INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

APPENDIX I

TAX & ECONOMIC POLICY PROPOSALS FOR FY 2021/22 BUDGET

This paper highlights key tax and economic policy measures aimed at enhancing efficiency in tax collections and management by providing clear recommendations to correct unclear provisions within the tax laws, to ensure certainty and give guidance on other relevant economic policy measures. The paper details each policy proposal giving the current provisions of the law where applicable, the challenge(s) arising from the current status and the proposed measure(s).

The proposals enlisted within the paper include;

1. Enhancing Local Government Taxation
2. Taxation of High Net Worth Individuals
3. Interest Deduction Limitation for Income Tax Purposes
4. VAT Cascade – 'VAT on VAT' on Disposal of Business Assets
5. Amendment of Paragraph 2(f) of the VAT Act Cap 349
6. Capital Gains Tax – Indexation
7. Raising the PAYE Threshold
8. Amendment of the Definition of "Beneficial Owner"
9. Strengthening Enforcement of Tax Laws
10. Other Economic Policy Recommendations

1. ENHANCING LOCAL GOVERNMENT TAXATION

Issue	Enhancing Local Government Taxation
Current Law	Uganda adopted a policy of decentralization in 1992, through which Government devolved functions, powers and responsibilities to local governments. Revenue assignment was among the functions devolved and assumed by local governments. Local Governments collect the following types of revenue: Local Revenue; Central Government Grants and Donor Funds. Graduated Personal Tax, which had been the major source of local revenue for local governments was abolished by Government in 2005, leaving a very big gap in local revenues. In an attempt to relieve the local governments out of the dilemma of lost local revenue and reverse the likelihood of failure to finance their mandated functions, Parliament passed the Local Governments (Amendment) Act, 2008, introducing new taxes for local governments, the local service tax and local government hotel tax.
Challenge(s)	Collection of these taxes commenced in FY 2008/09, and it was hoped that the two taxes would generate revenues to cover the gap, but the available reports from the Local Government Finance Commission (LGFC) indicate that these sources have only generated just about 17% of the expected revenue potential. Revenue collections from both these taxes is still very low, largely due to the inadequacies in the legal and institutional frameworks for local revenue collection and management. The Local Government Act (Cap 243) does not provide for effective mobilization of these taxes. We note that; a. The current focus for many local governments for collection of Local Service Tax is on the usual soft targets, i.e. persons in formal employment and professionals. This leaves out a big number of prospective taxpayers. In a study conducted by the LGFC, it was observed among others things that 75% of the adult population is engaged in some form of productive work that can generate income including; commercial farming, transport business, property ownership, trading business, carpentry, masonry, salon/ hair dressing, etc. The study revealed that all these persons cannot fail to pay Local Service Tax since their incomes though not so big, can

	still be able to pay Local Service Tax of at least UGX 10,000 or UGX 20,000. In reality, the local people earning higher than UGX 100,000 per month are usually more than a third of the adult population, a number that is big enough to raise adequate revenue through Local Service Tax. b. The provisions on enforcement for each of the local revenue sources are very weak and the penalties cannot be easily enforced. For example, the law does not provide for issuance of receipts to taxpayers, which has made collection of Local Service Tax difficult especially from the business community. Subsequently, local governments have continued to rely on central government transfers and donor funds. Grants and donor funds despite increasing in absolute amounts over the years, have been dwindling in real terms to the extent that local governments are finding it hard to operate. Consequently services have continued to go down thus undermining the benefits of decentralization that the country had intended to enjoy.
Proposed Measure(s)	Government needs to address the inadequacies in the; a. Legal and Institutional Frameworks for local revenue collection and management - The guidelines for LST on commercial farmers/ farm income have taken long without being approved. Government should expedite the finalization of these guidelines to enable local governments to tax farm income and increase their revenue base. Uganda being an agrarian economy, almost all the potential taxpayers derive most of their earnings from agricultural-related activities. This implies that the farm income LST forms the biggest proportion of the potential in LST, about 60%. Therefore if this portion could be retrieved, local governments would earn a lot from LST. - Government should direct local governments to issue LST payers with receipts as acknowledgment of payment. b. Local Revenue Management Process including assessment and collection - Government must enhance the capacity of the Enumeration and Registration Committees (ERC) as well as the Assessment Committees (AC) at the local governments for effective management of the processes towards assessment and collection of local revenues. This will enable local governments to plan and carry on general registration of possible taxpayers in their areas of jurisdiction. This is because it is very difficult to

	get data on people's earnings especially those in informal sectors i.e. the self-employed artisans and businessmen, which makes it difficult to assess them for LST. - Local Councils must be compelled to provide tax assessment notifications to taxpayers in time. - To improve enforcement mechanisms, government should enhance the capacity at local governments in terms of relevant technical staff numbers and quality as well as equipment to support for the enforcement function.
Justification	This will reduce the dependence burden on Central government and provide revenue to implement local solutions at local government level.

