



Malawi Government

TAX EXPENDITURE REPORT

FY2022-2024

Ministry of Finance, Economic Planning and Decentralisation

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Foreword

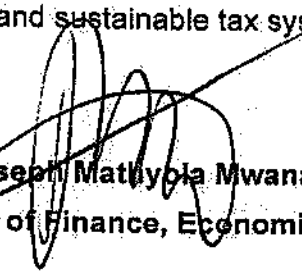
This Tax Expenditure (TE) Report provides a comprehensive assessment of revenue forgone for the period 2022 to 2024 for Value Added Tax, Import Duty, and Excise Duty. The report has been prepared at a time when Government is focusing on driving economic recovery and sustainable growth through impactful reforms and fiscal consolidation, as highlighted in the 2026/27 National Budget Statement.

The preparation of this report was supported by capacity-building efforts from the International Monetary Fund (IMF) and the World Bank. These included a workshop held in April 2026 to develop the Tax Expenditure reporting framework, VAT modelling training conducted in January 2026, and a dedicated training on Tax Expenditure reporting in March 2026, focused on report writing and development. These trainings were attended by officers from both the Ministry of Finance, Economic Planning and Decentralisation and the Malawi Revenue Authority (MRA).

This report reflects Government's commitment to rebuilding confidence by strengthening transparency, accountability, and evidence-based policymaking in Malawi's tax system. By quantifying and analysing tax expenditures, it provides a foundation for informed policy dialogue and supports efforts to assess the effectiveness and efficiency of existing tax incentives. This is particularly important to ensure that tax expenditures remain aligned with national development priorities while minimising undue fiscal risks.

The findings indicate a steady increase in tax expenditures in nominal terms, largely driven by Value Added Tax incentives and growing import-related exemptions. Tax expenditures as a share of GDP have also increased, indicating that revenue forgone through tax incentives and exemptions has grown at a faster pace than overall economic output. This trend highlights the expanding role of tax expenditures in supporting economic and social policy objectives. It also underscores the importance of periodically assessing their effectiveness, efficiency, and alignment with national development priorities to ensure that public resources are utilised in a manner that delivers maximum benefit to citizens and the economy.

The Government remains committed to enhancing public financial management and safeguarding the integrity of the tax system. Going forward, greater emphasis will be placed on strengthening oversight, improving reporting mechanisms, and ensuring that tax incentives are well targeted, cost-effective, and deliver measurable economic benefits. I commend my staff in the Ministry of Finance, especially in the Revenue Policy Division, staff in the Malawi Revenue Authority and all stakeholders for their efforts in producing this report and trust that it will guide future reforms toward a more efficient and sustainable tax system.



Hon. Joseph Mathyola Mwanamvekha, MP
Minister of Finance, Economic Planning and Decentralization

Policy Context

Tax expenditures refer to revenue foregone by Government through provisions in the tax system that provide preferential treatment to specific taxpayers, sectors, activities, or transactions. These include waivers/exemptions, reduced tax rates, deductions, credits, and other forms of tax relief. Tax expenditures are an integral component of Government policy and complement direct expenditure programmes in achieving national development objectives. Through exemptions, reduced rates, deductions and other forms of tax relief, Government supports priority sectors such as agriculture, health, education, manufacturing, energy, infrastructure development and social protection. These measures are intended to promote economic growth, improve access to essential goods and services, encourage investment and support vulnerable groups. As with direct expenditure programmes, tax expenditures require regular review to ensure that they remain effective, efficient and aligned with evolving policy priorities.

Acknowledgements

This report was prepared between March and April 2026 through collaborative efforts between the Ministry of Finance, Economic Planning and Decentralization (MoFEPD) and the Malawi Revenue Authority (MRA). The preparation process benefited from the dedication of national technical teams and the valuable technical assistance provided by development partners, including the International Monetary Fund (IMF) and the World Bank.

The MoFEPD technical team comprised Mr Grecium Kandio, Dr Wazona Ligomeka, Ms Natasha Kandonje, Mr Blessings Nyirenda, and Mr Enock Mandlopa. The team was led under the overall direction of Mr Grecium Kandio, whose oversight provided strategic coordination and guidance throughout the assignment. Dr Wazona Ligomeka provided technical expertise and led the technical workstream, playing a central role in ensuring analytical quality, coherence, and the successful delivery of the report.

