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The road to recovery: Building economic resilience

Uganda National Budget Bulletin

June 2021

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The Economy
Global Economy*

According to the IMF's World Economic Outlook Report (WEO), April 2021, the global prospects remain highly uncertain as new virus mutations and the accumulating human toll raise concerns. Further, economic recoveries are diverging across countries and sectors, reflecting variation in pandemic-induced disruptions and the extent of policy support.

The IMF projects that the global economy will grow by 6 percent in 2021, moderating to 4.4 percent in 2022. The projected recovery varies across countries, depending on the severity of the health crisis, the extent of domestic disruptions to activity, the exposure to cross-border spill overs, and the effectiveness of policy support to limit persistent damage. Beyond 2022, the IMF projects global growth to moderate to 3.3 percent over the medium term.

Although GDP recovered stronger than expected in the second half of 2020, it remains significantly below pre-pandemic trends in most countries and is expected to remain as such through 2024 for most countries.

1 Growth in the OECD area is projected to rise to 5.25% in 2021, led by a strong upturn in the United States, and then ease to 3.75% in 2022 on the back of strong private spending.**.

2 Output in China has already caught up with pre-pandemic levels and is set to stay on this trajectory in 2021 and 2022.

3 Emerging-market economies, including India, are projected to have large shortfalls in GDP compared to pre-pandemic levels, and are projected to gain momentum once the impact of the virus subsides.

**Source: The International Monetary Fund, World Economic Outlook Report, April 2021*
*** The OECD's Economic Outlook, 2021*

The Economy

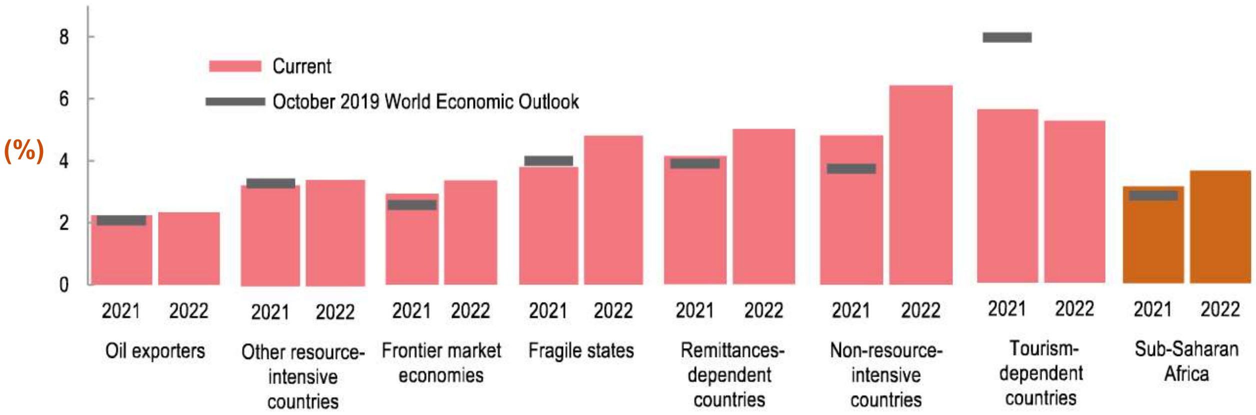
Sub Saharan Africa*

The pandemic continues to exact a heavy toll on sub-Saharan Africa and the region will be the world's slowest growing region in 2021.

The region's economy is expected to expand at 3.4% in 2021, weaker than the 6% for the rest of the world, amid a continued lack of access to vaccines and limited policy space to support the crisis response and recovery.

The expansion will be supported by improved exports and commodity prices, along with a recovery in both private consumption and investment. However, tourism-reliant economies will likely be the most affected.

Figure 1: Sub-Saharan Africa: Real GDP Growth Projections, 2021-22



Source: IMF, World Economic Outlook database.

**Source: The International Monetary Fund, Regional Economic Outlook, Sub Saharan Africa, April 2021*

The Economy

Sub Saharan Africa

South Africa & Nigeria

South Africa's economy shrank by 7% in 2020 and growth for 2021 is projected at 3.1%. However, the effects of the crisis, rising inequality, chronic electricity shortages, and product and labour market rigidities will likely affect growth over the medium term.

Nigeria's economy contracted by 1.8% in 2020 and is expected to grow by 2.5% in 2021 due to higher oil values and production and a broad-based recovery in the non-oil sectors. Over the medium term, the global shift to greener energy will continue to impact oil production, while non-oil growth will likely remain sluggish without a determined effort to address Nigeria's long-standing structural weaknesses.

Tourism-dependent countries

As a critical source of employment, foreign exchange, and government revenue, tourist receipts came to an abrupt halt in the first half of 2020, shrinking the economy by as much as 14–16% (Cape Verde, Mauritius, Seychelles).

Despite the global recovery, global travel remains subdued, and tourist inflows into Africa are not expected to return to 2019 levels until 2023.

14-16%

2020 decline in the economies of tourism-dependent countries in Sub-Saharan Africa.

The Economy

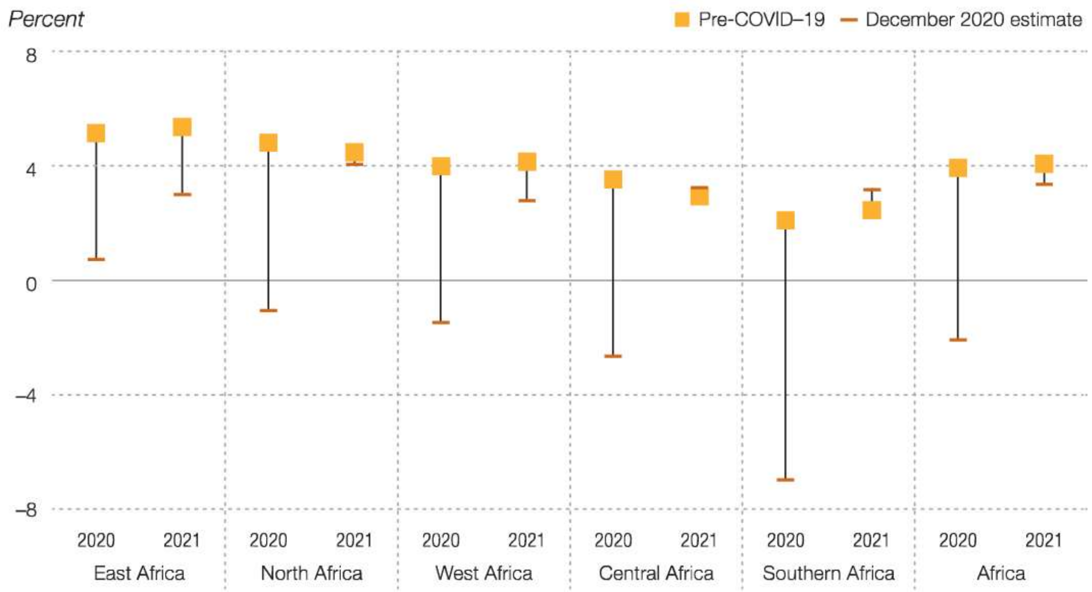
East Africa*

According to the ADB's Africa Economic Outlook, 2021, East Africa seems to be the most resilient region in Africa, thanks to less reliance on primary commodities and greater diversification. The graph indicates that, of the African regions, it was the least affected by the pandemic downturn in 2020.

