



MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

DOMESTIC REVENUE MOBILISATION STRATEGY

2025/26 – 2029/30

THEME:

Raise sufficient revenue to finance the Tenfold Growth Strategy through a predictable, fair and equitable tax system that supports welfare, encourages investments and facilitates savings.

May 2026



FOREWARD

Permanent Secretary/Secretary to the Treasury

The second **Domestic Revenue Mobilisation Strategy (DRMS 2)** is not merely a revenue plan. It is a governance compact that links sound public finance to Uganda's long-term development goals. It reflects a deep appreciation of the lessons from DRMS1, which are that sustainable long-term revenue growth derives not from frequent tax changes, but from strong institutions, administrative excellence and taxpayer trust.

The Strategy aligns with the Public Financial Management (PFM) Reform Strategy 2025–2030, the Fourth National Development Plan (NDP IV), and the Tenfold Growth Strategy. It emphasises realism, sequencing, and institutional accountability, outlining specific actions to expand the tax base, rationalise tax expenditure, enhance compliance, create an even playing field, and modernise tax administration through digital integration, automation, and human capital development.

Our projections indicate that over 75% of additional revenue gains in this Strategy will come from administrative measures, which is a testament to the importance of institutional performance, transparency, and efficiency. These reforms are supported by a monitoring and results framework that ensures every intervention is measurable, time-bound, and outcome-oriented.

Equally important, the DRMS 2 recognises that fiscal legitimacy is as vital as fiscal performance. We must rebuild the trust of citizens by improving service delivery and carrying out extensive taxpayer education. We must also eliminate unproductive tax expenditures through efficiency evaluations to ensure fairness, and to demonstrate accountability in the use of public resources. Only then can we sustain the social and political consensus necessary for long-term revenue reform.

I extend my gratitude to all the institutions and partners that contributed to the development of this Strategy. I call upon all implementing agencies, particularly the Uganda Revenue Authority, Local Governments, and sector Ministries, to uphold professionalism, collaboration, and innovation in delivering the DRMS2 commitments. Together, we will strengthen Uganda's fiscal sovereignty and ensure that domestic resources are the primary engine of our nation's transformation.



Ramathan Ggoobi

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List of Abbreviations and Acronyms

AEOI	Automatic Exchange of Information
AfCTA	African Continental Trade Agreement
AI	Artificial Intelligence
ATAF	African Tax Administrators Federation
ATMS	Agro-industrialisation, Tourism, Minerals and Oil and Gas and Science, and Technology and Information Technology
CG	Commissioner General
CRS	Common Reporting Standard
CSBAG	Civil Society Budget Advocacy Group
CSSCO	Civil Society Coalition on Oil and Gas
DPS	Data Processing System
DRMS	Domestic Resource Mobilisation Strategy
DTA	Double Taxation Agreement
EAC	East Africa Community
EDE	Excise Duty Exemptions
EFRIS	Electronic Fiscal Receipting and Invoicing Solution
EITI	Extractive Industries Transparency Initiative
ETR	Effective Tax Rates
FATCA	Foreign Account Tax Compliance Act
FAQs	Frequently Asked Questions
FCDO	Foreign and Commonwealth Development Office
FDI	Foreign Direct Investment
FUE	Federation of Uganda Employers
FY	Financial Year
HNWI	High-Net-Worth Individual
HRMAU	Human Resource Managers Association of Uganda
IFMS	Integrated Financial Management System
IMF	International Monetary Fund
IP	Intellectual Property
IRAS	Integrated Revenue Administration System
IT	Information Technology
KCCA	Kampala Capital City Authority
KPIs	Key Performance Indicators
LGFC	Local Government Finance Commission
LGs	Local Governments
MDAs	Ministries, Departments and Agencies
ML	Machine Learning
MNE	Multi-National Enterprise
MoFPED	Ministry of Finance, Planning and Economic Development
MoICT	Ministry of Information and Communication Technology
MPs	Members of Parliament
NCST	National Council for Science and Technology

NDP	National Development Plan
NITA -U	National Information Technology Authority- Uganda
NPA	National Planning Authority
NPG	New Planning Group or the format for the Magnetic Download file
NTR	Non-Tax Revenue
NWSC	National Water and Sewerage Corporation
ODA	Official Development Assistance
ODPP	Office of the Director of Public Prosecutions
OECD	Organisation of Economic Cooperation and Development
PBO	Parliamentary Budget Office
PIT	Personal Income Tax
POS-device	Point of Sale Device
PSFU	Private Sector Foundation Uganda
R&D	Research and Development
SEATINI	Southern and Eastern Africa Trade Information and Negotiations Institute
SMEs	Small and Medium Enterprises
TAT	Tax Appeal Tribunal
TE	Tax Expenditure(s)
TIN	Tax Identification Number(s)
UEDCL	Uganda Electricity Distribution Company
UIA	Uganda Investment Authority
ULGA	Uganda Local Governments Association
UMA	Uganda Manufacturers Association
URA	Uganda Revenue Authority
URA-TV	Uganda Revenue Authority-Television
URSB	Uganda Registration Services Bureau
USSD	Unstructured Supplementary Service Data
VAT	Value Added Tax
WHT	Withholding Tax

Executive Summary

1. Background

DRMS2 seeks to boost domestic revenue for Uganda's tenfold growth agenda.

Uganda's Domestic Revenue Mobilisation Strategy (DRMS2) sets out a coherent, sequenced, and fiscally realistic roadmap for raising sufficient domestic resources to finance the country's long-term development aspirations. Building on the foundation of the first DRMS (2019/20–2023/24), the second Strategy intensifies efforts to widen the tax base, digitise revenue administration, modernise tax policy, and deepen public trust in the tax system – all while directly supporting Government's ambition to grow the economy tenfold by 2040.

The DRMS2 advances a technology-driven tax system that reinforces the fiscal contract to sustainably fund national priorities.

DRMS2 aligns with the Fourth National Development Plan (NDP IV), the Public Financial Management (PFM) Reform Strategy 2025–2030 and the Tenfold Growth Strategy. It promotes a fair, efficient, transparent, and technology-driven tax system that strengthens the fiscal contract, ensuring sustainable financing of national priorities.

2. Context and Rationale

Despite rapid economic growth, Uganda's revenue mobilisation remains low due to policy and administrative challenges.

Uganda's economy has expanded nearly four-fold in the last 17 years, yet domestic revenue mobilisation remains below potential. The tax-to-GDP ratio stands at 13.9%, significantly below the African average of 16% and national targets projected in NDP IV. Persistent tax evasion and avoidance, informality, narrow tax bases in high-growth sectors, weak administration, and costly tax expenditures have constrained revenues.

Development aspirations require a stronger, but equitable revenue system.

At the same time, fiscal pressures continue to mount. Rising debt service costs – coupled with the need to enhance infrastructure and meet social spending demands – requires a more robust, predictable, and equitable revenue system. DRMS1 demonstrated that administrative reforms generate the largest and most stable revenue gains. During the DRMS1, over 75% of additional collections were attributable to compliance and digitalisation measures rather than tax policy changes. DRMS2 therefore strengthens these administrative levers while addressing long-standing tax policy gaps and modernising the legal framework.

DRMS 2 to intensifies efforts to widen the tax base, digitise revenue administration, modernise tax policy, and deepen public trust in the tax system

DRMS 2 promotes a fair, efficient, transparent, and technology-driven tax system

Tax-to-GDP ratio stands at 13.9%, significantly below the African average of 16%

During the DRMS1, over 75% of additional collections were attributable to compliance and digitalisation measures rather than tax policy changes.

3. Vision and Strategic Goal

The DRMS2 reinforces Uganda’s commitment to fiscal sovereignty, sustainable development, and a stronger fiscal-social contract.

The DRMS2 envisions a fair, efficient, and broad-based tax system that mobilises sufficient domestic resources to finance Uganda’s transition into a modern, inclusive, and self-sustaining economy. Its overarching objective is to increase the revenue-to-GDP ratio to over 18% by FY 2029/30 through equitable taxation, technology-driven administrative improvements, and growth-supportive reforms. This goal reflects the country’s commitment to fiscal sovereignty, sustainable development, and a renewed fiscal-social contract.

4. Strategic Objectives of the DRMS

Objective 1: Raising Sufficient and Sustainable Revenue

The DRMS2 adopts a comprehensive and integrated approach to expanding the tax base, strengthening compliance, and modernising tax administration. These measures are expected to generate the majority of the Strategy’s revenue gains, reflecting the emphasis on scalable, politically feasible, and institutionally grounded reforms. These reforms are:

- a) **Accelerating the formalisation of businesses** by linking tax systems with national registries, utility databases, licensing platforms, and local government information systems.
- b) **Transition towards lower, broad-based tax rates instead of sector-specific incentives.** Reviewing and standardising corporate taxation by replacing fragmented sector incentives with predictable, lower, and more neutral rates that limit lobbying and promote fairness.
- c) **Applying standard income and VAT regimes to large businesses across all sectors.** Subjecting all large enterprises, regardless of sector, to the standard tax system, eliminating ad hoc non-statutory concessions.
- d) **Introducing a simplified VAT regime for smaller businesses.**
- e) **Rationalisation of tax expenditures** by re-examining profit-based incentives, integrating performance conditions into cost-based incentives, and ensuring that tax incentives contribute demonstrably to national development goals, are well-targeted and meet their stated objectives.
- f) **Modernisation of the full tax lifecycle of registration, filing, payment, invoicing, and auditing** through a unified digital architecture built on EFRIS, ITAS/eTAX2, the National Data Lake, and mobile filing tools such as USSD.
- g) **Institutionalisation of risk-based compliance management** using third-party information from banks, insurers, telecoms, land registries, and customs data.

h) Strengthening of equity and neutrality by:

i. Undertaking a comprehensive diagnostic of the rental tax system by examining compliance gaps, property valuation weaknesses, and land registry linkages in determining whether rental income taxation should be fully integrated into CIT or redesigned as a simplified, progressive regime.

ii. Reforming the Presumptive Tax regime by integrating it into the national revenue assignment framework and amending tax laws to firmly anchor these reforms.

iii. Reforming excise duty by introducing a harmonised, predictable multi-year schedule, that is environmentally aligned, accounts for the negative externalities associated with harmful consumption, and is more broadly aligned with regional environmental and health frameworks.

iv. Modernising High-Net-Worth Individuals (HNWIs) taxation by clarifying who qualifies as a high-net-worth individual and establishing a structured engagement and compliance management framework for HNWIs.

Objective 2: Supporting the Tenfold Growth Strategy

The DRMS2 is intentionally aligned with the country's Tenfold Growth Strategy and provides the fiscal instruments required to unlock Uganda's highest-potential sectors. These targeted interventions ensure that fiscal policy becomes an enabler, not a constraint, of Uganda's long-term structural transformation.

a) Agro-industrialisation: Clarifying the VAT and income tax treatment of commercial farming, integrating agro-processing zones into industrial parks, and strengthening incentives for value addition.

b) Tourism: Establishing a Tourist VAT Refund Scheme, rationalising the multiplicity of hotel fees, and improving tax clarity for service providers.

c) Minerals and Petroleum: Developing a coherent fiscal regime combining royalties and business income tax, operationalising ring-fencing rules, introducing a windfall tax, and reinforcing transparency under the EITI framework.

d) Science, Technology, and Innovation: Introducing R&D incentives, strengthening IP-related tax rules, and creating a conducive regime for frontier technologies and knowledge-intensive industries.

Objective 3: Enhancing Public Trust, Fairness, and Transparency

Recognising that voluntary compliance is built on trust, the DRMS2 places strong emphasis on rebuilding the fiscal-social contract. It aims to:

i. Reform VAT exemptions by balancing equity with efficiency while safeguarding the VAT base. Ensure that any exemptions are well-targeted, enabling the VAT system to benefit low-income households.

ii. Review PAYE thresholds to account for inflation, protect low-income earners, and ensure that taxation remains aligned with ability to pay.

iii. Reform Withholding Tax (WHT) administration to strengthen vertical equity in the tax system and minimise cash flow constraints for low-risk taxpayers.

iv. Simplify taxpayer interactions by reducing compliance burdens for SMEs through mobile phone filing, addressing disproportionality in penalties, and improving taxpayer understanding and experience of EFRIS.

v. Publicly communicating the intent and impact of tax reforms. Transparency, political accountability, and public engagement will not only improve trust in the tax system and encourage voluntary compliance, but will also strengthen the social contract between citizens and the State.

vi. Fasten dispute resolution by digitising TAT, training staff, expanding Alternative Dispute Resolution (ADR), and creating SME fast-track channels.

The DRMS interventions can also be visualised by policy and administrative reforms dimension, as shown on Table 1.

Table 1: Overview of the DRMS2 Reforms

Policy Reforms	Administrative Reforms
1. Streamline tax rates for equity and sufficiency by conducting a comprehensive review of the current tax structure to identify overlaps and inefficiencies: - Formalise partially informal businesses through integrated systems. - Reform rental income taxation. - Reform presumptive tax regime. - Rationalise tax expenditures. - Reform excise duty schedules. - Review VAT exemptions. - Review the use of stays of application and duty remissions.	1) Strengthen voluntary compliance and improve taxpayer services: - Roll out mobile filing tools. - Digitise services via ITAS/e-Tax2. - Implement real-time data-driven compliance. - Strengthen taxpayer education. - Improve dispute resolution processes.

Policy Reforms	Administrative Reforms
2. Support the Tenfold Growth Strategy: - Clarify commercial farming and support agro-processing. - Introduce a Tourist VAT Refund Scheme. - Develop a modern minerals fiscal regime. - Provide targeted R&D and IP incentives.	2) Strengthen compliance risk management and enforcement: - Implement integrated risk frameworks. - Enhance illicit financial flows enforcement. - Strengthen AEOI and treaty abuse prevention. - Centralise arrears management.
3. Foster fairness and progressivity in the tax system: - Adjust PAYE thresholds. - Review regressivity of VAT exemptions. - Introduce proportional penalties and simplified compliance. - Enhance transparency on tax incentives.	3) Modernise URA operations, human capital, and governance: - Deploy a modern business operating model. - Expand the URA Tax Academy and specialised units. - Strengthen URA governance and cybersecurity. - Integrate national revenue data ecosystems.

5. Revenue Outlook

Under the DRMS2, revenue is projected to rise from UGX 37.9 trillion in FY 2025/26 to UGX 71.7 trillion in FY 2029/30. Administrative measures are expected to contribute approximately 75% of this growth, while tax policy reforms provide the remaining 25%. The tax-to-GDP ratio is projected to increase from 13.98% to 17.03%, and the overall revenue-to-GDP ratio is expected to reach 18.25% by FY 2029/30. These improvements are underpinned by digitalisation, stronger compliance, rationalised incentives, and targeted sector-supporting interventions.

Table 2 shows values based on the DRMS2's medium-term gap (4.4% of GDP), and the distribution across reforms. Uganda's strategy is administration-heavy, consistent with the structure of the economy. Policy measures contribute the remaining 25% of expected yield.



