IS UGANDA RETHINKING WIDE TAX BASE?

By Ivan Tibenkana

Since at least 2017, Uganda has been yearning for a wider tax base. The Uganda Revenue Authority (URA) has also occasionally been taxed with implementing different safety nets to trap revenue in the sense that it would recoup better returns and meet targets beyond the current sh37.2 trillion.

Amidst trade misinvoicing and market incentives like duty remission, a wider tax base remains necessary but unlikely to be sufficient.

Economists advise streamlining the business regulatory environment, where informal business licensing is reported to be costly. In the same spirit, there is already a call to implement strong post-incentive audits and customs audit mechanisms to limit illicit finance and revenue leakage, for instance within the steel sub-sector.

On the other hand, a coalition between URA, MTN MoMo and Stanbic Bank seeks to facilitate tax collection in a more convenient and inclusive manner. It involves going cashless and effecting a trail.

Available data from the Global Financial Integrity (GFI) indicates that between 2002 and 2011, Uganda lost an estimated $243m (about sh879b) per year to trade misinvoicing. This involved over-invoicing of imports and under-invoicing of exports. Customs undervaluation has grown by a colossal 344.8% between 2020 and 2024, from sh1.94b to sh8.63b, according to URA. Mis-declaration has spiralled from sh12.43b to sh16.8b across the same period.

"When non-transparently used, the East African Community common external tariff and duty remission schemes can negatively impact Uganda's ability to mobilise tax revenue. By encouraging illicit trade, it creates significant revenue shortfalls, and facilitates tax evasion. Lack of transparency in the application of these schemes reduces customs collections and makes it difficult to track and estimate the total revenue lost," URA explains.

According to the Uganda Manufacturers Association (UMA), the country of origin of the imported products largely influences invoicing, and over-investment in some of the respective countries implies cheaper products.

"Invoicing always depends on where you are buying the raw materials. If it's China, they will be cheaper, elsewhere, it could be expensive depending, for instance, on the distance," Allan Ssenyondwa, the policy and advocacy manager at UMA, says.

He further says trade misinvoicing is also contingent on how the valuer interprets the invoice.

Considering URA data, from 2020 up to last year, the iron and steel sub-sector ranks 21st among the top 50 revenue generating sub-sectors, and seventh considering imports value, from sh1.672 trillion to sh2.059 trillion.

Still, some of its products are categorised under the wholesale of construction materials sub-sector, the least revenue source among the group, but where, just like general merchandise trade, articles of steel and iron are among the misinvoiced products.

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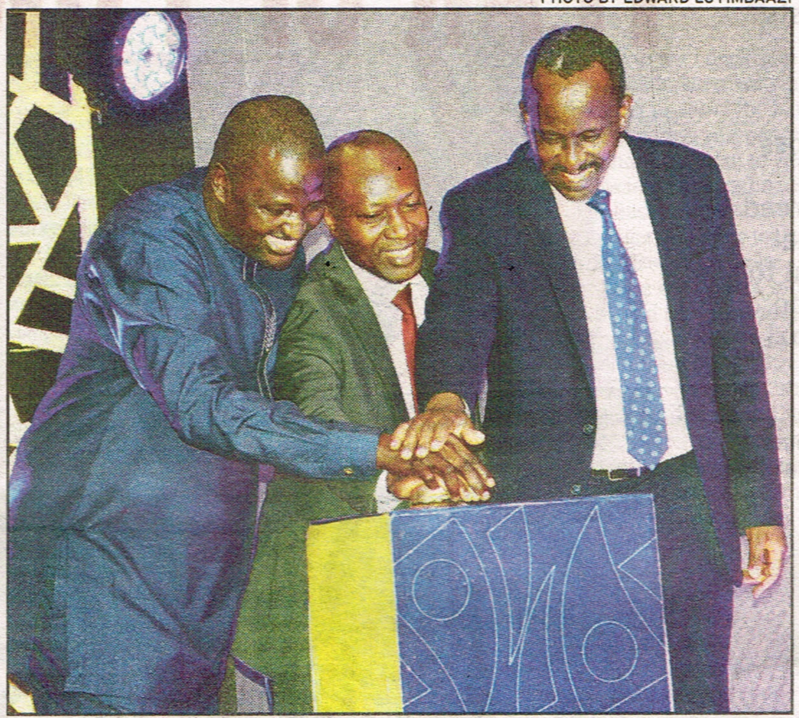

L-R: The managing director of MTN Mobile Money Uganda, Richard Yego; the acting accountant general, Godfrey Ssemugooma and Musinguzi launching the enhanced URA tax services on MTN MoMo at the Sheraton Kampala Hotel recently

From 2019 up to last year, the manufacturing sector has been the second biggest source of tax revenue, registering a 36.8% growth, from sh4.461 trillion to sh6.106 trillion. In contrast, it is also the largest beneficiary of tax incentives. The 37 beneficiaries as highlighted by URA account for 43% of the gross incentives share, followed by agriculture, forestry and fisheries with 17 beneficiaries, thus 20%.

