



THE EMPLOYER'S GUIDE TO "PAY AS YOU EARN"

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PART I

1.0 PRELIMINARY INTERPRETATION

1.1 PURPOSE OF EMPLOYER'S GUIDE

- 1.1.1 The purpose of this guide is to assist employers in the operation of the PAYE withholding tax system and deals in detail on matters concerning the system as a whole.
- 1.1.2 The Employer's Guide is a guide only and provides ready assistance on the operation of the system. However, it in no way substitutes or modifies the Income Tax Act, 2004, Tax Administration Act, 2015 or the Income Tax Regulations. For the authoritative and comprehensive rules you should consult the respective tax laws. The PAYE withholding tax legislation is contained in Subdivision A of Division II of Part VII of the Income Tax Act, 2004.

1.2 ASSISTANCE FROM TANZANIA REVENUE AUTHORITY OFFICES

The guide is not exhaustive in every detail. If the guide does not answer some particular issue the employer should contact any Tanzania Revenue Authority Office or Call Centre for advice.

1.3 APPLICABILITY OF "PAY AS YOU EARN"

- 1.3.1 The withholding tax system in respect of income from employment under the Income Tax Act is described as Pay As You Earn, in short PAYE. A resident employer or a non-resident employer with a permanent establishment in Tanzania, who makes a payment that is included in calculating chargeable income of the employee with respect to the employment is obliged to withhold income tax from the payment at the rate prescribed in the Income Tax Act. For this purpose "employment" includes any position of an individual entitling the individual periodic remuneration in respect of services provided for whatever period other than payments made in respect of the individual conducting a business.

- 1.3.2 An employee's year of income is the calendar year; hence the PAYE year runs from 1st January to 31st December of each calendar year. Tax on employment income is calculated on payments made by the employer to the employee during the calendar year.
- 1.3.3 For resident employees with one employment the amount of tax to be withheld from employment income is based on the total income from employment for the year. The tax rates for individuals as per Paragraph 1 (1) of the First Schedule to this act are applied to calculate the tax to be paid for the year with respect to the employment (the "annual tax liability"). The annual income is divided evenly over the twelve months period and the amount (PAYE) that should be withheld from the employee's taxable payments for each month is established. If the employee's income changes during the calendar year and the original tax proves not to be correct under the new circumstances an adjustment in the revised annual income and tax liability must be made during the year to rectify the position. If the correct amount is not withheld by the end of the year, a further adjustment is required, which may result into either an extra payment of tax or refund of overpaid tax.
- 1.3.4 For non-resident employees tax is withheld at a flat rate of 15% of the gross income from employment. This is a final withholding and the amount withheld satisfies the employee's income tax liability with respect to employment.
- 1.3.5 The amount of withholding tax is based on all amounts that are required to be included in an employee's income from employment and this includes all types of in kind and non-cash payments. See further Part II, paragraph 3 of this Guide.

1.4 OBLIGATION OF THE EMPLOYER TO WITHHOLD TAX

- 1.4.1 Under the provisions of the Income Tax Act, 2004 every resident employer (and non-resident employer with a permanent establishment in Tanzania) is obliged to withhold tax upon payment of income from

employment regardless of the number of employees engaged at any time and whether or not the employer has been specifically instructed to do so by the Commissioner .Where a withholding tax agent fails to withhold income tax from payment as required by the law, the withholder shall be jointly and severally be liable with the withholding tax agent for payment of tax to the Commissioner.

- 1.4.2 The obligation of an employer to withhold tax is not reduced or extinguished because the employer has a right or an obligation to deduct or withhold any other amount from payment of income from employment or because of any other law that provides that an employee's income from employment shall not be reduced or subjected to an attachment.
- 1.4.3 If an employer fails to comply with the withholding tax provisions of the Act and the Regulations the employer is, nevertheless, liable for payment of the tax to the Commissioner as well as interest and penalties for such failure.

1.5 OBLIGATION OF THE EMPLOYER TO WITHHOLD TAX FROM SECONDARY EMPLOYMENT PAYMENTS

- 1.5.1 Where an employee has two or more employments at the same time and more than one employer then one of the employers is required to withhold tax. The employee shall (at the employee's choice) select one of those employments to be the employee's primary employment. The remaining employments shall be secondary employments of the employee. An employee is required, at the time he first takes on a second or further employment, to notify all the employers of his choice that they are the employee's secondary employers.
- 1.5.2 A secondary employer must withhold tax from payments he makes at the highest individual tax rate stipulated in the Act from the gross amount (that is, without any deduction) of each payment made to the employee that constitutes income from employment.

- 1.5.3 If withholding at the highest personal income tax rate would cause excessive tax deduction to the employee because none of the employee's total income for the year is likely to be taxed at that rate, the employee may apply to the Commissioner to allow a lower rate at which the secondary employer must withhold tax considering the applicable tax range on the employer's income.

1.6 EMPLOYER'S OBLIGATION TO FILE A STATEMENT OF TAX WITHHELD

- 1.6.1 Every employer who is obliged to withhold tax from payments to their employees is required to file with the Commissioner a duly completed Form ITX215.01.E within 30 days after the end of each six-month calendar period. This form lets the Commissioner know the amounts which have been withheld from the employees and other information required to be submitted about the employees.
- 1.6.2 An employer must include in the Form ITX215.01.E a statement of employees for which employment with the employer constitutes a secondary employment. For this purpose an employer must enquire from employees (for whom they are a primary employer) at a maximum of six-monthly intervals whether the employee has another employment.
- 1.6.3 The employer is required to submit the duly completed PAYE-end of the year statement summary, form ITX215.01.E. on or before 31st January of the following year after the end of the calendar year.

