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Navigating through uncertainty

Uganda National Budget Bulletin 2020/21

June 2020

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The economy

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The economy

Global

Global Economic Growth

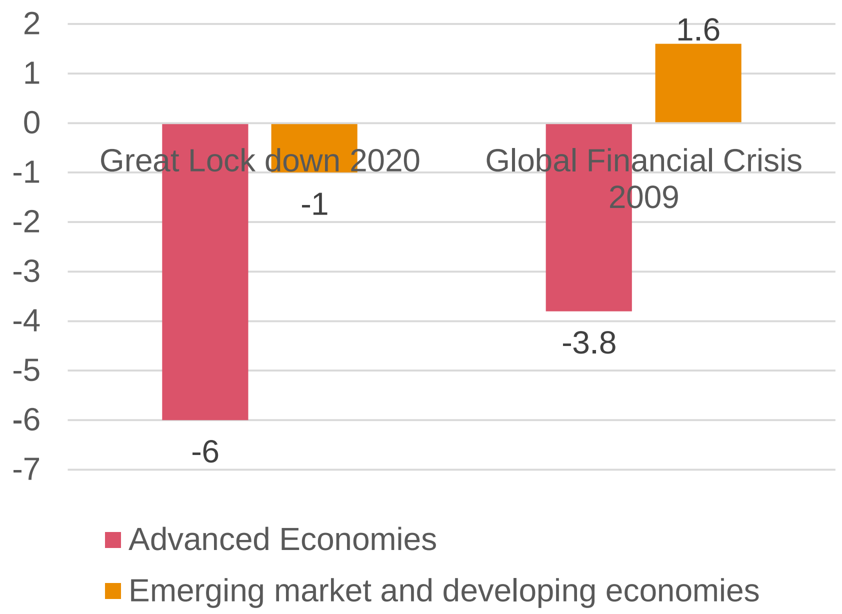
According to OECD Economic Outlook, June 2020 (OECD), the Covid-19 pandemic has presented the largest economic shock that the world economy has witnessed in decades, resulting in the deepest global recession since the great depression of the 1930s.

The global economy is projected to contract by 3% in 2020, worse than the contraction that followed the 2008-09 financial crisis. Global growth will start to level off in the second half of 2020 as containment efforts gradually unwind. The global economy is projected to achieve a growth of 5.8% in 2021 as economic activity normalises based on policy support for specific sectors affected domestically and strong multilateral cooperation.

While the growth forecast is marked down by -6.1% in 2020 for advanced economies, the position for the emerging market and developing economies is projected to contract by -1% in 2020 (-2.2% excluding China).

Overall, the global growth forecast remains uncertain as the economic fallout depends on unpredictable factors such as the pathway of the pandemic, intensity and efficacy of containment efforts, supply disruptions and productivity losses, shifts in spending patterns, behaviour changes, confidence efforts and volatile commodity prices.

Global economic recession in 2020 Vs. 2009



Source: IMF 2020 World Economic Outlook and OECD Economic Outlook 2020

The economy

Sub Saharan Africa

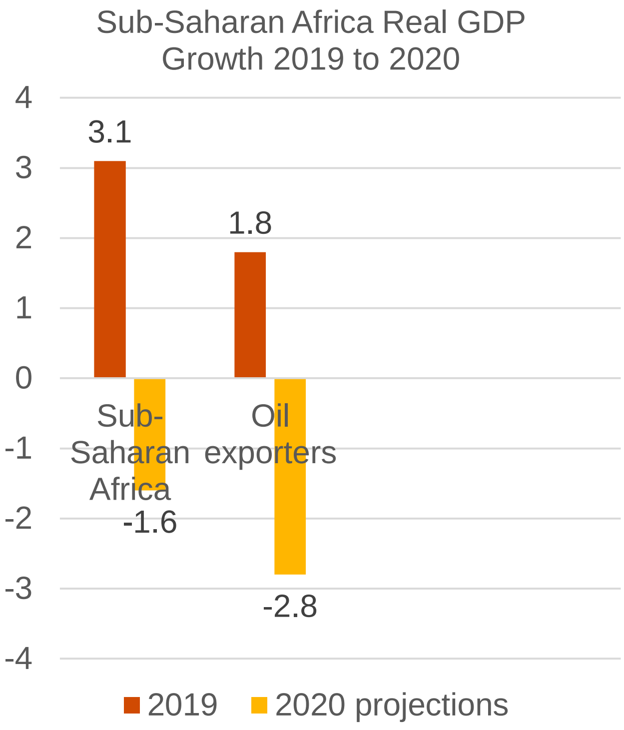
Sub-Saharan Africa (SSA) is projected to experience severe outright contractions in economic activity of -1.6% in 2020 (from a growth of 3.1% in 2019), with growth in Nigeria and South Africa expected at -3.4% and -5.8% respectively, according to the IMF's April 2020 World Economic Outlook.

This is mainly due to the impact of Covid-19, low commodity prices and other factors such as the continued structural constraints in South Africa, climate and other natural shocks in East Africa such as the locust invasion.

SSA is projected to grow at 4.1% in 2021.

The rebound in 2021 depends on the pandemic fading in the second half of 2020, allowing containment efforts to be gradually scaled back and restoring consumer and investor confidence.

According to the IMF, policy makers should ramp up public health expenditure to cope with the need for health services and slow down the spread of the virus.



Source: IMF 2020 Regional Economic Outlook: Sub-Saharan Africa

The economy

East Africa

According to the African Development Bank's (ADB) 2020 African Economic Outlook, East Africa maintained its lead as the continent's fastest growing region with an average growth estimated at 5.0% in 2019.

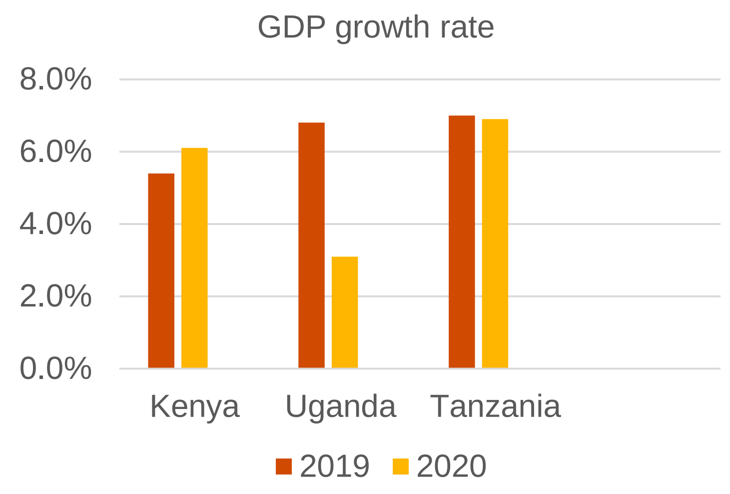
However, the pandemic also came on the heels of a locust infestation at the start of 2020 that damaged agricultural crops in Democratic Republic of Congo, Eritrea, Ethiopia, Somalia, South Sudan, Uganda and Tanzania.