Of the last eight financial years since 2017, the revenue authority managed to meet its targets on just three occasions, including the last financial year.

According to the Economic Policy Research Centre (EPRC), beyond efforts that include the taxpayer register expansion programme, formalisation of businesses and the implementation of initiatives like the electronic fiscal receipting and invoicing solution (EFRIS), a tax compliance mechanism, which has been highly contentious among merchandise traders like the Kampala City Traders Association (KACITA), Uganda needs to streamline the regulatory environment.

"Little emphasis was placed on streamlining the broader regulatory environment in which businesses operate, to support them and workers' formalisation," EPRC observes.

BEYOND THE CASHLESS ECONOMY

Going cashless is one of the initiatives the country is exploring, not only to offset cash printing costs, but to tap into the evolving nature of markets such as electronic commerce, and also create a clear trail to support assessment of tax liability.

Enhancing URA services on MTN MoMo brings us closer to the people and reduces compliance barriers.

On December 22, MTN MoMo, one of the country's biggest payment service providers, URA and Stanbic, which will be the settlement bank for the former, launched a revamped digital tax collection platform. This will be freely accessible, first, via the unstructured supplementary service data and later broadened upon configuration, for use via high-tech devices like smartphones.

"Our goal is to make tax compliance as simple and convenient as possible for all taxpayers. Enhancing URA services on MTN MoMo brings us closer to the people, reduces compliance barriers and supports our broader strategy to digitise tax administration while improving efficiency and transparency," John Musinguzi Rujoki, the commissioner general of URA, says.

Together with MTN MoMo, the authority intends to also integrate the large taxpayers in the trail.

Meanwhile, the finance ministry treats the development as a strategic enabler having made strands where about 40% of previously unbanked adults were pooled into the formal financial network.

"Our mobile money ecosystem ranks among the fastest growing in East Africa, particularly in account growth, digital payment innovation and expansion of use beyond basic transfers," Godfrey Ssemugooma, the acting director for financial management services at the finance ministry, says.

For a largely informal economy, dealing with a digital divide and literacy challenges, the initiative suggests need for massive efforts to ensure uptake among the different trade segments such as KACITA, whose relationship with the tax body in regard to EFRIS has been quite hostile.

THE DEBATE

Although there are leakage containment mechanisms at play, others are under debate. While the manufacturers confess compliance with systems like EFRIS, they are yet to bow in to regular transfer pricing audits, citing how costly the regularity is to them.

In the current financial year, the Government looks at this as a possibility, 14 years since conception of the mechanism. However, there are varying opinions.

"In the context of misuse of specific duty remission schemes, the core challenge is not primarily linked to intra-group pricing manipulation but rather to misclassification, under-valuation, and deliberate manipulation of customs documentation to qualify for reduced tariff rates or duty-free access," says Mark Mutumba, a trade policy analyst.

UMA has thrown on board a string of recommendations for government to consider. Among them include refraining from over-investment in any particular sector as this would upset market stability. The association cites China's over-investment in photovoltaics and solar energy, linking it to the globally deflated market prices.

Furthermore, the association seeks support through dedicated trade finance for the manufacturing industry, and Uganda Development Bank is the priority, drawn at favourable interest rates in order to address the high capital expenditure.

At a regional level, the East African Community confirms to have adopted specific tariff rates for products susceptible to misinvoicing, such as lubricating oils and aluminum bars, instead of basing duties solely on the declared value. As the approach computes duty based on quantity such as volume and weight, it is expected to make it hard for traders to reduce their tax liability through under-invoicing.

Additionally, by digitalising the common external tariff system, aimed at streamlining trade information and administration, there is anticipation to properly manage duty remission, making it easier to monitor and enforce regulations, thus reducing fraud tendencies.