TANZANIA REVENUE AUTHORITY

ISO 9001:2008 CERTIFIED

THE INCOME TAX ACT, CAP.332

PRACTICE NOTE

SELF-ASSESSMENT FOR ENTITIES

PRACTICE NOTE NO. 09/2013.
DATE OF ISSUE 1ST NOVEMBER 2013

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1.0 TAX LAW

1.1 This Practice Note applies in respect of an assessment made by an entity under section 94 of the Income Tax Act, Cap. 332.

1.2 This Practice Note also considers payment of income tax by instalment under Section 88 of the Act by an entity that derives or expects to derive any chargeable income during a year of income from business or investment.

2.0 INTERPRETATION

2.1 In this Practice Note, unless the context requires otherwise -
"Act" means the Income Tax Act, Cap. 332.

2.2 Definitions and expressions used in this Practice Note that are used in the Act have, unless the context requires otherwise, the same meaning in this Note as they have in the Act.

3.0 THE PURPOSE OF THIS PRACTICE NOTE

This Practice Note considers an assessment for a year of income treated as made when an entity files with the Commissioner a return of income on the due date for filing such return as provided for under section 94 of the Act. It also considers estimates of tax payable by instalmentunder section 88 of the Act.

4.0 HOW THE LAW APPLIES

4.1 The Self-Assessment System

The Self-Assessment System applies where a taxpayer determines his own tax liability and pays the tax on specified due dates. Under this system an entity is initially required to file its own estimate of income, calculate tax at appropriate tax rate and pay the estimated annual tax by quarterly instalments.

Within six months from the end of the year of income the entity shall file a return of income and audited accounts stating its actual income, tax on the income amount and actual tax payable on the assessment for the year of income. An entity shall pay the balance of the tax due or claim refund of overpaid tax on the date of filing the return.

4.2 The making of self assessment

4.2.1 Where an entity files a return of income

Where an entity files a return of income, an assessment shall be treated as made on the due date for filing the return. The assessment is of the income tax payable on the entity's total income under section 4(1)(a) and which has a domestic permanent establishment that has repatriated income, the tax payable on repatriated income under section 4(1) (b) of the Act and the amount of that tax still to be paid for the year of income as declared by the entity in the return (the "tax payable on the assessment").

The tax payable so assessed shall be accepted unless the Commissioner makes an adjustment under Section 96 or the Tax Revenue Appeals Act 2000, so as to rectify any error or mistake in the return.

4.2.2 Where an entity fails or is not required to file a return of income for a year of income

Where an entity fails or is not required to file a return of income for a year of income then, until such time as a return shall be filed, an assessment shall be treated as made on the due date for filing the return that the income tax payable by the entity for the year shall be equal to the sum of any income tax withheld from payments derived by the entity during the year and any income tax paid by the entity by instalment for the year of income, and there is no tax payable on the assessment. In this case, the entity has made a nil tax payable assessment, till such time a return of income is filed..

4.3 Tax payable amount on self assessment

4.3.1 Tax payable by an entity which has filed a return of income

Where an entity files a return of income it is treated that an assessment is made by the entity on the due date for filling the return. The return must show the income tax payable on the total income of the entity during the year of income less tax withheld from payments derived and income tax paid by instalment by the entity during the year of income. The balance of the tax payable will be the tax payable on the assessment.

A notice of assessment will not be served to an entity that complies with the furnishing of a return within the due date.

4.3.2 Tax payable where an entity fails or is not required to file a return of income

An entity that has not filed a return of income is treated as having made an assessment on the due date for filling a return. The income tax
payable by such entity for the year shall be equal to taxes already paid by withholding and instalments. There will be no tax payable on the assessment.

4.3.3 Tax payable on the assessment and due date for payment

4.3.3.1 Tax payable

Under the Self-Assessment System tax payable by an entity means income tax imposed on the total income for the year of income including amounts payable by withholding, instalments and on assessment.

4.3.3.2 Calculation of tax payable

The income tax payable by an entity for a year of income shall be equal to the sum of the income tax payable with respect to the entity's total income, domestic permanent establishment of the entity and final withholding payments during a year of income.

(i) The income tax payable by an entity on its total income under section 4(1)(a) is calculated by applying the rates of income tax determined under paragraph 3 of the First Schedule for –

(a) a corporation, trust unapproved retirement fund or domestic permanent establishment but excluding a newly listed entity or perpetual loss making entities the tax rate of thirty percent;

(b) newly listed entities with Dar es Salaam Stock Exchange with at least thirty percent of shares issued to the public the tax rate is twenty five percent for the first three consecutive years after the listing;

(c) Perpetual loss making entities at the rate of 0.3percent of annual turnover.

