

# FAIR TAX MONITOR Uganda

December 2016





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# Acknowledgements

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# Fair Tax Monitor

The Fair Tax Monitor (FTM) is a unique evidence-based tool that identifies the main bottlenecks in tax systems and provides strong evidence for use in advocacy. Its standardized methodology also allows for comparisons of tax policies and practices across countries. In the later stages of the project, it will be used to monitor progress over time.

The degree of fairness in tax systems is determined by considering:

- their structures;
- the distribution of the tax burden;
- revenue sufficiency;
- tax exemptions;
- the effectiveness of the tax administration;
- government spending priorities; and
- transparency and accountability in the system.

The expected impact of providing such analysis is to see:

- citizens equipped to demand accountability from their governments;
- civil societies using information to strengthen awareness and advocacy campaigns, and influence their tax systems for the better; and
- relevant stakeholders, including in government agencies, having a solid understanding of tax and expenditure gaps, in order to help them develop pro-poor fiscal policies.

The Fair Tax Monitor project was started in December 2014 by Oxfam Novib and Tax Justice Network—Africa (TJN-A), in collaboration with partners from Bangladesh (SUPRO), Pakistan (Indus Consortium), Senegal (Forum Civil) and Uganda (SEATINI). The project is expected to expand to more countries, and to develop updated frameworks and methodologies. It will be regularly updated, and become a reliable source of information and analysis on fiscal policies and practices. It forms part of the Capacity for Research and Advocacy for Fair Taxation (CRAFT) project, started in 2012, following recommendations from a preliminary study carried out by TJN-A.<sup>1</sup>

The data collected in this and similar reports provide the basis for Make Tax Fair, an online advocacy tool ([www.maketaxfair.net](http://www.maketaxfair.net)). Make Tax Fair provides an overview of the main issues addressed in this report and compares them with other focus countries.<sup>2</sup>

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# List of Abbreviations

AAU	Action Aid Uganda
BBT	Background to the Budget
Bn	Billion
CEWIT	Citizen Watch—IT
CIT	Corporate Income Tax
COMESA	Common Market for East and Southern Africa
CRAFT	Capacity for Research and Advocacy for Fair Taxation
CSBAG	Civil Society Budget Advocacy Group
CSO	Civil society organization
DTT	Double Taxation Treaty
EAC	East African Community
FTA	Free Trade Agreement
FY	Financial year
IBP	International Budget Partnership
IMF	International Monetary Fund
ITA	Income Tax Act
KCCA	Kampala City Council Authority
LGs	Local Governments
MoES	Ministry of Education and Sports
MoFPED	Ministry of Finance, Planning and Economic Development
MoH	Ministry of Health
NDP	National Development Plan
NPA	National Planning Authority
OECD	Organization for Economic Co-operation and Development
OAG	Office of the Auditor General
PAYE	Pay As You Earn
PIT	Personal income tax
SADC	Southern Africa Development Cooperation
SEATINI	Southern and Eastern African Trade, Information and Negotiations Institute
TADAT	Tax Administration Diagnostic and Assessment Tool
TIU	Transparency International in Uganda
TJNA	Tax Justice Network Africa
TTR	Total tax revenue
Tn	Trillion
UDN	Uganda Debt Network
UGX	Ugandan shillings
UIA	Uganda Investment Authority
URA	Uganda Revenue Authority
URSB	Uganda Registration Services Bureau
VAT	Value Added Tax

# Glossary

## **Direct Taxes**

Taxes imposed on a proportion of income, such as personal income tax, corporate income tax or capital gains tax.

## **Double Taxation**

The levying of tax by two or more jurisdictions on the same declared income, asset or financial transaction. The practice can be mitigated by tax treaties between countries.

## **Equity/Fairness**

Making people with greater ability (i.e. wealthy people) pay more taxes, and taxpayers in similar circumstances pay similar amounts of tax.

## **Fair Tax Index**

A tool that measures tax fairness, and compares the levels and trends of tax injustice that exists across country tax systems and over time.

## **Fair Tax System**

A tax system that has the following characteristics: progressive, serving as a mechanism to redistribute income in a gender-sensitive way; raises sufficient revenue to perform government functions and provide essential services; avoids tax exemptions and incentives for the rich; and tackles the causes of illicit capital flight and tax evasion by multinational corporations and the wealthy.

## **Illicit Financial Flows**

The cross-border movement of funds that are illegally acquired, transferred or used. The sources of these cross-border transfers may be bribery; theft by government officials; the trafficking of drugs, arms and humans; smuggling; commercial tax evasion; mispricing or abusive transfer pricing.

## **Indirect Taxes**

Taxes on consumption, such as value added tax/sales taxes; goods and services taxes; customs duties; and excise duties.

## **Informal Sector**

Economic activities, and the income derived thereof, that circumvent or avoid government regulation or taxation. For the purposes of this research, we focus on informal sector businesses, instead of informal sector workers.

## **Progressive Tax**

A tax that places the greatest burden on those most able to pay. Most often applied in the form of an income tax with a rate that rises with income, so that those who earn high incomes pay a greater proportion as tax.

## **Public Spending**

Expenditure by the government on public infrastructure/goods and social amenities, such as education and healthcare.

**Regressive Tax**

A tax by which everyone pays the same amount of tax, regardless of their income or ability to pay. Regressive taxes affect those on lower incomes more than those on higher incomes in terms of their available resources (e.g. people with less money spend a larger proportion of their income, so consumption taxes pose a relatively larger burden).

**Sales Tax**

An indirect tax imposed on sales of goods and services. It may be imposed as a percentage of gross receipts, or as an amount per unit of product. The tax is generally paid by the buyer, but the seller is responsible for collecting and remitting the tax to the appropriate authorities.

**Tax Avoidance**

The practice of seeking to minimize the tax one pays by arranging affairs in a way that is technically legal.

**Tax Evasion**

The illegal or fraudulent non-payment or under-payment of tax.

**Value Added Tax (VAT)**

A tax on consumption, paid by the buyer as an additional percentage of the price. Suppliers of goods or services are required to remit it to the tax authorities.

**Wealth Tax**

A tax based on the market value of owned assets, including cash, bank deposits, shares, vehicles, property, pensions, funds, and trusts.

**Exchange Rate**

The exchange rates between Ugandan Shillings (UGX) and US dollars (US\$) used in this study are:

FY	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Official Mid-Rate (Average)	1,825	1,780	1,696	1,930	2,029	2,323	2,559	2,589	2,538	2,823

Source: Bank of Uganda ([https://www.bou.or.ug/bou/rates\\_statistics/statistics.html](https://www.bou.or.ug/bou/rates_statistics/statistics.html))

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# Executive Summary

Uganda is currently implementing a number of policy and administrative measures to generate revenues to finance service delivery and development projects. Revenues are being targeted from both tax and non-tax sources. Citizens are obliged by law to pay taxes, and the government is required to let them know how their taxes are being used. However, a majority of Ugandans do not demand such accountability from the government, because they do not know how to engage their representatives and leaders. This paper is intended to enable citizens, civil society organisations (CSOs), government and other key stakeholders to influence tax processes at different levels. Our ultimate goal is a fair, just and equitable tax system.

## Main Findings

Uganda's tax system

Uganda's tax administration is defined by a number of laws, including:

- the Constitution of the Republic of Uganda, 1995, as amended;
- the Local Government Act, Cap 243 as amended;
- the Income Tax Act (ITA), Cap 340, as amended;
- the Value Added Tax Act (VAT), Cap.349, as amended; and
- the East African Community Customs Management Act, 2004.

These laws spell out the duties and responsibilities of the institutions responsible for regulating, policy development, planning, assessment, collection, administration, enforcement and accounting for all tax and non-tax revenues.

Uganda's tax administration system is divided between central government and local government structures. The central government tax regime is implemented by the Uganda Revenue Authority (URA). Local governments are mandated to collect taxes that are not under the jurisdiction of URA, but few collect it effectively.

## Tax Burden and Progressivity

Uganda has seen a significant increase in total tax revenue (TTR) over the last decade. URA net collections (excluding tax refunds) increased from UGX 2.4tn (US\$1.3bn) in 2005/06 to UGX 10.1tn (US\$3.6tn) in 2014/15, a 330 percent increase. Only one third of tax income is from direct taxes, such as Pay As You Earn (PAYE), corporate income tax (CIT) and withholding tax. The rest comes from indirect taxes, such as excise duties, Value Added Tax (VAT), and taxes on international trade.

Indirect taxes tend to be more regressive since they are based on the value of goods, services and assets, rather than the ability of people to pay. Therefore, indirect taxes usually put a greater burden on the poor (relative to their incomes).

The tax base in Uganda is quite narrow, as it has tended to concentrate on those engaged in formal businesses, salaried employees and government staff. Individuals and businesses operating in the informal sector contribute 43 percent of GDP, but most are untaxed. Due to the narrow tax base, the tax burden is quite high on a few tax payers.

## Revenue Sufficiency and Tax Leakages

Despite sustained economic growth in Uganda, net collections by the URA (as a proportion of GDP) have stagnated, standing at between 11.7 and 13.1 percent since 2005/06. The low tax-to-GDP ratio can be attributed to Uganda's large informal sector, its narrow tax base, poor tax exemptions regime, and weak tax administration.

Uganda has made significant discoveries of natural resources in recent years. The most important is the discovery of major oil and gas fields. However, the larger part of revenue from these is not expected until 2017 when full-scale production commences. Nevertheless, in 2014/15, the Government of Uganda brought in UGX 119.6bn in capital gains tax. However, the lack of available information on production sharing agreements (PSAs) for fossil fuel revenues makes it difficult to know how much the country will actually collect in taxes.

Uganda is losing considerable revenue through incentives and exemptions. According to a URA report in 2015, revenues foregone as a result of tax exemptions in FY2013/14 amounted to UGX 1.6tn—which is around 2 percent of GDP. Uganda does not have a clear direction on tax incentives and exemptions, their measurement or their costs/benefits. Indeed, they appear to be ad hoc and subject to abuse.

## Effectiveness of Tax Administration

The resource envelope (i.e. budgetary) allocation to the government tax administration authority between 2009/10 and 2013/14 increased by around 22 percent. However, during the same period, net URA collections (excluding govt. taxes and tax refunds) increased by only 17 percent.

Since 2005, major administrative reforms have brought down the number of departments in the URA from 21 to seven, making the system more efficient. Between 2008/09 and 2013/14, the cost of tax collection averaged 2.4 percent, i.e. it costs UGX 24,454 to collect UGX 1m in taxes.

## Government Spending

The Government of Uganda's total spending increased from UGX 5.8tn in 2008/09 to UGX 15.0tn in 2014/15. The national budget devotes considerable resources to infrastructure (energy and roads), and education. However, public administration and interest payments also take a considerable amount of the national budget. This has impacted negatively on service delivery sectors such as health and education, as well as productive sectors like agriculture.

The URA is responsible for 79 percent of total government income. Uganda's total gross tax revenue increased from UGX 3.9tn in 2008/09 to UGX 8.4tn in 2013/14. However, government spending has continued to outstrip income—the budget deficit increased from UGX 503.6bn in 2008/09 to UGX 2.7tn in 2013/14. It mainly finances this deficit through internal and external borrowing.

## Transparency and Accountability

Information about tax rates and collection systems is accessible to the public. The URA has a website ([www.ura.go.ug](http://www.ura.go.ug)) that facilitates taxpayer registration, payment and the filing of returns. It also provides information on URA services along with key performance statistics. However, most of the information is in English, which is not the primary language of the majority of the population.

The establishment of a tax administration with comparatively generous remuneration packages and substantial budgets has not protected it from political interference. Indeed, it has made the URA a more attractive target because the authority offers both relatively well-paid jobs and considerable rent-seeking opportunities.

## Recommendations

The Government of Uganda should:

- Transition to a more progressive direct taxation regime, as opposed to its current regime, which relies on indirect taxes, and is therefore most negatively affects poor people.
- Investigate the potential impact of the removal of VAT exemptions on issues beyond revenue.
- Establish mechanisms for tracking and recording all tax revenues collected by local governments, so that they can be included in reported total tax revenues.
- In order to increase transparency and accountability in the oil sector, sign up to the Extractive Industries Transparency Initiative (EITI).
- Formulate and implement policies that allow the self-employed and small businesses to more easily formalize their businesses.
- Take greater steps towards streamlining tax exemptions and incentives, with clear procedures and timelines, and establish a coordinating unit in Uganda and across East Africa to address harmful tax competition.
- Increase the URA's ability to execute its mandate under the prevailing conditions in the country. Effective tax administration requires qualified tax officials with specific skills to maintain and operate systems to their fullest potential.
- Use oil revenues to expand the fiscal space and increase overall public spending in social sectors, especially education and health.
- Curtail the high cost of public administration, which will free up funds to finance service delivery in sectors such as health and education.
- Improve legal frameworks to weed out tax avoidance.
- The URA and local government agencies should use memorandums of understanding to improve shared ways of working and make taxpayer registration and tax collection processes easier. Taxpayer databases should be shared.
- To limit tax evasion, reforms must concentrate on simplifying complex tax laws and addressing the causes of distrust between taxpayers and tax officers.
- The URA should put more emphasis on outcome-oriented performance objectives.
- Taxpayer associations, trade unions, business communities and CSOs must press for the tax administration to provide better services.

# SECTION 1:

# INTRODUCTION

## 1.1 Background

The Fair Tax Monitor is part of the Capacity for Research and Advocacy for Fair Taxation (CRAFT) project that investigates tax issues in Uganda, Nigeria, Ghana, Mali, Senegal, Egypt and Bangladesh. This project will support both education and advocacy campaigns to promote fairer tax systems. Taxation plays a critical role in an economy. It generates revenues for financing government programmes, and thereby allows for income redistribution—sound taxation has the potential to reduce income inequality between households.<sup>3</sup> Analyzing data on taxes, income distribution and net contributors can reveal whether a system is fair.

A study by Tax Justice Network–Africa and Oxfam Novib<sup>4</sup> recommended in-depth country studies into the fairness of tax systems. It highlighted six important characteristics of tax fairness: progressivity; effectiveness; tax evasion and avoidance; coverage; administration; and government spending.

## 1.2 Rationale for the Research

The research was undertaken to give citizens, civil society organizations (CSOs), government and other key stakeholders a baseline against which they can influence tax processes at different levels. Uganda is currently implementing a number of measures to generate domestic revenue to finance service delivery and other development projects. Therefore, it is important to consider the impact these may have on the economy and the population. In the 2014/15 budget, the Minister of Finance, Planning and Economic Development claimed that the Uganda Revenue Authority (URA) would collect taxes amounting to UGX 9.6tn (US\$3.39bn), and non-tax revenues of UGX 206bn.<sup>5</sup>

Citizens are obliged by law to pay taxes, and the government is required to let them know how their taxes are being used. However, a majority of Ugandans do not demand such accountability from the government, because they do not know how to engage their representatives and leaders.

## 1.3 Research Objectives

The main objectives of this research were to:

- Examine Uganda's current tax systems and assess their fairness;
- Identify the main bottlenecks in Uganda's tax systems;
- Provide a strong evidence base for country-level advocacy work;
- Generate comparative information for assessing selected countries over time; and
- Contribute to global-level advocacy on taxation.

The findings of this study will feed into policy dialogues, and provide a platform through which the government can further harness fair tax contributions from individuals and companies. It is

anticipated that citizens will also benefit from the insights in this report, to help their engagement with decision makers.

## **1.4 Research methodology**

Research relied mainly on a literature review of relevant documents, data releases and other publications from government agencies (such as URA and MoFPED), donor agencies (such as the World Bank and IMF), CSOs (such as Oxfam, TJNA, SEATINI), academic and research institutions. In addition, a validation workshop on 11 September 2015—comprising representatives of civil society, academia and the government, as well as independent consultants—was held in Uganda to provide input and feedback on the study findings.

## **1.5 Structure of the Report**

The report has eight sections, which broadly map onto the characteristics listed earlier. Section 2 provides a brief description of Uganda's tax system. Section 3 describes the distribution of the tax burden and the progressivity of the system. Section 4 discusses revenue sufficiency and tax leakages. Section 5 discusses the effectiveness of the tax administration. Section 6 discusses government spending. Section 7 elaborates on transparency and accountability. Section 8 ends the paper with conclusions.



