

**PRIVATE SECTOR POSITION PAPER ON THE FY 2025/26 TAX BILLS  
AND ITS IMPACT TO THE PRIVATE SECTOR GROWTH AND  
COMPETITIVENESS**

**SUBMITTED TO THE**  
**PARLIAMENTARY COMMITTEE OF FINANCE PLANNING & ECONOMIC  
DEVELOPMENT- PARLIAMENT OF THE REPUBLIC OF UGANDA**  
PRIVATE SECTOR FOUNDATION UGANDA

**BY**  
*Business growth is our business*

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## 1.0 Introduction

Private Sector Foundation Uganda (PSFU) appreciates the Parliament of the Republic of Uganda through the Committee on Finance, Planning and Economic Development for supporting private sector development through continuous engagement and dialogue in the budget policy.

This paper is composed of proposals which the private sector believes, once adopted, and implemented, will make a meaningful contribution towards stimulating the economy to create more work opportunities for young people in Uganda.

## 2.0 General Tax Policy issues - Cross Cutting areas

The Tax Amendment Bills should be able to get the optimal tax revenue while at the same time promoting business formalization and growth. Below are some of the salient issues that the private sector has observed and seek your action.

- a. **Ensure a predictable (stable) tax regime** to enable proper planning and implementation of investment plans by enterprises. Any new tax measure should be thoroughly scrutinised to assess its impact on macro-economic stability and competitiveness of the sector in line with NDP IV and the policy of export promotion and import substitution. Note that on average, tax accounts for between 45% and 55% of the price of a final product. The Excise Duty regime is reviewed on an annual basis and yet investment is planned for a period of 3-5 years. **Our proposal is that the Government develops an Excise Duty regime for 2-3 years to facilitate proper planning.**
- b. **Digital Tax Stamps (DTS):** The FY 2018/19 budget introduced Digital Tax Stamps (DTS) to curb tax leakages in excise duty payments. While well-intentioned, implementation has imposed high costs on businesses. Companies implementing the measure pay between UGX 9 to 25 billion annually in purchasing stamps. Yet, according to a 2024 PSFU-PwC study, illicit trade still constitutes 29.4% of the tobacco market and 64.7% of the alcohol market, leading to annual URA revenue losses of over UGX 30 billion and UGX 1.6 trillion, respectively. DTS has also raised operational costs by 15.5%—approximately UGX 575 million for large-scale manufacturers—excluding installation costs. Uganda's DTS prices are 34.8% higher than regional ETS alternatives, straining competitiveness. To address these concerns, we propose four reforms:
  - i. **Revisit Legislation:** Amend laws to allow offsetting DTS costs against excise duty and zero-rate DTS for VAT. Provisions for process losses should also be clarified to ensure fair tax compliance.
  - ii. **Cost Reduction:** Reduce the high DTS implementation and stamp affixing costs. Introduce targeted incentives or discounts to enhance compliance and reduce production burdens.
  - iii. **Alternative Solution Providers:** Open up the DTS market to multiple service providers. Encouraging competition will reduce monopoly-driven costs and improve service delivery.
  - iv. **Review the System:** Align the DTS framework with international standards, such as the Illicit Trade Protocol, to better combat illicit trade, increase compliance, and improve revenue collection.

- c. **Strengthen the capacity of URA in tax administration through effective Private Public Partnerships.** The rate at which the private sector is growing cannot be matched with continued recruitment of staff. The established on line systems need information to support the efficiency which is still provided by people. Through this PPP, Government would partner with Private Sector Tax experts to conduct tax assessments and audits for the general business community while the URA concentrates on regulation. This could support closing tax leakages and generate information in areas such as real estate and other opportunities to widen the tax base and increase collections.
- d. **Accountability and service delivery;** Hon. Members, as the private sector, continues with the civic responsibility of paying taxes that facilitate government to ensure the delivery of social services, they are prevailing tax leakage areas which undermine the hard-earned efforts of the citizenry. Our appeal in this house is to strengthen the accountability function of Parliament over and beyond budget appropriation to delivery, monitoring, and evaluation of the delivered services. This has direct correlation with tax compliance amongst the population.



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### 3.0 Specific Proposals on the Tax bills

No.	Issue	Implications	Proposal	Justification
<b>A. Income Tax (amendment) Bill 2025</b>				
1.	<p><b>Income tax exemption for small businesses</b></p> <p>Clause 2(b) of the Bill introduces a three-year income tax exemption for a business established by a citizen after 01 July 2025 where the following conditions are met:</p> <ul style="list-style-type: none"> <li>• The business is registered with investment capital not exceeding UGX 500 million.</li> <li>• The citizen who established the business or their associate has not previously benefited from the exemption; and</li> <li>• The citizen files a tax return including business information return.</li> </ul>	<p>Given the perennial challenge of the low survival rate of start-ups in Uganda, this amendment is welcome. Qualifying small businesses will be exempt from income tax.</p> <p>However, the proposal locks out businesses registered on 1<sup>st</sup> July 2025 or earlier, yet such businesses face the same challenges and need support to survive.</p> <p>The duration of three years is too short to have the intended impact.</p> <p>The condition of being registered with an investment capital not exceeding UGX 500m is ambiguous. It is not clear as to whether the capital has to be registered and with which registration body and as such URA may deny relief for many qualifying businesses.</p> <p>Furthermore, the term “capital” is not defined and this leaves a lot of room for interpretation which may lead to denial of businesses that merit the exemption</p>	<p>The amendment is welcome with the adjustments below:</p> <p>Adjust the timing the business is established from “<b>after 01 July 2025</b>” to “<b>on or after 01 July 2025, or two years prior to 01 July 2025</b>”.</p> <p>Increase the exemption duration to five years from three years.</p> <p>Remove the word “registered” from the capital investment condition and rephrase it as “<b>business has invested capital not</b></p>	<p>The proposed changes will:</p> <ul style="list-style-type: none"> <li>• Give more life to the tax proposal such that the intended impact is achieved. Otherwise, the exemption may just be on paper without much impact.</li> <li>• Increase the number of small businesses that survive.</li> <li>• Provide clarity regarding the qualifying criteria, prevent abuse and tax disputes with URA.</li> <li>• Make compliance easier for small businesses</li> </ul>

