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Abstract

This study examined the potential implications of Uganda's 2026 Pay As You Earn (PAYE) tax reforms for the financial resilience of individual taxpayers. The study responded to a limitation in the existing tax-policy literatures, which has predominantly evaluated personal income tax reforms through domestic revenue mobilisation, taxpayer compliance, taxable-income responses and redistribution, while giving comparatively limited attention to the financial capacity of individual taxpayers to absorb and recover from economic shocks. The study adopted a policy-oriented conceptual and evidence-synthesis approach. It integrated Uganda-specific evidence on personal income taxation with recent international literatures on financial resilience, financial literacy, saving, debt management and household risk management. The analysis developed a conceptual pathway linking PAYE reform to tax liability, disposable income and financial resilience. The 2026 reform raises Uganda's resident PAYE tax-free threshold from UGX 235,000 to UGX 335,000 per month and restructures the intermediate tax bands while retaining the additional 10% surcharge on monthly chargeable income above UGX 10 million. The immediate effect was therefore heterogeneous across taxpayers rather than uniformly expansionary or contractionary. Previous Ugandan evidence indicated that personal income tax reforms increased revenue while producing distributional and behavioural effects across taxpayer groups. Recent financial-resilience research further indicated that disposable resources, precautionary savings, debt management, financial literacy, insurance and risk-management capacity are important components of resilience. In view of the findings, the study recommends that the welfare implications of PAYE reform assessed beyond statutory tax rates and aggregate revenue.

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Keywords: PAYE, personal income tax, tax reform, disposable income, financial resilience, financial wellbeing, Uganda, taxpayers, tax policy

1.0 Introduction

Taxation remained one of the principal instruments through which governments finance public services, redistribute resources and create fiscal space for development. In developing economies, personal income taxation has an additional significance because it links formal employment directly to domestic revenue mobilisation. Unlike indirect taxes, which are generally embedded in consumption prices, PAYE is deducted directly from employment income and therefore produces an immediate connection between taxation and the amount of money available to employees for consumption, saving, debt repayment and investment. The design of PAYE consequently has implications that extend beyond government revenue to the financial circumstances of the individuals from whom the revenue is collected (OECD, 2021, 2023; Verdier et al., 2022).

The policy challenge was to achieve an appropriate balance between revenue mobilisation and taxpayers' capacity to maintain economically productive and financially secure lives. A tax system that mobilises revenue efficiently can support public goods and macroeconomic stability, but the distribution of tax liabilities also matters because changes in disposable income can affect household saving, borrowing, consumption and the capacity to respond to unexpected financial demands. Recent household-finance research increasingly conceptualises financial resilience in terms of the capacity to withstand, absorb and recover from financial shocks rather than simply the level of income earned (Kass-Hanna et al., 2022; Liu et al., 2024; Clark et al., 2025).

Domestic revenue mobilisation remained central to fiscal sustainability because governments required reliable domestic resources to finance public services, infrastructure and development priorities. The International Monetary Fund (2022) emphasised the importance of strengthening domestic revenue mobilisation while maintaining tax systems that supported inclusive and sustainable economic recovery. In Uganda, this policy objective created an important balance between increasing public revenue and maintaining taxpayers' capacity to meet household financial obligations. Uganda provided an important setting for examining this relationship. Personal income tax has become an increasingly significant component of domestic revenue mobilisation, while government has simultaneously pursued reforms intended to broaden the tax base, strengthen compliance and improve the equity and efficiency of the tax system. The Ministry of Finance, Planning and Economic Development reports that Uganda's personal income tax effective rate increased from 26.49% in FY2022/23 to 27.64% in FY2023/24, while individual income tax revenue increased from approximately UGX 4.89 trillion to UGX 5.33 trillion over the same period (MoFPED, 2024). These developments illustrate the growing importance of individual taxation in Uganda's fiscal architecture.

Uganda's previous experience with personal income tax reform is particularly relevant. Jouste et al. (2024), using the universe of PAYE administrative data, examined the country's earlier progressive personal income tax reform. Their analysis found limited evidence of overall behavioural responses, although the response differed across taxpayer groups. The reform increased tax revenue and produced a modest reduction in after-tax income inequality. These findings demonstrated that the consequences of personal income tax reform extend beyond the statutory tax schedule and may vary according to taxpayer characteristics, income levels and opportunities for behavioural adjustment.

The policy environment changed again in 2026. The Income Tax (Amendment) Act, 2026 introduced revised individual income-tax thresholds and rates, with the amendments taking effect from 1 July 2026 (Income Tax (Amendment) Act, 2026, 2026). Uganda Revenue Authority (URA) implementation guidance specified a monthly tax-free threshold of UGX 335,000 for resident individuals, followed by a 20% band on chargeable income from UGX 335,001 to UGX 410,000, a 25% band from UGX 410,001 to UGX 485,000, and a 30% band from UGX 485,001 to UGX 10 million. An additional 10% charge applied to monthly chargeable income exceeding UGX 10 million (Allan, 2026; Uganda Bureau of Statistics et al., 2026).

The reform was important because its mechanical effect on PAYE liability varied across income groups according to taxable income and the applicable tax band. URA's official illustration showed that an employee with monthly chargeable income of UGX 500,000 incurred PAYE of UGX 38,250 under the revised schedule, compared with UGX 52,000 under the previous calculation. This represented a monthly reduction in PAYE liability of UGX 13,750, equivalent to UGX 165,000 when annualised, assuming the employee's income and other payroll deductions remained unchanged (Allan, 2026; Uganda Bureau of Statistics et al., 2026). The reduction in PAYE liability consequently increased the taxpayer's disposable employment income by the same amount under the stated assumptions.

However, an increase in disposable income did not necessarily translate into greater financial resilience. The additional resources could have been allocated to saving, debt repayment, investment, insurance premiums or essential household expenditure, or could have been absorbed by existing financial obligations. Consequently, the financial-resilience implications of the reform depended not only on the size of the PAYE reduction but also on taxpayers' subsequent financial behaviour, household obligations, access to financial services and capacity to manage financial shocks. The study therefore examined disposable income as an important intervening pathway between PAYE reform exposure and financial resilience rather than assuming that a tax reduction automatically produced improved financial outcomes.

This distinction was important because financial resilience is multidimensional. Recent research conceptualised resilience through people's capacity to prepare for unexpected expenses, maintain manageable debt, accumulate liquid resources and recover following financial disturbances (Kass-Hanna et al., 2022; Liu et al., 2024; Clark et al., 2025). Liu et al. (2024), for example, find that financial literacy significantly improves household financial resilience and strengthened households' capacity to resist and recover from financial disturbances. Kass-Hanna et al. (2022), using evidence covering Sub-Saharan African and South Asian countries including Uganda, similarly show that financial and digital literacy are associated with resilience-building behaviours such as saving, borrowing and risk management.

The implication was that tax policy influenced financial resilience through several interconnected channels. A reduction in PAYE liability increased take-home income, but the magnitude of the welfare effect depended on whether taxpayers converted the additional resources into precautionary savings, debt reduction, insurance coverage or productive investment. Conversely, a higher effective tax burden reduces the resources available to absorb financial shocks, particularly among households with high dependency ratios, substantial debt obligations or limited savings. Financial literacy and access to formal financial services further condition these effects (Kass-Hanna et al., 2022; Liu et al., 2024).

