



# CSBAG BUDGET NEWS BRIEF



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Advocating for a People Centered Budget that Dignifies Humanity



## Uganda's Tax Revenue Increases by 15% amidst Economic Stoppage

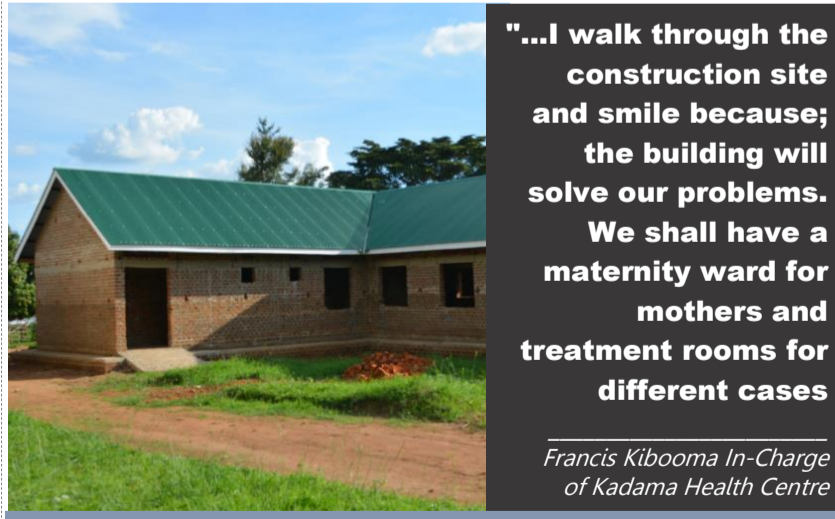
## WEEK IN PICTURES



Mr. Julius Mukunda, Coordinator, Civil Society Budget Advocacy Group in a televised discussion about the alleged Bailout on 27th July 2016. | © CSBAG 2016



Participants from Abim, Sheema, Kibaale, Kibuku and Agago attending a TOT on community budget performance tracking and Advocacy held this week. | © CSBAG 2016



"...I walk through the construction site and smile because; the building will solve our problems. We shall have a maternity ward for mothers and treatment rooms for different cases"

Francis Kiboomba In-Charge of Kadama Health Centre

Kibuku District LG constructed an additional building for Kadama Health Center III after Participatory Budget Club members lobbied for expansion at the center. The center had a small laboratory, consulting room and drug dispensary room, Kadama Health Centre III was almost bursting its seams because many communities depend on the facility. This necessitated construction of a bigger facility but; for many years plans to construct the hospital was put on hold due to lack of funds.

**"On Wednesday 27<sup>th</sup> July 2016, the Uganda Revenue Authority (URA) Commissioner" General Doris Akol released the 2015/16 URA performance and in this Edition, CSBAG shares with you the analysis of the press brief.**



On Wednesday 31st July, 2016 the Uganda Revenue Authority (URA) Commissioner General Doris Akol through a press conference issued a statement about URA FY 2015/16 revenue performance. PHOTO | © Chimp reports

This week, Uganda Revenue Authority (URA) released its performance report for the financial year 2015/16. The report revealed that URA in 2015/16 collected UGX 11.23tn against its annual target of UGX 11.63tn. Whereas the FY 2015/16 revenue collection represented a 15.60% (UGX 1,515.28Bn) growth rate compared to its FY 2014/15 performance, the tax body had a shortfall of UGX 400bn. This performance maintains Uganda's tax to GDP ratio at 12%.

The Commissioner General also stated some of the reasons for the revenue performance which included; strained macroeconomic environment, the exchange rate developments during the FY 2015/16 had a net negative effect on international trade taxes, funding gap of UGX 55.11Bn, reduced Profitability in the Financial Services and reduced Sales and Production.

CSBAG notes that most of the macro economic assumptions for the FY 2015/16 were wrong, which compromised the performance of especially the domestic tax. For example, there was an output gap of 0.8% arising from a GDP growth of 4.6% against the projected 5.4%. Furthermore, the unimpressive fuel volume growth of 7.0% against the projected 9.2% and the drop in non-fuel import value in USD which dropped by -7.6% against the anticipated growth of 8.4% while head line inflation grew at 7.6% against the projected 6.6%. All these factors negatively affected the business operating environment.

