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TANZANIA FINANCE ACT, 2022

Further to our newsletters on the budget speech and the Finance Bill 2022 issued on 14th June 2022 and 20th June 2022, the following changes have been assented by the Parliament vide Finance Act 2022 issued on 30th June 2022. The Act shall be effective 1st July 2022.

While the Finance Act entails changes in various laws, we have only covered the changes in tax laws and other revenue laws in this newsletter.

Income Tax Act

Proposals from Speech and Bill passed in the Finance Act:

- Taxation of digital market services rendered by non-residents at the rate of 2%.
- Recognition of alternative finance arrangements approved by the Bank of Tanzania where by any margin charged on the cost of the arrangement shall be treated as interest.
- Conferring powers to the Minister for Finance to exempt income tax on special strategic investment approved by the National Investment Steering Committee under the Tanzania Investment Act.
- Expansion of the scope of residential status for corporation to include management and control exercised through any electronic means.
- Expansion of source of payments emanating from Tanzania by including payments made for harnessing, generating or utilizing land, air or water natural resources for generation of power or anything of value whether the respective natural resource is located alongside the border or within the country.
- Exemption from withholding tax obligation on interest paid to the holder of corporate or municipal bonds issued and listed in the DSE with effect from 1st July 2022.
- Introduction of withholding tax on all payments made by individuals who are not conducting business. The Act has repealed the entire exemption under Section 82 of the Income Tax Act, which implies that any payment made by an individual in relation to rent, interest, natural resource payments and royalty, shall be subject to withholding tax.
- Limitation of the scope of individuals under the presumptive tax system to exclude individuals conducting business of professionals, technical, management, construction and training services
- Amendment of the presumptive tax rates from 3% to 3.5% on turnover exceeding TZS 11 million but not exceeding TZS 100 million.
- Reduction of withholding tax rate from 15% to 10% on payments made for the use of, or right to use, a cinematography film, videotape, sound recording or any other like medium. The Finance bill clarified that this new rate would apply on the payment made to non-residents. However, the Act has not provided a separate specification. Hence, the revised rate of 10% shall apply to

payments made to both resident and non-residents.

- Exemption of income tax on amount derived from gain on realisation or transfer of mineral rights and mineral information to a partnership entity formed between the Government and an investor.
- Exemption of income tax amount derived from gain on realisation or transfer of free carried interest shares from a partnership entity to the Government.
- Exemption of income tax on amount derived from gain on realisation or transfer of shares to the Government through the Treasury Registrar.

Further changes and clarifications in the Finance Act

Change in the definition of “Equity”

The definition of “Equity” has been amended to include only paid up share capital at the end of the financial year. It should be noted that prior to this change, the term “Equity” included, paid up share capital, share premium, and retained earnings.

Restricting the definition of equity to only paid up share capital would have a significant impact in terms of complying with the thin capitalization rule. That is to say, exempt controlled resident entity shall not be eligible to claim interest deduction in excess of the debt to equity ratio of 7:3.

Advance tax on passenger and load vehicles

While the Finance Bill proposed the introduction of a flat tax of TZS 3,500,000 for long distance buses with seating capacity of at least 40 passengers and load vehicles with lorry having axles above three **owned by resident individuals**, the Finance Act has provided further clarify and expanded the scope to include all resident persons i.e. all resident entities as per the table:

Category of Vehicles	Tax Payable (TZS)
Category A: Goods Vehicle	
Load Vehicle between 0 – 1 Tonne	180,000
Load Vehicle between 1– 5 Tonnes	450,000
Load Vehicle between 6 – 10 Tonnes	720,000
Load Vehicle between 11– 15 Tonnes	1,710,000
Load Vehicle between 16 – 20 Tonnes	2,430,000
Load Vehicle between 21– 25 Tonnes	2,610,000
Load Vehicle above 25 Tonnes	2,790,000

Category B: Passenger Vehicle	Tax Payable (TZS)
Bus and other similar vehicle with seating capacity below 10 passengers	180,000
Bus with seating capacity above 10 but below 16 passengers	450,000
Bus with seating capacity from 16 up to 30 passengers	720,000
Bus with seating capacity up to 32 passengers	1,710,000
Ordinary bus	2,430,000
Semi-luxury bus	2,610,000
Luxury bus	2,790,000

The tax paid shall be treated as advance tax and the taxpayer shall be entitled to tax credit while filing both provisional and final tax returns. Whilst the move is intended at boosting the Government collection through timely payment of tax, this will impact companies in a loss-making position since it will result in accumulated overpaid taxes.

Tax paid in Tanzania Mainland to be treated as tax credit in Tanzania Zanzibar and vice versa

The Finance Act has added Section 77A, that will allow a resident person who carries out business or investment in both Mainland Tanzania and Zanzibar to claim tax credit in respect of the income tax paid in Mainland Tanzania or Zanzibar, as the case may be.

