



POTENTIAL TAX REFORMS TO UNLEASH UGANDA'S SECOND-HAND GOODS TRADE

CC BY-NC 4.0

This work is licensed under a Creative Commons
Attribution -NonCommercial 4.0 International License



AUGUST 2025

1. Background

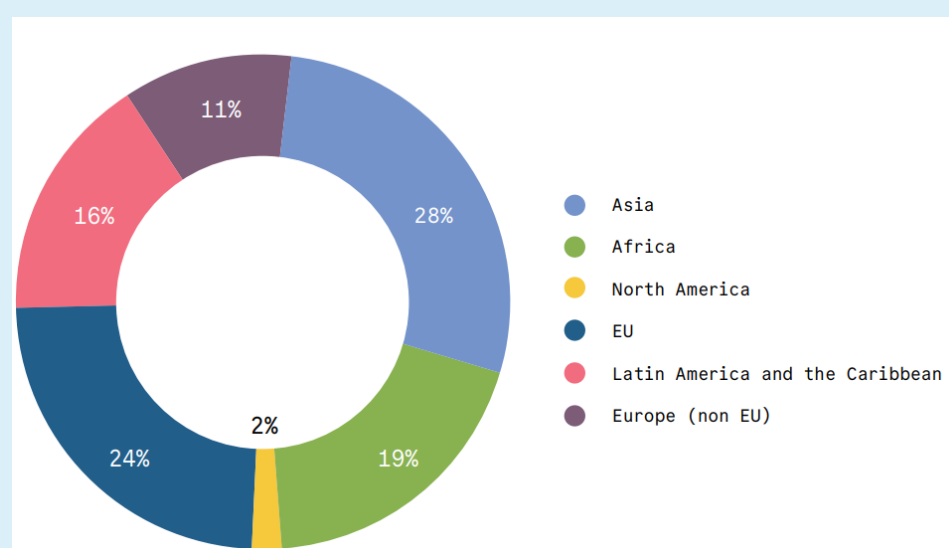
The Second-Hand Goods (SHGs) sector in Uganda, particularly trade in clothing, footwear, and bags, represents a critical economic lifeline for millions, especially in urban centres such as Kampala, Jinja, and Masaka. This sector has evolved from a survivalist activity into a significant informal economy that supports a diverse demographic, including youth, women, persons with disabilities, and low-income households. A report by MCAK (2023) indicates that the trade not only provides livelihoods for an estimated 699,000 people but also serves as a buffer against high unemployment, which stands at 12.3% nationally and is even higher among youth and women according to the National Population and Housing Census 2024 report by UBOS.

Despite its socioeconomic importance, the SHGs sector operates under a punitive and complex tax regime. **The Uganda Revenue Authority (URA) imposes a weight-based taxation system, \$0.89/kg for clothes, \$1.41/kg for shoes, and \$2.34/kg for bags, which contradicts the East African Community Customs Management Act (EACCMA), 2010 as amended, that**

mandates invoice-based valuation. This approach disproportionately affects low-value items, reduces profit margins, and encourages informal practices such as smuggling and under-declaration. Traders also face multiple overlapping levies, including presumptive tax, VAT for those above the turnover threshold, municipal fees, and market dues, which cumulatively stifle growth and formalization.

Moreover, the sector is characterized by high levels of informality, weak enforcement of quality standards, and limited representation for small-scale traders in policy dialogues. Structural challenges such as abrupt tax changes, corruption, and limited grievance mechanisms exacerbate the vulnerability of traders, many of whom are educated youth seeking entrepreneurial opportunities in a constrained job market. **The SHGs trade has thus become a de facto pillar of Uganda's informal economy, necessitating a nuanced and evidence-based policy approach that balances economic protectionism with socio-economic inclusivity.**

Figure 1: Regional Share of Total Imports of Second-Hand Clothing by Value, 2021



Source: UNECE, and ECLAC (2024)

2. Economic Impact of Second-hand Goods in Uganda

The Second-Hand Goods (SHGs) sector in Uganda, particularly trade in clothing, footwear, and bags, constitutes a significant and resilient segment of the national economy. A report by EPRC (2024) reveals that in 2023, Uganda's imports of worn apparel were valued at \$95.9 million, surpassing new clothing imports and constituting 82% of HS Code 6309 imports, which totalled \$116.7 million. Further, the report indicates that import duties from second-hand clothing alone generated approximately \$87 million in tax revenue during the 2022/23 fiscal year. The report highlighted that despite a growing GDP, which increased from \$27.7 billion in FY2014/15 to \$50.4 billion in FY2022/23, the tax revenue contribution from SHGs has remained constant at between 0.16% and 0.20% of GDP. This stagnation suggests that increased tax rates have not yielded higher revenues, likely due to reduced formal import volumes or increased evasion and smuggling.