Table 2: Revenue Impact over DRMS Horizon (% of GDP)

DRMS2 Reform Proposal	Revenue Impact (% of GDP)
1. Tax Policy Reforms	1.10
i. VAT Reforms & VAT Expenditure Rationalisation	0.35
ii. Rental Income Tax Harmonisation	0.15
iii. Presumptive Tax Reform	0.12
iv. Excise Duty Reform (Environmental taxes, multi-year, EAC aligned)	0.18
v. Withholding Tax Reforms	0.20
vi. Digital Services & Digital Commerce Tax Adjustments	0.10
2. Administrative Reforms	3.30
i. EFRIS Expansion & Digital Invoicing	1.00
ii. Integration of Registries & Utilities	0.75
iii. Formalisation of Informal Businesses	0.40
iv. Third-party Data Integration	0.35
v. Compliance Risk Management	0.55
vi. Customs Enforcement & IFF Controls	0.25

6. Implementation and Monitoring

A phased and politically calibrated implementation plan underpins DRMS2. Early reforms prioritise digitisation, registry integration, and compliance simplification; medium-term reforms target formalisation and sector incentives; and long-term reforms address complex areas such as extractives, digital economy taxation, and regional tax harmonisation.

A strengthened Monitoring and Results Framework will track progress against measurable indicators. The high-level indicators include the revenue-to-GDP ratio, formalisation targets, contribution of high-potential sectors, taxpayer satisfaction, and compliance indices. Cross-government coordination mechanisms anchored in MoFPED, URA, LGs, NITA-U, TAT, and development partners will support implementation discipline and accountability.

7. Conclusion

The DRMS2 marks a decisive shift towards a more modern, equitable, and self-reliant fiscal system. It provides a realistic, technically grounded, and politically aware roadmap that will enable Uganda to finance its development priorities, strengthen fiscal sovereignty, and build a trusted, service-oriented tax system. By combining administrative excellence, targeted policy reforms, and deliberate efforts to rebuild public trust, the DRMS2 places Uganda on a sound trajectory towards inclusive growth and sustainable domestic revenue mobilisation.

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1. Introduction

1.1 Background

The DRMS2 seeks to mobilise revenue fairly and sustainably – consistent with the key tenets of the NDP IV. The DRMS2 seeks to mobilise revenue equitably and sustainably to boost household and firm productivity, strengthen human capital development, attract private investment, expand infrastructure, and reinforce good governance and security.

The Strategy targets high impact sectors. The DRMS2 outlines a tax policy and administration ecosystem that supports Vision 2040 and the Tenfold Growth Strategy. It focuses on unlocking high-impact growth sectors – agriculture, tourism, minerals, ICT, and finance – with the aim of propelling Uganda from a USD 50 billion to a USD 500 billion economy by 2040.

The DRMS2 builds on the successes of the DRMS1 and drops unfeasible proposals from the first strategy. DRMS2 improves realism and effectiveness by dropping unfeasible DRMS1 proposals, clarifying institutional roles, setting timelines, and focusing on reforms that can be implemented and monitored.

The DRMS2 builds on what worked in the DRMS1, with stronger institutions, coordination and realistic reforms. While the DRMS1 achieved strong administrative gains such as automation, the Tax Academy, better services and data-driven taxpayer services, many policy reforms stalled due to COVID-19 and institutional or political constraints. The DRMS2 builds on what worked, with clearer implementation structures, stronger alignment across URA, MoFPED, TAT, LGs, and development partners, and prioritised, measurable reforms. This makes the DRMS2 more practical, evidence-based, and aligned with Uganda's fiscal and institutional realities.

The PFM Strategy (2025–2030) is aligned with the DRMS2 with respect to promoting inclusive economic growth. The DRMS2 is consistent with the PFM Strategy (2025–2030), which is advancing a future-ready DRM agenda centred on widening the tax base, modernising administration, and strengthening governance to support inclusive economic growth.

The Strategy strengthens revenue sovereignty in the face of declining donor support and evolving trade arrangements: The DRMS2 responds to shifting global and regional dynamics, including declining donor support, evolving aid conditions, and trade frameworks such as AfCFTA and the EAC Customs Union. The DRMS2 aims to safeguard revenue sovereignty through smarter tax design, stronger enforcement, and the creation of a broader, fairer tax base while leveraging trade integration for competitiveness and investment.

The DRMS2 enhances revenue policy predictability, supporting taxpayer investment decisions while improving government decision-making. By enhancing predictability and coherence in revenue policymaking, DRMS2 benefits both taxpayers and Government. Taxpayers gain clarity for investment planning, while Government improves multi-year revenue forecasting, prioritisation of reforms, stakeholder consultation, and coordination across URA, MoFPED, LGs, TAT, civil society, and development partners.

Empowering Local Governments calls for enhancing local fiscal autonomy.

Strengthening Local Governments as the frontline for business registration and tax administration will drive formalisation, expand the tax base, and enhance VAT performance. However, sustainable local revenue mobilisation – especially in mining and urban real estate – requires restoring local fiscal autonomy, sequencing reforms, clarifying mandates, and rebuilding the fiscal-social contract through visible service delivery and stronger local accountability.

The DRMS2 must balance interests through aligned tax powers, fair formalisation, and supported reforms. The DRMS2 must manage vested interests and overlapping mandates by aligning local and central tax powers, ensuring formalisation delivers real benefits, strengthening the fiscal-social contract through visible service delivery, building reform coalitions across institutions, and sequencing high-potential sector reforms with transparency, monitoring, and strong political backing.

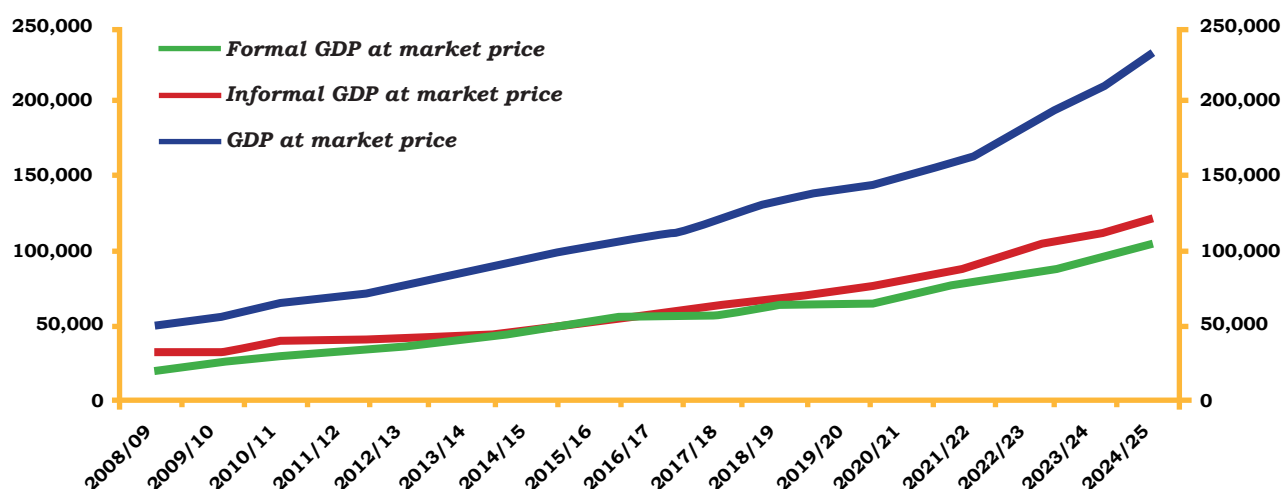
1.2 Context

1.2.1 Economic Context

Uganda's economy has expanded significantly in recent years, creating a larger base for higher domestic revenue. Between 2017/18 and 2024/25, real economic growth averaged 5.2% in spite of the economic blow delivered by the Covid-19 pandemic in the middle of this period. This marks a strong performance by global standards.

However, formal GDP remains less than half of total GDP, signalling the continued dominance of informality and limiting revenue potential. Figure 1 shows that the economy has experienced a near four-fold increase in 16 years from UGX 49,000 billion (2008/09) to UGX 228,000 billion (2024/25). However, during this period, informal GDP grew from UGX 31,000 billion to UGX 125,000 billion, indicating a steady decline of monetised, easier-to-tax activity.

Figure 1: The Structure of Uganda's Economy



Source: UBOS 2024/25

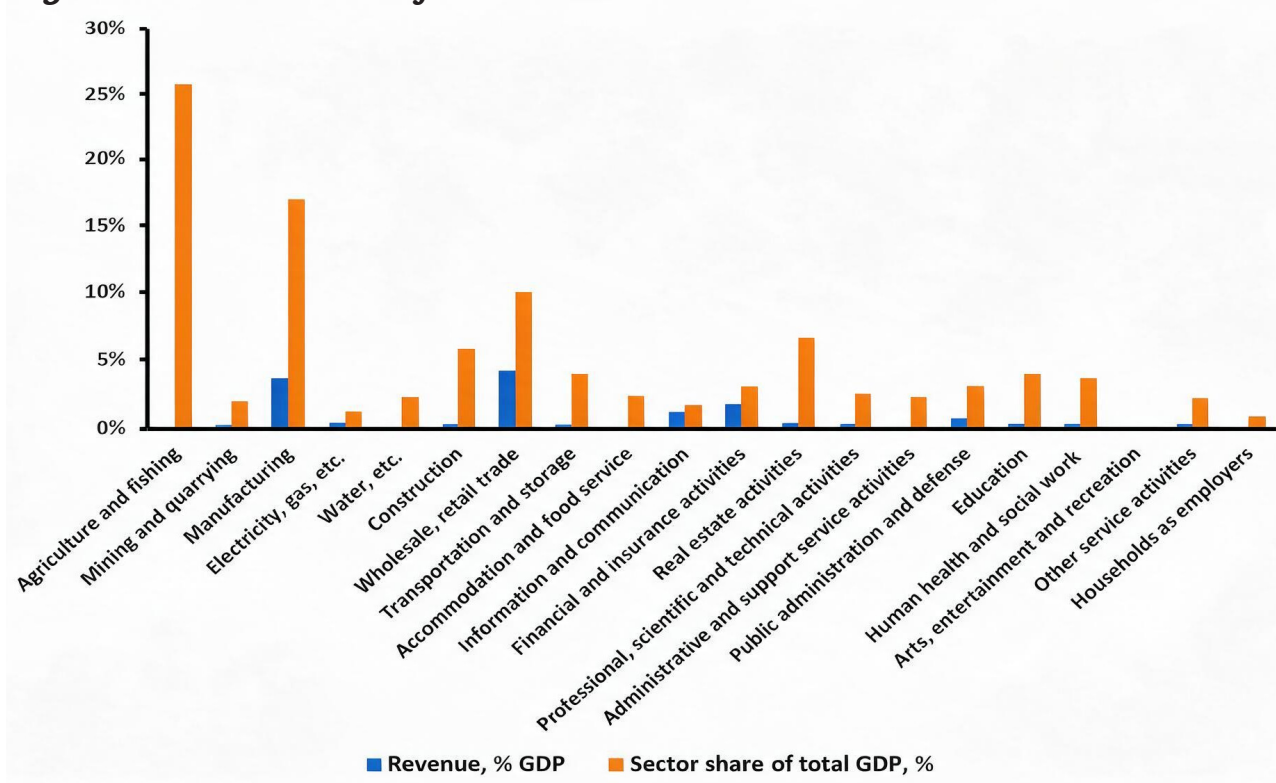
A significant number of economic sectors contribute substantially to GDP but make a relatively small contribution to revenue. Figure 2 shows that the agricultural sector accounts for over 25% to GDP but its revenue contribution is typically under 1% of GDP. The prevalence of informality in the agricultural sector can be explained by the sector being cash-based and composed of micro and small producers, who are geographically dispersed and outside formal registration systems (no VAT, no CIT, limited PAYE).

Meanwhile, the wholesale and retail trade sector contributes more than 16% of GDP but less than 6% of revenues. Likewise, transport accounts for 6% of GDP but only around 0.3% of revenue collections. Unlike in agriculture, informality in the trade, transport and hospitality sectors is the result of administrative challenges. This calls for urgent reform because these sectors drive the urban economy, meaning that widespread informality in these industries will heavily influence the tax-to-GDP trajectory.

On the other hand, the services and manufacturing sectors contribute moderate GDP shares. However, they contribute disproportionately high revenue shares. For example, information and communication contributes only 2% of GDP but contributes 1% of GDP in tax revenue. Financial services contribute only 3% of GDP but pays 2% of GDP in taxes. These sectors are the formal core of Uganda's tax base with many registered firms, significantly digitised operations, automated payroll systems, VAT-compliant supply chains and a large withholding system. These sectors will continue to anchor revenue growth, but the strategy cannot rely on them alone. **Manufacturing sits in the middle of the informality continuum with a moderate revenue and GDP share.** Large manufacturers are formal and pay VAT, excise, CIT, and PAYE. Small-scale manufacturers (bakeries, furniture, metal workshops) remain informal.

The sector output and tax mismatch partially explains Uganda's low tax-to-GDP ratio of between 13 and 14%. The mismatch also sheds light on why GDP growth does not automatically translate into revenue growth. Moreover, it also helps us to understand that revenue is concentrated in a few formal sectors as large parts of the economy "escape" the tax net. Particularly, there is more informality than formality, and sectors such as agriculture, domestic trade, transport, hospitality and construction (small contractors) are highly informal. On the other hand, there is low informality in information and communication, financial services, utilities, formal manufacturing and petroleum retailing (Figure 2).

Figure 2: Contribution of Each Sector to Tax Revenue and GDP

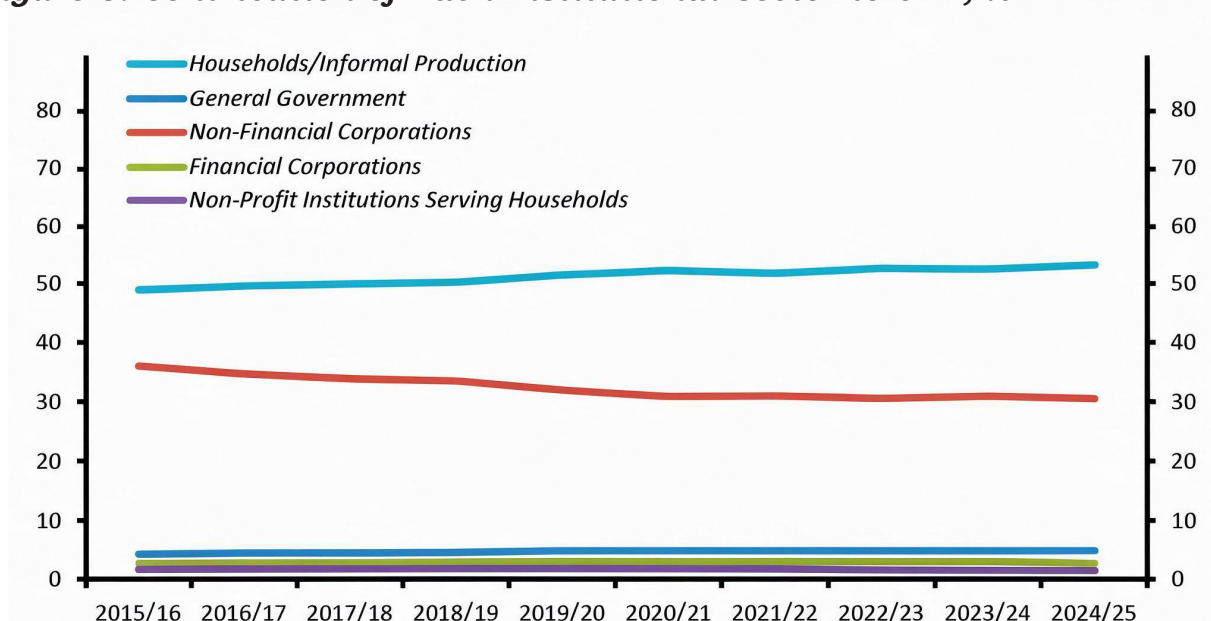


Source: UBOS 2024/25 and URA

The largest portion of GDP sits where direct income taxation is least effective.

