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# *Budget 2014/15*

## Budget Business Breakfast

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## *Agenda*

1. Economic performance for FY 2013/14
2. Budget priorities for FY 2014/15
3. Medium term economic outlook
4. Proposed tax measures
5. Conclusion

## *The economy is growing, but not fast enough*

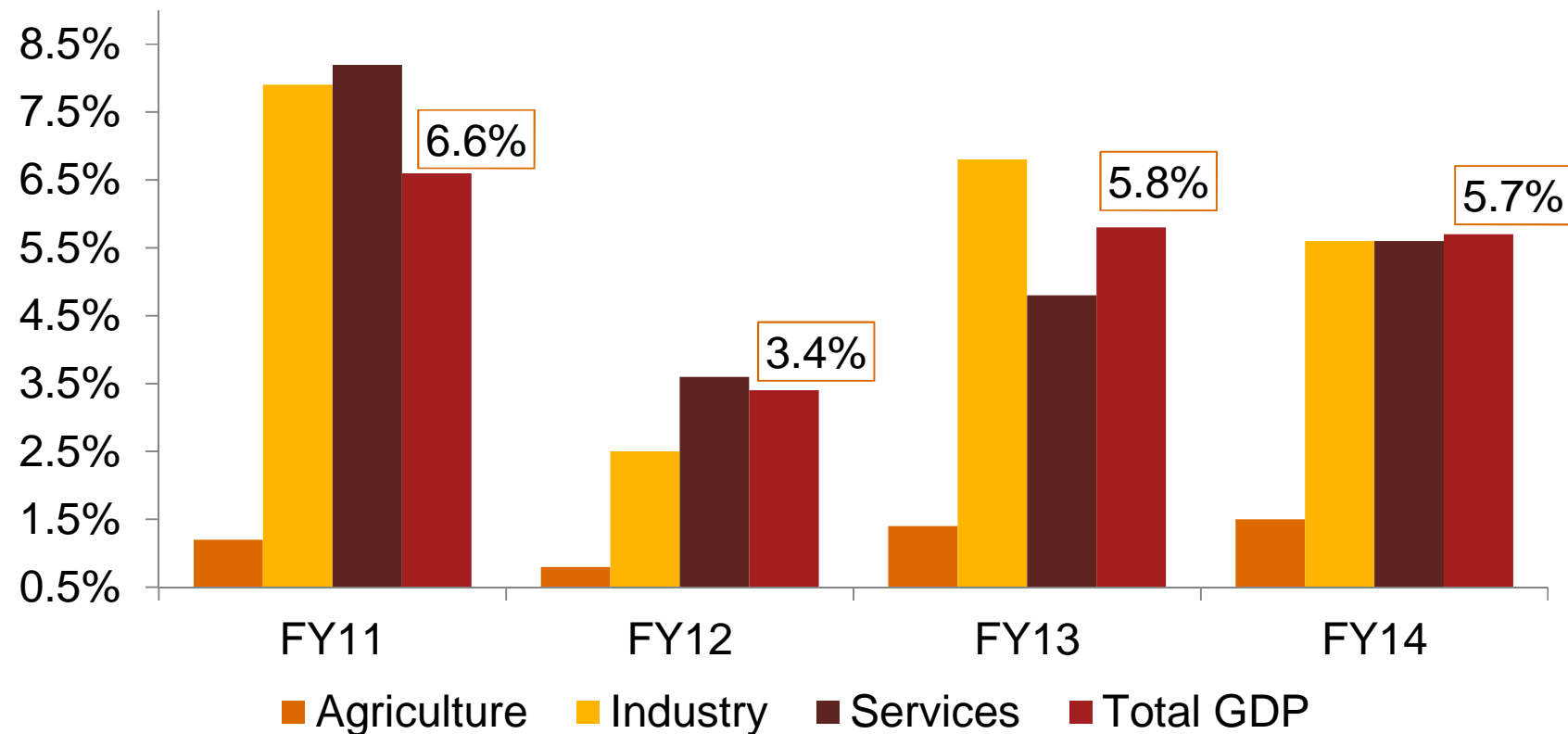
### Macro economic indicators

Indicator	FY13	FY14	FY15
GDP Growth	5.8%	5.7%	6.1%
Headline Inflation	5.6%	5.4%	6.9%
Forex Reserves (in months)	4.32	4.2	5.0
Fiscal Deficit (excluding grants)	-5.6%	-9.1%	-5.5%
Budget as a %age of GDP	18.9%	19.7%	19.6%
Domestic Revenue as %age of GDP	13.2%	13.4%	13.9%

