Ugandan entrepreneurs criticise new social media, mobile money taxes

By Tom Jackson

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To the dismay of seemingly everyone, the Ugandan government has implemented its taxes on social media and mobile money, surely one of the most regressive steps taken by an African government in the tech space to date.

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Users of social media services like Facebook and Twitter now have to pay a daily tax for the privilege, while Uganda has also imposed a one per cent tax on cash transfers by mobile phones and other money transfer operators. International remittances are also affected.

'Economic gloom'

Just how damaging could this be in general, and to Uganda's growing tech ecosystem? Though not one of the continent's leaders, the East African country is well-stocked with innovative startups and receives its fair share of funding, but all this may now be in trouble as the government tries to take its slice.

Joshua Mugisha, co-founder of e-commerce startup Qwicart, said in general the new laws were not economically sound, and have taken Uganda down a "path of economic gloom".

“Burdening the poor through numerous taxation has never led to economic development,” he said.

This was a view shared by Chrispinus Onyancha, chief executive officer (CEO) of Ugandan e-health startup clinicPesa, who said he understood the government trying to widen the tax base but felt the taxes had been implemented without proper consideration for the people at the bottom of the pyramid.

“If the citizen pays taxes to move and draw his money, then he may prefer the traditional way of physically delivering cash, which greatly kills financial inclusion and innovations in the financial sector that would improve the quality of life of the person at the base of the pyramid,” he said.

Stone Atwine, CEO of money transfer startups Eversend and Remit, chose to focus on the social media tax in particular, saying it was “highly irregular” as it essentially amounts to censorship and an attack on net neutrality.

“They are calling it a tax on OTT, which is a concoction of mobile network operators who always wanted to add a fee to voice and video services. Now the government is opening the floodgates by being the first to tax parts of the internet,” he said.

Bad news in general, then, but also bad news for Uganda’s startup space. Onyancha said the majority of companies in the tech space will be forced to increase their charges to reflect the taxes.

“Those that don’t will die,” he said.

Mugisha said the fintech space in particular will take a huge knock, as much of it has been anchored by mobile money.

“Many tech platforms have built functionalities around mobile money. The additional taxes will bring about a reduction in use of such payment options,” he said.

Social media tax

Meanwhile, Mugisha said the social media tax would make customer acquisition more complex for startups, as the number of active users of platforms like Facebook and Twitter will surely dip. Atwine agreed, saying most startups in the tech space depend on these social media and communication platforms to run their businesses.

“Our business relies primarily on Facebook adverts for user acquisition, and we pay handsomely to get access to users. These users will now be fewer and it will reduce our reach and growth,” he said.

Mugisha believes all these issues might lead to some form of “startup flight” from Uganda.

“Some startups will look to move into better markets such as Kenya or Rwanda where the governments are supporting growth through investment in technology,” he said.

There may be some opportunities offered by the new taxes, however.

“The innovative will continue to innovate new ways that minimise the need for channels such as mobile money. I see a great void created for solutions such as cryptocurrencies and mobile wallets, and the need to collaborate more with banks than telecoms,” said Mugisha.

Regressive

That said, the consensus seems to be that these regressive new laws will not last.

“Draconian laws tend to have a short shelf life. The impact that these laws will have on the country will surely lead to a revision," Mugisha said.

Onyancha shares that view on the mobile money tax, which he believes will be scrapped, but only after it has caused a lot of damage.

"As for the social media taxes, they will stay but probably implemented within the data bundles. So that whenever you purchase bundles, part of the money pays taxes," he said.

Atwine also does not expect the laws to remain in place for too long, but sounds a note of caution.

"It seems all logic has escaped the people in charge – the tax body and the regulator. Of course citizens will keep protesting, but they will eventually stop. This is a very bad, ill-advised tax that hurts efforts to bring access to all. Ironically, the government claims it is to provide money to extend services. The logic of cutting off services to provide more access is confusing," he said.

Thankfully, there are signs logic may be returning. Prime Minister Ruhakana Rugunda has indicated the government is reviewing the taxes after a backlash.

"Government is now reviewing the taxes taking into consideration the concerns of the public and its implications on the budget," he said in a statement to parliament.

"The president has provided guidance on the matter and encouraged further discussion with a view to reaching consensus on how we should raise the much needed revenue to finance our budget."