Figure 3 suggests that half of Uganda's GDP is generated by households and informal producers. This economic activity tends to be outside of the corporate tax net, outside of formal payroll systems (and therefore PAYE), and largely invisible to direct income taxation. At the same time, the share of non-financial corporations – which are the backbone of CIT and PAYE – has declined from 36% to around 31% of GDP. Although the financial sector makes a disproportionately large contribution to tax collections, it remains small at 2–3% of GDP.

Figure 3: Contribution of Each Institutional Sector to GDP, %

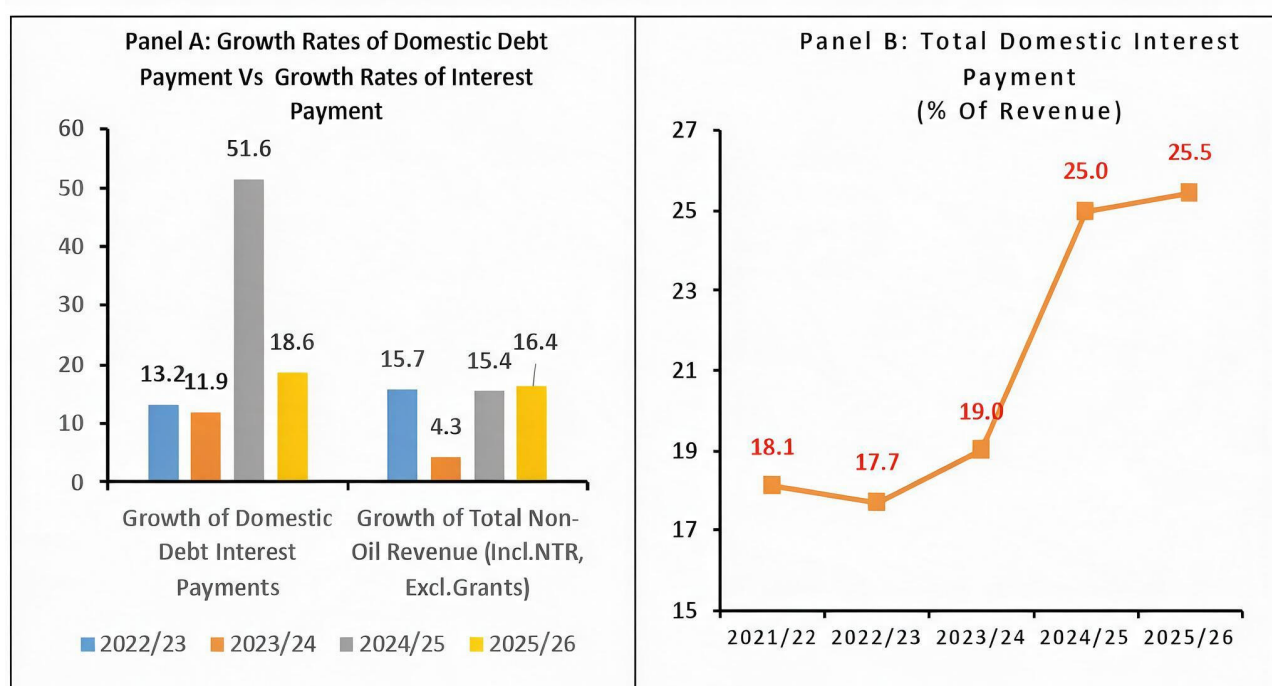


Source: UBOS 2024/25

However, Uganda continues to face significant spending pressures that far outpace its revenue output, creating persistent fiscal strain and limiting the Government's ability to finance priority development programmes. On the expenditure side, debt servicing costs are rising while spending obligations on security, public sector wages, the maintenance of infrastructure, and essential social services – including health, education, and social protection – are expanding faster than domestic revenue collections.

The consequence of a low tax-GDP ratio is a fiscal imbalance where interest payments are growing faster than domestic revenue. In FY 2024/25 nominal interest payment grew by more than triple (51.6%) the rate of nominal revenue growth (15.4%). This suggests that more of the budget goes to debt servicing rather than education, health, agriculture, security or Local Governments. The low growth in non-oil revenue, especially in FY 2023/24, signals weak tax buoyancy, revenue underperformance in some periods, and reliance on borrowing. (See Figure 4, Panel A.)

Figure 4: Growth Rate of Domestic Debt Interest Payments vs. Growth Rate of Total Non-Oil Revenue



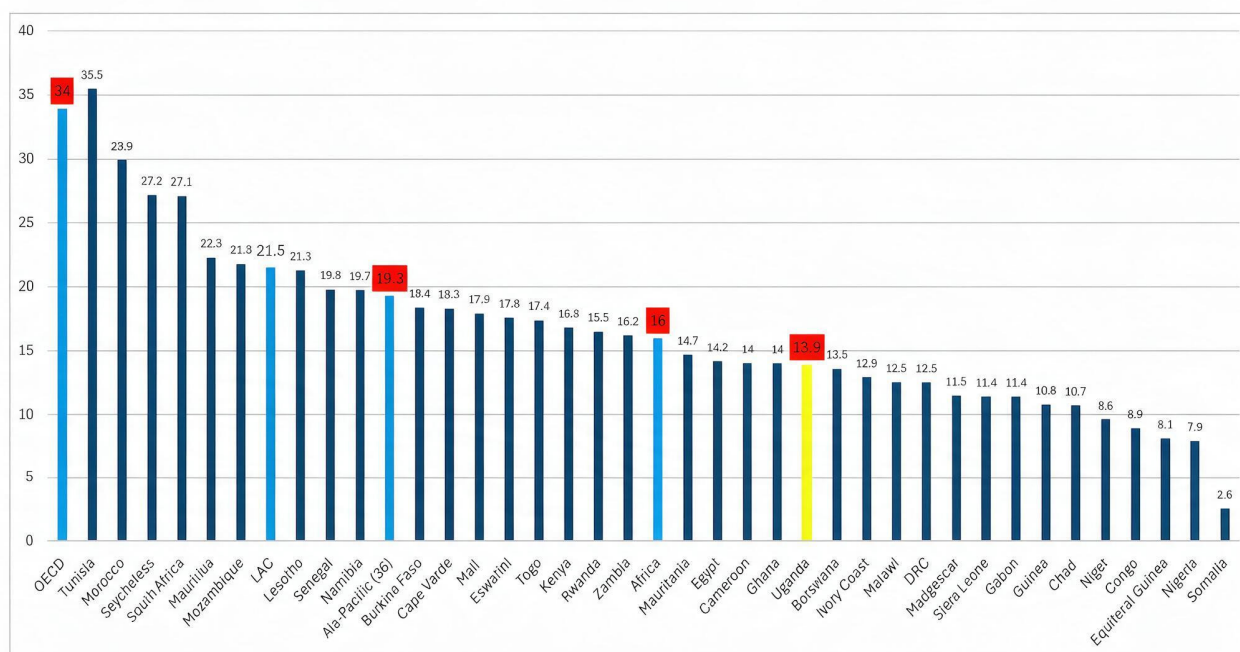
Source: MoFPED and PBO computation.

This trajectory highlights a major fiscal sustainability challenge. Figure 4, Panel B suggests that interest payments consume up to 25% of revenue. This leaves less room for capital investment, fewer resources for priority sectors, and thin buffers for shocks. This calls for a stronger DRMS2, which aims to widen the tax base, improve compliance, eliminate low-yield tax exemptions, strengthen high-yield sectors, and reform local government revenue systems.

2. Rationale for the DRMS2

The DRMS2 seeks to address the challenge of Uganda's low tax yield, relative not only to the size of its economy but also to regional and global comparators. In 2024, Uganda's tax-to-GDP ratio stood at 13.9%, which is not only misaligned with the scale of its economy but also 3.5 percentage points below the 2024 average of 16.0% across 36 African countries (Figure 5).

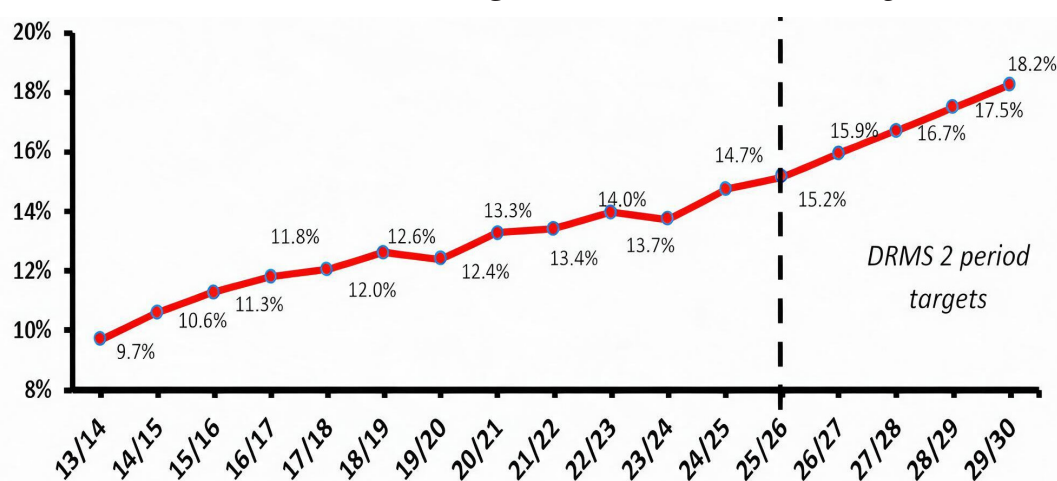
Figure 5: Tax-to-GDP Ratio of Select African Countries



Source: Author's calculation based on data from ATAF.

Estimates from the NDP IV suggest that the revenue yield should be close to 18.3% of GDP by 2030 (Figure 6). This requires increasing tax revenues by 4.4% of GDP in the next five years through a comprehensive strategy that rationalises rates and tax expenditures, broadens the tax base through formalisation and leveraging technology, especially digitalisation and integration of databases, rewards voluntary compliance, facilitates the take-off of ATMS, and consults stakeholders in the tax ecosystems.

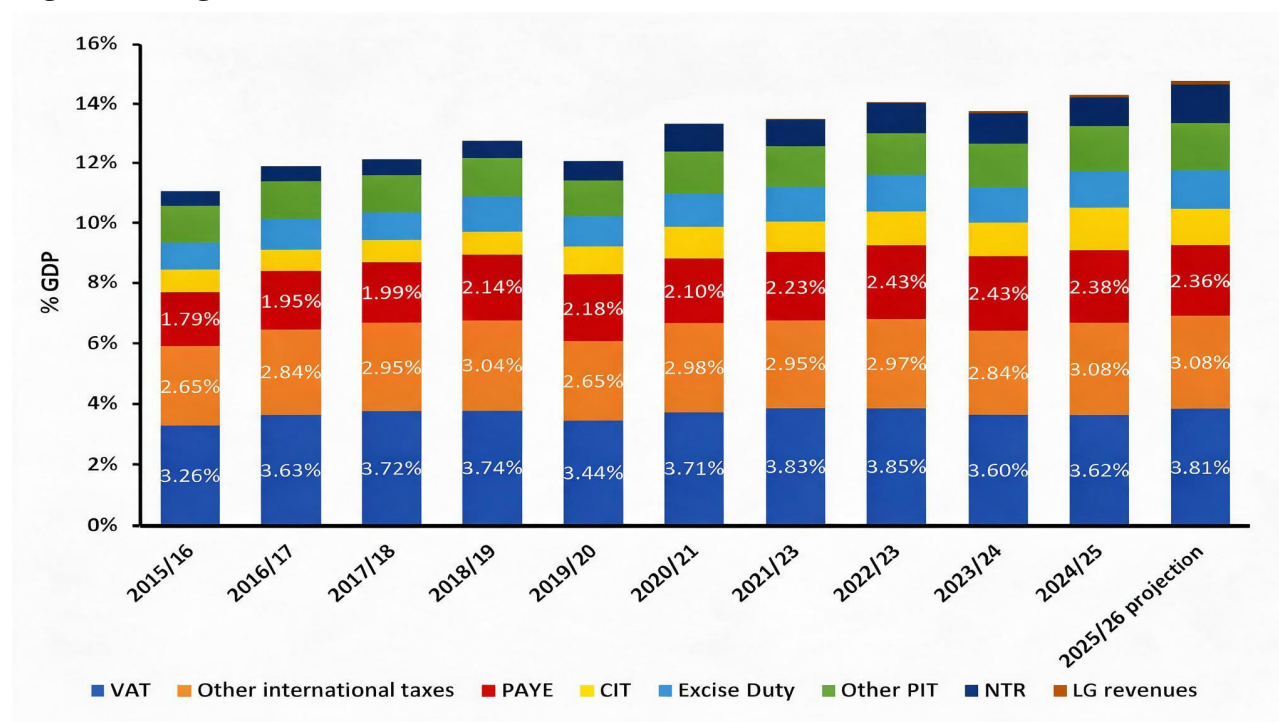
Figure 6: Revenue-to-GDP Ratio in Uganda, Actuals and Projections



Source: Author's Calculation based on data from URA

It is imperative to recognise that informality will mean that Uganda's tax system will rely mostly on VAT, international taxes and PAYE in the short-to-medium term. Figure 7 suggests that between 2015/16 and 2021/22, more than half of tax revenue in Uganda was derived from VAT, other international taxes and PAYE. For example, in 2021/22, VAT (4%), international taxes (3%) and PAYE (2.2%) accounted for 9.2 percentage points of the total 11.6% of GDP collected in taxes.

Figure 7: Uganda's Tax Structure



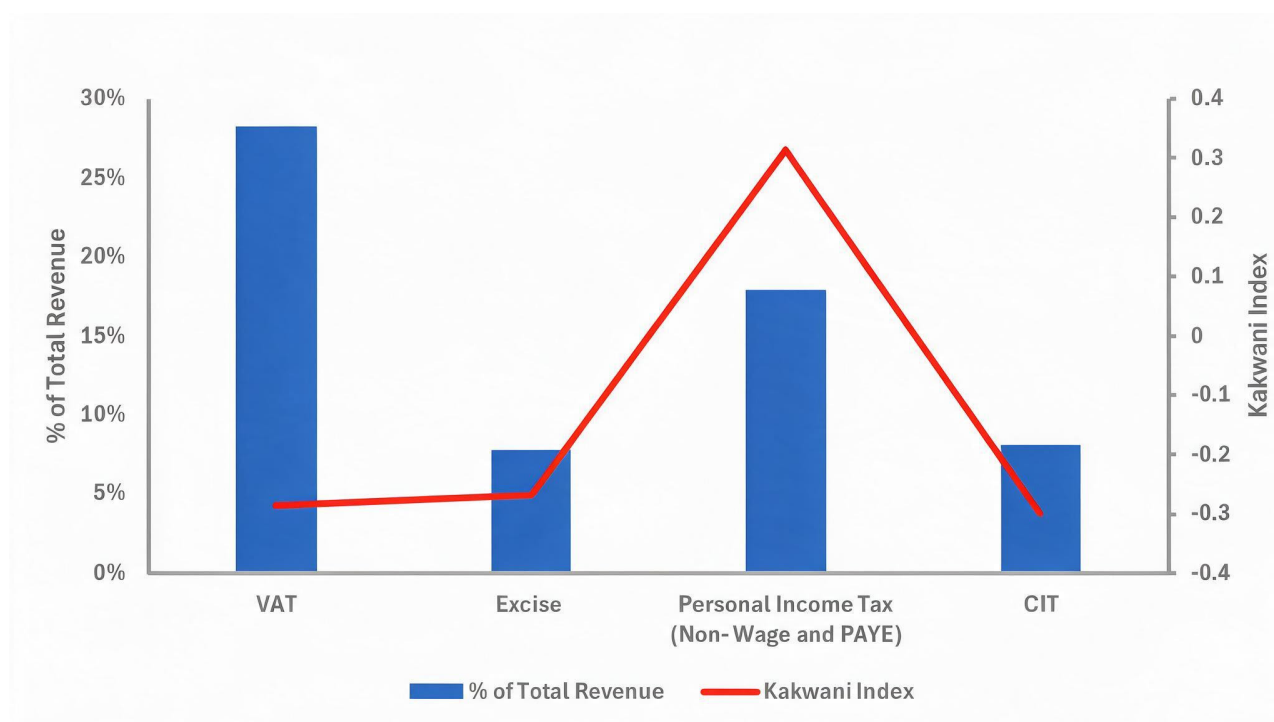
Source: URA databases.

