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Re-evaluating Uganda's Mobile Money Tax

by Christopher Wales

Is it time to re-evaluate Uganda's tax on mobile money withdrawals? We ask:

- Why might reform be needed?
- What do the data say, and what options are there for principled reform?
- How could reform be achieved, and what would it achieve?
- Who would benefit and who could lose from reform?
- Who would support reform? Citizens? The government? Service providers?

Introduction

The current system for taxing mobile money in Uganda is widely disliked, unbalanced, and arguably distortionary. We show there is a case to re-evaluating it, with a view to principled reform. But there is also a case for leaving it alone. This Policy Brief explores that tension.

The law

The Government of Uganda currently levies two taxes on mobile money (MM) transactions:

1. Excise duty on fees charged by operators (tax on fees) – currently 15 per cent

The Excise Tariff (Amendment) Act, 2013 introduced a 10 per cent excise duty for 'money transfer services on the charges by operators licensed to provide a communication service or money transfer services'. This has been modified twice:

- The Excise Duty Act, 2014, Schedule 2, Item 13(c), clarified the scope, amending it to a 10 per cent excise duty on operator charges for 'Money transfer or withdrawal services including transfers and withdraw services by the operators licensed or permitted to provide communications or money transfer or withdrawal but not including transfer and withdraw services provided by Banks'.

- In the Excise Duty (Amendment) Act, 2018 this became Item 13(d), and the rate was raised to 15 per cent of the fees charged.

Banking services were also subject to excise duty, but under a separate provision. Item 14 of the same 2018 Act raised the 10 per cent excise duty previously levied on fees charged for banking services to 15 per cent. These were defined as 'Ledger fees, ATM fees, withdrawal fees and periodic charges and other transaction and nontransaction charges excluding loan related charges periodically charged by financial institutions'.

2. Excise duty on value of withdrawals from mobile money (tax on withdrawals) – currently 0.5 per cent

- With effect from 1 July 2018, the Government of Uganda introduced a specific tax on mobile money transactions. This was added as an excise duty and included in the Excise Duty (Amendment) Act, 2018, as Item 13(f) of the Excise Duty Act 2014. It initially applied to 'Mobile money transactions of receiving, payments and withdrawals at a rate of 1% of the value of the transaction'.
- Both the scope and rate of the tax were reduced by The Excise Duty (Amendment) (No.2) Act, 2018, signed into law on 15 November 2018. Since then it has only applied to 'Mobile money transactions of withdrawal of cash', at a rate of '0.5% of the value of the transaction'.

This Policy Brief focuses on this tax on withdrawals. The tax on fees is part of a well-established, broadly-based tax levied on a wide range of goods and services in Uganda and other East African Community partner states. It has proved largely uncontroversial, although it adds to the cost of using mobile money services in Uganda. In this Policy Brief we consider the tax on fees primarily in the context of its possible reform as an alternative to the tax on withdrawals – rather than as a candidate for reform in its own right.

Why should the tax on withdrawals be re-evaluated?

There is often a strong case for reviewing a significant new tax a few years after its introduction. Post-implementation review is an established part of well-functioning tax policymaking processes. It is particularly valuable when a tax has behavioural impacts, some unusual features, or its design has proved controversial.

The tax on withdrawals has been in place, unchanged, for five years. There is sufficient experience to review it to understand how it has performed against expectations and international benchmarks.

In addition, the tax on withdrawals has some unusual features:

- With its focus on taxing cash withdrawals, the design of the tax is unbalanced.
- There was little policy rationale in 2018 for only taxing cash withdrawals. One argument that might be put forward now, in a COVID-affected world, is that less handling of cash reduces the risk of transmission of disease. This health argument has rarely been heard in Uganda, and there are other ways to do this than through a tax on withdrawals.
- There is no equivalent tax on cash withdrawals from the banking system, so it introduces a distortion into the market.

In July 2018 it was a new type of tax, and it was highly controversial when first introduced. Now other governments have introduced special taxes on mobile money – most of these have also proved controversial, and many have been withdrawn or amended.[1] The November 2018 amendment to Uganda's tax on withdrawals was a

[1] See Niesten, H. (2023) Are Digital and Traditional Financial Services Taxed the Same? A Comprehensive Assessment of Tax Policies in Nine African Countries, ICTD Working Paper 162, Brighton: Institute of Development Studies, DOI: 10.19088/ICTD.2023.014.

reaction to the political imperative to reduce the impact of the original, more broadly-based measure, and relieve political pressure on the president and the Ministry of Finance, Planning and Economic Development.[2]

On the other hand, for those who use mobile money, Uganda's tax on withdrawals seems less controversial today than when it was introduced. It continues to cause resentment – expressions of opposition can easily be provoked, and no one defends it – but it has become a kind of silent grudge among Ugandans. There is little sign of the providers complaining. The tax is still there, and it raises some modest revenue. So, although there is a case for review, there seems to be relatively little pressure for this to be done quickly.