2. TAXATION OF HIGH NET WORTH INDIVIDUALS

Issue	**Taxation of High Net Worth Individuals**
Current Law	N/A
Challenge(s)	There are a number of individuals in the country who own or have accumulated wealth that is unexplainable. Such individuals possess expensive fleets of cars, huge mansions and have been seen openly engaging in a lot of philanthropy work. Their wealth does not correspond with the amount of tax they pay. One of the challenges with taxing this group of individuals is that they are either politicians or politically connected. For this reason, the most effective approach to tax this type of individuals would be to identify the individuals and then engage in dialogue with them about the importance of taxes and their contribution to the same. This approach takes cognizance of the fact that coercion is costly and should only be applied in cases where quasi-voluntary compliance fails (Jalia, 2016)[1]. Scholars like Jalia (2016), have advocated for quasi voluntary compliance -

[1] Jalia Kangave et al, 'Boosting Revenue Collection through Taxing High Net Worth Individuals: The Case of Uganda,' 2016, ICTD Working Paper 45

	compliance that is defined by limited resistance from taxpayers because they appreciate the role of taxes.
Proposed Measure(s)	Government should prioritize and even expand taxation of these rich individuals. Successfully levying Personal Income Tax on high net worth individuals requires; a. A special organizational effort on the part of the tax authority geared towards aggressive enforcement targeting this group, now that a separate unit dedicated to these types of individuals is in place. b. Instituting clear measures targeting these individuals, for example, make it a requirement as it is in most countries, that all candidates vying for political offices (from LC III upwards) must obtain tax clearance certificates, which would ascertain their tax compliance status. Political leaders must be held accountable when it comes to tax affairs.
Justification	This will widen the tax base as many high net income individuals will be captured in the URA register. It would equally help in managing the income gap and spread the financial burden of administering the country.

3. INTEREST DEDUCTION LIMITATION

Issue	**Interest Deduction Limitation for Income Tax Purposes**
Current Law	Sec. 25 of the ITA as amended excludes financial institutions and insurance companies from the interest deduction limitation, which limits the amount of deductible interest in any year of income to 30% of EBIDA (Earnings Before Interest Depreciation and Amortization) for all debts owed by a taxpayer who is a member of a group. In addition, Section 38(1) of the ITA provides that where, for any year of income, the total amount of income included in the gross income of a taxpayer is exceeded by the total amount of deductions allowed to the taxpayer, the amount of the excess, in this Act referred to as an "assessed loss", shall be carried forward and allowed as a deduction in determining the taxpayer's

	chargeable income in the following year of income". Accordingly, assessed losses are allowed a tax deduction when determining chargeable income.
Challenge(s)	The implications of the above provisions are such that; 1. Apart from the banks and insurance companies, all other sectors have to abide by the 30% cap to claim interest deductibility. This has constrained economic growth and development as the economy undertakes massive infrastructure development to provide the much needed big push to the other sectors. If the intention of the provision was to ensure and augment the fact that financial institutions and insurance companies take center-stage in the development of the country, it is important to note that this may be contrary to the original thin capitalization rules whose principle objective was to deter arbitrary repatriation of profits in pretext of loan servicing taking fact that many of the players in the banking and insurance sectors have a cross-border orientation. Take an example of the following: a. The Banking sector comprises of 33 financial institutions – 24 banks, 5 microfinance deposit taking institutions and 4 credit institutions. The top 7 banks (via assets) controlled over 72% of the market share in 2016, and these were largely foreign owned and hence the likelihood of repatriation of funds in form of interest payments would equally be detrimental to economic progress, especially that the practice cannot be curtailed as the spirit of the current law seems to suggest. b. The sectoral contribution to nominal GDP for financial and insurance activities stood at 3.1%, way below other sectors like agricultural, forestry and fishing (24.9%), manufacturing (8.2%), real estate activities (4.5%) and construction (7%)[2]. c. If the intention of the clause was to boost access to loans by ensuring that financial institutions easily access loanable funds from their parent companies to extend cheap credit to the private sector since they would be allowed 100% deductibility of interest from the group, the outcome seems to be contrary. Lack of affordable financing has continued to be a key impediment to doing business in Uganda. Loans are generally short-term with interest rates ranging from 15-24%. In addition to high rates, little liquidity exists for loans of a long period above 5 years. The current drop in interest rates has been attributed to

[2] Uganda Bureau of Statistics, 2017

the COVID-19 pandemic and the eventual drop in loanable funds. We think that once stability is attained in the medium term, these rates will soar again.

