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## TANZANIA – UPGRADE OF VAT FILING SYSTEM

The digital-based tax regime's role in promoting voluntary tax compliance, easing the administration of taxes, and imparting taxpayers with convenient ways to execute their tax obligations should never be underestimated.

The TRA issued a public notice on 4 February 2022 regarding the upgrade of the VAT filing system ("upgraded system"), which taxpayers have lauded and the Government should be commended for its efforts to steer the digital-based tax regime in the country.

The upgrade is expected to address a number of issues faced by taxpayers when filing VAT returns, including but not limited to convenient way to declare purchases for input tax credit claim (using EFD receipts with verification codes), automatic apportionment of input tax credit for eligible taxpayers and affording taxpayers with a mechanism to effect increasing or decreasing adjustments without the need for official communication to the Commissioner General.

The upgrade is not only expected to make the filing process efficient but is also expected to expedite the VAT refund process as the system is expected to verify the data before filing.

With the above positives, we foresee challenges in the implementation/migration to the new system, especially regarding carrying forward of negative net amounts for February 2022.

Based on the public notice, taxpayers with a negative net amount/VAT repayable position will not be able to bring forward the negative amount in the subsequent month as per the previous practice. Instead, the taxpayers will be required to either apply for the VAT refund on such negative net amounts or notify the TRA of such negative amounts for verification purposes prior to carrying forward the amounts in the subsequent VAT return.

With the current backlog on the VAT refunds outstanding due to lack of resources, it is unclear as to why the Authority would impose taxpayers to lodge for VAT refund and how long it would take for the Authority to verify/process the refunds.

For taxpayers who do not intend to lodge a VAT refund, the Authority has mandated taxpayers to notify such negative net amounts for verification purposes. It remains to be seen whether the Authority shall issue any further regulations on the verification exercise and how long it would take for the Authority to verify the negative net amounts and reflect the same in the subsequent return.

Further, the provisions of Section 81(3) of VAT Act, 2014 accords registered persons with an option to continue carrying forward negative net amounts until the person applies for a refund of such negative net amounts. Therefore, such imposition contradicts the requirement of the VAT Act.

In addition to the above, the Authority has explicitly stated that only input VAT backed by receipts having verification code will be accepted when filing the returns. It, therefore, remains to be seen as to how the Authority will factor input VAT incurred on payments supported with a GEPG control number.

Do you require any assistance with respect to complying with the requirements of upgraded system? Reach out to us at [iratansi@tz.rsm-ea.co.tz](mailto:iratansi@tz.rsm-ea.co.tz) or our office premises at *1<sup>st</sup> Floor, Plot 1040, Haile Selassie Road, Masaki.*

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