TANZANIA REVENUE AUTHORITY

TAXATION IN TANZANIA

THE TANZANIA INVESTMENT AND TRADE PROMOTION

1.0 INTRODUCTION

Tax administration in Tanzania has a three-tier structure, namely Central Government tax administration, tax administration in Zanzibar and Local Governments tax administration. The Tanzania Revenue Authority (TRA) administers the Central Government taxes; Zanzibar Revenue Board administers domestic consumption taxes in Zanzibar, while the Local Authorities administer the various local imposts. Central Government taxes are the major revenue earner for the Government, accounting for about 90% of domestic revenue.

2.0 THE TAX STRUCTURE

The Central Government taxes comprise direct and indirect taxes. The direct taxes account for around 30% of total tax revenue, while the indirect taxes account for around 70% of total tax revenue. Direct taxes include the personal income taxes (PIT), corporate income tax (CIT) and withholding taxes on business, capital and investment incomes. The indirect taxes comprise taxes on international trade transactions and on domestically produced goods and services, namely the value added tax, excises and import duties.

The tax base and rate structure of the Tanzanian tax system has been rationalized and streamlined with a view to instituting a fair, simple, equitable, efficient and taxpayer/investor-friendly tax regime. A number of nuisance taxes have been abolished, the regulatory framework has been harmonized, an incentive regime has been put in place and the rates have been gradually reduced. To attract investment the Government has abolished protectionist excises, replaced the distortionary sales tax with value added tax and removed a two-tier corporate tax that provided for a reduced rate for residents and higher rate for non-residents for a single rate.

Most rates are now in line with the internationally accepted best practice, requiring no more than fine-tuning. Corporate tax rate is 30%, while VAT is chargeable on goods and services at 18%. There are also specific-rate excises on mostly traditional excisable products viz. tobacco, alcoholic drinks, soft drinks, films and music products and petroleum products while ad-varolem-rates are on non-utility motor vehicles and mobile phone service. Two non-zero import duty rates at 10% and 25% are applicable under EAC Customs Union on importation of goods and services, depending on Customs classification codes, but raw materials and capital goods are zero-rated. Withholding taxes on business and capital incomes such as dividends, interest and royalties are also applicable at the rates ranging between 10% to 20%. The tax rates for selected tax sources in Tanzania are as shown on the following Tables below:

A. DIRECT TAXES		RATES	
	TAX SOURCE	**RESIDENT**	**NON-RESIDENT**
1.	**Corporate Tax**	30%	30%
	○ Total Income of domestic permanent establishment	N/A	30%
	○ Repatriated Income of branch		10%
2.	**Withholding Tax on:**		
	▪ Dividends to company controlling 25% shares or more.	0%	10%
	▪ Dividends from DSE listed company	5%	5%
	▪ Interest	10%	10%
	▪ Royalties	15%	15%
	▪ Technical services (mining)	5%	15%

	B. INDIRECT TAXES
3.	Value Added Tax (VAT) **VAT Registration Threshold:** Taxable turnover exceeding sh. 40.0 million per annum. **VAT Rates**
	Supply of taxable goods and services in Mainland Tanzania 18 %
	Importation of taxable goods and services into Mainland Tanzania 18%
	Export of goods and certain services from United Republic of Tanzania 0%
	Supply of taxable goods and services to relieved persons 0%

3.0 THE TAX ADMINISTRATION

In order to effectively and efficiently implement fiscal policy the Government during 1995/96 established an autonomous revenue administration, the Tanzania Revenue Authority (TRA), charged with the assessment, collection and accounting of Central Government revenues. Since then, TRA has to a larger extent increased the efficiency, effectiveness and transparency in revenue administration, features that were lacking under the regime that was replaced. Under the new tax administrative arrangement the government has achieved 00significant transformation in revenue mobilization through initiating several administrative measures aimed at streamlining it, modernizing systems and removing inefficiencies.

