CIPESA

Digital Taxation in Uganda:
A Hindrance to Inclusive Access and Use of Digital Technologies

March **2022**

Introduction

The Information and Communication Technologies (ICT) sector in Uganda *contributes* up to 9% to the Gross Domestic Product (GDP). Research shows that the sector has the potential to contribute to the country's socio-economic transformation through *innovation and food security*, access to markets such as for *agricultural produce*, and improved *service delivery*.

Whereas the United Nations' 2030 Sustainable Development Goals (SDGs) in September 2015 called for universal, affordable access to the internet in least developed countries by 2020, this remains unattained. Uganda has registered exponential growth in penetration, access and use of ICT. However, the country's *digital taxation* regime has become a key impediment to inclusive access and affordability, with millions of citizens still left out of the digital society.

This policy brief explores the stumbling blocks to access and affordability in Uganda and how these undermine the transformative potential of digital technologies. The brief proposes steps that different stakeholders should take in order to enable universal and affordable ICT access as a prerequisite for the realisation of rights and improved livelihoods.

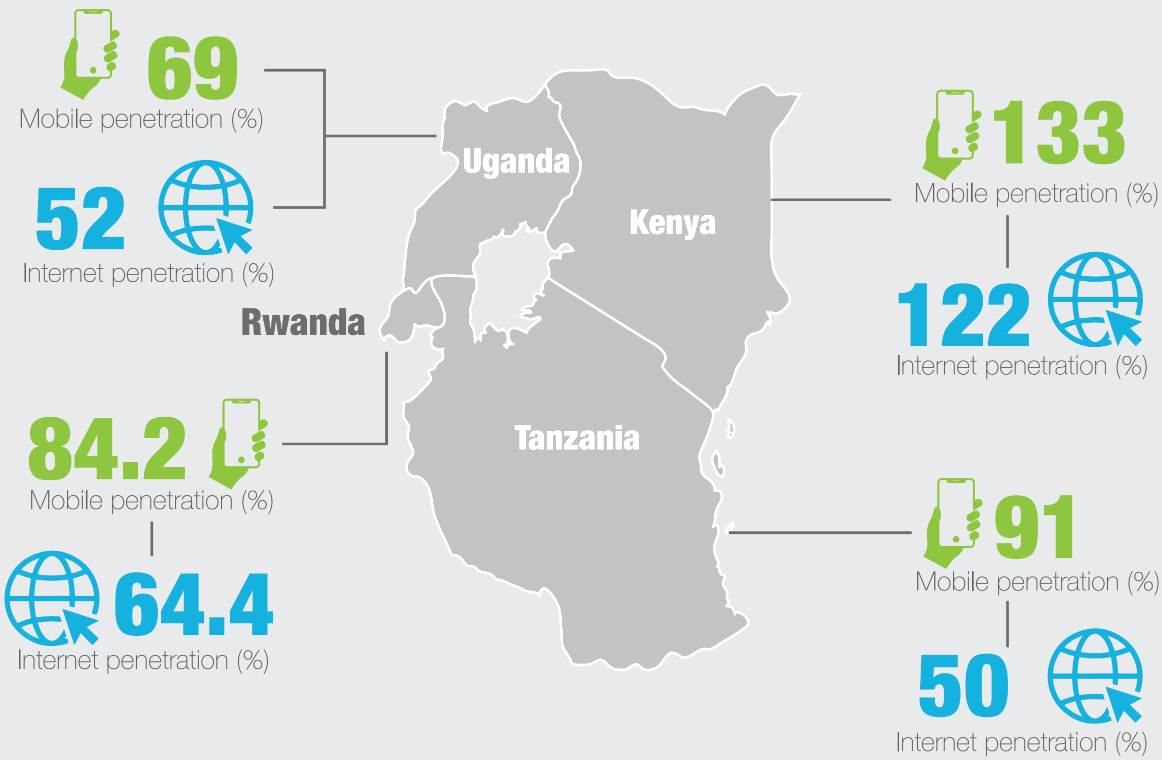
Importance of the ICT Sector

Uganda is ranked 116th out of 130 countries in the 2021 *Network Readiness Index* which assesses the application and impact of technology in economies around the world. Compared to her neighbours Kenya, Rwanda and Tanzania, Uganda scores lowest on *GSMA's Mobile Connectivity Index*, which measures key enablers of mobile internet adoption such as infrastructure, affordability, content and services.

