

CSOs warn that Mobile money taxes will slow down digital growth in Uganda



CSBAG ED Julius Mukunda, Moderator Victor Tayebwa, FSME ED John Walugembe and Mobile Money Agent Janepher Tumwebaze during the press conference on 9th April 2026. Photo CSBAG, 2026

“Many customers now prefer cash or banking agents, especially for transactions above Shs500,000, because the bank charges are lower,” Said. Ms Tumwebaze a Mobile Money Agent.

Tumwebaze expressed these concerns at an April 9, 2026, joint press conference held by CSBAG and private sector players to discuss the decline in mobile money usage due to high taxation. They argued that the undermines financial inclusion, digital penetration, and economic growth and called for an urgent review of the tax regime governing digital financial services, warning that current policies are counterproductive.

“The current tax regime includes a 0.5% excise duty on mobile money withdrawals, a 15% excise duty on telecom service fees, and a 10% withholding tax on agent commissions”.

Julius Mukunda, ED of CSBAG stated

Julius Mukunda, ED of CSBAG, cited International Growth Center findings showing a 40% drop in mobile money usage in areas with banking access after the introduction of the 0.5% tax in 2018. Rural areas without banks experienced even more severe effects, with reduced transactions and increased reliance on cash.

An International Monetary Fund 2025 study similarly found a 40% decline in mobile money usage in Uganda, largely due to increased transaction costs. Mukunda also pointed out that Rwanda and Ghana have eliminated withdrawal taxes, improving accessibility to digital transactions. He stated that the current tax regime is discouraging the use of digital financial services, which previously helped integrate millions into the formal economy.

The CSOs and private sector argue that the 0.5% withdrawal tax is pushing users to cash-based alternatives to avoid high fees. For example, sending and withdrawing UGX 1 million via mobile money can cost over UGX 20,000 in fees and taxes, whereas physically transporting the same amount between Kampala suburbs costs approximately UGX 6,000. Mobile Money Agent Janepher Tumwebaze noted that customers will choose the cheaper option.

John Walugembe, head of the Federation of Small and Medium Enterprises, warned that high transaction costs discourage businesses from adopting digital payment systems, eroding already thin profit margins.

Reducing or eliminating the tax would encourage digital adoption, improve transaction visibility, and expand the country’s tax base. John Walugembe urged government

Additionally, CSBAG proposes removing the 10% import duty and applying a 0% VAT rate on entry-level smartphones valued at UGX 500,000 or less. Currently, smartphones face a combined tax burden of 28%, hindering access to digital platforms. This contributes to a low smartphone penetration rate of 33%, compared to the regional average of 50%. Walugembe argued that removing VAT and import duties on affordable smartphones would significantly boost internet usage and e-commerce, particularly among low-income earners.

Tumwebaze added that the introduction of taxes has reduced customer numbers and transaction volumes, with many preferring cash or banking agents for larger transactions due to lower charges, leading to job losses in the sector, which employs many women and youth.

The FY 2026/27 tax proposals aim to generate UGX 2.3 trillion in additional revenue. Mukunda noted that relying on consumption taxes disproportionately burdens low-income households, deepening inequality. Instead of raising taxes or maintaining the status quo, the CSOs and private sector urge Parliament and the Ministry of Finance to adopt two key reform measures. First, they propose harmonizing excise duty on all cash withdrawals across mobile money, ATMs, over-the-counter bank transactions, and agent banking at a reduced rate of 0.25%. This would address the current unequal treatment that incentivizes users to avoid mobile money.

Cash withdrawal values are projected to rise from UGX 31.96 billion in FY 2025/26 to UGX 63.39 billion by FY 2029/30, doubling the tax base. Simultaneously, the number of active mobile money users is projected to increase from 16.3 million to 24.2 million, and the agent network from 266,000 to 424,000. They conclude that in an economy where nearly 80% of activity is informal, increasing tax rates on a limited base will continue to undermine compliance, equity, and long-term revenue growth and advocate for growing the base rather than just the rate