The United Republic of Tanzania Constitution recognizes the two parties of the union, namely Zanzibar and the Mainland Tanzania. As such, the Constitution has identified union taxes and non-union taxes. While Tanzania Revenue Authority collects the Union taxes, the Zanzibar Revenue Board collects all non-union taxes in Zanzibar. Taxes on income imposed under the Income Tax Act 2004 and custom duties under the East African Customs Management Act 2004 are union taxes, whereas domestic consumption taxes including the Value Added Tax, Excise Duties, hotel levies, stamp duties, motor vehicles taxes, and other charges are non-union taxes.

4.0 REVENUE ADMINISTRATION MODERNIZATION INITIATIVES

In order to have a taxpayer/investor friendly environment to revenue mobilization the Tanzania Revenue Authority is implementing a Fourth 5-year Corporate Plan, envisioning itself to ***increase revenue to GDP ratio to 19.9*** by the year 2018. A modernized tax administration is one that has a strong enforcement capacity delivered by highly qualified, motivated and committed staff. The focus of the Fourth TRA Corporate Plan is to make it investor- and taxpayer-friendly machinery as well as ensure collection of revenue efficiently to capacity level. The Corporate Plan is based on the three strategic themes of Convenience, compliance and continual improvement by facilitating taxpayers' obligations. In a nutshell, the characteristic features of modernizing tax administration in Tanzania include Integration of Income Tax and VAT operations, Customs Modernization, creating and interfacing systems, reforming refunds systems and putting in place a stakeholders' forum.

4.1 Strategic Themes

Convenience

The focus of this theme is to deliver cost-efficient, consistent and reliable services to taxpayers. This entails the streamlining of processes, optimization of automation opportunities for self-service in order to contribute to shorter service turn around times and prompt service delivery.

Compliance

Taxpayer segmentation facilitates better allocation of administrative resources and risk-management approaches to compliance. Large, medium and small taxpayers offer very different revenue opportunities and compliance challenges. A comprehensive taxpayer compliance strategy that takes into account the compliance capacity of taxpayer segments, the internal capacity of TRA particularly on the use of ICT and international best practice will address specific compliance issues for each segment.

Continual Improvement

A tax administration is not static hence there is a need to build effective models for on- going organisational change. Continual improvement initiatives focusing on cultural change and integration of operations to minimise administrative costs implemented. A culture of innovation will be developed within the organisation to motivate new ideas for improvement of TRA operations, building coalitions with external stakeholders, developing an internal performance culture that is receptive to change and supported by capable leadership that adheres effectively to good governance requirements and is clear on its mandate and accountabilities.

4.2 Reforming refunds systems

In order to improve efficiency in tax refunds repayment claims, all claims are now classified into three categories namely, gold, silver and non-gold silver. The gold category covers regular payment traders who meet the qualifying criteria and their claims are settled within 30 days from the date of lodgment. The Silver category is for regular payment traders not meeting the gold criterion. Claims are settled within 30 days from the date of lodgment for two consecutive claims but full-scale audit is prerequisite for the third claim settlement. The non-gold silver category is for the claimants who require thorough audit before affecting their refund claims. We trust that this system will to a very large extent solve the problem of delayed tax refunds. Already we are refunding 92% of correct claims within 30 days.

4.3 Stakeholders Forum

The government has established a round table dialogue with its stakeholders to discuss issues of interest pertaining to taxes for the betterment of all parties. Under this system, all major tax reforms are discussed for the purpose of clearing stakeholders' doubt and take their views on board if seen appropriate. So far several stakeholders meetings have been held and in most cases the meetings end up in harmony.

