Total Tax Contribution of the Tanzania Banking Sector

Contribution beyond profits

1 January 2021 to 31 December 2023

Tanzania Bankers Association

pwc

TBA
TANZANIA BANKERS ASSOCIATION

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Foreword

The Tanzania Bankers Association is delighted to unveil the Total Tax Contribution report of the Tanzania Banking sector from 1st January 2021 to 31st December 2023. This report, compiled through the collaborative efforts of the Tanzania Bankers Association (TBA) and our partner, PwC, provides an in-depth analysis of the 26 TBA member banks' contributions to the national economy through various tax channels.

Our goal is to enhance transparency and accountability of the banking sector in Tanzania which is crucial for maintaining public trust and demonstrating the sector's commitment to fulfilling its tax obligations. Moreover, the report provides evidence for advocating on behalf of the banking sector by highlighting the sector's significant role in economic development and supports our efforts to engage with policymakers and stakeholders to create a conducive business environment.

TBA expresses sincere gratitude to our member banks for their continued commitment to transparency and compliance in tax matters. The findings of this report highlight the banking sector's integral role in Tanzania's economic fabric, not only as a significant taxpayer but also as a catalyst for economic development.

Key highlights of this report include:

Total Tax Contribution

Over the period of 3 years the 26 TBA members contributed a total of TZS 3.9 tr in taxes. This figure includes corporate tax (the most significant component of the contribution) and irrecoverable VAT together with taxes collected on services (namely VAT and excise duty) and by way of withholding (employment taxes and withholding tax).

Corporate Income Tax

Corporate tax paid by the participating banks, which accounted for 18% of overall corporate tax in Tanzania between 2021 and 2023, increased dramatically by 49% in 2022 to TZS 537 bn and by 34% in 2023 to TZS 718 bn.

Indirect Tax on Financial Services

VAT and excise duty charged on financial services also showed a significant increase - by 28% in 2022 to TZS 313 bn, and 20% in 2023 to TZS 375 bn.

Employment Taxes

The banking sector's PAYE contribution from 2021-2023 amounted to TZS 673 bn, equivalent to 8.4% of the total PAYE collected in Tanzania. TBA members' employment taxes, comprising Skills and Development Levy (SDL) and Workers Compensation Fund, amounted to TZS 121.1 bn. The figure does not include employer social security contributions.

Other Taxes

Other taxes comprise service levy, stamp duty, property tax, and customs duty. During the surveyed period, the 26 TBA member banks paid service levy totalling TZS 23.3 bn, followed by the stamp duty which was TZS 2.48 bn, property tax of 0.77 bn, and customs duty of 0.4 bn. This demonstrates the sector's participation in broadening the tax base and supporting indirect tax revenues.

TBA remains committed to fostering a conducive environment for the banking sector to thrive and continue its contribution to the country's economic prosperity.

We are confident that this report will serve as a valuable resource for fostering informed dialogue and shaping future policies that support the continued growth and development of the Tanzania banking sector.

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Tanzania Bankers Association (TBA)

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Introduction

Welcome to the first edition of the Total Tax Contribution (TTC) study of the Tanzanian banking sector. This edition covers the 2021, 2022 and 2023 financial periods.

The study provides valuable insight to the substantial contribution of the banking sector to government tax revenues; however, taxes are just one part of the significant benefits generated by the sector for the Tanzanian economy given its role as an enabler of business and growth.

The 26 banks (also referred herein as “participating banks” or “the banks”) that participated in this study, which account for over 94% of total assets for all banks in Tanzania, grew their TTC by 30% in 2022 to TZS 1.3 tr (2021: TZS 1 tr) and by 24% in 2023 to TZS 1.6 tr. One key driver has been increased profitability of the sector which has fed through to a doubling of corporate income tax payments in 2023 as compared to 2021. Deeper insights pertaining to the TTC growth are highlighted in this report.

A measure of the importance of the TTC of the participating banks is that in 2023 they accounted for 6.6% of all government tax revenue continuing a trend of the yearly growth of the banking sector’s contribution to tax revenue collection in Tanzania (2022: 5.8%, 2021: 5.6%). Given the significant tax

contribution of the banking sector, and wider economic role in enabling access to finance, it is crucial that tax policies impacting this sector are carefully considered (including appropriate stakeholder consultation beforechanges are made) so as to ensure sustainable growth of the sector.

Tanzania is currently embarking on developing its 25 year national development plan known as Tanzania Vision 2050. Areas of focus by the government to achieve this vision include empowering the productive sectors including agriculture, supporting expansion of the private sector and increasing per capita income.

In attaining these targets, it is important for individuals and businesses to have access to reliable and affordable sources of capital. Banks play a key role in providing this access and as such this report illustrates the need to ensure the growth of the banking sector and its continued capability to support the economic progress of the country.

We wish to extend our appreciation to the 26 banks that participated in this study by providing crucial data used in this report.

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Executive Summary

Participants' 2023 Total Tax Contribution of TZS 1.6 tr, with a roughly equal split between taxes borne and tax collected, accounted for 6.6% of the total taxes collected

In the report period of three years to 2023, the 26 participating banks contributed a total of TZS 3.9 tr in taxes, increasing by 30% in 2022 to TZS 1.3 tr (2021: TZS 1 tr) and by 24% to TZS 1.6 tr in 2023. The taxes borne accounted for TZS 1.9 tr whereas taxes collected accounted for TZS 2 tr. For the period reviewed, the percentage of Total Tax Contribution (TTC) relative to total government tax revenue was 6.1%. This contribution from the 26 participating banks is clearly significant.

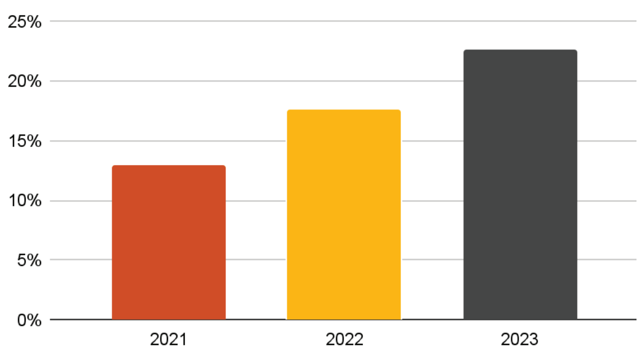
While government tax revenue increased by 25.7% in 2022 and by 7.9% in 2023, the growth of the TTC of the study participants increased even more by 30% and 24% in the respective periods. As a result the sector's share of contribution to total government tax revenue has risen - from 5.6% in 2021 to 6.6% in 2023. In terms of taxes borne, a significant portion of this was due to increased corporate tax and irrecoverable VAT. On the other hand, the substantial increase in taxes collected arises from indirect taxes on financial services, as well as PAYE and other withholding taxes.

Taxes Borne

Corporate tax paid by the participating banks accounts for 18% of overall corporate tax in Tanzania between 2021 and 2023

Corporate tax, the largest component of taxes contributed by the banking sector, doubled during the period with an increase from TZS 360 bn in 2021 to TZS 719 bn in 2023. In 2021, the banks contributed 13% of all corporate tax and this had increased to 22.7% in 2023. This increase demonstrates how the profitability of the banking sector has underpinned good government revenue collections.

Figure 1: Percentage of CIT borne by the Banks over Total CIT collections



For each TZS 1,000 of profits earned, the banks incurred taxes of TZS 400

The ratio of taxes borne to profit of the participating banks for 2021, 2022 and 2023 was 42%, 40% and 39% respectively. Overall, 40% of the profits generated by the banks between 2021 and 2023 was paid to the exchequer.

This is not limited to corporate taxes only but includes other tax types borned by the banks such as irrecoverable VAT, SDL and WCF.

The table below illustrates the Total Taxes borne and the Total Tax Rate of participating banks.

