



**INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
OF UGANDA**

**INFORMATION PAPER ON
TAXATION OF THE DIGITAL ECONOMY**

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PURPOSE

This publication has been prepared for the general membership. It has been prepared as general information on various issues in the taxation of the digital economy and does not constitute professional advice.

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1.0 INTRODUCTION

The digital transformation of the world economy over the past few years coupled with globalization has significantly changed the way entities do business, introducing new and more complex business models. Advances in technology allow businesses to operate and generate profits in jurisdictions in which they have a limited or no physical presence, without creating a taxable presence. This and other factors, such as the ability of businesses to exploit gaps and differences in domestic tax rules have created tensions with traditional tax concepts and mechanisms and deprived certain jurisdictions of tax revenues.

The ability of businesses to operate in a country without a physical presence renders the notion of permanent establishment inapplicable and allows digital activities to go untaxed. Traditionally, physical presence has been the basis on which the right of a country to tax foreign businesses generating activity conducted within its borders is determined. In the absence of this physical presence, the current tax rules cannot determine the existence of a permanent establishment in the territory, and therefore the income generated from these digital activities would go untaxed.

The consequence of the evolution of the digital economy and digitized businesses has been the rapid increase in the number of taxes levied by individual countries on digital rather than physical presence, in the form of digital service taxes (DSTs), over the past several years. Many countries view DSTs as a mechanism to raise revenue. This digital debate has placed more focus on direct taxation and the creation of new taxing rights arising from the tax claims of market jurisdictions on income obtained by foreign digital suppliers conducting business therein without any physical presence.

2.0 WHY IS THE DIGITAL ECONOMY IMPORTANT?

Digital transactions can broadly be defined as online transactions that take place between people and organizations without a physical interface, and without the use of cash or paper. Digital transactions come with reduced costs and risks of handling cash and increase the ease of doing business. Unlike businesses in the traditional economy, entities that are part of the digital economy can generate significant revenues in foreign countries without the need to put up big offices or have many employees there. This is the major reason tax authorities globally worry about the digital economy.

The existing international tax rules were not designed to cater to a digital economy. The rules assume that a business needs a certain level of physical presence (an office, a factory, a workshop, etc.) in a foreign country before it can operate. Once a business has this physical presence (otherwise known as a Permanent Establishment), it is required to pay taxes in the foreign country. In the digital economy, businesses can

operate without a significant physical presence, and no significant physical presence usually means no or very little tax for the governments. The nature of the digital economy makes it relatively easy to do business on a large scale, and without breaking any laws.

Tax authorities around the world are now bothered by the large profits that such companies make from their interactions with individual residents within their jurisdictions but with minimal payments of tax in those countries.

In a bid to settle an Italian tax dispute, Netflix an American online movie giant agreed to pay \$59 million to the Italian tax authorities. Here, the Milan prosecutors argued that cables and computer servers used by Netflix amounted to a physical presence in Italy. The French Government and Google also reached a €945 billion (\$1 billion) settlement over tax fraud allegations, when the Tax investigators concluded that Google failed in its tax obligations by not declaring activity on French territory to the authorities.

The above is simply the tip of the iceberg in matters of digital taxation. This explains why countries around the world are rethinking the concept of permanent establishment and hence the taxation of digital transactions. For instance, *India* seeks to tax digital businesses using a significant economic presence standard, *Kenya* has adopted a tax on income accruing from digital marketplaces, *Nigeria* will tax online business profits to the extent that there is profit that can be attributed to a significant economic presence in the country, while *Saudi Arabia* has implemented a regime that deems a company to have a virtual service permanent establishment if it has contracts that last longer than 183 days (although the length of time can differ depending on the applicable tax treaty).

In *Uganda*, traces of a permanent establishment are evident in s.86 of the ITA which introduces the concept of a branch. The High Court of Uganda, in the case of *Target Well Control(U) Ltd v URA HCCS No. 751 of 2015* offered guidance on when a subsidiary may be considered a permanent establishment for its parent company; that is, where the parent company trades through as opposed to trades with the subsidiary. Otherwise, the subsidiary does not constitute a permanent establishment.

The major characteristics of the digital economy include:

- (i) the ability to conduct business without a physical presence in a given jurisdiction,
- (ii) the collaboration of several parties including large financial firms and several sectors within the economy, which creates value and increased profitability, and
- (iii) the use of many intangibles such as digital platforms.