The above only demonstrate that any concerted efforts to use the financial institutions and insurance sectors as drivers of economic progress may only achieve limited success. Even with stronger transfer pricing rules, we are not convinced that transfer pricing would be the most effective way to prevent profit-shifting using high-priced related party debt. When borrowing from a third-party, commercial pressures will drive the borrower to try to obtain as low an interest rate as possible – for example, by providing security on a loan if possible. These same pressures do not exist in a related-party context. There are no commercial tensions driving interest rates to a market rate. Indeed, it can be profitable to increase the interest rate on related-party debt – for example, if the value of the interest deduction is higher than the tax cost on the resulting interest income. Therefore introducing the interest cap to all other sectors and exclude the banking and insurance sectors may not yield the desirable goals.

2. Deducting the accumulated tax loss when determining EBITDA under section 25(3) of the ITA distorts the prevailing earnings against which the capped interest deduction should be offset. This is because, by allowing a tax deduction in respect to the previous year's tax losses, when determining the current year tax EBITDA, the basis for deducting interest expense (i.e. by matching interest with activities that generate taxable income and value creation) is lost.

   Assessed losses arise from an excess of allowable revenue expenses and / or capital allowances over gross income for a particular year of income. Accordingly, whilst these expenses are allowed a tax deduction in a particular year, the same expenses, in some instances, are used to the detriment of a taxpayer in determining interest deductibility. This is because the inclusion of an assessed loss in some instances results in negative tax EBITDA irrespective of an entity's earnings capacity in the current year. In this instance, no interest will be deductible for that particular year of income.

   Disallowing interest expense based on negative tax EBITDA (created by the mechanics of the tax law and not economic activity), in principle results in taxation of an otherwise tax-deductible cost which is not equitable. In addition, BEPS Action 4 made some

	recommendations for interest deductibility in respect to lossmaking entities within a group of companies.
Proposed Measure(s)	We therefore propose that: 1. The 30% restriction on interest deductibility should only apply to related party debt and not all debt (including 3rd party debt) in the spirit of what the **thin capitalization rules** used to apply, and equally to all businesses. We thus propose that Section 25 of the ITA be amended to read as follows; **"The amount of deductible interest in respect of all debts owed by a taxpayer *who borrows within a group to which the taxpayer is a member*, shall not exceed thirty percent of the tax earnings before interest, depreciation and amortization."** 2. Assessed tax losses should be disregarded in the EBITDA computation when determining the interest expense.
Justification	1. To allow tax deduction on interest payment on only debts contracted within a group without any exception. This will not only re-echo the intentions of thin capitalization, but will also affirm the OECD objectives under BEPS. 2. In order to reflect the true economic activity of an entity for a given year of income, only earnings arising from that specific year of income should be taken into consideration for purposes of deriving the EBITDA used for interest capping.

4. VAT CASCADE – 'VAT ON VAT' ON DISPOSAL OF BUSINESS ASSETS

Issue	**VAT Cascade – 'VAT ON VAT' on Disposal of Business Assets**
Current Law	Section 18(9) of VAT Act Cap 349 provides that a sale of a business asset by a taxable person is a taxable supply, and Section 28(5) blocks the VAT credit of some assets like motor vehicles transporting sitting persons.
Challenge(s)	a. Section 18(9) requires VAT to be charged on a disposal or sale by a VAT taxable person of business assets including cars/passenger automobiles, residential accommodation for staff,

	and assets acquired for non- business use. However, under Section 28(5) of the VAT Act, the respective input tax credit on acquisition of such assets is prohibited from being claimed. This means that the future sale of the above assets will attract VAT, with no relief for the input VAT that was disallowed at the time of acquisition. This goes against international principles of VAT mechanism which prevent VAT from cascading, that is, there being a' tax on a tax'. b. There is also no definition of a business asset in the VAT Act Cap 349. A definition is provided in the Income Tax Act Cap 340 (Section 2(h), - a *business asset is defined* - '…..*to mean an asset which is used or held ready for use in a business, and includes any assets held for sale in a business and any asset of a partnership or company…'*. It appears that this meaning is used by the URA under the VAT Act provisions to the disadvantage of the taxpayer. This clearly goes against the canons of taxation as taxpayers pay tax twice since they pay output VAT on disposal or sale yet were denied (disallowed) input VAT at the time of acquisition/purchase.
Proposed Measure(s)	Where input VAT on acquisition of an asset was not allowed by law as is the case with residential accommodation, passenger automobile and other assets, there should be no VAT charged on their eventual sale/disposal. Alternatively, the authority could grant a notional input VAT at the time of sale equivalent to what would have been claimed at the time of purchase (based on cost), and that should be set off against the attendant output VAT.
Justification	▪ It removes double taxation or the cascading effect that it is against the principles of taxation, generally and international VAT principles, specifically. ▪ It makes cost of such assets lower and encourages ownership of assets by different entities, with attendant benefits. ▪ It is logical, makes business sense and concretizes the main idea of input VAT mechanism that makes VAT advantageous over other taxes

