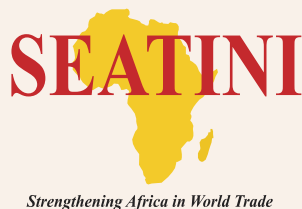




**Government
of Ireland**
International
Development
Programme



Cost Benefit Analysis of Tax Expenditures in Uganda



Research Report

COST BENEFIT ANALYSIS OF TAX EXPENDITURES IN UGANDA

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Abbreviations and Acronyms

BEPS	Base Erosion and Profit Shifting
CIT	Corporate Income Tax
DID	Difference-in-Differences
DMTT	Domestic Minimum Top-up Tax
ETR	Effective Tax Rate
GloBE	Global Anti-Base Erosion
MoFPED	Ministry of Finance, Planning and Economic Development
OECD	Organisation for Economic Cooperation and Development
PFMA	Public Finance Management Act
QDMTT	Qualified Domestic Minimum Top-up Tax
SEATINI	Southern and Eastern Africa Trade Information and Negotiations Institute
URA	Uganda Revenue Authority
UTPR	Undertaxed Profit Rule
VAT	Value Added Tax

Executive Summary

The study assessed the economic benefits, distributional implications, and governance of tax expenditures in Uganda. Building on estimates of revenue forgone contained in Uganda's Tax Expenditure Reports, it examined whether investment-related tax incentives generate measurable economic benefits, assessed the effects of VAT exemptions on poverty and inequality, and reviewed the governance and management framework for tax expenditures, including its exposure to the OECD/G20 Global Minimum Tax.

The study employed a mixed-methods approach combining administrative tax data, household survey data, and documentary review. Tax expenditures in Uganda benefit a diverse range of individuals, public institutions, private sector firms and households. Personal Income Tax expenditures are highly concentrated among security personnel, retirement fund contributors and Members of Parliament, who together account for over 95% of PIT revenue forgone. VAT tax expenditures primarily benefit firms in mining, oil and gas, government projects, financial services and industry, although some also support household consumption through agricultural and essential goods. Excise duty expenditures are concentrated in beer and spirits, and customs duty expenditures largely benefit firms importing raw materials, machinery and equipment through stays of application and duty remission schemes. Corporate Income Tax expenditures primarily benefit firms receiving tax holidays and sector-specific exemptions, with the 10-year tax holiday for qualifying sectors accounting for the largest share of CIT revenue forgone though a further, currently unquantified layer of preferential treatment is embedded in ordinary sector rules for financial services, insurance and extractives, and in Government's own commitments to pay tax on behalf of private taxpayers.

The number of firms benefiting from major investment-related tax incentives increased from two in 2018 to 123 in 2025. Income tax exemptions were the most widely used incentive, followed by VAT, excise duty and stamp duty exemptions, and roughly half of beneficiary firms were established after the current incentive regime was introduced, suggesting the incentives may have both attracted new investment and supported the expansion of existing businesses.

Firms benefiting from investment-related tax incentives generally show stronger economic outcomes than comparable non-beneficiaries: the impact evaluation finds positive effects on investment, business expansion, profitability, labour compensation, and both local and import purchases, though beneficiary firms remained more capital-

intensive and paid lower average wages than non-beneficiaries. Because the growth in imports outpaced the growth in local purchases, the share of local sourcing among beneficiary firms declined over the study period, indicating that the incentives support firm growth more reliably than they support domestic value addition and supplier development. Fiscally, incentives were associated with significantly higher PAYE collections but no measurable increase in VAT collections and lower CIT collections — a consequence of the incentives' design — so that fiscal gains from employment growth were partly offset by reduced corporate income tax revenue. Benefits also varied by firm size, with stronger turnover and wage effects among small firms, investment gains among medium-sized firms, and greater purchasing activity among large firms.

VAT exemptions play an important role in reducing poverty but appear to increase inequality: removing them would raise the national poverty rate by 5.5 percentage points, underscoring their value to vulnerable households, but their removal would also reduce inequality, indicating that a disproportionate share of the benefit currently accrues to higher-income households.

Uganda has made significant progress in strengthening tax expenditure governance through a benchmark tax system, a tax expenditure repository, annual tax expenditure reporting, and the Fiscal Governance Framework for Tax Expenditures. Challenges remain, however, in monitoring and evaluation, beneficiary reporting, and data availability, and a further

challenge has emerged since these systems were designed: the OECD/G20 Global Anti-Base Erosion (GloBE) Rules under Pillar Two now mean that reducing an in-scope multinational's effective tax rate below 15 percent through incentives can simply shift revenue to another jurisdiction's top-up tax rather than benefiting the investor or Uganda.

As a way forward, the study recommends a differentiated response that's retaining incentives shown to generate net benefit, modifying those whose objective still holds but whose design is now poorly targeted or exposed to GloBE, and repealing only those an evidence base shows to be redundant — set out below by institution.

Recommendations for the MoFPED

- a) Adopt a Domestic Minimum Top-up Tax, so Uganda itself collects any top-up tax arising where incentives push an in-scope multinational group's effective tax rate below the 15 percent Global Minimum Tax floor, rather than ceding that revenue to another jurisdiction.
- b) Replace broad tax incentives with more targeted, performance-based incentives, and gradually transition towards cost-based instruments — accelerated depreciation, investment allowances and R&D credits — that are less exposed to the Global Minimum Tax and more closely linked to real investment activity.
- c) Modify the deemed VAT regime for mining and petroleum operations on a stage-based approach, confining it to exploration, development and pre-

production capital expenditure, and reassessing its continuation once commercial production begins.

- d) Bring hidden and silent tax preferences in financial services, insurance, and petroleum and mining stabilisation clauses into the tax expenditure framework and require mandatory public disclosure of Government commitments to pay tax on behalf of private taxpayers under Section 44 of the TPCA.
- e) Rationalise VAT exemptions and improve targeting of household support measures, retaining relief on goods and services predominantly consumed by low-income households while reviewing exemptions that mainly benefit higher-income households or businesses.
- f) Institutionalise monitoring and evaluation across the tax expenditure lifecycle, including ex-ante assessment of new incentives and periodic ex-post evaluation of existing ones.
- g) Introduce sunset clauses for major tax expenditures, requiring automatic review and renewal based on evidence of fiscal cost, economic benefit and value for money.

Recommendations for the URA

- a) Strengthen beneficiary data collection and outcome reporting on investment, employment, exports, local sourcing and technology transfer.
- b) Strengthen compliance and reporting by tax incentive beneficiaries,

including firms benefiting from the sector-embedded preferences identified under recommendation (d) above.

- c) Build administrative capacity to implement and audit the Domestic Minimum Top-up Tax, in coordination with the national GMT implementation taskforce.

Recommendations for Parliament

- a) Strengthen scrutiny of tax expenditures by requiring evidence of fiscal cost and expected benefits before approving new or renewed incentives. Parliament should also require disclosure of Government commitments to pay tax on behalf of private taxpayers under Section 44 of the TPCA and the fiscal exposure arising from stabilisation clauses in petroleum and mining agreements.

Recommendations for Civil Society Organisations

- a) Build technical capacity on the GloBE Rules and less-visible tax preferences in financial services, insurance, extractives and Government tax-payment commitments, so that civil society oversight extends beyond formally reported incentives.
- b) Strengthen independent monitoring of tax expenditures by using the annual Tax Expenditure Report and Section 44 disclosures to track fiscal costs, distributional effects and compliance with reporting and evaluation requirements.

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The contents of this publication are the sole responsibility of SEATINI and do not necessarily reflect the views or official position of the Embassy of Ireland in Uganda.

CHAPTER ONE:

INTRODUCTION

1.1 Introduction and Context

Tax expenditures have become an increasingly important instrument of fiscal policy across both developed and developing economies. Broadly defined as provisions within the tax system that reduce the tax liability of specific taxpayers, sectors, activities, or investments, tax expenditures include exemptions, deductions, tax credits, preferential tax rates, tax holidays, and deferrals. Governments use these measures to pursue economic and social objectives such as attracting investment, promoting industrialisation, encouraging exports, supporting strategic sectors, creating employment, and accelerating economic transformation. Unlike direct public expenditure programmes, tax expenditure operates through the tax system by foregoing government revenue in the expectation that the resulting economic benefits will contribute to broader development objectives.

The use of tax incentives has become particularly widespread in developing countries, where governments often compete to attract increasingly mobile domestic and foreign investment. Across Africa, tax incentives have become a central component of investment promotion strategies, with most countries offering various forms of tax holidays, reduced tax rates, customs duty exemptions, and other fiscal concessions to targeted

sectors and investors (Keen & Mansour, 2010; OECD, 2015). While these measures are intended to enhance competitiveness and stimulate economic activity, their effectiveness remains the subject of considerable debate. A growing body of evidence suggests that factors such as market size, infrastructure quality, political stability, regulatory certainty, access to raw materials, and labour availability often play a more important role in investment decisions than tax incentives alone (IMF, 2015; Moore, Prichard, & Fjeldstad, 2018).

Uganda has similarly embraced tax expenditures as an important component of its fiscal and investment policy framework. Over the years, government has introduced a range of incentives targeting sectors considered critical for economic transformation, including agro-industrialisation, manufacturing, tourism, mineral development, information technology, logistics, and export-oriented industries. The policy rationale for these incentives has been to attract domestic and foreign investment, increase production and value addition, stimulate employment creation, strengthen export competitiveness, and support structural transformation of the economy (MoFPED, 2025; Waiswa & Rukundo, 2023; Namunane, Carson, & McNabb, 2023).

Tax expenditures constitute a significant and persistent feature of Uganda's fiscal framework. According to the Tax Expenditure Report FY2024/25, tax expenditures are estimated at UGX 5,007.11 billion, equivalent to 2.20 percent of GDP and approximately 15.5 percent of total tax collections (MoFPED, 2025). Although tax expenditures as a share of GDP declined from 2.53 percent in FY2020/21 to 2.20 percent in FY2024/25, this reduction is relatively modest, and tax expenditures have consistently remained above two percent of GDP throughout the period. This is at a time when Uganda is pushing to increase its tax to GDP ratio from 14% to the regional average of 16%. At the same time, the nominal value of revenue forgone increased by 33 percent, from UGX 3.76 trillion to UGX 5.01 trillion over the five year period. The persistence of tax expenditures at over two percent of GDP, coupled with their rising nominal value, underscores their significance within Uganda's fiscal landscape and highlights the need to ensure that the economic benefits generated by these incentives justify the substantial revenues forgone. Given Uganda's development financing needs and ongoing efforts to strengthen domestic revenue mobilisation, the effectiveness, efficiency, and accountability of tax expenditures have become increasingly important policy concerns.

1.2 Evolution of Tax Incentives in Uganda

Uganda's tax incentive regime has undergone significant transformation over the past five decades. The country's approach to investment incentives can

broadly be divided into four phases: discretionary statutory tax incentives (1974–1997), statutory reform and the elimination of tax holidays (1997–2005), the emergence of non-statutory and discretionary incentives (2005–2018), and the establishment of the current statutory incentive framework (2018 to date), Waiswa and Rukundo (2023). Understanding this evolution is important because it highlights the changing rationale, design, and governance of tax incentives in Uganda, as well as longstanding concerns regarding their transparency, fiscal cost, and developmental impact.

During the first phase, tax incentives were granted largely through discretionary powers vested in the Minister of Finance, a system that was increasingly criticised for weak transparency, inequitable treatment of taxpayers, and significant revenue losses. These concerns contributed to the tax reforms of the late 1990s, which abolished tax holidays and replaced them with more rules-based incentives such as capital allowances and loss carry-forward provisions.

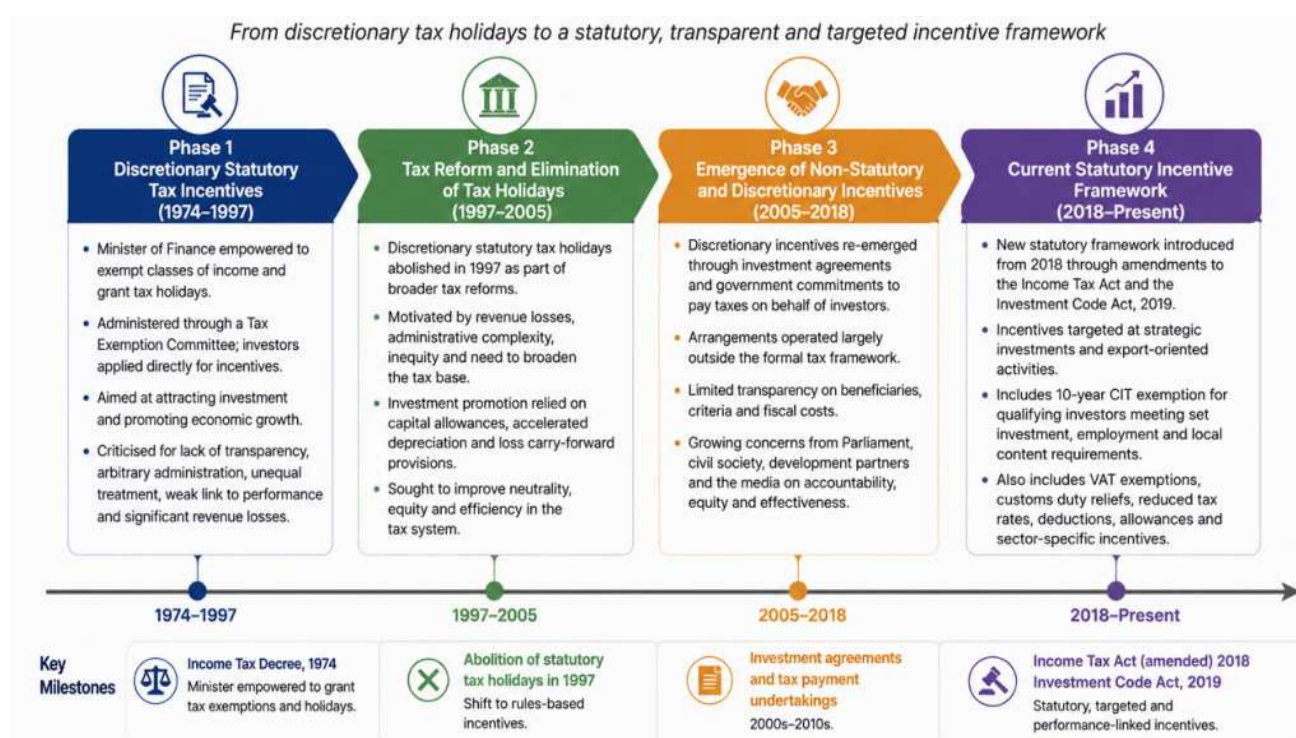
Despite these reforms, discretionary incentives gradually re-emerged through investment agreements and government commitments outside the formal tax framework. Concerns regarding transparency, accountability, and fiscal costs eventually led to renewed reforms beginning in 2018. These reforms introduced a legislated framework for investment incentives through amendments to the Income Tax Act and the enactment of the Investment Code Act, 2019. The new regime provides a range

of statutory incentives, including a ten-year corporate income tax exemption for qualifying strategic investments linked to investment, employment, and local content requirements (Namunane et al., 2023). Since then, the scope of the incentive regime has expanded through lower investment thresholds and a broader range of qualifying sectors.