Digital transactions and business models take various forms:

1. E-commerce, in the form of online transactions involving the physical supply of goods and services from online marketplaces such as Amazon or eBay; online ride-hailing services such as Uber; online food delivery services such as Jumia and Glovo; online booking of hotels such as Marriott; online stores of physical retail stores such as Zara, e.t.c; OR Online transactions involving online supply of digital content such as e-books, software, domain names, and online games, from online retailers of digital content such as Apple iTunes Store or Amazon Kindle Store.

The COVID-19 pandemic greatly changed the landscape of how business can be conducted and thus traditional businesses have had to adapt and participate in the digital space through developing their applications or subscribing to the available platforms to continue trading.

E-commerce has now become a major player in the business, which has generated enormous opportunities for the global economy. As this trend is on the rise, failure to collect tax from cross-border digital service providers means the amount of tax loss could be significant. The e-commerce scope in Uganda includes but is not limited to online retailing (basic trade in groceries and fresh produce) through digital platforms such as Kikuubo online, Jumia, Glovo, Hellofood, and many others, sports betting, and provision of professional services among others.

2. Online digital payment services such as credit cards, online utility bill payments, electronic funds/ money transfer methods, mobile money transfers, borrowing, and saving services. Financial institutions have also had to increase the number of digitized services and offerings to match the rise in digital transactions.

Digital payment services for example are growing in Uganda and play an important role in supporting the financial inclusion of the poor. Most e-commerce transaction payments in Uganda are done through mobile money rather than credit cards. Statistics from the Ministry of Information and Communication Technology (MoICT) showed that the value of mobile money transactions was over 13 trillion as of December 2014, while statistics from the Central Bank of Uganda showed that by 2019, 54.7% of adults were using digital payments, with an average of 7.8 million mobile money transactions being conducted daily.¹ All these are indicators of the growing trend of digital payments in Uganda and the continued growth of mobile money integrations that enable mobile phones to interface with customer bank accounts (mobile phone banking).

3. Digital distribution platforms such as Microsoft Store; digital media services such as Netflix and Spotify; web-search engines such as Google.

¹ Growth in mobile money usage: Bank of Uganda Mobile Money Statistics (2020)

4. Online transactions involving Platform-enabled services such as Uber and Airbnb via online platforms such as Google, Facebook, and Amazon.
5. The trade in electronic transmissions, such as the online delivery of software, music, e-books, films, and video games.
6. Online advertising and marketing - provision of data or information to customers online.
7. Cloud computing and participative networked platforms, among others.

The major concern for tax authorities, particularly those in the developing world, is the fear of a shrinking tax base.² There is a fear that the growth of the digital economy and related rise in digital transactions will lead to a reduction in the size of the tax base and thereby lead to reduced tax revenue. Because e-commerce transactions are initiated and concluded online, they may be difficult to track for purposes of taxation. Goods and services which would normally have been imported into a country or sold in a physical store can now be moved into and around a country without being tracked. In Uganda, the use of digital platforms such as Kikuubo online, Jumia, and others allow vendors and buyers to trade with each other outside the traditional business environment which would be within the purview of the tax authorities. These can easily escape taxation leading to tax losses for the government.

On the other hand, governments around the world have the chance to tap into the opportunities that exist within the digital economy. According to the African Tax Administration Forum (ATAF), an African network that aims to improve tax systems in Africa, Africa's digital economy alone is set to hit over \$300bn by 2025. Therefore, the long-term growth of the digital economy should be the focus for many governments around the world and especially in Africa, but this can only happen with available and affordable internet.

Governments must consider sufficient investment in terms of infrastructure, and enabling policy to ensure that the ecosystem is conducive for business growth. Governments' focus should be on deepening internet access to fully realize the potential in the digital space.

Such lucrateness is what has moved Uganda's Revenue Authority to develop a collaborative approach to harmonize the efficient collection of taxes in the digital trade because seemingly, Uganda is losing tax revenue through tax-free internet sales. The Ministry of Information and Communications Technology & National Guidance, and the National Information Technology Authority-Uganda (NITA-U) were also established to

² Uganda Revenue Authority Research Bulletin 2016/2017

provide oversight and an enabling environment for the ICT industry, including the digital economy. These two entities are believed to be valuable partners in the taxation of the digital economy in Uganda.

3.0 TAXING THE DIGITAL ECONOMY

The advent of the digital economy has considerable potential to improve business/trade across the globe. A key characteristic of digitalization is that it allows entities to carry on business in locations where they do not have a physical presence. Consequently, efficiently taxing the digital economy has become a crucial consideration for tax authorities across the globe.