5. AMENDMENT OF PARA 2(F) OF THE VAT ACT

Issue	Amendment of Paragraph 2(f) of the VAT Act to include "Bancassurance Services"
Current Law	Section 19(1) of the VAT Act provides that "a supply of goods or services is an exempt supply if it is specified in the second schedule". Paragraph 1(d) of the Second Schedule to the VAT Act provides that the supply of health insurance, life insurance and micro insurance qualify as exempt supplies and as a result are not subject to 18% VAT. Further still, insurance services are defined in paragraph 2(f) of the second schedule to include only brokerage.
Challenge(s)	An insurance company is obliged to charge VAT on the (taxable) general insurance services, while insurance services detailed in paragraph 1(d) are exempt from VAT. Accordingly, the commissions paid for bancassurance services in respect of the exempt life and medical insurance products should be exempt from VAT. This is on the basis that the bancassurance services are incidental and ancillary to the respective exempt life and medical insurance policies. However, for any services that have not been expressly included in the VAT Act as an exempt service (as was the case for brokerage services under paragraph 2(f) of the Second Schedule to the VAT Act), a strict interpretation of the law may exclude their exemption. This creates two different possible treatments of the respective bancassurance services; a. On one hand, given that bancassurance business is not expressly included within the definition of insurance services as explained in paragraph 2(f) of the Second Schedule to the VAT Act it is possible for one to conclude that the commissions earned by a bancassurance business should all be treated as subject to 18% VAT although for all intents and purpose bancassurance is a form of insurance and commissions earned are incidental. This would be regardless of whether the services provided are in connection with the provision of either life or general insurance services. b. On the other hand, the Insurance Regulatory Authority (IRA) as per their letter addressed to all bancassurance agents, dated 30 January 2018, communicated that charges related to life and medical insurance products are exempt from the 18% VAT. Accordingly any insurance

	service that is not listed as exempt would accordingly be subject to VAT. This is based on discussions and an understanding between IRA and URA. According to Britam vs URA 2018, UTODA Entebbe Branch vs URA 2009 and AON vs URA 2008, services that are deemed to be incidental and ancillary to exempt services, may also be treated as exempt services. Accordingly, this would mean that the commissions paid for bancassurance services in respect of exempt life and medical insurance products should be exempt from VAT. This is on the basis that the bancassurance takes the nature of insurance services and any services related are incidental and ancillary to the respective exempt life and medical insurance policies.
Proposed Measure(s)	Following the possibility of having two interpretations, we propose that paragraph 2(f) is amended to read as follows: ***"insurance services include brokerage, bancassurance services and other services that are incidental to insurance services"*.**
Justification	To provide clarity to bancassurance agents and other incidental services which are not expressly covered but in substance comprise insurance services.

6. CAPITAL GAINS TAX – INDEXATION

Issue	**Capital Gains Tax - Indexation**
Current Law	Section 50 of the ITA provides that; "The amount of any gain arising from the disposal of an asset is the excess of the consideration received for the disposal over the cost base of the asset at the time of disposal."
Challenge(s)	The current provision does not cater for changes in the value of assets that may arise purely from macroeconomic dynamics like inflation. An asset that was acquired 15 years ago cannot be assessed on the same cost base as it was 15 years later. The lack of indexation means that a taxpayer is taxed based on imaginary gains instead of real gains. These are on indexed values to cater for the effect of inflation.

Proposed Measure(s)	Section 50 of the ITA should be amended to read as follows; **<u>"The amount of any gain arising from the disposal of an asset is the excess of the consideration received for the disposal over the cost base of the asset at the time of disposal adjusted by the prevailing consumer price index (CPI) published by Uganda Bureau of Standards (UBOS)</u>."**
Justification	To cater for changes in the value of an asset due to macroeconomic dynamics, specifically removing the effect of inflation from the gain in asset values and also allow for property to be transferred seamlessly by corporates as part of group restructuring for operational efficiency and encourage business growth.

