



Tanzania

Fiscal Guide 2015/2016

Tax





INTRODUCTION

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Income tax

Basis of taxation

Income tax is levied on both companies and individuals under the Income Tax Act of 2004. Tax is charged on the taxable income accruing worldwide of all residents and on that which accrues in or is derived from Tanzania of non-residents. An entity is deemed a resident, if it was incorporated or formed under the laws of the United Republic of Tanzania or if the management and control of its affairs was exercised in the United Republic of Tanzania, at any time during the year of income.

Rates

Resident companies

Corporation tax

- company in which at least 30% equity is issued to the public	25% *
- other companies	30% **
- Alternative minimum tax (AMT) applicable to a company that has tax losses for five consecutive years. Charged as the percentage of turnover of the third year of tax losses	0.3%

Capital gains	30%
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Dividend income

- received from a resident company	
■ paying company is listed on the DSE	5% ***
■ paying company not listed on the DSE	10% ***
- paid to non-resident company	10%
Interest income	10%
Royalty income	15%
Rent income	10%
technical service fee income (mining and oil & gas)	5% ***

* Applicable only in first three years after a new listing on the Dar es Salaam Stock Exchange

** Alternative Minimum Tax (0.3% of the third year turnover) applies where a company makes tax losses for five consecutive years

*** Tax withheld at source (withholding tax) is a final tax

Notes

For the purposes of this guide, the 30% rate for resident companies as tabulated above is equated to a 0% – 30% rate for resident individuals as indicated in the table below:

Resident individuals

Income tax	0% – 30% ****
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Dividend income:

- received from non-resident company	0% – 30% ****
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Interest income from resident financial institution:

- received in conducting a business	0% – 30% ****
- received other than in conducting business	10% ***

**** Individual's income tax table



Resident individuals (continued)

Rent income:

- received in conducting a business	0%-30%****
- received other than in conducting business	10%***

**** Individual's income tax table

Total income (TZS)	Rate payable (%)
up to 2 040 000	0
2 040 001 – 4 320 000	11
4 320 001 – 6 480 000	20
6 480 001 – 8 640 000	25
over 8 640 000	30

Withholding tax rates on payments made by resident persons to resident and non-resident companies.

	Residents	Non-residents
Employment payments	0% – 30%**	15%
Directors fees (other than full time service)	15%	15%
Dividend:		
- paying company is listed on the DSE		
- paid to a resident company with 25% or more shareholding in the paying resident company	5%	5%
- paying company not listed on the DSE	10%	10%
Interest	10%	10%
Management or technical services in conducting business of extractive industry in mining, oil or gas	5%	15%
Other service fees	5%	15%
Rent		
- paid on land and buildings	10%	15%
- paid on aircraft lease and other assets	10%	10%
Natural resource payments	15%	15%
Royalties	15%	15%
Commututed pension	10%	15%
Other pension	15%	15%
Insurance premiums	Nil	5%
Commission to agents by service providers on money transfer through mobile phones	10%	10%

Capital gains tax

Capital gains realised on the disposal of business and investment assets in Tanzania are subject to tax at the rate of 30% for corporations, and the graduated rates for individuals.

In the case of gains arising due to the disposal of an interest in land and/or buildings situated within Tanzania, a single installment of tax is due at the point of disposal, which is computed as 10% of the gain in the case of a resident person and 20% of the gain in the case of a non-resident person. A tax credit may be claimed, through the annual tax return, for this upfront instalment amount paid.

Transfer pricing and thin capitalisation rules

Transfer pricing

The Income Tax Transfer Pricing regulations, 2014 came into effect in February 2014. Entities entering into transactions or series of controlled transactions are now required to determine the income and expenditure resulting from such transactions, in accordance with the Arm's Length Principle (ALP).

The regulations are applicable to Taxpayers involved in domestic controlled transactions as well as those involved in cross border transactions. Failure to do so will mandate the Commissioner to effect necessary adjustments so as to ensure adherence with the ALP, which may be to the detriment of the taxpayer. The regulations further provides that, in the event of inconsistency between OECD principals or the United Nations transfer pricing guidelines, and the Income Tax Act, then the Income Tax Act takes precedence.

