



PARLIAMENT OF UGANDA

REPORT OF THE COMMITTEE ON FINANCE, PLANNING AND ECONOMIC DEVELOPMENT ON THE EXCISE DUTY (AMENDMENT) BILL, 2020

OFFICE OF THE CLERK TO PARLIAMENT
April 2020

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REPORT OF THE COMMITTEE ON FINANCE, PLANNING AND ECONOMIC DEVELOPMENT ON THE EXCISE DUTY (AMENDMENT) BILL, 2020

1.0 Introduction

The Excise Duty (Amendment) Bill, 2020 was read for the first time on the 31st March, 2020 and referred to the Committee on Finance, Planning and Economic Development in accordance with Rule 128 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, to vary excise duty in respect of excisable goods.

3.0 Methodology

The Committee held meetings and received memoranda from the following:

1. Minister of Finance, Planning and Economic Development
2. The Uganda Revenue Authority;
3. The Civil Society Budget Advocacy Group (CSBAG);
4. The Private sector Foundation;
5. The Tax Justice Alliance Uganda (TJAU);
6. The Uganda Law Society;
7. PricewaterhouseCoopers;
8. The Alcohol Association of Uganda; and
9. Mr. Dunstan Sendiwala

4. Observations by the Committee

The Committee observed that:

- (i) The bill seeks to increase the Excise Duty on soft cap cigarettes from UGX 55,000 to UGX 75,000 per 1000 sticks and on hinge lid cigarettes from

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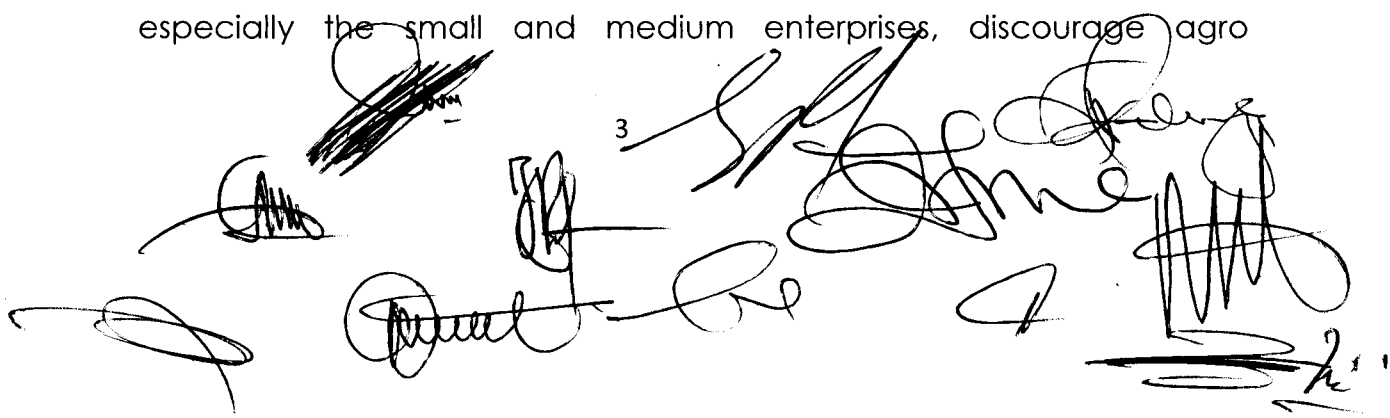
UGX 80,000 to UGX 120,000 per 1000 sticks. This may force manufacturers to lower the price of tobacco from the farmers hence reducing their earnings. This will also affect the operations of tobacco factories as the economy recovers from the COVID – 19 pandemic. The current rates on cigarettes should be maintained to enable recovery of the sector.

