



COVID-19 Tax & Legal Considerations

Mitigating the impact on your business in Tanzania

The COVID-19 pandemic is expected to have a deeply disruptive impact on the global economy. To bring it closer home, we have highlighted potential areas of impact to look out for in your business as it pertains to Tax & Legal matters in Tanzania.

This communication highlights the Tanzanian tax, legal and related potential implications associated with the pandemic and is valid as of March 31, 2020, and is subject to change as we receive additional announcements from the authorities.

Introduction

In these unprecedented times, business leaders need to assess their readiness and business continuity plans for the coming weeks and months. This preparation should also include an assessment of businesses' ongoing compliance with tax and related obligations.

Unlike other countries such as Kenya, Tanzania has not yet introduced any fiscal measures targeted at responding to COVID-19. However, it is imperative for businesses to assess its impact. Below, we list some of the relevant potential tax, legal and related issues for business leaders to consider.

Tax considerations

- Cash flow challenges may arise as a result of business downturn for many entities. This will naturally impact provisional tax payments.
- Should there be a significant disruption of economic activity, there may be challenges around VAT refunds as VAT refunds may be delayed. This may adversely affect business cash flows and need to be factored in accordingly.
- Should your business forecast reduced income, tax estimates should be adjusted accordingly. This includes cases where losses are projected and Alternative Minimum Taxes are applicable.
- Monthly compliance obligations with VAT, Withholding tax and Employment taxes continue to remain in place. Businesses should remain proactive in managing this, including proactively engaging the Tanzania Revenue Authority (TRA) when cash flow challenges exist to negotiate payment plans where that becomes necessary.
- Should there be a need to provide for, or write-off of receivables, proper documentation should be in place to ensure that reasonable steps have been taken to recover such receivables so that an appropriate tax deduction can be claimed in due time.
- Careful attention should be paid to specific industries such as financial institutions which have to comply with specific Bank of Tanzania (BoT) Regulations in case of deferment of interest or principal payments on their receivables.
- Requests can be made to obtain an extension to file tax returns where necessary as well as requests to utilize tax credits / refunds due in accordance with the Tax Administration Act, 2015.

Engaging the TRA

- A clear opportunity for both businesses and the revenue authority is to exploit digital opportunities to ensure compliance remains in place. Such measures include online filing of returns that currently require hard copies, such as Corporate Income Tax returns as well as PAYE and Skills and Development Levy (SDL).

- We understand that TRA is open to filing the returns through emails, but businesses should establish contacts with their regional offices and department for specific guidance on the matter.
- The digital platforms can also be used during audits and other correspondences with the revenue authority.

Legal impacts

The economic downturn may lead to downsizing of business and this will impact staff retention, salary payments and staff benefits. There will also be government regulations for companies operating during this period of the pandemic

Where a business has to take the difficult measures around staff redundancies or salary cuts, it is important to consider:

- Legal documentation required for proceeding with salary cuts or reduction in benefits; and
- Mandated guidelines for staff reduction.

Changing workforce dynamics

- Whilst Tanzania has not instituted a lockdown, businesses are adopting measures to reduce physical interactions. Many companies have shifted to remote-work where possible and diminished staff on site where needed. Depending on how long this arrangement goes on for, the place of work consideration may apply to the employees' homes.
- Allowance allocation and assessments will likely need to change for:
 - Telephone and data allowances to support remote working;
 - Transport allowances for staff using public transport, being shifted to office transport, car-hire, or ride-share apps; and
 - The above expenses should ordinarily be deductible for corporate income tax purposes. However clear documentation needs to be in place to account for personal usage of such assistance, which is not deductible.
- It should be noted that any expense that the business incurs on behalf of the employee that is not sufficiently documented to be a business expense may be deemed as a taxable benefit in the hands of the employee.

Expat and seconded staff:

Staff working locations and terms of service may have to be reassessed for those working as expats or seconded staff and potential creation of new permanent establishments.

- Expat staff: These staff may have returned to their home base. This would have affect tax liabilities linked to place of residence and work.

- Seconded staff: Staff that were expected to only be stationed for a limited amount of time may find their terms being extended in a foreign location. The tax liability that had previously been assessed will likely need to be re-looked at.
- With increased economic uncertainties, businesses may face increased order cancellation or delivery delays and hence payment delays. Businesses should therefore monitor COVID-19 developments very closely and engage in constant communication with its stakeholders.

Contract disruptions

Business disruptions in your supply chain may be leading to new supplier or distributor relationships being formed. Ensure any new contracts have been considered from a tax standpoint and include appropriate tax clauses. The tax outcomes under a new contract may not be the same as an existing contract.

If you have a global business, be mindful of any intra-group balances. If additional funding is being advanced to support a group member, transfer pricing considerations in relation to the interest chargeable; withholding tax and thin-capitalisation ratios need to be assessed.

International trade challenges

More and more countries are announcing either partial or total lockdown or taking other aggressive measures in an attempt to reduce the COVID-19 spread. International trade will increasingly be impacted by these measures with importers and exporters likely to face new challenges.

- Exporters to countries already facing total lockdown may find their consignments delayed at the port hence leading to increased demurrage costs as well as other port charges. Businesses should carefully plan around this consideration;
- Importers from countries impacted by COVID-19 may experience clearance delays that come with additional costs. Taxpayers may, on a case by case basis, engage with the revenue authorities to seek waivers or reduced charges where costs have demonstrably increased; and

Other measures

It is important to adhere to the Ministry of Health guidance which encourages social distancing.

The paramount concern at this time is the wellbeing and safety of your staff, families and communities. We encourage you to think about this situation in two ways – what needs to be done today to ensure immediate well-being concerns are addressed, and what needs to be done to ensure long-term business success. This means considering the potential financial, tax and legal implications of the current pandemic. With some extra effort, tax risk can be managed through this time of uncertainty.

Information security and data protection

As working remotely is becoming a new normal, information security should remain a top priority. It is expected that communication will increasingly be electronic. This therefore calls for businesses to strengthen their information security systems by:

- Use of secure connections to access and share information is key;
- Movement with work devices containing important information should be limited;
- Sharing confidential information with tax authorities should be done securely and measures should be taken to ensure encryption where necessary; and
- It is critical to double-check before sending information electronically to avoid sending information to incorrect recipients.

Combating COVID-19 with resilience

Public authorities are taking decisive action to respond to the emerging health threat, leading the business community to reconsider the adequacy of their preparedness measures. We have compiled Global Deloitte insights to help businesses manage and mitigate the risk.

For more information on how to respond, recover and thrive:

Visit www.deloitte.com/COVID-19

Contacts for this viewpoint:

David C. Nchimbi

Country Managing Partner

+255 222 169 002

dnchimbi@deloitte.co.tz

Dmitry Logunov

Partner

+255 222 169 004

dlogunov@deloitte.co.tz

Yonazi Mngumi

Associate Director

+255 222 169 162

ymngumi@deloitte.co.tz

Festo Bartholome

Senior Manager

+255 222 169 168

fbarthalome@deloitte.co.tz

Samwel Ndandala

Senior Manager

+255 742 079 332

sndandala@deloitte.co.tz

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our global network of member firms and related entities in more than 150 countries and territories (collectively, the "Deloitte organization") serves four out of five Fortune Global 500® companies. Learn how Deloitte's approximately 312,000 people make an impact that matters at www.deloitte.com.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication. No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.