Tax Alert

July 2026

Highlights of the Finance Act 2026

5%

proposed excise duty on gambling stakes or wagers and proposed 5% excise duty on motorcycles under HS Heading 87.11, not adopted in the Act.

This newsletter is an update on our bulletins on the Budget Speech and Finance Bill 2026 (“the Bill”)[1]. It summarises additional points arising from our review of the Finance Act 2026 (“the Act”), which is effective from 1 July 2026 (unless specifically stated otherwise).

In Brief

Reversal of proposals - Items in the Bill not reflected in the Act:

- **Framework Agreement:**
  - Restriction on the nature of exemptions granted in the Framework Agreements to be limited to income tax rates
  - Mechanism for recognition of tax benefits included in Framework Agreements concluded prior to 1 July 2026
- **Single instalment tax of 1% on purchase of food crops**
- **VAT refund -** Proposed 30-day VAT refund decision/payment timeline, statutory interest on delayed refunds and Commissioner General powers to suspend, revoke or withhold refunds has not been adopted in the Act.
- **Excise duty on gambling stakes and motorcycles –** Proposed 5% excise duty on gambling stakes or wagers and proposed 5% excise duty on motorcycles under HS Heading 87.11, not adopted in the Act.

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

4%

tax rate applies to turnover between TZS 11m and TZS 200m.

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

- **Framework Agreement -** Applicability of exemptions has been limited to construction phase of the mining project with excise duty exemption excluding petroleum products.
- **Presumptive income tax for individuals**
  - Requirement to obtain approval from Commissioner to enjoy exemption in the first year of business
  - Tax rate on turnover between TZS 11m to TZS 200m is 4%
- **VAT deferment on imported capital goods –** The Act has now lifted the restriction that was set at 30 June 2026, thereby allowing continuity in the application of the VAT deferment relief.
- **Excise duty on used imported vehicles –** Rates reduced from the Bill's proposed 20%, 40% and 50% to 18%, 35% and 40% for the respective age bands.
- **Annual excise duty adjustment –** Adjustment basis has been changed from projected inflation plus 2% to year-on-year actual inflation for the period ending March plus 2%.

Introductions - Items not in the Bill but in the Act

- Offence for misuse of exemption or remission granted in the Framework Agreement – upon conviction, liable to a fine of 100% of tax exempted and the full amount exempted becomes immediately due and payable.

Framework Agreement between a mining investor and the Government

The Act has restricted exemptions granted under Framework Agreements to the construction phase of mining projects, ceasing upon commencement of production. This applies across income tax, VAT and excise duty, with the excise duty remission expressly excluding petroleum products.

We expect that the 100% of tax shortfall will not exceed 30% of transfer pricing adjustment.

Additionally, the following proposals included in the Finance Bill with respect to the Income Tax Act are not reflected in the Act:

- Restriction on the nature of exemptions granted in the Framework Agreements to be limited to income tax rates
- Mechanism for recognition of tax benefits included in Framework Agreements concluded prior to 1 July 2026

Income Tax

Single instalment tax on food crops – not reflected in the Finance Act

The proposed introduction of a 1% single instalment tax on purchase of food crops as per the Finance Bill has been removed.

Presumptive income tax for individuals

Application to the Commissioner for obtaining an exemption from income tax for the first year of business

The Act requires an individual to obtain approval from the Commissioner for enjoying an exemption from income tax for the first year of commencing business. This requirement may undermine the intended relief where approval is delayed, particularly given that eligibility may also be subject to additional conditions to be prescribed in the Income Tax Regulations.

Increase of rate to 4% for the top band

The income tax liability for an individual with a turnover between TZS 11m and TZS 200m per annum has been increased to 4% (from the current 3.5%) of turnover (reduction from the 4.5% proposed by the Bill).

Tax Administration

Penalty on transfer pricing adjustments – 30% of adjustment

The Act has amended the penalty applicable for non-compliance with the arm's length principle in related-party transactions to the higher of 30% of the transfer pricing adjustment and 100% of the tax shortfall. In practice, we expect that the 100% of tax shortfall will not exceed 30% of transfer pricing adjustment (unless the income tax rate is revised upwards). As a result, the effective penalty is expected to always be 30% of the transfer pricing adjustment.

Offence for abuse of exemption or remission – revocation of the exemption

The Act introduces a new offence for the misuse of tax exemptions and remissions granted under a Framework Agreement with the Government.

A person who uses exempted goods for purposes other than those for which the exemption was granted, transfers such goods without the Commissioner's approval, or obtains the exemption through false or misleading statements commits an offence. Upon conviction, the person is liable to a penalty equal to 100% of the tax exempted, and the exempted or remitted tax becomes immediately due and payable as if the exemption or remission had never been granted.

