

Q&A CSBAG's ED about Mobile Money and Smartphone Taxes

Why are mobile money taxes perceived as unfair?

As Uganda pushes toward a digital economy, as CSBAG, we are concerned that the current tax policies on mobile money and smartphones could be leaving millions out of the digital world.

While bank customers are taxed only on the **transaction fee**, Mobile money users are taxed both the 0.5% on every withdrawal and 15% tax as transaction fees. This difference matters because mobile money is the primary financial service for most Ugandans, with over 35 million active users with annual transactions recorded at an estimated USD 330 million annually. In real terms, a mobile money user pays up to **4** times the tax compared to a bank. For example, mobile money users can lose about **UGX 6,500** in tax for a person withdrawing UGX 1,000,000, while the same transaction at a bank attracts only about **UGX 1,500** in tax. This means that any tax on mobile money directly affects how Ugandans send money, run businesses, and manage their daily lives.

Who is paying the highest price for these taxes?

The burden falls heaviest on low-income and rural Ugandans. These are households that use mobile money to buy food, pay school fees, or cover medical expenses. For smaller transactions, the burden is even heavier. A withdrawal of **UGX 50,000** can consume a significant share of the amount withdrawn of around **UGX 2,000** to **UGX 2,500**, which is up to **4** or **5%** of the amount. For many families, this turns a basic financial lifeline into a costly necessity and for traders, farmers, and small businesses that transact frequently, this becomes a daily cost that reduces profits and limits growth.

What happened the last time mobile money taxes were increased?

The consequences were immediate and severe. After the 2018 mobile money tax reforms, usage dropped by **40 percent**. Studies also show that every **10 percent increase in transaction costs reduces usage by about 20 percent**. This decline not only reduced financial inclusion but also pushed people back to cash, creating economic inefficiencies estimated at **33 to 35 percent** and undermining trust in digital payments.

How does Uganda's approach to mobile money tax compare with other East African countries?

In an East African context, Uganda is increasingly an outlier. Kenya, Tanzania, and Rwanda do not levy excise duty on the value of mobile money withdrawals. Instead, they tax service fees or supporting policies that expand digital transactions and financial inclusion. This makes mobile money significantly more expensive in Uganda and places a heavier burden

on low-income users. This divergence weakens Uganda's competitiveness in the regional digital economy and undermines progress toward East African integration, where crossborder digital transactions are becoming more important.

Why are smartphones part of the same debate?

Because mobile money and digital services depend on smartphone access. Entry-level smartphones in Uganda are burdened with multiple taxes, including 10% import duty, 18% VAT for smart phone below UGX 350,000, 1.5% infrastructure levies, and 1% import declaration fees. As a result, a phone costing **UGX 250,000** can land at around **UGX 330,000**. This keeps smartphone penetration at just **33 percent**, below the regional average of 50 percent, and limits access to the internet, e-government services, online education, and small digital businesses.

What reforms are being proposed—and what would Uganda gain?

Civil society groups are calling for targeted reforms: reducing the mobile money withdrawal tax from 0.5 to 0.25%, introducing a tax cap of UGX 5000 per withdrawals, exempting very small withdrawals.

We also recommend exempting small withdrawals especially for low-income users, and shifting taxation away from the value of transactions to the service fees, which is how bank transactions are treated. For smart phones we propose removing import duty and zeroing VAT on entry-level smartphones priced below **UGX 350,000** to improve affordability and expand digital access. The payoff could be significant. Closing the smartphone gap could create **1.79 million jobs by 2030**, while a **10 percent increase in smartphone penetration** could grow Uganda's GDP by up to **1.2 percent**, equivalent to **UGX 14.6 trillion**.

How does digital tax connect to Uganda's national budget process?

Digital taxes on mobile money and smartphones are Uganda's broader domestic revenue mobilisation strategy and they are part of annual **budget decisions**, introduced to raise revenue for public spending. However, poorly designed digital taxes can undermine the very development goals the budget seeks to achieve.

Uganda's NDP IV identifies digital transformation as

a key driver of growth, targeting to

The Executive Director of the Civil Society Budget Advocacy Group (CSBAG), Julius Mukunda. FILE (CSBAG)

increase internet usage from **16.5%** to **45%** and Mobile money usage to 71% by 2029. At the same time, the plan recognizes that high costs of digital services and devices are a major barrier. This means that while digital taxes raise revenue, they can also undermine national development goals if they make access too expensive.

What is CSBAG's main message on digital taxation in 2026?

For us as CSBAG, the **Bottom line** is that Uganda should tax smart, not tax access. Mobile money is used by over 60 percent of adults, while only about **15 to 20%** rely on formal banking services. At the same time, smartphones, which are essential for digital participation, are made up to **30%** more expensive due to taxes. Evidence shows that high digital taxes can reduce usage by up to **40 percent** and lead to an economic loss of about 35% of the revenue collected. This is not efficient taxation. Lowering these taxes will increase usage, expand the digital economy, and ultimately generate more sustainable revenue for the government

Message to Ugandans

Uganda collects about **UGX 300-600 billion** annually from mobile money taxes, but around **UGX 100-200 billion** is lost as people reduce transactions and business slows down. Meanwhile, taxes make smartphones about **30%** more expensive, pushing a **UGX 300,000** phone to nearly **UGX 390,000**. Fairer digital taxes would expand usage, grow the economy, and ultimately strengthen the tax base. This is not about losing revenue; it is about unlocking a **UGX 300 trillion** digital economy.

As Uganda pursues its national development goals, the question remains: will digital tools be priced as public infrastructure or taxed as privileges.



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