

VAT ON INSURANCE COMPENSATION: WHAT EVERY BUSINESS IN TANZANIA MUST KNOW

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TAX LAW

INTRODUCTION

The Court of Appeal of Tanzania has delivered a landmark tax ruling with far-reaching consequences for all registered businesses in Tanzania. In *TPC Limited v. Commissioner General, Tanzania Revenue Authority (Civil Appeal No. 715 of 2023)*, the Court addressed two critical VAT obligations: the duty to account for VAT on insurance compensation receipts, and the strict evidential conditions for input tax credit claims. The judgment was delivered on 01st August 2025 by a three-Judge bench comprising Levira J.A., Mashaka J.A., and Nangela J.A..

TPC Limited objected, arguing that Regulation 35(3)(b) of the VAT (General) Regulations 2015 — which prohibits an insured person from claiming input tax credit on the purchase of an insurance contract — was inconsistent with section 68 of the VAT Act, and therefore void. The appellant contended this inconsistency absolved it of the output VAT obligation. Both the Tax Revenue Appeals Board (TRAB) and the Tax Revenue Appeals Tribunal (TRAT) ruled against TPC Limited, prompting this final appeal.

The Issue before the court, among others was, Whether VAT is payable on insurance compensation, and whether Regulation 35(3) VAT (General) Regulations 2015 is inconsistent with the VAT Act 2014.

KEY POINTS

- The case clarifies that section 77 of the VAT Act imposes a mandatory obligation upon a taxable person to make an increasing VAT adjustment where the person receives payment under a contract of insurance related to economic activity.
- The dispute before the TRAB and TRAT was fundamentally a tax dispute arising from the administration of tax laws and therefore fell within the jurisdiction conferred upon those bodies under section 7 of the Tax Revenue Appeals Act.
- The Court emphasized that tax statutes must be interpreted strictly according to their plain and ordinary meaning, as there is little room for adopting a purposive approach of interpreting tax statutes.

BACKGROUND OF THE CASE

During a routine audit, TRA discovered that TPC Limited received insurance compensation payments under an insurance contract but failed to account for output VAT on those receipts in its VAT returns. TRA assessed TZS 3.3 billion in output VAT, relying on section 77 of the VAT Act 2014, which requires a taxable person to make an "increasing adjustment" (output VAT) when it receives a payment under an insurance contract related to its business assets or operations.

THE COURT OF APPEAL'S KEY RULINGS

The Court dismissed the appeal in its entirety, making three decisive legal pronouncements:

Ruling I — VAT Must Be Accounted for on Insurance Compensation: Section 77(1) of the VAT Act 2014 imposes a mandatory obligation on any taxable person to make an increasing output VAT adjustment in the tax period in which insurance compensation is received, if the payment relates to a business loss or asset.

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FIN & LAW is a full service highly accredited law firm in Tanzania with top-notch legal practice on corporate and commercial matters including Banking and Finance Law, Capital Markets, Tax Law, Investment Law, Corporate Law, Employment and Labour Law, Aviation Law, Insolvency, Intellectual Property Law (Copyrights and Trade/Service Marks), Mining, Oil & Gas, Tax, Investment, Gaming Law, Telecommunication, Land Law and Real Estate, Mergers and Acquisitions, Competition Law, Transport and Logistics Law, Sports and Entertainment Law, Dispute Resolution (Litigation, Arbitration and Mediation), Legal Audit Services, Trustee Management Services, Non Government Organizations and White Collar Crime.



TPC Limited conceded receipt of such compensation but failed to include it in returns. The Court held this constituted non-compliance regardless of any regulatory inconsistency

- **Ruling 2 —Regulatory Inconsistency Does Not Excuse Non-Compliance:** Both the TRAB and TRAT acknowledged that Regulation 35(3)(a) and (b) was inconsistent with section 68 of the VAT Act. The Court agreed that the principal Act prevails over subordinate legislation by operation of section 36(1) of the Interpretation of Laws Act. However, the Court firmly held that this inconsistency could not discharge TPC Limited's obligation to account for output VAT under section 77 of the VAT Act.
- **Ruling 3 —Input Tax Credit Requires Strictly Compliant EFD Invoices:** The appellant's input tax claims were rejected because the invoices presented were handwritten and did not comply with section 86(1) and (2) of the VAT Act, which requires EFD-generated invoices containing specified buyer particulars. A handwritten invoice even where the EFD machine was approved by TRA cannot support an input tax credit or refund claim. The Court rejected the "purposive interpretation" argument and affirmed strict literal application of tax statutes

IMPACT TO THE BUSINESS

- **All Registered Taxpayers** VAT output adjustment required on receipt of any insurance compensation —*Review all insurance claims received; account for VAT in monthly returns*

- **Finance / Treasury Teams** Failure to include insurance receipts in VAT returns triggers back-assessments and interest —*Build insurance receipts into your VAT compliance calendar immediately*
- **Input Tax Claimants** Input tax credit denied where EFD invoice lacks required buyer particulars —*Audit existing invoices; obtain compliant EFD-generated invoices from suppliers*
- **Legal / Compliance Teams** Regulations inconsistent with principal Act do not relieve the taxpayer of compliance obligations —*Do not rely on regulatory inconsistency as a defence comply first, dispute later*

PRINCIPLES ESTABLISHED THAT EVERY TAXPAYER MUST APPLY NOW

Principle 1: Account for VAT on All Insurance Receipts

Any payment received under an insurance contract related to your business triggers a mandatory output VAT adjustment under s.77 of the VAT Act. This must be reflected in the tax return for the period of receipt, without exception.

Principle 2: Ensure All Invoices Are EFD-Generated and Complete

Input tax credit claims are invalid without a fully compliant EFD invoice. Handwritten receipts or invoices lacking buyer TIN/VAT numbers will be rejected, even if TRA approved the EFD device. Audit your supplier invoices today.

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Principle 3: Do Not Rely on Regulatory Flaws as a Compliance Excuse

If you believe a TRA regulation conflicts with its parent Act, file your taxes in compliance with the Act, and challenge the regulation separately through proper legal channels. Non-compliance combined with a regulatory argument is a losing strategy.

CONCLUSION AND WAY FORWARD

This is a final appellate decision of the Court of Appeal of Tanzania the highest court in the Tanzania for tax disputes. The Judgment is binding on all lower courts, the TRAB and the TRAT. It reinforces the principle established in the case of *Commissioner General TRA v. Milambo Limited (2022)* that tax courts have exclusive jurisdiction over revenue disputes and that the High Court's judicial review powers do not extend to tax matters where the statutory appeals process is available.

Similarly, the judgment also affirms the strict statutory interpretation approach confirmed in the cases of *Commissioner General TRA v. Ecolab East Africa (2021)* and *Commissioner General TRA v. Vodacom Tanzania Public Limited Company (2025)* that, in tax law, courts apply the letter of the law, not its perceived spirit.

HOW CAN FIN & LAW HELP YOU?

Our Tax Law team combines deep statutory expertise with practical advisory experience.

We assist with VAT legal compliance reviews, Tax audit legal defence, TRA dispute resolution and review of the Tax Law Regulatory inconsistency

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