

The edge you
need to move
the market

MARKET NEWS...STOCKS...TENDERS...PERSONAL FINANCE

UGANDA LOSES SH5 TRILLION TO TAX EXEMPTIONS AS FIRMS FAIL TO ACCOUNT

Uganda's forgone revenue from tax exemptions rose 33% to sh5.01 trillion between 2020 and 2025, yet an audit finds 123 beneficiary companies have not shown better profitability or job creation, prompting calls for performance-based incentives and better data tracking, writes **Ivan Tibenkana**.

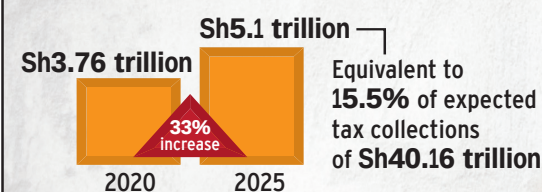
Although the latest audit on the impact of the foregone revenue by the Government suggests that repealing Value Added Tax (VAT) exemptions accorded to companies would spike Uganda's poverty rate up to 21.54%, the findings raise a lack of data to support the overall exemptions as meaningful employment and income growth remain unrealised.

A total of 123 companies benefitting from exemptions on VAT, Income Tax, Excise Duty and Stamp Duty are yet to demonstrate profitability compared to the non-benefitting firms. The

Uganda's loss to tax exemptions

- 123 companies benefit from exemptions on VAT, Income tax, excise duty and stamp duty

FORGONE REVENUE (In tax revenue through tax incentives and exemptions)



KEY EXEMPTIONS IN FY2024/25

- **VAT: 40.4%** (Largest share of foregone revenue)
- **PERSONAL INCOME TAX: Sh988.53b** (Security agencies, retirement contributions and MPs)
- **EXCISE DUTY: Sh855.64b** (Alcohol-related incentives—beer (55%) and spirits (25%))
- **CUSTOMS DUTY: Sh708.58b** (EAC tariff arrangements, duty remission and special operating frameworks)
- **CORPORATE INCOME TAX: Sh431.35b** with 10-year tax holidays accounting for 45% and the Bujagali tax waiver 23%

research jointly done by the Southern and Eastern Africa Trade Information and Negotiations Institute (SEATINI), and Uganda Revenue Authority, with support from the government of Ireland, points to a growing need to redesign the incentives regime, as the foregone revenue increased by 33%, from sh3.76 trillion to sh5.01 trillion between 2020 and 2025.

According to SEATINI, the scenario compounds serious questions on the value for money foregone and Uganda's ability to mobilise the required revenue to finance health, education (both below 25% of the annual budget expenditure), infrastructure, public debt and other development projects.

"It imposes a bad impression on Uganda's 2040 plan including debt

accrual and management. The country needs to prudently use every coin it has," Jane Nalunga, the executive director of SEATINI, cautioned during the launch of the cost benefit analysis of tax expenditures report last Friday.

SCENARIO, TREND

Tax expenditures, literally implying the foregone revenue by the Government through respective incentives, are estimated at sh5.1 trillion, equivalent to approximately 15.5% of total tax collections, with sh40.16 trillion expected in this financial year.

As per the latest report (financial year 2024/25), VAT contributed the highest share of foregone revenue (40.4%), followed by Personal Income Tax (sh988.53b), driven largely by

exemptions extended to the Uganda People's Defence Forces, the Police, Internal Security Organisation and External Security Organisation at 56%, retirement fund contributions and Members of Parliament.

Excise Duty contributed sh855.64b in foregone revenue with the alcohol industry dominating as beer, 55%, plus spirits, 25%, ranked highest. On the other hand, Customs Duty contributed sh708.58b through the stay of application of the East African Community Common External Tariff and duty remission, plus special operating frameworks.

Corporate Income Tax contributed sh431.35b as 10-year tax holiday waivers accounted for 45% and the

Continued on page 20

OPINION



EXPORT ORDER IS IN: WHERE IS THE MONEY?

The prospects of exporting coffee, tea and honey look bright. The quantities have been agreed upon, and delivery must be made on time. No excuses.

PAGE 22

ASK THE COMMISSIONER GENERAL



HOW SHOULD TENANTS BE HANDLED?

How should landlords handle tenants who do not have a TIN while complying with URA requirements regarding EFRIS invoicing and rental income tax declarations?

PAGE 21

PERSONAL FINANCE

SYLVIA JJUUKO

Why you need a quarterly review of your money

PAGE 22



'TAX EXEMPT ENTITIES NOT FILING ACCURATE RETURNS'

From page 19

Bujagali tax waiver at 23%. Patrick Mugisha, the commissioner of business development and quality assurance at the Ministry Of Trade, Industry And Cooperatives, said Uganda's biggest gap has been the inability to monitor the benefits that arise from the incentives regime. He says most of the aspirations end on paper, further evoking the labour and gender ministry to be part of the discussions on equity.

