Tax Journal

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Did you know your first EFD could be free of cost?

If you are VAT registered; the cost incurred in acquiring your first EFD shall be claimed as input tax in the VAT return

If you are not VAT registered; the cost incurred in acquiring your first EFD shall be claimed as an expenditure (rather than capitalizing the EFD as an asset)

In the case of a presumptive tax payer the cost incurred shall be deducted from income tax payable during the year

Tax payers across the country have embraced the slogan **"Ukiuza toa risiti, ukinunua dai risiti"** meaning sellers should issue an EFD receipt and purchasers should demand an EFD receipt.

This journal is an extension to our Feb 19 journal which had put the EFD under spotlight. In this journal we aim to address common questions a tax payer faces during the process of issuing a tax invoice, claiming the same and mechanics for processing credit notes.

TAX INVOICES AND RECEIPTS

A tax invoice or fiscal receipt is a sales invoice that bears certain characteristics and is issued through an Electronic Fiscal Device (EFD).

A tax invoice or fiscal receipt is commonly referred to as an EFD receipt.

Every business with a turnover exceeding TZS14,000,000 should use an EFD. If the person is VAT registered then an EFD is required regardless of the turnover. With such a low threshold logically almost all businesses are required to acquire and use an EFD.

An EFD receipt should be issued at the time and point of supply. In a situation where a customer for any reason is not present during the period of sale - purchase transaction, the seller shall proceed to issue the EFD receipt and keep the generated EFD receipt.

CLAIMING INPUT VAT

For purposes of claiming VAT input in the VAT returns, there are certain characteristics which are necessary to be in included in the EFD invoice:

- Date of issuance;
- description, quantity, and other relevant specifications of the things supplied;
- total consideration payable for the supply and the amount of VAT included in that consideration;
- Name, TIN and VRN of supplier; and
- If the value of the supply exceeds TZS 100,000; the name, address, TIN and VRN of the customer.

It is essential that your EFD receipt/ invoice contains the above contents. From experience we have noted that purchasers tend to overlook whether their respective TIN or VRN are mentioned on the tax invoice.

Compliance with periodic statements

You can check with your financial institution whether the periodic statements issued are in compliance with the VAT Regulations as they may need to update some details such as customers VRN.

Beware of little expenses. A small leak will sink a great Ship

VAT claim on Bank charges and fees

Bank charges and fees are subject to VAT at rate of 18%. Input VAT can be claimed in your VAT returns using periodic statements issued by the bank. A periodic statement is a statement issued on a monthly basis by a supplier of financial services. One of the key contents of a periodic statement is that the customers and financial service provider's name, address, TIN and VRN should be mentioned. Other requirements include; amount excluding VAT for listed transactions, VAT charged and total price payable by the recipient of the service.

Instances when you can use manual receipt or invoice

There are instances that would require an EFD user to issue a manual receipt such as:

- EFD is not operational;
- EFD is undergoing maintenance; and
- EFD is seized or under investigation.

As soon as the EFD is restored or replaced, the user is required to enter in the EFD all the information contained in the manually issued receipts/ invoices.

Common Challenges on EFD receipts/ invoices

- Lack of awareness that for the purpose of claiming input VAT, customers should have their TIN and VRN mentioned on the EFD receipt;
- Upcountry business do face a practical challenge in obtaining EFD receipts. Tax authorities may challenge expenditure claim without supporting EFD receipts;
- If EFD receipts are not stored well, the receipt may fade away leaving a person with a blank slip. Hence, it is advised to at least take a copy or scan of EFD receipt; and
- Tax payers to be careful not to be victim of fake receipts or EFD receipts issued by ghost suppliers.

