
- To continue to impose an import duty of 35% instead of 25% on sugar (consumption sugar) imported under specific arrangements to cover shortages in the domestic market.

Endnotes

1. Changes to the EACCMA are not in the Finance Bill, 2020 but are proposed by the Council of Ministers for the EAC Partner States.

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