(ii) The income tax payable on repatriated income of a domestic permanent establishment of the entity as calculated by applying ten percent tax rate.

Example

Where an entity has total income of TZS.800,000,000 for a year of income inclusive of a non-final withholding payment on which wit holding tax of TZS. 30,000,000 was withheld and instalment tax payment of TZS. 150,000,000 were made during the year of income, the tax payable is calculated as follows: -

Income tax rate is 30% of the chargeable income

Tax payable on the assessment is calculated as follows: -

Income Tax on Total income (30%)	TZS.	240,000,000
Less: Tax paid by Instalments	TZS	150,000,000
Less: Non – final W/Tax	TZS	30,000,000
Tax payable on Assessment	**TZS**	**60,000,000**

4.3.3.3 Tax payable by an entity with perpetual losses.

When entity is having unrelieved loss in the year of income and in two previous consecutive years of income, then the entity will be taxed at the rate of 0.3% on its turnover of that year of income notwithstanding the cause of such loss

Example: Company ABX Ltd was incorporated 5 years ago. The summary of income statements for 5 years is as follows:-

	year	Year	Year	Year	Year
	1	2	3	4	5
Gross Income (Turnover TZS.	500,000,000	700,000,000	400,000,000	450,000,000	300,000,000
Allowable deductions (Expenses)	460,000,000	650,000,000	600,000,000	550,000,000	400,000,000
Taxable Income/(Loss)	40,000,000	50,000,000	(200,000,000)	(100,000,000)	(100,000,000)

Calculation of tax payable in year 5 which is the 3rd year of perpetual unrelieved loss:

Turnover TZS 300,000,000
Tax payable at 0.3% TZS 900,000

However the unrelieved loss for year income 5 will be carried forward to year 6.

4.3.3.4 Where an entity files a Return of income with a Tax Credit

Illustration

- Income filed on 30th June, 2012 indicates the following
  - Chargeable income for the year of income TZS. 20,000,000
  - Income tax payable on total income (30%)TZS. 6,000,000

Tax Paid

- Income tax paid by instalment TZS 8,000,000
- Income tax paid by withholding TZS 400,000

Total TZS 8,400,000

- **Income tax credits TZS 2,400,000**

- Where an application for a refund is filed on 30th July 2012 the Commissioner shall effect the refund within 45 days from the date the application was received. But if there is unpaid tax that is due, the excess amount will be applied to discharge such liability.

4.4 Payment of tax under self-assessment system

Where an assessment is treated as made under section 94, consequent to an entity filing a return of income for a year of income under section 91, the tax payable in the amount shown in the return of income as reduced by income tax paid by withholding or instalments is to be paid by the date on which the return of income must be filed as provided for under section 79(1)(c) of the Act.

4.5 Rectification of mistakes or errors in a self-assessment

Mistakes or errors committed by an entity in a return that affects the self-assessment treated as made shall be rectified by way of an objection under the Tax Revenue Appeals Act, 2000. Regulation 22 of the Income Tax Regulations, 2004 provides that for the purposes of the Tax Revenue Appeal Act, 2000 an assessment treated as made under section 94 of the Income Tax Act, 2004 is considered an assessment made upon the person by the Commissioner. In this case the error shall be rectified when the Commissioner acts on the objection in accordance with the Tax Revenue Appeals Act, 2000.

4.6 Adjustment on Self-Assessment

4.6.1 Adjusted Assessment

The Self-Assessment System as applied under the Act puts the obligation and responsibility of calculating an entity's' income and tax payable amounts on the entity. However, the Commissioner shall ensure that an assessment made by the entity is correct and consistent with the intention of the Act. Section 96 empowers the Commissioner to make adjustment on an assessment made under section 94 (self-assessment) so as to adjust the entity's tax liability in such manner as according to the Commissioner's best judgement and information reasonably available, the assessment shall be consistent with the intention of the Act.

4.6.2 Vetting a return treated as Self-Assessment made

In order to ensure that a return of income filed by an entity under section 91 is consistent with the intention of the Act the Commissioner may accept the return and make the following adjustments:

a) Rectify any arithmetical error in the return
b) Allow any deduction, allowance or relief which is, *prima facie*, admissible, but is not claimed in the return;
c) Disallow any deduction, allowance or relief claimed which is *prima-facie*, not admissible;
d) Give due effect, to the deduction of unrelieved loss, etc, with reference to previous year.

Where the Commissioner does not accept the return of income filed by the entity hence the self-assessment made, he will issue a written notice, requiring the entity to produce evidence in support of the return filed.

4.6.3 Time Limit for Adjusting an Assessment

If it is discovered that income has been omitted, the self assessment has become insufficient or that any allowance or relief given is , or has become excessive, an adjusted assessment may be issued to recover the tax lost or could have been lost if the assessment is not adjusted.

