

**PARLIAMENT OF THE REPUBLIC OF UGANDA**

**REPORT OF THE COMMITTEE ON FINANCE, PLANNING AND ECONOMIC  
DEVELOPMENT ON THE VALUE ADDED TAX (AMENDMENT) BILL, 2023**

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**OFFICE OF THE CLERK TO PARLIAMENT**

**MAY, 2023**

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# **REPORT OF THE COMMITTEE ON FINANCE, PLANNING AND ECONOMIC DEVELOPMENT ON THE VALUE ADDED TAX (AMENDMENT) BILL, 2023**

## **1.0 Introduction**

The Value Added Tax (Amendment) Bill, 2023 was presented for First Reading on Thursday 30<sup>th</sup> March, 2023 in accordance with Rule 128 of Parliament's Rules of Procedure. Subsequently, in accordance with Rule 129, the Bill was referred to the Committee on Finance, Planning and Economic Development for examination.

**Rt. Hon. Speaker** and Colleagues, the Committee considered the Bill, through consultations with different stakeholders, hence this report.

## **2.0 Object of the Bill**

The object of this Bill is to amend the Value Added Tax Act, Cap. 349 to expand the definition of electronic services; to provide for a limit on input tax to activities related to output tax being accounted for and disallow input tax credit to a registered foreign supplier; to provide for the declaration of value added tax on imported services by large unregistered persons and unregistered government entities; to provide for ZEP-RE (PTA Reinsurance Company) as a listed institution; and for related matters.

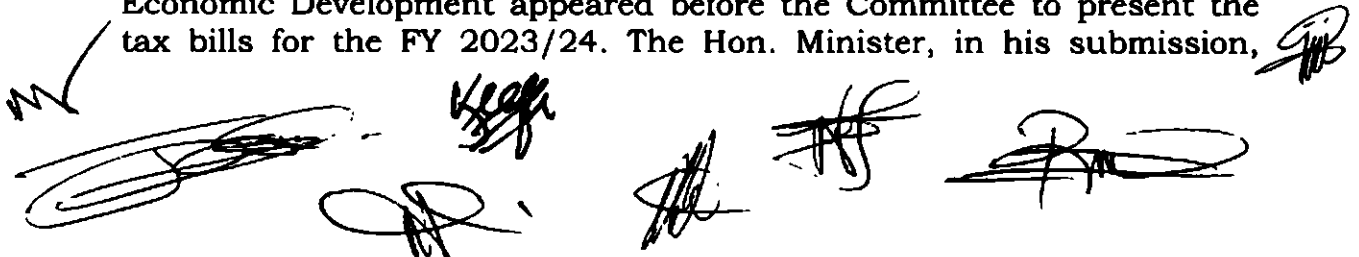
## **3.0 Methodology**

The Committee held meetings and received memoranda from the following; -

- i) Minister of Finance, Planning and Economic Development.
- ii) The Attorney General.
- iii) Uganda Revenue Authority.
- iv) Uganda Law Society.
- v) Tax Justice Alliance Uganda
- vi) Institute of Certified Public Accountants.
- vii) Private Sector Foundation Uganda.
- viii) Uganda Manufacturers Association.
- ix) Price Waterhouse Coopers.
- x) BDO East Africa Advisory Services Ltd and Signum Advocates
- xi) Libra Advocates and Consultants.

## **4.0 Clauses withdrawn from the Value Added Tax (Amendment) Bill, 2023**

On 13th April, 2023, the Hon. Minister of Finance, Planning and Economic Development appeared before the Committee to present the tax bills for the FY 2023/24. The Hon. Minister, in his submission,

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informed the Committee that he was withdrawing the following provisions from the Bill-

- a) Clause 2, which introduces an obligation for auctioneers to account for VAT on sale of auctioned goods; and
- b) Clause 10 (d) (yy), which sought to repeal VAT exemptions on supply of all production inputs necessary for processing of hides and skins into finished leather products in Uganda and the supply of leather products wholly made in Uganda.

## **5.0 Stakeholders, Observations and Recommendations of the Committee**

Arising from the Committee's interactions with the stakeholders in 3.0, the Committee made the following observations and recommendations.

