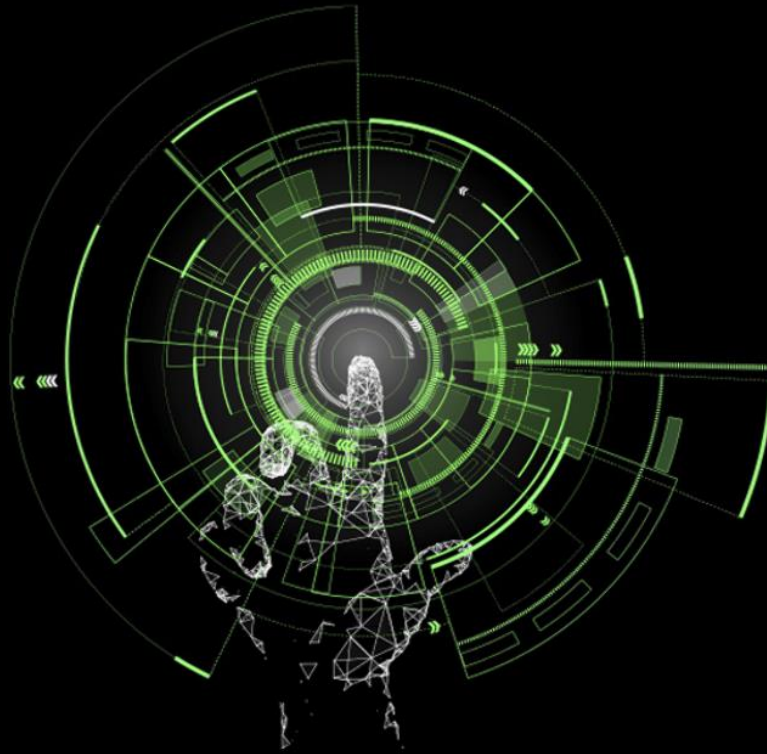


Tax & Legal Alert
February 2022



Keeping you in the loop

Introduction of the upgraded VAT Electronic filing system

On 4 February 2022, the Tanzania Revenue Authority (“the TRA”) issued a public notice informing taxpayers and the general public that it has upgraded the Value Added Tax (VAT) electronic filing system with the aim of simplifying the VAT filing processes. The upgraded system will be rolled out effective from 1 March 2022 and will be operational for the VAT returns from the month of March 2022 which are to be filed on or before 20 April 2022.

There are several foreseeable advantages, chief among them is the fact that the upgraded electronic filing system for VAT will now be on the same portal with other taxes. There are also some key issues for taxpayers to bear in mind, especially those with VAT credit as at the end of February as the credits will not be automatically carried forward to the March VAT return in the upgraded system.

In this alert, we summarize the key changes, advantages and key issues for consideration regarding the upgraded VAT electronic filing system.

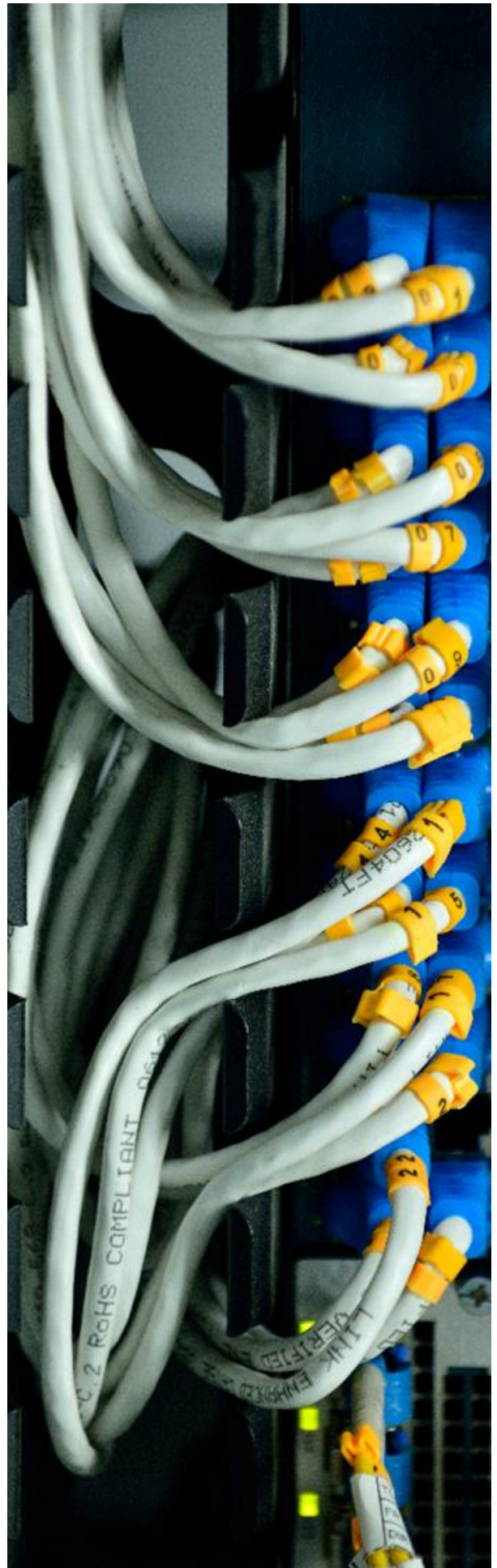
1. Introduction

In line with the recent drive for the TRA to leverage technology, particularly information technology to enhance the taxpaying experience, the TRA is rolling out an upgraded VAT electronic filing system.

