

Payroll Compliance

A short guide for payroll professionals navigating the latest employees' tax legislation.

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1. General Info

1.1 Official currency

The official currency of Tanzania and Zanzibar is the Tanzanian Shilling (TZS).

1.2 Tax year end

The tax year ends on 31 December.

1.3 Revenue service

Tanzania Revenue Authority (TRA)

Website: www.tra.go.tz

2. Pay As You Earn(PAYE)

Income Tax Act, Section 7

2.1 Taxable Compensation

Taxable compensation includes, but is not limited to:

- payments of wages, salary, payment in lieu of leave, fees, commissions, bonuses, gratuity or any subsistence travelling entertainment or other allowance received in respect of employment or service rendered;
- payments providing any discharge or reimbursement of expenditure incurred by the individual or an associate of the individual;
- payments for the individual's agreement to any conditions of the employment;
- retirement contributions and retirement payments;
- payment for redundancy or loss or termination of employment;
- Other payments related to employment including benefit in kind, travelling or car mileage paid or reimbursed to an employee for home to office journeys should be taxed in full.

2.2 Secondary Employment

Tanzania Revenue Authority

The term is used to describe the situation where an employee has two or more jobs concurrently, the employments under which the employers are required to withhold income tax from such person. In this case any job which is not the main income source of such person is known as secondary employment.

Withhold tax at the highest rate of the individual income tax rates applicable. Currently **30%**.

2.3 Directors

For directors other than a full-time service director, tax is withheld at a rate **15%** of the fee paid.

2.4 Non-Residents

For non-resident employees (e.g. temporary employees from abroad) tax is withheld at the rate of 15% of payment.

2.5 Tax Tables

Income Tax Act, First Schedule

Monthly tax tables for the current tax year

Bands of taxable income (TShs)		Tax rate
From	To	%
0	270 000	0
270 000.01	520 000	8
520 000.01	760 000	20
760 000.01	1 000 000	25
Over	1 000 000	30

With effect from 1 July 2021 the above tax table applies to both Tanzania Mainland and Zanzibar.

3. Lump Sum Payments

Redundancy or Loss or Termination of Employment

Lump sum payments to employees may take the form of gratuities, leave pay, compensations, bonus, commissions etc. which may cover several months of the year or the whole of a year. Lump-sum payments other than terminal payments should be included in the year of payment and be taxed on the basis of the adjusted monthly pay for the year.

In calculating an individual's gains or profit from payment for redundancy or loss or termination of employment, any payment received in respect of a year of income which expired earlier than five years prior to the year of income in which it was received, or which the employment or services ceased, if earlier such payment shall, for the purposes of calculation of the tax payable thereon, be allocated equally between the years of income in which it is received or, if the employment or services ceased in an earlier year between such earlier year of income and the five years immediately preceding such year of income in which such payment is so received or as the case may be, such earlier year of income in which the employment or services ceased, and each such portion, allocated to any such year of income shall be deemed to be income of that year of income in addition to any other income in that year of income.

4. Benefits-in-Kind (BIK)

Income Tax, Section 27

In general, the value of benefit in kind is quantified according to market value of the benefit; that means, the amount that an independent person would have to pay in the market to receive the same good or service.

However, special quantification rules apply to provision of motor vehicle, subsidized loans and provision of housing.

Where an employer provides a benefit which is chargeable on the employee which is not easily attributable to a particular month, then for the purposes of taxation, the amount of the benefit shall be treated as paid to the employee proportionately over each month during the year of income the payment or benefit is provided.

4.1 Housing benefit

The value of premises for residential occupation, including any furniture or other contents, is calculated as the lesser of:

- the annual market value of the rental of the house; and

- the greater of 15% of the employee’s total income for the year excluding the housing benefit component and the expenditure claimed as a deduction by the employer in respect of the premises during the year of income.

Where the premises are occupied by the employee for only part of the year of income, the benefit is apportioned as appropriate, that is the portion of the period the premises are occupied over the year of income.

4.2 Car benefit

Income Tax Act, Fifth Schedule

Where an employer provides a motor vehicle for the private use of the employee, this is a taxable benefit to the employee. “Private use” includes home to work place travel. However, where the employer does not claim a deduction in relation to ownership, maintenance or operation of the vehicle the benefit is not taxable on the employee. Where the benefit is taxable, it is quantified using the following table:

Engine size	Less than 5yrs old	5yrs and older
	TShs	TShs
Up to 1 000 cc	250 000	125 000
1 001 - 2 000 cc	500 000	250 000
2 001 - 3 000 cc	1 000 000	500 000
Above 3 000 cc	1 500 000	750 000

The above amounts are annual amounts.

