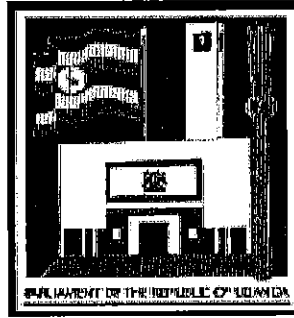


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PARLIAMENT OF UGANDA

REPORT OF THE COMMITTEE ON FINANCE, PLANNING AND ECONOMIC
DEVELOPMENT

ON

THE VALUE ADDED TAX (AMENDMENT) BILL, 2014

OFFICE OF THE CLERK TO PARLIAMENT

PARLIAMENT BUILDINGS
KAMPALA - UGANDA

September 2014

K. Kamukama

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1.0 INTRODUCTION

Rt. Hon. Speaker and Hon. Members, in accordance with Rule 118 of the Rules of Procedure of Parliament permit me to present to you a report of the Committee of Finance, Planning and Economic Development on the Value Added Tax (Amendment) Bill 2014. The Bill was referred to the Committee after being read for the first time by the Minister of Finance, Planning and Economic Development on 15th of July 2014.

1.1 METHODOLOGY

The Committee held consultative discussions with;

1. The Ministry of Finance, Planning and Economic Development;
2. The Uganda Revenue Authority;
3. The Uganda National Farmers Federation;
4. Uganda Seeds Traders Association;
5. Public Sector Foundation (PSFU);
6. Hon. Kasamba Mathias, Chairperson Sectoral Committee on Agriculture;
7. The Greater North Parliamentary Forum
8. The Uganda Seeds Producers Association
9. Uganda Insurers Association (UIA)
10. Uganda Bankers Association
11. The Civil Society Budget Advocacy Group (CSBAG).
12. The Parliamentary Committee on National Economy.
13. Feed for the future
14. Presidential Advisor (Presidential Roundtable on Agricultural Investment.)
15. Uganda Petroleum and Liquid gas Organizations
16. Uganda Cooperative Alliance
17. Mukwano industries
18. The Uganda Diary Association
19. Bunyonyi Safaris
20. Godfrey Akena- Hydro Power Projects

Their submissions informed the content of this report and a summary of their concerns is hereto attached to this report as Annexure "A". The Committee further studied the Taxation regime on Value Added Tax in the East Africa region

2.0 OBJECT OF THE BILL.

The object of this Bill is to amend the Value Added Tax Act, Cap 349 to;

1. Provide for the **removal from the exempt supplies, the supply of ;**
 - a) Feeds for poultry and livestock
 - b) Machinery used for the processing of agricultural or dairy products
 - c) Accommodation on tourist lodges and hotels
 - d) New computers, desktop printers, computer parts and accessories
 - e) Computer software and software licenses
 - f) Liquefied petroleum gas,
 - g) salt,
 - h) packaging materials exclusively used by the milling industry for packing milled products
 - i) Packaging material exclusively used by the dairy industry for packing milk; and
 - j) Insurance services except life insurance and medical services

2. Provide for the **Termination of the VAT Zero rate status on the supply of following:**
 - a) Supply of cereals, grown, milled or produced in Uganda;
 - b) Supply of processed milk and milk products;
 - c) supply of printing services for educational materials;
 - d) Supply of seeds, fertilizers, pesticides and hoes and
 - e) Supply of Machinery, tools and implements suitable for use only in agriculture

2.1 Projected revenue by Government

The Ministry explained that the proposed termination of exemptions and termination of zero rating status are expected to generate **Shs. 323.7 bn** as tabulated below;

Expected revenue from the Termination of exemptions and zero rated supplies under the 2nd and 3rd schedule of the VAT Act.

Table 1

No	Measures	Expected revenue
1	Termination of exemptions under Schedule	Shs. 215 bn

	2 nd of the VAT Act	
2	Termination of zero rating supplies under 3 rd Schedule of the VAT Act	Shs. 30.4 bn
	Total	Shs. 323.7 bn

3.0 COMMITTEE OBSERVATIONS

3.1 Termination of the zero rate status on the supply of cereal grown, milled or produced in Uganda.

Clause 4 (1) (f) seeks to terminate the zero rate status on the supply of cereal grown, milled or produced in Uganda. The Committee noted that Government zero rated the supply of cereals in order to build the milling capacity in the Country and equally add value to the cereal product.