Kenya's GDP growth is expected to increase slightly based on expectations of strong revenue growth, the reduction of non-core expenditure and a gradual slow down.

On the other hand, Tanzania reported a slight reduction in GDP as Government aims to stimulate growth through a number of revenue measures such as widening the tax base.

Uganda's GDP growth is estimated to reduce significantly compared to Kenya and Tanzania.

This is planned to be stimulated by measures to boost economic transformation, such as restoring household incomes and safeguarding jobs, re-igniting business activity, providing tax relief to businesses and enhancing economic infrastructure.



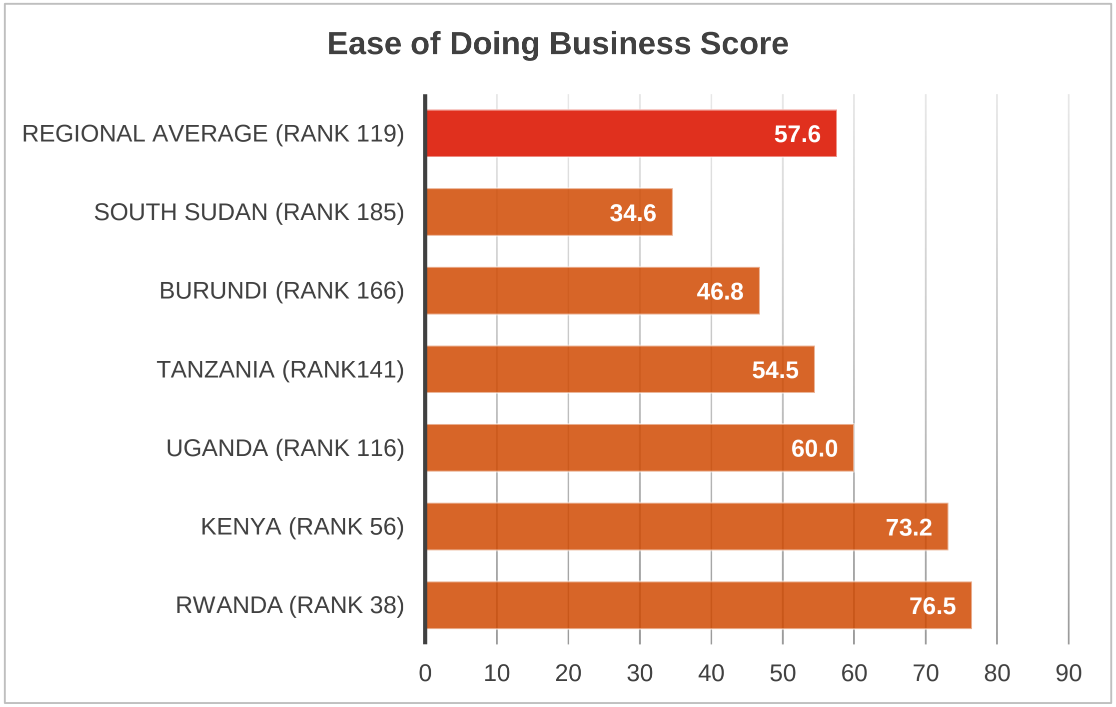
Source: ADB 2020 African Economic Outlook

Overall, the ADB Outlook notes that the macroeconomic stability in Africa has improved.

However, inflation remains persistently high and debt continues to raise with the median ratio of government debt to GDP climbing over 40% by the end of 2019.

The economy

Ease of doing business in East Africa



Source: World Bank Doing Business Report, 2020

Note: An economy's ease of doing business score is reflected on a scale from 0 to 100, where 0 represents the lowest and 100 represents the best performance. The rank is out of 190 countries..

EAC countries have continued to push the frontiers of reforms more broadly.
The World Bank's 2020 Doing Business report showed the progress made by sub-Saharan Africa among reforming economies.

The 2020 report showed that the EAC has continued to excel, accounting for one-third of all business regulatory reforms.

Uganda performed slightly above the regional average while South Sudan and Burundi were significantly below the average. Rwanda continues to lead the way.

The report shows that whilst Rwanda continues to get ahead, there is slight improvement in score of other countries i.e. Kenya by 4%, Uganda by 5% and Tanzania by 2%.

The economy

Uganda

Economic performance

The economy grew by 3.1% in FY19/20 which is significantly lower than the 6.8% growth in FY18/19, mainly due to the triple effect of the Covid-19 pandemic, locust invasion and floods in parts of the country.

Inflation (headline) is projected to be 3.1% in FY19/20 . There is an expected increase to 5.6% in FY20/21, due to increased exchange rates arising from the pandemic, increase in fiscal deficit, increase in food crop inflation and after-effects of the locust invasion.

Domestic revenue collection has suffered (see Fiscal Performance section) but relative to GDP, it has remained stable with the ratio of domestic revenue to GDP projected at 12.7% , the same as last year.

Public debt continues to grow, at 30 June 2020 – it is expected to be UGX 57.5 trillion (41.6% of GDP, compared to 35.4% last year).

Government priorities

The Government's current priorities in terms of the Economic Stimulus and Growth Strategy are focussed on:

- Improving wellbeing of Ugandans;
- Boosting economic transformation; and
- Improving peace, security and good governance.

