Tax. |

Why the rich, multinationals are paying less tax than they should

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Why do governments struggle to tax high-net-worth individuals and multinationals while relentlessly pursuing the informal sector?

The answer lies in a mix of complexity and power. Wealthy elites and global firms operate through layered corporate structures and cross-border transactions, and they often benefit from political protection.

Small businesses, by contrast, are easier to find, register, and monitor. As a result, tax authorities can expand the register without raising much revenue because most newly registered taxpayers are low-income earners with limited taxable capacity.

Uganda shows the dilemma clearly. The tax-to-GDP ratio remains under 14 percent, below African peers and short of government's 16 to 18 percent target.

With donor funding shrinking, domestic revenue has to rise. Economists argue that the country will not close the gap by squeezing already burdened small firms; meaningful gains lie in taxing large companies and wealthy individuals where the income is generated.

Civil society organisations say many multinationals minimise or evade taxes by routing investments and profits through low-tax jurisdictions or countries with favourable treaties.

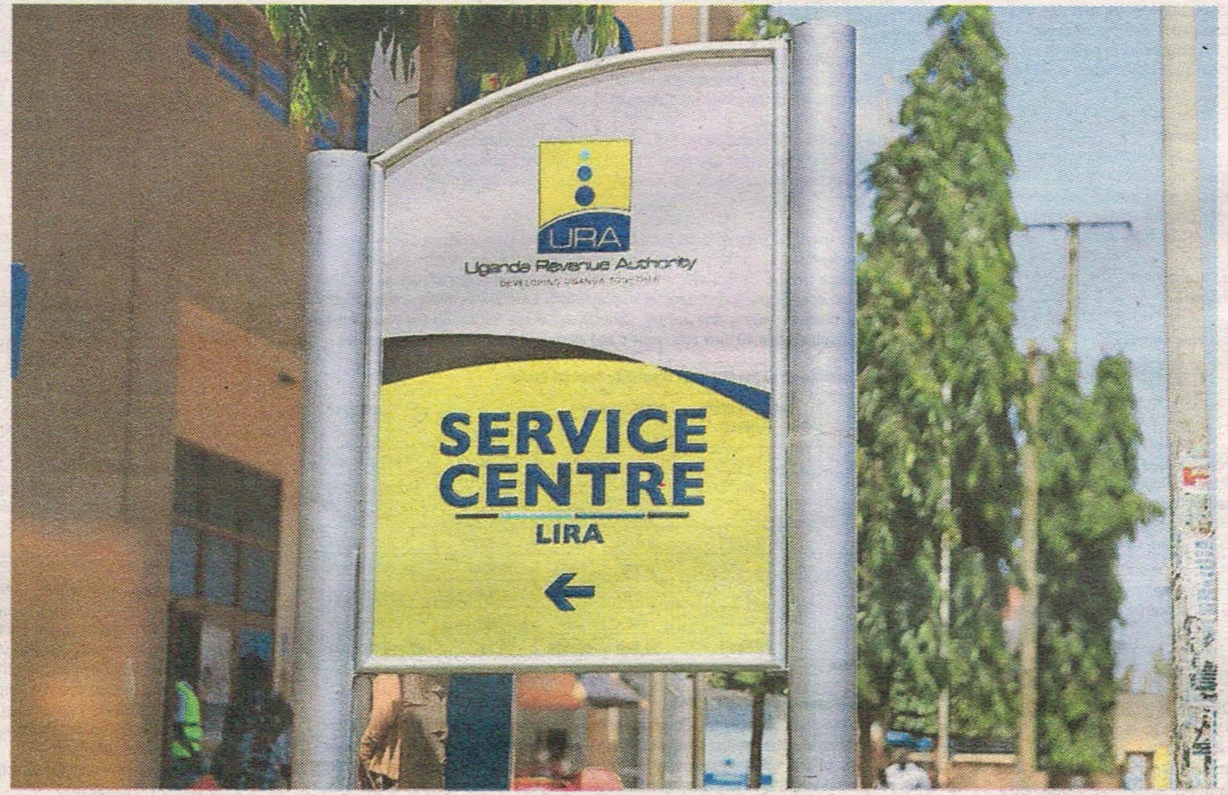
Double taxation agreements often allocate taxing rights mainly to a company's home country, rather than the country where profits are earned.

As a result, income generated in Uganda can legally escape taxation before it reaches the local base.

The African High-Level Report estimates that for every one dollar Africa receives in investment, three dollars leave the continent through capital flight and value loss. This suggests that resources already exist in the system but leak away through loopholes that remain unaddressed.

The Tullow Oil dispute highlighted what is at stake: a single sale of Ugandan assets yielded more than $400m in assessed taxes, far beyond what could be raised by taxing thousands of low-income earners.

Economist Fred Muhumuza argues that failure to tax the rich is often political, with technocrats avoiding confronting or closing the loopholes. But beyond this, a major constraint lies in Uganda's double taxation agreements.



Uganda's tax-to-GDP ratio remains under 14 percent, below government's 16 to 18 percent target. PHOTO / FILE

Key figures

14%

Tax-to-GDP ratio remains under 14 percent, below African peers and short of government's 16 to 18 percent target.

$4b

Some government officials have previously indicated that focus should be on high value imports such as gold that earn an average of $4b.

Several older treaties tilt heavily toward investor countries, limiting Uganda's ability to tax profits generated locally by firms headquartered abroad.

Civil society organisations under Tax Justice Alliance have repeatedly urged renegotiation of such agreements, including the Uganda–Netherlands treaty, which they say sharply restricts Uganda's source-country taxing rights.

Weak enforcement of transfer-pricing rules is another barrier. Although the law requires related companies to trade at arm's length, URA lacks access to reliable global pricing databases to verify declared prices. Efforts to obtain this information through the OECD have been slowed by Uganda's limited compliance with international data-protection standards. This information gap enables profit shifting across borders with minimal scrutiny.

High-value sectors also show gaps. Muhumuza points to gold exports worth an estimated $3 to $4b annually. Exporters are required to pay $200 per kilogramme, but many don't pay.

Enforcing existing laws in such sectors, he argues, would yield more revenue than chasing small taxpayers who contribute marginally. Multinationals further reduce tax liability through thin capitalisation. By borrowing from subsidiaries in low-tax jurisdictions and claiming interest deductions in Uganda, firms can report tiny or even zero profits locally while booking gains elsewhere.

Allan Muhereza Murangira of Youth for Tax Justice Network cites companies that declare losses to URA for years but report profits elsewhere. In one case, a company that had reported losses for nine consecutive years declared profits soon after government proposed a 1 percent tax on gross sales, implying its earlier "losses" were strategic.

Murangira and other activists call for reforms such as country-by-country reporting, automatic exchange of information, and public registers of beneficial ownership. These tools would clarify where profits are made, where they are declared, and who benefits.

Beyond technical fixes, the political economy matters. Muhumuza says failing to tax high-net-worth individuals often amounts to political shielding.

Until institutions are willing and able to confront elite interests, loopholes will persist, and enforcement will remain uneven.

Uganda's treaty negotiation strategy also weakens its position. Agreements mix OECD and UN models, but outcomes often favour foreign investors.

Dorothy Nakyamanade, Supervisor for Tax Expenditures and Policy Analysis, says URA works within the law and can tax firms even without permanent establishments.

She cautions against assuming big companies should automatically carry a disproportionate share, arguing that fairness means every taxpayer contributes according to the rules.

Still, she warns that failure to collect from all contributors crowds out spending on health, education, and social protection.