

By Umaru Kashaka

President Yoweri Museveni wants income tax reduced from 30% to 10% to encourage people to save and be able to invest.

He made the remarks while engaging the media at State House Lodge in Nakasero, Kampala, on Tuesday.

"I don't support an income tax of 30% and I am going to fight it. It is too high. Maybe 10% income tax would be better so that people get money to invest," he said.

Museveni also said town councils should stop levying the daily market dues, which he abolished.

Ugandans who survive by selling in markets have been complaining about the daily fees various local government authorities levy on each item that is sold or enters the market, in addition to monthly rent for the stalls or space in the market.

INCOME TAX DETAILS

Income tax is a direct tax levied on the earnings of individuals and businesses, calculated based on total taxable income (wages or profits) after deductions and usually collected through self-assessment or employer withholding (pay as you earn - PAYE). Rates often progress, meaning higher earners pay a larger percentage, and it is a major revenue source for governments worldwide.

MUSEVENI WANTS INCOME TAX REDUCED

Key components include corporation tax paid by registered companies, Pay As You Earn (PAYE), rental income tax and withholding tax (6%).

Uganda's corporation tax is generally 30% on net profit for resident and non-resident companies, but smaller resident businesses with a turnover of sh50m-sh150m pay presumptive tax. Non-residents with branches face an extra 15% repatriation tax on profits moved out.

REACTION TO PRESIDENT'S PROPOSAL

However, experts have raised mixed feelings about the president's proposal. "Income tax of 10% is too low. We will lose a lot of revenue, but what are the alternatives to replace that cost?"

Because if you reduce taxes, you are going to

borrow and borrowing is very expensive," senior economist Dr Fred Muhumuza told *New Vision*.

He also said income tax should not be uniform. "We may have a different income tax rate by sector, either it can go up for some sectors or remain at 30% for others. I believe sectors that don't use many people and make a lot of money should still pay 30% or even more," he said.

Former Buliisa county MP Stephen Mukitale, who is also an economist, said the President is looking at the bigger picture of tax

TAXABLE INCOME

The PAYE system uses progressive tax rates on monthly taxable income, with rates ranging from 10% to 30%. Income of sh235,001 to sh335,000 monthly wages are taxed 10% while 30% is levied on sh410,001 to sh10m

Those earning above sh10m are taxed at 30% plus 10% on the excess over sh10m, with allowances like housing or transport reducing the taxable pay.

policy, which should inform the country's tax regime.

"The President is advancing a very big debate of the structure of the economy; are we formal or informal. It is very easy for a tax collector to collect tax from the formal economy, but a tax is not only for raising revenue. It may be to discourage imports and encourage home consumption," he said. Mukitale, who is also

a businessman, said it would be redundant to discuss income tax without understanding the status of the economy, for instance, to know who is formal and who is informal and how much direct tax the country is collecting.

URA CONCERNS

Dr Dennis Nuwagaba, the head of the international business and trade department at Makerere University Business School, said the issue of reducing income tax depends on the projections of the Uganda Revenue Authority (URA) on how much money it can generate from the corporation because the 30% tax is charged on the enterprises that are in Uganda.

"So, I don't know whether reducing the percentage will increase the compliance, but the President wants to increase investment in the country and attract more investors," he said.

In March, Uganda Revenue Authority Commissioner General John Musinguzi called for support to raise the country's GDP tax ratio from 13% to 20% to boost revenue collections.

Musinguzi noted that 54% of Uganda's economy is informal.

President Yoweri Museveni