



## International tax

# Tanzania Highlights 2012

### Investment basics:

**Currency** – Tanzanian Shilling (TZS)

**Foreign exchange control** – None.

Resident and nonresident corporations and individuals can hold bank accounts in any currency. Repatriation payments generally may be made in any currency, subject to the need to demonstrate reasons for payment before a transfer in foreign currency takes place.

### Accounting principles/financial statements

– Financial statements must be prepared annually using IFRS and certain local standards.

**Principal business entities** – These are the sole proprietorship, partnership, trust, private and public limited liability company, cooperative and branch of a foreign corporation.

### Corporate taxation:

**Residence** – A corporation is a resident if it is incorporated under the Tanzanian Companies Act or, at any time during the tax year, management and control of its affairs is exercised in Tanzania

**Basis** – Residents are taxed on worldwide income. Nonresidents are taxed on income sourced in Tanzania. Foreign-source income for residents is taxed under the same rules as Tanzanian-source income, although foreign-source losses may only be offset against foreign-source income. Branches of foreign corporations are taxed in the same way as resident companies, with an additional tax on branch profits.

**Taxable income** – Taxable profit is obtained by adjusting income under specific tax rules. Generally all expenditure incurred wholly and exclusively in the production of income from any business or investment is deductible. Capital expenditure is subject to specific depreciation rates.

**Taxation of dividends** – Dividends received by a resident company from another resident company are exempt if the recipient holds

25% or more of the shares of the payer company.

**Capital gains** – Gain (or loss) is included in business or investment income and taxed at 30%. For land and buildings, a single instalment is payable at 10% for residents and 20% for nonresidents at the time of transfer, which may be credited against the final corporate income tax liability.

**Losses** – Subject to continuity-of-ownership and same business tests, losses may be carried forward indefinitely. The carryback of losses is not permitted

**Rate** – The general rate is 30% of the total income for the year. As from 1 July 2009, however, newly listed companies on the Dar es Salaam Stock Exchange that have issued at least 30% of their share capital to the public are subject to a corporate income tax rate of 25% for 3 consecutive years from the date of listing.

**Surtax** – No

**Alternative minimum tax** – A company with tax losses for 3 consecutive years is liable to a minimum tax at 0.3% on turnover.

**Foreign tax credit** – Foreign tax paid may be credited against Tanzanian tax on foreign-source income, but the credit is limited to the amount of Tanzanian tax payable. Excess credits may be carried forward.

**Participation exemption** – Yes, see under “Taxation of dividends.”

**Holding company regime** – No

**Incentives** – Companies in export processing zones are exempt from income tax and withholding tax on dividends, interest and rent for the first 10 years.

### Withholding tax:

**Dividends** – Dividends paid to a resident company controlling 25% or more of the distributing company’s shares are exempt from withholding tax. Dividends paid by a company listed on the Dar es Salaam stock exchange are subject to a 5% withholding tax; otherwise, the rate is 10% regardless of

whether the dividends are paid to residents or nonresidents.

**Interest** – The general withholding tax rate on interest paid to residents and nonresidents is 10%; exemptions are available for interest earned by nonresidents on deposits in banks registered by the Bank of Tanzania and on interest paid to resident financial institutions.

**Royalties** – The withholding tax on royalties paid to residents and nonresidents is 15%.

**Technical service fees** – The withholding tax on technical service fees paid by a resident mining company to a resident company is 5% and 15% if paid to a nonresident.

**Branch remittance tax** – A branch profits tax is imposed at a rate of 10%.

**Other** – No

### Other taxes on corporations:

**Capital duty** – No

**Payroll tax** – The Skills and Development Levy is calculated at 6% of cash emoluments paid to employees.

**Real property tax** – For the Dar es Salaam region, property tax is charged on residential and commercial property at the rate of 0.15% and 0.2%, respectively, of the total value. Real property in other regions is taxed at the relevant municipal rates determined in accordance with the law of the local authorities.

**Social security** – The employer and employee each contribute 10%, with the employer deducting the employee’s contribution from wages.

**Stamp duty** – Stamp duty may be levied either as a specific amount or at progressive rates up to a maximum of 1% of the value of the consideration.

**Transfer tax** – A transfer tax of TZS 50,000 applies to motor vehicles.

**Other** – A city service levy is imposed at a rate of 0.3% of turnover.

## Anti-avoidance rules:

**Transfer pricing** – The arm's length principle applies to transactions between affiliates, both resident and nonresident. Transfer pricing guidelines are being drafted.

**Thin capitalization** – An interest deduction is limited to the interest portion in respect of debt that does not exceed a 70:30 debt-to-equity ratio. Nondeductible interest amounts may not be carried forward.

**Controlled foreign companies** – A "controlling person" must include in income the attributable income less distributions from a controlled foreign trust or company.