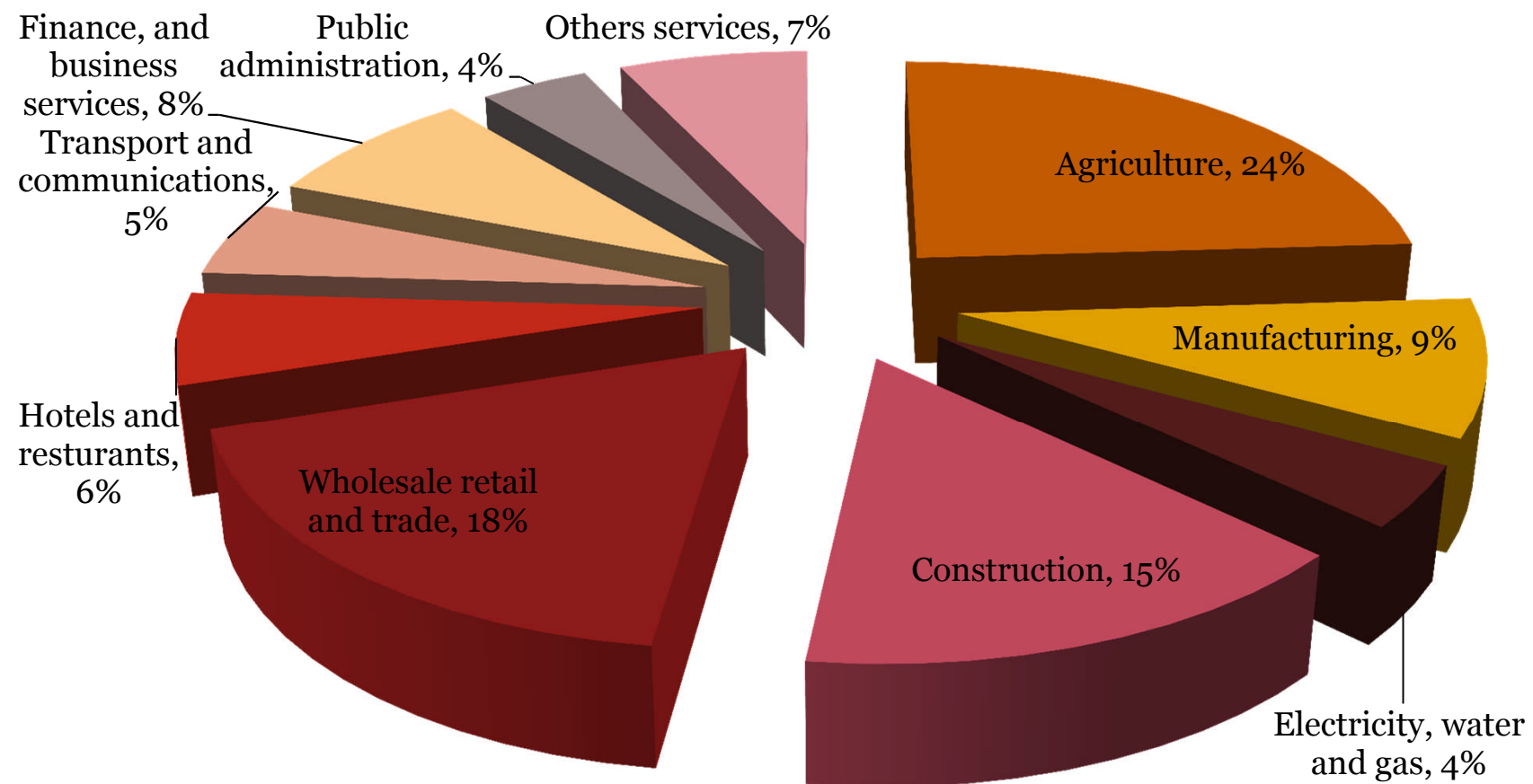
Source: Ministry of Finance Planning and Economic Development