1.7 EMPLOYER'S OBLIGATION TO PROVIDE A WITHHOLDING CERTIFICATE

- 1.7.1 Every year an employer who has withheld tax or is liable to withhold tax under the PAYE system must prepare and serve on their employees a certificate stating the amount of employment income paid during the year and the amount of tax withheld from the payments. This statement must be served on each employee by 30th January following the end of the year.

- 1.7.2 If the employment ends during the year the employer must serve such a certificate on the employee within 30 days after cessation of the employment.
- 1.7.3 The withholding certificate issued by the employer as per paragraph 1.7.2 above should be in the prescribed format.

1.8 OBLIGATION TO MAINTAIN DOCUMENTS

- 1.8.1 Every employer is obliged to maintain the following tax documentation in Tanzania in paper or electronic form and make them available for inspection at the employer's premises or at such other places as may be notified by the Commissioner:
- (i) wage sheets and salary vouchers; and
 - (ii) any other books, documents and records whatsoever relating to the calculation or payment of amounts to employees or tax withheld from such payments.
- 1.8.2 The employer must maintain the documentation for a period of five years from the relevant date or for further period as prescribed in the law unless otherwise the Commissioner specifies by a notice in writing.
- 1.8.3 Where any of the documents is not in an official language the Commissioner may require under a notice in writing, the employer to provide at the employer's expense a translation into an official language by a translator approved by the Commissioner.

PART II

2.0 DEFINITIONS OF TERMS USED

2.1 EMPLOYMENT, EMPLOYEE AND EMPLOYER

2.1.1 “employment” means –

- (a) a position of an individual in the employment of another person;
 - (b) a position of an individual as manager of an entity other than as partner of a partnership;
 - (c) a position of an individual entitling the individual to a periodic remuneration in respect of services performed; or
 - (d) a public office held by an individual; and
- includes a past, present and prospective employment.

2.1.2 “employee” means an individual who is the subject of an employment conducted by an employer. It also includes:

- (i) Persons who are in receipt of pensions and other payments from former employers for past services
- (ii) Persons who are in receipt of payment for prospective employment

2.1.3 “employer” means a person who conducts, has conducted or has the prospect of conducting the employment of an individual.

2.1.4 “full time service director” means a person at management position and is in full time service in a corporation.

PART III

3.0 CALCULATION OF AMOUNTS TO BE INCLUDED IN CALCULATING EMPLOYMENT INCOME

3.1 CALCULATION OF MONTHLY PAY

“Monthly pay” means the aggregate of amounts paid to an employee of the employer or an associate of the employer during a month that must be included in calculating the employee’s income from employment. This amount constitutes “monthly pay” whether or not the actual amount is payable weekly, monthly, annually or at any other shorter or longer intervals,

3.2 LUMP-SUM PAYMENTS AND PAYMENTS RELATING TO MONTHS OR YEARS OTHER THAN MONTHS OR YEARS OF PAYMENTS

- 3.2.1 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 of income.
- 3.2.2 Employees may also receive lump-sum payments other than terminal payments during a year that relate to other years. Such payments are included in income from employment and therefore, subject to withholding in the year in which the payment is made. The payments must not be included in any other year or spread over more than one year.
- 3.2.3 Lump sum payments including redundancy and other payments for loss or termination of office, shall be spread over a maximum period of six years (or actual years) of employment and shall be taxed as income for these years. Regarding the spread back adjustments;

see example 5, 6 and 7 Part V

3.3 RETIREMENT CONTRIBUTIONS

An employer may deduct an amount from an employee's wages and contribute it to a retirement fund on behalf of the employee.

"retirement contribution" means a payment made to a retirement fund for the provision or future provision of retirement benefits. These retirement contributions are known as "employee's contributions". The employer (or an associate of an employer) may make further contributions over and above the "employee's contributions" on behalf of or for the benefit of an employee. These retirement contributions are known as "employer's contributions". The contribution may be in respect of an interest of the employee or a spouse of the employee in the retirement fund.

When calculating an employee's monthly pay, an employer should at first not make any reduction for any employee's contributions and include in the calculation any employer contributions.

When the employer has worked out the contribution amount the amount is thereafter reduced. The amount of this reduction is equal to the lower of-

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

3.4 RETIREMENT PAYMENTS

This guide applies to retirement i.e payments, by way of lump sum pension or commuted pension made by employers (or their associates) directly to former employees after their retirement. This guide does not apply to the payment of other lump sums or pensions by persons who are not employers, e.g. those paid by retirement funds.

