



# **TANZANIA REVENUE AUTHORITY**

ISO 9001:2015 Certified

## **THE TAX ADMINISTRATION ACT, CAP. 438**

### **PRACTICE NOTE**

**(Made under section 9)**

## **VALUE ADDED TAX TREATMENT ON TIGHTS, VOUCHERS AND OPTION**

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## **1.0 TAX LAW**

The Commissioner General is empowered under Section 9 of the Tax Administration Act to ensure consistency in the administration of tax laws and to provide guidance to persons affected by such laws. Accordingly, this Practice Note is issued in respect of VAT taxation on supplies involving rights, vouchers and options.

## **2.0 PURPOSE OF THIS PRACTICE NOTE**

This Practice Note is aimed at providing guidance on interpretation and application of the Act in taxation of transactions involving vouchers, rights and options (including cash and non-cash vouchers) as provided for under Sections 21, 22, 23 and 24 of the VAT Act.

## **3.0 INTERPRETATION**

The term "Voucher" is defined in the Act as a stamp, token, coupon, or similar article, including an article issued electronically, which can be redeemed by the holder for supplies of goods, services, or immovable property, and includes a prepaid telecommunications product, and does not include a postage stamp.

The Act has no definition of the term "Option"; the term is defined in the Black Law dictionary as a right or power to choose something that may be chosen. Further defined in various literatures as a form of derivative contract that gives buyers of the contracts (option holders) the right (but not the obligation) to buy or sell a security at a chosen price at some point in the future.

"Right" is defined in the Black Law dictionary as legally enforceable claim that another will do or will not do a given act; a recognized and protected interest the violation of which is a wrong.

Other 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.

## **4.0 APPLICATION OF THE LAW**

### **4.1 Introduction**

Some businesses involve entering into an agreement for supply of goods, services or immovable properties in the future. One party undertakes to supply goods, services or immovable properties while the other party undertakes to acquire the same. The term voucher has the same meaning as defined in the Act.

### **4.2 Principles of Taxing Rights, Vouchers and Options**

According to the provisions of S. 21(3) The supply of a rights, vouchers and options are treated as a supply of services under the VAT Act. The supply can be taxable at standard

rate or exempt supply. Rights, Vouchers and Options are associated with their underlying goods, services or immovable properties. The consideration and nature of supply have also a direct connection and in some cases, they may necessitate making adjustments to the returns.

#### **4.3 Use of Vouchers in Business**

In the business world, vouchers are used for a variety of purposes and takes different forms. Some vouchers can have a face value printed on them, which allows the holder of the vouchers to use them as consideration for goods or services to be provided by businesses that have agreed to accept such vouchers. Vouchers can also serve the following purposes:

- Vouchers can also allow the holder a certain discount on subsequent supplies of the underlying goods or services,
- Vouchers can allow a refund of part of the purchase price of a product
- Vouchers can be issued when purchasing goods or services, for no additional charge
- Vouchers can be sold by a holder or agent to another holder
- Some vouchers are sold by one business and will allow the holder a discount at a business other than the issuer.

However, the common characteristic of all vouchers is that they give the holder of the voucher an entitlement to certain goods or services.

#### **4.4 Supply of a right, option, or voucher for VAT purposes**

Administration of the Value Added Tax in respect of supply of a right, option, or voucher is done in line with the provisions of Section 21 and 22 of the Act. A supply of a right, option, or voucher can be a taxable supply or not. The applicability of VAT under both conditions is as follows

##### **a) When a supply of a right, option, or voucher is a taxable supply (S. 21(1))**

*Section 21(1) of the Act provides that:*

*Where-*

*(a) a supply of a right, option, or voucher is a taxable supply; and*

*(b) a subsequent supply is made on the exercise of the right, option, or in return for a voucher given in full or part payment for the subsequent supply, the consideration for the subsequent supply is limited to any additional consideration given for the subsequent supply or in connection with the exercise of the right or option.*

This implies that, consideration for goods or services underlying a right, option, or voucher is the additional amount paid when a voucher is redeemed for goods or services.

**b) When a supply of a right, option, or voucher is not a taxable supply (S. 21(2))**

*Section 21(2) of the Act provides that:*

*Where-*

- (a) a supply of a right, option, or voucher is not a taxable supply;*
- (b) a subsequent supply is made on the exercise of the right or option, or in return for a voucher given in full or part payment for the subsequent supply; and*
- (c) the subsequent supply is a taxable supply, the consideration for the subsequent supply shall include any consideration given for the supply of the right, option, or voucher.*

This implies that, consideration for goods or services underlying a right, option, or voucher is the total of the amount paid during supply of a right, option, or voucher and the additional amount that is paid when a voucher is redeemed for goods or services. Since the supply of underlying goods or services is a taxable supply, the entire consideration is taxable.

**c) Reimbursements of rights, voucher and option**

This happens where the person who accepts redemption of the voucher is not the issuer of such a voucher.

