



Issue Paper I: Civil Society Organisation's Analysis of the Tax Administration Diagnostic Assessment Tool (TADAT)

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Preamble

The Tax Administration Diagnostic Assessment Tool (TADAT) is a diagnostic assessment tool for tax administration developed under the auspices of the International Monetary Fund (IMF) and the World Bank. It helps countries to strengthen their tax systems to better mobilize the domestic revenue they need to provide essential goods and services to their citizens in a sustainable and economically sound way. It provides an independent, standardized, evidence-based, quality-assured, all-round assessment of the performance of a tax administration system. It is an integrated monitoring framework that measures performance of a country's tax administration at a point in time. The TADAT uses nine outcome areas to assess performance of a country's tax administration system by focusing on its tax authority.

Table I: Performance Outcome Areas

Performance Outcome Areas	Desired Outcome
POA 1: Integrity of the Registered Taxpayer Base	All businesses, individuals, and other entities that are required to register are included in a taxpayer registration database. Information held in the database is complete, accurate, and up-to-date.
POA 2: Risk Management	Risks to revenue and tax administration operations are identified and managed effectively
POA 3: Supporting Voluntary Compliance	Taxpayers have the necessary information and support to voluntarily comply at a reasonable cost to them.
POA 4: Filing of Tax Returns	Taxpayers file tax declarations on time.
POA 5: Payment of Obligations	The desired outcome is that- Taxpayers pay their taxes in full on time.
POA 6: Ensuring Accuracy Of Reporting	Taxpayers report complete and accurate information in their tax declarations.
POA 7: Tax Dispute Resolution	The tax dispute resolution process is fair and independent, accessible to taxpayers, and effective in resolving disputed matters in a timely manner.
POA 8: Operational Efficiency and Effectiveness	Tax revenue collections are fully accounted for, monitored against expectations, and analyzed to inform government revenue forecasting. Legitimate tax refunds are paid promptly.
POA 9: Accountability and Transparency	The tax administration is transparent in the conduct of its activities and accountable to the government and community.

Source: SEATINI&OXFAM study, 2018



In 2018, SEATINI Uganda and Oxfam conducted a study titled “Review of the Tax Administration Diagnostic Assessment Tool (TADAT) and its Effectiveness in Enhancing Tax Administration in Uganda”¹. The main objectives of the study were to; (i) examine government responses aimed at improving Uganda’s performance on the TADAT outcome areas based on the findings of the 2015 assessment, (ii) assess Uganda’s strength and weaknesses in the implementation of the TADAT; and (iii) provide policy and practical recommendations on how to make effective use of the TADAT mechanism. This issue paper highlights some of the key issues and recommendations in the study. Reference is also made to the Fair Tax Monitor study conducted (SEATINI& Oxfam, 2018)² and Civil Society Organisation Tax Proposals for FY 2019/20³. Below is a summary of the key issues and recommendations.

Table 2: CSO Matrix on TADAT

POA	Observation	Recommendation
POI: Integrity of the Registered Taxpayer Base	<p>-Although taxpayer registration process is sound, there is low level of certainty as to the accuracy of the taxpayer registration.</p> <p>The URA tax register is only approximately 130,000 taxpayers against a taxable population of 9,000,000 in 2017. On the other hand, currently NSSF register has 2,500,000m (active members are 800,000), among others.</p> <p>-Most taxpayers in Uganda do not understand the functions and mandates of institutions responsible for taxation in Uganda, with confusion between the URA taxes and LGs taxes. Most taxpayers complained of double taxation –they pay taxes to URA and LG taxes.</p>	<p>-Continuous monitoring is needed</p> <p>-Trainings of URA staff</p> <p>-Improve Taxpayer Register Expansion Project (TREP). It would be ideal to have a joint assessment by URA and Local Government that will allow collecting the tax as a consolidated amount to reduce the burden on the taxpayer.</p>

¹ <https://www.seatiniuganda.org/publications/research/287-review-of-the-tax-administration-diagnostic-assessment-tool-tadat-and-its-effectiveness-in-enhancing-tax-administration-in-uganda/file.html>

² <http://www.seatiniuganda.org/publications/research/280-fair-tax-monitor-study-2018/file.html>

³ <https://www.seatiniuganda.org/publications/downloads/286-cso-alternative-tax-proposals-for-fy-2019-2020/file.html>

