

LEGAL ALERT

Analysis of the Tax Changes Introduced by the Finance Act, 2025

Introduction

The Finance Act, 2025 (the Finance Act or the Act) was enacted by Parliament, assented to law by the President and subsequently published in the Special Gazette on 30 June 2025. The Act, which came into force on 1 July 2025, has introduced amendments to various statutes, including the Income Tax Act, Value Added Tax Act, Tax Administration Act, and other sector-specific laws.

While most of the amendments took effect on 1 July 2025, certain provisions will commence at later dates. Notably, the introduction of a reduced value added tax (VAT) rate of 16% on supplies made to unregistered persons, where payment is made through a bank or other electronic payment system approved by the Commissioner, will come into effect on 1 September 2025. Additionally, the single instalment tax of 2% on the sale of forest produce will take effect from 1 January 2026.

These changes are intended to enhance revenue collection, promote investment, streamline tax compliance, and support domestic resource mobilisation.

We note that, pursuant to the Laws Revision (Date of Coming into Force of the Revised Editions, 2023) Proclamation, 2025, issued by the President on 23 April 2025, various laws were revised to reflect the 2023 edition, effective 1 July 2025. These revisions include the tax laws, which have also been further amended by the Finance Act. As part of the revision process, certain provisions in the tax laws were renumbered, and as a result, some commonly cited sections have changed.

We have set out in this alert an analysis of the key tax changes introduced by the Finance Act and their potential impact on doing business in Tanzania.

A. AMENDMENTS TO THE INCOME TAX ACT CAP. 332

1) Capital Gains Tax Single Instalment Increased for Non-Residents

Effective Date: 1 July 2025

The Finance Act has increased the Capital Gains Tax (CGT) single installment payable by non-resident persons from the disposal of investments in Tanzania, such as shares in resident entities, from 20% to 30%. This change aligns the CGT rate with the standard corporate income tax rate under the Income Tax Act (ITA) and is aimed at enhancing revenue collection and simplifying enforcement.

Previously, non-residents were subject to a 20% CGT and required to file a return to account for the additional 10%, a process that posed administrative challenges for the Tanzania Revenue Authority (TRA) and the taxpayers.

The position applicable to resident persons remains unchanged, namely that CGT is paid in an instalment of 10% on completion of the transaction, and the balance of 20% is due as balance of tax.

2) Alternative Minimum Tax Increased

Effective Date: 1 July 2025

The Finance Act has increased the Alternative Minimum Tax (AMT) rate applicable to corporate entities that report unrelieved losses for three consecutive years. The AMT tax rate has increased from 0.5% to 1% of the turnover in the third year of continuous losses. This provision targets companies that consistently declare losses, ensuring a minimum level of tax contribution regardless of profitability.

The amendment will increase the tax burden on loss-making companies, particularly those in capital-intensive or early-stage sectors, where achieving profitability may take longer. Affected entities will need to reassess their tax planning strategies, as the higher minimum tax could place additional pressure on cash flow and working capital during the tax loss period. Key to note is that AMT does not apply to sectors such as Agriculture, Education or Health.

3) Definition of Equity for Thin Capitalisation Purposes Expanded

Effective Date: 1 July 2025

The Finance Act has amended the thin capitalisation rules by expanding the definition of "equity" used to determine the interest deduction limit for exempt controlled resident entities. Previously, equity was limited to paid-up share capital as at the end of the year of income. The amended definition now includes both paid-up share capital and positive retained earnings at the end of the year of income.

This expansion effectively increases the equity base against which the allowable interest deduction is calculated which is capped at a debt-to-equity ratio of 7 to 3. The change is a positive development for businesses, as it may enable entities with accumulated profits to deduct a greater portion of interest expenses, thereby lowering their taxable income.