*S. (22) Where-*

- (a) a taxable supply is made on the exercise of a right or option, or in return for a voucher that is given in full or part payment for the subsequent supply;*  
*and*
- (b) the taxable person making that supply receives or will receive a payment from another person in respect of the exercise of the right or option or the acceptance of the voucher, or because of the making of the supply,*

*the taxable person shall be treated as having made a taxable supply to the payer and the amount received shall be treated as consideration for that supply.*

This implies that, the holder of a voucher, right or option may not necessarily be the person to whom a supply is made. In case of reimbursement by the person other than the beneficiary of the voucher, such a person making a payment is the one to whom a supply is made.

**Various Illustration on scenarios in line with S. 21 and 22 of the Act**

**Illustration 1**

Company G supplies Company D with a vouchers that entitles Company D or any holder to its rare precious goods that will be available in the near future. Company D supplies Company E with a voucher and Company E supplies the voucher to F, who redeems the voucher buying goods from Company G.

Assuming the underlying goods are taxable then VAT charges will apply as follows:

Company G will charge Company D VAT and Company G will hand Company D an invoice for the vouchers it has redeemed.

Company D Charges Company E VAT and Company E charges company F VAT. The invoices or supporting document shall be supplied by each supplier along the chain.

### **Illustration 2**

Bank A buys vouchers of TZS 100,000 each that entitles the holder to purchase brand new watches from NP City Watches. The bank uses the vouchers to reward its employees and high contribution customers. The holder of a voucher can use the value of voucher and top up on the price. Assume the holder of a voucher uses it to buy a TZS 250,000 watch. VAT on these transactions shall be as follows:

#### **A: Supply of voucher by NP City Watches to Bank A**

VAT chargeable on supply of voucher =  $18/118 \times 100,000$   
= TZS 15,254

#### **B: VAT when voucher is redeemed**

Consideration for the watch (at the point of redemption/supply) = TZS 150,000

Amount already satisfied through a voucher = TZS 100,000

VAT chargeable on redemption of voucher =  $18/118 \times 150,000$   
= TZS 22,881

*This amount shall be charged to the holder of a voucher on redemption since the additional consideration shall be paid by him. The acquisition of a voucher by Bank A*

*from NP City Watch is not in furtherance of its business and therefore ineligible for input tax claims. Similarly, the voucher was not supplied in the course of its economic activities.*

### **Illustration 3**

Bank A buys vouchers of TZS 1,000,000 each that entitles the holder to purchase I-Pads from Giga Computers Ltd. I-Pads is one of the goods that are exempt at the time a voucher is issued. The bank uses the vouchers to reward its employee of the year awards. The holder of a voucher can use the value of voucher and top up on the price. However, due to complains from awarded employees that the voucher limits their choice of goods, the Bank renegotiated with Giga Computers so that the voucher can be redeemed against I-Pads, Watches or Headphones. Assume the holder of a voucher uses it to buy a TZS 2,500,000 watch and supply of a watch is a taxable supply. VAT on these transactions shall be as follows:

#### **A: Supply of voucher by Giga Computers to Bank A**

Considering the fact that underlying goods under agreement is exempt supply i.e. I-Pads, supply of voucher shall also be VAT exempt supply at the time the voucher is supplied.

#### **B: VAT when voucher is redeemed**

Consideration for the watch = TZS 1,000,000 + TZS 1,500,000  
= TZS 2,500,000

Amount already satisfied on issuance of voucher = TZS 1,000,000

Additional amount of consideration = TZS 2,500,000 - TZS 1,000,000  
= TZS 1,500,000

VAT chargeable on redemption of voucher =  $18/118 \times 2,500,000$   
= TZS 381,356

*VAT shall be charged on the entire consideration and the whole VAT amount shall be charged to the holder of a voucher on redemption since no any part of consideration for the goods was satisfied at the stage of issuance of voucher. The acquisition of a voucher by Bank A from Giga Computers is not in furtherance of its business and therefore*

*ineligible for input tax claim. Similarly, the voucher was not supplied in the course of its economic activities.*

#### **Illustration 4**

Bank A buys vouchers of TZS 1,000,000 each that entitles the holder to purchase mobile phones from Giga Computers Ltd and mobile phones are taxable supplies. The bank uses the vouchers to reward its employee of the year awards. The holder of a voucher can use the value of voucher and top up on the price. However, due to complains from awarded employees that they already have latest mobile phones, the Bank renegotiated with Giga Computers so that the voucher can be redeemed against I-Pads that are VAT exempt supplies. Assume the holder of a voucher uses it to buy a TZS 2,500,000 I-Pad. VAT on these transactions shall be as follows:

##### **A: Supply of voucher by Giga Computers to Bank A**

This supply of voucher shall be taxable since mobile phones are taxable supplies

VAT on the supply of Voucher =  $18/118 \times 1,000,000$

= TZS 152,542

##### **B: VAT when voucher is redeemed**

Consideration for the I-Pad = TZS 1,000,000 + TZS 1,500,000

= TZS 2,500,000

Amount already satisfied on issuance of voucher = TZS 1,000,000

Additional amount of consideration = TZS 2,500,000 - TZS 1,000,000

= TZS 1,500,000

VAT shall not be chargeable on the supply of underlying goods since I-Pads are exempt supplies.