The region enjoyed 5.3% growth in 2019 and an estimated 0.7% growth in 2020. In 2021, growth of real GDP is projected at 3.0%, and in 2022 5.6%. The top performers in 2021 are projected to be Djibouti (9.9%), Kenya (5.0%), Tanzania (4.1%) and Rwanda (3.9%).

However, rising debt levels remain a concern specifically for Kenya where debt surged to 72% of GDP in 2020 from 61% in 2019. Similarly, Uganda's debt level at 48.8% (ADB projection for June 2021), though sustainable, leaves little room to accommodate further adverse shocks. Tanzania and Rwanda had 2020 debt levels of 39.2% and 66% respectively.

Figure 2: Growth's decline was steepest in Southern Africa, 2020-21



Source: African Development Bank statistics.

**Source: Africa Development Bank, Africa Economic Outlook Report, March 2021*

The Economy
Uganda

Uganda's economic growth for 2020/21 is projected at 3.3%, rising slightly from 3.0% for the prior year. This is significantly below the average growth of 6.5% for the preceding two years, largely due to the impact of the pandemic.

Headline inflation is projected at 4.7%, within the BoU's 5% target but ahead of the prior year rate of 3.0%.

Public debt is growing rapidly, at 31 December 2020 stated to be almost USD 18 billion or 49.8% of GDP (in nominal terms), compared to 40.9% at the end of 2019/20. The debt level is projected to peak at 54.1% in 2022/23.

Economic drivers for the year as identified by the government include:

- Peace, security, good governance and an efficient and effective judicial system.
- Scientific research and innovation transforming Uganda's industrial base
- The steady growth of the mining industry continues to be a major contributor to Uganda's economy with its contribution to GDP increasing from 1.1% in 2016/17 to 2.3% in 2020/21
- Increased access to electricity which now stands at 51% of which 24% is on-grid and 27% off-grid.

3.3%

Projected economic growth 2020/21

FY 22 Focus areas

Boosting business activity through financing private sector growth as well as well as investment promotion.

Promoting Agro-industrialisation in order to address challenges resulting from low production and productivity of primary agriculture, poor post-harvest handling and storage, limited value addition and insufficient market access.

Digital transformation in order to enhance socio-economic transformation and improve efficiency and productivity especially under restricted movements presented by the Covid-19 pandemic.

The Economy

Uganda - Key Economic Indicators

Item	FY 2018/19 actual	FY 2019/20 actual	FY 2020/21 projected
GDP at current market prices UGX	132.1 trillion	139.7 trillion	148.3 trillion
GDP per capita (current prices) USD	$899	$916	$936
Real GDP Growth	6.8%	3.0%	3.3%
Domestic revenue % of GDP (incl. oil)	12.6%	12.4%	13.1%
Fiscal deficit % of GDP	4.9%	7.1%	9.9%
Public debt Amount (nominal) USD Amount (nominal) UGX % GDP	**30 June 2019** 12.55 billion 46.4 trillion 35.4%	**30 June 2020** 15.27 billion 56.9 trillion 40.9%	**31 December 2020** 17.96 billion Not stated 49.8%
Headline inflation (annual)	3.4%	3.0%	4.7%

Source: Background to the Budget, Budget speech, National Budget Framework Paper

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Fiscal performance

Fiscal performance

Budget in total

Outcome for FY20/21

The continuing impact of the pandemic is evident in the shortfall in domestic revenue and overspend on recurrent expenditure and domestic arrears/other expenditure. However the overall spend was kept slightly below budget due to delayed or under execution of externally funded project activities (projected at 68.5% of target).

The resultant fiscal deficit has ballooned to UGX 14.6 trillion, being 9.9% of GDP (compared to the budgeted deficit of 8.6% and prior year result of 7.1%). The deficit trend over the past five years has been one of steady increase, from a relatively low base of 3.3% in FY15/16.

Budget for FY21/22

Domestic revenue is targeted to recover in line with pre-Covid levels while overall expenditure is reduced by approximately UGX 2 trillion. This reduction is stated to be due to one-off costs in the current year that will not recur as well as plans to rationalise expenditure. Interest costs however are higher in line with increased levels of borrowing.

The planned deficit is UGX 10.4 trillion or 6.4% of GDP.

The total resource envelope of UGX 44.8 trillion represents a 1.6% decrease from the current year.

Budget summary	FY20/21 Budget UGX b	FY20/21 Projected UGX b	FY21/22 Budget UGX b
INCOMING			
Domestic revenue	**21,810**	**19,432**	**22,425**
Grants	**1,720**	**2,205**	**1,424**
Budget support	134	131	75
Project	1,586	2,074	1,349
Borrowing (= fiscal deficit)	**13,033**	**14,632**	**10,383**
Domestic (net)	3,560	5,737	2,943
External (net)	9,473	8,895	7,240
Petroleum Fund (net)	0	0	200
TOTAL INCOMING	**36,563**	**36,269**	**34,232**
OUTGOING			
Sector allocations (excl interest)	**32,064**	**31,363**	**29,134**
Recurring	13,578	14,883	14,269
Development	17,185	15,444	14,755
Net lending/investment	1,301	1,036	110
Interest	**4,049**	**4,101**	**4,698**
Domestic arrears/other	**450**	**805**	**400**
TOTAL OUTGOING	**36,563**	**36,269**	**34,232**
Domestic debt refinancing	7,486		8,547
External debt repayments	1,229		1,787
Appropriation in aid (MDAs)	215		212
TOTAL RESOURCE ENVELOPE	**45,493**		**44,778**

Source: Background to Budget Tables 16, 36 and 37; Budget speech Annexes

Fiscal performance

Domestic revenue

Outcome for FY20/21

For the second year running domestic revenue has been significantly affected by the economic slow down due to the pandemic. The projected shortfall against budget is UGX 2.4 trillion or 10.9% (excluding oil UGX 2.5 trillion and 11.5%).