### **5.1 Domestic Revenue Mobilisation Strategy (DRMS)**

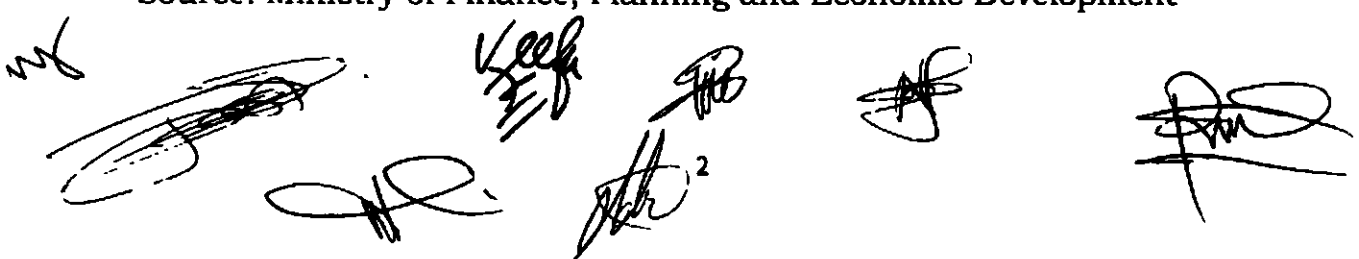
**The Ministry of Finance, Planning and Economic Development** informed the Committee that the revenue strategy in FY 2023/24 is to continue the implementation of the Domestic Revenue Mobilization Strategy (DRMS) for the medium term. The DRMS contains both tax policy and tax administration reforms whose core objectives are to: (i) mobilize sufficient revenue up to a tune of 16-18 percent of Gross Domestic Product (GDP) by end of FY 2026/27; and (ii) provide the right incentives to support industrialization and development of domestic value chains.

The Ministry further noted that to reach the desired target of at least 16% of revenue to GDP in the medium term, Government targets to increase revenue by at least 0.5% of GDP per year. This means that for FY 2023/24, Government aims to increase revenue from UGX 25.6 trillion (or 13.4% of GDP) projected in FY 2022/23 to UGX 29.3 trillion (or 14.0% of GDP) in FY 2023/24, hence additional revenues of UGX 3.7 trillion (or 0.6 percentage points of GDP).

Revenue sources for the projected increase of UGX 3.7 trillion shall be as described in **Table 1** below;

<b>S/N</b>	<b>Source</b>	<b>Contribution (Trillion Ushs)</b>
i)	Improved Levels of Economic Activity	2.7
ii)	Reduction of Tax expenditures	0.4
iii)	Tax Administration Reforms	0.6
iv)	Simplification of tax laws and others measures to enhance tax compliance	N/A
	<b>TOTAL</b>	<b>3.7</b>

Source: Ministry of Finance, Planning and Economic Development

*ny*  


The Committee raised concern regarding the implementation of the next phase of the DRMS, with the current strategy expected to conclude in June 2024. Further, the global economic outlook is dire, with the economy likely to have a downward trend of 0.3%, and this shall affect domestic revenue mobilization. The Committee further took cognizance of the negative impact of tax exemptions, which is leading to a slower growth in the Tax-GDP ratio.

#### **Recommendation**

- i. **The Committee recommends that Government's domestic revenue mobilization efforts be enhanced through widening of the tax base to cover the informal sector.**
- ii. **The MFPED should step up budgetary allocations to the Tax Policy Department and URA to enhance efforts to build capacity that includes staffing levels, digitalization of processes, training and research, analytical capacity in forecasting for both tax and non-tax revenues to implement the DRMS interventions.**

#### **5.2 Clause 3 VAT charged and accounted for by non-resident producers of electronic services.**

**The Ministry of Finance, Planning and Economic Development** informed the Committee that the amendment is prompted by the need to tax non-resident persons such as eBay, Amazon, Ali Express, Netflix, Facebook, twitter, google among others who are offering services to non-taxable persons in Uganda.

**Tax Justice Alliance Uganda** submitted that the amendment imposes an obligation on a non-taxable person who makes supplies above the VAT threshold of US\$ 150,000,000 to account for VAT in United States Dollars, when they import electronic services into Uganda.



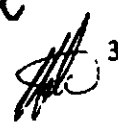
The Committee observed that this provision:

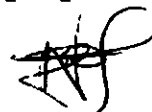
- a) Makes a non-resident person eligible to file VAT returns for services supplied in Uganda;
- b) For the returns to be made, the non-resident should have supplied in Uganda services beyond the value of US\$ 150,000,000;
- c) Includes services made to a government entity that has not registered for VAT;
- d) Clarifies the definition of "electronic services" by specifying that these are services supplied through an online or digital network by a supplier outside Uganda to a recipient in Uganda;

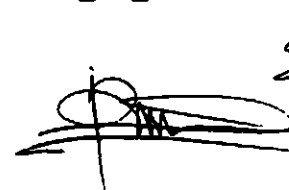

#### **Recommendation**

**The Committee recommends that the proposal charging VAT for non-residents be maintained in the Bill.**

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### **5.3 Commissioner General's discretion to grant an offset**

**The Ministry of Finance, Planning and Economic Development** informed the Committee that the current law requires the Commissioner General to seek the consent of the taxable person whose offset is in excess of UGX 5 million in determining whether to grant an offset or require a taxpayer to apply for a refund.