7. RAISING THE PAYE THRESHOLD

Issue	**Raising the PAYE Threshold**
Current Law	Section 6(1) of the Income Tax Act (ITA) prescribes the rates of tax and thresholds applicable to chargeable income of individuals as prescribed in part 1 of the Third Schedule to the Act.
Challenge(s)	The MoFPED DRMS[3] clearly recognizes that '*the current personal income tax thresholds start at low levels of income and the progressivity of the rates is steep. This, may encourage non-compliance or less-than-full compliance and reduce incentives to work in the formal sector, as well as disproportionately disadvantage employees whose incomes are taxed at source under PAYE*'. The lower band of the PAYE threshold has been fixed at UGX 235,000 since July 2012. Low income earners are brought into the tax net at very low income levels stifling their capacity to save, invest and consume as their disposable income shrinks in real terms. The above surely works against the poverty alleviation objectives of the government.

[3] Domestic Revenue Mobilisation Strategy 2019/20 – 2023/24

Under the current structure, the first tax bracket (10%) starts at incomes of UGX 2,820,000 per annum. This equates to just UGX 235,000 per month or UGX 7,833 per day. At an exchange rate of UGX 3,702 to the US dollar, taxation of income thus begins at USD 2.12 per day. Considering that the international poverty line is just USD 1.90 per day, PAYE appears to start at very low-income levels. Furthermore, the 3rd band is very wide, applying to annual incomes between UGX 4,920,001 and UGX 120,000,000. This also gives an indication of how quickly the brackets climb – UGX 4,920,001 per annum equates to just UGX 13,667 per day or USD 3.69 per day.

It has been proved that increasing the threshold does not necessarily lead to reduced tax revenue. When the threshold was increased in 2012, PAYE collections increased by 20% from 2011/2012 to 2012/13. Below is the PAYE performance as shown on Page 55 of the MoFPED Background to the Budget 2014/15 Fiscal Year:

	2011/2012	*2012/2013*	*Increment*	*% increase*
PAYE UGX Bn	*996.9*	*1,196.5*	*199.6*	*20.0*

Proposed Measure(s)

a. Government should consider re-designing the personal income tax – PAYE, to make it more progressive by applying higher tax rates on higher income brackets. This would require consideration of raising the threshold to at least UGX 410,000 per month, which is just USD 1.79 above the international poverty line. The second band would then start at UGX 620,000, the third band at UGX 830,000, while the 40% highest rate can be maintained at UGX 10,000,000 per month.

Current threshold	***Proposed threshold***	***Tax rate***
235,000	*410,000*	*10%*
335,000	*620,000*	*20%*
410,000	*830,000*	*30%*
Above 10,000,000	*Above 10,000,000*	*40%*

b. Government should also consider eliminating all kinds of personal income tax exemptions particularly those relating to official employment income of Members of Parliament and judicial officers, among others. These individuals are Ugandan Citizens and must bear their fair share of the financial burden of administering the country. They should thus not be

	immune to sharing with other citizens the material burden of financing government, and therefore their payment of a non-discriminatory tax laid generally on all citizens should not be considered as a burden for as long as they earn beyond the set thresholds.
Justification	Increasing the PAYE threshold from the current UGX 235,000 to UGX 410,000 would benefit the most vulnerable households in the formal employment sector. The benefits will indirectly spill over to the informal sector given the strong social networks through inter-family support structures.

8. AMENDMENT OF THE DEFINITION OF A "BENEFICIAL OWNER"

Issue	**Amendment of the Definition of a "Beneficial Owner"**
Current Law	Section 2(ae) was introduced to define a "beneficial owner". At the same time, Section 88(5)(a) of the ITA was amended to remove the words "*within the meaning accorded to that term by the relevant international agreement and….*". Sub-section 2(ea) is part of Section 2, which is the primary interpretation provision in the ITA and a definition in Section 2 will not apply where the context in which it is used in the body of the Act requires otherwise.
Challenge(s)	The term "beneficial owner" is used in two places in the ITA: a) In section 75(1)(b) dealing with changes in control of a company; and b) In section 88(5)(a), dealing with the application of international agreements (i.e. DTAs). We note that the definition of beneficial owner in section 2(ea) appears to be based on the definition established by the Financial Action Task Force ("FATF"), which definition has also been adopted by the Organisation for Economic Cooperation and Development ("OECD") Global Forum on Transparency and Exchange of Information for Tax Purposes ("Global Forum") as outlined in their March 2019 publication, "A Beneficial Ownership Implementation Toolkit". FATF primarily applies the definition for the purpose of anti-money laundering and combatting the financing of

