

Research Article

# Bridging the Digital Tax Gap: A Comparative Analysis of Online Business Taxation in Tanzania

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## Abstract

The rapid expansion of online business has created increasingly complex challenges for tax systems worldwide, with developing countries such as Tanzania facing particular difficulties. As e-commerce and digital platforms reshape traditional business models, governments must urgently adapt outdated tax frameworks to capture revenue from digital transactions. Tanzania, like many other common law jurisdictions, struggles to regulate and tax its growing digital economy due to limited statutory definitions of online business, weak enforcement capacity and the predominance of informal trading through social media and mobile money platforms. The objective of this article is to critically assess the effectiveness of Tanzania's current legal and administrative frameworks governing online business taxation, while situating these within broader global developments. The paper identifies key structural and operational gaps, including the absence of resident-focused provisions, lack of integration between mobile money operators and the tax authority and inadequate compliance mechanisms for small-scale digital entrepreneurs. To provide a comparative perspective, the study draws on experiences from Kenya, India and the United Kingdom jurisdictions that have made notable progress in implementing digital taxation measures. Particular attention is given to the adoption of digital services taxes, regulation of non-resident providers, the use of technological tools for real-time tax monitoring and the role of taxpayer education in enhancing compliance. These comparative insights highlight both the opportunities and challenges of aligning Tanzania's framework with emerging international practices. The article concludes by recommending a set of legal, administrative, and technological reforms aimed at modernizing Tanzania's digital tax regime. These include the development of digital economy tax strategy, introduction of significant economic presence provisions, implementation of a tiered digital taxation regime, building technological capacity, strengthening public awareness campaigns, extending VAT regulations to include residents and defining "online business" in law. Such reforms are essential to ensure equity, enhance compliance and secure long-term fiscal sustainability in the context of an evolving global digital economy.

## Keywords

Digital Taxation, E-commerce, Informal Economy, Tax Reform, Tanzania Revenue Authority, Digital Services Tax, Comparative Tax Policy

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## 1. Introduction

The rapid rise of digital commerce is reshaping economic activity across the globe and Tanzania is no exception. Increasingly, entrepreneurs run their businesses through social media platforms such as Instagram, WhatsApp and YouTube, offering everything from physical products to digital services. Simultaneously, international technology giants are providing paid services to Tanzanian users, including advertising, cloud storage and streaming subscriptions. While these developments have created new avenues for entrepreneurship and consumer engagement, they have also posed significant challenges for tax policy and administration.

In Tanzania, the taxation framework remains largely anchored in traditional brick-and-mortar business models, with limited provisions tailored specifically to online transactions. This has contributed to a “digital tax gap” that is the shortfall between potential and actual revenue from the digital economy which is driven by enforcement difficulties, definitional ambiguities and low voluntary compliance. As more economic activity shifts online, the urgency to modernise tax laws grows.

This article explores how Tanzania is addressing online business taxation and compares its efforts to those of Kenya, India and the United Kingdom. By identifying best practices from these common law jurisdictions, the analysis aims to provide evidence-based policy recommendations to strengthen Tanzania’s digital tax framework and boost revenue mobilisation.

## 2. Background and Overview

Tanzania’s digital economy has expanded rapidly over the past five years mainly driven by falling data costs, widespread mobile adoption and the use of social platforms as commercial marketplaces. The Tanzania Communications Regulatory Authority’s (TCRA) 2024 communications statistics show strong increases in SIM subscriptions, internet usage and mobile-money activity, underscoring the scale and normalization of digital channels in everyday commerce. The structural trend shows that more users, more connectivity and more digital payments moving through regulated systems. [1]

DataReportal’s 2025 country snapshot notes continued growth in internet and social media users in Tanzania, with social platforms ranking among the top online destinations. This broader usage base has catalyzed a shift from social networking to *social commerce*, where sellers leverage Instagram, WhatsApp and Facebook to market, invoice and fulfill orders without a traditional storefront. For policy makers, that shift matters as transactions increasingly occur on such which challenges old tax rules that focused on physical presence and formal retail. [2]

