

STRATEGIES FOR RAISING UGANDA'S TAX-TO-GDP RATIO: A PRIVATE SECTOR PERSPECTIVE.

PRESENTED TO



**THE PRESIDENTIAL ADVISORY COMMITTEE ON BUDGET
(PACOB)**

Business growth is our business

PREPARED BY

PRIVATE SECTOR FOUNDATION UGANDA (PSFU)

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1.0 ABOUT PSFU

The **Private Sector Foundation Uganda (PSFU)** is the country's apex body for private-sector development, established in **1995** to unite Business Associations, Corporate Institutions, and key public agencies committed to advancing enterprise growth. Over the years, PSFU has evolved into Uganda's most influential platform for private-sector advocacy, coordination, and strategic engagement. Today, the Foundation represents **over 340 member institutions** and indirectly supports **more than 3 million business establishments**, making it the largest organised private-sector umbrella and a credible voice in national economic policy.

PSFU's membership spans **12 strategic sectors** central to Uganda's economic transformation: **Agriculture and Agribusiness; Construction and Real Estate; Financial Services; Professional Services; Tourism; Manufacturing; Human Capital Development (Skills, Health, Education); Transport and Logistics; Trade and Commerce; ICT; Culture and Creative Industries; and Energy, Mining, Oil & Gas.** This broad sectoral footprint positions PSFU at the heart of national competitiveness and industrialisation efforts.

As Government's trusted implementation partner, the Private Sector Foundation Uganda (PSFU) manages several flagship national programmes, including the *Competitiveness and Enterprise Development Project (CEDP)*, the *Generating Growth Opportunities and Productivity for Women Enterprises (GROW)*, *Investment for Industrial Transformation and Employment (INVITE)*, the *Lead Firm Structure (LFS) Programme*, among others. PSFU also implements multiple value-chain development initiatives across key sectors such as agriculture, manufacturing, construction, tourism, ICT, and transport. Together, these programmes are designed to strengthen enterprise competitiveness, improve productivity, stimulate innovation, and expand domestic, regional, and international market access.

PSFU's policy advocacy is grounded in rigorous evidence, drawing from studies including the **Digital Tax Stamps Impact Study (2024)**, **Manufacturing Cost Drivers Analysis (2023)**, **Capacity Utilisation Assessment (2023)**, **Efficient Cross-Border Trade Study (2025)**, **Contract Farming Study (2025)**, and the **National Private Sector Strategy for the Construction Industry (2024) among others.** These findings reveal persistent structural constraints that limit private-sector growth and suppress Uganda's Tax-to-GDP ratio—currently **13–14%**, below the Sub-Saharan Africa average of **18%**.

This paper therefore presents a consolidated private-sector perspective on how Uganda can raise its Tax-to-GDP ratio to **16–18%** in the medium term by expanding the real economy, improving competitiveness, and strengthening compliance—without overtaxing already compliant firms or stifling investment.

2.0 INTRODUCTION

The **Private Sector Foundation Uganda (PSFU)** is the country's apex body for private-sector development, established in 1995 to unite Business Associations, Corporate Institutions, and key public agencies committed to driving enterprise growth. Over the years, PSFU has evolved into Uganda's most

influential platform for private-sector advocacy, coordination, and strategic engagement. Today, the Foundation represents **over 340 member institutions** and indirectly supports **more than 3 million business establishments**, making it the largest organised private-sector umbrella and a credible voice in national economic policy.

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Crucially, PSFU's policy advocacy is grounded in **rigorous evidence and extensive stakeholder engagement**. This paper draws from major strategic studies conducted by PSFU's Policy and Research Team—including the **Digital Tax Stamps Impact Study (2024)**, **Manufacturing Cost Drivers Analysis (2023)**, **Capacity Utilisation Assessment (2023)**, **Efficient Cross-Border Trade Study (2025)**, **Contract Farming Study (2025)**, and the **National Private Sector Strategy for the Construction Industry (2024)**. In addition, the paper incorporates insights from **sector dialogues, policy roundtables, and consultations with private-sector leaders drawn from all 12 sectors** of the economy.

The consolidated analysis highlights persistent structural constraints that limit private-sector growth and suppress Uganda's **Tax-to-GDP ratio (13–14%)**, far below the **Sub-Saharan Africa average of 18%**. This paper therefore presents a unified private-sector position on how Uganda can raise its Tax-to-GDP ratio to **16–18% in the medium term** by expanding the real economy, improving competitiveness, and strengthening compliance—**without overtaxing already compliant firms or stifling investment**.

3.0 PSFU'S PROPOSALS FOR RAISING THE TAX-TO-GDP RATIO

PSFU proposes **seven strategic reforms** aimed at expanding the economy, lowering business costs, enhancing competitiveness, and sustainably broadening Uganda's tax base by driving production growth, formalization, value-chain strengthening, and improved efficiency across key sectors.

