



PRIVATE SECTOR POSITION

**STRATEGIES, INTERVENTIONS AND PROPOSALS ON HOW TO WIDEN THE
TAX BASE**

PRESENTED

TO

THE COMMISSIONER GENERAL

UGANDA REVENUE AUTHORITY (URA)

BY

MR FRANCIS KISIRINYA

Ag. EXECUTIVE DIRECTOR

PRIVATE SECTOR FOUNDATION UGANDA (PSFU)

20th August, 2021

1.0 Introduction

Private Sector Foundation Uganda (PSFU), is Uganda's apex body for the private sector with a membership of 265 business associations and corporate companies structured in 12 sectors¹ that mirror the economy.

We appreciate the Uganda Revenue Authority (URA) for the good working relationship you have exhibited in the past through partnerships in the development of trade fairs, selection of top tax payers and in the efforts jointly rendered in the domestic revenue mobilization strategy (DRUMs). Thank you for accepting to meet us.

This meeting is yet again a symbol of our continued relationship, and perhaps after this, we could even go deeper at sector level. We also wish to appreciate the URA fraternity and the Commissioner General, in particular, for standing with thus and business community during the time when we lost great icons of the business community - Mr. Gideon Badagawa and Mr. Everest Kayondo. Your moral support comforted us and we pledge to become even stronger in the efforts to grow this economy.

This paper outlines private sector cross cutting proposals, strategies which if adopted can be used to close business informality and widen the tax base leading to increased tax revenue for Government while also facilitating growth of enterprises.

2.0 Background

The business community recognizes that taxes are a vital form of Government revenue to enable it provides services and amenities that stimulate growth of the economy. The private sector is the biggest source of this Tax revenue; however, high tax rates limit enterprise growth.

COVID 19 has negatively impacted the business community with reduction in domestic consumption (BTI study June 2021), 67% of the MSMEs reporting decline in incomes and more than 1.1 million employees are reported to have lost jobs. Government has also been hit by increased public pressures, tax revenue deficits and rising debt levels. As a result, illicit trade is recorded to be on a high of 62% and 25% for beer and cigarettes respectively. This worsens the motive of formalization of the economy, instilling more pressure to our Tax to GDP ratio.

PSFU has developed the following cross-cutting areas which we believe and have studied as key guiding principles which if we implored can be used to increase the tax base, while supporting companies to survive COVID 19.

- 1) All businesses and individuals who are supposed to pay taxes, must pay taxes, without exception and at the same rates. Tax exemptions for specific companies distort competition and should be avoided.
- 2) **Tax evasion:** URA should work with Private Sector associations and compliant tax payers to weed out non-tax payers in the sector. To begin with, could be producers of bottled water, manufacturers of confectionery, etc.
- 3) The tax regime should be **predictable** to enable proper planning and implementation of investment plans by enterprises. For example, in soft drinks sector, tax is a major cost driver. The

¹ Agriculture, Agribusiness and Forestry, Manufacturing, Trade and Commerce, Financial Services. Human Resources (skills, education and health), Oil and Gas, Construction, Tourism and Hospitality, ICT, Creative Arts, Logistics and Professional Services

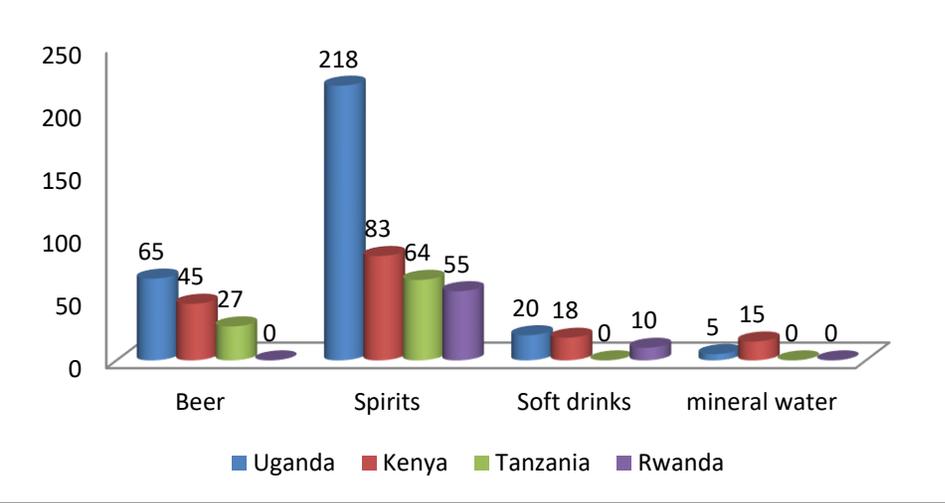
excise duty regime is reviewed on an annual basis and yet investment is planned for a period of 3-5 years. Our proposal is that develop an Excise Duty regime for 2-3 years to facilitate planning.