4) Withholding Tax Exposure on Retained Earnings

Effective Date: 1 July 2025

The Finance Act has introduced a significant change that seeks to subject thirty percent (30%) of the after tax profits of a Tanzanian entity to withholding tax at 10%. Under this amendment, the Commissioner is granted discretionary powers to treat 30% of an entity's profit as having been distributed if the entity has not made any actual distribution within twelve months following the end of the relevant year of income and to impose withholding tax at 10% on such deemed distributions.

There is uncertainty regarding the criteria the Commissioner will apply in exercising this discretion, particularly in cases where profits are retained for legitimate business reasons such as reinvestment, debt repayment, or capital reserves. Investors are also concerned that taxing accounting profits where no actual distribution has been made to shareholders could create cash flow challenges. This concern stems from the fact that companies operate on an accrual accounting basis, where profits are recognised when earned, not when cash is received.

It is also not clear whether this provision will be applied retrospectively to cover accumulated retained earnings or opening balances of undistributed profit. However, it is our view that since the provision refers specifically to "distribution for the year of income", a reasonable interpretation is that it applies only to profits generated in the relevant year of income, not to prior years' accumulated profits.

A positive aspect of the new provision is the mitigation of double taxation. The provision exempts from withholding tax any distributions that have already been subjected to withholding tax. In addition, it exempts resident companies owned by non-residents from additional withholding tax when they have already been taxed either on the retained earnings under the controlled foreign corporation (CFC) rules or on actual dividends received from the CFC.

5) Rebasing in Related-Party Asset Transfers Restricted

Effective Date: 1 July 2025

The Finance Act has amended Section 44(1) of the ITA by introducing a proviso that has changed the determination of the cost base for CGT purposes in related-party transactions. Where an asset is acquired through a transfer to an associate or for no consideration, and the recipient subsequently transfers the asset, the cost of the asset will be deemed to be the original owner's net acquisition cost plus any subsequent additions, effectively treating the transferor and transferee as the same person.

This change limits the ability to rebase asset values in intra-group restructurings. Consequently, the transfer of assets between related entities pursuant to group re-organisations, mergers, or other internal asset transfers restructuring exercises will no longer defer or reduce the CGT liability. Taxpayers will need to maintain comprehensive historical records of asset costs across such transfers, increasing the complexity of tax compliance and audit.

6) Reduced Loss Offset Threshold for Extractive and Processing Sectors

Effective Date: 1 July 2025

Previously, taxpayers engaged in mining, processing, smelting, refining, and petroleum operations were permitted to deduct losses against their income, provided that at least 30% of the income before loss deduction remained taxable, effectively permitting loss offsets of up to 70% of the income.

The Finance Act has increased the minimum taxable threshold to 40%, thereby reducing the maximum allowable loss offset to 60%. This amendment is intended to enhance government revenue by ensuring a higher portion of income in the capital-intensive sector remain within the tax net, even where there are significant historical losses.

7) Introduction of Withholding Tax on Hiring Motor Vehicles

Effective Date: 1 July 2025

The Finance Act has amended Section 105(2)(d) of the ITA to impose withholding tax on payments made to a resident person for the rental or hire of motor vehicles. Such payments will now attract withholding tax at the rate of 10%.

This change expands the scope of withholding tax to cover the motor vehicle leasing sector, with the aim of enhancing tax compliance and revenue collection. Businesses that hire motor vehicles should ensure proper deduction and remittance of withholding tax to avoid penalties for non-compliance.

8) Introduction of Withholding Tax on Gaming Advertisement and Promotion Commissions

Effective Date: 1 July 2025

The Finance Act has introduced a new withholding tax obligation on commissions paid in connection with gaming advertisements or promotions. Gaming companies are now required to withhold tax at the rate of 10% on such payments, including commissions paid to traditional broadcasting media, social media platforms, and other entities involved in marketing or promoting gaming activities.

This measure seeks to widen the withholding tax net and ensure improved tax compliance within the growing digital and media-driven gaming sector.