Thin capitalisation

With regard to thin capitalisation, the Income Tax Act 2004 provides for restriction of tax-deductible interest only in case the taxpayer is an "exempt-controlled resident entity" (a resident entity that, during a given year of income, had 25% or more of its underlying ownership held by, among others, non-resident persons or associates of non-resident persons). The total amount of interest that an exempt-controlled resident entity may deduct for a year of income is limited to the sum of interest equivalent to a debt-to-equity ratio of 7:3. "Debt" has been defined as any debt obligation excluding a non-interest bearing debt, a debt owed to a resident financial institution and a debt owed to a non-resident bank or financial institution on whose interest tax is withheld in Tanzania. "Equity" has been defined to mean paid-up share capital, paid-up share premium and retained earnings on an unconsolidated basis determined in accordance with generally accepted accounting principles.

Inheritances and donations

There are no inheritances, donations or gift taxes in Tanzania.

Transaction taxes

Value Added Tax ("VAT") is levied at a standard rate of 18% on the supply of goods and services in the mainland, Tanzania, and on the importation of vatable goods or services from any place outside the mainland, Tanzania. VAT is 0% on zero-rated goods and 10% on special reliefs. The VAT registration threshold is currently an annual taxable turnover of TZS 100 million.

Stamp and transfer duty

Stamp duty is levied on a wide range of instruments and documents. The rates of duty vary according to the nature of the instrument or document. Agreements for the sale of shares, for example, attract stamp duty computed as 1% of the value of the shares and stamp duty on rental agreements is 1% of annual rent.

Customs duty

Imported goods are liable to customs duty at the point of entry into Tanzania, at the rates published in the East African Community (EAC) Common External Tariff. A wide range of goods – mainly raw materials and capital goods – qualify for a nil rate, while intermediary and finished goods will incur customs duty of 0%-25%, depending on their nature.

Goods originating in Southern African Developing Countries (SADC) or the EAC have preferential customs duty rates. Imported goods are also subject to a 0.6% destination inspection fee.

Other taxes

- Skills and development levy – 5% of gross cash remuneration, except for farm workers. This is an employer tax;
- Workers Compensation Fund: 1% of annual wage bill charged to employers from private sectors and 0.5% of annual wage bill charged to employers from public sectors.
- A “service levy” of up to 0.3% is charged by local authorities on the total turnover of enterprises based within their territorial boundaries (payable either monthly or quarterly depending on the requirements of each local authority); and
- Excise duty is payable on a range of goods and services such as tobacco, alcohol, petroleum products, motor vehicles, carbonated drinks, used domestic appliances and electronic appliances such as mobile phones, televisions and all other related products. Excise Duties are applied on electronic communication service, fees chargeable on money transfer through a financial institution or telecommunication service providers, telecommunication SIM cards and satellite television services.

Double tax treaties and reduced rates

Country	Dividends (%)	Interest (%)	Royalties (%)	Management or professional fees (%)
Canada	25*	15*	20	20
Denmark	15	12.5	20	20
Finland	20	15	20	20
India	10	10	10	20
Italy	10	12.5	15	0
Norway	20	15	20	20
South Africa	20*	10	10	
Sweden	25*	15	20	20
Zambia**	-	-	-	

* These rates are further reduced for certain percentages of ownership.

** No withholding tax applicable subject to certain conditions.

Note: The Double Tax Agreement between Tanzania and the United Kingdom is currently being negotiated

Investment information

Investment rules

Investment in Tanzania is regulated by the Tanzania Investments Act 1997. The Act has set up a one-stop Investment Centre to coordinate, encourage, promote and facilitate investment in Tanzania. Investments registered with the Tanzania Investment Centre are, for example, guaranteed of assistance in processing some registrations and licenses, no state expropriation and the right to repatriate profits and capital relating to the investment.

Investment incentives

General

Under the Export Processing Zones Act 2002, the Minister may establish or declare any area of land as an Export Processing Zone (“EPZ”). An EPZ enterprise is required to be licensed by the National Development Corporation and should export a minimum of 80% of its products.

The following benefits are available to an EPZ enterprise:

- Exemption from exchange control;
- Exemption from corporation tax for 10 years and the standard corporate tax rate (currently 30%) thereafter;
- Exemption from withholding tax on rent, dividends and interest for 10 years;

Investment incentives (continued)

General (continued)

Remission of customs duty, VAT and any other tax for goods used as raw materials, equipment, and machinery, directly related to manufacturing in the EPZ;
 Exemption from paying all taxes and levies imposed by local government authorities for goods and services produced or purchased in the EPZ;
 Exemption from pre-shipment inspections, customs inspections and easing of temporary visa and work permit requirements;
 Entitlement to an initial automatic immigration quota of up to five persons during the start-up period
 Accessibility to high quality infrastructure; and
 On-site customs inspection of goods in lieu of off-port inspection.

