

# BLACK MONDAY

Newsletter

## Citizen Action Against theft of our money without SHAME!

### EDITORIAL

Uganda's economy is currently growing at around 6 % per year moving the economy towards the long-term goal of transforming Uganda into a middle-income country. To get there, we need more investments and effective tax administration.

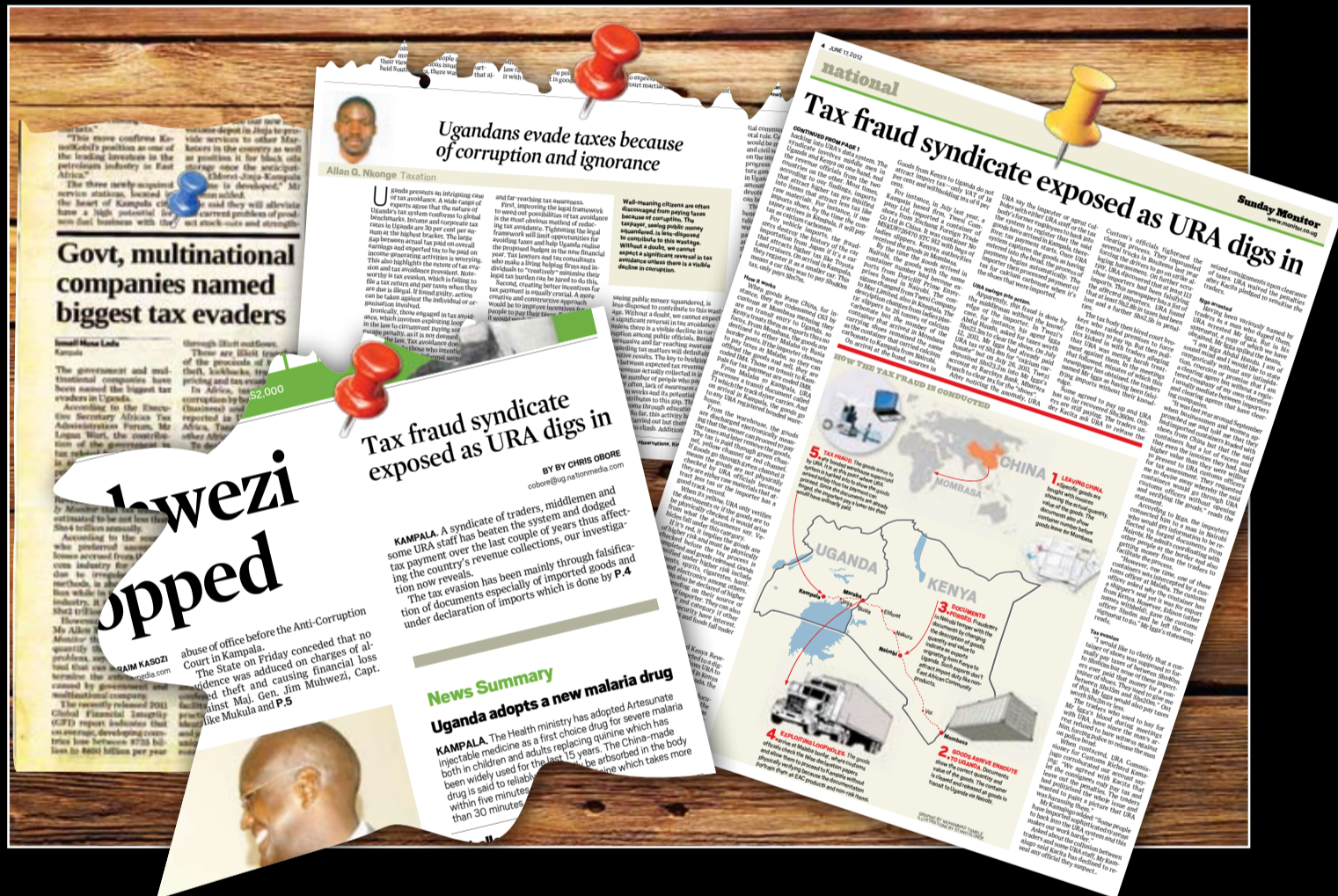
The government has committed to a more efficient revenue collection and a wider tax base. The recent budget speech revealed an imbalanced approach with new taxes that hit the poorest citizens most. The government sees a tension between a pro-growth tax policy with low rates and a pro-poor progressive tax policy aimed at redistribution and poverty eradication. However, it wears blinkers and forgets that pervasive poverty is a hindrance to growth by itself. We need a taxation regime that enhances linkages and stop leakages.

