

# Examining taxes on agriculture

Where the new tax proposals have raised a lot of debate, government say they are necessary to fund a number of large infrastructure projects that will benefit the country in the long run.

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In the coming financial year (2018/19), which is just two months away, Uganda Revenue Authority (URA) will be required to domestically raise Shs16.2 trillion.

Out of that, about Shs418b is expected to be raised from non-tax revenue.

This amounts to about 53 per cent of the total resource envelope, which is estimated at nearly Shs30 trillion.

The theme of the budget as it stands: "Industrialisation for job creation and shared prosperity," is a key slogan that rhymes well. The question now is; will the implementation follow the rhythm?

However, given past trends there has been a variance between revenue projections and actual collections.

In the financial year 2016/17 net collections stood at Shs12.7 trillion, registering a shortfall of about Shs500b.

The deficit was about the size of the current budget allocated to the ministry of Agriculture and slightly more than four times the current budget of the ministry of Trade.

To cover up the deficit, government was compelled to rely on external and domestic debt, which currently stands at 27 per cent of GDP, according to the 2017/18 Budget Speech.

So far the second biggest expenditure of the budget will go towards servicing interests on debts secured by government.

According to a report by the Parliament's Committee on National Economy for the 2016/17 financial year, the rate at which Uganda is paying off its debt, will take approximately 94 years or more to repay the existing stock of debt.

Uganda Debt Network Research indicates that the total public debt by June 2017 was in excess of \$13b (about 47.5 trillion) while Bank of Uganda has put the "provisional total public debt stock (at nominal value) as at end of December 2017 at Shs379 trillion.

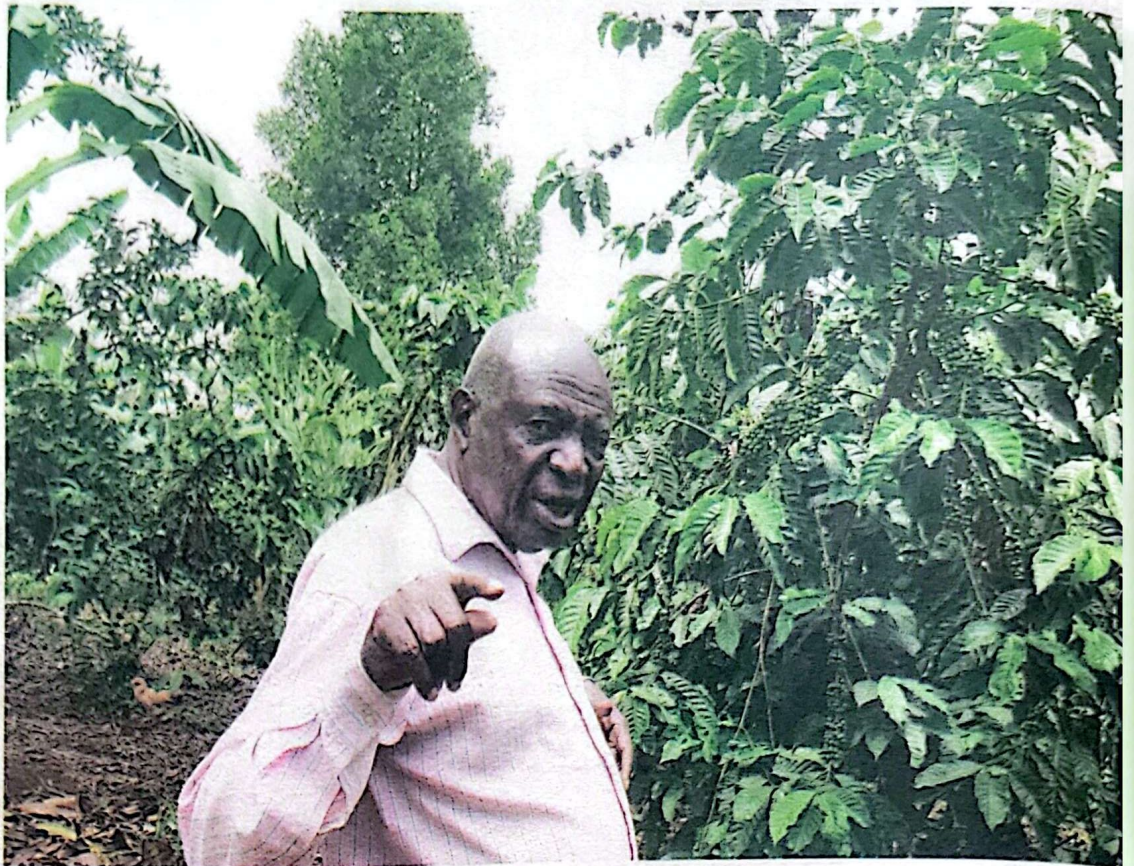
### Tough start

In the current financial year (2017/18), URA has a net revenue target of slightly over Shs15 trillion.

