

Digital transformation

TAX

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The young man at the mobile phone stall in Kampala's Wandegeya market runs his finger along a row of smartphones under the glass case. He checks the price of a Tecno, then a Samsung, then an iTel. Each time, his face falls. He asks the trader if there is something cheaper.

In many parts of the world, buying a smartphone is an ordinary decision, often no more complicated than choosing between two models on a store shelf. But for millions of Ugandans, the device that has become essential infrastructure for the 21st century, the smartphone, remains out of reach.

Progress & regression

According to the 2025 Uganda Communications Commission (UCC) quarter four report, the country had approximately 20 million smartphones by the end of December, a steady rise from the 19 million and 17.6 million in the previous quarter three and quarter two, respectively. Mobile subscriptions have surged past 47 million, and internet traffic continues to break records.

But these figures mask a deeper divide. With a population of roughly 50 million, Uganda's smartphone penetration hovers around 33 percent, well below the regional average of 50 percent. More tellingly, UCC data reveals that feature phone subscriptions still outnumber smartphones by a wide margin, standing at 32.2 million feature phones.

The figures highlight a paradox. Demand for smartphones is still rising, yet adoption is slower than expected. Industry experts point to one explanation: Affordability. At the heart of this affordability crisis lies a complex web of taxes.

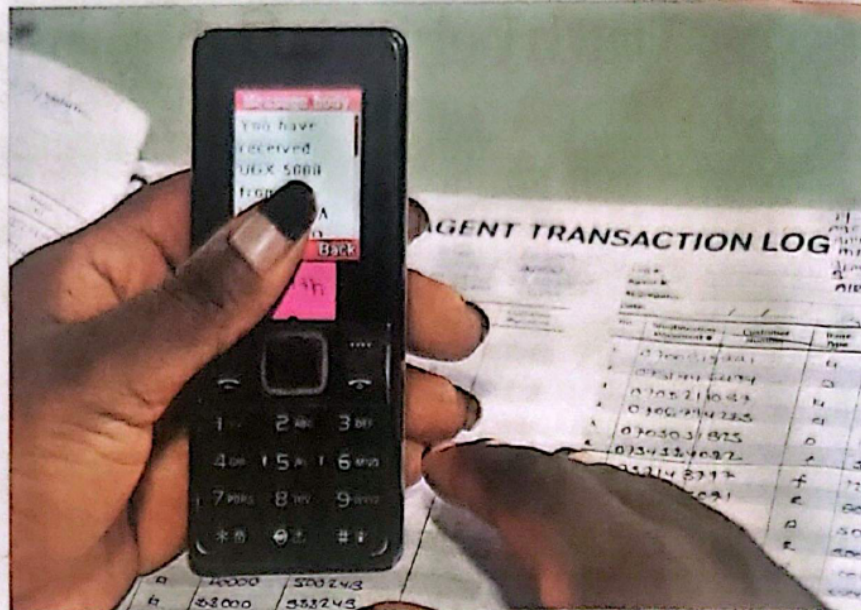
"Smartphones are the primary gateway to the internet. When the cost of devices increases due to taxes, it slows the rate at which new users can join the digital economy," says Rhona Arinaitwe, senior manager of communications, public relations and stakeholder management at MTN Uganda.

Majority of smartphones used in Uganda are imported, primarily from manufacturing hubs such as China, Vietnam and India. That means each device must pass through the country's import tax system before it reaches the market.

"Uganda currently imposes four key taxes on imported smartphones. These include: 10 percent import duty, 6 percent withholding tax, 1.5 percent infrastructure tax and 18 percent Value Added Tax (VAT)," says tax analyst, Patrick Kato.

The purpose of these taxes, he notes, ranges from protecting local markets to revenue mobilisation. But millions of Ugandans remain locked out of the digital economy because they cannot afford the device that grants entry.

To understand why smartphones cost



A woman uses a basic phone to receive mobile money. Uganda Communications Commission data reveals that feature phone subscriptions still outnumber smartphones by a wide margin, standing at 32.2 million feature phones. PHOTO/MICHAEL KAKUMIRI

High taxes keep millions stuck on basic phones

what they do in Uganda, let us follow one smartphone on its journey from a factory in China to a customer in Kampala.

Step 1: The factory

A manufacturer in Shenzhen produces a mid-range smartphone. Let's say its factory price is \$100 (approximately Shs370,000). A Ugandan commercial importer purchases it and arranges shipping. At this stage, no Ugandan taxes have been paid yet. The importer now needs to get it to Uganda.

Step 2: The journey

The importer arranges for the phone to be shipped, paying the factory cost plus international shipping and insurance. This total becomes what customs officials call the CIF value (Cost, Insurance, Freight)—the value of the goods when they arrive.