## *Slow growth in the Agricultural sector poses a major risk to increase in household income*

### Economic growth by sector



## ***GDP by sector***



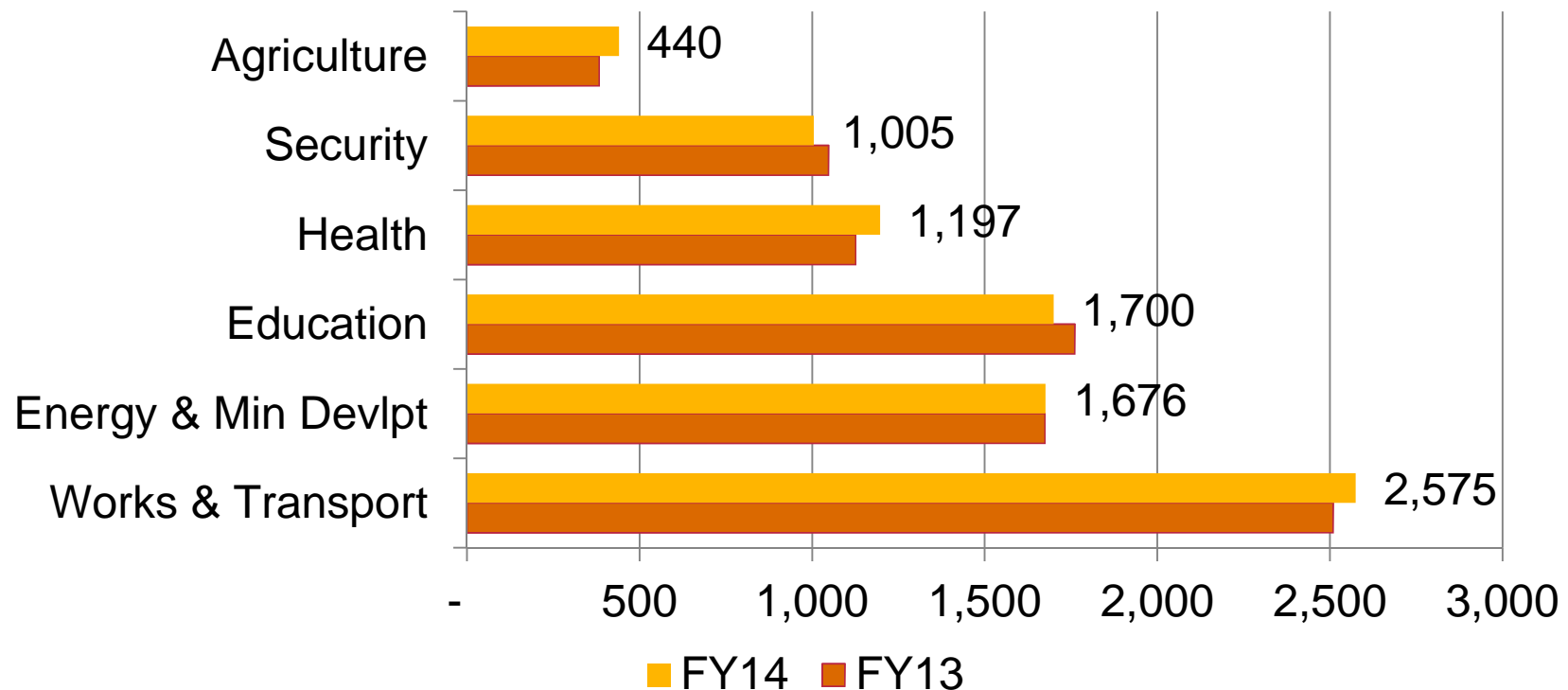
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***The budget priority for FY 2014/15 is to accelerate growth and job creation through ...***