	FY20/21 Target UGX b	FY20/21 Projected UGX b	Deficit UGX b	Deficit %
Tax revenue	20,219	17,872	-2,347	-11.6%
Non tax revenue	1,591	1,430	-161	-10.1%
Oil revenue	0	130	130	
Total revenue	**21,810**	**19,432**	**-2,378**	**-10.9%**

The original target of 21.8 trillion is stated to have been set before the pandemic and was subsequently revised to UGX 19.9 trillion (against which there is still projected to be a shortfall). Other reasons cited for the shortfall are the five month delay in effecting the FY20/21 excise duty increases and delays in implementing tax administrative measures such as EFRIS, Digital Tax Stamps (DTS) and the RippleNami rental tax solution. Nevertheless the projected revenue of UGX 19.4 trillion (including oil) is still 12.4% ahead of FY19/20 and represents 13.1% of GDP (FY19/20 = 12.4%).

The tax revenue shortfalls have arisen across all tax types, affecting both domestic taxes (i.e. CIT, rental, PAYE, VAT, local excise) and international trade taxes (i,e. customs).

Outlook for FY21/21

Domestic revenue for next year is budgeted at UGX 22.4 trillion, an increase of 15.4% over the current year projection.

	FY19/20 Actual UGX b	FY20/21 Projected UGX b	FY21/22 Budget UGX b	Increase FY21/22 v. prior year %
Tax revenue	15,912	17,872	20,837	16.6%
Non tax revenue	1,374	1,430	1,588	11.0%
Oil revenues	0	130	0	
Total domestic rev	17,286	19,432	22,425	15.4%
% of GDP				
Tax revenue	11.4%	12.1%	12.9%	0.8%
Domestic rev incl oil	12.4%	13.1%	13.8%	0.8%

This will represent 13.8% of GDP, an increase of 0.7% against the projection for FY20/21 and in excess of the targeted medium term annual increase of 0.5%.

The tax revenue target is UGX 20.8 trillion, an increase of 16.6%. This is expected to be driven by specific tax measures (see Tax amendments section), improvements in tax administration under the Domestic Revenue Mobilisation Strategy (including bedding down of the FY20/21 measures such as EFRIS, DTS and rental tax enforcement) and the expected recovery of the economy post-Covid.

Fiscal performance

Government spending

Sector allocations for FY21/22

Total government spending for the coming year (excluding domestic arrears) is set at UGX 33.8 trillion, representing a reduction of UGX 2.3 trillion or 6.3% compared to the FY20/21 budget. The proposed spending comprises 20.9% of GDP (21.1% including the UGX 400 billion domestic arrears) compared to the current year ratio of 24.4%.

This reduction partly arises from non-recurrence of one-off costs from the current year (such as recapitalisation of BoU/UDB, the election and Covid measures) but it is also driven by specific actions to rationalise expenditures in order to maintain fiscal and debt sustainability.

Works & Transport and Security maintain their spots as the largest sector votes (albeit with approximate 11% reductions) and there are moderate boosts to Education and Health. The sizable reduction in the vote for Energy & Minerals is understood to reflect the current state of development of the Albertine oilfields. Significant reductions in Public Administration and Public Sector Management appear to be a result of the planned expenditure rationalisation.

The interest cost on servicing the expanding public debt has grown by 16% to 4.7 trillion, and this now comprises the second largest vote and 13.9% of the total spend. This outgoing represents 21% of domestic revenue.

Sector allocations (excluding domestic arrears)

	FY20/21 Budget UGX b	Share %	FY21/22 Budget UGX b	Share %	Change vs prior year %
Works & Transport	5,846	16.2%	5,183	15.3%	-11.3%
Security	4,504	12.5%	4,003	11.8%	-11.1%
Education	3,592	9.9%	3,798	11.2%	5.7%
Health	2,837	7.9%	3,331	9.8%	17.4%
Justice/Law & Order	2,020	5.6%	2,099	6.2%	3.9%
Accountability	2,107	5.8%	1,750	5.2%	-16.9%
Local Govt Sector	1,752	4.9%	1,491	4.4%	-14.9%
Water & Environment	1,682	4.7%	1,390	4.1%	-17.4%
Agriculture	1,325	3.7%	1,307	3.9%	-1.4%
Energy & Minerals	2,603	7.2%	1,255	3.7%	-51.8%
Public Admin	1,322	3.7%	982	2.9%	-25.7%
Legislature	668	1.8%	835	2.5%	25.0%
Public Sector Mgmt	662	1.8%	419	1.2%	-36.7%
Science, Tech. & Innov	265	0.7%	284	0.8%	7.2%
Social Development	172	0.5%	234	0.7%	36.0%
ICT & Nat Guidance	163	0.5%	220	0.7%	35.0%
Lands, Housing & Urban Dvpmt	200	0.6%	205	0.6%	2.5%
Tourism	193	0.5%	179	0.5%	-7.3%
Trade & Industry	172	0.5%	169	0.5%	-1.7%
Reconcilation difference	-21	-0.1%			
Total (excl interest)	**32,064**		**29,134**		**-9.1%**
Interest	4,049	11.2%	4,698	13.9%	16.0%
Total (incl interest)	**36,113**	**100.0%**	**33,832**	**100.0%**	**-6.3%**

Source: Background to Budget Statistical Appendices (pages 213-5)

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Tax amendments

Tax Amendments

Income Tax

Introduction to Tax Amendments

Our Tax Alerts of April 2021 set out the expected tax changes as reflected in the 2021 Tax Bills. The final amendments have since been passed by Parliament and assented to by the President. We summarise the amendments that will come into effect on 1 July 2021.

Income Tax

Definition of beneficial owner

The amendment will expand the definition of a beneficial owner in relation to legal persons, trusts and other legal persons similar to trusts.

However, the definition still refers to a beneficial owner being a natural person. This suggests that payments made to a person outside of Uganda would only qualify for treaty benefits where the recipient is a natural person (among other factors).

This is inconsistent with the OECD guidelines on beneficial ownership and renders the definition inapplicable to the ownership of income or entities in which the ultimate owners are not individuals.

Although the definition was meant to remove the ambiguity between a natural and legal person, it is still not aligned with international practice for purposes of tax treaty application.

