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THE FINANCE ACT, 2026

A commentary for the banking and financial sector

LEGAL COMMENTARY · JULY 2026

Tanzania's Finance Act, 2026 and the Banking Sector: Reforms, Reliefs, and the Road Ahead Towards Taxation.

Every bank-related amendment in the Act, examined with clear eyes.

FINANCE ACT, 2026 (NO. 3 OF 2026) · EFFECTIVE 1ST JULY 2026

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INTRODUCTION: A SECTOR AT THE CENTRE OF CHANGE

Every year, Tanzania's Finance Act arrives like a tide, reshaping the fiscal terrain across industries, rewarding some, burdening others, and leaving the astute observer to ask one essential question: is this a rising tide that lifts all boats, or does it pick and choose?

For Tanzania's banking and financial sector, the Finance Act, 2026 (No. 3 of 2026), effective 1st July 2026, is arguably the most consequential legislative intervention in recent years. It touches banks from multiple directions simultaneously as regulated institutions subject to the Bank of Tanzania, as taxpaying entities under the Income Tax Act, as withholding agents under the VAT regime, as processors of financial transactions subject to stamp duty, and as pillars of an economy being pushed, rapidly and deliberately, toward digitalisation.

This article examines every bank-related amendment in the Act with clear eyes. It asks what the changes mean for the millions of Tanzanians who bank or who cannot yet afford to and for the domestic and foreign investors who hold stakes in Tanzania's financial institutions. And it confronts the central question directly: does this Act improve the banking sector, or does it subtly undermine the progress made?

WHAT THE ACT ACTUALLY CHANGES, A PROVISION-BY-PROVISION ACCOUNT.

1. The Bank of Tanzania Overdraft Limit, Fiscal Discipline with a Sharp Edge

The most structurally significant banking amendment sits in Part II of the Act, which amends the Bank of Tanzania Act (Cap. 197). Section 35(2) is amended to reduce the maximum permissible Government overdraft from the Bank of Tanzania from 18% to 14% of the previous fiscal year's actual government revenue. Simultaneously, the conditions under which the Bank may extend emergency short-term advances to Government are now legally restricted to three defined scenarios: a declared disaster under the Disaster Management Act; an external economic event of exceptional magnitude and impact; or a state of emergency declared under the Constitution.

This may read like a technical adjustment, but its implications are profound. For years, critics of Tanzania's fiscal management have pointed to the Central Bank overdraft as a soft escape valve; a mechanism that allowed Government to fund shortfalls by drawing on the Bank of Tanzania rather than restructuring expenditure or accessing capital markets. At 18%, the previous threshold allowed significant quasi-monetary financing of the fiscal deficit. At 14%, the ceiling tightens.

What this means: The Central Bank is being positioned more firmly as an institution of monetary independence rather than fiscal convenience. For commercial banks, this has a direct implication, if Government can borrow less easily from the Central Bank, it must compete more openly in the

domestic bond and treasury bill market. Banks, which are the primary holders and intermediaries of Government securities in Tanzania, may see increased issuance volume in the short to medium term as Government seeks to fill the financing gap through the capital market rather than BoT overdrafts.

For the foreign investor looking at Tanzania's macroeconomic trajectory, this amendment sends a clear signal: the Government is institutionally committing to tighter fiscal discipline. That is generally positive for credit ratings, sovereign risk pricing, and the attractiveness of Tanzania's sovereign debt instruments, all of which influence the yield environment that banks operate within.

2. The Deemed Dividend Exemption, The Most Important Banking Tax Change in Years

Perhaps the single most impactful provision for banking sector investors and shareholders is found in Part IX of the Act, amending Section 33A of the Income Tax Act (Cap. 332). Under the previous regime, profitable companies including banks that did not distribute at least 30% of their taxable profits as dividends were deemed to have done so, and taxed accordingly. This "**deemed dividend**" provision was a significant drag on capital retention in the financial sector.