The Malawi Revenue Authority (MRA) team was led by the Commissioner General, Mr Felix Kingstone Tambulasi, who provided overall institutional leadership and strategic direction throughout the process. The technical work was coordinated under Mr Michael Masiya, who led the team and guided the implementation of the assignment. Other officials involved in the process included Mr Gray Balawe, Mr Patrick Kachingwe, Ms Mercy Njolomole, Mr Gilbert Kachamba, Ms Tinenenji Samson, Ms Bertha Kadawayula, Ms Veronica Phiri, Mr Mphatso Kasamba, Mr Frank Chinangwa, Ms Deborah Hauya, Mr Kizito Chawinga, and Ms Mayamiko Shaba.

Technical support and expert guidance were also provided by international partners. The IMF expert, Mr Thomas Benninger, contributed significantly to the technical review and development of the tax expenditure framework. The World Bank expert, Mr Silver Namunane, provided valuable input and advisory support throughout the process.

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Executive summary

Tax expenditures are an important fiscal policy instrument through which the Government of Malawi supports economic growth, investment, industrial development, food security, social welfare, and the delivery of strategic national priorities. Unlike direct expenditures, which are appropriated through the annual budget, tax expenditures are delivered through the tax system in the form of exemptions, deductions, credits, preferential rates, and other relief measures. While these measures do not involve direct cash outlays, they represent Government support to targeted sectors, activities, and groups by reducing their tax liability.

This report presents estimates of tax expenditures for the period 2022 to 2024 and forms part of Government's commitment to strengthening fiscal transparency, accountability, and evidence-based policy making. The report provides a clearer understanding of the scale and distribution of tax expenditures and supports ongoing efforts to ensure that tax incentives contribute effectively to Malawi's long-term development objectives as outlined in Malawi 2063 and successive national development strategies.

Tax expenditures as a share of Gross Domestic Product (GDP) increased from 3.14 percent in 2022 to 4.12 percent in 2024. In nominal terms, total tax expenditures increased from MK370.8 billion in 2022 to MK811.6 billion in 2024. Value Added Tax (VAT) accounted for the largest share throughout the period, reflecting Government interventions aimed at improving access to essential goods and services, supporting productive sectors, and facilitating strategic public investments. Tax expenditures relating to import duty and import excise also increased significantly, particularly in 2024, reflecting measures implemented to support priority sectors such as agriculture, manufacturing, energy, infrastructure development, and other productive economic activities.

The growth in tax expenditures over the review period is largely attributable to Government policy measures designed to stimulate investment, enhance productive capacity, promote job creation, strengthen food security, and reduce the cost of critical goods and services. These measures have played an important role in supporting economic activity during a period characterised by domestic and external economic challenges.

At the same time, the increasing value of tax expenditures highlights the need to continuously assess their effectiveness, efficiency, and alignment with national priorities. Strengthening tax expenditure reporting, improving data systems, and enhancing coordination among relevant institutions will enable Government to better evaluate the developmental impact of these measures and ensure that public resources are utilised in a manner that delivers maximum economic and social benefits.

Going forward, Government remains committed to maintaining a balanced approach that supports investment and economic transformation while safeguarding domestic revenue mobilisation and fiscal sustainability. Regular monitoring and evaluation of tax expenditures will therefore remain an integral component of sound public financial management and good governance.

1.0 Introduction

Taxation plays a central role in financing Government operations and the delivery of public goods and services that support Malawi's socio-economic development. Beyond revenue mobilization, the tax system is also an important policy instrument for promoting investment, supporting productive sectors, encouraging employment creation, fostering industrialization, and improving the welfare of Malawians.

In pursuit of these objectives, the Government of Malawi provides targeted tax relief measures through deductions, exemptions, credits, allowances, and preferential tax rates. These measures are designed to support strategic sectors of the economy, facilitate access to essential goods and services, strengthen food security, enhance competitiveness, and promote private sector-led growth. Through such interventions, Government uses the tax system to advance national development priorities, including those articulated in Malawi 2063 and its implementation frameworks.