Economic strategy FY20/21

The Government's strategy to boost economic transformation for FY 20/21 includes the following broad aims:

- Restore household incomes and safeguard jobs;
- Re-ignite business activity;
- Provide tax relief to businesses;
- Maintain financial sector stability
- Enhance economic infrastructure;

Key economic indicators

Item	FY 18/19 Actual	FY 19/20 Projected
GDP Growth	6.8%	3.1%
Domestic revenue as % of GDP (incl. oil)	12.7%	12.7%
Expenditure as % of GDP	18.5%	20.8%
Budget deficit as % of GDP (incl. grants)	-4.9%	-7.5%
Public debt as % of GDP (nominal)	35.4%	41.6%
Headline inflation	3.1% (10 mths)	2.9% (10 mths)

Source: Background to Budget Chapters 4 & 7

The economy grew by 3.1% in FY19/20 which is significantly lower than the 6.8% growth in FY18/19

Fiscal performance

2

Fiscal performance

Budget in total

Outcome for FY19/20

The projected outcome for the current year shows the clear impacts of the Covid-19 pandemic with significant shortfalls in domestic revenues compared to budget, but also reduced spending. Overall the expected fiscal deficit is slightly reduced to UGX 10.3 trillion, representing 7.5% of GDP (against the budgeted deficit of UGX 10.6 trillion, 8.7% of GDP prior to rebasing). However this compares unfavourably to the FY18/19 deficit (4.9% of GDP) and the target of 3%.

The reduction in spending is largely attributed to lower disbursements for externally financed development projects. Interest costs are above budget due to commitment fees on newly contracted budget support loans and servicing of increased domestic debt.

Budget for FY20/21

This is the inaugural year under the third National Development Plan (NDP III). The resource envelope totals UGX 45.5 trillion, representing a 12.4% increase over that budgeted for the current year.

The projected fiscal deficit is UGX 13 trillion (8.6% of GDP) and reflects a partial return to normal domestic revenues coupled with the extra cost of relief/stimulus measures related to the pandemic. The larger part (73%) of the deficit is expected to be funded by external borrowing.

Budget summary	FY19/20 Budget UGX b	FY19/20 Projected UGX b	FY20/21 Budget UGX b
INCOMING			
Domestic revenue	20,646	17,590	21,810
Grants	1,900	879	1,720
Budget support	101	45	134
Project	1,799	834	1,586
Borrowing (= fiscal deficit)	**10,564**	**10,340**	**13,033**
Domestic (net)	2,830	3,416	3,560
External (net)	7,486	6,723	9,473
Petroleum Fund (net)	248	201	0
TOTAL INCOMING	**33,110**	**28,809**	**36,563**
OUTGOING			
Sector allocations (excl interest)	29,564	24,699	32,064
Recurring	12,415	11,983	13,578
Development	16,356	11,361	17,185
Net lending/investment	793	1,355	1,301
Interest	3,145	3,652	4,049
Domestic arrears/other	401	458	450
TOTAL OUTGOING	33,110	28,809	36,563
Domestic debt refinancing	6,453		7,486
External debt repayments	723		1,229
Appropriation in aid	201		215
TOTAL RESOURCE ENVELOPE	40,487		45,493

Source: Background to Budget Tables 4.15 and 7.2, Budget speech

Fiscal performance

Domestic revenue

Outcome for FY19/20

It will come as little surprise that projected domestic revenues will fall short of target for the current year, with an overall deficit of UGX 2.9 trillion (13.8% of target).

	FY19/20 Target UGX b	FY19/20 Projected UGX b	Deficit UGX b	Deficit %
Tax revenue	18,877	16,073	-2,804	-14.9%
Non tax revenue	1,571	1,517	-54	-3.4%
Oil revenue	198	0	-198	-100.0%
Total revenue	20,646	17,590	-2,858	-13.8%

This is primarily attributable to falls in domestic demand and imports accompanying the slow down in the economy, due to the current pandemic but also with some impact from the locust invasion and flooding. It should be noted that there was already a UGX 700 billion shortfall in the first half of the year. Other contributing factors cited are delays in implementation of a number of tax administration measures (digital tax stamps, electronic fiscal devices, VAT withholding, rental tax) and the impact of the 2018 investment incentives.

The shortfalls are generally manifested across all tax types, apart from corporate income tax which registered a UGX 154 billion surplus arising from capital gains tax on a specific transaction. The expected oil revenue of UGX 198 billion was capital gains tax that did not eventuate.

Outlook for FY20/21

Budgeted domestic revenues for the coming year are UGX 21.8 trillion, an increase of 24% on the current year projection but a comparatively modest increase of 6% against the current year target.

	FY18/19 Actual UGX b	FY19/20 Projected UGX b	FY20/21 Budget UGX b	Increase FY20/21 v. prior year %
Tax revenue	16,163	16,073	20,219	25.8%
Non tax revenue	475	1,517	1,591	4.9%
Oil revenues	0	0	0	
Total domestic revenue	16,638	17,590	21,810	24.0%
% of GDP				
Tax revenue	12.3%	11.6%	13.3%	1.7%
Domestic revenue	12.7%	12.7%	14.3%	1.6%

The increase is expected to largely come from (partial) recovery of the economy and initiatives under the Domestic Revenue Mobilisation Strategy (DRMS), including implementation of the administrative measures that were delayed in FY19/20 (as listed in the adjacent column). There is only one specific tax increase mooted, being the hike in excise duty on fuel, which is expected to generate additional revenue of UGX 262 billion.

The projected ratio of domestic revenue to GDP is 14.3% (tax revenue 13.3%). The government has fallen behind on the DRMS/NDP II targeted annual increase of 0.5% of GDP (the average increase to FY 21/22 is projected to be 0.4%).

Fiscal performance

Government spending

Sector allocations for FY20/21

Government spending (including interest but excluding domestic arrears) for the coming year is budgeted at UGX 36.1 trillion, an increase of 10.4% over the FY19/20 budget. This represents 23.7% of GDP (the same as the current year budget).

However compared to the actual projected spending for the current year of UGX 28.3 trillion, the budgeted increase is 27.6%.

Notable are decreases in the votes for Works & Transport and Energy & Minerals, going against the trend of recent years where these sectors have benefited from significant increases.

The interest burden continues to increase, in line with the additional domestic and external borrowing required to fund the UGX 13 trillion fiscal deficit.

It is assumed that the costs of the Covid-19 pandemic relief/ stimulus measures outlined in the Budget speech are reflected in the budget numbers.

Interestingly the enhanced healthcare measures do not seem to have resulted in an outlying increase in the Health vote (the proposed increase of 8.2% compares to 13.5% in the FY19/20 budget).

