

1.0 INTRODUCTION

A Director refers to a member of the board responsible for controlling, managing and directing the affairs of a Company or a person that manages or oversees the affairs of a business including a **Manager** who participates in making senior management decisions on behalf of the entity.

2.0 CLASSIFICATION OF DIRECTORS

Directors may be classified based on the under mentioned different criterion: -

1.1 Based on time of work execution

- i) Fulltime service Directors,
- ii) Non-fulltime service Directors

1.2 Based on residential status

- i) Resident Directors,
- ii) Non-resident Directors.

3.0 CRITERIA TO CLASSIFY A DIRECTOR AS EITHER AN EMPLOYEE OR NOT

The criteria to classify a director as to whether is an employee or not an employee of the company are as follows: -

3.1 A Director is **treated to be** an employee of the company when: -

- i. There is employer-employee relationship in terms of **Contract of Service**
- ii. When the name of the Director and remunerations paid are included in the Payrolls of the Company.

1.2 A Director is **treated not to be** an employee of the company when: -

- i. There is no employer-employee relationship the contractual obligation is created through a **Contract for Service**

- ii. When the name of the Director and remunerations paid are not included in the Payrolls of the Company.

4.0 DISTINCTION BETWEEN EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS

The Income Tax payable on the remunerations paid to Executive Directors is calculated by applying the relevant **progressive rates** of Income tax as applies to other employees.

On the other hand, the Income Tax payable on the remunerations paid to Non-Executive Directors generally described as "Directors' fees" is directly withheld by applying the **fixed rate** of fifteen percent (15%)

5.0 DISTINCTION BETWEEN RESIDENT DIRECTORS AND NON-RESIDENT DIRECTORS

- i) Remunerations paid to Resident Directors are subjected income tax on the basis of "Worldwide Earned Income" irrespective of source of the income.
- ii) On the other hand, the remunerations paid to Non-Resident Directors are subjected to income tax only to the extent of the income that has a source in the United Republic of Tanzania

6.0 MODE OF REMUNERATION

Directors' remunerations refer to all sorts of compensations that a company gives to its Directors and Senior Executives which involves both **Monetary** and **Non-monetary** remuneration schemes.

a) Monetary remunerations: -

The Directors' monetary considerations are always effected through cash payments of **Salaries, Fees, Offshore remittances, Cash bonuses** and payments of **various allowances** such as sitting allowance, fuel allowances, housing allowance, transport allowance, responsibility allowance, extra duty allowance, honoraria etc.

b) Non-monetary remunerations: -

I. Benefits in Kind

The benefits in kind and other fringe benefits constituting non-monetary remunerations to the Director are such as Motor car benefit Loan benefit and Housing benefits

II. Other fringe benefits

- i) Payments for Medical services and payments for Health care/Medical Insurance Covers made available by the company to the Directors **on a discriminatory basis**,
- ii) Directors Indemnity and Insurance Cover (D&O Insurance) made available to the Directors by the Company.
- iii) The Company's provisions of Free mobile phone airtime and making Pay-to-view TV subscriptions on behalf of the Directors
- iv) The Company's provisions of household services personnel such as Gardeners, Security Guards and house maids to the Directors,
- v) The Company's payments of School fees in respect of the Children of the Directors,
- vi) Any other unallowable fringe benefits offered by the Company and enjoyed by the Directors.

III. Share-based remunerations

By virtue of the respective positions in the Company; the Share-based remunerations among the Directors and Senior Executives are implemented through the following major two ways: -

• Through allotment of Shares

The allotment of shares to the Directors is done by means of "right issues" or "Bonus issues". The allotted shares may be in the terms of paid up shares, shares deemed to be paid up and in terms of unpaid up shares.

- **Through Issuance of Options**

The Share options scheme involves giving the Directors and Senior Executives of a company an opportunity to obtain equity stake of the company **at a low valuation** with a hope that, one day such an equity stake will be worth a significant amount. That is to say, Share Options gives a Director the right to buy a fixed number of shares in a company at a fixed price (at the date of grant of the option), over a certain period of time (the date of Exercise of option).

7.0 PROCEDURES RELATING TO WHT ON DIRECTORS' REMUNERATIONS

a) Time for payments: -

Every Withholding Agent should pay to the Commissioner General any income tax that has been withheld during the month, within seven days after the end of each calendar month

b) Effects on failure to withhold tax: -

- A withholding Agent who fails to withhold income tax must pay the tax that should have been withheld.
- A Withholding Agent who fails to withhold income tax should jointly and severally be liable with the Withholder for the payment of tax.

c) Liability of a Withholding Agent to issue Withholding Certificates

A Withholding Agent is required to prepare and serve a Withholding Certificate. A Withholding Certificate should cover a calendar month and should be served within thirty days after the end of the month.

***For Every Purchase Demand A Receipt,
For Every Sales Issue A Receipt***

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TANZANIA REVENUE AUTHORITY

TAXATION OF DIRECTORS' REMUNERATIONS



July 2022