An employer must withhold tax from retirement payments made to former employees in the same way as tax is withheld from monthly pay to current

employees, except terminal payments relating to other years of income

3.5 BENEFITS IN KIND

3.5.1 When an employer provides for personal needs of the employee through providing the employee with goods or services, the use of assets, etc. (as opposed to money) these provisions are benefits in kind. All payments consisting benefits in kind must be included in calculating the employee's monthly pay and are subject to income tax by withholding. It is the employer's responsibility to ensure that the tax due on the benefits in kind is withheld from the employee's cash wages (together with tax due with respect to those cash wages). The value of the benefits in kind is, in general, the market value of the benefit. This means the money that a person would have to pay on the market to receive the same or similar goods, service or other benefit. The amount of the value of the benefit must be included in the monthly pay of the employee (unless it is within the exempt amount).

3.5.2 The following special rules apply for calculating the value of the provision of motor vehicles, subsidized loans and housing benefits:

Motor Vehicle

If an employer provides a motor vehicle that is available for the private use of an employee, the private use benefit must be included in calculating the employee's monthly pay and is subject to income tax by withholding. An exception applies (and the amount is excluded in calculating monthly pay) where the employer does not claim a deduction for expenditure on the motor vehicle in respect of its ownership, maintenance or operation. If the exception does not apply, the benefit is quantified using the following table:

Engine size of vehicle	Quantity of payment	
	Vehicle less than 5 years old	Vehicle more than 5 years old
Not exceeding 1000 cc	Shs. 250,000	Shs. 125,000
Above 1000 cc but not exceeding 2000 cc	Shs. 500,000	Shs. 250,000
Above 2000 cc but not exceeding 3000 cc	Shs. 1,000,000	Shs. 500,000
Above 3000 cc	Shs. 1,500,000	Shs. 750,000

Subsidized loans

An employer or associate of the employer may provide a loan to an employee at no interest or at an interest rate that is below the commercial interest rate. In this case, if the loan is for a period of more than a year and the amount of the loan and any other loans to the employee is more than three months of the employee's basic salary, the benefit of the interest forgone must be included in calculating the employee's monthly pay. The value of the benefit is equal to the difference between the interest the employee pays (if any) and the amount that would have been paid using the commercial interest rate.

Provision of housing

The value of housing provided to an employee by the employer is a taxable benefit and should be included in the employee's monthly pay. The value of housing is calculated as the market value of renting the house or 15% of the rest of the employee's income from the employment, whichever is less. However, if the employer claims a deduction greater than the 15% amount with respect to this housing in calculating the employer's income (e.g. depreciation allowances and maintenance and utility bills), the value of the benefit is the amount of the deduction claimed by the employer or the rental market value, whichever is less.

See Part V of the Guide for worked examples on calculation of value of housing benefit.

Tax benefit

Tax benefit occurs when the employer pays tax on behalf of the employee. In this case, the amount of tax paid is treated as benefit in kind in hands of the employee that is tax on tax.

- 3.5.3 Some benefits in kind, such as the provision of a car or use of a house for residential occupation, are provided during the course of the year rather than at a particular time. They are not easily attributed to a particular month. For the purposes of income tax by withholding, the amount of the benefit is treated as paid to the employee proportionately over each month during which the payment or benefit is provided. Tax should be deducted based on the period or position of the premises occupied or benefits enjoyed by the employee.

PART IV

4.0 FORMS

4.1 LIST OF FORMS USED BY EMPLOYER AND EMPLOYEES

The list of Forms is provided at the end of this guide and forms are available at all TRA offices and in the TRA website.

4.2 USE AND COMPLETION OF FORMS

- 4.2.1 All information etc. written on PAYE forms and documents should be completed in permanent marker, e.g. pencil markings that may be rubbed out should not be used.
- 4.2.2 Use of each form should be clear from the descriptions and layout of the forms as shown in the appendix. Employers should however note the following important features:

(a) THE TAX WITHHOLDING STATEMENT FORM ITX215.01.E

These are used for recording among other things, monthly pay and tax withheld.

NOTE: (a:i) Employers can, however, with approval of the Commissioner for Income Tax, print and use statements in substitution for the official statements, provided the employer bears the cost of printing.

(a:ii) The statements provide a space for making entries of additional tax to be withheld by the main employer on advice by the Tax Office from the employee's salary in addition to the normal monthly withholding.

(a:iii) The statement ITX215.01.E has a space for computing tax on an annual basis.

(b) THE EMPLOYER'S END OF THE YEAR STATEMENT
SUMMARY - FORM No. ITX 215.01.E

(b:1) Form ITX 215.01.E requires particulars for statistical purposes. Employers should exercise maximum diligence in completing the form.

(b:2) In deciding on which income group the employee should be placed, employers should take the last monthly pay. For statistical purposes it is important to be specific with the description of nature of business amplified below.

EXAMPLES:

- A. Agriculture
- B. Mining and Quarrying
- C. Manufacture and Repairs
- D. Construction
- E. Electricity, Gas, Water and Sanitary Services.
- F. Commerce
- G. Transport, Storage & Communication services

NOTE: EMPLOYERS MUST DESCRIBE THE MAIN ACTIVITY AND PRODUCT OF THEIR INDUSTRIAL OR SERVICES UNDERTAKINGS.