- (ii) Leaf Tobacco & Commodities Uganda Limited has negatively been affected by the East African Court of Justice ruling where operating in Uganda has been penalized by flattening of the excise duty rate for both cigarette importers and local manufactures whereas in other East African Countries like Burundi and Tanzania the rates continue to be differentiated. This has slowly reduced the excise duty paid by local manufacturers as they compete with imported cigarettes that are manufactured from low tariff countries. There is need to differentiate the excise duty for cigarettes manufactured from here and those imported. Other nontariff barriers should be considered.
- (iii) It is proposed in the bill to increase Excise Duty on malt beer (60% or shs 2050 per liter whichever is higher); beer whose local raw materials content, excluding water is at least 75% by weight of its constituent (30% or shs 790 per litre, whichever is higher) and beer produced from barley grown and malted in Uganda (30% or shs 1,115 per litre, whichever is higher). However, increase in excise duty on beer has always led to increase in beer prices, which negatively impacts on the volumes of consumption as well as the tax contribution from the sector. An increase in excise duty on the various beer categories does not guarantee additional tax revenue for the government. The current excise duty rates should therefore be maintained.
- (iv) The Bill proposes to increase Excise Duty on beer made from local raw materials. An increase in excise duty will generally result in higher prices

of beer for consumers. The reduction in the volume of beer consumed will result in a reduction of taxes collected by government. The major objective of introducing affordable local raw material beers was to provide a product to the low income consumers that is hygienic and affordable as an alternative to illicit and informal local alcoholic beverages that do not contribute to tax revenue but are also a health hazard to the people. If government prices formal beer or alcohol out of reach, the sector will revert to a worse situation with people opting to drink the harmful illicit brews that can result in death. This will have a negative effect on the locally produced raw materials like sorghum, barely, maize and cassava with decreased demand that will in turn affect household incomes negatively.

- (v) Parliament reduced Excise duty on soft drinks in FY 2018/19 which was the highest in the region. This was encouraging smuggling of soft drinks from the neighboring countries which have lower excise duty rates. Government had committed to reduce excise duty on soft drinks to make the sector competitive in the region and reduce smuggling which leads to loss of revenue. However, government is proposing to increase Excise Duty on non-alcoholic beverages not including fruit or vegetable juices from 11% or shs. 185 to (12% or shs 250 per litre, whichever is higher)}. This will encourage smuggling from the neighboring countries and lead to revenue loss. The current rates on soft drinks and juices should be maintained to avoid loss of revenue though smuggling and reduced consumption as increase in excise duty would lead to increase in prices.
- (vi) The bill seeks to increase Excise Duty on wine made from locally produced raw materials from Shs. 2000 to Shs to 20% or shs 2300, whichever is higher. However, this will discourage domestic production especially the small and medium enterprises, discourage agro

