Tax Alert

July 2025

Highlights of the Finance Act, 2025

This newsletter is an update on our bulletins on the Budget Speech and Finance Bill 2025 ("the Bill")[1]. It summarises additional points arising from our review of the Finance Act 2025 ("the Act"), which is effective from 1 July 2025 (unless specifically stated otherwise).

In Brief

Reversal of proposals – items in the Bill not reflected in the Act:

- The Bill had proposed lifting the restriction that VAT deferment on capital goods cease on 30 June 2026. However, the Act did not adopt this proposal, meaning the timeline restriction remains in place.
- The Bill proposed for excise duty on electronic communication services to increase to 17.5%, the Act has maintained the duty at 17%
- The Act excludes the proposed addition of mining projects with Government framework agreements as strategic investors.

Further revision - items in the Bill and amended in the Act

- Clarification that equity for thin capitalisation only targets positive retained earnings
- Taxation of undistributed profits is an anti-avoidance provision – reference to section 96(6) Income Tax Act, 2004 (ITA 2004) remains contentious
- Excise duty on pay per view services increased from 5% to 7%
- Withholding VAT rates at 3% for goods and 6% for services
- Income tax on sale of forest products – reduction of tax rate to 2%, "forest produce" is now defined and is effective from 1 January 2026
- Return of income - preparation or certification by Certified Public Accountant in Public Practice ("CPA PP")

[1] These bulletins, as well as the Customs Duty Update, can be accessed at **https:/www.pwc.co.tz/publications/budget.html**

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Income Tax

Definition of equity for thin capitalisation - clarification that it only includes "positive retained earnings"

The Act has clarified that for the purposes of thin capitalisation, the definition of equity will include positive retained earnings (in addition to paid-up share capital). The Bill had mentioned "retained earnings" so it was unclear whether the accumulated losses ("negative retained earnings") would impact the equity figure. With the current wording, it means the amount of equity for thin capitalisation purposes cannot be reduced by negative retained earnings (in which case equity will be limited to paid up share capital).

Taxation of undistributed profits (withholding tax on retained earnings)

The Act has introduced a new section (33A (an anti-avoidance provision)) that grants the Commissioner General the discretionary powers to treat 30% of the profit of an entity as being distributed 12 months from the end of year of income if the entity has not made a distribution for that year of income within that 12-month period (the Bill had referred to full distribution within a six month period from the date of filing the return of income hence there is no change in time provided to entities to distribute the profits).

There is no definition of the term "profit" however the understanding is that the spirit of the law is to refer to the accounting profit after tax (which increases the retained earnings).

Additionally, while the provision does not explicitly exclude opening balance of the retained earnings, its reference to "profit" suggests that it applies only to accounting profit after tax for the relevant year implying that brought forward balances of retained earnings from prior years should not be subject to this new provision.

A positive move is the confirmation that upon actual distribution (for instance by way of dividend), there will be no requirement to withhold income tax on the amount already deemed to have been distributed.

3.5%

was the original proposed single instalment income tax rate on sale of forest products, but the Act has reduced it to 2%, which is now also the final liability for the income derived

The Act has also exempted from the application of this provision a resident entity who is considered a Controlled Foreign Trust or Corporation (on the basis of section 96(6) of the ITA 2004).

The current practice by TRA (which we dispute) is to deem full distribution of retained earnings of a resident entity who is owned by a non-resident associate. As such, the introduction of this exemption would mean that based on current TRA interpretation, section 33A would only apply to resident entities owned by residents. This would likely lead to further disputes given the differing interpretation of section 96(6) between the TRA and taxpayers.

A key point is the classification of this provision as an anti-avoidance measure whereby its application is at the discretion of the Commissioner General. Clear guidelines as to what constitutes legitimate justification for retaining profits would help prevent unintended application, reduce tax disputes and support compliance.

Single instalment income tax on sale of forest products

The Act has reduced the original proposed income tax rate of 3.5% to 2% which is now also the final liability for the income derived.