Despite this emerging evidence, Uganda's tax literatures has largely concentrated on revenue mobilisation, compliance, taxpayer behaviour, taxable income responses and redistribution. The 2024 study by Jouste et al. provided important evidence on taxpayer responses to progressive tax reform, but its central outcome is taxable labour income and distribution rather than financial resilience. This leaves an important analytical gap concerning what happens to taxpayers' financial capacity after changes in PAYE liability.

The present study therefore examined the relationship between the 2026 PAYE tax reforms and the financial resilience of individual taxpayers in Uganda. Rather than assuming that lower PAYE automatically produces greater welfare, the study considers the mechanism through which PAYE liability affects disposable income and how disposable income may subsequently influence saving, debt management, financial preparedness and the ability to absorb unexpected shocks.

The central argument was that PAYE reform should not be evaluated exclusively by its effect on government revenue or taxpayer compliance. It should also be examined in relation to the financial capacity of taxpayers who bear the tax burden. This broader perspective can contribute to a more balanced assessment of tax-policy effectiveness in Uganda.

1.1 Problem Statement

Uganda's domestic revenue mobilisation strategy places substantial emphasis on expanding the tax base, strengthening compliance and improving the efficiency of tax administration. Personal income tax represents an important part of this effort because PAYE provides a relatively predictable source of revenue collected through formal employment. Recent fiscal evidence indicates continued growth in individual income tax revenue and an increase in the effective personal income tax rate (MoFPED, 2024). At the same time, Uganda continues to face the challenge of balancing revenue mobilisation with equity, formal-sector participation and taxpayers' economic welfare.

The 2026 PAYE reform represented a significant change in the structure of taxation on resident employment income (PAYE Rates - Uganda Revenue Authority, 2023). The tax-free threshold was increased to UGX 335,000 per month, while the lower and middle tax bands were restructured. The new rates became effective on 1 July 2026, and URA subsequently instructed employers to correct affected July and August returns where the new rates had not initially been applied. Although the reform can be evaluated from the perspective of revenue collection and tax administration, its implications for individual financial welfare remain insufficiently understood. A change in PAYE affects the amount of employment income available to a taxpayer after tax. However, the same change may have different consequences for different households depending on debt commitments, household size, and financial literacy, access to savings facilities, insurance coverage and exposure to economic shocks.

Previous Ugandan research has established that personal income tax reforms can increase revenue and affect taxable-income behaviour (Jouste et al., 2024). Yet this evidence does not explain whether changes in tax liability alter taxpayers' capacity to maintain emergency savings, service debt, meet essential expenditure or recover from unexpected financial shocks. International research has increasingly identified these capacities as important dimensions of financial resilience (Kass-Hanna et al., 2022; Liu et al., 2024; Clark et al., 2025), but comparable evidence directly connecting PAYE reform to individual financial resilience in Uganda remains limited.

The problem is therefore not simply whether the 2026 PAYE reform changes the amount of tax paid. The broader issue is whether the change in tax liability produces a meaningful change in taxpayers' financial capacity and, if so, through what mechanism. Without such evidence, policymakers may evaluate PAYE reform primarily through fiscal outcomes while overlooking its distributional and household-finance consequences. This study addresses this gap by examining the proposed relationship between PAYE tax reform, disposable income and financial resilience among individual taxpayers in Uganda.

1.2 Objectives of the Study

- i. To examine the effect of the 2026 PAYE tax reforms on the disposable income of individual taxpayers in Uganda.
- ii. To assess the relationship between disposable income and the financial resilience of individual taxpayers in Uganda.
- iii. To examine whether disposable income mediates the relationship between the 2026 PAYE tax reforms and the financial resilience of individual taxpayers in Uganda.

1.3 Research Questions

- i. What is the effect of the 2026 PAYE tax reforms on the disposable income of individual taxpayers in Uganda?
- ii. What is the relationship between disposable income and the financial resilience of individual taxpayers in Uganda?
- iii. Does disposable income mediate the relationship between the 2026 PAYE tax reforms and the financial resilience of individual taxpayers in Uganda?

1.4 Hypotheses

- H₁:** The 2026 PAYE tax reforms have a significant effect on the disposable income of individual taxpayers in Uganda.
- H₂:** Disposable income has a significant positive relationship with the financial resilience of individual taxpayers in Uganda.
- H₃:** Disposable income significantly mediates the relationship between the 2026 PAYE tax reforms and the financial resilience of individual taxpayers in Uganda.

2.1 Literature Review

2.1.1 PAYE and Personal Income Tax Reform

Personal income taxation is commonly justified on both revenue and distributional grounds. Progressive tax structures seek to align tax contributions with taxpayers' capacity to pay while providing governments with resources to finance public expenditure. However, changes in marginal rates and thresholds can also influence taxable income, labour supply, reporting behaviour and household financial decisions (OECD, 2021, 2023; Verdier et al., 2022).

The Ugandan experience provides particularly useful evidence. Jouste et al. (2024) examined the 2012–2013 personal income tax reform using administrative PAYE data. The reform increased the top tax rate and sought to enhance progressivity. Their findings indicated limited evidence of broad behavioural responses, although higher-income taxpayers in some taxpayer-office categories appeared to reduce reported labour income. The reform nevertheless generated additional revenue and contributed to a modest reduction in after-tax income inequality.

This evidence has two implications for the present study. First, tax reforms can generate fiscal gains without necessarily producing large aggregate behavioural responses. Second, the effects of reform can differ considerably among taxpayer groups. Consequently, the financial consequences of the 2026 PAYE reform should not be inferred from the statutory rates alone.

The 2026 reform is also distinctive because it changes several thresholds simultaneously. The tax-free monthly threshold for resident individuals increased to UGX 335,000, while the intermediate bands were reorganised. The additional 10% rate for income above UGX 10 million remains applicable. The reform therefore changes the effective PAYE burden differently across income levels. This provides an opportunity for research to move beyond a binary classification of taxpayers as “reformed” and “non-reformed”. Instead, exposure can be measured according to the difference between PAYE liability under the pre-reform and post-reform schedules.

2.1.2 Financial Resilience

Financial resilience refers broadly to the capacity of individuals or households to withstand, absorb and recover from financial shocks while continuing to meet essential obligations. Financial resilience was influenced not only by disposable income but also by access to savings, credit, insurance and digital financial services. The Global Findex demonstrated that financial inclusion provided households with mechanisms for managing financial shocks, receiving payments and maintaining financial security (World Bank, 2022a). Accordingly, the effect of PAYE reform on resilience depended partly on whether taxpayers could convert additional disposable income into savings, debt repayment, investment or other forms of financial protection. It differs from income because two individuals with similar incomes may have substantially different capacities to cope with an unexpected expense depending on their savings, debt, insurance, access to credit and financial-management capabilities. Kass-Hanna et al. (2022) demonstrate that financial and digital literacy are associated with resilience-building behaviours, including saving, borrowing and risk management. Their evidence is particularly relevant to Uganda because their cross-country analysis includes Uganda and other Sub-Saharan African countries. The study further shows that financial resilience is not uniform across populations, with differences associated with socioeconomic and demographic characteristics.

Liu et al. (2024) provide further evidence that financial literacy is positively associated with household financial resilience. Their study measures resilience using the sensitivity of household liquidity to financial disturbances and finds that financial literacy strengthens the ability of households to resist and recover from shocks. Clark et al. (2025) similarly demonstrate that financial resilience is associated with preparedness for adverse economic events, future planning and manageable debt. Their evidence further indicates that greater resilience can improve economic outcomes when households encounter shocks.

