Strengthened audits are a targeted and economically sound solution

For decades, Uganda's income tax system has followed a clear principle: income tax is levied on profits, not on losses. Businesses that incur losses—whether due to high operating costs, heavy capital investment, or accelerated capital allowances—are not taxed until they return to profitability.

This principle has already been significantly eroded. Until July 1, 2023, section 36 of the Income Tax Act allowed tax losses to be carried forward indefinitely. That position changed when a limitation was introduced, restricting loss utilisation after seven years. From the eighth year of income, only 50 percent of accumulated losses may be carried forward, with the balance permanently forfeited. This measure was intended to accelerate the transition of long-running loss-making businesses into the tax net.

The proposed Income Tax (Amendment) Bill 2026 goes further. It introduces a minimum alternative tax (MAT) of 0.5 percent on gross income for taxpayers who continue to carry forward assessed losses after seven years. The tax payable would be the higher of this amount or the tax computed under section 4(1) of the Act.

In practice, this proposal risks taxing revenue rather than profit. Consider a resident company in its eighth year of losses, with accumulated tax losses of Shs50 billion and a further Shs5 billion loss in the year. Under the existing rules, 50 percent of the brought-forward losses would be lost, leaving Shs25 billion, plus the current-year loss, resulting in Shs30 billion of carried-forward losses.

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If that company earns Shs 10 billion from manufacturing sales, Shs1 billion in interest income, and Shs 0.5 billion in foreign exchange gains, a minimum alternative tax of Shs 57.5 million would arise, despite the business remaining firmly in a loss position. Rental income would be excluded as it is subjected to tax separately.

This outcome creates an immediate cash outflow for businesses that are already cash-constrained. For some, this could accelerate closure, with broader fiscal consequences including the loss of Pay As You Earn and Value Added Tax revenues.

Seven years is a short horizon for capital-intensive sectors such as infrastructure, agroforestry, education and healthcare to achieve profitability and fully utilise tax losses. The proposed MAT therefore risks undermining Uganda's competitiveness as an investment destination in precisely the sectors critical to long-term economic development.

Regional practice offers a more balanced approach. Tanzania imposes a minimum tax of 1 percent on turnover for companies that make losses for three consecutive years. Crucially, however, it allows losses to be carried forward indefinitely, subject only to a restriction on utilisation to up to 60 percent of taxable profit in the 5th year of income. This preserves the integrity of profit-based taxation while still bringing loss-making businesses gradually into the tax net.

Uganda's proposal, by contrast, introduces a double penalty: tax losses are already reduced by 50 percent, and a further tax is levied on gross income. With the Uganda Revenue Authority's expanded audit capacity and extensive data now available through the Electronic Fiscal Receipting and Invoicing System (EFRIS) which now covers multiple sectors in addition to all VAT-registered persons, there is little justification for penalising genuinely loss-making businesses. Strengthened audits would be a more targeted and economically sound solution.

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