

Understanding Uganda's 2014/2015 National Budget

East Africa highlights

PwC insight and analysis

East Africa at a glance

Kenya

The Kenyan economy is projected to grow by 5.8% in FY2013/14 compared to 4.7% in FY 2012/13. These results have been achieved despite the uncertainties related to the general elections, change to devolved governance and insecurity. Improved growth was recorded in the following sectors of the economy:

- The financial services sector grew by 7.2% compared to 6.5% in FY 2012/13 thanks to growth in services to SMEs and previously unbanked populations;
- Transport and communication grew by 6.0% compared to 4.7% in FY 2012/13 attributed to infrastructure development;
- Building and construction grew by 5.5% compared to 4.8% in FY 2012/13 due to increased investment in the sector by both government and the private sector; and
- Manufacturing sector recorded a higher growth of 4.8% in the year compared to 3.2% in FY 2012/13 due to increased household consumption.

Inadequate rainfall and significant fall in global prices of coffee and tea led to a reduced growth of 2.9% in agricultural sector compared to 4.2% in the previous year.

Tourism earnings declined by 2.1% impacted mainly by insecurity.

In addition, inflation eased from an annual average of 7.5% in FY 2012/13 to 5.7% in FY 2013/14 due to the tightening of monetary policies.

The priority areas highlighted in the FY 2013/14 budget include the following:

- Tackling insecurity to attract and retain foreign investment;
- Increased infrastructure investment in the transport network;
- Expanding agro-processing to foster export growth;
- Enhancing quality and accessibility of healthcare and education services;
- Providing affordable credit to encourage entrepreneurship;
- Strengthening devolution to improve delivery of services; and
- Extension of the tax base and tax reforms to reduce revenue leakage.

Resilient performance

Focus on tackling insecurity and infrastructure investment

Tanzania

Tanzania's GDP grew by 7.0% in FY 2013/14 compared to 6.9% in FY 2012/13. This increase is mainly attributed to a 22.8% growth in the communications sector, 12.2% growth in the financial services sector, 8.6% growth in construction, 8.3% growth in wholesale and retail trade, and 6.3% growth in hotel and restaurants services.

The priority areas for FY 2014/15 budget include:

- Infrastructure: transportation (roads, railway, airports and marine transport). Investment is aimed at reducing congestion in urban areas, costs of transport and transportation of goods and services and therefore curbing inflation;
- Energy and Minerals: power generation, gas;
- Agriculture: including food and cash crops, irrigation, industrial raw materials, livestock, fisheries and forestry. The measures will enhance production of crops, food security and ensure availability of reliable markets;
- Education: infrastructure, study equipment; and
- Health: water and good governance.

Macro-economic objectives highlighted in the budget include the following:

- 7.2% GDP growth of in 2014 and 7.4% in 2015;
- Increase domestic revenue ratio to GDP to reach 18.8% by 2014/15;
- Continue to control inflation at a single digit level and eventually to 5.0% by June 2015; and
- Maintain a stable level of exchange rate.

Uganda

The Ugandan economy grew by 6.0% in FY2013/14 compared to 5.7% in FY2012/13 and 3.4% in FY 2011/12. The growth is attributed to improved agricultural production, stronger industrial performance, increase in wholesale and retail trade activities, and improved performance in transport and telecommunications. Uganda's inflation increased from 3.6% in May 2013 to 5.4% in May 2014.

The priority areas in the FY 2014/15 budget are:

- Undertaking key economic infrastructure investments, while maintaining peace, security and macro-economic stability;
- Government investment in agribusiness, tourism and services such as ICT;
- Provision of quality education, health and water services; and
- Strengthening institutional governance, accountability and transparency.

Other objectives highlighted in the budget include the following:

- Achieving a real economic growth rate of at least 7% per annum;
- Keeping annual consumer price inflation within a single digit level;
- Positioning Uganda in the context of EAC integration to ensure competitiveness;
- Maintaining a prudent level of foreign exchange reserves of at least 5 months import cover to provide a buffer against external shocks; and
- Maintaining a competitive real exchange rate to support the growth of exports.

Rwanda

Rwanda's real GDP growth rate slowed down to 4.6% in 2013/2014 as compared to 8% achieved in 2012/13. Performance highlights include 4% services sector growth and 11% industry sector growth driven by an 11% increase in the construction and agricultural production sub sectors.

Rwanda continued to achieve moderate inflation, with a general inflation rise of 3.7% driven by price rises in food and utilities including electricity.