Description	2021 (Billion TZS)	2022 (Billion TZS)	2023 (Billion TZS)	TOTAL (Billion TZS)
Taxes borne	453	632	820	1,905
Profit Before Tax	1,068	1,566	2,088	4,721
Total Tax Rate (TTR)	**42%**	**40%**	**39%**	**40%**

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participating banks contributed a total of TZS 3.9 tr in taxes, increasing by 30% in 2022 to TZS 1.3 tr (2021: TZS 1 tr) and by 24% to TZS 1.6 tr in 2023.

Taxes Collected

PAYE collected by participant banks from 2021 to 2023 accounted for 8.4 % of total PAYE collected in Tanzania

During the three years under review the participating banks contributed TZS 673 bn in PAYE accounting for 8.4% of total PAYE in Tanzania reflecting the substantial employment opportunities created by the sector, and the related taxes generated, even without considering the multiplier impact of this (for example, taxes generated when employees spend their income on taxable products).

Consumption taxes (VAT and excise duty) on financial services totalled TZS 375bn in 2023, and TZS 933bn for the three years to 2023

Consumption taxes are normally levied to the final user on consumption of goods and services. Historically, financial services were exempt from VAT and excise duty was not applicable. However, the Finance Act 2016 introduced VAT on certain fee based financial services and this followed a Finance Act 2014 change to introduce a 10% excise duty on fees charged by financial institutions.

Over the surveyed period, the banks paid TZS 933 bn in net output VAT and excise duty, comprising TZS 617 bn in VAT (representing 3.8% of overall VAT collections by the government) and excise duty of TZS 316 bn. In 2023 the total was TZS 375 bn (VAT TZS 246 bn, excise duty TZS 129 bn).

Taxation concerns

Feedback for participants on areas of concern included:

- Effectiveness of the stakeholder engagement process in relation to tax policy reform
- Misalignment of financial accounting and tax accounting, a topic that speaks in particular to long standing concerns on the treatment of bad debts and interest in suspense

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Purpose and outline of the study

The purpose of the study is to quantify the total tax contribution made by the Tanzanian banking sector and the trends over a specific time period. The data has been collected in accordance with a credible and well understood framework. This methodology is described below.

The study shows that the contribution by banks is broader than corporation tax and includes employment taxes, withholding tax, net output VAT, irrecoverable input VAT, excise duty and other taxes.

The study collected data from 26 Tanzania Bankers Association (TBA) members operating in the banking sector related to taxes borne and collected in the period 1 January 2021 to 31 December 2023.

The analysis provided by this study provides valuable resources for the Tanzanian banking sector, government and other stakeholders such as employees and investors. It facilitates the banking sector to quantify its contribution to public finances in taxes and analyse the contribution trend over time. Further, it serves the government to assess the contribution from the sector and the changes over time to inform policy discussions over bank taxation. The banking sector also employs highly skilled workers and provides insights and contribution of the sector towards employment. It also enables investors to have access to robust data on the contribution of the sector to inform their decision making. Overall, the study provides greater transparency and linkage of tax contribution to socio-economic impacts to explain the total impact of the banking sector in Tanzania.

Methodology

The study uses the Total Tax Contribution ("TTC") methodology designed by PwC. This framework provides a standardised methodology for companies/ sectors to measure and communicate all the taxes and contributions that they make.

The TTC framework is straightforward in concept, it is not tax technical and therefore relatively easy for stakeholders to understand. The framework makes a distinction between taxes borne and taxes collected.

Taxes borne are the company's / sector's own contribution in taxes and that therefore impact their results, in particular corporation tax, irrecoverable input VAT and other taxes borne[1].

Taxes collected are those that the company administers on behalf of the government and collects from others, including indirect taxes charged on services (net output VAT and excise duty) and income tax deducted at source (by way of PAYE and withholding tax). Taxes collected have an administrative cost for the collecting company and will invariably have an impact on that company's business operations. Taxes collected do not include payments of taxes to the TRA made by banks' customers through banking channels.

The results of this study are a measure of the taxes paid by members, covering both taxes borne and taxes collected. The results provide information which would not otherwise be available in the public domain, since this is not information the companies are required to disclose in their financial reports. Where we refer to data published by the Government and TRA[2], this is clearly indicated.

PwC has anonymised and aggregated this data to produce the study results. PwC has not verified, validated or audited the data and cannot give any undertakings as to the accuracy of the numbers used in this study.

Participation in the TTC study

26 TBA members participated in the study, providing data on their taxes borne and taxes collected for their accounting periods 1 January 2021 to 31 December 2023. Data received related to payments to the Tanzania public finances. No tax payments to foreign tax authorities were included. All "Tier One[3]" banks participated in this study.

[1]Other taxes borne primarily constitute employment taxes charged on the employer (SDL, WCF) and city service levy.

[2]TRA tax collection statistics

[3]Tier One refers to the category of banks with total assets over TZS 1 tr.

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Total Tax Contribution Analysis

The TTC analysis presented in this section relates to data obtained from 26 participating banks in terms of taxes borne and taxes collected.

Taxes borne

Taxes borne are those whose financial impact is directly on the taxpayer and are therefore a cost to the business as these taxes directly affect a company's financial results.

Taxes borne by the participating banks increased by 40% in 2022 to TZS 632 bn (2021: TZS 453bn) and by 30% in 2023 to TZS 820bn. The significant increment reflected a doubling for the corporate tax receipts (approximately three quarters of taxes borne by the sector). The corporate tax increase reflects increased profitability driven by a strong post COVID recovery of various businesses thereby leading to an increase in the overall interest income which is consistent with growth in the loan portfolio, an increase in noninterest income, as well as improvement in operational efficiency within the banks.

Increased irrecoverable input tax will likely be a consequence not just of sectoral operational growth and related expenditure, but also increased investment expenditure by the sector.

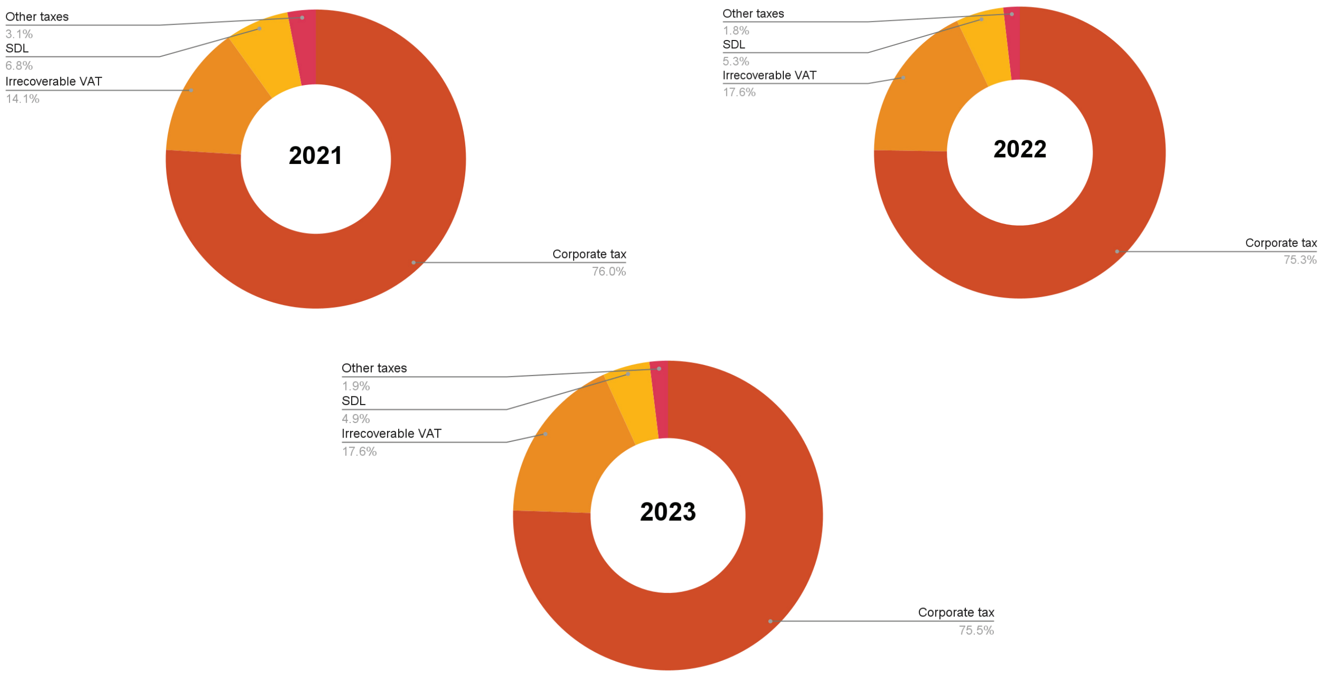
Taxes borne in order of magnitude were as follows:

