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## KEY TAX MEASURES PROPOSED IN THE 2025/26 BUDGET SPEECH

On Thursday, 12<sup>th</sup> June 2025, the Minister for Finance presented the National Budget for the fiscal year 2025/26. The proposed tax policy changes, if enacted through the Finance Act 2025, will introduce the following measures:

- Withholding Tax on Retained Earnings:** A 10% withholding tax will be levied on retained earnings not distributed within six months, effectively treating them as deemed dividends. This formalizes the Tanzania Revenue Authority's (TRA) current practice of taxing undistributed profits.
- Increased Withholding Tax on Services in the Extractives Sector:** The withholding tax rate on professional and management service fees paid by resident extractive companies to resident service providers is proposed to increase from 5% to 10%.
- Other Withholding Tax Proposals:** The Minister proposed additional measures, including the introduction of a 10% final withholding tax on commissions from sports betting advertisements, and an increase of the withholding tax rate on insurance and reinsurance premium payments made to non-resident companies from 5% to 10%. The proposed increase in withholding tax or the introduction of new ones is intended to expand the tax base and increase revenue, including a 10% withholding on petrol and diesel,
- VAT Reduction to 16% on Digital Payments:** The Minister proposed to reduce VAT from 18% to 16% on the purchase of goods where payment is made online (B2C) and the consumer confirms that the payment invoice issued contains the correct amount of the transaction. The measure aims to encourage the use of online payment systems, reduce the use of hard cash and simplify tax administration by facilitating the availability of information on purchase transactions.
- Mandatory Travel Insurance:** The Minister has proposed to introduce a mandatory travel insurance fee of USD 44 for foreigners (other than those from EAC/SADC), aligning with Zanzibar. The insurance is intended to cover health, loss of items and baggage delays. If enacted, its success will

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depend on the method of collection, which, if done at the point of entry, may be a nuisance to tourists.

6. **Alternative Minimum Tax (AMT) Rate Increase:** The AMT rate will rise from 0.5% to 1%.
7. **Restriction on Utilization of Carried-Forward Losses:** Mining companies will be limited to using 60% of carried-forward tax losses, down from the current 70%, aligning the mining sector with other industries following changes introduced by the Finance Act, 2024. This change may require amendments to agreements such as the Kabanga Framework Agreement, which currently caps utilization at 70%.
8. **Integration of Invoicing Systems:** Businesses will be required to integrate their invoicing systems with the TRA's system to enhance tax compliance and streamline administration. This is already being done with respect to the Electronic Fiscal Device ("EFD"). It is not yet clear how this will be implemented.
9. **Reduction in City Service Levy:** To amend the Local Government Finance Act to reduce service levy from a variable rate (of up to 0.3%) to a fixed 0.25% of gross revenue; to reduce the hotel levy rate from 10% to 2%; to eliminate loading and offloading fees charged by Local Government Authorities related to transportation of goods. The Minister also proposed that Local Governments will be required to secure approval of the Minister for Finance before introducing any new fees, levies and duties.
10. **New Industrial Development Levy:** A 10% levy will be introduced on imports of prefabricated buildings and bars and rods even if the import is from the East African Common Market area. However, cement clinker will be exempt from this levy.
11. **Strategic Investment Status for Mining Projects:** To attract investment in the mining sector the Minister proposed that mining projects operating under a signed Framework Agreement will be eligible for strategic investment status under the Tanzania Investment Act. This status enables such projects to apply for additional fiscal incentives. While there are further

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additional fiscal exemptions available to strategic project, eligibility for the mining sector may also trigger the Government's right to seek additional equity participation beyond the current 16% free carried interest on a non-free carried interest basis. Therefore, it will depend on the wording of the amending provisions to the Investment Act for the additional advantage to be attractive. The other issue concerns the gazetting of fiscal exemptions which invariably take long and sometimes may not happen leading to the Tanzania revenue Authority refusing to recognise the exemptions. Again, its viability will depend on the wording of the amendments.

12. **Removal of Tax Exemptions in EPZs and SEZs:** The Government will eliminate the current 10-year income tax exemption available to investors in Export Processing Zones (EPZs) and Special Economic Zones (SEZs) who produce goods and services for the domestic market. The intention here is to ensure that the benefit of the exemption is available only to those producing for export and therefore removing the preferential treatment of producers for the local market creating an equal playing field.
13. **Revocation of the 2024 Environmental Management Regulations:** Notably the Minister proposes to revoke the 2024 Environmental Management Regulations introducing higher fees, levies and duties reverting to the 2021 Regulations. The 2024 Regulations were severely criticized by businesses and specifically the mining sector because of their high rates and in some instances charged at a percentage of value.
14. **Amendment of other Fees, Charges and Duties of Regulatory Agencies:** The Minister proposes amendment of various laws and regulations concerning Government Regulatory Agency fees, levies and duties to align with the implementation of the Blueprint Improvement Plan. The proposals covers only a few agencies and again only a few of the charges, levies and duties. However, this is an ongoing exercise and more may be recommended in the process of implementing the Blueprint intended to reduce multiplicity of such charges and to eventually reduce the cost of doing business.

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