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DIGITAL ECONOMY AND TAXATION.



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In Uganda, the digital economy has been steadily growing, driven by increased internet penetration, the proliferation of mobile devices, and a burgeoning tech-savvy population. This growth is evident in the e-commerce sector, with platforms like Jumia, SafeBoda, Alibaba, Shein, and Fashion Nova facilitating online shopping, food delivery, and other services. Tech startups, such as Innovation Village, are innovating in health tech, agritech, and fintech. Additionally, mobile money services like MTN Mobile Money and Airtel Money are crucial for financial inclusion, allowing people to transfer money, pay bills, and conduct transactions digitally.

Under Section 86A of the Income Tax Act Cap. 338 , all income derived from using or providing digital services by non-residents to customers in Uganda is taxed at a rate of 5% on the gross amount.

The introduction of the Digital Service Tax (DST) aims to capture revenue from international tech giants like Google, Facebook, and Netflix, which earn significant income from local users but do not have a permanent establishment in the country.

Who pays the Digital Service Tax and how is the tax remitted?

Both residents and non-residents in Uganda are required to pay the Digital Service Tax on digital services. These services include online advertising, data services, digital content, online gaming, cloud computing, and streaming platforms like Netflix.

Residents pay the Digital Service Tax only on digital services provided by non-residents. Non-residents must register for income tax to remit their Digital Service Tax. They are also required to file quarterly returns and pay the tax by the 15th day after the end of each quarter. If non-residents are already registered for quarterly VAT returns for supplying electronic services, they do not need to register again.

Unlike VAT on digital services, which has a threshold, the Digital Service Tax does not. This means that any transaction, no matter how small or infrequent, within Uganda's jurisdiction by a non-resident, is subject to the tax.

Ugandan fiscal policy includes two pivotal elements: taxation and government spending. The introduction of the Digital Service Tax will impact the economy by addressing tax evasion by non-resident digital service providers, broadening the tax base, reducing reliance on traditional taxes, and supporting economic development and growth.



Implementing the Digital Service Tax in Uganda presents several challenges and loopholes:

- **Tax Avoidance by Multinational Companies:** Large digital companies might restructure their operations to minimize tax liabilities, shifting profits to countries with lower tax rates or exploiting ambiguities in tax treaties.

- **Compliance and Enforcement Difficulties:** Enforcing tax payment from companies like Amazon or Netflix, which lack a permanent establishment in Uganda, is challenging. The law primarily focuses on withholding tax under Section 120 of the Income Tax Act but overlooks payments involving third parties or intermediaries, such as Visa transactions. Without robust data-sharing agreements and technological infrastructure, tracking and verifying revenues generated from digital services will be difficult.

- **Double Taxation:** Economic double taxation arises when income from the same activity is taxed by different jurisdictions. Juridical double taxation occurs when a taxpayer is taxed on the same income in more than one jurisdiction. Without international coordination, digital services could be taxed multiple times by different countries, discouraging investment and complicating international business operations.

- **Consumer Impact:** Digital companies might pass the cost of the tax onto consumers, leading to higher prices for digital services and goods. This could reduce the affordability and accessibility of digital services for Ugandan users.

As Uganda's digital economy grows, the government faces significant challenges in effectively taxing this sector. **The Ugandan government can address these challenges and loopholes through the following measures:**



- **Engage Stakeholders:** Foster a collaborative environment by engaging stakeholders, including digital service providers, tech companies, and industry associations, to gather input and address concerns.

- **Train Tax Authorities:** Enhance the capacity of tax authorities to effectively monitor and enforce DST regulations. This can be achieved by inviting industry experts, tax consultants, and international tax authorities to give lectures and share best practices, developing and distributing detailed manuals outlining DST regulations and enforcement, and participating in international workshops and seminars to learn from other countries' experiences with DST.

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- **Incentivize Compliance:** Offer a variety of incentives to encourage compliance with digital service requirements. These incentives can be financial, regulatory, technical, and recognition-based. Examples include lowering or waiving registration, licensing, or operational fees for compliant businesses, offering deductions or credits for investments in digital infrastructure or compliance measures, fast-tracking permits, licenses, or certifications for compliant entities, and acknowledging compliant businesses through awards, public announcements, or inclusion in government publications.

- **International Cooperation:** Collaborate internationally to align Digital Service Tax practices and avoid double taxation. This includes participating in frameworks like Base Erosion and Profit Shifting (BEPS) to address tax challenges from digitalization. Additionally, implementing OECD's Pillar One and Two, which aim to allocate taxing rights and establish a global minimum tax rate, will be beneficial. As a member of regional cooperatives like the East African Community, Uganda can develop a coordinated approach to the DST, sharing experiences, challenges, and solutions with neighboring countries to create a unified and effective digital taxation framework.





By implementing these measures, the Ugandan government can address the challenges of taxing the digital economy, ensuring fair revenue collection and supporting sustainable economic growth.

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