

PARLIAMENT OF UGANDA

MINORITY REPORT ON THE TAX PROCEDURES CODE (AMENDMENT) BILL, 2024

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APRIL, 2024

INTRODUCTION

The Tax Procedures Code (Amendment) Bill 2024 was read for the first time on March 28th 2024. It was accordingly referred to the Committee on Finance for scrutiny in line with our Rules of Procedure.

This is almost a one item Bill requiring a tax payer who intends to claim deduction or credit for goods destroyed to inform the Commissioner in writing before the destruction. Informing the Commissioner about the intention to destroy goods either because they are damaged, expired or are obsolete is a prerequisite for one to claim for deduction.

While this is a simple bill the requirements under Public Finance Management Act apply. Our concern therefore are as follows;

- **NON-COMPLIANCE WITH THE LAW**

The Certificate of Financial Implication the Minister of Finance Matia Kasaija issued for this Bill does not meet the requirements of section 76 of the Public Finance Management Act.

The Certificate he issued reads, "Revenue is expected from improved compliance, but cannot be quantified at present."

This statement by the Minister of Finance offends the section above which require him to

- i. Indicate the estimates of revenue and expenditure over a period of not less than two years after the coming into effect of the Bill when passed.
- ii. Indicate the impact of the Bill on the economy

The law didn't envisage a lazy minister who will present a Bill to Parliament with no comprehensive study. Every legislation brought here seeks to cure a mischief. What mischief is the minister seeking to cure with no quantifiable benefit?

Yet the same Minister in his letter introducing the Domestic Revenue Mobilization Strategy for Uganda 2019/20-2023/24 committed to end arbitrariness.

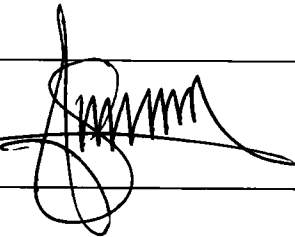
He said thus, "In order to achieve our revenue potential, we will move away from adhoc. Annual tax policy changes. These piecemeal adjustments, with little alignments, to an over-arching strategy, have created a high degree of unpredictability and uncertainty in our tax policy direction. The DRMS will address this, as well as ensure that our future tax policy embodies the principles of simplicity, fairness, citizen welfare, and sustainability. "

This is the commitment the minister made to the country in writing. This Parliament must hold him to his commitment. We should hold him to his commitment.

May be he is carrying out a study and he wants to use Parliament as a respondent. This will be very unfortunate.

Parliament should not allow this Minister to use it for this purpose.

**MEMBERS OF THE FINANCE COMMITTEE WHO SIGNED THE MINORITY REPORT ON THE
TAX PROCEDURES CODE THE (AMENDMENT) BILL, 2024.**

SN	Name	Signature
1.	Klemuon Drahm	

Letter from the Minister of Finance, Planning and Economic Development

I am glad to present to you this document on the Domestic Revenue Mobilisation Strategy (DRMS) as a summary of our discussions and statements of the intentions of various players. This document recognises the importance of having a medium-term strategy for government revenues, to guarantee a reasonable, realistic, and practical approach to sustainable resource mobilisation. The strategy set out in this document represents the next step in our government's fiscal policy, which has historically been highly successful in empowering the economic development of Uganda.

For this development to continue, there is a need to have a stronger and more certain revenue flow in order for the government to meet its expenditure needs and encourage foreign investment. This calls for a commitment to a prudent and sound medium-term strategy for financing our plans, to give confidence and certainty to our people and our investors. This Domestic Revenue Mobilisation Strategy brings transparency to the direction of tax policy in Uganda for the next five years and will strengthen the administrative effort to support it.

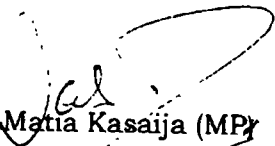
In order to achieve our revenue potential, we will move away from *ad hoc*, annual tax policy changes. These piecemeal adjustments, with little alignment to an over-arching strategy, have created a high degree of unpredictability and uncertainty in our tax policy direction. The DRMS will address this, as well as ensure that our future tax policy embodies the principles of simplicity, fairness, citizen welfare, and sustainability. Going forward, we will involve taxpayers more fully in the tax policy formulation process, restoring ownership and public confidence in the tax system by the way people pay their taxes. We will continue to provide a business-friendly tax environment and support investment; however, we will reduce unproductive revenue leakages from exemptions and publish a full tax expenditure framework to better understand the fiscal cost of supporting investment and social welfare.

Revenue generation does not happen in a policy vacuum. The tax administration has a key role to play, and it is here that we anticipate the most significant gains to be made. We will enhance the Uganda Revenue Authority's administrative capacity to collect taxes efficiently through additional staff recruitment, better training, and the modernisation of their technological infrastructure and systems. We will focus more explicitly on promoting compliance with existing laws from a higher proportion of businesses and individuals, particularly through more focussed taxpayer services and education.

