

PRESS STATEMENT

CSO CONCERNS ON DOMESTIC REVENUE MOBILISATION

“Enhancing Domestic Revenue Mobilization to Finance the Budget”

Date: 16th February 2020 | Venue: CSBAG offices, Ntinda, | Time: 10.00am – 12.00pm



From Left: Juliet akello-CSBAG, Patrick Katabaazi-Tax Expert, Julius Mukunda-CSBAG ED, Julius Kapwepwe-UDN and Regina Navuga- SEATINI Uganda during the press conference at CSBAG offices on 16th February 2020

1. We the Civil Society Organizations under the Umbrella **Civil Society Budget Advocacy Group (CSBAG)** together with **Tax Justice Alliance Uganda** are gathered here to share views on domestic revenue mobilization strategies that will enhance Uganda’s domestic revenue collections. At the moment, Uganda is facing a number of challenges in mobilising adequate tax revenue thus failure to hit its set revenue targets and finance the budget.
2. **We appreciate efforts by government and URA in trying to improve revenue mobilization by implementing a few reforms namely;**

- a. Taxpayers Expansion Project (TREP),
 - b. Digitalization of tax collection,
 - c. supporting collecting local revenue,
 - d. Enhancing tax compliance
 - e. Travel Assessment System at Entebbe Airport for checking drug smuggling, wildlife tracking, terrorism and customs violation as a way of enhancing surveillance on suspicious customs transactions.
3. The above measures have resulted in a year to year growth in revenues. For example, FY2018/19 was UGX 16,358.75 billion and increased by 24.4% to UGX 20,344.13 billion FY 2019/2020 or an increment of approximately 1.4% Tax to GDP ratio.
 4. Despite the above performance, URA over the NDPII period was able surpass its target in only one year-FY 2018/19. On average URA was supposed to collect UGX 65,973.14 bn in four and a half years but it collected UGX 64,066.27 bn which a posted a deficit of UGX 1,906.87 bn (16.6% deficit). This amount would finance the tourism budget for the next 10 years at the current allocation of UGX 193.7 bn.

Fiscal Year (FY)	Targets (UGX Bn)	Collections (UGX Bn)	Variance (UGX Bn)	Percentage (deficit)/surplus
FY 2015/16	11,635.42	11,230.87	-404.55	(3.48)
FY 2016/17	13,177.15	12,719.63	-457.52	(3.47)
FY 2017/18	15,062.43	14,456.11	-606.32	(4.03)
FY 2018/19	16,358.75	16,617.65	258.90	1.58
FY 2019/20**	9,739.39	9,042.01	-697.38	(-7.16)

*** -Half Year FY 2019/20

URA Revenue collection performance: During the half year period of FY 2019/20 - July to December 2019, URA was projected to collect UGX 9,739.39 billion however, URA collected net revenue of UGX 9,042.01 billion thus falling short by UGX 697.38 billion. The shortfall has implications on the budget financing arrangements which may affect service delivery to disadvantage all Ugandans

WHY THIS PERSISTENT UNDER PERFORMANCE?

1. Counterproductive tax measures.

Government insistence that taxes such as OTT and mobile money would contribute more to our revenue base has not yielded the results we expected. According to URA, VAT attributed to a lower than expected outturn of UGX 92.02 billion on phone talk time, UGX 38.27 billion on sugar, UGX 28.62 billion on beer and UGX 41.32 billion from the wholesale and retail trade. The Commissioner General attributed this shortfall to many people using internet calls as opposed to phone talk time. The Value Added Tax (VAT) on phone talk time was affected by the changes in user tastes where users prefer the use of data for communication through WhatsApp, viber and facebook as opposed to direct calls using airtime. Government can definitely design better strategies of generating revenue than such a tax which restrict access to information through tax.