How important is tax revenue from mobile money?

In FY 2021/22 the tax on withdrawals yielded almost USh165 billion in revenue.3 The tax on fees raised USh134 billion. Both had increased significantly from the previous year. These are relatively small amounts in the context of Uganda's gross tax revenue – only 6 per cent of indirect tax receipts and 1.3 per cent of gross tax revenue in 2021/22 (see Table 1).

Table 1. Tax revenue from mobile money 2021–22

1 July 2021–30 June 2022 Tax revenue	USh bn	% of indirect tax revenue	% of gross tax revenue	Change on previous year (%)
0.5% tax on MM withdrawals	164.58	3.3	0.7	+19
15% excise duty on MM fees	133.98	2.7	0.6	+17.55
Gross indirect taxes	4,942.60	100	22.2	+10.5
Gross tax revenue	22,271.23	-	100	+11.44

Source: Table generated by the author using data sourced from the Uganda Revenue Authority.

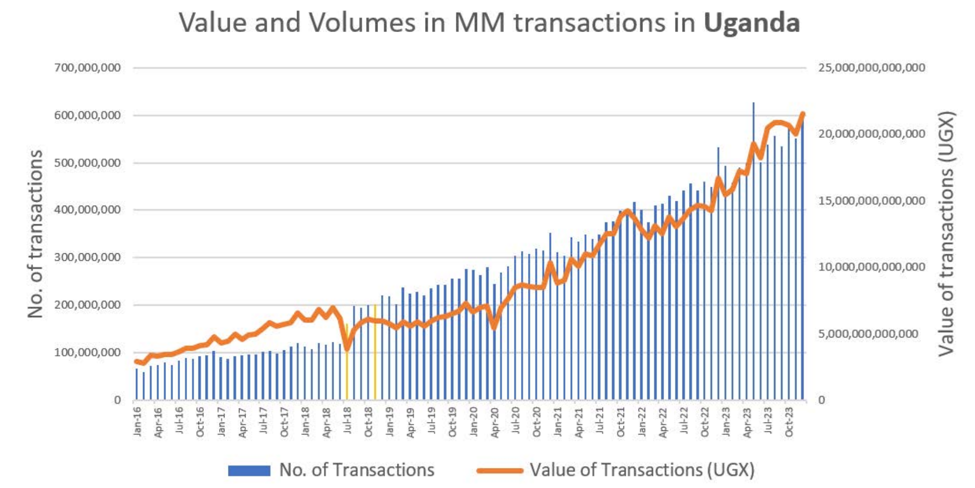
What impact has the tax on withdrawals had on market activity?

The tax appeared to have an immediate and measurable impact on activity in the market. The growth in mobile money transaction values flattened off noticeably in 2018 from its previous, steeply-upward trajectory. This impact seems to have been relatively short-lived. After narrowing the base on which the tax was levied and rate reduction in November 2018, the growth in aggregate transaction values has been rapid and sustained, exceeding rates before introduction of the tax (see Chart 1).

[2] Lees, A. and Akol, D. (2021) There and Back Again: The Making of Uganda's Mobile Money Tax, ICTD Working Paper 123, Brighton: Institute of Development Studies, DOI: 10.19088/ICTD.2021.012.

[3] Exchange rate is approximately US$1 = USh3,700.

Chart 1. Mobile money transaction values and volumes over time



Source: Data from the Bank of Uganda, Mobile Money Statistics. Chart from Niesten, H. (forthcoming) *Exploring Mobile Money Market Development and Revenue Collection of Digital Financial Services Taxes in Africa*, ICTD Working Paper, Brighton: Institute of Development Studies

However, the aggregated data can easily obscure or distort the underlying reality. There are important questions about the impact of the tax on particular segments of the market for mobile money services, and on competition between the commercial banks and mobile money operators. Answers to these questions require more granular data than is publicly available.

The demographics of those who withdraw mobile money need to be explored further. This is central to understanding the impact of the tax on withdrawals in Uganda.

- Who are the people who withdraw cash from mobile money?
- What need, or perceived need, drives withdrawals, given the high provider charges for this service?
- Who would benefit most from a reduction in the rate of the tax on withdrawals, or its abolition?
- How would the market react if the rate was increased?
- Are there other tax or non-tax interventions that could reduce the demand for cash withdrawals and the use of cash in the economy?