In this issue of the Black Monday newsletter, we argue that stopping tax theft can create a lot more revenue than new regressive taxes that will harm the poorest citizens. The government grants incentives that create loopholes that international companies take advantage of to transfer their profits to tax havens. We also show that the regressive taxes could be avoided if companies and individuals settled their tax debt. We look at the issue of accountability as the missing link in Uganda's domestic resource mobilization. Unfortunately, the current tax proposals lean heavily on previous trends of over reliance on consumption taxes.

There is an obvious absence of the citizens' voice in these decision-making processes as illustrated in the interview with Tumuhirwe Florence from Kabale district. It points to gaps in the taxation sector that should be addressed urgently. Otherwise, the right holders who diligently pay tax amidst meagre pay will forever carry the burden.

— Arthur Larok  
Arthur.Larok@actionaid.org

# Tax evasion is theft



Even tax evaders make use of the services the government provides. When companies continuously don't pay what they owe, they are vultures preying on the compliant citizen who becomes increasingly over-burdened. Known tax evaders owe a documented 25.9 bn shs to Uganda Revenue Authority (URA) however the actual amount is more likely to be around 80 billion shillings.

With the unveiling of 2014 /15 Budget, the government introduces new taxes, which tasks URA with collection of 65% of the budget. In total URA has to collect 9,783 billion shillings. The main sources are personal income (PAYE) and Value Added Tax (VAT). In other words, the main contributors to the national budget are regular citizens who pay taxes from their salaries and through their consumption and buying of daily products.

However, as Ugandans are choking with the increasing tax burden, there are individual businessmen and companies that are cheating Uganda by evading taxes. Data suggests that these 'cheats' are holding up

to 80 billion shillings (\$ 15.5 million) denying Ugandans access to basic services. It is estimated that 50% of these resources are in VAT arrears mainly by construction and real estate companies.

In June 2014, URA published a list with names of companies and individuals who have failed to pay their taxes. It is a list of the so-called "hard-core" defaulters, which was dubbed the "Shame-List". These are people who over time have accumulated a debt to the URA and "remained defiant to settling their tax liability despite several reminders", as URA Debt Collection Manager Abudu Waiswa told RedPepper on June 5th 2014. Some companies have accumulated this debt for more than 5 years.

The total amount of debt from 178 defaulters is 25.9 billion shillings, with some companies owing as much as 5 and 3 billion shillings. After they were given 7 days to pay their taxes and publicly shamed, and a few companies chose to come forward, but only amounting to 200m, as New Vision reported on June 27th. URA have as a result blacklisted

and banned individual businessmen from travelling abroad until they have settled their debt.

Looking at the list closely leaves one asking what could have happened behind the curtain. While the weekly newspaper, The East African in June 2014 quotes the total tax arrears to stand at 80 billion shillings (\$ 15.5 million), the list shared by URA with the public only totals 25.9 billion Uganda shillings. Parambot Breweries is one of the many tax defaulters, not on URA's list. This leaves one wondering who the other tax evaders are and why they are not on the URA list.

Of the 178 companies, only 37 (21%) have known guarantors to URA; the rest have either failed to provide the necessary information to the authorities, or are sole proprietors of their businesses. This includes companies like Rio Holding International that have a tax debt of over 5 billion shillings.

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## Tax Evasion is theft

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On the list is also the government's own printing shop, Uganda Printing and Publishing Corporation who owe 2 billion. Limited information exists or can be found on the physical addresses of most of these companies, and the type of businesses they are running. Judging by the hefty penalties enforced on a simple tax evader, one wonders how these companies survive the iron fist of the authorities. In May 2014, Parambot Breweries Ltd. was temporarily closed down after it accumulated excise duty worth 2.4 billion. How is it that these companies have had the liberty to continue dodging without testing the wrath of the tax man?

As citizens who do not have the liberty or the luxury to play hide and seek with the

authorities, we would not expect a selective arm when collecting the much-needed taxes. As we applaud URA for publishing this list to try to weed out the bad seeds of society, we also ask URA to give us a detailed list and more explanation on the published list to underline the illegality of these companies' behaviour. Why not produce a list of those companies who are still non-compliant so citizens can stop doing business with them?

This comes at a time when being a tax compliant citizen is not highly rated among many Ugandans. Many are of the opinion that they are already paying enough when they buy their food, receive their salary, or pay other small fees that everybody pays. Tax evasion is not the way to show your frustration over poor service delivery. Rather, by paying your taxes as a citizen, you can

reclaim the political space and demand for better services.

