

PARLIAMENT OF UGANDA

MINORITY REPORT ON THE VALUE ADDED TAX (AMENDMENT) BILL, 2024,

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APRIL, 2024

1. INTRODUCTION

The Value Added Tax (Amendment) Bill, 2024 was read for the first time on March 28th 2024 and referred to the parliamentary committee on Finance for scrutiny. The committee interacted with Minister of State for Finance Hon. Musasizi, met and received views from Kampala City Traders Association (KACITA), Private Sector Foundation and Uganda Revenue Authority among others.

The Committee also held a retreat at Speke Resort Munyonyo on April 13th -15th and during which it considered the Bill clause by clause.

The main issues in this Bill are:

- If your employer mainly a manufacturer, donates to you items, the Bill requires him/her to pay VAT on them. Let us say, you are working at Coca Cola and on your wedding, they donate to you 100 crates of soda. The amendment requires them to pay VAT on them. They are currently not paying.
- The amendment is introducing a penalty if you fail to withhold 6% VAT from a supplier of goods/services worth more than Shs 10 million. This means, when you are paying a supplier, you withhold VAT. If you don't, you will be required to pay the tax yourself.
- The amendment is also moving all agricultural input such as a hoe, pesticide, fertilizers, seeds, seedlings plus electric vehicle and charges from schedule one to schedule two for complete tax exemption. This is to stop suppliers who have been claiming VAT input tax using these items.

AREAS OF DISSENT

- i. Non-Compliance with the law
- ii. Absence of comprehensive tax policy and timing of amendment
- iii. No study, no research
- iv. Penalty for not withholding VAT

NON-COMPLIANCE WITH THE LAW.

The Public Finance Management Act makes it a requirement that every Bill presented to Parliament, shall be accompanied by a Certificate of Financial Implication.

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This Certificate under Section 76 of the Act, "shall 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."

The Certificate "shall indicate the impact of the Bill on the economy." This in simple terms means, total amount to be spent on implementation of the law and expected revenue. In this case, the cost of collecting the new taxes Vis-a'-Vis amount realized. Government committed to balance the need for revenue collection and economic growth. You don't just close down businesses or threaten to close them over failure to pay taxes without looking at other factors.

You can close a company and the country loses 100 jobs like it happened with Game which was asked to pay over Shs 20 billion.

The Certificate of Financial Implications, Finance Minister Matia Kasajja issued dated March 27th 2023 a day, before the Bill was presented for first reading, doesn't meet these requirements.

It reads, **"Since this is an amendment to existing tax provisions, there is no expenditure plan, specifically different from the overall allocation of Shs 619.99 Billion for the FY 2024/25 and Shs 534.1 billion for the FY 2025/26 to Uganda Revenue Authority."**

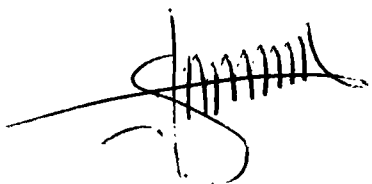
This is the certificate the minister issued for all the five tax bills. The only change is the name of the Bill. No wonder all the five certificates were signed same day, same hour shortly before their first reading.

The minister doesn't know how much it will cost to collect the new taxes. If he knows, he doesn't want to tell Parliament as it is required in the law.

He without any study concludes that the new measures in this amendment will yield an estimated Shs 74 billion.

The Domestic Revenue Mobilization Strategy Annual Monitoring Plan for Financial Year 2022/23 observed that; Majority of the tax law amendments are not informed by tax related analytical briefs. This is what this Kasajja certificate confirms.

Yet the same Minister in his letter introducing the Domestic Revenue Mobilisation 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.

The Certificate doesn't show the overall impact of the new tax proposals on the economy.

Moreover Parliament recommended that in addition every Bill should be accompanied by stand-alone evaluation or regulatory impact assessment

THERE IS NO COMPREHENSIVE TAXATION POLICY IN UGANDA.