Notes: Re-computation of Figure 7 is done as follows: 1. Other Personal Income Tax (PIT) is composed of rental, treasury bills, tax on bank interest, presumptive taxes; 2. CIT includes Withholding Taxes on both customs and domestic; 3. Excise duty includes those imposed on imports; and 4. VAT includes those on imports. 5. Other International is stripped of VAT, Excise and Withholding.

It is also important to recognise that the incidence of tax should fall on a wider tax base to redistribute the tax burden proportionately across households and firms. Tax burden disparities such as between consumption (VAT and excise duty) and personal income taxes, and between firms of varied sizes reflect the extent of regressivity and the need for harmonisation.¹ Figure 8 shows an illustrative breakdown of government revenue by tax type alongside a Kakwani index (and a Kakwani equivalent for firms) that calculates an equity score across households (and firms). It highlights how taxes such as VAT, which raise substantial revenue, are often seen as less equitable (more regressive), while PAYE is more progressive but may contribute a relatively smaller share of revenue when compared to VAT.

¹Also, between PAYE and Local Services Tax (LST). LST is uniform regardless of income.

Figure 8: Government Revenue Share and Kakwani Index



Sources: Authors' construction using data from UNHS 2019/20 and URA Data Lab.
Note: A negative Kakwani index suggest tax regressivity.

The DRMS recognises that tax administration will be responsible for significant revenue gains.

Table 3 highlights the relative contribution of discretionary tax policy and administrative changes to Uganda's domestic revenue growth between FY 2015/16 and FY 2024/25. While discretionary **policy measures**, such as adjustments in excise duty, VAT, and income tax, show episodic gains and volatility across the years, the most striking pattern is the dominant role of administrative reforms in driving revenue performance.

From 2018/19 onward, **administrative changes** consistently account for the bulk of additional revenue, with collections rising from UGX 7.5 trillion in FY 2016/17 to over UGX 10 trillion by FY 2018/19, far surpassing the yield from pure policy measures. In contrast, the impact of **discretionary policy changes** fluctuates sharply in some years (e.g., 2018/19 with UGX 1.09 trillion) but negative or marginal in others (e.g., -UGX 322 billion in 2022/23). This pattern underscores a maturing tax system where further revenue gains depend less on new taxes or rate increases and more on **administrative efficiency, compliance enforcement, and digital transformation**.

The data is consistent with studies such as the IMF-RA GAP Study on Uganda which found that compliance gaps explain up to 85% of revenue leakages in Uganda.² This evidence emphasises **administrative initiatives** for sustained and scalable revenue growth. Therefore, under the **DRMS2**, administration rightly becomes the focus.

²Hutton, E., Thackray, M. & Wingender, P., 2014. Revenue Administration Gap Analysis Program - The Value-Added Tax Gap, Washington, DC: IMF Fiscal Affairs Department.

Table 3: Revenue Effects of Discretionary Tax Policy and Administrative Changes (UGX Billion)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Policy measures	307.3	361.86	212.98	1,093.4	89.29	306.81	501.8	-322.21	68.81	100.29
Excise duty	269.89	321.85	27.09	761.09	0	277.89	280.66	0	0	241.60
VAT	33.61	3.22	126.71	135.03	6.96	0	116.39	0	107.10	0.54
Income tax	3.8	14.99	11.69	70.73	-25.47	3.79	0	0	533.40	
International Taxes Adjustments	0	7.17	47.49	126.55	107.8	25.13	104.75	-322.21	-571.69	-141.85
Nontax revenue adjustments	0	14.68	0	1.9	0	0	0	0	0	240.52
Administrative changes	331.14	7,480.40	8,448.91	10,074.12	62.73	1,111.01	1,383.46	1,474.12	1,741.56	335.07

In this case, Tax Policy needs to rationalise tax rates and tax exemptions, while tax administration needs to emphasise base-broadening or compliance strategies.

3. Goal of the DRMS2

Raise sufficient non-oil revenue equitably, inclusively and sustainably to reach a non-oil revenue-to-GDP ratio of 18% by 2029/30.

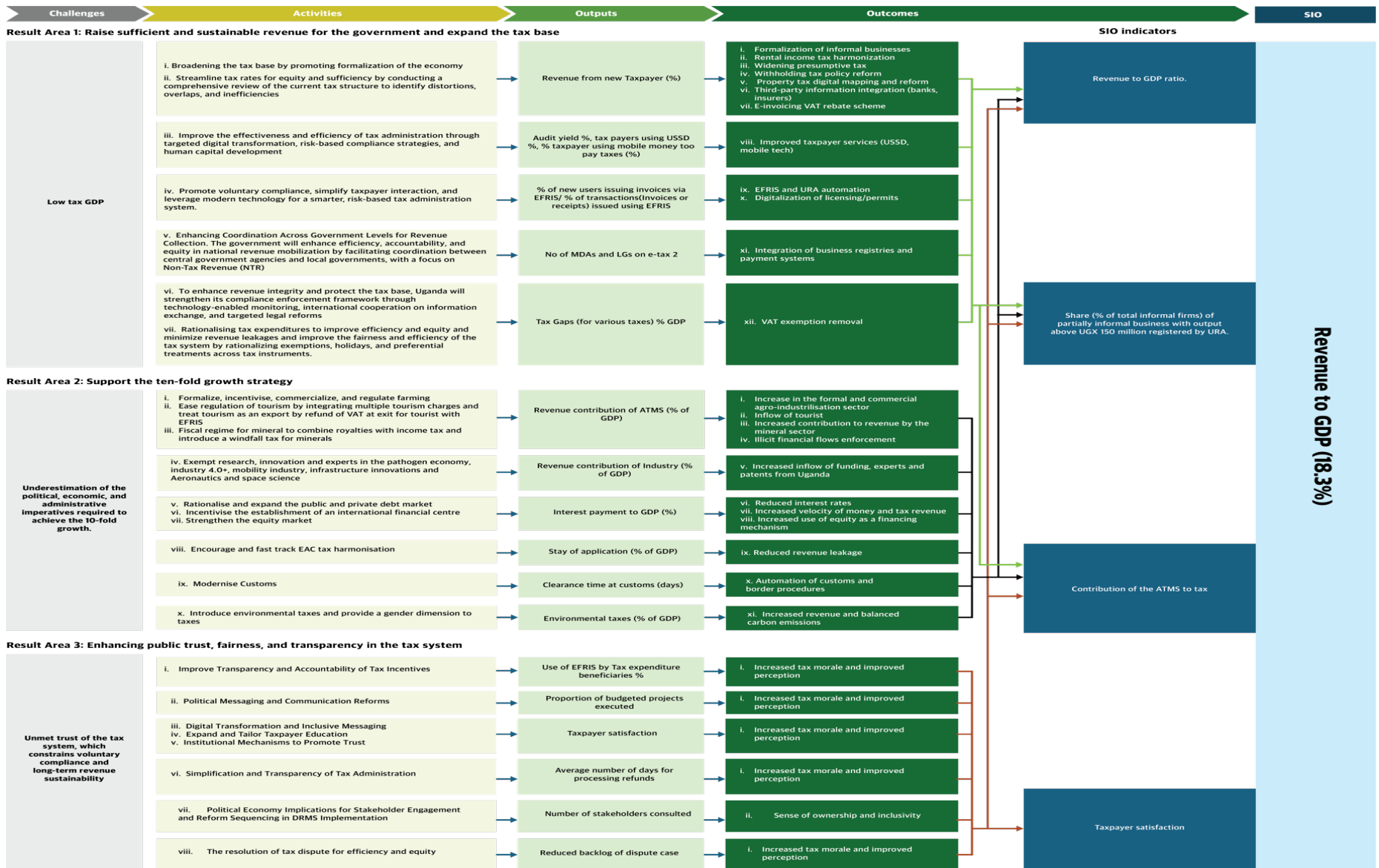
4. Theory of Change of Strategy Implementation Outcomes (SIO)

The strong political and technical commitment of the Government of Uganda to the DRMS2 reforms, through a series of inputs, activities, and outputs, will yield outcomes such as formalisation of informal businesses, rationalise the fiscal regimes for ATMS, and improve stakeholders' consultation in tax policy and administration matters. These outcomes, in turn, will increase the revenue-to-GDP ratio to 18.3 %, reduce the share of informal firms with the capability of paying corporation tax, increase the contribution of ATMS to the economy, and enhance taxpayer satisfaction. (See the figure below for a summary.)

The key result areas of this theory of change is to raise sufficient and sustainable revenue for the Government and expand the tax base, support the tenfold growth and enhance public trust, fairness, and transparency in the tax system with a goal of raising the revenue-to-GDP ratio to 18.3%.

The success of the DRMS2, as envisaged in the PFM reform strategy, is dependent on several factors, including effective stakeholder engagement, minimal disruption from external factors, and the ability to manage associated risks. If these conditions are met, the DRMS2 will contribute to generating resources and strengthening institutions in line with the country's long-term development goals as espoused in the NDP IV and the Tenfold Growth Strategy.





Progress towards the achievement of the Strategy Implementation Indicator (SIO) will be measured through the following indicators (Table 4):

- i. Revenue-to-GDP ratio;
- ii. Partially informal firms registered by URA, as a percentage of total informal firms;
- iii. Contribution of the ATMS to tax; and
- iv. Taxpayer satisfaction.

Indicator	2024/25 Baseline	2029/30 Target
(a) Revenue-to-GDP ratio (%)	14.2%	18.3%
(b) Informal businesses registered by URA	0.8%	1.8% (40,268 businesses with partial formality with an annual revenue above UGX 150 million). This is out of a total number of 2,238,886 informal businesses.
(c) Tax-to-GDP ratio of ATMS sectors	4.1%	6.1%
(d) Taxpayer satisfaction (%)	65%	85%

5. Objectives

The objectives of the DRMS2 are to:

- 1. Raise sufficient and sustainable revenue for the Government and expand the tax base.** Raising sufficient revenue for Government entails designing a fair, efficient, and broad-based tax system that minimises evasion, ensures equitable burden-sharing, and sustainably finances public services and development priorities.
- 2. Support the Tenfold Growth Strategy. Uganda has articulated an ambitious strategy** to grow its GDP tenfold before 2040, from approximately USD 50 billion to USD 500 billion. This aspiration is anchored in agro-industrialisation, tourism, minerals, and science and innovation (the ATMS framework). Uganda's tenfold growth ambition requires that fiscal reforms, sectoral integration, and institutional modernisation proceed in lockstep. The DRMS2 offers practical levers for achieving strategic targets identified in the Tenfold Growth Strategy, especially through tax system redesign, innovation incentives, and formal sector expansion. Also, strong coordination, legal clarity, and phased implementation will be critical.
- 3. Enhancing public trust, fairness, and transparency in the tax system. A credible and trusted tax system** is the cornerstone of sustainable development and voluntary tax compliance. For Uganda to achieve improved revenue outcomes, it must invest in a strategy that strengthens public confidence, ensures fairness in tax policy and enforcement, and promotes transparent communication with citizens.

With these objectives in mind, the DRMS has a target of increasing the revenue-to-GDP ratio to 18.3% in FY 2029/30. This is an ambitious target, given the institutional and policy capacity and the political, economic, and administrative constraints. Table 5 presents an ambitious yet plausible revenue expansion strategy, heavily anchored in improved tax administration and domestic revenue effort. **Achieving these goals will depend on institutional capacity, political commitment to reform, and sequencing of policy and administrative interventions under the DRMS 2025/26–2029/30.**

- i. **Total revenue is expected to grow** from UGX 37,923.15 billion in FY 2025/26 to UGX 71,730.79 billion by FY 2029/30. This translates into a consistent year-on-year (YoY) nominal growth rate of around 17–18%, slightly tapering over time. Revenue-to-GDP improvements are projected at 0.77 percentage points annually, signalling a steady, policy-driven expansion of the revenue base.
- ii. **Tax revenue share remains strong**, growing from UGX 34,957.3 billion (92.2% of total) in 2025/26 to UGX 66,950.1 billion (93.4%) in 2029/30. Domestic sources are projected to grow faster, with indirect taxes (like VAT, excise) expanding more rapidly than direct taxes. This could indicate a broadening tax base, tax policy reforms, and stronger enforcement in the domestic market. International tax revenue grows modestly, suggesting stable trade tax assumptions or capped by regional trade liberalisation (e.g., EAC).
- iii. **Non-tax revenue is projected to grow** from UGX 2,965.9 billion to UGX 4,780.7 billion (+61% over the period). This reflects ongoing administrative reforms in collecting fees, licences, dividends, and returns from public investments.