No.	Issue	Implications	Proposal	Justification
		<p>or abuse by those that should not qualify.</p> <p>The requirement to file an income tax return including an information return adds a complexity burden to the compliance levels of small businesses and this may hinder them from accessing the relief.</p>	<p><b>exceeding five hundred million shillings”</b></p> <p>Define the term “capital” to provide clarity and prevent abuse or interpretation disputes with URA.</p> <p>Adjust the filing condition to <b>“files a tax return designed for small businesses”</b>. URA should be required to review and adjust return filing requirements for small businesses to ease compliance.</p>	
2.	<p><b>Extension of income tax exemption for Bujagali Hydro power project to 30<sup>th</sup> June 2032.</b></p> <p>Clause 2(a) of the Bill increases the expiry of the income tax exemption of Bujagali Hydro Power project from 30<sup>th</sup> June 2025 to 30<sup>th</sup> June 2032.</p>	<p>This exemption was first introduced on 1<sup>st</sup> July 2017 and has been extended since then to minimize the income tax impact on the tariff of the power generated by the Bujagali hydro power project.</p>	<p>The proposal is welcome.</p>	<p>Addresses the risk of increasing the tariff.</p>

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3.	<p><b>Clarification of tax exemption for chemical manufacturers.</b></p> <p>Clause 2(c) of the Bill seeks to amend section 21(1)(ae)(vii) of the ITA to insert immediately after the words “agricultural use” the word “or”</p>	<p>The Bill provides clarity in the existing exemption relating to chemical manufacturers. It clarifies that the exemption applies only to chemicals intended for agricultural and industrial use, thereby removing ambiguity.</p>	<p>This is a welcome amendment</p>	<p>Clarity in the law provides certainty of tax treatment, prevents abuse and minimizes tax disputes.</p>
4.	<p><b>Roll-over relief expansion</b></p> <p>Clause 3 of the Bill seeks to amend the definition of reorganisation under section 76(4)(a) of the ITA for purposes of roll-over relief to include transfer of assets from an individual to a company they own or control as one of the qualifying criteria.</p>	<p>The amendment will make it possible for individuals who own assets to transfer them to companies they own or control as part of restructuring the business without having to incur capital gains tax.</p> <p>However, the coherence and meaning of the amendment is affected by the punctuation adopted.</p> <p>Furthermore, the Bill does not address the existing ambiguity regarding branches of non-resident companies registered in Uganda when they transfer their assets to a subsidiary as part of a restructuring plan to achieve efficiency and access to financing. This curtails the ability of branches registered in Uganda to attract foreign investment,</p>	<p>This is a welcome amendment.</p> <p>However, there is need to make the following adjustments:</p> <p>Remove the coma immediately after the words “<b>another person</b>” and instead put the coma after the word “<b>individual</b>”.</p> <p>Consider amending section 76(3) by inserting immediately after the words “<b>group of resident companies</b>” the words “<b>or a branch of a non-resident</b>”</p>	<p>The proposal will align with the intention of roll-over relief to permit businesses to restructure for efficiency and strategic flexibility without being burdened with capital gains tax when there is no significant change in underlying ownership of the business.</p>

No.	Issue	Implications	Proposal	Justification
		expand and create more jobs in Uganda.	<b>company registered in Uganda”</b>	
5.	<p><b>15% withholding tax rate on income of a non-resident from digital services provided to related parties in Uganda.</b></p> <p>Clause 4 of the Bill classifies digital services provided by a non-resident to a related party in Uganda as being subject to 15% withholding tax.</p>	<p>Currently, all non-resident digital service providers are required to register with URA, file and pay 5% digital services tax.</p> <p>The Bill seeks to provide exception to this rule by charging 15% withholding tax on the income of a non-resident from digital services provided to related parties in Uganda.</p> <p>This is intended to increase revenue while reducing the compliance burden to a non-resident when they provide digital services to related parties in Uganda.</p>	This is a welcome amendment.	The amendment reduces compliance burden while protecting revenue.
6	<p><b>The International Atomic Energy Agency added to the list of entities exempt from income tax.</b></p> <p>Clause 5 of the Bill seeks to add International Atomic Energy Agency (IAEA) be added to the list of entities exempt from income tax.</p>	The IAEA is an international organisation that promotes the peaceful use of nuclear energy and aims to prevent its use for military purposes, including nuclear weapons.	This is a welcome amendment.	Uganda as a member of the UN is expected to recognize the exemption of partner institutions.
<b>KEY INCOME TAX ISSUES NOT ADDRESSED IN THE 2025 TAX BILLS</b>				
1	<p><b>50% capping of expenses incurred in the generation of rental income – this is undermining investment in the real estate sector.</b></p>	Real estate development requires significant capital investment which comes in the form of financing from financial institutions.	The Bill should be updated to adjust the	To ensure sustainability of the business and attraction of