According to a tax performance report compiled by URA, the tax body opened the first quarter of the 2017/18 financial year with a collection deficit of Shs132b.

Such deficits registered earlier on in the financial year tend to run through the entire calendar.

However, in a recent interview, Morris Akol, the URA commissioner general, showed optimism, saying by the end of the financial year in June, the



## REVIEW UNDER CONSIDERATION

Regarding the exemptions on industrial parks and free zones, David Bahati say it will be reviewed. This is emphasised further by Moses Kagwa, who says the exemptions will be reviewed downwards in terms of investment and probably even the years under which the incentives can be granted. However, Lawrence Oketcho believes

exemptions must primarily benefit local investors under the guidance of the laws. Jolly Kamugra Kaguhanjiri, the Uganda Investment Authority executive director, agrees on this and says the intention of the proposal is to have it formulated into a law that will guide on how and who benefits incentives and exemptions.

Taxing low scale agriculture, according to some experts, will have dire consequences on a sector that is trying to uplift itself from years of low activity. PHOTO BY EDGAR R. BATTE

Shs15 trillion target would have been realised or even surpassed.

### To exempt or not to

Some of the tax proposals and revenue measures for the financial year 2018/19 presented to a committee of Parliament last week for scrutiny have attracted concern from different quarters that argue that the tax bills are a typical case of giving with one hand and taking away with the other.

For instance, members of the Tax Justice Alliance are concerned with the proposals to exempt a developer of an industrial park or free zone whose investment capital is at least \$200m for a period of 10 years.

According to the proposal, the income of an operator in an industrial park whose investment capital is at least \$30m for a foreigner or \$10m for citizen shall be exempted from tax.

"...we have observed that the clause in the Income Tax (Amendment) Bill does not define what amounts to 'commencement of construction' and 'commencement of business' for developers and operators respectively which leaves room for abuse," Nelly Businye Mugisha said while presenting the position of Tax Alliance Uganda to the Parliamentary Committee on Finance, Planning and Economic Development last week.

"We [also] note that the proposed period of 10 years for which to exempt income of developers is too long and will ultimately lead to revenue loss," she added.

According to the statement presented by the Tax Alliance Uganda the criteria laid out in the Excise Duty (Amendment) Bill, VAT (Amendment) Bill and the Stamp Duty (Amendment) Bill requires at least one hundred employees to be Ugandan citizens and experience has shown that most of foreign owned companies employ the locals to solely do petty jobs which do not necessarily improve their quality of life.

## SHS418B

THE AMOUNT OF MONEY THAT GOVERNMENT IS EXPECTED TO MOBILIZE FROM THE NEW TAX PROPOSALS. THIS WILL BE USED TO FUND THE 2018/19 BUDGET

A study titled: *Costs of tax incentives to Uganda's socio-economic landscape*, reveals that incentives have not delivered as expected in many areas such as providing jobs, revenue to the government and attracting investment.

The study by local and international civil societies indicates that on average, government spends at least Shs75b every financial year on a range of companies that are entitled



# and the exemptions

to tax holidays and exemptions on import and excise duties.

The amount spent on exemptions every year is almost Shs14b higher than the financial year budget allocated to Mulago Referral Hospital.

Revenue foregone over the last eight financial years is in excesses of about Shs7.6 trillion.

This is an equivalent of nearly half of the money needed to be collected domestically to finance next year's budget.

In addition, tax holidays and preferential tax treatment create other unintended and unforeseen tax planning opportunities that are commonly exploited by corporations.

Several companies, including multinational corporations, employ all kind of tricks just to avoid paying taxes.

This is in addition to outright tax evasion, which has since become a way of life to most corporations operating in the country.