	terrorism. The Global Forum applies the definition to create transparency and assist in the exchange of information between tax jurisdictions (for example under automatic exchange of information provisions in the Common Reporting Standard for financial institutions). The definition is aimed at identifying natural persons that effectively own legal entities and arrangements (e.g. trusts). It was not intended to be used for the purpose of identifying a person's entitlement to apply DTA benefits. The term beneficial owner or beneficial ownership is not defined by any of the DTAs in force in Uganda and majority DTAs are based on the OECD Model Tax Convention on Income and on Capital ("the OECD Model"). The term beneficial owner is not used in a narrow technical sense but rather, is meant to be understood in its context, in relation to the words "paid to……a resident", and considering the object and purpose of the Convention, including avoiding double taxation and the prevention of fiscal evasion and avoidance. Section 88(5) on the other hand is a "limitation on benefits" provision intended to restrict the application of DTA benefits based on person's beneficial ownership of the relevant income and possessing economic substance in the treaty country in which they are resident. The term "beneficial owner" as used in section 88(5) (a) is clearly targeted at the beneficial ownership of the income rather than a reference to the beneficial ownership of the entities themselves, which is consistent with the normal terms in Uganda's DTAs, which are generally based on OECD Model. Section 2(ea) defines a beneficial owner in relation to the ownership and control of a legal person (such as a company) or arrangement (such as a trust). By contrast, section 88(5)(a) relates to a person being the beneficial owner of the income they receive. Therefore, section 88(5)(a) is clearly using the term beneficial owner in a context which is different from that addressed in section 2(ea).
Proposed Measure(s)	The definition in section 2(ea) does not apply for the purpose of section 88(5)(a). Therefore, determination of the "beneficial owner" of income under section 88(5)(a) should be based on the general meaning of the term as outlined in the OECD Commentary.
Justification	To align the 'beneficial owner' definition with the OECD guidelines, which provide best practice for international tax.

9. STRENGTHEN ENFORCEMENT OF EXISTING TAX LAWS

Issue	**Strengthen enforcement of existing tax laws to increase the tax base**
Current Law	Section 16(5) of the Tax Procedures Code Act (TPCA) requires a taxpayer with an annual turnover of the amount prescribed in Schedule 3, to furnish with the taxpayer's return of income, audited financial statements prepared by an accountant registered by the Institute of Certified Public Accountants of Uganda.
Challenge(s)	Ever since Section 16(5) of the TPCA was passed into law, there has been a lot of implementation difficulties. The motivation behind this clause was to ensure that reliability and accurateness is improved when making/ filing a return. This is because a taxpayer's return would have been checked by a professional who is bound by a code of ethics and hence any mis-declaration would come with multiple consequences. However, to date, the tax body has failed to implement or check that taxpayers' returns abide by this provision of the law. In addition, URA's Information systems have not been improved to allow upload of audited financial statements to accompany any tax return. Due to this laxity, many taxpayers have continued to file returns based on unaudited financial statements and the amounts declared in respect to tax liability left at the volition of the taxpayer. In other instances, some unregulated persons have continued to file returns for taxpayers and in case of any under declaration, such people cannot effectively be brought to book. According to Pramod K. Rai[4] avenues of taxation in developing economies are much less when compared to developed economies and the prospects of taxation become bleaker on account of the presence of a rampant black economy, an economy whose proceeds may largely escape the tax net. Rai notes that the size of the black economy in developed Organization of Economic Co-operation and Development (OECD) countries is much smaller compared to the size of the black economy in developing countries and this is attributed to a number of factors including but not limited to ineffective enforcement of tax laws.

[4]Pramod K. Rai, 'The Challenges of Tax Collection in Developing Economies (with Special Reference to India)' 2004, University of Georgia School of Law

Proposed Measure(s)	a. Government should facilitate URA to update its information systems to allow easy upload of audited financial statements and tracking of emerging tax bases. b. In addition, the authority's systems should be able to capture the auditor responsible for the audited financials submitted and avail such information on its website.
Justification	To combat non-compliance and widen the tax base.