The Uganda government has *identified the ICT sector* as key to attaining a middle-income status, and the *National Development Plan (NDPIII)* aspires to harness technology for innovation, economic production and service delivery. Revenue collection from the sector is high, with the country's leading telecommunications companies - MTN and Airtel - being among the *top taxpayers*. The sector's strength within the formal and informal economy lies in its ability to enable the efficient operations of other sectors, while also being a significant job creator.

According to the Uganda Communications Commission (UCC), by September 2021, the country *had* an estimated 29.1 million telephone subscriptions that translate into a national penetration of seven connections for every 10 Ugandans. However, the proportion of Ugandans who actually own or use mobile phones is less than 70% due to multiple SIM card ownership. Internet subscriptions stood at 22 million, or a penetration of 52%, yet the percentage of the population that actually uses the internet is much lower, as many users have multiple subscriptions.

Comparative telephone and internet penetration in East Africa



Source: *Market reports by telecom regulators in Kenya, Rwanda, Tanzania and Uganda **mobile penetration***

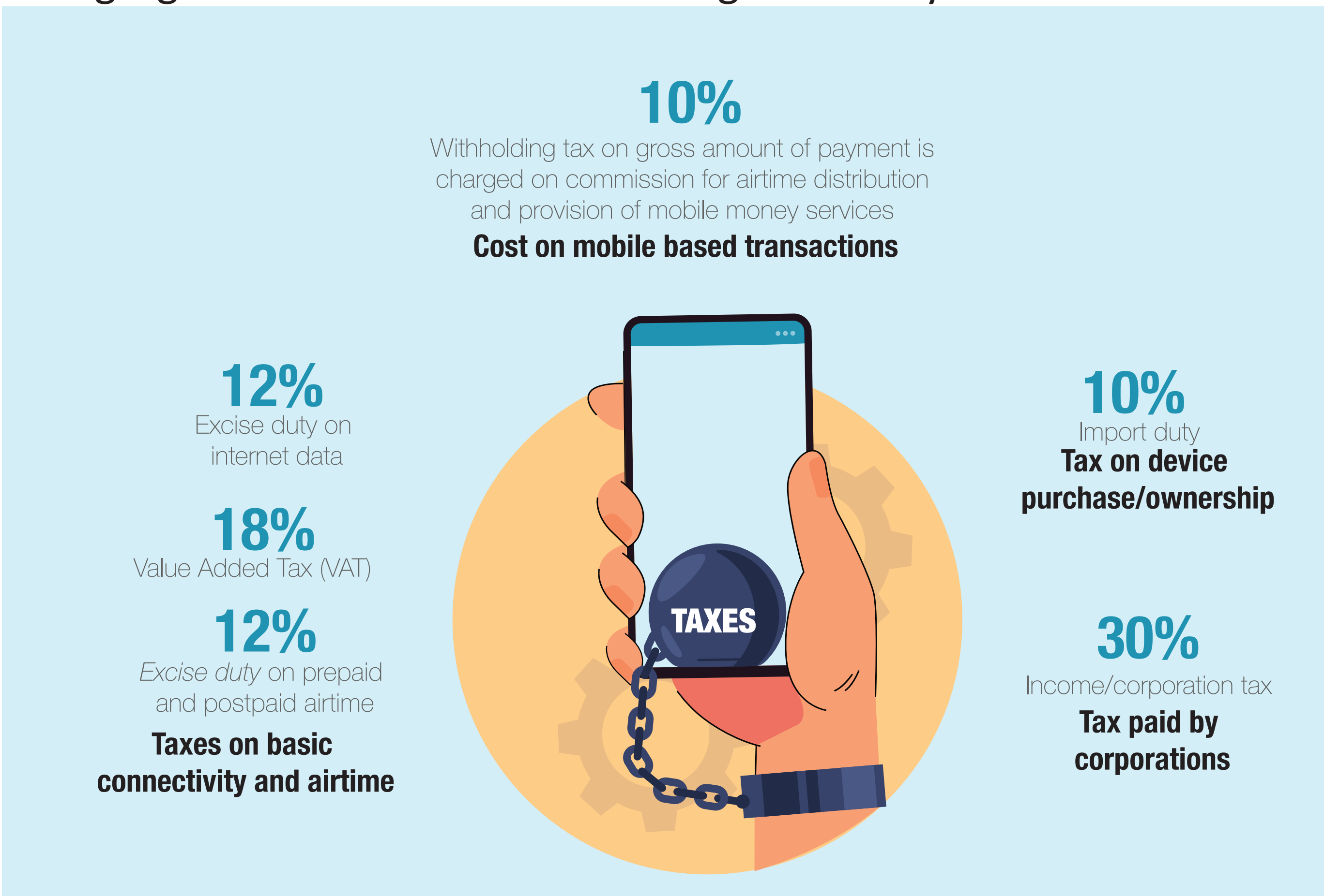
In the financial services sector, the UCC reported 32.3 million mobile money subscriptions but only 21.3 million accounts, or 66% of the total registered mobile subscriptions, made at least one mobile financial service transaction in the three months prior to September 30, 2021. Inherent in these statistics is the issue of affordability of mobile services, which are also subjected to high levels of taxation.