Strategy 1: Reduce the Cost of Doing Business to Expand the Tax Base

Reducing the cost of doing business is the most immediate and effective strategy for expanding

Uganda's tax base. Evidence from the **PSFU–PwC Digital Tax Stamps (DTS) Study** shows that current DTS costs are disproportionately high—equivalent to **15.5% of Local Excise Duty (LED)**, with stamp prices **34.8% higher** than regional benchmarks. Manufacturers also incur an average of **UGX 575 million** in upfront installation costs, contributing to **business closures, reduced production, and job losses**, all of which directly shrink Uganda's tax base.

To address this, PSFU proposes **cutting DTS fees by 50–70%**, allowing manufacturers to **offset DTS expenses against excise duty**, and **zero-rating DTS under VAT** to ease cash-flow pressures. Furthermore, Government should **review the current supplier monopoly**, introduce **competitive bidding**, and adopt **sector-specific stamp technologies** aligned to industry needs.

Implementing these reforms will significantly reduce operational costs, boost production, formalise more firms, and ultimately **increase excise duty, VAT, and PAYE collections**, thereby expanding Uganda's tax-to-GDP ratio sustainably.

Strategy 2: Raise Industrial Capacity Utilisation from 54% to 75%

Uganda's manufacturing sector operates at an average **54.4% capacity utilisation**, resulting in reduced output, **lower VAT, lower PAYE, under-declared production, higher illicit trade**, and diminished export volumes. The **Capacity Utilisation Study (2023)** identifies key causes: **insufficient domestic demand (56%)**, intense **import competition (44%)**, **high input costs (42%)**, **high taxes (41%)**, and unreliable raw material supply.

To unlock industrial productivity, PSFU proposes four strategic reforms:

- i. **Reduce electricity tariffs to US\$ 0.05/kWh** to restore competitiveness.
- ii. **Fast-track local content regulations**, enabling Ugandan firms to access the **UGX 20–25 trillion Government procurement market**.
- iii. Expedite the **Competition Law and Anti-Counterfeit Law** to curb unfair market practices.
- iv. Expand long-term financing through **UDB/UDC at <10% interest** to support retooling, scaling, and technology adoption.

Raising capacity utilisation by **20 percentage points** would significantly strengthen revenue mobilisation by increasing **VAT by 25%**, **PAYE by 15%**, **corporate tax by 10–15%**, and boosting export earnings, thereby reducing Uganda's trade deficit.

Strategy 3: Build Efficient and Cost-Effective Transport & Logistics

Building an efficient and cost-effective transport and logistics ecosystem is essential to expanding Uganda's tax base and strengthening industrial competitiveness. Evidence from the **Cost Drivers Study (2023)** and the **Cross-Border Trade Study (2025)** shows that logistics currently account for **up to 40% of manufacturing costs**, with **transit losses averaging 47.4% of the value of goods**, and overall logistics costs **15–25% higher than Kenya's**. Uganda's customs efficiency ranking of **76th globally** further increases delays, costs, and informality—ultimately limiting the country's taxable

productive output.

To address this, PSFU proposes a four-point strategy:

- i. **Integrate and professionalise the logistics industry**, including drivers, clearing agents, and freight forwarders.
- ii. **Invest in rail and water transport**, reducing transport costs by an estimated **30%**.
- iii. **Eliminate NTBs** through strict enforcement of the **2017 EAC NTB Act**.
- iv. **Digitise logistics data** through a unified National Trade Facilitation System.

Reducing logistics inefficiencies will lower import-input costs, reduce consumer prices, increase firm competitiveness, and significantly boost production, exports, and ultimately **tax revenue mobilisation**.

Strategy 4: Strengthen Agricultural & Industrial Value Chains

Strengthening agricultural and industrial value chains is central to expanding Uganda's productive base and broadening the tax net. Although agriculture employs **68% of Ugandans**, it contributes only **2–3%** of total tax revenue due to informality, low value addition, and limited market integration. Evidence from the **Contract Farming Study (2025)** and **NPSSCI (2024)** highlights that most farmers remain trapped in **low-value raw material supply**, while **weak aggregation and market systems** limit investment in agro-processing. Additionally, key sectors such as construction, agro-processing, and manufacturing still lack strong **local content integration**, resulting in high import dependence and constrained industrial growth.

PSFU recommends:

- i. **Promoting contract farming frameworks** to formalise producers and strengthen supply consistency.
- ii. Establishing **agro-industrial zones** with shared storage, processing, and quality infrastructure.
- iii. Supporting SMEs through **certification, standards compliance, aggregation, and export readiness**.
- iv. Implementing **import substitution programmes** for raw materials and industrial inputs to build domestic capacity.

These interventions will transition millions of farmers and SMEs into **semi-formal and formal value chains**, increasing production, employment, exports, and ultimately **broadening Uganda's tax base sustainably**.

