Reimagine the possible

Rwanda's 2018/2019 National Budget
PwC insight and analysis
June 2018

Welcome

PwC Rwanda's Budget Bulletin provides insight and analysis on the 2018/19 budget speech and other relevant materials.

We hope that you will find it insightful, and look forward to your comments.

In this bulletin

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Rwanda Economy

Summary

Rwanda's economy grew by 6.1% in FY 2017/18 from 5.9% in 2016/17. This was driven by the service sector (+8%), the agricultural sector (+7%), and the industry sector (+4%). The economy is projected to grow by 7.2% and 7.8% in the FY 2018/19 and 2019/20 respectively. The growth performance is expected to be driven by the agriculture and industry sector.

The agriculture sector is expected to grow moderately at 5.6% in 2018/19 and 4.5% in FY 2019/20 due to low performance in forestry and poor weather conditions in some parts of the country.

The industrial sector is expected to contribute 8.3% in FY 2018/19 and 13.5% in 2019/20 from 4% in 2017/18. This will mainly be boosted by mining and construction. The ongoing improvement in international mineral prices as well as planned investments in the mining sector are expected to support domestic production while the construction sector is expected to pick up and grow at 5.2% in FY 2018/19 mainly due to the construction of Bugesera Airport and other private sector projects.

The services sector is expected to remain strong, growing at 7.6 % in FY 2018/19 and 7.8% in 2019/20.

The forex market is expected to stabilise due to an expected increase in export receipts and a moderate increase in imports. This situation will reduce inflationary pressures whilst allowing the central bank to continue to support the foreign exchange market.

Percentage tax revenue to finance budget:

55%

Government priorities for the year/long term

Rwanda has developed the National Strategy for Transformation (NST1) as an implementation instrument for the remainder of Vision 2020 and for the first four years of the Vision 2050.

The allocation of resources in FY 2018/19 has been made taking into account the NST1 as follows:

- Economic transformation – 57%
- Social transformation – 27%
- Transformational governance – 16%

Sectoral performance in 2017

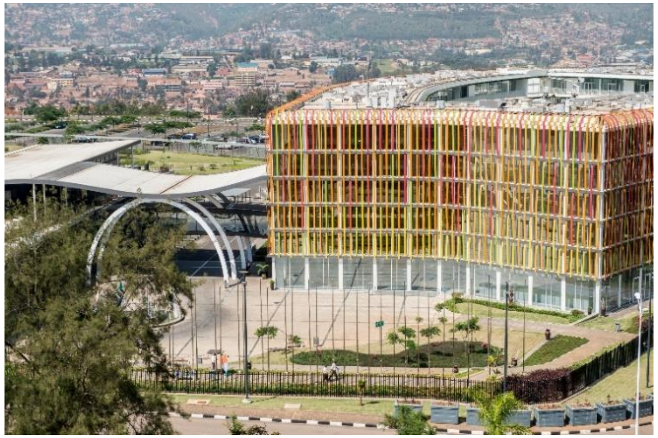
Rwanda's economy outlook for the coming financial year is a lot more positive thanks to the GDP growth rebound in the second half of the year 2017.

The economy grew by 6.1% in 2017/18 from 5.9% in 206/17. This was driven by the service sector (+8%), the agricultural sector (+7%), and the industry sector (+4%). The economy is projected to grow by 7.2% and 7.8% in the 2018/19 and 2019/20 financial years, respectively. This growth performance is expected to be driven by the agriculture and industry sector

The economy is projected to grow by 7.2% in 2018 and 7.8% in 2019. This growth is expected to be driven mainly by Agriculture and Services Sectors. In the recent past, the economic growth has averaged above 6%. Given the previous performance, and the expected average growth within the region, 7.2% seems ambitious.

Agriculture sector is expected to grow at 5.6% in 2018 and 4.5% in 2019; the industry sector is expected to grow at 8.3% in 2018 and 13.5% in 2019 while the services sector is projected to grow at 7.6% and 7.8% in 2018 and 2019 respectively.

Rwanda's real GDP growth rate for 2017 was at 6.1% against 5.2% that had been projected. Performance highlights include 7% agriculture growth, 4% industry sector growth and 8% services sector growth driven by growth in tourism.

