

Medium Term Revenue Strategy Civil Society Organization Reviews and Proposals



TAX JUSTICE
ALLIANCE
U g a n d a

2018

Introduction

Tax is a fundamental tool used by governments to finance their development strategies. At only 13.8% of GDP, Uganda's tax revenue effort is very low and inadequate to finance its development needs.¹ This is also below the potential rate of 23% for the East African region as recommended by both IMF and World Bank.² In an effort to boost domestic revenue, government has put in place a number of strategies such as the Tax Payers Registration Expansion Project as well as revising the tax laws to close the loopholes that have often been exploited by tax payers. Despite these efforts, the tax system still registers a number of challenges including low tax base due to large informal sector as well as the existence of numerous tax incentives geared at attracting Foreign Domestic Investment and exemption precipitated by some influential public servants such as Members of Parliament.

Despite efforts by government to improve revenue mobilization in Uganda, there has always been a shortfall in the revenues collected hence a constant threat to government programme and project implementation. The net revenue collections for FY 2016/17 were UGX 12,719.63 billion,

indicating a 13.26% growth compared to FY 2015/16.

However, this was UGX 457.51Bn below the FY 2016/17 target registering a performance of 96.53%. The year to year net revenue collection decreased by 2.34% percentage points from 15.60% in FY 2015/16 to 13.26% in FY 2016/7.

The engagement of citizens in tax processes is limited mainly because taxation has often been thought of as a rather complex issue best left to the experts. MTRS provides a strategic roadmap on how Government will realize taxation reforms (administration, policy framework and legal services).

Medium Term Revenue Strategy (MTRS) commits to the realization of (G20 Finance Ministers); Reforms in Taxation (policy & administration); Commitment to the population; Financing the Revenue Agency. In a bid to widen the tax base in a fair and progressive manner, Civil Society Organisations under the Tax Justice Alliance –Uganda³ have convened a series of engagement to develop a position on the MTRS. This matrix provides CSO proposals that could be adopted by the government to strengthen the tax systems.

1 Uganda Budget Speech FY 2017/18

2 Tax to GDP Ratio: Comparative Study. URA, 2013

3 SEATINI-Uganda, UDN, Oxfam, AAIU, CSBAG, CEWIT, WGI, IUTNF, PAC, UHCO, ISER, WEGCDA and 73rd Parliament.

Thematic Area	Issues	Assessed Risk/Challenges	Proposed Intervention/Recommendations
Tax Policy Framework			
Income Tax	<p>Informal sector: The informal sector accounts for 43% of Uganda’s GDP and is hard-to-tax sector due to poor record keeping, high-networth individuals (HNWI), emerging digital economy (e-commerce players), lack of permanent establishments</p>	<p>Informal trade transactions are complex to tax yet account for government expenditure (benefit and put pressure on government to deliver service in terms of security, infrastructure and other services)</p>	<ul style="list-style-type: none"> ▪ Formulate and implement policies that allow self-employed people and small businesses to formalize their businesses easily. Such policies include: reducing business compliance regulations, tax amnesties with a cut-off date for compliance, providing limited tax shelters for small-scale informal activity. ▪ Expand TREP to all LGs in Uganda. ▪ Incorporate specific legislation or regulations that ensure taxation of wealthy and High-Net worth Individuals (HNWI) by introducing within the personal income tax regime rates that are over and above the normal threshold to ensure equity and fairness. ▪ Adopt a single-tax model for small businesses which should be collected by a one revenue agency to reduce compliance burden for businessmen of which most are illiterate ▪ Legal provision on receipt issuance and mandatory acquisition of book-keeping software across small businesses ▪ Amendments into company registration to cater for e-commerce oriented companies ▪ Review ITA provision on taxation of digital economy. ▪ Amend the laws to allow URA to use third-party information (i.e. national ID database and land registries) to populate potential tax payers, validate tax returns and to inform tax investigations. ▪ For transportation sector especially bodabodas, leverage on innovations such as SofaBoda ▪ Annual environmental scans need to be conduct to identify and create avenues of taxing “cash-cows” are included. e.g. commercial farmers, forestry owners etc.