Strategy 5: Reform Tax Policy and Improve Tax Administration

Uganda's long-term revenue sustainability requires a strategic transition from a **revenue extraction mindset** to a **revenue expansion model** driven by enterprise growth, competitiveness, and value addition. PSFU respectfully submits that a broader and more dynamic tax base will emerge when policy

incentives are aligned with industrialisation, export growth, and formalisation rather than increased taxation on a narrow pool of compliant firms.

To support this transition, PSFU proposes five strategic reforms.

- i. **Broaden VAT exemptions on production inputs**—not outputs—to reduce manufacturing costs and stimulate industrial expansion.
- ii. **Reduce corporate tax rates** for exporters, green industries, and value-addition enterprises to accelerate investment in high-growth sectors.
- iii. Introduce **5–10-year tax holidays** for large investors in priority value chains such as **pharmaceuticals, steel, textiles, and coffee**, which have high employment and export potential.
- iv. **Expand presumptive tax reforms** to encourage MSME formalisation and widen the tax net.
- v. **Digitise tax administration** to streamline compliance, reduce transaction costs, and enhance transparency.

Collectively, these reforms will catalyse production, attract investment, and sustainably increase Uganda's tax revenue.

Strategy 6: Eliminate Illicit Trade (UGX 1.6 Trillion Lost Annually)

The **Digital Tax Stamps (DTS) Study** underscores the urgent need to confront illicit trade as a core revenue-mobilisation priority. Findings show that **illicit alcohol holds a market share of 64.7%**, illicit tobacco accounts for **29.4%**, and together these activities deprive the country of approximately **UGX 1.6 trillion in annual tax revenue**. This scale of leakage significantly undermines domestic revenue mobilisation and weakens the competitiveness of compliant manufacturers who bear the full tax burden.

PSFU respectfully recommends three strategic actions. First, **strengthen URA's enforcement intelligence**, including data-driven risk profiling and coordinated field operations. Second, establish a **National Anti-Illicit Trade Unit** bringing together MoFPED, URA, UNBS, the Police, and PSFU to harmonise enforcement, streamline information-sharing, and respond swiftly to emerging risks. Third, accelerate national rollout of the **UNBS Digital Conformity Mark (DCM)** to authenticate products, protect consumers, and limit counterfeits at source.

Reducing illicit trade by even **50%** would recover an estimated **UGX 800 billion annually**, without increasing tax rates, while restoring fairness, improving compliance, and strengthening Uganda's formal industrial economy.

Strategy 7: Expand the Formal Sector & MSME Base

Uganda's enterprise landscape presents a significant opportunity for revenue expansion: out of **2.5 million businesses**, only **120,000** currently contribute to the tax system. This narrow base is not due to unwillingness to comply, but rather to structural bottlenecks such as **high licensing fees, costly and**

complex compliance procedures, overregulation, and limited awareness of formalisation benefits. These challenges keep the majority of MSMEs in the informal economy, limiting their growth and constraining national revenue potential.

To address this, PSFU respectfully proposes a national **Formalisation Acceleration Strategy** built on four key reforms. First, establish a **One-Stop Formalisation System** integrating URSB, KCCA/ULGs, URA, and NSSF to reduce duplication and streamline processes. Second, introduce **zero-cost first-year business registration** to ease entry for MSMEs. Third, adopt **simple, turnover-based presumptive tax bands** that reflect the realities of micro and small enterprises. Fourth, digitise and harmonise **local government licensing systems** to lower costs and improve transparency.

With these reforms, Uganda can formalise **up to 500,000 additional businesses over five years**, significantly broadening the tax base while stimulating entrepreneurship, job creation, and inclusive economic growth.

4.0 CONCLUSION: A NEW REVENUE MODEL FOR UGANDA

PSFU respectfully urges Government to adopt a **new fiscal paradigm** anchored in the principle that **revenue must come from economic growth—not increased taxation pressure**. Uganda cannot sustainably raise its tax-to-GDP ratio by imposing heavier taxes on a **narrow base of 120,000 already-strained firms**, especially when the country hosts over **2.5 million enterprises** with significant unrealised potential. The path to higher domestic revenue lies in **expanding the real economy**, accelerating **industrialisation**, promoting **exports**, strengthening **value chains**, reducing the **cost of doing business**, and eliminating **illicit trade**, which alone costs Uganda **UGX 1.6 trillion annually**.

The private sector stands fully ready to partner with Government to achieve this transformation. PSFU commits to supporting:

- i. Stronger and more integrated supply chains
- ii. Expanded industrial and agricultural production
- iii. Higher levels of formalisation among MSMEs
- iv. Increased private investment flows
- v. Greater national and regional competitiveness

A more productive economy will naturally generate **higher, more sustainable, and equitable revenues**—providing the fiscal space needed to finance **NDP IV, Vision 2040**, and the **Presidential Strategic Priorities** without placing undue burden on compliant taxpayers.