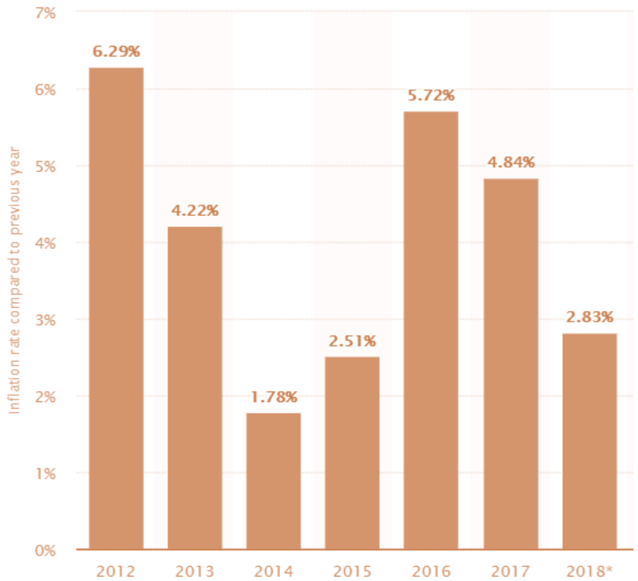


The overall deficit is projected at 4.9% of GDP for the FY 2018/19, and is projected to decline to 4.6% of GDP by 2020/21. The decline in the overall budget deficit is in line with the government's effort towards self reliance.

Inflation declined to 4.9% in 2017 from 5.7% in 2016. This was mainly due to the ease in exchange rate pressures, completion of various development and construction projects and the significant fall in food inflation

For 2018, the inflation is expected to remain below 5% as exchange rate pressures, global inflation, international commodity prices and aggregate demand remain broadly subdued.

Component	FY 19 Projection
Economic growth	7.2%
Real GDP	6.1%
Overall deficit	4.9% of GDP
Inflation	Below 5%

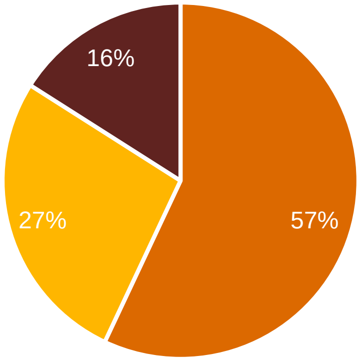


National Strategy for Transformation

The National Strategy for Transformation (NST1) has been developed as implementation instrument for the remainder of Vision 2020 and for the first four years of the Vision 2050. It also integrates far sighted, long-range global and regional commitments by embracing the Sustainable Development Goals (SDGs), the Africa Union Agenda 2063 and its First 10-Year Implementation Plan 2014-2023 as well as the East African Community (EAC) Vision 2050.

Allocation of resources in the budget for 2018/19 fiscal year and the medium term is therefore guided by interventions in NST1 as follows:-

Allocation of resources under the NST1



Economic transformation

57% of total budget

Economic transformation

- Economic transformation was allocated 57% of the total budget. The overarching objective of the Economic Transformation pillar is to accelerate inclusive economic growth and development founded on the Private Sector, knowledge and Rwanda's Natural Resources.

- The key sectors under this pillar are Public Finance Management (50% of the economic transformation allocation), Transport (17%), Energy (10%), Private Sector Development and Youth Employment (9%), Agriculture (9%), Environment and natural resources (3%), Urbanization and rural settlement (2%), Financial Sector Development (0.5%) and ICT (0.3%).

Social transformation

- Social transformation was allocated 27% of the budget. The overarching goal for the Social Transformation Pillar is to develop Rwandans into a capable and skilled people with quality standards of living and a stable and secure society.

- The key sectors under this pillar are: - Education (40% of social transformation allocation), Health (30%), Social Protection (15%), Water and Sanitation (7%), Sports and culture (3%) and Urbanization and Rural settlement (2%).

Transformational governance

- Transformational governance was allocated 16% of the budget. The overarching goal for the Transformational Governance Pillar is to consolidate Good Governance and Justice as, building blocks for equitable and sustainable National Development.

- The key sectors under this pillar are:- ICT (6% of the transformational governance allocation), Governance and Decentralization (37%) and Justice, Reconciliation, Law and Order (77%).

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Rwanda tax highlights

The following highlights are based on the 2017/2018 budget statement read by the Finance Minister.