9) Introduction of Tax on Sale of Forest Produce

Effective Date: 1 January 2026

The Finance Act has introduced a single instalment tax of 2% of the gross payment on the sale of forest produce, which is payable before the forest produce is transported. "Forest produce" is

defined to include timber, logs, mirunda, and poles. This tax applies to all persons, other than corporations, engaged in the commercial exploitation of forest resources.

The amendment aims to expand the tax base to include trade in forest products and enhance regulatory oversight of forestry-related activities.

10) Tax Returns to be Prepared or Certified by Public Accountants

Effective Date: 1 July 2025

The Finance Act has expanded the requirement for tax returns to be prepared or certified by a Certified Public Accountant (CPA). The obligation now applies where:

- a. an individual's turnover exceeds TZS 500 million in a year of income; or
- b. a corporation's gross income exceeds TZS 100 million.

Previously, only corporations were required to have their tax returns prepared or certified by a CPA. The amendment is intended to enhance the accuracy, reliability, and integrity of tax filings by ensuring that higher-revenue taxpayers are subject to professional oversight in their return preparation.

11) Revised Presumptive Tax Bands for Motor Vehicles

Effective Date: 1 July 2025

The Finance Act has revised the presumptive tax bands for motor vehicles as follows:

a) Class A – Passenger Vehicles

Previously, all small passenger vehicles with seating capacity below 10 passengers were subject to a flat presumptive tax of TZS 180,000 per year. The Finance Act has now introduced tax bands under Class A for such vehicles based on seating capacity:

- a. Vehicles carrying up to 5 passengers: TZS 120,000
- b. Vehicles carrying 6 to 10 passengers: TZS 250,000

This amendment introduces a more progressive tax structure aimed at aligning tax liability with vehicle capacity and potential income generation.

b) Class C - Vehicles for Carriage of Goods

S/N	Capacity	Tax Payable
1.	Up to 500 kg	TZS 120,000
2.	Above 500kg but less than 1 tonne	TZS 250,000
3.	1 to 5 tonnes	TZS 500,000
4.	6 to 10 tonnes	TZS 750,000
5.	11 to 15 tonnes	TZS 1,100,000
6.	16 to 20 tonnes	TZS 1,300,000
7.	21 to 25 tonnes	TZS 1,650,000
8.	26 to 30 tonnes	TZS 1,900,000
9.	More than 30 tonnes	TZS 2,200,000

c) Class D – Commercial Vehicles

S/N	Category of Vehicles	Tax Payable
1.	Taxi	TZS 180,000
2.	Ride-hailing	TZS 350,000
3.	Ride-sharing	TZS 450,000
4.	Special Hire	TZS 750,000

12) Public Equity Requirement for Newly Listed Companies Reduced

Effective Date: 1 July 2025

The Finance Act has amended paragraph 3(2)(a) of the First Schedule to the ITA to lower the minimum public equity requirement for newly listed companies from 30% to 25%. As a result, a company that lists on the Dar es Salaam Stock Exchange (DSE) and issues at least 25% of its equity to the public will now qualify for a reduced corporate income tax rate of 25% for a period of three consecutive years from the date of listing.

This amendment is designed to stimulate capital market growth by encouraging more companies to list, enhancing public participation, and improving access to investment opportunities.

13) Withholding Tax Rates Increased for Certain Payments

Effective Date: 1 July 2025

The Finance Act has amended paragraph 4(c) of the First Schedule to the ITA to revise the withholding tax rates applicable to certain payments as follows:

Description	Previous Rate	New Rate
1. Management or technical fee paid by a resident person to a resident person undertaking business in the extractive industry.	5%	10%
2. Insurance Premiums paid to a non-resident person	5%	10%
3. Commission for gaming advertisements or promotion	-	10%

These changes are intended to enhance revenue mobilisation and ensure that payments made in high-value sectors such as extractives, insurance, and gaming contribute more significantly to the tax base.

