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TANZANIA AFFORDABLE DIGITAL FINANCE RESEARCH INITIATIVE

Tax Analysis of Related Goods and Services Enabling Digital Financial Services in Tanzania

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Table of contents

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Executive Summary

This policy brief examines the taxation of goods, services, and infrastructure that enable access to digital financial services (DFS) in Tanzania. While policy discussions often focus on taxes imposed directly on DFS transactions, the wider enabling ecosystem is equally important. Mobile phones, SIM cards, mobile data, telecom services, repair services, and network infrastructure all shape whether individuals and businesses can afford to access and use DFS in practice. Taxes on these enablers can therefore affect DFS adoption indirectly, by influencing device affordability, connectivity costs, and the incentives for continued investment in digital infrastructure.

The analysis finds that Tanzania's tax treatment of DFS-related enablers is broadly in line with regional practice and is not, overall, more burdensome than that of comparator countries. Mobile phones are subject to 18% VAT, but no import duty; SIM cards are subject to VAT and import duty; and electronic communication services, including mobile data, are subject to both 18% VAT and 17% excise duty. Telecom infrastructure generally benefits from favourable customs treatment, although some practical uncertainty remains in how specific components are classified and treated. Providers also face licensing, regulatory, and universal service-related charges that can affect operating costs and investment decisions.

The brief nevertheless identifies several areas where targeted reform could better align the tax framework with Tanzania's financial inclusion and digital economy objectives.

First, handset affordability remains a key constraint. Smartphones and feature phones are the main entry point for DFS, and their cost can be a barrier for low-income users. Tanzania's previous VAT exemption for smartphones, tablets, and modems reflected a valid policy objective, but its withdrawal also showed the importance of ensuring that any tax benefit reaches consumers rather than intermediaries. A more targeted approach to reducing the VAT burden on consumers could merit further review.

Second, the taxation of mobile data deserves attention. Data is increasingly essential for accessing digital financial products, including app-based banking, savings, credit, and insurance. In Tanzania, data services are subject to VAT and a higher excise duty rate than electronic payment services. This creates a potential mismatch between the policy objective of encouraging digital inclusion and the tax burden on the connectivity needed to use digital services. A review of the excise treatment of data could therefore be considered.

Third, the tax treatment of telecom infrastructure should be clarified to support continued network expansion. Tanzania has made significant progress in coverage, but further investment is needed to improve broadband quality, extend higher-speed networks, and reach underserved areas. Greater certainty on customs treatment and depreciation rules for telecom infrastructure could reduce disputes and strengthen investment incentives.

The brief does not recommend broad or costly tax exemptions. Instead, it proposes targeted, evidence-based reforms that could improve affordability, support digital inclusion, and encourage infrastructure investment while protecting the revenue base. The strongest opportunities lie in: designing a consumer-focused VAT refund mechanism for handsets; reconsidering the high excise burden on data; and clarifying the tax treatment of telecom infrastructure. These measures would help ensure that Tanzania's tax framework supports, rather than inadvertently constrains, the wider digital ecosystem on which DFS growth depends.

1. Introduction

This Policy Brief examines a significant aspect of the digital financial services (DFS) tax landscape in Tanzania, namely the taxes that are levied on goods and services which are essential enablers for DFS. These "enablers" include customer products such as feature phones, smartphones and SIM cards, as well as customer services and the infrastructure that underpins network connectivity.

While policy debates in Tanzania and across Sub-Saharan Africa have increasingly focused on the taxation of DFS transactions themselves, considerably less attention has been paid to the taxation of these underlying enablers, despite their central role in determining affordability, access, and usage.

The study provides a detailed descriptive analysis of the tax policy framework for these enablers, supplemented by international comparisons to contextualize our findings. It examines whether the existing tax framework adequately facilitates financial inclusion and broader efforts to deepen access to financial services or creates barriers to the achievement of government priorities in this area. The analysis considers both price effects (through taxation of devices and services) and access effects (through taxation of infrastructure and connectivity), recognising that these channels jointly determine DFS adoption and usage.

Through this comparative approach, the analysis will evaluate the implications of existing tax policies on both DFS and their enabling ecosystem.

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The analysis is guided by several key questions which frame the discussion and provide a starting point for evaluation:

- How are DFS-related products taxed? Is there consistency in the tax treatment of different enablers?
- Is there a “tax cascade” effect, where taxes on enabler products increase the cost of DFS?
- How do other countries in Africa tax these enablers?
- Are there lessons from other countries that could inform tax system development in Tanzania to boost DFS adoption?
- What changes could be made to align tax policy more effectively with other government priorities?

The policy brief concludes by assessing whether adjustments to the tax framework may be warranted to enhance financial inclusion and support the equitable growth of DFS.

This policy brief aims to shed light on an aspect of DFS tax policy in Tanzania, namely the enablers, that has, to date, received little attention. By doing so, it seeks to contribute to a more comprehensive and integrated understanding of how tax policy affects the broader digital ecosystem, and to support evidence-based policymaking in the context of Tanzania’s digital economy and financial inclusion agenda.

2. Context and scope

For the purposes of this policy brief, we have interpreted "related products and services" as including the following enablers:

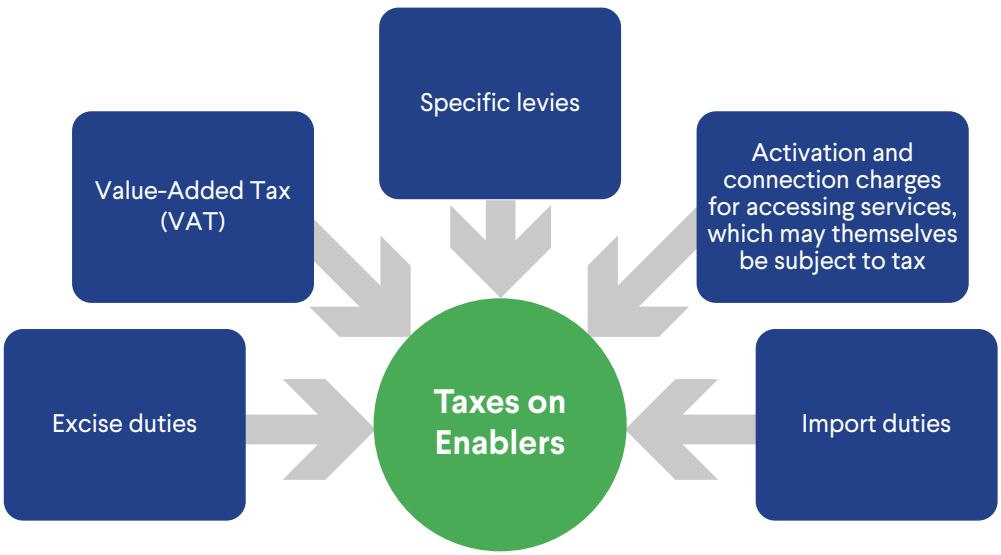
PRODUCTS: tangible, physical items, typically owned and/or used by consumers, that play a direct or indirect role in enabling network access and ensuring device functionality.

SERVICES: intangible offerings that support the use of products and provide connectivity.

INFRASTRUCTURE: the physical assets through which the network is created, including towers, base stations, dishes and other equipment that are attached to them, and the ancillary equipment, such as generators and batteries that power the infrastructure.

The taxes and parafiscal fees applied to these enablers in Tanzania encompass a range of charges. See **Figure 1** below.

Figure 1.
Taxes on 'Enablers'



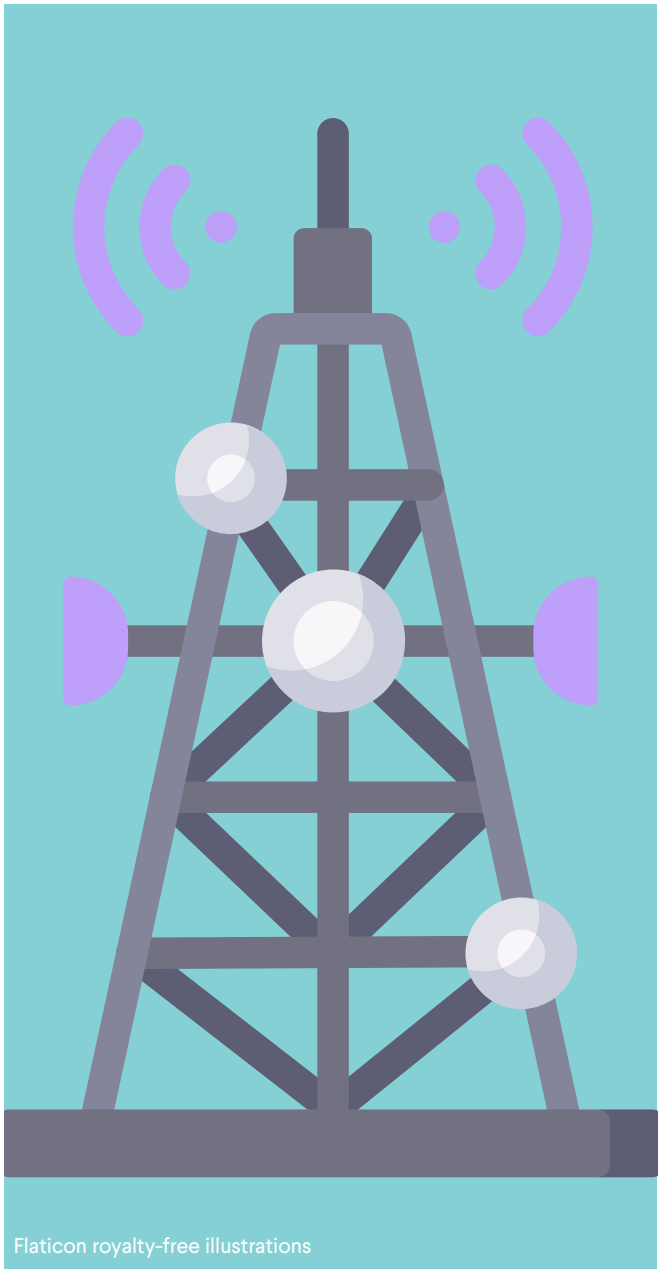
SOURCE: Authors

Table 1.
Overview of key enablers for accessing DFS

Table 1 illustrates the main categories of enablers, structured across three functional layers: products, services, and infrastructure.