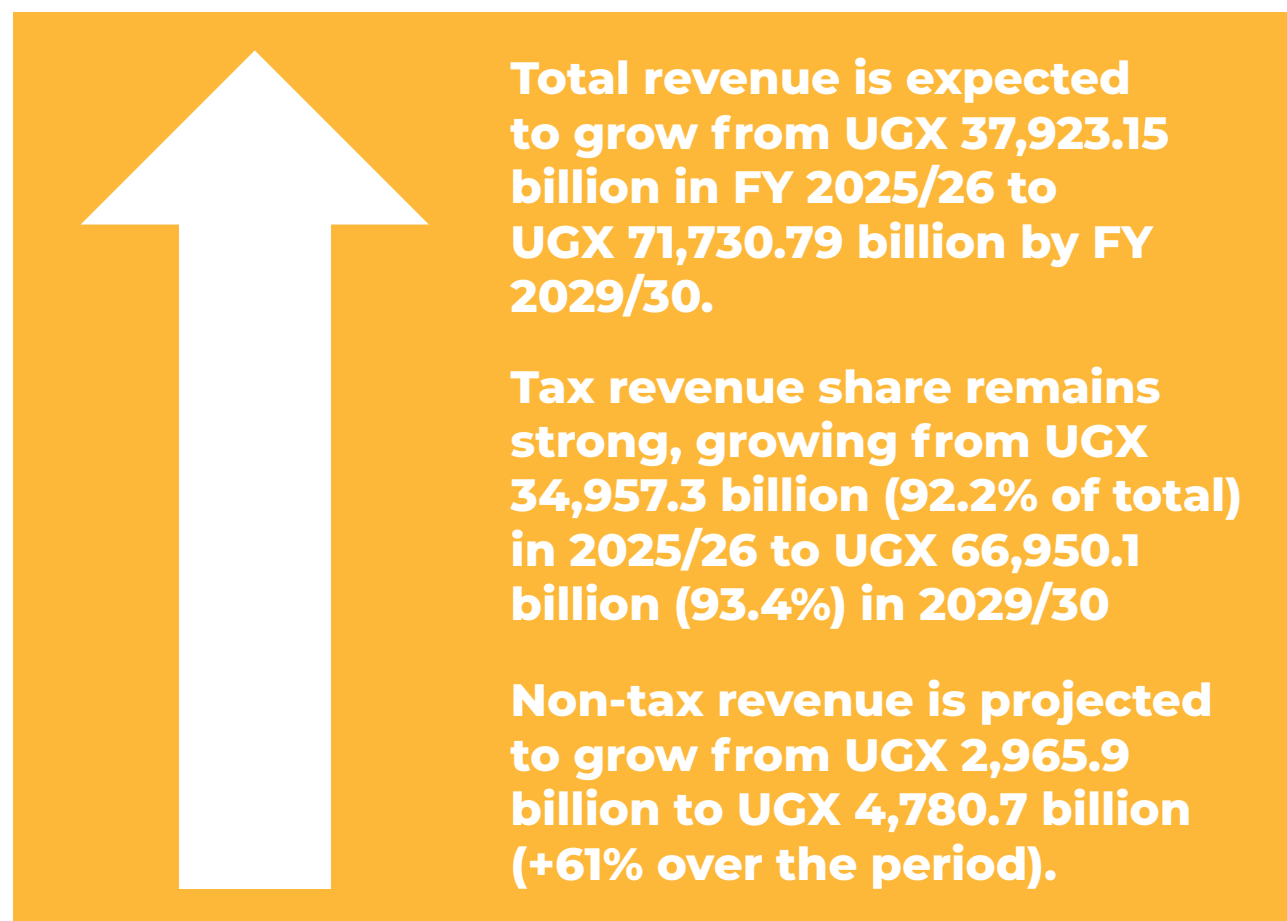


Table 5: Medium-Term Revenue Projections for FY 25/26 to 29/30 (UGX Billion)

	2025/26	2026/27	2027/28	2028/29	2029/30
Total Revenue	37,923.15	44,640.13	52,362.24	61,296.74	71,730.79
Taxes	34,957.26	41,262.86	48,553.88	57,031.07	66,950.09
o/w Domestic Direct Taxes	14,191.61	17,421.71	21,227.55	25,712.5	31,185.52
o/w Domestic Indirect Taxes	8,716.53	10,858.23	13,450.96	16,578.55	20,443.52
International Taxes	12,852.37	13,940.6	15,057.1	16,189.27	17,097.25
Non-Tax Revenue	2,965.89	3,377.26	3,808.36	4,265.67	4,780.70
Contribution of measures (Net of normal flow)	1,714.62	1,925.065	2,156.562	2,413.043	2,700.336
o/w policy	428.66	481.27	539.14	603.26	675.08
o/w administration	1,285.97	1,443.80	1,617.42	1,809.78	2,025.25
YoY Nominal Growth Rate in Total Revenue	18.3%	17.7%	17.3%	17.1%	17.0%
YoY Growth as % of GDP	0.77%	0.77%	0.77%	0.77%	0.77%
Tax to GDP (%)	13.98%	14.73%	15.49%	16.26%	17.03%
Revenue to GDP (%)	15.17%	15.94%	16.71%	17.48%	18.25%
GDP	250,008.47	280,073.00	313,382.2	350,693.10	393,072.42

Source: Authors' calculations based on data from MoFPED.

iv. **Contribution of measures (net of normal flow) captures additional revenue from reforms**, rising from UGX 1,714.6 billion to UGX 2,700.3 billion. Approximately 25% of the growth is attributed to **policy measures** (e.g., new tax laws or reform of exemptions), and the remaining 75% of gains stem from improved **tax administration**, such as digitalisation, audits, and compliance enhancements. **This aligns with the DRMS emphasis on administration-driven gains**, especially given prior implementation challenges with politically sensitive tax policy shifts.

v. The strategic implication of these projections are:

a) **Strong emphasis on Domestic Revenue Mobilisation (DRM)**: A clear shift towards domestic taxes and signals less reliance on volatile trade taxes or ODA.

b) **Reform credibility**: Sustained growth depends on executing reforms, especially enhancing URA efficiency, integrating data systems, and addressing informal sector leakage.

c) **Revenue buoyancy:** The projection assumes a stable macroeconomic environment with elasticity above 1, requiring supportive growth policies.

vi. Risks and Mitigation

a) **Overreliance on administrative measures:** Success assumes the implementation capacity at URA continues to improve; this may require investments in ICT, staffing, and legal reforms.

b) **External shocks:** Slower global growth or trade disruptions could dampen international tax and VAT performance. This calls for building of economic resilience.

c) **Equity vs. efficiency trade-off:** With heavy reliance on indirect taxes, attention is needed to mitigate regressivity and ensure fairness.

d) **A weak fiscal contract:** Mutual trust and accountability between citizens and the state regarding the use of tax revenues is a critical risk to the success of the DRMS2. While Uganda has made progress in expanding the tax base and modernising revenue systems, there is still scope to improve the public perception of taxation, particularly in attaching it to visible service delivery outcomes, accountability and anti-corruption enforcement. This would improve taxpayers' view of taxes as a civic contribution towards collective development. The improvement in perception would strengthen voluntary compliance, reduce informality, and support the legitimacy of the tax system. Rebuilding this contract requires deliberate efforts to enhance transparency, fairness and accountability in the use of public resources – alongside the consistent communication of tax-for-service linkages.

e) **Political economy mapping:** The central political economy challenge lies in the imbalance between concentrated losses and diffuse gains. Reforms such as base broadening, removal of tax exemptions, and strengthened enforcement impose immediate and visible costs on specific, often well-organised groups (e.g., large firms, high-net-worth individuals [HNWIs], and sectors benefitting from incentives), while benefits such as higher revenue, improved service delivery, and macro-fiscal stability are broader, delayed, and less visible. This creates resistance, lobbying, and risks of reform dilution, particularly within electoral cycles. Accordingly, successful implementation of the DRMS2 will depend not only on sound technical design, but on careful sequencing, credible enforcement, and trust-building. Prioritising administrative reforms, demonstrating fairness through enforcement among high-income and high-risk taxpayers, and clearly linking tax efforts to tangible public benefits will be critical in strengthening the fiscal social contract and sustaining reform momentum (see Table A1 in Annex 1 on a detailed political economy analysis).

6. Scope

The DRMS2 aims to mitigate these risks by focusing on realistic, phased reforms, improved coordination, and measurable outcomes tailored to Uganda's current fiscal and governance landscape.

7. Inclusiveness and consultation

The DRMS2 reflects consensus among Ugandans on the way forward for the tax ecosystem. Stakeholder consultation was a significant part of the DRMS2. Understanding taxpayers' concerns about the impact of proposed policies on incomes, profit margins, turnover, and ease of compliance will ensure that the Government takes into consideration the full impact of proposals. Stakeholder engagement on the DRMS2 design process offers an opportunity for stakeholders to raise issues and suggest solutions to be integrated into policy and administration design. Guided by the published Uganda tax making process, stakeholders will continue to be educated and consulted on the implementation of the Strategy.

Numerous institutions were consulted, including MoFPED (Departments of Tax Policy and Macroeconomic Policy), URA, TAT, EITI, KCCA, LGFC, ULGA, NPA, UIA, NITA-U, NWSC, and UEDCL representatives from District Local Governments, private sector associations (PSFU, UMA, FUE, KACITA), professional organisations (Law Society of Uganda, HMRAU), civil society (CSBAG, UDA, SEATINI, CSSCO), tax advisers (PWC, KPMG, Deloitte, E&Y, Grant Thornton, PKF, ICPAU), think-tanks (EPRC), academia (Makerere University Kampala, Makerere University Business School), and Development Partners (World Bank, IMF and FCDO).

8. The DRMS2 interventions

The policy reform package restructures the tax framework around the DRMS2 objectives to address economic issues within the ATMs of the Tenfold Growth Strategy and weaknesses within the tax system that undermine revenue productivity. The interventions must be implemented together as a package in order to be financially viable.

8.1 Raise sufficient and sustainable revenue for the Government and expand the tax base

1. Broadening the tax base by promoting formalisation of the economy. To sustainably raise revenue, the Government will broaden the tax base through formalisation efforts.

The following tax administration reforms are imperative:

- i. Integrating the tax register with information of value from various registration systems in the central and local government and utility systems;
- ii. Ensuring real-time integration of payment systems, licensing and permit transactions;
- iii. Leveraging third-party data from financial institutions, telecoms, and insurers;
- iv. Integrating the National Payment Gateway (NPG) with the tax register; and
- v. Standardising and streamlining data exchange between government platforms and URA.

The following supportive tax policy reforms are required:

- vi. Reviewing and amending laws on information access for taxation purposes;
- vii. Incentivising electronic payments by:
 - a) charging a uniform withdrawal charge to discourage cash use;
 - b) exempting VAT and reducing rates on digital payment enablers like phones and POS devices;
 - c) repealing excise duty on mobile money transactions and fees; and
 - d) offering a VAT rebate for electronic payments made by final consumers via a system like EFRIS.

2. Streamlining tax rates for equity and sufficiency by conducting a comprehensive review of the current tax structure to identify distortions and overlaps.

Under Tax Policy, the following proposals will be examined:

i. Transition towards lower, broad-based tax rates instead of sector-specific incentives. Having multiple rates erodes the tax base and creates pressure for exemptions, so a structured review should be undertaken to replace fragmented sector incentives with predictable, lower-rate taxation. This would ensure neutrality and reduce lobbying.

ii. Applying the standard income and VAT regimes to large businesses across all sectors. To align with regional best practices, Uganda will subject all large enterprises, regardless of sector, to the standard tax system, eliminating ad hoc non-statutory concessions.

iii. Introducing a simplified VAT regime for smaller businesses. Uganda will design a simple, flat VAT scheme for small traders. This reduces compliance costs while improving visibility, especially when combined with e-invoicing and mobile-phone filing.

iv. Reforming rental income taxation using diagnostic analysis of compliance and ETR gaps. This calls for a full rental compliance diagnostic, covering property valuation, EFRIS/e-receipting gaps, land registry integration and tax agent models. This provides the basis for either full integration into CIT or a simplified, progressive rental regime.

v. Reforming the presumptive tax regime through cross-sector benchmarking and digital tools for LGs through:

- a) benchmarking of effective presumptive tax vs. CIT burdens by sector;
- b) designing mobile, USSD and POS-based filing systems for LGs;
- c) embedding presumptive tax within the national revenue assignment framework; and,
- d) amending tax laws to institutionalise reforms.

vi. Reforming excise duty through harmonised, predictable, and multi-year schedules. This will involve the adoption of a phased excise increase, which is environmentally aligned, and harmonised with the EAC. The predictable excise duty path will cover:

- a) emissions-related excise;
- b) sugar content-based excise;
- c) alcohol content excise (per litre of alcohol);
- d) digital gaming and betting; and
- e) alignment with EAC environmental and health standards.

3. Modernising tax administration by adopting a digital-first, risk-based and capability-driven model, which will rapidly transform revenue administration using integrated digital systems, highly structured compliance frameworks, and professionalised, analytics-capable staff. This will consist of:

i. A high-level digitalisation plan that drives all other reforms. This involves implementing a phased, high-level digitalisation blueprint that aligns all revenue processes such as registration, filing, payments, invoicing, and analytics into a single digital ecosystem. The plan will prioritise:

- a) full system integration (domestic taxes, customs, LG systems, land, NIRA, utilities, financial sector);
- b) real-time analytics for compliance risk scoring;
- c) modern taxpayer portals with end-to-end digital journeys; and
- d) interoperability with mobile money and the NPG.

ii. A modern MNE compliance framework anchored in transparency and disclosure. This entails developing a globally compliant MNE oversight framework to close BEPS channels by strengthening transfer pricing and systematic capture of multinational activity. This will include:

- a) granular TIN registration that captures group structures, beneficial ownership, branches, and PEs;
- b) expanded income tax returns incorporating cross-border payments, treaty claims, and related-party disclosures;
- c) digitisation of the Associated Party Disclosure Form; and,
- d) establishing a dedicated MNE Compliance Office.

iii. Organisational review to align URA with a digital, risk-based, high-performance administration. The review will identify:

- a) structural misalignments;
- b) URA staff constraints;
- c) change management risk;
- d) corruption risk;
- e) duplications in compliance functions;
- f) digital skills gaps; and
- g) opportunities for semi-autonomous strategic units.

iv. Establishing a senior-level Compliance Risk Management (CRM) command structure: This involves empowering and elevating the CRM function, responsible for enterprise-wide risk management and to drive Compliance Improvement Strategies (CIS). Priority functions will include:

- a) building predictive risk engines;
- b) embedding CRM in audit selection, taxpayer services, and arrears enforcement;
- c) integrating third-party data analytics (banks, utilities, LGs, NIRA, mobile money); and
- d) developing sector risk maps (construction, digital commerce, real estate, transport, and wholesale/retail).

v. Institutionalising human capital development through a modern Tax Academy: This entails building a Next-Generation Tax Academy, ensuring long-term capability growth and retention. Emphasis will be placed on the acquisition of advanced technical skills and professionalisation. The Academy will deliver:

Advanced technical training in:

- a) international taxation and transfer pricing;
- b) extractives and complex finance;
- c) rules of origin and customs valuation; and
- d) taxpayer behavioural analytics and risk segmentation.

Human capital management reforms encompassing:

- a) structured mentoring and coaching;
- b) deployment planning based on digital competence;
- c) performance-linked incentives; and
- d) career pathways for top talent.

4. Promotion of voluntary compliance, simplifying taxpayer interaction, and leveraging modern technology for a smarter, risk-based tax administration system.

i. Rolling out a multilingual, tariff-free, mobile filing system (USSD and e-Tax Integration): This entails designing, piloting, and scaling an eTax-integrated mobile return system, allowing SMEs to file, register, and pay taxes through:

- a) multilingual USSD menus with no data cost;
- b) auto-populated fields using URSB, mobile money and EFRIS data; and
- c) simplified turnover declarations for small taxpayers.

ii. Introducing digital transaction incentives and phasing out manual record-based compliance: This involves shifting compliance from archival paper records to real-time digital evidence, strengthening VAT accuracy, and shrinking the compliance gap by introducing:

- a) digital compliance rebates (e.g., small VAT credit for EFRIS receipts);
- b) withholding exemptions for fully e-invoicing-compliant firms; and,
- c) phased elimination of paper-based record systems through mandatory EFRIS/e-receipting.

iii. Modernising HNWI taxation using data integration and risk analytics:

This encompasses providing definitional clarity and data-enhanced oversight, which will create a credible, data-driven HNWI regime aligned with regional reforms by:

- a) updating the HNWI qualification criteria (wealth, assets, related-party ties, lifestyle indicators);
- b) linking the HNWI registry to the land registry, URSB, banking, securities, utilities, and telecom databases;
- c) building behaviour-based risk models to detect under-declaration;
- d) strengthening the audit capability for complex financial structures; and
- e) establishing a structured HNWI engagement and compliance management plan.

iv. Building a technology-driven tax administration through unified IT modernisation (eTAX2). This positions URA as a fully digital, analytics-enabled revenue administration by sourcing a single digital ecosystem as core to a modern authority by:

- a) upgrading to eTax2/ITAS through integrating all core tax functions;
- b) integrating e-Tax2 with IFMS, treasury, licensing, land registry, and payment systems;
- c) fast-tracking the National Data Lake for unified taxpayer records;
- d) deploying AI/ML tools, including blockchain for invoice integrity; and
- e) automating customs operations through improved risk engines, cargo tracking, and post-clearance audits.

v. Automating compliance through algorithms and embedded enforcement.