Definition of consideration

The amendment introduces a definition of consideration to include "*the total amount in money or of payment in kind, paid or payable for the supply of goods, services or sale of land by any person, directly or indirectly, including any duties, levies, fees, and charges other than tax paid or payable on, or by reason of, the supply, reduced by any discounts or rebates allowed and accounted for at the time of the supply or sale*"

This definition is similar to that used in the VAT Act and will eliminate ambiguity as to what comprises consideration for income tax purposes (e.g. in calculating gains on the disposal of assets). It presumably excludes VAT and other taxes.

Definition of an exempt organisation

A key part of the existing definition is amended to include "*a religious, charitable or educational institution* ***whose object is not for profit***". The words in bold previously read "*of a public character*".

This will remove the requirement for an exempt organisation of this type to establish that it has a public character while the non-profit criteria was already applied in practice.

Tax Amendments

Income Tax

Exemptions

Agro-processing

The long-standing annual exemption for income from new investment in agro-processing is repealed. This is meant to avoid duplication following the 2018 introduction of an equivalent exemption for such activities under section 21(1)(af) of the ITA.

Expansion of eligible activities

The list of activities that are eligible for exemption under section 21(1)(af) has been expanded to include the manufacture of chemicals for agricultural or industrial use, textiles, glassware, leather products, industrial machinery, electrical equipment, sanitary pads and diapers.

Expansion of Listed Institutions

The following organisations have been added to the Listed Institutions exempt from income tax under the First Schedule:

- African Export–Import Bank
- International Union for Conservation of Nature

Taxation of rental income

Rental income derived by individuals and entities will be allowed a standard deduction equal to 75% of the gross rental income. At the same time the tax rate applied to the rental income of individuals is increased from 20% to 30% (being the same tax rate as applied to entities).

This means that the effective tax rate on gross rental income for both individuals and entities will be 7.5%. Previously the effective tax rate applied to individuals was 16% while entities paid 30% on their net rental profit after deducting actual expenses.

The deduction for entities is not specifically restricted to the 75% so this raises the question as to whether corporate landlords can still deduct actual expenses if higher.

This change will remove perceived distortions in the current rental tax regime arising from the different tax rates and deductions applied to individuals vs. non-individuals.

The proposal in the Bill requiring each rental property to be accounted for and taxed separately was rejected by Parliament.

Change in asset classification

Depreciable assets will now be classified in three (instead of four) classes, applying rates of 40%, 30% and 20%. The current Class 2 with a deprecation rate of 35% will be removed and more assets will now fall within the new Class 3 with the lowest 20% rate. This will mean that most motor vehicles (including trucks, trailers, buses and constriction and earth moving equipment) which had previously been entitled to rates of 30% or 35% will now only qualify for a rate of 20%.

This will have a significant impact on the depreciation claims of taxpayers with large vehicle fleets.

Tax Amendments

Income Tax

Deferral of capital allowances

Currently new assets (both depreciable assets and industrial buildings) that are entitled to an initial allowance in the year of purchase are also entitled to the standard depreciation allowance in the same year. This "double" deduction is no longer available and the commencement of the standard depreciation allowance is now deferred to the following year. This makes the capital allowances regime less generous and is intended to accelerate the payment of income tax.

Indexation of asset cost when calculating capital gain

Taxpayers selling assets 12 months or more after purchase will now be allowed to apply CPI indexation to the cost base when calculating the gain on disposal. This will eliminate taxation of the inflationary component of capital gains, and is a welcome concession. Gains driven by currency movements however will still be caught.

Non recognition of disposals by registered venture capital funds

Gains or losses on the disposal of an investment interest by a registered venture capital will not be recognised for income tax purposes where at least 50% of the sale proceeds are reinvested within the same year of income.

If the reinvestment of the proceeds is less than 50%, then the non-recognition will apply to the extent of the percentage reinvested.

Automatic exchange of information

This introduces a requirement for the Commissioner to facilitate the automatic exchange of information where such is provided for under an international agreement. The Minister may make regulations for this purpose.

Uganda may be subject to such requirements under a double tax treaty or the Multilateral Convention on Mutual Administrative Assistance in Tax Matters.

Refunds

For the purposes of determining the start date from which the Commissioner is required to pay interest on refunds, the date that a taxpayer submits a refund application is deemed to be the later of the date the application is received by the URA or the date that the taxpayer provides any additional information consequently requested by the Commissioner. The refund must be paid within 6 months from the date that the Commissioner receives the application (this appears to mean the date of original submission).

Rejected proposals

The following amendments proposed in the Bill were rejected by Parliament:

- Allowing the Commissioner to grant an exemption to compliant taxpayers in respect of the 6% WHT on the purchase of a business or business asset (in the same way as the current WHT exemption list)
- The new exemption for manufacturers investing at least US$ 50 million

Tax Amendments

Value Added Tax

Time limit to claim input tax

There is a new requirement for taxpayers to apply for input tax credits within six months from the date of the invoice. Previously, there was no such time limit. The reference to application for the credit (rather than the month for which the claim is made) implies that the six month period runs up to the date of filing the relevant VAT return.

Filing of quarterly VAT returns

There is a new requirement to file a quarterly VAT return for taxpayers supplying specific types of services in Uganda to non taxable persons. Such supplies include services in connection with immovable property in Uganda, radio or television broadcasting services received at an address in Uganda and electronic services delivered to a person in Uganda. This amendment targets non-resident persons supplying the designated services who currently may not be filing monthly VAT returns.

Refund of input tax on e-invoices

Non taxable persons making purchases of goods or services above UGX 5 million per month which are supported by electronic invoices or receipts will be entitled to claim a refund of 5% of the VAT incurred. This amounts to approximately 0.8% of the VAT-inclusive cost. The refund would appear to be available to both private individuals and small or exempt businesses, but the practical mechanism by which the refund is applied for is as yet unknown. This amendment is aimed at encouraging the use of e-invoices and e-receipts.

Public International Organisations

The following organisations have been added to the list of Public International Organisations in the First Schedule, entitling them to certain VAT concessions:

- African Export-Import Bank
- International Union for Conservation of Nature.

200% penalty for return errors

The 200% penalty applying to materially false or misleading statements under section 65(6) of the VAT Act has been amended to delete the requirement for the statement to have been made '*knowingly or recklessly*'. This makes the penalty one of strict liability and will potentially result in automatic imposition of 200% penal tax for any error in a VAT return, regardless of whether made innocently, recklessly or deliberately.