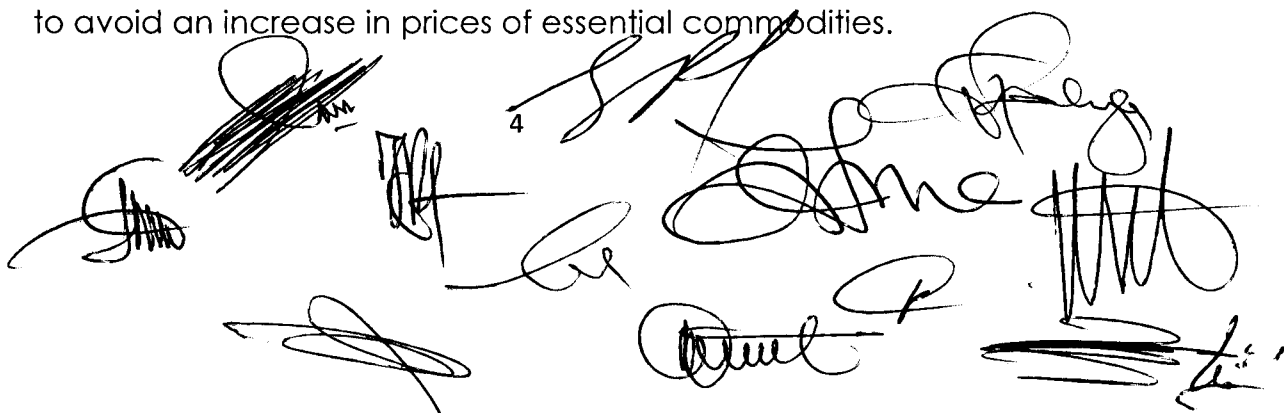
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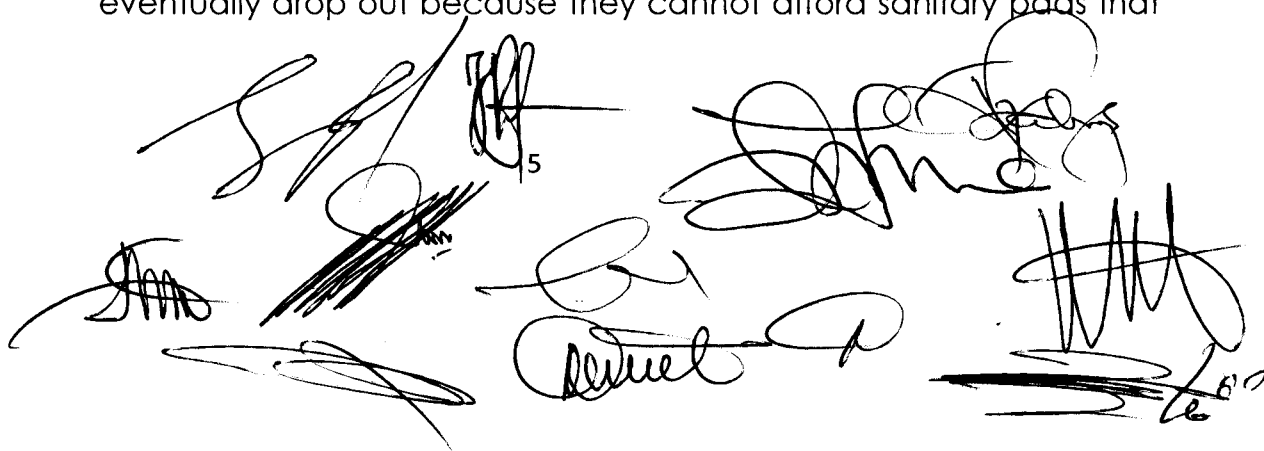
processing in the fruit and vegetable sectors and specifically the processing of wine which is one sure way of fruit preservation and value addition. The new proposed excise duty will reduce the number of those engaged in processing fruits and vegetables hence reducing the returns to farmers and exposing them to few processors who will pay low prices because of reduced demand and lack of competition. This sector is still growing and needs to be protected as Uganda is still exporting raw fruits especially pineapples. There is need to maintain the current Excise Duty rates to encourage more investment in this sector, boost production and generate more revenue.

- (vii) The bill seeks to increase Excise Duty on petrol by shs 150 per litre from shs 1200 per litre to shs.1350 per litre and diesel by shs 150 per litre from shs 880 per litre to shs 1030 per litre. It is also proposed that Excise Duty on Kerosene be increased by shs.100 per litre from shs.200 per litre to shs.300 per litre. An increase in excise duty on petrol and diesel will result in an increase of prices of commodities since most of them are transported from the producers to the markets as well as services as service providers will experience an increase in overhead costs. Similarly, salaried earners will have their disposable income reduce as they have to pay more to buy the same products. This will reduce excise duty from other products as a result of reduced spending. Kerosene is mainly used by the poor in Uganda and it is an essential commodity used by the large majority of Ugandans as many homes are not yet connected to the national grid. Therefore an increase in Excise Duty will render it expensive and hard to access. With many homes not yet connected to the national grid and considering the current electricity prices, increasing the Excise Duty on kerosene will affect the poor negatively. The current Excise Duty rates should be maintained on fuel and kerosene to avoid an increase in prices of essential commodities.

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- (viii) Excise Duty on lubricants is proposed to be increased from 10% to 15% of the value. The increase will have a direct impact of the cost of maintaining vehicles and other industrial machines that require lubrication in the production process. This will in turn lead to increased transport costs and factory production prices which will affect consumption as transporters and manufacturers seek to transfer the increased cost to the customers. The current rate of 10% should be maintained to avoid distortion in market prices.
- (ix) The bill also proposes to reduce the rate of Excise duty on the following;
- (a) Paragraph (c) seeks to reduce the rate of undenatured spirits made from locally produced raw materials from Shs. 2000 to Shs 1,500 per litre.
- (b) Paragraph (f) item 5 (b) seeks to reduce the rate of Excise duty on fruit juice and vegetable juice, except juice made from at least 30% of pulp from fruit and vegetables grown in Uganda has been reduced from 13% or shs.300 per litre, whichever is higher to 12% or Shs 250 per litre whichever is higher. Although Government indicates that, this measure is expected to lead to a loss of UGX 0.15bn. It is a welcome measure since it will directly support the fruit and vegetables farmers in Uganda.
- (x) The bill further exempts the following from Excise Duty;
- (a) Under paragraph (h), sacks and bags for direct use in the manufacture of sanitary pads are exempted. This is meant to reduce the cost of sanitary pads in Uganda and is a welcome relief to many girls, especially in rural Ugandan schools who miss school and some eventually drop out because they cannot afford sanitary pads that



would save them from the embarrassing leaks during their menstruation periods.