For a company whose highest priority it is to generate as much profit as possible, it may seem like a win to save on taxes. By not paying the due taxes, a company is undermining the very society where it seeks to grow.

It is not only citizens who walk the streets, use electricity, enjoy fast internet and other services that should respect the rule of law. Companies make use of the exact same services that the government provides, and therefore, all must comply and pay their fair share.

The 80 billion shillings owed in taxes could be substantial financial support to poverty eradication. In the reading of 2014/15 budget speech, the minister proposed the

removal of zero rated VAT exemption on supplies for printing of educational material, various processing of agricultural products as well as inputs to the agricultural sector, such as machinery, tools, seeds and fertilisers. This would add 30.4 bn shs to the budget. However this proposal comes without a clear analysis of what consequence the introduction these taxes will have for small-scale farmers or small process plants.

The government and URA should collect the already owed taxes before burdening Ugandans with new regressive taxes. Until they succeed, we urge citizens to stay away from doing business with such tax evaders.

— By **Fredrick Kawooya**  
& **Anders Reimers Larsen**,  
ACTION AID UGANDA

## THE 2014/15 BUDGET:

# New regressive taxes to hit the most vulnerable

The Government is funding the new 2014/15 budget by imposing new taxes that will hit the poorest the hardest. According to social worker **Tumuheirwe Florence** from Kabale district, the result is devastating for many women who, without a steady income, continue to struggle to provide for their families.

**"A** few hundred shillings mean absolutely nothing to the lawmakers, so they have no problem with new taxes on salt, sugar and kerosene. Clearly, the politicians do not care about the majority of Ugandans. 200 shillings can make a big difference in the villages where I work," said the 51 year old woman with a raised voice.

With the 2014/15 budget, the government reinstated VAT on salt and sugar – necessities that are consumed in roughly the same quantities by all citizens. The taxes are regressive as people with low income feel the impact much harder than people with middle or high income. The new excise duty on paraffin is most regressive as the poor are the biggest consumers of paraffin.

"There are so many people suffering all over this country. Single moms are already struggling more than anyone else and it is we who feel the impact of these taxes. If someone can afford to buy a new Toyota Prado, he should also be able to afford to pay fair duty for it. Why did they not raise taxes on luxury items instead?" Tumuheirwe asked rhetorically, because the

answer is straightforward, according to the single mother of five:

"The politicians think about themselves and each other. They don't care about the people."

### Poor service

As a single mother, Tumuheirwe has experienced all the hardship she has met through her work as a social worker in her own family. She emphasized that citizens live up to their commitments by paying taxes such as VAT, while the Government fails to deliver its promises on Health, Education and Agriculture.

"I have been with a woman ready to give birth at 10 AM, but the Health Centre was closed because of insufficient resources. Last year we had 20 pupils who finalized primary school, but they never graduated because of incompetence and lack of support," she explained.

With the new budget, farmers will have to pay tax on fertilizers and other farm inputs.

"In the villages, women are responsible for feeding the family and most do this through small scale farming. VAT on fertilizer hits where it hurts the most," she

continued.

### Change from within

Currently Tumuheirwe works for the organisation Forum for Women in Democracy (FOWODE) empowering women to take leadership positions and demand better public services.

"The politicians are not going to change unless we as citizens demand it. That is why I work to mobilize and

empower women, so they can demand their rights and hold leaders accountable. Together, we can force politicians to listen. The work is very successful with strong women groups. Their voices are amplified by radio

**Tumuheirwe at the post-budget analysis conference hosted by Civil Society Budget Advocacy Group**



appearances," she continued.

Tumuheirwe herself has participated in several radio programmes informing citizens about their rights and explaining the obligations of the Government. Simple hands on advice often move mountains:

"Apart from corruption in the public sector, we also ensure that people are not overcharged for goods and services when they spend money. Before we started our work, a woman could pay 300,000 shillings for a goat worth 50,000. Now citizens are much more informed. It has also helped at the health centres that are now kept open throughout the day because of public pressure. In the future, I am also

sure that the public pressure will ensure that all students get papers proving they have graduated"

### To VAT or not to VAT

Taxes on consumption (mainly VAT) have become the main source and most prevalent tax revenue for developing countries and economies in transition. Economic Efficiency is often cited as the rationale for VAT and thus a preferred choice for international reformers.