## SECTION 2:

# BRIEF DESCRIPTION OF UGANDA'S TAX SYSTEM

## 2.1 Legal and Institutional Framework

### 2.1.1 Historical background

The first tax legislation in Uganda was introduced in 1919 under the Local Authorities Ordinance. Subsequent tax laws include the East African Customs Act of 1970, Sales Tax Act of 1970, Stamp Duties Act of 1970, Finance Decree of 1972 and the Income Tax Decree of 1974. However, these laws made the administration of the tax regime complicated, and as such most were obsolete by the late 1980s, when there were widespread calls for their repeal or amendment.

The current laws governing Uganda's tax system include: the Constitution of the Republic of Uganda, 1995, as amended; The Local Government Act, Cap 243 as amended; the Income Tax Act (ITA), Cap 340, as amended; the Value Added Tax Act (VAT), Cap.349, as amended; the Public Finance Management Act, 2015 [Cap 149]; the East African Excise Management Act [Cap 28], as amended; the Stamps Act [Cap 342]; the Traffic and Road Safety Act, 1998 [Cap 361]; the Gaming and Pool Betting (Control and Taxation) Act [Cap 292]; and The East African Community Customs Management Act, 2004. These laws spell out the duties and responsibilities of the institutions responsible for regulating, policy development, planning, assessment, collection, administration, enforcement and accounting for all tax and non-tax revenues.

### 2.1.2 Central and local tax administration

Uganda's tax administration system is split between the central and local governments. The central tax regime is implemented by the **Uganda Revenue Authority (URA)**, which was established by the URA Act 1991, Cap 196. It serves as a central body for the assessment and collection of specified tax revenues. The URA identifies, informs and assesses taxpayers. Although the URA is a quasi-autonomous institution, for budgetary purposes, it is regarded as a department of MoFPED, and is subject to the same financial rules and discipline as other departments.

The URA is led by a Commissioner-General appointed by the finance minister. There are seven departments (each headed by a Commissioner): corporate affairs, domestic taxes, tax investigations, customs, internal audit and compliance, legal services and board affairs, and the commissioner-general's office.

Under decentralization, **local governments** (districts, municipalities, town councils and sub-counties) are mandated to collect taxes that are not under the jurisdiction of URA, but few do so effectively. This is mainly due to the small tax base; political interference; poor coordination; inadequacy of baseline information on potential tax payers; administrative weakness, and poor utilisation and management of collected revenues.<sup>6</sup>

The taxes collected by local governments include:

- a) A Local Service Tax (LST)<sup>1</sup> levied on all persons in gainful employment. The LST has never reached its targets. According to the LGFC, the contribution of LST averaged UGX 8.6bn (US\$3.4m) between FY 2010/11 and FY 2012/13, far below the target of UGX 67bn (US\$26.77m). This is partly due to the fact that the Local Government Act (Cap 243) does not provide for sufficient<sup>2</sup> taxes to be collected, and there are considerable exemptions, e.g. for those working in the judiciary, police or military.
- b) A Local Government Hotel Tax levied on hotel and lodge accommodation per room per night, paid by room occupants.
- c) Property rates and land-based charges such as building plan approval fees, land fees, etc.; ground rent; business licenses; user fees (such as market dues, parking fees, etc.) and permits; and royalties from electricity generation, mineral mining and exploration, and protected areas such as national parks and game reserves.
- d) Other revenues such as forest licences; veterinary fees; birth, marriage and death registration; fines etc.

### 2.1.3 Other relevant institutions

The **Ministry of Finance, Planning and Economic Development (MoFPED)** is responsible for the formulation of tax policies and non-tax policies aimed at generating domestic revenue and promoting investment, consumption and savings. However, policy formulation is limited to a few technocrats, to the exclusion of other stakeholders, such as civil society and taxpayers themselves. Broad tax policy objectives are contained in annual budget speeches, which are fleshed out in legislation.

The **Parliament of the Republic of Uganda** works through committees to scrutinize, analyze and consult on tax matters. The parliamentary committees responsible for tax issues are: budget; national economy; and finance, planning and economic development. The Committee on Finance, Planning and Economic Development (CFPED) oversees, monitors and evaluates the performance of the MoFPED and URA. The bills mostly considered by the CFPED are related to revenue collection, and the relevant institutions.

The **Local Government Finance Commission (LGFC)** considers and recommends to the President of the Republic of Uganda potential revenue sources for local governments, and advises about appropriate taxes to levy; mediates and advises the local government minister in financial disputes between local governments; and analyzes local governments' budgets for compliance with legal provisions.

The **Ministry of Local Government (MoLG)** provides legal and policy guidance on local revenue administration; supervises and monitors the collection of revenue; and mentors local governments on collection procedures.

## 2.2 Tax Reforms and Implication on Tax Revenues

Since the 1990s, Uganda has undergone a number of tax reforms geared at broadening the tax base, increasing the efficiency of collection, creating incentives for the private sector to pay, and ensuring equity. The reforms were directed at rationalizing the tax structure and rates, widening the tax base, reducing exemptions, and simplifying procedures.

<sup>1</sup> Introduced in 2008 after the abolishment of graduated tax in 2006.

<sup>2</sup> For instance, the fifth schedule, Part II, sections 3, 4 and 6 provided for 10 tax bands, the lowest of which is too low, at UGX 5,000 (US\$1.8).

Tax reforms were generally in line with International Monetary Fund (IMF) recommendations, which promote:

- Heavy reliance on broad-based sales taxes, such as Value Added Tax (VAT), preferably with a single rate (currently 18 percent) and minimal exemptions, and excise taxes levied on petroleum products, alcohol, tobacco and some luxury goods.
- No reliance on export duties, which inhibit international competition, or on small ‘nuisance taxes’, the administration of which is not effective.
- Keeping import taxes as low as possible, with limited spread of rates to prevent protection.
- An administratively simple form of personal income tax, with limited deductions; a moderate top marginal rate; exemption limits large enough to exclude persons with modest incomes; and a substantial reliance on withholding tax.
- Corporate income tax levied at only one moderate-to-low rate aligned with the top personal income tax rate, with depreciation and other non-cash expenditure provisions uniform across sectors and minimal recourse to sector- or activity-specific incentive schemes.

Immediately following the creation of the URA, Uganda saw significant improvement in tax revenue collection. In 1991, it stood at only 7 percent of GDP, and had risen to 11.5 percent by 1998.<sup>7</sup> However, in recent years this figure has stagnated at around 11.7 percent of GDP in 2013/14,<sup>8</sup> largely due to recurrent gaps in tax administration (corruption, tax evasion, and avoidance), and the country’s large untaxed informal sector.

For instance, the agricultural sector—which employs 70 percent of the Uganda’s labour force, and contributes about 21 percent to GDP—contributes less than 1 percent of total taxes.<sup>9</sup> It should be noted that this is because most agricultural activities are not taxed, and most of those engaged in agriculture are subsistence farmers.

## 2.3 Challenges

The agencies responsible for tax administration are poorly coordinated. Each has a different standard of automation and data management. These differences cripple joint efforts to penetrate untapped taxable areas. In addition, each of these institutions operates under an almost independent legal framework, which results in duplication and unnecessary bureaucracy. Citizens themselves do not have an adequate understanding of the functions and mandates of these institutions.

Revenue raised by local governments should provide an opportunity to finance local priorities and attract citizen participation in fiscal processes. Such revenue, however, provides a mere 2 percent of the total financing of local governments, with the rest being financed through central government grants.<sup>10</sup>

Modernization efforts have been slow and limited. For instance, an e-tax system and information management systems to augment the capacity of tax administration have not been fully implemented. There is limited access to electronic services for small taxpayers to make it easier for them to comply with tax requirements.

Uganda’s high economic growth rate is largely down to fast-growing sectors such as services, which employ few Ugandans. Sectors such as agriculture, which employ many, contribute negligible amounts. This poses a risk that could potentially escalate income inequality among citizens.

## 2.4 Social Security Systems

A number of government and non-government social protection systems exist, but they are somewhat patchy and poorly coordinated, so have a high chance of duplication and/or missing vulnerable people. The policies and laws on social protection are also scattered, so the existence of some are not even known among some major stakeholders. The most prominent governmental social security systems include:

- a. The **National Social Security Fund (NSSF)** was established by the National Social Security Fund Act 1985 (Cap. 222) to protect employees, and is mandatory for employers with five or more employees. The NSSF is a provident fund. The contribution rate is 15 percent, shared at 5 percent and 10 percent by the employee and employer, respectively. The NSSF reports to Uganda minister of finance.
- b. The **Public Service Pension Scheme** is responsible for the administration and management of the scheme through the Department of Compensation. This department handles pension schemes for the traditional public service, teachers, defence staff, and former employees of the defunct pre-1977 East African Community (EAC).<sup>11</sup> MoFPED plays a leading role in the governance of public and private pension schemes, including the fiscal arrangements for both and appoints the board and management of the NSSF.<sup>12</sup>
- c. **Health insurance** in Uganda is largely run by private institutions. Most of their services are for contributors that can afford to pay for the service, which excludes poor people. The Ministry of Health is spearheading the introduction of a National Health Insurance Scheme (NHIS), by drafting the National Health Insurance Bill that proposes to extend contributory health insurance to formal workers.<sup>13</sup> However, the National Health Insurance Bill has not been passed since its inception in 2007—it is still awaiting the issuance of a report into its financial implications by MoFPED.

Corruption and mismanagement of social protection programmes, especially pension schemes, besiege Uganda's social security. For example, UGX 169bn (US\$ 65.28m) meant to clear the outstanding pension claims of 1,018 former East African Community workers went missing between February and October 2012.<sup>14</sup> In addition, a total of UGX 165bn (US\$ 63.73m ) was lost between 2009 and 2012 as a result of the fraudulent enrolment of 3,000 'ghost' pensioners under the public pension service.<sup>15</sup> The NSSF has also suffered numerous scandals over the last decade.<sup>3</sup>

## 2.5 Recommendations

- The government should accelerate the modernization of the tax administration, for example by increasing access to electronic services for small taxpayers to make it easier for them to comply with tax requirements.
- The URA should establish more accessible and efficient tax payment facilities, and strengthen their capacity to follow up cases of non-payment through fair and reasonable enforcement.
- The government and CSOs should increase the sensitization of tax payers to the need to pay taxes and demand better public services.
- The URA and local governments should use memorandums of understanding to improve their shared ways of working and make taxpayer registration and collection easier. Taxpayer databases should be used to share information.
- The government should develop a comprehensive legal and policy framework to guide the implementation of coherent social protection programmes.

<sup>3</sup> <http://www.monitor.co.ug/News/National/688334-1121614-ap5jtsz/index.html>

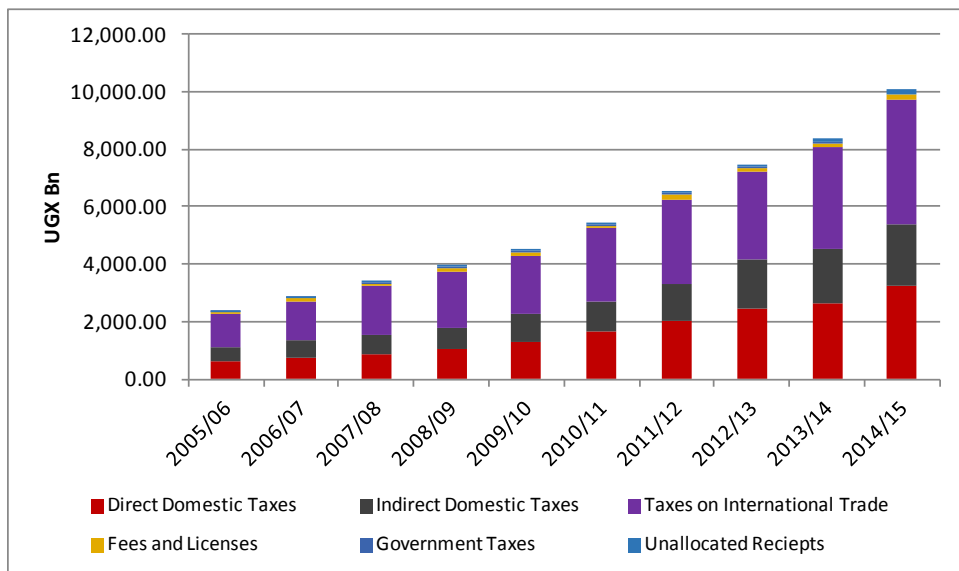
## SECTION 3:

# DISTRIBUTION OF TAX BURDEN AND PROGRESSIVITY

### 3.1 Total Tax Revenues

Uganda has seen a significant increase in total tax revenue (TTR) over the last decade. The URA's net collections (excluding refunds) more than quadrupled from UGX 2.4tn (US\$1.29bn) in 2005/06 to UGX 10.1tn (US\$3.58bn). TTR is made up of direct domestic taxes; indirect domestic taxes; taxes on international trade; fees and licenses; government taxes; and unallocated receipts (see Figure 1). It is important to note that TTR in this paper only includes that collected by the URA; there is no credible data on revenues collected by local governments (and other ministries, departments and agencies).

**Figure 1: Trends in total tax revenues**



Source: Author's calculations based on URA statistics<sup>4</sup>

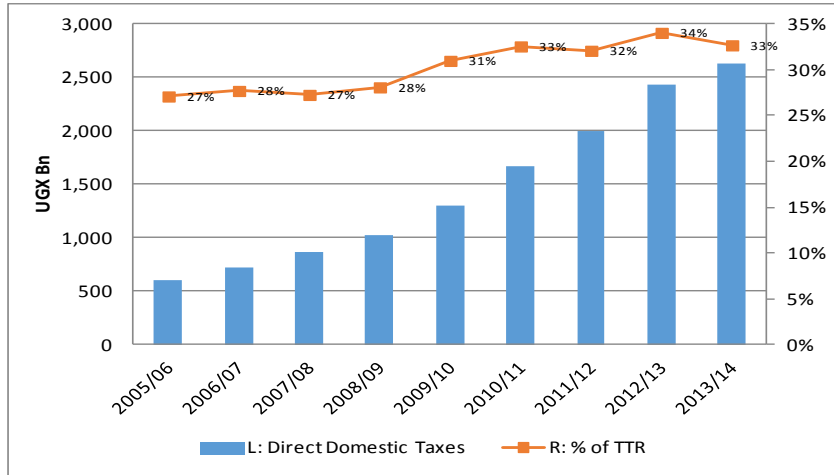
### 3.2 Direct Taxes

Direct taxes are paid by a specific individual or company, and their burden cannot be shifted onto someone else. These are largely taxes on income or wealth such as income tax, corporation tax, property tax, inheritance tax and gift tax.

<sup>4</sup> Statistics accessed from the URA website: <https://www.ura.go.ug/topmenu/topmenuMain.jsp?viewPageNo=5#>

Direct taxes are generally viewed as progressive, as they affect those with greater earnings more as a proportion of income than those with less.<sup>16</sup> Uganda's direct domestic taxes include: Pay As You Earn (PAYE), corporate tax, presumptive tax, rental tax, withholding tax, tax on bank interest, casino and lottery tax and tax on agricultural products. The share of direct domestic taxes in TTR increased from 27 percent in 2005/06 to 33 percent in 2013/14. This means that the majority of tax revenue still comes from indirect taxes (see Figure 2).

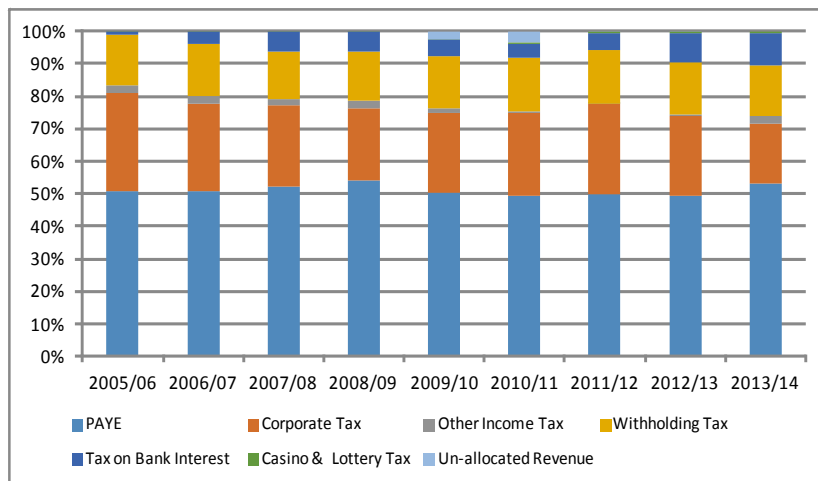
**Figure 2: Direct domestic taxes, totals and direct vs indirect**



Source: Author's calculations based on URA Statistics<sup>17</sup>

PAYE makes up more than half of direct taxes, followed by corporate taxes and withholding taxes (see Figure 3).

