CSO POSITION PAPER ON TAX REVENUE PROPOSAL MEASURES FOR FY 2016/17

1.0 INTRODUCTION

Civil Society Organisations[1] in Uganda committed to advocacy on promoting a fair and transparent tax system which is conducive for sustainable national economic development, analysed the proposed tax bills FY 2016/17 presented by the Finance Minister Hon. Matia Kasaija on 11th March, 2016. The Minister's proposals are covered in desired amendments to key legislations; the Finance Amendment Bill 2016, the Income Tax (Amendment) Bill 2016, the Excise Duty (Amendment) Bill 2016, the Value Added Tax (Amendment) Bill 2016, the Stamp Duty (Amendment) Bill 2016 and the Income Tax (Amendment) Bill, 2016.

We commend Ministry of Finance Planning and Economic Development for proposing a number of progressive taxes to improve revenue mobilisation, re-pricing, representation and redistribution of income. However, we observed that some proposed revenue measures do not suit the current state of the economy and hence should be stayed. The following analysis and recommendations were made:

2.0 PROPOSED NEW TAX REVENUE MEASURES UNDER THE INCOME TAX BILL 2016

2.1 Clause 2: Amendment of the Income Tax Act

Observation

Section 38(1) of the Income Tax Act permitted carrying forward losses for tax purposes and therefore amending the section to reflect what is captured under section 75 is to limit companies from deducting losses where ownership of the company has substantially changed.

Recommendation

This amendment is welcome as it limits companies from continuous change of ownership for the purposes of evading taxes.

2.2. Clause 3.Amendment of section 83 of principal Act (Tax on international payments)

Observation

We observe that this is a very good effort to broaden the tax base by targeting every income on every nonresident person. However, the administrative measures to collect this tax should be well articulated and put in place to ensure compliance and generate the desired revenue.

Recommendation

CSOs recommend that this is adopted with clearly defined administrative measures to achieve the targeted revenue.

[1] The Civil Society organisations included SEATINI Uganda, Uganda Debt Network, Action Aid International Uganda (AAIU), Civil Society Budget Advocacy Group (CSBAG), Citizens Watch-IT (CEWIT), Women and Girl Child Development Association (WEGCDA), Institute for Social Transformation (IST), African Center for Trade and Development (ACTADE), Food Rights Alliance (FRA) and Uganda Women Entrepreneurs Association Limited (UWEAL).

2.3 Clause 10:Amendment of First Schedule to principal Act

Observation

The amendment seeks to exempt the International Centre for Research in Agro forestry (ICRAF) and the International Potato Centre from paying tax because of their contribution to growth of the agricultural sector.

Recommendation

- We recommend that the research equipment and only those items to advance agriculture productivity be exempted. Blanket exemptions should be discouraged.

3.0 PROPOSED TAX REVENUE MEASURES UNDER VALUE ADDED TAX (AMENDMENT) BILL 2016

3.1. Clause 2: Amendment of the Value Added Tax Act

Observation

This section intends to expand the category of those required to register to pay Value Added Tax to include those undertaking midstream operations as defined by the Petroleum (Refining, Conversion, Transmission and Midstream Storage) Act 2013.

Recommendation

- We recommend that this be taken on as it will increase our revenue earnings and also these persons will be effectively monitored and supervised.

3.2 Clause 7: Amendment of Second Schedule to principal Act.

Observation

In addition to machinery, tools and implements suitable for use only in agriculture detailed in the Value Added Tax (Amendment) Act 2014, Government seeks to include the agricultural processing machinery as well as supplies detailed in the Bill that should be exempted from VAT.

Recommendation

This proposed amendment is critical in supporting mechanization and value addition and increase our export earnings that are currently being hindered by the limited value addition initiatives. We call upon government to ensure that this measure if approved by parliament be monitored for the benefit of farmers.

4.0 TAX PROPOSALS UNDER THE FINANCE AMENDMENT BILL 2016

4.1 **Clause 2.Amendment to the Finance Act 2014**

Observation

- Taxing lubricants has the likelihood of affecting industrial production, transport sector and value addition thus limiting growth of our domestic industries.
- Steel rolls are crucial in manufacturing building materials; steel raw materials should be excluded but all finished steel products should be included on the list.