Such penal tax should more correctly be imposed under the Tax Procedures Code Act, and it is notable that the equivalent provision in section 50 of the TPCA still requires the statement to have been made “knowingly or recklessly”. It is difficult to see why this very onerous penal tax should be applied on a strict liability basis for VAT purposes but require a high degree of contributory fault for all other taxes.

Tax Amendments

Value Added Tax

New VAT exemptions

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

- liquefied gas
- denatured fuel ethanol made from cassava
- feasibility, design and construction services to a manufacturer newly investing at least USD 30 million (or USD 5 million for a local investor), subject to using at least 70% locally sourced raw materials and with the capacity to employ at least 70% citizens (by total wage bill).

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Removal of exemptions

The following exemptions have been repealed:

- the supply of clinker and inputs to limestone mining.
- the partly duplicated exemption for hotel, tourism and conference/ exhibition facility developers under paragraph (vv).

Aircraft repairs zero-rated

The existing zero-rated category related to aircraft in the Third Schedule has been expanded to include repair services.

Exempt imported services

The provision relating to the exemption of imported services has been amended to provide that an imported service will be exempt if it "*would be used in the provision of an exempt supply*". On this basis any imported service that is applied in the making of an exempt supply, such as life insurance, financial services or medical services, will be exempt from 18% reverse-charge VAT. This will be of specific benefit to taxpayers primarily involved in the making of exempt supplies, such as banks, life/heath insurers and private hospitals.

Tax Amendments

Excise Duty

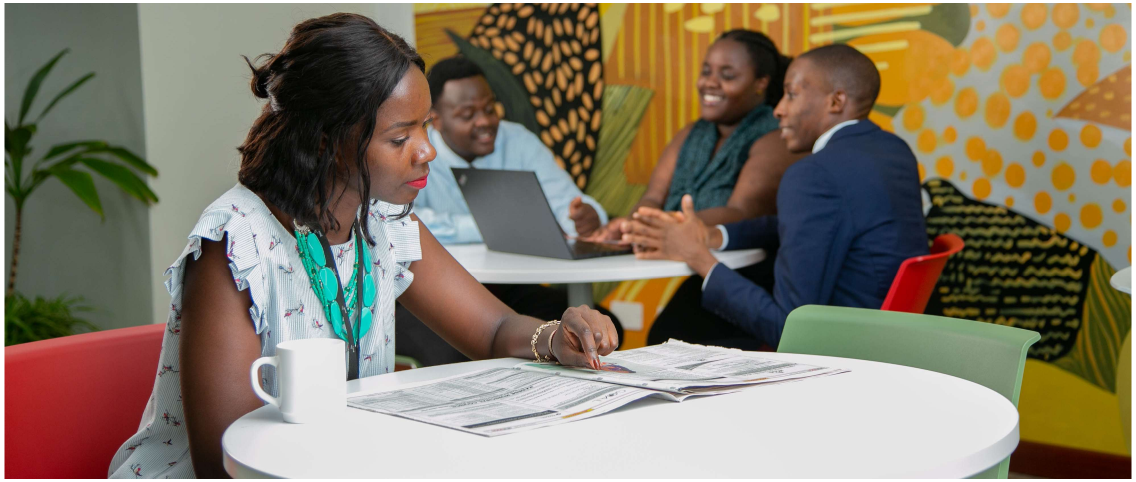
Remission of duty on plastic packaging

This Commissioner may remit or refund excise duty paid on plastic packaging:

- used in packaging exported goods;
- used in packaging medicaments;
- manufactured from recycled plastics where the recycled plastic is 20% or more of the raw material used.

Renewal of excise duty registration

Certain administrative provisions related to the requirement to apply for annual renewal of the excise duty registration certificate have been repealed. This is stated to be linked to the URA monitoring of registration via the e-system, thereby making the renewal provisions redundant. This implies that businesses will only need to register once for excise duty rather than annually.



Amendment of duty rates

The revised excise duty rates for 2021/22 are set out in the following table.

The proposal to impose a new duty of UGX 100 per kilogram on wheat grain was rejected.

The UGX 100 per litre hike in the duty on petrol and diesel is stated to be in substitution for the proposed annual motor vehicle license fees that were rejected.

Tax Amendments

Excise Duty

Item	Excisable good or service	Duty rate 2020/21	Duty rate 2021/22	Comments
2(d)	Opaque beer	30% or Shs. 650 per litre; whichever is higher.	20% or Shs. 230 per litre; whichever is higher	Decrease to align with 2(e)
2(e)	Any other alcoholic beverage locally produced		20% or Shs. 230 per litre; whichever is higher	This is a new excise duty category
5(d)	Any other non-alcoholic beverage locally produced other than the beverage referred to in item 5(a) made from fermented sugary tea solution with a combination of yeast and bacteria		12% or Shs. 250 per litre; whichever is higher	New category, at the same rates as other non-alcoholic beverages under items 5(a) and 5(b)
8(a)	Motor spirit (gasoline)	Shs. 1,350 per litre	Shs. 1,450 per litre	Increase of Shs. 100 per litre
8(b)	Gas oil (automotive, light, amber for high speed engine)	Shs. 1,050 per litre	Shs. 1,130 per litre	Increase of Shs. 100 per litre
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.	120% or Shs. 10,000 per kg		This excise duty category is repealed and replaced as below.
11	Plastic product and plastic granules		2.5% or USD 70 per ton; whichever is higher	This is a new excise duty category

Tax Amendments

Excise Duty

Item	Excisable good or service	Duty rates 2020/21	Duty rates 2021/22	Comments
13	**Telecommunication services**			
13(b)	Over the Top services	Shs. 200 per user per day of access		Repealed
13(c)	Internet data, except data for provision of medical services and education services	Nil	12% of the fee charged	Increased rate to match other telecom services. It remains uncertain how the provider will distinguish data used for medical or education at the point of sale
13(e)	Value Added Services	20%	12% of the fee charged	To align at a single rate for telecoms
25(a)	Any other fermented beverages made from imported cider, perry, mead, spears or near beer		60% or Shs. 950 per litre; whichever is higher	New
25(b)	Any other fermented beverages made from locally grown cider, perry, mead, spears or near beer		30% or Shs. 550 per litre; whichever is higher	New
26	Construction materials of a manufacturer, other than one referred to in item 21, whose investment capital is at least USD 50 million, or any other manufacturer who makes an additional investment of USD 50 million.		Nil	New incentive

Tax Amendments

Stamp duty

Exemption for manufacturers

The strategic investment project incentives in Schedule 2 of the Stamp Duty Act have been expanded to include a new category 60A(f) for new manufactures whose investment capital is at least USD 50 million or existing manufacturers who make an additional investment equivalent to USD 50 million, subject to using at least 70% local raw materials and employing at least 70% citizens (by total wage bill).

