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TRA UPGRADES THE EFDMS SYSTEM

Introduction

On 7th December 2020, the Tanzania Revenue Authority (TRA) published a directive with respect to upgrading of the Electronic Filing (E-Filing) system for the VAT monthly returns. The improvements/upgrades in the EFDMS system ("System") will be facilitated by the introduction of a new program known as Protocol 2.1.

This is a commendable move from the TRA in terms of digitisation of the tax administration and bringing in tax efficiencies to make it easier for the taxpayers to comply with the laws and regulations.

The alert serves as a summary of the key matters to be noted by all traders in respect of the said system upgrade. We summarise below the key points and the actions to be taken by the traders:

Purchase of New Electronic Fiscal Device (EFD)

The introduction of the new Program (Protocol 2.1) will require upgrading of the EFD machines to accommodate new requirements. The major addition to the EFD receipt will be the embedded QR code i.e. Receipts issued from the upgraded EFDMS will have an embedded QR code to verify the genuineness of the receipt.

Introduction of embedded QR code will capture every single receipt on the EFDMS of TRA unlike previously whereby only the summary of the trader's daily sales could be captured via the daily Z-report sent to the TRA at the end of the day.

All traders should consult the approved EFD suppliers to confirm whether the machines currently being used can be upgraded to meet the requirement of the new EFDMS system.

Where the EFD machines cannot be upgraded to accommodate the requirement of the embedded QR code, the traders will be required to purchase a new EFD machine which meets the requirements of the upgraded System from an authorised EFD vendor.

Deadline on New EFD Purchase

All traders who are in possession of EFD machine(s) that do not meet the requirements of the upgraded system should acquire new EFD machine(s) on or before the 6th January 2021 (30 days from the publication of the said notice).

Alternative Integration to the Upgraded System

Traders can also use computers, Point of Sale (POS) and any relevant machine capable of connecting to the EFDMS system for the purpose of alternative integration to the upgraded System without having to acquire a new EFD. We also understand that selected vendors have been authorized to issue VFD (Virtual EFD) whereby physical machines will not be required and the VFD system can be integrated with selected accounting / invoicing system.

Purchase Cost Reimbursement

Traders shall be entitled to full reimbursement of the cost of the EFD machine either through claiming the same as a VAT rebate or by deducting the purchase price of the EFD machine from the income for the respective year of income according to the relevant provisions of the Income Tax Act (ITA), 2004.

Advantages and challenges

Advantages

(a) Ability to verify the genuineness of the receipt – with the introduction of the embedded QR code on the receipts, the taxpayers will be able to ascertain the authenticity of every receipt.

(b) We also understand that the upgraded E-filing system on the VAT returns would only allow taxpayers to claim input VAT credit for receipts with the “receipt verification code” which is verified by the EFMDs.

(c) Efficiencies in the tax administration system and collections—the introduction of the new system will bring in efficiency in the tax administration system and result in cost savings as well. The verification of the input tax credit by the system before allowing the same will not only save time spent by the authority in manual verification of the receipts but also make it easier for the taxpayer to comply with the Laws and Regulations. The upgrade may as well speed up the process of the VAT refunds where the taxpayer is in a receivable position.

(d) Fading of receipts – there have been challenges in the past on the tax administration of the input tax credits claimed by the taxpayers which are supported by faded receipts or photocopies of the original invoices. Such credits have been disallowed previously. However, we believe that the introduction of the receipt verification code (QR code) on every receipt will minimise such disallowances as the input tax credits will only be eligible if supported with the receipt verification code.

While the receipt verification code may suffice for the input tax credit, we also recommend that photocopies of the EFD receipts be taken as they tend to fade over time.

Challenges

(a) Deadline on upgrading of the machine – given the limited capacity with the number of certified vendors, there could be challenges for all taxpayers to meet the deadline stipulated of 6th January 2021 to upgrade the EFD machine or acquire a new machine.



(b) Credit notes – since the inception of the EFDMS system, there have been challenges on the issuance of credit notes (reversals or cancellation of invoices). While the EFDMS caters for capturing the sales, it does not allow for reversal/ cancellation of invoices. Hence, the way forward with the credit notes on the EFDMS and the VATE-filing upgrade is yet to be clear. We understand the downward adjustments resulting from credit notes will continue in the same manner as it is done now.

(c) Cost implications – While the notice stipulates that the purchase cost will be an eligible deduction from a corporate tax perspective and the traders will be eligible to claim a VAT credit on the purchase as well, the cost of acquiring new machines may be punitive for small scale traders who are not VAT registered.

Way forward

Where the trader acquires a new machine, the replaced EFD devices are required to be submitted to TRA office. We recommend a letter be submitted along with the EFD machine as a proof of submission of the same and for future records.

It is imperative that all traders adhere to the published directive as failure to do so within the stipulated timeframe will be deemed as an offence inciting legal action from TRA including but not limited to penalties and interest.

Further, it is vital to take note of the requirements stipulated under S.86 of the VAT Act on Tax Invoice. When issuing and obtaining receipts, taxpayers should ensure all the required details such as the name, address, TIN and VRN of the buyer and the seller's details are adequately captured on the receipt in order to claim the input VAT, if any.

Until now, the system of deactivating the existing devices was to go to the vendor who would deactivate and report to TRA and the trader also wrote to TRA stating that the machine has been deactivated. Now we read about submitting devices to TRA. In that case who will deactivate these and how will the trader ensure the device is not misused if not deactivated?

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