

INTRODUCTION TO VAT



VAT: TANZANIA

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BACKGROUND OF VAT IN TANZANIA



- The Commission (Mtei's Commission) which was formed by the Government in 1989.

Objective of the Commission was-

- To study on Government Budget, Expenditure, Revenue and Taxation.
- The Commission came up in 1991 with a report which among other things **recommended** that VAT to be introduced in Tanzania.

BACKGROUND OF VAT IN TANZANIA



- Since Tanzania is a union country with mainland Tanzania and Zanzibar each with its own constitution save that there are union matters and non union matters with VAT being a non union matter.
- In mainland Tanzania and Zanzibar VAT was introduced in the late 1990s at the standard rate of 20 percent.

BACKGROUND OF VAT IN TANZANIA



- Subsequently, both mainland Tanzania and Zanzibar reduced their standard rates to 18 percent in 2009 and in 2020 Zanzibar further reduced its standard rate to 15 percent

INTRODUCTION



- The enactment of the VAT Act No 24 of 1997 (Cap. 148) which became operational on **1st July 1998** replaced a single stage **Sales Tax** which existed before
- VAT is the **fastest** growing indirect tax in the present World and has featured in almost all tax reforms which have been undertaken by various countries.'
- Its superiority in terms of more **revenue** generation, **efficiency** in administration, **neutrality**, compels the Government to introduce it in Tanzania

INTRODUCTION CONT'D



- The Act adopted the **best** international VAT system which is a **multi-stage tax** with few exemptions.
- The type of VAT adopted is the **Consumption type**.
- The **weaknesses** of the repealed law necessitated enactment of the **VAT Act 2014** with **its Regulations**

INTRODUCTION CONT'D



- The current Act **conforms** to the VAT best practice by having **few exemptions**, new forms of business transactions and therefore widening the tax base.
- For example:
 - The current law has only **one** Schedule of exemptions unlike the defunct law that had **three different schedules** of incentives i.e. zero rated, exemption and special reliefs.

VAT:TANZANIA PERSPECTIVE



- VAT is a consumption tax charged on **taxable goods, services** and **immovable properties** of any **economic activity** of a taxable person whenever **value is added** at each stage of production, distribution and at the final stage of sale. The difference is that in Zanzibar VAT is not imposed on immovable properties.
- The application is the more or less same in both Tanzania mainland and Zanzibar although both have different legislative structures.

VAT to GDP



■ The Tax to GDP ratio

	2020/21	2021/22	2022/23
TAX to GDP	11.7%	12.7%	12.6%
VAT to GDP	3.5%	3.9%	3.9%

METHOD OF CALCULATING VAT



Invoice Method

- Is the **most** common and popular method of computing the **tax liability**, under the VAT system.
- Tax is imposed at **each** stage and **every** stage of sale on the **entire** sale value, and
- the tax paid at earlier stage is **allowed** as **set-off**

VAT REGISTRATION



Normal registration

- Any person conducting an economic activity with a taxable turnover equal or above the registration threshold is obliged to register for VAT under **normal registration**.
- The VAT registration threshold is **TZS 200** milion per annum or TZS 100 milion for six months period.

VAT REGISTRATION

- A turnover of a sole proprietor operating a mini supermarket is **TZS 140** million per annum. In the course of carrying on an economic activity decides to dispose an old fixtures (equipment fixed) and computer system (used for keeping records) for TZS 60 million.
- Even though his total turnover amounts to **TZS 200** million in that particular year, the turnover in that particular year **cannot** warrant registration of the proprietor, since TZS 60 million is from the **disposal** of a computer and fixtures, an asset used in carrying on an economic activity.

VAT REGISTRATION



Other Registrations

■ **Professionals services**

Professionals registered and regulated by their different professional bodies are obliged by law to register for VAT **regardless** of the registration threshold.

- **Government entity or institution** which carries on economic activity which are also supplied by other taxable persons are required to be registered for VAT.

VAT REGISTRATION



- **Intending Trader** May apply to the Commissioner for reg. upon:-
 - Provision of sufficient evidence to satisfy the Comm. of his intention to commence an economic activity, including contracts, tenders, building plans, business plans and bank financing;
 - Proof of attaining Registration threshold
 - Will make taxable supplies and commencement period.

