TAX JUSTICE ALLIANCE Uganda

TAX MANIFESTO

THE TAX SYSTEM WE WANT IN UGANDA

DECEMBER, 2020

Introduction

Every five years, Uganda holds general elections to give citizens a chance to nominate their representatives for different political positions. Each political party or individual aspirant is expected to develop and share their manifestos with their electorates showing their motives/ intentions if entrusted with power. Majority of the key intentions highlighted by political parties in their manifestos are centered on a number of issues some of which include: economic growth, macro-economic stability, security, good governance and democracy, Public and Private sector institutional development, employment and, agriculture. Conventionally Governments finance their expenditure through three major sources, these are, taxation, borrowing (foreign and domestic), and printing money. Globally, tax revenue is known as the most reliable source of revenue. However, in Uganda a few if not all political parties in their manifestos pay less attention to how the challenges they wish to address will be financed. To this regard, less attention is paid towards the recognition of tax as a tool for development and source sovereignty.

The absence of tax issues in the manifestos of political aspirants has resulted in continuous sidelining of tax issues and this has led to inadequate tax revenue, imposition of regressive taxes and signing harmful tax agreements. In addition to that, some of the citizens are also not aware of their tax obligations and rights to ably front the hard questions related to tax to the political aspirants during their campaigns. This is also manifested in Parliament as Members of Parliament have often passed regressive tax policies which increasingly burden a smaller group of citizens. This has partly resulted in unfair tax policies and practices in Uganda.

It is against this background that CSOs under the Tax Justice Alliance Uganda (TJAU) have identified key issues on taxation which we hope should be considered for inclusion in the manifestos of the different political parties.

The key issues for consideration include:

Tax education: This has remained one of the major limitations to revenue mobilisation in Uganda. The vast majority of people do not have basic tax knowledge needed to be compliant. Secondly, there is a large segment of nationals who lack basic knowledge of the internet (not e-literate), this is exacerbated by the limited access to internet[1]. Taxpayer education should be carried out through various avenues including social media, seminars, print and online media, leaflet distribution and so on.

What we want: Tax information in simplified language and in local dialects where necessary should be availed in both electronic and hard copy formats.

Limited citizens' participation in the tax policy formulation process: Citizens' participation in the tax policy formulation process has generally been very limited. This has allowed the larger corporations and other special interests to hijack the process and use it to ensure that their interests are served. Avenues of participation already exist but few citizens use them. The parliament has in recent times provided for public commentary on tax bills, but this may not adequately define the scope of public perception. In most cases, whether the public provides input or not, bill can still pass. Very few citizens submit tax proposals to the Ministry of Finance and very few participate when the tax bills are at the Committee stage in Parliament.

What we want: Government should provide a clear and structured mechanism for citizens' engagement in revenue mobilisation and accountability processes at the subnational and national level.

Tax avoidance and evasion: There is currently little or no tax compliance by elite High Net worth Individuals (HNWIs) who invest in tax havens and do not declare their incomes received therefrom hence amassing illicit wealth and further benefiting from political capital and connections in evading taxes. For example, the 2017 Paradise Papers leak revealed how a prominent Ugandan politician had significant offshore investments in a tax haven. There is also non-compliance through aggressive tax planning by multinational corporations who may take advantage of existing Double Taxation Agreements (DTAs) and other international tax norms to pay the least amount of tax possible.

What we want: Government should provide severe penalties for HNWI who are non-compliant, use of exchange of information mechanisms with foreign jurisdictions and renegotiation of DTAs to give Uganda better terms.

Furthermore, government should implicate those who encourage tax evasion as per section 52 of the penal code.

Government should also ensure that in re-negotiates its harmful tax treaties and incase of newly negotiated treaties ensure that it protects its taxing rights.

Existence of a regressive tax system: The Ugandan tax system is regressive in a variety of ways. Taxes that disproportionately impact on low-income earners such as the Mobile Money Tax and the Social Media Tax exist. Taxes are charged on basic items used in all households such as VAT on sugar and salt; excise duty on sugar etc.

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1 Internet penetration in Uganda stood at 24% . See Data Reportal , Digital 2020 Uganda https://datareportal.com/reports/digital-2020-uganda

The taxes paid are indirect in nature and consequently take a larger percentage of the income of low-income households than for the high-income households.

What we want: Taxes need to be revised to ensure that they become progressive. Government should rely more direct taxes and ensure that people are paying taxes according to their earnings.

Improved accountability for taxes: Another major challenge is accountability for the revenue collected. There has been very poor accountability for taxes which leads to low tax morale-the voluntary willingness to pay taxes.

We want: Taxes should be linked to the quality of social services such that the taxes can be seen to be working.