Financial systems could strengthen household capacity to manage economic shocks by facilitating access to savings, credit and other financial instruments (World Bank, 2022b). In the context of PAYE reform, additional disposable income could therefore improve resilience where taxpayers used the resources to build financial buffers or reduce debt. However, households facing substantial consumption needs or existing financial obligations could experience weaker improvements in longer-term resilience despite receiving the same tax benefit.

2.1.3 PAYE Reform and Disposable Income

The most direct transmission mechanism between PAYE reform and financial resilience is disposable income. PAYE is withheld from employment earnings before the employee receives net salary. Consequently, a reduction in PAYE liability increases the amount of income available for household use, while an increase in PAYE reduces that amount. URA's 2026 guidance illustrates this mechanism. Under the revised rates, an employee earning UGX 500,000 in monthly chargeable income would have PAYE of UGX 38,250 rather than UGX 52,000 under the previous schedule. The difference of UGX 13,750 represents additional monthly disposable resources before considering other deductions or household commitments.

However, the welfare significance of the increase depends on how taxpayers use the additional income. A taxpayer may use it for consumption, debt repayment, school fees, medical expenditure, saving, investment or insurance. Therefore, disposable income represents an important but not sufficient condition for improved financial resilience. The relationship can also differ by income group. For lower-income taxpayers, even a relatively small change in net monthly income may materially affect the ability to purchase food, pay rent or meet transport costs. For higher-income taxpayers, additional resources may have a stronger marginal effect on saving, investment or debt reduction. The study should therefore examine heterogeneous effects across income categories.

2.1.4 Disposable Income and Financial Resilience

Financial resilience represented an individual's or household's capacity to withstand financial disruptions while maintaining essential financial obligations. It included preparedness for unexpected expenditure, emergency savings, manageable debt, insurance and the ability to recover from income or expenditure shocks. Kass-Hanna et al. (2022) identified saving, prudent borrowing and risk-management practices as important components of financial resilience, while Liu et al. (2024) found that financial literacy was significantly associated with household financial resilience.

The relationship between disposable income and financial behavior was further informed by Modigliani's Life-Cycle Hypothesis of Saving. Modigliani (1966) argued that individuals sought to allocate resources over their lifetime rather than determining consumption solely from current income. Under the life-cycle perspective, individuals could save during periods of relatively higher earnings and draw down accumulated wealth during periods when income declined, particularly around retirement. Saving therefore represented an important mechanism through which current income could be transformed into future financial security and wealth.

Applied to the 2026 PAYE reform, the Life-Cycle Hypothesis suggested that an increase in disposable income did not necessarily result in an immediate increase in consumption. Depending on age, expected future income, household obligations, retirement considerations and financial preferences, taxpayers could allocate part of the additional income to savings, debt reduction, investment or other forms of wealth accumulation. The additional disposable income generated by a PAYE reduction could therefore contribute to financial resilience where it increased accumulated financial resources or reduced future financial obligations. Conversely, taxpayers facing substantial current consumption needs or financial commitments could use the additional income primarily for immediate expenditure, resulting in a weaker improvement in longer-term financial resilience (Modigliani, 1966).

This theoretical perspective strengthened the study’s proposed pathway of PAYE reform → PAYE liability → disposable income → financial behaviour → financial resilience. It indicated that the effect of tax reform on financial resilience was not automatic but depended on how taxpayers allocated the additional disposable income across consumption, saving, debt repayment and investment. The theory therefore provided a basis for treating financial behaviour as an important mechanism through which changes in disposable income could influence financial resilience.

2.2 Theoretical Framework

2.2.1 Ability-to-Pay Theory

The study is primarily anchored in the Ability-to-Pay Theory of taxation. The theory holds that taxpayers should contribute to public finance according to their economic capacity. Contemporary tax-policy analysis continues to treat ability to pay as an important basis for evaluating fairness, redistribution and tax burden allocation (OECD, 2021, 2023). The theory is relevant because the PAYE schedule determines how much employment income individuals contribute to government relative to their taxable capacity. A higher tax-free threshold can be interpreted as protecting a greater portion of lower employment income from taxation, while progressive marginal rates allocate a greater tax burden to higher-income taxpayers.

The theory also provides a basis for examining the welfare consequences of taxation. If tax liabilities consume a larger share of resources required to meet essential financial obligations, the taxpayer's capacity to withstand shocks may be weakened. Conversely, appropriately designed progressive taxation may protect lower-income taxpayers while mobilising greater contributions from those with higher economic capacity. However, Ability-to-Pay Theory alone does not explain how taxpayers use their post-tax income. The present study therefore incorporates household-finance insights concerning saving, debt and risk management to explain the mechanism linking tax liability to resilience.

2.2.2 Life-Cycle Perspective

The Life-Cycle perspective provides a supporting explanation for how changes in disposable income may affect financial behaviour. Individuals allocate income across consumption and saving over time, and their financial decisions are influenced by current resources, expected future income and financial obligations (Modigliani, 1966). A PAYE reduction may therefore be used for current consumption or allocated toward future-oriented financial behaviour such as saving, investment and debt repayment. The eventual effect on resilience depends on these allocation decisions. Recent evidence supports the broader proposition that saving, manageable debt and financial preparedness are central to resilience (Kass-Hanna et al., 2022; Liu et al., 2024; Clark et al., 2025).

Existing literature had examined financial inclusion, household resilience, macroeconomic conditions and domestic revenue mobilisation, but these perspectives had rarely been integrated to explain the financial effects of personal income-tax reform in Uganda. The World Bank (2022a, 2022b, 2024a, 2024b, 2025a, 2025b) provided important evidence on these separate dimensions. However, limited attention had been given to the pathway linking PAYE reform, disposable income and financial resilience. This study addressed that gap.

