

PRESS STATEMENT- FOR IMMEDIATE RELEASE

CIVIL SOCIETY POSITION ON TAX REVENUE MEASURES FOR FY 2017/18

Released at a Press Conference held at SEATINI- Uganda Offices on 21st April 2017

INTRODUCTION

We the members of the Tax Justice Alliance including SEATINI ¹Uganda, Oxfam, Civil Society Budget Advocacy Group (CSBAG), Uganda Debt Network (UDN), Action Aid Uganda (AAIU), Citizens Watch-Information Technology (CEW-IT), Women and Girl Child Development Association (WEGCDA) and Inter University Tax Justice Forum, that are gathered here at SEATINI Uganda offices in Kampala this 21st April 2017 hereby present our observations and recommendations in respect to the tax measures that were presented to Parliament.

The Minister of Finance Planning and Economic Development developed and presented the tax revenue measures for FY 2017/18 contained in the Excise Duty (Amendment) Bill 2017, Value Added Tax (Amendment) Bill 2017, The Income Tax (Amendment) Bill 2017 and the Tax Procedures codes Bill, 2017. For the first time, we have observed that the bills were submitted along with certificates of financial implication, a practice that we commend.

As of half year of the FY2016/17, Uganda has revenue shortfall of UGX 166.44bn partly coming from the customs shortfall of UGX 206.58bn and an offset from the domestic side over performance of UGX 40.14bn. Tax revenue for the FY2017/18 is projected to be UGX 14,682bn (87.9% of total revenue and grants – 16,698bn) which a 16.9% increase from the FY2016/7 estimates. Uganda Revenue Authority collections for 2017/18 are targeted at about 14.5trillion. This will need concerted efforts from all entities in Uganda including citizens.

POSITIVE TAX PROPOSALS

We welcome the following tax proposals to improve revenue collection and facilitate investment in the FY 2017/18 and beyond including;

1. Cigarettes - Increase of Excise Duty from UGX50, 000 to 55,000 per 1000 sticks (soft cup) will increase revenue.
2. A 60% proposed tax on malt beer or 1860 per litre, whichever is higher under the excise duty (amendment) bill.
3. In the case of the Lotteries and Gaming Act, 2016, the amendment necessitating the licensed person to furnish weekly returns will facilitate Uganda Revenue Authority to collect tax efficiently to avoid under declaring by the lotteries and gaming companies.
4. In the Excise duty (amendment bill) 2017, the inclusion of another categorization for the fruit juice and vegetable juice, except juice made from at least 30% of pulp from fruit and vegetables grown in Uganda will encourage our home industries and strengthen the Buy Uganda Build Uganda policy as well as boost the agriculture sector.
5. Insertion of section 49A in the Principal Act of Tax Procedures Code (imposing a penal tax for failure to provide information) is welcome in curbing tax evasion through transfer pricing.
6. The withholding tax rate applicable to winnings from sports betting and pool betting of 15% is commendable.
7. The increase on imported furniture and furniture assembled in Uganda from 10% in FY2016/17 to 20% FY2017/18 to encourage local production.

¹ Southern and Eastern Africa, Trade Information and Negotiations Institute

CIVIL SOCIETY CONCERNS ON SELECTED TAX PROPOSALS

We however have concerns on the following proposals upon which we make the following observations and recommendations:

1.0 Tax revenues under the Income Tax Amendment Bill 2017

Clause 3: Amendment of section 5 of the principle Act.

Section 5 is amended by inserting immediately after subsection (3), the following new subsections

4) For the purposes of assessing rental tax under this section, the Minister shall, by statutory instrument, prescribe estimates of rent based on the rating of the rental property in a specific location

We observe that Sub section (5), will encourage landlords to formalise their businesses of rental properties hence enlarging the tax base of Uganda. The instrument should propose a framework through which URA will collaborate with other institutions both government and non-government to identify and encourage land lords to formalize their businesses of rental properties.

Clause 4: Amendment of section 21 of the Principal Act.

Section 21 of the principal Act is amended in the subsection (1) by inserting immediately after paragraph (ab), the following-

“(Ac) the income of Bujagali Hydro power project up to 30th June 2033,”

While the intention of the exemption of income tax for Bujagali Hydropower project appears good, it is enshrined with many risks. Most exemptions have not translated into the intended outcomes. They are subject to abuse/violation through manipulation of records. They are an ultimate cost to government and the tax payer. Government should demonstrate how the exemption is going to translate into the intended benefits to the Ugandans and end users of the electricity. This exemption needs to be reviewed every five years by Parliament.

Clause 5: Insertion of section 27A (Initial Allowance) in the Principal Act.

The principal Act is amended by inserting a new section 28 as follows-

“27A. Initial allowance

(1) A person who places an item of eligible property into service for the first time outside a radius of 50km from Kampala, during a year of income is allowed a deduction for that year for an amount equal to 50 percent of the cost base of the property at the time it was placed into service.

We commend the 50km radius, as it will promote forward and backward linkages, value addition initiatives outside Kampala, and decongest the city. However, the effective administrative centre of the property has to lie within the limits of the radius.

