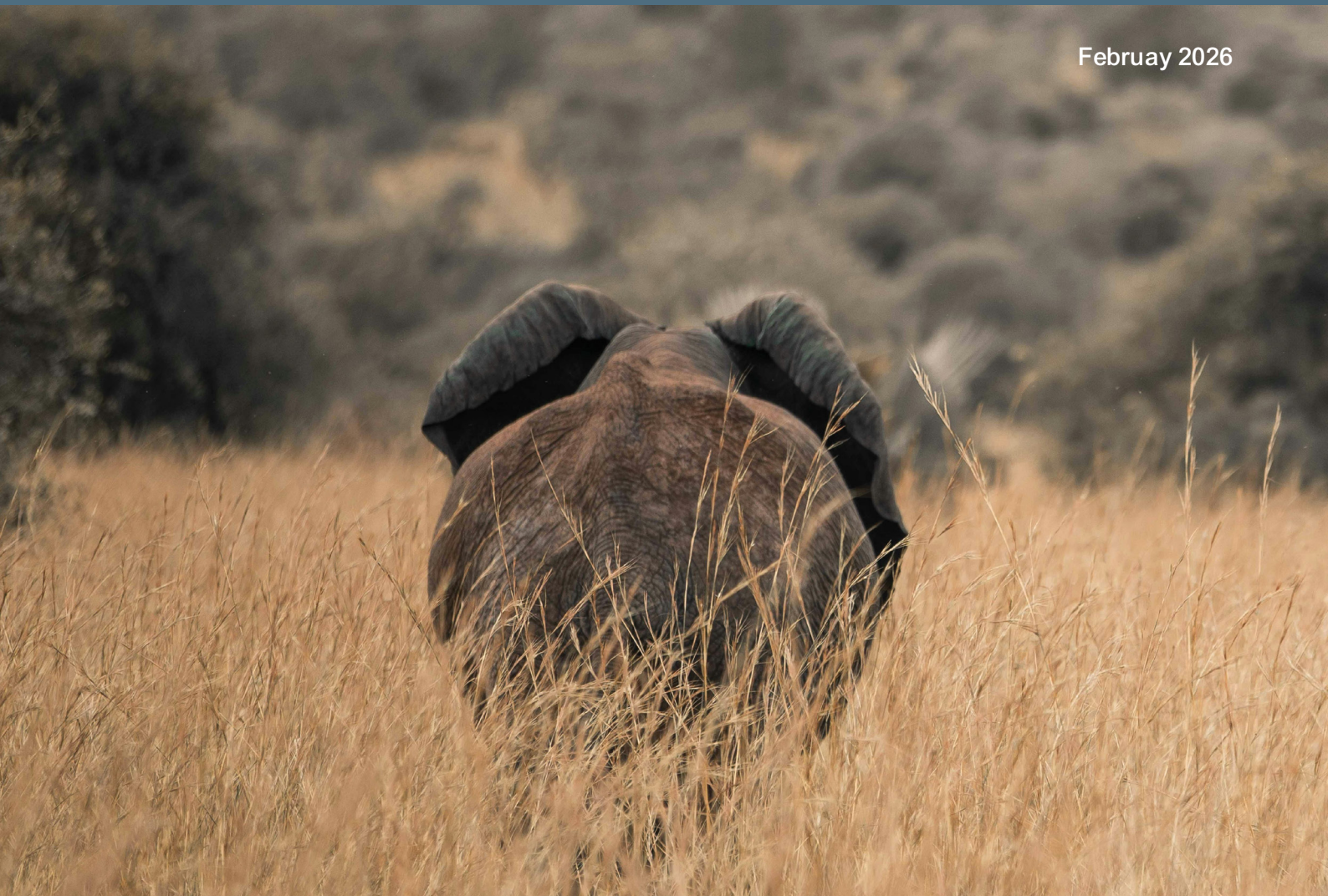


# Uganda Income Tax Incentives 2026:

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A Comprehensive Guide  
for Local and Foreign Investors.

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## 1. Introduction

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Many Ugandans believe that tax holidays are only for foreign companies. This perception is not only common but also increasingly outdated. Far from being sidelined, local investors now enjoy a legislative framework that is increasingly skewed in their favor offering lower entry barriers and dedicated holidays not available to their international counterparts.