The evolution of Uganda's tax incentive framework reflects a continuous effort to balance investment promotion

with revenue mobilisation and fiscal sustainability. While recent reforms have improved transparency and legal certainty, questions remain regarding the extent to which tax incentives generate additional investment, employment, exports, and domestic linkages sufficient to justify the associated revenue forgone (Namunane et al., 2023; Lakuma & Arinaitwe, 2025). These concerns underscore the importance of rigorous evaluation of tax incentives and provide the context for the present study.

Figure 1: Evolution of Tax Incentives in Uganda



1.3 Research Problem

The increasing use of tax expenditures in Uganda has intensified policy debate regarding their effectiveness, efficiency, and contribution to national development objectives. While tax incentives are intended to stimulate investment, employment creation, exports, value addition, and economic transformation, they also entail significant fiscal costs through revenues forgone by government. With tax expenditures estimated at UGX 5.01 trillion in FY2024/25, equivalent to 2.2 percent of GDP and 15.5 percent of total tax collections, ensuring that these incentives generate commensurate economic and social benefits has become an important public policy concern (MoFPED, 2025).

Although discussions on tax expenditures have long focused on both their fiscal costs and potential economic benefits, considerably more attention has been devoted to measuring the revenue forgone than to assessing the developmental outcomes generated by the incentives. Consequently, the fiscal cost of tax expenditures is increasingly well understood through annual tax expenditure reporting, while empirical evidence on their effectiveness has only begun to emerge in recent years. Recent studies have examined the impact of Uganda's tax incentives, particularly the ten-year corporate income tax holiday, on outcomes such as investment, turnover, employment, exports, and firm performance. However, the findings remain mixed. While some studies report positive effects on investment and business growth, others find limited evidence of additional impacts on employment creation and broader development outcomes (Namunane, Carson, & McNabb, 2023; Lakuma & Arinaitwe, 2026).

As a result, important questions remain regarding the developmental value generated by the substantial revenues forgone through the tax system. In particular, it remains unclear whether the benefits generated by tax incentives are sufficient to justify their fiscal cost, whether beneficiary firms perform significantly better than comparable non-beneficiary firms, and whether tax expenditures contribute meaningfully to wider development objectives such as employment creation, domestic value addition, local economic linkages, poverty

reduction, and inequality reduction. In addition, concerns persist regarding the governance of tax expenditures, including their design, transparency, monitoring, evaluation, and accountability.

Against this background, there is a need for further evidence on the effectiveness and developmental implications of tax expenditures in Uganda. Such evidence is critical for informing policy decisions on the design, targeting, administration, and evaluation of tax incentives and ensuring that public resources forgone through the tax system generate measurable economic and social returns.

1.4 Objectives of the study

In response to these concerns, SEATINI Uganda commissioned this study to assess the effectiveness, equity, and governance of tax expenditures in Uganda. The study seeks to contribute to ongoing policy discussions by generating evidence on the economic, social, and fiscal implications of tax expenditures and examining the adequacy of the existing governance framework.

The overall objective of the study is to assess the fiscal costs, economic and developmental benefits, and governance of tax expenditures in Uganda, and generate evidence to inform their design, rationalisation, monitoring and reform.

Specifically, the study seeks to:

- i. Analyse the trend, composition and distribution of tax expenditures in Uganda, using existing estimates of revenue forgone, and identify the main beneficiary groups, sectors

and types of incentives.

- ii. Assess the economic and developmental benefits associated with tax incentives, including their effects on investment, turnover, profitability, employment, wages, local economic linkages, imports and business sustainability.
- iii. Assess the economic and developmental benefits associated with tax incentives, including their effects on investment, turnover, profitability, employment, wages, local economic linkages, imports, and business sustainability.
- iv. Assess whether firms benefiting from tax incentives achieve better economic outcomes than comparable non-beneficiary firms and determine the extent to which these outcomes can be attributed to the incentives.
- v. Assess the fiscal implications of tax incentives by examining whether beneficiary firms generate additional tax revenues, including PAYE, VAT and CIT, relative to comparable non-beneficiary firms.
- vi. Assess the distributional implications of selected tax expenditures, particularly VAT exemptions, on poverty and inequality.
- vii. Review the legal, institutional, and governance framework for tax expenditures in Uganda, including arrangements for their design, administration, monitoring, evaluation, transparency, and accountability.

1.5 Research Questions

The study is guided by the following research questions:

- i. What has been the trend, composition and distribution of tax expenditures in Uganda over time, and who are the principal beneficiaries in terms of sectors, firms and types of incentives?
- ii. What economic and developmental benefits are associated with tax incentives in terms of investment, turnover, profitability, employment, wages, local economic linkages, imports and business sustainability?
- iii. Do firms benefiting from tax incentives achieve better economic outcomes than comparable non-beneficiary firms, and to what extent can these outcomes be attributed to the incentives?
- iv. To what extent do beneficiary firms generate additional fiscal benefits, including PAYE, VAT and Corporate Income Tax revenues, compared to comparable non-beneficiary firms?
- v. What are the distributional implications of selected tax expenditures, particularly VAT exemptions, on poverty and inequality?
- vi. How effective are the current legal, institutional and governance arrangements for the design, administration, monitoring, evaluation, transparency and reporting of tax expenditures in Uganda?

CHAPTER TWO:

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature on tax expenditures, focusing on their conceptual foundations, theoretical justification, governance, and effectiveness as instruments for promoting investment and economic development. Particular attention is given to empirical evidence from Uganda, where recent studies have sought to assess the developmental impacts of tax incentives and their implications for fiscal policy and revenue mobilisation.

2.2 Conceptual Foundations of Tax Expenditures

The concept of tax expenditures is commonly associated with the work of Surrey and McDaniel (1985), who argued that governments frequently use the tax system to achieve objectives that could otherwise be pursued through direct public expenditure. Tax expenditures are generally defined as provisions within the tax system that provide preferential treatment to specific taxpayers, sectors, activities, or investments, thereby reducing the amount of revenue that would otherwise be collected under the normal tax system. In this sense, tax expenditures operate as indirect government spending delivered through the tax system.

A defining feature of the tax expenditure concept is the existence of a benchmark tax system against which preferential

provisions can be identified. According to Burton and Sadiq (2013), tax expenditures arise when governments depart from the normal structure of the tax system to pursue broader economic or social objectives. These departures may take various forms, including exemptions, deductions, tax credits, preferential tax rates, deferrals, accelerated depreciation allowances, investment allowances, and tax holidays. However, the distinction between a normal tax provision and a tax expenditure is not always straightforward and often depends on policy judgments regarding the objectives of the tax system.

The literature further emphasises that tax expenditures are economically equivalent to direct subsidies because both involve the use of public resources to influence economic behaviour. However, unlike direct expenditure programmes, tax expenditures are often embedded within tax legislation and may therefore receive less scrutiny, monitoring, and evaluation. This has raised concerns regarding transparency, accountability, and the effectiveness of tax expenditures in achieving their intended objectives (Surrey & McDaniel, 1985; Burton & Sadiq, 2013). The literature therefore views tax expenditures as fiscal policy instruments through which governments allocate public resources to achieve economic and social objectives,

making their effectiveness, efficiency, and accountability important subjects of policy and academic inquiry.

2.3 Theoretical Perspectives on Tax Incentives

The use of tax incentives is primarily justified on the grounds that taxation influences investment decisions and economic behaviour. Governments use tax incentives to encourage investment in sectors considered strategically important for economic development, promote exports, stimulate employment creation, support industrialisation, and attract foreign direct investment. In developing countries, tax incentives are often viewed as instruments for offsetting structural disadvantages such as inadequate infrastructure, limited access to finance, high transportation costs, and perceived investment risks. By reducing the cost of investment, governments expect firms to expand production, create jobs, increase exports, and contribute to broader economic transformation.

The theoretical rationale for tax incentives is also linked to industrial policy objectives. Governments may use tax incentives to channel investment towards priority sectors such as manufacturing, agriculture, tourism, mining, infrastructure, and technology. In this context, tax incentives are viewed as tools for accelerating structural transformation, promoting value addition, and enhancing international competitiveness. Kaldor (1955) similarly argued that taxation can influence patterns of savings, investment, and economic growth, supporting the broader proposition that tax policy can be used to shape

economic behaviour.

Despite these arguments, a substantial body of literature questions the effectiveness of tax incentives in achieving their intended objectives. Critics argue that tax incentives often result in significant revenue losses while exerting only a limited influence on investment decisions. Factors such as market size, political stability, infrastructure quality, access to raw materials, labour availability, and regulatory certainty are frequently found to be more important determinants of investment than tax considerations. As a result, tax incentives may simply reward investments that would have occurred even in their absence.

The literature also highlights concerns regarding efficiency, equity, and governance. Tax incentives may create unequal treatment among taxpayers, distort resource allocation, and reduce government revenues available for public services and infrastructure. In addition, incentives that are not subject to regular monitoring and evaluation may persist even when they no longer serve their intended purpose. Consequently, the effectiveness of tax incentives remains an empirical question that depends on whether the economic and social benefits generated outweigh the fiscal costs incurred through the revenue forgone.

2.4 Empirical Evidence on Tax Incentives

Empirical evidence on the effectiveness of tax incentives remains mixed. While tax incentives are widely used to attract investment, promote industrialisation, stimulate exports, and create employment,

studies across countries have produced divergent findings regarding their effectiveness. A recurring finding in the literature is that tax incentives are rarely the primary determinant of investment decisions. Factors such as market size, infrastructure quality, political stability, regulatory certainty, access to raw materials, and labour availability often play a more significant role in influencing investor behaviour than tax considerations alone (James, 2013; IMF, 2015; OECD, 2015).

Evidence from developing countries suggests that tax incentives can influence investment decisions under certain conditions, particularly where investments are highly mobile and sensitive to taxation. However, several studies have found that tax holidays and other profit-based incentives frequently generate limited additional investment while imposing significant fiscal costs. Van Parys and James (2010), for example, found little evidence that tax holidays significantly increased foreign direct investment or fixed capital formation in countries within the CFA Franc Zone. Similarly, investor surveys reviewed by James (2013) indicate that many firms benefiting from tax incentives would have proceeded with their investments even in the absence of such incentives, suggesting a high degree of redundancy. The IMF (2015) further argues that cost-based incentives, such as investment allowances and accelerated depreciation, tend to be more effective than profit-based incentives such as tax holidays because they directly reduce the cost of investment.

Recent empirical evidence from Uganda

has sought to move beyond debates regarding the fiscal cost of tax incentives and examine their developmental impacts. Using a difference-in-differences approach, Namunane, Carson, and McNabb (2023) evaluated the ten-year corporate income tax exemption available to qualifying investors under the Income Tax Act. The study found positive effects on investment in fixed assets and sales revenues but found no robust evidence of positive impacts on employment and other broader development outcomes. The authors concluded that some of the investments benefiting from the exemption may have occurred even in its absence, raising concerns regarding redundancy and the potential erosion of the corporate income tax base.

A more recent study by the Tax Policy Department of the Ministry of Finance adopted a broader analytical framework combining cost-benefit analysis and causal inference methods to assess Uganda's ten-year tax holiday regime (Lakuma & Arinaitwe, 2026). The study found that tax holidays generated positive net benefits overall, particularly in manufacturing and export-oriented agriculture. For every UGX 1 of revenue forgone, qualifying strategic sectors generated approximately UGX 2.49 in benefits, while exporters generated UGX 1.85 in benefits. The study also found positive effects on investment, sales growth, employment, and indirect tax contributions. However, it reported weaker effects on exports, local sourcing, and domestic supply-chain development and noted that firm growth did not always translate into proportional increases in tax revenues.

The authors therefore recommended a more targeted and performance-based approach to tax incentives.

The emerging evidence from Uganda therefore presents a more nuanced picture than earlier debates that focused primarily on the fiscal cost of tax incentives. While recent studies suggest that tax incentives can contribute to increased investment and firm growth, the evidence regarding employment creation, local economic linkages, exports, and broader developmental impacts remains less conclusive. The differing findings also suggest that the effectiveness of tax incentives may vary across sectors, incentive types, and outcome measures. These issues highlight the need for continued evaluation of tax expenditures and provide the context for the present study.

2.5 Tax Expenditure Governance and Management

An important strand of literature focuses on the governance and management of tax expenditures. Scholars argue that because tax expenditures involve the use of public resources through the tax system, they should be subject to the same standards of transparency, accountability, monitoring, and evaluation as direct public expenditures (Surrey & McDaniel, 1985; Burton & Sadiq, 2013). Effective tax expenditure management therefore requires clear identification of tax expenditures, estimation of revenue forgone, regular reporting, periodic review, and assessment of whether incentives

achieve their intended policy objectives.

The literature highlights several governance challenges associated with tax expenditures. Unlike direct expenditure programmes, tax incentives are often embedded within tax legislation and may receive limited scrutiny during budget processes. Burton and Sadiq (2013) argue that this can weaken democratic oversight and make it difficult to assess whether tax expenditures represent an efficient use of public resources. Weak monitoring and evaluation systems may further result in incentives being retained long after their original rationale has diminished.

Uganda has made significant progress in strengthening tax expenditure reporting and management. The introduction of annual Tax Expenditure Reports and the development of a Tax Expenditure Management Framework have improved the identification, measurement, and reporting of tax expenditures. However, challenges remain. Data limitations continue to constrain the assessment of beneficiary outcomes, while monitoring and evaluation systems remain relatively underdeveloped. Waiswa and Rukundo (2023) further note that although the transition from discretionary to statutory incentives has improved transparency, concerns remain regarding oversight, accountability, and the effectiveness of some incentive provisions.

The literature therefore suggests that effective tax expenditure management requires not only accurate estimation of fiscal costs but also robust systems for evaluating outcomes and ensuring that incentives contribute meaningfully to

national development objectives.

2.6 Summary of Literature

The literature reviewed demonstrates that tax expenditures have become an important instrument of fiscal policy, particularly in developing countries where they are used to promote investment, industrialisation, exports, employment creation, and broader economic transformation. While the theoretical justification for tax incentives is well established, empirical evidence regarding their effectiveness remains mixed. Although some studies report positive effects on investment and firm growth, evidence on employment creation, local economic linkages, exports, productivity, and broader development outcomes is often less conclusive.

The literature further suggests that the effectiveness of tax incentives is highly context-specific. Certain incentives, particularly those targeted at manufacturing, exports, and strategic investments, appear capable of generating significant economic benefits. At the same time, broad tax holidays and poorly targeted incentives may impose substantial fiscal costs while generating limited additional investment or developmental spillovers. These findings have led to growing calls for more targeted, performance-based, and evidence-driven approaches to tax incentives.