We are still unable to answer these questions satisfactorily, but can come to some conclusions based on the aggregated data.

What do we know about those who withdraw mobile money?

Transaction volumes and sizes

Published data from the Bank of Uganda[4] shows that withdrawals account for 22 per cent of all mobile money transactions by value, more than any other type of transaction apart from deposits (25 per cent). Person-to-person (P2P) transfers account for only 15 per cent. It is difficult to find published information about transaction sizes for withdrawals. The Bank of Uganda reports that the average transaction size is USh31,000, with 88.4 per cent of transactions falling in the range USh0-25,000 and 92.6 per cent in the range USh0-50,000 in the year to 30 September 2022. This suggests that typical transaction values for withdrawals are likely to be modest.

[4] Bank of Uganda, *Financial Inclusion Newsletter,* Vol 004, January 2023.

The demographics

There is little published information about who makes cash withdrawals and why. Development literature tends to assume that withdrawals from the mobile money system are dominated by the rural poor, needing cash for daily purchases from informal traders. However, so far there is little evidence to confirm this theory. The lack of correlation between mobile money P2P transfers and withdrawals suggests that the widely-accepted deposit-transfer-withdraw pattern to transactions may be only part of the story. Other possibilities include traders depositing cash temporarily (perhaps overnight), and withdrawing it soon afterwards to use in their business. If so, it will show up in account data. Both the Bank of Uganda and service providers have been urged to undertake new research on that data, to shed light on the withdrawal demographics, or to make data available to others who can do this. It is central to our understanding the current impact of the tax on withdrawals in Uganda, and any re-evaluation that might be undertaken by policymakers.

Service provider charges for withdrawals

Service provider charges for withdrawals of cash from mobile money are significantly higher than for any other services they provide, except those involving the movement of funds across networks. The scale of the charges appears to be designed to depress demand. It is not a service that providers want to encourage. Current provider charges for withdrawals are often difficult to find on the web but, depending on the transaction size, they appear to range between 3.5 per cent and 33 per cent of the value of cash taken out, with the highest rates typically applying to some specific smaller transactions.

The higher charges for withdrawals are partly a reflection of the higher costs to the network of providing the service. Withdrawals involve handling and management of cash by agents, including maintenance of a float, which is relatively complicated. But deposits, which involve many of the same underlying issues – cash-handling, record-keeping and security risks for agents – are priced very differently for customers. Service providers rarely charge a fee for deposits. The highest charges apply to withdrawals of cash. The signal to customers is clear.

In comparison with provider charges, a 0.5 per cent tax, by value, on withdrawals may not appear particularly significant, perhaps even leaving room for a modest increase in the rate of tax. However, many conversations with Ugandans suggest that it weighs heavily on the minds of customers as an unwelcome additional cost, and exacerbates the impact of an already-expensive service for those who want or need to withdraw cash from the mobile money system.

What options are there for principled reform or abolition of the tax on withdrawals?

Any reform of the tax on withdrawals will have to be part of a package that is broadly revenue-neutral or revenue-positive for the Government of Uganda. Alternative sources of revenue would have to be identified to replace any that might be foregone.

A principled approach to redesigning the taxation of mobile money could involve replacing the tax on withdrawals with a tax on similar or related activities that is less unbalanced and has a broader base. An obvious possibility would be to increase the rate of excise duty that currently applies to charges levied by banks and telecom companies for a wide range of financial services. However, very tentative estimates using the data underpinning Table 1 suggest that, on the existing base, the rate would have to be increased from 15 per cent to around 25 per cent to replace the revenue currently generated by the tax on withdrawals. This would be politically challenging, and, if approved into law, would probably impact the use of those services – by how much is difficult to assess without price elasticity data. This is relatively difficult for tax policymakers to obtain or construct with any accuracy, but it could be significant.

Gains to individual withdrawers from such a reform would be very modest – perhaps too modest to justify the upheaval. If the government went ahead with abolishing the tax on withdrawals and increased excise duty from 15 per cent to 25 per cent, an individual withdrawing USh20,000 could gain around UGSh25 compared with the current system, if providers and agents passed on the benefit.[5] This reflects the high provider charges for withdrawal services, on which the new 25 per cent rate of excise duty would be based. Other (tax-inclusive) transaction charges would typically increase by around 9 per cent.