10. OTHER ECONOMIC POLICY MEASURES

Sector	Proposed Measures
Health	The Ministry of Health publishes an Annual Health Sector Performance Report, which among other things highlights the existing challenges and gaps within the Sector. The Annual Health Sector Performance Report of 2018/2019[5], identified among other challenges; inadequate funding for sector activities especially primary health care (PHC) services at lower level leading to influx of patients at the referral facilities, inadequate funding for preventive interventions at community level, poor/inadequate infrastructure (including staff accommodation), as well as challenges of alignment of off-budget funding to sector priorities. Take the example of a report published recently by the Initiative for Social and Economic Rights (ISER Uganda), which showed how the World Bank funded reproductive health project of USD 17.3M did not reach the intended beneficiaries (the poorest communities). The Auditor General's report also showed that 68% of the beneficiaries of the project were not the poorest. Such funding should have been used to finance public healthcare. The COVID-19 pandemic has tested the country's healthcare systems and the need for quality healthcare for all. Building a resilient public healthcare system beyond COVID-19 should be government's key priority. Instead of devising piece-meal approaches that do not serve the most

[5] Annual Health Sector Performance Report 2018/2019

	vulnerable such as investing heavily in Public Private Partnerships (PPPs) such as the Lubowa Hospital, Government should focus on holistic approaches that serve the poorest. Reports in 2016 indicated that government spent an estimated UGX 455Bn on oversees treatment for government officials, while the recently constructed New Mulago Facility took about UGX 94Bn to finish off. This shows that three (3) other Facilities of the same nature could have been put up using that same amount of money (455Bn). COVID-19 has showed us that failure to pay attention to public healthcare especially for the most vulnerable can cripple the whole system. **We propose the following:** a. Government must increase its investment in health towards meeting the recommended per capita health expenditure of minimum $84 per capita for low income countries (Abuja Declaration target), if the country is to increase access to public health care and improve quality of services. This will help reduce the dependence on external resources to finance health care, which is more critical now given the COVID-19 related challenges facing developed countries. b. Government should strengthen its stewardship role in coordinating donor funding and ensure alignment to country strategies in line with the Paris Declaration principles for more effective aid. c. The COVID-19 crisis has seen the growth of digital technologies to accelerate, complement, and enhance health services delivery. From tracing of contacts and testing, to surveillance and reporting, the role of digital health technology in addressing public health emergencies and mitigating impacts cannot be overemphasized. Like in education, Government needs to seriously consider the role that digital technology will play in improving health services beyond COVID-19. From better record management, improved referral systems, to better stock management and supply chain solutions, digital technologies can significantly address the challenges in the health sector in the country. Digitization and support of the community health structures can significantly improve the quality of service, motivation, and performance of Village Health Teams (VHTs), which serve as the community's initial point of contact for health in the country.

	d. Focus should be on scaling up the public healthcare system and implementing large-scale public health capacities with urgency as pandemics like the COVID-19 threaten human life, livelihoods, and the way of life of every individual in every society. Government plans to implement the recently proposed National Health Insurance (NHI) scheme, which assumes that both public sector & private sector (which is largely profit driven) will deliver health care to the entire country. We propose that before government considers implementation of the NHI scheme, it gives due consideration to a <u>cheaper and more effective alternative approach that was proposed by the NSSF</u>. The proposed alternative would have the following salient features; • Focuses on improving the existing healthcare delivery system which consists of both the delivery channels and the actual health care services in order to be able to reach out to the less privileged and poorest people in the rural villages, rather than focusing on financing medical cost on a per service basis. With over 72% of Ugandans living within 5 km of a health care facility (Health Centres II, III &IV, the general hospitals, regional referral hospitals and the national facility); the implication is that improving and strengthening the already existing public health care delivery system will ensure that more than 70% of Ugandans who live in the rural areas will have access to decent and affordable health care. • Would save government the administration and operation costs of having to establish another Fund to manage its operations. • Would greatly reduce costs of collectionby utilizing the NSSF network and collection system, which is already extant, and Ugandans would not incur significant additional costs of collection. • To finance this scheme, we propose an affordable contribution by both employers and employees of 1% each which would not over burden the already heavily taxed Ugandans.
Agriculture	As the key growth driver of Uganda’s economy and given its dominant share of output, the agricultural sector has been given priority in the national development plan. The corresponding national budget allocation however does not mirror this importance. The current budget allocation stands at an average of 2.4% of the national budget. In the recent past, efforts have been directed towards commercial farming and agro-processing. The major constraint facing Uganda’s agro processing industry is the low budget allocation to