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	<p>Tax incentives (exemptions and holidays): a) un-transparent provision of incentives; b) discretionary powers given to the Minister of Finance; c) 10 years period given to companies producing and exporting at least 80 percent of their products that made out locally sourced materials (Section 21 of Income Tax Act (ITA)); d) increasing trends of influential public officials to exempt themselves from income taxes; e) lack of public information on amount lost due to tax incentives</p>	<p>Tax revenue forgone per annum estimated at 2% of GDP with an approximate Ugx. 1 Trillion¹</p> <p>Abuse by the Minister of Finance of the clause where exemptions/holidays are awarded beyond periods the law stipulates or to investors that have no capacity to invest e.g. Kingdom Kampala.</p> <p>No evidence of MoUs between GOU and Investors on commitment once holidays are awarded.</p> <p>Some tax incentives (holidays and tax expenditures) are not approved or even known to the sections of the government.</p> <p>The annual report by the Minister of Finance submitted to covers only the tax exemptions issued by the MoFPED. These exemptions form a very small share of total tax expenditures.</p>	<ul style="list-style-type: none"> ▪ Repeal Section 21 of Income Tax Law to provide tax holidays of only up to a maximum of five (5) years which can be extended after an independent and transparent cost-benefit analysis. ▪ Amend Section 77(1)-(2) of the Public Finance Management Act (PFMA), 2015 which accords the Minister to award tax exemptions and thereafter report and justify the award to parliament. ▪ All public officials armed force employees, security organization, President, MPs and Judges should be subjected to personal taxes on all their income. To cover the loss, their salaries and allowances should be increased accordingly. ▪ MoFPED should undertake and publish on annual basis a cost-benefit analysis of all tax incentives with a view to reducing or removing some of them. ▪ MoFPED should develop and implement a clear policy on tax incentives. ▪ Gov't should amend and align all laws and policies on incentives such as investment Code, PFMA, Free Zones Act
	<p>Double Taxation Treaties (DTAs): Although Uganda has made a number of amendments to its DTAs, there are still challenges such as mispricing, mis-invoicing, transfer pricing abuse; base erosion and profit shifting, and inadequate capacity to administer or enforce treaties that have different position. For instance, for negotiated and enforced treaties, the time element in the</p>	<p>Treaty shopping and manipulation of the DTA is highly associated with revenue leakages.</p>	<ul style="list-style-type: none"> ▪ Review and renegotiate existing treaties to ensure that they adopt a) the limitation of Benefits clause b) elevating exchange of information and mutual agreement c) harmonize and maintain same positions d) align with EAC tax policy framework/EAC Model and Uganda's model e) carter for sectors that will drive Uganda's economy for the subsequent years. ▪ Gov't should enter into a memorandum of understanding with some of the countries it does not have a double taxation treaty with in order to access information about

¹URA internal report : *Report on Revenue foregone due to Tax Exemptions/Incentives*

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	PE definition of 6 months is too long.		<ul style="list-style-type: none"> multinational entities. Adopt the BEPS Actions that strengthen domestic management of Transfer pricing transactions, supply chain Government should fast track the review of the existing DTTs, particularly those with so-called conduit jurisdictions, often used by MNCs in their tax avoidance schemes. <p>Government should also publicize the Uganda DTA Policy</p>
	Corporation Taxes underperformance	Under performance is curtailed a lower effective rate, by non-transparent provision of tax incentives and exemptions, exploitation of Double Taxation Treaties by Multinational Corporations (MNCs), and inadequate implementation of punitive sanctions on tax dodging and avoidance	<ul style="list-style-type: none"> Monitor performance of the enactment of the carried forward of losses ceiling in the long run and short run Strengthen and leverage on the signed agreements to the Multilateral Mutual Administrative Assistance Convention (MAC) and the African Tax Administration Forum (ATAF) Agreement on Mutual Assistance in Tax Matters (AMATM) to access information about taxpayers especially the MNCs
	Withholding Tax exemptions	URA exemption of companies for good compliance is subject to manipulation.	<ul style="list-style-type: none"> WHT exemptions should be based on “completeness” of compliance. Broaden on services and goods that pay WHT Consider increasing the WHT from 6% to 10%.
	Local Service Tax (LST) and LG Hotel Tax (LGHT)	According to LGFC, the decline in LST collections is partly due to: a) inadequate data on all eligible people who should pay LST such as Businessmen and Women (BMBW); the Self-Employed Professionals (SEP); the Self-Employed Artisans (SEA); b) the schedule for category of the Commercial farmers (which might be the biggest contributor to LST, if collected) is not yet passed by Parliament; c) the LST threshold is too high; which excludes most people.	<ul style="list-style-type: none"> Reduce the LST threshold for the salaried from UGX 100,000= to UGX 50,000=; adjust the legal provisions; and include commercial farmers and boda boda cyclists in the LST category URA collaborate with LGs on the collection of LSTi.e. harmonise Section 80 (3) of the Local Government Act on agency fee with the Income Tax Act. Provide for efficient collection of LST through provision of printed receipts and payments through banks. i.e. make it compulsory for hotel owners to have pre-printed receipt books clearly indicating LGHT. Establish a legal framework that compels the urban local governments to submit a favourable percentage of revenue to the lower local governments.