The Committee observed that the bulk of the cereals are gathered from farmers by the middle men who are below the threshold for VAT registration. The also observed that this measure will be counterproductive by making Ugandan rice, maize and other cereal uncompetitive as there will be influx of rice, maize and other cereal from other COMESA Countries who are subsidizing their farmers. *The Committee therefore recommends that proposed measures to provide for the application of VAT supply of cereal grown, milled or produced in Uganda be stayed.*

3.2 Termination of VAT on the supply of seeds, fertilizers, pesticides and hoes.

Clause 4 (1) (f) seeks to terminate the zero rate status on the supply of seeds, fertilizers, pesticides and hoes. The Committee noted Government zero rated tax regime on the supply of seed, fertilizers and pesticides as an incentive to the agricultural input sector. However, in this year's budget, Government has proposed to terminate the zero rating on the supply of seeds, fertilizers, pesticides and hoes.

Seeds

The Seed subsector is a critical subsector in agriculture. Seed security precedes food security and therefore more attention needs to be paid to ensure seed is accessible and affordable to the majority of farmers.

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Fertilizers

The Uganda Census of Agriculture of 2008/09 revealed that most farmers (50%) were not using inorganic fertilizers because they are expensive. The concern of the Committee is that application of VAT on the supply of inorganic fertilizers will escalate the price of Inorganic fertilizer even higher.

Pesticides and hoes

Rt. Hon. Speaker, considering the fact that the usage of purchased inputs has been low especially in the rural areas, application of VAT at the standard rate on these inputs will make the situation worse. The danger of increase in diseases is real for users who may be discouraged in using pesticides as a result of high prices of pesticides. The second concern of the Committee is the emerging of counterfeits in pesticides and hoes on the market which will make agricultural production more expensive.

The Committee therefore recommends that these items should be exempted from VAT.

3.3 Termination of the zero rate on the supply of machinery and tools for agriculture

Clause 4 (1) (g) seeks to terminate the zero rate status on the supply of machinery and tools for agriculture. Rt. Hon. Speaker and Hon. Members, machinery and tools which are already expensive shall become more expensive. The Committee concern is that the measures will hinder mechanization of agriculture which is associated with high level of production and increase value addition.

The Committee recommends that the termination of the zero rate on the supply of machinery and tools for agriculture be stayed.

3.4 VAT on Re-insurance services and micro insurance

Clause 3 paragraph (a), applies VAT on the supply of insurance services except the supply of health insurance, and life insurance services. The committee received petitions against the imposition of VAT on micro insurance and re-insurance services and makes the following observations;

(1) Re-insurance

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- 15% with a Ugandan reinsurance company.

Uganda Reinsurance Company only commenced business in July 2013, and does not currently have the capacity to provide the required level of reinsurance cover for the Uganda market and in turn needs to heavily reinsure its liability on the international reinsurance market. The extent of foreign reinsurance can be illustrated by the figure reported in the IRA'S annual insurance market Report (latest, 2012).

	UGX billion
Total non- life insurance gross premiums	312.9
Ceded non-life reinsurance (all foreign)	141.3
Percentage of gross premiums ceded	45.1%
VAT at 18%	25.4

Of the business underwritten by the licensed insurance companies (as per table above), 45% is ceded to international reinsurers. VAT will accordingly constitute a substantial additional impact on the insurance industry by UGX 25.4bn. Yet the profit on non- life business in 2012 was only UGX. 13.5b. VAT therefore renders many insurance arrangements as either uneconomic or loss- making. VAT is charged on reinsurance as an imported service and is a final tax to the insurance companies since it's not allowed as a credit.

The Minister conceded to these observations. The Committee therefore recommends that this proposal be withdrawn.

(2) Micro insurance

Micro insurance, like any other kind of insurance, offers protection against specific risks in exchange for regular premiums. As a specific class of insurance, Micro insurance particularly protects low income earners against specific threats in their life cycles for regular premiums proportionate to the likelihood and cost of the risk involved.

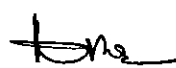
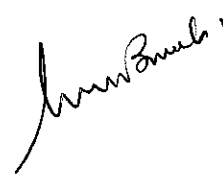
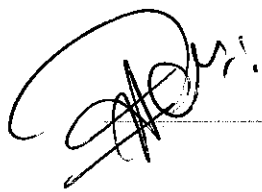
The Committee observes that charging VAT on these policies will increase the cost of the insurance and yet it is intended for people with low incomes that can't afford the regular policies. There is already a 15,000/- stamp duty on policies of micro-insurance

The Minister conceded to these observations. The Committee therefore recommends that this proposal be withdrawn.