This report presents estimates of tax expenditures, which represent the value of tax relief provided through the tax system relative to a benchmark tax structure. Tax expenditures arise where specific provisions depart from the standard tax treatment in order to achieve defined economic, social, or developmental objectives. As with direct expenditure programmes, tax expenditures constitute an important form of Government support and

therefore require regular assessment to ensure that they remain aligned with policy objectives and deliver the intended benefits.

For the purposes of this report, the benchmark tax system is defined using the existing legal and policy framework and is based on four key elements: (a) the tax unit, (b) the tax base, (c) the tax rate, and (d) the tax period. The benchmark serves as the reference point against which tax relief measures are identified and measured.

The report covers major tax instruments administered under Malawi's tax framework, including Income Tax under the Taxation Act, Value Added Tax (VAT) under the Value Added Tax Act, and Import Duty and Excise under the Customs and Excise Act. Provisions that modify the benchmark treatment, including exemptions, allowances, reduced rates, tax holidays, and accelerated depreciation allowances, are considered tax expenditures for reporting purposes.

While these measures support investment, economic activity, social protection, and national development goals, it is important that they are regularly monitored to ensure that they remain effective, transparent, and consistent with Government's broader fiscal and economic objectives. This report therefore contributes to enhanced fiscal transparency and evidence-based policymaking by quantifying tax expenditures across major tax categories and highlighting their role in supporting Malawi's development agenda.

2.0 Methodology

Tax expenditures take various forms, including exemptions, allowances, reduced tax rates, tax credits, deferrals, and other preferential tax treatments provided through the tax system. This report focuses on tax expenditures arising under Value Added Tax (VAT), Customs Duty, and Import Excise Tax.

Each of these tax instruments contains provisions that provide preferential treatment relative to the benchmark tax system and are therefore classified as tax expenditures. Detailed benchmark definitions and corresponding tax expenditure measures for each tax type are presented in the relevant chapters of this report.

The estimates presented in this report are based on the revenue forgone approach, which measures the value of tax relief provided through specific tax provisions relative to a

benchmark tax system in which such provisions do not apply. Under this approach, tax expenditures are estimated as the difference between the amount of tax that would have been payable under the benchmark system and the amount actually collected under existing policy arrangements.

The revenue forgone method is the most widely applied tax expenditure estimation methodology internationally and provides a practical and transparent framework for reporting tax expenditures. It facilitates comparisons across tax instruments and over time, while supporting fiscal analysis and policy evaluation.

It should be noted that this methodology does not incorporate behavioural responses by taxpayers or economic agents. Accordingly, the estimates should be interpreted as indicative measures of Government support provided through the tax system rather than estimates of the revenue that would necessarily be collected if the tax relief measures were removed.

2.1 Value Added Tax (VAT)

VAT tax expenditures were estimated using a static, top-down demand-side model based primarily on national accounts data, particularly the Supply and Use Tables (SUTs). This approach enables the estimation of tax expenditures associated with VAT exemptions and zero-rated supplies across the economy.

Administrative data sources, including VAT declarations and customs information from the Automated System for Customs Data (ASYCUDA), were used to complement the analysis where appropriate. However, limitations in the available administrative data make a comprehensive microsimulation approach impractical at this stage. The model therefore provides an economy-wide assessment of VAT tax expenditures based on observed consumption patterns and prevailing tax policy provisions.

2.2 Customs Duty and Import Excise

Tax expenditures relating to Customs Duty and Import Excise were estimated using transaction-level customs data obtained from ASYCUDA. The methodology compares the benchmark tariff rate applicable to each imported product with the effective rate applied under specific exemption, concessionary, or preferential arrangements.

Benchmark liabilities are calculated by applying the standard tariff rate to the customs value of imports, while actual liabilities are derived from recorded customs transactions. The difference between the benchmark liability and the amount collected represents the estimated tax expenditure.

To enhance policy relevance, the analysis focuses on Customs Procedure Codes (CPCs) associated with statutory exemptions, preferential treatment, and other Government-supported relief measures. Tariff rates are matched to customs transactions at the Harmonized System (HS) code level, enabling detailed analysis by product category, sector, and import regime.

The analysis draws on multiple data sources, including administrative records from the Malawi Revenue Authority, customs and international trade data, national accounts statistics, and relevant tax legislation. This integrated approach enhances the consistency, reliability, and comprehensiveness of the tax expenditure estimates presented in this report.