This article dissects how recent amendments to the Income Tax Act have intentionally shifted the scales. We strip away the complex legal jargon within The Act to provide a clearer, step-by-step guide on how to unlock these incentives. Whether you are a small startup or a growing manufacturer, this guide is designed to help you capitalize on tax incentives to unlock the capital you need to scale.

## 2. Basic understanding of Income Tax

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In Uganda, Income Tax is governed by the Income Tax Act (Cap. 338) (The Act). At its core, it is a tax levied on a person's (company or individual) chargeable income, more commonly understood as taxable profits.

The formula for taxable profit is straightforward:

**Taxable profits or Chargeable Income = Gross Revenues - Allowable Deductions**

Because of this structure, tax incentives in Uganda typically focus on two areas:

- i. **Minimizing Gross Income:** Excluding certain earnings from being taxed.
- ii. **Maximizing Deductions:** Allowing more expenses to be subtracted to reduce the final taxable profit.

## 3. General income tax incentives

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While many public and government entities already utilize standard tax exemptions, this article focuses on private investment incentives, the specific tax breaks designed to drive private capital and business growth. The general exemptions not explored in this article include:

- **Exemption on the income of Government and Public Entities:** i.e. the income of government, local authorities and listed institutions.
- **Exemption of Income from Investment and Capital Vehicles:** i.e. Income derived by or from private equity or venture capital funds, (CIS), Income earned by Collective Investment Schemes provided that income is distributed to the individual participant, Income earned by funds set up to protect investors in the capital markets.
- **Exemption of income from Aviation:** Income derived from the operation or leasing of aircraft in both domestic and international traffic.
- **Exemption of Cooperatives (SACCOs):** Income earned by a Savings and Credit Cooperative Society is currently exempt from tax until June 30, 2027.
- **Exemption of Income of organizations** that are religious, charitable, or educational in nature, provided they have been granted Exempt Organization status by the Commissioner and do not distribute profits to any individual.

The above among other specific exemptions for individuals and entities are provided for under section 21 of The Act.



Beyond the above general exemptions, Uganda offers a powerful suite of targeted incentives for the proactive investor. This article now shifts focus to the specific income tax incentives available to individuals and companies both local and foreign undertaking investments in Uganda’s key economic sectors and how these incentives can be unlocked.

**A. The 3-year tax holiday for citizen start-ups.**

Beginning July 1, 2025, The Act introduced a transformative incentive that grants a three-year income tax exemption to new businesses established by citizens, designed to bolster domestic start up businesses and ease the initial cost of formalization of such small and micro businesses.

- **The Eligibility Criteria**

To unlock this exemption, a startup must strictly satisfy four statutory conditions:

1. **Strict New Business Rule:** The business must be established after July 1, 2025. Existing businesses that merely rebrand or restructure are likely to be disqualified under The Act’s anti-avoidance rules.
2. **Investment Capital Cap:** The registered investment capital must not exceed UGX 500 million. This goes without saying that there should be properly kept books of accounts and other documentation to prove that the investment does not exceed UGX 500 million.
3. **The One Time Benefit:** The citizen must not have previously benefited from this specific exemption. This is designed to prevent serial startup tax evasion.
4. **Compliance:** The citizen must maintain full transparency by filing Annual Income Tax Returns and a Business Information Return in the format prescribed by the Commissioner General under The Act.

- **Our take on the incentive;**

While the incentive was a massive win for Micro and Small Enterprises, its practical impact may be muted by the fact that most businesses in Uganda face high fixed establishment costs and low initial revenues, often resulting in tax losses during their first 3 years. This implies that the three-year window may expire before the incentive can be utilized.

For this exemption to be more effective and achieve the objective of stimulating micro and small businesses, the exemption period should span at least 6 years which would align with business reality.

## B. The 10-Year Income Tax Holiday for Exporters

The Law offers a robust 10-year income tax exemption for businesses (regardless of whether owned by locals or foreigners) engaged in the exportation of finished consumer and capital goods.