Tax reforms

There has been a deliberate move over the last five years to modernise the major tax laws in Rwanda. These include the following new laws: VAT law, Investment Promotion and Facilitation law, Mineral Tax law, Gaming law and Income Tax law which was recently gazetted on 16 April 2018.

Tax changes

The minister announced the amendment, during the year, of other tax laws governing tax procedures, use of electronic billing machines, property taxes and consumption/excise duty taxes.

Corporate taxes

- Reduction of the taxing threshold for small businesses from Rwf50 million to Rwf20 million.
- Tightening of restrictions on expense deduction for the determination of taxable income e.g. management, technical and royalty fees are now capped to 2% of the company's turnover.
- Broadening of the provision that deems income to be derived in Rwanda by non-resident e.g. the direct and indirect sale of shares in a Rwandan company is now considered to be income sourced from Rwanda, and services performed abroad by a non-resident for the benefit of a Rwandan company is also now considered to be income sourced from Rwanda.
- Exclusion of liberal professionals (professionals with special skills, working in an independent manner) from the lump sum/flat tax regime.

Customs Duty

Transportation sector

- Import duty rate of 0% instead of 10% or 25% for road tractors for semi trailers, motor vehicles for transport of goods with gross weight exceeding 20 tons and buses for transportation of 50 persons and above.
- Import duty of 10% instead of 25% for motor vehicles for transport of goods with gross weight exceeding 5 tons but not exceeding 20 tons.
- Import duty of 10% instead of 25% on buses for transportation of more than 25 persons.

Promotion of "Made in Rwanda" initiative

- All capital machinery used in textile and leather industry will continue attracting import duty of 0% instead of 25%.
- Certain raw materials used in industry will continue to be taxed at a rate of 0% instead of 10% or 25%.
- Import duty rates of US$ 4/Kg for second hand clothes and US $5/kg for second hand shoes.

Information Technology

- Telecommunication equipment will continue to attract import duty at a rate of 0% instead of 25%.

Financial sector

- As a support towards a cashless economy, electronic transaction devices (smart cards, ATM cards, Point of sale cards and their operating machines) will attract import duty at 0% instead of 25%.

Basic goods

- Rice will continue to be taxed at the rate of 45% or US$ 345/MT instead of 75% or US$ 345/MT.
- Sugar will continue to be taxed at a rate of 25% instead of 100% or US$460/MT whichever is higher.
- Goods imported for use by Armed Forces Shop (AFOS) will continue to attract duty at 0% instead of 10% and 25%.

Tax proposals

Key tax policy measures

Overview

There were no specific tax policy changes that were announced aimed at increasing tax revenue included in the 2018/19 budget. However, building on from pronouncements in previous years, Rwanda Revenue Authority are implementing a number of administrative reforms which are expected to generate more tax revenue.

Rwanda has taken numerous tax policy and revenue administrative measures to boost domestic revenues.

Boosting domestic revenue

Rwanda has taken numerous tax policy and revenue administrative measures to boost domestic revenues which increased some six percentage points of GDP from 2010 to 2017 according to the IMF. There has been a deliberate move over the last five years to modernise the major tax laws. Today we have a new VAT law, a new Investment promotion and facilitation law, a new Mineral tax law, Gaming law and recently a new Income tax law that was gazetted on 16 April 2018.

Follow this link to access the full analysis of the new income tax law

The minister announced a number of other tax laws to be amended during the year with the aim of increasing domestic tax revenue collection. The laws include:

- the Tax procedures;
- the Decentralised tax law - with particular focus on property taxes;
- implementing the transfer pricing guidelines;
- the law on Use of Certified Electronic Billing Machine(EBM). This law is to be amended to mandate a selected number of non-VAT registered taxpayers to acquire EBMs. This measure is intended to address loopholes in the existing law and improve taxpayers' compliance; and
- the consumption tax law (Excise duty law). The focus of the amendment will be on excise duty on beer, wines, liquors as well as mobile data.

