

## PARLIAMENT OF UGANDA

### REPORT OF THE COMMITTEE ON FINANCE, PLANNING AND ECONOMIC DEVELOPMENT ON THE EXCISE DUTY (AMENDMENT) BILL, 2016

OFFICE OF THE CLERK TO PARLIAMENT  
APRIL 2016

# REPORT OF COMMITTEE ON FINANCE, PLANNING AND ECONOMIC DEVELOPMENT ON THE EXCISE DUTY (AMENDMENT) BILL, 2016

## 1.0 Introduction

The Excise Duty (Amendment) Bill, 2016 was read for the first time on 10<sup>th</sup> March, 2016 and referred to the Committee on Finance, Planning and Economic Development in accordance with Rule 118 of the Rules of Procedure of Parliament.

## 2.0 Object of the Bill

The Object of the Bill is to amend the Excise Duty Act, 2014, Act No. 11 of 2014 to provide for a refund of duty on excisable goods which are converted into healthcare or medical products; to amend Schedule 2 of the Excise Duty Act, 2014 and to enhance excise duty in respect of certain excisable goods including soft cap cigarettes, hinge lid cigarettes, cigars, cheroots and cigarillos containing tobacco, smoking tobacco whether or not containing tobacco, substitutes in any proportion, homogenized or reconstituted tobacco, ready to drink spirits, cement, motor spirit (gasoline), gas oil (automotive, light, amber for high speed engine), cane or beet sugar and chemically pure sucrose in solid form, motor vehicle lubricants, sugar confectionaries (chewing gum, sweets and chocolate), and to remove excise duty on specialized hospital furniture and international incoming calls.

## 3.0 Methodology

The Committee held meetings and received memoranda from the following:

- (i) Minister of Finance, Planning and Economic Development
- (ii) Uganda Revenue Authority
- (iii) British American Tobacco
- (iv) Price Waterhouse Coopers
- (v) Uganda Breweries Limited
- (vi) Association of manufacturers of soft drinks
- (vii) Water Manufacturers Association
- (viii) CSBAG
- (ix) BioLite

#### 4.0 Observations by members

The Committee observed that:

- (i) The amendment to the Act will allow manufacturers of disinfectants/healthcare products which are non-excisable to seek a refund on excisable raw materials like alcohol which are used to make the products. This will promote competitiveness by providing equal tax treatment similar to imported products.
- (ii) Excise duty on cement is going to increase from UGX 500/- to UGX 1000/- if this proposed amendment is passed into law. This will be charged on every 50Kgs of Cement. This will capture the actual tax taking that would have been paid if the rate of tax was ad valorem into account depreciation of the shilling and inflation. Therefore, it will not negatively affect the construction industry.
- (iii) The excise duty increment on gas oil, spirits, cane, beet sugar and pure sucrose is meant to capture the actual tax taking that would have been paid if the rate of tax was ad valorem into account depreciation of the shilling and inflation.
- (iv) The removal of tax on international incoming calls will promote competitiveness of Uganda mobile network operators as Kenya, Rwanda and Southern Sudan who are in the one area network do not have tax on them. The situation has been that international incoming calls into Uganda have been terminating in other partner states in the one network area and routed to Uganda as local calls thereby evading the tax.
- (v) Excise duty continues to be charged on creams used by albinos to protect their skins from the direct effect of sunlight. This is not proper as it increases the cost of the creams yet they are necessary to protect their skin. Excise duty charged on creams used by albinos should be scrapped.
- (vi) Excise duty on cigarettes has two tiers under the current law. This has caused a problem of illicit trade among the industry. If the current two tier specific excise is changed to a single specific excise rate for all cigarettes at Ug. Shs. 65,000 per thousand sticks (mile), it would

represent a two year cumulative above-inflationary increase in Industry weighed average excise rates in line with past practice of cigarette excise increase across all brands every two years.

- (vii) Excise duty in Uganda on soft drinks is charged at a rate of 13%. The other EAC trading partners i.e. Kenya and Tanzania charge 7% and 5% respectively. This has made Uganda uncompetitive in the industry. Analysis from the Parliamentary Budget Office indicates that a reduction in excise duty on soft drinks from 13% to 10%, increases aggregate household demand by 0.2%, and employment will increase by 0.1% in the first 2 years (short run). This will cushion the economy from the negative effects of the excise duty tariffs being proposed in FY 2016/17, which lead to a slowdown in the economy by 1.8%.
- (viii) Clause 3 (g) of the Bill seeks to amend Part I of Schedule 2 of the principal Act by inserting immediately after item 3 (c), a new item called "ready to drink sprits 80%". This provision is not clear as is required under the principles of taxation. It inadvertently captures 2 categories of adult beverages, which have to be treated differently because of their nature, the consumer targeted and the circumstances surrounding their current performance. The first category is defined within the industry as "Ready to drinks". These are pre-mixed drinks with similar alcohol content (ABV) to beer e.g Smirnoff Ice, which contains 6% Alcohol by Volume (ABV) thus bringing it within the same range as beer.

