Executive summary

Tanzania’s Parliament approved the Finance Bill, 2018/2019 on 28 June 2018. The Bill was then assented by the President and became a Finance Act on 30 June 2018. The Finance Act, 2018 (the Act) became operative with immediate effect from 1 July 2018. The Act amends laws relating to various taxes and duties.

The Act introduces amendments to existing provisions in the different tax laws. The Act also streamlines and clarifies Income Tax provisions, Value Added Tax (VAT) provisions, and Excise Duty changes. This Alert summarizes the key tax changes that include but are not limited to:

- Tax amnesty program
- Increase in the Alternative Minimum Tax (AMT) to 0.5%
- Increase in the nonresident individual tax rate on total income to 30%

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Detailed discussion

**Income Tax Act (ITA), 2004**

The following amendments have been made to ITA, 2004:

- Repeal of Section 10A that prohibited the Minister of Finance from granting exemptions or remission on income or payments derived from government projects financed by a non-concessional loan. The Minister is now able to grant such exemptions and remissions on such projects.

- Introduction of Section 129 which grants the Minister of Finance the authority to make regulations under ITA, 2004.

- Increase in the tax rate for the total income of a nonresident individual to 30% (from 20%). Total income comprises of income from employment, business or investment.

- Reduction of the corporate income tax rate for new investors in the Pharmaceutical and Leather industries from 30% to 20% for five consecutive years from the year of commencement of production. The investor must have a performance agreement with the Government of Tanzania.

- Increase in the AMT rate to 0.5% (from 0.3%). AMT is imposed on the turnover of a corporation with tax losses or utilizing tax losses for three consecutive years.

- Elimination of the exemption from withholding tax (WHT) for payments on rent and dividends arising from investment in the Export Processing Zone (EPZ) and Special Economic Zone (SEZ) during the initial period of 10 years.

- Exemption from WHT on interest paid by the Government to a nonresident bank or financial institution other than a government or representative of the government arising from a loan that entitles the nonresident entity to a tax exemption for purposes of financing government projects.

- **Tax amnesty:** The Commissioner General may, for good cause, forgive the whole or part of the interest or penalty imposed under any tax law. Previously, the Commissioner could only forgive 50% of the total interest amount. The Minister will publish regulations prescribing eligibility, duration and procedure for accessing the amnesty.

**Value Added Tax Act (VATA), 2014**

The following amendments have been made to VATA, 2014:

- Not for Profit organizations are no longer eligible to obtain a refund of input tax incurred on the acquisition or importation of taxable goods and services.

- Soya Cake, maize bran, wheat bran, rice bran and cotton bran are now exempted from VAT.

- The Minister of Finance has been granted powers to provide VAT exemptions on government projects funded by a concessional, non-concessional loan or grant through an agreement between the Government of Tanzania and another government or representative of another government or donor of the loan.

- The Minister of Finance also has the power to exempt from VAT, a grant agreement between the local authority and the donor.

**Excise (Management and Tariff), Act (Cap. 147)**

- Fixed tariffs on locally produced non-petroleum excisable products including alcohol, soft drinks and tobacco remain unchanged. However, excise duty rates related to imported non-petroleum products will be subject to an increased rate.

**The East African Community Customs Management Act (EACCMA), 2004**

The following amendments have been made to EACCMA, 2004:

- Stay of application of 0% instead of 10% for one year on Electronic Fiscal Devices (EFD’s) used to collect government revenues.

- Stay of application of 35% on sugar (consumption sugar) imported under specific arrangement to cover shortage in the domestic market. Currently the rate is 25%.

- Granting of duty remission and application of an import duty of 10% instead of 35% on wheat grain.
• Reduction in the duty of Poly Vinyl Alcohol from 10% to 0% for one year, this is the raw material for the manufacturing of paints.
• Stay of application of 60% duty rate instead of 25% for one year on mineral water. There is sufficient capacity in the country.
• Extension of duty exemption on rally cars including motorcycles for rally.
• Import duty exemption on various types of motor vehicles for transportation of tourists e.g., motor vehicles, sight-seeing buses and overland trucks imported by licensed operators and meet specific conditions.

Other taxes
• Increase in the gaming tax rate from 6% to 10% on gross sales in sports betting operations.
• Increase in the gaming tax from TZS32,000 TO TZS100,000 per machine/month on slot machines.
• Increase in the gaming tax from 15% to 18% on gross gaming revenue for land-based casino operators.

Endnotes
1. Stay of Application: Tanzania will not adopt the new tax rate this year. It will keep the existing rate for a specified time (one year) and the rate will change automatically in the new financial year.
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EYG no. 010220-18Gbl
1508-1600216 NY
ED None

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