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	<p>Section 22(2) of the Income Tax Act provides that where the expenditure and losses incurred by a person other than an individual or partnership in the production of rental income, exceeds <b>fifty percent</b> of the rental income, the allowable deduction shall be <b>fifty percent</b> of the rental income for that year of income.</p> <p>This issue has not been addressed in the 2025 tax bills.</p>	<p>As a result, the cost of financing the real estate sector have skyrocketed.</p> <p>However, the capping of rental expenses implies that 30% of the income is taxed before the developer pays the interest for financing the construction and operating expenses. This approach is not sustainable because the real estate developer would have to borrow further to meet their tax obligations.</p>	<p>capping percentage of the expenses incurred from <b>50% to 75%</b> under Section 22(2) of the Income Tax Act.</p>	<p>investment in the real estate sector.</p> <p>Moreover, the occupancy rates of several properties have dwindled, which further puts a strain on cash flows of the business.</p>
2.	<p><b>Capping of interest as an allowable expense.</b></p> <p>Section 25(3) of the Income Tax Act provides that the amount of deductible interest in respect of all debts owed by a taxpayer who is a member of a group, other than a financial institution, micro-finance deposit taking institution, tier 4 micro-finance institution or person carrying on insurance business, shall not exceed thirty percent of the tax earnings before interest, tax, depreciation and amortization.</p> <p>This issue has not been addressed in the 2025 tax bills.</p> <p>In East Africa, Uganda was the first country to introduce this tax policy in 2018 to replace thin capitalization rules of debt to equity as a method of restricting interest</p>	<p>This law is intended to curb repatriation of profits through using interest as a tool by multinationals to pay less income tax in Uganda. However, the design and implementation of this law widens its net to cover taxpayers who are not practicing harmful tax planning to Uganda's tax base, and this impedes growth of Uganda's affected industries. In particular, the coverage of this law includes Uganda-based group of companies that do not have nexus to tax jurisdictions outside Uganda to erode Uganda's tax base.</p>	<p>Consider amending Section 25 of the ITA by:</p> <ul style="list-style-type: none"> <li>i) Exempting Uganda-based group of companies from the limitation of interest deduction.</li> </ul>	<p>Uganda's application of the interest limitation rule is not consistent with international best practice and partner states in the East Africa region that have adopted the policy. For example, Kenya rectified the bottlenecks Uganda is currently facing e.g. Kenya's law provides that local loans are exempt from the restriction.</p> <p>If not addressed, the rule makes Uganda an unfavorable</p>

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	<p>deduction. Uganda only exempts financial institutions and insurance companies from this rule, leaving out key other sectors of the economy that are negatively affected.</p> <p>Kenya introduced a similar rule in 2021 but they have subsequently made adjustments to provide exceptions including not applying the restriction to locally sourced debt. Other EAC countries such as Tanzania and Rwanda have not yet adopted the new approach of interest restriction, they rely on the old method of debt-to-equity.</p>	<p>We also noted that debt sourced from commercial banks in Uganda or Uganda Development Bank is also subjected to the interest capping rule yet interest on such debt is included as income subject to corporation tax by banks at 30%. The interest capping in such cases increases the cost of borrowing from Uganda's financial institutions, yet the borrower is already facing high interest rates. Interest on loans borrowed from international financial institutions such as IFC, AfDB etc are also subjected to the capping rule which makes access to finance in Uganda costly and this hinders the ability of businesses in Uganda to expand to create more jobs and value addition.</p> <p>Furthermore, the interest capping provision assumes that businesses are generally in positive EBITDA for at least three years including from inception. However, this is not the case for investments that have a long gestation period, yet they depend heavily on debt. The current limitation of interest with respect to long-term</p>	<p>ii) Restrict the interest deduction limitation to related party debt.</p> <p>Exempt borrowings from commercial banks in Uganda, Uganda Development Bank as well as international financial institutions such as IFC, AfDB, etc. from the interest capping rule.</p>	<p>investment destination in the region.</p> <p>This proposal will lower the costs financing businesses in Uganda which will foster growth and attraction of investment.</p>

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		projects increases the tax cost of such projects, thus affecting the project's internal rate of return and investment attraction.		
3.	<p><b>Taxation of the income of medical consultants</b></p> <p>There is a shortage of medical specialists in Uganda, and this has necessitated these specialists to provide services to various hospitals at agreed times. Recently, there have been challenges in the health care sector where medical consultants are uncertain on the tax treatment applicable to them while URA was classifying them as employees of the hospitals which does not consider the costs these consultants incur. Hospitals were deducting 6% withholding tax and the consultants were expected to file returns and pay any additional tax after expenses to URA.</p> <p>This issue has not been addressed in the 2025 tax bills.</p>	<p>Taxing medical consultants as employees was found to be illegal based on court precedents. However, the alternative treatment of requiring the individual specialist to file returns after expenses creates challenges for URA to enforce compliance and collection. On the other hand, the specialists also struggle to keep books of accounts needed to file returns as this increases their costs. In other words, the cost of compliance is too high for them while the cost of enforcement is also high for URA.</p>	<p>Introduce a higher withholding tax of 15% on payments to the individual medical specialist consultant instead of 6% and make it a final tax.</p>	<p>This will lead to increase in revenue collection, reduction in compliance burden and also reduce the cost of enforcement by URA, thereby freeing the URA resources to deal with other revenue generating activities.</p>
4.	<p><b>Promotion of exports</b></p> <p>Section 21(z)(ii) of the Income Tax Act Cap. 338 exempts income from the exportation of finished consumer and capital goods for a period of 10 years for an existing investment effective 1<sup>st</sup> July 2007 where the person:</p> <ul style="list-style-type: none"> <li>exports at least 80% of the production of goods</li> </ul>	<p>The condition of exporting at least 80% of the goods produced is not favourable given that the threshold set is too high given that the local market has to also be served.</p> <p>This renders the exemption redundant or ineffective in encouraging the</p>	<p>The threshold to qualify for the exemption should be lowered from <b>80%</b> to <b>60%</b> to ensure that more manufacturers benefit from this exemption, thereby</p>	<p>This will act as an incentive to increase the level of finished consumer and capital goods produced for export.</p>