Increasing tax revenue

The Minister also observed that the primary focus of the recently gazetted new income tax law is to increase tax revenue and help RRA to carryout proper audits on multinational companies. We understand that this is expected to be achieved through;

- the reduction of the taxing threshold for small businesses from FRW50 million to FRW20 million.
- excluding of liberal professionals (professionals with special skills, working in an independent manner) from the lump sum/flat tax regime.
- the tightening of restrictions on expense deduction for the determination of taxable income. For example Management fees, Technical fee, and Royalty fees are now capped/restricted to 2% of the company's turnover.
- the broadening of the provision that deems income to be derived in Rwanda by non-resident. For example the direct and indirect sale of shares in a Rwandan company is now considered to be income sourced from Rwanda, and services performed abroad by a non-resident for the benefit of a Rwanda company is also now considered to be income sourced from Rwanda

Taxing threshold for small businesses reduces from

FRw 50m to FRw 20m

Fiscal Incentives

Tax exemptions and incentives to strategic sectors

The Minister announced some fiscal incentives agreed at EAC that target some strategic sectors. These are changes that are expected to become effective in financial year 2018/19.

The Government is committed to continue its current efforts towards promotion of transport services, "Made in Rwanda", cashless economy, access to basic needs for the population and supporting sporting activities.

Transportation sector

- Road tractors for Semi Trailers, Motor vehicles for transport of goods with gross weight exceeding 20 tons and buses for transportation of 50 persons and above will continue to pay import duty rate of 0% instead of 10% or 25%
- Import duty rate for Motor vehicles for transport of goods with gross weight exceeding 5 tons but not exceeding 20 tons will continue to pay duty of 10% instead of 25%.
- Buses for transportation of more than 25 persons will continue paying import duty of 10% instead of 25%.

Promotion of made in Rwanda

One of strategies for reducing the import bill and minimize impact of currency depreciation is to focus on import substitution strategies.

Bicycles for racing or rally

Exempted from import duty

The "Made in Rwanda" initiative is key strategy that is expected to support this policy objective. In an effort to encourage local industries, the following fiscal incentives are planned:

- All capital machinery used in textile and leather industry will continue paying import duty of 0% instead of 25%;
- Certain raw materials used in industry will continue to pay tax at a rate of 0% instead of 10% or 25%
- Importation of second hand clothes and shoes was originally supposed to be totally banned, however the government has instead decided to maintain a high tax on these goods. Second hand clothes are to be taxed at 4US$/Kg and second hand shoes are to be taxed at US $5/kg.

Information technology

Telecommunication equipment will continue to pay import duty at rate of 0% instead of 25%.

Financial sector

As a support towards a cashless economy, electronic transaction devices (smart cards, ATM cards, Point of sale cards and their operating machines) will pay import duty at 0% instead of 25%

Sporting Activities

Bicycles for racing or rally are now exempted from import duty of 25%

Basic goods

- Rice will continue to pay import duty at rate of 45% or USD 345/MT instead of 75% or USD 345/MT;
- Sugar will continue to pay import duty at rate of 25% instead of 100% or 460 USD/MT whichever is higher
- Goods imported for use by Armed Forces Shop (AFOS) will continue to pay duty at 0% instead of 10% and 25%.

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Focus on the economic transformation Pillar

Contrary to the previous sectoral approach the Minister in his speech decided to adopt a broader-based approach and aligned the theme for the current budget, "Industrialisation for job creation and shared prosperity" to that of the National Strategy for Transformation (NST1).

In this, he broke it down into the three pillars with a focus on the Economic Transformation Pillar. The minister has allocated 57% of the budget to the Economic Transformational Pillar, which in our view is the right direction as it covers the key drivers for a sound economy. We have summarized these drivers into industrialization, opening up of Rwanda for international trade, and mobilisation of resources.

Industrialisation

The Government will embark on the construction of provincial and district industrial parks, which should spar growth at the regional level. This is likely to bear fruit, having seen how the Kigali Special Economic Zone has performed over the last few years.

Construction of parks will also result in creation of job opportunities in the provinces and districts and at the same time slow down the increasing urbanization trends to the Capital city.

With agriculture almost contributing one-third of the GDP, there are plans to accelerate this through mechanising farming methods, as well as use of the latest technologies to boost agricultural production.

Could more be done?

To support this growth, there are plans to increase electricity consumption by 11.9% in the medium term. Challenges with distribution have been noted with plans to increase as well as strengthen transmission lines.

However, planned production increase is only 7.6MW versus the ambitious growth plans above, could more be done to match the expected increase in demand to electricity generation?