The common assumption and justification for application of VAT is that the tax broadens the tax base, reaching all produce in the formal sector without distorting productive processes. However, VAT remains one of the most regressive taxes as it applies equally to everyone regardless of their income. When VAT is imposed on goods we all need, the poor carry an unfair tax burden by paying a much larger proportion of their income than the rich pay.

Low-income earners spend a huge part of their income on consumption. More and more studies demonstrate that women tend to spend their income on basic consumable goods or necessity goods such as food, medicine, school items, paraffin, and kerosene. VAT on consumption therefore hits women much harder than it hits men.

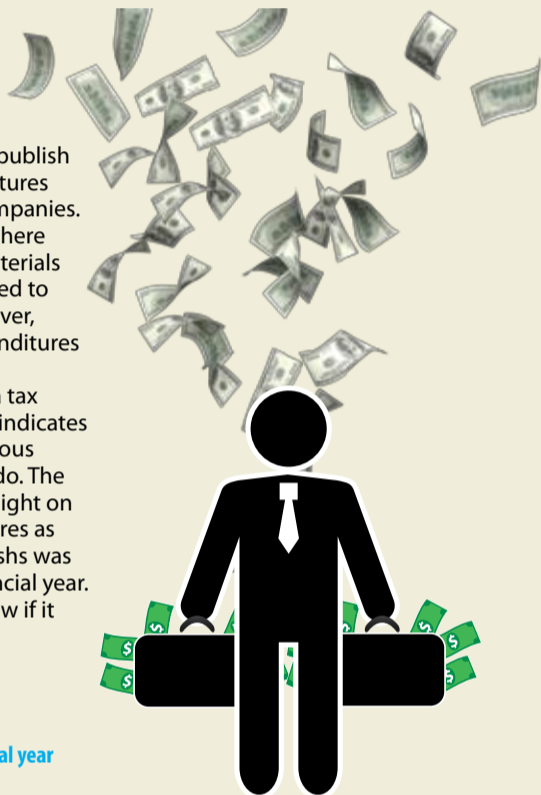
— By **Søren Bjerregaard**,  
ACTIONAID

# THE TAXATION PARADOX: UGANDA LOSES TRILLIONS IN TAX THEFT

The budget proposal for 2014/15 raises the tax burden on ordinary citizens but is yet again almost quiet on taxing the highest incomes. The business sector still enjoys tax incentives and a study from May this year show that some importers are illegally shifting their profit abroad evading taxes in Uganda. Tax evasion is another type of corruption – the effect is poorer public services. The budget proposal adds 215 bn shs in VAT proposals and 210 bn shs in excise duty as potential burdens to ordinary citizens. Instead of imposing new taxes, it would be more beneficial to put an end to tax losses. Research has shown an estimated tax loss of 1331 bn shs through various types of tax losses that Uganda suffers; including tax credits, tax incentives, and tax evasion.

## TAX CREDITS

Tax credits are paid taxes that the government has agreed to return to companies. This is the first source of tax losses. The Ministry of Finance, Planning and Economic Development (MoFPED) is obliged to publish the tax credits, also called tax expenditures that they have returned to various companies. This is following the laws of Uganda where procurement of certain goods and materials are exempted, and hence tax is returned to those who imported the goods. However, looking critically at the list of tax expenditures released by the MoFPED, the ministry purchased LED light tubes to receive a tax credit of 423,909,401 shs! The list also indicates a total of 42,668.30 shs for an anonymous purchase of a Toyota Land Cruiser Prado. The government should shed some more light on some of these exaggerated expenditures as tax credits. A total of 11,503,215,750 shs was paid out to companies in the last financial year. Citizens of Uganda have a right to know if it was all eligible.