5.0 TAX INCENTIVES

Tanzania recognizes the importance of investment to stimulate economic growth and create a potential for a sustainable future revenue generation. Consequently, the government has offered a tax incentive regime conducive to investment provided for in the various tax statutes, i.e. the Income Tax Act of 2004, Value Added Tax Act of 1997 and the East African Customs Management Act 2004. Tanzania is a member of the East African Community Customs Union involving five countries, viz. Kenya, Tanzania, Uganda, Rwanda and Burundi. As a result, incentives provided for under the East African Customs Management Act 2004 must be negotiated and agreed at a tripartite meeting of the EAC Partner States.

In recognition of the significance of investment, the Tanzania Investment Act, Mining and Petroleum Acts are also used to facilitate the granting of tax incentives. The incentives cut across a broad spectrum of investment goods including non-taxation of imports of capital goods and raw materials, deferment of VAT on capital goods and capital allowances on investment goods for income tax purposes. Also in place are exonerations and exemptions of goods and services specifically for investment purposes.

Tanzania offers economy-wide tax incentives. Special attention is directed to the priority sectors. The priority sectors are agriculture, agro-based industries, mining, economic infrastructure, tourism, and petroleum and gas sector. For all these sectors, except petroleum and gas sector, acquisition of all capital goods and parts are zero rated for import duty purposes and VAT thereon deferred. Research expenses for agriculture are allowable for income tax purposes, while capital acquisitions are 100% expensed. To attract productive investment in the petroleum and gas sector petroleum legislation was enacted. Equipment and materials used in exploration are tax-exempt.

Other sectors include manufacturing, natural resources such as fishing and forestry, aviation, commercial building, financial services, transport, broadcasting, human resource development and export-oriented projects. Investors in these sectors enjoy zero import duty rates for importation of capital goods and deferment of VAT thereon. There is also a set of exemptions granted on those investing in export processing through the Free Economic Zones Authority (ZAFREZA) and Export Processing Zones (EPZ). Time may not be our best ally to mention all the incentives under this cluster but they range from long term tax holidays to full tax remissions.

Why Tax Incentives

Tax incentives may well not be the most important factor in determining investment flows. However, given low levels of savings and hence high savings-investment[1] gap Tanzania has always considered tax incentives as an integral part of investment incentives package, to attract some foreign direct investment. The granting of tax-based investments incentives thus have centered around the conventional wisdom of reducing cost of capital, compensating for other deficiencies in the investment climate and provision of visible political cover on the State's commitment to investment promotion. Typically the incentives schemes in Tanzania have targeted promotion of such areas as exports, manufacturing, economic diversification and employment creation.

5.1 CATEGORIES OF TAX INCENTIVES

For convenience and better administration of granting incentives, the economy is divided into two major classifications, namely Lead sectors and Priority Sectors

5.1.1 PRIORITY SECTORS

Tanzania offers a well-diversified economy with the following categorised as priority sectors, agriculture, agro-based industries, mining, tourism, oil and gas and economic infrastructure. Other priority sectors include manufacturing, natural resources such as fishing and forestry, aviation, commercial building, financial services, transport, broadcasting, human resource development and export oriented projects.

(i) Agriculture

Just like in other developing nation's world wide, the contribution of this sector is very crucial. Thus, the sector needs a special boost to speed up the production process and hence its development. As a backbone of Tanzania economy, a special treatment of tax incentives was granted to sectors' undertakings as shown below.

[1] Investments in the last ten years is on the average around 18% of the GDP while savings stand at around 8% ten-year average

Item	Import Duty	VAT
All Capital Goods	0%	Relieved
Agricultural Machinery/Equipments	0%	Exempt
Fertilisers & Pesticides	0%	Exempt
Farms Implements & Other Inputs	0%	Exempt
Local Manufacture of Farm Implements	-	Zero Rated
One Non Utility Administration vehicle	0%	Taxable
INCOME TAXATION		
Withholding Tax on Interest on foreign Sourced Loan	0%	
Skills Development Levy (5%)	Taxable	
Withholding Tax on Dividends	10%	
Losses carry forward	Indefinitely	

(ii) Mining Sector

The sector was given a major boost in 1997 following the formulation of Mining Policy and enactment of a new Mining Act of 2010, (as amended from time to time) which repealed the Mining Act of 1998. This law has been enacted to remove ambiguities that prevented smooth operation of the sector. As a testimony to the country's commitment to encourage private investment in mining, a special fiscal incentive package is offered for the sector.

