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Tax policy trends in Africa

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In brief

What happened?

Tax policy in various African jurisdictions is undergoing significant change as these countries grapple with the need to boost domestic revenue amidst socio-economic challenges.

With the rise of the digital economy, African governments are strategizing to effectively tax digital services. At the same time, making tax spending more efficient is key to improving how the government manages its finances.

Why is it relevant?

The evolving African tax policy landscape could, on the one hand, lead to a higher tax burden for companies as countries increase or introduce new taxes. On the other hand, African countries will continue providing tax incentives to attract (foreign direct) investment.

In detail

Introduction

In recent years, tax policy in Africa has become increasingly dynamic, driven by the urgency of domestic revenue mobilization (DRM) and the complexities introduced by the digital economy and intensified by the socio-economic and financial impact of recent global developments on African countries. African nations are prioritizing tax policy reform to bridge financing gaps, promote sustainable development and integrate into a rapidly changing global tax environment.

Domestic Revenue Mobilization

To achieve the Sustainable Development Goals (SDGs) and implement the key activities identified in the Agenda 2063 and the Addis Ababa Action Agenda, African countries are seeking to mobilize additional finance, in particular domestic resources, to fund public goods and services, e.g., infrastructure projects, health, and education.

Among the primary challenges encountered by these countries in enhancing DRM are the narrow taxpayer base (compounded by substantial informal economies in these countries), inefficient tax administrations (often attributed to resource constraints), and the need to balance economic growth and taxation revenue objectives.

Potential tax policy options

Key tax policy strategies for enhancing DRM across Africa include, for example, strengthening coordinated digital tax compliance frameworks and mechanisms for dispute prevention and resolution, rationalizing tax incentives and expenditures to improve efficiency and transparency, and broadening the tax base — particularly in emerging sectors such as digital services, health-related goods, and sustainability-linked activities.

The African Development Bank Group recommends simplifying tax regulations and strengthening tax administration capacities (including digitalizing the tax collection system). The OECD suggests exploring untapped revenues (e.g. carbon taxes, duties on sugar-sweetened beverages and windfall profit taxes), as well as reducing the number of goods and services subject to reduced VAT rates, exemptions and zero-rates.

Fiscal policy

DRM has emerged as a cornerstone of fiscal policy for many African countries seeking to decrease dependence on external aid and bolster their economic sovereignty. Currently, governments seek to achieve this mainly through various tax reforms, enhanced tax transparency and administration, broadened tax bases and improved compliance and enforcement measures. For example, tax reforms are being implemented / proposed by Nigeria, Rwanda and Tanzania. South Africa has commenced with tax base broadening measures, and the government remains focused on improving tax compliance and administrative efficiency.

These DRM initiatives are supported by international organizations through various partnerships and programmes, e.g. the UN University World Institute for Development Economics Research DRM programme and the African Tax Administration Forum's (ATAF) studies and country support.

We discuss some of the specific DRM trends in more detail below.

Tax Expenditure Rationalization

Tax expenditures in African countries are generally high, ranging between 4% to 76% of total government revenues. However, the number of tax incentives in the respective countries varies significantly. In addition, other countries that have implemented the Income Inclusion Rule under the GloBE Model Rules may reduce the net benefits of the tax incentives by levying a top-up-tax. Amending or repealing some tax incentives could be legally difficult because of international investment agreements (IIAs) concluded by African countries.

The rationale

Tax expenditures have increasingly become a focal point in policy debates surrounding tax reform as studies indicate that many current tax expenditures do not yield the expected return on investment and often lead to considerable revenue loss. By rationalizing tax expenditures, governments may optimize revenue without increasing the tax burden on their taxpayers generally.

Recent international developments have reinvigorated these discussions, offering renewed momentum for evaluating and reshaping tax policy frameworks in this regard.

Potential tax policy options

Countries could evaluate the oversight of the tax expenditures, governance for accountability and transparency and the efficiency and effectiveness of the respective expenditures (also having regard to the lifespan of the expenditures) by developing a comprehensive tax incentives framework.

Such a framework could outline the rationale for each incentive, specify the duration of the incentive and include a thorough cost-benefit analysis. Currently, several African countries offer incentives with indefinite durations. Introducing sunset clauses for each incentive would help ensure that they remain relevant and effective over time.

The trend

In a bid to enhance fiscal efficiency, several African countries are reviewing their tax expenditures with the goal to rationalize any unproductive expenditures, including South Africa, Kenya (the 2025 Budget speech and Finance Bill specifically focused on tax expenditure rationalization), Tanzania, Uganda, Zambia, Egypt and Ghana. Rwanda also proposed tax policy reforms.

Taxes on the digital economy

The rationale

The World Bank estimates that Africa's digital economy could contribute up to $180 billion to GDP by 2025 and create millions of jobs and opportunities for entrepreneurs.

