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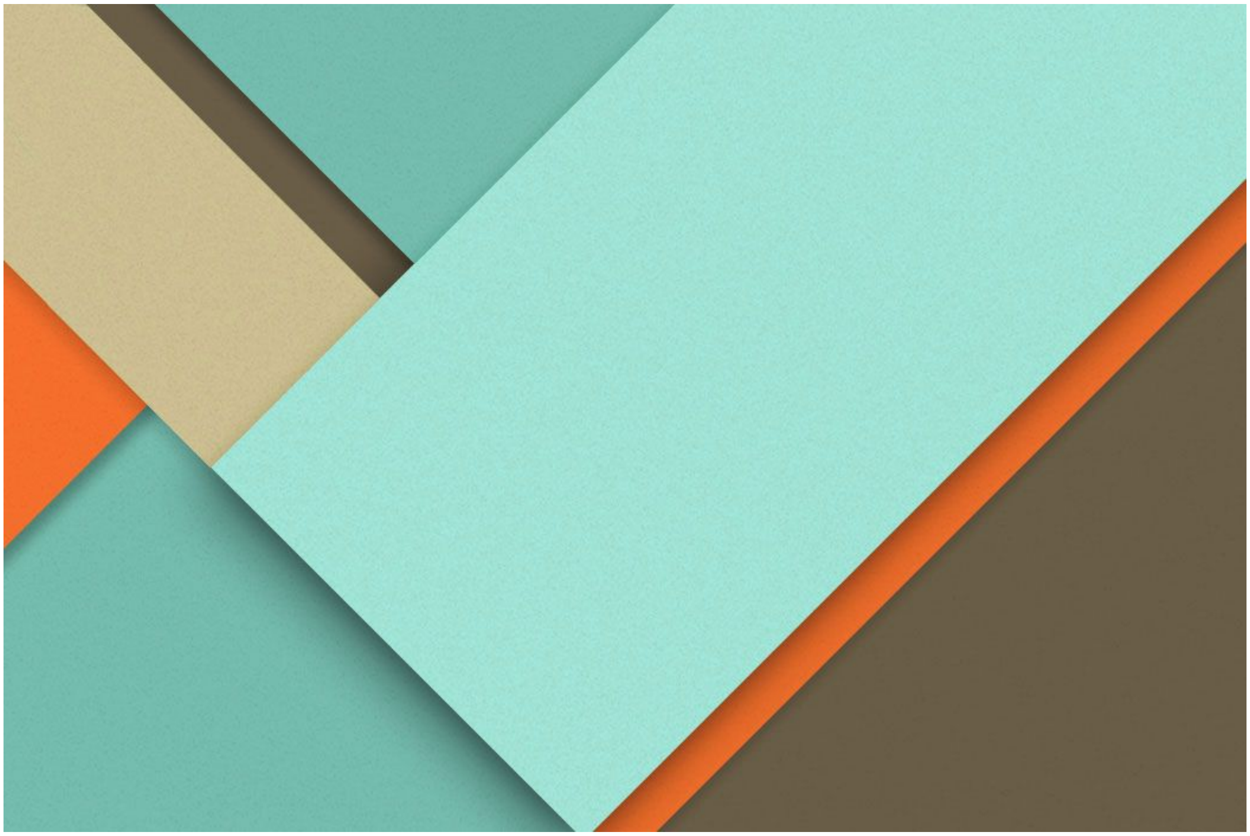


Tanzania Tax Update

August 2018

This Month:

1. Transfer Pricing - a summary
2. Thin-Capitalisation rules
3. September 2018 submission deadlines

1. Transfer Pricing (TP) in Tanzania

What is TP? : Transfer Pricing refers to the rules and methods used determine the charge for goods, services and intangible properties transacted between associated parties.

Why is it important? : Associated parties (e.g. companies under common ownership) have the capacity to distort taxable income through intercompany transactions.

Therefore, tax authorities around the world set out TP regulations which allow them to adjust the pricing of such transactions where they differ from those that would have been charged by unrelated parties.

Who is affected? : Tanzanian companies or persons who carry transactions with associated persons both inside and outside Tanzania. Associated parties are broadly defined as:

- An individual and a relative of that individual;
- Partners in the same partnership;
- An entity and a person/entity who directly/indirectly controls or may benefit from 50% or more of the rights to income, capital or voting power of the entity; or
- Any case where one might reasonably be expected to act, other than as an employee, in accordance with the intentions of the other.

