

# REPORT ON THE STATE OF NONPROFIT SECTOR TAXATION IN TANZANIA





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***“The government of the United Republic of Tanzania is committed to ensuring an enabling and enhanced operational environment for NGOs.”***

***H.E Dr. Samia Suluhu Hassan,***

President of the United Republic of Tanzania when officiating the First Annual NGO Forum, 30<sup>th</sup> September 2021, Dodoma.

Taxation of Civil Society Organisations and Their Contribution to National Development: Unattended Misconception and Policy Dilemma

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## About the National Council

The National Council of NGOs (NaCoNGO) is a Statutory body established under section 25 of the NGO ACT No. 24 of 2002 (and its amendment of 2005 and 2019 respectively) with the mandate of coordination and networking of all Non-Governmental Organizations operating in Mainland Tanzania. Working closely with the Registrar of NGOs and the National NGO Board, NaCoNGO envisages a prosperous society where NGOs play an active role in the socio-economic development of the country. The Mission of NaCoNGO is to provide a coordinated workable mechanism for NGOs' contribution to national development through capacity development, information sharing, networking, lobbying, advocacy, representation, and promoting self-regulation of the NGO sector.

NaCoNGO is obligated to play a crucial role in facilitating coordination, networking, and information-sharing among NGOs. It acts as a bridge between NGOs and various governmental bodies, helping to foster dialogue and collaboration on issues of mutual concern. NaCoNGO also provides a unified voice for NGOs, amplifying their collective impact and advocating for policies and practices that enhance the effectiveness of the NGO sector in Tanzania. More information and its legal mandate can be found [here](#).



## About Tanzania Human Rights Defenders Coalition (THRDC)

Tanzania Human Rights Defenders Coalition (THRDC) is a membership and umbrella organization with 265 human rights organizations across Tanzania mainland and Zanzibar. It was registered in 2012 under the NGOs Act 2002. THRDC's overall goal is to contribute to the growth of civic space in which Human Rights Defenders (HRDs)' working environments are improved in accordance with the 1998 UN Declaration on Human Rights Defenders. THRDC works throughout Tanzania (Mainland and Zanzibar) and has deliberately categorized its members into 11 (eleven) operational zones which has simplified access and support to HRDs in need since the decentralization has brought power at the grassroots level. Currently, the Coalition has two offices, the headquarters in Dar es Salaam and the THRDC branch in Zanzibar.

Currently, the Coalition is implementing its 3<sup>rd</sup> Strategic Plan which is working towards reversing the drivers contributing to the shrinking of the civic space. To realize this goal, THRDC works to mobilize its members and the public to effectively address HRD's rights and human rights protection issues; Capacity building and empowerment to its members/ HRDs and other stakeholders to efficiently engage in the protection and promotion of HRDs' rights; Engagement for Legal and Policy Reforms and implementation in favor of HRDs. It is through this goal that the Coalition in collaboration with the Office of NGOs Registrar, NaCoNGO and The National NGO Board has been working with the Tanzania Revenue Authority (TRA) for about five years now to solve CSO's Tax Compliance issues.



## Acknowledgments

This report presents CSO's findings in relation to tax challenges affecting the Nonprofit Sector in Tanzania. The idea of working on Nonprofit Organizations Taxation emerged during the Civil Society Organizations' Directors Reflection Meeting in Mwanza in 2019. The idea was well received by the Tanzania Revenue Authority (TRA) and CSOs across the country. Since then, several CSOs in the county have engaged themselves in working to solve taxation challenges in the sector. One of the major interventions was the preparation of the CSO Tax Tool kit being the first ever simplified document analyzing Laws, Policies, and procedures governing Taxation of Civil Society Organizations (CSOs) in Tanzania.

Specifically, we would like to thank all organizations that participated in developing the Tax Compliance Tool Kit, those who participated in various surveys and those who have attended TRA and CSOs meetings on Taxation.

We would also like to take this opportunity to thank the Tanzania Revenue Authority (TRA) for their guidance and patience throughout the time, from the conceptualization and framing to providing technical experts who facilitated Tax education to the CSO helping us to navigate the process of collecting information resulting from this report.

Our special gratitude goes to Hon. Mwantum Mahiza, National NGO's Board Chairperson; Ms. Vickness Mayao-Registrar of NGOs and Dr. Lilian Badi-Chairperson of the National Council of NGOs for their cooperation, generosity, insights, and ideas throughout the time.

Lastly, we would like to acknowledge all Nonprofit Organizations for their invaluable feedback on the Taxation of Non-Governmental Organizations, which helped us to improve this report.



## List of Laws

The Budget Act Cap 439 R.E 2020

The Finance Act, R.E 2022

The Income Tax Act, Cap 332 R.E 2019

The Non-Governmental Organization Act No. 24 of 2002

The Tax Administration Act, 2015

The Societies Act Cap.337

The Trusteeship Incorporation Act Cap.318

The UN Declaration on Human Rights Defenders of 1998

The Value-Added Act, 2014

Written Laws (Miscellaneous Amendments) (No. 3) Act, 2019



# List of Abbreviations

<b>AGM</b>	Annual General Meeting
<b>BRELA</b>	Business Registration and Licensing Agency
<b>EAC</b>	East African Community
<b>CSOs</b>	Civil Societies Organizations
<b>HRD</b>	Human Rights Defender
<b>NaCoNGO</b>	National Council for Non-Governmental Organizations
<b>NGOs</b>	Non-Governmental Organizations
<b>NPOs</b>	Non-Profit Organizations
<b>PO-RALGA</b>	President's Office Regional Administration and Local Government Authority
<b>SP</b>	Strategic Plan
<b>TRA</b>	Tanzania Revenue Authority
<b>THRDC</b>	Tanzania Human Rights Defenders Coalition



# Executive Summary

The State of Nonprofit Sector Taxation in Tanzania's report offers a comprehensive analysis of the tax landscape affecting nonprofit organizations (NPO's in Tanzania). The report aims to provide invaluable insights into the current taxation polities and their impact on the Nonprofit Organisation sector, while also presenting recommendation for stakeholders, policy makers and NPOs themselves.

To achieve its objectives, this report follows a structured approach, incorporating both qualitative and quantitative methodologies. It draws from extensive engagement with over 2,000 Civil Society Organizations (CSOs) between 2021 and 2023, as well as consultations with relevant stakeholders, including nonprofit sector associations and the Tanzania Revenue Authority (TRA).

The report is organized into four chapters. The first chapter serves as an introduction, setting the background for the study. In the second chapter, we highlight the significant contributions made by NPOs to national development. These contributions span various areas such as Advocacy and Awareness, Service Delivery, Capacity Building, Governance and Accountability, Policy Advocacy and Research, Social Innovation, Conflict Resolution and Peacebuilding, Environmental Protection and Sustainability, Community Empowerment, Civic Engagement, and Democracy.

The data from the "2020 and 2021 Report on NGO Contribution to National Development" underscores the remarkable impact of NPOs. In 2020, 804 out of 9,000 registered NGOs were assessed, showcasing an annual income and expenditure of TZS 1,423,238,932,193 and TZS 1,193,502,074,491, respectively. In 2021, 955 NGOs were assessed, with an income of 1,194,306,453,232 and an expenditure of 1,081,499,948,916. NPOs directly benefited over 79 million individuals, making a significant social impact.

Chapter three delves into the challenges faced by CSOs, divided into two categories: Policy and legal challenges, and operational and practical challenges. These challenges have emerged from consultations with more than 1,500 CSOs



across the nation and encompass issues such as cumbersome tax penalties, changes in tax laws, the need for certified financial statements, and the lack of taxpayer segregation data.

### **Policy and Legal Challenges:**

1. Registering NPOs as Companies, subjecting them to same tax requirements as profit- making organizations. According to the Income Tax Act, Not for Profit Sharing Organizations (NPOs/CSOs) are treated as companies. Not for Profit Sharing Organizations are only linked to the “Charitable Organisation” by section 64(1) of the Income Tax Act which is not automatic based on the conditions set under Section 64(8).
2. The law does not differentiate between profit-making and non-profit-making organizations. The Tax regime in Tanzania has clustered into one group NPOs/CSOs and other taxpayers which are profit-making. Essentially NPOs are not taxpayers but tax collectors on behalf of TRA.
3. The law mandates a newly registered NPO to have an automatic tax obligation after registration without taking into consideration that NPOs depend on donor funds to be established and operate.
4. There is no grace period for newly registered NPOs, the system automatically starts counting an NPOs as the taxpayer immediately and retrospectively after being registered with TIN.
5. Bureaucracy in granting charitable status. Many CSOs have been facing difficulties in obtaining a ruling of the Commissioner and being informed that they are not eligible for a certificate of charitable status without justifiable reasons. According to this report, some of the reasons for denial of charitable status by the Commissioner General include a vague interpretation of various words and criteria such as the criteria for an organization to be required to have a public character. Lack of clear recognition of Nonprofit sharing organizations as per the tax laws. No time limit set for the Commissioner to issue a ruling. In absence of the Commissioner’s ruling, compels NPOs to pay taxes irresponsibly, irrespective of their contribution to national development.
6. Frequent changes in Tax laws disrupts CSOs’ financial planning.
7. Interns, volunteers and field workers under nonprofit organizations are subjected to PAYE. Due to the nature of the work of CSOs and project-based funds, CSOs are using volunteers to do extensive work that benefits the public despite the scarcity of resources. Interns, volunteers and field workers under nonprofit organizations are subjected to PAYE.

8. Lack of Taxpayer Segregation Data with specific information on NPOs contribution
9. Non-inclusion of CSOs in the Tax Reform Committee made from section 11 of the Budget Regulation, 2015 under section 63 of the Budget Act, 2015 (No: 11 of 2015).
10. NPOs are forced to file an estimate of Tax payable for the year while an NGO/NPO receives only grants from donors and contributions from members, not income. NPOs don't make income at any time, but their sources of income are just from members' contributions, contributions from well-wishers and grants from partners that may be used for two or three years. The challenge here is the word "income"; NPOs don't have income but only grants and contributions. Any Grant from CSOs that cross from one year to support another year's activities is neither income nor profit to be taxed.

### **Practical and Operational Challenges:**

1. Effectiveness of the TRA E-filing System. According to these findings, many CSOs face challenges with huge penalties and interest posted to their online accounts just because they have failed to fill in return information every month since their establishment .
2. This study indicates that a newly registered NPO may be automatically penalized by the system to pay between 40 up to 100 million Tanzania shillings for failure to file zero returns in the system just for one year.
3. The main problem here is not about failure to pay the required Tax among NPOs/CSOs, the problem is an automated system that compels NPOs/CSOs to file monthly zero returns even if an organization doesn't have any grant.
4. Multiple Interpretations of Tax Laws by TRA officials.
5. Inadequate regular meetings between CSOs and TRA Officials especially at grassroot levels. This can lead to misinterpretations and misunderstandings, potentially resulting in tax non-compliance or missed opportunities for tax exemptions or incentives available to CSOs.
6. Tax Awareness challenges among NPOs is still a big problem regardless of the ongoing efforts between TRA and CSOs to adress those challenges.
7. CSOs are currently confronted by unpayable penalties and interest

This report also presents a series of recommendations and a conclusion based on input from Civil Society Organizations (CSOs) across the country. These recommendations aim to address Policy and legal challenges, improve the effectiveness of the Tanzania Revenue Authority (TRA) e-filing system, bridge knowledge gaps, and overcome practical challenges affecting CSOs. The report summarizes the identified challenges and provides a set of strategic recommendations to address them as follows.