2.3 Conceptual Framework

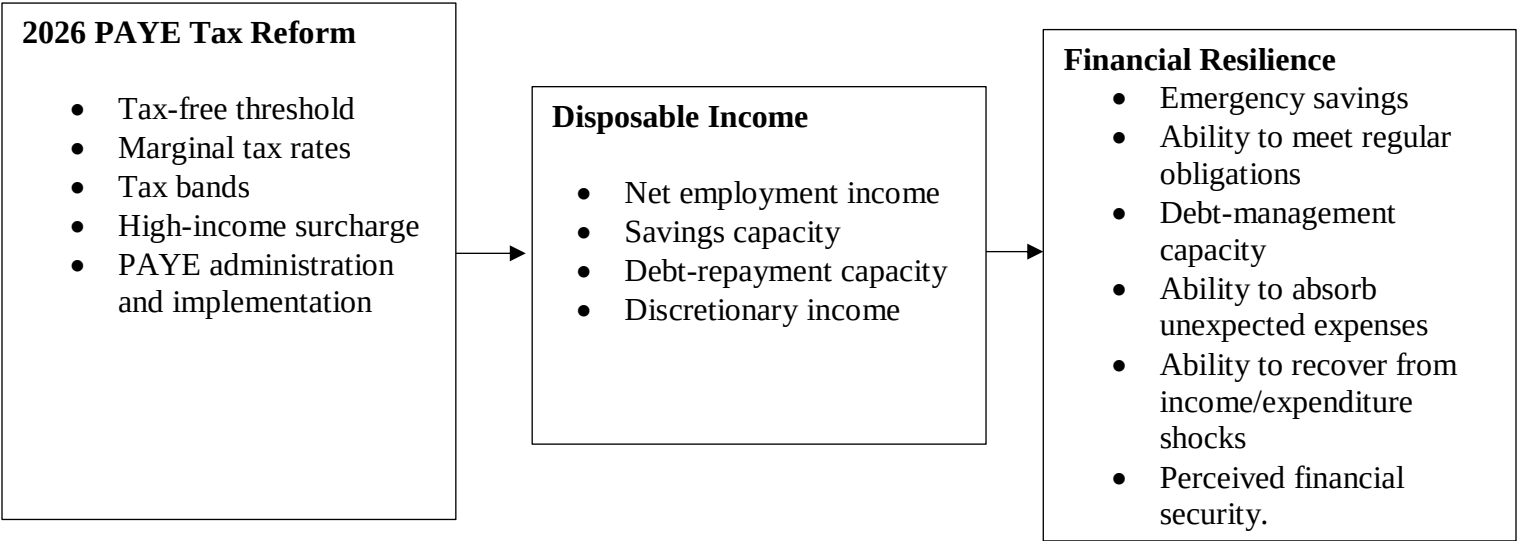


Figure 1: Conceptual Framework

3.0 Methodology

3.1 Research Design

Given that the 2026 PAYE reform commenced on 1 July 2026, the study should employ a quantitative design capable of distinguishing statutory tax exposure from observed financial outcomes. A quasi-experimental before-and-after design with treatment-intensity analysis is recommended. Conventional difference-in-differences should be used only if a credible comparison group can be identified. Because the reform applies across resident PAYE taxpayers, simply comparing PAYE taxpayers with other employees would not automatically satisfy the parallel-trends assumption. A stronger approach is to calculate each taxpayer's counterfactual PAYE liability under the old schedule and compare it with the liability under the 2026 schedule. This generates a taxpayer-specific measure of reform exposure:

$$\text{PAYE Change}_i = \text{PAYE}_{\{\text{old},i\}} - \text{PAYE}_{\{\text{new},i\}}$$

A positive value indicates an increase in disposable income resulting from a lower PAYE liability.

3.2 Target Population

The target population comprised resident individual taxpayers in Uganda whose employment income was subject to Pay As You Earn (PAYE). The study focused on formal-sector employees working in public institutions, private firms, non-governmental organisations and other PAYE-remitting organisations. Since the magnitude of exposure to the 2026 PAYE tax reforms varied according to taxable income and the applicable PAYE tax band, the study population was stratified into income categories to ensure adequate representation of taxpayers with different levels of tax exposure. This stratification enabled the study to examine variations in the effects of the reforms across income groups and provided a basis for assessing differences in disposable income and financial resilience among PAYE taxpayers.

3.3 Sampling

The study employed a stratified probability-sampling approach to ensure adequate representation of PAYE taxpayers across different income categories. Stratification was appropriate because exposure to the 2026 PAYE tax reform varied systematically according to taxable income and the applicable tax band. The sampling frame was therefore divided into four strata: lower-income, middle-income, upper-middle-income and high-income PAYE taxpayers, based on the applicable PAYE thresholds and the distribution of taxpayers by income level.

The accessible population was established from the available taxpayer or payroll sampling frame, subject to the required institutional authorization and data-protection safeguards. The sample size was determined using an appropriate probability-sampling procedure. Where the population was known and sufficiently large, the Krejcie and Morgan (1970) approach was applied, while proportional allocation was used to determine the number of respondents selected from each income stratum. Within each stratum, respondents were selected using simple random or systematic random sampling to minimize selection bias and enhance the representativeness of the sample.

Importantly, inclusion in the sample was not conditional on whether a taxpayer experienced a reduction in PAYE liability. All eligible PAYE taxpayers covered by the reform had a non-zero probability of selection, irrespective of the direction or magnitude of their tax change. This approach was methodologically important because deliberately selecting taxpayers who benefited from the reform would have introduced selection bias and potentially exaggerated the estimated relationship between PAYE reform, disposable income and financial resilience. Stratification by income level therefore enabled the study to examine heterogeneous exposure to the reform while maintaining the probability-based character of the sampling procedure.

3.4 Data Sources

The study drew on three complementary sources of evidence: primary survey data, administrative/payroll records, and documentary sources. The integration of these sources strengthens the validity of the analysis by combining taxpayers reported financial experiences with objective information on income and tax liabilities and the legal and policy context governing the 2026 PAYE reform. Such triangulation was particularly important in assessing the pathway through which changes in tax liability affected disposable income and, subsequently, household financial resilience.

Primary data was obtained through a structured questionnaire administered to individual PAYE taxpayers. The instrument captured information on employment income, taxable income, PAYE deductions, changes in net income following the reform, saving behaviour, debt obligations, recurring financial commitments, emergency preparedness, insurance coverage, financial literacy, and perceived financial security. Financial resilience was assessed through indicators reflecting taxpayers' capacity to meet routine financial obligations, absorb unexpected financial shocks, maintain savings, manage debt, and sustain financial security. This multidimensional approach was consistent with recent evidence that financial resilience encompasses both financial resources and the capacity to prepare for, withstand, and recover from adverse financial events (Kass-Hanna et al., 2022; Liu et al., 2024; Clark et al., 2025).

Where access was authorised, anonymised administrative and payroll records were used to supplement the survey evidence. These records provided objective measures of gross salary,

taxable income, PAYE liability under the pre-reform regime, PAYE liability under the 2026 regime, and resulting net salary. Their inclusion was important because self-reported tax information could be affected by recall error or limited taxpayer knowledge of tax computations. Administrative records therefore provided a more reliable basis for estimating the taxpayer-specific financial effect of the reform. Consistent with Jouste et al. (2024), reform exposure was measured as the difference between PAYE liability before and after the reform:

$$\Delta \text{PAYE}_i = \text{PAYE}_{i,\text{pre}} - \text{PAYE}_{i,\text{post}}$$

Where, ΔPAYE_i represented the change in PAYE liability for taxpayer i , $\text{PAYE}_{i,\text{pre}}$ represented PAYE liability under the pre-reform regime, and $\text{PAYE}_{i,\text{post}}$ represented PAYE liability under the 2026 regime. A positive ΔPAYE_i indicated a reduction in PAYE liability and, other things being equal, an equivalent increase in disposable employment income attributable to the reform. This measure provided a more precise representation of reform exposure than a categorical classification of taxpayers as affected or unaffected because the reform produced different financial effects according to taxpayers' taxable income and applicable tax bands.

Documentary sources provided the institutional and policy context for interpreting the empirical evidence. These included the Income Tax (Amendment) Act, 2026, Uganda Revenue Authority PAYE guidance and implementation notices, Ministry of Finance, Planning and Economic Development budget and domestic revenue mobilisation reports, Uganda Bureau of Statistics publications, and relevant tax-policy and public-finance reports. These sources were used to establish the statutory basis, effective date, tax thresholds, applicable rates, implementation procedures, and broader fiscal objectives of the reform. They also provided contextual evidence against which changes in taxpayers' disposable income and financial resilience were interpreted.