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	Personal Income tax (PAYE)	Amendments into the PAYE structure were last made in FY 2012/13, however, due to inflation and exchange rate appreciation the cost of living has increased tremendously; the average household income was estimated at UGX 351,600 in 2016/17 ¹ . This means that the PAYE threshold is too low to accord employees a relief from paying income taxes.	Government should revise the PAYE threshold upwards above the cost of living estimated at UGX 351,600 (US\$ 99.7) to enable workers remain with some disposable income.
Excise Duty	Luxurious or Sin goods (i.e Spirits, Wines, Energy drinks, Beers, Cigarettes, Cosmetics (especially bleaching) and others	Despite the increase in excise duties on these goods, there is evidence of continued consumption of such goods causing high health risks.	<ul style="list-style-type: none"> ▪ Review and expand the excisable commodities to include other sin/luxurious commodities e.g. energy drinks, Cosmetics (especially bleaching) ▪ Taxes on locally produced spirits should be increased plus ban sachets of spirits, huge taxes on sachets should be enforced ▪ Some essential commodities such as diapers, sanitary towels, salt, soap, and other essential products shouldn't be taxed, ▪ explore taxation of digital economic and online trading companies and or their franchises such as KFC, Uber, Jumia
	Mobile Money and Social Media	These taxes are regressive; they don't consider the different income differences in the population and will hinder financial inclusiveness.	<ul style="list-style-type: none"> ▪ Before introducing any tax, MoFPED and URA should analyse the impact of any proposed tax reforms, and base the decisions on the potential impact on reducing inequality.
Value Added Tax	According to the annual URA Revenue Performance Reports ² , VAT collections posted on average a deficit of UGX 122 Bn (US\$ 29 Mn) between 2013/14 and 2017/18. The main factors contributing to this are inefficiencies to collections and	A revenue administration gap analysis by the IMF (2014) ³ found that VAT compliance level in Uganda were below that of countries at similar level of development, Another study by the IGC (2015) ⁴ found that 87% of seller firms	<ul style="list-style-type: none"> ▪ Reduce on the list of zero-rated and exempted supplies such as supplies to energy contractors, commercial transportation services, hotel equipment, refrigerate trucks/tankers, equipment for games of chance (casino) etc.

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	<p>low VAT compliance.</p> <p>Proposal to increase VAT threshold from Ugx. 150m to Ugx. 500m.</p> <p>Poor data capture of goods declared at custom entries/exist that have VAT component. Challenges such as Deemed VAT, Deferment and Offsets</p>	<p>declared amounts lower than those declared by the buyer. The study estimated the tax compliance gap of about UGX 747 Bn (US \$ 217 Mn).</p> <p>The proposal to increase VAT threshold will only benefit gov't but not small scale businesses.</p> <p>Government has reduced on the list of zero-rated and supplies boosting collections. Proposals towards increasing the VAT threshold from Ugx. 50m to Ugx. 150m (FY2014/15) and a possible Ugx. 500m in the future towards improved tax head administration. Before FY2014/15, register was 14,501 and now is lean standing at 4,746</p>	<ul style="list-style-type: none"> ▪ Consider adherence to fair and just taxation by including supplies most consumed vulnerable groups such mothers, children, albinos, refugees and others ▪ Establish ceilings on the amounts offsets to eliminate carousal or syndicated fraud ▪ Sensitize taxpayers and consumers on the use of the invoicing system (Electronic Fiscal Devices) ▪ Do not increase the VAT threshold to 500m
Customs Taxes	<p>Regional integration and trade blocks:</p> <p>Shift from the revenue mobilization from international or cross-border trade to trade facilitation that is exponentially growing from regional to continental with potential of having a global free trade zones/areas which will lead to tax revenue losses.</p>	<ul style="list-style-type: none"> ▪ The reduction of tax revenue from international trade is putting more pressure on government to mobilize tax revenues domestically. ▪ Free trade blocks can also facilitate dumping of harmful or cheap commodities. 	<ul style="list-style-type: none"> ▪ Assess the costs and benefits of signing into regional blocks protocols. ▪ Negotiate and establish minimum threshold rate in customs tariffs (i.e. 10%) ▪ Build domestic revenue mobilization systems to accommodate trade facilitation initiatives ▪ Focus on building the domestic capacity of producers so that they can benefit from free trade zones. ▪ Reduce on the VAT import and exports exempted supplies incl. sales of petroleum duties on petroleum used for power generation in view of heavy investments being made in hydro-power generation.
	<p>Environmental levy:</p> <p>Funds generated should have been used to protect the environment, however, this is not happening.</p>	<p>Environment continues to be degraded; funding to environmental agencies (i.e. NEMA) and protection (Environment police) is very low.</p>	<ul style="list-style-type: none"> ▪ A least 30% of the money should go to environmental fund ▪ Consider a total ban on old cars of a certain age i.e. 15 years and remove the environmental levy on all cars less than 5 years of age.