2.0 Tax Revenue Measures under the Excise Duty (Amendment) Bill 2017

3. Spirits (a) Made from locally produced raw materials – 60% or Shs. 5000 per litre, whichever is higher (b) Undenatured spirits – 100% or Shs. 2500 per litre, whichever is higher (c) Other spirits – 80%

We observe that the excise duty on spirits, the percentages have been maintained alongside the amount per litre. However, on (c) other spirits, there is no amount stated alongside the proposed tax percentage. We therefore recommend that an amount be included with the percentage.

(f) By substituting for item 16 the following –

“16 Sugar confectionaries (chewing gum, sweets and chocolates)

Previously the law had sugar confectionaries to be taxed at 20%, currently the tax has been removed.

- We note that this exemption will benefit both locally produced sugar confectionaries and imported sugar confectionaries.
- Sugar confectionaries that are locally produced should be the ones to benefit from the exemption.

We recommend that the sugar confectionaries that are not locally produced should bear the previous 80% excise tax. Whereas the locally produced should benefit from the amendment like it has been done for furniture.

By substituting for item 17 the follows -

Observation: Furniture manufactured in Uganda using local materials but excluding furniture which is assembled in Uganda is exempted from excise duty. 20% Excise duty will be imposed on imported furniture and furniture assembled in Uganda

- We welcome this proposal as it is in line with our proposal to the Ministry of Finance to increase excise duty on imported furniture from 10% to 20%.

3.0 Tax Revenue Measures under the Tax Procedures Code (Amendment) Bill 2017

Clause 2: Amendment of Tax procedures code Act 2014, Act 14 of 2014

The Tax procedure Code Act 2014, in this Act referred to as the principal Act is amended in section 16(8)-

This proposed procedure for FY2017/18 shows Individuals will pay 4 instalments and companies will pay 2 instalments. We believe this makes it easier for the tax payer to remit their taxes. This amendment also harmonizes the income tax act which was providing the four instalments. However, we need the capacity to make sure tax payer systems are efficient.

(b) Substituting for paragraph (g) the following –

(g) in the case of the Lotteries and Gaming Act, 2016, a licensed person shall furnish returns with the commissioner as follows-

- i) a weekly return, by Wednesday of the following week; and*
- ii) a monthly return by the fifteenth day of the following month;”*

We recognize the need for the weekly return in the Act will facilitate URA to collect tax efficiently to avoid under declaring by the lotteries and gaming companies. The amendment calls upon companies should be registered under URA which is in the interest for the companies to file their returns. However, URA Should be able to ensure compliance of this law by these companies.

19A. Tax stamps

i) A person dealing in goods, whether locally manufactured or imported affix a tax stamp on any goods locally manufactured or imported maybe prescribed by the Minister under subsection (3)

This is new addition to the Tax Procedures Code Act. It is an important addition which will enable enforcement and compliance by the tax payers. We urge parliament to follow-up on the statutory instrument that is supposed to operationalize the section or clause.

4.0 Tax Revenue Measures under the Value Added (Amendment) Bill 2017

Clause 2: Amendment of Value Added Tax Act

Insertion of S.24 “(7) For purposes of this section, the tax payable on a taxable supply made to a Government Ministry, Department or Agency by a contractor executing an aid funded project is deemed to have been paid by that ministry, department or agency if the supply is for use solely and exclusively for aid funded project”

We observe that the insertion is very specific and allows more clarity. However, this can be abused at the time of execution especially verifying the “sole and exclusive” use of the aid funded project supply.

We recommend that Parliament should take consideration for the potential abuse of the provision by unscrupulous individuals and companies.

Clause 7: Amendment of the second Schedule to the principal Act

- (a) In paragraph 1(a), by inserting immediately after the word “products” the words “except wheat grain;”;
- (b) By inserting immediately after paragraph (q) the following –
“(qa) the supply of animal feeds and premixes;”
- (c) By inserting immediately after paragraph (s) the following –
“(sa) the supply crop extension services;
(sb) the supply of irrigation works, sprinklers and ready to use drip lines;
(sc) the supply of deep cycle batteries and composite lanterns;
(sd) the supply of tourist arrangement services, access to tourist sites, tour guide and game driving services;
(se) the supply of menstrual cups;”

We observe that the revisions in the schedule speak a lot to improving production and productivity of the agricultural sector through exemptions on wheat gain, animal feeds and premixes, supply of crop extension services among others. Additionally, the exemptions on tourist arrangement services will promote the tourism sector while the exemption on menstrual cups should make sanitary towels more accessible.

However, we recommend that these exemptions should be followed with a commensurate reduction in the prices of the products as expected.

Conclusion

As Civil Society Organisations, we call upon Government and other stakeholders to put into consideration the above observations and recommendations. Together for an improved tax regime, gender responsive and equitable national development because every shilling counts.

FOR GOD AND OUR COUNTRY

For more information please contact

Ms. Jane Nalunga
Country Director
SEATINI-Uganda
P.O.BOX 3138 Kampala,
Email: seatini@infocom.co.ug
Web: www.seatiniuganda.org