The three sources are consequently treated as complementary rather than independent streams of evidence. Survey data capture taxpayers' lived financial experiences and behavioural responses; administrative records provide objective measures of income and PAYE exposure; and documentary evidence establishes the legal and institutional framework within which the reform operated. Their integration enhances measurement validity and permits a more rigorous assessment of the analytical pathway from PAYE reform to tax liability, disposable income, and financial resilience. Importantly, there was use of administrative and documentary evidence also reduces dependence on self-reported tax information and strengthens the credibility of inferences concerning the financial implications of the 2026 PAYE reforms.

3.5 Measurement of Variables and Control Variables

The study operationalised the variables around the proposed pathway from PAYE reform to disposable income and financial resilience. The independent variable, PAYE tax reform, was measured using the taxpayer-specific change in PAYE liability between the pre-reform and 2026 post-reform tax schedules. The continuous measure captures differences in reform exposure across income levels and was supplemented by changes in the tax-free threshold, marginal tax rate, applicable tax band, and percentage change in PAYE.

Disposable income was conceptualised as the principal mediating variable and measured primarily by monthly post-PAYE employment income and the change in net income attributable to the reform. Supplementary indicators included the proportion of earnings remaining after PAYE, savings capacity, discretionary income, and debt-repayment capacity.

Financial resilience, the dependent variable, was measured as a multidimensional construct encompassing emergency savings, capacity to meet essential expenses during income disruption, ability to manage unexpected expenditures, debt-service capacity, continuity of financial obligations, recovery from financial shocks, insurance/risk-management capacity, and perceived financial preparedness. This operationalisation reflected the recent literature that conceptualises resilience in terms of liquidity, preparedness, manageable debt, and recovery capacity (Kass-Hanna et al., 2022; Liu et al., 2024; Clark et al., 2025).

The analysis controls for age, sex, marital status, education, household size, dependants, employment sector, tenure, financial literacy, existing debt, access to formal financial services, insurance coverage, and employment stability. These controls reduce potential confounding arising from differences in taxpayers' socio-economic and employment characteristics.

3.6 Data Analysis

Data analysis proceeded in four stages. First, descriptive statistics, including frequencies, percentages, means, standard deviations, minimums and maximums, were used to characterise the respondents and examine the distribution of the principal study variables. Particular attention was given to differences in PAYE liability, disposable income and financial resilience across taxpayer income groups before and after implementation of the 2026 reform.

Second, a PAYE counterfactual analysis was conducted to estimate the mechanical effect of the reform for each taxpayer. Reform exposure was consistently measured as the difference between PAYE liability under the pre-reform schedule and PAYE liability under the 2026 post-reform schedule. The resulting reform-exposure measure was denoted by ΔPAYE_i , where a positive value indicated a reduction in PAYE liability and, consequently, an increase in post-tax income. The measure was calculated as:

$$\Delta\text{PAYE}_i = \text{PAYE}_{i,\text{pre}} - \text{PAYE}_{i,\text{post}}$$

The corresponding change in disposable income was calculated as:

$$\Delta\text{DI}_i = \text{DI}_{i,\text{post}} - \text{DI}_{i,\text{pre}}$$

where $\text{DI}_{i,\text{pre}}$ represented disposable income before the reform and $\text{DI}_{i,\text{post}}$ represented disposable income after the reform. This counterfactual approach recognised that all resident PAYE taxpayers were subject to the reform, while the magnitude and direction of the change in PAYE liability varied according to taxable income and the applicable tax band.

Third, multivariate regression models were estimated to examine the relationships among PAYE reform exposure, disposable income and financial resilience. The first model examined whether the magnitude of the change in PAYE liability was associated with disposable income and was specified as:

$$\text{DI}_i = \beta_0 + \beta_1\Delta\text{PAYE}_i + \beta_2\text{X}_i + \varepsilon_i$$

where DI_i represented disposable income, ΔPAYE_i represented the reform-induced change in PAYE liability, X_i represented a vector of control variables, β_0 was the constant term, β_1 and β_2 were regression coefficients, and ε_i was the error term.

The second model examined the relationship between disposable income and financial resilience and was specified as:

$$FR_i = \alpha_0 + \alpha_1 DI_i + \alpha_2 X_i + \epsilon_i$$

where FR_i represented financial resilience, DI_i represented disposable income, X_i represented the vector of control variables, α_0 was the constant term, α_1 and α_2 were regression coefficients, and ϵ_i was the error term. Appropriate diagnostic tests for multicollinearity, heteroskedasticity, model specification and residual behaviour were conducted before the regression estimates were interpreted.

Finally, mediation analysis was conducted to examine whether disposable income provided an intervening statistical pathway between PAYE reform exposure and financial resilience. The indirect effect was estimated as the product of the coefficient linking PAYE reform exposure to disposable income (**a**) and the coefficient linking disposable income to financial resilience (**b**), expressed as **a** × **b**. Bootstrapped confidence intervals were used to assess the statistical significance of the indirect effect. Given the observational nature of the analysis, the mediation results were interpreted as evidence of an indirect statistical pathway rather than definitive causal mediation, unless the necessary temporal ordering and identification assumptions were satisfied.

3.7 Reliability and Validity

Measurement quality was assessed through expert evaluation of questionnaire items, pilot testing, and examination of content and construct validity. A Content Validity Index of at least 0.70 was adopted as an initial criterion where applicable. Internal consistency was assessed using Cronbach's alpha, with 0.70 serving as a commonly accepted benchmark for multi-item constructs. Where sample size permits, exploratory or confirmatory factor analysis was used to evaluate construct structure. Subjective measures of financial resilience were further triangulated with objective indicators, including savings, debt obligations and payroll-derived disposable income, thereby strengthening measurement validity.

3.8 Ethical Considerations

Given the sensitivity of taxpayers' financial and employment information, the study placed particular emphasis on informed consent, privacy, confidentiality, secure data management and responsible research conduct. Participation is voluntary, and respondents were informed of the study's purpose, the nature of the information sought, potential risks, and their right to decline participation or withdraw without penalty. Personal identifiers were excluded from analytical datasets or replaced with coded identifiers. Where payroll or administrative tax records were accessed, data was anonymised and used strictly for the purposes authorised by the relevant institutions. Data was securely stored, access restricted to authorised researchers, and findings reported only in aggregated form to prevent identification of individual taxpayers, employers or institutions. The study was complied with Uganda's Data Protection and Privacy Act, 2019, applicable institutional research-ethics requirements, and relevant conditions governing access to administrative tax information.

Artificial intelligence (AI) tools were used transparently and responsibly as research-support technologies for language editing, grammar improvement, structural refinement, and transformation of researcher-generated material into clearer scholarly prose. AI will not be treated as a source of empirical evidence, nor will it replace researchers' responsibility for conceptualisation, data analysis, interpretation, citation verification, originality and academic judgement. All AI-assisted outputs will be critically reviewed, fact-checked against authoritative sources, and revised by the researchers before inclusion in the manuscript. No confidential,

personally identifiable, or restricted taxpayer information will be entered into publicly accessible AI systems.

4.0 Expected Contribution and Illustrative Empirical Results

The study makes three principal contributions. First, it extends Uganda's tax-reform literature beyond conventional outcomes such as revenue mobilisation, compliance and taxable income by examining individual financial resilience. This extension was important because recent evidence indicated that changes in personal income taxation can alter taxpayers' after-tax income and behavioural responses, while financial resilience depends partly on households' capacity to maintain liquidity, manage debt and absorb financial shocks (Jouste et al., 2024; Kass-Hanna et al., 2022; Liu et al., 2024).