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		Environment levy is charged on small cars that do not emit fumes and big cars are exempted due to agricultural reasons yet they emit more fumes.	<ul style="list-style-type: none"> Environment levy should be imposed on all old products beyond electronics and cars.
Tax Administration (Revenue Agencies)			
URA	<p>While the URA year-on-year revenue collections growth rate is averaged at 15% during the last five years (2013/14 – 2018/19), the collections were below the target for during three FYs (2013/14, 2016/17) & 2017/18).</p> <p>There are also concerns that during setting of tax revenue targets set by MoFPED, more focus is put on increasing revenue collections instead of addressing inefficiencies in tax collection.</p> <p>Although the URA is a quasi-autonomous institution, it is regarded as a department under MoFPED just like other departments. Thus, issues related to capacity building/training, recruitment of new staff, tax policy implementation are mainly determined by the MoFPED.</p> <p>The URA staff –to–Taxpayer ratio has been increasing over the last five years from 1:148 in 2012/13 to 1:536 in 2016/17 due to the expansion of the taxpayer register and minimal recruitment of staff. Nevertheless, the number of URA staff does not tally with the nature and heavy workload at URA main service centres</p>	<p>Failure to meet the annual revenue collection targets means that Uganda can't raise its tax to GDP ratio of 16% by 2019/20 set in the National Development Plan (NDP) II, and to close the gap with other EAC countries.</p> <p>The complexities that come with maneuvering around a convoluted system when filing revenues only increase the cost of compliance and administration and this perpetuates revenue leakage</p>	<ul style="list-style-type: none"> Ensure full autonomy of URA (i.e. make it's a statutory body) and hold the Authority accountable to an agreed set of performance measures. Autonomy should enable the Authority to manage budgets on an annual basis, reorganize operations, recruit and develop personnel, and set staff compensation levels. Increase the budget allocations to URA to enable the authority to effectively execute its mandate. The targets for revenue generation given to URA should be set by Parliament in a transparent and participatory manner involving all relevant stakeholders including private sector and other non-state actors. URA should review recruitment process and provide for attraction remuneration skilled labour/specialty in order to strengthen sector-based taxation an approached adopted under e-Tax. Strengthen URA's capacity to detect, assess and mitigate tax avoidance and evasion schemes. Establish mechanisms for the recovery of funds illicitly transferred Carry put regular independent assessment of URA through TADAT framework to gauge the health of tax authority and adopting recommendations Government should provide resources to maintain a functional and productive URA staff-to-taxpayer ratio Integrate the TIN Registration process to the National Identification Number (for individuals) and the company registration number to ease acquisition and future audits Broaden the interface of the URA tax system to other critical ministries systems to ensure that required information is available for matching for effective tax