In Uganda, recent studies have begun to move beyond the estimation of revenue forgone and assess the economic impacts of tax incentives. While the emerging evidence points to positive effects on investment, turnover, and firm growth,

findings are less consistent regarding employment creation, local sourcing, exports, fiscal returns, and broader development outcomes. The literature also highlights continuing concerns regarding transparency, monitoring, evaluation, data availability, and accountability in the management of tax expenditures.

Uganda has nevertheless made significant progress in strengthening tax expenditure reporting and management through the publication of annual Tax Expenditure Reports and the development of institutional frameworks for identifying and measuring tax expenditures. However, challenges remain in assessing the developmental value generated by tax expenditures and in systematically evaluating whether incentives achieve their intended objectives.

Despite the growing body of evidence, important knowledge gaps remain. Existing studies have largely focused on specific tax incentives, particularly the ten-year corporate income tax holiday, with limited attention to the broader range of tax expenditures available under Uganda's tax system. In addition, relatively little evidence exists on the combined effects of multiple tax incentives received by firms, the distributional implications of tax expenditures, particularly VAT exemptions, and the effectiveness of governance arrangements for managing tax expenditures.

This study contributes to the growing evidence base by examining the beneficiaries and developmental implications of tax expenditures in Uganda.

Specifically, it assesses the performance of beneficiary firms relative to comparable non-beneficiary firms, evaluates the distributional effects of selected tax expenditures on poverty and inequality, and reviews the legal, institutional, and governance framework for tax expenditures. In doing so, the study seeks to inform policy discussions on the effectiveness, equity, transparency, and accountability of tax expenditures in Uganda.

CHAPTER THREE:

METHODOLOGY

3.0 Introduction

The study adopted a mixed-methods approach combining quantitative and qualitative techniques. The methodology integrated documentary review, analysis of administrative tax data, tax-benefit microsimulation, and stakeholder consultations to assess the economic, distributional, and governance implications of tax expenditures in Uganda.

3.1 Desk Review and Legal Analysis

The study commenced with a review of relevant literature, policy documents, and legal frameworks governing taxation and tax expenditures in Uganda. The review covered key legislation, including the Income Tax Act, Value Added Tax Act, Excise Duty Act, Tax Procedures Code Act, East African Community Customs Management Act, and relevant Finance Acts.

In addition, the study reviewed national development plans, annual Tax Expenditure Reports produced by the Ministry of Finance, Planning and Economic Development, policy documents, and previous studies undertaken by government, research institutions, and international organisations.

The review provided the basis for identifying the major tax expenditures available under Uganda's tax system, their intended policy objectives, target beneficiaries, and the

sectors targeted by these incentives. It also informed the assessment of the legal and institutional framework for managing tax expenditures in Uganda.

3.2 Analysis of Administrative Tax Data

A major component of the study involved the analysis of administrative tax data obtained from the URA research data lab. The analysis focused on identifying beneficiaries of tax expenditures and assessing the economic outcomes associated with these incentives.

The study utilised Corporate Income Tax returns, PAYE returns, VAT returns, customs declarations, and tax expenditure beneficiary records covering the period 2014–2023. These datasets were used to analyse firm performance, investment behaviour, employment outcomes, wages, profitability, turnover, local purchases, imports, and business sustainability.

The analysis first profiled beneficiary firms according to sector, firm size, and the types of tax incentives received. Particular attention was given to the extent to which firms benefited from multiple tax expenditure provisions, including corporate income tax exemptions, VAT exemptions, customs duty exemptions, excise duty reliefs, and stamp duty exemptions.

3.3 Impact Assessment of Tax Incentives

To assess whether the observed performance of beneficiary firms could be attributed to tax incentives, the study employed a quasi-experimental impact evaluation approach. Beneficiary firms were matched with comparable non-beneficiary firms using Propensity Score Matching (PSM). The matching process estimated the probability of receiving a tax incentive based on pre-treatment firm characteristics, including turnover, total assets, fixed assets, profitability, wages, and sector of operation. Each beneficiary firm was then matched to a non-beneficiary firm with similar characteristics using nearest-neighbour matching. This approach helped minimise selection bias and facilitated the construction of a comparison group that closely resembled beneficiary firms prior to receiving the incentive.

The impact of tax incentives was then estimated using a Difference-in-Differences (DID) approach, which compares changes in outcomes between beneficiary and non-beneficiary firms before and after receipt of the incentive. The model is specified as:

$$Y_{it} = \alpha + \beta(Treat_i \times Post_t) + \gamma_i + \delta_t + \varepsilon_{it}$$

where:

- Y_{it} is the outcome variable for firm i in year t ;
- $Treat_i$ identifies beneficiary firms;
- $Post_t$ identifies the post-treatment period;
- γ_i are firm fixed effects;
- δ_t are year fixed effects;
- ε_{it} is the error term.

The model was estimated separately for investment, turnover, profitability, employment, wages, local purchases, import purchases, and business sustainability. Additional analysis was undertaken to assess whether the effects of tax incentives differed across small, medium, and large firms.

3.4 Tax-Benefit Microsimulation Analysis

To assess the distributional implications of selected tax expenditures, particularly VAT exemptions, the study applied tax-benefit microsimulation techniques using the Uganda Tax-Benefit Microsimulation Model.

The analysis simulated alternative policy scenarios involving the removal or modification of selected VAT exemptions and estimated their effects on household welfare. Particular attention was given to the implications for poverty, inequality, household consumption, and the distribution of tax burdens across income groups.

This component complemented the firm-level impact assessment by examining tax expenditures that are primarily intended to support household welfare rather than business investment.

3.5 Cost-Benefit Analysis Framework

The analysis was based on the principle that tax expenditures constitute public expenditure delivered through the tax system. Consequently, they should be evaluated using the same value-for-money principles that apply to direct

public expenditure programmes. The assessment therefore compared the costs incurred by Government through foregone revenue with the additional economic outcomes attributable to tax incentives after controlling for differences between beneficiary and non-beneficiary firms through propensity score matching and difference-in-differences estimation.

The study identified three categories of costs. The first and largest component comprised revenue forgone, measured using the Ministry of Finance's Tax Expenditure Reports and administrative tax data. Revenue forgone represents the tax that Government would have collected under the benchmark tax system in the absence of the tax expenditure. This constituted the primary fiscal cost against which benefits were assessed.

The second component comprised administrative costs associated with designing, approving, implementing, monitoring and administering tax expenditures. These include the costs incurred by the MoFPED, URA, Uganda Investment Authority and other public institutions in processing applications, verifying eligibility, administering incentives, maintaining beneficiary databases, monitoring compliance and producing tax expenditure reports. Although these costs could not be quantified comprehensively because of data limitations, they were recognised as part of the overall resource cost of administering tax incentives.

The third component comprised opportunity costs. Revenue forgone through tax expenditures cannot

simultaneously finance alternative public investments such as education, health, infrastructure, agricultural support or social protection programmes. The opportunity cost therefore represents the economic and social benefits that could potentially have been generated had the same fiscal resources been allocated through alternative public expenditure programmes. While these costs are difficult to quantify directly, they form an important consideration in assessing whether tax incentives constitute the most efficient policy instrument.

The benefit assessment similarly incorporated multiple dimensions reflecting the objectives of Uganda's tax expenditure regime. The first category comprised investment outcomes, including increases in fixed investment, business expansion and capital accumulation resulting from tax incentives. These indicators measure the extent to which incentives stimulate additional productive investment beyond what would have occurred in their absence.

The second category comprised employment and labour market outcomes, including changes in employment, wage payments and labour compensation. These indicators assess whether tax incentives contribute to job creation, higher household incomes and improved living standards.

The third category comprised business performance outcomes, including turnover, profitability, local purchases, imports and business sustainability. Local purchases were used as an indicator of backward linkages and domestic supplier development, while import purchases

provided evidence on production expansion and integration into international supply chains.

The fourth category comprised distributional and social benefits arising primarily from VAT tax expenditures. Using tax-benefit microsimulation, the study estimated the contribution of selected VAT exemptions to poverty reduction, household welfare and income distribution. These outcomes recognise that certain tax expenditures pursue social protection objectives rather than investment promotion.

The final category comprised fiscal returns. Beyond the immediate revenue forgone, successful tax incentives may expand the future tax base through increased corporate profits, PAYE collections, VAT, customs duties, withholding taxes and other tax revenues generated by higher levels of economic activity. Although comprehensive estimation of these dynamic fiscal returns was constrained by available data, the study considered evidence on business expansion, profitability and labour compensation as indicators of future revenue mobilisation.

The overall assessment of value for money was based on comparing quantified benefits with the corresponding fiscal costs. Where measurable economic and fiscal benefits exceeded revenue forgone, tax expenditures were considered to generate positive net benefits and represent value for money. Conversely, where benefits were limited relative to fiscal costs, the analysis indicated the need for redesign, improved targeting or possible rationalisation of the incentive. The framework therefore

provides a systematic basis for determining whether tax expenditures support Uganda's investment, employment, industrialisation and domestic revenue mobilisation objectives while ensuring that scarce public resources are allocated efficiently.

3.6 Assessment of the Governance Framework

The study assessed the legal, institutional, and governance framework for tax expenditures in Uganda. The assessment examined the roles and responsibilities of institutions involved in the design, approval, administration, monitoring, and evaluation of tax expenditures.

Particular attention was given to tax expenditure reporting practices, transparency mechanisms, data availability, accountability arrangements, and existing systems for monitoring and evaluating incentive performance. The assessment also reviewed Uganda's Tax Expenditure Management Framework and international good practices in tax expenditure governance.

The findings from this assessment were used to identify gaps and propose recommendations for strengthening the effectiveness, transparency, accountability, and developmental impact of tax expenditures in Uganda.

CHAPTER FOUR:

FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the findings of the study and discusses their implications for tax expenditure policy in Uganda. The chapter begins by examining the beneficiaries of tax expenditures and the distribution of incentives across firms and sectors. It then assesses the economic impacts of tax incentives, analyses the distributional effects of selected VAT expenditures, and reviews the governance framework for managing tax expenditures in Uganda.

4.2 Beneficiaries of Tax Expenditures

Tax expenditures in Uganda benefit a diverse range of taxpayers and economic actors, depending on the type and objective of the incentive. Analysis of the Tax Expenditure Report FY2024/25 indicates that beneficiaries include households, individual taxpayers, government institutions, non-profit organisations, and private sector firms operating across various sectors of the economy.

4.2.1 Beneficiaries of Personal Income Tax Expenditures

The distribution of Personal Income Tax (PIT) tax expenditures has remained broadly consistent over the five-year period, with security personnel, retirement fund contributors and Members of Parliament

consistently accounting for more than 90 percent of total PIT tax expenditures. This indicates that the primary beneficiaries of PIT tax expenditures have remained largely unchanged, with these provisions continuing to support public sector compensations and retirement savings rather than broader tax reliefs.

Security personnel have consistently been the largest beneficiaries throughout the period. Their share of total PIT tax expenditures ranged between 42 and 56 percent, increasing from 46 percent in FY2020/21 to 56 percent in FY2024/25. This means that more than half of all PIT tax expenditures now benefit employees of the Uganda People's Defence Forces, Uganda Police Force, Uganda Prisons Service, Internal Security Organisation and External Security Organisation.

Retirement fund contributions have consistently been the second-largest beneficiary category, accounting for 18 to 32 percent of PIT tax expenditures over the period. Although their share fluctuated, they have remained one of the Government's principal tax incentives for encouraging long-term savings and retirement security. Members of Parliament have also consistently been among the largest beneficiaries, accounting for 15 to 20 percent of PIT tax expenditures each year. Despite the relatively small number

of beneficiaries, parliamentary exemptions have remained a significant component of revenue forgone throughout the period.

The remaining beneficiaries have accounted for only a small proportion of PIT tax expenditures. Judicial officers have consistently represented about 3 percent, while listed company shareholders benefiting from reduced withholding tax on dividends accounted for 2–3 percent. Recipients of termination benefits have consistently represented approximately 1 percent of total PIT tax expenditures.

Table 1: Beneficiaries of PIT Exemptions

Exemption	FY20/21	FY21/22	FY22/23	FY23/24	FY24/25
Total PIT Foregone (UGX. bn.)	593,54	598,54	680,96	731,79	988,53
Security personnel (UPDF, Police, Prisons, ISO and ESO)	46%	45%	42%	56%	56%
Retirement fund contributions	28%	30%	32%	18%	24%
Members of Parliament	19%	19%	20%	19%	15%
Judicial officers	3%	3%	3%	3%	3%
Listed company dividends	2%	2%	3%	3%	2%
Termination benefits	1%	1%	1%	1%	1%
Total	100%	100%	100%	100%	100%

Source: Computed from the Tax Expenditure Report FY 2024/25

4.2.2 Beneficiaries of Value Added Tax Expenditures

VAT tax expenditures benefit both households and businesses, depending on the type of relief provided. Exemptions on financial services, agricultural products, education, health, and other essential goods primarily benefit households, while deeming provisions and industrial support measures mainly benefit firms undertaking qualifying investments.

As shown in Table 2, the pattern of beneficiaries has remained broadly unchanged over the past five years. Deeming provisions benefiting the mining, oil and gas sectors, and government projects have consistently been the largest beneficiaries, accounting for between 30.4 and 36.4

percent of total VAT tax expenditures. Financial and insurance services have consistently been the second-largest beneficiary, representing about 22 to 25 percent, followed by industrial support measures (20–26 percent) and agricultural inputs (10–13 percent). Agricultural products have accounted for a relatively small share, ranging from 2 to 6 percent of total VAT tax expenditures.

Overall, the results indicate that the main beneficiaries of VAT tax expenditures have remained largely unchanged over the review period, with the majority of revenue forgone consistently accruing to firms operating in strategic sectors and undertaking investment-related activities, while household-oriented exemptions account for a relatively smaller share of total VAT tax expenditures.

Table 2: VAT Beneficiary Category

	FY20/21	FY21/22	FY22/23	FY23/24	FY24/25
Total VAT Tax Expenditures	1686,16	1850,89	2074,3	2030,09	2023
Deeming (Mining, Oil & Gas, Government Projects)	33,3%	30,9%	30,4%	34,2%	36,4%
Financial and Insurance Services	24,4%	22,1%	22,1%	24,6%	24,4%
Industrial Support	26,4%	23,9%	23,9%	20,2%	21,9%
Agricultural Inputs	10,5%	9,9%	9,9%	12,6%	12,1%
Agricultural products	0,0%	5,1%	5,5%	2,4%	5,3%
Other net VAT Expenditures	5,4%	8,0%	8,1%	6,0%	-0,1%
Total	100%	100%	100%	100%	100%

Source: Computed from the Tax Expenditure Report FY 2024/25

4.2.3 Beneficiaries of Excise Duty Tax Expenditures

Excise duty tax expenditures are highly targeted and primarily benefit specific industries rather than broad categories of taxpayers. One important beneficiary group comprises strategic investors, who benefit from a nil excise duty rate on cement used in qualifying strategic investment projects. Although this provision has the potential to generate significant tax expenditures, the information required to estimate the associated revenue forgone is not currently captured in taxpayer returns. Consequently, its fiscal significance could not be quantified.