2. Delayed implementation of some tax administrative and policy measures.

We note with concern that URA reported delayed implementation of planned policy and administrative measures that were targeted to start 1st July 2019 such as; Digital Tax Stamps (DTS), Electronic Fiscal Devices (EFD) and gazetting of withholding VAT agents, rental tax rates and the implementation of a specialized rental income tax collection solution which did not take off. Specifically, digital tax stamps would stamp-out illicit

production and fight counterfeiting, real time tax accounting & reconciliation for tax stamps and real time enforcement. Overall, the policy measures yielded total revenue gain of UGX 52.41 billion by the end of December 2019 against an annual target of UGX 847.00 billion. This affected domestic tax collections leading to a deficit of UGX 38.60 on Spirits and waragi and UGX 37.93 billion on rental taxes. URA projected to collect UGX 49.46 billion from withholding VAT agents after gazetting but only collected UGX 2.98 billion. The delays could have been as a result of limited stakeholder engagements on how smooth implementation could be managed. We also note that URA initially got difficulties in getting budget approved by parliament which delayed some processes thus there's limited political will for URA to collect all the taxes that are required. Going forward, URA should always adequately consult and get a buy-in before tax measures are introduced.

3. “Harmful” tax incentives and exemptions

URA reported that most of the policies and legislative changes introduced for this financial year were revenue reducing and erosion on the existing tax base, especially the corporation income tax base. Examples include changes made to **Section 21(1) (ae), (af), (ag) of the Income Tax Act** introducing income tax exemptions for selected strategic investments. As a result of this measure, URA anticipates to fore go about UGX 500 billion tax revenue in this financial year. Also, during the period July to December 2019, the tax waiver on imported brown husked rice led to revenue foregone of \$ 5.8 million. Further, other policy measures that have led to revenues forgone include; steel billets, cement clinkers, ban on importation of cars above 15 years old among others. The unwarranted tax exemptions negatively impact on domestic revenue mobilization efforts and affect budget financing. Government through ministry of finance should be keen on scrutinizing tax exemptions and tax incentives and grant only tax exemptions that are not harmful to our economy.

4. Revenue leakages due to limited coordination and collaboration of Government entities

The Auditor General's report (December 2019) notes that lack of coordination and cooperation between several government agencies and Uganda Revenue Authority has resulted in revenue leakages. For instance, UGX.54 bn was never collected due to non-coordination between URA and the Gaming board. Additionally, UGX.393.8 billion was never collected due to failure by URA to access the Integrated Financial Information Management System. It was also noted that; a number of expatriates do not pay PAYE due to failure by the Directorate of Immigration to share work permits issued with URA; a number of driving permits are issued without paying the requisite taxes; and a number of instruments are registered by the Ministry of Lands without paying the requisite stamp duty.

5. Limited enforcement on filing tax returns

Many previously imported items in various sectors are currently being manufactured in the country like; tiles, steel products, cement, tile adhesives, cables, motor cycle tyres, household appliances e.g. flat irons, speakers, soap and detergents, cooking oil, biscuits, sugar, juices, cosmetics, among others. This has caused a shift in consumer behaviour with preference for locally manufactured goods at the expense of imported ones. It should be noted that for the first time in history, Uganda had a surplus or favourable balance of trade with Kenya in the Financial Year 2017/18 of \$122.7 million (exports of \$ 628.4 million against imports of \$505.7 million). Uganda also registered a

record highest trade balance in East Africa of \$413.8 million (Exports of \$ 1,220.63 million against Imports of \$806.77 million), in the same period. Whereas this is impressive for Uganda, URA should not register this as a challenge due to reduction of import taxes but should instead find ways of getting taxes by enforcing filing returns by the local producers in a manner that will not affect production and sustainability of the entities involved.

6. Slow and selfish implementation of economic integration (EAC and COMESA)

The implementation of EAC & COMESA comes along with foregone revenue in the short run, hence affecting collections. Despite the impressive performance reports¹ as Ugandans, we get concerned by reports of countries barring our products e.g Kenya stopped Ugandan Milk to be circulated in its markets, yet Kenyan products are freely distributed in the Ugandan markets. Additionally, Terms of Trade in Uganda decreased to 124.08 points in December from 127.78 points in November of 2019. Uganda Terms of Trade. Furthermore, according to PSFU, Uganda has been losing \$16 million (Shs58.9b) every month since Rwanda closed the border, affecting our food and beverages, steel, roofing materials, cement and sugar. Efforts to enhance the value of what we export as Ugandans should be supported such that we get enough value from what we export and improve our terms of trade as well as checking what we import as a country.