Tanzania remains one of Africa’s most mature mobile-money markets, with hundreds of millions of transactions processed each quarter and a growing range of use cases

beyond airtime and domestic remittances like bill pay, credit and savings. TCRA’s quarterly statistics and GSMA industry reporting highlight the macroeconomic importance of this rail for both households and micro, small and medium-sized enterprises (MSMEs). A large share of MSME activity happens on global social apps rather than domestic marketplaces thus platform-level liability and data access are harder to operationalize. Compliance strategies must therefore blend platform cooperation with *payment-rail solutions* and simplified regimes for micro-sellers. [3] With mobile wallets central to consumer payments, integrating tax processes with mobile-money operators for example via simplified registration, e-invoicing, or risk-based data sharing may deliver more coverage than audit-heavy models designed for card-centric economies. Although policy interventions such as mobile-money levies can temporarily slow usage, the longer-term trajectory remains upward. For tax administration, this rail is pivotal as it provides digital audit trails and potential integration points for low-friction compliance (e.g., e-invoicing links, data-sharing, or withholding at source for specific supplies). [4]

Another driver is the *rise of cross-border digital services* streaming, online advertising, app stores, learning platforms consumed by Tanzanian residents and businesses. As consumption of foreign digital services deepens, *remote VAT registration and source-based withholding/Digital Service TAX (DST) style rules* are essential to maintain neutrality between domestic and foreign suppliers while minimizing distortions. Tanzania’s recent VAT and income-tax updates are steps in this direction and align with international practice. To adjust to the collection to this reality, Tanzania has introduced targeted rules. Under VAT, electronically supplied services are treated as taxable supplies, with non-resident providers required to register and remit VAT on B2C (Business to Consumer) sales to Tanzanian users (and to apply reverse-charge where the customer is VAT-registered). Administratively, the Tanzania Revenue Authority (TRA) launched a *simplified VAT registration portal* for foreign providers in 2023 to ease compliance and reduce friction. At the direct-tax level, Tanzania also applies a 2% *Digital Service Tax (DST) style income tax* to non-resident providers earning payments from individuals via digital marketplaces, creating a parallel source-based collection mechanism. Together, these measures aim to capture revenue from digital consumption that previously fell outside the domestic net. [5]

These policy moves sit within a wider national development agenda that treats digitalization as a growth enabler. The Government’s Digital Tanzania Project and the Five-Year Development Plan (FYDP III) explicitly frame digital infrastructure, digital public platforms, and digital financial services as levers for industrialization, job creation, and service delivery. In World Bank diagnostics across Africa, Tanzania is profiled as advancing along multiple pillars of the “digital

economy” (infrastructure, platforms, financial services, businesses, skills), though capacity gaps persist in data governance and MSME formalization. This policy backdrop helps explain the recent push to align tax instruments with the real economy’s shift toward bits rather than bricks. [6]

In short, Tanzania’s digital economy now rests on the triad of social-platform commerce, mobile-money usage and routine consumption of cross-border digital services. The policy challenge is to *tax what is digital without taxing it out of existence* by pairing clear legal rules with low-friction collection mechanisms that meet users where they already transact.

### 3. Literature Review

The taxation of online businesses in emerging economies has drawn significant scholarly attention, particularly due to the mismatch between traditional tax frameworks and the realities of digital commerce. *Mpofu (2022) [7]* critically reviews Africa’s experience with direct digital services taxes (DSTs), highlighting that while several countries have introduced DSTs to capture revenue from foreign-based digital companies, implementation remains inconsistent and sometimes contested in international trade forums.

In the Tanzanian context, *Dentons (2024) [8]* provides a legal and practical analysis of digital services taxation, noting that recent amendments to the Value Added Tax Act and the introduction of DST provisions in the Finance Act aim to address revenue leakage from non-resident digital service providers. However, enforcement challenges persist due to jurisdictional limitations and insufficient taxpayer awareness. Similarly, *Hashimy and Magoge (2024) [9]* examine the intersection of permanent establishment principles and e-commerce taxation in Tanzania, pointing out that current laws lack clarity on how online presence constitutes a taxable nexus.

From a comparative perspective, *Mponwana (2024) [10]* analyzes the experiences of Kenya and the United Kingdom, showing that Kenya’s 1.5% DST on gross transaction value has generated moderate revenue but faced resistance from digital platforms. The UK’s DST, in contrast, is more targeted and operates alongside well-developed digital reporting requirements. *Abdiqani (2020) [11]* further investigates Kenya’s DST framework, identifying both administrative innovations and compliance bottlenecks, particularly among SMEs operating informally online.