Ronald Nyenje Makumbi, the statistics and policy analyst at Uganda Revenue Authority, said although the Government has enough reasons to extend incentives to different sectors, there is equally a need to track the benefits. On the downside, the entity is struggling with a shortage of data. Scores of companies benefiting from tax exemptions are not filing truthful returns while there is no register of the various entities benefiting from such incentives.

"There is a need to report the beneficiary outcomes. As for data, engagements are ongoing to have the beneficiaries file returns," Makumbi said.

From an equity perspective, Aloysious Kittengo, the co-ordinator for financing for development at SEATINI, cautioned against extending Pay As You Earn exemptions under the Personal Income Tax regime to security personnel, judicial officers and parliamentarians, at a time when the country is struggling to widen its tax base.

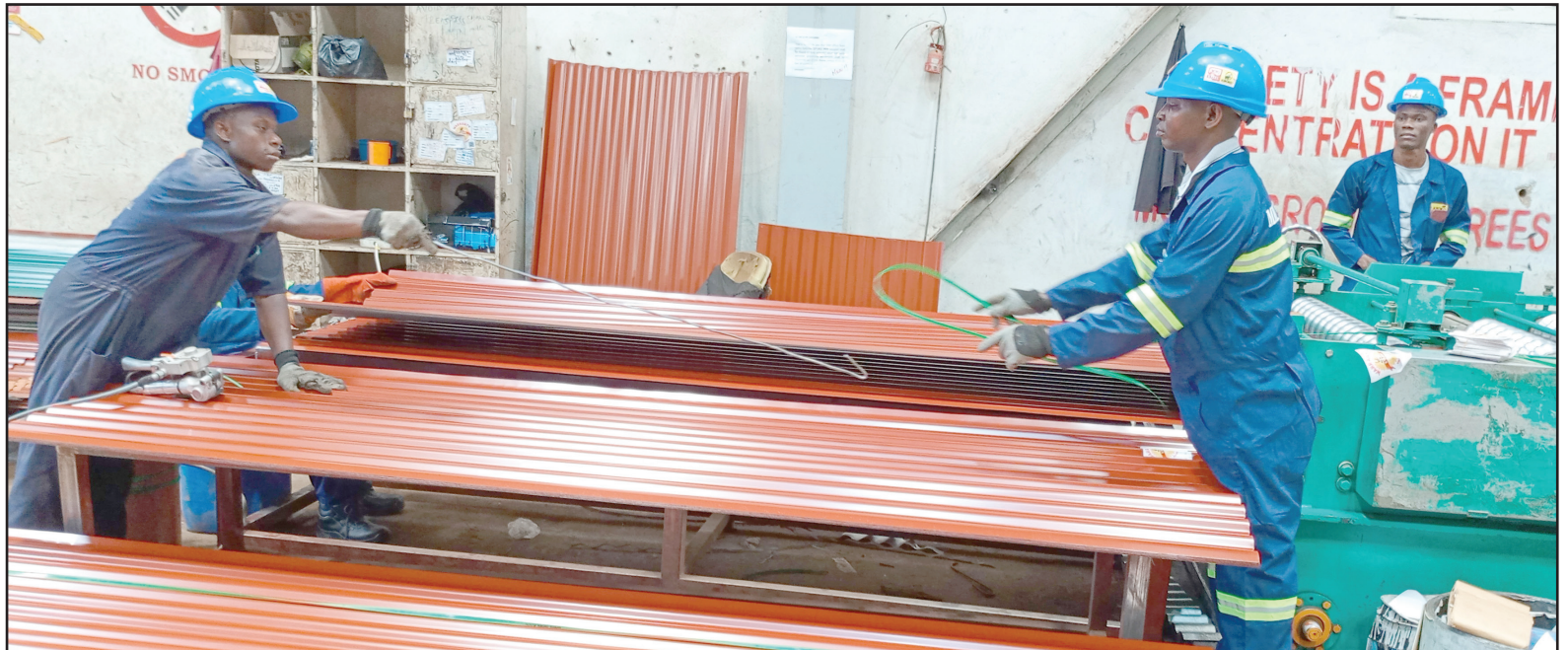
"More Ugandans will be joining the army and new security organisations will be created. Also, there is an increase in the number of judges just like the Members of Parliament. In effect, the revenue foregone will be high and the impact is visible with the bad roads and other infrastructure," Kittengo said.