Finally, it is important to recognise the role played by all arms of Government and Ugandan society in securing our financial independence. Future resource mobilisation efforts depend on Ugandans perceiving a closer link between taxes paid and public services enjoyed by citizens. As Government, we have a responsibility to strengthen this

fiscal-social contract and redouble our efforts to stamp out corruption at every level. In return, we are expecting everyone with the means to pay their taxes.

We have set ourselves on the path towards creating a uniquely Ugandan tax system, one that respects our culture, our traditions, our ways of living, and our entrepreneurial spirit. This is an original document of our country's revenue strategy that will meet our financing needs for the future. We therefore urge everyone to play their part in ensuring the success of the Domestic Revenue Mobilisation Strategy.



Matia Kasaija (MP)

Minister of Finance, Planning, and Economic Development

4.1.8 VALUE FOR MONEY AUDIT REPORT ON THE MANAGEMENT OF TAX INCENTIVES AND EXPENDITURE IN UGANDA BY THE MINISTRY OF FINANCE PLANNING AND ECONOMIC DEVELOPMENT

The Government of Uganda offers a number of investment incentives including tax holidays, exemptions, waivers for tax payments and paying and refunding of various taxes as stipulated in various tax laws, agreements and memoranda of understanding with the beneficiary entities. This is done in order to enable implementation of the National Development Plan III (NDP III) financing strategy that provides for revenue mobilization plans to address tax policy and design deficiencies including reviewing the presumptive taxes; individual tax incentives and; changing the tax regime to attract more investors in manufacturing. It is also done to provide a tax policy that incentivizes formalization and supports Medium and Small Enterprises, through the Ministry of Finance, Planning and Economic Development (MoFPED) to increase investment and production in key strategic industries or sectors. The benefits are granted based on intended objectives that include promotion of economic growth, increasing employment and facilitation for extension of social services among others.

I undertook a Value for Money study on the effectiveness of tax incentives and expenditure in Uganda, in respect to expected outcomes such as investment in fixed assets, sales revenues and employment. The following key findings and recommendations were made;

Key Findings

Although the Investment Incentives and Tax expenditures under the Ministry of Finance, Planning and Economic Development have been recognized for notable accomplishments in creating employment opportunities and improving trade deficit through export promotion and import substitution, the following key areas of improvement were identified;

a) Investments and Provision of Employment opportunities

Although the tax incentives and exemptions are expected to free up the capital, so as to enable these companies employ more staff, a total of 22 companies out of the 36 that had obtained the incentives, were performing below the 50% threshold and thus had not fully achieved the desired employment levels.

b) Cost of tax waivers to Government

I noted that over the period under review, taxes waived by government amounted to UGX.1.417Tn. These comprised of UGX.1.293Tn waived under the Gazette by Parliament, direct waivers by the Minister of UGX.118.5Bn as well as tax exemptions as per the Income Tax Act under Section 21 granted by the Commissioner General of UGX.5.576Bn. I however noted that there was no evidence that the other written-off taxes outside the Gazette, were communicated to Parliament for retrospective authorization. The amount of taxes exempted are revenues that are foregone resulting into revenue loss on the side of Government.

c) **Tax Commitments**

The Ministry of Finance, Planning and Economic Development committed to pay taxes totaling to UGX.553Bn on behalf of several taxpayers for the period under study. The commitments were not paid in time and have led to accumulation of domestic arrears.

d) **Lack of a framework for the management and monitoring of Tax Incentives and Expenditures**

At the time of audit, MoFPED did not have an approved Framework to guide the management and monitoring of the different Tax Incentives and Expenditures.

e) **Utilization of Tax Incentives and Exemptions**

An analysis of the Memoranda of Understanding (MoUs) for the various beneficiaries of Investment incentives and Tax exemptions revealed that several companies have not achieved the outputs as stipulated in the signed MOUs and several incentives remained un-utilized, such as the Corporation Income Tax holidays for some companies.

GENERAL RECOMMENDATIONS

The following general recommendations have been proposed;

a) **Following up Companies to ensure that commitments are realized**

The Ministry should follow up the beneficiaries of the incentives to ensure that the benefits of the incentives such as job creation are realized.

b) **Regularly assessing Benefits relating to Tax incentives**

The benefits of the Tax incentives should continuously and realistically be measured to ensure that the intended benefits are realized, and to guide future decision making.

c) **Limiting the number of Tax Exemptions to businesses that qualify under the Tax Laws**

The Ministry of Finance, Planning and Economic Development was advised to establish a criteria for approval of beneficiaries of tax incentives and expenditures. This will eliminate ambiguity in regard to eligibility and the assessment of the expected benefits, while assessing the performance of each beneficiary. Besides, the Taxpayers that seek exemptions due to inability to pay, should have proven beyond doubt that they are financially incapacitated. This will also limit the accumulation of domestic arrears.