	agro-processing and marketing efforts. Of the total agricultural budget only about 2% and 5% goes into processing and marketing respectively. Other constraints include, the high operational costs, unavailability of appropriate processing machines and spare parts, and the limited knowledge in operation of the machines. However, despite these constraints, agro processing has a tremendous potential for increasing income through value addition and increasing shelf life and access to food security through the establishment of small scale agro-enterprises and rural based industries. This will be a precursor for overall economic growth of the country. Many small holder farmers should be encouraged to increase their profitability by vertically integrating their operations rather than simply expanding horizontally to increase their volume of production. **We recommend the following interventions:** a. Government should deliberately increase allocations to the agricultural sector in line with the NDP IIIs Agro-Industrialization (AGI) program intended to modernize the sector but also promote value addition and market access. The end result will be inclusive growth, creation of employment opportunities for citizens, enhanced export of high quality agricultural produce and increase in household incomes. b. Government should also amplify efforts to establish market research teams to help in investigating both fresh and processed markets for agricultural produce. c. Government must invest in technological upgrading to achieve productivity growth within sector through, for example, use of modernized farming methods including improved crop and animal breeds, irrigation schemes & fertilizers. d. To build resilient nation, government must address the climate change issues that make the sector weak and vulnerable. Government should consider fast tracking the climate change policy and bill to be passed through Parliament.
Education	ICPAU is aware of the goal of the Human Capital Development Programme as premised in the National Budget Framework Paper, which is to increase productivity of the population through

	strategic investment in the people to enable them work productively and competitively to achieve a rising quality of life for all, in line with the Vision 2040.[6] **We wish to propose the following interventions:** a. Government must consider increasing the development budget for school infrastructure, especially at the local government level, to enhance the quality of education service delivery. In order to facilitate learning for the 21st Century, government must invest in the education infrastructure including classroom blocks, laboratories, school libraries and ICT infrastructure. b. The Ministry of Education should leverage technology – use of information technology innovations such as online and distance learning options for learners' continued learning, assessment and decision making at the education facilities. Automating monitoring and inspection mechanisms will also help to address knowledge gaps and absenteeism that affects quality of learning. c. Government must also embrace Education for sustainable development (ESD), and have a deliberate policy that promotes lifelong learning and non-formal education (for learners to attain life skills including communication, leadership, and character development) alongside formal education. Resources can be mobilized, but there must be a framework within which to work and avail resources to facilitate this policy framework.
Micro, Small &Medium Enterprises Sector (MSMEs)	Uganda's economy is largely an informal economy with MSMEs making a tremendous contribution to employment and fiscal revenue. MSMEs contribute over 75% in GDP and over 90% employment and job creation. Therefore, the budget should encourage growth and development of MSMEs as a way of sustaining their contribution to employment and fiscal revenue. Some of the reported business constraints of MSMEs include; high taxes, access to credit, cost of credit, high electricity tariffs among others. **We propose the following interventions;** 1. Government should exempt small businesses from tax for the first 3 years of operation for all businesses below an annual turnover of say 30 million. This will give time for these businesses to stay afloat and make it to the tax bracket. Research shows that most businesses in Uganda

[6]National Budget Framework Paper FY 2020/21 – FY 2024/25

	collapse before making 5 years. This would create a bigger tax base in the medium to long term than suffocating them with taxes in their early stage. 2. We propose that government introduces an amnesty covering penalties and interest, on any outstanding tax for two years prior to listing onto the alternative markets, for MSMEs to access affordable financing through capital markets.
Infrastructure	Infrastructure development is critical for sustainable growth and inclusive development. Research has shown that there is a positive correlation between infrastructure growth and GDP growth. Inadequate infrastructure shaves up to 2% off Africa's average per capita growth rates[7]. NDP III is looking at improving transport infrastructure including road, air and railway; construction of refinery and Crude Oil pipeline; power production and distribution; construction of industrial parks to ease cost of doing business; provision of water for production like irrigation schemes and valley dams; and agricultural post-harvest handling and marketing as the key projects to spur productivity and economic growth. Most spending on infrastructure is expected in FY 2021/22, driven by construction by the oil related infrastructure. **We propose the following interventions;** a. Government should not just target mass production of infrastructure at the expense of quality of the infrastructure and their long-term sustainability in order to be able to reap the full benefits. b. We also propose that the next National Budget allocations for FY 2021/22 should direct resources towards Internet connectivity and other IT related infrastructure. This will help to reduce internet access charges and/ or provide free internet access to the populace. With a population estimated at 45 million, Uganda has an estimated 18.5 million internet users with a penetration rate of just 40.4% compared to Kenya whose penetration rate is at 87%. We believe that improved internet connectivity will facilitate online business transactions which is becoming the new normal, and also complement Ministry of Education's e-learning efforts that have been greatly hampered by the lack of/ or at times inadequate ICT infrastructure.

[7] World Bank Database, 2017 data

	c. Government may also target to open the existing rail lines in the meantime as it continues to source funding for the more expensive Standard Gauge Railway (SGR) project.