POLICY BRIEF

Domestic Resource Mobilisation (DRM) at Risk: How Rising Debt & Regressive Taxation are Deepening Inequality in Tanzania

Implications for Women, Youth, and Persons with Disabilities and the Need for Equitable Domestic Resource Mobilisation

2026

BACKGROUND

Tanzania is improving revenue collection, but the fairness of revenue mobilization is weakening due to regressive taxes and rising debt service. The Norwegian Church Aid (NCA) through Interfaith Standing Committee on Economic Justice and Integrity of Creation (ISCEJIC), and Policy Forum through Tax Justice Working Group (TJWG), analyzed the taxation system in Tanzania with a view to advocating for a progressive and equitable taxation regime that enhances Domestic Resource Mobilization (DRM) and ensures an accountable, development-oriented taxation system.

This was done through analysis of Finance Acts of 2023 to 2025, and explored the impacts of debt on DRM which currently finances over 87% of Tanzania's national budget. This Policy Brief hence provides an evidence-based argument for progressive taxation and debt accountability with a gender lens in taxation.

DOMESTIC RESOURCE MOBILISATION (DRM)

Tanzania's domestic resource mobilisation (DRM) performance improved significantly between FY 2022/23 and FY 2024/25. Actual domestic revenue collections increased from approximately TZS 26.0 trillion in FY 2022/23 to TZS 34.4 trillion in FY 2024/25, while TRA-administered tax revenue rose from TZS 24.11 trillion to TZS 30.09 trillion over the same period.

The domestic revenue-to-GDP ratio increased from about 14.6 per cent to 15.8 per cent, and the tax-to-GDP ratio rose from approximately 11.8 percent to 12.9 percent. By FY 2024/25, domestic revenues will finance more than 70 per cent of the national budget, reflecting Tanzania's stronger national vision on economic growth through public spending, growing fiscal self-reliance and the effectiveness of ongoing tax administration and revenue mobilisation reforms[1]

Indicator	FY 2022/23	FY 2023/24	FY 2024/25
Domestic Revenue Target (TZS trillion)	26.73	31.38	34.61
Actual Domestic Revenue (TZS trillion)	26.01	29.93	34.41
Annual Growth in Domestic Revenue (%)	16.0*	15.1	15.0
TRA Tax Revenue Target (TZS trillion)	24.76	27.63	29.41
TRA Tax Revenue Actual (TZS trillion)	24.11	~27.8	30.09
Achievement Rate (%)	97.4	~100.6	102.3
Tax Revenue (% GDP)	11.8	12.3–12.6	12.9
Domestic Revenue (% GDP)	14.6	15.4	15.7–15.8
Domestic Revenue Share of Budget (%)	65.0	67.0	70.1–72.6

[1]https://www.nao.go.tz/uploads/Annual_General_Report_for_Audit_of_Central_Government_FY_2024-25.pdf?utm_source=chatgpt.com

Even though Tanzania’s DRM is incremental, challenges remain unsolved. The analysis of Finance Acts reveals that the government has been collecting taxes from almost the same sources, meaning that the tax base is narrow[2]. It was observed that most tax adjustments are done within the same revenue sources. On the other hand, underperformance of non-tax revenues, weak LGA own-source generation, and a persistent budget deficit add up to weaken DRM.

Tanzania's challenge is no longer whether it can mobilise domestic revenue. The challenge is whether revenue is mobilised fairly. Between 2024 and 2026, fiscal policy increasingly relied on indirect taxes that disproportionately affect low-income households while progressive tax instruments remain underutilised. Combined with rising debt servicing obligations, this has reduced fiscal space for social investments and deepened inequality among women, youth and persons with disabilities.

Between the Finance Acts of 2024, 2025, and 2026, fiscal policy continued to rely heavily on indirect taxation instruments, including Value Added Tax (VAT), excise duties, communication service taxes, transaction-based levies, and withholding taxes on emerging sectors. These taxes are generally easier to administer and collect; however, they place a disproportionate burden on low-income households because they are paid regardless of income level or ability to pay.

The Missing Dimension: Progressive Taxation

International experience demonstrates that sustainable and equitable revenue systems depend on a balance between indirect taxes and progressive tax instruments. Progressive taxation ensures that individuals and entities with greater economic capacity contribute a larger share of public revenues. Several progressive tax instruments remain underutilised in Tanzania, as shown below:

[2]Published by Norwegian Church Aid (NCA) in the Commitment to Reducing Inequalities Index Report (2025) indicated that Tanzania collects only 25% of its potential tax revenue, ranking 128th globally in tax collection efficiency.

