

Immediate Tax Reforms Needed as UGX 2.3 trillion FY2026/27 tax proposal, to affect Ugandans



The FSME team, Executive Director, John Walugembe, and CSBAG Economist Pascal Muhangi, appearing before the Parliament's Finance Committee on Tuesday, April 14, 2026. SOURCE (CSBAG)

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Civil Society Organizations and the Private Sector have cautioned that the government's proposed **UGX2.3 trillion** tax package for the 2026/27 financial year will burden low-income households and small businesses, despite a planned increase in the tax-free income threshold.

In a submission to Parliament's Finance Committee, the Civil Society Budget Advocacy Group (CSBAG) and presented by the Executive Director of Federation of Small and Medium Enterprises (FSME), John Walugembe argued that the proposed revenue measures rely too heavily on raising indirect taxes on essential goods such as sugar, fuel, and cement, while preserving costly tax exemptions for a select few.

The government is targeting an additional **UGX2.3 trillion** through a combination of tax rate adjustments and compliance measures. While CSOs support the proposed increase of the monthly PAYE tax-free threshold from **UGX 235,000** to **UGX 335,000** – a long-overdue adjustment last made in 2012 – they warn that simultaneous tax hikes on basic commodities will erode any real income gains.

According to the CSO analysis, the proposed excise duty on sugar would jump from **UGX 100** to **UGX 300** per kilogram – a 200 percent increase. Fuel excise duty would rise by **UGX 200** per litre on both petrol and diesel. Cement excise duty would double from **UGX 500** to **UGX 1,000** per **50-kilogram** bag.

A 200 percent increase will hit the poor hardest. Small businesses like bakeries and food vendors will also see their costs rise, and they will pass those costs on to customers.

The CSOs are also challenging the proposed extension of the Bujagali tax holiday to June 2032. According to the 2023 Auditor General's report, the government has already lost an estimated **UGX 1.417 trillion** in tax waivers related to the power dam. Extending the holiday would cost an additional **UGX 115 billion** annually for the next 6 years.

On land transfers, CSOs have recommended a more moderate increase in stamp duty from **1.5%** to **2%**, rather than the proposed 3%, citing high levels of informality in the land market. A sharp increase without improvements in land administration, they argued, would drive transactions further underground.

The organizations also raised concerns about the introduction of stamp duty on motor vehicles UGX 200,000 and motorcycles UGX 50,000 at first registration and on transfer. While they support the measure in principle, they warned that weak enforcement systems could lead to under-registration and informal transfers.

On mobile money, CSOs and the Private Sector noted that Uganda currently applies a 0.5% excise duty only to mobile money withdrawals, while ATM, bank counter, and agent banking withdrawals face no such tax. This disparity, they said, penalizes the primary financial channel for 64% of Ugandan adults.

For a large withdrawal of UGX 2 million, mobile money fees are roughly three times higher than bank charges – about UGX 28,000 compared to UGX 9,000," John Walugembe said. "This pushes people back to cash, which is bad for transparency, bad for compliance, and bad for the digital economy.

The government recently withdrew a proposal to introduce a 0.25% tax on all cash withdrawals following public pushback. However, CSOs argue that the underlying unfairness remains and have urged lawmakers to revisit a harmonized rate applied equally across all channels.

They are also calling for the removal of import duty and zero-rating of VAT on entry-level smartphones valued at **UGX 500,000** or below. Currently, smartphones face a combined 28% tax burden (10 percent import duty and 18 percent VAT), placing Uganda behind regional peers such as Kenya, Tanzania, Rwanda, Nigeria, Ghana, and Zambia, which apply 0% import duty on smartphones.

Smartphones are essential for accessing banking, markets, and government services.

Taxing them like luxury goods keeps millions of Ugandans out of the digital economy and narrows the tax base instead of expanding it.

The joint submission concluded with a call for Parliament to shift the government's strategy away from raising tax rates on a narrow base and toward broadening the tax base, improving compliance, and rationalizing expensive exemptions.

Uganda's tax-to-GDP ratio has remained stuck at 13 to 14% for years – below the Sub-Saharan Africa average of 18.6% and far below the global average of 23%.

The problem is not that Ugandans are undertaxed. The problem is that too much economic activity happens outside the tax net. Raising rates on sugar and fuel will not fix that.

The Parliament's Committees are expected to continue reviewing the proposals before the budget is read in June. CSOs have urged lawmakers to adopt alternatives that protect household welfare while expanding the tax base sustainably.