Products (Tangible goods)	Services (Intangible offerings)	Infrastructure
DEVICES **Feature phones and smartphones** Devices essential for accessing DFS and mobile networks especially 3G, 4G and 5G. **Other devices** Laptops, tablets, and other non-mobile devices that require connectivity for digital use.	**ACCESS** **Electronic communication services** Mobile data, internet access services (including data services for laptops and other devices and access provided through scratch cards).	**TELECOMS INFRASTRUCTURE** **Telecoms tower components (active and passive)** Structures, base stations, radio units and antennae.
RELATED PRODUCTS **SIM cards** Items used for achieving connectivity and activation of mobile devices. **Batteries** Consumer-grade batteries used in devices like smartphones and laptops. **Accessories** Chargers (including solar chargers), headphones, replacement parts that ensure the usability of devices.	**RELATED SERVICES** *SIM activation and network registration services *Repair services (e.g., handsets, screens, chargers).	**RELATED INFRASTRUCTURE** Supporting infrastructure including generators, solar panels, batteries, base transceiver station shelters, static converters, air conditioners and related equipment.

SOURCE: Authors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This Policy Brief focuses on the taxation of enabling goods, services, and infrastructure, rather than on the taxation of DFS transactions themselves (e.g., mobile money transfers), which are addressed in a separate analysis. This distinction is important. While taxes on DFS services and transactions may affect prices directly, taxes on enablers affect the cost of access and usage indirectly, through device affordability and connectivity costs. They also influence network availability.

For assessing the various taxes and fees on goods and services as enablers for DFS, the taxes and parafiscal fees borne by users (Section 3) and providers (Section 4) are identified using regional comparators for benchmarking:

- For *users*, the study assesses the taxes on enabling goods (e.g., VAT and import duties on handsets and other devices) and services (activation and connection charges, and taxes on electronic communication services).
- For *providers*, the study examines the taxes on enabling goods (e.g., import duties on equipment and handsets, depreciation allowances for corporate income tax in respect of infrastructure investment) and enabling services (e.g., regulatory fees on infrastructure operations).

The analysis focuses on nationally administered taxes and regulatory charges. It does not systematically cover local government levies or informal charges that may affect infrastructure deployment, although these may also influence investment costs and rollout decisions in practice.

Regional comparators are used to situate Tanzania's tax framework within broader African policy trends. However, given the dynamic nature of tax policy in the telecommunications and digital sectors, comparator data reflect the most recent publicly available data and should be interpreted as indicative rather than exhaustive.

3. Taxation of users of enabling goods and services for DFS

Taxation on goods, services and infrastructure that enable DFS affects affordability and access by increasing the cost of entry and usage, thereby potentially constraining adoption, particularly among low-income users. DFS users face both general taxes, such as VAT, and sector-specific taxes, including excise duties and import duties (**Table 2**).

Table 2.

Overview of taxes on enabling goods and services in Tanzania

TAX TYPE		Tanzania	Uganda	Kenya	Rwanda
Value added tax	Phones	18%[1]	18%	0%[2] 16% (imports)	18%[3]
	SIM cards	18%	18%	16%	18% [3]
	Telecommunication services	18%	18%	16%	18%
	Prepaid telecom products	18%	18%	16%	18%
	Repair services	18%*	18%	16%	18%
Excise duties	Phones	/	/	10%	/
	SIM cards	/	/	KES 50	/
	Electronic communication services, including mobile phone services, access and use of networks for data transmission and value-added services, as well as roaming services for both national and international destinations.	17%	12%	20%	10%
Import Duties	SIM cards	10%	10%	10%	10%
	Handsets	0%	0%	0%	0%
	Base stations	0%	0%	0%	0%
	Communication apparatus	0%	0%	0%	0%

SOURCE: Authors' review of relevant legislation.

[1] A 15% VAT rate applies in Zanzibar.
[2] 0% rate applies only to locally assembly phones.
[3] Under Article 8 of the VAT Law (2023), mobile phones, SIM cards, and certain ICT equipment were VAT-exempt. However, the 2025 tax reform removed these exemptions and reintroduced VAT (18%) on these items, while allowing for limited exemptions through ministerial lists.
The table excludes other device-specific taxes, such as eco-levies, which are discussed in subsequent sections.

3.1 Phones

As of December 2025, smartphone penetration stood at 41.82%, while feature phones stood at 87.11%. The growing demand for smartphones and the pursuit of digital transformation in Tanzania highlight the need for domestic smartphone manufacturing. As of 2023, 100% of smartphones in the country were imported (Tanzania Daily News 2023). However, the richness in Tanzania of essential minerals such as graphite, lithium, copper, and cobalt, combined with political and economic stability, suggests a potentially favorable environment for local smartphone manufacturing. This could reduce reliance on imports and support the country's broader digital transformation goals. **Figure 2** provides further details on the penetration of user devices.

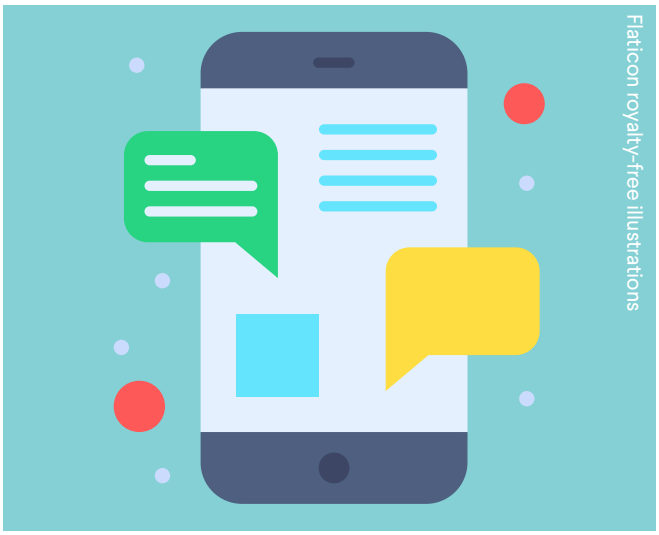
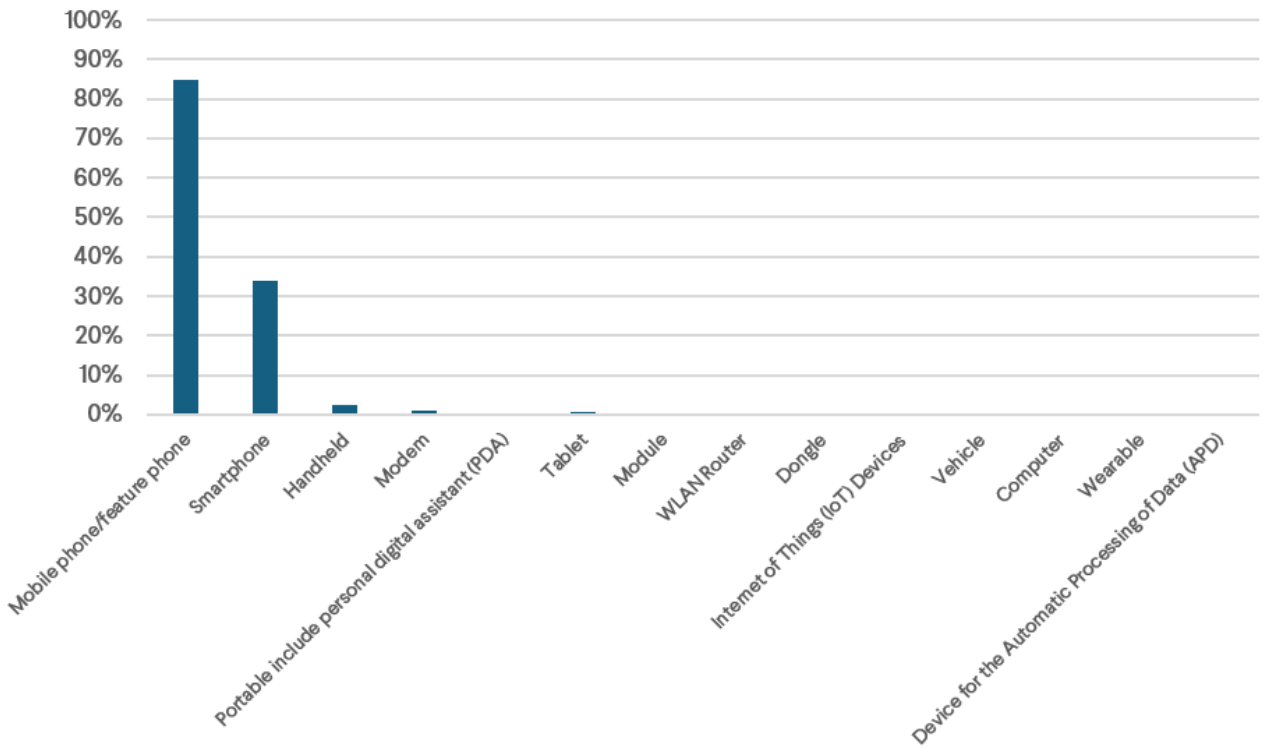


Figure 2.

Penetration Rates of User Devices



SOURCE: Tanzania Communications Regulatory Authority (TCRA) Communication Statistics of December 2025.

VAT

Tanzania imposes an 18% VAT on mobile devices, including handsets and laptops, in addition to import duties where applicable. The burden of VAT is generally passed on to consumers in full, raising costs and reducing accessibility.

