

Relief to Government Entities as VAT exemption is enhanced on local supplies!



Since the passing of the Government budget and Finance Act 2017, which came into force in July 2017, there have been a number of supplementary legislations passed by the Parliament with the aim of enhancing control and compliance, ensuring maximum collection of revenues, securing public interests and boosting investment levels in Tanzania. These amendments targeted the mining, petroleum, income tax, insurance and the Value Added Tax Acts.

In an active movement of poverty eradication in the country, light is cast on the hurdles facing investors in the country and the government is also keen at controlling government expenditure while maximising its revenue. The Government has finally taken stand on the tropical discussion of the process of obtaining VAT exemption in Tanzania.

The key concern for many investors intending to invest in Tanzania, is availability of tax incentives (including VAT incentives). One of the passed supplementary legislations was The Written laws (Miscellaneous Amendments) (No.3), Act, 2017, which introduced the changes in the VAT Act, 2014. The changes relate to VAT exemption on local supplies (goods or services) made to government entities, and if such local supplies are used to implement government projects, funded by either the Government or concessional loan or grant. This may be through agreements between the Government of the United Republic of

Tanzania and another government, donor or lender of a concessional loan and provided that, such agreements provide for value added tax exemption on such supplies.

Prior to these changes, VAT exemption for government projects executed by government entities was only applicable to imports. However, in the case of local supplies to government entities, the requirement was to pay first the VAT and later request for VAT refunds.

Therefore, the question here is why should government entities pay the VAT on local supplies first and later on claim the same VAT from the Tanzania Revenue Authority (TRA), while the agreement signed by the government has already provided a VAT exemption clause? This requirement of paying VAT first and later claiming a refund was contradictory to the agreements signed by the government that provide direct VAT exemption.

These changes are meant to provide exemptions for both local supplies and imports. However, the process of getting VAT exemption is by order from the Minister of Finance. There are a number of steps that need to be followed for such exemption order to be executed.

The usual procedure of obtaining the VAT exemption by order in the Gazette is as follows:

- Supplier/government entity, which is seeking VAT exemption liaising with the parent ministry;
- After consultation with the parent ministry, the next step is for parent ministry to write the letter to the Ministry of Finance outlining the VAT exemption applied for;
- The Ministry of Finance will appoint a technical committee that will advise the minister on the granting and monitoring of VAT exemption



- Once the Minister is satisfied with the application made by the government entity, the VAT exemption will be granted.

We believe the intention of amending the law was to simplify and speed up the process of VAT exemptions for government projects, especially for local supplies to government entities, as it has removed the requirement to pay VAT first and later claim a refund.

However, we are of the view that such objective may not be achieved as it would probably take more time to obtain government notice, as a result of the above process which starts from the parent ministry/government entity.

We are of the view that the process of obtaining VAT exemption relating to government projects could be shortened, if VAT exemption will be done directly by TRA, after reviewing the relevant information, without the intervention of the Ministry of Finance. Alternatively, the VAT Act, 2014 should be amended to include VAT exemption for such government entities in the exemption schedule, and therefore, remove the requirement to start the procedure from the Ministry of Finance or TRA.

Cecilia Otaru, Associate (cotaru@kpmg.co.tz)
Jovin Bachwa, Associate (jbachwa@kpmg.co.tz)
Nsanyiwa Donald, Senior Manager (ndonald@kpmg.co.tz)
KPMG Advisory Limited in Tanzania.

The views and opinions are those of the authors and do not necessarily represent the views and opinions of KPMG.

kpmg.com/socialmedia

kpmg.com/app



© 2018 KPMG Advisory Services Limited, a Kenyan Limited Liability Company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.