As shown in Table 3, the pattern of beneficiaries has remained broadly unchanged over the past five years, with the beer industry consistently accounting for the largest share of measurable excise duty tax expenditures. Beer represented between 54 and 66 percent of total excise duty tax expenditures throughout the period, reflecting continued support for the use of locally sourced raw materials and domestic beer production.

The spirits industry has become an increasingly important beneficiary, with its share rising steadily from 12 percent in FY2020/21 to 25 percent in FY2024/25. In contrast, tax expenditures relating to international calls fluctuated over the period, accounting for between 16 and 28 percent of total excise duty tax expenditures, largely reflecting the preferential treatment provided under the One Network Area agreement.

Other excise duty tax expenditures, including those relating to wine, furniture and ciders, consistently accounted for only a small share of total revenue forgone, representing no more than 4 percent in any financial year.

Overall, the results indicate that the principal beneficiaries of excise duty tax expenditures have remained largely unchanged over the review period, with the majority of measurable tax expenditures consistently benefiting the beer and spirits industries, while relatively limited benefits accrue to other products and sectors.

Table 3: Beneficiary category of Excise duty tax expenditures

Beneficiary Category	FY20/21	FY21/22	FY22/23	FY23/24	FY24/25
Total Revenue foregone (UGX Bns)	699,36	685,42	811,03	881,3	855,64
Beer	66%	66%	60%	54%	55%
Spirits	12%	14%	16%	18%	25%
International Calls	21%	19%	23%	28%	16%
Other Excise Tax Expenditures	1%	1%	0%	1%	4%
Total	100%	100%	100%	100%	100%

Source: Computed from the Tax Expenditure Report FY 2024/25

4.2.4 Beneficiaries of Customs Duty Tax Expenditures

Customs duty tax expenditures primarily benefit firms through exemptions and preferential tariff rates on imported goods. These tax expenditures are largely directed towards supporting investment, industrial production, and other strategic economic activities.

As shown in Table 4, the pattern of beneficiaries has remained broadly unchanged over the past five years, with Stays of Application and the Duty Remission Scheme consistently accounting for the overwhelming majority of customs duty tax expenditures. Together, these two provisions accounted for between 85 and 96 percent of total customs duty tax expenditures over the review period. Stays of Application remained the largest beneficiary category, representing 47 to 58 percent of total customs duty tax

expenditures, while the Duty Remission Scheme consistently accounted for 33 to 43 percent. Both measures primarily benefit manufacturers and other firms importing raw materials, intermediate goods, machinery and equipment used in production.

The share of tax expenditures benefiting firms operating under Special Operating Frameworks increased steadily from 1 percent in FY2020/21 to 9 percent in FY2024/25, suggesting a growing role of these incentives in supporting strategic investments. In contrast, exemptions relating to hotel equipment remained relatively small and stable, accounting for 1 to 2 percent of total customs duty tax expenditures throughout the period. Other customs duty tax expenditures also represented a relatively small share, although they increased to 5 percent in FY2024/25.

Table 4: Beneficiary category of custom duty expenditures

Beneficiary Category	FY20/21	FY21/22	FY22/23	FY23/24	FY24/25
Total Customs Tax Expenditures	545,95	686,47	681,92	828,38	708,58
Stays of Application	54%	53%	58%	58%	47%
Duty Remission	42%	43%	37%	33%	38%
Special Operating Frameworks	1%	1%	3%	6%	9%
Hotel Equipment	2%	1%	1%	1%	2%
Other Customs Duty Expenditures	1%	2%	2%	2%	5%
Total	100%	100%	100%	100%	100%

Source: Computed from the Tax Expenditure Report FY 2024/25

4.2.5 Beneficiaries of Corporate Income Tax Expenditures

Corporate Income Tax (CIT) tax expenditures primarily benefit firms receiving tax holidays, income tax exemptions, and other preferential tax treatments aimed at promoting investment, industrialisation, exports, and strategic sectors of the economy.

As shown in Table 5, the pattern of beneficiaries has changed over the five-year period. Firms benefiting from the 10-year tax holiday for qualifying sectors have become the largest beneficiaries, with their share of total CIT tax expenditures increasing significantly from 14 percent in FY2020/21 to 45 percent in FY2024/25. This indicates an increasing concentration of CIT tax expenditures among firms qualifying for this incentive.

In contrast, the share of tax expenditures benefiting the Bujagali Hydro Power Project declined steadily from 43 percent in FY2020/21 to 23 percent in FY2024/25, although it remained one of the largest

beneficiary categories throughout the review period. The share of tax expenditures benefiting Savings and Credit Cooperative Societies (SACCOs) increased from 5 percent to 13 percent, while the 10-year tax holiday for export-oriented manufacturers remained relatively stable, accounting for 3 to 6 percent of total CIT tax expenditures over the period.

The share of other CIT tax expenditures declined markedly from 32 percent in FY2020/21 to 14 percent in FY2024/25, suggesting that CIT tax expenditures have become increasingly concentrated in a smaller number of major incentive schemes.

Some CIT tax expenditures could not be fully estimated because beneficiaries either did not file tax returns or provided insufficient information in their returns. Consequently, the reported CIT tax expenditures may understate the actual fiscal cost of these incentives (MoFPED, 2025).

Table 5: Beneficiary Category for CIT incentives

CIT Tax Expenditure Provision	FY20/21	FY21/22	FY22/23	FY23/24	FY24/25
Total CIT Tax Expenditures	232,07	267,25	293,24	320,6	431,35
10-year tax holiday for qualifying sectors	14%	8%	22%	32%	45%
Exemption for Bujagali Hydro Power Project	43%	34%	31%	29%	23%
Exemption for SACCOs	5%	5%	6%	7%	13%
10-year tax holiday for export-oriented manufacturers	6%	3%	3%	5%	5%
Other CIT tax expenditures	32%	51%	38%	27%	14%
Total	100%	100%	100%	100%	100%

4.2.6 Beneficiaries of Silent or Hidden Tax Incentives

Tax incentive analysis often focuses on visible incentives, such as tax holidays, preferential corporate income tax rates, exemptions and investment allowances. However, the tax system may also contain less visible provisions and contractual arrangements that confer significant tax advantages on particular sectors or investors. These may be described as "silent" or "hidden" tax incentives because they are embedded within the ordinary rules for determining taxable income, sector-specific tax provisions or investment agreements rather than being explicitly presented or reported as tax incentives.

These provisions are important to the analysis of beneficiaries because they can materially affect taxable profits, effective tax rates (ETRs) and ultimately government revenue. Their fiscal effect may arise through a permanent reduction in tax liabilities, deferral of tax payments, narrowing of the corporate income tax base, preferential taxation of particular income streams, or constraints on Government's ability to apply subsequent fiscal policy

changes. Consequently, focusing only on formally designated tax incentives may understate both the overall value of tax preferences and the range of taxpayers and sectors benefiting from them.

a) Financial institutions

The financial services sector provides an important example of such less-visible preferential treatment. The analysis identified several features of the tax treatment of financial institutions that may provide benefits not normally presented as explicit tax incentives.

The first relates to the deduction of bad debts under Section 24 of the Income Tax Act (ITA). For financial institutions, this treatment is supplemented by Practice Note 2001, which allows specific reserves for identified or potential credit losses to be deducted for tax purposes where they are recognised in accordance with prudential requirements issued by the Bank of Uganda. In effect, qualifying provisions made under the regulatory framework may reduce taxable income before the underlying loss has necessarily been realised in cash terms.

The prudential framework is also relevant to the size of the deductible amount. Under Paragraph 12(6) of the Bank of Uganda Prudential Norms on Asset Quality, the outstanding balance of a credit facility includes the principal amount, capitalised interest, and any other charges, fees or amounts capitalised to the loan balance. Provisioning requirements may therefore apply to the full outstanding exposure as defined under the prudential rules. This treatment may therefore reduce taxable profits, or accelerate the recognition of deductions, relative to taxpayers in other sectors where provisions are generally not deductible until more restrictive conditions are met.

A second area concerns the taxation of interest income from government securities. Under Section 127 of the ITA, interest paid to resident persons is subject to withholding tax. For government securities, the applicable withholding tax rate is 20 percent where the maturity period does not exceed ten years and 10 percent where the maturity period is ten years or more.

The significance of this treatment is further reinforced by Section 139 of the ITA, "Withholding as final tax," together with the applicable provisions under Part IX on withholding tax rates for interest and dividends for resident persons. Where the withholding tax constitutes a final tax, the relevant interest income is effectively taxed outside the ordinary corporate income tax computation.

For financial institutions with significant holdings of government securities, this can create a preferential tax outcome where the

applicable final withholding tax rate is below the standard corporate income tax rate. The resulting differential may permanently reduce the tax liability associated with that income and lower the institution's overall effective tax rate. Although this treatment is not ordinarily presented as a formal tax incentive, its economic effect is comparable to a preferential rate and may therefore constitute a less-visible form of tax benefit.

b) Insurance companies

Similar less-visible benefits may arise within the insurance sector. Section 16 and Schedule 5 of the ITA provide specific rules for determining the taxable income of insurance businesses, including deductions for reserves for unexpired risks in short-term insurance business.

These deductions can reduce taxable income in the period in which they are recognised. Their interaction with the timing of income and expense recognition under applicable accounting standards, including IFRS 17, may further create differences between accounting profit and taxable profit.

For insurance companies, therefore, the benefit may not necessarily constitute a permanent exemption from tax. In some cases, it may primarily represent a timing advantage through the deferral of tax liabilities. Nevertheless, deferral has a fiscal value: Government receives the associated tax revenue later than it otherwise would, while the taxpayer benefits from the timing difference. Such provisions may consequently suppress the sector's ETR in particular periods even where the tax

becomes payable subsequently.

c) Petroleum and mining investors

Another important category of beneficiaries arises from fiscal stabilisation clauses and investment agreements in the extractive sector, particularly petroleum and mining investments. These arrangements are generally intended to provide investors undertaking large, capital-intensive and long-term projects with greater certainty regarding the fiscal regime applicable to their investment.

In the petroleum sector, the applicable fiscal framework combines sector-specific legislation, including the East African Crude Oil Pipeline (EACOP) (Special Provisions) Act, production-sharing agreements, intergovernmental agreements and the general corporate taxation framework. Some of these arrangements are underpinned by fiscal stabilisation provisions that may protect investors against adverse changes in the fiscal regime over the lifetime of the project. Similar considerations may arise in the mining sector where fiscal or investment agreements contain stabilisation protections.

The beneficiaries in these cases are the investors and related entities whose agreed fiscal treatment is protected or preserved. Unlike conventional incentives, the benefit may not take the form of an explicit tax exemption, tax holiday or reduced statutory rate. Rather, it can arise from continued application of agreed fiscal terms or protection from subsequent tax measures that would otherwise increase the investor's tax liability.

Such arrangements do not necessarily generate an immediate revenue loss. Their fiscal cost may instead be potential or contingent, arising where Government is unable to apply subsequent tax policy changes to protected investors. In such circumstances, the fiscal benefit can be conceptualised as the difference between the tax liability arising under the stabilised fiscal regime and that which would otherwise have arisen under the prevailing tax regime.

Taken together, these examples demonstrate that the beneficiaries of tax preferences may extend beyond taxpayers receiving explicit exemptions, tax holidays or investment allowances. Financial institutions may benefit from sector-specific deductions and preferential final-tax treatment; insurance companies may benefit from specialised deductions and timing advantages; while petroleum and mining investors may benefit from contractual fiscal protections.

The fiscal effects are also different. Sector-specific deductions may narrow the tax base; preferential final-tax regimes may permanently reduce liabilities; reserve deductions may defer tax collections; and stabilisation arrangements may constrain future taxing rights. While the precise revenue cost of these provisions has not been quantified in this study, their potential impact on taxable income, sectoral ETRs and government revenue warrants closer examination.

These less-visible provisions are also increasingly relevant in the context of the Global Minimum Tax (GMT). Where

a domestic tax preference contributes to reducing the GloBE ETR below the applicable minimum rate, the benefit may no longer necessarily accrue entirely to the investor, as the resulting low-taxed income could potentially give rise to top-up tax under the global minimum tax rules. Uganda could therefore forgo domestic tax revenue without necessarily preserving the intended benefit for the investor, while another jurisdiction may obtain the associated taxing right.

4.3 Analysis of Firms Benefiting from Tax Incentives

This section analyses the characteristics and performance of firms benefiting from major investment-related tax incentives in Uganda. These firms are largely categorised as strategic

investors and benefit from a range of tax expenditures, including Corporate Income Tax (CIT) holidays, Value Added Tax (VAT) exemptions, Customs Duty reliefs, Excise Duty exemptions, and Stamp Duty exemptions. The incentives are intended to promote investment, industrialisation, exports, employment creation, and broader economic transformation.

The number of firms benefiting from these incentives has increased significantly over time, reflecting the expansion of Uganda's investment incentive framework. Beneficiary firms increased from only two firms when the strategic investor tax holiday was introduced in 2018 to 123 firms by 2025. This growth underscores the increasing fiscal importance of investment-related tax expenditures and highlights the need to assess whether the economic benefits generated by beneficiary firms justify the associated revenue forgone.

Figure 2: Number of beneficiaries of tax incentives

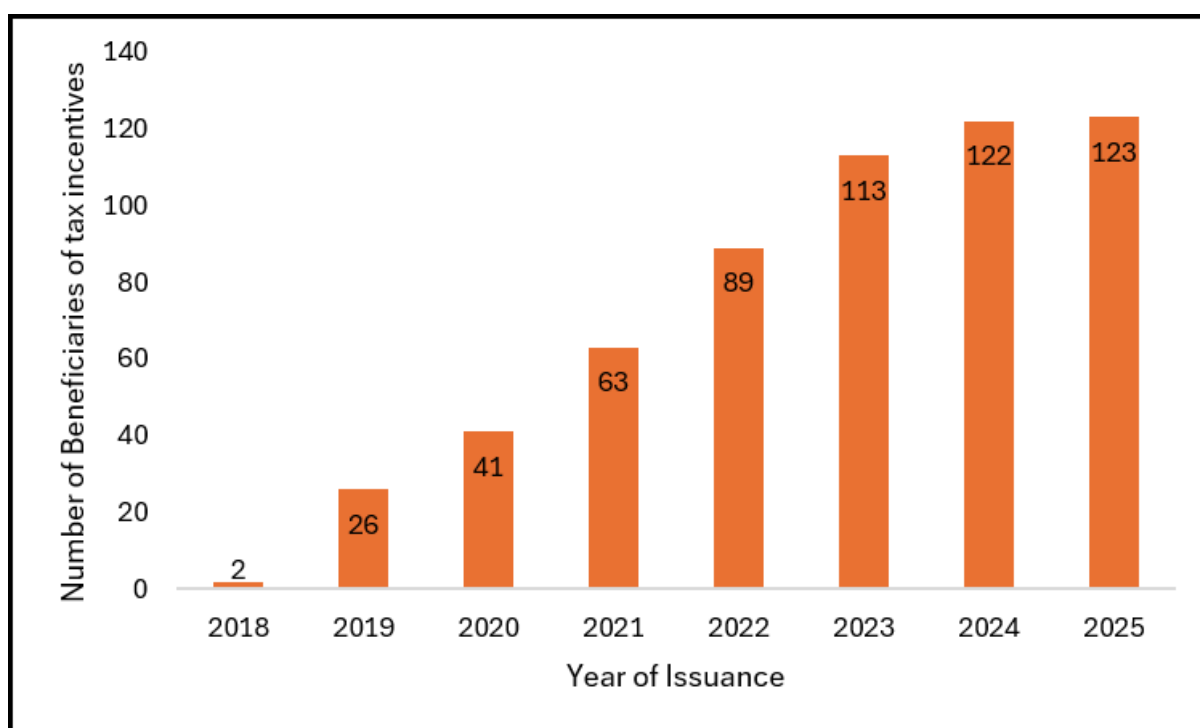


Table below shows the distribution of beneficiaries across different tax incentives. Income tax exemptions are the most widely utilised incentive, benefiting 98 firms, followed by VAT exemptions (85 firms), excise duty exemptions (63 firms), and stamp duty exemptions (53 firms). Many firms benefit from more than one incentive, with some qualifying for all four categories.

