Are taxes undermining Uganda's youth-driven digital economy?

Uganda's digital economy has become a lifeline for many young people. It offers a sanctuary for a livelihood in ride-hailing, e-commerce, mobile-money, and freelance platforms. It is not strange to see a young person creating a TikTok reel of a new song or about a men's wear shop in town and receive modest pay.

But the sector's rapid expansion has caught the eye of the taxman because of the ease with which it can be taxed. The current approach, levying a 12 percent excise duty on data atop the standard 18 percent VAT, and levies on mobile-money payments and streaming services has begun to choke users.

The story of Uganda's digital taxation started in 2018 with the introduction of the over-the-top (OTT) tax on social-media use. Marketed as a quick win for the Treasury, the levy forced more than five million users offline within three months and collected a paltry $13.5m (Shs48b), about 17 percent of the $77.8m (Shs274.5b) target. The episode proved that heavy taxes on connectivity prompt users to abandon the Internet or find ways around it.

Today, the tax burden has multiplied. Every megabyte of data carries a 12 percent excise duty, a standard 18 percent VAT is still applied, and additional surcharges hit mobile-money transactions and streaming subscriptions. Uganda's 2022 National IT Survey showed the average citizen spends about Shs10,800 per month on phone and data services. This implies that buying just one GB of data at around

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Shs5,000 already consumes nearly half of a typical user's monthly digital budget. This translates into unaffordable access.

Although 4G coverage blankets 96 percent of the population, only 37 percent of Ugandans use mobile Internet. The gap is not a lack of infrastructure but a lack of purchasing power; low-income households simply cannot afford the price of data. When connectivity is a luxury, digital entrepreneurs lose customers, and telecom operators, in turn, must shift the cost of their investments onto a narrow user base.

The government's need for revenue is understandable. Uganda's budget deficits have widened, and tax collection remains a priority for financing essential public services. However, the current policy reflects a short-term focus on revenue extraction rather than a long-term strategy that expands the tax base.

A 2025 GSMA study projected that removing the 12 percent excise duty on data could bring four million more Ugandans online by 2030. This could create approximately 1.79 million new jobs and generate an additional Shs2.1 trillion (about $600m or Shs2 trillion) in annual tax receipts. In other words, a modest reduction in taxes today could produce far greater fiscal returns in the future.

The implication is that short-term revenue realisation now costs far more in lost growth later. By taxing each data bundle and transaction, the government could be effectively pricing out the very unemployed or low-income earner citizen it may be intending to help. A policy that targets scale lower data costs will grow the digital economy, enlarge the tax base and deliver sustainable fiscal gains.

Uganda can choose to focus on the appeal of immediate tax windfalls, or it can choose a growth-first strategy that lets the digital sector mature before taking its share. Evidence shows that easing the tax burden will not only bring millions online and create jobs, but it will also generate far more revenue than the current levies ever could.

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