Government continues losing billions through tax incentives, weak enforcement, and low compliance, raising concerns about fairness and economic impact.

Tax reliefs: Do the poor also benefit?

BY ARTHUR ARNOLD WADERO

Parliament this past week enacted fresh taxes to be enforced through seven pieces of legislation.

From the onset, government indicated that at least Shs4.8 trillion would be raised by the fresh taxes alone to partially fund the government's Shs84.2 trillion Budget. Although the government imposes tough taxes to mobilise revenue, it also creates a litany of tax relief forms that are extended to various entities and businesses.

Mr Robert Mbazira, a senior associate and tax manager at Ernst & Young, says: "Uganda uses a mix of income tax exemptions, tax holidays, VAT [Value Added Tax] and customs reliefs, and targeted incentives to encourage investment, job creation, exports, and industrialisation."

"These are administered mainly through the Income Tax Act (Cap. 338) and supporting tax laws, often in collaboration with the Uganda Investment Authority," he added.

For instance, he says, the income tax exemptions and tax holidays relief are extended to, among others, export-led businesses; industrial parks and free zones; start-ups established by citizens; and sector-specific exemptions.

These include VAT and Customs Duty Reliefs, which cater for the importation of plant and machinery. The other form of tax relief is the employment-related tax incentives, which, according to Mr Mbazira, is extended to "employers who demonstrate that at least five percent of their full-time employees are persons with disabilities, who qualify for a two percent reduction in income tax payable."

In essence, Mr Mbazira says: "These tax reliefs are designed to attract both local and foreign investment, support industrialisation and value addition, promote exports and foreign exchange inflows, encourage job creation and skills development, and reduce the cost of doing business in priority sectors."

So, what is the loss?

Authors of Uganda's tax laws at the Ministry of Finance have, in the past five financial years (FY), aggregated the consequential tax losses incurred due to such forms of relief.

In the latest Tax Expenditures Report FY2023/2024, government recorded a persistent revenue loss. Assessments done between FY2029/2020 and FY2023/2024 show that the heaviest forgone taxes were posted in FY2021/2022 when a loss of Shs3.2 trillion was suffered and in FY2022/2023 when Shs3.7 trillion was incurred. The report details that through Customs Duty, government incurred "the highest share of revenue foregone, at Shs1.137 trillion (0.56 percent of GDP), representing 32 percent of total tax expenditures."

But where's the benefit?

Mr Mbazira says: "Some tax reliefs have delivered value, but many have not paid off in the way originally intended, especially when measured against revenue loss, jobs created, and spill-over benefits.

He says such relief forms stimulate investment and capital formation, support export-led growth, and also encourage formalisation and long-term tax compliance. He reasons that in so doing, the practice draws companies into the formal tax net, widens the tax base over time and consequently improves compliance culture once such tax incentives expire.

Workers package edible oil at the Bidco plant. Through the Excise Duty (Amendment) Bill, 2026, passed on Tuesday, Parliament instructed Uganda Revenue Authority (URA) to collect Shs500 on every litre of cooking oil purchased in the financial year, which commences in June. PHOTO/FILE

Estimates of revenue forgone by tax head (FY2019/2020 – FY2023/2024)

	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24
Total TE (Shs billion)	2,467	2,860	3,180	3,665	3,609
Total TE (% GDP)	1.76	1.93	1.95	2.00%	1.78%

SOURCE: TAX EXPENDITURES REPORT, FY 2023/24

The hard pinch...

Mr Mbazira argues that tax reliefs have led to high revenue haemorrhage, disproportionate benefit to large companies and create a weak link between incentives and jobs in Uganda's economy.

"Although MNCs [multi-national companies] account for less than two percent of companies in Uganda, they dominate tax holiday beneficiaries. Domestic firms that benefit are mostly large, already established companies, not SMEs [Small and Medium-sized Enterprises]," Mr Mbazira says.

He adds: "This undermines the core political justification for incentives: jobs. The biggest question from this perspective is whether we are buying enough investment, jobs and exports for the tax revenue that we give up while granting these exemptions as a country."

As a result, the government gets resource-constrained, and yet it is required to fund key sectors such as health, education and infrastructure. In the long run, Mr Mbazira reasons this forces the government to fetch huge loans that get serviced at explosive rates that heavily pinch into the taxpayer's bag.

He cites higher taxes imposed on fuel and basic goods like cooking oil as evidenced in the tax structure endorsed by Parliament in the past workweek.

For instance, through the Excise Duty (Amendment) Bill, 2026, passed on Tuesday, Parliament instructed Uganda Revenue Authority (URA) to collect Shs500 on every litre of cooking oil, Shs300 on every kilogramme of sugar purchased in the new financial year.