1. Continue to provide a room for Capacity Building Sessions and Continuous Taxpayer Education for NPOs
2. Sustain and expand the ongoing CSOs and TRA meetings aiming to provide solutions to existing tax challenges affecting CSOs.
3. Advising the government to review the current Policy and Legal regimes that affect NPOs operations.
4. It is proposed by NPOs for the establishment of a structured feedback mechanism to facilitate communication between the Tanzania Revenue Authority and civil society organizations, enabling the exchange of ideas and constructive feedback on tax-related issues.
5. NPOs propose the amendment of Section 22(1) of the Tax Administration Act, 2015 relieving NPOs from the requirement of having an automatic Taxpayer Identification Number (TIN) immediately after registration.
6. NPOs advised TRA to review the registration system and create options for NPOs and profit-making organizations to use the system only when they have grants that attract taxes.
7. CSOs advised the government to review Section 64 of the Income Tax Act by replacing the word "public character" with "Nonprofit sharing".
8. NPOs see the need for the definition of a charitable status under the tax law to be aligned with the definition of an NGO as defined under Section 2 of the NGOs Act as amended by the Written Laws (Miscellaneous Amendments) (No. 3) Act, 2019
9. To avoid unpayable tax penalties and interest, we advise the government to review Section 78 (1) and (2) of the Tax Administration Act by deleting the requirement of a monthly penalty for failure to fill zero returns for NPOs that have not secured grants.
10. This is because NPOs are donor-dependent, they sometimes don't receive grants on time, they don't even have funds for paying penalties for delayed grants but only funds for implementing project activities.

11. It is advised that, The legal requirement of submitting tax returns with certified accounting statements should be waived against NPOs because NPOs don't make any profit and hence are not eligible or not supposed to pay 30% of their annual grant. Donor Grants are not annual income or profit at all.
12. CSOs advised the government that, Interns and volunteers working with nonprofit sharing organizations should be exempted from PAYE tax. This will provide a wider room for graduates to work with CSOs as part of practical learning.
13. CSOs recommended for regular review of the TRA inline portal system. Also, the system should have options to differentiate a newly registered nonprofit making organization with no grants from profit making organizations.
14. The ongoing CSOs tax education initiative between TRA Taxpayer Education Directorate, THRDC and other stakeholders should be maintained and highly supported to reach a wider CSOs section across the country.
15. The CSOs Tax Tool Kit should be reviewed annually and shared with CSOs nationwide. More training and dialogues between TRA and CSOs on tax issues should be conducted at District, Regional and National levels.
16. The system should be reviewed, allowing only NPOs/CSOs with grants to fill in monthly returns.
17. There should be an option in the online system for NGOs without grants to fill in their information on lack of funds just once a year and not monthly.
18. It was recommended that TRA officials in each district, especially those who will be designated for NPOs/CSOs to, frequently visit NPOs/CSOs to assess their tax capacity and challenges.
19. It was advised that the Tax Forum between CSOs and TRA at District, Regional and National Levels should be established.
20. Among other things, NPOs have proposed for five a year's tax grace period for starting up NGOs, including exclusion from online zero-return e-filing.
21. The current window from section 70 of the Tax Administration Act 2015 seeks remission and has been unutilized and unknown to many CSOs. Hence, thousands of CSOs face challenges to hundreds of millions imposed through tax penalties and interest that are not payable. CSOs call for effective and easy use of this window as the best way to free them from these penalties and interest charged on NPOs.



22. Given that those penalties are not payable, CSOs kindly request a general tax amnesty to all CSOs with unpayable tax penalties. CSOs may be encouraged to commit to pay the principal Tax which seems to be reasonable to some NPOs.

In a nutshell, this report sheds light on tax challenges faced by NPOs in Tanzania, emphasizing their significant contributions to national development. By addressing these challenges through informed recommendations, we aim to create a more conducive environment for NPOs to thrive and continue their valuable work in serving Tanzanian society.

# GENERAL INTRODUCTION

## 1.0. GENERAL INTRODUCTION

The “Report on the State of Nonprofit Sector Taxation in Tanzania” delves into the taxation landscape affecting nonprofit organizations (NPOs) operating within the United Republic of Tanzania. It aims to shed light on the prevailing taxation policies, and regulations, and their impact on the nonprofit sector, which plays a crucial role in addressing the country’s social, economic, and environmental issues.

Nonprofit organizations are instrumental in addressing various societal challenges, including healthcare, education, poverty alleviation, and environmental degradation. Understanding the taxation framework within which these organizations operate is vital for ensuring their sustainability and effectiveness. The report highlights the contribution of NPOs to national development as it has been recognized by the Government through various reports on Non-Governmental Organizations Contribution to National Development in 2015, 2020, and 2021 respectively.

This report provides a detailed analysis of various aspects related to Taxation in the Tanzanian nonprofit sector. It examines the current tax laws and regulations affecting NPOs, outlines the tax obligations imposed on them, and assesses the compliance and reporting requirements. Moreover, the report outlines different initiatives undertaken by civil society organizations to address these challenges.

The findings and recommendations of this report are intended to guide policymakers, nonprofit organizations, and stakeholders in the Tanzanian nonprofit sector to make informed decisions that can enhance the sector’s effectiveness and sustainability while ensuring compliance with taxation laws and regulations. Ultimately, this report seeks to contribute to the growth and development of a thriving nonprofit sector in Tanzania, which can play a pivotal role in addressing a myriad of socio-economic challenges in the country.

This report presents the findings of the Tax challenges affecting CSOs across the country along with key recommendations collected from CSOs over the past five years. The document has four sections; the first section provides general background information; Section two highlights NGOs’ Contribution to



National Development; Section Three presents the work of CSOs in resolving Tax Challenges through Tax Education; Section four is on Challenges as identified by CSOs, and the last section is on conclusion and recommendations.

## **1.1 Background**

The CSOs/Nonprofit Sector plays an important role in promoting economic growth, developing society, improving communities, and promoting citizen participation. NGOs are particularly critical to the socioeconomic development of countries where government capacity and revenues are limited.

The CSO sector in Tanzania has contributed significantly to the country's development across all sectors of the economy. These include among others, supporting the public in poverty alleviation, Policy and legal reforms, environmental protection, service delivery, and capacity enhancement among others. Generally, NGOs are partners in complementing and supplementing the Government and community development efforts.

CSOs play a critical role in economic development, trade facilitation, and building healthy communities through the provision of critical services. The rapid growth and expansion of CSOs worldwide attests to their growing role in the development process. NPOs offer a broad spectrum of services across multiple fields, ranging from finance, livelihood interventions, and health and education services to more specific areas, such as emergency response, democracy building, conflict resolution, human rights, environmental management, and policy analysis. Some CSOs provide access to micro-credit or microfinance facilities, positively impacting micro-enterprises as well as enabling individual households to start income-generating activities. Other CSOs provide micro-loans without requiring any collateral or mortgage for the purpose of assisting the less privileged in society. They offer opportunities for people to develop initiatives in business or agriculture that generate earnings offsetting the debt over time. All of these contribute to the Implementation of the National Development Plans.

Despite playing a pivotal role in the country's economy, the CSO sector is engulfed with challenges, especially those arising from enacting and enforcing various laws and policies that constrict their efficiency or with a chilling effect on the CSO's performance. One of the most challenging areas has been the Taxation of Nonprofit Organizations.

In response, the Tanzania Human Rights Defenders Coalition (THRDC) in collaboration with the Office of NGOs Registrar and National Council of NGOs (NacoNGO) has been working with the Tanzania Revenue Authority (TRA) for about five years now to address CSOs Tax Compliance issues. THRDC in

collaboration with TRA, Wajibu Institute and others, developed the NGOs Taxation Tool Kit as a simplified handout written in Swahili and English detailing NGOs' Tax Compliances according to Tax laws. The handout is used as a tool in capacity-building workshops for CSOs and has been distributed nationwide.

Apart from Tax Education challenges, the sector continues to face Policy and legal issues which require concerted action of all stakeholders to resolve these challenges for the sustainability of our country's CSO sector and development.

## **1.2. Objectives of this Report**

Generally, the report aims to analyze tax-related issues and challenges faced by nonprofit organizations operating in the country. This report aims to offer a thorough understanding of the taxation landscape for nonprofits and its impact on their operations, sustainability, and contributions to society. Specifically, the report intends to obtain the following objectives.

1. To provide and analyze taxation challenges facing Nonprofit Organizations (NPOs) in Tanzania
2. To highlight NPOs contribution to Implementation of national development.
3. To provide well-informed recommendations for potential improvements to the taxation framework governing NPOs in Tanzania.

## **1.3. Methodology of Data Collection**

This report is the outcome of a cross-sectional analysis of the state of nonprofit sector taxation in the country which entailed a review of secondary data and processing and analysis of primary data. A structured approach and a combination of methodologies, both qualitative and quantitative approaches, were employed.

### **1.3.1. Primary data**

To reach the intended objectives, a combination of qualitative and quantitative methods was employed. The following methods were used to gather data.

### **1.3.2. Surveys and Questionnaires**

Primary quantitative data were collected by using online questionnaires and email survey tools. A selected group of respondents were reached with the same questions through an online survey-monkey tool. The online survey tool enabled this study to reach a wider community of CSOs in Tanzania's mainland. In 2021, structured questionnaires were circulated and a total of 82 respondents replied through online interactions, and in 2023, a total of 384 respondents were reached through this method.

### 1.3.3. Stakeholder Consultations

THRDC and NaCoNGO engaged in consultations with relevant stakeholders, such as nonprofit organization, the Tanzania Revenue Authority, and other government agencies, to collect their perspectives and recommendations. A total of 1,500 representatives from CSOs/NPOs participated in the discussion on the State of Nonprofit Sector Taxation. The survey was conducted in Dar es Salaam, Mwanza, Morogoro, Pwani, Rukwa, Shinyanga, Kigoma, Kilimanjaro, Tanga, Mbeya, and Singida.

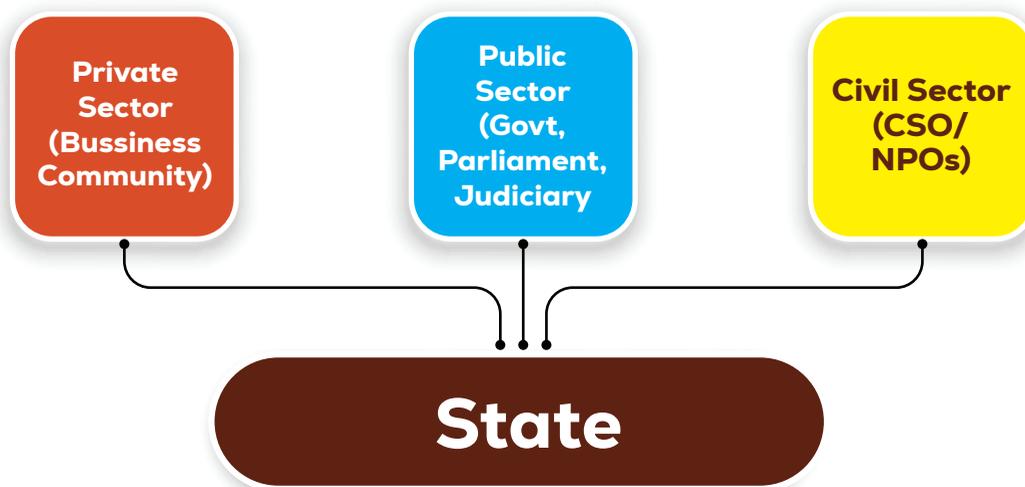
### 1.3.4. Secondary Data

Desk Research was conducted to obtain secondary data from various sources, such as government reports including the “NGO contribution in National Development Reports” of 2015, 2020, and 2021 respectively; tax laws and regulations; NGO financial reports, and policy documents.