EXEMPTIONS-POVERTY MYSTERY

From the available data, of the five tax heads, VAT holds the biggest share of exemptions since 2019, with the latest amounting to sh2.023 trillion. Between 2019 and 2023, there was an 87.7% exponential rise, from sh592.95b to sh1.173 trillion.

Meanwhile, the 2023-24 tax expenditures report further shows structural gaps where reform contributed to a decline in the foregone VAT revenue from sh1.173 trillion to sh677.27b. This was on account of improved administrative efficiency in the management of the VAT deeming regime (where there is no physical tax effected), especially in the mining sector.

In contrast, to date,



Workers at a roofing company sorting iron sheets off the production line. Uganda lost sh5.01 trillion in forgone revenue in 2025, and the audit questions whether exemptions deliver meaningful jobs and income growth

PROPOSED REFORMS

A multifaced set of recommendations has been put forth to fix the current trend where the exemptions-dividend mismatch remains unresolved. This includes a shift towards performance-based incentives. The proposals further put in mind the evolving global tax environment where, for instance in 2024, the 15% Global Minimum Tax (GMT) became effective, applicable to multinational companies with revenues above €750m.

According to Southern and Eastern Africa Trade Information and Negotiations Institute, it being a one-size fits all, the finance ministry needs to adopt a domestic minimum top-up tax which would enable Uganda to collect the tax that would otherwise end up in other jurisdictions, as long as the effective tax rate falls below 15% and global rules apply.

As per the Organisation for Economic Co-operation and Development, there is no evidence of significant reduction in investment or employment after implementation of the GMT. Instead, it notes that the revenue gains could be substantial, with estimates of about \$91b to \$155b, measured against current average Corporate Income Tax revenues. However, the majority of the African countries are yet to implement, with just a handful including South Africa, Kenya, Mauritius and Zimbabwe, for instance, demonstrating a front

footing. For the extractives sector, there is growing demand to implement effective tax rates. This would undo gaps, for instance, in mining where the 5% levy on gold was scrapped in favour of a \$200 levy.

According to the Civil Society Coalition on Oil and Gas, exemptions within the sector need to be suspended at the onset of oil production. This coincides with recommendations that deemed VAT in the mining and petroleum sectors be retained only during the exploration, development and infancy stages, then narrowed once commercial production begins, unless beneficiary-level data shows it still generates additional investment.

From the recent Public Finance Review report by the World Bank, released at the closure of the Uganda-World Bank Partnership Framework, a similar rationalisation path is urged in lieu of widening the tax base.

"Rationalise tax expenditures without demonstrated conditionality, potentially recovering 1.5% to 2% of GDP," the World Bank suggests, further noting that restructuring excise taxes with alcohol-by-volume graduated levies, tobacco indexation, and a carbon levy are necessary. Equally, it echoes the need to close the corporate income tax gap through a minimum tax and transfer pricing enforcement, while tightening VAT compliance through stricter refund management and registration.

paints a dire picture: employment is of poor quality, with low wages and no minimum wage or social security cover, particularly in agriculture and manufacturing.

Furthermore, women bear a disproportionate share of low-productivity work, accounting for 83% of those in subsistence agriculture while remaining under-represented in formal employment.

"The overall unemployment rate, which had dropped to about 8.9% in 2019/20, rose to 12.3-12.4% by 2024, exceeding pre-National Development Plan III levels. More worrying is the rise in youth unemployment, ages 18-30, which increased from roughly 10-13% in 2019/20 to 16.1% in 2024, showing that young job seekers have been disproportionately affected," the National Planning Authority revealed in last year's employment and skills status report.

The audit findings also raise concerns regarding labour compensation as a contrast is drawn between companies receiving incentives and those that are not.

"Beneficiary firms recorded significantly lower wage compensation averaging sh1.8b compared to sh2.6b 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 report notes, further demanding for policy considerations and questioning the extent to which tax incentives translate into meaningful employment and labour income growth.

This is compounded with the fact that on average, beneficiary firms recorded profits of approximately sh3.9b compared to sh4.5b among non-beneficiary firms.



Nalunga: SEATINI boss

VAT deeming contributed the most of foregone revenue as mining, oil and gas, plus other government projects were subjected to it, thus 36.4% of the foregone sh2.023 trillion. Whereas the latest findings give cause to maintain certain exemptions such as VAT, suggesting that repeal would inform a 5.46% increase in the poverty rate, from 16.08% to 21.54%, there is cause for worry.

"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," the cost benefit analysis of tax expenditures report reveals.

Agricultural inputs and products accounted for 17.4% of total VAT exemptions, and there is now a proposal to repeal the zero-ratings on agricultural inputs and milled cereals.

The latest labour market data