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AFRICA ELECTRICITY SYMPOSIUM 2025

Powering Africa: Smart Innovation and Sustainable Energy for Growth

Joseph Byaruhanga,
Tax Director, TASLAF
Advocates

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INTRODUCTION

- The governance and policy framework for renewable energy in Uganda is central to the government's goals of sustainable development, economic transformation, and poverty reduction.
- The governance of policy and regulation is rooted in a commitment to inclusive and equitable growth.
- Uganda's tax policy-making process is multi-staged and inclusive, designed to support economic growth and social development.
- Uganda's Energy Policy aims to ensure sustainable, reliable, and affordable energy to support social and economic development.
- Uganda's dominant source of on-grid renewable energy is hydropower generation, which consists of both larger and smaller power projects.

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Renewable Energy Policy: Investment Challenges

The paper identifies constraints of the existing tax regime and proposes interventions for strategic energy and economic policy objectives. Some the challenges hindering progress include:

- High financing and development costs
- Lack of sustainable financial models
- Maintenance burdens
- Limited access to mini-grid financing
- Unclear off-grid risk mitigation
- Inconsistent fiscal policies
- Limited VAT exemption for renewable energy projects

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Strategic Policy Tools for Renewable Energy Investment

- Develop sustainable tariff models
- Enable effective partnerships
- Improve access to finance
- Support micro-enterprises
- Strengthen incentive frameworks

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Methods Adopted In Preparation of this Presentation/Paper

The following are the various methods employed in preparation of this presentation:

Case Studies - Examination and review of:

- Ministry of Energy and Mineral Development, Energy Policy for Uganda 2023.
- The Constitution of the Republic of Uganda.
- The Domestic Tax Laws of Uganda.
- The East African Community Customs Management Act (2004).
- The Parliament of the Republic of Uganda: Report of the Committee on Finance, Planning and Economic Development on the Income Tax (Amendment) (No.2) Bill, 2025.
- National Climate Change (Climate Change Mechanisms) Regulations, 2025.

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Current Tax Regime (Treatments & Exemptions) Applicable to the Renewable Energy Sector

Income Tax: Proceeds from a business, employment, and/or exploitation of property of a person.

- Bujagali Hydro Power Project: Exempted from tax up to 30th June 2026.
- Strategic Investment Projects: Manufacture of electrical equipment, electric vehicles and related apparatus.
- Interest income from infrastructure bonds.
- Depreciation of capital investments and amortisation of intangible assets for energy generation and distribution.
- Intangible assets: Deduction allowed for each year where the "useful life" is ascertainable.
- Capital gains
- Foreign investors or contractors conducting business through a branch in Uganda.
- Taxation of income of a permanent establishment.
- Withholding tax obligations on interest payments, asset purchases, and payments from foreign contractors.
- Transfer pricing

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Current Tax Regime (Treatments & Exemptions) Applicable to the Renewable Energy Sector

Value Added Tax: This is the type of tax that targets value addition.

- Imported services – electrical energy imported into Uganda: Electrical energy imported into Uganda is an imported service and the importer must pay VAT and the same can't be offset.

VAT exemptions related to Renewable Energy

- Solar energy equipment
- Clean cooking equipment
- Goods and services to contractors and sub-contractors of Renewable Energy projects.
- E-mobility goods and equipment
- Strategic Investment Projects – Manufacture of electrical equipment, electric vehicles, and related equipment.
- Deferment of VAT on plant and machinery imported for use in a business.

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Current Tax Regime (Treatments & Exemptions) Applicable to the Renewable Energy Sector

Excise Duty: This is an indirect tax charged on the manufacture, provision or importation of certain goods and services that are listed in the Second Schedule of the Excise Duty Act.

Excise Duty is chargeable on goods supplied to a person who meets the same qualification criteria as that required for the exemption of Income Tax for ten (10) years as a Strategic Investment project. The goods included in this treatment are:

- Construction materials available on the local market
- Locally produced raw materials and inputs

Goods listed under the fifth schedule of the EACCMA are exempted from Excise Duty.