All stakeholders that interfaced with the Committee noted that the provision locks up funds that would ideally be injected back into the business for continuity. It deprives the tax payer of the liberty to determine whether or not to carry forward the excess credit with their consent.

The Committee observes that the proposed amendment would unnecessarily deprive tax payers of liquidity in business operations.

#### **Recommendation**

**The Committee rejects the proposed amendment to give the Commissioner General the discretion to grant an offset or require a tax payer to apply for a refund.**

### **5.4 Exemption of adult diapers, cotton seed cake and supply of billets**

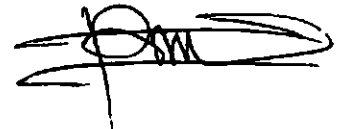
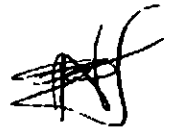
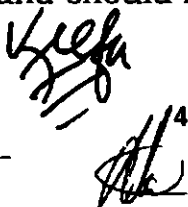
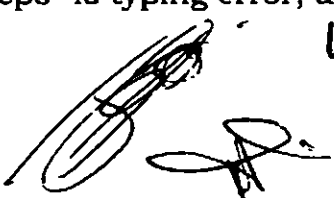
**MFPED** informed the Committee that exempting diapers under the second schedule was for medical reasons targeting the elderly. Currently all types of diapers are exempted. The Ministry added that the proposed change in the law aims to clarify that it is adult diapers that are treated as medical goods but not all diapers.

On other hand, **UMA, ULS and Tax Justice Alliance Uganda** opined that all diapers including baby diapers should be exempt from VAT. The argument for the same was that the proposal is bound to increase hours spent on care work, if women are to wash nappies. Further, that given the limited access to soap and water in many communities, hygiene and the health of babies would be negatively affected.

The Committee observed that diapers are not biodegradable which makes them an environmental hazard. The proposed change in the law aims to clarify that it is adult diapers that are treated as medical goods but not all diapers.

In addition to the above, the Committee further observed that the word "billeps" is typing error, and should instead be worded as "billets".


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**Recommendation**

**The Committee recommends that;**

- i. Adult diapers be exempted from VAT as proposed in the Bill;**
- ii. Amend the word "billeps" to read "billets".**



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## PROPOSED AMENDMENTS TO THE VALUE ADDED TAX (AMENDMENT) BILL, 2023

### Clause 2: Amendment of Value Added Tax Act

Delete Clause 2.

#### Justification

The auctioneer should not be treated as the owner of the goods they auction.

### Clause 3: Amendment of section 16 of principal Act

Clause 3 is amended in paragraph (b) by deleting the proposed (4b).

#### Justification

For parliament to retain the power to prescribe the rules of determining electronic services delivered to a person in Uganda.

### Clause 5: Amendment of section 31A of principal Act

Delete clause 5.

#### Justification

The returns are already being filed under the current section.

### Clause 6: Amendment of section 42 of principal Act

Delete clause 6

#### Justification

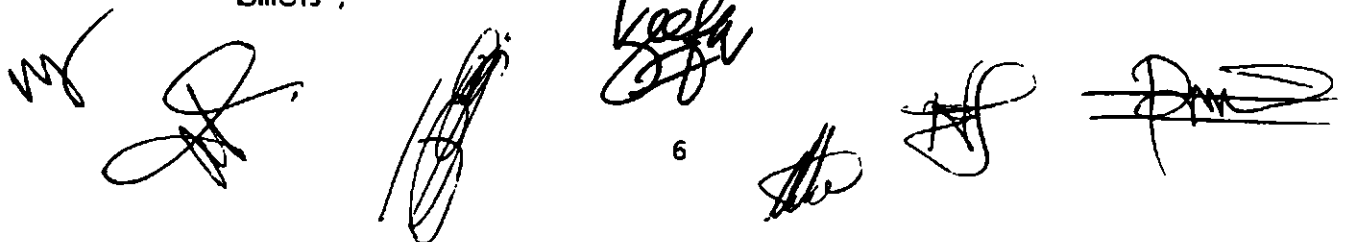
Retain the consent of the taxpayer to apply their refunds to other tax liabilities.

### Clause 10: Amendment of Second Schedule to principal Act

Clause 10 is amended -

(a) In paragraph (a) by substituting for the words "subparagraph (p), the words "subparagraph (q);

(b) in paragraph (c) by substituting for the word "billets" the word "billets";



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(c) in paragraph (d) by deleting (yy).