	Amount (Billion TZS)			% Make-up			Y-o-Y % increase	
	2021	2022	2023	2021	2022	2023	2022 v 2021	2023 v 2022
Corporate tax	360	537	719	79%	85%	88%	49%	34%
VAT (Irrecoverable VAT)	47	45	50	10%	7%	6%	-4%	13%
SDL	32	37	36	7%	6%	4%	16%	-3%
WCF	6	4	5	1%	1%	1%	-22%	8%
Other taxes borne	9	9	9	2%	1%	1%	-1%	9%
Total taxes borne	**453**	**632**	**820**	**100%**	**100%**	**100%**	**40%**	**30%**

The breakdown of the various taxes borne is illustrated below.

Figure 2: Trend in taxes borne 2021 to 2023 (Billions TZS)

Figure 3: Trends in taxes borne (Percentage contribution)



Taxes collected

Taxes collected are those which are generated by a company's operations and are collected from others on behalf of the government including indirect taxes charged on services (net output VAT and excise duty) and income tax deducted at source (by way of PAYE and withholding tax). The banks generate the commercial activity that gives rise to the taxes and then collects the taxes on behalf of the TRA. Therefore, taxes collected are a key indicator of the wider economic contribution generated by the sector.

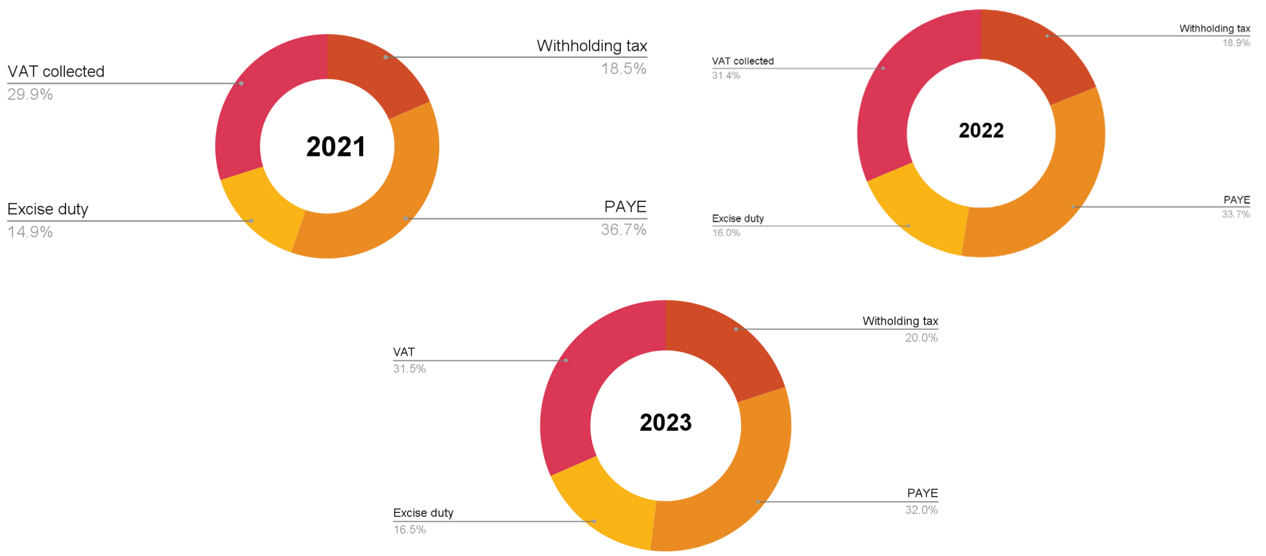
Taxes collected by participating banks increased by 21% in 2022 to TZS 661 bn (2021: TZS 545 bn) and 18% in 2023 to TZS 781 bn.

Similar to taxes borne, the increase was largely driven by a strong post COVID recovery of various businesses resulting in an increase in the number and volume of transactions recorded within the sector.

In terms of magnitude of taxes collected, indirect taxes charged on services exceeded income tax deducted at source, as follows:

	Amount (Billion TZS)			% Make-up			Y-o-Y % increase	
	2021	**2022**	**2023**	**2021**	**2022**	**2023**	**2022 v 2021**	**2023 v 2022**
VAT (net output VAT)	163	207	246	30%	31%	32%	27%	19%
Excise duty	81	106	129	15%	16%	16%	30%	21%
Sub-total (Consumption taxes)	**244**	**313**	**375**	**45%**	**47%**	**48%**	**28%**	**20%**
PAYE	200	223	250	37%	34%	32%	11%	12%
WHT collected	101	125	156	18%	19%	20%	24%	25%
Sub-total (Income tax collected at source)	**301**	**348**	**406**	**55%**	**53%**	**52%**	**15%**	**17%**
Total taxes collected	**545**	**661**	**781**	**100%**	**100%**	**100%**	**21%**	**18%**

Figure 4: Trends in taxes collected (Percentage contribution)



Total Tax Contribution

Over the study period the TTC of the participating banks was TZS 3.9 tr comprising taxes borne of TZS 1.9 tr and taxes collected of TZS 2 tr. Represents 5.62%, 5.79% and 6.64% of government tax revenue in 2021, 2022 and 2023 respectively, it is a significant contribution. The breakdown is provided in the table below.

	Amount (Billion TZS)				Y-o-Y % increase	
Description	**2021**	**2022**	**2023**	**Total**	**2022 v 2021**	**2023 v 2022**
Tax Borne	453	632	820	1,905	40%	30%
Tax Collected	545	661	781	1,987	21%	18%
Total Tax Contribution (“TTC”)	998	1,293	1,601	3,892	30%	24%
Government tax revenue	17,767	22,334	24,101	64,201	26%	8%
% of TTC relative to total government tax revenue	**5.6%**	**5.8%**	**6.6%**	**6.1%**		

Structurally, the tax contribution by banks has remained similar but with a very strong increase over the period covered in the study, particularly as compared to overall government tax revenue collections. In particular, while in 2022 and 2023 government tax revenue collections increased by 26% and 8%, the TTC by the participating banks increased at higher rates of 30% and 24% respectively. The differential growth rates indicate that the contribution by the banking sector was growing at a faster pace compared to other sectors in the Tanzanian economy.

The breakdown of the TTC is illustrated in the table below.

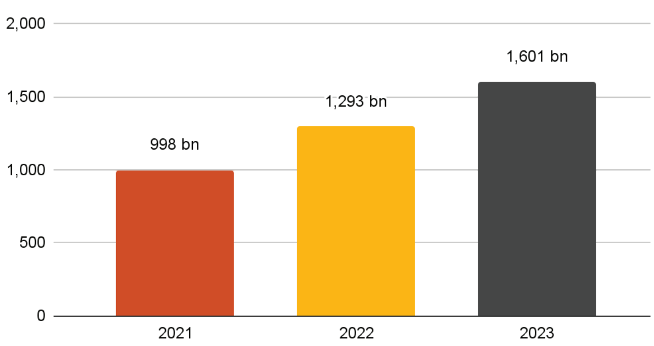
Total Tax Contribution profile of participating banks

	Amount (Billion TZS)			% Make-up			Y-o-Y % increase	
	2021	2022	2023	2021	2022	2023	2022 v 2021	2023 v 2022
Corporate tax	360	537	719	36%	42%	45%	49%	34%
VAT (Irrecoverable VAT)	47	45	50	5%	3%	3%	-4%	13%
SDL	32	37	36	3%	3%	2%	16%	-3%
WCF	6	4	5	1%	0%	0%	-22%	8%
Other taxes borne	9	9	9	1%	1%	1%	-1%	9%
Total taxes borne	**453**	**632**	**820**	**45%**	**49%**	**51%**	**40%**	**30%**
VAT (net output VAT)	163	207	246	16%	16%	15%	27%	19%
Excise duty	81	106	129	8%	8%	8%	30%	21%
Sub-total (Consumption taxes)	**244**	**313**	**375**	**24%**	**24%**	**23%**	**28%**	**20%**
PAYE	200	223	250	20%	17%	16%	11%	12%
WHT collected	101	125	156	10%	10%	10%	24%	25%
Sub-total (Income tax collected at source)	**301**	**348**	**406**	**30%**	**27%**	**25%**	**15%**	**17%**
Total taxes collected	**545**	**661**	**781**	**55%**	**51%**	**49%**	**21%**	**18%**
Total tax contribution	**998**	**1,293**	**1,601**	**100%**	**100%**	**100%**	**30%**	**24%**

Total Tax Contribution over the last three years

An analysis of the TTC of participating banks over the period 2021 to 2023 is presented below.

