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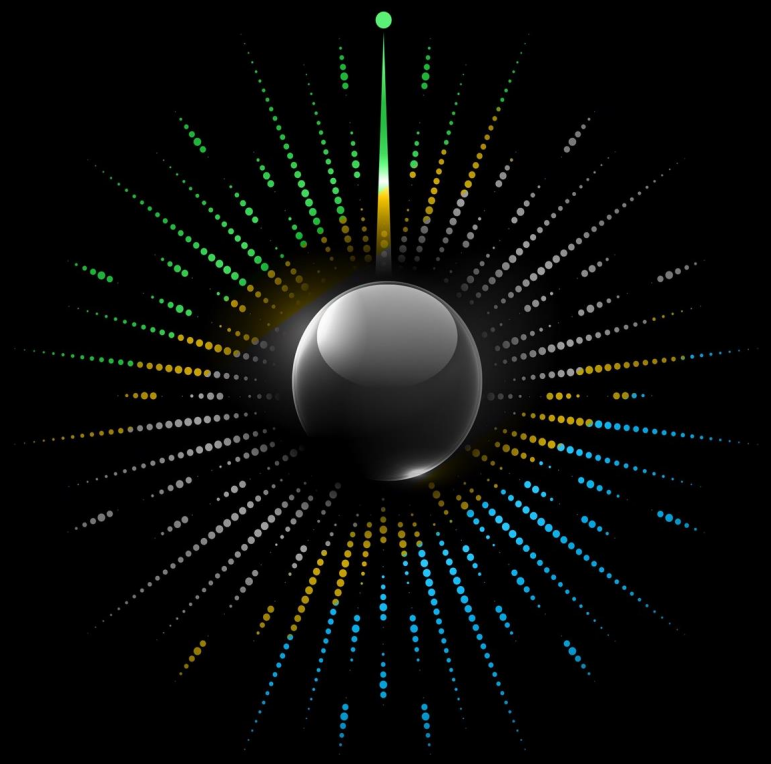