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	<ul style="list-style-type: none"> <li>has fulfilled such conditions as may be prescribed by regulations made by the Minister; and</li> <li>has been issued with a certificate of exemption prescribed by the Commissioner General.</li> </ul> <p>This issue has not been addressed in the 2025 tax bills.</p>	manufacturers to invest more for export while also serving the local market.	attracting more investment for expansion, creation of jobs and generation of foreign exchange earnings.	
5.	<p><b>Re-instatement of Initial allowance for the industrial sector other than oil and gas</b></p> <p>Sections 27A and 28 of the Income Tax Act were amended in 2023 to repeal the grant of initial allowance on eligible capital assets.</p> <p>This issue has not been addressed in the 2025 tax bills.</p>	This implies that businesses in industries that heavily invest capital in plant and machinery no longer benefit from this deduction which deters investments in areas outside of Kampala given that there is no additional incentive associated which impacts the development of these areas.	The Bill should be updated to include an amendment to reinstate the deduction for initial allowance for eligible property to enable businesses to gain relief on the investments made outside Kampala.	This will act as an incentive for investments in areas outside of Kampala and foster economic growth.
<b>B. Tax Procedures Code Bill 2025</b>				
1	<p><b>Use of the national ID number (NIN) or registration number for non-individuals for tax identification purposes</b></p> <p>Clause 2 of the Bill seeks to do away with URA issuing a Tax Identification Number (TIN) to a taxpayer and instead use the national identification number or registration number for entities as a unique identifier of a taxpayer.</p>	The amendment addresses difficulties faced by URA to have accurate and updated tax register and deploy data analytics capabilities to check levels of taxpayer compliance.	<p>This proposal is welcome.</p> <p>However, there is need to ensure that as URA is granted access to large volumes of sensitive taxpayer data, there</p>	The proposal will support URA's ability to track compliance with reliable data.

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	<p>For foreigners where Uganda has a tax treaty or agreement for exchange of information, the tax identification number issued by their tax authority will be relied upon by URA.</p> <p>The proposal also empowers URSB to establish and maintain a centralized register of all non-individual entities in Uganda.</p> <p>The Bill also mandates the Minister of Finance to make regulations for the effective implementation of this policy. The Minister will prescribe the effective date for this amendment.</p>		<p>are enhanced safeguards and protocols within URA to keep taxpayers' information confidential.</p> <p>In addition, given that many people do not have NINs, NIRA should streamline their NIN acquisition process to make it faster so that revenue collection and compliance is not impeded.</p>	
2	<p><b>Waiver of Interest and Penalties upon payment of principal tax</b></p> <p>Clause 3 of the Bill introduces section 47B for waiver of interest and penalties outstanding as at 30<sup>th</sup> June 2024 provided that the principal tax is paid by 30<sup>th</sup> June 2026</p>	<p>The proposal will help to cushion taxpayers who are struggling especially due to effects of Covid-19 and the high cost of doing business.</p> <p>However, the wording of the proposal does not fully cover interest and penalties that accrue on the principal tax outstanding as at 30<sup>th</sup> June 2024 i.e it leaves the interest/penalties that accrued on the same principal tax</p>	<p>Rewrite subsection (1) as follows:  <b>“Where a taxpayer has principal tax outstanding by 30th June, 2024, any interest and penalties due shall be waived where the taxpayer pays the</b></p>	<p>This will ensure that the objective of the waiver to extend relief to taxpayers that are struggling with high operating costs are supported to continue in business.</p> <p>Moreover, partly the accumulation of principal tax, interest and penalties on the tax ledgers is due to tax ledger reconciliation</p>

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		during the period 1 <sup>st</sup> July 2024 - 30 <sup>th</sup> June 2026 not waived even if the principal tax is fully paid by 30 <sup>th</sup> June 2026	<b>principal tax by 30th June, 2026.”</b>	challenges where the URA system has not been stable.
3	<p><b>Penalty for non-compliance with EFRIS requirements</b></p> <p>Clause 4 of the Bill revises the penalties for EFRIS non-compliance.</p> <p>Currently, the law imposes a penalty of UGX 8 million or the tax due whichever is higher for failure to use the mandated electronic fiscal device. This penalty is being revised to double the tax due.</p> <p>In addition, the law currently charges a penalty of the tax due or UGX 6 million whichever is higher for failure to issue an e-invoice/e-receipt or tampering with the electronic fiscal device. This penalty is being revised to double the tax due.</p>	<p>The amendment seeks to introduce proportionality in the penalty regime – aligning the penalty to the transaction value.</p> <p>For taxpayers dealing in high value transactions, the penalties for EFRIS non-compliance will be excessive and this may not be sustainable especially where the taxpayer did not comply intentionally. For example, if the VAT on a transaction where the taxpayer failed to comply is 200 million, the EFRIS penalty would be 400 million!</p>	<p>Given that taxpayers are still in the learning mode and EFRIS system is continuously being improved, there is need to adjust the penalty proposal to ensure that the penalties are not too excessive to cripple businesses. Amend the proposal to <b>“double the tax due or UGX 6 million, whichever is lower.”</b></p> <p>URA should also introduce incentives that reward taxpayers that comply with EFRIS.</p>	<p>For taxpayers dealing in high value transactions, any unintended non-compliance can lead to excessive penalties that can cripple the business. Providing a mechanism to deal with such instances will help to make the penalty regime foster compliance without crippling businesses.</p>
4	<b>Requirement to comply with tax exemption conditions.</b>	The Bill is intended to foster compliance with exemption conditions.	Introduce a clause in section 93C to provide	The is risk of URA revoking exemption on grounds of