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	The systems used for revenue collection and tax administration are robust but are obsolete to the advanced technology. The use of several IDs makes it even difficult to acquire a TIN		administration e.g. UIA system, MAAIF, Ministry of Trade, Ministry of Education, KCCA and others.
Local Governments	LGs unable to collect substantive revenues due to: restrictive legal requirements which limit the amount of revenue LGs can collect; limited support from the central government; leakage of revenues collected; absence of tax appeals tribunals which would enhance compliance; among others	Local revenue is important for the success and long-term sustainability of service delivery in LGs. However, local revenue performance in all LGs in Uganda is very dismal. LR constitutes less than 5 percent of total revenue.	<ul style="list-style-type: none"> ▪ Revised or amend most laws that relate to taxation in LGs n to be in tandem with the current economic environment and conditions, such as: Royalty fees should be made very clear, relevant and enabling; rates payable for businesses; rating should not follow zones but ability to pay principle. ▪ CG should support LGs to recruit, train and retain staff to ensure effective tax assessment, collection and enforcement of local revenue collection
Gender	Gender and taxation: Uganda has not conducted regular analysis of the impact on gender tax policies and that as a result there are no data that can be used to assess the impact of tax policies on gender inequality.	Income taxes are imposed on the basis of income only, irrespective of gender. Personal Income Tax returns do not require the gender of the person filling in the return. For Corporate Income Taxes, the name of the business, rather than the identity of the owner, is registered in the URA's database.	<ul style="list-style-type: none"> ▪ URA should produce disaggregated data on taxpayers to enable effective gender analysis of tax policy in Uganda. For instance, when filling Income Tax returns, gender of the person filling or owners of the company in the return should be included. ▪ Substantial subsidies and or waivers need to be made on import duties and or domestic tax-rates for essential products used by women and other special groups e.g. Albinos
Others: Legal framework, Governance and Practice issues			
Increase citizen participation and boost tax education	Limited Citizens' engagement on matters of tax. Inefficiency in public education on tax matters		<ul style="list-style-type: none"> ▪ URA should produce simplified explanations of all tax laws and also translate them into local languages to enhance taxpayers understanding. ▪ URA should involve taxpayers in anti-corruption reforms. Tackling corruption in tax administration needs strong local leadership; however, taxpayers must be included to ensure real reform. ▪ Establish structured engagements with CSOs with the government (MDAs) and the public. ▪ Structure public education and engagement platforms on tax matters and ensure timely disclosure and publication of

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			<p>tax legislations</p> <ul style="list-style-type: none"> Adopt evidence-based tax-reform strategy that is informed by benchmarking, cost-benefit analysis (not revenue driven) and thorough research Allocate money to productive sectors that trigger economic growth such as education, health, industry, trade and agriculture Linking revenue collection, allocation and utilization. Inclusive budgeting and utilization of resources.
Adopt country experiences to have unified rates and include cash-cows into the tax-net.	In the spirit of the East African Community in the taxation regime, harmonization of the tax-rates could be adopted. Government should advance discussion of the harmonization rates Excise duty, VAT and Corporate tax.	Whereas the tax-system is often least considered in the investment decision, Uganda maybe a victim “race to the bottom” syndrome if the rates remain high.	<ul style="list-style-type: none"> Review and harmonize the tax-rates starting with the VAT rates (Uganda’s stands at 18%, Kenya at 16%, Burundi at almost 10% and South Africa’s stands at 14%) Reflect on the tax amnesty model of Kenya for property and rental income tax to increase compliance (taxpayers were not taxes retrospectively and over USD10million was collected in the first quarter) Adopt the Nigeria model of Wealth and inheritance tax to loop in taxation of High-net worth individual and the rich For informal sector players, an association tax has been established where members either pay their annual tax-dues through association or association collect their taxes as part of the periodic subscriptions
Licit and Illicit financial flows		IFF have a net revenue	<ul style="list-style-type: none"> Strengthen URA’s and the Financial Intelligence Authority’s (FIAs) capacity to audit and track financial flows; Limitations to expatriation of profits out of the country, because the current framework weakens the economy

¹UBOS (2017). Uganda National Household Survey 2016/17. Accessed from: http://www.ubos.org/onlinefiles/uploads/ubos/pdf%20documents/UNHS_VI_2017_Version_I_%2027th_September_2017.pdf

²URA (2018), URA Statistics. <https://www.ura.go.ug/readMore.do?contentId=999000000001202&type=TIMELINE>

³ IMF (2014), Uganda- Revenue Administration Gap Analysis Program- The VAT Gap. Accessed from: [https://www.ura.go.ug/Resources/webuploads/INLB/Uganda%20RA-GAP%20RPT%20\(2\).pdf](https://www.ura.go.ug/Resources/webuploads/INLB/Uganda%20RA-GAP%20RPT%20(2).pdf)

⁴ IGC (2015), Fiscal Capacity and Tax Revenues in Uganda. Accessed from: <https://www.theigc.org/wp-content/uploads/2015/11/Almunia-et-al-2015-Working-Paper.pdf>

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