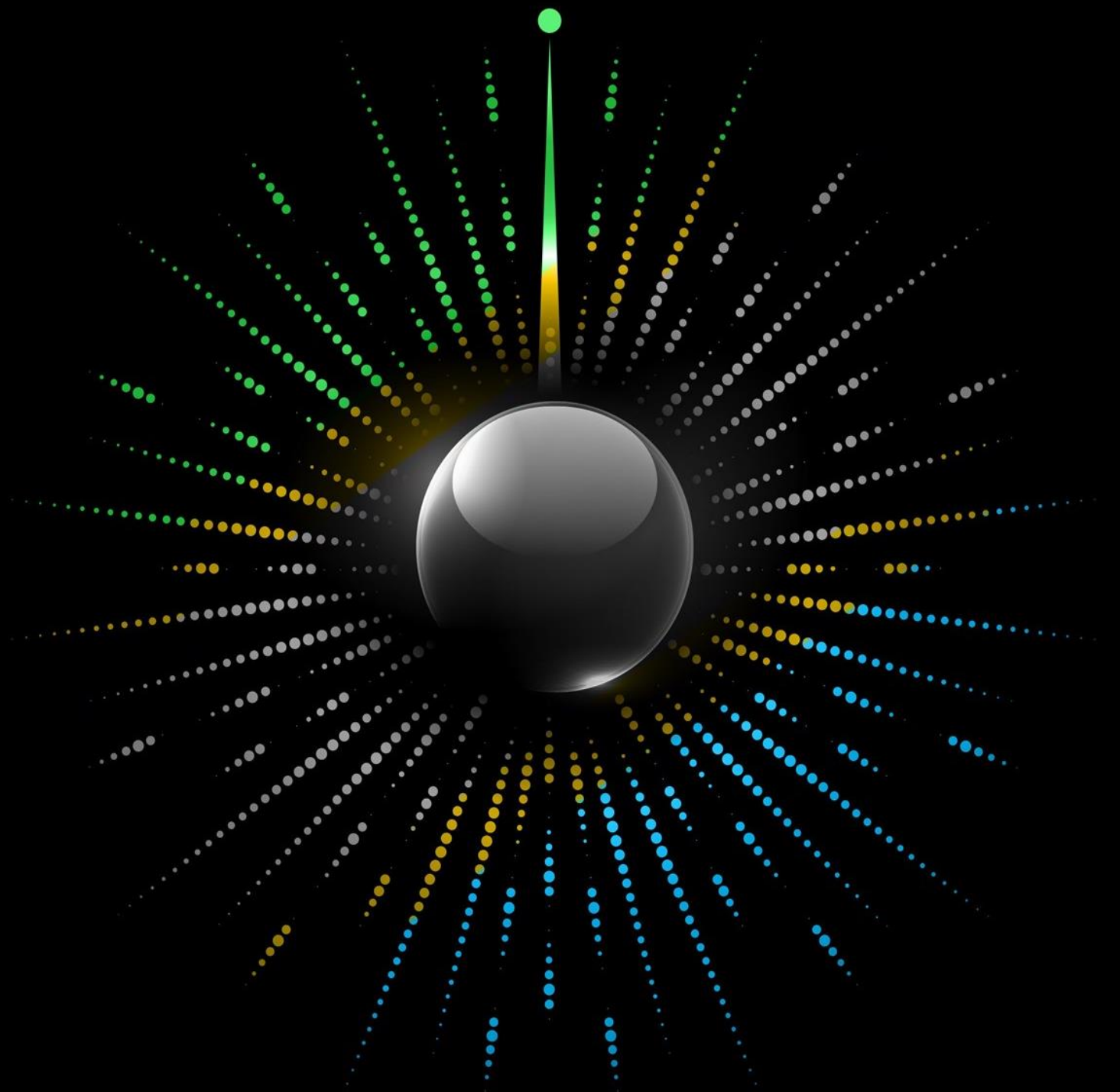
# Keeping you updated

# The Zanzibar Finance Act

The House of Representatives of the Revolutionary Government of Zanzibar passed the Finance Bill, 2024, which was subsequently assented to by the President of Zanzibar and Chairman of the Revolutionary Council on 27 June 2024, hence making it the Finance (Public Revenue Management Act), 2024 ("the Act").

This alert sets out a high-level summary of the key changes and specifications contained in the Act. The Act imposes various amendments to a number of laws which includes tax laws covering Indirect Taxes and Administrative Changes.

# Value Added Tax



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# Value Added Tax

## We outline the VAT amendments below.

| # | Amendments | Details | Our comments |
|---|---|---|---|
| 1. | Introduction of new definitions | The Act is amended to add new definitions under section 2 as provided below:<br>• Resident to mean an individual whose permanent home is in Zanzibar;<br>• Imported services to mean services supplied to a taxable person if the supply of the services is made by a non-resident;<br>• Exempt (in relation to a supply or import) to mean a supply or import that is specified as exempt under the VAT Act;<br>• Import to mean bringing or causing goods to be brought into Zanzibar from outside the United Republic of Tanzania. | • The definitions have been provided for the purpose of providing clarity and ensuring smooth implementation of the provisions of the VAT Act.<br>• The additional definition of resident does not cover corporations, and it is only limited to individuals. There is therefore room for clarification with respect to resident corporation and other legal persons. |
| 2. | Deletion of words in the interpretations of specific words | The Act is amended to delete words "or services" in the interpretation of the word "Transfer". | • This deletion has adopted for the purpose of providing clarity on what constitutes a transfer and ensuring smooth implementation of the provisions of the VAT Act. |
| 3. | Amendment of section 3 by allowing the Commissioner of Zanzibar Revenue Authority ("the Commissioner") to delegate his powers in respect of the administration and collection of VAT on electronic services of a non-resident taxable person to the Commissioner General of the Tanzania Revenue Authority (“TRA”) | • The Act amends section 3 by adding a new sub-section (5) as below:<br>*" (5) The Commissioner may delegate the powers or the performance of any duty imposed to him by the Act in respect of the administration and collection of Value Added Tax on electronic service of non-resident taxable person to the Commissioner General of Tanzania Revenue Authority or any person acting on his behalf."* | • This amendment is aimed at streamlining the imposition, administration, and collection of VAT on electronic services from non-resident taxable persons.<br>• We expect that there would be a mechanism for the TRA to remit to ZRA, the VAT collected on electronic services relating to Zanzibar. |