## 1.4. About Civil Society Organizations (CSOs) /Nonprofit Organizations (NPOs)

The Civil society organizations (CSOs) are non-state actors whose aims are neither to generate profits nor to seek governing power. CSOs unite people to advance shared goals and interests. They have a presence in public life, expressing the interests and values of their members or others, and are based on ethical, cultural, scientific, religious, or philanthropic considerations. CSOs include nongovernment organizations (NGOs), professional associations, foundations, independent research institutes, community-based organizations (CBOs), faith-based organizations, people’s organizations, social movements, and labor unions. These groups of CSOs forms what is called the Civil Sector.

**Figure One: Main State Actors**



### 1.4.1 Composition of Civil Sector

The CSOs sector comprises non-governmental organizations, associations, trustees, trade unions, community-based organizations, faith-based organizations, societies, and professional associations.

In Tanzania, CSOs are classified into three entities such as Non- Governmental Organizations (NGOs) Trustees and Societies The three entities occupy the space between the public sector and private sector, they are essentially constituting what scholars call Civil Society Organizations (CSOs). These entities are further regulated by different government institutions/departments or ministries under the auspices of different laws.

#### Figure Two: CSOs Family Tree

##### 1.4.1.1 Non-Government Organizations (NGOs)



NGOs are regulated by the NGOs Act No. 24 R.E 2019 (as amended) through the Registrar of NGOs who is appointed by the President under section 3(1) thereof and overseen by the Ministry of Community Development, Gender, and Special Groups.

As stipulated under Section 2 of the Non-Governmental Act an NGO is a voluntary group of individuals or organizations that is non-partisan or nonprofit sharing established and operates for the benefit or welfare of the community or public.

It is organized at the local, national, or international levels for the purpose of enhancing or promoting economic, environmental, social or cultural development or protecting environment, good governance, law and order, human rights, lobbying and or advocating for such issues. Currently there are about 8000 registered NGOs in Tanzania.

### **1.4.1.2 The Trustees**

Trustees are regulated by Trusteeship Incorporation Act Cap.318, through the Administrator-General under the Ministry of Constitution and Legal Affairs. "Trust" as per section 1A of the Trustees Incorporation Act is defined to mean: a legal relationship created by personal acts, by an order of the court or operation of the law, when specified property or interests are placed under the control and management of a trustee or trustees for the benefit of another party or parties. Also known as a beneficiary or beneficiaries, Trustees are persons who hold, controls and manages property or any other interests for the benefit of a beneficiary or beneficiaries, or for purposes specified in section 2(1) of the Act. Section 2(1) of the Act provides for purposes of Trust "established for any religious, educational, literary, scientific, social or charitable purpose," Currently there are about 5000 registered trustees in Tanzania.

### **1.4.1.3 Associations/ Societies**

Societies are regulated by the Societies Act Cap.337, through the Registrar of Societies under the Ministry of Home Affairs. Before the 2019 amendments, some CSOs used to be registered as Companies limited by guarantee. As defined under Section 2 of the Societies Act, a Society is a non-partisan and non-political association of ten or more persons established for professional, social, cultural, religious, or economic benefits or welfare of its members, formed and registered. In 2001, the Government formulated and adopted the NGOs Policy that among other things aimed at bringing all different segments of the Civil Society Sector together. Contrary to the objectives of the Policy, the legal and regulatory framework governing CSOs in Tanzania has remained fragmented, disjointed, incoherent, and regulated by different laws and institutions thus creating inconsistencies and poor coordination of the sector. On 22<sup>nd</sup> October 2021 the registrar of societies in Tanzania while being interviewed at Radio City FM in Mwanza said that currently Tanzania has 9,868 registered societies.

As shown above, ongoing coordination challenges diverge from the spirit of the NGO's 2001 policy, which aimed to establish a favorable environment for the growth of the Civil Society sector.

## **1.4.2 Conceptual Framework on NPOs Sector Taxation**

The analysis of the findings of this report are based on global standards on nonprofit sector taxation. The United Nation Organization and Organization for Economic Co-operation and Development (OECD) have some guidelines and recommendations for countries to consider when developing their tax laws



for nonprofit organizations. These guidelines aim to help governments strike a balance between promoting the activities of nonprofit organizations (NPOs) and ensuring that tax policies are fair and transparent. Both the UN and OECD have provided the following key guidelines on NPOs taxation.

1. The UN has emphasized the importance of recognizing the vital role played by NPOs in society, particularly in social welfare, education, healthcare, and poverty alleviation sectors.
2. The UN encourages countries to create an enabling environment for NPOs by providing them with tax exemptions or preferential tax treatment to support their charitable and public interest activities.
3. At the same time, the UN emphasizes the need for transparency and accountability in the operations of NPOs, particularly regarding their finances and governance.
4. The OECD has also recognized the significance of NPOs in providing public goods and services and addressing various social and environmental challenges.
5. The OECD's guidelines emphasize the importance of clear definitions and classifications of NPOs and the need for countries to have a coherent and well-defined tax policy for these organizations.
6. The organization encourages countries to adopt a principles-based approach to the Taxation of NPOs, considering factors such as the size and nature of their activities.
7. The OECD also highlights the importance of transparency and information sharing to prevent misuse of NPOs for illicit purposes, such as money laundering or terrorism financing.

Major key questions for discussion aimed to respond to whether NPOs/CSOs need to pay taxes. The following were the main key questions.

### **1.4.3 What are the NPOs/CSOs?**

As it was defined above, many members of the CSOs sector are nonprofit organizations striving to collect donations to serve the community. NPOs are entities falling under civil sector formed to complement the Government's role in serving the community. They don't generate profits because they don't make any income. NPOs/CSOs collect funds from governments, private donations, and foundations for charitable activities.

#### **1.4.4 Are NPOs/CSOs taxpayer or tax collectors**

NPOs are not taxpayers in nature because they don't have any income made for their own, but they collect grants for community services the same way as the Government does for its people. Practically NPOs are tax collectors and not taxpayers. In Tanzania, NPOs/CSOs collect taxes from activities and any payment they do for their employees as PAYE. In Tanzania, NPOs are only supposed to collect the following taxes on behalf of TRA the rest is not for NPOs:

1. Pay as you earn for employed staff.
2. Withholding Tax for any consultancy or services done to the organizations
3. House rent withholding Tax.

#### **1.4.5 Why NPOs/CSOs don't pay taxes in other countries.**

Many countries, especially developed countries NPOs are exempted from tax payment. For instance, in the United Kingdom and in the United States, NPOs don't pay taxes because they are regarded as charitable organizations. In these countries they believe that NPOs grants are non-taxable because they are collected from Government, foundations, and donations often taken to help societies inform of projects and community programs. For instance, in the United States,

*'The federal Government doesn't require nonprofits to pay taxes, so the money they save can be used for charitable purposes. Nonprofits that qualify for 501(c)(3) of the Federal Tax Law don't have to pay federal or state income taxes. Most nonprofits fall into the 501(c)(3) category, and this is the category that offers the most tax benefits'*

For the case of Tanzania, NPOs are still regarded as taxpayers and grouped into one class with business companies to pay income taxes. The tax regime in Tanzania has some vague provisions that requires NPOs to apply for partial tax exemption whenever they feel entitled for tax exemption. This is to say all NPOs in Tanzania are taxpayers like corporate companies until an exemption status is applied and granted by the Commissioner General of the Tanzania Revenue Authority.

According to section 64, an NPO must apply to the Commissioner General of the Tanzania Revenue Authority to be recognized as a "charitable" or "religious" organization.

Only the following activities are to be considered for partial tax exemptions under various laws in Tanzania.

1. All income that is applied towards the organization's activities that relieve poverty or distress of the public, advance education, or provide for public health, education, water, or road construction or maintenance, where these activities provide reasonable benefits to residents in the United Republic of Tanzania; and
2. Gifts to "charitable" or "religious" organizations may be deducted from an individual's or entity's income for the purposes of calculating taxable income, but only two percent.
3. Twenty-five percent of the organization's income from its charitable business
4. When NPOs imports goods into Tanzania for certain charitable, humanitarian and development purposes may apply exemption from customs duties (The Customs Tariff Act)

If an organization has not been granted certificate of charitable status remains under clusters of other taxpayers who make profit. Therefore, All the grants these organizations receive will be treated as taxable income. But the practice indicates only few NPOs enjoy these tax benefits, many of NPOs have applied for charitable status but not granted. Tanzania must adhere to international standard that prohibit double Taxation. The double taxation treaties and agreement may positively impact NPOs, especially those international NPOs.

#### **1.4.6 When do NPOs/CSOs pay taxes?**

NPOs may only pay taxes when some have been engaging in income generating activities such as building hotels for business, etc. In other countries they call it Unrelated Business Income Tax (UBIT). This kind of Tax is generated from those commercial activities conducted by that NPOs. But if the profit generated is taken back to the organization for charitable activities again this is not taxable.

According to OECD, NPOs or all Public Benefit Organizations/CSOs can be from tax incentives in several ways. Generally, entities with a philanthropic or not for profit status may be able to receive tax incentives and gifts from individuals and corporations or receive tax relief directly in relation to their activities. These exceptions may be on income tax, VAT, import duties etc. However, the organization must first meet the following broad requirement:

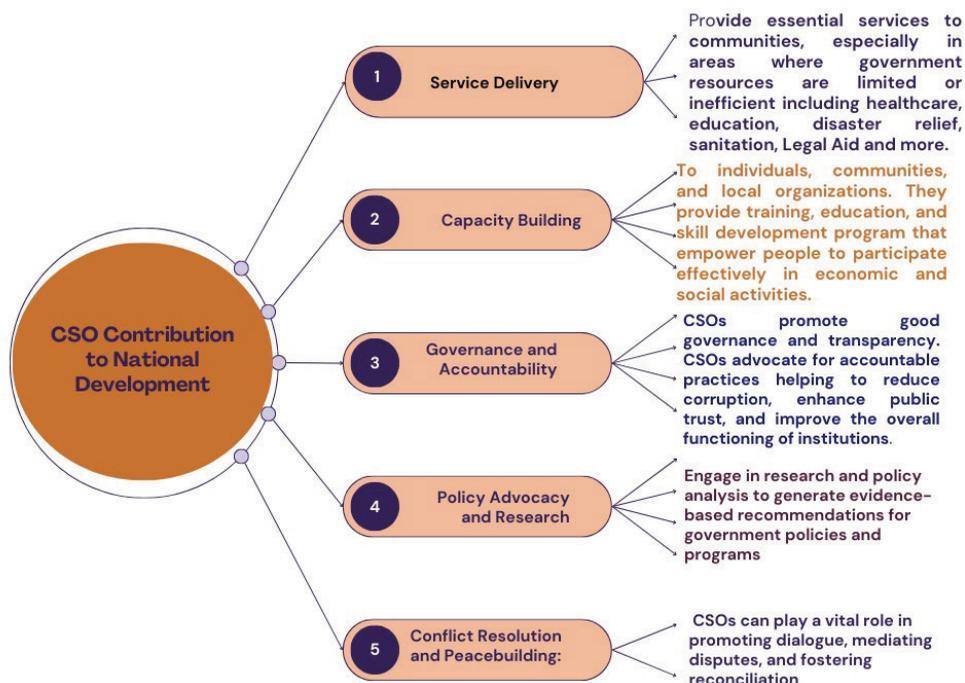
1. Not-for-profit requirements.
2. Worthy purpose requirements.
3. Public benefit requirements.