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	<p>Clause 5 of the Bill introduces section 93C to explicitly require taxpayers that have been granted a tax exemption to ensure that they continuously maintain adherence to the conditions set to qualify for the exemption.</p> <p>Failure to comply with the conditions of exemption would lead to reversal of the exemption and payment of the tax due.</p> <p>The Bill also introduces personal liability for non-compliance.</p>	<p>The introduction of personal liability in case of non-compliance will mainly affect taxpayers enjoying VAT and excise duty on supplies received.</p> <p>However, the wording of the law has a risk of URA requiring taxpayers to pay tax on exempted items for failure to meet simple procedures which would make the exemption regime ineffective and fail to achieve the intended purpose.</p>	<p>that “<b>the exemption shall not be revoked on grounds of non-compliance with administrative procedures</b>”.</p> <p>In case a taxpayer fails to comply with administrative procedures such as return filing or provision of information to URA, there are already penalties in the law which deal with such a taxpayer.</p>	<p>administrative procedures which a taxpayer may inadvertently not comply with. Such actions would make the exemption regime enacted by Parliament ineffective.</p>
5	<p><b>Streamlining the gaming and betting systems with URA systems</b></p> <p>Clause 5 of the Bill introduces sections 93A and 93B to centralise gaming and betting payments through a gateway system regulated by Bank of Uganda and linked to URA systems. This would ensure easy access to information by URA and therefore ease tax collection.</p>	<p>This amendment will enhance the regulation of the gaming industry and foster compliance.</p>	<p>This is a welcome amendment.</p>	<p>The proposal will enhance compliance and monitoring of the gaming industry.</p>

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	As a form of deterrence measure, the proposed law puts forward a penalty for non-compliance by operators of the tax due or UGX 110,000,000, whichever is higher.			
<b>C. Value Added Tax (Amendment) Bill 2025</b>				
<b>1</b>	<p><b>Introduction of an anti-avoidance rule against fragmented imports</b></p> <p>Clause 2 of the Bill introduces an anti-fragmentation rule for imported goods under section 47. If a taxpayer imports goods under separate consignments, the value of these goods can be aggregated to qualify the importer to be registered for VAT.</p>	<p>The amendment has a risk of bloating the VAT register with taxpayers that are not eligible for VAT registration which will create compliance challenges and collapse of small businesses.</p>	<p>Reject the proposal.</p>	<p>Under the existing law, URA has the mandate to register any taxpayer that meets the VAT registration threshold. URA has access to data for all imports in the Asycuda system. URA can use its data analytics tools to register those that are not complying as per the existing law.</p> <p>The proposed amendment gives unnecessary additional powers to URA which can lead to registration of small businesses for VAT yet they do not qualify. This is very risk to the integrity of the VAT system given the high standards of record keeping and EFRIS requirements for VAT registered taxpayers. Small businesses may end up closing due to the high compliance costs and penalties.</p>

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2	<p><b>Changes to exempt supplies</b></p> <p>Clause 4 of the Bill amends exempt items under Schedule 3 of the VAT Act.</p> <p>Specifically, the following changes are proposed:</p> <ul style="list-style-type: none"> <li>a) Removing composite lanterns and replacing it with solar lanterns under paragraph 1(v) of the Third Schedule.</li> <li>b) Removing the supply of billets from the exemption list</li> <li>c) Adding the supply of biomass pellets on the exemption list</li> <li>d) Clarification regarding exempt items for the local textile industry There was a drafting error in the law, the amendment clarifies that artificial fibres for blending (polyester staple fibre, viscose rayon</li> </ul>	<ul style="list-style-type: none"> <li>a) This will provide clarity that the exemption is intended to cover solar lanterns.</li> <li>b) This is intended to encourage use of locally sourced billets in the local industry to enable local producers claim input tax incurred on their costs.</li> <li>c) This will make these supplies cheaper and encourage use of clean energy.</li> <li>d) The Bill corrects a drafting error where a comma was missed when listing some of the items exempt in the local textile industry supply chain.</li> </ul>	<ul style="list-style-type: none"> <li>a) This amendment is welcome. However, the law should include accessories for solar lanterns.</li> <li>b) This is a welcome amendment.</li> <li>c) This is a welcome amendment.</li> <li>d) This is a welcome amendment.</li> </ul>	<ul style="list-style-type: none"> <li>a) The amendment removes ambiguity in the law. Inclusion of solar related accessories will ensure that VAT is not charged on them, to be consistent with the purpose of the law (promoting use of clean energy).</li> <li>b) This will encourage local investment and production.</li> <li>c) This will encourage use of clean energy.</li> <li>d) Clarity is welcome.</li> </ul>

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	<p>fibre) yarn other than cotton yarn where also intended for exemption.</p>			
3	<p><b>Changes to Public International Agencies</b></p> <p>Clause 2 of the Bill seeks to make the following changes to the list of entities recognised as public international agencies:</p> <ul style="list-style-type: none"> <li>• Correcting the name of the International Atomic Energy Agency</li> <li>• Adding United Nations related agencies and specialized agencies to the list</li> </ul>	<p>These entities will be able to obtain a refund of VAT incurred on their purchases.</p>		<p>The proposal aligns with Uganda's international obligations regarding such entities.</p>
<b>VAT ISSUES NOT ADDRESSED IN THE 2025 TAX BILLS</b>				
1.	<p><b>Charging VAT on salaries of outsourced employees by Business Process Outsourcing companies.</b></p> <p>URA has recently come up with a new interpretation on the applicability of VAT on salaries paid by BPOs on behalf of their clients yet the BPOs account for PAYE and NSSF on the same payments and also account for VAT on the management fee they earn.</p> <p>This issue has not been addressed in the 2025 tax bills.</p>	<p>This new interpretation threatens the existence of the players in the sector. This creates a risk of losing over <b>250,000</b> jobs that have been created as well as the tax revenue currently contributed by the BPO players.</p>	<p>Introduce subsection 6 under section 21 of the VAT Act to provide that <b>“for avoidance of doubt, employment costs incurred on behalf of business process outsourcing clients are excluded.”</b></p>	<p>The government has identified the BPO sector as one of the key sectors to enhance economic growth and reduce youth unemployment in the country. With appropriate support and enabling environment, the BPO sector has potential to significantly increase the number of jobs created for the youth.</p> <p>The new VAT interpretation by URA will wipe out the little that has been achieved by the sector.</p>