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# Value Added Tax

## We outline the VAT amendments below.

| # | Amendments | Details | Our comments |
|---|---|---|---|
| 4. | Introduction of a requirement to appoint a VAT representatives for non-residents carrying on economic activities leading to taxable supplies in Zanzibar without having a fixed place in Zanzibar. | The Act is amended to introduce section 4A as below:<br><br>*"4A.-(1) A non-resident taxable person who carries on economic activities in Zanzibar without having a fixed place in Zanzibar, and makes a taxable supply for which the non-resident is liable to pay value added tax shall:*<br><br>*(a) appoint a value-added representative in Zanzibar in accordance with the requirements set out in the regulations; and*<br>*(b) if required by the Commissioner, lodge a security.*<br><br>*(2) The value added tax representative shall be a resident and responsible for all provisions required to be done under this Act, which shall include:*<br>*(a) applying for registration or cancellation of registration and fulfilling other obligations in relation to registration; and*<br>*(b) paying any value added tax or any fine, penalty or interest imposed on the non-resident under this Act.*<br><br>*(3) The registration of a value added tax representative shall be in the name of the non-resident taxable person.*<br><br>*(4) The value added tax representative may represent more than one resident taxable person and such representative shall register for value added tax in respect of each represented non-resident taxable person."* | • This amendment is aimed at increasing VAT collections, especially from non-residents who are not registered for VAT in Zanzibar.<br>• It should be noted that from a VAT perspective, non-residents include businesses registered in mainland Tanzania. Thus, it is important for businesses from mainland Tanzania, especially those making taxable supplies in Zanzibar to be mindful of this change. |

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# Value Added Tax

## We outline the VAT amendments below.

| # | Amendments | Details | Our comments |
|---|---|---|---|
| 5. | Introduction of a deemed separation of businesses / economic activities carried out in Zanzibar versus those carried out outside Zanzibar. | • The Act is amended to introduce section 4B as below:<br><br>*"4B.-(1) Where a taxable person carries on economic activities at a fixed place in Zanzibar and at one or more fixed places outside Zanzibar:*<br><br>*(a) the person that shall be treated as two separate persons corresponding respectively to the economic activities carried on inside and outside Zanzibar;*<br>*(b) the person who is outside Zanzibar shall be deemed to have made a supply of imported services to the person inside Zanzibar consisting of any benefit in the nature of services that is received by the person in Zanzibar through or as a result of the activity carried on by the person outside Zanzibar; and*<br>*(c) the time of supply shall be determined on the assumption that a supply has been made.*<br><br>*(2) Where within twelve months from the time of making a supply referred to in subsection (1) of this section, the person outside Zanzibar makes an allocation of costs to the person inside Zanzibar in respect of the supply, the allocation of costs shall be treated as consideration for the supply.* | • The introduction of this section aims to set a distinction between the branches of the same company operating in different jurisdictions. Of specific note will be the entities that operate on both sides of the United Republic of Tanzania. There seems to be an intention to set an obligation for each branch (if operating on both sides of the Union) to account for supplies and purchases made during the period.<br><br>• Section 65 of the mainland Tanzania's VAT Act provided for the mechanism of how to separate supplies for persons carrying out activities inside and outside mainland Tanzania, so this change is just a replication of Zanzibar's part and aligning the application of the law.<br><br>• Businesses should be mindful of this changes as the TRA and ZRA may have the power to deem and allocate portions of costs to a connected person outside mainland Tanzania to a connected person in Zanzibar or elsewhere as a taxable supply and tax it at 18% for mainland Tanzania. |