Like the existing incentives, this provides a nil duty rate on a range of specific instruments such a leases, land transfers and increases in share capital.

Amendment of existing incentive criteria

The new strategic investment project category in item 60A(f) (referred to in the preceding column) does not apply to projects falling within the existing item 60A(b) (namely specific targeted activities with an investment of at least 1 or USD 10 million). The criteria for such projects is amended as follows:

- the requirement to use locally sourced raw materials is reduced from a minimum of 70% to a “capacity” to use at least 50% (subject to availability);
- the requirement to directly employ a minimum of 100 citizens is softened to a “capacity to employ” 100 citizens.

These raw material and employment thresholds do not align with the criteria applied for the equivalent income tax, VAT and excise duty incentives.

Export levies

Minerals

The Mining (Amendment) Act imposes the following new levies on exported minerals, payable to the URA by the exporter at the time of export:

- A levy of 5% of the value per kilogram of processed gold
- A levy of 10% of the value of unprocessed minerals

Leaf tobacco

The Tobacco (Amendment) Act imposes a levy of USD 0.8 per kilogram on the export of leaf tobacco. Again this is payable to the URA by the exporter at the time of export.

Tax Amendments

Administrative Tax Measures

Amendments to the Tax Procedures Code Act (TPCA) and Tax Appeals Tribunal Act are summarised below.

Definition of tax decision

The term "tax decision" has been redefined to exclude the following:

a) A decision made in respect to a tax assessment;

b) A decision to refuse, issue or revoke a practice note or an omission to issue or revoke a practice note;

c) A decision or omission that affects a tax officer or employee or agent of the Authority;

d) The compoundment of an offence under any tax law; or

e) A decision to refuse, issue or revoke a private ruling or omission to issue or revoke a private ruling.

Of these, items b) to e) are new, and this effectively means that it is not possible to lodge a formal objection to such a decision.

It remains to be seen whether the new Alternative Dispute Resolution process (see below) will offer an alternative avenue to challenge these matters. The ADR applies to any disputed "decision" which may be broader than a tax decision.

TIN required for business registration

It is now specifically prohibited for a local authority, Government institution or regulatory body to issue a licence or any form of authorisation necessary for the conduct of business in Uganda to a person without a Tax Identification Number (TIN).

This is designed to foster linkages between various different Government bodies and enhance taxpayer compliance.

Tax agents and tax representatives

A person who is not a registered as a tax agent may not act as such (this was implied in the original Act but was not specifically stated). In addition the exclusion from registration for advocates has been narrowed so that it does not apply to the preparation and filing of tax returns.

At the same time a new offence has been introduced for any unregistered person that acts as a tax agent.

There are also some corrections where the terms "tax agent" and "tax representative" were mixed up.

Amending self assessment returns

The period in which a taxpayer can amend a self assessment return on the discovery of an error has been increased from 12 months to three years.

Alternative Dispute Resolution

To reduce the tax case backlog in the courts as well as resolve tax disputes more quickly and amicably, it is proposed to introduce an Alternative Dispute Resolution (ADR) procedure for disputed decisions.

The practical details of the ADR process are not yet known, and the Minister is empowered to issue specific Regulations for this purpose. However based on similar regimes in other countries, we expect that this will provide a mechanism running in parallel to the existing appeals process that entails an independent review.

This is a welcome and positive initiative.

Tax Amendments

Administrative Tax Measures

New offences for Tax Stamps

Two new offences with stringent penalties upon conviction are introduced in connection with the misuse of tax stamps (selling or acquiring stamps without goods and affixing stamps to the wrong goods).

Increased penalties for offences

The fines and prison terms for conviction of an offence under the TPCA are significantly increased. This includes:

- Failure to file a tax return
- Failure to comply with an obligation under the Act
- Failure to maintain proper records
- Use of a false TIN
- Making a false or misleading statement
- Obstructing a tax officer
- Aiding or abetting a tax offence by a tax agent (a new offence)
- Offences related to registration
- Offences related to recovery of tax

Order of payment of tax

The ordering rule for recognising tax payments has been amended to remove the requirement that where a taxpayer has more than one tax liability then any payment is first applied to the oldest liability (whether it be principal tax, penal tax or interest).

This is meant to ease the taxpayer ledger reconciliation process and allow taxpayers to chose the tax period to which a payment relates. Currently the time-based ordering can raise significant issues, for example where a taxpayer makes a payment for, say, the current period PAYE liability only to subsequently discover that the URA system has allocated the payment against an internally-generated interest liability from five years ago that the taxpayer was not aware of, leaving the current PAYE liability outstanding.

Rejected proposals

The Bill proposed to widen the Commissioner's powers during an investigation to include the ability to effect an arrest with an arrest warrant, issue an order for interim closure of premises, record a charge and caution statement and execute a bond with or without security.

This proposal was rejected by Parliament on account of potential misuse, allowing that the investigation might not yet be completed and applying the natural justice assumption of innocence until proven guilty.

Tax appeals

The Tax Appeals Tribunal Act has been amended to explicitly allow for:

- An automatic right of appeal to the Court of Appeal from a decision of the High Court (on questions of law);
- A conditional right of appeal to the Supreme Court from a decision of the Court of Appeal (which the CoA certifies as raising questions of law of great public importance or otherwise in the interests of justice).

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East Africa highlights

East Africa highlights

Kenya

Summary of growth in 2020/21

- In 2020 the Kenyan economy grew by 0.6% compared to 5.4% in 2019. This decline is mainly attributed to the outbreak of COVID – 19 pandemic.
- The service sector experienced a significant activity drop in growth compared to 2020.
- The Agricultural sector experienced a modesty growth in 2021 providing a much needed cushion to the economy from declining further. While the second quarter of 2020 registered a reasonable growth many other sectors of the economy experienced contraction.
- The CS painted a 6.6% ambitious overall economy growth projection with 6.1% growth expected in the medium term.

2021 Economic constraints

The economic growth rate declined due to the following:

- COVID–19 pandemic – The pandemic caused a devastating effects in all sectors of the economy hence reducing the GDP growth
- Invasion of desert locusts and floods – causing food security risk, undermining economic growth and loss of livelihoods.