On policy adaptation, *Khamis (2024) [12]* explores Zanzibar’s digital economy tax policies, contrasting them with mainland Tanzania and other East African nations. The study finds that regional harmonization is still weak, creating opportunities for tax arbitrage. Similarly, *Banga (2025) [13]* situates African digital tax measures within the broader international trade regime, warning that certain DST provisions may conflict with trade agreements, potentially affecting enforcement.

From a tax administration perspective, *Mbise and Baseka (2022) [14]* evaluate the impact of Tanzania’s digital tax administration system on compliance among SMEs, noting improvements in filing rates but also highlighting persistent gaps in taxpayer education and infrastructure. In the realm of e-commerce readiness, *Yindi, Zhang, and Tenga (2021) [15]* emphasize that infrastructural limitations and low awareness of tax obligations among online sellers hinder full integration of the digital economy into the formal tax base.

Overall, while the literature demonstrates progress in understanding digital taxation frameworks, critical gaps remain despite the growing body of work on digital services taxation in Tanzania and other common law jurisdictions. First, the majority of the literature including analyses by *Dentons (2024)*, *Hashimy and Magoge (2024)* and *Mpofu (2022)* focuses predominantly on the taxation of *non-resident digital service providers* such as global streaming platforms, social media companies and foreign e-commerce sites. While this is an important area, it leaves a significant blind spot regarding *domestic online entrepreneurs* who conduct business through platforms like Instagram, WhatsApp, Facebook Marketplace and local e-commerce websites.

Second, most studies concentrate on *VAT and Digital Services Tax (DST) provisions*, but provide limited examination of how *income tax obligations* apply to individuals and SMEs operating entirely online within Tanzania. The lack of statutory definitions for “online business” and the absence of tailored compliance guidelines for resident taxpayers further worsens this oversight.

Third, there is little empirical research quantifying the scale of *tax evasion or underreporting* by domestic digital sellers, particularly in relation to mobile money transactions and informal cross-border trade. Without such data, policy-makers face difficulties in designing targeted enforcement measures.

Finally, while comparative studies such as those referencing Kenya, India and the UK offer valuable insights, there is minimal adaptation of these lessons to Tanzania’s unique economic and infrastructural context. This gap suggests a need for locally grounded policy frameworks that balance revenue mobilisation with the growth of the domestic digital economy.

## 4. Legal Framework for Online Business Taxation in Tanzania

### 4.1. Overview

Initially, Tanzania introduced Value Added Tax (VAT) through the VAT Act of 1997<sup>1</sup>, aimed at broadening the tax base and modernizing revenue collection. This legislation primarily targeted traditional goods and services transactions,

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<sup>1</sup> Cap. 148

with limited provisions addressing digital services due to the nascent stage of the digital economy at that time.

The growth of the digital economy in Tanzania has transformed trade, with social media commerce, mobile money transactions and online marketplaces emerging as significant drivers of income generation. Platforms such as Instagram, WhatsApp, Facebook and TikTok are now common tools for

selling goods and services, while mobile money services like M-Pesa, Tigo Pesa and Airtel Money facilitate seamless payment. Despite this evolution, Tanzania's tax laws remain largely structured around traditional commerce, leaving substantial gaps in the taxation of online business, particularly for resident traders operating informally.

## 4.2. A Survey of Key Tanzanian Statutes Demonstrates the Absence of a Unified, Resident-focused Legal Regime for Online Business Taxation

**Table 1.** A Survey of Key Tanzanian Statutes Demonstrating the Absence of a United, Resident-focused Legal Regime for Online Business Taxation.

| Law                                                                                           | Relevant Sections                                                                 | Coverage                                                                       | Observation                                                                                          |
|-----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|--------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
| Income Tax Act, Cap. 332 [R. E. 2023]                                                         | Secs. 4, 6–9 (Residence & chargeable income), Secs. 104–107 (Withholding)         | General tax liability for residents and non-residents.                         | No explicit reference to online business; compliance depends on self-declaration.                    |
| Value Added Tax Act, Cap. 148 [R.E. 2023]                                                     | Sec. 51 (Electronic services)                                                     | Covers supply of electronic services, with emphasis on non-resident suppliers. | Lacks provisions for domestic online sellers; no simplified VAT regime for small e-commerce traders. |
| VAT (Registration of Non-Resident Electronic Service Suppliers) (Amendment) Regulations, 2023 | Reg. 3–9                                                                          | Registration and VAT compliance for non-resident e-service suppliers.          | Silent on resident online traders; no obligation for influencers or small-scale e-commerce sellers.  |
| Electronic Transactions Act, Cap. 442 [R.E 2023]                                              | Sec. 3 (Definition of electronic transaction), Sec. 9 (Electronic Record Keeping) | Recognizes e-commerce and electronic records.                                  | Does not link electronic transactions to tax compliance mechanisms.                                  |
| Tax Administration Act, Cap. 438 [R.E. 2023]                                                  | Secs. 22–28 (Registration), Sec. 42 (Record keeping)                              | Provides for taxpayer registration and record keeping.                         | Does not specifically identify online business operators as registrants.                             |