In the 2021/22 Budget, the government introduced a VAT exemption for smartphones, tablets and modems as part of a drive to boost internet service usage to 80% by 2025.[1] However, the exemption was revoked in 2022/23 due to what the government regarded as its ineffectiveness in reducing consumer prices amid allegations of traders exploiting the policy.[2]

Calls to reinstate VAT exemptions, such as a 2024 appeal by traders, have not been heeded. The government maintains that VAT exemptions did not translate into affordability but primarily benefited intermediaries instead (The Citizens 2024). Similar concerns have been observed in other jurisdictions, where VAT reductions are not fully passed through to final consumer prices. However, a number of other governments in sub-Saharan Africa have taken the view that exemptions for certain ICT equipment, including mobile phones will provide valuable support for the digital economy.

Several African nations have experimented with such VAT exemptions to stimulate ICT and mobile adoption:

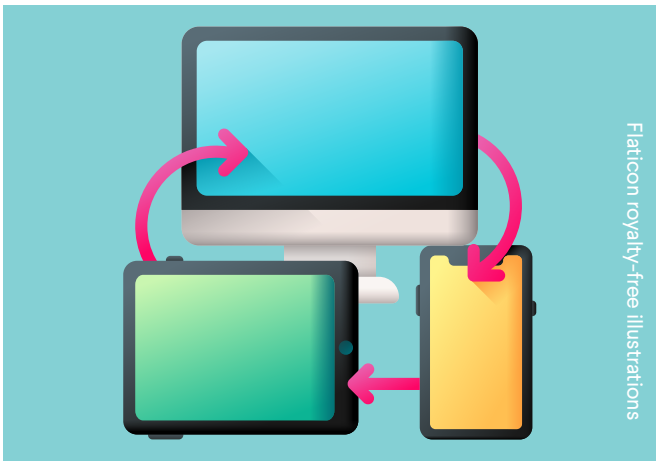
- **Rwanda** previously exempted a broad range of ICT equipment, including mobile telephones, from VAT.[3] This measure was reported as a tax expenditure in 2022/23 and costed at Rwf 1.7 billion. The exemption was designed to enhance the affordability of modern communication technologies and to support the movement towards a cashless economy.[4] However, the 2025 tax reform reintroduced VAT on mobile phones and ICT equipment as part of a broader tax base expansion strategy, while retaining only limited exemptions through ministerial lists.[5]
- **Senegal** exempts mobile and landline phone devices from VAT when supplied to individuals and legal entities liable to the tax on telecommunications services.[6]
- **Ghana** also initially exempted telephone handsets including mobile or cellular phones and satellite phones under the Value Added Tax (Amendment) Act 2008,[7] but amended the VAT Act in 2013 to include the supply and importation of telephone handsets as a taxable supply.[8]
- **Kenya** has made a number of changes over time in the taxation of mobile phones, encompassing both VAT and other device-specific taxes, see below. The government initially removed VAT on handsets in 2009, a change which was followed by a 200% increase in handset adoption and a 50-70% rise in mobile penetration rates.[9] The subsequent reintroduction of 16% VAT in 2013 appears to have reversed some of these gains, underscoring the sensitivity of mobile adoption to tax policy design. In 2023, Kenya introduced a zero VAT rate on the supply of locally assembled and manufactured mobile phones, though VAT remains applicable on imports.[10]

1 For smart phones with HS Code 8517.12.00, Tablets with HS Code 8471.30.00 or 8517.12.00 and Modems with HS Code 8517.62.00 or 8517.69.00. See Budget Speech 2021/2022, p. 42.
2 See Budget Speech 2022/2023.
3 Law N° 049/2023 of 05/09/2023 Establishing Value Added Tax, Art. 8(1)(q). Rwanda published a list of ICT equipment exempt from VAT, which includes laptops, tablets, desktops, etc.
4 Ministry of Finance and Economic Planning, Tax Expenditure Report 2022/23, April 2024.
5 Law No. 009/2025 of 27/05/2025 Amending Law N° 049/2023 Of 05/09/2023 Establishing Value Added Tax.
6 General Tax Code, Art. 361.
7 Value Added Tax (Amendment) Act 2008, by the insertion of item 24 in the First Schedule.
8 Value Added Tax (Amendment) Bill 2013, amending VAT Act 1998 (Act 546).
9 D. Strusani and G. Solomon. (2011). Mobile telephony and taxation in Kenya. GSMA and Deloitte LLP, United Kingdom; N. Ndung'u. 2019. Taxing mobile phone transactions in Africa: Lessons from Kenya. Brookings Policy Brief.
10 VAT Act, Second Schedule, Part A, Sec. 29, amended by Finance Act No. 4 of 2023, Sec. 38(a)iii.

DEVICE-SPECIFIC TAXES

Other countries impose device-specific taxes, for instance:

- **Burundi** introduced a stamp tax (vignette fiscale) on mobile phones.[11]
- The **Republic of Congo**'s draft Finance Law for 2025 introduces a new fee applicable to digital terminals requiring SIM cards.[12] This measure, known as the *Redevance sur les Terminaux Numériques (RTN)*, will take effect starting January 1, 2025. It applies to devices such as mobile phones, modems, and tablets acquired from this date onward. All importers and owners of these new digital terminals are required to pay the fee, which varies based on the technology of the device—2G, 3G, 4G, or 5G. The revenue collected from this fee will be distributed between the State (75%) and the Agency for the Development of the Digital Economy (*Agence de Développement de l'Économie Numérique, or ADEN*) (25%).



- **Kenya** introduced several device-specific taxes in the last few years:
  - In its Finance Act 2022, Kenya introduced a 10% excise duty on imported cellular phones.[13] However, Finance Act 2023 exempts the importation of disassembled or unassembled kits for the local assembly or manufacture of mobile phones from excise duty.[14] As of 1 January 2025, every mobile phone imported into or assembled in Kenya must be registered for tax compliance by submitting its International Mobile Equipment Identity (IMEI) number to the Kenya Revenue Authority (KRA)[15]. Existing devices already in use and connected to networks before October 31, 2024, are not affected.
  - In its Finance Bill 2024, Kenya introduced a Ksh 225 (USD 1.74) eco-levy on select locally manufactured and imported goods, effective 1 July 2024.[16] The levy is designed to ensure that manufacturers and importers recognise the negative impact on the environment of these goods.[17]
- **Chad** introduced a special ad valorem tax (taxe anti-retro-viraux, SAT)[18] at 2% in the Finance Law 2016 which was also applicable on prepaid phone cards but since 1 January 2017, these goods are no longer subject to SAT (Finance Law 2017).
- **Zimbabwe** introduced a levy of USD 50 to be collected prior to registration of new cellular handsets by mobile network providers.[19]

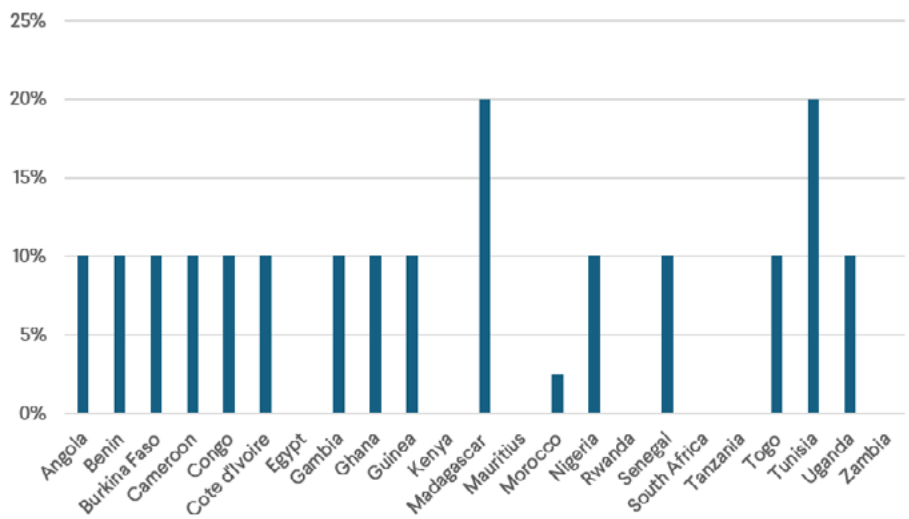
11 Budget Law 2014/15, Art. 37.
12 Projet de Loi de Finances pour l'Annee 2025, Sec. 40.
13 Excise Duty, Cap. 472, First Schedule, Part II (Excisable Goods), introduced by the Finance Act 2022, Sec. 35.
14 Excise Duty Act 2015, No. 23, second Schedule, amended by the Finance Act 2023, Sec. 48.
15 KRA Public Notice. 2024. Declaration of Mobile Devices Incorporating IMEI Numbers At Importation. 5 November.
16 Finance Bill 2024, Sec. 45.
17 Specifically, it helps manage e-waste, offset carbon emissions from production, and fund recycling efforts. The Ksh 225 per unit charge applies to smartphones and feature phones, and is designed to ensure that those responsible for these products help mitigate the pollution caused by their production and importers contribute to mitigating the pollution caused by their production and disposal.
18 This tax was originally intended to fund HIV/AIDS-related programs, particularly the purchase and distribution of anti-retroviral drugs. The tax was also applied to prepaid phone cards as a means of generating additional revenue for health initiatives, including those aimed at addressing the HIV/AIDS epidemic.
19 Finance Bill 2022.

IMPORT DUTIES

Handsets (and related products including SIM cards, see below) are often subject to import duties, which can make access devices more expensive and affect adoption and upgrading decisions by users (**Figure 3**).[20] These expenses are initially borne by telecom providers but are typically passed on to end-users.