- Diapers are products used by babies (thus having a gender dimension for mothers), the elderly, and sick. The alternatives pose a hygiene challenge.
- Some of the paper imports are raw materials for industries that manufacture books. There is need to clarify which paper products should be taxed to exclude raw materials for book production.
- Radios and TVs are sources of information for many in the country, thus there should be classifications of which of these should be exempted from tax.

Recommendation

- Exclude Lubricants from taxation since petrol and diesel have increments proposed and lubricants are vital in vehicle/machinery maintenance and can contribute to deterring accidents.
- Tax should be imposed on imported finished steel products but not raw materials and those manufactured locally to encourage local industry.
- Parliament to exclude small TVs and radios from the proposed list to bridge the information gap.

4.2 Clause 3.Amendment of the Finance Act, 2009, Act No.14 of 2009
Observation:

The bill seeks to increase the levy on used clothes, used shoes and other used articles to 20% of the Cost Insurance and Freight Value. Used clothes, shoes and other used items pose a health risk to the society and their importation should be discouraged.

Recommendation (s)

- Given the health risks, the tax can be increased to **40%** to discourage the consumption of used risky items and phased out by 2019 to comply with the EAC proposal.
- Consider reducing production costs for instance electricity for home industries making clothes and other essentials.
- Impose a higher tax on imported cheap textiles.
- Provision of tax incentives for local manufacturers to produce these essentials and increase the quantities required for consumption.
- In addition government in the meantime should prioritize supporting strategic interventions aimed at having a local market with capacity to supply locally made clothes by 2019

4.3 Clause 6: Amendments to the Road, Traffic and Safety Act
Observation

The amendment seeks to increase notification for change of vehicle time from 14 days to 3 months-acceptable with the penalty for non-compliance is 6 months. Furthermore, Section 41 seeks to institute a 5 year driving permit in addition to the one year and 3 year permits.

The fees payable under the principal Act specified in the Schedule are revised by the corresponding fees specified in the Schedule.

Table showing the current fees and the proposed permit fees

	Current Fees		Proposed fees		
Category	one year	3 years	one year	3 years	5 years
Provisional Permit	24000	0	30000	0	0
New permit	56000	66000	55000	150000	250000
Foreign exchange	56000	66000	55000	150000	250000
permit renewal	46000	56000	55000	130000	200000
class extension	41000	0	0	0	0

Observation

- Whereas we appreciate the efforts to make the fees for the one year permit progressive by reducing the cost of the new permit from UGX 56000, to UGX 55,000, we note the 127% increment on the 3 years permit is rather too high.
- While we also appreciate the effort to introduce the 5 year permit, the new permit fees are also very high.
- We also observe the increment in respect to personalized number plates

Recommendation

- New permit rates for both 3 and Five years should be reduced by UGX 50,000 to make them affordable
- Increase class extension from UGX 41,000 to UGX 60,000.
- The increment in respect to personalized number plates to UGX20, 000,000 should be approved Parliament.

4.4 Clause 7: Uganda Revenue Authority to issue certificates of origin.

The Uganda Revenue Authority shall be responsible for issuing Certificates of Origin required by section 111(2) of the East African Customs Management Act, 2004.

Observation

The need for maintaining quality produce from Uganda needs to be re-in forced by co-option UNBS as a key state holder on process.

Recommendation

- The certificate of origin should be accompanied by a certificate of quality issued by UNBS

4.5 Clause 8: Waivers of Tax Arrears for SACCOs

All tax arrears owed by a SACCO as at 31st December, 2015 are waived

Observation

The move is understandable considering challenges facing SACCOs and the issues .We however note that there is need to establish the number of SACCOs that are indebted to URA and at what levels. More importantly, we need to ask the pertinent question of how much revenue has been/ will be fore gone?

Recommendation

- Government should provide details in respect to financial implications of this measure.
- Government should put in place measures to ensure that only viable SACCOs are allowed to operate and scenarios/circumstances leading to inability to pay tax should not re-occur.

5.0 TAX PROPOSALS UNDER THE STAMPS (AMENDMENT) BILL, 2016

5.1. Clause 2: Amendment of Stamp Duty Act, 2014.

General Observation

The Stamp Act is to be amended to raise duties in the act where UGX 5000 is mentioned to UGX 10,000 which is 100% increase.

It is further observed that exchange of property which has been attracting stamp duty of 1% is being proposed to attract 2% and same to transfer on item 64.

