



TAX JUSTICE
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PRESS STATEMENT-FOR IMMEDIATE RELEASE

CIVIL SOCIETY POSITION ON TAX REVENUE MEASURES FOR FY 2018/19

Released at a Press Conference held at SEATINI- Uganda Offices on 23rd April 2018

INTRODUCTION

We the members of the Tax Justice Alliance that are gathered here at SEATINI Uganda offices in Kampala this Monday, 23rd April 2018 hereby present our observations and recommendations in respect to the proposed tax measures for FY 2018/19 that were presented to Parliament recently.

The Minister of Finance, Planning and Economic Development (MoFPED) developed and presented the tax revenue measures for FY 2018/19 contained in the; Income Tax (Amendment) Bill, 2018, Lotteries and Gaming (Amendment Bill, 2018, Excise Duty (Amendment) Bill 2018, Value Added Tax (Amendment) Bill 2018, Tax Procedures codes (Amendment) Bill, 2018, Tax Appeals Tribunal (Amendment) Bill, 2018, Stamp Duty (Amendment) Bill, 2018 and The Traffic and Road Safety Act 1998 (Amendment) Bill, 2018.

In the FY 2018/19, Domestic Revenue is projected at UGX Shs.15, 547 billion, of which Shs.15,130 billion is tax revenue and Shs.418 billion is non-tax revenue.² This amounts to about 53% of the total resource envelope which has been estimated at Shs.29.274 trillion to finance the budget under the theme: "Industrialization for job creation and shared prosperity." However, given past trends there has been a variance between the revenue projections and actual collection/outturn.

In FY2016/17 net revenue collections amounted to UGX12, 719.63billion registering a shortfall of UGX 457.51billion. Therefore, in order to cover up the shortfalls, Government of Uganda has had to greatly rely on external and domestic debt which currently stands at 27% of GDP (Budget Speech 2017/18). It is thus important that the country generates as much revenue as it can domestically in order to reduce the debt burden and be able to finance its own development. However, in the quest to mobilise revenue domestically, government should do it in a fair and just way.

Tax Justice Alliance Uganda members have further reviewed and analysed the tax bills presented by MoFPED and have made observations and recommendations for consideration by the Parliament of Uganda as indicated below:

¹Southern and Eastern Africa, Trade Information and Negotiations Institute (SEATINI-Uganda), Uganda Debt Network (UDN), Oxfam, ActionAid Uganda (AAIU), Civil Society Budget Advocacy Group (CSBAG), Citizens Watch- IT (CEWIT), Water Governance Institute (WGI), Inter-University Tax Justice Network Forum (IUTNF), Public Affairs Center of Uganda (PAC), Uganda Health Consumers Organisation (UHCO), Initiative for Social and Economic Rights (ISER), Women and Girl Child Development Association (WEGCDA) and 73rd Parliament.

²National Budget Framework Paper FY 2018/19

*23rd April 2018
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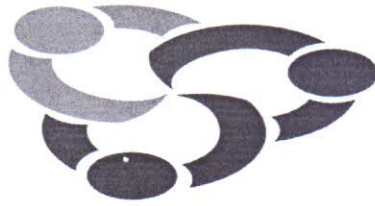
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*Fredrick Kawoya
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POSITIVE TAX PROPOSALS

We welcome the following tax proposals to improve revenue collection and facilitate investment in the FY 2018/19 and beyond including:

1. The proposal to CAP the period over which a tax payer can carry forward losses. This will curb perpetual declaration of losses.
2. The proposal to allow a deduction for Interest on a mortgage from a financial institution as expenditure incurred by an individual to acquire or construct premises that generate rental income; this will enhance proper accounting principles of rental businesses and therefore may improve tax compliance of the said rental businesses.
3. The Introduction of VAT on passenger automobile, their repair and maintenance and entertainment for contractors in mining and petroleum operations and aid funded projects will increase the tax revenue and is therefore commendable.
4. We further note that the substitution for the stamp duty of Shs 10,000 wherever it appears with Shs 15,000 will greatly contribute to increased revenue collections from the increased stamp duty.
5. The insertion of the fourth schedule in the Traffic and Road Safety Act 1998 which seeks to increase the fees for registration of cars besides station wagons by 300,000. This will contribute to an increase in the collection of Non-Tax Revenues

CIVIL SOCIETY CONCERNS ON SELECTED TAX PROPOSALS

We however have concerns on the following proposals upon which we make the following observations and recommendations:

INCOME TAX (AMENDMENT) BILL 2018

The amendment of Section 21 of the Income Tax Act to repeal the exemption of SACCOs from payment of income tax.

Observation: We welcome the proposal to reinstate income tax on the income of SACCOs as it is a good measure of enhancing revenue. However, given that this exemption being repealed was introduced last year, it is not clear as to whether it had served the purpose for which it had been given.

Recommendation: The rate of tax on income of SACCOs should be progressive in relation to the income portfolios of the said SACCOs; as it is with PAYE.

The insertion of Section 25 (3)-(5) which now limits the amount of deductible interest for any taxpayer who is a member of a group to thirty percent of the tax earnings before interest, tax, depreciation and amortisation for a period of only three years.

Observation: We observe that this clause is an anti-tax avoidance³ proposal among related companies and therefore commendable.

³ Tax Avoidance is basically exploiting the loopholes in the law to obtain a tax advantage.



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Recommendation: URA should be facilitated to further build capacity of its anti-tax avoidance and evasion units.

The insertion of Section 38 (5a) to cap the period over which a taxpayer can carry forward losses to 7 years after which a rate of 0.5 percent of the gross turnover for every year of income in which the loss continues after the seventh year.

Observation: We applaud the government for the consideration to cap the period over which losses can be carried forward. However, we note that the proposed 7 years is too long and the proposed rate 0.5% is too low.

Recommendations: We propose that the period over which a company is allowed to consecutively carry forward losses reduced to five years as proposed to the Ministry of Finance by civil society and the rate of tax is increased to 1 % for every year of income. We also propose that a mechanism to verify losses by an external person is put in place so as to prevent perpetual declaration of losses by companies where by it would be cheaper to pay the penalty for declaring losses than pay the actual corporate tax.

The government should also be able to develop a schedule with an estimate of the rate of return on investment in different businesses. This will enable Uganda Revenue Authority (URA) to assess the viability of businesses which have continuously declared losses but have remained operational.

THE EXCISE DUTY (AMENDMENT) BILL, 2018

Clause 6: Amendment of Schedule 2 to principal Act.

(e) By substituting for item 13 the following—

Telecommunications services;

b) the proposed imposition of Ushs 200 per user per day of access of Over the top services —

Observation: The proposed amendment will make it more expensive to access online services and will ultimately deter the growth of e-commerce. There is no information on how this proposed tax will be administered. Therefore it may be expensive and hard to administer due to the technological and technical capabilities required to administer such a tax. This proposed tax will perpetuate inequality especially to the low income earners who will fill the pinch more.

Recommendation This proposed tax be scraped and deferred to a time when URA will have the technology and technical capacity to administer such a tax. And when it will be finally imposed, the tax should be progressive in nature taking into account the difference in people's incomes.

d) Introduction of Excise duty on Mobile Money Transactions including; receiving, payments and withdrawals at 1% of the value of the transaction.

Observation: We observe that this amendment, applies to all mobile money transactions including receiving money, making payments and withdrawals of money. Mobile Money is currently a tool used by a cross section of Ugandans. Already government is charging 10% on money transfers which it proposes to increase to 15%. We observe that this amendment is regressive; it doesn't consider the different income differences in the population and will hinder financial inclusiveness.