The Commissioner may adjust an assessment under Section 96(2) within three (3) years after –

(a) In the case of a self-assessment under section 94 the due date for filing a return.

Illustration

A return of income for year 2011 was due for filing by 30th June, 2012 but filed on 30th November, 2012. The time limit for adjustment is three (3) years after 30th June, 2012 and not 30th November, 2012.

(b) In the case of assessment under section 94 where the person fails to file a return with the intention of evading or delaying the payment of tax or the assessment is inaccurate by reason of fraud, the Commissioner may adjust the assessment at any time, in accordance with section 96(3).

4.6.4 Notice of Adjusted Assessment

Where the Commissioner makes an adjusted assessment on a self-assessment made under section 94 the Commissioner shall serve a written notice of the assessment on the person stating:-

i) the Commissioner’s assessment of the income tax payable by the person and the tax payable on the assessment;
ii) the manner in which the assessment is calculated;
iii) the reason why the Commissioner has made the assessment;
iv) the date by which the tax payable on the assessment must be paid; and
v) the time, place and manner of objecting to the assessment.

4.7 Payment of Income Tax by Quarterly Instalments

- A person who derives or expects to derive any chargeable income during a year of income from a business or investment or employment where the employer is not required to withhold income tax from the payments made shall pay income tax for the year of income by instalments as provided for under Section 88 of the Act.
- The tax instalments shall be paid as follows:-
  - i) In the case of a person whose year of income is a twelve months period beginning at the start of a calendar month, the tax shall be paid on or before the last day of the third, sixth, ninth and twelfth month of the year of income.
  - ii) In any other case, at the end of each three-months period commencing at the beginning of the year of income and a final instalment on the last day of the year of income unless it coincides with the end of one of the three-months period.

Illustration

Where a person's year of income begins on the first day of a calendar month, say 1st February the instalments will be payable on three-month period intervals the first one being on or before 30th April. When a person's year of income begins on 16th March the first instalment will be on or before 15th June and at subsequent three months period intervals i.e. 15th September, 15th December and 15th March the following calendar year.

4.8 Taxpayers not required to submit Statement of Estimate

Section 89 of the Act empowers the Commissioner to either specify by notice in writing that a taxpayer or class of taxpayers are not required to submit an estimate of tax payable by instalment or extend the time limit for filing such estimate.

4.9 Statement of Estimated Tax Payable

An entity, which is an instalment payer, shall file with the Commissioner an estimate of its income and tax payable for the year of income by the date for payment of the first instalment. The tax estimate for the year of income shall be paid by quarterly instalments: -

4.10 Calculation of each instalment of income tax payable

The amount of each instalment of income tax payable by an entity, which is an instalment payer for a year of income, is calculated according to the following formula:

$$\frac{(A - C)}{B}$$

Where:

A = is estimated tax payable at the time of the instalment.

B = is the number of instalments remaining for the year including the current instalment

C= is the sum of;

i. income tax paid during the year of income but prior to the due date for payment of the instalment; and
ii. income tax withheld during the year prior to the due date.

Where an instalment shall be payable at a time when an entity's estimated tax payable for a year of income is TZS. 50,000/= or less or the amount of instalment is TZS. 12,500/= or less, the amount of the instalment shall be nil.

The instalments are payable on or before the last day of 3rd, 6th, 9th and 12th months of the year of income.
The income and tax estimates may be revised at any time during the year of income if circumstances change.

Example
M/S ABC Co. Ltd is a manufacturer of fruit concentrates. ABC Co. Ltd. Also has fixed Deposit Account, which earned the company estimated interest income of TZS. 16,000,000/= during the year of which only TZS 4,000,000 was paid and tax withheld of TZS 400,000 was paid in the first quarter. Income from the manufacturing business in the prior year was TZS.75,000,000/=. The company estimates its manufacturing income for the year of income as 80,000,000/=
The accounting period of ABC Co. Ltd. is 01 January – 31 December.

Solution
The instalment payment for 31st March is as follows: -

Estimated business income	TZS.	80,000,000/=
Estimated Interest income	TZS.	16,000,000/=
Estimated Total Income	TZS.	96,000,000/=
Corporation Tax (30%)	TZS	28,800,000/=
Tax withheld	TZS.	400,000/=