This modernises enforcement and reduces auditor workload while increasing voluntary compliance by:

- a) auto-enforcing TIN registration when threshold conditions are detected (utilities, licences, payments);
- b) auto-triggering reminders, soft-notice, and escalated enforcement;
- c) linking VAT registration to EFRIS activation; and
- d) deploying behavioural nudges through SMS/USSD/eTax.

vi. Institutionalising capability and talent development through a modernised URA Tax Academy. This ensures URA has a workforce capable of operating a modern, digital revenue system because digital transformation requires parallel human capital transformation. Uganda will expand and modernise URA's Tax Academy to provide:

Advanced Skills Tracks

- a) Data science and analytics
- b) International taxation and transfer pricing
- c) Extractives and financial sector taxation
- d) Digital economy taxation

- e) Forensic audit and legal skills
- f) Negotiations and project management

HR Development Programmes

- a) Structured mentorship
- b) Performance-linked deployment systems
- c) Retention incentives for high-performing talent
- d) Strategic talent pipeline for future leadership positions

vii. Strengthening IT infrastructure, cybersecurity, and data protection systems to guarantee tax data integrity, taxpayer trust, and operational resilience.

- a) Investing in cybersecurity platforms.
- b) Implementing enterprise-wide Governance, Risk and Compliance (GRC) systems.
- c) Expanding secure storage for big data analytics.
- d) Establishing a modern disaster recovery and business continuity system.
- e) Adopting international data protection standards.

5. To enhance revenue integrity and protect the tax base, adopting an intelligence-led enforcement model that combines technology-enabled border controls, centralised risk analysis, and stronger international tax cooperation.

The focus is on detecting illicit financial flows (IFFs), customs fraud, and treaty abuse while aligning with OECD/ATAF standards and EAC partners.

i. Diagnosing illicit financial flows and high-risk sectors using sectoral risk mapping and value-chain analysis: The diagnostic will directly inform prioritised audits, legislative reform, and joint operations across URA, BoU, FIA, the Police, and other regulators. Tax policy and administration will conduct an in-depth IFF diagnostic to identify:

- a) high-risk sectors (e.g., gold, fuel, telecoms, logistics, real estate);
- b) main conduits (misinvoicing, transfer pricing abuse, transit fraud, profit shifting); and
- c) institutional gaps in enforcement that lead to enforcement resistance and inter-agency coordination.

ii. Investing in modern, risk-based non-intrusive inspection (scanners): This involves adoption of best practices in risk-managed non-intrusive inspection by scaling up network cargo scanners at border points and inland depots. This will reduce physical inspections while improving the hit-rate on undervaluation and misclassification. New scanners will be:

- a) integrated into a central risk engine so that only high-risk consignments are flagged; and
- b) supported by targeted training of customs officers in image analysis, valuation, and profiling.

iii. Reinforcing cargo tracking and transit controls: The use of bond guarantees for transit goods will become fully conditional on verified arrival at the declared

destination, with automated bond enforcement when anomalies are detected. Leveraging regional systems like RECTS, and mirroring regional practices, tax administration will enhance electronic cargo tracking to detect:

- a) dumping of transit goods on the domestic market;
- b) round-tripping; and
- c) broken transit routes.

iv. Centralised risk analysis and AI-supported case selection: Centralised compliance risk analysis, for both customs and domestic taxes, shifts URA from volume-based audits to high-impact, intelligence-driven interventions. This includes:

- a) AI-based risk flags for misclassification, undervaluation, refund fraud, and high-risk traders;
- b) standardised audit checklists and case-selection rules; and
- c) a single data view of taxpayers across customs, VAT, CIT, PAYE and excise.

v. Strengthening Automatic Exchange of Information (AEOI) and data governance: This will enable URA to detect offshore assets, hidden income and cross-border avoidance more effectively by:

- a) undertaking an AEOI peer-style review to identify legal and operational gaps,
- b) updating tax secrecy and data-protection provisions to safely allow structured information exchange; and
- c) building secure data-handling and analytics capacity for CRS/FATCA-type information.

vi. Preventing treaty abuse through standardised procedures and the “Pay First, Claim Later” doctrine: This will reduce treaty shopping and protect the domestic tax base while honouring genuine DTA commitments. Following international best practice on limitation-of-benefits and principal-purpose tests, Uganda will:

- a) require the mandatory use of a standard treaty-benefit claim template prescribed by the Commissioner, capturing beneficial ownership, substance, and transaction details;
- b) amend refund rules so that taxpayers pay under domestic law first, then apply for treaty relief, subject to verification; and
- c) embed treaty-abuse risk indicators into the central risk engine and HNWI/MNE compliance frameworks.

6. Strengthening national-local revenue coordination by adopting an integrated revenue ecosystem and a unified policy and technology framework for NTR and subnational revenues: The objective is to eliminate fragmentation, enhance accountability, and professionalise local revenue administration through digitalisation, harmonised policy instruments, and coordinated enforcement.

i. Conducting a comprehensive NTR arrears audit and developing a digital recovery strategy: This shifts arrears recovery from manual, disconnected processes to a real-time, data-driven system. Arrears management is a core component of improving own-source revenue collection across MDAs. Uganda will sharpen this

intervention by:

- a) digitising arrears inventories across MDAs and LGs;
- b) building automated reminders, penalties, and payment plans into IRAS/URA systems;
- c) establishing cross-agency MoUs for joint arrears recovery;
- d) creating an “arrears performance dashboard” for MoFPED oversight; and
- e) embedding arrears follow-up directly into service delivery platforms (licenses, permits, approvals).

ii. Redesigning TREP to emphasise regionally targeted, sector-sensitive approaches to informality and small taxpayer mobilisation: This will make TREP into a data-informed, regionally tailored formalisation programme, not a uniform enforcement campaign. Uganda will use TREP evaluation to:

- a) disaggregate performance by region, sector, and taxpayer type,
- b) identify LGs with the highest responsiveness to TREP;
- c) redesign incentives for URA/LG mobile teams;
- d) introduce digital micro-tax tools (USSD filing, mobile payments); and
- e) link TREP to LG licensing, markets, transport stages, and utilities.

iii. Developing a Unified National NTR Policy Framework to create a coherent, predictable, and accountable NTR regime, reducing duplication and leakage. This NTR regime should harmonise fees, charges, and revenue governance to minimise leakage and enhance transparency. Also, the regime should emphasise standardising non-tax charges, reducing overlaps, and ensuring clear legal authority. Tax Policy will sharpen this by:

- a) mapping all NTR instruments (fees, charges, penalties, royalties) across MDAs and LGs;
- b) harmonising definitions, legal authority, sanctions, and assessment rules;
- c) standardising NTR administration protocols, including audits, exemptions, and reporting;
- d) creating a national NTR governance manual; and
- e) assigning MoFPED clear oversight for NTR policy and performance.

iv. Building an integrated national platform for NTR and local government revenue by integrating IRAS with URA and IFMS: This creates a nationally harmonised, digital, end-to-end revenue ecosystem that centralises local and national fees and charges; and integrates fees, permits, and payments. This includes:

- a) fully integrating IRAS with URA and MoFPED’s IFMS via API-based architecture;
- b) centralising assessment, billing, payment, receipt issuance, and reconciliation;
- c) enabling MoFPED to view real-time LG revenue performance;
- d) developing a shared data warehouse for LG and national revenues;
- e) deploying tablets, USSD tools, and mobile POS devices for field officers;
- f) providing structured training for LG revenue officers on digital platforms; and
- g) establishing a Revenue Operations Centre for monitoring NTR and local revenues.

7. Rationalising tax expenditures Uganda via a restructuring of the tax expenditure (TE) framework, shifting from broad, discretionary incentives to a transparent, performance-based, costed, and targeted incentive system. The reform will strengthen tax equity, reduce leakages, improve horizontal fairness, and align exemptions with real value-addition and national development priorities. The DRMS2 emphasises a re-examination of profit-based incentives, re-scoring tax expenditures using economic rationale, harmonising overlapping exemptions, and the continued publishing of detailed TE reports. The rationalisation will also introduce zero-rating rationalisation, value-chain analysis, and strong monitoring of incentive beneficiaries. Specifically, Uganda will strengthen the TE framework as follows:

Tax Policy will review and:

i. Replace profit-based incentives with cost-based, performance-linked incentives. All incentives will include sunset clauses, reporting requirements, and monitoring obligations. Phase out profit-based tax expenditures and introduce tightly defined, well-targeted, cost-based incentives tied to:

- a) capital formation;
- b) technology adoption;
- c) local input usage; and
- d) employment creation.

ii. Introduce withholding tax on disposal of non-business assets such as shares, land, rental property, and digital assets. Introduce a simple, low-rate WHT to ensure minimum taxation on capital gains from non-business disposals. This broadens the tax base in a manner consistent with both Kenya and Rwanda.

iii. Redesign tax forms to explicitly capture all exemptions, reduced rates, deferrals, and preferential treatments. To enhance transparency and support high-quality TE reporting, Uganda will redesign returns across all instruments so that beneficiaries of any TE must report:

- a) type of incentive;
- b) legal basis;
- c) value of exemption;
- d) duration; and
- e) conditions attached.

iv. Improve cost-benefit analysis (CBA) using administrative data and micro-simulation. Build a Tax Expenditure microsimulation using VAT, CIT, PAYE, customs and EFRIS data to evaluate:

- a) revenue forgone;
- b) economic impact;
- c) distributional effects;
- d) compliance risks; and
- e) alignment with NDP IV priorities.

v. Institutionalise TE reporting methodology and expand published analysis. Improve the TE report by:

- a) sustaining the frequency (annual);
- b) publishing sector-level TEs;
- c) providing disaggregated legal references;
- d) publishing P-inefficiency ratios; and
- e) benchmarking TE levels with EAC partners.

vi. Strengthen compliance and reporting for exempt entities such as MPs, Judiciary, and ODPP. Require mandatory filing of exemption statements by all exempt institutions, including MPs and the Judiciary. Entities will submit WHT/exemption records so that foregone revenue is fully captured.

vii. Align incomes with the national pay harmonisation strategy and repeal employment income exemptions. Once pay harmonisation is achieved, Uganda will repeal exemptions for MPs, ODPP and the Judiciary while protecting net income through compensation adjustments.

viii. Reform the 10-year tax holiday regime. Critically re-design the holiday regime by:

- a) tightening thresholds;
- b) specifying eligible sectors;
- c) introducing local-content rules (e.g., 70% raw materials);
- d) clarifying qualifying products;
- e) harmonising provisions across CIT, VAT, and excise; and
- f) establishing a compliance monitoring framework.

ix. Review WHT on service fees for mining & petroleum licensees. Evaluate lowering WHT from 15% to 10% based on sector impact studies and consultations with investment authorities.

x. Evaluate VAT exemptions (VATE) using a policy-rationale framework and P-inefficiency ratios

- a) Economic rationale;
- b) Distributional impact;
- c) Administrative feasibility; and
- d) P-inefficiency measures (revenue leakage per shilling of benefit).

xi. Reform VAT exemptions on housing, industrial parks, free zones and textiles, and modify cash accounting. Repeal VAT exemptions on residential housing and review incentives in industrial parks, free zones, and textile production. The cash accounting system will be clarified, published, and strictly monitored.

xii. Consider VAT on unprocessed red meat sold through formal markets. Consider applying VAT at the point of formal slaughter or wholesale, ensuring minimal compliance burden.

xiii. Align the EAC Tariff Gazette with ASYCUDA via a correspondence table.

Develop and maintain a live correspondence table to minimise classification errors and enhance customs valuation and audit.

xiv. Reform leather and skins exemptions and levies using a value-chain analysis. Conduct a value-chain analysis of hides, skins, and leather to design targeted incentives or levies that support domestic processing.

xv. Re-evaluate the methodology for estimating Excise Duty Efficiency (EDE). Update the EDE methodology using Kenya's approach to excise benchmarking and Rwanda's elasticity-based modelling.

xvi. Excise duty reform: Replace vehicle registration fees with externality-calibrated annual charges. Introduce annual charges reflecting road damage, congestion, and accident costs, replacing inefficient one-off registration fees.

8. Developing the capacity of Local Government on the topics of tax policy, revenue administration and public financial management by:

- i. Maintaining the rental tax and property rates as separate taxes, but with coordinated administration;
- ii. Focusing local government revenue mobilisation on property rates development, broadening the base to include all business, residential and agricultural properties;
- iii. Reforming the presumptive tax rate to a single flat rate;
- iv. Introducing a turnover tax for micro-businesses based on average local earnings and integrating these charges with business licence fees and market charges;
- v. Consolidating the Local Service Tax into the Personal Income Tax; and
- vi. Ensuring the fiscal sufficiency of LGs to enhance capacity to deal with mineral exploitation and tourism.

8.2 Support the Tenfold Growth Strategy

1. Under the Agro-industrialisation pillar, Tax Policy shall undertake actions in the following areas:

- i. **Commercialisation and formalisation of farming.** This involves conducting a study to provide a clear legal definition of commercial farming and industrial parks to prevent abuse of the incentive regime.
- ii. Streamlining taxation for agro-businesses by **providing VAT relief on silos** and mechanised storage.
- iii. **Integrating agro-processing zones into industrial park design**, to support localisation and value addition.

2. Tax Policy will support the Tourism Sector pillar by:

i. Introducing a structured Tourist VAT Refund Scheme (TVRS) that:

- a. Provides VAT refunds to foreign tourists on goods purchased in Uganda and exported on departure, supported by EFRIS-generated electronic fiscal receipts.
- b. Adopts regional best practices, such as tourist VAT refund desks and a simplified digital claim platform, to improve competitiveness and reduce leakage.

ii. Incentivising formal sector participation by rationalising hotel licences and fees by:

- a) Rationalising the 26 overlapping hotel licences, fees, and inspection requirements, streamlining them into a simplified, coherent framework.
- b) Aligning with regional practices such as the consolidated licences under the Tourism Regulatory Authority and/or a highly simplified single-window licensing for hotels and tour operators.

iii. Increasing clarity and standardised service regulations. This involves strengthening regulatory coherence and predictability for tourism services by:

- a) Updating and standardising regulations governing hotels, transport operators, tour companies, travel agencies, guides and adventure tourism providers.
- b) Learning from regional peers on how to design and implement a structured classification system and how to harmonise tourism quality standards.