The Special Economic Zones Act 2006 enables the establishment of selected geographical areas as Special Economic Zones (SEZ) with a focus on activities that accelerate domestic production, promote exports or generate employment. The targeted sectors are agricultural, agro-industrial, industrial, tourism, commercial, forestry, information and communication technology, banking and financial centres. Other sectors may be determined by the SEZ Authority.

In order to be licensed to operate within a SEZ, a new foreign-owned investment will require a minimum capital of US\$5 million while a locally-owned investment will require a minimum capital of US\$1 million. Investment incentives vary depending on certain categories into which investments may fall, but are largely similar to those granted to an EPZ investment.

Other tax incentives

For non-EPZ and non-SEZ companies, in addition to capital allowances on fixed asset expenditure, an initial allowance of 50% applies on the net cost of plant and machinery used in manufacturing (and fixed in a factory), fish farming, or in providing services to tourists (and fixed in a hotel).

Total capital allowance granted to a person is available in two portions: the first portion (an initial allowance of 50%), if applicable, is available in the year of acquisition and the remaining portion is available during the subsequent years* of income following the year when the first portion was availed.

* There are no specific number of years that one can depreciate the asset, as the assets will be in a pool and there is difficulty in tracing an individual asset in the pool. The remaining balance of 50% will be depreciated on a written-down-value (WDV) basis till the assets value is exhausted.

Exchange Controls

All transactions in foreign currency are regulated by the Foreign Exchange Act which permits any person, resident or not, to:

- Hold any amount of foreign currency;
- Sell any amount of specified foreign currency to an authorised dealer; and
- Open and maintain a foreign currency account with a bank that is an authorised dealer.

Under the Investment Act 1997, investors are guaranteed unconditional transferability through any authorised dealer in freely convertible currency of net profits, foreign loan service, royalties, fees and technology transfer charges, emoluments of foreign personnel and repatriation of capital, after taxes, on sale of the investment.

The Tanzanian transmitting banks may, however, request documentation such as agreements, contracts, invoices and resolutions to support the remittances.

Residence and work permits

All foreign citizens are required to obtain residence permits (also serve as work permits) which will generally only be granted if it can be demonstrated that a Tanzanian citizen is unable to perform the job that the foreign citizen intends to carry out in Tanzania.

Annual budget announcement

The Minister of Finance announces the annual Budget and Taxation Proposals in June of each year for the tax year commencing on 1 July thereafter.

Bilateral trade and agreements

Membership – WTO, ACP-EU Partnership Agreement, EAC and SADC.

Trade agreements concluded with Kenya and Uganda and countries in east, central and southern Africa.

Economic statistics

Prime interest rate (Overall lending rate for all maturity periods)	16.14%
US\$ Exchange Rate (Midpoint rate, 23 February 2016)	2,179.22 TZS
Inflation (Average rate, January 2015 – December 2015)	5.58%
GDP	7.1%

Travel information

Visa requirements	A visa is required for all foreign passport holders intending to visit Tanzania
Flights	A number of international and regional airlines have regular flights to Dar es Salaam from most major regional hubs and a number of international centres.
Inoculations	Under International Health Regulations adopted by the World Health Organisation, Tanzania requires International Certificates of Vaccination against yellow fever, especially if you are travelling from an area of the world that is infected with yellow fever. Prophylactic medication for malaria and certain other preventive measures are also advisable.

Currency

The Tanzanian shilling (TZS), which is divided into 100 cents.

Languages

The official languages are English and Kiswahili. Arabic and other local languages are also spoken.

Official holidays

- 1 January (New Year's Day)
- 12 January (Zanzibar Revolution Day)
- 25 March 2016 (Good Friday)
- 28 March 2016 (Easter Monday)
- 7 April (Sheikh Abeid Amani Karume Day)
- 26 April (Union Day)
- 1 May (International Labour Day)
- 7 July (Saba Saba – International Trade Fair)

Official holidays

- 7* – 8* July or 8* – 9* July (Eid El-Fitr)
- 8 August (Peasants Day)
- 14* or 15* September (Eid El-Hajj)
- 14 October (Mwalimu Nyerere Day)
- 9 December (Independence Day)
- 25* or 26* December (Maulid Day)
- 25 December (Christmas)
- 26 December (Boxing Day)

*These holidays will depend on sighting of the moon.





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