**Justification**

(a) To provide the correct reference and to provide the correct spelling of the word "billets"; and

(b) To reinstate the exemption on VAT for the supply of production inputs for hides and skins.

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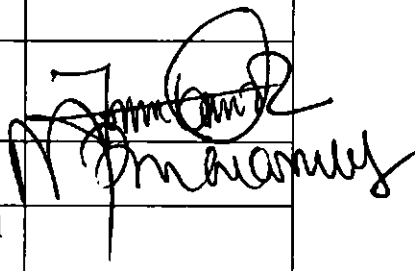
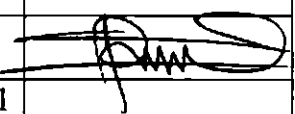


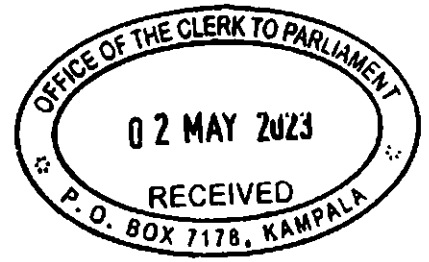
**MEMBERS OF THE COMMITTEE FINANCE, PLANNING AND ECONOMIC DEVELOPMENT; THE VALUE ADDED (AMENDMENT) BILL OF 2023**

NO	NAME	CONSTITUENCY	SIGNATURE
1	Dr. Keefa Kiwanuka C/P	Kiboga East County	
2	Hon. Avur Jane Pacuto D/CP	DWR Pakwach	
3	Hon Wamakuyu Ignatious Mudimi	Elgon County	
4	Hon. Kankunda Amos Kibwika	Rwampara County	
5	Hon. Atima Jackson	Arua Central	
6	Hon. Bataringaya Basil	Kashari North County	
7	Hon. Asumwe K Enosi	Kabula County	
8	Hon. Aleper Moses	Chekwi County	
9	Hon. Ssejoba Isaac	Bukoto CountyMid West	
10	Hon. Tayebwa Herbert Musasizi	Kashongi County	
11	Hon. Lematia John	Ayivu West County	
12	Hon. Kyooma Xavier Akampurira	Ihanda County North	
13	Hon Nakut Faith Loru	DWR Napak	
14	Hon. Nangoli Gerald	Elgon North County	
15	Hon. Katali Loy	DWR Jinja	
16	Hon. Ochai Maximus	West Budama County North	
17	Hon Opolot Patrick Isiagi	Kachumbala County	

18. Hon Wanda Richard

Bungoma Central

19	Hon. Okwir Samuel	Moroto County	
20	Hon. Nabukeera Hanifa	DWR Mukono	
21	Hon. Muwanga Kivumbi	Butambala County	
22	Hon. Ssenyonyi Joel	Nakawa West	
23	Hon. Nandala Mafabi	Budadiri West County	
24	Hon. Kalule Flavia	Jinja West County	
25	Hon. Akol Anthony	Kilak North	
26	Hon. Luttaguzi Semakula P.K	Nakaseke South	
27	Hon. Ocan Patrick	Apac Municipality	
28	Hon. Omara Paul	Otuke County	
29	Hon Muhammad Nsereko	Kampala Central Division	
30	Hon. Aciro Paska Menya	DWR Pader	
31	Hon. Masaba Karim	Mbale, Industrial Division	



PARLIAMENT OF UGANDA

**MINORITY REPORT ON THE VALUE ADDED TAX (AMENDMENT)  
BILL, 2023**

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APRIL, 2023

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## **1.0 INTRODUCTION**

On 30<sup>th</sup> March 2023, the Minister of Finance, Planning and Economic Development laid the Income Tax (Amendment) Bill 2023 before Parliament and referred it to the Committee on Finance, Planning and Economic Development for scrutiny.

The object of this Bill is to amend the Value Added Tax Act, Cap. 349 to expand the definition of electronic services; to provide for a limit on input tax to activities related to output tax being accounted for and disallow input tax credit to a registered foreign supplier; to provide for the declaration of value added tax on imported services by large un-registered persons and un-registered government entities, to provide for ZEP-RE (PTA Reinsurance Company) as a listed institution, and for related matters

The Committee on Finance, Planning and Economic Development scrutinised the Bill and prepared a report in support of the Bill.

Pursuant to Rule 205 of the Rules of Procedure of the Parliament of Uganda, this Minority Report indicates dissenting opinions from the majority of the Committee.

