PRIVATE SECTOR POSITION ON VALUE ADDED TAX AND INCOME TAX LAW

SUBMITTED BY

PRIVATE SECTOR FOUNDATION UGANDA (PSFU)

To the

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT (MoFPED)

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Crosscutting Issues

a) **Predictability of the tax regime.** We thank the government of Uganda for not adding any new taxes in the FY 2022/23. However, we encourage the government to continue the same trend to enable strategic and long-term investments into the economy. Our proposal is to have a stable tax regime for a period of at least 4-5 years. Moreover, an unstable tax regime constrains business growth thus should not be encouraged.

b) **Tax incentives.** We propose that the tax incentive measures that are put in place to attract FDI should cut across all investors including the nationals.

c) **Interpretation of the tax laws.** Where there are gray areas in the tax laws, the tax administrators interpret the laws to the government's favor. This leaves the private sector most of whom are loyal taxpayers at nobody's mercy. Yet, even accessing the services of Tax Appeals Tribunal requires that the aggrieved party (private sector player) pays 30% of the said tax obligation. Our proposal is that government should always put in place "easy to interpret" laws and clear enforcement guidelines.

d) Tax policy should be focused on economic growth and development rather than regulation and revenue generation

Sn.	ISSUES	PROPOSALS	JUSTIFICATION
		VALUE ADDED TAX ACT	
1.	Standard VAT rating at 18% 18% VAT rate is so high and it reduces consumption. There is a difference in VAT rates at 18% for Uganda and 14% for Kenya.	a) Create three extra bands of VAT; ✓ 5% for Micro, small and social products such as electricity and water ✓ 10% for medium ✓ 18% for large enterprises b) Align VAT to Kenya at 14%	- It affects the consumption of products and services. - Social products i.e., electricity, and water. - Limits widening tax base, while encouraging tax evasion. - Kenya has VAT rate at 14% and yet it's our major trade partner which distorts competition.
2.	VAT on locally made Agro-machinery. Imported machinery benefit from VAT deferment which is not the case for locally made machinery, which pays input VAT, thus making them less competitive locally.	Zero rate VAT on agro-machinery locally made.	- Consistent with import substitution strategy. - Makes the locally made agro-machinery products competitive. - Creates direct and indirect employment i.e., fabricators, and electrical practitioners.
3.	VAT/WHT Refunds for Private Sector.	a) Government should expedite the refund process of the VAT/WHT owed to the Private sector so as to relieve their cash flow constraints. b) GoU should budget and appropriate these resources. c) Advertising companies should also pay 6% WHT instead of presently	• Private Sector rely on borrowed working capital at interest rates averaging over 20%, yet URA is not ably providing the necessary refunds of monies owed in VAT/WHT. • As professional service providers, advertising companies facilitate trade which increases consumption hence widening the tax base.

		10% which is not justifiable given their nature of operations. d) Set up a monitoring mechanism which include the private sector to track implementation.	
4.	VAT on Imported Services which are not locally available	Exempt VAT on imported services that are not locally available "Including software importation and on AMC, engineer fees during warranty period"	The services imported are in many cases not available locally. Therefore, it is only logical to enable businesses to access such services competitively.
5.	Private Sector Associations having to register for VAT yet its mandate and programs are aimed at aiding the private sector development for Uganda as a key imperative for National social economic transformation.	Amend the third schedule of the VAT Act to include the supply of services from the Private Sector association among the zero-rated supplies.	i) It is critical to strengthen associations as a means to private sector development. ii) Enable reduction in operational costs by 18% to enable them invest these monies into activities that can support the private sector further.
6.	18% VAT on Garments whose LRM source is at least 70% excluding water Companies having spinning, weaving, & knitting facilities are exempted from VAT, however other Garment manufacturing units buying fabric from such companies are required to charge VAT.	Zero rate these products from local raw material source	Import duty is 35%, which forces local Garment Private Sector to buy from Local Companies who are exempted from VAT, but a Garment manufacturer has to charge VAT, making it un-competitive in market. This is not level playing field.
7.	Designation of VAT withholding agents to financial institutions		Having to account for VAT withheld creates an extra administrative burden and system

	Most of the Banks are not VAT registered and those that are; the component of taxable supplies among their total supplies is marginal.	Do not designate Banks as VAT withholding agents	design costs on the financial institutions without a reward to their efforts, as they are not VAT registered.
8.	VAT exemption for debt collection and factoring by financial institutions Currently, the VAT Act exempts the supply of financial services from VAT apart from debt collection and factoring. However, the Financial Institutions Act defines financial institution business to means the business of— (a) acceptance of deposits; (b) issue of deposit substitutes; (c) lending or extending credit, including—(i) consumer and mortgage credit factoring with or without recourse; (iii) the financing of commercial transactions; (iv) the recovery by foreclosure or other means of amounts so lent, advanced or extended; (v)	Include Factoring in the Second schedule 2(b) (ii)) of the VAT Act, CAP 349 as an exempt financial service since Factoring is provided by a Financial Institution. Amend Paragraph 2 (b) (ii) of Schedule 2 to the VAT Act so that the definition of financial services does not exclude debt collection and factoring carried out by financial institutions.	Charging of VAT discourages this Factoring[1] as a form of financing, as it is an added cost on top of the financing cost that is being charged to the borrower. Financial institutions have developed initiatives to enhance financial intermediation through the formation of the Asset Reconstruction Company (ARC). One of the primary activities of the ARC will be to facilitate the purchase of debt of distressed companies as part of financial restructuring. Charging VAT will stifle this badly needed financial service at its infancy in the Ugandan economy where we are seeing an increasing level of non-performing assets (NPA) in the banking system.

[1]Factoring is a form of financing similar to any form of lending or extending of credit or working capital finance that banks provide to their customers.