Value Added Tax

Proposals from Speech and Bill passed in the Finance Act:

- Recognition of alternative financing products approved by the central bank (BOT) other than conventional financial products. Further, the Minister of Finance has been granted the power to make regulations in relation to the manner and procedures of dealing with alternative financing products approved by BOT.
- Grant the Minister responsible for Finance, the powers to exempt VAT on strategic investors after approval by National Investment Steering Committee (NISC).
- Deferment of VAT for a period of 10 years on capital goods including trailers and semi-trailers; other vehicles, not mechanically propelled; parts thereof (HS Code 87.16) and unassembled tractors under HS Code 8701.20.90.
- Registration of non-resident digital service providers.
- Exemption of VAT on:
 - agricultural implements including ear tag, ear tag applicators, automatic turning table, stunning box and lessor beam machines;
 - agro nets;
 - dairy products including unpasteurised or pasteurised cow and goat milk with additives and long-life milk;
 - Standing trees;
 - fishing hooks, reels and lines;
 - dairy packaging materials;
 - arms and ammunition, parts and accessories thereof, equipment and machineries for the official use of the armed forces;
 - meteorological equipment and instruments imported by Tanzania Meteorological Agency (TMA);
 - supply of double refined edible oil from locally grown seeds by a local manufacturer for a period of one year from 1st July 2022 to 30th June 2023. While the Finance Bill proposed zero-rating of double refined edible oil, the Act categorises these under exempt supplies;
 - supply of raw materials and packaging materials solely and directly used by a local manufacturer of double refined edible oil from locally grown seeds for a period of one year from 1st July 2022;

- supply of sisal ropes;
- importation skinning & dehidig pulling machines;
- importation of cold rooms and refrigerated trucks;
- importation of raw materials, equipment and machineries used in manufacturing of fertilisers;
- importation of soil testing equipment;
- importation of moisture meters, rain gauge for weather stations etc; and
- importation of raw materials by a manufacturer of gas cylinders.
- Abolition of VAT exemption on air charter services with effect from 31st December 2022.
- Abolition of VAT exemption on smart phones, tablets and modems.

The Vocational Education and Training Act

Exemption of SDL on payments made to intern students from universities who are under the Tanzania Employment Service Agency program.

The Tax Administration Act

Proposals from Speech and Bill passed in the Finance Act:

- Expansion of the scope of fiscal devices to include other electronic systems that are used to produce electronic receipts and invoices.
- Registration and issuance of Tax Identification Numbers (TIN) to all citizens with National Identification Numbers. However, unlike the Finance bill which stated that only individual 18 years and above shall be issued with TIN, the Finance Act is silent in terms of the age qualification for registering and issuance of TIN.
- For the purpose of the Tax Administration Act, a registered person with a branch in Tanzania Zanzibar shall use Zanzibar Registration Number issued by Zanzibar Revenue Board.
- Restriction of any individual who is not registered by the Commissioner as a tax consultant, other than an employee of a taxpayer to act on behalf of such person or communicate with the Commissioner General on pretext of

representing a person on any matter under any tax law.

- Requirement of all returns to be filed electronically, unless permitted by the Commissioner to file manual return.
- Registration and monitoring of storage facilities.
- Limitation for managers to be jointly liable to pay the tax shortfall where the default which occurred was due to fraud as proved in a court of law.
- Mandatory to issue fiscal receipt or fiscal invoice at the time of supply of goods, rendering service or receiving payment for goods or service. Previously, a person was required to issue a fiscalised receipt upon receipt of payment.
- Penalty of TZS 7.5 million or imprisonment for a term not exceeding one year or both, for failure to apply for registration as required under any tax law.
- Imposition of a fine of TZS 4.95 million or imprisonment for a term not exceeding three years or both for failure to comply with the Excise (Management and Tariff) Act, including but not limited to failure to acquire relevant license, failure to maintain records and failure to make entry or declaration.

Further changes and clarifications in the Finance Act

Primary data server requirement extended

- Extension of time from 1st July 2021 to 1st July 2022 to maintain a primary data server in the United Republic for storage of documents in electronic form.

Proposed changes not passed in the Finance Act

Income Tax Act

- Advance income tax proposed at the rate of TZS 20 per litre for retailers of petroleum products has not been passed in the Finance Act.

Value Added Tax

- Exemption of VAT on importation of wire of alloy steel with HS Code 7229.90.00.
- Exemption of VAT on importation of Instruments and apparatus for measuring or checking the flow, level, pressure or other variables of liquids or gases (for example, flow meters, level gauges, manometers, heat meters) used for measuring or checking the flow or level of liquids under HS Code 9026.10.00.
- Exemption of VAT on Microtomes; parts and accessories under HS Code 9027.90.00.
- Exemption of VAT on importation of Pasture Seeds (pasture grass seeds), Pasture legumes seeds, Pasture multiple tree seeds and pasture cuttings and rhizomes and stolons.
- Zero rating of fertilizer manufactured locally for one year.

The Tax Administration Act

- While the Finance Bill proposed reinstatement of the powers to remit interest and penalty to the Minister of Finance, the proposal has not been passed in the Finance Act. Hence, the Commissioner shall retain such powers to remit interest and penalties imposed under the tax laws.

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