LEGAL REVIEW: KEY TAX IMPLICATIONS OF THE TANZANIA FINANCE ACT, 2025

The Finance Act, 2025 of the United Republic of Tanzania has effected significant amendments to various tax laws, including the Income Tax Act, Value Added Tax Act, Excise (Management and Tariff) Act, and the Tax Administration Act, among others. This legal briefing provides a structured analysis of the principal changes and their implications for taxpayers, businesses, and other stakeholders.

1. Disclosure Requirements for Subcontracted Services in Extractive Industries

An amendment to Section 54 of the Tax Administration Act introduces a mandatory disclosure regime for entities engaged in extractive activities. Such entities are now required to disclose the following information regarding subcontracted works within 30 days from the commencement date of the subcontracted works:

- Names of subcontracted persons/entities;
- Value of each subcontract;
- Nature of the subcontracted works; and
- Duration of the subcontract.

This disclosure must be made in the form and manner prescribed by the Commissioner General. The amendment seeks to enhance transparency and traceability in the extractive sector.

2. Introduction of Withholding Tax on Retained Earnings

The Finance Act, 2025 introduces a new Section 33A to the Income Tax Act, empowering the Commissioner General of the Tanzania Revenue Authority (TRA) to deem 30% of retained earnings as distributed dividends where a corporation has not declared any dividends within 12 months following the end of the relevant year of income.

- This provision is aimed at curbing tax avoidance through indefinite retention of profits.
- However, it is noted that the deemed distribution does not trigger an additional withholding tax obligation if the entity subsequently pays out an actual dividend.

3. Deemed Admission of Tax Objections

Amendments to the Tax Administration Act expand the criteria under which a taxpayer's objection is deemed to be admitted:

- Where a tax liability exists, an objection is deemed admitted upon either service of the objection within 30 days or payment of a reduced amount as permitted by the Commissioner.

- Where there is no tax payable, admission occurs upon service of the objection.

This change clarifies procedural uncertainties and offers more flexibility in objection administration.

4. Deemed Determination of Objections

A further amendment introduces a provision whereby, if a taxpayer fails to respond to a proposal by the Commissioner regarding the determination of an objection within the prescribed time, the proposal is deemed to be a final objection decision, thereby entitling the taxpayer to appeal to the Tax Revenue Appeals Board in accordance with the Tax Revenue Appeals Act.

5. Reduction in VAT Rate for Digital Transactions

Effective 1st September 2025, a reduced VAT rate of 16% applies to Business-to-Consumer (B2C) sales of goods where payment is made through electronic means. The Commissioner General shall, by public notice, specify eligibility criteria and implementation mechanisms.

- The measure aims to promote digital payments and improve tax collection efficiency.
- Businesses will need to implement dual VAT rate systems and maintain supporting documentation to validate the application of the reduced rate.

6. Introduction of Withholding VAT (WVAT)

A withholding VAT mechanism has been established under the Finance Act, 2025, whereby certain designated agents must withhold VAT at the point of payment. Key features include:

- Withholding Agents: (a) The Ministry of Finance; (b) Government entities that retain revenue; (c) Other registered persons as appointed by the Commissioner General.
- Rates: 3% for goods and 6% for services.
- Withheld VAT is not creditable unless supported by a valid VAT Withholding Certificate issued by the agent on or before the VAT due date.

7. Assisted Government Entities in VAT Collection

A new mechanism has been introduced to regulate VAT collection on behalf of Assisted Government Entities. Key provisions under Section 27A of the VAT Act include:

- Consideration for taxable supplies made by Assisted Entities shall be collected by the Commissioner General.
- Such VAT shall be treated as advance VAT paid by the entity and must be supported by a VAT Withholding Certificate.
- VAT may be credited by suppliers upon submission of valid certificates during return filing.

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8. Certified Public Accountant Requirement for Filing Returns

Amendments to the Income Tax Act require that returns of income be certified by a Certified Public Accountant (CPA) in public practice in the following cases:

- Individuals with turnover exceeding TZS 500 million annually;
- Corporations with gross income exceeding TZS 100 million annually.

9. Amendments to Excise Duty Rates

The Finance Act increases excise duty on pay-per-view services from 5% to 7% (less than the 10% initially proposed), offering partial relief to consumers and service providers.

10. Key VAT Reforms

a) Digital and Electronic Services

- Online intermediation platforms, including non-resident platforms, are now subject to VAT.
- This includes digital marketplaces, network marketing platforms, and payment platforms operating from abroad.

b) New VAT Exemptions

- Reinsurance services – now exempt.
- Locally produced fertilizers – zero-rated for three years.
- Textiles made from locally grown cotton – zero-rated until June 2026.
- Locally produced edible oil from local oilseeds – exempt for one year.
- Cooking gas tanks, cylinders, and carbonization furnaces – exempted to promote clean energy.
- Natural gas for CNG motor vehicle stations – exempted to attract investment in clean fuel infrastructure.
- Locally published newspapers – VAT exempt to improve access to information.

c) Removed Exemptions

- Bitumen – previously exempt, now standard-rated to broaden the VAT base.
- Compressed Natural Gas (CNG) – refined exemptions; certain equipment now excluded.
- Amendments to VAT exemption schedules to align with clean energy goals and target support for CNG investors.

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11. Sustainability and Environmental Taxes

A 2% income tax on income derived from the sale of forest products (timber, logs and poles) is introduced, effective 1st January 2026. Key features:

- Tax is final and payable in one installment before transportation.
- Payer is defined as any non-corporate individual harvesting forest products for sale.
- Objective: Formalize the forestry sector and promote sustainable resource use.
- 12. Additional Income Tax and Administrative Amendments
- 10% withholding tax introduced on payments for hired motor vehicles.
- Exemptions for local sales within SEZs and EPZs have been abolished.
- Definition of "equity" for thin capitalization purposes has been expanded to include positive retained earnings.
- Reduced corporate income tax (25%) for newly listed companies at the Dar es Salaam Stock Exchange (DSE) now requires a minimum 25% public float (reduced from 30%).

13. Modernization of Tax Administration

The Finance Act introduces a mandatory integration of taxpayers' systems with the TRA's Electronic Fiscal Device (EFD) system. This is intended to promote real-time data sharing and improve audit efficiency.

Recommended Action

We strongly advise our clients to review their tax portfolios in Tanzania.

If you require assistance in reviewing your portfolio or taking timely action, please do not hesitate to contact our Tax team.

FURTHER INFORMATION:

This editorial is intended to give you a general overview of the Law. If you would like further information and clarification on any issue raised in this editorial, please contact.

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