No.	Issue	Implications	Proposal	Justification
2.	<p><b>Digital transformation in Uganda being hampered by reverse VAT on software licenses and related IT services</b></p> <p>The VAT law imposes reverse VAT as a cost to the recipient company in Uganda. This issue has not been addressed in the 2025 tax bills.</p>	<p>Uganda heavily relies on technology from other countries, several software licenses and related IT services are not available on the local market.</p> <p>Charging reverse VAT on such services curtails innovation and access to the latest technology by Ugandan businesses and start-ups.</p>	<p>Amend section 21(2) of the VAT Act by inserting “<b>or is an import of software and related services not available in Uganda</b>”.</p> <p>The Ministry of ICT may publish software and related IT services that are available in Uganda to guide implementation of this exception.</p>	<p>There is need to remove barriers to digital transformation by easing access to the latest software and related IT services.</p>
<b>D</b>	<b>Excise Duty Amendment Bill 2025</b>			
1	<p><b>Introduction of remission of duty paid on ex-factory goods</b></p> <p>The Bill seeks to introduce Section 13A which provides for the remission of excise duty on damaged, expired, or obsolete goods upon application by the taxpayer.</p> <p>The taxpayer will be required to provide:</p> <ul style="list-style-type: none"> <li>➤ proof that the excise duty on the goods in was paid,</li> <li>➤ goods delivery documentation,</li> </ul>	<p>Taxpayers will be able to claim excise duty incurred in instances of damaged, expired or obsolete goods.</p> <p>In case of damaged goods, the Bill requires a report issued by a “competent authority”. However, this term is not defined, and this will create implementation challenges and levels of bureaucracy that make it difficult to</p>	<p>Maintain the requirement for a report to be issued to URA with respect to damaged goods but remove “<b>the competent authority</b>” requirement.</p>	<p>The ambiguity in the law will make implementation difficult and derail the objectives of the amendment. In addition, having a report from a competent authority where the product is not regulated introduces too much bureaucracy which makes the process inefficient and costly, thereby putting barriers to access the facility.</p>

No.	Issue	Implications	Proposal	Justification				
	<ul style="list-style-type: none"> <li>➤ a report on the extent and cause of the damage issued by a competent authority where the goods were damaged, and</li> <li>➤ any other document as maybe deemed fit.</li> </ul> <p>Where the Commissioner is satisfied, the excise duty paid on these goods can be used to:</p> <ul style="list-style-type: none"> <li>➤ offset against excise duty payable, or</li> <li>➤ reduce any outstanding liability for other taxes not in dispute at the written option of the taxpayer.</li> </ul>	achieve the objectives of the amendment.						
2	<p><b>Change in the scope and threshold of excisable fruit juice and vegetable juice.</b></p> <p>The Bill clarifies on the scope and threshold of what is dutiable.</p> <table border="1"> <thead> <tr> <th>2024/2025</th> <th>2025/2026</th> </tr> </thead> <tbody> <tr> <td>Fruit juice and vegetable juice, except juice made from atleast 30% of pulp or atleast 30% juice by weight or volume of the total composition of the drink from fruits and vegetables locally grown.</td> <td>Fruit juice and vegetable juice, except juice made from at least 50% of pulp from fruit and vegetables locally grown in Partner State.</td> </tr> </tbody> </table>	2024/2025	2025/2026	Fruit juice and vegetable juice, except juice made from atleast 30% of pulp or atleast 30% juice by weight or volume of the total composition of the drink from fruits and vegetables locally grown.	Fruit juice and vegetable juice, except juice made from at least 50% of pulp from fruit and vegetables locally grown in Partner State.	The Bill clarifies the qualification criteria for exemption from duty and also encourages use of inputs from East Africa Community partner states.		This will promote use of local inputs by this sub-sector, promoting commercial agriculture, increasing farmer income and provide clarity in implementation of the law.
2024/2025	2025/2026							
Fruit juice and vegetable juice, except juice made from atleast 30% of pulp or atleast 30% juice by weight or volume of the total composition of the drink from fruits and vegetables locally grown.	Fruit juice and vegetable juice, except juice made from at least 50% of pulp from fruit and vegetables locally grown in Partner State.							

