



PAYE
TREVOR
LUKANGA

Proposed PAYE system

How Pay As You Earn changes will impact you

Every year, Uganda prepares its national budget through a process guided by the Public Finance and Management Act. The Act requires the Finance Minister to present the country's annual budget to Parliament by April 1, ahead of the next financial year. The Minister does this on behalf of the President.

This budget process is a major undertaking for government and all stakeholders because it forms the legal basis for how Uganda plans, raises, and spends public money. Since government cannot spend what it does not have, the budget also outlines how revenue will be collected with taxation being one of the main sources. This is why, each year, proposed tax changes are discussed at Cabinet level and later presented to Parliament in the form of Tax Amendment Bills. One of the most widely discussed proposals this time is the amendment of the Pay As You Earn (PAYE) income tax brackets. The proposal has triggered debate, with arguments on both sides. But one thing is clear: if you currently pay PAYE, you stand to take home slightly more pay if the changes are approved. It may not be a huge amount, but it is still some relief.

Although this seems surprising at a time when government urgently needs to increase revenue, there is a reasonable explanation — which we shall get to shortly.

Uganda's current PAYE system has three tax bands: 10% on monthly income Shs235,001 to Shs335,000, 20% on monthly income Shs335,001 to Shs410,000, 30% on monthly income above Shs410,000, increasing to 40% for those earning above Shs10 million per month. The tax-free threshold is Shs235,000 per month (Shs2,820,000 per year). Every shilling earned above this amount is taxed progressively until one reaches the top rate of 40 percent.

Proposed PAYE changes

The proposed PAYE changes introduce two major reforms:

1. The tax-free threshold would rise from Shs235,000 to Shs335,000.



A man holds some money. A PAYE system that takes a large share of income early reduces household purchasing power and suppresses domestic consumption. PHOTO/IBRAHIM KAVUMA

This means:

Anyone earning Shs335,000 or below will pay no PAYE.

Low-income earners retain more of their pay.

This boosts disposable income, increases consumption, and helps reduce income inequality and poverty.

2. A new tax band of 25 percent would apply to earnings between Shs410,000 and Shs485,000. This means people



Trevor Lukanga.

Tax band
'A new tax band of 25 percent would apply to earnings between Shs410,000 and Shs485,000.'

currently taxed at 30 percent in this range would instead pay tax at a rate of 25 percent, giving middle-income earners some relief. Since the first Shs335,000 becomes tax-free for everyone, all PAYE-paying employees will contribute slightly less tax overall.

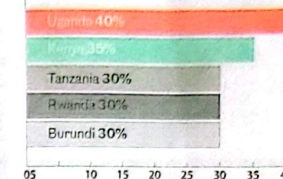
Taken together, these changes show an effort to prioritise social equity over pure revenue mobilisation which the public has often demanded from the government. The proposals provide targeted relief to lower- and middle-income earners at a time when many households are struggling.

This relief is timely because PAYE brackets were last revised in 2012, when the threshold increased from Shs130,000 to Shs235,000 per month. A lot has changed in the past 13 years — inflation, cost of living, and wage levels — making this update long overdue.

However, even with these improvements, Uganda's PAYE regime remains uncompetitive in the region.

Uganda's top PAYE marginal tax rate is 40%, compared to: Kenya: 35%, Tanzania: 30%, Rwanda: 30% and Burundi: 30%.

REGIONAL PAYE COMPARISON



Beyond the PAYE rates, it is also the income level at which the top rate kicks in. Uganda: 40% applies from Shs10 million. Kenya: 35% applies from about Shs22 million.

For the common 30% rate applied regionally:

Uganda: applies from Shs410,001

Rwanda: from Shs509,000

Burundi: from Shs520,000

Kenya: from Shs923,000

Tanzania: from Shs1,440,000

In short, Ugandans start paying higher tax rates much earlier, meaning they end up with less disposable income than neighbours earning similar salaries.

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 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. The proposed PAYE changes are positive, and necessary, especially for low- and middle-income earners. They correct long-standing thresholds and put a bit more money back into people's pockets.

However, Uganda will remain a high-PAYE jurisdiction relative to its neighbours.

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