What type of arrangements are covered? : Most arrangements including "*an action, agreement, course of conduct, dealing, promise, transaction, understanding or undertaking whether express or implied, whether or not enforceable by legal proceedings and whether unilateral or involving more than one person*"

In practical terms, affected transactions may include:

- Intercompany loans
- Management and service fees paid to related companies
- Intergroup sales
- Transactions with directors or commonly owned companies
- Royalties and interest charges between associated entities

Deemed Interest: The regulations give the TRA the right to impose a deemed interest expense on intra group financing that is interest-free. Related persons involved in intra group financing either directly or indirectly, with or without consideration, are required to determine the arm's length rate for such assistance. This also raises the possibility of the imposition of real withholding tax on deemed interest expenses.

What you need to do: All taxpayers affected by these regulations are required to maintain transfer pricing documentation as evidence of the arm's-length nature of its arrangements.

Transfer pricing documentation is **not** to be submitted at the time of filing income tax returns but should be made available to the Commissioner within 30 days of request.

Documentation requirements: A Transfer Pricing documentation must consist of the following:

- Organisational structure
- Group Financial report
- Nature of business/industry and market conditions
- Nature and purpose of relevant transactions
- Description of structure, intensity, dynamics, of the relevant environment
- Detailed description of relevant transactions
- Pricing policies
- Comparability analysis
- Functional analysis
- Risk analysis
- Selection and application of transfer pricing method
- Supporting documentation
- Other details as set out in TP Guidelines

Failure to provide documentation: Failing to provide Transfer Pricing documentation when requested by the Tanzania Revenue Authority (TRA) will attract a penalty of Tshs 50,000,000 (Fifty Million) or a prison term not exceeding six months, or both.

2. Thin Capitalisation in Tanzania

What is Thin Capitalisation? A business is said to be thinly capitalised when its level of debt is much greater than its equity capital. This means that the company is mostly funded by debt (over-geared).

Why does it matter? A high debt-to-equity ratio can create problems for:

- Creditors - who bear the solvency risk of the company; and
- Tax Authorities - who are concerned about excessive interest claims.

What are the rules in Tanzania? 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.

There are specific definitions of 'debt' and 'equity' for the purposes of thin capitalisation.

How can this affect you: The Commissioner can make adjustments to disallow interest expenses incurred by qualifying companies. This might result in additional tax payable as a result of such adjustments.

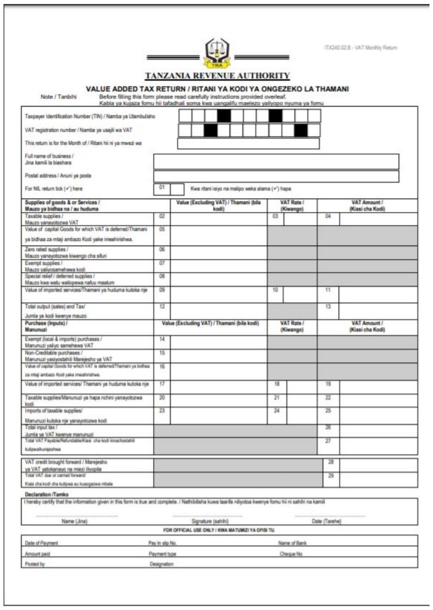
How C&A can help

- Review your company status to determine if you are affected
- Analyse your interest deductions
- Review the impact of above rules to determine the impact of interest adjustments

3. September 2018 compliance deadlines

The following returns are due for submission to TRA on or before 30 September 2018:

Value Added Tax Return



ITX240.02.B - VAT Monthly Return

TANZANIA REVENUE AUTHORITY

VALUE ADDED TAX RETURN / RITANI YA KODI YA ONGEZEKO LA THAMANI

Note / Tanbihi Before filling this form please read carefully instructions provided overleaf. Kabla ya kujaza fomu hii tafadhali soma kwa uangalifu maelezo yaliyopo nyuma ya fomu

