CSBAG Budgeting for equity

CSBAG BUDGET NEWS BRIEF

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Advocating for a People Centered Budget that Dignifies Humanity

Study reveals domestic revenue mobilization leakages

"We shouldn't even be talking about widening our tax base, without tackling corruption which is taking the little revenue we have collected."

A new study on widening Uganda's tax base has revealed that Uganda among other East African Countries such as Kenya, Tanzania and Rwanda is losing $2.8b annually to tax incentives and exemptions. According to the study released by the Civil Society Budget Advocacy Group (CSBAG) on Thursday at Hotel Africana in Kampala, Uganda offers a wide range of tax incentives, including import and stamp duty exemptions, for exporting companies, unlimited corporate income, tax holidays for certain categories of businesses (such as agro-processing companies) and 10-year corporate income tax holidays for businesses exporting finished consumer and capital goods. "Tax incentives and exemptions, can lead to significant revenue leakages. The African Development Bank statistics, show a revenue loss of at least 2 percent of GDP (about $272m) in 2009/10 due to tax exemptions," Musa Lwanga a consultant on tax said while unveiling the findings of the study.

Paradox of tax incentives

In the EAC, Uganda has the lowest total tax rate on commercial profits after Rwanda. In 2016, Uganda's total tax rate as a percentage of commercial profits, stood at 34 compared to 33%, 44% and 37% for Rwanda, Tanzania and Kenya respectively. However, responding to the study, Gerald Kamoma, an economist in the finance ministry, planning and economic development said tax incentives are a reality and cannot be easily dealt away with by the government. "The reality is tax incentives will remain. The issue is how they are accessed and their effectiveness. However, we have to deal with these realities," he said. The study carried out in September 2017, by the Civil Society Budget Advocacy Group (CSBAG) with support from USAID also highlights informality, tax evasion, and political interference as some of the other leakages affecting Domestic Revenue Mobilization in the country.

Dr Fred Muhumuza (left) looks on as Ramathan Ggoobi, an economist speaks during the unveiling of a study about Widening Uganda's Tax base at Hotel Africana last week. They urged the Government to close revenue leakages and devise new revenue sources. I @CSBAG2017

The study also identified the informal sector as one of the most challenging factors, to increasing revenue collection in Uganda. Regional comparisons show that Uganda has a higher level of informality than the other EAC member states. "In 2013, over 95% of firms were competing against unregistered or informal firms in Uganda, compared to 69% and 59% for Ghana and Kenya respectively," Lwanga noted. With 50% of Uganda's economy being informal, Lwanga noted that: "Having a large informal sector not only impacts negatively on tax collection, but also retards innovation and business growth".

Tax evasion

Tax evasion, also featured prominently in the study, according to the study report, despite Uganda Revenue Authority (URA) making significant reforms, tax evasion and avoidance especially by government officials majority of whom are engaged in businesses, has continued to negatively impact on tax collection in the country. "Most of these government officials, steal money from government, go do business and they don't want to pay tax," Ramathan Ggoobi, an economist said. The study shows that in the EAC in 2006, Uganda had the highest percentage of firms that didn't report all sales for tax purposes, standing at 74% compared to 71, 26 and 43% for Tanzania, Rwanda and Burundi respectively. However, the study, proposes that URA adopts a revenue system that enables it to seal all loopholes, capture all avenues of revenue streams, and provide it with capacity for continuous improvement. "This revenue system must be robust, all inclusive, and open to innovation and must embrace continuous improvement," Lwanga said. According to the study, focus must also be put on auditing, processes and tools. Improved auditing, will promote higher levels of voluntary compliance by highlighting the government's efforts in maintaining high ethical standards, thereby improving service levels.

Tackling corruption

There is also need for regular updates to the tax payer registry to ensure proper management of tax payer obligations. Dr. Fred Muhumuza an economist and academia, however notes that there is need for government to tackle corruption which he described as the 'big elephant' in the room, to be able to grow revenue collection in the country. "We shouldn't even be talking about widening our tax base, without tackling corruption which is taking the little revenue we have collected and the little money we have injected in, we should deal with leakages in the system," Dr. Muhumuza said.

UPCOMING CSO EVENTS

Event: Regional Budget Coalition meetings

Convener: Civil Society Budget Advocacy Group (CSBAG)

Venue: North, Eastern and Western Uganda

Date: 6th -10th November 2017

Time: 8:30am-5:00pm

OUR WORK IN PICTURES

Budget Policy Specialist, John Mark Agong speaks to participants during the review of Local Government Budget consultations at Eureka Hotel in Ntinda, Kampala last week. I @CSBAG2017

Julius Kabatsi an economist from the Parliamentary Budget office speaks to participants during discussions about Domestic Revenue Mobilization at Hotel Africana in Kampala last week. I @CSBAG2017

Participants from various regions in Uganda attending a budget advocacy and analysis training at Jevine Hotel in Ndeeba, Kampala. I @CSBAG2017