

Malawi 2025/26 Tax Update

Mid-Year Budget Statement and Tax Commentary

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Background

The Minister of Finance, Economic Planning and Decentralisation, Honourable Joseph Mathyola Mwanamvekha, delivered his 2025/26 Mid-Year Budget Review Statement to Parliament on the 21st of November 2025, in accordance with the requirements of the Public Finance Management Act (PFMA), 2022. The Act obliges the Minister to report on the implementation of the national budget during the first half of the financial year and to outline the proposed adjustments for the second half of the financial year.

In light of the prevailing economic challenges, the statement highlighted the National Economic Recovery Plan (NERP), a strategic framework designed to stabilise the economy, restore confidence, and promote inclusive growth. The NERP provides context for the Government's fiscal and policy measures presented in the mid-year budget review statement.

This publication provides a summary of the key tax fiscal measures presented by the Minister and includes commentary based on our understanding of the proposed taxation amendments.

IMPORTANT NOTE

The Tax and administrative measures outlined in this publication are not considered final until the relevant Bills have been enacted and their respective Gazettes have been published. We shall issue a subsequent Tax Update at the time the final Gazettes are issued.



Macroeconomic and Fiscal Matters

Focus

The 2025/26 mid-year budget review statement was delivered on 21 November 2025 by the Minister of Finance, Economic Planning and Decentralisation, Honourable Joseph Mathyola Mwanamvekha. The Honourable Minister set out the Government's updated fiscal position and policy direction for the remainder of the 2025/26 financial year, while reaffirming commitment to the objective of Malawi 2063, the country's long term development framework aimed at achieving inclusive growth, industrialisation, and self-reliance.

The Minister highlighted priority areas guiding Government interventions. These include strengthening fiscal consolidation efforts, improving resource allocation efficiency, and creating fiscal space for strategic investment in key sectors such as Agriculture, Tourism, Mining, Manufacturing, and Digitalisation. The Minister further outlined specific measures under the National Economic Recovery Plan (NERP), emphasising targeted investments in critical infrastructure, human capital development and social protection systems to safeguard vulnerable populations and the provision of pharmaceuticals.

GDP Growth

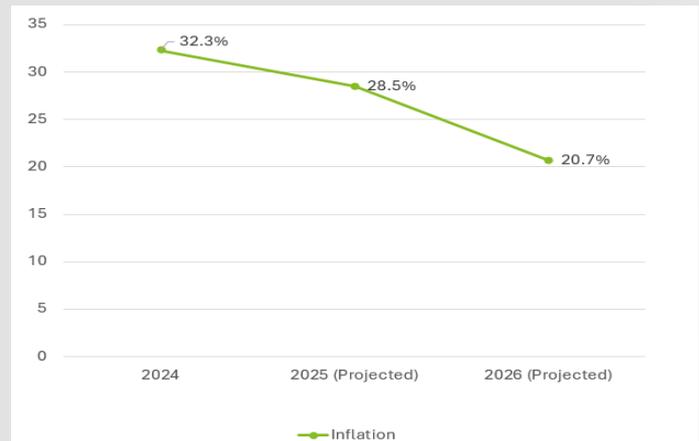
Malawi's GDP is projected to grow by 3.8 percent in 2026 and 4.9 percent in 2027, driven by improvement and investments in key sectors such as agriculture, tourism, mining, manufacturing, and digitalisation. These sectors will be supported by infrastructure, transport and energy.

The Government plans to intensify export diversification and import substitution within these sectors to enhance the availability of foreign exchange.

Inflation

The domestic economy continues to face shortages of food, foreign exchange and fuel, which have contributed to rising prices of goods and services. Annual inflation averaged 32.3 percent in 2024 and is projected to decline to 28.5 percent in 2025 and 20.7 percent in 2026.

Figure 1: Annual Average Inflation



Total Public Debt Stock and Management

Malawi's public debt currently exceeds MK21.6 trillion, equivalent to 86 percent of GDP. High and unsustainable debt levels, together with elevated borrowing costs, have resulted in significant debt service obligations.

