



## **CONDUCTING A STUDY ON HOW TO CLOSE THE LOOPHOLES IN TAXATION OF THE DIGITAL ECONOMY/E-COMMERCE**

### **TERMS OF REFERENCE FOR CONSULTANCY SERVICES**

**November, 2021**



## **Introduction:**

Electronic commerce (business transactions on the Web) and the information technology (IT) industries that make “e-commerce” possible are growing and changing at breathtaking speed, fundamentally altering the way the world produce, consume, communicate, and play<sup>1</sup>. The digital economy, including electronic commerce (e-commerce), is also growing quickly in the East African Community (EAC) region, creating new opportunities for entrepreneurs and businesses to expand their market access and join value chains. Jobs are being created and new business models are emerging.

## **The problem:**

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The gains from e-commerce are not automatic, and the increased use of digital technologies can result in new divides and wider income inequalities. The growth of the digital economy is creating new risks and challenges in terms of developing countries maximizing the benefits from it. For instance, governments especially in developing economies like Uganda are not able to effectively tax the digital economy. This is partly attributed to the loopholes within the laws that allow companies to avoid payment of taxes despite having sourced income from Uganda. As a result, the country has often failed to collect sufficient revenue to provide the most needed services.

In an effort to fill this gap, the Government has previously introduced taxes to be paid by the final consumers of goods and services provided within the digital economy. For instance, in 2018, the Government of Uganda introduced a tax on Mobile Money transactions and a Tax on Over-the-Top services (OTT). Later in 2021, the Government dropped the tax on OTT services and introduced a tax on the internet as part of the strategies to maximize revenue collections given the increasing use of internet in the country. These taxes, however, are not felt by the multi-national companies operating businesses digitally. Instead, the burden is pushed to the already marginalized groups including women and youth majority of whom require digital platforms to conduct business, access education and healthcare services, among others.

It is therefore important for government to develop alternatives to ensure that multi-national companies pay taxes on the share of revenue that they earn from Uganda.

It is upon this background that SEATINI Uganda with support from USAID under the DRM4D Activity would like to conduct a study on Taxation of the Digital Economy.

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<sup>1</sup> <https://govinfo.library.unt.edu/ecommerce/document/EmergingDigitalEconII.pdf>

### **Justification:**

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The study comes in the wake of the implementation of the DRM4D project titled *“Scaling up Citizens’ Voices for Tax Justice in Uganda”*. The project is premised on the need to exploit alternative tax avenues for improved revenue mobilization. Taxation of the digital economy has been identified as one of the potential avenues for raising domestic revenues. For SEATINI to constructively engage in developing policy proposals for digital taxation, it is important to conduct a study that assesses the current practices, opportunities, and challenges in taxing the digital economy. The study will provide evidence of issues that will inform advocacy by SEATINI and partners through the project.

### **Purpose of the study:**

The main purpose of the study is to explore the existing loopholes regarding taxation of the digital economy with the aim of making recommendations for improved taxation of the digital economy in Uganda.

### **Specific objectives:**

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1. To deepen understanding the landscape of the digital economy in relation to trade and tax at national, regional, and global levels.
2. To identify the gaps/loopholes and challenges encountered in taxation of the digital economy/e-commerce in Uganda.
3. To identify potential gains and losses in case the Uganda follows the international digital trade and taxation arrangements and possible mitigations.
4. To assess Uganda’s readiness to tax as well as domesticating the new international rules on taxing digital economy/e-commerce without increasing inequality and outcompeting Uganda’s Small and Medium Enterprises (MSMEs) at the expense of Multinational Corporations/Enterprises.
5. To provide practical recommendations for improving taxation of the digital economy in Uganda to support policy advocacy at national, regional and international levels.

### **Schedule for conducting the assignment:**

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The Development of the study will be two months

<b>Activity</b>	<b>Responsibility</b>	<b>Timelines</b>
Expression of Interest	Consultant	19 <sup>th</sup> November 2021
Selection of Consultant	SEATINI Uganda	24 <sup>th</sup> November 2021

Signing of Contract	SEATINI Uganda/Consultant	29 <sup>th</sup> November 2021
Submission of Inception Report	Consultant	1 <sup>st</sup> December 2021
Submission of first draft	SEATINI and Consultant	12 <sup>th</sup> January 2022
Validation Meeting	SEATINI	25 <sup>th</sup> January 2022
Submission of the Final Study	Consultant	31 <sup>st</sup> January 2022

### **Management of the Process**

- The Consultant will be working closely with SEATINI Financing for Development / Tax Justice Team.
- The Country Director of SEATINI Uganda will oversee the process.

### **Competencies and experience of the applicants**

The suitable consultant shall have the following qualifications/competencies:

- At least a master's degree in a relevant field and particularly in the areas of taxation, planning, public policy, development economics, and law.
- Thorough knowledge of Uganda's tax system and analytical skills.
- Thorough knowledge of the International Tax system and the current state of play in trade and tax.
- Excellent analytical and writing skills with evidence of relevant articles and any other written pieces of work authored by the applicant
- Proven experience in executing similar assignment(s)

### **Method of Application**

Interested consultants should submit a proposal that briefly describes how the consultant intends to undertake this assignment and possible sources of information/data. Applicants should also explain how their professional experience matches the skills and qualifications listed. The proposal should include:

- Suitability for the consultancy (maximum 1 page).
- Technical proposal for the research study
- CV(s)/ company profile, including contact details for two references.
- A sample of previous work relevant to the assignment.
- Indicative budget (maximum 1 page) covering daily rate(s) and any related expenses in Uganda Shillings including tax.



Proposals should be submitted by COB on 19<sup>th</sup> November 2021 to [info@seatiniuganda.org](mailto:info@seatiniuganda.org) and cc: [nregina@seatiniuganda.org](mailto:nregina@seatiniuganda.org) with the subject: **“A Study on how to Close the Loopholes in Taxation of the Digital Economy/E-Commerce”**