Government should put in place a structured accountability mechanism on the revenue collected and how it is utilised.

Easing access to credit: There are significant challenges to accessing credit. The provision in the Stamp Duty Act that requires a payment of 0.5% or 1% of the value of the amount borrowed towards mortgages and chattels securities is an unnecessary additional barrier. According to URA, in 2019/2020 UGX 40 billion was collected from these two loan instruments. In the post COVID era, businesses will need easy access to credit in order to survive and to grow.

What we want: The Stamp Duty Act should be amended to provide for Nil duty on mortgages and chattels securities in order to ease access to credit. However, the overall benefits of easing access to credit in an economy that is in recovery will lead to sufficient revenue collections under other tax heads which will offset this amount lost.

Maximizing Revenue from the Oil, gas and Mining sector: Uganda is blessed with a wide variety of mineral and oil deposits. However, there have been deep concerns over the lack of transparency in the management of revenues arising from mineral resources particularly oil and gas and the mining sector in general. In addition, the oil, gas and mining sector in Uganda is facing a number of challenges including a weak regulatory, legal and institutional framework.

We want: Proper management of revenues from the oil and gas sector through transparency.

Publication of Legal Agreements: Government should ensure that all legal agreements related to the mineral sector are publicly disclosed and made available online. Furthermore, tax laws should be reviewed to include PSAs and other taxes, duties, levies or other lawful impositions in the extractive sector.

Government should also put in place strict measures to ensure that Local Governments are able to collect and benefit from royalties accruing from the existence of mineral, oil and gas deposits and wells within their constituencies.

Focus on new sources of revenue: Despite the global economy being mired in an economic recession due to the worsening COVID-19 pandemic, five US tech giants – Google, Amazon, Facebook, Apple, and Microsoft – have continued to generate profits running into tens of billions of dollars. Recently the online Zoom platform reported a double increase in profits. Additionally, a recent study revealed the adoption of trade rules on electronic commerce in the trade agreements that will undermine developing countries' digital development, tax justice and progress towards the SDGs.

Some of the trade rules identified on electronic commerce in the trade agreements are: unrestricted cross-border transfer of information related to business and prohibitions on requirements to hold data locally; the right to use servers and other computing facilities located in any country, and no requirements to use local computing facilities, including servers; non-disclosure of source codes and algorithms; prevent requirements for offshore service providers to have a local presence or take a particular legal form if they have a presence, and "reasonable, objective and impartial" administration of laws of general application; and a permanent moratorium on levying customs duties on electronic transmissions.

Furthermore, although the government provides for taxation of the digital economy, the administrative capacity is still lacking. Section 16(2)(d) of the VAT Act provides that the supply of services shall take place in Uganda if the recipient of the supply is not a taxable person and the services are electronic services delivered to a person in Uganda at the time of supply. Therefore, there is a need for these non-resident businesses to register for this tax.

We want: The government should embark on international, regional and national strategies to strengthen domestic industrial capacity, bridge the digital divide and reduce dependence on the dominant corporations which lead

There is need for collaboration between the Ministry of Finance and Ministry of Trade to ensure that the trade rules adopted do not hinder effective taxation of the digital economy.

There's need for government to put in place a strict mechanism to ensure that digital companies are able to comply provisions as set out in the VAT Act.

Focus on agriculture: Specifically, agriculture has consistently remained one of the most underfunded and slowest growing sectors of the economy. In FY2019/20, agriculture sector was allocated 1,053 billion. The proportion of the budget dedicated to agriculture is also below the 10% that Uganda committed to under the Maputo Declaration. As a result of underfunding, the sector that employs 70% of Uganda's population, is only able to contribute to 20% of the country's GDP.[2] Low investment in this sector worsens inequality and leaves the poorest and most vulnerable behind. Indeed, recent figure from Uganda Bureau of Statistics indicate that the national poverty level has increased from the 19.7% in 2014/15 to 21.4 per cent in 2016/2017. [3]

In July 2018 a WHT at a rate of 1% for agriculture was introduced. However, in July 2019 the tax was repealed and agricultural supplies exempted from WHT under Section 119(5) (h) of the Income Tax Act. More still, in 2019/2020, the entire sector contributed just UGX 14.9 billion in revenue or 0.09% of the total revenue collections of the year.

We want: Government should invest more in the agricultural sector to ensure that the sector is able to maximize its potential contribution to the country's development. This will enable the government ably raise revenue in case it opts to tax the sector.

Tax harmonization: The main objective of tax harmonisation is to foster competitiveness, employment and further contribute to the sustainability of public finances in the EAC in order to promote investment, free movement of goods and services in the community in

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2 Ministry of Agriculture (2020, August) How important is agriculture in Uganda? https://www.agriculture.go.ug/agricultural-sector-potential/

3 Uganda National Household Survey, (UBOS 2017)

accordance with the EAC treaty and common market protocol.