The age of the motor vehicle is calculated from the date of the first registration of the vehicle in Tanzania.

4.3 Loans

Basically an employer is not responsible for provision of loans to its employees. However as an incentive to the employees, employer may undertake the function of providing softer terms loans to its employees compared to what a free market may offer.

Where an employer provides a loan to the employee and where the term of the loan is twelve months or more and the aggregate amount of the loan and any other similar loans outstanding at any time during the previous twelve months exceeds three months basic pay, with no interest or interest rate below the statutory rate; the foregone interest amount on the loan is a taxable benefit.

The benefit for the year of income is quantified as the difference between the interest the employee pays (if any) and the interest that would have been paid using the applicable statutory interest rate. Statutory rate means the prevailing discount rate as provided by the Bank of Tanzania.

4.4 Any other benefits

The rules of quantification are as prescribed in the regulations, or in the absence of regulations, the market value, less if any, part of the cost of the benefit made good by the employee to the provider (employer.)

5. Tax-Exempt Income

Income Tax Act, Second Schedule

5.1 Leave Passage

Where an employer makes payment for providing travelling for the employee, the employee's spouse and up to four children between the place of work and the place of domicile which is more than 20 miles away, the payment is not included in calculating the employee's income from the employment provided that the employee is recruited or engaged for employment solely in the service of the employer at the place of employment. For example an employer provides passage costs for the employee to commence the employment or to go on leave for the employee and the employee's family, the payment for the passages is not included in calculating the employee's income subject to meeting those requirements.

5.2 Relocation or Removal

Where an employee has to move from Tanzania, and incurs costs for physically moving their household goods or family members due to the change in employment location, reimbursement of such costs by the employer would be treated as reimbursement of business expenses, thus not included in taxable income.

5.3 Reimbursement of Employment-Related Costs

Any subsistence, travelling, entertainment, or other similar payments that represents solely the reimbursement to the recipient of an amount expended by him/her wholly and exclusively in the production of his/her income from his/her employment or services rendered is not included in taxable income. Examples would be transport expenses in the course of official employer business, or even telephone costs in similar circumstances.

5.4 Medical Services

The following are not included in taxable income.

Medical services, payment for medical services, and payments for insurance for medical services

to the extent that the services or payments are:

- Available with respect to medical treatment of the individual, spouse of the individual and up to four of their children; and
- Made available by the employer (and any associate of the employer conducting a similar or related business) on a non-discriminatory basis to all employees of the employer.

5.5 Cafeteria Services

On premises cafeteria services available on a non-discriminatory basis to all employees of an employer are not taxable as a benefit in kind. If employees are provided different types of cafeteria services based on seniority e.g. management staff consume different food stuff from the rest of the staff, this should not be construed as discrimination.

5.6 Unapproved Retirement Funds

A resident approved retirement fund is one that has secured a ruling from the Revenue Authority that it is such a fund. A resident fund without such ruling would be a resident unapproved retirement fund. Where an employee makes contributions to such resident unapproved fund, and later on withdraws more than his/her contributions, the amount in excess of contributions shall not be included in taxable income. However, where such unapproved fund is a non-resident fund, the excess amount is included in taxable income, subject to tax in Tanzania.

5.7 Retirement contributions by employers

Retirement contributions paid by an employer on behalf of the employees towards approved retirement funds, subject to the limit of the actual contribution or the statutory amount.

5.8 Motor Vehicle Benefit

Benefits derived from the use of motor vehicle by the employee for the employee's personal use is generally taxed as a benefit in kind provided the employer claims relief or deduction in relation to ownership, maintenance or operation of the vehicle. However, if the employer does not claim the deduction or relief the benefit is excluded from the income of the employee. Since the Government does not pay income tax from business activities that are the functions of the government and therefore does not claim deductions. Government employees do not pay tax on this benefit.

5.9 Insignificant payments

Payment that is unreasonable or administratively impracticable for the employer to account for or allocate to the recipients.