**Figure 3: Direct taxes by category**



Source: Author's calculations based on URA Statistics<sup>18</sup>

### 3.2.1 Pay As You Earn

PAYE is a tax administered by employers, using rates set in the ITA. Every employer is required to deduct monthly taxes from liable employee's salary payments and any other employment benefits, whether monetary or in-kind. The monthly PAYE threshold is UGX 235,000 (US\$83.2), below which an employee does not have to pay anything. The tax rates levied vary and increase with a person's income. Employment income on which tax is supposed to be deducted includes all 'benefits, salaries, commissions, wages and all other reimbursements that a person receives or the sole purpose of doing that work'.

Those employed by the Uganda People's Defense Forces, the Uganda Police Force, or the Uganda Prisons Service are exempt under Section 21 of the ITA. Judges are also exempt from PAYE. Such exemptions violate the principle of equity. Table 1 presents the different tax bands, applicable rates, exemptions in the structure of PAYE.

**Table 1: Uganda's PAYE structure- per month**

Tax type	Chargeable Income	Rate of Tax
Resident individuals	Not exceeding UGX 235,000 (US\$83.2)	Nil
	Exceeding UGX 235,000 but not exceeding UGX 335,000 (US\$118.7)	10% of the amount by which chargeable income exceeds UGX 235,000
	Exceeding UGX 335,000 but not exceeding UGX 410,000 (US\$145.2)	20% of the amount by which chargeable income exceeds UGX 335,000, plus UGX 10,000 (US\$3.5)
	Exceeding UGX 410,000	30% of the amount by which chargeable income exceeds UGX 410,000, plus UGX 25,000 (US\$8.9), and Where the chargeable income exceeds 10,000,000 (US\$3,542) and additional 10% charged on the amount by which chargeable income exceeds UGX 10,000,000
Non-Resident individuals	Not exceeding UGX 335,000	10%
	Exceeding UGX 335,000 but not exceeding UGX 410,000	20% of the amount by which chargeable income exceeds UGX 410,000 UGX 335,000, plus UGX 33,500 (US\$11.9).
	Exceeding UGX 410,000	30% of the amount by which chargeable income exceeds UGX 410,000, plus UGX 48,500 (US\$ 17.2), and Where the chargeable income exceeds 10,000,000 (US\$3,542) and additional 10% charged on the amount by which chargeable income exceeds UGX 10,000,000

Source: URA (2016)<sup>19</sup>

The ITA provides for various penalties for delayed and missed payments, failure to maintain proper records, making false or misleading statements and understating provisional tax estimates. Many of these criminal penalties, however, do not exceed UGX 500,000 (US\$177.1). This is very low for some offences, and as such is not an effective deterrent.

### 3.2.2 Corporate income tax

Corporate income tax (CIT) is collected from companies, based on their net income. Companies resident in Uganda are taxable on their worldwide income and gains, while non-residents are taxed on income sourced in Uganda. The income tax rates applicable to the chargeable income of companies is 30 percent, with the exception of: mining companies; non-resident air transport, shipping, and some telecommunication services; and resident companies with a turnover below UGX 150m (US\$53,131).<sup>5</sup>

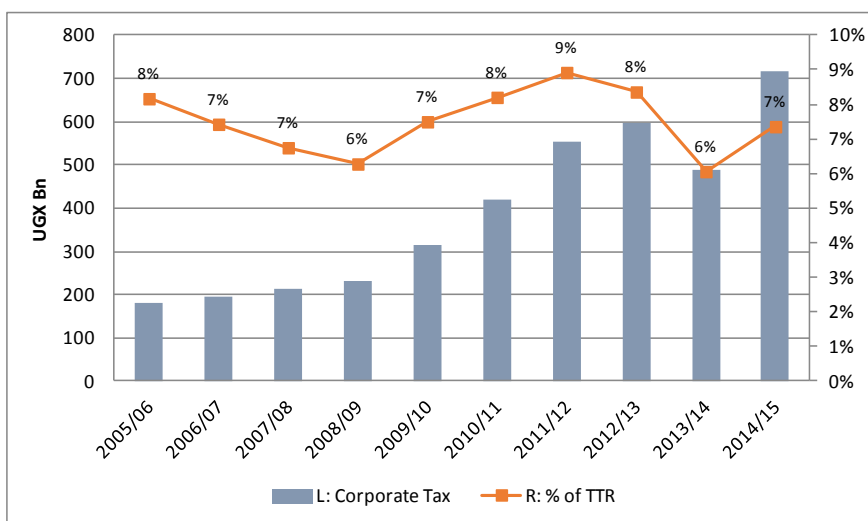
**Table 2: Uganda’s CIT structure**

Tax rate	Exemptions	Remarks
30 percent for resident companies	Dividends received by a resident company from another resident company, of which it owns more than 25 percent of shares.	A company may adopt a tax year different from the normal July–June FY with the consent of the commissioner
2 percent for non-resident shipping and aerospace companies.	2 percent of income tax payable can be deducted for companies with at least 5 percent of full-time employees are persons with disabilities.	A provisional return must be filed within six months of the start of the company’s accounting year.
25–45 percent for mining companies <sup>1</sup>		The estimated tax for the year is payable in two installments before the end of the first six-month period and before the company’s year-end. A final return and balance payment is due within six months at the financial year.

PWC. (2016)20

<sup>5</sup> A rate of 1.5 percent of turnover is used to determine income tax payable by a resident company with turnover between UGX 50m (US\$17,710) and UGX 150m. However, on application to the Commissioner, a resident company with a turnover of less than UGX 150m may be taxed at 30 percent. This category excludes professionals, public entertainment services, public utility services, or construction services. PWC.(2016). Uganda Corporate – Taxes on corporate income. <http://taxsummaries.pwc.com/uk/taxsummaries/wwts.nsf/ID/Uganda-Corporate-Taxes-on-corporate-income>



**Figure 4: Trends in CIT**


Source: Author's calculations based on URA Statistics<sup>21</sup>

Corporation taxes in developing countries tend to be fairly inefficient. Provisions that make sense in more developed economies tend to narrow the CIT tax base without providing any noticeable incentive. For example, multiple rates differentiated along sectoral lines, exemptions for certain sectors, and the allowable depreciation of physical assets for tax purposes tends to narrow the tax base.<sup>22</sup> In addition, carry-forward loss provisions in ITA Section 38 for companies that farm out, merge or simply close businesses also affect CIT collections in Uganda. In Uganda, CIT revenues have remained below 8 percent of TTR over the past decade. URA revenue performance reports reveal that corporate tax collections posted an average annual deficit of UGX 41.82bn (US\$17.5m) between 2005/06 and 2013/14.<sup>23</sup>

### 3.2.3 Withholding tax

Withholding tax is a final tax on interest paid by a financial institution to a resident individual; interest paid to any person on treasury bills by the Bank of Uganda; and dividends paid to a resident individual.

**Table 3: Withholding tax rates**

Description	Resident	Non-resident
Management fees and royalties	6%	15%
Consultancy, agency fees, etc	6%	15%
Professional fees	6%	15%
Dividends*	15% or 10%	15%
Interest**	15%	15%
Sports persons and public entertainers	Nil	15%
Re-insurance premiums	Nil	15%

\*Except where dividend income is exempt from tax in the hands of a shareholder.

\*\* Except when interest is paid to a natural person, or for interest other than than from government securities paid to a financial institution.

Source: PKF (2015), PKF Worldwide Tax Guide 2015/16

Uganda is a signatory to ten double taxation treaties (DTTs),<sup>6</sup> which are intended to eliminate taxpayers being taxed twice for cross-border flows of goods and services. Examples of the withholding taxes under two DTTs are shown in Table 4. However, Uganda has suspended negotiations on new tax treaties until there are clearer guidelines on how the country should benefit from such agreements.<sup>24</sup>

**Table 4: Withholding tax rates under two DTTs**

Item	Uganda–Mauritius DTT	Uganda–Netherlands DTT
Dividend	10%	FDI: 15% Portfolio: 0% or 5%*
Interest	10%	10%
Royalties	10%	10%
Technical fees	10%	n.a

\*No withholding tax is due on dividends paid by a company in Uganda where a company resident in the Netherlands is the beneficial owner of ‘at least 50 per cent of the capital of the company paying the dividends with respect to investments... made after the entry into force of this convention’. Where a company in the Netherlands is the beneficial owner of less than 50 per cent of the capital, 5 percent withholding tax is payable. Source: SEATINI and Action Aid (2014)

### 3.2.4 Amendments to the Income Tax Act (ITA)

In the budget speech for FY2014/15,<sup>25</sup> the finance minister made the following amendments to the direct tax regime:

- Eliminated initial allowances for those who put eligible property into service for the first time during a year of income to eliminate a double tax deduction for that year of accelerated depreciation and ordinary depreciation.
- Increased presumptive tax threshold from 1 to 3 percent, targeting businesses in Uganda operating informally and making it difficult to apply the normal income tax regime to them.
- Introduced a 15 percent tax on winnings on sports and pool betting, and designated gambling houses as agents to withhold the tax.
- Eliminated the exemption on interest income from agricultural loans. Banks pay this interest to the government directly.
- Introduced capital gains tax on the sale of commercial property.
- Limited deductions for interest paid to non-associated persons not to exceed 50 percent of earnings before interest and depreciation. This is intended to limit the avoidance of tax through low-taxed interest payments.
- Terminated the exemption on income derived from managing or running an educational institution for commercial gain. This is consistent with the principle of equity and transparency in tax regimes, and broadening the tax base by bringing more taxpayers into the tax net.

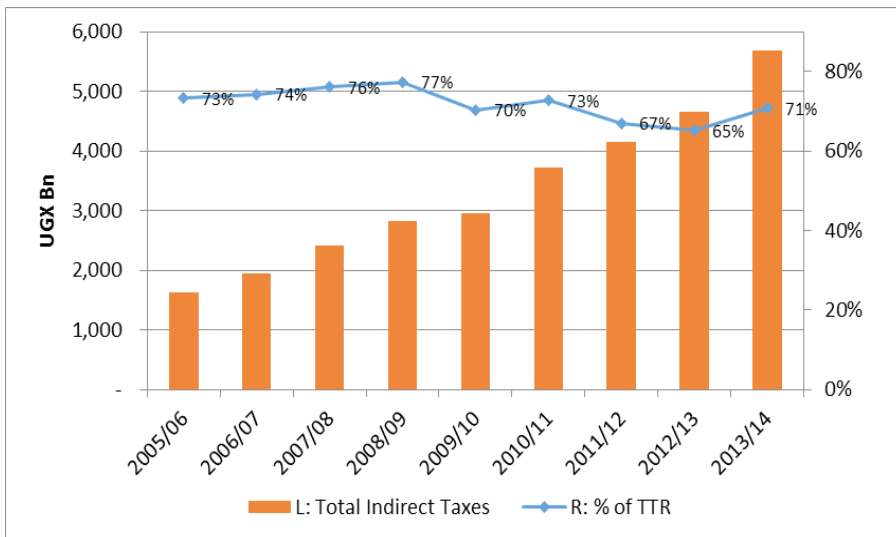
<sup>6</sup> In theory, the purpose of DTTs is to eliminate double taxation of cross-border flows by determining which treaty partner can tax different categories of income generated in one treaty state by a resident of the other

- Restricted the definition of start-up costs to only non-recurring preliminary costs. Previously there was no definition of start-up costs in the Income Tax Act, which risked mixing start-up costs with capital expenditure, thus providing a double benefit.

### 3.3 Indirect Taxes

Indirect taxes are those collected by an intermediary (e.g. a shop) from the person who bears the economic burden of the tax (e.g. the consumer). The intermediary later files a tax return and forwards the tax proceeds to the government. Though indirect taxes are easy to collect, they are regressive in nature, because they make up a larger amount of poor people’s spending than the wealthy. Uganda’s indirect taxes include: excise duty, value added tax (VAT), and taxes on international trade. Indirect taxes make up the majority of Uganda’s TTR, although its share has marginally reduced from 77 percent in 2008/09 to 71 percent in 2013/14 (see Figure 5).

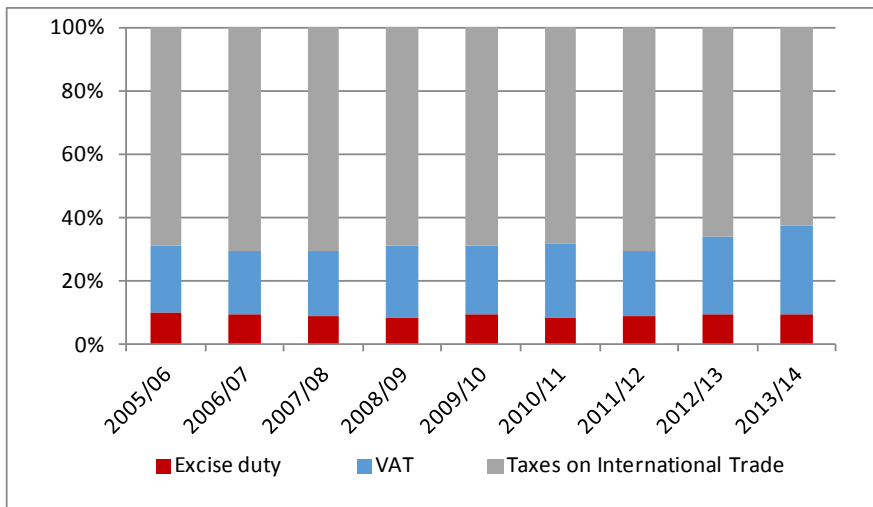
**Figure 5: Trends in indirect taxes**



Source: Author’s calculations based on URA Statistics<sup>26</sup>

Taxes on International Trade contribute more than two thirds of indirect taxes; this is followed by VAT and excise duty (see Figure 6).

**Figure 6: Trends in contribution of indirect taxes by category**

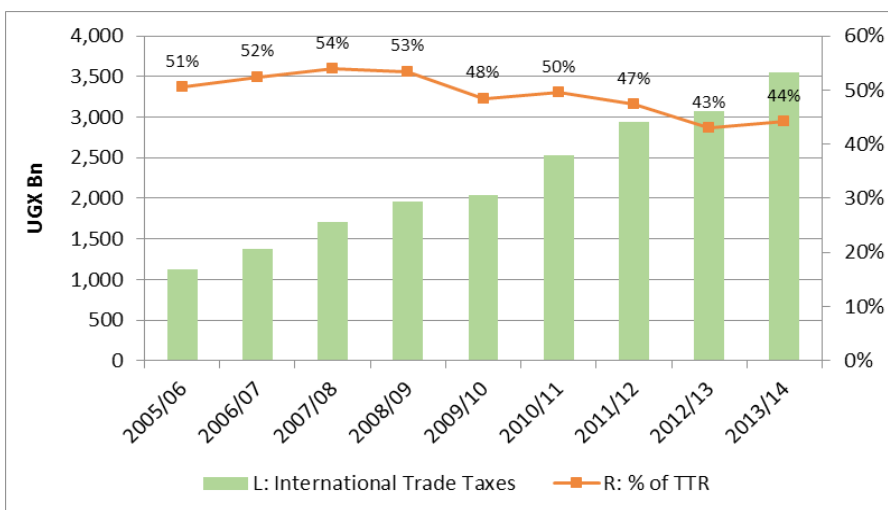


Source: Author's calculations based on URA Statistics<sup>27</sup>

### 3.3.1 International trade taxes

Uganda's international trade taxes include: petroleum duty, import duty, excise duty, surcharge on used imports, VAT on imports, temporary road licenses, commission on imports, re-exports levy, hides and skins export levy, and coffee stabilization tax. A list of the tax rates for international trade are included in Annex 1. Figure 7 shows trends in international trade taxes, contributed an average of 49 percent of TTR between FY 2005/06 and FY 2013/14.