Second, the study connected tax policy and household financial resilience by treating disposable income as the principal transmission mechanism. Under the 2026 PAYE schedule, the tax-free threshold is UGX 335,000, while income between UGX 485,001 and UGX 10 million is taxed at 30%, with an additional 10% applying to income above UGX 10 million. Third, the study developed a mechanism-based explanation in which PAYE reform affected financial resilience through changes in disposable income and subsequent financial behaviour. This relationship can be represented empirically as:

PAYE Reform→PAYE Liability→Disposable Income→Financial Behaviour→Financial Resilience

Illustrative PAYE Results

The analysis first examined the mechanical effect of the 2026 PAYE reform using the official Uganda Revenue Authority (URA) PAYE schedules. The illustrative calculation showed that a taxpayer earning UGX 500,000 per month had a PAYE liability of UGX 52,000 under the previous schedule and UGX 38,250 under the revised 2026 schedule. The reform therefore reduced the taxpayer's monthly PAYE liability by UGX 13,750. This represented a 26.44% reduction in monthly PAYE liability. Assuming that monthly earnings remained constant throughout the year, the reduction translated into an annualised increase in disposable income of UGX 165,000. The results are presented in Table 1.

Table 1: Illustrative Mechanical Effect of the 2026 PAYE Reform

Indicator	Before reform	2026 reform	Change
Monthly salary (UGX)	500,000	500,000	—
Monthly PAYE (UGX)	52,000	38,250	–13,750
Monthly disposable income after PAYE (UGX)	448,000	461,750	13,750
Annual PAYE (UGX)	624,000	459,000	–165,000
Annual disposable income (UGX)	5,376,000	5,541,000	165,000
PAYE reduction (%)	—	—	26.44%

Note. The calculation was based on the official URA PAYE schedules and represented a mechanical counterfactual comparison rather than an observed behavioural response to the 2026 reform.

The results demonstrated that a reduction in PAYE liability mechanically increased the taxpayer's post-tax income. In the illustrative case, monthly disposable income increased from UGX 448,000 to UGX 461,750, representing an additional UGX 13,750 per month. If the additional income had

been retained throughout the year, the taxpayer would have had UGX 165,000 more disposable income annually. The additional financial capacity could have been allocated to savings, debt repayment, insurance, consumption smoothing or preparation for unexpected expenses. The calculation did not, however, establish that taxpayers actually used the additional income for these purposes; such behavioural outcomes required taxpayer-level empirical evidence.

The analysis further indicated that the magnitude of the PAYE effect varied across taxpayers because the applicable tax liability depended on taxable income and the relevant PAYE band. Consequently, the UGX 500,000 salary example was used to demonstrate the direction and mechanical magnitude of the reform rather than to represent the average effect for all PAYE taxpayers. The taxpayer-specific measure used in the empirical analysis was therefore defined as:

$\Delta PAYE_i = PAYE_{i,pre} - PAYE_{i,post}$

A positive value of $\Delta PAYE_i$ indicated a reduction in PAYE liability and a corresponding increase in disposable income, assuming other income and payroll deductions remained unchanged. This measure provided a consistent basis for examining differences in reform exposure across taxpayer income groups.

At the broader fiscal level, the analysis showed that Uganda's individual income tax revenue increased from UGX 4,890.63 billion in FY2022/23 to UGX 5,331.92 billion in FY2023/24, representing an increase of UGX 441.29 billion, or approximately 9.02%. During the same period, the effective personal income tax rate increased from 26.49% to 27.64%, representing an increase of 1.15 percentage points (MoFPED, 2024).

Table 2: Uganda Individual Income Tax Revenue and Effective PIT Rate

Indicator	FY2022/23	FY2023/24	Change
Individual income tax revenue (UGX billion)	4,890.63	5,331.92	+441.29 (9.02%)
Effective PIT rate (%)	26.49	27.64	+1.15 percentage points

The increase in individual income tax revenue and the effective PIT rate preceded the implementation of the 2026 PAYE reform and therefore did not represent an observed revenue effect of the 2026 reform. Rather, these historical statistics provided important fiscal context for the analysis. They demonstrated why assessment of PAYE policy required consideration of both sides of the tax relationship: the revenue generated for government and the post-tax financial capacity retained by individual taxpayers.

Overall, the illustrative results supported the study's analytical proposition that a reduction in PAYE liability could increase disposable income mechanically. However, the results did not imply that every taxpayer experienced the same gain or that additional disposable income automatically translated into greater financial resilience. The magnitude of the gain depended on taxpayer income and the applicable tax band, while its contribution to financial resilience depended on subsequent financial behaviour, including saving, debt management, insurance, consumption smoothing and emergency preparedness. The 2026 reform therefore needed to be evaluated not only through changes in tax liability and revenue mobilisation but also through its distributional implications and effects on taxpayers' post-tax financial capacity.

4.1 Empirical Evidence Supporting the Proposed Relationship

Empirical evidence from Uganda provided a strong basis for examining the relationship between PAYE reform, disposable income and financial resilience. The most directly relevant study was Jouste et al. (2024), which used the universe of Uganda Revenue Authority PAYE administrative records to evaluate the 2012–2013 personal income tax reform. The dataset covered monthly payroll information from 2010/11 to 2014/15, included basic salary, taxable income and PAYE payable. Using difference-in-differences and event-study approaches, the study found very limited evidence of behavioural responses to the reform overall. The preferred specification produced a taxable-income elasticity of approximately 0.02, which was statistically insignificant. However, heterogeneous effects were observed among top-income workers in firms administered through ordinary taxpayer offices.

The study also provides important evidence on distributional outcomes. Following the reform, the average after-tax income Gini coefficient declined from approximately 0.635 before the reform to 0.606 after the reform, indicated a modest reduction in after-tax income inequality. The reform generated an estimated UGX 206 billion increase in overall PAYE revenue, notwithstanding reductions in tax rates for some income groups.

These findings were particularly relevant to the present study because they demonstrated empirically that changes in Uganda's PAYE schedule altered the distribution of after-tax income without necessarily generating large behavioural responses in reported employment income.

Table 3: Empirical Evidence Relevant to the Study

Study/evidence	Data and method	Key empirical finding	Relevance to present study
Jouste et al. (2024)	Universe of URA PAYE administrative data; DiD and event study	Taxable-income response was very small and statistically insignificant; preferred elasticity $\approx$ 0.02	Establishes Ugandan evidence on taxpayer response to PAYE reform
Jouste et al. (2024)	Pre/post administrative PAYE data	After-tax Gini declined from 0.635 to 0.606	Demonstrates distributional consequences of tax reform
Jouste et al. (2024)	URA revenue simulations	Overall PAYE revenue increased by approximately UGX 206 billion	Demonstrates fiscal consequences of reform
Agwa (2026)	FinScope Uganda 2023; correlation/regression	Saving behaviour positively associated with financial resilience ($r =$ 0.462 , $p <$.01)	Supports saving as an important pathway to resilience
Kass-Hanna et al. (2022)	Cross-country household evidence including Uganda	Financial and digital literacy associated with resilience-building behaviours	Supports financial behaviour as a resilience mechanism
Liu et al. (2024)	Household financial survey data	Financial literacy significantly improves financial resilience	Supports the behavioural component of the proposed framework

Uganda's financial-resilience environment was also shaped by the level of financial inclusion and access to formal financial services. Evidence from the FinScope Uganda 2023 survey showed important patterns in financial access, usage and financial capability among Ugandan adults (Financial Sector Deepening Uganda [FSD Uganda], 2024). These patterns were relevant to the present study because the potential financial-resilience effects of additional disposable income depended partly on taxpayers' ability to access and use appropriate savings, credit, insurance and other formal financial services.

