



# Withholding Tax on Rental of Construction Equipment or Machinery in Tanzania



## Introduction

In a significant move to enhance tax compliance and streamline revenue collection, the Finance Act 2024 has introduced withholding tax on the payments made in respect of the rental of construction equipment and machinery. This amendment shall take effect from 01 July 2024, marking a pivotal change in the country's tax landscape.

## Legal Framework and Background

Under Tanzanian tax law, withholding tax is a mechanism that requires the payer of certain types of income to deduct tax at source and remit it to the Tanzania Revenue Authority (TRA). This system is designed to ensure efficient tax collection and to reduce instances of tax evasion. Prior to this amendment, the payments made in respect of the rental of construction equipment and machinery were not explicitly covered under the withholding tax

obligation provisions, withholding was only applicable on payments made in respect of the rental of aircraft, land, or buildings. With the recent changes, however, aim to broaden the tax base and ensure that rental payments of construction equipment or machinery, which are a significant aspect of the construction industry's operations, are properly taxed.



## Details of the New Withholding Tax

The new withholding tax on the rental of construction equipment and machinery includes several key elements:

- A clear definition of construction equipment or machinery: This means the equipment, machinery, structure, scaffolding, materials, tools, supplies, or systems rented or leased by the contractor or its subcontractors for use in accomplishing the construction works but not intended to form part of the structure to be built or for incorporation into the project.
- Applicable Rate: The withholding tax rate applicable to rental payments for construction equipment and machinery is set at 10% as a non-final withholding tax, as per the Tanzanian Income Tax Act. This rate applies to all rental payments made by individuals or entities, whether the transactions are domestic or international.
- Obligations of the Payer: Lessees of construction equipment and machinery are required to deduct the withholding tax at the time of payment to the lessor. This tax must then be remitted to the TRA within the stipulated time frame, typically by the 7th day of the month following the deduction.



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Documentation and Reporting: Lessees must provide the lessor with a withholding tax certificate, which serves as evidence of the tax deduction. This certificate is crucial for the lessor's tax records and is necessary for any claims of tax credits or refunds.

## Conclusion

Recently, Tanzania has been experiencing massive construction projects whereby the substantial amounts have been involved in exchanging or renting of construction equipment or machinery. Therefore in broadening the tax base, the government has come up with this new collection avenue to collect tax in advance at a rate of 10% from payouts relating to rental of construction equipment or machinery.

This development underscores Tanzania's commitment to expanding its tax base and improving the efficiency of its tax system. The full impact of these changes will unfold over time, as businesses and the TRA adjust to the new requirements and the broader economic implications become clearer.



*We understand that this could impact your business. Our Tanzania Taxation team is ready to assist you remain compliant on this and more taxation matters affecting you.*

**Jofrey Shewiyo**

Senior Associate - Tax Services

[jshewiyo@pkfea.co.tz](mailto:jshewiyo@pkfea.co.tz)

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## Kenya

### Nairobi

Kalamu House, Grevillea  
Grove Off Brookside Drive  
P. O. Box 14077 - 00800  
Nairobi  
Tel: (+254 20) 4270000  
Cell: (+254) 732 144000  
E-mail: [pkfnbi@ke.pkfea.com](mailto:pkfnbi@ke.pkfea.com)

### Mombasa

1st Floor, Pereira Building  
Pramukh Swami Maharaj Road  
P. O. Box 90553 - 80100 Mombasa  
Tel: (+254 41) 2226422/3 (+254 41)  
2315846/97  
Cell: (+254) 724 563668  
E-mail: [pkfmsa@ke.pkfea.com](mailto:pkfmsa@ke.pkfea.com)

### Malindi

Malindi Complex Lamu Road  
P. O. Box 5572 - 80200 Malindi  
Tel: (+254 42) 2120701 (+254 42)  
2130862  
Cell: (+254) 722 209620  
E-mail: [pkfmld@ke.pkfea.com](mailto:pkfmld@ke.pkfea.com)

### Nakuru

Fourth floor, Office Block  
Westside Mall, Junction of  
Kenyatta Avenue and West  
Road P. O. Box 1236 - 20100  
Nakuru Tel: (+254 51) 2211906  
Cell: (+254) 796 015656 E-mail:  
[pkfnku@ke.pkfea.com](mailto:pkfnku@ke.pkfea.com)

## Uganda

### Kampala

Kampala Kalamu House Plot 1B Kira Road  
P. O. Box 24544 Kampala  
Tel: (+256 312) 305800  
E-mail: [pkfkam@ug.pkfea.com](mailto:pkfkam@ug.pkfea.com)

## Tanzania

### Dar es Salaam

Dar es Salaam 1st Floor, Tower B Girl  
Guides Building, Plot No. 1088 Kibasila  
Street, Upanga  
P. O. Box 7323 Dar es Salaam  
Tel: (+255 22) 2152501/3/4  
Cell: (+255) 784 520097  
E-mail: [info@tz.pkfea.com](mailto:info@tz.pkfea.com)

## Rwanda

### Kigali

KG 5 Avenue 44, Kacyiru P. O. Box  
341 Kigali  
Tel: (+250) 255 104514  
Cell: (+250) 788 454746 (+250)  
788 386565 (+250) 738 386565  
E-mail: [pkfkgi@rw.pkfea.com](mailto:pkfkgi@rw.pkfea.com)

## South Sudan

### PKF South Sudan

C/O PKF Kenya LLP Kalamu House, Grevillea  
Grove, Westlands  
P. O. Box 14077, 00800 Nairobi, Kenya  
Tel: (+254) 732 144000  
Email: [pkfnbi@ke.pkfea.com](mailto:pkfnbi@ke.pkfea.com)

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