Taxpayer Identification Number (TIN) / Namba ya Utambulisho

VAT registration number / Namba ya usajili wa VAT

This return is for the Month of / Ritani hii ni ya mwezi wa

Full name of business / Jina kamili la biashara

Postal address / Anuni ya posta

For NIL return tick (✓) here 01 Kwa ritani isiyo na malipo weka alama (✓) hapa

Supplies of goods & or Services / Mauzo ya bidhaa na / au huduma		Value (Excluding VAT) / Thamani (bila kodi)	VAT Rate / (Kiwango)	VAT Amount / (Kiasi cha Kodi)
Taxable supplies / Mauzo yanayotozwa VAT	02		03	04
Value of capital Goods for which VAT is deferred/Thamani ya bidhaa za mtaji ambazo Kodi yake imeahirishwa.	05			
Zero rated supplies / Mauzo yanayotozwa kiwango cha sifuri	06			
Exempt supplies / Mauzo yaliyosamehewa kodi	07			
Special relief / deferred supplies / Mauzo kwa watu waliopewa nafuu maalum	08			
Value of imported services/Thamani ya huduma kutoka nje	09		10	11
Total output (sales) and Tax/ Jumla ya kodi kwenye mauzo	12			13
Purchase (Inputs) / Manunuzi		**Value (Excluding VAT) / Thamani (bila kodi)**	**VAT Rate / (Kiwango)**	**VAT Amount / (Kiasi cha Kodi)**
Exempt (local & imports) purchases / Manunuzi yaliyo samehewa VAT	14			
Non-Creditable purchases / Manunuzi yasiyostahili Marejesho ya VAT	15			
Value of capital Goods for which VAT is deferred/Thamani ya bidhaa za mtaji ambazo Kodi yake imeahirishwa.	16			
Value of imported services/ Thamani ya huduma kutoka nje	17		18	19
Taxable supplies/Manunuzi ya hapa nchini yanayotozwa kodi	20		21	22
Imports of taxable supplies/ Manunuzi kutoka nje yanayotozwa kodi	23		24	25
Total input tax / Jumla ya VAT kwenye manunuzi				26
Total VAT Payable/Refundable/Kiasi cha kodi kinachostahili kulipwa/kurejeshwa				27
VAT credit brought forward / Marejesho ya VAT yatokanayo na miezi iliyopita				28
Total VAT due or carried forward/ Kiasi cha kodi cha kulipwa au kusogezwa mbele				29

Declaration /Tamko

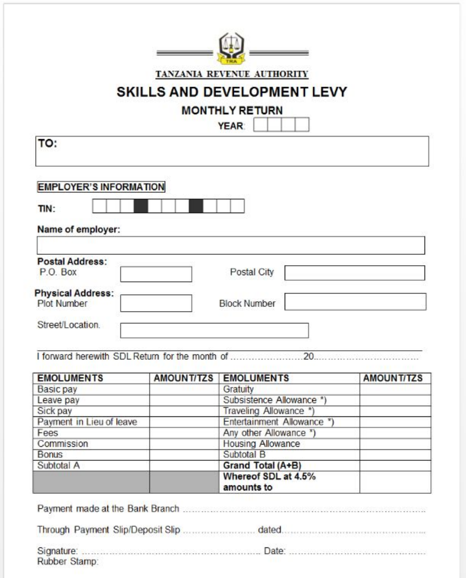
I hereby certify that the information given in this form is true and complete. / Nathibitisha kuwa taarifa niliyotoa kwenye fomu hii ni sahihi na kamili

Name (Jina) Signature (sahihi) Date (Tarehe)

FOR OFFICIAL USE ONLY / KWA MATUMIZI YA OFISI TU.

Date of Payment	Pay In slip No.	Name of Bank
Amount paid	Payment type	Cheque No
Posted by	Designation	

Skills Development Levy: Monthly Return



TANZANIA REVENUE AUTHORITY

SKILLS AND DEVELOPMENT LEVY

MONTHLY RETURN

YEAR

TO:

EMPLOYER'S INFORMATION

TIN:

Name of employer:

Postal Address:
P.O. Box Postal City

Physical Address:
Plot Number Block Number

Street/Location.

I forward herewith SDL Return for the month of ....20...............................

EMOLUMENTS	AMOUNT/TZS	EMOLUMENTS	AMOUNT/TZS
Basic pay		Gratuity	
Leave pay		Subsistence Allowance *)	
Sick pay		Traveling Allowance *)	
Payment in Lieu of leave		Entertainment Allowance *)	
Fees		Any other Allowance *)	
Commission		Housing Allowance	
Bonus		Subtotal B	
Subtotal A		**Grand Total (A+B)**	
		Whereof SDL at 4.5% amounts to	

Payment made at the Bank Branch ....

Through Payment Slip/Deposit Slip .... dated...

Signature: .... Date: ....
Rubber Stamp:

Penalties apply (Tshs 225,000 per month) for companies failing to submit above forms before deadline

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