There are other possible options for reform, including simply removing the tax on withdrawals below a certain threshold. This might help the poorest in society without, perhaps, requiring major budgetary adjustments. Thresholds have been used in a number of countries that tax mobile money transactions, including Ghana, but it is not yet clear if they have worked as intended. Policymakers would need a much clearer understanding of the withdrawals use case to determine an appropriate level for the threshold.

Reform or abolition of the tax on withdrawals could also, in principle, be financed by changes in unrelated parts of the tax system, taking into account the overall structure of the tax system in Uganda and the government's need for revenue.

There are undoubtedly challenges to designing a workable alternative to the current tax on withdrawals. More data on the demographics of withdrawals would help. This would be a significant amount of research for a resource-constrained Tax Policy Department (TPD), even if supported by development partners. Before committing to that, the fundamental issues of political economy need to be addressed. Would there be political support for a review and redesign of the tax? Would a review be likely to lead anywhere, irrespective of what it concluded?

Is there support for redesign of the tax on withdrawals?

Experience suggests that tax reform will happen if it is seen to be politically important. But is reform of mobile money taxation a political imperative today? Who would be likely to drive it, and who might oppose it?

There seems to be little urgency from a tax policymaker's perspective. Development economists, regulators and politicians have pressed for change from a financial inclusion perspective, arguing that the withdrawals use case has a marked impact on the poorest members of the community. They receive transfers or remittances electronically, but live in a cash economy that effectively requires them to withdraw the electronic funds as cash.[6] This still has to be substantiated with data.

[5] Author's calculations based on Airtel charges in March 2023.

[6] This argument is substantially documented in GSM Association (2020) 'The Causes and Consequences of Mobile Money Taxation'.

How are the different actors likely to line up on reform?

Service providers might prefer the current system to a more balanced approach that imposes additional costs across the whole range of mobile money transactions. The tax, as currently designed, potentially:

- Discourages money from leaving the system.
- Reduces the need for agents to handle cash.
- Is aligned with the provider pricing strategy, which imposes the heaviest charges on withdrawals.

The **Government of Uganda** might consider a change to be politically undesirable. The tax:

- Raises valuable revenue.
- Is established and, although resented, causes little day-to-day political friction.
- Is easy and cheap for the Uganda Revenue Authority to administer.
- Helps keep money in trackable form, facilitating tax collection.
- Does not discourage the wider use of mobile money for purchases of goods and services.
- Is arguably in alignment with the government's strategy for digital roll-out.

Customers/users are like to have a mixed response to reform, but

- Research is needed on the demographics of withdrawals. Who are the critical users:
    - Poor, rural women who need cash for daily costs?
    - Traders depositing and withdrawing for security reasons?
    - Business owners wanting to pay wages to staff in cash?
- Reform could provoke a backlash unless the impact on users is properly understood.

What next?

The political economy of reform looks challenging. Reform could face opposition from both service providers and the government. Many consumers may only support reform if it means abolition without replacement. This would be a surprising conclusion, but the tax on withdrawals seems to have found a niche. The Government of Tanzania has recently adopted a design for its own mobile money tax that is very similar in its incidence to Uganda's. Could it become a model for other governments?

These questions merit further examination, with the benefit of better data and analysis. The design of Uganda's tax initially proved highly controversial. It is still widely disliked, unbalanced and arguably distortionary. There is a clear case for a review. However, a surprising coalition of forces might resist both reform of the tax on withdrawals and carrying out a thorough review – especially when there is an urgent need for domestic resources in Uganda. This paper argues that these challenges should not stand in the way of re-evaluating the tax on withdrawals, even if pushing through reform would be difficult.

Recommendations

Despite the complex issues of political economy, questions about the design of the tax need to be answered, if necessary with external support. Their importance goes beyond Uganda.

Facts need to be established and the analysis developed:

- Who bears the burden of the tax on withdrawals today?
- How significant is the tax cost in the context of service provider charges?
- Is there a media factor that influences public perceptions?
- Does pricing today stand in the way of Uganda's progress towards financial inclusion?
- Is tax reform a solution, or could regulatory change be a more important enabler of cheaper access?

To answer these questions, policymakers need to:

- Have better access to transaction-level, service-provider data.
- Carry out deeper and more incisive technical analysis of the tax impact.
- Have a fuller understanding of the market, including alternative payment systems.

If the analysis points to a need for reform, it will require:

- Identification of a viable alternative source of revenue.
- A political environment conducive to change.
- Leadership from an empowered Tax Policy Department.

Further reading

Wales, C. (2024) *A Tax Strategy for a Digital Uganda*, ICTD Policy Brief No. 4, Brighton: Institute of Development Studies, DOI: 10.19088/ICTD.2024.005.

Credits

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