Ready to drinks, because of their ABV, need to be classified within the same category as beer for tax purposes. Government stands to gain approximately Ug. Shs. 4,000,000,000/= with an assumed increase of 20% consumption if the excise rate is reduced on RTDs from 70% to 60% to bring it in line with imported beer with similar alcohol content. Inversely government stands to lose the same amount if increased on RTDs from 70 to 80% because this increase will drive prices up in a price sensitive market and make the category less attractive to invest in. Rationalization of RTDs with beer in other jurisdictions has resulted in significantly higher tax collections. The Committee proposes that the projected revenue can be achieved by increasing the rate under item 3 (c) from 70% to 80%.

## 5.0 Recommendation

The Committee recommends that the Excise Duty (Amendment) Bill, 2016 be passed into law subject to the proposed amendments.

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## **PROPOSED AMENDMENTS**

### **Clause 3. Amendment of Schedule 2 of the Principal Act**

- Delete paragraph (g) and replace it with the following;

(g) by substituting for item 3 (c ) the following-  
“ (c) Others 80%

#### **Justification**

This provision is not clear as is required under the principles of taxation. The expression “Ready to Drink Spirits” is non-existent in the Industry. The provision inadvertently captures 2 categories of adult beverages, which have to be treated differently because of their nature, the consumer targeted and the circumstances surrounding their current performance. The first category is defined within the industry as “Ready to drinks’ and the other “spirits”.

The projected revenue can be achieved by increasing the rate under item 3 (c) from 70% to 80%.

- **Insert new paragraph (h) immediately after paragraph (g) as follows;**

“(h) by substituting for item 5 the following;

“Non-alcoholic beverages, excluding natural fruit juice drinks and/or vegetable juice drinks containing not less than 10% by mass of standardized fruit and/ or vegetable juice. 10%

#### **Justification.**

Analysis from the Parliamentary Budget Office indicates that a reduction in excise duty on soft drinks, increases aggregate household demand by 0.2%, and employment will increase by 0.1% in the first 2 years (short run). This will cushion the economy from the negative effects of the excise duty tariffs being proposed in FY 2016/17, which lead to a slowdown in the economy by 1.8%.

- **Insert new paragraph (l) immediately after paragraph (k) as follows;**

“(1) by substituting for item 12 the following;


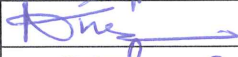

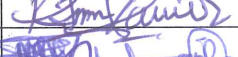

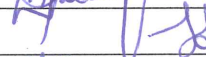





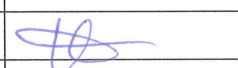
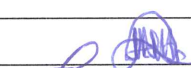
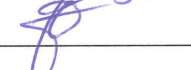
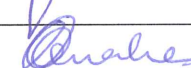
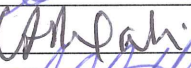
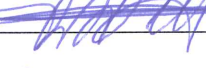

“12 Cosmetics and perfumes except creams used by the Albino in the treatment of their skin. 10%.

## Justification

Creams used by the Albinos should not attract Excise duty.

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**REPORT OF COMMITTEE ON FINANCE, PLANNING AND ECONOMIC  
DEVELOPMENT ON THE EXCISE DUTY (AMENDMENT) BILL, 2016**

	NAME	CONSTITUENCY	SIGNATURE
1	Hon. Kasule Robert	Kyadondo North	
2	Hon. Okello Anthony	Kioga County	
3	Hon. Musasizi Henry	Rubanda East County	
4	Hon. Kyooma Xavier	Ibanda North County	
5	Hon. Sejjoba Isaac	Bukoto Mid-West	
6	Hon. Lwanga Timothy	Kyamuswa County	
7	Hon. Adong Lilly	Nwoya District	
8	Hon. Katoto Hatwib	Katerera County	
9	Hon. Amos Lugoloobi	Ntenjeru South	
10	Hon. Emma Boona	Mbarara District	
11	Hon. Ayepa Micheal	Labwor County	
12	Hon. Mugabi M. Martin	Buzaaya County	
13	Hon. Geoffrey Ekanya	Tororo County	
14	Hon. Nathan N Mafabi	Budadiri West County	
15	Hon. Odo Tayebwa	Bushenyi-Ishaka Mun	
16	Hon. Mathias Nsubuga	Bukoto South County	
17	Hon. Judith Franca Akello	Agago District	
18	Hon. Maxwell Akora	Maruzi County	
19	Hon. Ssasaga Isaiah	Budadiri East County	
20	Hon. Kevinah Taaka	Busia Municipality	
21	Hon. Jack Sabiiti	Rukiiga County	
22	Hon. Bagoole John	Luuka County	
23	Hon. Capt. Lakot Susan	UPDF	
24	Hon. Ochwa David	Agule County	