### 4.3. Gap Analysis

From the above survey, the existing legislative landscape shows several deficiencies as follows:

#### 4.3.1. No Statutory Definition of “Online Business”

The term is not expressly defined in tax laws. References to “electronic transactions” and “electronic services” are fragmented and service-centric, leaving out goods-based e-commerce.

#### 4.3.2. Non-resident Focus

VAT and e-service regulations are primarily designed for non-resident suppliers, reflecting global digital services tax trends, but leaving domestic digital entrepreneurs largely outside targeted regulation.

#### 4.3.3. Informality and Enforcement Challenges

Resident online traders often operate informally via social media and mobile money without business registration or tax compliance. TRA lacks direct legal authority to monitor and tax them effectively.

#### 4.3.4. Lack of Mobile Money Tax Integration

Despite mobile money being a primary channel for online trade, there is no mandatory real-time reporting framework for tax purposes.

#### 4.3.5. Absence of Sector-specific Compliance Procedures

No simplified registration, filing or payment system exists for small-scale resident online businesses.

## 4.4. Implications of These Gaps

### 4.4.1. Revenue Loss

The absence of resident focused provisions allows a large part of domestic online trade to remain untaxed.

### 4.4.2. Unfair Competition

Registered businesses especially SMEs that comply with VAT and corporate tax face higher compliance burdens compared to informal digital traders who evade tax. This regulatory imbalance distorts competition, undermining formalization efforts and discouraging compliance among law-abiding taxpayers.

### 4.4.3. Enforcement Difficulty

TRA's emphasis on taxing non-resident service providers overlooks the high-volume, low-value transactions that dominate Tanzania's e-commerce space. This enforcement blind spot hampers effective revenue mobilization, as informal traders are more numerous and harder to track than multinational firms.

### 4.4.4. Missed Integration Opportunities

The absence of mandatory data sharing between mobile money providers, social media platforms, and TRA limits the ability to leverage digital footprints for tax enforcement. If mobile money transaction data were integrated into TRA's compliance systems, evasion patterns could be detected earlier, reducing leakages and enhancing fairness in the tax system.

## 5. Comparative Frameworks Analysis

### 5.1. Kenya

Kenya introduced a Digital Service Tax (DST) in 2021 at 1.5%<sup>2</sup> of gross transaction value. The DST applies to both resident and non-resident digital service providers. The Kenya Revenue Authority (KRA) also uses mobile platforms to enhance compliance and has integrated online business registration with tax ID issuance.

*Finance Bill, 2020* inserted a new section under The Income Tax Act, Section 12E labelled as "Digital service tax" which shall be payable by a person whether resident or non-resident whose income from the provision of services is derived from or accrues in Kenya through a digital market place at the time of transfer of payment for the service to the service provider.<sup>3</sup>

<sup>2</sup> Government of Kenya, Finance Act 2020; Kenya Revenue Authority, "Digital Service Tax Guidelines", 2021.

<sup>3</sup> The Finance Bill 2020, Part II – Income Tax Act, Insertion of Section 12E in Cap. 470 "Digital Service Tax"

*Income Tax (Digital Service Tax) Regulations, 2020*<sup>4</sup> which are regulations implementing DST which explains scope, registration, payment mechanics. It is an instrument/regulatory guidance for DST.

*Value Added Tax Act, No. 35 of 2013 (VAT Act)*<sup>5</sup> Section 8 talks about Place of supply of services which includes cross-border electronic services which are treated as supplied in Kenya for VAT).

*VAT Regulations, 2017*<sup>6</sup> these are supporting regulations for VAT Act used for administrative details about registration and VAT on services supplied electronically.

