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you every step of the way

TANZANIA PAYROLL BENEFITS Q&A

In this week's Q & A session, we have gathered frequently asked questions on employment/payroll benefits:

1. Our organization has commenced a graduate recruitment program which intends to offer employment placements to fresh graduates from various varsities in Tanzania ("Country"). We contemplate availing stipend, transport allowance, telephone allowance, commissions and bonuses to the graduates upon meeting certain performance standards. Kindly confirm if such benefits are subject to payroll tax.

Employment benefits are defined to mean non-salary considerations such as bonuses, hardship allowance or transport allowance availed to potential and current employees ("employees"). The benefits are usually offered in addition to salary to create a competitive package for the employees.

Employment benefits are usually classified as cash benefits and non-cash benefits alias benefits in kind. Cash benefits include non-salary considerations availed on cash basis such as bonuses, gratuity and payment in lieu of leave while benefits in kind include non-salary considerations availed on a non-cash basis such as the use of motor vehicle or use of residential premises.

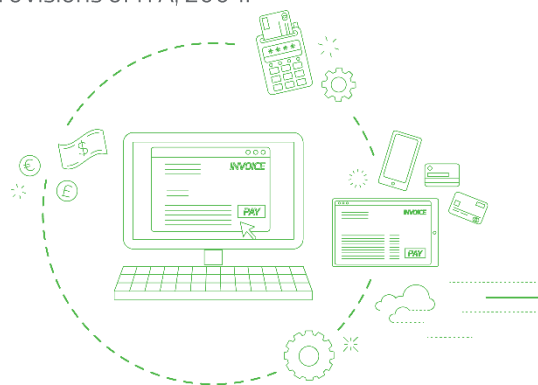
Section 7 of the Income Tax Act (ITA), 2004 provides for items to be included in the computation of gains or profits from an individual's employment. It stipulates that both cash benefits and non-cash benefits should be included in calculating the gains or profits from an individual's employment. In that regard, the entitled benefits will be included in the computation of gross salaries which will then be subjected to employment taxes as per the relevant provisions of the Law.

2. As a company engaged in the brewing industry, we contemplate rewarding high performing teams in the company with a beer crate to every team member on a monthly basis. What is the tax implication of such a contemplated reward from an employment tax perspective?

The contemplated reward of a beer crate to every team member of the high performing team on a monthly basis qualifies as a non-salary consideration intended to be offered on a non-cash basis alias benefit in kind.

The provisions of Section 7(2)(f) provide for inclusion of other payments made in respect of employment including a benefit in kind quantified in accordance with the provisions of Section 27 of ITA, 2004. It is worth noting that such benefits could be subject to VAT in accordance with S. 25 of the VAT Act.

Hence, the contemplated reward will be subjected to employment taxes in accordance with the relevant provisions of ITA, 2004.



3. **As part of boosting morale and enhancing productivity in the company, we are offering our employees with on premises cafeteria services. Are we obliged to consider such benefits in the requisite payroll computation for our employees?**

The provisions of Section 7 (3) of the ITA, 2004 provide for items to be excluded when calculating gains or profits from an individual's employment.

It stipulates that on premises cafeteria services that are available on a non-discriminatory basis should be excluded when calculating gains or profits from an individual's employment.

In that regard, if the queried cafeteria services are availed on a non-discriminatory basis, meaning offered to all employees and are accessible on the employer's premises then such a benefit will be excluded when calculating gains or profits from the respective employee's employment.

4. **We are offering loans at a preferential interest rate or interest free to our staff depending on the tenure of employment. It is our understanding that such loans are eligible for taxation from employment tax perspective upon meeting certain conditions. Kindly shed some light on such conditions as well as how such benefit can be quantified.**

It is a standard practice among employers to extend loans to employees at a preferential interest rate, usually below the statutory interest rate.

The provisions of Section 27 of the ITA, 2004 stipulates the conditions for taxability or non-taxability of the benefit of interest discount in relation to loans offered by way of employment.

It stipulates that if the offered loan is for a period of more than a year and the amount of the loan is more than three (3) months of the employee's basic salary, the benefit of interest discount must be included in calculating gains or profit from that individual's employment.

The value of the benefit equals the difference between the interest payable by the employee (if any) and the statutory interest rate as per Bank of Tanzania (BOT) guidelines, which shall be subject to PAYE.