Sector allocations - FY20/21 v. current year

	FY19/20 Budget UGX b	Share %	FY20/21 Budget UGX b	Share %	Change from prior year %
Works & Transport	6,460	19.7%	5,846	16.2%	-9.5%
Education	3,373	10.3%	3,592	9.9%	6.5%
Energy & Minerals	3,007	9.2%	2,603	7.2%	-13.4%
Health	2,623	8.0%	2,837	7.9%	8.2%
Security	3,621	11.1%	4,504	12.5%	24.4%
Justice/Law & Order	1,732	5.3%	2,020	5.6%	16.6%
Water & Environment	1,093	3.3%	1,682	4.7%	53.9%
Accountability	1,543	4.7%	2,107	5.8%	36.6%
Local Govt Sector	1,252	3.8%	1,752	4.9%	39.9%
Agriculture	1,053	3.2%	1,325	3.7%	25.8%
Public Admin	979	3.0%	1,322	3.7%	35.0%
Public Sector Mgmt	857	2.6%	662	1.8%	-22.8%
Legislature	688	2.1%	668	1.8%	-2.9%
Social Development	219	0.7%	172	0.5%	-21.5%
Lands, Housing & Urban Dvpmt	227	0.7%	200	0.6%	-11.9%
Science, Tech. & Innovation	186	0.6%	265	0.7%	42.5%
ICT & National Guidance	146	0.4%	163	0.5%	11.6%
Trade & Industry	203	0.6%	172	0.5%	-15.3%
Tourism	194	0.6%	193	0.5%	-0.5%
Reconciliation difference	108	0.3%	-21	-0.1%	
Total (excluding interest)	**29,564**		**32,064**		**8.5%**
Interest	3,145	9.6%	4,049	11.2%	28.7%
Total (including interest)	**32,709**	**100.0%**	**36,113**	**100.0%**	**10.4%**

Source: Background to Budget Table 31 (FY19/20 per original budget)

Covid-19 interventions

3

Covid-19 interventions

Relief and stimulus measures

Overall

The Budget outlines a range of relief and stimulus measures designed to mitigate the impacts of the pandemic and kick-start the economy. Some might be regarded as more general support or development initiatives. The following table summarises the measures with specific budget allocations totalling UGX 3 trillion (grouped under the speech headings).

Measure	Allocation UGX b
Emergency social protection	
Restoring affected social infrastructure	45
Social Assistance Grant for the Elderly	107
Restoring household incomes and safeguarding jobs	
Agriculture e-voucher scheme and extension services (NAADS)	300
Expanding public works to create jobs	130
Seed capital to youth, women and talent support schemes	256
Re-igniting business activity	
Avail credit via SACCOs and MFIs	94
Avail credit via UDB	1,045
Funding to UDC	138
Payment of arrears to private sector	673
Tax relief to businesses	
Waiver of interest on tax arrears	50
Expedite VAT refunds	120
Total	2,958

Financial sector stability

The Bank of Uganda has implemented a range of measures designed to ease stresses on affected businesses, maintain stability and stimulate the economy. These include:

- Permitting financial institutions to restructure customer loans on a case by case basis, including discretion to grant repayment holidays of up to 12 months.
- Provision of liquidity through longer-term reverse repos, purchase of government securities and other means
- Exceptional liquidity assistance to targeted commercial banks for up to 12 months
- Requiring supervised financial institutions to defer payments of discretionary amounts (such as dividends and bonuses) for 90 days.
- Easing the Central Bank Rate (on 8 June reduced to 7%)

Fast-tracking of VAT refunds

As indicated in their Public Notice of 7 May, the Uganda Revenue Authority (URA) will expedite the payment of VAT refunds and the Government has allocated an additional UGX 120 billion for this purpose. It remains to be seen how this initiative will work in practice, for example as regards the extent to which the URA will still carry out refund audits and the position with existing refund claims that were held up under the prior process. The URA has as yet indicated no specific timeframe within which refunds will be paid, or whether this will now comply with the one month statutory deadline.

Covid-19 interventions

Legislative tax measures

The Budget proposes a number of tax reliefs, most of which are reflected in the Tax Amendment (No.2) Bills released on 4 June. These are expected to be passed in conjunction with the No.1 Amendment Acts (see Tax Amendments section) with effect from 1 July 2020.

Deferment of tax payments

For tax liabilities falling due in the period from 1 April to 30 June 2020, payment will be deferred without interest until 30 September for the following registered taxpayers:

a) Businesses involved in tourism, manufacturing, horticulture or floriculture with an annual turnover of less than UGX 500 million
b) Employers liable to pay PAYE on their employees' income

The Budget speech implies that the targeted deferral under a) above is only intended to apply to corporate income tax and presumptive tax, but the wording of the Bill appears to cover all taxes. Similarly the PAYE deferral is indicated as only applying to tax compliant businesses in the manufacturing, tourism and horti/floriculture sectors, but the Bill appears to have general application to all sectors. The deferred payments are estimated at UGX 14 billion and UGX 66 billion respectively.

Waiver of interest

Interest on tax arrears that are unpaid by 30 June 2020 will be waived. This is stated to be applicable to taxpayers who voluntarily comply with their tax obligations (presumably other than in respect of paying these tax arrears).

Deduction for donations

Gifts made to the Government to facilitate the prevention, treatment and containment of the Covid-19 pandemic will be deductible for income tax purposes. The is not subject to any limit (unlike normal donations where the deduction is limited to 5% of chargeable income).

VAT and customs exemption for medical items

A range of PPE and medical items (e.g. disposable face masks, protective googles, infra-red thermometers, disinfectants, oxygen cylinders) will be exempted from VAT. The same applies to the supply of raw materials and inputs for the manufacture of such items. A similar customs duty exemption is also proposed.

Waiver of excise duty on un-denatured spirits

The rate of excise duty on un-denatured spirits made from locally produced materials is reduced from 60% to nil. This is understood to be targeted at alcohol used in sanitisers.

Tax amendments

4

Tax amendments

Income Tax

Introduction

Our Tax Watch of April 2020 set out the expected tax changes as reflected in the 2020 (No. 1) Tax Bills. The final amendments have since been passed by Parliament and are awaiting Presidential assent. We summarise in this section the amendments that are expected to come into effect on 1 July 2020.

Exemption of the income of the Deposit Protection Fund

The income of the Deposit Protection Fund (DPF) will be exempt from income tax. The DPF was created under section 108 of the Financial Institutions Act 2004 to provide insurance for the deposits of customers of regulated financial institutions in the event of collapse. The exemption is similar to that granted on the income of the Bank of Uganda.

