



# Tax Alert

## Update: VAT e-filing system

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February 2022

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A taxpayer with an excess VAT credit in the February 2022 return needs to take specified actions to safeguard such credit

### In Brief

- VAT e-filing to move to the same e-filing platform as other taxes
- First return under the new process will be the March 2022 return (due for filing by 20 April 2022)
- Actions for taxpayers to take (if not already actioned):
  - Upgrade EFD machines to protocol 2.1
  - Appoint a declarant
  - If the February 2022 return shows excess VAT credits, then communicate with TRA either (i) by way of VAT refund application, or (ii) notification to TRA office to enable verification
  - Institute controls to validate that supplier invoices comply with the new requirements

### Background

#### Upgraded e-Filing system for VAT returns

In a December 2020 announcement, the Tanzania Revenue Authority (TRA) communicated:

- Its intention to move VAT filing to the same electronic filing platform (e-filing) as for PAYE, SDL and income tax returns, and
- The need for traders to upgrade their EFD machines to protocol 2.1.

Protocol 2.1 provides receipts with QR/ Verification code, and this will now be a further requirement for a valid tax invoice (in addition



to those already provided under section 86(1) of the Value Added Tax Act 2014 (VAT Act)).

*TRA's public notice of 3 February 2022* confirms that the new VAT e-filing system will go live for filing of the March 2022 VAT return (which is due for filing on or before 20 April 2022).

### Benefits expected from the new system

The system is expected to consume less time and be more user friendly bearing in mind the following:

- Nearly all tax returns will be incorporated under one filing platform.
- Taxpayers will only have to key in the verification code for the purchases made (in contrast to the current process which requires the submission of a lot more information).



- The new system is expected to conduct an automatic apportionment of input tax for partially exempt taxpayers (but see further comments below).
- Adjusting events are also expected to be captured through this new system and therefore this will eliminate the need to write to the Commissioner each time there is an adjusting event.

Similar to other returns, the e-filing system will issue an acknowledgement of receipt of return and an assessment of tax immediately after filing the VAT return.

It is hoped that the new system will result in significant efficiency gains with regard to timelines for verification and processing of VAT refund claims - an issue of particular importance to exporters.

## Key Takeaways for Taxpayers

### Filing of the VAT return and payment of VAT

Once the return is filed, the taxpayer can extract the filed return, acknowledgement receipt and the assessment. If in a payable position, the assessment will show a tax debit number to use when making payment.

### Input tax claims

Whilst other conditions for claiming input tax remain the same, it is important to note the following:

1. The system will only accept receipts/invoices with a verification code and with the buyer's Taxpayer Identification Number (TIN).
2. The system will only accept input tax claims on imports supported by TANSAD.
3. The system will automatically verify the validity of receipts/invoices or TANSAD.

### Companies in VAT repayable position

The public notice cautions taxpayers with a negative amount (i.e. VAT credit) in the February 2022 return that the new system will not automatically carry forward this credit to the March VAT return.

Companies in such a repayment position have been advised to:

- Apply for a VAT refund (for those eligible) or
- Notify their respective TRA office to carry out an audit or verification of the credit amount. Once verified, the negative balance will then be allowed to be carried forward in the March 2022 VAT return.

We do expect some practical challenges (as discussed in detail below) and therefore taxpayers with negative balances should proactively engage their TRA office for any necessary further clarification.

### Potential practical challenges

As with any administrative change, there are likely to be some teething problems. We set out below some potential practical challenges for taxpayers, but anticipate that TRA will provide further guidance on this in due course.

**Excess credit: time to complete the audit/verification exercise:** The public notice does not provide a time frame for audit or verification of a negative balance reported in the February 2022 VAT return. Ideally, this process would be completed before 20 April 2022, the due date for the March 2022 VAT return. However, this timeline may not be realistic and if so, ideally the verified negative balance will be allowed to be included in a future VAT return other than the March 2022 return.

**Invoices without QR/Verification code:** In practice there are suppliers who are not able to issue invoices/receipts that comply with the normal tax invoice requirements (e.g. TANESCO and financial institutions such as banks).

Currently, there are workarounds to enable a taxpayer to claim credit in such circumstances - for example, input tax on bank fees can be claimed if supported by a periodic statement. Therefore further guidance may be required on how to deal with such situations.

**Adjustment relating to insurance claim payment:** Currently, where an insurer makes a payment of insurance, then the insurer is allowed to make a decreasing adjustment and the person receiving the payment is required to make a corresponding increasing adjustment in the VAT return. The system will need to have a mechanism to facilitate the decreasing adjustment by the insurer.

**Input tax apportionment (by partially exempt businesses):** “Partially exempt” taxpayers, being those with exempt supplies of between 10% and 90% of total supplies, are required to carry out an apportionment adjustment each month (as well as an annual adjustment) to restrict their input tax claim. It is not yet clear how the system will cater for this in practice and which method of apportionment will be adopted by the system (i.e. average method or direct attribution method).

**VAT on imported services:** The requirement to account for VAT on imported services is of relevance to VAT registered taxpayers, who are partially exempt. (In such a case, the taxpayer makes a so-called “reverse charge” by accounting for both the output tax

and input tax (with an apportionment adjustment to restrict the input tax claim).) In this case the invoice received from a non-resident service provider will not have a QR/verification code, and it is unclear how the input tax arising from the taxpayer’s reverse charge adjustment will be claimed.

**Filing deadline on a non-working day (weekend or public holiday):** When a filing or payment deadline which refers to a specified number of days (rather than the last working day of the month) falls on a non-working day (a weekend or public holiday), the deadline should be rolled forward to the next business day.

For example, the January 2022 VAT return and related payment is due on 20 February 2022, but as the 20th is a Sunday the deadline rolls forward to Monday 21st February 2022. However, based on experience for filing other returns the system does not distinguish non-working days.

Accordingly, where the deadline falls on a weekend or a public holiday, the system makes no roll forward adjustment with the result that a penalty for late filing or late payment will be automatically charged by the system even though technically there may not have been a default. Ideally, the system should be configured to make appropriate roll forward adjustments for non-working days so as to avoid unnecessary disputes as to penalties raised.

It is hoped that the new system will result in significant efficiency gains with regard to timelines for verification and processing of VAT refund claims - an issue of particular importance to exporters



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### For further insights in relation to VAT, go to:

- **VAT in Africa:** a publication covering the application of VAT in 41 African countries
- **Global Indirect Taxes:** insights on indirect taxes from the PwC global network

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