3. The Mineral Resource Management pillar will be supported by Tax Policy by:

i. Establishing and mapping the revenue-raising capacity (commercial viability) of Uganda's natural resource endowment. This will involve conducting a comprehensive national resource potential and fiscal mapping exercise that:

- a) Assesses commercially viable deposits (minerals, rare earths, precious metals, strategic minerals, and industrial minerals);
- b) Benchmarks geological potential and revenue projections against regional peers; and
- c) Identifies revenue curves, investment thresholds, and potential government take under different development scenarios.

ii. **Establishing how the fiscal system performs under price fluctuations.** This will involve developing price-sensitivity analysis and simulation models to

test Uganda's fiscal systems under commodity price volatility, using lessons from Tanzania's and Ghana's stability clauses and sliding-scale royalties.

iii. Facilitating the administration of petroleum and mineral to protect government take by ensuring that there is:

a) Audit effectiveness: Strengthening the capacity of URA, MoFPED, and the Petroleum Authority of Uganda (PAU) to verify company-reported costs, production, exports, transfer pricing, and hedging strategies.

b) Ring-fencing effectiveness: Introducing and operationalising ring-fencing rules to prevent shifting of costs between projects or licences reflecting international best practice from Tanzania and Ghana.

c) Transparency and disclosure: Improving public access to contracts, payments, and production data in line with Uganda's EITI commitments (Uganda Chapter of the Extractive Industries Transparency Initiative (EITI)).

d) Citizen participation: Involving civil society in monitoring and oversight processes to strengthen public trust and accountability.

iv. Harmonising and streamlining the Mining Act, the tax code, and URA administrative procedures to eliminate contradictions and enforcement gaps, similar to regional peers who have implemented an integrated licensing and taxation framework.

v. Benchmarking global best practice (sliding-scale royalties, depreciation rules, ring-fencing, capital-uplift mechanisms); adopting a robust, dual-instrument fiscal regime combining:

a) Royalties (payment for resource extraction).

b) Business income tax (assessment of profits after allowable deductions).

vi. Introducing a windfall tax and strengthening governance of mineral wealth. Introducing a price-based windfall tax to capture extraordinary profits during commodity booms, together with governance reforms which will ensure that revenues are well-managed.

4. The Science, Technology, Innovation (STI) and Strategic Investment pillar will be supported by Tax Policy through the following channels:

i. Providing tax exemptions for both givers and recipients of NCSTI-approved R&D grants. This will strengthen Uganda's innovation ecosystem by:

a) Granting tax-exempt status to both the providers (corporate funders, public agencies, development partners) and recipients (universities, research institutes, start-ups) of research and development grants approved by the National Council for Science, Technology and Innovation (NCSTI).

b) Benchmarking regional tax treatment of accredited research institutions and the Innovation Fund model to ensure competitiveness and prevent double taxation.

ii. **Designing fiscal incentives to attract frontier technologies and intellectual property (IP) in strategic industries** (pathogen economy, Industry 4.0+, aerospace, mobility, advanced manufacturing). Introducing a modern, competitive fiscal package to attract firms and investors in frontier technology sectors by:

a) Establishing targeted tax incentives for companies investing in advanced manufacturing, robotics, additive manufacturing, AI, aerospace technologies, medical diagnostics, biotech platforms, and green mobility.

b) Aligning with regional incentives and the “Innovation City model”, which integrate tax breaks, IP-friendly regimes, and research cluster infrastructure.

5. Strategic Enablers: To fast-track Uganda’s ambition of growing GDP tenfold before 2040, Tax Policy will support the foundational enablers that remove systemic bottlenecks and attract capital, innovation, and competitiveness by:

i. **Capital Market and Financial Incentives**

a) **Exempt income from diaspora bonds:** Provide tax exemptions on income earned from government-issued diaspora bonds to attract long-term, concessional, and patriotic capital from Ugandans abroad, mirroring Kenya’s and Ethiopia’s use of structured diaspora financing.

b) **WHT reforms for public and private debt:**

1. Exempt WHT on foreign public debt to make sovereign borrowing more attractive.
2. Reduce WHT on external private debt to attract private financing for infrastructure, manufacturing, and innovation. This will help to keep Uganda competitive within the region, which has gradually aligned WHT to global norms to attract foreign capital.

c) **Dividends clarity for listed companies:** Clarify tax treatment of dividends earned from capital-market-listed companies to encourage equity investment, deepen market liquidity, and support SME listings.

d) **Fiscal incentives for financial sector development:** Introduce targeted incentives for commodities, foreign currency trading, pension funds, and capital market infrastructure. This would be similar to Rwanda’s Kigali International Financial Centre model.

ii. **Tax and Regulatory Modernisation**

a) **Review taxation of foreign income:** Assess global income taxation rules to ensure Uganda’s framework supports growth of local businesses with foreign income streams.

b) Technology and IP attraction: Modernise WHT, royalty rules, and depreciation schedules to attract intellectual property creators and technology firms.

c) EAC tax harmonisation: Establish a national policy position as a precursor to regional alignment on excise, VAT, and customs, which is key for AfCFTA leverage.

iii. Inclusive and Green Tax Reforms

a) Gender-sensitive tax policy that embeds direct and indirect gender considerations in tax design and support interventions such as women-targeted SACCOs to ease access to credit and tax compliance.

b) Greening the tax system by introducing an **emission tax** modelled on the EU system, where rates vary by engine size and emissions and differentiate excise duties across products, such as cement vs. vehicles, to reflect environmental externalities.

iv. Trade Infrastructure as a Catalyst

a) Modern trade facilitation: Establish an **Inland Container Depot (ICD)/ Dry Port** in Uganda to reduce trade turnaround times, lower import/export costs, support agro-industrial and mineral export strategies, and position Uganda as a logistics hub within the EAC and AfCFTA blocs.

8.3 Enhance Public Trust, Fairness, and Transparency in the Tax System

1. Improved Transparency, Accountability and Service Delivery

i. Improve Transparency and Accountability of Tax Incentives: To minimise misuse of strategic investment incentives and promote public oversight, Government will implement the following measures:

a) Mandatory use of EFRIS: All recipients of tax incentives for strategic investments will be required to adopt the Electronic Fiscal Receipting and Invoicing System (EFRIS). This ensures real-time visibility of economic transactions, and strengthens audit trails, preventing revenue loss through fewer unrecorded sales.

b) Filing requirements for PITE beneficiaries: Persons benefitting from the Personal Income Tax Exemption (PITE) will be mandated to submit annual income tax returns detailing their income, the exempt amounts claimed, and evidence of meeting eligibility criteria. This promotes accountability and ensures exemptions are granted only to compliant taxpayers.

ii. Redesign Tax Return Forms for Transparency: Accurate reporting of exempt income and related deductions is essential for evaluating the effectiveness, fairness, and fiscal cost of tax incentives. To enhance transparency, the following adjustments will be made:

a) Enhanced self-assessment returns: Income tax self-assessment forms will

be redesigned to require taxpayers to itemise exempt income and corresponding expenses, each clearly linked to the specific legal provision authorising the exemption. This will improve the quality of data for compliance risk analysis and tax expenditure reporting.

b) Updated PAYE return templates: PAYE forms will be revised to introduce dedicated fields for reporting exempt income by specific provision. This will allow URA to assess the distributional effects of exemptions, monitor employer compliance, and better understand how such provisions influence employee remuneration structures.

iii. Ensure Unique Identification of Taxpayers: To eliminate identity duplication and revenue leakages, all employees in the PAYE system will be required to possess, and consistently use, a unique Taxpayer Identification Number (TIN). This TIN will be embedded in all PAYE microdata, enabling URA to track individual taxpayer histories, improve audit accuracy, and enhance long-term compliance monitoring.

2. Political Messaging and Communication Reforms. Effective communication is central to strengthening the social contract between citizens and the State. Enhancing transparency, political accountability, and public engagement will improve trust in the tax system and encourage voluntary compliance. The following reforms aim to institutionalise communication as a core pillar of tax policy and administration.

a) Publicly communicate budget use: Government will share timely updates on budget releases and clearly demonstrate how collected taxes translate into public services such as infrastructure, health, education, and social protection. This transparency enhances the perceived legitimacy of the tax system and strengthens citizens' willingness to comply.

b) Disclose and discuss tax legislation: To promote inclusive participation in fiscal policymaking, the Government of Uganda will publish tax bills accompanied by simple, accessible explanatory notes. This will help citizens and legislators understand the intentions, implications, and expected benefits of proposed reforms. Clear communication will also be integrated into tax education and public sensitisation campaigns, enabling taxpayers to appreciate the motivations and outcomes of new policies.

c) Promote “leading by example”: Encourage political leaders and senior technical officials to publicly file their tax returns. This symbolic but powerful gesture reinforces the message that compliance is universal, strengthens public trust, and promotes a culture of transparency and shared responsibility.

3. Digital Transformation and Inclusive Messaging

a) Universal digitisation campaign: Roll out a universal digitisation policy to reduce informality in the economy and bring more actors into the tax net through digital footprints, and pair this policy with targeted education campaigns that help informal businesses transition into the digital economy.

b) Leverage influencers and community leaders: Collaborate with trusted figures, such as opinion leaders and social influencers, to champion tax awareness, explain reforms, and counter misinformation.

4. Expand and Tailor Taxpayer Education: Strengthening taxpayer knowledge is central to improving voluntary compliance and reducing disputes. Government will expand and professionalise tax education to make it accessible, relevant, and measurable across different population groups.

a) Diversify outreach channels: URA will scale up multi-channel taxpayer engagement through the Tujenge Bus, TV programming, radio barazas, community outreach, and sector-specific tax clinics. Educational material will be translated into local languages and adapted to cultural contexts to improve clarity and inclusiveness.

b) Formalise tax education in institutions: Tax awareness will be integrated into the school curriculum to foster early fiscal citizenship. URA will also strengthen its Tax Academy by developing online learning modules, FAQs, and practical examples, including rules of origin, customs procedures, and tax obligations, to support continuous learning.

c) Evaluate and target tax education: Government will develop a comprehensive Tax Education Strategy with sector-specific content, measurable KPIs, and regular impact assessments. The strategy will also assess whether URA should continue as the sole provider of tax education or collaborate with civil society, academia, and professional bodies to enhance reach and credibility.

d) Institutionalise taxpayer engagement: Taxpayer education will be mainstreamed across all URA departments, ensuring every officer plays a role in providing guidance and resolving taxpayer queries, rather than confining this mandate to a single unit.

5. Institutional Mechanisms to Promote Trust: Building public trust in the tax system requires institutional reforms that enhance transparency, accountability, and the perceived fairness of tax administration. The following mechanisms are designed to strengthen the relationship between taxpayers and the State.

a) Publish concluded tax cases: URA will transparently publish summaries of resolved tax cases, highlighting decisions, legal interpretations, and compliance lessons. This educates taxpayers, creates predictable expectations, and deters non-compliance by demonstrating that enforcement is fair, consistent, and evidence-based.

b) Link tax to services: The Government of Uganda will consistently communicate how tax revenues finance essential public services such as roads, health care, education, and public safety. Demonstrating the direct connection between taxes and tangible improvements in citizens' lives strengthens the legitimacy of the tax system and enhances willingness to comply.

6. Simplification and Transparency of Tax Administration: A transparent and simplified tax administration reduces compliance costs, enhances fairness, and builds confidence in the tax system. The Government proposes the following:

i. Streamlining Refunds and Debt Management

a) Review of VAT refund system: Government will undertake a comprehensive reform of VAT refund administration through:

- 1) **A diagnostic study** on refund timeliness, reversals, interest policy, and administrative bottlenecks to identify systemic constraints.
- 2) **Automation of the refund process** to reduce discretion, shorten processing time, and ensure equitable treatment of taxpayers.
- 3) **Aligning refund eligibility with fiscalised receipts (EFRIS)** to strengthen compliance, reduce fraudulent claims, and improve audit assurance.

b) Strengthening Tax Arrears Management. URA will enhance arrears management by:

- 1) **Integrating arrears tracking systems across all revenue sources** to establish a consolidated view of taxpayer liabilities.
- 2) **Producing periodic arrears reports** to support targeted enforcement and better strategic planning.
- 3) **Separating interest from penalties** to improve transparency, prevent unfair compounding of debt, and support realistic repayment arrangements.

ii. System Integration: The tax administration will integrate tax processes with other government systems to improve data consistency, reduce duplication, and enhance service delivery. Particularly, the DRMS2 focuses on the following system integration:

a) Integration with NTR refund systems: Integration of URA systems with the **Non-Tax Revenue (NTR) refund management** for Ministries, Departments, and Agencies (MDAs) will ensure consistency, reduce delays in refunds, and promote a whole-of-government approach to revenue administration.

7. Foster Fairness and Progressivity in the Tax System: A fair and progressive tax system ensures that taxpayers contribute according to their ability to pay, while safeguarding low-income households and supporting inclusive economic growth. Government will strengthen fairness, reduce regressivity, and modernise tax policy instruments to enhance equity across the tax system.

a) Review VAT exemptions: Government will undertake a progressivity assessment of VAT exemptions to ensure that they effectively support poor households while limiting leakage to high-consumption groups. Policy design will consider that many low-income households purchase goods from non-VAT registered vendors; therefore, exemptions must balance equity and efficiency without undermining the VAT base.

- b) **Review PAYE thresholds:** PAYE thresholds will be periodically adjusted to reflect inflation, protect low-income earners, and ensure that the tax burden is aligned with ability to pay.
- c) **Revisit VAT deferment and thresholds:** VAT thresholds and deferment schemes will be re-evaluated to reduce distortions, curb strategic deregistration, and improve fair access to tax benefits, especially for SMEs transitioning into the formal sector.
- d) **Reform withholding tax (WHT) administration:** The current WHT framework imposes disproportionate burdens on small and informal suppliers. Government will restructure the system to ensure fairness and minimise working-capital constraints on low-risk taxpayers.
- e) **Introduce simplified compliance tools and WHT exemptions for low-risk taxpayers:** Simplified digital tools, low-risk categorisation, and exemption certificates will be introduced to ease compliance costs for SMEs and compliant taxpayers.
- f) **Revise penalty regimes:** Penalties, including the UGX 50M Digital Tax Stamp (DTS) penalty, will be reviewed to ensure proportionality. Penalty amounts should reflect firm size, frequency, and severity of offences to avoid regressive impacts.

8. Political Economy and Implications for Stakeholder Engagement and Reform Sequencing in DRMS Implementation

- i. **Stakeholder Mapping and Engagement Strategy:** Understanding the political economy context is essential for effective stakeholder engagement. The DRMS2 reforms touch on multiple vested interests and institutional mandates, which must be strategically navigated. Table 6 identifies four major groups: Central Government Agencies; Local Governments; private sector/informal operators; and civil society/citizens. Each group has distinct interests and incentives influencing their support or resistance to DRMS2 reforms. Against this backdrop:
 - a) Central Government Agencies must be aligned through Cabinet-level coordination to avoid mandate clashes and data ownership conflicts.
 - b) Local Governments require incentive-compatible reforms such as performance-based grants to counteract political patronage and weak autonomy.
 - c) Private sector and informal operators must be engaged through trust-building and co-created reforms to temper fears of enforcement and formalisation.
 - d) Civil society and citizens need transparency.