Figure 5: Total tax contribution of the participants (2021-2023) (Billions TZS)



The TTC by participants has registered a significant increase over the three years under study, almost doubling by 2023 (TZS 1.6 tr) as compared to 2021 TZS 1 tr.

This shows the resilience demonstrated by the sector despite the economic headwinds experienced by businesses that feed the banking sector.

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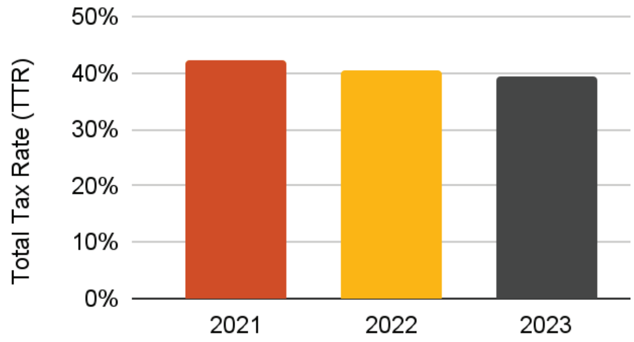
Total Tax Rate

Total Tax Rate (TTR) is the ratio of all taxes borne as a percentage of profit before tax (PBT) and is therefore a measure of the cost of all taxes borne relative to profitability. Total Tax Rate (TTR) refers to the overall tax burden faced by the sector. It encompasses various taxes and levies that banks must pay, such as corporate income tax, property tax, and service levy. The TTR directly impacts a bank's profitability and financial health.

On an overall basis, the average TTR of participating banks for the years 2021, 2022 and 2023 was 40%. This means that for every TZS 1,000 of profit TZS 400 represented taxes borne.

Figure 6: Total Tax Rate (TTR)



TTR averaged 40% during the review period. Corporate tax which is calculated on profit contributed to an average of 85% of total taxes borne.

Description	2021 (Billion TZS)	2022 (Billion TZS)	2023 (Billion TZS)	TOTAL (Billion TZS)
Corporation Tax	360	537	719	1,616
VAT (Irrecoverable VAT)	47	45	50	141
SDL and WCF	38	42	41	121
Other taxes borne	9	9	9	27
Total taxes borne	**453**	**632**	**820**	**1,905**
Profits Before Tax of participating banks	1,068	1,566	2,088	4,721
Total Tax Rate (TTR)	**42%**	**40%**	**39%**	**40%**

Irrecoverable VAT is VAT incurred by the banks on their purchases but that cannot be offset against output VAT as the major source of income for banks is interest which is exempt from VAT and therefore leads to irrecoverable VAT expenses for banks.

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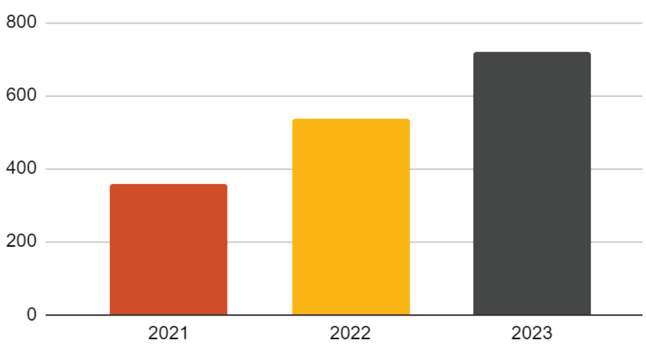
Corporation tax

Corporation taxes paid

Corporation tax is a tax charged on taxable income (profits) of entities. Corporation tax payments made by banks dramatically increased during the period covered, increasing by 49% in 2022 to TZS 537 bn (2021: TZS 360 bn) and by 34% to TZS 719 bn in 2023.

Figure 7: CIT payments by Banks (Billions TZS)



The corporate tax increase was a result of the increase in profitability of the study participants, whose profit before tax increased by 47% and 33% in 2022 and 2023 respectively.

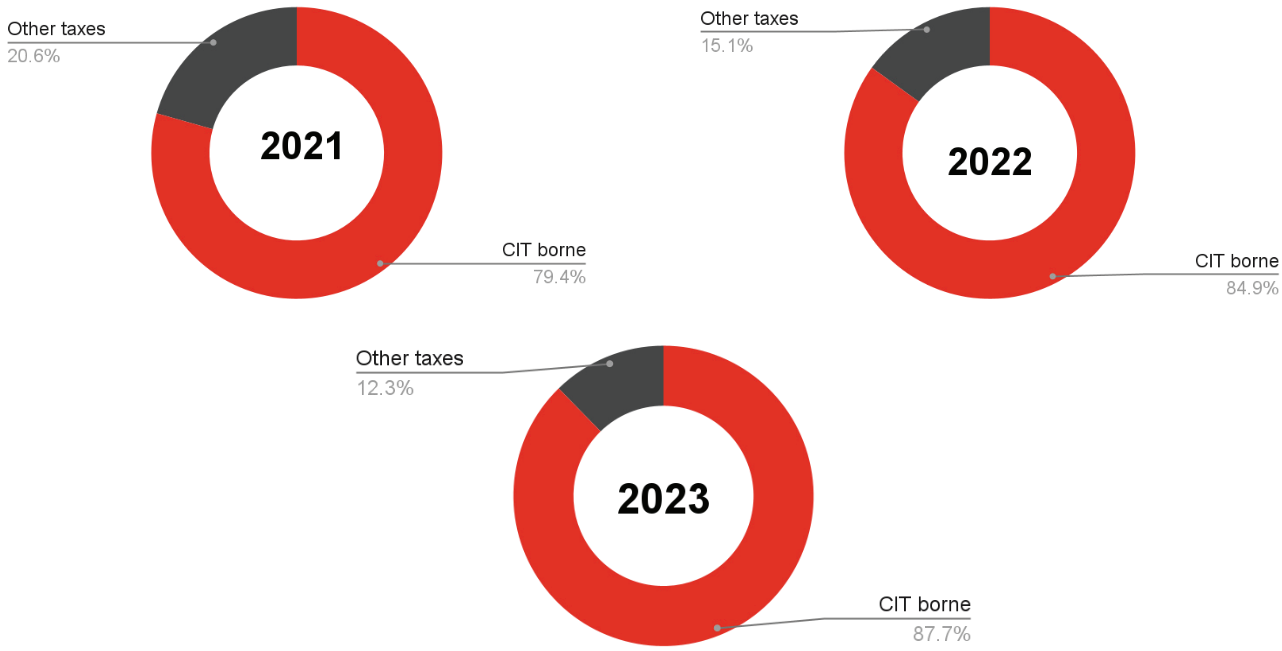
The difference between the increase in profit before tax and the corporate income tax payments arises due to separate tax accounting and financial accounting - not least as regards provisioning for bad debts and interest in suspense (see further comments in section 11 on the tax framework) - as well as some element of permanently disallowable expenditure.