3.0 Limitations

While every effort has been made to ensure the accuracy and completeness of the estimates presented in this report, several limitations should be noted:

- i. **Coverage of Tax Instruments:** The current report focuses on VAT, Import Duty, and Import Excise tax expenditures. Future editions will seek to expand coverage to include additional tax instruments, including Personal Income Tax and Corporate Income Tax, as data availability and estimation methodologies continue to improve.
- ii. **Data and Estimation Constraints:** In some cases, estimates rely on assumptions and analytical techniques where direct measurement is not feasible.
- iii. **Incomplete Coverage of Incentives:** Certain discretionary or administrative tax relief measures may not be fully captured due to data limitations.
- iv. **Behavioural Effects:** The revenue forgone methodology does not account for changes in taxpayer or investor behaviour that may occur in response to policy changes.

- v. **Benchmark Definition:** Tax expenditure estimates are sensitive to the benchmark tax system used and may vary over time as tax policy and legislation evolve.

4.0 Results

Tax expenditures as a share of Gross Domestic Product (GDP) increased from 3.14 percent in 2022 to 4.12 percent in 2024. In nominal terms, total tax expenditures increased from MK370.8 billion in 2022 to MK811.6 billion in 2024. This increase reflects the growing use of targeted tax relief measures to support Government policy objectives, including investment promotion, productive sector development, food security, access to essential goods and services, and the implementation of strategic national projects.

The observed growth in tax expenditures also demonstrates the important role that tax policy continues to play in supporting economic activity and development outcomes. At the same time, it reinforces the need for ongoing monitoring and evaluation to ensure that these measures remain effective, appropriately targeted, and aligned with national priorities.

Value Added Tax (VAT) remains the largest component of tax expenditures, increasing from MK321.8 billion in 2022 to MK645.0 billion in 2024. This reflects the extensive use of VAT relief measures to support priority sectors and improve affordability of selected goods and services. Import Duty and Import Excise tax expenditures also increased during the period, reaching MK102.9 billion and MK63.7 billion respectively by 2024.

The increase in customs-related tax expenditures is consistent with Government interventions aimed at supporting productive investment, facilitating access to key production inputs, and advancing strategic infrastructure and development initiatives. Although Import Excise accounts for a smaller share of total tax expenditures, it recorded the highest proportional growth during the review period.

Overall, the results indicate that a significant share of Government support provided through the tax system is concentrated within consumption-related taxes, particularly VAT. This underscores the importance of continued assessment of tax expenditure measures to ensure that they effectively contribute to Malawi's economic transformation, domestic production, job creation, and broader development objectives.

Table 1: Total Tax Expenditure (MWK 'bn)

Year	2022	2023	2024	2022	2023	2024
Tax Type	In Billion kwacha			In Percentage of GDP		
VAT	321.80	440.24	645.01	2.73%	2.84%	3.28%
Import Duty	36.76	40.09	102.90	0.31%	0.26%	0.52%
Import Excise	12.29	15.00	63.70	0.10%	0.10%	0.32%
Grand Total	370.85	495.33	811.61	3.14%	3.20%	4.12%

5.0 Value Added Tax Expenditure

5.1 Benchmark VAT System

Value Added Tax (VAT) is one of Government's principal sources of domestic revenue and plays a critical role in financing public services and supporting national development priorities. As a broad-based consumption tax, VAT is designed to be borne by the final consumer while ensuring neutrality for businesses through the crediting and refunding of VAT incurred on business inputs.

Under Malawi's benchmark VAT system, VAT applies to the final consumption of goods and services within the country. The benchmark tax base therefore encompasses goods and services consumed in Malawi, with taxation applied on a destination basis. In line with international VAT principles, imports are subject to VAT upon entry into the domestic market, while exports are zero-rated to maintain the competitiveness of Malawian products in regional and international markets.

VAT is charged throughout the production and distribution chain, with registered businesses entitled to claim input tax credits for VAT paid on purchases used in the course of taxable business activities. This mechanism ensures that VAT is levied only on value added at each stage of production and distribution, with the ultimate tax burden falling on final consumers. Accordingly, input tax credits and VAT refunds form an integral part of the benchmark VAT system and are not considered tax expenditures.