- **Tanzania** applies a 0% duty on telephone sets, aligning with countries like Kenya and South Africa.
- **Rwanda** introduced a zero rate import duty instead of 25% on telecommunication equipment in the 2023/24 budget speech. Although the term "telecommunication equipment" was not explicitly defined, secondary sources widely interpret this to include smartphones (AllAfrica 2023).
- **Uganda** has been out of step with other East African Community members on import duty. The government, through a derogation from the Common External Tariffs, imposed a 10% import tax on all imported phones in a bid to increase the adoption of locally manufactured devices in 2020.[21] Moreover, every person who imports goods into Uganda is liable to pay withholding tax at the time of importation on the Customs Value of the goods at 6%.[22]
- **Ghana** and **Madagascar** also impose import duties at rates reaching up to 20%.

Figure 3.
Import duties on telephone sets



SOURCE: Import duties on telephone sets were collected from the World Trade Organisation (WTO) website for the latest data available in November 2024. While Uganda's HS code data indicates a 0% import duty on smartphones, further research confirms that a 10% import duty is currently applied.

20 World Bank (2024), Taxes and Parafiscal Fees on Digital Infrastructure Services in Africa. https://documents1.worldbank.org/curated/en/099051924165515718/pdf/P1724171d3d30108f1a58a1216c204d8a7b.pdf
21 East African Community Gazette 30 June 2021.
22 Except supplies & Withholding Tax 2022-23 5 imports by organizations or persons exempt from income tax. See also info sheet from the Uganda Revenue Authority (2023).

In addition, several countries apply supplementary import-related levies (e.g. infrastructure or development levies), which further increase the effective tax burden on devices.

- In **Rwanda**, imported goods, except those listed as exempt, are subject to the 1.5% Infrastructure Development Levy and the 0.2% African Union Levy.[23] Additionally, imported goods, regardless of whether they are exempt, are subject to a 0.2% Quality Inspection Fee (QIF).[24] The levies are computed on the customs value of imported goods.
- **Uganda** imposes an additional infrastructure levy of 1.5% on selected imports, including mobile phones and SIM cards, as well as replacement batteries to finance railway infrastructure development.
- **Ghana** imposes a Special Import Levy (SIL) on imported goods. Certain products are, however, exempt from this 2% levy, including some telecom-related goods.[25]

Goods imported from within the Economic Community of West African States (ECOWAS) and East African Community Customs Union free-trade area are generally subject to a 0% import duty rate.

Table 3 provides a comparative overview of taxes imposed on imported phones across Tanzania, Uganda, Kenya, and Rwanda.

Table 3.

Comparative Overview of Taxes on Imported Phones in East Africa

TAXES ON IMPORTED PHONES	Tanzania	Uganda	Kenya	Rwanda
Phone item	1000	1000	1000	1000
Import duty (%)	0%	10%	0%	0%
Import duty (calc.)	0	100	0	0
WHT (%)		6%		
WHT (calc.)		60		
Excise duty (%)			10%	
Excise duty (calc.)			100	
VAT (%)	18%	18%	16%	18%
VAT (calc.)	180	198	198	180
Infrastructure levy (%)		1,50%		1.50%
Infrastructure levy (calc.)		15		15
Import Declaration fee (%)			2,50%	
Import Declaration fee (calc.)			25	
Railway Development Levy (%)			1,50%	
Railway Development Levy (calc.)			15	
Total	180	373	338	195

SOURCE: Authors' review of relevant legislations.

23 Law Establishing the Infrastructure Development Levy on Imported Goods of 2015, No. 34, and Law Establishing the Levy on Imported Goods for Financing African Union Activities of 2017, No. 19.
24 Website of the Rwanda Revenue Authority.
25 An exemption applies to telephone sets, including telephones for cellular networks/other wireless networks; other apparatus for the transmission/reception of voice, images, and other data (including apparatus for communication in a wired/wireless network; microphones, loudspeakers, headphones, earphones, audiofrequency electric amplifiers).

3.2 SIM cards

SIM cards in mobile phones facilitate the network access that is essential for DFS as well as voice and other communication.

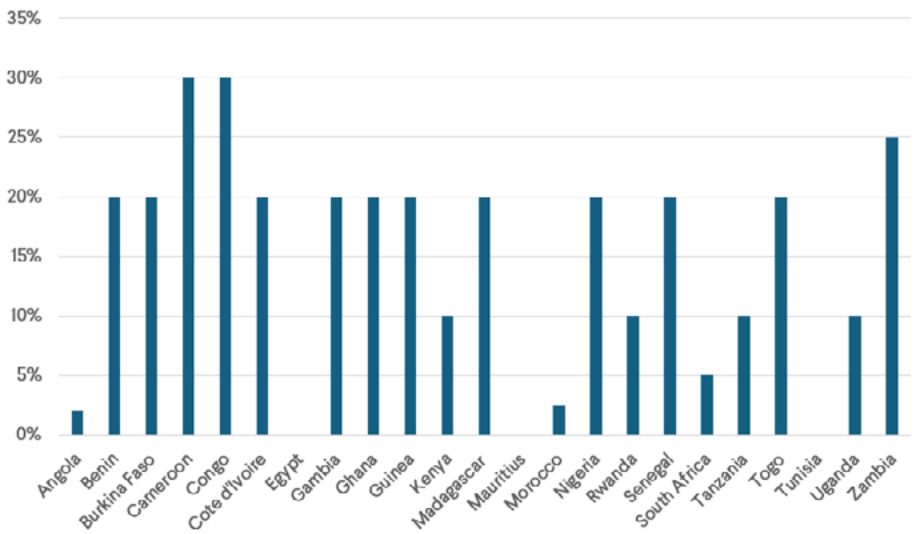
Most governments levy VAT on SIM cards, in addition to import duties. Following the 2025 reform, Rwanda reintroduced VAT on SIM cards, reversing earlier exemptions under the VAT Law (2023).[26]

Some countries levy excise duty on SIM cards.

- **Kenya** applies an excise duty of KES 50 (USD 0.39) on the import of ready-to-use SIM cards.[27]
- **Tanzania** introduced an excise duty on telecommunication SIM cards in July 2013 at the rate of TZS 1,000 per month.[28] However, in January 2014, this was repealed.[29]

Import duties on SIM cards range from 0% to 30%. Import duties on SIM cards are the highest in **Cameroon** and **Congo** (30%), while **Egypt** and **Tunisia** do not levy any import duties on SIM cards. **Kenya** levies an Import Declaration fee of 2.5% and a Railway Development Levy on all imports into the country at 1.5% of the customs value of imports.[30]

Figure 4.
Import duties on SIM cards



SOURCE: Import duties on SIM cards (HS Code 852321) were collected from the World Trade Organisation (WTO) website for the latest data available in November 2024.

26 Law No. 009/2025 of 27/05/2025 Amending Law N° 049/2023 Of 05/09/2023 Establishing Value Added Tax.
27 Excise Duty, Cap. 472, First Schedule, Part I (Excisable Goods), introduced by Finance Act 2022.
28 Finance Bill for 2013-14.
29 Excise (Management and Tariff) (Amendment) Act 2013.
30 Miscellaneous Fees and Levies Act, Cap. 496C, Sec. 7 (import declaration fee) and Sec. 9 (Railway Development Levy).

3.3 Activation and connection charges to gain access to a telecom network

Tanzania does not appear to impose activation or connection fees for telecom services. However, these charges, which are typically one-time fees for gaining access to a telecom network, are observed in some African countries. They are usually levied as fixed charges and disproportionately impact low-income users, limiting digital adoption.

3.4 Electronic communication services

After purchasing a handset and paying activation fees to gain access to a telecom network, the user may be subject to VAT (in some cases at higher rates as seen above) and sector-specific taxes for using fixed and mobile telecommunication services.

Electronic communication services in **Tanzania** are subject to VAT (18%)[31] and excise duties (17%)[32], raising the cost of usage:

- Excise duties apply to "electronic communication services" such as mobile data, airtime, and SMS.[33] In 2014, the excise duty on mobile data and services was increased from 14.5% to 17%.[34] Excise duty becomes payable at the earliest of two points: when the electronic communication service is used (e.g., a mobile, fixed, or wireless phone or device facilitates communication) or when payment for the service is received.[35]
- VAT applies to "telecommunication services", which include a wide range of services provided through various technologies such as wire, optical, or electromagnetic means. This includes mobile data and internet access. The 18% VAT also applies to prepaid telecom products including phone cards, prepaid cards, and recharge cards.[36] VAT is charged on the total value of these products and services, including charges that already incorporate excise duties.

VAT and excise duty are typically paid by the electronic communication service provider (such as mobile network companies),[37] although the cost is ultimately passed on to the consumers.

In 2021, a development levy on airtime was levied under the Electronic Postal Communication Act (EPCA) (Cap. AP 306). The Finance Act 2023 has repealed section 164(A) of the Electronic and Postal Communications Act, which imposed this levy. Before its repeal, the levy applied to payments for communication airtime at a rate ranging from TZS 5 to TZS 222.70.

The affordability of devices and mobile services has been argued to be a significant barrier to increased penetration and usage in Tanzania.[38] Initially taxed as a luxury (i.e., not everyone had access), electronic communication services have since become essential for business, education, and financial access.

