

## Digital transformation

**MOBILE MONEY**  
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The mobile money industry has become one of the most visible symbols of the global digital financial transformation. From paying school fees and utility bills to sending money across rural communities and continents, millions of people now rely on their phones as everyday financial tools.

Globally, this shift toward digital finance has been accelerating rapidly. According to the GSMA state of the industry report on mobile money, the world has more than 2 billion registered mobile money accounts, with platforms processing over 108 billion transactions. Much of this growth has been driven by developing markets where traditional banking infrastructure has historically been limited.

Africa sits at the centre of this transformation. The continent hosts approximately 1.1 billion registered mobile money accounts, accounting for more than half of all mobile money accounts worldwide. In 2024, mobile money services across Africa processed over 80 billion transactions valued at about \$1.1 trillion, highlighting the scale at which digital financial services operate across the continent.

East Africa has emerged as the most active region within this ecosystem. In 2024 alone, the region had 459 million mobile money accounts and about \$649 billion in annual transaction value, making it the most mature mobile money market globally.

Amidst this fast-growing economy, Uganda's experience reflects many of these broader trends.

According to the Bank of Uganda integrated annual report for the financial year 2024/25, Uganda has more than 43 million registered mobile money accounts across telecom operators, with the platforms processing approximately 8.4 billion transactions worth about Shs326.3 trillion. That volume translates to roughly 23 million transactions every day, about 160 million transactions every week, and close to 700 million transactions every month. This shows the central role mobile money now plays in the country's economy.

As the sector expands, a question arises: Is Uganda's mobile money taxation policy undermining financial inclusion?

#### Cost of financial inclusion

The government imposes several taxes on the mobile money ecosystem, including excise duty on withdrawals, excise duty on telecom service fees, and withholding tax on mobile money agents. While these taxes contribute to government revenue, industry players and policy analysts say their combined effect could be slowing the country's progress toward a digitally inclusive financial system.

For many Ugandans, mobile money is used not for large transfers but for small everyday transactions. A trader

# Mobile money taxes reverse digital financial inclusion



Uganda currently applies a 0.5 percent excise duty on the value of mobile money withdrawals, in addition to tax on the service fee. PHOTO/MICHAEL KAKUMIRIZI

sends money to a supplier, a parent receives support for school fees from relatives, or a commuter receives transport money from a family member. Each of these transactions carries service fees charged by telecom operators. In addition to that fee, government taxes are also applied.

The most visible of these is the 0.5 percent excise duty levied on the value of mobile money withdrawals, which is charged in addition to the operator's withdrawal and sending fees. The mobile money service commissions themselves are also subject to 15 percent excise duty, while agents facilitating the transactions are subject to a 10 percent withholding tax on their commissions.

These charges can raise the cost of using the mobile money platforms. Illustrating this, Jane Nalunga, the executive director of the Southern and Eastern Africa Trade Information and Negotiations Institute (SEATINI-Uganda), says the impact becomes clearer when transaction costs are examined more closely.

For example, withdrawing Shs50,000 can cost a user about Shs2,250 once transaction charges and taxes are combined. This includes a withdrawal tax of Shs250, a withdrawal fee of Shs1,500, and a sending fee of Shs500. A Shs100,000 transaction can cost about Shs3,425, upon deduction of a withdrawal tax of Shs500, a withdrawal fee of Shs1,925 and sending fee of Shs1,000.

"If individuals have alternatives to using mobile money, they may avoid the system due to these costs," Nalunga explains.

Hypothetically applied, if someone in Kireka wants to send Shs1 million

to someone (a business partner or relative) in Wandegaya. This transaction, if made via mobile money, leaves the recipient with Shs980,000 once the sending fee of Shs2,500, withdrawing fee of Shs12,500 and withdrawal tax of Shs5,000 (totaling Shs20,000) are deducted. In reality, this transaction is more costly in comparison to the total transport fare of about Shs4,000 to Shs6,000 for in person cash delivery.

Kato Patrick, a tax analyst, emphasizes that these high transaction costs affect low income households and informal sector workers, who form the bulk of mobile money users. These groups often move small amounts of money throughout the week to manage daily expenses.

Denis Kakonge General Manager Corporate Services and company secretary at MoMo Uganda Limited, highlights that mobile money is a financial channel used mostly by unbanked and low income populations, in comparison to

bank agency networks that are not subject to the same tax on the value of the transaction.

"This creates a situation where the financial channel most used by low-income and unbanked populations carries an additional tax burden," Ms Arinaitwe says.

#### Expensive digital payments

Affordability remains one of the most important factors influencing how people use digital financial services. According to Arinaitwe, user behaviour within digital payment ecosystems is highly sensitive to transaction costs.

"When costs rise, customers often respond by reducing the number of transactions, consolidating withdrawals, or reverting to cash based alternatives," she says.

Uganda's experience with mobile money taxation illustrates how sensitive digital financial systems can be to policy changes. In 2018, the government introduced a 1 percent excise duty on mobile money withdrawals, increasing the cost of accessing funds stored in digital wallets. For example, withdrawing Shs1 million attracted an excise duty of Shs10,000, in addition to existing transaction charges. According to Kato, the effect was immediate.

"There was a decline in mobile money usage when the tax was introduced," he says. "Many users shifted to cash transactions or alternative financial channels because the cost of withdrawing money had increased significantly," he says.

The government later revised the tax that year. Although the reduction helped restore some confidence in the system, analysts say the episode demonstrated how strongly digital financial services respond to price changes.

#### Policy dilemma

Uganda has set ambitious development goals under Vision 2040, the National Development Plan IV and the Digital Transformation Programme, all of which recognise digital services as essential drivers of economic growth and inclusion. The country must strike a fair balance between the two aspects.

The sector presents an attractive opportunity for revenue collection. Mobile money transactions are digitally recorded and relatively easy to monitor, making them a reliable channel for tax administration.

"With more than 34 million mobile money subscribers and about 33.7 million active users in Uganda, the sector generates enormous transaction flows. It is, therefore, no surprise that mobile money taxes are a cash cow for Uganda's governments," Kato says.

A well-designed tax framework can support both revenue mobilisation and digital adoption. International experience shows that lower and more efficient tax structures often stimulate higher transaction volumes, which expands the tax base as digital economic activity grows.

## Costs

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