However, towards the end of 2020, there was adequate rainfall received which cushioned the economy's performance from further shrinking. This boosted Agriculture sector which grew by 6.3% in quarter 3 of 2020 compared to 3.6% growth in 2019.

Government priorities

The government is trying to take deliberate measures to strike a balance both in stimulating economic recovery and responding to the health challenges and effects of COVID-19 pandemic.

- Implementing the Economic Stimulus Programme (ESP) focusing on the vulnerable, particularly the emerging urban vulnerable by cash-transfer programs, health workers recruitment and implementing interventions under the post COVID-19 Economic Recovery Strategy; and
- Implementation of the "Big Four Agenda" i.e. universal healthcare, food security and nutrition, manufacturing and affordable housing.

East Africa highlights: **Kenya**

Key tax highlights

Value Added Tax

- Widened scope of the VAT on digital economy by expanding the definition of the digital marketplace on the VAT Act to include all online platforms that enable users to sell or provide services, goods or other property to other users.
- Prohibition from deducting input tax incurred on hiring or leasing of passenger cars or minibuses.
- Elimination of group VAT registration option as one person for VAT purpose.
- Regulations under the VAT Act to take effect after publication without having to be tabled before the National Assembly;
- Change in status of exported services from zero rate to exempt.

The following are now VAT exempt:

- Medicaments used in our health facilities including decongestants and food supplements.
- Diagnostic and laboratory reagents, artificial respirators including therapeutic respiration apparatus, breathing appliances, gas masks as well as medical equipment and technologies used in the provision of medical services.
- Inputs used in the manufacture of medical ventilators and breathing appliances.
- Goods for exclusive use in geothermal or oil exploration and mining prospecting.
- Equipment for generation of solar and wind energy.
- Asset transfer into the Real Estate Investment Trusts and Asset Backed Securities.

Income Tax

- Requirement by entities with operations outside Kenya to file returns on activities in other jurisdictions.
- Digital service tax to also be charged on business carried out over the internet or an electronic network, in addition to business over a digital market place.
- Definition of permanent establishment in attempt to align the Income Tax Act to the International best practice.
- Tax losses can be carried forward indefinitely, from the previous 10 years restriction.
- Replacement of the current thin capitalization provisions based on debt to equity ratio with a new requirement that interest can only be deducted to a maximum of 30% of Earnings Before Interest Tax, Depreciation and Amortization(“EBITDA”).

East Africa highlights: **Kenya**

Income Tax cont'd…

- A tax rebate of 50% for employers who offer internship to at least 10 apprentices from technical, vocational institutions in addition to the existing rebate on university graduates.
- A proposal to change the basis used for calculating investment allowances from a reducing balance basis to a straight-line methodology.
- Alignment of the withholding tax rates applicable to payments made to subcontractors for services rendered in respect of mining and petroleum operations and other management fees not falling within the definition of service fees to 10%.

Excise duty

- Relief from excise duty paid on internet data services purchased in bulk for resale.
- Sugar confectionary and chocolate manufactured locally to be subject to excise duty.
- Imported glass bottles have been excluded from the purview of excise duty.
- Change from 'specific rate regime' to 'ad valorem rate regime for motorcycles of tariff 87.11.
- Introduction of excise duty on jewelry and nicotine products.
- Reintroduction of excise duty on betting activities at the rate of 20% of the amount wagered or staked.
- Fees or commissions earned in respect of a loan to be subject to excise duty.

Employment taxes

- Proposed introduction of a15% National Hospital Insurance Fund (NHIF) insurance tax relief on premiums.

Miscellaneous fees and levies

- Taxpayers' eligibility to apply for a refund of overpaid fees and levies or fees and levies paid in error.
- Introduction of exemption from Import Declaration Fee("IDF") and Railway Development Levy("RDL") on imported goods valued at KES five (5) billion or more where goods are imported for the interest of the public or to promote investment.

East Africa highlights: **Kenya**

Custom duty

- Duty-free importation window for the following items has been extended for one year:
  - raw materials and inputs for manufacture of masks, sanitizers, ventilators and personal protective equipment remission;
  - inputs for manufacture of roofing tiles for use in affordable housing scheme;
  - input for manufacture of baby diapers;
- Import duty at 25% on iron and steel products is extended for one year to protect the local industry.
- To protect local farmers, vegetable products including potatoes, peas and tomatoes will be subject to import duty of 30%.
- In order to protect the local leather and footwear products manufacturers, the 25% import duty will continue to apply on these products. A further specific duty rate has been introduced to guard against undervaluation of products imported.
- To guard against cheap and low quality imports and also protect the Jua Kali sector, the 35 import duty on furniture has been extended for a further one year.

Tax administrative changes

- Introduction of a 90 days time limit for the hearing and determination of appeals at the Capital Markets Tribunal from the date of filing of the appeal.
- Introduction of common reporting standard obligations for automatic exchange.
- There is a proposal to enhance the reward payable under the Kenya Revenue Authority Act for persons who provide information leading to the identification or recovery of unassessed taxes or duties.
- The Bill proposes to increase the period within which assessments can be amended by the Commissioner from five years to seven years.
- Increase of the statutory document retention period from the current five years to seven years.

East Africa highlights

Tanzania

Summary of growth in 2020

Tanzania recorded GDP growth rate in 2021 of 4.8%, lower than projection of 5.5% and 7% in 2020. The decline was due to the impact of COVID-19 in Tanzania's trading partners and floods which damaged transport infrastructure and delayed implementation of some development projects.
Inflation remained stable at 3.3% as compared to 3.4% in 2020.

Revenue policies

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

- improving business and investment environment by harmonising, abolishing and reducing tax rates, levies and nuisance fees.
- Widening the tax base and creating a friendly environment for taxpayers.
- Emphasising the use of ICT systems.
- improving the Government's electronic Payment Gateway (GePG) system and maximise its usage by all Government institutions.
- Strengthening monitoring systems in public institutions for timely submission of dividends and contributions.
- Strengthening enforcement of tax laws in order to address tax evasion challenges and minimise revenue leakages.
- Transferring the role for verification of quality of imported fuel from private contractors to the Tanzania Bureau of Standards (TBS) in order to control tax evasion due to fuel adulteration.
- Prioritisation of implementation of strategies and projects to increase revenue generation.