Opening up Rwanda for business

Rwanda is leading the way following its assumption of the OAU chairmanship to open up the continent for trade. The country has championed the establishment of the Single Africa Air Transport Market. To this effect, the construction of Bugesera International Airport has been prioritized. Other key projects are the construction of four ports on Lake Kivu, expansion and support to RwandAir operations, promoting MICE tourism by attracting 142 international events and conferences, and improving and sustaining a quality road network throughout the country. We expect that the country will reap benefits of these infrastructure projects over the medium to long term similar to what has been observed in emerging economies.

Mobilisation of resources

The country has commenced the journey towards mobilization of savings, which makes funds for long term investments available. Therefore, under the domestic savings promotion agenda, there are plans to set up the Kigali International Business and Financial Services Centre, which aims to set up Kigali as a financial services hub and draw down more direct foreign investments, operationalization of the long term savings scheme, where 445,000 people will be subscribed. The country also plans to implement the Capital Market Master plan which is expected to advance a strategic agenda for deepening financial ties across the East African markets.

There are plans to set up an agriculture financing and insurance scheme that be aimed at developing the value chain to reduce risks for both farmers and financiers. The much awaited transformation of Umurenge SACCOs into a Cooperative Bank is now expected to be completed in 2019. With these initiatives, the Minister hopes that the much needed capital growth will be achieved in the medium term as the market has shown demand for more products with the recent oversubscription of the 10 year infrastructure bond

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East Africa at a glance

We present below a summary of the key economic and tax highlights based on the FY 18/19 budget speeches by the Ministers of the 4 EAC partner states.
The common theme running through the budget speeches are spending on infrastructure, promoting local manufactures and creating employment opportunities.
The table below summarizes the key economic indicators for the 4 countries:

Indicator	Rwanda	Kenya	Tanzania	Uganda
Real GDP growth	6.1% (5.9%)	4.9% (5.8%)	7.2%(7.1%)	5.8% (3.9%)
Overall inflation	4.9% (5.7%)	7.9% (6.3%)	5.32%(5%)	3.6% (5.7%)
Country currency	RWF	KES	TSHS	UGX
Exchange rate to the dollar (Local currency = US$1)	859	103	2281	3,800
Real GDP FY17/18 (billions)	6,692 (USD 7.8)	9,721 (USD 94.4)	132,629 (USD 58.0)	101,800 (USD 26.8)
Recurrent budget (billions)	1,266 (1,131)	1,550 (1,347)	20,469 (19,712)	13,392 (11,902)
Development budget (billions)	937 (783)	625 (640)	12,007(11,999)	12,975 (11,349)
Total budget FY 18/19 (billions)	2,444 (2,115)	2,557 (2643)	32,476 (31,712)	32,702 (29,008)
Projected tax revenue	1,353 (1,200)	1,998 (1,705)	18,000 (17,106)	16,359 (15,062)
Other budget funding sources	158 (138)	559 (524)	14,475(14,606)	16,343 (15,578)
% of tax revenue to CY Budget	55% (57%)	78% (64%)	55% (46%)	50% (52%)
Tax revenue as a % of GDP	20%	21%	14%	16%

East Africa highlights

Kenya economy

Summary

Kenya's economic growth has remained steady in the past five years maintaining an average of 5.6% per year. This has been achieved through an Economic Transformation Plan whose main focus has been infrastructure development.

The growth is expected be 5.8% in 2018 against 4.9% in 2017. Kenya maintained macroeconomic stability with inflation, interest rates and exchange rates remaining stable throughout 2017.

Economic drivers in prior year, 2017

The key drivers of the economy in 2017 included:

- Food security through expanded irrigation schemes, increased access to agricultural inputs and supported large-scale production of staples;
- Increased health facilities, equipped hospitals with specialized medical equipment and expanded NHIF coverage;
- Increased access to electricity with over 6.7 million Kenyans connected;
- Improved infrastructure with completion of phase 1 of the SGR and commencement of phase 2;
- Enhanced service delivery through devolution and expanded fibre optic infrastructure to the counties leading to e-governance and innovation;
- Improved macroeconomic stability and improved security aimed at creating a conducive environment and
- Improved education sector through the free education plan;

Subdued growth in 2017

In 2017 Kenya experienced a GDP growth of 4.9% down from 5.8% in 2016. In 2017, Kenyan economic prospects were dampened by a prolonged electioneering period and adverse weather conditions. While service-oriented sectors grew, agriculture and manufacturing sectors underperformed.