Number of instalments 4

- 1st Instalment payment $= \frac{(A-C)}{B}$

A =28,800,000/=
B = 4
C = 400,000/=

$= \frac{28,800,000/= - 400,000/=}{4}$

=7,100,000/=

1st Instalment tax payment is TZS 7,100,000/=

- 2nd Instalment payment $= \frac{(A-C)}{B}$

A=28,800,000/=
B= 3
C= 400,000/= + 7,100,000/=

$= \frac{28,800,000/= - 7,500,000/=}{3}$

= 7,100,000/=

2nd Instalment tax payment is TZS 7,100,100/=

3rd Instalment payable $= \frac{(A-C)}{B}$

A= 28,800,000
B= 2
C= 400,000 +2 X 7,100,000
i.e. 14,600,000

$= \frac{(A-C)}{B} \qquad = \frac{28,800,000 - 14,600,000}{2} = \frac{24,200,000}{2}$

= 7,100,000

4th Instalment payable $= \frac{(A-C)}{B}$

A= 28,800,000
B= 1
C= 400,000 +(7,100,000X3) = 21,700,000

$$=\frac{(A-C)}{B}$$

$$=\frac{28,800,000 - 21,700,000}{}$$

4rd Instalment tax is Shs. 7,100,000

4th Payment due **Shs. 7,100,000**

Illustration

Assume another company with facts similar to those in Example 1, but the company wants to adjust its tax payable by taking into account the income tax amounts withheld in March, June, and September with equal amount of TTZS 400,000.

Since 10% withholding tax on interest income is made on quarterly basis, same must have been withheld for March, June and September equals TZS. 400,000 x 3 = TZS. 1,200,000

The instalments for March and June, which have been paid: TZS. 14,200,000The remaining two instalments will be computed as follows:

Total tax payable TZS. 28,800,000

- 1st Instalment payment $=\frac{(A-C)}{B}$

(March 31

A=28,800,000

B= 4

C= 400,000

$$= \frac{28,800,000 - 400,000}{4}$$

=7,100,000

1st Instalment tax payment is TZS 7,100,000/=

- 2nd Instalment payment $=\frac{(A-C)}{B}$

(30th June)

A=28,800,000

B= 3

C= 400,000+400,000+7100000

$$= \frac{28,800,000 - 7,900,000,000}{3}$$

=6,966,666.67

2st Instalment tax payment is TZS 6,966,667

- 3rd Instalment payment $= \frac{(A - C)}{B}$ (30th September)

A=28,800,000

B= 2

C=400,000+400,000+400,000+7100000+6,966,666.67

$= \frac{28,800,000 - 15,266,666.67}{2}$

=6,766,666.67

3rdInstalment tax payment is TZS 6,766,667

- 4th Instalment payment $= \frac{(A-C)}{B}$ (31st December)

A=28,800,000

B= 1

C= 400,000+400,000+400,000+7100000+6,966,666.67+ 6,766,666.67

$= \frac{28,800,000 - 22,033,333.34}{1}$

= 6,766,666.67

4thInstalment tax payment is TZS6,766,667

Note:

Assuming there were no revision on the estimated tax during the year. Therefore the estimated is equal to the tax paid by instalments as summarized below:

Instalment	Amount Paid	Amount Withheld	Total Tax
1st Instalment	7,100,000	400,000	7,500,000
2nd Instalment	6,966,667	400,000	7,366,667
3rd Instalment	6,766,667	400,000	7,166,667
4th Instalment	6,766,667		6,766,667
Total	**27,600,000**	**1,200,000**	**28,800,000**

4.11 Interest for Understating Estimated tax payable

Section 99 provides to charge interest where an instalment payer, as defined in Section 88 of the Act, understates the amount of estimate or revised estimate of income tax payable by instalments for a year of income by more than twenty percent i.e. the estimate or revised estimate is less than eighty percent of the tax payable by the person. The tax payable amount is "the correct tax" which means the finally determined or assessed tax. This amount is not necessarily the same as the person's tax payable on the returned income. Where the tax payable is adjusted the correct amount is the adjusted tax payable amount.

Where an entity understates an estimated or revised estimated tax payable, the entity shall be liable for interest for each month or a part of month from the date the first instalment for the year of income is payable until the due date by which the person must file a return of income for the year of income under section 91.

The amount of interest must be paid for each month and is calculated at the statutory rate compounded monthly and applied to the excess of: -
(a) the total amount that would have been paid by way of instalments during the year of income to the start of the month had the person's estimate or revised estimate equalled the correct amount; over
(b) the amount of income tax paid by instalments during the year of income to the start of the month

"statutory rate" in relation to calendar year means the prevailing discount rate determined by the Bank of Tanzania.

4.12 An entity not required to file a return of income

A non-resident entity other than one with a domestic permanent establishment which has no income tax payable for the year of income is not required to file a return of income unless such entity elects to file a return. The income tax of such non-resident entity will in almost all cases be recovered through final withholding taxes.

5.0 REVOCATION

Pursuant to the provisions of Section 130(2) of the Act the Practice Note Number 08/2004 issued on 15th December, 2004 is hereby revoked.

Signed……………….
Commissioner
1st November, 2013.