"While tax incentives are expected to stimulate growth, their benefits have not consistently reached the wider population. For most Ugandans, these reliefs do not reduce the cost of living or increase incomes," Mr Julius Mukunda, the Executive Director of the Civil Society Budget Advocacy Group (CSBAG), says. "Instead, they create a trade-off, as revenue foregone reduces resources available for essential public services like health, education, and infrastructure."

On the overall, Mr Mbazira opines: "Tax reliefs and exemptions trickle down only when three conditions are met: the investment is genuinely additional (would not have happened without the incentive), the incentive is linked to clear outcomes (jobs, exports, local sourcing, technology transfer), and there is active monitoring and exit discipline (poor performers lose the benefit)."

He adds: "When these conditions are absent, the economy experiences trickle-up benefits and trickle-down costs."

He concludes that "tax incentives can help the economy grow, but if they are poorly designed, the benefits rise to the top while the costs trickle down to ordinary Ugandans."

What about other tax leakages...?

Taxpayer Registration Expansion Programme (TREP), which was formed to attract informal businesses into the mainstream economy, widen the tax base and also ease URA tax collections, has not paid off.

Audits done on the URA financial statements for FY2024/2025 showed that at least 728,640 were added into the tax register, thereby expanding the size of registered taxpayers to 5,251,874. Sadly, only 20 percent of these are active. The latest Office of the Auditor General report faults URA for not considering other clusters of potential taxpayers for inclusion in the register.

Poor tax redresses?

The Tax Appeals Tribunal (TAT), a body established by Tax Appeals Tribunal Amendment Cap 341 to expressly handle and dispose of tax grievances, is increasingly overburdened with assessments by Auditor General Edward Akol, showing that "the average resolution time was 10 months" as of December 2025. "The Tax Appeals Tribunal is facing a rapidly growing and high-value backlog of tax cases due to weak case disposal capacity, prolonged delays, and limited public awareness of its mandate," the report reads in part.

Consequently, "as a result of delays in resolution shown above, the pending cases have risen from 169 in FY2022/2023 to 476 in FY2024/2025, and the value of unresolved disputes stands at Shs1.5 trillion."

Misses in digital tax?

In the FY2023/2024, Uganda imposed the Digital Service Tax (DST), which in essence placed a five percent tax levy on major digital platforms in Uganda.

TAXES

- Customs Duty: The highest share of revenue foregone, at Shs1,137b (0.56 percent of GDP), representing 32 percent of total Tax Expenditures (TE).
- VAT: The revenue foregone from VAT TEs declined from Shs1,113.21b (0.61 percent of GDP) in FY2022/2023 to Shs677.27b (0.34 percent of GDP) in FY2023/2024.
- Emerging Development in TE reporting in Uganda: Although the following two aspects are not TEs under the current Benchmark Tax System (BTS), they have been captured in the TE report for the first time;

a) Aid-Funded Projects: in FY2023/2024, 0.22 percent of GDP is forgone through VAT and customs exemptions on aid-funded projects.

b) Government Commitments: The expenditure incurred by Government on behalf of taxpayers, which is approximately 0.1 percent of GDP, has been captured for FY2023/2024.

Source: Tax Expenditures Report, FY2023/24

At the time, it was anticipated that these streams would channel in loads of taxes for Uganda, but government audits conducted in December last year carried a displeasing outcome. "Uganda collected Shs29.58b in FY2024/2025 from 82 compliant providers through DST and VAT," Auditor General Akol said.

This was because "major providers that are not registered for DST and are not paying taxes on income earned from Ugandan users." Worse still, it was discovered that technocrats at the Ministry of Finance enacted laws without proper enforcement measures. "URA currently lacks a payment gateway monitoring system, making it difficult to quantify how much income these companies earn from Uganda, further limiting enforcement," Mr Akol said. "Uganda is losing revenue to some of the world's most profitable digital multinational companies."

Call for fairness

While unveiling the Alternative Budget Priorities for the FY2026/2027 on April 7, Leader of the Opposition in Parliament (LoP) Joel Ssenyonyi questioned the credibility of government's fiscal plan.

"At the outset, it is necessary to raise a matter of serious concern regarding the credibility and stability of the government's fiscal framework. The resource envelope, which forms the foundation of the National Budget, continues to shift in a manner that raises more questions than answers," Mr Ssenyonyi said.

He added: "Whereas the Budget Framework Paper indicated total expenditure estimates of Shs78.2 trillion with domestic revenue projections of Shs41.5 trillion, the Minister of Finance has since indicated that revised estimates of Shs84.2 trillion, with tax revenue projected at Shs44.5 trillion, will be tabled before Parliament."

Shadow Finance minister Ibrahim Ssemujju Nganda reckons that the government's "multiple taxation is affecting business survival in the country."

Overall, Mr Ssemujju says: "A tax policy should be a tool for wealth creation, not wealth extraction from those who have the least. In the absence of a Comprehensive Taxation Policy that protects the vulnerable, this Bill acts as a regressive weight on the neck of the struggling Ugandan."