4.0 CONCLUSION

The Committee recommends that the Bill be passed subject to the proposed amendments.

I beg to report.



PROPOSED AMENDMENTS

1. New clause

- Insert new clause after clause 2 as follows:

Amendment of Section 7¹ of Cap 349

Section 7 of the principal Act is amended:

- (a) In subsection (1) by inserting immediately after paragraph (b) the following new paragraph-

“(c) at the beginning of any tax period of more than three calendar months where there are reasonable grounds to expect that the total value exclusive of any tax of taxable supplies to be made by the person will exceed the annual threshold set out in sub-section (2).

- (b) By inserting immediately after subsection (5) the following new subsection-

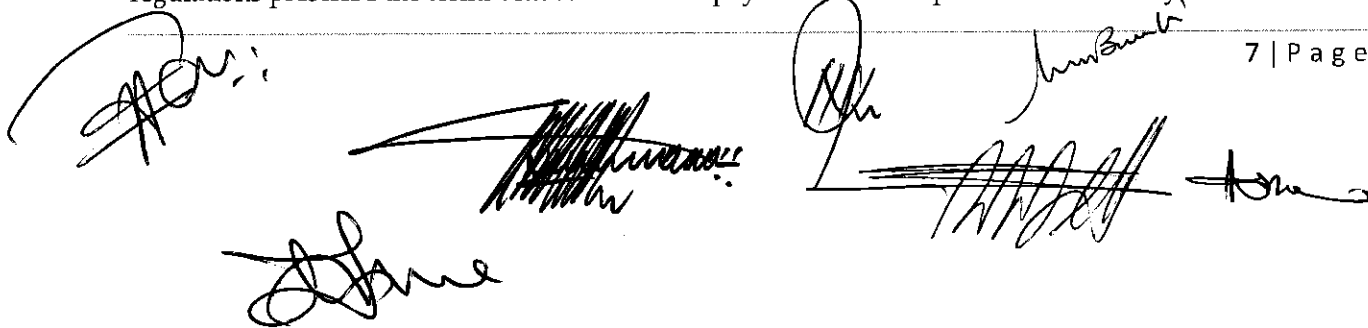
“(6) The registration under paragraph (c) of subsection (1) of section 7 shall be valid only for purposes of accessing terms and conditions of payment of tax on plant and machinery as provided in 34(8)²”

Justification: The VAT Act currently allows a person to register for VAT only if that person is to produce goods or services subject to VAT within three months. Once registered, that person will be allowed to claim a refund or a credit on VAT paid on inputs used in production.

The proposed amendment is intended to allow people invest in long term projects which take more than three months to mature to register for VAT, procure plant and machinery free of VAT which is an incentive allowed to registered taxpayers only.

¹ Section 7 provides for persons required or permitted to register for VAT

² Section 34 provides for “Due date for payment of tax”. Subsection (8) provides that the Minister may by regulations prescribe the terms and conditions of payment of tax on plant and machinery.

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2. Clause 3. Amendment of Second Schedule to principal Act³

- In paragraph (a), substitute for (d) the following-

“(d) the supply of micro-insurance, health insurance, life insurance and re-insurance services”

Justification: To exempt micro insurance and re-insurance services from VAT.

- In paragraph (b), delete (hh)⁴

Justification. The industry still needs support.

- Insert a new paragraph (d), as follows;

(d) by inserting immediately after paragraph (1) (kk) the following new paragraph _

“(ll) the supply of seeds, fertilizers, pesticides and hoes.⁵

Justification. The supply of seed, fertilizers, pesticides and hoes should be exempt from VAT.

- Insert a new paragraph (d) as follows;

“(d) by inserting immediately after paragraph (3) the following new paragraph

“(4) the repeal of paragraph (1) (jj)⁶ shall be deemed to have come into force on 1st July 2010”

Justification. To rectify the error made by Parliament exempting these supplies from VAT in 2011, so that the supply of these materials then can be treated as taxable supplies to avoid disallowing input VAT and

³ The second Schedule provides for supplies which are exempt from VAT.

⁴ This is the supply of packing materials exclusively used by the milling industry for packing milled products.

⁵ This has hitherto been zero rated i.e. (1 (e))

⁶ (jj) was the supply of Biodegradable packaging materials

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claiming refund on the supply from URA. The proposal has no financial implications for Government.