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Current Tax Regime (Treatments & Exemptions) Applicable to the Renewable Energy Sector

Stamp Duty: Imposed on instruments which upon execution confer a right or liability on a person.

Zero (0%) Stamp Duty is chargeable on instruments related to a person who meets the same qualification criteria as that required for the exemption of Income Tax for ten (10) years as a Strategic Investment project. The instruments included in this treatment are:

- Debentures, including those that are marketable securities
- Any instrument imposing a further charge on a mortgaged property
- Lease of land
- Increase of share capital
- Transfer of land

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Gaps & Insufficiencies in the Current Policy and Administration of the Taxation of Renewable Energy

Double Taxation on Imported Electricity:

- Despite a national generation surplus, inadequate infrastructure forces electricity importation for border communities.
- Imported electricity is classified as a service for VAT purposes. The importer (UETCL) pays VAT on imports but cannot claim it as input VAT.
- This leads to the VAT cost being passed to consumers, resulting in double taxation – once at import and again at final consumption.
- This policy inflates electricity costs, undermining Uganda's economic growth and development prospects.

Restrictive VAT Exemptions for Renewable Energy Projects:

- The Uganda Revenue Authority (URA) narrowly interprets the VAT exemption for renewable energy projects.
- The exemption is limited only to the initial engineering, design, and construction phases.
- This benefit ceases once a project becomes operational and starts generating power, ignoring the long-term nature of energy projects.

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Tax as a Tool for Incentivizing Investment in Renewable Energy

Expand Income Tax Exemptions:

- Exempt the business income of all renewable energy projects (generation, transmission, distribution), not just the Bujagali Hydro Power Project, to help lower end-user tariffs.
- Exempt income from critical support services, including EPC & O&M contracts.

Reduce Financing Costs:

- Exempt interest earned by financial institutions on loans granted to any renewable energy projects.
- Attract offshore capital by removing withholding tax on interest paid to non-resident lenders for renewable energy investments.

Improve Capital Allowances & Exit Strategy:

- Accelerate depreciation by increasing the wear-and-tear allowance for renewable energy plant and machinery from 20% to 30%.
- De-risk investment by exempting Capital Gains Tax on the disposal of renewable energy business assets (plant, machinery, licenses).

Comprehensive Value Added Tax (VAT) Reforms:

- **Fix Imported Energy VAT:** Allow VAT paid on imported renewable energy to be deducted as input tax, preventing double taxation for consumers.
- **Expand Project Exemptions:** Extend the VAT exemption to cover the entire project lifecycle, including the operations, maintenance, and repair phases, not just construction.
- **Exempt Key Goods & Equipment:** Plant and machinery for renewable energy, efficient electrical appliances, green hydrogen, and biogas equipment.
- **Promote Carbon Financing:** Officially recognize services that result in carbon credit certificates as a zero-rated (0%) export service.

Eliminate Other Taxes & Duties:

- Include renewable energy projects, EPC contractors, and O&M activities under the **Strategic Investment Projects** framework.

Ease Rules for Foreign Investment:

- Remove the 15% withholding tax on payments to non-resident contractors to attract foreign expertise and services.
- Allow local branches of foreign companies to deduct payments made to their head office for fees and royalties.

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13. References

- The 1995 Constitution of the Republic of Uganda
- Income Tax Act
- Value Added Tax Act
- Excise Duty Act
- Stamp Duty Act
- East African Community Customs Management Act
- National Climate Change (Climate Change Mechanisms) Regulations, 2025
- Income Tax (Transfer Pricing) Regulations, 2011
- Ministry of Energy and Mineral Development, Energy Policy for Uganda 2023
- Report of the Committee on Finance, Planning and Economic Development on the Income Tax (Amendment) (No.2) Bill, 2025

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www.aes.era.go.ug
symposium@era.go.ug
+256 393 260166