**Shs11,503,215,750**

Was paid out to companies in the last financial year

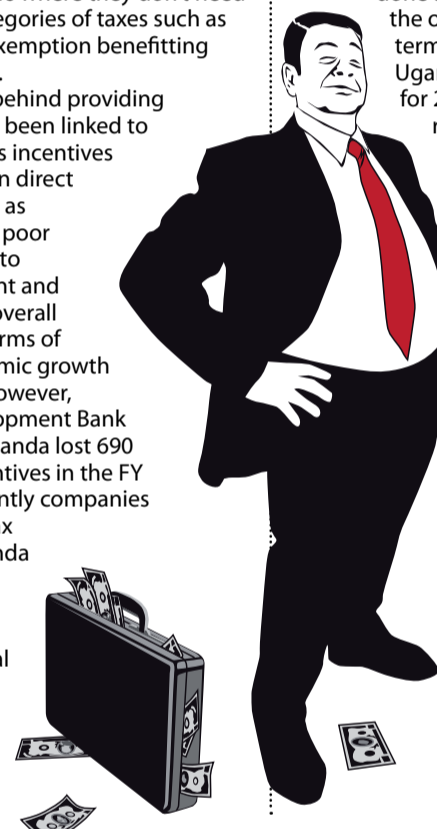
## TAX INCENTIVES

Tax incentives are in deductions, tax discounts or exclusion given to an investor, normally to lower their costs of investments for purposes of enticing them to set up shop. An example is tax holidays, where a company is granted, for instance, a period of 10 years where they don't need to pay certain categories of taxes such as VAT; or a special exemption benefitting just one company.

The rationale behind providing the incentives has been linked to arguments such as incentives to promote foreign direct investment (FDIs), as compensation for poor public goods and to create employment and skill transfer. The overall expectations in terms of returns are economic growth for the country. However, the African Development Bank estimated that Uganda lost 690 bn shs in tax incentives in the FY 2009/2010. Currently companies benefiting from tax incentives in Uganda include Bidco and Uganda Oil Palm Limited.

Global Financial institutions, such as the IMF, have consistently said that awarding companies tax

incentives is ill advised. Companies base their investment decisions on other factors such as infrastructure, level of corruption and political climate. The Government has committed to review some of the incentives, though it has still not to date done a thorough review on the ones with most impact in terms of revenue potential for Uganda. In the Budget Speech for 2014/15, it is proposed to remove the incentive for the agricultural sector at large. There is however a need to consider this carefully. It may be reasonable to award small-scale farmers certain incentives to enable them to survive the competition from large-scale agri-businesses and to avoid large-scale companies taking advantage of the incentives by maximising their profits.



**Shs690 billion**

According to the African Development Bank, Uganda lost an estimated Shs690 billion in tax incentives in FY 2009/2010

## TAX EVASION HAS THE SAME FACE AS CORRUPTION

There is a global focus on combating tax evasion, and African governments will later in the year receive a report from a high-level UN Panel on illicit financial flows, which will provide recommendations to governments on how to avoid huge revenue losses. We urge that it is crucial for the Government to assent to the coming report on illicit financial flows and to act on it. The magnitude of illicit financial flows are enormous, leading to a loss from the African continent of 60 billion US dollars, or 155 trillion shs – ten times the Ugandan annual budget.

We cannot continue to accept tax evasion taking place and for company profits to flow freely out of Uganda. At the end of the day, the result is the same as when corruption money that should have been used on sustainable development is stolen or denied.

The budget proposals introduce a total of 425 billion shillings in VAT and excise

duty proposals that will predominantly hit ordinary citizens. The Government should instead focus on generating at least some of the 1331 other billion shillings that Uganda is losing from productive sectors.



**Shs155 trillion**

Illicit financial flows: The African continent every year loses US\$60 billion, or Shs155 trillion – ten times the Ugandan annual budget

## TAX EVASION

Tax evasion is an illegal activity. It can take many shapes and is, because of its dubious nature, very hard to track. In May 2014, a leading research institution, Global Financial Integrity, released a report showing the magnitude of the problem. The report, "Hiding in Plain Sight" was commissioned by DANIDA to showcase how companies are using unscrupulous,

scheming methods to avoid paying taxes. The main problem for Uganda is that companies are importing goods at inflated prices. These imports are often done from subsidiaries of the same company in a tax haven. It is therefore a transfer of money out of Uganda to a country with low or no taxation. Therefore, the company can declare lower profits and avoid being taxed corporate income tax although they have made their profits on operations in Uganda.