Business growth is our business

	forfeiting, namely, the medium-term discounting without recourse of bills		

INCOME TAX ACT

9.	High costs associated with installation and implementation of Digital Tax Stamps (DTS).	GoU should incur costs of DTS stamps as it did when it was being rolled out.	Since Government claims additional revenue. This should be handled like tax administration measures whose costs are incurred by URA. DTS has put enormous operational costs to manufacturers.
10.	30% Income tax rate is too high for the private sector	Reduce the rate from 30% to 25%	This will reduce the cost of doing business especially. **This will also improve tax compliance which increases tax base**.
11.	Increase the PAYE thresholds to improve the liquidity of the population	Revise the Threshold as; <table><tr><th>From;</th><th>To</th></tr><tr><td>0- 235,000 = Nil</td><td>1- 500,000 = Nil</td></tr><tr><td>235.001-350,000= 10%</td><td>500,000-1,000,000 = 10%</td></tr><tr><td>350,001-410,000=20%</td><td>1,000,000-2,000,000 = 20%</td></tr><tr><td>Above 410,001 = 30%</td><td>2,000,000- 9,000,000 = 20%</td></tr><tr><td>Above 10,000,000 = 40%</td><td>Above 10,000,000 = 40%</td></tr></table>	- Low-income earners are majority need to improve their liquidity leading to more consumption - Many countries have collected more taxes, when tax rates are lower - **This will grow consumption leading to increased VAT**
12.	Sec. 25 (3) as amended; for all debts owed by a taxpayer who is a member of a group, the amount of deductible interest (including banks) in respect of		a) The provision limits deduction for a realistic business expense of interest on loans from a commercial bank.

	all debts shall not exceed 30% of the tax earnings before interest, tax, depreciation and amortization (EBITDA).	We propose that the interest paid to banks should be allowed as a deduction expenditure	b) The limitation of interest deduction will affect both foreign and local group companies unlike thin capitalization that only affected foreign-controlled companies. Local banks could prove unattractive due to the high interest rates and companies opting for cheaper loans from outside Uganda after all there is reduced incentive since the whole of the interest expense is not allowed. This would not be good for the economy.
13.	Stamp duty for MTP policies at Ugx.35,000/- Stamp duty is higher than the premiums. For example, Using the example of a Motorcycle (Boda-boda), the insurance premium is Ugx, 6,000/=, whereas Stamp duty is Ugx.35,000)	The Sector Petitions Government to review the stamp duty for Motor Third Party policies to Ugx. 5, 000/=	-Affects insurance penetration due to high costs associated -Lead to increase in compliance from various motorists.
14.	30% Capital Gains on sale of shares by companies having Ugandan majority shareholding for agro-processing. CGT rate is high and limits public involvement to capitalize such entities which encourages agro-	Reduce CGT rate to 5% for agro-processing industries as it is aligned to the CGT in Kenya.	This will encourage acquisition of shares by the public and more earnings inform of dividends hence more withholding tax at 15% to the government. It will also attract more investors to invest in agro-manufacturing which is key for the modernization of agriculture that employ about 70% of Ugandans.

	industry and financial market development		
15.	Inflation or valuation should be considered in assessing CGT	Amend Law to provide for indexation and or valuation before disposal as the determinant of actual value based on which capital gains are assessed.	This will eliminate over taxation of tax payers and encourages acquisition of capital for investment in the country
16.	Limited reinvestment of corporate profits into production due to absence of compelling incentives.	Reduce corporation tax to 10% for companies that re-invest at least 75% of their declared profits. This should be limited to only situations where the investment happens in the next 12 months of the declaration of profits.	There is need for the country to come up with innovative ways to retain declared profits within the economy to cause economic expansion. This can be a major revenue mobilization bonanza.
17.	Financial Inclusion Strategy: The Government of Uganda launched the Financial Inclusion strategy in Oct 2017 to deliver on financial exclusion and build digital infrastructure for efficiency plus broadening formal savings and insurance usage.	Exempt import duty for importing specific digital equipment/accessories (POS, Tabs)- Point of Sales equipment	This will support the development of requisite infrastructure that enables agent banking and Fintech spread across the country
18.	The Income Tax Act (ITA) continues to carry a redundant provision that was intended to spur exports provided the tax payer can achieve exports of 80% of manufactured goods to be able to have a benefit of 0% Corporation Tax.	Reduction of corporate tax for export-oriented companies. Details are below; I. Export 70% - 100%, Corp Tax 0% 2. Export 65% - 69.99, Corp Tax 5% 3. Export 45% - 64.99, Corp Tax 10% 4. Export 25% - 44.99, Corp Tax 15% 5. Export 15% - 24.99, Corp Tax 20% 6. Export 10% - 14.99, Corp Tax 25% 7. Export 0% - 9.99, Corp Tax 30%	The sliding scale as proposed is thus motivated by the need to grow exports of manufactured goods rapidly if at all Uganda is serious about attaining 50% export of manufactured goods relative to all exports as envisaged under Vision 2040. Terms of trade improvement for Uganda is very critical too as a means of reducing the

	Over the years, the provision has remained redundant because no manufacturer in Uganda can achieve the set target. 80% threshold is of no consequence and has not at all contributed to growth of export receipts as was intended; rendering the provision redundant		negative trade balance that the country suffers from.
19.	Interest on Government securities	Exempt taxes on interest earned from Government securities	This will encourage investments in the financial markets and long-term securities
20.	Manufacturing Under Bonded manufacturing should not be allowed to import raw materials which are not locally available	Restrict the inputs used in the manufacturing under bond facility to only those that are not available within the EAC.	To increase the macro value addition in Uganda as well as allow intra-EAC trade as well as increase capacity utilization of the available factories manufacturing industrial inputs.