## CSO's CONTRIBUTION TO NATIONAL DEVELOPMENT

### 2.0 GENERAL INTRODUCTION

Over time, Civil Society Organizations have played a crucial role in the development of the nation by contributing to various aspects of life such as social, economic, and political needs of the society. CSOs are nonprofit, non-governmental organizations that operate independently from the Government and the business sector. Their involvement in national development can be observed in several key areas such as Advocacy and Awareness; Service Delivery; Capacity Building; Governance and Accountability; Policy Advocacy and Research; Social Innovation; Conflict Resolution and Peacebuilding; Environmental Protection and Sustainability; Community Empowerment; Civic Engagement and Democracy.

**Figure Three: CSOs Contributions to Development**



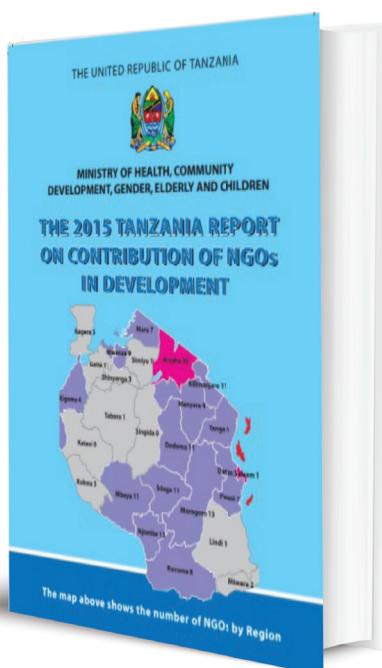
The synergy of Civil Society Organizations (CSOs) plays a pivotal role in advancing national development. CSOs, comprising nonprofits, advocacy groups, and community-based organizations, bring together diverse expertise and resources to address pressing social, economic, and environmental challenges. By collaborating with governments, businesses, and local communities, CSOs facilitate inclusive policy formulation and implementation. They promote transparency, accountability, and citizen engagement, fostering good governance. CSOs also drive social innovation, delivering essential services, and empowering marginalized populations. Through these concerted efforts, CSOs amplify the impact of development initiatives, contributing significantly to nations' holistic growth and progress, ultimately leading to a more equitable and prosperous society.

## **2.1 Recognition of CSOs' Work by the Government**

The Non-Governmental Organizations (NGO) Policy of 2001 and the NGO Act No. 24 R.E 2019 as amended requires the Ministry responsible for NGO coordination to prepare and share reports on NGO performance to strengthen networking and collaboration among key stakeholders in the country.

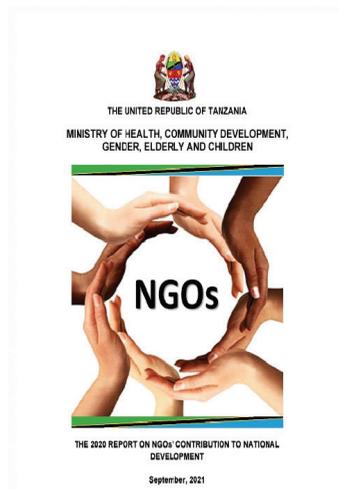
Complying with the Policy, the Government through The Ministry of Health, Community Development, Gender, Elderly and Children (MoHCDEG) prepared the first report in 2015. The second report was published in 2021, the third one in 2022 and Annual NGO's Forum has developed a culture to routinely publish and reflect on NGOs' contribution to national development.

### **2.1.1. The 2015 Report on NGO's Contribution to Development**



The report mentioned NGOs' contribution to the development in various sectors such as Health, Agriculture, Education, Environment, Water, Gender, Good Governance, Social Protection, and Multisectoral. This was the first report recognizing NGO's contribution to development. However, the report was not detailed to provide measurable data assessing NGO's performance and contributions to the implementation on national development plans. More details can be found here.

## 2.1.2. The 2020 Report on NGOs Contribution to Development



In 2021, the Government organized the first Annual NGO Forum officiated by the President of the United Republic of Tanzania Dr. Samia Suluhu Hassan. In this forum the Government through the Office of NGO Registrar launched the “The 2020 Report on NGO Contribution to National Development”.

The report highlighted the contribution of the NGO sector to national development in 2020 whereby 804 out of 9,000 registered NGOs were assessed. The assessed NGOs had a total annual income and expenditure amounting to TZS. 1,423,238,932,193 and TZS. 1,193,502,074,491 respectively.

NGOs in Tanzania registered notable and meaningful contributions in various thematic areas in 2020 with the top 10 leading thematic areas being health, social protection, community empowerment, agriculture, education, good governance, environment, water, gender, and human rights. Likewise, in 2020 NGOs benefited 49,697,214 people, out of which 18,119,467 were adults, 15,201,837 youths, 15,486,845 children, 812,936 PWDs, and 76,129 elders. The assessed 804 NGOs had employed a total of 8,918 employees the majority being Tanzanians.

This recognition is a milestone on recognition and reassures the Civil Society sector’s engagement with the Government in implementing national development and collaboratively saving for the nation’s best interest.

## 2.1.3 The 2021 Report on NGOs Contribution to Development

The third report was launched in 2022 during the Annual NGO Forum and this has become the culture of every annual NGO Forum to recognize the contribution of NGOs to national development. The Government sustained its initiative of documenting the contribution of NGOs to the implementation of National Development Plans.

Where 955 NGOs were assessed generating an income of 1,194,306,453,232 and an expenditure of 1,081,499,948,916. In 2021 NGOs benefited 79,216,986 people out of which 24,387,249 were women; 8,696,126 men; 4,004, 510

children; 3,495,055 elders; 38,587,098 youth; 25,417 widows and 18,531 people with disabilities. A total of 2,350,823 institutions/facilities benefited from NGOs interventions. On employment, NGO Sector employed 14,121 Tanzanians.

The 2021 report data were more inclusive covering the contribution of NGO reaching to women, children, the elderly, youth, widows, and people with disabilities. This aligns well with our development Plans including Tanzania Vision 2025, Five Years National Development Plan III 2021/26, SDG Agenda 2030, and Agenda 2063 which prioritize diversity and inclusion in all outcomes including a) High-quality livelihood; b) Peace, stability, and unity; c) Good governance; d) A well-educated and learning society; and e) A competitive economy capable of producing sustainable growth and shared benefits.

*Hon. Kassimu Majaliwa Kassimu, Prime Minister of the United Republic of Tanzania receiving an award from Hon. Dr. Dorothy Gwajima the Minister for Social Development, Gender, Women and Special Groups during the first Annual NGO Forum in September 2021, Dodoma.*



The Government was awarded for recognizing NGO contribution to National development and for continuing to improve an enabling environment for NGO contribution.

The Government's commitment to continue publishing this report annually is an indication that NGOs contribution is now valued. This recognition reflects a collaborative approach to solving societal challenges, fostering partnerships that enhance service delivery, and harnessing the diverse expertise of both sectors for comprehensive and sustainable development. Despite this milestone, NGOs in Tanzania continue to face several challenges in different areas including Policy and legal issues, being taxed as corporate Organizations, and regulatory bureaucracies which require the consented actions of all stakeholders to address these challenges for the country's best interest and development of the nation. Appreciating these efforts, the THRDC and NaCoNGO took several measures to address these challenges.

## **2.2 CSOs Led Tax Interventions Initiatives**

Recognizing the importance of collaboration, CSOs led by THRDC and NaCONGO have diligently endeavored to enhance their partnership with Tanzania Revenue Authority (TRA). This effort thoroughly explores the dynamic relationship between CSOs and Tax Regulatory Authorities aiming to Foster Tax Compliance and Societal Development. Achieving this goal requires an assented willingness from both parties to address the ongoing challenges.

Some key initiatives include stakeholders' reflection meetings; NPOs organized Taxpayers' education; Situational Analysis of CSOs Tax Compliance Challenges; Preparation of a simplified Tax Compliance Toolkit for NGOs in Tanzania which has been disseminated to more than 4000 NGO across the country. CSOs continue to capitalize on strengthening CSO and TRA collaboration to address taxation challenges to NPOs. The following were the initiatives undertaken to address the CSOs Taxation challenge:

### **2.2.1 The 4th CSOs Directors Annual Reflection Meeting**

The 4<sup>th</sup> CSOs Directors Annual Reflection Meeting was held in Tanga, on 14<sup>th</sup> October 2018 at Tanga Beach Resort Hotel. The meeting was attended by several government officials and other stakeholders in the CSOs sector to reflect on the operating environment of CSOs in the country and their contribution to national development. The meeting was officiated by Hon. Selemani Jafo, Minister for State, President's Office, Regional Administration and Local Government, and grace with the presence of representatives from other ministries including the Registrar of NGOs; Registrar of Legal Aid Providers from the Ministry of Constitutional and Legal Affairs; representatives from the Business Registration and Licensing Agency (BRELA); and senior officers from the Tanzania Revenue Authority (TRA).

Among the key issues raised in the 2018 CSOs Directors' Reflection Meeting was CSOs' Compliance with tax laws and regulations. The outcome of the meeting came up with a resolution of convening a workshop for the CSOs and TRA to discuss all relevant issues affecting CSOs regarding Tax Compliance. Among the concerns raised were the procedures to acquire charitable status and taxing nonprofit organizations as corporate organizations.

This marked the genesis of CSOs and TRA collaboration to address Taxation challenges in the sector. It was recommended to engage a consultant who will conduct a survey to identify these challenges and propose recommendations to address the problem.

## 2.2.2 CSO Directors Forum of 2019

The CSOs Directors exclusively dedicated the 2019 CSOs Directors Forum for the general awareness and compliance of tax laws with the theme “Taxation of Civil Society Organisations and their Contribution to National Development: Unattended Misconception and Policy Dilemma”.

Prior to the Forum, a survey on a critical analysis of Tax laws and their impact on CSOs in Tanzania was conducted. The survey came up with vivid cases of legal and regulatory challenges affecting CSO’s in Taxation. The report also identified the tax-knowledge gap as a major constraint for CSOs performance and operation. Therefore, the 2019 CSOs Directors Reflection Meeting aimed to strategize how to improve CSOs’ compliance with practical aspects of the country’s Tax Laws. The forum also aimed at providing an avenue for discussion on how to track and record the contribution of CSOs in national development.