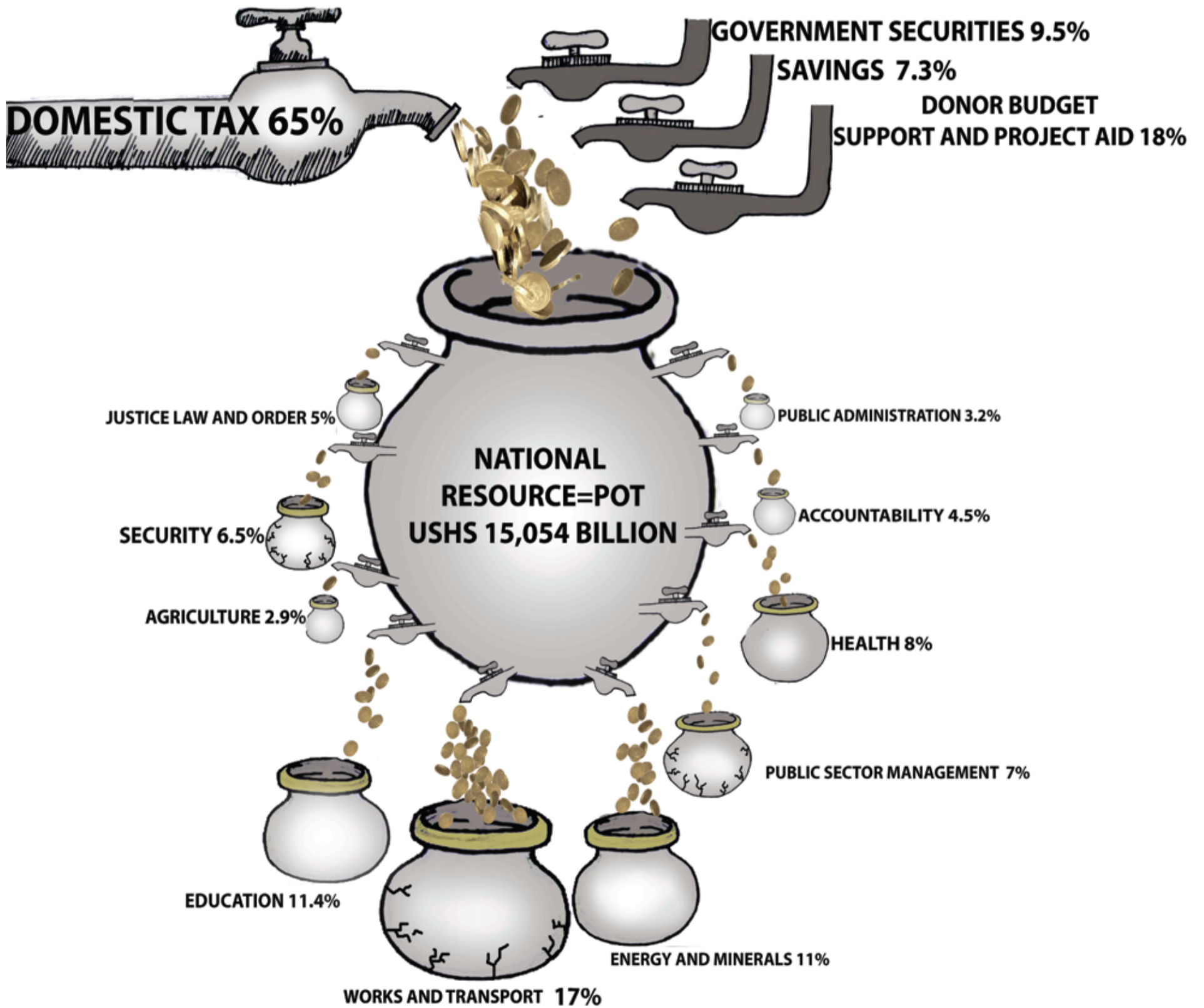
According to the report, Uganda loses 630 bn shs per year on tax evasion.

**Shs630 billion**

According to a report commissioned by DANIDA, Uganda loses Shs630 billion per year on tax evasion.



# THE UGANDA NATIONAL BUDGET



# THE WEIGHT OF TAX ON AN ORDINARY UGANDAN WOMAN



## THE 2014/15 BUDGET TAX PROPOSALS ANALYSIS

The government plans to increase revenue through scrapping of tax exemptions, introduction of new taxes, identifying non-compliant taxpayers through collaboration within government agencies and use of technology tools, and amending laws to enable Uganda Revenue Authority to access more information to aid tax audits and investigations. The Civil Society Budget Advocacy Group (CSBAG) has taken time to analyze the tax proposals and measures by the Minister of Finance Planning and Economic Development (MoFPED) which we present in the table below.