- 4) **Tax Management** could borrow from business principles where Tax can be treated like a business in a product called taxes. This business determines what strategies to be taken to generate more revenues from the product (taxes). Charging very high prices of the product (taxes) will reduce the turn-over of the business. This same principle could be considered by Government.
- 5) **Strengthen the Capacity** of URA in tax administration through effective private Public Partnerships. The rate at which the private sector grows cannot be matched with continued recruitment of staff. The established on line systems needs information to support the efficiency which is still provided by People. Through this PPP, Government would partner with Private Sector Tax experts to conduct tax assessments and audits for the general business community while the URA concentrates on regulations. This could support close tax leakage and also generate information in areas such as real estate, etc.
- 6) **Develop Different Tiers** on the Excise Duty regime for the new innovative products which utilize 70% local raw material use excluding water mainly in the agriculture industry. This is because products at introduction stage have not yet broken even and so targeting them for tax, discourages innovations, but also reduces the expected target revenue earned through the value chain - especially supply chains. *(Refer to Annex 1).*
- 7) **Widen the Tax Base** through measures that stimulate growth in the economy. Some of the proposed mechanisms include;
 - i. **Enact the National Local Content Bill 2020** and implement it especially in construction industry. With 40% of contract value granted Ugandan firms, this would yield USD 3 bn annual tax revenue
 - ii. **Enact the Real Estates Agency Bill** to regulate real estate actors hence bringing all these actors into the tax base
 - iii. **Enforce anti-illicit Trade Laws** through partnership with private sector organizations organized by PSFU.
 - iv. Impose an export levy of 5% and 10% on unprocessed gold and other minerals.

3.0 A matrix describing the challenge and possible proposals to widen the tax base

Sn	PROPOSALS	ISSUES	TAX REVENUE BENEFITS
3.1	<p>3.1. a) <u>Exempt Excise Duty</u> on innovations which are under market introduction.</p> <p>3.1.b) Marginally reduce current tax rates on beer, whose local raw material content, excluding water, is at least 75% by weight of its constituent to “30% or 615/=” whichever is higher instead of “30% or 650/=, whichever is higher”.</p>	<p>Excise Duty regime: The duty is charged on innovative products that close business informality. Such as, <i>20% or Shs. 2,300 whichever is higher excise duty on wine made from locally produced raw materials, 30% or Shs 230 per litre whichever is higher excise duty on Opaque beer, and 30% or Shs. 790 per litre whichever is higher excise duty on beer whose local raw materials content, excluding water, is at least 75% by weight of its constituent.</i></p> <p>Introduction of such regimes has led to continuous reduction in the volumes of raw materials sourced from farmers. The bulk of these products/innovations target the informal processed products such <i>Ajono, Malwa and Tonto</i> which are not captured in the tax system. In addition, they support farmers improve incomes which drives consumption.</p>	<p>3.1.a.i)</p> <ul style="list-style-type: none"> ✓ More products will be developed. ✓ More farmers will be impacted leading to high levels of income tax and VAT. <p>E.g. Opaque beer incidence: FY 2016/17, 30% excise duty on opaque beer led to collapse of a 14 billion product line “chibuku” Leading to revenue loss of 5 billion of VAT, 3.6 million kgs of maize not being bought and rendering 1000 farmers unemployed.</p> <p>3.1.b.ii) if not addressed</p> <ul style="list-style-type: none"> ✓ Reduction in excise duty by 8 billion annually. ✓ Reduction in RM sourcing for barley (24%) and cassava 56%. ✓ 10 billion in revenue to over 3000 farmers lost ✓ 12 billion excise duty lost annually.

Sn	PROPOSALS	ISSUES	TAX REVENUE BENEFITS
3.2	<p>Cost of Doing Business and Regional Competitiveness:</p> <ul style="list-style-type: none"> ✓ Digital Tax stamp (DTS) was introduced in 2nd half 19/20. ✓ Exemption for payment for local products. ✓ 20/21 payment effected causing a burden retailer, value chain players. ✓ Breeds extra 250 bn. Tax administration costs. 	<p style="text-align: center;">Short term</p> <p>The industry needs to compete favorably with its EAC partners. Republic of Tanzania presents a similar business environment for Uganda. Private sector proposes;</p> <ul style="list-style-type: none"> a) Consider DTS cost as net excise duty payable (handle it as tax administration). b) Reduce DTS costs by 70% on beer, spirits, and soft drinks. <p style="text-align: center;">Long term (2-3yrs)</p> <ul style="list-style-type: none"> a) Consider phasing out DTS for products where no under declaration, counterfeit or smuggling will have been proved by DTS <p>Comparative cost of DTS across EAC- UGX per bottle</p>	<ul style="list-style-type: none"> ✓ Due to DTS cost, companies need to find UGX. 15bn. ✓ The 15bn results in a 20% increase in the price cost of the cheapest products in the FMGs section (alcohol, juice, wines). ✓ Consumers shift to informally processed products--- 68% of market for alcohol. ✓ Reduction in RM sourcing by at least 10,000 metric tons of grain within Year 1. ✓ 100 bn excise duty revenue estimated to be lost annually.

