A NATION MEDIA PUBLICATION

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BUDGET SERIES 2026/27

THE BUDGET AND YOU
YOUR VOICE, YOUR MONEY.

PAYE: The tax that eats into your salary

Budget.

ISMAIL MUSA LADU

A woman displays cash in a wallet A Pay As You Earn system that takes a large share of income early reduces household purchasing power and suppresses domestic consumption. PHOTO/MICHAEL KAKUMIRIZI

If you are formally employed, there is a 30 to 40 percent tax levied on your monthly pay cheque by the government even before it hits your account.

As long as you work with a duly registered company in the country and operate formally, Pay As You Earn (PAYE) deductions are a mandatory and unavoidable routine.

By its very nature, PAYE is an automatic, non-negotiable deduction that tax analysts, tax justice advocates and economic sector players say relentlessly erodes workers' earnings.

Importantly, your authorisation is not required. By law, PAYE is deducted at source. It acts as an advance tax payment collected at the very moment income is generated.

In Uganda, PAYE is deducted on income earned from employment and business.

Under the PAYE tax regime, the obligation to withhold and remit is solely with the employer who deducts the tax from the employee's gross pay and forwards it to the Uganda Revenue Authority (URA) by the 15th of the issuing month.

PAYE applies to all forms of employment income, including that bonus, allowance, and benefits in kind for employees earning above the tax-free threshold of currently over Shs235,000.

Business Daily's investigations reveal that PAYE challenges arise from low deduction thresholds and a top tax rate of between 30 to 40 percent, a combination experts label "burdensome".

Currently, if you are earning no more than Shs235,000 per month then for now you don't have to worry about PAYE because you are not within the taxable threshold for this levy.

If Parliament passes the 2026/27 tax proposals, anyone earning below Shs335,000 will be tax-exempt. Those earning between Shs335,001 and Shs410,000 will be charged a 10 percent PAYE, while salaries between Shs410,001 and Shs10,000,000 will attract a 30 percent PAYE. Finally, high earners with a monthly salary exceeding Shs10,000,000 will face a 40 percent PAYE tax rate.

In other words, if Parliament endorses the proposed rates, the monthly PAYE threshold for resident individuals will be structured as follows: earnings from Shs0 to Shs335,000 will attract 0 percent tax.

Income between Shs335,000 and Shs410,000 will be taxed at 20 percent, while the Shs410,000 to Shs485,000 bracket will face a 25 percent rate.

Any income ranging from Shs485,000 to Shs10,000,000 will carry a 30 percent rate, and finally, salaries exceeding Shs10,000,000 will attract a 40 percent PAYE tax.

The good, the bad and ugly

The proposed amendment is an attempt to address the cost-of-living increase since 2012 when the income brackets were last changed.

A joint analysis of the proposed tax amendments for FY 2026/27 by BDO East Africa—an audit, tax services, advisory, and business outsourcing firm—and SM & Co. Advocates finds that while raising the PAYE threshold is a wonderful gesture, it is at best a negligible relief.

"The amendment is a drop in the ocean given that the consumer price index has increased by about 74 percent as at February 2026 compared to July 2012.

"The threshold of Shs235,000 in July 2012 adjusted for inflation as at February 2026 is equivalent to Shs408,500 while Shs10 million in 2012 adjusted for inflation is Shs17.4 million.

"This implies that at a minimum, the tax-free threshold should be Shs408,500 while the 40 percent rate should only apply on amounts above Shs17.4 million, reads the BDO and SM & Co. Advocates joint analysis of the 2026/27 tax proposal.

Uganda has highest pay in region

In his analysis, titled, '*How proposed PAYE changes will impact you*,' Mr Trevor Bwanika Lukanga, an associate director, tax services at PwC Uganda, notes the increase in PAYE threshold will see low-income earners retain more of their pay.

As all professionals and experts interviewed concur will boost disposable income, increase consumption, and helps reduce income inequality and poverty.

However, people currently taxed at 30 percent would instead pay tax at a rate of 25 percent, giving middle-income earners some relief as well.

Key figures

25%

Those earning between Shs410,000 to Shs485,000 will face a 25 percent rate.

Sh335,000

Anyone earning a monthly gross pay below Shs335,000 will be tax-exempt.

30%

The 30% band will be applicable to individuals earning a monthly gross pay above Shs485,000 to Shs 10 million.

"Since the first Shs335,000 becomes tax-free for everyone, all PAYE-paying employees will contribute slightly less tax overall.

"Taken together, these changes show an effort to prioritise social equity over pure revenue mobilisation which the public has often demanded from the government.

"The proposals provide targeted relief to lower- and middle-income earners at a time when many households are struggling," he observed.

However, he disclosed: "With these improvements, Uganda's PAYE regime remains uncompetitive in the region.

Uganda's PAYE tax rate of up to 40 percent remains the highest in the region, followed by Kenya at 35 percent, and Tanzania, Rwanda, and Burundi, which all tie at 30 percent.

In his analysis, he reveals that beyond the PAYE rates, the income level at which the top rate kicks in makes Uganda the odd man out.

For example, a 40 percent rate applies from Shs10 million in Uganda, whereas in Kenya, a 35 percent rate applies from about Shs22 million.

Regarding the common 30 percent regional rate, the threshold varies significantly: Uganda starts at Shs410,001, Rwanda Shs509,000, Burundi Shs520,000, Kenya at Shs923,000, and Tanzania Shs1,440,000.

"Ugandans start paying higher tax rates much earlier, meaning they end up with less disposable income than neighbours earning similar salaries," he wrote in his analysis.

Mr Lukanga's concern is anchored on the basis that a PAYE system that takes a large share of income early reduces household purchasing power and suppresses domestic consumption.

"With limited take-home pay, many Ugandans cannot afford basics such as quality private education or healthcare.

"This makes it important for the government to invest more in human capital development such as affordable quality public education and healthcare to ease the burden on citizens whose spending capacity is already constrained by the tax system," he wrote.

The Shs96 billion relief

In an interview with the executive director of Federation of Small and Medium-sized Enterprises (FSME), Mr Kakungulu Walugembe, it emerged that raising the PAYE threshold is not only good news for individuals who have received the relief but also a "relief" to small businesses.

He said: "Raising the tax threshold is a direct way to boost disposable income for low-income earners. Without that cushion, the economy suffers on the demand side because people simply don't have money to spend.

"To stimulate demand, the government has two main levers: give people money directly or offer tax relief.

"In this instance, tax relief is the chosen path. By doing so, the government has injected roughly Shs96 billion into the economy for spending."

He continued: "This is excellent news for small businesses; there is more spending power where there was none.

"When you're earning Shs235,000, you can't do much beyond surviving on the basics. With this increased threshold, there is finally some breathing room.

"You can afford that second shirt, an extra essential, which in turn helps local businesses grow."

When asked whether the relief is negligible, he said, "While the threshold could be higher, we must be realistic.

"Government cannot suddenly jump from Shs235,000 to Shs500,000. This must be done in phases to manage the risk. Remember, the government's foregoing revenue here, and it must figure out how to fill that gap."

Wholesome review

Uganda's current tax-free threshold of Shs235,000 per month has remained unchanged since 2012, despite significant increases in the cost of living.

According to the International Labour Organisation, failure to periodically adjust income tax thresholds leads to "bracket creep," where taxpayers are pushed into higher tax brackets without real increases in purchasing power – ability to spend.

"In Uganda's case, this has reduced the progressivity of the tax system and increased the burden on low-income earners," said Mr Julius Mukunda, policy and budget expert in an interview.