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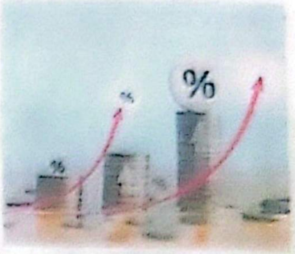
Life



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Investment
Explainer
Where does a bond's price come from?

Kenya cuts fuel VAT: Will Uganda follow?

Technocrats believe the disadvantages associated with Kenya's fuel taxation model far outweigh the advantages, regarding revenue stability.

BUDGET SERIES 2026/27

VAT
ISMAIL MUSA LADU

By temporarily reducing fuel taxes, Kenya has taken the lead. The question is whether Uganda will follow suit.

Economists, sector researchers, and industry players consulted say it is up to Kampala to consider taking a cue from the initiative, which officials at the Ministry of Finance have described as "dangerously tempting."

Recently, the Kenya Revenue Authority directed all fuel stations to update their invoicing systems to reflect a reduced 8 percent Value Added Tax (VAT) on fuel for 90 days, following President William Ruto's assent to the VAT (Amendment) Bill. The new law, aimed at cushioning the Kenyan population against a fuel price hike, cuts VAT on fuel from 16 percent to 8 percent starting April 15, 2026.

Although an attractive prospect, Kampala-based government technocrats believe the disadvantages associated with Kenya's fuel taxation model far outweigh the advantages, particularly regarding revenue stability.

While the government is counting its chickens before they hatch, banking on projected oil revenues, Kenya has taken a high-stakes risk for a reprieve in pump prices.

Why not?

"On April 17, 2026, Kenyan President William Ruto signed the Value Added Tax (Amendment) Bill, 2026, into law, reducing the Value Added Tax (VAT) on petroleum products from 16 percent to 8 percent.

"This intervention is designed as a temporary 90-day measure to combat high fuel costs stemming from global market volatility and Middle East geopolitical tensions.

"Global oil prices surged due to the conflict, causing import costs to rise sharply, explains Mr Emmanuel Erem, a research fellow at Makerere University's Economic Policy Research Centre. When contacted last week.

He continues: "In principle, yes, Uganda can consider this approach, but in practice, it is complicated.

"Cutting VAT on fuel can lower pump prices immediately because VAT is applied at the final stage of pricing.

"When the rate is reduced, the tax component embedded in the retail price falls, and if fully passed through, consumers see a direct reduction at the pump.

"This can, in turn, help moderate inflation, since fuel is a key input into transport fares, food prices and general business operating costs." →