PART V

5.0 ASSESSMENT OF TAX

5.1 CALCULATION OF EMPLOYEE'S MONTHLY PAY

5.1.1 The monthly pay of an employee includes basic salary, allowances and benefits in kind and any other allowances received by the employee in respect of the employment or services performed. In particular income from employment and, therefore, monthly pay includes:

- (i) Payments of wages, salary, payment in lieu of leave, fees, commissions, bonus and gratuities
- (ii) Payments of any personal allowances, subsistence, rent, entertainment or travel allowance
- (iii) Payments for providing any discharge or reimbursement of expenditure incurred by an individual or by an associate of an individual
- (iv) Payment for an individual's agreement to any conditions of the employment
- (v) Contributions made on behalf of the employee to retirement funds and retirement payments made by employers directly to employees
- (vi) Redundancy and other payments for loss or termination of employment relating to the year of payment (Current year of income)
- (vii) Benefits in kind

5.1.2 In calculating an employee's income from employment (monthly pay) the following payments are excluded:

- (i) Amounts specifically exempt under the Income Tax Act, 2004 and payments which are subject to a final withholding tax (wage withholding tax is not a final tax)
- (ii) On premises cafeteria services that are available on a non-discriminatory basis
- (iii) Medical services, payment for medical services and payment for insurances for medical services. These benefits are also excluded

from income from employment where they are available to the employee's spouse and up to four of their children. However, the benefits are only excluded if they are provided to all employees (including the employees of associates of the employer conducting a similar or related business) on a non-discriminatory basis

- (iv) Any subsistence, travelling, entertainment or other allowance that represents reimbursement of expenditure of the employee. This exemption is only available if the employee's expenditure was incurred wholly and exclusively in the production of the employee's income from the employment or services rendered under the employment. See further paragraph 2.3 below
- (v) Benefits from the use of a motor vehicle where the employer does not claim any deduction in relation to ownership, maintenance or operation of the motor vehicle
- (vi) Payments providing passage of the employee, spouse of the employee and up to four of their children between the employee's place of domicile and the employee's place of employment. The payment must correspond to the actual travelling cost. Further, the employee must be domiciled more than twenty (20) miles from the place of employment and be recruited for employment solely in the service of the employer at the place of employment. Any other payments for the personal travel of the employee or the employee's family must be included in the employee's monthly pay
- (vii) The use of residential premises by certain Government employees and retirement payments and retirement contributions exempted under the Public Service Retirement Benefits Act, 1999

5.1.3 The following may qualify for reimbursement of expenses mentioned under item (iv) of paragraph 5.2:

- (i) Subsistence allowance;
- (ii) Disturbance and luggage allowance;
- (iii) Scholarship or education grant payable to a student employee

- (iv) Outfit allowance
- (v) Foreign allowance

5.1.4 Even where payments referred to in paragraph 5.1.3 above are excluded from monthly pay, those payments should be shown in any return of wages that is to be submitted to the Commissioner.

5.1.5 Travelling or car mileage paid or reimbursed to an employee for home to office journeys should be taxed in full.

5.1.6 Round-sum expense allowances are in all cases taxable. Employees who receive such allowances are advised to contact their nearest TRA Office to arrange for appropriate “tax free” portion of the allowance. This tax free portion will represent an estimate of the amount of the allowance that is exempt as referred to in paragraph 2.2 above. In the absence of authorization of a tax free portion by the Commissioner the employer should withhold tax on the full amount of the payment.

5.1.7 The total amount arrived at under the previous paragraphs under this heading is then reduced (within limits) by employee and employer contributions to approved retirement funds. See further heading 4 below. No other reduction or deduction is allowed in calculating income from employment and, therefore, monthly pay.

5.2 WITHHOLDING OF TAX FROM EMPLOYEE’S MONTHLY PAY

The monthly tax to be withheld from an employee’s monthly pay is, as a rule, computed with reference to the tax rates prescribed in the First Schedule of the Income Tax Act, 2004. As a general rule, the monthly tax is calculated by multiplying the monthly pay by twelve, applying the rates in the First Schedule and dividing the resultant amount by twelve. The Tanzania Revenue Authority publishes useful tax tables to assist in this calculation. Using these tables, the employer looks up the employee’s monthly pay and withholds as tax the corresponding amount mentioned in the tables.

5.3 THE NECESSARY ADJUSTMENTS

It follows, therefore, that if the monthly pay is constant throughout the year of income, the aggregate monthly tax computed under paragraph 5.2 above is the same as the annual tax computed under paragraph 5.1 above. However, if the monthly pay fluctuates or the income is earned for part of the year only it will be necessary to make adjustments. This is in order to ensure that the aggregate amount of tax withheld during the year is equal to the employee's annual tax liability

for the year (assuming the employee has no other source of assessable income). When the change in monthly pay takes place, a calculation of revised withholding amounts should immediately be made for the remaining part of the year. This revision should result in the correct total tax being paid by the end of the year. Fluctuations or changes in monthly pay may take place particularly as a result of the following:

- (i) New employment
- (ii) Cessation of employment
- (iii) Change of employment
- (iv) Change in monthly payment amounts
- (v) Lump sum payments by way of bonus, gratuity, arrears of salary, commission, payment in lieu of leave, pay in lieu of notice of termination of employment, etc.