**Other** – Taxpayers are subject to a general anti-avoidance rule when the main purpose of an arrangement is the avoidance or reduction of tax liability. Specific rules negate income splitting.

**Disclosure requirements** – The "Return of Income of an Entity" form must include disclosures of whether the return is in respect of a branch of a foreign company and whether the entity is dormant; is a Tanzanian resident as a result of its place of effective management; is exclusively a tax resident of another country as a result of the application of a tax treaty; or has a participation right in a CFC.

## Administration and compliance:

**Tax year** – Calendar year, although a company may request a different 12-month period.

**Consolidated returns** – Consolidated returns are not permitted; each company must file a separate return.

**Filing requirements** – Under the self-assessment regime, an estimated return must be filed within 3 months after the start of the tax year. Estimated tax is payable in 4 instalments. The final tax return must be filed within 6 months from the tax year end.

**Penalties** – Penalties apply for late filing of returns and late payment of tax.

**Rulings** – Taxpayers may request a private ruling setting out the Commissioner's position with regard to the application of the tax code on a proposed or actual arrangement.

Rulings are binding on the Commissioner if the taxpayer makes full disclosure of all aspects of the arrangement relevant to the ruling before the ruling is issued.

## Personal taxation:

**Basis** – Tanzanian residents are taxed on their worldwide income. Nonresidents are taxed only on Tanzanian-source income.

**Residence** – An individual is resident in Tanzania for the tax year if he/she: (a) has a permanent home in Tanzania and is present in Tanzania during any part of the year; (b) is present in Tanzania during the year for a period(s) amounting in the aggregate to 183 days or more; (c) is present in Tanzania during the year and in each of the 2 preceding years for periods averaging more than 122 days in each tax year; or (d) is an employee or an official of the government of Tanzania posted abroad during the tax year.

**Filing status** – Each individual must file a return; joint filing is not permitted. However, individuals whose only source of income is employment income are not required to file a return.

**Taxable income** – Income is taxed on a graduated scale: TZS 112,500 is charged on the first TZS 720,000 per month, and 30% on the excess. Taxable employment income includes both cash and non-cash benefits. Income derived by an individual in conducting a business is taxed in the same way as a company, although special rates apply if the turnover is less than TZS 20 million.

**Capital gains** – Gain or loss is included in business or investment income and taxed at 30%. For land and buildings, a single instalment is payable at 10% for residents and 20% for nonresidents at the time of transfer, which is creditable against the final tax liability.

**Deductions and allowances** – Medical expenses, health insurance premiums and onsite meals provided by an employer to its employees on a nondiscriminatory basis do not form part of taxable employment income. Social security contributions are not taxable.

**Rates** – Rates are progressive from 0% to 30%.

## Other taxes on individuals:

**Capital duty** – No

**Stamp duty** – Stamp duty may be levied either as a specific amount or at progressive rates up to a maximum of 1% of the value of consideration.

**Capital acquisitions tax** – No

**Real property tax** – For the Dar es Salaam region, property tax is charged on residential and commercial property at the rate of 0.15% and 0.2%, respectively, of the total value. Real property in other regions is taxed at the relevant municipal rates determined in accordance with the law of the local authorities.

**Inheritance/estate tax** – No

**Net wealth/net worth tax** – No

**Social security** – The employer and employee each contribute 10%, with the employer deducting the employee's contribution from wages.

## Administration and compliance:

**Tax year** – Calendar year

**Filing and payment** – Except for resident individuals who have no income tax payable for a year of income or who only derive employment income subject to PAYE, every person is required to file an income tax return no later than 6 months after the end of the year and attach any withholding tax certificates supplied with respect to payments received during the year of income. An estimated tax return is due within the first 3 months of a tax year, with estimated tax due in quarterly instalments. Tax on employment income is withheld by the employer under the PAYE system and remitted to the tax authorities. Income not subject to PAYE is self-assessed and 4 instalments are payable in advance with the final balance payable within 6 months after the year end.

**Penalties** – Individuals are subject to penalties for late filing of returns and late payment of tax.

## Value added tax:

**Taxable transactions** – VAT is levied on the supply of goods and services.

**Rates** – The standard rate is 18%; a zero rate mainly applies to exports of goods and professional and communications services.

**Registration** – The registration threshold is a turnover of TZS 40 million over a period of 12 consecutive months.

**Filing and payment** – Monthly returns and payment are due by the last business day of the month following the supply.

**Source of tax law:** Income Tax Act 2004, VAT Act 1997, East African Customs

Management Act 2004, Stamp Duty Act 1972, Vocational Education and Training Act 2000 and Annual Finance Acts

**Tax treaties:** Tanzania has concluded 9 tax treaties.

**Tax authorities:** Tanzania Revenue Authority (TRA)

**International organizations:** OECD, WTO, EAC, SADC, CATA

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