**Figure 7: Trends in international trade taxes**



Source: Author's calculations based on URA Statistics<sup>28</sup>

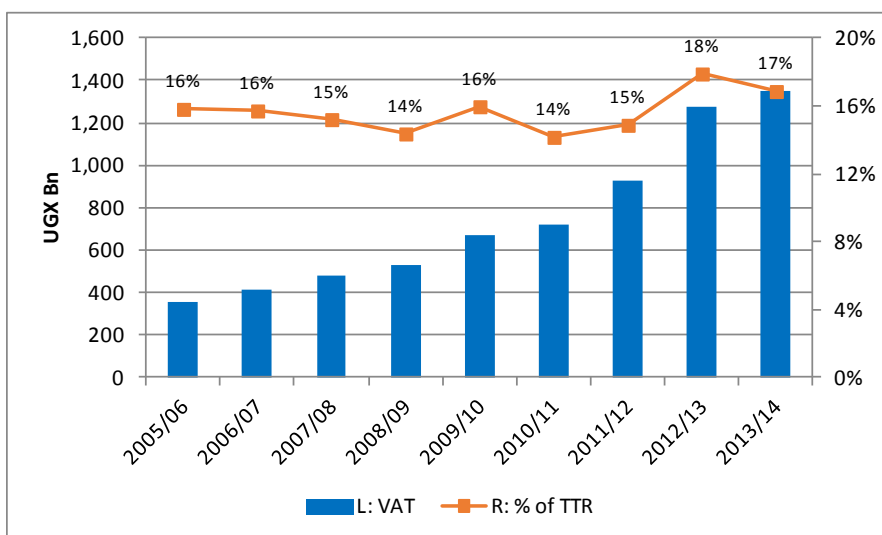
International trade taxes are influenced by changes in global markets, as well as a country's membership of trade blocs. Uganda is a member of the East African Community (EAC), which has adopted a Common External Tariff (CET) for products originating in third countries that cover approximately 99 percent of all tariff lines. Products are grouped into three bands, each having its own tariff rate: a zero rate for raw materials; a 10 percent rate for intermediate products; and a 20 percent rate for finished goods.<sup>29</sup> In June 2015, Uganda signed an agreement to create a tripartite Free Trade Area (FTA) consisting of the East African Community (EAC), COMESA and the Southern Africa Development Cooperation (SADC).<sup>30</sup> Goods from all member countries will move duty-free in the first phase of the FTA's implementation, with plans for the free movement of people in its second phase. The multiplicity of overlapping memberships has the potential to influence the distribution of gains from regional agreements, which raises concerns about potential lost revenues.<sup>31</sup>

### 3.3.2 Value added tax

VAT generates revenue, and is borne by final consumers of goods and services, including those imported. Since July 2015, the Value Added Tax (Amendment) Act 2015 increased the annual turnover threshold for VAT registration from UGX 50m (US\$17,710) to UGX 150m (US\$53,131). This means that a broader range of small businesses are excluded from the requirement to register for VAT payments. The threshold is the same as that proposed to be applied for presumptive tax purposes, so the combined measures should ease the tax compliance burden for affected small- and medium-sized enterprises.<sup>32</sup>

In Uganda, a number of goods and services are VAT-exempt (i.e. have a zero-percent rate), with the intent of lowering the tax burden for low-income households. These include unprocessed foodstuffs, medication, contraceptives, sanitary towels and tampons, inputs for the manufacture and supply of seeds, fertilizers, pesticides, and hoes. As Figure 8 shows, VAT has contributed an average of 16 percent to TTR over the last decade.

**Figure 8: Trends in VAT**



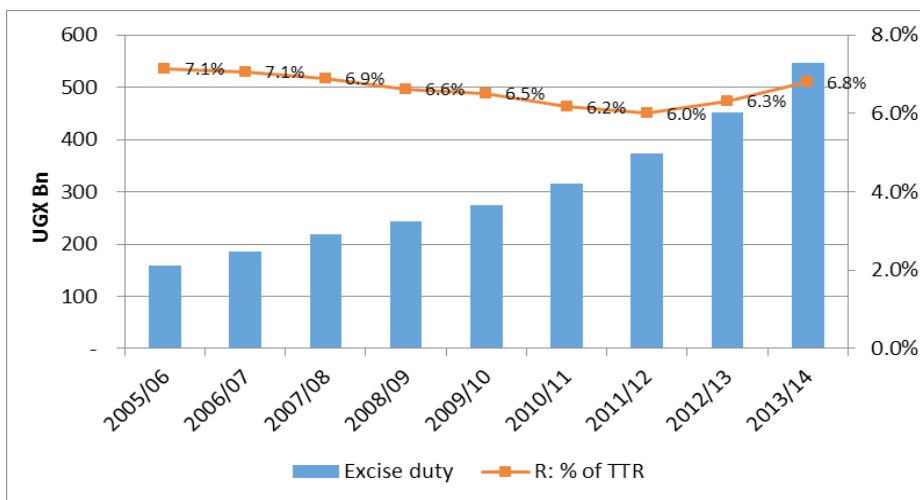
Source: Author's calculations based on URA Statistics<sup>33</sup>

The government has been responding to concerns from civil society and international bodies to streamline VAT laws. In FY2014/15, the zero-rated<sup>7</sup> and exempt<sup>8</sup> schedules were reduced (see Annex 4). At the same time, a mechanism was established to ensure that all government procurements pay VAT.

### 3.3.3 Excise duties

Excise duties raise revenue from the sale of specific products and services, and are used in part to tax luxury goods, and also reduce demand for harmful goods, such as cigarettes and alcohol. Uganda’s excise duty regime is largely progressive—mostly covering luxuries, such as chewing gum, cosmetics and imported furniture. As Figure 9 shows, excise duty has contributed an average of 7 percent to TTR over the last decade. See Annex 2 for a full explanation of Uganda’s excise duty regime.

**Figure 9: Trends in excise tax to TTR**



Source: Author’s calculations based on URA Statistics<sup>34</sup>

### 3.3.4 Wealth and property taxes

Wealth and property taxes in Uganda are divided into three categories:

- i) Property tax collected by local governments, based on property value and location, with a maximum rate of 2 percent;
- ii) Rental tax, at 20 percent for individual landlords and 30 percent for companies owning rental properties;<sup>9</sup> and
- iii) Capital gains tax, charged at 15 percent when a capital asset is sold by an individual or company.

Rental tax and capital gains are collected by the URA. For resident individuals, the formula for computing Individual rental income tax is 20 percent x (80 percent of annual gross rental income minus (-) UGX 2,820,000 (US\$999)).<sup>35</sup> A non-resident person who derives income from renting property in Uganda is charged withholding tax at a rate of 15 percent on gross rent received. Effective from

<sup>7</sup> Government doesn’t tax its retail sale, but allows credits for the VAT paid on inputs.

<sup>8</sup> Government doesn’t tax the sale of the good, but producers cannot claim a credit for the VAT they pay on inputs to produce it.

<sup>9</sup> Until FY2014/15, rental income for companies was declared as part of business income, and was thus charged under CIT, so no data is available to establish performance of this tax over time.

July 2014, rental income, expenditure and losses generated by a taxable individual or company is required to be declared in a rental income tax return separate from the usual business income tax return.<sup>36</sup>

There is no separate capital gains tax legislation in Uganda. However, capital gains from business are taxable under the provisions of the ITA, together with other business income at 30 percent. Capital gains for individuals are taxed using the relevant individual tax rates (0–40 percent).<sup>37</sup>

### 3.3.5 Presumptive tax

Presumptive tax is intended to bring the informal sector into the tax net and nurture compliance among small businesses. In July 2015, the ITA was amended to increase the threshold for presumptive tax from UGX 50m (US\$17,710) to UGX 150m (US\$53,131), while at the same time halving the base tax rate from 3 percent to 1.5 percent. Presumptive revenue is captured by the URA under other incomes in official statistics at this time, so data about presumptive tax specifically is not available.

## 3.4 Gender and taxation

In Uganda, PIT is imposed on the basis of income only, irrespective of gender. Tax returns do not require the gender of the person filling in the return. For CIT, the name of the business, rather than the identity of the owner, is registered in the URA's database. While directors and trustees are also registered, their gender is not isolated, making further complex to ascertain the gender statistics.

Taxation in Uganda intersects with gender relations, norms and economic behavior implicitly. For example, because gender norms allocate a greater portion of unpaid care work to women than to men, women tend to use larger portions of their income on basic consumption goods such as food and clothing.<sup>38</sup> Imposing taxes on the consumption of basic goods and services such as kerosene, salt, sugar and clothing for children places a heavier tax burden on women.

## 3.5 Recommendations

- The government should establish the impact of the removal of VAT exemptions on the VAT system beyond revenue gains.
- While the tripartite FTA would make imports more affordable to poor households, and improve their choice of commodities, there is need to calculate the amount of revenue foregone by the government, and what domestic revenue mobilization efforts might be needed to bridge the gap.
- The URA should intensify awareness campaigns on the presumptive tax in order to improve voluntary compliance.
- Taxation systems should, in addition to treating women as equal and autonomous citizens, also should seek to transform traditional gender roles in society. Policy makers need to consider how taxation policies and reforms affect paid and unpaid work and the interdependence between these realms of economic activity.

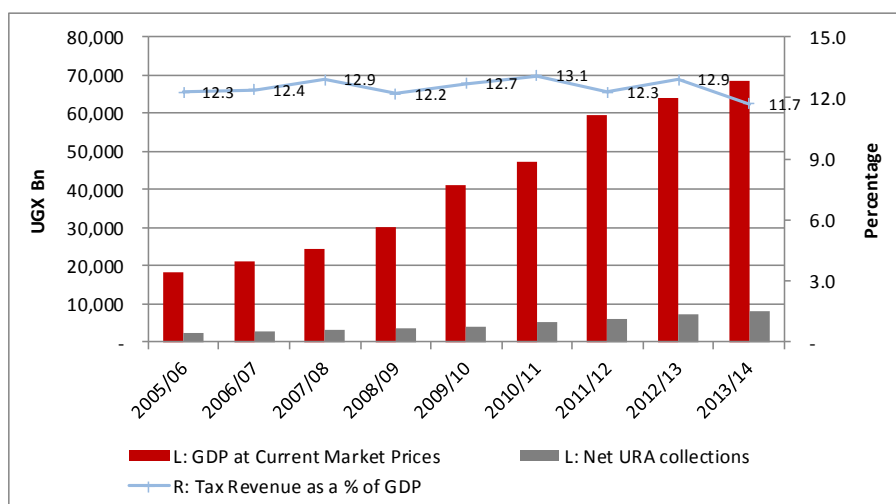
## SECTION 4:

# REVENUE SUFFICIENCY AND TAX LEAKAGES

### 4.1 Tax Revenues

Although there has been some decline in recent years, Uganda achieved sustained GDP growth averaging 6 percent per year over the last decade. However, trends in net URA collections, as a percentage of GDP, have stagnated, oscillating between 11.7 and 13.1 percent since 2005/06 (see Figure 10).

**Figure 10: Trends in GDP and tax revenues**



Source: Source: Author's calculations based on URA Statistics<sup>39</sup> and MoFPED (BTTB—Various years)

Uganda's tax-to-GDP ratio is one of the lowest in the EAC. While Uganda's tax-to-GDP ratio stood at 13.0 percent, Kenya's was 20.0 percent, Rwanda's 14.7 percent and Tanzania's 21.0 percent in 2013/14.<sup>40</sup> Uganda's low tax-to-GDP ratio is attributable to: the large informal sector, which constitutes 43 percent of GDP; the narrow tax base, which is composed of a few taxpayers coupled with a crowded tax exemptions regime; and weaknesses in tax administration.<sup>41</sup>

Under National Development Plan (NDP) II, the Ugandan government has set a target of raising its tax-to-GDP ratio to 16 percent by 2019/20.<sup>42</sup> The NDP II includes the following measures to increase the tax-to-GDP ratio:

- Developing a policy on mandatory association membership for those in the informal sector;
- Rationalizing the rental tax regime and integrating e-tax with utilities and other agencies;



- Streamlining non-standard VAT tax exemptions;
- Developing mechanisms for exploiting capital gains tax;
- Strengthening collaboration between agencies concerned with investment promotion i.e. Uganda Investment Authority (UIA), Kampala City Council Authority (KCCA), Local Governments (LGs), Uganda Revenue Authority (URA) & Uganda Registration Services Bureau (URSB) to design and implement a mutually beneficial comprehensive investment regime;
- Combating international tax evasion schemes in complex sectors to raise more tax;
- Increasing the capacity of URA staff in critical functions of revenue management, audit, forensics investigations and legal affairs;
- Strengthening local tax administration; and
- Exploring new sources to widen and deepen local revenue bases.

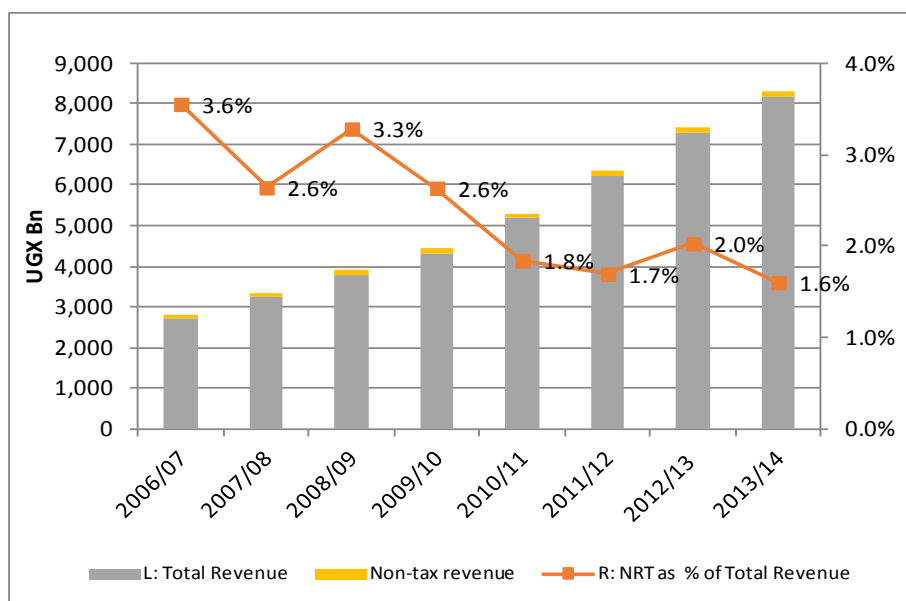
## 4.2 Non-tax Revenues

Non-tax revenues (NTR) in Uganda include: migration fees, passport fees, land transfer fees, company regulation fees, high court fees, mining fees, and royalties. NTRs are collected by various government departments and agencies, as well as the URA. The ministries, departments and agencies that collect and retain NTRs are required to submit details to the Treasury.

Over the years, the collection of NTRs has been poor, mainly due to institutional weaknesses, poor reporting, and limited transparency and accountability. The share of NTR in URA's total net revenue collection has declined from 3.5 percent in 2007/08 to 1.6 percent in 2013/14 (see Figure 11). To address these challenges, the government streamlined the collection and management of NTR. The majority of NTR are now collected by the URA since July 1, 2013<sup>43</sup>. This means the collected revenues are deposited into the consolidated fund. This has not only yielded more NTR but has also fostered transparency and accountability.

The rates for NTR from key statutory instruments like land titles and court orders have been static; recent changes in tax policy have been geared towards raising such rates to reflect current economic conditions, but more is required if revenue is to be collected in a more equitable fashion.

**Figure 11: Trends in NTR**



Source: Author's calculations based on MoFPED (BTTB, various years)

### 4.3 Natural Resource Revenues

Uganda has made significant discoveries of natural resources in recent years. The most important is the discovery of major oil and gas fields. Oil reserves stood at an estimated 6.5Bn barrels in 2015 (of which 1.4Bn barrels were economically recoverable).<sup>44</sup> However, the larger part of revenue from these is not expected until 2017 when full-scale production commences. Nevertheless, in 2014/15, the Government of Uganda brought in UGX 119.6bn (US\$42.4m) in capital gains tax.<sup>45</sup> This followed Tullow's sale of up to 66.6 percent of its Uganda licenses to Total and China National Offshore Oil Corporation in 2012.