No.	Issue	Implications	Proposal	Justification											
3.	<p><b>Change in the scope of excisable plastics</b></p> <p>Currently, all plastic products and plastic granules attracts excise duty of the higher of 2.5% or USD 70 per ton.</p> <p>The Bill does not seek to change this rate, but rather the scoping of excisable plastics from ‘all plastic products and plastic granules’ to:</p> <ul style="list-style-type: none"> <li>• Sacks and bags of polymers of ethylene, and</li> <li>• Other plastics under HS codes 3923.21.00 (Of polymers of ethylene) and 3923.29.00 (Of other plastics) except vacuum packaging bags for food, juices, tea and coffee sacks, and bags for direct use in the manufacture of sanitary pads.</li> </ul>	<p>The Bill provides relief to plastics used in production.</p>	<p>The amendment is welcome.</p>												
	<p><b>Changes to excise duty rates for selected items</b></p> <table border="1"> <thead> <tr> <th>Excisable good</th> <th>Sub-category</th> <th>Current duty rate: 2024/2025</th> <th>Proposed duty rate: 2025/2026</th> </tr> </thead> <tbody> <tr> <td rowspan="2">Cigarettes</td> <td>Soft cup – locally manufactured</td> <td>UGX 55,000 per 1,000 sticks</td> <td>UGX 65,000 per 1,000 sticks</td> </tr> <tr> <td>Soft cup - imported</td> <td>UGX 75,000 per</td> <td>UGX 150,000</td> </tr> </tbody> </table>	Excisable good	Sub-category	Current duty rate: 2024/2025	Proposed duty rate: 2025/2026	Cigarettes	Soft cup – locally manufactured	UGX 55,000 per 1,000 sticks	UGX 65,000 per 1,000 sticks	Soft cup - imported	UGX 75,000 per	UGX 150,000	<p><b>Cigarettes:</b></p> <p>Over the past four years, excise duty from cigarettes has reduced from <b>UGX 73 billion</b> in FY 2020/21 to <b>UGX 41.7 billion</b> in FY 2023/24, largely because of the high prevalence of illicit tobacco. An increase in the excise duty rates will simply make illicit tobacco to be more lucrative thereby leading to the unintended consequence of revenue reduction.</p>	<p><b>Cigarettes:</b></p> <p>Do not increase the rates.</p>	<p><b>Cigarettes:</b></p> <p>The proposal has the risk of reducing revenue due to illicit trade prevalence which is already at about 25%</p> <p>Instead of contributing to revenue increase, the proposed increase of the tax by 34% will lead to an estimated reduction in revenue collection by <b>UGX 32 billion</b>.</p>
Excisable good	Sub-category	Current duty rate: 2024/2025	Proposed duty rate: 2025/2026												
Cigarettes	Soft cup – locally manufactured	UGX 55,000 per 1,000 sticks	UGX 65,000 per 1,000 sticks												
	Soft cup - imported	UGX 75,000 per	UGX 150,000												

No.	Issue				Implications	Proposal	Justification
			1,000 sticks	per 1,000 sticks	<p><b>Beer</b> Imposes 38% increase on beer from locally sourced inputs. This will reduce use of local raw materials which contradicts govt's policy of commercialization of agriculture and enhancing farmer income. Risk of reduction of volumes due to tax increase and this will affect revenue collection.</p> <p>An increase in beer rates is likely to push up illicit trade which is hazardous and would lead to a reduction of the intake of legitimate beer and hence reduced revenue collection.</p> <p><b>Fuel</b> For the FY 2024/25, excise duty on fuel was increased. A further increase for the FY 2025/26 will lead to an increase in transport and logistics costs which affect all the parts of the economy, thereby driving inflation upwards.</p>	<p><b>Beer</b> Do not increase the rates.</p> <p><b>Fuel</b> Drop the proposal.</p>	<p>The government should focus on reducing illicit trade as this will drive up revenue collection.</p> <p><b>Beer</b> Local beer brands that use locally grown sorghum and barley will be impacted by the tax increase, thereby affecting the livelihoods of over <b>25,000 smallholder farmers</b> across <b>114 constituencies</b> in Uganda. Smallholder farmers will lose approximately <b>UGX 45 billion</b> in income because of the tax increase.</p> <p>In addition, the impact on the local beer brands also means that breweries are discouraged from investing in R&amp;D which seeks to use local inputs, new technology and support to farmers to increase yields that improve farmer incomes.</p> <p>Currently, <b>65%</b> of alcohol consumption is unrecorded, illicit trade is very likely to go up which will reduce revenue collection and also lead to increased health care</p>
	Hinge Lid – locally manufactured	UGX 180,000 per 1,000 sticks	UGX 90,000 per 1,000 sticks				
	Hinge Lid - Imported	UGX 100,000 per 1,000 sticks	UGX 200,000 per 1,000 sticks				
Beer	Beer whose local raw material content, excluding water, is at least 75% by weight of its constituent	Higher of 30% or UGX 650 per litre	Higher of 30% or UGX 900 per litre				
	Beer produced from barley grown and	Higher of 30% or UGX 950 per litre	Repeal. [was redundant]				

No.	Issue				Implications	Proposal	Justification
		malted in Uganda					costs. In Tanzania, a similar risk was experienced due to increase of excise duty.
	Fuel	Motor spirit (gasoline)	UGX 1,550 per litre	Ugx 1,650 per litre			<b>Fuel</b> The risks of inflation to the economy are dire and more costly to manage compared to the revenue foregone by not increasing the tax. Studies by PSFU already indicate that 40% of the total product cost is as a result of logistics costs. Increasing tax on fuel will further drive costs high hence affecting consumption and revenue given the current disposable income of UGX 5,000.
		Gas oil (automotive, light, amber for high speed engines)	UGX 1,230 per litre	UGX 1,380 per litre			
<b>E</b>	<b>Stamp Duty (Amendment) Bill, 2025</b>						
	<b>Nil stamp duty on specified items</b> The amendment Bill proposes to charge nil stamp duty on the following: <ul style="list-style-type: none"> <li>• agreements or memorandum of an agreement.</li> <li>• a mortgage deed- of the total value</li> <li>• where a collateral or auxiliary or additional or substituted security is given by way of further assurance where the principal or primary security is duly stamped.</li> </ul>				The amendment addresses the public outcry regarding URA's interpretation of the stamp duty law.  However, the amendment does not address the interpretation challenges caused by URA with respect to agreements for the period prior to 1 <sup>st</sup>	Include in this amendment a provision which states that any stamp duty outstanding as at 30 <sup>th</sup> June 2025 on agreements is waived.	The proposal will provide relief to struggling businesses, ensure protection of jobs, and provide certainty going forward.