### 5.2. India

India implemented the Equalisation Levy in 2016<sup>7</sup>, initially targeting online advertisements and later expanded in 2020 to e-commerce operators at 2%.<sup>8</sup> India's approach reflects its broader strategy of asserting taxing rights over non-resident tech companies. It has also strengthened its significant economic presence rules to address digital value creation. The levy applies to both resident and non-resident entities in certain cases.

*Central Goods and Services Tax Act, 2017 (CGST Act)*<sup>9</sup> which is the primary GST statute. Section 9(5) provides for tax on certain notified services when supplied through an e-commerce operator and Section 52 which provides for the requirement on e-commerce operators to collect tax at source or act as tax collector in specified circumstances.

*Finance Act 2016 / Equalisation Levy (as enacted)*<sup>10</sup> and later expansions (Finance Act 2020 expanded scope)<sup>11</sup>. Sections 165A and 165B of the Finance Act impose a 2% levy on the gross amount of online sales or services provided to Indian residents. India's enforcement model combines robust taxpayer education with stringent penalties for non-compliance, backed by the Central Board of Direct Taxes (CBDT)'s digital tracking tools. The government's Equalisation Levy pages list the operative provisions. [16]

### 5.3. United Kingdom

The UK introduced a Digital Services Tax (DST) in 2020 at 2% [17] on the revenues of large digital companies. Unlike Kenya and India, the UK targets only high-revenue global firms, making its DST a narrowly applied but sophisticated tool. The UK's tax authority also uses advanced data analytics to monitor digital transactions.

*Finance Act, 2020*<sup>12</sup> Part 2 talks about Digital Services Tax which is the primary statutory basis for the UK Digital Ser-

<sup>4</sup> Legal Notice No. 207 of 2020

<sup>5</sup> Cap. 476 [Rev. 2022]

<sup>6</sup> Legal Notice No. 54 of 2017

<sup>7</sup> Act No. 18 of 2016

<sup>8</sup> The Finance Act, Act No. 12 of 2020

<sup>9</sup> Act No. 12 of 2017

<sup>10</sup> Act No. 18 of 2016

<sup>11</sup> Act No. 12 of 2020

<sup>12</sup> 2020 c. 14

vices Tax (DST) which introduces the DST charge, rates and charging rules.

*Taxes (Interest Rate) (Amendment No. 2) Regulations 2020*<sup>13</sup> which set interest rates on DST liabilities.

*Value Added Tax Act 1994 (VAT Act 1994)*<sup>14</sup> the UK also enforces strict VAT obligations on all online sellers, including small domestic e-commerce businesses. HM Revenue & Customs (HMRC) maintains comprehensive online filing systems and compliance is supported by automated data matching with payment processors. HMRC VAT Notices give operational guidance (HMRC VAT Notice 741A — *Place of supply of services*; HMRC guidance on digital services to consumers).

## 6. Opportunities and Lessons from Comparative Jurisdictions

### 6.1. Use of Mobile Payment Systems

Kenya's integration of M-Pesa with tax systems demonstrates how digital finance tools can increase tax visibility<sup>15</sup>. Tanzania can replicate this by linking TRA databases with mobile operators.

For Tanzania, where mobile money penetration exceeds 60% of the population, a similar integration between the Tanzania Revenue Authority (TRA) and mobile network operators could be transformative. Mobile wallets such as M-Pesa Tanzania, Tigo Pesa, Airtel Money, and Halopesa are already central to e-commerce transactions. By mandating digital records of business-related mobile transfers to be shared with TRA, while safeguarding privacy, the government could expand the tax base. Moreover, Tanzania could adopt Kenya's innovation of embedding automatic excise duty deductions into mobile transactions, creating both real-time compliance and efficiency in revenue collection.

### 6.2. Tiered Taxation

India's and the UK's use of revenue thresholds for digital taxation ensures that only major players bear the DST burden, protecting SMEs.<sup>16 17</sup> In Tanzania, where online entrepreneurship is still at a formative stage, replicating this model could help avoid stifling innovation. A tiered approach could combine simplified presumptive taxes for micro and small online businesses with a more robust DST framework for large multinational platforms. This would not only improve compliance but also ensure that taxation policy aligns with

developmental goals such as supporting SMEs and encouraging digital innovation.

### 6.3. Enhancing Legal Definitions

One of the major challenges in Tanzania's current legal framework is the absence of precise definitions for "online business," "digital services," "e-commerce supply," and "significant economic presence." This ambiguity has led to difficulties in enforcement, particularly when distinguishing between resident online entrepreneurs, casual users of social media, and large multinational digital platforms.