Amendment to the 2018 investment incentives

Section 21(1) (af) has been amended and paragraph (ag) repealed to provide more clarity on the application of the tax exemption for new investment in certain manufacturing and strategic sectors, as introduced in 2018. The changes will be effective retrospectively from 1 July 2019.

The amendment expands the list of businesses that qualify for the exemption to include manufacturers of tyres, footwear, mattresses and toothpaste.

The criteria for the exemption are amended by:

- requiring the investor to employ at least 70% Ugandan citizens earning an average wage of at least 70% of the total wage bill (previously there was no local employment requirement in paragraph (af) and a 60% requirement in paragraph (ag)).
- requiring use of 70% locally sourced raw materials
- reducing the investment threshold for citizens from USD 1 million to USD 300,000 generally or USD 100,000 for investments located up-country.

The prior exemption in paragraph (af) was for a fixed period of 10 years but the revised wording indicates that the exemption period is now unlimited.

Persons that seek to benefit from the exemption are now required to declare in their tax returns the qualifying income and related expenses, calculated according to a prescribed formula.

Tax amendments

Income Tax

Withholding tax of 10% on commissions paid to insurance and advertising agents

Commissions paid by an insurance company to an insurance agent and commissions paid by any person to an advertising agent will be subject to 10% withholding tax:
Currently such payments are subject to 6% withholding tax where paid by a designated withholding agent.

Whereas an insurance agent is defined in the Insurance Act, there is currently no definition of an advertising agent. It is therefore not clear who will be taxable as an advertising agent and whether the WHT will be a final tax.

Deduction of expenses subject to e-invoicing

Expenditure of a person who purchases goods or services from a supplier who is designated to use the e-invoicing system shall not be allowed as a deduction unless supported by an e-invoice or e-receipt. (See further comment on e-invoicing in the VAT section.)

This implies that business taxpayers will be penalised where they purchase goods and services from a designated e-invoice supplier where the supplier fails to issue them with an e-invoice or e-receipt.

This seems an unfair consequence given that it might be more reasonable to place the onus for compliance on the supplier. We are likely to see disputes regarding deductibility of costs incurred on account of e-invoicing.

Tax clearance certificate requirement for transporters prior to renewal of operational licenses

Taxpayers who provide a passenger transport service or freight transport service where the goods vehicle used has a capacity of at least two tonnes will be required to obtain a tax clearance certificate before renewal of their operational license.

This requirement is intended to increase tax compliance within the transport sector.

Withholding tax returns

The Income Tax Act currently does not have a specific provision that requires taxpayers to file a monthly withholding tax return, except in the case of PAYE.

To remedy this gap there is introduction of a specific monthly return filing requirement for all other withholding taxes.

Tax amendments

Income Tax

Amended tax regime for small businesses

The schedule for the computation of presumptive income tax for small businesses has been amended.

The tax rates are still based on turnover, but the amendment introduces a new record keeping criteria and repeals taxation based on location and business trade. Small businesses with no records will pay tax on a fixed basis whereas those with records will pay tax as a percentage of turnover.

The schedule for the computation of presumptive income tax for small businesses has been amended

Enhancement of rental tax compliance

The Income Tax Bill proposed to improve rental tax collections by increasing the rental income tax rate for individuals from 20% to 30%, similar to that of non-individuals, and allow landlords (both individuals and non-individuals) to deduct 50% of rental income as notional expenses in calculating chargeable income. However these proposals were rejected by Parliament.

On 5 June the Government announced that it had executed an agreement with US company Ripplenami Inc. to supply a Rental Tax Compliance System. This entails a digital solution which will mine and integrate data from various Ministries, Departments and Agencies (MDA's) to enable proper identification of rental taxpayers. This measure is intended to counter a perceived widespread lack of tax compliance by landlords.

Islamic Development Bank exemption

The Islamic Development Bank will be added to the First Schedule as a listed institution which is exempt from income tax.

Rejected proposals

In addition to the rental tax measures, the following proposals in the original Bills were also rejected by Parliament:

- Introduction of a 0.5% turnover tax for taxpayers paying no or low tax;
- Introduction of a 0.5% withholding tax on the purchase of land;
- Repeal of the withholding tax exemption for agricultural supplies.

Tax amendments

Value Added Tax

Claims for input tax incurred prior to registration

The period within which manufacturers can claim input VAT incurred prior to VAT registration is increased from the current six months to twelve months. This is a positive amendment, allowing a more realistic period for a new manufacturer to construct a factory and commence production.

Relief for Islamic Development Bank

The Islamic Development Bank is added as public international organisation in the First Schedule to the VAT Act, thereby entitling it to certain VAT reliefs.

Restriction of input tax credits for supplies subject to e-invoicing

A taxpayer purchasing goods and services from a designated e-invoice supplier can only claim an input tax credit where the expense is supported by an e-invoice or e-receipt. This amendment relates to the introduction of the Electronic Fiscal Invoicing and Receipting System (EFRIS) which will be operationalised with effect from 1 July 2020.

E-invoicing is a welcome move. However, as noted in connection with the equivalent income tax restriction, a more reasonable approach might be for the compliance onus to be placed on the relevant taxpayer, namely the supplier rather than the purchaser. Purchasers of goods and services already have stringent requirements around record-keeping, tax invoices and supplier TINs.

New VAT exemptions

The list of exempt supplies in the Second Schedule of the VAT Act is expanded to include the following:

- a range of agricultural machinery (e.g. trailers, combine harvesters, tractor mounted implements, crop sprayers, hay and straw balers, irrigation equipment)
- cotton seed cake
- accommodation in tourist hotels and lodges located up-country
- liquefied gas
- processed milk
- locally developed computer software, maintenance and licensing.

These are welcome measures that will reduce the cost of inputs and/or boost local demand through reduced prices.

Tax amendments

Value Added Tax

Exemption of certain imported and domestic services

The following imported services are exempted:

- software and equipment installation services to manufacturers;
- services incidental to tele-medical services;
- royalties paid in respect of agricultural technologies.

The exemption for software and equipment installation services for manufacturers is also extended to domestic suppliers.

This is a welcome measure given that many of these services are specialised in nature and not readily available in Uganda. The exemption will therefore reduce the cost of manufacturing and accessing such services from international suppliers. It will also encourage local software development.