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# Value Added Tax

## We outline the VAT amendments below.

| # | Amendments | Details | Our comments |
|---|---|---|---|
| 5. | Introduction of new section 4B *(continued)* | *(3) Where a supply referred to in subsection (1) of this section is a taxable supply, the value of the supply:*<br><br>*(a) where the provisions of subsection (2) of this section applies, shall be equal to the amount of the costs allocated, reduced by that part, if any, of the amount allocated that represents:*<br><br>*(i) salary or wages paid to an employee of the person outside Zanzibar; and*<br>*(ii) interest incurred by the person outside Zanzibar; and:*<br><br>*(b) in any other case, shall be assumed to have been made by a non-resident outside Zanzibar to a connected person in Zanzibar."* | • The provision merely clarifies that where the consideration is for the supply of services related to employees, such consideration shall include employee costs. |
| 6. | Amendment of section 8 to impose VAT at 18% on insurance and digital services.<br><br>Amendment of section 10 to add imports of the items mentioned in Second schedule to the Act. | The Act is amended to insert new words as provided below:<br><br>• Section 8 is amended to insert the words "insurance, digital", between the words "banking" and "postal".<br><br>• Section 10 is amended to insert the words "or import" after each word "supply" whenever it appears in the section. | • This amendment implies that insurance and digital services will now be imposed VAT at 18%<br><br>• Amendment of Section 10 is aimed at providing clarity that the exempted item under schedule 2, cover both local supplies and imports. |



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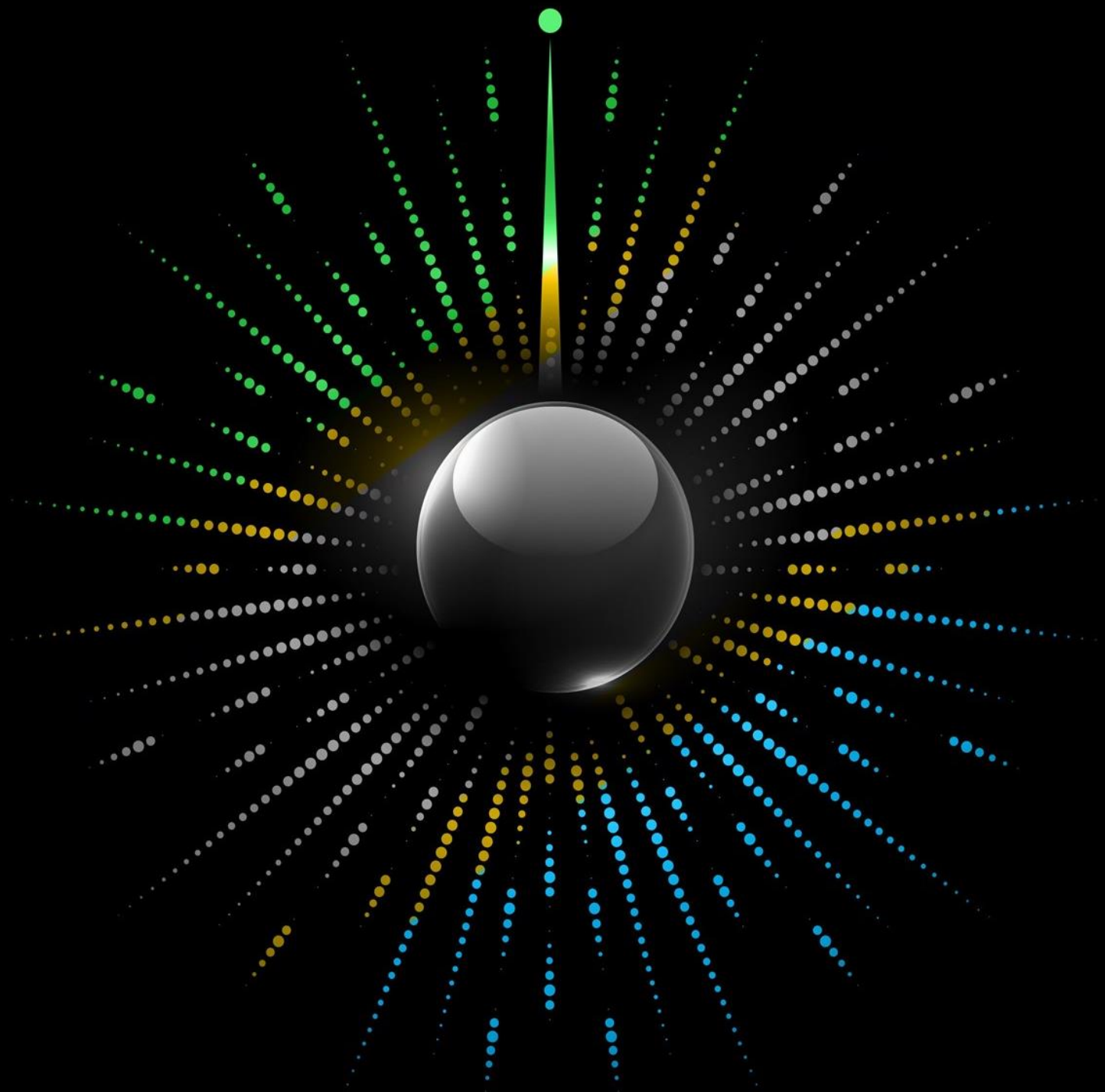
# Excise Duty