<p>PO2: Risk Management</p>	<p>-In 2017, an Enterprise Risk Analysis tool was in final stages of operationalization.</p> <p>-Policitisation of tax collection is also a challenge hindering URA to meet its set targets.</p>	<p>Review of the URA Risk Management Policy to align it to current planning frameworks.</p> <p>There is need to find out if this recommendation was implemented in 2017.</p>
<p>PO3:Supporting Voluntary Compliance</p>	<p>-Extensive information is provided to educate taxpayers and support voluntary compliance. However, there are weak initiatives to detect businesses which fail to register.</p> <p>-Majority of citizens are not aware how most of the taxes were calculated or assessed. Research shows that the tax assessment process done by the tax authorities (URA and LGs) did not provide sufficient information to the taxpayers and the assessors do not seek the involvement of the taxpayer. Therefore, most taxpayers considered the current taxation system not fair.</p> <p>Low VAT compliance: The main factors contributing to this are inefficiencies in collections and low VAT compliance. This is characterized by under-declaration of VAT, as businesses do not remit what is due to URA.</p>	<p>Citizens’ compliance is highly interlinked to provision of quality public services which continue deteriorating; thus, affecting compliance levels.</p> <p>There is need to enforce the use of Electronic Fiscal Devices (EFDs) across VAT registered businesses. A strategy that can be used is making it a prerequisite for business owners to pay for an Electronic Fiscal Device before obtaining trading licenses or its renewal.</p>
<p>PO4:Filing of Tax Returns</p>	<p>On-time return filing rates are low while information on</p>	<p>There is need to enforce the practice of filing returns among Ugandans for instance</p>

	<p>timely payment of taxes is not monitored. Late filing of returns No gender disaggregated data</p> <p>Pay As You Earn Ugandans employed in Diplomatic Missions and International Organisations which are exempted from Income Tax. Most of these institutions do not remit the money to URA. This is usually under the demise that foreign institutions do not pay any tax.</p> <p>Corporate Income Tax According to the annual URA Revenue Performance Reports, CIT collections posted on average a deficit of UGX 68 Bn (US\$ 24 Mn) between 2013/14 and 2017/18. As share of the total tax revenue, the collections stagnated at an average of 6.4% during the same period.</p> <p>Government Entities</p>	<p>those employed in diplomatic missions and international organizations which are exempt from Income Taxes. Uganda Revenue Authority should institute a dedicated team of technical staff to monitor Ugandan employees in these exempt international agencies.</p> <p>The International Taxation Unit within the Large Taxpayers' Office at URA, to manage transfer pricing issues, will address revenue leakages from intercompany transactions. In addition, operations of the Financial Intelligence Authority to oversee and reverse money laundering schemes and the implementation of the Base Erosion and Profit Shifting (BEPS) actions (like limitation on benefits and mutual exchange of information between tax administrations) have all contributed to the performance of the revenue collection under the CIT regime.</p>
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	<p>Some entities failed to comply with statutory deductions which contravened the tax laws as these failed to deduct withholding tax of UGX 22.48 million and PAYE of UGX 526 million, non-remittance of PAYE of UGX.23.75 billion, and VAT of UGX.3.96 billion. Among these entities included Uganda Posts Limited, Kampala Capital City Authority, and Joint Clinical Research Centre were the most non-compliant entities.</p>	<p>Strong penalties to those who fail to comply</p>
<p>PO5: Payment of Obligations</p>	<p>-High level of usage of IT system for e-tax, e-filing, and payment through banks.</p> <p>However, the system has some inefficiencies sometimes causing delays in online submissions</p> <p>-Over 98% of the URA processes are automated thus generating enormous amounts of data, such data however is not put to full use due to limited analytical capabilities of the URA staff.</p> <p>-Information on timeliness of payments is not available</p> <p>-Automation does not necessarily mean payment of obligations.</p> <p>-Digital Taxation is still a challenge. Uganda does not benchmark India by investing in technology, and putting in place policies aimed at digital taxation.</p>	<p>Empower URA staff with; (i) data analytical skills to utilize data generated from different electronic systems to uncover discrepancies and increase revenue recoveries, and (ii) to understand the dynamics of digital taxation.</p>
<p>PO6:Ensuring Accuracy Of Reporting</p>	<p>-Linking of third party information both internally</p>	

	<p>and externally is not automated to authenticate tax declarations.</p> <p>-There is no automated crosschecking of third party information.</p> <p>-In 2017, URA was developing a cooperative compliance framework to provide a working and amicable relationship between taxpayers and the revenue body which is based on trust and honesty.</p>	<p>Fast track sharing of third party information among Government entities</p> <p>Citizens need to appreciate the importance of paying taxes and value for money. Government should aim at being responsive to the needs of the citizens.</p>
PO7:Tax Resolution	Dispute <p>-The dispute resolution mechanism is fairly robust.</p> <p>-There is slow dispute resolution, litigation.</p> <p>-Time taken to determine disputes is not monitored and data on this were not made available.</p>	<p>Continuous monitoring and publicizing information</p>
PO8:Operational Efficiency and Effectiveness	and <p>-Third party information is not systematically matched.</p> <p>-There is a team of dedicated staff in URA. However, there is no evidence to suggest that monitoring and reporting on the stock of tax losses carried forward by taxpayers that may be offset against future tax liabilities, is done.</p> <p>-There is no monitoring of the time taken to clear refund claims, nor any other evidence to show that the 30-day rule is followed.</p>	<p>Need to strengthen the monitoring of stock of tax losses carried forward by taxpayers and tax refund process.</p>
PO9:Accountability and Transparency	<p>-Annual reports are accessible to the public</p>	<p>The government should have a NATIONAL ACCOUNTABILITY WEEK</p>