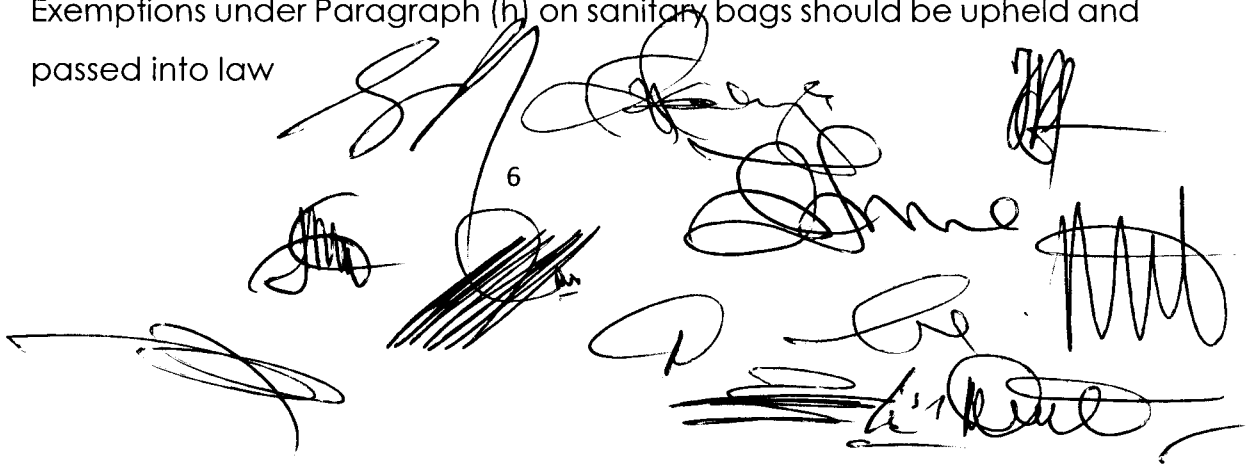
(b) Under paragraph (m); inputs and raw materials for the manufacture of tyres, footwear, mattress or toothpaste for a person who meets the capital threshold of investing USD 1 million in case of a citizen and USD 10 Million for the case of a foreigner. This is to extend incentives already under the tax laws to the above category as part of drive to industrialize the country and replace imports

6.0 Recommendations by the Committee

The Committee recommends that:

- (i) Considering the current situation caused by COVID-19, where the whole country is on lockdown with all major production sectors of the economy closed, the current excise duty rates should be maintained so as to stimulate the economy and enable it to recover;
- (ii) Given the certainty of a ripple effect of an increase in fuel costs on other sectors of the economy, the proposed increase of Excise Duty under paragraphs Cigarettes, Beer, spirits, wine, non alcoholic beverages, Fuel, Lubricants, Motorcycles registration should be dropped;
- (iii) Exemptions under Paragraph (f) on fruit juice and vegetable juice, made from at least 30% of pulp from fruit and vegetables grown in Uganda should be upheld and passed into law
- (iv) Exemptions under Paragraph (h) on sanitary bags should be upheld and passed into law

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- (v) Exemptions on inputs and raw materials for the manufacture of tyres, footwear, mattress or toothpaste for a person who meets the capital threshold of investing USD 300,000 in Urban areas or USD 150,000 in Rural areas in case of a citizen and USD 10 Million for the case of a foreigner should be upheld and passed into law
- (vi) The Excise Duty (Amendment) Bill, 2020 should be passed into law subject to the proposed amendments.



PROPOSED AMENDMENTS.

CLAUSE 2.