Additionally, the term “forest produce” has been defined to include timber, logs, mirunda and poles. The provision will come into effect on 1 January 2026. We expect the Minister to issue Regulations for executing this provision.

Return of income - preparation or certification by Certified Public Accountant in Public Practice (“CPA PP”)

The Act has clarified that where the threshold (gross annual income exceeding TZS 100m for corporates and annual turnover exceeding TZS 500m for individuals) is met, there will be a requirement for a return of income to be prepared or certified by a CPA PP (the Bill only mentioned “CPA”)

Tax Administration Act

The amendments are not different compared to the proposals in the Bill.

Disclosure of information on contracted services by an entity engaged in extractive or construction

To reiterate this, the expectation is that the Commissioner General will issue guidelines or format on how to comply with this requirement. In the absence of this much needed guidance, uncertainty on the process and extent of disclosure will continue to exist.

3%

withholding VAT is applicable on payments for the supply of goods

Value Added Tax

Restriction maintained on VAT deferment on imported capital goods

The Act has retained the existing provision that limits VAT deferment on imported capital goods, contrary to the initial proposal in the Bill to remove the restriction.

As a result, the VAT deferment scheme for imported capital goods will cease on 30 June 2026. This is in line with the current wording in the legislation.

This outcome is seen as unfavourable, as it imposes cash flow burden on investors and may hinder industrial growth. Moreover, it represents a missed opportunity to reinforce the country's industrialisation agenda.

Imposition of Withholding VAT (WVAT)

The Act outlines the withholding VAT rates that must be applied by withholding agents. Specifically, a 3% withholding tax is applicable on payments for the supply of goods, while a 6% rate applies to payments for services. Additionally, the Act stipulates that the amount payable to a taxable person providing services is 12%. Although not explicitly stated, it is inferred that the amount payable to a taxable person supplying goods is 15%.

VAT exemption on reinsurance

While the Budget Speech proposed to exempt VAT on *"re-insurance transactions between insurance companies and re-insurance companies"*, we have noted discrepancies between the Bill and the Act. Specifically, the Bill refers to "reinsurance premiums" in the VAT exemption schedule, whereas the Act uses the broader term *"reinsurance"*.

It is our understanding that the wording in the Act is intended to apply strictly to premiums (in line with other supplies captured in item 13 of part I to the VAT exempt schedule). As a result, other related transactions such as commissions would remain subject to VAT.

However, as highlighted in our pre-budget briefing on financial services[2], this approach is inconsistent with international best practices as imposing VAT on commissions may either lead to additional costs to the reinsurance companies (if they get charged and pay the VAT) or lead to certain insurers passing the VAT cost on to consumers (especially where re-insurance companies refuse to pay VAT).

[2]https://www.pwc.co.tz/assets/pdf/pre-budget-financial-services-6-financial-services-june-2025.pdf

17%

excise duty rate on electronic communication services has been maintained

Excise Duty

Excise duty on pay per view services increased from 5% to 7%

The Budget speech and the Bill proposed to increase excise duty on pay per view services from 5% to 10%. However, the Act has limited the increase to 7%.

This change will provide some relief to the sector as the initially proposed 100% tax increase would have profound adverse impact on pricing, profitability and market growth.

Excise duty on electronic communication services maintained at 17%

The proposal to increase excise duty rate on electronic communication services from 17% to 17.5% has been reversed. Therefore, excise duty on these services remains at 17%.

This is a welcome decision as the current 17% excise duty is already considered too high to fast track adoption of electronic communication services by the population and expansion to rural areas.

12%

and 13% are the respective winning tax rates applicable to sports betting and land-based casino games

Other changes

Investment and Special Economic Zones Act

Although the Budget Speech and the Bill proposed granting strategic investment status to mining projects that have signed framework agreements with the Government, this provision is not included in the Act.

The proposal aimed to offer tax incentives-such as reduced customs duties, withholding tax, and VAT on imports-which would have helped reduce overall project costs.

The Budget Act

The Budget Speech and the Bill proposed to establish a requirement for Ministries and other Government Institutions to consult with the Minister responsible for Finance before introducing any new levies or fees, or when reviewing existing ones.