The Government has made debt management a key priority and is implementing a combination of measures and strategies to stabilise the debt trajectory. These include continuing debt restructuring negotiations, pursuing fiscal consolidation, utilising concessional borrowing, and enhancing oversight of state-owned enterprise operations.

Foreign Exchange Reserves

The country continues to face low foreign exchange reserves, worsened by the early termination of the Extended Credit Facility (ECF) with the International Monetary Fund (IMF), in May 2025 and coupled with the withdrawal of aid and donor-funded programs. In addition, the country's limited export base constrains its ability to generate sufficient foreign exchange. Debt service obligations and commitment for strategic commodities have intensified pressures on reserves.



2025/26 Mid-Year Budget Performance

The below data summarises the 2025/26 mid-year budget performance:

Performance of Revenue and Grants

In the first half of the financial year, total revenue and grants amounted to MK2.383 trillion (tn) against a projection of MK2.711 trillion (tn), reflecting a 12.1 percent variance.

Table 1: Total Revenue and Grants

Projected	Actual	Variance
MK2.711tn	MK2.383tn	-12.1%

Table 2: Domestic Revenue

	Projected	Actual	Variance
Domestic Revenue	MK2.139tn	MK2.057tn	-3.8%

Table 3: Grants

Projected	Actual	Variance
MK571.4bn	MK325.5bn	-43%

Performance of Total Expenditure

Table 4: Total Expenditure

Projected	Actual	Variance
MK4.244tn	MK4.420tn	+4.1%

Total Expenditure		
Recurrent Expenditure		MK3.502tn
Development Expenditure		MK917.9bn
Total Expenditure		MK4.420tn

Fiscal Deficit

Table 6: Fiscal Deficit

Projected	Actual	Variance
MK1.534tn	MK2.037tn	+32.8%

Projections for Second Half of financial year

The below data summarises the revised financial projections for the second half of the financial year:

Table 7: Revenue and Grants Projections

Revenue and Grants Projections	
Domestic Revenue (Tax Revenue)	MK2.323tn
Domestic Revenue (Non-Tax Revenue)	MK97.3bn
Grants	MK657.5bn
Total Revenue and Grants	MK3.078tn

Table 8: Total Expenditure Projections

Total Expenditure projections	
Recurrent Expenditure	MK3.161tn
Development Expenditure	MK1.008tn
Total Expenditure	MK4.169tn

Figure 2: Breakdown of Recurrent Expenditure

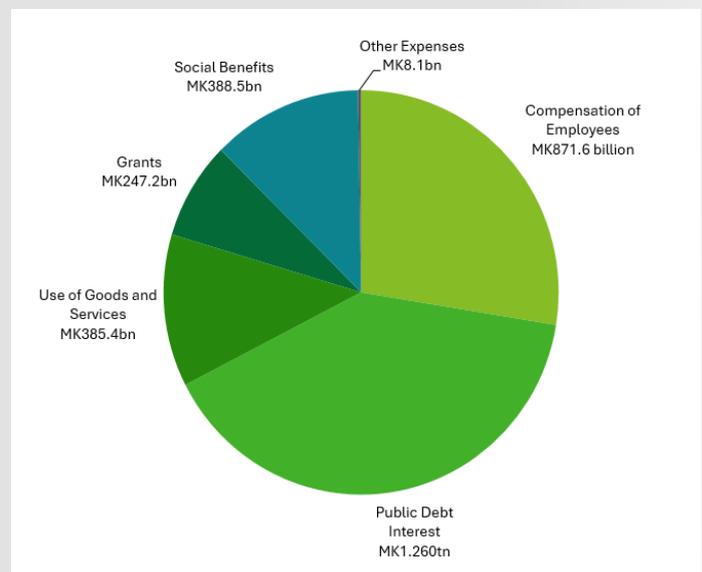


Table 9: Budget Performance

Budget Performance	
Total Revenue and Grants	MK3.078tn
Total Expenditure	MK4.169tn
Fiscal Deficit	MK1.091tn

Fiscal deficit will be financed by foreign financing and domestic financing of MK107.1 billion and MK984.3 billion respectively.