Corporate tax increase was a result of the increase in profitability of the study participants, whose profit before tax increased by 47% and 33% in 2022 and 2023 respectively

Corporation taxes form the largest component of total taxes borne

Corporation tax represents the largest component of total taxes borne standing at 79% in 2021, 85% in 2022 and 88% in 2023 as illustrated below.

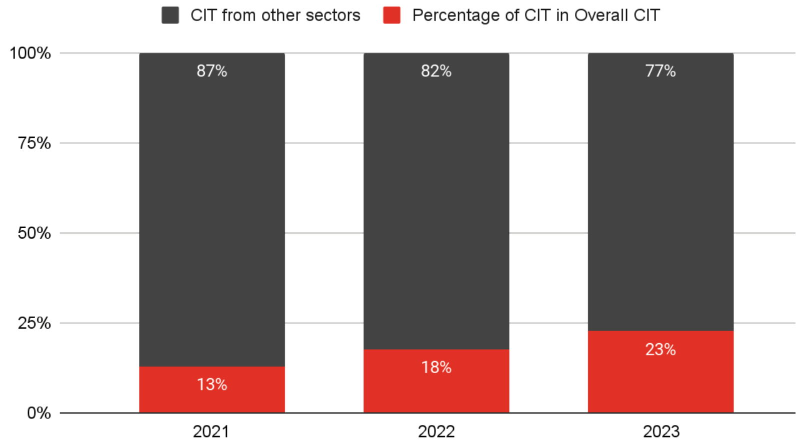
Figure 8: Corporation tax as a percentage of total tax borne



Corporate tax borne as a percentage of total government corporate tax revenue

The corporate tax paid by the banks in this study represents 13%, 18% and 23% of the total corporate taxes paid in Tanzania in 2021, 2022 and 2023 respectively.

Figure 9: Corporate tax as a percentage of total government corporate tax collection



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Value Added Tax (VAT) and Excise Duty

Irrecoverable VAT

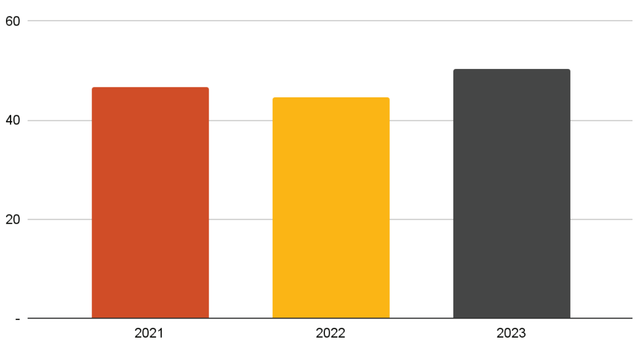
Typically, when a business supplies goods and services, the VAT charged (output VAT) will be offset against the VAT it has incurred on purchases used to run the business (input VAT). Where a significant proportion of the supplies of a company are exempt from VAT, as is the case for banks due to significant interest income, output VAT is not charged to customers and the company cannot recover the corresponding input VAT. This irrecoverable input VAT represents a key component of taxes borne by the banks.

Irrecoverable VAT for the study participants for the period increased from TZS 46.6 bn in 2021 to TZS 50.3 bn in 2023.

Irrecoverable VAT will largely reflect the trend of the sector's spending on third party suppliers of goods and services. The scale of the increase is indicative not just of an increase attributable to increased operational costs due to growth of the sector, but also a significant increase in capital costs. For example, the participating banks' investment in software technology increased significantly during the period, rising from TZS 62 bn in 2021, to TZS 68 bn in 2022 and TZS 93 bn in 2023.

The figure below shows the amount of irrecoverable VAT borne by banks in 2021-2023.

Figure 10: Irrecoverable VAT from 2021 to 2023 (Billions TZS)



[5]For detail of financial services that are taxable, see Appendix

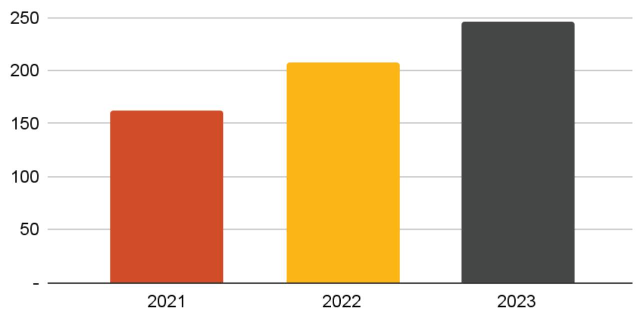
Net VAT collected

As a consumption tax, VAT is not meant to be borne by businesses but rather by the ultimate consumer of goods or services (i.e. typically an individual or non registered business). However, it is collected on behalf of the revenue authority by VAT registered persons. While interest income is an exempt supply, some financial services are taxable supplies[5] and as such subject to VAT with the result that banks are normally required to be registered for VAT.

The consequence is that banks make both taxable and exempt supplies and so are "partially exempt", and as a result cannot recover the full input VAT on expenses. (for more information see section 9.2 below). The excess of output VAT to the recoverable input VAT portion represents the net VAT payable by banks to the revenue authority each month.

The participating banks collected net VAT of TZS 163 bn in 2021, which increased by 27% in 2022 to TZS 207 bn and by 19% in 2023 to TZS 246 bn. This accounted for 3.3%, 4.3% and 3.9% of the total government VAT collections in the respective years.

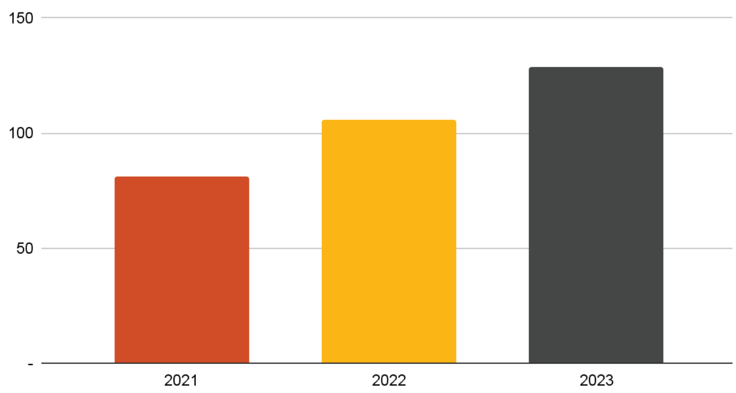
Figure 11: Net VAT collected from 2021 to 2023 (Billions TZS)



Excise Duty

The excise duty on financial services[6] collected by the 26 banks increased by 30.5% in 2022 to TZS 106 bn (2021: TZS 81.3 bn) and by 21.3% in 2023 to TZS 128.6 bn.

Figure 12: Excise duty for the years 2021 to 2023 (Billions TZS)



[6]For detail of financial services that are subject to excise duty, see Appendix

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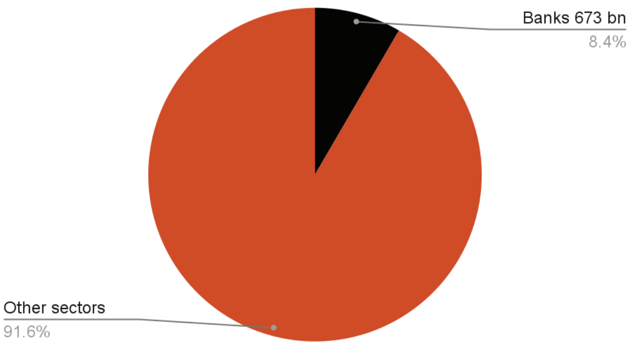
Employment taxes in the banking sector

Employment taxes collected

The study participants' contribution to taxes through Pay As You Earn (PAYE) collected increased by 11% in 2022 to TZS 222.8 bn (2021: TZS 200.4 bn) and by 12% in 2023 to TZS 250 bn. This represents 8.7% in 2021, 8.4% in 2022 and 8.2% in 2023 of the total PAYE collected in Tanzania.