Digital Taxes and their Effect

On July 1, 2021, the Uganda government introduced a direct *12% levy* on the net price of internet data, after which a Value Added Tax (VAT) of 18% applies. This levy *replaced the Over-the Top (OTT) tax* which was introduced in 2018, but *failed* to generate the anticipated revenues and was viewed in some circles as a “sin tax”.

Uganda also *imposes 12% excise duty* on prepaid and postpaid airtime, and on value added services. These services also attract VAT of 18% that is applied to all ICT products except mobile money. A 10% withholding tax on the gross amount of payment is charged on commission for airtime distribution and the provision of mobile money services. Meanwhile, ICT devices attract a 10% import duty, while income/corporation tax is fixed at 30%. The multiple taxes translate into high cost of services, devices, hardware and software, with suppliers and service providers *passing on the financial burden* onto consumers, thereby aggravating the affordability challenge.

Taxing Ugandan Citizens Out Of The Digital Society



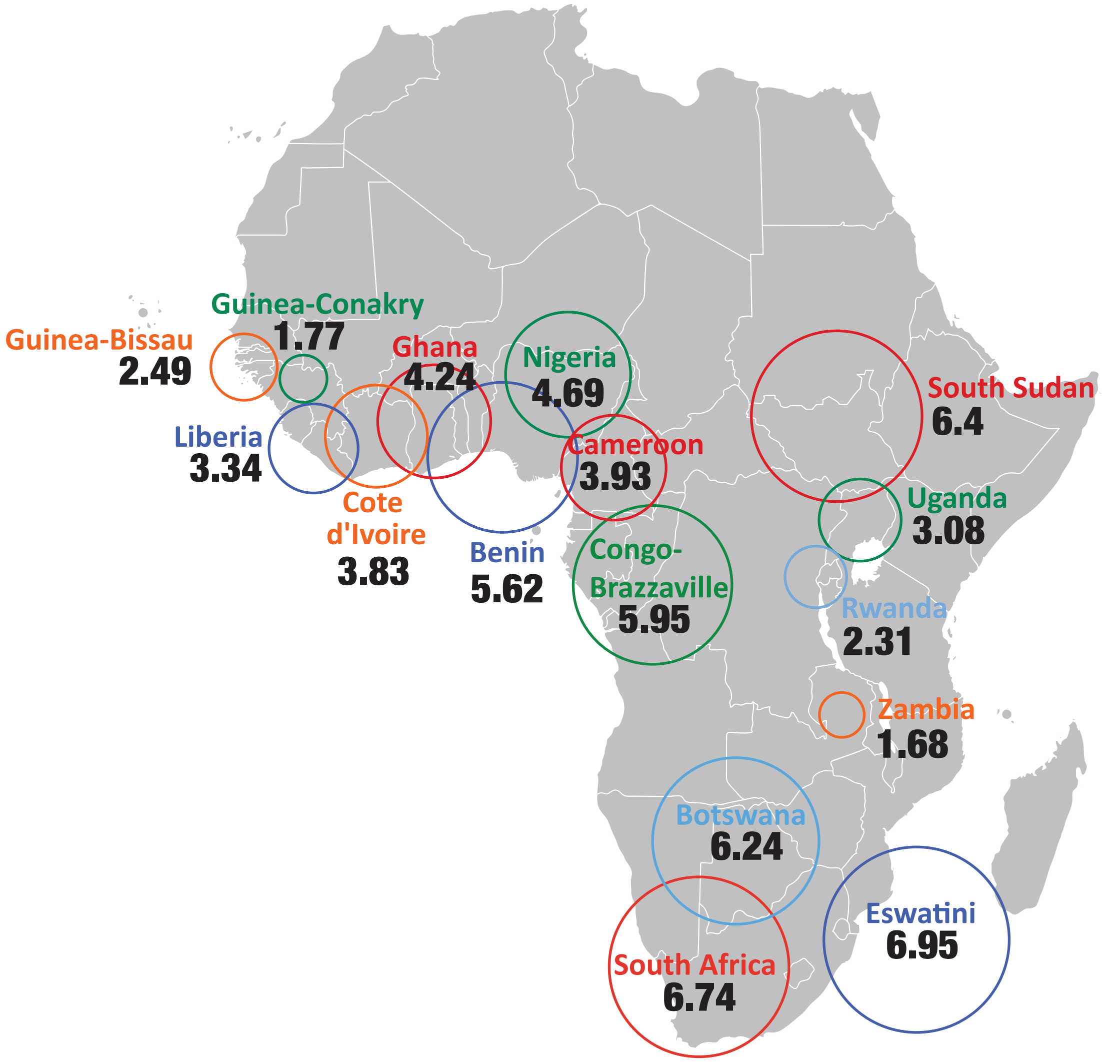
High Cost of Data and Access

There is a direct relationship between high taxes and low uptake of the internet. Uganda has one of the *highest mobile data rates* in the region, with 1 GB of data costing up to 16.2% of an average Ugandan's monthly income compared to the Sub-Saharan average of 9.3%. In 2021, the average *price* of 1 GB was USD 1.56. This was a far cry from the *'1 for 2'* target for internet affordability where 1GB should be purchased for no more than 2% of a person's average monthly income.

In a nation-wide *survey* by the National Information Technology Authority (NITA-U), 76.6% of respondents named high data costs as the main reason why their use of the internet was limited. According to the Alliance for Affordable Internet, following the introduction of the OTT tax, Uganda moved down four positions in the Affordability Report from *32nd out of 58* countries in 2017 to *36th out of 61* countries in 2018. In 2019, Uganda's ranking did not improve and remained *36th out of 61* countries. Indeed, months after the OTT tax was introduced, internet subscriptions *fell* by five million users. The GSMA *cites* affordability among the main limitations to mobile-enabled digital transformation in the country.

The average phone subscriber in *Uganda spends just UGX 10,500 (about USD 2.8) per month* on voice, data and SMS services. This average revenue per user (ARPU) in Uganda is significantly lower than in other African countries. For instance, mobile operator MTN Uganda's ARPU is USD 3.08, only beating Guinea Conakry (USD 1.77), Zambia (USD 1.68), Rwanda (USD 2.31) and Guinea Bissau (USD 2.49).