- Investment in key economic infrastructure capital projects
- Maintaining peace, security and macro-economic stability
- Provisions of quality education, health and water
- Improving agricultural production and productivity
- Promoting tourism and the ICT sectors
- Human capital and skills development
- Strengthening institutional governance and public service delivery
- Development of youth enterprises for self employment
- Improving the business climate and competitiveness

## ***Sector allocations***

**50% of the budget will go to roads, power, health & education**



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## ***Job creation and employment is one of the biggest challenges facing the country***

- Despite the huge unemployment, the market has a shortage of appropriately skilled workers
- Focus will be on vocational and entrepreneurial skills training
- Development of youth enterprise for self employment
- Government will play role of facilitator, enabler and catalyzer for the private sector to create the jobs
- Curriculum to enhance market orientation and entrepreneurship
- Vocational skills training institutions to be constructed to operationalize the Skilling Uganda programme
- Creating enough jobs for youthful population will be critical for economic transformation, and increase in household incomes



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## ***Financial services sector - inflation down, and so is the CBR but interest rates remain high***

- Sector remained stable and witnessed rapid growth in deposits
- However non-performing assets also increased from 4% to 6.2%
- Lending rates remain high at average of 20%, despite drop in CBR
- Access to financial services now deeper -> thanks to mobile money
- What will be the impact of the new tax on mobile money services and bank charges on the sector?
- Agriculture sector seen as high risk - > what impact will the removal of the tax incentive to lend to the sector have on access to credit?
- Insurance sector growth very robust at 30% -> what impact will the new of VAT of 18% on insurance premiums have on the sector?

## ***Uganda's global competitiveness based on the Doing Business indicators has deteriorated ..***

### **Doing business global indicators**

<b>Indicator</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Overall world ranking	123	120	132
Starting a business	143	144	151
Dealing with construction permits	109	118	143
Getting credit	48	40	42
Protecting investors	133	139	115
Paying taxes	93	93	98
Trading across borders	158	159	164
Getting electricity	129	127	178

## *Uganda's ranking compared to other EAC countries*

### Doing business global indicators

Indicator	UG	KE	TZ	RW	BU
Overall world ranking	132	129	145	32	132
Starting a business	151	134	119	9	27
Dealing with construction permits	143	47	177	85	126
Getting credit	42		130	13	170
Protecting investors	115	98	98	22	34
Paying taxes	98	166	141	22	143
Trading across borders	164	156	139	162	175
Getting electricity	178	166	102	53	161

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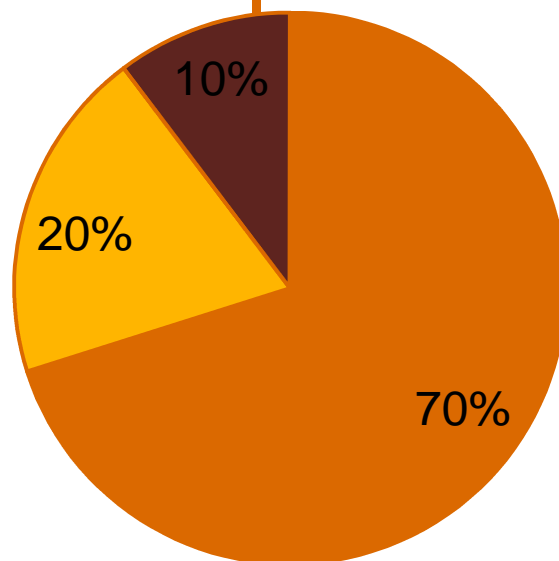
## ***Budget strategy is to improve the business climate focused through reducing cost of doing business***

