Tanzania Country Profile

Africa Tax Centre: 2020 Fiscal Guide

July 2021

2020 Key tax factors for efficient cross-border business and investment involving Tanzania

Member State

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

Double Tax Treaties

With the following countries, territories and jurisdictions:

Canada	Finland	Italy	South Africa
Denmark	India	Norway	Sweden
Zambia			

Most important forms of doing business

Limited Liability Company, Public Company, Foreign Company and Partnerships.

Legal entity capital requirements

The statutory minimum share capital is TZS 20,001 (Approx. EURO 8) for a company in Tanzania. Each company needs to have at least two shareholders for a private company and more than 50 shareholders for a public company.

Residence

A company is resident if either its legal seat (Incorporation or Registration) or its place of management is in Tanzania. Resident companies are taxed on their worldwide income. Non-resident companies are taxed only on their Tanzanian sourced income.

Compliance requirements for CIT purposes

Deadline for filing tax return is the sixth month after the end of each year of income; exemptions apply to a non-resident person other than one with a domestic permanent establishment, who has no income tax payable for the year of income.

Holding rules

Dividend received from resident to another resident subsidiary/corporation
Full exemption

Capital gains obtained from resident/non-resident subsidiaries
Capital gains on the disposal of shares in resident attracts capital gains tax at 30% and an indirect sale of shares of a non-resident company owning a Tanzanian entity indirectly may also qualify for capital gains tax (under certain conditions).

Tax losses

Losses may be carried forward indefinitely. No carry-back is allowed. Losses carried forward may be lost after a substantial change in the commercial identity (three characteristics are taken into account for evaluating whether the commercial identity has changed substantially: change of ownership in the company's share capital, change of economic structure, change of organizational structure) or after a reorganization.
Minimum taxation: 70 percent of the annual income can be sheltered by tax loss carry-forward, whereas 30 percent is subject to an immediate tax liability.

Tax consolidation rules/Group relief rules

Not Applicable.

Registration duties

Insignificant.

Transfer duties

Stamp duties
Yes, the rate depends on the type of contract.

Corporate income tax rate

Resident companies	
Corporation tax	
— Corporation with a newly established plant for assembling motor vehicles, tractors, fishing boats or out boats engine and having a performance agreement with the Government	10%*
— Company in which at least 30% equity is issued to the public — Newly established entity dealing in manufacture of pharmaceuticals or leather products and having a performance agreement with the Government — Company dealing in manufacture of sanitary pads and having a performance agreement with the Government for two consecutive years from 1 July 2019 to 30 June 2021	25%**
— Other companies i.e. Mining, Petroleum operations	30%
— Alternative Minimum Tax (AMT) applicable to a company that has tax losses for three consecutive years. Charged as the percentage of turnover of the third year of tax losses	0.5%***
Capital gains	30%
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%****

Notes

* Applicable only in five consecutive years from the year of commencement of production

** Applicable only in first three years after a new listing on the Dar es Salaam Stock Exchange and for five consecutive years from the year of commencement of production

*** Alternative Minimum Tax (0.5% of the third-year turnover) applies where a company makes tax losses for three consecutive years

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

Withholding tax rates

	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	5%	5%
- 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%
Commuted 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%

Exemption

Interest paid by the Government to a non-resident bank, financial institution, other government or representative of other government arising from loan agreements for financing Government projects.

Controlled Foreign Company rules	The Income Tax Act, CAP 332 has provisions that provides for taxation of controlled foreign trusts" and "controlled foreign corporations". The controlled foreign trust" and "controlled foreign corporations have been defined in the Act to mean: "controlled foreign trust" and "controlled foreign corporation" means a non-resident trust or corporation in which a resident person owns a membership interest, whether directly or indirectly through one or more interposed non-resident entities, and where- a) the person is associated with the trust or corporation; or b) there exist between one and four other resident persons which, if associated with the person, would cause the person to be associated with the trust or corporation; General anti-abuse legislation Based on the Tax Administration Act, the general anti-abuse provision may also be applied to low-tax foreign subsidiaries. In that case, the profits earned by the foreign subsidiary are attributed to the domestic parent.
Transfer pricing rules	General transfer pricing rules The Tax Administration (Transfer pricing) Regulations, 2018 ("TP Regulations 2018") was published in 27 April 2018, however, these regulations were released to the public on 21 November 2018. The Introduction of the TP Regulations 2018 came with the revocation of the Income Tax (Transfer Pricing) Regulations, 2014, which were published on 7 February 2014. On 1 July 2020, Transfer Pricing Guidelines ("Guidelines") were issued with the aim of providing guidance on the procedures to be followed in determination of arm's length prices and provide consistency in administration of tax laws. The TP Regulations 2018 requires a person who participates in a controlled transaction to prepare a contemporaneous transfer pricing documentation, failure of which results to a penalty for failure to comply with the documentation requirements. The TP Regulations 2018 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 Arm's Length Principle ("ALP"), which may be to the detriment of the taxpayer. The TP Regulations 2018 further provides that, in the event of inconsistency between OECD principals or the United Nations transfer pricing guidelines, and the TP Regulations 2018, the TP Regulations 2018 takes precedence. Documentation requirement The TP Regulations 2018 have also modified the list of records and documents required to be included in the contemporaneous documentation, to include actual computational workings carried out in determining transfer prices, financial statements for the parties involved in the related party transaction, including where the tested party has been selected outside the country and other documents as provided in the TP Regulations 2018. Together with the increment of the documentation requirements, taxpayer who has transactions with its related parties of a total magnitude amounting to or above TZS 10 billion, is required to prepare and file with the Tanzania Revenue Authority ("TRA"), its Transfer Pricing ("TP") documentation along with the income tax return for the respective year of income.
Thin capitalization rules	With regard to thin capitalization, 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.
General Anti-Avoidance rules (GAAR)	A general anti-avoidance rule is included in the Tax Administration Act.

Advance Ruling system	Yes, on application in writing by a person to the Commissioner General to issue a private ruling or a class ruling setting out position on the application of a tax law to an arrangement proposed or entered into- a) in the case of a private ruling, by that person; or b) in the case of a class ruling, by persons in a specified class. A private or class ruling may apply to multiple arrangements or multiple tax laws.
IP / R&D incentives	R&D full tax expense deduction agricultural improvement, research and development and environmental expenditure to the extent incurred by the person during the year of income in conducting the business.
Other incentives	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. 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 the initial period of 10 years and the standard corporate tax rate (currently 30%) thereafter; – Exemption from withholding tax on rent, dividends and interest for the initial period of 10 years; – 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 centers. 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.

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VAT	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. The VAT registration threshold is currently an annual taxable turnover of TZS 100 million.
Other relevant points of attention	Other Taxes — Skills and Development Levy (SDL): 4.5% 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. Residence and work permits All foreign citizens are required to obtain residence permits and work permit 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.
COVID-19 Resources	An overview of tax developments being reported globally by KPMG member firms in response to the Novel Coronavirus (COVID-19) is available here. For further insight into the potential tax, legal and mobility implications of COVID- 19, please refer to the dedicated KPMG page.

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