



ROOK CONSULTANTS LIMITED

“Providers of tax, accounting & business advisory services”

Summary of the tax changes introduced by Finance Act, 2013

“The Finance Act 2013 contains the final tax amendments to be made to various tax and other fiscal legislations arising from changes proposed by the Minister for Finance during his Budget Speech and the Finance Bill issued thereto. The Finance Act contains a number of changes to the earlier proposals contained in the Budget Speech and the Finance Bill, after deliberations with various stakeholders and parliamentary debate”

A. VAT

- Removal from the First Schedule the supplies of textiles which are manufactured by local textile manufacturers using locally grown cotton. This means, these supplies should no longer be zero rated for VAT purposes.
- Inclusion in the Third Schedule, local textile manufacturers who import or are supplied locally with goods and services to be exclusively used in the manufacturing of such textiles by using locally grown cotton. This means local textile manufacturers who meet these criteria will be relieved from VAT. We note that there are procedures for pre-approval before a special relieved person can enjoy the VAT relief.

B. Income Tax

B1. Payroll taxes (PAYE & SDL)

- Minimum tax rate chargeable on income of resident individuals reduced from 14% to 13%. This will result in a tax reduction of Tshs 1,900 per month. See resident individuals’ tax rates below.
- Amendment of the Vocational Education and Training Act (VETA) by reducing the rate of the Skills and Development Levy (SDL) from 6% to 5%.
- Amendment of the VETA by removing the exemption from SDL contributions, on Government departments and other public institutions that are not wholly financed by the government.

Resident individuals tax rates – Finance Act, 2013 (effective 1 July 2013)

MONTHLY TAXABLE INCOME	TAX RATE
Where income does not exceed Tshs. 170,000/=	NIL
Where total income exceeds Tshs. 170,000/= but does not exceed Tshs. 360,000/=	13% of the amount in excess of Tshs. 170,000/=
Where total income exceeds Tshs. 360,000/= but does not exceed Tshs. 540,000/=	Tshs. 24,700/= plus 20% of the amount in excess of Tshs 360,000/=
Where total income exceeds Tshs. 540,000/= but does not exceed Tshs. 720,000/=	Tshs. 60,700/= plus 25% of the amount in excess of Tshs 540,000/=
Where total income exceeds Tshs. 720,000/=	Tshs. 105,700/=plus 30% of the amount in excess of Tshs 720 ,000/=

B2. Taxation of corporations with perpetual tax losses

The Finance Act has increased the time period for corporations with perpetual tax losses to be subject to tax on turnover, from 3 years to 5 years. From this proposed change a company in losses, which has been in losses for the previous four years will have to apply tax on turnover currently set at 0.3% in its fifth year.

B3. Ring-fencing of mining and petroleum operations

Section 18 of the Finance Act provides that in the case of mining or petroleum operations, where separate and distinct mining or petroleum operations are carried on by the same person in a different mining area or petroleum contract area, determination of allowable deduction for each mining area or petroleum contract area shall be treated separately.

This change has introduced ring fencing for petroleum operations since previously the ring fencing previously only applied to mining operations. Section 18 above, read together with section 19 of the Act, means that costs and losses incurred in one mining or petroleum operation cannot be deductible against income in another mining or petroleum operation.

B4. 100% tax depreciation on equipment used for exploration

Introduction of 100% tax depreciation on equipment used for prospecting and exploration of minerals or petroleum.

B5. Withholding tax on service fee payable to resident persons

Introduction of 5% withholding tax on service fee payments made by a resident person to another resident person. *Previously withholding tax on service fee payments to resident persons was only applicable to payments to individuals without TIN registrations and the rate was set at 2%.*

B6. Withholding tax on technical and management services rendered to a mining business by non-resident persons

A resident person who in conducting a mining business pays a service fee to another person in respect of management or technical services provided wholly and exclusively for the mining business shall withhold income tax at the rates of 5% for resident payee and 15% for non-resident payee. *This seems to be more of a clarification as this requirement was previously there.*

B7. Withholding tax on money transfer commission

Introduction of a 10% withholding tax on money transfer commission paid to money transfer agents.

B8. Withholding tax on payments for lease of aircraft

Introduction of withholding tax of 10% on lease rentals for aircrafts paid to resident payees. *The Finance Bill had sort to have the withholding tax apply to payments to both resident and non-resident*

payees, but the changes in the Act seem to have left the exemption applying to payments made to non-residents.

B9. Withholding tax on payments for supply of goods to a government institution

Payments in respect of any supply of goods to a Government institution whose budget is wholly or substantially financed by the Government to a resident entity or individual shall attract withholding tax at the rate of 2%.

B10. Penalties for failure to comply with EFD requirements

The Act imposes stringent penalties to sellers of goods or providers of services who fail to issue fiscal receipts or invoices using Electronic Fiscal Devices (EFDs) as follows:

- First time offender, to pay a penalty of 5 percent of the value;
- Second time offender, to pay a penalty of 10 percent of the value
- Third time offender or more, shall be liable to a penalty of not less than TZS 1,000,000 but not more than TZS 3,000,000 or to a term of imprisonment not exceeding three years

C. Tanzania Investment Act

- The Act reduces the relief of import duty provided for deemed capital goods on qualifying investors with TIC certificates from 90% to 75%.
- The Act further introduces a list of items which do not qualify as deemed capital goods. This include, office equipment, stationery, furniture, sugar, beverages, spirits, tiles, non-utility motor vehicles, crockery, air conditioners, fridges, petroleum products, cutlery, beddings and electronic equipment.

D. Road and Fuel Tolls Act

Increase the fuel levy on diesel and petrol from TZS 200 per litre to TZS 263 per litre.

E. Education Fund Act

Introduction of excise duty of 2.5% imposed on electronic communication service as provided under the Excise (Management and Tariff) Act.

F. Excise Management and Tariff Act

- Increase of excise duty on non-utility vehicles aged more than 10 years from 20% to 25%.
- Introduction of excise duty of 5% on utility vehicles aged more than 10 years.
- Change of excise duty rates on petroleum products as follows:-

(a) Increase of excise duty on diesel from Tshs 215 per litre to Tshs 217 per litre,

(b) Increase of excise duty on petrol from Tshs 339 per litre to Tshs 400 per litre;

- Introduction of 20% excise duty on aircraft and helicopters of unladen weight exceeding 2000kg.
- Introduction new Tariff and/or modifications on various goods like carpets, perfumes, water, beer, juice, wine, cigarettes, cold drinks, furniture and non-oil products and telecommunication services.
- Introduction of the definition of the term “electronic communication service” to mean service of any description provided by a person or a company by means of any transmission, emission or reception of signs, signals, writing, images and sounds or intelligible information of any nature, by wire, optical, visual or other electromagnetic means or systems. *This definition is very wide and it in effect covers all forms of data transmission including voice, video, cellular, internet and services related to these such as carrier services, call management services etc*
- Introduction of excise duty of 14.5% on electronic communication services
- Introduction of excise duty of 0.15% of amount transferred, in excess of Tzs 30,000, on money transfer through banks, financial institutions or telecommunication companies.
- Introduction of an excise duty on telecommunication sim card at the rate of Tzs 1,000 per month.

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