To produce the desired tax withholding adjustments the following general mechanism should be applied:

- (i) Estimate the new aggregate of the employee's income from employment for the year (after accounting for any contributions to approved retirement funds)
- (ii) Based on that estimate, calculate the estimated tax payable on that income using the rates and thresholds in the First Schedule of the Income Tax Act, 2004

- (iii) Use the following formula to calculate the withholding for the month of change:

$$\frac{A \times B}{C}$$

where-

- A is the monthly pay for the month;
- B is the employee's tax liability for the year in (ii) less the aggregate of all tax previously withheld from the employee's monthly pay during the current year; and
- C is the employee's income from employment for the year in (i) less the aggregate of all monthly pay received by the employee during the current year prior to the current month
- (iv) If the monthly pay for subsequent months of the year is the same as that of the month of change, withhold the same amount from each subsequent monthly pay for the year. If the monthly pay for a subsequent month is different, reapply steps (i) to (iii) to produce the correct amount of withholding

These computations if correctly carried out will avoid over or under withholding.

If it is not possible to adjust the withholding and there is an over or under payment at the end of the year, employers should correct the situation as stated under the end of the year adjustments in this guide.

5.4 END OF THE MONTH ADJUSTMENTS

In every month when the change in income from employment takes place:

- (i) If the date of effecting the revised withholding does not coincide with the new pay circumstances, the employers must remember that the

date for effecting the salary adjustments will not be the same as the date of commencing the revised withholding.

- (ii) When the revised withholding bears no direct proportion to the actual pay it is important to remember that the actual monthly pay and the revised monthly tax withholding are entered in the Tax Withholding Statement at the appropriate spaces accordingly. In carrying out the monthly adjustment employers must first assume that the change in income will remain constant until the end of the year unless another change takes place, in which case, readjustment on the same principles must be done again.

The Tax Withholding Statement provides a space for indicating the date when the new salary commenced. Employers are requested to mark the date(s) accordingly.

End of the month adjustment will also include checking and correcting arithmetical or other errors.

5.5 END OF THE YEAR ADJUSTMENTS

- 5.5.1 An individual's income tax liability is calculated on an annual basis. In general, this is done by applying the rates mentioned in the First Schedule of the Income Tax Act, 2004 to the individual's total income for the year of income. In the case of an employee, the year of income is the calendar year.
- 5.5.2 End of the year adjustments are essentially intended to deal with any over or under withholding that occurred during the year.
- 5.5.3 When it is discovered that there is an over withholding the excess will be carried forward for off-set against the following January withholding and any excess still unabsorbed against the following months' withholding. If an employee however, opts to get a refund in respect of PAYE over withholding, the employee should be directed to

the TRA Office in which case no carry forward by the employer should be made.

- 5.5.4 On the other hand, if the review shows an under withholding the deficit should be carried forward and recovered together with the normal monthly withholding in the following year.
- (i) Hardship cases should be referred to the TRA Office but installments will not be granted beyond 30th June of the following year
 - (ii) Where there is under withholding of tax and the employee leaves the services of the employer, the entire amount must be recovered in full from the employee's final pay. If the employee leaves in such circumstances that the employer cannot recover the amount of under withholding the case should be reported to TRA Office immediately with full particulars.

The Commissioner shall issue instructions regarding an end of the year reconciliation to enable the appropriate amount of tax withheld from employment is paid and entry made to the end of year reconciliation.

5.6 EXAMPLES

Example 1

The company has only one employee for the year of income.

The following is his monthly emoluments:

- Basic Salary	400,000/=
- Transport allowance	250,000/=
- Lunch allowance	150,000/=
- Medical allowance	<u>50,000/=</u>
Total monthly pay	<u>Sh. 850,000/=</u>

What is withholding amount per month?

Solution: Using the applicable tax rates (w.e.f July 2017)

Tax per month is sh. 137,100/=

Note: Assuming the emoluments are constant for the whole year, the tax for the year of income will be:

$$137,100 \times 12 = \text{Sh. } 1,645,200/=$$

Example 2

Refer to example 1

- (a) Assume that the employer houses the employee freely. Suppose the market value of rental at that area is Shs.200,000/= per month and the expenditure claimed by the company for that premises is 150,000/= per month.

Solution:

- (i) Compare 15% of the employees monthly pay (excluding the housing benefit) with the expenditure claimed by the employer. Take the greater ;
 i.e $15\% \times 850,000 = 127,500$
 While the expenditure claimed is 150,000/= you take 150,000/=
- (ii) Compare the market value rent which is 200,000/= and 150,000/= (result from (i)). Take the lesser, which is 150,000/=.

Tax computation:

Total emoluments (refer to example 1)	850,000/=
Add housing benefit	<u>150,000/=</u>
Total monthly pay	Shs <u>1,000,000/=</u>

Using the applicable tax rates (w.e.f July 2016) Tax per month is Shs 182,100/=

- (b) Refer to (a) above.

Assume the employee contributes Shs. 50,000/= as rent per month. The housing benefit will be:

Solution:

Housing benefit computed in (a) above	150,000/=
Less amount paid by employee	50,000/=
Total	100,000/=

Tax computation:

Total emoluments	850,000/=
Add Housing benefit	<u>100,000/=</u>
Total monthly pay	Shs. <u>950,000/=</u>

Using tax rates as per tax tables (July 2016) Tax per month is Shs 167,100/=

Example 3

Refer to example 1

Beside the emoluments stated in example 1, the employee also receives the following benefits:

- (i) Self drive car for private use, which is 3000 cc, brand new. The company claims expenditure of car maintenance.
- (ii) Loan advances of Shs. 3,000,000 to be repaid in 24 months and free of interest.
(Assume the statutory interest rate is 12% p.a.)