Rt.Hon. Speaker and Members, on May 5th, 2022, concerns were raised by Hon. Gyaviira Ssemwanga, MP Buyamba, regarding the absence of a comprehensive taxation policy in Uganda.

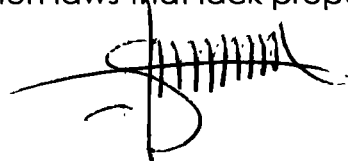
This concern stemmed from the realization that the domestic revenue mobilization strategy formulated by the Ministry of Finance in 2020 lacked a well-documented taxation policy.

Consequently, Parliament on the same day, 5th May 2022, passed a motion urging the Government to develop a Comprehensive Policy on Taxation.

Unfortunately, Rt.Hon. Speaker, up to now, this government every financial year introduces tax bills without a taxation policy in place. This approach, Hon. Speaker grants the government unchecked discretion in determining which taxes to impose, which amounts, timing, and the targets. Often, this leads to unfair taxation that disproportionately burden the impoverished citizenry.

During debate, Hon Kateshumbwa Dickson, former commissioner for domestic taxes stated thus, "we need to base our tax decisions on a structured policy rather than relying on ad-hoc negotiations. This approach will enable us to uphold the principles we aim for and foster investment within our country."

Hon. Asuman Basalirwa President JEEMA and MP Bugiri Municipality, echoed similar sentiments, emphasizing that effective legislation on taxation is typically preceded by a well-established policy framework. He highlighted the existence of numerous taxation laws that lack proper policy guidance.

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Rt.Hon. Speaker, in the absence of such a comprehensive taxation policy, the hands of this Parliament are tied. Solution is to ask government to withdraw their bills and return when they are ready. I don't know how long you will want to babysit these adults Kasaija, Musasizi and company.

TIMING OF NEW TAX PROPOSALS

Rt. Hon. Speaker, there is already instability in the tax sector. Traders have just reopened their shops. There is a general feeling of over taxation with very little to show for it in terms of social services.

Roads in Kampala City and Kampala metropolitan districts of Wakiso, Mukono, Mpigi and in other areas of the country have completely broken down. There is a general cry that leaders are swimming in luxury at the expense of taxpayers. The other day, Parliament approved a supplementary budget of Shs 1.1 trillion including Shs 576 billion that was gifted to Mathias Magoola. What do you think citizens felt about this?

This needs to be addressed before any new tax measure is proposed. We need to restore confidence. Stability is a key principle in taxation. Taxes should be introduced at least every five years, not annually like it with this government. If the country is still crying with implementation of existing taxes, is your answer to impose new ones.

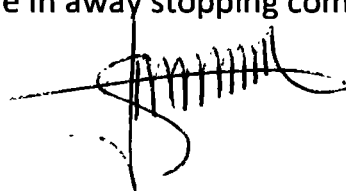
Why don't we first deal with leakage (corruption) and use the savings to finance the budget rather than thinking of new tax measures. You Parliament, you are going to be blamed for new taxes as you are blamed for the old ones. For once you can say no.

PENALTY FOR NOT WITHOLDING VAT ON SUPPLY

There is a proposal in the Bill to impose a penalty on any person who fails to withhold 6% VAT on supply of good and services. The amendment requires you to withhold. If you fail, you will be made to pay the tax and then run after the supplier to recover your money. This is burdening citizens and trying to conscript them into the URA infrastructure and without pay. Let URA collect taxes and stop transferring this responsivity to citizens.