31 VAT Act. The standard VAT rate of 18% applies in Tanzania. Note that the VAT rate in Zanzibar is 15% (VAT Act No. 4 of 1998, Sec. 8(1)), except for banking, postal, telecom, insurance and digital services where an 18% rate is applicable (Finance Act 2023-24, Sec. 15).
32 Excise (Management and Tariff) Act, Sec. 124(3).
33 "Telecommunication services" are defined as "a service of any description provided by a company by means of any transmission, emission or reception of signs, signals, writing, images and sounds or intelligible information of any nature, by wire, optical, visual or other electromagnetic means or systems, including (a) voice, voice mail, data services, audio text services, video text services, radio paging and other emerging telecommunication services; (b) fixed telephone services including provision of access to and use of the public switched or non-switched telephone network for the transmission and switching of voice, data and video, inbound and outbound telephone service to and from national and international destinations; (c) cellular mobile telephone services including provision of access to and use of switched or non-switched networks for the transmission of voice, data, video and value added services, inbound and outbound roaming services to and from national and international destinations; (d) carrier services including provision of wired, optical fibre or wireless facilities and any other technology to originate, terminate or transit calls, charging for interconnection, settlement or termination of domestic or international calls, charging for jointly used facilities including pole attachments, charging for the exclusive use of circuits, a leased circuit or a dedicated link including a speech circuit, data circuit or a telegraph circuit; (e) provision of call management services for a fee including call waiting, call forwarding, caller identification, multi calling, call display, call return, call screen, call blocking, automatic callback, call answer, voice mail, voice menus and video conferencing; (f) private network services including provision of wired, optical fibre, wireless or any other technologies of electronic communication link between specified points for the exclusive use of the client; (g) data transmission services including provision of access to wired or wireless facilities and services specifically designed for efficient transmission of data; and(h) communication through facsimile, pager, telegraph, telex and other telecommunication service" (VAT Act, Sec. 2).
34 Excise (Management and Tariff) (Amendment) Act 2013.
35 Excise (Management and Tariff) (Amendment) Act 2013, Sec. 125(1).
36 "Prepaid telecom products" are defined as "a phone card, prepaid card, recharge card, or any other form of prepayment for telecom services".
37 https://www.tra.go.tz/index.php/excise-duty/242-excise-duty-on-electronic-communication
38 According to the GSMA, taxes account for approximately 35% of the total cost of mobile ownership in Tanzania. See: GSMA. 2015. "Digital Inclusion and Mobile Sector Taxation in Tanzania", p. 6.

Many other African countries impose similar sector-specific taxes on usage (including excise duties and other taxes). For example:

- **Burundi** introduced a tax on the use of mobile phone internet data. This tax applies at the rate of 18% on the price of megabits used from 1 July 2021.[39] Effective 1 July 2023, a 20% tax applies to other electronic communication services fees.[40] The Budget Law 2023/24 also introduced, with effect from 1 July 2023, an "Over The Top" (OTT) tax on Internet subscriptions at the rate of BIF 100 for daily subscriptions and BIF 100,000 for monthly subscriptions.[41]
- **Chad** applies a fee on Internet and mobile telephone consumption (redevance audiovisuelle sur la consommation de la téléphonie mobile et internet) at a rate of F.CFA 10 on the total consumption.[42]
- In **Equatorial Guinea**, Finance Law 2020 introduced a tax on telecommunication services (impuesto especial al consumo de servicios de telecomunicaciones) at a rate of 10% (excluding VAT). For this purpose, the taxable events are telecommunication services provided through landline phones, cell phones and satellite phones; internet services, TV services, telefax and other data services. The taxable base is the value of the service excluding VAT.
- **Madagascar** applies an 8% tax on telephone communication, including data communication. [43]
- **Nigeria** has reinstated, in its Tax Bill 2024,[44] a previously proposed 5% excise duty on telecom services, which applies to postpaid and prepaid mobile telephone and internet services.[45] In March 2023, Nigeria had exempted the telecom sector from the proposed excise duty.
- **Zambia** charges the highest excise duty at 17.5% on telecom services such as internet and data services, placing and receiving calls and text message services, and MM services.
- In **Uganda**, excise duty is chargeable on telecom goods and services at 12% on airtime[46] and value-added services,[47] and starting July 1, 2021, mobile data.[48] Consequently, the total tax on internet use is 30% after factoring in the existing 18% VAT. [49]
- In **Kenya**, telephone and internet data services (SMS, voice, and mobile data services) are chargeable to excise duty at 20% of their excisable value.[50] The rate of excise duty has fluctuated over recent years.[51] Additionally, a 16% VAT is applied on the total cost after excise duty, resulting in an effective tax rate of approximately 39.2% on mobile data services.[52]
- **Rwanda** features an excise duty of 10% on telephone communications since 2007.[53] While the excise duty act does not specify whether this applies to voice, data, or both, the Ministry of Finance and Economic Planning has announced plans to increase the duty to 15%.[54] Rwanda applies an 18% VAT on taxable goods and services, including internet and data. They are not listed among the exempt ICT goods and services under the country's VAT exemptions.[55]

39 Budget Law 2021/22, Art. 114.
40 Budget Law 2023/24, Art. 137.
41 Budget Law 2023/24, Art. 118.
42 Code des impôts, Art. 167.
43 Code des impôts, Art. 03.01.01 and following.
44 See Tax Bill 2024, Tenth Schedule.
45 Finance Bill 2023. This development stems from amendments introduced via the Finance Act 2020, which classified telecommunications services as "excisable" under the Customs and Excise Tariff, Etc. (Consolidation) Act. The amendment specifies that such services shall be subject to excise duties at rates determined by the President through an Order. As part of the 2022 Fiscal Policy Measures and Tariffs Amendments Order, the Federal Government had announced the 5% excise duty on telecommunications services. However, in March 2023, the sector was temporarily exempted from the duty from 27 March 2023 to 1 August 2023 (Customs, Excise Tariff (Variation) (Amendment) Order 2023). As a result, the excise duty was nev
46 12% for fiscal year 2021/2022 (previously 20%). Value added services include internet. See also: https://www.ucc.co.ug/wp-content/uploads/2021/09/2Q21-MARKET-PERFOMANCE-REPORT-compressed.pdf
47 Excise Duty Act 2014.
48 This replaced the social media tax imposed in 2018 (daily tax of 200 shillings (USD 0.055) to use any of the mobile apps covered under the OTT tax).
49 https://qz.com/africa/2028653/uganda-replaces-ott-social-media-tax-with-tax-on-internet-bundles/
50 See Excise Duty Act 2015, Cap. 472, Part II, Sec. 1 (amended).
51 The rate was reduced to 15% under the Finance Act of 2023 (Sec. 47(b)(i)), and then increased again to 20% by the Finance Bill of 2024 (Sec. 42(b)).
52 No VAT exemption or zero rating could be identified in the VAT Act (Cap. 476).
53 Article 4 of the Law No. 050/2023 of 5 September 2023 establishing the Excise Duty.
54 Ministry of Finance and Economic Planning, Planning and Budget Outlook Paper FY 2024/25-FY 2026/27.
55 VAT Law of 2023, Art. 3(1)(a).

Telecom services, such as the provision of data and telephone calls, are generally subject to the main rate of VAT, ranging from 15% (Ghana) to 19.25% (Cameroon). Ghana imposes a 5% (previously 9%) communications service tax on charges payable to users of an electronic service, which includes placing and receiving voice calls,

SMS/text messages, and internet/data services.[56]

3.5 Repair services

In **Tanzania**, the taxation of repair services for electronic devices such as phones, laptops, and other related equipment falls under the VAT system. The provision of repair services is considered a taxable service, subject to VAT at the standard rate of 18% (15% in Zanzibar). This applies to businesses offering repair and maintenance services for various consumer electronics, including mobile phones, laptops, and other electronic gadgets, and registered businesses providing these services are required to charge VAT to their customers.

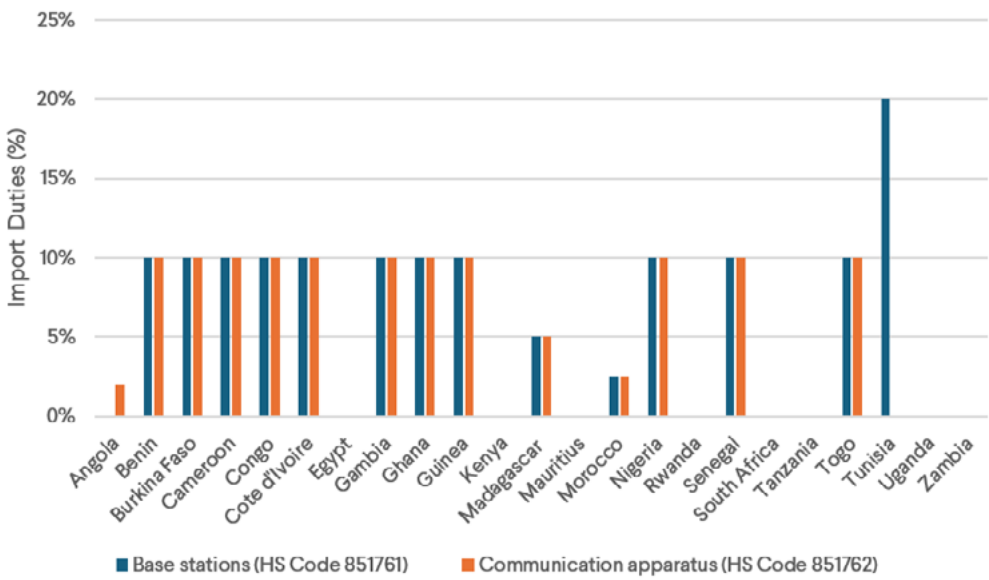
56 Introduced by the Communications Service Tax (Amendment) Act 2019.

4. Taxes and parafiscal fees of providers of enabling goods and services for DFS

4.1 Telecom infrastructure

In some African countries, import duties apply to imported telecom equipment within a range from 0% to 10%. Key network components such as towers, antennae, base stations, and communication apparatus often attract higher tariffs and surcharges compared to other goods and services (**Figure 5**). These charges add to the cost of investment in telecom infrastructure, which is critical for expanding DFS access, and ultimately raise prices for consumers. In principle, **Tanzania, Uganda, Rwanda and Kenya** do not charge duties on these items, but we understand that the revenue authorities have sometimes taken a narrow interpretation of which items qualify for the exemption.

