



## TAXES ON MOBILE MONEY AND OVER THE TOP SERVICE ARE BOUND TO INCREASE THE INEQUALITY GAP IN UGANDA

### PRESS STATEMENT-FOR IMMEDIATE RELEASE

#### Introduction

Parliament of Uganda passed the Excise Duty Amendment Act, 2018 on 30<sup>th</sup> May 2018 which provided inter alia for the payment of excise duty amounting to UGX 200 per user per day of access to Over the Top (OTT) services on and a 1% excise duty on mobile money transaction value became effective 1<sup>st</sup> July 2018. We the members of Civil Society<sup>1</sup> that are gathered here at AAIU offices in Kampala this Sunday 8<sup>th</sup> July 2018 have had the opportunity to review the spirit of the Act particularly the impugned provisions 3(b) and 6(g) relating to the social media and mobile money taxes respectively. We would like to reiterate the concerns raised by the citizens on the above taxes as follows:

#### 1. Stagnation of Internet Penetration

Internet penetration is bound to suffer stagnation and or decrease as a result of the limitation to access to over the top services platforms which have been key in driving the penetration of the net and greatly serving as platforms for educational material, spread of news and enhancements for civic engagement and also serves as a platform for creating awareness about existing government programs.

The UCC “Postal, Broadcasting and Telecommunications Annual Market and Industry Report of 2016/2017 places internet penetration in Uganda at 45% which rose from 31.3 % from December 2017 according to the Internet World Statistics. This admirable increase is likely to be negatively affected.

#### 2. The violation of access to information

It also leads to the violation of access to information and internet, internet open access, right to education, good governance, citizen participation in government programs net neutrality, freedom of expression and association hence increasing the already wide digital divide and further discourages e-commerce a mode of trade that has recently gained popularity especially among the young entrepreneurs.

#### 3. Stifle Budding Technology Innovations

Additionally, the tax has and is demonstrating the ability to stifle budding information technology innovations particularly among the young people who have been using such platforms to create multiple employment opportunities aimed at achieving the Vision 2020 and 2040 of Uganda.

<sup>1</sup>Southern and Eastern Africa, Trade Information and Negotiations Institute (SEATINI-Uganda), ActionAid Uganda (AAIU), Uganda Debt Network (UDN), Oxfam in Uganda, Civil Society Budget Advocacy Group (CSBAG), Water Governance Institute (WGI), Inter-University Tax Justice Network Forum (IUTNF), Public Affairs Center of Uganda (PAC), Initiative for Social and Economic Rights (ISER), Africa Freedom of Information Centre, Uganda Consortium on Corporate Accountability (UCCA), Development Network of Indigenous and Voluntary Association (DENIVA), The Open Forum Initiative (TOFI), Great Lakes Institute for Strategic Studies (GLISS), Forum for Women in Democracy (FOWODE) Cyber Law Initiative (CyberLine), Women and Girl Child Development Association (WEGCDA).

#### 4. Regressive in Nature

The flat tax rate of UGX 200 on OTT services presupposes that all consumers have the same purchasing power for data bundles and usage thus it has a regressive effect on the low income earners and therefore against the taxation principle of equity.

#### 5. Financial Exclusion

Furthermore, we are empirically aware that this money transfer system graced Uganda's economy in 2010 and has been the biggest driver of financial inclusion. As of 2017, the UCC report notes that mobile money subscriptions stood at 23.6 Million Ugandans, with 61 percent transactions below UGX 45,000. We believe the tax targets the poor more than the rich hence disrupting financial inclusion agenda in Uganda which undermines the country's pursuit to economic development. This will negatively affect the struggling players in the economy i.e. Micro, Small and Medium Enterprises (MSMEs) including farmers and further breed the growth of inequality.

#### 6. Increase in Unemployment Rates

The mobile money sector employs majority of Ugandans who are likely to lose their jobs as a result of the introduction of the mobile money taxes.