Item	Import Duty	VAT
All Capital Goods	0%	Relieved to explorers and prospectors
Spare Parts	0%	Relieved to explorers and prospectors
Explosive & Other Supplies	0%	Relieved to explorers and prospectors
Fuel(exempt) &Oils (relieved to explorers)	0%	Relieved to explorers and prospectors
	INCOME TAXATION	
Capital Allowance	100%	

Resident and non-resident withholding tax on services fees	3%

Note: The 100 % capital expensing is retained due to grand fathering agreement between the The Government and investors.

Other applicable tax and levies on mineral sector

- Royalty 4% except for diamonds, which is 5%
- No tax, duty, fee or other fiscal impost on dividends
- Capital gain tax
- Losses carried forward for unrestricted period.
- Duty rate of 5% and VAT will be charged after the first five years of commercial production
- Importation by or supply to a registered licensed exploration, prospecting, mineral assaying, drilling or mining company, of goods which if imported will be eligible for relief from duty under Customs law, and service for exclusive use in exploration, prospecting, drilling or mining activities. Section 4 (4) (B) of the Customs Tariff Act, 1976.
- Cost of prospecting, exploration and development all deemed capital expenditure, hence capitalized and subject to capital deduction under the Income Tax Act.

(iii) Infrastructure Sector

Economic infrastructure sectors include road, railway, air and sea transport, port facilities, telecommunication, banking and insurance. Due to their importance in our economy, the following incentive package is granted to anyone who invests in these sectors.

Item	Import Duty	VAT
All Capital Goods	0%	Relieved
Spare Parts	0%	Relieved
Vehicles	0%	Relieved
	INCOME TAXATION	
Withholding Tax on Dividends	10%	
Withholding Tax on Interest on foreign Sourced Loan	0%	

Losses carry forward	Indefinitely

- Provision of Strategic Investors Status with incentives beyond those provided to normal investors.

(iv) Tourism Sector

This is another area that seems to be very potential for investment. In order to exploit its economic potentialities, the following incentive package was designed to attract investors into the sector.

Item	Import Duty	VAT
All Capital Goods	0%	Relieved
Hotel Facilities e.g. carpets, furniture etc.	0%	Taxables unless under TIC
One non Utility Administration Vehicle	0%	Taxable
Vehicles for Tour Operators	0%	Relieved
	INCOME TAXATION	
Withholding Tax on Dividends	10%	
Withholding Tax on Interest on foreign Sourced Loan	0%	
Losses carried forward	Indefinitely	

Note: Import duty exemptions are granted under the authority of *section4th Schedule item II of the Customs Tariff Act, 1976.*

(v) Oil and Gas Sector

This sector was considered among the potential areas for investors. Due to the nature of the products in this sector, as special investment scheme was design to attract productive investments. Thus special Petroleum legislation was enacted by the Act of Parliament to encourage smooth operation of the sector. The existing tax incentives granted to investors in this sector include the following:

i. Tax exemption of equipment and material used for exploration;

ii. Negotiated levels of cost oil or gas split after the discovery of oil or gas for the purposes of recovering costs for exploration, development and production;

iii. Negotiated levels of profit oil or profit gas split;

iv. For the oil marketing companies operating in downstream, the incentives being granted are those provided by Tanzania Investment Centre (TIC) Certificate of Incentives. *Refer to the section of holders of TIC Certificate below.*

v. Importation by or supply to a registered licensed exploration, prospecting, mineral assaying, drilling or mining company, of goods which if imported will be eligible from relief from duty under customs law, and service for exclusive use in exploration, prospecting, drilling or mining activities*. Section 4 (4) (B) of the Customs Tariff Act, 1976*.