The Tanzania Revenue Authority (TRA) utilizes this forum to provide tax education to CSOs. Representing TRA, **Mr. Matternus Mallya**, who was the Principal Tax officer at TRA, facilitated a session on CSOs Taxation as administered by TRA and the Local Government. For the case of taxes administered by TRA, CSOs are liable to pay income taxes and all forms of withholding taxes including withholding for PAYE, rent, and services. In addition, CSOs pay VAT and import duties (customs and excise duties). As such, CSOs are required to register with the tax administration and pay applicable taxes.



*A group photo of the representative of the guest of honor, Mr. Shogolo Msangi (third seated from the left) with THRDC secretariats (standing at the back) together with other invited guests and CSO directors during the fifth CSO Directors Forum in Mwanza region, 2019.*

### **2.2.3 Situational Analysis of CSOs Tax Compliance Challenges**

WAJIBU Institute in collaboration with THRDC, ACT 2 conducted a survey to identify and analyze challenges affecting CSOs in Tax Compliance. The survey was crucial to inform the extent of the problem and recommend measures to address this problem. Data gathered from 82 sampled respondents suggested that CSOs are largely unaware of taxation laws and regulations.

In the survey, only 3 out of 82 respondents asserted having a 100% understanding of Taxation laws while 23 respondents said 75%, and the other 56 ranged from 0 to 50%. As a result, their organizations have been subjected to fines, penalties, and interest rates higher than their budgets. This has been aggravated by practices including poor documentation resulting in the loss of most of the important data to guide them in legal compliance processes. This situation presents a knowledge gap that requires CSOs capacity building.

In addition to challenges posed by taxation laws and regulations, CSOs have yet to face other challenges affecting their capacity to fundraise and manage financial resources. The combination of these and other related factors jeopardize the sustainability of CSOs operation in Tanzania. The survey recommended preparing a simplified handout of NGO Compliance Toolkit, a guiding tool for tax issues to nonprofit Organizations in the country.

### **2.2.4 Tax Compliance Toolkit for NGOs in Tanzania 2021**

Through the 2018 and 2019 CSOs Directors' Forums and recommendations from the Survey conducted, the Coalition has had dialogue with its CSOs, stakeholders, government officials, and officials from the Tanzania Revenue Authority (TRA) around compliance with tax laws. In a bid to unpack the challenges, THRDC teamed up with Accountability in Tanzania (ACT2) and WAJIBU-Institute of Public Accountability to conduct a survey on the impact of Tax Laws on CSOs in Tanzania. The organizations then collaborated with the Tanzania Revenue Authority (TRA) to develop a simplified "Tax Compliance Toolkit for NGOs in Tanzania". The toolkit was developed to provide CSOs with a simplified reference to assist them in complying with tax laws and regulations.



*Launching of the Tax Compliance Toolkit for NGOs. From right is Mr. Richard Kayombo- Director of Tax Education from TRA, Ms. Feliciano Nkane, and Deputy Commissioner General at TRA, Mr. Onesmo Olungurumwa-THRDC National Coordinator, and Mr. Jackson Mmari from Wajibu Institute. The tool was launched on 24 September 2021 at THRDC Headquarters, Dar es Salaam.*

This is a guide on tax issues relevant to nonprofit organizations legally registered and operating in the country under different statutes. The guide:

1. Explains basic requirements for registering with TRA as a taxpayer.
2. Explains the basic legal and practical details of applicable taxes, levies, duties, and applicable concessions.
3. Highlights common misconceptions by nonprofit organizations under the different types of taxes, duties, and levies.
4. Contains information on how to become a 'Charitable Organization' and Taxation of charitable organizations.

The information in this guide is not exhaustive. It focuses on taxes that CSOs found most challenging to comply with. The guide also directs readers to supplementary information from TRA website, Tax Consultation Bureau (DSM), and Regional Taxpayer Services and Education Officers in different parts of the country.

The tool was officially disseminated during the First Annual NGO Forum in September 2021, Dodoma whereby the Guest of Honor was Her Excellence Dr. Samia Suluhu Hassan, President of the United Republic of Tanzania. A total of 2,000 copies were distributed to NGO representatives. In two years, the Coalition has received about 20 requests for conducting Tax Education workshops for NGO. Up to August 2023, the Coalition in collaboration with TRA Regional Offices has conducted 9 Tax Education workshops reaching about 1800 NGOs across the country.



*Participants of the 2021 NGO Forum fighting to get “The Tax Compliance Toolkit for NGOs” after being advertised. This explains the magnitude of the need for Tax education to non-profit organization and other stakeholders.*

### **2.2.5 CSO’s Directors Refresher Workshop on Financial Sustainability**

Tanzania Human Rights Defenders Coalition (THRDC) in collaboration with the Office of Non-Governmental Organisations Registrar and National Council of NGOs (NaCONGO) hosted an annual reflection meeting for more than 150 CSOs directors from across the country. This meeting was conducted along with the Annual NGO Forum as a side event, one day before the commencement of the NGO Forum on the 2nd of October 2022 at the Morena Hotel in Dodoma.

Reaffirming 2022 NGOs Forum Theme; “Non-Governmental Organizations Sustainability: Stakeholders Responsibility,” the meeting was convened to discuss Financial Spaces for the Sustainability of Local and Grassroots NGOs in Tanzania and Launching of the Report on the Effectiveness, Challenges, and Recommendations of the NGOs Information Management System.

The meeting was officiated by Mrs. Mwantumu Mahiza, Chairperson of the Board of Non-Governmental Organizations as the guest of honour. Thereafter, Hon. Dr. Dorothy Gwajima, Minister of Community Development, Gender, and Special Groups graced the closing ceremony of the meeting as the guest of honour.



*Minister for Community Development, Gender, Women and Special Groups, Dr. Dorothy Gwajima during the closing of the annual reflection meeting on 2nd October 2022 at Morena Hotel Dodoma.*

The reflection meeting underscored the existing knowledge gap on NGO regulatory laws and regulations including taxation laws, and efforts taken by the Coalition to address the issue through conducting capacity-building sessions for CSOs and disseminating the Tax Compliance Toolkit for NGOs.

The discussion pointed out that there are several improvements on the system of Taxation of NGOs. These include the modernization of the tax administration system to make it more automated in filing documents and returns; The 2021 Finance Act amended S.6 of the VAT Act to recognize NGOs as stakeholders in the implementation of Government projects making them qualified for some VAT exemptions; Increasing the bracket for SDL tax charges from 4 to 10 employees in organizations thus increasing the number of NGOs exempted from SDL charges.

Despite these progresses, CSOs continue to face challenges curtailing their work. Tax education is still scant among NGOs making many unable to access tax exemptions including on imported material/donations. Additionally, Income-generating activities within NGOs are subject to complex regulations and requirements for being treated as activities beneficial for NGOs like normal profit-making businesses. Moreover, the shift of NGOs from BRELA to the NGO Act left a lot of outstanding taxation processes that continue to be computed, hence some NGOs have found themselves with huge tax burdens.



*Hon.Mwantumu Mwahiza, NGOs Board Chair at the middle posing with some of the CSOs directors, NGOs Registrars from both Tanzania Mainland and Zanzibar during the CSO's Directors Refresher Workshop on Financial Accountability and Sustainability on 2nd October 2022 at Morena Hotel Dodoma.*

### **2.2.6 Providing Tax Education through Regional NGOs Forums in 2023.**

NaCONGO and THRDC remain firm in mobilizing, coordinating, and supporting NGO Forums bringing together NGOs to discuss the contribution of NGOs in National Development and pertinent issues challenging their operating

environment. The forums offer an opportunity to engage with multi-sectoral actors for the purpose of enhancing partnerships in the interest of steering the national development agenda forward. The Coalition has co-organized a total of 11 workshops in different regions and utilized that opportunity to disseminate the Tax Compliance Toolkit and provide Tax education to NGOs in the country.



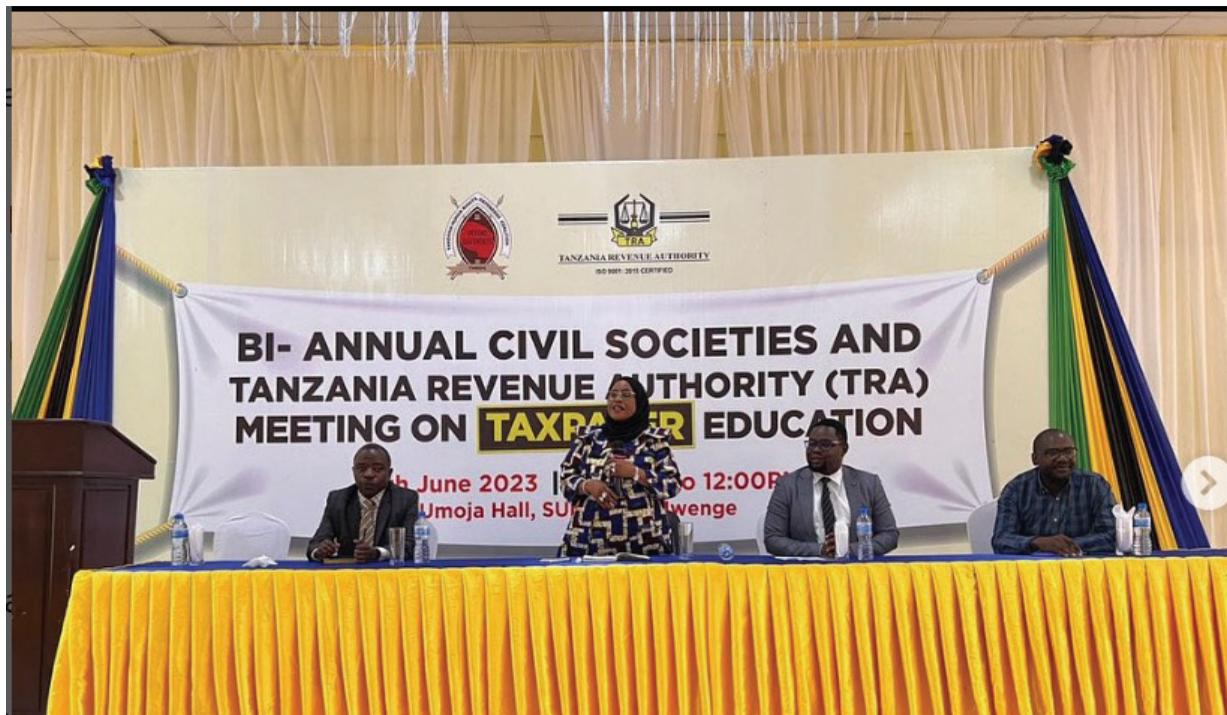
*Pictures portraying several Tax Education sessions organized by THRDC in collaboration with TRA Regional Offices*

It should be noted that the NGO forums were coordinated by the National Council of NGO (NaCoNGO) then, THRDC utilized this opportunity to conduct presentations and dialogues on tax challenges affecting nonprofit organizations reaching more than 2100 organizations from 11 regions.



*TRA Commissioner reciting the Tax Compliance Toolkit for NGOs during the Dar es Salaam NGO'S Forum in July 2023. THRDC utilized the opportunity to provide Tax education to about 300 NGO representatives.*

## 2.2.7 Specific NPOs Forum on Taxation



Specifically, THRDC in collaboration with Kinondoni Tax Region convened bi-annual CSOs and TRA meeting on taxpayer education, 30th May 2023 aiming at providing Tax Education to CSOs while addressing related Compliance challenges.

The event brought about 350 CSOs representatives from Dar es Salaam. This event also provided an excellent platform for discussions on the challenges affecting CSOs in Tax compliance.