Sn	PROPOSALS	ISSUES	TAX REVENUE BENEFITS																									
		 <p>The bar chart displays alcohol consumption levels for four countries: Uganda (blue), Kenya (red), Tanzania (green), and Rwanda (purple). The categories are Beer, Spirits, Soft drinks, and mineral water. The y-axis represents consumption levels from 0 to 250. The data points are: Beer (Uganda: 65, Kenya: 45, Tanzania: 27, Rwanda: 0); Spirits (Uganda: 218, Kenya: 83, Tanzania: 64, Rwanda: 55); Soft drinks (Uganda: 20, Kenya: 18, Tanzania: 0, Rwanda: 10); mineral water (Uganda: 5, Kenya: 15, Tanzania: 0, Rwanda: 0).</p> <table border="1"> <caption>Alcohol Consumption Data</caption> <thead> <tr> <th>Country</th> <th>Beer</th> <th>Spirits</th> <th>Soft drinks</th> <th>mineral water</th> </tr> </thead> <tbody> <tr> <td>Uganda</td> <td>65</td> <td>218</td> <td>20</td> <td>5</td> </tr> <tr> <td>Kenya</td> <td>45</td> <td>83</td> <td>18</td> <td>15</td> </tr> <tr> <td>Tanzania</td> <td>27</td> <td>64</td> <td>0</td> <td>0</td> </tr> <tr> <td>Rwanda</td> <td>0</td> <td>55</td> <td>10</td> <td>0</td> </tr> </tbody> </table> <p>Source: Uganda alcohol Association</p>	Country	Beer	Spirits	Soft drinks	mineral water	Uganda	65	218	20	5	Kenya	45	83	18	15	Tanzania	27	64	0	0	Rwanda	0	55	10	0	
Country	Beer	Spirits	Soft drinks	mineral water																								
Uganda	65	218	20	5																								
Kenya	45	83	18	15																								
Tanzania	27	64	0	0																								
Rwanda	0	55	10	0																								
3.3	<p>Revise the PAYEE Threshold as;</p> <table border="1"> <thead> <tr> <th>From;</th> <th>To</th> </tr> </thead> <tbody> <tr> <td>0- 235,000 = Nil</td> <td>0- 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> </tbody> </table>	From;	To	0- 235,000 = Nil	0- 500,000 = Nil	235,001- 350,000= 10%	500,000-1,000,000 = 10%	350,001- 410,000=20%	1,000,000-2,000,000 = 20%	Above 410,001 = 30%	2,000,000- 9,000,000 = 20%	Above 10,000,000 = 40%	Above 10,000,000 = 40%	<p>COVID 19 has increased dependency ratios from formal employees due to increase unemployment.</p> <p>Liquidity of the population is highly required to support the economy recover from COVID 19.</p> <p>Low income earners are majority need to improve their liquidity leading to more consumption.</p>	<ul style="list-style-type: none"> - Many countries have collected more taxes, when tax rates are lower. - Disposable income especially for the low salary earners who are the majority will increase hence increased expenditure leading to more VAT. - Income Tax will raise due to reduced expenditure (PAYEE). 													
From;	To																											
0- 235,000 = Nil	0- 500,000 = Nil																											
235,001- 350,000= 10%	500,000-1,000,000 = 10%																											
350,001- 410,000=20%	1,000,000-2,000,000 = 20%																											
Above 410,001 = 30%	2,000,000- 9,000,000 = 20%																											
Above 10,000,000 = 40%	Above 10,000,000 = 40%																											

