



# Tax Alert

## Zanzibar Finance Act 2024

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### Highlights

In June 2024, the Zanzibar Minister for Finance and Planning (“the Minister”) presented the budget for the financial year 2024/25. Among others, the Minister proposed changes to some tax laws which were passed by the House of Representatives of Zanzibar, and later assented to by the President of Zanzibar on 27 June 2024 through the Finance (Public Revenue Management) Act 2024 (“the Act”).

This newsletter summarises tax changes introduced by the Act which are effective from 1 July 2024.

### In Brief

#### Value Added Tax Act:

- Requirement for non-resident doing business in Zanzibar without physical presence to register for Value Added Tax (VAT) in Zanzibar through a representative
- The Commissioner General of the Tanzania Revenue Authority (TRA) to collect VAT on electronic services supplied by non-residents to customers in Zanzibar
- VAT rate on insurance and digital services increased from 15% to 18%

#### Excise Duty Act:

- Requirement to affix electronic tax stamps on imported excisable goods

#### Property Tax Act:

- Deadline to pay property tax moved from 30 September to 31 December each year

### Value Added Tax Act

#### Non-resident doing business in Zanzibar to register for VAT through a representative

The Value Added Tax Act, 1998 (“VAT Act”) has been amended to require a non-resident person to register for VAT in Zanzibar if that person:

- carries on an economic activity in Zanzibar without physical presence; and
- makes supplies that are subject to VAT and such supplies meet the VAT registration threshold (currently annual taxable turnover of TZS 100 million) for which the non-resident person is liable to pay VAT.

In this regard, a non-resident will be required to appoint a tax representative/ agent in Zanzibar and, if required, lodge a security with the Commissioner of the





Zanzibar Revenue Authority (ZRA). The appointed tax representative should be a resident of Zanzibar and will have the following VAT obligations on behalf of the non resident:

- Applying for registration or cancellation of VAT registration which shall be in the name of the non-resident person (principal); and
- Paying VAT including fines, penalties or interest that may be imposed on the non-resident.

The law allows a tax representative to represent more than one principal but separate registrations should be done in respect of each represented person.

This requirement is similar to that of the VAT Act for Mainland Tanzania and aims to impose VAT on supplies by non-residents doing business in Zanzibar despite not having set up physical presence.

It will be prudent for companies with activities in Zanzibar without physical presence e.g. through agents, subcontractors, etc. to review their arrangements and assess whether they may have triggered VAT registration requirements.

It is our understanding that this requirement would not apply on non-resident electronic services providers to consumers in Zanzibar, who are specifically covered under the electronic services VAT rules - see next column.

### **Commissioner of TRA to collect VAT on electronic services on behalf of ZRA**

The VAT Act has been amended to allow the Commissioner of ZRA to delegate its powers to the Commissioner General of TRA in respect of administration and collection of VAT on electronic services supplied by non-residents to consumers in Zanzibar. Broadly speaking, electronic services are services provided through the Internet or other electronic means.

We understand that the change aims to harmonise payment of VAT on electronic services by non-residents, through the simplified VAT registration framework that already exists on the TRA's website. The expectation is that the ZRA's Commissioner will inform the public once these powers are granted to the Commissioner of TRA and when non-residents supplying electronic services to customers in Zanzibar should start complying with this requirement.

In Mainland Tanzania, the TRA has been reaching out to non-resident electronic service providers, specifically tech companies that provide services to customers in Mainland Tanzania, to inform them of their VAT registration obligations. It is likely a similar approach will be adopted in Zanzibar to enforce tax compliance on cross-border digital services to consumers in Zanzibar.

It is important to note that there is no threshold for this registration and therefore non-residents rendering electronic services in Zanzibar may consider reviewing their activities to ensure compliance.

### **Zanzibar business with foreign branches to be treated as separate persons for VAT purposes**


The VAT Act has been amended to recognise foreign branches of business with a fixed place in Zanzibar (Headquarters) as separate persons. Any beneficial services received from a foreign branch will constitute services imported by the Headquarters for VAT purposes.

Allocation of costs to the Headquarters in Zanzibar will amount to consideration for the supply and VAT should be accounted accordingly, except for payments relating to salaries or wages paid on behalf of headquarters' employees and interest incurred by the foreign branch.

### **VAT on insurance and digital services increased to 18%**

The Act has increased the VAT rate on insurance and digital services from 15% to 18%. A similar change was introduced in 2023 to increase VAT rate to 18% on banking, postal and telecommunication services in order to ease administration of VAT on such services between Mainland Tanzania and Zanzibar.





## **Introduction/amendments of definition of certain terms**

### **Resident**

The Act has introduced the definition of the term “resident” to mean “an individual whose permanent home is in Zanzibar”. The change aims to provide distinction between a resident and non-resident and provides clarity on the scope of imported services for VAT purposes.

### **Imported services**

Imported services has been defined as “services supplied to a taxable person if the supply of services is made by a non-resident”. This means services to persons who are not registered or not required to register for VAT would not constitute imported services for VAT purposes. By extension, this means the requirement to account for VAT on imported services only applies to VAT registered recipients.

### **Exempt supplies**

The Act has amended the definition of the term “exempt supplies” to mean supply or import that is specified as exempt under the Second Schedule to VAT Act. This emphasises that a

supply or import can only be regarded as exempt if it is categorically stated as such in the VAT Act.

### **Import**

The definition of the term “import” has been amended to mean “bringing or causing goods to be brought into Zanzibar from outside the United Republic of Tanzania”. This means that goods from Mainland Tanzania to Zanzibar do not constitute imports for VAT purposes and addresses the ambiguity in this area. This also complements a requirement in the VAT legislations of both Mainland Tanzania and Zanzibar for suppliers to account for VAT on supplies made to either part of the union.

### **Transfer**

The new definition of the term “Transfer” includes goods (but not services) of Tanzanian origin that are supplied between Mainland Tanzania and Zanzibar.

It is our expectation that the above definitions will provide clarity needed on what constitutes an import (goods from outside URT) and a transfer (goods supplied to and from Mainland Tanzania).

## **Excise duty Act**

### **Requirement to stamp imported excisable goods**

The Act has introduced the requirement to stamp excisable imported goods. The electronic stamps aim to enhance tax compliance in this area and protect consumers from counterfeit goods.

## **The Property Tax Act**

### **Deadline to pay property tax**

The deadline to pay property tax in Zanzibar is now 31 December each year (previously 30 September each year). Property tax is paid to the ZRA annually at specified rates based on the type and/or use of the property.

## **The Vocational Training Act**

Certain aspects of the administration of the Skills and Development Levy (SDL) will now be administered under the relevant provisions of the Tax Administration Act, 2015. This is a welcome change to ensure consistency and ease of compliance for businesses operating in both Mainland Tanzania and Zanzibar.