6. Tax deductions

Income Tax Act, Section 61

The amounts of contributions made by employee/employer to the approved retirement funds (e.g. PPF and NSSF) reduce the gross pay when calculating the PAYE. The amount of this reduction is equal to the lower of:

- The total of the employee; or employer contributions where it is included in calculating the monthly pay made to approved retirement funds; and
- The statutory amount of the fund.

7. Statutory pension funds

The Public Service Social Security Fund (PSSSF) was established by Act No. 2 of 2018 (effective August 2018). The GEPP, LAPF, PPF and PSPF have been merged into one fund, the PSSSF. The NSSF is unaffected.

According to an official communication from the Social Security Regulatory Authority (SSRA) you are advised as follows:

- All Employers from the Public Sector including those in the Private Sector in which the Government has more than 30% shares must send their contributions to the Public Service Social Security Fund (PSSSF) with immediate effect.
- All Employers in the Private Sector shall contribute to the National Social Security Fund (NSSF) with immediate effect.
- All Employers in the Private Sector who were contributing to the abolished Funds, that is, PPF, PSPF, LAPF and GEPP should send to the NSSF the same contributions they were remitting to the defunct Funds with immediate effect. This is a result of the agreement reached at a meeting between ATE, NSSF and PSSSF aimed at having a smooth transition.

This means those who were making their contributions based on basic wage should continue to do so even when contributing to the NSSF.

8. National Social Security Fund (NSSF)

A contribution to the National Social Security Fund (“NSSF”) is based on the employee’s wages as follows:

- 10% (or 15%) payable by employer; and
- 10% (or 5%) payable by employee

"wages" means remuneration in money paid to an employee under his contract of service or apprenticeship, as the case may be, and whether agreed to be paid at fixed or determinable intervals of time... and includes any allowance paid by the employer to the employee either directly or by implication in respect of living and any payment of wages in lieu of notice of termination of employment;

Non-residents (expats) also contribute towards the NSSF. They can claim back their contributions from the NSSF when they leave the country.

Contributions are compulsory for employers and employees in the private sector.

The employee’s contribution to the NSSF is tax deductible (reduces the taxable income).

Contributions are payable to the National Security Fund by the 30th of the following month.

www.nssf.or.tz/

9. Skills Development Levy (SDL)

SDL: stands for Skills Development Levy, is a levy collected by TRA under the Vocational Education Training Act and Income Tax Act.

9.1 Chargeability

SDL is charged based on the gross pay of all payments made by the employer to the employees employed by such employer in the particular time. Unlike PAYE the SDL is due and payable by an employer.

9.2 Gross Emoluments

The gross emoluments is a sum of amount from salaries, wages, payments in lieu of leave, fees, commissions, bonuses, gratuity, any subsistence travelling, entertainment or other allowance received by employee in respect of employment or service rendered.

The Tanzania Revenue Authority confirmed that the SDL is based on cash earnings only, no fringe benefits are included.

9.3 Who is liable for SDL?

Any person who employs 10 or more employees shall pay SDL from gross emoluments.

The employee includes permanent employees, part time employees, secondary employees, casual labourers etc.

9.4 Applicable rates

The rate applicable for SDL is as follows:

- January 2023 to June 2023 – 4% of the total emoluments for the month
- July 2023 to December 2023 – 3.5% of the total emoluments for the month

9.5 Exempted employers from SDL

- Diplomatic Missions
- The United Nations and all its organization
- International and other foreign institutions dealing with aid or technical assistance
- Training and Educational institutions
- Institutions of religious whose Employees are solely employed to administer places of worship, to give religious instructions or generally to minister religion
- Charitable organizations
- Central Government and local Government Authority

- Employment in farms.

10. Workers Compensation Fund (WCF)

The Workers Compensation Act, 2008 provides for compensations to employees of disablement, death, injury or diseases sustained or contracted in the course of employment.

The Act applies only in mainland Tanzania and covers all employers and employees in both private and public sectors.

Although the Act has been operational for over five (5) years, the Fund had been non-existent until in 2016 when the Director General of the Fund revealed the Fund's commencement of operations.

10.1 Contributions

Monthly contributions are 0.6% of employer's monthly wage bill for employees in the private sector and 0.5% of employer's monthly wage bill for employers in the public sector.

Effective 1 July 2022, the WCF rate is 0.5% for both the public and private sector.

