Digital financial services are growing in Uganda and play an important role in supporting the financial inclusion of the poor.

Recently, the Ugandan Government has increased the level of taxation on traditional and digitally-delivered financial services, with some taxes applying specifically to digital payments.

### Why are digital payments important for Uganda?

Digital financial services are growing in Uganda and play an important role in supporting the financial inclusion of the poor.

### How are digital payments taxed?

Recently, the Ugandan Government has increased the level of taxation on traditional and digitally-delivered financial services, with some taxes applying specifically to digital payments.

#### Tax to GDP ratio

<table>
<thead>
<tr>
<th>Country</th>
<th>2018 Tax to GDP ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uganda</td>
<td>11%</td>
</tr>
<tr>
<td>EAC</td>
<td>14%</td>
</tr>
<tr>
<td>SSA</td>
<td>15%</td>
</tr>
</tbody>
</table>

Immediately after introducing a tax on mobile money withdrawals, the total value of transactions declined, but has since recovered.

### Access to financial accounts by the poor

Access to financial accounts by the poor:

- 10% in 2011
- 50% in 2017

### Financial services use by the total adult (15+) population:

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total adult (15+) population</td>
<td>44.3 million</td>
<td>44.3 million</td>
<td>44.3 million</td>
<td>44.3 million</td>
<td>44.3 million</td>
<td>44.3 million</td>
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<td>44.3 million</td>
<td>44.3 million</td>
<td>44.3 million</td>
<td>44.3 million</td>
</tr>
<tr>
<td>Total population of working age (15-64)</td>
<td>22.8 million</td>
<td>22.8 million</td>
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<td>22.8 million</td>
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</tr>
</tbody>
</table>

#### Growth in mobile money usage

- Registered mobile money accounts
- Transaction values

#### Growth in mobile money usage

In 2019, an average of 7.8 million mobile money transactions were conducted daily.

#### Tax to GDP ratio

- 11% in 2018

#### Annual transaction values (UGX trillion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Transaction values (UGX trillion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>8.0</td>
</tr>
<tr>
<td>2018</td>
<td>8.5</td>
</tr>
<tr>
<td>2019</td>
<td>8.8</td>
</tr>
</tbody>
</table>

#### Tax applied to digital payments

- **Rate**: 15%
  - Applied to all fees charged by banks (increased from 10% in 2018)
- **Rate**: 0.5%
  - Applied to the value of mobile money cash withdrawals (introduced in 2018)
- **Rate**: 15%
  - Applied to fees charged for money transfer services provided by operators other than banks (increased from 10% in 2018)
- **Rate**: 10%
  - Applied to commissions earned by mobile money agents (introduced in 2018)
- **Rate**: 0%
  - No Value-Added Tax applied to financial or mobile money services

#### Immediately after introducing a tax on mobile money withdrawals, the total value of transactions declined, but has since recovered

- 2018
  - Total transaction value: 8 trillion UGX
  - Decline: 10%
  - Recovery: 50%

---

a. The proportion of adults using digital payments (sending and/or receiving digital payments) is higher than those reporting that they have a mobile money account. This is not necessarily inconsistent as some people send or receive digital payments through someone else’s account, or transact directly through a mobile money agent.
b. Poorest 40% of the population
c. ICTD/UNU-WIDER Government Revenue Database (2018)
What do these taxes contribute to government revenue?

In 2019/2020 total revenue collected from all taxes was **UGX 17.3 trillion** (4.8 billion USD)

Taxes on all bank charges, money transfers and mobile money contributed **UGX 278 billion** (1.61% of total revenue)

This is the equivalent of:

- 16% of the road maintenance and construction budget
d
- 23% of the health sector budget
e

<table>
<thead>
<tr>
<th>Year</th>
<th>Money transfer fees</th>
<th>Bank charges</th>
<th>Mobile money tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019/20</td>
<td>5%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>2018/19</td>
<td>5%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>2017/18</td>
<td>5%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>2016/17</td>
<td>5%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>2015/16</td>
<td>5%</td>
<td>10%</td>
<td>15%</td>
</tr>
</tbody>
</table>

What do these taxes mean in practice?

Agnes has just received her salary and wants to send UGX 20,000 (USD 5) to her mother in the village for medical bills. She prefers to use digital payment methods because they are faster and more secure. But should she do a bank transfer or a mobile money transfer? She decides to compare the options:

**Scenario 1:** Mobile to mobile
- Agnes deposits the cash
- Agnes transfers to her mother's account
- Her mother withdraws the money

**Total cost and taxes:**
- UGX 1480 cost
- UGX 280 tax (19% of cost)

**Scenario 2:** Bank to mobile
- Agnes deposits the cash
- Agnes transfers to her mother's account
- Her mother withdraws the money

**Total cost and taxes:**
- UGX 2130 cost
- UGX 365 tax (17% of cost)

**Scenario 3:** Bank to bank
- Agnes deposits the cash
- Agnes transfers to her mother's account
- Her mother withdraws the money

**Total cost and taxes:**
- UGX 5980 cost
- UGX 780 tax (13% of cost)

---

d. The figure illustrates all revenue collected from taxes on bank charges, some of which are not for digital payments. Our data does not allow further disaggregation.
e. Data from the Uganda FinScope (2018) indicates that UGX 20,000 is a common remittance amount.

**Data sources:**
5. All government revenue data (section 3): Ministry of Finance, Planning and Economic Development, data shared by the Tax Policy Department (2021)
7. Mobile to mobile tariffs: MTN mobile money tariffs (1 May 2021)
8. Bank to mobile: Stanbic Bank online banking tariffs (31 March 2021)
9. Bank to bank: Stanbic Bank online banking & ATM withdrawal (31 March 2021)