Government priorities

The main priority for the Government is to ensure effective implementation of the 2021/2022 Annual Development Plan. In implementing this initiative, the Government plans to:

- Maintain discipline and increase efficiency in the use of public funds.
- Ensure fiscal deficit does not exceed 3% of the GDP in line with EAC macroeconomic convergence criteria.
- Allocate funds to priority areas which stimulate economic growth.
- Ensure ongoing projects are given priority prior to committing to new ones;
- Control accumulation of arrears.
- Enhance the use of ICT in transactions and in the Government operations to increase efficiency and enhance local capacity on systems security.

East Africa highlights: **Tanzania**

Income Tax

Proposed changes include:

- Exemption from income tax on interest derived from all Government bonds.
- Introduction of a 2% withholding tax on payments for agro-products, livestock and fisheries supplied to processing industries, millers and Government agencies with an exception of (i) small farmers and (ii) sales to Agriculture Marketing Cooperatives Societies (AMCOS).
- Introduction of 5% depreciation allowance on cost of assets under the East African Crude Oil Pipeline (EACOP).
- The Minister for Finance to be given sole powers to grant income tax exemption on specific development projects funded by the Government i.e. without Cabinet approval.
- Introduction of a 3% income tax rate on the sale value of minerals, payable at the time of sale of minerals (only applicable to small scale mining).
- Introduction of deemed PAYE, payable by an employer engaged in small scale mining (on behalf of the employees) calculated at 0.6% of the sale value of minerals, payable at the time of sale of minerals.

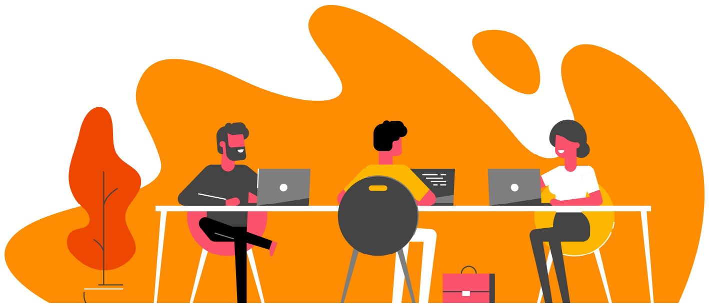
Employment taxes

- Reduction of PAYE rate to 8% (from 9%) for the lowest individual tax band.
- Increase in the employee threshold for skills and development levy (SDL) to apply from 4 to 10.
- Exemption of SDL for religious health institutions.
- Introduction of a 0.4% levy to employers engaged in small scale mining, payable at the time of sale of minerals.
- Reduction of rate for contributions to Workers Compensation Fund from 1% to 0.6% for the private sector.

Tax administration

Proposed changes include:

- Reinstatement of Commissioner's power to remit interest and penalties without limitations set in the Regulations.
- Removal of the 100% penalty for a transfer pricing adjustments.
- Court of law to be given powers to collect fines and penalties relating to tax offences.



East Africa highlights: **Tanzania**

Value added tax

Exemptions

- Imports and local purchases for EACOP.
- Crude oil of HS Code 2709.00.00.
- Specified data devices including smartphones (HS Code 8517.12.00), tablets (HS Code 8471.30.00 or 8517.12.00) and modems (8517.62.00 or 8517.69.00).
- Imported precious metals and raw materials.
- Insurance of livestock farming.
- Specified cold rooms (HS Code 9406.10.10 and 9406.90.10).
- Broadening exemption to both aluminium and stainless-steel milk cans with HS Code 7310.29.90, 7310.10.00 and 7612.90.90.
- Return of VAT exemption to NGOs, approval to be provided by the Commissioner of TRA.
- Specified importations by the National Identification Authority (NIDA) of contactless smart cards (HS Code 3921.11.90) and card consumables (HS Code 3921.11.90).
- Exemption on grass used for football pitches in city councils subject to approval by the Tanzania Football Federation (TFF).
- Abolishment of exemption on (i) cans intended for preserving milk with HS Code 7310.29.20 and (ii) on specified solar lights (HS Code 85.13 and 94.05).

Others

- Zero rate on the EACOP crude oil transportation and related services
- VAT deferment on capital goods limited to goods under chapters 84, 85 and 90 of the EAC CET.
- Reciprocity of VAT refunds for transferred goods purchased in Tanzania Mainland or Zanzibar.

Excise duty

- Reduction of excise duty rate for beer made from locally grown and malted barley from TZS 765/ ltr to TZS 620/ ltr.
- Increase excise duty by 30% on spirits.
- Introduction of 10% excise duty on imported and locally produced synthetic (plastic) fibres (Heading 55.11and 56.07) except fishing twine (HS Code 5607.50.00) and imported used motorcycles aged more than 3 years (HS Code 8711).

East Africa highlights: **Tanzania**

Customs

- Removal of the requirement of 15% refundable additional import duty on sugar for industrial use.
- Valuation of imported printed fabrics (Vitenge) to be re-vested in the Commissioner General.
- The EAC Ministers agreed to adopt USD 50 as de minimis value where customs duties shall not be collected.

Other levies and taxes

- Reduction of outdoor advertising fees;
- Stamp duty rates updated in line with the current economy.
- Produce cess may not apply to companies liable for service levy.
- Increment of road and fuel tolls by TZS 100/ltr of petrol and diesel.
- Introduction of 10% gaming tax on gross gaming revenue (GGR) from: (i) virtual games; and (ii) gaming products licenced under pilot study.
- Reduction of winning tax from all sports betting from 20% to 15%.
- Increase of gaming tax on sports betting from 25% of GGR to 30%; Additional 5% to be allocated to the sports development fund.
- Increment of fuel levy from TZS 150 to TZS 250.
- Imposition of levy on mobile money transactions upon sending or withdrawing money, depending on the transaction value.
- Imposition of a levy of between TZS 10 to TZS 200 per day per SIM card depending on the ability of the user to recharge the balance.
- Reduction of premium rate from 2.5% to 0.5% for new land occupancy and from 1% to 0.5% on regularizing land.
- Several amendments on fees paid to the Registrar of Societies.
- Amendments of various fees and levies imposed by ministries, agencies, regulatory authorities, regions and independent departments.

The Non Citizen (Employment Regulation) Act, 2015

- Imposition of a penalty of TZS 500,000 per month for failure to submit monthly returns to the Labour Commissioner.
- Imposition of 12 months imprisonment or a fine of TZS 10,000,000 as a sanction for failure to submit monthly return.
- Abolition of student visa/ pass fee for higher learning institutions students in Tanzania-Mozambique exchange Programme (TAMOSE).
- Visa fees to be retained by the union party which collected that fee (as opposed to the current practice where visa fees are collected by both Union parties).

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Thank you

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