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# Excise Duty

## We outline the excise duty amendments below.

| # | Amendments | Details | Our comments |
|---|---|---|---|
| 1. | Introduction of requirement to stamp all imported excisable goods. | • The Act amends section 9 by introducing subsections (2) and (3) immediately after subsection (1) as provided below:<br><br>*" (2) The Head of Customs shall, for the purpose of controlling imported excisable goods, stamp all imported excisable goods at the time of importation in accordance with the laws governing the stamping of imported excisable goods*<br><br>*(3) For the purposes of this section, "stamp" means electronic tax stamp."* | • This is aimed at further strengthening the control of imported excisable goods by ensuring that they are stamped with electronic stamps upon importation. |



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# Miscellaneous Amendments

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# Property Tax Act

| # | Amendments | Details | Our comments |
|---|---|---|---|
| 1. | Change of due date for payment of property tax to 31 December of each year. | • The Act amends subsection (2) of section 10 of the Principal Act by deleting the words "the thirtieth of September each year, and the tax so paid shall expire on the thirtieth of June the following year in which the tax was due" and substitute them with the words "thirty first day of December each year". | • The amendment intends to change the date for payment of property taxes and remit them annually. Property tax will now be paid by 31 December of each year. |



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# Vocational Education and Training Act

| # | Amendments | Details | Our comments |
|---|---|---|---|
| 1. | Amending sections to align with the provisions of the Tax Administration Act No.10 of 2015 (TAA) instead of the Income Tax Act (ITA). | • The Act amends section 29 (4) by deleting the words "Income Tax Act" appearing at the end of the subsection and substitute them with the words "Tax Administration Act, No.10 of 2015".<br>• Furthermore, the Act amends section 30 (1) by inserting the words "the Tax Administration Act, No.10 of 2015" at the end of the subsection.<br>• Additionally, the Act amends section 31 (2) by inserting the words "the Tax Administration Act, No.10 of 2015 and" immediately after the words "provisions of". | • Section 29 provides for the penalty and interest upon failure to file returns and pay the skills and development levy. Prior to the amendment, the failure was dealt in accordance with the provisions of the ITA. However, it is the TAA that is the main administrative law.<br>• In the same manner, the summary recovery of the levy under section 30 and arising from the decision of the Deputy Commissioner shall be subject to the provisions of the TAA.<br>• The position of the law prior to the amendment was quite confusing as it left some provisions, particularly sections 29 and 30, obsolete and subject to multiple and unreconciled definitions. Therefore, the amendment is meant to subject Skills Development Levy within the proper administration of the TAA.<br>• Furthermore, the amendment of section 31 clearly stipulates the provisions governing the powers of the Deputy Commissioner. |