1. Delete the following;

- paragraph (a) on cigarettes,
- paragraph (b) on beer,
- paragraph (c) on ready to drink spirits;
- paragraph (d) on wines made from locally produced raw materials;
- under paragraph (f), delete item 5 (a) on Non Alcoholic beverages not including fruit or vegetables juices;
- paragraph (g) on Fuel;
- paragraph (i) on lubricants;
- paragraph (j) on registration of Motorcycles; and
- paragraph (k) on other fermented beverages,

Justification

These are increases in the current rate of excise duty which rates are not conducive amidst the current economic times.

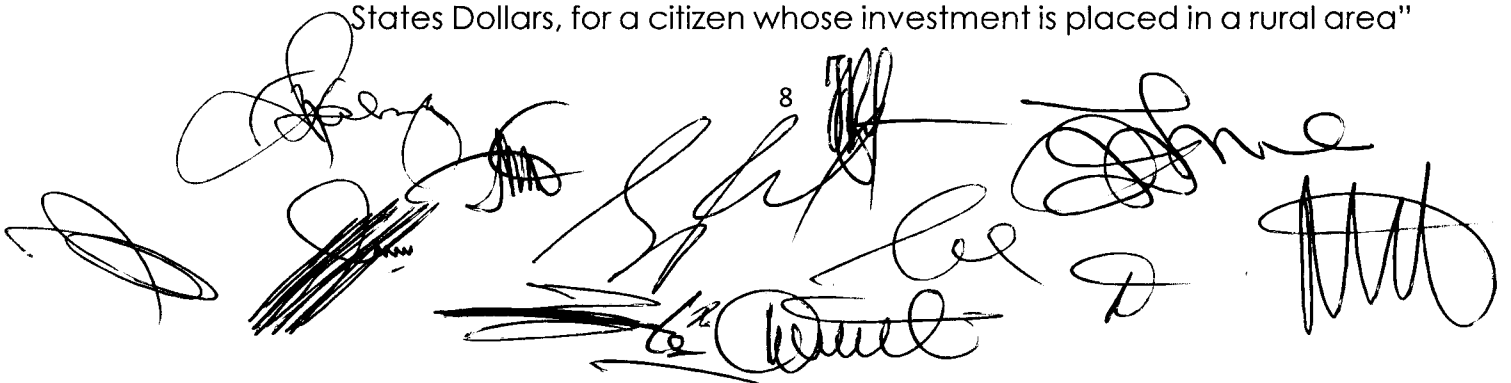
2. Delete paragraph (l);

Justification. To correct a drafting error, paragraph (iv) of item 21 (b) was substituted in FY 2019/2020. This is covered under paragraph (m).

3. Insert a new paragraph as follows

"by substituting for item 21 (a), the following;

"(a) a minimum investment capital of ten million United States Dollars in the case of a foreigner or three hundred thousand United States Dollars in case of a citizen; or one hundred thousand United States Dollars, for a citizen whose investment is placed in a rural area"

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Justification.

- To ensure that this benefits a larger proportion of the local economy. This can also be instrumental in enhancing and strengthening forward and background linkages between the free zones and or industrial parks and Uganda's farmers, who comprise 80% of the local economy.
- Encourage development and investment in the rural areas as opposed to concentration of investments in the towns

4. Substitute for paragraph (m) the following;

"(m) in item 21 (b), by inserting immediately after the words "commercial farming" the words, "tyres, footwear, mattress or toothpaste.

Justification.

This is to extend incentives already under the law to the above category as part of the drive to industrialize the country and replace imports. To correct the wrong reference to 21(b) (xi) (which was substituted in 2019