	Proposal	Potential Revenue	Analysis
<b>INCOME TAX</b>	Terminate initial allowance on eligible property.	Shs 53.2 billion	This implies accelerated depreciation as an investment incentive will no longer be enjoyed by businesses.
	Increase the presumptive tax threshold from 1% to 3%.	Shs 8 billion	Small businesses will pay more (businesses with annual revenue of less than 50 million shs). This may discourage voluntary compliance. <b>Need to encourage formal registration of businesses by making the URSB more accessible in all regions of the country.</b>
	Introduce a 15% tax on winnings on sports and pool betting and designate gambling houses as agents to withhold the tax.	Shs 8.0 billion	This is a good tax measure; will control gambling and betting. <b>Increase the tax to at least 30%; might double the expected revenue.</b>
	Terminate the exemption on interest income on agricultural loans.	Shs 25.1 billion	This may reduce loans by financial institutions to the agricultural sector given the sector's inherent risks. Financial institutions are also likely to pass on the tax costs resulting in an increase in interest rates on agricultural loans. Thus, discouraging agricultural borrowing which currently stands at less than 10%. <b>Government need to drop this proposal.</b>
	Introduce capital gains tax on the sale of commercial property.	Shs 52 billion	This is a good tax measure. <b>However, government needs to recruit, train and retain government Valuers.</b>
	Terminate the exemption on income derived by a person from managing or running an educational institution for commercial gain.	Shs 15 billion	Private education institutions are likely to increase school fees and tuition fees to retain their margins while complying with this amendment. This will curtail the growth of the education sector especially ensuring quality education; which should be a top priority of government. <b>Government needs to re-think this proposal.</b>
<b>VAT</b>	Propose to terminate VAT exemptions on:	Shs 215 billion	All the supplies will be taxable at a standard rate of 18%.
	New computers, desktop printers, computer parts & accessories and computer software licenses.		Likely to hurt the ICT industry, and reverse the gains so far made. <b>Government needs to re-think this proposal.</b>
	Supply of hotel accommodation in tourist lodges and hotels outside Kampala District.		Likely to hurt the tourism industry especially for hotels outside Kampala district. Thus, the additional money allocated to UBT might not achieve its objective. <b>Government needs to re-think this proposal.</b>
	Supply of liquefied petroleum gas.		The cost of LPG is already high; this measure is likely to worsen the situation. Since electricity is expensive; household will resort to firewood and charcoal which will have disastrous effects on health and environment. <b>Government needs to drop the proposal.</b>
	Supply of feeds for poultry and livestock; Supply of agriculture and dairy machinery; and supply of packaging materials to the dairy and milling industries.		This is likely to hurt the agricultural sector, which is largely private sector driven. This actually contradicts the government policy on promoting commercial agriculture. <b>Government needs to drop the proposal.</b>
	Supply of salt.		Why salt? This is the most important item for the poor households. <b>Gov't needs to amend this proposal to only apply to imports.</b>
	Termination of VAT zero-rated Supplies:	Shs.30.4 billion	All the above supplies will be taxable at a standard rate of 18%.
	Supply of printing services for educational materials		Will affect the education sector; since the cost will be borne by the parents <b>Government needs to drop the proposal.</b>
	Supply of cereals, grown, milled or produced in Uganda.		Likely to affect consumers especially the urban poor and rural schools. <b>Government needs to drop the proposal.</b>
	Supply of processed milk and milk products; Supply of Machinery and Tools for Agriculture; and Supply of Seeds, Fertilizers, Pesticides and Hoes.		This is likely to hurt the agricultural sector, which is largely private sector driven. The high cost is likely to further curtail fertilizer use, which is currently less than 10% in Uganda. <b>Government needs to drop the proposals.</b>
<b>EXCISE DUTY</b>	Increase excise duty on petrol and diesel by 50 shillings.	Shs 60 billion	Will affect all the sectors of the economy through increased transportation cost
	Reinstate excise duty on kerosene at 200 shillings per litre to raise revenue.	Shs 15 billion	This is anti-poor people; since they are the major users of Kerosene. <b>Government need to drop this proposal and instead enforce strict regulation and supervision of fuel station on adulteration of fuel.</b>
	Increase excise duty on sugar from 25 shillings to 50 shillings.	Shs 7 billion	For promotion of local industry, we propose that this be applied on only imported sugar.
	Proposing a 10% excise duty on fees charged on withdrawals.	Shs 16 billion	The tax burden will be borne by the users and will increase the cost of doing business especially for SMEs <b>Government needs to put strict regulation of mobile money to protect the consumers.</b>
	Introduce excise duty of 10 percent on bank charges and money transfer fees.	Shs 22 billion	Likely to increase the cost of doing business especially for SMEs
<b>OTHER REFORMS</b>	All goods and services procured by government, directly or with the donor support will be tax inclusive.		Good proposal
	Link the e-tax system with the government payment system, Integrated Financial Management System (IFMS).		Good proposal. This will catch non-compliant taxpayers and to broaden the tax base.
	Review the Excise Duty Act, Stamps Duty Act, lotteries and gaming laws and to introduce a Tax Procedures Act to improve compliance and consolidate the tax administration process.		<b>Parliament should expedite the Enactment of these bills.</b>