The sector is a critical source of employment, supporting both the literates and illiterates. Gateway Research Centre's (GRC's) field survey conducted from May-July, 2025 to assess the impact of Uganda's taxation framework on the second-hand-goods trade in Uganda, particularly focusing on clothes, bags, and shoes, found that the sector is highly inclusive, engaging 73.9% youth (18-35 years), 22.6% adults, and 3.5% elderly traders (GRC, 2025). GRC's findings revealed that a significant majority (95.8%) of traders have at least a primary education, challenging stereotypes and highlighting the sector's role in absorbing educated

individuals facing a national unemployment rate of 12.3%. Additionally, it provides affordable clothing for Uganda's population where 16.9% live below the absolute poverty line (UBOS, 2024).

3. Limitations to Uganda's Quest to Promote Local Textile Industries

Uganda's efforts to promote local textile industries face significant limitations. **High import taxes on textile fabrics (35% plus \$5/kg) as urged by KACITA (2021) aim to protect domestic production but have not addressed underlying structural weaknesses such as high electricity costs, limited access to industrial financing, and inefficient supply chains, which make locally produced textiles uncompetitive against cheaper imported or second-hand alternatives.**

Moreover, the local cotton sector adds limited value: only 10% of Uganda's cotton is processed domestically, with the rest exported as raw lint, restricting job creation and industrial growth (EPRC, 2024). **The government of Uganda's protectionist policies also ignore the socio-economic role of the second-hand goods trade, which employs thousands and supplies affordable clothing to low-income households.**

Without parallel investment in local production capacity, energy affordability, and value-chain development, high tariffs alone fail to stimulate the textile sector and instead increase costs for consumers and informal traders, perpetuating reliance on imports and second-hand markets.

4. Challenges Faced by Secondhand Goods Traders in Uganda

- i. The most pressing issue is the harsh and unpredictable tax regime. Traders are subject to high import taxes levied per kilogram rather than on the invoice value of the goods. This weight-based system is particularly unfair as it taxes low-value items (e.g., baby clothes) at the same rate as high-value ones. **Taxes are frequently increased without prior notice, disrupting business planning and forcing traders to import fewer goods.** Furthermore, a stack of other levies (VAT, withholding tax, infrastructure levy) can push the effective tax rate to 45–55% of the customs value.

Table 1: Import Tax Rates

Import Tax Rates		
Tax Type	Rate	Applies To
Import Duty (Ad-valorem)	35%	Customs (invoice) value
VAT duty	18%	Customs value + import duty
Withholding Tax	6%	Customs (invoice) value
Infrastructure Levy	1.5%	Customs (invoice) value
Environmental Levy	10%	Used clothing imports
Specific Duty	\$0.89/kg clothes, \$1.41/kg shoes, \$2.34/kg bags.	Second-hand imports
Any additional surcharges	This stacking can push the effective tax between ~45–55% of customs value.	Second-hand imports

Source: URA website, 2025

- ii. Corruption and unfair enforcement are rampant. During GRC's survey, earlier mentioned, traders lamented that URA and Kampala Capital City Authority (KCCA) officials often harass them, accusing them of having substandard goods or unpaid taxes to solicit bribes and avoid confiscation. **This is exacerbated by the shortage of clear or accessible system for traders to lodge complaints against this misconduct.**
- iii. Limited government support and representation is another key challenge. Despite their economic contribution, SHGs traders have limited access to credit and formal recognition. **Crucially, umbrella associations like Kampala City Traders' Association (KACITA) are dominated by large-scale importers, leaving small and medium traders without a voice in policy dialogues, making them vulnerable to exploitative practices.**
- iv. Other operational challenges include the uniform tax assessment of bales regardless of their actual content and quality, often leading to traders paying high taxes for unsellable stock. The misapplication of the Electronic Fiscal Receipting and Invoicing Solution (EFRIS) to retailers (who are not legally obligated to use it) results in further harassment and confiscation of goods.
- v. **The constant threat of an outright government ban on second-hand goods also creates a climate of fear and uncertainty for traders who depend on the sector as their primary source of income.**

5. Policy Contradictions on Second Hand Goods Trade in Uganda

- **Contradiction with National Development Goals**

Uganda's National Development Plan IV (2025-2030) and Vision 2040 by NPA (2024) promote inclusive economic growth, employment, and industrial transformation. However, efforts to ban or overtax the SHGs trade contradict these goals by threatening a sector that provides livelihoods to millions, especially youth, women, and vulnerable groups.

- **Violation of Regional Customs Law**

The East African Community Customs Management Act (EACCMA), 2010 as amended, which Uganda is bound by, requires customs valuation to be based on invoice value (transaction value method). However, the Uganda Revenue Authority (URA) applies a specific duty per kilogram on used clothing, footwear, and bags, which violates this regional law.