5. **Our company has recently promoted certain high performing individuals to senior management level. As part of incentivising their new roles, the company's management has consented in availing residential premises for their use. Should we subject such benefit to employment tax?**

The provisions of Section 7(3) of the ITA, 2004 provides for items to be excluded when calculating gains or profits from an individual's employment.

It stipulates that the benefit derived from the use of residential premises by an employee of any institution whose budget is fully or substantially funded by a Government budget subvention should be excluded when calculating gains or profit from that individual's employment.

In that regard, if your institution is not one of the beneficiaries of the Government budget subvention then the benefit derived from the use of residential premises will have to be quantified and be subjected to employment taxes.

Quantification of the use of residential premises will be equal to the market value of renting that premise or 15% of the employee's income from employment, whichever is less.

However, if the employer claims a deduction greater than the 15% amount with respect to that residential premise benefit while calculating the income, the value of the benefit will be that amount of deduction claimed by the employer or the market value, whichever is less.

6. **Our organization has recently agreed on employment terms with a specific expatriate in the field of accounting and finance. The said terms include among other items the payment of requisite employment tax on behalf of that expatriate. Does the same qualify as employment benefit, if yes, how will that benefit be taxed?**

The payment of employment tax by an employer on behalf of the employee gives rise to a tax benefit. In that regard, the amount of employment tax paid on behalf of such employee alias tax benefit is treated as a benefit in kind.

The provisions of section 27(d) of the ITA, 2004 provides for quantification of tax benefit at three hundred thirty per cent (330%) of the actual tax paid on behalf of the employee.

Further, such tax benefit should be included when calculating gains or profits from an individual's employment.

7. As part of an internal restructuring of the company, some of our employees will be relocated to other rural branches. Will the transportation cost for such employees and their respective spouses and children be subjected to employment taxes?

The provisions of Section 7(3) (g) of the ITA, 2004 provides for taxability of passage cost for the employee, spouse of the employee and up to four of their children to or from the place of employment.

It stipulates that if the passage cost to or from the place of employment corresponds to the actual travelling cost and the employee will be domiciled more than twenty (20) miles from the place of employment with the sole engagement being the services of the employer at the place of employment, the same should be excluded from calculating gains or profits from that employee's employment income.

8. As an employer, am I obliged to consider non-cash benefits availed to my employees for Skills and Development Levy (SDL) computation purposes?

Section 14 of the Vocational Educational Training (VETA) Act provides for a charge, imposition and payment of SDL ("Levy") by employers with four or more employees.

It stipulates that the levy should be the sum of money equal to four per cent (4%) of total gross monthly payments paid by the employer to the employee in respect of the employment for the relevant period.

Gross monthly emolument is defined by the VETA Act to include salaries, wages and any cash benefits availed to the employee in respect of such employment for the relevant period.

It is our understanding non-cash benefits should not be subject to SDL.

9. Is motor vehicle benefit provided to an employee subject to tax?

If an employer provides a motor vehicle that is available for the private use of an employee, such benefit shall be included in calculating gains or profits from that employee's employment income.

An exception applies where an employer doesn't claim a deduction for expenditure on such motor vehicle in respect of ownership, maintenance or operation.

The quantification of such benefit will be on the basis of engine size of the vehicle and age of the vehicle as indicated in the table below:

ENGINE SIZE OF VEHICLE	QUANTITY OF PAYMENT	
	Vehicle less than 5 years old	Vehicle more than 5 years old
Not exceeding 1000cc	TZS. 250,000	TZS. 125,000
Above 1000cc but not exceeding 2000cc	TZS. 500,000	TZS. 250,000
Above 2000cc but not exceeding 3000cc	TZS. 1,000,000	TZS. 500,000
Above 3000cc	TZS. 1,500,000	TZS. 750,000

It is imperative to note that the benefit will be quantified on annual basis then allocated monthly. For instance, a vehicle with an engine size of above 2000 cc but not exceeding 3000 cc whose age is less than five years, shall be subject to tax at TZS 83,333 monthly.

10. A contention arose amongst the senior management of a certain government institution whether employment benefits offered to their employees are subject to employment tax. Please clarify.

The provisions of Section 7(3) (l) provide for taxability of allowances availed to an employee of the Government or any institution that is fully or substantially funded by Government budget subvention.

It stipulates that housing allowance, transport allowance, responsibility allowance, extra duty allowance, overtime allowance, hardship allowance and honoraria payment made to an employee of a government institution shall be excluded when calculating gains or profits from such employee's employment income.

Hence, the aforementioned allowances will not be subject to employment tax.

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