



Tax proposals on fuel, incomes and super rich

IMF and World Bank, in separate reports, have proposed adjustments to income tax, introduction of VAT on fuel, and removal of exemptions on certain food items. Government says the proposals will be reviewed before any decisions are made.

ECONOMY DOROTHY NAKAWEESI

The tax reform debate is unfolding at a decisive fiscal moment. For years, Uganda's tax-to-GDP ratio stagnated at around 11 percent before rising to about 13.9 percent.

While that marked improvement, it remains too low to finance ambitious development targets.

The World Bank says Uganda remains below the 15 percent tax-to-GDP threshold associated with durable structural transformation, while the IMF notes that fiscal pressures are intensifying, with public debt at 52.4 percent of GDP and interest payments consuming over a quarter of domestic revenues.

It is against this backdrop that both external partners and Uganda Revenue Authority (URA) are pushing for deeper reforms, combining policy changes with digital transformation, to push the ratio beyond 18 percent by the 2029/30 financial year.

Both the World Bank and the International

Monetary Fund have proposed that government should introduce tax reforms to help lift the country's low tax position.

Some of the proposals, as we shall see, are dust-raising, while others arguably should have been taken on as soon as yesterday.

However, the Ministry of Finance remains cautious, with Director for Economic Affairs Moses Kagwa saying they "will assess the proposals and determine whether to adopt them".

"We have received the proposals, and they will be subjected to the established government processes," he says.

Proposed 35 percent income tax

One of the most visible proposals is the introduction of a new 35 percent marginal income tax rate for higher earners.

Uganda's Personal Income Tax structure has not been revised in over a decade, resulting in bracket creep. Inflation has pushed lower-income earners into higher tax bands without real wage gains.

The proposed reform would increase the exemption threshold while introducing the 35 percent rate for upper-income earners.

The World Bank, in its September 2025 Uganda Economic Update, recommended that government should increase the exemption threshold to Shs4.02m (Shs335,000 per month) up from Shs2.82m (Shs235,000 per month) per annum, maintain existing tax rates for most taxpayers, and introduce a new marginal rate of 35 percent up from the current 30 percent for a chargeable income exceeding Shs5.82m per annum or Shs485,000 per

month. →

IMF, World Bank's tax proposals

The reforms, the Bank indicated, would see low-income earners remain unaffected, while only relatively higher income individuals would see an increased tax burden, generating Shs149b (0.1 percent of GDP) in additional annual tax revenue.

The World Bank also presented the impact scenario, noting that the impact on individuals' income would be modest for most, with increases ranging from Shs15,000 for those earning up to Shs1m per month to Shs444,917 for those earning at least Shs9.5m per month.

"Overall, this reform is designed to update Uganda's personal income tax structure to avoid bracket creep, improve equity and ensure a fairer distribution of the tax burden, while providing relief for low-income earners," the World Bank noted. But the risk would be that the proposals fall on the already narrow, compliant base if no effort is made to broaden the tax base.

Jane Nalunga, the Seatin executive director and tax justice advocate, questions the clarity and implications of the proposal.

She says that the 35 percent proposal targets pay-as-you-earn for high-income earners, majority of whom are compliant and paying multiple taxes.

Politically, the proposed new band is sensitive. It targets visible, organized, and urban taxpayers. Economically, it is progressive. Its feasibility, therefore, lies in careful sequencing and strong communication.

VAT on fuel

On the other hand, the IMF, in its February Post-Financing Assessment Discussion Staff Report, recommended applying VAT to fuel, potentially offset by adjustments in excise duties to mitigate inflationary pressures.

The fuel VAT proposal is economically grounded in base broadening. Uganda's VAT regime combines relatively high statutory rates with extensive exemptions, narrowing the base and creating leakages.

Fuel exemptions, while politically popular, reduce transparency and may disproportionately benefit higher-income consumers.

However, fuel pricing is highly visible. Even if technical adjustments neutralize the net price effect, public perception may frame VAT on fuel as a price increase.

Government currently charges Shs1,650 and Shs1,380 for every litre of petrol and diesel, respectively.

Nalunga strongly opposes the idea of raising fuel-related taxes, arguing that such increases would affect everyone, particularly low-income earners. She notes that distortions in fuel prices inevitably lead to higher transport and food costs, which could negate potential benefits from reduced food prices.

In the broader context of URA's digital strategy, including expanding digital tax stamps and strengthening VAT compliance, applying VAT to fuel would represent a structural shift toward neutrality and revenue stability. This remains one of the most politically delicate proposals in the package.