The evidence concerning saving behaviour provided particularly important support for the proposed mediation mechanism. Recent Ugandan evidence based on FinScope 2023 reports that 64% of adults saved, although 56.2% relied primarily on informal saving mechanisms. More importantly, saving behaviour was positively and significantly associated with financial resilience ($r = 0.462$, $p < .01$). This suggested that additional disposable income generated through lower PAYE liabilities was potentially strengthen resilience if taxpayers allocated part of the additional income toward savings and other risk-management activities.

International evidence reinforces the interpretation. Kass-Hanna et al. (2022), using evidence from Sub-Saharan Africa and South Asia, identified saving, borrowing, risk management and insurance as important resilience-building behaviours. Similarly, Liu et al. (2024) found that financial literacy significantly improved household financial resilience, while Clark et al. (2025) show that financial resilience was associated with better economic outcomes during adverse economic conditions. The empirical literature therefore revealed an important research gap: Uganda has credible administrative evidence on how personal income-tax reforms affected taxable income, revenue and inequality, and emerging evidence on determinants of financial resilience, but there was currently little direct evidence connecting a PAYE reform to individual taxpayers' financial resilience through disposable income. This was the specific empirical gap that the proposed study addresses

5.0 Discussion

The evidence reviewed in the study suggested that the financial consequences of the 2026 PAYE reform was understood as heterogeneous, behavioural and context dependent, rather than as a uniform change in taxpayers' welfare. First, the reform does not generate an identical financial effect across the PAYE population. Because tax liability varies according to taxable income, applicable thresholds and marginal rates, the magnitude of any change in disposable income was necessarily income dependent. The Uganda Revenue Authority's illustration of an employee earning UGX 500,000 per month, whose PAYE liability falls under the revised schedule, demonstrates the mechanical channel through which tax reform can increase take-home income. Consequently, evaluation of the reform reported effects across income groups rather than relying exclusively on an aggregate average.

Second, the analysis distinguished increased disposable income from improved financial resilience. A reduction in PAYE liability created additional financial capacity, but it does not necessarily translate into greater savings, lower indebtedness or improved capacity to absorb financial shocks. Taxpayers instead allocated additional income to consumption, accumulated obligations or other competing household needs. The conversion of additional income into resilience was therefore likely to depend partly on financial knowledge, access to appropriate financial products and the ability to undertake forward-looking financial planning. Evidence from Sub-Saharan Africa indicated that financial and digital literacy are associated with resilience-

building behaviours, including saving, risk management and appropriate borrowing (Kass-Hanna et al., 2022). More recent household-level evidence likewise associated financial literacy with greater financial resilience (Liu et al., 2024).

Third, evidence from Uganda's earlier personal income tax reform highlighted the importance of behavioural heterogeneity. Jouste et al. (2024) found limited aggregate behavioural responses to the earlier progressive PIT reform, although responses varied among higher-income taxpayers and across taxpayer-office environments. The implication was that tax policy should not be evaluated on the assumption of a homogeneous or representative taxpayer. Differences in income, institutional exposure and taxpayer characteristics shaped how changes in tax liability affect economic behaviour and welfare.

Fourth, the relationship between PAYE reform and financial resilience was conditioned by the broader financial ecosystem. Taxpayers with access to savings facilities, insurance, formal credit and digital financial services were better positioned to transform additional disposable income into financial buffers than taxpayers facing financial exclusion or limited financial capability. This suggested that the effectiveness of tax relief may extend beyond the tax system itself and depend on complementary financial-sector institutions and capabilities.

Fifth, financial resilience was inherently dynamic. Current financial adequacy does not necessarily imply capacity to withstand future shocks such as unemployment, illness, family emergencies or unexpected expenditure. Evidence that financially resilient individuals experience better economic outcomes under adverse conditions reinforces the importance of assessing resilience in terms of preparedness and shock-absorption capacity rather than current income alone (Clark et al., 2025).

Taken together, these findings suggested that the performance of PAYE reform should be assessed through a broader policy scorecard. Revenue mobilisation remains an important fiscal objective, but it was considered alongside changes in disposable income, distributional outcomes, saving behaviour, debt-servicing capacity and financial preparedness. Such an approach positions taxation not merely as a mechanism for raising public revenue but also as an institution capable of influencing the financial capacity of households. Importantly, however, these interpretations represent evidence-based propositions rather than proof of causal effects from the 2026 reform; definitive conclusions require taxpayer-level post-reform data and appropriate identification strategies.

5.1 Policy Implications

The findings and evidence reviewed in the study have implications for the design, implementation and evaluation of PAYE policy in Uganda. They suggest that the performance of tax reform was assessed not only in terms of revenue mobilisation but also in relation to taxpayers' disposable income, distributional outcomes and capacity to withstand financial shocks.

5.2 Broadening the PAYE policy scorecard

Evaluation of PAYE reforms incorporated taxpayer-welfare indicators alongside conventional fiscal measures. Monitoring changes in disposable income, saving capacity, debt-servicing capacity and financial preparedness would provide policymakers with a more comprehensive assessment of reform outcomes. Such an approach would align revenue policy with broader objectives of household economic welfare and financial stability.

5.3 Strengthening distribution-sensitive tax evaluation

Because the financial effects of the PAYE schedule vary with taxable income, reform evaluation disaggregated outcomes by income band rather than rely exclusively on aggregate statistics. Analysis by lower-, middle- and higher-income taxpayers can reveal whether tax relief is concentrated among particular groups and whether the reform generates the intended distributional effects. Administrative PAYE data provide an important basis for undertaking such distribution-sensitive monitoring while maintaining taxpayer confidentiality.

5.4 Integrating financial capability into tax-policy implementation

Tax relief does not automatically translate into greater financial resilience. Complementary financial-literacy and digital-financial-capability interventions helped taxpayers allocate additional disposable income toward savings, prudent debt management, insurance and other forms of financial risk management. Evidence from Sub-Saharan Africa demonstrates the relevance of financial and digital literacy to resilience-building behaviour (Kass-Hanna et al., 2022).

5.5 Enhancing payroll transparency and taxpayer communication

Effective implementation required employers to communicate clearly how changes in PAYE rates and thresholds affect employees' deductions and take-home pay. Transparent payslips, accessible PAYE calculators and timely taxpayer education can reduce uncertainty and improve understanding of tax reforms. This is particularly relevant following the 2026 reform, for which URA issued guidance requiring correction of returns where earlier PAYE calculations had used the previous rates and provision for corresponding payroll adjustments.