1. Progressive personal income taxation remains limited because a large proportion of the labour force operates within the informal sector and therefore falls outside the PAYE system.
2. Property taxation remains underdeveloped, particularly for high-value urban real estate and luxury residential properties.
3. Capital gains and wealth taxation are not fully leveraged as tools for reducing inequality and the tax base.
4. Luxury consumption taxes on high-end goods and services remain relatively limited compared to international practice.
5. Windfall taxation mechanisms for extractive industries are not sufficiently utilised during periods of exceptionally high commodity prices.

As a result, the tax burden continues to fall disproportionately on consumption rather than accumulated wealth, capital gains, or high-income earners.

The policy challenge facing Tanzania is therefore not simply increasing revenue collection, but ensuring that future revenue reforms promote fairness, reduce inequality, and protect vulnerable populations from bearing a disproportionate share of fiscal adjustment costs.

Who Pays the Cost of Regressive Taxation?

The combined weight of regressive taxation and debt-induced service erosion falls unevenly across the population. Three groups are structurally most exposed: women, youth, and persons with disabilities. Their vulnerability is not coincidental it reflects specific features of Tanzania's labour market, household economy, and public service architecture.

Women

Women constitute 57 per cent of Tanzania's agricultural workforce and represent the majority of operators in informal retail, food vending, and petty trade.

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Their tax exposure is cumulative: market dues collected by local councils, VAT on household essentials, mobile money levies on daily transactions, and agricultural cess. Each charge appears modest in isolation; collectively, they erode the working capital of enterprises operating on subsistence margins. The Finance Act 2025 extended a VAT exemption to cooking gas cylinders, a positive measure, but the relief applies only to formal banked transactions, excluding most low-income women who transact through mobile money and thereby bypassing its intended beneficiaries.

Youth

The Finance Act 2025 imposes a 5 per cent withholding tax on gross payments to digital content creators with no deduction for operating costs, data bundles, equipment, or software. [3] This taxes turnover rather than income. A creator earning TZS 800,000 per month with TZS 300,000 in costs bears an effective tax rate of 12.5 per cent on net income, applied at source with no recourse.

Simultaneously, the Communication Service Tax raises the cost of internet access and the infrastructure on which youth livelihoods, education, and civic participation depend. Policies that tax digital formalisation at the point of entry risk pushing young entrepreneurs back into informal activity.

Persons with Disabilities

Persons with disabilities face structurally higher non-discretionary expenditures for assistive devices, adapted transport, and specialist care that are neither substitutable nor deferrable. Flat consumption taxes take a proportionally larger share of limited income precisely because these costs are inelastic. While the EAC Customs Management Act provides some exemptions for assistive devices, access is uneven in practice, and these exemptions do not offset the broader regressive burden. The tax system provides no income relief, VAT zero-rating on adaptive necessities, or fee waivers calibrated to disability cost profiles a structural failure of horizontal equity.

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TAXATION & SENSITIVITY TO GENDER

The analysis of the Finance Acts of 2023–2025 shows that there were very few explicit tax expenditures (tax exemptions, deductions, credits, or preferential tax rates) targeted specifically at women, youth, or persons with disabilities (PWDs). Most tax incentives during this period were sector-based (agriculture, manufacturing, mining, energy, investment promotion, charities, etc.) rather than demographic-group-based. There is no explicit gender-responsive tax expenditure. For PWDs, exemptions were for disability-related gears/items and social support measures outside the tax system, rather than direct income-tax expenditures. This confirms that the taxation system doesn't use tax policy as a tool for gender equality.

THE IMPACT OF DEBT ON DRM

In 2025, Tanzania's total public debt reached USD 41.8 billion, equivalent to 49 per cent of GDP, a year-on-year increase of approximately 14.4 per cent. [1] Debt servicing in the 2025/26 budget consumed TZS 14.21 trillion, representing 25.2 per cent of total government expenditure. This exceeds combined allocations to education, health, and water infrastructure. Meanwhile, the tax system relies heavily on VAT, excise duties, communication levies, and mobile money charges, instruments that apply uniform rates regardless of ability to pay, placing a proportionally heavier burden on low-income households.

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Fiscal Indicator	Value / Status
Total public debt (June 2025)	USD 41.8 billion (49% of GDP)
Year-on-year debt increase	Approximately 14.4%
External debt share	Approximately 61% of total
Annual debt service (2025/26)	TZS 14.21 trillion
Debt service as % of total expenditure	25.2% — largest single budget line
Domestic revenue shares of national budget	Over 87%
PAYE zero-bracket (monthly)	TZS 270,000 — unchanged, not indexed

Sources: Ministry of Finance and Planning, Budget Speech 2025/26; Bank of Tanzania, Monthly Economic Review, June 2025.