14) Limitation of the Income Tax Exemption Applicable to Export Processing Zones and Special Economic Zones

Effective Date: 1 July 2025

Under the Second Schedule to the ITA, income earned from investment or business conducted within Export Processing Zones (EPZs) and Special Economic Zones (SEZs) is exempt from tax during the initial ten-year period. The Finance Act has amended this provision to exclude EPZ and

SEZ enterprises who produce for sale into the Tanzanian domestic market from benefiting from this exemption.

This amendment is intended to realign the incentive framework with the primary policy objective of promoting exports. By restricting tax exemptions to export-oriented activities, the government aims to encourage production for foreign markets, boost foreign exchange earnings, improve the trade balance, and enhance Tanzania's participation in global value chains.

B. AMENDMENTS TO THE VALUE ADDED TAX ACT, CAP. 148

1) Introduction of differential VAT Withholding Mechanism

Effective Date: 1 September 2025

The Finance Act has amended the Value Added Tax Act (VATA) to introduce two significant VAT changes aimed at enhancing compliance and broadening the tax base:

a. Supplies to Withholding Agents – Split VAT Withholding

The Act introduces a differential VAT withholding mechanism applicable to standard-rated supplies made in Mainland Tanzania to designated withholding agents. While the standard VAT rate remains 18%, the withholding agent is now required to withhold and remit part of the VAT as follows:

- i. 3% of the taxable value for supplies of goods; and
- ii. 6% of the taxable value for supplies of services.

With the introduction of these amendments, service providers, will receive 12% of the VAT component directly, with the remaining 6% withheld and remitted to the Commissioner. The term "withholding agent" is defined to mean the Ministry responsible for finance, a government entity which retains whole, or part of its collected revenue and a registered person as may be appointed by the Commissioner by notice.

This mechanism shifts part of the VAT remittance obligation from the supplier to the recipient, thereby enhancing compliance, reducing VAT leakage, and improving revenue collection.

b. Lower VAT Rate for Electronic Payments by Unregistered Persons

The Finance Act has introduced a new Section 5(6) of the VATA, which provides that where a standard-rated supply is made to an unregistered person, and payment is effected through a bank or an electronic payment system approved by the Commissioner General, the applicable VAT rate will be reduced to 16%, from the standard rate of 18%.

This measure is aimed at incentivising the use of traceable electronic payment channels, thereby encouraging formalisation, reducing reliance on cash-based transactions, and broadening the VAT base through improved compliance and transaction visibility. Suppliers dealing with unregistered persons may also benefit from increased sales as a result of the reduction in consumer price due to the lower VAT rate.

2) Scope of Online Intermediation Platforms Expanded

Effective Date: 1 July 2025

Electronic services, including online intermediation services, are subject to VAT under Section 51 of the VATA. The Finance Act has expanded the scope of such services to explicitly include online intermediation platforms, such as online accommodation marketplaces and payment services platforms.

By expressly incorporating these digital platforms into the definition of electronic services, the amendment ensures broader coverage of transactions within the digital economy, thereby aligning the VAT framework with evolving business models and closing previous legislative gaps.

3) Extension of Zero-Rated VAT for Fertiliser and Cotton Garments

Effective Date: 1 July 2025

The Act has extended the period for zero-rated VAT treatment for the supply of locally manufactured fertiliser and garments produced from locally grown cotton for an additional three years, from 30 June 2025 to 30 June 2028. This policy measure is intended to continue promoting local value addition in the agricultural and textile sectors, and to enhance the competitiveness of domestically produced goods in both local and export markets.

4) Enhanced Compliance Requirements for VAT Declarations and Filing of Returns

Effective Date: 1 July 2025

The Act introduces key amendments to the VATA aimed at strengthening compliance and verification mechanism in the administration of VAT:

a. Restriction on Deduction of Withheld Output Tax

Taxable persons are now prohibited from deducting withheld output VAT unless they are in possession of a valid VAT withholding certificate at the time of filing the return for the relevant tax period.