However, the lack of available information on production sharing agreements (PSAs)<sup>10</sup> for fossil fuel revenues makes it difficult to know how much the country will actually collect in taxes. Most of the current figures are based on estimates. For example, in Uganda's Vision 2040 Section 4.1.3 (87), the government estimates that the oil and gas contribution to Uganda's Gross Domestic Product (GDP) will be 4 percent by 2020, 37 percent by 2030 and 74 percent by 2040. While the 4 percent figure for 2020 seems conservative, the other estimates are over-optimistic.<sup>46</sup>

The 2012 Oil and Gas Revenue Management Policy<sup>47</sup> provides for a mechanism for the sharing of a maximum of 7 percent of all revenues with the local governments in oil-producing regions.<sup>11</sup> At the local level, it will be the responsibility of each government to agree and allocate a share of their royalty revenues to institutions within their jurisdictions, e.g. sub-counties and cultural institutions.

10 This is a contract signed between the government and oil producing companies detailing how the different aspects of exploration, participation of government, taxes, royalties, production and earnings from oil shall be managed. So far, the government of Uganda has signed four PSAs with oil companies: Tullow Uganda Ltd, Tower Resource Neptune, Heritage and Dominion Petroleum Ltd

11 These are payments levied on resource exploitation, and are based on either quantity or value of the resource extracted. Under the terms of the PSA's and as contained in the ITA, oil companies will pay a royalty on gross oil production, at a rate that varies with the rate of production (the rate ranges between 7 percent and 12.5 percent).

After offsetting royalties to local governments, the policy provides that the remaining 93 percent of revenues shall be retained by the central government for the benefit of the entire country. It is to be shared between that kept in a Petroleum Fund for long-term savings, and for financing current spending. It is worth noting that the policy does not provide clear guidelines on how large each share will be.<sup>48</sup>

The Public Finance Management Act of 2015 (Part VIII (sections 56—75)) states that all collections and government shares of petroleum revenues shall be deposited in the Petroleum Fund (section 56 (2)) and any withdrawal from the fund shall not exceed the amount authorized by Parliament or granted by an Appropriations Act and a warrant of the Auditor General (section 58). While the objective is to provide safeguards for the withdrawal of funds, it is not strong enough to deter abuse. Without specifically stating an absolute cap of withdrawal permitted, this leaves room for the manipulation of Parliament—especially by the Executive using its majority vote—which could result into withdrawal over and above what would have been ideal.<sup>49</sup>

## 4.4 Income Taxpayers

The number of registered income taxpayers for the URA has increased from 17,083 in 2009/10 to 762,809 in 2014/15 (see Table 5). This implies that only 2.2 percent of Uganda’s population (of around 35 million people) is registered to pay income tax.

**Table 5: URA income taxpayer registrations**

Fiscal Year	Individuals (new registrations)	Non-individuals <sup>2</sup> (new registrations)	Accumulated Taxpayer Register
2009/2010	7,182	9,901	17,083
2010/2011	33,807	8,002	58,892
2011/2012	57,417	10,284	126,593
2012/2013	108,178	8,650	243,421
2013/2014	365,758	9,658	618,837
2014/2015	132,860	11,112	762,809

Source: URA (2015), Annual Revenue Report, FY2014/15<sup>50</sup>

The URA has made taxpayer service delivery a key element of its reform programme. The Taxpayers’ Charter (2009)<sup>51</sup> spells out the rights and obligations of taxpayers and guides the URA in upholding and enforcing them. There has been an increase in the number of tax returns filed in Uganda, in part due to improvements in the URA’s communications through: URA taxpayers’ days; tax clinics; annual Taxpayers’ Appreciation Weeks; annual client satisfaction surveys; and press releases in the media. Nonetheless, there continue to be complaints among taxpayers that tax laws and their associated procedures are not ‘friendly’ for some categories of taxpayers in terms of both complexity and the language used.

**Table 6: Returns filed, by tax type, FY 2014/15**

Return type	Number
Income tax provisional return for individuals	18,884
Income tax provisional return for non-individuals	19,279
Income tax return form for individual taxpayers	6,869
Income tax return form for non-individuals	22,311
Income tax return form for Partnerships	560
Income tax return form for individuals without businesses	10,922
Income tax return for presumptive taxpayers	2,006
PAYE return form	142,368
VAT return form	158,687

Source: URA (2015), *Annual Monitoring and Evaluation Report for FY 2014/15*<sup>52</sup>

## 4.5 Informal Sector

The existence of a large informal sector means that tax rates are higher for those in the legal, regularized or formal economy.<sup>53</sup> Informal business activity often arises because of the inadequacies of legal systems in formal registration. Obtaining insurance, formalizing employment relationships and advertising can all be difficult when a business is not legally registered.

Uganda's fast-growing informal sector accounts for 43.1 percent of the country's GDP. Informal businesses are normally characterized by an absence of final accounts, having few employees and no fixed location, being unregistered, and often operational for less than a year.<sup>54</sup> The 2009/10 Uganda National Household Survey showed that, out of the estimated 6.2m households covered, 1.2m (21 percent), had an informal business. The majority of these were in the agricultural sector (27 percent), followed by trade and services (24 percent), with only few in mining and quarrying (1 percent) and fishing (1 percent).<sup>55</sup>

In the 2013/14 budget speech, the Minister of Finance Planning and Economic Development proposed a framework through which URA would collaborate with the Uganda Registration Services Bureau (URSB), the Kampala Capital City Authority (KCCA) and local governments to identify taxpayers and collect taxes from small businesses that currently hard to reach.<sup>56</sup>

This collaboration, called the Taxpayer Register Expansion Project (TREP), was signed off in January 2014, and is expected to expand URA's tax register by 103,570, and generate UGX 12.9bn (US\$4.6m) in new revenue. The TREP exercise first ran as a pilot in Kampala. It started with mobile offices comprising teams from the three organizations placed at the city's five divisional offices.<sup>57</sup>

While the above initiative has the potential to raise tax revenues from the informal sector, most regulatory bodies are struggling with enforcement due to inadequate staffing and financial resources.

## 4.6 Tax Exemptions

The government is providing a wide range of tax incentives<sup>12</sup> to attract greater levels of foreign direct investment, as part of the wider tax competition among the members of the EAC, following its re-establishment in 1999. This has created a larger regional market, and means that firms can be located in any EAC country to service the whole market.<sup>58</sup>

Uganda's fiscal incentive package for foreign investors provides generous capital recovery terms, particularly for medium- and long-term investors whose projects entail significant plant and machinery costs and involve significant training.<sup>59</sup> For example, an investor importing any plant, machinery, equipment, vehicles or construction materials for an investment project is exempted from import duties and sales tax. Investors also receive a VAT refund on building materials for industrial/commercial buildings and are given 'first arrival privileges' in the form of duty exemptions for personal effects and a motor vehicle (previously owned for at least 12 months).<sup>13</sup> However, in the 2014/15 national budget, some of the tax incentives were removed, for example start-up capital is no longer tax exempted, and locally sourced raw materials now attract 18 percent VAT (they were previously zero-rated).<sup>60</sup> Uganda's finance minister has the power to grant tax and non-tax incentives, as well as waive the tax due depending on the reasons and evidence provided by the URA Commissioner-General.

A study by the African Development Bank estimated that Uganda was losing at least 2 percent of GDP in revenues due to tax incentives.<sup>61</sup> This would be UGX 690bn (US\$340.09m)<sup>62</sup> in 2009/10—equivalent to nearly twice Uganda's health budget.<sup>63</sup> However, new and even higher figures were reported by the URA in 2015, when total revenues foregone as a result of tax exemptions in FY 2013/14 amounted to UGX 1.6tn (US\$630m), which is equivalent to 2 percent of GDP, and four times larger than the UGX 383bn (US\$151m) agricultural budget.<sup>64</sup>

Uganda's Constitution (Article 152(2)) obliges the Minister of Finance to provide information on how much tax the government directly paid on behalf of some taxpayers.<sup>65</sup> However, parliament cannot legally reverse the minister's decisions; therefore, the proper and equitable use of these broad discretionary powers is open to abuse. Uganda does not have a clear policy about how tax incentives and exemptions should be awarded or measured.<sup>66</sup> There is considerable secrecy and apparently no objectivity in arriving at tax exemption rates, which can range from 0 percent to 100 percent. On top of that, the list of exemptions can differ from one investor to another.<sup>67</sup>

## 4.7 Illicit Financial Flows

Illicit financial flows (IFFs) are money illegally earned, transferred or used, by means including: undocumented commercial transactions or purely criminal activities such as overpricing, transfer pricing, tax evasion, money laundering, corruption and false declarations. A global financial report released in 2013 revealed that Uganda loses an average of US\$509m in illicit outflows per year.<sup>68</sup>

In 2012, the High-level Panel on IFF chaired by former South African President Thabo Mbeki, was created<sup>14</sup> and tasked with, among other things, determining the nature and patterns of IFF from Africa and propose policies and mobilize support for practices that would reverse them. The Panel presented and adopted their findings and recommendations in a report titled 'Track it. Stop it. Get it.'

<sup>12</sup> The terms 'exemptions' and 'incentives' are used interchangeably in this report. 'Incentives' is more commonly used to denote tax reductions to encourage investment; however, exemptions, which are often simply reductions in tax to benefit certain domestic groups, can also fall into this category.

<sup>13</sup> Section 24 Investment Code Act Cap 92

<sup>14</sup> Following Resolution L8 of the Fourth Joint Annual Meetings of the Economic Commission for Africa (ECA) Conference of African Ministers of Finance, Planning and Economic Development and African Union Conference of Ministers of Economy and Finance.

at the 24th African Union Summit in Addis Ababa in January 2015<sup>69</sup>.

Uganda is among the countries that adopted the Mbeki Panel report. One of its recommendations was to establish or strengthen the independent institutions and agencies of government responsible for preventing IFFs. The Uganda Financial Intelligence Authority is the institution mandated with tackling IFFs in Uganda.<sup>70</sup>

## 4.8 Recommendations

- New economic innovations, such as e-commerce, should be identified and brought within the tax regime.
- The central government should establish mechanisms for tracking and recording all tax revenues collected by local governments to be included in TTR.
- The government should initiate reforms aimed at enhancing NTR collection, recording and management.
- The government should review all NTR sources (fees and fines) to ensure that they are commensurate with current economic conditions.
- In order to increase transparency and accountability in the oil sector, the government should sign up to the Extractive Industries Transparency Initiative,<sup>15</sup> which obliges member states to routinely disclose information.
- The government should formulate and implement policies that allow self-employed people and small businesses to formalize their arrangements easily. Such policies include reducing business compliance regulation, tax amnesties with a cutoff date for compliance, providing limited tax shelters for small-scale informal activity, and allowing businesses to formalize using simple 'off the shelf' models.
- Efforts should be focused on improving the investment climate by offering more non-fiscal incentives, such as improving infrastructure (roads and reliable electricity), access to markets, reducing bureaucracy and training skilled labour.
- The government should take greater steps towards streamlining tax exemptions and incentives, with clear procedures and a coordinating unit in Uganda and across the EAC region to address harmful tax competition.
- The government should strengthen the Uganda Financial Intelligence Authority to effectively tackle IFFs and work with other institutions such as banks and CSOs to track and stop them.
- The URA should strengthen its capacity to curb IFFs and eliminate transfer pricing.
- CSOs need to document and advocate for increased oversight by the government and relevant agencies of financial flows both legal and illegal.

15 The Extractive Industries Transparency Initiative is a global initiative guided by a set of principles and criteria that provides a framework and monitoring mechanism under which resource-rich countries can ensure the transparency of revenue flows from their natural resource sectors. <https://eiti.org/>

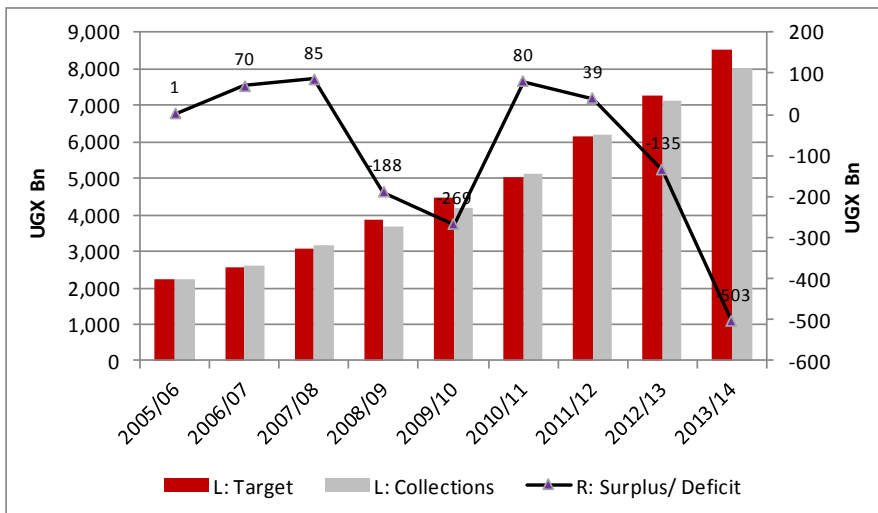
## SECTION 5:

# EFFECTIVENESS OF TAX ADMINISTRATION

### 5.1 The Tax Gap

URA tax revenue targets are based on macroeconomic indicators (e.g. growth rate, inflation, interest rates and foreign exchange rates), tax policy changes and tax administration efficiency measures. Over the past decade, the performance of the URA has been mixed, with some years seeing surpluses, and others registering shortfalls (see Figure 12).

**Figure 12: Net URA collections**



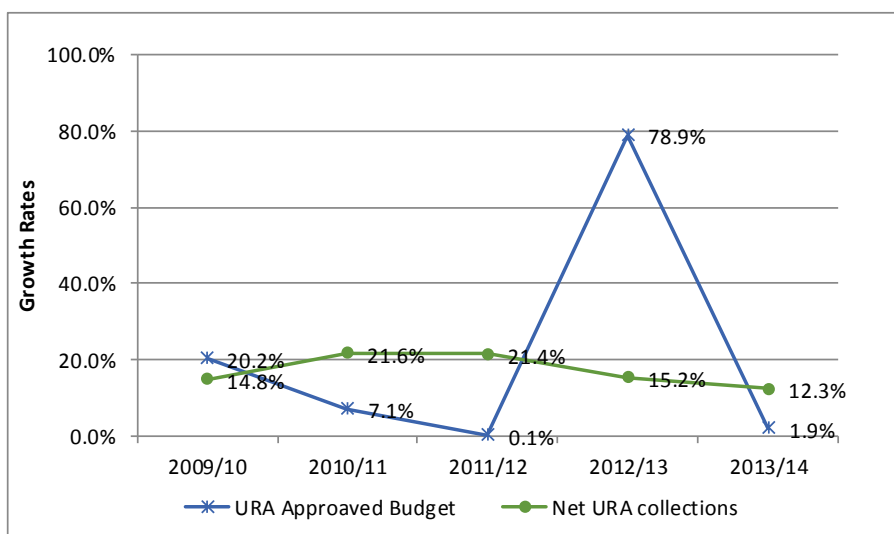
Source: Author's calculations based on URA Statistics<sup>71</sup>

The low figure for 2013/14 was largely due to a shortfall in CIT. The VAT on goods and services also significantly underperformed, and excise duty also registered a deficit. These shortfalls were attributed by the government to a significant slowdown in economic activity in general.<sup>72</sup>

### 5.2 Resources used in Tax Collection

Between 2009/10 and 2013/14, the budget allocation for URA has increased by an average of 22 percent; however, during the same period, its net collections increased on average by just 17 percent (see Figure 13).

**Figure 13: Growth rates in net URA collections and budget**



Source: Author's calculations based on URA Statistics<sup>73</sup> and MoFPED budgets

### 5.3 Cost of Tax Collection

Between 2008/09 and 2013/14, the cost of tax collection averaged 2.31 percent—i.e. it costs UGX 24,454 (US\$9) to collect UGX 1m (US\$354) worth of tax (see Table 7). This fits within the sub-Saharan average of 2–3 percent, but is much higher than the OECD average of 1 percent.