Government priorities for the year/long term

The government has set out four priority areas (the Big Four plan) and allocated KES 460 billion in expenditure.

The key pillars of the big four plan include:

- Manufacturing: the government aims to raise manufacturing's contribution to GDP to 15% by 2022;
- Universal healthcare coverage (UHC): to guarantee access to quality and affordable healthcare, the government has focused to provide UHC to all households by 2022;
- Provision of affordable and decent housing for all Kenyans: the government is aiming to deliver 500,000 housing units by 2022 and at the same time provide incentives to private developers; and
- Enhancing food and nutrition security for all Kenyans: the government will focus on enhancing large-scale production, boosting smallholder productivity and reducing the cost of food.

Kenya tax highlights

Customs

- Import duty on iron and steel products and on paper and paper board increased from 25% to 35%;
- Introduction of import duty of USD5 per unit or 35%, whichever is higher, on textile and footwear;
- Introduction of a specific rate duty of USD 110/MT on particle board, USD 120/MT on medium density fiber board, USD 230/M3 on plywood and USD 200/MT on block boards, or 35% whichever is higher;
- Introduction of a specific rate of USD 500/MT or 35% whichever is higher on vegetable oils;
- Remission of duty on inputs and raw materials for the manufacture of pesticides and acaricides
- Remission of import duty on importation of sightseeing buses and overland trucks imported by licensed tour operators; and
- Remission of duty on taxable inputs and raw materials for assembly of clean energy cooking stoves imported by local manufacturers.

Excise

- Excise duty of KES 20 per Kg on sugar confectionaries and chocolates;
- Increase of excise duty on mobile money transfer fees from 10% to 12%;
- Increase of excise duty from 20% to 30% on private passenger motor vehicles exceeding 2500cc (diesel) and 3000cc (petrol);
- Introduction of excise duty on transfer of KES 500,000 or more by banks/ financial providers at 0.05%; and
- Introduction of an export levy of 20% on copper waste and scrap. There is need for clarity on the desired outcome of this change.

VAT

There has been VAT exemption introduced on the following:

- Importation or local purchase of parts for computer assembly;
- Purchase of equipment for construction of grain storage facilities; and
- Purchase of raw materials for animal feeds production.

Income Tax

- Introduction of presumptive income tax based on the business permit or trading license fees at 15% to replace turnover tax;
- Withholding tax on payments for demurrage charges made to non-resident persons at 20%;
- Introduction of capital gains tax on sale of property by general insurance companies at 5%;
- Withholding tax of 5% on insurance premiums paid to non-residents excluding insurance for aircrafts;
- Tax amnesty for foreign income declaration extended to 30 June 2019 and exempted from proceeds of the Crime Act, subject to exemptions;
- 30% rebate on the total electricity bill incurred by manufacturers;
- 20% penalty and 2% interest on late payment of tax on betting, gaming and lotteries;
- Late payment interest increased from 1% to 2% and reintroduction of 20% penalty on late payment of income tax; and
- A limit has been set for application for and extension of time for filing tax returns and to also allow taxpayers to amend filed returns. The time limits are yet to be made available.

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Tanzania economy

Summary

The economy of Tanzania has continued to register high economic growth with an average real GDP growth rate in 2017 of 7.1%, compared to 7.0% in 2016 with economic activities recording mixed results. In 2017, the inflation trend was relatively stable, averaging 5.3% compared to 5.2% in 2016. The stability is largely attributed to improved availability of food and stable energy prices especially for fuel.

Economic drivers in prior year

SECTOR	ACTUAL	BUDGET	MOVEMENT
Agriculture	2.1%	2.9%	↓
Trade and Maintenance	6.7%	7.8%	↓
Food and Accommodation	3.7%	8.0%	↓
Administrative services	2.1%	6.3%	↓
Information and Technology	13.0%	12.1%	↑
Transportation and Storage	11.8%	8.0%	↑
Mining and Quarrying	11.5%	9.2%	↑
Manufacturing	7.8%	6.7%	↑

Total resources mobilized during the period between July 2017 and April 2018 amounted to Tzs 21.89 trillion, equivalent to 69.0% of the annual target of Tzs 31.71 trillion.