TAX ON DONATED ITEMS

In think here we are being inhuman. How do you impose a tax on items that have not been sold? We are in away stopping companies and manufacturers from

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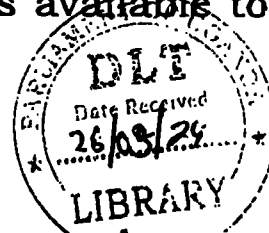
CERTIFICATE OF FINANCIAL IMPLICATIONS FOR THE VALUE ADDED TAX (AMENDMENT) BILL 2024

Made under Section 76 of the Public Finance Management Act,
2015 (as amended)

THIS IS TO CERTIFY that the Bill titled, the Value Added Tax (Amendment) Bill 2024, has been examined as required under Section 76 of the Public Finance Management Act, 2015 (as amended). I wish to report as follows:

1) Object of the Bill:

The main object of the Bill is to increase resources available to Government, attract investments and improve compliance.



2) Specific objectives of the Bill are:

- i. To classify a supply of goods or services by an employer to an employee at no consideration as a taxable supply;
- ii. To increase the threshold of offset for overpaid tax from five million shillings to ten million shillings;
- iii. To amend the First Schedule to include African Reinsurance Corporation (Africa Re), International Regulatory Board of the East African Power Pool and Islamic Cooperation for the Development of the Private Sector as listed institutions;
- iv. To amend the Second Schedule on exempt supplies for purposes of reforming the VAT exemption regime and for related matters.

3) That it is expected to achieve the following outputs:

- i. To improve compliance and ease tax administration; and
- ii. To raise revenue.

Mission

"To formulate sound economic policies, maximize revenue mobilization, ensure efficient allocation and accountability for public resources so as to achieve the most rapid and sustainable economic growth and development"

4) That the expenditure plan by major components for the next two years are as follows:

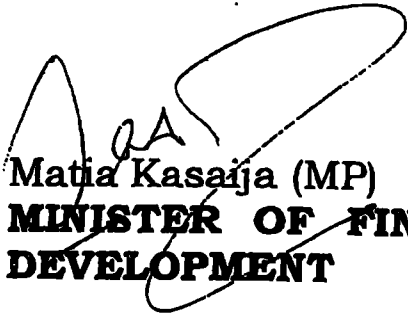
Since this is an amendment to the existing tax provisions, there is no expenditure plan specifically different from the overall allocation of **Shs. 619.99 Billion** for FY 2024/25 and **Shs.534.1 billion** for FY 2025/26 to Uganda Revenue Authority.

5) That the funding and budgetary implications are the following:

Funding is going to be through overall Government budgetary allocations to Uganda Revenue Authority.

6) Expected savings and or revenue to Government:

Revenue of **Shs.74 billion** is projected from the amendment



Matia Kasaija (MP)


MINISTER OF FINANCE PLANNING AND ECONOMIC DEVELOPMENT

March 2024.

Witnessed by:

Name: Ramathan Ggoobi

Title: Permanent Secretary/Secretary to the Treasury

Signature: 

Date: 27/03/2024

Received

By:

Date:

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.

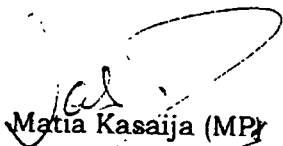
In order to achieve our revenue potential, we will move away from *ad hoc*, annual tax policy changes. These piecemeal adjustments, with little alignment to an over-arching strategy, have created a high degree of unpredictability and uncertainty in our tax policy direction. The DRMS will address this, 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

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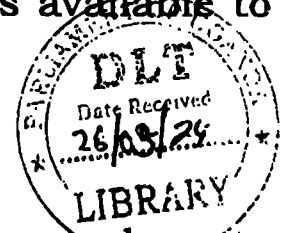
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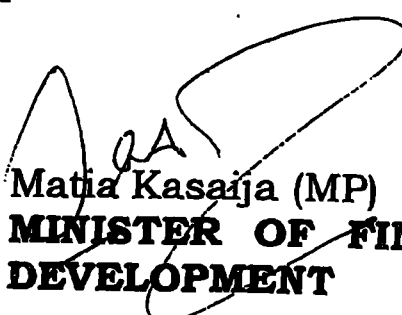
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