### GENERAL CONCERNS

- The proposed tax measures are too harsh on the agricultural sector and the poor sections of the Ugandans. Many of them need to be dropped as proposed above.
- Government needs to devise other means of raising revenues such as expeditious

- development of the mineral sector (iron ore, gold, Vermiculite, Limestone/Marble) which is estimated at US\$ 38.3 billion
- We also request government to improve on the Non Tax Revenue collections by modernizing tax administration.

# It's all about trust and accountability

Transparent and accountable use of public revenue has a mutually reinforcing effect of enhanced government responsiveness and tax compliance by citizens.

**T**ax and taxation are vital for development and governance of any country. By paying taxes, citizens contribute to building sovereign states while good governments in return offer the services expected of them.

Paying tax should be a patriotic duty paid with pride by all Ugandans. We should celebrate when we see greater dependence on domestic taxes as opposed to foreign aid through donors. This strengthens our sovereignty as a nation and prosperity as a people. At 13.5%, Uganda's tax to GDP ratio is one of the lowest in Africa and it should therefore be a national goal to increase this ratio.

However, many Ugandans feel tax as burden they would rather avoid. This feeling is understandable when taxpayers do not get quality services in return for paying taxes. The public's trust in the government's accountability has been eroding which has been attested by several opinion polls in the last 3 years.

In the past 3 financial years, Ugandan public expenditure has been estimated at about 11 bn shs excluding project aid, public debt and other statutory obligations. How was this amount generated? At what cost on the ordinary citizens? How is the money spent and what quality of services has the government provided? These questions need to be responded to in a compelling way in order to better change the negative attitude many have about the ever-increasing taxes.

Standards of good governance should not be limited to prudent management of a country's revenue. Accountability and the quality of service delivery are even more crucial. Accountability is one of the fundamental tenets of effective governance in both the public and private sector. Corruption thrives in the absence of accountability. Paying attention

**ICON OF INTEGRITY, JULY 2014: Through unprecedented fundraising projects, Katikkiro Mayiga has demonstrated the highest levels of transparency and accountability and as a result generated more money for Buganda Kingdom.**



to accountability in taxation can link tax to a broader process of socio-economic development for Uganda.

It is widely accepted by analysts, technocrats and activists alike that governments which derive a greater proportion of their revenue from domestic taxes, tend to be more accountable, responsive and democratic. The recent events in Uganda that led donors and development partners to cut back or withdraw their funding significantly could be a silver lining for the citizens of Uganda.

In the current budget proposal, the government

intends to finance 81.8% of the budget from domestic sources. Tax collected by Uganda Revenue Authority is estimated at 65% of this figure. To avoid a feeling of coercion or a sense of 'tax injustice', government must pay more attention to the return on investment to tax payers.

The government must ensure that a progressive taxation regime is in place, one that curbs tax evasion and abusive tax avoidance and at the same time ensures horizontal and vertical equity, improving allocative efficiency, removal of unnecessary incentives and reduction of public wastage. This is possible if the government exchanges tax compliance for more accountable and democratic institutions. Tax compliance is much higher in countries that have low levels of corruption and progressive public service provision than in those without.

The Minister of Finance, Planning and Economic Development in her recent budget speech reiterated government's commitment to instituting accountability measures for enhanced effectiveness and efficiency in the utilisation of public resources. It is not the first time that Ugandans hear such sweet sounding words. We need real action that will not only bolster efficiency but also act as a deterrent to those keen to pillage hard-earned tax revenue.

One can argue that Ugandan taxpayers are willing to pay even more of their income but only if they can trust that the government will put it to good use and be accountable. If the Minister of Finance and the Government can focus on redressing this accountability deficit, they can be sure to generate more taxes.

There are certainly important lessons our government can pick from the Prime Minister of Buganda Kingdom, Peter Mayiga, who has raised amazingly high amounts of revenue for a strategic project for Buganda. Through unprecedented fundraising projects, he has demonstrated the highest levels of transparency and accountability and as a result generated more money for the Kingdom. It is for this reason that Peter Mayiga is our ICON OF INTEGRITY for the month of July 2014.

— By Sarah.Muyonga@actionaid.org,  
Arthur.Larok@actionaid.org and  
cnamagembe@cbsag.org