Tax Revenue Policy and Administrative Measures for the 2025/26 Mid-Year Budget

This section details the proposed tax measures from the 2025/26 mid-year budget statement.

Income Tax Measures

The following have been highlighted as proposed tax measures:

Pay As You Earn (PAYE) structure changes

To provide relief for low-income earners and promote fairness in the tax system, the Government has revised the Pay as You Earn (PAYE) structure. The zero-rate threshold has been increased from MK150,000 to MK170,000, the 25 percent tax bracket has been removed altogether, the 35 percent bracket has been extended to middle income earners, and a new 40 percent rate will apply to monthly incomes above MK10 million. The current and updated monthly PAYE rates are as follows:

Table 10: Current 2025/26 PAYE tax rates

Monthly Income	Rate
First MK150,000	0%
Next MK350,000	25%
Next MK2,050,000	30%
Excess of MK 2,550,000	35%

Table 11: Updated 2025/26 PAYE tax rates

Monthly Income	Rate
First MK170,000	0%
Next MK1,400,000	30%
Next MK8,430,000	35%
Excess of MK10,000,000	40%

Comment:

This measure is designed to enhance revenue collection considering the growing budget deficit, but has been met with concerns from consumer and employment stakeholder groups that the proposed tax thresholds may be punitive on employed persons. This is the case considering the inflationary pressures observed in the country and the proposed indirect tax increases. Stakeholders have also noted that the zero-rate threshold has not been increased in line with inflation, which in real terms has created a reduction in employee tax-free income.

Reduction of Supernormal Profit Tax Threshold

The Government has reduced the threshold for supernormal profit tax from MK10 billion to MK5 billion. Taxable profits up to MK5 billion will continue to be taxed at the normal corporate rate of 30 percent, while taxable profits in excess of MK5 billion will be taxed at 40 percent.

Comment:

In the 2024/25 Fiscal year, the Government extended the application of additional 10 percent corporate income tax on taxable profits above MK10 billion to all businesses that make such profits to ensure equal and fair treatment of supernormal profits.

In the 2025/26 fiscal year, the adjustment reflects the principle that higher earners should contribute proportionately more.



Introduction of a Minimum Alternate Tax (MAT)

Government has announced the introduction of a Minimum Alternate Tax (MAT) calculated at the rate of 0.5 percent of turnover to promote fairness in the tax system, particularly targeting companies that continue to report losses while they keep operating.

Companies will be required to pay either normal corporate income tax at 30 percent of profit or 0.5 percent of turnover, whichever is higher.

MAT will apply only to companies with turnover exceeding MK5 billion, that have been operating for more than three (3) years.

Any Income tax amount paid in excess of MAT can be credited against future tax liabilities.

Bank Transfer Levy

Government is introducing a bank transfer levy of 0.05 percent which will apply to all bank transfers, both within and across banks.

The levy will be paid by the sender.

Mobile Money Transfer Levy

Similarly, a 0.05 percent levy will be imposed on mobile money transfers above MK100,000.

The levy will also be paid by the sender.

Comment:

While these measures are designed to enhance revenue collection, consumer groups have expressed concern with the imposition of levies coupled with multiple other tax increases. Stakeholder groups argue that the levies may discourage electronic transfers, which in the view of stakeholders, the government should be promoting. The government has specified that the threshold of MK 100,000 has been applied to protect low-income earners.

Revised Limits on Mobile Money Transactions

To promote electronic transfers, the Government has revised the limits on cash outs, mobile money transactions, and mobile money holdings.

The daily mobile money transactions and cash-out limits have been increased from MK750,000 to MK5 million and from K750,000 to MK1 million respectively.

Holding limits for individuals have been raised from MK1 million to MK5 million.

For merchant accounts, both the wallet holding limit and daily transaction limit have been increased from MK25 million to MK50 million.

Withholding Tax on All Betting and Lottery Winnings

The MK100,000 and MK500,000 thresholds previously available to withholding tax on betting and lottery winnings have been removed. Consequently, all betting and lottery winnings are now subject to withholding tax, regardless of the amount.

Withholding Tax on Gambling Winnings

The Government will increase withholding tax on gambling winnings from 10 percent to 15 percent.