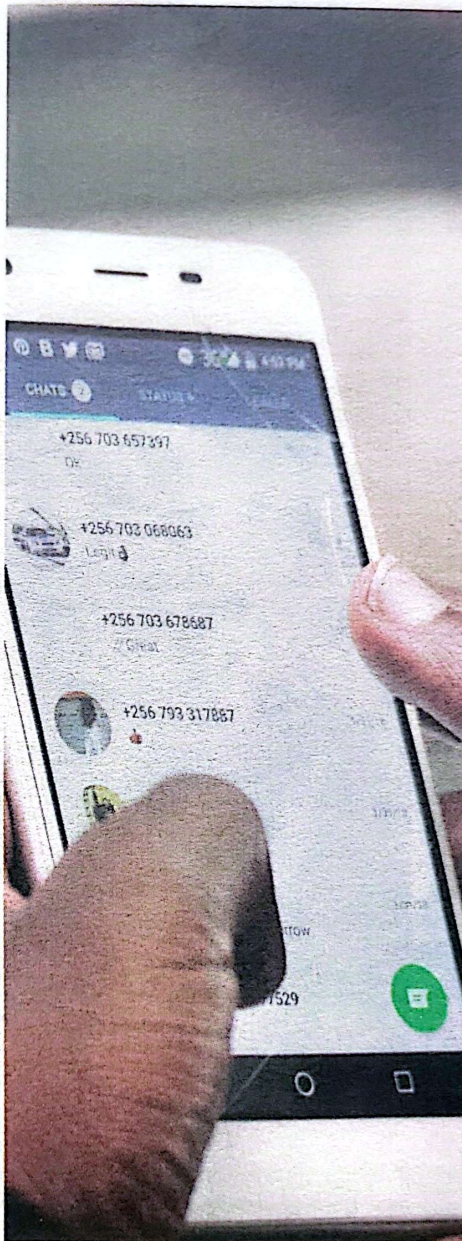
As a result, a conservative estimate of about Shs2 trillion, according to a report on illicit financial flows, is being lost every year to illegal activities by the multinationals operating here.

A report by the African Union or Economic Commission for Africa High Level Panel on illicit financial flows, chaired by former South African president Thabo Mbeki, indicates that multinationals in Africa deny the continent its due share of revenue through tax evasion, money laundering and false declaration.

Other illegal methods used include: overpricing, transfer pricing (inside trading), tax evasion, money laundering and corruption.

### To tax or not to tax agriculture

Government has proposed that a person who makes a gross payment for agricultural supplies in excess of Shs1m shall withhold tax on the gross amount of the payment at the rate of 1 per cent.



Also, the proposed tax on social media has been a talking point. PHOTO BY ERONIE KAMUKAMA

This proposal has attracted divided opinion with some saying commercial agriculture should generally be contributing more into the coffers while others argue that the sector be exempted because of its crucial role in food security and impact on economy.

David Bahati, the state minister of Finance for Planning recently told the parliamentary committee that it is only fair that those who earn money from agriculture contribute something into the national coffers, adding: "For those who sell or supply stuffs, we only need very little from them."

According to Moses Kaggwa, the commissioner tax policy at the Ministry of Finance, it is only those selling to processing facilities and companies that will pay tax.

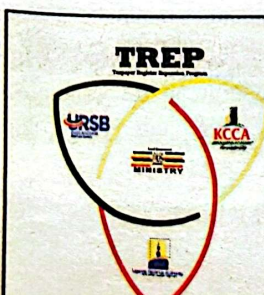
Meanwhile, Uganda Manufacturers Association supports the idea, arguing that reduction from 6 per cent should be welcomed because many people had failed to pay it.

However, the 1 per cent, according to Lawrence Oketcho, a policy and advocacy manager at UMA, is fair.

In an interview, Prof Augustus Nuwagaba, a development economist, says taxing low scale agriculture defeats the purpose, wondering why government is taxing "primary production and small holder farmers using rudimentary methods of farming".

Tax, he say, must be geared towards value addition and commercial agriculture, short of which government is flogging a dead horse.

As for Amos Lugoloobi, the chairperson of the Committee on Budget, believes that every person must contribute to the national coffers to allow the country fund its expenditure.



## THE TAXPAYER REGISTER EXPANSION

The Government of Uganda through KCCA, URA, URSB and the Ministry of Finance has identified offices where you can access the following services in one location. These services include: Identification Number (TIN) and license acquisition.

**The One Stop Shops upcountry are located at:**

• Lira URA office

- Ntungamo - Municipal Council
- Soroti - Municipal Council
- Mubende - Western Division

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