The Finance Act, 2026 makes two decisive changes. **First**, it reduces the deemed distribution fraction from 30% to 15% for general companies. **Second**, and critically for the sector, it fully and explicitly exempts financial institutions (as defined under the Banking and Financial Institutions Act, Cap. 342), insurance companies, DSE-listed companies, and holders of mining **Framework Agreements** from the deemed dividend regime altogether. Banks and financial institutions are no longer subject to deemed dividend taxation at all.

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What this means for investors: This is a capital formation measure of real consequence. Under the old framework, a bank that retained profits to grow its loan book, strengthen its capital adequacy ratio, or invest in digital infrastructure was penalised for doing so. The tax system was, in effect, pushing capital out of banks and into shareholder pockets at precisely the moment regulators were encouraging banks to hold more capital. That tension is now resolved.

For shareholders and institutional investors, the exemption changes the dividend calculus. Boards of directors at Tanzanian banks are now free to pursue optimal capital allocation strategies whether that means retained growth, dividends, or share buybacks without a punitive tax consequence

attached to the first option. Long-term institutional investors who value capital compounding over near-term income will find Tanzanian banking stocks more attractive under this regime.

For the Bank of Tanzania as a prudential regulator, this aligns fiscal policy with supervisory objectives. Banks can build capital buffers, comply with Basel III requirements, and extend credit to underserved sectors without the Income Tax Act working against them.

3. Mandatory Electronic Payments | The Digitalisation Mandate

The Electronic Transactions Act (Cap. 442) is amended by Part III to empower the Minister of Finance to gazette specific categories of payment that must be made electronically. Crucially, the amendment further provides that proof of electronic payment becomes a mandatory prerequisite for the approval of applications relating to the transfer of assets including land, buildings, and motor vehicles.

What this means for banks: This is an extraordinary commercial opportunity dressed as a compliance measure. Tanzania's commercial banks and mobile money operators are, in effect, being elevated from optional payment channels to mandatory infrastructure. Every land transfer or disposition, every vehicle registration, every building transaction in Tanzania will now be required to pass through an electronic payment system, banks and licensed payment service providers are the gatekeepers.

For banks that have invested heavily in mobile and internet banking platforms, this mandate is validation and market guarantee combined. For banks that have lagged in digital investment, it is urgent notice that the infrastructure gap must be closed immediately.

What this means for consumers: For the bank customer, the short-term adjustment may feel uncomfortable. Not every Tanzanian has a bank account or a mobile money wallet. Forcing electronic payments as a prerequisite for asset transfers risks creating a two-tier system, those with access to electronic payment infrastructure and those who are effectively locked out of the formal property market. The Act is silent on the position of individuals in areas without reliable telecommunications or banking infrastructure. This is a gap that we lawyers and civil society should monitor closely.

4. Transfer Pricing Penalties, A More Proportionate Framework

Section 90(2)(c) of the Tax Administration Act is amended to change the basis for calculating transfer pricing penalties. Previously, non-compliance with the arm's length principle attracted a penalty of 100% of the tax shortfall an often punitive and sometimes existential figure for businesses with cross-border related-party transactions. The amended provision sets the penalty at 30% of the amount of the transfer pricing adjustment.

For international banks operating in Tanzania which, routinely engage in intragroup transactions such as management fees, intragroup loans, guarantee fees, and shared services this is a welcome recalibration. The 100% penalty was disproportionate and, in practice, discouraging of honest disclosure. A 30% penalty on the adjustment amount is more predictable, more defensible in litigation, and more consistent with international transfer pricing penalty norms.

What this means for investors: Foreign-owned banking groups entering or expanding in Tanzania will face a less hostile transfer pricing environment. The risk of catastrophic tax assessments arising from transfer pricing adjustments is materially reduced. This improves the risk-adjusted return calculations that multinational banking groups apply when considering the Tanzanian market.