Value Added Tax

VAT refund timeline and Commissioner powers

The Act has not adopted the proposed 30-day VAT refund decision/payment timeline, statutory interest on delayed refunds, and powers for the Commissioner General to suspend, revoke or withhold refunds in cases of fraud, misrepresentation, material omission or ongoing audit/investigation. As a result, the existing VAT refund framework remains unchanged.

VAT deferment on imported capital goods

In line with the Budget Speech, the Act removes the restriction that would have caused the VAT deferment regime for imported capital goods to expire on 30 June 2026, with no replacement expiry date provided, thereby making the deferment regime effectively open-ended unless amended or repealed by future legislation.

This is a positive development for capital-intensive investors, as it preserves the cash flow advantages associated with VAT deferment while recognising that the domestic market may not yet have sufficient capacity to meet demand for capital goods.

VAT Schedule - Electric Vehicles (EV) charging station relief

The Bill proposed a VAT exemption for the supply of electric vehicle charging stations under HS Code 8504.40.00. The Act has refined this exemption by moving it to the import exemption schedule, limiting it to the importation of EV charging stations by licensed electric vehicle charging service providers. This narrows the relief from a broad supply-side exemption to a targeted import relief for qualifying operators.

Application of VAT on air charter services effective 1 July 2026

The Finance Act, 2026 does not extend the VAT exemption for air charter services, which was due to expire on 30 June 2026. As a result, air charter services are subject to

The Bill proposed excise duty rates of 20%, 40% and 50% for used imported vehicles in the relevant age bands.

VAT at the standard rate of 18% from 1 July 2026, potentially increasing costs for the tourism and aviation sectors.

Excise Duty

Annual adjustment of excise duty rates

The Bill proposed annual adjustment of specific excise duty rates based on projected inflation plus 2%. The Act changes this to year-on-year actual inflation for the period ending March plus 2%. This refinement provides a more objective and data-driven basis for annual excise duty adjustments.

Excise duty on gambling stakes and motorcycles

The Bill proposed a 5% excise duty on gambling stakes or wagers for sports betting, casino, forty machine and virtual games operations. It also proposed a 5% excise duty on motorcycles under HS Heading 87.11, with exclusions for certain motorcycles including electric and CNG motorcycles.

The Act has not adopted these proposals.

Excise duty on used imported vehicles

The Bill proposed excise duty rates of 20%, 40% and 50% for used imported vehicles in the relevant age bands. The Act has reduced these rates to 18%, 35% and 40% respectively.

The reduction is a welcome moderation from the Bill, although the revised rates still increase the cost of importing older vehicles.

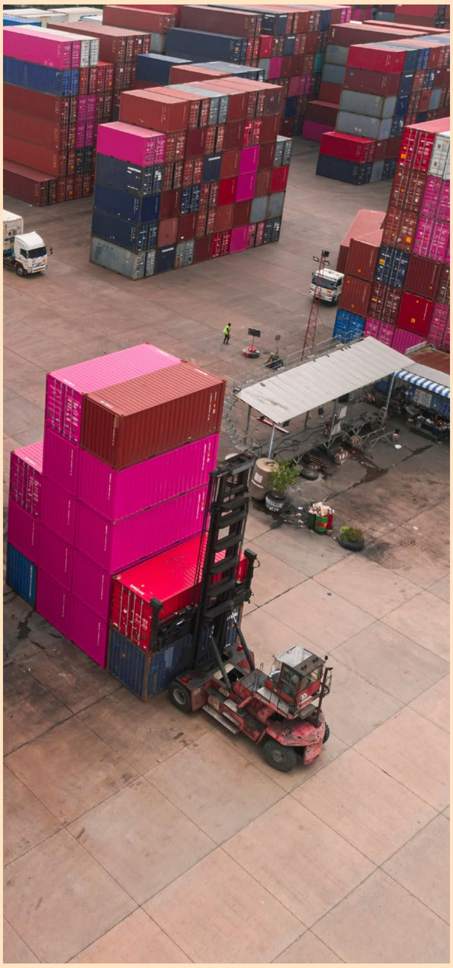
Non-resident digital service providers

The Bill proposed excise duty obligations for non-resident service providers supplying specified services through the internet to unregistered resident persons. The Act retains the obligation and extends the delivery channel to services supplied through any other electronic form.

Other Changes

Universal Health Insurance

While the Finance Bill proposed a levy of TZS 10 per kilogram of imported sugar, the Finance Act increased the rate to TZS 20 per kilogram. This is in addition to the levy of TZS 20 per 1,000 cigarettes also introduced, both of which will serve as funding sources for Universal Health Insurance.