Consistent with international practice and Malawi's policy framework, certain transactions and activities are treated as part of the benchmark VAT system due to their unique characteristics, administrative considerations, or international obligations. These include:

- i. Hard-to-tax sectors, particularly margin-based financial services, life insurance, betting, and gaming activities;
- ii. Non-market services provided by Government and public institutions, including defence, public infrastructure, and core public administration functions;
- iii. Goods and services supplied to diplomats, embassies, and consular missions in accordance with Malawi's obligations under the Vienna Convention;
- iv. Activities financed through Official Development Assistance (ODA) arrangements; and
- v. Selected Government imports, including military equipment, pharmaceuticals, humanitarian assistance, and donated goods that support public service delivery and national development objectives.

Beyond these benchmark provisions, the VAT system includes a range of targeted relief measures designed to support Government policy objectives. These measures promote access to essential goods and services, support productive sectors of the economy, encourage investment, facilitate strategic public projects, strengthen food security, and contribute to broader socio-economic development goals.

During the period under review (2022–2024), the VAT Act contained 174 unique relief provisions. Following assessment against the benchmark VAT framework, 18 provisions were classified as benchmark features of the tax system, while the remaining 156 provisions were identified as tax expenditure measures.

The identification and measurement of VAT tax expenditures provide Government with an important tool for assessing the scale and distribution of support delivered through the tax system. This information supports evidence-based policy making and contributes to ongoing efforts to ensure that VAT relief measures remain aligned with Malawi's development priorities, deliver value for money, and effectively support economic transformation and inclusive growth.

Table 2: VAT Tax Expenditure (MWK 'bn)

	2022	2023	2024	2022	2023	2024
	In Billion Kwacha			In percentage of GDP		
Total VAT Expenditure	321.76	440.24	645.02	2.73%	2.84%	3.28%

5.2 Results of the VAT Tax Expenditure

Overall, Value Added Tax (VAT) tax expenditure is estimated at 3.3 percent of GDP in 2024, compared to 2.8 percent in 2023 and 2.7 percent in 2022. In nominal terms, VAT tax expenditure amounted to MK645.02 billion in 2024, MK440.24 billion in 2023, and MK321.78 billion in 2022.

The observed increase over the three-year period reflects the expanding use of VAT policy instruments to support key sectors of the economy and advance Government development priorities. In particular, growth in VAT relief measures has been associated with increased Government support to agriculture and agro-processing, food and basic commodities, petroleum products, infrastructure-related inputs, as well as selected imports that facilitate service delivery, investment promotion, and social welfare objectives.

VAT tax expenditure in 2024 is estimated to be equivalent to approximately 80 percent of total VAT collections. This highlights the significant role of VAT-based policy interventions in complementing Government's revenue mobilisation efforts while simultaneously supporting households, enterprises, and strategic sectors of the economy through targeted relief measures.

The composition of VAT tax expenditure remains concentrated in a few key sectors that are closely aligned to national development priorities. The largest categories include: (1) vegetable products, (2) animals and animal products, (3) agricultural inputs, (4) petroleum products, (5) imports by non-governmental organisations supporting social programmes, and (6) machinery and other industrial equipment. Collectively, these categories account for approximately 60 to 75 percent of total VAT tax expenditure over the review period. This pattern reflects the continued policy emphasis on strengthening agricultural productivity, supporting industrial development, ensuring access to essential goods, and facilitating investment in productive capacity across the economy.

6.0 Tax Expenditure under Import Duty

6.1 Benchmark Tax Expenditure under Import Duty

The benchmark customs duty system for Malawi is based on the Most Favoured Nation (MFN) tariff structure, consistent with World Trade Organization (WTO) principles and Malawi's national tariff schedule. Under this framework, customs duties are applied in a transparent and rules-based manner according to product classification under the Harmonized System (HS), where each imported product is assigned a tariff line that determines the applicable duty rate.

Within this benchmark framework, import duty represents the amount that would be payable if all imports were subject strictly to MFN tariff rates without exemptions, suspensions, rebates, or other preferential treatment. The standard customs duty liability is calculated by applying the relevant MFN tariff rate to the customs value of imports, defined as the Cost, Insurance, and Freight (CIF) value of goods.