Government priorities for the year/long term

The priorities for 2018/19 will be on flagship infrastructure projects and in creating a conducive environment for investment and business.

The focus will be on the following priority areas:

- ***Agriculture:*** improving irrigation infrastructure, warehouses and markets, supply of inputs, dissemination of findings and development of livestock and fisheries sub sectors.
- ***Industries:*** implementing the recently developed blueprint for regulatory reform to improve the business environment.
- ***Social services:*** clean water, free basic education, improved health facilities and supplies.
- ***Supportive infrastructure:*** electricity generation, construction of a standard gauge railway, improving regional and rural road connectivity, air and marine transport
- ***Others:*** land acquisition and ownership, communication services, finance, tourism, defence and security, good governance and justice.

The Government is committed to increase and strengthen domestic revenue collections by pursuing the following policies:

- Continue to widen the tax base including formalisation of the informal sector and improving the investment environment to foster new sources of revenue;
- Enable conducive environment (supportive infrastructure, tax incentives, consistent and predictable policy, land accessibility, legal and regulatory frameworks) to attract business and investment;
- Implement the "Blueprint for Regulatory Reform to Improve Business Environment for Tanzania" for simplification of payment of taxes and elimination of bureaucracies; and
- Improve relationship between TRA and taxpayers based on trust.

Tanzania tax highlights

Tax amnesty

A tax amnesty will run for a six month period from July to December 2018. Taxes declared under the amnesty will have full remission of interest and penalties.

Excise

The fixed tariffs on locally produced non-petroleum excisable products including alcohol, soft drinks and tobacco have not been changed but excise duty rates relating to imported non petroleum products will increase by 5%.

An Electronic Tax Stamp will replace the Paper Tax Stamp with effect from 1 September 2018. This is to enable the Government to obtain production data from the manufacturers in real time.

Local Taxes (agriculture)

The Minister is also proposing to amend the Local Government Finance Act, to require any corporate entity which produces agricultural crops without processing them for the purpose of adding value to pay Produce Cess.

Customs

To assist local industries, duties have been decreased/remitted on the following products:

- Paper used to manufacture exercise books, text books and gypsum boards,
- Self adhesive labels,
- Printed aluminium barrier laminates,
- Polyvinyl alcohol,
- Inputs used to manufacture pesticides, fungicides, insecticides and caricides and
- RBD palm stearin.

To protect local industries, duties have been increased on the following imported products:

- Crude, semi refined and double refined edible oil and crude palm oil;
- Potatoes, chewing gum, sweets, chocolates, biscuits, tomato sauce, water, meat and edible offal and sausages and
- Increased duty of 35% on imported sugar.

Value Added Tax

Exemption from VAT proposed on:

- Packaging material used by local manufacturer of pharmaceutical products,
- Imported animal and poultry feed additives and
- Sanitary pads.

Additional powers are given to the Minister to exempt imports by a government entity or supply to a government entity of goods or services to be used solely for the implementation of government projects funded by a non-concessional loans.

Income tax

- Reduction of the CIT rate for new investors in the pharmaceutical and leather industries from 30% to 20% for 5 years from 2018/19 to 2022/23. However, it is unclear whether the intention is to apply a reduced rate for a period of 5 years to 2022/23 or apply the reduced rate for new entrants investing between 2018/19 and 2022/23 for an indefinite period.
- Withholding tax exemption to apply to interest on Government borrowings from non-resident financial institutions.

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Uganda economy

Summary

The economy is projected to grow by 5.8% in FY17/18, with year-on-year growth of 1.9%, bouncing from the low growth of 3.9% in FY16/17. Uganda's GDP growth is higher than that of the Sub Saharan region, which is expected to average 3.4% in FY17/18.

According to the Monetary Policy issued in June 2018 by the Bank of Uganda, the economy has a positive outlook driven by growth across all sectors, in particular:

- manufacturing (4.4%),
- the industrial sector (6.2%),
- construction (5.7%) and
- agricultural sector (3.2%), mainly due to good weather throughout the year.