No.	Issue	Implications	Proposal	Justification
	<ul style="list-style-type: none"> <li>mortgage of a crop - including any instrument endorsement, note, attestation, certificate or entry not being protest of a bill of note, made or signed by a notary public in the execution of the duties of his office or by other person lawfully acting as notary public.</li> </ul>	July 2025 when this law will be effective.		
<b>F</b>	<b>The External Trade (Amendment) Bill, 2025</b>			
<b>1</b>	<p><b>Imposition of an Infrastructure levy and import declaration fee on imports for home use</b></p> <p>The Bill seeks to introduce an infrastructure levy and import declaration fee of 1.5% and 1% respectively of the customs value on goods imported into the country for home use.</p> <p>The following goods are exempted from infrastructure levy and import declaration fee;</p> <ul style="list-style-type: none"> <li>➤ goods and products prescribed as exempt from import duty (Fifth Schedule to the East African Community Customs Management Act, 2004).</li> <li>➤ plant and machinery under Chapters 84 and 85 of the common external tariff i.e., nuclear related machinery and electrical machinery, respectively.</li> <li>➤ goods under a special operating framework with the Government of Uganda as specified in the Common External Tariff.</li> </ul>	<p>The amendment will increase the cost of imported goods that are not covered by the exceptions.</p> <p>An infrastructure levy of 1.5% is currently being charged on imported goods. There is lack of clarity as to whether the levy of 1.5% being introduced is a substitution or an addition to the existing charge of 1.5%.</p> <p>In addition, the amendment which imposes the IF levy (1.5%) and IDF (1%) on the imported goods for home use; the term “home use” is not defined and this creates ambiguity and risks inputs/raw materials or goods that have duty remission that may not be in the exempt category to be charged these levies.</p>	<p>Define the term “home use” to provide clarity.</p> <p>In the exception list, clarify that goods that have zero import duty or qualify for duty remission are not subject to these levies.</p> <p>To boost the IT sector, include IT equipment such as servers, modems, cabling, UPS in the exception list.</p>	<p>There is need to provide clarity and certainty of the items subject to the levies or exempted.</p> <p>There is need to ensure that inputs used in production are not subject to the levies as this would affect the cost of production and the competitiveness of Ugandan businesses.</p> <p>Clarity is needed to confirm that the 1.5% infrastructure levy in the 2025 bill is not an addition to the same levy under the EACCMA. A reduced rate of 0.5% import declaration fee will align with other</p>

No.	Issue	Implications	Proposal	Justification
			Reduce the import declaration fee to 0.5% from 1% to reduce the burden on businesses and the cost of doing business.	countries in region such as Tanzania and make it more palatable to businesses to ease compliance.
2	<p><b>Imposition of an export levy on wheat bran, cotton cake and maize bran</b></p> <p>The Bill seeks to introduce a charge of an export levy of USD 10 per metric tonne on wheat bran, cotton cake and maize bran consigned out of Uganda.</p> <p>This levy is designed to be paid by the consigner when goods are consigned out of Uganda.</p>	<p>Whereas the spirit of the amendment is welcome, the scope and levy imposed are not sufficient to address the prevailing challenges relating to export of unprocessed grains.</p> <p>a) The levy in the bill is equivalent to charging USD 0.01 (UGX 36) per KG. This is too negligible to achieve the purpose of the amendment. For example, currently, the price of maize has skyrocketed to UGX 1,400 per KG largely due to export of unprocessed maize. A levy of UGX 36 per KG would have no effect in such a case.</p> <p>b) The amendment does not address the raw materials that are at the heart of the prevailing challenges that have led to scarcity of raw materials for manufacturing of</p>	<p>a) Adjust the levy to 25% of the export value.</p> <p>b) Include grains such as maize, sunflower seed, soya bean seed, and wheat on the list of items subject to the export levy.</p>	<p>Exporting of unprocessed grains not only starves local industries of key inputs for manufacturing, it also leads to loss of value in terms of lost jobs and incomes, discourages investment in local industries that add value, lost tax revenue from the closed factories, discouraging investment in extension services to farmers etc.</p> <p>Imposition of the export levy will generate revenue for government while protecting local industries.</p>

No.	Issue	Implications	Proposal	Justification
		cooking oil and animal feeds in Uganda. For example, a number of factories in Lira such as Mukwano Industries have been shut down due to scarcity of oil seeds (sunflower and soya beans) given that these raw materials have been exported.		This will minimize the export of these critical inputs and promote their use for local production.
<b>G</b>	<b>The Hides and Skins (Export Duty) (Amendment) Bill 2025</b>			
	<p><b>Repealing the exemption status of all hides and skins currently exempt from the levy</b></p> <p>Currently, the law provides for a list of hides and skins that are exempt from an export duty.</p> <p>The proposal within the Bill is to repeal this exemption. This would effectively imply that they are chargeable with an export duty of USD 80 per Kg.</p>	The amendment will minimize the export of hides and skins and promote their use for local production.	The proposal is welcome.	This will grow the already struggling leather sub-sector in Uganda and create more jobs locally.

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#### 4.0. Conclusion

The business community believes that if the above are considered, we shall be able to grow businesses both directly and through value chains, increase tax revenue, and provide more employment thus contributing to the country's vision of prosperity for all. We once again thank the Parliament of the Republic of Uganda specifically the Committee of Finance, Planning and Economic Development for continued support and consulting with the private sector on matters that affect us.

For God and My Country.



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