Figure 13: PAYE contribution by the banking sector from 2021 to 2023

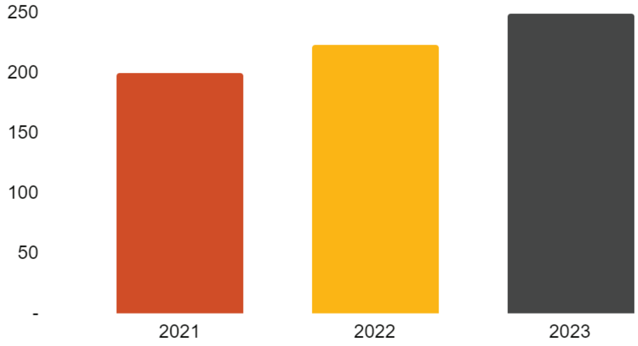


Year-on-year increase in the PAYE collected by participating banks

The banking sector remains a significant employer, with 16,731 individuals employed as of 2022[4] across the various banking institutions.This employment level indicates a significant level of income generation and the sector's contribution to job market stability.

The study participants' increased PAYE contributions indicates the increase in the level of employment in the participants' banks, and potentially remuneration levels, throughout the years under survey.

Figure 14: Year-on-year change in the PAYE collected (Billion TZS)



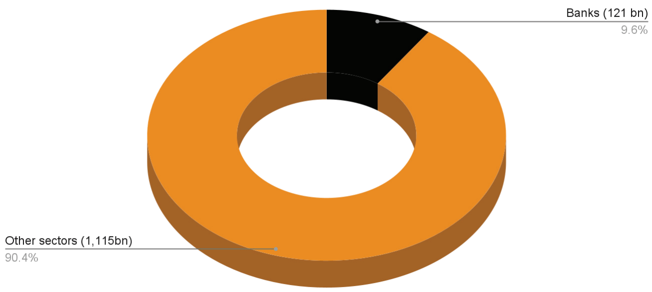
Employment taxes borne

The study participants' contribution to employment taxes borne during the survey period was TZS 121.1 bn, comprising Skills and Development Levy (SDL) of TZS 106.2 bn and Workers Compensation Fund of TZS 14.9 bn, with TZS 38 bn, TZS 41.9bn and TZS 41.1 bn collected in 2021, 2022 and 2023 respectively. This represented 9.7% in 2021, 9.7% in 2022 and 9.5% in 2023 of the total employment taxes borne in Tanzania.

[4]Tanzania Digest: Analysis of Tanzania's Banking Sector 2022

The figure for employment taxes borne does not include employer social security contributions, which although borne by the employer and levied on a similar base as SDL and WCF, are not categorised as taxes for the purpose of the TTC framework. For the record we note that employer NSSF contributions during the three year period were TZS 258 bn.

Figure 15: Employment taxes borne by banks Vs borne by other sectors



With effect from July 2021 the WCF rate (private sector) reduced from 1.0% to 0.6%, and then to 0.5% from July 2022 (aligned to the public sector rate). With effect from July 2023 the SDL rate reduced from 4.0% to 3.5%. These changes explain the downward movement in contributions for WCF in 2022 and 2023 and for SDL in 2023.

Employment taxes borne from 2021 to 2022

Figure 16: Year-on-year change in the WCF paid (Billions TZS)

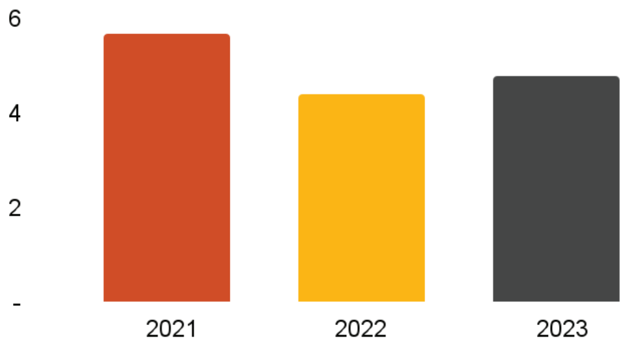
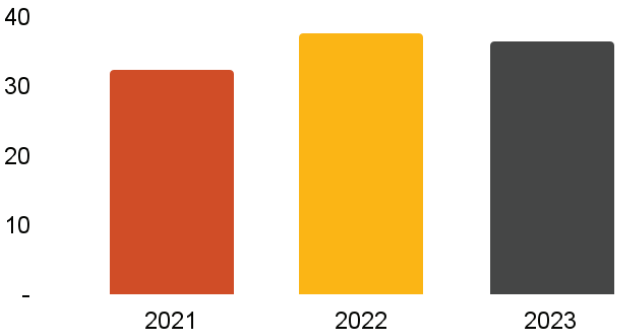


Figure 17: Year-on-year change in the SDL paid (Billions TZS)



10

Withholding tax

During the period under survey, the participating banks sector collected TZS 381.8 bn in withholding tax representing 11% of the total withholding tax collections (TZS 3.4 tr).

Payment type	Amount (Billion TZS)				Y-o-Y % increase	
	2021	2022	2023	Total	2022 v 2021	2023 v 2022
Interest payments	49	64	74	187	30%	15%
Service fees	13	19	18	50	42%	-2%
Dividend payments	8	12	21	41	57%	79%
Money transfer commission to agents	7	10	13	30	43%	35%
Other payments	24	21	30	75	-15%	46%
Total Withholding tax collected	**101**	**125**	**156**	**382**	**24%**	**25%**
Withholding tax collected by TRA	**1,030**	**1,133**	**1,250**	**3,413**	**10%**	**10%**
% of Withholding tax contributed by the banks	**10%**	**11%**	**12%**	**11%**	**13%**	**13%**

Figure 10: WHT contribution by the banking sector from 2021 to 2023

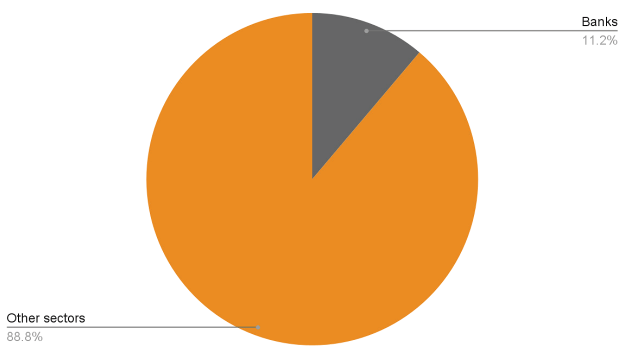


Figure 11: Breakdown of withholding taxes collected (Billion TZS)

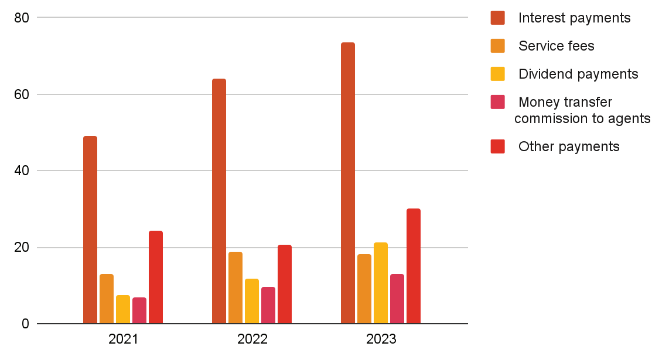
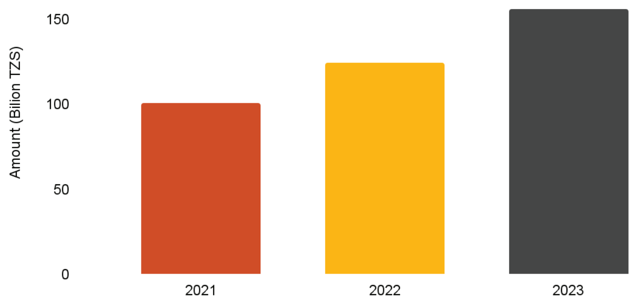


Figure 18: The WHT collected by participating banks continue to increase year-on-year

The WHT collected by participating banks continue to increase year-on-year

In total, the withholding tax collected by the participating banks increased by 56% during the survey period, increasing from TZS 100 bn in 2021 to TZS 156 bn in 2023. A significant reason for this increase in withholding tax is likely to be the sustained increase in customer deposits and the resulting increased interest paid by the banks.