(iii) Other benefits:

- Electricity 50,000/= pm
- Water 20,000/= pm

Solution:

Total emoluments	
(refer to example 1)	850,000/=
Add	
- Car benefit (s. 27 R/W 5th Schedule)	
Annual (cc 3000) = 1,000,000/=	
Per month = divide by 12	83,333/=
- Loan interest (s. 27)	
Interest per statutory rate	
12% x 3,000,000/= = 36,000/=p.a.	
Less interest paid	NIL
Per month = divide by 12	3,000/=
- Other benefits:	

- Electricity	50,000/=
Water	<u>20,000/=</u>
Total monthly pay	Shs. <u>1,006,333/=</u>

Using the applicable tax rates

Tax per month is Shs. 183,999.90/=

Note: Assuming the emoluments are constant for the whole year, the tax for the year of income will be:

$183,999.90 \times 12 =$ Shs. 2,207,998.80

Example: 4

Retirement contributions.

Refer to example 1

If the employer contributes 15 % of basic salary to an approved retirement fund and the employee contributes 5 %, then monthly pay will be calculated as follows:

Solution:

Total emoluments (refer to example 1)	850,000/=
Add contributions by employer $400,000/= \times 15\% =$	60,000/=
	910,000/=
Less	
- Employer's contributions	60,000/=
- Employee's contributions $400,000/= \times 5\% =$	<u>20,000/=</u>
Total monthly pay	Shs. <u>830,000/=</u>

Using the applicable tax rates

Tax per month is Ths 131,100/=

In calculating monthly pay for employer and employee contributions is limited.

The reduction is limited to the statutory amount to be contributed to the fund. No reduction is available for contributions to a retirement fund that is not approved.

Example: 5 - Termination of employment

An employee is paid by the employer Sh. 28,000,000/= for termination of the employment in the year 2007 when the employment actually ceased. The payment relates to years 2005 to 2015, inclusive and is allocated by the employer as Sh. 2,000,000 for each of the years 2005 to 2010 and Sh.2,500,000 for 2011, and 2012 and Sh. 3,000,000 years 2013, 2014 and 2015. Allocate the terminal payment for calculating income tax of the employee.

Solution

For calculating the income of the employee the terminal payment is treated as follows:

The employer has allocated the payment as follows

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Amount	2.0m	2.0m	2.0m	2.0m	2.0m	2.0m	2.5m	2.5m	3.0m	3.0m	3.0m

- Under section 7(4) the income for years 2005 to 2010 (Sh. 12.0m) is to be allocated equally over the prior six years to 2015 i.e. Sh. 2.0m for each year.
- The allocation for calculating tax purposes is as follows

Year	2010	2011	2012	2013	2014	2015
Income spread back (Shs.)	2.0m	2.0m	2.0m	2.0m	2.0m	2.0m
Allocated (Shs.)	2.0m	2.5m	2.5m	3.0m	3.0m	3.0m

Total reallocated (terminal payment (Shs.))	4.0m	4.5m	4.5m	5.0m	5.0m	5.0m
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The income as reallocated is assessable in the six years between 2010 and 2015, additional to any income previously declared or assessed. No terminal payment will be assessed for years 2005 to 2009.

Example: 6

Compensation for the termination of contract

Payments received as compensation for the termination of any contract of employment or services rendered, whether or not provision is made in such contract for the payment of such compensation is taxed in accordance with the provisions of section 7(5) as follows:

- (a) If the contract is for a specified term, the amount to be included in calculating the gains or profit shall not exceed the amount which would have been received in respect of the unexpired period of such contract and shall be deemed to have accrued evenly in such unexpired period.

An employee who has a contract of employment for five years from 1/1/2011 to 31/12/2015 is having the contract terminated on 31/12/2012 and paid Sh. 72,000,000 for the termination of the contract.

The compensation amount of Sh. 72,000,000 shall be allocated evenly over the unexpired period of the contract, i.e. 1st January, 2013 to 31st December, 2015, as Sh. 24,000,000 for each of the years 2013, 2014 and 2015. None of the amount shall be allocated to the expired period of the contract.

- (b) If the contract is for unspecified term and provides for compensation on termination thereof, such compensation shall be deemed to have accrued in the period immediately following such termination at a rate equal to the rate per annum, of the gains from the contract received immediately prior to such termination.

Payments for the compensation of a contract of unspecified term shall be allocated to the period immediately after the termination at the rate per annum of the income received in respect of the contract immediately before the termination.

Example 7

An employee had a contract of employment for unspecified period which provided for compensation on termination. The contract was terminated on 31st December, 2011. During the year 2011 the employee was receiving gross remuneration of Sh. 18,000,000. On 4th January, 2012 the employee received as compensation for the termination of the contract a payment of Sh. 58,000,000.

For purpose of calculating the employee's income tax, the payment will be allocated evenly for the period immediately after such termination at the annual rate of the income the employee received immediately before the termination as follows:

Salary for year 2011	Sh. 18,000,000
Compensation payment year 2012	Sh. 18,000,000
Compensation payment year 2013	Sh. 18,000,000
Compensation payment year 2014	Sh. 18,000,000
Compensation payment year 2015	Sh. 4,000,000

The compensation payment of Sh. 58,000,000 will be assessed for years 2012, 2013, 2014 and 2015 as shown above.