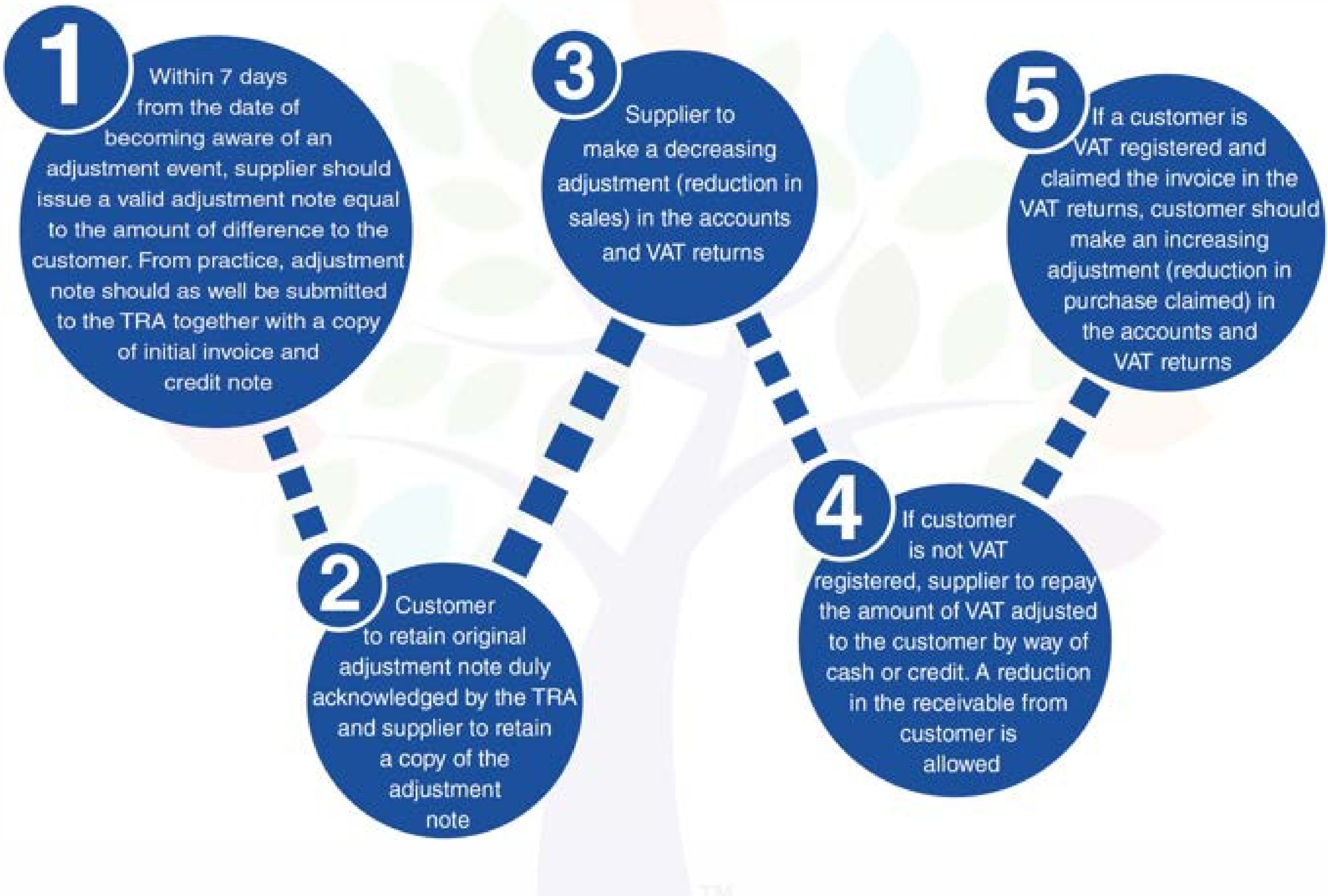
CREDIT NOTE

It is common that there may be a change in the terms of a supply or cancellation of a sale which may require a supplier to issue a credit note. The EFD does not recognize reduction of sales, therefore credit notes issued should not be processed through the EFD.

For taxpayers that are VAT registered; reduction or cancellation of a sales under the VAT Act falls within the definition of an adjustment event. The credit note should be supported with a valid adjustment note. An adjustment note and credit note should be issued for each transaction.

An adjustment note has a prescribed form (ITX.254.02.E) which can be downloaded from the TRA website. For ease <u>click here</u> to download form

The following process has to be followed to validate a credit note:



If you have any questions or need assistance please feel free to contact us.

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Contents of Credit note and adjustment note

- Sequential identification number;
- Amount being adjusted and the reasons for such adjustments;
- Description of goods and services; and
- Tax invoice issued in respect of the adjustment and reference to the invoice being adjusted.

In practice, if a person is not VAT registered and cancels an entire sale, upon issuance of a credit note the supplier should retain the original EFD receipt.If there is partial reduction in sales value, then a credit note should be issued to the customer and duly acknowledged by the customer. In good practice a supplier should as well inform the tax authorities on the issuance of a credit note towards an EFD receipt. We do as well advise that the supplier should reconcile the sales as per EFD and sales as per accounts and submit the reconciliation as an attachment of the final returns of income.

Challenges of credit and adjustment notes:

- Limited awareness of the process of issuing credit notes and adjustment notes;
- Manual process for issuing credit notes/ adjustment notes is time consuming;
- An increased administrative work for tax officers to verify each credit note/ adjustment note during tax audits;
- Customers who are issued with a credit note have to make an increasing adjustment in the VAT returns. There may be instances when customers do not make increasing adjustment in the VAT returns which may result to loss of Government taxes; and
- It can be tedious for volume driven businesses such as supermarkets for filling an adjustment note for each credit note/ cancelation of sale.

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