## **C: Adjustment Events**

The VAT previously accounted for by Bank A and Giga Computers, that is TZS 152,542 shall be adjusted such that, Bank A will make an increasing adjustment and Giga Computer make decreasing adjustment of such amount.

### **Illustration 5**

The Home Choice Limited offers TZS100,000.00 voucher to the public for TZS 90,000 for promotion reasons. Customer X buys who in turn redeems the voucher for TZS100,000.00 of goods from Home Choice Limited.

The Home Choice Limited will declare VAT on TZS 90,000 only although TZS100,000.00 of goods were bought with the voucher. However, Home Choice Limited should have records to show that the particular voucher that was redeemed was sold for a consideration of TZS 90,000.00.

In essence, the transaction would be treated as if the goods worth TZS100,000.00 were sold at a discounted price of TZS 90,000.

### **Illustration 6:**

Agent X sells a TZS100,000 voucher on behalf of Retailer Z that entitles the holder for redemption of taxable goods from Retailer Z. As per the agreement between Agent X and Retailer Z, Agent X retains 5% of the sum as commission income. The voucher holder purchases TZS100,000 worth of goods from Retailer Z. As such the following shall apply in respect of the transaction, assuming Agent X and Retailer Z are both VAT registered persons;

- Retailer Z shall declare output tax on the consideration of TZS100,000
- Retailer Z shall claim input tax on TZS 5,000 as commission expenses
- Agent X shall declare VAT on the TZS 5,000 as commission income

### **Illustration 7**

FLG Company Ltd is a new supplier of a wide range of cosmetics. As a marketing penetration strategy, the company holds an outreach campaign and issues TZS 200,000 vouchers to participants who could answer some questions about their products.

Assuming that, FLG Company Ltd is VAT registered and all its products are taxable supplies, the following shall apply once a voucher is redeemed:

- Since the holder paid no consideration, the value of the supply shall be the market value of goods redeemed
- FLG Company Ltd shall declare output VAT on the consideration of TZS 200,000

#### **4.5 Pre-payments for telecommunication services**

Supplies of prepaid telecommunication products by a telecommunications service provider to its distributors, agents, or telecommunications intermediaries has special rules to ease administration of VAT. The rule is provided for under Section 24(2) & (3) as follows:

*S.24(2) Where a telecommunications service provider supplies a prepaid telecommunications product to a telecommunications intermediary at a discount from the intended retail price, the consideration for the supply shall be calculated as if the intermediary had paid the intended retail price.*

*S. 24(3) Where a telecommunications intermediary purchases and on-sells a prepaid telecommunications product-*

- (a) the acquisition by the intermediary shall be treated as if it were not an acquisition; and*
- (b) the supply by the intermediary shall be treated as if it were not a supply.*

The provisions imply that, the discount amount when a supply of a prepaid telecommunication product is disregarded when computing the VAT fraction from the value/face value of the prepaid telecommunication product. This implies that, VAT fraction is computed from the value/face value of the product and not on the discounted price.

Upon on-selling by the intermediary, the supply of a prepaid telecommunication product is regarded as not a supply and similarly its acquisition regarded as not an acquisition. This has the effect of not charging VAT as output tax on the supply by the intermediary and similarly not claim VAT as input tax but rather, the VAT is passed on to consumers/final users.

#### **Illustration 5**

Petcom (T) Ltd is a telecommunication service provider operating in Tanzania. The company sells vouchers using several distributors by applying discounting from face value of the vouchers. A voucher of TZS 10,000 is sold to distributors at TZS 9,500 who

then on-sell to retailers at a discounted price of TZS 9,800 who then sell the vouchers to consumers at the face value of TZS 10,000.

VAT treatment on these transactions shall be as follows:

**A: Supply by the Telecommunication service provider (Petcom (T) Ltd)**

VAT on a TZS 10,000 vouchers sold at TZS 9,500 =  $18/118 \times 10,000$

= TZS 1,525

Petcom (T) Ltd will declare output tax of TZS 1,525 in respect of this transaction.

**B: Supply by the Distributors and Retailers**

The distributors will make a profit of TZS 300 and the retailers make a TZS 200 profit. However, the distributors and retailers will sell the vouchers without imposing out VAT and they will not claim VAT on the acquisition although the voucher by itself is a taxable supply. The final user, if acquired the voucher for furtherance of its economic activities, can claim input tax on the voucher.

Signed.....*W. K. M. M. M.*.....

**Commissioner General**

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