Table 3: Import Duty Benchmark

Tax Type	Tax Unit	Tax Base	Tax rate	Tax period
Customs Duty	Shipment	CIF Value	Most Favored Nation tariff	Various

This benchmark provides a consistent basis for assessing the application of customs policy and ensures comparability across products, sectors, and time periods. Any deviation from this benchmark arising from statutory exemptions, zero-rating provisions, suspended duties, or administrative relief granted under specific Customs Procedure Codes (CPCs) is classified as a tax expenditure, as it reflects a deliberate policy decision to support targeted economic or social objectives.

It is important to note that preferential tariff arrangements under regional and bilateral trade agreements, including the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC), are not treated as tax expenditures. These arrangements form part of Malawi's broader regional integration and trade facilitation commitments and are therefore considered integral to the country's trade policy framework.

In operational terms, the benchmark system provides the basis for estimating tax expenditures by comparing the duty that would be payable under the MFN tariff regime with the actual duty collected through the Automated System for Customs Data (ASYCUDA). This approach enables Government to quantify the fiscal implications of exemptions and relief measures while supporting informed policy decisions aimed at balancing revenue mobilisation, trade facilitation, investment promotion, and economic development objectives.

Table 4: Tax Expenditure on Import Duty (MWK 'bn)

Customs Procedure Code	2022	2023	2024	2022	2023	2024
	In Billion Kwacha			In Percentage of GDP		
Total Tax Expenditure	36.76	40.09	102.9	0.31%	0.26%	0.52%

6.2 Results of the Import Duty

Table 4 shows that Tax expenditures associated with import duty exemptions increased from MWK36.76 billion in 2022 to MWK 102.90 billion in 2024. The increase reflects higher utilization of exemption regimes across several categories, including industrial rebates, government projects, diplomatic missions, and imports supporting public services.

7.0 Tax Expenditure under Import Excise

7.1 Benchmark tax expenditure under import excise

Import Excise Duty in Malawi forms part of the broader excise tax framework established under the Customs and Excise Act. It is applied to selected goods with the objective of both revenue mobilisation and supporting public policy goals related to health, environmental protection, and consumption regulation. Excisable goods typically include fuel products, alcoholic beverages, tobacco products, certain motor vehicles, cosmetics, electronics, and other specified commodities, with applicable rates varying by product category in line with national tax policy.

Under the benchmark excise duty system, it is assumed that all excisable imports are subject to the standard statutory excise duty rates without exemptions, rebates, remissions, or preferential treatment. The benchmark therefore reflects the full application of excise policy as defined in the tariff schedule and relevant legislation.

The calculation of import excise duty is generally based on the value of the goods (ad valorem basis), although specific and mixed rate structures are also applied depending on the product category. For ad valorem excise goods, the duty base is typically derived from the customs value of imports, often including CIF value and, where applicable, customs duty. Excise liability is then determined by applying the relevant statutory rate to the applicable tax base.

Table 5: Import Excise Benchmark

Tax Type	Tax Unit	Tax Base	Tax rate	Tax period
Excise Duties	Item	(CIF value + customs duty)	Various rates as outlined in the tariff	Per transaction

The benchmark system encompasses different forms of excise taxation, including ad valorem rates, specific rates, and environmental or corrective excise rates designed to address externalities associated with certain products. Under this framework, only limited exemptions are recognised as part of the benchmark, primarily those arising from international obligations and sovereign exemptions, such as diplomatic privileges under the Vienna Convention.

Accordingly, all statutory exemptions, rebates, remissions, suspended duties, and preferential treatments granted under specific policy instruments or administrative arrangements are treated as tax expenditures, as they represent deliberate policy decisions that reduce the standard excise liability.

It is also important to note that the benchmark excise framework applies consistently to both domestically produced and imported goods, ensuring neutrality and consistency in tax treatment across the production and trade system.

In operational terms, the benchmark is used as the reference point for estimating import excise tax expenditures by comparing the theoretical excise liability under the standard regime with the actual excise duty collected through customs and tax administration systems, as recorded in ASYCUDA and related administrative databases. This approach enables Government to quantify the fiscal impact of excise policy measures while supporting evidence-based decision-making in balancing revenue mobilisation, public health objectives, environmental sustainability, and industrial development priorities.