Sn	PROPOSALS	ISSUES	TAX REVENUE BENEFITS
3.4	<p>Value addition and close business informality:</p> <p>Support BUBU policy, NDPIII objective 1- Value addition and industrialization program 7, to close informality.</p> <ul style="list-style-type: none"> ✓ Innovations exists in the production of Beer with 75% Local Raw Materials (LRM) excluding water. ✓ Products such as “Ngule”, “Chibuku” among others are competing with “Malwa”, “Tonto” and “Ajono”— which are informal. ✓ 25,000 HHs, 20 metric tonnes worth 32bn shillings annually. ✓ LRM beer generates 250bn. Tax annually. ✓ 2017, change from advalorem to specific rates increased taxes. ✓ Presently this beer attracts excise duty of 30% or UGx. 650 per liter (whichever is higher). ✓ Price increased by 10% from 2000 to 2200 shillings leading to 35% reduction in consumption. 	<p>a) Reduce Excise Duty to 30% or UGX 550 per liter.</p>	<p>a) Production Volumes</p> <ul style="list-style-type: none"> i. Price will reduce by 200 shillings. ii. Production volumes will increase by 25%. <p>b) Tax Revenue:</p> <ul style="list-style-type: none"> i. Excise Duty: lead to an extra 8bn shillings annually. iii. VAT: lead to 12.3 bn shillings. ii. Employment. i. Number of value chain players 180,000. iii. Income to farmers - 123 bn shillings.
3.6	<p>Exempt 5% or US\$150 per ton, whichever is higher excise duty on locally manufactured plastic packaging materials to support efforts of conservation of the environment.</p>	<p>Local companies have invested in recycling of these plastics and produce packaging materials. These efforts go a long way in ensuring that our environment is conserved as well as creating employment for the population.</p> <p>Taxing their locally made products renders their investment irrelevant since its mainly objected to conserve the environment.</p>	<p>Facilitate investment in environment conservation. Provide jobs in collection of plastics. Leading to increased PAYE and VAT.</p>

Sn	PROPOSALS	ISSUES	TAX REVENUE BENEFITS
3.7	Exempt 5% or US\$100 per ton, whichever is higher Excise Duty on plastic granules and rather charge it on production volumes of thin layer plastics (kavera).	<p>Plastic granules is a raw material used in the production of plastics.</p> <p>Charging excise duty on <input type="checkbox"/>raw materials<input type="checkbox"/> increase the cost of packaging materials which are required for export promotion.</p>	More revenue will be collected from the produced volumes of thin layer plastics (kavera).
3.8	<p>Exempt Excise Duty 12% on internet and rather charge 30% income tax on the profits earned by businesses using internet.</p> <p>Also open Face book to support online marketing.</p>	<p>The COVID 19 error, internet has become more less a public good for doing business, communication and way of life of the population. Is this the right time to increase costs of internet?</p> <p>Uganda already has the most expensive internet in the EAC. Presently the cheapest source has 1 GB sold at 3,200 shs. A 12% tax will drive the cost of internet by an extra 384 shs per GB.</p> <p><i>In addition, how will Government administer this tax for the exceptions education and medical? If I purchase data for my child at home for education reasons, how will this imply to me!</i></p> <p>This worsens the country situation in regards to our competitiveness within the region.</p> <p>This inhibits innovations especially from business startups and the youth employment consequently more tax will be lost.</p>	<p>Benefit from increased VAT due to increased consumption of internet.</p> <p>Also reduction in cost will attract more business using internet which yields more income tax.</p> <p>Through TREP track and ensure that all business using internet are registered tax payers.</p>
3.8	<p>Standard VAT rating at 18% 18% VAT rate is so high and it reduces consumption.</p> <p>There is difference in VAT rates at 18% for Uganda and 14% for Kenya.</p>	<p>a) Create three extra bands of VAT;</p> <ul style="list-style-type: none"> ✓ 5% for Micro, small and social products such as electricity and water. ✓ 10% for medium. ✓ 18% for large enterprises. <p>b) Align VAT to Kenya at 14%.</p>	<ul style="list-style-type: none"> - It affects 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.

Sn	PROPOSALS	ISSUES	TAX REVENUE BENEFITS
3.10	Import Duty of US\$3.0 and US\$3.5 Per Kilogram for Textiles and Garments in addition to the CET of 35% increases the costs of raw materials which affects the trade of this fabric and tailors due to increased prices.	Stay the implementation of this import duty rate and charge it on transaction value and quality of products than volumes.	<ul style="list-style-type: none"> - Textiles and garments are raw materials for textile industry. - Local manufacturing industry is still nascent and is not able to meet the local demand. - The stay of implementation increases disposable income of business people in the sector hence more VAT.
3.11	Exempt VAT on imported services that are not locally available such as software importation , AMC, engineer fees during warranty period, accreditation, proficiency test and testing services	The services imported are in many cases not available locally. Therefore, it is only logical to enable businesses access such services competitively.	Reduce cost of doing business.

4.0 Conclusion

With the above proposals, we believe that we should be able to contribute towards widening the Tax Base through creation of wealth, closure of leakages and increased employment leading to more tax revenue, and higher level of Tax to GDP.