5. VAT Withholding | The 10-Day Clock

The Value Added Tax Act amendments in Part XXV clarify and tighten the withholding VAT regime. Two rates are now expressly prescribed: 15% withholding on supplies of goods and 12% withholding on supplies of services. Where a transaction involves both goods and services, the taxable value is apportioned at a ratio of 3:2 (goods to services). Withholding agents which include Government entities, large corporations, and designated financial institutions must now remit withheld VAT and file statements within 10 days of the end of each tax period.

What this means for banks as withholding agents: Banks that are designated VAT withholding agents face tighter compliance timelines. The shift demands investment in automated reconciliation systems. Banks that process high volumes of supplier payments must ensure their treasury and tax compliance teams are aligned on the new 10-day cycle.

Importantly, the withheld VAT statement is now formally recognised as a tax return under the Tax Administration Act. This means late or incorrect filings attract penalties equivalent to those for missed tax returns not merely administrative fines.

6. VAT Refund Rights, Banks Gain a Statutory Remedy

Section 88 of the VAT Act is amended to provide that VAT refund applications must be decided within 30 days of receipt of a complete application. If payment is not made within the period specified in the decision notice, the applicant is entitled to *interest* at the statutory rate from the date of the decision.

For input-VAT-intensive businesses which, can include large banks making substantial capital expenditures the right to interest on delayed refunds is a significant gain. VAT refund delays have historically been a source of quiet but significant cost for businesses, particularly given that withheld

funds represent real economic cost of capital. The statutory interest remedy is a deterrent against administrative delay.

The complementary provision in new Section 88A, however, allows the Commissioner General to suspend or revoke a refund decision where fraud, misrepresentation, or a tax audit or investigation notice exists. This is a necessary anti-abuse provision, but it creates uncertainty, a suspended refund decision, even on legitimate claims, stops the 30-day clock from running during any investigation. Banks with refund claims in progress should maintain impeccable documentation.

7. Stamp Duty Increases | The Cost of Doing Business Goes Up

Part XX of the Act increases stamp duty rates across multiple financial instrument categories. The minimum stamp duty on a bill of sale by way of security rises from TZS 1,000 to TZS 10,000 a tenfold increase. The maximum rises from TZS 10,000 to TZS 100,000. Cheques now attract TZS 700, up from TZS 500. Instruments of surrender of lease move from TZS 1,000 to TZS 2,000. A new 0.5% stamp duty applies on agricultural land transfer instruments. Partnership deeds now attract TZS 5,000 where capital does not exceed TZS 1,000,000, and TZS 10,000 where it does. Bills of exchange relating to property carry a new TZS 5,000 duty.

Additionally, the definition of a "lease" now explicitly includes exchanges of movable property a change with broad implications for financing arrangements involving movable assets as collateral.

What this means for consumers and banking operations: The stamp duty increases are, in isolation, modest on some instruments. The increase on cheques is unlikely to change consumer banking behaviour. However, the increase on bills of sale by way of security, a tenfold increase on both minimum and maximum raises the cost of formalising security interests. For SME borrowers using movable assets as collateral, this is a real transactional friction cost. In the context of efforts to expand credit to the informal sector, any increase in documentation costs works against financial inclusion.

The new 0.5% stamp duty on agricultural land transfers is the most commercially significant change. Agricultural land is one of Tanzania's most commonly transacted assets. Banks that provide agricultural mortgages and land-secured lending will need to factor this cost into their lending documentation and ensure borrowers understand the full cost of formalising agricultural land security. However as far as disposition is concerned this stands and a relief for disposition of agricultural lands.

8. Alternative Dispute Resolution | More Room to Negotiate

Part XXII amends the Tax Revenue Appeals Act to extend the ADR window from 60 to 90 days, with a possible 30-day extension on application. The amendment also introduces a formal requirement

that parties confirm acceptance of ADR before the Board or Tribunal issues an order referring the matter to settlement.