	<p>-We commend URA efforts for hosting the annual taxpayer appreciation week and publication of “My Taxes Work” Magazine</p> <p>-A variety of methods are used by URA to obtain performance feedback from taxpayers, including perception survey. The Independent third party survey was last conducted in 2010. URA uses client surveys, social media platforms such as Facebook and Twitter to obtain performance feedback from taxpayers. URA carried out its own taxpayer perception survey in 2016. However, the results are not publically available.</p>	<p>during which it specifically informs citizens on how the taxes, which have been collected, have been utilized. This should also cut across to the different regions within the country.</p> <p>-Publicize Client surveys -Conduct independent client survey before conducting TADAT exercise</p>
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Cross Cutting Issues

<p>Inadequate staffing</p>	<p>The Taxpayer-to- URA staff ratio has been increasing from 63 in 2011/12 to 326 in 2014/15 due to the expansion of the taxpayer register</p>	<p>Employ more staff to implement the mandate of URA.</p>
<p>Informal sector</p>	<p>High Net Worth Individuals (HNWI)</p> <p>-URA has established a unit that manages tax affairs of the High Net worth Individuals (HNWIs). The desk has been established to a Liaison office to coordinate the tax compliance of the wealthy citizens and VIPs, who also include Parliamentarians, Politicians and high-profile government officials.</p>	<p>Strengthen the capacity of URA officials to develop a follow up framework with a report of the HNWIs.</p> <p>Publish HNWI performance report</p> <p>The government should allocate more resources to URA to enable it recruit more staff for efficient tax administration. This will enable URA staff to conduct lifestyle audits on these HNWIs</p>

	<p>However, URAs staffing levels have remained low with a staff-to-taxpayer ratio of 1:672. This also makes it hard for staff to follow up on the “might” HNWI</p> <p>Taxpayer Identification Number There is various identification documents held by Ugandans with varying identification details which distorts tracking personal information of potential tax payers, but also limits timely access to information by tax entities.</p>	<ul style="list-style-type: none"> • Use of a Single Identification Number; Link the NSSF, TIN and Passport to the NIN.
<p>Tax Incentives and Exemptions</p>	<p>There is no clear policy on tax incentives and exemptions, Uganda is losing a lot of revenue. According to the URA, Uganda’s lost revenue from tax incentives and exemptions alone amounted to UGX 8,440 Bn (US\$ 3,073 Mn) from 2010/11 to 2016/17, an equivalent of 16% of the total tax revenue. The amount of revenue lost in 2016/17 was nearly equal to the agriculture budget (which was UGX 823.4 Bn US\$ 234 Mn- in 2016/17).</p>	<p>Need for a clear policy on tax incentives and exemptions</p>
<p>Inadequate funding</p>	<p>URA has inadequate funding to effectively perform its mandate. URA has no autonomy over its budgets; the authority is under the MoFPED. Nevertheless, the Authority has tried to expand its resource envelope beyond the budget provided by</p>	<p>Increase funding to URA</p>



	MoFPED. The authority is implementing initiatives funded by World Bank, USAID, IMF and other development partners.	
Link Tax and Expenditure	The linkage between each stage of the whole planning framework (budget framework paper, strategic plan then work plan) is a challenge.	Link Medium Term Expenditure Framework to Domestic Revenue Mobilisation Strategy
Performance Assessment Report	Not publically available. The report is a preserve of IMF, World Bank, URA and MoFPED	Share findings with the public in order to follow up on the findings and recommendations

Recommendation

- a. There is need to undertake legal reforms that would improve effectiveness and efficiency of URA and the tax administration system as a whole.
- b. The tax administration system including URA and other actors should be subjected to regular periodic assessments.
- c. There is need to fast track the finalisation of the Medium Term Revenue Strategy by the Ministry of Finance Planning and Economic Development.
- d. URA and MoFPED should spear head studies aimed at informing policy reforms for improved performance of the tax administration system.
- e. Government should ensure full autonomy of URA and hold it accountable to an agreed set of performance measures. Autonomy should enable them to manage budgets on an annual basis, reorganize operations, recruit and develop personnel, and set staff compensation levels.
- f. URA can use information from the government's business and land registries to validate tax returns and to inform tax investigations. Third-party information can also be used to pre-populate tax returns and, as a result, reduce taxpayer burden. For instance, in South Africa from 2007/08 taxpayers began to receive pre-populated and restructured personal income tax forms, resulting in the reduction of errors and increased client satisfaction.
- g. The URA should put more emphasis on performance objectives. Experiences in several countries have demonstrated that public institutions that boast an outcome-oriented and mission-driven culture tend to perform better.
- h. URA should simplify the tax laws and regulations, especially the Income Tax Act to ease taxpayers' understanding of tax laws.



- i. URA should foster collaboration with other EAC revenue authorities through efficient information exchange, in order to monitor the rising number of transactions by multinational and regional companies.