Rebates (also known as volume discounts/bonus discounts) are financial incentives or advantages given by a manufacturer/supplier, in order to motivate the customers or the group of individuals to purchase in bulk. The supplier rewards those buying in bulk by providing a reduced price for each good or group of goods. Volume discounts allow businesses to purchase additional inventory at reduced cost and allow suppliers, to reduce inventories by selling more units to bulk buyers who are incentivized by the lower price.

The volume discounts can take on a variety of arrangements with the most common being retrospective in nature and are often tiered – that is, a specific discount is applied to a number of units within that tier. The discount increases as for tiers that include larger and larger numbers of units. Upon determining the discount amount, additional volume is supplied to the buyer of the same value of discount offered.

**Importance of rebates**

Business practice between suppliers, distributors and retailers, demonstrates that the granting of discounts often constitutes the cornerstone of their relationships. As practiced throughout the world, some of Tanzania’s suppliers employ rebates in encouraging their distributors, to buy large volumes of products and attain common loyalty between supplier and distributor. In Tanzania, suppliers of bulk products such as cement, petroleum, soap and cooking oil apply volume discounts in their distribution chain.

It is also important to note that, for most of these arrangements, distributors sell products down the supply chain with unit price higher than the unit price they bought with from the suppliers. Their profits arise solely from the extra volume earned through the rebate arrangements. So, distributors’ position in the supply chain exists only due to the presence of rebates.

**Rebates around the world in relation to value Added Tax (VAT)**

Countries such as United Kingdom (UK) and South Africa, understand the importance of volume discounts to further trade, incorporated its practices in their VAT legislations over the years. In the UK, a supplier can issue a credit note upon a buyer reaching a pre agreed volume of purchase to cover the discount. The supplier is later allowed to reduce the amount of output by the discount allowed while the recipient decreases input by similar amount in their VAT returns. The adjustments can be done over multiple deliveries.

In South Africa, a supplier granting volume discounts can claim an input tax deduction in the tax period in which the credit note is issued to the recipient in respect of the rebate. The recipient on the other side, is liable to account for output tax on the discount received.

**Challenges associated with rebates and compliance with the VAT Act, 2014 (the Act)**

As mentioned above, the volume discounts are retrospective in nature, meaning upon completion of a specified period (usually a month), the supplier assesses the purchases done by the distributor, and whether a certain pre-arranged target was met, to allocate the price reduction, and subsequently additional volume. This means sales done in a month, say January, the adjustment would be made in February, pertaining issuing of credit notes.

Oftentimes, rebates applying for a certain month would be made available to the buyer after closure of that month, and in most cases also, filing of VAT returns and payment that results thereon. This necessitate adjustments to be made in the subsequent month’s VAT return and VAT payments for both, the supplier (decrease of output) and the buyers (decrease of input) in adherence to the Act, which guides on Post supply adjustments for adjustment events.

Offering of discounts retrospectively, however, is contrary with provisions of the Act, which provides for discounts to be considered at the time of supply. This poses a challenge on eligibility of making the post supply adjustment as required by the same Act.

Upon an adjustment event, the Act instructs for an adjustment note to be prepared within 7 days, with requirements of the adjustment note elaborated in the VAT (General) Regulations, 2015 (the Regulations). The provisions of the Act along with that of the Regulations demand that, every invoice reversed to have a corresponding adjustment note. However, suppliers involved with volume discounts usually make large quantity sales in many occasions, issuing a lot of invoices in the process. Further, the volume discounts offered do not only relate to a single invoice, but a lot of invoices to the distributors for a particular period. This renders issuing of credit note as a means of recording rebates, an impractical activity, as each invoice is required to have a corresponding credit note as well as an adjustment note.

The two issues jointly, pose an immense challenge in the practical nature of the rebates in relation to VAT in Tanzania. In the event of an audit by the Revenue Authority, rebates usually result into significant adjustments on VAT payable by the Suppliers.

**Recommendations**

It is important to understand that adjustments relating to rebates for both the supplier and the recipient in the VAT returns would not result into a loss of revenue by the Revenue Authority. Further, the importance of rebates cannot be understated in a growing economy such as Tanzania, in terms of driving forward trade (both domestic
and exports) and expanding employment through the distributors. The scheme can also be used to stimulate growth of industries by easing coverage through distributors, aiming to make profit through the volume discounts. Because of that, it is in best interest of both, the taxpayers (distributors and the manufacturers) and the Revenue Authority that a harmonious trade environment is provided to ensure that trade thrives, and tax revenues are collected correctly and as quickly as possible.

The adjustments done by the Revenue Authority usually results into disputes with the taxpayers that in most cases end in courts. This results into time wastage, exorbitant legal costs and disruption of the trade, as a lot of human resources would need to be allocated on trying to resolve the issue. This is on top of the actual VAT amount that usually becomes payable by the manufacturers as a result of loss of the legal battle.

Further, this create uncertainties to potential investors from other parts of the world, whose pricing structure and sale volumes largely depend on rebates. With the unfolding globalization, effecting how business are operated all over the world on day to day basis, it is important that tax laws change to cater for this dynamic. The legislative body as well as the enforcers of laws needs to be aware the rapid changes in the business environment as well as how they can be incorporated in the legislation so that tax can be collected correctly and quickly.

In the issue as significant as this, it is imperative that all stakeholders (manufacturers, distributors and Revenue Authority) are involved in forming a solution. A committee could be formed, comprising of all stakeholders, to review the importance and difficulties of practising rebates in relation to the Act, and further, how Legislations can be altered to fit the practice, without compromising the tax base.

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