The digital economy operates through the following platforms:

1. Operating platforms - supported by the telecoms sector (voice and data).
2. Payment platforms - supported by the financial services sector (credit cards, bank accounts, mobile money)
3. Identification platforms - (National IDs, Passports, Driving Licenses, e.t.c)

Some of the considerations for direct tax measures/ collection methods that target the digital economy are explained here below:

- a. The OECD/Inclusive Framework Pillar One proposed new profit allocation rules where profit is allocated using simplified, formulaic principles, including a fixed baseline return for distribution and marketing functions as well as a share of the group's overall residual profits. This measure gives jurisdictions the right to tax non-resident businesses that have sustained economic interaction with their economies. This approach can apply even if the business has no physical presence in that jurisdiction. A taxable presence is deemed if, for example, the business has a sufficient level of sales or user engagement in the jurisdiction.³
- b. Governments globally also have the immediate advantage of collecting taxes from digital transactions through VAT due to its relative ease and the existence of the legal framework in comparison to corporate taxes. The application of VAT within the digital economy does not differ greatly from the traditional application, but rather the determination of the place of supply, enforcement, collection, and overall administrative aspects of the imposition of VAT.
- c. Withholding tax on payments made for digital goods or services provided by a foreign provider. This measure creates and/or implements (by acting as a collection mechanism), a source taxing right over payments made by residents to non-residents in respect of digital services. Withholding taxes, which are already commonplace for royalty, interest, and dividend payments can be especially effective for taxing

³ OECD, Addressing the Tax Challenges of the Digital Economy

non-residents with no physical presence in a jurisdiction, although the practicalities of withholding an amount with respect to tax and then remitting it to the tax administration means that this the mechanism is better suited to payments made by businesses than by individual consumers.

The OECD suggested that such a withholding tax could be introduced as a standalone provision to address concerns that it may be possible to maintain substantial economic activity in a market without being taxable in that market under current tax rules due to lack of physical presence. Taxpayers providing digital goods and services covered by the withholding tax could file returns in their countries to ensure that they were ultimately taxed on a net basis. In Uganda, section 118B of the Income Tax Act can be used to cater for such a scenario.

In some countries, there has been a clear approach to Withholding Taxes on Digital Services without regard to the size of a business but with a much broader scope. The withholding tax rates range from 5 percent to 30 percent as can be seen in the figure below:

Figure 1: Examples of Gross-Based Withholding Taxes on Digital Services

Jurisdiction	Policy	Current Status
Pakistan	5% withholding tax on offshore digital services including online advertising, designing, creating, hosting, or maintenance of websites, providing any facility or service for uploading, storing or distribution of digital content, online collection or processing of data related to users in Pakistan, any facility for online sale of goods or services, or any other online facility	Implemented, July 2018
Peru	30% withholding tax on digital services (services provided or accessed via the internet) provided by non-residents to Peruvian residents and used in Peru.	Implemented, March 2014
Thailand	5% withholding tax on e-commerce supplies of goods and services in the country, including online advertising, gaming, shopping, and others; the financial institution facilitating the transaction would be responsible to withhold and remit the tax	Proposed, May 2019
Turkey	15% withholding tax on digital advertising payments made to services providers and intermediaries	Implemented, January 2019
Uruguay	12% withholding tax levied on payments made for digital services supplied by nonresidents to customers located in Uruguay	Implemented, July 2018

Source: KPMG, “Taxation of the Digitalized Economy,” June 16, 2022, <https://tax.kpmg.us/content/dam/tax/en/pdfs/2020/digitalized-economy-taxation-developments-summary.pdf>; Orbitax, “Clarification on Digital Services Subject to Withholding Tax in Peru – Orbitax News,” <https://www.orbitax.com/news/archive.php/Clarification-onDigital-Servi-5334>.

- d. Digital services tax (DST), a measure that seeks to directly tax businesses earning income from certain digital services, such as online advertising and intermediary services. Some DSTs seek to tax the income earned by digital service providers by reference to fees paid either directly or indirectly by users or residents in their jurisdiction. Other DSTs apportion global digital services revenue indirectly based

on the number of users, views (advertising services), or transactions (intermediary services) in the jurisdiction.

