

**PRESENTATION DURING THE MEETING OF
CHINESE BUSINESS COMMUNITY IN TANZANIA
HELD IN DAR ES SALAAM ON 18th AUGUST 2019**

TOPIC: ABC ON WITHHOLDING TAXES

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Meaning

- Withholding tax is tax paid in advance from employment income, business income and investment income (non-final withholding tax) or
- Is final tax paid from final withholding payments as provided for under section 86 of Income Tax Act, 2004

Withholder & Withholdee

- A Withholder is an agent of TRA who deducts a certain percentage from gross payment on goods supplied or services rendered to him and remit the amount deducted to TRA on behalf of the withholdee
- A Withholdee is a person liable to pay tax from the total income or final withholding payment

Tax Credit for non-final withholding tax – Section 87 of ITA

The withholder of a payment that is not a final withholding payment shall be entitled to a tax credit in an amount equal to the tax treated as paid for the year of income in which the payment is derived

Obligation to withhold tax

- Section 81 of Income Tax Act, 2004 provides for the obligation of a resident employer to withhold tax from employment income
- Section 82 of Income Tax Act, 2004 provides an obligation for resident persons to withhold Income Tax from payments of investment income (e.g. dividend, interest, natural resource payment, rent or royalty)

The obligation to withhold does not apply to-

- payments made by individuals unless made in conducting a business;
- interest paid to a resident financial institution;
- payments that are exempt amounts;
- rent paid to a resident person for the use of an asset other than aircraft, land or buildings; or
- Interest payable to a non-resident bank by a strategic investor except for interest payable on any loan taken by strategic investor from an associated or related company

Obligation to withhold tax.....

Section 83 of Income Tax Act 2004 imposes an obligation on resident persons to withhold Income tax on payments for service fees to a resident person with respect to:-

- ✓ extractive industry in mining, oil or gas business,
- ✓ to a non-resident person, for provision of professional services by resident person,
- ✓ payment of money transfer commission to a money transfer agent,
- ✓ payment in respect of the supply of goods and services to corporation by a resident person,
- ✓ payment of insurance premium with the source in the United Republic payable to a non-resident.

Obligation to withhold tax.....

However, Section 83(2) of Income Tax Act provides that Section 83 shall not apply to payments made by individuals unless: -

- made in conducting a business; or
- payments that are exempt amounts.

Thus individuals who are not conducting a business are not required to withhold under Section 83(1). Likewise, payments that are exempt amount are not liable for withholding under sub-Section 83(1).

Special provision for contractors

Note: where the service fee is paid by the resident person in respect of professional services that involves construction works the payment which is subject to withholding tax shall be based on the ratio of 3:2 for materials and services respectively.

Final withholding payment

- Section 86 of Income Tax Act specifies payments which, for the purpose of the Act, are final withholding payments, that is the Income Tax withheld satisfies the tax liability of the withholder with respect to the payment.

Examples:

- Dividend paid by resident company to a resident individual who is not conducting business
- Dividends paid by a non-resident company to resident individual who is not conducting business
- Interest paid by a financial institution to a resident individual where the interest is with respect to a deposit held with the institution

END OF PRESENTATION

THANK YOU ,,,