Table 6: Import Excise Tax Expenditure (MWK 'bn)

HS Code & Description	2022	2023	2024	2022	2023	2024
	In Billion Kwacha			In Percentage of GDP		
Total Tax Expenditure	12.29	15.01	63.69	0.10%	0.10%	0.32%

7.2 Import Excise Tax Expenditure Results

Table 6 shows that import excise tax expenditures increased from MK 12.29 billion in 2022 to MK 15.01 billion in 2023, before rising significantly to MK 63.69 billion in 2024. As a share of Gross Domestic Product (GDP), import excise tax expenditures remained stable at 0.10 percent in both 2022 and 2023, before increasing to 0.32 percent in 2024.

The notable increase recorded in 2024 is largely attributable to higher levels of excise-related to selected strategic imports. This reflects Government policy measures aimed at supporting priority sectors, facilitating access to essential inputs, and enabling the implementation of key development and infrastructure programmes.

The observed trend highlights the growing role of excise-related policy instruments in complementing broader Government efforts to support economic transformation, industrial development, and the efficient functioning of key sectors of the economy.

8.0 Conclusion

Tax expenditures continue to serve as an important fiscal policy instrument through which Government advances national development priorities, including economic growth, investment promotion, employment creation, food security, improved access to essential goods and services, and the implementation of strategic public programmes.

Between 2022 and 2024, the value of tax expenditures increased both in nominal terms and as a share of GDP. This trend reflects the sustained use of targeted tax policy measures to support productive sectors of the economy and to facilitate the delivery of key development objectives in line with Malawi's long-term development agenda.

The findings of this report provide a strengthened evidence base for enhancing transparency and improving understanding of the role and impact of tax expenditure policies within Malawi's overall fiscal framework. Moving forward, Government will continue to enhance the coverage, quality, and consistency of tax expenditure reporting, while strengthening monitoring and evaluation systems for tax incentives and exemptions. These efforts will support more effective alignment of tax expenditure measures with national development priorities, ensure value for money in the use of tax policy instruments, and contribute to the maintenance of a fair, efficient, and sustainable tax system that supports inclusive growth and economic transformation.

9.0 APPENDICES

Appendix 1: Repository of VAT Tax expenditure

Box: What generates a tax expenditure?

The tax expenditure in VAT law comes through two types of provisions with the exceptions mentioned above:

- **Domestic zero-rating.** These mean that firms do not charge output VAT but can still reclaim input VAT. While exports are zero-rated, this is not considered tax expenditure because it is a design feature of the destination-based VAT meaning that goods and services are taxed in the country where they are consumed, not where they are produced.
- **Exemptions.** These mean that firms do not charge output VAT and cannot reclaim input VAT. As a result, removing an exemption has a positive and a negative impact on tax revenue. The positive impact is through the output VAT they would charge, and the negative impact is through the input VAT that they can now reclaim

Appendix 2: Value Added Tax (VAT) Methodology

1. Overview

The Value Added Tax (VAT) tax expenditure estimates presented in this report are prepared to support Government of Malawi's efforts to strengthen fiscal transparency, improve evidence-based policymaking, and enhance the understanding of policy support delivered through the tax system.

VAT remains a key instrument for domestic revenue mobilisation and plays an important role in supporting national development priorities, including economic transformation, industrial development, agricultural productivity, and improved access to essential goods and services.

The estimation framework applied in this report provides a structured approach for assessing the fiscal implications of VAT relief measures while maintaining consistency with Malawi's national accounts and tax administration systems.

2. Modelling Framework

VAT tax expenditure is estimated using a static, top-down demand-side modelling approach based on macroeconomic data from the national accounts, particularly the Supply and Use Tables (SUTs). This framework provides a comprehensive representation of production, consumption, and trade flows within the economy and enables consistent estimation of VAT policy effects across sectors.

Administrative data sources, including VAT declarations and the Automated System for Customs Data (ASYCUDA), are used to complement the analysis. However, these datasets alone are not sufficient to support full microsimulation modelling, as VAT policy

is defined at product level, while administrative tax data are primarily structured by industry and taxpayer registration status.

The model is static in nature and does not incorporate behavioural responses to policy changes. The results therefore reflect estimated outcomes under fixed economic behaviour and are intended for policy analysis and planning purposes.