Amendment of investment incentives

The exemption introduced in 2018 for new investment in certain manufacturing or strategic sectors (paragraph (pp) of the Second Schedule) has been amended to align it to the equivalent income tax exemption (see the revised criteria in the Income Tax section).

There are also changes to the exemption for hotel and tourism facility developers that appear to reduce the capacity criteria from 100 guest to 30 rooms, and extend the exemption to include developers of meeting, conference and exhibition facilities with an investment of at least USD 1 million.

Rejected proposals

The following proposals were rejected by Parliament:

- Introduction of a three month restriction on carry forward of excess input tax credits;
- Restriction on offset of VAT-input tax credits for landlords owning multiple commercial buildings.

Tax amendments

Excise Duty

Duty rates

Schedule 2 to the Excise Duty Act 2014 is amended to vary excise duty rates in respect of excisable goods as follows:

	Excisable Good or Service	DUTY RATES		
		2019/2020	2020/2021	Comments
3	Spirits			
(a)	Undenatured spirits made from locally produced raw materials	60% or Shs. 2,000 per litre, whichever is higher	Nil	Removal of excise duty on this category. This is to support local manufacture of hand sanitisers.
5	Non-alcoholic			
(b)	Fruit juice and vegetable juice, except juice made from at least 30% of pulp from fruit and vegetables grown in Uganda	13% or Shs 300 per litre, whichever is higher	12% or Shs 250 per litre, whichever is higher	Decrease in ad-valorem rate by 1% Decrease in fixed rate by Shs 50
8	Fuel			
(a)	Motor spirit (gasoline)	Shs. 1,200 per litre	Shs 1,350 per litre	Increase in fixed rate by Shs 150
(b)	Gas oil (automotive, light, amber for high speed engine)	Shs. 880 per litre	Shs 1,030 per litre	Increase in fixed rate by Shs 150
11	Sacks and bags of polymers of ethylene and other plastics under its HS codes 3923.21.00 and 3923.29.00 except vacuum packaging bags for food, juices, tea and coffee, Sacks and bags for direct use in manufacture of sanitary pads;	120%	120% or Shs. 10,000 per kilogram of the plastic bags	Introduction of a fixed rate of Shs. 10,000

Source: The Excise Duty Amendment Bill 2020

The original Bill proposals to increase rates across the board on cigarettes, beers, spirits and wine were rejected.

Tax amendments

Customs Duty

Protective duty increment

Most of the proposed amendments for FY 2020/2021 are aimed at protecting local manufacturing and promoting local content through increasing import duty on the following products for a year.

Duty increment from 25% to 35%

- Toothpaste and other mouth wash preparations
- Other polymers of propylene
- Tiles
- Tomato Paste and other Preserved tomatoes
- Television sets
- Toys
- Shoe polish
- Chocolates

Duty increment from 25% to 60%

- Beverages from artificial extracts Red bull, Rock Boom, Canned Colas etc.
- Cooked Potatoes, fresh or chilled, other than seeds
- Honey – Natural and artificial
- Processed coffee, tea
- Ginger
- Jams, marmalades, jellies.
- Frozen meats of Chicken, Bovine animals, Meat of swine, Meat of sheep
- Peanut butter
- Bread spreads
- Potato and other crisps
- Refined cotton seed oil
- Refined sun flower seed oil or sunflower oil
- Cocoa powder not containing added sugar or other sweetening matter
- Chocolate and other food preparations containing cocoa
- Tomato sauce
- Mineral water
- Biscuits
- Toilet paper
- Exercise books

Duty increment from 0% to 10%

- Mobile phones
- Unassembled flat iron (CKD)

Duty increment from 0% to 25%

- Liquid Gas cylinders – 25%

Tax amendments

Customs Duty

Duty remissions

Duty has been remitted on the following;

- Parts of chains for assemblers of chains for motorcycles, bicycles and industrial machinery – 0% instead of 10%;
- Raw materials used to manufacture baby diapers – 0% instead of 25%
- Inputs used by domestic processors of coffee.- 0% instead of 25%
- Inputs used by domestic minerals processors - 0% instead of 10% or 25%
- Listed raw materials for the manufacture of textiles and shoes – 0% and 10% instead of 10% and 25%
- Steel Blanks for Spoons and forks – 10% instead of 25%
- Road Tractors or Semi-Trailers - 0% instead of 10%
- Maternity (Mama) kit – 0% instead of 25%
- Penstock pipes for use in Hydro Electric Power Projects – 0% instead of 25%
- Barley – 10% instead of 25%
- Motor Vehicles for transport of Goods With Gross Vehicle Weight Exceeding 5Tons but not exceeding 20 Tons – 10% instead of 25%

Exemptions

- Goods imported for implementation of projects under a special operating frame work arrangement with the Government

Stay of application of duty

The following EAC CET rates will apply for one year:

- Unassembled mobile phones. Inputs for the assembly / manufacture of mobile phones – 0%
- Un assembled floor, table and wall fans – 10%
- Un assembled Cookers- 10%
- Unassembled LED , CFL bulbs – 0%
- Unassembled DVD players – 0%
- Unassembled blenders – 0%
- Unassembled hot water kettles – 0%
- Furniture and parts thereof – 35%

Tax amendments

Stamp Duty

Stamp Duty on professional licences and certificates

The Second Schedule to the Stamp Duty Act 2014 is amended by introducing a new stamp duty at a flat rate of UGX 100,000 on professional certificates and licences.

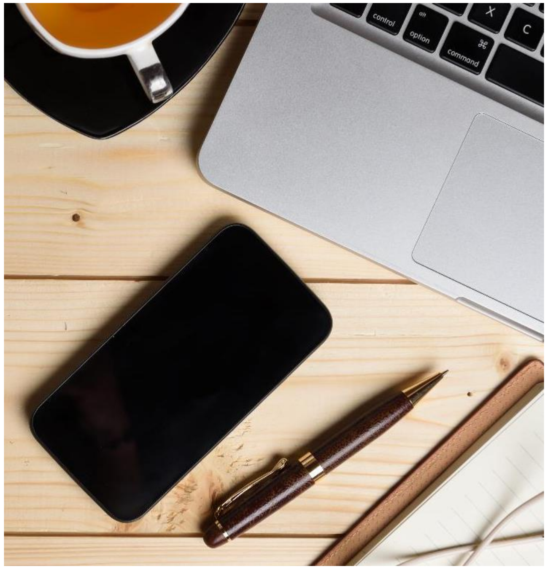
Whereas the Act does not define the term "professional" we presume that this would include the traditional professions, such as doctors, advocates, engineers, architects, accountants, and possibly teachers.