5.6 Institutionalizing evidence-based tax evaluation

URA and other relevant institutions was institutionalised the use of anonymised administrative PAYE data to evaluate reforms by income, employment sector, taxpayer characteristics and, where legally and ethically permissible, geographic location. Uganda's previous experience demonstrated the analytical value of administrative tax records for identifying heterogeneous taxpayer responses to personal income tax reforms (Jouste et al., 2024). Systematic post-reform evaluation enabled policymakers to distinguish the mechanical effects of tax changes from behavioural responses and unintended distributional consequences. Overall, the policy implication was that PAYE reform should be treated as both a fiscal instrument and a household-income intervention, with its success assessed against revenue, equity, disposable-income and financial-resilience outcomes.

6.0 Theoretical Contribution

The study extended the application of Ability-to-Pay Theory by introducing financial resilience as a complementary dimension through which the welfare implications of personal income taxation can be examined. Conventional applications of the theory focus primarily on the principle that taxpayers contributed to public expenditure according to their economic capacity. While this principle remained central to equitable taxation, the present study extended the analytical perspective beyond the determination of the appropriate tax burden to consider the resources that taxpayers retain after taxation and how those resources affected their capacity to absorb financial shocks.

The theoretical contribution was therefore captured by a sequential relationship between tax liability, disposable income and financial resilience. A change in PAYE liability alters the income

available to the taxpayer after tax; the resulting disposable income may subsequently influence saving, debt management, insurance, consumption smoothing and emergency preparedness. Financial resilience consequently provides an additional welfare lens through which the consequences of personal income taxation can be interpreted.

This extension does not imply that tax policy were prioritised maximising private disposable income at the expense of public revenue. Taxation finances public goods, social protection and public services that was themselves strengthened household welfare and resilience. The relevant theoretical issue was therefore one of balance between resources retained privately and welfare-enhancing benefits generated collectively through taxation. The study consequently proposed a broader interpretation of Ability-to-Pay Theory in which tax fairness is considered alongside post-tax financial capacity. By linking public-finance theory with household-finance outcomes, the framework provides a basis for examining whether the distribution of tax burdens leaves taxpayers with sufficient capacity to manage ordinary obligations and withstand adverse financial shocks. Financial resilience was thus positioned as a complementary, rather than substitutive, welfare indicator in evaluating personal income tax policy.

7.0 Limitations and Directions for Future Research

The study has several limitations that was considered when interpreting its arguments. First, the 2026 PAYE reform is recent, having taken effect on 1 July 2026. Consequently, sufficient longitudinal evidence may not yet be available to establish its sustained effects on taxpayers' financial resilience. The analysis distinguished short-term changes in PAYE liability and disposable income from longer-term changes in household financial capacity. Second, financial resilience was inherently multidimensional and includes both observable financial conditions and subjective perceptions of preparedness and security. Survey-based measures were consequently affected by recall error, reporting bias and differences in respondents' interpretation of financial security.

Third, changes in disposable income was not necessarily attributed exclusively to PAYE reform. Salary increments, inflation, pension contributions, employer benefits, loan deductions, employment changes and household shocks was independently affected taxpayers' financial position. Appropriate controls and sensitivity analyses were therefore necessary. Fourth, conventional difference-in-differences estimation presented identification challenges because the 2026 reform broadly applied to resident PAYE taxpayers. A treatment-intensity or counterfactual exposure approach may therefore provide a more defensible strategy unless a credible comparison group can be identified. Fifth, the proposed mediation pathway should not automatically be interpreted as causal; stronger causal claims require credible temporal ordering and identification assumptions. Access to anonymised administrative payroll data was constrained by taxpayer confidentiality, institutional permissions and data-protection requirements. Finally, international evidence was transferred cautiously because Uganda's tax administration, labour market, financial-system development and household structures differ from those of other jurisdictions.

Future research should therefore prioritise longitudinal taxpayer-level administrative data, preferably linked with anonymised survey information on savings, debt, insurance, household obligations, financial literacy, financial stress and emergency preparedness. Such data would permit stronger assessment of whether changes in PAYE liability translate into measurable changes in financial resilience. Future studies could further examine heterogeneous effects by income category, gender, household size, employment sector and financial literacy, while longer-

term research could investigate whether additional disposable income is channelled into savings, productive investment, retirement provision or debt reduction. Comparative studies across East African tax systems would also help establish whether the relationship between personal income taxation and financial resilience represents a Uganda-specific outcome or a broader regional pattern.

8.0 Conclusion

This study advanced the argument that the significance of Uganda's 2026 PAYE reform should not be assessed exclusively through conventional fiscal indicators such as revenue mobilisation and taxpayer compliance. Effective from 1 July 2026, the revised PAYE structure increased the resident tax-free threshold to UGX 335,000 per month, restructured the lower- and middle-income bands, and retained the additional 10% marginal charge on taxable income above UGX 10 million. These changes alter the distribution of tax liabilities across income groups and, consequently, the amount of employment income retained by individual taxpayers.

The principal academic contribution of the study was to reframe PAYE reform as both a public-finance intervention and a potential determinant of household financial resilience. It develops a mechanism-based framework in which reform-induced changes in PAYE liability affect disposable income, which was subsequently influence saving, debt management, insurance, consumption smoothing and preparedness for financial shocks. This extends the conventional application of Ability-to-Pay Theory beyond the question of how much taxpayers should contribute towards public expenditure to consider the financial capacity remaining after taxation. Financial resilience is consequently introduced as a complementary welfare dimension within tax-policy analysis.

The framework was supported by, but should not be conflated with, existing empirical evidence. Uganda's earlier personal income-tax reform generated additional revenue and altered the distribution of after-tax income, while aggregate behavioural responses were relatively limited and heterogeneous across taxpayer groups (Jouste et al., 2024). International and Sub-Saharan African evidence further indicated that saving behaviour, financial literacy, digital capability, debt management and risk-management practices are important dimensions of financial resilience (Kass-Hanna et al., 2022; Liu et al., 2024; Clark et al., 2025). However, direct empirical evidence linking Uganda's 2026 PAYE reform to individual financial resilience remains limited. The proposed relationship should therefore be regarded as an empirically testable mechanism rather than an established causal effect.

Methodologically, the study contributed by proposing taxpayer-specific reform exposure rather than treating PAYE reform as a simple binary intervention. Estimating the difference between pre-reform and post-reform PAYE liabilities allows variation in the intensity of reform exposure to be incorporated into the analysis. This approach was particularly relevant where a conventional untreated comparison group was unavailable. Coupled with taxpayer-level information on disposable income and financial resilience, it provided a basis for examining whether the financial effects of tax reform vary systematically across income groups and socio-economic circumstances.

The policy contribution was equally important. A tax reform succeed in raising revenue while producing uneven effects on taxpayers' financial capacity. Conversely, a relatively modest reduction in tax liability with substantial welfare significance where it enabled households to build emergency savings, reduce expensive debt, maintain essential obligations or strengthen risk-management capacity. Uganda's future evaluation of PAYE reforms should therefore adopt a

broader scorecard incorporating revenue performance, distributional effects, disposable income and financial resilience.

Ultimately, the 2026 PAYE reform provided a valuable empirical opportunity to bridge the traditionally separate domains of public finance and household finance. Determining whether additional income retained by taxpayers actually translates into greater resilience requires rigorous post-reform evidence rather than assumption. Longitudinal administrative data linked, where ethically and legally permissible, to survey measures of savings, indebtedness, financial literacy, insurance and financial stress would provide the strongest basis for such assessment. The study therefore contributes not by prematurely claiming that the 2026 reform has improved financial resilience, but by establishing a theoretically grounded and empirically testable framework through which that important policy question can be answered.

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