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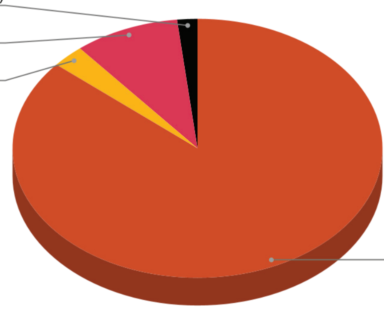
Other taxes borne

The primary component of “Other Taxes” borne by banks is service levy that is paid to the local governments to fund municipal services.

Other components (in order of magnitude) are stamp duty (on legal documents such as receipts, bank cheques and instruments related to land), property tax (on properties owned) and custom duty (on imported goods).

During the surveyed period, the participating banks’ paid service levy totalling TZS 23.3 bn, followed by the stamp duty which was TS 2.48 bn, as illustrated in the figure herein.

Figure 19: Other taxes borne



	Amount (Billion TZS)			% Make-up			Y-o-Y % increase	
	2021	2022	2023	2021	2022	2023	2022 v 2021	2023 v 2022
Service levy	7.9	6.8	8.5	90%	78%	90%	-14%	25%
Stamp duty	0.6	1.4	0.5	7%	16%	5%	132%	-64%
Other	0.2	0.5	0.5	3%	6%	5%	101%	1%
Total other taxes borne	8.8	8.7	9.5	100%	100%	100%	-1%	9%

12

Tanzania's banking sector amidst transformation and uncertainty

Introduction

During the period under review, some key adverse events affected the global economy. These included recovery from the Covid-19 pandemic, the crisis in Ukraine and macro-economic volatility not as a result of increased commodity prices and interest rates. Amidst the challenging times, the banking sector has also witnessed key changes in technological advances, data security and tax requirements. Still, the sector has maintained a key role in sustaining the economy and minimising the adverse consequences of global trade disruption to the economy and individual livelihoods.

Yet, how exactly are the banks impacted by these changes and what outlook do they have for the future? Below are some business perceptions expressing the opinions of the bankers who participated in this study.

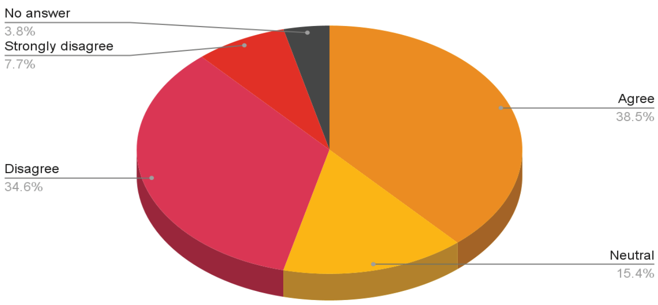
Certainty and involvement in changes of the tax framework

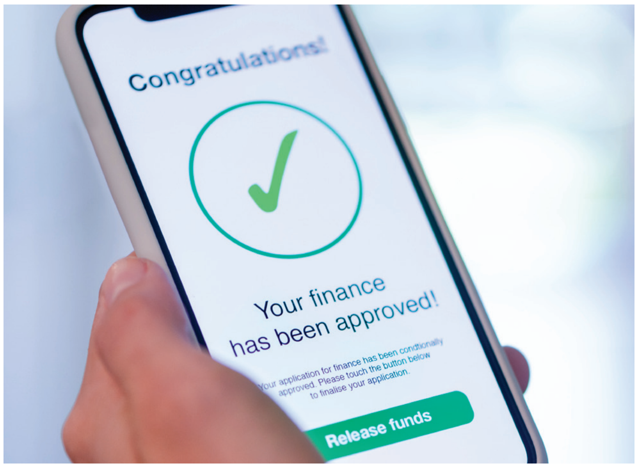
About 39% of the participating banks agree or strongly agree that there is inclusion of the industry stakeholders in the process of reviewing and changing the tax framework. This is particularly implemented through collaboration with the TBA. However, there is still doubt as to whether this involvement results in the stakeholder views being taken into account as most of the stakeholder views seem not to be implemented.

"The involvement of stakeholders is just for management of expectation and not much is done on their views and proposed actions…"

"TBA collects comments from Bank's whenever there is an expected change in Tax laws; whether this suffices is a different subject, However, there is involvement…"

Figure 20: : Is there predictability in the process of making changes to the tax framework and inclusion of industry stakeholders in the process?





Alignment of accounting and tax definitions

Several participating banks raised concerns in relation to aspects of misalignment between tax accounting and financial accounting. The participants appreciate that achieving complete alignment between accounting and tax definitions is not always possible due to differences in the objectives and principles of accounting and taxation.

However, efforts toward greater harmonisation could significantly improve the efficiency and effectiveness of the tax framework in the country. Comments received in this regard included the following:

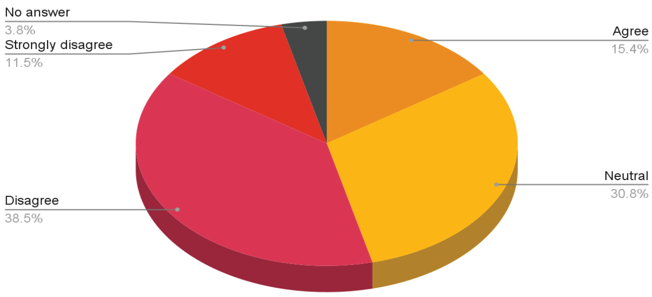
"Aligning accounting definitions with tax definitions can indeed enhance the certainty and ease of implementing tax frameworks. When accounting definitions closely mirror tax definitions, it simplifies the process for businesses to accurately report their financial information for both accounting and tax purposes.":

"Some tax definitions are not clear enough as such, it brings ambiguity on how the treatment should be. Several new International Financial Reporting Standards (IFRS) have been introduced eg. IFRS 17 Insurance and IFRS 16 Leases, but the tax laws have not been updated to accommodate this. Without absolute certainty, taxpayers are forced to adopt approaches they believe will be acceptable by the revenue authority"

"Treatment of Bad debt written off varies between BOT, IFRS, and Tax practices, There are also unfriendly Controlled foreign corporation (CFC) rules"

"Accounting definitions and tax definitions separately exist, but there is no alignment… For Example one of the key areas impacting the financial institutions is the treatment of bad debts written off. The definition is clear but oftentimes, there are conflicting interpretations with tax auditors which result to all these being disallowed for tax"

Figure 21: Is there an alignment between accounting definitions and tax definitions which makes the tax framework certain and easy to implement?



The misalignment of financial accounting and tax accounting is a topic that speaks in particular to long standing concerns on the treatment of bad debts and interest in suspense, as well as a more recent development in relation to controlled foreign companies - topics which we highlight below.

Bad debts

The banking sector faces significant challenges due to the income tax legislation governing non-performing loans in Tanzania. The original provisions of the Income Tax Act (ITA 2004) aimed to align tax treatment with the Bank of Tanzania (BoT) regulatory framework. Specifically, the ITA allowed tax deductions for provisions for bad and doubtful debts in accordance with BoT regulations, contingent upon the debts being written off after all recovery measures had failed.

However, the Finance Act 2014 amended sections 25(5)(a) and 39(d) of the ITA, introducing requirements that a financial institution must take all reasonable steps to pursue payment and reasonably believe that the debt will not be satisfied before writing it off. This effectively removed the differential treatment for financial institutions, aligning their bad debt relief basis with that of other entities. This amendment has several adverse implications for the banking sector.