Comparative ARPU in Various MTN *Markets as at September 2021*



The average phone subscriber in Uganda makes calls totalling six minutes per day on their network, compared to the *less than two minutes* a month of "off-net" calls, that is, calls to networks other than the one subscribed to. This, too, is an indication of unaffordability of voice calls across different networks. The high cost of cross-network calls is actually the primary reason why many individuals subscribe to multiple networks. Meanwhile, the average internet subscriber *consumes* about 800 MBs monthly.

In February 2022, Uganda's Ministry of ICT acknowledged the high taxation levels on equipment and devices and *asked* ***Parliament to scrap the taxes to ensure the devices are more affordable and accessible to the population. Back in 2021, the ICT ministry*** *indicated plans* ***to reduce the unit cost of low entry smartphones from UGX100,000 (USD 27.7) to UGX 60,000 (USD 16.6) or lower, and the cost of a computer from UGX1.6m (USD 443) to UGX800,000 (USD 222). Beyond the public pronouncements, efforts by the ministry to lower the tax on devices remain unknown.***

Mobile handsets provide the dominant form of internet access, accounting for 99% of all internet subscriptions. But the *type of network connected devices* in the country is also indicative of affordability challenges, with smartphones representing 29%, compared to 71% for basic phones and feature phones, according to *UCC figures*.

Digital Exclusion

Although the use of digital technologies in Uganda has accelerated in the various facets of Ugandan life, including education, work, business, public participation, and financial services, some segments of Ugandan society continue to be left behind and for some of them the digital divide appears to be widening. According to the Inclusive *Digital Economy Scorecard 2021*, the groups most excluded from the digital economy are the elderly (77%), rural communities (73%), *persons with disabilities* (71%), the youth (43%), refugees (71%) and migrants (65%). Other *research* has found that Ugandan men are 43% more likely to be online than women. These disparities are growing wider due to high internet costs, limited digital literacy, gender disparities, and low affordability.

While Uganda has a universal service fund known as the *Rural Communications Development Fund* (RCDF) that is working to address the connectivity needs of some of the unconnected communities, a lot remains to be done in scaling its work and delivering impact. The RCDF says it has funded 76 internet points of presence (POP), 106 internet cafes, 78 ICT training centres, 4,099 public payphones, 78 district web portals, 13 Multipurpose Community Tele-centres, 45 postal projects, 708 School ICT laboratories, 174 health ICT facilities, 90 voice network sites, and 106 content development projects. Some interventions have targeted persons with *disabilities* and *women*.

Stifling Innovation and e-Commerce

Poor internet access hinders knowledge creation and stifles innovation in a world where fintechs, mobile payments and a growing array of e-services and e-trade are getting mainstreamed. While fast internet *means faster innovation*, exorbitant costs *discourage innovation* since they constrain data access and usage. Coupled with high poverty levels and aggravating factors of exclusion, innovation especially in development of apps and software solutions, the advertising industry and online business, could suffer major regress in the country. Moreover, initiatives such as the National ICT Initiatives Support Programme (*NIISP*) and *Digital Uganda Vision* can only achieve minimal impact.

Besides stifling innovation, high taxes undermine revenue collection, GDP growth, and the digital economy. In fact, analysis *shows* that removing all ICT sector excise duties in Uganda would facilitate GDP growth, stimulate job creation and help the informal sector to become more formal, leading to a wider tax base and higher tax revenues. The ensuing economic growth would generate more tax revenues and enable investment in other parts of the economy, such as infrastructure. Moreover, for the benefits of e-governance to be meaningfully harvested, and for public and private sector e-services to achieve scale, a much greater number of Ugandans must be connected and be able to use ICT. That will be very difficult with current taxation and affordability levels.