Withholding Tax on Residential Rental Income

The Government has directed the Malawi Revenue Authority (MRA) to immediately enforce the collection of withholding tax on residential rental income, following observations that many residential property owners earn significant rental income without remitting income tax to the MRA.

Comment:

This measure aims to broaden the tax base and ensure all rental income is appropriately taxed, promoting fairness and compliance in the property sector.

Capital Gains Tax on Share Disposals

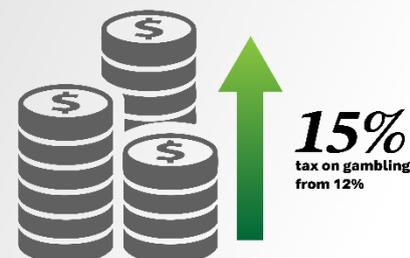
The Government has announced that Capital Gains Tax will apply to all share disposals, irrespective of how long the shares have been held. Currently, before this amendment come to effect, listed shares held for more than a year were exempt from capital gains tax.

Comment:

With this measure, all investment assets that are listed would have to be included in the deferred tax calculations.

Surcharge on Importation of Cement

Government has announced the reinstatement of a 20 percent surcharge on the importation of cement.





Comment:

This measure is designed to promote and protect the local cement manufacturing industry and exchange reserves, but has received mixed reviews in light of the rising cement demand required to meet local construction and developmental targets.

Value Added Tax Measures

The following has been proposed in the budget statement:

Increase in Value Added Tax (VAT) Rate

The Government is increasing the VAT rate from 16.5 percent to 17.5 percent.

Comment:

This measure aims to strengthen revenue mobilisation and reduce the fiscal deficit in the medium term. While the government has maintained that the proposed increased VAT rate is lower than the VAT rates applicable in regional territories, there are still ongoing reviews to further assess the impact of this measure considering the ongoing inflationary pressures observed in the 2024/25 and 2025/26 fiscal periods.

Customs and Excise Tax Measures

The following has been proposed in the budget statement:

Excise Tax on Gross Lottery Revenues

The Government will fully enforce 15 percent Excise tax on gross lottery revenues, particularly for radio and television stations.

Administrative Measures

Penalties For Failure to Issue VAT Receipts

To promote VAT compliance, the Government will impose heavy penalties on any business that fails to issue VAT receipts on the sale of goods or services.

This is of significance considering the ongoing roll-out of electronic invoicing, which runs until 01 February 2026. From that date, electronic fiscal device (EFD) machines will be formally discontinued.

Non-Tax Measures

Motor Vehicle Accident Fund Levy

The Government has announced that a 2% levy will be collected on motor vehicle insurance policies, with proceeds ringfenced to provide additional financing for the Ministry of Health.

Revocation of Visa Free Access to Malawi

The Government has revoked visa-free access to Malawi with immediate effect.

Visa application fees will now apply on a reciprocity basis.

Mining Sector

The Government will review all mining licences and revoke those that have been idle for more than five (5) years.



The Government is increasing the VAT rate from 16.5 percent to 17.5 percent.



Contacts:



Christopher Kapenda
Managing Partner
Email: ckapenda@deloitte.co.mw

Deloitte East Africa

Offices

Kenya

Deloitte Place
Waiyaki Way, Muthangari Nairobi
Tel: +254 719 039 000

Tanzania

Aris House
3rd Floor, Plot 152, Haile Selassie
Road, Oysterbay, Dar es Salaam
Tel: +255 22 2169000

Uganda

3rd Floor Rwenzori House 1
Lumumba Avenue Kampala
Tel: +256 41 7 701000

Zambia

Deloitte Square, Plot No. 2374/B,
Thabo Mbeki Road, Lusaka
Tel: +26 211 228 6779

Malawi

NBM Top Mandala House, 2nd
Floor, Kaohsiung Road,
P.O Box 187, Blantyre
Tel: +265 01 773 069

Ethiopia

Minaye Corporate Office Park
(Flamingo area) 2nd Floor
P.O. Box 7862, Addis Ababa, Ethiopia
+251 111 139 800

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