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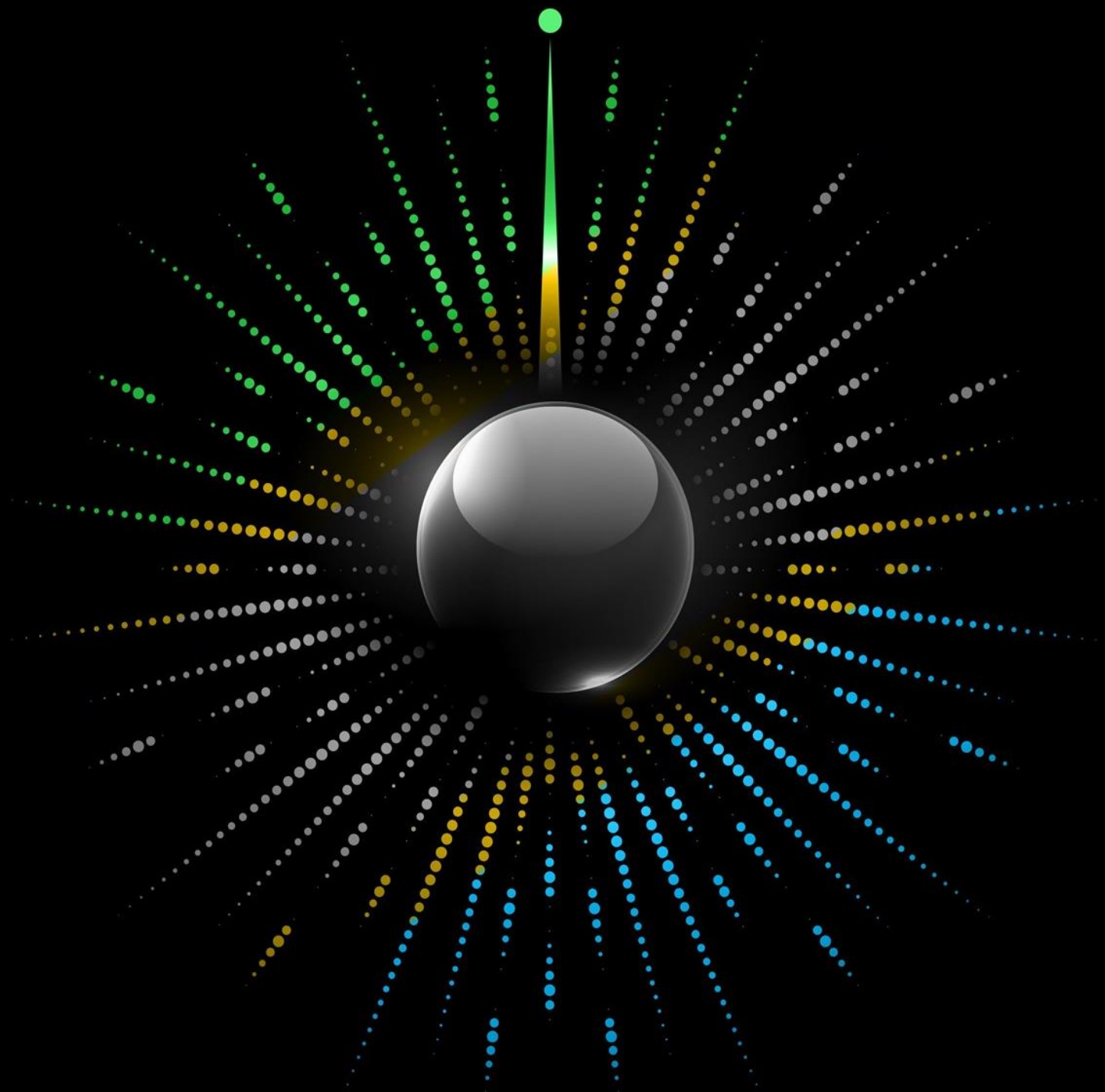
# Tax Administration



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# Tax Administration and Procedures Act

| # | Amendments | Details | Our comments |
|---|---|---|---|
| 1. | Amending the interest charged on unpaid tax due. | • The Act amends section 33 by inserting a new word "percent" at the end of subsection (2). | • This measure aims at clarifying the interest rate to be imposed on a tax amount that remains unpaid after the due date. The interest rate is imposed at Bank of Tanzania's lending rate at the beginning of each calendar year plus 5%. |

