

Uganda - Social media tax review

17 July 2018

Introduction

1. This document provides an update on the social media tax protests in Kampala and gives a forecast of potential government legislative changes on 19 July 2018. For more details, please contact Jamie Shaw, Analytical Operations Manager (jshaw@assayerisk.com).

Social media tax background

2. In May 2018, the Ugandan Parliament passed the Excise Duty (Amendment) Bill which taxes online services such as Facebook and introduces mobile money transaction fees of 0.5%. These taxes are paid by telecommunications companies who add the additional costs to an individual's monthly phone bills. Virtual Private Networks (VPN's) will also be banned under these laws to prevent citizens from escaping charges. The taxes have already had an impact with Liquid Telecom reporting a 75% drop in Facebook and WhatsApp usage in the past month. The decision to put greater controls on social media follows the social media ban introduced during the February 2016 Presidential election, which assisted President Museveni and the National Resistance Movement (NRM) in retaining power with a 59% majority. Given the close result of the last election, the government is highly likely to bring greater censorship to media platforms in the build-up to the upcoming 2021 presidential election.

3. Defending the law, President Museveni has said that the purpose of the tax is to improve government revenue and reduce capital flight from illegal transactions. The rising drug rate in Kampala has been used as a rationale for taxing mobile money transfers to prevent criminals from avoiding taxes and to bring more scrutiny to money transfers. Data from the Ugandan Communications Commission found that 40% of Uganda's 41 million population use the internet and this has sparked protests over decisions to tax internet users. The cost of the two taxes may be unaffordable for low-income households and this could decrease the number of internet users in the long-term.

Daily cost	Annual cost	Average Ugandan household income	Gross domestic product per capita
USD\$0.0531	USD\$19	USD\$3,500	USD\$615

Image 1. Social media tax and Ugandan income statistics

Kampala protests

4. When the act was implemented on 01 July 2018, opposition politicians criticised the government's justification for the law, stating that it infringed on Ugandan's rights to freedom of expression given in the constitution. A small protest against the law of roughly 50 protestors, led by the independent MP Robert Kyagulanyi, took place in Kampala on 12 July 2018 and was quickly dispersed by police with tear gas and arrests. The protestors were primarily concerned with the social media tax as Facebook and WhatsApp are widely used in Uganda as a free messaging alternative to telephone

communications. In response to these protests, Prime Minister Ruhakana Rugunda has said that both taxes will be reviewed during the Parliamentary session on Thursday 19 July 2018.



Image 2. Ugandan singer and independent MP Robert Kyagulanyi leading the protests on 11 July 2018

Scenarios for 19 July 2018 legislative review

5. The following scenarios are assessments of potential actions which could be taken by the Ugandan Parliament following a review of legislation on 19 July 2018.

6. **Government makes no changes to the social media tax and mobile money tax.** This is the most likely scenario and will bring the greatest benefit for the ruling government in terms of raising revenue and potentially reducing social media use. Even though the social media tax will significantly impact low income households, the protests thus far have been small and limited to Kampala. Given the limited size of the Kampala protest, if the government maintains both taxes it is not expected that there will be a significant rise in support for the opposition or protests in other large towns. The government has not rescinded on previous controversial laws despite opposition protests, such as the decision to remove presidential age limits and the subsequent fights inside Parliament which broke out in September 2017.



Assaye Risk scenario forecast: **High probability**

7. **Social media tax cost is lowered.** To reduce the financial burden on households and continue revenue collection from taxes, the government could propose a slight reduction in the cost of the social media tax. Although this will not stop demands from opposition politicians for the tax to be removed, it will reduce the financial impact on the population. The government had previously considered making the mobile money tax 1% but reduced this to 0.5% to reduce the financial implications for Ugandans. This scenario is possible but brings reduced revenue for the government and is unlikely to prevent future opposition accusations of authoritarianism.

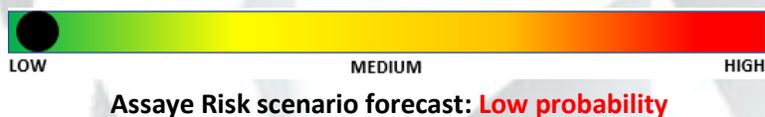


Assaye Risk scenario forecast: **Medium probability**

8. **Social media tax is removed but mobile money tax remains.** As a sign of softening their approach, it is possible that the government could remove one of the taxes at the Parliamentary meeting on 19 July 2018. In this scenario, it is more likely that it would be the tax on social media given that it has been the main source of discontent amongst the public. The government would probably justify this decision by claiming to have heard concerns of the public. However, the opposition has been unable to convert the limited public anger into a significant tool for developing support. With the greater control over access to social media that this legislation offers plus the additional small government revenue, this scenario is possible but not likely.



9. **Both the social media tax and mobile money tax are removed completely.** This is the least likely scenario given that the government will have less control over social media and will receive no revenue benefits from removing taxation. If this scenario was introduced, the government may improve its public image in allowing for freedom of speech but this would come at the cost of potentially allowing greater support for the opposition on social media. Despite potential benefits for individuals if these taxes are removed, the NRM maintain a majority of support in Uganda and so are less incentivised to remove both taxes.



Assessment:

- Out of the scenarios analysed, it is most likely that the government will maintain the status quo as it brings the greatest benefit for the government. The lack of widespread protests indicates that the social media tax has not created huge divisions within Uganda despite the increased cost for individuals.
- Under the cover of preventing illegal money transfers and a rising crime rate in Kampala, it is expected that the government will maintain the 0.5% tax on mobile money transfers. It is unlikely that this law will disrupt the drugs trade and money laundering within Uganda.
- If the government does decide to amend one of the laws, it is highly likely that it would be the social media tax. This is a possible scenario but would be of less benefit to the government as the 2021 presidential election approaches.
- The government is unlikely to remove both taxes as President Museveni has stated his intention to gain greater revenue from social media. Other controversial laws introduced by the government have not been removed, even with protests in Parliament, which suggests that the most likely scenario is that the status quo will remain.

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10. The Assaye Risk office in Kampala provides situation updates and security advice for companies operating or looking to invest in Uganda. For further information about our services in Uganda contact info@assayerisk.com or visit our office at 20 Canon Road, Ntinda, Kampala, Uganda.