5. Delete paragraph (n)

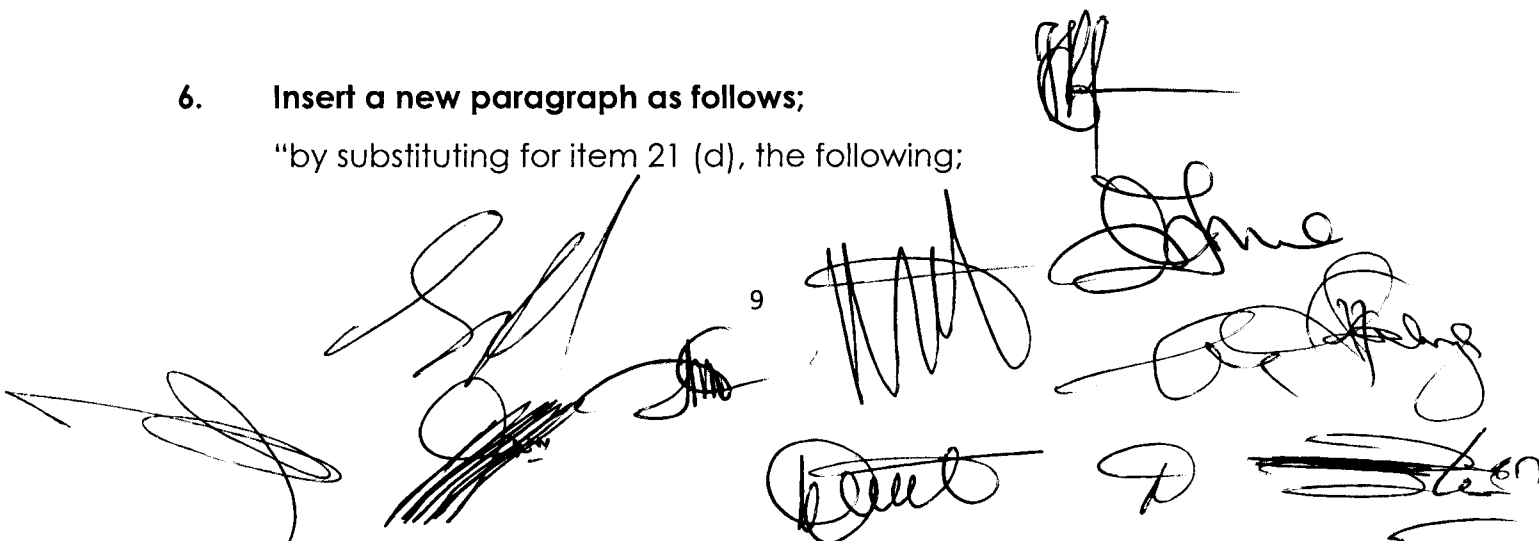
Justification.

Maintain the percentage as seventy percent for consistency with proposals under Income tax, Value Added Tax and stamp Duty Act.

6. Insert a new paragraph as follows;

"by substituting for item 21 (d), the following;

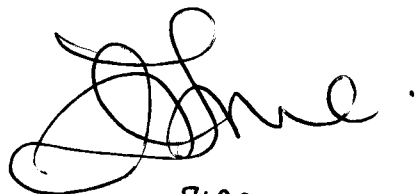
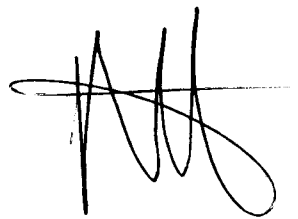
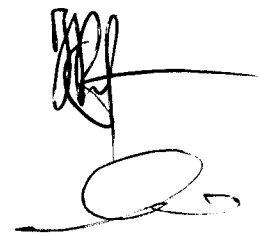
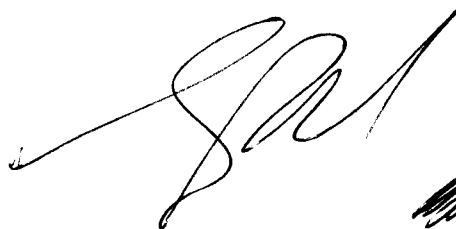
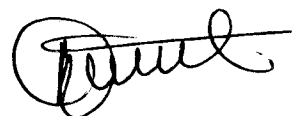
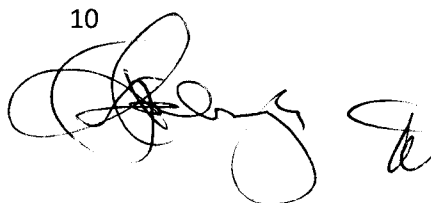
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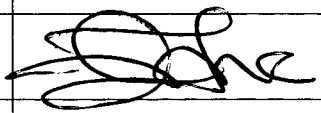
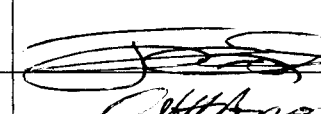