It should be noted, however, that poorly designed digital taxes could lower tax revenue. DSTs should not reduce the growth of the digital sector in the economy, particularly start-ups and SMEs. As DST is a tax on gross turnover, it would also apply to loss-making companies and those with low profit margins. Countries should, therefore, consider a robust minimum threshold, to ensure the DSTs only target established and profitable digital businesses.

- e. Equalization levy - this measure was introduced by India, and imposes a tax on certain activities of e-commerce operators. Previously the levy only applied to advertising; however, in 2020 the levy was expanded to cover the sale of goods, provision of services, and/or the facilitation thereof (for example, through a platform) by an e-commerce operator.

4.0 PRINCIPLES APPLIED TO TAXING THE DIGITAL ECONOMY

Tax principles have traditionally informed and guided the development of tax systems. Some tax principles are intended mainly to address tax policy considerations (equity, benefit, neutrality), while others aim to facilitate tax administration (certainty, simplicity, enforceability).

However, not all tax principles have the same impact on the taxation of the digital economy. Below is an analysis of those tax principles that have a direct impact on taxing the digital economy:⁴

- **Horizontal Equity**

The concept of horizontal equity provides that two taxpayers with equal ability to pay should pay the same amount of tax. It also implies that two taxpayers with similar economic circumstances should receive an equivalent tax treatment. However, the presence of digital elements like content, automation, and distribution, has an impact on the economic circumstances of tax-disruptive digital business models as compared to their equivalent traditional ones.

It is, therefore, necessary to analyze each type of digital business model to assess whether the economic circumstances are significantly altered by their digital nature in comparison to its equivalent traditional business model. For example, taxpayers that sell digital content face different economic circumstances than taxpayers that sell tangible goods and services, especially with regard to physical presence

⁴ Cristian Óliver Lucas-Mas and Raúl Félix Junquera-Varela, “Tax Theory Applied to the Digital Economy: A Proposal for a Digital Data Tax and a Global Internet Tax Agency”, 2021

(business premises, workforce, labor costs) and investment costs (technology development costs, digital infrastructure maintenance, e.t.c).

Thus, businesses that share similar economic circumstances should be assessed on their ability to pay against a common benchmark—that is, they should be subject to the same tax regime, irrespective of their digital nature or not, and should be taxed equally whenever they have a similar ability to pay.

- **Benefit Principle**

Not all taxes are based on the ability to pay, for instance, governments may impose taxes on resident and non-resident companies that derive a benefit from the goods and services they provide. This practice is known as the benefit principle of taxation, which holds that tax burdens should be assigned according to the benefits that taxpayers receive from government goods and services, which can be specific or general in nature—for example, in the form of a stable legal and regulatory environment, protection of intellectual property, enforcement of consumer protection laws, or well-developed transportation, telecommunication, utilities, and other infrastructure.

For purposes of applying the benefit principle, two parameters are relevant: the degree of physical presence and tax-residence status. Non-resident entities conducting business in a market jurisdiction through a tax-disruptive digital business model should not be subject to taxation in such territory because they do not derive any benefits from its government. The exception is those companies developing business activities in regulated sectors like banking, insurance, and gambling, which derive benefits to the extent that the government of the market jurisdiction provides legal protection of the regulated activity; otherwise, such non-resident companies in regulated sectors should not be taxed.

Tax-resident companies benefit from the legal structure and protection offered by their governments more than non-resident businesses effectively do. Accordingly, non-resident digital businesses should be taxed in the same manner as their equivalent non-resident traditional businesses only if they derive similar benefits from the government.

- **Neutrality Principle**

According to the neutrality principle (also referred to as efficiency), taxes should neither distort economic decisions nor interfere with the investment and spending decisions of businesses and workers. In this regard, tax policies that systematically favor one kind of economic activity over another can lead to the misallocation of resources or, worse, to schemes whose only purpose is to exploit such preferential tax treatment.

The neutrality principle only applies to comparable business models that share similar economic circumstances, which excludes from its scope those tax-disruptive digital business models that differ significantly from their equivalent traditional business models. Such tax-disruptive digital business models should be taxed differently than their equivalent traditional business models, since the presence of certain digital elements (content, automation, distribution) makes them substantially different and requires separate tax treatment.

- **Tax Sovereignty Principle**

Taxation has always been a key feature of state sovereignty. Tax sovereignty refers to the power of states to tax their citizenry and their territory, which is the basis for residence taxation and source taxation, respectively.