From this special event, it was deliberated and agreed that, CSOs should ensure their own effectiveness by: Coordination and collaboration among themselves, at all levels (national, regional, sub-regional) to facilitate engagement in Taxation dialogues; Convening a quarterly meeting after every three months; Promoting and encouraging participation of CSOs in various annual reviews. It was also agreed CSOs should also address CSOs' accountabilities; deliberating Taxation challenges for TRA to take responsive actions; engaging with other relevant key actors for Policy and legal reforms.

On the other hand, The Tanzania Revenue Authority should provide a space for CSO to deliberate on Taxation challenges and take responsive action to resolve the challenges; Consult CSOs in the design, implementation, and monitoring of Tax Education programs; Ensure transparency about CSO Taxation, making available detailed information about Taxation to CSOs.

# TAX CHALLENGES AFFECTING NONPROFIT SECTOR

### 3.0 TAX CHALLENGES AFFECTING NPOS/CSOS SECTOR

This part of the report presents several challenges affecting Taxation of the NPOs sector in Tanzania. After several interventions, studies, assessments and CSOs consultation meetings as indicated above, this report came up with some major challenges that affect the NPOs/CSOs sector in Tanzania. These challenges represent the real tax situation facing the NPOs sector after consultations with more than 1,500 CSOs across the country. The challenges are grouped into two categories: Policy and legal challenges and the second category is operational and practical challenges. Other challenges include the ineffectiveness of the TRA e-filing system, the knowledge gap among TRA officials about how the NPO/CSOs sector operates and inadequate tax education for the CSOs sector. The challenges are discussed below in details with specific recommendations.

#### 3.1 Policy and Legal Challenges

Nonprofit organizations (NPOs) like any other taxpayers are required to be governed by Tanzania's various laws and regulations. NPOs are also required to familiarize themselves with these policies, laws and regulations especially the most relevant to their routine operations. NPOs pay taxes directly and indirectly. They indirectly pay taxes when involved in various transactions that may attract payment. They directly pay taxes when acting as TRA tax collectors through various ways such as by paying pay as you earn taxes, SDL, withholding taxes, etc

Despite their contribution to the implementation of national development plans, NPOs/CSOs in Tanzania continue to face legal challenges under the tax laws impacting their operations and sustainability. The following are some of the identified main Policy and legal challenges affecting Taxation of the NPOs sector in Tanzania.

##### 3.1.1 Registering NPOs like other profit-making taxpayers/Companies

According to the Income Tax Act, Not for Profit Sharing Organizations (NPOs/CSOs) are treated as companies. Not for Profit Sharing Organisations are only

linked to the “Charitable Organisation” by section 64(1) of the Income Tax Act which is not automatic based on the conditions set under Section 64(8). Section 3 of the Act defines corporation as follows:

*“Corporation” means any company or body corporate established, incorporated or registered under any law in force in the United Republic or elsewhere, an unincorporated association or other body of persons, a government, a political subdivision of a government, a parastatal organization, a public international organization and a unit trust but excludes a partnership”<sup>1</sup>*

Nonprofit organizations (NPOs) are required to acquire a Taxpayer Identification Number (TIN) immediately after registration under their respective laws and commencement of business/operations under Section 22(1) of the Tax Administration Act, 2015. Under the new system, the registration number of the organization is automatically used as the Taxpayer Identification Number (TIN)<sup>2</sup>.

### **Challenges:**

1. The law does not differentiate between profit-making and non-profit-making organizations. The Tax regime in Tanzania has clustered into one group NPOs/CSOs and other taxpayers which are profit-making. Essentially NPOs are not taxpayers but tax collectors on behalf of TRA.
2. The law mandates a newly registered NPO to have an automatic tax obligation after registration without taking into consideration that NPOs depend on donor funds to be established and operate.
3. There is no grace period for newly registered NPOs, the system automatically starts counting an NPOs as the taxpayer immediately and retrospectively after being registered with TIN.
4. The system counts an NPOs as taxpayers by considering the date an organization was registered even if an organization applies for a TIN number two years after its registration.

### **Specific Recommendation:**

1. Section 22(1) of the Tax Administration Act, 2015 should be amended relieving NPOs from the requirement of having an automatic Taxpayer Identification Number (TIN) immediately after registration.

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1 Cap 332, RE 2019

2 Cap 43, RE: 2019

2. The TRA registration system should have options for NPOs and profit-making organizations. Only profit-making organizations and companies may continue using the automatic system of Taxpayer Identification Number (TIN) immediately after registration for tax purposes.

### **3.1.2. Bureaucracies in Granting a Charitable Status**

While many countries provide tax exemptions for nonprofit organizations, proving eligibility and obtaining these exemptions has become a cumbersome process in Tanzania. Section 64 of the Income Tax Act provides the requirements for CSOs to be granted charitable status.

#### **Challenges:**

1. The findings of this study indicate that many CSOs have applied for this charitable status with no answers until now.
2. Many have been facing difficulties in obtaining a ruling of the Commissioner and being informed that they are not eligible for a certificate of charitable status without justifiable reasons. According to this report, some of the reasons for denial of charitable status by the Commissioner General include a vague interpretation of various words and criteria such as the criteria for an organization to be required to have a public character. Lack of clear recognition of Nonprofit sharing organizations as per the tax laws.
3. Majority of CSOs activities are for public interest and complementing the role of the Government to support community development but not granted.
4. Another challenge lies with this section is the fact TRA doesn't grant NPOs charitable status automatically until it is applied.
5. The provisions for eligibility are also very ambiguous and invite lots of individual interpretations on which NPO qualifies to be granted a certificate of charitable status.
6. In principle, charitable organizations in the context of Section 64 of the Act are treated as conducting charitable business, when they fulfill conditions provided under Section 64(8). Section 64(8) stipulates that a charitable organization or religious organization means a resident entity of a public character that satisfies the following conditions: Being an entity of public character, which was established and functioning solely as an organization for:
  1. The relief of poverty or distress of the public,
  2. The advancement of education; or
  3. The provision of public health, education, water or road construction or maintenance.

### **Specific Recommendations:**

1. Section 64 of the Income Tax Act should be amended replacing the word “public character” with “Nonprofit sharing”.
2. Also, the definition of a charitable status should be aligned with the definition of an NGO as defined under Section 2 of the NGOs Act as amended by the Written Laws (Miscellaneous Amendments) (No. 3) Act, 2019 which is;  
*“Non-Governmental Organization” also known by its acronym “NGO” and which includes Community Based Organisation (CBO) means a voluntary grouping of individuals or organizations which is non-partisan or nonprofit sharing established and operates for the benefit or welfare of the community or public, organized at the local, national or international levels for the purpose of enhancing or promoting economic, environmental, social or cultural development or protecting environment, good governance, law and order, human rights and lobbying or advocating on such issues;*
3. If the above definition of an NGO is incorporated under the Income Tax Act, it will mean that a charitable organization includes a nonprofit sharing entity registered and operated in Tanzania including human rights organizations and organizations working for the advancement of the society.
4. We kindly request TRA to grant certificate of charitable status to NPOS that have applied for ruling of the Commissioner
5. It was recommended that during the 2023 NGOs Annual Forum, the number of NPOs that have been granted or denied charitable status and reasons for not granting should be revealed.

### **3.1.3. Regular Change of Tax Laws**

Regular change of tax laws and regulations disrupt the financial planning of CSOs. Keeping up with these changes and understanding their implications can be challenging and time-consuming. For instance, THRDC, TRA and other stakeholders prepared a tax compliance toolkit for NGOs but every year, the Income Tax Act changes. These changes require the Coalition to update the tool kit and organize a refresher training program to update its members and other NPOs/CSOs on the changes after every financial year.

### **Specific Recommendations:**

1. NPOs recommend that in case there is a need for an amendment of the Income Tax Act and related laws of which such amendments may affect CSOs, the CSOs should be engaged from early stages for example, consultative meetings may be held for collecting views from the stakeholders as well as from NGOs networks or coalitions.

2. This will enable NPOs to make follow up and be aware of the proposed amendments if any affecting their operations.
3. CSOs propose the establishment of TRA /NPOs Annual Tax Review Forum.

### **3.1.4. Tax Audits and scrutiny imposed by the law**

Section 78 (1) and (2) of the Tax Administration Act, prescribes a monthly penalty for failure to file a tax return. Increased scrutiny from tax authorities places additional pressure on CSOs. Tax audits, returns even if conducted with the intention of ensuring compliance, are resource-intensive and divert focus from the organization's core activities. For instance, filing returns every month and imposing a penalty of 225,000/= for delays is a huge burden to CSOs. Some of the NPOs have been affected by this penalty as quoted below.

*"My work is in the field, providing education in rural areas and monitoring violence cases against children. I am complementing the Government's work to provide education and protect children. TRA needs me to file returns every month, I don't have money, I have no income. Sometimes this deadline finds me in rural areas with no internet, and then I get fined"* **NGO representative from Singida Region.**

#### **Specific recommendation:**

1. It was recommended that section 78 (1) and (2) of the Tax Administration Act should be amended deleting the requirement of a monthly penalty for failure to submit monthly returns for NPOs that have not secured grants..
2. This is because NPOs are donor dependent, they sometimes don't receive grants on time, they don't even have funds for paying penalties for delayed grants but only funds for implementing project activities.
3. If penalty and interests are imposed against an NGO, and if the penalty is paid using donor funds, it means that such an NGO is at the risk of being avoided by the donor.
4. The law should focus on creating a conducive environment for NPOs operations and not focusing on fines or penalties. The law should allow the flexibility of NPOs to pay only the principal Tax, especially for those who receive grants.

### **3.1.5. Filing of Returns**

Any organization registered as a taxpayer must file tax returns within the prescribed time under the respective tax laws. Literally, a 'Tax Return' is a document filed with a tax authority that reports income, expenses and other

relevant information for different taxes as required by law. Currently, tax returns are required to be filed electronically for convenience purposes. (Refer to Sec. 37 to 41 of the TAA Act.

**Challenges:**

1. The challenge is that most of the NPOs do not have funds to hire experts for tax compliance.
2. The newly electronic system has so many challenges that affect the Stability of tax compliance on the part of the NPOs sector.
3. The law has made it compulsory for all NPOs to use the tax online portal without considering the nature of CSOs operations.

Specific recommendation: The law should be amended to remove or minimize penalties and interest for NPOs that have failed to use the system to provide information's especially those non- funded NPOs.

**3.1.6. Filing Annual Taxable Income**

The Income Tax Act requires NPOs/CSOs to make income projections in quarterly installments by the end of each calendar quarter for the year of income as stipulated under Section 88 of the Income Tax Act (ITA) 2015.

1. On or before 31 March
2. On or before 30 June
3. On or before 30 September
4. On or before 31 December

Under Section 89 of ITA 2004, organizations are required to file an estimate of Tax payable for the year of income by the end of the first quarter which is also a date for payment of the first tax installment. The filed estimate shall remain in force for the whole of the year of income unless a revised estimate is filed giving reasons for the revision. Revisions are allowed up to the last day of the accounting period.

**Challenges:**

1. NPOa are compeled to file an estimate of Tax payable for the year while in fact an NGO/NPO receives only grants from donors and not income.
2. NPOs don't make any income but receive grants from partners that may be used for two or three years or more.
3. The challenge here is the word 'income', NPOs don't have income but grants. Any Grant that cross from one year to support another year activities is not an income or profit to be taxed.