- **Unfulfilled Government Commitments**

In a meeting between URA, the Ministry of Finance, and KACITA, in March 2024 it was agreed to end per-kilogram

taxation and switch to invoice-based valuation (URA, 2024). However, URA has not yet implemented this resolution, continuing to use the contested weight-based tax system.

- **Protectionist Policies vs. Economic Reality**

The government imposes high taxes on SHGs to protect local textile industries, but without first addressing underlying weaknesses in local production (e.g., high electricity costs, poor financing, weak supply chains). This makes local textiles uncompetitive, and consumers continue to prefer cheaper second-hand goods, undermining the intended protectionist effect.

- **Threat to Youth Employment**

The share of youth (15-24 years) Not in Employment, Education or Training (NEET) in Uganda stands at 4,001,528 persons (42.6%) as indicated in the National Population and Housing Census 2024 report by UBOS. The SHGs trade employs many of these youth. Policies that threaten the sector (e.g., bans or high taxes) could exacerbate youth unemployment and social instability, contradicting national goals for youth empowerment and economic inclusion.

6. Conclusion

It is evident that Uganda's current taxation regime on second-hand goods particularly clothes, footwear, and bags, is counterproductive and unsustainable. **The weight-based tax model disregards the actual value and quality of goods, disproportionately burdening low-value items and stifling profitability for small traders.** This does not only contradict regional customs valuation laws, but also fuels informality, smuggling, and revenue loss for Uganda Revenue Authority. The sector supports millions, especially youth and women, providing affordable goods to low-income households and sustaining livelihoods amid high unemployment. Rather than punitive taxes or proposed bans, government policy should shift toward value-based taxation, enhance transparency, and support formalization. Aligning tax policy with economic reality is essential for inclusive growth, job preservation, and sustainable revenue generation.

7. Key Policy Recommendations

- i. **Formalize the SHGs sector through a national trade policy.** Parliament should enact a clear policy to recognize the sector's economic role, protect it from arbitrary bans, and promote recycling initiatives for unsellable items.
- ii. **Simplify and reduce the cost of business licensing by 50%.** URA and municipalities should lower license fees and create one-stop registration centres, mainly in market or business areas to encourage formalization and reduce entry barriers for small traders.
- iii. **Transition to value-based taxation.** Uganda Revenue Authority (URA) to replace the per-kilogram tax with a system based on invoice value and bale grade, reducing the burden on low-value items and increasing fairness and compliance.
- iv. **Establish a dedicated Second-Hand Goods (SHGs) importer digital portal by URA.** Develop an online platform with a tax calculator to improve transparency, reduce broker dependency, and streamline the customs clearance process.
- v. **Mandate regular stakeholder dialogue before tax reforms.** The Ministry of Finance, Planning and Economic Development (MoFPED) and Uganda Revenue Authority (URA) should hold quarterly consultations with trader associations like KACITA to build trust and prevent abrupt, disruptive tax policy shifts.
- vi. **Strengthen widespread tax education clinics in major markets.** URA should widely and nationally deploy mobile help desks, town-hall meetings, and increase awareness campaigns to improve traders' understanding of tax obligations and reduce non-compliance.
- vii. **Improve grievance handling mechanisms for traders.** Establish and publicize a clear, accessible system for traders to report corruption, unfair treatment, or arbitrary tax assessments without fear, spearheaded by URA. Further, the Tax Appeal's Tribunal (TAT) should be strengthened to prevent or minimise cases of bribery.
- viii. **Promote access to finance for SHGs traders.** MoFPED should include SHGs in national development plans and facilitate affordable credit schemes to help small traders grow and formalize their businesses.

References

- EAC Customs Valuation Manual (2010). https://meaca.gov.ss/wp-content/uploads/2022/08/Customs_Valuation_Manual.pdf
- EPRC. (2024). Phasing Out Second-Hand Clothes.
- EPRC. (2024). Uganda Implored to Assess Impact of Proposed Ban on Second-Hand Clothes.
- GRC. (2025). Freedom on Second-Hand Goods Trade in Uganda. <https://shorturl.at/655K1>
- KACITA. (2021, February 25). Kacita Uganda Petitions The Unfair Government Tax Increment. <https://kacita.co.ug/kacita-uganda-petitions-the-unfair-government-tax-increment/>
- MCAK. (2023). The Second-Hand Clothing Industry in the East Africa Community. <https://mitumbaassociation.org/wp-content/uploads/2023/08/EAC-Report.pdf>
- NPA. (2024). Fourth National Development Plan (NDPIV) 2025/26 - 2029/30. <https://shorturl.at/MaiSZ>
- UBOS. (2024). National Population and Housing Census. <https://shorturl.at/nY2bD>
- URA. (2024, March). KACITA Traders Engaged on Harmonization of Customs Valuation. <https://ura.go.ug/en/kacita-traders-engaged-on-harmonization-of-customs-valuation/>