Figure 5.
Import duties on base stations and communication apparatus



SOURCE: Import duties on base stations and communication apparatus were collected from the World Trade Organisation (WTO) website.

NOTE: These refer to the Harmonised System (HS) code 851761 ('Base stations for transmission or reception of voice, images or other data, incl. apparatus for communication in a wired/wireless network (such as a local/wide area network))', HS code 851762 ('Communication apparatus (excluding telephone sets or base stations); machines for the reception, conversion and transmission or regeneration of voice, images or other data, including switching and routing apparatus').

Elsewhere, **Ghana** subjects imported telecom network equipment to customs duty (e.g., base stations are subject to a 10% duty), while import and VAT exemptions apply to machinery and apparatus used in other industries (e.g., agriculture, mining, and transportation). **Angola** imposes a 2% levy on base stations but import duties or other specific taxes do not apply to infrastructure inputs, notably antennae, towers, and network equipment.

Other levies and fees may apply to telecom equipment and goods for telecom services imports. Customs unions such as the African Union (AU), the Economic Community of West African States (ECOWAS), or the West African Economic and Monetary Union (WAEMU) raise fees or duties for the budget of their respective communities.[57] For instance, imports in the East African Customs Union (Burundi, Kenya, Rwanda, South Sudan, Tanzania, and Uganda) from countries outside the Customs Union are generally subject to customs duty at a rate between 0% and 20%, depending on the type of goods. However, specific exemptions, such as for telecom infrastructure, may apply, and a 0% rate applies within the East African Community Customs Union free-trade area.

Additional VAT rates may also apply to telecom infrastructure. Telecom infrastructure in some countries, such as **Egypt**, is subject to supplementary VAT rates (e.g., an additional 5%) aimed at bolstering state resources and promoting social equity."[58]

Import duties and additional VAT on telecom infrastructure affect input prices in the sector and may affect investment in network rollout.

Telecom infrastructure qualifies for depreciation allowances for the purposes of corporate income tax.[59] Certain assets including "specialized public utility plant, equipment" qualify for accelerated tax depreciation but there is a lack of clarity about the extent to which telecom infrastructure fits within this definition.

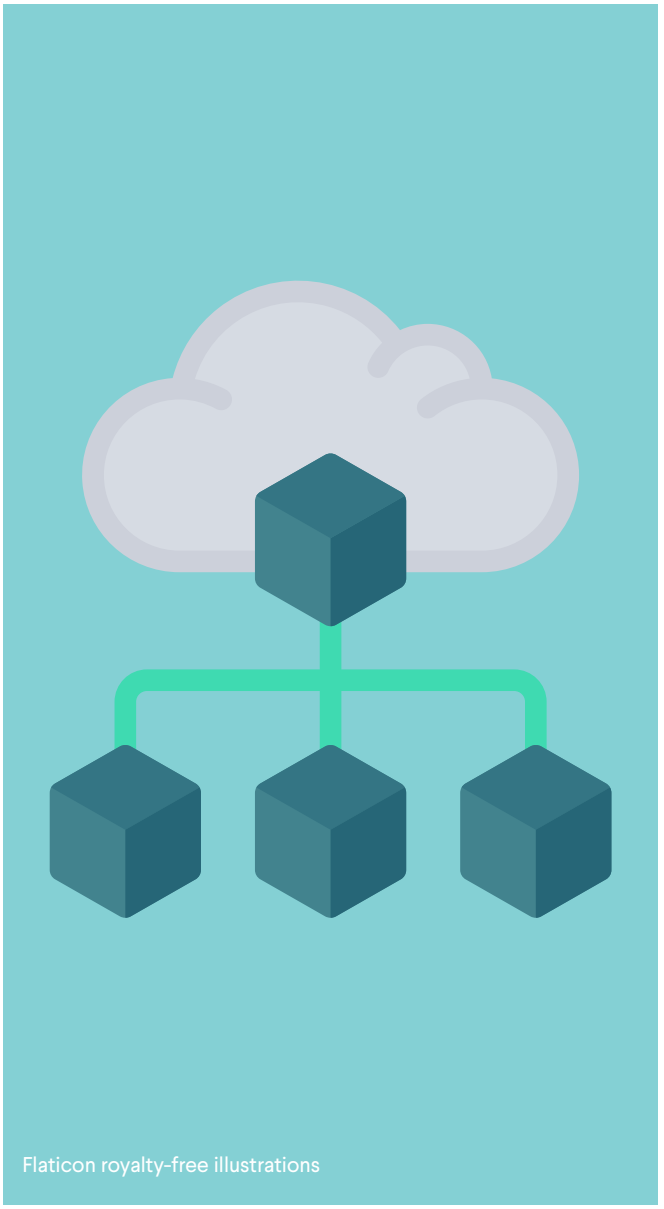
In many countries, there is an issue with established definitions. The applicable rates tend to be determined on an asset-by-asset basis by the revenue authority and the company concerned. In the telecom area, this appears to be particularly unsatisfactory.

Some of Tanzania's regional counterparts have more clearly defined policies regarding the depreciation of telecom infrastructure. For instance, **Kenya** offers a 10% annual investment allowance for "telecom equipment" when calculating gains or profits,[60] alongside specific deductions for capital expenditures related to acquiring an indefeasible right to use fibre optic cables, limited to 5% per annum.[61]

57 For instance, a 0.2% African Union levy on all imported goods used to finance the African Union (its operations, programs and peace and security operations), the ECOWAS Community levy of 0.5% tax imposed on goods from non-ECOWAS Member States used to finance the activities of the ECOWAS Commission and Community institutions, and the WAEMU community levy at 0.8%. The community levy does not apply to goods imported from WAEMU member countries (Ivory Coast, Senegal, Burkina Faso, Mali, Benin, Togo, Niger, and Bissau Guinea).
58 Article 2 of the Egyptian Added Value Tax Law No. 67/2016.
59 Income Tax Act, Ch. 332, Section 17 and Third Schedule.
60 Income Tax Act, Cap. 470, Second Schedule, Part I (Investment allowances).
61 Income Tax Act, Cap. 470, Sec. 15(2)(y).

4.2 Infrastructure operations and maintenance

Providers of enabling goods and services for DFS face a complex web of regulatory fees, including general regulatory fees (to cover the cost of regulatory activities and provide revenues to support the financial independence of the regulator), licensing and authorization fees, spectrum fees; and other regulatory fees (e.g., numbering and homologation of equipment), in addition to Universal Service Fund (USF) contributions (see 4.2.3 below). The amount and complexity of these fees can raise operational and investment costs and increase consumer prices, or limit infrastructure deployment in uncovered areas.



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4.2.1. OPERATORS' GENERAL REGULATORY FEES

No general regulatory fees for telecom providers could be identified in Tanzania.[62] General regulatory fees, also known as administrative or sectorial fees, on revenue and turnover, are present in most developing economies. General regulatory fees aim to guarantee the financial independence of the regulator and compensate the regulator for its costs of regulation.[63] Fees based on revenues rather than profits require telecom operators to pay the same amount, regardless of whether telecom operators generate profits, keep the profits, or invest in new infrastructure. Although telecom operators bear regulatory fees, these costs may be indirectly passed on to end users.

62 For instance, in Côte d'Ivoire, a 5% tax on telecom enterprises applies to the company's monthly turnover exclusive of VAT (Article 1130 GTC). A 2% surtax for developing new technologies in rural zones applies on a monthly turnover, excluding VAT, from prepaid and post-paid telecom services (Article 1127 of the GTC).
63 C. Blackman and L. Srivastav. 2011. Telecommunications Regulation Handbook, Tenth Anniversary Edition. World Bank and the International Telecommunication Union, Washington, DC. https://openknowledge.worldbank.org/handle/10986/13278.

4.2.II. LICENSE FEES

TELECOM-RELATED LICENSING FEES

Telecom operators may be subject to initial licensing fees for obtaining licenses and annual license fees to recover the cost of providing operators with a certain regulatory service (**Table 4**). The growth of the telecom sector has resulted in a significant increase in the number of licenses and, therefore, in revenue mobilization. For instance, in September 2024, the number of licenses for network facilities stood at 34, while licenses for network services totaled 15.[64]

Tanzania applies licensing fees for network facilities, network services, content services, application services, postal and courier services, installation and maintenance of electronic communication equipment, importation and distribution of electronic communication equipment, selling of electronic communication equipment, V-SAT, the usage of scarce resources in relation to spectrum usage, electronic communication numbering and addresses, and channel aggregator services.[65]

Other African countries, including **Uganda, Kenya, Madagascar, DRC, South Africa,** and **Egypt,** also charge fixed fees or annual licensing fees as a percentage (ranging between 0.4% and 2%) of the telecom operator's annual gross turnover or revenue.[66]

The fee structures outlined in the table demonstrate a range of approaches to revenue generation. Some countries, like Tanzania, emphasize turnover-based fees, which scale with the operator's earnings. This model helps ensure that operators of all sizes contribute proportionally to the regulatory costs but, as noted above, takes no account of profitability. In other countries, such as Kenya and Uganda, there is a mixture of fixed fees and revenue-based charges. The differences in licensing fees across these countries also reflect regional and national priorities. Countries like South Africa and Kenya, with more established telecom markets, may be able to rely on a higher percentage of revenue from licensing fees, while newer markets might aim for a more gradual fee structure to encourage investment.

64 TCRA, Communications Statistics, September 2024.
65 Electronic and Postal Communications (Licensing) Regulations 2018, Sec. 2.
66 The "annual gross turnover or revenue" typically includes all sources of income generated by the telecom operator, which may encompass MM services, unless specified otherwise in the regulatory framework.

Table 4.