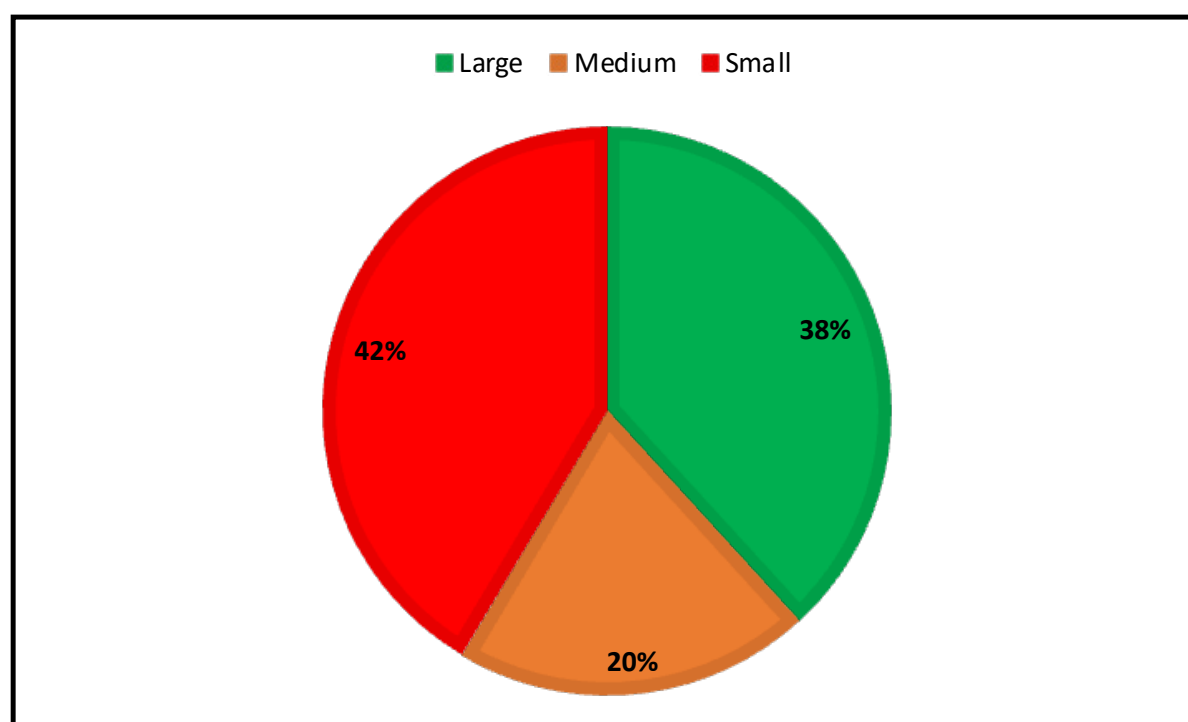
Table 6: Beneficiaries by category of tax incentive

Incentive category	Number of beneficiaries
Income tax exemptions	98
VAT Exemption	85
Excise duty exemption	63
Stamp duty Exemption	53

Tax incentive beneficiaries are distributed across firms of different sizes. Small firms account for 41 percent of all beneficiaries, followed by large firms at 38 percent and medium-sized firms at 20 percent. Collectively, large and medium-sized firms constitute 59 percent of all beneficiaries.

The results suggest that while tax incentives are accessed by firms of all sizes, the majority of beneficiaries are medium and large firms undertaking relatively significant investments in strategic sectors of the economy. At the same time, the substantial representation of small firms indicates that the incentive regime is not exclusively benefiting large investors, but is also supporting the growth and expansion of smaller enterprises.

Figure 3: Beneficiaries of strategic tax incentives by size



The beneficiaries comprise both existing and newly established firms. Approximately half of the beneficiary firms (50.4 percent) were already operating before the introduction of the current incentive regime, while the remaining 49.6 percent were established after the incentives were introduced.

This finding suggests that the incentive framework has supported both the expansion of existing businesses and the attraction of new investments. The substantial proportion of newly established firms among beneficiaries provides some indication that the incentives may have contributed to encouraging new business formation and investment, although further analysis is required to establish the extent to which these investments can be directly attributed to the incentives.

Table 7: Period with Beneficiaries were registered with URA

Period of registration	Number of Beneficiaries	%share
Registered before 2018	62	50.4%
Registered after 2018	61	49.6%
Total	123	100%

4.4 Assessing the Economic Benefits of Tax Incentives

This section assesses whether firms benefiting from tax incentives exhibit stronger economic performance than comparable non-beneficiary firms. The analysis focuses on key indicators, including investment, turnover, profitability, wages, and business linkages, to provide preliminary evidence on the economic benefits associated with tax incentives.

4.4.1 Descriptive Evidence on the Economic Benefits of Tax Incentives

The descriptive analysis over the study period indicates that beneficiary firms generally recorded higher average investment, turnover, and asset levels compared to non-beneficiary firms. For instance, average investment among beneficiary firms stood at approximately UGX 59.8 billion compared to UGX 48.2 billion among non-beneficiary firms, while turnover averaged UGX 46.4 billion

relative to UGX 40.7 billion among non-beneficiary firms. Although the differences in investment and turnover are statistically insignificant, beneficiary firms recorded significantly higher total assets averaging UGX 57.8 billion compared to UGX 40.9 billion among non-beneficiary firms. This suggests that firms benefiting from tax incentives tend to operate at relatively larger scales and maintain stronger capital positions.

With respect to profitability, an interesting pattern emerges from the analysis. Despite beneficiary firms exhibiting relatively higher investment, turnover, and asset levels compared to non-beneficiary firms, they do not appear to report stronger profitability. On average, beneficiary firms recorded profits of approximately UGX 3.9 billion compared to UGX 4.5 billion among non-beneficiary firms, although the difference is statistically insignificant.

An important observation also emerges with respect to labour compensation. Beneficiary firms recorded significantly lower wage compensation averaging UGX 1.8 billion compared to UGX 2.6 billion among non-beneficiary firms. This may indicate that beneficiary firms are relatively more capital-intensive, with production expansion relying more heavily on machinery, equipment, and technology rather than labour-intensive production processes. The finding therefore raises important policy considerations regarding the extent to which tax incentives translate into meaningful employment creation and labour income growth.

More pronounced differences are observed in the purchasing patterns of beneficiary firms. Beneficiary firms recorded significantly higher levels of both local and import purchases compared to non-beneficiary firms. Average local purchases among beneficiary firms amounted to approximately UGX 13.3 billion compared to UGX 4.9 billion among non-beneficiary firms, while import purchases averaged UGX 13.7 billion relative to UGX 1.9 billion among non-beneficiary firms. These findings suggest that firms benefiting from tax incentives tend to operate at larger production scales and engage

more extensively in both domestic and international input markets.

The significantly higher local purchases among beneficiary firms may indicate positive spillover effects to domestic suppliers and local businesses through increased demand for locally sourced goods and services. However, despite the higher absolute levels of local purchases, the local purchase share does not differ significantly between beneficiary and non-beneficiary firms, suggesting that the increase in local sourcing occurs alongside a proportional increase in imported inputs. This raises important policy considerations regarding the extent to which tax incentives contribute to strengthening local value chains and domestic supplier development.

Overall, the descriptive analysis suggests that beneficiary firms tend to be larger, more asset-intensive, and more operationally active compared to non-beneficiary firms. However, the findings also suggest that the benefits associated with tax incentives may be concentrated among relatively stronger and more capital-intensive firms, with less clear evidence regarding broad-based profitability gains, employment creation, and deeper domestic sourcing linkages.

Table 8: Comparative Firm Performance Indicators for Beneficiary and Non-Beneficiary Firms

Variable	Beneficiary firms	Non-Beneficiary firms	Mean difference	P value	Comment
Investment	59.83	48.21	11.63	0.25	Insignificant
Turnover	46.41	40.73	5.69	0.43	Insignificant
Assets	57.82	40.92	16.91**	0.05	Significant
Wages	1.79	2.58	-0.78*	0.08	Significant
Profit	3.91	4.49	-0.58	0.58	Insignificant
Local purchase	13.27	4.89	8.38***	0.00	Significant
Import purchase	13.70	1.87	11.83***	0.00	Significant
Local purchase share (%)	0.63	0.69	-0.06	0.11	Insignificant

*** significant at 1%; ** significant at 5%; * significant at 10%;

Figure below presents the trends in investment, turnover, wage compensation, and profitability for beneficiary and non-beneficiary firms over the study period. The trends raise an important policy question regarding the targeting of tax incentives. Despite the use of a matched comparison group, beneficiary firms appear to maintain relatively stronger performance trajectories over the study period, which may suggest that tax incentives tend to benefit firms that are already relatively larger, stronger, or better positioned operationally and financially. This may reflect deliberate policy targeting towards strategic or investment-ready firms, but it also raises important considerations regarding the extent to which incentives support broad-based firm growth versus reinforcing already stronger firms.

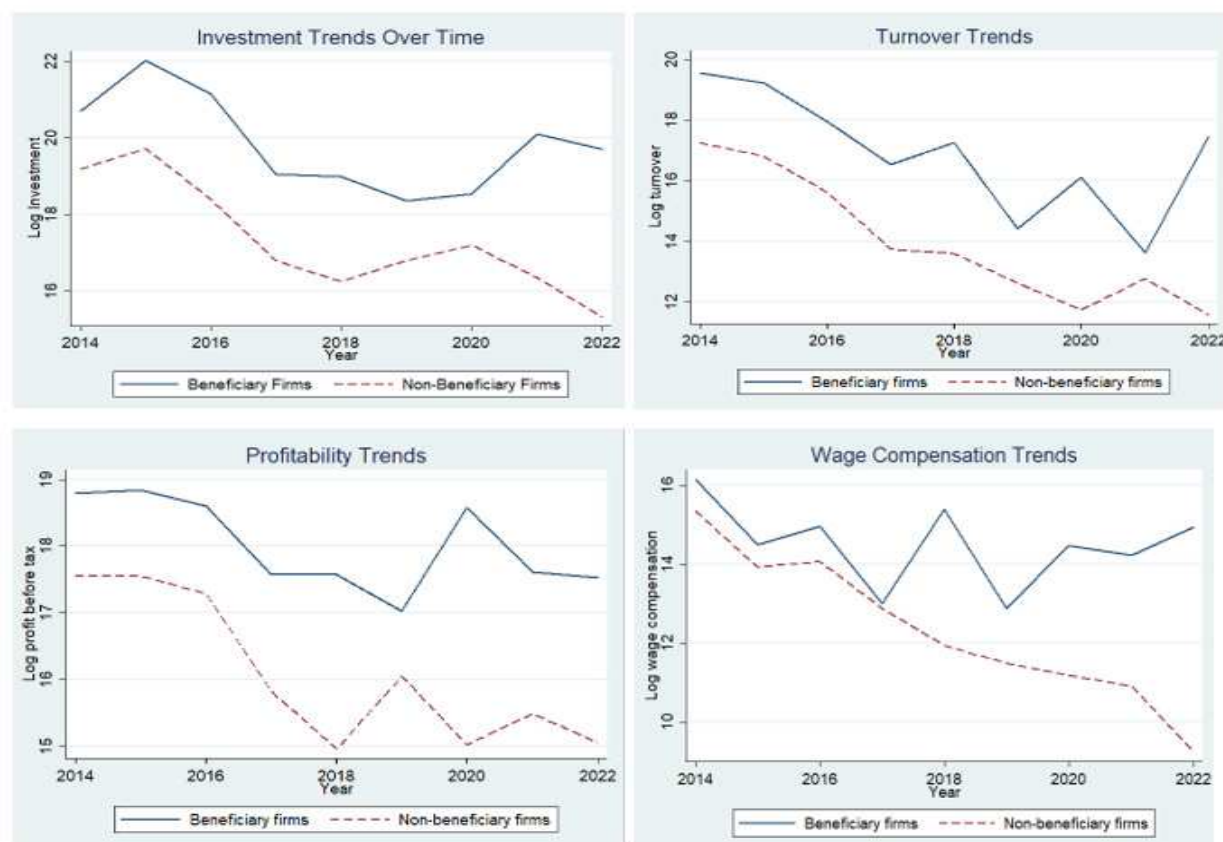
The trends further suggest that beneficiary firms generally exhibited greater resilience during periods of economic disruption, particularly around the COVID-19 period in 2020. While both beneficiary and non-beneficiary firms experienced declines

across several indicators, the downturn among non-beneficiary firms appears sharper and more persistent, especially with respect to investment, turnover, and profitability. In contrast, beneficiary firms appear to exhibit relatively stronger recovery patterns in the post-COVID period, potentially suggesting that tax incentives may have provided greater financial flexibility or operational capacity that enabled beneficiary firms to absorb economic shocks more effectively.

The wage compensation trends present a more nuanced picture. Although the descriptive statistics indicate that non-beneficiary firms recorded higher average wage compensation over the study period, the trend analysis suggests that wage compensation among beneficiary firms was relatively more stable over time. In contrast, non-beneficiary firms appear to experience a more persistent decline in wage compensation, particularly during and after the COVID-19 period. This may suggest that beneficiary firms were relatively better positioned to sustain labour

compensation during periods of economic stress, even though they were not necessarily associated with higher overall wage levels.

Figure 4: Economic performance and resilience trend of Beneficiary and Non-Beneficiary firms.



In terms of firm sustainability, profitability, local economic linkages, and growth dynamics, the trends suggest that tax incentives may generate important economic benefits beyond immediate investment expansion, particularly in supporting firm resilience, sustaining business continuity, and generating demand for domestic suppliers. Beneficiary firms generally appear more resilient during periods of economic disruption and maintain relatively stronger operational stability compared to comparable non-beneficiary firms.