For banks with disputed tax assessments which is not uncommon given the complexity of financial sector taxation the extended ADR period is a practical benefit. Ninety days provides more genuine negotiating room before the expense and risk of formal litigation.

9. TIN Registration Closing the Compliance Loop

Section 22 of the Tax Administration Act is amended to require that any person becoming potentially liable to pay tax by reason of commencing employment or business must apply for a Tax Identification Number within 15 days of commencing that activity. For banks as employers, this is largely an internal HR compliance matter new employees and contractors must be registered promptly. For banks as lenders, it provides a stronger basis for verifying borrower tax compliance at onboarding.

WHAT THIS MEANS FOR INVESTORS IN THE BANKING SECTOR

Taken as a whole, the Finance Act, 2026 presents a broadly positive, though carefully nuanced, picture for investors in Tanzania's banking sector.

The capital retention argument is compelling. The full exemption of financial institutions from deemed dividend taxation is the standout provision for equity investors. Retained earnings can now compound within the institution. Banks can accelerate loan book growth, invest in digital infrastructure, expand branch networks, and strengthen capital ratios without the Income Tax Act penalising the choice to do so. This is the kind of structural change that alters bank valuation models, particularly for growth-stage investors who assign value to retained earnings compounding rather than near-term dividend yield.

Fiscal discipline at the Central Bank is confidence-building. The reduction in the BoT overdraft ceiling, while not a direct banking sector intervention, reduces the risk of monetary financing of fiscal deficits. For investors pricing Tanzanian sovereign risk, which flows directly into the cost and risk of holding Government securities on bank balance sheets, tighter BoT-Government financial arrangements are a structural positive.

Transfer pricing predictability removes a tail risk. For foreign banking groups, the 100% transfer pricing penalty was a documented concern. The recalibration to 30% of the adjustment removes an extreme downside risk from the investment calculation. This matters most for the large multinational banking groups that have considered but not yet entered the Tanzanian market.

Tanzania's commercial banks and mobile money operators are, in effect, being elevated from optional payment channels to mandatory infrastructure.

Digital payment mandates are a franchise opportunity. Banks that have built digital payment infrastructure stand to benefit from a regulatory mandate requiring electronic payment proof for asset transfers. This is not a natural market expansion; it is a legislated one. The first mover advantages for well-capitalised digital banks and mobile money operators are significant.

However, investors should watch two concerns carefully. The extension of new withholding obligations (1% on crop and livestock purchases, 1% on food crop sales) dramatically expands the compliance burden on the corporate sector, including banks' major borrowers in agriculture. Borrowers under increased tax compliance stress may see reduced cash flows, affecting loan

serviceability. And the increase in IDL on imported goods such as steel and aluminium will marginally raise construction costs for bank branch expansion and data centre development.

WHAT THIS MEANS FOR CONSUMERS OF BANKING SERVICES

For ordinary Tanzanians who use or aspire to use banking services, the Finance Act, 2026 is a mixed picture.

On the positive side, financial institutions freed from deemed dividend taxes can reinvest profits into service expansion, digital platform development, and product innovation. In theory, a bank with greater capital retention capacity is a bank better positioned to lower lending rates, extend credit to underserved markets, and invest in the rural branch or mobile agent network that reaches the unbanked.

The mandatory electronic payment framework has the potential to accelerate financial inclusion by force, not by creating incentives for people to open bank accounts, but by making it administratively necessary to do so for anyone who wants to participate in the formal property market. For urban Tanzanians already holding bank accounts, this removes a transactional friction. For rural Tanzanians without reliable connectivity or banking access, it creates a new barrier.

The VAT refund interest provision protects large businesses, many of which are banks' best customers, from the cash flow damage of delayed refunds. Faster, more predictable refunds mean healthier borrower balance sheets, which means lower credit risk for banks.