Selection of license fees per annum

Country	Selection of license fees per annum
Kenya[67]	*National network facilities providers* KShs 5000 (USD 39) license application KShs 15 million (USD 116,054) for initial operating license 0.4% of annual gross turnover or KShs 4 million/USD 30,947 (for Tier 1), KShs 800,000/USD 6190 (for Tier 2), or KShs 160,000/USD 1238 (for Tier 3), whichever of these amounts is higher Access fees for frequency spectrum Annual spectrum fees
Tanzania[68]	10,000 USD application fee, 200,000 USD initial licensing fee, and 200,000 USD renewal licensing fee, and 1% of gross annual turnover for international network facilities (25 years duration) 10,000 USD application fee, 300,000 USD initial licensing fee, 400,000 USD renewal licensing fee, and 1% of gross annual turnover for international electronic network operations (25 years duration) 5,000 USD application fee, 100,000 USD initial license fee, 1% of gross annual turnover to provide international connectivity/bandwidth (10 years duration)
Uganda[69]	USD 2,500 annual fee for application processing fees USD 100,000 (one off) public infrastructure provider license (capacity resale) initial entry fees USD 3,000 public service provider license (capacity resale) initial resale USD 85 customer premises block wiring and repair workshop application fee USD 500 satellite phone user's license USD 30,000 transfer of telecom license USD 5,000 license fees DFS[70]
South Africa[71]	R15729 (USD 879) for initial applications for license R7865 (USD 539) for amendment of license R7865 (USD 539) for renewal of license R7865 (USD 539) for transfer of license R6251 (USD 349) for telecom terminal equipment

SOURCE: Authors' review of relevant regulations.

BoT LICENSING FEES

In addition to the telecom-related licensing fees mentioned above, financial service providers (FSPs) are required to pay licensing fees and other charges to the Bank of Tanzania (BoT). The National Payment Systems Annual Report 2022 outlines the payment system license application procedure in Section 6.2, including self-assessment, consultation with the BoT, submission of minimum documentation, data-centre verification, and payment of the applicable fees.[72] Any entity seeking to provide payment services in Tanzania must secure a payment system license with an application fee of TZS 1,000,000 and a license fee of TZS 12,000,000. [73] The Payment Systems Licensing and Approval Regulations 2015 and the Electronic Money Regulations 2015 provide further guidance on the licensing fees. For instance, electronic money issuers are required to pay a license fee of TZS 2,000,000 and a renewal fee of TZS 2,000,000.[74] As of 2023, the BoT had licensed 92 non-bank payment providers (44 banks and 48 non-banks), alongside six electronic money issuers.[75]

67 Telecommunications Market Structure under the Unified Licensing Framework 2021. See also Communications Authority of Kenya.
68 Electronic and Postal Communications (Licensing) (Amendment) Regulations 2022 and Electronic and Postal Communications (Licensing) Regulations 2018.
69 Uganda Communications (Fees and Fines) Regulations 2019.
70 Uganda Communications (Fees and Fines) (Amendment) Regulations 2020.
71 Service License Fees 2024-25. See also: Independent Communications Authority of South Africa.
72 More recent Bank of Tanzania reporting confirms the continuing legal framework for licensing, but does not reproduce the same detailed application checklist.
73 See Payment System License Application Procedures (Sec. 6.2) in the BoT National Payment Systems Annual Report 2022.
74 National Payment Systems Act, E-Money Regulations 2015, First Schedule.
75 Bank of Tanzania, Annual Payment Systems Report for 2023.

4.2.III. UNIVERSAL SERVICE FUNDS CONTRIBUTIONS

Telecom operators in many African countries are required to contribute a portion of their revenues to a universal service fund (USF) or its equivalent to finance the development of networks in unconnected areas and support the adoption and use of digital technologies (**Table 5**). Contributions range widely, with **Tanzania**'s Universal Communications Service Access Fund (UCSAF) applying a service levy of 1.25% of operator adjusted gross revenue for the 2023/2024 period and 1.5% for 2025/2026,[76] while **Tunisia** requires up to 5%.

Table 5.
Comparison of USF contributions in selected African countries

Country	USF contributions
USF contributions[77]	3% of untaxed annual turnover
Côte d'Ivoire[78]	2% of gross annual revenues (turnover) from mobile operators only
Kenya[79]	0.5% of gross revenues by all licensees offering communications systems and services on a commercial basis
Rwanda[80]	2% of gross annual revenues by all operators
Tanzania	1.25% of gross revenue for 2023/2024 and 1.5% for 2025/2026
Uganda[81]	2% of gross annual revenues by all operators

SOURCE: Authors' review of legislation.

4.2.VI. OTHER REGULATORY FEES

Additional regulatory fees may add to the complexity of the fee structure and increase compliance costs. Several African countries impose additional regulatory fees.

The two most common are numbering resources fees,[82] and homologation and registration of equipment fees. Numbering fees generally apply given the relative scarcity of numbering resources and to facilitate effective control and supervision of the numbers due to the rising number of electronic communication users and services. Several countries also implement homologation fees to protect users from counterfeit mobile devices.[83]

No additional levy fees on numbering resources could be identified in **Tanzania**, but a fee of USD 0.20 per assigned/booked phone numbers (USD/number) applies.[84] In 2018, the average numbering fee within the Sub-Saharan African countries was USD 0.26 per assigned/booked phone number.[85]

76 Universal Communications Services Access Fund Act, Cap. 422, Gov. Notice No. 210 published on 24 March 2023.
77 Law No. 2010/013 of 13 December 2010 governing Electronic Communication in Cameroon, Art. 34(2).
78 Decret N° 2012-949 du 26 Septembre 2012 portant Organisation et Fonctionnement de L'agence Nationale du Service Universel Des Telecommunications/Tic, en Abrege Ansut.
79 Kenya Information and Communications (Universal Access and Service) Regulations, 2010.
80 Board Decision No. 03/BD/ICT/RURA/2024 of 11 October 2024 determining the Universal Access Fund Contribution.
81 Uganda Communications Act 2013.
82 Overall, there are three main categories of numbering fees: a) standard telephone numbers E.164 (for the subscribers directly connected to the operator); b) carrier selection code (to select the operator); and c) signaling point codes (for interconnection with other networks at national (NSPC) and international (ISPC) level). https://ec.europa.eu/digital-single-market/en/news/5th-report-implementation-telecommunications-regulatorypackage-1999
83 GSMA. 2019a. "Mobile Policy Handbook: An insider's guide to the issues".
84 TCRA. 2018. Application Guidelines and Fees for Numbering Resources.
85 G. Rota-Graziosi and F. Sawadogo. 2020. "The tax burden on mobile network operators in Africa", Foundation pour les Études et Récherches sur le Développement International.

5. Summary and recommendations

In summary, our findings show that the taxation treatment of DFS-related products and services in Tanzania is generally no more burdensome than that of other goods and services in the country,[86] and either in line with, or less burdensome than in some other countries in the region. Only a few countries, such as Rwanda – although it has recently reintroduced VAT on mobile phones and certain ICT equipment – have historically been more supportive of DFS-related products and services that are the subject of this note. It should be noted, however, that this finding does **not** include a judgement on the taxation in Tanzania of the main DFS services which are the subject of a separate report.

Even in the taxation of DFS-related products, services and infrastructure, we find that there are some issues that could helpfully be addressed in Tanzania. In the sections that follow, we identify three areas of the tax system where sharply focused reform could support the government's financial inclusion objectives without, we believe, undue cost to the public finances.

5.1 Mobile phone handsets

GOVERNMENT VAT'S EXEMPTION EXPERIMENT

As noted in Section 3 above, Tanzania currently charges 18% VAT on the sale of handsets. This has not always been the case. The government took a decision for the 2021/22 Budget that a VAT exemption for smartphones, tablets and modems could be valuable to its drive to boost internet service usage to 80% by 2025.

In order to achieve this, it was willing to forego the related VAT revenues. However, following the introduction of the exemption, the Ministry of Finance found that the benefit was not being passed on to consumers in the pricing of the products concerned, so a decision to revoke it was made the following year and reflected in the 2022/23 Budget. This measure was projected to generate an additional TZS 33.7 billion in revenue (2022/2023 Budget Speech). The government estimated that the experiment had cost TZS 32 billion in lost revenues during its implementation, mostly benefitting retailers and other intermediaries (The Citizen 2024).

The principle remains, however, that mobile handsets—both feature phones and smartphones—are of considerable importance in delivering financial inclusion as well as other forms of inclusion, that they represent the biggest single cost of inclusion to most people in Tanzania, and that the levying of VAT on the purchase price inevitably increases that cost, potentially putting smartphones beyond the reach of some low-income individuals. It is also noted that the government had no objection to funding the cost of exempting smartphones from VAT, as Rwanda had previously done before reintroducing VAT on mobile phones and certain ICT equipment, only an objection to the benefit of the exemption accruing to intermediaries rather than end users.

The TCRA Quarterly Report for September 2024 shows smartphone penetration at 33.85%, with just over 22 million such devices attached to operator networks, and the numbers increasing gradually. Exemption, or effective exemption, from VAT would likely help ensure that more smartphones were brought into use.

VAT REFUND SYSTEM FOR END USERS

We have considered whether a system could be designed which would ensure that end users would not bear the cost of VAT on handsets, without the risk of the financial benefit accruing instead to intermediaries. We believe such a system would be valuable for financial inclusion, provided it could be operated efficiently, without undue costs or non-financial burdens, and without significant risks of fraud and manipulation.

86 Many clothing items in Tanzania are for instance subject to 10% excise duty (Excise (Management and Tariff Act 2019, Ch. 147).

Our analysis suggests that the following approach might be worth further examination, and we recommend that the government consult with the industry and users to establish whether it might be feasible and what costs might be involved. The key elements are as follows:

- Smartphones remain subject to VAT at the standard rate, but
- The **end user** is given a right to a refund of the VAT subject to the provision of:
  - A valid VAT receipt for the phone, specifying, inter alia, the type and serial number of the phone, the VAT registration number of the supplier and the price and VAT paid;
  - Certain details about the customer.