VAT REGISTRATION



■ Compulsory Registration

where the Commissioner General is satisfied that the eligible person has failed to register or for **protection** of Government revenue as provided for in the Act regardless of the person's turnover.

VAT REGISTRATION



- A non-resident person carries on an **economic activity** in Mainland Tanzania without having a **fixed** place of business, is required to **appoint** a VAT representative.
- A representative appointed by such non resident person has to be registered for VAT in the **name of the non resident person**.

VAT REGISTRATION



- A non resident person who supplies electronic services to an unregistered person in Mainland Tanzania who does not appoint tax representative, regardless of registration threshold, shall be required to apply for registration as a taxable person to the Commissioner General.

How to establish a non resident rendered service in mainland Tanzania

- A supply of electronic services by non-resident person shall be treated as supply delivered in Mainland Tanzania when supplied to an unregistered person if:

First, the payment proxy of the recipient of the electronic services is in Mainland Tanzania.

Second, the resident proxy proxy of the recipient is in the mainland Tanzania.

IMPOSITION OF VAT



- Value added tax is imposed and payable on **taxable supplies** and **taxable imports**.
- Of which **taxable supplies** are the supplies, other than an exempt supply, that is made in Mainland Tanzania by a taxable person and also supplies of imported services to a taxable person who is the purchaser in Mainland Tanzania.
- While **taxable imports** are import of goods.

PERSON LIABLE TO PAY VAT



- In the case of a taxable import, the importer;
- In the case of a taxable supply of imported services, the purchaser.
- In the case of a taxable supply that is made in Mainland Tanzania, the supplier; and
- In case of the imported electronic services, a non resident service provider.

THE VAT RATE



- The VAT rate is 18% in mainland Tanzania while 15% in Zanzibar for standard supplies
- The VAT rate of 0% for Exports

N.B: The application of the 18% will depend to the base of calculations-

- if it is the value then apply **18%**
- if it is the consideration for a supply i.e. **VAT inclusive** it the Tax fraction **18/118**
i.e. $(R/(R+100)) \times C$

HOW THE VAT WORKS



- A taxable person in the chain between the first supplier and the purchaser/ consumer is **charged** tax on **taxable supplies** made to him (tax on purchases/ **Input Tax**) and
- **charges** tax on taxable supplies **made by** him (tax on sales / **output tax**).
- Then remits to TRA the **excess** of **output tax** over input tax or **recovers** the excess of **input tax** over output tax from the government

HOW THE VAT WORKS CONT'D



- The broad effect of the scheme is that economic activities are **not affected** by VAT except in so far as they are required to administer it , and the **burden** of the tax falls on the last purchaser or **final** consumer.
- Hence, VAT **is not** a cost factor to economic activities but it becomes a cost when the taxpayer claims for input tax and such claim is rejected.

The general rule for the time of a supply is either:-

- ❑ the time when the invoice for the supply is issued by the supplier
- ❑ the time when the consideration for the supply is received, in **whole** or in **part**; or
- ❑ the time of supply.

VAT BASIC CONCEPT CONT'D...



Time of supply Con't

- a) in relation to a supply of goods, the time at which the goods are **delivered** or **made** available;
- b) in relation to a supply of services the time at which the services are **rendered, provided, or performed**; or
- c) in relation to a supply of immovable property, the **earlier** time at which the property is-
 - i. created, transferred, assigned, granted, or otherwise supplied to the customer; or
 - ii. delivered or made available;whichever is the earlier

TIME OF SUPPLY CON'T

Time of supply for goods, services, and immovable property is defined under **section 2** of the Act.

- Time for **supply of goods** is said to be when they are **delivered or made available** to purchaser.
- For **supply of services** is when it is performed or rendered , and
- For **supply of immovable property** is the earlier time at which the property is-created, transferred, assigned, granted, or otherwise supplied to the customer; or **delivered or made available** .

CHALLENGES AROUND VAT INVESTIGATIONS

- i. Presence of Ghost/Missing Traders**
- ii. Underestimates of Goods or services supplied**
- iii. Non issuance of receipt: iv. cash economy**
- v. Difficult in convicting beneficiary of ghost receipt.**
- vi. Hijack traders**

CHALLENGES AROUND VAT INVESTIGATIONS- Cont....

Selling fiscal receipts as suppliers using the identity of other persons

BEDANKT