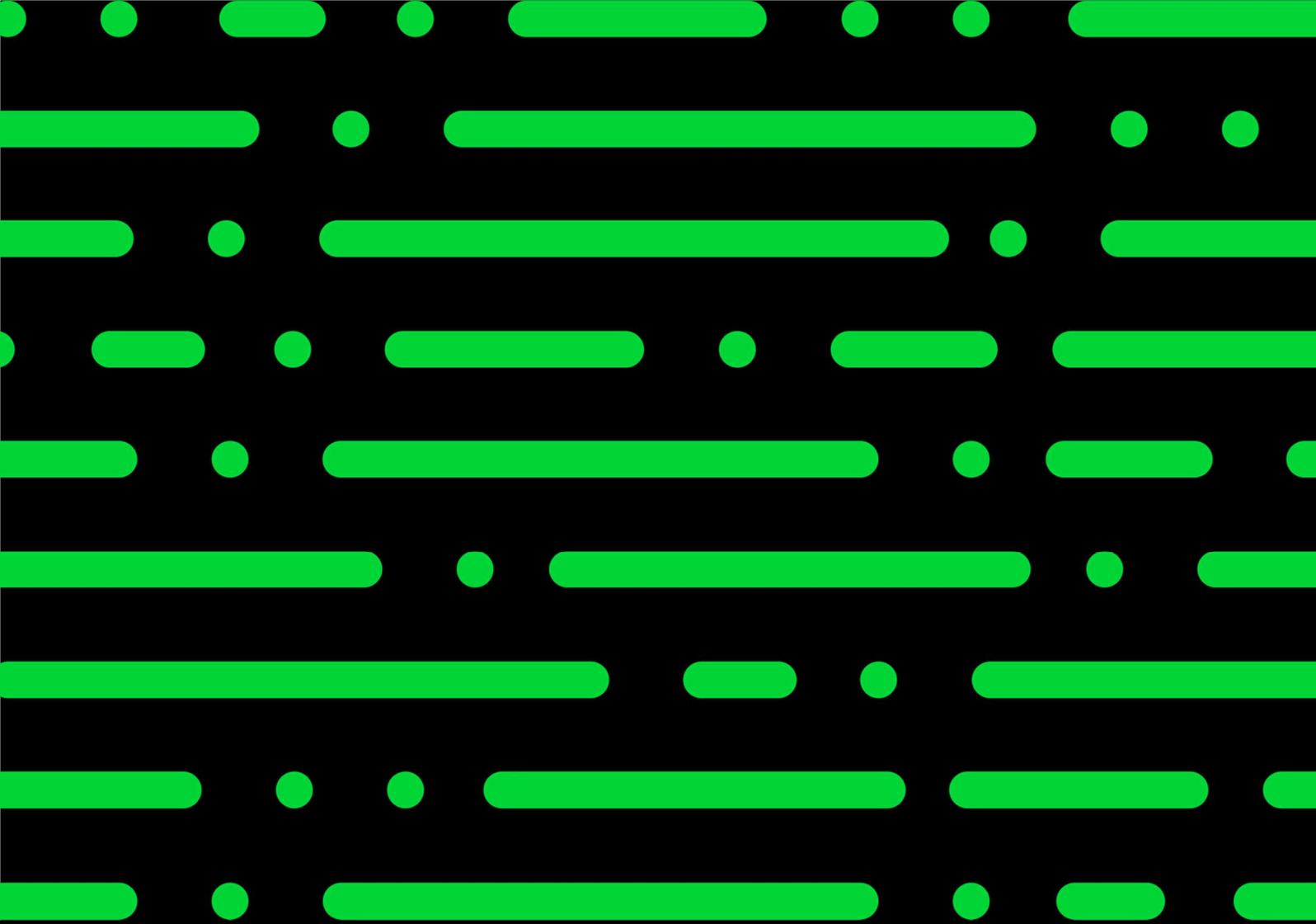
10.2 Basis for contributions

According to the WCR-3 Form and information provided on the WCF website, monthly employees' earnings (wage bill) include basic salaries plus all fixed allowances which are regularly paid along with basic salaries.

According to the Workers Compensation (Payment of Tariff) Regulations 2015, the wage bill is "wages, salary, leave pay, sick pay, payment in lieu of leave, fees, commission, bonus and any subsistence, travelling, entertainments or other allowances paid to the employee by the employer. However, we will adopt the definition provided by the WCF on their website and on their WCR-3 form.

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