On the challenges side, the stamp duty increases on bills of sale and security instruments raise the direct cost of borrowing, especially for SME and agricultural borrowers. These are the borrower segments that Tanzania's financial sector most needs to reach, and the segments most sensitive to transaction costs. A TZS 10,000 minimum stamp duty on a bill of sale may sound trivial to a large corporate, but it is meaningful to a small trader formalising their first secured loan.

The mandatory electronic payment regime, while commercially logical, carries a genuine financial exclusion risk. If the Minister of Finance exercises the power broadly, designating a wide range of payments as mandatorily electronic, those without bank accounts or mobile wallets will face real barriers to legal economic participation. The Act does not include financial inclusion safeguards or phased implementation provisions for underserved communities.

The new sugar levy of TZS 10 per kilogram directed to the Universal Health Insurance Fund and the cigarette levy of TZS 20 per 1,000 cigarettes are public health financing measures that will filter through to consumer prices. Higher living costs reduce discretionary savings capacity, which affects deposit mobilisation in the retail banking segment.

PROGRESS OR RETREAT? AN HONEST ASSESSMENT

On capital formation and institutional health: genuine progress. The deemed dividend exemption is not a minor tweak. It is a structural correction that aligns the tax code with the regulatory imperative of well-capitalised financial institutions. It signals that the Government understands that a healthy banking sector requires profitable banks that can retain and compound capital.

On fiscal governance and monetary independence: progress. The BoT overdraft ceiling reduction is a credible commitment to reducing monetary financing of fiscal deficits. For a country that has periodically struggled with the tension between fiscal need and monetary stability, this is a meaningful institutional step. Banks benefit from a lower-inflation, more predictable monetary environment.

On digitalisation: progress with conditions. The mandatory electronic payment mandate is bold, and in a country where mobile money penetration has grown rapidly, arguably timed right. But boldness without inclusion safeguards is progress for some and exclusion for others. The Government will need to ensure that the implementation of the Minister's powers under the Electronic Transactions Act amendment is accompanied by genuine investment in last-mile financial infrastructure mobile agent networks, community banking, simplified digital wallets for unbanked populations.

On transaction costs and SME credit access: a step backward. The stamp duty increases on security instruments and the expansion of withholding tax obligations compound the cost of formal credit, particularly at the smaller end of the market. Tanzania's financial inclusion agenda extending affordable credit to smallholder farmers, micro-enterprises, and the informal sector is not served by measures that make the documentation and administrative burden of borrowing more expensive. This is the area where the Act's direction is most at odds with the broader goal of deepening financial markets.

On investor confidence: a net positive. The transfer pricing penalty recalibration, the deemed dividend exemption, the VAT refund interest right, and the extended ADR window collectively make Tanzania a more predictable and proportionate tax environment for banking sector investors. These provisions do not make Tanzania's banking sector a risk-free environment, but they meaningfully reduce the tail risks that have historically made foreign banking groups cautious.

A SECTOR BEING REPOSITIONED, NOT DIMINISHED

The Finance Act, 2026 is not a hostile act toward Tanzania's banking sector. On the contrary, it contains some of the most sector-friendly provisions particularly for investors that any recent Finance Act has produced. The deemed dividend exemption alone will reshape bank capital strategies and, over time, should strengthen the balance sheets of Tanzania's domestic financial institutions.

The Finance Act, 2026 is not a hostile act toward Tanzania's banking sector.

Tanzania's banking sector has the foundations of a genuinely competitive and inclusive financial system. The Finance Act, 2026 strengthens some of those foundations and leaves others requiring further work. That, ultimately, is the honest verdict.



This article was prepared by Lyson Law Group for professional and public information purposes. It reflects the provisions of the Finance Act, 2026 as published in the Special Gazette of the United Republic of Tanzania, No. 6, Vol. 107, dated 15th June 2026. It does not constitute legal advice. For sector-specific advice, contact Victor Mwakimi and Lige James of Lyson Law Group at vmwakimi@lysonlaw.co.tz and ligejames@lysonlaw.co.tz.