Tax policy options

Countries are considering the following available tax policy options to tax the digital economy:

- Indirect taxes (e.g. VAT, excise tax, stamp duty)
- Income taxes:
    - Digital services taxes (DST) - a form of turnover tax, generally applied at a rate of between 2 to 6% on gross revenues;
    - Significant Economic Presence (SEP) taxation (on a net-basis or on turnover (akin to a DST) – this rule does not rely on a company's physical presence in a jurisdiction, but rather considers criteria that measure economic presence, e.g. local turnover, local users or digital presence.

Observation: Indirect taxes are generally considered to be less distortionary due to their broad-based application and neutrality across sectors, whereas DSTs and SEPs could introduce significant economic distortions. DSTs often target specific business models—primarily large multinational digital platforms—based on revenue thresholds and user-based value creation, which can disrupt the value chain and create inefficiencies.

The trends

As the digital economy expands in Africa, taxing digital services has presented both opportunities and challenges.

Efforts by African governments to tax the digital economy have mainly focused on indirect taxation, but the tax policies vary significantly across jurisdictions, leading to a complex and fragmented landscape. These differences are evident in the definitions of taxable digital services, the thresholds that trigger tax obligations, applicable tax rates, and the administrative requirements for registration, compliance, and enforcement.

Most African countries, however, have not implemented SEPs or DSTs, with the exceptions of Kenya and Nigeria, each of which has implemented SEPs, and Tanzania and Rwanda, which have introduced DSTs.

Potential Future Tax Policy Trends in Africa

Many countries around the world are turning their attention to tax policies relating to environmental taxes, health taxes, and the taxation of natural resources.

To date, most African countries have not implemented (significant) carbon taxes and certain health taxes (e.g., sugar tax). Given the international focus on the socio-economic benefits of these taxes, policymakers in African countries may start to consider implementing these taxes.

Countries may also consider reforming their current policies on the taxation of natural resources and alcohol and tobacco taxes.

Given the fact that the United Nations Framework Convention (UN Convention) is an initiative of the African Group, it is expected that most African countries will support the source country taxation of cross-border services (i.e. the proposed protocol to the UN Convention).

Observation: Policymakers should carefully consider the economic distortions that gross withholding taxes may introduce. These taxes, when applied to gross payments without regard to underlying costs or profitability, can disproportionately affect low-margin service providers and discourage foreign investment or impact the scale of foreign investment. Further, such taxes could disproportionately affect lower-income households (if the costs are passed on to consumers) and /or reduce employment opportunities and income (if businesses respond by suppressing wages or limiting hiring to offset the additional tax cost).

Conclusion

As Africa navigates the challenges and opportunities of a globalized and digital economy, it is essential that tax policies evolve in tandem with these changes. By continuously aligning tax systems with the shifting economic landscape, African nations can ensure their fiscal frameworks remain relevant and effective.

Africa's evolving tax policies reflect both a response to global shifts and an assertion of economic agency. As these policies are refined, the collaborative efforts of governments, regional bodies and international organizations will be crucial in ensuring that Africa's tax systems are equitable, efficient and fit for purpose.

Let’s talk

For a deeper discussion of how tax policy trends in Africa might affect your business, please contact:

Tax policy leadership

Will Morris
United States
+1 (202) 213 2372
william.h.morris@pwc.com

Edwin Visser
Netherlands
+31 (0) 88 7923 611
edwin.visser@pwc.com

Tax policy specialists

Phil Greenfield
United Kingdom
+44 7973 414 521
philip.greenfield@pwc.com

Chloe Fox
Ireland
+353 87 7211 577
chloe.fox@pwc.com

Nangel Kwong
Ireland
+353 87 280 8575
nangel.kwong@pwc.com

Africa regional tax specialists

Rudi Binedell
Botswana
+267 71 31 9468
rudi.binedell@pwc.com

Abeku Gyan-Quansah
Ghana
+233 (0) 20 8208106
abeku.gyan-quansah@pwc.com

Edna Gitachu
Kenya
+254 (0724) 256655
edna.gitachu@pwc.com

Dheerend Puholoo
Mauritius
+230 404 5079
d.puholoo@pwc.com

Chantell Husselmann
Namibia
+264 81 122 4181
chantell.husselmann@pwc.com

Kenneth Erikume
Nigeria
+234 818 001 6451
kenneth.y.erikume@pwc.com

Paul Frobisher Mugambwa
Rwanda
+250 782 537377
frobisher.mugambwa@pwc.com

Kyle Mandy
South Africa
+27 83 701 120
kyle.mandy@pwc.com

Joseph Lyimo
Tanzania
+255 767 992506
joseph.lyimo@pwc.com

Pamela Natamba
Uganda
+256 771 010881
pamela.natamba@pwc.com

George Chitwa
Zambia
+260 (0) 97 10 27 555
george.chitwa@pwc.com