



Tanzania's amended Value Added Tax Regulations

Highlights

- The threshold for deferment of VAT on capital goods in respect of each unit is now TZS 10 million (Approx. 4,300 USD), from the original TZS 20 million (8,600 USD).
- The value of supplies of imported services now forms part of the apportionment of input tax by a supplier of financial services.
- Financial services for which no consideration (fee) is charged are exempt from VAT.
- A supplier of financial services is required to issue periodic statements to customers.
- Manufacturers of goods supplied from mainland Tanzania to Zanzibar have to produce specified documents to warrant zero rating of such goods.

Introduction

The Value Added Tax (General) (Amendment) regulations, 2018 that came into force on 19 October 2018 amends the **Value added tax (General) Regulations, 2015**. There is a particular focus on VAT implications for financial services, but the amendments address other industries as well.

We summarise below the key changes/issues brought about by the amendments.

1. Deferment of Value Added Tax (VAT)

The threshold for deferment of VAT on imported capital goods has now been reduced to TZS 10 million (Approx. 4,300 USD). Previously, approval could only be granted if the VAT payable was at least TZS 20 Million (Approx. 8,600 USD).

The reduced threshold will now cover a wider range of capital items and will reduce cost of capital. Importers who qualify for VAT deferment will no longer enjoy the VAT exemptions for importation of machineries for manufacturing vegetable oil, textiles, pharmaceutical and leather products. This is likely to impact the manufactures in the above named sectors since capital equipment and machinery which would have qualified for VAT exemption but valued less than TZS56million (VAT less than TZS10million) will no longer enjoy exemption i.e., will be subject to VAT at 18%.

2. Apportionment of input tax

The amendments to the regulations seek to clarify the apportionment of input tax in accordance with section 70(1) of the VAT Act, 2014.

A supplier of both taxable and exempt supplies is required to apportion input tax incurred in respect of supplies made to him.

To determine the apportionment of input tax a taxpayer needs to allocate the total input tax to different categories:

- A. Input tax directly attributable to taxable supplies;
- B. Input tax attributable to exempt supplies; and
- C. Input tax attributable to both taxable and exempt supplies in a given tax period.

A taxable person may claim the whole of input tax directly attributable to taxable supplies but is not allowed to claim input tax directly attributable to exempt supplies.

The taxpayer must apportion input tax attributable to both exempt and taxable supplies in line with the formula provided under the Value Added Tax Act, 2014.

For some taxpayers it may not be practical to perform the separation and therefore they may have to continue using the general formula provided under section 70.

Where a taxable person has conducted an economic activity for a period of less than 12 months, the accounting year may be adjusted for the purpose of the annual adjustment of input tax credit.

3. VAT on financial services

The regulations seeks to provide further clarity on VAT on financial services by defining the terms below as;

- **Payment system** means a facility consisting of payment instruments, banking and transfer of money procedures, interbank funds transfer system or payment system provider's systems that ensure the circulation of money.
- **A payment service** means service of money transfer through payment system.
- **A supplier of financial services** is a person who provides any financial services as prescribed in the Value Added Tax Act, 2014.
- The regulations further excludes the following services from financial services:
 - Safe custody for money or documents
 - Brokerage services
 - Debt collection or factoring services
 - Legal, tax agency services including tax advisory services
 - Accounting, record packaging services.

Clarity on exemptions for financial services for which no consideration is charged.

Financial services for which no consideration is charged are exempt from VAT. However, supplies in relation to a payment system or for a payment service is not exempt if consideration is based on a fee.

Apportionment of input tax by supplier of financial services.

A supplier who makes both taxable and exempt supplies is required to apportion input tax in accordance with the formula:

$$\frac{IXT}{A}$$

Where;

T= Total value of taxable supplies (standard + zero rated) excluding VAT

A= Total value of all supplies (standard rated + zero rated + exempt) excluding VAT

I = Total input tax for which credit is claimed in the tax period.

Key to note is that;

- When calculating taxable supplies (T) and total supplies (A), the **net interest** amounts shall be used for financial intermediation services while the **gross figures** shall be used for supplies other than financial intermediation services.
- The value of supplies of imported services do not form part of the total value of taxable supplies (T) but are included in the total value of all supplies(A)

4. Requirement for supplier of financial services to issue periodic statements

A supplier of financial services is required to issue periodic statements to its customers within 10 days following the end of the month to which the tax period relates.

The statements shall be considered as tax invoices but do not necessarily have to bear the words "tax invoice" in the header or have sequential numbering.

Where the supplier of financial services transacts with a taxable person, the periodic statement must include:

- Name, address, Tax payer Identification number (TIN) and VAT registration number (VRN) of the service provider and the customer;
- Date of the periodic statement;
- Description and value of each transaction listed on the periodic statement;
- Total consideration, excluding VAT for the listed transactions;
- Applicable VAT rate and total VAT charged; and
- Total price payable by the recipient of the service.

A taxable person who has incurred input tax in relation to a supply of financial services in a particular period shall only be allowed to claim input tax if he is in possession of the periodic statement at the time of filing the return.

5. Transfer of goods between mainland Tanzania and Zanzibar

Goods manufactured in Zanzibar and transferred to Mainland Tanzania shall be subjected to normal customs procedure for clearance and payment of taxes.

To enjoy zero rating for locally manufactured goods transported from mainland Tanzania to Zanzibar, the Regulations specify that the manufacturer must produce the following documents to prove that the manufactured goods were indeed supplied to a person registered under the VAT law administered in Zanzibar.

- Tax invoice generated by electronic fiscal device (EFD);
- Landing certificate;
- Single Administrative Document;
- Transire; and
- Certified copy of VAT registration certificate of the customer.

6. Key Take aways

- The reduced threshold for deferment of VAT (temporary postponement of paying VAT) on importation of capital goods is likely to lower capital investment costs for businesses.
- The Regulations have made the long-awaited clarifications on VAT on financial services. It has also been made clear on what constitutes a financial service. Of particular note, the challenge faced by financial services providers as regards issuance of valid receipts is likely to be resolved by way of the periodic statements.
- There is the zero rating benefits enjoyed by transporters of goods from mainland Tanzania to Zanzibar if they meet the specified documentation conditions. However there it is not clear on how those who transport from Zanzibar to mainland Tanzania stand to benefit
- The regulations are unfortunately silent on VAT on insurance services (claiming of input tax and accounting for output tax on insurance claims)

- There is uncertainty on the use of the general formula for apportionment of input tax mainly because the word "shall" has been used in the regulation which means, all taxpayers must separate different categories of input tax as provided under amended regulation 27. Therefore, more clarity may be required in this area.
- The exclusion of imported services from the numerator (T) in the formula for the ratio of input tax claim may mean that financial services providers will be unable to claim significant portions of their input tax. More clarity would be required as this change will put financial services providers at a disadvantaged position compared to other tax payers who have imported services.

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