Table 6: Stakeholder Mapping and Engagement Strategy

Stakeholder Group	Core Interests	Political Economy Tensions	Engagement Strategy
Central Government Agencies (MoFPED, URA, NPA)	Control over revenue; policy coherence; integrated systems	Mandate overlaps; data ownership disputes; rivalry	Cabinet-level coordination; Fiscal Reform Task Force; shared KPIs
Local Governments (Districts, Cities, ULGA)	Fiscal autonomy; service delivery legitimacy	Dependency on transfers; politicisation; weak capacity	Performance-based grants; mandate clarity; technical assistance
Private Sector & Informal Operators	Predictability; reduced compliance burden	Fear of formalisation; mistrust; low capacity	Co-created reforms; simplified regimes; sequencing services before enforcement
Civil Society & Citizens	Fairness; accountability; better service delivery	Weak tax morale; limited understanding; fragmentation	Participatory budgeting; transparency portals; citizen feedback mechanisms

ii. Sequencing of Reforms: Navigating Political Constraints: The order and pace of reform matter. A politically naive implementation of the DRMS2 risks resistance, reversals, or selective enforcement. We propose a three-phase sequencing strategy grounded in political economy realities (which is outlined in Table 7):

- a) Phase 1 builds administrative credibility through low-resistance reforms.
- b) Phase 2 introduces incentives for formalisation and local revenue mobilisation.
- c) Phase 3 tackles entrenched interests in high-rent sectors such as extractives, telecoms, and land. The table reflects a strategic logic: start with legitimacy-building, move to incentive-based reforms, and only then address politically sensitive areas with transparency and strong oversight.

Table 7: Reform Sequencing Strategy

Phase	Reform Priorities	Rationale
Phase 1: Build Legitimacy & Capacity	Digitise land/property registries; strengthen URA services; expand data integration; create coordination structures	Low-resistance, high-impact reforms; builds trust before sensitive reforms
Phase 2: Incentivise Local Tax Effort & Formalisation	Performance-based grants; pilot mining/commercial property tax; simplified regimes; communicate tax-service links	Creates incentives; supports voluntary compliance; reduces political cost via pilots
Phase 3: High-Rent Sector Reforms	Address extractives/telecoms/land; transparency & e-filing; independent valuation; revenue-sharing frameworks	Phased approach minimises elite resistance; strengthens oversight

iii. Managing Reform Risks

We identify five critical risks to the reform agenda: patronage; policy reversals; institutional capture; weak tax morale; and inter-agency rivalry. (See Table 8.)

- a) Patronage risks require elite buy-in and demonstration of mutual benefits.
- b) Policy reversals are best prevented through piloting, phased implementation, and embedding reforms in the legal framework.
- c) Institutional capture in high-rent sectors must be checked through parliamentary oversight, public disclosure, and strong civil society watchdogs.
- d) Weak tax morale needs transparency initiatives linking taxes to services.
- e) Inter-agency rivalry can result in fragmented implementation and requires Cabinet-backed coordination to mitigate this fragmentation.

Table 8: Political Risks and Mitigation

Risk Category	Political Economy Risk	Implications	Mitigation Strategy
Patronage & Elite Capture	Local tax reforms may undermine patronage networks	Resistance, selective implementation	Elite consultations; demonstrate mutual benefits; build capacity
Policy Reversals	Sensitive reforms face political backlash	Undoing or blocking reforms	Piloting; phased rollout; embed in legislation
Institutional Capture	High-rent sectors distort enforcement	Revenue leakage; uneven application	Parliamentary oversight; civil society watchdogs; transparency
Weak Tax Morale	Perceived corruption and low service quality	Low voluntary compliance	Transparency portals; link taxes to services; taxpayer education
Inter-Agency Rivalry	Competition for data and authority	Fragmented implementation	Cabinet-backed coordination; legal mandates for data integration

9. The swift and effective resolution of tax dispute promotes efficiency and equity, particularly for small businesses, but also reduces the cost of compliance, enhances taxpayer trust, and expedites conflict resolution without undermining revenue collection. The government intends to simplify the dispute processes by:

- i. **Fully Digitising Tax Dispute Processes:** Digitisation shortens timelines, removes discretion, improves transparency, and reduces opportunities for corruption.
 - a) Build a full e-TAT platform: e-filing, e-case registration, document upload, tracking, evidence submission, and case-status dashboards (similar to Rwanda's e-tax and e-dispute systems).

- b) Enable virtual hearings, especially for SMEs, remote regions, and vulnerable taxpayers.
- c) Integrate TAT with URA systems (returns, assessments, objections) for automatic case loading and evidence retrieval.
- d) Automate notifications, timelines, reminders, and statutory deadlines.

ii. Strengthen Human Capital and Professionalisation by Creating a TAT Professionalisation Programme:

- a) Mandatory training in international tax, digital economy, transfer pricing, sector audits.
- b) Training of panel members in judicial ethics, case management, and Alternative Dispute Resolution (ADR).
- c) Continuous professional development through a joint Uganda Law Society and EAC harmonised curriculum.

iii. Given that a strong dispute-resolution body raises taxpayer trust and reduces appeals to the High Court, lowering public costs, introduce a performance measurement system for TAT judges and registry staff using metrics such as:

- a) Case clearance rates.
- b) Timeliness indicators.
- c) Quality of written decisions.
- d) User-satisfaction surveys.

iv. Given that a clearer chain reduces inflow to TAT, resolving many disputes at earlier stages, there is a need to reform the entire dispute chain from audit quality to objection to ADR, then to formal appeal. Therefore, Uganda should:

- a) Introduce integrated dispute pathways:
 - 1) Mandatory quality review of URA audit positions before assessment is issued.
 - 2) Standardised objection templates and timelines.
 - 3) A clearly defined ADR stage with certified mediators.
- b) Require URA to submit a “Statement of Grounds” that summarises facts, law, and issues before TAT hearings begin.
- c) Implement pre-filing settlement conferences to narrow issues early.

v. Create a Fast-Track and Low-Cost Track for SMEs. Given that SMEs form 90% of taxpayers and currently face long delays and high compliance costs, in the spirit of simplified taxpayer services and digitisation for small taxpayers, amend the law to provide for a simplified, low-value dispute tracks:

- a) Establish a Small Taxpayer Track for:
 - 1) Disputes below UGX 50 million resolved within 60 days.
 - 2) Desk-based hearings with no oral evidence, unless necessary.
 - 3) Reduced or waived filing fees.

- b) Use template-based decisions for routine, low-complexity matters.

vi. Reform or eliminate the 30% deposit requirement. The 30% deposit is a major barrier to justice. The current rule undermines access to justice and encourages settlements driven by cash constraints, not merit.

- a) Replace the 30% deposit rule with:
 - 1) **Risk-based guarantees such as bank guarantees**, post-dated instruments.
 - 2) **Means-tested waivers** for SMEs and low-income individuals.
 - 3) **Automatic suspension** of enforcement once a case is admitted.
- b) Introduce a **statutory cap** on deposits (e.g., not exceeding 5% of assessed tax or UGX X million).

vii. Ensure Finality of Decisions. This would drastically reduce litigation backlog and increase certainty for taxpayers and URA. Therefore, amend the TAT Act to:

- a) Make TAT decisions final on matters of fact, appealable only on points of law.
- b) Impose timelines on High Court and Court of Appeal decisions in tax matters.
- c) Introduce Cost Orders against frivolous appeals.

viii. Strengthen ADR and Make It Legally Certain. ADR is faster, cheaper, and more collaborative; it reduces tribunal caseload and enhances voluntary compliance.

- a) Create a Tax ADR department/section with professional non-URA mediators.
- b) Give ADR agreements legal enforceability without requiring tribunal ratification.
- c) Introduce sector-based ADR for banks, telecoms, oil and gas, and manufacturing.
- d) Mandate ADR before filing at TAT for disputes below UGX 1 billion.

9. The DRMS2 Expected Monetary Outturn

Table 9 outlines which interventions are expected to generate the additional revenue, and how much each type of reform (policy vs. administrative) is expected to contribute.

i. Administrative Measures Dominate: Reforms such as digital integration (e.g., linking licensing, payment systems, and tax registries), URA automation (EFRIS), and formalisation tools are expected to drive over 75% of the total revenue gains. These reforms are scalable, continuous, and relatively easier to implement politically compared to direct tax policy changes.

ii. Policy Measures are Strategic but Gradual: Tax rate harmonisation, removal of VAT exemptions, and new legislation around withholding and rental taxes are classified under policy. Their impact is delayed (mostly from FY 2027/28 onwards) due to the time needed for legislative changes and compliance adaptations.

iii. Timing Matters: Many reforms scheduled for 2026/27 onwards (e.g., trade/licensing integrations) will start yielding returns in mid-to-late-implementation years (2027/28 and onwards). Early-stage reforms, such as URA's digital push, begin paying off in 2025/26, providing quick wins.

Table 9: Distribution of Revenue Contributions by Strategy, %

Strategy Category	Type	Yield Share (%)	Key Implementation Years	Comments
Digital integration of payment & registration data	Admin	25	2026/27–2029/30	Major driver of admin efficiency
Taxpayer register expansion via formalisation tools	Admin	15	2025/26–2027/28	Strong short-term boost
Streamlining tax rates & rental tax harmonisation	Policy	10	2026/27–2028/29	Effective after legal/policy change
VAT & withholding reforms (exemptions removal)	Policy	10	2027/28–2029/30	Lagged implementation, but large yield
E-invoicing (EFRIS) and URA automation	Admin	35	2025/26–2029/30	Broad year-over-year returns
Illicit finance detection and enforcement reforms	Admin	5	2025/26–2026/27	Lower yield but high deterrence

Table 9 maps the projected monetary contribution (in UGX billion) from both policy and administrative reforms over the five-year period. Table 10 maps each Strategy to a Yield Band. Using the implementation framework (on Table 9), Table 10 also classifies each intervention into:

- a) High yield, for example VAT exemption removal, and EFRIS expansion.
- b) Medium yield, for example taxpayer register expansion, and policy clarity.
- c) Low yield, for example awareness campaigns and minor studies.

Table 9 also assigns plausible revenue contribution to each band, ranging in UGX (e.g., High = 150–300 billion annually, Medium = 50–150 billion, Low = <50 billion).

Finally, Table 10 contains estimates of yearly revenue contribution per strategy:

i. Consistent Growth in Revenue Yield:

- a. Both categories show linear growth, reflecting the assumption that reforms will be implemented gradually but consistently.
- b. Administrative yield increases by UGX 150–200 billion per year, while policy yield increases by UGX 50–70 billion annually.

ii. Shift in Balance Over Time:

- a. Early years (2025/26–2026/27) are administration-heavy. This reflects the prioritisation of low-hanging fruits like taxpayer register expansion, audit automation, and digital invoicing.
- b. By 2029/30, policy yields grow more significantly, reaching UGX 675 billion as VAT exemption removals and rate realignments begin to bite.

iii. Strategic Sequencing:

- a. The timing of revenue yields align well with the sequencing indicated in the DRMS strategies, showing a deliberate policy logic: quick wins first, structural reforms later.

Together, Table 9 and Table 10 reflect a realistic and strategically phased DRMS2 approach, where:

- a) Administrative capacity is used as a launchpad for early gains;
- b) Policy reforms are carefully timed to mature later;
- c) Yield shares are aligned with implementation feasibility and political economic realities; and
- d) Growth is expected to be sustained, not spiky, signalling credible revenue mobilisation planning.

Table 10: Distribution of Revenue Contributions by Strategy, UGX Bn

ID	Objective	Strategy	Type	Yield Band	Annual Yield Estimate	Lag (yrs)	Duration (yrs)	2025/26	2026/27	2027/28	2028/29	2029/30
1	Raise sufficient and sustainable revenue for the government and expand the tax base	EFRIS and URA automation	Admin	High	250	2	3	0	0	399.2	467.3	471.2
2		Integration of business registries and payment systems	Admin	High	250	2	3	0	0	420.1	465.2	475.4
3		Formalisation of informal businesses	Admin	Medium	125	1	4	331.3	209.4	138.8	185	209.6
4		VAT Tax Expenditure rationalisation	Policy	High	250	2	3	118.5	0	131.3	147	156.9
5		Rental income tax harmonisation	Policy	Medium	125	1	4	57.4	128.2	43.5	54.8	70.3
6		Rationalisation of Custom TE	Policy	Low	50	1	2	23	115.3	20.7	0	0

ID	Objective	Strategy	Type	Yield Band	Annual Yield Estimate	Lag (yrs)	Duration (yrs)	2025/26	2026/27	2027/28	2028/29	2029/30
7		Widening presumptive tax	Policy	Medium	125	1	4	57.5	120.4	42.9	56.4	74.8
8		Improved taxpayer services (USSD, mobile tech)	Admin	Low	50	1	2	41.8	176.7	63.3	0	0
9		Withholding tax policy reform	Policy	High	250	2	3	0	0	128.1	148.4	150.5
10		Illicit financial flows enforcement	Admin	High	125	1	2	256.5	183.3	58.7	0	0
11		Property tax digital mapping and reform	Admin	Medium	125	1	4	109.1	220.9	134.2	170.0	219.4
12		Review and streamline local government taxes	Policy	Medium	125	1	4	172.3	117.3	42.7	54.7	73.4
13		Digitalisation of licensing/permits	Admin	Medium	125	1	4	331.9	217	138.2	171.8	218.1
14		Third-party information integration (banks, insurers)	Admin	Medium	125	1	4	110.1	224.5	132.1	167.1	218.6
15		E-invoicing VAT rebate scheme	Policy	High	250	2	3	0	0	130.1	142	149.2
16	Support the Tenfold Growth Strategy	Automation of customs and border procedures	Admin	Medium	125	1	4	105.3	212.1	132.9	183.4	183.4
								1714.6	1925.1	2156.6	2413	2700.3

10. The DRMS Monitoring Framework

Strengthening accountability for results is central to the DRMS2. Therefore, the selection of good performance indicators is fundamental to a good DRMS performance accountability system. To address these issues, **The DRMS Implementation Plan (provided in a separate document)** identifies indicators and institutional arrangements for results. However, the strengthening of the results framework is a continuous process among stakeholders, which will include building strong institutional capacity for formulation of results and indicators, improving the quality used for baselines and performance measurement, and building a database for the management of statistics.

ANNEX 1

Table A1: DRMS2 Political Economy Risks and Mitigation Framework

	Risk Category	Specific Risk	Manifestation in DRMS2	Underlying Driver	Mitigation Strategy
1	Political Resistance	Elite pushback	Resistance to HNWI audits and incentive removal	Concentrated interests	Phased reforms, transparency, data-led enforcement
2	Policy Credibility	Incentive reform opposition	Lobbying against removal of tax holidays	Entrenched benefits	Tax expenditure reports, transition rules
3	Compliance	SME resistance	EFRIS/WHT pushback	High compliance costs	Simplified regimes, incentives
4	Governance	Weak social contract	Low voluntary compliance	Low trust	Link tax to services, communication
5	Institutional	Coordination failure	URA, LGs, registries misaligned	Fragmentation	Data sharing, joint taskforces
6	Local Gov.	LG resistance	Weak property tax implementation	Capacity constraints	Fiscal incentives, digital tools
7	Political Cycle	Short-termism	Reform delays near elections	Electoral pressure	Sequencing reforms
8	Administration	Corruption risks	Discretion in audits	Weak oversight	Digitisation, audit trails
9	Data	Information gaps	Hard-to-tax sectors	Limited data	Data integration
10	Sectoral	Lobbying	Resistance from sectors	Interest groups	Gradual engagement
11	Capacity	Skills gaps	Weak implementation	Limited expertise	Training, TA
12	Implementation	Reform fatigue	Too many reforms	Low absorptive capacity	Prioritisation



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