4. Further, NPOs operate in a very dynamic and unpredictable funding environment. Filing of returns enables them to communicate various changes and keep the Commissioner updated at all times. However, the implementation of this E-filings monthly has proved to be a serious challenge to CSOs, as a result many NPOs have automatically generated penalty and interest for failure to communicate with the system monthly.
5. Failure to submit tax return by the due date and pay Tax (if any) attracts penalty and interest accordingly under Section 76 and 78 of the TAA of 2015.

**Specific recommendation:**

1. This legal requirement of submitting tax returns with certified accounting statements should be waived against NPOs because NPOs don't make any profit and hence are not eligible or not supposed to pay 30% of their annual grant. Donor Grants are not annual income or profit at all.
2. Also, most CSOs operate on a voluntary basis because of lack of funds.
3. Most of the NPOs do not have financial statements to be audited at the end of the year.
4. They also don't have the financial capacity to hire professional certified auditors.

**3.1.7 Requirement for Certified Financial Statement**

Section 91(1) of ITA Revised Edition 2019 requires a taxpayer to file a return of income not later than six months after the end of each year of income to which it relates accompanied with certified financial statements.

**Challenge:**

1. Majority of CSOs don't have grants as many of them work on a voluntary basis. Therefore, at the end of the year CSOs won't have any financial statements to be audited.
2. They also don't have the financial capacity to hire professional certified auditors. There is no problem for NPOs which have received sufficient grants that attract annual financial audit.

**Specific Recommendation:**

1. Section 91 (1) of the Income Tax Act should be reviewed to accommodate a certain level of flexibility for NPOs as many of them work on a voluntary basis.
2. The law should allow NPOs to provide information to TRA at the end of the financial year that they have not received any grant that warranted an annual financial audit.

3. There should be a mechanism to detect NPOs with grants and those without grants.

### **3.1.8 Lack of Taxpayer Segregation Data**

TRA normally issues monthly and annual reports on tax collections. Data segregation based on the nature of the taxpayer is not seen. CSOs being one of the big sectors that contribute to the revenue collection in Tanzania are not seen in any tax collection data provided by TRA.

#### **Recommendation:**

1. TRA is advised to develop a system that will capture CSOs/NPOs contribution in national revenue monthly and annually.
2. TRA should always provide information on tax collection with segregated data given the fact that TRA has different sources of tax revenue.

### **3.1.9 Taxable Volunteers Allowances**

Interns, volunteers and field workers under nonprofit organizations are subjected to PAYE. Due to the nature of the work of CSOs and project-based funds, CSOs are using volunteers to do extensive work that benefits the public despite the scarcity of resources. Interns, volunteers and field workers under nonprofit organizations are subjected to PAYE. This may affect the opportunity for organizations to provide a room for fresh graduates to learn.

#### **Recommendation:**

Interns and volunteers under nonprofit sharing organizations should be exempted from PAYE tax. This will provide a wider room for graduates to work with CSOs as part of practical learning.

### **3.1.10 Non-Inclusion of CSOs Representative in the National Plan and Budget Committee**

Section 15 (2) of the Budget Act (2015): Composition of the National Plan and Budget Guidelines Committee shall be prescribed by the Minister in the Regulations. Regulations do not recognize a representative from the CSOs/NPO sector<sup>3</sup>.

#### **Recommendations**

1. Regulations should be amended to the extent that the composition of the National Plan and Budget Guidelines Committee should include Representatives from Civil Society Organizations/NGOs

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3 Act No. of 2015

2. An enormous contribution is left aside that affects the majority on the grassroots because of not having representatives to speak for them during the process of developing the budget.

### **3.2 Practical and Operational Challenges**

Apart from the legal and Policy challenges elaborated hereinabove, there are also operational challenges affecting NPOs tax obligations.

#### **3.2.1 Effectiveness of the TRA e-filing system to Nonprofit Organizations**

While the electronic filing system which allows taxpayers to submit tax returns by a single click of a button is highly commendable, Taxpayers continue facing challenges in accessing the system. With the e-filing system, taxpayers are expected to register at the onset and appoint the company's declarants and a certified tax consultant who is registered with NBAA as a Certified Public Accountant in Public Practice (CPA PP).

This has financial implications considering that most grassroots organizations have no income and they cannot afford to employ a tax consultant. Most of the grassroots organizations are performing commendable work to address social economic challenges but they have no professional accountants.

**Challenges:** NPOs representatives have identified common challenges associated with the electronic filing system as follows.

1. **User Adoption of the electronic system:** Some taxpayers are not technical experts hence the e-system is challenging them, and they have failed to adopt it resulting in unnecessary penalties. Adequate training and support are essential to ensure NPOs to navigate and use the system effectively.
2. **Technical Issues:** Technical faults and system downtime can disrupt the e-filing process and create frustration among NPOs. This is one of the challenges noted in taxpayer education sessions whereby facilitators used a lot of time to demonstrate the e-filing system because the system was down. If the system can be challenging to technical experts, we can imagine the level of frustration to non-technical personnel living in rural areas with poor networks.
3. **Failure of the system to differentiate a newly registered nonprofit making organization with no grants.** This has been leading to unrealistic penalties to all newly registered NPOs
4. **Lack of feedback in the system- (the system is not interactive).** The system does not allow taxpayers to communicate. This was stated in one of a tax workshops held by the coalition.

*“...the system has become a problem for us. My work is supporting the community in fighting against poverty. The system is telling me that I owe TRA millions of money, I don't know what to do and I don't have money to pay tax experts. The system should consider the needs of grassroots organizations, make it simple and teach us how to use and access it”* **A participant of the CSOs TRA Bi-annual Tax Education Workshop in Dar es Salaam held on 30 June 2023.**

### **Specific Recommendation:**

1. It was recommended that, the TRA online portal system to be reviewed regularly after collecting views and recommendations from taxpayers who use it.
2. Also, the system should have options to differentiate a newly registered nonprofit making organization with no grants from profit making organizations.
3. The system should also use a mobile system to send tax obligations notifications.
4. The system should have an option for NPOs to sign off the system at the time when an organization has no principal tax to pay or at the time when an organization has no grant.
5. Lastly, the system should be modified ensuring availability of feedback to different queries from users.

### **3.2.2 Multiple Interpretations of Tax Laws on NPOs Issues**

Tax officers from different tax authorities such as TRA, Local Government authorities sometimes interpret tax regulations differently, leading to inconsistent application of tax rules across different CSOs. This challenge was raised in Lake Zone (Mwanza and Sinyanga), Kigoma, Singida, Dar Es Salaam, Morogoro and Kilimanjaro in the workshops that were held. This lack of uniformity can create confusion and unequal treatment.

### **Specific recommendation:**

1. Provisions of more training to TRA officers in relation to Taxation of the NPOs sector.
2. CSOs propose to have a specific regulation on Taxation of the NPO sector.

### 3.2.3 Accounting and Reporting Challenges

Accurate financial reporting and record-keeping are essential for tax compliance. Smaller NPOs are struggling with proper accounting practices and generating the necessary financial statements, leading to potential tax-related issues and penalties. This was identified in all NGOs forums. It should be noted that most grassroots organizations are working to address specific challenges in their respective areas, such as child abuse, gender-based violence, drought, poor living conditions, street children, lack of employment, etc. Most of them are volunteers working out of passion to address their social-economic challenges.

*"I registered my organization two years ago; my work is to help children in vulnerable situations. I have never received any fund from a donor, and we are volunteering to do what we do. Surprisingly the system informed me that I owe 30 million as Tax because there was a mistake when feeding information. I don't know how to rectify it"* **A workshop participant in Dar es Salaam.**

**Specific recommendation:** The reporting system should be simplified to accommodate grassroots and Nonprofit Organizations.

### 3.2.4 Funding and Sustainability

Taxation challenges impact the financial sustainability of CSOs. Most of the CSOs in the country are donor dependent being supported by foreign governments from taxes collected from their people to alleviate poverty in developing countries. High burdens of taxes affect the ability of CSOs to secure funding and allocate resources to their programs and initiatives. Donors are questioning high taxes, interest and penalties considering that the work they are supporting is complementing implementation of government plans.

Many CSOs operate on tight budgets, allocating most of their funds to their missions. Dealing with complex taxation procedures and hiring tax experts can be costly and divert resources from their core activities. Moreover, audits and disputes: Nonprofit organizations may be subject to tax audits and disputes with tax authorities. Resolving such issues can be time-consuming and costly.

Specific recommendation: we propose a reduction of tax burden to NPOs' funds because most NPOs received funds from donors, funds which have been collected from taxes in those foreign countries.

### **3.2.5 Inadequate regular meetings between CSOs and TRA officials**

Despite the ongoing positive efforts at National level between TRA and CSOs to address these challenges, CSOs have continued to struggle to fully understand the intricacies of tax policies and regulations with minimal engagement with TRA and government officials especially at rural areas. This can lead to misinterpretations and misunderstandings, potentially resulting in non-compliance or missed opportunities for tax exemptions or incentives that may be available to CSOs.

CSOs often engage in advocacy efforts to promote policies that align with their mission. Without regular meetings with TRA officials, CSOs find it challenging to effectively advocate for tax policies that are favorable to their causes.

#### **Specific recommendation:**

1. Sustaining regular dialogues with TRA officials at district, regional and national levels would help to address many of these challenges including the knowledge gap.
2. CSOs also call for establishment or designation of TRA officials responsible for tax administration for NPOs/CSO at all levels.

### **3.2.6 Tax Awareness Challenges among CSOs**

Most CSOs lack a clear understanding of tax regulations and their obligations. This leads to unintentional non-compliance due to ignorance of the tax laws. It is the principle of law that ignorance of the law is not an excuse but for tax related issues, CSOs need more support to understand their tax obligations. Currently, several CSOs face a huge burden of penalties that their organization cannot accommodate. Data gathered from all consulted CSOs suggest that CSOs are largely unaware of taxation laws and regulations.

#### **Specific recommendation:**

1. The ongoing CSOs tax education initiative between TRA Taxpayer Education Directorate, THRDC and other stakeholders should be maintained and highly supported to reach a wider CSOs section across the country.
2. The CSOs Tax Tool Kit should be reviewed and shared with CSOs nationwide. More training and dialogues between TRA and CSOs on tax issues should be conducted at District, Regional and National levels.

### **3.2.7 Unnecessary and Unpayable Penalties and Interest for Non-Funded CSOs**

All returns are submitted electronically through the taxpayer's portal e-filing system on or before the 7th day of the end of each month. Failure to pay (if any) and submit tax return by the due date will attract penalty and interest according to Section 76 and 78 of the Tax Administration Act.

### **Challenges:**

1. According to these findings, many CSOs are facing challenges with huge penalties and interest posted to their online accounts just because they have failed to fill in return information every month since their establishment or after staying for a long time without grants.
2. This study indicates that a newly registered NGO may be penalized to pay between 40 up to 100 million Tanzania shillings for failure to file zero return just for one year only.
3. The main problem here is not about failure to pay the required Tax among NPOs/CSOs, the problem is an automated system that compels NPOs/CSOs to file monthly zero return even if an organization doesn't have any grant.
4. Most NPOs don't receive grants, and those few that receive grants are just short time projects. Therefore, with the nature of this system it is very clear that NPOs will not be able to operate regularly under the TRA online system.