First, the regulatory intent of BoT provisions, which serve as a safety net, is undermined by the tax on these provisions. Second, the inability to obtain tax relief for BoT provisions at the time of provisioning increases the cost of finance, affecting interest rate pricing. Third, the administrative burden on financial institutions increases, as they must provide detailed documentation to the Tanzania Revenue Authority (TRA) for each written-off debt. Fourth, this change disrupts the objective of greater alignment between accounting and taxation under the ITA 2004.

Additionally, the requirement to demonstrate “reasonable steps” in pursuing a debt introduces subjectivity and contention with the TRA, especially due to the lack of clear guidance in the tax law. The TRA often demands evidence of legal proceedings, which may not be practical or economical for banks to pursue for every bad debt. Furthermore, there is a regulatory mismatch between BoT regulations, which mandate writing off a debt after 365 days in the “loss making” category, and the tax law, which requires demonstration of recovery efforts. This discrepancy adds to the challenges faced by the banking sector in managing non-performing loans.

For further detail on this topic do refer to PwC’s 2014 publication ***“Finance Act 2014 Update Financial Services Commentary”***[7]

Interest in suspense

BOT Regulations require banks to suspend interest accruing on a non performing loan (generally one that remains uncollected for 90 days past the due date) transferring it directly into an interest in suspense account, effectively not recognizing the accrued interest as part of income for the period. When the loan becomes performing, suspended interest is reversed and taxed, hence no loss of tax revenues. Similar to the challenges with bad debts, banks have been facing challenges with the TRA demanding that the interest placed in suspense should be part of the bank income and taxed.

Controlled Foreign Companies

Controlled Foreign Company (CFC) rules are designed to prevent tax avoidance by taxing the income of foreign companies controlled by residents in the jurisdiction of the parent company. These rules have gained prominence following the 2015 BEPS Action 3 report, which recommended approaches to ensure taxation of multinational enterprise (MNE) income and counter offshore tax structures. Effective CFC rules help reduce profit shifting to low-tax jurisdictions.

From the outset Tanzania’s ITA 2014 has incorporated CFC provisions, which tax members of CFCs by deeming a distribution of “unallocated income” at the end of each year[8]. “Unallocated income” considers the attributable income of the CFC minus any distributions made during the year[9] and a 2002 amendment extended this definition to include distributions by

resident financial institutions deemed non-distributable by the Bank of Tanzania (BoT).

In recent years the TRA has sought to enforce application of the CFC provisions, but there are concerns with how this legislation is in practice being applied in two aspects:

- Firstly, the application of CFC rules to subsidiaries in countries with similar or higher corporate income tax rates (for example, all our neighbouring countries) serves little purpose and adds administrative burdens, and potentially unintended tax costs. In brief, sight has been lost of the purpose of these provisions, namely to address income tax avoidance by use of low tax jurisdictions. This is a particular concern for Tanzanian banks bearing in mind that they are rapidly expanding their regional footprint.
- Secondly, and very contentiously, the TRA are seeking to apply CFC rules to Tanzanian subsidiaries of foreign holding companies, effectively deeming the payment of dividends. This interpretation is contentious not least as it de facto seeks to extend the controlled foreign company legislation to apply not only to foreign companies, but also to domestic companies. It is also at odds with the common understanding of the purpose of CFC provisions. Last but not least, in the case of the banking sector it creates a further conflict with BoT regulations.

In summary, Tanzania’s approach to CFC rules as regards their application to foreign subsidiaries in tax jurisdictions with similar income tax rates as well as to domestic companies is highly contentious and causes practical challenges for the banking sector

For further detail see PwC’s ***“Tax Policy Brief International Tax - Controlled Foreign Companies - January 2024”***[10]***.***

[7]https://www.pwc.co.tz/assets/pdf/pre-budget-briefing-5-financial-services-june-2023.pdf

[8]Section 73(2) ITA 2004

[9]Section 74 ITA 2004

[10]https://www.pwc.co.tz/assets/pdf/tax-policy-brief-international-tax-controlled-foreign-corporations.pdf

Digitisation and tax compliance

There is an appreciation of the transformation brought about by electronic platforms particularly filing of returns which has eased tax compliance in Tanzania. While this is a commendable move, nevertheless participating banks do feel that there are still areas of improvement particularly in terms of persistent network disruptions and the need for physical follow ups even after making online requests or submissions.

"The current platform has been improved to a great extent. However, there is still a journey of improvement and more needs to be done to ensure seamless connectivity and effective taxpayer support in case of need"

"There are still glitches with the system where the system will either be slow or inaccessible and the tax compliance process is combined with both manual and online elements causing the whole process to be long and complicated. For example, ED and government levy returns require manual submission of the return for stamping then making follow ups with TRA to get an assessment."

"Online platforms allow taxpayers to file tax returns and make payments electronically, reducing paperwork and streamlining the process. Mobile-friendly platforms enable taxpayers to access and manage their tax obligations from anywhere, making compliance more convenient and accessible."

On the other hand, most of the participants are either indifferent or disagree on there being a sufficient tax framework in Tanzania responsive to the changing nature of the economy in the digital age. Participants perceive the tax framework to be outdated with very limited provisions addressing the dynamic nature of the digital ecosystems.

"Whilst there are few existing legal provisions, the tax laws are old and do not seem to be in pace with the change in digitisation…"

Most local banks are embarking on the digital transformation in one way or the other in the delivery of services to their clients. This is witnessed in a number of ways particularly through online transfer of funds and instant online payment capabilities banks provide to their customers.

The majority of banks have also reported an increased spending in technology in effort to meet regulatory requirements but also to strengthen their competitive edge amidst digital transformation. However, not all banks can afford intensive investment in technologically advanced systems and there is still a skill gap recognised in employees when it comes to running digital banking systems. The digitisation of banking services has also come with increased cyber risks as well as data breaches.

"Digitalization brings numerous benefits, but it also presents several challenges, including: Cybersecurity Threats"

"Digitalization may have an impact on competitive position if a rival is found to be much more advanced in terms of technology use. Heavy investment may be essential for a company to align with digitalization."

"Digital transformation is not simply about integrating new technologies into an organisation's operations, change management is a crucial component of a successful digital transformation"

13

Glossary

Taxes	Definition	Taxes	Definition
Total tax collected	Taxes that the company administers on behalf of government and collects from other taxpayers as an agent of government	**Corporation tax (CIT)**	The main tax on a company's profile
Total tax borne	A company's own contribution in taxes	**Irrecoverable VAT**	VAT that a taxpayer incurs but is not offset against output VAT
Total Tax Contribution	The sum of taxes borne, and taxes collected	**Excise duty**	A tax paid on certain categories income earned by financial service providers
Value distributed	Payment made by a corporate entity to its key stakeholders-government, employees and shareholders	**Withholding taxes**	An income tax withheld on certain kinds of qualifying payments such as management fees, royalties and interest.
Net assets	Total assets minus total liabilities	**Withholding tax borne**	Withholding tax incurred by the company making payments of the above qualifying payments that it does not pass on the supplier
TRA	Tanzania Revenue Authority	**Pay as You Earn (PAYE)**	A tax withheld from the employment income of the company's employees
TBA	Tanzania Bankers Association	**VAT on imported Services**	This is the VAT accounted for on imported services
Employment taxes	All taxes and statutory deduction arising from employment such as PAYE, SDL, WCF etc		

Appendix

Banks and other financial institutions

With effect from 1st July 2014 the Excise Duty on charges or fees payable by any person to banks or any non-bank financial institution was introduced by amending section 125 of the Excise (Management and Tariff) Act Cap 147. Any bank or financial institution is required to pay to TRA 10% of the total amount collected from customers or clients in the form of charges or fees including money transfer service fee.

124 -
(6) For the purposes of subsection (5), “dutiable value” means the amount payable for any service supplied in relation to pay-to-view satellite television. (6A) There shall be charged an excise duty at the rate of 10% on charges or fees payable by a person to-

(a) a financial institution for service provided by such institution; or

(b) a telecommunication service provider for money transfer and payment service.

125-
(1) The duty imposed by this Act shall become due and payable in respect of-

(f) charges or service fees by financial institutions and telecommunication service providers on money transfer and payment service.

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