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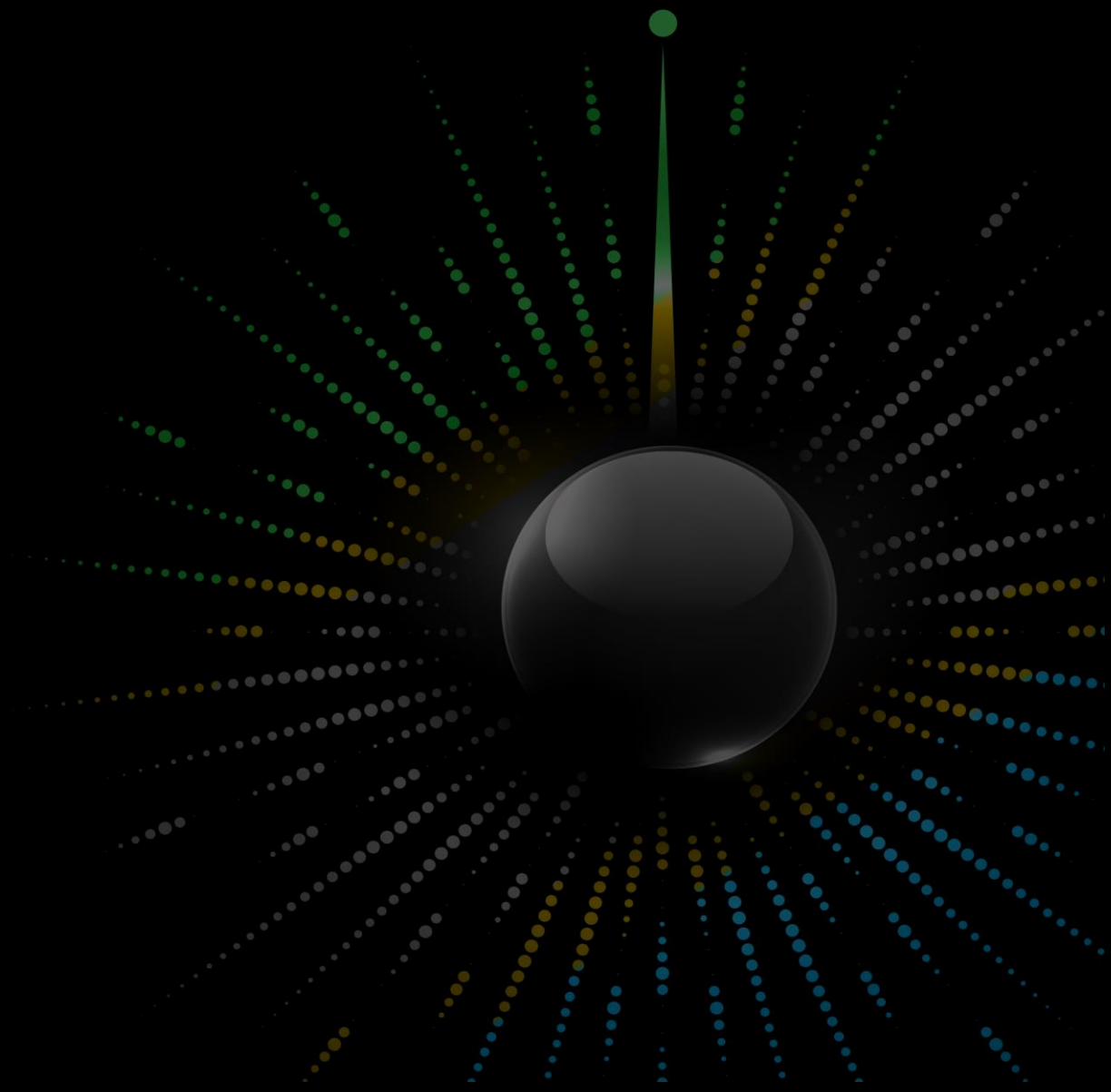

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