Inflation has remained stable in FY2017/18 at single digit through the year, with annual headline inflation at 3.6%, mainly due to the increased agricultural output. Inflation is projected to fluctuate at an average of 5% in FY18/19.

With respect to the exchange rate, the Uganda shilling depreciated by an average of 3% year-on-year, with a significant drop in May 2018 when the exchange rate reached Ushs 3,800 against the US dollar.

The depreciation of the shilling is attributed to increased demand for oil especially in the manufacturing and telecom sectors.

Uganda has a positive economic outlook in FY18/19, with GDP projected to grow to 6% and is projected to continue to grow to an average of 7% per annum by 2020.

Government priorities

The priority areas highlighted in the FY2018/2019 budget in line with the National Development Plan (Phase II) are:

- Increased agricultural production and agro processing,
- Transforming Uganda's tourism potential,
- Development of oil gas infrastructure,
- Human capital and skills development and
- Effective development and maintenance of infrastructure.

Economic drivers

The main drivers for revenue in FY 2018/19 are based on the following assumptions :

- A GDP growth of 6%,
- Stable inflation of single digit,
- A stable exchange rate and
- Enhanced tax compliance.

In terms of revenue performance, total tax collections in FY 2018/19 are projected at Ushs 16,359 billion up from Ushs 15,939 billion in FY 2017/18, representing 14.6% of tax revenue to GDP ratio.

We expect to see an increased focus on strengthening tax administration and compliance, curbing of VAT fraud and improvement of PAYE compliance by Government institutions.

Uganda tax highlights

Excise Duty

Proposed telecommunication services amendments include:

- Increase of excise duty on landlines by 700 percentage points from 5% to 12%. Harmonise excise duty on all telecommunication services;
- Introduction of excise duty of Ushs 200 per user per day for the use of Voice Over the Internet Protocol (VOIP);
- In addition to excise duty on mobile money services a levy of 1% on transaction value of withdrawals, payments and receiving money and
- Increase excise duty on mobile money and bank charges from 10% to 15%.

Additional proposed amendments include the introduction of excise duty on:

- Opaque beer (kibuku) at 30% or Ushs 230 per litre, whichever is higher,
- Powder for juice (excluding pulp) at 15% of the value,
- Cooking oil at Ushs 200 per litre and
- Motorcycles at first registration – Ushs 200,000.

Time of supply rules are to be introduced for excise duty.

There is a proposal of remission of excise duty on export of excisable goods.

Value Added Tax

- Introduction of Withholding of 50% of VAT charged on taxable supplies by appointed withholding VAT agents.
- Interest on overpayments and late refunds by the URA is to be capped to the principal tax.
- Clarity on the obligation of foreign based remote service providers to account for VAT in Uganda
- Legislation is to be introduced in FY19 to provide for the tax treatment of Islamic financial transactions.
- Introduction of VAT exemption on construction materials, services and equipment for developers of industrial parks or free zones, supplies to hotel or tourism facilities and to hospital facility developers; subject to certain criteria.

Income tax

- Thin capitalization rules are to be repealed. Instead, deductibility of interest on debts owed by a taxpayer who is a member of a group is to be limited to 30% of Earnings before interest, tax, depreciation and amortization (EBITDA). This is in line with BEPS agenda.
- A tax of 0.5% of gross revenue to be imposed on a taxpayer who makes tax losses for seven consecutive years.
- Interest incurred by individuals on mortgages obtained from financial institutions to be tax deductible. This is in addition to 20% expense allowed to deriving chargeable rental income.
- Clarity on taxation of offshore indirect transfers of interest by imposing tax on a direct or indirect sale of an asset connected to Uganda by a non-resident.
- Introduction of 10% final withholding tax on commissions by telecommunication companies to mobile money and airtime agents as a final tax.
- Planned introduction of regulations pertaining to Islamic financial transactions.
- Reduction of withholding tax on payments for agricultural supplies from 6% to 1%.
- Exemption of the income of a developer or operator of an industrial park or free zone from income tax subject to certain criteria.

Stamp duty

- Proposed amendment to increase stamp duty on dutiable instruments previously at Ushs 10,000 to Ushs 15,000.
- Exemption from stamp duty on strategic projects for developers in industrial parks, operators in free zones, hotels or tourism facilities, and hospital facilities, subject to meeting certain criteria.

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