However, the findings also raise important policy considerations regarding the concentration of benefits among relatively stronger firms, the relatively weaker labour

intensity of incentivised firms, and the increasing reliance on imported inputs over time. These issues are important in assessing whether the broader economic gains associated with tax incentives are sufficiently large and inclusive to justify the fiscal revenue forgone through incentive schemes.

The trends in the share of loss-making firms suggest that beneficiary firms generally maintained relatively lower proportions of loss-making firms compared to non-beneficiary firms over much of the study period. Although both groups experienced increases in loss-making behaviour around the COVID-19 period, the increase among non-beneficiary firms appears sharper and more persistent, while beneficiary firms

appear to recover more quickly thereafter.

The local purchase share trends provide important insights regarding domestic economic linkages. Beneficiary firms initially recorded relatively higher local purchase shares than non-beneficiary firms, suggesting relatively stronger reliance on domestic suppliers during the earlier years. However, the local purchase share among beneficiary firms declines over time, particularly around the COVID-19 period, before recovering slightly in later years. This may suggest that while beneficiary firms continue to purchase larger volumes of local inputs in absolute terms, their dependence on imported inputs may also be increasing over time.

The input purchase patterns among beneficiary firms reinforce this observation. Beneficiary firms consistently recorded significantly higher local purchases relative

to import purchases throughout the study period, indicating continued demand for domestic suppliers and local business activity. However, import purchases also increase steadily over time, particularly after 2019, suggesting growing dependence on imported machinery, intermediate goods, and specialised production inputs.

The turnover growth trends present a more mixed picture. Both beneficiary and non-beneficiary firms exhibit fluctuations in turnover growth over the study period, particularly around the COVID-19 period. However, beneficiary firms appear to exhibit relatively more stable growth patterns over time, while non-beneficiary firms display greater volatility. This may suggest that tax incentives potentially support operational stability and business continuity, although their effects on accelerating long-term firm growth may be less pronounced or uneven across firms and sectors.

Figure 5: Firm sustainability and Economic Linkages



4.4.2 Causal Effects of Tax Incentives on Economic Outcomes

Table below presents the Difference-in-Differences (DID) estimation results assessing the causal impact of tax incentives on broader economic outcomes. Overall, the results suggest that tax incentives are associated with significant improvements in investment, business expansion, profitability, labour compensation, and input purchases among beneficiary firms relative to comparable non-beneficiary firms following treatment. However, the findings also indicate increasing reliance on imported inputs, raising important policy considerations regarding domestic value addition and local supply chain development.

The results show that tax incentives are positively associated with investment growth among beneficiary firms. The estimated DID coefficient for investment is positive and statistically significant at the 10 percent level, suggesting that firms receiving tax incentives experienced significantly higher investment growth relative to comparable non-beneficiary firms after receiving the incentives. Similarly, turnover growth increased significantly among beneficiary firms, indicating that tax incentives may have contributed to higher business activity, production expansion, and operational scale.

With respect to profitability, the results indicate that beneficiary firms experienced significantly higher profit growth following treatment relative to comparable non-beneficiary firms. This finding is particularly important given that the descriptive statistics had shown relatively lower

average profit levels among beneficiary firms over the study period. The DID results therefore suggest that while beneficiary firms may not necessarily exhibit higher profit levels overall, tax incentives appear to contribute positively to profitability growth over time.

The labour compensation results also reveal important insights. Although beneficiary firms recorded lower average wage compensation levels in the descriptive analysis, the DID estimates show a positive and statistically significant effect on wages following treatment. This suggests that tax incentives may have contributed positively to labour compensation growth among beneficiary firms relative to comparable firms after receiving incentives. The findings therefore indicate that tax incentives may generate some positive employment and labour income effects, even where beneficiary firms remain relatively capital-intensive.

The results further show that tax incentives significantly increased both local and import purchases among beneficiary firms. The positive effect on local purchases suggests that beneficiary firms generate additional demand for domestic suppliers and local businesses, potentially strengthening backward linkages and domestic economic activity. At the same time, the significantly larger effect observed for import purchases suggests that incentivised firms also become increasingly reliant on imported machinery, intermediate goods, raw materials, and specialised technologies.

Importantly, despite the increase in local purchases, the local purchase share

declines significantly following treatment. This suggests that although beneficiary firms increase domestic sourcing in absolute terms, imports grow at an even faster rate relative to local purchases. The findings therefore imply that while tax incentives may stimulate production expansion and business activity, they may not necessarily deepen domestic sourcing intensity or strengthen local value chains proportionately. This raises important policy considerations regarding the extent to which tax incentives contribute to broader domestic industrial development and local supplier integration.

Overall, the DID results suggest that tax incentives generate important economic

benefits, particularly in terms of investment expansion, business growth, profitability improvement, labour compensation growth, and increased supplier activity. However, the findings also indicate that many of these gains may be accompanied by increasing import dependence and relatively weaker improvements in domestic sourcing intensity. The results therefore suggest that while tax incentives may support firm expansion and operational growth, complementary policies may be required to strengthen local value chains, domestic supplier development, and broader industrial linkages in order to maximise the net economic benefits associated with tax incentive regimes.

Table 9: Impact of Tax Incentives on economic Outcomes

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Invest- ment	Turnover	Profit	Wages	Local Purchases	Import Purchases	Local Pur- chase Share
Treated*post	2.452* (1.424)	2.767** (1.297)	2.270** (1.058)	2.842** (1.202)	2.435** (1.220)	3.959*** (1.187)	-0.133*** (0.045)
Observations	959	959	959	959	959	959	515
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustered SE	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Standard errors in parentheses

* p < 0.10, ** p < 0.05, *** p < 0.01

4.4.3 Fiscal Revenue effects of tax incentives

In addition to assessing the broader economic benefits of tax incentives, the study examined whether beneficiary firms generated additional fiscal benefits for Government through higher collections of Pay As You Earn (PAYE), Value Added Tax (VAT) and Corporate Income Tax (CIT). While tax incentives are expected to reduce Corporate Income Tax and, in some cases, Value Added Tax liabilities through exemptions and preferential treatment, they may also stimulate investment, production and employment, thereby generating additional tax revenues from other sources.

The results indicate that beneficiary firms experienced a statistically significant increase in PAYE collections under the log specification, suggesting that tax incentives were associated with stronger growth in employment-related tax contributions. In contrast, VAT collections exhibited a negative but statistically insignificant effect, indicating that beneficiary firms did not generate significantly higher VAT revenues than comparable non-beneficiary firms during the study period.

For Corporate Income Tax, the estimated effects were negative under both the level and log specifications, with the decline in the log specification being statistically significant. This finding is consistent with the design of Uganda's investment tax incentives, which deliberately reduce firms' corporate income tax liabilities through tax holidays and other preferential provisions. Taken together, the results suggest that although tax incentives generated some indirect fiscal benefits through increased PAYE collections, these gains were accompanied by lower CIT collections and no measurable increase in VAT collections.

Table 10: Estimated Impact of Tax Incentives on Tax Revenue Using the Callaway and Sant'Anna (2021) Difference-in-Differences Estimator

Tax Type	Absolute Revenue Effect (UGX Mn)	p-value	Relative Effect (Log ATT)	p-value
PAYE	136,000,000	0.656	1.750	0.006
VAT	-916,000,000	0.504	1.019	0.342
Corporate Income Tax	-1,500,000,000	0.083	-2.180	0.009

4.4.4 Distribution of Economic Benefits by Firm Size

Table below presents the heterogeneous Difference-in-Differences (DID) estimation results examining the impact of tax incentives across different taxpayer categories. Overall, the findings suggest that tax incentives generate positive effects in terms of business expansion, investment, labour compensation, and supplier activity, although

the nature and magnitude of these benefits differ across small, medium, and large taxpayers. At the same time, the results consistently show declining local purchase shares across all taxpayer groups, suggesting increasing reliance on imported inputs following treatment.

Among small taxpayers, tax incentives are associated with significant increases in turnover and labour compensation. The positive turnover and wage effects suggest that incentives may support business expansion and labour income

growth among smaller firms. However, small taxpayers also exhibit strong growth in import purchases alongside a significant decline in local purchase share, indicating that much of the expansion may depend on imported machinery, raw materials, and intermediate inputs rather than stronger domestic sourcing.

For medium taxpayers, the strongest effect is observed in investment growth, suggesting that tax incentives may be particularly effective in stimulating capital

expansion among medium-sized firms. This may reflect the relatively greater financing and investment constraints faced by medium taxpayers compared to larger firms. Nevertheless, medium taxpayers also exhibit declining local purchase shares following treatment, suggesting limited strengthening of domestic sourcing intensity.

Among large taxpayers, the most pronounced effects are observed in local and import purchases. The results suggest that large beneficiary firms generate substantial demand for both domestic suppliers and imported production inputs, reflecting the industrial and capital-intensive nature of many incentivised firms. However, despite the increase in local purchases, the local purchase share still declines significantly, implying that imports

grow faster relative to domestic sourcing.

Taken together, the findings suggest that tax incentives may generate important economic benefits across different categories of firms. However, many of these gains appear to be accompanied by rising import intensity and relatively weaker domestic sourcing integration. The results therefore suggest that while tax incentives may support firm growth and operational expansion, complementary industrial and local content policies may be required to strengthen domestic value chains and maximise the broader developmental benefits associated with tax incentive regimes.

Table 11: Heterogeneous Effects of Tax Incentives by Taxpayer Size

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Investment	Turnover	Profit	Wages	Local Purchases	Import Purchases	Local Purchase Share
did_small	3.819 (2.603)	4.317* (2.190)	2.898 (2.072)	3.815* (1.942)	1.270 (1.764)	4.697*** (1.614)	-0.201*** (0.070)
did_medium	4.155* (2.188)	3.535 (2.164)	0.772 (0.855)	1.657 (1.357)	-0.384 (0.971)	1.858 (1.515)	-0.173* (0.096)
did_large	0.833 (1.728)	1.190 (1.778)	2.033 (1.267)	2.223 (1.712)	4.131** (1.814)	3.755** (1.834)	-0.100* (0.054)
Observations	959	959	959	959	959	959	515
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustered SE	Yes	Yes	Yes	Yes	Yes	Yes	Yes

4.5 Distributional Implications of VAT Tax Expenditures on household welfare

While many tax expenditures are intended to promote investment and economic growth, some are designed to support household welfare by reducing the cost of essential goods and services. In Uganda, VAT exemptions constitute one of the largest categories of tax expenditures and are often justified on equity grounds, particularly their potential to protect low-income households from the burden of consumption taxes. This section assesses the distributional implications of selected VAT exemptions and evaluates their effects on household welfare, poverty, and inequality.

Table below presents the simulated impact of removing existing VAT exemptions and subjecting currently exempt goods and services to VAT. The results indicate that VAT exemptions play an important role in protecting households from poverty. Under the reform scenario, the national poverty rate increases from 16.08% to 21.54%, representing an increase of 5.46 percentage points. This suggests that existing VAT exemptions contribute

significantly to reducing the cost of consumption, particularly for low-income households.

The increase in poverty is observed across all household categories. Households with children experience the largest increase in poverty, with the poverty rate rising by 5.78 percentage points, followed by female-headed households (5.74 percentage points) and households with older persons (5.60 percentage points). Male-headed households record the smallest increase, although poverty still rises substantially by 5.36 percentage points.

The results also show a deterioration in the depth of poverty. The national poverty gap increases from 4.13 percent to 5.77 percent, indicating that poor households become further below the poverty line in the absence of VAT exemptions. The increase in the poverty gap is highest among female-headed households (1.87 percentage points), followed by households with children (1.74 percentage points). These findings suggest that VAT exemptions provide important welfare benefits, particularly for vulnerable households, by mitigating both the incidence and severity of poverty.

Table 12: Impact of VAT exemptions on poverty

	UG_2025 (With current VAT exemptions)	UG_2025_with no VAT Exemptions	Difference to base
Share of poor population, in %			
All	16.08	21.54	5.46
Poor households out of ...			
... male headed households	15.17	20.52	5.36
... female headed households	18.46	24.20	5.74
... households with children	17.00	22.78	5.78

... households with older persons	18.22	23.82	5.60
Poverty gap (average normalised poverty gap, FGT(1))			
All	4.13	5.77	1.64
Poor households out of ...			
... male headed households	3.81	5.36	1.56
... female headed households	4.96	6.83	1.87
... households with children	4.37	6.12	1.74
... households with older persons	4.59	6.22	1.63
Absolute national poverty line, in national currency, yearly:	807,765	807,765	0

In terms of the impact of VAT exemptions on inequality, the results suggest that the benefits of VAT exemptions are not evenly distributed across households. Removing VAT exemptions results in a reduction in inequality, with the Gini coefficient declining from 0.3504 under the current system to 0.3371 under the reform scenario, representing a decrease of 0.0133 points. Similarly, the P80/P20 ratio declines from 2.79 to 2.69, indicating a narrowing of the gap between higher-income and lower-income households.

These findings suggest that although VAT exemptions contribute to reducing poverty, a significant share of their benefits accrues to higher-income households that consume larger quantities of exempt goods and services. Consequently, VAT exemptions appear to be more effective at reducing poverty than reducing inequality, raising questions about their efficiency as a targeted redistributive policy instrument.

Table 13: Impact of VAT exemptions on inequality

	UG_2025 (With current VAT exemptions)	UG_2025_with no VAT Exemptions	Difference to base
Gini (household income)	0.3504	0.3371	-0.0133
P80/P20	2.79	2.69	-0.10

4.6 Governance and Management of Tax Expenditures in Uganda

This section examines the governance and management of tax expenditures in Uganda. The effectiveness of tax expenditures depends not only on their design but also on the quality of the governance framework through which they are authorised, administered, monitored, evaluated and reported.

Historically, Uganda's tax incentive regime was characterised by significant discretion, limited transparency, and weak accountability mechanisms. Concerns regarding revenue leakage, inequitable treatment of taxpayers, ineffective incentives, and the proliferation of

discretionary exemptions led Government to undertake extensive reforms aimed at strengthening the governance and management of tax expenditures. These reforms have culminated in the development of a comprehensive Fiscal Governance Framework for Tax Expenditures, annual tax expenditure reporting, the establishment of a benchmark tax system, and increasing emphasis on evidence based evaluation and rationalisation of tax incentives.

4.6.1. Constitutional and Legal Framework

The governance of tax expenditures in Uganda is anchored in the Constitution and public finance legislation.

Article 152(1) of the Constitution provides that no tax shall be imposed except under the authority of an Act of Parliament. Although the provision is framed in terms of tax imposition, it equally applies to tax expenditures because exemptions, reliefs, and incentives determine who bears the tax burden and who is relieved from it. Tax expenditures therefore form part of the broader tax policy framework over which Parliament exercises constitutional control. More specifically, Article 152(2) recognises that legislation may confer powers to waive or vary taxes and requires periodic reporting to Parliament on the exercise of those powers. This constitutional reporting requirement reflects the principle that decisions resulting in revenue forgone must remain subject to legislative oversight.