Finance Act 2026 – Recap of some key changes

Framework Agreements

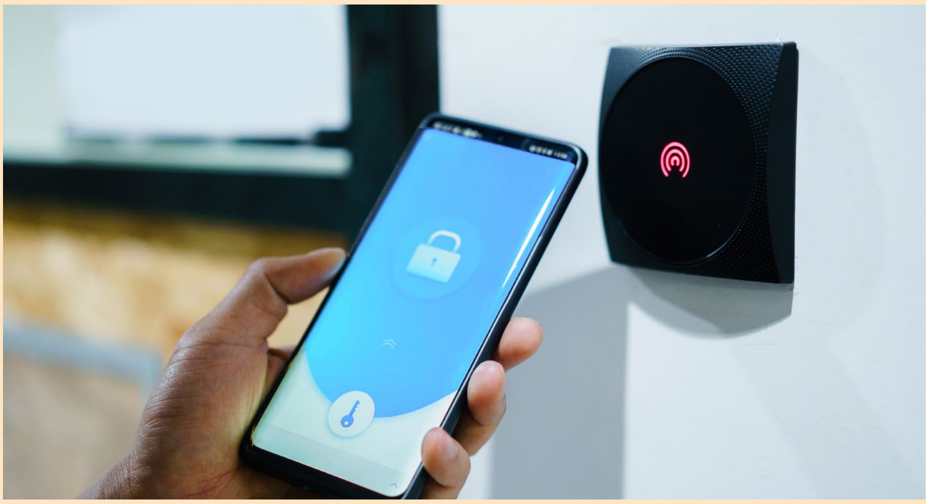
- Recognition of the tax exemption provisions stipulated in the Framework Agreements signed between the Government and mining investors. However, the Act has restricted exemptions granted under Framework Agreements to the construction phase of mining projects, ceasing upon commencement of production.

Income Tax

- Amendment of the anti-avoidance provision (Section 33A)
  - Reduction of the deemed distribution of profits from 30% to 15%; and
  - Exemption of insurance companies, companies listed in Dar es Salaam Stock Exchange, financial institutions as defined under the Banking and Financial Institutions Act, and mining companies which have Framework Agreements with Government from the application of this provision.
- Clarification of the cost base applicable to assets transferred between associates and subsequently disposed of to a third party.
- Increase of digital service tax rate to 3% (from 2%).
- The Act extends the definition of forest produce subject to 2% single instalment tax to include natural varnish including latex, resin, sap and gum. The Act also introduces a definition of “farm gate price”.
- Exemption of taxpayers paying instalment tax on forest produce from filing income tax returns.
- Presumptive income tax regime changes.
  - A 12-month income tax holiday for newly registered taxpayers operating exclusively under the presumptive income tax regime, commencing from the date of TIN registration;
  - An increase in the presumptive income tax upper threshold from TZS 100m to TZS 200m;
  - An option for taxpayers with annual turnover below TZS 200m to prepare audited financial statements for the purpose of adopting the self-assessment framework; and
  - An increase in the presumptive income tax rate from 3.5% to 4% for taxpayers with turnover between TZS 11m and TZS 200m.
- Introduction of a fixed income tax liability of TZS 120,000 for resident individuals engaged in transportation of passengers using three wheelers (commonly known as “Bajaji”).

Tax Administration

- Revision of the penalty for transfer pricing adjustments to the higher of 30% of the transfer pricing adjustment or 100% of the tax shortfall.
- Expansion of the scope of persons required to apply for a TIN to include employees. However, the existing provisions already required them to do so (the current amendment could be a result of reliance on the erroneous wording in section



22(1) of the TAA Revised edition 2023 which does not cover "employment", as introduced through the Finance Act 2021).

- Introduction of additional disclosure requirements relating to contracted services by entities engaged in the extractive or construction industries.
- Recognition of a withholding VAT statement as a VAT return.
- Transfer of the administration of property rates from the TRA to Local Government Authorities.
- Power given to the Commissioner General to sell seized perishable goods.
- Introduction of a new offence for the misuse of tax exemptions and remissions granted under a Framework Agreement with the Government.

Value Added Tax

- Removal of the expiry limit (of 30 June 2026) on VAT deferment for imported capital goods, with no replacement expiry date provided.
- Clarification and apportionment mechanism on withholding VAT rates.
- Compliance obligation for withholding VAT agents to pay and file statement of VAT within 10 days.
- Ministerial power to prescribe additional requirements through a Gazette for VAT deferment approval.
- Digital intermediaries deemed suppliers for VAT purposes.
- Expansion of the definition of electronic services.

Excise Duty

- Shift from a one-time three-year to a gradual annual excise duty adjustment (i.e. year-on-year actual inflation for the period ending March plus 2%) with an 8% increase in FY 2026/27 with exception of petroleum products under specific HS codes.
- Requirement for non-resident digital service providers (B2C) to register, file returns and remit excise duty.

Tax Revenue Appeals Act

- Extension of statutory period for Out of Court Settlement from 60 to 90 days from the date the Tax Revenue Appeals Board or Tax Revenue Appeals Tribunal issues an order permitting alternative dispute resolution (ADR).

Contact us

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