### **Specific recommendation:**

1. The system should be reviewed and allow only NPOs/CSOs with grant to fill in monthly returns in the system.
2. There should be an option in the online system for NGOs without grants to fill in their information on lack of funds just once a year and not monthly.
3. TRA officials in each district, especially those who will be designated for NPOs/CSOs to frequently visit NPOs/CSOs to assess their tax capacity and challenges.

### **3.2.8 Tracking of CSOs Contributions to National Development**

There is no mechanism for tracking the contribution of CSOs in national development despite its' large contribution in foreign currency and Tax. Information/data shared by the Government annually does not have a clear data segregation to show contribution of CSOs to national development.

### **Recommendation:**

1. National annual budget should include specific projection of the contribution of CSOs and how it will be tracked.
2. This will encourage more CSOs to abide by the laws and contribute more to Tax and foreign currency.
3. The contribution of CSOs to the national development should be tracked.
4. There should be specific segregation of data in the annual and other periodic reports of the ministry of finance specifically on Tax.

# RECOMMENDATIONS AND CONCLUSION

## 4.0 INTRODUCTION

This part of the report represents general recommendations collected from CSOs across the country. Joint intervention with the Tanzania Revenue authorities through CSOs Tax forums suggests that there are significant challenges facing nonprofits ranging from Policy and legal challenges, the effectiveness of the TRA e-filing system, Knowledge gap, and practical challenges. These challenges have a profound impact on their ability to carry out their vital work effectively.

One primary issue is the complexity of tax regulations, which often leads to uncertainty and varying interpretations. This lack of clarity can result in unexpected tax liabilities, diverting limited resources away from their core missions. Additionally, CSOs face administrative burdens, including complex filing procedures and time-consuming compliance requirements. Addressing these issues is imperative for fostering a conducive environment for NPOs to contribute to Tanzania's social and developmental progress.

From the scrutiny of the taxation challenges, there is a critical need for Civil Society Organisations to explore the possibility of collaborating with the Revenue Authority to enhance tax compliance and NGOs awareness on taxation issues. We believe that collaboration between our organizations can yield mutually beneficial outcomes.

## 4.2. Recommendations

### 4.2.1. Capacity Building Sessions and Continuous Taxpayer Education

1. Continue to organize workshops and training sessions to educate taxpayers, especially grassroots organizations, on their rights, obligations, and tax planning.
2. It was proposed that taxpayer education should be a continuous initiative especially on the use of the electronic filing system and change of laws. Tax authorities have been advised to invest in taxpayer education and outreach programs. Increasing social media taxpayer awareness will be one of the methodologies for communicating to taxpayers.

3. We advise TRA to sustain the current collaboration with network organizations such as THRDC and self-regulatory bodies such as NaCONGO and to train a pool of trainers (TOT) who will assist in providing tax education to other nonprofit organizations at grassroot levels.
4. We kindly request TRA and the government to ensure that CSOs issues are always taken on board during annual tax reviews

#### **4.2.2. CSOs and TRA Regular Meetings**

1. Nonprofit organizations recommend regular meetings between CSOs and Regional TRA offices to discuss CSOs-Taxation pertaining issues to find solutions and keep pushing the development agenda as stakeholders.

These meetings can be quarterly, bi-annually or annually. THRDC conducted a bi-annual meeting with Kinondoni Regional Tax office on 30th June 2023. One of the resolutions was conducting the session periodically to strengthen collaboration between CSOs and the Tanzania Revenue Authority (TRA) and enable the sharing of responsibilities.

2. NPOs have proposed the establishment of an Official Forum. The Tax Forum between CSOs and TRA at District, Regional and National Levels
3. We advise TRA to maximize the social media to provide taxpayer awareness even on issues affecting NPOs. We understand that TRA is currently very active in using social media to provide information and taxpayer education.
4. Sustain regular meetings between TRA and CSOs

#### **4.2.3. Policy and Legal Reforms**

1. For CSOs to be able to comply with tax obligations, an enabling policy and legal framework that supports CSOs operation is needed.
2. There is a need to engage in policy discussions and consultations to provide civil society perspectives on tax-related matters, including tax policies, tax incentives, and tax administration reforms creating an enabling environment for NGO's operation.
3. The ongoing legal and Policy challenges require concerted collaboration from both parties to solve the problem.
4. Among the proposed recommendations in policy issues is widening the definition of a charitable organization by aligning it with that of NGOs law; Automatic Charitable status to all nonprofit Organizations which are implementing charitable work and harmonization of conflicting tax laws.

5. To comply with Section 2 of the Non-Governmental Organization Act of 2002 (with its amendments of 2005 and 2019) which define NGOs as Nonprofit sharing organizations established for the benefit or welfare of the people. We propose an amendment of the tax laws so as to distinguish NPOs from profit making organizations. We recommend all provisions that have grouped NPOs like other profit-making organizations to be reviewed.
6. We kindly request the government to review the law and provide a five year tax grace period for starting up NPOs including exclusion from online zero-return e-filing.
7. We recommend the flexibility of TRA in determining applications from CSOs on materials and goods that are imported for the benefit of the public. Customs should not hold imported materials for the public's benefit upon submission of necessary documents that prove the intended use and source. According to the 2021 Finance Act, an importation by or supply of goods or services to a non-governmental organization having an agreement with the Government of the United Republic solely for project implemented by the respective non-governmental organization: Provided that, such agreement provides for value added tax exemption on goods or services
8. We recommend TRA to reconsider its interest rates, especially considering that most of the money that goes into CSOs is from donors.
9. Tax practice has to focus on creating more conducive and simplified means of collecting Tax and not establishing default penalties through the E-filing system.
10. The penalties and interest rates should be constant and not accumulative.
11. It was recommended that the non-for-profit organization that does not run a business should be removed from filling estimations, considering there is no income generation in the end.
12. We recommend a removal of SDL tax for NPOs.
13. It was recommended that NPOs/CSOs are to be recognized as tax collector in tax regime and not as a taxpayer

#### **4.2.4. Feedback Mechanism**

1. Establishing a structured feedback mechanism to facilitate communication between the Tanzania Revenue Authority and civil society organizations, enabling the exchange of ideas and constructive feedback on tax-related issues.
2. We propose TRA to link its online system with the mobile notifications mechanism.

#### **4.2.5. Simplified Compliance Procedures**

It is recommended that the Government through the Tanzania Revenue Authority, continue to work with CSOs through the current simplified tax compliance procedures tailored to their unique needs and resource constraints of CSOs. We advise the TRA to allocate more resources on this initiative.

#### **4.2.6. Stability and availability of electronic filing system**

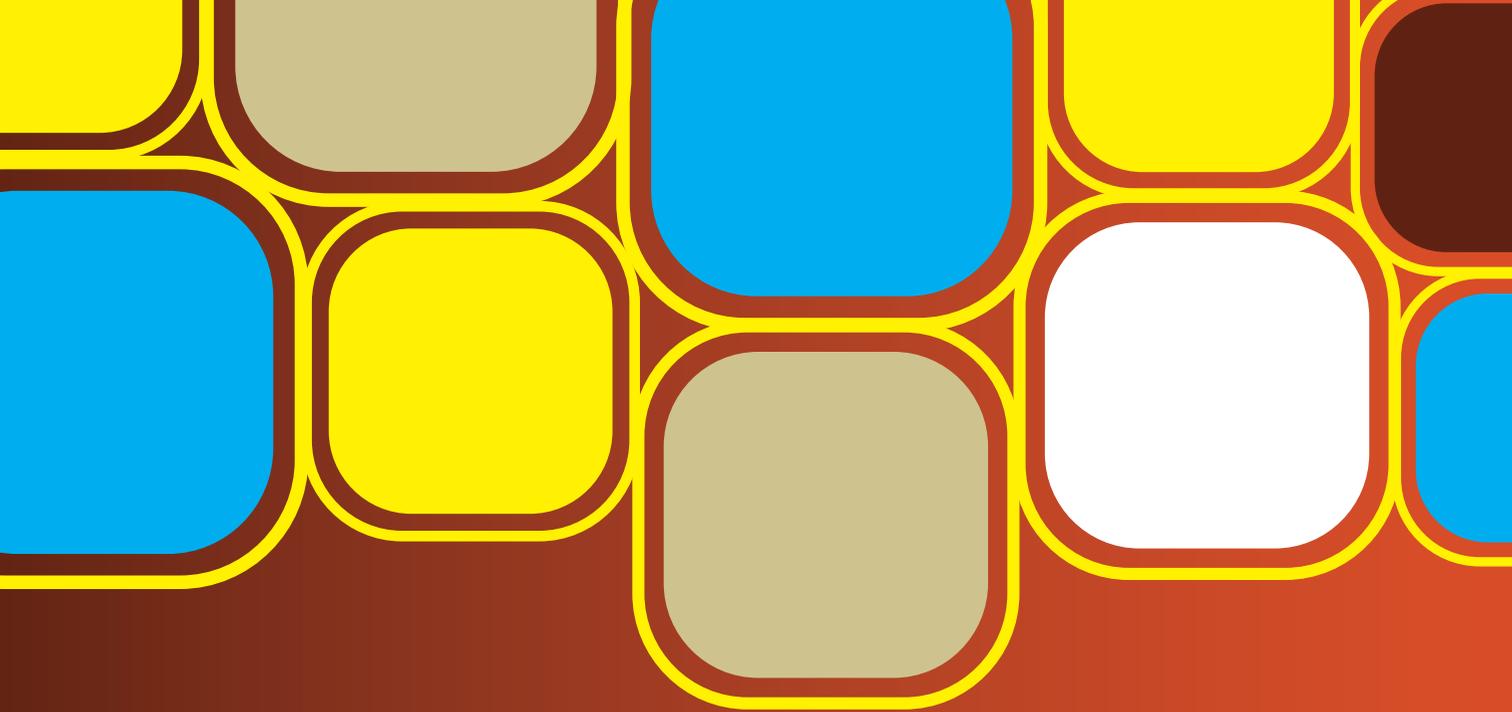
Filing of returns enables non profit organizations to communicate various changes and keep the Commissioner General constantly updated. TRA has to ensure this E-filing system is always stable and available for users.

#### **4.2.7. Provide Tax Amnesty to all CSOs with tax penalties.**

1. The current window of using section 70 of the law to seek remission has been unutilized and not known to many CSOs. Hence thousands of CSOs face challenges to hundreds of millions imposed on them through tax penalties and interest that are not payable at all. CSOs call for effective and easy use of this window to remove these penalties and interest imposed on NPOs by this automated E-filing system.
2. Given that those penalties are not payable, CSOs kindly request a general tax amnesty to all CSOs with unpayable tax penalties. CSOs may be encouraged to commit to pay the principal Tax which seems to be reasonable to some NPOs.

#### **4.3. Conclusion**

It is very clear now that, tax challenges facing CSOs hinder their ability to operate efficiently and achieve their objectives. Governments, international bodies and CSOs are therefore advised to work collaboratively in addressing these challenges as well as creating an enabling environment where CSOs can flourish without undue tax burdens. By addressing these challenges, CSOs will continue to contribute positively to society's welfare and development. Through this collaboration, we can foster a culture of voluntary compliance, improve tax revenue collection, and contribute to the overall economic development of our country.



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