The importer does not ship just one phone; in this case, say, they fill a 40-foot container with thousands. Our single phone's share of those costs breaks down like this:

Ocean freight (from China to Mombasa) per phone is estimated at around \$0.25, and inland haulage (transport from Mombasa to Kampala)

la) per phone is estimated at around \$0.20, bringing the total freight to \$0.45 (estimates based on 2026 February rates). Additionally, insurance per phone is estimated at \$0.50. This brings the phone's CIF value (Cost, Insurance, Freight), which is also the taxable value upon arrival in Uganda to \$100.95

Step 3: The taxes

When the phone lands on Uganda soil, the Uganda Revenue Authority (URA) applies four distinct taxes.

a) Import Duty (10 percent): It is a percentage charged on the value of the imported goods. The government charges 10 percent of the phone's value (the CIF price). Our example: $\$100.95 \times 10 \text{ percent} = \10.10 import duty.

Think of import duty as an entry fee. Uganda is saying, "If you want to bring this foreign-made product into our country to sell, you must pay this fee," Kato says.

b) Withholding tax (6 percent): Kato explains that withholding tax is essentially an advance payment on the income tax that the importer's business will eventually owe.

The government collects 6 percent of the phone's value at the border, which will later be credited against the importer's overall tax bill. In our scenario: $\$100.95 \times 6 \text{ percent} = \6.06 withholding tax.

c) Infrastructure levy (1.5 percent): This is a new tax specifically designated to fund public infrastructure projects like roads, bridges, and electricity grids. The government charges 1.5 percent of the phone's value for infrastructure development. In our case: $\$100.95 \times 1.5 \text{ percent} = \1.51 infrastructure levy.

Kato explains that this tax is framed as a contribution. "You are using Uganda's roads and ports to bring in your goods,

so contribute to maintaining them."

d) Value Added Tax (VAT) at 18 percent: VAT is the heaviest single tax. It is a consumption tax applied to most goods and services in Uganda. VAT is calculated not just on the original phone value, but on the total after adding the other taxes. This is in a sense "tax on tax."

First, calculate the taxable base: Original value/CIF (\$100.95) + Import duty (\$10.10) + Withholding tax (\$6.06) + Infrastructure levy (\$1.51) = \$118.62. Then apply 18 percent VAT: $\$118.62 \times 18 \text{ percent} = \21.35 VAT. The sum of all these taxes is \$39.02.

Notwithstanding any additional costs or fees, by the time all these charges are combined, the total tax burden can reach nearly 39 percent of the device's original value. For the importer, the \$100 smartphone now costs almost \$140, that is \$139.97 (approximately Shs18,000) before any profit margin is added.

Step 4: Who pays these taxes?

When smartphone prices increase due to taxes, the pace at which new users can join the digital ecosystem slows. This is because although the importer writes the cheque to the URA, the cost falls on the buyer.

"The importer and the supply chain players are running businesses. They must make a profit to survive," Kato says.

Returning to the hypothetical journey, the importer sells to a wholesaler, adding a profit margin (say 15 percent, approximately +Shs77,700), so the wholesaler has to pay Shs595,700. The wholesaler sells to a retailer, adding another margin (say 10 percent, approximately +Shs59,570), as such the retailer has to pay Shs655,270. The retailer sells to you, the customer, adding a final markup of 15 to 20 percent (+Shs98,000 - Shs131,000).

By the time the phone reaches a consumer in Kampala, its price has climbed to between Shs753,000 and Shs786,000 — roughly \$200, double the original factory price. At this point, every single dollar of that \$39.02 in taxes has been passed along to the customer.

"It is no secret that smartphones end up becoming costly to the end user. You, the consumer, are the one who pays all these taxes," says Kato.

"A smartphone that might cost \$100 in Dubai or \$120 in Nairobi can easily cost \$180–\$200 in Kampala. The taxes are baked into the final price," he adds.

For the majority low income households in Uganda, that difference makes accessibility of a smartphone unattainable.

High taxes create perverse incentives. When the legal route makes a product expensive, an illegal one emerges.

One of them is the growth of smuggling. Ugandan authorities have reported cases of mobile phones entering the country through unofficial channels to avoid customs duties.

According to the Uganda Revenue Authority (URA), as of February this year, enforcement operations in the eastern region alone recovered about Shs1 billion in fines from traders involved in smuggling electronic goods, including smartphones.

In an earlier interview, Moses Wanjala Owino, URA's manager, enforcement and border control in the Eastern region, emphasizes the damage noting that this trend not only frustrates URA's revenue collection efforts, but also distorts the market through unfair competition.

Costs

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