**Table 7: Cost of tax collection**

	FY2009/10	FY2010/11	FY2011/12	FY2012/13	FY2013/14
URA budget (UGX bn)	107.99	115.69	115.77	207.12	211.05
US\$ mn	53.2	49.8	45.2	80.0	83.1
Net URA collections (UGX bn)	4,205.69	5,114.20	6,208.35	7,149.48	8,031.03
US\$ mn	2,072.9	2,201.1	2,426.0	2,761.5	3,163.9
Cost of tax administration	2.40%	2.11%	1.91%	2.71%	2.4%

Source: Author's calculations based on URA Statistics<sup>74</sup>, URA Annual M&E Report FY 2013/14 and MoFPED budgets

Major administrative reforms since 2005 have brought down the number of departments in the URA from 21 to seven, which are: corporate affairs, domestic taxes, tax investigations, customs, internal audit and compliance, legal services and board affairs, and the Commissioner-General's office. Each department is headed by a commissioner.

In FY 2014/15, the URA employed 2,340 staff.<sup>75</sup> Each officer handled over 600 taxpayers. A large taxpayer-staff ratio has implications on service delivery and constrains revenue administration. The



sharp rise in the ratio in FY2014/15 is a result of the expansion of the taxpayer register in FY2013/14, which aimed to bring more people into the tax net in collaboration with local governments (see Table 8).

**Table 8: URA staff numbers and taxpayer-staff ratios**

Fiscal year	Individuals (new registrations)	3Non-individuals (new registrations)	Accumulated Taxpayer Register	All URA Staff	Operations department	Taxpayer-to-operations staff ratio
2009/2010	7,182	9,901	17,083	1,991	1,565	10.9
2010/2011	33,807	8,002	58,892	1,923	1,511	39.0
2011/2012	57,417	10,284	126,593	2,020	1,588	79.7
2012/2013	108,178	8,650	243,421	2,274	1,787	136.2
2013/2014	365,758	9,658	618,837	2,252	1,770	349.6
2014/2015	132,860	11,112	762,809	2,340	1,839	414.7

Source: URA Reports<sup>76</sup>

The URA has segmented taxpayers according to turnover. The Large Taxpayers Office has two specialized units: the International Taxation Unit and the Natural Resource and Minerals Unit. In FY2014/2015, the Large Taxpayers Office collected 61.5 percent of revenue collected by the Domestic Taxes Department.

The International Taxation Unit was primarily setup to track and avoid substantial CIT revenue loss caused by aggressive tax planning by multinational corporations. It has been critical in ensuring that transfer pricing is handled using the 'arm's length' principle.<sup>16</sup> It thus keeps abreast of, and helps to respond to, the dynamic business environment, increasing globalization and international trade, and international e-commerce.

The URA has greatly improved tax administration, but there is still a lot to be done in order for it to collect taxes from all income earners. There are a number of income earners especially in the informal sector who are not taxed.

## 5.4 Recommendations

- The government should increase the URA's ability to execute its mandate. Effective tax administration requires qualified tax officials with requisite skills to maintain these systems and operate them to their fullest potential. Since the market value of these professionals is high, mechanisms to pay them competitive salaries need to be developed as well.
- As the URA advances its strategies to reach hard-to-tax sectors, it must be careful to uphold fairness, progressivity and the principles of equity in order not to hurt socioeconomic standards at lower income earners.

<sup>16</sup> The 'arm's-length principle' of transfer pricing states that the amount charged by one related party to another for a given product must be the same as if the parties were not related. An arm's-length price for a transaction is therefore what the price of that transaction would be on the open market. Information from USTransferPricing.com.

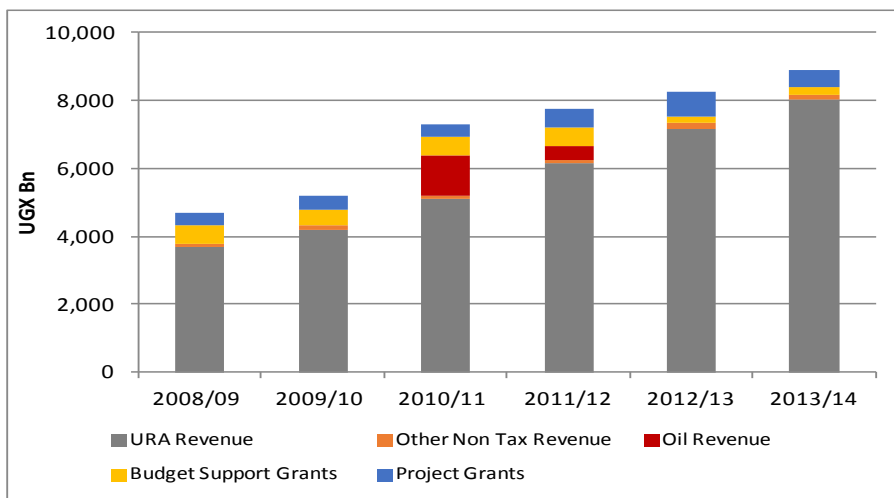
## SECTION 6:

# GOVERNMENT SPENDING

### 6.1 Sources of Government Income

The total revenue for the Government of Uganda increased from UGX 4.7tn (US\$2.42bn) in 2008/09 to UGX 10.6tn (US\$3.76bn) in 2014/15, largely due to an increase in URA revenue, constituted an average of 79 percent of total government revenues over the period. Figure 14 shows trends in government revenues by sources—oil revenues between 2010 and 2012 were a result of oil capital gains tax.

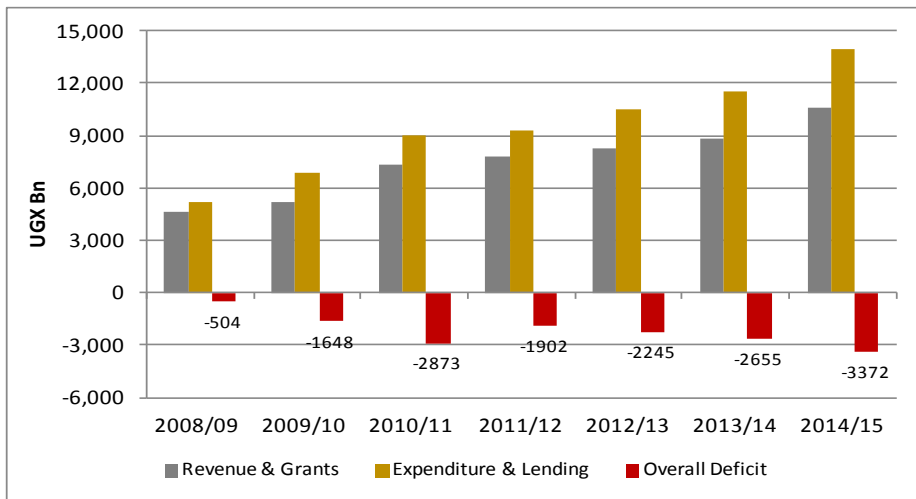
**Figure 14: Government revenues by source**



Source: Author's calculations based on MoFPED reports<sup>77</sup>

Despite the increase in government revenue, spending has continued to outstrip it throughout, leading to an increase in the annual budget deficit. The latter increased from UGX 503.6bn (US\$260.9m) in 2008/09 to UGX 3.4tn (US\$1.2bn) in 2014/15 (see Figure 15).

**Figure 15: Government revenues versus spending**



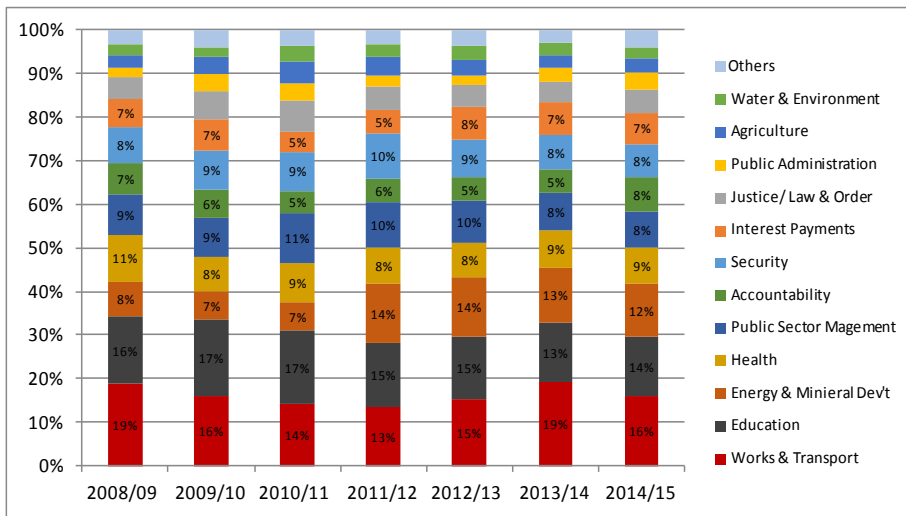
Source: Author's calculations based on MoFPED reports<sup>78</sup>

Due to these low domestic revenues, the government mainly finances most infrastructure investments through internal and external borrowing. By the end of FY2012/13, the estimated total public debt stood at US\$6.4bn, or 29.1 percent of GDP. Although the IMF and World Bank believe Uganda's public sector debt is sustainable,<sup>79</sup> there are concerns over long-term sustainability, in light of Uganda's continued reliance on non-concessional financing for infrastructure investment needs.

## 6.2 Government Spending

Uganda's total government spending has increased from UGX 5.8tn (US\$3.0bn) in 2008/09 to UGX 15tn (US\$5.3bn) in 2014/15. Considerable resources are devoted to priority infrastructure investments identified in the NDP, particularly in energy and mineral development, works and transport, and education. However, public administration, sector management and interest payments also take a considerable amount of the national budget (see Figure 16).

**Figure 16: Sectoral budget allocations of government spending**



Source: Author's calculations based on MoFPED reports<sup>80</sup>

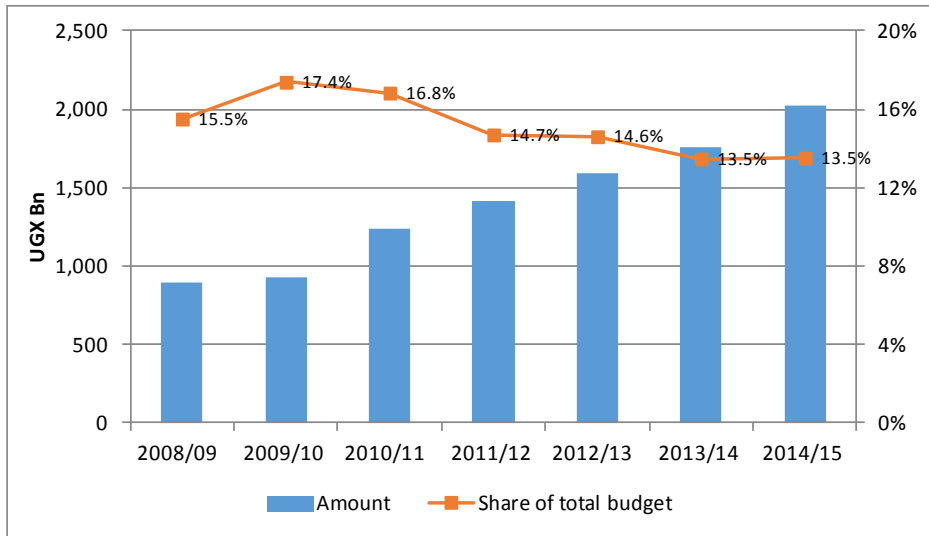
The high spending on public administration and sector management is largely due to the bloated political administration of Uganda, with its large number of ministers, presidential advisors, residential district commissioners, members of parliament, and the proliferation of local governments. High spending on Interest payments is largely due to increased non-concessional borrowing to finance mainly infrastructure (energy and roads) developments.

Such spending on public administration and interest payments impacts negatively on government spending in service delivery sectors, such as health and education, and productive sectors like agriculture. Health, education and agriculture are key to the livelihoods of most Ugandans. For example, in 2001 under the Abuja Declaration, heads of state of African Union countries met and pledged to set a target of allocating at least 15% of their annual budget to improve the health sector<sup>81</sup>. In addition, in 2003, African Heads of State and Government committed to the allocation of at least 10 percent of national budgetary resources to agriculture and rural development policy implementation within five years<sup>82</sup>.

### 6.3 Education Spending

The government's budgetary allocations for the education sector have increased over the last decade from UGX 899.3bn (US\$466m) in 2008/09 to UGX 2.0tn (US\$718m) in 2014/15. However, the share of the total budget given to education has declined over this period, albeit averaging around 15 percent (Figure 17). This is partly attributable to a shift in government priority towards infrastructure development in energy and roads. Figure 18 shows how this breaks down by education sub-sector.

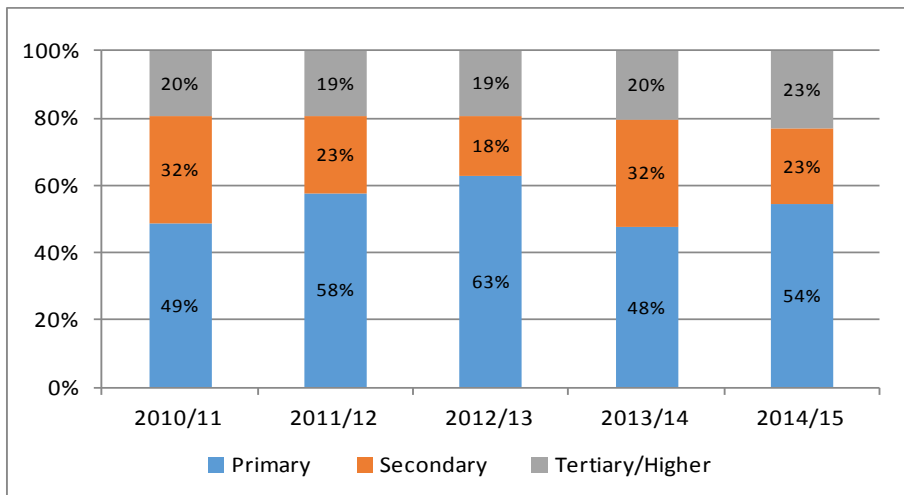
**Figure 17: Government education sector spending**



Source: Author's calculations based on MoFPED reports<sup>83</sup>

Due to the nature of education, recurrent spending makes up 82 percent of its budget, of which 72 percent is wages and salaries. Development spending is 18 percent.

**Figure 18: Intra-sectoral education sector spending**

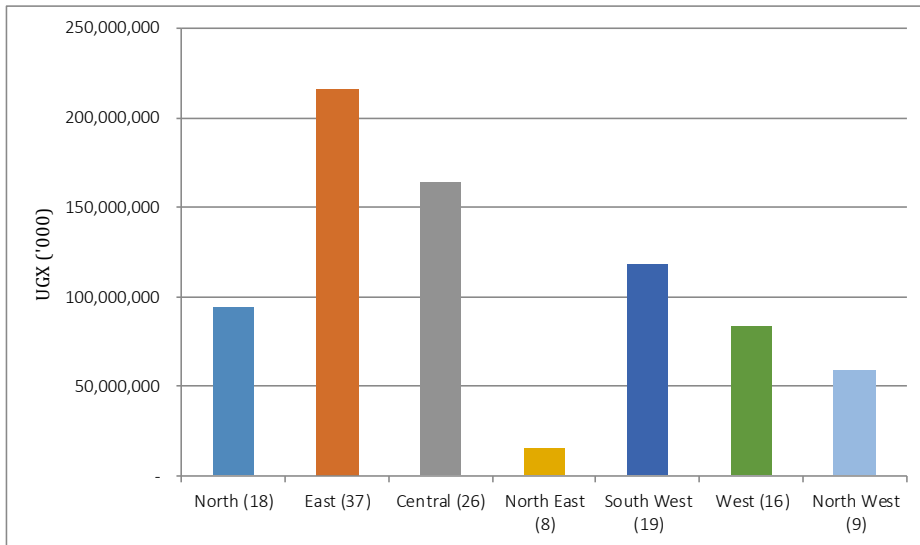


Source: Author's calculations based on MoFPED reports<sup>84</sup>

### 6.3.1 Education spending by region

Under the decentralization framework, local governments are required to deliver the majority of government programmes, using money transferred as grants from the central government. The size of the transfers corresponds to the number of districts within each region, with the highest amounts going to the East region, followed by Central, South West, North, West, North West, and North East. Figure 19 shows the size of the education releases to the local governments by region.