However, the digital economy may pose a new threat to tax sovereignty in the form of additional competitive pressure on the part of other jurisdictions that claim new taxing rights. More specifically, market jurisdictions where foreign digital companies operate without any physical presence have started to claim new taxing rights over the proceeds arising from digital activity conducted within their borders. These jurisdictions argue that value is created within their territory and that digital companies benefit from data and content contributed by users located in the market jurisdictions. Based on this view, these countries are attempting to create new taxing rights and establish new nexus and profit allocation rules that may justify their claims of additional taxing rights over the proceeds obtained by foreign digital companies (digital services taxes, equalization levies, significant economic presence).

Historically, the rationale for residence taxation has been that the state of residence provides certain facilities and services (benefits) to its residents. In contrast, the justification for source taxation has been that the source state makes the generation of income possible. The tax sovereignty principle establishes that companies operating digital and tax-disruptive digital business models are taxable in their state of residence on their worldwide income based on residence taxation unless a territorial system applies. Similarly, permanent establishments of non-resident entities operating digital and tax-disruptive digital business models are taxable in the market jurisdiction, which is also the source state, on their local income based on source taxation.

- **Administrative Feasibility Principle**

Certainty and simplicity are important tax administration principles that should be taken into account when designing tax measures to address the digital economy. Tax rules should specify clearly how the amount of tax is assessed so that taxpayers

can comply in a cost-efficient manner and governments can easily monitor and enforce taxes. Proposals to tax the digital economy should avoid any unnecessary complexity in the tax assessment, especially in the profit allocation rules (scope of profit subject to taxing rights, the method for calculating and allocating profit, and treatment of losses).

Ultimately, the effectiveness of any tax is constrained by the capacity of tax administrations to enforce it.

The horizontal equity principle serves as the backbone of tax design theory and as the unifying axis under which the remaining tax principles fulfill their various functions and missions. Accordingly, the first step is to analyze any given digital business model against its equivalent traditional business model to assess whether they share similar economic circumstances. If they do, then they are considered equal for tax purposes. Assuming that they have a similar ability to pay, they should bear the same amount of tax, which is achieved at a subsequent stage by applying to the digital business model the same tax regime as is applied to the traditional business model. This choice of taxation must be governed by the neutrality principle to prevent any discrimination between taxpayers that are deemed to be equal. It must also be based on either residence or source taxation. Hence, if the traditional business model is subject to tax, the same taxation should apply to the digital business model. If no taxation applies to the traditional business model, no tax should be imposed on the digital business model.

If taxation of the digital business model is deemed appropriate, then administrative feasibility principles should inform the design of the digital tax. If business models do not share similar economic circumstances, then the equivalent traditional business model should not be used as a benchmark to determine the taxation of the digital business model, and the benefit principle should be used to assess whether any benefits are derived from the government. In the absence of benefits, no taxation should be imposed, unless residence taxation is applicable based on tax sovereignty, in which case, administrative feasibility considerations should be taken into account.

5.0 CHALLENGES OF TAXING THE DIGITAL ECONOMY

Taxation of the digital economy could be an important measure for governments to generate new fiscal space and increase tax revenues. However, taxing the digital economy is particularly challenging in countries with low tax administration capacity. The growth of the digital economy and the introduction of digitalized business models has intensified the two fundamental challenges of international taxation: the definition of a taxable presence, and the allocation of business profits of multinational businesses among the different jurisdictions in which they operate.

The other challenges lie in overcoming the tax administration constraints. These constraints include:

- Ensuring the tax registration of digital businesses operating without a physical presence in the market jurisdiction,
- Determining the accrual and assessment of taxes for the tax-disruptive digital business models,
- Applying the most effective collection method in the absence of a taxable presence,
- Defining the nature of the presumptions based on limited access to information, and
- Enhancing monitoring and enforcement mechanisms to control and tax the digital activities occurring within the country.

To address the tax challenges from the digitalization of the economy, the Organization for Economic Co-operation and Development (OECD)⁵ initiated a bold project in January 2019, known as the base erosion and profit shifting (BEPS) project, to develop a consensus solution to the tax challenges arising from the digitalization of the economy. The aim was to provide a coordinated approach to the re-allocation of profits and taxing rights among jurisdictions (under pillar one), and the introduction of global minimum tax rules - a global minimum corporate tax rate of at least 15 percent to protect the tax bases of respective countries and to curb international corporate tax competition (under pillar two).