2. Key features of the upgraded system

We are not aware of any prototyping experience by taxpayers with respect to the upgraded system. However, the following are some features of the upgraded system.

- Simplified filing of the VAT returns due to use of single e-filing account contrary to the current system where VAT returns are filed using a separate system. *The current e-filing portal is already accommodating Pay as You Earn returns, Skills and Development Levy returns, Corporate Income tax returns will accommodate VAT as well.*
- The system will accommodate adjustments resulting from occurrence of adjusting events. The current practice is that the taxpayer must write to the Commissioner General (CG) to notify the occurrence of adjusting events.
- The system will accommodate automatic apportionment of input tax for eligible taxpayers.
- The system will provide an acknowledgement of receipt of return and assessments will be issued immediately after filing of the VAT return.
- The system will increase simplicity in the number of information relating to the input invoice that needs to be keyed in. In the upgraded system, one would only enter the verification code of the tax invoice/fiscal invoice and other details will capture directly, contrary to the current system whereby we are required to enter various details such as name, Tax Identification Number, details, amount etc.



3. Issues which should be noted by the VAT registered taxpayers

As per the TRA notice, the system is tailored to accept the following features of the invoices / receipts and Tanzania Single Administration Documents (TANSADs) for claiming input tax

- The system will only accept EFD receipt / invoices with the verification code for input tax claim. The receipts without verification code shall not be accepted effective from the return of the month of March 2022.
- The system will only accept receipts / invoices with buyer's TIN for input tax claim.
- The system will only accept input tax claim on imports supported by valid TANSADs and the system will do an automatic verification of the TANSADs.
- The system will not automatically carry forward the negative net amount originating from period prior to its implementation. For the negative net amount to be accounted for in the March 2022 VAT return, the amount should be verified and get an approval from the TRA.

3) What should be done by VAT registered traders

- a) All VAT registered traders with the negative net amounts (refundable position) should immediately apply for VAT refund (for those eligible) or notify the TRA about their position for an audit or verification before the same can be carried forward in the March 2022 VAT return which will be filed in the upgraded system.
- b) VAT registered traders who are yet to upgrade their EFD Machines to protocol 2.1 should upgrade to be able to issue invoices / receipts with verification codes. Also, VAT registered traders should make sure that they receive from their suppliers' invoices/receipts with verification codes to be able to claim input VAT.
- c) VAT registered traders should avoid using invalid receipts/ invoices or TANSAD to avoid inconveniences which may arise during the filing of the VAT returns.
- d) When making VAT payments, VAT registered traders should use tax debit numbers generated from the online VAT assessment.

4. Areas which my need more clarification from the TRA

While this is a welcomed development, we foresee transition glitches. It is therefore best to proactively prepare so that those challenges that can be mitigated.

Although the TRA has explained that they will issue periodic guidance and conduct trainings to taxpayers and other stakeholders, the following are areas we consider needing clarity.

a) Sufficiency of time to verify all negative net amount for all VAT registered traders.

It is not certain whether the TRA will be able to process all applications / notifications for verification of credits within the prescribed period considering the volume of VAT registered traders.

At the moment we encourage taxpayers to make their application as soon as practicable.

b) Accounting for imported services in the VAT returns.

The notice has not explained which details on the imported services invoices will be considered sufficient for one to include in the VAT returns. It is also not clear whether the system will be able to do the adjustments relating to imported services i.e., accounting both as input and output (reverse charge)

c) Whether the system will be able to capture the negative net amount for February 2022 in case verification is not completed before the due date for March 2022 VAT return.

Whilst the TRA indicates that only verified negative net amount for the month of February 2022 will be carried forward to March 2022 VAT return, it is not clearly stated what will happen in an event where the verification exercise has not been completed on time, i.e., will the taxpayers still be able to carry forward the negative net amount on the VAT return of March 2022, or in the subsequent months?

d) System related capacity constraints

The current system includes filing of returns and assessment of tax payable for Pay as You Earn (PAYE), Skills and Development Levy (SDL) and Corporate Income Tax (CIT). There have been times where the system was overloaded, especially on due dates as a result of the volume of information being uploaded.

This can result to unnecessary late payment and late filing penalties and interest.

In the meantime, we advise taxpayers to file their returns early to avoid such challenges as the TRA seeks to resolve such challenges as and when they appear.

e) How to claim input VAT for invoices received from suppliers who do not issue invoices with verification codes e.g., TANESCO, NHC

Clarity is required on appropriate documents required to enable taxpayers to claim input tax for utility bills which does have invoices/receipts with the verification codes. For example, electricity bills from TANESCO and rent invoices from National Housing Corporation (NHC).

f) Requirement to have buyers' TIN on an invoice for one to be able to claim input tax

In the public notice the TRA indicates that only receipts/invoices with buyers' TIN will be accepted to claim input tax credit. This is contrary to the provision of Section 86 of the VAT Act which stipulates that, for supplies exceeding the minimum amount of **TZS 100,000** to be claimable, the invoice/receipt must have the details including Tax Identification Number, VAT Registration Number etc.

This implies that, it is not a must for supplies which do not meet the minimum amount to have the TIN for it to be claimable. It is therefore important to have clarification on this aspect.



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