## **2.0 AREAS OF DISSENT**

Dissenting opinions regard;

- a) Imposition of VAT on diapers other than adult diapers
- b) Wide and broad definition of electronic services

## **3.0 DISSENTING OBSERVATIONS**

### **3.1 IMPOSITION OF VAT ON DIAPERS OTHER THAN ADULT DIAPERS**

We disagree with the Committee for allowing the imposition of tax on diapers other than adult diapers. The Committee's finding that diapers are not biodegradable is not premised on scientific evidence. There was no data furnished to the Committee that the imposition of this tax would remedy the side effects of diapers on the environment. It defeats logic to rule that only adult diapers are treated as medical goods but not all diapers.

First and foremost, if VAT is to be waived on diapers on medical grounds, all age brackets should qualify because all persons are susceptible to sickness regardless of age or stature in life. Some individuals might be chronically ill or disabled – but not 'adult' as envisaged under the amendment. The amendment does not even define who qualifies for an adult diaper!;



Nonetheless, favouring one category of patients against others will be unreasonable.

Secondly, the Ministry's efforts for revenue mobilisation should be balanced with the market's realities, whereby the use of diapers by all age brackets whenever required is hygienic and convenient for caregivers including mothers. This has drastically reduced cases of infections resulting from improperly handled nappies as the case was before the emergence of diapers on the Ugandan market

#### **Recommendation**

***The amendment should be rejected to ensure equity and fairness to all users of diapers.***

### **3.2 WIDE AND BROAD DEFINITION OF ELECTRONIC SERVICES**

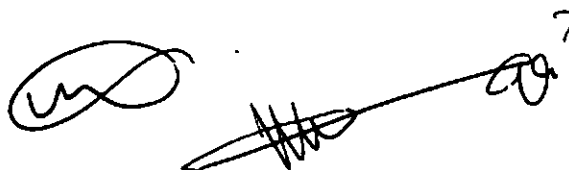
The amendment defines the term "electronic services" that are subject to VAT to mean services supplied through an online or digital network by a supplier from a place of business outside Uganda to a recipient in Uganda including— (i) websites, web-hosting or remote maintenance of programs and equipment; (ii) software and the updating of software; (iii) images, text and information; (iv) access to databases; (v) self-education packages; (vi) music, films and games; including games of chance; (vii) political, cultural, artistic, sporting, scientific and other broadcasts and events; including television; (viii) advertising platforms; (ix) streaming platforms and subscription-based services; (x) cab-hailing services; (xi) cloud storage (xii) data warehousing; and (xiii) any other service as the Minister may by statutory instrument determine."

This definition harbours far-reaching implications and is likely to result in political abuse, unwarranted restriction on civil liberties and a sharp decline in the use and demand for technological products and services.

The definition seems to cover even those platforms and services that are accessed free of charge online. How would you then charge someone VAT over services accessed at no cost, for instance, live streaming on social media and other platforms, artistic work, cloud storage, citizen journalism especially encompassing topical political issues, and self-education packages, among others? Additionally, there is a higher likelihood of abuse of the powers granted to the Minister to define what amounts to electronic service, which squarely usurps Parliament's legislative powers

#### **Recommendation**

***Reject parts of the definition (namely, iv, v, vii, ix, xi and xiii) since they practically delimit civil liberties and technological advancement.***

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**PROPOSED AMENDMENTS TO THE VALUE ADDED TAX (AMENDMENT) BILL, 2023**

**Clause 10: Amendment of Second Schedule to principal Act**

Delete Clause 10 (a).

**Justification**

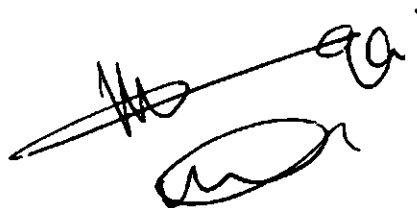
*To ensure equity and fairness to all users of diapers by removing an unfair tax on all diapers.*

**Clause 3: Amendment of section 16 of the principal Act**


Delete paragraphs (iv, v, vii, ix, xi and xiii) from the definition of electronic services in the proposed subclause 3 (c).

**Justification**

To remove unnecessary delimitation of civil liberties, technological advancement and usurpation of powers of Parliament.

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**SIGNATURES OF MEMBERS IN SUPPORT OF THE MINORITY REPORT ON THE VALUE ADDED TAX (AMENDMENT) BILL, 2023**

NO.	NAME	CONSTITUENCY	SIGNATURE
1)	NABUYEKERA HANIFA	MUKONO DISTRICT	
2)	MUNWANGA KIVUMBWA M	KATAMBAZI	