India provides a good model: its Finance Act 2016 and subsequent amendments clearly define terms such as "equalisation levy" and "specified e-commerce supply," which guides both taxpayers and administrators. Similarly, the UK's DST legislation outlines which services qualify as search engines, social media platforms and online marketplaces thus ensuring clarity and predictability.

For Tanzania, amending the Income Tax Act (Cap. 332) and VAT Act (Cap. 148) to include statutory definitions of digital business terms would close loopholes, reduce discretionary interpretation, and provide certainty to both taxpayers and TRA officers. This would also strengthen Tanzania's capacity to tax transactions on platforms like Instagram shops, WhatsApp business accounts and YouTube monetisation areas currently under-regulated.

### 6.4. Leveraging International Cooperation

Kenya, India and the UK all actively participated in global tax policy debates under the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS).<sup>18</sup> These discussions aim to create a coordinated global response to the taxation of the digital economy, including proposals for a global minimum tax and allocation of taxing rights to "market jurisdictions" where users are located.

Tanzania is currently not a full participant in these negotiations, which risks leaving it isolated and dependent on unilateral measures. By joining the Inclusive Framework and engaging in African continental tax dialogues under bodies like the African Tax Administration Forum (ATAF), Tanzania can strengthen its credibility, access technical support, and align with best practices. Such cooperation would also help mitigate the risk of trade disputes with multinational companies or double taxation conflicts with other jurisdictions.

Participation in international frameworks could further allow Tanzania to negotiate data-sharing agreements, access global tax intelligence, and harmonise its DST rules with East African Community (EAC) neighbours, ensuring a consistent regional approach to taxing the digital economy.

<sup>13</sup> 2020 No. 995

<sup>14</sup> 1994 c. 23

<sup>15</sup> Government of Kenya, Finance Act 2020; Kenya Revenue Authority, "Digital Service Tax Guidelines", 2021.

<sup>16</sup> Government of India, Finance Act 2016 & 2020; Income Tax Department, "Equalisation Levy Compliance Portal".

<sup>17</sup> UK HM Treasury, Digital Services Tax Policy Paper, 2020.

<sup>18</sup> OECD, Tax Challenges Arising from the Digitalisation of the Economy, 2021.

## 7. Policy Recommendations

### 7.1. Develop a Digital Economy Tax Strategy

A coordinated framework between the Tanzania Revenue Authority (TRA), Tanzania Communications Regulatory Authority (TCRA) and mobile money operators would streamline oversight and compliance. Kenya's Digital Service Tax (DST) rollout demonstrates the importance of cross-agency coordination, as KRA collaborated with telecoms and banks to ensure effective implementation.

Mandating telecoms and mobile money providers to share flagged transaction data with TRA could enable better compliance monitoring, especially for high-volume online traders. Such a system would balance data privacy with the state's fiscal needs, while providing TRA with valuable insights into informal sector online transactions.

### 7.2. Introduce Significant Economic Presence Provisions

Current Tanzanian tax laws largely rely on physical presence to establish taxing rights, which is inadequate in the digital economy. Introducing a "significant economic presence" (SEP) test similar to India's 2018 amendment to its Income Tax Act (Section 9, Finance Act 2018)<sup>19</sup> would allow Tanzania to tax foreign digital firms generating substantial income from local users without a physical office.

This reform would target global tech giants like Meta, Google and Netflix, ensuring they contribute to Tanzania's revenue base. By asserting such rights, Tanzania would also align with international best practices under the OECD/G20 Inclusive Framework on BEPS (OECD, 2020).

### 7.3. Implement a Tiered Digital Taxation Regime

A one-size-fits-all digital tax could suppress entrepreneurship. A tiered model would balance inclusivity with fairness. Inspired by India and the UK, Tanzania should consider:

- 1) Simplified presumptive tax regime for small online traders: Tanzania could extend its existing Presumptive Income Tax Regime [18] into the digital space. For instance, small Instagram vendors, WhatsApp shop owners and YouTube influencers could pay a digital turnover tax deducted directly via mobile money, reducing administrative burdens.
- 2) DST for foreign platforms: Inspired by the UK's Digital Services Tax (DST) (Finance Act 2020)<sup>20</sup> and India's Equalisation Levy (Finance Act 2016)<sup>21</sup>, Tanzania could impose a DST on large foreign firms earning above a defined threshold. This would ensure that taxation fo-

cuses on global platforms, not micro-entrepreneurs.