- (c) If the contract is for an unspecified term and does not provide for compensation on its termination any compensation amount received shall be deemed to accrue in the period immediately following such termination at a rate equal to the gain of such contract received immediately prior to such termination but the amount shall not exceed three years remuneration at such rate.

Example: 8

An employee had a contract of employment of unspecified period which did not provide for compensation on its termination. The contract was terminated on 31st December, 2011. During the year 2011 the employee received from the contracted employment Sh.18,000,000. On 4th January, 2012 the employee received a payment for the compensation of the contract of Sh. 58,000,000.

For purposes of calculating the employee's income tax the compensation payment shall be deemed to have accrued in the period immediately after the termination and based on the rate of payment received immediately before such termination exceed the amount of three years remuneration as follows

Salary for year 2011	Sh. 18,000,000
Compensation payment year 2012	Sh. 18,000,000
Compensation payment year 2013	Sh. 18,000,000
Compensation payment year 2014	Sh. 18,000,000
Compensation payment year 2015	Sh. 4,000,000 (not taxable)

The compensation payment will be assessed for years 2012, 2013 and 2014 at Sh.18,000,000 for each year. The balance of Sh. 4,000,000 will not be taxed.

PART VI

6.0 WITHHOLDING AND REMITTANCE OF TAX

6.1 GENERAL

The Tax Administration Act 2015 requires an employer to remit tax withheld from his employees within seven days from the end of the month during which the monthly pay is paid. Failure to observe this requirement will render the employer liable to the tax liability with penalty.

6.2 REMITTANCE OF TAX

Employers **MUST** make remittances of tax withheld through banks. The following arrangements refer to remittance through banks:

- (i) Remittances are made by use of paying in slips.
Remittances must be made with the bank with which the employer maintains an account.
- (ii) Pay in slips to be submitted to the TRA Office within the time limit.
- (iii) All copies of the paying in-slip should be completed in detail. figures should not be erased or tampered with
- (v) Employers must ensure that all the copies of paying in-slips have been stamped and signed by the bank teller or cashier

6.3 SPECIAL CONCESSION FOR REMOTE AREAS

Where due to distance from the bank or TRA Office the employer cannot remit the amount within the 7 day limit, the employer should make a request in writing to the Tax Office for an extension of time.

PART VII

7.0 SPECIAL EMPLOYMENT AND PAYMENTS

7.1 PRIMARY AND SECONDARY EMPLOYMENT

- 7.1.1 There are employees who have more than one employment e.g. persons with several directorships or persons with part-time employments.
- 7.1.2 The employee having more than one employment shall select (at the employee's choice) one of those employments to be the employee's primary employment and the remaining employment shall be secondary employment.
- 7.1.3. Secondary employers should apply similar process as primary employer in determining monthly pay and deduction of tax. However, secondary employers do not use progressive rates and the income tax tables to calculate the amount of tax to be withheld from monthly pay. Secondary employers must withhold tax at the highest individual rate (currently 30%) from the full amount of monthly pay.

7.2 IRREGULAR PAYMENTS

- 7.2.1 PAYE must be withheld from payments made to employees during a month. Thus, if employees are paid weekly, fortnightly or at any other interval, the entry for pay on the tax withholding statement should be the total of the payments in the month and the tax due on the whole monthly pay should usually be withheld proportionately from each pay made during the month. However, it is also acceptable to deduct all the tax for the month from the last pay to the employee for the month.
- 7.2.2 Where, exceptionally insufficient tax is withheld during a month, the employer must recover the balance from the next payment of salary etc. to the employee.

7.2.3 Where a payment or benefit to be included in calculating an employee's income from employment is not easily attributed to a particular month (such as the use of a motor vehicle or house) then the amount is treated as paid to the employee proportionately over each month during which the payment or benefit is provided. Employers are reminded that benefits in kind are quantified under section 27 and Fifth Schedule of the Income Tax Act, 2004.

7.3 NON-RESIDENT EMPLOYEES PAYMENTS

In the case of non-resident employees, the employer must withhold tax at the flat rate of 15% from monthly pay. This withholding satisfies the tax liability of the employee.

7.4 FULL TIME SERVICE DIRECTOR FEES

In the case of director's fees payable to a full time service director the employer will withhold tax at the rate of 15% of the amount of the fee payable.

PART VIII

8.0 REGISTRATION, DOCUMENTATION AND FILING OF INFORMATION

8.1 REGISTRATION AND DOCUMENTATION

- 8.1.1 For the purpose of operating P.A.Y.E every employer is required to have a Tax Identification Number (TIN), which is issued by the Commissioner.
- 8.1.2 The forms, documents and all records relating to income taxation in respect of the employment must be kept and maintained by employer in the United Republic of Tanzania for at least five years from the end of the year of income or years of income to which they are relevant, except, where the Commissioner specifies otherwise by a notice in writing.

8.2 END OF THE MONTH PROCEDURE

After remitting tax withheld, an employer should, at the end of each month list the names of the employees from whose monthly pay tax has been withheld together with the respective amounts of the tax. The total tax should agree with the amount remitted. These should be either in payroll number or alphabetical order and should be maintained for inspection or audit purposes.

