

VAT payable will be calculated as follows:-

$$\text{VAT Fraction} = \frac{18}{(100 + 18)} \text{ and the financial service fee is Tshs } 1000/=$$

$$\text{VAT Payable} = \frac{18}{118} \times 1000/=$$

$$\text{VAT payable} = \mathbf{152.50}$$

The value of taxable supplies (financial services) shall be the consideration for supply reduced by an amount equal to the tax fraction of that consideration and the price advertised or quoted by registered person in respect of taxable supply should be value added tax inclusive.

Given to the above example: where the service fee is Tshs 1000/= VAT payable is 152.50 and the bank will remain with Tshs 847.50. The VAT amount of 152.50 will be collected by the bank or financial institution supplying the service and shall follow normal rules of VAT accounting as per the VAT law.

6.0 Is there any tax exemption regarding financial services?

Yes! The Finance Act, 2016 amended item 13 to the schedule of Value Added Tax, Cap 148 by providing the tax exemptions to the following intermediary services;

- 1) Supply of financial services supplied free of charge
- 2) Insurance premium for aircraft
- 3) Life insurance or health insurance
- 4) Insurance for Workers Compensation

7.0 What are the consequences to suppliers of financial service who fail to comply with the tax laws?

Any supplier of financial services who contravene the law will be subjected to punishment in respect of offence committed; such offences are covered under Tax Administration Act, Cap 438 as provided for under

section 82, 83 and 84 governing offences for failing to comply with tax law, offence for failing to pay tax and offence for making or using false or misleading statements or documents respectively.

"Together We build Our Nation"

*Whenever you render service issue
a receipt*

*Whenever you pay for service
demand a receipt*

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TANZANIA REVENUE AUTHORITY

VALUE ADDED TAX ON FINANCIAL SERVICES



1.0 Introduction

This leaflet is intended to address the issues arising from the imposition of Value Added Tax (VAT) on supply of financial services. The Finance Act, 2016 has introduced chargeability of VAT on supply of financial services with effect from 1st July, 2016, which were treated exempt supply under part I of the Schedule of Exemption covered under item 13. However the Supply of financial services supplied free of charge is still exempted. This leaflet is for information only and not a substitute to the law.

2.0 What are the financial services?

Financial services means services of:

- (a) Granting, negotiating, and dealing with loans, credit, credit guarantees and security for money, including management of loans, credit, or credit guarantees by the grantor;
- (b) Transactions concerning money deposit, current account, payments, transfers, debts, cheques or negotiable instruments, other than debt collection or debt factoring;
- (c) Transaction relating to financial derivatives, forward contracts, option to acquire financial instruments and similar arrangements;
- (d) Transaction relating to shares, stocks, bonds, and other securities, but does not include custody services;
- (e) Transactions involving granting or transferring ownership of interest in scheme whereby provision is made for the payment or granting of benefit by benefit fund, provident fund, pension funds, retirement annuity fund, preservation fund, or similar fund;
- (f) Transaction involving the provision of, or transfer of ownership of health or life insurance contract or provision of reinsurance in respect of such contract; and
- (g) Making payment or collection of an amount of interest, principal, dividend, or other amount in respect of any share, debt, security, equity security, participatory security, credit contract, contract of life insurance, or future contract,
- (h) Foreign exchange transactions, including the supply of foreign drafts and international money

orders, but **does not** include supply of the services of arranging for or facilitating any of the services specified under paragraph (a) to (h)

3.0 Meaning of financial institutions

Financial institutions means:-

- Banks
- Non-Banking financing
- Insurance Companies
- Pensions fund
- Other

4.0 Rights and obligations of supplier/provider of financial services?

4.1 The rights of a supplier/provider of financial services are as stipulated in the Taxpayers' Charter that includes:-

- a) **Impartial treatment:** where a taxpayer has a right to an impartial application of tax laws when fulfilling his/her obligation
- b) **Privacy and confidentiality:** Taxpayer has a right to privacy and confidentiality for private and business information supplied to TRA unless the law states otherwise
- c) **Presumption of Honesty:** Right to be presumed honest unless evidenced to the contrary exist
- d) **Objection of tax assessment:** Right to object to an assessment of any other determination by TRA to the extent of which that right is restricted by law
- e) **Tax relief and exemption under tax law:** Taxpayer has the right to plan their tax affairs so as to obtain relief and exemption allowed under the tax laws. Hence TRA has to apply the tax laws in consistent manner to all taxpayers including financial services industry.

4.2 Obligations of supplier/provider of financial services?

Obligations of taxpayer under supply of financial services are also the same as those enshrined in Taxpayers' Charter which include:-

- a) **Registration:** any person conducting economic activities and is eligible to register

for tax purpose must register in accordance to the law.

- b) **Filling of return:** any person registered for tax purpose must file a tax return within a period prescribed and pay tax within the due dates in accordance to the law.
- c) **Accuracy of Returns:** Taxpayer has the obligation to file correct and accurate returns
- d) **Timely payment of taxes:** It is the obligation of the taxpayer conducting financial services to pay tax promptly as they fall due date. The due date of filling VAT return is on or before the 20th day of the month following the month of tax period.
- e) **Issuance and demand of fiscal receipts/tax invoices:** Suppliers of financial services has obligation to issue receipt and the receiver of the service has an obligation to demand a receipt
- f) **Cooperation with TRA:** Every taxpayer has a duty to cooperate adequately with TRA officials where need be by or producing relevant information or documents as and when required.

5.0 How to calculate VAT on financial services?

VAT on financial services is calculated by applying the VAT fraction.

VAT Fraction means the amount out of tax calculated in accordance with the following formula:-

$$\frac{R}{(100 + R)}$$

Where "R" is the rate of value added tax specified under section 5 of the VAT Act.

Example:

VAT rate is 18%

Assume financial service fee is Tshs 1000/= According section 38 of the VAT Act a price advertised or quoted by a registered person in respect of a taxable supply shall be value added tax inclusive.

Therefore, to determine VAT inclusive in the service fee is by multiplying the VAT fraction on the financial service fees.