The Public Finance Management Act (PFMA) reinforces this principle by requiring the Minister of Finance, Planning and Economic Development to report annually on tax expenditures and the associated

revenue forgone. This requirement formally recognises tax expenditures as a form of public expenditure and places them within Uganda's broader fiscal accountability framework. The publication of annual Tax Expenditure Reports since FY2020/21 has therefore become one of the most important transparency reforms in Uganda's public financial management system.

In addition to the Constitution and PFMA, tax expenditures are primarily governed through the Income Tax Act, Value Added Tax Act, Excise Duty Act, East African Community Customs Management Act and the Tax Procedures Code Act. More recently, the Fiscal Governance Framework for Tax Expenditures has sought to harmonise the approval, management, monitoring and evaluation of tax expenditures across these different tax laws.

4.6.2. The Fiscal Governance Framework for Tax Expenditures

The Fiscal Governance Framework adopts a four-stage approach to tax expenditure management.

The first stage involved defining a Uganda specific Benchmark Tax System against which tax expenditures can be identified. The benchmark establishes the normal tax treatment applicable under each tax type and provides the reference point for determining whether a particular provision constitutes a tax expenditure. Without a benchmark, it is impossible to identify or measure tax expenditures consistently.

The second stage involved developing a comprehensive repository of tax expenditures. The repository serves

as a living database that records the legal basis, policy rationale, intended beneficiaries, fiscal cost and relevant characteristics of each tax expenditure. The repository provides policymakers with a comprehensive inventory of incentives available under the tax system and supports informed policy decisions.

The third stage involved institutionalising methodologies for quantifying revenue forgone. Through collaboration between MoFPED, URA, the IMF and development partners, Uganda has progressively improved its capacity to estimate the fiscal cost of tax expenditures.

The fourth stage focuses on evaluation. The framework recognises that estimating revenue forgone alone is insufficient and that tax expenditures must be periodically assessed to determine whether they achieve their intended objectives. Evaluation is therefore intended to examine the impact of incentives on investment, employment, exports, productivity, value addition and other development outcomes.

4.6.3. Institutional Arrangements

The governance of tax expenditures involves multiple institutions.

MoFPED serves as the central coordinating authority responsible for tax policy, fiscal oversight, preparation of tax expenditure reports, evaluation of proposed incentives and drafting tax legislation. Under the Fiscal Governance Framework, all proposals for new tax expenditures must be assessed by MoFPED against specified policy, fiscal and economic criteria before being considered for enactment.

URA is responsible for administering tax incentives, verifying taxpayer eligibility, monitoring compliance with statutory conditions, collecting data, estimating revenue forgone and supporting tax expenditure evaluation. URA also plays a critical role in identifying beneficiaries and generating administrative data used in tax expenditure reporting.

Parliament exercises oversight through approval of tax legislation, scrutiny of tax expenditure reports and review of proposed tax incentives. Increasingly, parliamentary committees have sought greater justification for new incentives and demanded evidence of their effectiveness.

Sector ministries, agencies and private sector stakeholders may propose tax expenditures but must justify them using prescribed criteria and demonstrate consistency with national development priorities.

4.6.4. Tax Expenditure Reporting and Transparency

One of the most significant governance reforms has been the institutionalisation of annual tax expenditure reporting. The Tax Expenditure Reports provide detailed estimates of revenue forgone across the major tax heads and improve transparency regarding the fiscal cost of incentives. The reports have progressively expanded coverage and improved methodologies. The FY2024/25 report adopted several methodological improvements including enhanced estimation of VAT tax expenditures using an IMF demand side methodology and more precise costing of customs duty reliefs based on customs

procedure codes.

The reports serve several purposes. They improve fiscal transparency, support evidence based policymaking, facilitate parliamentary oversight, provide information for tax expenditure evaluation and strengthen public accountability. Importantly, they make visible a category of public expenditure that historically remained largely hidden within the tax system.

However, important limitations remain. The FY2024/25 report acknowledges that several tax expenditures remain uncoded due to data limitations, while some provisions cannot yet be reliably estimated because the necessary information is not captured in tax returns or administrative systems. As a result, actual revenue forgone may be higher than reported.

4.6.5. Tax Expenditure Rationalisation and Emerging Challenges

The increasing fiscal cost of tax expenditures has prompted Government to pursue a tax expenditure rationalisation agenda.

The IMF-MoFPED Roadmap to Rationalise Tax Expenditures and the Domestic Revenue Mobilisation Strategy both emphasise the need to improve targeting, eliminate ineffective incentives and strengthen evaluation. Recommended reforms include rationalisation of corporate income tax holidays, reduction of discretionary incentives, review of VAT exemptions, reform of excise duty reliefs and systematic evaluation of all major tax expenditures.

Despite the progress achieved, several challenges remain. First, many tax expenditures continue to be introduced without comprehensive ex ante evaluation. Second, data limitations constrain rigorous assessment of beneficiary outcomes and economic impacts. Third, monitoring systems remain relatively underdeveloped, making it difficult to determine whether incentives achieve their intended objectives. Fourth, political pressures often create demands for additional incentives despite limited evidence of effectiveness. Finally, while annual reporting has improved transparency regarding fiscal costs, systematic evaluation of economic benefits remains at an early stage.

CHAPTER FIVE:

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusion

This study assessed the fiscal costs, economic benefits, distributional implications, and governance of tax expenditures in Uganda. The findings indicate that tax expenditures represent a significant fiscal commitment. Beneficiaries of tax incentives were found to have higher levels of investment, turnover, profitability, and overall purchasing activity than comparable non-beneficiary firms. The impact evaluation further suggests that tax incentives have contributed positively to investment, business growth, and both local and import purchases. However, the results indicate that the increase in imports was generally greater than the increase in local purchases, resulting in a decline in the share of local procurement among beneficiary firms. This suggests that while tax incentives have strengthened firms' participation in supply chains, their contribution to domestic value chain linkages has been more limited. The analysis also shows mixed results with respect to employment benefits, with non-beneficiary firms recording higher average wage levels despite the positive effects of tax incentives on wage expenditure over time.

The study also finds that VAT exemptions play an important role in reducing poverty but are less effective in reducing inequality, as a substantial share of the benefits

accrues to higher-income households.

In addition, Uganda has made significant progress in strengthening the governance and management of tax expenditures through the establishment of a benchmark tax system, a comprehensive tax expenditure repository, annual tax expenditure reporting, and the Fiscal Governance Framework for Tax Expenditures. These reforms have enhanced transparency, accountability, and evidence-based management of tax expenditures.

Nevertheless, tax expenditures continue to impose a substantial fiscal cost, and important challenges remain in the areas of monitoring, evaluation, beneficiary reporting, and the measurement of economic outcomes. In the end, the effectiveness of Uganda's tax expenditure regime will depend less on the introduction of new incentives and more on strengthening evaluation, improving data systems, enforcing accountability, and systematically rationalising incentives that fail to achieve their intended objectives. Tax expenditures should ultimately be treated as public expenditure delivered through the tax system and subjected to the same standards of scrutiny, efficiency, and accountability that apply to all other forms of public spending.

5.2 Policy Considerations: Incentives to Repeal, Redesign, or Retain

The cost-benefit evidence assembled in this study points to a broadly positive verdict on Uganda's investment tax incentives: strategic-sector tax holidays, in particular, generated economic and fiscal returns. Beneficiary firms showed measurable gains in investment, turnover and profitability relative to comparable non-beneficiaries. That finding, however, is not a mandate to leave the incentive regime as it stands.

Three considerations complicate the picture and should shape how policymakers act on it: the erosion of incentive value under the emerging global minimum tax, the existence of preferential tax treatment that operates outside the formally reported incentive framework, and the distributional consequences of VAT relief. Each raises distinct questions of design, fairness and revenue protection that a positive aggregate net-benefit result does not resolve on its own.

A further, more practical consideration cuts across all three: even where the evidence base against a given incentive is strong — and a growing body of cross-country literature does raise doubts about the efficiency of broad, profit-based incentives — outright abolition is rarely a realistic near-term option for policymakers. Incentives are typically embedded in investment promotion strategies, negotiated commitments and political undertakings that are costly to unwind, and Uganda is no exception to the wider

pattern seen across African countries, where recommendations to remove incentives are frequently acknowledged as sound in principle but difficult to act on in practice. The recommendations that follow are framed with this constraint in mind: rather than proposing repeal as the default response wherever the evidence is unfavourable, they favour mechanisms — such as the Domestic Minimum Top-up Tax discussed below — that manage the fiscal and fairness consequences of incentives Government is, realistically, likely to retain in some form.

The Global Minimum Tax and the Diminishing Value of Rate-Based Incentives

The OECD/G20 Global Anti-Base Erosion (GloBE) Rules under Pillar Two fundamentally change the calculus for incentives that work by lowering the effective tax rate (ETR) — principally corporate income tax holidays and reduced statutory rates. For in-scope multinational groups, any reduction in Uganda's ETR below the 15 percent minimum can now be recouped by other jurisdictions through a top-up tax. In practice, this means Uganda may forgo domestic revenue without the investor retaining the corresponding benefit, and without Uganda gaining any competitive advantage — the taxing right simply shifts elsewhere.

Two broad rate-based policy responses are conventionally posed as the choice, each with trade-offs:

- Preserve rate-based incentives for firms outside GloBE's scope. Purely domestic investors and multinational groups below the GloBE revenue

threshold are not exposed to top-up taxation, so tax holidays retain their intended effect for this group. Maintaining the incentive here avoids disrupting investment decisions already anchored to the current regime, but it entrenches a two-tier system in which similarly situated investors face materially different effective tax burdens depending on group size and structure.

- *Repeal or redesign rate-based incentives across the board.* Withdrawing tax holidays and preferential rates removes the two-tier problem and stops revenue leaking to other treasuries via top-up tax, but risks removing a genuine investment incentive for the (still sizeable) population of firms not covered by GloBE, and requires a credible transition path for existing beneficiaries with vested expectations. As the political-economy point above suggests, this option is also the least likely to be adopted in practice.

A middle path — and the one better supported by the evidence literature — is to shift the incentive architecture itself: away from profit-based measures (tax holidays, reduced rates) that GloBE directly targets, and toward cost-based incentives such as accelerated depreciation, investment allowances and R&D credits. These reward actual capital expenditure, are substantially less exposed to top-up taxation, and are more directly linked to the investment behaviour the incentives are meant to encourage.

In practice, however, neither of the two rate-based options above is likely to be politically tractable in the short term. Governments across the region — Uganda included — have built investment-promotion strategies around visible, negotiable incentives, and outright repeal is difficult to sell to Parliament, investors and negotiating counterparts even where the cost-benefit evidence supports it. A more realistic near-term recommendation, and one this paper endorses, is for Uganda to adopt a Domestic Minimum Top-up Tax (DMTT) across all sectors.

A DMTT does not require Uganda to dismantle its existing incentive framework. Instead, it lets Uganda itself collect, domestically, the top-up tax that GloBE's rule ordering would otherwise allocate to the investor's residence jurisdiction (via the Income Inclusion Rule) or to third countries (via the Undertaxed Profits Rule) once a covered entity's ETR falls below 15 percent. Framed this way, a DMTT is less a repeal of incentives than a backstop that determines who collects the revenue GloBE has already made contestable — Uganda, or someone else. Without it, Uganda continues to bear the fiscal cost of its incentives while forfeiting the associated top-up tax to another treasury; with it, incentives can remain politically available for firms and purposes where Government judges them still warranted, while the revenue leakage identified above is largely closed.

Design and sequencing matter, though, and should not be treated as a formality:

- *Scope.* The DMTT can be confined to in-scope MNE groups, or extended

to purely domestic groups above an adjusted revenue threshold, so that large domestic conglomerates are not left outside the regime purely because they lack foreign operations. This scope decision also determines how much of the two-tier fairness problem the DMTT actually resolves: a DMTT confined to in-scope MNEs pulls their ETR up to a 15 percent floor while leaving below-threshold and purely domestic firms free to enjoy the full, uncapped value of the same incentives — which does not close the fairness gap identified above so much as reverse its direction, with large in-scope groups now facing the tighter constraint. Extending the DMTT to large domestic groups narrows that residual gap, at the cost of a broader and more administratively demanding regime.

- *Qualified status.* Aligning the DMTT design with the OECD/G20 GloBE model rules, including definitions of covered taxes and coordination with the existing corporate tax base is necessary for it to be recognised as a Qualified DMTT (QDMTT), which in turn brings the safe-harbour treatment that reduces the compliance burden on covered groups and forecloses top-up taxation elsewhere.
- *Contractual carve-outs.* Sectors covered by fiscal stabilisation clauses notably the petroleum sector will need those clauses and host-government agreements revisited so

that DMTT application is not blocked by existing stability commitments, since a stabilisation-protected investor that successfully resists a DMTT obligation cannot then claim credit for it under the GloBE Commentary, meaning Uganda would simply cede that revenue to another jurisdiction by default.

Hidden and Silent Incentives

Formal incentive reporting captures tax holidays, exemptions and allowances, but understates the true scope of preferential treatment embedded in ordinary sector rules. Three areas warrant closer scrutiny:

- *Financial institutions* benefit from prudential bad-debt provisioning rules that can accelerate deductions ahead of realised losses, and from final withholding tax on government securities income at rates below the standard corporate rate — a durable ETR advantage not classified as an “incentive.”
- *Insurance companies* obtain reserve deductions for unexpired risk that, while often a timing rather than permanent benefit, still carry real fiscal value through deferred collection.
- *Petroleum and mining investors* operating under fiscal stabilisation clauses hold contractual protection from future tax changes — a contingent, unquantified fiscal cost that constrains policy flexibility rather than appearing as current revenue forgone.

- *Government commitments to pay tax on behalf of private taxpayers are a further silent category. Section 44 of the Tax Procedures Code Act empowers the Minister to pay tax arising from a Government commitment to pay tax on behalf of another person, including as counterpart funding for aid-funded projects. Although structured as Government discharging its own payment obligation, the economic effect is indistinguishable from a tax exemption granted to the beneficiary — a point Parliament itself has previously acknowledged. Because these commitments are created through contracts and administrative arrangements rather than published tax rules, they currently sit almost entirely outside the tax expenditure reporting and monitoring framework.*

Because these provisions sit inside ordinary tax base rules, contractual arrangements or Ministerial commitments rather than the incentive register, they are invisible to conventional tax expenditure accounting. Bringing them into the same monitoring, quantification and periodic review framework applied to formal incentives is a prerequisite for any honest assessment of total revenue forgone. For Section 44 commitments specifically, this should take the form of mandatory public disclosure — before or immediately upon a commitment taking effect — of the beneficiary, the instrument creating the commitment, the tax heads covered, its duration, the estimated annual and total fiscal cost, and

the policy objective it serves, with amounts actually paid subsequently reported in the annual Tax Expenditure Report. This would let Parliament and civil society distinguish ordinary procurement or counterpart-funding obligations from arrangements that confer a substantial fiscal benefit on an individual private taxpayer.