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Debt, Domestic Resource Mobilisation, and Inequality

The growing debt burden creates a direct fiscal trade-off. Resources allocated to debt servicing reduce the fiscal space available for investments in health, education, water infrastructure, social protection programmes, disability support services, youth employment initiatives, and gender-responsive public services.

Women are particularly affected because reductions in public services often increase unpaid care responsibilities. Young people experience the effects through reduced opportunities for employment, entrepreneurship support, and affordable digital access. Persons with disabilities face additional challenges because many essential disability-related expenses are not adequately recognised within the tax system.

This trend hurts Tanzania's overall effective use of the tax system to combat inequality through public investment in the essential services budget, although further improvements are needed to enhance tax collection[3].

Accountability Gaps in Debt and Tax Governance

Addressing the debt-regressive cycle requires identifying where the current policy framework fails. Four specific gaps are identified below.

Weak Debt Oversight and Transparency

No law currently limits the proportion of domestic revenue that may be committed to annual debt servicing. The 25.2 per cent figure is entirely unconstrained by statute. Neither Parliament nor the executive is legally obligated to cap this ratio, and no parliamentary vote on the annual budget requires a prior Debt Sustainability Analysis.

[3]Commitment to Reducing Inequalities Index Report (2025)

Regressive design in consumption and digital taxation

VAT, excise duties, and communication levies apply uniformly regardless of income level. The 2025 digital content creator WHT taxes gross revenue rather than net income, structurally overstating taxable capacity for micro-enterprises. VAT reliefs introduced in recent Finance Acts are operationally limited to banked transactions, excluding mobile money users and thereby replicating the financial exclusion they are meant to reduce.

Unreviewed corporate tax incentives/ Unaccountable Tax Incentives

Large investors in special economic zones and priority sectors receive multi-year tax holidays and reduced withholding rates without a mandatory cost-benefit review or sunset mechanism.

Parliament has no formal mechanism to assess whether these incentives deliver commensurate public returns in employment, technology transfer, or revenue recovery. The forgone revenue is effectively subsidised by the informal traders and low-income households who receive no equivalent treatment.

Public Financial Management and Audit Gaps

Despite DRM financing over 87 per cent of the budget, no consolidated tax expenditure statement is published disclosing the cost of exemptions. Audit reports have identified cost overruns and incomplete deliverables in debt-funded projects, but findings are not systematically linked to debt sustainability analysis in subsequent budgets. [6] There is no formal mechanism for community-level CSO monitors to refer observed service delivery failures for CAG investigation.

[3]Commitment to Reducing Inequalities Index Report (2025)

RECOMMENDATIONS

Priority Reforms for Fiscal Justice

Parliament

1. Enact a Public Debt Management Act that strengthens parliamentary oversight of borrowing and debt servicing.
2. Require Debt Sustainability Analysis and Equity Impact Assessments before approving Finance Bills and new borrowing.
3. Review tax exemptions and incentives regularly to ensure they deliver measurable public benefits.
4. Strengthen follow up on the UN Tax Conventions Negotiations for effectiveness collective vetting of the international borrowers to reduce borrowing risks.

Ministry of Finance

1. Shift Domestic Resource Mobilization towards more progressive tax instruments and reduce excessive reliance on consumption taxes.
2. Reform digital taxation to protect small-scale youth entrepreneurs and informal innovators.
3. Publish an annual Tax Expenditure Statement to improve transparency and accountability for tax incentives.
4. Provide tax incentives to individual taxpayers by refunding a certain percentage of the tax paid to encourage effective demand for fiscal receipts.

National Audit Office of Tanzania (NAOT)

1. Conduct performance audits of debt-financed social sector projects and publish citizen-friendly findings.
2. Track whether domestic revenues reach frontline services in health, education, water, and social protection.
3. Establish a formal mechanism for CSOs and citizens to report service delivery failures for audit follow-up.

CONCLUSION

Revenue Mobilisation Must Be Judged by Fairness

1. Tanzania’s fiscal progress should not be measured by revenue collection alone. It must also be judged by whether taxes are raised fairly, debt is managed responsibly, and public resources reach the people who need them most.
2. The evidence shows that rising debt service and continued reliance on regressive taxation are shrinking fiscal space for essential services while placing a heavier burden on women, youth, and persons with disabilities.
3. The way forward is clear: Tanzania must shift from revenue mobilisation as a collection target to revenue mobilisation as a fairness test. Fiscal policy should raise adequate resources, but it must do so in ways that reduce inequality, protect vulnerable groups, and strengthen inclusive development.

REFERENCES

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5. Finance Act 2025, amendment to Income Tax Act, Cap. 332, Third Schedule; Tanzania Investment Centre, Investment Incentives Guide 2024.
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