



**TANZANIA REVENUE AUTHORITY**

**ATI REGIONAL WORKSHOP ON TAX EXPENDITURE:  
FOLLOW-UP TECHNICAL MEETING  
DAR ES SALAAM, TANZANIA  
6-8 DECEMBER, 2023**

**ESTABLISHING A BENCHMARK TAX SYSTEM IN TANZANIA**

*Tanzania Revenue Authority  
Dar es Salaam  
December, 2023*

# OUTLINE

- ❑ Introduction
- ❑ Establishing Benchmarking Tax System Tanzania
- ❑ Main Challenges
- ❑ Conclusion

# INTRODUCTION

## ■ **Responsible Institution**

- Although TEs estimation can be done by a number of institutions including MoF, Academic Institutions, Credit rating agencies, etc, TRA is responsible for such estimations in Tanzania
- TRA may get other information from NBS and other Ministries

## ■ **Frequency of reporting**

- It is planned that TEs be estimated yearly together with budget announcement
- Responsibilities: TRA to estimate; MOF to announce

# INTRODUCTION

- The benchmarking Tax System (BTS) is set as a reference point to measure the revenue foregone.
- This deduces that, any deviation from the BTS has an implication as revenue foregone.
- Any provision not part of the 'benchmark system' is thus costed in the TE Report.
- For instance, in Tanzania TEs are estimated differently based on tax items: VAT, PIT, CIT, Import Duty...

Establishment of BTS is based on the respective tax items. This include the following:

## a) Establishing a Benchmark for VAT:

For the VAT- the benchmark is defined based on the following;

- ✓ **Unit of taxation:** VAT collected on goods or services supplied to final consumers/households as the tax incidence falls on them.
- ✓ **Tax base:** The benchmark VAT base comprises all goods and services consumed in mainland Tanzania. As such, the- tax applies on a "destination principal" and that it applies to goods imported into the country, but not to goods exported from Tanzania.
- ✓ Zero-rating of exports in Tanzania forms part of a benchmark

# ESTABLISHING BENCHMARKING...



- ✓ **Tax period:** The benchmark tax period is the calendar month.
- ✓ **Tax rate:** The benchmark rate for Tanzania Mainland is standard rate of 18% and 15% for Zanzibar.

## b) Establishing a Benchmark for Income Tax

- ✓ **Unit of Taxation:** Single company, cooperative society, public business, partnership or other entity established to realize profits from business activities within a calendar year.
- ✓ **Tax Period:** Twelve-month period (Calendar year)
- ✓ **Tax Base:** Taxable profits
- ✓ **Tax rate:** The statutory general rate of **30%** is applied to worldwide income of businesses minus expenses incurred to earn that income.

## ESTABLISHING BENCHMARKING...

- Under income tax, benchmark includes the following specific rules;
- ✓ In the case of a capital asset that contributes to earning business income beyond the year in which the asset is purchased, the benchmark accounts for the cost being allocated over the useful life of the asset (i.e., the period during which the capital asset contributes to earnings).
- ✓ The cost of a capital asset “economic depreciation” is thus deducted over the period during which the capital asset contributes to the earning of business income.
- ✓ Losses can be deducted against income, but the excess of losses over income in a given taxation period is not refundable.
- ✓ Measures that provide relief from double taxation are considered part of the benchmark income tax system.
- ✓ The simplified presumptive tax regime for small businesses also form a TBS

## c) Establishing a Benchmark for the Customs Duties

- ✓ **Considered taxes:** Import duty; VAT and Excise duty on imports.
- ✓ **Tax period:** Time of Importation
- ✓ **Tax Base:** all imports into Mainland Tanzania
- ✓ **Tax rate:** Raw materials - 0%; Intermediate inputs - 10%; and finished goods - 25% in line with EAC-CET (Some products are classified by EAC as Sensitive Items and have a benchmark rate which are 35%,50%,60% and 100%).

**NB:** For Excise duty, covered list of products with varied rates including: motor vehicle with respect to their engine capacity, lubricant, Cigarettes, beer, liquor, soft drinks etc.



# ESTABLISHING BENCHMARKING.....



## Summary of the Tanzania Benchmarking Tax System

Tax Head	Tax Unit	Tax Base	Tax Rate	Tax Period
CIT	Firm	(Taxable) profit	Standard 30%	Annually
PIT	Individual (household, if jointly filing)	(Taxable) employment or self-employment income	PIT schedule	Monthly/Quarterly/ Annually
VAT	Final consumer	Final consumption (applied on a destination basis)	VAT rate (Std rate 18%)	Monthly
Excise duty	Final consumer	Consumption/production	Schedule of duty rates (fixed, advalorem)	Upon importation/producti on
Customs duty	Importer	CIF value, I/Duty, E/Duty	Tariff code	Upon importation

# MAIN CHALLENGES ON ESTABLISHING BTS IN TANZANIA



The process of establishing Benchmarking Tax System in Tanzania encountered with number of challenges and include the following:

- ✓ The benchmark business and personal tax system generally reflect a debate over the core structural characteristics of Tanzania's tax system where issues like progressive taxation of labor income; flat rate taxation of investment income; a presumptive tax regime for micro small businesses; and the importance of PAYE as a final tax on employment income
- ✓ Challenges in VAT for defining taxable, zero-rated, and exempt supplies.
- ✓ Precence of tax item with a long list of different rates based on product. E.g Excise duty.

# CONCLUSION



- It is worth noting that, any provision not part of the ‘benchmark system’ is thus costed in the Tax Expenditure Report.
- Fairly universally accepted that a benchmark system should be defined, however the choice over how this is done is not clear cut
- Benchmarking Tax System lays a foundation for estimating and reporting tax expenditure. It is the basis in which, a deviation from is accounted as a tax expenditure
- In view of estimating, reporting and evaluating tax expenditure, Tanzania Revenue is in the process of developing Tax Expenditure Model that will be a useful tool in assessing the efficiency of tax incentives granted in Tanzania.

**Thank You  
For your kind  
attention**