The URA may need to issue guidance to clarify on the definition of "professional" under the Act.

This stated intention for this measure is to obtain information about professional service providers for the purpose of enhancing their tax compliance.

Incentive for strategic investment projects

The criteria for the stamp duty exemption for investors in strategic projects in Uganda are amended to align to the equivalent income tax and VAT exemptions (see Income Tax and VAT sections).



Removal of duty on finance instruments

The stamp duty rate on the following instruments is reduced to nil:

- Debentures
- Equitable mortgages
- Further charges on mortgaged property
- Loan instruments

The nil rate for loan instruments was previously limited to loans not exceeding UGX 3 million.

This is intended as a relief measure for the financing or refinancing of business.

Tax amendments

Administrative Tax Measures

To achieve the FY20/21 tax revenue target of UGX 20.2 trillion, the following interventions to mobilise domestic revenue are proposed.

Further roll out of digital stamps

The Government will increase its efforts in rolling out the use of digital tax stamps (a project that has been ongoing) and expand the range of products covered in order to deter under-declaration at production and importation of goods. Digital stamps will also ensure that goods on the market meet the required health and safety standards (per the USB).

Increasing the number of withholding agents

The scope of income tax withholding agents will be widened across all sectors to broaden the tax base. Though this measure assists in widening the tax base, it will likely curtail cash flow in trade.

Enhancing rental tax collection and compliance

As indicated in the Income Tax section, the Government will implement a digital rental tax collection solution under the new contract with external supplier RippleNami Inc.

The Government will also gazette rental income tax chargeable in different geographical areas for taxpayers who do not voluntarily declare their rental income.

Gazetting VAT withholding agents

The Government plans to gazette the list of VAT withholding agents to bring into effect the 6% VAT withholding tax regime that was enacted last year.

Rollout of Electronic Fiscal Devices (EFDs)

EFDs are cash registers interconnected to the Uganda Revenue Authority aimed at improving tax compliance and recordkeeping

They are part of the Electronic Fiscal Receipting and Invoicing System (EFRIS) project which is expected to be rolled out with effect from1 July 2020 (also see related comments in the Income Tax and VAT sections).

Taxpayers are expected to complete the online EFRIS registration by this date. This is a precondition for inclusion on the withholding tax exemption list for the period 1 July 2020 to 30 June 2021.

A Public Notice containing detailed guidelines on how the electronic invoicing system will work is expected to be issued by 30 June.

East Africa highlights

5

East Africa highlights

Kenya

Summary of growth in 2020

- Kenya's economy growth was 5.4% in 2019 compared to 6.3% in 2018. This represents a negative economic growth.
- Agriculture, forestry, fishing, and manufacturing sectors experienced a drop in growth compared to 2018. Financial, insurance and real estate experienced an accelerated growth;
- The economy was projected to grow by 6.1 percent in 2020 which was an improvement from 5.4 percent in 2019. This was premised on a strong revenue growth, reduction of non-core expenditures and a gradual slowdown in the growth of public debt.
- However, the National Treasury has revised projected growth to 3% due to adverse effects of the Covid-19 pandemic, massive invasion of swarms of desert locusts leading to food security threat and floods which led to loss of lives, displacement of people and destruction of property.

Economic drivers, 2020

- *Consumption and investment* – There was Increase in household consumption and investment. In addition, services sector such as, finance, insurance and real estate activities experienced some growth.
- However, the GDP in 2019 was down from 6.3% in 2018, caused mainly by unfavorable weather and reduced government investment

Government priorities

Consistent with previous year, the government continues to prioritize its spending towards implementation of the "Big Four Agenda".

The key initiatives to achieve these goals are as below:

- Employment creation;
- Youth empowerment;
- Supporting manufacturing activities;
- Enhancing health coverage and specifically containing Covid-19,
- Improving food security and living conditions through affordable housing.

East Africa highlights

Kenya

Key tax highlights

Value Added Tax (VAT)

- Proposed VAT exemption on maize (corn seeds);
- Proposed VAT exemption on ambulance services;

Income Tax

- Imposition of a minimum tax of 1% on the gross turnover for taxpayers who are carrying out business and thus earning revenue but their tax payable is lower than 1% of their gross turnover;
- Introduction of a 1.5% digital services tax on income from services accrued or derived in Kenya through a digital marketplace;
- Tax on rental income: Expansion of the residential rental income tax bracket from KES 10M to 15M. This proposal will enable more people to utilise the simplified tax regime who were otherwise locked out due to the 10M limit

Excise duty

- Downward review of alcoholic strength of beverages categories for Excise duty purposes aimed at earning more excise duty revenue.

Customs

- Duty remission on the inputs for the manufacture of baby diapers, textiles and apparel, mobile phones and masks, sanitizers, ventilators and personal protective equipment including coveralls and face shields
- An import duty rate of 35% on iron and steel has been maintained for another year;
- Import duty rate of 25% on paper and paper board products;
- 25% import duty rate granted in 2019 ,maintained for leather and footwear sector
- Increase in the import duty rate from 25% to 35% for electrical parts and accessories.
- There is an agreement by the EAC region to amend EACMA to provide for import duty exemption in respect of supplies for diagnosis, prevention, treatment, and management of epidemics, pandemics and health hazards to deal with any future occurrences of such nature.