Exports grew by 19% in FY 2013/14 while imports did not change significantly.

The allocation of resources in the 2014/15 fiscal year has been made taking into account the Economic Development and Poverty Reduction Strategy (EDPRS2) priorities. The

main areas of focus under the EDPRS2 are:

- The economic transformation which has been allocated 25 % of the total budget. This includes; construction of power stations, electricity roll out, roads rehabilitation, industrial parks and ICT sector development;
- Rural development has been allocated 14% of the total budget. This constitutes land husbandry, food production, watershed management, sanitation and livestock infrastructure;
- Productivity and youth employment has been allocated 10% of the total budget; and
- Accountable governance which has been allocated 3% of the total budget

Key highlights from the Kenya, Tanzania, Uganda and Rwanda

	Kenya	Tanzania	Uganda	Rwanda
Real GDP growth	5.8% (4.7%)	7.0% (6.9%)	6.0 (5.7%)	4.6% (8%)
Overall inflation	5.7% (7.5%)	6.3% (16%)	5.4 (3.6%)	3.7% (3.3%)
91 day TB rates	9.2% (6.7%)	12.47% (11.91%)	9.97 (9.1 %)	5.325% (11.95%)
	KShs	TShs	UShs	RwF
Exchange rate to the dollar (Local currency = US\$1)	86.40 (85.24)	1,609 (1,587)	2,500 (2,575)	680 (641)
Budgeted spend (billions)	1,757 (1,641)	19,853 (18,248)	15,054 (13,169)	1,753 (1,653)
Recurring (billions)	1,248 (1,166)	13,408 (12,574)	*(8,958.6)	865 (736)
Development (billions)	509 (475)	6,445 (5,674)	*(4,210.4)	784 (803)

**The breakdown of recurring and development expenditure is not available as the Background to the FY2014/15 Budget was not released.*

Customs and Excise duty

Kenya

Customs Duty

- Protection of the local steel industry by cushioning local manufacturers against cheap imports through an increase in duty rate on iron and steel products available locally from 0% and 10% to 25%.
- Reduction of administrative barriers in industry by abolishing the requirement for Customs security bonds on importation of industrial sugar and wheat.
- Removal of import duty on machinery, spares and inputs for direct and exclusive use in the development and generation of Solar and Wind energy to support the use of cheaper, cleaner, alternative sources of energy.
- Exemption from import duties inputs used in the processing and preservation of seeds for planting is one of the measures to address food security challenges.
- There are plans to re-organise the revenue authority to enhance the capacity for collection. The Cabinet Secretary will therefore submit to the house for discussion the Draft Inland Revenue Agency Bill and Customs and Border Services Bill.

Excise duty

The new Excise Bill to be tabled in Parliament after going through public participation. The intention to table a new Excise Management Bill is in line with the efforts being witnessed in the other Partner States. This could be an opportunity for the Partner States to formulate an EAC Excise Management Act or a model Excise Duty Act to be used by the Partner States. This could also be an opportunity to realign the excisable products in the EAC.

Tanzania

Customs Duty

- Reduction of import duty, from 25% to 10%, on buses for transportation of more than 25 passengers for a period of one year.
- Extension of stay of an import duty rate of 10% on wheat grain.
- Charge duty at 0% for manufacturers using LABSA as a raw material for soap manufacture.
- Increase the duty rate on chemical based petroleum aerosol spray from 10% to 25%.
- Reduce the duty rate from 25% to 10% on specific paper imports.
- Import duty exemption on Electronic Fiscal devices (EFD).
- Removal of import duty exemption on splints used in the manufacture of matches.
- Extension of exemption from import duty provided to the Armed Forces Canteen Organisation for a period of one year.
- Amendment of the 5th Schedule to the East Africa Community Customs Management Act (EACCMA) to provide import duty exemption to inputs for the manufacture of gas cylinders.
- Amendment of the 5th Schedule to the EACCMA to provide import duty exemption to inputs used for the development and generation of wind and solar energy.