8.3 EACH SIX MONTHS END PROCEDURE

Every withholding agent (employer) shall file with the Commissioner within thirty (30) days after the end of each six month calendar period a withholding statement specifying the following information:

- (a) Payments made during the period that are subject to withholding;
- (b) The name and address of the withholder;
- (c) Income tax withheld from each payment; and
- (d) Any other information that the Commissioner may require.

8.4 WITHHOLDING CERTIFICATE PROCEDURE

The Act requires a withholding agent to prepare and serve on the withholder a certificate setting out the amounts of payments made to the withholder and income tax withheld during the period covered by the certificate. The

certificates shall be prepared and served separately for each calendar month and in respect of employment payments shall be served by 30th January of the year subsequent to that of withholding.

8.5 AUDIT PROCEDURE

8.5.1 TRA may send officers to an employer's premises (pay point) during the year to check if the employer is operating the PAYE scheme correctly and give guidance. Any such officer will produce a signed authority from the Tanzania Revenue Authority. Employers are required to mark all records connected with PAYE available for inspection.

8.5.2 The audit procedure will include a check:

- (i) If the employer has withheld the correct amount of tax.
- (ii) If the tax withheld has been paid to the TRA.
- (iii) All particulars relating to pay and tax withheld that have been transferred to Tax Withholding statement.
- (iv) That Tax Withholding statement has in all respects been correctly completed.
- (v) That end of the month and end of the year adjustments have been correctly done and that the correct excess or deficit withholding has been carried forward to the next year.
- (vi) That all the documents and particulars relating to PAYE have been correctly completed and submitted to TRA.

PART IX

9.0 CONTINUITY OF EMPLOYMENT

9.1 DEATH OF EMPLOYER

If an employer dies, the employer's representative must do anything, which the employer would have been liable to do under the Income Tax Act, 2004 or Regulations. In the case of the death of an employer's agent or representative, who is deemed to be the employer for PAYE purposes, the liability falls upon the person succeeding the agent or representative or if no person succeeds him, the person on whose behalf the agent etc. paid the emoluments.

9.2 CHANGES IN EMPLOYER

- 9.2.1 This rule only applies where there is a change of the ownership of a business and employment continues e.g. conversion of an individual's business to partnership or limited company or a change in partnership etc. It does not apply where an employee changes employment by moving from one employer to another.
- 9.2.2 Where this rule applies the employer after the change shall, in relation to any matter arising after the change, be liable to do anything which the employer before the change would have been liable to do if the change had not taken place, provided that the employer after the change shall not be liable for the payment of any tax which should have been withheld from emoluments paid to the employee before the change took place unless there is an agreement.
- 9.2.3 Additionally, there are cases where the company's name changes e.g. from Dogo Co. to Kubwa Co. while the ownership remain unchanged. In this case such changes should as well be communicated to the Commissioner.
- 9.2.4 In particular, the same Tax Withholding statement should be used throughout the continuity of the employment.

9.3 CESSATION OF BUSINESS OF THE EMPLOYER

Where a business ceases during the year, the employer must notify the Commissioner on the matter and submit all the particulars and documents requested by the Commissioner within 30 days from the date of cessation including the liquidation of all taxes due.

PART X
APPENDICES

A.



P.A.Y.E.
STATEMENT AND PAYMENT OF TAX WITHHELD

YEAR:

TIN:

Period: (Please tick the appropriate box)

From 1 January to 30 June

From 1 January to 31 December

Name of Employer:

Postal Address:

P. O. Box

Postal City

Contact Numbers:

Phone number

Second Phone

Third Phone

Fax number

E-mail address:

Physical Address:

Plot Number

Block Number

Street/Location

Name of Branch

B.



TANZANIA REVENUE AUTHORITY

DEPARTMENT.....

EMPLOYMENT TAXES PAYMENT CREDIT SLIP

Employer's Name _____ TIN:

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Division/Branch _____

Name of Bank _____, Branch _____, Taxpayer's Bank A/c No. _____

Employment Taxes Bank Account No: _____

Bank Stamp and Teller's Signature

Tax Debit Number(s) (*)	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td></tr> <tr><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td><td style="width: 15px; height: 15px;"></td></tr> </table>																																								

- Regular (monthly) payment (tick if yes) (*)
- Other payments (tick if yes) (*)
- Nil-Statement PAYE (tick if yes) (*)
- NIL-Statement SDL (tick if yes) (*)

PAYE, amount TZS _____

SDL, amount TZS _____

Please accept for the credit of the Commissioner the sum of TZS _____

In words (sum): _____

Payroll Month(s) for /from _____ / 20_____ to _____ / 20_____

If submitting cheques	Cheque No	Name of Bank / Branch	Amount
	Total		

Declaration:
 I/We certify that the particulars entered on this form are correct.
 Name _____ Stamp (if any): _____
 Signature _____
 Date: _____ / _____ / 20_____

Distribution by accepting bank:
 Original: for Taxpayer
 Duplicate: passed with bank statement to TRA
 Triplicate: for Bank

For official use only

If a Nil –Statement is submitted (no payment is made),
 Submit this form on or before the due date directly to the appropriate Tax Office and not through the bank.
 In case of any difficulty in filling this form contact the Tax Office.
(* Do not mix up regular payments (monthly with debit payments (other payments) in one form

Note: This form is used if payment is made by Cheque