VAT Exemptions and Distributional Fairness

VAT exemptions present a different fairness problem: not investor-versus-investor, but household-versus-household. The evidence shows exemptions measurably reduce poverty but are poorly targeted for inequality, since a large share of relief accrues to higher-income households consuming the same exempt goods. This argues for disaggregating the VAT exemption list — retaining or expanding relief on necessities disproportionately consumed by low-income households (basic foodstuffs, water, kerosene), while reviewing exemptions whose benefit is regressive or commercially concentrated (e.g., upcountry hotel accommodation, processed milk, liquefied gas).

A related but distinct case is the deemed VAT regime for mining and petroleum operations, under which VAT on qualifying supplies to licensees is treated as paid, provided the supply is used solely for the relevant operations. This relief was introduced in 2015 when the petroleum sector was, in Parliament's own description, "still in its infancy" and needed relief from substantial upfront VAT costs during exploration and development — a justification that does not automatically extend to the production phase now that the sector has matured.

The relief should therefore be reassessed on a stage-by-stage basis: retained for exploration, development and major pre-production capital expenditure, where the original rationale still applies, but narrowed once commercial production begins, unless continued relief can be shown — through quantified revenue-forgone and beneficiary data — to generate additional investment that would not otherwise occur.

So, Which Incentives to Repeal, Modify, or Retain?

The considerations above point toward differentiated treatment rather than a single verdict on “incentives” as a category. Applying the study’s own evidence and the political-economy constraint noted in the introduction, three groups emerge.

Retain, subject to tighter performance conditions. The evidence supports keeping the strategic-sector and export-oriented ten-year CIT holidays in some form: the cost-benefit analysis found positive effects on investment, sales growth and employment. Repealing an incentive with a demonstrated positive net benefit would be difficult to justify on the evidence and, per the political-economy point above, would also be the hardest of all the options to carry politically. The justification for retention is conditional, however, not unqualified: the same evidence shows weaker effects on exports, local sourcing and domestic supply-chain development, and no significant increase in beneficiary firms’ VAT contributions — which is why retention should be paired with the study’s own recommendation to make continued access conditional on measurable

performance (investment, employment, local sourcing, technology transfer) rather than left as an open-ended entitlement.

Modify or redesign, rather than repeal outright. This is the largest category, and covers incentives where the underlying policy objective still has merit but the current design is generating a disproportionate or poorly targeted cost:

- Rate-based CIT incentives exposed to GloBE (tax holidays, reduced statutory rates for in-scope MNEs) modify by adopting a DMTT as backstop and by shifting new and renewed incentives toward cost-based instruments (accelerated depreciation, investment allowances, R&D credits), as set out above. Outright repeal is not supported here: the same body of evidence that raises GloBE concerns also shows these incentives generating positive net benefits for firms not caught by the 15 percent floor, so removing them for that population would forgo a demonstrated benefit to solve a problem — revenue leakage to other jurisdictions — that a DMTT already addresses more directly.
- Deemed VAT relief for mining and petroleum operations — modify on a stage-based approach: retain for exploration, development and major pre-production capital expenditure, where the original 2015 rationale (a sector “still in its infancy”) continues to apply, but narrow once commercial production begins, unless beneficiary-level data show it

still generates additional investment.

- *Sector-embedded provisions in financial services and insurance (bad-debt provisioning under Practice Note 2001 and the Bank of Uganda prudential norms; unexpired-risk reserves under Schedule 5 of the ITA) — modify, not repeal: these deductions serve legitimate prudential and accounting purposes and are not, in the main, avoidance devices. The recommended action is a joint URA/Bank of Uganda/ Insurance Regulatory Authority review of the specific provisioning parameters driving sub-15 percent ETRs, potentially formalised through a dedicated sector tax regime, rather than removal of the underlying deduction.*
- *Regressive VAT exemptions — modify by rationalising the specific exemptions the evidence identifies as benefiting predominantly higher-income households or businesses with limited offsetting social value, such as processed milk, upcountry hotel accommodation, liquefied gas, locally developed software and airport user services — while retaining or expanding exemptions concentrated among low-income consumption (basic foodstuffs, water, kerosene).*

Repeal, where the evidence or the underlying rationale no longer holds. Repeal is justified, and realistically achievable, in narrower, better-evidenced cases rather than as a blanket policy: the

deemed VAT relief for mining and petroleum specifically once a project reaches commercial production, absent contrary evidence, since the upfront-cost rationale that justified the relief in 2015 no longer applies at that stage; and, more generally, any tax expenditure that periodic ex-post evaluation — recommended elsewhere in this study but not yet institutionalised for most incentives — shows to be redundant, in the sense used by James (2013) and echoed in Uganda-specific evidence, where the investment would plausibly have occurred without the incentive. Framing repeal this way — as the evidence-triggered endpoint of a monitoring and evaluation cycle rather than a standalone recommendation — is also what makes it politically defensible: withdrawal follows a demonstrated absence of value for money for a specific, named provision, not a general argument against incentives that Government has little practical incentive to accept.

Two categories fall outside this repeal/modify/retain framing altogether because they are not statutory incentives that Government can unilaterally withdraw. Fiscal stabilisation clauses in petroleum and mining agreements, and Government's Section 44 commitments to pay tax on behalf of private taxpayers, arise from binding contracts and Ministerial undertakings. The practical lever for both is transparency and, where feasible, negotiated revision — mandatory disclosure for Section 44 commitments, and engagement with EACOP and other stabilisation-protected investors to accommodate DMTT application — rather

than repeal in the ordinary sense.

5.3 Recommendations

None of the above policy considerations is resolved by the aggregate net-benefit finding alone, and none is served by a single blanket verdict on incentives. The differentiated approach set out above is the basis for the stakeholder-specific recommendations that follow, addressed in turn to the Ministry of Finance, the Uganda Revenue Authority, Parliament, and civil society and oversight actors.

5.3.1 Recommendations for the MoFPED

The Policy Considerations above set out the reasoning; the recommendations below translate it into specific action for the Ministry, sequenced to follow that reasoning rather than repeat it. Recommendations (a)–(d) respond to the Global Minimum Tax discussion; (e) and (f) close the transparency gaps identified under hidden and silent incentives; (g) applies the fairness analysis to VAT exemptions; and (h)–(i) institutionalise the evidence base that any future repeal, modification or retention decision should rest on.

a) Adopt a Domestic Minimum Top-up Tax. As set out in Section 5.2, a DMTT allows Uganda to collect domestically the top-up tax that GloBE's rule ordering would otherwise allocate to another jurisdiction once an in-scope group's ETR falls below 15 percent, without requiring the wholesale repeal of existing incentives. The Ministry should prioritise this as the lead near-term response to Pillar Two, designed for Qualified DMTT status

under the OECD/G20 model rules, with scope, sequencing, and treatment of stabilisation-protected sectors addressed as set out in Section 5.2.

b) Reassess the tax incentive framework in light of the Global Minimum Tax and transition towards cost-based incentives. The Ministry should undertake a comprehensive review of existing tax holidays and reduced corporate income tax rates to identify which no longer confer a competitive investment advantage once GloBE and the DMTT are in effect, and should gradually redirect new and renewed incentives towards cost-based instruments — accelerated depreciation, investment allowances, training deductions and R&D credits — that are less exposed to top-up taxation and more directly linked to real economic activity. Uganda's earlier 50 percent initial allowance for plant, machinery or factories sited outside Kampala is a useful domestic precedent for a claimable, verifiable, cost-based design.

c) Replace broad incentives with targeted, performance-based incentives. Consistent with the finding that strategic-sector and export-oriented tax holidays generate a positive net benefit but weaker effects on exports, local sourcing and supply-chain development, continued or future access to profit-based incentives should be made conditional on measurable outcomes such as investment, employment, technology

transfer, local sourcing and domestic value addition rather than granted as an open-ended entitlement. Priority should go to incentives for research and development and for plant, machinery and equipment, and, within agriculture, to agro-processing and other value-addition activities rather than broad relief for primary activities such as commercial farming.

d) Modify the deemed VAT regime for mining and petroleum operations. As discussed in Section 5.2, the case for deemed VAT weakens once a project moves from exploration and development into commercial production. The Ministry should confine the relief to exploration, development and major pre-production capital expenditure, and commission the underlying revenue-forgone and beneficiary analysis needed to determine whether continuation into the production phase is generating additional investment before deciding whether to narrow or withdraw it there.

e) Bring hidden and silent tax preferences into the tax expenditure framework. Preferential treatment embedded in ordinary sector rules such as prudential bad-debt provisioning and favourable withholding treatment for financial institutions, unexpired-risk reserve deductions for insurers, and the fiscal exposure created by stabilisation clauses in petroleum and mining agreements currently falls outside the annual Tax Expenditure Report. The Ministry, working with the Bank of Uganda and the Insurance

Regulatory Authority, should quantify these preferences, review the specific parameters driving sub-15 percent ETRs, and consider a dedicated tax regime for the financial and insurance sectors to bring clarity and consistency to their treatment.

f) Require disclosure of Government commitments to pay tax on behalf of private taxpayers. Commitments made under Section 44 of the Tax Procedures Code Act have an economic effect equivalent to a tax exemption but are currently visible only through the underlying contracts. The Ministry should introduce mandatory publication of every such commitment, identifying the beneficiary, the instrument creating it, the tax heads covered, its duration and estimated fiscal cost, and the policy objective it serves — before or immediately upon the commitment taking effect, with amounts actually paid reported thereafter in the annual Tax Expenditure Report.

g) Rationalise VAT exemptions and improve the targeting of household support measures. Building on the finding that VAT exemptions reduce poverty but are poorly targeted for inequality, the Ministry should retain or extend exemptions concentrated among low-income household consumption such as basic food items, water, kerosene and similar necessities while reviewing and, where appropriate, rationalising exemptions such as processed milk, upcountry hotel accommodation, liquefied gas,

locally developed software and airport user services, whose benefit accrues disproportionately to higher-income households or businesses relative to their fiscal cost.

h) Institutionalise monitoring and evaluation across the tax expenditure lifecycle. The annual Tax Expenditure Report and the recent cost-benefit analyses of strategic incentives are important steps, but should be extended from ad hoc exercises to a standing framework: rigorous ex-ante assessment of any proposed new incentive against alternative instruments (direct expenditure, subsidised credit, infrastructure investment, targeted grants), and periodic ex-post evaluation of all major tax expenditures, ideally every four to five years with incentives that fail to demonstrate measurable benefit revised, redesigned or discontinued. This evaluation cycle is also what should trigger any future repeal decision, consistent with the evidence-based approach set out in Section 5.2.

i) Introduce sunset clauses for major tax expenditures. All major tax expenditures should carry an automatic review-and-renewal date rather than open-ended duration, with renewal conditional on demonstrated fiscal cost, economic benefit and value for money. Existing time-bound provisions such as the VAT exemption for locally assembled ethanol cooking stoves (expiring 30 June 2028), the SACCO income tax exemption (30 June 2027) and the Bujagali Hydro Power

Project exemption (30 June 2032) — illustrate the practice the Ministry should extend to all major incentives, including any newly designed cost-based instruments introduced under recommendation (b).

5.3.2 Recommendations for the URA

- a) Strengthen Beneficiary Data Collection and Outcome Reporting: The study identified important data limitations that constrained the estimation and evaluation of several tax expenditures. In some cases, beneficiaries did not submit tax returns, while in others the available tax returns did not capture sufficient information to facilitate the estimation of revenue forgone or the assessment of the effectiveness of tax incentives. The URA should therefore strengthen reporting requirements for tax incentive beneficiaries and require the periodic submission of information on investment, employment, exports, local sourcing, technology transfer, and other performance indicators. Consideration should also be given to enhancing tax return forms and administrative reporting systems to capture information necessary for monitoring the fiscal costs and economic outcomes associated with tax incentives. Establishing an integrated database linking beneficiaries, incentives received, revenue forgone, and economic outcomes would significantly strengthen monitoring, evaluation, and evidence-based policy making.

For example, where a taxpayer withholds tax at a preferential rate upon payment to a non-resident, this should be reflected in the tax return.

- b) **Strengthen Compliance and Reporting by Tax Incentive Beneficiaries:** The inability to estimate some tax expenditures due to non-filing or inadequate reporting undermines transparency and accountability. The URA should strengthen compliance monitoring for beneficiaries of tax incentives and ensure that all firms benefiting from tax expenditures meet their filing and reporting obligations. Consideration should be given to introducing standardised reporting templates for tax incentive beneficiaries to facilitate the collection of information required for tax expenditure estimation and impact evaluation. Tax incentive beneficiaries may be compelled to file Business Information returns even when not tax is due which give ancillary information over and above what regular taxpayers file.¹

5.3.3 *Recommendations for Parliament and Civil Society Organisations*

- a) **Strengthen Transparency, Public Reporting and Oversight of Tax Expenditures** Parliament and civil society organisations should play a more active role in promoting transparency and accountability in the management of tax expenditures. Annual tax expenditure reports should progressively provide more

information on beneficiaries, policy objectives, sectors targeted, duration of incentives, expected outcomes, and evaluation findings. Greater public scrutiny of tax expenditures will strengthen accountability, improve policy debate, and help ensure that public resources forgone through the tax system generate measurable economic and social benefits. For example, introduction of a mandatory public disclosure mechanism for every Government commitment under which public funds are used to meet the tax liability of a private taxpayer. Section 44 of the TPCA requires the Minister to pay tax arising from a Government commitment to pay tax on behalf of another person or as counterpart funding for an aid-funded project. Although legally structured as Government payment of another person's tax liability, its economic effect is comparable to a tax expenditure because the beneficiary is relieved of a tax cost that would otherwise have been borne from its own resources. Parliamentary scrutiny of earlier arrangements similarly recognised that Government payment of tax on behalf of private entities was, in substance, tantamount to granting a tax exemption. Every such commitment should be formally published, identifying the beneficiary, the legal or contractual instrument creating the commitment, the tax heads covered, the duration

¹ Section 147 of the Income Tax Act Cap 338.

of the arrangement, the estimated annual and total fiscal cost, and the policy objective that Government intends to achieve. Publication should occur before, or immediately upon, the commitment becoming effective, with the amounts actually paid subsequently reported in the annual Tax Expenditure Report. This would permit Parliament, civil society and the public to distinguish ordinary Government procurement or counterpart-funding obligations from arrangements conferring a substantial fiscal benefit on individual private taxpayers. Such commitments therefore have real revenue consequences and should not remain visible only through contracts or administrative records. Mandatory publication and annual reporting would place this form of fiscal support within the same transparency, costing and accountability framework as other tax expenditures.

- b) Build technical capacity on the GloBE Rules and less-visible tax preferences in financial services, insurance, extractives and Government tax-payment commitments, so that civil society oversight extends beyond formally reported incentives.*

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