Excise duty

- Excise duty rate of 15% on money transfers reduced to 10% to be levied by banks and telecommunication companies and various agencies for the fees and levy they collect on money transfer services;
- Remove powers of the Minister of Finance to grant exemption on excise duty on petroleum products.
- To change the threshold on the age of non-utility motor vehicles that are currently being charged an excise duty of 25% from the current ten years to eight years.
- Impose excise duty rate of 15% on imported furniture under Harmonised System (HS) Code 94.01.
- Adjust by 10% the specific rates of excise duty on non-petroleum products; these products include soft drinks, alcohol, spirits etc.
- Increase in excise duty rates on specific cigarettes by 25% while excise duty in cigars remains at 30%.
- Reinstatement of Excise duty of US\$ 200 per litre on kerosene which had been scrapped in FY2011/12. The attempt to re-introduce the duty in FY2013/14 failed.
- Increase in excise duty on sugar by 100% from US\$ 25 to US\$ 50. The duty on sugar was reduced three years ago when the country was facing a sugar shortage.
- Introduction of 10% excise duty on mobile money withdrawal fees. A similar 10% excise duty rate was introduced in FY2013/14 on mobile money transfer fees.
- Introduction of 10% excise duty on bank charges and money transfer fees.

Uganda

Customs Duty

- Introduction of a 1.5% infrastructure levy on selected imports into the EAC to finance railway infrastructure development.
- Introduction of a single entry East African Tourist Visa.
- Elimination of transit bonds on goods and introduction of a common payment system aimed at enhancing regional integration.

Excise Duty

- As was the case in FY2013/14, excise duty on petrol and diesel will again increase by US\$ 50 per litre from US\$ 900 and US\$ 580 per litre respectively.

Rwanda

Customs Duty

Import duty rates have been reduced as follows:

- From 25% to 0% on wheat;
- From 75% to 45% or USD 200 per tonne on rice in husks;
- To 25% on imported cement;
- To 0% on importation of road trucks/semi-trailers;
- From 25% to 10% on motor vehicles weighing between 5 to 20 tonnes and 0% on those weighing more than 20 tonnes;
- To 0% on motor vehicles carrying 25 passengers or more;
- From 25% to 10% on motor vehicles carrying 25 passengers or less;
- A duty rate of 0% to apply on importation of sugar. However, the Council of Ministers to determine the quota of sugar to be imported;

- From 25% to 0% on telecommunication equipment;

Excise Duty

The excise duty on air time has been increased from 8% to 10%.

Direct and indirect taxes

Kenya

Income Tax

- Draft Income Tax Bill will be presented to Parliament for discussion. It is envisaged that the new act will simplify the administration of Income Tax.
- Withholding tax on the consideration from assignment of rights in the oil, gas and mineral exploration has been abolished. Instead, income tax will be applied on the net gain.
- Transactions between a branch and a non-resident parent will now be required to be at arm's length. These transactions may therefore be subject to Transfer pricing adjustments. There will be a need for these local establishments to have transfer pricing document to support the pricing of the related party transactions.
- A budgetary allocation of KES 600m has been made for the establishment of Special Economic Zones (SEZ). This is an indication of the government's commitment to have the SEZ legislation which has been the subject of debate since 2009 enacted. However, the SEZ Bill, 2014 in its current state presents some challenges which need to be addressed before it is enacted into law.
- To enhance transparency and tax compliance, taxpayers will be required to provide the Commissioner with information on the changes in business and corporate structure. This may increase the cost and time for compliance.

- The government has proposed to exempt from tax employee vacation trips paid for by employers within Kenya.

NSSF, PAYE & RBA harmonization

- There is a proposal to amend the NSSF Act 2013 (which came into effect from 1 June 2014) to align it to the Retirement Benefits Authority (RBA) Act.
- The proposed amendment is to restrict the power to prescribe the qualifications of an actuary and make regulations on the payment of benefits to the RBA Act.
- Remittance dates for NSSF and NHIF will be harmonized with PAYE (from 30 to 10 days).

Value Added Tax

- The Cabinet Secretary acknowledged the existence of a huge VAT refund backlog and the Government's intention to develop a long lasting solution. In our view, this could be through issuing debt instrument to the taxpayers whose refunds are due.
- The Cabinet Secretary promised that the VAT regulations will be released soon. We hope that regulations will be innovative and creative such that they can ease the burden of compliance in the modern digital age.

Tanzania

Income Tax

Proposed amendments to the Income Tax Act include:

- Incomes and gains arising from bonds that will be issued by the African Development Bank in Tanzania domestic capital market will be exempt from tax;
- Withholding tax of 15% will be imposed on board of directors' fees. This will be final tax;