VAT exemptions on selected food items

Alongside fuel VAT, the IMF rec-



Government currently charges Shs1,650 and Shs1,380 on a litre of petrol and diesel, respectively. PHOTO / EDGAR R BATTE

ommends narrowing exemptions on certain raw foodstuffs. The rationale is that VAT exemptions create compliance complexity and erode the base. Broadening VAT improves neutrality and revenue predictability.

However, food expenditure represents a large share of household spending, especially among low-income families. Without targeted social protection measures, this reform could be perceived as regressive in the short term.

Nalunga notes that taxation has multiple objectives beyond revenue collection, including repricing and representation. She urges government to balance short-term revenue needs with long-term economic growth goals on this proposal.

In the context of the tax-to-GDP stagnation and reliance on a narrow base, VAT base broadening is structurally logical. But socially and politically, it requires careful cushioning mechanisms.

Eliminating 10-year tax holidays

Another major proposed reform involves eliminating or scaling back 10-year corporate income tax holidays.

The World Bank suggests that while firms benefiting from tax holidays created jobs, there is limited evidence of significant new capital expansion, with much of the investment appearing to be replacement rather than new greenfield investment.

Eliminating tax holidays could gener-

ate additional revenue while improving competitive neutrality. It would also address equity concerns, as current exemptions disproportionately benefit large firms while compliant mid-sized firms bear the burden.

This proposal aligns closely with URA's recognition that high revenue targets cannot rely solely on increasing pressure on already compliant taxpayers. Rationalizing exemptions broadens the base without raising rates.

However, this reform touches powerful investor interests and may trigger concerns about predictability and investment climate. Feasibility improves if implemented gradually with sunset clauses and a clear industrial policy targeting.

Taxing High-Net-Worth Individuals

Although not a new "tax" in the traditional sense, stronger enforcement targeting high-net-worth individuals is a core pillar of reform.

The World Bank recommends linking Tax Identification Numbers to land titles and bank accounts, establishing beneficial ownership registries, and integrating data across agencies.

URA's 2025-30 strategy, emphasizing Artificial Intelligence, Machine Learning, NIN-as-TIN integration, and predictive enforcement, directly complements this approach.

URA defines High Net Worth Individuals as those with shareholding in companies with an annual turnover of

Shs40b, net investable assets of Shs1b, land transactions of Shs1b, annual imports of Shs1b, or ownership of a motor vehicle worth or more than Shs500m.

Such individuals, according to URA data, had by 2023 grown by more than 900 percent from 144 to 1,359, yet collections remain modest, contracting to Shs130b from Shs168b in 2021.

Thus, the proposal to strengthen compliance is potentially transformative. It strengthens fairness, boosts tax morale, and may yield substantial revenue. But it requires strong political will, data integrity, and institutional capacity.

Expanding the tax base

While not a specific "tax," URA's proposal to use NINs as TINs and integrate data across agencies effectively broadens the tax base. The strategy includes expanding EFRIS, deepening digital tax stamps, leveraging Artificial Intelligence for predictive compliance, and integrating cross-agency data.

This approach aims to shift from reactive to predictive tax administration, which is critical because Uganda's revenue challenge is less about statutory rates and more about base narrowness and informality.

Bringing the informal sector into the tax net, especially high-potential sectors like oil and gas, tourism, agro-industry, ICT, and creative arts, is essential if Uganda is to move from 13.9 percent to 18 percent tax-to-GDP.

Nalunga agrees that widening the base is essential but insists that the reform should be used strategically, arguing that government should think outside the box on policy to promote industrialisation and import substitution.

Placing proposed taxes in context

The proposed measures reflect simultaneous strategies. The first is reform: adjusting personal tax rates, broadening VAT, ending tax holidays, and strengthening enforcement on high-net-worth individuals, while the second is administrative modernization: digital transformation, AI-driven compliance, NIN as an alternative dispute resolution mechanism, and oil-sector monitoring.

IMF and World Bank say that fiscal consolidation must rely on local revenue mobilisation rather than repeated spending cuts at 52.4 percent of GDP and investments absorbing more than 20 percent of domestic revenue, the IMF urges.

At the same time, Uganda is facing oil production in the 2025 fiscal year. Both institutions warn of oil placency, saying oil revenue should substitute structural tax if Uganda enters the oil era. Non-oil revenue base, fiscal institutions will persist. The program is incremental adjustment broadening the base and improving revenue. However, their combined weight is significant.

18 percent ratio

URA's ambition to push tax-to-GDP beyond 18 percent by the 2025 fiscal year signals a determined reversal of years of stagnation.

Success, however, depends on broadening the base rather than on compliant taxpayers, sequentially sensitive reforms including digital reforms, protection of trust, and strengthening the environment without undermining confidence.

Improve equity

'Overall, this reform [35 percent income tax] is designed to update Uganda's personal income tax structure to avoid bracket creep, improve equity ...'