5.2 Holders of TIC Certificate of Incentives

In general, the holders of Certificate Incentives enjoy the following incentives and other incentives (if any) in the respective investment sectors.

Item	Import Duty	VAT
Capital Goods	0%	Deferred
Raw Materials	0%	20%
One non Utility Administration vehicle	0%	Deferred
Replacements Industrial Parts for the rehabilitation of privatised enterprises	0%	Deferred
	INCOME TAXATION	
Withholding Tax on Dividends	10%	
Withholding Tax on Interest on foreign Sourced Loan	0%	

Note: Import duty exemptions are granted using 4th *Schedule under section 4 (a) (1) (a) of the customs Tariff Act, 1976.*

5.3 Depreciation Allowances

Third Schedule made under *Section 17 of Income tax Act No 11 of 2004* provides for the classification and pooling of depreciable assets as given below.

These capital deductions are granted (on reducing balance basis) to depreciable assets used for the purpose of his business.

Class	Type of Depreciable Assets	Rate
1	Computers and data handling equipment together with peripheral devices; automobiles, buses and minibuses with a seating capacity of less than 30 passengers, goods vehicles with a load capacity of less than 7 tonnes; construction and earth-moving equipment.	37.5%
2	Buses with a seating capacity of 30 or more passengers, heavy general purpose or specialised trucks, trailers and trailer-mounted containers; railroad cars, locomotives, and equipment; vessels, barges, tugs, and similar water transportation equipment; aircraft; other self-propelling vehicles; plant and machinery (including windmills, electric generators and distribution equipment) used in agriculture, manufacturing or mining operations; specialised public utility plant and equipment; and machinery or other irrigation installations and equipment.	25%
3	Office furniture, fixtures and equipment; any asset not included in another Class.	12.5%
4	Natural resource exploration and production rights and assets referred to in subparagraph (3) in respect of natural resource prospecting, exploration and development expenditure.	20%
5	Buildings, structures, dams, water reservoirs, fences, and similar works of a permanent nature used in agriculture, livestock farming or fishing farming.	20%
6	Buildings, structures, and similar works of permanent nature other than those mentioned in Class 5.	5%
7	Intangible assets other than those in Class 4.	1 divided by the useful life of the asset in the pool and rounded down to the nearest half year
8	Plant & Machinery (including windmills, electric generators and distributor equipment used in agriculture).	100%

5.4 FREE TRADE ZONES

Currently, Tanzania has three trade zones, namely Zanzibar Free Economic Zones Authority (ZAFREZA) or Export Processing Zone (EPZ), Zanzibar Free Port Authority (ZFPA) and Export Processing Zones (EPZs) in Mainland.

The tax incentives offered to free trade zones are shown in the respective areas given below. The income tax incentives however are granted under the authority of the Second Schedule made *under Section 10 of Income Tax Act No 11 of 2004.*

5.4.1. The Zanzibar Free Economic Zones Authority (ZAFREZA) or Export Processing Zone (EPZ)

ZAFREZA was established basically to promote investments and economic growth, with suitable guarantees following the liberalisation of the economy. ZAFREZA is export oriented and therefore, invites and gives preference to manufacturing projects producing mainly for export. To facilitate the promotion of investments through EPZ, various incentives have been put in place including the following:

i. 10 years Corporate Tax holiday followed by a reduced corporation tax rate of 25% for 5 years and thereafter 50%.
ii. No customs duty and other taxes charged on imports of machinery, equipment, spare parts, raw materials and other supplies necessarily required for the projects established
iii. Exemption from local taxes on goods and services purchased from domestic territory for use in the EPZ.
iv. Withholding tax exemptions for the initial period of 10 years.

v. Exemption from income tax for the initial period of 10 years on dividends, interest on shareholders, loans or any other type of income received by the investors.

vi. Personal effects of eligible directors and expatriates are exempt from import duties within a period of six months from their first arrival in Zanzibar.