- 37 licenses are to be abolished and amendments to 307 licenses will be completed
- National land information system to be rolled out from 6 to 21 land offices
- Online business registration, company name search + reservation
- Tax Register Expansion project by URA + URSB + KCCA
- Efficiency in issuing construction permits – now in 15 to 21 days
- Automated customs clearance and electronic cargo tracking system
- UIA and URSB -> to be transformed into a one stop center to facilitate business registration
- More collaboration between government agency to reduce multiplicity of data collection

## *Domestic resources will account for 82% of the budget*

# 82%

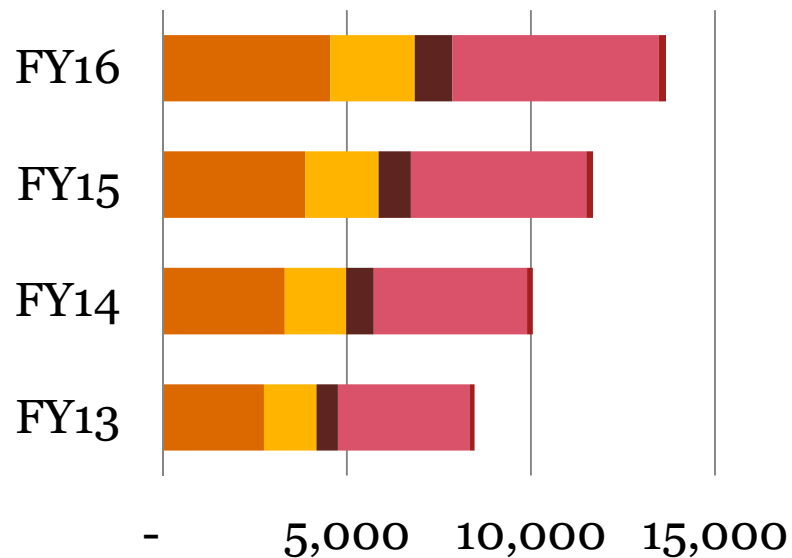
Tax revenues to grow by 20% and URA is expected to collect Shs 9,577 bn – which is 69% of the total budget



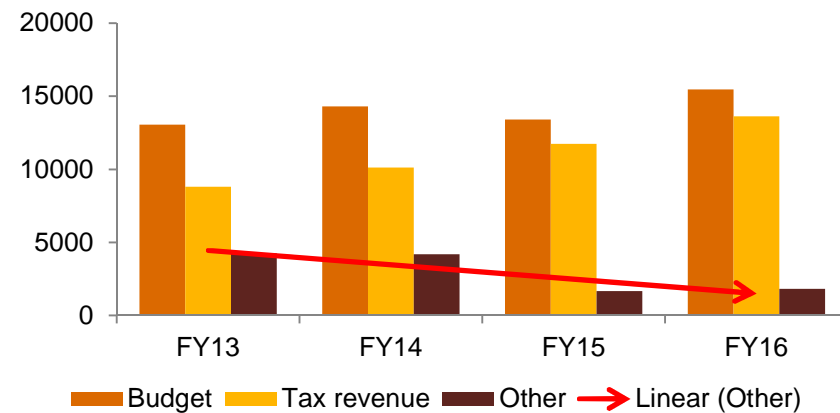
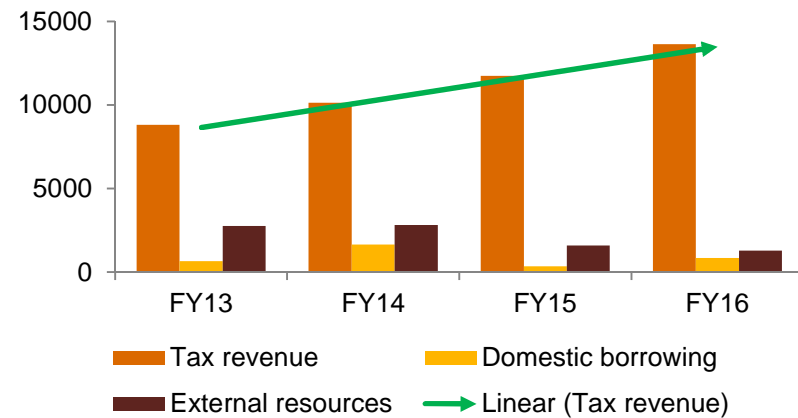
### Source of funds