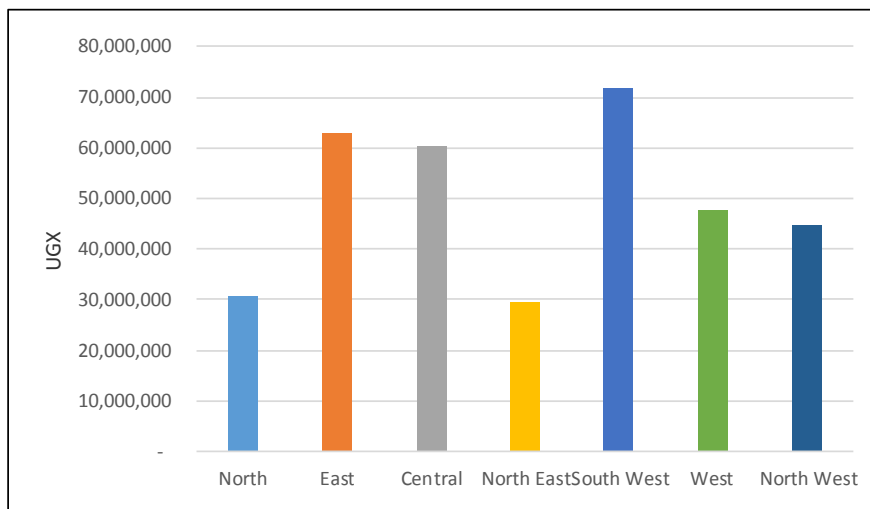
**Figure 19: Central government education transfers to local governments by region, FY2013/14**



Source: Author's calculations based on MoFPED reports<sup>85</sup>

The region with the highest per child<sup>17</sup> education spending was South West, followed by East, Central, West, North, and North East (see Figure 20).

**Figure 20: Per child spending on education by region, FY2013/14**



Source: Author's Calculations based on the MoFPED reports<sup>86</sup>

It should be noted that the North and North East regions of Uganda are the most underdeveloped, with low human development indicators and high levels of poverty. These regions also experience

<sup>17</sup> Per capita figures calculated based on the projected mid-year (2013) population of children (below 18 years). Population for each region is: East (5,124,342), Central (4,029,214), West (2,549,465), South West (2,359,510), North (2,162,936), North West (1,836,209), North East (770,197). UBOS. (2014). Statistical Abstract 2014.

the highest levels of vulnerability to poverty<sup>87</sup>. However, based on the above analysis, education spending by the central government is not sensitive towards addressing vulnerability.

### 6.3.2 Challenges

Despite the relatively large budget allocation for education, the sector is grappling with inadequate funding. For instance, the annual capitation per child in primary schools is a mere UGX 7,260 (US\$2.6), which has not changed significantly despite inflation and other increases to the cost of delivering education. A study conducted by the Uganda Debt Network in 2013<sup>88</sup> revealed that the government is not even complying with the proposed capitation grant of UGX 7,260—the average most schools are receiving is about UGX 5,000 (US\$1.9).

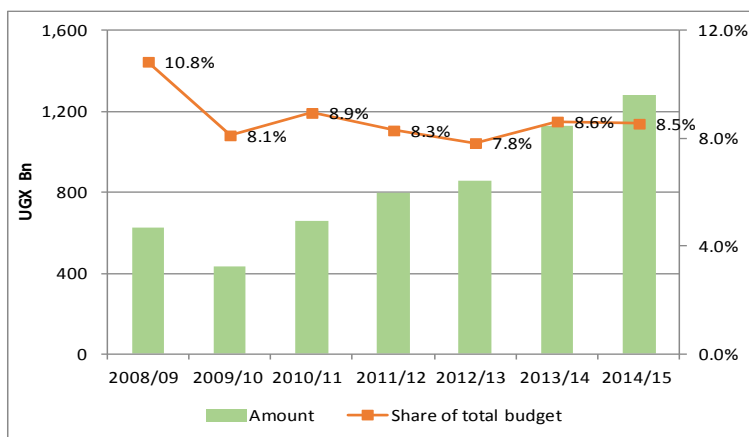
There are also significant concerns about the quality of the education being delivered.<sup>89</sup> There have also high drop-out rates in primary education, with only 33% of pupils completing primary education. These rates have not shown much improvement over the past decade.<sup>90</sup> Similarly, there have been frequent industrial actions by teachers, who have complained about their low pay and marginal or no salary increases for many years.

Although primary education is free, the average household education expenditure for those who send their children to public primary schools is UGX 24,936 (US\$8.8) per year, to cover the cost of the uniform, transport, school supplies and others.<sup>91</sup> However, in some districts the cost of schooling is much higher. There are many parents in rural areas who cannot afford these costs, resulting in their children dropping out.

## 6.4 Health Spending

The government’s budgetary allocations for the health sector have increased over the last decade from UGX 628.5bn (US\$325.6m) in 2008/09 to UGX 1,281.1bn (US\$453.8m) in 2014/15. However, the share of the total budget given to health has declined over this period, from 10.8 percent in 2008/09 to 8.5percent in 2014/15 (see Figure 21).

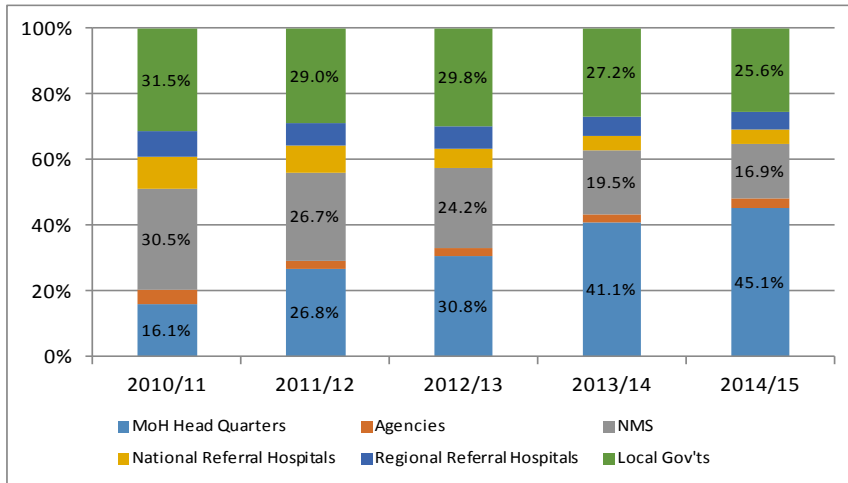
**Figure 21: Government health sector spending**



Source: Author’s Calculations based on MoFPED reports<sup>92</sup>

Most spending in the health sector has gone to the Ministry of Health headquarters, local governments, and national medical stores. The high allocation for the ministry headquarters can be partly attributed to the fact that most donor projects are implemented there (see Figure 22).

**Figure 22: Intra-sectoral health sector spending**



Source: Author's Calculations based on MoFPED reports<sup>93</sup>

## 6.4.1 Health spending by region

Under the decentralization framework, local governments are required to provide most healthcare services; however, their allocation is less than 30 percent of the sector's total budget. These allocations are inadequate to effectively deliver the minimum health package, which is exacerbated by delays in disbursements to local governments. Funding to regional referral hospitals remains inadequate and has remained fairly constant over the past four years<sup>94</sup>. Consequently, the healthcare system in Uganda performs very poorly.

## 6.4.2 Challenges

The current per capita health spending is about US\$12. This is below the Ministry of Health's strategic investment target of US\$17<sup>95</sup> and US\$34 recommended by Macroeconomics and Health (CMH) of the World Health Organization<sup>96</sup>. On more concrete matters, Uganda is not doing well at reducing child mortality, improving maternal health, and combating HIV/AIDS, malaria and other major diseases.

The low funding to the sector disproportionately affects people who cannot afford alternative providers of healthcare. The 2012/13 Uganda National Household Survey showed that 40 percent of people suffered from an illness or injury.<sup>97</sup> The same survey showed that 42 percent of patients visited government health facilities. However, over 51.1 percent of the poorest households (in the lowest welfare quintile) went to government health facilities compared to 21.9 percent for the richest households (highest welfare quintile).<sup>98</sup>



## 6.5 Recommendations

- Oil revenues provide an opportunity for Uganda to expand the fiscal space and increase overall public spending social sectors especially education and health. This will require government to increase the overall allocation to social sectors, prioritizing pro-poor interventions and increasing resources for the local governments that deliver most social services.
- The government must curtail the high cost of public administration, which will free up funds to finance health and education.
- Government funding to the health and education sectors need to be increased considerably, rather than continuing to rely on unpredictable donor projects and funds. This will enable government to effectively implement the Uganda National Minimum Healthcare Package and improve the quality of education in Uganda.
- The health sector should re-structure its budget to ensure that budgetary allocation to local government health services take at least 60 percent of the sectoral budget. In addition, local governments should be given some flexibility in their use of funds. This will enable them to improve healthcare provision for their contexts, especially for primary healthcare.

## SECTION 7:

# TRANSPARENCY AND ACCOUNTABILITY

### 7.1 Information Availability

Information about tax rates and the tax collection system is accessible. The URA's website ([www.ura.go.ug](http://www.ura.go.ug)) provides all the necessary information on registering and paying various forms of taxes and non-taxes. The website also has information on projected and actual tax revenue collections. The URA has endeavored to increase public access to taxation through initiatives such as radio and TV talk shows, distributing brochures, and establishing tax hubs and 'clinics' in various parts of the country.

The URA has a fully functional web portal that facilitates taxpayer registration and the acquisition of Tax Identification Numbers, which were made mandatory for all entities intending to obtain trading licenses in FY2014/15. The web portal also provides information on various services along with key performance statistics. It allows taxpayers to register payments and file tax returns online. The e-tax system introduced by the URA in 2009 facilitates the filing of returns for domestic tax. For international trade taxes, the authority uses a customs data system called ASYCUDA WORLD. Recent trade facilitation improvements include the introduction of an electronic cargo tracking system to track the movement of goods through East Africa, in order to avoid dumping.

However, most of the information is in English, whereas majority of taxpayers cannot easily read and write English. Thus, most taxpayers have a minimal understanding of taxation. For instance, a study by SEATINI in 2013<sup>99</sup> found that very few respondents had accessed information on taxes. Most respondents were mainly aware of the direct and operational taxes, fees and charges such as market dues and trading licences, and less aware of indirect taxes and corporate taxes. Even those who are aware of various types of taxes do not know how they are calculated or assessed, and the majority feel they are not fairly assessed. In addition, only 29 percent of the respondents reported to have a Taxpayer Identification Number. Information about tax exemptions and their beneficiaries is not publicly available, and the procedure for granting them is not transparent (see Section 4.6).

### 7.2 Audit of the Tax Authorities

Although the URA is a quasi-autonomous institution, for budgetary purposes, it is regarded as a department of MoFPED, and is subject to the same financial rules and discipline as other departments. Like other government departments, the URA is audited by the Office of the Auditor General (OAG). The Auditor General's mandate<sup>18</sup> is to audit and report to Parliament on the public accounts of Uganda and all of its public offices—including the courts, central and local government administrations, universities and other public institutions, and any public corporations or other bodies established by an Act of Parliament.<sup>100</sup> Annex 5 provides a summary of OAG findings of URA audit for the year ended 30<sup>th</sup> June, 2015. The Auditor General's reports are uploaded to the OAG's website, and presented to Parliament for discussion by the Public Accounts Committee in the

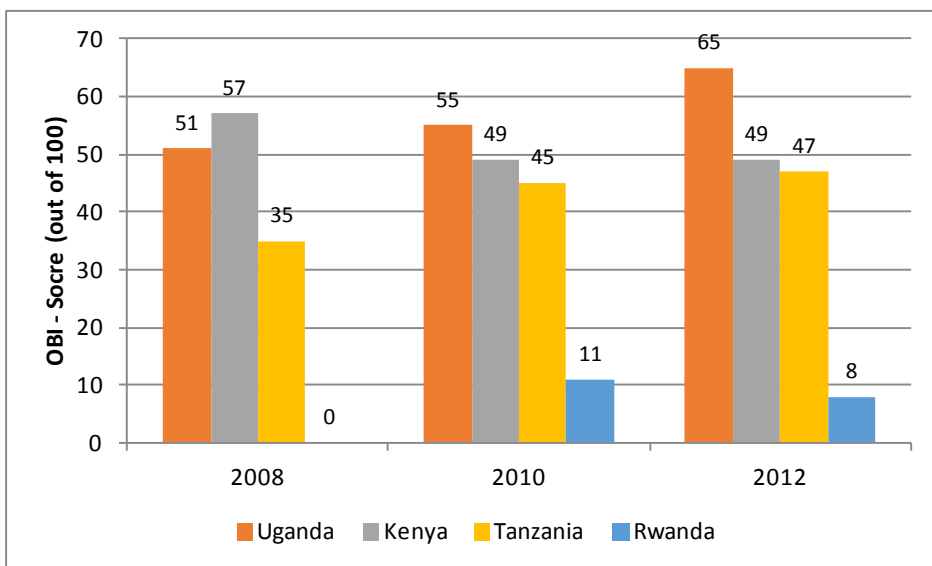
<sup>18</sup> Under Article 163 (3) of the Constitution of the Republic of Uganda and as amplified by Sections 13 (1) and 18 of the National Audit Act, 2008.

presence of the media. The committee ensures that audit findings are followed up and anyone found responsible of corruption are dealt with appropriately.

### 7.3 Budgetary Transparency

Uganda’s national budgetary transparency has improved, as evidenced by its increased score in the International Budget Partnership’s Open Budget Survey<sup>101</sup> (see Figure 23). Its score of 65 out of 100 in 2012 was the second highest in Africa behind South Africa, indicating that the government provides the public with significant information on the national budget and financial activities during the course of the budget year.<sup>102</sup> The government makes public eight key budget documents: pre-budget statements, executive budget proposals, enacted budgets, citizens’ budgets, in-year reports, mid-year reviews, year-end reports, and audit reports. Since 2013, these documents have been published online.<sup>103</sup>

**Figure 23: Comparative scores in Open Budget Survey, 2008–12**



Source: IBP (2013)<sup>104</sup>

MoFPED provides information on the most tax revenue sources individually.<sup>105</sup> These include domestic and international taxes, and NTR. However, some tax revenue sources are not identified individually. This makes it difficult for one to identify the contribution of each revenue source within each block. Similarly, NTR are presented as block figures. A report on loan, grants, and guarantees produced by the MoFPED annually provides information on extra-budgetary funds; however, some details are excluded, especially on pension and social security funds.

As required by the Article 152 (2) of the Constitution of the Republic of Uganda, the Minister of Finance has to periodically report to Parliament on the exercise of powers conferred upon him or her by any law to waive or vary a tax imposed by that law. The Minister usually presents this in the annual budget speech. Table 9 shows some examples of tax expenditures<sup>19</sup>.

<sup>19</sup> revenue losses from special exclusions, exemptions, deductions, credits, deferrals, and preferential tax rates.

**Table 9: Example tax expenditures, 2006–15**

	Amount (UGX)	Amount (US\$m)	Beneficiaries
2006/07	18,650,000,000	10.48	Hotel developers, higher education institutions, NGOs and non-governmental enterprises.
2007/08	25,655,549,160	15.12	Business community in the war-ravaged Northern Uganda, Monitor Publication Limited, Comboni Hospital in Busheyi District, NGOs and Private enterprises involved in the hotel sub-sector
2008/09	25,700,000,000	13.32	NGOs and private enterprises involved in the hotel sub-sectors.
2009/10	15,181,390,968	7.48	Private enterprises in the hotel sub-sector
2010/11	16,728,468,580	7.20	Hotels, some hospitals and tertiary institutions and NGOs
2011/12	18,691,920,672	7.30	Some hospitals and tertiary institution inputs and material procurement by NGOs
2012/13	11,601,542,443	4.48	Some institutions and NGOs
2013/14	14,035,467,908	5.53	Pride Micro Finance Limited; Uganda Development Bank Limited; Gulu Independent Hospital; Hotels, Textile Manufacturers, Hospitals and Tertiary Institutions, and Non-Government Organizations

Source: MoFPED Budget Speeches (2008/09 – 2015/16)

## 7.4 Grievance Mechanisms

The Taxpayers' Charter (2009)<sup>106</sup> is a document developed by the URA in close cooperation and consultation with stakeholders and clients. It addresses the fundamental rights and obligations of taxpayers and the URA in fulfillment of their responsibilities. The Charter states that the URA shall attend to each taxpayer's objections in accordance with the relevant laws and procedures. They also facilitate taxpayers exercising their right of appeal both within the organization and to an independent tax tribunal in accordance with the law.<sup>107</sup> There are a number on mechanisms for handling tax disputes.