This measure is intended to ensure proper documentation, discourage reliance solely on payment records, and enhance accountability in the withholding tax process. In the absence of such certificates, taxpayers may face increased VAT liabilities even where amounts have been withheld.

b. Proof of Electronic or Bank Payment for 16% Rate Supplies

Where a taxable supply is made at the reduced VAT rate of 16% in respect of supplies made to unregistered persons who pay electronically or through a bank, the supplier must submit proof of such payment, either through the electronic filing system or in a manner prescribed by the Commissioner General.

This requirement enhances the integrity of reduced-rate transactions by linking them to traceable payment channels, thereby promoting transparency, discouraging cash-based underreporting, and supporting efforts to formalise the economy.

5) Net Amount of VAT Payable

Effective Date: 1 July 2025

The Finance Act has amended the VATA to enhance the integrity and transparency of VAT return filings by introducing the following changes:

a. Computation of the VAT Payable

A taxable person shall now be required to add any advance VAT paid, as evidenced by a valid certificate of the VAT paid. This reflects pre-paid VAT amounts which are to be factored into the overall VAT accounting for the period. A taxable person is entitled to subtract all output tax withheld by a designated withholding agent. This ensures that VAT withheld at source is duly credited to the taxpayer, preventing double taxation and promoting equitable treatment under the withholding regime.

These changes are aimed at enhancing accuracy, transparency, and traceability in the VAT reporting process, by aligning the computation of VAT payable with documented advance payments and amounts withheld at source.

b. Obligation for Withholding Agents to Account for and Remit Withheld VAT

The Act introduces a new provision to the VATA setting out specific obligations for withholding agents in relation to the accounting and remittance of withheld VAT. Under the provision, a withholding agent is required to account for and remit output tax withheld at the time the VAT return is due to be filed or be remitted in the manner directed by the Commissioner General.

This provision reinforces the duty of withholding agents to ensure timely and accurate remittance of VAT withheld at source, thereby promoting compliance.

6) Input Tax Credit Eligibility for Imports and Transfers from Zanzibar

Effective Date: 1 July 2025

The Finance Act has amended Section 72(1)(c) of the VATA to introduce a more stringent condition for claiming input VAT on imports and transfers from Zanzibar. Under the revised provision, a taxpayer must now provide proof of actual VAT payment before claiming the input tax credit. Previously, taxpayers could claim input VAT upon becoming liable to pay, even if the VAT had not yet been settled.

The amendment is aimed at curbing premature or potentially fraudulent claims, enhancing compliance, and safeguarding government revenue. However, this amendment has practical implications for businesses, as it requires VAT to be settled upfront before input tax can be claimed, potentially increasing working capital pressures, especially for SMEs engaged in cross-border transactions with Zanzibar.

C. AMENDMENTS TO THE TAX ADMINISTRATION ACT, CAP. 438

1) Issue of Tax Residency Certificates Pursuant to Private Rulings

Effective Date: 1 July 2025

The Act introduces a new proviso to Section 11(1)(a) of the Tax Administration Act (TAA) which empowers the Commissioner General to issue a tax residency certificate where a private ruling has been granted in favour of a person regarding their tax residence status. This amendment formalises the process of issuing tax residency certificates in situations where the taxpayer has obtained a favourable private ruling on their residence status. The certificate serves as official confirmation of tax residency, which is often required for treaty benefits, relief from double taxation, and cross-border tax compliance.

By linking the issuance of the certificate to an existing private ruling, the provision ensures that residency determinations are transparent, evidence-based, and administratively streamlined, while also providing certainty to taxpayers operating in international contexts.

2) Recognition and Registration of Small-Scale Traders

Effective Date: 1 July 2025

The Act has repealed and replaced Section 23 of the TAA with a new provision that provides a clearer framework for the recognition, registration, and oversight of small-scale traders, particularly within the informal sector.