While such a consensus has not been reached yet, some countries have imposed digital taxes on cross-border e-commerce transactions (both direct and indirect taxes). As of November 2021, 141 jurisdictions had joined the two-pillar framework for international tax reform, including several countries in sub-Saharan Africa (Angola, Benin, Kenya, Mauritius, Namibia, Nigeria, Senegal, Sierra Leone, South Africa, and Togo).

However, concerns have been raised about the potential lack of benefits from the framework for the African continent. ATAF welcomed the framework as a milestone in achieving global consensus on tax challenges in digitalized economies. However, it expressed reservations about the potential effectiveness of the proposed provisions for Africa. Its comments on the Blueprint proposals (issued in October 2020) said that the Pillar One Rules were far too complex and would only result in a very modest amount of profits being reallocated to smaller market jurisdictions.

Even when the new Pillar One rules were subsequently simplified, ATAF maintained that reallocation of profits should instead be calculated as a portion of the multinational entities' total profit, instead of its residual profit. It was of the view that this would simplify the determination of allocatable profits and ensure fairer treatment

⁵ OECD/G20 Base Erosion and Profit Shifting Project Addressing the tax challenges arising from the digitalisation of the economy JULY 2021

of businesses with a current taxable presence in a market jurisdiction, as compared to those without. ATAF was also of the view that the minimum effective tax rate under Pillar Two should be at least 20 percent to effectively guard African tax bases and curb illicit financial flows from the continent.

Several sub-Saharan African countries have since expanded the scope of their indirect taxes to cover digital services, but to date, only a few have implemented some form of direct digital services tax (DST) applying to non-residents with no local physical presence. For instance, with effect from 1 January 2021, Kenya is levying a 1.5 percent tax on income accruing through a ‘digital marketplace’, defined as a platform that enables the direct interaction between buyers and sellers of goods and services through electronic means.

In light of the apparent lack of stakeholder consensus on digital tax rules in Africa, in September 2020, ATAF published the *Suggested Approach to Drafting Digital Services Tax Legislation*⁶ to provide African countries with a structure and framework for introducing DST, taking into consideration the specific challenges faced by African countries.

The ATAF was of the view that while the revenue generated by DSTs may not be significant for some African countries, a DST could improve public confidence in the fairness of the tax system by taxing digital businesses that do not have a local physical presence. It proposed the introduction of DSTs at the rate of between 1 and 3 percent on gross annual digital services revenue earned by a multinational entity in a country. It also provides standard text that can be adopted by member countries in their domestic laws. The suggested legislation proposes formulas for allocating income from digital services to a particular jurisdiction based on the participation of users in a given country.

A case study in a June 2020 working paper by the International Centre for Tax and Development examined the taxation of the digital economy in Ghana, Kenya, Nigeria, Rwanda, Senegal, and Uganda, regarding the digitalized businesses of Amazon, Uber, and Google respectively in these countries.⁷ The paper found that the key problem of taxing highly digitalized businesses in African countries is not due to their lack of a local taxable presence but to the attribution of profits. The Paper recommended that in the long term, the best way forward would be to build on the G24 proposals under the Inclusive Framework on BEPS, and press for simple formulaic methods which entails a form of unitary taxation that would allocate profits based on the real activities in each

⁶ ATAF (2020a). Domestic Resource Mobilisation: Digital Services Taxation in Africa - Policy Brief, African Tax Administration Forum

⁷ <https://www.ictd.ac/publication/taxation-digitalising-economy-africa-study/> accessed 10 June 2022

location (employees, physical assets and sales), to ensure a fair profit allocation between countries.

The research and policy advice network of the G20 recommended that the immediate priority for African countries should be to strengthen VAT legislation by providing definitions of what constitutes taxable digitalized services - potentially implementing a simplified collection and compliance mechanism for non-residents to register remotely through a simple portal for online registration.⁸ The network further recommended that excise taxes on digital services should be avoided, with the focus instead being on the taxation of the companies that are earning the income.

6.0 WAY FORWARD AND CONCLUSION

The digital economy is a global phenomenon that requires a global solution: the creation of global taxing mechanisms and global institutions that provide technical assistance and support for successful global implementation.

Uganda's Revenue Authority has over the past decade undertaken digital transformation initiatives to harness the benefits of technology that would result in administrative efficiency and promote compliance. However, the speed of the changes caused by digitalization has had broad implications for the Ugandan tax system and poses challenges for tax policy and administration. The Authority has also continued to enhance the capacity of its staff through collaboration with regional and global organizations such as the Organization of Economic Cooperation and Development (OECD) and the African Tax Administration Forum (ATAF).

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