7. Loss of revenue due to under assessment of Royalties in the mining Sub-Sector

According to OAG report of 2019, during FY 2018/19, the Ministry of Energy and Mineral Development collected UGX. 10,503,398,902 as mining royalties. A review of reports by the Customs and Excise Department of Uganda Revenue Authority (URA) indicated that Government should have collected UGX. 70,193,258,898, in royalties, using the applicable rate of 5% from gold, tantalum and tungsten. The following weaknesses in the assessment of royalties are noted;

- i.** The Ministry relies on declarations from the mining companies in form of monthly production returns, which are not independently verified.
- ii.** There is no permanent presence of inspectors of mines from the ministry to confirm production figures declared which creates a potential risk of under declaration of production.
- iii.** The MEMD has not set up weighbridges on the major routes where bulky and expensive minerals such as pozzolona, limestone and base metals are transported. and
- iv.** There is lack of coordination between the various Government institutions, and the failure to share the collected data, causes the ministry's inability to institute proper verification mechanisms. The Ministry attributed the above weaknesses to inadequate human resource in the inspection and monitoring division in addition to the limited budget. The failure to close gaps in the royalty assessment and collection processes may lead to loss of Government revenue through under declaration of quantities and smuggling of minerals.

¹ URA reported an increase in the volume of goods from EAC and COMESA member states by 44.2% at a value of UGX 154 billion and the majority of these imported products include; semi-finished gold, sorghum, flavours, pampers, cement clinkers, sugar or industrial for use, sanitary towels, soap and waste & scrap

As CSOs we want to ask Government to address all the weaknesses in the assessment and collection of royalties so that enough revenues are generated from our mineral resources.

8. Irregular Tax refunds

Section 113 (1) of the Income Tax Act (ITA) requires the Commissioner General URA to issue a tax refund on grounds that the affected taxpayer does not have any outstanding liability. Contrary to this, however, the Auditor General's report, December 2019, identified anomalies in this process as there are taxpayers who received tax refunds when they still had outstanding tax obligations to the tune of UGX 2,085,861,790,860. This not only contravenes the law but also denies the Government the much-needed revenue. There is need to curb such anomalies, which lead to gross revenue shortfalls

9. Recommendations

1. Cabinet should approve the DRM strategy and implement it with immediate effect.
2. Government should publish all exemptions for the last two FYs and assess the compliance of the terms of the exemption terms.
3. An investigation by the IGG should be instituted to recover UGX 2 bn paid in error and a robust tax arrears refund system put in place for greater revenue generation and accountability.
4. Government should fast track implementation of regional certification mechanisms of minerals (RCM) to ease monitoring and effective declaration of royalties.

10. Conclusion:

Enhancing implementation of tax administrative efficiency measures and improved political will to support tax measures will effectively eliminate revenue shortfalls and tighten revenue leakage and achieve much needed revenue efficiencies, the key initiatives being implemented by URA such as influence taxpayers' compliance, behaviour/culture, as well as efforts to account to the public on how their revenue is being utilized is a good move to improve the positive tax culture among Ugandans. We hope that, Government can address these CSO concerns so as to achieve effective domestic revenue mobilization to finance our budget domestically and reduce the unwavering burden on external debt.

.... because every shilling counts!!

Contact US

Civil Society Budget Advocacy Group
P.O Box 660 Ntinda
| Plot 11 Vubya Close Tel: 0414 677707 | Web: www.csbag.org

Tax Justice Alliance Secretariat
P.O. BOX 3138, Kampala
Email: seatini@infocom.cu.ug | www.seatiniuganda.org / www.tjau.org