3. Structure of the VAT Model

The modelling framework is structured around four key stages:

- Data preparation and alignment of national accounts with VAT definitions
- Construction of proxy tax bases for final and intermediate consumption
- Estimation of VAT under current policy and calibration to actual collections
- Simulation of alternative policy scenarios to estimate tax expenditures

The model focuses on VAT collected on final consumption and on inputs where input tax credits are not available, particularly in cases involving exempt supplies or transactions involving unregistered suppliers.

VAT refunded or credited through input tax mechanisms is not explicitly modelled, as this forms part of the standard functioning of the VAT system and is reflected in net VAT collections.

4. Data Preparation and Adjustment

To ensure consistency between national accounts data and VAT policy analysis, the Supply and Use Tables are adjusted through a series of structured steps:

4.1 Expansion of Data Detail

The SUTs are refined to ensure sufficient classification detail for VAT analysis. This includes disaggregation of product taxes into VAT, excise duties, customs duties, and other relevant levies to ensure alignment with the VAT base.

4.2 Redistribution of Economic Flows

Adjustments are made to reflect the structure of taxable consumption, including:

Exclusion of exports from the domestic VAT base (due to zero-rating)

Allocation of gross fixed capital formation between intermediate and final consumption

Treatment of household-related investment (e.g. housing and motor vehicles) as final consumption

Removal of non-market output, including government services and own-use production

4.3 Rebasings to VAT Base Prices

The Use Table is adjusted from purchaser prices to VAT base prices by removing embedded VAT. The Supply Table is similarly adjusted to ensure consistency in valuation across domestic production and imports.

4.4 Extrapolation to Analysis Year

Where applicable, the base-year structure is updated using sectoral growth rates derived from national statistical sources. In some applications, the base structure is maintained to preserve analytical stability, with results expressed as a share of GDP for comparability over time.

5. Policy Modelling and Effective Tax Rates

Following data preparation, the model constructs proxy tax bases for:

- Final consumption; and
- Intermediate consumption not eligible for input tax credits

The modelling framework incorporates structured policy parameters, including:

- Policy shares for standard-rated, zero-rated, and exempt supplies
- Adjustments for informal and unregistered sector participation
- Effective policy shares reflecting actual tax treatment across the economy

These parameters are used to derive Effective Tax Rates (ETRs), which are applied to estimate VAT liability under different policy configurations.

6. Calibration and Alignment with Actual Revenues

A calibration mechanism is applied to align modelled VAT outcomes with actual revenue collections. This ensures consistency between national accounts-based estimates and administrative tax data, while accounting for differences arising from informal sector activity and unregistered economic transactions.

This step strengthens the reliability of the estimates and ensures that the model reflects observed revenue performance within the broader structure of the economy.

7. Tax Expenditure Estimation and Policy Scenarios

The model is used to assess the fiscal implications of VAT policy by comparing:

- The benchmark tax system (standard VAT treatment); and
- The current policy environment (including exemptions, zero-rating, and relief measures)

This enables estimation of VAT tax expenditures as well as simulation of alternative policy scenarios to assess potential revenue implications of reforms.

It is important to note that interactions between tax provisions may result in non-additivity of individual tax expenditure components, meaning that the sum of individual measures may differ from the total tax expenditure estimate.

8. Benchmark Tax System and Interpretation of Results

The benchmark VAT system is defined in line with Malawi's tax legislation and established international VAT principles. It represents a fully applied VAT structure without policy-specific exemptions or preferential treatments, except those considered integral to the standard design of the tax.

Where the treatment of a supply is consistent between the benchmark and current policy, no tax expenditure is recorded.

The results presented in this report are intended to support policy formulation, monitoring, and evaluation. They should be interpreted as indicative estimates of Government support delivered through the VAT system rather than precise measures of revenue loss.

9. Key Modelling Considerations

The estimates are sensitive to assumptions relating to:

- The size and structure of the informal sector
- Classification of exempt and zero-rated supplies
- Definition of the benchmark tax system

- Sectoral distribution of consumption and production:
Despite these limitations, the methodology provides a consistent and policy-relevant framework for understanding the scale and composition of VAT-related tax expenditures in Malawi.