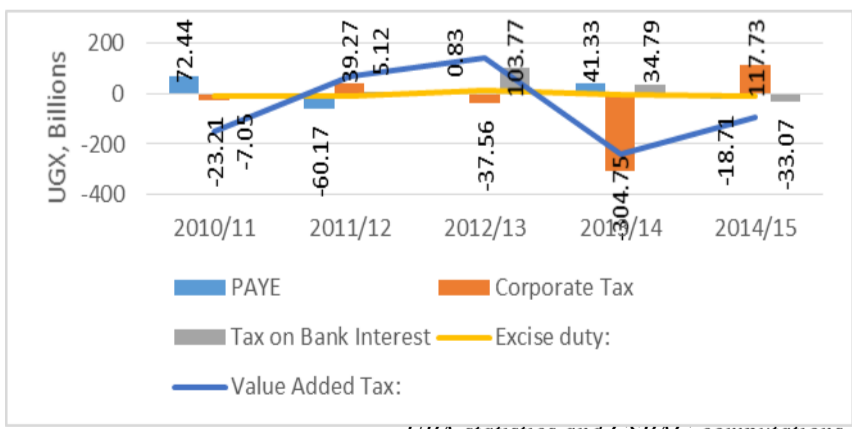
### TAX HEAD ANALYSIS

**Domestic Taxes:** Domestic tax collections in the financial year 2015/16 amounted to UGX 6,399.99Bn which is equivalent to 95.63%. It should be noted that core tax heads such as corporate tax, VAT, PAYE and Local Excise Duty performed below target in this period. A performance which has persisted since FY 2014/15, with the exception of VAT as highlighted in Figure 2. The unimpressive performance of these tax heads is an indicator that the real sector in which these taxes are generated is ailing. The Poor corporation tax performance particularly is harder to explain than what the figure reveal.

This is because since the FY 2010/11, there is an up and down movement in the numbers for the tax head. This could mean that while some businesses are not registering profits, others are registering super normal profits. However, we see the worst performance since the FY 2010/11 in the FY 2013/14 where there was a short fall of over UGX 304.75bn, but the performance later recovered to a surplus of UGX 117.73bn in the FY 2014/15 to now a short fall that is not yet specified in the FY 2015/16.

To note also is that the performance of these tax heads depends greatly on the robustness of the tax administration of URA to improve tax compliance. Often time firms have been accused of 'engineering' their books accounts, the other challenge is still greatly manifested in the informal sector with poor record keeping and many that are unregistered. This hampers URA's tax collection efforts as most firms end up paying a lower value of tax than the actual value, while other actually do not pay at all

### Performance of selected domestic tax heads for the past 5 years



According to URA, the reduction in economic activity led to low demand and affected consumption which affected excise and VAT collections (UGX 239.17Bn). During the FY 2015/16 there was low production especially for sugar, cigarettes and soft drinks sub sectors compared to 2014/15 production levels. This was attributed to an

an increase in imported substitutes for domestically produced good. In addition, there were low sales for cigarettes and sugar sub sectors compared to same period last financial year.

**International taxes.** International trade contributed UGX 4,832.47bn and performed at 97.27%. For customs the core tax heads namely; VAT at importation, import duty performed below target. This was irrespective of the 14.2% average depreciation of the UGX to the USD from a projected outturn of 3,009 to 3,435.95. The shilling depreciated by 25% in 2015 alone.

Import duty, which is a tax collected on imports and some exports, continued to register poor performance with a 64.79 deficit. Withholding tax has for the past two FYs performed poorly but the deficit improved from UGX 89.48bn in the FY 2013/14 to UGX 13.13bn in the FY 2014/15. This meant that more earnings were collected from various importers and registered as government income even when they were still below target.

The 2015/16 revenue performance can be discussed further, but first we need consistent performance reporting from URA. URA needs to provide detailed tax heads performance. In order to further improve URA performance, the following would improve the sustainable increase in revenue mobilisation;

- Withdrawal of predatory tax heads like taxes on interest earned by commercial banks. This will persuade Commercial Banks to lend out money at lower rates to businesses. Other factors constant, the lost revenue in this measure will be tapped from growth in the businesses' profits resulting from access to cheaper capital for investment and as such corporate tax will increase. The other positive impact of this measure would be increase in business size and emergence of new ones due to access to cheap credit will provide more jobs for Ugandan while increasing income of those currently employed. This means that the effective demand, a driver for consumption and business production will increase and URA will collect more taxes through PAYE and VAT.
- On the fiscal front, Government needs to facilitate URA with the necessary resources to improve tax administration. Where this is still a challenge, we take advantage of decentralization and use LGs as agents for URA with an incentive for them to collect and submit taxes to URA. Here the obvious angle is that the LGs know and understand the tax payers in their locality better because they are closer to them as such tax administration could be easier. Central Government has to trust the LG enough to pull this off especially this there are serious capacity gaps in the LGs are regards tax and other revenue mobilisation abilities.