Tax harmonisation also aims to ensure that national tax rules are consistent with the community's overarching goal of improving the welfare of East Africans and that they do not give businesses from one country an unfair advantage over their competitors in another country. Despite the efforts made to harmonise tax policies, countries have failed to agree on specific tax rates and this has mainly been attributed to the need to attract Foreign Direct Investment. As a result, countries have been seen to lower tax rates or provide lengthy tax holidays and incentives to potential investors. This has led to what may be termed as "A Race to the Bottom" and has partly contributed to low revenue collections across the East African countries have stagnated at a Tax to GDP ratio of 12.8%, 18.8%, 13.3%, 16.1% and 13.0% in Uganda, Kenya, Tanzania, Rwanda and Burundi respectively. This is way below the potential 25% tax to GDP ratio for the East African region.

What we want: There is great need for governments within the East African Community to take steps towards harmonising their tax systems as part of the process of encouraging investment while at the same time protecting their revenue base.

Local Revenue Mobilization: At the sub-national level, the local governments have over the years remained dependent on conditional and other grants from the central governments with minimal resource flexibility to fulfil their responsibilities of delivering key social and economic services including: agriculture extension services, public health services, primary and secondary education, roads, water and sanitation. Among the attributable causes of low local revenue mobilization performance among local governments is the limited capacity of local governments to identify, collect and allocate locally raised revenues. And yet on the other hand the limited capacity of citizens at local level to participate, engage and hold duty bearers around how revenues are mobilized, allocated and utilized remains low. Moreover the existing legal and policy frameworks for creating an enabling environment for effective mobilization of local revenues at the local level remain but weak and in some instances unavailable.

We want Government to:

- Allow for the creation of a fully-fledged district revenue section in Local Governments rather than appointing the Finance Officer to solely manage the issue of local revenue.
- Provide a policy for uniform rates of licenses for Local Government to avoid multiple taxation.
- Put a halt to the creation of new administrative units as this leaves either the new or old administrative units with little or no revenue sources hence increased reliance on Central Government transfers.
- Avoid political pronouncements on matters of taxes which has promoted others people/institution from tax avoidance.

Conclusion

As CSOs under the Tax Justice Alliance Uganda, we hope that these issues can be adopted into the manifestos of the different political aspirants and later implemented to ensure sustainable and equitable financing towards Uganda's development priorities.

FOR A FAIR JUST AND ACCOUNTABLE TAX SYSTEM IN UGANDA

We the undersigned;

Southern and Eastern Africa Trade Information and Negotiations Institute (SEATINI Uganda) | Oxfam in Uganda | Civil Society Budget Advocacy Group (CSBAG) | Uganda Debt Network (UDN) | Water Governance Institute (WGI) | ActionAid International Uganda (AAIU) | Youth For Tax Justice Network (YTJN) | Citizens Watch Uganda (CEW-IT) | Eastern African Sub-regional Support Initiative for the Advancement of Women (EASSI) | Forum for Women in Democracy (FOWODE)|Uganda Women's Network (UWONET) | Uganda Youth Network (UYONET) | Africa Freedom for Information Center (AFIC) | The Open Forum Initiative (TOFI) | Cyber Law Initiative (Cyber-Line) | Food Rights Alliance (FRA) | Uganda National Health Consumers Organization (UNHCO) | Rwenzori Anti-Corruption Coalition (RAC) | Transparency International Uganda (TIU) |Twaweza Uganda | Equality Now Uganda | Initiative for Social and Economic Rights (ISER) | Kick Corruption Out of Uganda (KICK) | Kanungu Community Efforts for Rural Transformation (KACOERT) | Gulu NGO Forum | Kalangala NGO Forum (KADINGO) | CEED | Forum For Rights Awareness and Monitoring- Uganda (FORAMO) | Mukono NGO Forum, Kitgum Women Peace Initiative (KIWEPI) | Yumbe NGO Forum | Nebbi NGO Forum | Arua NGO Forum | Mukono NGO Forum |Public Affairs Center of Uganda (PAC-Uganda) | South Buganda Anti-corruption Organization | Community Empowerment for Rural Development (CEFORD) | West Nile Youth Empowerment Center | Koboko Civil Society Network (KOSCINET) Advocates in Research and Development (ARID) | Forum for Women in Democracy (FOWODE) |Women & Girl Child Development Association (WEGCDA) |Resource Rights Africa (RRA) | African Center for Trade and Development (ACTADE)|Publish What You Pay| Institute for Social Transformation (IST) | Jannant General Agencies Ltd| Kane Business Consultants Ltd

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