### 7.4.1 Compromises

Compromises are not clearly described in the ITA; they are an administrative measure intended to enable a taxpayer and the URA to settle their dispute amicably. Compromises can be reached in two ways:

After assessing that the tax liability and/or payable amount is too high for the taxpayer, they can write

to the Commissioner-General (CG) requesting to pay their tax in installments. Such an applicant has to specify the kind of installment they are able to pay and reasons why they choose such installments. The CG may accept, reject or amend the request.

The finance minister, on the advice of the CG, may remit in whole or in part any penal tax payable. When properly implemented, compromises enhance taxpayers' rights because they encourage settlements out of court and reduce litigation costs.<sup>108</sup>

### 7.4.2 Objecting to the Commissioner-General

Section 100 of the ITA provides that within 45 days of the date of assessment, a taxpayer may file with the CG an objection. After considering the objection, the URA may allow in whole or in part the assessed tax, or amend their assessment accordingly. The ITA does not specify the time within which the decision should be made. It only states that the CG shall serve the taxpayer with a notice on the decision as soon as practicable. This may be prejudicial to a taxpayer especially in the case of a legitimate objection to excessive taxation.<sup>109</sup>

### 7.4.3 Appeal to the Tax Appeals Tribunal

The primary mission of the Tax Appeals Tribunal (TAT)<sup>20</sup> is to provide the taxpayers with easily accessible, efficient, fair and independent means of tax arbitration. It gives taxpayers an opportunity to settle disagreements with the URA. However, it is important to note that before a taxpayer exercises their right to apply for review to the tribunal, all channels of objections available in the relevant tax Act must first be exhausted.

Among the landmark rulings made by the TAT was that of *Tullow Oil v Uganda Revenue Authority* on 16 June 2014.<sup>110</sup> Following the completion of the sale of 66 percent of its assets in Uganda to the China National Offshore Oil Corporation and Total in 2012, Tullow was issued with a capital gains tax assessment by the URA of approximately UGX 1.22bn (US\$472m). Tullow appealed to the TAT. However, the TAT ruled against Tullow on the key issue of the express tax exemption contained in the Production Sharing Agreement for Exploration Area 2 (EA2 PSA). The TAT calculated Tullow's liability for the sales—including certain reliefs—to be UGX 1.05bn (US\$407m).<sup>111</sup>

### 7.4.4 Appeal to civil courts

A taxpayer aggrieved by a decision by the TAT has a right to appeal to the High Court. A taxpayer, who is dissatisfied with the decision of the High Court, may appeal against a decision of the High Court to the Court of Appeal. A taxpayer that is not satisfied with the decision of the Court of Appeal can further appeal to the Supreme Court. The Supreme Court is the final court of appeal in Uganda.

## 7.5 Corruption

The URA was established to limit direct political interference in the day-to-day operations by the Ministry of Finance and to free the tax administration from the constraints of the civil service system, especially by allowing them to pay salaries above civil service pay scales and to more easily recruit, promote and dismiss staff. Such steps were expected to provide incentives for greater job motivation and reduced corruption.<sup>112</sup> After marked successes in the first years after its creation, revenue has dropped as a share of GDP (see Section 4.1). The large gap between the tax paid on overall earnings

<sup>20</sup> The TAT was established under Article 152 (3) of the 1995 Constitution of Uganda. Other provisions for the TAT are included in: The Tax Appeals Tribunal Act 77; Sections 33A, 33B, 33C and 33D of the VAT Act, 1997 as amended; Sections 99, 100 and 101 of the ITA as amended; and Sections 229, 230 and 231 of the EAC Customs Management Act 2004.

in the country and the tax expected to be paid on income-generating activity is concerning. There could be several reasons for this, including corruption, tax avoidance, and tax evasion.

Opportunities for corruption among tax officials arise in the context of corrupt networks, wage differentials, corrupt management, and in the context of poor internal detection and punishment mechanisms. Officials' corrupt actions often take one of two forms: they are either abusive, whereby officers extort from honest taxpayers; or are collusive, in which case they engage with the corrupt behavior of tax avoiders.<sup>113</sup> The establishment of the URA with comparatively generous remuneration packages and substantial budgets has not protected it from political interference. To the contrary, it has made the revenue administration a more attractive target because the authority offers both relatively well paid jobs and considerable rent-seeking opportunities.<sup>114</sup>

A 1998 survey of 243 businesses in Uganda showed that the frequency of bribe-paying increased with firm size. The burden of bribe extortion by public officials, however, was heaviest for medium-sized firms (26-75 employees). These medium-sized enterprises paid what amounted to an average of 3.5 percent of their sales in bribes—comparable to 60 percent of what the company actually paid in taxes.<sup>115</sup> As a consequence of rampant corruption in revenue administration more generally and the competitive disadvantage this causes specifically, the distributive function of tax collecting is itself undermined.<sup>116</sup>

Currently, the URA has computerized tax processes which have both improved administration and reduced the contact between taxpayers and tax officials in order to counter corruption.

## 7.6 Recommendations

- The government should improve the legal framework to weed out possibilities for tax avoidance. The best people to do so would be the very tax lawyers and consultants who make a living helping firms and individuals to 'creatively' minimise their legal tax burden. Therefore, the government needs to provide attractive remuneration packages to lure them to the other side.
- To limit tax evasion, reforms must concentrate on simplifying complex tax laws and addressing distrust between taxpayers and tax officers.
- The government should be persuasive and far-reaching in their awareness-raising campaigns. This can be done by trying to engage the large informal economy through persuasive education on tax matters.
- 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.<sup>117</sup>
- The government 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. Allowing a tax administration to reform itself without addressing the concerns of taxpayers and citizens would result in an incomplete change process.
- Taxpayer associations, trade unions, business communities and CSOs must also play a role in pressing for improved services.
- The URA needs to increase transparency and access to information as well as improving accountability in relationships between taxpayers and tax officers.

## SECTION 8:

# CONCLUSIONS

Over the last two decades, Uganda has been undertaking tax reforms geared towards broadening the tax base, increasing the efficiency of collection and ensuring equity of taxation. The early years of these reforms yielded significant results—as seen in a rise in the tax-to-GDP ratio from 7 percent in 1992 to 11.5 percent in 1998. However, in recent years, this progress has stagnated at around 11.7 percent. This is largely due to problems in tax administration (corruption, tax evasion, and avoidance) and the failure to tax the country's large informal sector.

Uganda's tax regime is largely regressive in nature. The country depends largely on indirect taxes (e.g. excise duty, and VAT), which contribute about three quarters of total tax revenues. In addition, Uganda's narrow tax base means that revenues have come mostly from a few people, especially those engaged in formal businesses and salaried employees, thus making the tax burden quite high on these taxpayers.

Due to lack of a clear policy on how tax incentives and exemptions are awarded, Uganda is losing a huge amount of revenue. According to the URA, total revenue foregone in FY2013/14 as a result of tax exemptions amounted to UGX 1.6tn (US\$630m), which is 2 percent of GDP.

Despite the increase in government revenues from UGX 4,671.50bn (US\$2.42bn) in 2008/09 to UGX 10,617.60bn (US\$3.76bn) in 2014/15, government spending outstrips revenues, which has led to the widening of the overall budget deficit. The government mainly finances this deficit through borrowing both internally and externally. There are concerns over long-term debt sustainability, in light of Uganda's continued reliance on non-concessional financing for infrastructure investment needs.

# ANNEXES

## Annex 1: International Trade Taxes

Tax Head	Rates	Products
Petroleum duty	UGX 200 (US\$0.07), UGX 1,000 (US\$0.35), UGX 680 (US\$0.24) per litre	Kerosene, petrol and diesel, respectively
Import Duty	0 percent	Imports from within the EAC
	4 percent	Semi-finished products from within COMESA
	6 percent	Finished products from within COMESA
	10 percent	Semi-finished products from countries outside the EAC and COMESA
	25 percent	Finished products from countries outside the EAC and COMESA
	Greater than 25 percent but less than 75 percent	Sensitive goods
VAT on imports	18 percent	All VATable imports
Excise duty	10 percent	Excisable imports
Surcharge on used imports	15 percent	Used worn clothing
	35 percent	Motor vehicles, 5–10 years since manufacture
	50 percent	Motor vehicles older than 10 years since manufacture
Re-export levy		
Withholding tax	6 percent	
Fish export levy	15 percent	Export of unprocessed fish
Hides and skins export levy	15 percent	Unprocessed hides and skins
Tobacco export levy	\$0.20 per kg	Unprocessed tobacco

Source: Republic of Uganda (2015), Uganda Income Tax, Cap 340 (Amendment 2015)



## Annex 2: Uganda's Excise Duty Rates

Commodity	Tax base	Tax rate(s)	Exemptions	Remarks
Cigarettes	<p>Ex-factory price (for advalorem rate)</p> <p>Per mille – above 70mm (for specific rate)</p>	<p>Hinged packets: UGX 45,000 (US\$ 15.94)</p> <p>Lidded packets: UGX 75,000 (US\$ 26.57)</p>	Duty-free sales and exports	<p>Increased from UGX 22,000 (US\$7.79), 25,000 (US\$8.86) and 55,000 (US\$19.48) for soft cup, other soft cup and hinge lid respectively in FY 2013/14. Since FY 2014/15, all soft-cup cigarettes have been categorized together.</p> <p>In FY 2015/16, further increments were added from UGX 39,000 (US\$13.81) and UGX 65,000 (US\$23.02) for hinged and lidded packets.</p>
Beer	Ex-factory price on malt beer	60 percent	1. Duty-free sales and exports 2. Locally produced beer whose local inputs are lower than 75 percent of the finished product.	
	Ex-factory price on non-malt beer. [Beer from locally produced inputs.]	30 percent		
Soft drinks	Ex-factory price	13 percent	Duty-free sales and exports	
Spirits	Ex-factory price	60 percent	Duty-free sales and exports	A reduction spirit made from local inputs from to 20 percent

Spirits (not denatured)	Ex-factory price	100 percent or ad valorem duty rate of UGX 4,000 (US\$ 1.42) per litre, whichever is higher	Duty-free sales and exports	This increased from 80 percent, and an ad valorem duty of 2,000
Cosmetics and perfumes	Ex-factory price	10 percent	Duty-free sales and exports	New excise duty introduced in FY2012/13
Phone talk time	Ex-factory price	12 percent	Diplomats (through tax refund system)	
Public payphone talk time	Ex-factory price	5 percent	Diplomats (through tax refund system)	
Sugar	Per kg	UGX 50 (US\$ 0.02)	Sugar imported for industrial use	Increased from UGX 25 (US\$ 0.01) in FY2014/15
Bottled water	Ex-factory Price	10 percent	Duty-free sales and exports	
Cement	Per 50 kg bag	UGX 500 (US\$ 0.18)		
Money transfers	Transfers	10 percent		Introduced on transfer of money by mobile network operators and other money transfer operators
Chewing gum, sweets and chocolates	Quantity produced and imported	10 percent		
Imported furniture		10 percent		Introduced in FY2015/16
Promotional activities	Gross profit	20 percent		For revenue from promotional activities akin in gambling.
Financial services	Bank charges and commissions	10 percent		Introduced in FY2014/15

Kerosene	Per litre	UGX 200 (US\$ 0.07)		Introduced in FY2014/15
Petrol	Per litre	UGX 1000 (US\$ 0.35)		Increased in FY2015/16 by UGX 50
Diesel	Per litre	UGX 680 (US\$ 0.24)		
Motor vehicle lubricants		5 percent		Introduced in FY 2015/16

Source: Republic of Uganda (2015), Uganda Income Tax, Cap 340 (Amendment 2015)

### Annex 3: Value Added Tax (VAT)

Commodity	Tax base	Tax rates	Exemptions
Selected excise goods: cigarettes, beer, soft drinks and spirits	Ex-factory price + Excise duty paid	18 percent 0 percent	Duty-free sales and exports
Non-excisable goods	Gross profits	18 percent	The supply of unprocessed foodstuffs, including agricultural livestock. The supply of postage stamps. The supply of unimproved land. The supply of betting, lotteries, and games of chance, including casinos. Supply of petroleum fuels subject to excise duty (motor spirit, kerosene and gas oil), spirit-based jet fuel and kerosene-based jet fuel The supply of precious metals and other valuables to the Bank of Uganda Contraceptives sheathes and arcaricides The supply of feed for poultry and livestock.
Services	Gross profits	0 percent 18 percent	The supply of educational services. The supply of medical, dental, and nursing services. The supply of social welfare services. The supply of passenger transportation services.

Source: Republic of Uganda (2015), Uganda Income Tax, Cap 340 (Amendment 2015)

## Annex 4: VAT Exempt and Zero-Rated Supplies Dropped In FY2014/15

Previously zero-rated	Previously Exempted
<ul style="list-style-type: none"> <li>● New computers</li> <li>● Computer software and licenses.</li> <li>● Hotel accommodation</li> <li>● Liquefied Petroleum Gas</li> <li>● Feeds for poultry and livestock</li> <li>● Packaging materials for cereals and dairy</li> <li>● Machinery used for the processing of agricultural or dairy products.</li> <li>● Salt</li> <li>● Insurance services, except life and medical insurance</li> <li>● Specialized vehicles, plant and machinery</li> <li>● Feasibility studies, engineering designs, consultancy services and civil works related to hydro-electric power, roads and bridges construction, public water works, agriculture, education and health sectors.</li> </ul>	<ul style="list-style-type: none"> <li>● Printing services for educational materials</li> <li>● Seeds, fertilizers, pesticides, and hoes</li> <li>● Machinery, tools and implements for use only in agriculture</li> <li>● Milk</li> </ul>

Source: Republic of Uganda (2015), Uganda Income Tax, Cap 340 (Amendment 2015)

## Annex 5: A summary of OAG findings of URA audit for the year ended 30<sup>th</sup> June, 2015

Issue Raised	Category	Description
Irregular tax refunds -UGX.4,331,524,576 (US\$1.5m). It was noted that a local company was paid tax refunds of UGX.4,331,524,576. However, the authority is having court cases with the same company regarding irregular tax refund claims. Management did not provide the details of the court cases involving the fraudulent tax refund payments limiting the audit. The prepayment audit reports for these refunds were also not provided for review when requested.	High significance	Has a significant/material impact, has a high likelihood of reoccurrence, and in the opinion of the Auditor General, it requires urgent remedial action. It is a matter of high risk or high stakeholder interest.
Retentions for Supplementary Funds	High significance	
Retentions for Normal Operations	High significance	
Remittance of Un-Spent Balances to the UCF UGX.4,784,227,114 (US\$1.7m)	High significance	
Failure to Bond Staffs Undergoing Specialized and Technical Trainings -UGXv668,250,903 (US\$ 236,698).	Moderate	Has a moderate impact, has a likelihood of reoccurrence, and in the opinion of the Auditor General, it requires remedial action. It is a matter of medium risk or moderate stakeholder interest.
Under staffing. A review of the Authority performance report on page (6) to the financial statements revealed that out of the approved 2,392 posts, only 2,264 were filled leaving 130 posts vacant which representing 5% shortfall.	Low	Has a low impact, has a remote likelihood of reoccurrence, and in the opinion of the Auditor General, may not require much attention, though its remediation may add value to the entity. It is a matter of low risk or low stakeholder interest.
Long Overdue Un-Traced Revenue Collection of—UGX.40,000,000 (US\$ 14,168)	Low	
Delays in Resolving and Recovery of Lost Revenues through Forged Receipts	Low	

Source: OAG: Report of the Auditor General on the Financial Statements of URA- Corporate Services Department for the Year ended 30<sup>th</sup> June 2015

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All links last accessed October 2016, except where specified.

## (Footnotes)

- 1 The income tax rate applicable to mining companies is calculated according to the following formula:  $70 - (1500/x)$ , where  $x$  is the ratio of the company's chargeable income to gross revenues for the year, with a maximum rate of 45 percent, and a minimum of 25 percent.
- 2 These include: companies, government bodies and government funded projects, international and diplomatic organizations, local authorities, and NGOs, among others.

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