The Act clarifies that this requirement will not apply to local government authorities.

The Gaming Act

Increase in the winning tax rates

The Budget Speech and the Bill proposed to increase the winning tax rates for sports betting and land-based casino games to 15% (from 10% and 12% respectively). However, the Act has limited the increase in winning rates for sports betting and land-based casino games to 12% and 13% respectively.

Imports Control Act

The Act broadens the scope of the Industrial Development Levy (IDL) to include more imported goods, applying rates between 5% and 15% to items such as starch, liquid glucose, pasta, unbleached paper, furniture, and optical fibre papers.

25%

is now the reduced public ownership stake requirement for a newly Dar es Salaam Stock Exchange listed company to enjoy a reduced corporate tax of 25%. This tax incentive applies for the first three years after listing

Finance Act 2025 – Recap of some key changes

Income Tax

- Increase of Alternative Minimum Tax rate to 1% (from 0.5%)
- Reduction of public ownership stake requirement to 25% to enjoy a reduced corporate tax of 25% for a newly DSE listed company
- Definition of equity for thin capitalisation – expansion to include "positive retained earnings".
- Introduction of 2% income tax (representing final liability) on sale of forest products (effective 1 January 2026)
- Revision of income tax rate to 30% on realisation of investment by a non-resident - tax to be collected at the time of realisation
- Abolition of 10-year income tax exemption for special economic zone (SEZ/EPZ) investors to the extent of local sales
- Introduction of anti-avoidance provision which could potentially lead to withholding tax on 30% of undistributed profit within a year following the end of the year of income of an entity
- Introduction of withholding tax (10%) on hired motor vehicles

Tax Administration

- Establishment of an electronic tax administration system and the requirement to interface taxpayer system for issuance of electronic receipts with that of the TRA
- Introduction of prescribed criteria for recognition and registration of small-scale traders
- Additional consideration for disclosure of information on contracted services by an entity engaged in extractive or construction
- Expansion of conditions under which an objection is deemed to be admitted
  - Where tax is due – the earlier of (i) date of service of objection to Commissioner or (ii) date of meeting tax deposit requirement
  - Where there is no tax payable – date of service of objection to Commissioner
- Deemed determination of objection
  - An objection will be deemed to be determined if the objector fails to respond to proposal letter from TRA timely
  - In the above case and in the case where 6 months have expired from admission and a proposal letter was issued, the TRA proposal will be the objection decision
- Limitation of the period of the restrain of an asset by the Commissioner – maximum of 3 months
- Introduction of a penalty for transfer pricing adjustments when an entity is in a tax loss – 30% of adjusted loss

USD44

Mandatory travel insurance for foreigners entering Tanzania (excludes EAC/ SADC residents)

- Power given to Commissioner to recognise the tax residency status of a person and issue a certificate of residency

Mining Sector

- Extension of the requirement to set aside 20% gold produce for local beneficiation to all mineral right holders and dealers
- Introduction of 0.1% levy on gross market value of minerals

Gaming Act

- Increase of winning tax rates for sports betting and land based casino games to 12% and 13% respectively

Insurance Act

- Mandatory travel insurance for foreigners entering Tanzania – USD 44 (excludes EAC/ SADC residents)

Value Added Tax

- Introduction of withholding VAT at 3% for goods and 6% for services
- Introduction of the definition of assisted government entity
- Expansion of electronic services definition
- Notification requirement for VAT registered intending traders
- Introduction of 16% VAT for online purchase of B2C transactions – effectively from 1 September 2025
- Requirement to attach VAT withholding certificate, certificate of advance VAT paid and electronic payment documents when filing returns

Excise duty

- Increase in excise duty rate on pay per view services from 5% to 7%
- Introduction of definition of financial institution – provide more clarity and certainty on the financial institutions that have excise duty obligation
- Extension of the dutiable value definition to include use of a cable
- The expiry of excise duty licence has been amended from the end of calendar year (i.e 31 December) to twelve months from the date of issuance of the licence
- Deadline for deferring payment changed from last day to the 25th day

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