East Africa highlights

Kenya

Key tax highlights

Tax administrative changes

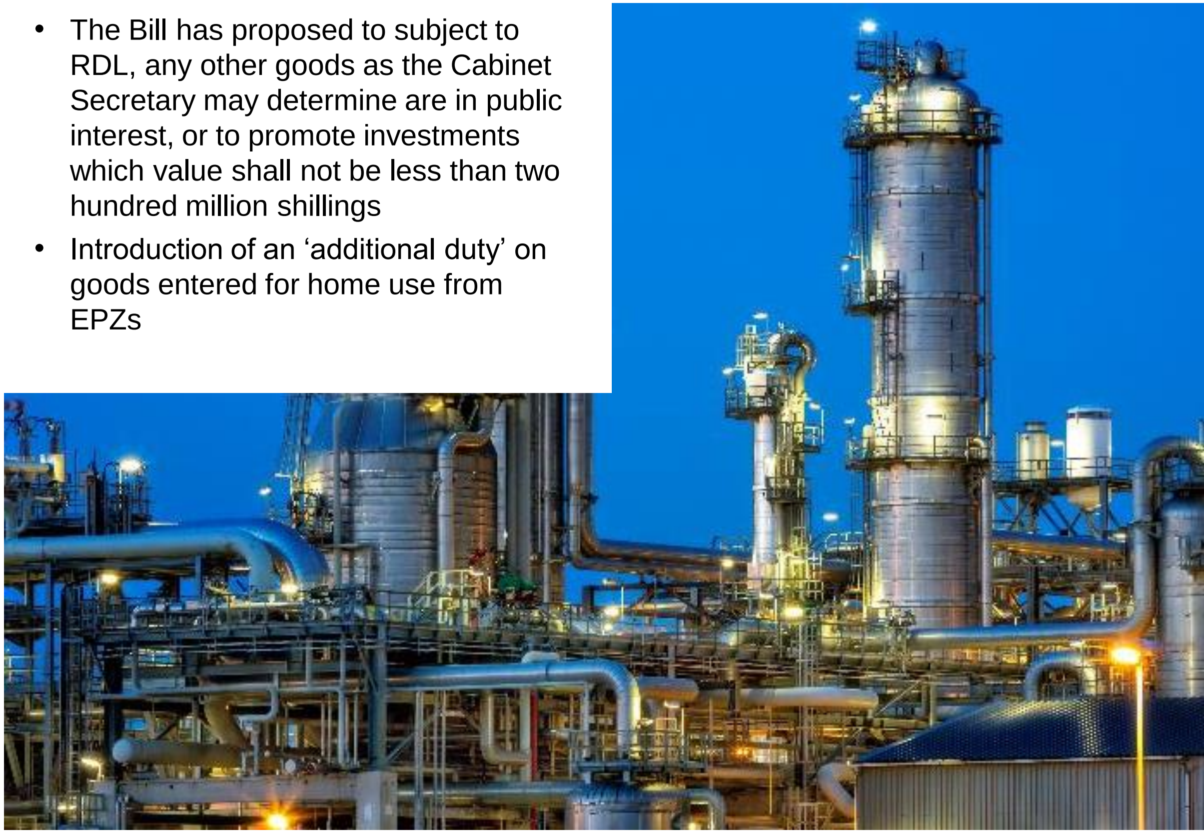
- To introduce an amnesty in the form of a Voluntary Tax Disclosure Program for a period of three years with effect from 1st January 2021.

Miscellaneous fees and levies

- Exemption from Import Declaration Fee (“ IDF”) and Railway Development Levy (“RDL”) for all goods, including materials supplies, equipment, machinery and motor vehicles for the official use by the Kenya Defence Forces and National Police Service;

- Exemption from RDL, the currency notes and coins imported by the Central Bank of Kenya;

- The Bill has proposed to subject to RDL, any other goods as the Cabinet Secretary may determine are in public interest, or to promote investments which value shall not be less than two hundred million shillings
- Introduction of an ‘additional duty’ on goods entered for home use from EPZs



East Africa highlights

Tanzania

Summary of growth in 2020

- Tanzania recorded real GDP growth rate in 2019 of 7.0% which is consistent with the growth rate in 2018.The GDP growth is projected to slow down to 5.5% from the initial projection of 6.9% in 2020. As per the budget speech, this decline is attributed to heavy rainfall destroying transport infrastructure and impact of Covid-19 pandemic which is negatively impacting economic activities.

Revenue policies

The Government seeks to increase domestic revenue collections through a number of measures including:

- Widening the tax base;
- Fast-tracking resolution of tax disputes;
- Digitizing tax collection mechanisms;
- Enhancing tax enforcement measures; and
- Sensitizing the public on purchases of Government securities.

Government priorities

The main priority of the Government is to promote industrialization for economic transformation and human development. The budget thus focuses on:

- Improving infrastructure e.g. standard gauge railway line (SGR), airports, ports, etc
- Friendly tax and financial policies.
- Agriculture and climate change
- Industrialization and manufacturing.
- Domestic funding of infrastructure projects
- Enhancing research in medicine, virology etc. to combat Covid-19.

Key tax highlights

Withholding tax

The Government proposes to introduce withholding tax of 10% on commissions paid to banks and digital payment agents.

Income Tax

Proposed changes include:

- Introduction of capital gain tax (CGT) on net gains from realizations of license or concessional right on reserved land.
- Increase minimum threshold of employment income not liable to tax from Tshs. 170,000/= per month to Tshs. 270,000/= per month (Tshs. 2,040,000/= per annum to Tshs. 3,420,000/= per annum);

East Africa highlights

Tanzania

Key tax changes

Income Tax (continued)

- Increase minimum threshold of primary cooperatives societies liable to income tax from Tshs. 50,000,000/= to Tshs. 100,000,000/= per annum;
- Exclude from list of exempt amounts, income derived by special economic zone (EPZ) operators whose all of their produce (100%) are consumed locally;
- Allow 100% deduction of the contributions made to AIDS Trust Fund; and
- Enable Finance Minister to exempt from income tax, strategic projects whose total income tax do not exceeding Tshs. 1 billion.

Value added tax

- Exemption of agricultural crop insurance from VAT to reduce cost. of insurance and encourage farmers to insure their agricultural crops to mitigate losses from tragedies like droughts and floods.
- Change to allow exporters of raw products recover input tax they incur. This is aimed at enhancing competitiveness of the products in the international markets.

Excise duty

Proposed impositions include:

- Charge Tshs. 844 per kilogram of imported powdered beer with HS Code 2106.90.90; and
- Charge Tshs. 232 per kilogram of imported powdered juice with HS Code 2106.90.90

Customs

Government proposes to:

- Remit import duty on Covid-19 pandemic equipment including mask, sanitizer, ventilators, personal protective equipment (PPE); packaging materials used by domestic manufacturers of UHT milk; corks used by local manufacturers of wines; packaging materials used by local processors of coffee among other products;
- Stay application of import duty rates as per the East African Community Common External Tariff (“EACCET”) of cash registers, electronic fiscal devices (EFDs), point of sale (POS) machines for use of Government revenue collection; ceramic tiles; tea among other items.

East Africa highlights

Tanzania

Key tax changes

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Thank you

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