***Broadly, as members of civil society we believe that the taxes introduced are symptoms of Uganda's ailing economy and goes beyond the face value. The country is facing enormous challenges especially regarding revenue mobilisation, allocation and utilisation including;***

#### Tax Exemptions

While the government expects to collect UGX 115bn and UGX 284bn from the taxes on Mobile Money and Over the Top services respectively, it is important to note that Uganda currently loses over UGX 90 billion to UGX 1 trillion annually due to tax exemptions that are awarded with the aim of attracting Foreign Direct Investment. This amounts to 4-5% of GDP annually.<sup>2</sup> Furthermore, there is a growing class of rich and influential individuals who have been able to exempt themselves from paying tax. There also remains an untaxed section in Uganda as viewed from illegal mining of both sand, gold, marble and other minerals; commercial agriculture among others. This comprises High Net worth Individuals (HNWIs) the Uganda Revenue Authority has failed to track. All this has left the tax burden to a rather small group of people especially those within the formal sector who bear majority of the tax burden. Therefore, by getting rid of some of these exemptions and enforcing tax compliance, the government of Uganda could collect more than what it expects to collect from the regressive and inequitable taxes that have been imposed on mobile money and Over the Top services.

#### Allocation of Funds to critical sectors

It is also important to note that during the past years government has allocated a bigger share of the budget to infrastructure development. This year, the sector was allocated 19.08% of the total budget. On the other hand, productive sectors such as agriculture, trade, tourism received 3.56%, 0.53% and 0.13% of the budget respectively.

<sup>2</sup> Uganda Economic Update, Financing Growth and Development: Options for Raising More Domestic Revenues, World Bank 2018

This is so despite the fact that the budget for FY 2018/19 is themed “Industrialisation for Job Creation and shared Prosperity.” If the government allocates more resources to the productive sectors, the forward and backward linkages within these sectors will create alternative lucrative sources of revenue.

## Utilisation of Funds

Worse still, the utilisation of public resource in Uganda is highly questionable. There is a high rate of fiscal indiscipline characterised by a high rate of corruption. Furthermore, the government is increasingly relying on debt to for re-current expenditure which does not yield any returns to pay back the debt. As a result, the government has resorted to imposing taxes which are non-cognisant of the principles of fairness, certainty, convenience and efficiency.

Our policy makers need to understand that the collection of a tax not only requires substantial coercive power, but also the legitimacy of the state, since the majority of tax is collected when there is a high level of voluntary compliance.

Pursuant to the above, we are alive to the establishment by 6 petitioners challenging the imposition of tax on Over the Top services before the Constitutional Court of Uganda aimed towards a declaration of the unconstitutionality of the impugned provisions of the Excise Duty Amendment Act, 2018. We therefore seek to robustly extend our grievances to not only the Parliament of Uganda but also the Constitutional Court to provide a formidable speedy remedy as sought by the petitioners.

We are also aware of various citizen initiatives aimed at advocating contrary to these taxes. Some of these endeavours include the #no data week aimed at boycotting purchase of data from telecom companies, the #UnfollowGovtUG

aimed at unfollowing all government agencies, as well the recent demonstrations by citizens in Masaka, Lugazi And Kampala as a way of showing protest to these impugned taxes. As the tax justice alliance, we also adopt these measures and stage a nationwide campaign to express dissatisfaction with these taxes.

## It is upon the above premise that we demand that government;

- Holds a debate on the state of the economy with the citizens
- Repeals sections 3(b) and 6(g) of the Excise duty Act relating to the taxes on Mobile money and Over the Top Services in Uganda to achieve universal coverage of internet and further allows innovations and financial inclusion in Uganda.
- Broadens the tax base in a fair and just way by scrapping all the harmful tax incentives, tapping into illegal mining and exporters of illegal minerals, commercial agriculture, the tracking HNWI's to bring everyone who should be paying tax to book.
- Checks public administration expenditure particularly the oversize cabinet, bloated parliament, extensive network of presidential advisors and presidential assistants and a host of quasi-public service appointments such as RDCs that undermines cost-efficiency. Provides spaces for sustained engagement with citizens on how revenue is mobilised, allocated and utilised.

Putting into consideration the social contract between citizens and the government, we call upon citizens to take up their right and demand for accountability from duty bearers and further engage in the struggle for an inclusive and just tax system in Uganda.

**FOR GOD AND OUR COUNTRY**

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