Court of Appeal Rules on Head Office Cost Deductions - Key Takeaways

Dear Reader,

The Court of Appeal on 12th December 2025 delivered its judgment in **Aggreko International Projects Limited v Commissioner General, TRA** (Civil Appeal No. 182 of 2025), dismissing the taxpayer's appeal on head office cost deductions.
This case reinforces a principle we consistently advise clients on: **allocation is not the same as deductibility**.

The facts in brief

Aggreko's Tanzania branch claimed deductions for head office costs allocated from its Dubai regional hub using a pro-rata revenue methodology. TRA disallowed these costs for the 2018 and 2019 income years, resulting in assessments totalling approximately TZS 2.06 billion (including interest and penalties).

The Court's position

The Court confirmed that under Section 11(2) of the Income Tax Act, expenses must be:

1. Incurred during the year of income; AND
2. Incurred "wholly and exclusively" in the production of income from the business

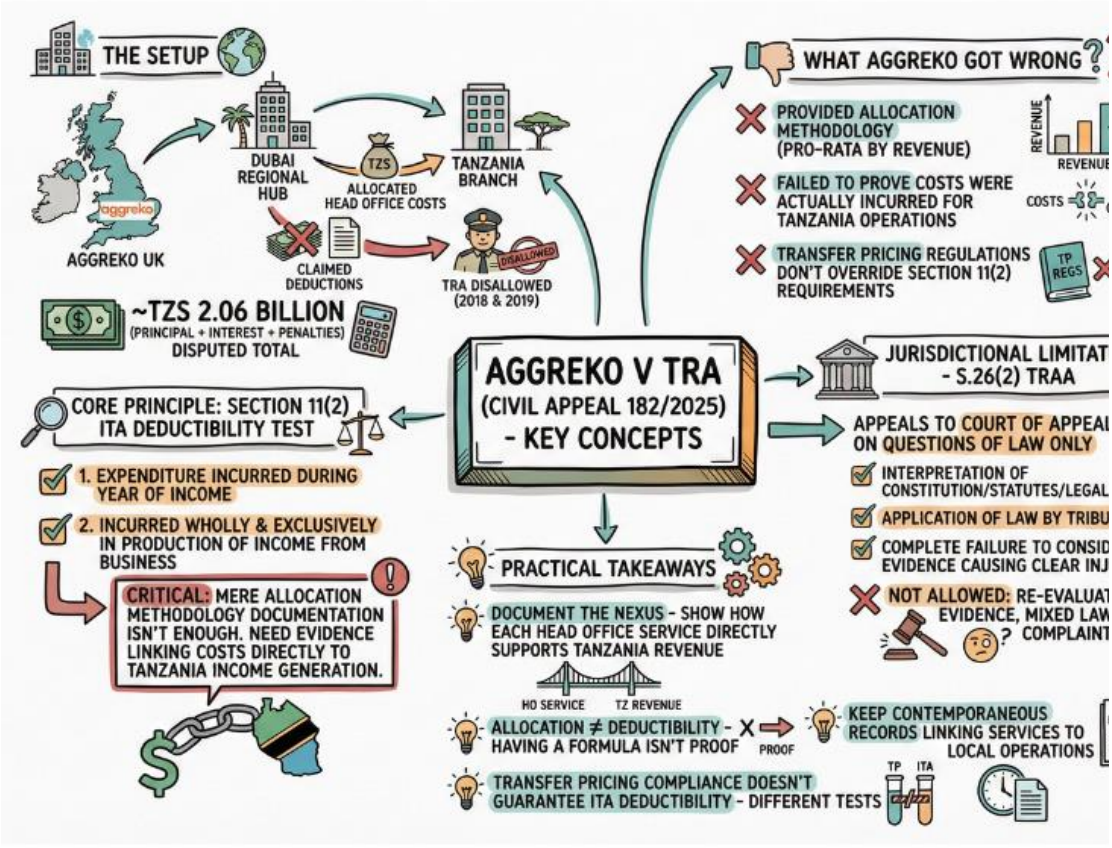
Critically, the Court held that transfer pricing regulations do not override these statutory requirements. Documentation showing allocation methodology alone is insufficient - you need evidence demonstrating the nexus between services received and Tanzanian income generation.

What this means for you

If your company receives allocated costs from a regional hub or head office, we recommend reviewing:

- Whether you have contemporaneous documentation linking each service category to your Tanzania operations
- Whether your current evidence would satisfy the "wholly and exclusively" test under audit
- The distinction between transfer pricing compliance and ITA deductibility

We've prepared an infographic summarising the key concepts from this case (see below).



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