- **The Eligibility Criteria**

To unlock this tax incentive, an investor must satisfy the following statutory conditions:

1. **The 80% Export Rule:** The person must export at least 80% of their total production of finished consumer or capital goods.
2. **Certification:** The investor must apply in writing and be issued a Certificate of Exemption by the Commissioner General.
3. **Regulatory Compliance:** The investment must fulfill all additional conditions prescribed by the Minister through *The Tax Incentives for Exporters of Finished Consumer and Capital Goods Regulations of 2009*.

To benefit, an application should be submitted to the Commissioner General at the commencement of the investment. Once approved, the exemption applies from the beginning of operations for example operations that commence in 2026, once approved that exemption would commence from 2026 onwards.

For existing Investments (having been in operation before 2026 but never taken advantage of this incentive) you can apply now to have your 10-year holiday start now.

- **Our take on the incentive;**

While Uganda's exports have traditionally been dominated by raw materials, there is a burgeoning shift toward regional markets for finished consumer and capital goods. For purposes of this incentive finished consumer goods mean consumer products ready for consumption without the need for further processing.

Meeting the 80% export requirement is often a hurdle for growing manufacturers. A corporate reorganization separating your domestic and export operations into distinct legal entities, can isolate the qualifying export revenue and ensure it meets the 80% threshold, while the domestic arm manages local production independently.





### C. The 10-Year Income Tax Holiday for developers of Industrial Parks and Free Zones

The law provides a 10-year income tax exemption to income derived from letting or leasing facilities within designated Industrial Parks or Free Zones.

- **The Eligibility Criteria**

**Minimum investment:** the investor must meet specific capital investment requirements:

1. **Foreign Investors:** A minimum investment of USD 50 million (Appx UGX 180 Billion).
2. **Ugandan Citizens:** A minimum investment of USD 10 million (Appx UGX 35 Billion).

The timing of the 10-year clock:

1. **New Projects:** The exemption begins on the date construction commences.
2. **Existing Developers:** For those already established, by making a fresh additional investment that matches the original thresholds (USD 50M for foreigners or USD 10M for citizens).

### D. The 10-Year Strategic Investment Tax Holiday

The law offers a comprehensive 10-year income tax exemption for Strategic Investors operating both within and outside Industrial Parks and Free Zones.

- **The Eligibility Criteria**

**Qualifying Capital Thresholds:** To unlock this 10-year holiday, an investor must meet the following minimum capital requirements over a 10-year period:

1. Foreign Investors: USD 10 million (Appx. UGX 35 Billion)
2. Ugandan Citizens (General): USD 300,000. (Appx. UGX 1 Billion)
3. Ugandan Citizens (Up-country): USD 150,000 (Appx. UGX 540 Million)

For Existing Investors: the incentive/holiday can be triggered by making an additional investment equivalent to the thresholds above.

**The 70% threshold (Local Impact):**

1. **70% Local Materials:** You must use at least 70% locally sourced raw materials (where available).
2. **70% Local Staff:** At least 70% of your employees must be citizens.
3. **70% Local Wages:** Those employees must take home at least 70% of your total company wage bill.

**The priority sectors:** Only 9 specific priority sectors are eligible for this 10-year tax holiday.

- i. **Agro-Processing:** Processing of agricultural goods.
- ii. **Medical & Manufacturing:** Making or assembling medical tools, medicine, building materials, cars, and home appliances.
- iii. **Wood, Paper & Education:** Manufacturing furniture, pulp/paper, and printing educational materials.
- iv. **Skills Training:** Establishing or running vocational and technical institutes.
- v. **Services & Farming:** Logistics, warehousing, Information Technology, or large-scale commercial farming.
- vi. **Consumer Goods:** Manufacturing tyres, footwear, mattresses, or toothpaste.
- vii. **Industrial & Hygiene:** Making industrial/agri-chemicals, textiles, glass, leather, machinery, electronics, sanitary pads, and diapers.
- viii. **E-Mobility:** Manufacturing electric vehicles, batteries, charging gear, or Electric Vehicle body frames.
- ix. **Healthcare:** Operating a specialized hospital facility.

- **Our take on the incentive;**

The strategic investor incentive/industrial park/free zone developer incentive is crucial for industrialisation and job creation. However, rather than require existing strategic investors to make an additional investment to qualify for the incentive, The Law should establish a floor year which would allow historical investments exceeding the defined threshold to qualify for incentives retroactively, ensuring that long term investors are not disadvantaged compared to new entrants.