5.4.2. Zanzibar Free Port Authority (ZFPA)

The main objective of establishing the ZFPA is to diversify the Zanzibar economy and hasten the development of the isles. In order to meet the main objectives, the following incentive are offered:

(a) A licensee shall be exempted from payment of import duty and excise duty on imports into the Freeport.

(b) VAT Act and the Excise Duty Ordinance do not apply to any goods produced or procured in a Freeport zone unless such goods are entered for local consumption in the customs territory.

A company operating in the free port is exempted from payment of corporate tax for 20 years.

5.4.3 Mainland Export Processing Zones (EPZs)

In Tanzania Mainland, the following incentives are offered to investors in the Export Processing Zones.

An investor in the Export Processing Zones (EPZs) is entitled to the following incentives:-

(i) Exemption from foreign exchange control or restrictions on operations carried on in an EPZs;

(ii) Exemption from payment of corporate tax for an initial period of ten years and thereafter a corporate tax is chargeable at the rate of not more than twenty five percent;

(iii) Exemption from payment of withholding tax on dividends and interest for the first ten years;

(iv) Remission of customs duty, Value Added Tax and any other tax payable in respect of goods purchased for use as raw materials, equipment, machinery including all goods and services delivery related to the manufacturing in EPZs but does not include motor vehicles, spare parts and consumables. *4th Schedule under Section 4(4)(b) of the Customs Tariff Act, 1976.*

(v) Exemption from payment of all taxes and levies imposed by local government authorities for goods and services produced or purchased in EPZs.

(vi) Exemption from pre-shipment inspection requirements;

(vii) Accessibility to high quality infrastructure;

(viii) On site customs inspection of goods in lieu of off-part inspection;

(ix) Provision of temporary visas at the point of entry to key technical, management, training staff for a period of thirty days.

Not with standing the statutory incentive above;

1. The Authority may, subject to such condition relating the grant of investment incentives, recommended to the Minister, variations, additions, and alterations or general amendments to the type of investment incentives to grant to the persons who are doing business in the Export Processing.

2. The investor is allowed to sell up to twenty percent of total production of goods produced in the EPZs in to the customs territory;

3. The Authority may depending on the nature of the industry or goods and market circumstances, authorize an investor to sell in the customs territory the amount exceeding that prescribed in 2 above;

4. The government provides work permits for management and technical staff for skills that are not locally available, the number is determined by the Agent after consultation with the Ministry responsible for Labour;

5. Subject to 4 above the Authority can make recommendations to the Government with a view to exempt from payment of training levy. An investor who has trained local employees, about fifty percent of the said training levy.

6. The Authority may enter into a contractual agreement with an investor on the grant of such investment incentives and the conduct of business within the EPZ.

5.5 EXPORT INCENTIVES

Incentives offered to enhance production for export include:

5.5.1 Duty Draw back scheme i.e. refund of import duty paid on inputs used to produce exported goods.

5.5.2 Export Processing Zones

Refer to **5.4** above (Free Trade Zones Section).

5.6 APPROVAL PROCEDURE AND TIME TAKEN TO PROCESS TAX INCENTIVES

The procedure for issuing tax incentives differs from one sector of investments to the other. For instance, enterprises engaging or intending to engage in Mining and Petroleum Sector shall follow the approval process contained in their respective legislations. Likewise the procedure and the duration to complete the issuing process may differ depending upon the type of incentives.

6 CONCLUSION

Tanzania has put in place a tax regime conducive to investment. The incentives are fully supported by a sound macroeconomic stability. The policy has witnessed significant growth in both foreign and local investments in the country. Working hand in hand with other stakeholders the tax administration is committed to expediting its function efficiently and effectively. Taxpayers at large and investors in particular are among our stakeholders whose expectations we are committed to meet and transcend as we transform Tanzania Revenue Authority into a **Modern Tax Administration**.