Domestic Revenue	12,229 bn
Domestic Borrowing	1,437 bn
Project Aid	2,664 bn
Budget Support	69 bn

***By the FY 2016/17 , the government budget will be funded 96% by revenue from domestic resources***



■ Income Taxes      ■ VAT  
■ Excise Duty      ■ Int Trade Taxes



## ***Proposed changes in income tax***

<b>Proposal</b>	<b>Potential impact</b>
Elimination of initial allowances	Heavy capital intensive investment projects now to start paying tax sooner than was the case before
Tax on capital gains from sale of commercial property	Private individuals now to pay a capital gains tax of 30% on the profits they make from the sale of commercial property
Removal of tax exemption on interest on agriculture loans	Banks will now start paying tax on interest income earned from loans to agricultural enterprises
Removal of tax exemption on income earned by private schools	Profits made by private educational institutions will now be subject to tax like all other private business enterprises

## ***Proposed changes in income tax***

<b>Proposal</b>	<b>Potential impact</b>
Thin capitalisation rules extended to non related party debt	Interest payments to non related party debt (e.g to a bank) to be limited to 50% of earnings before interest and depreciation
15% withholding tax on pool betting winnings	Betting companies will be required to withhold 15% tax on betting winnings before paying out
Presumptive tax rate increased from 1% to 3%	Small taxpayer who pay presumptive tax based on their turnover will pay at the rate of 3% up from 1%
Start up costs to be defined	Objective is to restrict tax deduction for non recurring costs incurred in starting and business and not deduction for capital expenditure



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## ***All the VAT exemptions across the agricultural value chain have been terminated***