## E. Other Income Tax incentives:

### a) With Holding Tax reliefs

The Act provides for the Commissioner General to grant a WHT Exemption Certificate to taxpayers who demonstrate an excellent track record of tax compliance. Once issued no person or entity is allowed to withhold tax on payments made to the person for the supply of goods or services.

In addition, when a farmer or trader sells agricultural produce to a buyer such as a school, a factory, or a supermarket, the buyer is not allowed to withhold any tax. The seller should receive the full invoice amount considering The Act expressly exempts WHT on agricultural supplies.

The WHT Exemption isn't a tax holiday, you would still owe income tax at the end of the year. However, it allows you to keep 100% of your revenue upfront, rather than suffering WHT and waiting to claim the withheld amounts as credits against your final tax bill. For high-volume businesses like manufacturers and retailers, this liquidity is vital for daily operations.



## b) Research and Development (R&D) incentive

If your business is developing new technologies, patents, or scientific methods, Sections 30 and 31 of The Act provide the mechanics to deduct those costs quickly.

### i. Cost of Intangible Assets

R&D often results in intangible assets, things you can't touch but have immense value, such as patents, copyrights, software, or licenses.

For costs in relation to intangible assets with an ascertainable useful life, The Act allows a deduction of the cost every year as an expense by spreading the cost over the asset's useful life. This reduces your taxable profit for as long as that asset is helping you generate income.

### ii. Scientific Research expenditure

If you incur expenditure on scientific research to produce income or for the purpose of developing the business, you can claim a 100% deduction in the very year you spent the money. Scientific Research generally means activities aimed at discovering new human knowledge.

## c) Capital Allowances

### i. Deduction of wear & tear on depreciable assets

Depreciable assets that are eligible for the wear and tear deduction are classified into 3 classes with wear and tear rates of 40%, 30% and 20% applicable to the different classes.

### ii. Industrial building Allowance (IBA)

The Act provides for investors to recover construction costs through the Industrial Building Allowance (IBA) which allows for an annual deduction of 5% of the capital expenditure incurred on eligible industrial or commercial buildings such as factories, warehouses, and specialized hospitals used in the production of income. The 5% is deducted each year until the full cost of the building is recovered, effectively reducing the business's taxable profit over the long term.

### Our take on the incentive;

Many businesses overlook the significant tax advantages of capital allowances, often failing to establish accurate cost bases or maintain the necessary documentation. To secure this critical relief, all assets must be meticulously classified, and the appropriate allowances claimed based on verified acquisition costs.

The table below summarizes the different asset categories and the different rates.

Class	Eligible Assets	Annual Rate
Class 1	Computers and data-handling equipment	40%
Class 2	Plant and machinery (Farming, Manufacturing, Mining)	30%
Class 3	Automobiles, specialized trucks, furniture, and other assets	20%
IBA	Industrial and commercial buildings	5%

## Our overall take;

It is vital to understand that an income tax exemption does not waive the requirement to determine annual chargeable income or assessed losses. A tax computation should be done under each of the tax holiday years. This stance strategically favours the company, as any assessed loss accumulated as at the final tax holiday year may be carried forward for deduction in the first year after expiration of the tax holiday.

The Act uses the term a citizen, The definition of a citizen is broad and includes individuals who are citizens of any East African Community (EAC) Partner State, and entities incorporated in the EAC where at least 51% of the shares are held by EAC citizens.

## 4. Conclusion

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In conclusion, the shift by The Act toward incentive neutrality between local and foreign investors, marks a new chapter for Ugandan entrepreneurship. The legislative focus has moved away from the origin of the investor and toward the impact of the investment. Businesses that prioritize local value addition and innovation are no longer just taxpayers, they are strategic partners in Uganda's growth. Navigating this landscape requires moving beyond a compliance mindset and adopting a strategic approach to fiscal incentives.

If you believe your business meets these thresholds, the next step is ensuring your application is technically sound. At REDMOND TAX, we specialize in helping investors move from eligibility to approval. Reach out to us today for a high-level assessment of how these incentives can be integrated into your growth strategy.

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