Access to Information

Access to the internet being a *basic human right* is a key means through which individuals can *exercise* their right to freedom of expression and access to information. Digital taxes undermine these rights as *seen* in Kenya, Tanzania and Uganda and Zimbabwe. Besides opposing high digital taxation, the private sector in Uganda has *petitioned* the government to *refrain* from blocking access to the internet and some social media sites, a practice that undermines citizens' access to information and freedom of expression, and which also cripples business operations.

Hampering access to digital platforms means individuals can not access needed information on markets, services like *health* and education, means for *public participation* (including enjoyment of the rights to freedom of assembly and association), and credible and pluralistic information.

For more than a year now, Facebook, with *more than 3,328,000 million local subscribers*, has been blocked. Facebook has been a key enabler of online business operations in Uganda including the entertainment industry and SMEs who increasingly transact and garner *market* clientele online. The business community including the *E-trade Association of Uganda*, *Safeboda* and *Jumia* have repeatedly asked the government to *lift the ban*. The *Parliament* has also spoken about the adverse effect of the Facebook ban on businesses.

Conclusion

Uganda's adoption of digital taxation has greatly undermined the ICT sector's potential as a driver of socio-economic transformation. The high taxes mean that ICT usage remains out of reach for the majority of Ugandans, with certain groups such as rural dwellers, poor women, and persons with disabilities facing a stark digital divide. This affordability challenge means that e-governance, e-services and e-commerce cannot achieve full scale, citizens' access to information and public participation is undermined, and the innovation ecosystem remains frail. The actions for the government are clear: cut taxes, support innovation, refrain from disrupting access to the internet, take deliberate measures to improve access and affordability for marginalised groups, and make it safe for individuals to get online and participate in public affairs via digital platforms.

Recommendations

Government

- Repeal all retrogressive legislation such as the Excise Duty (Amendment) Act of 2021 which provides for a 12% levy on the net price of internet data.
- Lower the Value Added Tax on ICT services from the current 18% to not more than 12%, and reduce by 50% the import duty on ICT devices as well as the excise duty on airtime and value added services.
- Undertake measures, such as tax incentives, to lower the cost of assistive technologies like screen readers, text-to-speech software, manual Perkins Brailler, hand-held magnifiers, hand frames/slates and communication boards for persons with disabilities.
- Refrain from implementing measures that disrupt access to the internet and social media, and if any such measures are taken, they should be absolutely necessary, proportionate and for a very limited period of time.
- Deliberately undertake measures to expand access and usage of ICT by disadvantaged groups, such as through leveraging the universal service fund (RCDF) to fund connectivity and services, as well as digital literacy programmes for rural dwellers, poor women, and *persons with disabilities*.

Civil Society

- Advocate for affordable and inclusive access including through awareness campaigns and building the capacity of grassroots communities to push back against digital exclusion.
- Engage in public policy consultations and challenge laws such as the Excise Duty (Amendment) Act of 2021 and others that impose an undue tax burden on digital services and devices.
- Collaborate with government and technology actors in efforts to promote digital literacy and infrastructure sharing among others.
- Research and document barriers to digital inclusion to form the basis for advocacy and engagement including through human rights review mechanisms.

Technology Sector

- Comply with universal service obligations through infrastructure sharing and provision of accessible services/subsidies for marginalised communities.
- Collaborate with civil society in efforts to promote digital literacy and innovation.
- Engage in public policy consultations and challenge laws such as the Excise Duty (Amendment) Act of 2021 and others that impose an undue tax burden on digital services and devices.

CIPESA

Collaboration on International ICT Policy for East and Southern Africa (CIPESA)
+256 414 289 502
programmes@cipesa.org
@cipesaug facebook.com/cipesaug Linkedin/cipesa
www.cipesa.org

This Brief was produced with the support of the International Center for Not-For-Profit Law (ICNL) and East-West Management Institute (EWMI) under the USAID-funded Uganda Civil Society Strengthening Activity (CSSA) Program.