The law could allow the end user simply to recover all or, if the public finances required it, potentially just part, of the VAT on presentation and surrender of the valid receipt to a Tanzania Revenue Authority (TRA) office. This could be done in person or digitally. However, we do not recommend this as it would be a cumbersome approach with some security risks.

An alternative approach would allow the refund to be made electronically at the point of registration of the new phone. Ideally, this would be done by the service provider for the new phone, which would make a refund to the mobile money account of the customer. The service provider would report this refund on its VAT return in a new category and recover the cost against its own VAT liability. Customers without a mobile money account could either open one or have the refund paid into a bank account. There would be no option for a cash refund.

After consultation, as part of any implementation process, the scheme should be publicised in a way that would maximise awareness and uptake. This could be done using a variety of media, including social media. It would be likely to be popular.

This suggestion is not entirely novel. It builds on the system adopted in Rwanda in March 2024 for encouraging VAT compliance.[87] The Rwandan system allows a customer of a VAT registered business to receive a "reward" (which is effectively a refund of VAT) equivalent to 10% of the VAT incurred on purchases by registering the VAT receipt. The registration of the receipt and payment of the reward are both made digitally. The refund is paid into the individual's MM or bank account. The design of the scheme originally involved the "reward" being made in the form of a contribution to the purchaser's EjoHeza account, a long-term savings scheme run by the government in Rwanda. The intention was to create a dual benefit: encouraging VAT compliance through the more complete recording of business income required by the issue of receipts, and promoting the EjoHeza scheme, to increase long-term national savings. However, the system as legislated has dropped the link to EjoHeza. Adoption and implementation have been encouraged and supported by the IMF.

POTENTIAL RISKS AND FEASIBILITY OF THE PROPOSED SYSTEM

The scheme envisaged for Tanzania is much more limited in scope and exploits the nexus between the telecommunications company (service provider) and the mobile money operators. It could encourage the opening and use of mobile money accounts as well as strengthen sales of smartphones. It could be operated by the service providers, using their own software and systems. There would need to be an audit trail to safeguard against abuse and fraud. Refunds would be processed electronically through the service provider, with clear verification of receipts and phone registration. There would be some costs of set-up and administration for the companies concerned but they would be able to weigh those costs against the benefits of potentially faster market growth. The TRA would need to work with the providers to develop the systems and put them in place.

87 Law No. 049/2023 of 5 September 2023 establishing the Value Added Tax, Art. 27 and the Ministerial Order No. 002/24/03/TC of 8th of March 2024 determining the Reward Based on the Value Added Tax.

The introduction of such a system would likely increase the concentration of smartphone sales by service providers. A point to consider is that it might potentially affect adversely the business of a VAT-registered supplier of smartphones which was not itself a service provider or a branch, agent or subsidiary of one. For purchases from some of these businesses, the refund mechanism might be more cumbersome, and potential customers might prefer an easier route to recovering the VAT. Other suppliers of smartphones who are not VAT-registered should not be affected.

There could be a risk of phone suppliers increasing the price of smartphones to take advantage of the customer refund, but these risks are considered likely to be manageable.

The approach outlined above should allow the government to achieve its previous objective of making smartphones more affordable without the risk that the benefit simply passes to intermediaries rather than the end user. We believe that it should be investigated further by government in conjunction with the providers and end users, and fully costed.

Alongside its research into this option for achieving a reduction in the VAT cost of smartphones for consumers, the government might also consider other options. This could include zero-rating of phones, but this would likely be more expensive than exemption and carry the same risk, that the beneficiaries would be the intermediaries rather than the end users. Non-tax options include targeted payments to low-income individuals who purchase smartphones. We have not considered these further in the context of this Policy Brief.

5.2 Data services

Data services are subject to VAT at a rate of 18% as well as excise duty at a rate of 17% in Tanzania, as noted above in Section 3.4. By contrast, fees for electronic payments such as mobile money services as well as for money transfers by banks or non-bank financial institutions are subject to a lower rate of excise duty of 10%. Thus, for smartphone mobile banking payments, both VAT and excise duty apply not only to the data services but also to the transaction fees, with VAT at 18% and excise duty at 10%.

The use of mobile data is, for many types of DFS transactions, a natural accompaniment and precursor to the use of mobile digital payments. The expansion of the DFS markets for credit, savings, insurance etc, is likely to increase customers' use of data. But taxation currently weighs heavily on such use.

In legislative terms, it would be relatively easy to amend the relevant definitions in The Excise (Management and Tariff) Act, CAP.147. R.E. 2019 to exclude references to data from the 17% charge. This would leave data services outside the scope of excise duty but still subject to VAT. Alternatively, the excise duty charge on the use of data could be aligned with that on electronic payment services, at 10%. The latter would have a more modest cost to the Budget.

We recommend that the government considers making this latter change in the first instance. There are three main issues that we believe should form part of that consideration:

- Whether the reduction in the applicable rate of excise duty will make a significant difference to the affordability of data to consumers and provide any meaningful incentive for the wider adoption of digital services generally, including the adoption of DFS. In this context, it should be noted that a reduction in excise duty will have a knock-on effect into the amount of VAT payable for data services, as the VAT charge is based on the excise duty-inclusive price for the services.
- Whether the service providers are able, in practice, to identify and separate out the charges for data from charges for other services. It seems likely that they could do so, but it will be important for the government to consult the sector before making a change and to set the scope carefully in a way that will encourage targeted use of data while not necessarily and unintentionally benefitting other types of use.
- Whether the change will create compliance risks and facilitate the over-pricing of data services by providers to take advantage of the excise duty reduction. Given the regulatory requirements for transparency in the pricing this might not be a major source of concern, but it should, nevertheless, be monitored.

Without significantly more work, this Policy Brief cannot unreservedly recommend the suggested reform, but the authors believe it could have value both as a signal and as a cost-reduction measure that would support financial and other forms of inclusion. This aligns with broader GoT initiatives, such as the Digital Economy Strategic Framework 2024-2034 and the National Five-Year Development Plan- III (2021/22-2025/26), which prioritize enhancing access to affordable and reliable digital infrastructure as a cornerstone for economic and social development. The Regulator might consider that a government proposal to reduce the excise duty on data services would give it enough leverage to ask the service providers to make an equivalent downward adjustment of their charges, again in the interests of financial inclusion.

5.3 Infrastructure investment

The provision of infrastructure for telecommunications services, which creates the network on which the services depend, including DFS, is supported by government in a number of ways. Although coverage appears to be good, further investment in telecommunication infrastructure may enhance the rollout of mobile broadband networks, improving both coverage and speed (**Table 6**).

Table 6.

Network Coverage and Internet Speed as of September 2024

Technology	Population coverage (%)	Geographical coverage (%)
3G	90.1	73.6
4G	84.9	70.2
5G	18.0	2.2

SOURCE: TCRA Communication Statistics of September 2024.

UCSAF supports the extension of the network into underserved regions. In response to bids by the service providers, it provides a capital grant to the successful bidder, funded by the universal service levy of 1.25% of adjusted turnover. In recent years, the towers themselves have typically been neither owned nor managed by the service providers. They have been constructed by third parties who lease them to the service providers, usually under long-term contracts. This pattern has, however, changed somewhat in 2026, with reintegration of ownership of some towers into the service provider business. The tower owners contribute to UCSAF on the same basis as the service providers but receive no direct benefit from it.

THIS POLICY BRIEF MAKES TWO RECOMMENDATIONS:

1. The Government should review how the towers and ancillary equipment are treated, in law and practice, for import duty purposes. Most of the elements that form the structure of the towers and the ancillary equipment, are free from import duty when they are brought into Tanzania. However, the constructors/owners have reported some anomalies. They typically import large batteries that store excess solar-generated energy for use when the electricity supply from the grid is unavailable or inadequate. If they import the batteries inside the large cupboards in which they are placed on-site, all the equipment is allowed into Tanzania duty free. However, if the batteries and cupboards are imported separately, the TRA has required import duty to be paid on the cupboards, notwithstanding that the separation during transport has been made only to prevent damage.

We recommend that the treatment should be the same whether the items are transported separately or together, provided the purpose of the import is clear. We also recommend that the government establish an appropriate forum in which such issues can be discussed on a regular basis to prevent unnecessary friction.

2. We also recommend that the Government review the tax depreciation available for both the active and passive parts of the telecom infrastructure for the purposes of CIT. There are two points to consider:

- Whether the depreciation allowance could be enhanced in such a way as to encourage a faster and geographically wider roll-out of tower construction so that underserved areas could be included more quickly. This would normally be achieved by making available higher rates of tax depreciation. In this case, however, the realization of any benefit will be very dependent on the tax position of the tower owners so it will be important for the government to consult them before making any changes. If the tower ownership businesses are in a tax loss position, accelerated depreciation may not be of immediate benefit to them. If this proves to be the case, the government might wish to consider whether the faster roll-out could better be achieved by additional cash grants, whether through the UCSAF system or through negative taxation/subsidy. In any event the interaction between the UCSAF funding and the targeting of expansion through the tax system should be considered carefully before any changes are made.

- Whether the legislation that provides for tax depreciation on infrastructure expenditure could be improved by addressing telecom assets more specifically. We understand from service providers that difficulties have arisen in connection with the interpretation of wording in Schedule 3, paragraph 1(1) which defines Class 2 assets (inter alia). This has created uncertainty about the depreciation allowance available. The legislation refers to “public utility plant, equipment and machinery”. We understand that there have been significant differences of view with the TRA as regards the application of these words to telecoms infrastructure. It could helpfully be resolved by wording that more specifically covers the towers and the equipment attached to them. Where assets qualify for depreciation allowances, this should involve only a timing difference rather than an absolute cost.

We recommend that, on both these issues, the government consult with the sector to identify the best way forward.