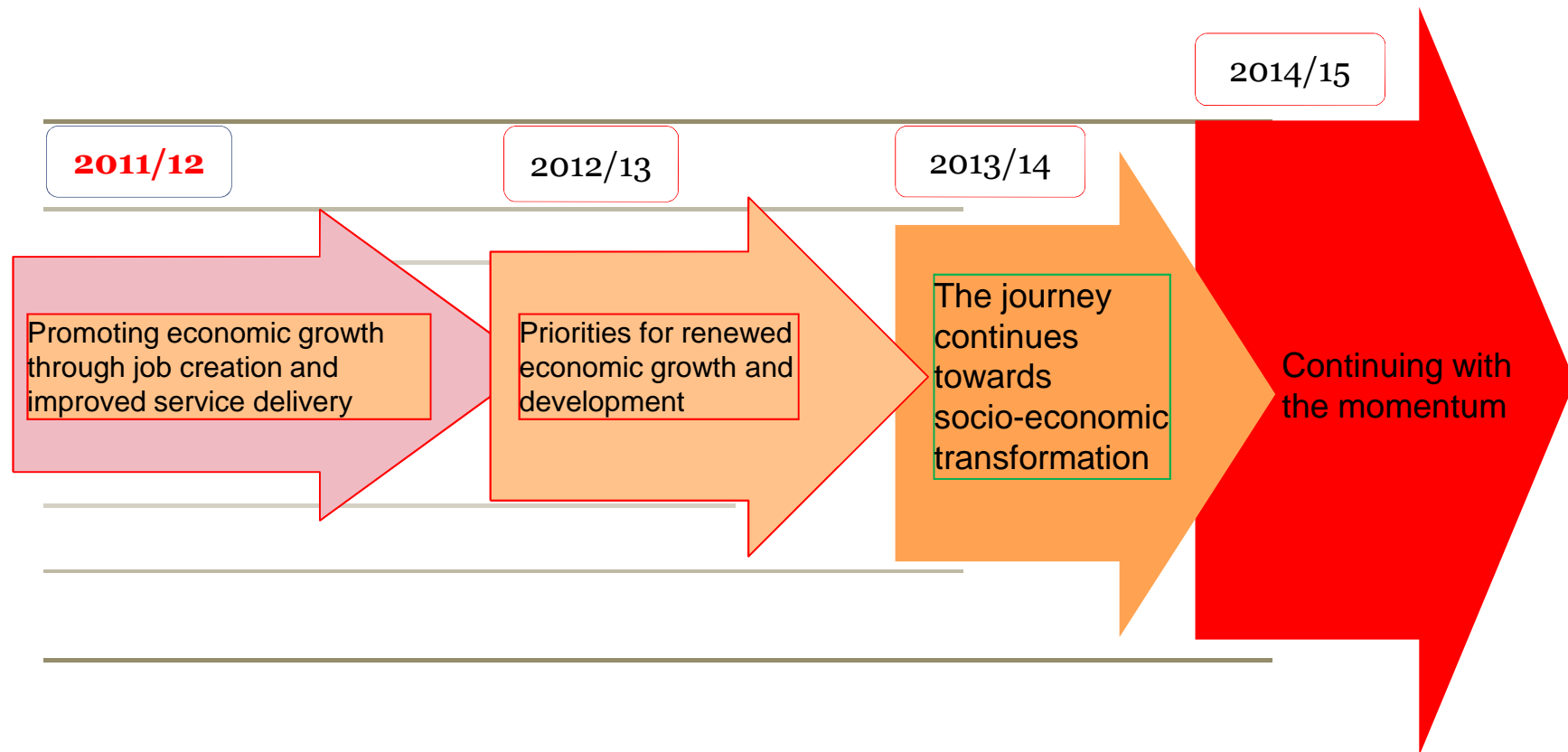
- VAT on the supply of seeds, fertilizers, hoes and pesticides
- VAT on the supply of specialized vehicles, machinery and civil works for roads, bridges, water, agriculture, education and health projects
- Feeds for poultry and livestock will now be subject to VAT
- Supply of agriculture and dairy machinery now VATable
- Supply of machinery and tools for agriculture now VATable
- VAT on the supply of cereals grown and milled in Uganda
- VAT on the supply of processed milk and milk products
- VAT on the supply of packaging material for dairy+milling industries

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## ***Other tax measures proposed are mainly policy reversals of past years VAT exemptions***

- VAT on computers, computer accessories, printers and software
- VAT on hotel accommodation and tourist lodges outside Kampala
- VAT on liquefied petroleum gas (LPG)
- Supply of general insurance services now VATable
- VAT re introduced on salt
- Printing services provided to educational institutions now VATable
- Increase on excise duty on petrol and diesel by Shs 50
- Reinstatement of the Shs 200 excise duty on kerosene
- Increase on excise duty on Sugar by Shs 25 per kg
- Introduction of excise duty on bank charges and money transfer fees
- Introduction of 10% excise duty on mobile money withdraw fees

## *Momentum on the economic transformation journey with focus on priorities*



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***Economic outlook is good as we expect growth to accelerate in FY15, driven mainly by..***

- Increased investment in the public infrastructure development
- Fast growing consumer segment
- Growth in agriculture production and productivity
- Increased electricity generation
- Accelerated investment in the oil and gas sector
- Greater integration of the regional economies
- Improvements in the investment climate
- Increased access to financial services and financial inclusion

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## ***Despite the positive outlook, there are a number of risks that may affect growth and development***

- Election related spending -> pressure on government resources
- Poor budget discipline -> failure to allocate the limited resources to the priority sectors of the economy
- Public sector wage pressures -> impact on service delivery
- Un employment among the youth -> risk of social unrest
- Crisis in South Sudan - > the country's biggest market
- Continued delays in oil production
- Limited tax collection capacity -> likely to increase fiscal deficit
- Adverse and unpredictable weather -> impact on agriculture
- External shocks, commodity prices and sluggish global economy

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## *In Conclusion*

*It's a tough budget, but these are tough times, ...*

*If the government delivers, it will be a price worth paid ...*

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