3. Clause 4. Amendment of Third Schedule to principal Act⁷

- In paragraph (b), delete (f) and (g)⁸

Justification.

- (1) The proposed measures will hinder mechanization of agriculture which is associated with high level of production and increase value addition.
 - (2) Seed security precedes food security and therefore more attention needs to be paid to ensure seed is accessible and affordable to the majority of farmers.
 - (3) Application of VAT on the supply of fertilizers will escalate the price of inorganic fertilizers even higher.
- Inserting a new paragraph (c) as follows-

(c) by substituting for paragraph 1(f)⁹ with the following

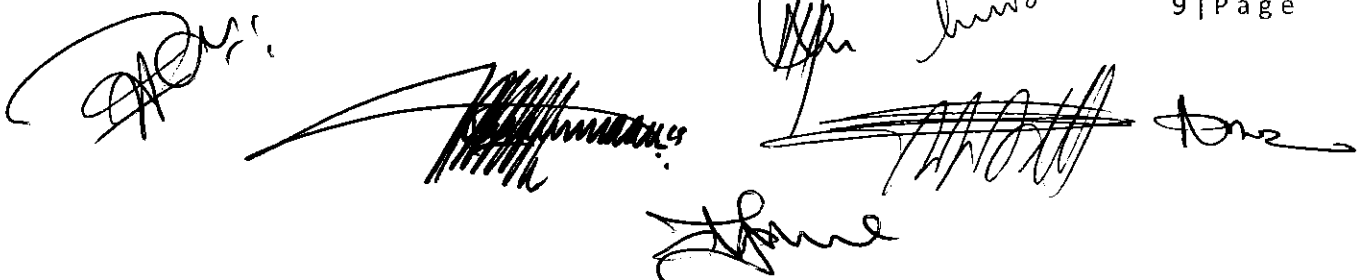
“(f) the supply of cereals, where the cereals are grown or milled in Uganda;

Justification. The VAT zero rate status should not extend to cereals not grown or milled in Uganda.

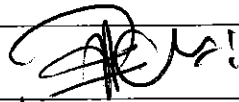
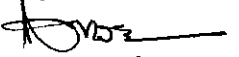
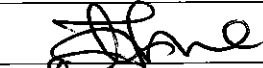
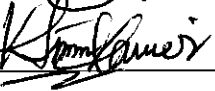
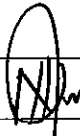
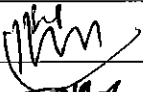
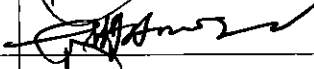
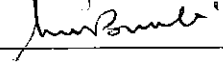

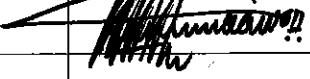

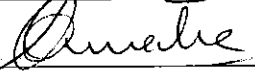

⁷ The third schedule provides for supplies which are zero rated.


⁸ This is the supply of machinery, tools and implements suitable for use only in agriculture.

⁹ This is the supply of cereals where cereals are grown, milled or produced in Uganda

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**COMMITTEE ON FINANCE, PLANNING AND ECONOMIC DEVELOPMENT
WHO SIGNED THIS REPORT**

NO	NAME	CONSTITUENCY	SIGNATURE
1	Hon. Kasule Robert Sebunya	Kyadondo North	
2	Hon. Okello Anthony	Kioga	
3	Hon. Musasizi Henry	Rubanda East	
4	Hon. Kyoma Xavier	Ibanda North	
5	Hon. Akol Rose	Bukedea	
6	Hon. Sejjoba Isaac	Bukoto Mid-West	
7	Hon. Lwanga Timothy	Kyamuswa	
8	Hon. Adong Lilly	Nwoya	
9	Hon. Katoto Hatwib	Katerera	
10	Hon. Amos Lugoloobi	Ntenjeru North	
11	Hon. Emma Boona	Mbarara	
12	Hon. Ayepa Micheal	Labwor	
13	Hon. Kakooza James	Kabula	
14	Hon. Mugabi Muzaale Martin	Buzaaya	
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16	Hon. Nathan Nandala -Mafabi	Budadiri West	
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22	Hon. Kevinah Taaka	Busia Municipality	
23	Hon. Jack Sabiiti	Rukiiga	
24	Hon. Bagoole John	Luuka	

25	Hon. Capt. Lakot Oruni Susan	UPDF	
26	Hon. Ochwa David	NRM	