Such a dual system would promote fairness while avoiding double taxation of SMEs.

### 7.4. Build Technological Capacity

Efficient digital taxation requires robust infrastructure. TRA should invest in data analytics [19], AI based compliance tools and user friendly online tax filing portals and mobile applications. A pilot project in partnership with mobile operators could test tax collection via mobile wallets. Tanzania's recent digital tax portal (TRA Online e-Filing System, 2021) is a step forward but needs expansion into mobile-first applications that are accessible to SMEs.

### 7.5. Strengthen Public Awareness Campaigns

Legislative alone is insufficient without taxpayer education. Tanzania should emulate the UK's HMRC by launching public campaigns targeting digital entrepreneurs using relatable influencers and social media platforms. Combine legislative reform with taxpayer education campaigns targeting online entrepreneurs, influencers and mobile traders. Similarly, the Kenya Revenue Authority (KRA) has partnered with local celebrities to encourage tax compliance among young entrepreneurs.

For Tanzania, campaigns should target online entrepreneurs, digital influencers, and mobile vendors. Using relatable ambassadors could reduce resistance to tax compliance and cultivate a tax culture in the digital space.

### 7.6. Extend VAT (Registration of Non-Resident Electronic Services Suppliers) Regulations to Residents

Create obligations for resident online service providers and content creators to register and remit VAT above a set turnover threshold.

Tanzania's current VAT (Registration of Non-Resident Electronic Services Suppliers) (Amendment) Regulations, 2023<sup>22</sup> largely target non-resident suppliers such as Netflix, Meta and Amazon. However, resident digital service providers such as Tanzanian YouTubers monetising ads or Instagram shops selling locally are outside the current VAT scope.

Amending the Regulations to include resident providers above a set turnover threshold would expand the tax base fairly. TRA could then leverage mobile money channels for simplified VAT collection from SMEs.

### 7.7. Define "Online Business" in Law

Amend the *Income Tax Act* and *VAT Act* to explicitly define online business, encompassing both goods and services supplied via digital platforms, whether social media, dedicated

<sup>19</sup> Act No. 13 of 2018

<sup>20</sup> 2020 c. 14

<sup>21</sup> Act No. 18 of 2016

<sup>22</sup> GN No. 448 of 2023

e-commerce sites or mobile apps.

## 8. Conclusion

The digital economy is no longer a peripheral part of Tanzania's business landscape but rather it is now central to trade, services and innovation. Yet, as shown in this comparative analysis with Kenya, India and the United Kingdom, Tanzania's legal and regulatory framework for online business taxation remains fragmented and overly reliant on provisions designed for traditional commerce. Existing laws, such as the Electronic Transactions Act and the VAT (Electronic Services) Regulations, provide partial coverage, focusing mainly on non-resident service providers while leaving resident online traders under-regulated.

This imbalance has created a persistent "digital tax gap" that undermines revenue mobilisation, distorts competition and erodes tax fairness. Lessons from comparator jurisdictions demonstrate that a robust framework should begin with a clear legal definition of online business, extend VAT and digital service tax obligations to domestic actors, integrate mobile money and payment platform data and assign compliance responsibilities to marketplace operators.

Tanzania has taken initial steps through TRA's digital initiatives, yet the pace of reform must accelerate to match the scale of the online economy. By implementing targeted policy changes supported by taxpayer education and phased enforcement, Tanzania can not only close its digital tax gap but also create a fairer, more sustainable taxation system fit for the 21st century economy.

## Abbreviations

|      |                                                        |
|------|--------------------------------------------------------|
| B2C  | Business 2 Consumer                                    |
| DST  | Digital Service Tax                                    |
| GSMA | Global System for Mobile Communications Association    |
| HMRC | His Majesty's Revenue and Customs                      |
| MSME | Micro, Small and Medium Sized Enterprises              |
| OECD | Organisation for Economic Co-Operation and Development |
| SIM  | Subscriber Identity Module                             |
| SME  | Small Medium Enterprises                               |
| TCRA | Tanzania Communications Regulatory Authority           |
| TRA  | Tanzania Revenue Authority                             |
| VAT  | Value Added Tax                                        |

## Author Contributions

Martha Joseph Kanama is the sole author. The author read and approved the final manuscript.

## Conflicts of Interest

The author declares no conflicts of interest.

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