Recommendation

We recommend the revision from UGX 5000 to UGX10, 000 for the relevant instruments to match the cost of providing the service. By increasing stamp duty for property to 100% i.e. from 1% to 2% of the value, it will may encourage under valuing of property in order to pay less stamp duty. We recommend that this revision be structured to value bands instead of one uniform rate.

6.0 TAX PROPOSALS UNDER THE EXCISE DUTY (AMENDMENT) BILL, 2016

6.1 Clause 2. Amendment of the Excise Duty Act, 2014, Act No.11 of 2014.

Observation

This amendment provides for refund of excise duty for raw materials for approved health care or medical products. This is good for encouraging investments in health/medical products

Recommendation

We recommend this revision but urge ministers responsible for Finance and Health to ensure that this benefit goes to the intended tax payers.

6.1 Clause 3. Amendment of Schedule 2 of the principal Act.

Observation and Recommendation

The duties proposed are relevant especially for luxurious goods. The needs for a common ground in respect to essential goods like oil and lubricants.

7.0. OTHER SOURCES OF REVENUE:

In addition to the aforementioned tax proposals, CSBAG proposes the following tax proposals for Government consideration so as to enhance revenue mobilization:

7.1 **Government should painstakingly re – introduce the Graduated Tax (GT):** This is one of the most progressive taxes because it is paid on the basis of one's income. This will not only improve local revenue collections but also reduce pressure on the central government for financing the LGs. The only problem with GT was its collection which can be improved. Local Governments can partner with Uganda Revenue Authority to collect this tax .Every taxpayer in Uganda will then be assigned a Tax Identification Number to protect the process from abuse as was the case. This strategy will not only help to broaden the tax base but will also make all eligible people to contribute to national development by paying taxes.

7.2 **Introduce Tobin tax:** Foreign exchange traders are making high profit margins arising out of the recent volatile market. This Tax can help redistribute income from developed world to the developing world and can further help to on reduce speculation. We propose a 1% on all currency trades.

7.3 **To collect more revenue, imposition of an environmental tax on the firms and companies that have a carbon foot print on the environment is very critical:** This money can be used to correct the damage done to the environment, invest in forestation and clean energy, management of wet lands, and other forms of environmental degradation.

7.4 **Re-introduction of road tolls on the new infrastructure transport projects especially express ways that are outside the normal public road networks:** This will not only provide resources for maintenance of roads, both at national and local level, but also reduce pressure on the national budget concerning fixing the road network.

7.5 **Institutionalization of Property tax:** Despite government pronouncements to start collecting this tax, no effort has been made towards this end. We envision that once implemented, this measure can generate not less than UGX 50bn per year.

7.6 **Special taxes for infrastructure projects:** We call upon government to interest the current generation in financing infrastructure projects for which they are immediate beneficiaries. For example, imposing a tax for construction of Karuma dam would greatly relieve government pressure to borrow money and will increase citizen ownership of public projects.

7.7 **Tax on companies that perpetually declare losses:** It is a habit for firms to manipulate their books of accounts and declare losses to URA to they do not pay the corporation tax. We propose that any company that reports losses for three consecutive years should pay a turn over tax as is done in some EAC countries like Tanzania.

7.8 **Reforming Non Tax Revenues:** Government should initiate reforms aimed at enhancing NTR with a view to revising the respective rates upwards to match the current economic circumstances. For example application fees at Courts of Judicature is at UGX 1500= and yet one requires about UGX 2200= as bank charges which doesn't make economic sense.

7.9 Introduce "Ad Valorem" Tax of Idle Lands: This tax should apply to idle land in the city and other urban centres. We propose 1% tax on the total /assessed value of the land .This tax could also extend to idle farm lands in the country side in which 0.2% is proposed. This this tax can help bolster revenue collections for Local Governments. For clarity this tax is levied annually on the assessed value of a real property that remains uncultivated and unimproved by a property owner.

8.0 CONCLUSION

Mobilizing adequate domestic revenues through taxation is important for enhanced sovereignty in providing public goods and services and implementing planned Government projects. Furthermore, taxation facilitates income distribution to address poverty and inequality.

As Civil Society Organizations, we call upon Government and other stakeholders to put into consideration the above observations and recommendations so as to ensure an improved tax regime, gender responsive and equitable national development. It is noteworthy to emphasize the importance of efficiently utilizing these resources so as to meet citizens' needs particularly those of the marginalized.