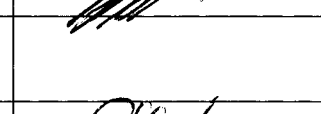
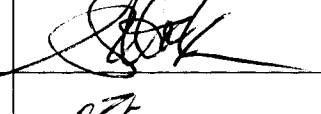
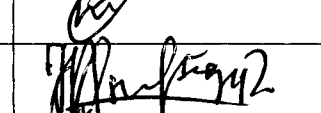
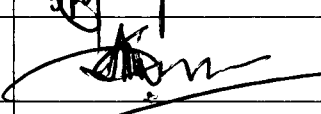
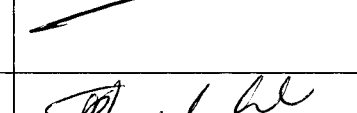
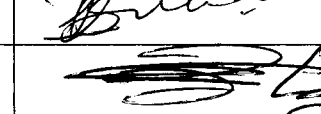
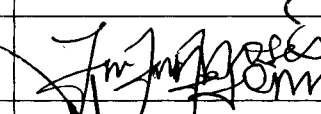
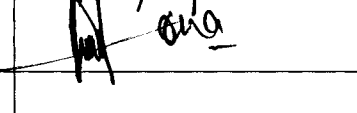
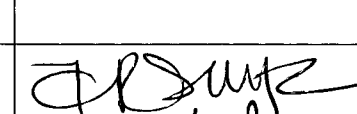

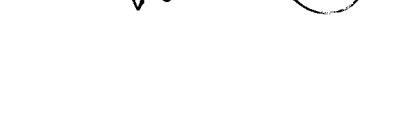

"(d) employs at least seventy percent of its employees being citizens earning an aggregate wage of at least seventy percent of the total wage bill";

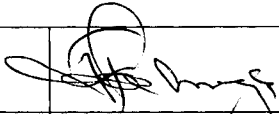
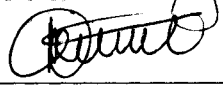



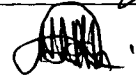
Justification.

- (1) The number of 100 citizens should be expressed as a percentage of the entire work force as is the case with exemptions under the Value Added Tax Act.
- (2) The exemption should only apply to those investors ready to reserve seventy percent of the total wage bill for citizens. This will ensure that more citizens are employed in skilled positions.
- (3) For consistency across all tax laws. This is the same provision proposed for under the Income Tax; Value Added Tax and Stamp Duty Act.

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**REPORT OF THE COMMITTEE ON FINANCE, PLANNING AND ECONOMIC
DEVELOPMENT ON THE EXCISE DUTY (AMENDMENT) BILL, 2020**

No	NAME	CONSTITUENCY	SIGNATURE
1	Hon. Musasizi Henry, CP	Rubanda East	
2	Hon. Avur Jane Pacuto	DWR Pakwach	
3	Hon. Lugoloobi Amos	Ntenjeru North	
4	Hon. Asiku Elly Elias	Koboko North	
5	Hon. Bategeka Lawrence N	Hoima Municipality	
6	Hon. Abala David	Ngora County	
7	Hon. Katoto Hatwib	Katerera County	
8	Hon. Opolot Isiagi Patrick	Kachumbala County	
9	Hon. Tumuramyie Genensio	Kashongi County	
10	Hon. Stella Kiiza	Kyegegwa District	
11	Hon. Ilukor Charles	Kumi county	
12	Hon. Lokii John Baptist	Matheniko County	
13	Hon. Walyomu Muwanika Moses	Kagoma County	
14	Hon. Mulindwa Isaac Ssozi	Lugazi Municipality	
15	Hon. Odur Jack Lutanywa	Kibanda South	
16	Hon. Achia Remigio	Pian County	
17	Hon. Mukula Francis	Agule Pallisa	

18	Hon. Kakooza James	Kabulo County	
19	Hon. Ayepa Michael	Labwor County	
20	Hon. Nathan Nandala-Mafabi	Budadiri West	
21	Hon. Akol Anthony	Kilak North	
22	Hon. Mukoda Julie Zabwe	DWR Mayuge	
23	Hon. Luttamaguzi Semakula	Nakaseke South	
24	Hon. Akello Judith Franca	Agago District	
25	Hon. Ochan Patrick	Apac Municipality	