- Tax exemption on income derived from gaming is to be removed.
- Withholding tax exemption on rental charges on aircraft lease paid to a non-resident by a person engaged in air transportation business has also been removed. Thus, withholding tax at rate of 15% will apply;
- The powers of the Minister for Finance to grant exemptions for projects relating to expansion and rehabilitation undertaken by investors to be removed. This exemption was being granted to investors who own TIC certificates.
- PAYE threshold to be adjusted from 13% to 12% to provide relief of tax burden to employees.
- Presumptive tax rate to be increased from 2% to 4% for annual turnover of TShs 4 million but not exceeding 7.5 million for those who keep records. The current tax rate will increase from TShs 100,000 to TShs 200,000 for those who don't keep records.
- Termination of the exemption on interest income on agricultural loans advanced by banks.
- Introduction of a 30% capital gains tax on the sale of commercial property (outside of business income).
- Revision of the thin capitalisation rules to restrict the deduction of interest paid to non-associated persons to 50% of EBITDA. This is in line with the Government's tax policy reforms following the OECD's initiative on Base Erosion and Profit Shifting.
- Termination of the tax exemption on income derived by a person from managing or running an educational institution for commercial gain.
- Restriction of the existing start-up costs deduction to non-recurring preliminary costs associated with starting up a business.

Value Added Tax

VAT exemptions on the following supplies have been terminated:

Value Added Tax

- Reducing tax exemptions though a re-enactment of the VAT Act

Uganda

Income Tax

- Termination of initial allowance deductions of 50% and 75% on newly acquired items of eligible plant and machinery.
- Increase in the presumptive tax rate from 1% to 3% of gross turnover, for small business businesses with a turnover less than US\$ 50 million.
- Introduction of a 15% withholding tax on sports and pool betting winnings and designation of gambling houses as agents to withhold the 15% tax.
- New computers, desktop printers, computer parts and accessories and computer software licenses;
- Hotel accommodation in tourist lodges and hotels outside Kampala District;
- Liquefied Petroleum Gas;
- Feed for poultry and livestock;
- Agriculture and dairy machinery;
- Packaging materials to the dairy and milling industries;
- Salt;
- Insurance services (except medical and life);
- Specialized vehicles, plant and machinery services and civil works related to roads and bridges construction, agriculture, water,

education and health sectors.

The zero-rating of the following supplies has been terminated:-

- Printing services for educational materials;
- Cereals, grown, milled or produced in Uganda;
- Processed milk and milk products;
- Machinery and tools for agriculture;
- Seeds, fertilizers, pesticides and hoes.

Rwanda

Rwanda is undergoing comprehensive tax reforms hence no changes were announced in this budget.

Miscellaneous changes

Kenya

- Tax Procedures Bill will be presented to Parliament for debate. Once passed, the procedures will be general and applicable on all taxes.

Areas requiring further clarity:

- Carry forward of tax losses: there are no guidelines provided to govern the discretion of the Commissioner to allow for the time extension beyond four years, hence the uncertainty for investors.
- Deemed interest provision continues to be a challenge for foreign controlled entities that receive interest free loans.

Tanzania

Others taxes and levies

Export Levy

Reduction of export levy on raw hides and skins from 90% or TZS 900 per kilogram to 60% or TZS 600 per kilogram whichever is higher.

Business Licensing

Proposal to impose various rates of business licence fees proposed by the Ministry of Industries and Trade. The rates are yet to be published.

Fuel Levy

Removal of Finance Minister's powers to grant fuel tax exemption except in instances of contractual commitment between the government and development partners

Legislative amendments

The Minister stated that minor amendments to various tax laws and other laws will also be made so as to ensure their smooth and effective implementation.

Uganda

- All outstanding taxes excluding PAYE, WHT and any other taxes withheld at source owed to the Uganda Revenue Authority by Central and Local Governments have been written off.
- There are several bills that have been tabled before Parliament, including new Excise Duty and Stamps Bills; a Lotteries and Gaming bill, the Investment Code (Amendment) bill, the Public Private Partnerships Bill and the Tax Procedures Code Bill.
- The Anti-Money Laundering Act was enacted in FY2013/14 and a Financial Intelligence Authority, which will conduct financial sector surveillance to ensure compliance with the AML Act will be operationalized in FY 2014/15.
- Government has suspended negotiations on Double Taxation Agreements, as one of the measures aimed at preventing treaty abuse.
- 37 investment licences will be abolished in FY2014/15 and amendments to laws affecting 307 licences will be completed.
- The gross tax payment system managed under the Ministry of Finance will cease in FY2014/15.

All goods and services procured by the Government of Uganda, directly or with donor support, will be tax inclusive, with additional funds allocated to the relevant sectors accordingly.

both the Ministry of Finance and URA to monitor efficiency gains by the tax administration and ensure that the URA can deliver set targets

Tax Administration

- A list of key performance indicators has been developed by



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