Tax Journal

01-FEB ISSUE

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Non-compliance can be punitive!

A common test that accountants perform is to compare sales as per VAT return with sales as per financial statements.

Many accountants overlook the need to compare and reconcile sales recorded in the EFD.

In instances when the EFD reports are more than sales as per VAT return or financial statements, tax authorities may treat the variance as undeclared revenue.

Penalty for failure to acquire EFD or issue a fiscal receipt/ invoice can result to a penalty of TShs 4,500,000! or to imprisonment for a term not exceeding three years or to both.

SPOTLIGHT ON ELECTRONIC FISCAL DEVICES (EFD)

Tanzania has implemented an Electronic Fiscal Device (EFD) system since 2010. Over the years we have come across taxpayers who have been penalized for improper or negligent use of their EFD.

Through this journal, we shed light on how to manage EFD effectively and also act as a guide to check compliance boxes to avoid tax repercussions.

REQUIREMENT

An EFD is used to assist tax administrators and taxpayers by collecting information on sales generated. Monitoring a taxpayer's sales on a day-to-day basis is a key element for computation of taxes.

Taxpayers doing business with an annual turnover exceeding TShs 14Million are required to have an EFD. A taxpayer who is registered with VAT is required to have an EFD, regardless of their turnover.

An EFD user is required to issue a fiscal receipt/ invoice for every transaction to their respective customer. A customer is as well required to obtain and retain a fiscal receipt or invoice.

MONITORING SALES

An EFD can only monitor sales. If there is an alteration in the sales value or a cancellation of a sale, the cancellation or reduction of the sale cannot be recorded in the device. The user is required to send a daily Z-Report. The daily Z-report is captured by the tax authority as the total sales of the user for the day.

Therefore, a taxpayer can use the device to summarize and record their daily sales.

TRA AUDITS

Tanzania Revenue Authority (TRA) monitors the use of the EFD. Over the years we noted that TRA's basic litmus test is to compare sales as per EFD device to sales as per VAT returns or financial statements. Any variance noted may be treated as untaxed revenue which may result to a tax assessment.

This easy check can at times be cumbersome for a taxpayer if the tax payer has multiple transactions and has not been using the EFD proficiently.

Reconciliation Tip!

An EFD user can generate a daily, monthly or annual report of sales recorded.

Contact your EFD supplier to assist you with the procedures to generate such reports from your device to make your reconciliation easy.

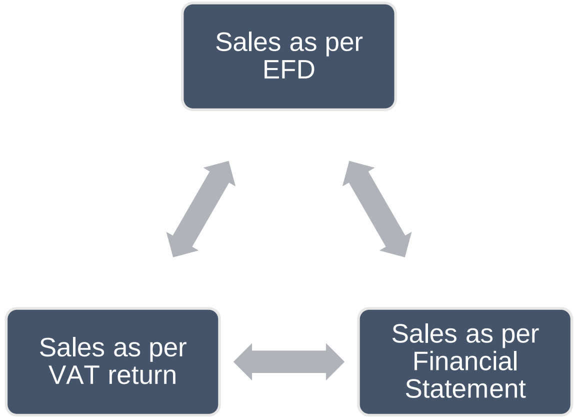
An EFD that issues a Tax invoice stores a copy of the invoice as a backup in your computer. The backups should be retained for future references.

Error in issuing tax receipt?

Submit a letter to the tax authorities and retain the original tax receipt.

Credit notes

Our next journal will highlight the procedures which are necessary to adhere to when issuing credit notes.



Over the years PKF has maximized expertise in handling several tax audits that require EFD reconciliations. Hence we emphasize that EFD reconciliations should be a key compliance checklist for all accountants

RECONCILIATIONS

We find that the variances noted are mainly due to the following:

a. **Credit notes –** Since the EFD only records sales and not cancellation of sales, an EFD sales reading may be higher than the actual sales;

b. **Error in issuing a tax receipt** – A person may issue a fiscal receipt value which is not correct. Therefore, the value captured in the device would be incorrect when compared to the VAT returns or sales in the financial statements;

c. **Timing issues –** A person could forget to send a daily Z-report and may end up sending the Z-report on the following day. Similarly, delaying to issue a tax receipt/ invoice would result in the sale in the EFD to be recognized on a wrong day. This is a common issue, for example, a sale on 31 December 2018 would be treated as a sale on 01 January 2019;

d. **Time of supply –** The time for issuing a tax invoice may not be the same as a revenue recognized in the audited financial statements. A simple example would be in the construction industry, upon receipt of an advance on a contract, a fiscal receipt has to be issued and the advance is recognized as a supply in the VAT returns. However, in the financial statements an advance is not recognized as revenue.

PRECAUTION IS BETTER THAN MEDICINE

From the above, we recommend reconciliation of sales as per EFD, VAT returns and financial statements. The reconciliation can be performed on a daily, weekly, monthly or annual basis depending on the volume of transactions.

Over the years we have noted that taxpayers are victim to fake fiscal receipts or invoices. Therefore, we recommend that a taxpayer remains alert to ensure that their supplier is genuine so as the fiscal receipt or invoice. Checks can be in place by reviewing:

- Font of the fiscal receipt;
- Description of the purchased item;
- Color of the EFD Receipt;
- VAT rates; and
- User Identification Number (UIN) is a unique number on the receipt, which will have EFD machine model, supplier TIN, taxpayer TIN and Machine serial number

EFD NOT WORKING?

Inform your supplier and issue a manually written invoice.

Once the EFD is working, record the manual invoices in to EFD.

Our next journal

In the next journal we shall elaborate:

- requirements of a fiscal tax invoice/ receipt; and
- procedures for issuing credit notes.

Feedback or comment

Did you find this journal useful? We would appreciate your feedback.

If there is any suggestions for our upcoming journals we would be happy to receive your requests and suggestions.

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

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