Under the amended provision, the TAA now formally recognises small-scale or informal traders whose turnover falls below the statutory minimum tax threshold, provided they obtain a Taxpayer Identification Number (TIN). Importantly, the possession of a TIN under this framework does not constitute conclusive evidence of income level, thereby preserving the TRA's discretion to verify and assess actual income where necessary.

This reform promotes the formalisation of the informal sector by integrating small traders into the tax system without immediately subjecting them to tax obligations, enabling broader taxpayer registration and improved administrative visibility while maintaining flexibility in enforcement.

3) Mandatory Use of Electronic Tax Systems

Effective Date: 1 July 2025

The Finance Act has amended the TAA to require electronic submission of all tax filings, declarations, and related services through the electronic tax system administered by the TRA. The revised provision also formalises the regulatory framework governing access and use of the electronic tax system and confirms that electronically filed documents are legally admissible evidence in judicial or administrative proceedings.

This amendment is aimed at improving efficiency, reducing administrative bottlenecks, and eliminating paper-based processes. For taxpayers, it enhances accessibility, speeds up service delivery, increases transparency, and supports more effective compliance monitoring by the TRA.

4) Mandatory Disclosure of Subcontracting Arrangements

Effective Date: 1 July 2025

The Finance Act has amended Section 54(2) of the TAA to impose a new obligation on entities in the construction and extractive industry to disclose detailed information about their subcontracting arrangements to the Commissioner General.

The provision requires the responsible entity to submit the names of the subcontractors, the contract value, the nature of the subcontracted works and the duration of the subcontract, to the Commissioner General within thirty (30) days from the commencement of the subcontracted works.

This amendment is intended to enhance tax transparency across contractual supply chains, facilitate effective monitoring of tax obligations for both principal and subcontracted parties, and minimize revenue leakage.

5) Clarification of Effective Date of Admission of Tax Objections

Effective Date: 1 July 2025

The Finance Act has amended Section 62(8) of the TAA to clarify when a tax objection is formally deemed admitted for purposes of administrative review by the Commissioner General.

Under the revised provision, an objection is deemed admitted as follows:

- a. Objections arising from a tax assessment or notice of liability: The objection is considered admitted on the date the taxpayer fully complies with the applicable requirements which include proper filing, adherence to procedural formalities, and, where applicable, payment of the undisputed tax or the minimum amount.
- b. Other types of objections (that is, those not based on an assessment or notice of liability): These are deemed admitted on the date the objection is served on the Commissioner General.

This amendment provides procedural clarity and legal certainty by clearly distinguishing between objections that are conditionally admitted (pending payment or compliance) and those that are immediately effective upon service. It strengthens administrative efficiency and ensures uniformity in the handling of tax objections.

6) Introduction of Fixed Enforcement Timeline

Effective Date: 1 July 2025

The Finance Act has amended Section 75(6) of the TAA to introduce a fixed three-month timeframe within which the TRA must initiate enforcement proceedings for the collection of tax.

The amendment replaces the prior reference to a "sufficient period," which created uncertainty for taxpayers. The amendment enhances legal certainty, promotes predictability in tax enforcement, and protects taxpayers from open-ended or indefinite recovery actions by the tax authority.

7) Penalty Provisions on Estimated Tax Shortfalls or Overstated Losses

Effective Date: 1 July 2025

The Finance Act has amended Section 90(2)(c) of the TAA to broaden the scope of penalties to cover both understatements of estimated tax payable (shortfalls), and overstatements of adjusted tax losses.

Under the revised provision, the Commissioner General may impose a 30% penalty on the shortfall in estimated tax, or the excessive loss claimed, where it is determined to be overstated or improperly declared.

This amendment is aimed at curbing manipulation of tax loss positions used to defer tax liabilities or inflate carry forward losses. It reinforces the need for taxpayers to ensure that loss declarations are accurate, properly substantiated, and supported by reliable financial records, failing which they risk significant penalties.

Contact Us

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